

# H.M. Sampoerna

BUY (unchanged)

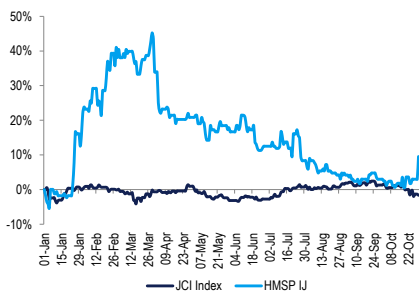
Company Update | Tobacco | HMSP IJ | 30 October 2023

## Stock Data

Target price	Rp1,220
Prior TP	Rp1,160
Current price	Rp920
Upside/downside	+32%
Shares outstanding (mn)	116,318
Market cap (Rp bn)	107,013
Free float	7%
Avg. 6m daily T/O (Rp bn)	16

## Price Performance

	3M	6M	12M
Absolute	1.1%	-9.4%	-7.5%
vs. JCI	3.5%	-6.8%	-3.0%
52w low/high	795 – 1,220		



## Major Shareholders

Phillip Morris Indonesia	93%
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## 3Q23 results: beat from margin expansion on higher SKT contribution

- HMSP's 9M23 net profit of Rp6.2tr (+26.6% yoy) was above at 78/79% of ours/consensus' FY23F estimate vs. 5yr avg of 73%
- 3Q23 net profit growth of +32.4% yoy (+54.4% qoq) was driven by GPM improvement of +156bps yoy (+167bp qoq).
- Maintain Buy with higher TP of Rp1,220 as we expect higher ASP in 4Q i.e. flagship A-Mild to rise by c.2% effective 30<sup>th</sup> Oct23.

### 9M23 net profit beat from margin expansion

HMSP recorded 9M23 net profit of Rp6.2tr (+26.6% yoy) and this was ahead at 78/79% of our/consensus FY23F estimate (vs. 5yr avg. ex-covid period of 73%). Revenue growth of +4.7% yoy was mainly driven by price adjustment as 9M23 HMSP volume declined by -3.8% yoy and was in-line with our FY23F expectation of -4.2% yoy. GPM improved to 16.5% in 9M23 (vs. 15.0% in 9M22) which was the result of price adjustment and product mix changes. SKT segment grew +30.5% yoy in 9M23, outpacing SKM/SKT segments' growth of -3.0/-12.8% yoy. Opex to sales ratio was higher in 9M23 at 8.4% compared to 9M22's 7.7%. Additionally, interest income of Rp501bn (+97.2% yoy) was also substantially higher given HMSP's US\$800mn (Rp12.5tr) lending to Philip Morris Finance SA with interest rate of 5.70 to 5.92%.

### 3Q23 showed further mix changes with SKT contributing 33% of sales

3Q23 net profit jumped by 32.4% yoy (+54.4% qoq) on the back of much improved GPM of +16.7% (+156bps yoy/+167bps qoq). As ASP adjustments have been observed to be quite muted in 2Q-3Q23, we think that the GPM improvement is largely attributed to mix changes in 3Q23, where SKT segment sales rose by +37.8% yoy, while SKM/SPM declined -6.9/-16.3% yoy. 3Q23 Opex/sales ratio improved to 7.9% of sales vs. 8.8% in 2Q23. Additionally, our channel checks suggest that HMSP is slated to increase its flagship A-Mild prices by c.2% effective 30<sup>th</sup> Oct23 and this should bode well for 4Q23F GPM.

### Maintain Buy with higher TP of Rp1,220 as we roll forward our valuation

Regarding HMSP's heated product factory, the average completion of the construction in progress has reached 77% as of Sep23 (vs. 65% in Jun23), which is expected to be completed by 2024. We expect the factory to cater to both domestic and export market upon completion. Maintain BUY with higher TP of Rp1,220 as we roll forward our TP based on fwd 12-months P/E of 17.0x PE (3yr mean). Key risks are soft purchasing power and challenges to raise prices to pass on FY24F excise hike of 10% (SKM: 12%).

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			0%	0%	0%
IPS vs. consensus			100%	99%	90%

Source: Company, Indo Premier

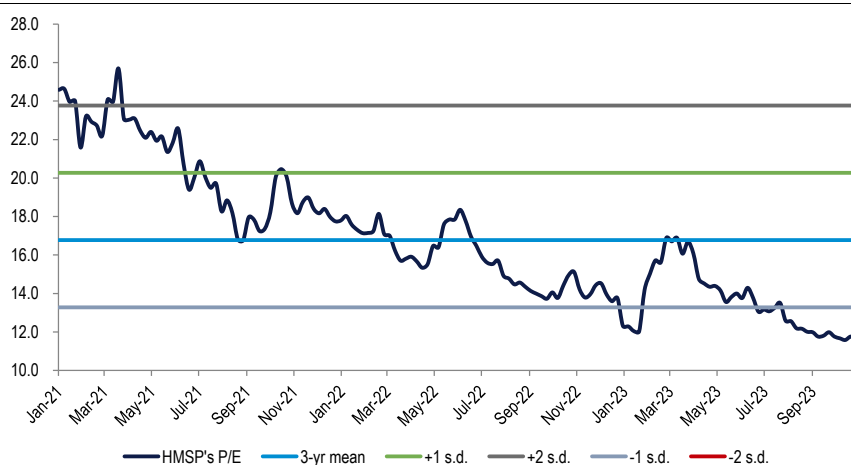
Share price closing as of: 30 October 2023

Fig. 1: HMSP 3Q23 result summary

(Rp bn)	3Q23	3Q22	% YoY	2Q23	%QoQ	9M23	9M22	% YoY	IPS. FY23F	% IPS	Cons. FY23F	% Cons	5yr avg. ex- covid period	Comment
<b>Net sales</b>	<b>31,142</b>	<b>29,893</b>	<b>4.2%</b>	<b>29,189</b>	<b>6.7%</b>	<b>87,297</b>	<b>83,398</b>	<b>4.7%</b>	<b>115,536</b>	<b>76%</b>	<b>116,627</b>	<b>75%</b>	<b>73%</b>	<b>Above</b>
COGS	(25,942)	(25,368)		(24,803)		(72,856)	(70,892)							
<b>Gross profit</b>	<b>5,200</b>	<b>4,524</b>	<b>14.9%</b>	<b>4,386</b>	<b>18.6%</b>	<b>14,441</b>	<b>12,506</b>	<b>15.5%</b>						
Opex	(2,475)	(2,188)		(2,572)		(7,307)	(6,407)							
<b>EBIT</b>	<b>2,725</b>	<b>2,336</b>	<b>16.7%</b>	<b>1,814</b>	<b>50.2%</b>	<b>7,134</b>	<b>6,099</b>	<b>17.0%</b>	<b>9,711</b>	<b>73%</b>	<b>9,875</b>	<b>72%</b>	<b>73%</b>	<b>In-line</b>
Other income (charges)	134	10		59		246	83							
<b>PBT</b>	<b>3,047</b>	<b>2,412</b>	<b>26.3%</b>	<b>2,022</b>	<b>50.7%</b>	<b>7,855</b>	<b>6,400</b>	<b>22.7%</b>						
Tax benefit (expense)	(592)	(558)		(432)		(1,650)	(1,498)							
<b>Net profit</b>	<b>2,455</b>	<b>1,854</b>	<b>32.4%</b>	<b>1,590</b>	<b>54.4%</b>	<b>6,205</b>	<b>4,902</b>	<b>26.6%</b>	<b>7,932</b>	<b>78%</b>	<b>7,899</b>	<b>79%</b>	<b>73%</b>	<b>Above</b>
<b>Margins</b>														
Gross margin	16.7%	15.1%		15.0%		16.5%	15.0%							
EBIT margin	8.8%	7.8%		6.2%		8.2%	7.3%							
Net margin	7.9%	6.2%		5.4%		7.1%	5.9%							
<b>Revenue breakdown</b>														
SKM	18,063	19,399	-6.9%	18,330	-1.5%	53,400	55,070	-3.0%						
SKT	10,273	7,453	37.8%	8,113	26.6%	25,663	19,658	30.5%						
SPM	2,018	2,412	-16.3%	2,093	-3.6%	6,125	7,021	-12.8%						
Others	789	629	25.4%	653	20.8%	2,109	1,649	27.9%						
<b>Revenue contribution by segment</b>														
SKM	58.0%	64.9%		62.8%		61.2%	66.0%							
SKT	33.0%	24.9%		27.8%		29.4%	23.6%							
SPM	6.5%	8.1%		7.2%		7.0%	8.4%							
Others	2.5%	2.1%		2.2%		2.4%	2.0%							

Source: Company, Indo Premier

Fig. 2: HMSP is currently trading at 12.4x fwd. 12M P/E, or around 1.5 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)
<b>Gross profit</b>	<b>16,920</b>	<b>17,158</b>	<b>19,975</b>	<b>22,125</b>	<b>23,778</b>
SG&A Expenses	(8,336)	(9,405)	(10,264)	(11,337)	(12,410)
<b>Operating profit</b>	<b>8,583</b>	<b>7,753</b>	<b>9,711</b>	<b>10,787</b>	<b>11,369</b>
Net interest	427	414	556	556	556
Forex gain (loss)	0	0	0	0	0
Others	142	106	110	119	128
<b>Pre-tax income</b>	<b>9,152</b>	<b>8,273</b>	<b>10,377</b>	<b>11,463</b>	<b>12,053</b>
Income tax	(2,015)	(1,949)	(2,445)	(2,701)	(2,840)
Minority interest	0	0	0	0	0
<b>Net income</b>	<b>7,137</b>	<b>6,324</b>	<b>7,932</b>	<b>8,762</b>	<b>9,213</b>

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
<b>Total current assets</b>	<b>41,323</b>	<b>41,363</b>	<b>41,831</b>	<b>44,982</b>	<b>47,880</b>
Fixed assets	6,039	6,697	6,475	6,176	5,800
Other non-current assets	60	60	60	60	60
<b>Total non-current assets</b>	<b>11,767</b>	<b>13,424</b>	<b>13,202</b>	<b>12,903</b>	<b>12,526</b>
<b>Total assets</b>	<b>53,090</b>	<b>54,787</b>	<b>55,033</b>	<b>57,885</b>	<b>60,407</b>
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
<b>Total current liab.</b>	<b>21,964</b>	<b>24,546</b>	<b>23,732</b>	<b>25,609</b>	<b>27,533</b>
Long term loans	0	0	0	0	0
Other LT liab.	1,935	2,071	2,138	2,285	2,431
<b>Total liabilities</b>	<b>23,899</b>	<b>26,617</b>	<b>25,870</b>	<b>27,893</b>	<b>29,964</b>
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
<b>Total SHE + minority int.</b>	<b>29,191</b>	<b>28,170</b>	<b>29,162</b>	<b>29,992</b>	<b>30,443</b>
<b>Total liabilities &amp; equity</b>	<b>53,090</b>	<b>54,787</b>	<b>55,033</b>	<b>57,885</b>	<b>60,407</b>

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)
<b>Cash flow from operating</b>	<b>10,302</b>	<b>5,937</b>	<b>8,500</b>	<b>9,972</b>	<b>10,444</b>
Capital expenditure	(412)	(831)	(1,000)	(1,000)	(1,000)
Others	747	(9,075)	0	0	0
<b>Cash flow from investing</b>	<b>334</b>	<b>(9,907)</b>	<b>(1,000)</b>	<b>(1,000)</b>	<b>(1,000)</b>
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
<b>Cash flow from financing</b>	<b>(8,598)</b>	<b>(7,599)</b>	<b>(6,873)</b>	<b>(7,786)</b>	<b>(8,615)</b>
<b>Changes in cash</b>	<b>2,039</b>	<b>(11,568)</b>	<b>627</b>	<b>1,186</b>	<b>829</b>

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

## ANALYSTS CERTIFICATION

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