

Hanjaya Mandala Sampoerna Tbk (HMSP)

Expecting 2018 Earning Rebound

Company Report | Mar 16, 2018

Surge of 3.8% in Sales

HMSP posted the growth of 3.8% in sales from IDR95.4 trillion in 2016 into IDR99 trillion in 2017. The surge in sales **was mainly bolstered by the picking up selling price** instead of sales volume.

It is estimated that the total cigarette sales volume in Indonesia decreased by 2.6% from 315 billion cigarettes in 2016 into 307.4 billion cigarettes in 2017. HMSP sales volume also decline by 4% from 105.5 billion cigarettes in 2016 into 101.3 billion cigarettes in 2017. It posted a larger decline in sales than markets did; therefore, its market share also declined from 33.4% in 2016 into 33.0% in 2017.

A Slight Decline of 0.7% in Profit

Although the trend of cigarette sales volume declined since 2016, HMSP succeeded to maintain the growth in sales underpinned by the upbeat selling price.

The relatively stable and low inflation in 2017 underlined **HMSP's incapability of hiking ASP topping 10%** capable of offsetting hike in excise (equivalent to 57% from sales) consistently topping 10% since 2015. Accordingly, its profit slightly declined by 0.7% from IDR12.7 trillion in 2016 into IDR12.6 trillion in 2017.

Target Price Rp5,025

We use an estimate of forward P/E of 42.4x (+2SD from the 3-year average of 35.2x) to obtain the target price of December 2018. The target price implies a 2018/E P/E of 45.1x. Now, HMSP is traded at a 2018/E P/E of 38.7x

HM Sampoerna, Tbk | Summary (IDR bn)

	2016/12A	2017/12A	2018/12E	2019/12E
Sales	95,467	99,091	105,411	112,794
<i>Sales growth</i>	7.2%	3.8%	6.4%	7.0%
EBITDA	16,745	16,693	17,095	18,288
Net profit	12,762	12,671	12,951	13,860
EPS (IDR)	110	109	111	119
<i>EPS growth</i>	23.1%	-0.7%	2.2%	7.0%
BVPS (IDR)	294	293	298	307
EBITDA margin	17.5%	16.8%	16.2%	16.2%
NPM	13.4%	12.8%	12.3%	12.3%
ROE	37.3%	37.1%	37.4%	38.8%
ROA	30.0%	29.4%	30.1%	31.0%
ROIC	35.1%	35.0%	35.5%	36.8%
P/E	34.9x	43.4x	38.7x	36.2x
P/BV	13.0x	16.1x	14.5x	14.0x
EV/EBITDA	26.3x	32.5x	28.9x	27.0x
DPS (IDR)	89	108	107	109
<i>Dividend yield</i>	2.3%	2.3%	2.5%	2.5%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Buy

Dec 2018 TP (IDR)	5,025
Consensus Price (IDR)	4,552
TP to Consensus Price	+10.4%
vs. Last Price	+16.6%

Shares data

Last Price (IDR)	4,310
Price date as of	Mar 14, 2018
52 wk range (Hi/Low)	5,500/3,370
Free float (%)	7.5
Outstanding sh.(mn)	116,318
Market Cap (IDR bn)	495,515
Market Cap (USD mn)	36,045
Avg. Trd Vol - 3M (mn)	19.90
Avg. Trd Val - 3M (bn)	94.11
Foreign Ownership	2.10%

Consumer Staples

Cigarette

Bloomberg	HMSP IJ
Reuters	HMSP.IK

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Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-11.0%	-13.2%	-3.2%	4.5%
Rel. Ret.	-11.9%	-10.7%	-9.1%	-14.1%

Growth in Profit Underpinned by Stable Market Share

We estimate HMSP's sales to incline by 6.4% in 2018 backed by **its stable market share of 33.0%**. The conservative assumption of **ASP hike below 10% will result in the hike of 2.2% in 2018's net profit**. If HMSP is aggressively capable of hiking ASP up to 11.5% similar to its aggressive ASP performance in 2016 and maintaining the market share position, its net profit is estimated to grow up to 5.2% in 2018.

A Glance at HMSP

HMSP produces a number of prominent clove cigarette such as Sampoerna A, Sampoerna Kretek, Sampoerna U, and Dji Sam Soe the "Raja Kretek". It is the affiliation of Philip Morris International Inc., an internationally prominent cigarette maker.

In the end of 2017, HMSP led the cigarette market share in Indonesia with the market share of 33%. It sells and distributes cigarette through 104 sales-area office across Indonesia.

HMSP's Competitiveness in Asia Pacific

Having market capitalization topping USD10 billion, **HMSP has the first-highest ROE of 37.1%**, then ITC Ltd in India has the second-highest ROE of 23.1%. The decline of 0.7% in 2017's net profit experienced by HMSP was also experienced by other companies whose market capitalizations are as big as HMSP. For instance, Japan Tobacco posted the decline of 6.9% in 2017's net profit.

HMSP high P/E valuation of 43.4x positions HMSP as the cigarette maker with the most expensive valuation in Asia Pacific. However, its free floating of 7.5% and expensive valuation point **investors' high interests in HMSP's stock**.

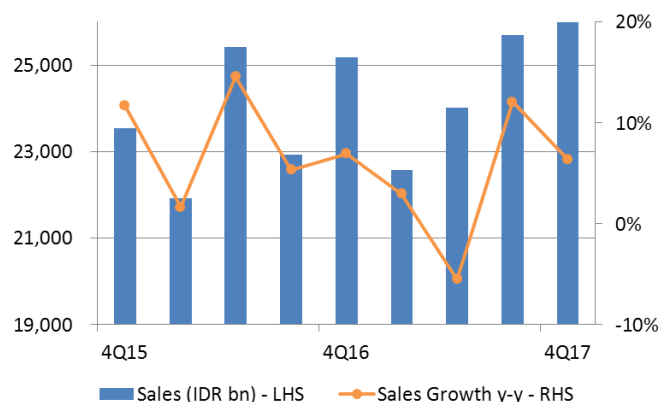
Asia Pacific Cigarette Company

Company	Market Cap (USD mn)	Total Asset (USD mn)	Net Profit Growth	Net Profit Margin	ROE	P/E	P/BV	Dividend Yield
HMSP	36,045	3,175	-0.7%	12.8%	37.1%	43.4x	16.1x	2.3%
GGRM	10,886	4,649	8.1%	8.8%	19.4%	20.0x	3.8x	3.3%
India								
ITC Ltd	48,770	8,625	10.1%	24.3%	23.1%	30.7x	6.8x	1.8%
VST Industries Ltd	699	123	9.2%	17.7%	36.9%	27.2x	8.5x	2.5%
Godfrey Phillips India Ltd	645	340	-19.3%	6.0%	8.5%	30.7x	2.5x	1.0%
Malaysia								
British American Tobacco Bhd	1,936	257	-31.7%	16.4%	99.0%	15.4x	19.8x	9.4%
Japan								
Japan Tobacco Inc	55,837	46,380	-6.9%	18.3%	15.0%	13.6x	1.9x	4.7%
South Korea								
KT&G Corp	12,635	9,346	-5.4%	24.9%	15.7%	10.7x	1.6x	4.1%
Sri Lanka								
Ceylon Tobacco Co Plc	1,277	162	16.2%	10.5%	362.2%	13.6x	43.4x	6.2%

Source: Bloomberg, NHKS research

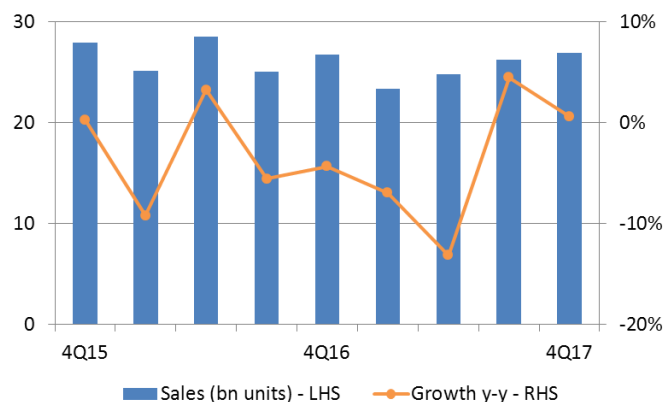
Performance Highlights

HMSP Quarterly Sales | 2015 - 2017



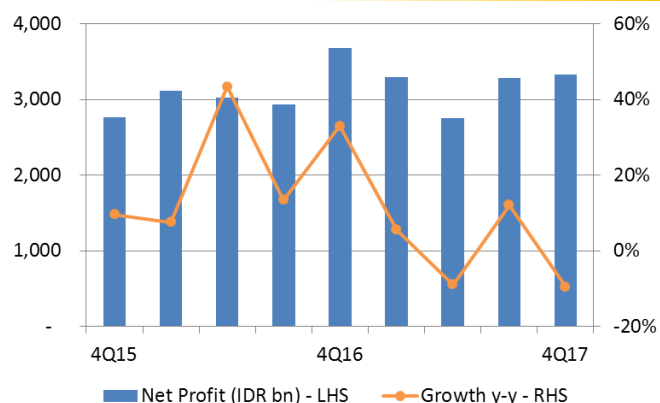
Source: Company, NHKS Research

HMSP Quarterly Sales by Volume | 2015 - 2017



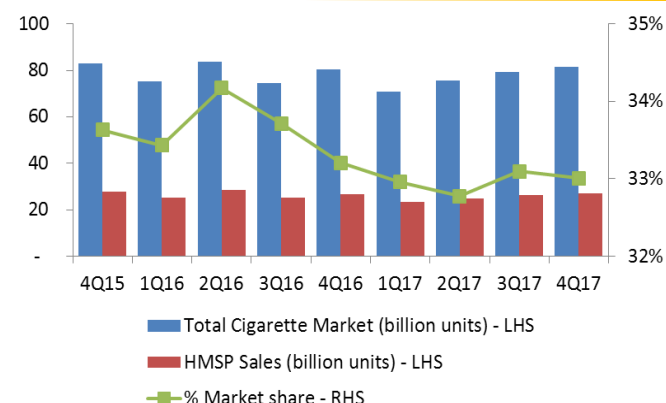
Source: Company, NHKS Research

HMSP Quarterly Net Profit | 2015 - 2017



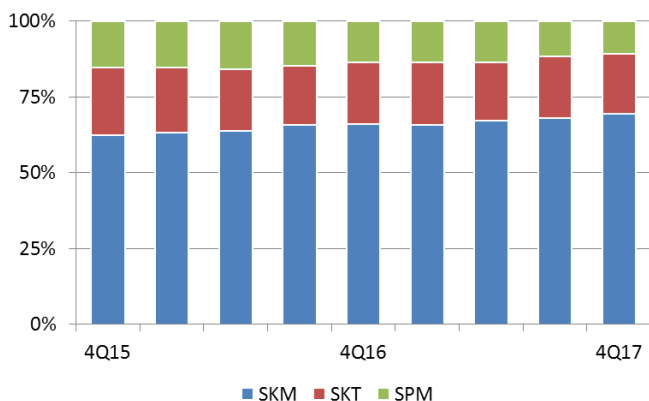
Source: Company, NHKS Research

Indonesia SKM-SKT Market Share | FY2014 - FY2017E



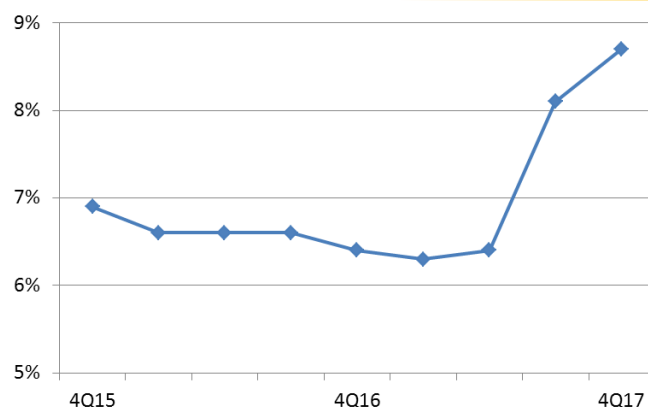
Source: Company, NHKS Research

HMSP Sales Breakdown by Segment | 2015 - 2017



Source: Company, NHKS Research

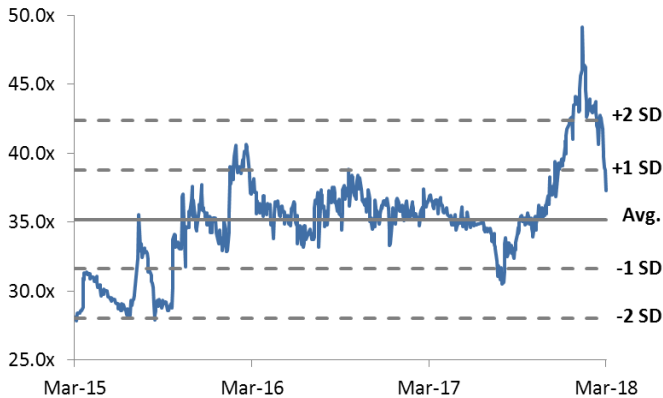
Dji Sam Soe Brand Market Share | 2015 - 2017



Source: Company, NHKS Research

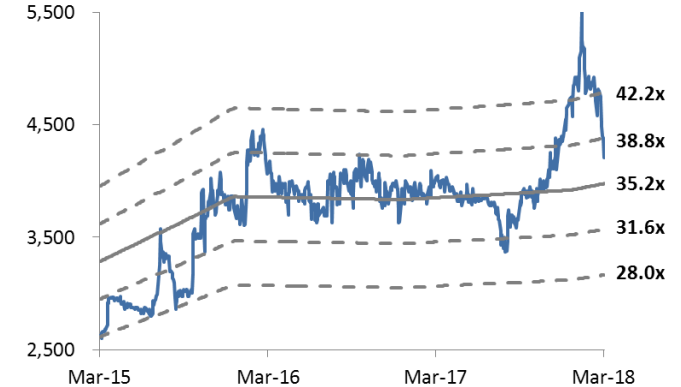
Multiple Valuation

Forward P/E band | Last 3 Years



Source: NHKS research

Dynamic Forward P/E band | Last 3 Years



Source: NHKS research

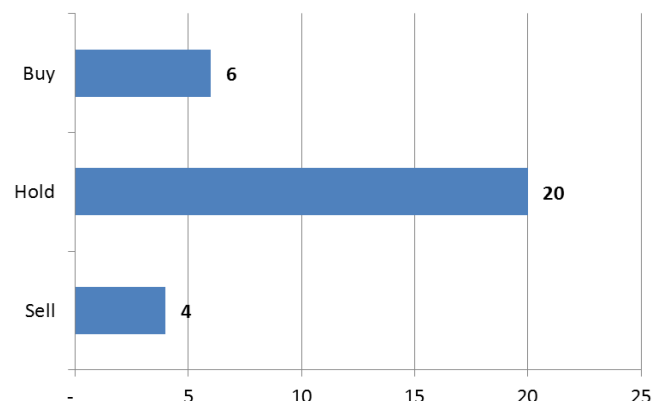
Rating and target price update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
03/20/2017	Hold	4,520 (Dec 2017)	4,050	4,172	+11.6%	+8.3%
06/05/2017	Buy	4,620 (Dec 2017)	3,850	4,148	+20.0%	+11.4%
08/07/2017	Hold	3,780 (Dec 2017)	3,470	4,080	+8.9%	-7.4%
11/15/2017	Buy	4,690 (Dec 2018)	4,050	4,144	+15.8%	+13.2%
03/16/2018	Buy	5,025 (Dec 2018)	4,310	4,552	+16.6%	+10.4%

Source: NHKS research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

- Period: End of year target price
- Rating system based on a stock's absolute return from the date of publication
 - Buy : Greater than +15%
 - Hold : -15% to +15%
 - Sell : Less than -15%

Summary of Financials

HMSP Summary

Last Price (IDR)	March 14, 2018	4,310
Target Price (IDR)	Dec 2018	5,025
Analyst: Joni Wintarja	Rating:	Buy

INCOME STATEMENT

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Sales	95,467	99,091	105,411	112,794
Growth (% y/y)	7.2%	3.8%	6.4%	7.0%
COGS	(71,612)	(74,876)	(80,333)	(85,958)
Gross Profit	23,855	24,216	25,078	26,836
Gross Margin	25.0%	24.4%	23.8%	23.8%
Operating Expenses	(7,834)	(8,121)	(8,618)	(9,222)
EBIT	16,020	16,095	16,460	17,614
EBIT Margin	16.8%	16.2%	15.6%	15.6%
Depreciation	724	598	635	674
EBITDA	16,745	16,693	17,095	18,288
EBITDA Margin	17.5%	16.8%	16.2%	16.2%
Interest Expenses	(22)	(9)	(12)	(15)
EBT	17,011	16,895	17,269	18,481
Income Tax	(4,249)	(4,224)	(4,317)	(4,621)
Minority Interest	-	-	-	-
Net Profit	12,762	12,671	12,951	13,860
Growth (% y/y)	23.1%	-0.7%	2.2%	7.0%
Net Profit Margin	13.4%	12.8%	12.3%	12.3%

BALANCE SHEET

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Cash	5,056	7,502	6,936	7,321
Receivables	3,323	3,598	3,827	4,095
Inventories	19,442	18,023	19,337	19,513
Other Current Assets	5,827	5,057	3,919	4,488
Total Current Assets	33,647	34,180	34,019	35,418
Net Fixed Assets	6,895	7,005	7,127	7,314
Other Non Current Assets	1,965	1,956	1,860	1,908
Total Assets	42,508	43,141	43,006	44,640
Payables	3,871	3,666	3,934	3,974
ST Debt	21	29	54	42
Other Current Liab.	2,537	2,788	2,163	2,475
LT Debt	66	81	82	77
Other Non Current Liab.	1,839	2,465	2,151	2,308
Total Liabilities	8,333	9,028	8,384	8,876
Shareholders' Equity	34,175	34,113	34,622	35,764

CASH FLOW STATEMENT

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Net Income	12,762	12,671	12,951	13,860
Deprec & Amortization	724	598	635	674
Chg. In Working Capital	590	2,113	(762)	(661)
CFO	14,077	15,382	12,824	13,873
Capex	(1,348)	(708)	(757)	(861)
CFI	(362)	(386)	(974)	(753)
Dividends Paid	(10,352)	(12,527)	(12,442)	(12,718)
Net Borrowing (PMT)	25	23	27	(17)
CFF	(10,377)	(12,550)	(12,416)	(12,735)
Net Changes in Cash	3,337	2,446	(566)	385

OWNERSHIP

OWNERS			
By Geography	% Shareholders		%
Indonesia	97.9	Philip Morris Ind.	92.5
United States	1.1	Vantobel Holding AG	0.4
Luxembourg	0.4	Blackrock	0.3
Canada	0.2	Vanguard Group	0.3

PROFITABILITY & STABILITY

	2016/12A	2017/12A	2018/12E	2019/12E
ROE	37.3%	37.1%	37.4%	38.8%
ROA	30.0%	29.4%	30.1%	31.0%
ROIC	35.1%	35.0%	35.5%	36.8%
EBITDA/Equity	49.0%	48.9%	49.4%	51.1%
EBITDA/Assets	39.4%	38.7%	39.7%	41.0%
Cash Dividend (IDR bn)	10,352	12,527	12,442	12,718
Dividend Yield (%)	2.3%	2.3%	2.5%	2.5%
Payout Ratio (%)	99.9%	98.2%	98.2%	98.2%
DER	0.3%	0.3%	0.4%	0.3%
Net Gearing	0.7%	0.8%	1.0%	0.8%
LT Debt to Equity	0.2%	0.2%	0.2%	0.2%
Capitalization Ratio	0.3%	0.3%	0.4%	0.3%
Equity Ratio	80.4%	79.1%	80.5%	80.1%
Debt Ratio	0.2%	0.3%	0.3%	0.3%
Financial Leverage	124.4%	126.5%	124.2%	124.8%
Current Ratio	523.4%	527.2%	553.1%	545.7%
Quick Ratio	130.3%	171.2%	175.0%	175.9%
Cash Ratio	78.7%	115.7%	112.8%	112.8%
Cash Conversion Cycle	92.1	83.2	83.2	79.2
Par Value (IDR)	4	4	4	4
Total Shares (mn)	116,318	116,318	116,318	116,318
Share Price (IDR)	3,830	4,730	4,310	4,310
Market Cap (IDR tn)	445.5	550.2	501.3	501.3

VALUATION INDEX

	2016/12A	2017/12A	2018/12E	2019/12E
Price /Earnings	34.9x	43.4x	38.7x	36.2x
Price /Book Value	13.0x	16.1x	14.5x	14.0x
Price/Sales	4.7x	5.6x	4.8x	4.4x
PE/EPS Growth	1.5x	-60.4x	17.5x	5.2x
EV/EBITDA	26.3x	32.5x	28.9x	27.0x
EV/EBIT	27.5x	33.7x	30.0x	28.1x
EV (IDR bn)	440,529	542,792	494,527	494,125
Sales CAGR (3-Yr)	8.4%	7.1%	5.8%	5.7%
EPS CAGR (3-Yr)	5.7%	7.6%	7.7%	2.8%
Basic EPS (IDR)	110	109	111	119
Diluted EPS (IDR)	110	109	111	119
BVPS (IDR)	294	293	298	307
Sales PS (IDR)	821	852	906	970
DPS (IDR)	89	108	107	109

DCF, RIM & EVA

	2016/12A	2017/12A	2018/12E	2019/12E
DCF (IDR bn)				
NOPAT	12,019	12,070	12,345	13,210
+Depr./Amor.	724	598	635	674
-CAPEX	(1,348)	(708)	(757)	(861)
-Incr. (Decr.) in Working Cap.	590	2,113	(762)	(661)
(Unlevered) FCFF	11,985	14,074	11,461	12,362
WACC				
Cost of Debt (Tax Adj.)	7.7%	6.6%	6.4%	11.3%
Cost of Equity (COE)	9.0%	11.5%	11.9%	11.9%
WACC (%)	9.0%	11.5%	11.9%	11.9%
RIM				
Spread (FROE-COE) (%)	28.4%	25.7%	25.5%	26.8%
Residual Income (IDR bn)	9,690	8,751	8,818	9,590
Equity Charge	3,072	3,920	4,134	4,270
EVA				
Invested Capital (IDR bn)	34,262	34,222	34,758	35,883
ROIC-WACC (%)	26.1%	23.8%	23.6%	24.9%
EVA (USD mn)	8,939	8,139	8,195	8,926

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