

**1Q20 result was in-line with our estimates.** HMSP's 1Q20 performance achieved 22.2% and 25.1% of our FY20 top-line and bottom-line estimates. HMSP posted revenue of IDR 23.68tn (-0.5% YoY) in 1Q20, while sales volume dropped to 20.4bn sticks (-7.6% YoY), underperformed the industry's growth (-0.6% YoY). In addition, HMSP's market share declined to 30.4% (-180bps YoY) due to intense competition in this industry. Increasing blended ASP by 7.7% YoY in 1Q20 has offset the decline in sales volume. Meanwhile, strong growth in Sampoerna's A sales volume by 8.5% YoY was driven by narrowing price gaps with its peers. Conversely, DSS as an affordable product posted a 6.9% decline in sales volume, indicating shifting to the branded product as its products' price narrowed. Meanwhile, Malboro's sales volume dropped by 30.5% YoY, as a result of a shift from SPM product to other products. However, GPM remained flat at 24.8%, which showed the 7.7% increase in blended ASP could offset the sharp rise in excise tax in 2020. Operating expenses decreased by 1.8% YoY, which translated to net profit at IDR 3.3tn (+1.1% YoY) with 14% NPM (+20bps YoY).

**Tough time in 2Q20.** During Covid-19 outbreaks, we expect a drop in sales volume due to large-scale social restrictions (PSBB), which limits economic activity translating to lower purchasing power. However, we see an easing PSBB in the various area (West Java) and government plans to reopen the economy by 3Q20 will drive cigarette' demand recovery in 3Q20. Thus, we maintain our forecast of a 16.2% drop in sales volume in FY20. However, a lower tax rate as part of softening government fiscal stimulus may provide positive support to keep HMSP's bottom line within our estimates.

**Earnings issue.** Once the economic recovery occurs, we believe that the government may withdraw its stimulus and may continue to increase excise tax in the following year, translating to lower sales volume. The government has increased BPJS premium for class 1 and 2 categories effective by July 2020, while class 3 remains unchanged. Sooner or later, we see that the premium on class 3 will eventually be increased to help in reducing the budget deficit. Hence, it may lead to lower purchasing power, thus providing pressure on HMSP future sales volume and earnings.

**We downgrade our call on HMSP to NEUTRAL with an unchanged target price of IDR 1,780.** Our TP implies 15.7x FY20E P/E and 6.6% dividend yield. As of current, HMSP is trading at 16.3x FY20E P/E, which already fairly valued in our opinion. Given unsupportive government policy and potentially lower sales volume, we believe it will be difficult for HMSP to re-rate back to its historical mean.

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	106,742	106,055	106,937	112,347	118,468
% growth	7.7%	-0.6%	0.8%	5.1%	5.4%
Gross Profit	25,491	26,123	24,320	25,013	25,683
Net Profit	13,538	13,722	13,245	13,158	12,788
% growth	6.8%	1.4%	-3.5%	-0.7%	-2.8%
Gross Margin (%)	23.9%	24.6%	22.7%	22.3%	21.7%
Net Margin (%)	12.7%	12.9%	12.4%	11.7%	10.8%
Return on Equity (%)	39.0%	38.6%	37.5%	37.6%	36.8%
Return on Assets (%)	30.2%	28.1%	27.9%	29.6%	28.7%
EPS (IDR)	116	118	114	113	110

**Andrianto Saputra**

Equity Analyst

+62 21 392 5550 ext. 159

[andrianto.saputra@sinarmassekuritas.co.id](mailto:andrianto.saputra@sinarmassekuritas.co.id)**Stock Information**

Sector	Tobacco
Bloomberg Ticker	HMSP IJ
Market Cap. (IDR tn)	215.77
Share Out./Float (mn)	116.3/8.7
Current Price	1,855
FY20F Target Price	1,780
Downside	-4.2%

**Share Price Performance**

52W High (15/05/19)	3,490
52W Low (20/03/20)	1,085
52W Beta	1.00
YTD Change	-11.7%

**Relative Valuations**

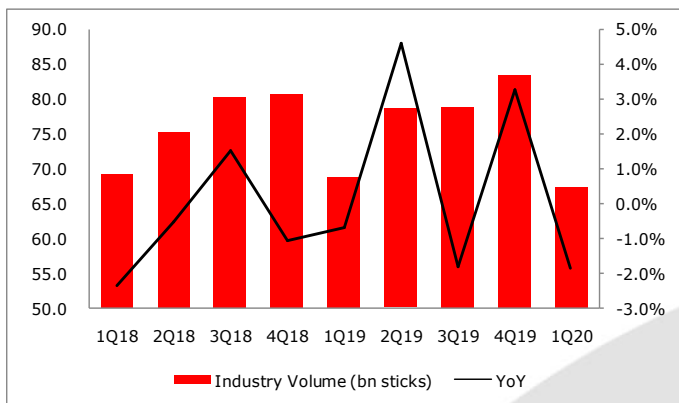
Trailing P/E	15.6x
Forward P/E	16.3x
P/BV	5.5x

## HMSP 1Q20 Earnings Summary

(IDR Bn)	1Q19	4Q19	1Q20	YoY	QoQ	3M19	3M20	YoY	DH	Cons.
Revenue	23,806	28,548	23,689	-0.5%	-17.0%	23,806	23,689	-0.5%	22.2%	22.4%
Gross Profit	5,885	7,232	5,868	-0.3%	-18.9%	5,885	5,868	-0.3%		
Operating Profit	3,933	4,607	3,952	0.5%	-14.2%	3,933	3,952	0.5%		
Net Profit	3,286	3,521	3,322	1.1%	-5.7%	3,286	3,322	1.1%	25.1%	26.8%
GPM	24.7%	25.3%	24.8%			24.7%	24.8%			
OPM	16.5%	16.1%	16.7%			16.5%	16.7%			
NPM	13.8%	12.3%	14.0%			13.8%	14.0%			

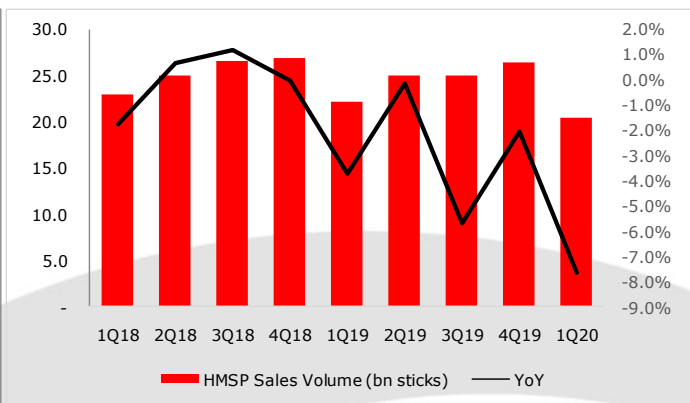
Source: Company Data, Sinarmas Investment Research

Figure 1: Industry Volume



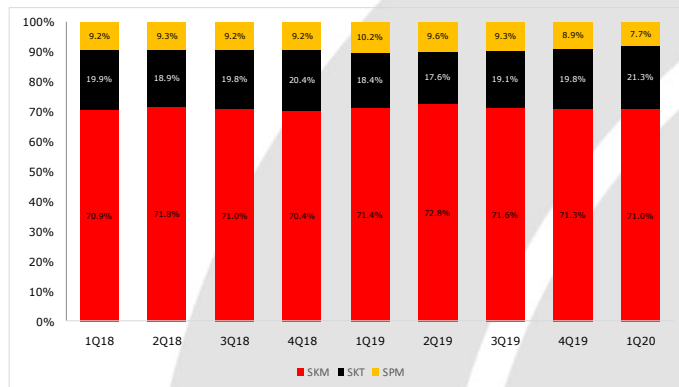
Source: Company Data, Sinarmas Investment Research

Figure 2: HMSP sales volume



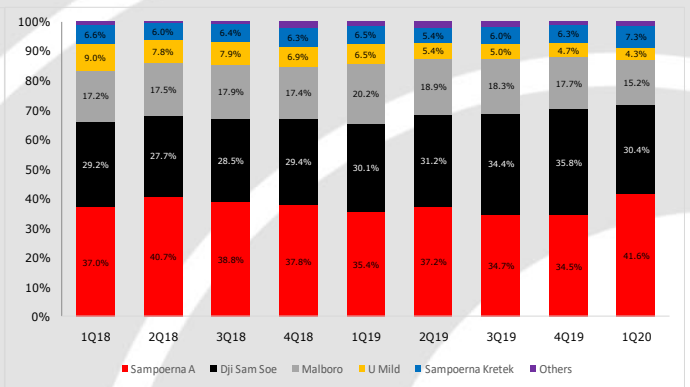
Source: Company Data, Sinarmas Investment Research

Figure 3: HMSP revenue stream per category



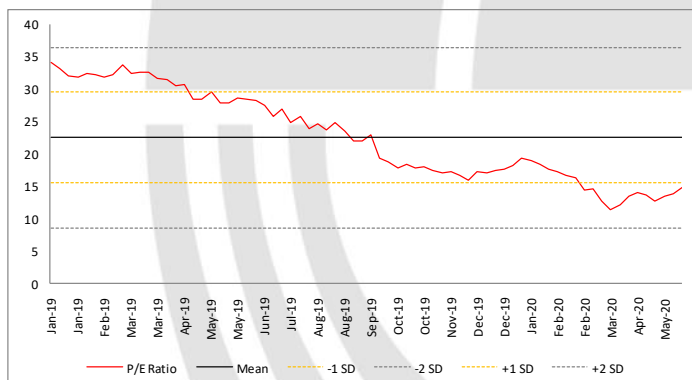
Source: Company Data, Sinarmas Investment Research

Figure 4: HMSP revenue stream per product



Source: Company Data, Sinarmas Investment Research

Figure 5: HMSP Historical P/E



Source: Company Data, Sinarmas Investment Research

<b>Income Statement (IDR Bn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
<b>Revenue</b>	<b>106,742</b>	<b>106,055</b>	<b>106,937</b>	<b>112,347</b>	<b>118,468</b>
Cost of Good Sold	(81,251)	(79,932)	(82,617)	(87,333)	(92,785)
<b>Gross Profit</b>	<b>25,491</b>	<b>26,123</b>	<b>24,320</b>	<b>25,013</b>	<b>25,683</b>
Operating Expenses	(8,609)	(9,046)	(8,801)	(9,328)	(9,897)
Opex to Sales (%)	8.1%	8.5%	8.2%	8.3%	8.4%
Other Income (Expenses)	106	37	0	0	0
<b>EBIT</b>	<b>16,988</b>	<b>17,114</b>	<b>15,519</b>	<b>15,685</b>	<b>15,786</b>
<b>EBITDA</b>	<b>17,962</b>	<b>18,510</b>	<b>16,332</b>	<b>16,573</b>	<b>16,750</b>
Net Financing Income (Expenses)	973	1,145	1,462	1,184	609
<b>EBT</b>	<b>17,961</b>	<b>18,259</b>	<b>16,981</b>	<b>16,870</b>	<b>16,395</b>
Tax Expenses	(4,423)	(4,538)	(3,736)	(3,711)	(3,607)
<b>Net Income</b>	<b>13,538</b>	<b>13,722</b>	<b>13,245</b>	<b>13,158</b>	<b>12,788</b>
<b>EPS (IDR)</b>	<b>116</b>	<b>118</b>	<b>114</b>	<b>113</b>	<b>110</b>

<b>Balance Sheet (IDR Bn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
Cash & Equivalents	15,516	18,821	8,934	5,770	1,288
Trade Receivables	3,815	3,786	4,175	4,315	4,477
Inventories	15,183	16,376	17,405	18,719	19,507
Other Current Assets	3,317	2,714	4,221	4,458	4,580
<b>Total Current Assets</b>	<b>37,831</b>	<b>41,697</b>	<b>34,735</b>	<b>33,263</b>	<b>29,853</b>
Fixed Assets	7,288	7,298	6,743	6,988	7,167
Other Non Current Assets	1,483	1,908	2,697	4,342	7,558
<b>Total Assets</b>	<b>46,602</b>	<b>50,903</b>	<b>44,175</b>	<b>44,592</b>	<b>44,577</b>
Short Term Debt	0	0	0	0	0
Trade Payables	3,450	3,802	3,629	3,903	4,110
Taxes Payable	1,688	2,390	1,967	1,954	1,899
Other Current Liabilities	3,656	6,536	1,070	1,136	1,194
<b>Total Current Liabilities</b>	<b>8,794</b>	<b>12,728</b>	<b>6,666</b>	<b>6,993</b>	<b>7,204</b>
Other Non Current Liabilities	2,450	2,495	2,488	2,639	2,756
<b>Total Liabilities</b>	<b>11,244</b>	<b>15,223</b>	<b>9,154</b>	<b>9,632</b>	<b>9,960</b>
Share & APIC	21,011	21,033	21,033	21,033	21,033
Retained Earnings	13,731	14,030	13,371	13,311	12,967
Others	616	616	617	616	616
<b>Total Equity</b>	<b>35,358</b>	<b>35,680</b>	<b>35,021</b>	<b>34,960</b>	<b>34,617</b>
<b>Total Liabilities &amp; Equity</b>	<b>46,602</b>	<b>50,903</b>	<b>44,175</b>	<b>44,592</b>	<b>44,577</b>

Source: Company data, Sinarmas Investment Research

<b>Cash Flow (IDR Bn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
<b>Net Income</b>	<b>13,538</b>	<b>13,722</b>	<b>13,245</b>	<b>13,158</b>	<b>12,788</b>
Dep. & Amortization	974	1,396	812	887	964
Chg. In NWC	6,675	3,372	(8,986)	(1,366)	(860)
<b>CF from Operating</b>	<b>21,187</b>	<b>18,490</b>	<b>5,072</b>	<b>12,680</b>	<b>12,892</b>
Capital Expenditure	(1,372)	(1,406)	(257)	(1,132)	(1,143)
Chg. in LT Assets	587	(425)	(790)	(1,644)	(3,216)
Others	(95)	45	(8)	151	117
<b>CF from Investing</b>	<b>(879)</b>	<b>(1,786)</b>	<b>(1,055)</b>	<b>(2,625)</b>	<b>(4,242)</b>
Chg. in Share & APIC	97	22	0	0	0
Chg. in Debt	0	0	0	0	0
Dividends Paid	(12,390)	(13,422)	(13,904)	(13,219)	(13,132)
Others	0	0	0	0	0
<b>CF from Financing</b>	<b>(12,293)</b>	<b>(13,400)</b>	<b>(13,904)</b>	<b>(13,219)</b>	<b>(13,132)</b>
Chg. in Cash	8,015	3,304	(9,887)	(3,164)	(4,482)
Beginning Cash	7,502	15,516	18,821	8,934	5,770
<b>Ending Cash</b>	<b>15,516</b>	<b>18,821</b>	<b>8,934</b>	<b>5,770</b>	<b>1,288</b>

<b>Financial Ratio</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
<b>Profitability</b>					
Gross Margin	23.9%	24.6%	22.7%	22.3%	21.7%
Operating Margin	15.9%	16.1%	14.5%	14.0%	13.3%
EBITDA Margin	16.8%	17.5%	15.3%	14.8%	14.1%
Net Margin	12.7%	12.9%	12.4%	11.7%	10.8%
<b>Liquidity</b>					
Current Ratio (x)	4.3	3.3	5.2	4.8	4.1
Quick Ratio (x)	2.2	1.8	2.0	1.4	0.8
<b>Solvency</b>					
Debt to Equity (x)	0.0	0.0	0.0	0.0	0.0
Interest Cov. (x)	na	na	0.0	0.0	0.0
<b>Valuation</b>					
Price to Earnings (x)	15.9	15.7	16.3	16.4	16.9
Price to Book (x)	6.1	6.0	6.2	6.2	6.2
<b>Key assumptions</b>					
Volume (Bn Sticks)	101.4	98.8	82.8	80.1	77.7
% growth	0.1%	-2.5%	-16.2%	-3.3%	-2.9%
Blended ASP Est.	1,044	1,108	1,280	1,392	1,513
% growth	7.9%	6.1%	15.6%	8.7%	8.7%
Market Share	33.4%	32.2%	30.7%	29.8%	29.1%

Source: Company data, Sinarmas Investment Research

## SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

**BUY:** Share price may rise by more than 15% over the next 12 months.

**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.

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

**SELL:** Share price may fall by more than 15% over the next 12 months.

### DISCLAIMER

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst (s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

### Additional information is available upon request.

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.

©Sinarmas Sekuritas(2020). All rights reserved.