

2Q20 results: topline was in-line with our estimate, while bottom-line below. GGRM reported revenue of IDR 26.4tn (-3.2% QoQ/-0.6% YoY) in 2Q20 as SKM's revenue stream remained strong at -2.3% QoQ/-1.3% YoY during Covid-19 outbreaks. On margin side, GGRM posted GPM at 14.1% (-404bps QoQ/-489bps YoY), mainly due to full implementation of 2020 excise tax, less aggressive price hike, and lower consumers' purchasing power. Opex were at 7.0% of sales (-207bps YoY), mainly due to lower marketing expenses. As a result, GGRM booked net profit of IDR 1.4tn (-43.8% QoQ/-28.6% YoY). In all, GGRM's 1H20 top-line and bottom-line achieved 48.4%/47.7% and 44.7%/41.0% of our/consensus estimates respectively. In addition, GGRM posted an additional capex of IDR 928bn (+12.3% YoY), in which IDR 805bn was used for construction purposes.

Outperform its peers. During unsupportive conditions in 2Q20, we believe that GGRM could maintain its sales volume, reflected in GGRM's top-line performance at -0.6% YoY (vs. -21.8% YoY HMSP's top-line). Thus, we believe that full-flavor cigarettes (SKM-HT) market is more resilience than low-tar cigarette (SKM-LT) market, as GGRM has strong positioning in SKM-HT market. Given lower GPM as a consequence of lower price hike to excise tax increase in 1H20, we believe that GGRM may not aggressively increase its blended ASP in 2H20 to maintain its market share. Hence, we decrease our blended ASP growth assumption from 14.6%/8.1% to 8.3%/11.8% in FY20E/FY21F. Conversely, we believe that sales volume may beat our estimates; hence, we increase our sales volume growth assumption from -9.6%/-0.3% to -7.3%/0.8% in FY20E/FY21F. Therefore, we cut our FY20E/FY21F EPS forecasts by -7.7%/-1.7%.

We maintain our BUY call on GGRM with a higher TP of IDR 66,300, derived from 13.65x FY21F PE. We believe that GGRM deserves higher premium valuation, given its strong positioning in SKM-HT market (big chunks in tobacco segment). In addition, the simplification on excise tax (new PMK 77/2020) may give positive impacts on GGRM as the price gap between 1st-tier and 2nd-tier players may narrowed. Currently, GGRM is traded at 10.0x FY21F PE (-1.5SD from its 3-yr avg.), which provides attractive risk and reward in our view. Downside risks to our call are longer than expected economic activity recovery and heightened competition from smaller players.

Financial Highlights	2018	2019	2020E	2021F	2022F
Revenue (IDR bn)	95,708	110,524	110,890	124,775	136,228
% growth	14.9%	15.5%	0.3%	12.5%	9.2%
Gross Profit (IDR bn)	18,644	22,783	18,756	19,909	22,517
Net Profit (IDR bn)	7,792	10,881	8,555	9,349	11,015
% growth	0.5%	39.6%	-21.4%	9.3%	17.8%
Gross Margin (%)	19.5%	20.6%	16.9%	16.0%	16.5%
Net Margin (%)	8.1%	9.8%	7.7%	7.5%	8.1%
Return on Equity (%)	17.8%	22.7%	16.2%	16.8%	18.7%
Return on Assets (%)	11.5%	14.7%	10.9%	11.5%	12.9%
EPS (IDR)	4,050	5,655	4,446	4,859	5,725

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Sector	Tobacco
Bloomberg Ticker	GGRM IJ
Market Cap. (IDR tn)	93.1
Share Out./Float (mn)	1,924/470
Current Price	48,325
FY20F Target Price	66,300
Upside	42.1%

Share Price Performance

52W High (20/08/19)	77,000
52W Low (20/03/20)	30,625
52W Beta	0.9
YTD Change	-8.7%

Relative Valuations

Trailing P/E	8.9X
Forward P/E	10.0x
P/BV	1.7x

GGRM 2Q20 Results

(IDR Bn)	2Q19	1Q20	2Q20	QoQ	YoY	6M19	6M20	YoY	DH	Cons.
Revenue	26,548	27,261	26,394	-3.2%	-0.6%	52,745	53,655	1.7%	48.4%	47.7%
Gross Profit	5,039	4,942	3,719	-24.7%	-26.2%	9,958	8,661	-13.0%		
Op. Income	2,640	3,341	1,877	-43.8%	-28.9%	5,972	5,218	-12.6%		
Net Profit	1,926	2,447	1,374	-43.8%	-28.6%	4,281	3,821	-10.7%	44.7%	41.0%
Opex to sales	-9.1%	-6.2%	-7.0%			-7.7%	-6.6%			
GPM	19.0%	18.1%	14.1%			18.9%	16.1%			
OPM	9.9%	12.3%	7.1%			11.3%	9.7%			
NPM	7.3%	9.0%	5.2%			8.1%	7.1%			

Source: Company Data, Sinarmas Investment Research

Earnings Changes

(IDR Bn)	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
Revenue	113,101	121,798	110,890	124,775	-2.0%	2.4%
Gross Profit	21,275	22,256	18,756	19,909	-11.8%	-10.5%
Operating Profit	12,591	12,957	11,585	12,631	-8.0%	-2.5%
Net Profit	9,269	9,512	8,555	9,349	-7.7%	-1.7%
EPS (IDR)	4,817	4,943	4,446	4,859	-7.7%	-1.7%
Gross Margin	18.8%	18.3%	16.9%	16.0%		
Operating Margin	11.1%	10.6%	10.4%	10.1%		
Net Margin	8.2%	7.8%	7.7%	7.5%		

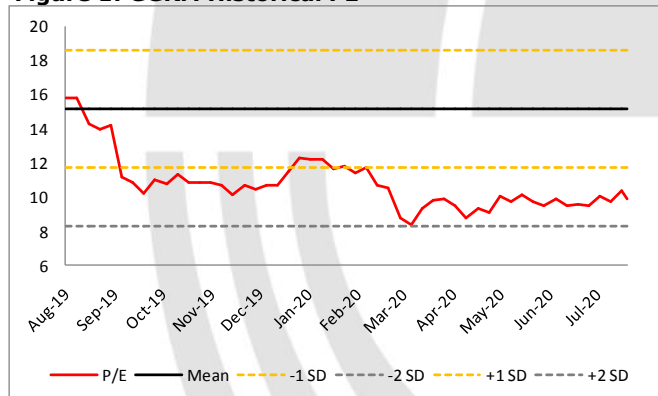
Source: Sinarmas Investment Research

Key Assumption Changes

	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
Blended ASP Est.	1,329	1,437	1,232	1,377	-7.3%	-4.1%
Volume (bn Sticks)	84.1	83.9	88.9	89.6	5.7%	6.8%

Source: Company Data, Sinarmas Investment Research

Figure 1: GGRM Historical PE



Source: Bloomberg, Sinarmas Investment Research

Balance Sheet (IDR bn)	2018	2019	2020E	2021F	2022F
Cash & Equivalents	2,034	3,572	1,592	2,235	3,653
Trade & Other Receivables	1,726	1,876	2,562	2,781	3,119
Inventories	38,560	42,847	45,984	49,514	52,273
Other Current Assets	2,965	3,786	2,401	2,960	2,902
Total Current Assets	45,285	52,081	52,539	57,491	61,948
Fixed Assets	22,759	25,374	24,861	24,370	23,882
Other Non Current Assets	1,054	1,192	1,565	1,556	1,766
Total Assets	69,097	78,647	78,965	83,417	87,595
Short Term Loans	17,322	17,216	17,716	18,716	18,716
Trade Payables	1,130	1,317	1,774	1,860	2,012
Other Current Liabilities	3,552	6,725	2,425	3,240	3,031
Total Current Liabilities	22,004	25,259	21,915	23,816	23,760
Other Non Current Liabilities	1,960	2,458	2,486	2,710	2,954
Total Liabilities	23,964	27,717	24,402	26,527	26,714
Share & APIC	1,016	1,016	1,016	1,016	1,016
Retained Earnings	43,951	49,748	53,381	55,708	59,699
Total Equity	45,133	50,931	54,564	56,890	60,882
Total Equity & Liabilities	69,097	78,647	78,965	83,417	87,595

Income Statement (IDR bn)	2018	2019	2020E	2021F	2022F
Revenue	95,708	110,524	110,890	124,775	136,228
Cost of Good Sold	(77,063)	(87,741)	(92,134)	(104,866)	(113,710)
Gross Profit	18,644	22,783	18,756	19,909	22,517
Operating Expenses	(7,551)	(7,993)	(7,385)	(7,525)	(8,050)
Other Income (Expenses)	29	303	214	247	302
EBIT	11,157	15,073	11,585	12,631	14,770
EBITDA	13,358	17,616	14,099	15,122	17,257
Interest Expenses	(678)	(585)	(618)	(644)	(649)
EBT	10,479	14,488	10,968	11,986	14,121
Tax	(2,686)	(3,607)	(2,413)	(2,637)	(3,107)
Net Income	7,793	10,881	8,555	9,349	11,015
EPS	4,050	5,655	4,446	4,859	5,725

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR bn)	2018	2019	2020E	2021F	2022F
Net Income	7,792	10,881	8,555	9,349	11,015
Depreciation & Adjustments	2,202	2,543	2,513	2,491	2,488
Change in Working Capital	(855)	1,898	6,281	3,407	3,096
Operating Cash Flow	10,837	11,305	4,787	8,433	10,406
Capital Expenditure	(4,037)	(5,167)	(2,000)	(2,000)	(2,000)
Change in LT Assets	(533)	138	373	(9)	209
Others	481	230	(0)	-	-
Investing Cash Flow	(3,024)	(5,075)	(2,373)	(1,991)	(2,209)
Change in Debts	(3,278)	(106)	500	1,000	-
Dividends Paid	(5,003)	(5,003)	(5,003)	(7,023)	(7,023)
Others	(1)	497	29	224	244
Financing Cash Flow	(4,010)	(8,108)	(4,692)	(4,393)	(5,799)
Change in Cash	734	(295)	1,538	(1,980)	643
Beginning Cash	1,595	2,329	2,034	3,572	1,592
Ending Cash	2,329	2,034	3,572	1,592	2,235

Financial Ratios	2018	2019	2020E	2021F	2022F
Liquidity					
Current Ratio	2.06	2.06	2.40	2.41	2.61
Profitability					
Gross Profit Margin	19.5%	20.6%	16.9%	16.0%	16.5%
EBIT Margin	11.7%	13.6%	10.4%	10.1%	10.8%
EBITDA Margin	14.0%	15.9%	12.7%	12.1%	12.7%
Net Profit Margin	8.1%	9.8%	7.7%	7.5%	8.1%
Solvency					
Debt to Equity	0.38	0.34	0.32	0.33	0.31
Interest Coverage	0.06	0.04	0.05	0.05	0.04
Valuation					
Price to Earnings (PE)	11.93	8.54	10.86	9.94	8.44
Price to Book (PBV)	2.06	1.82	1.70	1.63	1.53
Key assumptions					
Volume (Bn Sticks)	85.2	95.9	88.9	89.6	89.4
% growth	8.3%	12.6%	-7.3%	0.8%	-0.3%
Blended ASP Est.	1,103	1,138	1,232	1,377	1,510
% growth	5.6%	3.2%	8.3%	11.8%	9.6%

Source: Company data, Sinarmas Investment Research

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