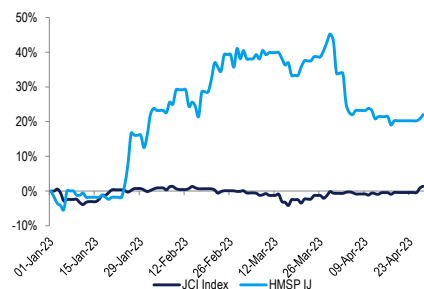


Stock Data

Target price	Rp1,240
Prior TP	Rp1,275
Current price	Rp1,025
Upside/downside	+20.9%
Shares outstanding (mn)	116,318
Market cap (Rp bn)	119,226
Free float	7%
Avg. 6m daily T/O (Rp bn)	32

Price Performance

	3M	6M	12M
Absolute	13.3%	2.0%	5.7%
vs. JCI	11.6%	3.4%	9.2%
52w low/high	795 – 1,220		



Major Shareholders

Phillip Morris Indonesia	93%
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In-line 1Q23 results with GPM recovery despite volume contraction

- HMSP's 1Q23 net profit of Rp2.2tr (+12.8% yoy/+51.9% qoq) was in-line at 25/26% of ours/consensus' FY23F estimate
- 1Q23 sales of Rp27.0tr (+3.1% yoy) was in-line despite drop in volume at -5.7% yoy. This was offset by 9.4% yoy ASP hike
- Maintain Buy with slightly lower TP of Rp1,240 as we fine-tune our FY23/24F net profit forecast by -2.7/-1.7% from previously

1Q23 net profit was in-line with our/consensus estimates

HMSP posted 1Q23 net profit of Rp2.2tr (+12.8% yoy/+51.9% qoq) and this was in-line at 25/26% of our/cons' FY23F estimates. Revenue stood at Rp27.0tr (+3.1% yoy/-3.0% qoq) as the blended sales volume declined -5.7% yoy/-7.1% qoq, while blended ASP increased by +9.4% yoy/+4.3% qoq and this was also relatively in-line at 22/23% of our/cons' FY23F estimate. GPM improved to 18% (+172bps yoy/+128bps qoq), above our FY23F forecast of 16.5%. Opex to sales stood at 8.4% (vs. 7.2/10.8% in 1Q22/4Q22) as management services to sales normalized to 1.7% (+51bps yoy/-86bps qoq).

Update on heated tobacco product factory development

HMSP recorded advance to suppliers for acquisition of fixed asset amounting to Rp1.4tr (vs Dec22's Rp1.3tr) in relation to purchase of fixed asset mainly for the construction of the heated tobacco product factory in Karawang. As of 31Mar23, the average percentage of completion of assets under construction was approximately 38% (compared to Dec22's 27%) and assets under construction are expected to be completed in 2023 and 2024.

Slight earnings downgrade to reflect volume decline and higher opex

We made several adjustments in our FY23/24F forecast. First, we adjust down our FY23/24F volume assumption to -4.2/-0.7% yoy from -1.5/-1.6% yoy previously following 1Q23's HMSP volume decline of -5.7% yoy. Nonetheless, FY23/24F GPM is adjusted up by +98/+116bps from previously reflecting better than expected ASP adjustment along with higher contribution coming from SKT segment. At the opex level, we adjust FY23/24F total opex to sales ratio from previously 8.0/7.9% to 8.4% to account mainly for higher management service expense. In sum, we adjust FY23/24F sales forecast to Rp115.5/124.9tr (-6.6/-5.6% from previously) and net profit forecast to Rp8.5/9.5tr (-2.7/-1.7% from previously).

Maintain Buy

We maintain our BUY rating for HMSP with a slightly lower TP of Rp1,240 vs. previous at Rp1,275 based on 17.0x FY23F PE (its 3y avg). The margin thesis in 2023 remains very much intact as we observe continuous pricing adjustments YTD (details in Fig 3). We view the share price decline of -13.1% mom has more than reflected the negative opex surprise following 4Q result.

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	11,818	13,171	14,249
Net profit	7,137	6,324	8,491	9,484	9,899
EPS (Rp)	61	54	73	82	85
EPS growth	-17.6%	-10.9%	34.3%	11.7%	4.4%
ROE	24.0%	22.0%	29.3%	31.4%	32.0%
PER (x)	16.8	18.9	14.0	12.6	12.0
Dividend yield	7.1%	6.2%	5.3%	7.1%	8.0%
Forecast change			-3%	-2%	-1%
IPS vs. consensus			103%	107%	87%

Source: Company, Indo Premier

Share price closing as of: 27 April 2023

Fig. 1: HMSP 1Q23 result summary

(Rp bn)	1Q23	1Q22	% YoY	4Q22	%QoQ	3M23	3M22	% YoY	Prev. FY23F	Comment
Net sales	26,966	26,161	3.1%	27,813	-3.0%	26,966	26,161	3.1%	123,719	In line at 22/23% of ours/consensus estimate (vs. 5Y average, exclude covid period of 23%)
COGS	(22,110)	(21,901)		(23,161)		(22,110)	(21,901)			
Gross profit	4,856	4,260	14.0%	4,652	4.4%	4,856	4,260	14.0%		
Opex	(2,261)	(1,892)		(2,998)		(2,261)	(1,892)	19.5%		
EBIT	2,595	2,368	9.6%	1,654	56.9%	2,595	2,368	9.6%	10,622	In line at 24/26% of ours/consensus estimate (vs. 5Y average, exclude covid period of 25%)
Other income (charges)	53	32		19		53	32			
PBT	2,786	2,484	12.2%	1,873	48.7%	2,786	2,484	12.2%		
Tax benefit (expense)	(626)	(569)		(452)		(626)	(569)			
Net profit	2,160	1,915	12.8%	1,422	51.9%	2,160	1,915	12.8%	8,730	In line at 25/26% of ours/consensus estimate (vs. 5Y average, exclude covid period of 26%)
Margins										
Gross margin	18.0%	16.3%		16.7%		18.0%	16.3%			
EBIT margin	9.6%	9.1%		5.9%		9.6%	9.1%			
Net margin	8.0%	7.3%		5.1%		8.0%	7.3%			
Operational										
Total Sales volume (bn sticks)	19.7	20.9	-5.7%	21.2	-7.1%	19.7	20.9	-5.7%		
Blended ASP (Rp/stick)	1,369	1,252	9.4%	1,312	4.3%	1,369	1,252	9.4%		
Revenue breakdown										
SKM	17,007	17,344	-1.9%	17,503	-2.8%	17,007	17,344	-1.9%		
SKT	7,277	6,083	19.6%	7,542	-3.5%	7,277	6,083	19.6%		
SPM	2,013	2,296	-12.3%	2,260	-10.9%	2,013	2,296	-12.3%		
Others	668	438	52.4%	509	31.3%	668	438	52.4%		
Revenue contribution by segment										
SKM	63.1%	66.3%		62.9%		63.1%	66.3%			
SKT	27.0%	23.3%		27.1%		27.0%	23.3%			
SPM	7.5%	8.8%		8.1%		7.5%	8.8%			
Others	2.5%	1.7%		1.8%		2.5%	1.7%			
Export	127.3	53.4	138.3%	62.9	102.4%	127.3	53.4	138.3%		

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	9.9%	9.3%	9.6%	10.0%	9.4%	8.9%	0.1%	0.1%	-0.7%
Blended volume grow th	-1.5%	-1.6%	-2.2%	-4.2%	-0.7%	-0.6%	-2.7%	0.9%	1.6%
Financial Perform. (Rp bn)									
Net sales	123,719	132,293	140,794	115,536	124,939	134,373	-6.6%	-5.6%	-4.6%
Gross profit	20,471	22,209	23,682	20,253	22,425	24,100	-1.1%	1.0%	1.8%
EBIT	10,622	11,769	12,654	10,596	11,872	12,873	-0.2%	0.9%	1.7%
Net profit	8,730	9,645	9,981	8,491	9,484	9,899	-2.7%	-1.7%	-0.8%
EPS (Rp)	75	83	86	73	82	85	-2.7%	-1.7%	-0.8%
Profitability (%)									
Gross margin	16.5%	16.8%	16.8%	17.5%	17.9%	17.9%	1.0%	1.2%	1.1%
EBIT margin	8.6%	8.9%	9.0%	9.2%	9.5%	9.6%	0.6%	0.6%	0.6%
Net profit margin	7.1%	7.3%	7.1%	7.3%	7.6%	7.4%	0.3%	0.3%	0.3%
Opex to sales	-8.0%	-7.9%	-7.8%	-8.4%	-8.4%	-8.4%	-0.4%	-0.6%	-0.5%
Revenue contribution									
SKT	23.1%	22.8%	22.4%	26.0%	26.0%	26.1%	2.9%	3.2%	3.7%
SKM	66.5%	66.5%	66.4%	64.4%	64.2%	63.6%	-2.1%	-2.4%	-2.8%
SPM	9.7%	10.1%	10.6%	8.1%	8.2%	8.5%	-1.6%	-1.9%	-2.1%
Others	0.7%	0.6%	0.6%	1.5%	1.7%	1.8%	0.8%	1.0%	1.2%

Source: Company, Indo Premier

Fig. 3: Indo's tobacco price adjustment at MT

Type	30-Sep-22	31-Dec-22	31-Jan-23	28-Feb-23	31-Mar-23	26-Apr-23	% mom price chg					Total changes	YTD
							31-Dec-22	31-Jan-23	28-Feb-23	31-Mar-23	26-Apr-23	from 30Sep22	
H.M. Sampoerna													
A Mild 16	28,500	29,750	32,150	32,000	32,000	32,200	4.4%	8.1%	-0.5%	0.0%	0.6%	12.3%	7.6%
A Mild 12	22,250	23,750	24,300	24,600	24,600	24,800	6.7%	2.3%	1.2%	0.0%	0.8%	10.6%	3.6%
DSS Magnum Mild 16	26,900	27,750	30,450	30,500	30,500	30,650	3.2%	9.7%	0.2%	0.0%	0.5%	13.4%	9.9%
Magnum Filter 12	19,600	21,950	22,600	22,600	22,600	24,050	12.0%	3.0%	0.0%	0.0%	6.4%	15.3%	3.0%
Marlboro Filter Black 12	19,950	21,100	21,550	21,550	21,550	22,800	5.8%	2.1%	0.0%	0.0%	5.8%	8.0%	2.1%
Marlboro Filter Black 16	26,750	27,400	27,850	27,850	27,850	29,200	2.4%	1.6%	0.0%	0.0%	4.8%	4.1%	1.6%
SKM's simple average							5.7%	4.5%	0.2%	0.0%	3.2%	10.6%	4.6%
Dji Sam Soe Kretek 12	19,550	19,600	19,550	19,550	19,550	19,700	0.3%	-0.3%	0.0%	0.0%	0.8%	0.0%	-0.3%
Kretek Hijau 12	14,400	15,150	15,450	15,450	15,450	15,800	5.2%	2.0%	0.0%	0.0%	2.3%	7.3%	2.0%
SKT's simple average							2.7%	0.9%	0.0%	0.0%	1.5%	3.6%	0.9%
Marlboro Red 20	37,750	38,850	39,900	40,050	40,050	41,245	2.9%	2.7%	0.4%	0.0%	3.0%	6.1%	3.1%
Marlboro Ice Burst 20	37,750	38,850	39,900	40,050	40,050	41,245	2.9%	2.7%	0.4%	0.0%	3.0%	6.1%	3.1%
Marlboro Light 20	37,750	38,850	39,900	40,050	40,050	41,245	2.9%	2.7%	0.4%	0.0%	3.0%	6.1%	3.1%
SPM's simple average							2.9%	2.7%	0.4%	0.0%	3.0%	6.1%	3.1%
Gudang Garam													
Surya 16	28,400	30,600	31,950	31,950	33,850	34,000	7.7%	4.4%	0.0%	5.9%	0.4%	19.2%	10.6%
Surya PRO 16	26,700	28,700	30,350	30,350	30,850	31,750	7.5%	5.7%	0.0%	1.6%	2.9%	15.5%	7.5%
Surya PRO Mild 16	26,400	28,600	30,350	30,350	30,850	31,650	8.3%	6.1%	0.0%	1.6%	2.6%	16.9%	7.9%
GG International Merah 12	22,500	23,600	24,400	24,400	25,100	25,300	4.9%	3.4%	0.0%	2.9%	0.8%	11.6%	6.4%
GG Mild Shiver 16	27,500	29,050	31,200	31,200	32,800	32,800	5.6%	7.4%	0.0%	5.1%	0.0%	19.3%	12.9%
GG Signature Mild (blue) 16	26,400	28,800	31,200	31,200	32,800	32,800	9.1%	8.3%	0.0%	5.1%	0.0%	24.2%	13.9%
GG Kretek Move 12	19,200	21,600	22,750	22,750	23,700	23,700	12.5%	5.3%	0.0%	4.2%	0.0%	23.4%	9.7%
Simple average							8.0%	5.8%	0.0%	3.8%	1.0%	18.6%	9.8%
Djarum													
Djarum Super 16	28,600	30,900	32,100	32,500	34,250	34,550	8.0%	3.9%	1.2%	5.4%	0.9%	19.8%	10.8%
Djarum Super Mild Black 16	28,500	30,000	31,600	31,600	32,850	32,850	5.3%	5.3%	0.0%	4.0%	0.0%	15.3%	9.5%
Djarum Coklat Filter 12	21,250	21,700	22,000	22,600	25,250	23,500	2.1%	1.4%	2.7%	11.7%	-6.9%	18.8%	16.4%
LA Bold 16	27,500	27,500	28,500	30,000	30,000	30,000	0.0%	3.6%	5.3%	0.0%	0.0%	9.1%	9.1%
SKM's Simple average							3.9%	3.6%	2.3%	5.3%	-1.5%	15.7%	11.4%
Djarum Kretek Coklat 12	14,900	15,200	15,300	15,300	15,300	15,300	2.0%	0.7%	0.0%	0.0%	0.0%	2.7%	0.7%
SKT's Simple average							3.5%	3.1%	1.9%	4.4%	-1.3%	13.6%	9.6%
Other brands													
Lucky Strike Filters 20	29,850	29,900	29,850	29,850	29,850	30,050	0.2%	-0.2%	0.0%	0.0%	0.7%	0.0%	-0.2%
Dunhill Fine Cut Filter 16	26,200	26,500	26,350	26,300	26,350	26,550	1.1%	-0.6%	-0.2%	0.2%	0.8%	0.6%	-0.6%
Clas Mild 16	23,950	26,750	26,950	27,000	27,000	27,200	11.7%	0.7%	0.2%	0.0%	0.7%	12.7%	0.9%
Clas Mild Silver 16	22,700	23,900	24,600	24,600	24,600	24,600	5.3%	2.9%	0.0%	0.0%	0.0%	8.4%	2.9%
Simple average							4.6%	0.7%	0.0%	0.0%	0.5%	5.4%	0.8%

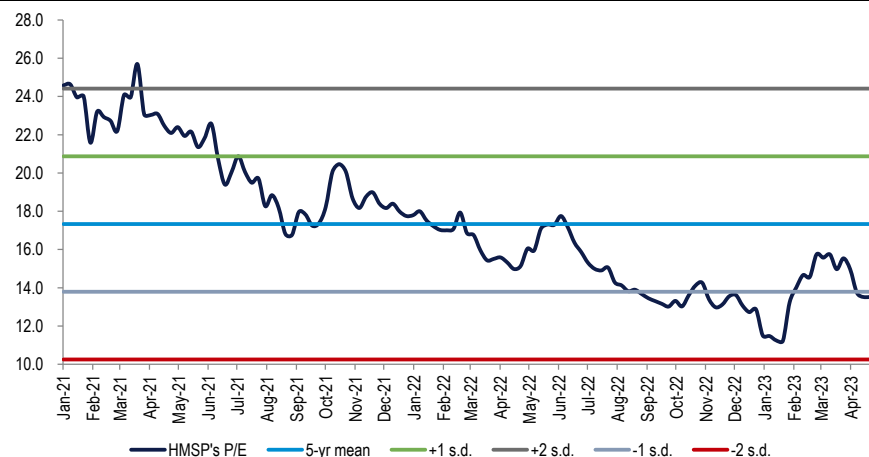
Source: Alfagift, Klikindomaret, Indo Premier

Fig. 4: Indo's tobacco share price performance

	Last price (Rp)	Price changes				
		1M	3M	6M	YTD	12M
GGRM	24,000	-2.5%	9.6%	-5.8%	33.3%	-23.5%
HMSP	1,025	-13.1%	5.1%	-2.8%	22.0%	5.7%
Simple average		-7.8%	7.4%	-4.3%	27.7%	-8.9%

Source: Bloomberg, Indo Premier

Fig. 5: 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)	(95,283)	(102,515)	(110,273)
Gross profit	16,920	17,158	20,253	22,425	24,100
SG&A Expenses	(8,336)	(9,405)	(9,656)	(10,553)	(11,227)
Operating profit	8,583	7,753	10,596	11,872	12,873
Net interest	427	414	402	416	(50)
Forex gain (loss)	0	0	0	0	0
Others	142	106	110	119	128
Pre-tax income	9,152	8,273	11,109	12,407	12,951
Income tax	(2,015)	(1,949)	(2,617)	(2,923)	(3,051)
Minority interest	0	0	0	0	0
Net income	7,137	6,324	8,491	9,484	9,899

Balance Sheet (Rp bn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	17,844	3,283	4,500	5,851	6,647
Receivable	2,897	3,394	3,268	3,533	3,800
Inventory	17,782	18,375	18,315	19,705	21,196
Other current assets	2,801	16,311	16,284	16,590	16,897
Total current assets	41,323	41,363	42,367	45,680	48,541
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	55,569	58,582	61,067
ST loans	0	0	0	0	0
Payable	5,776	8,547	7,255	7,806	8,397
Other payables	15,093	14,619	15,188	16,422	17,662
Current portion of LT loans	0	0	0	0	0
Total current liab.	21,964	24,546	23,709	25,584	27,506
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	25,848	27,869	29,938
Equity	21,106	21,088	21,088	21,088	21,088
Retained earnings	7,469	6,465	8,633	9,625	10,041
Minority interest	0	0	0	0	0
Total SHE + minority int.	29,191	28,170	29,722	30,714	31,129
Total liabilities & equity	53,090	54,787	55,569	58,582	61,067

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
EBIT	8,583	7,753	10,596	11,872	12,873
Depr. & amortization	0	0	1,222	1,299	1,376
Changes in working capital	12	12	13	13	13
Others	1,707	(1,828)	(2,741)	(2,488)	(3,130)
Cash flow from operating	10,302	5,937	9,090	10,696	11,133
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)	(8,491)	(9,484)
Others	(130)	(236)	(549)	146	147
Cash flow from financing	(8,598)	(7,599)	(6,873)	(8,345)	(9,337)
Changes in cash	2,039	(11,568)	1,217	1,351	796

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	17.1%	15.4%	17.5%	17.9%	17.9%
Operating margin	8.7%	7.0%	9.2%	9.5%	9.6%
Pre-tax margin	9.3%	7.4%	9.6%	9.9%	9.6%
Net margin	7.2%	5.7%	7.3%	7.6%	7.4%
ROA	13.9%	11.7%	15.4%	16.6%	16.5%
ROE	24.0%	22.0%	29.3%	31.4%	32.0%
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	211.7	237.2	257.2
Net gearing	-61.1%	-11.7%	-15.1%	-19.1%	-21.4%

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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