

NEUTRAL

Return (%)	-1D	-1W	-1M
JCI	-0.3	-0.5	5.5
LQ45	-0.0	-0.7	3.9
HMSP IJ	-0.7	0.7	11.5
GGRM IJ	-0.2	-0.8	9.8

EPS Growth (%)	FY24E	FY25F
HMSP IJ	-16.0%	1.9%
GGRM IJ	-63.5%	-26.7%

Tobacco Sector A Biting Year Ahead

Missed 1H24 net profit estimates

- Cigarette companies under our coverage reported disappointing performance in 1H24, with aggregate revenue falling by -3.7% YoY. This figure fell short of our estimate, meeting only 46.6% of the FY24E target. GGRM's top line contracted by -10.4% YoY in 1H24 to IDR50.0 tn (vs IDR55.9 tn in 1H23), primarily due to a -12.3% YoY decline in its SKM segment, which accounts 89%. Meanwhile, HMSP managed to maintain positive revenue growth of +3.0% YoY in 1H24, reaching IDR57.8 tn (vs IDR56.2 tn in 1H23), propelled by SKT segment which grew by +19.5% YoY.
- Profitability-wise, aggregate net profit plunged by -39.7% YoY in 1H24, falling short of our FY24E estimation, with a run-rate of 27.7%. GGRM led the decline in net profit, dropping by -71.9% YoY to IDR925.5 bn (vs IDR3.3 tn in 1H23). Meanwhile, HMSP's net profit also fell by -11.6% YoY to IDR3.3 tn (vs IDR3.8 tn in 1H23). We attribute these below-expectation results to the sluggish adjustment of ASP, as reflected in the aggregate excise duty cost per revenue, which inflated to 67.8% in 1H24 (vs 64.1% in 1H23). Additionally, aggregate OPEX rose by +2.9% in 1H24, further impacting the bottom-line.

Overwhelming situation; market share volume or profitability

Based on our channel checks, tobacco companies under our coverage were relatively slow in adjusting ASPs in 2Q24 to offset the FY25 excise tax hike (+10%). The average ASP adjustment for HMSP was recorded at +2.7% QoQ (vs +4.6% QoQ in 1Q24), while GGRM's was +0.4% QoQ (vs +2.3% QoQ in 1Q24). Additionally, several other brands also slowed their ASP adjustments ([Exhibit 01](#)). We believe producers are being cautious in adjusting ASPs amid relatively weak consumer spending power, particularly after the rise in food staple prices in 1H24. Nevertheless, the slower ASP adjustments were not enough to prevent a decline in sales volume in 1H24, with HMSP's sales volume dropping by -2.7% YoY and GGRM's falling significantly by -14.5% YoY. Meanwhile, industry sales volume fell by -7.2% YoY to 106.1 bn sticks, with SKM volume declining significantly by -13.7% YoY. In contrast, SKT volume continued its positive trend with a +10.8% YoY growth due to its more affordable pricing (downtrading). Again, producers are faced with the difficult choice between maintaining market share volume or profitability.

Cautious view on SPM and SKM; anticipating modest tobacco excise-tax increased

We note that the excise revenue target in the 2025 draft state budget is IDR244.2 tn, up +5.9% YoY (vs IDR230.5 tn in the 2024 Outlook). However, it is down by -0.8% YoY compared to the 2024 draft state budget (IDR246.1 tn). At first glance, this suggests that there will be no change in the tobacco excise tax (CHT) for FY25. However, we still anticipate increases in the tobacco excise tax for the SPM and SKM segments, while the SKT segment remains unchanged. Our considerations are based on: 1) the expected continued decline in child smoking prevalence in the 2025-2029 RPJMN (2024 RPJMN at 8.7%); 2) the still-high volume market share of SKM (68.4% in FY23), which effectively supports the 2025 tobacco excise revenue target; 3) the anticipated low contribution from sugar-sweetened beverages (MBDK) excise (2024 draft state budget: IDR4.4 tn); 4) protecting the labor-intensive SKT industry while preventing smokers from switching to illegal cigarettes. All in all, we set our scenarios for excise increases for FY25/FY26 as follow: SPM: 5%; SKM: 5%; and SKT: 0% (unchanged). We believe this will further pressure profitability going forward.

Downgrade recommendation to NEUTRAL for the tobacco sector

We downgrade the Tobacco sector to **NEUTRAL**, considering the potential for tobacco excise tax increases for SPM and SKM (73% of the volume market). Additionally, we are awaiting clarity on policy from the new government transition. We cut our earnings projections for FY24E/FY25F for both GGRM and HMSP ([Exhibit 05](#)). We assess **HMSP IJ (HOLD; TP: IDR800)** as having a buffer due to its high SKT segment contribution (~31%), while **GGRM IJ (SELL; TP: IDR14,100)** has a ~8% contribution. HMSP has also launched VEEV (e-vapor) targeting the e-cigarette market, further strengthening the smoke-free product ecosystem alongside IQOS. We see this business initiative positively, especially for mid-high consumers with durable pocket money. Upside risks include significant ASP adjustments to offset excise increases, along with strengthening consumer spending power.



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Ticker	Mkt Cap (IDR tn)	P/E (x)		PBV (x)		Rec	TP (IDR/sh)
		FY24E	FY25F	FY24E	FY25F		
HMSP IJ	86.7	13.7	13.4	3.3	3.3	HOLD	800
GGRM IJ	30.8	12.8	17.4	0.4	0.4	SELL	14,100

Sources : IDX, MNCS Research

Exhibit 01. ASP adjustments slowed in 2Q24, less aggressive compared to 1Q24

Company	Class	Cigarette	Date									1Q24 QoQ	2Q24 QoQ
			Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24		
HMSP	SKM	Sampoerna A Mild'16	32,500	33,500	33,500	33,900	34,500	34,500	34,500	34,500	36,000	4.3%	1.8%
		Sampoerna A Mild'12	25,100	25,900	25,900	26,500	26,500	27,000	27,000	27,000	27,000	5.6%	1.9%
		Sampoerna Ultramild'16	30,500	30,500	31,000	31,700	31,700	31,700	31,700	31,700	31,700	3.9%	0.0%
		Sampoerna Ultramild'12	21,500	22,000	22,500	22,500	22,500	23,000	23,000	23,000	23,000	4.7%	2.2%
		Sampoerna Splash Sunny'16	28,400	29,500	29,500	30,000	30,500	30,500	30,500	30,500	30,500	5.6%	1.7%
		Sampoerna Splash Sunny'12	21,000	21,500	22,000	22,500	22,500	22,500	22,500	22,500	22,500	7.1%	0.0%
		Sampoerna Splash Tropical'16	28,400	29,500	29,500	30,000	30,500	30,500	30,500	30,500	30,500	5.6%	1.7%
		Sampoerna Splash Tropical'12	21,000	21,500	22,000	22,500	22,500	23,000	23,000	23,000	23,000	7.1%	2.2%
		Sampoerna Mild Menthol'16	33,200	34,000	34,000	34,700	35,500	35,500	35,700	35,700	36,500	4.5%	2.9%
		DjiSamSoe Magnum Mild'16	30,400	30,400	30,400	30,400	30,400	30,400	30,400	30,400	30,400	0.0%	0.0%
		DjiSamSoe Magnum Premium'12	25,000	25,500	25,500	26,000	26,800	27,300	27,400	27,400	27,400	4.0%	5.4%
		Marlboro Filter Black'20	38,500	39,500	39,500	40,000	39,000	39,000	40,000	40,000	40,500	3.9%	0.0%
		Marlboro Filter Black'12	23,000	23,600	23,600	24,100	24,300	24,300	24,300	24,300	24,900	4.8%	0.8%
SKT	Dji Sam Soe Kretek'16	Dji Sam Soe Kretek'16	27,500	27,500	27,500	28,100	28,000	28,000	28,300	28,300	28,700	2.2%	0.7%
		Dji Sam Soe Kretek'12	20,500	20,500	20,500	21,000	21,000	21,000	21,000	21,000	21,000	2.4%	0.0%
		Dji Sam Soe Super Premium'12	21,000	21,000	21,500	21,000	21,000	21,500	22,000	22,000	22,000	0.0%	4.8%
SPM	Marlboro Red'20 (special edition)	Marlboro Red'20 (special edition)	40,000	42,000	42,000	42,900	44,000	45,000	45,000	46,500	46,500	7.3%	4.9%
		Marlboro Red'20	42,200	44,500	44,500	44,900	46,000	47,300	47,500	48,700	50,000	6.4%	5.8%
		Marlboro Ice Burst'20	42,200	44,500	44,500	44,900	46,000	47,300	47,500	48,700	50,000	6.4%	5.8%
		Marlboro Light'20	40,000	42,000	42,000	42,900	44,000	45,000	45,000	46,500	46,500	7.3%	4.9%
SPT	Marlboro Rokok Kretek Red'12	11,000	11,000	11,000	11,300	12,400	12,400	12,400	12,400	12,400	2.7%	9.7%	
GGRM	SKM	Gudang Garam Filter'12	25,400	25,400	25,400	26,500	26,500	27,000	27,000	27,000	27,000	4.3%	1.9%
		Gudang Garam Surya'16	33,900	33,900	33,900	35,500	35,500	36,700	36,700	36,700	36,700	4.7%	3.4%
		Surya Pro Red'16	32,400	32,400	32,400	32,500	32,500	32,500	32,500	32,500	33,100	0.3%	0.0%
		Surya Pro Mild'16	32,400	32,400	32,400	33,100	33,100	33,100	33,100	33,100	33,100	2.2%	0.0%
		Gudang Garam Signature Mild'16	33,000	33,000	33,000	33,700	33,700	33,700	33,700	33,700	33,700	2.1%	0.0%
		GG Mild Shiver'16	33,000	33,000	33,000	33,000	33,000	32,000	32,000	32,000	32,000	0.0%	-3.0%
Djarum	SKM	Djarum Super'16	34,400	34,400	35,100	35,100	35,100	35,100	35,100	35,100	35,100	2.0%	0.0%
		Djarum Super'12	25,500	25,500	26,000	25,700	25,700	25,700	25,000	25,700	25,000	0.8%	-2.7%
		Djarum Black'16	32,000	33,500	34,200	34,200	34,200	35,000	35,000	35,000	36,000	6.9%	2.3%
		LA Bold'16	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	0.0%	0.0%
		LA Ice'16	32,500	33,500	34,200	32,000	32,000	32,000	32,000	35,000	36,000	-1.5%	0.0%
Others	SKM	Dunhill Black'16	30,500	31,000	31,900	31,200	31,200	31,200	31,000	31,000	31,000	2.3%	-0.6%
		Clas Mild Filter'12	22,500	23,000	23,500	23,500	23,500	23,500	23,500	23,500	23,500	4.4%	0.0%
		Clas Mild Filter'16	29,400	29,900	30,500	31,000	31,000	31,000	31,000	31,000	31,000	5.4%	0.0%
		Clas Mild Filter Silver'16	26,500	27,000	27,600	28,000	28,000	31,000	31,000	31,000	31,000	5.7%	10.7%
		Camel Filter Yellow'20	29,200	29,200	30,300	29,800	29,800	29,800	30,000	30,000	30,000	2.1%	0.7%
		Camel Filter Purple'12	18,800	19,700	19,900	19,700	19,700	20,000	19,900	20,600	20,600	4.8%	1.0%
		Lucky Strike Purple Boost'20	31,200	31,200	31,900	31,300	31,300	31,300	31,200	32,300	32,300	0.3%	-0.3%
		Esse Berry Pop'16	33,300	33,300	34,000	34,700	34,700	34,700	35,500	35,500	35,500	4.2%	2.3%
		Esse Change Filter'16	32,500	32,500	33,200	33,900	33,900	33,900	34,800	34,800	34,800	4.3%	2.7%

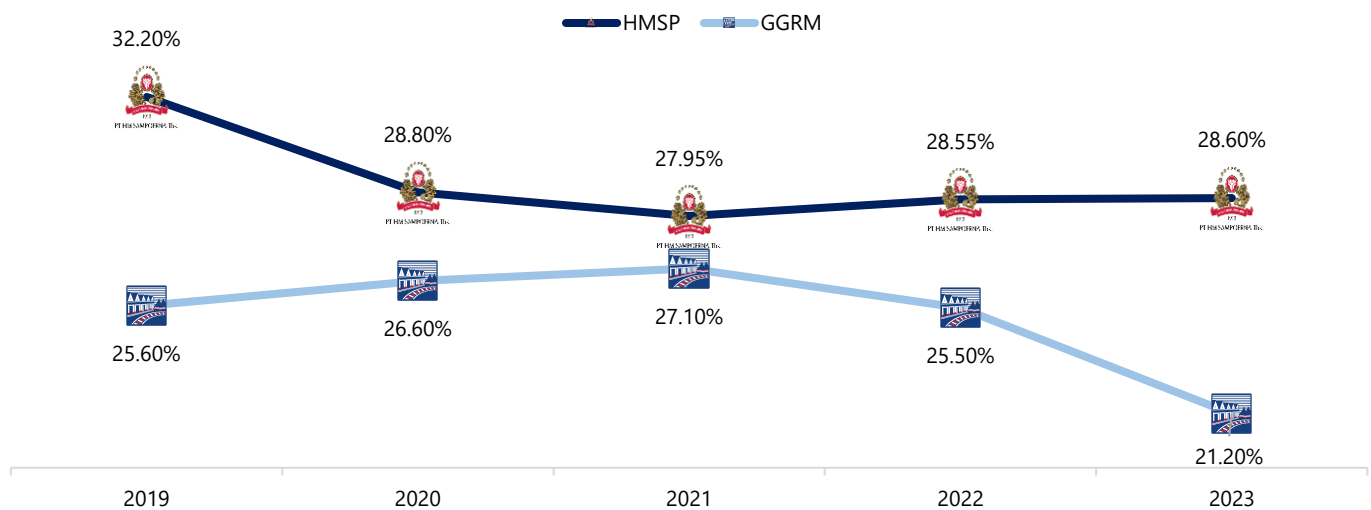
Sources : Various source, MNCS Research

Exhibit 02. In our previous [HMSP report](#), we projected ASP adjustments in response to the excise tax hike in 2024. Currently, 2/3 of HMSP's popular products have exceeded our projections namely Sampoerna A Mild'16 & Marlboro Red'20 (IDR)

2023										
Cigarettes	SRP	Excise	SRP/pack	Excise/pack	Local Tax 10%	VAT 9.9%	Total Excise, VAT, etc.	Price Nov-2023	Margin	
Sampoerna A Mild'16	2,055	1,101	32,880	17,616	1,762	3,255	22,633	32,500	30%	
Marlboro Red'20	2,165	1,193	43,300	23,860	2,386	4,287	30,533	42,200	28%	
Dji Sam Soe Kretek'16	1,800	461	28,800	7,376	738	2,851	10,965	27,500	60%	
2024										
Cigarettes	SRP	Excise	SRP/pack	Excise/pack	Local Tax 10%	VAT 9.9%	Total Excise, VAT, etc.	Price est.	Margin	Price Aug-2024
Sampoerna A Mild'16	2,260	1,231	36,160	19,696	1,970	3,580	25,245	IDR35,700-36,200	29%-30%	36,000
Marlboro Red'20	2,380	1,336	47,600	26,720	2,672	4,712	34,104	IDR46,400-47,600	26%-28%	50,000
Dji Sam Soe Kretek'16	1,980	483	31,680	7,728	773	3,136	11,637	IDR30,300-31,700	62%-63%	28,700

Source : MNCS Research

Exhibit 03. HMSP's market share volume remains stable, reflecting the resilience of its user



Sources : Nielsen, PMI, MNCS Research

Exhibit 04. In FY21, the government once opted not to increase the excise tax for SKT

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
SKM Tier 1	0.0%	10.7%	15.7%	10.4%	11.3%	0.0%	25.4%	16.9%	13.9%	11.8%	11.8%
SPM Tier 1	0.0%	11.8%	16.5%	12.1%	12.6%	0.0%	26.4%	18.4%	13.9%	12.0%	12.0%
SKT Tier 1	0.0%	5.5%	10.3%	7.8%	5.8%	0.0%	16.4%	0.0%	3.5%	4.8%	4.8%

Sources : MoF, MNCS Research

Exhibit 05. We have revised our net profit projections downwards by -18.5%/-69.3% for HMSP/GGRM in FY24 (IDR bn)

	FY24E			FY25F		
	Revised	Old	Change	Revised	Old	Change
HMSP	6,805.1	8,353.8	-18.5%	6,932.1	8,495.2	-18.4%
GGRM	1,941.3	6,329.8	-69.3%	1,422.5	6,521.3	-78.2%

Source : MNCS Research

Exhibit 06. The excise tax revenue target in the FY25 draft state budget decreased by -0.8% compared to the previous period

Draft/target	FY20	FY21	FY22	FY23	FY24	FY25
Import duty	31.8	33.2	42.3	53.1	57.4	52.9
Excise	172.2	180.0	220.0	227.2	246.1	244.2
Tobacco (CHT)	164.9	173.8	209.9	218.7	230.4	
Ethyl alcohol	0.2	0.2	0.1	0.1	0.1	
Containing Ethyl Alcohol (MMEA)	7.1	5.6	6.9	8.4	9.3	
Penalty	0.0	0.0	0.0	0.0	0.0	
Oth. Excise	0.0	0.0	0.0	0.0	0.0	
Plastic	0.0	0.5	3.1	0.0	1.9	
SSB	0.0	0.0	0.0	0.0	4.4	
Export duty	1.7	1.8	36.7	19.8	17.5	4.5
TOTAL	205.7	215.0	299.0	300.1	321.0	301.6

Realization	FY20	FY21	FY22	FY23	FY24*	FY25
Import duty	32.3	39.1	51.1	50.8	49.7	
Excise	176.3	195.5	226.9	221.8	199.0	
Tobacco (CHT)	170.2	188.8	218.6	213.5	190.9	
Ethyl alcohol	0.2	0.1	0.1	0.1	0.1	
Containing Ethyl Alcohol (MMEA)	5.8	6.5	8.1	8.1	7.9	
Penalty	0.1	0.1	0.0	0.1	0.1	
Oth. Excise	0.0	0.0	0.0	0.0	0.0	
Plastic	0.0	0.0	0.0	0.0	0.0	
Export duty	4.2	34.6	39.8	13.5	15.9	
TOTAL	213.0	269.2	317.8	286.2	264.7	
%CHT	103%	109%	104%	98%	83%	

Sources : MoF, MNCS Research (*Annualized)

Exhibit 07. HMSP's new e-vapor product "VEEV"

Source : Company

MNC Research Industry Ratings Guidance

- **OVERWEIGHT** : Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months
- **NEUTRAL** : Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months
- **UNDERWEIGHT** : Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

- **BUY** : Share price may exceed 10% over the next 12 months
- **HOLD** : Share price may fall within the range of +/- 10% of the next 12 months
 - **SELL** : Share price may fall by more than 10% over the next 12 months
 - **Not Rated** : Stock is not within regular research coverage

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