

FROM EQUITY RESEARCH
Gudang Garam: More growth to come

(GGRM IJ.IDR 81,525 BUY.TP IDR 98,400)

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

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Property: BCA Standpoint - Assessment of Property Demand (Neutral)

We met with BCA's consumer credit department (BBCA IJ; HOLD; TP Rp28,000) and discussed several matters concerning the Indonesian property market including the impact of the LTV relaxation rule and the reduction of property-related taxes on demand. In general, they think the national property demand is still soft pressured by political uncertainty, weak IDR and rising interest rates. Nevertheless, BCA still expects good mortgage growth in FY19 and thinks that the mid-low segment is still lucrative. Maintain Neutral.

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MARKET NEWS
Macroeconomy

- Government: tax revenues are 80% of the full year target
- Government: Investment reached IDR 162tn in 2018 as more companies obtain tax holidays

Sector

- TBIG to acquire tower company Visi Telekomunikasi

Corporate

- Bank Mandiri projects 15% loans growth in 2019

PREVIOUS REPORT

- Bank Central Asia: Fully valued [Click here](#)
- Media: Remaining resilient [Click here](#)
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- Aneka Tambang: Strong sales volume boosted profit [Click here](#)
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- Construction: Deconstructing the sector [Click here](#)

KEY INDEX

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	6.115	(0,3)	(3,8)	446
Thailand	1.654	(1,1)	(5,7)	1.188
Philippines	7.535	(1,3)	(12,0)	128
Malaysia	1.683	(0,3)	(6,3)	364
Singapore	3.116	(1,3)	(8,4)	613
Regional				
China	2.605	(1,7)	(21,2)	27.491
Hong Kong	26.156	(2,5)	(12,6)	12.441
Japan	21.502	(1,9)	(5,5)	15.023
Korea	2.081	0,6	(15,6)	4.295
Taiwan	9.685	(2,3)	(9,0)	4.641
India	35.312	(1,6)	3,7	367
NASDAQ	7.188	0,4	4,1	154.156
Dow Jones	24.948	(0,3)	0,9	17.350

CURRENCY AND INTEREST RATE

		Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah	Rp/1US\$	14.520	(1,0)	1,9	(7,1)
SBI rate	%	6,00	0,3	0,3	1,8
10y Gov	Indo bond	8,01	0,1	(0,2)	1,7

HARD COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	103	(0,1)	(0,9)	1,7
Gold	US\$/toz	1.238	(0,0)	0,9	(5,0)
Nickel	US\$/mt.ton	10.781	(3,4)	(7,9)	(15,2)
Tin	US\$/mt.ton	18.960	(1,3)	(0,6)	(5,7)

SOFT COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	2.079	(2,7)	(8,9)	9,5
Corn	US\$/mt.ton	137	(0,6)	2,1	9,4
Oil (WTI)	US\$/barrel	52	0,1	(16,4)	(14,7)
Oil (Brent)	US\$/barrel	60	(2,4)	(16,7)	(10,2)
Palm oil	MYR/mt.ton	1.731	(2,5)	(11,4)	(27,6)
Rubber	US\$/kg	124	(0,6)	(0,7)	(15,9)
Pulp	US\$/tonne	1.205	N/A	2,8	20,5
Coffee	US\$/60kgbag	80	(0,4)	(4,4)	(10,7)
Sugar	US\$/MT	342	(0,6)	(0,1)	(13,5)
Wheat	US\$/ton	140	(0,5)	(2,2)	4,5
Soy Oil	US\$/lb	28	(0,4)	2,0	(13,9)
Soy Bean	US\$/by	910	(0,4)	4,3	(4,4)

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

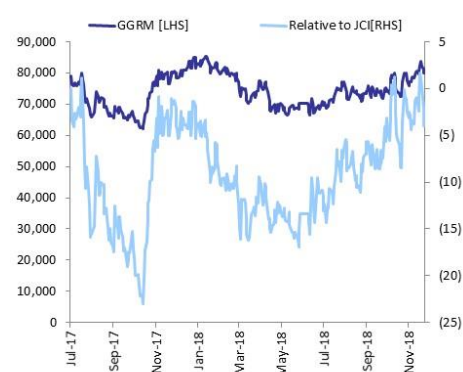
Major shareholders (%)

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

Friday, 07 December 2018

NEUTRAL

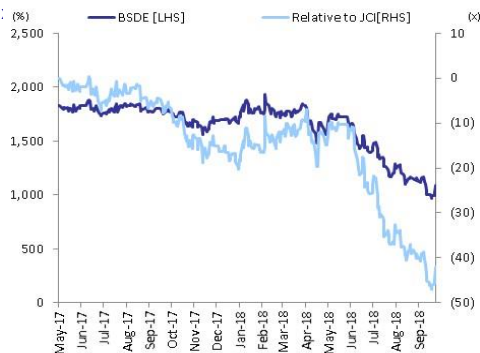
Property

BCA Standpoint - Assessment of Property Demand

ASRI relative to JCI Index



BSDE relative to JCI Index



Source : Bloomberg

We met with BCA's consumer credit department (BBCA IJ; HOLD; TP Rp28,000) and discussed several matters concerning the Indonesian property market including the impact of the LTV relaxation rule and the reduction of property-related taxes on demand. In general, they think the national property demand is still soft pressured by political uncertainty, weak IDR and rising interest rates. Nevertheless, BCA still expects good mortgage growth in FY19 and thinks that the mid-low segment is still lucrative. Maintain Neutral.

Has the government stimulus helped to boost property demand? According to BCA's consumer credit department, national property demand is still rather soft, despite government efforts to provide a stimulus to the sector through LTV relaxation and the reduction of some property taxes (i.e. the reduction of the super luxury tax (PPH22) from 5% to 1% and the increase in the threshold for sales tax on luxury goods (PPnBM) from Rp20bn/unit to Rp30bn/unit). The trend of rising interest rates, the weakening USD/IDR and political uncertainty related to next year's presidential election have discouraged property purchases by both end-users and investors.

BBCA foresees its mortgages growth of 10-12% in FY19. Despite the rather soft appetite for property, BCA still expects its mortgages to grow by between 10-12% to Rp87tn of mortgages outstanding in FY18 with another 10-12% growth in FY19. Mortgages extended for property purchases in the secondary market will contribute most of the growth. For BCA, political issues related to the presidential elections are not expected to have much impact on mortgages growth as BCA's mortgages have always been supported by promotional events organized throughout the year. In addition, BCA's focus is mainly the middle to middle-up segments (mostly existing BCA customers) with an average ticket size of around Rp1.2bn. These customers are less sensitive to changes in interest rates and have stronger purchasing power.

The middle-low segment is still lucrative. Nonetheless, BCA indicates that the middle-low mortgage market (ticket size of below Rp1.0bn) is still lucrative as these markets are still relatively underserved, as evident in the housing backlog despite higher default risk. BBKA's NPLs are low at 1.3%, mostly comprising mortgages of below Rp600mn. BBKA requires a minimum down payment of 5% for first time buyers (relaxed from 15% previously) with a max tenor of 10-12 years, provided that the purchase is from a top-tier developer ranked by BBKA. Otherwise, the minimum down payment is 10-15%.

Maintain Neutral. At this juncture, we maintain our neutral recommendation on the property sector, with PWON as our top pick due to its high portion of recurring income and low net gearing. Despite the recent rally in property stocks driven by strengthening of the USD/IDR and the reduction in property-related taxes, we believe the fundamentals remain challenging given uncertainty related to the upcoming presidential elections, which may dampen demand, and volatility caused by global uncertainty.



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Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%)
					2018F	2019F	2018F	2019F	
Alam Sutra	ASRI IJ	HOLD	260	7,427.5	4.6	4.7	0.8	0.7	15.0
Bumi Serpong Damai	BSDE IJ	BUY	1,450	31,275.9	12.7	17.2	1.1	1.1	6.4
Ciputra Development	CTRA IJ	BUY	990	22,550.8	19.3	18.5	1.6	1.4	8.1
Pakuwon Jati	PWON IJ	BUY	640	29,618.2	12.7	11.2	2.4	2.0	19.5
Summarecon Agung	SMRA IJ	HOLD	660	12,912.0	33.7	37.7	1.9	1.8	4.9

MARKET NEWS

MACROECONOMY

Government: tax revenues are 80% of the full year target

The Directorate General of Tax (DJP) has recorded tax revenues collection of IDR 1,139tn as of Nov 18 or 80% of the full year target. Tax collection in this period is up by 15.8% YoY. Nonetheless, December will be a difficult month for tax collection given the holiday and year-end festivities. (Bisnis Indonesia)

Government: Investment reached IDR 162tn in 2018 as more companies obtain tax holidays

As the Directorate General of Tax (DJP) allows more companies to obtain tax holidays, investment appetite is increasing. This is shown by the increase in investment to IDR 162tn this year. Going forward, DJP expects more companies to be eligible for tax holidays, with several companies still being reviewed by DJP. (Bisnis Indonesia)

SECTOR

TBIG to acquire tower company Visi Telekomunikasi

Tower Bersama (TBIG) will acquire 51% of Visi Telekomunikasi Infrastruktur listed on the IDX with the ticker GOLD:IJ. TBIG issued a letter of commitment to acquire 51% of GOLD to GOLD shareholders, without disclosing the price. The CFO of TBIG said the transaction is currently being negotiated. GOLD recorded revenues of Rp26.8 tn in FY17 and Rp22.9 tn in the first 9 months of 2018 with XL Axiata and Hutchison contributing the bulk of the revenues. GOLD's CFO said the company expects to record revenues of Rp32 bn in 2018 and growth of ~19%yoy. A director at GOLD stated that there was price pressure on tenancies from clients. Nonetheless, the outlook for GOLD looks bright given it has a niche position by partnering with AlfaMart which enables it to install micro towers at Alfamart locations. (Kontan, Bisnis)

Comment: We do not expect significant changes in the numbers of TBIG even though the proposed acquisition will allow TBIG to leverage on GOLD's prospects going forward. (Niko)

CORPORATE

Bank Mandiri projects 15% loans growth in 2019

PT Bank Mandiri (Persero) Tbk (BMRI IJ, BUY, TP IDR8,700) is projecting next year's loans growth at 13-15% yoy. The projected loans growth in 2019 is similar to this year's target of 13-15% yoy. BMRI's management has stated that the loans growth will mainly be driven by the retail and corporate lending segments. The management also expects loans growth to be stronger in 2H19. (Investor Daily)

COVERAGE PERFORMANCE
LEADERS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		06-Dec-18	05-Dec-18					
Sampoerna Agro	SGRO	2.340	2.240	4,5	0,9	2,2	(8,9)	BUY
Surya Semesta	SSIA	484	468	3,4	5,7	3,9	(6,0)	HOLD
Bukit Asam	PTBA	4.080	3.950	3,3	(1,4)	(8,7)	65,9	BUY
Semen Baturaja	SMBR	1.910	1.875	1,9	(3,8)	(0,5)	(49,7)	SELL
Charoen Pokphand	CPIN	6.925	6.800	1,8	16,9	28,8	130,8	HOLD
Kino Indonesia	KINO	2.500	2.460	1,6	(2,0)	11,1	17,9	BUY
Indofood	INDF	6.675	6.575	1,5	4,3	16,6	(12,5)	BUY
Kalbe Farma	KLBF	1.630	1.610	1,2	6,2	17,3	(3,6)	BUY
Bekasi Fajar	BEST	193	191	1,0	10,9	21,4	(22,8)	BUY
Unilever	UNVR	44.200	43.750	1,0	5,0	4,7	(20,9)	HOLD

Sources: Bloomberg

LAGGARDS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		06-Dec-18	05-Dec-18					
Erajaya Swasembada	ERAA	2.200	2.360	(6,8)	(3,5)	35,4	199,3	BUY
Pakuwon Jati	PWON	585	615	(4,9)	(2,5)	5,4	(14,6)	BUY
PP London Sumatra	LSIP	1.180	1.240	(4,8)	2,6	(5,2)	(16,9)	BUY
Surya Citra Media	SCMA	1.840	1.925	(4,4)	(5,6)	12,2	(25,8)	BUY
Matahari Department Store	LPPF	4.980	5.200	(4,2)	6,4	5,3	(50,2)	BUY
Matahari Putra Prima	MPPA	167	173	(3,5)	0,6	9,9	(63,1)	SELL
Vale Indonesia	INCO	3.070	3.180	(3,5)	3,0	(4,4)	6,2	BUY
Japfa Comfeed	JPFA	2.280	2.360	(3,4)	11,8	8,1	75,4	BUY
Malindo Feedmill	MAIN	1.365	1.410	(3,2)	10,5	6,6	84,5	HOLD
Mitra Adi Perkasa	MAPI	825	850	(2,9)	(1,2)	1,2	33,1	BUY

Sources: Bloomberg

PREVIOUS REPORTS

- Bank Central Asia: Fully valued [SnapShot20181206](#)
- Media: Remaining resilient [SnapShot20181205](#)
- NFC: The digital trailblazer [SnapShot20181204](#)
- Aneka Tambang: Strong sales volume boosted profit, Mayora Indah: Buoyant revenues but higher opex too [SnapShot20181203](#)
- Construction: Deconstructing the sector [SnapShot20181130](#)
- Timah: Higher costs dragged down net profit [SnapShot20181129](#)

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