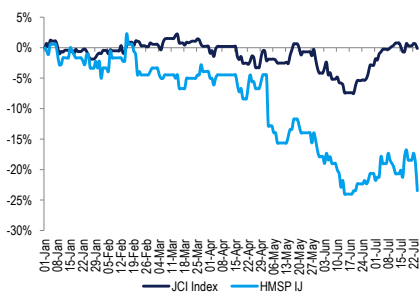


Stock Data

Target price	Rp680
Prior TP	Rp1,150
Current price	Rp685
Upside/downside	+0%
Shares outstanding (mn)	116,318
Market cap (Rp bn)	79,678
Free float	8%
Avg. 6m daily T/O (Rp bn)	19

Price Performance

	3M	6M	12M
Absolute	-19.9%	-21.3%	-29.4%
vs. JCI	-22.0%	-21.4%	-34.4%
52w low/high	680 – 995		



Major Shareholders

Phillip Morris Indonesia	93%
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2Q24 results: miss from lower volume and benign ASP

- HMSP booked 1H24 net profit of Rp3.3tr (-11% yoy), coming way below ours/consensus estimate at 40/39% vs. 5yr avg of 52%.
- 2Q24 volume saw -6.7% yoy decline amidst flattish industry volume growth, a reflection of sustained downtrading trend.
- We cut our FY24/25F earnings forecast by -21/-20% on lower volume and ASP hike assumption. Downgrade to HOLD with TP of Rp680.

1H24 profits came significantly below estimates

HMSP booked 1H24 net profit of Rp3.3tr (-11.6% yoy), coming way below ours/consensus estimates at 40/39% vs. 5yr avg. of 52%. Revenue grew 3% yoy to reach Rp57.8tr and this came in-line with estimates. 1H24 GPM declined to 15.0% (-143 bps yoy) and below FY24F consensus estimate of 16.7%. Consequently, EBIT declined by 15.9% yoy despite a stable opex/sales ratio of 8.6%.

2Q24 saw deeper volume decline for HMSP than industry's

Based on PMI disclosure, HMSP's volume declined by -6.7% yoy, worse than industry's flattish growth of -0.4% yoy, which indicated sustained downtrading trend to lower tiered cigarette or cheaper tobacco alternatives. This has led to HMSP's negative revenue growth in 2Q24 of -1.6% yoy. On the brighter side, heated tobacco units (HTU) was reported to grow significantly by +89.1% yoy reaching 0.3mn units (compared to 2Q23's 0.1mn units). Nonetheless, HTU contribution (included within 'others' segment) is still immaterial to HMSP's consolidated revenue at <4% as of 2Q24.

2Q24 GPM decline was an indication of the challenge to pass on excise hike

GPM declined to 13.7% in 2Q24 (vs. 15.0% yoy) reflecting the challenges to pass on excise hike. Based on our channel checks, 1H24 YTD ASP price trend for HMSP are generally more benign at 7.0% for SKM compared to the same period last year of 9.2% (SKM). Opex/sales ratio rose to 9.7% in 2Q24, vs. 2Q23's 8.8% primarily due to higher management services which rose 20.3% yoy reaching 2.0% of sales. As such, negative operating leverage caused 2Q24 net profit to decline by -32.7% yoy to Rp1.1tr.

Downgrade to HOLD with lower TP of Rp680

In light of the above, we cut FY24/25F forecasts by -21/-20% on weaker volume and more benign ASP adjustment assumptions (Fig. 2). Consequently, we downgrade our call to HOLD with lower TP of Rp680 based on 12.0x FY24F PE (-1.5 s.d. from its 3yr avg). Although HMSP remains our preferred name within tobacco sector, we do not expect a near term major catalyst for the sector.

Financial Summary (Rp bn)	2022A	2023A	2024F	2025F	2026F
Revenue	111,211	115,983	116,490	123,494	129,899
EBITDA	8,860	10,074	8,773	9,339	9,779
Net profit	6,324	8,097	6,601	7,003	7,304
EPS (Rp)	54	70	57	60	63
EPS growth	-10.9%	28.0%	-18.5%	6.1%	4.3%
ROE	22.0%	27.9%	22.9%	25.1%	25.9%
PER (x)	12.6	9.8	12.1	11.4	10.9
Dividend yield	9.2%	8.0%	10.2%	8.3%	8.8%
Forecast change			-21%	-19%	-22%
IPS vs. consensus			77%	74%	71%

Source: Company, Indo Premier

Share price closing as of: 24 July 2024

Fig. 1: HMSP 2Q24 result summary

(Rp bn)	2Q24	2Q23	% YoY	1Q24	%QoQ	1H24	1H23	% YoY	IPS. FY24F	% IPS	Cons. FY24F	% Cons	5yr avg
Net sales	28,710	29,189	-1.6%	29,107	-1.4%	57,817	56,155	3.0%	120,694	48%	123,815	47%	48%
COGS	(24,777)	(24,803)		(24,352)		(49,128)	(46,913)	4.7%					
Gross profit	3,933	4,386	-10.3%	4,756	-17.3%	8,689	9,241	-6.0%					
Opex	(2,794)	(2,572)		(2,187)		(4,981)	(4,832)	3.1%					
EBIT	1,139	1,814	-37.2%	2,569	-55.7%	3,708	4,409	-15.9%	9,794	38%	9,974	37%	52%
Other income (charges)	57	59		115		172	113	53.2%					
PBT	1,358	2,022	-32.8%	2,867	-52.6%	4,225	4,808	-12.1%					
Tax benefit (expense)	(289)	(432)		(620)		(908)	(1,058)	-14.1%					
Net profit	1,070	1,590	-32.7%	2,247	-52.4%	3,317	3,750	-11.6%	8,338	40%	8,591	39%	52%
Margins													
Gross margin	13.7%	15.0%		16.3%		15.0%	16.5%						
EBIT margin	4.0%	6.2%		8.8%		6.4%	7.9%						
Net margin	3.7%	5.4%		7.7%		5.7%	6.7%						
Opex to sales	-9.7%	-8.8%		-7.5%		-8.6%	-8.6%						
Revenue breakdown													
SKM	16,598	18,330	-9.4%	17,287	-4.0%	33,885	35,337	-4.1%					
SKT	9,289	8,113	14.5%	9,105	2.0%	18,394	15,390	19.5%					
SPM	1,797	2,093	-14.2%	1,861	-3.5%	3,658	4,107	-10.9%					
Others (include SPT)	1,026	653	57.2%	854	20.1%	1,880	1,320	42.4%					
Revenue contribution by segment													
SKM	57.8%	62.8%		59.4%		58.6%	62.9%						
SKT	32.4%	27.8%		31.3%		31.8%	27.4%						
SPM	6.3%	7.2%		6.4%		6.3%	7.3%						
Others	3.6%	2.2%		2.9%		3.3%	2.4%						
Export	194.3	109.9	76.9%	301.2	-35.5%	495.5	237.2	108.9%					

Source: Company, Indo Premier

Fig. 2: HMSP Earnings changes

	Previous			Current			Changes		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Assumption									
Blended ASP Grow th	8.2%	7.9%	7.3%	5.8%	8.0%	7.1%	-2.4%	0.1%	-0.2%
Blended volume grow th	-1.7%	-1.1%	-0.4%	-3.4%	-1.0%	-0.3%	-1.7%	0.1%	0.1%
Financial Perform. (Rp bn)									
Net sales	120,694	127,584	134,132	116,490	123,494	129,899	-3.5%	-3.2%	-3.2%
Gross profit	20,816	22,309	23,842	18,561	20,338	21,569	-10.8%	-8.8%	-9.5%
EBIT	9,794	10,195	11,039	7,587	8,091	8,468	-22.5%	-20.6%	-23.3%
Net profit	8,338	8,659	9,326	6,601	7,003	7,304	-20.8%	-19.1%	-21.7%
EPS (Rp)	72	74	80	57	60	63	-20.8%	-19.1%	-21.7%
Profitability (%)									
Gross margin	17.2%	17.5%	17.8%	15.9%	16.5%	16.6%	-1.3%	-1.0%	-1.2%
EBIT margin	8.1%	8.0%	8.2%	6.5%	6.6%	6.5%	-1.6%	-1.4%	-1.7%
Net profit margin	6.9%	6.8%	7.0%	5.7%	5.7%	5.6%	-1.2%	-1.1%	-1.3%
Opex to sales	-9.1%	-9.5%	-9.5%	-9.4%	-9.9%	-10.1%	-0.3%	-0.4%	-0.5%
Revenue contribution									
SKT	33.3%	35.2%	37.4%	34.5%	36.4%	38.6%	1.2%	1.2%	1.2%
SKM	58.4%	57.1%	55.5%	57.0%	55.7%	54.2%	-1.4%	-1.3%	-1.3%
SPM	6.3%	5.6%	5.1%	6.5%	5.7%	5.1%	0.2%	0.1%	0.0%
Others	2.0%	2.1%	2.0%	2.1%	2.2%	2.1%	0.1%	0.1%	0.1%

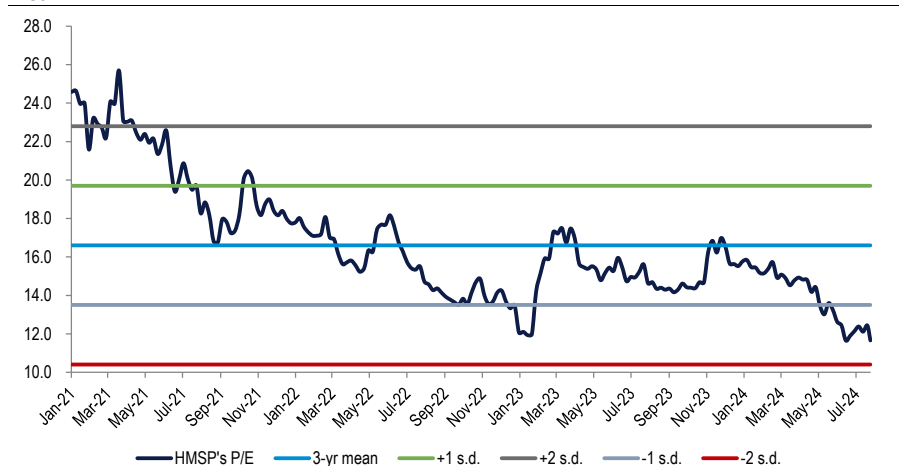
Source: Company, Indo Premier

Fig. 3: PMI volume

	2Q24	2Q23	% YoY	1Q24	% QoQ	1H24	1H23	% YoY
HSMP volume (bn sticks)	19.6	21.0	-6.7%	20.2	-3.0%	39.4	40.5	-2.7%
Industry volume (bn sticks)	71.9	72.2	-0.4%	73.6	-2.3%	145.8	141.4	3.1%
HSMP market share (%)	27.3%	29.1%		27.4%		27.0%	28.6%	

Source: PMI, Indo Premier

Fig. 4: HSMP is currently trading at 11.7x fwd. 12M P/E, or around 1.6 s.d. below its 3-year mean



Source: Bloomberg, Indo Premier

Income Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net revenue	111,211	115,983	116,490	123,494	129,899
Cost of sales	(94,053)	(96,653)	(97,928)	(103,157)	(108,330)
Gross profit	17,158	19,330	18,561	20,338	21,569
SG&A Expenses	(9,405)	(10,366)	(10,975)	(12,247)	(13,101)
Operating profit	7,753	8,964	7,587	8,091	8,468
Net interest	414	699	699	699	699
Forex gain (loss)	0	0	0	0	0
Others	106	649	121	129	135
Pre-tax income	8,273	10,311	8,407	8,918	9,302
Income tax	(1,949)	(2,214)	(1,805)	(1,915)	(1,998)
Minority interest	0	0	0	0	0
Net income	6,324	8,097	6,601	7,003	7,304

Balance Sheet (Rp bn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalent	3,283	2,695	729	1,349	1,890
Receivable	3,394	3,612	3,518	3,730	3,923
Inventory	18,375	19,014	18,941	19,953	20,953
Other current assets	16,311	14,745	14,939	15,148	15,338
Total current assets	41,363	40,066	38,128	40,179	42,105
Fixed assets	6,697	9,253	9,067	8,818	8,507
Other non-current assets	60	60	60	60	60
Total non-current assets	13,424	15,250	15,064	14,815	14,504
Total assets	54,787	55,316	53,192	54,994	56,609
ST loans	0	0	0	0	0
Payable	8,547	6,844	7,797	8,213	8,625
Other payables	14,619	13,015	13,032	13,814	14,530
Current portion of LT loans	0	0	0	0	0
Total current liab.	24,546	23,303	23,332	24,661	25,915
Long term loans	0	0	0	0	0
Other LT liab.	2,071	2,144	2,152	2,263	2,365
Total liabilities	26,617	25,446	25,484	26,925	28,281
Equity	21,088	21,087	21,087	21,087	21,087
Retained earnings	6,465	8,167	6,622	6,983	7,241
Minority interest	0	0	0	0	0
Total SHE + minority int.	28,170	29,870	27,708	28,069	28,328
Total liabilities & equity	54,787	55,316	53,192	54,994	56,609

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
EBIT	7,753	8,964	7,587	8,091	8,468
Depr. & amortization	0	0	1,186	1,249	1,311
Changes in working capital	(12,019)	(534)	1	(102)	(131)
Others	11,621	(2,148)	(985)	(1,088)	(1,164)
Cash flow from operating	7,355	6,282	7,789	8,150	8,485
Capital expenditure	(899)	(1,072)	(1,000)	(1,000)	(1,000)
Others	(13,376)	744	0	0	0
Cash flow from investing	(14,275)	(328)	(1,000)	(1,000)	(1,000)
Loans	0	0	0	0	0
Equity	0	0	0	0	0
Dividends	(7,363)	(6,363)	(8,147)	(6,642)	(7,046)
Others	(278)	(179)	(608)	112	102
Cash flow from financing	(7,641)	(6,542)	(8,755)	(6,530)	(6,944)
Changes in cash	(14,561)	(588)	(1,966)	620	541

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross margin	15.4%	16.7%	15.9%	16.5%	16.6%
Operating margin	7.0%	7.7%	6.5%	6.6%	6.5%
Pre-tax margin	7.4%	8.9%	7.2%	7.2%	7.2%
Net margin	5.7%	7.0%	5.7%	5.7%	5.6%
ROA	11.7%	14.7%	12.2%	12.9%	13.1%
ROE	22.0%	27.9%	22.9%	25.1%	25.9%
Acct. receivables TO (days)	10.3	11.0	11.0	11.0	11.0
Inventory TO (days)	70.2	70.6	70.6	70.6	70.6
Payable TO (days)	27.8	29.1	29.1	29.1	29.1
Debt to equity	N/A	N/A	N/A	N/A	N/A
Interest coverage ratio (x)	154.9	214.7	181.7	193.8	202.8
Net gearing	-11.7%	-9.0%	-2.6%	-4.8%	-6.7%

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

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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