

# Gudang Garam Tbk (GGRM)

## Harapkan Kinerja yang Lebih Baik pada 2018

### Divisi SKM Tetap Bersinar

Penjualan GGRM berhasil tumbuh 9,2% dari Rp76,2 triliun pada 2016 menjadi Rp83,3 triliun pada 2017. Pertumbuhan penjualan ini lebih tinggi dibandingkan pertumbuhan penjualan sebesar 8,4% pada 2016. **Divisi Sigaret Kretek Mesin (SKM)**—berkontribusi 88% terhadap total penjualan dan tumbuh 9,3% dari Rp68,4 triliun pada 2016 menjadi Rp74,8 triliun pada 2017—menjadi penopang terbesar pertumbuhan penjualan.

Kami mengamati bahwa **angka penjualan di luar cukai tetap meningkat lebih dari 11%** di tengah kenaikan cukai rokok sebesar 10,4% pada 2017. Hal ini mengindikasikan **kuatnya pricing power yang dimiliki oleh GGRM**. Mempertimbangkan kuatnya *pricing power* GGRM, kami memperkirakan bahwa pada 2018 penjualan di luar cukai tetap meningkat 11% meskipun cukai SKM tier 1 meningkat sebesar 11,3%. Sehingga penjualan diperkirakan meningkat 9,4% meskipun angka produksi rokok nasional menurun sejak 2016.

### Efisiensi: Penopang Peningkatan Laba Bersih

Meskipun penjualan GGRM tumbuh *single digit* pada 2017, **laba bersih mampu tumbuh double digit sebesar 16,1%**. Efisiensi ini ditandai oleh penurunan rasio pembelian bahan baku terhadap penjualan dari 17,7% pada 2016 menjadi 15,9% pada 2017.

### Target Harga Rp88.650

Kami menggunakan estimasi *forward* P/E sebesar 18,2x (1SD di atas rata-rata 3 tahun sebesar 16,3x) sebagai basis metode valuasi untuk memperoleh target harga. Target harga ini mengimplikasikan P/E 2018E sebesar 20,3x. Saat ini, GGRM diperdagangkan di P/E 2018E sebesar 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

Company Report | Apr 13, 2018

## Buy

<b>Dec 2018 TP (IDR)</b>	<b>88,650</b>
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

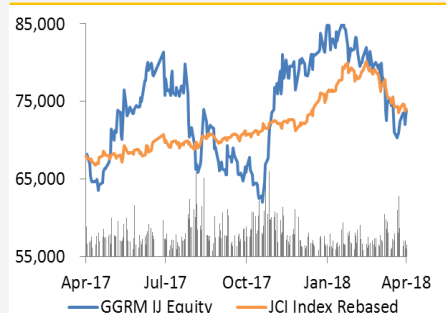
GGRM.JK

### Joni Wintarja

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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%

### Rencana Pembangunan Bandara di Kediri

GGRM berencana untuk membangun bandara di Kediri dengan perkiraan *capex* sebesar Rp5 triliun. Kami memperkirakan bahwa sekitar Rp2 triliun digunakan pada 2018 dan sisanya pada 2019. Kami memproyeksi bahwa **GGRM masih dapat mempertahankan pembagian dividen sebesar Rp5 triliun (*payout ratio* 64,5%)** dengan catatan inventori GGRM masih berada di level Rp37 triliun sejak 2015. Jumlah hari inventori terus mengalami penurunan dari 248 hari pada 2015 menjadi 213 hari pada 2017, dan akan turun menjadi 194 hari pada 2018.

### Sekilas tentang GGRM

GGRM adalah produsen rokok kretek terkemuka yang identik dengan Indonesia. Memiliki total penduduk sekitar 250 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 20,8% dengan produk-produk yang sudah dikenal luas oleh masyarakat di seluruh Nusantara. GGRM memiliki 67 kantor area dengan 279 titik distribusi di seluruh Indonesia dan armada penjualan lebih dari 7.000 kendaraan, termasuk sepeda motor untuk melayani pasar.

Gudang Garam memiliki fasilitas produksi rokok kretek di dua lokasi. Pertama, Kediri, yang memiliki jumlah penduduk 249 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 memungkinkan GGRM memenuhi permintaan produk rokok.

### Daya Saing GGRM di Asia Pasifik

Dalam kategori perusahaan rokok dengan kapitalisasi pasar di atas USD10 miliar, GGRM memiliki P/E termurah ketiga setelah KT&G Corp dan Japan Tobacco. Namun, GGRM yang memiliki potensi pertumbuhan laba lebih tinggi serta ROE sebesar 19,2% menjadi pilihan yang menarik.

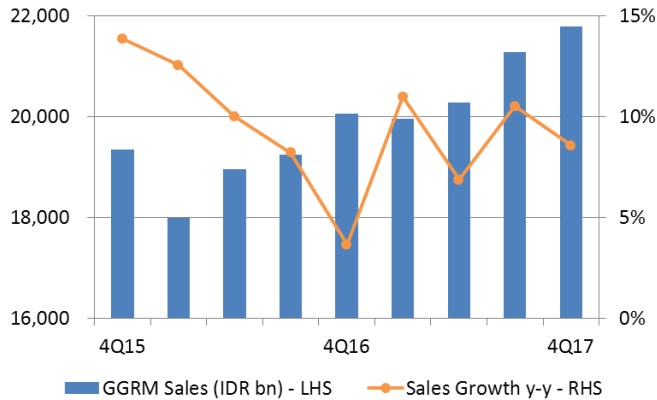
#### Asia Pacific Cigarette Company

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%
<b>India</b>								
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%
<b>Malaysia</b>								
British American Tobacco Bhd	1,936	257	-31.7%	16.4%	99.0%	15.4x	19.8x	9.4%
<b>Japan</b>								
Japan Tobacco Inc	55,837	46,380	-6.9%	18.3%	15.0%	13.6x	1.9x	4.7%
<b>South Korea</b>								
KT&G Corp	12,635	9,346	-5.4%	24.9%	15.7%	10.7x	1.6x	4.1%
<b>Sri Lanka</b>								
Ceylon Tobacco Co Plc	1,277	162	16.2%	10.5%	362.2%	13.6x	43.4x	6.2%

Source: Bloomberg, NHKS research

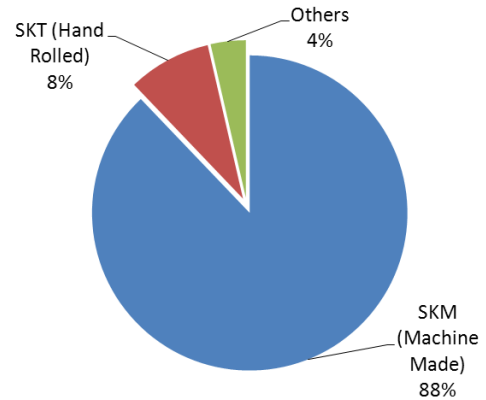
## Performance Highlights

**GGRM Sales Trend | 2015 - 2017**



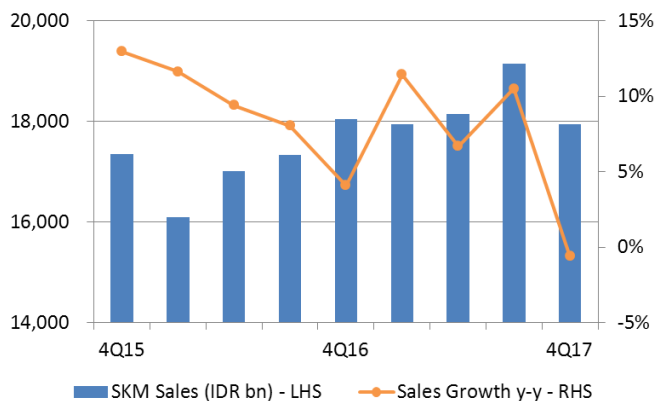
Source: Company, NHKS Research

**GGRM Revenue Breakdown | FY 2017**



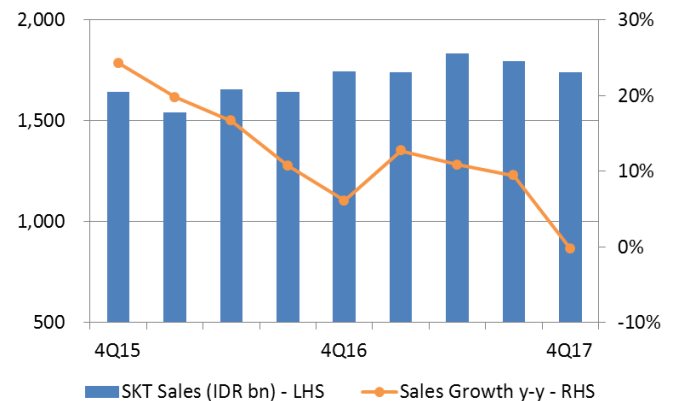
Source: Company, NHKS research

**SKM (Machine Made) Sales Trend | 2015 - 2017**



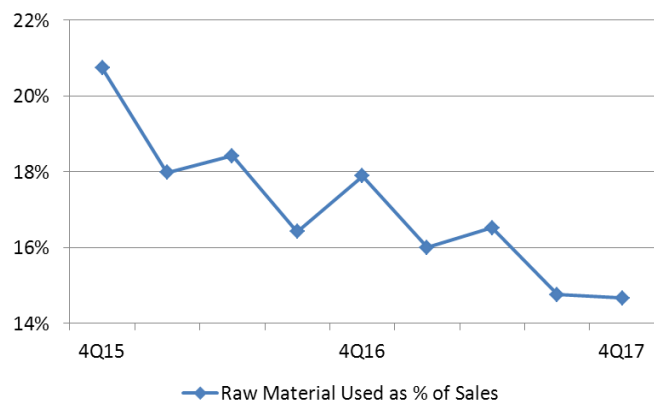
Source: Company, NHKS Research

**SKT (Hand Rolled) Sales Trend | 2015 - 2017**



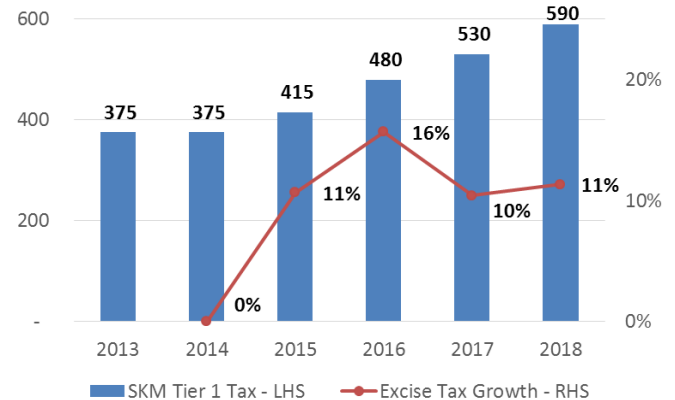
Source: Company, NHKS Research

**GGRM Raw Material Used | 2015 - 2017**



Source: Company, NHKS research

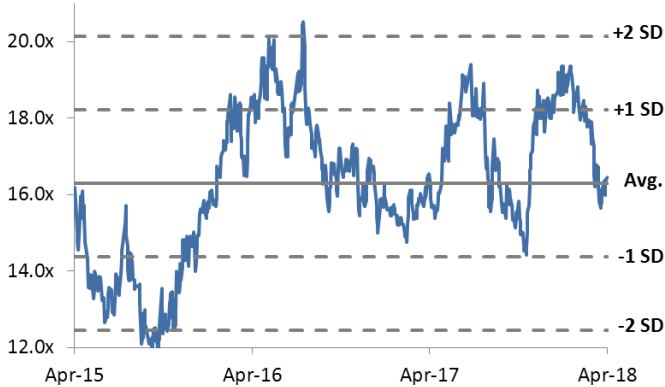
**SKM Tier 1 Excise Tax (IDR) | FY 2013 - FY 2018**



Source: Ministry of Finance, NHKS research

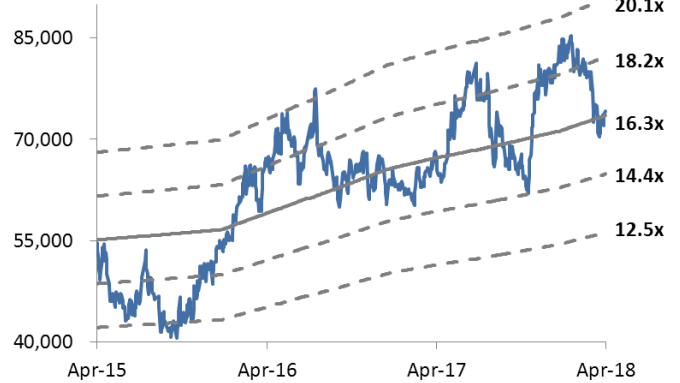
## Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



Source: NHKS research

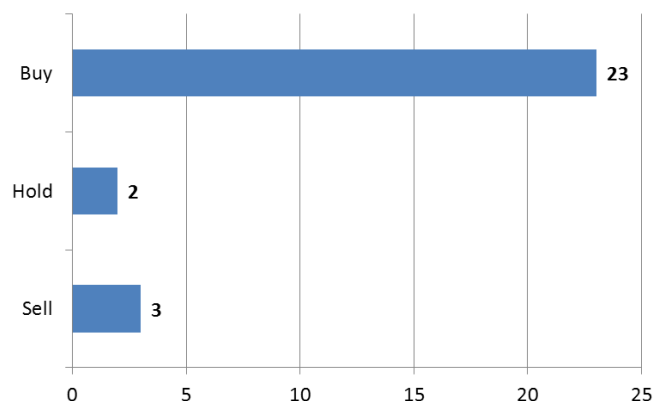
## Rating and target price update

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

<b>GGRM Summary</b>		
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)
<b>Gross Profit</b>	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)
<b>EBIT</b>	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
<b>EBITDA</b>	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)
<b>EBT</b>	8,931	10,357	11,214	12,487
Income Tax	(2,258)	(2,602)	(2,804)	(3,122)
Minority Interest	4	(2)	(2)	(2)
<b>Net Profit</b>	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
<b>Total Current Assets</b>	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
<b>Total Assets</b>	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
<b>Total Liabilities</b>	23,387	24,572	23,488	23,287
<b>Shareholders' Equity</b>	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)
<b>CFO</b>	6,938	8,205	10,360	11,553
Capex	(2,335)	(3,396)	(4,225)	(6,017)
<b>CFI</b>	(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)
<b>CFF</b>	(5,842)	(4,232)	(6,075)	(5,633)
<b>Net Changes in Cash</b>	(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
<b>DCF (IDR bn)</b>				
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
<b>WACC</b>				
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%
<b>RIM</b>				
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
<b>EVA</b>				
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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