

**Weak margin as estimated.** In 2Q21, HMSP booked revenue of IDR 24.0tn (+2.2% QoQ,+14.4% YoY), mainly due to a higher blended ASP of IDR 1,210/stick (+3.1% QoQ,+4.7% YoY) and a flat sales volume of 20.1bn sticks (+1.3% QoQ,+11.3% YoY). On margin side, GPM dropped to 15.8% (vs. 18.4%/21.4% in 2Q20/1Q21) due to a slow limited price adjustment and fully excise hike impact in 2Q21. Opex to sales was at 8.4%, brought the operating profit to IDR 1.7tn (-43.5% QoQ,-3.8% YoY) with OPM of 7.4%. As a result, the 2Q21 net profit decreased to IDR 1.5tn (-40.2% QoQ,-1.1% YoY) with NPM of 6.4%. In all, 1H21 HMSP's top-line and bottom-line reached 50.0%/49% and 53%/48% of our/consensus estimate.

**Lose competitiveness.** In 2Q21, HMSP's flagship product (A Mild) sales volume increased to 9.1bn sticks (+5.4% QoQ, +25.9% YoY), while their fighting product (DSS) was slumped to 5.4bn sticks (-5.1% QoQ, -7.7% YoY). Despite HMSP posted a higher sales volume on their higher-margin product (A Mild) and lower sales volume on their fighting product (DSS), however, we see that the blended GPM sharply fell to 15.8% in 2Q21 as HMSP didn't aggressively increase their ASP to pass on the excise hike. From this evidence, we believe that HMSP has lost their competitiveness to increase their ASP, supported by weak purchasing power, leading to downtrading. Looking into 2H21, we estimate HMSP will gradually increase their ASP with a slower price adjustment, leading to a margin improvement.

**New normal margin.** We believe the downtrading trend will persist onwards, due to 1) weaker purchasing power on low-middle income class as we believe that tobacco industry consumption is driven by this segment, and 2) wider price gap between tier-1 and tier-2 cigarette due to excise hike. Hence, we believe this should give pressure on tier-1 players' margin as we estimate the new normal margin HMSP will at below 20% onwards.

**We maintain our NEUTRAL call on HMSP with a lower TP of IDR 1,130,** derived from 13.3x FY21F PE (-1.0SD from its 3-yr avg.). With the unsupportive government policy, weaker purchasing power, tighter competition amid shrinking industry, and the margin deterioration onwards, we believe it will give a derating valuation on HMSP. Upside risks to our call is lower/zero excise hike.

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Sector	Tobacco
Bloomberg Ticker	HMSP IJ
Market Cap. (IDR tn)	121.6
Share Out./Float (mn)	116.3/8.7
Current Price	1,045
FY22F Target Price	1,130
Upside	8.3%

**Share Price Performance**

52W High (27/05/20)	1,970
52W Low (30/08/21)	1,045
52W Beta	1.00
YTD Change	-30.6%

**Relative Valuations**

Trailing P/E	16.8x
Forward P/E	14.2x
P/BV	4.5x

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

## HMSP 2Q21 Earnings summary

(IDR Bn)	2Q20	1Q21	2Q21	QoQ	YoY	1H20	1H21	YoY	DH%	Cons. %
Revenue	21,044	23,558	24,070	2.2%	14.4%	44,733	47,628	6.5%	50%	49%
Gross Profit	3,872	5,037	3,798	-24.6%	-1.9%	9,740	8,835	-9.3%		
Operating Profit	1,855	3,158	1,783	-43.5%	-3.8%	5,807	4,942	-14.9%		
Net Profit	1,565	2,586	1,548	-40.2%	-1.1%	4,886	4,134	-15.4%	53%	48%
<b>Margin</b>										
GPM	18.4%	21.4%	15.8%			21.8%	18.6%			
OPM	8.8%	13.4%	7.4%			13.0%	10.4%			
NPM	7.4%	11.0%	6.4%			10.9%	8.7%			
<b>Revenue breakdown</b>										
<b>Exports</b>	<b>45</b>	<b>35</b>	<b>44</b>	<b>24.0%</b>	<b>-2.4%</b>	<b>143</b>	<b>79</b>	<b>-44.7%</b>		
<b>Domestic</b>	<b>21,000</b>	<b>23,523</b>	<b>23,794</b>	<b>1.2%</b>	<b>13.3%</b>	<b>44,590</b>	<b>47,317</b>	<b>6.1%</b>		
SKM	13,965	15,681	16,169	3.1%	15.8%	30,500	31,850	4.4%		
SKT	4,753	5,324	5,238	-1.6%	10.2%	9,511	10,562	11.1%		
SPM	2,140	2,324	2,369	1.9%	10.7%	4,309	4,692	8.9%		
Others	142	195	18	-90.6%	-87.1%	270	213	-21.3%		
<b>Operational</b>										
Sales Volume (bn sticks)	18.0	19.9	19.9	0.1%	10.3%	38.5	40.0	3.9%		
SKM	12.1	13.1	13.3	1.4%	9.6%	26.6	26.3			
SKT	4.4	5.1	5.0	-1.9%	12.9%	8.7	10.0			
SPM	1.6	1.8	1.9	8.6%	22.7%	3.1	3.7			
Blended ASP (IDR/stick)	1,156	1,173	1,210	3.1%	4.7%	1,151	1,156	0.4%		
SKM	1,154	1,200	1,219	1.7%	5.7%	1,146	1,154	0.7%		
SKT	1,082	1,053	1,056	0.3%	-2.4%	1,088	1,082	-0.5%		
SPM	1,375	1,322	1,241	-6.1%	-9.8%	1,374	1,375	0.1%		

Source: Company Data, Sinarmas Investment Research

## HMSP 2Q21 Sales Volume

(bn sticks)	2Q20	1Q21	2Q21	QoQ	YoY	1H20	1H21	YoY
Industry volume	64.2	70.8	71.7	1.3%	11.7%	131.4	142.5	8.4%
HMSP's sales volume	18.1	19.9	20.1	1.3%	11.3%	38.5	40.0	4.0%
Market Share (%)	28.2%	28.1%	28.1%			29.3%	28.1%	
Sampoerna A	7.2	8.6	9.1	5.4%	25.9%	15.7	17.7	13.0%
Dji Sam Soe	5.8	5.7	5.4	-5.1%	-7.7%	12.0	11.0	-8.1%
Others	5.0	5.6	5.7	1.5%	12.3%	10.8	11.2	4.3%

Source: PMI, Sinarmas Investment Research

<b>Income Statement (IDR Bn)</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022F</b>	<b>2023F</b>
<b>Revenue</b>	<b>106,055</b>	<b>92,425</b>	<b>95,433</b>	<b>107,723</b>	<b>120,187</b>
% 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%
<b>Gross Profit</b>	<b>26,123</b>	<b>18,771</b>	<b>18,034</b>	<b>20,529</b>	<b>23,206</b>
% 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
<b>EBIT</b>	<b>17,114</b>	<b>10,446</b>	<b>9,450</b>	<b>10,859</b>	<b>12,329</b>
% growth	0.7%	-39.0%	-9.5%	14.9%	13.5%
<b>EBITDA</b>	<b>18,510</b>	<b>11,254</b>	<b>10,239</b>	<b>11,674</b>	<b>13,202</b>
% growth	3.1%	-39.2%	-9.0%	14.0%	13.1%
Net Financing Income (Expenses)	1,145	716	599	707	918
<b>EBT</b>	<b>18,259</b>	<b>11,161</b>	<b>10,049</b>	<b>11,566</b>	<b>13,248</b>
% growth	1.7%	-38.9%	-10.0%	15.1%	14.5%
Tax Expenses	(4,538)	(2,580)	(2,211)	(2,313)	(2,650)
<b>Net Income</b>	<b>13,722</b>	<b>8,581</b>	<b>7,838</b>	<b>9,253</b>	<b>10,598</b>
% growth	1.4%	-37.5%	-8.7%	18.0%	14.5%
<b>EPS (IDR)</b>	<b>118</b>	<b>74</b>	<b>67</b>	<b>80</b>	<b>91</b>

<b>Balance Sheet (IDR Bn)</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022F</b>	<b>2023F</b>
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
<b>Total Current Assets</b>	<b>41,697</b>	<b>41,092</b>	<b>36,249</b>	<b>41,112</b>	<b>45,114</b>
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
<b>Total Assets</b>	<b>50,903</b>	<b>49,674</b>	<b>43,628</b>	<b>47,935</b>	<b>51,339</b>
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
<b>Total Current Liabilities</b>	<b>12,728</b>	<b>16,744</b>	<b>11,266</b>	<b>14,028</b>	<b>15,935</b>
Other Non Current Liabilities	2,495	2,689	2,847	2,961	3,093
<b>Total Liabilities</b>	<b>15,223</b>	<b>19,433</b>	<b>14,113</b>	<b>16,989</b>	<b>19,029</b>
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
<b>Total Equity</b>	<b>35,680</b>	<b>30,241</b>	<b>29,516</b>	<b>30,946</b>	<b>32,310</b>
<b>Total Liabilities &amp; Equity</b>	<b>50,903</b>	<b>49,674</b>	<b>43,628</b>	<b>47,935</b>	<b>51,339</b>

Source: Company data, Sinarmas Investment Research

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

Financial Ratio	2019	2020E	2021F	2022F	2023F
<b>Profitability</b>					
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%
<b>Liquidity</b>					
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
<b>Solvency</b>					
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
<b>Valuation</b>					
Price to Earnings (x)	9.6	15.3	16.8	14.2	12.4
Price to Book (x)	3.7	4.3	4.5	4.2	4.1
<b>Key assumptions</b>					
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

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