

**BUY**

May 23, 2019  
Airline, Transportation, Equity

Current Price **IDR. 412**  
Target Price **IDR. 570**

**JKSE Index 5939.6**



### Investment Consideration Focus on Margin

After GIAA began their cooperation with Sriwijaya Group last year, the company is optimistic they can improve both GIAA and Sriwijaya group performances. We believe both full service and low cost carriers will both focus on margins by increasing yields and this is what happened in 1Q19. As of 1Q19, GIAA's domestic passenger yields grew 39.7%yoy while Citilink was up by 55.6%, Sriwijaya 149.5% and Nam Air 97.8%. Overall domestic passenger yields in 1Q19 increased 20.4% yoy to 7.6 USCent with a full year target of 7.74 USCent.

### Improvement in profits

During 1Q19, amid rising fuel prices and ticket prices, GIAA has improved its profitability by increasing the top line by 19.7% yoy and the bottom line by 130.7% yoy. GIAA is also locking in fuel hedges at 69 USCent/L, this plus low season in 1Q19, led to a fuel cost decrease of 9.4% yoy. GIAA will also cut unprofitable routes. In addition the government has responded to public concern over soaring airline ticket prices since the end of last year by lowering the upper limit on fares by 15%. We believe, this will not have much impact as there was a large increase in late 2018 and additional baggage fees for low cost carriers. We estimate bottom line in 2019F -2020F to reach USD.69.1 mn and USD. 102 mn respectively

### Enhanced Cargo revenue

A boost In cargo, will also bring in higher other service revenues. The company will increase cargo revenue by adding 4 freighters this year from aircraft conversion. GIAA will also run a digital program related to e-commerce. In terms of average Cargo yields, in 1Q19, cargo yield of Citilink grew the most by 165% yoy followed by Sriwijaya Group by 118%yoy, and Garuda by 26% yoy. We estimate GIAA's total cargo revenue in 2019-2020F will increase at a CAGR of 32% compared to 2018A

### Valuation: 38% upside potential

We are targeting a TP within one year of IDR. 570/share which is 10x PER. With 38% upside potential, we recommend BUY.

Profit and Loss (in USD.mn)	2016 A	2017 A	2018 A	2019 F	2020 F
<b>Operating Revenues</b>	<b>3,864</b>	<b>4,177</b>	<b>4,373</b>	<b>5,072</b>	<b>5,881</b>
Operating expense	(3,796)	(4,238)	(4,579)	(5,077)	(5,887)
<b>Operating Profit</b>	<b>99</b>	<b>(76)</b>	<b>101</b>	<b>121</b>	<b>140</b>
Other income	(81)	(82)	(82)	(22)	4
equity in net income associated companies	<b>(0.22)</b>	<b>0.19</b>	<b>0.20</b>	<b>0.24</b>	<b>0.29</b>
taxes	<b>(8)</b>	<b>(55)</b>	<b>(14)</b>	<b>(25)</b>	<b>(36)</b>
Minority Interest	(1)	(3)	(4)	(5)	(6)
<b>Net Profit</b>	<b>8.1</b>	<b>(216.6)</b>	<b>0.8</b>	<b>69.2</b>	<b>102.5</b>
<b>EPS</b>	0.0003	-0.0084	0.0000	0.0027	0.0040
<b>EBITDA</b>	<b>268</b>	<b>67</b>	<b>279</b>	<b>310</b>	<b>349</b>

Stock Code  
Bloomberg code **GIAA IJ**  
Market cap (IDR.bn) **11131.2**  
52-Week High (IDR) **635**  
52-Week Low (IDR) **199**  
6-m Avg Daily. Val (IDR) **402**  
Free Float (%) **13.85**

Major Shareholders (%)  
Government **60.54%**  
PT Trans Airways **25.62%**  
Public **13.85%**

USD/IDR-YE  
2018A **14390**  
2019F (Avg) **14452**

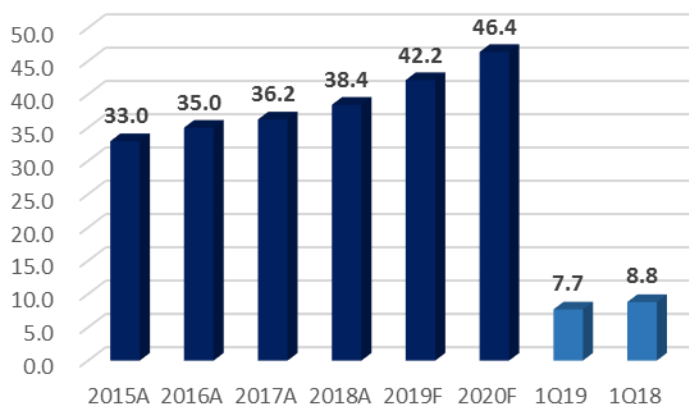
Key Indicators  
NPM (%) **1.5**  
Debt/Equity (x) **1.57**

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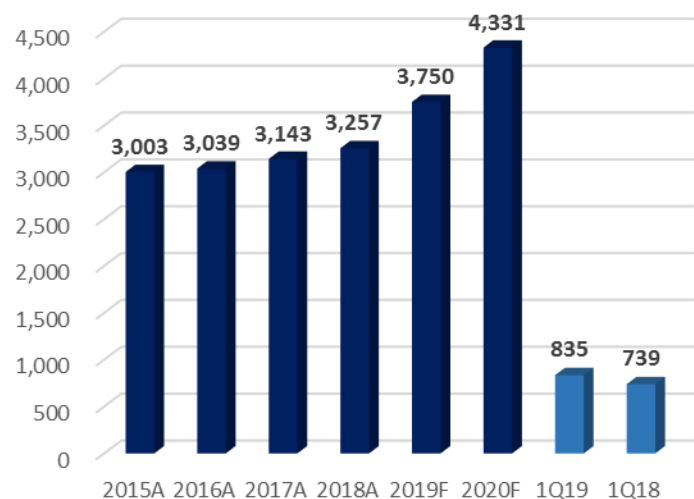
Passenger yield GIAA Group and Sriwijaya Group

Passenger yield	1Q18	1Q19
<b>Garuda Indonesia</b>		
Domestic (USCent)	7.7	10.8
International (USCent)	6	5.9
<b>Citilink (USCent)</b>	4.7	7.4
<b>Sriwijaya Air (IDR)</b>	495.5	1236
<b>Nam Air (IDR)</b>	752.5	1488.5

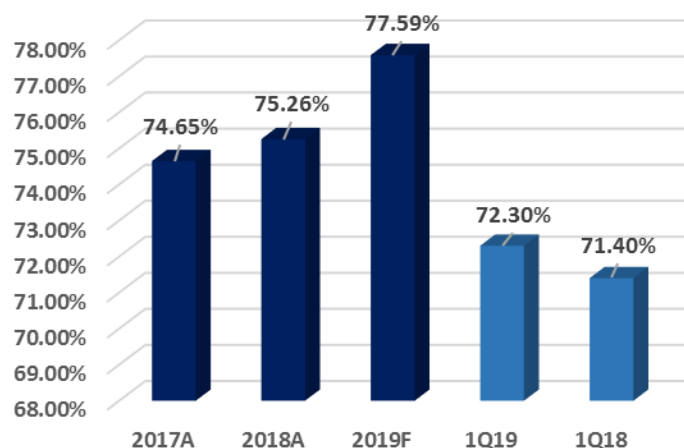
Passenger carried yoy (in mn)



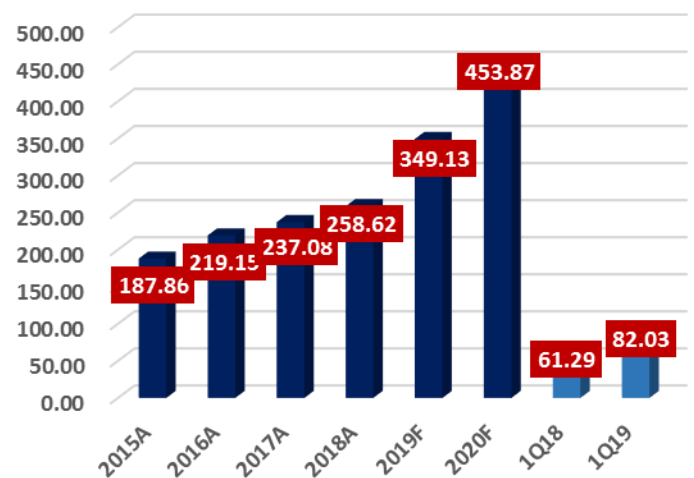
Passenger revenue yoy (US\$. mn)



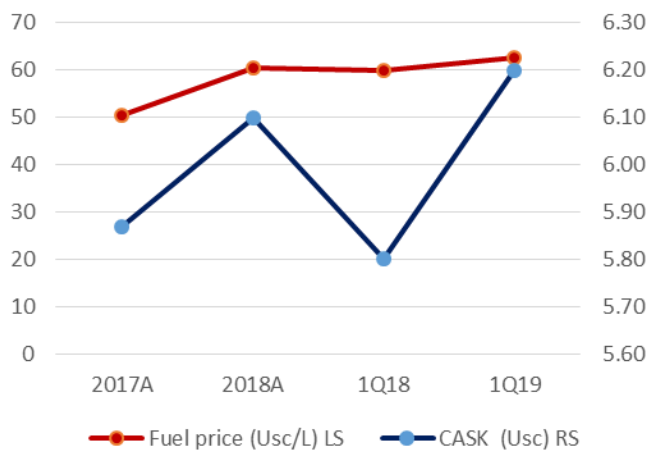
Seat Load Factor yoy (%)



Cargo revenue yoy (US\$. mn)



Fuel price vs CASK yoy (USCent/Liter)



Profit and Loss (US\$.mn)

Profit and Loss (in US\$.mn)	2015 A	2016 A	2017 A	2018 A	2019 F	2020 F
<b>Operating Revenues</b>	<b>3,815</b>	<b>3,864</b>	<b>4,177</b>	<b>4,373</b>	<b>5,072</b>	<b>5,881</b>
Operating expense	(3,732)	(3,796)	(4,238)	(4,579)	(5,077)	(5,887)
<b>Operating Profit</b>	<b>169</b>	<b>99</b>	<b>(76)</b>	<b>101</b>	<b>121</b>	<b>140</b>
Other income	(62)	(81)	(82)	(82)	(22)	4
equity in net income associated companies	<b>(0.10)</b>	<b>(0.22)</b>	<b>0.19</b>	<b>0.20</b>	<b>0.24</b>	<b>0.29</b>
taxes	<b>(29)</b>	<b>(8)</b>	<b>(55)</b>	<b>(14)</b>	<b>(25)</b>	<b>(36)</b>
Minority Interest	(1)	(1)	(3)	(4)	(5)	(6)
<b>Net Profit</b>	<b>76.5</b>	<b>8.1</b>	<b>(216.6)</b>	<b>0.8</b>	<b>69.2</b>	<b>102.5</b>
<b>EPS</b>	0.0030	0.0003	-0.0084	0.0000	0.0027	0.0040
<b>EBITDA</b>	<b>345</b>	<b>268</b>	<b>67</b>	<b>279</b>	<b>310</b>	<b>349</b>

Cash Flow (US\$.mn)

Cash Flow (in US\$. mn)	2015A	2016A	2017A	2018A	2019F	2020F
+ Net Income	76.48	8.07	(216.58)	0.81	69.18	102.49
+Depreciation	176.60	168.66	143.31	177.96	189.39	208.33
- Change in WC	(135.20)	269.17	264.88	103.88	(29.71)	112.78
<b>Cash From Operating Activities</b>	<b>117.88</b>	<b>445.90</b>	<b>191.61</b>	<b>282.65</b>	<b>228.86</b>	<b>423.60</b>
capex	(176.20)	(438.93)	(347.43)	(416.10)	(383.46)	(497.61)
<b>cash from investing activities</b>	<b>(176.20)</b>	<b>(438.93)</b>	<b>(347.43)</b>	<b>(416.10)</b>	<b>(383.46)</b>	<b>(497.61)</b>
Long term loans	(313.68)	(0.60)	(72.06)	17.18	12.39	14.35
Finance lease liabilities	0.09	32.53	(71.69)	(14.30)	8.40	9.73
estimated liability for aircraft return and maintenance cost	(4.08)	17.10	14.80	23.55	19.95	23.12
bonds payable	476.19	5.09	(146.33)	2.14	0.53	0.00
Other Long term liabilities	(9.33)	(53.47)	15.18	77.82	41.30	47.84
equity	(5.22)	51.10	144.15	(28.09)	43.76	22.66
<b>cash from financing activities</b>	<b>143.97</b>	<b>51.76</b>	<b>(115.96)</b>	<b>78.29</b>	<b>126.34</b>	<b>117.70</b>
<b>Net Changes in Cash</b>	<b>85.65</b>	<b>58.73</b>	<b>(271.78)</b>	<b>(55.16)</b>	<b>(28.27)</b>	<b>43.69</b>
<b>Beginning Balance</b>	<b>434.33</b>	<b>519.97</b>	<b>578.70</b>	<b>306.92</b>	<b>251.76</b>	<b>223.49</b>
<b>Ending balance</b>	<b>519.97</b>	<b>578.70</b>	<b>306.92</b>	<b>251.76</b>	<b>223.49</b>	<b>267.17</b>

Balance Sheet (US\$.mn)

Balance sheet (US\$.mn)	2015 A	2016 A	2017 A	2018 A	2019 F	2020 F
Cash and cash equivalent	520	579	306	251	223.49	267
Restricted cash			1.2	0.6	0.6	0.6
Trade Account Receivable	122	191	229	414	461	535
inventory	92	109	131	176	195	226
Other current asset	275	286	319	515	558	647
<b>Current Asset</b>	<b>1,008</b>	<b>1,165</b>	<b>987</b>	<b>1,357</b>	<b>1,438</b>	<b>1,676</b>
Net Fixed Asset	867	927	901	944	1,180	1,440
other long term asset	1,435	1,646	1,876	2,071	2,029	2,058
<b>Total non current Asset</b>	<b>2,302</b>	<b>2,572</b>	<b>2,777</b>	<b>3,015</b>	<b>3,209</b>	<b>3,498</b>
<b>Total Asset</b>	<b>3,310</b>	<b>3,738</b>	<b>3,763</b>	<b>4,372</b>	<b>4,647.07</b>	<b>5,174</b>
Trade Payable	149	220	224	402	634	735
Short Term bank loans	465	760	932	1,073	955	1,010
Other Current liabilities	582	583	765	976	942	1,093
<b>Total current liabilities</b>	<b>1,196</b>	<b>1,564</b>	<b>1,922</b>	<b>2,451</b>	<b>2,531</b>	<b>2,838</b>
Long term loans	133	132	60	78	90	104
Finance lease liabilities	106	139	67	53	61	71
estimated liability for aircraft return and maintenance cost	69	87	101	125	145	168
bonds payable	636	641	495	497	497	497
Other Long term liabilities	219	165	181	258	300	348
<b>Total long term/ non current liabilities</b>	<b>1,163</b>	<b>1,164</b>	<b>904</b>	<b>1,010</b>	<b>1,093</b>	<b>1,188</b>
<b>Total Liabilities</b>	<b>2,359</b>	<b>2,728</b>	<b>2,826</b>	<b>3,461</b>	<b>3,624</b>	<b>4,026</b>
<b>Total Equities</b>	<b>951</b>	<b>1,010</b>	<b>937</b>	<b>910</b>	<b>1,023.1</b>	<b>1,148</b>
<b>Total Liabilities and equity</b>	<b>3,310</b>	<b>3,738</b>	<b>3,763</b>	<b>4,372</b>	<b>4,647.07</b>	<b>5,174</b>

**Ratio Highlights**

<b>Growth (% YoY)</b>	<b>2015 A</b>	<b>2016 A</b>	<b>2017 A</b>	<b>2018 A</b>	<b>2019 F</b>	<b>2020 F</b>
Operating revenues		1.3%	8.1%	4.7%	16.0%	16.0%
OP		-41.3%	-176.9%	-232.3%	20.1%	16.0%
EBITDA		-22.5%	-74.9%	315.3%	11.4%	12.3%
EBITDAR		2.4%	-11.6%	20.3%	13.6%	1.2%
NP		-89.4%	-2784.0%	-100.4%	8442.5%	48.1%
EPS		-89.4%	-2784.0%	-100.4%	8442.5%	48.1%
<b>Profitability (%)</b>						
Operating Margin	4.4%	2.6%	-1.8%	2.3%	2.4%	2.4%
EBITDA margin	9.1%	6.9%	1.6%	6.4%	6.1%	5.9%
EBITDAR margin	32.8%	33.1%	27.1%	31.1%	30.5%	26.6%
NET Profit margin	2.0%	0.2%	-5.2%	0.0%	1.4%	1.7%
ROA	2.3%	0.2%	-5.8%	0.0%	1.5%	2.0%
ROE	8%	1%	-23%	0%	7%	9%
<b>Stability</b>						
Debt/ Equity (x)	1.41	1.66	1.66	1.87	1.57	1.46
<b>Liquidity</b>						
Int. Coverage (x)	1.56	0.20	(1.79)	0.22	1.14	1.62
int. & ST debt coverage (x)	0.15	0.12	0.09	0.08	0.09	0.09
<b>Per Share data (USD)</b>						
EPS	0.0030	0.0003	-0.0084	0.0000	0.0027	0.0040
BVS	0.0368	0.0390	0.0362	0.0352	0.0395	0.0444

**Stock Ratings:**

Buy: a recommendation to purchase the security with upside potential of 20% or greater

Hold: a recommendation to neither buy nor sell a security with upside potential of 0-19%.

Sell: a recommendation to close out a long position in a security with upside potential below 0% or negative.

**RESEARCH TEAM**  
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