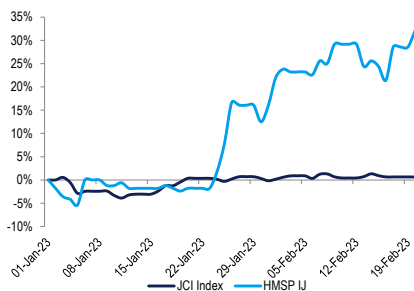


Stock Data

Target price	Rp1,275
Prior TP	Rp1,275
Current price	Rp1,110
Upside/downside	+14.9%
Shares outstanding (mn)	116,318
Market cap (Rp bn)	129,113
Free float	7%
Avg. 6m daily T/O (Rp bn)	21

Price Performance

	3M	6M	12M
Absolute	19.4%	20.7%	8.8%
vs. JCI	22.0%	24.5%	8.8%
52w low/high	795 – 1,160		



Major Shareholders

Phillip Morris Indonesia	93%
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## A better outlook from heat-not-burn tobacco products

- Heat-not-burn products is claimed to be a healthier alternative and its revenue contribution to PMI's revenue of 2.7/32% in FY16/22 indicate good traction of the products globally (FY16-22: 55.5% CAGR).
- HMSP to tap onto the future of the tobacco market with its newly inaugurated facility with an annual production capacity of 15.5bn sticks.
- We estimate heat-not-burn products may grow up to c.10% of revenue within a few years. Maintain BUY for HMSP with same TP of Rp1,275

### Heat-not-burn tobacco product – a healthier tobacco alternative

Heat-not-burn tobacco product is an innovation that is up to 95% less harmful (vs. cigarette) as its consumption eliminates the process of burning the tobacco, according to HMSP. During HMSP's public expose, management reiterates the companies' commitment on ESG and that its heat-not-burn products invention provides an alternative to cigarette with significant harm reduction to health. Adoption and acceptance of heat-not-burn have been encouraging from 2.7% of PMI's revenue in 2016 to c.25/32% in FY20/22. Having commissioned HMSP's production facility for heat-not-burn products, management shared that this facility would focus on serving Asia Pacific and domestic market with initial focus on the Philippines.

### More details on heated tobacco unit (HTU) & HMSP's production facility

Based on Ministry of Industry disclosure, HMSP's facility (US\$186mn investment, funded from internal cash flow) has an annual production capacity of 15.5bn sticks (HEETS), while PMI's shipment to Asia Pacific in FY22 totalled to 39.9bn sticks. As such, we believe that HMSP's facility utilization would be able to ramp-up quickly. It is also integral to PMI's strategy in becoming a majority heat-not-burn company by FY25F (>50% heat-not-burn revenue contribution). According to PMI disclosure, average PMI gross margin on HTUs is about 10% points higher than cigarettes', due to its higher net revenue per unit. With this, we view HMSP would be tapping onto PMI's high growth HTU markets – South & Southeast Asia HTU shipments grew +95.4/73.0% yoy for FY22/4Q22, while East Asia and Australia grew +3.2/27.8% yoy for FY22/4Q22 (Fig 1).

### Multi-year growth driver for HMSP; Maintain BUY with TP of Rp1,275

We are reviewing our forecast as we seek more clarity and details on the potential of HMSP's export market. Nonetheless, our early estimates indicate a potential sales contribution of c.10% within a few years (assuming full utilization of HMSP's heat-not-burn production capacity for export and without excise) with likely higher margin and would form a multi-year growth driver for HMSP. For now, we maintain our Buy call and TP of Rp1,275 unchanged, pegged to 17.0x FY23F P/E (3Y mean P/E).

Financial Summary (Rp bn)	2020A	2021A	2022F	2023F	2024F
Revenue	92,425	98,875	114,973	123,719	132,293
EBITDA	11,730	9,741	9,509	11,878	13,107
EBITDA growth	-36.4%	-17.0%	-2.4%	24.9%	10.3%
Net profit	8,581	7,137	6,958	8,730	9,645
EPS (Rp)	74	61	60	75	83
EPS growth	-37.3%	-17.6%	-1.9%	25.5%	10.5%
ROE	26.0%	24.0%	24.1%	29.6%	31.2%
PER (x)	15.0	18.2	18.6	14.8	13.4
Dividend yield	10.8%	6.6%	5.7%	5.3%	6.7%
Forecast change			0%	0%	0%
IPS vs. consensus			102%	114%	117%

Source: Company, Indo Premier

Share price closing as of: 20 February 2023

Fig. 1: PMI's heated tobacco units shipment to Asia Pacific in FY22

(bn sticks)	4Q22	4Q21	% YoY	3Q22	% QoQ	12M22	12M21	% YoY
South & Southeast Asia	0.2	0.1	73.0%	0.1	23.2%	0.5	0.2	95.4%
East Asia & Australia	12.4	9.7	27.8%	9.5	29.7%	39.4	38.2	3.2%

Source: Company, Indo Premier

Fig. 2: IQOS ILUMA types



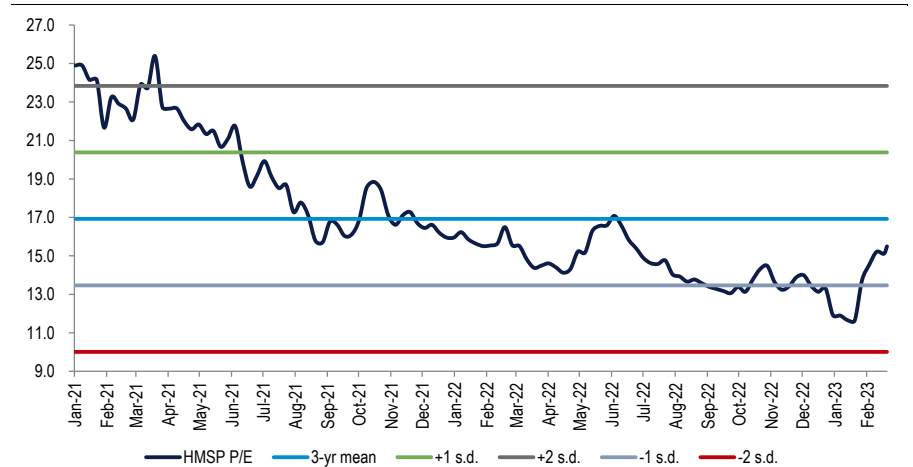
Source: Company, Indo Premier

Fig. 3: IQOS ILUMA's heated tobacco unit



Source: Company, Indo Premier

Fig. 4: HMSP is currently trading at 15.5x fwd. 12M P/E, or around 0.4 s.d. below its 3-year mean of 17.0x



Source: Company, Indo Premier

Income Statement (Rp bn)	2020A	2021	2022F	2023F	2024F
Net revenue	92,425	98,875	114,973	123,719	132,293
Cost of sales	(73,654)	(81,955)	(97,431)	(103,247)	(110,084)
<b>Gross profit</b>	<b>18,771</b>	<b>16,920</b>	<b>17,542</b>	<b>20,471</b>	<b>22,209</b>
SG&A Expenses	(8,369)	(8,336)	(9,207)	(9,849)	(10,440)
<b>Operating profit</b>	<b>10,402</b>	<b>8,583</b>	<b>8,335</b>	<b>10,622</b>	<b>11,769</b>
Net interest	716	427	423	396	410
Forex gain (loss)	0	0	0	0	0
Others	44	142	165	177	190
<b>Pre-tax income</b>	<b>11,161</b>	<b>9,152</b>	<b>8,922</b>	<b>11,195</b>	<b>12,368</b>
Income tax	(2,580)	(2,015)	(1,964)	(2,465)	(2,723)
Minority interest	0	0	0	0	0
<b>Net income</b>	<b>8,581</b>	<b>7,137</b>	<b>6,958</b>	<b>8,730</b>	<b>9,645</b>

Balance Sheet (Rp bn)	2020A	2021	2022F	2023F	2024F
Cash & equivalent	15,804	17,844	16,357	18,659	20,049
Receivable	4,102	2,897	4,069	4,378	4,682
Inventory	18,094	17,782	21,325	22,598	24,094
Other current assets	3,092	2,801	3,146	3,383	3,615
<b>Total current assets</b>	<b>41,092</b>	<b>41,323</b>	<b>44,897</b>	<b>49,019</b>	<b>52,441</b>
Fixed assets	6,583	6,039	5,865	5,609	5,271
Other non-current assets	60	60	60	60	60
<b>Total non-current assets</b>	<b>8,582</b>	<b>11,767</b>	<b>11,593</b>	<b>11,338</b>	<b>11,000</b>
<b>Total assets</b>	<b>49,674</b>	<b>53,090</b>	<b>56,490</b>	<b>60,356</b>	<b>63,441</b>
ST loans	0	0	0	0	0
Payable	5,995	5,776	6,997	7,415	7,906
Other payables	9,789	15,093	17,547	18,877	20,184
Current portion of LT loans	0	0	0	0	0
<b>Total current liab.</b>	<b>16,744</b>	<b>21,964</b>	<b>25,760</b>	<b>27,586</b>	<b>29,462</b>
Long term loans	0	0	0	0	0
Other LT liab.	2,689	1,935	2,219	2,373	2,525
<b>Total liabilities</b>	<b>19,433</b>	<b>23,899</b>	<b>27,979</b>	<b>29,959</b>	<b>31,987</b>
Equity	21,052	21,106	21,106	21,106	21,106
Retained earnings	8,574	7,469	7,406	9,291	10,348
Minority interest	0	0	0	0	0
<b>Total SHE + minority int.</b>	<b>30,241</b>	<b>29,191</b>	<b>28,512</b>	<b>30,397</b>	<b>31,454</b>
<b>Total liabilities &amp; equity</b>	<b>49,674</b>	<b>53,090</b>	<b>56,490</b>	<b>60,356</b>	<b>63,441</b>

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2020A	2021A	2022F	2023F	2024F
EBIT	10,402	8,583	8,335	10,622	11,769
Depr. & amortization	1,328	0	1,174	1,256	1,337
Changes in working capital	(27)	12	12	13	13
Others	249	1,707	(2,654)	(1,898)	(2,292)
<b>Cash flow from operating</b>	<b>11,953</b>	<b>10,302</b>	<b>6,867</b>	<b>9,993</b>	<b>10,827</b>
Capital expenditure	(567)	(412)	(1,000)	(1,000)	(1,000)
Others	(297)	747	0	0	0
<b>Cash flow from investing</b>	<b>(864)</b>	<b>334</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	(13,935)	(8,468)	(7,021)	(6,845)	(8,589)
Others	(171)	(130)	(332)	154	151
<b>Cash flow from financing</b>	<b>(14,106)</b>	<b>(8,598)</b>	<b>(7,353)</b>	<b>(6,690)</b>	<b>(8,437)</b>
<b>Changes in cash</b>	<b>(3,016)</b>	<b>2,039</b>	<b>(1,486)</b>	<b>2,302</b>	<b>1,390</b>

Key Ratios	2020A	2021A	2022F	2023F	2024F
Gross margin	20.3%	17.1%	15.3%	16.5%	16.8%
Operating margin	11.3%	8.7%	7.2%	8.6%	8.9%
Pre-tax margin	12.1%	9.3%	7.8%	9.0%	9.3%
Net margin	9.3%	7.2%	6.1%	7.1%	7.3%
ROA	17.1%	13.9%	12.7%	14.9%	15.6%
ROE	26.0%	24.0%	24.1%	29.6%	31.2%
Acct. receivables TO (days)	15.6	12.9	12.9	12.9	12.9
Inventory TO (days)	85.4	79.9	79.9	79.9	79.9
Payable TO (days)	30.2	26.2	26.2	26.2	26.2
Debt to equity	N/A	N/A	N/A	N/A	N/A
Interest coverage ratio (x)	208.1	151.8	147.4	187.9	208.2
Net gearing	-52.3%	-61.1%	-57.4%	-61.4%	-63.7%

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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