

Margin expansion due to product mix. In 1Q21, HMSP recorded revenue of IDR 23.6tn (-4.4% QoQ/-0.6% YoY), driven by higher blended ASP at IDR 1,184 (+2.6% QoQ/+3.1% YoY) while the sales volume dropped to 19.9bn sticks (-6.0% QoQ/-2.7% YoY). On margin side, GPM increased to 21.4% due to a higher blended ASP, while excise tax hike not yet fully implemented. Opex to sales was at 8.0% (-108bps QoQ/-11bps YoY) as HMSP did an operating efficiency on their GA expenses. Hence, operating profit increased to IDR 3.2tn (-55.2% QoQ/-20.1% YoY) with OPM of 13.4%. As a result, HMSP posted net profit of IDR 2.6tn (+54.8% QoQ/-22.1% YoY) with NPM of 11.0%. In all, HMSP's top-line and bottom-line reached 25%/25% and 42%/30% of our/consensus estimate.

Earnings revision. On the sales volume, HMSP recorded that DSS sales of 5.7bn sticks (-10.9% QoQ/-7.3% YoY), while A Mild at 8.6bn sticks (-4.6% QoQ/+1.9% YoY). Positive recovery has been seen for the A Mild (the flagship product) and we believe this segment recovery (mostly serving the middle-upper class) should be sustain onwards. As a result, we revised up our SKM's ASP assumption from 10.0% to 11.5% in FY21E, resulting a higher GPM at 18.9%. In addition, we believe that the 1Q21 GPM sets a high base and we estimate the margin should decrease due to the fully implementation of 2021 excise tax. On Operating level, we revised down our operating expenses as HMSP did well on operating efficiency that come from lower salary expenses. In all, we upgrade our earnings by 28.3% to IDR 7.8tn in FY21E.

Dividend become the short-term catalyst. As of 1Q21, HMSP held cash of IDR 14tn paired with retained earnings of IDR 11tn, which provide enough room for company to distribute the dividend from FY20 net income in FY21E. As a result, assuming DPR of 100% (~IDR 8.5tn), HMSP will provide 5.6% dividend yield, which might provide a short term positive catalyst.

We upgrade our call to NEUTRAL rating on HMSP with a higher TP of IDR 1,300, derived from 19.3x FY21F PE (-0.5SD from its 3-yr avg.). Given unsupportive government policy, downtrading behavior, tighter competition amid shrinking industry, potentially deteriorating market share, and risk on change in JCI weighting, we believe it will be difficult for HMSP to re-rate back to its historical mean. Downside risks to our call are higher excise hikes and prolonged economic activity recovery.

Highlights (IDR Bn)	2019	2020	2021E	2022F	2023F
Revenue	106,055	92,425	95,433	107,723	120,187
% growth	-0.6%	-12.9%	3.3%	12.9%	11.6%
Gross Profit	26,123	18,771	18,034	20,529	23,206
Net Profit	13,722	8,581	7,838	9,253	10,598
% growth	1.4%	-37.5%	-8.7%	18.0%	14.5%
Gross Margin (%)	24.6%	20.3%	18.9%	19.1%	19.3%
Net Margin (%)	12.9%	9.3%	8.2%	8.6%	8.8%
Return on Equity (%)	38.6%	26.0%	26.2%	30.6%	33.5%
Return on Assets (%)	28.1%	17.1%	16.8%	20.2%	21.4%
EPS (IDR)	118	74	67	80	91

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Sector	Tobacco
Bloomberg Ticker	HMSP IJ
Market Cap. (IDR tn)	152.9
Share Out./Float (mn)	116.3/8.7
Current Price	1,315
FY21F Target Price	1,300
Downside	1.1%

Share Price Performance

52W High (27/05/20)	1,970
52W Low (02/01/21)	1,1270
52W Beta	1.00
YTD Change	-12.6%

Relative Valuations

Trailing P/E	17.6x
Forward P/E	19.3x
P/BV	5.1x

HMSP 1Q21 Earnings summary

(IDR Bn)	1Q20	4Q20	1Q21	QoQ	YoY	3M20	3M21	YoY	DH%	Cons. %
Revenue	23,689	24,647	23,558	-4.4%	-0.6%	23,689	23,558	-0.6%	25%	25%
Gross Profit	5,868	4,537	5,037	11.0%	-14.1%	5,868	5,037	-14.1%		
Operating Profit	3,952	2,035	3,158	55.2%	-20.1%	3,952	3,158	-20.1%		
Net Profit	3,322	1,671	2,586	54.8%	-22.1%	3,322	2,586	-22.1%	42%	30%
Margin										
GPM	24.8%	18.4%	21.4%			24.8%	21.4%			
OPM	16.7%	8.3%	13.4%			16.7%	13.4%			
NPM	14.0%	6.8%	11.0%			14.0%	11.0%			
Revenue breakdown										
Exports	98	45	35	-21.2%	-64.0%	98	35	-64.0%		
Local	23,591	24,602	23,523	-4.4%	-0.3%	23,591	23,523	-0.3%		
SKM	16,535	15,948	15,681	-1.7%	-5.2%	16,535	15,681	-5.2%		
SKT	4,757	6,088	5,324	-12.5%	11.9%	4,757	5,324	11.9%		
SPM	2,170	2,387	2,324	-2.6%	7.1%	2,170	2,324	7.1%		
Others	128	179	195	8.4%	51.8%	128	195	51.8%		
Operational										
Sales Volume (bn sticks)	20.4	21.2	19.9	-6.0%	-2.7%	20.4	19.9	-2.7%		
SKM	14.5	13.6	13.1	-4.1%	-9.9%	14.5	12.1			
SKT	4.4	5.8	5.1	-12.2%	16.2%	4.4	4.4			
SPM	1.6	1.8	1.8	-0.6%	11.3%	1.6	1.6			
Blended ASP (IDR/sticks)	1,148	1,154	1,184	2.6%	3.1%	1,148	1,048	-8.7%		
SKM	1,139	1,170	1,200	2.5%	5.3%	1,139	1,154	1.3%		
SKT	1,093	1,057	1,053	-0.4%	-3.7%	1,093	1,082	-1.0%		
SPM	1,373	1,350	1,322	-2.1%	-3.8%	1,373	1,375	0.1%		

Source: Company Data, Sinarmas Investment Research

Earnings Changes

(IDR Bn)	Old		New		Changes	
	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F
Revenue	94,602	106,787	95,433	107,723	0.9%	0.9%
Gross Profit	15,994	18,414	18,034	20,742	12.8%	12.6%
Operating Profit	7,275	8,613	9,450	11,095	29.9%	28.8%
Net Profit	6,112	7,385	7,838	9,445	28.3%	27.9%
EPS (IDR)	53	63	67	81	28.3%	27.9%
Gross Margin	16.9%	17.2%	18.9%	19.3%		
Operating Margin	7.7%	8.1%	9.9%	10.3%		
Net Margin	6.5%	6.9%	8.2%	8.8%		

Source: Sinarmas Investment Research

Key assumptions changes

	Old		New		New	
	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F
Blended ASP Est.	1,250	1,419	1,261	1,431	0.9%	0.9%
Sales Volume	75.1	74.7	75.1	74.7	0.0%	0.0%
Market share	28.3%	28.2%	28.3%	28.2%		

Source: Sinarmas Investment Research

Income Statement (IDR Bn)	2019	2020	2021E	2022F	2023F
Revenue	106,055	92,425	95,433	107,723	120,187
% growth	-0.6%	-12.9%	3.3%	12.9%	11.6%
Cost of Good Sold	(79,932)	(73,654)	(77,399)	(87,193)	(96,982)
% growth	-1.6%	-7.9%	5.1%	12.7%	11.2%
Gross Profit	26,123	18,771	18,034	20,529	23,206
% growth	2.5%	-28.1%	-3.9%	13.8%	13.0%
Operating Expenses	(9,046)	(8,369)	(8,584)	(9,670)	(10,877)
Opex to Sales (%)	8.5%	9.1%	9.0%	9.0%	9.0%
Other Income (Expenses)	37	44	0	0	0
EBIT	17,114	10,446	9,450	10,859	12,329
% growth	0.7%	-39.0%	-9.5%	14.9%	13.5%
EBITDA	18,510	11,254	10,239	11,674	13,202
% growth	3.1%	-39.2%	-9.0%	14.0%	13.1%
Net Financing Income (Expenses)	1,145	716	599	707	918
EBT	18,259	11,161	10,049	11,566	13,248
% growth	1.7%	-38.9%	-10.0%	15.1%	14.5%
Tax Expenses	(4,538)	(2,580)	(2,211)	(2,313)	(2,650)
Net Income	13,722	8,581	7,838	9,253	10,598
% growth	1.4%	-37.5%	-8.7%	18.0%	14.5%
EPS (IDR)	118	74	67	80	91

Balance Sheet (IDR Bn)	2019	2020	2021E	2022F	2023F
Cash & Equivalents	18,821	15,804	14,306	17,120	19,793
Trade Receivables	3,786	4,102	3,656	3,908	4,391
Inventories	16,376	18,094	15,795	17,174	17,745
Other Current Assets	2,714	3,092	2,491	2,910	3,185
Total Current Assets	41,697	41,092	36,249	41,112	45,114
Fixed Assets	7,298	6,583	5,607	5,042	4,421
Other Non Current Assets	1,908	2,000	1,772	1,780	1,804
Total Assets	50,903	49,674	43,628	47,935	51,339
Short Term Debt	0	0	0	0	0
Trade Payables	3,802	3,468	3,459	3,863	4,315
Taxes Payable	2,390	2,528	2,166	2,266	2,596
Other Current Liabilities	6,536	10,748	5,641	7,899	9,024
Total Current Liabilities	12,728	16,744	11,266	14,028	15,935
Other Non Current Liabilities	2,495	2,689	2,847	2,961	3,093
Total Liabilities	15,223	19,433	14,113	16,989	19,029
Share & APIC	21,033	21,052	21,052	21,052	21,052
Retained Earnings	14,030	8,574	7,848	9,278	10,642
Others	616	616	616	616	616
Total Equity	35,680	30,241	29,516	30,946	32,310
Total Liabilities & Equity	50,903	49,674	43,628	47,935	51,339

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2019	2020E	2021F	2022F	2023F
Net Income	13,722	8,581	7,838	9,253	10,598
Dep. & Amortization	1,396	808	789	815	872
Chg. In NWC	3,372	1,605	(2,133)	713	578
CF from Operating	18,490	10,994	6,495	10,780	12,048
Capital Expenditure	(1,406)	(93)	186	(250)	(251)
Chg. in LT Assets	(425)	(92)	227	(8)	(24)
Others	45	193	158	114	133
CF from Investing	(1,786)	9	571	(144)	(142)
Chg. in Share & APIC	22	18	0	0	0
Chg. in Debt	0	0	0	0	0
Dividends Paid	(13,422)	(14,038)	(8,564)	(7,823)	(9,234)
Others	0	0	0	0	0
CF from Financing	(13,400)	(14,020)	(8,564)	(7,823)	(9,234)
Chg. in Cash	3,304	(3,016)	(1,498)	2,814	2,673
Beginning Cash	15,516	18,821	15,804	14,306	17,120
Ending Cash	18,821	15,804	14,306	17,120	19,793

Financial Ratio	2019	2020E	2021F	2022F	2023F
Profitability					
Gross Margin	24.6%	20.3%	18.9%	19.1%	19.3%
Operating Margin	16.1%	11.3%	9.9%	10.1%	10.3%
EBITDA Margin	17.5%	12.2%	10.7%	10.8%	11.0%
Net Margin	12.9%	9.3%	8.2%	8.6%	8.8%
Liquidity					
Current Ratio (x)	3.3	2.5	3.2	2.9	2.8
Quick Ratio (x)	1.8	1.2	1.6	1.5	1.5
Solvency					
Debt to Equity (x)	0.0	0.0	0.0	0.0	0.0
Interest Cov. (x)	na	0.0	0.0	0.0	0.0
Valuation					
Price to Earnings (x)	11.0	17.6	19.3	16.3	14.3
Price to Book (x)	4.2	5.0	5.1	4.9	4.7
Key assumptions					
Volume (Bn Sticks)	98.5	79.5	75.1	74.7	73.2
% growth	-2.9%	-19.3%	-5.5%	-0.5%	-2.0%
Blended ASP Est.	1,068	1,153	1,261	1,431	1,630
% growth	2.4%	7.9%	9.3%	13.5%	13.9%
Market Share	32.2%	28.7%	28.3%	28.2%	27.6%

Source: Company data, Sinarmas Investment Research

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

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ADD: Share price may range between 10% to 15% over the next 12 months.

NEUTRAL: Share price may range between -10% to +10% over the next 12 months.

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