

2Q20 result was recorded below estimates. HMSP booked revenue of IDR 21tn (-11.2% QoQ/-21.8% YoY) in 2Q20, while sales volume dropped to 18.1bn sticks (-11.3% QoQ/-27.6% YoY) and blended ASP increased by 0.1% QoQ/8.0% YoY. HMSP's sales underperformed the industry (-4.5% QoQ/-9.5% YoY), leading to market share deterioration from 32.2% to 28.2% in 2Q19. We believe that the sharp fall in HMSP's market share is driven by consumers down-trading behavior as price gap widens between 1st-tier and 2nd-tier brand. On margin side, GPM dropped to 18.4% (-637bps QoQ/-553bps YoY), mainly due to full implementation of 2020 excise tax. As a result, HMSP posted net profit of IDR 1.5tn (-52.9% QoQ/-55.1% YoY) with 7.4% NPM (-659bps QoQ/-551bps YoY). In addition, HMSP posted operating cash flow at IDR 166bn (vs. IDR 11tn in 2Q19), driven by IDR 20tn incremental excise tax payment. In all, HMSP's 1H20 performance is below ours and consensus estimates.

Earnings cut. We believe that the down-trading trend may continue to persist in 2H20 as we expect consumers' purchasing power will not fully recovered in 2H20. Hence, we believe that it will remain challenging for HMSP to outperform the industry in 2H20. Thus, we lower our HMSP's market share assumption from 30.7%/29.8% to 30.0%/29.5% in FY20E/FY21F, mainly due to loss competition with 2nd-tier brand. As a result, our sales volume assumption drops from -16.5% to -17.6% in FY20E under current condition. Meanwhile, we believe that HMSP may not aggressively increase its blended ASP in FY20E; thus, we lower our blended ASP growth assumption from 15.6%/8.7% to 9.6%/14.3% in FY20E/FY21F. Therefore, we cut our FY20E/FY21F EPS forecasts by 20.4%/15.6%.

Simplification on excise tax may take some time. We view that the new PMK 77/2020 regulation the simplification of cigarette's excise tax structure may give positive impact to big players (HMSP and GGRM) as the policy should give higher impact on 2nd tier players, reducing the price gap between 1st-tier and 2nd-tier players. However, we believe that the full implementation of this policy may take some times as the timeline of these strategic plans is guided from 2020 to 2024. Hence, we have not seen significant positive impact of this policy in 2H20.

We reiterate our NEUTRAL rating on HMSP with 52-weeks TP of IDR 1,680, derived from 18.0x average FY20E/FY21F PE. As of now, HMSP is traded at 19.3x FY21F P/E, which already fairly valued in our opinion. Given unsupportive government policy, tighter competition amid shrinking industry and potentially deteriorating market share, we believe it will be difficult for HMSP to re-rate back to its historical mean. Downside risks to our call are longer than expected economic activity recovery and heightened competition from smaller players.

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	106,742	106,055	95,878	106,766	113,103
% growth	7.7%	-0.6%	-9.6%	11.4%	5.9%
Gross Profit	25,491	26,123	20,584	22,582	23,682
Net Profit	13,538	13,722	10,549	11,087	11,056
% growth	6.8%	1.4%	-23.1%	5.1%	-0.3%
Gross Margin (%)	23.9%	24.6%	21.5%	21.2%	20.9%
Net Margin (%)	12.7%	12.9%	11.0%	10.4%	9.8%
Return on Equity (%)	39.0%	38.6%	31.0%	34.0%	33.6%
Return on Assets (%)	30.2%	28.1%	23.0%	26.8%	26.2%
EPS (IDR)	116	118	91	95	95

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Sector	Tobacco
Bloomberg Ticker	HMSP IJ
Market Cap. (IDR tn)	198.3
Share Out./Float (mn)	116.3/8.7
Current Price	1,705
FY20F Target Price	1,680
Downside	-1.5%

Share Price Performance

52W High (15/05/19)	3,490
52W Low (20/03/20)	1,085
52W Beta	1.00
YTD Change	-18.1%

Relative Valuations

Trailing P/E	16.7x
Forward P/E	19.3x
P/BV	7.45x

HMSP 2Q20 Earnings summary

(IDR Bn)	2Q19	1Q20	2Q20	YoY	QoQ	6M19	6M20	YoY	DH%	Cons. %
Revenue	26,914	23,689	21,044	-21.8%	-11.2%	50,720	44,733	-11.8%	46.7%	43.6%
Gross Profit	6,441	5,868	3,872	-39.9%	-34.0%	12,327	9,740	-21.0%		
Operating Profit	4,270	3,952	1,855	-56.6%	-53.1%	8,203	5,807	-29.2%		
Net Profit	3,484	3,322	1,565	-55.1%	-52.9%	6,770	4,886	-27.8%	46.3%	41.8%
GPM	23.9%	24.8%	18.4%	-6.37%		24.3%	21.8%			
OPM	15.9%	16.7%	8.8%			16.2%	13.0%			
NPM	12.9%	14.0%	7.4%			13.3%	10.9%			

Source: Company Data, Sinarmas Investment Research

Earnings Changes

(IDR Bn)	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
Revenue	106,937	112,347	95,878	106,766	-10.3%	-5.0%
Gross Profit	24,320	25,013	20,584	22,582	-15.4%	-9.7%
Operating Profit	15,519	15,685	12,063	13,055	-22.3%	-16.8%
Net Profit	13,245	13,158	10,549	11,087	-20.4%	-15.7%
EPS (IDR)	114	113	91	95	-20.4%	-15.6%
Gross Margin	22.7%	22.3%	21.5%	21.2%		
Operating Margin	14.5%	14.0%	12.6%	12.2%		
Net Margin	12.4%	11.7%	11.0%	10.4%		

Source: Company Data, Sinarmas Investment Research

Key Assumption Changes

	Old		New		New	
	FY20	FY21	FY20	FY21	FY20	FY21
Blended ASP Est.	1,237	1,344	1,171	1,338	-5.3%	-0.4%
Market share	30.7%	29.8%	30.0%	29.4%		

Source: Company Data, Sinarmas Investment Research

HMSP 2Q20 Sales volume

(bn sticks)	2Q19	1Q20	2Q20	YoY	QoQ	6M19	6M20	YoY
Industry volume	77.6	67.2	64.2	-17.3%	-4.5%	145.2	131.4	-9.5%
HMSP's sales volume	25.0	20.4	18.1	-27.6%	-11.3%	47.1	38.5	-18.3%
Market Share (%)	32.2%	30.4%	28.2%			32.4%	29.3%	
Sampoerna A	9.4	8.5	7.3	-22.5%	-15.1%	17.3	15.8	-8.4%
Dji Sam Soe	7.8	6.2	5.8	-26.0%	-6.1%	14.5	12.0	-17.4%

Source: PMI, Sinarmas Investment Research

Income Statement (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	106,742	106,055	95,878	106,766	113,103
Cost of Good Sold	(81,251)	(79,932)	(75,294)	(84,184)	(89,421)
Gross Profit	25,491	26,123	20,584	22,582	23,682
Operating Expenses	(8,609)	(9,046)	(8,521)	(9,527)	(10,120)
Opex to Sales (%)	8.1%	8.5%	8.9%	8.9%	8.9%
Other Income (Expenses)	106	37	0	0	0
EBIT	16,988	17,114	12,063	13,055	13,562
EBITDA	17,962	18,510	12,875	13,943	14,527
Net Financing Income (Expenses)	973	1,145	1,462	1,159	612
EBT	17,961	18,259	13,524	14,215	14,174
Tax Expenses	(4,423)	(4,538)	(2,975)	(3,127)	(3,118)
Net Income	13,538	13,722	10,549	11,087	11,056
EPS (IDR)	116	118	91	95	95

Balance Sheet (IDR Bn)	2018	2019	2020E	2021F	2022F
Cash & Equivalents	15,516	18,821	8,351	6,411	5,417
Trade Receivables	3,815	3,786	3,743	4,101	4,274
Inventories	15,183	16,376	15,605	17,789	18,624
Other Current Assets	3,317	2,714	3,688	4,133	4,288
Total Current Assets	37,831	41,697	31,387	32,435	32,603
Fixed Assets	7,288	7,298	6,743	6,989	7,170
Other Non Current Assets	1,483	1,908	2,639	2,663	2,681
Total Assets	46,602	50,903	40,769	42,086	42,454
Short Term Debt	0	0	0	0	0
Trade Payables	3,450	3,802	3,307	3,762	3,961
Taxes Payable	1,688	2,390	1,567	1,647	1,642
Other Current Liabilities	3,656	6,536	1,070	1,136	1,194
Total Current Liabilities	8,794	12,728	5,944	6,545	6,798
Other Non Current Liabilities	2,450	2,495	2,500	2,657	2,781
Total Liabilities	11,244	15,223	8,444	9,202	9,579
Share & APIC	21,011	21,033	21,033	21,033	21,033
Retained Earnings	13,731	14,030	10,675	11,234	11,225
Others	616	616	617	616	616
Total Equity	35,358	35,680	32,325	32,884	32,875
Total Liabilities & Equity	46,602	50,903	40,769	42,086	42,454

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
Net Income	13,538	13,722	10,549	11,087	11,056
Dep. & Amortization	974	1,396	812	887	964
Chg. In NWC	6,675	3,372	(6,943)	(2,387)	(910)
CF from Operating	21,187	18,490	4,419	9,588	11,111
Capital Expenditure	(1,372)	(1,406)	(257)	(1,133)	(1,145)
Chg. in LT Assets	587	(425)	(731)	(24)	(18)
Others	(95)	45	4	158	124
CF from Investing	(879)	(1,786)	(984)	(999)	(1,040)
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)	(10,528)	(11,065)
Others	0	0	0	0	0
CF from Financing	(12,293)	(13,400)	(13,904)	(10,528)	(11,065)
Chg. in Cash	8,015	3,304	(10,470)	(1,940)	(994)
Beginning Cash	7,502	15,516	18,821	8,351	6,411
Ending Cash	15,516	18,821	8,351	6,411	5,417

Financial Ratio	2018	2019	2020E	2021F	2022F
Profitability					
Gross Margin	23.9%	24.6%	21.5%	21.2%	20.9%
Operating Margin	15.9%	16.1%	12.6%	12.2%	12.0%
EBITDA Margin	16.8%	17.5%	13.4%	13.1%	12.8%
Net Margin	12.7%	12.9%	11.0%	10.4%	9.8%
Liquidity					
Current Ratio (x)	4.3	3.3	5.3	5.0	4.8
Quick Ratio (x)	2.2	1.8	2.0	1.6	1.4
Solvency					
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
Valuation					
Price to Earnings (x)	14.9	14.7	19.1	18.1	18.2
Price to Book (x)	5.7	5.6	6.2	6.1	6.1
Key assumptions					
Volume (Bn Sticks)	101.4	98.5	81.1	79.1	76.8
% growth	0.1%	-2.9%	-17.6%	-2.4%	-2.9%
Blended ASP Est.	1,044	1,068	1,171	1,338	1,461
% growth	7.9%	2.4%	9.6%	14.3%	9.2%
Market Share	33.4%	32.2%	30.0%	29.4%	28.7%

Source: Company data, Sinarmas Investment Research

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