

# Gajah Tunggal (GJTL IJ)

**Not Rated**

Keep Rolling Ahead

Fair Value (Return):	IDR1,900 (+47%)
Price:	IDR1,300
Market Cap:	USD291.7m
Avg Daily Turnover (IDR/USD)	18,661m/1.2m

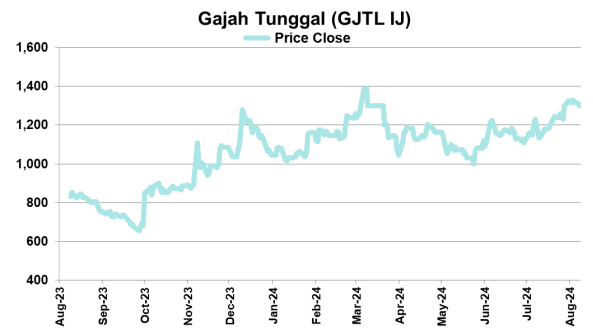
- **FV of IDR1,900.** Gajah Tunggal is a leading tyre manufacturer in Indonesia with a strong presence in the commercial vehicle and 2-wheeler (2W) tyre replacement segments. The sizeable number of ageing trucks and buses in the country should underpin GJTL's growth, especially when the primary market for such vehicles is soft. The stock is trading at 3.7x FY24F P/E and 0.5x FY24F P/BV, vs the auto part sector's 7x FY24F P/E and 1.2x FY24F P/BV. Investors should keep an eye on its short-term momentum, in view of interest rate-sensitive catalysts and its outperformance in FY24F vs that of peers.
- **One of the leading tyre manufacturers in Indonesia.** GJTL manufactures tyres for various types of automobiles including passenger cars, light trucks, pick-up trucks, buses and motorcycles. It has over 70 years of experience in the domestic and export markets. It has a strong presence in the commercial vehicle (it sells bias tyres via the Gajah Tunggal brand) and 2W (through the IRC brand) segments – management said it has a 40% market share in each.
- **Focus on the tyre replacement market, especially for the commercial segment.** As of 1H24, its revenue from tyre sales totalled IDR8.2trn (+5% YoY), of which 62% came from the tyre replacement market – led by the truck and bus segments. GJTL's strong branding, wide coverage of products and reasonable prices are among the reason behind its solid presence in the replacement market for truck and bus tyres. Around 70-80% of its tyres for trucks and buses are sold in the replacement market. Our discussions with a local logistics services provider indicate that a logistics truck in Java can cover a distance of 60k km every day – and this number can increase if inter-island routes are included. This implies roughly 3-5 years of usage for a tyre, before it needs to be replaced by a new one. Indonesia has a sizeable number of ageing trucks and buses – about 23k buses and 608k trucks are 5-10 years old, ie the maximum age of vehicles in line for tyre replacements (from first use), as suggested by the tyre manufacturer. We believe this should bring about significant room for growth for GJTL – given the huge growth potential of the tyre replacement market for buses and trucks.
- **Another catalyst – the prospect of lower benchmark interest rates.** Currently, company has IDR4.1trn in long-term debt, among which IDR1.6trn (40% of total debt) is under a floating interest rate. We believe this interest rate may decrease, if the benchmark rates drop. Meanwhile, company also has USD175m in bonds that are scheduled to reach maturity in 2026. With less volatility in the USD/IDR rate, we think that the FX impact from its loans and bonds may decrease going forward.

## Analyst

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## Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	25.6	5.7	18.2	10.6	56.6
Relative	20.5	1.1	9.5	6.1	47.1
52-wk Price low/high (IDR)	630 – 1,390				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23	6M23	6M24
Total turnover (IDRbn)	15,344	17,170	16,971	8,116	8,548
Operating profit	737	706	2,067	667	1,083
Recurring net profit (IDRbn)	80	(182)	1,180	359	577
Recurring net profit growth (%)	(74.9)	N/A	N/A	N/A	60.8
Recurring P/E (x)	53.2	N/A	3.6		
P/B (x)	0.6	0.6	0.5		
Dividend Yield (%)	-	-	4.1		
Return on average equity (%)	1.1	N/A	15.1	4.6	7.1
Net debt to equity (%)	63.4	68.4	51.1	65.9	43.9

Source: Company data, RHB

## Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

## Financial Exhibits

Asia	Financial Summary (IDR)	Dec-21	Dec-22	Dec-23	6M23	6M24
Indonesia	Recurring EPS (IDR)	23	(52)	339	103	166
Auto & Autoparts	DPS (IDR)	0	0	50	0	0
<b>Gajah Tunggal</b>	BVPS	2,051	2,073	2,397	2,146	2,537
GJTL IJ	Return on average equity (%)	1.1	N/A	15.1	4.6	7.1
Not Rated						
	Income Statement (IDRbn)	Dec-21	Dec-22	Dec-23	6M23	6M24
	Total turnover	15,344	17,170	16,971	8,116	8,548
	Gross profit	2,133	2,352	3,733	1,517	1,917
	EBITDA	1,462	1,441	2,799	1,028	1,454
	Depreciation and amortisation	(724)	(735)	(731)	(361)	(371)
	Operating profit	737	706	2,067	667	1,083
	Interest income	56	52	51	16	6
	Interest expense	(802)	(629)	(674)	(352)	(300)
	Pre-tax profit	94	(188)	1,536	482	754
	Taxation	(20)	(2)	(368)	(129)	(177)
	Reported net profit	80	(182)	1,180	359	577
	Recurring net profit	80	(182)	1,180	359	577
	Cash Flow (IDRbn)	Dec-21	Dec-22	Dec-23	6M23	6M24
	Change in working capital	3,600	3,559	3,917	3,544	3,920
	Cash flow from operations	294	721	1,277	154	1,031
	Capex	(563)	(858)	(1,007)	(267)	(661)
	Cash flow from investing activities	(381)	(771)	(620)	(260)	(448)
	Dividends paid	0	0	174	0	0
	Cash flow from financing activities	(144)	89	(846)	(111)	(505)
	Cash at beginning of period	1,045	839	886	886	691
	Net change in cash	(230)	38	(189)	(217)	77
	Ending balance cash	839	886	691	661	778
	Balance Sheet (IDRbn)	Dec-21	Dec-22	Dec-23	6M23	6M24
	Total cash and equivalents	839	886	691	661	778
	Tangible fixed assets	8618	8,751	8,842	8,682	8,858
	Total investments	885	746	820	675	847
	Total assets	18,400	19,016	18,976	18,803	19,550
	Short-term debt	714	1,194	733	1,296	475
	Total long-term debt	4,655	4,641	4,229	4,295	4,188
	Total liabilities	11,255	11,790	10,624	11,325	10,709
	Total equity	7,146	7,238	8,352	7,478	8,841
	Total liabilities & equity	18,401	19,028	18,976	18,803	19,550
	Key Metrics	Dec-21	Dec-22	Dec-23	6M23	6M24
	Revenue Growth (%)	14.2	11.9	(1.2)	(2.1)	5.3
	Recurrent EPS Growth (%)	(74.9)	N/A	N/A	N/A	60.8
	Gross margin (%)	13.9	13.7	22.0	18.7	22.4
	Operating EBIT margin (%)	4.8	4.1	12.2	8.2	12.7
	Net profit margin (%)	0.5	N/A	7.0	4.4	6.8
	Dividend Payout Ratio (%)	-	-	14.8	-	-

Source: Company data, RHB

## Investment Thesis

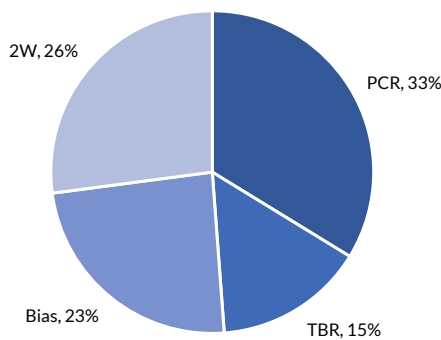
### One of leading tyre manufacturers in Indonesia.

GJTL manufactures tyres for various types of automobiles including passenger cars, light trucks, pick-up trucks, buses and motorcycles. It has over 70 years of experience in the domestic as well as export markets. In FY23, it produced about 37.3m tyres, mainly for the 2W (62%) segment. This was followed by tyres for passenger cars (27%) – the remaining 11% of products were for buses and trucks. Research from GlobalData, an independent market intelligence firm, indicates that the market for passenger car and truck tyres in Indonesia could have come up to 30m pieces in 2023 – indicating at least 40% of domestic demand can be met by GJTL's production capacity.

Company representatives say that it has a strong presence in the commercial vehicle area (supplying bias tyres through its Gajah Tunggal brand and 2W tyres through the IRC brand) with 40% market shares in each the segment. Bias tyres have internal plies that are arranged diagonally, crisscrossing each other for durability and flexibility. Bias tyres provide a smooth ride on rough surfaces and are often used where ruggedness and load-carrying capacity are important, such as in off-road vehicles, trailers, and heavy-duty trucks. The company, through its Gajah Tunggal brand, provides multiple lines and sizes of bias tyres to serve a range of vehicles from commercial vehicles to light trucks and buses – on which the numbers have been increasing following Indonesia's economic recovery and the increase in commodity prices. Other than bias tyres, GJTL also supplies radial tyres under the Giti brand, for trucks and buses.

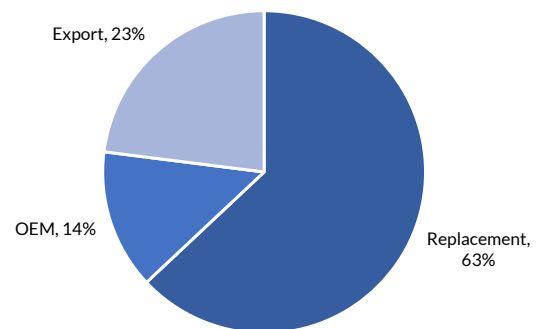
As of 1H24, sales of truck, bus and radial (TBR) tyres, as well as bias tyres for buses and trucks translated to a revenue of IDR3.2trn (+5% YoY) – this accounted for 38% of GJTL's net sales for that financial period. Management said that demand for these products remains steady, and should continue to drive turnover from 2H24F onwards – especially in view of the under-utilised production lines for bias tyres – which was at 64% in 1H24 (FY23: 70%).

Figure 1: revenue breakdown by product, as of 1H24



Source: Company data, RHB

Figure 2: Revenue breakdown by market, as of 1H24



Source: Company data, RHB

### Focuses on the tyre replacement market, especially for the commercial segment

GJTL has also paid attention to the tyre replacement market for trucks, buses and the 2W segment while for passenger cars, the company focuses more on the export market. As of 1H24, revenue from tyre sales amounted to IDR8.2trn (+5% YoY), of which 62% was from the replacement market. The company's strong branding, wide product coverage and reasonable pricing are among the reasons behind its solid presence in the tyre replacement market. Around 70-80% of its tyres for trucks and buses are sold in the replacement market. And as of 1H24, 52% of company's sales in the tyre replacement market were made in Java.

**Addressing a potential market.** Despite the weak wholesales volume in truck segment – at 36.4k units as of 7M24 (-21% YoY) – this segment was expanding during Indonesia's economic recovery in FY21-23, at a 18.6% 3-year CAGR. We believe weak purchasing power, normalisation of commodity prices, the lack of government incentives may have been the reasons behind the softer demand for tyres in the primary market.

We see this as an opportunity for GJTL to grow in the secondary tyre market, as consumers tend to shift towards cheaper options, eg replacing auto parts and servicing their vehicles instead of buying new ones.

Our discussions with a local logistics services provider indicated that a truck that serves the Java area can cover 60k km a year – and this can be higher if it covers inter-island routes. This indicates a roughly 3-5 years of usage of its tyres before it needs to be replaced by new ones. We noted that there is a sizeable number of ageing trucks and buses in Indonesia – 23k buses and 608k trucks that are 5-10 years old – the maximum age range of a vehicle that may need tyre replacements (from first use), as suggested by the tyre manufacturer. We believe this should create opportunities for GJTL to grow and thrive – especially when the primary market for tyres is soft.

Figure 3: Estimated number of trucks in Indonesia by age

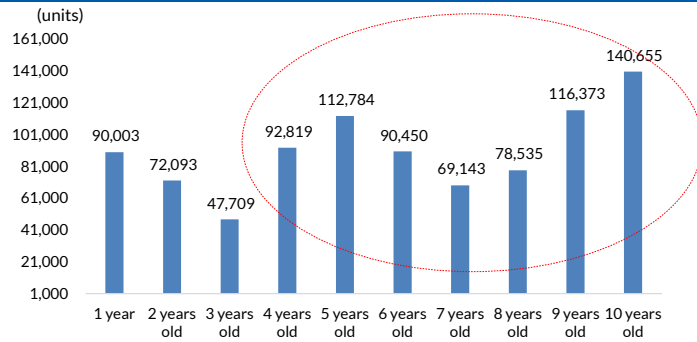
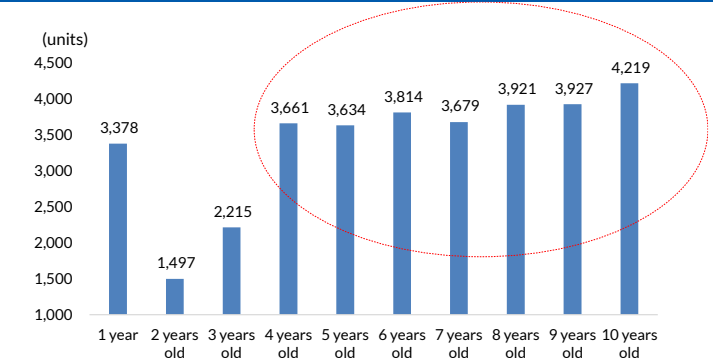


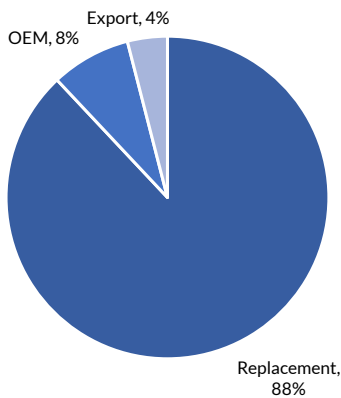
Figure 4: Estimated number of buses in Indonesia by age



Note: Figures for all trucks with a gross vehicle weight of 5 to >24 tonnes  
Source: Association of Indonesia Automotive Industries (GAIKINDO), RHB

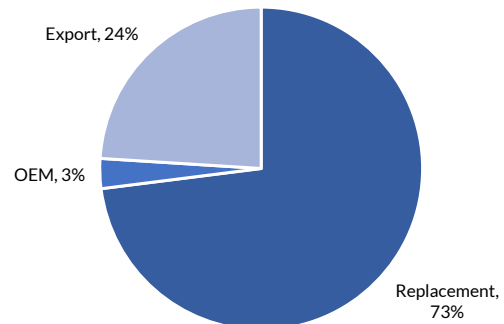
Note: Figures for all trucks with a gross vehicle weight of 5 to >24 tonnes  
Source: Association of Indonesia Automotive Industries (GAIKINDO), RHB

Figure 5: Breakdown of revenue from bias tyre sales, as of 1H24



Source: Company data, RHB

Figure 6: Breakdown of revenue from sales of TBR tyres for trucks and buses, as of 1H24



Source: Company data, RHB

Still-solid contributions from the 2W and 4W segments

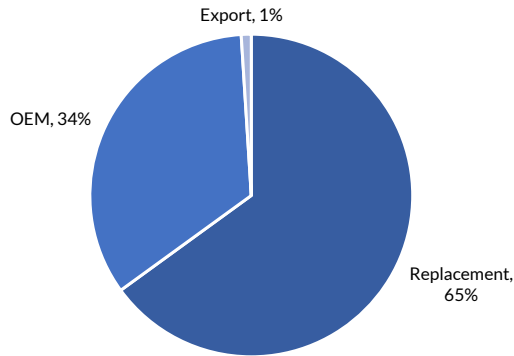
Through the IRC brand (it produces IRC tyres), GJTL claims to have the leading domestic market share in the 2W replacement market, ie of 40%, which puts it in direct competition with Federal and FDR tyres, which is owned by Astra International's (ASII IJ, BUY, TP: IDR6,000) and enjoys a similar share of the replacement market. 1H24 revenue from its 2W segment was at IDR2.2trn (+7% YoY) – mostly from the replacement market, which accounted for 65% of its 2W segment revenue.

It is also benefiting from promising growth in the number of passenger cars, especially in Java, where 12m passenger cars were registered as of FY23. 60% of these are in Jakarta and West Java, where company is well-positioned. In 2013, there were only 6.2m cars in Java, which leads us to believe that there are at least 4.5m units of passenger cars that are 5-10 years old there – which could point to quite a big opportunity from GJTL's addressable market. As of 1H24, revenue from its passenger car tyre sales totalled IDR2.78trn (+5% YoY), 36% of which were from the replacement market.

The majority of this segment's revenue is from exports (54% of its passenger car tyre revenue), and GJTL has said that this market continues to grow – in view of the higher demand in the tyre replacement markets of these export destinations.

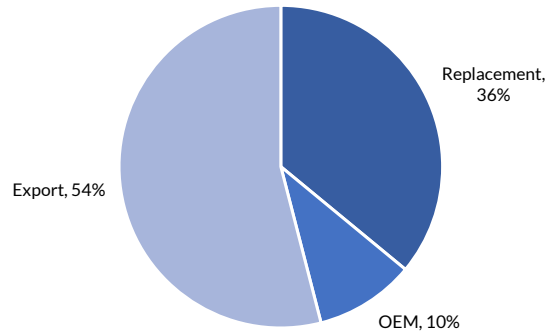
GJTL has claimed that it has secured ~20% of the domestic market share, ie lower than player Bridgestone (30%) and head-to-head with Dunlop (20%).

Figure 7: Breakdown of revenue from 2W tyre sales, as of 1H24



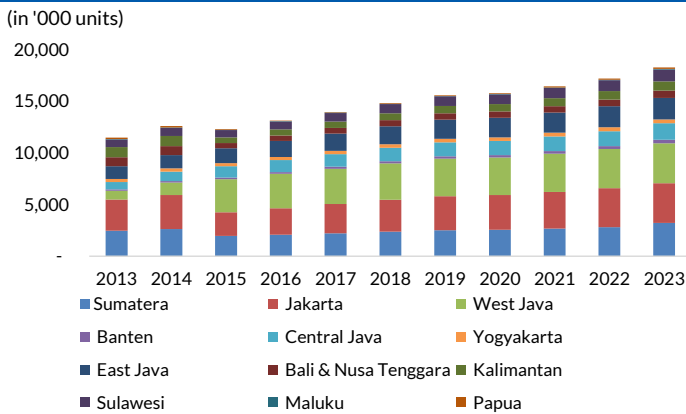
Source: Company data, RHB

Figure 8: Breakdown of revenue from passenger car tyre sales, as of 1H24



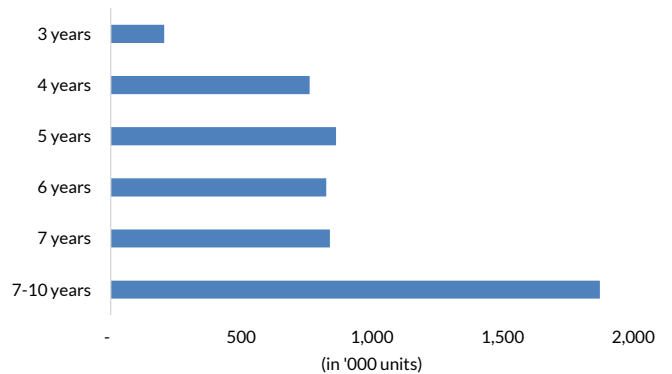
Source: Company data, RHB

Figure 9: Number of cars in Indonesia by area



Source: Indonesia National Police Traffic Corps, RHB

Figure 10: Number of cars in Indonesia by age



Source: Indonesia National Police Traffic Corps, RHB

Another catalyst – lower benchmark interest rates

Currently, GJTL has IDR4.1trn in long-term debt, of which IDR1.6trn (40% of total borrowings) are under floating interest rate terms – we believe this may decrease in tandem with the anticipated lowering of benchmark interest rates by central banks. Note that the company also has USD175m in bonds that will reach maturity in 2026. With less volatility and the IDR appreciating against the USD, we think that any FX-related losses from this loan should also tone down ahead.

5 September 2024

Consumer Cyclical | Auto &amp; Autoparts

**Trading below peer average**

This stock is trading at 3.7x FY24F P/E and 0.5x FY24F P/BV. This is well below the auto parts sector averages of 7x FY24F P/E and 1.2x FY24F P/BV.

Meanwhile, the company's positive earnings growth prospects of at least by +2-5% YoY for this year, is better than the sector's -2.7%. FY24F ROE is also decent, at 11%.

We think GJTL deserves to trade at higher valuations, and think investors can keep it in their sights over the short term – the company's prospects should be buoyed by interest rate-sensitive catalysts and the expectation of it outperforming its peers this year. Using the sector's 6-month P/E mean of 5.5x, we derived a FV of IDR1,900.

**Figure 11: Peer comparison**

Company	Market cap (IDRbn)	P/E (x)			EPS growth (%)			P/BV (x)			ROAE (%)		
		FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Astra Otoparts	10,989	6.0	5.7	5.5	(1.3)	5.6	4.0	0.7	0.6	0.6	12.0	11.6	11.2
Dharma Polimetal	5,153	8.7	7.6	6.9	(5.7)	15.2	10.0	2.2	1.8	1.5	27.5	27.6	24.3
<b>Weighted average</b>	<b>16,142</b>	<b>6.9</b>	<b>6.3</b>	<b>6.0</b>	<b>(2.7)</b>	<b>8.7</b>	<b>5.9</b>	<b>1.2</b>	<b>1.0</b>	<b>0.9</b>	<b>16.9</b>	<b>16.7</b>	<b>15.4</b>

Note: Data as at 2 Sep 2024

Source: Bloomberg, RHB

## Company Profile

Gajah Tunggal started out as a bicycle tyre manufacturer in 1951, and has since grown into the largest integrated tyre producer in Indonesia. Over the years, the company expanded its production capacity and diversified into manufacturing motorcycle tyres and inner tubes, and then ventured into making passenger car and TBR tyres. To date, GJTL's main activities are manufacturing, selling, trading, and distributing rubber goods, including inner and outer tyres for all types of vehicles, as well as producing tyre cord and synthetic rubber.

Some of the company's brands and products include:

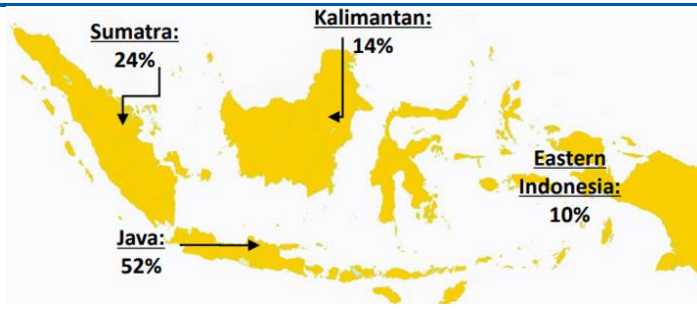
- i. GT Radial, which has radial tyres for passenger cars, SUVs, 4x4s vehicles and pick-up trucks;
- ii. Giti, which has radial TBR and light truck and bus (LTR) tyres;
- iii. Gajah Tunggal, which offers bias tyres for commercial vehicles that are widely used by transportation, plantation, and mining companies.
- iv. For motorcycles, it has IRC tyres, which are made using technology from Inoue Rubber Company (IRC) Japan;
- v. Zeneos, which offers sporty motorcycle tyres.

Figure 12: GJTL tyres are suitable for a wide range of vehicles



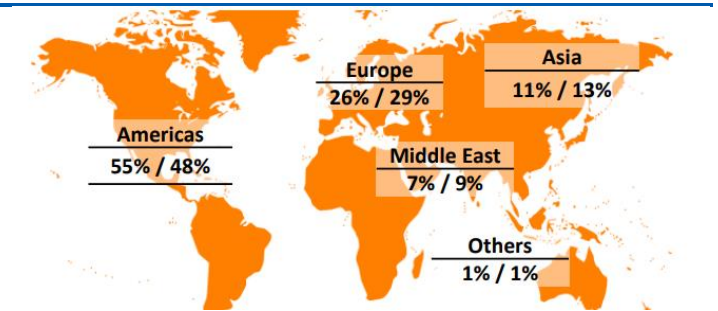
Source: Company data, RHB

Figure 13: Breakdown of domestic tyre replacement sales as of 1H24



Source: Company data, RHB

Figure 14: Exports sales breakdown for 1H24/1H23



Source: Company data, RHB

**Company milestones**

In 1951, Gajah Tunggal was established to manufacture and distribute bicycle tyres and inner tubes.

In 1971, it signed a technical assistance agreement with Inoue Rubber Company, Japan, to produce motorcycle tyres. Ten years later, it began producing bias tyres for passenger and commercial vehicles with technical assistance from Yokohama Rubber Company, Japan.

In 1990, the company was listed on the Jakarta and Surabaya Stock Exchanges. Then, in 1996, it acquired Meshindo Alloy Wheel Corp, Indonesia's second-largest aluminium wheel manufacturer. GJTL also expanded operations to produce synthetic rubber, ethylene glycol, polyester yarn, and polyester fibre.







In 2001, it entered into a production agreement with Nokian Tyres Group, to produce various types of passenger car tyres, including winter tyres, for markets outside Indonesia.

Three years after that, it launched TireZone outlets. Then, in 2010, it launched Champiro Eco, Indonesia's first eco-friendly tyre.

In 2016, the company launched GITI TBR tyres and inaugurated its tyre testing facility, GT Proving Ground in Karawang.







In 2018, GJTL established IRC Gajah Tunggal Manufacturing Indonesia, a JV between it and IRC, to produce high-performance motorcycle tyres.

Figure 15: GJTL's board of directors

Name	Position	Description
 Suugeng Rahardjo	President Director	<p>Sugeng Rahardjo earned his Bachelor of Economics degree in 1980 and pursued further education via various international courses including Diplomatic Skills Training at Johns Hopkins University (1991), and People-Centred Development Strategies at the World Bank (1992).</p> <p>He served as Indonesia's ambassador to China and Mongolia (2014-2017), and as the Inspector-General of the Ministry of Foreign Affairs (2010-2014) prior to his diplomatic post. Sugeng Rahardjo has been the President Director of GJTL since 2018.</p>
 Budhi Santoso Tanasaleh	Vice President Director	<p>Budhi Santoso Tanasaleh earned his Bachelor's and Master's degrees in Electrical Engineering from the University of Texas at Arlington. He also completed MBA courses at the University of Dallas and Nova University. He has extensive experience with Motorola in the US, and with Motorola Indonesia, and served as Vice President of Marketing at Citibank NA, Jakarta.</p> <p>Joining the company in 2001 as Export Manager, he has held various senior roles including Director (2004-2007), Vice President Director (2007-2016), and President Director (2016-2018). He has been the Vice President Director since 2018.</p>
 Kisyuwono	Director	<p>Kisyuwono holds a Bachelor's degree in Accounting from Sekolah Tinggi Akuntansi Negara. He worked as an Auditor at the Financial and Development Supervisory Agency (BPKP) from 1982 to 1992. He joined GJTL in 1992 as an assistant accounting manager, and has been serving as its director since 2004.</p>
 Hendra Soerijadi	Director	<p>Hendra Soerijadi holds a Diploma in Business Management from the National University of Singapore. He has been the President Director of Filamendo Sakti since 2006 and the President Commissioner at Gajah Tunggal Prakarsa since 1997.</p> <p>Previously, he was Vice President Director of Filamendo Sakti (1997-2006) and Vice President Director of Polychem Indonesia (1996-1999). He has been serving as a director of GJTL since 2004.</p>
 Hui Chee Teck	Director	<p>Hui Chee Teck holds a Bachelor of Business (Marketing) from La Trobe University, Australia. He has over 17 years of experience in the automotive industry, seven years in precision laser engineering, and five years in construction. He previously worked as General Manager for Global Sales and Marketing at YHI Manufacturing Group and held senior managerial roles at Globaltraco Int and Singapore Bandag.</p> <p>Joining the company in 2011 as Senior General Manager, he was promoted to Executive Vice President in 2012 and has been a Director since 2014.</p>
 Tan Yee Sin	Director	<p>Tan Yee Sin holds a Diploma in Mechanical Engineering (with Honours) from Singapore Polytechnic, Airframe &amp; Engine Certification from the Air Engineering Training Institute, and an MBA from Murdoch University (2009).</p> <p>His previous roles include General Manager of Purchasing at Giti Tires (May 2013-Sep 2019), Managing Director at SP Resources International (Jan 2007-Feb 2013), and various positions in sales and engineering. He was appointed as Executive Vice President of the company from 2019 and has been a Director since 2020.</p>

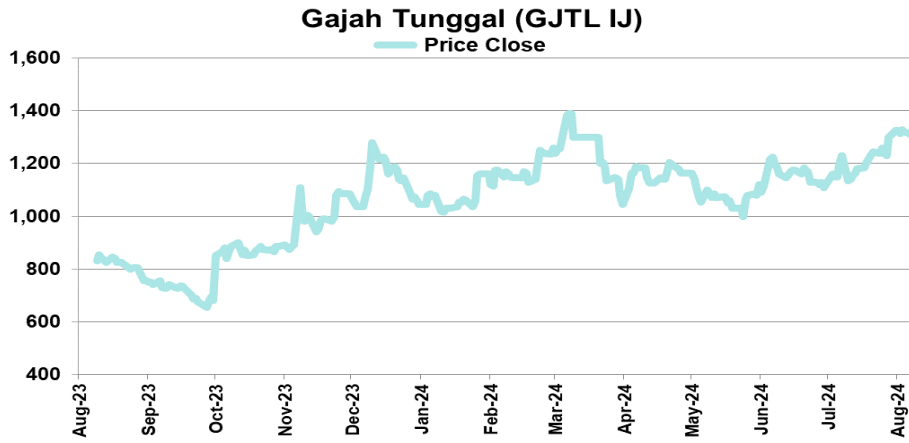
Source: Company data

Figure 16: GJTL's board of commissioners

Name	Position	Description
 Sutanto	President Commissioner (Independent)	<p>Sutanto completed his military education at Perguruan Tinggi Ilmu Kepolisian in 1983, followed by the Police Staff and Leadership School in Bandung until 1990, and Lembaga Ketahanan Nasional until 2000. He has held several significant positions, including Chief of the Indonesian National Police (2005-2008), President Commissioner of Pertamina, and President Commissioner of Angkasa Pura II.</p> <p>He has also served as Head of the Indonesian National Intelligence Agency (2010-2011), Head of the National Narcotics Agency (BNN), and several regional police chief roles. He has been serving as the Independent President Commissioner of the company since 2013.</p>
 Tan Enk Ee	Vice President Commissioner	<p>Tan Enk Ee earned his Bachelor of Medicine and Bachelor of Surgery from the University of Sydney in 1992 and an MBA from MIT in 2000. He has been the Executive Chairman of GITI Tire since 2009 and is a member of several executive boards, including Conservation International and MIT Asia Executive Board.</p> <p>He was previously CEO of Gul Technologies Singapore, a publicly listed company, and held roles as Managing Director at TS Matrix. He served as Director of the company from 2006 to 2016, Vice President Director from 2006 to 2007 and 2016 to 2018, and has been the Vice President Commissioner since 2018.</p>
 Gautama Hartarto	Commissioner	<p>Gautama Hartarto earned a Master of Arts in Economic Policy from Boston University in 1991 and a Certificate in Project Management from Arthur D. Little in 1990. He has held senior positions, including President Director of Polychem Indonesia since 1991 and President Director of Bando Indonesia since 1992. He has been serving as Commissioner of the company since 2004.</p>
 Sudrajat	Commissioner	<p>Sudrajat graduated from the Indonesian Military Academy in 1971 and completed various military and general education programmes, including the Army Command and Staff School and Lemhanas. He holds a Master's degree in Public Administration from Harvard University. His career includes roles as Head of the TNI Information Center, Special Advisor to the TNI Commander, and member of the National Resilience Council. He retired as Director General of Defense Strategy in 2005. Internationally, he served as a defense attaché in London and Washington DC, and as ambassador to China (2006-2009).</p> <p>Currently, he is the Chairman of the Indonesia-China Economic, Social, and Cultural Cooperation Institute (LIC) and has been an Independent Commissioner of the company since 2024.</p>
 Juliani Gozali	Commissioner	<p>Juliani Gozali holds a Bachelor's degree in Social and Political Sciences from Jayabaya University, Jakarta. Her career includes roles as President Director of Indonesia Prima Property (1999-2002), Commissioner at Mitra Adiperkasa (2004-2014) and has been President Commissioner at Prima Tunas Investama since 2016.</p> <p>She served as Director of the company from 2018 to 2022 and has been a Commissioner since 2022.</p>
 Sunaria Tadjuddin	Commissioner (Independent)	<p>Sunaria Tadjuddin holds a Bachelor's degree in Accounting from the University of Indonesia in 1965. He was a Commissioner at Pann Multi Finance from 1988 to 1995.</p> <p>He spent 30 years with the Directorate General of Taxes, where he held positions including Director of Tax Audits and Director of Value Added Tax. Appointed as Commissioner of GJTL from 1995 to 2004, he has served as Independent Commissioner of the company since 2004.</p>

Source: Company data

## Recommendation Chart



Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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