Cement Sector

The Beginning of Long Term Recovery Cycle

OVERWEIGHT

23 March 2021

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A sign of cement demand recovery. In Feb-21, cement industry had shown a sign of recovery with the outside Java recorded a 8.8% YoY growth. However, Java still booked a –5.5% YoY growth, mainly due to heavier rainfalls accompanied by floods. On bag market, the cement consumption has returned to Pre-Covid level as bag market posted a 5.9% YoY growth. In addition, with the government stimulus on property sector, we believe it should give a tailwind to bag market as we estimate that property developers will ramp-up their construction progress. Meanwhile, the bulk market has yet shown a sign of recovery (-13.9% YoY), which is in -line with our estimate as we believe that the bulk market will start to recover in 2Q-3Q21. Hence, we forecast bag and bulk market to grow by 2.7%/3.0% and 12.8%/14.0% in FY21E/22F. Therefore, it will translate to a 5.1%/5.8% growth of cement industry in FY21E/22F. Worth highlighting that we estimate that national cement consumption will fully return to Pre-Covid level in 2022.

Better industry landscape. We estimate that Semen Grobogan (with ~2mn p.a) should become the last additional cement supply before we enter muted supply growth. We expect that the muted new supply growth should persist until the national utilization rate reach 80%. In all, we forecast national capacity to grow at 0.2% CAGR FY21E-25F, mainly come from existing players, resulting to 68% utilization rate in FY25F.

Cement price starts to recover. We believe that the price war is less likely to happen. This is proven as government through Indonesia Competition Commission (KKPU) gave a fined to one of cement players due to predatory pricing. In terms of cement ASP, both INTP and SMGR guided that they will maintain the cement ASP in FY21E. However, we believe that INTP and SMGR will increase the cement ASP due to better industry landscape paired with reopening economic activity.

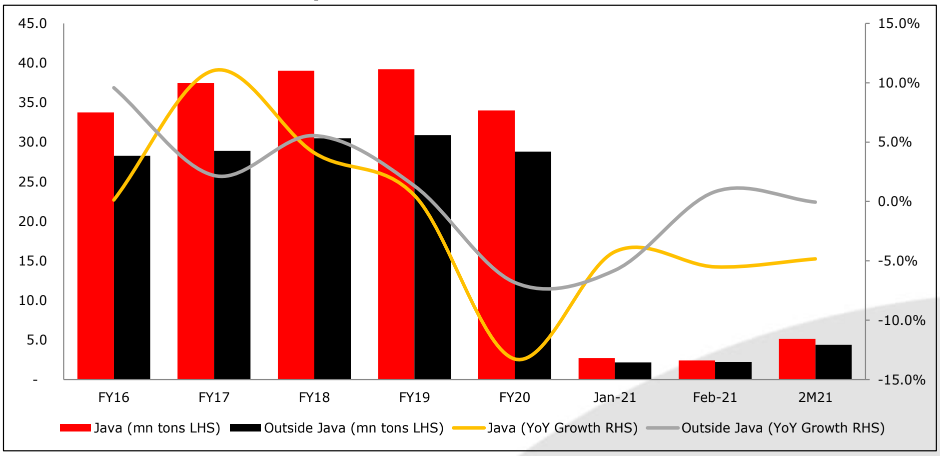
Higher fuel and energy cost, but cement players should overcome this issue. Due to reopening economic activity, both coal and fuel price has rallied and are likely to sustain until 1H21. Hence, we revised our coal price assumption from USD 70/75/Mt. to USD 75/70/Mt. in FY21E/22F. With higher coal price, we think it should give a headwind to cement players as coal account for the majority part of cement players' cost structure. However, we believe that cement player could pass on this cost to their customers, mainly due to better industry landscape.

We reiterate our OVERWEIGHT stance in Cement Sector with SMGR as our top pick. We favor the industry for its long term outlook improvement, supported by 1) vaccine development and government focus on infrastructure project, resulting in cement demand recovery, 2) muted new supply, resulting in better demand and supply balance, and 3) rising ASP due to better industry landscape. As of now, we pick SMGR as our top pick, mainly due to 1) the best proxy on bulk market, 2) margin improvement that caused by further efficiency with SMCB and higher operating leverage, 3) deleveraging that causing higher earnings onwards, and 4) the share price is traded at attractive valuation (relatively cheaper than its peer). Downside risks to our call include: 1) soft economic recovery, 2) additional new cement players, leading to a price war, and 3) higher input cost.

Ticker	Rating	CP	TP	%Chg	FY21E EV/EBITDA
INTP IJ	BUY	13,275	18,300	37.9%	18.5x
SMGR IJ	BUY	11,375	15,800	38.9%	13.1x

Sign of recovery in Outside Java. In Feb-21, the national cement consumption was at 4.6 mn tons (-5.5% MoM/+0.8% YoY), mainly due to lower cement consumption in Java region at 2.4 mn tons (-11.5% MoM/-5.5% YoY) while Outside Java region recorded a sign of recovery at 2.2mn tons (+1.9% MoM/+8.8% YoY). Worth highlighting that the lower cement consumption in Java region was impacted by heavier rainfalls accompanied by floods. In all, 2M21's national cement performance was at 9.5 mn tons (-2.7% YoY), as both Java/Outside Java region booked of 5.1/4.4mn tons (-4.8% YoY/-0.1% YoY). This result was in-line with our estimate as we believe that cement consumption will remain soft at 1Q21 and start to recover in 2-3Q21. Hence, we believe that the soft cement consumption already reflected to the share price.

National Cement Consumption

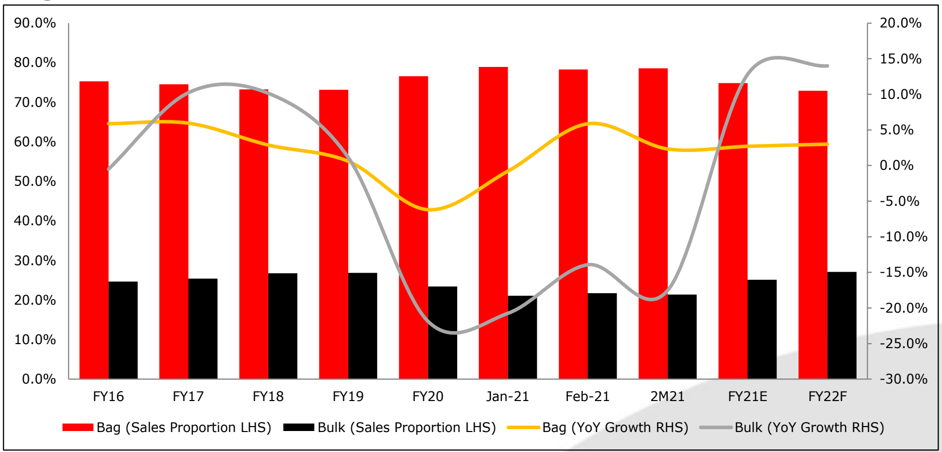


Source: Ministry of Finance, Sinarmas Investment Research

Bulk market as the growth engine. In 2M21, bulk market contribute 21.4% of national cement consumption with 2 mn tons (-17.5% YoY). The bulk market has yet shown a recovery in early 2021 as we expect that the bulk market should be recover in 2-3Q21. Based on local news, Ministry of Public Works and Housing (PUPR) had started to offer infrastructure project in Oct-20. Worth highlighting that the tender process usually will take around 6 months, hence, we estimate that the infrastructure project will begin in Mar/Apr-21. In addition, we also noticed that the SOE contractors recorded a strong new contracts, in which we believe it will support the demand on bulk market. Looking forward, we are more bullish on bulk market, supported by 1) government focus on infrastructure sector, reflecting to their infrastructure allocation at IDR 387tn (+37.7% YoY), and 2) vaccine development as it should trigger the resumption of infrastructure projects (since PSBB-relaxation). Hence, we estimate the bulk market to grow by 12.8%/14.0% in FY21E/22F.

Sign of recovery on bag market. In Feb-21, bag market recorded cement consumption of 3.6 mn tons (-6.3% MoM/+5.9% YoY) as the demand was driven by outside Java. In addition, we expect that the higher soft commodity (CPO) indirectly supports the cement consumption in outside Java. Hence, in 2M21, bag market posted of 7.5mn tons (+2.3% YoY) cement consumption. With 2M21 performance, we believe the bag market should be resilient during unfavourable condition, supported by the pent up demand on property sales as we saw that many listed property companies posted improvement in marketing sales. Moreover, in Mar-21, government gave an incentive to property sectors as the VAT (PPn) for property will be relaxed from currently 10% to 0%. The tax is one of the biggest tax component in property transaction and is only taxed for primary market. As a result the primary property price is likely to fall by 9% as the-tax is fully passed on to customers. It is worth noting that this incentive applies to completed house and effective from Mar to Aug-21. Hence, it should give a positive catalyst to bag market as we believe that many property developers will ramp up their inventory development to meet the incentive's requirements. In addition, another tailwind for property sector comes from central bank policy as central bank will maintain the lower interest rate environment until 2022. Going forward, we are optimistic for bag market will become the backbone on cement national consumption. Hence, we estimate the bag market will grow by 2.7%/3.0% in FY21E/22F. Combining with bulk market, we estimate the national cement consumption to grow by 5.1%/5.8% in FY21E/22F, which the national consumption will fully return to Pre-Covid-level in FY22F.

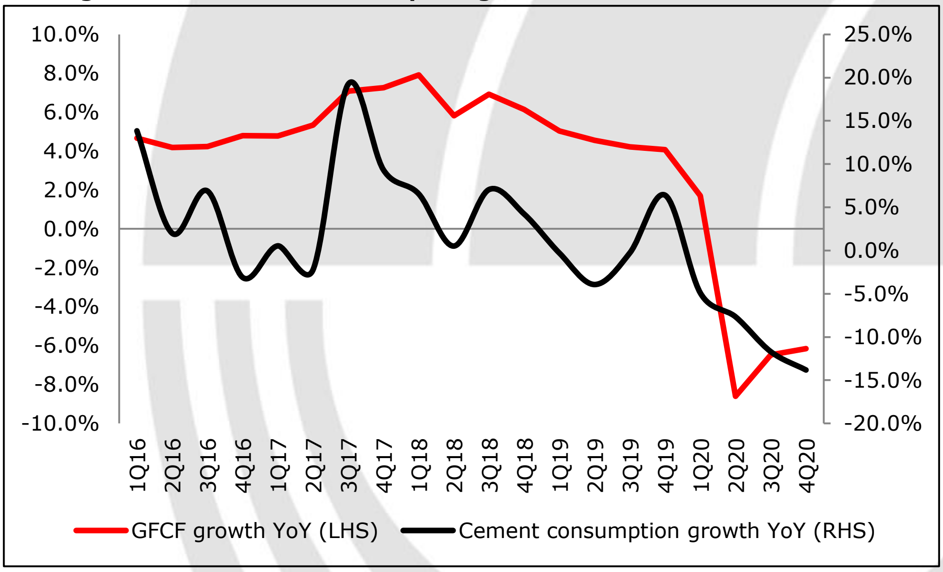
Bag and Bulk Market



Source: Company Data, Sinarmas Investment Research

Tax-exempt income dividend will increase the gross fixed capital formation. The further discussion on dividend's income tax which are tax-exempt through the Job Creation law, Minister of Finance had issued the exemption of tax on dividend earned through PMK No. 18/PMK.03/2021 and will be effective on 17 Feb-21. The PMK requires to taxpayers (individuals or corporates) to invest at least 30% of their dividend income to financial or non-financial (real sector) instrument in Indonesia. As a result, it should give an advantage for company that wants to do an expansion. Worth highlighting that the gross fixed capital formation has a strong positive correlation with the cement consumption growth. Hence, we believe that this new PMK should give a tailwind to cement sector.

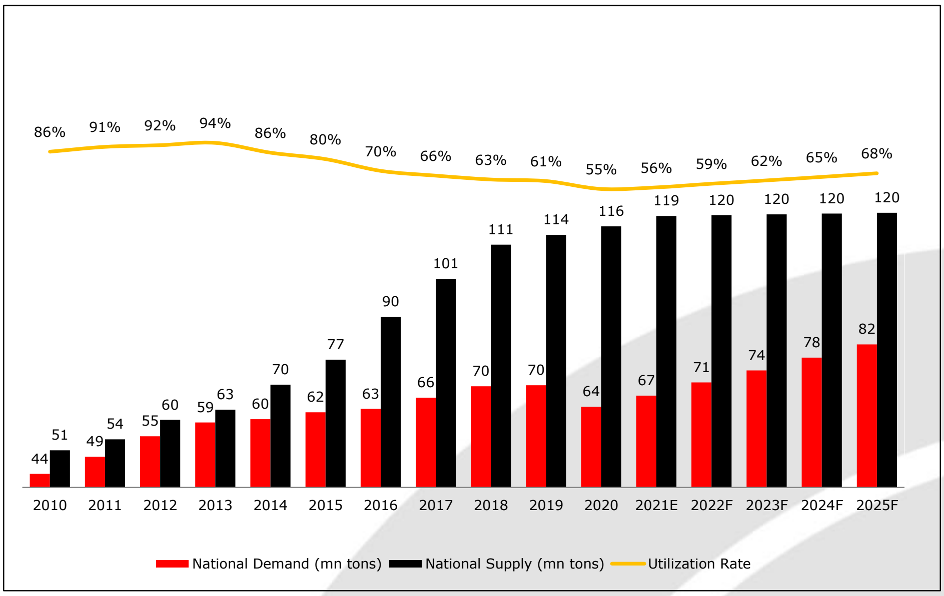
GFCF growth Vs. Cement consumption growth



Source: Bloomberg, Company Data, Sinarmas Investment Research

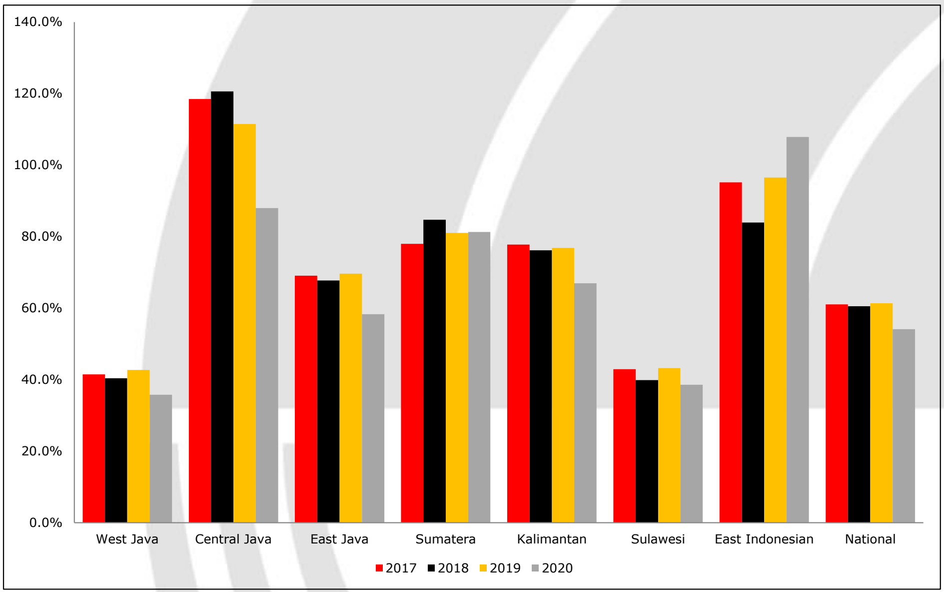
Muted new supply. The last additional supply from Semen Grobogan (we expect the company will start to produce in 2Q21), which amounted to ~2mn tons p.a. We believe that the impact from this extension cement supply should be minimal with Grobogan maximum damage at ~2% of market share (like Bima/SCG/Jui Shin) vs. Conch at 6% of market share in FY20. In addition, we think that government moratorium policy as Indonesian Investment Coordinating Board (BKPM) and Ministry of State-Owned enterprise (SOE) had approved to stop construction of new cement plants (greenfield investment) except in Papua region, creates the upside risk on supply condition. On the region side, we think that cement players will expand their cement production capacity, especially for Sumatera and Kalimantan region, due to higher utilization rate at 81.1%/66.4% in FY20. Hence, we forecast the national capacity to grow at 0.2% CAGR FY21E-25F, leading to 68% utilization rate in FY25F.

Industry supply and demand balance



Source: Company Data Sinarmas Investment Research

Cement Utilization rate per region



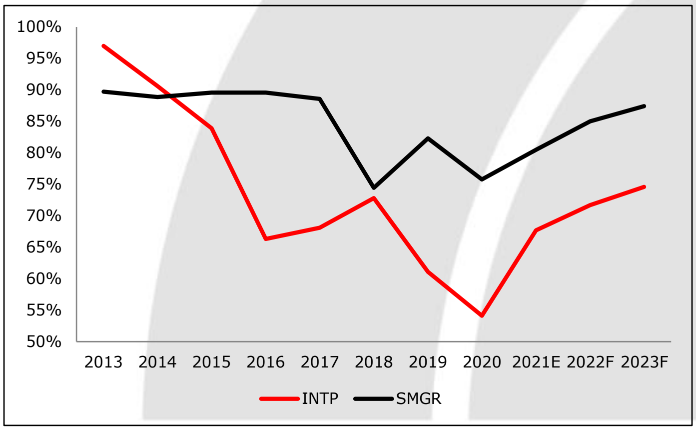
Source: Company Data Sinarmas Investment Research

Bulk market will be dominated by SMGR group. As 2021, we expect that many cement players are willing to tap into bulk market as INTP mentioned that the Hongshi Cement (Semen Singa Merah/SSM) is now trying to enter the bulk cement market in Central Java by offering lower prices. Right now, we are pessimistic that SSM could using the lower price strategy, considering that the SSM's plant is located at Jember, East Java, which has a higher transportation cost. Worth highlighting that bulk margin has the lower margin as bulk margin is at 10-20% below bag margin. In addition, with diversify plants (7 plants), SMGR has the advantages in terms of transportation cost, leading to higher room to adjust its selling price. Hence, we believe that SMGR will become the best proxy for bulk market recovery.

Cement price is going to positive way. We believe that the price war is less likely to happen in FY21E onwards, supported by 1) better industry landscape, 2) tier-2 players face a challenging financial outlook due to high leverage and lower profitability, and 3) tier-2 players, which begin to operate in 2013-17, have less room to lower their ASP as their tax allowance (applicable for only 5 years) starts to expire in 2020. In addition, based on local news, Indonesia Competition Commission (KKPU) gave a fine to Conch South Kalimantan Cement due to predatory pricing. This is proven that government keeps support the cement industry. Hence, we believe that the cement pricing starts to recover.

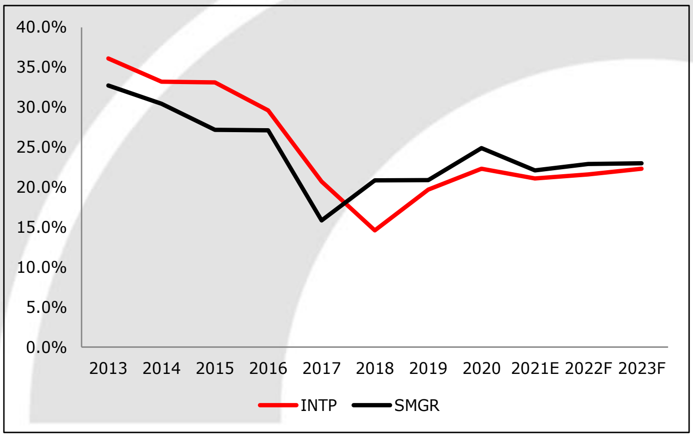
Margin normalization. Looking back in 2020, cement players were benefited by lower fuel and energy price as coal and Brent oil was traded at USD 66.2/ton and USD 43.3/bl. As a result, INTP/SMGR recorded a higher EBITDA margin at 22.3%/24.9%. However, our commodity analyst expects that coal and crude oil prices should sustain at current level until 1H21 as the rally on commodities is driven by economic reopening. Hence, it will give a risk of input cost to cement players in the short term. In addition, he estimates that coal price will be normalized at range of USD 70-75/ton in the medium term. As a result, we revised our coal price assumption from USD 70/75/ton to USD 75/70/ton in FY21E/22F. Thus it will translate to a lower EBITDA Margin in FY21E/22F.

INTP and SMGR Utilization rate



Source: Company Data, Sinarmas Investment Research

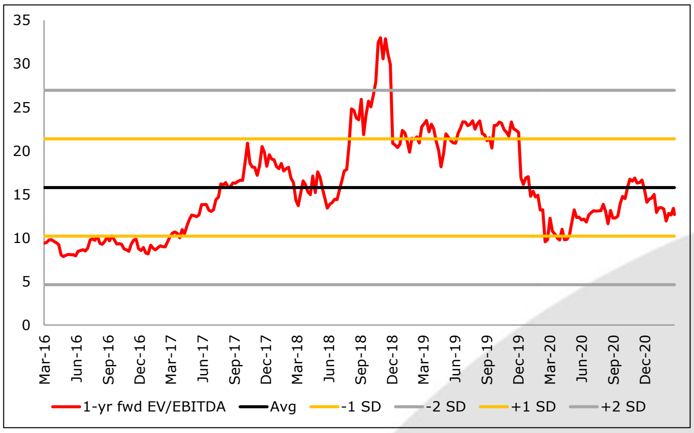
INTP and SMGR EBITDA Margin



Source: Bloomberg, Sinarmas Investment Research

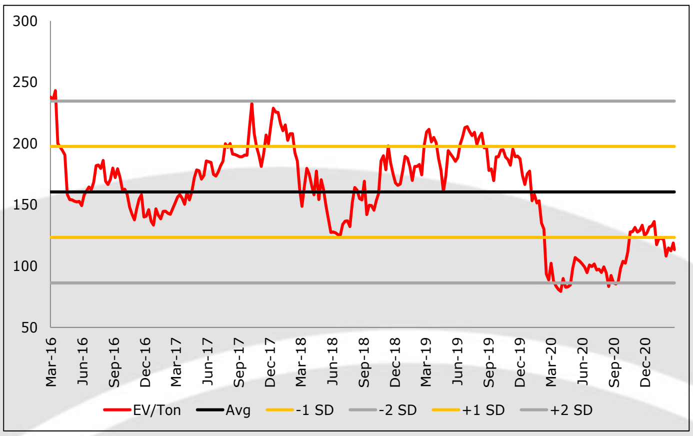
Promising upside. Looking back in 2019, we notice that INTP/SMGR was traded at higher EV/EBITDA, reaching +1SD/+2SD for INTP/SGMR, driven by increase ASP and cement demand recovery expectation from bulk market. However, due to Covid-19 outbreaks in early 2020, the sector was punished with both INTP/SMGR are currently traded at FY21E 12.7x/9.7x EV/EBITDA (-0.6SD/-0.3SD from its 5-year average), which we think that the market is still doubting the strong recovery in short-medium term due to weak performance in early 2021. Meanwhile, INTP/SMGR is trading at USD 113**/**117 EV/ton or below than USD 120 EV/ton replacement ton, which we estimate that the market remains neutral on the sector outlook. However, we believe that cement sector provides a promising upside potential, driven by 1) vaccine development that will give a signs of recovery on Indonesia's economic, and 2) better industry landscape that will increase cement players' margin. Hence, with our bullish stance on cement sector, we believe that cement sector could provide an attractive risk and rewards.

INTP EV/EBITDA



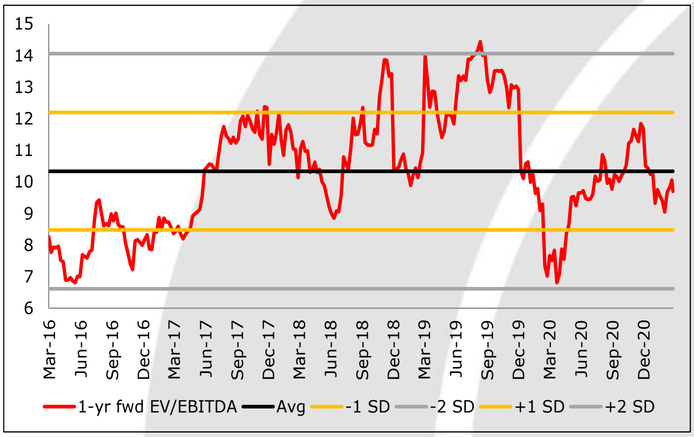
Source: Bloomberg, Sinarmas Investment Research

INTP EV/Ton



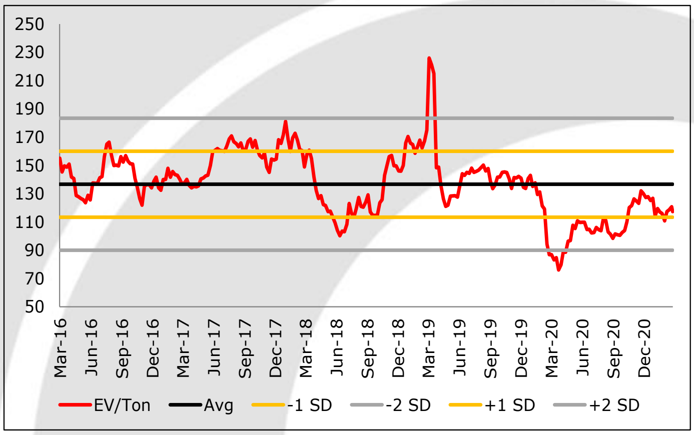
Source: Bloomberg, Sinarmas Investment Research

SMGR EV/EBITDA



Source: Bloomberg, Sinarmas Investment Research

SMGR EV/Ton



Source: Bloomberg, Sinarmas Investment Research

PT Indocement Tunggal Prakarsa Tbk.

Proxy to Java Recovery

BUY (TP: IDR 18,300)

23 March 2021

FY20 earnings was above our estimate. INTP reported FY20 revenue of IDR 14.2tn (-11.0% YoY), reaching 96%/98% of our/consensus estimate. For FY20 net profit, INTP booked IDR 1.8tn (-1.6% YoY), achieved 108%/115% of our/consensus estimate. On QoQ basis, INTP recorded revenue of IDR 4tn (+1.5% QoQ/-12.1% YoY), driven by higher sales volume (+2.4% QoQ/-16.7% YoY) with a flat blended ASP (-0.9% QoQ/ +5.5% YoY). On the GPM side, INTP recorded GPM of 41.5% (+235bps QoQ/+180bps YoY) as INTP could maintain their blended ASP paired with a lower cash cost (-4.7% QoQ/+2.3% YoY), driven by lower fuel and power cost (-9.0% QoQ/-26.4% YoY). Opex to sales was at 20.9% (-3bps QoQ/-110bps YoY), bringing operating profit to IDR 762bn (+3.5% QoQ/+9.4% YoY) with OPM of 18.9%. Thus, it led EBITDA Margin to 31.7% (vs. 26.3%/22.3% YoY). On tax basis, with the corporate tax changes from MoF (25% to 20%), INTP adjusted the FV of leased assets, which led to a lower DTL (IDR 31bn). Hence, it brought INTP's net profit to IDR 689bn (+6.7% QoQ/+4.7% YoY) with NPM of 17.1% (vs. 14.3%/16.3% in 4Q19/4Q20).

February sales was slightly below. In 2M21, INTP recorded cement sales volume of 2.4mn tons (-4.4% YoY), outperforming Java's at –4.8% YoY, with market share of 25.6% (vs. 26.1% in 2M20). Going forward, we believe that INTP should be benefited from Java volume recovery due to relaxation from PPKM to micro-scale PPKM. However, with heavier rainfalls accompanied by floods in 1Q21, we change our sales volume growth assumption from 6.2%/5.6% to 5.3%/6.0% in FY21E/22F.

Revisiting our earnings. With our new sales volume assumption paired with higher coal price, we tone down our GP by 5.3%/4.7% in FY21E/22F. Meanwhile, we revise our opex to sales as we believe that INTP could maintain their transportation cost at 14.2-14.4% onwards, mainly due to the impact from Tarjun Plants. Hence, we upgrade our EBITDA estimate by 5.1%/5.9%, resulting an EPS incline by 1.7%/1.8% in FY21E/22F.

We reiterate our BUY RATING for PT Indocement Tunggal Prakarsa Tbk. (INTP) with a higher FY21E target price of IDR 18,300, derived from FY21E 18.5 EV/EBITDA (+0.5SD from its 5-yr average). We continue like INTP as INTP is the best proxy on Java recovery. With strong balance sheet, we expect that INTP will maintain >100% dividend payout ratio. Downside risks to our call are: 1) prolonged economic recovery, 2) heightened competition, and 3) higher input cost.

Highlights (IDR Bn)	2019	2020	2021E	2022F	2023F
Revenue	15,939	14,184	15,440	16,643	17,620
% growth	4.9%	-11.0%	8.9%	7.8%	5.9%
Gross Profit	5,500	5,114	5,366	5,976	6,486
EBITDA	3,139	3,166	3,254	3,602	3,931
Net Profit	1,835	1,806	1,828	2,087	2,349
% growth	60.2%	-1.6%	1.2%	14.2%	12.6%
Gross Margin (%)	34.5%	36.1%	34.8%	35.9%	36.8%
Net Margin (%)	11.5%	12.7%	11.8%	12.5%	13.3%
EBITDA Margin (%)	19.7%	22.3%	21.1%	21.6%	22.3%
Return on Equity (%)	7.9%	8.0%	8.2%	9.3%	10.4%
Return on Assets (%)	6.6%	6.6%	6.7%	7.6%	8.4%
EPS	499	491	497	567	638

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Stock Information	
Sector	Cement
Bloomberg Ticker	INTP IJ
Market Cap. (IDR tn)	50.1
Share Out./Float (mn)	3,681/1,803
Current Price	13,275
FY21E Target Price	18,300
Upside	37.9%

Share Price Performance	
52W High (01/19/21)	15,975
52W Low (03/24/20)	9,850
52W Beta	1.4
YTD Change	(8.3%)

Relative Valuations	
Trailing P/E	37.9x
Forward P/E	37.4x
EV/EBITDA	18.5x
P/BV	4.5x

INTP 4Q20 Earnings Summary

IDR Bn	4Q19	3Q20	4Q20	%QoQ	%YoY	12M19	12M20	%YoY	% DH	% Cons
Net Revenues	**4,591**	**3,974**	**4,035**	**1.5%**	**-12.1%**	**15,939**	**14,184**	**-11.0%**	**96%**	**98%**
COGS	(2,769)	(2,417)	(2,359)	-2.4%	-14.8%	(10,439)	(9,071)	-13.1%		
Gross Profit	**1,823**	**1,558**	**1,676**	**7.6%**	**-8.0%**	**5,500**	**5,114**	**-7.0%**		
Operating Profit	696	736	762	3.5%	9.4%	1,905	1,876	-1.5%		
EBITDA	1,023	1,047	1,279	22.2%	25.1%	3,106	3,278	5.5%		
Net Income	**659**	**647**	**690**	**6.7%**	**4.7%**	**1,835**	**1,806**	**-1.6%**	**108%**	**115%**
Margin										
Gross Margin	39.7%	39.2%	41.5%			34.5%	36.1%			
Opex to Sales	22.0%	21.2%	20.9%			22.0%	22.2%			
Operating Margin	15.2%	18.5%	18.9%			12.0%	13.2%			
EBITDA Margin	22.3%	26.3%	31.7%			19.5%	23.1%			
Net Margin	14.3%	16.3%	17.1%			11.5%	12.7%			
Operational										
Sales Volume (mn tons)	5.5	4.4	4.5	2.4%	-16.7%	19.0	16.3	-13.8%		
Blended ASP (IDR k/ton)	842	896	889	-0.9%	5.5%	841	868	3.2%		
Cost/ton (IDR k/ton)	508	545	519	-4.7%	2.3%	551	555	0.8%		

Source: Sinarmas Investment Research

Earnings changes

(IDR Bn)	Old		New		Changes	
	FY21	FY22	FY21	FY22	FY21	FY22
Revenue	16,039	17,447	15,440	16,643	-3.7%	-4.6%
Gross Profit	5,668	6,272	5,366	5,976	-5.3%	-4.7%
Operating Profit	1,886	2,159	2,021	2,338	7.1%	8.3%
EBITDA	3,096	3,400	3,254	3,602	5.1%	5.9%
Net Profit	1,799	2,051	1,828	2,087	1.7%	1.8%
EPS (IDR)	489	557	497	567	1.7%	1.8%
Gross Margin	35.3%	36.0%	34.8%	35.9%	-0.6%	0.0%
Operating Margin	11.8%	12.4%	13.1%	14.0%	1.3%	1.7%
EBITDA Margin	19.3%	19.5%	21.1%	21.6%	1.8%	2.2%
Net Margin	11.2%	11.8%	11.8%	12.5%	0.6%	0.8%

Source: Sinarmas Investment Research

Key Assumption changes

	Old		New		Changes	
	FY21	FY22	FY21	FY22	FY21	FY22
Coal Price (USD/Mt.)	70	75	75	70	7.1%	-6.7%
USDIDR	14,000	14,500	14,000	14,500	0.0%	0.0%

Source: Sinarmas Investment Research

Income Statement (IDR Bn)	2019	2020	2021E	2022F	2023F
Revenue	**15,939**	**14,184**	**15,440**	**16,643**	**17,620**
% growth	4.9%	-11.0%	8.9%	7.8%	5.9%
COGS	(10,439)	(9,071)	(10,073)	(10,667)	(11,134)
Gross Profit	**5,500**	**5,114**	**5,366**	**5,976**	**6,486**
% growth	25.9%	-7.0%	4.9%	11.4%	8.5%
Operating Expenses	3,503	3,154	3,346	3,638	3,852
Opex to Sales (%)	22.0%	22.2%	21.7%	21.9%	21.9%
Operating Profit	**1,997**	**1,960**	**2,021**	**2,338**	**2,634**
% growth	90.9%	-1.9%	3.1%	15.7%	12.7%
EBITDA	**3,139**	**3,166**	**3,254**	**3,602**	**3,931**
% growth	41.9%	0.8%	2.8%	10.7%	9.1%
Other Income	278	188	237	239	267
Net Financing	353	257	316	324	357
PBT	**2,275**	**2,148**	**2,257**	**2,577**	**2,901**
Tax	(440)	(342)	(429)	(490)	(551)
Minority Interest	-	-	-	-	-
Net Income	**1,835**	**1,806**	**1,828**	**2,087**	**2,349**
% growth	60.2%	-1.6%	1.2%	14.2%	12.6%

Balance Sheet (IDR Bn)	2019	2020	2021E	2022F	2023F
Cash and Cash Equivalent	7,652	7,698	7,364	8,131	8,908
Trade Receivables	3,021	2,621	2,938	3,132	3,307
Inventories	1,895	1,824	1,846	2,008	2,122
Other Current Assets	7,905	7,847	7,551	8,314	9,088
Total Current Assets	12,829	12,299	12,343	13,462	14,526
Fixed Assets	14,080	14,397	14,035	13,537	13,065
Other Non Current Assets	798	648	648	648	648
Total Assets	**27,708**	**27,345**	**27,026**	**27,647**	**28,240**
Trade Payables	1,749	1,580	1,692	1,812	1,900
Bank Loans	-	-	-	-	-
Other Current Liabilities	2,125	2,636	2,183	2,425	2,668
Total Current Liabilities	3,873	4,216	3,875	4,237	4,568
Other Non Current Liabilities	754	952	952	952	952
Total Liabilities	**4,627**	**5,168**	**4,827**	**5,190**	**5,521**
Share & APIC	4,539	4,539	4,539	4,539	4,539
Retained Earnings	18,703	17,637	17,659	17,917	18,180
Non Controlling Interest	-	-	-	-	-
Other Components of Equity	(162)	-	-	-	(0)
Total Equity	**23,080**	**22,176**	**22,198**	**22,457**	**22,719**
Total Equity & Liabilities	**27,708**	**27,345**	**27,026**	**27,647**	**28,240**

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2019	2020	2021E	2022F	2023F
Net Income	**1,835**	**1,806**	**1,828**	**2,087**	**2,349**
Depreciation	1,195	1,294	1,066	1,265	1,298
Chg. in NWC	148	(276)	176	187	138
Chg. in Other CT Assets	2	(104)	37	(3)	(2)
Chg. in Other CT Liabilities	10	539	(505)	195	179
CF from Operating	**2,890**	**4,019**	**2,177**	**3,362**	**3,690**
Capital Expenditure	638	1,611	704	766	826
Chg. in LT Assets	(37)	(150)	-	-	-
Chg in LT Liabilities	113	198	-	-	-
CF from Investing	**(487)**	**(1,263)**	**(704)**	**(766)**	**(826)**
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	-	-	-	-	-
Dividends Paid	2,025	2,873	1,806	1,828	2,087
Others	48	162	-	-	-
CF from Financing	**(1,977)**	**(2,710)**	**(1,806)**	**(1,828)**	**(2,087)**
Change in Cash	426	46	(334)	767	777
Beginning Cash	7,226	7,652	7,698	7,364	8,131
Ending Cash	**7,652**	**7,698**	**7,364**	**8,131**	**8,908**

Financial Ratio	2019	2020	2021E	2022F	2023F
Profitability					
ROE	7.9%	8.0%	8.2%	9.3%	10.4%
ROA	6.6%	6.6%	6.7%	7.6%	8.4%
Gross Margin	34.5%	36.1%	34.8%	35.9%	36.8%
Operating Margin	12.5%	13.8%	13.1%	14.0%	14.9%
EBITDA Margin	19.7%	22.3%	21.1%	21.6%	22.3%
Net Margin	11.5%	12.7%	11.8%	12.5%	13.3%
Liquidity					
Current Ratio	3.3	2.9	3.2	3.2	3.2
Valuation					
Price to Earning (PE)	37.3	37.9	37.4	32.8	29.1
Price to Book (PBV)	3.0	3.1	3.1	3.0	3.0
EV/EBITDA	12.5	19.0	18.5	16.7	15.3
Key Assumptions					
Coal Prices (USD/Mt.)	80.4	60.2	75.0	70.0	70.0
USDIDR	14,140	14,529	14,000	14,500	14,500
Sales Volume Growth (YoY)	0.4%	-10.0%	5.3%	6.0%	4.0%
ASP Growth (YoY)	5.0%	0.0%	1.5%	1.7%	1.8%
Market Share	26.0%	26.0%	26.1%	26.1%	26.1%

Source: Company data, Sinarmas Investment Research

PT Semen Indonesia Tbk.

Proxy to Bulk Market Recovery

BUY (TP: IDR 15,800)

23 March 2021

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Tax adjustment lift the 4Q20 earnings. In FY20, SMGR booked revenue/net profit of IDR 35.1tn/2.8tn (-12.9% YoY/+16.7% YoY), reaching 95%/134% of our estimate. In 4Q20, SMGR posted revenue of IDR 9.5tn (-0.5% QoQ/-22.0% YoY), driven by lower sales volume at 10.7mn tons (-4.1% QoQ/-15.0% YoY), while the blended ASP lift by 3.7% QoQ/-8.3% YoY. Worth highlighting that the blended ASP YoY was dropped as SMGR increased the clinker sales volume to maximize the utilization rate. Despite cash cost lifted by 3.9% QoQ, SMGR recorded flat GPM at 35.5% (vs. 35.6%/34.6% in 3Q20/4Q19), driven by higher blended ASP. Opex to sales increased to 17.4% (vs. 16.5%/16.7% in 3Q20/4Q19) as SMGR recorded higher G&A expenses to sales at 10.0% (+160 bps QoQ/ +10 bps YoY). As a result, EBITDA margin decreased to 27.4% (vs. 29.0%/23.4% in 3Q20/4Q19). On tax level, SMGR recorded tax adjustment to the deferred tax liabilities due to corporate tax reduction from 25% to 20%. Hence, SMGR booked net profit of IDR 1.2tn (+34.6% QoQ/+14.0% YoY) with NPM of 13.1%.

Proxy to bulk market. We reiterate our bullish stance on bulk market. Despite the competition in bulk market will slightly be tighter as we mention before, with a national coverage that will resulting a lower transportation cost, we think SMGR will have not issue if their competitors offers a lower price. Hence, we believe that SMGR should be benefited from this trend. As a result, we revise SMGR sales volume will grow by 5.4%/5.8% in FY21E/22F.

Earnings upgrade. We expects the deleveraging on both SMGR and SMCB level should persist in FY21E (prepayment on SMGR level and right issue on SMCB level). In addition, as we have mentioned before, we revised up our coal assumption in FY21E/22F. With all these, we lift our earnings estimate by 11.8%/3.3% in FY21E/22F.

We maintain our BUY rating on PT Semen Indonesia Tbk (SMGR) with a higher FY21E target price of IDR 15,800, derived from FY21E 13.1x EV/EBITDA (+1.5SD from its 5-years average). We pick SMGR as our top preference in the sector as SMGR should be benefited from bulk market recovery. As of now, SMGR is traded at FY21E 9.6x EV/EBITDA (-0.4SD from its 5-years average), which we think it provide an attractive risk and rewards. Downside risks on our call are weak bulk market recovery, higher input cost, and price war.

Stock Information	
Sector	Cement
Bloomberg Ticker	SMGR IJ
Market Cap. (IDR tn)	81.2
Share Out./Float (mn)	5,931/2,906
Current Price	11,375
FY21E Target Price	15,800
Upside	38.9%

Share Price Performance	
52W High (23/01/20)	13,250
52W Low (03/20/20)	5,475
52W Beta	1.5
YTD Change	(8.5%)

Relative Valuations	
Trailing P/E	33.6x
Forward P/E	29.6x
EV/EBITDA	10.6x
P/BV	2.4x

Highlights (IDR Bn)	2019	2020	2021E	2022F	2023F
Revenue	40,368	35,172	38,304	40,450	42,566
% growth	31.5%	-12.9%	8.9%	5.6%	5.2%
Gross Profit	12,713	11,617	12,222	13,220	13,956
EBITDA	8,436	8,749	8,420	9,132	9,605
Net Profit	2,391	2,792	3,169	3,854	4,461
% growth	-22.4%	16.8%	13.5%	21.6%	15.7%
Gross Margin (%)	31.5%	33.0%	31.9%	32.7%	32.8%
EBITDA Margin (%)	20.9%	24.9%	22.0%	22.6%	22.6%
Net Margin (%)	5.9%	7.9%	8.3%	9.5%	10.5%
Return on Equity (%)	7.2%	8.0%	8.5%	9.5%	10.2%
Return on Assets (%)	3.7%	3.6%	4.1%	5.0%	5.7%
EPS	403	471	534	650	752

SMGR 4Q20 Earnings Summary

IDR bn	4Q19	3Q20	4Q20	%QoQ	%YoY	12M19	12M20	%YoY	% DH	% Cons
Net Revenues	**12,245**	**9,599**	**9,547**	**-0.5%**	**-22.0%**	**40,368**	**35,172**	**-12.9%**	**95%**	**96%**
COGS	(8,007)	(6,181)	(6,160)			(27,654)	(23,555)	-14.8%		
Gross Profit	**4,238**	**3,418**	**3,386**	**-0.9%**	**-20.1%**	**12,714**	**11,617**	**-8.6%**		
Operating Profit	2,198	1,836	1,727	-5.9%	-21.4%	6,093	5,653	-7.2%		
EBITDA	2,862	2,782	2,615	-6.0%	-8.6%	8,437	8,749	3.7%		
Net Income	**1,097**	**929**	**1,251**	**34.6%**	**14.0%**	**2,392**	**2,792**	**16.7%**	**134%**	**124%**
Margin										
Gross Margin	34.6%	35.6%	35.5%			31.5%	33.0%			
Opex to Sales	16.7%	16.5%	17.4%			16.4%	17.0%			
EBITDA Margin	23.4%	29.0%	27.4%			20.9%	24.9%			
Net Margin	9.0%	9.7%	13.1%			5.9%	7.9%			
Operational										
Sales volume (mn tons)	12.6	11.2	10.7	-4.1%	-15.0%	42.6	39.8	-6.5%		
Blended ASP (IDR/kg)	972	859	891	3.7%	-8.3%	947	883	-6.8%		
Cash cost (IDR/kg)	635	553	575	3.9%	-9.5%	649	591	-8.9%		

Source: Sinarmas Investment Research

Earnings changes

(IDR Bn)	Old		New		Changes	
	FY21	FY22	FY21	FY22	FY21	FY22
Revenue	39,661	42,379	38,304	40,450	-3.4%	-4.6%
Gross Profit	12,931	13,863	12,222	13,220	-5.5%	-4.6%
Operating Profit	6,013	6,986	5,758	6,398	-4.2%	-8.4%
Net Profit	2,832	3,730	3,169	3,854	11.9%	3.3%
EPS (IDR)	478	629	534	650	11.8%	3.3%
Gross Margin	32.6%	32.7%	31.9%	32.7%	-0.7%	0.0%
Operating Margin	15.2%	16.5%	15.0%	15.8%	-0.1%	-0.7%
Net Margin	7.1%	8.8%	8.3%	9.5%	1.1%	0.7%

Source: Sinarmas Investment Research

Key Assumption changes

Key Assumption	Old		New		Changes	
	FY21	FY22	FY21	FY22	FY21	FY22
Coal Prices	70	75	75	70	7.1%	-6.7%
USDIDR	14,000	14,500	14,000	14,500	0.0%	0.0%

Source: Sinarmas Investment Research

Income Statement (IDR Bn)	2019	2020	2021E	2022F	2023F
Revenue	**40,368**	**35,172**	**38,304**	**40,450**	**42,566**
% growth	31.5%	-12.9%	8.9%	5.6%	5.2%
COGS	(27,654)	(23,555)	(26,082)	(27,230)	(28,610)
Gross Profit	**12,714**	**11,617**	**12,222**	**13,220**	**13,956**
% growth	36.3%	-8.6%	5.2%	8.2%	5.6%
Operating Expenses	(6,621)	(5,964)	(6,464)	(6,822)	(7,158)
Opex to Sales (%)	16.4%	17.0%	16.9%	16.9%	16.8%
Operating Profit	**6,093**	**5,653**	**5,758**	**6,398**	**6,798**
% growth	27.7%	-7.2%	1.9%	11.1%	6.2%
EBITDA	**8,437**	**8,749**	**8,421**	**9,132**	**9,605**
% growth	31.9%	3.7%	-3.8%	8.4%	5.2%
Other Income	92	-4	129	136	144
Net Financing	(2,987)	(2,107)	(1,769)	(1,559)	(1,231)
PBT	**3,196**	**3,489**	**4,116**	**4,974**	**5,709**
Tax	(825)	(814)	(1,070)	(1,244)	(1,370)
Minority Interest	(21)	(118)	(118)	(118)	(118)
Net Income	**2,392**	**2,792**	**3,164**	**3,849**	**4,457**
% growth	-22.3%	16.7%	13.3%	21.6%	15.8%

Balance Sheet (IDR Bn)	2019	2020	2021E	2022F	2023F
Cash and Cash Equivalent	3,950	2,931	2,561	1,963	2,183
Trade Receivables	6,490	5,777	6,388	6,650	7,173
Inventories	4,642	4,548	4,467	4,701	5,157
Other Current Assets	1,577	2,309	2,668	2,659	2,755
Total Current Assets	16,659	15,565	16,084	15,974	17,269
Fixed Assets	56,602	56,053	56,059	56,123	56,243
Other Non Current Assets	6,547	6,388	5,357	5,394	5,427
Total Assets	**79,807**	**78,006**	**77,500**	**77,491**	**78,939**
Trade Payables	5,670	6,521	5,773	6,063	6,724
Other Current Liabilities	6,570	4,985	7,205	7,366	8,504
Total Current Liabilities	12,240	11,506	12,978	13,429	15,228
Bank Loans	24,750	21,844	20,675	15,620	11,929
Other Non Current Liabilities	8,925	9,003	4,864	5,927	6,734
Total Liabilities	**45,915**	**42,353**	**38,518**	**34,976**	**33,891**
Share & APIC	2,051	2,051	2,051	2,051	2,051
Retained Earnings	29,774	32,040	34,924	38,456	40,989
Non Controlling Interest	1,615	1,480	1,480	1,480	1,480
Other Components of Equity	451	82	527	527	527
Total Equity	**33,892**	**35,653**	**38,983**	**42,515**	**45,047**
Total Equity & Liabilities	**79,807**	**78,006**	**77,500**	**77,491**	**78,939**

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2019	2020	2021E	2022F	2023F
Net Income	**2,392**	**2,792**	**3,164**	**3,849**	**4,457**
Depreciation	1,968	2,976	1,999	2,052	2,108
Chg. in NWC	(596)	(522)	1,791	(41)	152
Chg. in Other CT Assets	-	-	-	-	-
Chg. in Other CT Liabilities	-	-	-	-	-
CF from Operating	**4,956**	**6,291**	**3,372**	**5,941**	**6,412**
Capital Expenditure	27,081	2,428	2,004	2,116	2,227
Chg. in LT Assets	3,343	(159)	(1,031)	37	33
Chg in LT Liabilities	6,849	78	(4,138)	1,063	807
CF from Investing	**(23,575)**	**(2,192)**	**(5,112)**	**(1,090)**	**(1,453)**
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	18,439	(4,088)	1,205	(5,132)	(2,815)
Dividends Paid	1,232	527	279	316	1,924
Others	116	(504)	445	0	0
CF from Financing	**17,324**	**(5,118)**	**1,371**	**(5,449)**	**(4,740)**
Change in Cash	(1,295)	(1,020)	(369)	(598)	220
Beginning Cash	5,246	3,950	2,931	2,561	1,963
Ending Cash	**3,950**	**2,931**	**2,561**	**1,963**	**2,183**

Financial Ratio	2019	2020	2021E	2022F	2023F
Profitability					
ROE	7.2%	8.0%	8.5%	9.4%	10.2%
ROA	3.7%	3.5%	4.1%	5.0%	5.7%
Gross Margin	31.5%	33.0%	31.9%	32.7%	32.8%
Operating Margin	15.1%	16.1%	15.0%	15.8%	16.0%
EBITDA Margin	20.9%	24.9%	22.0%	22.6%	22.6%
Net Margin	5.9%	7.9%	8.3%	9.5%	10.5%
Liquidity					
Current Ratio	1.4	1.4	1.2	1.2	1.1
Solvency					
Debt to Equity	1.1	0.9	0.8	0.6	0.5
Debt to Assets	0.5	0.4	0.4	0.3	0.3
Interest Coverage	2.6	3.8	4.4	5.5	7.2
Net Debt to EBITDA	4.4	3.8	3.7	2.9	2.4
Valuation					
Price to Earning (PE)	39.2	33.6	29.6	24.4	21.0
Price to Book (PBV)	2.8	2.6	2.4	2.2	2.1
EV/EBITDA	10.6	10.2	10.6	9.8	9.3
Key Assumptions					
Coal Prices (USD/Mt.)	80.4	66.0	75.0	70.0	70.0
USDIDR	14,140.0	14,529.0	14,000.0	14,500.0	14,500.0
Sales Volume Growth (YoY)	41.5%	-7.9%	6.2%	5.6%	4.8%
ASP Growth (YoY)	-9.0%	-4.9%	1.0%	1.0%	1.3%
Market Share	53.0%	51.2%	52.1%	52.9%	53.9%

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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