

# PT Gudang Garam Tbk.

## Smoke like a Chimney

GGRM is one of the biggest cigarette producers in Indonesia with 21.4% market share at the end of 2017. GGRM's revenue increased by 13.6% yoy to IDR 69.9 trillion in 9M18 (IDR 23.3 trillion 2Q18 vs IDR 24.6 trillion 3Q18). Net profit was IDR 5.76 trillion in 9M18, up +6.3% yoy. We set GGRM price target at IDR 89,000, which the price target reflects PER'19E 18.95x.

**One of the Biggest Cigarette Producers in Indonesia.** GGRM is one of the biggest cigarette producers in Indonesia with 21.4% market share at the end of 2017. GGRM achieved volume growth of 2.0% to 78.7 billion sticks in 2017.

**9M18 Performance.** GGRM's revenue increased by 13.6% yoy to IDR 69.9 trillion in 9M18 (IDR 23.3 trillion 2Q18 vs IDR 24.6 trillion 3Q18). The number was in line with our estimates (77.1% of our FY18E revenue estimate). Net profit was IDR 5.76 trillion in 9M18, up +6.3% yoy (IDR 1.7 trillion 2Q18 vs IDR 2.2 trillion 3Q18). GGRM's net income represented 69.9% of our FY18E income estimates.

**Tobacco Excise Steady in 2019.** Indonesia will keep excise rates on tobacco products unchanged next year, making it the first year since 2014 that rates have not been hiked. This is a relief as excise tax is a major cost component of any cigarettes company in Indonesia. We expect GGRM to benefit from this decision as the company dominates in the middle and lower class segments. However, the challenge remains on 1) the timing of recovery of consumer spending, 2) shifting consumer behavior, 3) government regulations and 4) health campaigns. Hence the coming year is likely to continue to be challenging for cigarette industry.

### VALUATION & RECOMMENDATION

We set **GGRM price target at IDR 89,000**, where the price target reflects PER'19E 18.95x. Comparing the closing price of GGRM on Tuesday (18/12) at the level of IDR 80,650, where there is still an upside potential of 10.4%, **we recommend Buy for GGRM.**

### Exhibit 01– Key Metrics

(in IDR bn)	2013A	2014A	2015A	2016A	2017A	2018E	2019E
Revenue	55,437	65,186	70,366	76,274	83,306	90,679	98,623
Operating Profit	6,705	8,610	9,993	10,120	11,252	11,920	13,039
Net Income	4,329	5,369	6,436	6,677	7,754	8,246	9,039
EPS (IDR)	2,250	2,790	3,345	3,470	4,030	4,286	4,698
Revenue Growth	13.07%	17.59%	7.95%	8.40%	9.22%	8.85%	8.76%
EPS Growth	7.86%	24.00%	19.89%	3.74%	16.14%	6.34%	9.61%
ROA	7%	8%	10%	10%	11%	11%	12%
ROE	13%	14%	16%	16%	17%	17%	17%
PE Ratio	39.56	31.90	26.61	25.65	22.08	20.77	18.95
PBV Ratio	5.82	5.17	4.51	4.33	4.06	3.80	3.55

Source : Company, Bloomberg, MCS Research

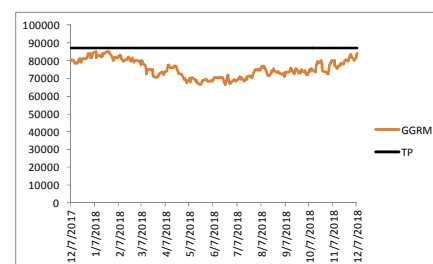
19 December 2018

**Buy (+10.4%)**

Price (18/12) IDR 80,650  
 Target Price **IDR 89,000**  
 Ticker GGRM  
 Industry Cigarette

Helen

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### Company Description

GGRM is one of the biggest cigarette producers in Indonesia with 21.4% market share at the end of 2017.

### Stock Data

52-week Range (IDR) 66,125 | 86,400  
 Mkt Cap (IDR tn) 159.5  
 JCI Weight 2.31%  
 Shares O/S (mn) 1,924  
 YTD Change -1.07%

### Shareholders:

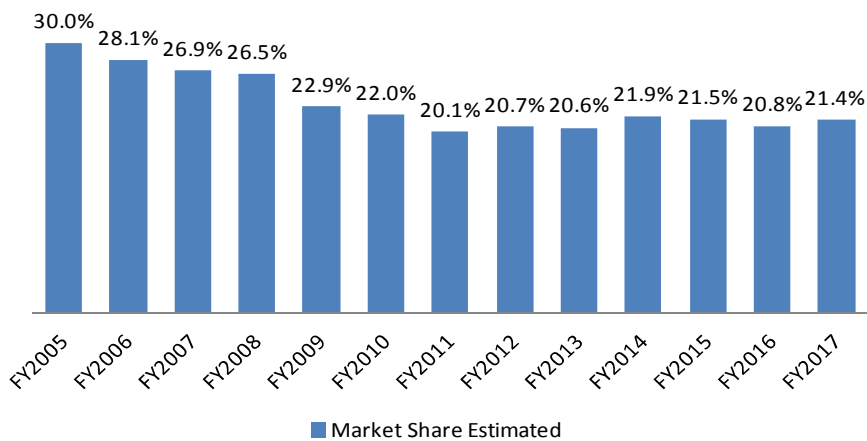
Juni Setiawati Wonowidjono 0.54%  
 Susilo Wonowidjono 0.35%  
 PT. Suryaduta Investama 69.29%  
 PT. Suryamitra Kusuma 6.26%  
 Others 23.53%

### Exhibit 02– Financial Summary

(in bn IDR)	9M17	9M18	YoY	2Q18	3Q18	QoQ	FY18E	%
Revenue	61,523	69,889	13.6%	23,324	24,584	5.4%	90,679	77.1%
- Cost of Revenue	48,404	56,179	16.1%	18,748	19,863	5.9%	71,143	79.0%
Gross Profit	13,119	13,710	4.5%	4,576	4,722	3.2%	19,536	70.2%
Operating Income	7,790	8,173	4.9%	2,282	3,172	39.0%	11,920	68.6%
Net Income	5,418	5,761	6.3%	1,663	2,206	32.7%	8,246	69.9%
EPS (in IDR)	2,816	2,994	6.3%	864	1,147	32.7%	4,286	69.9%
GPM	21.3%	19.6%		19.6%	19.2%		21.5%	
OPM	12.7%	11.7%		9.8%	12.9%		13.1%	
NPM	8.8%	8.2%		7.1%	9.0%		9.1%	

Source : Company, Bloomberg, MCS Research

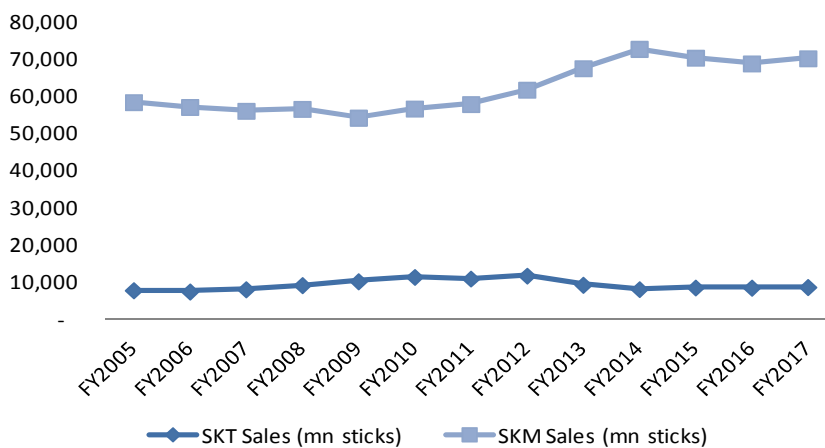
### Exhibit 03– Market Share



GGRM is one of the biggest cigarette producers in Indonesia with 21.4% market share at the end of 2017.

Source : Company

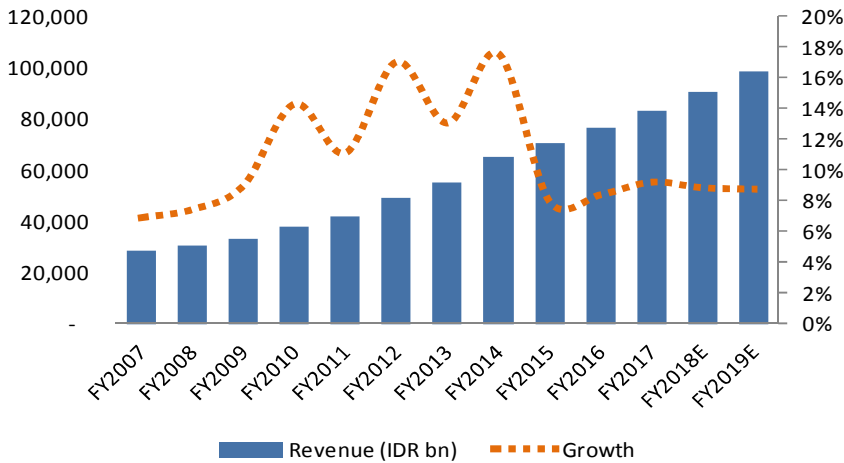
### Exhibit 04– Sales Volume



GGRM achieved volume growth of 2.0% to 78.7 billion sticks in 2017. SKM FF's volume increased by 5.1% to 61.7 billion sticks while in SKM LTN segment, GGRM's sales were 15.7% down at 8.4 billion sticks. In the SKT category GGRM achieved sales volume growth of 1.9% to 8.6 billion sticks.

Source : Company

**Exhibit 05– Revenue**

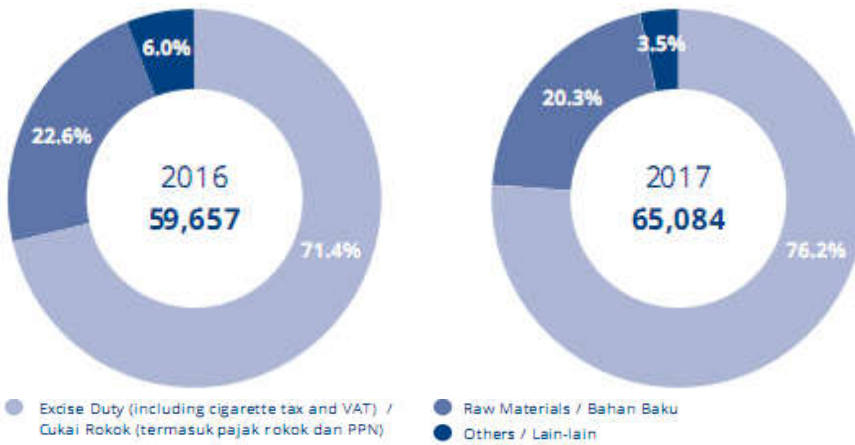


Revenue increased from IDR 28.2 trillion in 2007 to IDR 83.3 trillion in 2017, representing a CAGR of 11.5%.

GGRM’s revenue increased by 13.6% yoy to IDR 69.9 trillion in 9M18 (IDR 23.3 trillion 2Q18 vs IDR 24.6 trillion 3Q18).

Source : Company

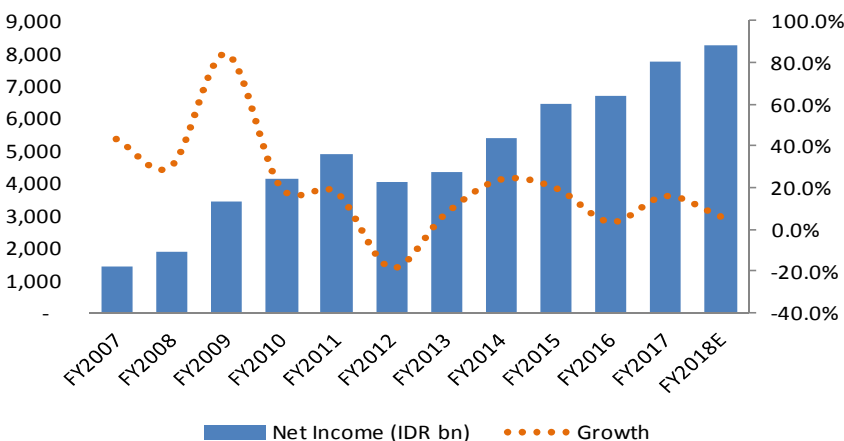
**Exhibit 06– Cost of Sales**



Excise duty continued to be the dominant factor in GGRM’s cost base, rising by 16.5% to IDR 49.6 trillion in 2017 compared to an increase of 13.1% in 2016. In 2017 excise duty represented 76.2% of cost of sales, compared to 71.4% in 2016. In contrast, raw materials costs were slightly lower, by 1.8% to IDR 13.2 trillion in comparison to IDR 13.5 trillion for the previous year, accounting for 20.3% of cost of sales in 2017 and 22.6% in 2016.

Source : Company

**Exhibit 07– Net Income**

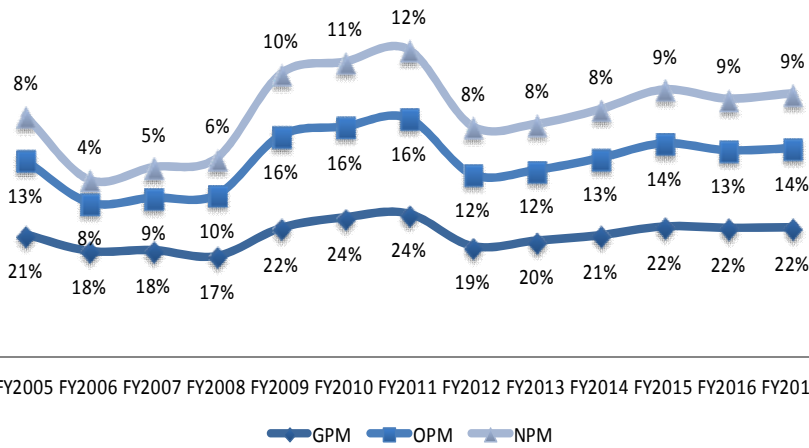


GGRM’s net income increased from IDR 1.4 trillion in 2007 to IDR 7.8 trillion in 2017, representing a CAGR of 18.3%.

Net profit was IDR 5.76 trillion in 9M18, up +6.3% yoy (IDR 1.7 trillion 2Q18 vs IDR 2.2 trillion 3Q18).

Source : Company

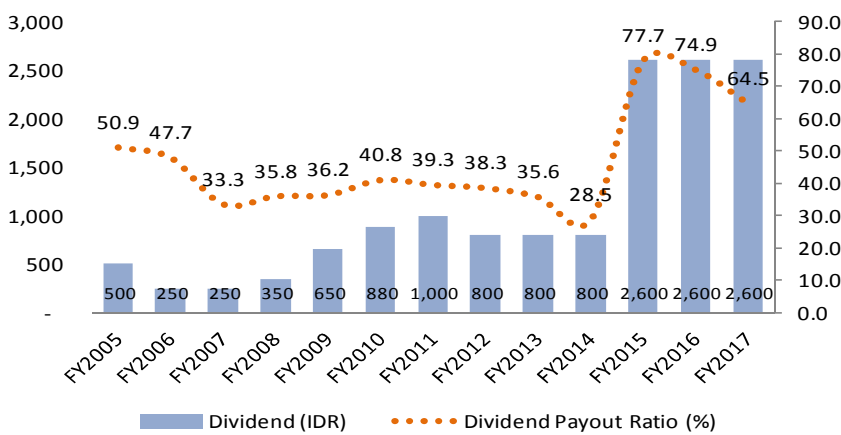
**Exhibit 08– Margin**



GGRM was able to keep stable margin during the last few years.

Source : Company

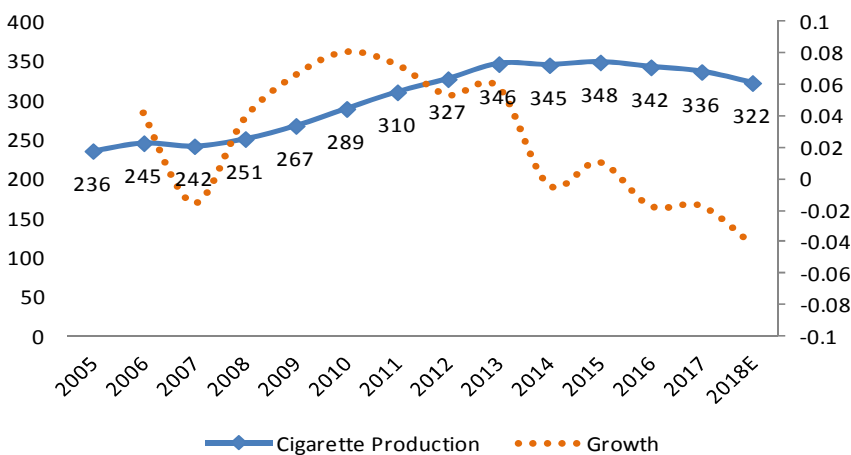
**Exhibit 09– Dividend Payout Ratio**



In 2017, GGRM's dividend payout ratio was 64.5% of its net income.

Source : Company

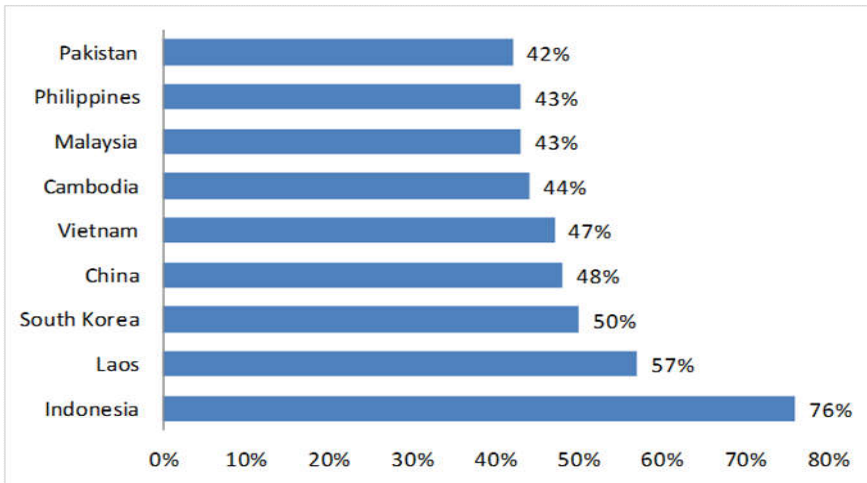
**Exhibit 10– National Cigarette Production**



Indonesia is the second largest cigarette market in the world by retail volume. Indonesia is also the only country in Asia that has not signed and ratified the World Health Organization's Framework Convention of Tobacco Control (FCTC), a global framework from the World Health Organization (WHO) that mandates strict rules regarding tobacco production, advertising and taxation that aim to reduce tobacco consumption.

Source : Various Sources

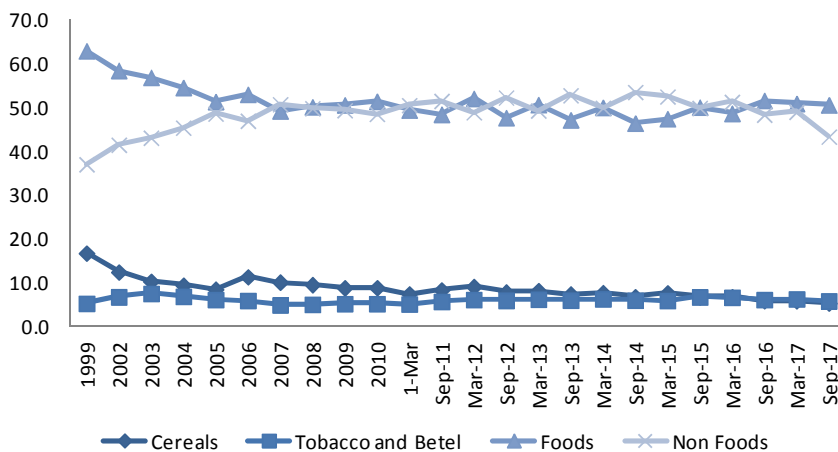
**Exhibit 11– Smoking Prevalance**



Source : World Bank

Male smoking rate is high in Asian countries, with Indonesian men ranked the world’s top smokers as 76% of them smoke.

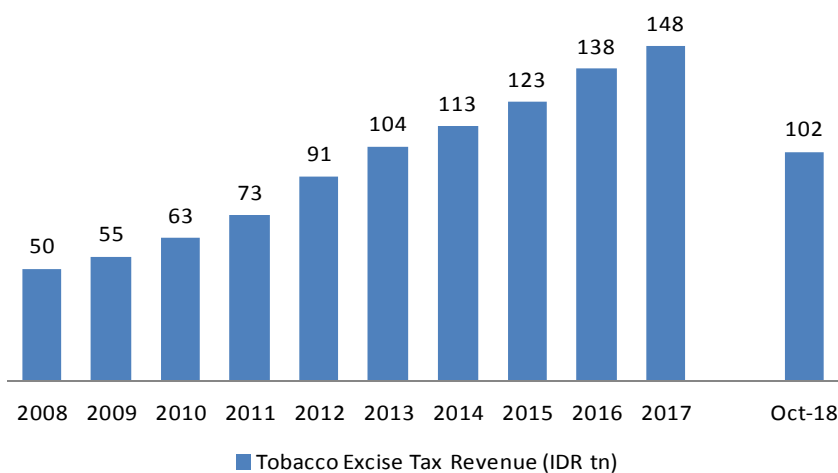
**Exhibit 12– Percentage of Monthly Average per Capita Expenditure**



Source : BPS

Monthly average per capita expenditure for tobacco and betel overcame expenditure for cereals since September 2016. Expenditure for tobacco and betel reached 6.2% while expenditures for cereal was 5.9%.

**Exhibit 13– Tobacco Excise Tax Revenue**



Source : Kementerian Keuangan

In 2008, the realized excise tax revenue was IDR 50 trillion. The figure grew to IDR 148 trillion in 2017. Historically, tobacco excise accounts for more than 95% of total excise revenue. Indonesia will keep excise rates on tobacco products unchanged in 2019, making it the first year since 2014 that rates have not been hiked. The taxes on tobacco for 2018 saw a 10.04% increase compared to 2017. The increase varies across cigarette industries, depending on the manufacturing types.

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