

8 March 2023

Industrials | Misc. Manufacturer

Arwana Citramulia (ARNA IJ)

Buy (Maintained)

New Plant To Boost Sales Mix; Keep BUY

- Maintain BUY, new DCF-based IDR1,370 TP from IDR1,490, 34% upside and c.5% yield.** Arwana Citramulia's new plant will commence operations next week, producing high-end porcelain ceramic tiles and increasing capacity by 7%. Demand for ARNA's high-end ceramic tiles remains robust. It expects FY23 sales volume of 70m sq m (+5% YoY) with an upside risk if demand improves following *Lebaran*, as it has 6.4m sq m of inventory ready for sale. We reduce our FY23F-24F earnings due to lower sales volume from continued weakness of the low-end ceramic segment.
- New plant to commence operations, boosting sales mix.** ARNA's new plant (5C), with a capacity of 4.4m sq m, will produce high-end porcelain ceramic, increasing capacity by 7%. This should improve its sales mix and ASPs, but it expects COGS/unit to rise due to the weakened IDR. The company anticipates porcelain ceramic sales to contribute 8% of total sales in 2023 (up from 5% in 2022).
- Around 6.4m sq m of ceramic tiles inventory ready for sale when demand picks up.** ARNA targets FY23 sales volume of 70m sq m (+5% YoY). Because it has 6.4m sq m of ceramic tiles inventory ready for sale, there is an upside risk to its target if demand improves following *Lebaran*. ARNA produced 70.6m sq m of ceramic tiles at 110% utilisation (compared to 107% in 2021). In 2022, it sold 66.6m sq m of ceramic tiles. Excess production resulted high inventory, mostly ceramics aimed at the low-end market. However, it should be noted that demand for ARNA's high-end ceramic tiles remains robust.
- To take advantage of the minimum local content regulation for government projects.** We believe that ARNA should benefit from anticipated massive government projects, such as civil workers housing construction in the new capital city, as well as subsidised houses, because these projects, which are based on Stated Budget expenditures, are required to use a certain percentage of local content.
- Monthly ceramic sales volume recovered in January,** however ARNA expect soft sales in 1Q23 partly due to seasonality. Sales volume reached 5.6m sq m in January (c.10% – higher than the average monthly sales volume in 4Q22). However, sales fell slightly in February due to shorter working days. March monthly sales is estimated to be back to the January level. However, due to cyclically low sales during *Ramadan*, April sales may be lower than in March.
- Lower earnings and TP.** We revise down FY23F-24F earnings by 12-14% to IDR614bn and IDR692bn, driven by lower sales volume due to the continued weak demand of the low-end ceramic segment. We also cut our DCF-based TP to IDR1,370, which implies to 16.5x-14.6x FY23F-24F P/E. Our TP includes a 6% ESG premium applied to ARNA's intrinsic value since the company's ESG score is above the country median.

Target Price (Return):	IDR1,370 (+34%)
Price (Market Cap):	IDR1,020 (USD487m)
ESG score:	3.30 (out of 4)
Avg Daily Turnover (IDR/USD)	2,750m/0.18m

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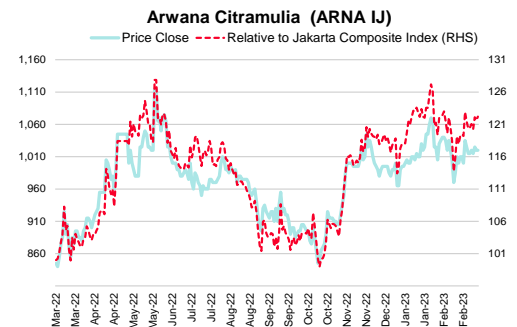


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.5	(1.5)	2.0	11.5	20.7
Relative	3.7	0.9	2.8	17.4	22.2
52-wk Price low/high (IDR)	840 – 1,115				



Source: Bloomberg

Overall ESG Score: 3.30 (out of 4)

E: EXCELLENT

ARNA has been recognised for its green industry over the last eight years. Its manufacturing facilities are certified for ISO 14001:2015 (environmental management systems). The company's production processes mainly use gas-fired kilns, which emit lower levels of greenhouse gases. It has consistently lowered gas consumption to improve operating efficiency, as well as cut down carbon emissions

S: EXCELLENT

Corporate social responsibility activities include renovating schools and homes, and donating blood and medical treatment. On recruitment, ARNA prioritises locals when hiring workers. There have been no media reports on any conflicts between the company and the local communities

G: EXCELLENT

Its good corporate governance is supported by audit and remuneration committees. It has good transparency, business ethics, and discloses information about its business activities.

Note:

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

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (IDRb)	2,555	2,587	2,807	3,117	3,399
Recurring net profit (IDRb)	466	560	611	688	767
Recurring net profit growth (%)	45.6	20.0	9.2	12.7	11.4
Recurring P/E (x)	16.06	13.38	12.26	10.88	9.77
P/B (x)	4.8	4.2	4.0	3.5	3.1
P/CF (x)	20.93	18.86	16.22	13.77	12.16
Dividend Yield (%)	2.9	4.4	5.4	5.7	6.4
EV/EBITDA (x)	9.89	8.43	8.06	7.01	6.11
Return on average equity (%)	33.2	33.6	33.4	34.5	33.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Indonesia	Recurring EPS	63.51	76.22	83.20	93.73	104.41
Industrials	DPS	29.71	44.57	54.69	58.32	65.66
Arwana Citramulia	BVPS	210.90	245.74	254.79	290.70	329.95
ARNA IJ	Return on average equity (%)	33.2	33.6	33.4	34.5	33.8
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	16.06	13.38	12.26	10.88	9.77
10-year DCF valuation, assuming a WACC of 8.5% and TG of 3%, with a 6% ESG premium applied.	P/B (x)	4.8	4.2	4.0	3.5	3.1
	FCF Yield (%)	3.6	4.1	4.9	5.9	6.8
	Dividend Yield (%)	2.9	4.4	5.4	5.7	6.4
	EV/EBITDA (x)	9.89	8.43	8.06	7.01	6.11
	EV/EBIT (x)	11.62	9.55	9.14	7.89	6.85
Key drivers						
i. Lower gas tariff rates;						
ii. Recovery in consumer spending;						
iii. Acceleration of government spending on public housing.						
	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	2,555	2,587	2,807	3,117	3,399
i. Rising competition;	Gross profit	919	1,053	1,104	1,231	1,357
ii. Weakening of the IDR.	EBITDA	701	826	869	973	1,079
	Depreciation and amortisation	(104)	(96)	(103)	(109)	(116)
	Operating profit	596	730	766	864	963
	Net interest	7	4	5	5	4
	Pre-tax profit	609	734	775	873	971
	Taxation	(134)	(165)	(155)	(175)	(194)
	Reported net profit	470	564	614	692	770
	Recurring net profit	466	560	611	688	767
Company Profile						
Arwana Citramulia is a ceramic tile producer targeting the low- to middle-income segment, with an annual capacity of 64m sq m. The company operates two plants in Western Java, two in Eastern Java, and one in South Sumatra.	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(89)	(103)	(105)	(87)	(79)
	Cash flow from operations	358	397	462	544	616
	Capex	(87)	(92)	(96)	(101)	(106)
	Cash flow from investing activities	(87)	(92)	(96)	(101)	(106)
	Dividends paid	(218)	(327)	(402)	(428)	(482)
	Cash flow from financing activities	(228)	(295)	(402)	(428)	(482)
	Cash at beginning of period	436	603	600	568	752
	Net change in cash	42	10	(36)	15	28
	Ending balance cash	603	600	593	810	1,045
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	603	600	568	752	971
	Tangible fixed assets	766	945	939	931	921
	Total assets	2,244	2,579	2,402	2,671	2,965
	Short-term debt	20	50	50	50	50
	Total liabilities	670	746	502	508	514
	Total equity	1,573	1,833	1,900	2,163	2,451
	Total liabilities & equity	2,244	2,579	2,402	2,671	2,965
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	15.5	1.2	8.5	11.0	9.1
	Recurrent EPS growth (%)	45.6	20.0	9.2	12.7	11.4
	Gross margin (%)	36.0	40.7	39.3	39.5	39.9
	Operating EBITDA margin (%)	27.4	31.9	30.9	31.2	31.7
	Net profit margin (%)	18.4	21.8	21.9	22.2	22.7
	Dividend payout ratio (%)	46.4	58.0	65.3	61.9	62.6
	Capex/sales (%)	3.4	3.5	3.4	3.2	3.1
	Interest cover (x)	133	95	53	59	66

Source: Company data, RHB

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Figure 1: Revised earnings estimates

	FY23F			FY24F		
	Revised	Old	Change	Revised	Old	Change
Sales	2,807	3,051	-8.0%	3,117	3,377	-7.7%
Gross profit	1,104	1,233	-10.4%	1,231	1,395	-11.8%
EBIT	766	870	-12.0%	864	1,001	-13.7%
Pre-tax income	775	879	-11.8%	873	1,010	-13.6%
Net income	614	697	-11.9%	692	801	-13.6%
Margin						
GPM	39.3%	40.4%		39.5%	41.3%	
EBIT margin	27.3%	28.5%		27.7%	29.6%	
Pre-tax margin	27.6%	28.8%		28.0%	29.9%	
Net margin	21.9%	22.9%		22.2%	23.7%	
Sales volume ('000sq m)	72,000	74,000	-2.7%	78,000	78,000	0.0%

Source: Company data, RHB

Figure 2: DCF valuation

General assumptions											
WACC	8.6%										
TV growth	3.0%										
	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
EBIT	766	864	963	987	1,011	1,035	1,058	1,080	1,103	1,124	1,146
Tax on EBIT	(153)	(173)	(193)	(197)	(202)	(207)	(212)	(216)	(221)	(225)	(229)
Depreciation & amortisation	103	109	116	123	130	138	146	155	164	173	183
Less capex	(96)	(101)	(106)	(111)	(117)	(123)	(129)	(135)	(142)	(149)	(157)
Working capital changes	(105)	(87)	(79)	(24)	(24)	(25)	(25)	(26)	(27)	(27)	(28)
FCFF	514	612	701	778	798	818	838	858	877	896	915
Enterprise value											
NPV - FCFF	5,209										
NPV - Terminal value	3,768										
Subtotal	8,977										
Net (debt)/cash	517										
Equity value	9,494										
Number of shares (m)	7,341										
Equity value per share (IDR/share)	1,293										
ESG premium	6%										
Final TP (IDR)	1,370										

Source: Company data, RHB

Recommendation Chart

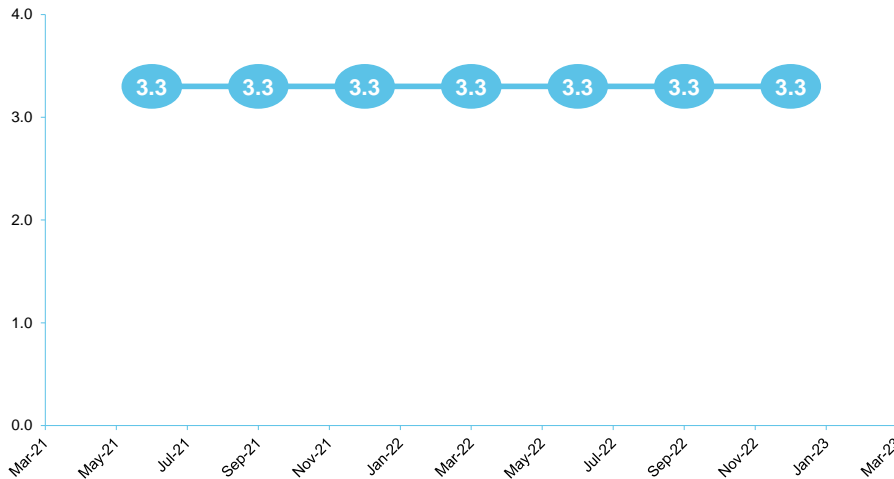


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-02-15	Buy	1,490	985
2022-11-02	Buy	1,490	910
2022-04-20	Buy	1,350	1,000
2022-02-14	Buy	1,350	845
2022-01-24	Buy	1,350	865
2021-10-25	Buy	1,110	805
2021-04-21	Buy	1,050	760
2020-12-31	Buy	920	680
2020-04-21	Buy	590	378
2020-02-10	Buy	590	460
2020-01-08	Buy	590	436
2019-10-18	Buy	590	515
2019-07-19	Buy	590	510
2019-04-18	Buy	590	505
2019-02-08	Buy	590	472

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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