

## RMBA: Overlooked Cigarette Company

### Fourth Biggest Tobacco Company in Indonesia

RMBA is the fourth biggest cigarette companies in Indonesia which held 8.4% market shares, behind HMSP (29.1%), GGRM (21.8%), and Djarum (19.7%). The company was acquired by the second largest tobacco company, British American Tobacco (BAT) in May'09 and merged with PT BAT Indonesia in early 2010. RMBA has strong cigarettes brands in low-end market segment such as Sejati and Bintang Buana; and other well known brands such as Star Mild, X Mild, and Dunhill. Machine made cigarettes dominates the company's products, represent 65% of the top line while the hand made cigarettes contribute 35%.

#### RMBA Brands



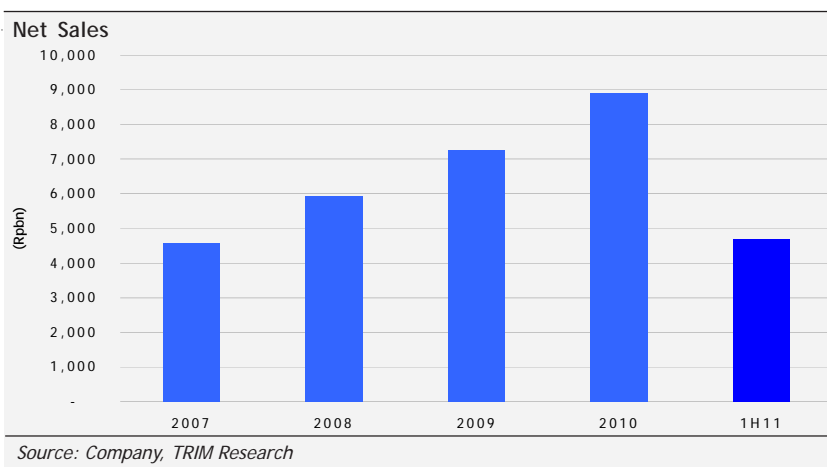
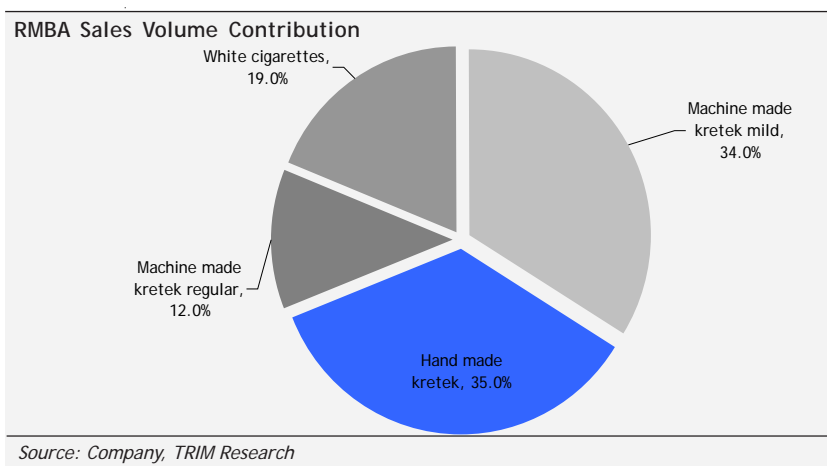
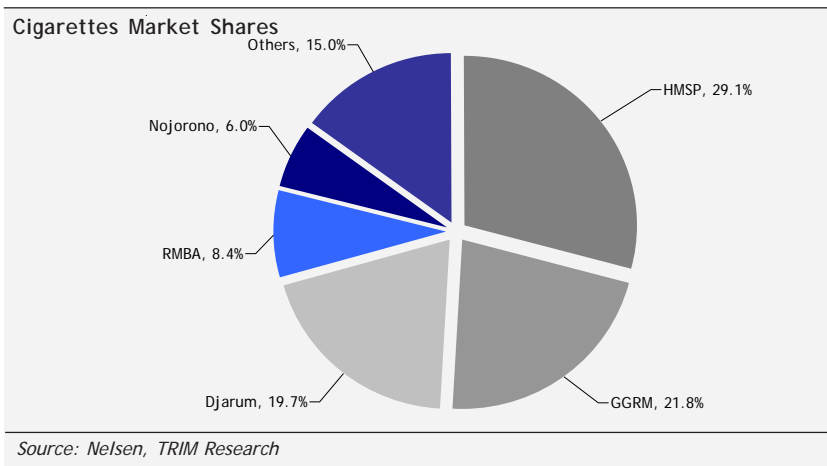
Source: Company

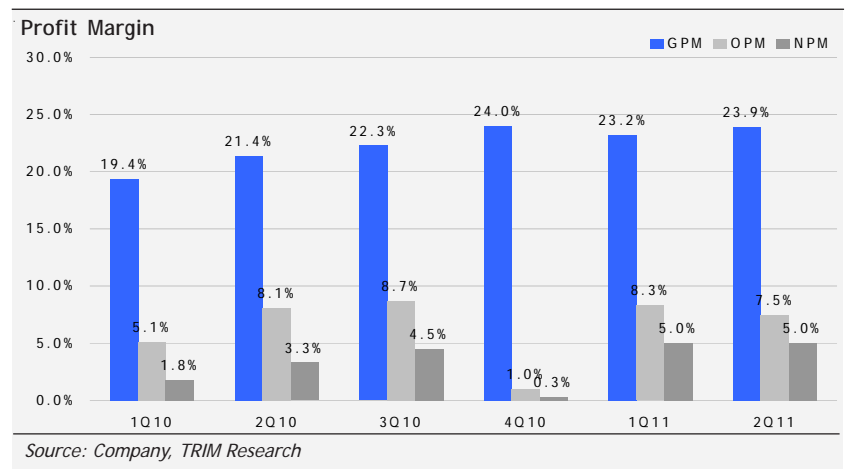
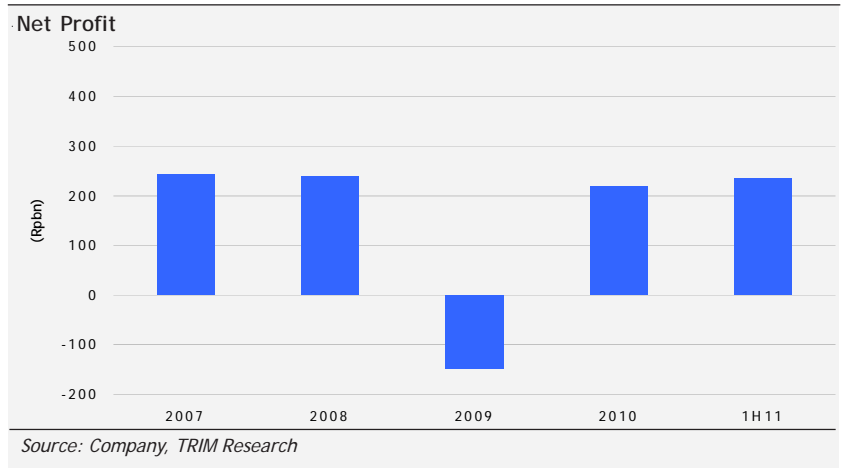
### Good 1H11, Promising Future

The company showed earnings improvement in the last two years; after suffered Rp148bn loss in FY09, the company booked Rp218bn profit in FY10, and in 1H11, RMBA reported Rp235bn net profit, exceed the FY10 figure. The turn around in the bottom line lead by higher margin due to price increased and efficiency. Going forward, management plans to seize more market share by strengthening its brands and launched new products. Promotion expense increase 19.7% and 73.7% YoY in FY10 and 1H11 respectively. BAT also gives special concern to research and development with last year R&D expense grew 7 fold to Rp77bn, produced some new products like Uno Mild and Dunhill Switch.

## Valuation and Recommendation

We like the company due to its cheap valuation, good management, and improving earnings. RMBA currently traded at 12.2x FY11 PE ratio (annualizing the 1H 11 net profits) compare to HMSP and GGRM which traded at 19.5x and 22.9x FY11 ratio respectively. Refer to HMSP experienced after acquired by Phillip Morris, we believe BAT will give significant improvement in RMBA performance in medium term. BAT recently sold 13.3% RMBA stake to UBS AG to comply with Bapepam-LK rule.





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