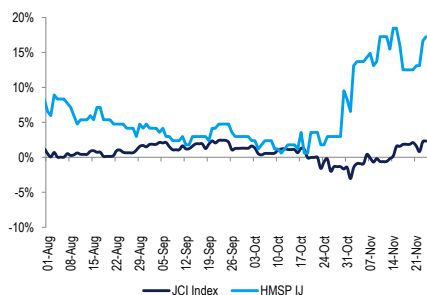


Stock Data

Target price	Rp1,220
Prior TP	Rp1,220
Current price	Rp985
Upside/downside	+23.9%
Shares outstanding (mn)	116,318
Market cap (Rp bn)	114,573
Free float	7%
Avg. 6m daily T/O (Rp bn)	22

Price Performance

	3M	6M	12M
Absolute	11.9%	-1.0%	4.8%
vs. JCI	10.3%	-5.6%	5.8%
52w low/high	795 – 1,220		



Major Shareholders

Phillip Morris Indonesia	93%
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Upcoming IQOS 'Kretek' might be a game changer

- Terea (the latest model of heated tobacco unit for IQOS Iluma) would soon come with clove flavor (Kretek) starting 30th Nov23.
- Lower selling price of Terea (-29 to -33% vs. Tier1 SKM), along with a localized flavor may be the key to convert 'kretek' smokers to Terea.
- Reiterate Buy with unchanged TP of Rp1,220 as HMSP is our preferred pick in the tobacco space on its SKT resilience and IQOS growth story.

Terea with clove flavour is curated for Indonesian smokers

The sensation of heated tobacco has so far been identic to white cigarette's. Given that white cigarette smokers represent only 4.1% of Indonesian market share as of FY21, the adoption of IQOS in Indonesia has therefore been slower compared to Philippines based on PMI heated tobacco unit shipment data in 9M23 – despite similar demographics and Indonesia's higher GDP/capita over Philippines. The Terea launch in Indonesia with clove flavour in 30th Nov23 may potentially be a game changer for the Indonesian tobacco industry to convert 'kretek' (with clove) smokers to IQOS 'kretek'.

Lower excise and selling price/stick of HNB may incentivize conversion

We note that Terea's selling price/stick is 29-33% lower compared to SKM Tier 1's flagship products (Fig 2) due to Terea's lower excise/stick of -17% in FY23 compared SKM tier 1's excise. The excise gap would further widen to 21% in FY24F as HNB's excise hike is considerably lower at 6.5% in both FY23/24F, compared to SKM tier-1's 11.5%. Separately, we note that the IQOS Iluma heating device is priced starting c.Rp450k (more affordable compared to the previous generation of IQOS). These factors may further incentivize the conversion of 'kretek' smokers to IQOS 'kretek'.

PMI roadmap for HNB conversion in Indonesia

Based on recent PMI disclosure, Indonesia represents a vast green field market for 'heat-not-burn' (HNB) products and PMI aims for c.10% target conversion share to HNB of the cigarette industry volume implying c.30bn units annually in the long-term. Recall HMSP's HNB production facility that is under construction has an annual production capacity of 15.5bn based on Ministry of Trade's disclosure. We view that this facility would be fully operational in FY24F and shall cater for both domestic and export market. For now, we are still assessing the potential financial impact.

HMSP is our preferred pick for 4Q23/FY24F from SKT resilience

We reiterate our BUY call for HMSP with unchanged TP of Rp1,220, based on 12-month fwd P/E of 17.0x (3yr mean). SKT's growing revenue contribution (9M23 at 29.4%) would help to provide volume resilience amidst the current 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)	16.1	18.0	14.4	13.0	12.4
Dividend yield	7.4%	6.5%	5.5%	7.0%	7.7%
IPS vs. consensus			98%	97%	90%

Source: Company, Indo Premier

Share price closing as of: 24 November 2023

Fig. 1: Terea with clove flavour is coming to Jakarta on 30Nov2023



Source: Company website, Indo Premier

Fig. 2: Cigarettes excise tax

(In Rp/stick)	2022	2023	2024
Terea product*	854	909	968
yoy growth		6.5%	6.5%
SKM Tier-1	985	1,098	1,224
yoy growth		11.5%	11.5%

Source: Minister of Finance, Indo Premier

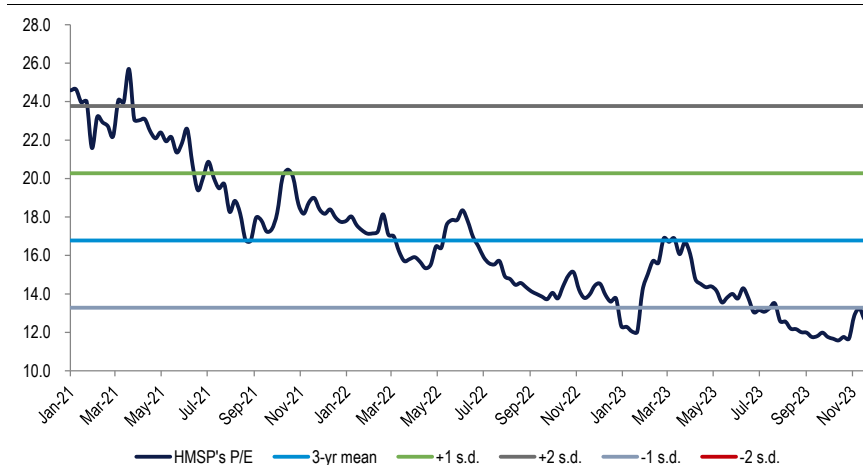
*Rokok Elektrik Padat (6.3gram in 20sticks pack)

Fig. 3: Terea product is 29-33% discount to SKM-tier 1 product

	Rp/pack	Rp/stick	Price discount with Terea
A Mild (16)	32,500	2,031	-29%
GG Surya (16)	33,700	2,106	-31%
Djarum Super (16)	34,400	2,150	-33%
Terea (20)	29,000	1,450	0%

Source: Alfagift, Indomaret klik, Indo Premier

Fig. 4: HMSP is currently trading at 13.2x fwd. 12M P/E, or around 1.1 s.d. below its 3-year mean



Source: Bloomberg, 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

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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