

AVIA IJ • Basic Material

Avia Avian

A Fresh Coat of Optimistic Outlook

Not Rated

Target price

N/A

Upside

N/A

Current price (10/14/24)

IDR480

JCI Index	7,560	Market cap (IDRbn)	29,738	Shares outstanding (mn)	61,954	Free Float (%)	24.2
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Report summary

Company profile

Established in 1978, PT Avia Avian Tbk (Avian Brands) is Indonesia's largest decorative paint manufacturer, holding a 23% market share. Avian offers a diverse product range including wall, wood, and metal paints, and operates integrated manufacturing facilities. Committed to innovation and sustainability, Avian enriches Indonesian homes while maintaining high environmental and safety standards.

1H24 financial overview

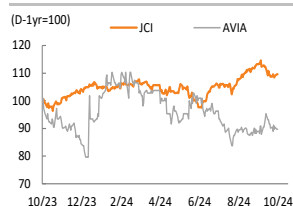
AVIA reported a net revenue of IDR1.72tr, down by 9.92% QoQ and 0.58% YoY, primarily due to a 5.5% YoY decline in architectural solutions sales to IDR1.32tr. Despite a 19.9% YoY increase in trading goods to IDR395bn, overall gross profit dropped to IDR744bn, a 4.3% YoY decrease. EBITDA and net profit also fell by 9.6% and 7.3% YoY respectively. The company's expansion of distribution centers has boosted its delivery capabilities.

Valuation & Recommendation

AVIA is trading at a lower P/E of 16.7x compared to its historical 17.6x, suggesting a discounted valuation. Despite not being rated, anticipated purchasing power recovery and strategic marketing could enhance future performance. Risks include rising raw material costs, IDR depreciation, increased industry competition, and slower demand for paint.

Key data

Price performance



(%)	1M	6M	12M
Absolute	0.8	-9.4	-10.3
Relative	4.1	-14.9	-19.4

Earnings and valuation metrics

(FY Dec. 31)	2021A	2022A	2023A	1H24
Revenue (IDR bn)	6,780	6,694	7,017	3,621
Operating Profit (IDR bn)	1,802	1,459	1,709	742
Net Profit (IDR bn)	1,435	1,400	1,643	808
EPS (IDR)	23.16	22.61	26.51	13.05
BPS (IDR)	151.92	154.47	160.03	155.70
P/E (x)	39.94	27.86	18.86	39.46
P/BV (x)	6.09	4.08	3.12	3.31
ROA (%)	13.19	12.98	14.71	7.44
ROE (%)	15.24	14.63	16.56	8.33

Source: Company data, Mirae Asset Sekuritas Indonesia Research estimates

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Company at a glance

Company Profile

PT Avia Avian Tbk, known as Avian Brands, was established in 1978 as an integrated paint manufacturer. For over four decades, Avian has provided a range of products, such as Sunguard All in One wall paint, Supersilk Anti Noda, Avitex, No Drop waterproofing paint, and Avian wood & metal paint, bringing color to millions of Indonesian households. Listed on the Indonesia Stock Exchange (IDX: AVIA) in December 2021, AVIA is recognized as the largest decorative paint manufacturer and market leader in Indonesia's decorative paint and coating industry, holding a 23% market share as reported by Frost & Sullivan.

Table 1. Notable AVIA shareholders

Shareholders	Amount	%
PT Tancorp Surya Sentosa	22,674,971,000	36.6
PT Wahana Lancar Rejeki	20,129,652,900	32.5
Archipelago Investment Privated Ltd	3,902,748,900	6.3
Robert Christian Tanoko	1,425,406,300	2.3

Source: IDX, Mirae Asset Sekuritas Indonesia Research

AVIA operates manufacturing facilities in Sidoarjo and Serang, utilizing vertical integration to produce some raw materials internally. The company's sales are split between architectural solutions, contributing around 80%, and trading goods, contributing 20%. Avian Brands is also committed to innovation with the establishment of the Avian Innovation Center (AIC) in 2020 and maintains high standards in environmental management, health, safety, and governance, demonstrated by various international ISO certifications. Through its efforts, Avian Brands aims to enrich Indonesia with innovative and sustainable products.

Business Segments

PT Avia Avian Tbk's products are divided into two main categories: **architectural solutions and trading goods**. Architectural solutions, the company's primary offerings, include wall paint, wood and metal paint, waterproofing, wood care, and other products like roof paint and automotive refinish paint, with a portfolio of over 2,300 SKUs across 96 brands such as Avian, Avitex, and No Drop. Trading goods, which support the architectural solutions, consist of items like pipes, furniture, and painting tools such as rollers and brushes, procured from affiliates and handled by the subsidiary PT Tirtakencana Tatawarna.

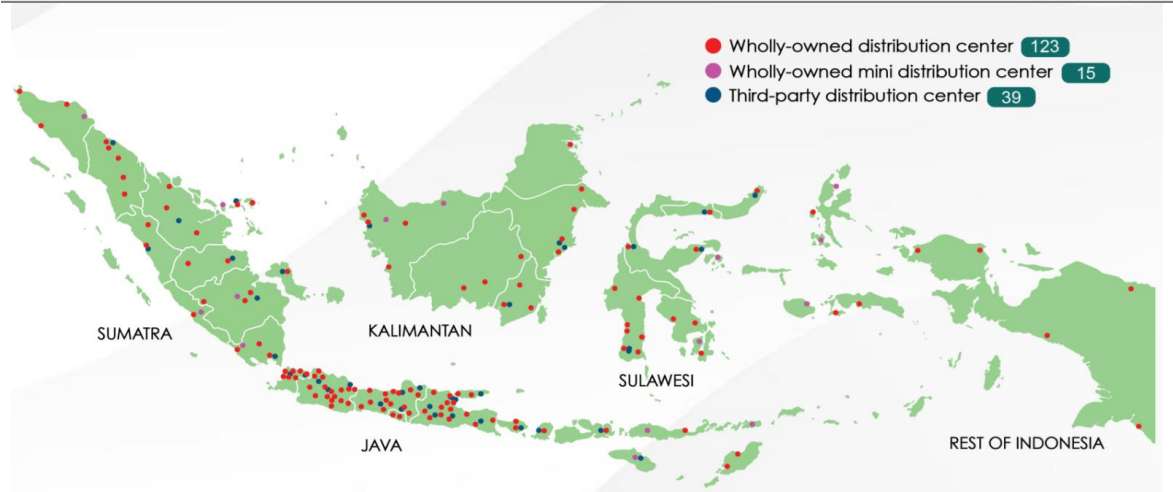
In 2Q24, AVIA opened two wholly-owned distribution centers, enhancing its logistical infrastructure to facilitate around 12,000 daily deliveries and achieving 92% of one-day delivery service fulfillment. The expansion of these centers helps improve product reach nationwide, enhances service quality and customer relationships, and optimizes inventory management to reduce potential losses.

Figure 1. AVIA Product Offerings



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 2. Distribution center as of 2Q24



Source: Mirae Asset Sekuritas Indonesia Research

Industry at a glance

Paint and coating industry poised for growth

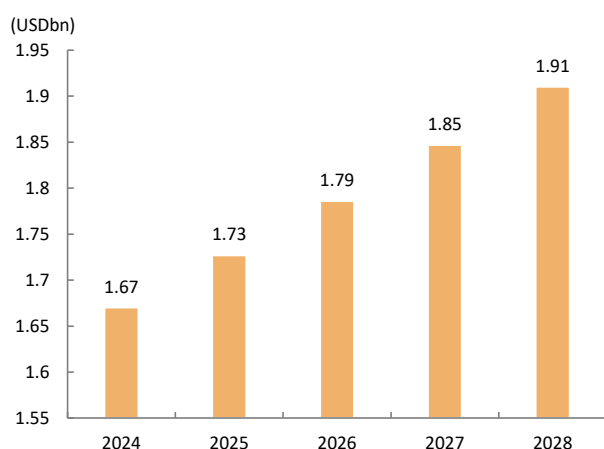
Indonesia is the largest market for paints and coatings in Southeast Asia, driven by its large population. The market is expected to grow at an annual rate of 6.47% from 2023 to 2032, reaching USD4.24bn by 2030, according to Inkwood Research. Growth is fueled by economic reforms, the expanding construction and infrastructure sectors, and strong demand for packaging and household products. The Indonesia architectural coatings market is estimated at USD1.67bn in 2024 and is expected to reach USD1.91bn by 2028, growing at a CAGR of 3.41%. The residential sector dominates the market, supported by government initiatives to build housing for the rapidly growing population.

A key trend in Indonesia's coatings market is the shift towards producing greener and healthier products, such as lead-free, chromium-free, water-based, low-odor, and low-VOC (volatile organic compounds) paints. Waterborne coatings have gained traction due to increased awareness of VOC emissions, though the lack of strict government regulations still hinders further growth. Acrylic coatings dominate in architectural applications, especially in the residential sector, where homes are primarily coated with acrylic on exterior surfaces.

However, the sector faces several challenges. One major issue is the volatility of raw material prices, which increases production costs. Another challenge stems from supply chain disruptions caused by the Covid-19 pandemic. Additionally, the global uncertainty created by the ongoing Russia-Ukraine conflict has further impacted oil prices, leading to higher shipping costs and increased prices for solvents and related materials.

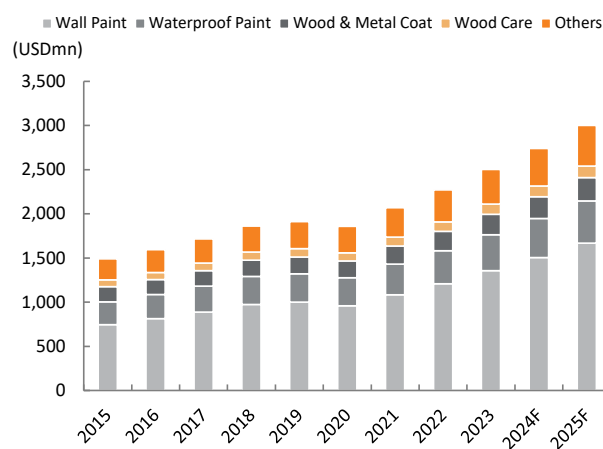
In response to these challenges, local governments are expected to introduce regulations mandating the use of lead-free paints, aligning with the industry's shift towards more sustainable solutions.

Figure 3. Indonesia Architectural Paint Coating Market Value



Source: Mirae Asset Sekuritas Indonesia Research

Figure 4. Indonesia Paint & Coating Market Value



Source: Mirae Asset Sekuritas Indonesia Research

Financial & Operational Analysis

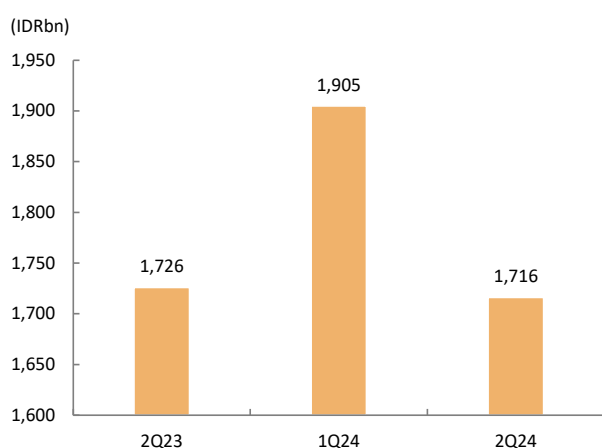
2Q24 & 1H24 Financial Highlight

AVIA reported a net revenue of IDR1.72tr, showing a decrease of 9.92% QoQ and 0.58% YoY. The primary factor behind the decline in net revenue was underperformance in architectural solutions sales, which fell to IDR1.32tr, a decrease of 5.5% YoY. Another revenue contributor was trading goods, which increased to IDR395bn, up 19.9% YoY. In terms of number of customers, AVIA's 2Q24 number of customers increased to 50,061 customers (+1.8% YoY) from 49,168 customers. In terms of types of customers, about 91.9% of customers are from traditional retail outlets while the remaining 8.1% comes from modern retail outlets. From a distribution network standpoint, majority of sales comes from wholly owned DC's while the remaining is from 3rd party and others at 10.6% and 0.6%, respectively. Despite this increase, the sharp drop in architectural solution sales led to a decrease in gross profit from IDR777bn in 2Q23 to IDR744bn in 2Q24, marking a 4.3% YoY decline. Consequently, EBITDA and net profit also decreased to IDR447bn (-9.6% YoY) and IDR362bn (-7.3% YoY), respectively.

Cumulatively, net revenue reached IDR3.62tr (+3.2 YoY). This was mostly due to a better performance for 1Q24 positively impacting the 1H24 numbers. The number of customers also slightly increased from 53,045 customers to 53,933 customers (+1.7% YoY). In terms of split, revenue split for 1H24 is at 80%/20% for architectural solution/trading goods. Gross profit reached IDR1.63tr (+2.8% YoY). However, OPEX remains relatively high mainly due to S&M expenses being slightly elevated to IDR621bn (+13.3% YoY). This impacted operating profit to decline to IDR742bn (-9.2% YoY). Net profit remains relatively flat at IDR808bn (+0.00% YoY).

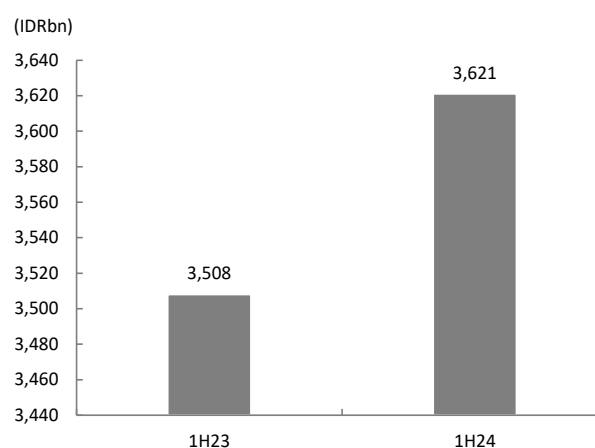
In 2Q24, AVIA expanded its logistics operations by opening two wholly owned distribution centers. This expansion has enabled the company to handle approximately 12,000 daily deliveries and achieve a 92% rate of one-day delivery service fulfillment.

Figure 5. Quarterly Net Revenue



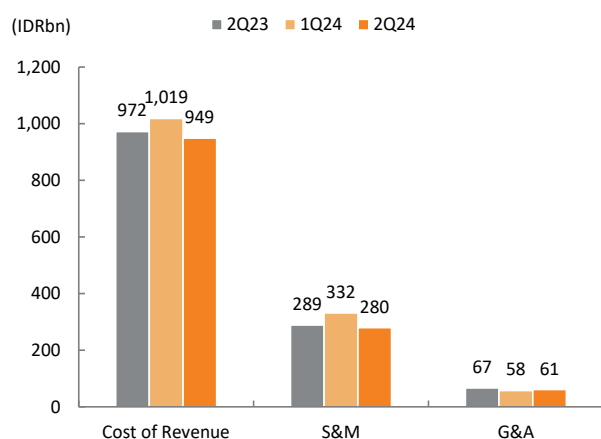
Source: Mirae Asset Sekuritas Indonesia Research

Figure 6. Net Revenue for 1H24



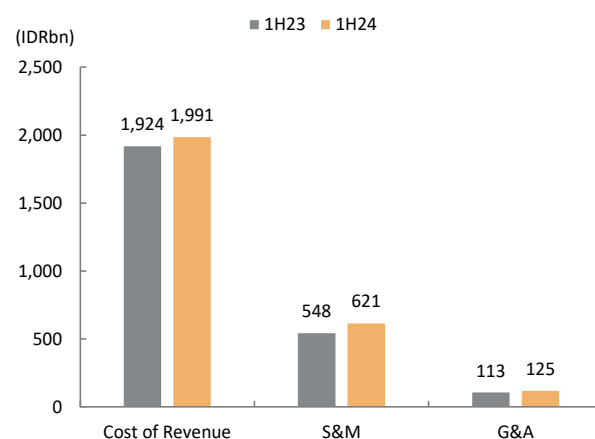
Source: Mirae Asset Sekuritas Indonesia Research

Figure 7. Quarterly COGS & Opex



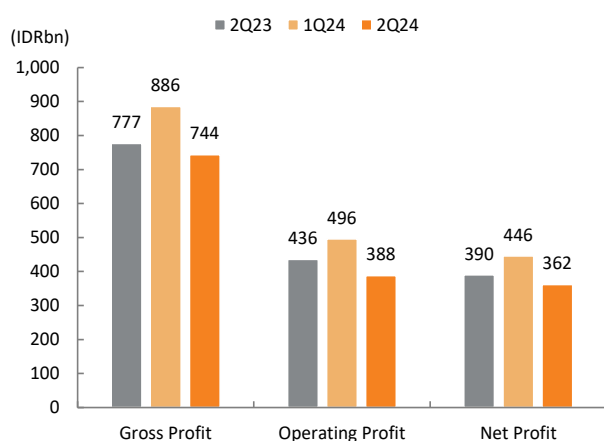
Source: Mirae Asset Sekuritas Indonesia Research

Figure 8. COGS & Opex for 1H24



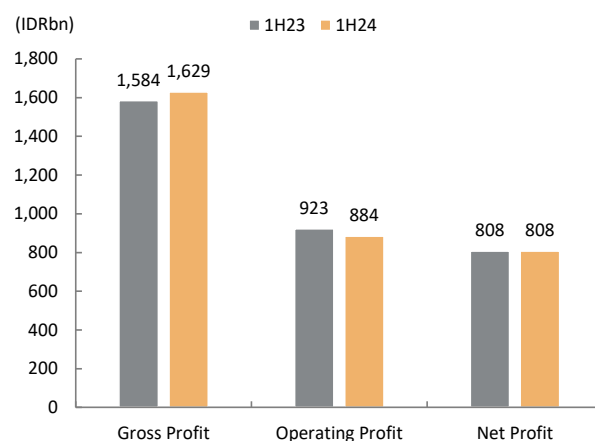
Source: Mirae Asset Sekuritas Indonesia Research

Figure 9. Quarterly Operating Profit, EBIT & Net Profit



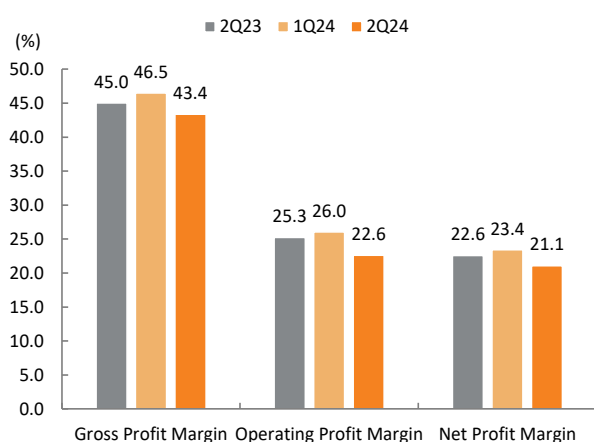
Source: Mirae Asset Sekuritas Indonesia Research

Figure 10. Operating Profit, EBIT & Net Profit for 1H24



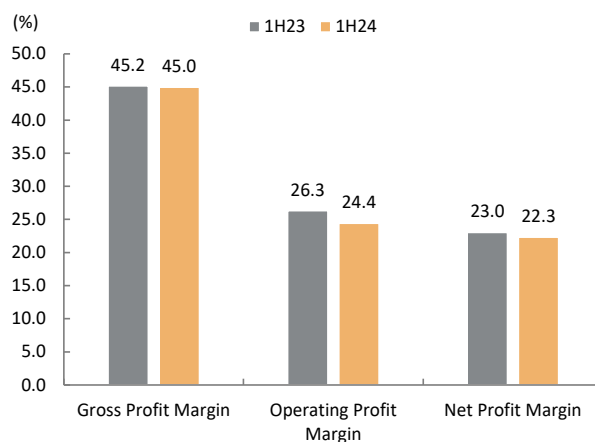
Source: Mirae Asset Sekuritas Indonesia Research

Figure 11. Quarterly Profit Margins



Source: Mirae Asset Sekuritas Indonesia Research

Figure 12. 1H24 Profit Margins



Source: Mirae Asset Sekuritas Indonesia Research

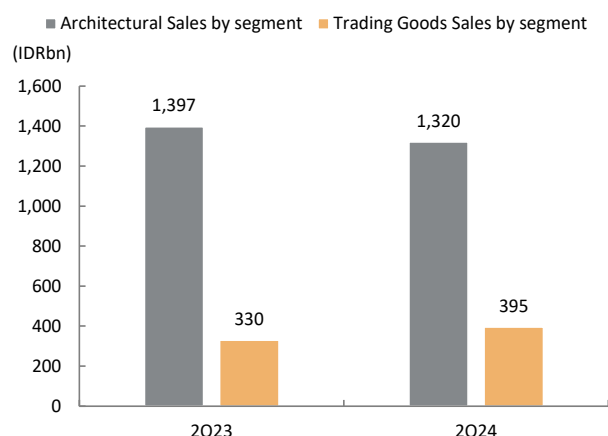
Architectural Solutions

The architectural solutions posted a 2Q24 revenue of IDR1.32tr (-5.5% YoY). On the other hand, on a cumulative basis, 1H24 revenue is at IDR2.89tr (+0.07% YoY). In terms of sales by volume, 2Q24 sales by volume fall to 37,099mt (-6.2% YoY) from 39,571mt in 2Q23. Cumulatively, 1H24 sales by volume also declined to 81,857mt (-0.13% YoY) from 81,963mt in 1H23. In terms of customer base, 2Q24 customers managed to increase from 44,872 customers in 2Q23 to 45,905 customers (+2.3% YoY) in 2Q24 comprising of 91.7% of total customers of AVIA. Cumulatively, architectural customers is around 49,499 customers (+2.4% YoY) and about 91.8% of AVIA's total customers. Gross profit for the segment is at IDR673bn (-6.3% YoY) from IDR718bn in 2Q23 with margin of 51.0%. Cumulatively, gross profit margin still managed to grew to IDR1.5tr (+1.8% YoY) from IDR1.47tr in 1H23 with margin of 51.8%.

Trading Goods

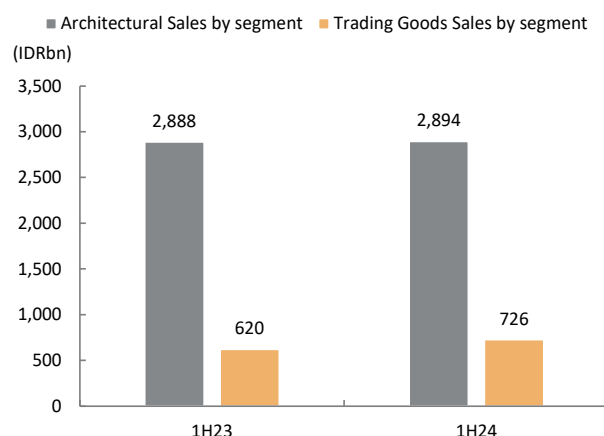
The trading goods segment posted a better result than architectural. 2Q24 revenue reached IDR395bn (+19.7% YoY). On the other hand, on a cumulative basis, 1H24 revenue is at IDR726bn (+17.1% YoY). In terms of customer base, 2Q24 customers managed to increase from 36,041 customers in 2Q23 to 37,419 customers (+3.8% YoY) in 2Q24 comprising of 74.7% of total customers of AVIA. Cumulatively, trading goods customers is around 43,725 customers (+2.7% YoY) and about 81.1% of AVIA's total customers. Gross profit for the segment is at IDR71bn (+20.3% YoY) from IDR59bn in 2Q23 with margin of 17.8%. Cumulatively, gross profit margin managed to grow to IDR131bn (+17.0% YoY) from IDR112bn in 1H23 with margin of 18.1%.

Figure 13. 2Q24 sales by segment



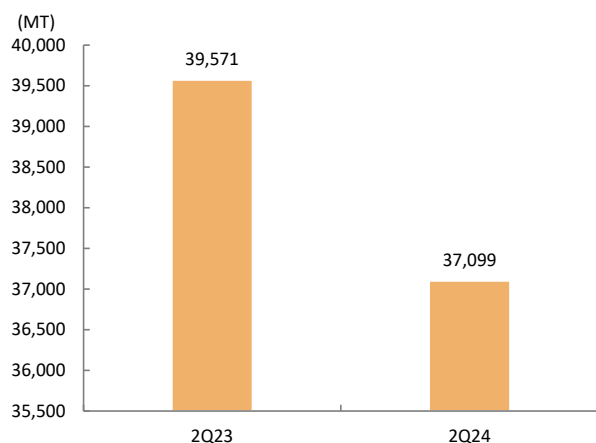
Source: Mirae Asset Sekuritas Indonesia Research

Figure 14. 1H24 sales by segment



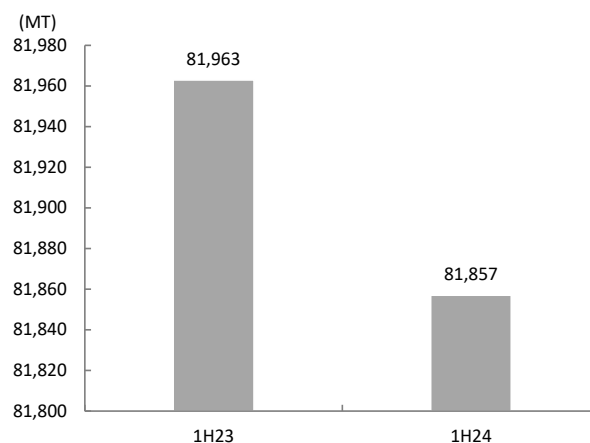
Source: Mirae Asset Sekuritas Indonesia Research

Figure 15. 2Q24 sales volume



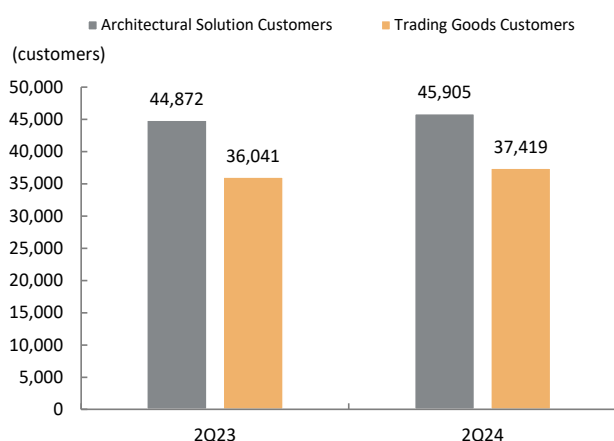
Source: Mirae Asset Sekuritas Indonesia Research

Figure 16. 1H24 sales volume



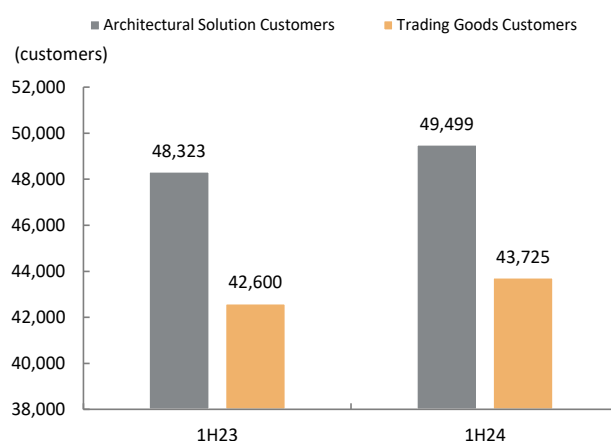
Source: Mirae Asset Sekuritas Indonesia Research

Figure 17. Number of customers in 2Q24



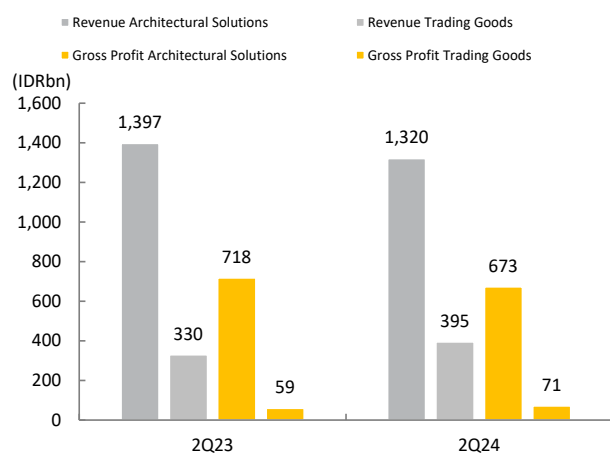
Source: Mirae Asset Sekuritas Indonesia Research

Figure 18. Number of customers in 1H24



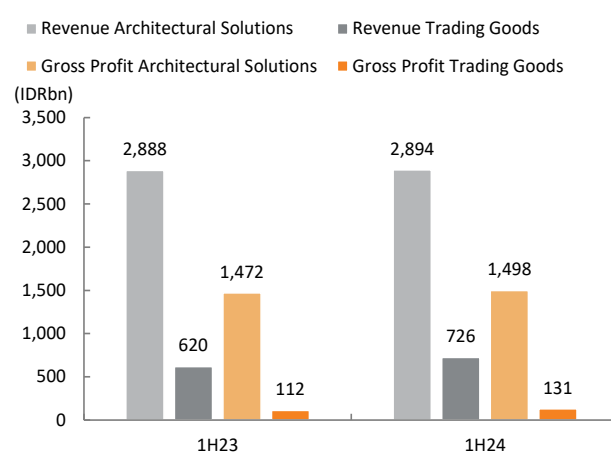
Source: Mirae Asset Sekuritas Indonesia Research

Figure 19. 2Q24 Revenue & Gross Profit of each segment



Source: Mirae Asset Sekuritas Indonesia Research

Figure 20. 1H24 Revenue & Gross Profit of each segment



Source: Mirae Asset Sekuritas Indonesia Research

Table 2. AVIA Key Highlights

(IDRbn)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY(%)
Revenue	1,726	1,905	1,716	-9.92	-0.58	3,508	3,621	3.22
Gross Profit	777	886	744	-16.03	-4.25	1,584	1,629	2.84
Margin (%)	45.0	46.5	43.4			45.2	45.0	
Operating Profit	436	496	388	-21.77	-11.01	923	884	-4.23
Margin (%)	25.3	26.0	22.6			26.3	24.4	
Net Profit	390	446	362	-18.83	-7.18	808	808	0.00
Margin (%)	22.6	23.4	21.1			23.0	22.3	

Segmental (IDRbn)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)
Revenue	1,727	1,905	1,715	-9.97	-0.69	3,508	3,620	3.19
Architectural Solutions	1,397	1,574	1,320	-16.14	-5.51	2,888	2,894	0.21
Trading Goods	330	331	395	19.34	19.70	620	726	17.10
Gross Profit	777	886	744	-16.03	-4.25	1,584	1,629	2.84
Architectural Solutions	718	825	673	-18.42	-6.27	1,472	1,498	1.77
Trading Goods	59	61	71	16.39	20.34	112	131	16.96

Segmental Mix	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY(%)
Revenue	1,727	1,905	1,715	-9.97	-0.69	3,508	3,620	3.19
Architectural Solutions (%)	80.9	82.6	77.0			82.3	79.9	
Trading Goods (%)	19.1	17.4	23.0			17.7	20.1	

Operational Data	2Q23	2Q24	YoY (%)	1H23	1H24	YoY(%)
Architectural Solutions						
Sales by value (IDRbn)	1,397	1,320	-5.51	2,888	2,894	0.21
Sales by volume (mt)	39,571	37,099	-6.25	81,963	81,857	-0.13
Number of Customers	44,872	45,905	2.30	48,323	49,499	2.43
% of total customers	91.3	91.7		91.1	91.8	
Trading Goods						
Sales by value (IDRbn)	330	395	19.70	620	726	17.10
Number of Customers	36,041	37,419	3.82	42,600	43,725	2.64
% of total customers	73.3	74.7		80.3	81.1	

Source: Mirae Asset Sekuritas Indonesia Research

Investment Thesis

Expansion in distribution center and marketing initiatives

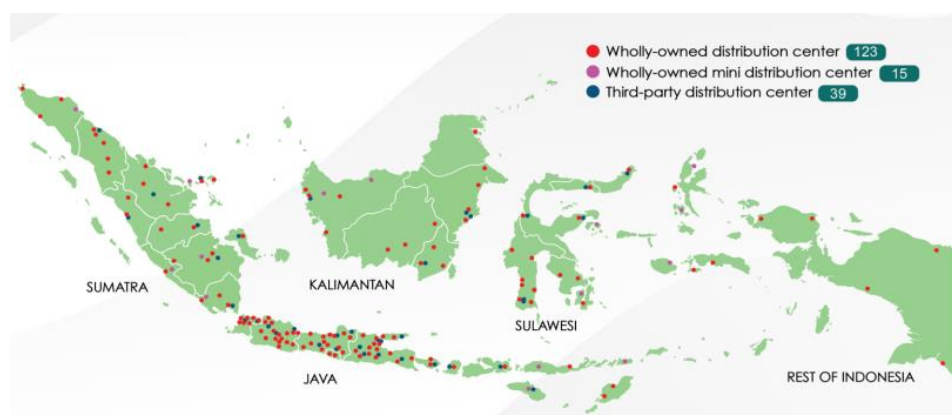
Should help to boost sales and market presence

AVIA plans to open approximately eight to nine new distribution centers this year as part of its strategy to boost sales. Management stated that these new centers align with the company's goal to expand its own distribution network to a total of 140 centers by 2026. This expansion aims to enhance product penetration across Indonesia by providing superior delivery services compared to competitors. Each new distribution center is estimated to cost IDR2bn, totaling IDR18bn in capital expenditures (capex) for the nine new centers this year.

This capex does not include the IDR450bn allocated for the ongoing construction of a paint factory in Cirebon, West Java, part of a total of IDR750bn budgeted for this year. The new distribution centers are crucial for maintaining a competitive edge by offering express delivery services, which improve sales especially through adding product categories to building material stores without requiring them to increase their working capital or stock inventory.

Moreover, AVIA is enhancing its marketing efforts by providing incentives and vouchers to retail building material stores and offering digital money coupons to painters, aimed at increasing loyalty among both direct and indirect consumers. Throughout 2023, AVIA conducted training for painters at its distribution centers across Indonesia. The company also invests in marketing through TV and digital media ads, including Instagram and TikTok, and participates in exhibitions at its outlets. Besides retail, AVIA is focusing on growing its project business-to-business (B2B) and commercial divisions by entering new segments such as local contractors, architects, interior designers, and corporations in the plantation and mining sectors.

Figure 21. AVIA vast distribution channel

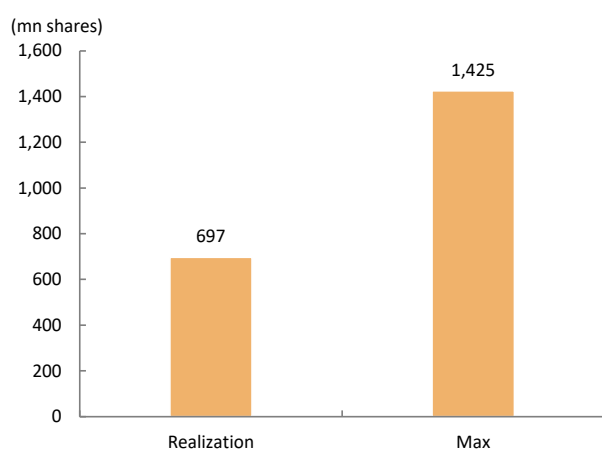


Source: Mirae Asset Sekuritas Indonesia Research, Company data

On going buyback program should continue to bolster share price

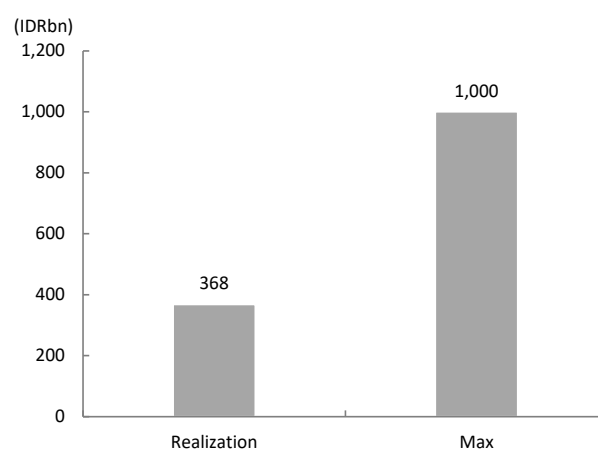
AVIA launched its share buyback program in December 2023, with a maximum authorization to repurchase up to 1,425mn shares, supported by a funding allocation of up to IDR1tr. By June 2024, approximately 49% of the authorized shares had been successfully acquired, utilizing about 37% of the allocated funds. The primary motivation for the buyback program is to bolster investor confidence, reflecting the company's commitment to enhancing shareholder value and demonstrating confidence in its financial health and prospects. This strategic initiative is anticipated to positively impact the company's stock performance by reducing the supply of shares and potentially increasing the earnings per share.

Figure 22. Number of shares buyback



Source: Mirae Asset Sekuritas Indonesia Research

Figure 23. Value of buyback



Source: Mirae Asset Sekuritas Indonesia Research

Outlook, Valuation and Recommendation

Outlook and Guidance for 2024

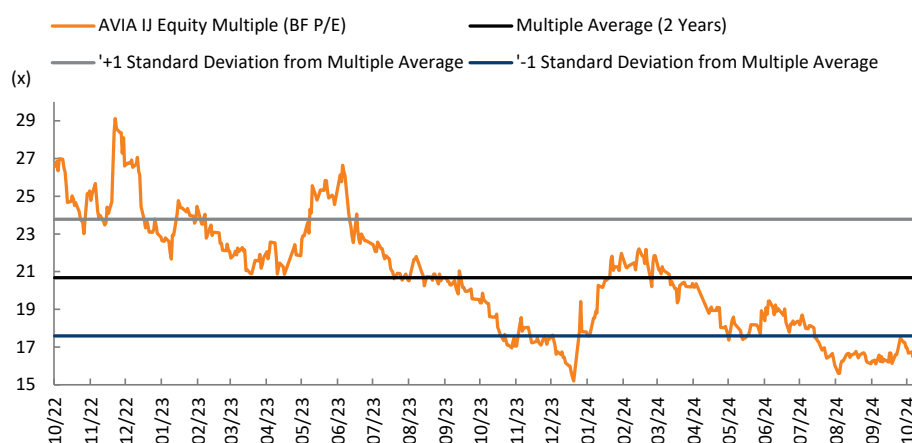
For FY 2024, the company projects sales growth with value increasing by 6-10% and volume rising by 4-8%, reflecting their strategic initiatives and market confidence. Their planned actions for the year are designed to further enhance market position and operational efficiency. Avia is also set to launch new products across various segments, which will be supported by the accelerated deployment of tinting machines at retail outlets, enhancing customer engagement and product customization. Additionally, AVIA plan to expand their distribution centers, aiming to strengthen product penetration and solidify their market presence. Improvements in service quality are also on the agenda, as they strive to deliver exceptional value and distinguish themselves from competitors. With the recovery of purchasing power, we anticipate an improved performance for AVIA in the future.

Trading at discounted valuation

Despite giving a not rated recommendation for AVIA, it is currently trading at a significantly lower P/E ratio of 16.7x compared to its 2-year -1 s.d P/E of 17.6x, indicating a much lower valuation than its historical levels. With the recovery of purchasing power and various marketing strategies to boost sales, we anticipate an improved performance for AVIA in the future.

The downside risk to our call includes 1) rising prices for raw materials, 2) IDR depreciation, 3) increased competition within the paint and coatings industry, and 4) a slower-than-anticipated demand for paint products.

Figure 24. AVIA's 2 Year Forward P/E Band



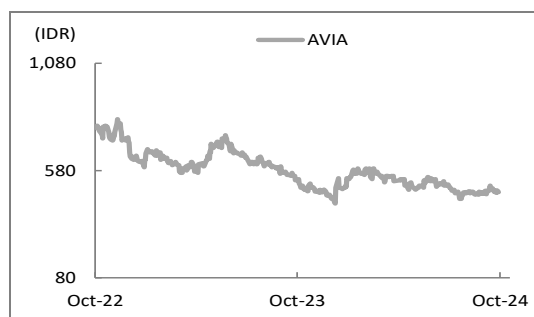
Source: Mirae Asset Sekuritas Indonesia Research

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (IDR)
Avia Avian (AVIA JJ)	10/15/24	Not rated	



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the expected return of the stock over the next 12 months.

* Outside of the official ratings of PT Mirae Asset Sekuritas Indonesia, analysts may call trading opportunities should technical or short-term material developments arise.

* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Disclosures

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