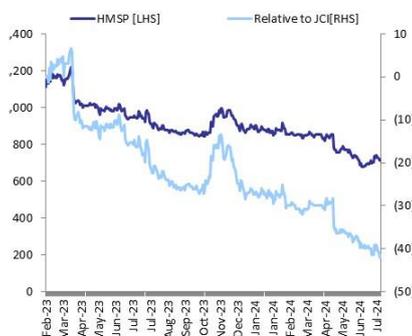


# Hold

(Downgraded)

Last Price (Rp)	705		
Target Price (Rp)	730		
Previous Target Price (Rp)	1,100		
Upside/Downside	+3.5%		
No. of Shares (mn)	116,318		
Mkt Cap (Rpbn/US\$mn)	82,004/5,068		
Avg, Daily T/O (Rpbn/US\$mn)	19.3/1.2		
Free Float (%)	7.6		
Major Shareholder (%)			
PHILIP MORRIS INDONESIA	92.5		
VONTOBEL HOLDING AG	0.4		
EPS Consensus (Rp)			
	2024F	2025F	2026F
BRIDS	70.6	76.5	83.7
Consensus	73.9	80.4	87.9
BRIDS/Cons (%)	(4.4)	(4.8)	(4.8)

## HMSP relative to JCI Index



Source: Bloomberg

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# HM Sampoerna (HMSP IJ)

## Regulatory uncertainty loom over HMSP

- HMSP adjusted ASP of its products by 8.4% ytd in Jul24 (vs 1Q24: 6.1% ytd), which continues to weigh on its vol. growth (1Q24: +1.6% yoy).
- We trim our FY24/25F core profit forecasts by 2.8%/0.5% to reflect lower gross margin estimates.
- We downgrade our rating to Hold with a lower TP of Rp730 on lingering industry headwinds, despite HMSP's promising growth from HTU.

### Rising cigarette prices continue to weigh on vol. growth

Based on our price survey, HMSP's cigarette products saw an ASP adjustment of 8.4% ytd in Jul24 (vs 1Q24: 6.1% ytd), which we believe is intended to pass on the higher excise cost. In FY19-24, the excise tax tariff has increased by CAGR of 16% for SKM and 6% for SKT (versus a national minimum wage increase of 4.9% in the same period). Meanwhile, we have observed that the rise in cigarette prices over the past 5 years, coupled with weak purchasing power, continues to lead to a gradual increase in illegal cigarette sales (data from PMI indicates that illegal cigarettes now account for around 15% of the total world cigarette market). With the incoming government likely to target higher fiscal spending, at this juncture, we do not expect a change in FY25 excise regulations to favor cigarette companies, especially the tier-1 manufacturers.

### Cut FY24-25F core profit est. by 2.5/0.5% on lower margin estimates

HMSP reported 1Q24 sales volume of 20bn sticks (+1.6% yoy), translating to a market share of 27.5% (FY23: 28.6% and 1Q23: 28.5%), with Heated Tobacco Unit (HTU) sales volume of 200mn units (+100% yoy). We maintain our FY24F sales volume growth but lower the FY25F volume growth projection to 1.2% yoy (1.5% yoy prev.). With reduced FY24-25F ASP growth estimates of 10.8/8.3% yoy ASP growth (vs. 11.8/8.2% prev.), we expect FY24/25F revenue growth of +11/+9.6% yoy. Amid continued pressure on purchasing power, we anticipate an increasing contribution of value products, leading to a 20bps decline in FY24F/25F GPM to 16.5% (FY23: 16.7%). Overall, we trim FY24/25F core profit forecast by 2.5/0.5% to Rp8.2tr (+1.5% yoy growth) and Rp8.9tr (+8.4% yoy), respectively.

### Downgrade rating to Hold with lower TP of Rp730

We see lingering challenges for the tier-1 producers due to persisting downtrading driven by weak purchasing power and unfavorable regulations. On a positive note, the robust growth in 1Q24 HTU volume offers hope for a new LT growth driver, but we think it is currently still too small at 1% of total volume. Thus, we downgraded our rating to Hold and lowered our TP to Rp730 (from Rp1,100 prev.), based on -2SD avg 3-y FY25F P/E of 9.6x. Upside risks include potential new govt regulations to narrow the gap between tier-1 and below-tier-1 excise tax tariffs and a sub-inflation increase in the FY25 excise tax tariff.

### Key Financials

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Revenue (Rpbn)	111,211	115,983	128,941	141,298	158,430
EBITDA (Rpbn)	8,860	10,074	11,426	12,345	13,803
EBITDA Growth (%)	(9.0)	13.7	13.4	8.0	11.8
Net Profit (Rpbn)	6,324	8,097	8,215	8,902	9,741
EPS (Rp)	54.4	69.6	70.6	76.5	83.7
EPS Growth (%)	(11.4)	28.0	1.5	8.4	9.4
BVPS (Rp)	242.2	256.8	258.1	264.3	271.9
DPS (Rp)	63.3	54.7	69.3	70.3	76.2
PER (x)	11.5	13.0	10.1	10.0	9.2
PBV (x)	2.9	2.7	2.7	2.7	2.6
Dividend yield (%)	8.9	7.8	9.8	10.0	10.8
EV/EBITDA	8.9	7.9	7.0	6.5	5.8

Source: HMSP, BRIDS Estimates

**Exhibit 1. HMSP Earnings Revision**

Rpbm	Previous		New		Changes	
	2024F	2025F	2024F	2025F	2024F	2025F
Revenue	130,137	143,009	128,941	141,298	-0.9%	-1.2%
Gross profit	21,859	23,975	21,221	23,337	-2.9%	-2.7%
Operating profit	10,667	11,676	10,132	11,044	-5.0%	-5.4%
Net profit	8,455	8,950	8,215	8,902	-2.8%	-0.5%
Gross margin	16.8%	16.8%	16.5%	16.5%		
Operating margin	8.2%	8.2%	7.9%	7.8%		
Net margin	6.5%	6.3%	6.4%	6.3%		
<b>Key assumptions</b>						
Volume	0.3%	1.5%	0.3%	1.2%		
ASP Blended	11.8%	8.2%	10.8%	8.3%		
<b>Excise/stick growth</b>						
SKM	11.8%	11.8%	11.8%	11.8%		
SKT	5.0%	5.0%	5.0%	5.0%		
SPM	12.0%	12.0%	12.0%	12.0%		

Source: BRIDS Estimates

**1Q24 HTU sales volume +100% yoy, contributing 1% to HMSP’s total volume**  
 In 1Q24, HMSP reported sales volume of 200mn sticks of Heated Tobacco Unit (HTU) Terea (+100% yoy), providing 1% contribution to HMSP’s sales volume. Despite its small contribution, there is a promising growth potential for HTU, especially with the introduction of the more affordable IQOS 3 Duos Holder at Rp379,000/unit. Philip Morris International noted that 1Q24 HTU offtake shares in Urban Jakarta area increased by 1.6% to 3.4% yoy. Additionally, Terea offers a higher revenue margin (pre-VAT and regional tax) compared to A Mild 16s and Marlboro.

**Exhibit 2. Net Revenue Margin for Terea vs. Other HMSP’s Products**

	Terea 5.3gr	A Mild 16s (SKM)	Dji Sam Soe 12s (SKT)	Marlboro red 20s (SPM)
Ex factory	27,273	31,364	19,091	40,909
Excise/pack	16,292	19,696	5,796	26,720
Net revenue	10,981	11,668	13,295	14,189
<b>Net revenue margin/pack</b>	<b>40%</b>	<b>37%</b>	<b>70%</b>	<b>35%</b>

Source: Company, BRIDS Estimates

Exhibit 3. Variety of IQOS Kits



Source: IQOS

Exhibit 4. Variety of Terea Products



Source: IQOS

Exhibit 5. Higher ASP leads to improved FY24F net profit (Rpbn)

ASP \ Volume	9.8%	10.8%	11.8%
-1.00%	7,199	7,852	8,704
0.30%	7,562	8,215	9,067
2.00%	8,201	8,704	9,557

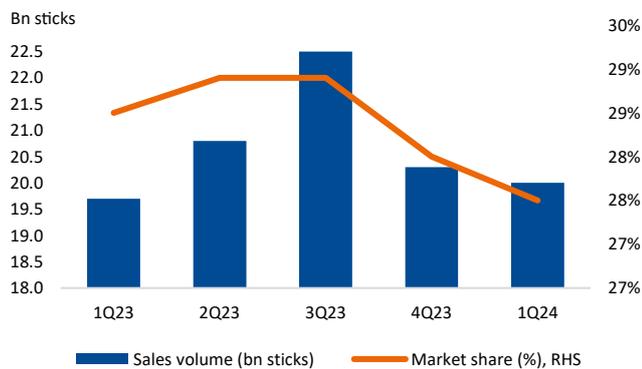
Source: BRIDS Estimates. FY24 SKM excise +11.8%, SKT +5% yoy

Exhibit 6. ... also translate to higher NP growth

ASP \ Volume	9.8%	10.8%	11.8%
-1.00%	-12%	-4%	6%
0.30%	-8%	0%	10%
2.00%	0%	6%	16%

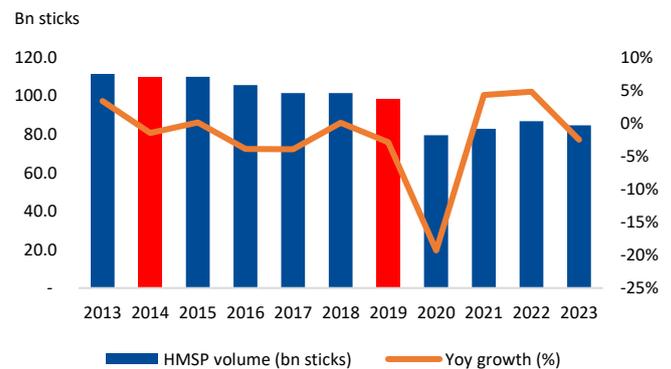
Source: BRIDS Estimates

**Exhibit 7. HMSP's Sales Volume & Market Share, 1Q23-1Q24**



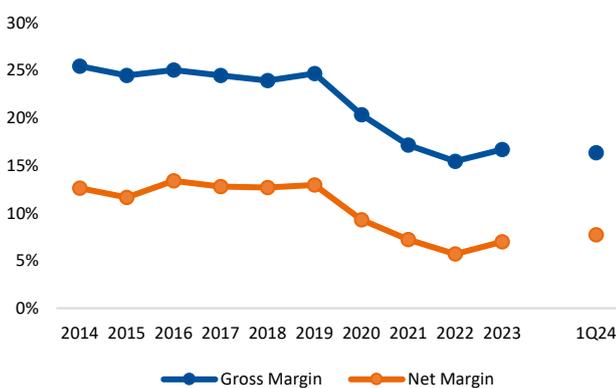
Source: Company, BRIDS Estimates

**Exhibit 8. HMSP's Historical Sales Volume and Election Period**



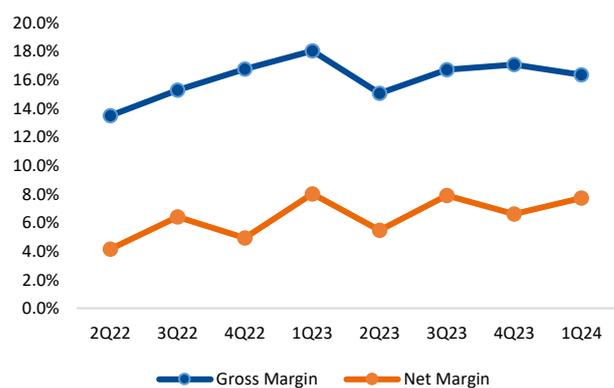
Source: Company, BRIDS Estimates \*Election year (in red)

**Exhibit 9. HMSP's Historical Gross and Net Margin, 2014-1Q24**



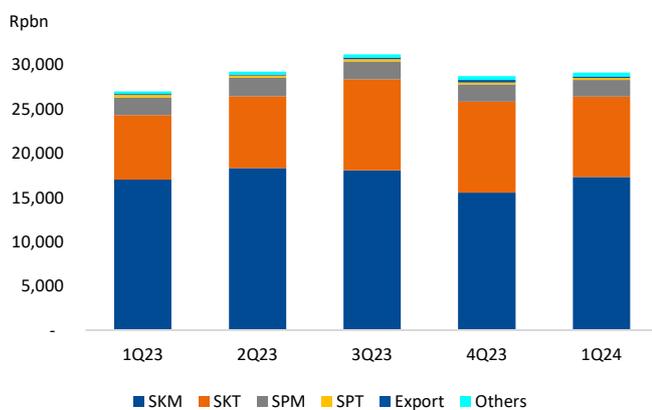
Source: Company

**Exhibit 10. HMSP's Gross and Net Margin in The Past 8 Quarters**



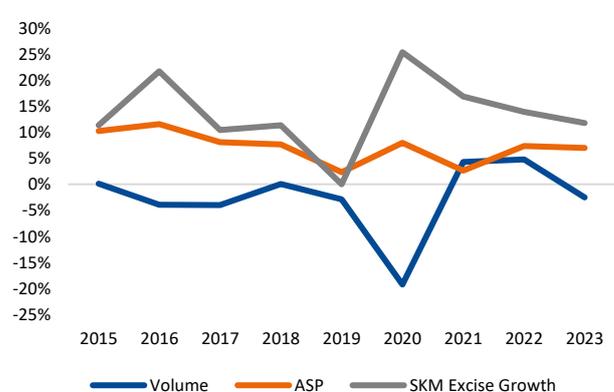
Source: Company

**Exhibit 11. HMSP's Revenue Contribution by Segment**



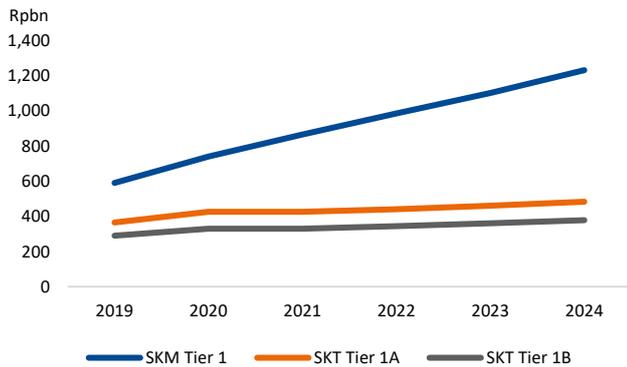
Source: Company, BRIDS Estimates

**Exhibit 12. HMSP's Volume, ASP and SKM Excise Growth**



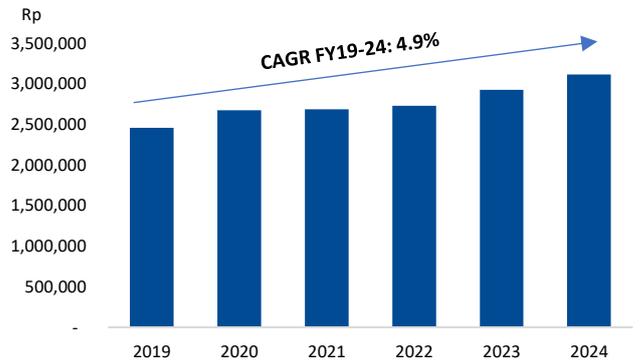
Source: Company, BRIDS Estimates \*Election year (in red)

**Exhibit 13. Excise Tax For SKM and SKT Tier-1, FY19-24**



Source: Ministry of Finance

**Exhibit 14. National Minimum Wage, FY19-24 and CAGR**



Source: Kemenperin, BRIDS

**Exhibit 15. HMSP's product portfolio to tap the downtrading market**

Category	Brands	July 2024 Price (Rp)	Discount*
SKM Low Tar	<b>A Mild 16s</b>	<b>34,500</b>	
	A Mild Merah 12s	27,000	-22%
	Sampoerna Avolution Original 20s	44,500	29%
	Sampoerna Splash Tropical 16s	30,500	-12%
SKM High Tar	<b>Marlboro Filter Black 20s</b>	<b>42,000</b>	
	Marlboro Filter Black 12s	24,300	-42%
SKT	<b>Dji Sam Soe 12s</b>	<b>21,000</b>	
	Dji Sam Soe Super Premium 12s	22,000	5%
	Sampoerna Kretek Hijau 12s	16,500	-21%

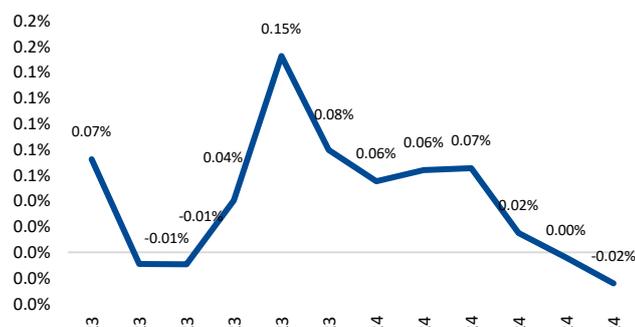
Source: BRIDS Survey \*to major product

**Exhibit 16. HMSP's Monthly ASP**

Product Name	Retail Price / Pack (Rp)															ASP Hike (yoy)	ASP hike (ytd)
	Dec-21	Dec-22	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24		
A Mild 16s	27,000	29,500	32,000	32,000	32,000	32,000	33,000	32,800	33,500	33,500	33,500	33,900	34,500	34,500	34,500	7.8%	3.0%
A Mild merah 12s	20,700	23,500	24,600	24,600	24,600	24,600	25,100	25,100	25,100	25,900	25,900	26,500	26,500	27,000	27,000	9.8%	7.6%
Dji Sam Soe 12s	18,300	19,600	19,600	19,500	19,500	19,500	20,500	20,500	20,500	20,500	20,500	21,000	21,000	21,000	21,000	7.1%	2.4%
Dji Sam Soe Super Premium 12	20,000	20,000	20,000	20,000	20,000	21,000	21,000	21,500	21,000	20,800	20,500	21,900	26,800	21,000	22,000	10.0%	4.8%
Marlboro red 20s	34,700	38,800	40,000	42,200	42,200	42,200	42,200	40,000	40,000	44,500	42,000	44,000	44,000	47,300	45,000	12.5%	12.5%
Sampoerna Kretek Hijau 12s	14,400	15,000	15,500	15,700	15,700	15,700	15,700	15,700	15,700	15,700	15,500	15,900	15,700	15,000	16,500	6.5%	5.1%

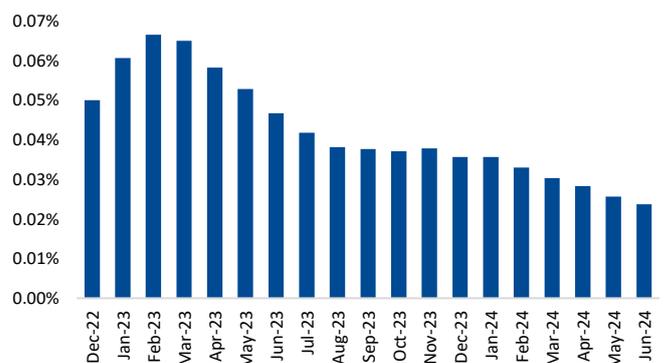
Source: BRIDS Survey \*to major product

**Exhibit 17. HMSP's Local Mutual Fund OW/UW Position**



Source: KSEI, BRIDS

**Exhibit 18. HMSP's Foreign Fund Positioning**



Source: KSEI, BRIDS

**Exhibit 19. Peers Comparison**

	2024F	HMSP	GGRM	Sector
<b>Growth (%)</b>				
Sales		11.2	(14.6)	3.9
EBITDA		13.4	(17.1)	4.8
Operating profit		13	(26.6)	1.8
Net profit		1.5	(25.2)	(6.0)
Core profit				
<b>Profitability (%)</b>				
Gross margin		16.5	11.6	15.1
EBITDA margin		8.9	8.5	8.8
Operating margin		7.9	5.2	7.1
Net margin		6.4	3.9	5.7
ROAA		14.5	4.3	11.6
ROAE		27.4	6.3	21.5
<b>Leverage and yield</b>				
Net Gearing (x)		(0.1)	0.1	
Interest coverage (x)		242.2	12.4	177.4
Dividend yield (%)		6.9	9.7	7.7
<b>Operational data</b>				
Cigarette volume (bn sticks)		84.9	53.4	
Volume growth - yoy (%)		0.3	(13.1)	
ASP growth - yoy (%)		10.8	9.7	
<b>Revenue contribution</b>				
SKM		61.5	89.3	
SKT		29.6	9.5	
SPM		7.3	0.0	

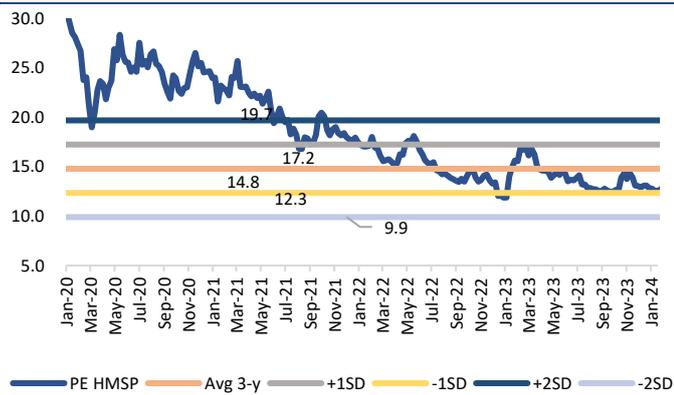
Source: BRIDS Estimates

**Exhibit 20. HMSP - 1Q24 Result**

HMSP (Rpbn)	1Q23	4Q23	1Q24	yoy	qoq	2024F	A/F	A/Cons
Revenue	26,966	28,686	29,107	7.9%	1.5%	128,941	22.6%	23.6%
Gross profit	4,856	4,889	4,756	-2.1%	-2.7%	21,221	22.4%	22.9%
Op profit	2,595	1,830	2,569	-1.0%	40.4%	10,132	25.4%	25.6%
Pretax profit	2,786	2,456	2,867	2.9%	16.7%	10,461		
Net profit	2,160	1,892	2,247	4.0%	18.8%	8,215	27.4%	26.0%
GPM	18.0%	17.0%	16.3%			16.5%		
OPM	9.6%	6.4%	8.8%			7.9%		
Pretax margin	10.3%	8.6%	9.8%			8.1%		
Net margin	8.0%	6.6%	7.7%			6.4%		
	<b>1Q23</b>	<b>4Q23</b>	<b>1Q24</b>	<b>yoy</b>	<b>qoq</b>			
<b>Revenue segment</b>								
SKM - Rp bn	17,007	15,525	17,287	1.6%	11.4%			
SKT - Rp bn	7,277	10,280	9,105	25.1%	-11.4%			
SPM - Rp bn	2,013	1,942	1,861	-7.6%	-4.2%			

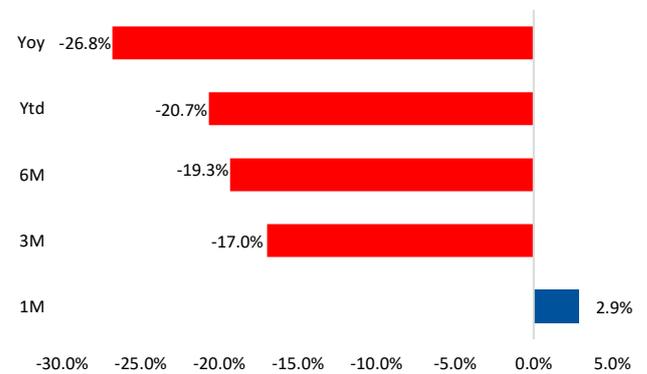
Source: Company, BRIDS Estimates

**Exhibit 21. HMSP's P/E Band**



Source: Bloomberg, BRIDS Estimates

**Exhibit 22. HMSP's Share Price Performance**



Source: Bloomberg, BRIDS

**Exhibit 23. Income Statement**

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
<b>Revenue</b>	<b>111,211</b>	<b>115,983</b>	<b>128,941</b>	<b>141,298</b>	<b>158,430</b>
COGS	(94,053)	(96,653)	(107,720)	(117,961)	(132,171)
<b>Gross profit</b>	<b>17,158</b>	<b>19,330</b>	<b>21,221</b>	<b>23,337</b>	<b>26,259</b>
<b>EBITDA</b>	<b>8,860</b>	<b>10,074</b>	<b>11,426</b>	<b>12,345</b>	<b>13,803</b>
<b>Oper. profit</b>	<b>7,753</b>	<b>8,964</b>	<b>10,132</b>	<b>11,044</b>	<b>12,317</b>
Interest income	464	740	257	213	0
Interest expense	(50)	(42)	(42)	(46)	(51)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	5	5	5	5	5
Other Income (Expenses)	102	644	110	120	135
<b>Pre-tax profit</b>	<b>8,273</b>	<b>10,311</b>	<b>10,461</b>	<b>11,336</b>	<b>12,405</b>
Income tax	(1,949)	(2,214)	(2,247)	(2,435)	(2,664)
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>6,324</b>	<b>8,097</b>	<b>8,215</b>	<b>8,902</b>	<b>9,741</b>
<b>Core Net Profit</b>	<b>6,324</b>	<b>8,097</b>	<b>8,215</b>	<b>8,902</b>	<b>9,741</b>

**Exhibit 24. Balance Sheet**

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
Cash & cash equivalent	3,283	2,695	1,833	1,522	2,544
Receivables	3,394	3,612	4,015	4,400	4,934
Inventory	18,375	19,014	21,191	23,206	26,001
Other Curr. Asset	16,311	14,745	14,552	14,371	12,814
Fixed assets - Net	6,697	9,253	10,151	11,111	12,160
Other non-curr.asset	6,727	5,997	6,589	7,154	7,944
<b>Total asset</b>	<b>54,787</b>	<b>55,316</b>	<b>58,332</b>	<b>61,764</b>	<b>66,397</b>
ST Debt	0	0	0	0	0
Payables	5,539	6,844	7,628	8,353	9,359
Other Curr. Liabilities	18,010	15,288	16,996	18,625	20,883
Long Term Debt	0	0	0	0	0
Other LT. Liabilities	3,068	3,315	3,685	4,038	4,528
<b>Total Liabilities</b>	<b>26,617</b>	<b>25,446</b>	<b>28,308</b>	<b>31,015</b>	<b>34,769</b>
Shareholder's Funds	28,170	29,870	30,024	30,748	31,628
Minority interests	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>54,787</b>	<b>55,316</b>	<b>58,332</b>	<b>61,764</b>	<b>66,397</b>

**Exhibit 25. Cash Flow**

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
Net income	6,324	8,097	8,215	8,902	9,741
Depreciation and Amort.	(816)	(618)	(1,316)	(1,322)	(1,507)
Change in Working Capital	(12,292)	1,567	(1,228)	(1,134)	(269)
Other Oper. Cash Flow	(162)	(2,799)	1,248	1,227	1,985
<b>Operating Cash Flow</b>	<b>(6,946)</b>	<b>6,246</b>	<b>6,919</b>	<b>7,673</b>	<b>9,951</b>
Capex	(1,453)	(3,153)	(2,192)	(2,261)	(2,535)
Others Inv. Cash Flow	(534)	1,449	(357)	(372)	(811)
<b>Investing Cash Flow</b>	<b>(1,987)</b>	<b>(1,704)</b>	<b>(2,549)</b>	<b>(2,633)</b>	<b>(3,346)</b>
Net change in debt	0	0	0	0	0
New Capital	(17)	(2)	0	0	0
Dividend payment	(7,363)	(6,363)	(8,060)	(8,178)	(8,862)
Other Fin. Cash Flow	122	(2)	198	183	265
<b>Financing Cash Flow</b>	<b>(7,259)</b>	<b>(6,366)</b>	<b>(7,863)</b>	<b>(7,995)</b>	<b>(8,596)</b>
<b>Net Change in Cash</b>	<b>(16,192)</b>	<b>(1,825)</b>	<b>(3,493)</b>	<b>(2,954)</b>	<b>(1,992)</b>
Cash - begin of the year	17,844	3,283	2,695	1,833	1,522
Cash - end of the year	3,283	2,695	1,833	1,522	2,544

**Exhibit 26. Key Ratios**

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
<b>Growth (%)</b>					
Sales	12.5	4.3	11.2	9.6	12.1
EBITDA	(9.0)	13.7	13.4	8.0	11.8
Operating profit	(9.7)	15.6	13.0	9.0	11.5
Net profit	(11.4)	28.0	1.5	8.4	9.4
<b>Profitability (%)</b>					
Gross margin	15.4	16.7	16.5	16.5	16.6
EBITDA margin	8.0	8.7	8.9	8.7	8.7
Operating margin	7.0	7.7	7.9	7.8	7.8
Net margin	5.7	7.0	6.4	6.3	6.1
ROAA	11.7	14.7	14.5	14.8	15.2
ROAE	22.0	27.9	27.4	29.3	31.2
<b>Leverage</b>					
Net Gearing (x)	(0.1)	(0.1)	(0.1)	(0.0)	(0.1)
Interest Coverage (x)	154.9	214.7	242.2	240.9	239.6

Source: HMSP, BRIDS Estimates

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**INVESTMENT RATING**

<b>BUY</b>	Expected total return of 10% or more within a 12-month period
<b>HOLD</b>	Expected total return between -10% and 10% within a 12-month period
<b>SELL</b>	Expected total return of -10% or worse within a 12-month period

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