

**We raise our ADD call to BUY for PT HM Sampoerna Tbk (HMSP) with lower 52-week target price of IDR 3,640 (from IDR 4,360).** Our TP represents 20.1% potential upside, pegged to 28x target PE (-1.25SD from its 5-yr average historical PE) to factor modest volume and market share numbers. Despite the unexciting 1H19 numbers, we believe HMSP have been overly punished since the gradual implementation of free-float weight for LQ45 and IDX30. Therefore upon the completion, we see a potential rebound for HMSP notably as it is currently traded at 23.5x forward PE (-2.5SD from 5-yr average forward PE). Downside risks to our call are persisting weak sales volume leading to further market share decline and unsupportive government regulation.

**1H19 results.** As of 1H19, HMSP recorded its top-line at IDR 50.7tn (+3.2% YoY) and bottom-line at IDR 6.8tn (+10.7% YoY), reaching 45.7%/45.2% of our projection. GPM expanded to 24.3% (vs 23.3% in 1H18) and along with flattish opex, NPM was recorded at 13.3% (+90bps YoY). On a quarterly basis, 2Q's revenue increased by 13.1% QoQ due to the low base in the previous quarter. However, margins were lower in 2Q19 due to a jump in other overhead and depreciation costs. For the upcoming quarters, we expect margins to be at least stable as HMSP should see more rooms for ASP increases to anticipate for next year excise tax hike.

**Weak volume and market share decline.** HMSP's volume growth have underperformed the industry's, whereas 2Q19 volume was posted at 24.9bn sticks (flat YoY) leading 1H19 volume to 47.1bn sticks (-1.9% YoY). At the same time, industry's volume managed to grow by 4.8% and 2.1% YoY in 2Q19/1H19 respectively. Sluggish HMSP's volume growth was estimated on shifting consumer preference towards the value for money products. On product wise, A Mild volume dropped by 8.2% YoY, while Dji Sam Soe grew by 6.8% YoY mainly from the new DSS Magnum Mild in our view. Consequently, HMSP continued losing market share by 50bps QoQ bringing 1H19 market share at 31.9% (vs 33.2% in 1H18).

**Recent extreme share price drop makes HMSP attractive.** HMSP share performance have significantly underperformed JCI index by ~20% YTD on the back of free-float indices adjustment as well as pricing in the weak fundamentals (decelerating volume and market share). However, as the rebalancing is already near the end, we expect the overhang to be fully lifted soon hence providing a right time to accumulate the stock.

Highlights (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	99,091	106,742	109,905	119,795	130,519
% growth	3.8%	7.7%	3.0%	9.0%	9.0%
Gross Profit	24,216	25,491	27,259	28,905	30,916
Net Profit	12,671	13,538	14,811	15,371	16,023
% growth	-0.7%	6.8%	9.4%	3.8%	4.2%
Gross Margin (%)	24.4%	23.9%	24.8%	24.1%	23.7%
Net Margin (%)	12.8%	12.7%	13.5%	12.8%	12.3%
Return on Equity (%)	37.1%	39.0%	41.2%	41.7%	42.8%
Return on Assets (%)	29.6%	30.2%	32.1%	33.1%	33.4%
EPS (IDR)	109	116	127	132	138

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Sector	Tobacco
Bloomberg Ticker	HMSP IJ
Market Cap. (IDR tn)	352.4
Share Out./Float (mn)	116,318/8,724
Current Price	3,030
52-week Target Price	3,640
Upside (%)	20.1%

**Share Price Performance**

52W High (01/07/19)	4,080
52W Low (07/29/19)	2,810
52W Beta	1.3
YTD Change (%)	-18.3%

**Relative Valuations**

Trailing P/E	24.9x
Forward P/E	22.9x
P/BV	12.4x
EV/EBITDA	18.0x

## 2Q19 Earnings Summary

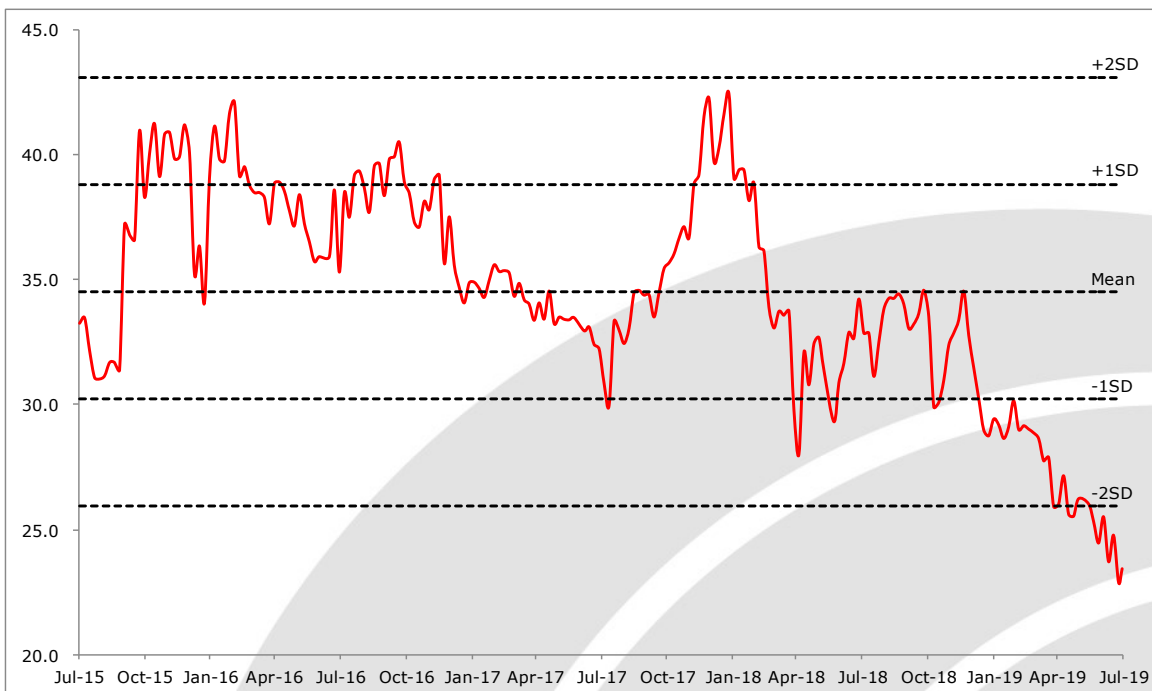
IDR Bn	2Q18	1Q19	2Q19	% QoQ	% YoY	6M18	6M19	% YoY
Revenue	26,021	23,806	26,914	13.1%	3.4%	49,158	50,720	3.2%
Gross Profit	5,933	5,885	6,441	9.4%	8.6%	11,429	12,327	7.9%
Operating Profit	3,765	3,933	4,270	8.6%	13.4%	7,541	8,203	8.8%
Net Profit	3,080	3,286	3,484	6.0%	13.1%	6,113	6,770	10.7%

## Margins

Gross Margin	22.8%	24.7%	23.9%			23.3%	24.3%
Operating Margin	14.5%	16.5%	15.9%			15.3%	16.2%
Net Margin	11.8%	13.8%	12.9%			12.4%	13.3%

Source: Company Data, Sinarmas Investment Research

## HMSP Forward PE Band



Source: Bloomberg, Sinarmas Investment Research

<b>Income Statement (IDR Bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
<b>Revenue</b>	<b>99,091</b>	<b>106,742</b>	<b>109,905</b>	<b>119,795</b>	<b>130,519</b>
Cost of Good Sold	(74,876)	(81,251)	(82,646)	(90,890)	(99,604)
<b>Gross Profit</b>	<b>24,216</b>	<b>25,491</b>	<b>27,259</b>	<b>28,905</b>	<b>30,916</b>
Operating Expenses	(8,104)	(8,609)	(8,914)	(9,757)	(10,663)
Opex to Sales (%)	-8.2%	-8.1%	-8.1%	-8.1%	-8.2%
Other Income (Expenses)	(8)	106	-	-	-
<b>EBIT</b>	<b>16,104</b>	<b>16,988</b>	<b>18,344</b>	<b>19,148</b>	<b>20,253</b>
<b>EBITDA</b>	<b>16,989</b>	<b>17,962</b>	<b>19,031</b>	<b>19,889</b>	<b>21,028</b>
Net Financing Income (Expenses)	791	973	1,305	1,244	1,005
<b>EBT</b>	<b>16,895</b>	<b>17,961</b>	<b>19,650</b>	<b>20,392</b>	<b>21,258</b>
Tax Expenses	(4,224)	(4,423)	(4,839)	(5,021)	(5,235)
<b>Net Income</b>	<b>12,671</b>	<b>13,538</b>	<b>14,811</b>	<b>15,371</b>	<b>16,023</b>
<b>EPS (IDR)</b>	<b>109</b>	<b>116</b>	<b>127</b>	<b>132</b>	<b>138</b>

<b>Balance Sheet (IDR Bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
Cash & Equivalents	7,502	15,516	14,137	14,161	8,832
Trade Receivables	3,781	3,815	3,328	3,627	3,952
Inventories	18,023	15,183	15,633	17,040	23,243
Other Current Assets	4,874	3,317	4,653	4,398	4,968
<b>Total Current Assets</b>	<b>34,180</b>	<b>37,831</b>	<b>37,751</b>	<b>39,227</b>	<b>40,995</b>
Fixed Assets	6,891	7,288	6,839	6,797	6,527
Other Non Current Assets	2,070	1,483	1,217	1,149	1,122
<b>Total Assets</b>	<b>43,141</b>	<b>46,602</b>	<b>45,808</b>	<b>47,173</b>	<b>48,644</b>
Short Term Debt	-	-	-	-	-
Trade Payables	3,666	3,450	3,839	4,321	4,762
Taxes Payable	1,868	1,688	1,847	1,916	1,998
Other Current Liabilities	949	3,656	996	1,017	1,039
<b>Total Current Liabilities</b>	<b>6,483</b>	<b>8,794</b>	<b>6,681</b>	<b>7,254</b>	<b>7,799</b>
Other Non Current Liabilities	2,545	2,450	2,573	2,791	3,048
<b>Total Liabilities</b>	<b>9,028</b>	<b>11,244</b>	<b>9,254</b>	<b>10,045</b>	<b>10,848</b>
Share & APIC	20,914	21,011	21,011	21,011	21,011
Retained Earnings	12,582	13,731	14,926	15,500	16,169
Others	617	616	616	616	616
<b>Total Equity</b>	<b>34,113</b>	<b>35,358</b>	<b>36,554</b>	<b>37,128</b>	<b>37,796</b>
<b>Total Liabilities &amp; Equity</b>	<b>43,141</b>	<b>46,602</b>	<b>45,808</b>	<b>47,173</b>	<b>48,644</b>

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2017	2018	2019E	2020F	2021F
<b>Net Income</b>	<b>12,671</b>	<b>13,538</b>	<b>14,811</b>	<b>15,371</b>	<b>16,023</b>
Dep. & Amortization	886	974	687	741	775
Chg. In NWC	1,967	6,675	(3,412)	(878)	(6,553)
<b>CF from Operating</b>	<b>15,523</b>	<b>21,187</b>	<b>12,086</b>	<b>15,233</b>	<b>10,246</b>
Capital Expenditure	(881)	(1,372)	(237)	(700)	(504)
Chg. in LT Assets	(105)	587	265	68	27
Others	640	(95)	123	218	257
<b>CF from Investing</b>	<b>(345)</b>	<b>(879)</b>	<b>150</b>	<b>(413)</b>	<b>(220)</b>
Chg. in Share & APIC	(18)	97	-	-	-
Chg. in Debt	-	-	-	-	-
Dividends Paid	(12,714)	(12,390)	(13,616)	(14,796)	(15,355)
Others	(1)	(0)	-	-	-
<b>CF from Financing</b>	<b>(12,733)</b>	<b>(12,293)</b>	<b>(13,616)</b>	<b>(14,796)</b>	<b>(15,355)</b>
Chg. in Cash	2,446	8,015	(1,379)	24	(5,330)
Beginning Cash	5,056	7,502	15,516	14,137	14,161
<b>Ending Cash</b>	<b>7,502</b>	<b>15,516</b>	<b>14,137</b>	<b>14,161</b>	<b>8,832</b>

Financial Ratio & Key Assumptions	2017	2018	2019E	2020F	2021F
<b>Profitability</b>					
Gross Margin	24.4%	23.9%	24.8%	24.1%	23.7%
Operating Margin	16.3%	15.9%	16.7%	16.0%	15.5%
EBITDA Margin	17.1%	16.8%	17.3%	16.6%	16.1%
Net Margin	12.8%	12.7%	13.5%	12.8%	12.3%
<b>Liquidity</b>					
Current Ratio (x)	5.3	4.3	5.7	5.4	5.3
Quick Ratio (x)	1.7	2.2	2.6	2.5	1.6
<b>Solvency</b>					
Debt to Equity (x)	0.0	0.0	0.0	0.0	0.0
Interest Cov. (x)	na	na	na	0.0	0.0
<b>Valuation</b>					
Price to Earnings (x)	33.5	31.4	28.7	27.6	26.5
Price to Book (x)	11.9	12.0	11.6	11.4	11.2
<b>Key assumptions</b>					
Volume (Bn Sticks)	101.3	101.4	101.3	102.3	103.3
% growth	-4.0%	0.1%	-0.1%	1.0%	1.0%
Blended ASP Est.	967	1,044	1,075	1,161	1,254
% growth	8.1%	7.9%	3.0%	8.0%	8.0%
Market Share	32.9%	33.0%	32.7%	32.8%	33.0%

Source: Company Data, Sinarmas Investment Research

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