

**GGRM 3Q20 results: Strong top-line recovery.** In 3Q20, GGRM posted revenue of IDR 29.7tn (+12.6% QoQ/+2.6% YoY). On margin side, GGRM posted GPM at 14.5% (+45bps QoQ/-540bps YoY) as GGRM didn't fully pass on 2020's excise tax hike. Opex to sales was at 6.7% (+75bps YoY), mainly due to higher G&A expenses at 3.2% (+74bps YoY) as employee compensation increased by 50.1% YoY which brings operating profit to IDR 2.4tn (+28.7% QoQ/-41.1% YoY). Meanwhile, GGRM booked lower interest expenses at IDR 74bn (-33.5% QoQ/-46.6% YoY) as GGRM paid 86% of short term debt (IDR 7.3tn). Thus, GGRM recorded net profit at IDR 1.8tn (+32.9% QoQ/-38.3% YoY), with NPM at 6.1% (+94bps QoQ). In all, GGRM recorded 9M20's revenue/ net profit at IDR 83.3tn/5.6tn (+2.0% YoY/-22.0% YoY), achieving 75.2%/66.0% of our estimate.

**Sales volume recovery.** In 3Q20, GGRM shows a recovery as top-line grew by 12.6% QoQ, mainly driven by 13.5% growth in SKM's revenue. Given limited GPM recovery (+45bps QoQ) in 3Q20 as a consequence of lower ASP hike, we think that GGRM's sales volume (+~12% QoQ) outperformed the industry as tobacco industry grew by 9.7% QoQ. Hence, we believe that GGRM will grab more market share as GGRM has strong position in SKM-HT's market. Thus, we maintain our GGRM's sales volume assumption at -7.3%/+0.8% in FY20E/FY21F.

**Excise tax hike estimation.** We view that excise tax hike in 2021 is at range of 8-10% (lower than its 5yr-avg), given 1) low inflation rate level at 1.4% in Sep-20 (vs. 3.4% in Sep-19) as consumer's purchasing power still not fully recovered and 2) high unemployment rate as Ministry of National Development Planning (BAPPENAS) estimated the unemployment rate may reach 8.1-9.2% in FY20E (vs. 5.3% in 2019), whereas tobacco industry contributes 4.3% of Indonesia's labor force. Keep in mind that we use 10% excise tax hike assumption as our base case. Our sensitivity analysis shows that every 1% change in excise tax hike will change our earnings forecast by 5.4% in FY21F. Moreover, we believe that GGRM will gradually increase its ASP, starting in 4Q20, to adjust the excise tax hike in 2021. Thus, we maintain our ASP hike assumption at 8.3%/11.8% in FY20E/FY21F.

**We maintain our BUY call on GGRM with a lower TP of IDR 52,850, derived from 10.8x FY21F PE (-1SD from its 3-yr avg.).** As of now, GGRM is traded at 8.4x FY21F PE (-1.9SD from its 3-yr avg.), which provides attractive risk and reward in our view. Downside risks to our call are higher excise tax hike and prolonged economic activity recovery.

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%	15.5%	15.1%	16.5%
Return on Assets (%)	11.5%	14.7%	10.5%	10.7%	11.8%
EPS (IDR)	4,050	5,655	4,446	4,859	5,725

**Andrianto Saputra**

Equity Analyst

+62 21 392 5550 ext. 159

[andrianto.saputra@sinarmassekuritas.co.id](mailto:andrianto.saputra@sinarmassekuritas.co.id)**Stock Information**

Sector	Tobacco
Bloomberg Ticker	GGRM IJ
Market Cap. (IDR tn)	93.1
Share Out./Float (mn)	1,924/470
Current Price	40,975
FY20F Target Price	52,850
Upside	28.9%

**Share Price Performance**

52W High (20/08/19)	77,000
52W Low (20/03/20)	30,625
52W Beta	0.9
YTD Change	-22.5%

**Relative Valuations**

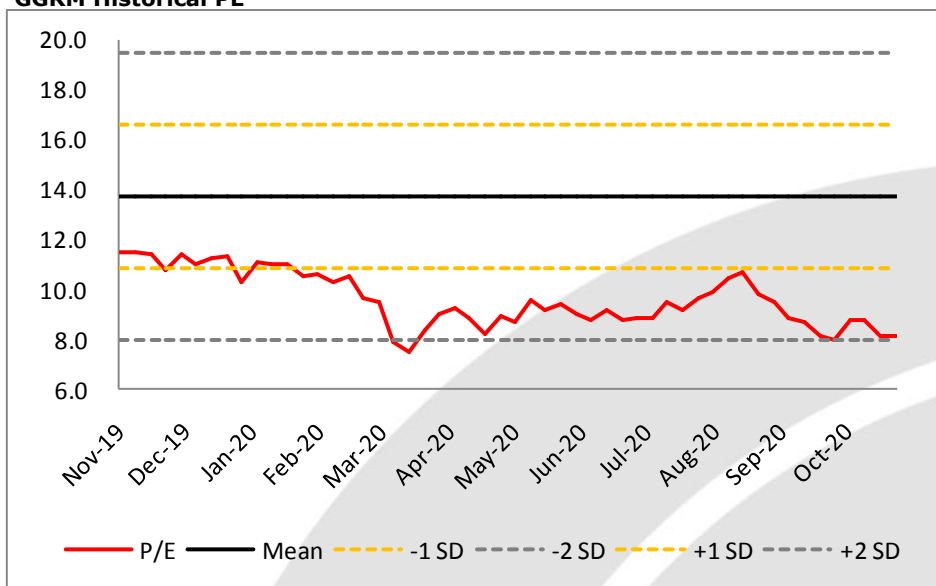
Trailing P/E	8.5X
Forward P/E	8.4x
P/BV	1.5x

## GGRM 3Q20 Results

(IDR Bn)	3Q19	2Q20	3Q20	QoQ	YoY	9M19	9M20	YoY	DH	Cons.
Revenue	28,976	26,394	29,720	<b>12.6%</b>	<b>2.6%</b>	81,721	83,375	<b>2.0%</b>	75.2%	74.7%
Gross Profit	5,779	3,719	4,323	<b>16.2%</b>	<b>-25.2%</b>	15,737	12,984	<b>-17.5%</b>		
Op. Income	4,101	1,877	2,415	<b>28.7%</b>	<b>-41.1%</b>	10,073	7,633	<b>-24.2%</b>		
Net Profit	2,962	1,374	1,826	<b>32.9%</b>	<b>-38.3%</b>	7,243	5,647	<b>-22.0%</b>	66.0%	64.6%
Opex to sales	-5.9%	-7.0%	-6.7%			-7.1%	-6.6%			
GPM	19.9%	14.1%	14.5%			19.3%	15.6%			
OPM	14.2%	7.1%	8.1%			12.3%	9.2%			
NPM	10.2%	5.2%	6.1%			8.9%	6.8%			

Source: Company Data, Sinarmas Investment Research

## GGRM Historical PE



Source: Bloomberg, Sinarmas Investment Research

Balance Sheet (IDR bn)	2018	2019	2020E	2021F	2022F
Cash & Equivalents	2,034	3,572	6,594	9,258	12,696
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
<b>Total Current Assets</b>	<b>45,285</b>	<b>52,081</b>	<b>57,541</b>	<b>64,513</b>	<b>70,991</b>
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
<b>Total Assets</b>	<b>69,097</b>	<b>78,647</b>	<b>83,968</b>	<b>90,440</b>	<b>96,639</b>
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
<b>Total Current Liabilities</b>	<b>22,004</b>	<b>25,259</b>	<b>21,915</b>	<b>23,816</b>	<b>23,760</b>
Other Non Current Liabilities	1,960	2,458	2,486	2,710	2,954
<b>Total Liabilities</b>	<b>23,964</b>	<b>27,717</b>	<b>24,402</b>	<b>26,527</b>	<b>26,714</b>
Share & APIC	1,016	1,016	1,016	1,016	1,016
Retained Earnings	43,951	49,748	58,384	62,731	68,742
<b>Total Equity</b>	<b>45,133</b>	<b>50,931</b>	<b>59,566</b>	<b>63,913</b>	<b>69,925</b>
<b>Total Equity &amp; Liabilities</b>	<b>69,097</b>	<b>78,647</b>	<b>83,968</b>	<b>90,440</b>	<b>96,639</b>

Income Statement (IDR bn)	2018	2019	2020E	2021F	2022F
<b>Revenue</b>	<b>95,708</b>	<b>110,524</b>	<b>110,890</b>	<b>124,775</b>	<b>136,228</b>
Cost of Good Sold	(77,063)	(87,741)	(92,134)	(104,866)	(113,710)
<b>Gross Profit</b>	<b>18,644</b>	<b>22,783</b>	<b>18,756</b>	<b>19,909</b>	<b>22,517</b>
Operating Expenses	(7,551)	(7,993)	(7,385)	(7,525)	(8,050)
Other Income (Expenses)	29	303	214	247	302
<b>EBIT</b>	<b>11,157</b>	<b>15,073</b>	<b>11,585</b>	<b>12,631</b>	<b>14,770</b>
<b>EBITDA</b>	<b>13,358</b>	<b>17,616</b>	<b>14,099</b>	<b>15,122</b>	<b>17,257</b>
Interest Expenses	(678)	(585)	(618)	(644)	(649)
<b>EBT</b>	<b>10,479</b>	<b>14,488</b>	<b>10,968</b>	<b>11,986</b>	<b>14,121</b>
Tax	(2,686)	(3,607)	(2,413)	(2,637)	(3,107)
<b>Net Income</b>	<b>7,793</b>	<b>10,881</b>	<b>8,555</b>	<b>9,349</b>	<b>11,015</b>
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
<b>Net Income</b>	<b>7,792</b>	<b>10,881</b>	<b>8,555</b>	<b>9,349</b>	<b>11,015</b>
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
<b>Operating Cash Flow</b>	<b>10,837</b>	<b>11,305</b>	<b>4,787</b>	<b>8,433</b>	<b>10,406</b>
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)	-	-
<b>Investing Cash Flow</b>	<b>(3,024)</b>	<b>(5,075)</b>	<b>(2,373)</b>	<b>(1,991)</b>	<b>(2,209)</b>
Change in Debts	(3,278)	(106)	500	1,000	-
Dividends Paid	(5,003)	(5,003)	-	(5,003)	(5,003)
Others	(1)	497	29	224	244
<b>Financing Cash Flow</b>	<b>(4,010)</b>	<b>(8,108)</b>	<b>(4,692)</b>	<b>609</b>	<b>(3,779)</b>
Change in Cash	734	(295)	1,538	3,023	2,663
Beginning Cash	1,595	2,329	2,034	3,572	6,594
<b>Ending Cash</b>	<b>2,329</b>	<b>2,034</b>	<b>3,572</b>	<b>6,594</b>	<b>9,258</b>

Financial Ratios	2018	2019	2020E	2021F	2022F
<b>Liquidity</b>					
Current Ratio	2.06	2.06	2.63	2.71	2.99
<b>Profitability</b>					
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%
<b>Solvency</b>					
Debt to Equity	0.38	0.34	0.30	0.29	0.27
Interest Coverage	0.06	0.04	0.05	0.05	0.04
<b>Valuation</b>					
Price to Earnings (PE)	11.93	8.54	10.86	9.94	8.44
Price to Book (PBV)	2.06	1.82	1.56	1.45	1.33
<b>Key assumptions</b>					
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

## SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

**BUY:** Share price may rise by more than 15% over the next 12 months.

**ADD:** Share price may range between 10% to 15% over the next 12 months.

**NEUTRAL:** Share price may range between -10% to +10% over the next 12 months.

**REDUCE:** Share price may range between -10% to -15% over the next 12 months.

**SELL:** Share price may fall by more than 15% over the next 12 months.

### DISCLAIMER

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst (s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

### Additional information is available upon request.

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.

©Sinarmas Sekuritas(2020). All rights reserved.