

Tuesday, 12 May 2020

BUY
Maintain

Last price (IDR) 44,900
Target Price (IDR) 57,000
Upside/Downside +26.9%
Previous Target Price (IDR) 57,000

Stock Statistics

Sector CIGARETTE
Bloomberg Ticker GGRM JJ
No of Shrs (mn) 1,924
Mkt. Cap (IDRbn/USDmn) 86,392/5,800
Avg. daily T/O (IDRbn/USDmn) 60.9/4.1

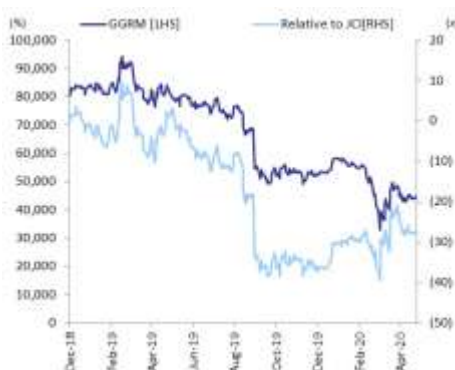
Major shareholders (%)

SURYADUTA INVESTAMA 69.3
SURYAMITRA KUSUMA 6.3
Estimated free float 23.8

EPS Consensus (IDR)

	2020F	2021F	2022F
Danareksa	5,644.4	5,876.7	6,183.7
Consensus	4,844.5	5,157.0	5,522.8
Danareksa/Cons	16.5	14.0	12.0

GGRM relative to JCI Index



Source : Bloomberg



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Gudang Garam (GGRM JJ)

Holding firm

We expect GGRM to book flattish earnings this year, supported by a lower tax rate despite negative volume growth and lower margins. We also expect continued high capex this year in view of the targeted airport completion in 2021. A high contribution from 12-stick packs should provide greater affordability and support sales volume. Maintain BUY.

Expect FY20 flattish earnings thanks to a lower tax rate. We estimate FY20 top line growth of 5.3% yoy, mostly driven by ASP adjustments to pass on higher excise tax given our 2020 assumption of -9.3% yoy sales volume growth. As we don't think the company will be able to fully pass on higher excise this year due to weak purchasing power amid the Covid-19 pandemic, we estimate a FY20 lower gross margin of 18.5%. Lower sales volume should push the company to make further efficiencies. As such, we estimate lower opex/revenues at 6.1% this year. Thanks to a lower tax rate, we expect GGRM to book flattish FY20 earnings growth of IDR10.9tn, -0.2%yoy.

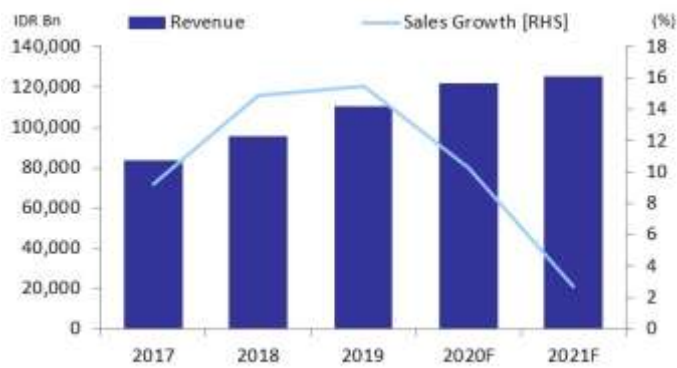
Higher capex ahead for airport development. On 15 April 2020, the government conducted a ground-breaking ceremony for the construction of Kediri Airport with total investment ranging from IDR6tn to IDR9tn. The airport will have initial capacity for 1.5mn passengers, and the first phase is expected to be completed in 2022 - fully funded by Gudang Garam. Kediri Airport will become a new international airport to cater to the 40mn people living in East Java. In 2019, the company spent IDR5tn on capex – higher than the average capex of IDR2tn to IDR3tn. For 2020-22, we estimate around IDR5tn of capex/year to support the development of Kediri Airport.

Best choice amid the storm – Maintain BUY. Amid weak purchasing power, we believe demand for high-tar products will remain high. We also believe GGRM's sales volume will be buoyed by a higher contribution of 12 stick packs to total SKM FF (approximately 50%, based on our estimates), providing greater affordability. This should cushion against further volume declines this year. Positive catalysts may come from the IDR110tn government budget for the social safety net and acceleration of the village funds disbursement providing cash-for-works in the country which, in turn, may result in higher disposable income for cigarette consumption. At the current share price, GGRM is trading at an attractive valuation of FY20F PE of 8x. We maintain our BUY recommendation – based on -1SD avg 2-y PE of 10.1x given the expectation of continued headwinds in the cigarette industry.

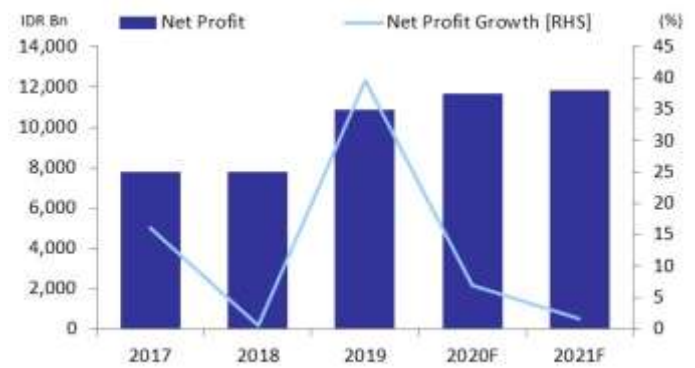
Key Financials

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue (IDRbn)	95,708	110,524	116,379	123,136	131,209
EBITDA (IDRbn)	13,358	17,320	17,368	18,271	19,436
EBITDA Growth (%)	0.0	29.7	0.3	5.2	6.4
Net profit (IDRbn)	7,792	10,881	10,860	11,307	11,898
EPS (IDR)	4,049.6	5,655.0	5,644.4	5,876.7	6,183.7
EPS growth (%)	0.5	39.6	(0.2)	4.1	5.2
BVPS (IDR)	23,456.9	26,470.0	28,483.5	31,538.0	34,783.4
DPS (IDR)	2,600.0	2,600.0	3,630.7	2,822.2	2,938.4
PER (x)	11.1	7.9	8.0	7.6	7.3
PBV (x)	1.9	1.7	1.6	1.4	1.3
Dividend yield (%)	5.8	5.8	8.1	6.3	6.5
EV/EBITDA (x)	7.6	5.8	5.6	5.2	4.8

Source : GGRM, Danareksa Estimates

Exhibit 1. Revenues and Growth


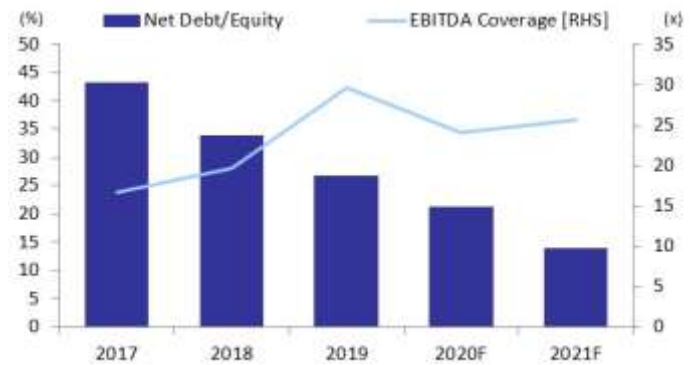
Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins


Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level


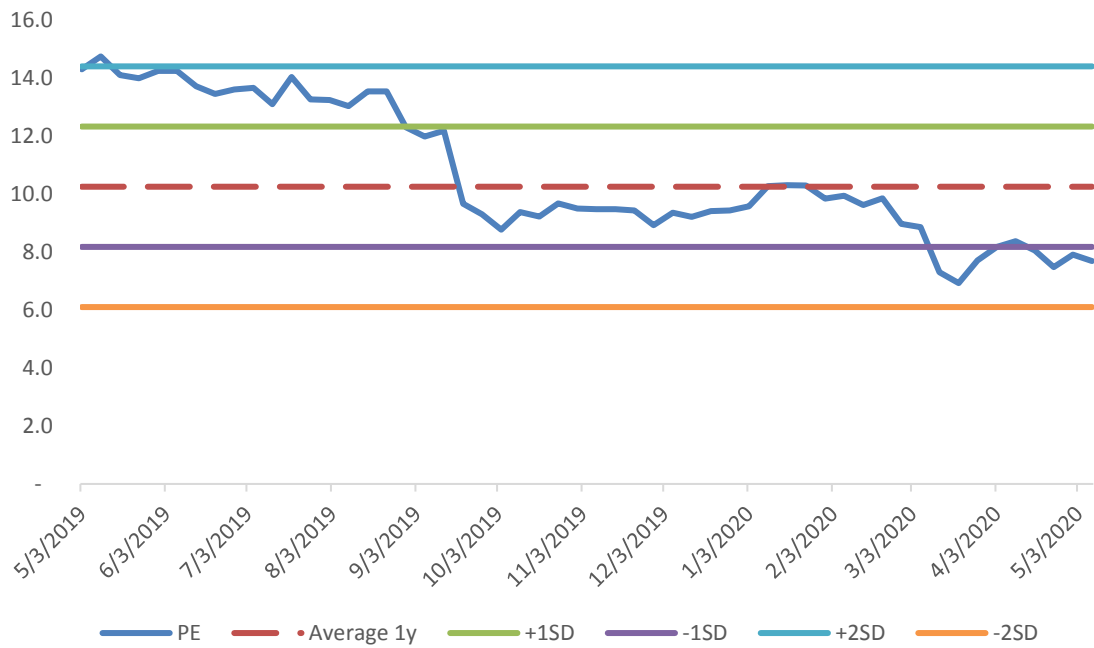
Source: Company, Danareksa Sekuritas estimates

Exhibit 5. Earnings revisions

	Old		New		Changes	
	2020	2021	2020	2021	2020	2021
Revenue	121,854	125,144	116,379	123,136	-4.5%	-1.6%
Gross profit	23,865	24,676	21,550	22,750	-9.7%	-7.8%
Operating profit	15,130	15,947	14,471	14,983	-4.4%	-6.0%
Net profit	11,030	11,816	10,860	11,307	-1.5%	-4.3%
Gross margin	19.6%	19.7%	18.5%	18.5%		
Operating margin	12.4%	12.7%	12.4%	12.2%		
Net margin	9.1%	9.4%	9.3%	9.2%		
Assumption						
Volume	-9.3%	-2.5%	-9.3%	-2.5%		
ASP Blended	21.7%	7.6%	16.2%	10.9%		
Excise/stick growth						
SKM	25%	11%	25%	11%		
SKT	16%	11%	16%	11%		

Source: Company

Exhibit 6. PE Band



Source: Company

Exhibit 7. Income Statement

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Revenue	95,708	110,524	116,379	123,136	131,209
COGS	(77,063)	(87,741)	(94,829)	(100,385)	(106,760)
Gross profit	18,644	22,783	21,550	22,750	24,449
EBITDA	13,358	17,320	17,368	18,271	19,436
Oper. profit	11,093	14,790	14,471	14,983	15,650
Interest income	0	0	0	0	0
Interest expense	(678)	(585)	(532)	(472)	(384)
Forex Gain/(Loss)	35	(20)	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	29	303	147	155	165
Pre-tax profit	10,479	14,488	14,086	14,666	15,432
Income tax	(2,686)	(3,607)	(3,226)	(3,358)	(3,534)
Minority interest	(1)	0	0	0	0
Net profit	7,792	10,881	10,860	11,307	11,898
Core Net Profit	7,757	10,901	10,860	11,307	11,898

Exhibit 8. Balance Sheet

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	2,034	3,572	3,454	3,896	4,065
Receivables	1,726	1,876	1,975	1,710	1,822
Inventory	38,560	42,847	42,146	44,616	46,856
Other Curr. Asset	2,965	3,786	3,987	4,218	4,495
Fixed assets - Net	22,759	25,374	27,598	29,727	31,715
Other non-curr.asset	1,054	1,192	1,255	1,328	1,415
Total asset	69,097	78,647	80,415	85,495	90,368
ST Debt	17,322	17,236	14,547	12,929	10,497
Payables	1,130	1,297	1,402	1,673	2,076
Other Curr. Liabilities	3,552	6,725	7,081	7,492	7,983
Long Term Debt	0	177	177	177	177
Other LT. Liabilities	1,960	2,281	2,402	2,541	2,708
Total Liabilities	23,964	27,717	25,609	24,813	23,441
Shareholder's Funds	45,133	50,931	54,805	60,682	66,926
Minority interests	0	0	0	0	0
Total Equity & Liabilities	69,097	78,647	80,414	85,495	90,367

Exhibit 9. Cash Flow

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Net income	7,792	10,881	10,860	11,307	11,898
Depreciation and Amort.	0	0	0	0	0
Change in Working Capital	0	0	0	0	0
Other Oper. Cash Flow	(412)	733	476	408	306
Operating Cash Flow	7,380	11,614	11,336	11,715	12,204
Capex	(3,539)	(4,937)	(5,121)	(5,418)	(5,773)
Others Inv. Cash Flow	0	0	0	0	0
Investing Cash Flow	(3,539)	(4,937)	(5,121)	(5,418)	(5,773)
Net change in debt	(3,278)	91	(2,689)	(1,618)	(2,433)
New Capital	(2)	0	0	0	0
Dividend payment	(5,003)	(5,003)	(6,986)	(5,430)	(5,654)
Other Fin. Cash Flow	(678)	(585)	(532)	(472)	(384)
Financing Cash Flow	(8,960)	(5,497)	(10,206)	(7,521)	(8,470)
Net Change in Cash	(5,119)	1,180	(3,991)	(1,224)	(2,039)
Cash - begin of the year	2,329	2,034	3,572	3,454	3,896
Cash - end of the year	2,034	3,572	3,454	3,896	4,065

Exhibit 10. Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Growth (%)					
Sales	14.9	15.5	5.3	5.8	6.6
EBITDA	0.0	29.7	0.3	5.2	6.4
Operating profit	(0.2)	33.3	(2.2)	3.5	4.5
Net profit	0.5	39.6	(0.2)	4.1	5.2
Profitability (%)					
Gross margin	19.5	20.6	18.5	18.5	18.6
EBITDA margin	14.0	15.7	14.9	14.8	14.8
Operating margin	11.6	13.4	12.4	12.2	11.9
Net margin	8.1	9.8	9.3	9.2	9.1
ROAA	11.5	14.7	13.7	13.6	13.5
ROAE	17.8	22.7	20.5	19.6	18.6
Leverage					
Net Gearing (x)	0.3	0.3	0.2	0.2	0.1
Interest Coverage (x)	16.4	25.3	27.2	31.7	40.8

Source : GGRM, Danareksa Estimates

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