

Friday, 07 December 2018

**BUY**  
**Maintain**

Last price (IDR)	81,525
Target Price (IDR)	98,400
Upside/Downside	+20.7%
Previous Target Price (IDR)	84,000

**Stock Statistics**

Sector	CIGARETTE
Bloomberg Ticker	GGRM IJ
No of Shrs (mn)	1,924
Mkt. Cap (IDRbn/USDmn)	156,861/10,803
Avg. daily T/O (IDRbn/USDmn)	71.1/4.9

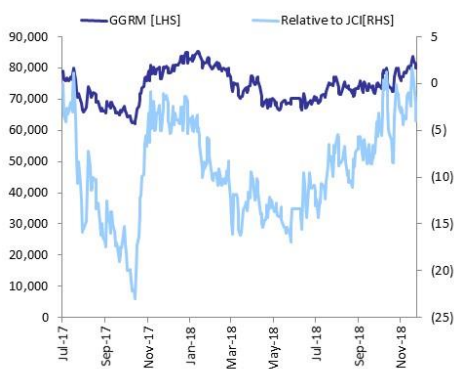
**Major shareholders (%)**

SURYADUTA INVESTAMA	69.3
SURYAMITRA KUSUMA	6.3
Estimated free float	23.8

**EPS Consensus (IDR)**

	2018F	2019F	2020F
Danareksa	4,342.1	5,090.9	5,799.9
Consensus	4,313.1	4,911.0	5,445.6
Danareksa/Cons	0.7	3.7	6.5

**GGRM relative to JCI Index**



Source : Bloomberg



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## Gudang Garam (GGRM IJ)

### More growth to come

**We maintain our BUY recommendation on GGRM with a higher TP following the strong volume growth in 9M18. With more growth expected in 2019 on the back of government plans to maintain cigarette excise tariffs, we believe that the company is well placed to record higher FY19 earnings growth.**

**Strong 9M18 volume growth of 7% yoy.** We recently met with the management of Gudang Garam and learned that the company continued to record strong volume growth in 9M18 of around 7% yoy, mainly supported by solid sales of value-for-money products. In November 2018, the company launched a new Low Tar Low Nicotine cigarette product, GG Move 12 sticks with a competitive retail selling price of IDR13,500/pack (banderol price of IDR13,450/pack). Based on our calculations, the net revenues margin for this product is around 26%. While it is still too early to gauge the market's response, the company's strategy of launching a new product at an affordable price point should complete its product portfolio. According to our survey, GGRM's SKM cigarettes are offered at retail selling prices ranging from IDR15,500/pack (GG Signature Blue 16s or GG Surya 12s) to IDR23,000/pack (GG Surya 16s).

**FY19F earnings expected to grow 17.2% yoy.** Following the strong sales volume in 9M18, we revise up our FY18-19F sales volume growth estimates to 7.1% and 8.1% from 4.5% and 3.9%, previously. Higher FY19F sales volume coupled with estimated 7.6% blended ASP growth should lead to brisk 16.1% yoy revenues growth in 2019. To be conservative as we await the official regulation on 2019's excise tax, we maintain our FY19F forecasts for excise tax growth of 5.8% and 10.9% yoy for SKT and SKM. Nonetheless, higher ASP and sales volume increases should help lift the gross margin to 20.4%. Combined with maintained opex, we now estimate FY19F earnings of IDR9.8tn, +17.2% yoy (revised up by 6.4%).

**Maintain BUY with a higher TP.** All cigarette players should benefit from the decision not to increase 2019's excise tariffs. Bear in mind that over the past 5 years, the government has raised cigarette excise tariffs by around 10-15% each year, resulting in falling industry sales volume. As such, over the long term, the decision not to raise 2019's excise tariffs will provide room for better sales volume growth next year. Incorporating our new forecast in our valuation, we arrive at a higher TP of IDR98,400 – based on DCF (WACC 10%, TG 3%). The drivers are the expectation of continued solid volume growth approaching the elections and the decision not to hike excise tariffs. BUY maintained.

### Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (IDRbn)	76,274	83,306	95,696	111,120	123,883
EBITDA (IDRbn)	12,058	13,363	13,848	15,650	17,519
EBITDA Growth (%)	3.5	10.8	3.6	13.0	11.9
Net profit (IDRbn)	6,677	7,754	8,355	9,795	11,159
EPS (IDR)	3,470.3	4,029.8	4,342.1	5,090.9	5,799.9
EPS growth (%)	3.8	16.1	7.8	17.2	13.9
BVPS (IDR)	20,522.4	21,917.4	23,675.8	26,525.4	30,874.4
DPS (IDR)	2,600.0	2,599.2	2,600.0	2,241.2	1,450.9
PER (x)	23.3	20.1	18.6	15.9	13.9
PBV (x)	3.9	3.7	3.4	3.0	2.6
Dividend yield (%)	3.2	3.2	3.2	2.8	1.8
EV/EBITDA (x)	14.4	13.0	12.4	10.8	9.4

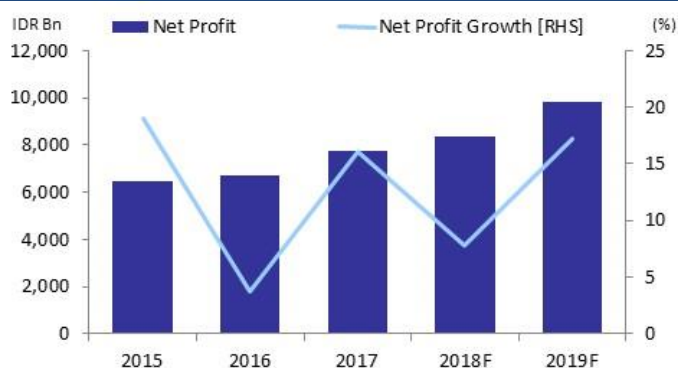
Source : GGRM, Danareksa Estimates

**Exhibit 1. Revenues and Growth**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. Net Profits and Growth**



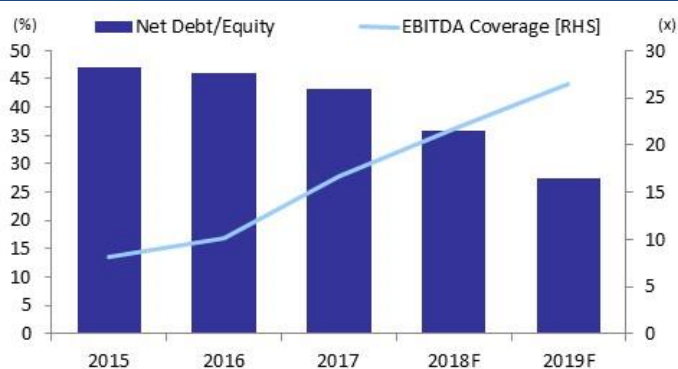
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. Margins**



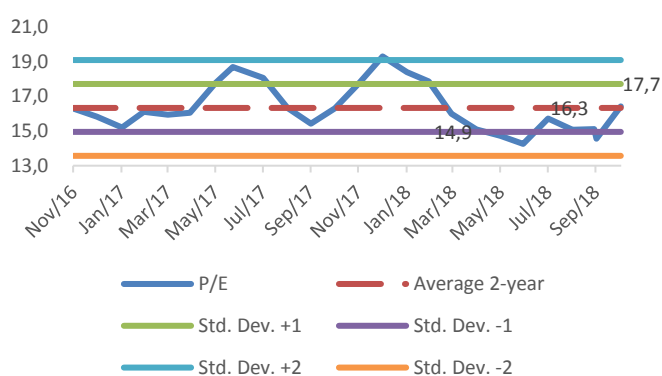
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. Gearing Level**



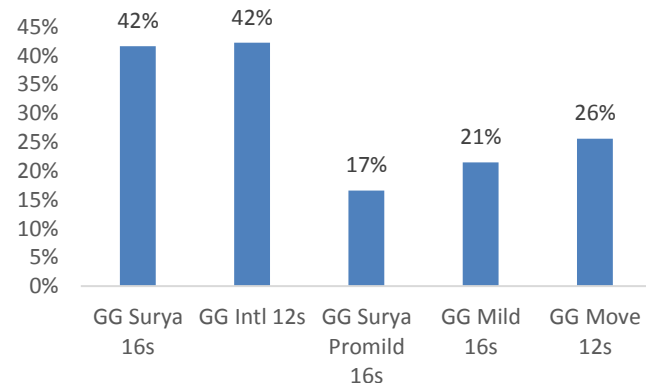
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. PE Band**



Source: Bloomberg, Danareksa Sekuritas estimates

**Exhibit 6. Net Revenue Margin of GGRM' brands**

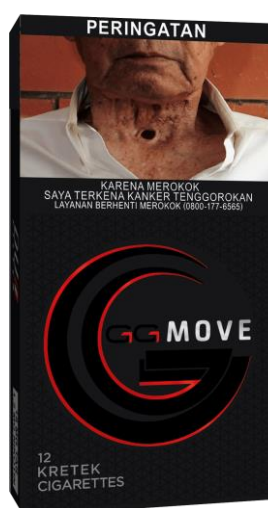


Source: Danareksa Sekuritas estimates

**Exhibit 7. Earnings revision**

	Old		New		Changes	
	2018	2019	2018	2019	2018	2019
Revenue	93,314	104,548	95,696	111,120	2.6%	6.3%
Gross profit	19,529	21,743	19,431	22,630	-0.5%	4.1%
Operating profit	11,852	13,067	11,664	13,585	-1.6%	4.0%
Net profit	8,349	9,205	8,355	9,795	0.1%	6.4%
Gross margin	20.9%	20.8%	20.3%	20.4%		
Operating margin	12.7%	12.5%	12.2%	12.2%		
Net margin	8.9%	8.8%	8.7%	8.8%		

Source: Company, Danareksa Sekuritas estimates

**Exhibit 8. GG Move – a new product from GGRM**


Source: Company

### Exhibit 9. Income Statement

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
<b>Revenue</b>	<b>76,274</b>	<b>83,306</b>	<b>95,696</b>	<b>111,120</b>	<b>123,883</b>
COGS	(59,657)	(65,084)	(76,265)	(88,491)	(98,645)
<b>Gross profit</b>	<b>16,617</b>	<b>18,222</b>	<b>19,431</b>	<b>22,630</b>	<b>25,238</b>
<b>EBITDA</b>	<b>12,058</b>	<b>13,363</b>	<b>13,848</b>	<b>15,650</b>	<b>17,519</b>
<b>Oper. profit</b>	<b>9,972</b>	<b>11,119</b>	<b>11,664</b>	<b>13,585</b>	<b>15,276</b>
Interest income	161	166	218	190	227
Interest expense	(1,191)	(801)	(636)	(591)	(483)
Forex Gain/(Loss)	2	(15)	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(14)	(33)	0	0	0
<b>Pre-tax profit</b>	<b>8,931</b>	<b>10,437</b>	<b>11,245</b>	<b>13,185</b>	<b>15,021</b>
Income tax	(2,258)	(2,681)	(2,889)	(3,387)	(3,859)
Minority interest	4	(2)	(2)	(2)	(2)
<b>Net profit</b>	<b>6,677</b>	<b>7,754</b>	<b>8,355</b>	<b>9,795</b>	<b>11,159</b>
<b>Core Net Profit</b>	<b>6,675</b>	<b>7,768</b>	<b>8,355</b>	<b>9,795</b>	<b>11,159</b>

### Exhibit 10. Balance Sheet

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Cash & cash equivalent	1,595	2,329	2,812	3,759	4,082
Receivables	2,090	2,229	2,561	2,973	3,315
Inventory	37,545	37,920	38,848	40,494	42,505
Other Curr. Asset	703	1,286	1,415	1,664	1,677
Fixed assets - Net	20,499	21,409	21,865	23,101	24,655
Other non-curr.asset	520	1,587	1,814	2,108	2,354
<b>Total asset</b>	<b>62,952</b>	<b>66,760</b>	<b>69,315</b>	<b>74,099</b>	<b>78,589</b>
ST Debt	19,753	20,600	19,139	17,779	12,388
Payables	1,125	1,215	1,430	1,703	2,829
Other Curr. Liabilities	760	796	892	1,043	1,170
Long Term Debt	0	0	0	0	0
Other LT. Liabilities	1,749	1,961	2,149	2,384	2,641
<b>Total Liabilities</b>	<b>23,387</b>	<b>24,572</b>	<b>23,610</b>	<b>22,909</b>	<b>19,028</b>
Shareholder's Funds	39,487	42,171	45,554	51,037	59,405
Minority interests	77	17	151	153	155
<b>Total Equity &amp; Liabilities</b>	<b>62,952</b>	<b>66,760</b>	<b>69,315</b>	<b>74,099</b>	<b>78,589</b>

### Exhibit 11. Cash Flow

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Net income	6,677	7,754	8,355	9,795	11,159
Depreciation and Amort.	2,063	1,870	2,185	2,065	2,242
Change in Working Capital	(2,064)	(419)	(1,044)	(1,787)	(1,226)
Other Oper. Cash Flow	999	82	385	303	368
<b>Operating Cash Flow</b>	<b>7,675</b>	<b>9,287</b>	<b>9,880</b>	<b>10,377</b>	<b>12,544</b>
Capex	(2,455)	(2,780)	(2,641)	(3,301)	(3,797)
Others Inv. Cash Flow	472	(901)	(10)	(103)	(19)
<b>Investing Cash Flow</b>	<b>(1,983)</b>	<b>(3,681)</b>	<b>(2,651)</b>	<b>(3,405)</b>	<b>(3,815)</b>
Net change in debt	(808)	847	(1,461)	(1,360)	(5,391)
New Capital	(1)	(15)	31	0	0
Dividend payment	5,003	5,001	5,003	4,312	2,792
Other Fin. Cash Flow	(1,012)	(702)	(314)	(353)	(223)
<b>Financing Cash Flow</b>	<b>3,182</b>	<b>5,131</b>	<b>3,259</b>	<b>2,599</b>	<b>(2,822)</b>
<b>Net Change in Cash</b>	<b>8,874</b>	<b>10,737</b>	<b>10,488</b>	<b>9,571</b>	<b>5,907</b>
Cash - begin of the year	2,726	1,595	2,329	2,812	3,759
Cash - end of the year	1,595	2,329	2,812	3,759	4,082

### Exhibit 12. Key Ratios

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
<b>Growth (%)</b>					
Sales	8.4	9.2	14.9	16.1	11.5
EBITDA	3.5	10.8	3.6	13.0	11.9
Operating profit	0.7	11.5	4.9	16.5	12.5
Net profit	3.8	16.1	7.8	17.2	13.9
<b>Profitability (%)</b>					
Gross margin	21.8	21.9	20.3	20.4	20.4
EBITDA margin	15.8	16.0	14.5	14.1	14.1
Operating margin	13.1	13.3	12.2	12.2	12.3
Net margin	8.8	9.3	8.7	8.8	9.0
ROAA	10.6	12.0	12.3	13.7	14.6
ROAE	17.3	19.0	19.0	20.3	20.2
<b>Leverage</b>					
Net Gearing (x)	0.5	0.4	0.4	0.3	0.1
Interest Coverage (x)	8.4	13.9	18.3	23.0	31.6

Source : GGRM, Danareksa Estimates

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