

Thursday, 07 September 2017

BUY UPGRADE

Last price (IDR)	3,660
Target Price (IDR)	4,100
Upside/Downside	+12.0%
Previous Target Price (IDR)	3,850

Stock Statistics

Sector	CIGARETTE
Bloomberg Ticker	HMSP IJ
No of Shrs (mn)	116,318
Mkt. Cap (IDR bn/USDmn)	425,724/31,930
Avg. daily T/O (IDR bn/USDmn)	73.8/5.5

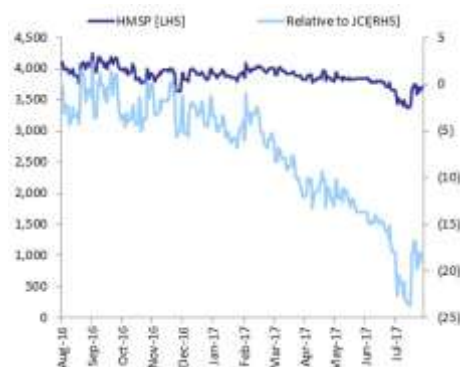
Major shareholders

PHILIP MORRIS INDONESIA	92.5%
VONTOBEL HOLDING AG	0.4%
Estimated free float (%)	7.5

EPS Consensus (IDR)

	2017F	2018F	2019F
Danareksa	109.0	116.8	130.7
Consensus	114.4	125.4	138.3
Danareksa/Cons	(4.8)	(6.9)	(5.6)

HMSP relative to JCI Index



Source : Bloomberg

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HM SAMPOERNA (HMSP IJ)

Renewed growth

With purchasing power expected to pick up in 2H17, sales should also improve. Going into 2018, sales should benefit from the government's pro poor program as well as the less-aggressive excise tax revenues target, allowing earnings to grow by 7% yoy. Upgrade to BUY.

Expect better sales in 2H17. Going into 2H17, purchasing power should improve on the back of easing cost pressures given the government's plans to: 1) delay the lifting of electricity tariff subsidies on 450 VA households, 2) allocate subsidies to 900 VA households which deserve to receive subsidies (IDR1.7tn) and 3) postpone LPG retail price hikes. Higher government spending toward the end of the year should also help bolster purchasing power in 2H17. Against this backdrop, sales should show better performance in 2H17 supported by new product offerings.

Solid FY18F earnings growth. Based on our calculation, the net revenues margin for A Mild and Dji Sam Soe is down by 5% and 3%, respectively, in June 2017 since September 2015. The limited room for ASP adjustments and negative sales volume will filter through to a flat FY17 bottom line. For 2018, we estimate stronger revenues growth of 9.2% yoy with flattish sales volume. Given this and a manageable increase in excise tax (we estimate a 9.2% yoy increase for SKT and 9.7% yoy increase for SKM. For SPM, we assume 12% yoy, a similar increase like 2017), we expect HMSP to book solid FY18 earnings growth of 7.1% yoy.

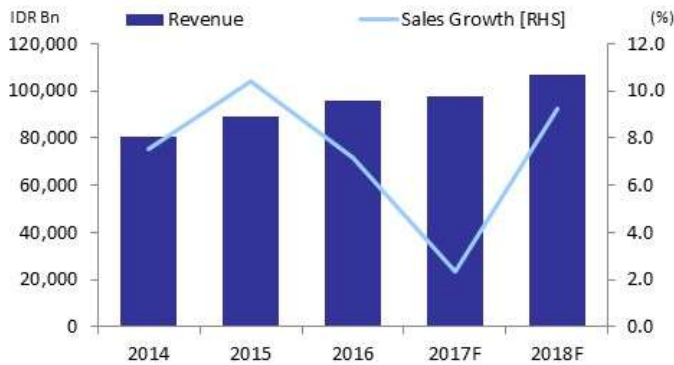
Upgrade to BUY with a higher TP. Going into 2018, we see more catalysts for higher sales volume, stemming from: (1) the possibility of a less aggressive excise tax revenues target, (2) higher energy subsidies and the expectation of more pro-poor government programs through direct cash assistance. With brisker sales, the earnings of cigarette companies should improve as well, we believe. We roll over our valuation and upgrade our recommendation to BUY with a higher TP of IDR4,100 – based on the median value of the DCF valuation (WACC 9%, TG 4%) and +1SD average 3-year PE of 36.5x.

Key Financials

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue, (IDRbn)	89,069	95,467	97,717	106,735	120,116
EBITDA, (IDRbn)	14,703	16,745	16,721	18,276	20,427
EBITDA Growth, (%)	2.3	13.9	(0.1)	9.3	11.8
Net profit (IDRbn)	10,363	12,762	12,677	13,581	15,198
EPS (IDR)	89.1	109.7	109.0	116.8	130.7
EPS growth (%)	1.8	23.1	(0.7)	7.1	11.9
BVPS, (IDR)	275.2	293.8	295.1	304.9	320.9
DPS, (IDR)	105.3	89.0	107.7	107.0	114.6
PER (x)	41.1	33.4	33.6	31.3	28.0
PBV (x)	13.3	12.5	12.4	12.0	11.4
Dividend yield (%)	2.9	2.4	2.9	2.9	3.1
EV/EBITDA (x)	28.8	25.1	25.2	23.0	20.5

Source : HMSP, Danareksa Estimates

EXHIBIT 1. REVENUE AND GROWTH



Source: Company, Danareksa Sekuritas estimates

EXHIBIT 2. NET PROFIT AND GROWTH



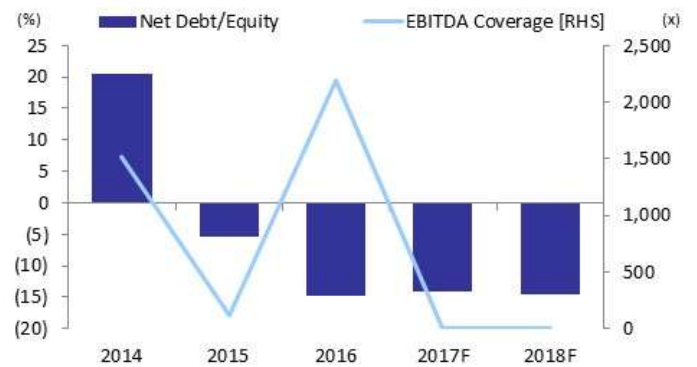
Source: Company, Danareksa Sekuritas estimates

EXHIBIT 3. MARGIN



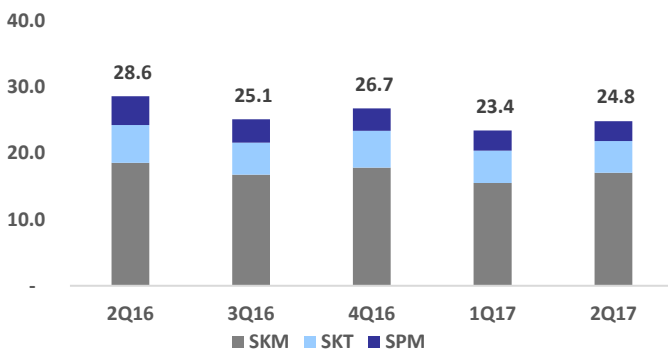
Source: Company, Danareksa Sekuritas estimates

EXHIBIT 4. GEARING LEVEL



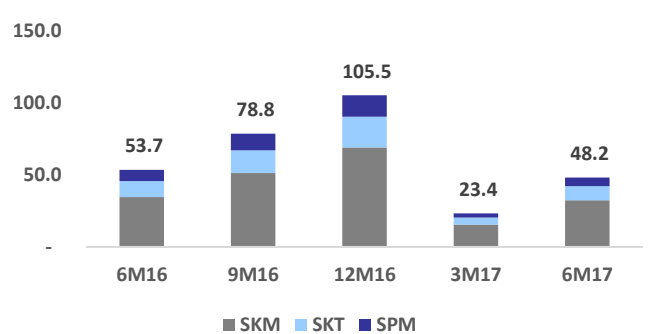
Source: Company, Danareksa Sekuritas estimates

EXHIBIT 5. QUARTERLY SALES VOLUME



Source: Company

EXHIBIT 6. CUMULATIVE SALES VOLUME

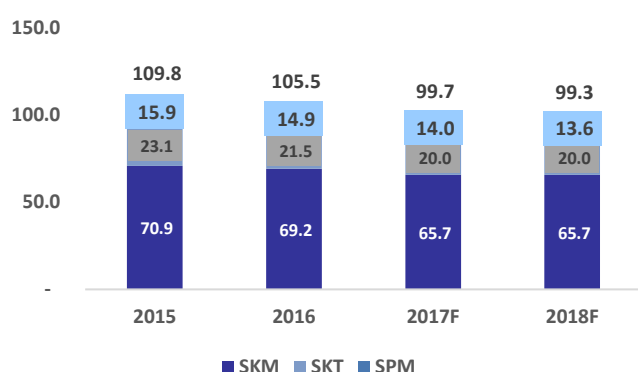


Source: Company, Danareksa Sekuritas estimates

Easing cost pressures and new product offerings to support sales. HMSP's sales volume contracted by 10% yoy in 1H17 giving the company lower market share. This was due to a high base in 2Q16 in addition to suppressed purchasing power resulting from above-inflation excise tax increases. Looking ahead to 2H17, however, we believe that sales volume will show an improvement. For the full year, we forecast sales volume of 99.7bn sticks (down 5.5% yoy).

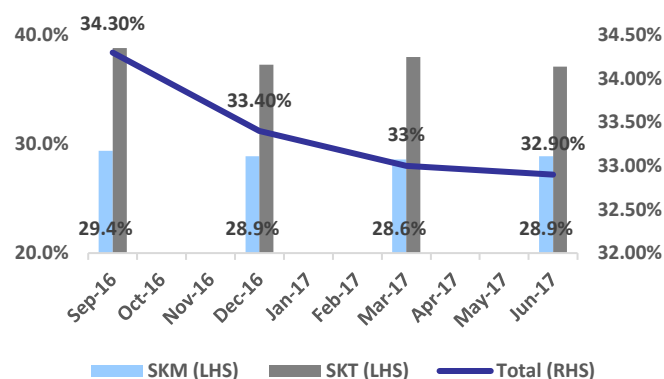
Encouragingly, the company's new products (Marlboro Filter Black and Magnum Mild) are reportedly selling well. As a result, the company's share of the machine-made cigarette (SKM) segment climbed to 28.9% in 6M17 from 28.6% at the end of March 2017. With more innovative product offerings set to take place, better performance looks assured.

EXHIBIT 7. HMSP DOMESTIC SALES VOLUME



Source: Company

EXHIBIT 8. MARKET SHARE OF HMSP



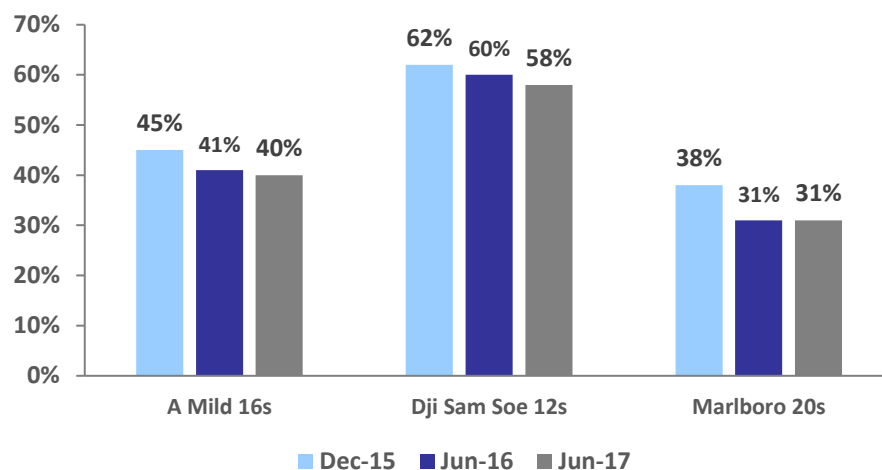
Source: Company, Danareksa Sekuritas estimates

2017F: Flat net profits thanks to robust interest income. Based on our calculation, the net revenues margin for A Mild and Dji Sam Soe is down by 5% and 3%, respectively, in June 2017 since September 2015. This suggests there is limited room for ASP adjustments this year. Combined with negative sales volume growth, we estimate flattish revenues growth of 2.4% yoy to IDR97.7tn. At the operating level, we expect the operating margin to be squeezed slightly due to the higher opex stemming from higher salaries/wages which will arise from efforts to promote sales. Nonetheless, thanks to higher interest income from the robust cash balance, we expect HMSP to book a flat bottom line of IDR12.7tn. We revise down our FY17 revenues and net profit estimates by 4.5% and 3.4%, respectively.

Exhibit 9. Earnings revision

	Old		New		Changes	
	2017	2018	2017	2018	2017	2018
Revenue	102,342	109,752	97,717	106,735	-4.5%	-2.7%
Gross profit	25,081	26,958	23,820	26,090	-5.0%	-3.2%
Operating profit	16,763	18,037	15,948	17,385	-4.9%	-3.6%
Net profit	13,130	14,180	12,677	13,581	-3.4%	-4.2%
Gross margin	24.5%	24.6%	24.4%	24.4%		
Operating margin	16.4%	16.4%	16.3%	16.3%		
Net margin	12.8%	12.9%	13.0%	12.7%		

Source: Company, Danareksa Sekuritas estimates

Exhibit 10. Net revenues margin/pack for HMSP's major brands


Source: Company, Danareksa Sekuritas estimates

2018: Earnings growth expected to reach 7.1% yoy. For 2018, we expect stronger revenues growth of 9.2%, stemming from flattish sales volume (-0.3% yoy) and ASP hikes. As for the excise tax tariffs, we estimate a 9.2% yoy increase for SKT and 9.7% yoy increase for SKM, based on the 5-year CAGR historical excise tax increases. For SPM, we assume a similar increase in the excise tax tariffs of 12% in 2018. Our optimism is underpinned by the expectation of improving macro-economic conditions which should ultimately translate into higher purchasing power. As such, we believe that HMSP will be able to maintain its FY18F gross and operating margins at 24.4% and 16.3%, respectively. This will filter through to a 7.1% yoy expected increase in the FY18 bottom line to IDR13.6tn.

Based on our sensitivity analysis, 1% higher ASP from our assumptions for SKM, SKT and SPM will lead to 3.5% higher FY18 earnings. Meanwhile, 1% lower excise tax from our assumption will translate into 2.5% higher earnings in 2018.

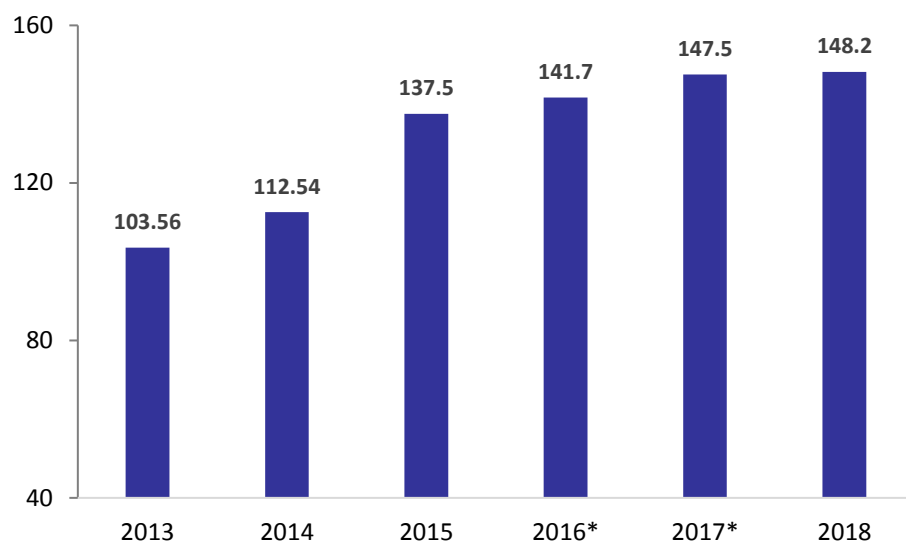
Exhibit 11. Sensitivity analysis

2018 (IDR bn)	Base		Bull		Bear	
	Revenue	Net profit	Revenue	Net profit	Revenue	Net profit
+/- 1% ASP for SKT, SKM and SPM	106,735	13,581	107,692	14,056	105,777	13,105
+/- 1% excise tax growth	106,735	13,581	106,735	13,917	106,735	13,244

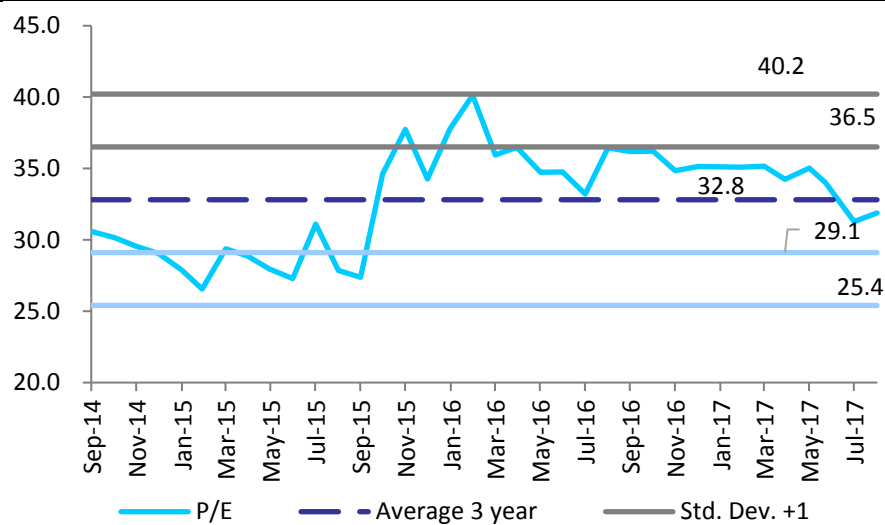
Changes to Base

+/- 1% ASP for SKT, SKM and SPM			0.9%	3.5%	-0.9%	-3.5%
+/- 1% excise tax growth			0.0%	2.5%	0.0%	-2.5%

Source: Danareksa Sekuritas estimates

Exhibit 12. Excise tax revenues from cigarette (IDR tn)


Source: Ministry of Finance *Revised state budget

Exhibit 13. PE Band


Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 14. Income Statement

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Revenue	89,069	95,467	97,717	106,735	120,116
COGS	(67,305)	(71,612)	(73,897)	(80,644)	(90,763)
Gross profit	21,764	23,855	23,820	26,090	29,353
EBITDA	14,703	16,745	16,721	18,276	20,427
Oper. profit	14,048	16,020	15,948	17,385	19,436
Interest income	99	854	790	559	658
Interest expense	(120)	(8)	0	0	0
Forex Gain/(Loss)	(18)	(15)	0	0	0
Income From Assoc. Co's	16	0	0	0	0
Other Income (Expenses)	(92)	159	159	164	169
Pre-tax profit	13,933	17,011	16,898	18,108	20,264
Income tax	(3,569)	(4,249)	(4,221)	(4,527)	(5,066)
Minority interest	0	0	0	0	0
Net profit	10,363	12,762	12,677	13,581	15,198
Core Net Profit	10,382	12,777	12,677	13,581	15,198

Exhibit 15. Balance Sheet

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Cash & cash equivalent	1,719	5,056	4,875	5,178	6,672
Receivables	4,727	4,996	5,051	5,536	6,242
Inventory	19,072	19,442	19,083	19,720	19,730
Other Curr. Asset	2,941	2,519	2,803	2,954	3,118
Fixed assets - Net	6,281	6,895	7,359	7,775	8,092
Other non-curr.asset	1,922	1,965	1,990	1,965	2,101
Total asset	38,011	42,508	42,795	44,762	47,590
ST Debt	0	0	0	0	0
Payables	3,191	3,871	3,564	3,992	4,434
Other Curr. Liabilities	781	1,898	2,123	2,287	2,547
Long Term Debt	0	0	0	0	0
Other LT. Liabilities	2,021	2,564	2,783	3,021	3,280
Total Liabilities	5,994	8,333	8,470	9,300	10,261
Shareholder's Funds	32,016	34,175	34,324	35,462	37,329
Minority interests	0	0	0	0	0
Total Equity & Liabilities	38,010	42,508	42,795	44,761	47,590

Exhibit 16. Cash Flow

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Net income	10,363	12,762	12,677	13,581	15,198
Depreciation and Amort.	440	616	773	891	991
Change in Working Capital	(4,839)	39	(2)	(695)	(273)
Other Oper. Cash Flow	(7,392)	785	(789)	(483)	(496)
Operating Cash Flow	(1,428)	14,203	12,658	13,294	15,419
Capex	(971)	(1,209)	(1,270)	(1,308)	(1,308)
Others Inv. Cash Flow	(1,320)	506	799	584	522
Investing Cash Flow	(2,291)	(703)	(471)	(724)	(786)
Net change in debt	(2,835)	0	0	0	0
New Capital	20,414	(19)	0	0	0
Dividend payment	12,250	10,352	12,527	12,444	13,331
Other Fin. Cash Flow	45	209	159	175	192
Financing Cash Flow	29,874	10,543	12,687	12,619	13,523
Net Change in Cash	26,155	24,042	24,874	25,189	28,156
Cash - begin of the year	65	1,719	5,056	4,875	5,178
Cash - end of the year	1,719	5,056	4,875	5,178	6,672

Exhibit 17. Key Ratios

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
Growth (%)					
Sales	10.4	7.2	2.4	9.2	12.5
EBITDA	2.3	13.9	(0.1)	9.3	11.8
Operating profit	1.8	14.0	(0.5)	9.0	11.8
Net profit	1.8	23.1	(0.7)	7.1	11.9
Profitability (%)					
Gross margin	24.4	25.0	24.4	24.4	24.4
EBITDA margin	16.5	17.5	17.1	17.1	17.0
Operating margin	15.8	16.8	16.3	16.3	16.2
Net margin	11.6	13.4	13.0	12.7	12.7
ROAA	31.2	31.7	29.7	31.0	32.9
ROAE	45.5	38.6	37.0	38.9	41.8
Leverage					
Net Gearing (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Interest Coverage (x)	116.9	2,096.1	0.0	0.0	0.0

Source : HMSP, Danareksa Estimates

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