

Tobacco

Neutral (Maintained)

Cap On Minimum Price Hike To Support Tier-1 Players

- Top Pick: Hanjaya Mandala Sampoerna (HMSP).** HMSP and Gudang Garam (GGRM) have increased their prices this month by 0.6-4.8% (Figure 1), while the excise tax rate remains unchanged. Meanwhile, a higher minimum retail price cap (HJE) on tier-2-and-under names should benefit tier-1 players, and the cancellation of the 12% value-added tax (VAT) in 2025 should buoy sales volumes. While we expect sales volume growth to remain flattish in 2025 due to stagnant consumer purchasing power, tobacco companies should enjoy margin growth, and likely earnings growth. Maintain NEUTRAL on sector.
- Higher retail minimum price hike on tier-2 companies to support tier-1 players.** Although the excise tax rate on cigarettes has not been increased, the Government is pushing for the HJE to rise. This would make up for the lack of an excise tax rate hike boosting government revenue, and reduce tobacco consumption. The hikes in HJE will range from 4.8% to 18.6%, with the highest increases being for below-tier-1 hand-rolled kretek cigarettes (SKT) (Figure 2). In the machine-rolled kretek cigarette (SKM) and white machine-rolled cigarette (SPM) categories, HJE hikes for tier-2 companies are also higher than that of tier-1 firms. As such, this may partly support the price competitiveness of tier-1 companies – so we are likely to see volume growth being more flattish (vs a decline).
- Expect HMSP and GGRM to book earnings growth in 1Q25.** As tier-1 players, HMSP and GGRM should benefit from lower mandatory HJE hikes. HMSP's highest price hike is for the Dji Sam Soe brand – up by 4.8% MoM to IDR1,833/stick. This is almost close to the price of the cheapest tier-1 SKM, ie Magnum Filter at IDR1,900/stick. We expect HMSP to gradually increase its SKM price, as GGRM has aggressively pushed up its GG Shiver price by 3.1% MoM. GGRM and HMSP are likely to keep increasing prices going into 2Q25, so their GPMs for FY25 may recover to 2021 levels.
- Wismilak Inti Makmur (WIIM) likely to follow suit and raise its prices in the coming months.** WIIM has been less aggressive on price hikes – the price of its Diplomat Evo cigarettes rose by only 2% YoY in 2024. We believe that WIIM will most likely start raising its prices in March (after tier-1 players' SKT price hikes) by 3% - to remain competitive, at the very least. Therefore, we expect WIIM's margin expansion to come slightly later than that of its tier-1 peers.
- Prefer HMSP due to higher dividend yields.** The zero excise tax hike for tobacco products might not be sufficient to boost tier-1 companies' sales volume growth, as consumers would still prefer cheaper alternatives (downtrading), based on the current demand conditions. However, price hikes should support their margin and earnings growth. We prefer HMSP for its consistent near-100% payout ratio and higher exposure to the cheaper Sampoerna Kretek, a SKT product, at IDR1,375/stick
- Risks.** Downside risks are weaker-than-expected purchasing power, illicit cigarette trade in tier-2 cities, and higher tobacco prices. Upside risks are 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 Pick

Hanjaya Mandala Sampoerna (HMSP IJ) – BUY

Target Price

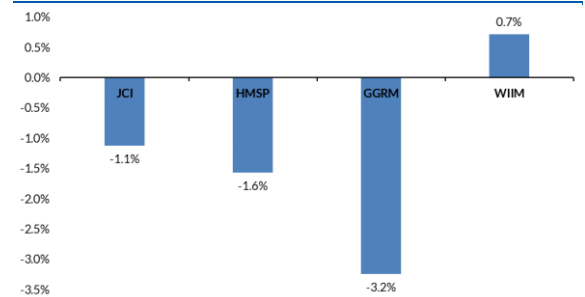
IDR970

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The JCI's return vs tobacco companies we cover



Source: Company data, RHB

ESG scores of tobacco stocks under our coverage

Company	ESG score
Hanjaya Mandala Sampoerna (HMSP IJ)	3.3
Gudang Garam (GGRM IJ)	3.1
Wismilak Inti Makmur (WIIM IJ)	3.0

Source: 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	8.1	5.6	0.4	6.7	9.4
Hanjaya Mandala Sampoerna	Buy	970	55.2	7.3	2.2	33.5	12.2
Wismilak Inti Makmur	Buy	1,380	97.1	3.0	0.6	20.9	8.2

Source: Company data, RHB

8 January 2025

Consumer Non-cyclical | Tobacco

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

Type	Brand	Cigarette	November 2024	MoM	December 2024	MoM	January 2025	MoM	Price/stick	Nov-Jan	
Machine-rolled kretek cigarettes (SKM)											
Full flavour	GGRM	GG Signature (12 pcs)	26,200	0.0%	26,200	0.0%	26,200	0.0%	2,183	0.0%	
		GG International	27,200	0.0%	27,200	0.0%	27,400	0.7%	2,283	0.7%	
		Surya Pro (16 pcs)	32,500	0.0%	32,500	0.0%	32,500	0.0%	2,031	0.0%	
	Djarum	Surya Pro Exclusive	46,400	0.0%	46,400	0.0%	47,000	1.3%	2,938	1.3%	
		LA Bold (12 pcs)	24,900	0.0%	24,900	0.0%	24,900	0.0%	2,075	0.0%	
		Djarum Super	25,700	0.0%	25,700	0.0%	25,900	0.8%	2,158	0.8%	
		LA Bold (20)	41,000	0.0%	41,000	0.0%	41,000	0.0%	2,050	0.0%	
Low tar low nicotine (LTLN)	GGRM	GG Signature Mild (16)	33,700	0.0%	33,700	0.0%	33,700	0.0%	2,106	0.0%	
		Surya Pro Mild	33,100	0.0%	33,100	0.0%	33,100	0.0%	2,069	0.0%	
		GG Move	24,500	0.0%	24,500	0.0%	24,500	0.0%	2,042	0.0%	
	HMSP	GG Shiver	32,000	0.0%	32,000	0.0%	33,000	3.1%	2,063	3.1%	
		A Mild	36,000	0.0%	36,000	0.0%	36,200	0.6%	2,263	0.6%	
		Magnum filter mild	30,400	0.0%	30,400	0.0%	30,400	0.0%	1,900	0.0%	
	WIIM	A Ultra Mild	32,800	0.0%	32,800	0.0%	32,800	0.0%	2,050	0.0%	
		Diplomat Evo	25,200	0.0%	25,200	0.0%	25,200	0.0%	1,575	0.0%	
		Djarum Super MILD	41,000	0.0%	41,000	0.0%	41,000	0.0%	2,050	0.0%	
Hand-rolled kretek cigarettes (SKT)	GGRM	Gudang Garam Merah	16,500	0.0%	16,500	0.0%	16,500	0.0%	1,375	0.0%	
		HMSP	Djisamsoe	21,000	0.0%	21,000	0.0%	22,000	4.8%	1,833	4.8%
		Sampoerna Kretek	16,500	0.0%	16,500	0.0%	16,500	0.0%	1,375	0.0%	
Machine-rolled white cigarettes (SPM)	HMSP	Marlboro Red	51,900	0.0%	51,900	0.0%	52,200	0.6%	2,610	0.6%	
		Marlboro Filter Black	42,900	0.0%	42,900	0.0%	43,200	0.7%	2,160	0.7%	
	Bentoel Group	Dunhill	38,900	0.0%	38,900	0.0%	40,000	2.8%	2,000	2.8%	
		Lucky Strike	31,100	0.0%	31,100	0.0%	32,200	3.5%	1,610	3.5%	

Source: Company data, RHB

Figure 2: Comparison of prices (2024 vs 2025)

	Minimum retail price/stick		% change
	2024	2025	
Machine-rolled kretek cigarettes (SKM)			
Tier-1	2,260	2,375	5.1%
Tier-2	1,380	1,485	7.6%
Machine-rolled white cigarettes (SPM)			
Tier-1	2,380	2,495	4.8%
Tier-2	1,465	1,565	6.8%
Hand-rolled kretek cigarettes (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%

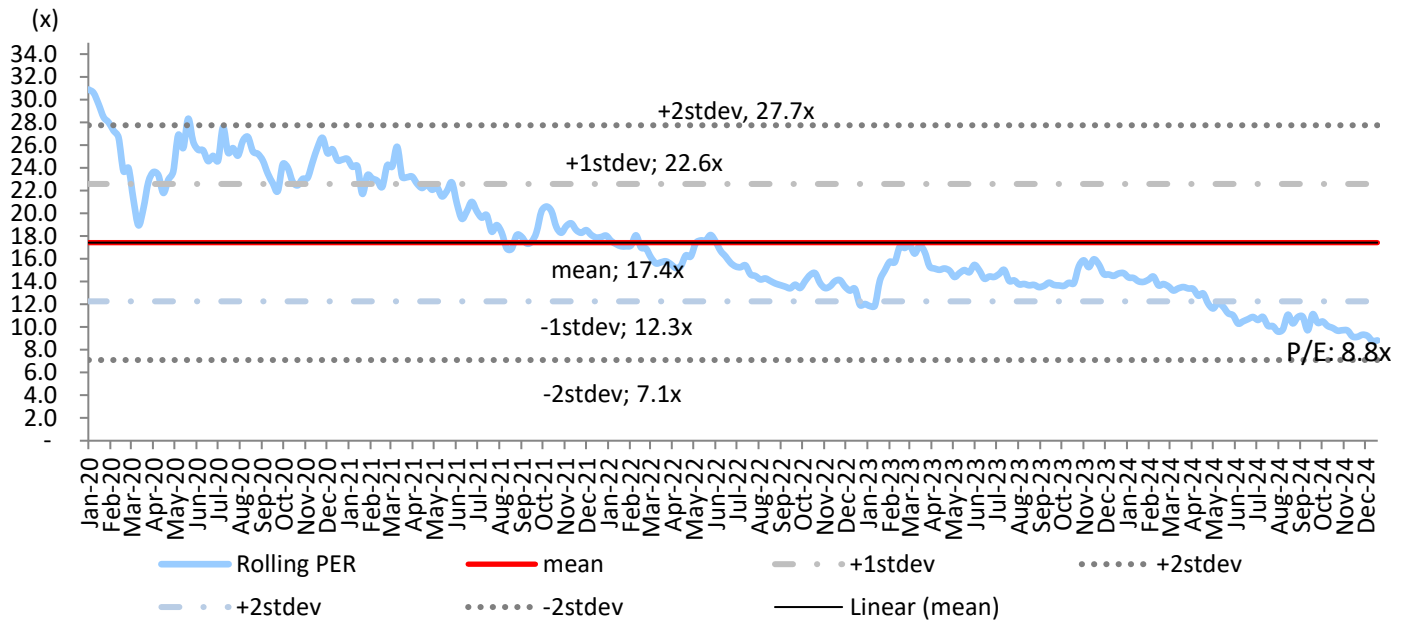
Source: Ministry of Finance, RHB

Figure 3: Peer comparison

Company	Ticker	Market cap (USDm)	P/E (x)	
			2024F	2025F
Hanjaya Mandala Sampoerna	HMSP IJ	4,500	8.2	6.9
Gudang Garam	GGRM IJ	1,510	5.3	5.4
Wismilak Inti Makmur	WIIM IJ	91	3.7	3.0
Global weighted average		6,101	7.4	6.5

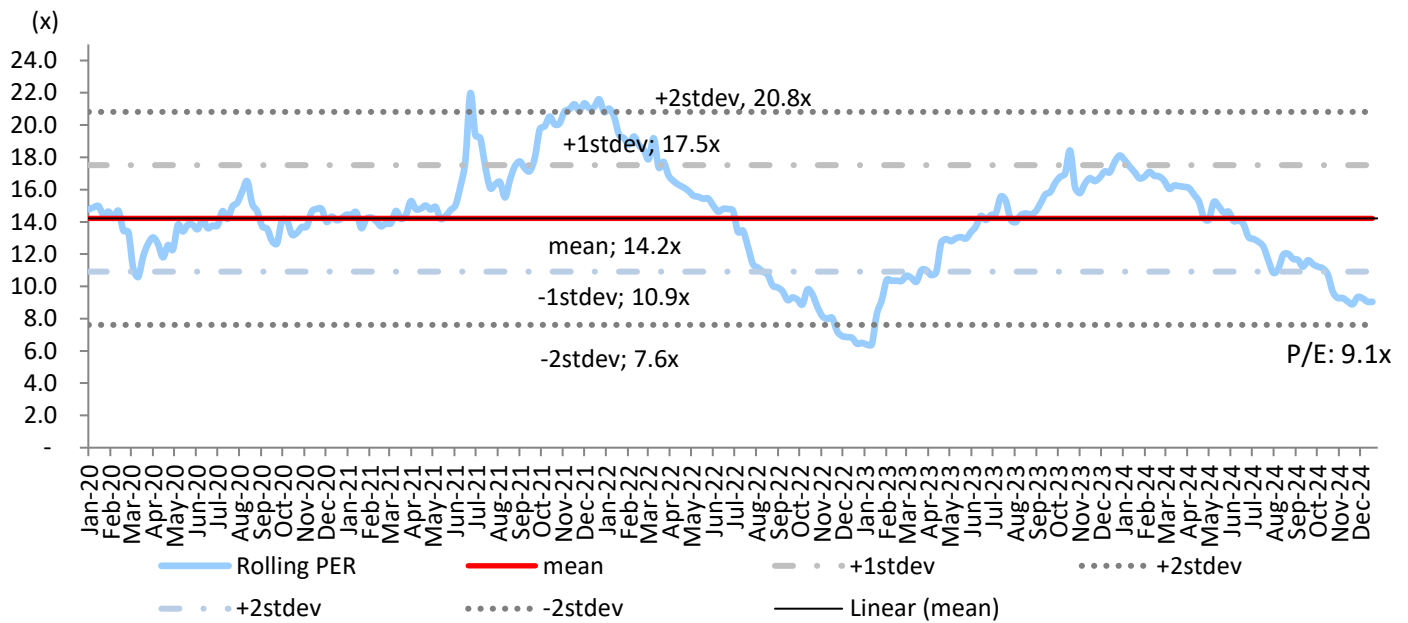
Source: Bloomberg, RHB

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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