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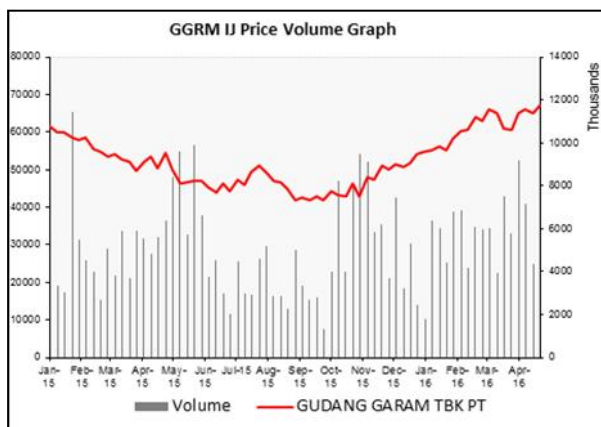


PT Gudang Garam Tbk manufactures and distributes cigarettes and operates activities related to cigarette industry. Through its subsidiaries, the company also operates in the paper related activities.

Current Price: IDR 69,250

52-Week Target Price: IDR 77,500

Previous Target Price: IDR 54,400



Share Price Performance

Price (IDR)	69,250
52-Week High (04/29/16)	72,300
52-Week Low (09/29/15)	39,500
52-Week Beta	0.65
YTD Change/%	14,750 / 26.82%

Stock Information

Market Cap (IDR)	134,205.1B
Shares Out/Float (M)	1,924.1 / 452.8 M

Company Update

PT Gudang Garam Tbk (GGRM)

Remain Strong in Weak Industry

BUY

GGRM's 1Q16 both revenue and net income made up 22% and 24% of our FY16 estimates. We maintain our BUY recommendation on PT Gudang Garam Tbk (GGRM) with our 52-week target price at IDR 77,500, representing a 11.9% potential upside. Our valuation implying a forward P/E of 23.2x.

Strong performance though 1Q16 sales volume expected to be soft.

GGRM recorded its revenue at IDR 17.9tn increased by 12.57% YoY meanwhile its net income was seen at IDR 1.69tn, rise significantly by 32.1% YoY. This eventually translated to its 1Q16 NIM to 9.41% vs 8.02% in 1Q15. We estimate its sales volume to experience a slight decrease considering the industry volume had fell by 5.9% in 1Q16. However, thanks to the aggressive ASP hike, forecasted to range between 12% - 15%, which managed to offset the declining volume effect.

Gross margin seen at 23.7%. In 1Q16, GGRM's gross margin was reported at 23.7%, showing an increase of 300bps YoY, which should mostly come from sustainable low prices of tobacco and cloves along with higher selling price.

GGRM's COGS itself only increased by 8.5% YoY, much lower compared to its 12.57% YoY top-line growth. Limited growth in COGS was caused by lower than expectation rise in its 1Q16 total excise tax (+10.3% YoY), as we believe the effect of January excise tax hike was not fully reflected in this quarter.

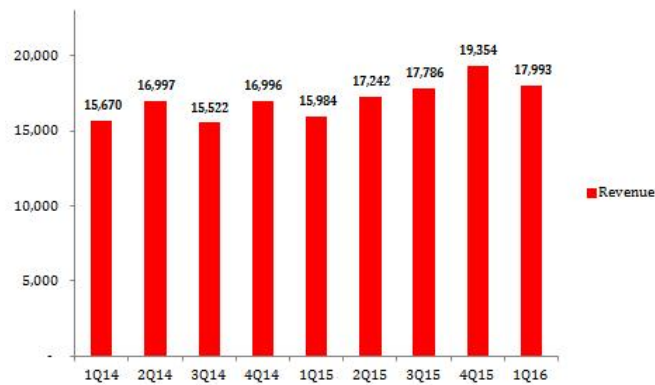
Surging advertising and promotion (A&P) expenses. GGRM recorded a 30% YoY growth in its operating expenses, with biggest contributor came from A&P expenses, surged by 48.8% YoY. A significant growth in its marketing expenses indicating GGRM's effort to strengthen its brand awareness.

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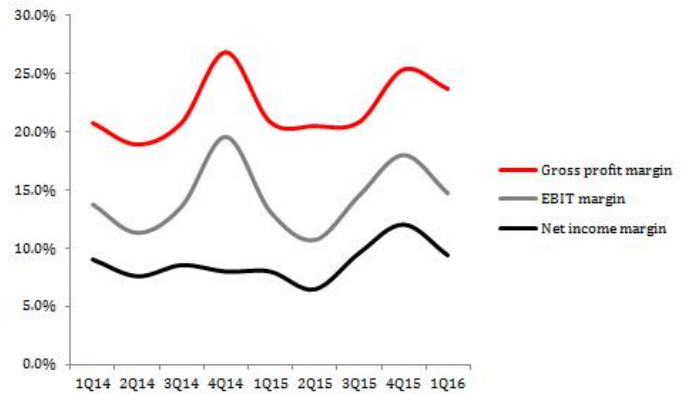
We maintain GGRM as our top pick in cigarette industry considering its products are more suitable in this weaker industry conditions. We also expect to see a more significant positive free cash flow (FCF) this year, with our capex estimation at IDR 2 - 2.5tn (vs IDR 2.9tn in 2015).

Financial Highlights	2013	2014	2015	2016F	2017F
Revenue	55,437	65,186	70,366	78,995	87,834
EBIT	6,692	8,627	10,065	11,266	12,633
EBITDA	7,727	10,082	11,789	13,168	14,679
Net Income	4,329	5,369	6,436	7,112	8,338
EPS (IDR)	2,250	2,790	3,345	3,696	4,334
EBITDA Margin	13.9%	15.5%	16.8%	16.7%	16.7%
Net Income Margin	7.9%	8.3%	9.2%	9.0%	9.5%
EPS growth	7.9%	24.0%	19.9%	10.5%	17.2%
P/E (x)	18.67	21.76	16.44	18.73	15.98

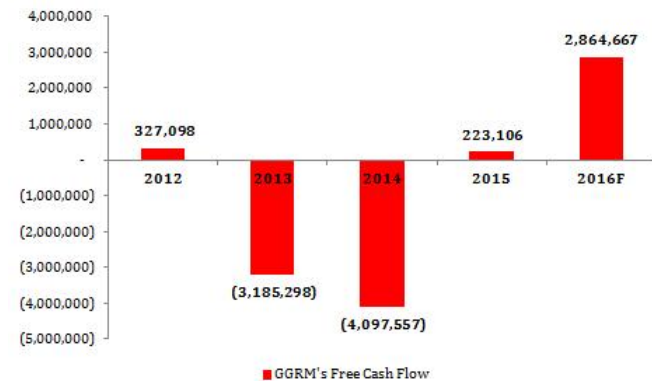
Source: Company Data, Sinarmas Investment Research

GGRM revenue trend


Source: Company, Sinarmas Investment Research

GGRM margin expanding YoY


Source: Company, Sinarmas Investment Research

Expecting a more significant positive FCF this year


Source: Company, Sinarmas Investment Research

GGRM 1Q16 earnings

	1Q15	4Q15	1Q16	YoY (%)	QoQ (%)	FY16	% to FY16E
Revenue	15,984	19,354	17,993	12.6%	-7.0%	78,995	22.8%
Gross profit	3,332	4,908	4,266	28.0%	-13.1%		
EBIT	2,097	3,478	2,645	26.2%	-23.9%	11,266	23.5%
Net income	1,282	2,329	1,693	32.1%	-27.3%	7,112	23.8%
EPS	666	1,210	880	32.1%	-27.3%		
Gross profit margin	20.8%	25.4%	23.7%				
EBIT margin	13.1%	18.0%	14.7%				
Net income margin	8.0%	12.0%	9.4%				

Source: Company, Sinarmas Investment Research

Appendix I: Financial Statements
Balance sheet

in IDR mn	2013	2014	2015	2016F	2017F
Cash & Equivalents	1,404,108	1,588,110	2,725,891	2,397,993	2,040,440
Trade Receivables	2,196,086	1,532,275	1,568,098	1,760,409	1,957,382
Inventories	30,241,368	34,739,327	37,255,928	40,829,645	44,752,242
Other Current Assets	762,899	672,888	1,018,514	1,017,633	1,129,567
Fixed Assets	14,788,915	18,973,272	20,106,488	20,704,937	21,159,434
Other Non Current Assets	1,378,274	728,406	830,494	907,530	1,022,870
Total Assets	50,771,650	58,234,278	63,505,413	67,618,147	72,061,935
Short-term Bank Loans	12,978,791	18,147,298	20,561,189	19,561,189	17,561,189
Trade Payables	798,434	989,169	2,370,339	2,655,934	2,946,972
Other Current Liabilities	6,317,355	4,646,667	1,113,558	926,797	1,064,164
Other Non Current Liabilities	1,285,140	1,316,741	1,452,418	1,606,548	1,773,076
Total Liabilities	21,379,720	25,099,875	25,497,504	24,750,469	23,345,400
Total Equity	29,391,930	33,134,403	38,007,909	42,867,678	48,716,535

Source: Sinarmas Investment Research

Income statement

in IDR mn	2013	2014	2015	2016F	2017F
Revenue	55,436,954	65,185,850	70,365,573	78,995,163	87,833,981
COGS	44,563,096	51,806,284	54,879,962	61,492,290	68,230,624
Gross Profit	10,873,858	13,379,566	15,485,611	17,502,872	19,603,358
Operating Expenses	4,224,052	4,805,845	5,579,370	6,309,131	7,016,458
Operating Profit	6,691,722	8,626,524	10,064,867	11,266,411	12,633,133
EBITDA	7,727,108	10,082,144	11,788,942	13,167,962	14,678,636
Profit Before Tax	5,936,204	7,254,713	8,635,275	9,505,904	11,140,432
Tax	1,552,272	1,822,046	2,182,441	2,376,476	2,785,108
Net Income	4,328,736	5,368,568	6,435,654	7,112,248	8,338,144
Earning Per Share (IDR)	2,250	2,790	3,345	3,696	4,334

Source: Sinarmas Investment Research

Appendix I: Financial Statements
Cash flow

in IDR mn	2013	2014	2015	2016F	2017F
Net Income	4,328,736	5,368,568	6,435,654	7,112,248	8,338,144
Adjustment	1,084,751	1,467,363	1,732,294	1,918,731	2,062,683
Working Capital	(3,054,309)	(5,224,090)	(5,049,989)	(3,666,311)	(3,803,101)
Operating Cash Flow	2,359,178	1,611,841	3,117,959	5,364,667	6,597,726
Capital Expenditure	(5,544,476)	(5,709,398)	(2,894,853)	(2,500,000)	(2,500,000)
Investing Cash Flow	(5,676,877)	(5,018,495)	(2,994,017)	(2,594,216)	(2,632,520)
Debt	4,814,441	5,168,507	2,413,891	(1,000,000)	(2,000,000)
Dividend	(1,539,270)	(1,539,270)	(1,539,270)	(2,252,479)	(2,489,287)
Financing Cash Flow	3,436,008	3,590,656	1,013,839	(3,098,349)	(4,322,759)
Net Cash Flow	118,309	184,002	1,137,781	(327,898)	(357,553)
Beginning Cash	1,285,799	1,404,108	1,588,110	2,725,891	2,397,993
Ending Cash	1,404,108	1,588,110	2,725,891	2,397,993	2,040,440

Source: Sinarmas Investment Research

Key ratios

	2013	2014	2015	2016F	2017F
Revenue Growth	13.07%	17.59%	7.95%	12.26%	11.19%
Operating Profit Growth	11.05%	28.91%	16.67%	11.94%	12.13%
EBITDA Growth	14.33%	30.48%	16.93%	11.70%	11.47%
Net Income Growth	7.75%	23.92%	18.78%	10.49%	17.19%
EPS Growth	7.86%	24.00%	19.88%	10.51%	17.24%
Return on Equity	15.54%	17.25%	18.15%	17.64%	18.25%
Return on Asset	9.38%	9.85%	10.57%	10.85%	11.94%
Debt to Equity	44.16%	54.77%	54.10%	45.63%	36.05%
Dividend Per Share (IDR)	800	800	800	1,171	1,294

Source: Sinarmas Investment Research

Key assumptions

	2013	2014	2015E	2016F	2017F
Sales Volume (mn Sticks)					
SKM	67,335	72,551	71,100	69,678	70,723
SKT	9,221	8,046	8,006	8,006	8,006
ASP (Rp/Stick)					
SKM	726	810	891	1,025	1,127
SKT	553	608	729	801	882
Blended ASP (Rp/Stick)	705	790	875	1,002	1,102

Source: Sinarmas Investment Research

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