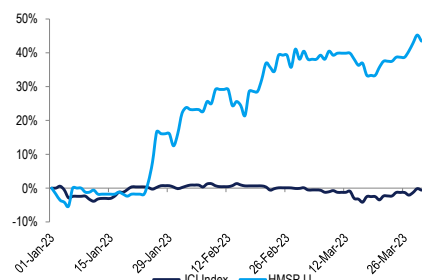


Stock Data

Target price	Rp1,275
Prior TP	Rp1,275
Current price	Rp1,205
Upside/downside	+5.8%
Shares outstanding (mn)	116,318
Market cap (Rp bn)	140,163
Free float	7%
Avg. 6m daily T/O (Rp bn)	32

Price Performance

	3M	6M	12M
Absolute	37.7%	31.0%	30.3%
vs. JCI	38.3%	34.8%	33.7%
52w low/high	795 – 1,220		



Major Shareholders

Phillip Morris Indonesia	93%
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4Q22 results: below due to unexpected opex spikes

- FY22 net profit was below our/consensus estimate of 91/93% despite largely in-line revenue and gross margin achievement.
- 4Q22 saw a huge spike in opex (+32.9% yoy/+33.8% qoq) arising from significantly higher management services and A&P expenses.
- Maintain Buy amidst brighter FY23F outlook from series of ASP increases.

FY22 net profit was below our estimate due to spike in 4Q22 opex

HMSP recorded FY22 net profit of Rp6.3tr (-11.4% yoy) and this was below at 91/93% of ours/consensus estimate. FY22 revenue grew by 12.5% yoy to Rp111.2tr and came in-line at 97/101% of ours/consensus estimate, with in-line gross profit margin achievement of 15.4% (vs our expectation of 15.3%). Operationally, sales volume grew by +4.8% yoy to 86.8bn sticks while blended ASP rose 7.4% yoy in FY22. The miss in earnings came mainly from an unexpected spike in operating expenses particularly in 4Q22.

Weak 4Q22 earnings from higher management services and A&P

4Q22 net profit declined to Rp1.4tr (-10.2% yoy/-23.3% qoq) as higher GPM of 16.7% (vs. 15.9/15.1% in 4Q21/3Q22) wasn't enough to offset higher opex to sales of 10.8% (vs. 8.6/7.5% in 4Q21/3Q22). Operating expenses in 4Q22 came at Rp3.0tr (+32.9% yoy/ +33.8% qoq) as management services of Rp710bn rose +66.1% yoy/106.0% qoq and A&P of Rp698bn rose +141.6% yoy/23.4% qoq. We suspect that these expenses may be related to the completion of IQOS factory in 4Q22 and marketing of latest IQOS Iluma product domestically.

FY23F margin expansion thesis still intact from ASP adjustment trend

One key observation is the inflection in GPM from 2Q22's low of 13.6% recovering to 15.1/16.7% in 3Q22/4Q22 (Fig 3). We believe the recent set of price increases done for HMSP's SKM segment in 1Q23 of 6.0% (link to [note](#)) would pave the way for further improvement in FY23F as we expect HMSP's gross profit margin to improve further to 16.5% (+110bps yoy).

Maintain Buy on the back of brighter FY23F outlook

We remain positive on the potential prospects of the new IQOS factory and earnings from series of price increases, hence our unchanged Buy rating. We are currently reviewing our forecast for HMSP as we seek clarity behind the nature of the 4Q22 opex spike and reassess our cost-benefit analysis for the new IQOS plant.

Financial Summary (Rp bn)	2021A	2022A	2023F	2024F	2025F
Revenue	98,875	111,211	123,719	132,293	140,794
EBITDA	9,741	8,860	11,878	13,107	14,073
EBITDA growth	-17.0%	-9.0%	34.1%	10.3%	7.4%
Net profit	7,137	6,324	8,730	9,645	9,981
EPS (Rp)	61	54	75	83	86
EPS growth	-17.6%	-10.9%	38.0%	10.5%	3.5%
ROE	24.0%	22.0%	29.6%	31.2%	31.5%
PER (x)	19.8	22.2	16.1	14.5	14.0
Dividend yield	6.0%	5.3%	4.9%	6.1%	6.8%
Forecast change			0%	0%	0%
IPS vs. consensus			109%	109%	75%

Source: Company, Indo Premier

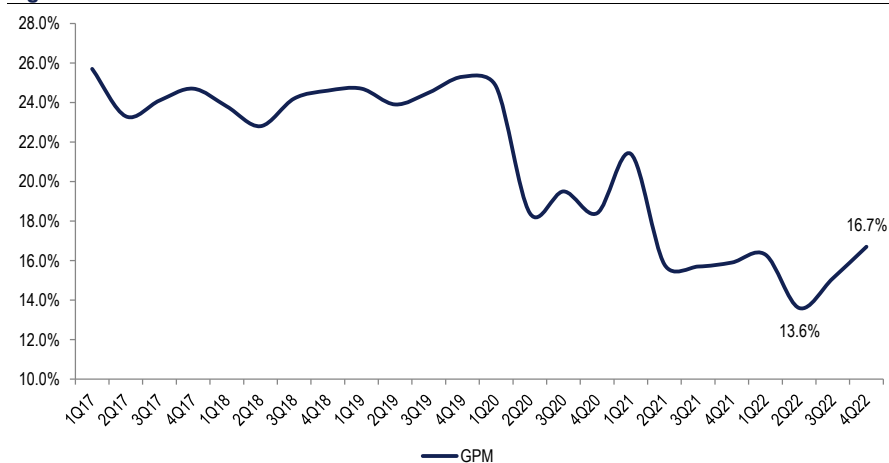
Share price closing as of: 30 March 2023

Fig. 1: HMSP FY22 result summary

(Rp bn)	4Q22	4Q21	% YoY	3Q22	%QoQ	12M22	12M21	% YoY	Prev. FY22F	Comment
Net sales	27,813	26,356	5.5%	29,893	-7.0%	111,211	98,875	12.5%	114,973	In line at 97/101% of ours/consensus estimate
COGS	23,161	22,171		25,368		94,053	81,955			
Gross profit	4,652	4,185	11.2%	4,524	2.8%	17,158	16,920	1.4%		
Opex	2,998	2,256		2,241		9,405	8,336	12.8%		
EBIT	1,654	1,929	-14.2%	2,284	-27.6%	7,753	8,583	-9.7%	8,335	Below at 93/92% ours/consensus estimate
Other income (charges)	19	13		62		102	134			
PBT	1,873	2,044	-8.3%	2,412	-22.3%	8,273	9,152	-9.6%		
Tax benefit (expense)	(452)	(461)		(558)		(1,949)	(2,015)			
Net profit	1,422	1,583	-10.2%	1,854	-23.3%	6,324	7,137	-11.4%	6,958	Below at 91/93% ours/consensus estimate
Margins										
Gross margin	16.7%	15.9%		15.1%		15.4%	17.1%			
EBIT margin	5.9%	7.3%		7.6%		7.0%	8.7%			
Net margin	5.1%	6.0%		6.2%		5.7%	7.2%			
Operational										
Total Sales volume (bn sticks)	21.2	22.0	-3.8%	23.3	-9.0%	86.8	82.8	4.8%		
Blended ASP (Rp/stick)	1,312	1,196	9.7%	1,283	2.3%	1,281	1,193	7.4%		
Revenue breakdown										
SKM	17,503	17,086	2.4%	19,399	-9.8%	72,572	65,244	11.2%		
SKT	7,542	6,427	17.4%	7,453	1.2%	27,200	22,880	18.9%		
SPM	2,260	2,411	-6.3%	2,412	-6.3%	9,281	9,424	-1.5%		
Others	509	432	17.9%	629	-19.1%	2,158	1,327	62.6%		
Revenue contribution by segment										
SKM	62.9%	64.8%		64.9%		65.3%	66.0%			
SKT	27.1%	24.4%		24.9%		24.5%	23.1%			
SPM	8.1%	9.1%		8.1%		8.3%	9.5%			
Others	1.8%	1.6%		2.1%		1.9%	1.3%			

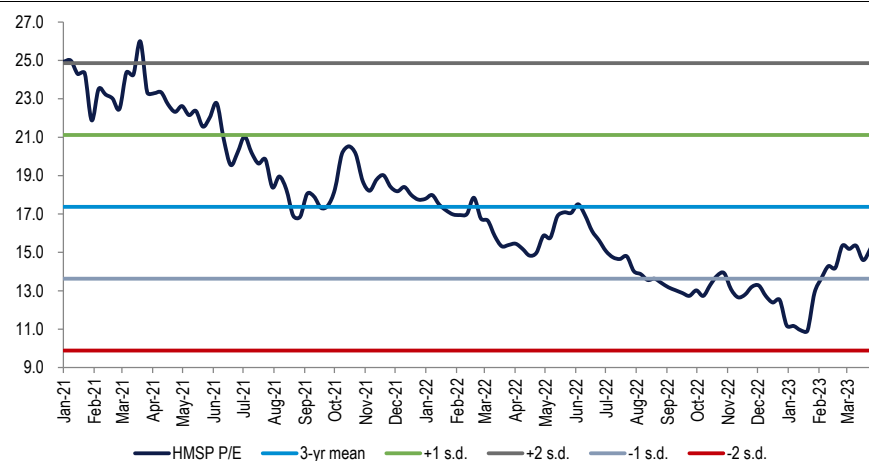
Source: Company, Indo Premier

Fig. 2: HMSP GPM trend



Source: Company, Indo Premier

Fig. 3: HMSP is currently trading at 15.8x fwd. 12M P/E, or around 0.4 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	123,719	132,293	140,794
Cost of sales	(81,955)	(94,053)	(103,247)	(110,084)	(117,112)
Gross profit	16,920	17,158	20,471	22,209	23,682
SG&A Expenses	(8,336)	(9,405)	(9,849)	(10,440)	(11,027)
Operating profit	8,583	7,753	10,622	11,769	12,654
Net interest	427	414	396	410	(57)
Forex gain (loss)	0	0	0	0	0
Others	142	106	177	190	202
Pre-tax income	9,152	8,273	11,195	12,368	12,800
Income tax	(2,015)	(1,949)	(2,465)	(2,723)	(2,818)
Minority interest	0	0	0	0	0
Net income	7,137	6,324	8,730	9,645	9,981

Balance Sheet (Rp bn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	17,844	3,283	18,659	20,049	20,921
Receivable	2,897	3,394	4,378	4,682	4,983
Inventory	17,782	18,375	22,598	24,094	25,633
Other current assets	2,801	16,311	3,383	3,615	3,845
Total current assets	41,323	41,363	49,019	52,441	55,382
Fixed assets	6,039	6,697	5,609	5,271	4,852
Other non-current assets	60	60	60	60	60
Total non-current assets	11,767	13,424	11,338	11,000	10,581
Total assets	53,090	54,787	60,356	63,441	65,963
ST loans	0	0	0	0	0
Payable	5,776	8,547	7,415	7,906	8,411
Other payables	15,093	14,619	18,877	20,184	21,481
Current portion of LT loans	0	0	0	0	0
Total current liab.	21,964	24,546	27,586	29,462	31,342
Long term loans	0	0	0	0	0
Other LT liab.	1,935	2,071	2,373	2,525	2,675
Total liabilities	23,899	26,617	29,959	31,987	34,017
Equity	21,106	21,088	21,106	21,106	21,106
Retained earnings	7,469	6,465	9,291	10,348	10,840
Minority interest	0	0	0	0	0
Total SHE + minority int.	29,191	28,170	30,397	31,454	31,946
Total liabilities & equity	53,090	54,787	60,356	63,441	65,963

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
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EBIT	8,583	7,753	10,622	11,769	12,654
Depr. & amortization	0	0	1,256	1,337	1,419
Changes in working capital	12	12	13	13	13
Others	1,707	(1,828)	(1,898)	(2,292)	(2,876)
Cash flow from operating	10,302	5,937	9,993	10,827	11,211
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)	(6,845)	(8,589)	(9,489)
Others	(130)	(236)	154	151	150
Cash flow from financing	(8,598)	(7,599)	(6,690)	(8,437)	(9,339)
Changes in cash	2,039	(11,568)	2,302	1,390	872

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	17.1%	15.4%	16.5%	16.8%	16.8%
Operating margin	8.7%	7.0%	8.6%	8.9%	9.0%
Pre-tax margin	9.3%	7.4%	9.0%	9.3%	9.1%
Net margin	7.2%	5.7%	7.1%	7.3%	7.1%
ROA	13.9%	11.7%	14.9%	15.6%	15.4%
ROE	24.0%	22.0%	29.6%	31.2%	31.5%
Acct. receivables TO (days)	12.9	10.3	12.9	12.9	12.9
Inventory TO (days)	79.9	70.2	79.9	79.9	79.9
Payable TO (days)	26.2	27.8	26.2	26.2	26.2
Debt to equity	N/A	N/A	N/A	N/A	N/A
Interest coverage ratio (x)	151.8	154.9	187.9	208.2	223.9
Net gearing	-61.1%	-11.7%	-61.4%	-63.7%	-65.5%

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

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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