

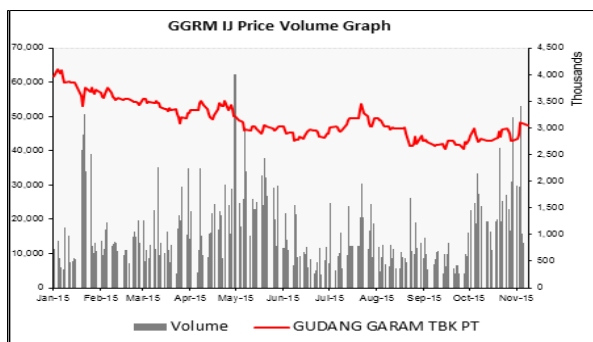
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PT Gudang Garam Tbk manufactures and distributes cigarettes and operates activities related to cigarette industry. Through its subsidiaries, the company also operates in the paper related activities.

Current Price: IDR 47,450

52-Week Target Price: IDR 54,400



Share Price Performance

Price (IDR)	47,450
52-Week High (12/24/14)	64,250
52-Week Low (08/24/15)	39,500
52-Week Beta	0.87
YTD Change/%	(13,475) / (22.2%)

Stock Information

Market Cap (IDR)	90,865.1 B
Shares Out/Float (M)	1,924.1 / 452.8

Source: Bloomberg, Sinarmas Investment Research

Company Update

PT Gudang Garam Tbk (GGRM)

3Q15 Rebound, Supported by ASP Hike

BUY

GGRM's 9M15 both revenue and net income made up 70% of our FY15E estimates. Considering the weak volume of tobacco industry this year, we slightly revised down our top-line FY15E and FY16F by 5% to 7%. Though, we expect to see maintainable margin at about 8% for both year which reflects ASP increase and low raw material prices effect. **We maintain our BUY recommendation on PT Gudang Garam Tbk (GGRM) and with our 52-Week Target Price of IDR 54,400, offering a potential upside of 14.6% from the current price.**

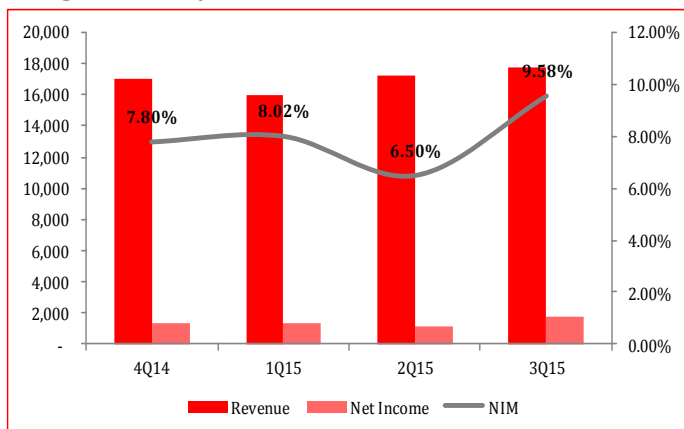
Weak volume though supported by ASP increase. As of 9M15, GGRM recorded its revenue at IDR 51tn, increased by 5.86% YoY meanwhile net income reported at IDR 4.1tn, which translated to 8.05% NIM. While for 3Q15 alone, its revenue and net income rose by 14.58% YoY and 28.2% YoY consecutively. The results were much more affected by aggressive ASP increase as volume was reported to decrease by 3.5% YoY vs 1.5% YoY decline in the industry (Nielsen). Due to 9M15, management revealed ASP were raised as follow: 9% for SKT, 8% for SKM FF, and 5% for SKM LTLN.

2016 excise tax approved. According to the approved RAPBN 2016, total excise tax revenue target will be at IDR 146.4tn (flat YoY), though accounted for a 15% YoY rise if we exclude the IDR 18.5tn one-off excise revenue this year. Appearing to be one of GGRM's downside risks, we maintain our view that GGRM could continue to pass the tariff rise to consumers. We expect GGRM to adjust its ASP by 9% to 10% next year to overcome the tariff hike.

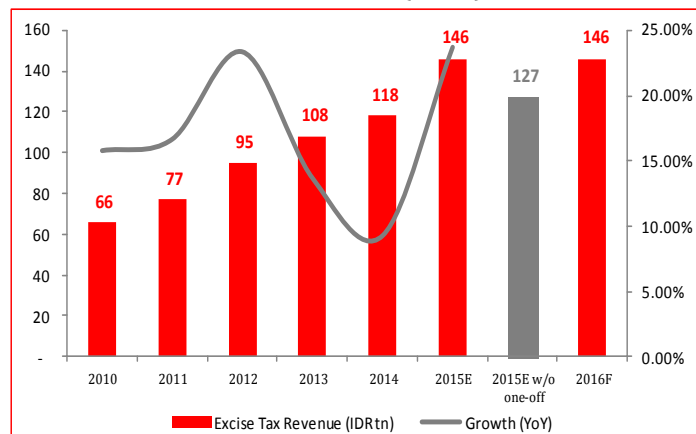
Positive outlook for tobacco industry. Though we see any downturn due to 9M15, we are still positive seeing potential growth in the industry, estimated to be 5% to 7.4% per annum until 2020 (from *Kemenperin* tobacco industry roadmap). We see soft volume for cigarettes will continue through the year, though we hope to see volume recovery by 2016 mainly supported by better purchasing power.

in IDR bn	2013	2014	2015F	2016F	2017F
Revenue	55,437	65,186	69,152	77,328	87,999
EBIT	6,692	8,578	9,147	10,269	11,626
EBITDA	7,727	10,033	10,872	12,109	13,552
Net Income	4,329	5,369	5,642	6,403	7,539
EPS (IDR)	2,250	2,790	2,932	3,328	3,918
EBITDA Margin	13.94%	15.39%	15.72%	15.66%	15.40%
Net Income Margin	7.91%	8.28%	8.20%	8.31%	8.60%
EPS growth	7.86%	24.00%	5.10%	13.49%	17.74%
P/E (x)	18.67	21.76	16.59	15.17	13.10

Source: Company Data, Sinarmas Investment Research

Margin recovery in 3Q15


Source: Company Data, Sinarmas Investment Research

Government excise tax revenue (2016)


Source: Company Data, Sinarmas Investment Research

GGRM's financial results

in IDR bn	3Q14	2Q15	3Q15	QoQ	YoY	9M14	9M15	YoY	FY15F	% of FY15F
Revenue	15,522	17,242	17,786	3.2%	14.6%	48,190	51,012	5.9%	69,152	73.8%
COGS	12,294	13,704	14,078	2.7%	14.5%	38,488	40,434	5.1%		
Gross Profit	3,228	3,538	3,708	4.8%	14.9%	9,701	10,578	9.0%		
GPM	20.79%	20.52%	20.85%			20.13%	20.74%			
Operating Income	2,104	1,843	2,576	39.8%	22.5%	6,177	6,516	5.5%		
OPM	13.55%	10.69%	14.49%			12.82%	12.77%			
Net Income	1,330	1,120	1,705	52.2%	28.2%	4,043	4,107	1.6%	5,642	72.8%
NIM	8.57%	6.50%	9.58%			8.39%	8.05%			

Source: Company Data, Sinarmas Investment Research

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