

29 April 2021

Consumer Non-cyclical | Tobacco

Hanjaya Mandala Sampoerna (HMSP IJ)

Neutral (Maintained)

Higher-Than-Expected Results On Sales Mix

Target Price (Return): IDR1,400 (+6%)
 Price: IDR1,325
 Market Cap: USD10,629m
 Avg Daily Turnover (IDR/USD) 59,162m/4.14m

- **Maintain NEUTRAL and TP at IDR1,400, 6% upside.** Hanjaya Mandala Sampoerna recently posted strong 1Q21 results. EBIT margin recovered +5.1ppts QoQ, supported by GPM expansion and lower depreciation cost. Aside from its favourable sales mix to higher margin products, the company managed to lower production and opex costs, supporting margins. 1Q21 NPAT was above expectations at 30% of our and consensus estimates. We remain cautious for margin normalisation in 2Q21F.

- **Strict cost efficiencies, driving up margins.** HMSP recorded COGS and operating expenses excluding excise tax per stick at -14.3% QoQ and +0.6% YoY. This was driven by lower raw material costs, depreciation costs and salaries expenses. We believe the company paid most of the *Lebaran* festive bonus at end-2020, as permitted by the Government, which resulted in a large decline in salary costs on a QoQ basis. 2021 festive bonus has to be paid in 2Q21, so we expect EBIT margin to normalise. Nevertheless, lower raw material costs and favourable sales mix should continue to provide support to gross margins going forward.

- **Favourable sales mix.** Solid topline in 1Q21 was mainly driven by ASP as HMSP effectively increased its pricing by end-4Q20. However, overall market share corrected by -20bps QoQ and -2.3ppts YoY to 28.1%. Sampoerna A market share improved 10bps QoQ (but -40bps YoY) to 12.2%. This trend of improving market share is likely to continue if Tier-1 mid-range cigarettes fully comply with the Government's retail floor price (HJE). Its SKM segment market share has started to recover to 24.4% (+30bps QoQ, -3.3ppts YoY). However, SKT market share dropped by 2.2ppts QoQ, (-30bps YoY), primarily due to Dji Sam Soe (DSS) as its sales volume fell by 11% QoQ and 7.1% YoY.

- **1Q21 results highlight:** NPAT reached IDR2.6trn (+55% QoQ, -22% YoY), translating to 30% of our and consensus FY21F. This was mainly driven by better sales mix and lower production and opex costs. Hence, this resulted net margin improvement to 11% (+4.2ppts QoQ, -3ppts YoY). Topline was booked at IDR23.6trn (-4.4% QoQ, -0.6% YoY), translating to 26% and 25% of our and consensus FY21F.

- **Outlook: Further downtrading, lowering HMSP's market share, but any consolidation or HJE enforcement provides upside risks.** Post 1Q21 results, we raise our FY21F-22F by 2%, mainly taking into account the lower effective raw material costs and operational efficiencies. Note that HMSP's long inventory turnover should translate to longer effective cheap raw materials. HJE enforcement could eliminate price competition and improve margins, but in practicality, it is hard to be implemented. Nojorono Family, one of the five Tier-1 cigarette manufacturers, has opted to downgrade to a lower tier tax on plummeted annual sales volume (reaching below 3bn sticks). As a result, Tier-1 players are now only: HMSP, Gudang Garam (GGRM IJ, NEUTRAL, TP: IDR36,000), Djarum, and Bentoel.

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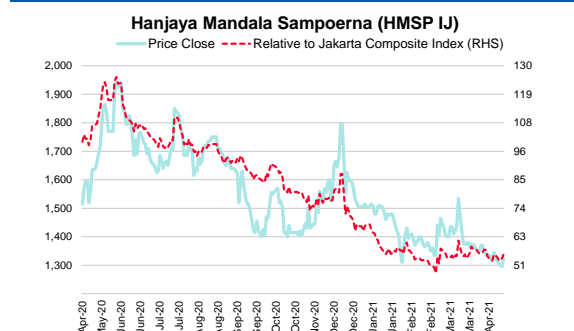


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.0)	(3.6)	(1.9)	(6.4)	(12.6)
Relative	(11.9)	0.0	(1.8)	(22.9)	(44.5)
52-wk Price low/high (IDR)	1,295 – 1,940				



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (IDRb)	106,055	92,425	91,791	94,247	96,760
Recurring net profit (IDRb)	13,694	10,657	8,857	10,219	11,095
Recurring net profit growth (%)	1.7	(22.2)	(16.9)	15.4	8.6
Recurring P/E (x)	11.25	14.46	17.40	15.08	13.89
P/B (x)	4.3	5.1	5.1	4.9	4.7
P/CF (x)	8.56	11.61	13.67	12.85	11.95
Dividend Yield (%)	8.8	9.0	5.6	5.7	6.6
EV/EBITDA (x)	7.33	9.99	11.40	9.79	8.95
Return on average equity (%)	38.6	32.4	29.3	33.0	34.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (IDR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Indonesia	Recurring EPS	117.73	91.62	76.15	87.86	95.38
Consumer Non-cyclical	DPS	117.20	119.80	73.78	76.15	87.86
Hanjaya Mandala Sampoerna	BV/PS	306.74	259.99	260.65	272.36	279.89
HMSP IJ	Return on average equity (%)	38.6	32.4	29.3	33.0	34.5
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Valuation basis	Recurring P/E (x)	11.25	14.46	17.40	15.08	13.89
We derive our 12-month TP of IDR1,400 with DCF calculation assuming WACC of 11.9%.	P/B (x)	4.3	5.1	5.1	4.9	4.7
	FCF Yield (%)	11.1	8.2	7.1	7.2	7.9
	Dividend Yield (%)	8.8	9.0	5.6	5.7	6.6
Key drivers	EV/EBITDA (x)	7.33	9.99	11.40	9.79	8.95
i. Higher interest income;	EV/EBIT (x)	7.92	11.05	12.36	10.52	9.57
ii. New products launch;						
iii. Stronger-than-expected consumer purchase power.						
	Income statement (IDRb)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Key risks	Total turnover	106,055	92,425	91,791	94,247	96,760
i. Continued decline of market share;	Gross profit	26,123	18,771	18,529	20,672	22,244
ii. Tight competition;	EBITDA	18,452	13,841	11,935	13,665	14,734
iii. Cut in fuel subsidies;	Depreciation and amortisation	(1,374)	(1,328)	(923)	(948)	(957)
iv. Weak consumer purchase power.	Operating profit	17,077	12,513	11,011	12,717	13,776
	Net interest	1,145	716	643	730	822
	Pre-tax profit	18,259	13,272	11,654	13,446	14,598
	Taxation	(4,538)	(2,580)	(2,797)	(3,227)	(3,504)
	Reported net profit	13,722	10,692	8,857	10,219	11,095
	Recurring net profit	13,694	10,657	8,857	10,219	11,095
Company Profile	Cash flow (IDRb)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Hanjaya Mandala Sampoerna manufactures hand-rolled and machine-rolled clove-blended cigarettes. The company distributes its products both domestically and internationally.	Change in working capital	3,372	1,605	1,496	828	847
	Cash flow from operations	18,015	13,273	11,277	11,996	12,899
	Capex	(948)	(633)	(355)	(889)	(682)
	Cash flow from investing activities	(1,356)	(352)	(342)	(940)	(734)
	Cash flow from financing activities	(13,355)	(15,937)	(8,798)	(8,786)	(10,146)
	Cash at beginning of period	15,516	18,821	15,804	17,940	20,211
	Net change in cash	3,305	(3,016)	2,136	2,271	2,018
	Ending balance cash	18,821	15,804	17,940	20,211	22,229
	Balance sheet (IDRb)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	18,821	15,804	17,940	20,211	22,229
	Tangible fixed assets	7,298	6,583	6,015	5,955	5,680
	Total investments	82	80	80	80	80
	Total assets	50,903	49,674	49,644	51,148	52,311
	Total liabilities	15,223	19,433	19,325	19,468	19,755
	Total equity	35,680	30,241	30,319	31,681	32,556
	Total liabilities & equity	50,903	49,674	49,644	51,148	52,311
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(0.6)	(12.9)	(0.7)	2.7	2.7
	Recurrent EPS growth (%)	1.7	(22.2)	(16.9)	15.4	8.6
	Gross margin (%)	24.6	20.3	20.2	21.9	23.0
	Operating EBITDA margin (%)	17.4	15.0	13.0	14.5	15.2
	Net profit margin (%)	12.9	11.6	9.6	10.8	11.5
	Dividend payout ratio (%)	99.4	130.3	96.9	86.7	92.1
	Capex/sales (%)	0.9	0.7	0.4	0.9	0.7
	Interest cover (x)	319	250			

Source: Company data, RHB

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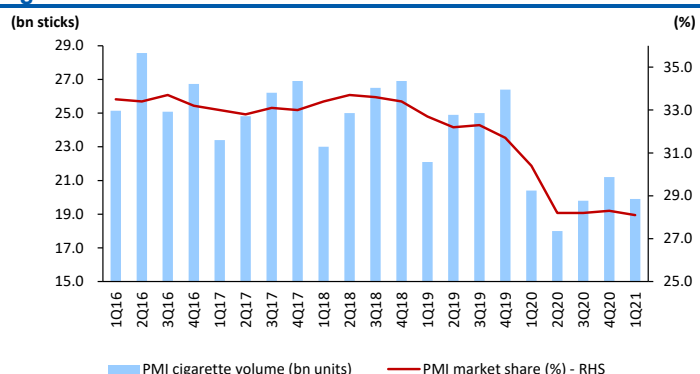
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Figure 1: HMSP's 1Q21 results

HMSP				QoQ	YoY			YoY	FY21/ RHB	FY21/ Cons
IDRbn	1Q20	4Q20	1Q21	(%)	(%)	3M20	3M21	(%)		
Sales	23,689	24,647	23,558	(4.4)	(0.6)	23,689	23,558	(0.6)	25.7	24.9
Gross profit	5,868	4,537	5,037	11.0	(14.1)	5,868	5,037	(14.1)		
Selling expense	1,370	1,878	1,423	(24.2)	3.9	1,370	1,423	3.9		
G&A expense	546	624	456	(26.9)	(16.5)	546	456	(16.5)		
Operating profit	3,952	2,035	3,158	55.2	(20.1)	3,952	3,158	(20.1)	28.7	31.6
Net interest income/(expense)	306	136	121	(11.2)	(60.6)	306	121	(60.6)		
Interest income	317	150	131	(12.2)	(58.6)	317	131	(58.6)		
Interest expense	(12)	(14)	(11)	(22.7)	(6.5)	(12)	(11)	(6.5)		
Other income/ (expense)	52	12	34	189.7	(35.5)	52	34	(35.5)		
Pretax profit	4,310	2,183	3,312	51.8	(23.1)	4,310	3,312	(23.1)		
Taxation	(988)	(512)	(726)	41.8	(26.5)	(988)	(726)	(26.5)		
Net profit	3,322	1,671	2,586	54.8	(22.1)	3,322	2,586	(22.1)	29.2	30.2
Margin										
Gross margin (%)	24.8	18.4	21.4	3.0	(3.4)	24.8	21.4	(3.4)		
Operating margin (%)	16.7	8.3	13.4	5.1	(3.3)	16.7	13.4	(3.3)		
Pretax margin (%)	18.2	8.9	14.1	5.2	(4.1)	18.2	14.1	(4.1)		
Net margin (%)	14.0	6.8	11.0	4.2	(3.0)	14.0	11.0	(3.0)		
Inventory Days	102	77	99			102				
Receivable Days	9	13	8			9				
Payable Days	19	16	17			19				
Balance Sheet Highlights										
Total cash	13,026	15,804	14,021			13,026				
Total debt	-	-	-			-				
Net gearing (%)	nc	nc	nc			nc				
Equity	39,068	30,241	32,848			39,068				

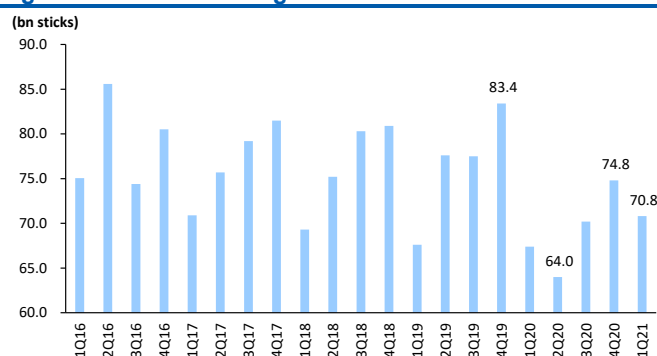
Source: Company data, RHB

Figure 2: HMSP's sales volume and market share trend



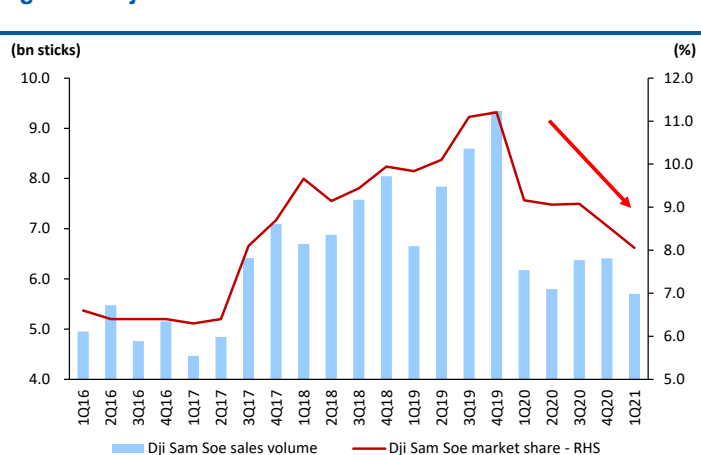
Source: Company data, RHB

Figure 3: Indonesia's cigarette sales volume trend



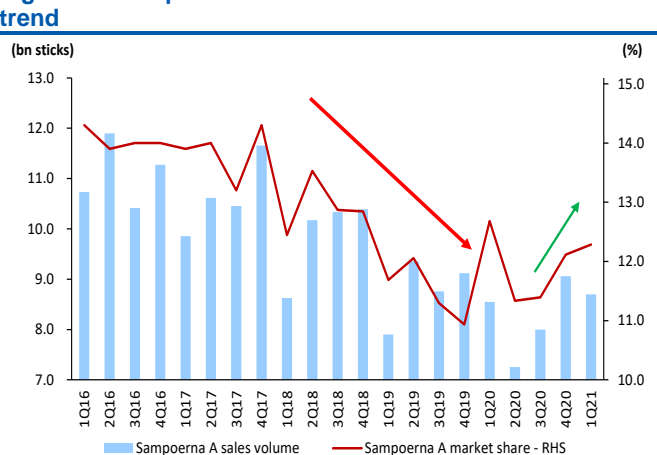
Source: Company data, RHB

Figure 4: Dji Sam Soe's sales volume and market share trend



Source: Company data, RHB

Figure 5: Sampoerna A's sales volume and market share trend



Source: Company data, RHB

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Figure 6: RHB vs Street estimates

IDRbn	RHB			Consensus			RHB/Cons (%)		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Net revenue	91,791	94,247	96,760	94,740	101,623	111,268	96.9	92.7	87.0
Gross profit	18,529	20,672	22,244	17,889	19,577	20,744	103.6	105.6	107.2
EBITDA	11,935	13,665	14,734	11,020	11,575	12,251	108.3	118.1	120.3
EBIT	11,011	12,717	13,776	9,987	10,549	11,546	110.3	120.5	119.3
NPAT	8,857	10,219	11,095	8,550	9,045	9,730	103.6	113.0	114.0
GPM	20.2%	21.9%	23.0%	18.9%	19.3%	18.6%			
EBIT Margin	12.0%	13.5%	14.2%	10.5%	10.4%	10.4%			

Source: Bloomberg, RHB

Figure 7: Changes on earnings estimate

	New			Old			New/ Old (%)		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Income Statement (IDRbn)									
Total Turnover	91,791	94,247	96,760	91,791	94,247	96,760	-	-	-
Gross Profit	18,529	20,672	22,244	18,393	20,489	22,023	0.7	0.9	1.0
EBITDA	11,935	13,665	14,734	11,674	13,479	14,653	2.2	1.4	0.6
Net Profit	8,857	10,219	11,095	8,659	10,071	11,029	2.3	1.5	0.6
Key Metrics									
EPS (IDR)	76.1	87.9	95.4	74.4	86.6	94.8	2.3	1.5	0.6
BVPS (IDR)	260.7	272.4	279.9	258.9	271.1	279.3	0.7	0.5	0.2
EPS Growth (%)	3.2	15.4	8.6	0.9	16.3	9.5			
Gross Margin (%)	20.2	21.9	23.0	20.0	21.7	22.8			
EBITDA Margin (%)	13.0	14.5	15.2	12.7	14.3	15.1			
Net Profit Margin (%)	9.6	10.8	11.5	9.4	10.7	11.4			
Return on average equity (%)	29.2	32.3	34.1	28.7	31.9	33.9			

Source: RHB

Figure 8: DCF valuation

IDRbn	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
EBIT	11,011	12,717	13,776	13,608	16,607	18,672	20,920	23,266	25,817	26,854	27,809
EBIT (1-t)	8,369	9,665	10,470	10,342	12,621	14,191	15,899	17,682	19,621	20,409	21,135
Depreciation & Amortization	923	948	957	945	956	940	928	956	984	982	979
Change in working capital	1,496	828	847	(68)	(751)	(620)	(683)	(753)	(777)	(552)	(589)
Capex	(355)	(889)	(682)	(347)	(799)	(360)	(467)	(1,309)	(1,420)	(886)	(944)
Net free cash flow to firm	10,433	10,553	11,592	10,872	12,027	14,150	15,676	16,577	18,407	19,953	20,581
Terminal Value											173,603
PV	10,433	9,434	9,265	7,769	7,683	8,081	8,004	7,567	7,512	7,280	63,337
Terminal growth	0.0%										
WACC	11.9%										
Total discounted firm value	146,364										
Less: net debt	(17,940)										
Less: minority interest	-										
Equity value	164,305										
Number of shares (bn)	116										
Equity value per share (IDR)	1,413										

Source: RHB

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Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-03-24	Neutral	1,400	1,375
2020-12-11	Neutral	1,550	1,555
2020-11-19	Buy	1,850	1,560
2020-07-22	Neutral	1,950	1,780
2020-03-31	Buy	2,200	1,425
2019-10-28	Buy	2,500	2,180
2019-09-16	Neutral	2,800	2,290
2019-07-29	Buy	3,500	2,820
2019-05-14	Sell	2,900	3,450

Source: RHB, Bloomberg

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