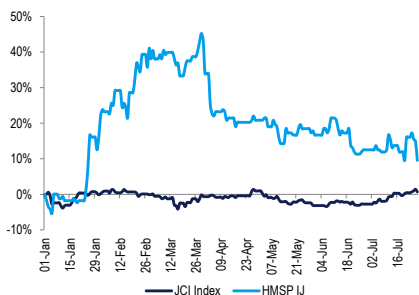


Stock Data

Target price	Rp1,160
Prior TP	Rp1,240
Current price	Rp920
Upside/downside	+26.8%
Shares outstanding (mn)	116,318
Market cap (Rp bn)	107,013
Free float	7%
Avg. 6m daily T/O (Rp bn)	31

Price Performance

	3M	6M	12M
Absolute	-9.4%	1.7%	1.1%
vs. JCI	-9.2%	0.7%	3.2%
52w low/high	795 – 1,220		



Major Shareholders

Phillip Morris Indonesia	93%
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Lukito Supriadi

PT Indo Premier Sekuritas
lukito.supriadi@ipc.co.id
+62 21 5088 7168 ext. 716

Andrianto Saputra

PT Indo Premier Sekuritas
andrianto.saputra@ipc.co.id
+62 21 5088 7168 ext. 712

2Q23 results: miss from lower than expected EBIT margin

- 1H23 net profit of Rp3.8tr (+23.0% yoy) was below at 44% of ours/consensus' FY23F estimate. EBIT came at Rp4.4tr (+17.2% yoy), but was aided by a higher interest income of Rp303bn (+74.4% yoy).
- We revise our FY23/24F net profit forecast to Rp7.9/8.8tr (-7/-8% from previously) to account for lower GPM and higher opex/sales ratio.
- Maintain Buy with lower TP of Rp1,160.

1H23 net profit miss was driven by lower than expected EBIT margin

HSMP recorded 1H23 net profit of Rp3.8tr (+23.0% yoy) and this was below at 44% of our/consensus FY23F estimate (vs. 5yr avg. ex-covid period of 48%). Revenue rose to Rp56.2tr (+5.0% yoy) and this was in-line at 49/48% of our/consensus FY23F estimate (vs. 5yr. avg ex-covid period of 48%) – driven by its SKT segment sales growth of +26.1%, while SKM/SPM sales declined by -0.9/-10.9% yoy. GPM improved to 16.5% (vs. 14.9% in 1H22) and this was slightly below our FY23F forecast of 17.5%, while opex to sales ratio rose from 7.9% in 1H22 to 8.6% in 1H23 (+72bps yoy). Hence, EBIT came at only Rp4.4tr (+17.2% yoy), and was a miss at 42% of ours/consensus estimate vs. 5Y average of 47%, but was aided by a higher interest income of Rp303bn (+74.4% yoy).

Weak 2Q23 result on the back of margin contraction

2Q23 revenue rose to Rp29.2tr (+6.7% yoy/+8.2% qoq) as its sales volume stood at 20.8bn sticks (-2.8% yoy/+5.6% qoq). A significant product mix change was observed as SKM/SKT/SPM 2Q23 sales grew flat/+32.5/-9.5% yoy - the shift toward lower priced SKT cigarette is a reflection of the grass root soft purchasing power. 2Q23 GPM dropped by 298bps qoq to 15.0% (13.6% in 2Q22) as excise cost grew by 10.6% qoq (-4.6% yoy). 2Q23 opex to sales normalized to 8.8% (vs. 8.5/8.4% in 2Q22/1Q23) as management fee to sales stood at 1.6% (vs. 1.5/1.7% in 2Q22/1Q23). In sum, 2Q23 net profit went down by -26.4% qoq to Rp1.6tr (+40.3% yoy). Separately, the average completion of the construction in progress (likely related to the heated product factory in Karawang) has reached 65% as of Jun23 (vs 38/27% in Mar23/Dec22), which is expected to be completed by 2024.

Maintain Buy with lower TP of Rp1,160

Factoring in the above, we downgrade HMSP's FY23/24F net profit forecasts to Rp7.9/8.8tr (-6.6/-7.6% from previously) on the back of lower GPM (-24bps from previously) and higher opex/sales ratio (+53/+63bps from previously) assumptions. Maintain BUY with lower TP of Rp1,160, based on 17.0x FY23F PE (3yr mean). Downside risks include inability to further raise prices against the backdrop of soft purchasing power.

Financial Summary (Rp bn)	2021A	2022A	2023F	2024F	2025F
Revenue	98,875	111,211	115,536	124,939	134,373
EBITDA	9,741	8,860	10,933	12,087	12,745
Net profit	7,137	6,324	7,932	8,762	9,213
EPS (Rp)	61	54	68	75	79
EPS growth	-17.6%	-10.9%	25.4%	10.5%	5.1%
ROE	24.0%	22.0%	27.7%	29.6%	30.5%
PER (x)	15.1	16.9	13.5	12.2	11.6
Dividend yield	7.9%	6.9%	5.9%	7.4%	8.2%
Forecast change			-9%	-9%	-8%
IPS vs. consensus			94%	94%	85%

Source: Company, Indo Premier

Share price closing as of: 27 July 2023

Fig. 1: HMSP 2Q23 result summary

(Rp bn)	2Q23	2Q22	% YoY	1Q23	%QoQ	6M23	6M22	% YoY	IPS. FY23F	% IPS	Cons. FY23F	% Cons	5yr avg. ex- covid period	Comment
Net sales	29,189	27,344	6.7%	26,966	8.2%	56,155	53,505	5.0%	115,536	49%	118,090	48%	48%	In-line
COGS	(24,803)	(23,623)		(22,110)		(46,913)	(45,524)							
Gross profit	4,386	3,721	17.9%	4,856	-9.7%	9,241	7,981	15.8%						
Opex	(2,572)	(2,326)		(2,261)		(4,832)	(4,219)	14.6%						
EBIT	1,814	1,395	30.1%	2,595	-30.1%	4,409	3,763	17.2%	10,596	42%	10,524	42%	47%	Below
Other income (charges)	59	40		53		113	73							
PBT	2,022	1,503	34.5%	2,786	-27.4%	4,808	3,988	20.6%						
Tax benefit (expense)	(432)	(370)		(626)		(1,058)	(939)							
Net profit	1,590	1,133	40.3%	2,160	-26.4%	3,750	3,048	23.0%	8,491	44%	8,440	44%	48%	Below
Margins														
Gross margin	15.0%	13.6%		18.0%		16.5%	14.9%							
EBIT margin	6.2%	5.1%		9.6%		7.9%	7.0%							
Net margin	5.4%	4.1%		8.0%		6.7%	5.7%							
Revenue breakdown														
SKM	18,330	18,327	0.0%	17,007	7.8%	35,337	35,671	-0.9%						
SKT	8,113	6,122	32.5%	7,277	11.5%	15,390	12,205	26.1%						
SPM	2,093	2,314	-9.5%	2,013	4.0%	4,107	4,610	-10.9%						
Others	653	582	12.1%	668	-2.3%	1,320	1,020	29.4%						
Revenue contribution by segment														
SKM	62.8%	67.0%		63.1%		62.9%	66.7%							
SKT	27.8%	22.4%		27.0%		27.4%	22.8%							
SPM	7.2%	8.5%		7.5%		7.3%	8.6%							
Others	2.2%	2.1%		2.5%		2.4%	1.9%							

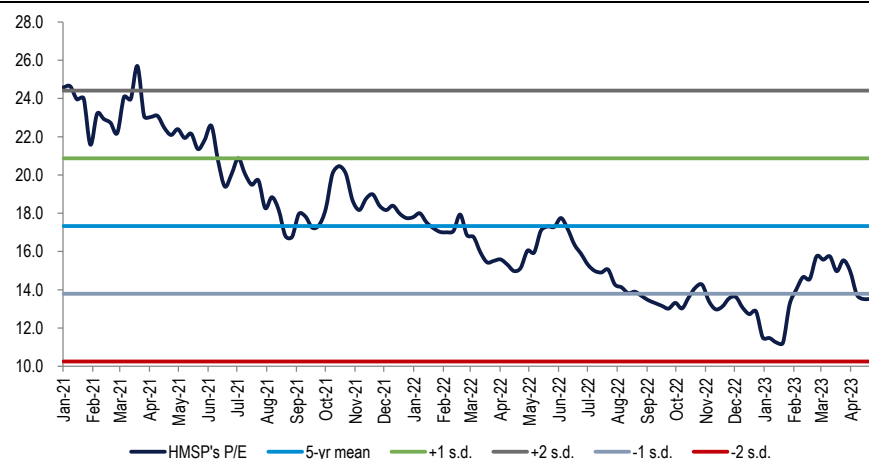
Source: Company, Indo Premier

Fig. 2: Forecast changes

	Previous			Current			Changes		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Assumption									
Blended ASP Grow th	10.0%	9.4%	8.9%	10.0%	9.4%	8.9%	0.0%	0.0%	0.0%
Blended volume grow th	-4.2%	-0.7%	-0.6%	-4.2%	-0.7%	-0.6%	0.0%	0.0%	0.0%
Financial Perform. (Rp bn)									
Net sales	115,536	124,939	134,373	115,536	124,939	134,373	0.0%	0.0%	0.0%
Gross profit	20,253	22,425	24,100	19,975	22,125	23,778	-1.4%	-1.3%	-1.3%
EBIT	10,596	11,872	12,873	9,711	10,787	11,369	-8.4%	-9.1%	-11.7%
Net profit	8,491	9,484	9,899	7,932	8,762	9,213	-6.6%	-7.6%	-6.9%
EPS (Rp)	73	82	85	68	75	79	-6.6%	-7.6%	-6.9%
Profitability (%)									
Gross margin	17.5%	17.9%	17.9%	17.3%	17.7%	17.7%	-0.2%	-0.2%	-0.2%
EBIT margin	9.2%	9.5%	9.6%	8.4%	8.6%	8.5%	-0.8%	-0.9%	-1.1%
Net profit margin	7.3%	7.6%	7.4%	6.9%	7.0%	6.9%	-0.5%	-0.6%	-0.5%
Opex to sales	-8.4%	-8.4%	-8.4%	-8.9%	-9.1%	-9.2%	-0.5%	-0.6%	-0.9%
Revenue contribution									
SKT	26.0%	26.0%	26.1%	26.0%	26.0%	26.1%	0.0%	0.0%	0.0%
SKM	64.4%	64.2%	63.6%	64.4%	64.2%	63.6%	0.0%	0.0%	0.0%
SPM	8.1%	8.2%	8.5%	8.1%	8.2%	8.5%	0.0%	0.0%	0.0%
Others	1.5%	1.7%	1.8%	1.5%	1.7%	1.8%	0.0%	0.0%	0.0%

Source: Company, Indo Premier

Fig. 3: HMSP is currently trading at 13.6x fwd. 12M P/E, or around 1.1 s.d. below its 3-year mean



Source: Company, Indo Premier

Income Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net revenue	98,875	111,211	115,536	124,939	134,373
Cost of sales	(81,955)	(94,053)	(95,561)	(102,815)	(110,595)
Gross profit	16,920	17,158	19,975	22,125	23,778
SG&A Expenses	(8,336)	(9,405)	(10,264)	(11,337)	(12,410)
Operating profit	8,583	7,753	9,711	10,787	11,369
Net interest	427	414	556	556	556
Forex gain (loss)	0	0	0	0	0
Others	142	106	110	119	128
Pre-tax income	9,152	8,273	10,377	11,463	12,053
Income tax	(2,015)	(1,949)	(2,445)	(2,701)	(2,840)
Minority interest	0	0	0	0	0
Net income	7,137	6,324	7,932	8,762	9,213

Balance Sheet (Rp bn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	17,844	3,283	3,910	5,096	5,925
Receivable	2,897	3,394	3,268	3,533	3,800
Inventory	17,782	18,375	18,368	19,763	21,258
Other current assets	2,801	16,311	16,284	16,590	16,897
Total current assets	41,323	41,363	41,831	44,982	47,880
Fixed assets	6,039	6,697	6,475	6,176	5,800
Other non-current assets	60	60	60	60	60
Total non-current assets	11,767	13,424	13,202	12,903	12,526
Total assets	53,090	54,787	55,033	57,885	60,407
ST loans	0	0	0	0	0
Payable	5,776	8,547	7,277	7,829	8,421
Other payables	15,093	14,619	15,188	16,423	17,663
Current portion of LT loans	0	0	0	0	0
Total current liab.	21,964	24,546	23,732	25,609	27,533
Long term loans	0	0	0	0	0
Other LT liab.	1,935	2,071	2,138	2,285	2,431
Total liabilities	23,899	26,617	25,870	27,893	29,964
Equity	21,106	21,088	21,088	21,088	21,088
Retained earnings	7,469	6,465	8,074	8,904	9,355
Minority interest	0	0	0	0	0
Total SHE + minority int.	29,191	28,170	29,162	29,992	30,443
Total liabilities & equity	53,090	54,787	55,033	57,885	60,407

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
EBIT	8,583	7,753	9,711	10,787	11,369
Depr. & amortization	0	0	1,222	1,299	1,376
Changes in working capital	12	12	13	13	13
Others	1,707	(1,828)	(2,446)	(2,128)	(2,314)
Cash flow from operating	10,302	5,937	8,500	9,972	10,444
Capital expenditure	(412)	(831)	(1,000)	(1,000)	(1,000)
Others	747	(9,075)	0	0	0
Cash flow from investing	334	(9,907)	(1,000)	(1,000)	(1,000)
Loans	0	0	0	0	0
Equity	0	0	0	0	0
Dividends	(8,468)	(7,363)	(6,324)	(7,932)	(8,762)
Others	(130)	(236)	(549)	146	147
Cash flow from financing	(8,598)	(7,599)	(6,873)	(7,786)	(8,615)
Changes in cash	2,039	(11,568)	627	1,186	829

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	17.1%	15.4%	17.3%	17.7%	17.7%
Operating margin	8.7%	7.0%	8.4%	8.6%	8.5%
Pre-tax margin	9.3%	7.4%	9.0%	9.2%	9.0%
Net margin	7.2%	5.7%	6.9%	7.0%	6.9%
ROA	13.9%	11.7%	14.4%	15.5%	15.6%
ROE	24.0%	22.0%	27.7%	29.6%	30.5%
Acct. receivables TO (days)	12.9	10.3	10.3	10.3	10.3
Inventory TO (days)	79.9	70.2	70.2	70.2	70.2
Payable TO (days)	26.2	27.8	27.8	27.8	27.8
Debt to equity	N/A	N/A	N/A	N/A	N/A
Interest coverage ratio (x)	151.8	154.9	194.0	215.5	227.1
Net gearing	-61.1%	-11.7%	-13.4%	-17.0%	-19.5%

Source: Company, Indo Premier

INVESTMENT RATINGS

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

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