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Equity Research

Garuda Indonesia (GIAA)

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A reputable company with a bad year

Recommendation: Buy
Opinion: At the current price of Rp 300, GIAA stocks are well below book value and extremely cheap.
- Current financial woes are probably temporary
- Despite operational risks, risk to reward ratio at current price is still favourable
- New CEO provides optimism for a turnaround

Key figures and ratios

Market Cap (Rp):	7.76 Trillion
Net Profit Margin:	-7,13%
EPS (Annualized):	Rp -154
P/E:	-1,948
P/CF:	-11.78
P/Book:	0.714
P/Sales (Annualized)	0.138
Dividend Payout Ratio:	0
Current Ratio:	0.538
Debt Ratio	0.784

Ongoing financial difficulties lead to attractive valuations

Comparing book value per share to current price (Table 1), GIAA looks to be cheap. There are a few reasons why the stock price is relatively low. The main reason being GIAA has poor financial ratios and is expected to end the year with a loss. Furthermore, the airline industry is notorious for being very capital intensive and prone to bankruptcy. However, there is no reason to believe that GIAA stocks are worth less than its current book value (Which is arguably lower than true worth of its book value give that it does not account for brand equity) Despite dismal financial statements and ratios that suggest possible insolvency, GIAA's financial position could improve in the near future. A significant portion of GIAA's recent loss of 221.9 million USD can be attributed to a one time, non recurring government penalty of 137 million USD and rising fuel costs. While fuel costs are likely to be higher in the 4th quarter due to rising oil prices, GIAA's coming financial statements should improve without the mentioned one time expense.

Table 1:

GIAA	Rp
Current Price	300
Book value per share	420
Cash flow per share	-11.78

GIAA Dec 2016 - Dec 2017



No immediate danger

Garuda Indonesia is still a respected brand with valuable assets and should be able to get additional funding that would prevent any immediate financial turmoil. Also, under new CEO Pahala Mansury, who was appointed the position in April 2017, cost cutting measures and renegotiations are underway to improve efficiency. It remains to be seen how successful efforts to improve efficiency will be, but the steps new management has taken to shift focus from expansion to reducing costs seems to be a movement in the right direction. Currently, market sentiment towards GIAA is overwhelmingly negative which depresses the stock price making for an attractive entry point (GIAA stocks are near the all time low). Even though competition in the airline business has grown much more intense in recent years, GIAA has managed a net profit every year since 2009 except for 2014 (and most probably 2017), and current valuation of GIAA stocks reflect poor yearly earnings (based on 2017 performance) that are likely to improve

Fundamental Risks

Profits of GIAA, like all other airlines are highly dependent on fuel prices that changes unpredictably.

Managers of GIAA intend to increase debt next year by issuing bonds, increasing leverage and likely to worsen already poor solvency ratios.

GIAA's plan to cut costs depend heavily on renegotiation, which may be difficult to execute. Managers of GIAA have stated that they intend to complete renegotiation for 30 contracts by end of 2017 and have only finished 9 as of September 2017.

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