24 June 2024

Consumer Non-cyclical | Tobacco

Wismilak Inti Makmur (WIIM IJ)

Not Rated

Beneficiary Of a Lower Excise Tax Tier

Fair Value (Return):	IDR1,480 (+49%)
Price:	IDR995
Market Cap:	USD127m
Avg Daily Turnover (IDR/USD)	3,350m/0.21m

- **IDR1,480 FV based on c.6.8x 2024F P/E.** Wismilak Inti Makmur, a Tier-2 cigarette producer, is poised to perform better than Tier-1 competitors due to its competitive pricing strategy. As a Tier-2 player, WIIM able to maintain lower prices to appeal to cost-sensitive consumers in the machine rolled *kretek* cigarettes (SKM) and hand rolled *kretek* cigarettes (SKT) segments, particularly as economic pressures continue to affect purchasing power. We believe WIIM's SKT and filter segments will support its growth and maintain profitability leading to it outperforming industry growth.

- **Strong SKT growth to complement stagnant SKM segment.** As of FY23, WIIM sales volume reached 3.8bn sticks (Figure 4), or +8.7% YoY. Growth was driven by the SKT segment, which jumped +86.5% YoY to 882m sticks, accounting for 15.2% of total revenue vs 11.1% in 2022 (Figure 6). Therefore, WIIM has stepped up as a Tier-2 SKT player with a production cap of 2bn sticks/year. On the flip side, SKM sales volume contracted by 3.7% YoY to 2.87bn sticks in 2023, primarily dragged by the drop in Full Flavour SKM (-18.9% YoY) as consumers shift to WIIM's more competitively priced SKM cigarettes low tar low nicotine (LTLN) products.

- **Growing SKT market share.** Low 2024 minimum wage increments of below c.5% have dampened the affordability of SKM products – in March, prices of most Tier-1 SKM rose by 4.9-9.6% YoY to offset excise tax hikes. As such, consumer were downtrading from SKM to the cheaper SKT (c.25% less than SKM at IDR1,472/stick). In 1Q24, SKT market share increased to 30% vs 21% in 2021 (Figure 5). WIIM offers a wide range of SKT products (the latest launch was Wismilak Arja in 2022) and as a Tier 2 SKT player, it could likely sell an additional 1.1bn sticks in 2024 or +126% from 2023 sales volume to reach the Tier-2 production limit.

- **2024F guidance**. Management guided for a mid- to high-single digit topline growth, with the SKT and the filter segments as primary growth drivers. SKT sales volume is expected to grow by 13.4-24.7% YoY with a target sales volume of 1-1.1bn sticks sold in FY24F (vs 882m sticks in 2023). The filter segment is also expected to see 15-20% sales volume growth coming from the higher demand in capsule filters from other Tier-2 SKM players. Meanwhile, SKM is expected to remain flat, with sales volume of c.2.9bn sticks to maintain its Tier-2 threshold, and price hikes should be less aggressive going forward due to lower purchasing power.

- **Undervalued.** WIIM is currently trading at 4.8x FY24F P/E which is a 43.9% discount to peers (Figure 7). Our FV is based on a 6.8x FY24F P/E, or a 20% discount to the peers, given the smaller market share. However, we believe the company's lower pricing product portfolio and consumer downtrading activities will support its growth and maintain profitability, leading in it outperforming industry growth.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Total turnover (IDRb)	1,394	1,994	2,734	3,704	4,875
Recurring net profit (IDRb)	21	173	175	247	493
Recurring net profit growth (%)	(45.2)	707.3	1.0	41.7	99.4
Recurring P/E (x)	97.60	12.09	11.97	8.45	4.24
P/B (x)	2.0	1.8	1.6	1.4	1.1
P/CF (x)	9.86	7.98	9.34	6.49	na
Dividend Yield (%)	0.3	0.4	2.1	2.2	7.2
EV/EBITDA (x)	5.18	2.87	2.47	1.74	1.58
Return on average equity (%)	2.7	15.5	14.1	17.7	29.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

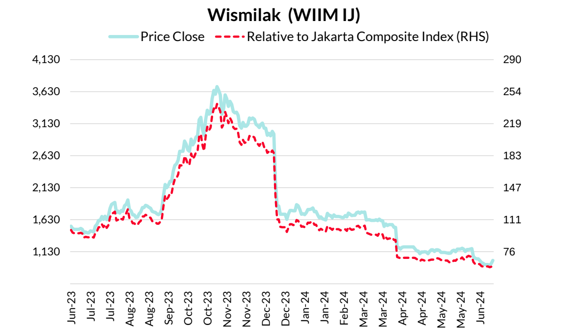
Source: Company data, RHB

Analyst

Indonesia Research
+6221 5093 9888
rhb.id.research@rhbgroup.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(44.0)	(12.0)	(36.4)	|	(33.5)
Relative	(38.6)	(7.7)	(30.1)	(37.4)	(36.1)
52-wk Price low/high (IDR)					915 –3,710



Source: Bloomberg

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia
Indonesia
Consumer Non-cyclical
Wismilak Inti Makmur
WIIM IJ
Not Rated

Valuation basis

P/E

Key drivers

i. Sales volume expansion on downtrading;
ii. Lower excise tax category;
iii. Growing market share on the SKT segment.

Key risks

i. Unfavourable Government regulation on excise tax;
ii. Illicit cigarettes;
iii. Weak consumer purchase power.

Company Profile

Wismilak Inti Makmur is a manufactures hand-rolled and machine-rolled clove-blended cigarettes, and filter. The company distributes its products both domestically and internationally.

Financial summary (IDR)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Recurring EPS	10.19	82.30	83.12	117.75	234.79
DPS	2.50	3.50	20.50	21.60	71.93
BVPS	491.39	564.01	627.05	713.88	878.74
Return on average equity (%)	2.7	15.5	14.1	17.7	29.6

Valuation metrics	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Recurring P/E (x)	97.60	12.09	11.97	8.45	4.24
P/B (x)	2.0	1.8	1.6	1.4	1.1
FCF Yield (%)	13.5	13.5	12.8	17.1	(6.7)
Dividend Yield (%)	0.3	0.4	2.1	2.2	7.2
EV/EBITDA (x)	5.18	2.87	2.47	1.74	1.58
EV/EBIT (x)	65.22	8.19	7.81	4.52	2.97

Income statement (IDRb)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Total turnover	1,394	1,994	2,734	3,704	4,875
Gross profit	432	625	652	789	1,292
EBITDA	361	584	636	796	1,158
Depreciation and amortisation	(332)	(379)	(435)	(490)	(542)
Operating profit	29	205	201	306	615
Net interest	5	12	11	12	19
Pre-tax profit	43	215	215	319	635
Taxation	(16)	(43)	(38)	(70)	(140)
Reported net profit	27	172	177	249	494
Recurring net profit	21	173	175	247	493

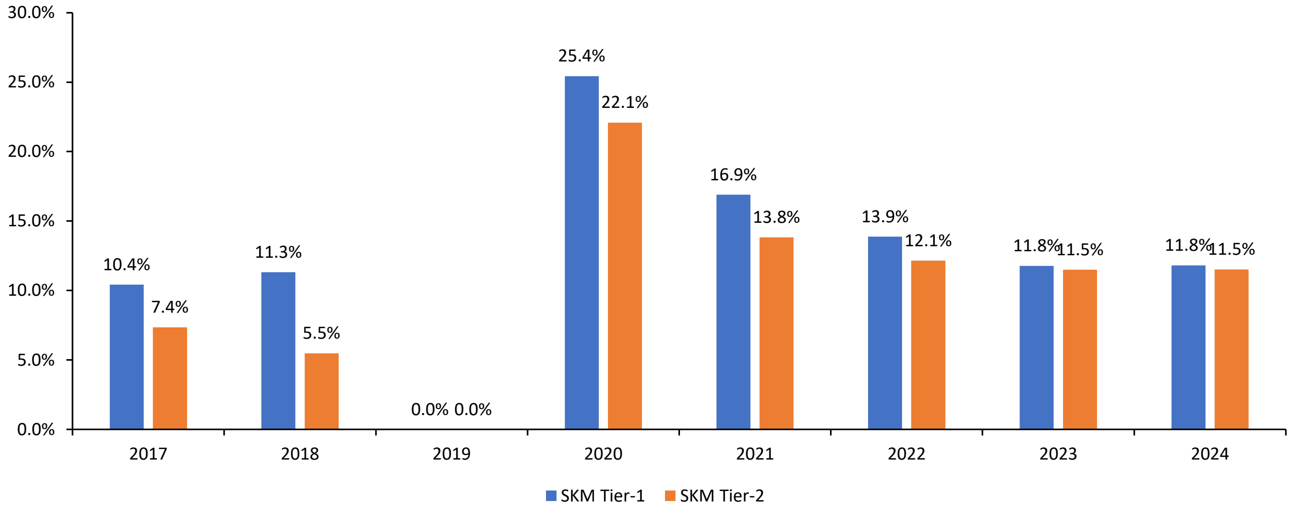
Cash flow (IDRb)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Change in working capital	113	(4)	14	(1)	(748)
Cash flow from operations	212	262	224	322	(210)
Capex	71	19	44	36	70
Cash flow from investing activities	(46)	(39)	(36)	(47)	(119)
Dividends paid	(5)	(7)	(43)	(45)	(151)
Cash flow from financing activities	12	(59)	(95)	(85)	(104)
Cash at beginning of period	87	265	430	522	712
Net change in cash	178	165	93	190	(433)
Ending balance cash	265	430	522	712	279

Balance sheet (IDRb)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Total cash and equivalents	280	430	522	712	299
Tangible fixed assets	329	299	278	260	275
Total assets	1,300	1,614	1,891	2,169	2,576
Short-term debt	28	9	3	4	34
Total long-term debt	29	9	0	0	0
Total liabilities	266	429	573	668	728
Total equity	1,033	1,186	1,318	1,501	1,847
Total liabilities & equity	1,300	1,614	1,891	2,169	2,576

Key metrics	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Revenue growth (%)	(0.8)	43.1	37.1	35.5	31.6
Recurrent EPS growth (%)	(45.2)	707.3	1.0	41.7	99.4
Gross margin (%)	31.0	31.4	23.8	21.3	26.5
Operating EBITDA margin (%)	25.9	29.3	23.3	21.5	23.8
Net profit margin (%)	2.0	8.6	6.5	6.7	10.1
Dividend payout ratio (%)	19.2	4.3	24.4	18.2	30.6
Capex/sales (%)	(5.1)	(1.0)	(1.6)	(1.0)	(1.4)
Interest cover (x)	4.85	50.23	96.41	273.81	670.92

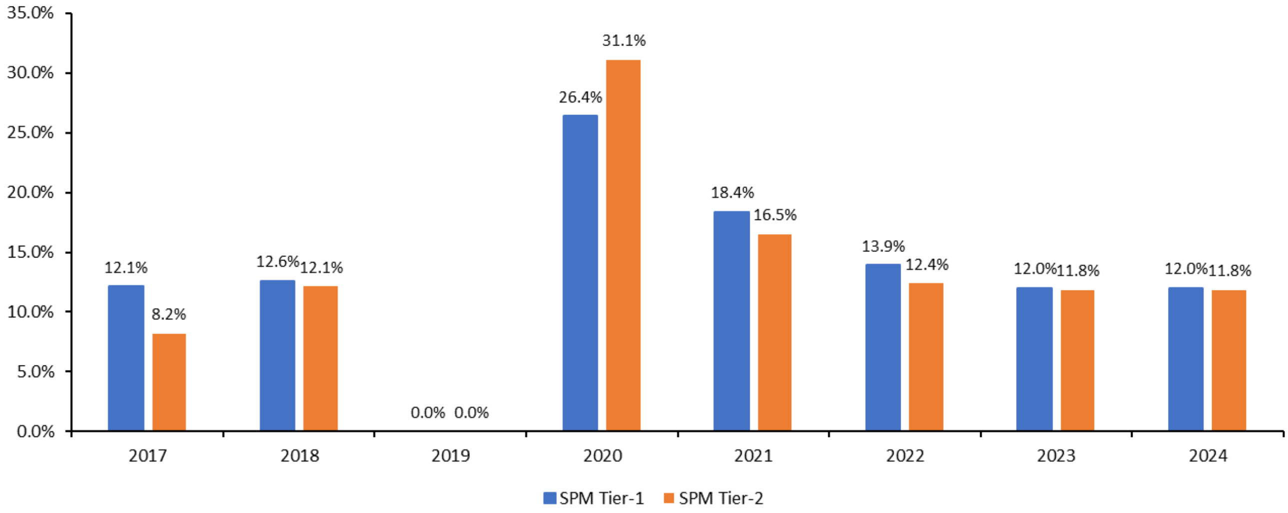
Source: Company data, RHB

Figure 1: SKM excise tax (from 2017 to 2024)



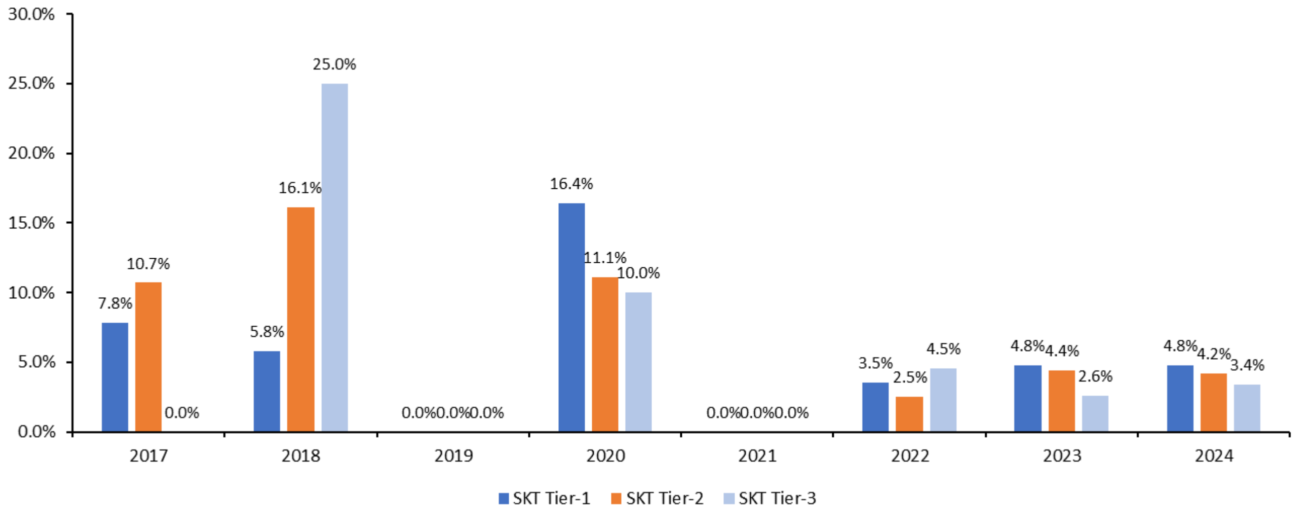
Source: Ministry of Finance, RHB

Figure 2: Machine rolled white cigarettes (SPM) excise tax (from 2017 to 2024)



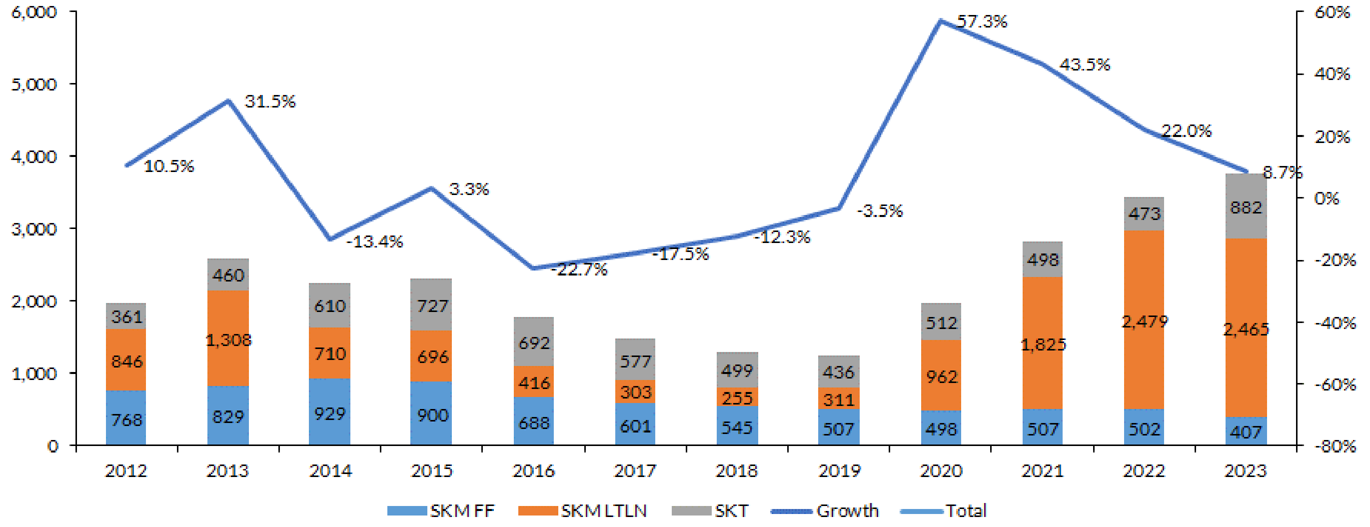
Source: Ministry of Finance, RHB

Figure 3: SKT excise tax (from 2017 to 2024)



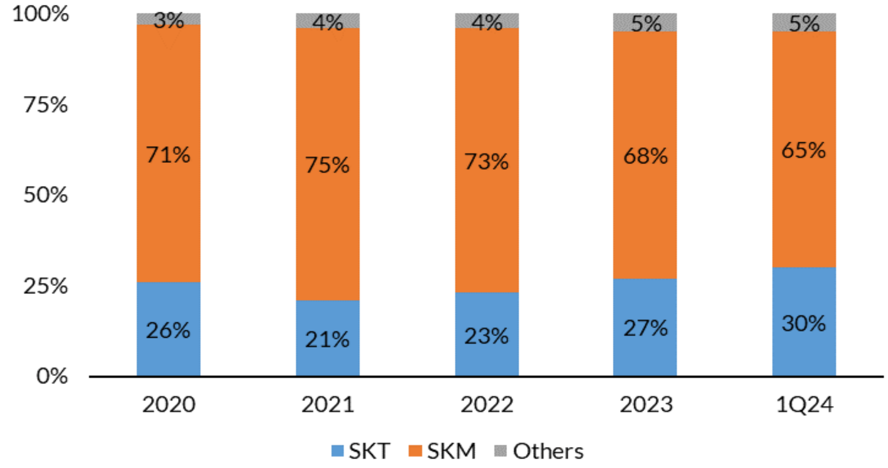
Source: Company data, RHB

Figure 4: WIIM's cigarette sales volume by segment from 2012 to 2023 (in bn sticks)



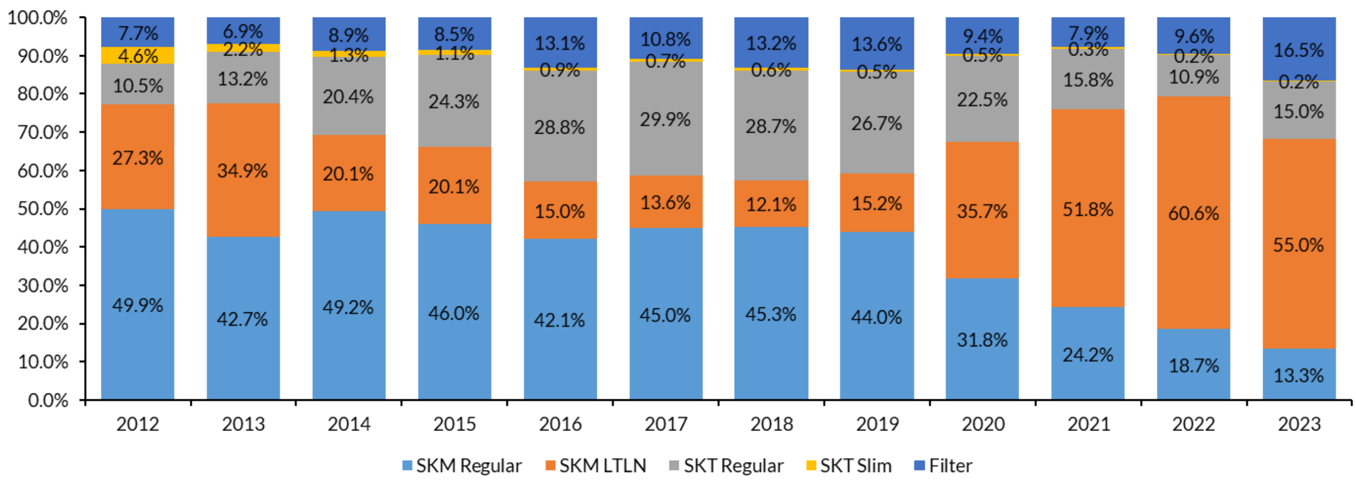
Source: Company data, RHB

Figure 5: Industry market share by segment from 2020 to 1Q24



Source: Company data, RHB

Figure 6: WIIM's sales revenue by segment from 2012 to 2023



Source: Company data, RHB

Figure 7: Peer comparison

Company	Ticker	Market cap (USDm)	P/E (x) 2024F	P/E (x) 2025F
Hanjaya Mandala Sampoerna	HMSP IJ	4,913	9.1	7.7
Gudang Garam	GGRM IJ	2,146	7.3	6.6
Global weighted average		**7,059**	**8.6**	**7.3**

Source: Bloomberg, RHB

Figure 8: Results summary

IDRbn	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)
Revenue	**1,171**	**1,155**	**1,058**	**-8.4%**	**-9.7%**
Export	14	19	29	51.4%	99.6%
Domestic	1,005	973	823	-15.5%	-18.2%
SKM	868	730	609	-16.6%	-29.8%
SKT	137	242	213	-12.1%	55.2%
Cigar	1	1	1	-16.3%	10.3%
Others	151	163	206	26.8%	36.4%
Gross profit	**278**	**290**	**258**	**-11.2%**	**-7.4%**
Gross margin (%)	*23.8%*	*25.1%*	*24.4%*		
Operating expenses	(144)	(228)	(145)	-36.6%	0.9%
EBIT	**135**	**62**	**113**	**83.1%**	**-16.3%**
EBIT margin (%)	*11.5%*	*5.3%*	*10.7%*		
Net profit	**111**	**53**	**91**	**71.1%**	**-18.3%**
Net margin (%)	*9.5%*	*4.6%*	*8.6%*		

Source: Company data, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-02-28	Not Rated	na	730

Source: RHB, Bloomberg

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470