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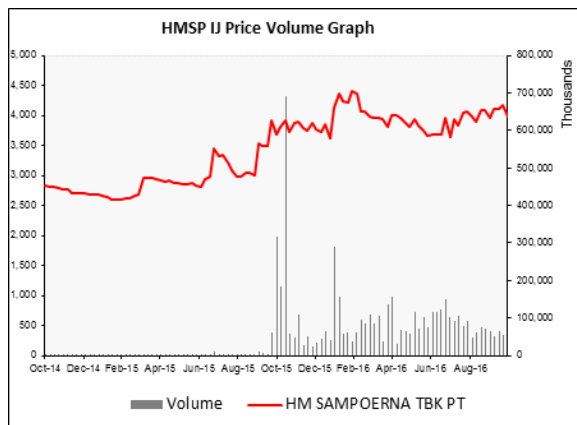
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PT HM SAMPOERNA Tbk.

**PT Hanjaya Mandala Sampoerna Tbk manufactures hand-rolled, machine-rolled, and white cigarettes. The company distributes its products both in domestic and international market.**

**Current Price: IDR 3,950**
**52-Week Target Price: IDR 4,120**
*Previous Target Price: IDR 4,114*

**Company Update**
**PT HM Sampoerna Tbk (HMSP)**
**9M16 Earnings Review**
**NEUTRAL**

HMSP reported solid 9M16 performance as its bottom-line earnings accomplished 77/76% of our FY16 and consensus estimates. 3Q16 net income was seen at IDR 2.9tn, up 13.4% YoY though down 3.3% QoQ, which then making 9M16 net income of IDR 9tn (+19.5% YoY). As for its top-line, HMSP posted 9M16 revenues at IDR 70.3tn, increased by 7.26% YoY. 3Q16 revenues were soft at IDR 22.9tn (+5.35% YoY; -9.74% QoQ) as volume decreased about 3.8%. **We maintain our NEUTRAL recommendation on HMSP despite its solid performance, as we see tobacco industry remains competitive. In addition, our call is also due to its premium valuation relatively to its peers. Our target price will be at IDR 4,120 representing limited 4.3% upside with FY17F PE of 35.6x.**

**ASP increases offset 3Q16 soft sales volume.** In 3Q16, HMSP reported its revenues at IDR 22.9tn, increased by 5.3% YoY mainly on the back of ASP increases. In term of sales volume, HMSP showed a 5.5% YoY contraction versus 4.3% decline in industry volume. Of the three segments, SKT posted the most drop in volume accounted for 14.2% YoY, followed by 9.2% and 1.9% drop for SPM and SKM respectively. SKT's declining volume seems to prove that shifting trend to SKM is still ongoing, meanwhile soft volume in SKM could be impacted by lower price products from the competitors. Gross margin increased 40bps YoY to 24.4% in 9M16 along with the aggressive ASP hike. Meanwhile, net margin expanded to 12.9% (vs 11.6% in 9M15) as the result of higher interest income, accounted for IDR 631bn in 9M16.

**The industry remains competitive.** As of 9M16, Indonesia cigarette market decreased by 1.2% YoY to 229.7bn units. This weak condition is likely to continue as we expect to see -2% YoY and flat for FY16E/FY17F total cigarette market. Besides, competition seems rising and may have disrupted HMSP's market share. Though HMSP managed to improve its market share to 34.3% in 9M16 (vs 34.1% in 1H16), it is still 70bps below its FY15 market share.

**Share Price Performance**

Price (IDR)	3,950
52-Week High (02/09/16)	4,485
52-Week Low (01/25/16)	3,560
52-Week Beta	0.56
YTD Change/%	190 / 5.05%

**Stock Information**

Market Cap (IDR)	459,456.4 B
Shares Out/Float (M)	116,318.1 / 8,723.9 M

**Financial Highlights**

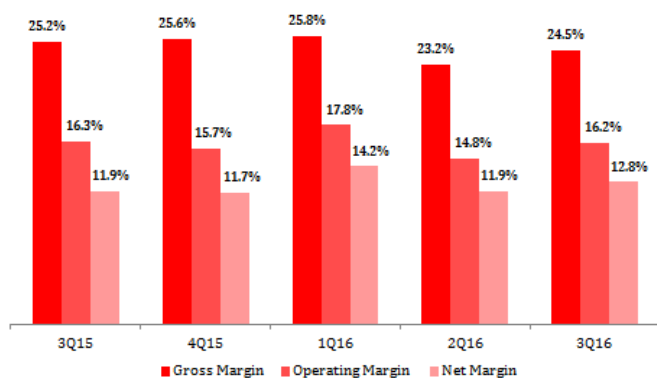
	2014	2015	2016E	2017F	2018F
Revenue (IDR bn)	80,690	89,069	97,436	109,809	122,057
Gross Profit (IDR bn)	20,500	21,764	23,898	27,044	29,828
EBITDA (IDR bn)	14,384	14,724	16,065	18,380	20,421
Net Income (IDR bn)	10,181	10,363	11,727	13,441	14,856
EPS (IDR)	92.2	93.1	100.8	115.6	127.7
Gross Profit Margin (%)	25.4	24.4	24.5	24.6	24.4
EBITDA Margin (%)	17.8	16.5	16.5	16.7	16.7
Net Income Margin (%)	12.6	11.6	12.0	12.2	12.2
P/E (x)	29.6	40.4	39.2	34.2	30.9
PBV (x)	22.3	13.7	13.8	13.1	12.6

*Source: Company Data, Sinarmas Investment Research*

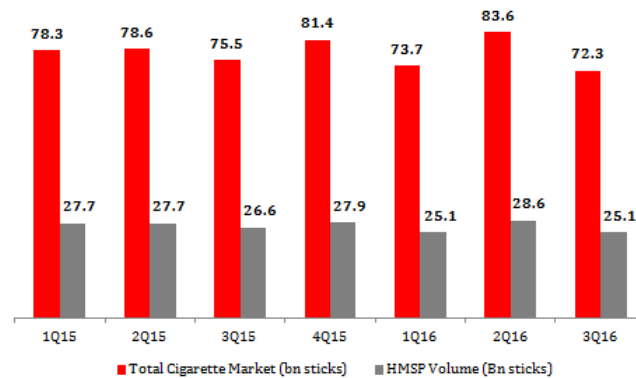
**HMSP 9M16 earnings**

In IDR bn	3Q15	2Q16	3Q16	QoQ	YoY	9M15	9M16	YoY	FY16E	% to FY16E
Revenue	21,775	25,415	22,939	-9.7%	5.3%	65,518	70,275	7.3%	97,436	72.1%
Gross Profit	5,487	5,908	5,619	-4.9%	2.4%	15,747	17,181	9.1%		
Operating Profit	3,558	3,752	3,724	-0.8%	4.7%	10,279	11,380	10.7%		
Net Profit	2,585	3,029	2,933	-3.2%	13.5%	7,597	9,081	19.5%	11,727	77.4%
EPS	23.4	26.0	25.2							
Gross Margin	25.2%	23.2%	24.5%			24.0%	24.4%			
Operating Margin	16.3%	14.8%	16.2%			15.7%	16.2%			
Net Margin	11.9%	11.9%	12.8%			11.6%	12.9%			

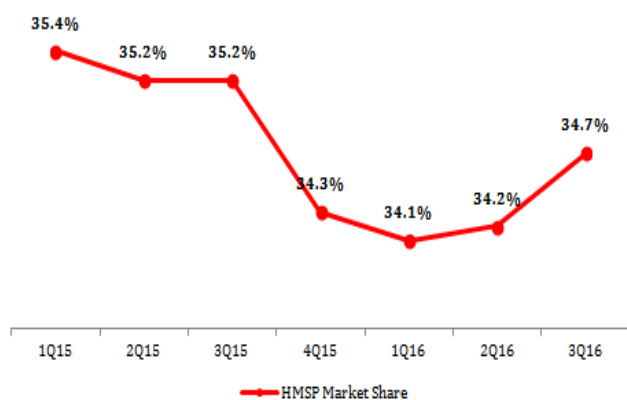
Source: Company Data, Sinarmas Investment Research

**HMSP margins**


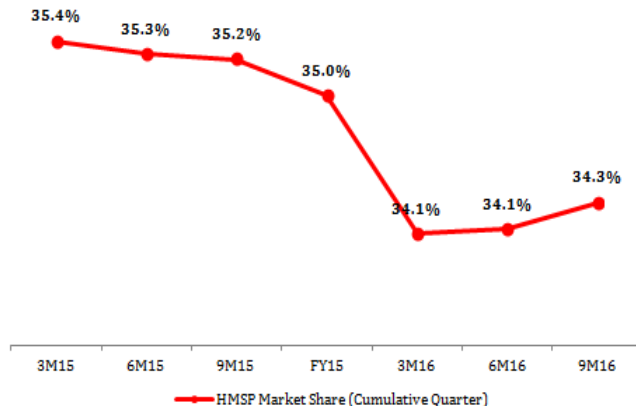
Source: Company Data, Sinarmas Investment Research

**Industry and HMSP sales volume (in bn sticks)**


Source: Company Data, Sinarmas Investment Research

**HMSP market share +0.5% QoQ, cumulatively shown at 34.3% in 9M16 (vs 35% FY15)**


Source: Bloomberg, Sinarmas Investment Research



Source: Bloomberg, Sinarmas Investment Research

**Appendix I: Financial Statements**
**Balance Sheet**

in IDR bn	2014	2015	2016E	2017F	2018F
Cash & Equivalents	65	1,719	6,008	5,901	6,496
Trade & Other Receivables	1,098	4,727	1,895	2,136	2,267
Inventories	17,432	19,072	20,863	22,564	23,408
Other Current Assets	2,183	4,290	2,574	2,966	3,314
Fixed Assets	5,920	6,281	6,543	6,797	6,899
Other Non Current Assets	1,684	1,922	1,928	2,040	2,153
<b>Total Assets</b>	<b>28,381</b>	<b>38,011</b>	<b>39,810</b>	<b>42,404</b>	<b>44,536</b>
Trade Payables	2,761	3,191	3,304	3,857	4,223
Excise Tax Payables	6,165	-	-	-	-
Other Current Liabilities	4,674	1,348	1,505	1,678	1,856
Other Non Current Liabilities	1,282	1,456	1,602	1,746	1,905
<b>Total Liabilities</b>	<b>14,883</b>	<b>5,995</b>	<b>6,412</b>	<b>7,280</b>	<b>7,984</b>
<b>Total Equity</b>	<b>13,498</b>	<b>32,016</b>	<b>33,398</b>	<b>35,124</b>	<b>36,552</b>

Source: Company Data, SinarMas Investment Research

**Income Statement**

in IDR bn	2014	2015	2016E	2017F	2018F
<b>Revenue</b>	<b>80,690</b>	<b>89,069</b>	<b>97,436</b>	<b>109,809</b>	<b>122,057</b>
CoGS	(60,190)	(67,305)	(73,538)	(82,766)	(92,229)
<b>Gross Profit</b>	<b>20,500</b>	<b>21,764</b>	<b>23,898</b>	<b>27,044</b>	<b>29,828</b>
Operating Expenses	(6,695)	(7,716)	(8,360)	(9,209)	(10,105)
<b>EBIT</b>	<b>13,805</b>	<b>14,048</b>	<b>15,539</b>	<b>17,835</b>	<b>19,723</b>
Net Financing	10	(69)	316	313	326
Other Income (Expenses)	(97)	(46)	(67)	(70)	(70)
EBITDA	14,384	14,724	16,065	18,380	20,421
<b>EBT</b>	<b>13,718</b>	<b>13,933</b>	<b>15,788</b>	<b>18,078</b>	<b>19,979</b>
Tax	(3,537)	(3,569)	(4,061)	(4,637)	(5,123)
<b>Net Income</b>	<b>10,181</b>	<b>10,363</b>	<b>11,727</b>	<b>13,441</b>	<b>14,856</b>
EPS	92.2	93.1	100.8	115.6	127.7

Source: Company Data, SinarMas Investment Research

**Appendix I: Financial Statements (Con't)**
**Cash Flow**

<b>in IDR bn</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
<b>Net Income</b>	<b>10,181</b>	<b>10,363</b>	<b>11,727</b>	<b>13,441</b>	<b>14,856</b>
Depreciation	578	676	526	545	699
Working Capital	951	(13,602)	3,028	(1,609)	(779)
<b>Operating CF</b>	<b>11,710</b>	<b>(2,563)</b>	<b>15,281</b>	<b>12,377</b>	<b>14,775</b>
Capital Expenditure	(1,789)	(1,037)	(788)	(800)	(800)
Others	(69)	(65)	141	31	47
<b>Investing CF</b>	<b>(1,858)</b>	<b>(1,102)</b>	<b>(647)</b>	<b>(769)</b>	<b>(753)</b>
Debts	393	(2,835)	-	-	-
Dividends	(10,817)	(12,259)	(10,345)	(11,715)	(13,427)
Others	(21)	20,414	-	-	-
<b>Financing CF</b>	<b>(10,445)</b>	<b>5,319</b>	<b>(10,345)</b>	<b>(11,715)</b>	<b>(13,427)</b>
Net - Cash Flow	(592)	1,654	4,289	(107)	595
Beginning Cash	657	65	1,719	6,008	5,901
<b>Ending Cash</b>	<b>65</b>	<b>1,719</b>	<b>6,008</b>	<b>5,901</b>	<b>6,496</b>

Source: Company Data, Sinarmas Investment Research

**Key Ratios**

	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
Revenue Growth	7.6%	10.4%	9.4%	12.7%	11.2%
Gross Profit Growth	2.1%	6.2%	9.8%	13.2%	10.3%
EBITDA Growth	-4.7%	2.4%	9.1%	14.4%	11.1%
Net Income Growth	-5.9%	1.8%	13.2%	14.6%	10.5%
EPS Growth	-5.9%	0.9%	8.3%	14.6%	10.5%
ROE	75.4%	32.4%	35.1%	38.3%	40.6%
ROA	35.9%	27.3%	29.5%	31.7%	33.4%
Debt to Equity	21.0%	0.0%	0.0%	0.0%	0.0%

Source: Company Data, Sinarmas Investment Research

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