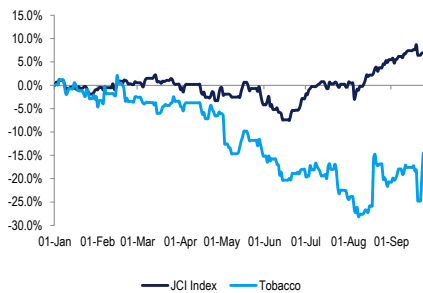


Sector Index Performance

	3M	6M	12M
Absolute	5.5%	-11.1%	-17.1%
Relative to JCI	-7.4%	-16.5%	-29.4%



Summary Valuation Metrics

P/E (x)	2024F	2025F	2026F
GGRM IJ	10.8	9.6	8.5
HMSP IJ	13.7	12.9	12.3
EV/EBITDA (x)	2024F	2025F	2026F
GGRM IJ	5.5	4.8	4.3
HMSP IJ	10.2	9.5	9.0
Div. Yield	2024F	2025F	2026F
GGRM IJ	0.0%	4.6%	5.2%
HMSP IJ	9.0%	7.4%	7.8%

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MOF announced zero FY25F excise hike – maintain Neutral

- The Ministry of Finance announced zero FY25F tobacco excise hike plan, which is pending review of the new administration for finalization.
- Cigarette retail prices are well above 85% of HJE – implying HJE adjustments may not be impactful for prices unless it's very significant.
- We estimate HMSP/GGRM FY25F earnings upgrade of +c.13/17%. Maintain Neutral as FY25F consensus earnings seems already at the optimistic side.

Zero tobacco excise hike announced by MOF

The Ministry of Finance (MOF) announced zero FY25F tobacco excise hike yesterday (23th Sep24), which was in-line with suggestion from the Parliament to cap FY25F excise hike below 5% yoy. However, finalization would await review from the new administration, which would be inaugurated in Oct24. On the other hand, MOF mentioned they may consider alternative measures such as minimum retail price (HJE) among others to control cigarette consumption.

Our sensitivity analysis suggests GGRM shall be the biggest beneficiary

As discussed in our recent report ([link](#)), our sensitivity analysis indicates +13.7/+24.5% for HMSP/GGRM's FY25F earnings upside for every 1% ASP effective adjustment (Fig. 2), while volume growth would be linear with earnings. Notably, GGRM's higher sensitivity is derived from FY24F's expected depressed net profit margin of 2.8%.

Downtrading trend to sustain and assessment of HJE increase

Despite the absence of excise hike, we expect downtrading trend to sustain due to the wide pricing gap between cigarette tiers against the backdrop of soft buying power. Even if HJE were to be hiked to narrow the pricing gap among cigarette tiers, affordability is still the key concern for mass market. Note that cigarette retail price needs to be at least 85% of the determined HJE. Our latest survey of cigarette price suggests that most Tier1/Tier2 cigarette products are retailing at 14/32% above respective 85% HJE. Hence, we view that tier1 players shall only able to increase ASP slightly in FY25F.

MOF's current stance on plain packaging for cigarette

Recent discussion with an industry player suggests the government is mulling the possibility of plain tobacco packaging, an extension of enlarged warning sign to cover 50% of the packaging (addressed in PP 28/2024, clause 438, verse 4a). This sparked concerns on brand equity, customer loyalty and the difficulty to launch new products among cigarette players. Yesterday, MOF downplays the idea, citing challenges in implementation and how it would hinder on-the-ground monitoring assuming a uniformity in packaging (plain).

Maintain Neutral as earnings impact is somewhat limited

While awaiting the final review from the new administration to finalize companies' forecast changes, we expect HMSP/GGRM FY25F net profit can potentially be upgraded by +c.13/17% on the back of zero tobacco excise hike and assumption of low-single digit ASP hike. GGRM's more benign FY25F upgrade (despite higher sensitivity) is because our/consensus forecast has yet to incorporate 1H24 weakness for FY24F numbers (Fig. 4). Hence, we maintain our Neutral sector call. Key risks include soft buying power inhibiting companies from raising prices.

Fig. 1: Indonesia tobacco summary

Ticker	Rating	Current price (Rp)	Target price (Rp)	Earnings yoy growth		P/E		ROE	
				2024F	2025F	2024F	2025F	2024F	2025F
HMSP	HOLD	775	680	-18.5%	6.1%	13.7	12.9	22.9%	25.1%
GGRM	SELL	16,550	15,000	-45.0%	13.6%	10.8	9.6	4.8%	5.4%

Sources: Indo Premier

Fig. 2: Sensitivity analysis towards FY25F earnings

	1% ASP hike	1% sales volume growth
HMSP	13.7%	1.0%
GGRM	24.5%	1.0%

Sources: Indo Premier

Fig. 3: HMSP/GGRM' retail price was still above 85% HJE

No.	Brand	Type	Tier	Price/Stick	85% HJE	Price different with 85% HJE
1	A Mild	SKM	1	2,266	1,921	17.9%
2	Magnum Filter	SKM	1	2,308	1,921	20.2%
3	Marlboro Filter	SKM	1	2,086	1,921	8.6%
4	Surya	SKM	1	2,272	1,921	18.3%
5	Surya Pro	SKM	1	2,028	1,921	5.6%
6	Wismilak EVO	SKM	2	1,547	1,173	31.9%

Sources: Alfagift, Klik Indomaret, Indo Premier

Fig. 4: Consensus FY24F earnings has yet to incorporate 1H24 weakness

Net profit (Rp bn)	2Q24	2Q23	% yoy	1Q24	% qoq	1H24	1H23	% yoy	IPS FY24F	% IPS	Cons. FY24F	% Cons	5yr avg
HMSP	1,070	1,590	-32.7%	2,247	-52.4%	3,317	3,750	-11.6%	6,601	50.2%	7,661	43.3%	52.0%
GGRM	330	1,325	-75.1%	596	-44.6%	926	3,288	-71.9%	2,929	31.6%	3,085	30.0%	45.0%

Sources: Bloomberg, Indo Premier

Fig. 5: HMSP is traded at 13.1x fwd. 12M PE (-1.1s.d. from its 5yr mean)



Source: KSEI, Indo Premier

Fig. 6: GGRM is traded at 9.9x fwd. 12M PE (-1.1s.d. from its 5yr mean)



Source: KSEI, Indo Premier

SECTOR RATINGS

- OVERWEIGHT : An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
- NEUTRAL : A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
- UNDERWEIGHT : An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

COMPANY 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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