

2Q20 result was dragged down by low operating leverage. INTP reported revenue of IDR 2.8tn (-16.4% QoQ/-13.5% YoY), mainly due to lower sales volume (-15.6% QoQ/-12.8% YoY), and slightly flat blended ASP at -0.9% QoQ/+0.7% YoY. On margin side, GPM declined to 29% in 2Q20 from 30.1% in 2Q19 as lower fuel and power cost/ton (-8% YoY) could not offset rising manufacturing overhead cost/ton (+18.9% YoY). As a result, cost of production is increased by 0.9% YoY. Meanwhile, INTP posted operating loss at IDR 8.6bn, mainly driven by allowance on impairment loss (IDR 73.5bn) and unwinded forex gain in 1Q20. As a result, EBITDA margin declined to 8.3% (-13% QoQ) due to higher opex to sales at 23.7% (+90bps QoQ). Hence, INTP net profit came in at IDR 70bn (-82.6% QoQ/-71.3% YoY).

Cement sales recovery. INTP's 1H20 cement sales volume declined by 8.3% YTD, lower compared to industry's performance at -6.4% YTD. This is mainly due to weaker performance in Java caused by flood in Jan-20 and PSBB implementation which mainly affected INTP's market. However, we have seen major improvement in Jun-20, where INTP posted cement sales volume at 1.33mn tons (+30.5% YoY), rebounded to pre Covid-19 level seen in Mar-20, as economic activity has started to resume. We believe the recovery trend will continue to persist in 2H20 supported by gradual economy reopening in Java island as it contributed to 70% of INTP cement sales volume. However, we still bake in 15% cement sales volume drop in FY20E due to a high base 2H19 which contributed to 54% of cement sales volume in FY19 before gradually recover in FY21F (+9% YoY).

Earnings upside from lower coal price. We believe that recent correction on coal price lift upside earnings as fuel and power contributed 37.3% (-2.7% YoY) of total COGS in 1H20. Though our coal analyst expects coal price to recover slightly to USD60-65/Mt by end of year, thus our coal price target remains far below last year level USD 65/Mt (-19.2% YoY). This should provide tailwind for cement players. Our sensitivity analysis shows that every 1% change in coal price will change our earnings forecast by 2.2%.

We reinitiate our coverage on PT Indocement Tunggal Prakarsa Tbk. (INTP) with a BUY rating and TP of IDR 15,200. Our TP is derived from 50%/50% DCF valuation and IDR 2.2mn EV/Ton. We believe negative news have been partially priced in at current price, and given gradual demand recovery in 2H20, improving competition as well as supportive energy prices, we believe INTP provides attractive risk and reward risks. In addition, INTP has healthy balance sheet (holds net cash IDR7.9tn in 1H20) and currently traded at attractive valuation of 1.5mn EV/Ton (-1.3SD from 5y-its-average). Downside risks to our call are longer than expected economic activity recovery and heightened competition from smaller players.

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	15,190	15,939	13,686	15,142	16,604
% growth	5.3%	4.9%	-14.1%	10.6%	9.7%
Gross Profit	4,369	5,500	4,426	5,210	5,721
Net Profit	1,145	1,835	1,218	1,602	1,768
% growth	-38.4%	60.2%	-33.6%	31.5%	10.4%
Gross Margin (%)	28.8%	34.5%	32.3%	34.4%	34.5%
Net Margin (%)	7.5%	11.5%	8.9%	10.6%	10.7%
Return on Equity (%)	4.8%	7.9%	5.4%	7.1%	7.7%
Return on Assets (%)	4.0%	6.6%	4.5%	6.0%	6.4%
EPS	311	499	331	435	481

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Stock Information

Sector	Cement
Bloomberg Ticker	INTP IJ
Market Cap. (IDR tn)	44.8
Share Out./Float (mn)	3,681/1,803
Current Price	12,275
FY20F Target Price	15,200
Upside	23.8%

Share Price Performance

52W High (25/07/19)	22,875
52W Low (20/03/20)	8,650
52W Beta	1.50
YTD Change	-36%

Relative Valuations

Trailing P/E	24.4x
Forward P/E	26.7x
P/BV	1.9x

INTP 1Q20 Earnings summary

IDR bn	2Q19	1Q20	2Q20	%QoQ	%YoY	6M19	6M20	%YoY	% DH	% Cons
Net Revenues	3,250	3,363	2,812	-16.4%	-13.5%	6,983	6,175	-11.6%	45.1%	42.7%
COGS	(2,271)	(2,298)	(1,997)	-13.1%	-12.1%	(4,840)	(4,295)	-11.3%		
Gross Profit	979	1,064	815	-23.4%	-16.7%	2,143	1,880	-12.3%		
Operating Profit	195	386	(8.6)	na	na	590	378	-36.0%		
EBITDA	470	718	234	-67.3%	-50.1%	1,172	952	-18.8%		
Net Income	243	400	70	-82.6%	-71.3%	640	470	-26.6%	38.6%	29.7%
Gross Margin	30.1%	31.7%	29.0%			30.7%	30.4%			
Opex to Sales	23.7%	22.9%	24.7%			22.3%	23.7%			
Operating Margin	6.0%	11.5%	-0.3%			8.5%	6.1%			
EBITDA Margin	14.5%	21.3%	8.3%			16.8%	15.4%			
Net Margin	7.5%	11.9%	2.5%			9.2%	7.6%			

Source: Company Data, Sinarmas Investment Research

Table 1: Earnings sensitivity to coal prices

(IDR bn)	FY20E earnings forecast	Change
Coal price +1%	1,191	-2.2%
Base case	1,218	
Coal price -1%	1,245	2.2%

Source: Sinarmas Investment Research

Table 2: Earnings sensitivity to ASP

(IDR bn)	FY20E earnings forecast	Change
ASP +1%	1,301	6.8%
Base case	1,218	
ASP -1%	1,135	-6.8%

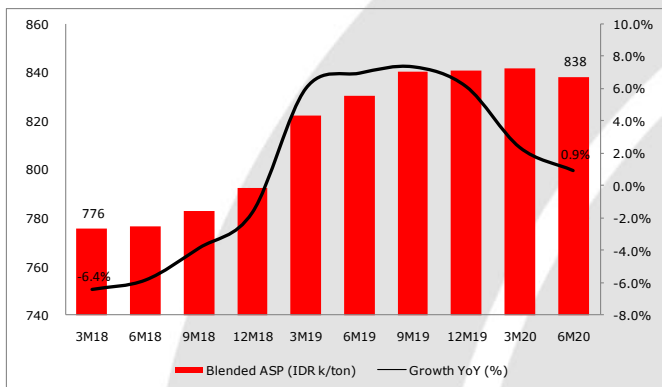
Source: Sinarmas Investment Research

Table 3: Earnings sensitivity to sales volume

(IDR bn)	FY20E earnings forecast	Change
Sales Volume +1%	1,234	1.2%
Base case	1,218	
Sales Volume -1%	1,203	-1.2%

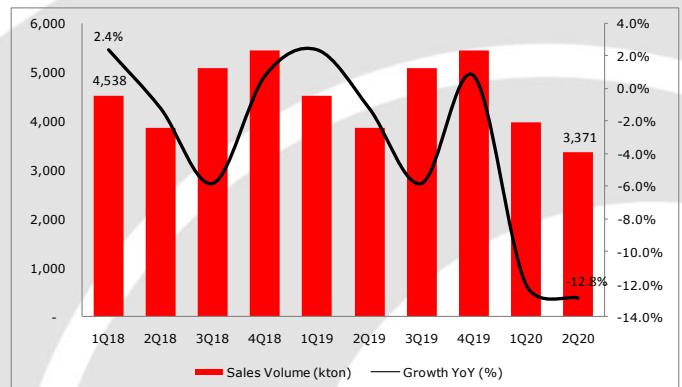
Source: Company Data, Sinarmas Investment Research

Figure 1: INTP Blended ASP (IDR k/ton)



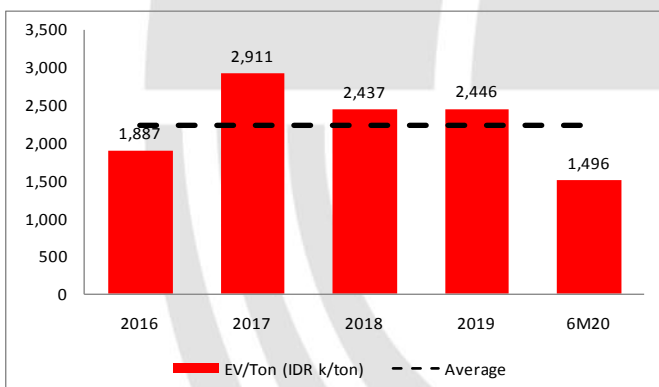
Source: Company Data, Sinarmas Investment Research

Figure 2: INTP total Sales Volume (kton)



Source: Company Data, Sinarmas Investment Research

Figure 3: INTP EV/Ton historical (IDR k/ton)



Source: Company Data, Sinarmas Investment Research

Income Statement (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	15,190	15,939	13,686	15,142	16,604
% growth	4.9%	-14.1%	10.6%	9.7%	7.1%
COGS	(11)	(10)	(9)	(10)	(11)
Gross Profit	4,369	5,500	4,426	5,210	5,721
% growth	-12.8%	25.9%	-19.5%	17.7%	9.8%
Operating Expenses	3,323	3,503	3,224	3,570	3,915
Opex to Sales (%)	21.9%	22.0%	23.6%	23.6%	23.6%
Operating Profit	1,046	1,997	1,203	1,640	1,806
% growth	-45.7%	90.9%	-39.8%	36.3%	10.1%
EBITDA	2,212	3,139	2,383	2,848	3,044
% growth	-25.8%	41.9%	-24.1%	19.5%	6.9%
Other Income	354,343	277,746	307,562	346,402	386,582
Net Financing	313,407	352,537	346,570	389,560	433,907
PBT	1,400	2,275	1,510	1,986	2,192
Tax	255	440	292	384	424
Minority Interest	0	0	0	0	0
Net Income	1,145	1,835	1,218	1,602	1,768
% growth	-38.4%	60.2%	-33.6%	31.5%	10.4%

Balance Sheet (IDR Bn)	2018	2019	2020E	2021F	2022F
Cash and Cash Equivalent	7,226	7,652	7,342	8,123	8,652
Trade Receivables	2,993	3,021	2,548	2,889	3,135
Inventories	1,838	1,895	1,661	1,756	1,950
Other Current Assets	7,478	7,905	7,610	8,390	8,927
Total Current Assets	12,316	12,829	11,826	13,042	14,021
Fixed Assets	14,637	14,080	13,935	13,412	12,931
Other Non Current Assets	836	798	798	798	798
Total Assets	27,789	27,708	26,559	27,252	27,750
Trade Payables	1,760	1,749	1,526	1,638	1,804
Bank Loans	0	0	0	0	0
Other Current Liabilities	2,166	2,125	1,816	2,013	2,179
Total Current Liabilities	3,926	3,873	3,342	3,651	3,983
Other Non Current Liabilities	641	754	754	754	754
Total Liabilities	4,567	4,627	4,096	4,405	4,737
Share & APIC	4,539	4,539	4,539	4,539	4,539
Retained Earnings	18,892	18,703	18,086	18,470	18,636
Non Controlling Interest	0	0	0	0	0
Other Components of Equity	-210	-162	-162	-162	-162
Total Equity	23,222	23,080	22,463	22,847	23,013
Total Equity & Liabilities	27,789	27,708	26,559	27,252	27,750

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
Net Income	1,145	1,835	1,218	1,602	1,768
Depreciation	1,169	1,195	1,101	1,208	1,238
Chg. in NWC	187	148	-388	234	220
Chg. in Other CT Assets	-56	2	14	-1	9
Chg. in Other CT Liabilities	75	10	-212	107	111
CF from Operating	2,260	2,890	2,481	2,684	2,888
Capital Expenditure	827	638	956	684	757
Chg. in LT Assets	-166	-37	0	0	0
Chg in LT Liabilities	-187	113	0	0	0
CF from Investing	-848	-487	-956	-684	-757
Chg. in Share & APIC	0	0	0	0	0
Chg. in Debt	0	0	0	0	0
Dividends Paid	2,576	2,025	1,835	1,218	1,602
Others	96	48	0	0	0
CF from Financing	-2,480	-1,977	-1,835	-1,218	-1,602
Change in Cash	-1,069	426	-310	781	529
Beginning Cash	8,295	7,226	7,652	7,342	8,123
Ending Cash	7,226	7,652	7,342	8,123	8,652

Financial Ratio	2018	2019	2020E	2021F	2022F
Profitability					
ROE	4.8%	7.9%	5.4%	7.1%	7.7%
ROA	4.0%	6.6%	4.5%	6.0%	6.4%
Gross Margin	28.8%	34.5%	32.3%	34.4%	34.5%
Operating Margin	6.9%	12.5%	8.8%	10.8%	10.9%
EBITDA Margin	14.6%	19.7%	17.4%	18.8%	18.3%
Net Margin	7.5%	11.5%	8.9%	10.6%	10.7%
Liquidity					
Current Ratio	3.1	3.3	3.5	3.6	3.5
Valuation					
Price to Earning (PE)	39.3	24.5	36.9	28.1	25.4
Price to Book (PBV)	1.9	1.9	2.0	2.0	2.0
EV/EBITDA	27.4	19.9	16.0	13.1	12.1

Key Assumptions	2018	2019	2020E	2021F	2022F
Coal Prices (USD/Mt.)	89.8	80.4	65.0	69.0	71.0
Sales Volume Growth (YoY)	7.7%	0.4%	-15.0%	9.0%	7.5%
ASP Growth (YoY)	-1.9%	5.0%	1.0%	1.5%	2.0%
Market Share	26.0%	26.0%	25.7%	26.2%	26.8%

Source: Company data, Sinarmas Investment Research

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

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