

Gudang Garam Tbk (GGRM)

Persistently Retains Strong Sales



Company Report | Jan 02, 2020

Buy

Dec 2020 TP (IDR)	61,800
Consensus Price (IDR)	59,865
TP to Consensus Price	+3.2%
vs. Last Price	+17.9%

Shares data

Last Price (IDR)	52,400
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)	102,794
Market Cap (USD mn)	7,353
Avg. Trd Vol - 3M (mn)	1.69
Avg. Trd Val - 3M (bn)	88.09
Foreign Ownership	8.0%

Consumer Staples

Cigarette

Bloomberg	GGRM IJ
Reuters	GGRM.JK

GGRM reports 3Q19's strong performance, supported by higher ASP and lower OpEx. Machine-made cigarette (SKM) segment, GGRM's largest revenue contributor, also posted the double-digit growth. We believe that GGRM is still capable of maintaining 4Q19's strong performance as the government leaves with the excise tax on tobacco products unchanged in this year

Higher-Than-Estimate Earnings

GGRM achieved net profits of IDR2.96 trillion (+34% y-y, +54% q-q) in 3Q19. Net profits in 9M19 cumulatively amounted to IDR7.2 trillion (+26% y-y). Based on our estimate, 3Q19's net profits were higher than our previous estimate of Rp1.3 trillion. Previously, we estimated that in FY19E, GGRM would have achieved net profits of IDR7.8 trillion or 92% of the current achievement. However, the current circumstances are favorable for tobacco companies to increase profits before the excise tax to take effects on January 1, 2020; thus, we revise higher the estimated net profit in FY19 to Rp9.4 trillion.

Higher ASP and Lower OpEx

GGRM posted 3Q19's double-digit revenue growth of IDR28 trillion (+18% y-y, +9% q-q). Its 9M19's revenues cumulatively reached IDR81 trillion (+16% y-y). The cumulative revenues surpassed the estimated revenues growth of 72%. In addition, GPM also recorded a 19.9% increase due to rising ASP. Thus, we suggest that GGRM not to aggressively increase the 2020's ASP in 2020 as the excise tax on tobacco products and hiking retail prices (Harga Jual Eceran, HJE) start to take into effect. We view that GGRM gradually increases ASP gradually in order to maintain smokers' purchasing power. Although, we still expect that GGRM hikes FY20's ASP in order to balance our estimate of slightly declining cigarette sales; its OpEx conversely showed a sharp decline of -29% q-q or IDR1.7 trillion. The decline caused EBIT to soar to IDR4.1 trillion (+40% y-y, +55% q-q), while EBIT on a cumulative basis reached IDR10 trillion (+22% y-y).

Segmental Breakdown

Based on the segmental breakdown, machine-made cigarettes (SKM) contributing 92% to GGRM's total revenues reported revenue growth of +20% y-y and +9% q-q. We believe that its consumers will positively respond to its gradually rising ASP as prices of its products are more affordable than that of competitors.

Maintain BUY with lower TP of IDR61.800/share

We maintain BUY recommendation with the lower target price of IDR61,800 and forward PE of 15.8x on the basis of 3Q19's strong performance, hiking ASP, and lower OpEx. We expect GGRM to be still capable of persistently maintaining strong performance in the next quarter. In addition, we hope that GGRM can provide higher dividend yields deriving from this year's better earnings. Although we in FY20E lowered the FY19E net profit estimate after ASP and sales volume adjustment to the prevailing the excise tax on cigarettes. However, we are optimistic about GGRM's strong sales outlook. Risks to our target prices are soft purchasing power, uncompetitive prices, sharp declines in sales volume.

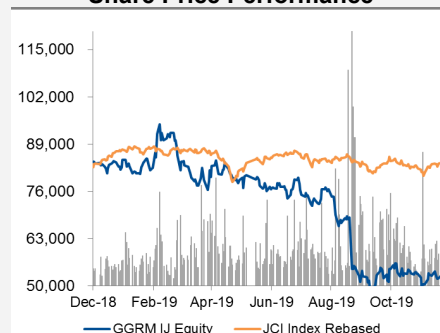
Gudang Garam Tbk | Summary (IDR bn)

	2018A	2019E	2020F	2021F
Sales	95,708	112,792	138,173	163,174
<i>Sales growth</i>	14.9%	17.9%	22.5%	18.1%
EBITDA	13,374	16,072	13,681	14,901
Net Profit	7,792	9,449	7,512	8,166
EPS (IDR)	4,050	4,991	3,904	4,244
<i>EPS growth</i>	0.5%	21.3%	-20.5%	8.7%
BVPS (IDR)	23,457	25,768	27,071	28,716
EBITDA margin	14.0%	14.2%	9.9%	9.1%
NPM	8.1%	8.4%	5.4%	5.0%
P/E	20.7x	10.7x	13.4x	14.8x
P/BV	3.6x	2.0x	1.9x	1.8x
EV/EBITDA	13.2x	7.1x	8.4x	7.7x
DPS (IDR)	2,600	2,600	2,600	2,600
<i>Dividend yield</i>	3.1%	5.0%	5.0%	5.0%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-37.5%	-1.4%	-5.5%	-37.1%
Rel. Ret.	-39.2%	-4.1%	-5.6%	-38.9%

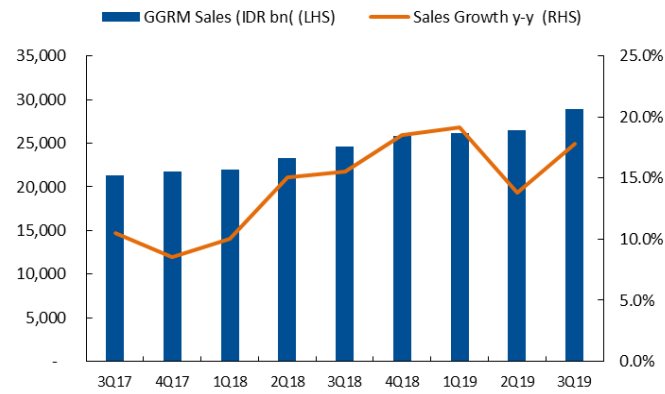
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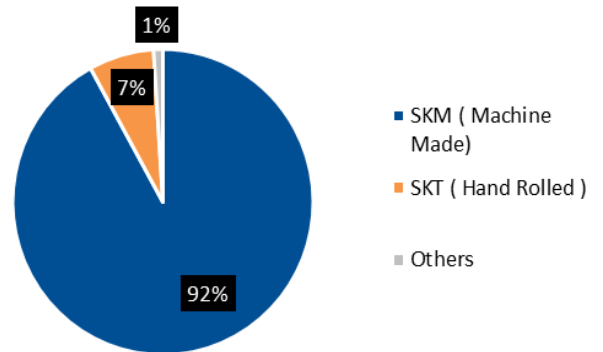
Performance Highlights

GGRM Quarterly Sales | 3Q17 - 3Q19



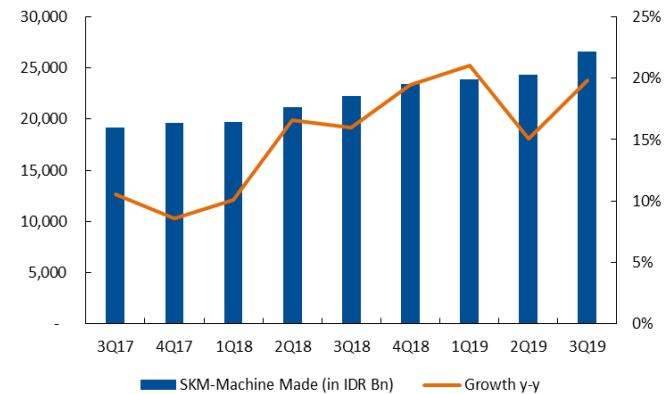
Source: Company, NHKS Research

GGRM Sales Breakdown | 9M19



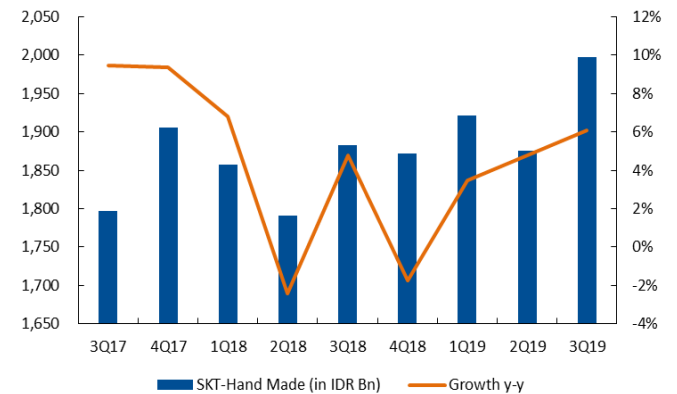
Source: Company, NHKS Research

SKM (Machine Made) Sales Trend | 3Q17 - 3Q19



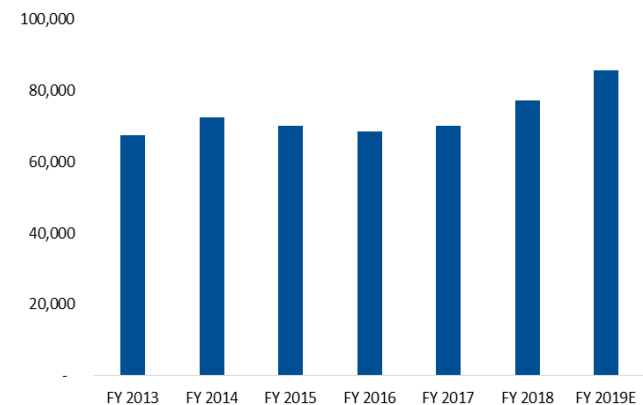
Source: Company, NHKS Research

SKT (Hand Made) Sales Trend | 3Q17 - 3Q19



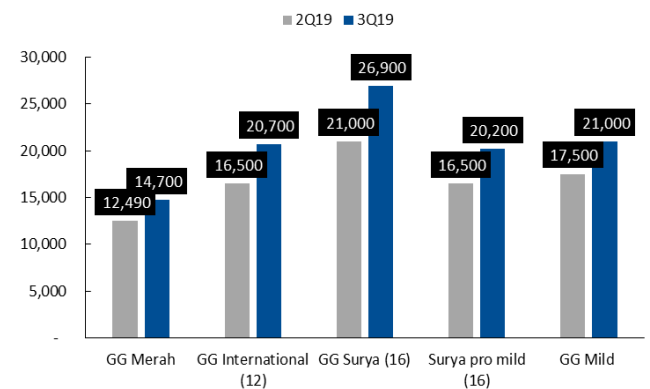
Source: Company, NHKS Research

GGRM SKM Volume (mn sticks) | FY2013 - FY2019E



Source: Company, NHKS Research

GGRM's Main Products Selling Price



Source: NHKS Research

3Q19 review (IDR bn)

	3Q18	4Q18	1Q19	2Q19	3Q19					4Q19E
					Actual	Estimate	y-y	q-q	surprise	
Sales	24,584	25,818	26,197	26,548	28,976	26,575	17.9%	9.1%	9.0%	31,071
Gross Profit	4,722	4,934	4,919	5,039	5,779	3,402	22.4%	14.7%	69.9%	5,784
<i>Gross Margin</i>	19.2%	19.1%	18.8%	19.0%	19.9%	12.8%	0.7%	1.0%	7.1%	18.6%
EBIT	3,173	2,936	3,326	2,642	4,089	1,957	28.8%	54.8%	108.9%	3,640
<i>EBIT Margin</i>	12.9%	11.4%	12.7%	10.0%	14.1%	7.4%	1.2%	4.2%	6.7%	11.7%
EBITDA	3,721	3,470	3,911	3,222	4,695	2,542	26.2%	45.7%	84.7%	4,244
<i>EBITDA Margin</i>	15.1%	13.8%	14.9%	12.1%	16.2%	9.6%	1.1%	4.1%	6.6%	13.7%
Net Profit	2,206	2,031	2,355	1,926	2,962	1,344	34.3%	53.8%	120.4%	2,205
<i>Net Margin</i>	9.0%	7.9%	9.0%	7.3%	10.2%	5.1%	1.2%	3.0%	5.2%	7.1%

Source: Bloomberg, NHKS research

Earnings revision (IDR bn)

		2019E	2020F	2021F
Sales	-Revised	112,792	138,173	163,174
	-Previous	106,301	112,259	131,124
	-Change	6.1%	23.1%	24.4%
Gross Profit	-Revised	21,521	21,797	24,645
	-Previous	18,575	17,627	19,685
	-Change	15.9%	23.7%	24.1%
Gross Margin	-Revised	19.1%	15.8%	15.1%
	-Previous	17.5%	15.7%	15.1%
EBIT	-Revised	13,696	11,264	12,206
	-Previous	11,068	9,069	9,870
	-Change	23.7%	24.2%	23.7%
EBIT Margin	-Revised	12.1%	8.2%	7.5%
	-Previous	10.4%	8.1%	7.5%
EBITDA	-Revised	16,072	13,681	14,901
	-Previous	13,567	11,751	12,852
	-Change	18.5%	16.4%	15.9%
EBITDA Margin	-Revised	14.2%	9.9%	9.1%
	-Previous	12.8%	10.5%	9.8%
Net Profit	-Revised	9,449	7,512	8,166
	-Previous	7,830	6,541	7,205
	-Change	20.7%	14.8%	13.3%
Net Margin	-Revised	8.4%	5.4%	5.0%
	-Previous	7.4%	5.8%	5.5%

Source: NHKS research

GGRM at A Glance

GGRM is the leading producer of clove cigarettes (kretek) identical to Indonesia. As the world's fourth most populous nation inhabited by around 266 million people, Indonesia is home to the largest and most varied consumers markets with the significant adult smoker percentage—67% of Indonesian adult men are smokers. GGRM dominates 23.1% domestic market shares with its well-known products; and has 66 area offices with 269 distribution points across Indonesia as well as 7,000 vehicles as sale units, including motorcycles to serve its markets.

Its two kretek factories are located in Kediri and Gempol. Home to 268,000 inhabitants, Kediri is the regional trade heartland and the location of GGRM's headquarters. Meanwhile, its second kretek factory situated in Gempol, East Java, is only 50 km from Surabaya. The two factories respond to the demand for cigarettes.

Gudang Garam's Market Share

GGRM's total sales volume to include exports grows by 8.3% to 85.2 billion cigarettes with the domestic sales volume to show a 9.2% hike. Because cigarette prices hike, smokers prefer cheaper cigarette products evidenced by the high demand for SKM.

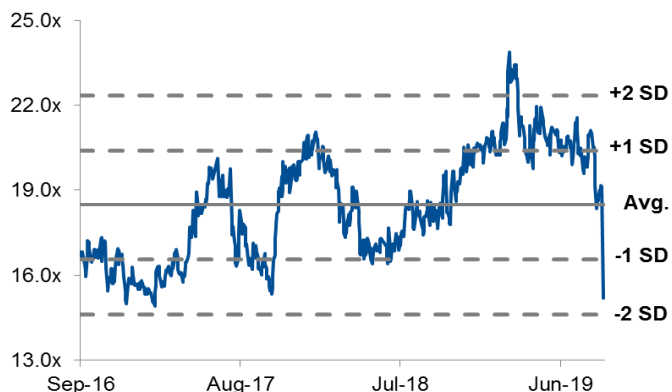
Asia Pacific Cigarette Company

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	7,147	4,789	7,141	648	14.54%	8.6%	20.0%	10.8x	2.1x
HM Sampoerna	17,274	3,230	7,498	981	7.87%	13.2%	44.4%	17.3x	7.6x
India									
ITC Ltd	42,085	10,357	6,844	1,802	11.72%	26.3%	22.6%	23.7x	5.1x
VST Industries Ltd	915	174	157	32	24.71%	20.6%	36.4%	28.7x	9.8x
Godfrey Phillips India Ltd	961	414	353	37	63.61%	10.6%	13.6%	26.3x	3.4x
Kothari Products Ltd	25	474	N/A	18	123.25%	N/A	11.5%	1.5x	0.2x
Malaysia									
British American Tobacco	1,032	266	631	88	-15.89%	13.9%	91.3%	11.7x	11.3x
Pakistan									
Pakistan Tobacco Co Ltd	4,123	291	357	77	-8.97%	21.5%	57.9%	57.9x	34.0x
Philippines									
PTFC Redevelopment Corp	31	10	4	2	91.20%	67.5%	31.8%	12.6x	3.7x
South Korea									
KT&G CORP	11,448	9,120	4,222	669	-31.18%	15.9%	12.7%	11.7x	1.4x
Sri Lanka									
Ceylon Tobacco Co Plc	1,188	154	195	104	14.09%	53.7%	239.2%	11.6x	25.9x
Vietnam									
CAT LOI JSC	37	44	88	6	10.83%	7.0%	20.3%	6.4x	1.3x
NGAN SON JSC	11	17	36	1	7.55%	1.9%	9.5%	15.4x	1.4x

Source: Bloomberg

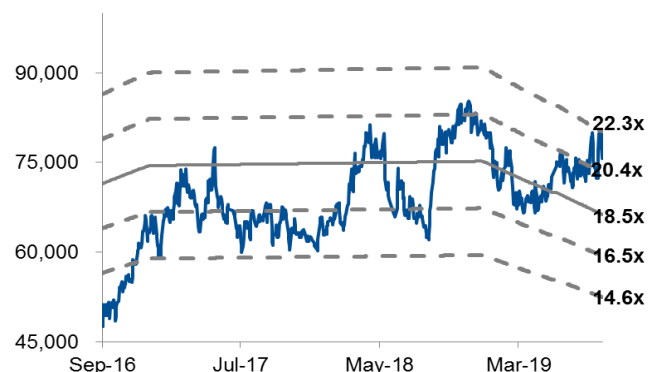
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



Source: NHKS research

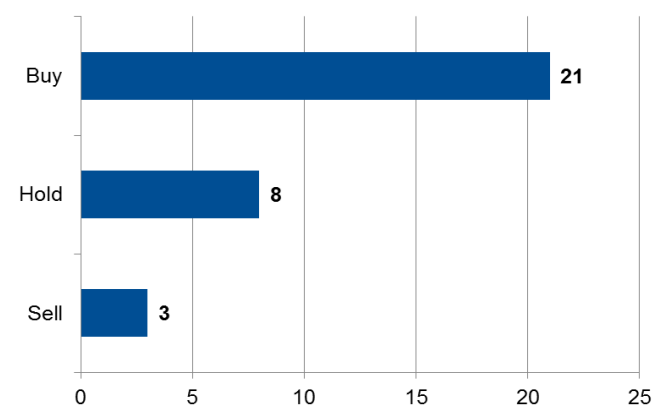
Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
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%
12/30/2019	Buy	61,800 (Dec 2020)	52,400	59,865	+17.9%	+3.2%

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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