



BUY

Target Price : **IDR 370**

Stock Data

Curent Price : IDR 256
 52wk Range H-L : IDR 410-200
 Share Outstanding : 28,233 billion
 Free Float (%) : 10
 Mkt Capitalization : 7,23 (IDR bn)

Major Shareholders

PT Garuda Indonesia (Persero) Tbk : 89.10%
 PT Aero Wisata : 0.90%
 Public : 10.00%



Research Analyst

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PT Garuda Maintenance Facility Aero Asia Tbk (GMFI) Machinery and Heavy Equipment

Turning on the Engine

Top Line Improvement driven by Repair and Overhaul Segments

GMFI recorded better performance in 1H18 with top-line growth of 11.55% YoY to USD223.31 million (vs USD200,19 million in 1H17) supported by the Repair and Overhaul division at 19.60% YoY to USD184.3 million with a contribution of 82.53% to total revenue. EBITDA increased by 7.10% YoY to USD35.23 million, with EBITDA margin at 15.78% in 1H18. An increase in foreign exchange and foreign exchange losses contributed to a decline in net profit margin. Net profit slipped by 3.42% YoY to USD20.12 million (vs USD20.84 million) and net profit margin was down 9.01% in 1H18 (vs 10.41% in 1H17).

Organic and Inorganic Expansion can drive GMFI Performance

On the way to the Top 10 MRO, we see that there are several catalysts that can drive GMFI performance, including: 1) Focus on increased composition of revenue from non-affiliated customers and changes to engine and component services—which carry the fattest margins; 2) Finalization of the Global Footprint in Australia, a move which can generate revenues of around USD 5 million in FY19F; 3) Finalizing the private placement to encourage working capital and strengthen capital structure in 4Q18; 4) Signing strategic alliances with AFI-KLM with total project value of USD400 million and PT China Communication Indonesia of USD500 million; 5) Approval of tax holidays for pioneer industry, which can boost GMFI's net profit by approximately 25% YoY in FY19F.

Negative Issue From GIAA Performance as Holding Company

GIAA as the holding company recorded an increase in revenue of 5.92% YoY to USD1.99 billion in 1H18 (vs 6.97% YoY to USD1.76 billion in 1H17). The largest increase came from other services which contributed 13.14% to total revenue, an increase of 28.44% YoY to USD262.68 million. However, GIAA still recorded a net loss of -USD119.56 million in 1H18. Less satisfactory performance from GIAA as a holding company certainly affects GMFI's performance causing GMFI's stock price to depreciate by -40.00% from IDR380 on April 30 2018 to IDR228 on August 30, 2018.

Recommendation: Initiation BUY at TP IDR370

We recommended **BUY** for GMFI with TP: IDR370 which implies PE/PBV of 14.36x/2.09x on FY18E and 12.39x/1.86x in FY19F. We believe that the organic and inorganic expansion carried out by the Company is able to drive the performance of GMFI in achieving the Top 10 MRO in the world in FY21F. The negative issues from the performance of GIAA and delayed corporate actions are the main focus of attention.

Key Financial Highlight					
In million USD	FY15	FY16	FY17	FY18E	FY19F
Revenue	305.59	388.66	439.28	498.24	570.80
EBITDA	53.71	98.75	80.20	98.22	113.96
Net Profit	36.18	57.74	51.00	55.49	64.32
ROA (%)	11.56	13.05	9.46	8.61	8.84
ROE (%)	29.47	33.46	16.68	14.56	15.00
PER (x)	13.52	8.47	9.59	8.81	7.60
PBV (x)	3.98	2.83	1.60	1.28	1.14

Source: Bloomberg, MNCS as of October 10, 2018

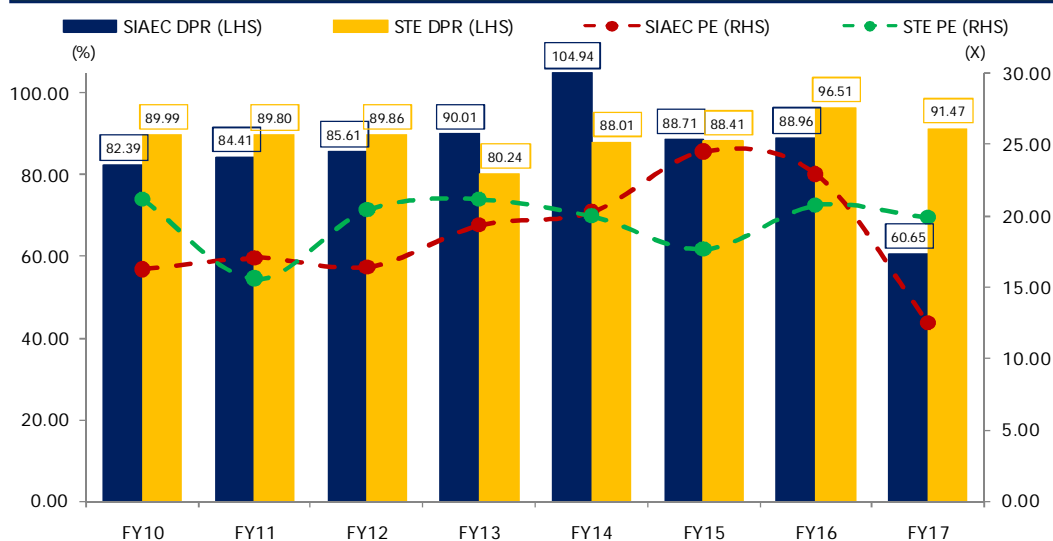
Repair and Overhaul Segment pushed the Top-Line upwards by 11,55% YoY in 1H18

Exciting Industry for: Dividend Player

In 1H18, GMFI recorded improved performance, with top-line growth of 11.55% YoY to USD223.3 million. This growth was supported by the Repair and Overhaul division at 19.60% YoY to USD184.3 million with a contribution of 82.53% to total revenue. Observed EBITDA increased by 7.10% YoY to USD35.23 million, with EBITDA margin at 15.78% in 1H18. Meanwhile, net profit dipped by 3.42% YoY to USD20.12 million (vs USD20.84 million) and net profit margin was down 9.01% in 1H18 (vs 10.41% in 1H17). An increase in foreign exchange and foreign exchange losses from 1,198.53% and 20.07% YoY to USD1.69 million and USD5.20 million contributed to a decline in net profit margin.

Industry Maintenance, Repair and Overhaul (MRO) on a global business scale is an attraction for dividend-oriented investors. This is because some large-scale MROs distribute dividends with high annual Dividend Payout Ratio (DPR); examples include Singapore Airlines Engineering (SIE) and Singapore ST Engineering (STE) with a 5-year average of 86.65% and 88.93%. GMFI has distributed dividends amounting to USD10.19 million with a DPR at 20% for the FY17 book year. We predict performance of GMFI will continue to grow, so that it can provide dividends with the DPR level that draws around 30% in FY19E, in accordance with management expectations. GMFI had 183 customers in FY17 and plans to secure a further 8 in FY18E.

Exhibit 01. Dividend Payout Ratio chart from Singapore's Largest MRO



Source : Bloomberg, MNCS

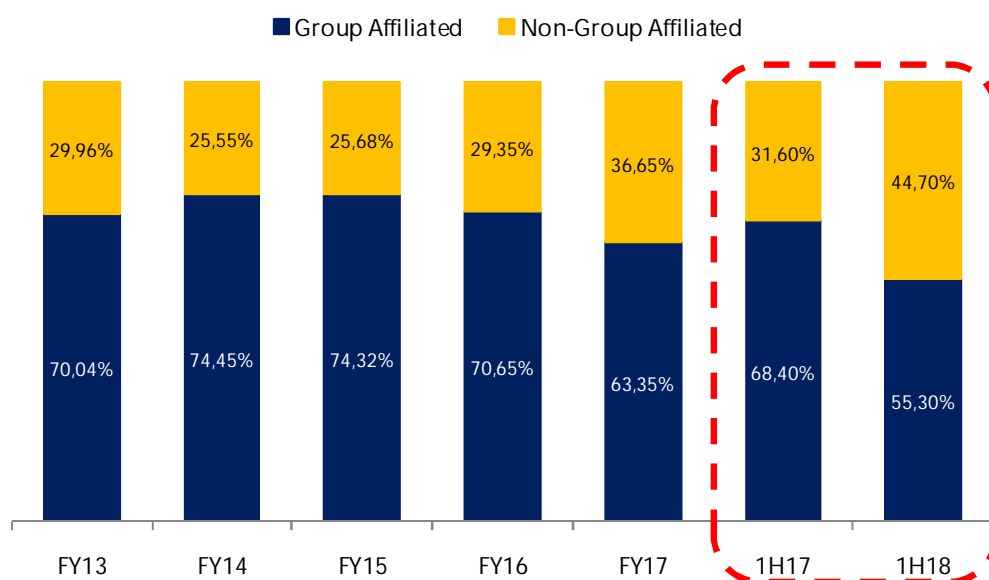
Strategic Partnership Alliance with AFI-KLM

One GMFI strategy that has become an initiative for them is to form a strategic alliance with AFI KLM, one of the biggest MROs. This alliance would be a win-win solution for both parties, especially for GMFI's brand leverage in the European and global marketplace, while also adding advanced technologies to GMFI team capability. As for AFI-KLM, they could take advantage of GMF lower-cost cabin maintenance, based on labor costs in Indonesia being lower compared than those in Singapore. This would open a path for AFI-KLM to take on the Asian market, one with great opportunities. GMFI estimated could raise USD400 million from and the partnership agreement is expected to be finalized in the end of September 2018.

Market Share increasing to 37%, supported by Organic and Inorganic Expansion

On the way to the Top 10 MRO, we see that there are several catalysts that can drive GMFI performance, including: 1) Focus on increased composition of revenue from non-affiliated customers and changes to engine and component services – which carry the fattest margins; 2) Finalization of the Global Footprint in Australia, a move which can generate revenues of around USD 5 million in FY19F; 3) Finalizing the private placement to encourage working capital and strengthen capital structure in 4Q18; 4) Approval of tax holidays for pioneer industry, which can boost GMFI's net profit by approximately 25% YoY in FY19F. Based on management, GMFI's market share increased to 37% at 6M18 (vs 35% at 3M18). With the Company's strategy, we project GMFI's revenue to grow by 13.42% and 14.56% YoY in the FY18E/FY19F with the largest growth supported by the Repair and Overhaul segment.

Exhibit 02. GMFI Income Composition in FY13-1H18



Source : Company, MNCS

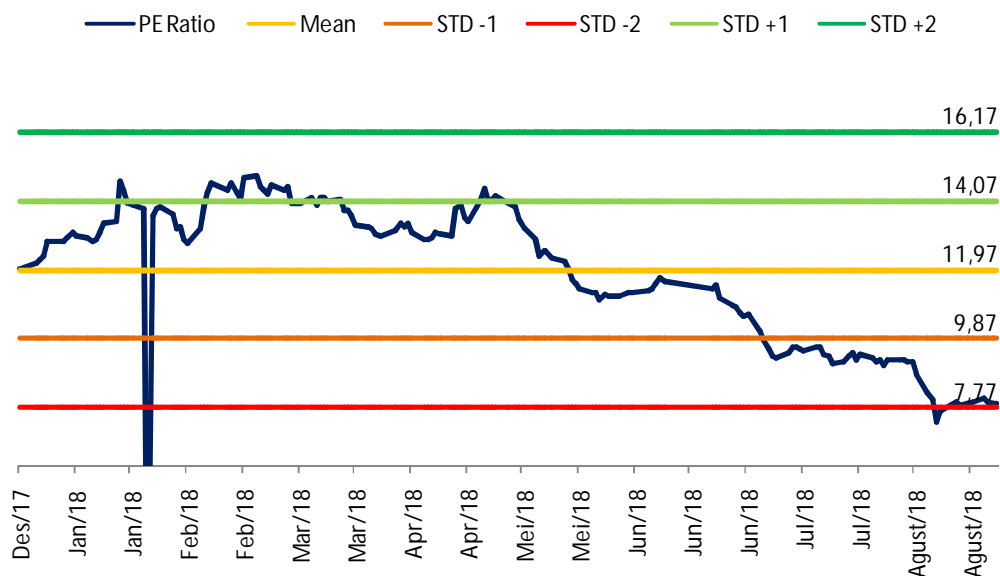
Negative Issues of GIAA Performance

GIAA as the holding company recorded an increase in revenue of 5.92% YoY to USD1.99 billion in 1H18 (vs 6.97% YoY to USD1.76 billion in 1H17). The largest increase came from other services which contributed 13.14% to total revenue, an increase of 28.44% YoY to USD262.68 million. However, GIAA still recorded a net loss of - USD119.56 million in 1H18. Less satisfactory performance from GIAA as a holding company certainly affects GMFI's performance, where Garuda Indonesia and Citilink still dominate the share of income by 55.3% of total revenue in 1H18.

Recommendation: Buy with Target Price IDR370

We recommended **BUY** for **GMFI** with **TP: IDR370** which implies **PE/PBV** of **14.36x/2.09x** on **FY18E** and **12.39x/1.86x** in **FY19F**. We believe that the organic and inorganic expansion carried out by the Company is able to drive the performance of GMFI in achieving the Top 10 MRO in the world in FY21F. The negative issues from the performance of GIAA and delayed corporate actions are the main focus of attention.

Exhibit 03. EV/EBITDA from GMFI is at STD -2 Level



Source : Bloomberg

Exhibit 04. Financial Projections

Income Statement						Balance Sheet					
USD million	FY15	FY16	FY17	FY18E	FY19F	USD million	FY15	FY16	FY17	FY18E	FY19F
Revenue	305.59	388.66	439.28	498.24	570.80	Current Assets	210.75	328.21	402.68	472.26	491.63
Line Maintenance	90.82	100.40	91.48	90.26	93.35	Cash and cash equivalents	25.46	60.44	83.61	114.32	81.87
Repair & Overhaul	214.77	288.27	347.80	407.98	477.45	Trade Receivables	101.69	154.95	191.17	217.29	248.93
Operating Expenses	260.79	301.29	373.00	416.04	475.54	Inventories	68.60	84.32	106.81	116.72	133.42
Selling Expense	131.91	164.61	193.45	220.29	252.74	Other Current Assets	15.00	28.50	21.10	23.93	27.41
General & Administrative Expense	128.88	136.69	179.55	195.74	222.81	Non-Current Assets	102.25	114.38	136.47	172.23	235.70
Operating Profit	44.80	87.37	66.28	82.21	95.25	Fixed Assets-net	89.59	105.16	123.27	157.26	218.55
EBITDA	53.71	98.75	80.20	98.22	113.96	Other Non-Current Assets	12.65	9.21	13.20	14.97	17.15
Interest Expense	(3.09)	(6.55)	(8.74)	(8.86)	(9.91)	TOTAL ASSETS	312.99	442.59	539.15	644.48	727.32
Interest Income	0.35	0.30	0.42	0.42	0.42	Current Liabilities	91.71	146.78	135.37	152.21	171.19
Other	5.99	-4.12	9.85	0.00	0.00	Account Payables	53.36	75.66	75.18	86.67	99.07
Profit Before Tax	48.05	77.00	67.81	73.77	85.76	Short-term Debt	8.61	50.79	42.67	45.66	49.35
Tax Expense	11.86	19.26	16.80	18.28	21.44	Other Current Liabilities	29.74	20.33	17.52	19.87	22.77
Net Income Before MI	36.18	57.74	51.00	55.49	64.32	Non-Current Liabilities	98.50	123.25	98.00	111.15	127.33
Minority Interest	-	-	-	-	-	Long-term Liabilities - Net	49.20	85.62	57.35	65.04	74.51
Net Profit	36.18	57.74	51.00	55.49	64.32	Other Non-Current Liabilities	49.29	37.63	40.65	46.11	52.82
EPS (full amount)	0.00	0.00	0.00	0.00	0.00	Total EQUITY	122.79	172.55	305.79	381.12	428.80
						TOTAL LIABILITIES & EQUITY	312.99	442.59	539.15	644.48	727.32

Cash Flow						Ratios					
USD million	FY15	FY16	FY17	FY18E	FY19F	Ratio	FY15	FY16	FY17	FY18E	FY19F
CFO Total	14.86	-0.46	10.33	46.48	46.50	Revenue Growth (%)	15.73	27.18	13.02	13.42	14.56
Net Income	36.18	57.74	51.00	55.49	64.32	Operating Profit Growth(%)	79.53	95.01	-24.13	24.03	15.87
Depreciation	8.91	11.39	13.92	16.01	18.71	Net Income Growth (%)	91.23	59.58	-11.67	8.79	15.92
Change in Working Capital	(24.95)	(46.68)	(59.18)	(24.54)	(35.94)	Current Ratio (x)	2.30	2.24	2.97	3.10	2.87
Change in Others	(5.28)	(22.90)	4.60	(0.48)	(0.59)	Quick Ratio (x)	1.39	1.47	2.03	2.18	1.93
CFI Total	(16.27)	(23.20)	(34.18)	(51.77)	(82.18)	Receivables Days	119.79	143.53	156.67	157.00	157.00
Capex	(12.79)	(26.64)	(30.20)	(50.00)	(80.00)	Inventory Days	94.70	100.74	103.08	101.00	101.00
Change in Others	(3.47)	3.44	(3.98)	(1.77)	(2.18)	Payable Days	73.66	90.40	72.56	75.00	75.00
CFF Total	22.44	58.01	224.81	36.00	3.23	Debt to Equity (x)	1.55	1.56	0.76	0.69	0.70
Net Change in Debt	4.66	69.76	(39.28)	10.70	13.16	Operating Profit Margin (%)	14.66	22.48	15.09	16.50	16.69
Equity Fund Raised	0.02	(0.08)	261.08	-	-	EBITDA Margin (%)	17.58	25.41	18.26	19.71	19.97
Dividend Payment	-	-	-	(10.20)	(16.65)	Net Profit Margin (%)	11.84	14.86	11.61	11.14	11.27
Others	17.75	(11.66)	3.02	35.51	6.71	ROA (%)	11.56	13.05	9.46	8.61	8.84
Adjustment	(16)	1	(178)	-	-	ROE (%)	12.38	7.44	-10.68	18.09	29.47
Net Cash Increase	5.09	34.98	23.17	30.71	(32.45)	SLA Fulfillment (%)	96	101	100	100	100
Closing Balance	25.46	60.44	83.61	114.32	81.87	Turn Around Time (%)	98	96	98	99	100

Source: Company, MNCS

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MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

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