

Gudang Garam Tbk (GGRM)

Potensi Kejutan Kinerja 2019

Company Report | Nov 14, 2018

Buy

Dec 2019 TP (IDR) 100,000

Consensus Price (IDR)	86,915
TP to Consensus Price	+15.1%
vs. Last Price	+32.1%

Shares data

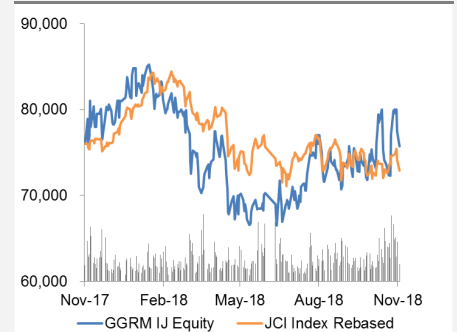
Last Price (IDR)	75,700
Price date as of	Nov 12, 2018
52 wk range (Hi/Lo)	85,275 / 66,525
Free float (%)	23.8
Outstanding sh.(mn)	1,924
Market Cap (IDR bn)	148,299
Market Cap (USD mn)	9,976
Avg. Trd Vol - 3M (mn)	1.02
Avg. Trd Val - 3M (bn)	76.09
Foreign Ownership	8.0%

Consumer Staples

Cigarette

Bloomberg	GGRM IJ
Reuters	GGRM.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-7.1%	1.9%	-1.7%	-0.4%
Rel. Ret.	1.8%	1.6%	3.3%	3.7%

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Penjualan GGRM, Tumbuh Double Digit

Penjualan GGRM melonjak 15,5% dari Rp21,2 triliun pada 3Q17 menjadi Rp24,5 triliun pada 3Q18. **Penopang pertumbuhan adalah divisi Sigaret Kretek Mesin** (berkontribusi 91% terhadap total penjualan) yang membukukan pertumbuhan penjualan 16% dari Rp19,1 triliun pada 3Q17 menjadi Rp22,2 triliun pada 3Q18.

Margin GGRM, Tersungkur pada 3Q18

Kendati penjualan meningkat *double digit*, laba bersih GGRM sedikit terperosok 3,8% dari Rp2,29 triliun pada 3Q17 menjadi Rp2,2 triliun pada 3Q18. Penurunan ini dipicu oleh kontraksi margin laba kotor dari 22% pada 3Q17 menjadi 19,2% pada 3Q18. Adapun penurunan margin kotor disebabkan oleh peningkatan **rasio beban cukai terhadap penjualan** dari 54% pada 3Q17 menjadi 60% pada 3Q18.

Penundaan Kenaikan Pita Cukai Rokok

Akhirnya pemerintah mengumumkan penundaan kenaikan bea pita cukai rokok untuk tahun 2019. Dengan asumsi cukai pita rokok SKM untuk tier 1 masih tetap sebesar Rp590/ batang, kami memperkirakan GGRM akan menikmati pertumbuhan penjualan di kisaran *middle single digit*. Hal ini akan memberikan **kemudahan bagi GGRM untuk menyesuaikan harga jual** rokok sesuai dengan tingkat inflasi dan kompetisi di pasar. Selain itu, **margin keuntungan bersih GGRM dapat meningkat** dari estimasi sebelumnya sebesar 9,7% menjadi 10%.

Target Harga Rp100.000

Kami menggunakan estimasi *forward P/E* sebesar 17,0x (rata-rata 3 tahun) sebagai basis metode valuasi untuk memperoleh target harga. Target harga ini mengimplikasikan P/E 2019E sebesar 19,5x. Saat ini, GGRM diperdagangkan di P/E 2018E sebesar 18,7x.

Gudang Garam Tbk | Summary (IDR bn)

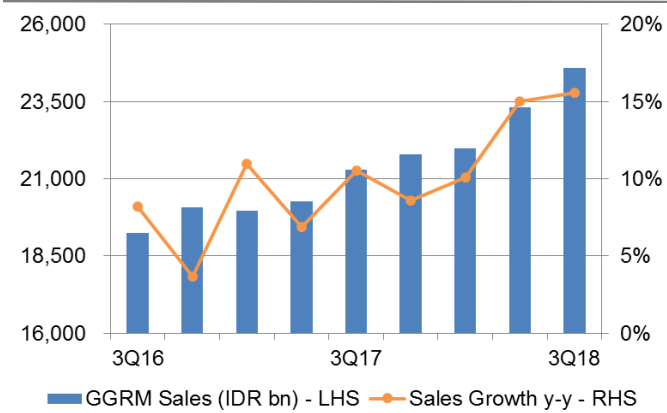
	2017	2018E	2019F	2020F
Sales	83,306	93,141	98,399	104,076
<i>Sales growth</i>	9.2%	11.8%	5.6%	5.8%
EBITDA	13,122	13,385	16,078	18,246
Net Profit	7,754	7,806	9,845	11,346
EPS (IDR)	4,030	4,057	5,117	5,897
<i>EPS growth</i>	16.1%	0.7%	26.1%	15.2%
BVPS (IDR)	21,926	23,373	25,890	29,187
EBITDA margin	15.8%	14.4%	16.3%	17.5%
NPM	9.3%	8.4%	10.0%	10.9%
ROE	18.4%	17.4%	19.8%	20.2%
ROA	11.6%	11.6%	14.2%	16.0%
ROIC	13.3%	13.0%	15.8%	17.6%
P/E	20.8x	18.7x	14.8x	12.8x
P/BV	3.8x	3.2x	2.9x	2.6x
EV/EBITDA	13.7x	12.1x	9.8x	8.4x
DPS (IDR)	2,600	2,600	2,600	2,600
<i>Dividend yield</i>	3.1%	3.4%	3.4%	3.4%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

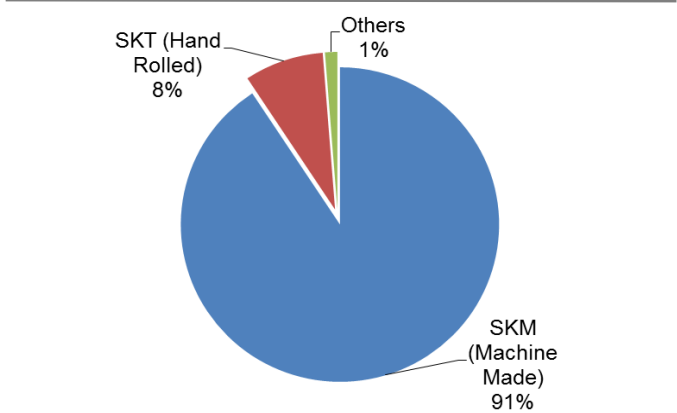
Performance Highlights

GGRM Quarterly Sales | 3Q16 - 3Q18



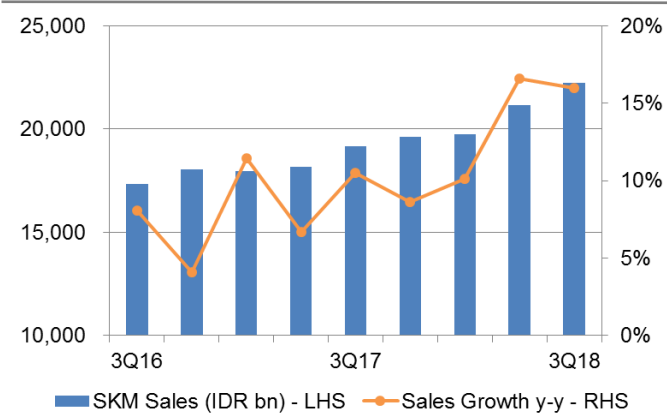
Source: Company, NHKS Research

GGRM Sales Breakdown | FY2018E



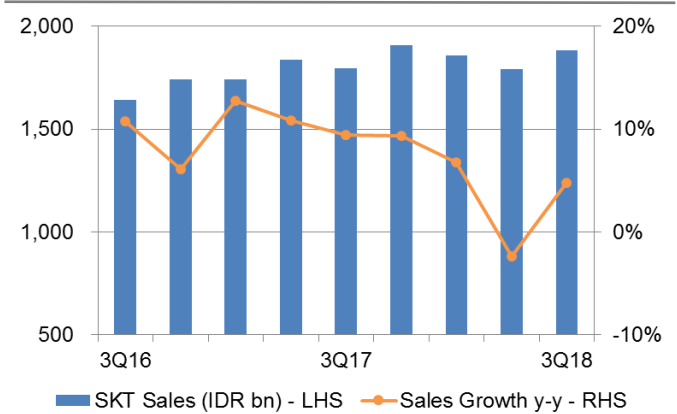
Source: Company, NHKS Research

SKM (Machine Made) Sales Trend | 3Q16 - 3Q18



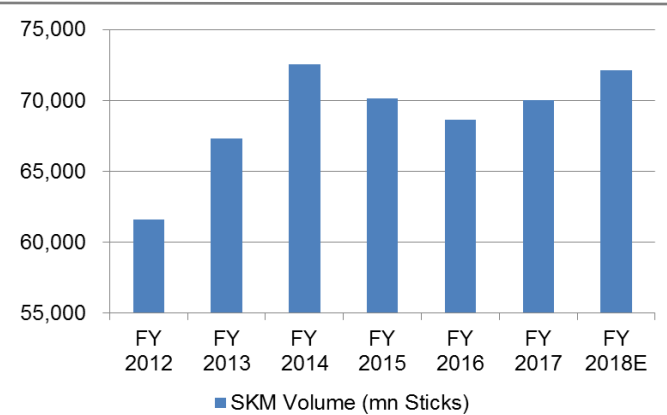
Source: Company, NHKS Research

SKT (Hand Made) Sales Trend | 3Q16 - 3Q18



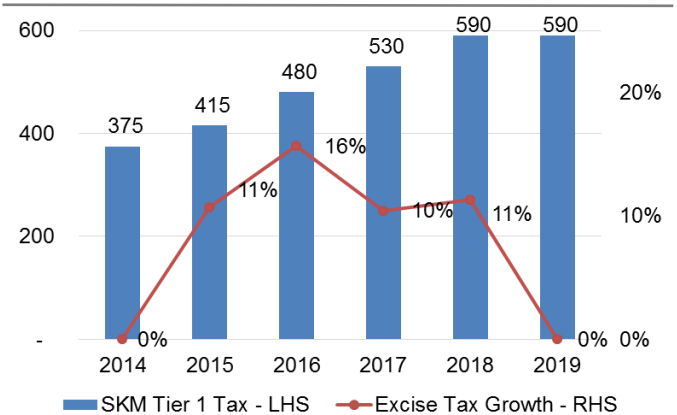
Source: Company, NHKS Research

GGRM SKM Volume (mn sticks) | FY2012 - FY2018E



Source: Company, NHKS Research

SKM Tier 1 Excise Tax (IDR) | 2014 - 2019



Source: Ministry of Finance, NHKS Research

3Q18 review (IDR bn)

	3Q17	4Q17	1Q18	2Q18	3Q18					4Q18E
					Actual	Estimate	y-y	q-q	surprise	
Sales	21,278	21,783	21,981	23,324	24,584	22,769	15.5%	5.4%	8.0%	23,252
Gross Profit	4,692	5,103	4,413	4,576	4,722	5,032	0.6%	3.2%	-6.2%	4,587
<i>Gross Margin</i>	22.0%	23.4%	20.1%	19.6%	19.2%	22.1%	-2.8%	-0.4%	-2.9%	19.7%
EBIT	3,281	3,384	2,723	2,286	3,173	3,658	-3.3%	38.8%	-13.2%	2,902
<i>EBIT Margin</i>	15.4%	15.5%	12.4%	9.8%	12.9%	16.1%	-2.5%	3.1%	-3.2%	12.5%
EBITDA	3,833	4,019	3,260	2,831	3,723	3,892	-2.9%	31.5%	-4.3%	3,571
<i>EBITDA Margin</i>	18.0%	18.4%	14.8%	12.1%	15.1%	17.1%	-2.9%	3.0%	-2.0%	15.4%
Net Profit	2,293	2,336	1,892	1,663	2,206	2,594	-3.8%	32.7%	-14.9%	2,045
<i>Net Margin</i>	10.8%	10.7%	8.6%	7.1%	9.0%	11.4%	-1.8%	1.8%	-2.4%	8.8%

Source: Bloomberg, NHKS research

Earnings revision (IDR bn)

		2018E	2019F	2020F
Sales	-Revised	93,141	98,399	104,076
	-Previous	91,075	99,626	109,033
	-Change	2.3%	-1.2%	-4.5%
Gross Profit	-Revised	18,297	21,157	23,477
	-Previous	19,403	21,220	23,224
	-Change	-5.7%	-0.3%	1.1%
Gross Margin	-Revised	19.6%	21.5%	22.6%
	-Previous	21.3%	21.3%	21.3%
EBIT	-Revised	11,085	13,656	15,543
	-Previous	12,434	13,626	14,912
	-Change	-10.9%	0.2%	4.2%
EBIT Margin	-Revised	11.9%	13.9%	14.9%
	-Previous	13.7%	13.7%	13.7%
EBITDA	-Revised	14,381	15,934	17,448
	-Previous	14,222	15,817	17,392
	-Change	1.1%	0.7%	0.3%
EBITDA Margin	-Revised	15.4%	16.2%	16.8%
	-Previous	15.6%	15.9%	16.0%
Net Profit	-Revised	7,806	9,845	11,346
	-Previous	8,736	9,662	10,641
	-Change	-10.6%	1.9%	6.6%
Net Margin	-Revised	8.4%	10.0%	10.9%
	-Previous	9.6%	9.7%	9.8%

Source: NHKS research

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.

GGRM 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 (*Emerging Market*)

Dalam kategori perusahaan rokok dengan kapitalisasi pasar di atas USD9 miliar, GGRM memiliki P/E termurah kedua setelah KT&G Corp. Namun, GGRM memiliki pertumbuhan laba yang jauh lebih tinggi hingga 8,05%. Nilai ROE GGRM di kisaran 20%, setingkat dengan ROE ITC LTD, valuasi GGRM yang relatif masih murah dan hampir setengah dari valuasi ITC menjadikan GGRM pilihan menarik bagi investor dengan orientasi "growth".

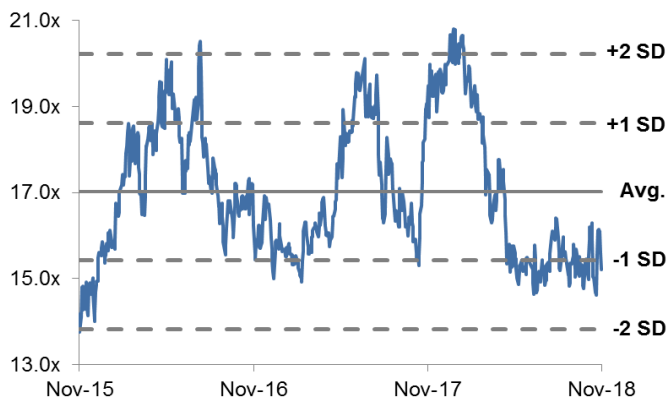
Asia Pacific Cigarette Company

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	9,988	4,913	6,591	582	8.05%	8.8%	19.6%	18.3x	3.5x
HM Sampoerna	25,876	3,175	7,501	936	0.03%	12.5%	41.8%	29.5x	12.2x
India									
ITC Ltd	46,490	9,869	6,689	1,748	9.54%	26.1%	22.8%	29.8x	6.4x
VST Industries Ltd	638	163	147	28	20.04%	19.2%	32.5%	25.5x	8.0x
Godfrey Phillips India Ltd	593	379	355	25	15.94%	6.9%	9.2%	27.1x	2.4x
Kothari Products Ltd	41	547	976	9	-26.90%	0.9%	5.6%	5.4x	0.3x
Malaysia									
British American Tobacco	2,520	257	683	107	-38.20%	15.7%	102.2%	24.4x	25.1x
Pakistan									
Pakistan Tobacco Co Ltd	4,409	291	462	106	36.93%	22.9%	82.7%	48.4x	32.3x
Philippines									
PTFC Redevelopment Corp	19	8	3	1	16.49%	34.0%	16.5%	17.7x	3.2x
South Korea									
KT&G CORP	12,226	9,346	4,035	1,026	-8.52%	25.4%	15.8%	10.9x	1.7x
Sri Lanka									
Ceylon Tobacco Co Plc	1,515	162	370	104	34.49%	28.0%	256.9%	16.4x	37.7x
Vietnam									
CAT LOI JSC	38	34	84	6	6.74%	6.6%	22.6%	7.6x	1.4x
NGAN SON JSC	8	20	28	1	-13.79%	2.3%	9.1%	12.8x	1.1x

Source: Bloomberg

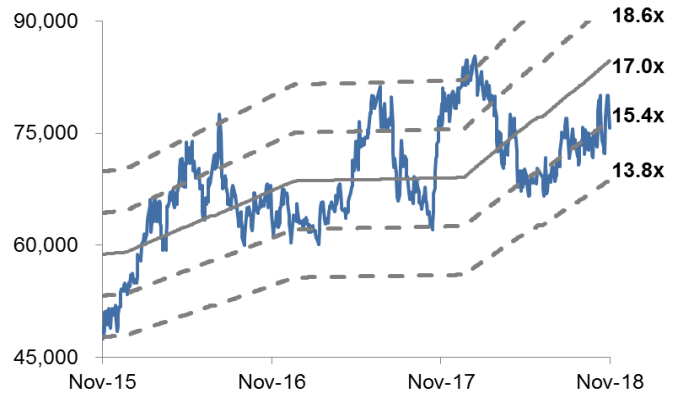
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



Source: NHKS research

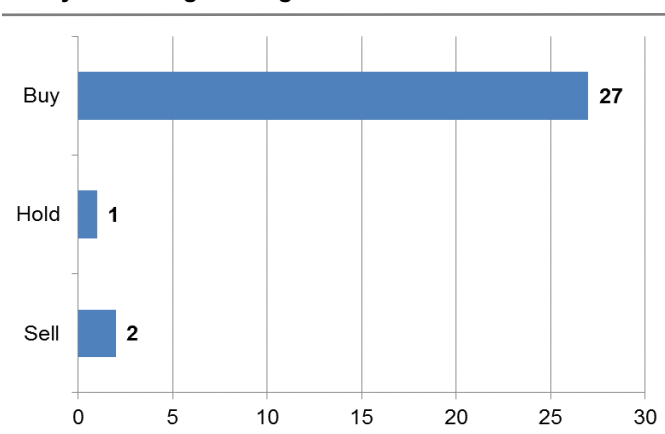
Rating and Target Price Update

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%

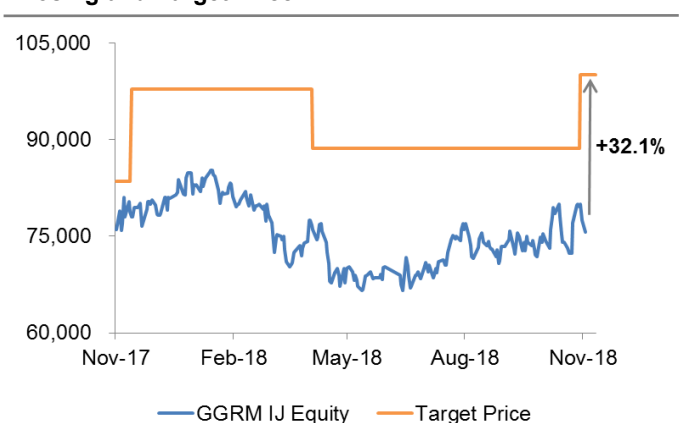
Source: NHKS research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. 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)	2017/12A	2018/12E	2019/12E	2020/12E
Sales	83,306	93,141	98,399	104,076
<i>Growth</i>	9.2%	11.8%	5.6%	5.8%
COGS	(65,084)	(74,844)	(77,243)	(80,599)
Gross Profit	18,222	18,297	21,157	23,477
<i>Gross Margin</i>	21.9%	19.6%	21.5%	22.6%
Operating Expenses	(6,970)	(7,212)	(7,501)	(7,934)
EBIT	11,252	11,085	13,656	15,543
<i>EBIT Margin</i>	13.5%	11.9%	13.9%	14.9%
Depreciation	1,870	2,300	2,422	2,702
EBITDA	13,122	13,385	16,078	18,246
<i>EBITDA Margin</i>	15.8%	14.4%	16.3%	17.5%
Interest Expenses	(801)	(652)	(583)	(473)
EBT	10,437	10,487	13,129	15,131
Income Tax	(2,681)	(2,680)	(3,282)	(3,783)
Minority Interest	(2)	(1)	(2)	(2)
Net Profit	7,754	7,806	9,845	11,346
<i>Growth</i>	16.1%	0.7%	26.1%	15.2%
<i>Net Profit Margin</i>	9.3%	8.4%	10.0%	10.9%

PROFITABILITY & STABILITY				
	2017/12A	2018/12E	2019/12E	2020/12E
ROE	18.4%	17.4%	19.8%	20.2%
ROA	11.6%	11.6%	14.2%	16.0%
ROIC	13.3%	13.0%	15.8%	17.6%
Cash Dividend (IDR bn)	5,003	5,003	5,003	5,003
Dividend Yield	3.1%	3.4%	3.4%	3.4%
Payout Ratio	74.9%	64.5%	64.1%	50.8%
DER	48.8%	41.0%	30.0%	18.0%
Net Gearing	48.9%	41.0%	30.0%	18.0%
LT Debt to Equity	0.0%	0.0%	0.0%	0.0%
Capitalization Ratio	32.8%	29.1%	23.1%	15.3%
Equity Ratio	63.2%	66.6%	72.0%	79.3%
Debt Ratio	30.9%	27.3%	21.6%	14.3%
Financial Leverage	154.0%	153.2%	142.6%	130.6%
Current Ratio	193.6%	207.5%	237.8%	311.4%
Par Value (IDR)	500	500	500	500
Total Shares (mn)	1,924	1,924	1,924	1,924
Share Price (IDR)	83,800	75,700	75,700	75,700
Market Cap (IDR tn)	161.2	145.7	145.7	145.7

BALANCE SHEET				
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E
Cash	2,329	2,470	2,781	2,974
Receivables	2,229	2,492	2,633	2,785
Inventories	37,920	36,946	34,533	32,280
Total Current Assets	43,764	42,928	41,100	39,125
Net Fixed Assets	21,409	22,476	25,958	29,500
Other Non Current Asset	1,587	2,159	2,159	2,159
Total Assets	66,760	67,564	69,217	70,784
Payables	1,214	1,396	1,440	1,503
ST Bank Loan	20,600	18,439	14,944	10,109
LT Debt	-	-	-	-
Total Liabilities	24,572	22,592	19,403	14,626
Capital Stock	1,016	1,016	1,016	1,016
Retained Earnings	41,187	43,990	48,833	55,176
Shareholders' Equity	42,188	44,972	49,815	56,159

VALUATION INDEX				
	2017/12A	2018/12E	2019/12E	2020/12E
Price /Earnings	20.8x	18.7x	14.8x	12.8x
Price /Book Value	3.8x	3.2x	2.9x	2.6x
Price/Sales	1.9x	1.6x	1.5x	1.4x
PE/EPS Growth	1.3x	27.7x	0.6x	0.8x
EV/EBITDA	13.7x	12.1x	9.8x	8.4x
EV/EBIT	16.0x	14.6x	11.6x	9.8x
EV (IDR bn)	179,495	161,589	157,783	152,755
Sales CAGR (3-Yr)	8.5%	9.8%	8.9%	7.7%
EPS CAGR (3-Yr)	12.8%	6.6%	13.8%	13.5%
Basic EPS (IDR)	4,030	4,057	5,117	5,897
Diluted EPS (IDR)	4,030	4,057	5,117	5,897
BVPS (IDR)	21,926	23,373	25,890	29,187
Sales PS (IDR)	43,296	48,408	51,141	54,091
DPS (IDR)	2,600	2,600	2,600	2,600

CASH FLOW STATEMENT				
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E
Operating Cash Flow	8,205	11,319	14,500	16,331
Investing Cash Flow	(3,240)	(3,940)	(5,692)	(6,300)
Financing Cash Flow	(4,232)	(7,182)	(8,497)	(9,839)
Net Changes in Cash	733	197	311	193

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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