

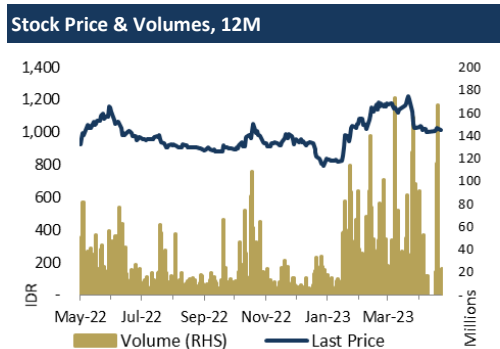
## SELL (Maintain)

**Target Price (IDR)** 950 (Unchanged)  
**Potential Upside (%)** (6.4)

Price Comparison	
Cons. Target Price (IDR)	1,315
SSI vs. Cons. (%)	72.2

Stock Information	
Last Price (IDR)	1,015
Shares Issued (Mn)	116,318
Market Cap. (IDR Bn)	118,063
52-Weeks High/Low (IDR)	1,235/780
3M Avg. Daily Value (IDR Bn)	62.9
Free Float (%)	7.5
Shareholder Structure:	
Philip Morris Indonesia (%)	92.5
Public (%)	7.5

Stock Performance					
(%)	YTD	1M	3M	12M	
Absolute	20.8	(9.8)	(2.4)	4.6	
JCI Return	0.2	0.9	0.0	(5.1)	
Relative	20.6	(10.6)	(2.4)	9.7	



**Company Background**  
 PT Hanjaya Mandala Sampoerna Tbk is one of the largest cigarette companies in Indonesia, with a variety of products distributed both in Indonesia and overseas. The company produces and distributes SKT, SKM, and SPM cigarettes under well-known brands such as Sampoerna A, Dji Sam Soe, and Marlboro.

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## Still Many Challenges Ahead

**Sales volume slump.** In 1Q23, HMSP's cigarette sales volume fell by -5.7% yoy to 19.7 billion sticks. Despite the drop in sales volume, HMSP managed to improve its market share to 28.5% (vs. 28.3% in 1Q22), mainly due to the -6.5% decline in the whole industry's sales volume. We believe that the sales volume slump was mainly driven by the decision of several cigarette producers, including HMSP, to raise the prices of their products to cover the recent cigarette excise tax hike.

**1Q23 results.** HMSP reported revenue growth of +3.1% yoy in 1Q23, supported by the increase in its revenue per stick of +9.0% yoy. The company's 1Q23 top line was equivalent to 22.9% of SSI's FY23F target and 22.7% of consensus. The company also posted EBITDA growth of +9.0% yoy, supported by its efficiency efforts, one of which was the excise duty cut of -0.5% yoy to IDR 838/stick amidst the drop in sales volume, which led to a -6.3% yoy decline in excise burden. The company's EBITDA margin went up to 10.7% in 1Q23 (vs. 10.1% in 1Q22).

**FY23F projections.** Some of the factors that enabled HMSP to raise its revenue/stick in 1Q23 include the fact that the new excise tax rates have not yet been fully enforced across the country and the recovery of people's purchasing power. However, we believe that in 2Q23, with the new excise tax rates coming into force, it might be difficult for HMSP to maintain profit margins at their current levels without losing sales volume. The use of excise tape in 2023 is expected to increase HMSP's excise burden by ~ 10%, bringing FY23F EBITDA margin and NPM projections to 10.0% and 6.8%. We project HMSP to post EBITDA growth of +25.4% yoy and net profit growth of +19.1% yoy in FY23F. In FY24F, with the same excise rate hike as in 2023 and its struggles to increase sales volume, we project the company's EBITDA and net profit to decline by -5.2% yoy and -6.6% yoy, respectively

**SELL, TP IDR 950.** Even with its decent 1Q23 performance, HMSP still has to face many challenges, including the excise tax hike in 2Q23 and tight competition that makes it difficult for the company to increase sales volume. Therefore, we reiterate our SELL rating on HMSP with a TP of 950/share. Upside Risk: better-than-expected sales volume and price hike.

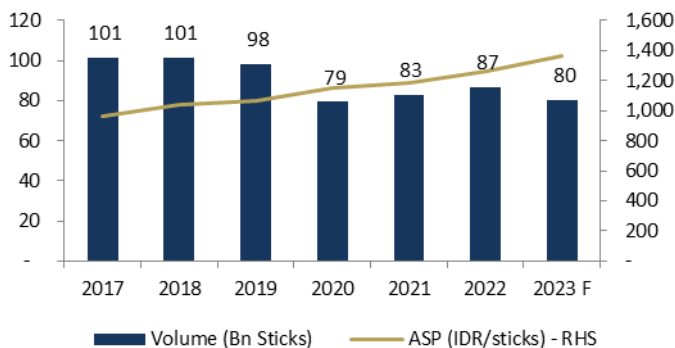
Valuations (at closing price IDR 1,015 per share)					
Y/E Dec	21A	22A	23F	24F	25F
Revenue (IDR Bn)	98,875	111,211	111,072	115,331	123,228
EBITDA (IDR Bn)	9,741	8,860	11,107	10,535	12,188
EV/EBITDA (x)	10.1	12.8	10.3	10.9	9.4
Net Profit (IDR Bn)	7,137	6,324	7,530	7,033	8,269
EPS (IDR)	61	54	65	60	71
EPS Growth (%)	(16.8)	(11.4)	19.1	(6.6)	17.6
P/E Ratio (x)	16.3	18.4	15.4	16.5	14.1
BVPS (IDR)	251	242	251	245	254
P/BV Ratio (x)	4.0	4.1	4.0	4.1	3.9
DPS (IDR)	73	63	56	67	62
Dividend Yield (%)	6.3	5.6	6.7	6.2	7.3
ROAE (%)	24.0	22.0	26.2	24.4	28.5
ROAA (%)	13.9	11.7	13.7	12.9	15.0
Interest Coverage (x)	151.8	154.9	218.2	235.7	330.1
Net Gearing (x)	NC	NC	NC	NC	NC

Table 1: 1Q23 Results

HMSP (IDR Bn)	1Q22	4Q22	1Q23	QoQ (%)	YoY (%)	FY23/SSI	FY23/Cons
Revenue	26,161	27,813	26,966	-3.0	3.1	22.9	22.7
Gross Profit	4,260	4,652	4,856	4.4	14.0	26.7	24.1
Operating Profit	2,368	1,654	2,595	56.9	9.6	28.7	25.8
EBITDA	2,640	1,935	2,877	48.7	9.0	27.5	26.3
Net Profit	1,915	1,422	2,160	51.9	12.8	29.4	26.3
Gross Margin	16.3%	16.7%	18.0%	1.3%	1.7%		
Operating Margin	9.1%	5.9%	9.6%	3.7%	0.6%		
EBITDA Margin	10.1%	7.0%	10.7%	3.7%	0.6%		
Net Margin	7.3%	5.1%	8.0%	2.9%	0.7%		
Volume	20.9	21.2	19.7	-7.1	-5.7		
Industry volume	73.9	74.8	69.1	-7.6	-6.5		
Revenue/sticks	1,242	1,287	1,355	5.3	9.0		

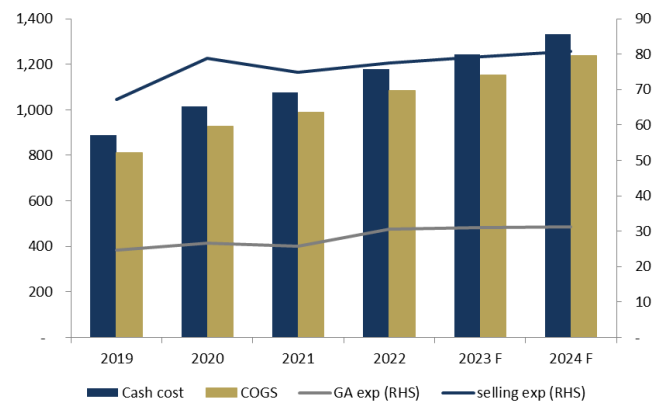
Source: Company, SSI Research

Figure 1. Sales Volume & ASP



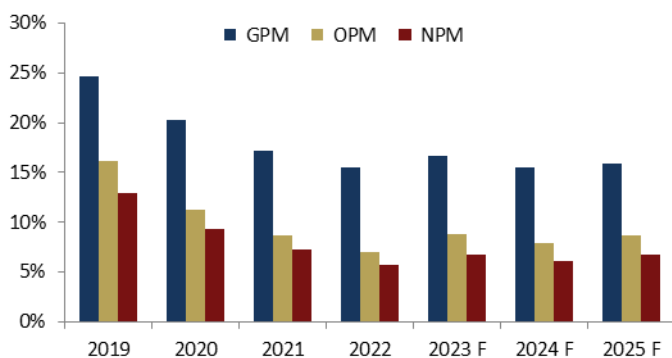
Source: Company, SSI Research

Figure 2. Cost Breakdown



Source: Company, SSI Research

Figure 3. Profitability Margins



Source: Company, SSI Research

Figure 4. P/E Band



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Source: Bloomberg, Company, SSI Research

## Key Financial Figures

Profit and Loss					
Y/E Dec (IDR Bn)	21A	22A	23F	24F	25F
Revenue	98,875	111,211	111,072	115,331	123,228
Cost of Revenue	(81,955)	(94,053)	(92,535)	(97,446)	(103,660)
Gross Profit	16,920	17,158	18,538	17,885	19,568
Operating Expense	(8,336)	(9,405)	(8,849)	(8,821)	(8,883)
G&A Expense	(2,134)	(2,665)	(2,490)	(2,465)	(2,464)
Selling & Marketing Expense	(6,203)	(6,740)	(6,359)	(6,356)	(6,419)
Other Income (Expense)	-	-	-	-	-
Operating Profit	8,583	7,753	9,689	9,063	10,685
EBITDA	9,741	8,860	11,107	10,535	12,188
Interest Income	484	464	100	70	59
Interest Expense	(57)	(50)	(44)	(38)	(32)
Share of JV	8	5	5	5	5
Other Income (Expense)	134	102	102	102	102
Pre-tax Profit	9,152	8,273	9,851	9,201	10,818
Taxes	(2,015)	(1,949)	(2,321)	(2,168)	(2,549)
Minority Interest	-	-	-	-	-
Net Profit	7,137	6,324	7,530	7,033	8,269

Balance Sheet					
Y/E Dec (IDR Bn)	21A	22A	23F	24F	25F
Cash	17,844	3,283	2,299	1,943	2,500
Receivables	2,381	2,946	3,085	3,204	3,423
Inventory	17,782	18,375	20,563	21,113	22,460
Others	3,317	16,759	16,254	16,237	16,241
Total Current Asset	41,323	41,363	42,201	42,497	44,624
Net Fixed Asset	6,039	6,697	5,902	5,064	4,205
Other Assets	5,729	6,727	6,790	6,854	6,919
Total Asset	53,090	54,787	54,894	54,415	55,748
Payables	4,244	5,539	4,627	4,872	5,183
ST. Debt and CMLTD	159	148	131	113	95
Other Current Liabilities	17,561	18,860	18,874	18,889	18,904
Current Liability	21,964	24,546	23,632	23,875	24,183
LT. Debt	188	337	299	259	218
Other LT. Liabilities	1,747	1,734	1,751	1,769	1,787
Total Liability	23,899	26,617	25,682	25,903	26,187
Minority Interest	-	-	-	-	-
Total Equity	29,191	28,170	29,211	28,512	29,560

Cash Flow					
Y/E Dec (IDR Bn)	21A	22A	23F	24F	25F
Net Profit	7,137	6,324	7,530	7,033	8,269
D&A	1,158	1,107	1,418	1,471	1,503
Changes in Working Capital	6,442	(12,320)	(3,057)	(756)	(1,638)
Operating CF	14,737	(4,889)	5,891	7,749	8,134
Capital Expenditure	(69)	(1,453)	(286)	(268)	(250)
Others	(4,477)	(1,011)	(46)	(47)	(47)
Investing CF	(4,546)	(2,464)	(332)	(315)	(297)
Dividend Paid	(8,468)	(7,363)	(6,524)	(7,768)	(7,256)
Net Borrowing	35	138	(55)	(58)	(59)
Others	125	258	(109)	(115)	(118)
Financing CF	(8,378)	(7,243)	(6,579)	(7,826)	(7,315)
Net - Cash flow	1,813	(14,596)	(1,019)	(392)	522
Adjustment	227	35	35	35	35
Cash at Beginning	15,804	17,844	3,283	2,299	1,943
Cash at Ending	17,844	3,283	2,299	1,943	2,500

Key Ratios					
Y/E Dec	21A	22A	23F	24F	25F
Gross Profit Margin (%)	17.1	15.4	16.7	15.5	15.9
Operating Margin (%)	8.7	7.0	8.7	7.9	8.7
Pretax Margin (%)	9.3	7.4	8.9	8.0	8.8
Net Profit Margin (%)	7.2	5.7	6.8	6.1	6.7
Revenue Growth (%)	7.0	12.5	(0.1)	3.8	6.8
EBITDA Margin (%)	9.9	8.0	10.0	9.1	9.9
EBITDA Growth (%)	(17.0)	(9.0)	25.4	(5.2)	15.7
Debt to Equity (x)	0.0	0.0	0.0	0.0	0.0

Major Assumptions					
Y/E Dec	21A	22A	23F	24F	25F
Sales Volume (bn stick)	82.8	86.8	80.3	78.7	77.9
Market Share (%)	28.0	28.0	28.5	28.5	28.5
ASP growth	2.7	6.9	8.0	6.0	8.0
Excise tax growth (%)	5.5	9.1	10.5	10.0	10.0
Cash cost / stick growth (%)	5.9	9.6	5.6	7.0	7.0

Table 2. Peers Comparison

Company Ticker	Country	Company Ticker	Market Cap (USD Mn)	PER (x)		EV/EBITDA (x)		PBV (x)		ROE (%)	
				2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
JAPAN TOBACCO	JP	2914 JP	43,050	11.8	11.4	7.4	7.3	1.4	1.3	13.5	13.5
BRIT AMER TOBACC	MY	ROTH MK	676	10.5	10.3	8.9	8.7	7.6	7.4	75.0	74.9
ITC LTD	IN	ITC IN	63,897	27.7	24.9	20.1	18.1	7.8	7.5	29.0	30.7
KT&G CORP	KR	033780 KS	8,791	11.2	10.4	6.7	6.3	1.2	1.1	10.2	10.6
GUDANG GARAM TBK	ID	GGRM IJ	3,730	10.9	10.6	6.8	6.1	0.9	0.9	7.8	8.4
HM SAMPOERNA TBK	ID	HMSP IJ	8,045	14.4	13.6	10.7	9.9	3.9	3.8	28.3	28.9
Global Weighted Average			128,189	19.8	18.2	13.9	12.8	4.8	4.6	22.1	23.0

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