

# HM Sampoerna Tbk (HMSP)

## 3Q20 Result Driven By Volume Growth Recovery

HMSP's performance in 3Q20 improved on quarterly basis, mainly driven by sales volume recovery in both SKM and SKT Products. Meanwhile, limited ASP increase due to unfavorable economic condition supported HMSP to secure its market share.

### 3Q20 Results

HM Sampoerna (HMSP) booked 3Q20 revenue of IDR23.04tn (-14.0% YoY) and net profit of IDR2.02tn (-41.0% YoY). The company posted positive revenue growth for its hand-rolled cloves (SKT) products of around 15% YoY. That indicates that consumer still continued downtrading towards affordable product, while its machine rolled cloves (SKM) and white cigarettes (SPM) were down by -21.1% YoY and -18.2% YoY, respectively. Nevertheless, we saw signs of recovery in 3Q20 as the company posted robust top line and bottom line growth of 9.5% QoQ and 29.4% QoQ. This improvement was mainly driven by better than expected sales volume and limited rise ASP.

### Margin Compressed

In 3Q20, HMSP's GM contracted by 500bps to 20% YoY, improving on a QoQ basis by 110bps due to lower COGS. Furthermore, the company again recorded net profit margin compression by 402bps to 8.8% (vs. 12.8% in 3Q19). On the bright side, in terms of quarterly figure, we are starting to see improvement in sales volume. SKM product booked modest growth of 3.3% to 12.7bn sticks, while SKT product rose 22.8% to 5.5bn sticks. We saw the unfavorable economic condition coupled with hike excise tax this year provided less room for the company to increase ASP, and thus hitting the earnings.

### Flat Market Share in 3Q20

The company's overall market share was down by 410 bps to 28.2% (vs. 32.3% in 3Q19). Given the 270bps QoQ gain in SKT shares, we can conclude that DJI Sam Soe and Sampoerna Kretek market share gains were driven by higher demand in SKT products. But, HMSP's flagship product Sampoerna U, continued to lose market share in 3Q20, by 20bps QoQ to 0.7% and A mild continued to maintain its market share of 11.3%.

### Initiates at Overweight with TP of IDR1.750/shares

We initiate our Overweight recommendation on HMSP with a target price of IDR1.750/shares. We derived our target price by applying a target P/E of around 14.9x (-0.1SD from its 3-year mean P/E). We believe Indonesia GDP will recover in the future along with house hold consumption, supported by strong commodity price, low inflation, and stable rupiah. Thus, we forecast revenue to grow by -13.7%/6.9% in 2020F/21F, respectively. Risks to our call are further drop in sales volume and unfavorable government policies.

### HM Sampoerna Tbk | Summary (IDR bn)

	2019A	2020E	2021F	2022F
Sales	106.055	92.628	99.024	100.018
<i>Sales growth</i>	-0,6%	-12,7%	6,9%	1,0%
EBITDA	18.452	11.783	13.438	14.510
Net Profit	13.722	8.633	10.091	10.739
EPS (IDR)	118	74	87	92
<i>EPS growth</i>	1,4%	-37,1%	16,9%	6,4%
EBITDA margin	17,4%	12,7%	13,6%	14,5%
NPM	12,9%	9,3%	10,2%	10,7%
P/E	17,8x	21,2x	18,1x	17,0x
P/BV	6,8x	6,0x	5,7x	5,6x
EV/EBITDA	12,2x	14,3x	12,4x	11,4x
DPS (IDR)	117	120	73	87
<i>Dividend yield</i>	5,6%	7,6%	4,6%	5,5%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

## Overweight

Target Price (IDR)	1,750
Consensus Price (IDR)	1,580
TP to Consensus Price	+10.8%
vs. Last Price	+11.5%

### Shares data

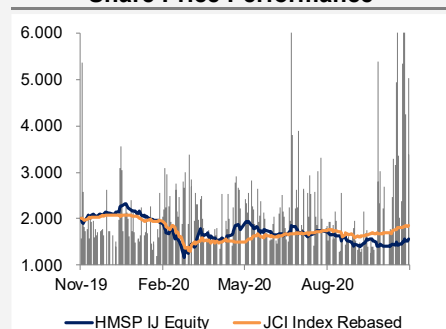
Last Price (IDR)	1,570
Price date as of	Nov 24, 2020
52 wk range (Hi/Lo)	3,970 / 1,155
Free float (%)	7.5
Outstanding sh.(mn)	116,318
Market Cap (IDR bn)	186,108
Market Cap (USD mn)	13,162
Avg. Trd Vol - 3M (mn)	60.30
Avg. Trd Val - 3M (bn)	90.90
Foreign Ownership	1.5%

### Consumer Staples

#### Cigarette

Bloomberg	HMSP IJ
Reuters	HMSP.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-24.9%	11.0%	-8.2%	-21.9%
Rel. Ret.	-14.6%	0.4%	-15.4%	-14.6%

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## 3Q20 review (IDR bn)

	3Q19	4Q19	1Q20	2Q20	3Q20				4Q20E
					Actual	Estimate	y-y	q-q	
Sales	26.787	28.548	23.689	21.044	23.046		-14,0%	9,5%	24.850
Gross Profit	6.565	7.232	5.868	3.872	4.494		-31,5%	16,1%	4.127
<i>Gross Margin</i>	24,5%	25,3%	24,8%	18,4%	19,5%		-5,0%	1,1%	16,6%
EBIT	4.267	4.607	3.952	1.855	2.560		-40,0%	38,0%	2.115
<i>EBIT Margin</i>	15,9%	16,1%	16,7%	8,8%	11,1%		-4,8%	2,3%	8,5%
EBITDA	4.565	4.979	4.280	2.167	2.893		-36,6%	33,5%	2.443
<i>EBITDA Margin</i>	17,0%	17,4%	18,1%	10,3%	12,6%		-4,5%	2,3%	9,8%
<b>Net Profit</b>	<b>3.430</b>	<b>3.521</b>	<b>3.322</b>	<b>1.565</b>	<b>2.024</b>		<b>-41,0%</b>	<b>29,4%</b>	<b>1.722</b>
<i>Net Margin</i>	12,8%	12,3%	14,0%	7,4%	8,8%		-4,0%	1,3%	6,9%

Source: Bloomberg, NHKSI research

## Earnings revision (IDR bn)

		2020E	2021F	2022F
<b>Sales</b>	-Revised	<b>92.628</b>	<b>99.024</b>	<b>100.018</b>
	-Previous			
	-Change			
Gross Profit	-Revised	18.361	20.435	21.473
	-Previous			
	-Change			
Gross Margin	-Revised	19,8%	20,6%	21,5%
	-Previous			
EBIT	-Revised	10.481	12.117	13.072
	-Previous			
	-Change			
EBIT Margin	-Revised	11,3%	12,2%	13,1%
	-Previous			
EBITDA	-Revised	11.783	13.438	14.510
	-Previous			
	-Change			
EBITDA Margin	-Revised	12,7%	13,6%	14,5%
	-Previous			
<b>Net Profit</b>	-Revised	<b>8.633</b>	<b>10.091</b>	<b>10.739</b>
	-Previous			
	-Change			
Net Margin	-Revised	9,3%	10,2%	10,7%
	-Previous			

Source: NHKSI Research

## A Glance at HMSP

PT Hanjaya Mandala Sampoerna Tbk. has been a significant part of Indonesia's tobacco industry for more than a century since its establishment in 1913, with Dji Sam Soe or known as the legendary "King of Kretek". For more than a decade, the Company has been the market leader in Indonesia, with a 32.2% market share in the Indonesian cigarette market in 2019.

Sampoerna is the pioneer in the Machine-Made Kretek Low Tar (SKM LT) cigarette category in Indonesia by introducing Sampoerna A in 1989. The Company also produces some of the best known kretek (clove) cigarette brand families including Marlboro Filter Black, Sampoerna U, Philip Morris Bold and Sampoerna Kretek

### Asia Pacific Cigarette Company

Company	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Margin	ROE LTM	P/E LTM	P/BV
<b>Indonesia</b>									
Gudang Garam	5.773	5.680	7.752	642	0,12%	8,3%	17,9%	8.8x	1.4x
HM Sampoerna	12.387	3.676	6.986	826	-16,61%	11,8%	43,0%	14.7x	6.6x
<b>India</b>									
ITC Ltd	29.520	10.264	6.911	2.160	21,55%	31,3%	24,6%	14.3x	3.4x
VST Industries Ltd	701	185	175	43	34,05%	24,5%	41,9%	17.1x	6.6x
Godfrey Phillips India Ltd	626	437	402	54	47,85%	13,5%	18,2%	12.1x	2.1x
<b>Malaysia</b>									
British American Tobacco	784	251	550	63	-26,77%	11,5%	72,2%	12.1x	8.9x
<b>Pakistan</b>									
Pakistan Tobacco Co Ltd	2.471	261	369	89	29,17%	24,1%	73,6%	27.6x	19.7x
<b>South Korea</b>									
KT&G CORP	10.380	9.275	4.323	825	-5,73%	19,1%	12,2%	10.9x	1.2x
<b>Sri Lanka</b>									
Ceylon Tobacco Co Plc	980	147	188	87	-13,79%	46,2%	233,8%	11.3x	31.4x

Source: Bloomberg

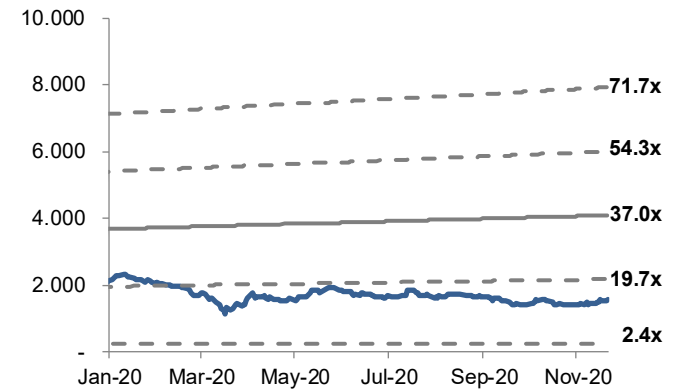
## Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKSI research

Dynamic Forward P/E band



Source: NHKSI research

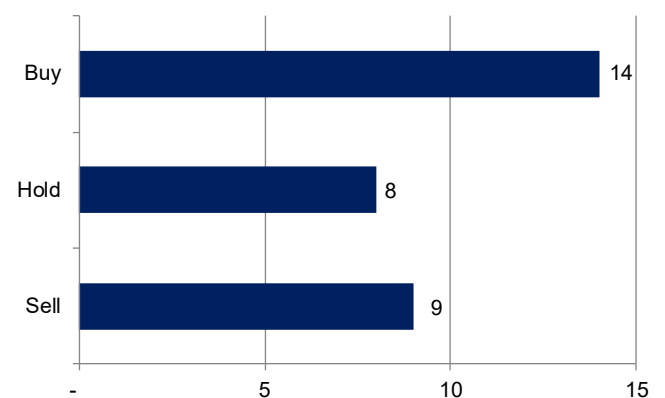
## Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
04/12/2020	Overweight	1,750	1,570	1,580	+11.5%	+10.8%

Source: NHKSI research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKSI research

## Summary of Financials

### INCOME STATEMENT

(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
<b>Sales</b>	<b>106.055</b>	<b>92.628</b>	<b>99.024</b>	<b>100.018</b>
<i>Growth</i>	-0,6%	-12,7%	6,9%	1,0%
COGS	(79.932)	(74.267)	(78.589)	(78.545)
<b>Gross Profit</b>	<b>26.123</b>	<b>18.361</b>	<b>20.435</b>	<b>21.473</b>
<i>Gross Margin</i>	24,6%	19,8%	20,6%	21,5%
Operating Expenses	(9.046)	(7.880)	(8.318)	(8.402)
<b>EBIT</b>	<b>17.077</b>	<b>10.481</b>	<b>12.117</b>	<b>13.072</b>
<i>EBIT Margin</i>	16,1%	11,3%	12,2%	13,1%
Depreciation	1.374	1.302	1.321	1.439
<b>EBITDA</b>	<b>18.452</b>	<b>11.783</b>	<b>13.438</b>	<b>14.510</b>
<i>EBITDA Margin</i>	17,4%	12,7%	13,6%	14,5%
Interest Expenses	(53)	(50)	(15)	(15)
<b>EBT</b>	<b>18.259</b>	<b>11.219</b>	<b>13.113</b>	<b>13.956</b>
Income Tax	(4.538)	(2.586)	(3.022)	(3.216)
Minority Interest	-	-	-	-
<b>Net Profit</b>	<b>13.722</b>	<b>8.633</b>	<b>10.091</b>	<b>10.739</b>
<i>Growth</i>	1,4%	-37,1%	16,9%	6,4%
<i>Net Profit Margin</i>	12,9%	9,3%	10,2%	10,7%

### PROFITABILITY & STABILITY

	2019/12A	2020/12E	2021/12E	2022/12E
ROE	38,5%	28,4%	31,6%	33,0%
ROA	27,0%	17,7%	19,9%	21,0%
ROIC	35,7%	26,4%	29,1%	30,8%
Cash Dividend (IDR bn)	13.632	13.935	8.486	10.101
Dividend Yield	5,6%	7,6%	4,6%	5,5%
Payout Ratio	99,4%	161,4%	84,1%	94,1%
DER	0,7%	0,8%	0,3%	0,3%
Net Gearing	2,0%	1,6%	0,6%	1,0%
LT Debt to Equity	0,7%	0,7%	0,2%	0,2%
Capitalization Ratio	0,7%	0,8%	0,3%	0,3%
Equity Ratio	70,1%	62,4%	63,0%	63,7%
Debt Ratio	0,5%	0,5%	0,2%	0,2%
Financial Leverage	142,7%	160,2%	158,7%	156,9%
Current Ratio	327,6%	253,1%	259,1%	269,1%
Par Value (IDR)	4	4	4	4
Total Shares (mn)	116.318	116.318	116.318	116.319
Share Price (IDR)	2.100	1.570	1.570	1.570
Market Cap (IDR tn)	244,3	182,6	182,6	182,6

### BALANCE SHEET

(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
Cash	18.821	14.327	15.436	16.628
Receivables	3.255	2.843	3.111	3.094
Inventories	16.376	15.386	15.689	16.015
<b>Total Current Assets</b>	<b>41.697</b>	<b>40.199</b>	<b>42.644</b>	<b>43.763</b>
Net Fixed Assets	7.298	6.559	6.139	5.421
Other Non Current Asset	1.908	1.909	1.908	1.908
<b>Total Assets</b>	<b>50.903</b>	<b>48.667</b>	<b>50.692</b>	<b>51.092</b>
Payables	3.802	3.715	3.669	3.777
ST Bank Loan	8	8	8	14
LT Debt	257	222	74	75
<b>Total Liabilities</b>	<b>15.223</b>	<b>18.287</b>	<b>18.745</b>	<b>18.534</b>
Capital Stock & APIC	21.033	21.036	21.036	21.036
Retained Earnings	14.030	8.728	10.295	10.906
<b>Shareholders' Equity</b>	<b>35.680</b>	<b>30.380</b>	<b>31.947</b>	<b>32.558</b>

### VALUATION INDEX

	2019/12A	2020/12E	2021/12E	2022/12E
Price /Earnings	17,8x	21,2x	18,1x	17,0x
Price /Book Value	6,8x	6,0x	5,7x	5,6x
Price/Sales	2,3x	2,0x	1,8x	1,8x
PE/EPS Growth	13,2x	-0,6x	1,1x	2,6x
EV/EBITDA	12,2x	14,3x	12,4x	11,4x
EV/EBIT	13,2x	16,1x	13,8x	12,7x
EV (IDR bn)	225.704	168.515	167.257	166.074
Sales CAGR (3-Yr)	3,6%	-2,2%	-2,5%	-1,9%
EPS CAGR (3-Yr)	2,4%	-12,0%	-9,3%	-7,8%
Basic EPS (IDR)	118	74	87	92
Diluted EPS (IDR)	118	74	87	92
BVPS (IDR)	307	261	275	280
Sales PS (IDR)	912	796	851	860
DPS (IDR)	117	120	73	87

### CASH FLOW STATEMENT

(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
Operating Cash Flow	17.146	9.332	10.654	12.048
Investing Cash Flow	(57)	(266)	(910)	(762)
Financing Cash Flow	(13.456)	(13.560)	(8.635)	(10.094)
<b>Net Changes in Cash</b>	<b>3.304</b>	<b>(4.494)</b>	<b>1.110</b>	<b>1.192</b>

### OWNERSHIP

By Geography	% Shareholders	%
Indonesia	98,4 Philip Morris Ind.	92,5
United States	0,8 Schroder Investment	0,4
Canada	0,2 Blackrock	0,3
Luxembourg	0,2 Vanguard Group	0,3

## NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. Rating system based on a stock's potential upside from the date of publication
  - Buy : Greater than +15%
  - Overweight : +5% to 15%
  - Hold : -5% to +5%
  - Underweight : -5% to -15%
  - Sell : Less than -15%

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