

Referring to Indonesia Cement Association (ASI)'s data, domestic cement consumption in May 2017 recorded a positive growth after below-than-expected sales in the first three months of 2017, mainly boosted by a strong growth in bulk cement sales due to acceleration of infrastructure projects execution. The cement sales in May stood at 5.5 mn tons (up 6.7% YoY), resulting in total cement sales of 25.3 mn tons (up 3.8% YoY) year-to-date. Bulk cement sales increased by 7.8% YoY to 6 mn tons, while bag cement sales rose by 4.7% YoY to 19.3 mn tons.

While May had posted strong numbers, we expect cement sales in June will experience a decline due to Ramadhan season, where construction works cease. Looking at the cement sales in May, which once again recorded a double digit growth in Java region, we believe Java region have started to show stronger recovery sign compared to ex-Java. As of 5M17, Java region recorded cement growth of 7.6% YoY, while ex-Java posted -0.85% YoY.

Nevertheless, we view that the competition between cement players will remain intense. As we are all aware, the oversupply condition in Java affects INTP more than SMGR. As of 5M17, while national sales posted a positive growth as mentioned above, INTP's cement sales merely grew by 0.1% YoY. INTP's 5M17 cement sales in Java region grew by 2.9% YoY, while outside Java stood at -7.1% YoY. Furthermore, INTP is still losing market share to its competitors this year, which as of 5M17 stood at 25.6% (vs. 26.5% in 5M16), especially in Central Java and Jakarta, where INTP's market is concentrated in, as well as Sumatera and Kalimantan. Unlike INTP, SMGR continued to post a positive growth of 4.4% YoY in 5M17 to 10.5mn tons. Correspondingly, SMGR is also gaining market share this year, which as of 5M17 stood at 41.32% (vs. 41.09% in 5M16).

Our view: we continue to prefer SMGR over INTP due to better exposure in ex-Java region and less competition in the respective markets. Given the accelerating infrastructure projects execution, we view cement demand will continue to be robust for the company, especially with the dispersed location of its cement plant to capture rising demand for bulk. Thus, we recommend Buy on Weakness on SMGR (TP: 10,405), and reiterate NEUTRAL stance for the sector.

Area	National Cement Consumption				INTP's domestic cement consumption			
	Ytd May'17	Ytd May'16	Change	%	Ytd May'17	Ytd May'16	Change	%
Jakarta	1,952,705	2,015,056	(62,351)	-3.1%	791,677	912,526	(120,849)	-13.2%
Banten	1,236,110	1,245,454	(9,344)	-0.8%	543,527	553,343	(4,816)	-0.9%
West Java	3,603,902	3,529,546	74,356	2.1%	1,805,384	1,684,288	122,096	7.2%
Central Java	3,300,674	2,870,685	429,989	14.7%	1,124,911	1,007,825	117,087	11.6%
East Java	3,847,922	3,332,363	515,560	15.5%	427,892	414,426	13,467	3.2%
Yogyakarta	435,995	362,277	73,718	20.3%	75,342	66,362	8,981	13.5%
Total Java	14,377,309	13,361,371	1,015,938	7.6%	4,774,734	4,638,768	135,965	2.9%
Sumatera	5,263,031	5,160,270	102,761	2.0%	577,205	589,384	(12,177)	-2.1%
Kalimantan	1,565,170	1,666,540	(121,370)	-7.2%	352,510	401,855	(49,345)	-12.3%
Sulawesi	2,022,690	2,109,404	(86,714)	-4.1%	165,652	250,765	(85,113)	-33.9%
Nusa Tenggara	1,463,965	1,409,066	54,899	3.9%	501,330	460,864	40,474	8.8%
East Indonesia	601,022	644,192	(43,170)	-6.7%	93,848	122,581	(28,733)	-23.4%
Outside Java	10,915,878	11,009,472	(93,594)	-0.9%	1,695,554	1,825,448	(129,894)	-7.1%
Total Indonesia	25,293,187	24,370,843	922,344	3.8%	6,470,288	6,464,216	6,072	0.094%

Area	SMGR's domestic cement consumption			
	Ytd May'17	Ytd May'16	Change	%
Semen Indonesia	5,985,965	5,378,249	607,716	11.30%
Semen Padang	2,379,859	2,445,379	(65,520)	-2.68%
Semen Terasa	2,085,856	2,189,597	(103,741)	-4.74%
Total	10,451,680	10,013,225	438,455	4.30%

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