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Referring to Indonesia Cement Association (ASI)'s data, the national cement consumption in January 2017 stood at 5.17 million tons, decreased by 2.3% yoy as the total cement sales in January 2016 was 5.29 million tons. The rainy season and effect of year-end holidays became the main reason on reduction of cement consumption. However, we believe that the cement consumption will be better in 2H17 due to summer season, followed by infrastructure acceleration. Looking at the industry cement sales in January 2017, there is a weak cement demand in Western Java, such as Banten (-13% yoy), Jakarta (-8% yoy), and West Java (-5% yoy), while in ex-Java, the lower sales volume was contributed by Sumatera (-6% yoy) and Kalimantan (-14% yoy). Throughout January 2017, Semen Indonesia (SMGR) only managed to obtain cement sales amounted to 2.12 million tons, went down by 1.7% compared to January 2016 sales of 2.16 million tons. Semen Padang's sales volume has dragged down the overall SMGR's cement sales, given its poor performance (-16% yoy) due to weak cement demand in Sumatera and Western Java, which are Semen Padang's main target markets. Meanwhile, Semen Indonesia (+2.7% yoy) and Semen Tonasa (+3.3% yoy) are showing a good growth. Moving forward, Indocement (INTP) recorded January 2017 domestic cement sales of 1.34 million tons (-8% yoy). Since INTP's cement plant are concentrated, especially in Java island, where the national cement demand in there is flat (-0.61% yoy), bringing the opportunity loss to grab the cement sales from ex-Java.

Our view: We continue to prefer SMGR over INTP due to a better exposure in ex-Java region and should have less competition. However, we view there is an overhang on SMGR's share price due to lingering uncertainty on Rembang cement plant. We recommend buy on weakness on SMGR (TP 10.650) while maintaining our NEUTRAL outlook for the sector. We believe stocks have become more resilient to negative news, resulting in a positive reaction to any good news.

Area	National Cement Consumption				INTP's domestic cement consumption			
	Jan'17	Jan'16	Change	%	Jan'17	Jan'16	Change	%
Jakarta	389,221	421,167	(31,946)	-7.6%	152,377	184,676	(32,299)	-17.5%
Banten	253,681	291,079	(37,398)	-12.8%	113,435	122,920	(9,485)	-7.7%
West Java	738,046	776,134	(38,088)	-4.9%	390,521	374,206	16,315	4.4%
Central Java	679,067	643,177	35,890	5.6%	227,055	215,954	11,101	5.1%
East Java	796,886	747,909	48,977	6.5%	81,513	101,916	(20,403)	-20.0%
Yogyakarta	88,461	84,120	4,341	5.2%	13,628	17,144	(3,517)	-20.5%
Total Java	2,945,363	2,963,586	(18,223)	-0.6%	978,528	1,016,816	(38,288)	-3.8%
Sumatera	1,028,807	1,098,328	(69,521)	-6.3%	125,893	148,556	(22,663)	-15.3%
Kalimantan	314,553	364,840	(50,287)	-13.8%	74,795	89,994	(15,200)	-16.9%
Sulawesi	429,441	429,806	(365)	-0.1%	39,926	61,531	(21,605)	-35.1%
Nusa Tenggara	311,533	320,107	(8,574)	-2.7%	103,035	118,273	(15,238)	-12.9%
East Indonesia	142,591	117,855	24,736	21.0%	21,741	26,240	(4,499)	-17.1%
Outside Java	2,226,925	2,330,936	(104,011)	-4.5%	365,390	444,595	(79,205)	-17.8%
Total Indonesia	5,172,287	5,294,522	(122,235)	-2.3%	1,343,918	1,461,411	(117,493)	-8.0%

Area	SMGR's domestic cement consumption			
	Jan'17	Jan'16	Change	%
Semen Indonesia	1,233,282	1,201,210	32,072	2.67%
Semen Padang	436,992	520,350	(83,358)	-16.02%
Semen Tonasa	448,393	433,962	14,431	3.33%
Total	2,118,667	2,155,522	(36,855)	-1.71%

Henny Indrawati

Equity Analyst

+62 21 392 5550 ext. 618

henny.indrawati@sinarmassekuritas.co.id**Stock Information**

Sector	Cement
Bloomberg Ticker	SMGR
Market Cap (IDR Tn)	IDR 55.01
Share Out/ Float (M)	5,931/2,906
Current Price	IDR 9,500
52 - Week Target Price	IDR 10,650
Upside (%)	12%

Share Price Performance

52 - Week High	IDR 11,875
52 - Week Low	IDR 8,050
52 - Week Beta	1.513
YTD Change (%)	1.09%

Relative Valuations

Trailing P/E	12.94x
Forward P/E	13.57x
P/BV	2.01x
EV/EBITDA	8.00x

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