

November 28, 2018
Maintenance, repair and overhaul,
Equity

Current Price IDR. 210
Target Price IDR. 300

JKSE Index 6013.590



Investment Consideration

Focus on engine maintenance

GMFI is focusing on organic expansion into component and engine maintenance (Repair and overhaul) as demand growth is strong and will outstrip line maintenance, many engines will soon enter the overdue period and GMFI plans to capture engine MRO market share and reduce dependence on their line maintenance work for affiliate Garuda Indonesia (GIAA). GMFI has been continuously adding non affiliated customers to diversify its revenue. As of 9M18, the line maintenance's revenue went down 14% yoy following the lower GIAA air traffic growth. Meanwhile, repair and overhaul revenue increased 14% yoy.

Develop capacity, capability, and partnership

As of 3Q18, GMFI has signed a partnership with Air France Industries KLM engineering & maintenance and PT China Communications Construction Indonesia. Through this partnership, GMFI plans to enhance their capabilities and capture new business from existing and new customers. The new capabilities are to reduce dependence of sub-contractors in component and engine maintenance. This business segment has lower margins as shown by 9M18 result where OPM and NPM fell to 11% and 8% compared to 18% and 12% respectively in 9M17. The decrease in margin is caused by higher sub-contractor and material expenses. In 2019F, we estimate GMFI's margin will be lower compared to historically but we believe in the long term capability development will help GMFI margin to improve. We estimate OPM and NPM in 2019 will be 11% and 8% respectively.

Valuation: 43% upside potential

Based on DCF, with WACC at 7%, we are targeting TP within one year of IDR. 300/share which is 14,35x PER. With 43% upside potential, we recommend BUY.

Stock Code
Bloomberg code GMFI IJ
Market cap (IDR.bn) 5985.5
52-Week High (IDR) 406
52-Week Low (IDR) 200
6-m Avg Daily. Val (IDR) 252
Free Float (%) 10

Major Shareholders (%)
PT Garuda Indonesia (Persero) Tbk 89.10%
PT Aerowisata 0.90%
Public 10%

USD/IDR-YE
2017A 13555
2018F (Avg) 14670

Key Indicators
Current ratio (x) 2.07
NPM (%) 8.06

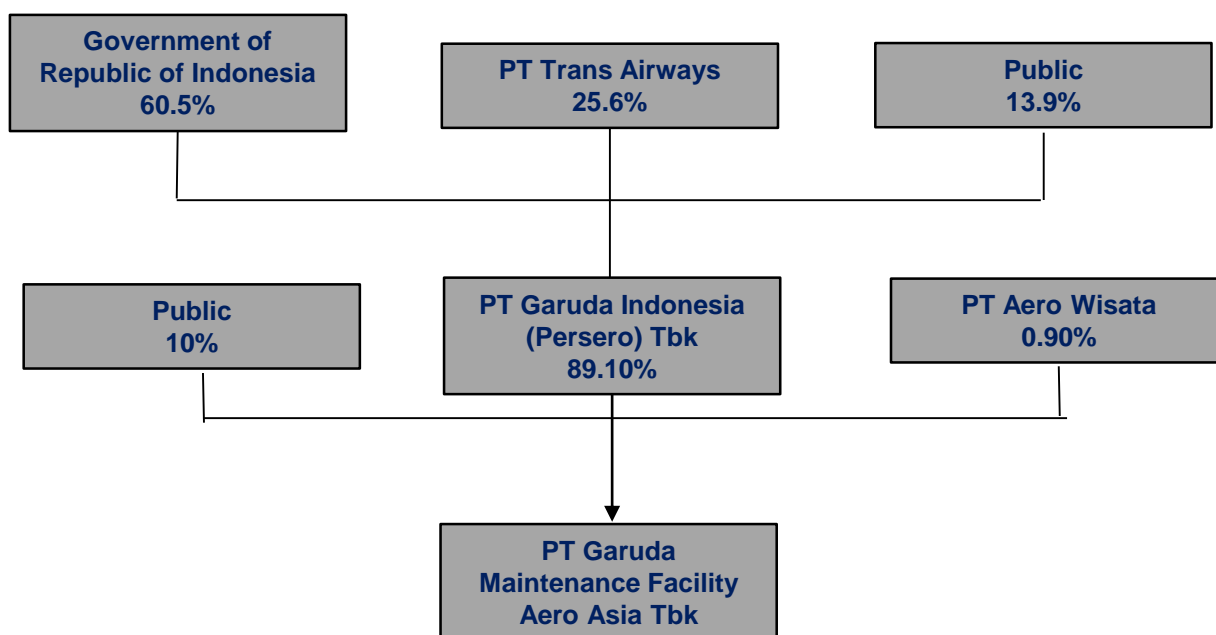
Analyst: Revita Dhiah Anggrainy
revita.anggrainy@binaartha.com

Profit and Loss (USD.mn)	2015 A	2016 A	2017 A	2018 F	2019 F	2020 F
Revenue	306	389	439	460	503	550
Operating expense	(255)	(306)	(374)	(410)	(448)	(484)
Operating Profit	51	83	66	51	55	66
Other income	(3)	(6)	2	(1)	(1)	(1)
PBT	48	77	68	49	54	65
taxes	(12)	(19)	(17)	(12)	(14)	(16)
Net Profit	36	58	51	37	41	48
EPS	0.001	0.002	0.002	0.001	0.001	0.002
EBITDA	60.05	94.93	90.46	69.09	76.93	93.19

Company Profile

PT Garuda Maintenance Facility Aero Asia Tbk (GMFI) is an Indonesia-based aircraft maintenance, repair and overhaul (MRO) company that provides integrated solutions for domestic and foreign customers. GMFI was established as Garuda Indonesia Technical Directorate in 1949. In 1984, it became Garuda Maintenance & Engineering (M7E) division as GMF strategic business unit (SBU) and then was spin off as a subsidiary with the name PT GMF AeroAsia. GMF is able to carry out maintenance and repair of aircraft in an integrated business unit from line maintenance to overhaul, maintenance and repair of machinery and components, modification and cabin refurbishment. Business development continues and in 2012, GMF began providing Industrial Gas Turbine Engine (IGTE) maintenance services as well as maintenance of industrial generator overhaul, which is a new source of revenue. In addition, GMFI changed their financial statements into United States Dollars (USD). In 2013, GMFI added two new business fields namely SBU Engine Maintenance and SBU IGTE and the construction of Hangar 4. Hangar 4 has been operated since 2015 as the largest narrow body hangar in the world with a 16 line aircraft capacity. Overall, GMFI has 4 hangars, 47 outstation line maintenance facilities worldwide, and a 970,000 sqm facilities at Cengkareng. At the end of 2017, GMFI made an initial public offering (IPO).

Shareholding Structure



Key facilities of GMFI to support company as total solution provider

4
Hangars

47
Outstation Line
Maintenance Worldwide

970,000
Sq-m
Facilities Area at
Cengkareng

HANGAR 1

Features a purpose-built docking platform for heavy maintenance of wide body aircrafts

2 Line Wide Body
 22,000 sq-m

HANGAR 2

Dedicated to minor maintenance inspections up to "A" checks

3 Line Wide Body
6 Line Narrow Body
 23,000 sq-m

HANGAR 3

Equipped with a purpose built docking platform for heavy maintenance of Airbus A330 Series

3 Line Wide Body
 23,000 sq-m

HANGAR 4

Serves narrow-body aircrafts, featuring one line dedicated as a painting hangar

15 Narrow Body
1 Painting
 66,940 sq-m

Joint Operation GMF-MMF
2 Line - Turboprop & Gen Aviation
2,852 sq-m

AIRBUS TRAINING CENTER
126 sq-m

CENTRAL WAREHOUSE
16,000 sq-m

COMPONENT WORKSHOP
20,000 sq-m

ENGINE WORKSHOP & TEST CELL FACILITY
31,000 sq-m

GMFI and MRO industries

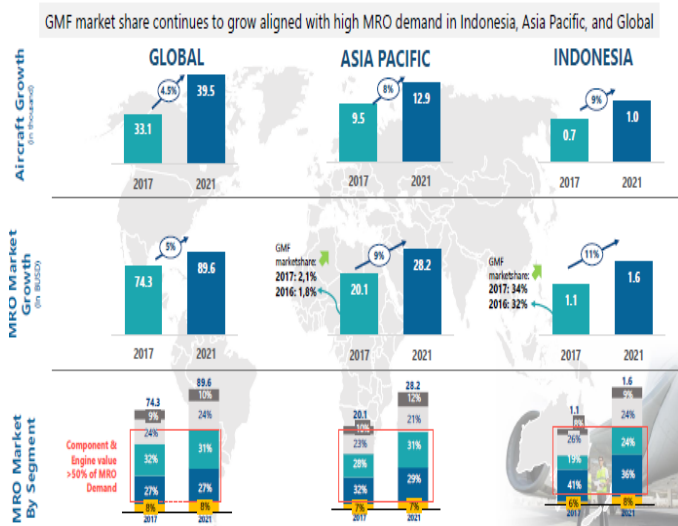
The MRO industry is a relatively safe industry despite changing economic conditions. High growth is mainly focused on the Asia Pacific region and the Middle East. The industry itself is driven by air traffic and aircraft growth. The increasingly interconnected network of air traffic domestically and globally has facilitated stable demand for industry services. The key contributor to the industry outlook is the rising middle-affluent class combined with penetration of LCC. Indonesia's MRO market is projected to grow to US1.6bn in 2021 or 11% pa growth over the next 5 years, higher than world MRO market growth which is estimated to be 5% pa over the next 5 years. The business is broadly divided into line maintenance and repair & overhaul (includes base maintenance, cabin maintenance, engine maintenance, and component maintenance) with the other business lines supporting these two key businesses. The growth of all business segments is mainly driven by, additional capacity & capability, increasing number of customers and shorter TAT/lead time. GMFI's significant growth was mainly attributable to their captive customers which contribute on average 90% to total revenue (Garuda is the main contributor followed by Citilink, Sriwijaya, Lion air & Air Asia). Non-GA key customers will be an increasingly important revenue stream going forward to become 46% by 2021. GMFI is continuing to establish cooperation with world class partners for both capability and capacity development and is striving to obtain new customers

Customer portfolio by BU in 2021 and the key customers



▶ We have initiatives in plans to increase our NGA customers from 30% in 2016 to 46% in 2021

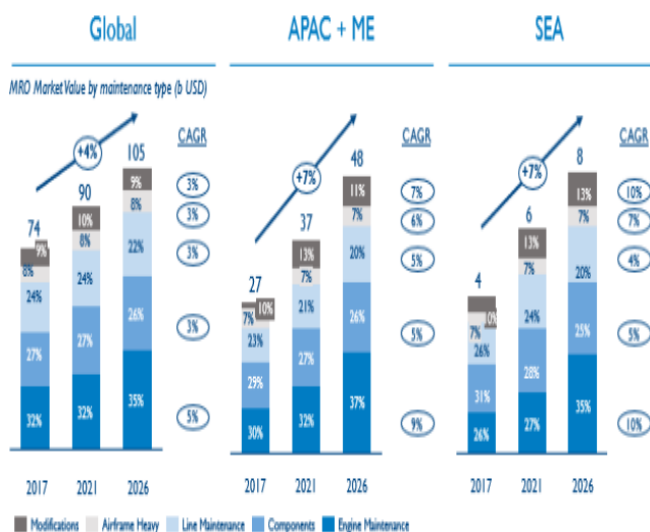
Chart of comparison of MRO's market share in global, Asia Pacific, and Indonesia



Focus on engine maintenance

GMFI is focusing on organic expansion towards component and engine maintenance (Repair and overhaul) as engine MRO demand growth is sizable and will outstrip line maintenance because many engines will enter their overdue period and GMFI plans to capture engine MRO market and reduce dependence on affiliated Garuda Indonesia (GIAA) line maintenance. GMFI has been continuously adding non affiliated customers to diversify revenue growth. Engine maintenance is the largest contributor and fastest growing across all geographies followed by modifications. In South East Asia, it is projected to grow 10% CAGR from 2017-2026. As of 9M18, the line maintenance's revenue was down 14% yoy following lower GIAA air traffic growth. GMFI's business depends on air traffic. Meanwhile, repair and overhaul's revenue increased 14% yoy. We estimate repair and overhaul revenue to grow 11% while line maintenance will be flattish in 2019F.

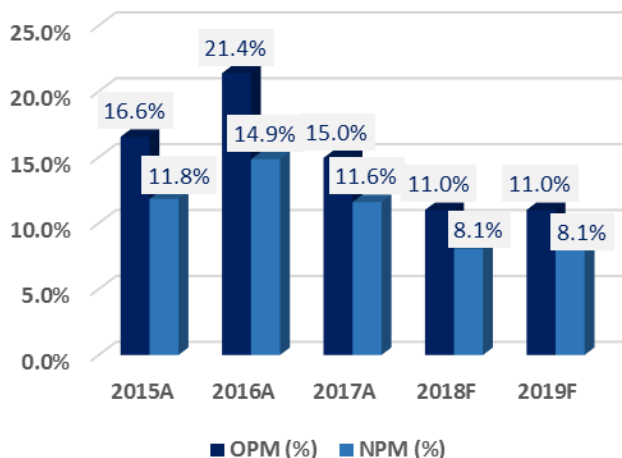
Chart of comparison of MRO's growth in global, Asia Pacific, and Indonesia



Develop capacity, capability, and partnership

In 3Q18, GMFI has signed a new partnership with Air France Industries KLM engineering & maintenance and PT China Communications Construction Indonesia. Through this partnership, GMFI plans to enhance their capability development to capture potential business from existing and new customers. The capability development is to reduce dependence on sub-contractors in component and engine maintenance. This business segment has lower margins as shown in the 9M18 result where OPM and NPM fell to 11% and 8% compared to 18% and 12% respectively in 9M17. The decrease in margins was caused by higher sub-contractors and material expenses. Operating expenses are mostly influenced by labor costs in line maintenance. As Indonesia's labor cost is the 2nd lowest in the world this is a cost advantage not a burden. Meanwhile in Component and engine maintenance, significant cost comes from sub-contractors and material. In 2019F, we estimate GMFI's margins will be lower compared to historical but we believe in the long term through capability development, GMFI margins will improve. We estimate OPM and NPM 2019 will be 11% and 8% respectively. GMFI also plans to develop business such as engine rental, trading spare parts for engine as part of an expansion in engine maintenance. In addition, GMFI is growing their international footprint, GMFI will expand to Australia in line maintenance, build partnership in Airbus maintenance and enter into the military market. Through these strategic expansions, GMFI is aiming to be on of the top 10 MROs by 2021.

Chart of Operating margin and net profit margin (%)



Balance Sheet (US\$.mn)

Balance sheet (US\$.mn)	2015A	2016A	2017A	2018F	2019F	2020F
Cash and cash equivalent	25.65	61.31	84.03	139.75	155.94	218.60
Trade Account Receivable	50.20	76.79	52.83	119.69	115.67	132.08
inventory	68.60	84.32	106.81	131.61	135.79	148.60
Other current asset	66.29	105.80	159.02	216.36	241.40	203.63
Current Asset	210.75	328.21	402.68	607.40	648.80	702.91
Net Fixed Asset	89.59	105.16	123.27	152.39	188.96	234.31
other long term asset	12.65	9.21	13.20	13.81	15.09	16.51
Total non current Asset	102.25	114.38	136.47	166.20	204.05	250.82
Total Asset	312.99	442.59	539.15	773.60	852.85	953.74
Trade Payable	48.83	71.05	71.04	101.27	135.79	148.60
Short Term bank loans	0.00	33.34	22.33	64.09	19.50	35.00
Other Current liabilities	42.87	42.39	41.99	138.10	157.92	165.11
Total current liabilities	91.71	146.78	135.37	303.47	313.20	348.70
Long term liabilities	49.20	85.62	57.35	78.54	100.59	110.07
Due to a shareholder	3.88	1.47	0.49	0.00	0.00	0.00
Other Long term liabilities	45.41	36.16	40.16	46.03	50.29	55.04
Total long term/ non current liabilities	98.50	123.25	98.00	124.57	150.88	165.11
Total Liabilities	190.20	270.03	233.36	428.04	464.08	513.81
Total Equities	122.79	172.55	305.79	345.56	388.77	439.93
Total Liabilities and equity	312.99	442.59	539.15	773.60	852.85	953.74

Cash Flow (US\$.mn)

Cash Flow (in US\$. mn)	2016A	2017A	2018F	2019F	2018F
+ Net Income	57.74	50.95	37.11	40.55	48.50
+Depreciation	13.97	13.97	16.66	20.66	25.62
- Change in WC	(26.74)	(63.16)	19.10	(15.47)	44.05
Cash From Operating Activities	44.98	1.75	72.88	45.74	118.18
capex	(26.10)	(36.07)	(46.39)	(58.51)	(72.40)
cash from investing activities	(26.10)	(36.07)	(46.39)	(58.51)	(72.40)
Long term liabilities	36.42	(28.27)	21.19	22.05	9.49
Due to a shareholder	(2.41)	(0.98)	(0.49)	0.00	0.00
Other Long term liabilities	(9.25)	4.00	5.87	4.26	4.74
equity	(7.98)	82.29	2.66	2.66	2.66
cash from financing activities	16.78	57.03	29.24	28.96	16.89
Net Changes in Cash	35.66	22.72	55.72	16.19	62.67
Beginning Balance	25.65	61.31	84.03	139.75	155.94
Ending balance	61.31	84.03	139.75	155.94	218.60

Ratio Highlights

	2015A	2016 A	2017 A	2018 F	2019 F	2020 F
Growth (% YoY)						
Sales	27.18%	13.02%	4.79%	4.79%	9.25%	9.43%
OP	64.24%	-20.93%	-22.92%	-22.92%	9.25%	19.38%
EBITDA	58.09%	-4.71%	-23.72%	-23.72%	11.78%	20.82%
NP	59.58%	-11.77%	-27.15%	-27.15%	9.25%	19.61%
EPS	59.58%	-14.20%	-32.58%	-32.58%	9.25%	19.61%
Profitability						
Operating Margin(%)	16.55%	21.38%	14.96%	11.00%	11.00%	12.00%
EBITDA margin(%)	19.65%	24.43%	20.59%	14.99%	15.34%	16.93%
NET Profit margin(%)	11.84%	14.86%	11.60%	8.06%	8.06%	8.81%
ROA(%)	11.56%	13.05%	9.45%	4.80%	4.75%	5.09%
ROE(%)	29.47%	33.46%	16.66%	10.74%	10.43%	11.02%
Solvability						
Net debt/ tot. Equity (X)	0.19	0.33	(0.01)	0.01	(0.09)	(0.17)
Debt Ratio	0.16	0.27	0.15	0.18	0.14	0.15
Int. Coverage (x)	15.54	11.76	7.75	17.35	22.51	22.29
Liquidity (x)						
Current ratio	2.30	2.24	2.97	2.00	2.07	2.02
Per Share data (USD)						
EPS	0.001	0.002	0.002	0.001	0.001	0.002
BVS	0.005	0.007	0.012	0.012	0.014	0.016

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
(62-21) 520-6678 ext.612

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