

Gudang Garam Tbk (GGRM)

Ketangguhan di Tengah Gempuran Tekanan Kenaikan Cukai

Buy

| | |
|--------------------------|---------------|
| Dec 2019 TP (IDR) | 75,075 |
| Consensus Price (IDR) | 79,797 |
| TP to Consensus Price | -5.9% |
| vs. Last Price | +35.5% |

Shares data

| | |
|------------------------|-----------------|
| Last Price (IDR) | 55,425 |
| Price date as of | Sep 18, 2019 |
| 52 wk range (Hi/Lo) | 94,400 / 54,600 |
| Free float (%) | 23.8 |
| Outstanding sh.(mn) | 1,924 |
| Market Cap (IDR bn) | 106,113 |
| Market Cap (USD mn) | 7,593 |
| Avg. Trd Vol - 3M (mn) | 1.93 |
| Avg. Trd Val - 3M (bn) | 135.44 |
| Foreign Ownership | 8.0% |

Consumer Staples

Cigarette

| | |
|-----------|---------|
| Bloomberg | GGRM IJ |
| Reuters | GGRM.JK |

Meskipun industri rokok pada 1H19 melemah, GGRM berhasil mencatatkan pertumbuhan double digit yang ditopang oleh volume penjualan yang solid dan tarif cukai yang tidak meningkat pada FY19.

Pertumbuhan Double Digit 1H19

GGRM membukukan pendapatan mencapai Rp52,7 triliun atau meningkat +16,4% y-y pada 1H19. Hal ini sejalan dengan laba operasional yang meningkat +20,2% y-y atau Rp5,7 triliun, diikuti dengan laba bersih yang mencatatkan pertumbuhan double digit mencapai +20,4% y-y atau Rp4,2 triliun. Pada 1H19, pertumbuhan top dan bottom line didorong oleh kuatnya pertumbuhan penjualan mencapai 46,6 miliar batang, meningkat 14,7% y-y. Produk Sigaret Kretek Mesin Full Flavor (SKM FF) yang mendominasi pangsa pasar (42% pada FY18), mencatatkan penjualan mencapai 38,3 miliar batang atau peningkatan 15,5% y-y. Kemudian, produk Sigaret Kretek Tangan (SKT) dan Sigaret Kretek Mesin rendah tar nikotin (SKM LTN), masing-masing membukukan penjualan sebanyak 4,2 miliar batang.

Eskalasi Tekanan Regulasi

Setelah menikmati kebijakan cukai rokok yang tidak mengalami kenaikan selama FY19, Menteri Keuangan mengumumkan tarif cukai sebesar 23% y-y berlaku aktif pada 1 Januari 2020 dan disertai peningkatan harga jual eceran (HJE) 35% y-y. Kami berpendapat kebijakan cukai akan menekan margin pendapatan, laba operasional lantaran penurunan volume penjualan. Estimasi volume penjualan rokok segmen SKM pada FY19 bisa mencapai pertumbuhan double digit (~11% y-y) sebanyak 85 miliar batang, tetapi pada FY20 pertumbuhan akan menurun menjadi di sekitar ~9% y-y atau 78 miliar batang yang disertai dengan peningkatan rata-rata harga penjualan. Berdasarkan riset Nielsen, industri rokok melemah -8,6% y-y pada 1H19 dibandingkan pertumbuhan 1H18 sehingga kami merevisi target harga menjadi Rp75.075 (-29,74%) dengan asumsi capaian pertumbuhan COGS ~8% y-y.

Meluncurkan Produk Baru

Pada 5 Agustus 2019, GGRM meluncurkan produk baru segmen Sigaret Kretek Tangan (SKT), "Gudang Garam Patra". Volume penjualan segmen SKT tercatat meningkat 2,4% y-y pada 1H19. Kami berharap peluncuran produk baru dapat mendorong pertumbuhan yang lebih solid.

Maintain Buy dengan Target Harga Rp75.075

Kami mempertahankan rekomendasi Buy dengan target harga Rp75.075 berdasarkan estimasi valuasi P/E forward sebesar 22,1x dengan potensi upside imbal hasil sebesar 5,9% dari harga saham saat ini. Indonesia yang menduduki peringkat kedua setelah Tiongkok dalam Top 10 Consumers of Cigarettes menjadi dasar optimisme atas outlook prospektif industri rokok, terlebih inflasi yang masih dalam target pemerintah, menjaga daya beli masyarakat. Sentimen positif lainnya adalah peningkatan HJE tidak terlalu membebani GGRM karena sebelum kenaikan cukai, harga jual produk SKM cukup terjangkau.

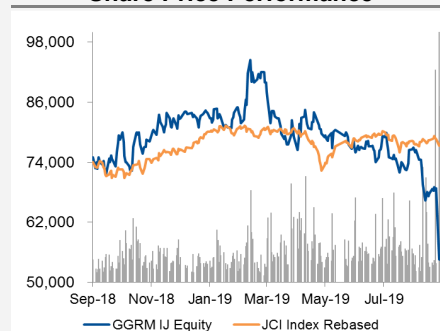
Gudang Garam Tbk | Summary (IDR bn)

| | 2018A | 2019E | 2020F | 2021F |
|-----------------------|--------|---------|---------|---------|
| Sales | 95,708 | 106,301 | 112,259 | 131,124 |
| <i>Sales growth</i> | 14.9% | 11.1% | 5.6% | 16.8% |
| EBITDA | 13,374 | 13,567 | 11,751 | 12,852 |
| Net Profit | 7,792 | 7,830 | 6,541 | 7,205 |
| EPS (IDR) | 4,050 | 4,070 | 3,399 | 3,744 |
| <i>EPS growth</i> | 0.5% | 0.5% | -16.5% | 10.1% |
| BVPS (IDR) | 23,457 | 24,926 | 25,726 | 26,871 |
| EBITDA margin | 14.0% | 12.8% | 10.5% | 9.8% |
| NPM | 8.1% | 7.4% | 5.8% | 5.5% |
| P/E | 20.7x | 13.6x | 16.3x | 14.8x |
| P/BV | 3.6x | 2.2x | 2.2x | 2.1x |
| EV/EBITDA | 13.2x | 8.3x | 9.4x | 8.7x |
| DPS (IDR) | 2,600 | 2,600 | 2,600 | 2,600 |
| <i>Dividend yield</i> | 3.1% | 4.7% | 4.7% | 4.7% |

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Share Price Performance



| | YTD | 1M | 3M | 12M |
|-----------|--------|--------|--------|--------|
| Abs. Ret. | -33.9% | -27.7% | -28.3% | -23.2% |
| Rel. Ret. | -41.1% | -27.3% | -28.6% | -31.2% |

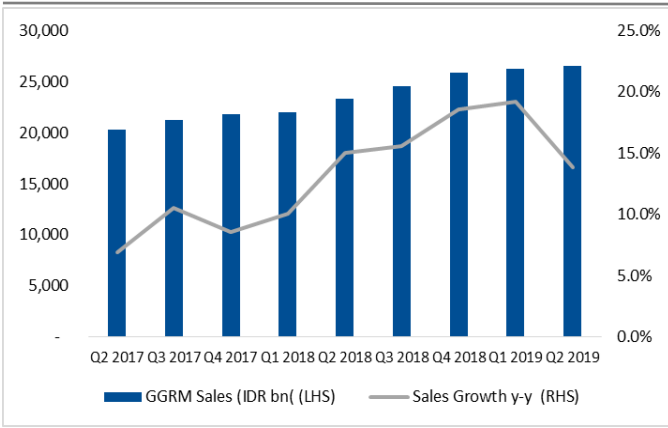
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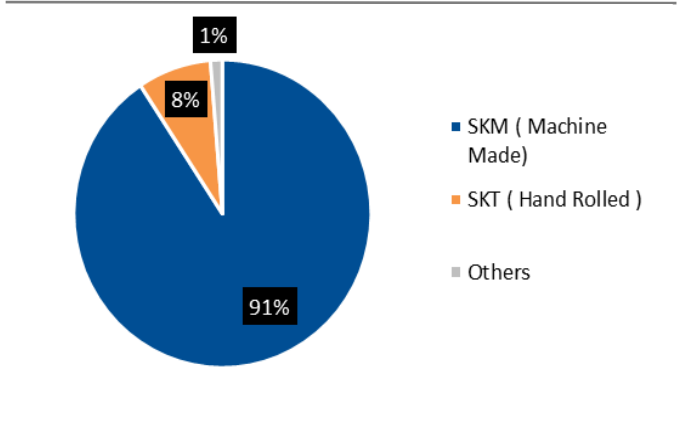
Performance Highlights

GGRM Quarterly Sales | 2Q17 - 2Q19



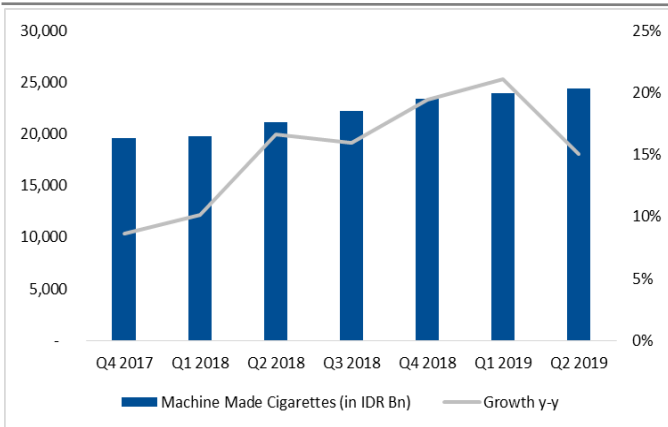
Source: Company, NHKS Research

GGRM Sales Breakdown | FY2019



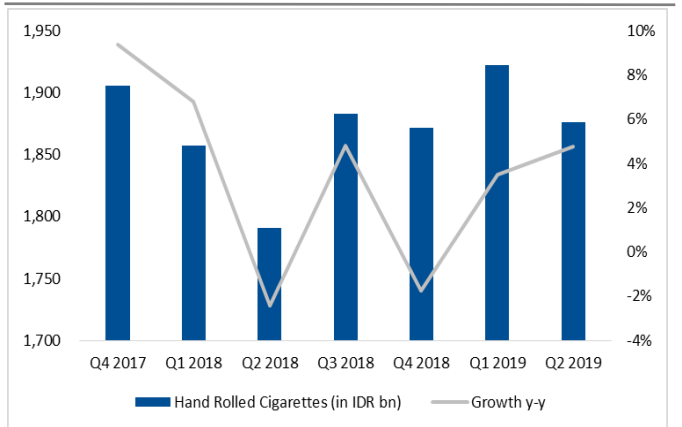
Source: Company, NHKS Research

SKM (Machine Made) Sales Trend | 4Q17 - 2Q19



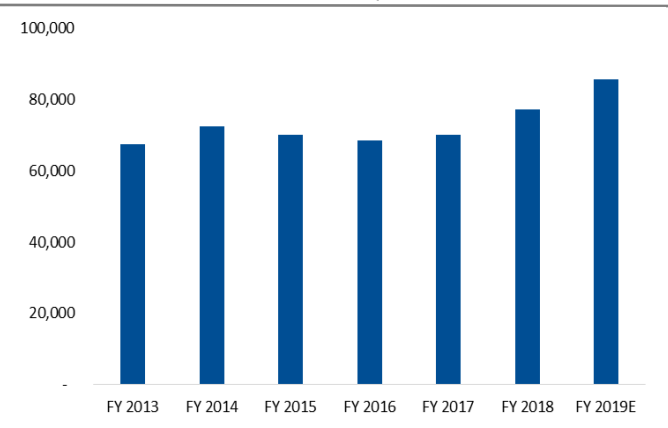
Source: Company, NHKS Research

SKT (Hand Made) Sales Trend | 4Q17 - 2Q19



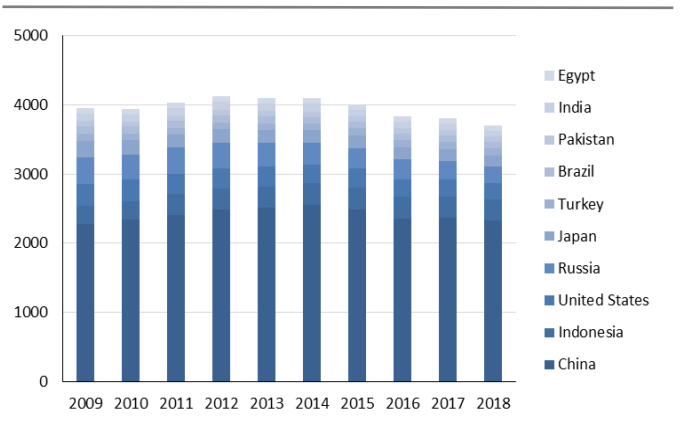
Source: Company, NHKS Research

GGRM SKM Volume (mn sticks) | FY2013 - FY2019E



Source: Company, NHKS Research

Top 10 Consumers of Cigarettes (Sticks Consumed in Bn)



Source: Ministry of Finance, NHKS Research

2Q19 review (IDR bn)

| | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | | | | | 3Q19E |
|----------------------|--------------|--------------|--------------|--------------|--------------|----------|--------------|---------------|----------|--------------|
| | | | | | Actual | Estimate | y-y | q-q | surprise | |
| Sales | 23,324 | 24,584 | 25,818 | 26,197 | 24,584 | | 13.8% | 1.3% | | 26,575 |
| Gross Profit | 4,576 | 4,722 | 4,934 | 4,919 | 5,039 | | 10.1% | 2.4% | | 3,402 |
| <i>Gross Margin</i> | 19.6% | 19.2% | 19.1% | 18.6% | 19.0% | | -0.6% | 0.2% | | 12.8% |
| EBIT | 2,286 | 3,173 | 2,936 | 3,326 | 2,642 | | 15.5% | -20.6% | | 1,957 |
| <i>EBIT Margin</i> | 9.8% | 12.9% | 11.4% | 12.7% | 10.0% | | 0.1% | -2.7% | | 7.4% |
| EBITDA | 2,827 | 3,721 | 3,570 | 3,911 | 3,222 | | 14.0% | -17.6% | | 2,542 |
| <i>EBITDA Margin</i> | 12.1% | 15.1% | 13.8% | 14.9% | 12.1% | | 0.0% | -2.8% | | 9.6% |
| Net Profit | 1,663 | 2,206 | 2,031 | 2,355 | 1,926 | | 15.8% | -18.2% | | 1,344 |
| <i>Net Margin</i> | 7.1% | 9.0% | 7.9% | 9.0% | 7.3% | | 0.1% | -1.8% | | 5.1% |

Source: Bloomberg, NHKS research

Earnings revision (IDR bn)

| | | 2019E | 2020F | 2021F |
|-------------------|-----------|--------------|--------------|--------------|
| Sales | -Revised | 106,301 | 112,259 | 131,124 |
| | -Previous | 99,626 | 109,033 | |
| | -Change | 6.7% | 3.0% | |
| Gross Profit | -Revised | 18,575 | 17,627 | 19,865 |
| | -Previous | 21,220 | 23,224 | |
| | -Change | -12.5% | -24.1% | |
| Gross Margin | -Revised | 17.5% | 15.7% | 15.1% |
| | -Previous | 21.3% | 21.3% | |
| EBIT | -Revised | 11,068 | 9,069 | 9,870 |
| | -Previous | 13,626 | 14,912 | |
| | -Change | -18.8% | -39.2% | |
| EBIT Margin | -Revised | 10.4% | 8.1% | 7.5% |
| | -Previous | 13.7% | 13.7% | |
| EBITDA | -Revised | 13,567 | 11,751 | 12,852 |
| | -Previous | 15,817 | 17,392 | |
| | -Change | -14.2% | -32.4% | |
| EBITDA Margin | -Revised | 12.8% | 10.5% | 9.8% |
| | -Previous | 15.9% | 16.0% | |
| Net Profit | -Revised | 7,830 | 6,541 | 7,205 |
| | -Previous | 9,662 | 10,641 | |
| | -Change | -19.0% | -38.5% | |
| Net Margin | -Revised | 7.4% | 5.8% | 5.5% |
| | -Previous | 9.7% | 9.8% | |

Source: NHKS research

Sekilas tentang GGRM

GGRM adalah produsen rokok kretek terkemuka yang identik dengan Indonesia. Memiliki total penduduk sekitar 266 juta jiwa, Indonesia merupakan pasar konsumen yang besar dan beragam dengan persentase perokok dewasa yang signifikan—67% laki-laki dewasa di Indonesia adalah perokok. GGRM memiliki pangsa pasar rokok dalam negeri sekitar 23,1% dengan produk-produk yang sudah dikenal luas oleh masyarakat di seluruh Nusantara. GGRM memiliki 66 kantor area dengan 269 titik distribusi di seluruh Indonesia dan armada penjualan lebih dari 7.000 kendaraan, termasuk sepeda motor untuk melayani pasar.

GGRM memiliki fasilitas produksi rokok kretek di dua lokasi. Pertama, Kediri, yang memiliki jumlah penduduk 268 ribu jiwa, merupakan pusat perdagangan regional sekaligus lokasi kantor pusat. Fasilitas produksi kedua berlokasi di Gempol, Jawa Timur yang berjarak 50 kilometer dari Surabaya. Dua fasilitas produksi ini memampukan GGRM memenuhi permintaan produk rokok.

Pangsa Pasar Gudang Garam

Total volume penjualan Gudang Garam termasuk ekspor meningkat 8,3% menjadi 85,2 miliar batang dengan kenaikan 9,2% volume penjualan dalam negeri. Tekanan terhadap belanja rokok membuat perokok memilih produk dengan harga lebih hemat, terbukti dari tingginya permintaan SKM.

Asia Pacific Cigarette Company

| Company | Market Cap (USD mn) | Asset (USD mn) | Sales LTM (USD mn) | Net Profit LTM (USD mn) | Net Profit Growth LTM | Net Margin | ROE LTM | P/E LTM | P/BV |
|----------------------------|---------------------|----------------|--------------------|-------------------------|-----------------------|------------|---------|---------|-------|
| Indonesia | | | | | | | | | |
| Gudang Garam | 7,536 | 4,789 | 7,141 | 590 | 4.09% | 8.3% | 20.0% | 12.5x | 2.4x |
| HM Sampoerna | 19,414 | 3,230 | 7,498 | 983 | 11.48% | 13.1% | 50.5% | 19.3x | 9.6x |
| India | | | | | | | | | |
| ITC Ltd | 40,726 | 10,357 | 6,844 | 1,802 | 11.72% | 26.3% | 22.6% | 23.0x | 4.9x |
| VST Industries Ltd | 769 | 174 | 157 | 32 | 24.71% | 20.6% | 36.4% | 24.2x | 8.3x |
| Godfrey Phillips India Ltd | 702 | 414 | 353 | 37 | 63.61% | 10.6% | 13.6% | 19.3x | 2.5x |
| Kothari Products Ltd | 28 | 474 | N/A | 18 | 123.25% | N/A | 11.5% | 1.6x | 0.2x |
| Malaysia | | | | | | | | | |
| British American Tobacco | 1,365 | 256 | 671 | 104 | -1.35% | 15.4% | 115.2% | 13.4x | 15.6x |
| Pakistan | | | | | | | | | |
| Pakistan Tobacco Co Ltd | 3,926 | 291 | 405 | 82 | -14.64% | 20.1% | 59.2% | 55.9x | 32.1x |
| Philippines | | | | | | | | | |
| PTFC Redevelopment Corp | 36 | 8 | 3 | 2 | 40.25% | 44.6% | 23.0% | 23.2x | 5.1x |
| South Korea | | | | | | | | | |
| KT&G CORP | 11,789 | 9,120 | 4,165 | 625 | -39.36% | 15.0% | 12.4% | 13.2x | 1.6x |
| Sri Lanka | | | | | | | | | |
| Ceylon Tobacco Co Plc | 1,191 | 154 | 191 | 102 | 6.84% | 53.3% | 195.5% | 12.2x | 22.9x |
| Vietnam | | | | | | | | | |
| CAT LOI JSC | 40 | 44 | 88 | 6 | 25.63% | 7.0% | 22.0% | 6.9x | 1.5x |
| NGAN SON JSC | 9 | 17 | 30 | 1 | 11.69% | 2.0% | 8.7% | 14.4x | 1.2x |

Source: Bloomberg

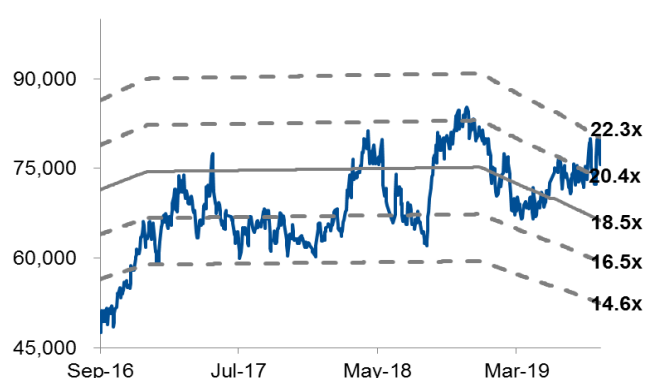
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



Source: NHKS research

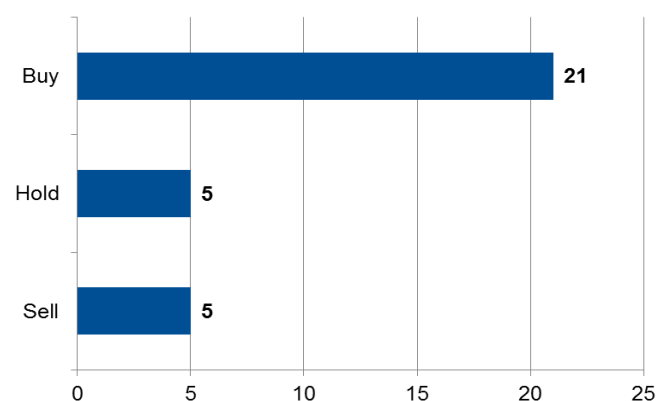
Rating and Target Price Update

Target Price Revision

| Date | Rating | Target Price | Last Price | Consensus | vs Last Price | vs Consensus |
|------------|--------|--------------------|------------|-----------|---------------|--------------|
| 04/13/2018 | Buy | 88,650 (Dec 2018) | 74,200 | 88,527 | +19.5% | +0.1% |
| 07/11/2018 | Buy | 88,650 (Dec 2018) | 70,975 | 85,741 | +24.9% | +3.4% |
| 09/18/2018 | Buy | 88,650 (Dec 2019) | 74,400 | 84,866 | +19.2% | +4.5% |
| 11/14/2018 | Buy | 100,000 (Dec 2019) | 75,700 | 86,915 | +32.1% | +15.1% |
| 09/24/2019 | Buy | 77,075 (Dec 2019) | 55,425 | 79,797 | +35.5% | -5.9% |

Source: NHKS research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

- Period: End of year target price
- Rating system based on a stock's absolute return from the date of publication
 - Buy : Greater than +15%
 - Hold : -15% to +15%
 - Sell : Less than -15%

Summary of Financials

INCOME STATEMENT

| (IDR bn) | 2018/12A | 2019/12E | 2020/12E | 2021/12E |
|--------------------------|---------------|----------------|----------------|----------------|
| Sales | 95,708 | 106,301 | 112,259 | 131,124 |
| <i>Growth</i> | 14.9% | 11.1% | 5.6% | 16.8% |
| COGS | (77,063) | (87,726) | (94,633) | (111,258) |
| Gross Profit | 18,644 | 18,575 | 17,627 | 19,865 |
| <i>Gross Margin</i> | 19.5% | 17.5% | 15.7% | 15.1% |
| Operating Expenses | (7,526) | (7,507) | (8,558) | (9,996) |
| EBIT | 11,119 | 11,068 | 9,069 | 9,870 |
| <i>EBIT Margin</i> | 11.6% | 10.4% | 8.1% | 7.5% |
| Depreciation | 2,255 | 2,499 | 2,682 | 2,982 |
| EBITDA | 13,374 | 13,567 | 11,751 | 12,852 |
| <i>EBITDA Margin</i> | 14.0% | 12.8% | 10.5% | 9.8% |
| Interest Expenses | (678) | (612) | (332) | (245) |
| EBT | 10,479 | 10,441 | 8,722 | 9,607 |
| Income Tax | (2,686) | (2,611) | (2,181) | (2,402) |
| Minority Interest | (1) | 0 | 0 | 0 |
| Net Profit | 7,792 | 7,830 | 6,541 | 7,205 |
| <i>Growth</i> | 0.5% | 0.5% | -16.5% | 10.1% |
| <i>Net Profit Margin</i> | 8.1% | 7.4% | 5.8% | 5.5% |

PROFITABILITY & STABILITY

| | 2018/12A | 2019/12E | 2020/12E | 2021/12E |
|------------------------|----------|----------|----------|----------|
| ROE | 17.3% | 16.3% | 13.2% | 13.9% |
| ROA | 11.3% | 10.7% | 9.9% | 10.5% |
| ROIC | 13.2% | 13.2% | 11.9% | 13.1% |
| Cash Dividend (IDR bn) | 5,003 | 5,003 | 5,003 | 5,003 |
| Dividend Yield | 3.1% | 4.7% | 4.7% | 4.7% |
| Payout Ratio | 64.5% | 64.2% | 63.9% | 76.5% |
| DER | 38.4% | 19.6% | 14.0% | 16.0% |
| Net Gearing | 38.4% | 19.6% | 14.0% | 16.0% |
| LT Debt to Equity | 0.0% | 0.0% | 0.0% | 0.0% |
| Capitalization Ratio | 27.7% | 16.4% | 12.3% | 13.8% |
| Equity Ratio | 65.3% | 65.6% | 74.7% | 75.3% |
| Debt Ratio | 25.1% | 12.9% | 10.5% | 12.1% |
| Financial Leverage | 152.9% | 148.4% | 150.0% | 131.0% |
| Current Ratio | 205.8% | 202.0% | 252.3% | 249.0% |
| Par Value (IDR) | 500 | 500 | 500 | 500 |
| Total Shares (mn) | 1,924 | 1,924 | 1,924 | 1,924 |
| Share Price (IDR) | 83,800 | 55,425 | 55,425 | 55,425 |
| Market Cap (IDR tn) | 161.2 | 106.6 | 106.6 | 106.6 |

BALANCE SHEET

| (IDR bn) | 2018/12A | 2019/12E | 2020/12E | 2021/12E |
|-----------------------------|---------------|---------------|---------------|---------------|
| Cash | 2,034 | 3,134 | 2,693 | 3,524 |
| Receivables | 1,726 | 2,381 | 2,024 | 3,083 |
| Inventories | 38,560 | 39,586 | 30,802 | 28,593 |
| Total Current Assets | 45,285 | 46,575 | 37,141 | 36,749 |
| Net Fixed Assets | 22,759 | 25,163 | 27,553 | 30,495 |
| Other Non Current Asset | 1,054 | 1,344 | 1,587 | 1,377 |
| Total Assets | 69,097 | 73,082 | 66,281 | 68,621 |
| Payables | 1,130 | 980 | 1,057 | 1,243 |
| ST Bank Loan | 17,322 | 9,400 | 6,930 | 8,272 |
| LT Debt | - | - | - | - |
| Total Liabilities | 23,964 | 25,121 | 16,781 | 16,918 |
| Capital Stock | 1,016 | 1,016 | 1,016 | 1,016 |
| Retained Earnings | 44,151 | 46,978 | 48,517 | 50,720 |
| Shareholders' Equity | 45,133 | 47,961 | 49,499 | 51,702 |

VALUATION INDEX

| | 2018/12A | 2019/12E | 2020/12E | 2021/12E |
|-------------------|----------|----------|----------|----------|
| Price /Earnings | 20.7x | 13.6x | 16.3x | 14.8x |
| Price /Book Value | 3.6x | 2.2x | 2.2x | 2.1x |
| Price/Sales | 1.7x | 1.0x | 0.9x | 0.8x |
| PE/EPS Growth | 42.0x | 27.6x | -1.0x | 1.5x |
| EV/EBITDA | 13.2x | 8.3x | 9.4x | 8.7x |
| EV/EBIT | 15.9x | 10.2x | 12.2x | 11.3x |
| EV (IDR bn) | 176,493 | 112,876 | 110,846 | 111,358 |
| Sales CAGR (3-Yr) | 10.8% | 11.7% | 10.5% | 11.1% |
| EPS CAGR (3-Yr) | 6.6% | 5.5% | -5.5% | -2.6% |
| Basic EPS (IDR) | 4,050 | 4,070 | 3,399 | 3,744 |
| Diluted EPS (IDR) | 4,050 | 4,070 | 3,399 | 3,744 |
| BVPS (IDR) | 23,457 | 24,926 | 25,726 | 26,871 |
| Sales PS (IDR) | 49,742 | 55,247 | 58,344 | 68,148 |
| DPS (IDR) | 2,600 | 2,600 | 2,600 | 2,600 |

CASH FLOW STATEMENT

| (IDR bn) | 2018/12A | 2019/12E | 2020/12E | 2021/12E |
|----------------------------|--------------|--------------|--------------|------------|
| Operating Cash Flow | 11,232 | 19,119 | 12,348 | 10,106 |
| Investing Cash Flow | (3,228) | (4,994) | (5,315) | (5,615) |
| Financing Cash Flow | (8,299) | (12,924) | (7,473) | (3,660) |
| Net Changes in Cash | (295) | 1,201 | (441) | 831 |

OWNERSHIP

| By Geography | % Shareholders | % |
|---------------|----------------|--------------------------|
| Indonesia | 92.0 | Suryaduta Investama 69.3 |
| United States | 2.9 | Suryamitra Kusuma 6.3 |
| Luxembourg | 2.1 | Fil Limited 1.5 |
| Ireland | 0.6 | Vanguard Group 0.8 |

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