

## COMPANY UPDATE

**HM Sampoerna (HMSP IJ)**

An Encouraging Year Ahead With Potential Recovery In NPAT

**2023 could be an encouraging year for cigarette manufacturers such as HMSP. This is due to: a) the excise tax increase for 2023 being mild at about 10%, b) a potential recovery in consumption volume, c) potential margin expansion as pulp and plastic packaging prices decline, and d) pricing power returning to producers. Cigarette consumption up-trading could happen in 2023. HMSP has completed the Smoke Free IQOS factory. Maintain BUY with a new target price of Rp1,300.**

## WHAT'S NEW

- **Recovery in cigarette consumption volume in 2023.** Based on industry data submitted by HMSP, Djarum and GGRM, Indonesia's domestic cigarettes volume declined by 3.6% in 2022. Despite the decline in industry volume, HM Sampoerna (HMSP) managed to record a 4.8% rise in sales volume to 310b sticks sold. We believe that in 2023, industry sales volume could recover and once again rise. This should benefit HMSP in terms of increased consumption volume and pricing power.
- **US\$186m investment in smoke-free tobacco products (IQOS ILUMA).** HMSP completed a US\$186m investment in a production facility in 4Q22 in Karawang, West Java for smoke-free tobacco products. This is the first production facility in Southeast Asia for Philip Morris, and the 7th in the world. This facility will serve the demands in Asia Pacific and domestic markets. IQOS ILUMA will be manufactured here, which is a product that can lower the level of harmful chemicals in traditional cigarettes up to 95%. The products have been launched in 10 cities in Indonesia under IQOS Club.
- **Mild excise tax increase of 10% on average for 2023-24.** The Ministry of Finance has decided that cigarettes excise tax will rise by an average of 10% in 2023 and 2024. For unfiltered hand-rolled clove cigarettes, the excise tax increase will be 5% for the largest producers. The excise tax increase for machine-rolled clove cigarettes will be 11.5-11.75% for the largest producers. For non-clove machine-rolled cigarettes, the excise tax hike will be 11-12%. For e-cigarettes, the increase will be 15% in 2023-24.
- **Potential 31.4% growth in 2023 NPAT.** Aside from a potential recovery in volume and the mild excise tax increase in 2023, HMSP could also benefit from the decline in packaging cost (virgin pulp paper and plastic packaging) in 2023. Thus, we foresee a potential 31.4% recovery in 2023 NPAT, vs an 11.4% decline in 2022.

## KEY FINANCIALS

Year to 31 Dec (Rpb)	2021	2022	2023F	2024F	2025F
Net turnover	98,875	111,211	115,150	125,823	137,522
EBITDA	9,438	8,745	11,157	11,661	12,524
Operating profit	8,366	7,753	10,104	10,572	11,374
Net profit (rep./act.)	7,137	6,324	8,306	8,693	9,329
Net profit (adj.)	7,137	6,324	8,306	8,693	9,329
EPS (Rp)	61.4	54.4	71.4	74.7	80.2
PE (x)	16.2	18.3	13.9	13.3	12.4
P/B (x)	4.0	4.1	3.9	3.9	3.8
EV/EBITDA (x)	10.1	10.9	8.5	8.1	7.6
Dividend yield (%)	7.4	6.2	5.7	7.3	7.7
Net margin (%)	7.2	5.7	7.2	6.9	6.8
Net debt/(cash) to equity (%)	(59.9)	(9.9)	(69.8)	(73.4)	(86.3)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	24.0	22.0	28.7	29.2	31.0
Consensus net profit	-	-	8,352	9,181	11,915
UOBKH/Consensus (x)	-	-	0.99	0.95	0.78

Source: HM Sampoerna, Bloomberg, UOB Kay Hian

## BUY

## (Maintained)

Share Price	Rp995
Target Price	Rp1,300
Upside	+30.7%
(Previous TP:	Rp1,700)

## COMPANY DESCRIPTION

Owned by Phillip Morris; one of the largest hand-rolled and machine-made cigarettes manufacturer

## STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	HMSP IJ
Shares issued (m):	116,318.1
Market cap (Rpb):	115,736.5
Market cap (US\$m):	7,770.2
3-mth avg daily t'over (US\$m):	3.3

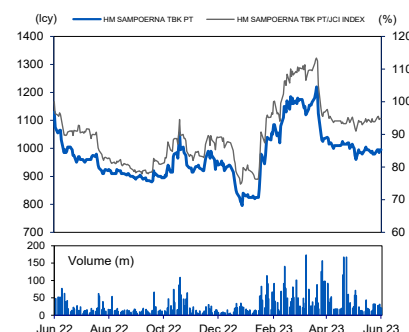
## Price Performance (%)

Price Performance (%)				
52-week high/low		Rp1,220/Rp795		
1mth	3mth	6mth	1yr	YTD
(2.0)	(15.7)	4.2	(13.9)	18.5

## Major Shareholders

	%
Philip Morris Indonesia	92.5
FY23 NAV/Share (Rp)	255
FY23 Net Cash/Share (Rp)	178

## PRICE CHART



Source: Bloomberg

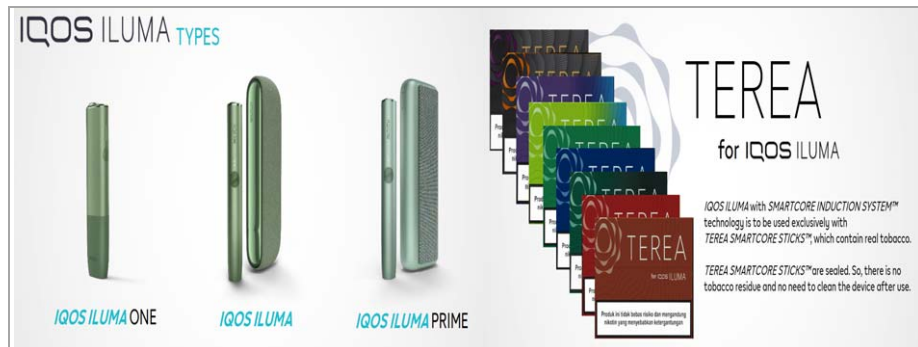
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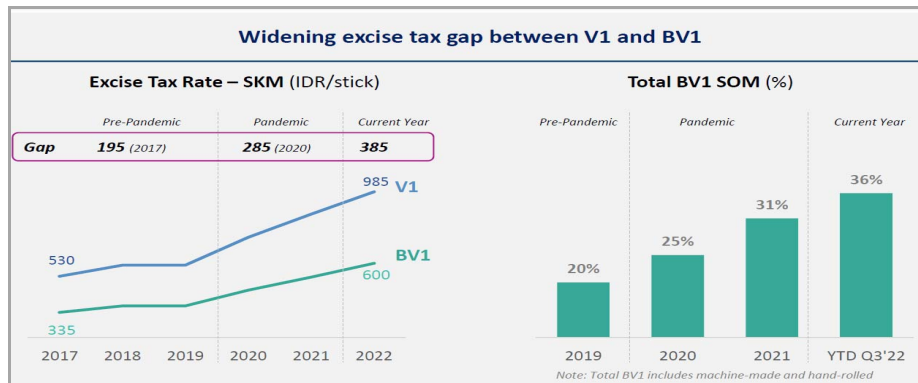
## IQOS ILUMA



Source: UOB Kay Hian

- **Likely up-trading in consumption to national brands.** In 2022, major cigarettes companies experienced trading down in terms of consumption as purchasing power was low and the excise tax gap between major producers and smaller producers widened from 31% in 2021 to 36% in 2022. However, we believe that smokers could trade up their cigarette consumption to national brands in 2023, as purchasing power has improved and the excise tax increase for major producers is mild.
- **Encouraging year for cigarette companies in 2023.** Our channel check with a major industry player indicates that it expects cigarette companies to see a recovery in profitability in 2023. Major cigarettes companies suffered declines in NPAT in 2022. Profitability should recover as: a) the excise tax increase is mild, b) price can be raised to pass on the hike in excise tax, c) sales volume could potentially be higher, and d) there could be potential margin improvement as input costs decline.

## WIDENING EXCISE TAX GAP BETWEEN MAJOR AND NON-MAJOR PRODUCERS



Source: Statista, UOB Kay Hian

## EARNINGS REVISION/RISK

- **Adjust 2023/24 forecasts by 2.0%/22.1%.** We adjust our model and increase our 2023/24 NPAT by 2.0%/22.1%.

## REVISED FORECASTS

	New		Original		Diff (%)	
	2023F	2024F	2023F	2024F	2023F	2024F
Revenue	115,150	125,823	115,150	125,823	-0.6%	0.9%
Gross Profit	20,194	20,931	20,227	20,931	-4.6%	7.2%
Operating Profit	10,104	10,572	10,149	10,573	2.9%	25.0%
Net Income	8,306	8,693	8,402	8,785	2.0%	22.1%
Gross Margin	17.5	16.6	17.6	16.6	(75)	97
Operating Margin	8.8	8.4	8.8	8.4	30	162
Net Margin	7.2	6.9	7.3	7.0	18	120

Source: UOB Kay Hian

## VALUATION/RECOMMENDATION

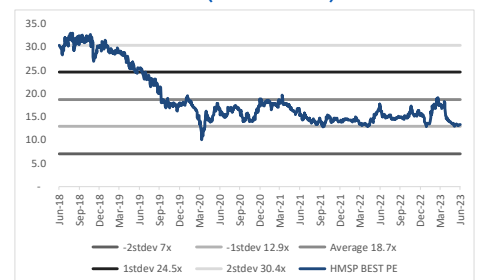
- **Maintain BUY with target price of Rp1,300.** Our target price is derived using the historical five-year average PE of 18.7x applied to 2023F EPS. HMSP is trading near -1SD 2023F PE. With 64.3% upside from the current level, we maintain BUY on HMSP with a target price of Rp1,300.

## SENSITIVITY AT 5% CHANGE

Change by 5%	EBIT		NPAT	
	2023F	2024F	2023F	2024F
Selling Price	57.0%	59.5%	69.3%	72.4%
Volume	10.0%	9.9%	12.2%	12.0%
Excise Tax	-30.0%	-31.6%	-36.4%	-38.5%
Operating Expense	-5.0%	-4.9%	-6.1%	-6.0%

Source: UOB Kay Hian

## FORWARD PE BAND (CONSENSUS)



Source: Bloomberg, UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Net turnover	111,211	115,150	125,823	137,522
EBITDA	8,745	11,157	11,661	12,524
Deprec. & amort.	992	1,053	1,089	1,150
EBIT	7,753	10,104	10,572	11,374
Total other non-operating income	102	49	78	84
Associate contributions	4.5	4.5	4.5	4.5
Net interest income/(expense)	414	424	419	421
<b>Pre-tax profit</b>	<b>8,273</b>	<b>10,581</b>	<b>11,073</b>	<b>11,883</b>
Tax	(1,949)	(2,275)	(2,381)	(2,555)
<b>Net profit</b>	<b>6,324</b>	<b>8,306</b>	<b>8,693</b>	<b>9,329</b>
Net profit (adj.)	6,324	8,306	8,693	9,329

**BALANCE SHEET**

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Fixed assets	6,697	5,656	5,401	5,412
Other LT assets	6,727	4,758	4,772	4,790
Cash/ST investment	3,283	21,114	22,354	26,630
Other current assets	38,080	27,853	30,417	32,660
<b>Total assets</b>	<b>54,787</b>	<b>59,381</b>	<b>62,945</b>	<b>69,492</b>
ST debt	148	141	149	146
Other current liabilities	24,398	23,117	25,330	28,111
LT debt	337	240	255	277
Other LT liabilities	1,734	6,180	7,292	10,607
Shareholders' equity	28,170	29,703	29,919	30,350
<b>Total liabilities &amp; equity</b>	<b>54,787</b>	<b>59,381</b>	<b>62,945</b>	<b>69,492</b>

**CASH FLOW**

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>7,355</b>	<b>11,354</b>	<b>10,334</b>	<b>14,137</b>
Pre-tax profit	8,273	10,581	11,073	11,883
Tax	(1,949)	(2,275)	(2,381)	(2,555)
Deprec. & amort.	992	1,053	1,089	1,150
Working capital changes	244	2,220	828	3,921
Non-cash items	(204)	(226)	(275)	(262)
<b>Investing</b>	<b>(14,275)</b>	<b>1,121</b>	<b>(641)</b>	<b>(961)</b>
Capex (growth)	(2,179)	(848)	(628)	(942)
Investments	18	392	(7.1)	(7.6)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(12,114)	1,577	(6.8)	(11)
<b>Financing</b>	<b>(7,641)</b>	<b>5,356</b>	<b>(8,452)</b>	<b>(8,901)</b>
Dividend payments	(7,363)	(6,640)	(8,475)	(8,920)
Issue of shares	(17)	0.0	0.0	0.0
Proceeds from borrowings	138	(104)	23	19
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(399)	12,100	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>(14,561)</b>	<b>17,831</b>	<b>1,241</b>	<b>4,275</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>17,844</b>	<b>3,283</b>	<b>21,114</b>	<b>22,354</b>
Changes due to forex impact	n.a.	n.a.	n.a.	n.a.
<b>Ending cash &amp; cash equivalent</b>	<b>3,283</b>	<b>21,114</b>	<b>22,354</b>	<b>26,630</b>

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	7.9	9.7	9.3	9.1
Pre-tax margin	7.4	9.2	8.8	8.6
Net margin	5.7	7.2	6.9	6.8
ROA	11.7	14.6	14.2	14.1
ROE	22.0	28.7	29.2	31.0
<b>Growth</b>				
Turnover	12.5	3.5	9.3	9.3
EBITDA	(7.3)	27.6	4.5	7.4
Pre-tax profit	(9.6)	27.9	4.6	7.3
Net profit	(11.4)	31.4	4.6	7.3
Net profit (adj.)	(11.4)	31.4	4.6	7.3
EPS	(11.4)	31.4	4.6	7.3
<b>Leverage</b>				
Debt to total capital	1.7	1.3	1.3	1.4
Debt to equity	1.7	1.3	1.4	1.4
Net debt/(cash) to equity	(9.9)	(69.8)	(73.4)	(86.3)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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