

# HM Sampoerna Tbk (HMSP)

## Excise Tax Hike Causes Downtrading Effect

The increase in excise tax resulted in the uptick in retail selling price, causing consumers to shift to more affordable price. Meanwhile, HMSP's performance in 3Q21 still booked a decent performance, where sales growth went up 3.41 QoQ; supported by the sales of machine-made kretek cigarettes that reached IDR16.3 tn.

### Sales Growth Still Recorded

- In 3Q21, HMSP booked a sales of IDR24.9 tn (+3.41% QoQ, +8.01% YoY), with sales of machine-made kretek cigarettes (SKM) contributed to 66% of total sales.
- Sales from each segments on a yearly basis still booked an increase, but lower than previous period. SKM sales was at IDR16.3 tn (10.3% YoY), SKT (hand-rolled kretek cigarettes) at IDR5.9 tn, and SPM (machine-packaged white cigarettes) at IDR2.3 tn (+4.2% YoY).
- Overall, the sales volume of the cigarette industry was recorded at 74.3 billion sticks or up 5.8% YoY in the third quarter of 2021. Meanwhile, HMSP booked a sales volume increase of 5% YoY to 20.8 billion sticks.
- HMSP recorded a downward trend in both quarterly and annual margins. GPM and NPM in the third quarter of 2021 were at 15.7% and 5.7% (vs GPM 19.5%, NPM 8.8% in 3Q20). We expect that in 2022F, revenue can still book a growth of IDR107.5 tn and net profit of IDR8.9 tn.

### Consumption Shift amid Rising Excise Tariff

- As of January 1, 2022, the government raised the excise tariff for tobacco products with an average increase of 12%, with the highest hike applied to the SKM and SPM segments, while SKT experienced a maximum increase of 4.5%.
- The increase in retail selling price also caused a shift in consumption to a more affordable cigarettes (downtrading) amid the consumers purchasing power that have not recovered. This can be seen in the market share of each products, where Sampoerna Kretek experienced an uptick by 10.71% QoQ to 3.10% (vs 2.80% in 2Q21).
- To reduce the impact of the excise tax increase, HMSP released its newest product, IQOS with the HEETS brand, which is part of the Marlboro product line. This product is categorized as other tobacco processing products (HPTL) so the excise tax imposed is lower than other brands.
- Other sentiment is that HMSP has been removed from the IDX30 index, which measures the performance of stocks with high liquidity and market capitalization, supported by strong company fundamentals. This is another negative sentiment for HMSP amid the increase of cigarette excise tax increase.

### Overweight Recommendation with TP of IDR1,000

- We recommend Overweight for HMSP, with a target price of IDR1,000/share. Our TP implies P/E 2022F of 13.1x with a potential increase of 5.3%. Main risks to our recommendation are the persistently soft consumer purchasing power and the government's cigarette excise tax policy.

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

|                | 2020A  | 2021F  | 2022F   | 2023F   |
|----------------|--------|--------|---------|---------|
| Sales          | 92,425 | 98,775 | 107,537 | 108,731 |
| Growth         | -12.9% | 6.9%   | 8.9%    | 1.1%    |
| Net Profit     | 8,581  | 8,611  | 8,912   | 9,452   |
| Growth         | -37.5% | 0.3%   | 3.5%    | 6.1%    |
| EPS (IDR)      | 74     | 74     | 77      | 81      |
| P/E            | 21.3x  | 13.5x  | 13.1x   | 12.3x   |
| P/BV           | 6.0x   | 3.5x   | 3.6x    | 3.6x    |
| EV/EBITDA      | 14.2x  | 10.0x  | 8.0x    | 7.7x    |
| ROE            | 28.4%  | 26.2%  | 27.9%   | 29.0%   |
| Debt Ratio     | 0.4%   | 0.4%   | 0.2%    | 0.2%    |
| Dividend Yield | 7.6%   | 11.5%  | 11.7%   | 11.5%   |

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

## Overweight

|                       |       |
|-----------------------|-------|
| Target Price (IDR)    | 1,000 |
| Consensus Price (IDR) | 1,073 |
| TP to Consensus Price | -6.8% |
| vs. Last Price        | +5.3% |

### Shares data

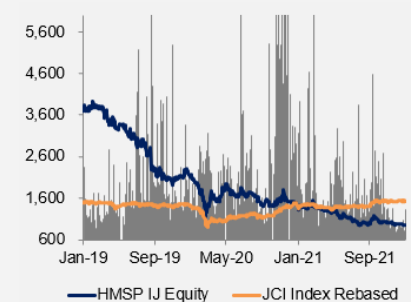
|                        |              |
|------------------------|--------------|
| Last Price (IDR)       | 950          |
| Price date as of       | Jan 28, 2022 |
| 52 wk range (Hi/Lo)    | 1,535 / 950  |
| Free float (%)         | 7.5          |
| Outstanding sh.(mn)    | 116,318      |
| Market Cap (IDR bn)    | 110,502      |
| Market Cap (USD mn)    | 7,673        |
| Avg. Trd Vol - 3M (mn) | 18.48        |
| Avg. Trd Val - 3M (bn) | 18.53        |
| Foreign Ownership      | 0.6%         |

### Consumer Staples

#### Cigarette

|           |         |
|-----------|---------|
| Bloomberg | HMSP IJ |
| Reuters   | HMSP.JK |

### Share Price Performance



|           | YTD   | 1M    | 3M    | 12M    |
|-----------|-------|-------|-------|--------|
| Abs. Ret. | -2.0% | -1.0% | -8.6% | -31.7% |
| Rel. Ret. | -1.2% | -1.6% | -8.7% | -39.9% |

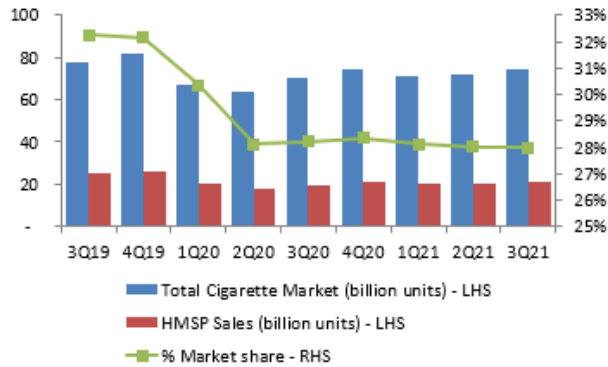
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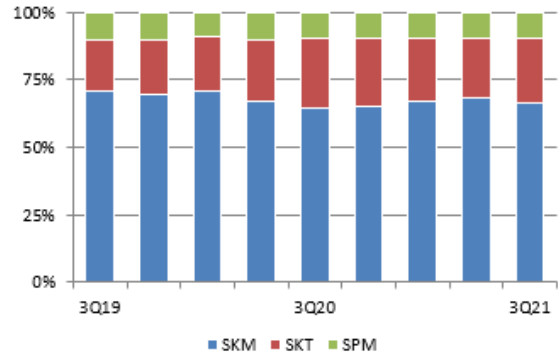
### Performance Highlights in Charts

HMSP Cigs. Market Share vs Industry | 3Q19 - 3Q21



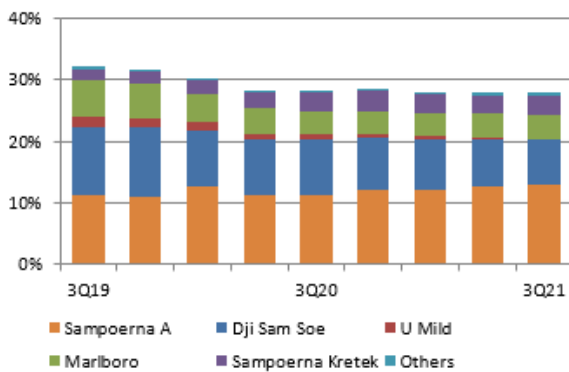
Source: Company Data, NHKSI Research

Revenue Breakdown by Segment | 3Q19 - 3Q21



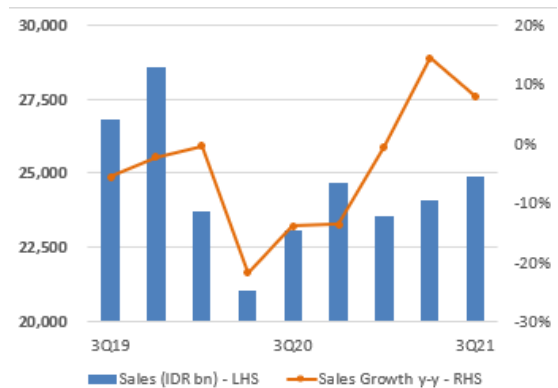
Source: Company Data, NHKSI Research

Market Share by Brand | 3Q19 - 3Q21



Source: Company Data, NHKSI Research

HMSP Quarterly Sales | 3Q19 - 3Q21



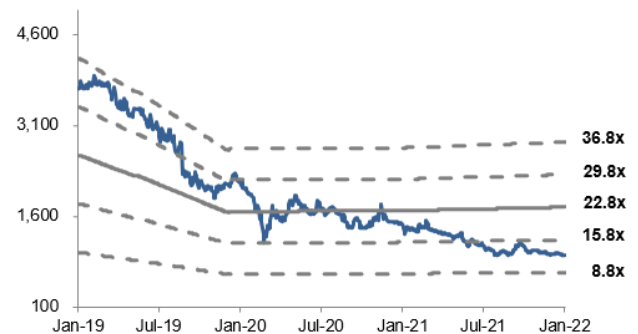
Source: Company Data, Bloomberg, NHKSI Research

Forward P/E Band | Last 3 Years



Source: Company Data, NHKSI Research

Dynamic Forward P/E Band | Last 3 Years



Source: Company Data, NHKSI Research

## Summary of Financials

### INCOME STATEMENT

| (IDR bn)                 | 2020/12A      | 2021/12E      | 2022/12E       | 2023/12E       |
|--------------------------|---------------|---------------|----------------|----------------|
| <b>Sales</b>             | <b>92,425</b> | <b>98,775</b> | <b>107,537</b> | <b>108,731</b> |
| <i>Growth</i>            | -12.9%        | 6.9%          | 8.9%           | 1.1%           |
| COGS                     | (73,654)      | (79,441)      | (84,940)       | (85,329)       |
| <b>Gross Profit</b>      | <b>18,771</b> | <b>19,333</b> | <b>22,597</b>  | <b>23,402</b>  |
| <i>Gross Margin</i>      | 20.3%         | 19.6%         | 21.0%          | 21.5%          |
| Operating Expenses       | (8,369)       | (8,899)       | (11,673)       | (11,806)       |
| <b>EBIT</b>              | <b>10,402</b> | <b>10,435</b> | <b>10,924</b>  | <b>11,596</b>  |
| <i>EBIT Margin</i>       | 11.3%         | 10.6%         | 10.2%          | 10.7%          |
| Depreciation             | 1,328         | (207)         | 832            | 651            |
| <b>EBITDA</b>            | <b>11,730</b> | <b>10,227</b> | <b>11,756</b>  | <b>12,247</b>  |
| <i>EBITDA Margin</i>     | 12.7%         | 10.4%         | 10.9%          | 11.3%          |
| Interest Expenses        | (50)          | (53)          | (34)           | (46)           |
| <b>EBT</b>               | <b>11,161</b> | <b>11,040</b> | <b>11,624</b>  | <b>12,246</b>  |
| Income Tax               | (2,580)       | (2,429)       | (2,711)        | (2,794)        |
| Minority Interest        | -             | -             | -              | -              |
| <b>Net Profit</b>        | <b>8,581</b>  | <b>8,611</b>  | <b>8,912</b>   | <b>9,452</b>   |
| <i>Growth</i>            | -37.5%        | 0.3%          | 3.5%           | 6.1%           |
| <i>Net Profit Margin</i> | 9.3%          | 8.7%          | 8.3%           | 8.7%           |

### PROFITABILITY & STABILITY

|                     | 2020/12A | 2021/12E | 2022/12E | 2023/12E |
|---------------------|----------|----------|----------|----------|
| ROE                 | 28.4%    | 26.2%    | 27.9%    | 29.0%    |
| ROA                 | 17.3%    | 18.8%    | 17.6%    | 18.3%    |
| Inventory Turnover  | 4.1x     | 4.5x     | 4.5x     | 4.3x     |
| Receivable Turnover | 25.3x    | 45.4x    | 32.5x    | 32.5x    |
| Payables Turnover   | 21.2x    | 25.8x    | 22.5x    | 23.0x    |
| Dividend Yield      | 7.6%     | 11.5%    | 11.7%    | 11.5%    |
| Payout Ratio        | 101.6%   | 155.6%   | 158.4%   | 150.4%   |
| DER                 | 0.0x     | 0.0x     | 0.0x     | 0.00x    |
| Net Gearing         | 0.0x     | 0.0x     | 0.0x     | 0.0x     |
| Equity Ratio        | 60.9%    | 71.5%    | 63.1%    | 63.0%    |
| Debt Ratio          | 0.4%     | 0.4%     | 0.2%     | 0.2%     |
| Financial Leverage  | 164.3%   | 139.8%   | 158.5%   | 158.7%   |
| Current Ratio       | 245.4%   | 360.6%   | 424.0%   | 439.0%   |
| Quick Ratio         | 1.4x     | 1.9x     | 1.5x     | 1.5x     |
| Par Value (IDR)     | 4        | 4        | 4        | 4        |
| Total Shares (mn)   | 116,318  | 116,318  | 116,318  | 116,318  |
| Share Price (IDR)   | 1,570    | 1,000    | 1,000    | 1,000    |
| Market Cap (IDR tn) | 182.6    | 116.3    | 116.3    | 116.3    |

### BALANCE SHEET

| (IDR bn)                       | 2020/12A      | 2021/12E      | 2022/12E      | 2023/12E      |
|--------------------------------|---------------|---------------|---------------|---------------|
| Cash                           | 15,804        | 14,021        | 16,824        | 17,665        |
| Receivables                    | 3,648         | 2,173         | 3,304         | 3,342         |
| Inventories                    | 18,094        | 17,654        | 19,048        | 19,687        |
| <b>Total Current Assets</b>    | <b>41,092</b> | <b>37,599</b> | <b>42,823</b> | <b>44,392</b> |
| Net Fixed Assets               | 6,583         | 6,358         | 5,847         | 5,366         |
| Other Non Current Assets       | 2,000         | 1,963         | 1,981         | 1,972         |
| <b>Total Non Current Asset</b> | <b>8,582</b>  | <b>8,321</b>  | <b>7,828</b>  | <b>7,338</b>  |
| <b>Total Assets</b>            | <b>49,674</b> | <b>45,920</b> | <b>50,651</b> | <b>51,730</b> |
| Payables                       | 3,468         | 3,084         | 3,779         | 3,709         |
| ST Bank Loan                   | 8             | 8             | 14            | 14            |
| Total Current Liabilities      | 16,744        | 10,426        | 16,135        | 16,592        |
| LT Debt                        | 194           | 175           | 74            | 75            |
| <b>Total Liabilities</b>       | <b>19,433</b> | <b>13,072</b> | <b>18,691</b> | <b>19,144</b> |
| Capital Stock & APIC           | 21,052        | 21,071        | 21,071        | 21,071        |
| Retained Earnings              | 8,574         | 11,161        | 10,273        | 10,899        |
| <b>Shareholders' Equity</b>    | <b>30,241</b> | <b>32,848</b> | <b>31,960</b> | <b>32,586</b> |

### CASH FLOW STATEMENT

| (IDR bn)                   | 2020/12A       | 2021/12E     | 2022/12E     | 2023/12E     |
|----------------------------|----------------|--------------|--------------|--------------|
| Operating Cash Flow        | 11,958         | 17,599       | 8,415        | 9,116        |
| Investing Cash Flow        | (869)          | (91)         | (271)        | (265)        |
| Financing Cash Flow        | (14,106)       | (13,350)     | 659          | (9,010)      |
| <b>Net Changes in Cash</b> | <b>(3,016)</b> | <b>4,158</b> | <b>8,803</b> | <b>(159)</b> |

### VALUATION INDEX

|                        | 2020/12A | 2021/12E | 2022/12E | 2023/12E |
|------------------------|----------|----------|----------|----------|
| Price /Earnings        | 21.3x    | 13.5x    | 13.1x    | 12.3x    |
| Price /Book Value      | 6.0x     | 3.5x     | 3.6x     | 3.6x     |
| PE/EPS Growth          | -0.6x    | 39.1x    | 3.7x     | 2.0x     |
| EV/EBITDA              | 14.2x    | 10.0x    | 8.0x     | 7.7x     |
| EV/EBIT                | 16.1x    | 9.8x     | 8.6x     | 8.1x     |
| EV (IDR bn)            | 167,009  | 102,472  | 93,574   | 93,735   |
| Sales CAGR (3-Yr)      | -2.3%    | -2.6%    | 0.5%     | 5.6%     |
| Net Profit CAGR (3-Yr) | -12.2%   | -14.0%   | -13.4%   | 3.3%     |
| Basic EPS (IDR)        | 74       | 74       | 77       | 81       |
| BVPS (IDR)             | 260      | 282      | 275      | 280      |
| DPS (IDR)              | 120      | 115      | 117      | 115      |

### OWNERSHIP

|                     | %    |
|---------------------|------|
| <b>Shareholders</b> |      |
| Philip Morris Ind.  | 92.5 |
| Vanguard Group      | 0.3  |
| Blackrock           | 0.2  |
| Schroder            | 0.1  |
| <b>By Geography</b> |      |
| Indonesia           | 99.4 |
| United States       | 0.5  |
| Ireland             | 0.1  |
| Japan               | 0.0  |

Source: NHKSI research, Bloomberg

## 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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