

## HM Sampoerna (HMSP IJ)

28 July 2017

## Results Note

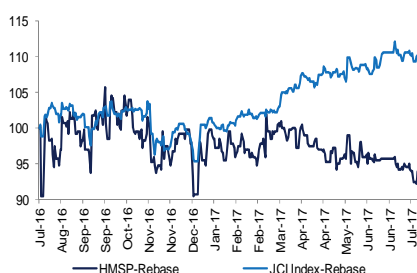
**HOLD** (Unchanged)

## Stock Data

Target price (Rp)	Rp4,000
Prior TP (Rp)	Rp4,180
Shareprice (Rp)	Rp3,660
Upside/downside (%)	+9.3
Sharesoutstanding (m)	116,318
Marketcap. (US\$ m)	31,966
Free float (%)	1.2
Avg. 6m dailyT/O (US\$ m)	5.5

## Price Performance

	3M	6M	12M
Absolute (%)	-4.2	-6.2	-9.6
Relative to JCI (%)	-6.6	-15.9	-18.4
52w high/low (Rp)	4,240 - 3,630		



## Major Shareholders

Phillips Morris Indonesia	92.5%
Public	7.5%

## Estimate Change; Vs. Consensus

	2017F	2018F
Latest EPS (Rp)	115	133
Vs. Prior EPS (%)	(8.2)	(8.4)
Vs. Consensus (%)	(1.6)	5.3

Source: Bloomberg

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## Another mild season

- **2Q17 Earnings decelerated by 8.9% yoy, slightly below consensus.**
- **Margin maintained at 23.3% in 2Q17 on stable materials cost.**
- **Earnings downgrade by 8.2% in FY17F on volume deceleration.**
- **Rollover valuation. Maintain HOLD at Rp4,000.**

**2Q17 Earnings contraction.** HM Sampoerna reported net profit of Rp2.7tn in 2Q17 (-8.9% yoy), below our/consensus estimates, bringing the 1H17 total earnings to Rp6.0tn. Overall revenue contracted by 5.5% due to sales deceleration across all segments namely SKM, SKT and SPM by 0.3% yoy, 11.5% yoy, and 18.6%, respectively, in 2Q17. Based on PMI report, HMSP's volume sales showed further deceleration of 13.1% yoy to reach 24.8bn sticks in 2Q17. We suspect another round of volume deceleration was also associated with the timing of fasting season. However, HMSP's volume deceleration is in-line with the decline in total cigarette market in Indonesia to 75.7bn sticks (-11.6% yoy) in 2Q17. We see the weak volume sales mainly reflects ongoing soft economic environment in Indonesia during 1H17.

**Stable gross margin.** Overall gross margin was relatively stable at 23.3% as a result of favorable sales mix, where SKM contributed 66% to the total sales, followed by SKT with 19%, and SPM with 13.5% contribution in 2Q17. Raw materials cost was also maintained at 9.9% of total sales in 2Q17. Meanwhile, excise tax was slightly higher, which accounted for 47% of total sales in 2Q17 (vs. 2Q16; 44.9%). To note, 2017's excise tax hike has been relatively moderate with an average of 10.54% compared to the previous year of 11.50%. Operating profit was reported at Rp3.5tn (-7.6% yoy) in 2Q17 where the margin stood at 14.5% in 2Q17. As a result, net margin dropped by 40bps to 11.5% in 2Q17.

**Earnings downgrade.** We downgrade our FY17F earnings by 8.2% as we adjust our FY17F sales volume to 103.3bn sticks, resulting in another volume contraction of 2% in FY17F. Despite a slower growth of SKM segments in the recent years, Sampoerna Mild still dominates the mild segment market despite its premium price point compared to its competitors. In addition, we also expect HMSP's lower end product, U Bold to remain popular due to its lower price point and affordability particularly during soft economic condition.

**Maintain HOLD at TP Rp4,000.** As we roll over our valuation to 2018, our DCF-based valuation derives target price of Rp4,000, which implies FY18F P/E of 21.9x, which we think is demanding given the limited upside potential. In addition, as we expect a challenging backdrop of Indonesia tobacco industry going forward, we maintain our HOLD recommendation on the stock. Key risks: Indonesia's macro-economic conditions, higher than expected inflation and excise tax hike.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (RpBn)	89,069	95,467	103,979	115,756	129,699
EBITDA (RpBn)	13,393	15,296	16,290	19,015	23,587
EBITDA Growth (%)	1.2	14.2	6.5	16.7	24.0
Net Profit (RpBn)	10,363	12,762	13,382	15,541	18,174
EPS (Rp)	89	110	115	134	156
EPS Growth (%)	1.8	23.1	4.9	16.1	16.9
Net Gearing (%)	(5.4)	(14.8)	(15.1)	(18.1)	(13.2)
PER (x)	41.1	33.4	31.8	27.4	23.4
PBV (x)	13.3	12.5	12.2	11.5	10.8
Dividend Yield (%)	2.9	2.4	3.0	3.1	3.7
EV/EBITDA (x)	31.9	28.2	26.5	22.7	18.3

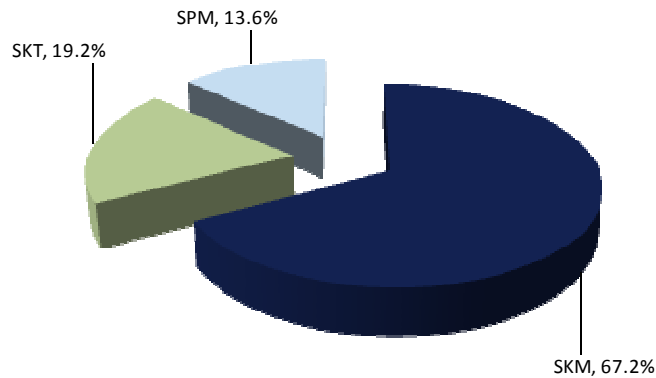
Source: HMSP, IndoPremier

Share Price Closing as of : 27-July-2017

Refer to Important disclosures in the last page of this report

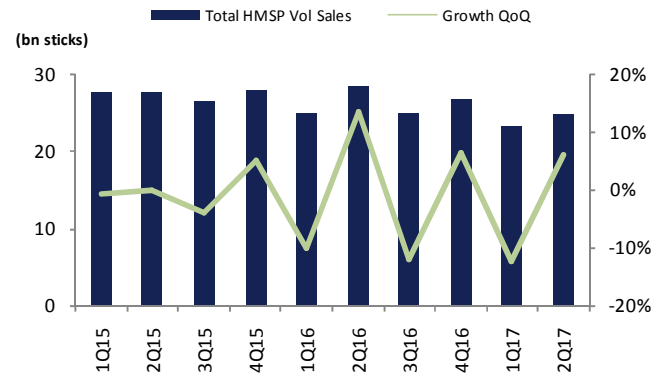
## HMSP Results Note

**Fig. 1: HMSP Sales Mix in 2Q17**



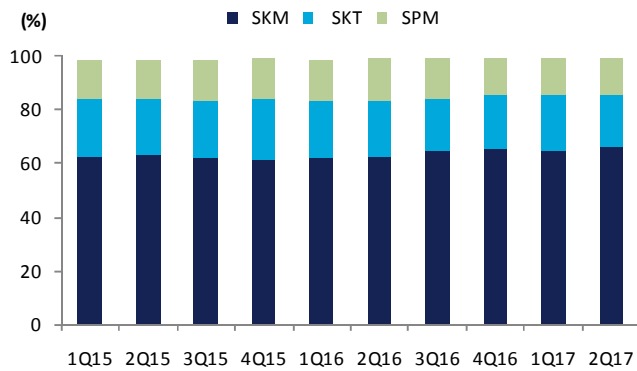
Source: Company, IndoPremier

**Fig. 2: Total cigarette sales volume in Indonesia**



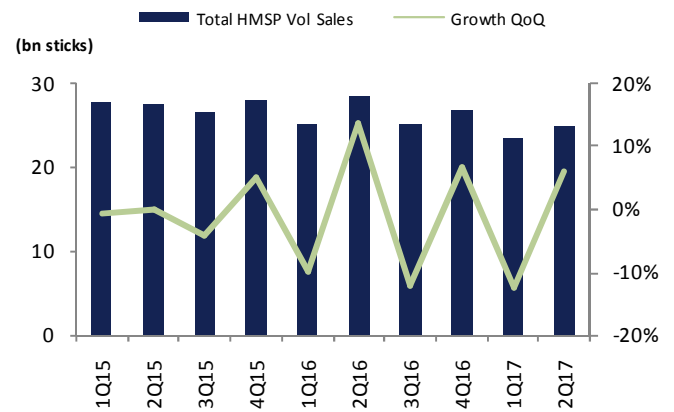
Source: Company, PMI, IndoPremier

**Fig. 3: HMSP sales breakdown per segment**



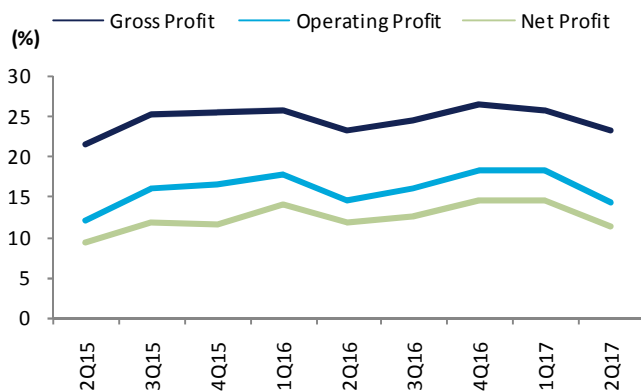
Source: Company, IndoPremier

**Fig. 4: HMSP Volume sales trend on quarterly basis**



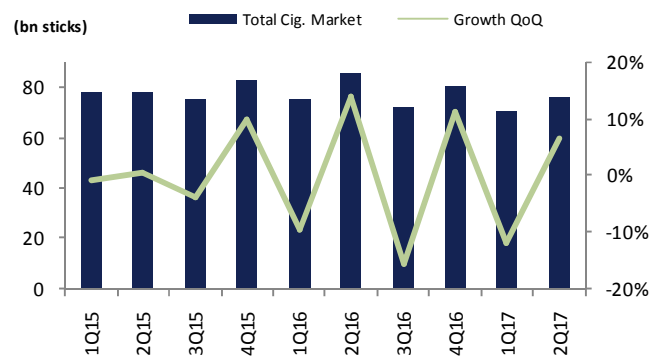
Source: Company, PMI, IndoPremier

**Fig. 5: HMSP Profitability Trend on Quarterly basis**



Source: Company, IndoPremier

**Fig. 6: Total Cigarette Market Trend in Indonesia**



Source: Company, PMI, IndoPremier

## HMSP Results Note

**Fig. 7: Earnings Result**

(in Rp bn)	2Q17	2Q16	YoY	2Q17	1Q17	QoQ	1H17	1H16	YoY
Revenue	24,014	25,415	-5.5%	24,014	22,576	6.4%	46,590	47,336	-1.6%
SKM	15,995	16,038	-0.3%	15,995	14,700	8.8%	30,695	29,693	3.4%
SKT	4,565	5,157	-11.5%	4,565	4,588	-0.5%	9,153	9,816	-6.8%
SPM	3,230	3,968	-18.6%	3,230	3,078	4.9%	6,308	7,303	-13.6%
Gross Profit	5,589	5,908	-5.4%	5,589	5,807	-3.8%	11,396	11,561	-1.4%
Operating Profit	3,477	3,762	-7.6%	3,477	4,348	-20.0%	7,639	7,684	-0.6%
Net Profit	2,759	3,029	-8.9%	2,759	3,291	-16.2%	6,050	6,148	-1.6%
Gross Margin (%)	23.3%	23.2%		23.3%	25.7%		24.5%	24.4%	
Operating Margin (%)	14.5%	14.8%		14.5%	19.3%		16.4%	16.2%	
Net Margin (%)	11.5%	11.9%		11.5%	14.6%		13.0%	13.0%	

Source: Company, IndoPremier

**Fig. 8: Earnings Revision**

In Rp bn	Old		New		Change (%)	
	FY17F	FY18F	FY17F	FY18F	FY17F	FY18F
<b>Sales</b>	<b>105,848</b>	<b>118,028</b>	<b>103,979</b>	<b>115,756</b>	-1.8%	-1.9%
SKM	69,860	70,558	69,168	69,860	-1.0%	-1.0%
SKT	20,074	18,769	20,074	18,769	0.0%	0.0%
SPM	14,887	15,036	14,143	14,143	-5.0%	-5.9%
<b>Gross profit</b>	<b>26,924</b>	<b>29,837</b>	<b>26,069</b>	<b>28,772</b>	-3.2%	-3.6%
<b>Operating profit</b>	<b>17,827</b>	<b>20,885</b>	<b>17,069</b>	<b>19,930</b>	-4.3%	-4.6%
<b>Net profit</b>	<b>14,582</b>	<b>16,973</b>	<b>13,382</b>	<b>15,541</b>	-8.2%	-8.4%
<b>Margins</b>						
Gross margin	25.44%	25.28%	25.07%	24.86%	-0.36%	-0.42%
Operating margin	16.84%	17.69%	16.42%	17.22%	-0.43%	-0.48%
Net margin	13.78%	14.38%	12.87%	13.43%	-0.91%	-0.95%

Source: Company, IndoPremier

## HMSP Results Note

Year To 31 Dec (RpBn)	2015A	2016A	2017F	2018F	2019F
<b>Income Statement</b>					
Net Revenue	89,069	95,467	103,979	115,756	129,699
Cost of Sales	(67,305)	(71,612)	(77,910)	(86,984)	(96,268)
Gross Profit	21,764	23,855	26,069	28,772	33,431
SG&A Expenses	(7,716)	(7,834)	(9,000)	(8,843)	(9,845)
Operating Profit	14,048	16,020	17,069	19,930	23,587
Net Interest	(69)	832	758	788	667
Forex Gain (Loss)	0	0	0	0	0
Others-Net	(46)	159	160	171	173
Pre-Tax Income	13,933	17,011	17,987	20,889	24,427
Income Tax	(3,569)	(4,249)	(4,605)	(5,348)	(6,253)
Minorities	0	0	0	0	0
Net Income	10,363	12,762	13,382	15,541	18,174
<b>Balance Sheet</b>					
Cash & Equivalent	1,719	5,056	5,252	6,674	5,206
Receivable	4,727	4,996	4,678	5,228	5,871
Inventory	19,072	19,442	21,194	20,815	23,032
Other Current Assets	4,290	4,153	2,464	3,283	3,889
Total Current Assets	29,807	33,647	33,588	36,000	37,999
Fixed Assets - Net	7,001	7,595	8,312	9,116	10,057
Goodwill	60	60	60	60	60
Non Current Assets	1,142	1,205	1,388	1,547	1,750
Total Assets	38,011	42,508	43,348	46,723	49,865
ST Loans	0	0	0	0	0
Payable	3,191	3,871	0	4,468	4,331
Other Payables	1,348	2,558	2,611	2,956	3,386
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	4,539	6,428	6,404	7,424	7,717
Long Term Loans	0	0	0	0	0
Other LT Liab.	1,456	1,905	2,148	2,345	2,562
Total Liabilities	5,995	8,333	8,553	9,769	10,279
Equity	21,568	21,549	21,549	21,549	21,549
Retained Earnings	10,448	12,626	13,246	15,405	18,037
Minority Interest	0	0	0	0	0
Total SHE + Minority Int.	32,016	34,175	34,795	36,954	39,586
Total Liabilities & Equity	38,011	42,508	43,348	46,723	49,865

Source: HMSP, IndoPremier

## HMSP Results Note

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
<b>Cash Flow</b>					
Net Income (Excl.Extraordinary&Min.Int)	10,363	12,762	13,382	15,541	18,174
Depr. & Amortization	386	616	778	915	1,037
Changes in Working Capital	(5,032)	188	(1,372)	(145)	(3,395)
Others	(112)	(6,347)	(794)	1,099	(267)
Cash Flow From Operating	5,605	7,218	11,994	17,410	15,548
Capital Expenditure	(986)	(1,273)	(1,678)	(1,878)	(2,181)
Others	69	854	758	788	667
Cash Flow From Investing	(917)	(419)	(920)	(1,090)	(1,513)
Loans	(2,835)	0	0	0	0
Equity	20,413	(19)	0	0	0
Dividends	(12,250)	(10,352)	(12,762)	(13,382)	(15,541)
Others	(142)	(29)	73	12	15
Cash Flow From Financing	5,185	(10,400)	(12,689)	(13,370)	(15,527)
Changes in Cash	9,873	(3,600)	(1,615)	2,950	(1,492)
<b>Financial Ratios</b>					
Gross Margin (%)	24.4	25.0	25.1	24.9	25.8
Operating Margin (%)	15.8	16.8	16.4	17.2	18.2
Pre-Tax Margin (%)	15.6	17.8	17.3	18.0	18.8
Net Margin (%)	11.6	13.4	12.9	13.4	14.0
ROA (%)	31.2	31.7	31.2	34.5	37.6
ROE (%)	45.5	38.6	38.8	43.3	47.5
ROIC (%)	43.2	41.1	41.0	45.5	49.2
Acct. Receivables TO (days)	7.1	11.1	11.2	10.2	10.2
Acct. Receivables - Other TO (days)	4.8	7.5	5.8	5.4	5.5
Inventory TO (days)	3.7	3.7	3.8	4.1	4.4
Payable TO (days)	16.1	18.0	18.0	17.3	16.7
Acct. Payables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Debt to Equity (%)	0.0	0.0	0.0	0.0	0.0
Interest Coverage Ratio (x)	0.0	0.0	0.0	0.0	0.0
Net Gearing (%)	(5.4)	(14.8)	(15.1)	(18.1)	(13.2)

Source: HMSP, IndoPremier

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**INVESTMENT RATINGS**

BUY : Expected total return of 10% or more within a 12-month period  
HOLD : Expected total return between -10% and 10% within a 12-month period  
SELL : Expected total return of -10% or worse within a 12-month period

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