

IMPACK PRATAMA INDUSTRI (IMPC)

NAVIGATING MODEST SALES GROWTH

Investment thesis:

- 3Q23 earnings result experienced modest sales growth** - IMPC reported a modest revenue in both 3Q23 and 9M23, with total sales amounting to IDR697 bn (+2.5% YoY/+7.9% QoQ) and IDR2.1 tn (+2.8% YoY), respectively. In 9M23, the contribution of domestic revenues to total revenue slightly increased to 77% (compared to 75% in 9M22). The growth in domestic sales was mainly supported by roofing (+8.8% YoY), pipe and other products (+22% YoY), and real estate (+30.4% YoY), while materials and facade experienced declines in sales growth by -8.5% YoY and -15% YoY, respectively. Alongside the decrease in domestic facade sales, unfortunately, overseas facade sales showed a significant drop of -57.3% YoY, representing a record decline in overseas facade sales throughout the company's history since the IPO. The 9M23 revenue only represents 63% of our full-year 2023 forecast.
- Significant bottom-line growth** - The decrease in cost inputs due to lower material prices resulted in a reduction in the total cost of purchasing raw materials (-28% YoY) and other materials (-70% YoY) in 9M23 led to an increase in gross profit to IDR854 bn (+24.5% YoY). In 3Q23, gross profit also surged to IDR292 bn (+30.2% YoY/12.9% QoQ). This brings the gross margin for 9M23 rose to 40.9% (+712 bps YoY). Despite a slight increase in operating expenses to IDR360 bn (+4.3% YoY) due to higher salaries and freight expenses, IMPC recorded a 9M23 EBIT of IDR494 bn (+45% YoY) and 3Q23 EBIT of IDR169 bn (+40.8% YoY/12.2% QoQ), with an EBIT margin of 23.7% (+688 bps YoY) and 24.3% (+661 bps YoY) respectively. These results had a positive impact on net profit, which doubled from 3Q22 to IDR128 bn (+111.7% YoY/+39.3% QoQ) in 3Q23 and IDR341 bn (+65.7% YoY) in 9M23, with a net margin of 16.4% (+620 bps YoY). Following this swift expansion results due to decreasing raw material costs and enhanced operational efficiency, we adjusted our bottom line upward.
- Strategies Amid Modest Sales Growth** - IMPC' commitment to strengthening its distribution network in Eastern Indonesia proved by the operation of its first factory in Surabaya, East Java in 2022, that it is expected that Eastern Indonesia will contribute approximately 40% of the total domestic revenue in the next 3-4 years. In addition, to facilitate the manufacture of innovative building materials, the company also has built a new factory facility located in the Kawasan Industri Terpadu Batang (KITB), Central Java, that will start operating according to the predetermined schedule, in 1H24.

Valuation & Recommendation:

- Revising up our earnings assumption** - Following the modest revenue growth results, we anticipate that the company will not be able to achieve its sales target of IDR3.3 tn. Despite that, the decreasing material costs and operational efficiency implemented by the company have a positive impact on bottom-line growth. Therefore, we have adjusted our 2023/24F top-line and bottom-line projections to -12%/-15% and +14%/+0.1%, respectively. As a result, we upgraded our call to **ADD** with a new 12-month TP of IDR400 (14% upside potential), derived from a 44x P/E (+1 sd. above 5-year mean P/E).



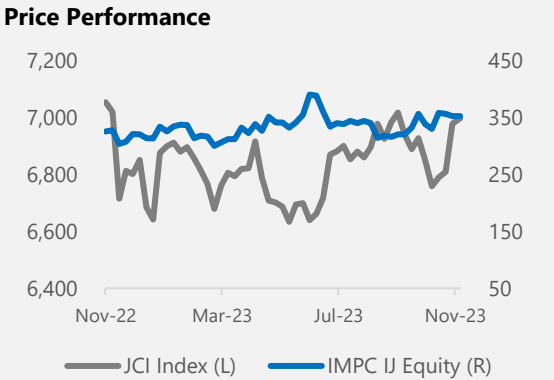
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3M/12M Rating NEUTRAL/ADD
3M/12M TP IDR360/IDR400

Stock Information	
Ticker	IMPC
Share price	350
52-week range.	287 – 430
Share Out. (mn)	54.3
Market Cap. (IDR tn)	18.8
Daily turnover (bn)	8.5
Free Float (%)	10.7

Key Shareholders (%)	
PT Tunggal Jaya Investama	43.9



Source: Bloomberg

Key Financial Highlights			
IDR bn	2022	2023F	2024F
Revenue	2,809	2,917	3,311
Gross Profit	979	1,190	1,324
Operating Profit	445	624	698
Pretax Income	414	575	646
Net Profit	307	436	491
Net Margin	11%	15%	15%
EPS	5.7	8.0	9.0

Source: Bloomberg, SimInvest Research

Bloomberg ESG Rating	
Environmental	N/A
Social	N/A
Governance	N/A



Current quarter earnings review

IDR bn	2Q23	3Q22	3Q23	QoQ	YoY	9M22	9M23	YoY	2023F	%SIM
Revenue	646	680	697	7.9%	2.5%	2,029	2,087	2.8%	3,302	63%
Gross Profit	259	224	292	12.9%	30.2%	686	854	24.5%	1,172	73%
Operating Profit	151	120	169	12.2%	40.8%	341	494	44.9%	545	91%
Pretax Income	129	97	173	34.0%	78.1%	289	453	57.1%	501	91%
Net Profit	92	61	128	39.3%	111.7%	206	341	65.7%	383	89%
Profitability:										
Gross Margin	40.1%	33.0%	41.9%			33.8%	40.9%		35.5%	
Operating Margin	23.3%	17.6%	24.3%			16.8%	23.7%		16.5%	
Net Margin	9.8%	8.9%	18.4%			10.2%	16.4%		11.6%	

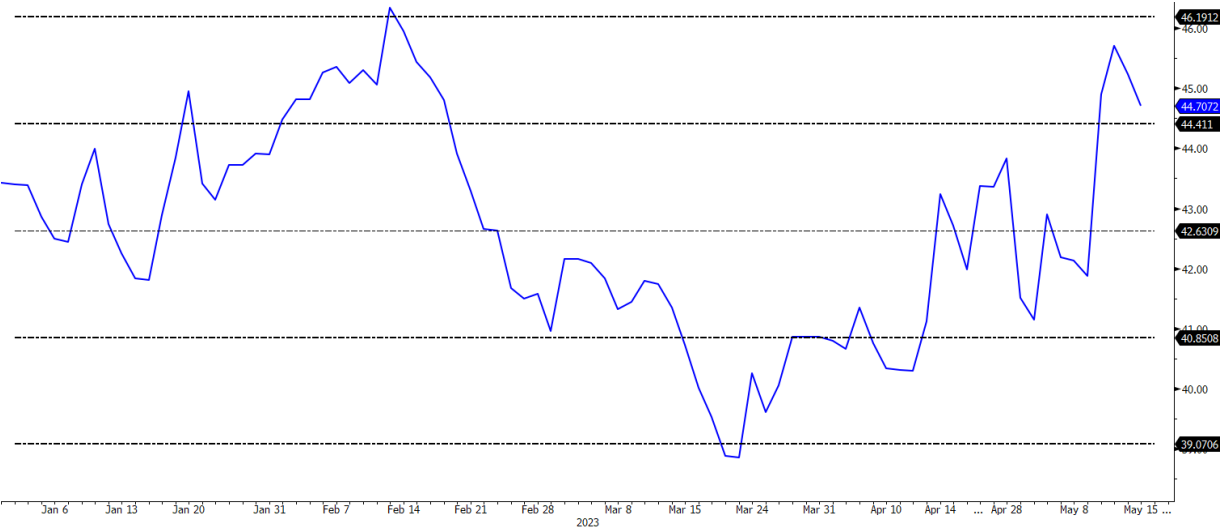
Source: Company, SimInvest Research

Changes in forecasts

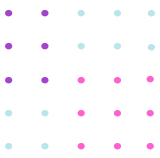
IDR bn	2023F			2024F		
	Old	New	Changes	Old	New	Changes
Revenue	3,302	2,917	-12%	3,886	3,311	-15%
Gross Profit	1,172	1,190	2%	1,399	1,324	-5%
Operating Profit	545	624	15%	680	698	3%
Net Profit	383	436	14%	490	491	0.1%
Profitability:						
Gross Margin	36%	41%		36%	40%	
Operating Margin	17%	21%		18%	21%	
Net Margin	12%	15%		13%	15%	

Source: Company, SimInvest Research

IMPC's P/E band



Source: Bloomberg, SimInvest Research

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REDUCE	: Share price may range between –10% to –15% over the next 12 months.
SELL	: Share price may fall by more than 15% over the next 12 months.

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