

**Overweight (Maintain)**

Industry Report  
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*PT. Mirae Asset Sekuritas Indonesia*

Consumer

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# Tobacco

## Philip Morris data: 1Q19 cigarette sales volume down 0.87% YoY

### HMSP's 1Q19 sales volume declined 3.9% YoY

Philip Morris International (PMI), the parent entity of HM Sampoerna (HMSP/Trading Buy/TP: IDR4,300), released 1Q19 sales volume data, showing that HMSP sold 22.1bn sticks in the quarter (-3.9% YoY, -17.8% QoQ), coming in below our assumption. We attribute the lower-than-expected volume to HMSP's more aggressive ASP hikes in the quarter compared to Gudang Garam (GGRM/Trading Buy/TP: IDR91,000) (please see: [On the ground: Some ASPs hiked slightly YTD; expect positive volume growth](#)).

### Industry's 1Q19 sales volume declined 0.87% YoY

Notably, HMSP's sales volume decline in 1Q19 (-3.9% YoY) was worse than the industry average (-0.87% YoY to 68.7bn sticks; vs. 69.3bn sticks in 1Q18). Given HMSP's underperformance relative to the overall industry, we infer that GGRM's 1Q19 sales volume growth was positive, as GGRM holds the second largest market share after HMSP. Based on our ground check, GGRM's retail sale prices did not increase until the end of March, and then only for its flagship brand; thus, GGRM's more competitive pricing could support our expectation of a sales volume increase in 1Q19 (please see: [Slow ASP increase, but sales volume growth remains key catalyst](#)).

### HMSP loses market share to GGRM in 1Q19

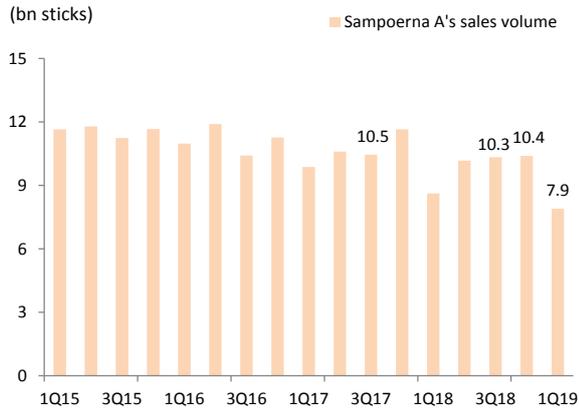
It is also notable that sales of HMSP's higher-margin flagship brand, Sampoerna A (39% contribution to 2018 sales volume), were down 24% QoQ and 8.4% YoY to 7.9bn sticks (vs. 10.39bn sticks in 4Q18 and 8.62bn sticks in 1Q18). Likewise, Dji Sam Soe brands saw a slight drop in sales volume in 1Q19 (-0.7% YoY to 6.65bn sticks). In past quarters, the company's Dji Sam Soe brands consistently booked positive growth (owing to the competitive pricing of the Magnum Mild variant) and supported overall sales volume growth.

We believe significant ASP increases led to a decline in sales volume in 1Q19, even for cheaper brands, as middle/lower-income consumers are price-sensitive. HMSP's sales volume decline caused the company to lose market share in the quarter (-1%p to 32.2%). We thus anticipate slight market share gains for GGRM, given our expectation that the company booked positive sales volume growth in 1Q19.

### Prefer GGRM over HMSP

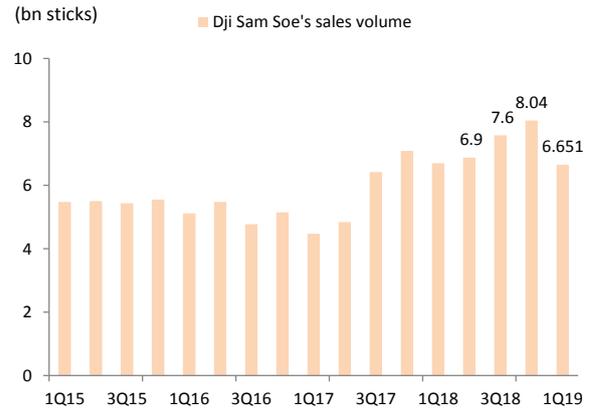
We prefer GGRM over HMSP given our belief that the former booked better sales volume in the first quarter of 2019. In our view, GGRM should manage to slowly improve margins with gradual ASP hikes, all while maintaining its market share. Downside risks to GGRM's performance include: 1) uncertainty over the amount of capex needed for airport construction and aircraft; 2) potential market share losses should sales volume unexpectedly drop; and 3) unfavorable regulatory changes (excise tax increase, prohibition on smoking in certain areas, etc.).

**Figure 1. HMSP's Sampoerna A sales volume**



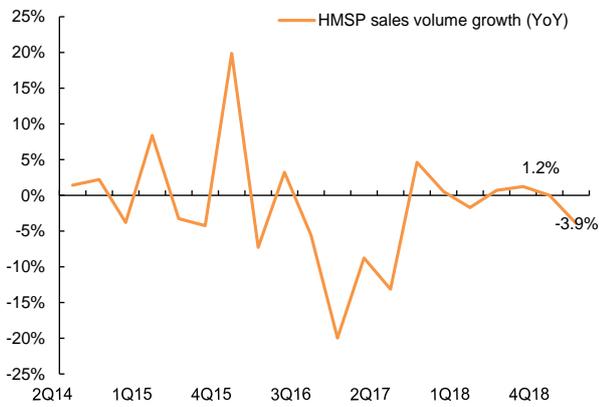
Source: PMI, Company data, Mirae Asset Sekuritas Indonesia

**Figure 2. HMSP's Dji Sam Soe sales volume**



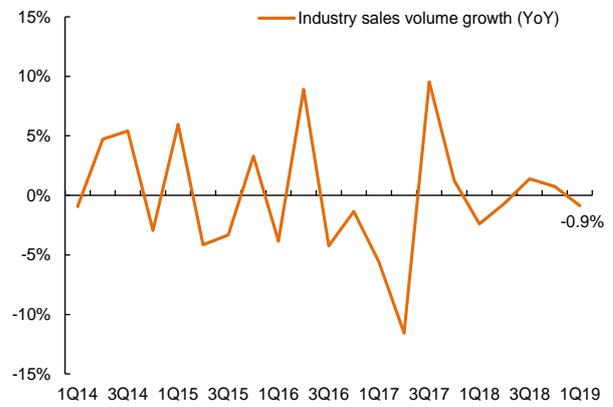
Source: PMI, Company data, Mirae Asset Sekuritas Indonesia

**Figure 3. HMSP's sales volume growth**



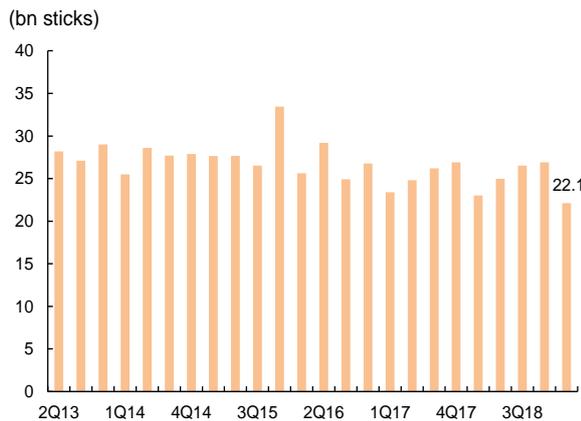
Source: PMI, Company data, Mirae Asset Sekuritas Indonesia

**Figure 4. Industry's sales volume growth**



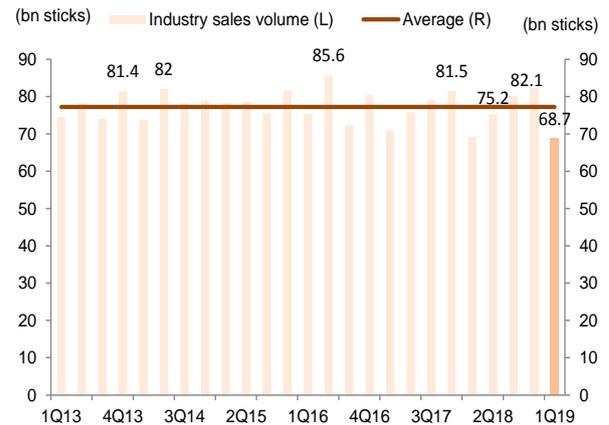
Source: PMI, Company data, Mirae Asset Sekuritas Indonesia

**Figure 5. HMSP's quarterly sales volume**



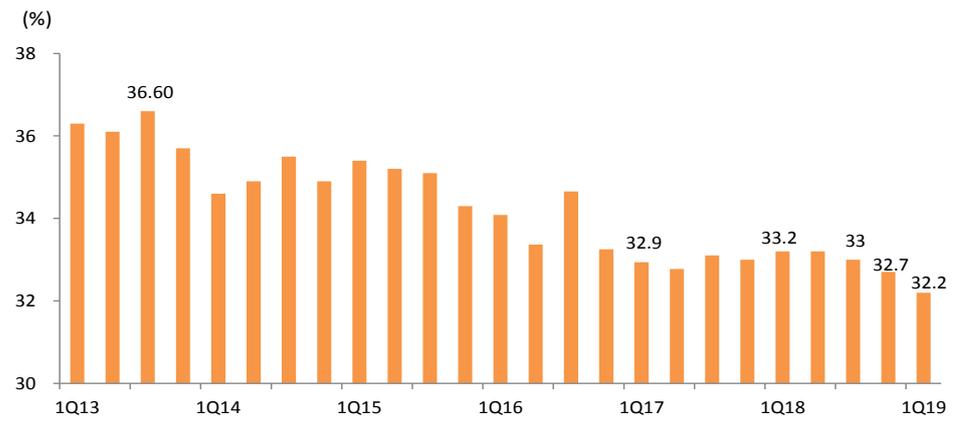
Source: PMI, Company data, Mirae Asset Sekuritas Indonesia

**Figure 6. Industry's quarterly sales volume**



Source: PMI, Company data, Mirae Asset Sekuritas Indonesia

**Figure 7. HMSP's market share**



Source: PMI, Company data, Mirae Asset Sekuritas Indonesia

# APPENDIX 1

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