

Thursday, 17 May 2018

BUY
Maintain

Last price (IDR) 330
Target Price (IDR) 480
Upside/Downside +45.5%
Previous Target Price (IDR) 480

Stock Statistics

Sector Airlines
Bloomberg Ticker GMFI JJ
No of Shrs (mn) 28,234
Mkt. Cap (IDRbn/USDmn) 9,317/664
Avg. daily T/O (IDRbn/USDmn) 2.1/0.1

Major shareholders (%)

Garuda Indonesia 90.0
Estimated Free Float 10.0

EPS Consensus (USDcents)

	2018F	2019F	2020F
Danareksa	0.2	0.2	0.3
Consensus	0.2	0.3	n/a
Danareksa/Cons	7.3	(19.7)	(19.7)

GMFI relative to JCI Index



Source : Bloomberg



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Garuda Maintenance Facility (GMFI JJ)

Operationally still sound

Garuda Maintenance Facility (GMFI) reported 1Q18 net profits of USD7mn (-27.3% yoy, -42.5% qoq). While the revenues are in-line, the net profits are below our forecast on higher expenses which squeezed the margins. We still like the company given its plans to become a top-10 MRO company globally through organic and inorganic expansion. Maintain BUY with a target price of IDR480 (based on DCF valuation).

Lower quarterly profits. GMFI posted 42.5% qoq lower quarterly net profits, mainly due to: a) 10.0% qoq lower revenues on more maintenance work in 4Q17 particularly in November 2017 and b) other losses in 1Q18 vs. other gains in 1Q17 in the absence of interest income from the late payment of receivables of USD4.4mn booked in 4Q17. On the operational side, GMFI managed to post 21.5% qoq higher operating profits thanks to lower staff and subcontract expenses (down by 19.0% qoq and 25.8% qoq respectively). Hence, the operating margin improved to 11.0% in 1Q18 from 8.2% in 4Q17.

Absence of other gains dragged down the yearly net profits. Although GMFI managed to book 9.3% yoy higher revenues thanks to higher revenues from repair and overhaul (+15.9% yoy), the company booked 27.3% yoy lower net profits of USD7mn in 1Q18. This mainly reflects: a) 9.9% yoy higher operating expenses (mainly on 16.5% yoy higher material expenses for engines and components) and b) the absence of interest income from the late payment of receivables amounting to USD3.4mn in 1Q17.

Strategic partner to give GMFI new capabilities. GMFI is expected to complete the strategic partner process whereby the latter buys a maximum 20% stake in the company: 10% from the issuance of new shares and another 10% from Garuda Indonesia's shares in 2Q18. From the strategic partner, which will be a global MRO player, GMFI is expected to obtain new capabilities mainly in engine and components maintenance.

Maintain BUY. Maintain BUY with a target price of IDR480 (based on DCF valuation and WACC of 10.8%). We like the company given its planned expansion through organic and inorganic growth and the compelling domestic MRO business which will enlarge GMFI's customer base beyond Garuda group affiliates. Our target price implies 16.8x 2018F PE.

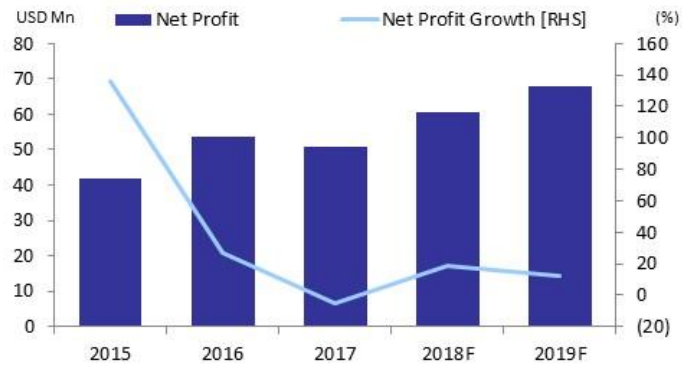
Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (USDmn)	389	439	496	580	687
EBITDA (USDmn)	94	78	105	125	144
EBITDA Growth (%)	58.8	(17.1)	34.7	18.1	15.2
Net profit (USDmn)	53	51	61	68	76
EPS (USDcents)	0.2	0.2	0.2	0.2	0.3
EPS growth (%)	27.4	(4.7)	18.9	12.3	12.1
BVPS (USDcents)	0.6	1.1	1.3	1.5	1.8
DPS (USDcents)	0.0	0.0	0.0	0.0	0.0
PER (x)	14.8	15.5	13.1	11.6	10.4
PBV (x)	4.6	2.6	2.2	1.8	1.6
Dividend yield (%)	0.0	0.0	1.3	1.5	1.7
EV/EBITDA (x)	9.2	10.3	7.8	6.5	5.4

Source : GMFI, Danareksa Estimates

Exhibit 1. Revenues and Growth

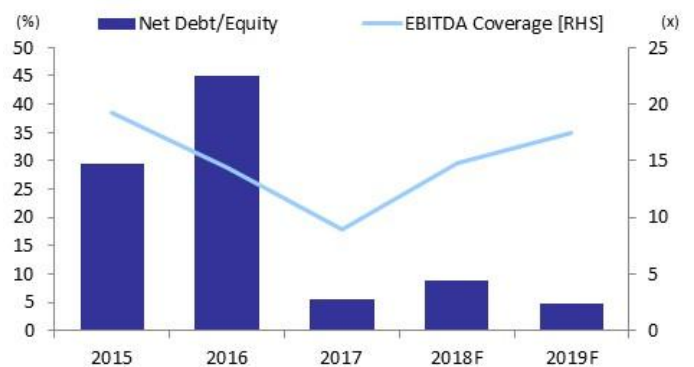

Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins


Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing


Source: Company, Danareksa Sekuritas estimates

Exhibit 5. 1Q18 Results – below expectation

Financial performance	4Q17	1Q18	QoQ,%	1Q17	1Q18	YoY,%	2018F	A/F,%
Revenue, USD mn	129	116	(10.0)	106	116	9.3	517	22
Op. expenses, USD mn	(118)	(103)	(12.8)	(93)	(103)	9.9	(235)	44
Operating profit, US\$ mn	11	13	21.5	13	13	2.2	87	15
Pretax profit, USD mn	16	10	(38.6)	14	10	(26.5)	81	12
Net profit, USD mn	13	7	(42.5)	10	7	(27.3)	61	12
Operating margin, %	8.2	11.0	2.9	11.8	11.0	(0.8)	16.9	
Pretax margin, %	12.6	8.6	(4.0)	12.8	8.6	(4.2)	15.6	
Net margin, %	9.9	6.3	(3.6)	9.5	6.3	(3.2)	11.7	

Source: Danareksa Sekuritas estimates

Exhibit X. Income Statement

Year to 31 Dec (USDmn)	2016A	2017A	2018F	2019F	2020F
Revenue	389	439	496	580	687
COGS	(235)	(299)	(331)	(386)	(461)
Gross profit	153	140	165	194	226
EBITDA	94	78	105	125	144
Oper. profit	83	66	87	97	108
Interest income	0	0	1	1	1
Interest expense	(7)	(9)	(7)	(7)	(7)
Forex Gain/(Loss)	(4)	(1)	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	0	10	0	0	0
Pre-tax profit	73	68	81	91	102
Income tax	(19)	(17)	(20)	(23)	(25)
Minority interest	0	0	0	0	0
Net profit	53	51	61	68	76
Core Net Profit	58	51	61	68	76

Exhibit X. Balance Sheet

Year to 31 Dec (USDmn)	2016A	2017A	2018F	2019F	2020F
Cash & cash equivalent	60	84	106	118	154
Receivables	151	185	166	200	216
Inventory	84	107	112	131	152
Other Curr. Asset	31	27	26	28	36
Fixed assets - Net	105	123	263	292	332
Other non-curr.asset	9	8	12	14	16
Total asset	443	534	685	783	906
ST Debt	51	43	51	51	51
Payables	76	75	76	96	121
Other Curr. Liabilities	20	18	40	45	48
Long Term Debt	87	58	87	87	87
Other LT. Liabilities	36	40	63	70	88
Total Liabilities	270	233	318	349	395
Shareholder's Funds	173	306	366	434	511
Minority interests	0	0	0	0	0
Total Equity & Liabilities	443	539	685	783	906

Exhibit X. Cash Flow

Year to 31 Dec (USDmn)	2016A	2017A	2018F	2019F	2020F
Net income	53	51	61	68	76
Depreciation and Amort.	9	12	18	28	36
Change in Working Capital	(69)	(55)	39	(32)	(16)
Other Oper. Cash Flow	(6)	8	31	11	22
Operating Cash Flow	(12)	16	148	75	118
Capex	(27)	(30)	(158)	(57)	(75)
Others Inv. Cash Flow	0	0	1	1	1
Investing Cash Flow	(27)	(30)	(157)	(56)	(74)
Net change in debt	0	83	0	0	0
New Capital	76	(37)	38	0	0
Dividend payment	0	0	10	12	14
Other Fin. Cash Flow	(7)	(9)	(17)	(19)	(21)
Financing Cash Flow	69	37	31	(7)	(7)
Net Change in Cash	31	23	22	12	37
Cash - begin of the year	25	60	84	106	118
Cash - end of the year	60	84	106	118	154

Exhibit X. Key Ratios

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Growth (%)					
Sales	27.2	13.0	12.9	17.1	18.3
EBITDA	58.8	(17.1)	34.7	18.1	15.2
Operating profit	64.2	(20.3)	31.6	11.2	11.2
Net profit	27.4	(4.7)	18.9	12.3	12.1
Profitability (%)					
Gross margin	39.5	32.0	33.3	33.5	32.9
EBITDA margin	24.3	17.8	21.3	21.5	20.9
Operating margin	21.4	15.1	17.6	16.7	15.7
Net margin	13.8	11.6	12.2	11.7	11.1
ROAA	14.2	10.4	9.9	9.3	9.0
ROAE	36.2	21.3	18.0	17.0	16.1
Leverage					
Net Gearing (x)	0.4	0.1	0.1	0.0	0.0
Interest Coverage (x)	12.7	7.6	12.3	13.6	15.2

Source : GMFI, Danareksa Estimates

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