

BUY | TP : IDR1,250
HMSP Stock Price Data

| | | |
|------------|---|------------|
| Last Price | : | IDR895 |
| 52wk High | : | IDR1,235 |
| 52wk Low | : | IDR780 |
| Share Out | : | 116.3bn |
| Market Cap | : | IDR104.1tn |

HMSP Stock Price Performance

| | | |
|--------------|---|--------|
| 1-Day | : | -1.7% |
| 1-Week | : | -7.7% |
| 1-Month | : | -5.3% |
| 3-Month | : | -12.3% |
| Year-to-Date | : | +6.6% |

Shareholders

| | | |
|-----------------------------|---|-------|
| Philip Morris Indonesia (P) | : | 92.5% |
| Public | : | 7.5% |

PT H.M. Sampoerna Tbk (HMSP IJ)
SKT Plays Continued to Drive
1H23 results: Revenue meets expectations, but net profit falls slightly short

HMSP reported 2Q23 revenue of IDR 29.2tn (+8.2% QoQ/+6.7% YoY), bringing 1H23's revenue to IDR 56.2tn (+5.0% YoY), which is in-line with our estimated 48.7% and is slightly below the cons of 47.4% of FY23E target. The growth was supported by a strong performance in the Hand-rolled clove cigarettes (SKT) segment, with a YoY increase of 26.1% (accounted for 27.4% of turnover), offsetting a minor decline in the Machine-made clove cigarettes (SKM) segment of -0.9% YoY (62.9%). However, net profit in 2Q23 came at IDR 1.6tn (-26.4% QoQ/+40.3% YoY), resulting in 1H23's net profit of IDR 3.8tn (+23.0% YoY), which falls slightly below our/cons estimates, at 46.6%/44.2% of FY23E target, respectively. The lower-than-expected net profit in 1H23 was influenced by higher-than-anticipated operating expenses (OPEX) that increased by +16.0% YoY. Nonetheless, the net profit margin remained strong, expanding by +98 bps YoY to reach 6.7% (vs 5.7% in 1H22).

SKT products remained favorable

We maintain a positive view on HMSP, given the effectiveness of SKT products as a performance buffer. In our view, Dji Sam Soe Kretek'12 and Super Premium'12 have established their niche markets. Additionally, according to PMI, they have already increased third-party manufacturing in Indonesia, as the volume of industry below Tier 1 reaches around 40% (approximately 113 billion sticks based on our estimate). On the other hand, the resurgence of SKT cigarettes began after a significant increase in CHT (Cigarette Excise) tariffs for SKM and SPM in FY20, resulting in more affordable prices due to disparity in prices. Moreover, SKT's industry is actively innovating by introducing new flavors, such as Juara'12 cigarettes (with an affordable price range of ~IDR12 - 14K). With attractive potential in the market below Tier 1, we see opportunities for HMSP to play a role in driving the growth of SKT volumes and top-line in FY23E.

Expect a soft fine-tuning of ASP in 2H23

HMSP's market share in 1H23 stood at 28.7%, showing an increase from 28.3% in 1H22, which was driven by a slower YoY decline in sales volume of -4.3%, compared to the domestic decline of -5.6% YoY. Additionally, sales volume in 1H23 reached 40.5bn sticks, which in-line with our estimates and meets run-rates of 48.6% of the FY23E target of 83.3bn sticks. Our channel checks indicate that the pricing adjustments made by HMSP in 2Q23 were relatively soft, with an increase of only ~2% QoQ in the SPM segment, while SKM/SKT experienced a slight decline of -0.3%/-0.5% QoQ following the post-festive Lebaran. In contrast, flagship products GGRM/Djarum actively raised their product prices by +3.7% QoQ/+5.9% QoQ in 2Q23. Looking forward, we expect HMSP to be able to adjust its selling prices by mid-low single digits in 3Q23, which is anticipated to improve profitability while maintaining market share.

IQOS to catch a momentum

In 4Q22, HMSP managed to launch its smoke-free tobacco product factory (IQOS) in Karawang, West Java, with an investment of USD186 mn, making it the 7th facility of its kind worldwide. This facility is expected to support the sales of IQOS products both domestically and internationally. Additionally, on a worldwide scale, PMI aims to achieve a shipment volume of 125-130bn heated-tobacco-units (HTU) in FY23E. Approximately 200 additional IQOS retail outlets were added by HMSP in FY22, increasing the total number of outlets in 10 cities in Indonesia to 265 in total. Overall, we expect positive synergies from the improvements of the new IQOS product in the future.

Valuation and Recommendation : BUY with a Target Price of IDR1,250

We recommend BUY for HMSP at a TP of IDR1,250, implying PE/PBV of 18.1x/5.4x in FY23E. We expect that the SKM segment's pricing adjustments should to increase 3Q23 profitability. Downside risks include: 1) lower-than-expected sales volume; 2) slow-moving price adjustments; 3) unexpected raw material price increases.

| Key Financial Highlight | FY20 | FY21 | FY22 | FY23E | FY24F |
|-------------------------|----------|----------|-----------|-----------|-----------|
| Revenue (IDR Bn) | 92,425.2 | 98,874.8 | 111,211.3 | 115,212.9 | 123,078.4 |
| EBITDA (IDR Bn) | 11,377.5 | 9,196.3 | 8,547.7 | 10,662.6 | 11,677.2 |
| EBITDA Margin (%) | 12.3 | 9.3 | 7.7 | 9.3 | 9.5 |
| Net Income (IDR Bn) | 8,581.4 | 7,137.1 | 6,323.7 | 8,053.6 | 8,751.0 |
| ROA (%) | 17.3 | 13.4 | 11.5 | 15.0 | 16.0 |
| ROE (%) | 28.4 | 24.4 | 22.4 | 29.7 | 32.8 |
| PE (x) | 12.1 | 14.6 | 16.5 | 12.9 | 11.9 |
| PBV (x) | 3.4 | 3.6 | 3.7 | 3.8 | 3.9 |

Sources : Company, MNCS


Research Analyst

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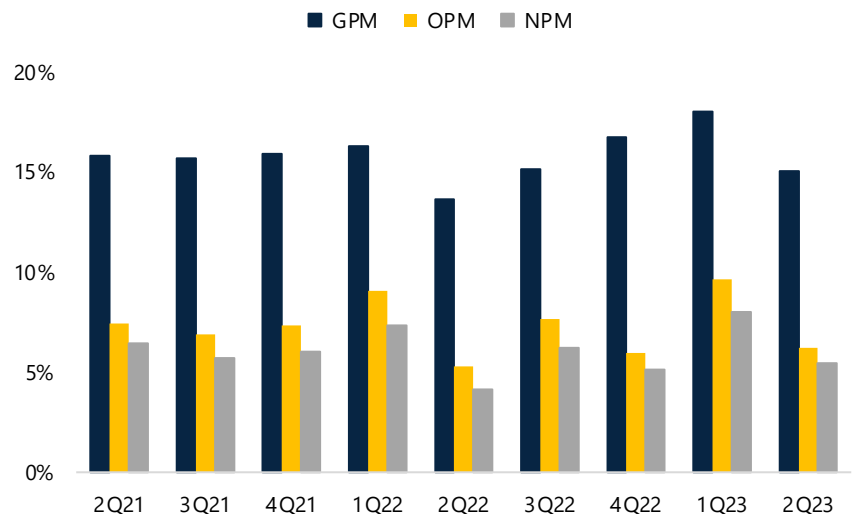
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Exhibit 01. In-line revenue but net profit slightly below us

| IDR Bn | 1Q23 | 2Q23 | QoQ | 1H22 | 1H23 | YoY | FY23E Cons | FY223 MNCS | % Cons | % MNCS |
|-------------------------|-----------------|-----------------|---------------|-----------------|-----------------|--------------|------------------|------------------|--------------|--------------|
| Revenues | 26,965.6 | 29,189.0 | 8.2% | 53,505.5 | 56,154.6 | 5.0% | 118,420.7 | 115,212.9 | 47.4% | 48.7% |
| COGS | 22,109.9 | 24,803.3 | 12.2% | 45,524.2 | 46,913.2 | 3.1% | 97,570.6 | 95,142.8 | | |
| Operating Profit | 2,594.9 | 1,814.2 | -30.1% | 3,814.5 | 4,409.1 | 15.6% | 10,591.5 | 10,016.6 | 41.6% | 44.0% |
| Operating Profit Margin | 9.6% | 6.2% | | 7.1% | 7.9% | | | | | |
| PBT | 2,786.0 | 2,022.1 | -27.4% | 3,987.5 | 4,808.1 | 20.6% | 10,990.5 | 10,536.1 | 43.7% | 45.6% |
| Net Profit | 2,160.0 | 1,590.0 | -26.4% | 3,048.1 | 3,750.0 | 23.0% | 8,490.9 | 8,053.6 | 44.2% | 46.6% |
| Net Margin | 8.0% | 5.4% | | 5.7% | 6.7% | | | | | |

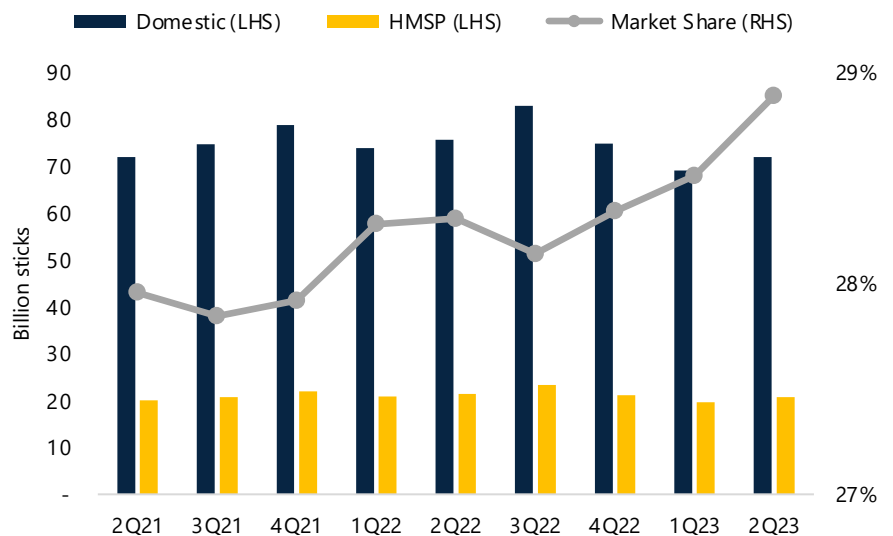
Source : Bloomberg, MNCS

Exhibit 02. 2Q23's margin squeezed due to soft price adjustment



Sources : Company, MNCS

Exhibit 03. HMSP's market share continued to rise



Sources : PMI, MNCS

Exhibit 04. Financial Projections

| Income Statement | | | | | | Balance Sheet | | | | | |
|--------------------------|-------------------|------------------|------------------|------------------|------------------|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| in Billion IDR | FY20 | FY21 | FY22 | FY23E | FY24F | in Billion IDR | FY20 | FY21 | FY22 | FY23E | FY24F |
| Revenue | 92,425.2 | 98,874.8 | 111,211.3 | 115,212.9 | 123,078.4 | Cash & Equivalents | 15,804.3 | 17,843.7 | 15,779.1 | 14,339.9 | 13,918.1 |
| COGS | (73,654.0) | (81,955.0) | (94,053.1) | (95,142.8) | (101,407.0) | Trade Receivables | 3,648.3 | 2,380.8 | 2,945.7 | 3,264.4 | 3,699.2 |
| Gross Profit | 18,771.2 | 16,919.8 | 17,158.2 | 20,070.1 | 21,671.4 | Inventory | 18,093.7 | 17,781.7 | 18,375.2 | 17,266.7 | 16,995.1 |
| Selling Expense | (6,258.3) | (6,202.8) | (6,739.7) | (7,200.1) | (7,777.9) | Others Current Assets | 3,545.3 | 3,316.9 | 4,262.9 | 4,360.0 | 4,550.9 |
| G&A Expense | (2,110.7) | (2,133.6) | (2,665.3) | (2,853.4) | (2,925.1) | Total Current Assets | 41,091.6 | 41,323.1 | 41,363.0 | 39,231.0 | 39,163.2 |
| Operating Profit | 10,402.2 | 8,583.4 | 7,753.2 | 10,016.6 | 10,968.4 | Fixed Assets-net | 6,582.8 | 6,038.6 | 6,697.4 | 7,563.4 | 8,370.0 |
| Finance Income | 765.6 | 483.6 | 463.9 | 394.5 | 358.5 | Other Non-Current Assets | 1,999.6 | 5,728.7 | 6,726.6 | 6,929.5 | 7,328.5 |
| Finance Cost | (50.0) | (56.5) | (50.0) | (72.8) | (77.3) | Total Non-Current Assets | 8,582.4 | 11,767.3 | 13,424.0 | 14,492.9 | 15,698.5 |
| Other Income (Expense) | 43.7 | 141.8 | 106.0 | 197.8 | 198.9 | TOTAL ASSETS | 49,674.0 | 53,090.4 | 54,787.0 | 53,723.9 | 54,861.7 |
| Profit Before Tax | 11,161.5 | 9,152.2 | 8,273.1 | 10,536.1 | 11,448.5 | Trade Payables | 3,467.6 | 4,244.1 | 5,538.6 | 5,317.7 | 5,913.2 |
| Tax Income (Expense) | (2,580.1) | (2,015.1) | (1,949.3) | (2,482.5) | (2,697.5) | Short-term Debt | 117.4 | 159.2 | 147.5 | 159.7 | 166.5 |
| Net Income | 8,581.4 | 7,137.1 | 6,323.7 | 8,053.6 | 8,751.0 | Other Current Liabilities | 13,158.9 | 17,561.0 | 18,859.5 | 19,026.0 | 19,983.4 |
| EPS (IDR) | 73.8 | 61.4 | 54.4 | 69.2 | 75.2 | Total Current Liabilities | 16,743.8 | 21,964.3 | 24,545.6 | 24,503.4 | 26,063.1 |
| | | | | | | Long-term Debt | 194.1 | 187.8 | 337.1 | 364.9 | 380.5 |
| | | | | | | Other Long-term Liabilities | 2,494.7 | 1,747.0 | 1,734.1 | 1,734.1 | 1,734.1 |
| | | | | | | Total LT-Liabilities | 2,688.8 | 1,934.8 | 2,071.2 | 2,099.0 | 2,114.7 |
| | | | | | | Total Equity | 30,241.4 | 29,191.4 | 28,170.2 | 27,121.5 | 26,684.0 |
| | | | | | | TOTAL LIABILITY AND EQUITY | 49,674.0 | 53,090.4 | 54,787.0 | 53,723.9 | 54,861.7 |
| Cash Flow | | | | | | Ratios | | | | | |
| in Billion IDR | FY20 | FY21 | FY22 | FY23E | FY24F | FY20 | FY21 | FY22 | FY23E | FY24F | |
| Net Income | 8,581.4 | 7,137.1 | 6,323.7 | 8,053.6 | 8,751.0 | Revenue Growth (%) | (12.9) | 7.0 | 12.5 | 3.6 | 6.8 |
| D&A | 975.3 | 612.9 | 794.5 | 646.0 | 708.8 | Operating Profit Growth (%) | (39.1) | (17.5) | (9.7) | 29.2 | 9.5 |
| Changes in WC | (2,445.3) | 2,356.0 | 136.1 | 569.0 | 432.2 | Net Profit Growth (%) | (37.5) | (16.8) | (11.4) | 27.4 | 8.7 |
| Others | 3,990.8 | 4,857.1 | 387.8 | 69.4 | 766.5 | Current Ratio (%) | 245.4 | 188.1 | 168.5 | 160.1 | 150.3 |
| Operating CF | 11,102.2 | 14,963.1 | 7,642.1 | 9,338.0 | 10,658.5 | Quick Ratio (%) | 137.4 | 107.2 | 93.7 | 89.6 | 85.1 |
| Capex | (260.2) | (68.8) | (1,453.3) | (1,511.9) | (1,515.4) | Receivable Days (x) | 14.2 | 8.7 | 9.5 | 10.2 | 10.8 |
| Others | (91.7) | (3,729.1) | (997.9) | (203.0) | (398.9) | Inventory Days (x) | 88.4 | 78.1 | 70.3 | 65.3 | 60.3 |
| Investing CF | (351.9) | (3,797.9) | (2,451.2) | (1,714.9) | (1,914.3) | Payable Days (x) | 16.9 | 18.6 | 21.2 | 20.1 | 21.0 |
| Dividend Paid | (13,934.9) | (8,468.0) | (7,362.9) | (8,456.2) | (9,188.5) | Net Gearing Ratio (x) | (0.5) | (0.6) | (0.5) | (0.5) | (0.5) |
| Net Change in Debt | (105.7) | 35.5 | 137.7 | 40.0 | 22.5 | DER (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity Fund Raised | 18.3 | 54.3 | (17.4) | - | - | Dividend Yield (%) | 13.4 | 8.1 | 7.1 | 8.1 | 8.8 |
| Others | 255.6 | (747.7) | (12.8) | (646.0) | - | Gross Profit Margin (%) | 20.3 | 17.1 | 15.4 | 17.4 | 17.6 |
| Financing CF | (13,766.7) | (9,125.9) | (7,255.4) | (9,062.3) | (9,166.1) | Operating Profit Margin (%) | 11.3 | 8.7 | 7.0 | 8.7 | 8.9 |
| Cash at Beginning | 18,820.7 | 15,804.3 | 17,843.7 | 15,779.1 | 14,339.9 | EBITDA Margin (%) | 12.3 | 9.3 | 7.7 | 9.3 | 9.5 |
| Cash at Ending | 15,804.3 | 17,843.7 | 15,779.1 | 14,339.9 | 13,918.1 | Net Income Margin (%) | 9.3 | 7.2 | 5.7 | 7.0 | 7.1 |
| | | | | | | BVPS (IDR) | 260.0 | 251.0 | 242.2 | 233.2 | 229.4 |

Sources : Company, MNCS

MNC Research Industry Ratings Guidance

- **OVERWEIGHT** : Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months
- **NEUTRAL** : Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months
- **UNDERWEIGHT** : Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

- **BUY** : Share price may exceed 10% over the next 12 months
- **HOLD** : Share price may fall within the range of +/- 10% of the next 12 months
 - **SELL** : Share price may fall by more than 10% over the next 12 months
 - **Not Rated** : Stock is not within regular research coverage

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