

**Limited ASP hike and slow recovery.** In 3Q20, HMSP posted revenue of IDR 23tn (+9.5% QoQ), mainly due to higher sales volume at 19.8bn sticks (+9.7% QoQ), with limited ASP hike at +0.7% QoQ. It is worth noting that HMSP's sales volume performance was in-line with industry with a stable market share at 28.2%. On the margin side, GPM increased to 19.5% (+110bps QoQ) due to higher ASP, though HMSP hasn't fully passed on the 2020 excise hike. Opex to sales was at 8.4% (-119bps QoQ), driven by lower G&A expenses at 1.7% (-95bps QoQ). As a result, HMSP booked a net profit of IDR 2tn (+29.4% QoQ) with NIM at 8.8%. In all, HMSP booked 9M20's revenue/net profit at IDR 67.8tn/6.9t

**Slower sales volume recovery ahead.** Despite a limited price hike (+0.7% QoQ) in 3Q20, HMSP still posted sales volume performance that was in-line with industry growth. We noticed that HMSP's sales recovery was slower than our expectation as SKM's market share tumbled to 23.9% in 3Q20 (vs. 29.6% in FY19). Meanwhile, we think that the downtrading behavior gave a negative impact on HMSP's SKM product (especially for Magnum Mild). As a result, we observed that HMSP's SKT sales volume increased to 5.5bn sticks (+25.0% QoQ), in-line with a higher SKT market share at 38.7% (vs. 35% in FY19), but still not enough to offset the loss on SKM's sales volume. To note, HMSP will fully implement the 2020 HJE by the end of 2020.

**Excise tax hike estimation.** We view that excise tax hike in 2021 will be at a range of 8-10% (lower than its 5yr-avg), given 1) low inflation rate and 2) high unemployment rate as BAPPENAS estimated the unemployment rate may reach 8.1-9.2% in FY20E (vs. 5.3% in 2019), whereas tobacco industry contributes 4.3% of Indonesia's labor force. Keep in mind that we set a 10% excise tax hike assumption as our base case. Our sensitivity analysis shows that every 1% change in excise tax hike will change our earnings forecast by 2.6% in FY21F.

**We reiterate our NEUTRAL rating on HMSP with a lower TP of IDR 1,520,** derived from 16.0x FY21F PE (-1SD from its 3-yr avg.). As of now, HMSP is traded at 15.6x FY21F P/E, which is already fairly valued in our opinion. Given unsupportive government policy, downtrading behavior, 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 higher excise hikes and prolonged economic activity recovery.

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Sector	Tobacco
Bloomberg Ticker	HMSP IJ
Market Cap. (IDR tn)	172.7
Share Out./Float (mn)	116.3/8.7
Current Price	1,485
FY21F Target Price	1,520
Downside	2.3%

**Share Price Performance**

52W High (14/01/20)	2,350
52W Low (20/03/20)	1,085
52W Beta	1.00
YTD Change	-18.1%

**Relative Valuations**

Trailing P/E	16.5x
Forward P/E	15.0x
P/BV	6.0x

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

## HMSP 3Q20 Earnings summary

(IDR Bn)	3Q19	2Q20	3Q20	QoQ	YoY	9M19	9M20	YoY	DH%	Cons. %
Revenue	26,787	21,044	23,046	9.5%	-14.0%	77,507	67,779	-12.6%	70.7%	66.0%
Gross Profit	6,565	3,872	4,494	16.1%	-31.5%	18,891	14,234	-24.7%		
Operating Profit	4,267	1,855	2,560	38.0%	-40.0%	12,470	8,367	-32.9%		
Net Profit	3,430	1,565	2,024	29.4%	-41.0%	10,200	6,911	-32.2%	65.6%	64.9%
<b>Margin</b>										
GPM	24.5%	18.4%	19.5%			24.4%	21.0%			
OPM	15.9%	8.8%	11.1%			16.1%	12.3%			
NPM	12.8%	7.4%	8.8%			13.2%	10.2%			
<b>Revenue breakdown</b>										
Exports	124	45	31	-30.1%	-74.7%	315	174	-44.8%		
Local	26,664	21,000	23,014	9.6%	-13.7%	77,192	67,605	-12.4%		
SKM	18,731	13,965	14,784	5.9%	-21.1%	54,660	45,284	-17.2%		
SKT	5,093	4,753	5,857	23.2%	15.0%	14,001	15,367	9.8%		
SPM	2,722	2,140	2,228	4.1%	-18.2%	8,163	6,537	-19.9%		
Others	118	142	146	2.8%	23.9%	369	417	12.9%		
<b>Operational</b>										
<b>Sales Volume (bn sticks)</b>	25.0	18.0	19.8	9.7%	-20.9%	72.1	58.3	-19.1%		
SKM	17.9	12.1	12.7	4.9%	-29.1%	51.9	39.3	-24.2%		
SKT	4.8	4.4	5.5	25.0%	15.2%	13.2	14.2	7.7%		
SPM	2.3	1.6	1.6	4.2%	-30.5%	7.0	4.8	-32.0%		
<b>Blended ASP (IDR/sticks)</b>	1,061	1,156	1,164	0.7%	9.7%	1,066	1,152	8.1%		
SKM	1,045	1,154	1,165	0.9%	11.4%	1,054	1,152	9.4%		
SKT	1,069	1,082	1,066	-1.4%	-0.2%	1,059	1,079	1.9%		
SPM	1,168	1,375	1,374	-0.1%	17.7%	1,167	1,374	17.7%		

Source: Company Data, Sinarmas Investment Research

## HMSP 3Q20 Sales Volume

(bn sticks)	3Q19	2Q20	3Q20	QoQ	YoY	9M19	9M20	YoY
Industry volume	81.1	64.2	70.0	9.1%	-13.6%	226.3	201.4	-11.0%
HMSP's sales volume	25.0	18.1	19.8	9.3%	-20.9%	72.1	58.3	-19.2%
Market Share (%)	30.8%	28.2%	28.2%			31.9%	28.9%	
Sampoerna A	8.8	7.3	7.9	8.9%	-9.8%	26.0	23.7	-8.9%
Dji Sam Soe	8.6	5.8	6.4	10.4%	-25.6%	23.1	18.4	-20.4%

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>95,878</b>	<b>106,766</b>	<b>113,103</b>
Cost of Good Sold	(81,251)	(79,932)	(75,294)	(84,184)	(89,421)
<b>Gross Profit</b>	<b>25,491</b>	<b>26,123</b>	<b>20,584</b>	<b>22,582</b>	<b>23,682</b>
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
<b>EBIT</b>	<b>16,988</b>	<b>17,114</b>	<b>12,063</b>	<b>13,055</b>	<b>13,562</b>
<b>EBITDA</b>	<b>17,962</b>	<b>18,510</b>	<b>12,875</b>	<b>13,943</b>	<b>14,527</b>
Net Financing Income (Expenses)	973	1,145	1,462	1,159	612
<b>EBT</b>	<b>17,961</b>	<b>18,259</b>	<b>13,524</b>	<b>14,215</b>	<b>14,174</b>
Tax Expenses	(4,423)	(4,538)	(2,975)	(3,127)	(3,118)
<b>Net Income</b>	<b>13,538</b>	<b>13,722</b>	<b>10,549</b>	<b>11,087</b>	<b>11,056</b>
<b>EPS (IDR)</b>	<b>116</b>	<b>118</b>	<b>91</b>	<b>95</b>	<b>95</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	8,351	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
<b>Total Current Assets</b>	<b>37,831</b>	<b>41,697</b>	<b>31,387</b>	<b>32,435</b>	<b>32,603</b>
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
<b>Total Assets</b>	<b>46,602</b>	<b>50,903</b>	<b>40,769</b>	<b>42,086</b>	<b>42,454</b>
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
<b>Total Current Liabilities</b>	<b>8,794</b>	<b>12,728</b>	<b>5,944</b>	<b>6,545</b>	<b>6,798</b>
Other Non Current Liabilities	2,450	2,495	2,500	2,657	2,781
<b>Total Liabilities</b>	<b>11,244</b>	<b>15,223</b>	<b>8,444</b>	<b>9,202</b>	<b>9,579</b>
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
<b>Total Equity</b>	<b>35,358</b>	<b>35,680</b>	<b>32,325</b>	<b>32,884</b>	<b>32,875</b>
<b>Total Liabilities &amp; Equity</b>	<b>46,602</b>	<b>50,903</b>	<b>40,769</b>	<b>42,086</b>	<b>42,454</b>

Source: Company data, Sinarmas Investment Research

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

Financial Ratio	2018	2019	2020E	2021F	2022F
<b>Profitability</b>					
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%
<b>Liquidity</b>					
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
<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)	14.9	14.7	19.1	18.1	18.2
Price to Book (x)	5.7	5.6	6.2	6.1	6.1
<b>Key assumptions</b>					
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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