

Tuesday, 12 May 2020

HOLD Downgrade

Last price (IDR)	1,660
Target Price (IDR)	1,640
Upside/Downside	-1.2%
Previous Target Price (IDR)	1,700

Stock Statistics

Sector	CIGARETTE
Bloomberg Ticker	HMSP JJ
No of Shrs (mn)	116,318
Mkt. Cap (IDRbn/USDmn)	193,088/12,963
Avg. daily T/O (IDRbn/USDmn)	72.0/4.8

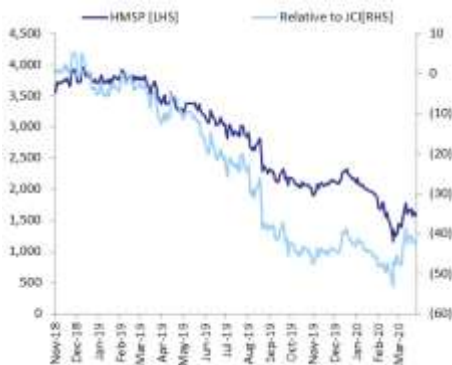
Major shareholders (%)

PHILIP MORRIS INDONESIA	92.5
Estimated free float	7.5

EPS Consensus (IDR)

	2020F	2021F	2022F
Danareksa	111.0	112.1	117.7
Consensus	105.9	112.4	115.4
Danareksa/Cons	4.8	(0.2)	2.0

HMSP relative to JCI Index



Source : Bloomberg



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HM Sampoerna(HMSP JJ)

Facing headwinds

For HMSP, we see greater challenges in the coming quarters given weak purchasing power amid the Covid-19 pandemic. As such, we estimate lower sales volume and lower ASP growth which translate into lower earnings. We see limited upside for HMSP. Downgrade to HOLD.

Another challenging year for the cigarette industry. In 1Q20, total cigarette industry sales volume was down 0.6% yoy, following positive growth of 1.1% in 2019. Amid soft industry growth and the declining trend in retail selling price adjustments (in 2016-19) combined with smokers' tendency to continue down trading to more affordable products, cigarette players will face greater challenges this year given the obligation to meet higher 2020 HJE with higher excise tax.

We use a lower FY20 volume assumption of -12.2% yoy. We see that the tendency of smokers to down trade to more affordable products will continue in the coming quarters with smoker preferences skewed toward high tar products. In 2019, low-price products sustained HMSP's volume as the price gap between Sampoerna A & most products at the bottom of the SKM segment had widened. The market share of Dji Sam Soe (DSS), Magnum Mild, Marlboro Filter Black (MFB) & Philip Morris Bold (PMB) continued to be sustained in 2017-19. However, the trend reversed in 1Q20 due to the lower price gap between Sampoerna A & lower price products such as DSS (IDR4,000/pack vs IDR7,500/pack at end-2019). With the prices of HMSP's value products already increased by 23% ytd and 20% yoy, we see further challenges going forward. Therefore, we estimate lower sales volume growth of -12.2% yoy this year (from -10% previously vs -7.6% in 1Q20).

FY20 earnings growth estimated at -5.9% yoy. Following the release of the FY19 result and the 1Q20 sales volume, we revise our FY20 top line by -7.5% yoy given the assumption of lower sales volume and lower ASP growth. Despite the encouraging market share improvement of Sampoerna A in 1Q20, we see greater challenges in 2Q20 onward as the negative impact of Covid-19 will kick in. As such, we estimate a 160bps lower GPM of 23% (FY19: 24.6%). The sluggish revenues should lead to further opex efficiencies. Additionally, to take into account the lower corporate tax rate implemented by the government this year, we estimate FY20 net profits of IDR12.9tn, or -5.9% yoy. We revise down our FY20 earnings estimate by 13.6%.

Downgrade to HOLD. At the current share price, HMSP is trading at FY20 PE of 15x, already at par with its parent (PM US Equity). We see limited upside going forward. Therefore, we downgrade our recommendation to HOLD – based on the FY20 PE of the parent company of 14.7x – which translates into a TP of IDR1,640.

Key Financials

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue (IDRbn)	106,742	106,055	104,629	108,121	113,998
EBITDA (IDRbn)	17,835	18,452	16,807	17,119	17,985
EBITDA Growth (%)	5.1	3.5	(8.9)	1.9	5.1
Net profit (IDRbn)	13,538	13,722	12,910	13,038	13,690
EPS (IDR)	116.4	118.0	111.0	112.1	117.7
EPS growth (%)	6.8	1.4	(5.9)	1.0	5.0
BVPS (IDR)	304.0	306.7	301.5	304.3	311.6
DPS (IDR)	107.3	117.2	116.2	109.3	110.4
PER (x)	14.3	14.1	15.0	14.8	14.1
PBV (x)	5.5	5.4	5.5	5.5	5.3
Dividend yield (%)	6.5	7.1	7.0	6.6	6.7
EV/EBITDA (x)	10.0	9.4	10.4	10.2	9.6

Source : HMSP, Danareksa Estimates

Exhibit 1. Revenues and Growth

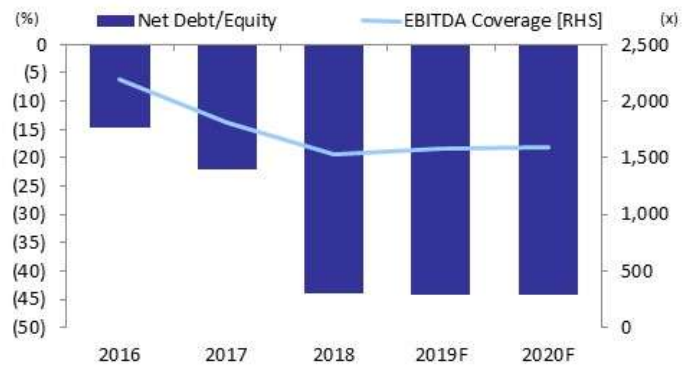

Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins


Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level


Source: Company, Danareksa Sekuritas estimates

Exhibit 5. 1Q20 volume

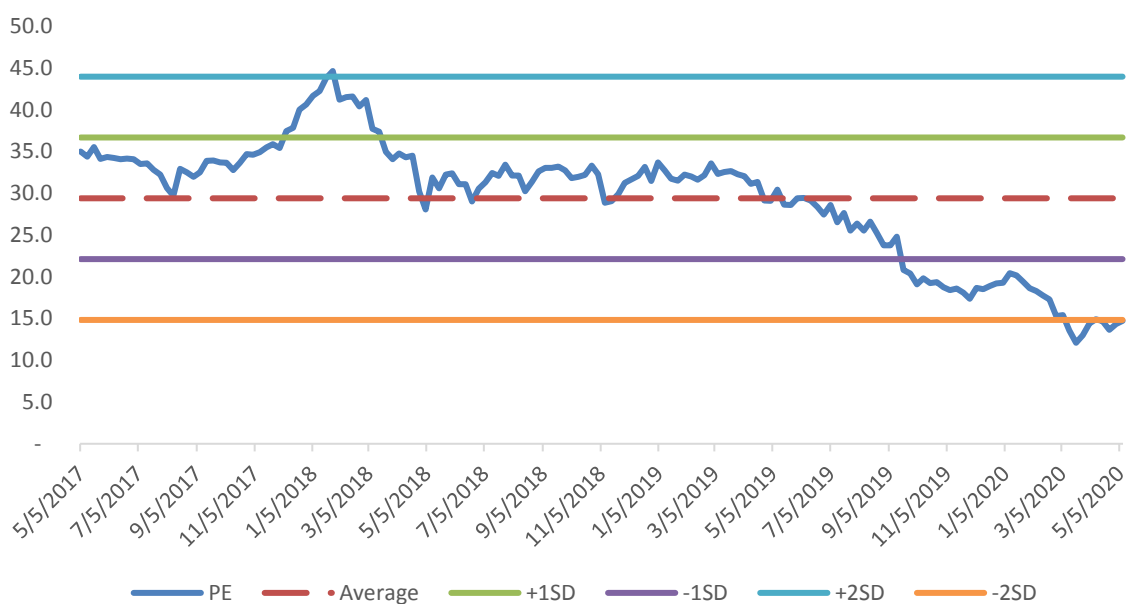
	FY18	FY19	yoy	1Q19	4Q19	1Q20	yoy	qoq
HMSP (mn sticks)	101,400	98,459	-2.9%	22,149	26,400	20,466	-7.6%	-22.5%
Volume by brands								
Sampoerna A (mn sticks)	39,522	35,133	-11.1%	7,901	9,121	8,548	8.2%	-6.3%
Dji Sam Soe (mn sticks)	29,195	32,435	11.1%	6,651	9,346	6,175	-7.2%	-33.9%
Others (mn sticks)	32,683	30,891	-5.5%	7,597	7,933	5,743	-24.4%	-27.6%
Market share	33.4%	32.1%		32.7%	31.6%	30.4%		
Industry volume (mn sticks)	303,600	306,800	1.1%	67,600	83,400	67,200	-0.6%	-19.4%

Source: Company

Exhibit 6. Earnings revisions

	Old		New		Changes	
	2020	2021	2020	2021	2020	2021
Revenue	113,131	115,637	104,629	108,121	-7.5%	-6.5%
Gross profit	27,643	28,066	24,060	24,689	-13.0%	-12.0%
Operating profit	18,536	18,762	15,579	15,716	-16.0%	-16.2%
Net profit	14,948	15,148	12,910	13,038	-13.6%	-13.9%
Gross margin	24.4%	24.3%	23.0%	22.8%		
Operating margin	16.4%	16.2%	14.9%	14.5%		
Net margin	13.2%	13.1%	12.3%	12.1%		
Assumption						
Volume	-10.3%	-5.1%	-12.2%	-6.9%		
ASP Blended	18.9%	7.7%	12.4%	11.0%		
Excise/stick growth						
SKM	25.4%	11.0%	25.4%	11.0%		
SKT	16.4%	11.0%	16.4%	11.0%		
SPM	26.4%	11.0%	26.4%	11.0%		

Source: Company

Exhibit 7. PE Band


Source: Company

Exhibit 8. Industry volume, excise tax increase* and retail selling price adjustment*


Source: Company' estimate and Nielsen retail audit results *weighte average industry increase

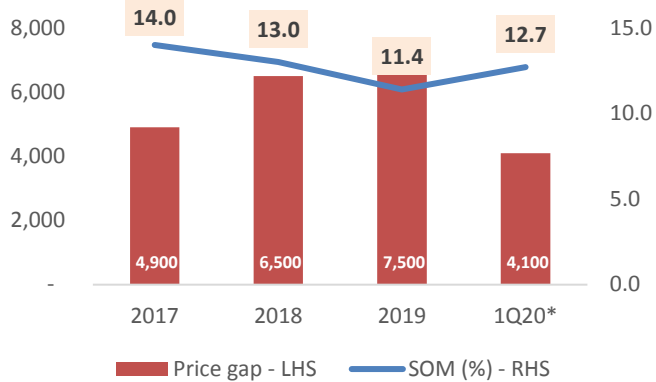
Exhibit 9. Share of market – based on each cigarette category


Source: Company' estimate

Exhibit 10. Share of market – based on price segment


Source: Company' estimate

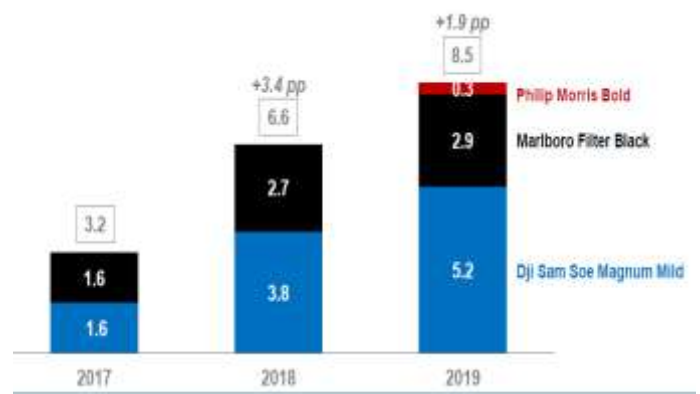
Exhibit 11. A Mild 16s - price gap and Share of Market (SOM)



Source: Company. Price gap A Mild 16 vs Most selling product at the bottom of SKM volume Tier 1 (avg yoy)

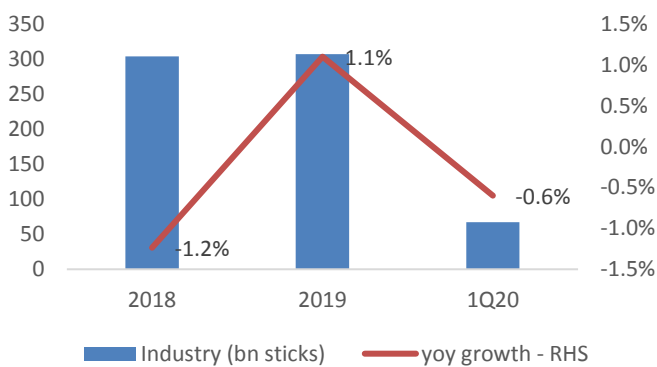
*Danareksa' estimate, A Mild 16 vs DSS 16

Exhibit 12. The growth of SOM of below premium brands



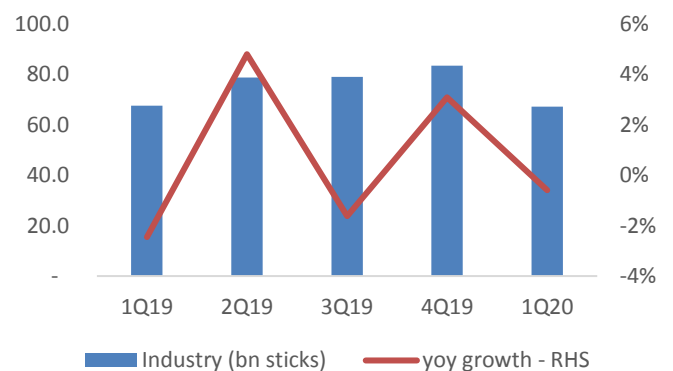
Source: Company

Exhibit 13. Cigarette industry volume and yoy growth



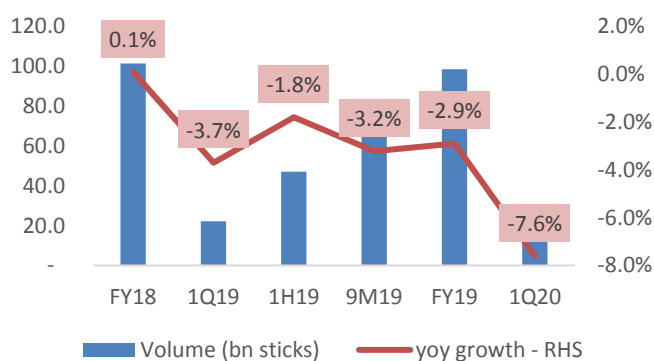
Source: Company

Exhibit 14. Cigarette industry – quarterly volume and yoy



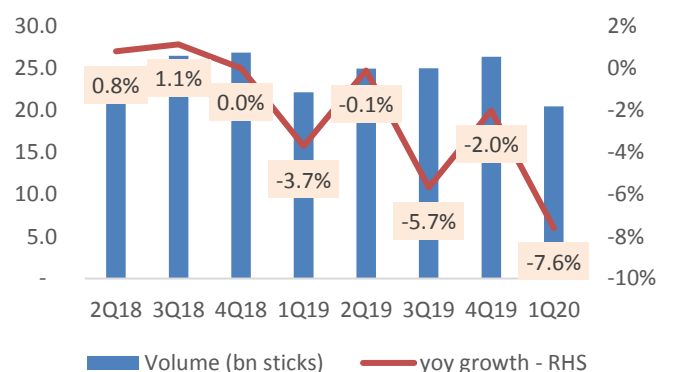
Source: Company

Exhibit 15. HMSP volume and yoy growth



Source: Company

Exhibit 16. HMSP – quarterly volume and yoy



Source: Company

Exhibit 17. Income Statement

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Revenue	106,742	106,055	104,629	108,121	113,998
COGS	(81,251)	(79,932)	(80,569)	(83,432)	(87,932)
Gross profit	25,491	26,123	24,060	24,689	26,066
EBITDA	17,835	18,452	16,807	17,119	17,985
Oper. profit	16,882	17,077	15,579	15,716	16,509
Interest income	1,004	1,199	1,163	1,192	1,246
Interest expense	(12)	(53)	(45)	(46)	(49)
Forex Gain/(Loss)	(19)	0	0	0	0
Income From Assoc. Co's	7	12	12	12	12
Other Income (Expenses)	99	25	25	26	27
Pre-tax profit	17,961	18,259	16,734	16,900	17,746
Income tax	(4,423)	(4,538)	(3,824)	(3,862)	(4,055)
Minority interest	0	0	0	0	0
Net profit	13,538	13,722	12,910	13,038	13,690
Core Net Profit	13,557	13,722	12,910	13,038	13,690

Exhibit 18. Balance Sheet

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	15,516	18,821	18,264	18,722	19,561
Receivables	3,815	3,786	3,735	3,860	4,070
Inventory	15,183	16,376	16,507	17,093	18,015
Other Curr. Asset	2,043	2,313	2,282	2,358	2,486
Fixed assets - Net	7,288	7,298	7,116	6,687	6,237
Other non-curr.asset	1,483	1,907	1,869	1,888	1,933
Total asset	46,602	50,902	50,174	51,008	52,704
ST Debt	0	0	0	0	0
Payables	3,450	3,802	3,832	3,968	4,183
Other Curr. Liabilities	4,825	8,176	8,066	8,335	8,788
Long Term Debt	0	0	0	0	0
Other LT. Liabilities	2,969	3,245	3,201	3,308	3,488
Total Liabilities	11,244	15,223	15,100	15,612	16,459
Shareholder's Funds	35,358	35,680	35,075	35,397	36,245
Minority interests	0	0	0	0	0
Total Equity & Liabilities	46,602	50,903	50,174	51,009	52,704

Exhibit 19. Cash Flow

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Net income	13,538	13,722	12,910	13,038	13,690
Depreciation and Amort.	(2,589)	812	49	575	918
Change in Working Capital	2,589	(812)	(49)	(575)	(918)
Other Oper. Cash Flow	1,993	2,166	(1,208)	(929)	(831)
Operating Cash Flow	15,531	15,888	11,702	12,110	12,860
Capex	(968)	(931)	(1,046)	(973)	(1,026)
Others Inv. Cash Flow	2,675	1,625	1,180	1,153	1,179
Investing Cash Flow	1,707	694	133	179	153
Net change in debt	0	0	0	0	0
New Capital	97	22	0	0	0
Dividend payment	(12,480)	(13,630)	(13,515)	(12,716)	(12,842)
Other Fin. Cash Flow	(16)	199	(78)	36	90
Financing Cash Flow	(12,400)	(13,409)	(13,593)	(12,680)	(12,752)
Net Change in Cash	4,839	3,173	(1,758)	(391)	260
Cash - begin of the year	7,502	15,516	18,821	18,264	18,722
Cash - end of the year	15,516	18,821	18,264	18,722	19,561

Exhibit 20. Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Growth (%)					
Sales	7.7	(0.6)	(1.3)	3.3	5.4
EBITDA	5.1	3.5	(8.9)	1.9	5.1
Operating profit	4.8	1.2	(8.8)	0.9	5.0
Net profit	6.8	1.4	(5.9)	1.0	5.0
Profitability (%)					
Gross margin	23.9	24.6	23.0	22.8	22.9
EBITDA margin	16.7	17.4	16.1	15.8	15.8
Operating margin	15.8	16.1	14.9	14.5	14.5
Net margin	12.7	12.9	12.3	12.1	12.0
ROAA	30.2	28.1	25.5	25.8	26.4
ROAE	39.0	38.6	36.5	37.0	38.2
Leverage					
Net Gearing (x)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Interest Coverage (x)	1,447.8	319.5	348.7	340.5	339.2

Source : HMSP, Danareksa Estimates

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