

We maintain our NEUTRAL recommendation on PT Indocement Tunggul Prakarsa (Persero) Tbk (INTP) with 52-week target price of IDR 16,010 (0.1% upside), deriving via DCF with 15,48% WACC and 5% terminal growth. Our valuation implies a FY17E P/E of 17.52x. We forecast FY17E industry cement volume to grow by 4% yoy after the weakening trend of cement demand growth for 5 years in a row (FY11-16). INTP's strong balance sheet will provide room for any strategic movement if needed, amidst intense competition on INTP's main market in Java region.

4Q16 earnings result. INTP booked 4Q16 revenue of IDR 4.01tn, down 18.25% yoy due to a combination of poor domestic cement sales volume (-7.14% yoy) and ASP (-10% yoy), resulted in FY16 revenue went down by 13.69% yoy to IDR 15.36tn, the lowest result since FY11 at IDR 13.88tn. Weak FY16 revenue of core cement business has dragged down INTP's overall revenue, given its poor performance (-13.05% yoy), followed by RMC business (-14.97% yoy).

Margin was still compressed. INTP's FY16 margins, starting from gross margin to PBT margin has experienced a decline, while net margin slightly increased due to deferred income tax benefit of IDR 688bn from asset revaluation in 2Q16, bringing FY16 NPAT only down 11.16% yoy to IDR3.9tn. Moving forward, domestic sales volume still decreased 3.13% yoy, even though INTP's FY16 ASP had decreased by 11% yoy to IDR 935k/ton. We foresee the ASP will continue to go down further in 2017, albeit at a much lower rate compared to FY16.

Domestic competition remains intense. INTP recorded a lower 3M17 sales volume of 3.8mn tonnes (-4.2% yoy) with a declining market share to 25.60% (vs. 26.86% in 3M16), while national domestic cement sales in 3M17 increased to 14.76 mn tonnes (+0.54% yoy).

Consolidation remains possible. The factor influencing the pricing return among cement players is through consolidation where the ownership of capacity changed hands because of facing the cash strain. The reduction on numbers of cement players can create the competition easing, unless the shareholders are willing to inject fresh capital to retain the company. Since the new cement players are backed by strong shareholders, this will lead to prolonged consolidation. Regardless, INTP has a strong balance sheet with positive net cash, providing it with some room for any strategic action.

The risks to our call include: 1) delay in infrastructure execution, 2) changes on government policy, 3) further price control by government

Financial Highlights	2015	2016	2017E	2018F	2019F
Revenue (IDR bn)	17,798	15,362	15,992	16,914	18,121
% growth	-11.0%	-13.7%	4.1%	5.8%	7.1%
Gross Profit (IDR bn)	7,909	6,331	6,420	6,665	7,042
Net Profit (IDR bn)	4,357	3,870	3,361	3,462	3,603
% growth	-18%	-11%	-13%	3%	4%
Gross Margin (%)	44.4%	41.2%	40.1%	39.4%	38.9%
Net Margin (%)	24.5%	25.2%	21.0%	20.5%	19.9%
Return on Equity (%)	18.0%	15.5%	12.4%	11.9%	11.5%
Return on Assets (%)	15.4%	13.4%	10.8%	10.4%	10.0%
EPS (IDR)	1183	1051	913	941	979

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Sector	Cement
Bloomberg Ticker	INTP IJ
Market Cap. (IDR tn)	58.90
Share Out./Float (mn)	3,681/1,804
Current Price	IDR 16,000
52-week Target Price	IDR 16,010
Upside (%)	0.1%

Share Price Performance

52W High (04/20/16)	20,150
52W Low (11/15/16)	14,275
52W Beta	1.463
YTD Change (%)	3.9%

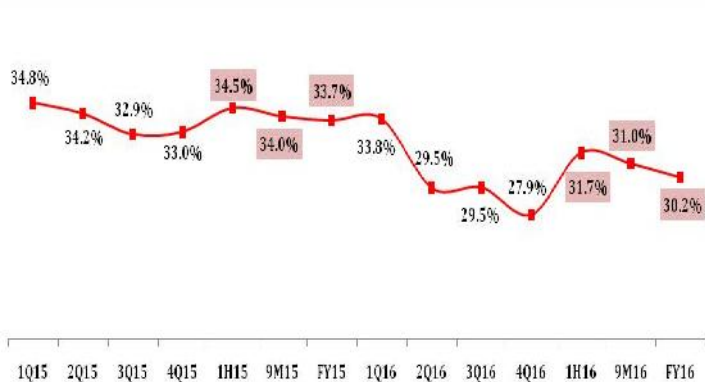
Relative Valuations

Trailing P/E	15.22x
Forward P/E	17.52x
P/BV	2.29x
EV/EBITDA	10.80x

Income Statement (in IDR Bn)	4Q15	3Q16	4Q16	QoQ	YoY	FY15	FY16	YoY
Domestic Cement Sales ('000 tonne)	4,756	3,928	4,416	12%	-7%	16,636	16,115	-3%
Export ('000 tonne)	94	86	63	-28%	-33%	97	19	-80%
Total ('000 tonne)	4,850	4,014	4,478	12%	-8%	16,733	16,134	-4%
ASP	1,006	898	897	0%	-11%	1,048	935	-11%
Revenue	4,912	3,605	4,015	11%	-18%	17,798	15,362	-14%
Cement	4,457	3,304	3,749	13%	-16%	16,220	14,103	-13%
Mix Concrete	728	473	590	25%	-19%	2,549	2,167	-15%
Aggregates and Trass Quarries	35	31	32	4%	-8%	120	127	6%
Elimination	(308)	(204)	(356)	75%	16%	-1,090	(1,034)	-5%
COGS	(2,755)	(2,113)	(2,411)	14%	-12%	(9,734)	(8,851)	-9%
Raw materials used	(643)	(598)	(499)	-17%	-22%	(2,376)	(2,170)	-9%
Direct labor	(254)	(239)	(254)	6%	0%	(943)	(921)	-2%
Fuel and power	(1,076)	(816)	(975)	19%	-9%	(3,948)	(3,498)	-11%
Manufacturing overhead	(461)	(387)	(452)	17%	-2%	(1,835)	(1,801)	-2%
Work in Process (Inventory)	(102)	167	(69)	-141%	-32%	(9)	103	-1185%
Finished Goods Inventory	(9)	(60)	25	-141%	-386%	136	160	18%
Packing Cost	(211)	(178)	(186)	4%	-12%	(759)	(724)	-5%
Gross Profit	2,157	1,492	1,605	8%	-26%	8,064	6,511	-19%
SG&A	(774)	(657)	(773)	18%	0%	(2,880)	(2,714)	-6%
Other operating income	28	(0)	32	-9843%	11%	121	71	-42%
Other operating expenses	(46)	(13)	(8)	-40%	-83%	(94)	(44)	-53%
Operating Profit	1,365	821	855	4%	-37%	5,212	3,824	-27%
EBITDA	1,622	1,064	1,118	5%	-31%	6,003	4,638	-23%
Net Income	1,138	718	723	1%	-37%	4,357	3,870	-11%
Gross Profit Margin	44%	41%	40%			45%	42%	
Operating Profit Margin	28%	23%	21%			29%	25%	
EBITDA Margin	33%	30%	28%			34%	30%	
Net Income Margin	23%	20%	18%			24%	25%	

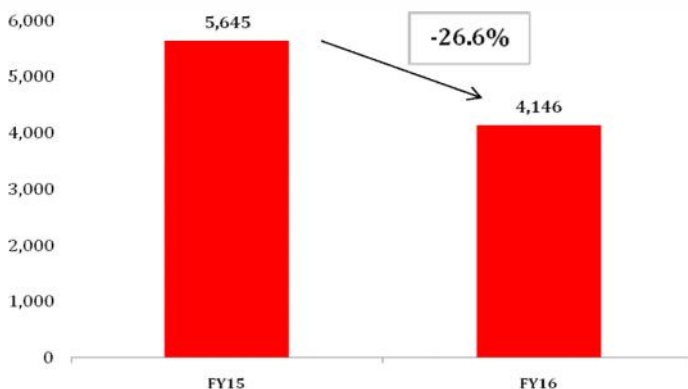
Source: Company Data, Sinarmas Investment Research

Quarterly EBITDA Margin



Source: Company Data, Sinarmas Investment Research

Profit Before Income Tax



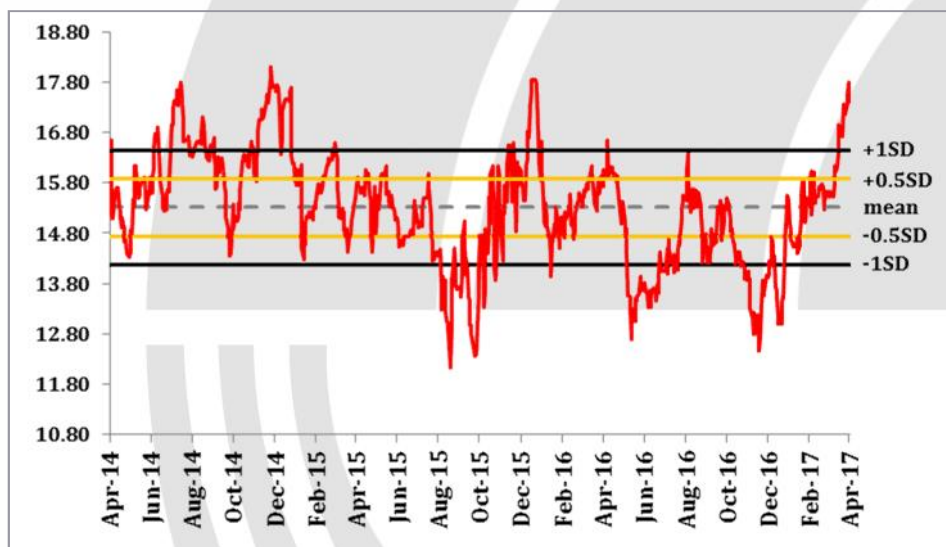
Source: Company Data, Sinarmas Investment Research

INTP's 3M17 sales volume

Area	National			INTP			INTP's market share	
	3M17	3M16	YoY (%)	3M17	3M16	YoY (%)	3M17	3M16
Jakarta	1,144	1,213	-5.7%	457	538	-15.2%	39.9%	44.4%
Banten	722	758	-4.8%	325	336	-3.4%	44.9%	44.3%
West Java	2,084	2,111	-1.3%	1,070	1,011	5.8%	51.3%	47.9%
Central Java	1,843	1,660	11.1%	624	575	8.5%	33.9%	34.7%
East Java	2,237	2,003	11.7%	242	262	-7.7%	10.8%	13.1%
Yogyakarta	249	223	11.7%	43	43	-1.2%	17.3%	19.5%
Total Java	8,279	7,967	3.9%	2,760	2,767	-0.2%	33.3%	34.7%
Sumatera	3,073	3,175	-3.2%	344	403	-14.8%	11.2%	12.7%
Kalimantan	923	1,025	-9.9%	216	258	-16.2%	23.4%	25.1%
Sulawesi	1,200	1,293	-7.2%	90	188	-52.4%	7.5%	14.6%
Nusa Tenggara	873	839	4.1%	302	257	17.8%	34.6%	30.6%
East Indonesia	406	376	8.0%	66	69	-5.2%	16.2%	18.4%
Outside Java	6,476	6,708	-3.5%	1,017	1,175	-13.4%	15.7%	17.5%
Total Indonesia	14,755	14,676	0.5%	3,777	3,942	-4.2%	25.6%	26.9%
Ekspor Semen	249	56	348.9%	11	0	0.0%	4.2%	0.0%
Ekspor Clinker	141	156	-9.3%	0	49	-100.0%	0.0%	31.6%

Source: Company Data, Sinarmas Investment Research

Forward P/E Band



Source: Company Data, Sinarmas Investment Research

Income Statement (IDR bn)	2015	2016	2017E	2018F	2019F
Revenue	17,798	15,362	15,992	16,914	18,121
Cost of Revenue	(9,889)	(9,030)	(9,572)	(10,250)	(11,078)
Gross Profit	7,909	6,331	6,420	6,665	7,042
SG&A Expenses	(2,880)	(2,714)	(2,644)	(2,815)	(3,068)
Operating Income	5,029	3,618	3,776	3,850	3,974
Other Operating Income/Expenses	-94	-79	-106	-127	-146
Finance Costs - Net	710	608	724	803	883
Profit Before Income Tax	5,645	4,146	4,394	4,527	4,711
Income Tax Expenses	(1,288)	(276)	(1,033)	(1,064)	(1,108)
Minority Interest	0	0	0	0	0
Net Profit For the Year	4,357	3,870	3,361	3,462	3,603

Source: Company Data, Sinarmas Investment Research

Balance Sheet (IDR bn)	2015	2016	2017E	2018F	2019F
Cash and Short Term Investments	8,656	9,674	10,757	12,204	13,624
Total Receivables	2,535	2,605	2,375	2,597	2,849
Inventories	1,521	1,780	1,608	1,773	1,987
Other Current Assets	422	365	378	405	430
Total Current Assets	13,134	14,425	15,118	16,979	18,891
Fixed Assets	13,814	14,644	15,699	16,471	17,263
Other Non-Current Assets	691	1,082	1,082	1,082	1,082
Total Assets	27,638	30,151	31,900	34,532	37,236
Short Term Loans	60	70	70	70	70
Total Payables	1,817	2,201	2,047	2,344	2,590
Other Current Liabilities	811	917	840	926	1,033
Total Current Liabilities	2,688	3,188	2,957	3,340	3,693
Long Term Loans	61	37	202	333	465
Other Non-Current Liabilities	1,024	787	787	787	787
Total Liabilities	3,772	4,012	3,946	4,460	4,946
Share Capital	1,841	1,841	1,841	1,841	1,841
Additional Paid in Capital	2,699	2,699	2,699	2,699	2,699
Other Components of Equity	(214)	(284)	(284)	(284)	(284)
Retained Earnings	19,541	21,883	23,732	25,850	28,068
Minority Interest	0	0	0	0	0
Total Equity	23,866	26,139	27,987	30,105	32,323
Total Liabilities & Equity	27,638	30,151	31,933	34,565	37,269

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR bn)	2015	2016	2017E	2018F	2019F
Net Income	4,357	3,870	3,361	3,462	3,603
Depreciation	851	922	1,009	857	866
Change in NWC	(231)	218	159	(31)	(139)
Change in Minority Interest	0	0	0	0	0
Others	(3)	(607)	0	0	0
Cash Flow From Operating	4,974	4,404	4,529	4,289	4,331
Capex	(2,522)	(1,752)	(2,065)	(1,628)	(1,658)
Change in NCA	(28)	(108)	0	0	0
Change in NCL	46	87	0	0	0
Cash Flow From Investing	(2,503)	(1,774)	(2,065)	(1,628)	(1,658)
Changes in share capital and APIC	0	0	0	0	0
Change in short term loans	11	10	0	0	0
Change in long term loans	(15)	(24)	165	130	133
Others Equity	(98)	(70)	0	0	0
Dividend	(4,968)	(1,527)	(1,548)	(1,344)	(1,385)
Cash Flow From Financing	(5,070)	(1,611)	(1,383)	(1,214)	(1,252)
Beginning Cash	11,256	8,657	9,676	10,757	12,204
Additional Cash	(2,599)	1,019	1,081	1,447	1,420
Ending Cash	3,587	8,065	9,375	10,990	12,372

Source: Company Data, Sinarmas Investment Research

Financial Ratio	2015	2016	2017E	2018F	2019F
P/E	18.86	14.65	17.52	17.01	16.35
P/B	3.44	2.17	2.18	2.03	1.89
EV/EBITDA	12.25	10.13	10.12	10.01	9.46
ROE	17.4%	14.3%	11.6%	11.1%	10.7%
ROA	15.1%	12.5%	10.1%	9.6%	9.3%
DER	0.01	0.00	0.01	0.01	0.02

Source: Company Data, Sinarmas Investment Research

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

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