

Gudang Garam Tbk (GGRM)

Expects 2018 Better Performance

Company Report | Apr 13, 2018

Buy

Dec 2018 TP (IDR)	88,650
Consensus Price (IDR)	88,527
TP to Consensus Price	+0.1%
vs. Last Price	+19.5%

Shares data

Last Price (IDR)	74,200
Price date as of	Apr 09, 2018
52 wk range (Hi/Lo)	85,275/62,025
Free float (%)	23.8
Outstanding sh.(mn)	1,924
Market Cap (IDR bn)	148,347
Market Cap (USD mn)	10,782
Avg. Trd Vol - 3M (mn)	0.80
Avg. Trd Val - 3M (bn)	62.18
Foreign Ownership	8.3%

Consumer Goods

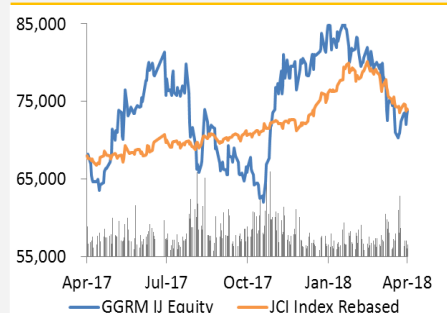
Cigarettes

Bloomberg	GGRM IJ
Reuters	GGRM.JK

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Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-9.3%	-7.3%	-12.8%	8.7%
Rel. Ret.	-6.7%	-2.3%	-10.0%	0.0%

SKM Segment's Lustrous Performance

GGRM succeeded in posting growth of 9.2% in sales from IDR76.2 trillion in 2016 into IDR83.3 trillion in 2017. 2017 growth in sales was higher than 2016 growth of 8.4% in sales. **The machine-made kretek (SKM)—contributing 88% to the total sales and surging by 9.3% from IDR68.4 trillion in 2016 into IDR74.8 trillion in 2017—is the biggest bolsters to the sales growth.**

We oversee that **net revenues, excluding taxes, remained to hike higher than 11%** amid the surge of 10.4% in 2017 excise cigarette. It indicated **GGRM's robust pricing power**. In light of its robust pricing power, we project that in 2018 net revenues, excluding taxes, remains to top 11% despite the increase of 11.3% in excise imposed on machine-made kretek (SKM) I tier; therefore, net revenues are estimated to hike by 9.4% amid the downtrend of national cigarette production figures as of 2016.

Efficiency: Net Profit Bolster

Although GGRM's sales grew by a single digit in 2017, **it posted the double-digit growth of 16.1% in 2017 net profit**. The efficiency was marked by the decrease in the ratio of raw material purchase to sales from 17.7% in 2016 into 15.9% in 2017.

Target Price of IDR88,650

We use an estimate of forward P/E of 18.2x (1SD higher than the 3 year average of 16.3x) as the basis for the valuation method for obtaining the target price. The target implies a 2018E P/E of 20.3x. Now, GGRM is traded at a 2018E P/E of 17.0x.

Gudang Garam Tbk | Summary (IDR bn)

	2016/12A	2017/12A	2018/12E	2019/12E
Sales	76,274	83,306	91,134	100,281
<i>Sales growth</i>	8.4%	9.2%	9.4%	10.0%
EBITDA	12,113	13,043	14,222	15,817
Net profit	6,677	7,754	8,409	9,364
EPS (IDR)	3,470	4,030	4,370	4,867
<i>EPS growth</i>	3.8%	16.1%	8.5%	11.4%
BVPS (IDR)	20,563	21,926	23,696	25,963
EBITDA margin	15.9%	15.7%	15.6%	15.8%
NPM	8.8%	9.3%	9.2%	9.3%
ROE	17.2%	19.0%	19.2%	19.6%
ROA	10.6%	12.0%	12.4%	13.2%
ROIC	12.7%	13.7%	14.3%	15.5%
P/E	18.4x	20.8x	17.0x	15.2x
P/BV	3.1x	3.8x	3.1x	2.9x
EV/EBITDA	11.7x	13.8x	11.2x	10.1x
DPS (IDR)	2,600	2,600	2,600	2,600
<i>Dividend yield</i>	4.1%	3.1%	3.5%	3.5%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Plan for Constructing Airport in Kediri

GGRM allocated the capex of 5 trillion for constructing an airport in Kediri. We estimate that around IDR2 trillion of the capex is used in 2018; the remaining capex will be used in 2019. Indeed, **GGRM is still capable of maintaining the dividend payment of IDR5 trillion (payout ratio of 64.5%)**, with the assumed inventory level still at IDR37 trillion as of 2015. The number of inventory days continuously declines from 248 days in 2015 into 213 days in 2017, and will decrease further into 194 days in 2018.

A Glance at GGRM

GGRM is the leading kretek cigarette producer identical with Indonesia. Home to around 250 million inhabitants, Indonesia is the biggest and most varied consumers markets with the significant adult smoker percentage—67% of Indonesian adult men are smokers. It dominates the domestic market shares by around 20.8% with its well-known products, has 67 area offices with 279 distribution points across Indonesia as well as sales units of more than 7,000 vehicles, including motorcycles to serve its markets.

Its kretek cigarette production facilities are located in Kediri and Gempol. Having the total 249,000 inhabitants, Kediri is the center of regional trade and the location of GGRM's headquarters. The second production facility situated in Gempol, East Java, is only 50 km from Surabaya. The two facilities enable GGRM to supply the demand for cigarettes.

GGRM's Competitiveness in Asia Pacific

Categorized into cigarette company with the market capitalization topping 10 billion, GGRM has the third cheapest P/E after KT&G Corp and Japan Tobacco. However, being potential for higher growth in net profit and ROE of 19.2%, GGRM becomes preferred pick.

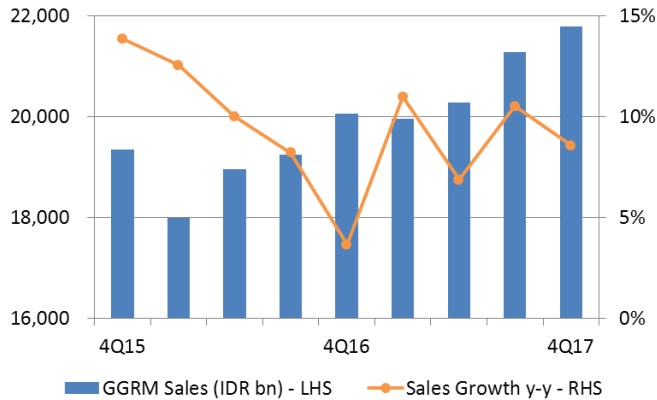
Asia Pacific Cigarette Company

Company	Market Cap (USD mn)	Total Asset (USD mn)	Net Profit Growth	Net Profit Margin	ROE	P/E	P/BV	Dividend Yield
GGRM	10,886	4,649	8.5%	9.2%	19.2%	17.0x	3.1x	3.5%
HMSP	36,045	3,175	2.2%	12.3%	37.4%	38.7x	14.5x	2.5%
India								
ITC Ltd	48,770	8,625	10.1%	24.3%	23.1%	30.7x	6.8x	1.8%
VST Industries Ltd	699	123	9.2%	17.7%	36.9%	27.2x	8.5x	2.5%
Godfrey Phillips India Ltd	645	340	-19.3%	6.0%	8.5%	30.7x	2.5x	1.0%
Malaysia								
British American Tobacco Bhd	1,936	257	-31.7%	16.4%	99.0%	15.4x	19.8x	9.4%
Japan								
Japan Tobacco Inc	55,837	46,380	-6.9%	18.3%	15.0%	13.6x	1.9x	4.7%
South Korea								
KT&G Corp	12,635	9,346	-5.4%	24.9%	15.7%	10.7x	1.6x	4.1%
Sri Lanka								
Ceylon Tobacco Co Plc	1,277	162	16.2%	10.5%	362.2%	13.6x	43.4x	6.2%

Source: Bloomberg, NHKS research

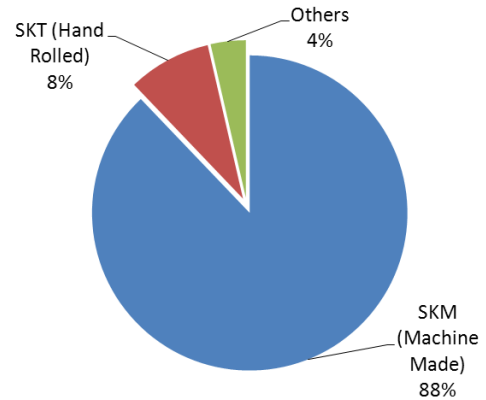
Performance Highlights

GGRM Sales Trend | 2015 - 2017



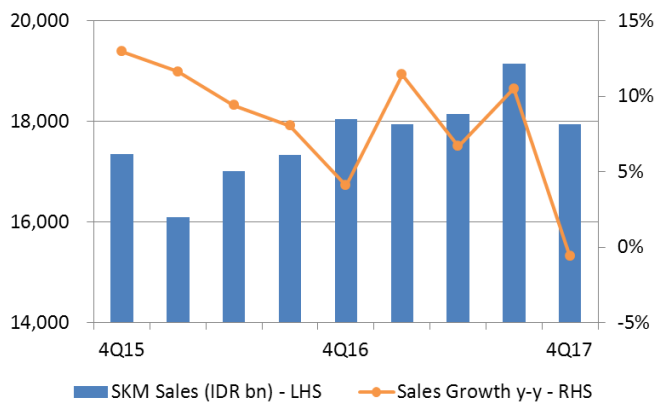
Source: Company, NHKS Research

GGRM Revenue Breakdown | FY 2017



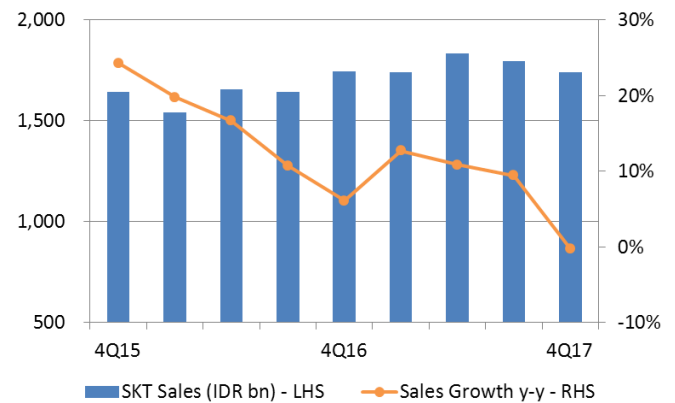
Source: Company, NHKS research

SKM (Machine Made) Sales Trend | 2015 - 2017



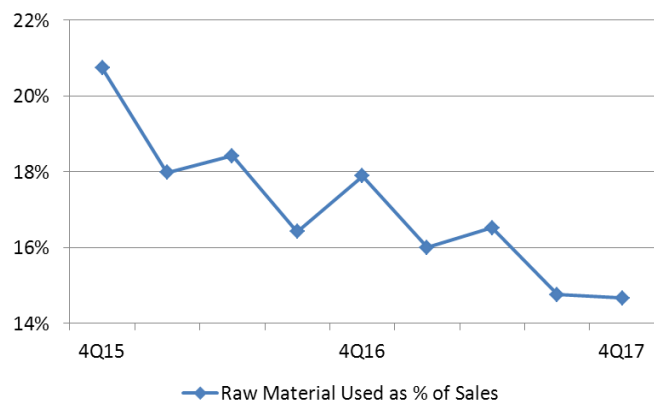
Source: Company, NHKS Research

SKT (Hand Rolled) Sales Trend | 2015 - 2017



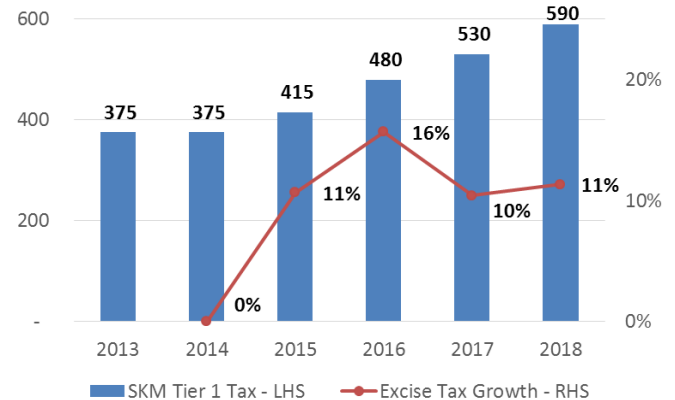
Source: Company, NHKS Research

GGRM Raw Material Used | 2015 - 2017



Source: Company, NHKS research

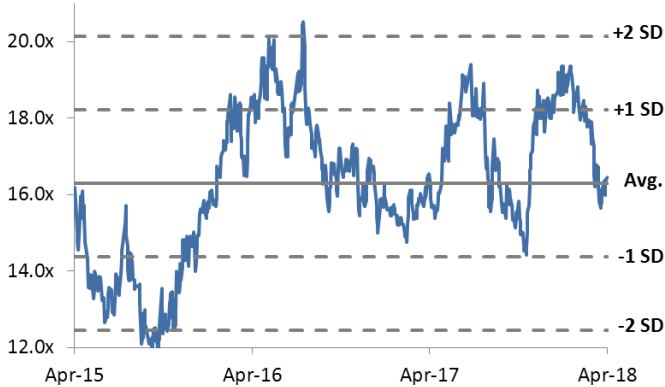
SKM Tier 1 Excise Tax (IDR) | FY 2013 - FY 2018



Source: Ministry of Finance, NHKS research

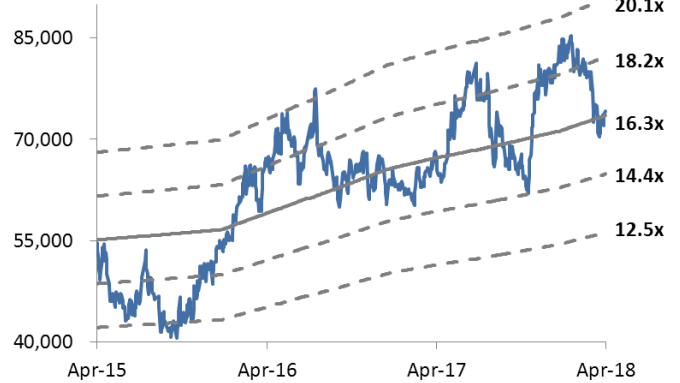
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



Source: NHKS research

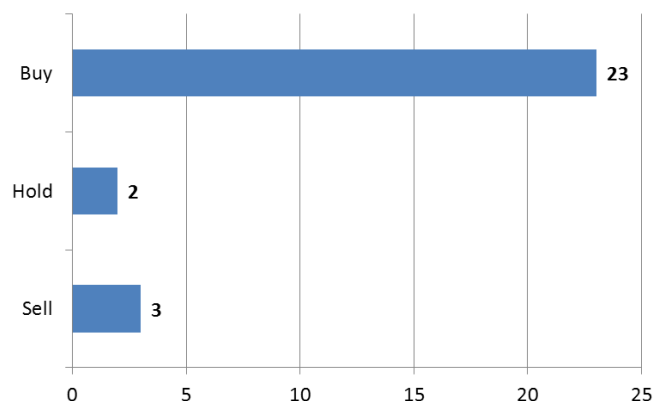
Rating and target price update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
05/18/2017	Buy	85,550 (Dec 2017)	70,100	77,068	+22.0%	+11.0%
09/07/2017	Buy	83,550 (Dec 2018)	66,700	77,479	+25.3%	+7.8%
11/22/2017	Buy	97,825 (Dec 2018)	80,375	80,375	+21.7%	+18.5%
04/13/2017	Buy	88,650 (Dec 2018)	74,200	88,527	+19.5%	+0.1%

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

GGRM Summary		
Last Price (IDR)	April 9, 2018	74,200
Target Price (IDR)	Dec 2018	88,650
Analyst: Joni Wintarja	Rating:	Buy

INCOME STATEMENT

in IDR Bn	2016/12A	2017/12A	2018/12E	2019/12E
Sales	76,274	83,306	91,134	100,281
Growth (% y/y)	8.4%	9.2%	9.4%	10.0%
Cost of Sales	(59,657)	(65,084)	(71,200)	(78,346)
Gross Profit	16,617	18,222	19,934	21,935
Gross Margin	21.8%	21.9%	21.9%	21.9%
Operating Expenses	(6,589)	(7,049)	(7,736)	(8,513)
EBIT	10,028	11,173	12,198	13,422
EBIT Margin	13.1%	13.4%	13.4%	13.4%
Depreciation	2,086	1,870	2,024	2,395
EBITDA	12,113	13,043	14,222	15,817
EBITDA Margin	15.9%	15.7%	15.6%	15.8%
Interest Expenses	(1,191)	(801)	(967)	(917)
EBT	8,931	10,357	11,214	12,487
Income Tax	(2,258)	(2,602)	(2,804)	(3,122)
Minority Interest	4	(2)	(2)	(2)
Net Profit	6,677	7,754	8,409	9,364
Growth (% y/y)	3.8%	16.1%	8.5%	11.4%
Net Profit Margin	8.8%	9.3%	9.2%	9.3%

BALANCE SHEET

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Cash	1,595	2,329	2,560	2,676
Receivables	2,090	2,229	2,439	2,683
Inventories	37,545	37,920	37,967	38,129
Total Current Assets	41,933	43,764	44,219	44,758
Net Fixed Assets	20,499	21,409	23,610	27,232
Other Non Current Assets	520	1,587	1,253	1,253
Total Assets	62,952	66,760	69,082	73,242
Payables	1,118	1,214	1,328	1,461
Total Debt	19,753	20,600	19,528	18,898
Other Current Liab.	767	797	834	918
Other Non Current Liab.	1,749	1,961	1,798	2,011
Total Liabilities	23,387	24,572	23,488	23,287
Shareholders' Equity	39,564	42,188	45,594	49,955

CASH FLOW STATEMENT

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Net Income	6,677	7,754	8,409	9,364
Deprec & Amortization	2,086	2,244	2,024	2,395
Chg. In Working Capital	(1,825)	(1,793)	(73)	(206)
CFO	6,938	8,205	10,360	11,553
Capex	(2,335)	(3,396)	(4,225)	(6,017)
CFI	(2,226)	(3,240)	(4,054)	(5,804)
Dividends Paid	(5,003)	(5,003)	(5,003)	(5,003)
Net Borrowing (PMT)	(808)	847	(1,072)	(630)
CFF	(5,842)	(4,232)	(6,075)	(5,633)
Net Changes in Cash	(1,130)	733	231	115

OWNERSHIP

By Geography	% Shareholders	%
Indonesia	91.7	Suryaduta Investama 69.3
United States	2.9	Suryamitra Kusuma 6.3
Luxembourg	2.3	Fil Limited 1.8
United Kingdom	0.8	Vanguard Group 0.8

PROFITABILITY & STABILITY

	2016/12A	2017/12A	2018/12E	2019/12E
ROE	17.2%	19.0%	19.2%	19.6%
ROA	10.6%	12.0%	12.4%	13.2%
ROIC	12.7%	13.7%	14.3%	15.5%
EBITDA/Equity	31.2%	31.9%	32.4%	33.1%
EBITDA/Assets	10.6%	12.0%	12.4%	13.2%
Cash Dividend IDR bn)	5,003	5,003	5,003	5,003
Dividend Yield (%)	4.1%	3.1%	3.5%	3.5%
Payout Ratio (%)	77.7%	74.9%	64.5%	59.5%
DER	49.9%	48.8%	42.8%	37.8%
Net Gearing	50.1%	48.9%	42.9%	37.9%
Capitalization Ratio	33.3%	32.8%	30.0%	27.4%
Equity Ratio	62.8%	63.2%	66.0%	68.2%
Debt Ratio	31.4%	30.9%	28.3%	25.8%
Financial Leverage	163.7%	154.0%	152.1%	144.6%
Current Ratio	193.8%	193.6%	203.9%	210.4%
Quick Ratio	17.0%	20.2%	23.0%	25.2%
Cash Ratio	7.4%	10.3%	11.8%	12.6%
Cash Conversion Cycle	232.9	215.6	197.6	180.6
Par Value (IDR)	500	500	500	500
Total Shares (mn)	1,924	1,924	1,924	1,924
Share Price (IDR)	63,900	83,800	74,200	74,200
Market Cap (IDR tn)	122.9	161.2	142.8	142.8

VALUATION INDEX

	2016/12A	2017/12A	2018/12E	2019/12E
Price /Earnings	18.4x	20.8x	17.0x	15.2x
Price /Book Value	3.1x	3.8x	3.1x	2.9x
Price/Sales	1.6x	1.9x	1.6x	1.4x
PE/EPS Growth	4.9x	1.3x	2.0x	1.3x
EV/EBITDA	11.7x	13.8x	11.2x	10.1x
EV/EBIT	14.1x	16.1x	13.1x	11.8x
EV (IDR bn)	141,168	179,495	159,720	158,975
Sales CAGR (3-Yr)	11.2%	8.5%	9.0%	9.6%
EPS CAGR (3-Yr)	15.5%	12.8%	9.3%	11.9%
Basic EPS (IDR)	3,470	4,030	4,370	4,867
Diluted EPS (IDR)	3,470	4,030	4,370	4,867
BVPS (IDR)	20,563	21,926	23,696	25,963
Sales PS (IDR)	39,642	43,296	47,365	52,119
DPS (IDR)	2,600	2,600	2,600	2,600

DCF, RIM & EVA

	2016/12A	2017/12A	2018/12E	2019/12E
DCF (IDR bn)				
NOPAT	7,492	8,366	9,148	10,066
+Depr./Amor.	2,086	2,244	2,024	2,395
-CAPEX	(2,335)	(3,396)	(4,225)	(6,017)
-Incr. (Decr.) in Working Cap.	(1,825)	(1,793)	(73)	(206)
(Unlevered) FCFF	5,417	5,421	6,874	6,238
WACC				
Cost of Debt (Tax Adj.)	8.1%	5.4%	5.5%	5.7%
Cost of Equity (COE)	9.5%	11.7%	12.1%	12.1%
WACC (%)	9.3%	11.0%	11.3%	11.3%
RIM				
Spread (FROE-COE) (%)	8.0%	7.9%	7.9%	8.5%
Residual Income (IDR bn)	3,054	3,111	3,313	3,856
Equity Charge	3,623	4,643	5,097	5,508
EVA				
Invested Capital (IDR bn)	58,569	59,317	62,788	65,122
ROIC-WACC (%)	3.5%	3.1%	3.3%	4.1%
EVA (IDR mn)	2,023	1,829	2,059	2,683

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