

INDONESIA | CIGARETTE | RESEARCH NOTES

11 December 2020

Excise Tax Hike

Indonesia's Finance Minister has recently announced that 2021F excise tax hike by an average of 12.5% with no excise simplification, and the new retailing price will follow the hikes. The new excise tax policy will take effect on Feb 1, 2021. Moreover, Indonesia has set a different amount of levy on various types of cigarettes as follow:

Types of Cigarettes	2020 IDR/Stick	2021 IDR/Stick	Growth (%YoY)
SKM Tier I	740	865	16.9%
SKM Tier II A	470	535	13.8%
SKM Tier II B	455	525	15.4%
White Cigarettes			
SPM Tier I	790	935	18.4%
SPM Tier II A	485	565	16.5%
SPM Tier II B	470	555	18.1%
Hand Rolled			
SKT Tier IA	425	425	0%
SKT Tier IB	330	330	0%
SKT Tier II	200	200	0%
SKT Tier III	110	110	0%
Average			12.5%

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Taxes for SKM and SPM will rise next year, and it gives pressure on HMSP and GGRM's financial performance as the companies are categorized in the first-tier producer. This higher excise tax will reduce the companies' margin due to higher cost, lower sales volume, and less pricing opportunities amid weakening consumer buying power. According to the data, it could be seen that the government will not rise SKT categories taxes for next year in order to protect labors. From the first-tier competition, the absence of SKT tax hikes would give more benefit to HMSP rather than GGRM. SKT contributes 23% of HMSP revenue while in GGRM, SKT contributes 7.7% of the company's revenue in 9M20.

Figure 1 - HMSP Revenue Composition

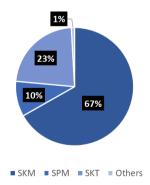
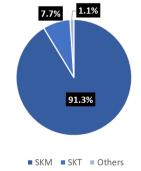


Figure 2 - GGRM Revenue Contribution



Source: Companies, PSI Research

Overall, we assume that consumers would be more likely to choose the lower-tier cigarette products due to the widening price gap between the first tier to the other tier. They also might substitute their usual cigarettes with other cheaper tobacco products. In this case, we believe WIIM as a second-tier producer and ITIC with its affordable tobacco product would be benefited from the current situation as they offer lower-priced cigarette products compared to HMSP and GGRM.



Figure 3 – Companies Profitability (IDR Bn)

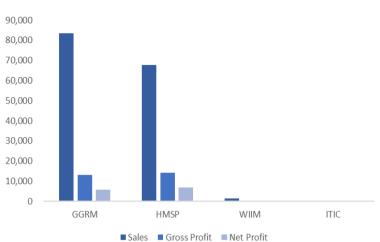
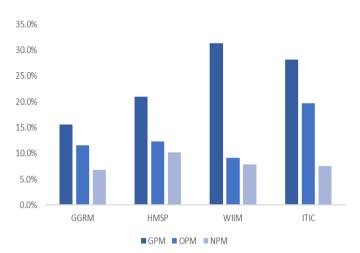


Figure 4 - Companies Profitability Margin



Source: Companies, PSI Research

Figure 5 - HMSP P/E Band



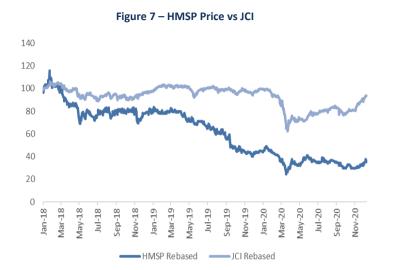
Source: Bloomberg, PSI Research

Figure 6 - GGRM P/E Band



Source: Bloomberg, PSI Research







GGRM Rebased =

JCI Rebased

Source: Companies, PSI Research





Source: Companies, PSI Research



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Rating for Sectors:

Overweight : We expect the industry to perform better than the primary market index (JCI) over the next 12 months.

Neutral : We expect the industry to perform in line with the primary market index (JCI) over the next 12 months.

Underweight : We expect the industry to under-perform the primary market index (JCI) over the next 12 months.

Rating for Stocks:

Buy : The stock is expected to give total return (price appreciation + dividend yield) of > +10% over the next 12 months.

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Outperform : The stock is expected to do slightly better than the market return. Equal to "moderate buy" Underperform : The stock is expected to do slightly worse than the market return. Equal to "moderate sell"

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