

Thursday, 01 August 2019

BUY

Maintain

Last price (IDR)	210
Target Price (IDR)	330
Upside/Downside	+57.1%
Previous Target Price (IDR)	330

Stock Statistics

Sector	Airlines
Bloomberg Ticker	GMFI JJ
No of Shrs (mn)	28,234
Mkt. Cap (IDRbn/USDmn)	5,929/423
Avg. daily T/O (IDRbn/USDmn)	4.4/0.3

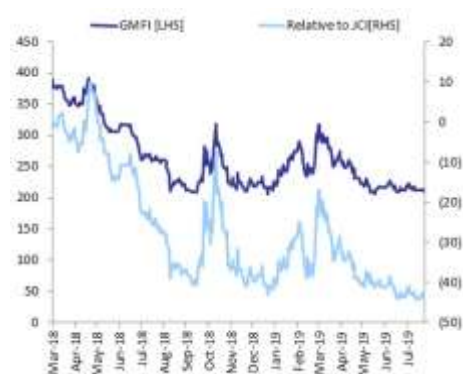
Major shareholders (%)

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



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Garuda Maintenance Facility (GMFI JJ)

Better qoq, but still weak yoy

Garuda Maintenance Facility (GMFI) reported net profits of USD4mn (+38.1% qoq, -67.4% yoy) in 2Q19. In 1H19, net profits declined by 64.3% yoy to USD7mn. While the revenues are within our expectation, the net profit is below (26%) on lower-than-expected margins. The company's continuous expansion through organic and inorganic growth will support earnings going forward. Maintain BUY with a target price of IDR330 (based on DCF valuation).

Higher revenue improved quarterly earnings. GMFI reported 38.1% qoq higher net profits of USD4mn in 2Q19 thanks to: a) 4.9% qoq higher revenues mainly from solid revenues from line maintenance (+4.3% qoq) and other operations, but offset by lower revenues from repairs and overhaul (-5.4% qoq) and b) lower subcontract expenses (-4.5% qoq) and material expenses (-1.5% qoq). As such, the company posted better gross and operating margins of 23.6% and 8.6% in 2Q19 compared to 21.5% and 6.9% in 1Q19.

Higher expenses hit profits. While the company managed to improve its revenues by 10.3% yoy in 1H19 thanks to business expansion initiatives and more partnerships initiated in 2018, as reflected in higher revenues from repairs and overhaul (+7.8% yoy), the net profit went down by 64.3% yoy on the back of: a) higher expenses from materials (+36.7% yoy) and subcontracts (+16.3% yoy) and b) rising interest expenses.

Still negative operating cash flow. We notice that trade receivables declined by 13.7% ytd to USD150mn in 1H19 which mainly came from a decline in the trade receivables from Garuda Indonesia and Citilink Indonesia, while the trade receivables from Sriwijaya were maintained. However, the gross receivables went up by 22.3% ytd to USD207mn. Hence, the trade and gross receivables were still higher by 4.1% ytd. As such, the company experienced negative operating cash flow of USD14.1mn in 1Q19.

Growth strategy to support earnings. We expect the company's continuous expansion through organic and inorganic growth through strengthening engine services and improved 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 the company to enlarge its customer base beyond Garuda group affiliates to support earnings. Our target price of IDR330 is based on DCF valuation with a 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)	8.3	13.8	15.3	13.4	11.9
PBV (x)	1.4	1.3	1.2	1.1	1.0
Dividend yield (%)	0.0	2.4	1.4	1.3	1.5
EV/EBITDA (x)	5.6	9.1	8.4	7.1	6.0

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. 1H19 Results – below expectation

Financial performance	2Q18	1Q19	2Q19	QoQ,%	YoY,%	1H18	1H19	YoY, %	2019F	A/F, %
Revenue, USD mn	107	120	126	4.9	17.4	223	246	10.3	497	50
Op. Expenses, USD mn	(92)	(112)	(115)	3.0	24.8	(195)	(227)	16.5	(451)	50
Operating profit, USD mn	14	8	11	30.4	(21.6)	27	19	(28.2)	46	42
Pretax profit, USD mn	17	4	6	41.1	(66.1)	27	10	(63.3)	37	27
Net profit, USD mn	13	3	4	38.1	(67.4)	20	7	(64.3)	28	26
Operating margin, %	12.8	6.9	8.6	1.7	(4.3)	11.9	7.8	(4.1)	9.2	
Pretax margin, %	16.0	3.4	4.6	1.2	(11.3)	12.1	4.0	(8.1)	7.4	
Net margin, %	11.9	2.5	3.3	0.8	(8.6)	9.0	2.9	(6.1)	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

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