

## ANALISA SAHAM INDONESIA

JULY 22, 2020

- \* THE JCI TRADING RANGE: 5,075PT - 5,200PT (YESTERDAY CLOSE : 5,115PT)
- \* THE DJIA AND S&P 500 INDICES CLOSED HIGHER ON NEWS OF PROGRESS OF CORONAVIRUS' VACCINES
- \* THE JCI IS EXPECTED TO EXTEND GAIN BUT RESTRAINED BY PROFIT TAKINGS

Morning,

The Jakarta Composite Index (JCI) today (22/7) is expected to be in the range of 5,075pt – 5,200pt to share regional mood but restrained by profit takings. Meanwhile, yesterday (21/7) in Wall Street the DJIA ended higher by 160 points or 0.6% at 26,840pt, while the S&P500 and the Nasdaq both gained and lost by 0.2% and 0.8%, respectively, as profit takings occurred for major tech counters.

### Indonesia Consumer Sector

#### **GGRM 1Q20 : maintain BUY rate with 12-M Target Price of IDR62,100 / share**

We maintain our BUY rating on cigarette company Gudang Garam (GGRM) with an estimated 12-Month Target Price (12-M TP) of IDR62,100/share that is representing capital gain of 26.3% against yesterday closing price of IDR49,150. The 12-M TP is the equity value per share derived through the DCF method (WACC: 9%, LTG: 3%). At our estimated 12-M TP, the share is trading at 11.9 times our FY20 estimated earnings as compared to present multiple of 9.4 x our FY20E earnings. We view implied earnings multiple as undemanding given the trait of the company that has a strong control over its profitabilities.

#### **Market share increased to 25.6% last year (2018:23.1%, 2015: 21.5%)**

GGRM sold 93.8bn sticks cigarettes domestically in 2019 or an increase of 14.2% YoY, the highest in the last 3 (three) years. As the national cigarettes sales declined by 2.2% total 258.2bn sticks, GGRM market share inevitably increased by meaningful percentage points.

The company's last year volume growth were mainly driven by its flagship's products, Sigaret Kretek Mesin (SKM) Full Flavor (FF), to include the brands of Gudang Garam International, Gudang Garam Surya, Surya Professional Mild, Gudang Garam Signature. The volume of the company's SKM FF brands grew by 14.0% YoY in 2019, as compared to industry's growth for the similar type of 2.6% YoY.

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That the government decided in late 2018 to keep the then prevailing cigarettes excise duties rates unchanged for the year 2019, which we assume had provided the company more flexibility in executing its strategies. With GGRM already established its reputation as the consumers' preference through the popular "Garpit" product, for example, pricing strategies must have been more flexible last year, we suspect. In addition, with around 66 (sixty six) area offices with 268 (two hundred sixty eight) points of distribution throughout Indonesia, the company seemed to have a well-controlled distribution activities, as one can easily find GGRM products both in modern markets as well traditional ones with the extended smaller stalls ("warung").

### **This year see major challenges**

Effective early this year, the government applied an increase in excise duties rates (including Value Added Tax and Cigarette Tax) significantly at around 26% YoY (2019 : none). With this rate increase, retail price on a typical 12-sticks SKM products should increase by as high as 52% (source: Annual Report) as compared to the previous ones. This excise duties increase as well as the current Covid-19 pandemic circumstances may logically lead to significant lower volume sold, in a preliminary assumption. In contrast, cigarettes consumption among Indonesia customers had a track record of being resilient, as shown by many major surveys. These facts may give the some uncertainties to the company's, in our note.

Meanwhile, GGRM published 1Q20 revenue at IDR27.3tr (4.1% YoY), while operating and net profit came in at IDR3.3tr (0.3% YoY) and IDR2.5tr (3.9%, YoY), respectively. Both 1Q20 revenue and net profit are representing some 24% of our full year estimated ones. At the other end, in 1Q20 debt-to-equity ratio improve to 9% as compared to 34% at end of last year. We keep our FY20 earnings estimates intact, that go for revenue of IDR114.2tr, operating profit of IDR14.7tr, and net profit of IDR10.0tr.

At the other end, yesterday the WTI price closed at USD41.9/barrel or an increase of 2.8% as compared to the previous one. Crude oil commodity market also responded warmly to the news on Coronavirus' vaccines progress. Meanwhile the USDIDR closed at IDR14.813 vs. IDR14.832 the previous one.

We advise the following recommendation as for now, for both trading and longer-time investment purpose. **AALI, LSIP (sector of Agri, allocation suggestion Underweight), UNTR, ITMG, ADRO, PTBA (sector of Coal Mining, allocation suggestion Market-weight), GGRM, UNVR, ICBP (sector of Consumer, allocation suggestion Overweight), ASII (sector of Automotive, allocation suggestion Market-weight), and ACES, SCMA, MAPI (sector of Trade, allocation suggestion Overweight), and TKIM (sector of Basic Industry, allocation suggestion Market-weight).**

Cheers,

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