Cement Sector

More Tailwinds than Headwinds

OVERWEIGHT

27 August 2019

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We upgrade our recommendation on cement sector to OVERWEIGHT. Despite soft demand growth weighing on the industry in a near-term, we favor the sector for its longer term outlook improvement given a healthier environment and more favorable input costs. We prefer SMGR over INTP at the current level considering its reasonable valuation, further efficiency post-SMCB acquisition, and its widespread penetration to benefit from future infrastructure domino effects. We have a BUY rating for SMGR with 52-week TP of IDR 15,300 and NEUTRAL rating for INTP with 52-week TP of IDR 17,000. Both companies' valuations are derived from the combination of EV/ton multiple and DCF valuation.

Healthier environment. We think that cement industry now has a much better competition condition as suggested through gradual price recovery started in 2018. The price hikes marked the end of price war amongst cement players which began in 2015 as the sector started to suffer from oversupply. A challenging financial position for some second and third tier players contribute to the recovery. Recent M&A between SMGR and SMCB also helps in waning competition, and we think the possibilities are wide open for another consolidation to occur, providing less room for price war.

Oversupply condition remains, but gradually improving. In terms of utilization, the industry is currently running at 67% level. While we think that the overall industry remains in underutilized condition, we see that situation has been gradually improving on the back of subsiding expansion from second and third tier cement players and government's focus to prevent cement imports and new cement plants permit. Increasing attention to exports market expansion from some companies are also expected to help in improving utilization level. Factoring 2.6% national demand and 0.4% national supply FY19E-25F CAGR, we expect to see the sector's utilization rate to improve to 72% in 2025.

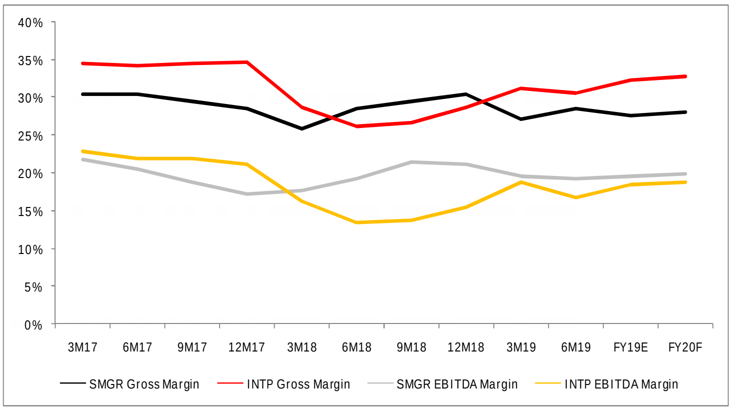
Expecting uptick in demand growth. This year, cement industry suffered from modest property sales and the completion of some major infrastructure projects. However, we see sales growth should be bottoming and start to pick up next year given: 1) Resuming construction projects, supported by government's continuous focus on infrastructure development, and 2) Potential improvement in property sales as we await for the incentives from fiscal and monetary policies to translate into recovery in demand towards property.

Energy prices move favorably. Coal and oil account for the majority part of cement players' cost of revenues and their significant price hikes hurt cement players in 2017 and 2018, but the situation has been improving in 2H18. We observe that coal prices for both high and low calories are currently in the downward trend, while oil also trades relatively stable at USD 50-60 per barrel level. Going forward, we are of the view that there is limited catalyst for coal and oil price on the back of concerns on global growth and high inventory level. With both commodities are currently trading at favorable level to cement players, we believe this should bring a tailwind to the industry's margins.

Ticker	Rating	CP	TP	% Chg	52-week EV / ton
SMGR	BUY	12,875	15,300	18.8	2.5 mn / ton
INTP	NEUTRAL	20,425	17,000	-16.8	3.2 mn / ton

The worst has passed. SMGR's and INTP's profitability hit their lowest points in 1H18 when the headwinds simultaneously occurred: slowing demand growth, unfavorable pricing, high input costs, and longer-than-expected factory overhaul for INTP. However, things have gradually changed for the better following pricing adjustments and weakening energy prices. Going forward, we expect to see improving outlook for cement industry which should contribute to better profitability figures. That being said, we think that margins might not return to their glorious years as a very lucrative condition potentially attracts aggressive expansion from smaller and foreign players.

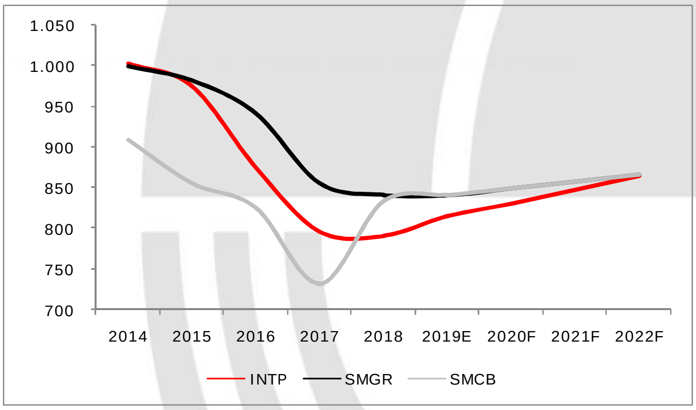
Cement Companies Margin



Source: Company data, Sinarmas Investment Research

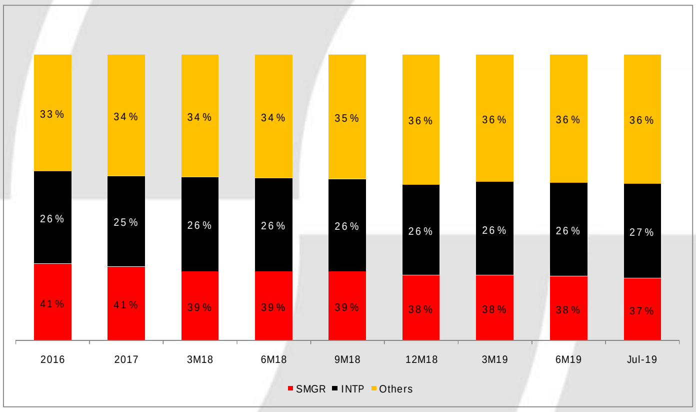
ASP gradual recovery. Ever since oversupply condition occurred in the cement industry due to abundant additional productions from existing and new entrants, be it local and foreign ones, cement players have been suffering from pressure in pricing. The condition was worsened by significant surge in energy prices back in 2018 which led to shrinking margin for cement producers. At the end of 2017, SMGR made the first move to raise pricing in certain areas. The action was then followed by INTP which started to increase cement prices in 2H18. The price adjustments have started to be followed by some of the smaller players given their tough financial position. Looking forward, we expect to see 1-3% yearly ASP growth from cement players, supported by fewer competition on the market (SMCB acquisition by SMGR) as well as a more challenging financial outlook for several smaller players selling cement at ~10% discount from peers. On the flip side, ASP hikes shortly cost a bit of decline in market share for first-tier cement companies, though it remains at their comfortable range.

Blended ASP (IDR k/ton)



Source: Company data, Sinarmas Investment Research

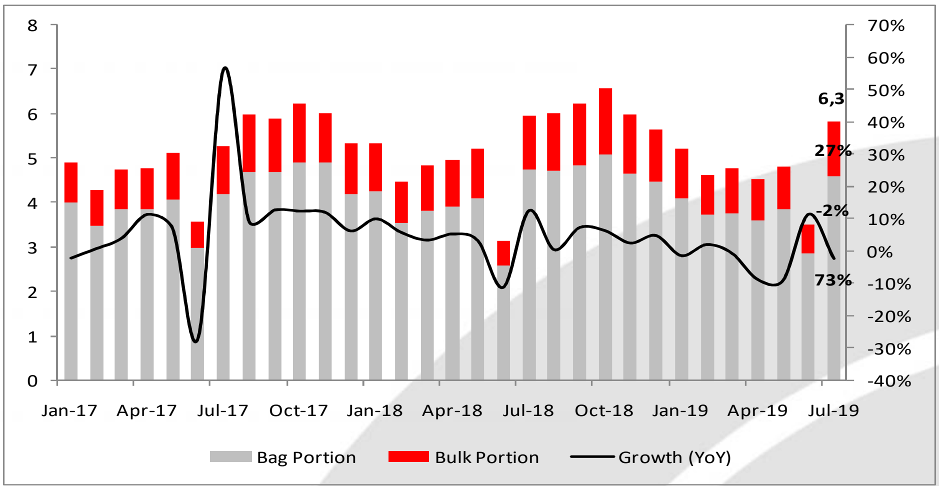
Market Share of Cement Players



Source: Company data, Sinarmas Investment Research

Expecting uptick in demand growth. 1H19 was not favorable for cement sales given the occurrence of presidential and legislative elections, prolong rainy season, and Lebaran which put major construction and housing development activities on hold. The industry experienced a –1.9% YoY decline in sales volume during the first semester, with Jakarta, Central Java, and Sumatera regions contributed the most to the drag. Exports, on the other hand, showed satisfying growth by increasing 7.6% YoY as Indonesia benefits from increasing import demands due to raising environmental concerns in China and Australia. The industry is currently looking forward for sales to recover in 2H19 following the resumption of construction and housing development. July sales was posted below than expectation at 6.28 mn tons, -2.2 YoY, bringing YTD figure at 35.7 mn tons (-2.2% YoY). We see the industry to potentially miss early target for domestic sales volume growth at 3% due to sluggish 7M19 performance. Thus, we decrease our target on 2019's growth to 2% from 3% level. Nonetheless, we think that demand should start to pick up by next year on the back of improving property sales and continuation of infrastructure development.

Domestic Monthly Cement Sales

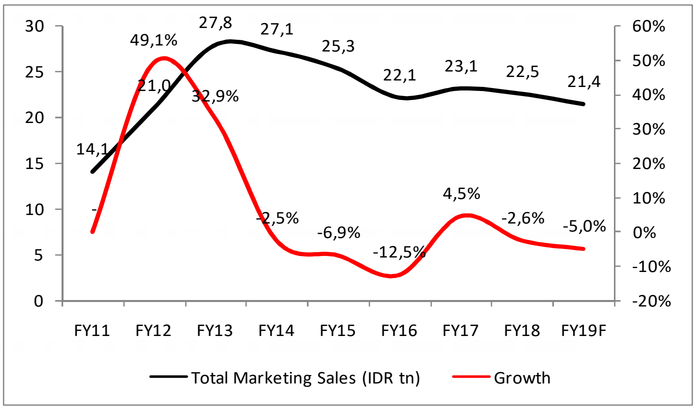


Source: Company data, Sinarmas Investment Research

Awaiting recovery of property sales. Indonesia started to experience a weak property market in 2013 on the back of oversupply condition and liquidity tightening. This was indicated by the sluggish marketing sales figures recorded by property players within our coverage (ASRI, BSDE, CTRA, PWON, SMRA). As an effort to stimulate property sector, the government and central bank have been giving some stimulus such as loan relaxation and lower tax rate for certain class of property. Recently, BI has cut benchmark rate (7DRRR) by 25bps twice, suggesting the beginning of easing cycle. In addition, we think that diminishing uncertainties post-election period should encourage investor buyers to start coming in, while the completion of infra projects should catalyze the development of neighboring areas, adding to potential cement demand as a result. Hence, we view that the sector should gradually enjoy a better sales reading.

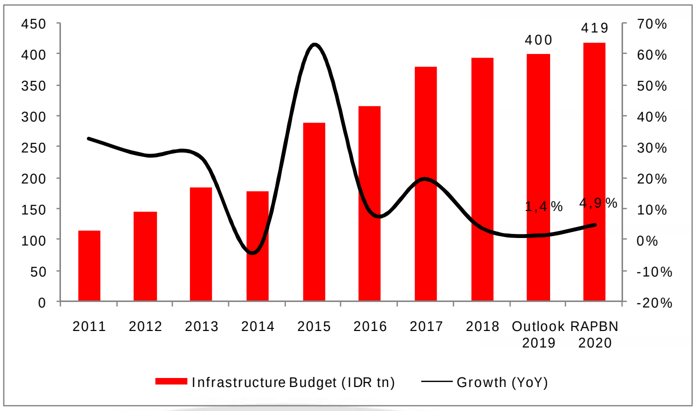
Continuation of Indonesia's recent intensive construction projects development. Well-known as Indonesian construction father, Jokowi has laid big plans for the country's infrastructure development including toll roads, flyovers, railways, airports, ports, power plants, industrial areas, and some other projects. Infra spending was significantly rising since his governance and gradually increased afterwards. Latest infrastructure budget, as stated in RAPBN 2020, reached IDR 419 tn (+4.9% YoY) or more than doubled the budget prior to his term. Being reelected for the second term, Jokowi has delivered a number of statements indicating that infrastructure development would continue to be one of his administration's focus for the upcoming five years. Latest news quoted by Bloomberg revealed that Jokowi has a USD 412bn plans for the country's physical improvements. Some notable projects within the pipeline for Jokowi's 2nd round include MRT Phase-II, Jakarta-Bandung high speed railway, and Trans Sumatera and Papua development. We believe that these pipeline would support cement demands, particularly bulk sales. In the long-run, a more developed country's connectivity should bring domino effects to the economy, increase productivity, and lower logistic costs.

Property Marketing Sales



Source: Company data, Sinarmas Investment Research

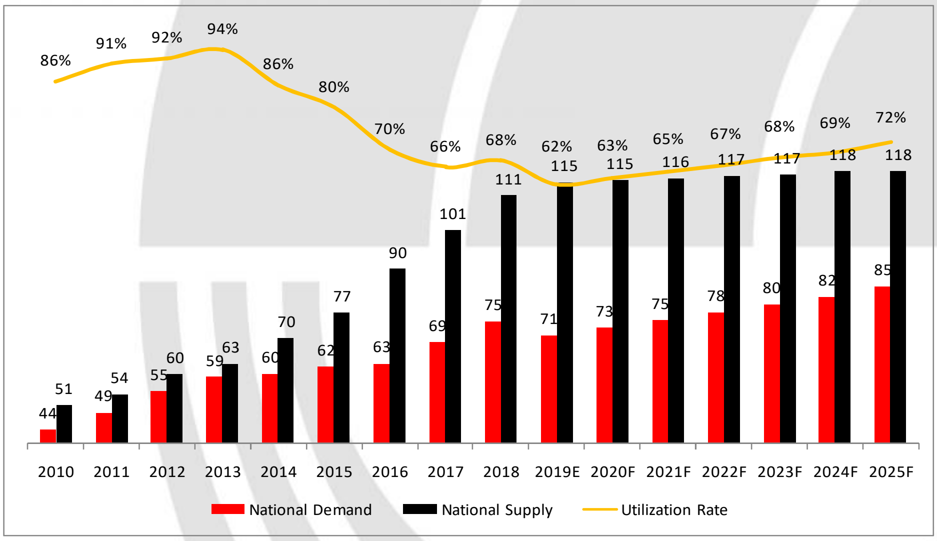
Indonesia Infrastructure Budget



Source: Ministry of Finance, Sinarmas Investment Research

Oversupply condition lingers, but gradually improving. In terms of utilization, we think that the overall industry would continue to suffer from underutilized condition due to limited demand growth. However, we see that situation has been gradually improving on the back of subsiding expansion from second and third tier cement players and government's focus to prevent cement imports and new cement plants permit. Increasing attention to exports market expansion from some companies are also expected to help in improving utilization level. Nonetheless, despite the refusal from several parties, news flows reported that there are some cement factories under construction located in East Java, Central Java, and East Kalimantan which probably came in through old licenses. We are watchful towards the development and possible threats coming from these additional capacities. We forecast national sales volume to grow by 2.6% FY19E - FY25F CAGR, while national capacity is expected to increase by 0.4% FY19E - FY25F CAGR, leading to 72% utilization rate in 2025.

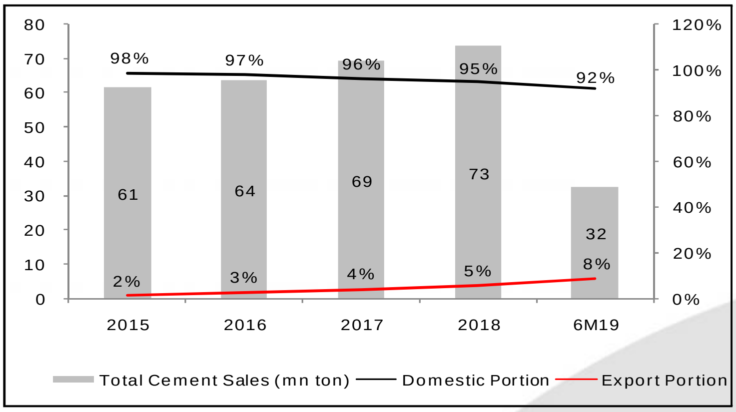
Industry Utilization



Source: Company data, Sinarmas Investment Research

Boosting exports to improve utilization. According to the World's Top Exports 2018, Indonesia stood at 11th amongst the world's cement exporters, with USD 237.8mn of exports value (2.3% of total exports). It was far below Vietnam and Thailand whose exports value each recorded at USD 1.1bn and USD 633.8mn (11.1%/% 6.3% penetration respectively). This leaves opportunities wide open for Indonesia to capture more exports market. 7M19 exports sales volume reached 3.3 mn tons, with 58% contribution coming from SMGR while the rest came from other export players such as SCG, Merah Putih, and Conch. Despite lower margin for export sales due to high logistic costs, this would help in improving utilization rate. SMGR's management stated that potential export market for Indonesia to catch is estimated to be 8 mn tons per annum, with demands are mostly from China, Philippines, Bangladesh, Sri Lanka, Australia, and Singapore.

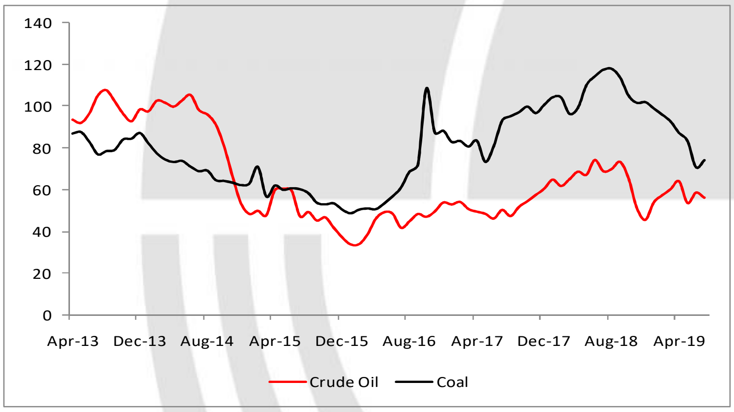
Cement Sales Breakdown



Source: Company data, Sinarmas Investment Research

Energy prices move favorably. Coal and oil account for the majority part of cement players' cost of revenues and their significant price hikes had hurt cement players in 2017 and 2018 and the situation has been improving in the 2H18. We observe that coal prices for both high and low calories are currently in the downward trend, while oil also trades relatively stable at USD 50-60 per barrel level. Going forward, we are of the view that there is limited catalyst for coal price given lower demand growth relative to supply, China's high inventory level, and slowing global growth. Meanwhile, concerns on global growth and supply level restrict oil price. With both commodities currently trading at favorable level to cement players, we believe this should bring a tailwind to the industry's margins.

Energy Prices

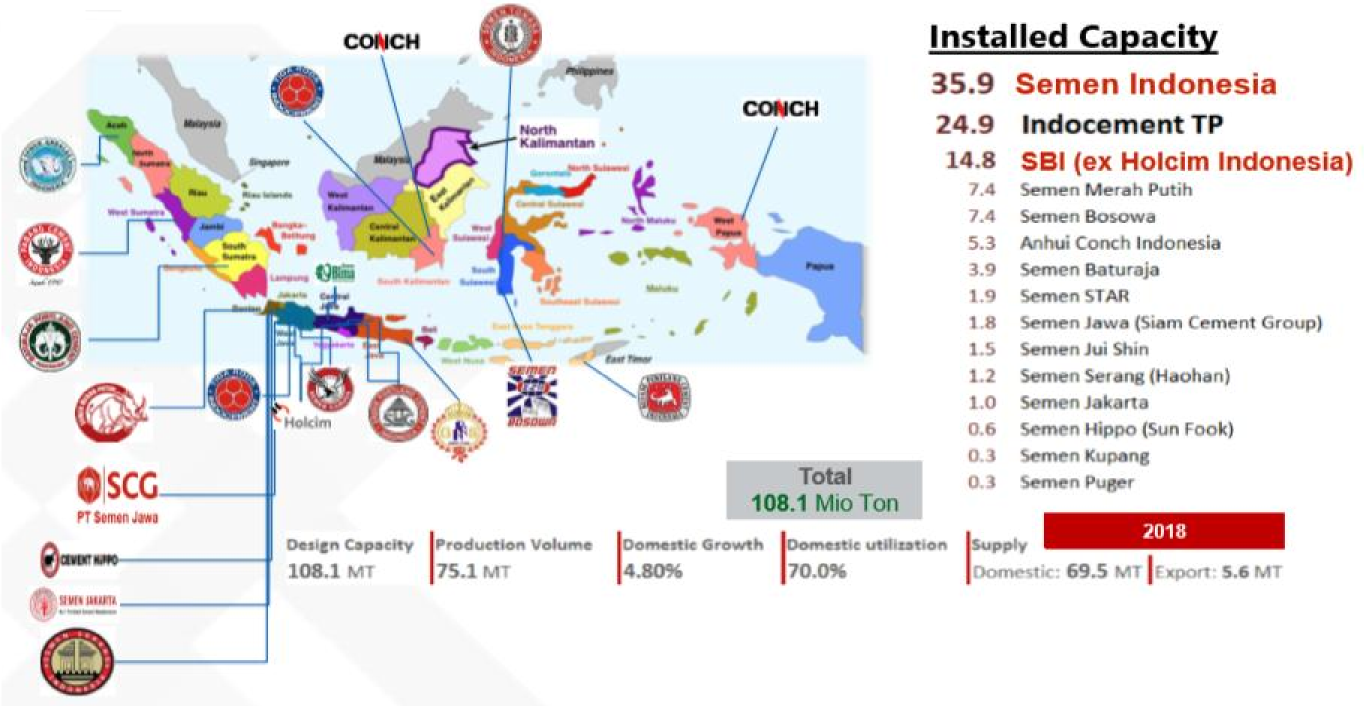


Source: Bloomberg, Sinarmas Investment Research

Risks to the cement sector:

Potential logistic cost hikes due to ODOL implementation. As an effort to reduce road damage, the government has gradually implemented the over-dimension and over-load rule for land transportation vehicles. This policy, should this be fully applied, carries the risk for cement players, especially those concentrated in Java area, given the significant portion of logistic costs to their operating expenses.

Cement Production Map



Source: Company data, Sinarmas Investment Research

Other key risks to our call: 1) Weaker than expected cement demand, 2) Aggressive expansion and price discounts from smaller players, 3) Significant rise in input costs, 4) Government intervention

PT Semen Indonesia Tbk.

Attractive Valuation, Appealing Outlook

BUY (TP: IDR 15,300)

27 August 2019

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Anticipated 1H19 Results. SMGR recorded IDR 16.4 tn of revenue in 1H19 (+22.9% YoY). The significant growth was due to its acquisition of Solusi Bangun Indonesia (SMCB). Normalizing the figure, top-line showed a decent performance supported by ASP hikes, especially on the Holcim brands to adjust pricings comparable to other SMGR's brands. Gross margin was seen improving to 28.5% from 27.2%, supported by softer energy prices. Bottom-line, as expected, was burdened by IDR 1.5tn of interest expense. Fortunately, tax rate which jumped in 1Q19 due to non-tax deductible treatment for interest expense, has now returned to its normal level at 29%.

Acquisition debt pressures bottom line, re-profiling helps soothing. SMGR's DER increased to 1.0x from 0.6x since SMCB acquisition as a result of syndicated loans from foreign banks. The company has taken some measures for lowering its cost of funds by issuing IDR 3.5 tn of local bonds and taking domestic loans amounted to IDR 9.35 tn. We expect that would ease cost of fund by around 100bps, reducing burden on NPAT.

Greater efficiency post-consolidation. SMGR's operating efficiency initiatives have resulted in opex to sales declining around 3%. Post-consolidation, SMGR benefits from wider footprint as both SMGR and SMCB are now able to do cross-producing as well as having stronger household distribution channel. Besides, SMCB would unlock its profitability potential given better efficiency from integrated raw materials procurement and logistic distribution as well as royalty fee discontinuation.

Upcoming plans. SMCB's utilization rate stands at 62%, far below SMGR's which is running at 87% level. The company plans to maximize SMCB's utilization by increasing exposure to the exports market and leveraging on SMCB's strong retail distribution channels. In terms of profitability, the company has adjusted Holcim's ASP to be in-line with other SMGR's brands and is open to further price adjustment if the environment is supportive and aims to achieve and sustain EBITDA margin of around 22%.

We maintain our BUY recommendation on SMGR with 52-week target price of IDR 15,300, deriving from the combination of 2.5 mn EV/ton and DCF valuation. Our stance is supported by attractive valuation the company currently trading at amidst improving situation of the industry. Downside risks to our call: extremely weak demand, significant hike in energy prices, higher than expected finance costs.

Highlights (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	27,814	30,688	50,930	53,009	55,521
% growth	6.4%	10.3%	66.0%	4.1%	4.7%
Gross Profit	7,960	9,331	14,027	14,792	15,784
Net Profit	1,679	3,092	2,507	2,882	3,587
% growth	-63.1%	84.2%	-18.9%	15.0%	24.5%
Gross Margin (%)	28.6%	30.4%	27.5%	27.9%	28.4%
Net Margin (%)	6.0%	10.1%	4.9%	5.4%	6.5%
Return on Equity (%)	5.5%	9.9%	7.3%	7.9%	9.3%
Return on Assets (%)	3.4%	4.5%	3.0%	3.4%	4.2%
EPS	283	521	423	486	605

Stock Information	
Sector	Cement
Bloomberg Ticker	SMGR IJ
Market Cap. (IDR tn)	76.5
Share Out./Float (mn)	5,932/2,906
Current Price	12,900
52-week Target Price	15,300
Upside	18.6%

Share Price Performance	
52W High (04/04/19)	14,450
52W Low (09/05/18)	8,500
52W Beta	1.5
YTD Change	12.2%

Relative Valuations	
EV/EBITDA	15.4
Trailing P/E	36.1
Forward P/E	41.4
P/BV	3.1

What's next for Holcim?

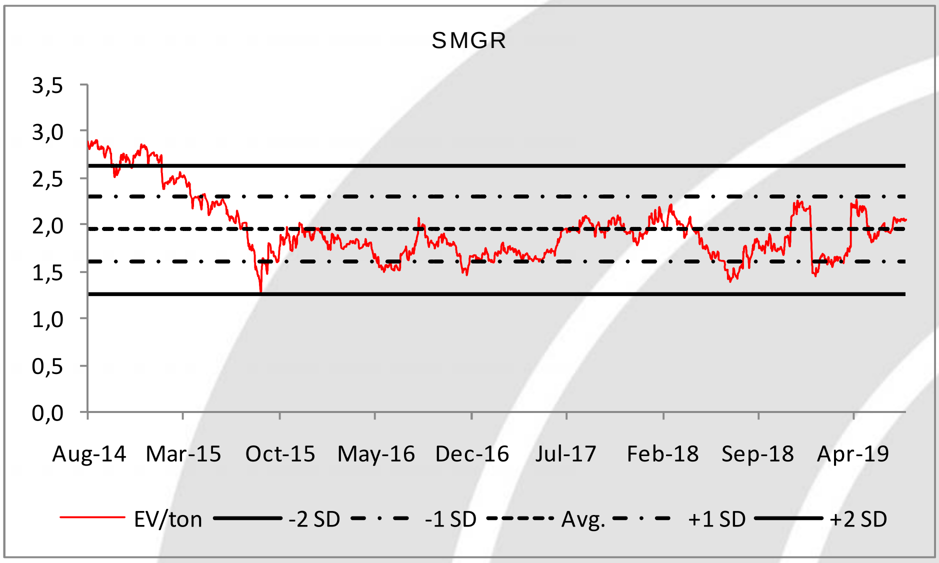
SMCB's rights to use Holcim brand will expire by the end of 2019 and the company would decide whether to prolong the royalty payment or terminate the brand. Based on our discussion with the company, it is most likely that SMGR would not extend the royalty payment and would either create a new brand or merge Holcim to SMGR's other existing brand, Semen Gresik.

SMGR 2Q19 Earnings Summary

IDR bn	2Q18	1Q19	2Q19	%QoQ	%YoY	6M18	6M19	%YoY	% DH	% Cons
Net Revenues	6,691	8,127	8,224	1.2%	22.9%	13,308	16,351	22.9%	39%	40%
COGS	(4,609)	(5,913)	(5,773)	-2.4%	25.3%	(9,510)	(11,686)	22.9%		
Gross Profit	2,082	2,214	2,451	10.7%	17.7%	3,799	4,665	22.8%		
Operating Profit	954	1,092	958	-12.2%	0.5%	1,701	2,050	20.5%		
EBITDA	1,387	1,591	1,550	-2.6%	11.8%	2,561	3,142	22.7%		
Net Income	560	268	217	-19.2%	-61.3%	971	485	-50.1%	30%	18%
Gross Margin	31.1%	27.2%	29.8%			28.5%	28.5%			
Opex to Sales	16.9%	13.8%	18.1%			15.8%	16.0%			
EBITDA Margin	20.7%	19.6%	18.8%			19.2%	19.2%			
Net Margin	8.4%	3.3%	2.6%			7.3%	3.0%			

Source: Company data, Sinarmas Investment Research

EV/ton band



Source: Bloomberg, Sinarmas Investment Research

Income Statement (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	27,814	30,688	42,014	43,735	45,875
% growth	6.4%	10.3%	36.9%	4.1%	4.9%
COGS	(19,854)	(21,357)	(30,385)	(31,147)	(32,421)
Gross Profit	7,960	9,331	11,629	12,588	13,454
% growth	-19.2%	17.2%	24.6%	8.2%	6.9%
Operating Expenses	(5,326)	(4,557)	(6,266)	(6,530)	(6,894)
Opex to Sales (%)	19.2%	14.9%	14.9%	14.9%	15.0%
Operating Profit	2,633	4,773	5,364	6,058	6,560
% growth	-47.1%	81.3%	12.4%	12.9%	8.3%
EBITDA	4,409	6,371	8,229	9,012	9,606
% growth	-37.8%	44.5%	29.2%	9.5%	6.6%
Other Income/Expenses	218	107	138	138	138
Net Financing	(588)	(777)	(2,731)	(2,834)	(2,617)
PBT	2,254	4,105	2,773	3,364	4,083
Tax	(604)	(1,019)	(1,140)	(1,150)	(1,203)
Minority Interest	29	7	7	7	7
Net Income	1,679	3,092	1,640	2,221	2,887
% growth	-63.1%	84.2%	-47.0%	35.4%	30.0%

Balance Sheet (IDR Bn)	2017	2018	2019E	2020F	2021F
Cash and Cash Equivalent	3,666	5,277	2,455	1,712	1,468
Trade Receivables	4,886	5,786	7,106	7,400	7,746
Inventories	3,686	3,544	4,353	4,481	4,663
Other Current Assets	1,563	1,400	1,816	1,891	1,982
Total Current Assets	13,802	16,008	15,731	15,484	15,859
Fixed Assets	32,523	32,749	47,712	47,173	46,641
Other Non Current Assets	2,744	2,399	18,505	18,586	18,430
Total Assets	49,069	51,156	81,948	81,243	80,929
Trade Payables	4,927	4,476	5,888	6,039	6,278
Other Current Liabilities	3,877	3,727	8,071	7,813	7,535
Total Current Liabilities	8,804	8,203	13,958	13,852	13,813
Bank Loans	8,099	8,140	28,934	26,874	24,852
Other Non Current Liabilities	2,120	2,076	3,883	3,972	4,064
Total Liabilities	19,023	18,420	46,775	44,698	42,730
Share & APIC	2,051	2,051	2,051	2,051	2,051
Retained Earnings	26,340	28,614	29,851	31,244	32,860
Non Controlling Interest	1,524	1,544	2,743	2,723	2,762
Other Components of Equity	130	527	527	527	527
Total Equity	30,046	32,736	35,173	36,545	38,200
Total Equity & Liabilities	49,069	51,156	81,948	81,243	80,929

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2017	2018	2019E	2020F	2021F
Net Income	1,621	3,079	1,640	2,221	2,887
Depreciation	1,775	1,597	2,866	2,954	3,046
Chg. in NWC	2,084	979	697	263	247
Chg. in Other CT Assets	-	-	-	-	-
Chg. in Other CT Liabilities	-	-	-	-	-
CF from Operating	1,312	3,697	3,809	4,912	5,686
Capital Expenditure	3,452	1,823	2,360	2,415	2,514
Chg. in LT Assets	-263	-344	20,300	-	-
Chg in LT Liabilities	1,069	-44	448	88	92
CF from Investing	-2,119	-1,523	-22,212	-2,326	-2,422
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	3,759	-155	16,070	-2,400	-2,431
Dividends Paid	1,809	806	825	929	1,077
Others	-326	397	-	-	-
CF from Financing	1,625	-564	15,245	-3,329	-3,508
Change in Cash	818	1,611	-3,158	-744	-244
Beginning Cash	2,848	3,666	5,614	2,455	1,712
Ending Cash	3,666	5,277	2,455	1,712	1,468

Financial Ratio	2017	2018	2019E	2020F	2021F
Profitability					
ROE	5.5%	9.9%	4.8%	6.2%	7.7%
ROA	3.6%	6.2%	2.5%	2.7%	3.6%
Gross Margin	28.6%	30.4%	27.7%	28.8%	29.3%
Operating Margin	9.5%	15.6%	12.8%	13.9%	14.3%
EBITDA Margin	15.9%	20.8%	19.6%	20.6%	20.9%
Net Margin	6.0%	10.1%	3.9%	5.1%	6.3%
Liquidity					
Current Ratio	1.6	2.0	1.1	1.1	1.1
Solvency					
Debt to Equity	0.6	0.6	1.0	0.9	0.8
Debt to Assets	0.4	0.4	0.4	0.4	0.4
Interest Coverage	5.8	6.6	2.8	3.1	3.5
Net Debt to EBITDA	4.2	2.8	4.2	3.5	3.1
Valuation					
EV/ton	1.3	1.5	1.7	1.7	1.7
EV/EBITDA	13.3	10.7	11.8	10.8	10.1
Price to Earning (PE)	58.0	31.5	59.4	43.9	33.8
Price to Book (PBV)	3.2	3.0	2.8	2.7	2.6

Key Assumptions	2017	2018	2019E	2020F	2021F
Sales Volume Growth (YoY)	10.2%	1.2%	39.1%	2.5%	2.9%
ASP Growth (YoY)	-7.6%	3.8%	1.0%	1.0%	1.0%
Market Share	38.7%	38.7%	53.5%	53.3%	53.3%

Source: Company data, Sinarmas Investment Research

PT Indocement Tunggal Prakarsa Tbk.

Demanding Valuation Despite Healthy Balance Sheet

NEUTRAL (TP: IDR 17,000)

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Higher ASP and weaker energy prices backed earnings. INTP recorded a satisfying 1H19 results due to a low base 1H18 performance and a more favorable environment for the sector. While sales volume was down by 1.7% YoY in 6M19, top-line was posted at IDR 6.98 tn, improving by 7.7% YoY. Bottom-line came in at IDR 640 bn, jumped by 80.3% YoY. Margin at the gross level sustained at 30% level, much better on YoY basis supported by ASP increases and lower energy prices. EBITDA dropped to 14.5% in 2Q19 from 18.8% in 1Q19 due to seasonality. The company's market share was stable over the year at around 26.2% level.

Benefits from improving industry outlook, yet competition remains tight in the home market. A more rational competition climate in the industry has enabled some cement players to raise prices, including INTP which started to adjust price higher since mid of 2018 and managed to maintain and increase prices in some regions. However, we think that competition will continue to be tense in its home market, West Java, as the largest cement market nationwide. Moreover, the cement market attractiveness is now kind of shifting to eastern part of Java and Sumatera area given the rapid infrastructure development. As of 1H19, INTP was relatively losing market share in the West Java region with 46-47% of share compared to its historical share of around 48-51% in FY18. Additionally, SMGR is now having stronger footprint through SMCB acquisition, adding to the competition landscape.

Upcoming plans. Given a net cash position as of 1H19 that amounted to IDR 5.7 tn, it leaves INTP an ample room to participate in any potential M&A deals. The company targets to acquire factories which would contribute to higher efficiency. In terms of sales, INTP would still be focusing on meeting domestic demands, while evaluating the potential for tapping back into exports market. The company also continues its biofuel usage in manufacturing process and targets to replace ~20% of coal consumption with alternative energy.

Despite its healthy balance sheet position, we see limited upside potential for the company's share performance at the current position as its current valuation looks demanding by trading at +1.7SD from 5-yr average EV/ton, 33% premium to SMGR's. Hence, we remain NEUTRAL on INTP with a higher target price of IDR 17,000, implying the combination of 3.2 mn EV/ton and DCF valuation.

Highlights (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	14,431	15,190	15,939	16,711	17,520
% growth	-6.1%	5.3%	4.9%	4.8%	4.8%
Gross Profit	5,008	4,369	4,942	5,156	5,335
Net Profit	1,860	1,146	1,531	1,570	1,612
% growth	-51.9%	-38.4%	33.6%	2.5%	2.7%
Gross Margin (%)	34.7%	28.8%	31.0%	30.9%	30.4%
Net Margin (%)	12.9%	7.5%	9.6%	9.4%	9.2%
Return on Equity (%)	7.3%	4.8%	6.6%	6.8%	6.9%
Return on Assets (%)	6.3%	4.0%	5.5%	5.6%	5.7%
EPS	505	311	416	427	438

Stock Information	
Sector	Cement
Bloomberg Ticker	INTP IJ
Market Cap. (IDR tn)	77.9
Share Out./Float (mn)	3,681/1,804
Current Price	21,150
52-week Target Price	17,000
Upside	-19.6%

Share Price Performance	
52W High (07/25/19)	22,875
52W Low (10/05/18)	15,475
52W Beta	1.8
YTD Change	10.7%

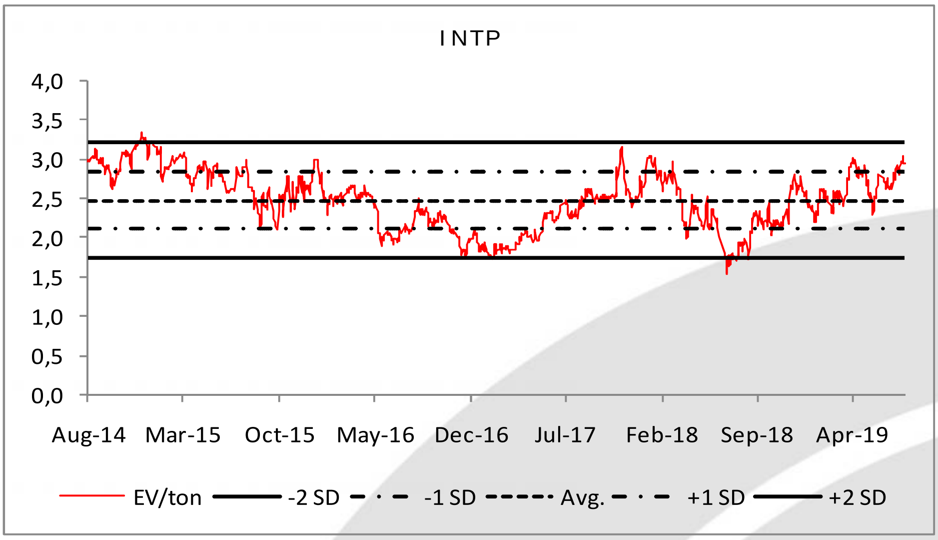
Relative Valuations	
EV/EBITDA	27.2
Trailing P/E	54.4
Forward P/E	49.5
P/BV	3.4

INTP 2Q19 Earnings Summary

IDR bn	2Q18	1Q19	2Q19	%QoQ	%YoY	6M18	6M19	%YoY	% DH	% Cons
Net Revenues	3,045	3,733	3,250	-12.9%	6.7%	6,484	6,983	7.7%	43.8%	42.8%
COGS	(2,332)	(2,569)	(2,271)	-11.6%	-2.6%	(4,785)	(4,840)	1.2%		
Gross Profit	713	1,164	979	-15.9%	37.4%	1,700	2,143	26.1%		
Operating Profit	18	395	195	-50.6%	980.3%	255	590	131.7%		
EBITDA	313	702	470	-33.1%	50.1%	870	1,172	34.7%		
Net Income	91	397	243	-38.7%	167.8%	355	640	80.3%	37.7%	38.0%
Gross Margin	23.4%	31.2%	30.1%			26.2%	30.7%			
Opex to Sales	23.3%	21.1%	23.7%			22.6%	22.3%			
EBITDA Margin	10.3%	18.8%	14.5%			13.4%	16.8%			
Net Margin	3.0%	10.6%	7.5%			5.5%	9.2%			

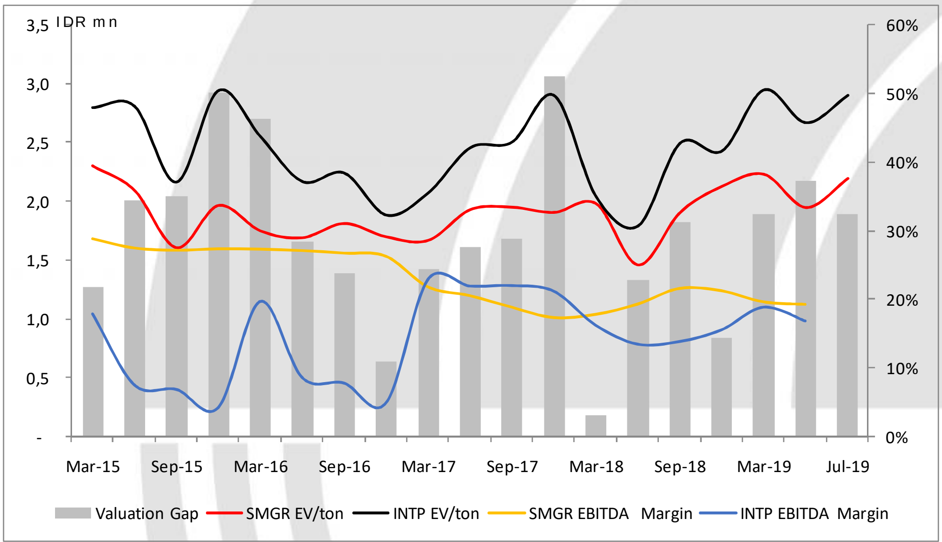
Source: Company data, Sinarmas Investment Research

EV/ton band



Source: Bloomberg, Sinarmas Investment Research

SMGR and INTP Valuation



Source: Bloomberg, Sinarmas Investment Research

Income Statement (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	14,431	15,190	15,939	16,711	17,520
% growth	5.3%	4.9%	4.8%	4.8%	4.8%
COGS	(9,423)	(10,821)	(10,997)	(11,556)	(12,185)
Gross Profit	5,008	4,369	4,942	5,156	5,335
% growth	-20.9%	-12.8%	13.1%	4.3%	3.5%
Operating Expenses	(3,080)	(3,322)	(3,403)	(3,568)	(3,741)
Opex to Sales (%)	21.3%	21.9%	21.4%	21.4%	21.4%
Operating Profit	1,928	1,047	1,539	1,588	1,594
% growth	-46.7%	-45.7%	47.1%	3.2%	0.4%
EBITDA	2,981	2,213	2,744	2,825	2,867
% growth	-34.4%	-25.8%	24.0%	3.0%	1.5%
Other Income/Expenses	360	354	332	331	377
Net Financing	402	313	377	379	427
PBT	2,288	1,401	1,871	1,919	1,971
Tax	(428)	(255)	(340)	(349)	(358)
Minority Interest	-	-	-	-	-
Net Income	1,860	1,146	1,531	1,570	1,612
% growth	-51.9%	-38.4%	33.6%	2.5%	2.7%

Balance Sheet (IDR Bn)	2017	2018	2019E	2020F	2021F
Cash and Cash Equivalent	8,295	7,226	7,254	7,738	8,090
Trade Receivables	2,504	2,993	2,857	3,054	3,259
Inventories	1,769	1,838	2,025	2,083	2,167
Other Current Assets	316	260	312	312	309
Total Current Assets	12,883	12,316	12,449	13,186	13,825
Fixed Assets	14,979	14,637	14,371	13,930	13,493
Other Non Current Assets	1,001	836	836	836	836
Total Assets	28,864	27,789	27,656	27,952	28,154
Trade Payables	1,549	1,760	1,815	1,895	1,997
Bank Loans	-	-	-	-	-
Other Current Liabilities	1,930	2,166	1,978	2,194	2,294
Total Current Liabilities	3,479	3,926	3,793	4,089	4,291
Other Non Current Liabilities	828	641	641	641	641
Total Liabilities	4,307	4,567	4,434	4,730	4,932
Share & APIC	4,539	4,539	4,539	4,539	4,539
Retained Earnings	20,323	18,892	18,892	18,892	18,892
Non Controlling Interest	-	-	-	-	-
Other Components of Equity	-(306)	-(210)	-(210)	-(210)	-(210)
Total Equity	24,557	23,222	23,222	23,222	23,222
Total Equity & Liabilities	28,864	27,789	27,656	27,952	28,154

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2017	2018	2019E	2020F	2021F
Net Income	1,860	1,146	1,531	1,570	1,612
Depreciation	1,078	1,169	1,177	1,238	1,273
Chg. in NWC	(231)	187	106	86	137
Chg. in Other CT Assets	(49)	(56)	53	(0)	(3)
Chg. in Other CT Liabilities	173	75	(79)	129	49
CF from Operating	3,392	2,260	2,470	2,851	2,800
Capital Expenditure	1,414	827	911	797	836
Chg. in LT Assets	(81)	(166)	-	-	-
Chg in LT Liabilities	4	(187)	-	-	-
CF from Investing	(1,329)	(848)	(911)	(797)	(836)
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	-	-	-	-	-
Dividends Paid	3,420	2,577	1,531	1,570	1,612
Others	(22)	96	-	-	-
CF from Financing	(3,442)	(2,481)	(1,531)	(1,570)	(1,612)
Change in Cash	(1,379)	(1,069)	28	484	352
Beginning Cash	9,674	8,295	7,226	7,254	7,738
Ending Cash	8,295	7,226	7,254	7,738	8,090

Financial Ratio	2017	2018	2019E	2020F	2021F
Profitability					
ROE	7.3%	4.8%	6.6%	6.8%	6.9%
ROA	6.3%	4.0%	5.5%	5.6%	5.7%
Gross Margin	34.7%	28.8%	31.0%	30.9%	30.4%
Operating Margin	13.4%	6.9%	9.7%	9.5%	9.1%
EBITDA Margin	20.7%	14.6%	17.2%	16.9%	16.4%
Net Margin	12.9%	7.5%	9.6%	9.4%	9.2%
Liquidity					
Current Ratio	3.7	3.1	3.3	3.2	3.2
Valuation					
EV/ton	2.9	2.4	2.2	2.1	2.1
EV/EBITDA	24.3	27.4	20.0	19.3	18.9
Price to Earning (PE)	33.5	54.3	40.7	39.6	38.6
Price to Book (PBV)	2.5	2.7	2.7	2.7	2.7

Key Assumptions	2017	2018	2019E	2020F	2021F
Sales Volume Growth (YoY)	3.0%	3.4%	1.9%	3.8%	3.8%
ASP Growth (YoY)	-7.6%	0.2%	3.0%	1.0%	1.0%
Market Share	25.3%	25.5%	25.5%	25.7%	25.9%

Source: Company data, Sinarmas Investment Research

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

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ADD: Share price may range between 10% to 15% over the next 12 months.
NEUTRAL: Share price may range between –10% to +10% over the next 12 months.
REDUCE: Share price may range between –10% to –15% over the next 12 months.
SELL: Share price may fall by more than 15% over the next 12 months.

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