

Gudang Garam (GGRM JJ)

01 April 2016

Results Note

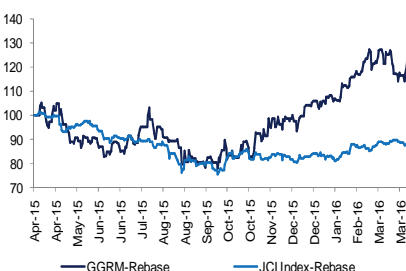
BUY (Unchanged)

Stock Data

Target price (Rp)	Rp73,000
Prior TP (Rp)	Rp61,000
Shareprice (Rp)	Rp65,300
Upside/downside (%)	+11.3
Sharesoutstanding (m)	1,924
Marketcap. (US\$ m)	9,516
Free float (%)	26.9
Avg. 6m dailyT/O (US\$ m)	5.2

Price Performance

	3M	6M	12M
Absolute (%)	21.5	45.6	19.5
Relative to JCI (%)	14.5	36.6	31.4
52w high/low (Rp)	66,200 - 40,500		



Major Shareholders

PT Suryaduta Investama	69.3%
PT Suryamitra Kusuma	6.3%

Estimate Change; Vs. Consensus

	2016F	2017F
Latest EPS (Rp)	3,820	4,727
Vs. Prior EPS (%)	15.2	13.8
Vs. Consensus (%)	20.1	28.8

Source: Bloomberg

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Surprisingly strong earnings

- **FY15 profit up 20% yoy, well above expectation**
- **Gross margin improved 150bps on lower material cost**
- **We upgrade earnings by 7.4% in 2016F due to better margin**
- **TP raised to Rp73,000 (from Rp61,000). Reiterate BUY.**

FY15 results beat. Gudang Garam's (GGRM JJ) net profit soared 20% to Rp6.4tn, 20% above our/consensus estimate. Among its listed peers, GGRM reported the highest earnings growth in 2015 (vs. 1.8% for HM Sampoerna (HMSP JJ; Rp98,350; HOLD) and 16.7% for Wismilak (WIIM JJ; Rp399; Not Rated): 16.7%). Despite lower cigarette volume by 2% yoy, revenue grew 8% which largely driven by price rises. In the hand-rolled cigarettes (SKT) segment, the revenue grew almost 20% yoy, while machine-made cigarettes (SKM) only reported growth of 8% yoy. In quarterly basis, the revenue was the strongest during 3Q15 with growth of 14.1% and 26% in SKM and SKT respectively.

Better GPM due to lower material cost. Gross profit surged 16% yoy on the back of lower clove price. The raw material cost declined 3.1% yoy to 19% of total sales (vs. 2014: 21.3% of total sales) on lower commodity prices. This follows by an expansion of 15% in operating profit while operating expense were up by 16% yoy due to increase in A&P spending by 35% yoy. We believe A&P spending is necessary to maintain its market share and promote its brand. The net margin is reported at 9.1%, an increase from 8.3% in 2014. Throughout 2015, the highest net margin was recorded during 4Q15, which stood at 12.1%.

Earnings upgrade. We raised our FY16F/FY17F earnings forecasts by 7.4%/15.3%, respectively, on the back of better margins and positive growth sales volume particularly from SKT segment. We forecast the revenue to grow 12.2% and 14.2% in 2016F and 2017 respectively. Despite slightly higher assumption of excise tax in 2016F and 2017F, we incorporate steady raw material cost during the same period. Thus, resulting in stable gross margin at level 22%. We forecast the net profit to grow at 9.8% CAGR in 2015-2018F on the back of 14% revenue growth.

Maintain Buy at upgraded TP Rp73,000. Our new TP implies P/E 17F of 15.3x. We continue to like GGRM due to its strong fundamentals and outstanding performance despite economic slowdown in FY15. As the second largest cigarette producer in Indonesia, GGRM has undemanding valuation compared to HM Sampoerna which is trading at P/E 16F of 35x. Despite slow volume growth in the next few years, we forecast the earnings to keep growing at CAGR 14% in 2015-2018F on better efficiency and persistence low material costs.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	65,186	70,366	78,950	90,195	103,839
EBITDA(RpBn)	10,018	11,654	12,919	14,914	16,063
EBITDA Growth (%)	29.1	16.3	10.9	15.4	7.7
Net Profit(RpBn)	5,369	6,436	7,350	9,175	10,178
EPS (Rp)	2,790	3,345	3,820	4,768	5,290
EPS Growth (%)	24.0	19.9	14.2	24.8	10.9
Net Gearing (%)	49.8	46.7	17.8	2.1	6.6
PER (x)	23.4	19.5	17.1	13.7	12.3
PBV (x)	3.8	3.3	2.9	2.5	2.2
Dividend Yield (%)	1.3	1.2	1.9	2.1	2.7
EV/EBITDA (x)	10.9	9.3	9.1	8.4	7.6

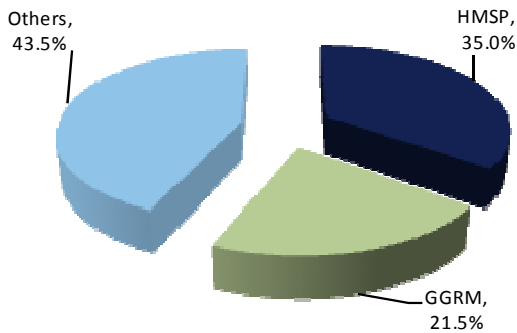
Source: GGRM, IndoPremier

Share Price Closing as of : March 31, 2016

Refer to Important disclosures on the last of this report

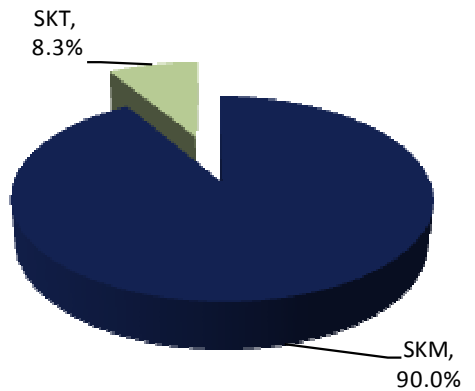
GGRM Results Note

Fig. 1: GGRM's market share in 2015



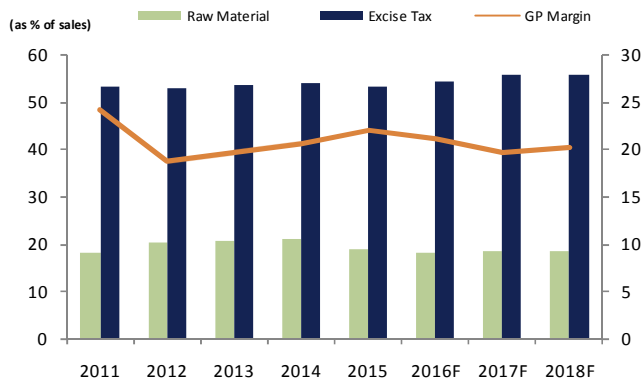
Source: Philip Morris International, Euromonitor

Fig. 2: Sales Breakdown in FY15



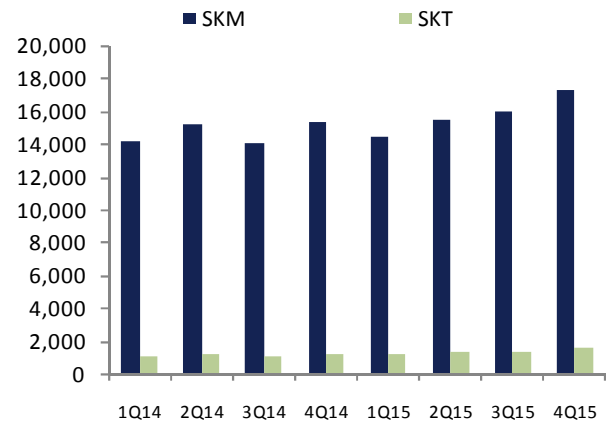
Source: Company, Indo Premier

Fig. 3: Stable GPM on lower raw mat but higher excise tax



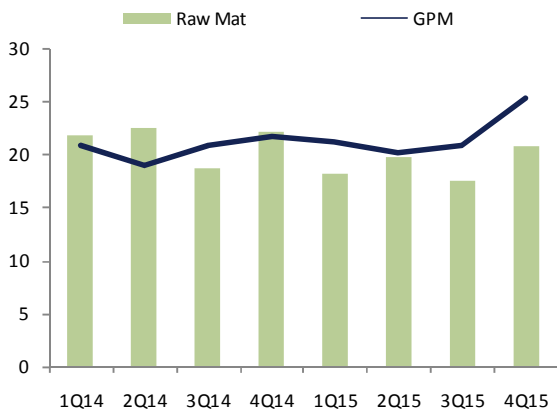
Source: Company, Indo Premier

Fig. 4: Revenue Trend per division (QoQ)



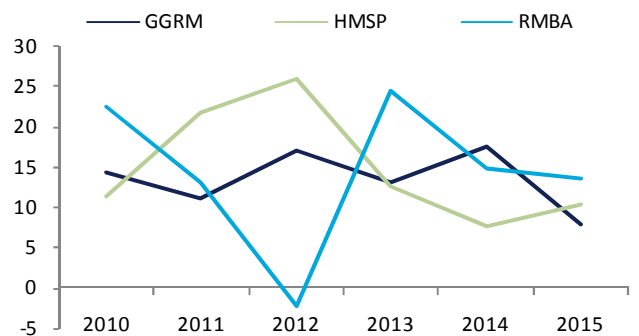
Source: Company, Indo Premier

Fig. 5: Raw material cost trend on quarterly basis



Source: Indo Premier, Company

Fig. 6: Revenue growth trend vs. peers



Source: Indo Premier Forecasts, Bloomberg
HMSP (HMSP; Rp98,400 ;HOLD) and GGRM are IP forecasts; Bentoel Int'l (RMBA IJ; Rp475; Not Rated) is based on consensus

GGRM Results Note

Fig. 7: Earnings result

(in Rp bn)	2015	2014	YoY	4Q15	3Q15	QoQ
Revenue	70,366	65,186	7.9%	19,354	17,786	9%
Gross Profit	15,486	13,380	15.7%	4,908	3,708	32%
Operating Profit	9,906	8,627	14.8%	3,436	2,564	34%
Net Profit	6,436	5,369	19.9%	2,346	1,705	38%
	2015	2014		4Q15	3Q15	
Gross Margin (%)	22.0%	20.5%		25.4%	20.8%	
Operating Margin (%)	14.1%	13.2%		17.8%	14.4%	
Net Margin (%)	9.1%	8.2%		12.1%	9.6%	

Source: Company, Indo Premier

Fig. 8: Earnings Revision

In Rp bn	Old		New		Change	
	FY16F (Rpbn)	FY17F (Rpbn)	FY16F (Rpbn)	FY17F (Rpbn)	FY16F (%)	FY17F (%)
Sales	80,551	91,771	78,950	90,195	-2.0%	-1.7%
Gross profit	15,269	17,918	17,369	20,119	13.8%	12.3%
Operating profit	10,004	11,787	11,048	12,965	10.4%	10.0%
Net profit	6,845	7,959	7,350	9,175	7.4%	15.3%
Margins						
Gross margin	18.96%	19.53%	22.00%	22.31%	3.0%	2.8%
Operating margin	12.42%	12.84%	13.99%	14.37%	1.6%	1.5%
Net margin	8.50%	8.67%	9.31%	10.17%	0.8%	1.5%

Source: Company, IndoPremier

GGRM Results Note

Year To 31 Dec (RpBn)	2014A	2015A	2016F	2017F	2018F
Income Statement					
Net Revenue	65,186	70,366	78,950	90,195	103,839
Cost of Sales	(51,806)	(54,880)	(61,582)	(70,076)	(81,501)
Gross Profit	13,380	15,486	17,369	20,119	22,338
SG&A Expenses	(4,855)	(5,579)	(6,321)	(7,154)	(8,294)
Operating Profit	8,525	9,906	11,048	12,965	14,044
Net Interest	(1,304)	(1,305)	(1,172)	(538)	(332)
Forex Gain (Loss)	17	72	0	0	0
Others-Net	(32)	(38)	0	0	0
Pre-Tax Income	7,206	8,635	9,876	12,427	13,712
Income Tax	(1,811)	(2,182)	(2,496)	(3,141)	(3,466)
Minorities	(27)	(17)	(30)	(112)	(69)
Net Income	5,369	6,436	7,350	9,175	10,178
Balance Sheet					
Cash & Equivalent	1,588	2,829	7,311	8,410	7,159
Receivable	1,532	1,568	1,730	1,878	2,054
Inventory	34,739	37,256	37,037	38,480	50,184
Other Current Assets	673	1,019	1,096	1,294	1,439
Total Current Assets	38,533	42,672	47,174	50,062	60,836
Fixed Assets - Net	18,973	20,106	19,660	18,993	18,128
Goodwill	0	0	0	0	0
Non Current Assets	649	639	717	819	943
Total Assets	58,221	63,505	67,652	70,002	80,047
ST Loans	18,147	20,561	15,001	9,471	10,903
Payable	989	2,370	0	1,877	2,146
Other Payables	4,647	1,114	6,663	7,606	8,922
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	23,783	24,045	23,343	18,953	21,971
Long Term Loans	0	0	0	0	0
Other LT Liab.	1,209	1,452	1,217	1,360	1,499
Total Liabilities	24,992	25,498	24,560	20,313	23,470
Equity	1,003	1,000	1,016	1,016	1,016
Retained Earnings	32,091	36,900	41,895	48,379	55,199
Minority Interest	135	108	182	294	363
Total SHE + Minority Int.	33,229	38,008	43,092	49,689	56,578
Total Liabilities & Equity	58,221	63,505	67,652	70,002	80,047

Source: GGRM, IndoPremier

GGRM Results Note

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
Cash Flow					
Net Income (Excl.Extraordinary&Min.Int)	5,395	6,453	7,380	9,286	10,247
Depr. & Amortization	1,400	1,715	1,871	1,948	2,019
Changes in Working Capital	(3,565)	(1,322)	(477)	(1,385)	(11,600)
Others	2,569	(408)	(2,976)	5,966	1,160
Cash Flow From Operating	5,799	6,438	5,798	15,816	1,825
Capital Expenditure	(4,915)	(2,839)	(1,502)	(1,384)	(1,278)
Others	68	125	141	366	420
Cash Flow From Investing	(4,847)	(2,714)	(1,361)	(1,018)	(857)
Loans	5,169	2,414	(5,561)	(5,530)	1,433
Equity	0	0	0	0	0
Dividends	(1,583)	(1,568)	(2,355)	(2,690)	(3,358)
Others	(1,389)	(1,459)	(1,224)	(792)	(684)
Cash Flow From Financing	2,197	(613)	(9,140)	(9,012)	(2,609)
Changes in Cash	3,149	3,111	(4,703)	5,785	(1,641)
Financial Ratios					
Gross Margin (%)	20.5	22.0	22.0	22.3	21.5
Operating Margin (%)	13.1	14.1	14.0	14.4	13.5
Pre-Tax Margin (%)	11.1	12.3	12.5	13.8	13.2
Net Margin (%)	8.2	9.1	9.3	10.2	9.8
ROA (%)	9.9	10.6	11.2	13.3	13.6
ROE (%)	17.1	18.1	18.1	19.8	19.2
ROIC (%)	11.6	12.0	12.9	16.3	16.8
Acct. Receivables TO (days)	10.4	8.0	7.6	7.3	6.9
Acct. Receivables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Inventory TO (days)	1.6	1.5	1.7	1.9	1.8
Payable TO (days)	6.3	11.2	12.0	9.3	9.0
Acct. Payables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Debt to Equity (%)	54.6	54.1	34.8	19.1	19.3
Interest Coverage Ratio (x)	0.2	0.1	0.1	0.1	0.1
Net Gearing (%)	49.8	46.7	17.8	2.1	6.6

Source: GGRM, IndoPremier

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INVESTMENT RATINGS

BUY : Expected total return of 10% or more within a 12-month period
HOLD : Expected total return between -10% and 10% within a 12-month period
SELL : Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION.

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