

## ANALISA SAHAM INDONESIA

**December 16, 2020**

- \* **The JCI trading range: 5,950pt - 6,125pt (Yesterday close: 6,010pt)**
- \* **Wall Street ended higher with Nasdaq index hit new record , also on news that Apple Inc. plans to increase production by 30% in the 1H21**
- \* **The JCI is expected to gain edge also supported by stable USDIDR and oil close**

Morning,

The Jakarta Composite Index (JCI) today (12/16) is expected to be in the range of 5,950pt – 6,125pt, also be supported by stable USDIDR and oil close. Meanwhile, yesterday (12/15), the DJIA closed higher by 337 points or 1.1% to 30,198pt, while the S&P500 and the Nasdaq both ended higher by 1.3%. Progress on the next round of the United States (US) economic aid worth USD748bn by the lawmakers as well as Apple’s plan of 30% hike in production rate supported buyings.

**Cigarettes consumption pace has yet to decline meaningfully in Indonesia**

**Gudang Garam : Maintain BUY rate with a 12M-TP IDR55,000/share (previously IDR62,100)**

On account on investment and trading perspective, and factoring-in the latest development of the company’s business environment, we maintain BUY call on the company for the following reasons 1) the company has proven record to ride on resilient consumption pattern of cigarettes consumption in the country 2) this to say, the company within the medium term , is expected to be able to adjust products and pricing in favor of profitability and growth simultaneously 3) keyed-in lower profitability margins into the next 15 years, and attaching lower sales growth we came in with a DCF equity value of IDR55,000/share (WACC:10%, LTG1%) that we set as a 12M Target

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Price. At current price of IDR42,000, the counter is trading at 10.6x FY20F earnings and 10.3x FY21F earnings, representing significant discounts.

Main driver on GGRM earnings volatility is the excise tax rates charges by the government. In 2019, GGRM financials and market shares reached its best performances also due the unchanged of excise tax rates from the previous year. Next year, the government has set the increase of excise tax rates of 12,5% (2020: 23% YoY), mainly to curb number of young smokers as well as to increase revenues.

The size of Indonesia smokers as well as several main cigarettes companies has created a unique role for the sector, and GGRM being one of the player is expected to benefit in the medium term.

Smoking pattern in the country has yet to significantly altered without a firm political will from the government, in our note. Smoking dates back to the early 16th century when tobacco brought by the Portuguese were consumed by the then Indonesian kingdom, and later on by almost all level of society. Indonesia original cigarettes, known as kretek cigarettes, are made with a blend of tobacco, cloves and other flavors. Unexpectedly, in its history kretek cigarettes had been applied to effectively cure chest pains. Be it rumor or otherwise, the news spread and to have leveraged the habit of kretek smoking in Indonesia.

At the other end, yesterday the WTI price closed higher by 1.3% to USD47.6/barrel, amid hopes that a rollout of coronavirus vaccines will balanced out tighter lockdowns in Europe. Meanwhile, the USDIDR closed at IDR14.171 vs. IDR14.158 the previous one.

We advise the following recommendations, 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 Automative, 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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