

Hanjaya Mandala Sampoerna (HMSP)

Pinning hopes on improving economy

10 August 2022



| | |
|---------------------------|------------|
| HMSP IJ | BUY |
| Sector | Tobacco |
| Price at 09 Aug 2022 (Rp) | 925 |
| Price target (Rp) | 1,050 |
| Upside/Downside (%) | 13.5 |

Stock Information

Hanjaya Mandala Sampoerna is Indonesia's largest tobacco manufacturer. The company is a subsidiary of PT Philip Morris Indonesia (PMID) and an affiliate of Philip Morris International Inc., the world's leading international tobacco company.

| | |
|-------------------------------|-----------|
| Market cap (Rp bn) | 107,590 |
| Shares outstanding (mn) | 116,318 |
| 52-week range (Rp) | 895-1,140 |
| 3M average daily vol. ('000) | 29,313 |
| 3M average daily val. (Rp mn) | 29,867 |

Shareholders (%)

| | |
|------------------|------|
| PT Philip Morris | 92.5 |
| Public | 7.5 |

Stock Performance



Source: Bloomberg

| | 1M | 3M | 12M |
|-----------------|--------|-----|-------|
| Performance (%) | (13.1) | 0.0 | (3.6) |

- HMSP's 1H22 net profit plunged 26.3% YoY to Rp3.05tn (-40.8% QoQ in 2Q22)
- We expect net revenue growth of 9% YoY, EBITDA margin of 10.2% in 2022
- We reiterate our "BUY" call with 14% upside potential on a 12-month view on strengthened purchasing power and solid B/S

Dragged down by excise tax hike

HMSP's net profit tumbled 26.3% YoY in 1H22 to Rp3.05tn (-40.8% QoQ in 2Q22), accounting for 37.2% of our FY estimate. The lower profit was largely due to higher costs in line with average excise hikes that reached 12% this year and higher raw materials cost by 5.5% in 1H22. This resulted in contracted EBITDA margin from 11.6% in 1H21 to 8.2% in 1H22 (6.3% in 2Q22). Meanwhile, HMSP's net revenue grew 12.3% in 1H22 to Rp53.5tn (+4.5% QoQ in 2Q22), driven by SKM and SKT segments which increased by 12.0% YoY (+5.7% QoQ) and 15.6% YoY (+0.6% QoQ), respectively. Furthermore, the company's finance income plunged 31.9% YoY in 1H22 in the midst of lower interest rate. In addition, net profit margin lowered from 8.7% in 1H21 to 5.7% in 1H22. Balance sheet wise, HMSP managed to maintain its net cash position in 1H22.

Bolstered by SKM and SKT segments

HMSP's revenue growth was mainly driven by higher average retail price that increased by 8.2% YoY in 1H22 (3.0% QoQ in 2Q22), primarily driven by SKM products namely A mild 16s, Dji Sam Soe Magnum Filter 12 and Dji Sam Soe Magnum Mild 16. Furthermore, HMSP managed to record a sales volume growth of 4.7% YoY to 42.3 billion in 1H22 (2.2% QoQ in 2Q22), lower than the industry's volume growth of 6.6% YoY in 1H22. The overall sales volume increase was mainly boosted by SKM and SKT segments. Meanwhile, SPM segment volume decreased 13.4% YoY in 1H22. The company's SKM high tar products still dominated its overall sales with contribution of 44.8% in 2Q22, slightly higher than previous quarter of 44.5%, followed by SKT products that contributed 21.3% of total sales. HMSP maintained its market share of 27.8% in 2Q22, lower than 27.9% in 2Q21.

Striving for product diversification and innovation

We expect HMSP's net sales growth of 8% YoY with a downgrade in net profit estimate to Rp7tn this year. HMSP's sales will be supported by SKM and SKT segments on the back of economic recovery and controllable pandemic situation. Despite better purchasing power as inflation is expected to slow down in the coming quarters, we predict that HMSP will have a limited room to pass excise tax increase on to customers to maintain its market share. This will result in HMSP's EBITDA margin to further contract to 8.9% in 2022. HMSP continues its product diversification by launching new segment hand-rolled white ciggies (SPT) Marlboro Crafted that is intended for low segment, in addition to Dji Sam Soe Elite 12s, limitedly distributed in Sumatra. Furthermore, the company is on process to establish IQOS manufacturing facilities in Karawang, slated for commercial operation in 4Q22.

Reiterate BUY on the back of strong market share in SKM segment

We maintain our BUY call with a DCF-based price target of Rp1,050/share. The stock is currently traded at a 2022F PER of 17.4x. We highlight several paramount catalysts including 1) an improvement in consumer spending that will boost tobacco consumption in line with more controllable pandemic situation; 2) strong B/S, providing a room to capture potential investment; 3) more diversified products and product innovation; 4) strong brand equity and 5) relatively stable market share. However, we also note several risks to our recommendation, namely 1) tobacco restriction and raising health awareness; 2) stagnant tobacco market and 3) persistent hike in excise tax.

Key Statistics

| Year end Dec | 2020A | 2021A | 2022F | 2023F | 2024F |
|-----------------------|--------|--------|---------|---------|---------|
| Revenue (Rp bn) | 92,425 | 98,875 | 106,870 | 115,124 | 123,512 |
| EBITDA (Rp bn) | 9,741 | 9,517 | 9,681 | 9,651 | 9,552 |
| Net profit (Rp bn) | 8,581 | 7,137 | 6,961 | 7,059 | 7,034 |
| Net profit margin (%) | 9.3% | 7.2% | 6.5% | 6.1% | 5.7% |
| EPS (Rp) | 73.78 | 61.36 | 59.85 | 60.69 | 60.48 |
| ROAA (%) | 17.1% | 13.9% | 12.9% | 12.6% | 12.2% |
| ROAE (%) | 26.0% | 24.0% | 23.7% | 23.8% | 23.4% |
| PER (x) | 14.1 | 16.9 | 17.4 | 17.1 | 17.2 |
| PBV (x) | 4.0 | 4.1 | 4.1 | 4.0 | 4.0 |
| Div Yield (%) | 11.5% | 7.0% | 5.5% | 5.5% | 5.5% |

Analyst

Devi Harjoto

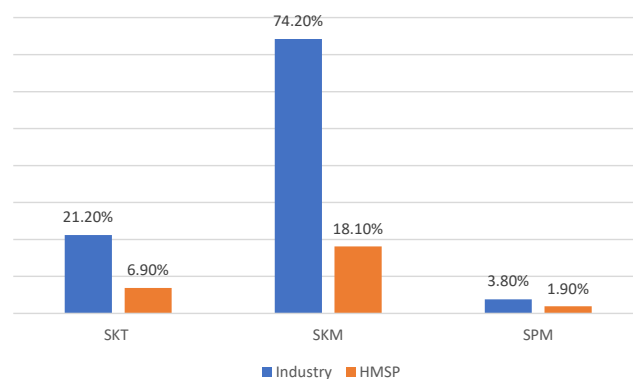
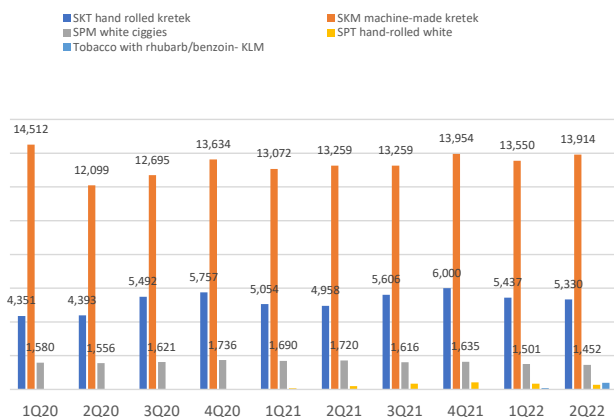
Hanjaya Mandala Sampoerna (HMSP)

HMSP's Financial Overview

| Consolidated Statements of Profit or Loss (Rp bn) | 1H21 | 1H22 | YoY Change | 1Q22 | 2Q22 | QoQ Change |
|---|----------|----------|------------|----------|----------|------------|
| Net sales | 47,628 | 53,505 | 12.3% | 26,161 | 27,344 | 4.5% |
| Costs | (42,686) | (49,690) | 16.4% | (23,793) | (25,897) | 8.8% |
| Operating profit | 4,942 | 3,815 | (22.8%) | 2,368 | 1,447 | (38.9%) |
| Operating profit margin | 10.4% | 7.1% | | 9.1% | 5.3% | |
| EBITDA | 5,525 | 4,363 | (21.0%) | 2,640 | 1,723 | (34.7%) |
| EBITDA margin | 11.6% | 8.2% | | 10.1% | 6.3% | |
| Net. Other income/ expenses | 102 | 22 | (78.9%) | 32 | (11) | (133.3%) |
| Net. Finance income/ expenses | 231 | 151 | (34.8%) | 84 | 67x | (20.0%) |
| Profit before tax | 5,275 | 3,988 | (24.4%) | 2,484 | 1,503 | (39.5%) |
| Income tax expenses | (1,141) | (939) | (17.7%) | (569) | (370) | (34.9%) |
| Net profit | 4,134 | 3,048 | (26.3%) | 1,915 | 1,133 | (40.8%) |
| Net profit margin | 8.7% | 5.7% | | 7.3% | 4.1% | |

Source: Company, KB Valbury Sekuritas

HMSP's sales volume and market share per segment VS industry



Sources: Companies, KB Valbury Securities

HMSP's retail price

| | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22 |
|--------------------------------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|
| A Mild 16 | 24140 | 24388 | 24332 | 24,340 | 24,778 | 24,932 | 25,062 | 25,318 | 26,108 | 27,087 |
| Dji Sam Soe 12 | 17978 | 18062 | 18068 | 18,111 | 18,152 | 18,180 | 18,186 | 18,262 | 18,696 | 19,147 |
| Dji Sam Soe Magnum filter 12 | 18375 | 18458 | 18472 | 18,447 | 18,465 | 18,485 | 18,590 | 18,704 | 19,086 | 19,748 |
| Dji Sam Soe magnum mild 16 SKM | 19019 | 19688 | 19895 | 19,982 | 20,390 | 20,818 | 21,098 | 21,531 | 22,067 | 22,652 |
| Marlboro Red | 29845 | 29947 | 29927 | 29,932 | 29,986 | 30,107 | 31,051 | 31,681 | 32,903 | 34,245 |
| Marlboro filter black | 27818 | 28744 | 29177 | 29,468 | 29,665 | 29,843 | 30,174 | 30,561 | 31,217 | 32,040 |
| U Mild/ Ultra Mild 1Q22 | 21285 | 21708 | 21692 | 22,117 | 22,250 | 22,363 | 22,361 | 22,653 | 22,958 | 23,557 |
| Sampoerna Kretek | 13121 | 13179 | 13191 | 13,216 | 13,283 | 13,301 | 13,446 | 13,621 | 14,007 | 14,154 |

Sources: Companies, KB Valbury Securities

Hanjaya Mandala Sampoerna (HMSP)

FINANCIAL TABLES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

| Year End Dec (Rp bn) | 2020A | 2021A | 2022F | 2023F | 2024F |
|-------------------------------|----------|----------|----------|-----------|-----------|
| Net sales | 92,425 | 98,875 | 106,870 | 115,124 | 123,512 |
| Costs | (82,023) | (90,291) | (98,456) | (106,580) | (115,032) |
| Operating profit | 10,402 | 8,583 | 8,414 | 8,545 | 8,480 |
| Operating profit margin | 11.25% | 8.68% | 7.87% | 7.42% | 6.87% |
| EBITDA | 11,730 | 9,741 | 9,517 | 9,681 | 9,651 |
| EBITDA margin | 12.7% | 9.9% | 8.9% | 8.4% | 7.8% |
| Net other income/ expenses | 40.2 | 133.8 | 155.5 | 179.9 | 208.0 |
| Net. Finance income/ expenses | 716 | 427 | 347 | 317 | 321 |
| Pretax profit | 11,161 | 9,152 | 8,925 | 9,050 | 9,019 |
| Income tax | (2,580) | (2,015) | (1,963) | (1,991) | (1,984) |
| After tax profit | 8,581 | 7,137 | 6,961 | 7,059 | 7,034 |
| Net profit margin | 9.3% | 7.2% | 6.5% | 6.1% | 5.7% |

Source: Company, KB Valbury Sekuritas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| Year End Dec (Rp bn) | 2020A | 2021A | 2022F | 2023F | 2024F |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Current assets | | | | | |
| Cash and cash equivalents | 15,804 | 17,844 | 12,639 | 16,944 | 10,473 |
| Trade receivables | 3,648 | 2,381 | 4,627 | 2,922 | 5,177 |
| Inventories | 18,094 | 17,782 | 21,601 | 21,031 | 24,982 |
| Other current assets | 3,545 | 3,317 | 3,558 | 3,818 | 4,100 |
| Total current assets | 41,092 | 41,323 | 42,425 | 44,716 | 44,732 |
| Non-current assets | | | | | |
| Fixed assets | 6,583 | 6,039 | 6,220 | 6,406 | 6,599 |
| Other non-current assets | 2,000 | 5,729 | 5,980 | 6,245 | 6,524 |
| Total non-current assets | 8,582 | 11,767 | 12,200 | 12,652 | 13,123 |
| Total assets | 49,674 | 53,090 | 54,625 | 57,367 | 57,855 |
| Current liabilities | | | | | |
| Trade payables | 3,468 | 4,244 | 3,831 | 5,358 | 4,125 |
| Taxes payables | 2,528 | 1,532 | 1,609 | 1,689 | 1,774 |
| Accruals | 241 | 258 | 274 | 290 | 307 |
| Short term debts | 117 | 238 | 254 | 272 | 291 |
| Other current liabilities | 10,390 | 15,692 | 16,918 | 17,760 | 18,813 |
| Total current liabilities | 16,744 | 21,964 | 22,886 | 25,370 | 25,311 |
| Non-current liabilities | | | | | |
| Lease liabilities | 194 | 188 | 193 | 199 | 205 |
| Other non-current liabilities | 2,495 | 1,747 | 2,006 | 1,906 | 2,095 |
| Total non-current liabilities | 2,689 | 1,935 | 2,200 | 2,105 | 2,300 |
| Shareholders' equity | 30,241 | 30,241 | 29,191 | 29,539 | 29,892 |
| Total liabilities and equity | 49,674 | 53,090 | 54,625 | 57,367 | 57,855 |

Source: Company, KB Valbury Sekuritas

Hanjaya Mandala Sampoerna (HMSP)

CONSOLIDATED STATEMENTS OF CASH FLOWS

| Year End Dec (Rp bn) | 2020A | 2021A | 2022F | 2023F | 2024F |
|---|-----------------|----------------|----------------|----------------|----------------|
| Net profit | 8,581 | 7,137 | 6,961 | 7,059 | 7,034 |
| Depreciation & amortization | 1,328 | 1,158 | 1,103 | 1,136 | 1,170 |
| Changes in working capital | 1,656 | 6,908 | (5,401) | 4,481 | (6,566) |
| CF from operating activities | 11,565 | 15,202 | 2,664 | 12,676 | 1,639 |
| Investment in fixed assets | (613) | (614) | (1,284) | (1,323) | (1,363) |
| Others | (92) | (3,729) | (252) | (265) | (279) |
| CF from investing activities | (705) | (4,343) | (1,536) | (1,588) | (1,641) |
| Debts raised/(repaid) | (13,935) | (8,468) | (6,613) | (6,706) | (6,683) |
| Dividends paid | (113) | 114 | 22 | 23 | 25 |
| Others | 171 | (467) | 259 | (100) | 189 |
| CF from financing activities | (13,877) | (8,820) | (6,332) | (6,783) | (6,469) |
| Free cash flows | (3,016) | 2,039 | (5,205) | 4,305 | (6,471) |
| Cash and cash equivalents, beginning | 18,821 | 15,804 | 17,844 | 12,639 | 16,944 |
| Cash and cash equivalents, ending | 15,804 | 17,844 | 12,639 | 16,944 | 10,473 |

Source: Company, KB Valbury Sekuritas

RATIO ANALYSIS

| Year End Dec | 2020A | 2021A | 2022F | 2023F | 2024F |
|--------------------------|----------|----------|----------|----------|----------|
| Operating profit margin | 11.3% | 8.7% | 7.9% | 7.4% | 6.9% |
| EBITDA margin | 12.7% | 9.9% | 8.9% | 8.4% | 7.8% |
| Net profit margin | 9.3% | 7.2% | 6.5% | 6.1% | 5.7% |
| Receivables turnover (x) | 26.78 | 32.80 | 30.50 | 30.50 | 30.50 |
| Inventory turnover (x) | 4.3 | 4.6 | 4.5 | 4.5 | 4.5 |
| Payable turnover (x) | 19.8 | 21.3 | 21.0 | 21.0 | 21.0 |
| ROAA | 17.06% | 13.89% | 12.93% | 12.61% | 12.21% |
| ROAE | 26.04% | 24.02% | 23.71% | 23.76% | 23.39% |
| ROIC | 70.53% | 72.90% | 48.50% | 63.68% | 41.84% |
| Debt/ Equity | 1.0% | 1.5% | 1.5% | 1.6% | 1.6% |
| Net debt/Equity | Net cash | Net cash | Net cash | Net cash | Net cash |
| Net debt/ EBITDA | Net cash | Net cash | Net cash | Net cash | Net cash |
| Interest coverage (x) | 5.34 | 5.88 | 7.01 | 7.78 | 9.01 |
| EPS (Rp) | 234.7 | 172.3 | 149.0 | 131.8 | 119.4 |
| BV/ Share (Rp) | 73.78 | 61.36 | 59.85 | 60.69 | 60.48 |

Source: Company, KB Valbury Sekuritas

Hanjaya Mandala Sampoerna (HMSP)

Disclaimer

This report is prepared by PT KB Valbury Sekuritas, a member of the Indonesia Stock Exchange, or its subsidiaries or its affiliates ("KBVS"). All the material presented in this report is under copyright to KBVS. None of the parts of this material, nor its contents, may be copied, photocopied, or duplicated in any form or by any means or altered in any way, or transmitted to, or distributed to any other party without the prior written consent of KBVS.

The research presented in this report is based on the information obtained by KBVS from sources believed to be reliable, however KBVS do not make representations as to their accuracy, completeness or correctness. KBVS accepts no liability for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from the use of the material presented in this report and further communication given or relied in relation to this document. The material in this report is not to be construed as an offer or a solicitation of an offer to buy or sell any securities or financial products. This report is not to be relied upon in substitution for the exercise of independent judgement. Past performance and no representation or warranty, express or implied, is made regarding future performance. Information, valuations, opinions, forecasts and estimates contained in this report reflects a judgement at its original date of publication by KBVS and are subject to change without notice, its accuracy is not guaranteed or it may be incomplete.

The Research Analyst(s) primarily responsible for the content of this research report, in part or as a whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The Analyst also certifies that no part of his/her compensation was, is or will be related to specific recommendation views expressed in this report. It also certifies that the views and recommendations expressed in this report do not and will not take into account client circumstances, objectives, needs and no intentions involved as a use for recommendations for sale or buy any securities or financial instruments.

KB Valbury Sekuritas

Headquarters

Menara Karya, 9th Floor
Jl. H.R. Rasuna Said Blok X-5 Kav 1-2
Jakarta 12950, Indonesia
T +62 21 255 33 600
F +62 21 255 33 778

Branch Office

Jakarta - Kelapa Gading
Rukan Plaza Pasifik
Jl. Raya Boulevard Barat Blok A1 No. 10
Jakarta 11620
T +62 21 - 29451577

Jakarta - Puri Indah
Rukan Grand Aries Niaga
Blok E.1 No. 1 V Jl. Taman Aries, Kembangan,
Jakarta 14450
T +62 21 - 22542390
F +62 21 - 29264310

Jakarta - Pluit
Jl. Pluit Putra Raya No. 2
Jakarta 14240
T +62 21 - 29264300
F +62 21 - 22542391

Bandung
Jl. HOS Cokroaminoto No. 82
Bandung 40171
T +62 22 - 87255888
T +62 22 - 87255800
F +62 22 - 87255811

Semarang
Cendil Plaza Building Lt. Dasar
Jl. Sultan Agung No. 90-90A
Semarang 50252
T +62 24 - 3521888
T +62 24 - 8501122
F +62 24 - 8507450

Yogyakarta
Jl. Magelang KM 5.5 no. 75
Yogyakarta 55284
T +62 274 - 4469500
T +62 274 - 623111
F +62 274 - 623222

Galeri Investasi

Padang
Jl. Kampung Nias II no. 10,
Kel. Belakang Pondok,
Kec. Padang Selatan
T +62 751 8955747

Manado
Kawasan Megamas, Ruko Megaprofit
Blok IF2 No. 38 Manado, 95254
T +62 431 7917 836
F +62 431 880 2129

Surabaya
Pakuwon Center Tunjungan Plaza Lantai 21
Jl. Embong Malang No.1
Surabaya 60261
T +62 31 - 2955777
T +62 31 - 2955788
F +62 31 - 2955716

Denpasar
Komplek Isis Styles Hotel
Jl. Teuku Umar No. 177
Denpasar Bali 80114
T +62 361 - 255888
T +62 361 - 225229
F +62 361 - 225339

Benjarmasin
Jl. Gatot Subroto No.33 Kel. Kebun Bunga
Kec. Banjarmasin Timur
Kalimantan Selatan 70235
T +62 511 - 3265918
F +62 511 - 3253432

Solo
Jl. Ronggo Warsito no. 34
Solo 57118
T +62 271 632888
F +62 271 656988

Makassar
Ratulangi Points Lt. 3
Jl. Dr Sam Ratulangi No. 2 Kunjungmae, Mariso
Makassar, Sulawesi Selatan 90125
T +62 411 8955999

Malang
Jl. Paksiwan Trip no. 7
Malang 65112
T +62 341 - 585888
F +62 341 - 560056

Solo
Jl. Ronggowarsito No. 34
Surakarta 57118
T +62 271 - 632888

Palembang
Komp. PTC Mall Blok I No. 7 Jl. R. Sukanto Kel. 8 Ilir
Kec. Ilir Timur II Palembang 30114
T 07115700281

Medan
Komplek Jati Junction No. PS-5A
Jl. Perintis Kemerdekaan
Medan 20218
T +62 61 - 88816222
F 62 61 - 88816333

Pekanbaru
Jl. Tuanku Tambusai
Komplek CNN Blok A No.3 Pekanbaru 28291
T +62 761 - 839393
Galeri Investasi

Padang
Jl. Kampung Nias II no. 10,
Kel. Belakang Pondok,
Kec. Padang Selatan
T +62 751 8955747

Manado
Kawasan Megamas, Ruko Megaprofit
Blok IF2 No. 38 Manado, 95254
T +62 431 7917 836
F +62 431 880 2129

Solo
Jl. Ronggowarsito No. 34
Surakarta 57118
T +62 271 - 632888

Palembang
Komp. PTC Mall Blok I No. 7 Jl. R. Sukanto Kel. 8 Ilir
Kec. Ilir Timur II Palembang 30114
T 07115700281

Galeri Investasi BEI - KBVS

Yogyakarta
Universitas Kristen Duta Wacana
T +62 274 - 544032

Manado
Universitas Prisma Manado
T 0431 8800850

Jakarta
Universitas Gunadarma
T +62 21 - 8727541