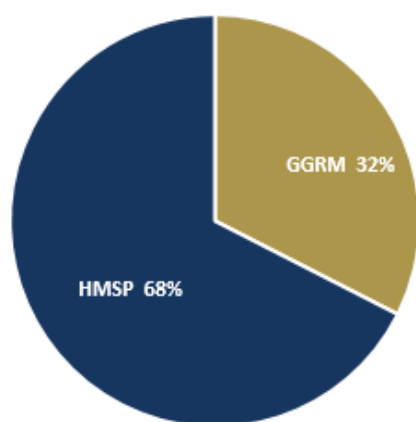


Underweight

Stock Recommendation

Ticker	Rating	Price (IDR)	TP (IDR)	Upside
GGRM	HOLD	27,550	26,380	-4.2%
HMSP	SELL	945	825	-12.7%

Sector Market Cap Weighting



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The Party Might Be Over Soon

The party might be over soon. From the beginning of the year until March 2023, cigarette producers had been raising their selling prices almost simultaneously. In addition, the rather late implementation of the 2023 excise tax hike (~+10% yoy; the new rate came into effect at the beginning of March 2023) helped boost the profit margins of cigarette manufacturers in 1Q23; HMSP, GGRM, and WIIM reported NPMs of 8.0%, 6.5% and 9.4% in 1Q23 (vs. 7.3%, 3.6% and 5.1% in 1Q22). The higher selling prices were appreciated by investors, leading to a cigarette rally; in Jan-Mar-23, the prices of HMSP, GGRM, and WIIM shares rose by +33.9% +44.4%, +38.1% ytd, respectively. However, the 'party' might be over soon; the lack of significant selling price hikes in 2Q23, coupled with the potential increase in COGS due to the new excise tax rate, might put pressure on cigarette producers' profit margins.

No significant price surges in 2Q23. According to our channel check, the prices of cigarettes in Greater Jakarta are growing relatively slowly. The selling prices of the leading brands of Tier I producers only rose 1-2% qoq, except for Surya Pro and Pro Mild (GGRM), whose prices rose +12%, and Avolution and Marlboro Filter (HMSP), whose prices rose +8.8% and +6.2% respectively. Meanwhile, we noticed that Tier II producers still push their selling prices to gain bigger profits. The price of EVO Diplomat (WIIM), for instance, rose +13.5% qoq, and the price of Sukun (PR Sukun) rose +10.9% qoq. This might bring Tier II SKM prices closer to Tier I, although the price gap between the two tiers is still relatively large.

2Q23 preview: ~+2% qoq volume growth. We project national cigarette sales volume to grow by ~+2.0% qoq in 2Q23, supported by the recovery of people's purchasing power and the relatively slow price growth. If we take a look at historical data, 1Q is typically the slowest quarter in terms of cigarette sales. Therefore, we expect HMSP and GGRM to report positive sales volume growth in 2Q23, with relatively similar growth rates. Regarding excise expense, we project HMSP's excise expense to increase 6-8%/stick qoq in 2Q23, and GGRM's to increase by 5-6%/stick qoq. Given the fact that both companies did not make major adjustments to their selling prices, we project HMSP and GGRM's 2Q23 NPM to reach 5.5% and 3.5%, respectively.

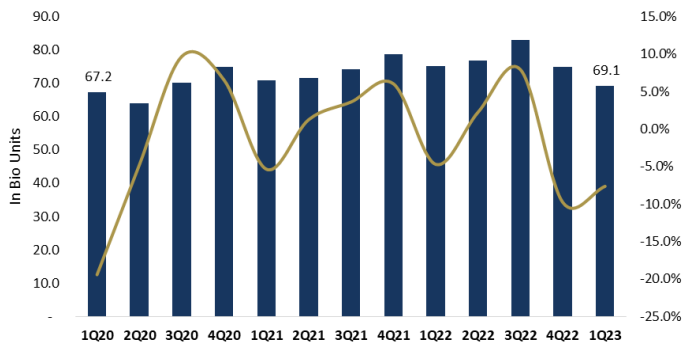
Underweight. We reiterate our UNDERWEIGHT rating for the Cigarette sector; It might take a while before we can see significant improvements in the valuation of Tier I cigarette producers, given the excise tax hike and intense competition with Tier II producers. We have SELL rating for HMSP (TP: IDR 825; -1.3x below its 5-year PER average) and HOLD for GGRM (TP: IDR 26,380; +0.5x above its 5-year PER average). Risk: Regulatory changes.

Table 1. Valuation Highlights

Ticker	Rating	CP	TP	Upside	P/E (X)		NP (IDRbn)		EPSG (%)		ROE (%)		ROA (%)	
		(IDR)	(IDR)		2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
GGRM	HOLD	27,550	26,380	(4.2)	11.4	7.9	5,147	5,329	7.8	3.5	8.7	9.0	5.8	6.0
HMSP	SELL	945	825	(12.7)	14.6	15.6	7,530	7,033	19.1	(6.6)	26.2	24.4	13.7	12.9
Sector					13.5	12.7			15.3	(2.9)	17.0	19.3	11.1	10.6

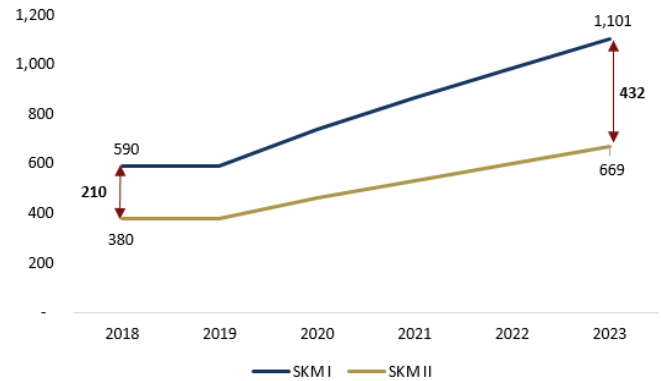
Source: Bloomberg, SSI Research

Figure 1. Quarterly National Cigarette Consumption



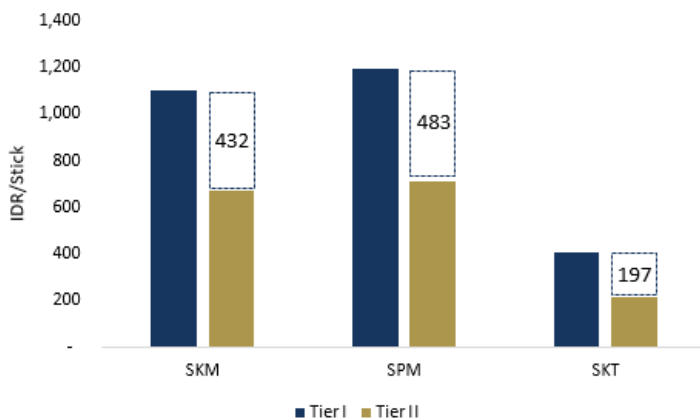
Source: Philip Morris International, SSI Research

Figure 2. Excise Gap Between Tier 1 and Tier 2 Players



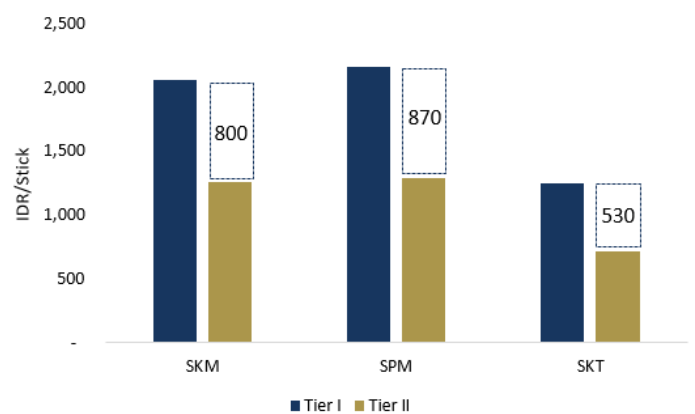
Source: Ministry of Finance, SSI Research

Figure 3. 2023 Excise Gap Between Tier 1 and Tier 2



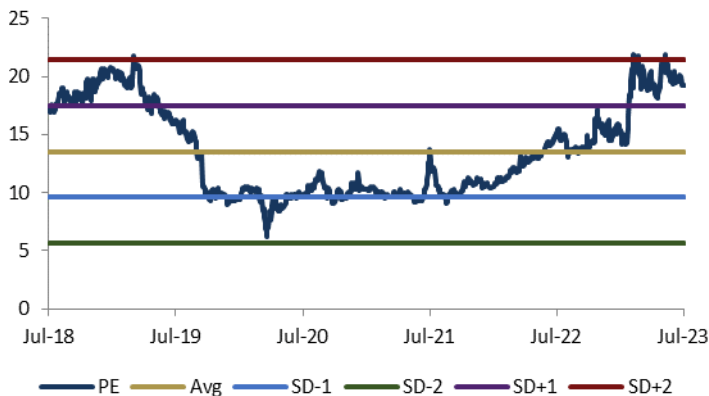
Source: Ministry of Finance, SSI Research

Figure 4. 2023 Retail Price Gap Between Tier 1 and Tier 2



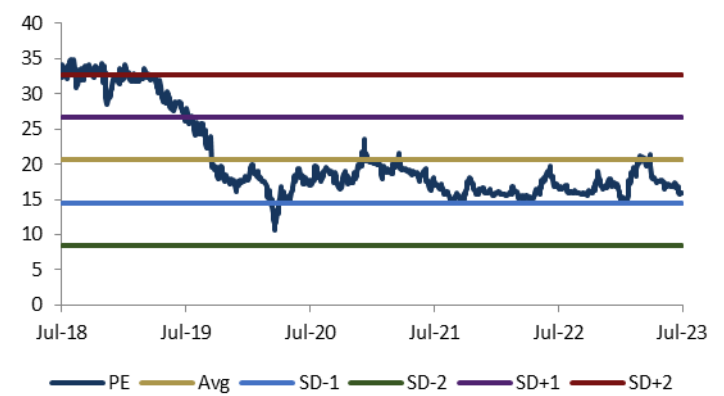
Source: Ministry of Finance, SSI Research

Figure 5. GGRM's P/E Band



Source: Bloomberg, SSI Research

Figure 6. HMSP's P/E Band



Source: Bloomberg, SSI Research

Figure 7. 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	43,289	12.0	11.6	7.8	7.6	1.5	1.5	14.4	14.6
BRIT AMER TOBACC	MY	ROTH MK	619	11.9	11.2	9.6	8.9	7.4	7.3	64.9	68.4
ITC LTD	IN	ITC IN	70,279	27.2	24.6	19.7	17.8	8.2	7.9	30.5	32.5
KT&G CORP	KR	033780 KS	8,680	11.1	10.5	6.8	6.5	1.2	1.1	9.9	10.1
UDANG GARAM TBK ID		GGRM IJ	3,537	8.3	7.7	4.9	4.5	0.9	0.8	10.6	10.8
HM SAMPOERNA TBK ID		HMSP IJ	7,353	13.1	12.0	9.4	8.6	3.7	3.6	29.1	30.8
Global Weighted Average			133,757	19.9	18.3	14.0	12.9	5.1	5.0	23.5	24.8

Source: Bloomberg, SSI Research *(Valuation at closing price 6/7/23)

Table 2. National Cigarettes Retail Price

Tier I Producers	Brand	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
GGRM	GG Filter	24,000	25,000	25,000	26,000	26,000	26,000
	Surya 16	33,000	33,000	34,000	34,000	34,000	34,000
	Surya 12	24,000	25,000	25,000	26,000	25,000	26,000
	Surya Pro	28,000	29,000	30,000	30,000	30,000	32,000
	Pro Mild	28,000	29,000	30,000	30,000	30,000	32,000
	GG Merah	15,000	17,000	17,000	17,000	17,000	17,000
	GG Signature	23,000	23,000	24,000	24,000	25,000	25,000
HMSP	Sampoerna Mild 16	32,000	33,000	34,000	34,000	34,000	33,000
	Sampoerna Mild 12	24,000	25,000	25,000	25,000	25,000	25,000
	Marlboro	36,000	37,000	38,000	39,000	40,000	40,000
	DSS Refill	22,000	23,000	23,000	23,000	23,000	23,000
	Magnum Black	23,000	24,000	24,000	24,000	24,000	25,000
	Magnum Mild	28,000	28,000	30,000	30,000	30,000	30,000
	Sampoerna Kretek	15,000	16,000	16,000	16,000	17,000	16,000
	Marlboro Kretek	12,000	12,000	12,000	12,000	13,000	13,000
	Avolution	33,000	34,000	34,000	34,000	35,000	38,000
	Slera Kretek	10,000	10,000	10,000	10,000	11,000	11,000
	Marlboro Filter	34,000	35,000	35,000	35,000	38,000	37,000
	Djarum Super	24,000	25,000	25,000	26,000	26,000	26,000
Djarum	Ziga	16,000	16,000	16,000	16,000	16,000	17,000
	LA Campur	28,000	29,000	30,000	30,000	32,000	31,000
	LA Bold	30,000	32,000	33,000	33,000	31,000	33,000
	Djarum Coklat	15,000	16,000	17,000	17,000	17,000	17,000
	Jump	20,000	20,000	21,000	21,000	21,000	21,000
Tier II Producers	Brand	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Wisnilak	EVO Diplomat	20,000	20,000	21,000	22,000	22,000	23,000
KT&G	Esse Change	N/A	N/A	N/A	36,000	35,000	35,000
	Esse Dobel Klik	N/A	N/A	N/A	38,000	37,000	37,000
Nojorono	Class Mild	26,000	27,000	28,000	28,000	25,000	28,000
British Tobacco	Dunhill 20	N/A	N/A	N/A	35,000	36,000	36,000
	Dunhill Item	N/A	N/A	N/A	28,000	28,000	28,000
Japan Tobacco	Camel 12	N/A	N/A	N/A	18,000	18,000	19,000
	Camel 20	N/A	N/A	N/A	27,000	28,000	29,000
Aroma Tobacco	Aroma Slim	16,000	15,000	15,000	15,000	15,000	15,000
	Aroma Bold	19,000	20,000	20,000	20,000	20,000	20,000

Source: Channel Check (Greater Jakarta), SSI Research

Table 3. National Cigarettes Agent Price

Tier I Producers	Brand	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
GGRM	GG Filter	22,200	22,700	23,000	23,200	23,200	23,300
	Surya 16	29,800	29,900	31,200	31,500	31,500	31,000
	Surya 12	22,200	22,200	23,000	23,200	23,500	23,200
	Surya Pro	24,600	25,600	26,400	27,400	27,400	29,600
	Pro Mild	24,600	25,600	26,400	27,400	27,400	29,600
	GG Merah	13,200	14,200	14,500	14,500	14,500	14,200
	GG Signature	20,300	20,500	21,500	21,500	21,600	21,600
HMSP	Sampoerna Mild 16	29,700	29,900	30,100	31,200	31,700	29,800
	Sampoerna Mild 12	21,700	22,700	22,900	22,900	23,000	22,500
	Marlboro	32,300	33,500	34,500	35,200	36,000	36,800
	DSS Refill	18,700	19,700	19,700	19,800	19,800	19,500
	Magnum Black	20,300	21,300	21,500	21,500	21,800	21,900
	Magnum Mild	25,600	26,200	27,300	27,300	28,000	27,900
	Sampoerna Kretek	13,200	13,500	13,500	13,600	13,800	13,800
	Marlboro Kretek	10,000	10,000	10,000	10,000	11,000	10,500
	Avolution	30,200	31,500	31,700	31,700	32,000	34,500
	Slera Kretek	8,000	8,000	8,000	8,000	8,500	8,500
	Marlboro Filter	31,500	32,500	32,500	32,500	36,000	34,500
Djarum	Djarum Super	21,800	22,500	22,900	23,000	23,200	23,300
	Ziga	13,500	13,500	13,500	13,500	13,500	13,500
	LA Campur	25,200	26,300	26,700	27,200	29,200	28,300
	LA Bold	27,300	28,500	29,500	29,700	29,000	29,300
	Djarum Coklat	13,500	13,700	14,500	14,500	14,000	14,500
	Jump	18,300	18,300	18,500	18,700	18,700	18,700
Tier II Producers	Brand	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Wismilak	EVO Diplomat	18,200	18,300	18,500	18,600	19,000	21,000
KT&G	Esse Change	N/A	N/A	N/A	33,500	31,600	31,600
	Esse Dobel Klik	N/A	N/A	N/A	35,000	34,800	34,800
Nojorono	Class Mild	24,200	24,600	24,800	24,800	23,000	25,500
British Tobacco	Dunhill 20	N/A	N/A	N/A	31,500	33,800	32,800
	Dunhill Item	N/A	N/A	N/A	25,700	25,400	25,500
Japan Tobacco	Camel 12	N/A	N/A	N/A	14,500	14,500	14,900
	Camel 20	N/A	N/A	N/A	25,300	26,000	26,700
Aroma Tobacco	Aroma Slim	12,000	12,000	12,000	12,000	12,000	12,500
	Aroma Bold	16,200	17,200	17,300	17,600	17,800	18,000

Source: Channel Check (Greater Jakarta), SSI Research

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