

Tuesday, 23 April 2019

BUY
Maintain

Last price (IDR) 240
Target Price (IDR) 330
Upside/Downside +37.5%
Previous Target Price (IDR) 400

Stock Statistics

Sector Airlines
Bloomberg Ticker GMFI JJ
No of Shrs (mn) 28,234
Mkt. Cap (IDRbn/USDmn) 6,776/481
Avg. daily T/O (IDRbn/USDmn) 5.7/0.4

Major shareholders (%)

Garuda Indonesia 90.0
Estimated Free Float 10.0

EPS Consensus (USDcents)

	2019F	2020F	2021F
Danareksa	0.1	0.1	0.1
Consensus	n/a	n/a	n/a
Danareksa/Cons	n/a	n/a	n/a

GMFI relative to JCI Index



Source : Bloomberg



Stefanus Darmagiri

(62-21) 29 555 831

stefanus.darmagiri@danareksa.com

Garuda Maintenance Facility(GMFI JJ)

Growth strategy will support future earnings

Garuda Maintenance Facility (GMFI) reported net profits of USD3mn (-15.4% qoq, -59.0% yoy) in 1Q19. While the revenues are within our expectation, the net profit is below our estimate and the consensus due to lower-than expected margins. Nonetheless, the company's continuous expansion through organic and inorganic growth should support earnings going forward, we believe. Maintain BUY with a target price of IDR330 (based on DCF valuation).

Lower quarterly revenues dragged down profits. GMFI's net profits fell by 15.4% qoq to USD3mn in 1Q19 due to: a) 11.4% qoq lower revenues mainly from lower repairs and overhaul revenues (-13.9% qoq), and b) rising operating expenses from materials (+10.9% qoq). As such, the company recorded a lower operating margin of 6.9% in 1Q19 vs. 8.6% in 4Q18.

Higher expenses impacted the yearly net profits. Although revenues rose by 3.7% yoy in 1Q19 on a yearly basis thanks to business expansion initiatives and more partnerships initiated in 2018, the net profits went down by 59.0% yoy due to higher expenses from materials (+21.0% yoy) and subcontracting (+13.3% yoy). Moreover, higher interest expenses also resulted in lowered net profits in 1Q19.

Lower receivables but operating cash flow was still negative. We note that trade receivables declined by 16.7% ytd to USD145mn in 1Q19, mainly reflecting a decline in the trade receivables from Garuda Indonesia and Citilink Indonesia, while the trade receivables from Sriwijaya remained steady. Moreover, the gross receivables declined by 38.2% ytd to USD104mn. Nonetheless, the trade and gross receivables were still higher by 8.2% yoy. As such, the company's operating cash flow was negative USD25.7mn in 1Q19 vs. positive operating cash flow of USD2.5mn in 1Q18.

Growth strategy to support earnings. We foresee continued expansion through organic and inorganic growth through strengthening of the company's engine services and better materials cost efficiency to support earnings in 2019. In addition, the joint operation between the parent company Garuda Indonesia (GIAA) and Sriwijaya Air (SJY) signed in 4Q18 will help GMFI to conduct end-to-end maintenance for SJY.

Maintain BUY. We believe that the company's continuous expansion and the compelling domestic MRO business will allow GMFI to enlarge its customer base beyond Garuda group affiliates to support earnings. Our target price of IDR330 is based on DCF valuation with WACC of 9.9%. Our TP implies 25.4x 2019F PE.

Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (USDmn)	439	470	497	533	572
EBITDA (USDmn)	78	62	66	76	85
EBITDA Growth (%)	(17.1)	(20.2)	6.3	14.1	11.9
Net profit (USDmn)	51	31	28	32	35
EPS (USDcents)	0.2	0.1	0.1	0.1	0.1
EPS growth (%)	(4.7)	(40.0)	(9.7)	14.5	12.2
BVPS (USDcents)	1.1	1.2	1.3	1.4	1.5
DPS (USDcents)	0.0	0.0	0.0	0.0	0.0
PER (x)	9.4	15.8	17.5	15.2	13.6
PBV (x)	1.6	1.5	1.3	1.2	1.1
Dividend yield (%)	0.0	2.1	1.3	1.1	1.3
EV/EBITDA (x)	6.4	10.0	9.3	7.8	6.7

Source : GMFI, Danareksa Estimates

Exhibit 1. Revenues and Growth

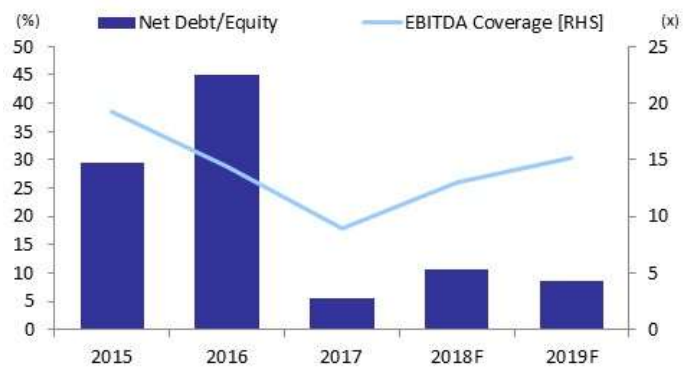

Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins


Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level


Source: Company, Danareksa Sekuritas estimates

Exhibit 5. 1Q19 Results – below expectation

Financial performance	4Q18	1Q19	QoQ, %	1Q18	1Q19	YoY, %	2019F	A/F, %
Revenue, USD mn	135	120	(11.2)	116	120	3.7	497	24
Op. Expenses, USD mn	(125)	(112)	(10.7)	(103)	(112)	9.0	(451)	25
Operating profit, USD mn	12	8	(29.2)	13	8	(35.2)	46	18
Pretax profit, USD mn	5	4	(20.4)	10	4	(58.6)	37	11
Net profit, USD mn	4	3	(15.4)	7	3	(59.0)	28	11
Operating margin, %	8.6	6.9	(1.8)	11.0	6.9	(4.1)	9.2	
Pretax margin, %	3.8	3.4	(0.4)	8.6	3.4	(5.1)	7.4	
Net margin, %	2.6	2.5	(0.1)	6.3	2.5	(3.8)	5.5	

Source: Danareksa Sekuritas estimates

Exhibit 6. Income Statement

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Revenue	439	470	497	533	572
COGS	(299)	(344)	(371)	(393)	(418)
Gross profit	140	126	126	140	153
EBITDA	78	62	66	76	85
Oper. profit	66	49	46	51	56
Interest income	0	1	0	0	1
Interest expense	(9)	(16)	(9)	(9)	(9)
Forex Gain/(Loss)	(1)	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	10	8	0	0	0
Pre-tax profit	68	42	37	42	47
Income tax	(17)	(11)	(9)	(11)	(12)
Minority interest	0	0	0	0	0
Net profit	51	31	28	32	35
Core Net Profit	51	31	28	32	35

Exhibit 7. Balance Sheet

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	84	39	38	60	88
Receivables	185	342	316	285	274
Inventory	107	152	143	140	143
Other Curr. Asset	27	73	26	30	33
Fixed assets - Net	123	130	166	217	233
Other non-curr.asset	13	6	12	13	14
Total asset	539	743	702	743	785
ST Debt	43	109	85	85	85
Payables	75	64	69	73	78
Other Curr. Liabilities	18	17	36	34	33
Long Term Debt	58	77	87	87	87
Other LT. Liabilities	40	37	68	75	79
Total Liabilities	233	304	345	355	361
Shareholder's Funds	306	329	357	388	424
Minority interests	0	0	0	0	0
Total Equity & Liabilities	539	633	702	743	785

Exhibit 8. Cash Flow

Year to 31 Dec (USDmn)	2017A	2018A	2019F	2020F	2021F
Net income	51	31	28	32	35
Depreciation and Amort.	12	13	21	25	29
Change in Working Capital	(55)	(261)	107	33	7
Other Oper. Cash Flow	8	130	(77)	16	11
Operating Cash Flow	16	(87)	78	105	83
Capex	(30)	(20)	(57)	(75)	(45)
Others Inv. Cash Flow	0	1	0	0	1
Investing Cash Flow	(30)	(19)	(57)	(75)	(44)
Net change in debt	83	0	0	0	0
New Capital	(37)	85	(14)	0	0
Dividend payment	0	10	6	6	6
Other Fin. Cash Flow	(9)	(34)	(15)	(15)	(16)
Financing Cash Flow	37	62	(22)	(9)	(9)
Net Change in Cash	23	(44)	(1)	21	29
Cash - begin of the year	60	84	39	38	60
Cash - end of the year	84	39	38	60	88

Exhibit 9. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Growth (%)					
Sales	13.0	7.0	5.8	7.2	7.3
EBITDA	(17.1)	(20.2)	6.3	14.1	11.9
Operating profit	(20.3)	(26.0)	(6.5)	11.6	9.7
Net profit	(4.7)	(40.0)	(9.7)	14.5	12.2
Profitability (%)					
Gross margin	32.0	26.8	25.4	26.2	26.8
EBITDA margin	17.8	13.3	13.4	14.2	14.8
Operating margin	15.1	10.4	9.2	9.6	9.8
Net margin	11.6	6.5	5.5	5.9	6.2
ROAA	10.4	4.8	3.8	4.4	4.6
ROAE	21.3	9.6	8.0	8.5	8.7
Leverage					
Net Gearing (x)	0.1	0.4	0.4	0.3	0.2
Interest Coverage (x)	7.6	3.0	4.9	5.5	6.0

Source : GMFI, Danareksa Estimates

DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.