

6 November 2013 | 7 pages

Airlines
Asia | Indonesia

Garuda Indonesia (GIAA.JK)

Alert: 3Q13 Loss – Revenue +10% YoY, but Results Impacted by Weaker IDR

Total 3Q13 Revenue improved 10% YoY to US\$961m (with RPKs +14%, offset by weaker PAX yields in USD terms). However, with Total Cost +19% YoY (and +18% YoY ex Fuel), Reported EBIT of US\$8m declined ~90%, leading Reported Net Income to swing to a loss of (US\$11m) versus a gain of US\$54m a year ago. With roughly 55% of the company's revenue denominated in IDR (while ~60% of its costs and 80% of debt are denominated in USD), GIAA's results were impacted by the 12% YoY depreciation (9% QoQ) in the USD IDR. That said, in IDR terms the company's 3Q13 Domestic PAX Yield +15% YoY (vs +2-3% YoY in 1H13).

3Q Operating Performance – During 3Q, GIAA reported an 19% increase in passengers and 14% growth in RPKs YoY (+22% and 17% in 9M13), while capacity (in ASKs) increased 21% (vs 19% in 9M13), resulting in 550bp deterioration in Seat LF (vs -120bp YoY in 9M13). Garuda's domestic RPKs and ASKs +10% and 19% YoY in 3Q, respectively, vs International RPKs and ASKs, +7% and +15% YoY (resulting in 550bp of LF deterioration in both segments). Citilink RPKs and ASKs, +78% and +59% YoY, respectively, resulting in 840bp of YoY LF improvement, but remained loss-making at the EBIT line.

Fleet Development – The Group ended 3Q with 131 aircraft in total (up from 106 at the beginning of the year), including 21 wide body and 110 narrow body (of which 29 are at Citilink). Mgmt reiterated its guidance for 139 aircraft by year end (equating to 15-20% ASK growth vs the YTD growth of 19%).

With one 777 delivered in July and two more expected in 4Q (plying the Tokyo, Shanghai and Seoul routes in addition to the Middle East), management will cascade its A330 capacity to other regional lanes, which may weigh on utilization near term. Last month, GIAA signed a financing agreement with ICBC's Leasing Unit for five Boeing 777-300 ER (sale leaseback) and six Citilink Airbus 320-200 (operating lease). The company is scheduled to take delivery of the five Boeing 777-300ER in May 2014 through September 2015, while the six Airbus 320-200 will join the Citilink fleet in June through December 2014. For additional detail regarding the impact of the weaker IDR on future aircraft orders in Indonesia, please see our report, [Global Freight Debate: Global Transportation Questions & Answers: 3Q13](#).

Balance Sheet Update – GIAA ended the period with US\$373m in cash and US\$938m in debt (for a net gearing level of 52% vs 45% at 30 June 2013). Capex appears to be tracking below expectations, with just US\$133m spent in the period of the US\$300-400m initially guided for FY13 as mgmt has opted for additional operating leases.

Buy	1
Price (06 Nov 13)	Rp490
Target price	Rp840
Expected share price return	71.4%
Expected dividend yield	0.0%
Expected total return	71.4%
Market Cap	Rp11,094,088M
	US\$977M

Price Performance (RIC: GIAA.JK, BB: GIAA IJ)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Garuda Indonesia

Valuation

Our target price of Rp840/share is the average of per-share valuations using 7.7x Adjusted EV/EBITDAR applied to FY12E and FY13E estimates. Our target multiple of 7.7x Adj. EV/EBITDAR is pegged at roughly 10% premium to Garuda's Asian peers, which we think is justified by investors' and the Street's increased recognition of Garuda's turnaround strategy. Adjusted EV/EBITDAR is a common valuation method for airlines which adjusts for differences in capital structure between airlines. We think this method is appropriate to value Garuda as its share price is likely to be driven by investors' expectations of its earnings growth.

Risks

Key downside risks for Garuda include: *i)* slower than expected progress or weaker discipline in executing its ongoing turnaround strategy; *ii)* weak market positioning in International segment, *iii)* intense competition capping upside to load factors and yields, *iv)* earnings drag from Citilink, *v)* volatile jet fuel costs. These risks could impede the stock from reaching our target price.

Appendix A-1

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Garuda Indonesia (GIAA.JK)

Ratings and Target Price History Fundamental Research

Analyst: Vivian Tao

Covered since April 1 2013



Date	Rating	Target Price	Closing Price
1 17-May-11	*2H	*610.00	530.00
2 28-Sep-11	2H	*550.00	450.00
3 7-Oct-11	Stock rating system changed		

* Indicates change

Date	Rating	Target Price	Closing Price
4 7-Oct-11	*1H	550.00	400.00
5 30-Oct-11	1H	*570.00	435.00
6 10-Jan-12	1H	*750.00	540.00

Date	Rating	Target Price	Closing Price
7 21-Mar-12	1H	*780.00	640.00
8 26-Oct-12	*1	780.00	730.00
9 18-Jul-13	1	*840.00	520.00

Rating/target price changes above reflect Eastern Standard Time

Garuda Indonesia (GIAA.JK)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Vivian Tao

Covered since April 1 2013



Date	Rating	Target Price	Closing Price
[1] 31-Oct-11	*ADD MP	-	445.00

* Indicates change

Date	Rating	Target Price	Closing Price
[2] 15-Mar-13	*REM MP	-	660.00

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Data current as of 30 Sep 2013

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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