

Tuesday, 14 September 2021

HOLD
Maintain

Last price (IDR) 995
Target Price (IDR) 1,100
Upside/Downside 10.6%
Previous Target Price (IDR) 1,340

Stock Statistics

Sector CIGARETTE
Bloomberg Ticker HMSP IJ
No of Shrs (mn) 116,318
Mkt. Cap (IDRbn/USDmn) 115,737/8,120
Avg. daily T/O (IDRbn/USDmn) 45.1/3.2

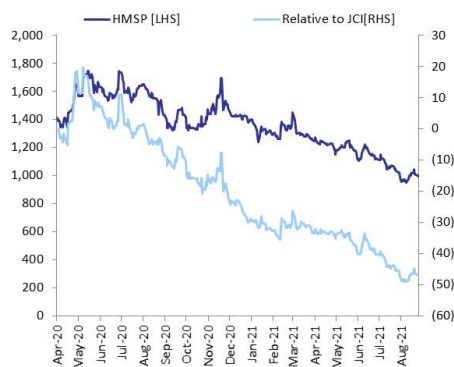
Major shareholders (%)

PHILIP MORRIS INDONESIA 92.5
Estimated free float 7.5

EPS Consensus (IDR)

	2021F	2022F	2023F
Danareksa	73.0	75.8	82.1
Consensus	71.7	77.0	77.4
Danareksa/Cons	1.8	(1.6)	6.0

HMSP relative to JCI Index



Source : Bloomberg



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HM Sampoerna (HMSP IJ)

Improvements seen but challenges remain

The issuance of the 2022 excise tax regulation will establish the trajectory of 2022 cigarette companies' growth. For HMSP, the less price increases that are required along with a strong product portfolio will sustain performance going forward, in our view. Maintain HOLD with a lower TP of IDR1,100.

Hopes for a breather in 2022. After the double-digit growth of excise tax increases in 2020 & 2021, the management of HMSP hopes that the government will increase 2020 cigarette excise tax tariffs moderately. However, given the double-digit growth in excise tax revenues in 2022 and with the absence of a detailed regulation from the MOF (to be released in October 2021), we maintain our double-digit growth estimate for 2022 excise tax tariffs for now. The management of HMSP also hopes to see a narrowing in the excise tax gap between tier-1 and below tier-1 producers along with no excise tax increases for the SKT category in 2022.

Market share improvements within the tier-1 category. HMSP reported encouraging improvements in its 1H21 market share and new products launched. In 1H21, HMSP's share of the segment within the tier-1 category improved to 39.4% (1H20: 38.2%) supported by higher market share of Sampoerna A (+0.5%), DSS Magnum (+0.4%) and SKT Sampoerna (+0.3%). We also like the initiatives for new products in the low excise category, Marlboro Crafted (SPT) which was launched in Nov 2020 and already gained 0.3% market share in 2Q21. In August 2021, HMSP also launched a new product called Dji Sam Soe Elite 12s in selected areas in Sumatera. New products will sustain sales volume. In addition, we also note that HMSP will require less price increases to meet the 2021 excise target (compared to GGRM) in 2H21. However, we expect more aggressive price increases to impact sales volume and sustain margins as we estimate slightly lower net profits of IDR8.5tn (-1.1% yoy) in 2021.

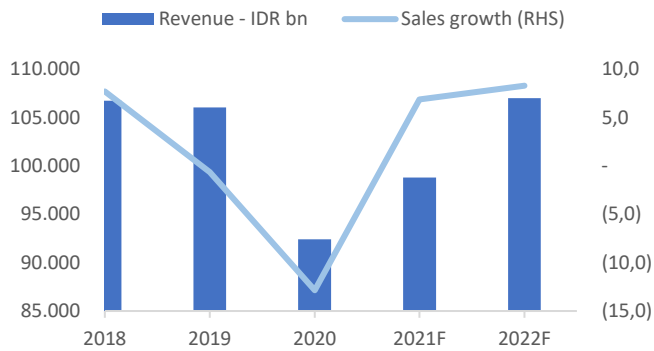
We forecast better growth in 2022. For 2022, we estimate 12% yoy growth in excise tax tariffs for SKM and SPM, while for SKT we estimate lower growth of 3.7% yoy. To maintain margins, we expect HMSP to pass on 85% of the total excise growth in 2022, resulting in -0.3% yoy lower sales volume. With maintained gross margins and higher opex to sustain new products, we estimate FY22 net profits growth of +3.8% yoy.

Maintain HOLD. We expect continued headwinds until the issuance of the MOF regulation. Nevertheless, we think the upside for HMSP will be limited following the government's plans to control cigarette consumption in the future. We maintain our HOLD recommendation with a lower TP of IDR1,100 with an implied FY22 PE of 14.5x – around a 10% discount from the valuation of PMI.

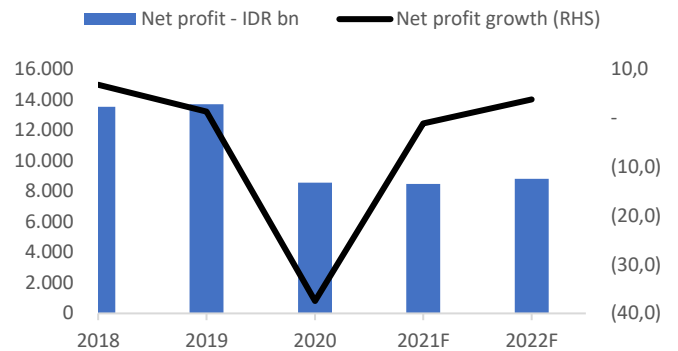
Key Financials

Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
Revenue (IDRbn)	106,055	92,425	98,798	107,009	116,952
EBITDA (IDRbn)	18,452	11,730	11,768	12,285	13,138
EBITDA Growth (%)	3.5	(36.4)	0.3	4.4	6.9
Net profit (IDRbn)	13,722	8,581	8,490	8,815	9,548
EPS (IDR)	118.0	73.8	73.0	75.8	82.1
EPS growth (%)	1.4	(37.5)	(1.1)	3.8	8.3
BVPS (IDR)	306.7	260.0	260.2	263.9	271.2
DPS (IDR)	117.2	119.8	72.8	72.0	74.8
PER (x)	8.4	13.5	13.6	13.1	12.1
PBV (x)	3.2	3.8	3.8	3.8	3.7
Dividend yield (%)	11.8	12.0	7.3	7.2	7.5
EV/EBITDA (x)	5.3	8.6	8.6	8.2	7.6

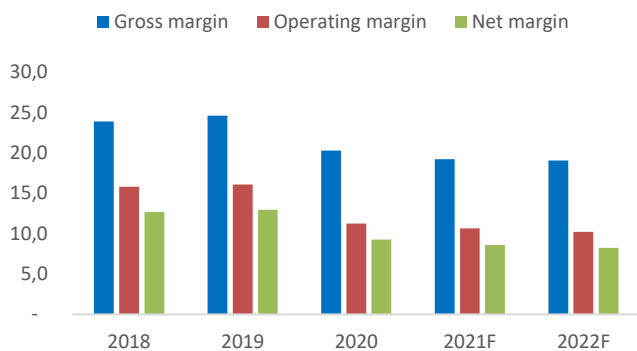
Source : HMSP, BRI Danareksa Estimates

Exhibit 1. Revenues and Growth


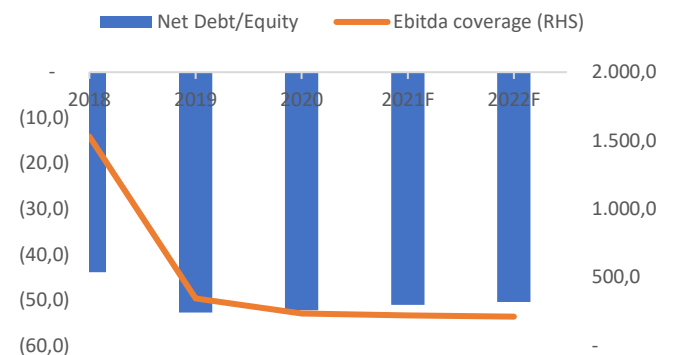
Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 3. Margins


Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 4. Gearing Level


Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 5. 2Q21 Results

HMSP	2Q20	1Q21	2Q21	yoy	qoq	1H20	1H21	yoy	2021F	A/F	A/Cons
Revenue	21,044	23,558	24,070	14.4%	2.2%	44,733	47,628	6.5%	98,798	48.2%	48.6%
Gross profit	3,872	5,037	3,798	-1.9%	-24.6%	9,740	8,835	-9.3%	18,981	46.5%	45.0%
Op profit	1,855	3,158	1,783	-3.8%	-43.5%	5,807	4,942	-14.9%	10,509	47.0%	48.5%
Pretax profit	2,036	3,314	1,961	-3.7%	-40.8%	6,346	5,275	-16.9%	11,043		
Net profit	1,565	2,588	1,546	-1.2%	-40.2%	4,887	4,134	-15.4%	8,490	48.7%	48.9%
Per category											
Revenue											
SKM	13,965	15,681	16,169	15.8%	3.1%	30,500	31,850	4.4%			
SKT	4,753	5,324	5,238	10.2%	-1.6%	9,511	10,562	11.1%			
SPM	2,140	2,324	2,369	10.7%	1.9%	4,309	4,692	8.9%			

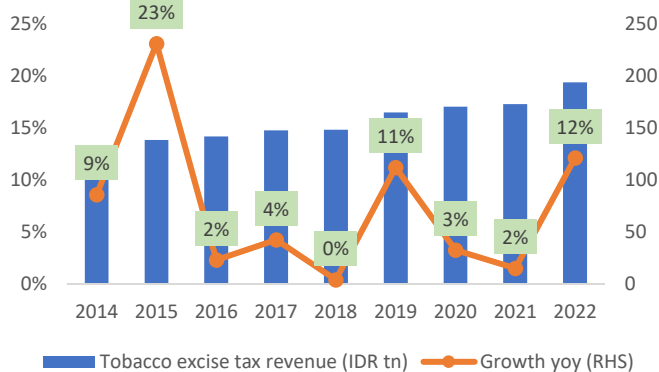
Source: Company, BRI Danareksa Sekuritas estimates

Need to wait on the 2022 excise details, but the number doesn't look good for cigarette players.

If we go back to see the realization of excise tax revenues in the past 9 years, we learnt that tobacco excise tax revenues only grew by double digits in 2 years: 2015 – when the government changed the payment of cigarette excise tax ribbons to cash and carry (previously H+2 months) and 2019 (zero excise tax increases for all categories). In the remaining years, the total revenues growth only ranged from 2% to 9%. If we see the total excise ribbon sold (cigarette production volume – issued by customs and tax), it also reported negative volume growth, except for 2019.

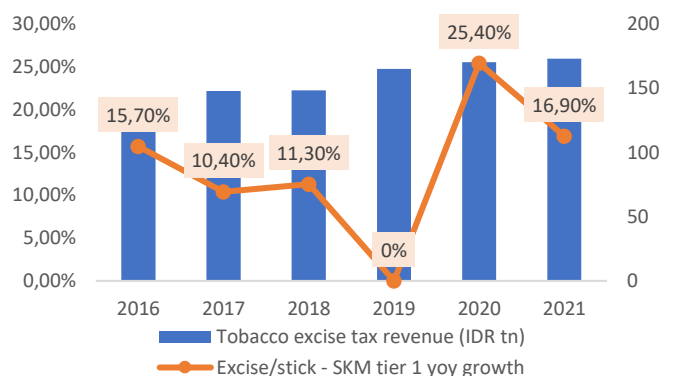
We need to wait until October 2021 for the MOF regulation to understand the assumptions for the 2022 volume growth and whether there will be any changes in the excise tax structure to achieve the 11.9% yoy excise tax revenues target, which is a very high target compared to the previous years. We think the contribution of other excise tax revenue objects (plastic, sweetened beverages) will be minimal in 2022 given the many regulations and technical factors required for their implementation. As such, if we assume 0% volume growth in 2022, the excise tax tariff will grow by 12% on average. As the tier-1 cigarette players still account for around 70% of total industry volume, this growth for the 2022 excise tax tariff may be possible.

Exhibit 6. Excise tax revenues and yoy growth



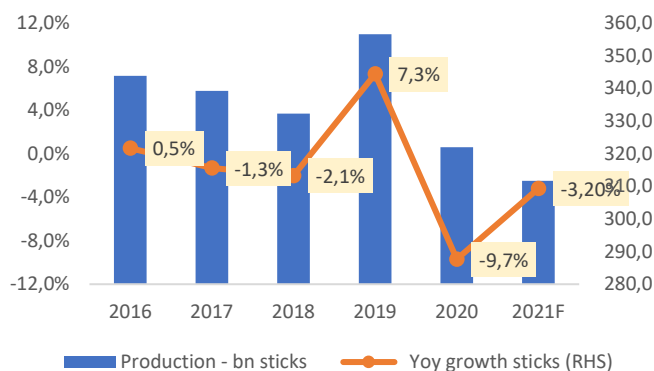
Source: MOF, BRI Danareksa Sekuritas estimates

Exhibit 7. Excise tax revenues vs yoy growth of SKM Tier-1



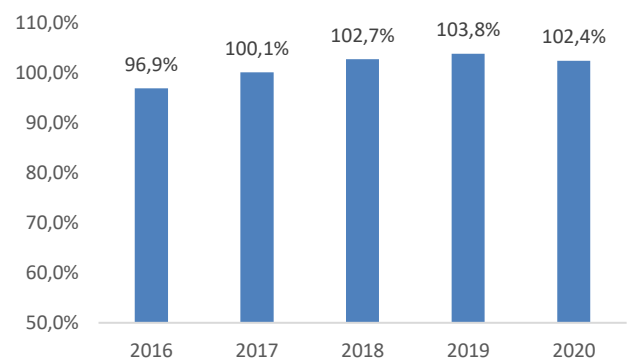
Source: MOF, BRI Danareksa Sekuritas estimates

Exhibit 8. Excise ribbon sold and yoy growth



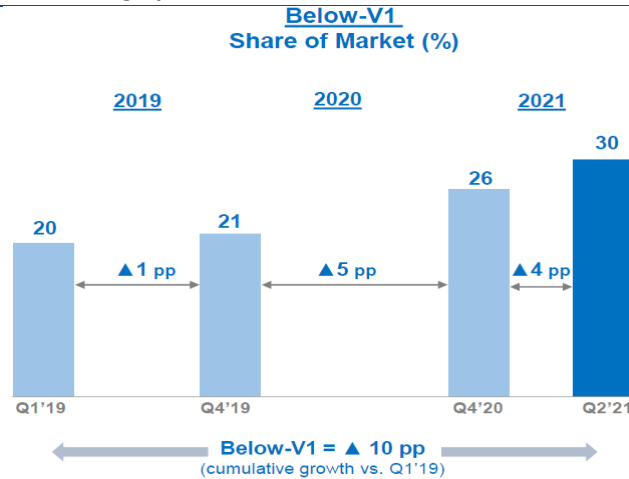
Source: MOF, BRI Danareksa Sekuritas estimates

Exhibit 9. Excise tax revenues realization vs its target



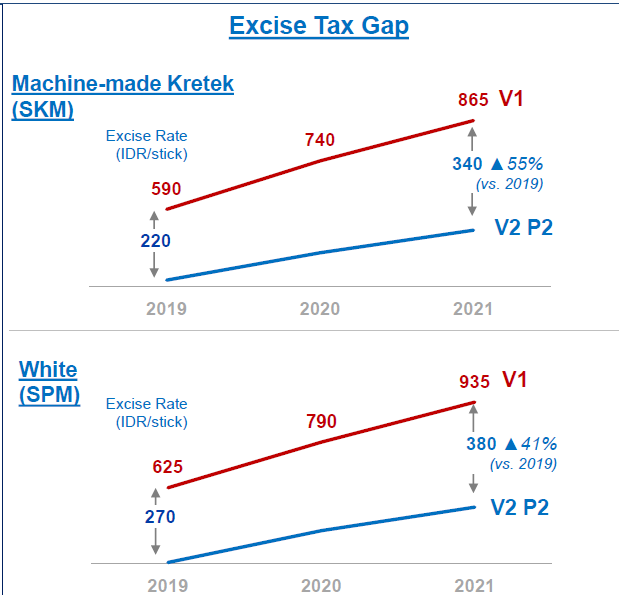
Source: MOF, BRI Danareksa Sekuritas estimates

Exhibit 10. The market share of below tier-1 category increased to 30% in 2Q21



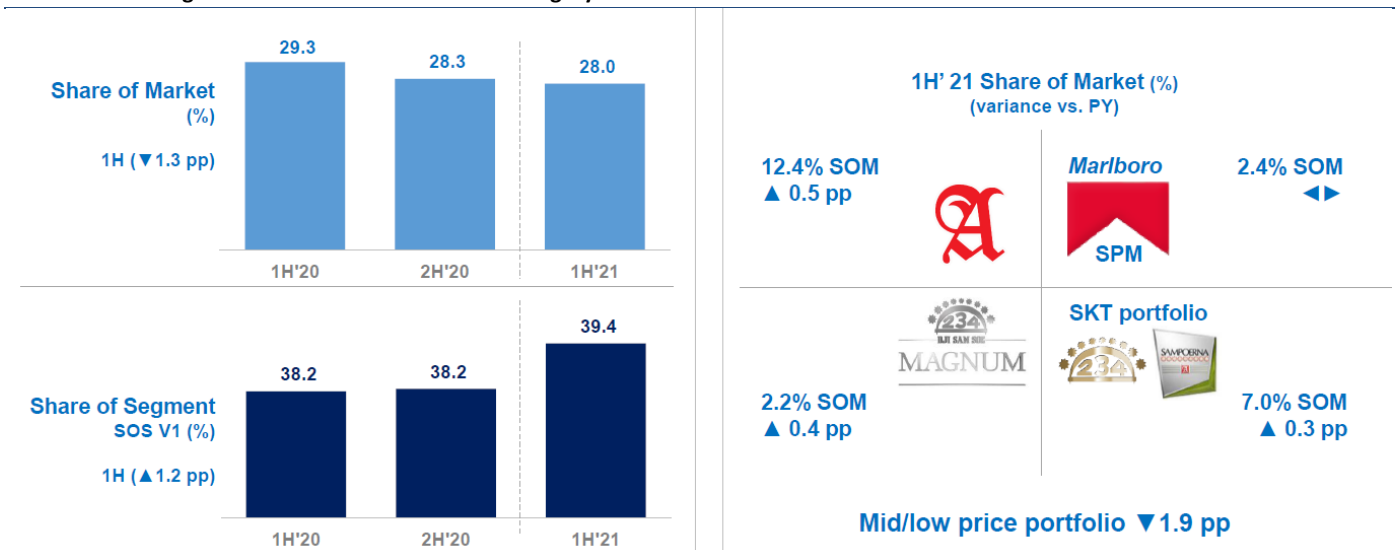
Source: Company

Exhibit 11. Widening excise tax gap between the Tier-1 and below Tier-1 categories



Source: Company

Exhibit 12. Gaining market share within the Tier-1 category



Source: Company

Sensitivity analysis

We conduct sensitivity analysis on the 2022 excise tax tariff growth (from SKM and SPM only, accounting for 70% of total volume) and total volume growth. We estimate FY22 excise tax tariff growth for SKM and SPM of 12% yoy and 3.7% yoy for SKT, respectively. In an effort to maintain margins, we expect the company to pass on 85% of the excise tax growth via higher ASP, translating to 2022 ASP growth of 8.6% yoy. For 2022, we estimate -0.3% yoy volume growth following higher ASP cigarette prices to pass on excise. We arrive at several possible 2022 net profit scenarios. The table below shows our net profits estimates for 2022:

Exhibit 13. FY22 Net profits based on several excise tax growth and total volume growth scenarios

Excise Volume	6%	9%	12%	15%
	-1.50%	8,947	8,870	8,816
-0.30%	8,949	8,882	8,815	8,748
1.50%	8,952	8,822	8,814	8,731
3.00%	8,954	8,883	8,813	8,742


Source: BRI Danareksa estimates

Exhibit 14. Earnings revision and key assumptions


IDR bn	Old		New		Changes	
	2021F	2022F	2021F	2022F	2021	2022
Revenue	98,331	105,876	98,798	107,009	0.5%	1.1%
Gross profit	18,888	20,380	18,981	20,410	0.5%	0.1%
Operating profit	10,398	11,050	10,509	10,932	1.1%	-1.1%
Net profit	8,569	9,327	8,490	8,815	-0.9%	-5.5%
Gross margin	19.2%	19.2%	19.2%	19.1%		
Operating margin	10.6%	10.4%	10.6%	10.2%		
Net margin	8.7%	8.8%	8.6%	8.2%		
Key assumptions						
Volume	-0.5%	-1.0%	-0.5%	-0.3%		
ASP Blended	6.9%	8.7%	7.4%	8.6%		
Excise/stick growth						
SKM	16.9%	11.0%	16.9%	12.0%		
SKT	0.0%	8.0%	0.0%	3.7%		
SPM	18.4%	11.0%	18.4%	12.0%		

Source: BRI Danareksa estimates


Exhibit 15. New products launched by HMSP



Marlboro Crafted 12s
Hand-rolled White (SPT)
Launched: Nov'20
Distribution expansion to nationwide




Dji Sam Soe Elite 12s
Hand-rolled Kretek (SKT)
with Tobacco Shield™
Launched: Aug'21 in selected areas in Sumatra



MARLBORO CRAFTED
BUATAN TANGAN
ESTD 1908
PURSUE FLAVOR.

PERINGATAN: KARENA MEROKOK, SAYA TERKENA KANKER TENGGOROKAN. LAYANAN BERHENTI MEROKOK (0800-177-6595) 18+

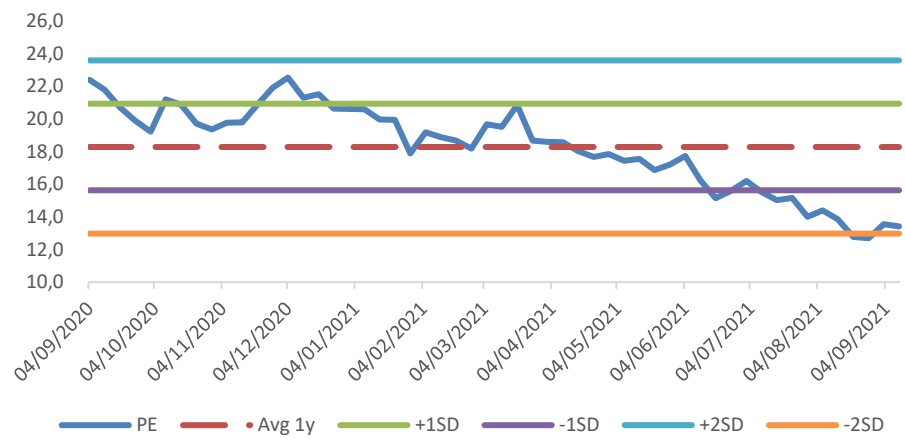


BARU
234
DJI SAM SOE ELITE
TOBACCO SHIELD™
PENGALAMAN BARU PADA UJUNG HISAP

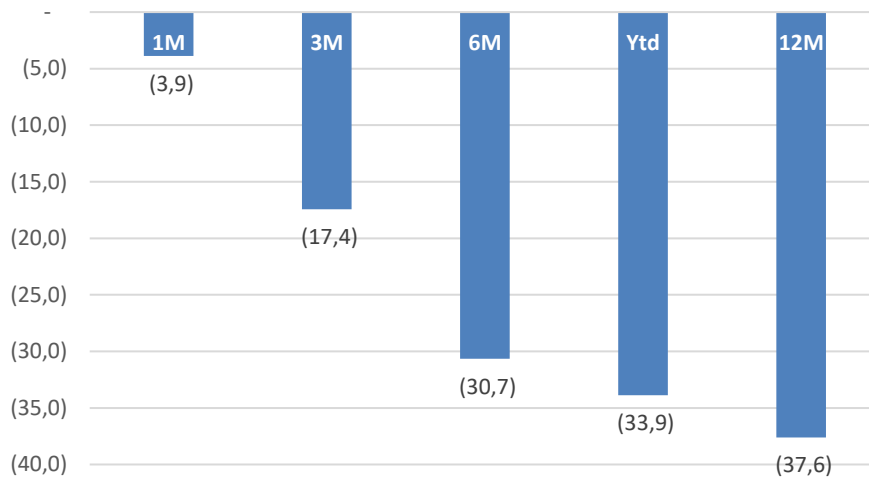
PERINGATAN: KARENA MEROKOK, SAYA TERKENA KANKER TENGGOROKAN. LAYANAN BERHENTI MEROKOK (0800-177-6595) 18+

Source: Company

Exhibit 16. PE Band



Source: BRI Danareksa, Bloomberg

Exhibit 17. PE Band


Source: Bloomberg

Exhibit 18. HMSP' net revenue margin on several products

Price ex factory	Type	Jun-21	Excise/pack	Jun-21 NRM	Additional price increase	Target NRM
A Mild 16s	SKM	22,439	15,224	32%	13%	41%
Dji Sam Soe 12s	SKT	16,362	5,610	66%	0%	61%
Dji Sam Soe Magnum Mild	SKM	18,736	15,224	19%	5%	17%
Marlboro Red	SPM	27,096	20,570	24%	9%	30%
Marlboro Filter Black	SKM	26,859	19,030	29%	2%	31%
U Mild	SKM	20,127	15,224	24%	8%	30%
Sampoerna Kretek	SKT	11,971	5,610	53%	0%	48%
<i>Simple average</i>					5%	

Source: Company, BRI Danareksa estimates

Exhibit 19. Income Statement

Year to 31 Dec (IDRbn)	2019A	2020A	2021F	2022F	2023F
Revenue	106,055	92,425	98,798	107,009	116,952
COGS	(79,932)	(73,654)	(79,817)	(86,599)	(94,551)
Gross profit	26,123	18,771	18,981	20,410	22,401
EBITDA	18,452	11,730	11,768	12,285	13,138
Oper. profit	17,077	10,402	10,509	10,932	11,711
Interest income	1,199	766	541	541	556
Interest expense	(53)	(50)	(53)	(58)	(63)
Forex Gain/(Loss)	-	-	-	-	-
Income From Assoc. Co's	12	4	4	4	4
Other Income (Expenses)	25	40	43	47	51
Pre-tax profit	18,259	11,161	11,043	11,465	12,259
Income tax	(4,538)	(2,580)	(2,553)	(2,650)	(2,711)
Minority interest	-	-	-	-	-
Net profit	13,722	8,581	8,490	8,815	9,548
Core Net Profit	13,722	8,581	8,490	8,815	9,548

Exhibit 20. Balance Sheet

Year to 31 Dec (IDRbn)	2019A	2020A	2021F	2022F	2023F
Cash & cash equivalent	18,821	15,804	15,455	15,465	15,888
Receivables	3,786	4,102	4,384	4,749	5,190
Inventory	16,376	18,094	19,608	21,274	23,227
Other Curr. Asset	1,082	671	717	777	849
Fixed assets - Net	7,298	6,583	6,312	6,135	5,878
Other non-curr.asset	2,309	2,709	2,779	2,876	2,998
Total asset	49,671	47,962	49,255	51,276	54,031
ST Debt	-	-	-	-	-
Payables	3,802	3,468	3,758	4,077	4,451
Other Curr. Liabilities	8,176	12,434	13,291	14,396	15,733
Long Term Debt	-	-	-	-	-
Other LT. Liabilities	3,245	3,531	3,775	4,088	4,468
Total Liabilities	15,223	19,433	20,823	22,561	24,653
Shareholder's Funds	35,680	30,241	30,261	30,697	31,544
Minority interests	-	-	-	-	-
Total Equity & Liabilities	50,903	49,674	51,085	53,258	56,197

Exhibit 21. Cash Flow

Year to 31 Dec (IDRbn)	2019A	2020A	2021F	2022F	2023F
Net income	13,722	8,581	8,490	8,815	9,548
Depreciation and Amort.	(943)	(996)	(1,280)	(1,374)	(1,447)
Change in Working Capital	(812)	(2,367)	(1,507)	(1,711)	(2,020)
Other Oper. Cash Flow	2,166	3,565	264	484	679
Operating Cash Flow	14,133	8,784	5,967	6,214	6,760
Capex	(931)	(260)	(987)	(1,176)	(1,169)
Others Inv. Cash Flow	1,625	344	449	423	413
Investing Cash Flow	694	84	(538)	(753)	(756)
Net change in debt	-	-	-	-	-
New Capital	22	18	-	-	-
Dividend payment	(13,630)	(13,935)	(8,470)	(8,380)	(8,701)
Other Fin. Cash Flow	199	41	132	181	226
Financing Cash Flow	(13,409)	(13,876)	(8,338)	(8,199)	(8,475)
Net Change in Cash	1,418	(5,008)	(2,909)	(2,738)	(2,471)
Cash - begin of the year	15,516	18,821	15,804	15,455	15,465
Cash - end of the year	18,821	15,804	15,455	15,465	15,888

Exhibit 22. Key Ratios

Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
Growth (%)					
Sales	(0.6)	(12.9)	6.9	8.3	9.3
EBITDA	3.5	(36.4)	0.3	4.4	6.9
Operating profit	1.2	(39.1)	1.0	4.0	7.1
Net profit	1.4	(37.5)	(1.1)	3.8	8.3
Profitability (%)					
Gross margin	24.6	20.3	19.2	19.1	19.2
EBITDA margin	17.4	12.7	11.9	11.5	11.2
Operating margin	16.1	11.3	10.6	10.2	10.0
Net margin	12.9	9.3	8.6	8.2	8.2
ROAA	28.5	17.6	17.5	17.5	18.1
ROAE	38.6	26.0	28.1	28.9	30.7
Leverage					
Net Gearing (x)	(52.7)	(52.3)	(51.1)	(50.4)	(50.4)
Interest Coverage (x)	319.5	208.1	196.7	188.9	185.2

Source : HMSP, BRI Danareksa Estimates

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