

Tobacco

Neutral (Maintained)

Margin Improvements And Flattish Sales Volumes

- Top Pick: Hanjaya Mandala Sampoerna (HMSP).** Gudang Garam (GGRM) is using *Ramadan* to raise prices (+2.1% MoM) for low tar low nicotine (LTLN) brands like GG Signature Mild and GG Shiver. HMSP is only raising prices of cheap Sampoerna Kretek and Marlboro Red cigarettes by 1.8% and 0.6% MoM. We think zero excise tax and price hikes should help tobacco players improve GPMs, but – to keep sales from further declines – we expect such players to only increase prices by 3-5% YoY. Still sector NEUTRAL.
- Expecting 1Q25 margins expansions.** Three tobacco companies – HMSP, GGRM, and Wismilak Inti Makmur (WIIM) – have selectively increased prices by c.1-4% between Oct 2024 and Mar 2025. With such price increments and zero excise tax hikes in 2025, we expect their GPMs to expand by 0.5-1% in 1Q25. Additionally, we believe higher retail minimum price hikes in the tier-2 segment (Figure 2) should push tier-2 players to increase prices by 6.8-18.6%. Concurrently, as tier-1 players have already implemented higher-than-regulated retail prices, we hold the view that this means tier-1 products' price increments can be done minimally, but be relatively impactful in terms of GPM expansions.
- WIIM missed price hike opportunity.** WIIM and its Diplomat Evo machine-rolled *kretek* cigarette (SKM) brand have not seen price increments – even during *Ramadan*. Consequently, we do not expect the company to increase this brand's prices going into 2025, as its prices are already 24.8% above the minimum retail price allowed, ie 85% of the minimum retail price. Limited by a maximum production volume of 3m sticks at premium prices in its class in the tier-2 segment, WIIM sales volume in the SKM business should contract – hence, we think revenue growth and GPMs ought to remain stagnant in 2025.
- Preference for HMSP due to its higher dividend yields.** We hold the view that the zero excise tax hikes for tobacco products may not be sufficient for tier-1 companies' sales volume growth, as consumers still prefer cheaper alternatives, ie downtrading – this is based on current demand conditions. However, we believe that price hikes should support margins expansion and, hence, earnings growth. We prefer HMSP for its consistent near 100% payout ratio and higher exposure to the cheaper Sampoerna Kretek – a hand-rolled *kretek* cigarette (SKT) – at IDR1,375/stick.
- Downside risks:** Weaker-than-expected purchasing power, illicit cigarette trade in tier-2 cities, and higher tobacco prices. Upside risk: Greater purchasing power stemming from higher disposable income and lower inflation.

Stocks Covered 3
 Rating (Buy/Neutral/Sell): 2 / 0 / 1
 Last 12m Earnings Revision Trend: Negative

Top Picks

Hanjaya Mandala Sampoerna (HMSP IJ) – BUY

Target Price

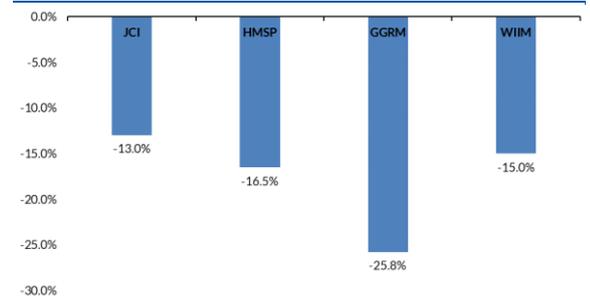
IDR970

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The JCI's returns vs tobacco companies under our coverage



Source: Company data, RHB

Company Name	Rating	Target (IDR)	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
Gudang Garam	Sell	13,700	39.1	4.4	0.3	6.7	12.1
Hanjaya Mandala Sampoerna	Buy	970	83.0	6.2	1.9	33.5	14.4
Wismilak Inti Makmur	Buy	1,380	131.9	2.6	0.5	20.9	9.7

Source: Company data, RHB

25 March 2025

Consumer Non-cyclical | Tobacco

Figure 1: Tobacco retail prices in Nov 2024-Jan 2025 (IDR)

Type	Brand	Cigarette	January 2025	MoM (%)	February 2025	MoM (%)	March 2025	MoM (%)	Price/stick	YTD	
SKM											
Full flavour	GGRM	GG Signature (12)	26.200	0,0%	26.300	0,4%	26.300	0,0%	26.300	0,4%	
		GG International	27.400	0,7%	27.400	0,0%	27.400	0,0%	27.400	0,0%	
		Surya Pro (16)	32.500	0,0%	32.500	0,0%	32.500	0,0%	32.500	0,0%	
	Djarum	Surya Pro Exclusive	47.000	1,3%	47.000	0,0%	47.000	0,0%	47.000	0,0%	
		LA Bold (12)	24.900	0,0%	24.900	0,0%	24.900	0,0%	24.900	0,0%	
		Djarum Super	25.900	0,8%	25.900	0,0%	25.900	0,0%	25.900	0,0%	
		LA Bold (20)	41.000	0,0%	41.000	0,0%	41.000	0,0%	41.000	0,0%	
LTLN	GGRM	GG Signature Mild (16)	33.700	0,0%	34.400	2,1%	34.400	0,0%	34.400	2,1%	
		Surya Pro Mild	33.100	0,0%	33.100	0,0%	33.100	0,0%	33.100	0,0%	
		GG Move	24.500	0,0%	24.500	0,0%	24.500	0,0%	24.500	0,0%	
		GG Shiver	33.000	3,1%	33.000	0,0%	33.700	2,1%	33.700	2,1%	
	HMSP	A Mild	36.200	0,6%	36.300	0,3%	36.500	0,6%	36.500	0,8%	
		Magnum filter mild	30.400	0,0%	30.400	0,0%	30.400	0,0%	30.400	0,0%	
		A Ultra Mild	32.800	0,0%	32.800	0,0%	32.800	0,0%	32.800	0,0%	
	WIIM	Diplomat Evo	25.200	0,0%	25.200	0,0%	25.200	0,0%	25.200	0,0%	
	Djarum	Djarum Super MILD	41.000	0,0%	41.000	0,0%	41.000	0,0%	41.000	0,0%	
	SKT	GGRM	Gudang Garam Merah	16.500	0,0%	16.500	0,0%	16.500	0,0%	16.500	0,0%
HMSP			Djisamsoe	22.000	4,8%	21.200	-3,6%	21.200	0,0%	21.200	-3,6%
Sampoerna Kretek			16.500	0,0%	16.800	1,8%	16.800	0,0%	16.800	1,8%	
Machine-rolled white cigarettes (SPM)	HMSP	Marlboro Red	52.200	0,6%	52.500	0,6%	52.500	0,0%	52.500	0,6%	
		Marlboro Filter Black	43.200	0,7%	43.200	0,0%	43.200	0,0%	43.200	0,0%	
	Bentoel Group	Dunhill	40.000	2,8%	40.000	0,0%	40.000	0,0%	40.000	0,0%	
		Lucky Strike	32.200	3,5%	32.200	0,0%	32.000	-0,6%	32.000	-0,6%	

Source: Retail stores, RHB

Figure 2: Minimum retail price by segment (2024 vs 2025)

	Minimum retail price per stick		% change
	2024	2025	
SKM			
Tier-1	2,260	2,375	5.1%
Tier-2	1,380	1,485	7.6%
SPM			
Tier-1	2,380	2,495	4.8%
Tier-2	1,465	1,565	6.8%
SKT			
Tier-1 (above)	1,980	2,170	9.6%
Tier-1 (range)	1,375	1,555	13.1%
Tier-2	865	995	15.0%
Tier 3	725	860	18.6%

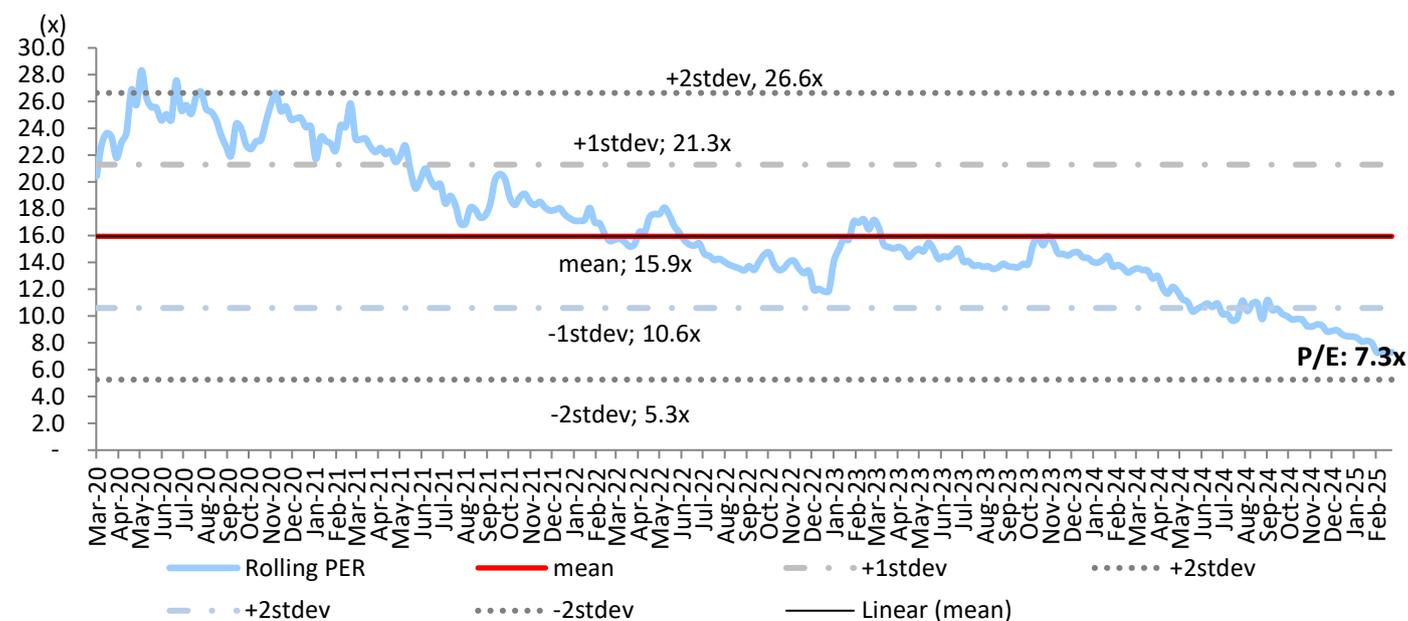
Source: Ministry of Finance, RHB

Figure 3: Peer comparison

Company	Ticker	Market cap (USDm)	P/E (x)	
			2024F	2025F
Hanjaya Mandala Sampoerna	HMSP IJ	3,722	6.9	5.8
Gudang Garam	GGRM IJ	1,144	4.1	4.2
Wismilak Inti Makmur	WIIM IJ	75	3.2	2.6
Global weighted average		4,941	6.2	5.4

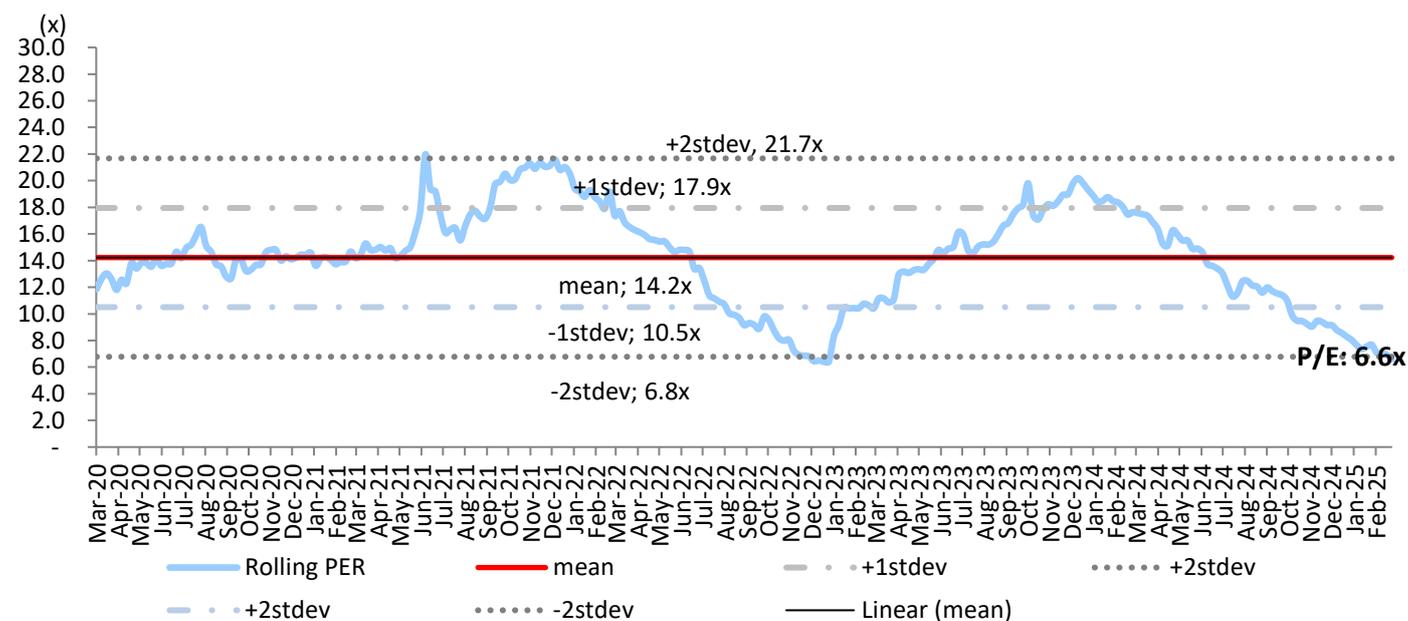
Source: Bloomberg, RHB

Figure 4: HMSP's 5-year P/E band



Source: Bloomberg, RHB

Figure 5: GGRM's 5-year P/E band



Source: Bloomberg, RHB

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