

1Q21 Results: margin erosion due to product mix. In 1Q21, SMGR booked revenue of IDR 8tn (-5.9% YoY), despite a 2.1% YoY sales volume growth as ASP dropped by 7.8% YoY, driven by product mix. Despite posting lower cash cost (-3.8% YoY), GPM still dropped by 290bps to 28.6%, due to higher contribution from regional sales volume at 24.4% in 1Q21 (vs. 15.7% in 1Q20) as we estimate the regional products have lower margin. Opex to sales dropped to 15.6% (vs. 18.0% in 1Q20), driven by lower transportation cost to sales of 5.3% (vs. 6.1% in 1Q20) and leading operating profit to IDR 1tn (-9.5% YoY) with OPM of 13.0%. EBITDA margin improved to 22.4% (vs. 21.1% in 1Q20) due to the full implementation of PSAK 73. On the other side, finance cost dropped by 21.2% QoQ/27.1% YoY as SMGR's debt fell by 2.1% QoQ and 9.5% YoY. As a result, SMGR recorded net profit of IDR 450bn (+0.9% YoY) with NPM of 5.6%. In all, SMGR's top-line and bottom-line reached 21%/21% and 14%/15% of our/consensus estimate.

Bulk market will provide a margin expansion on SMGR. In Mar-21, the bulk market showed a recovery (-5.7% YoY vs. -20.7%/-13.9% in Jan-21/Feb-21), mainly due to PPKM relaxation to PPKM-micro. To add this point, the management saw that many infrastructure projects have started to begin construction at the end of Mar-21. Going forward, we believe that the bulk market will become the growth engine for cement industry and we estimate the bulk market will fully recover in Jun-21 (after Ramadhan season), driven by 1) stronger seasonality in 2H, 2) 48% YoY infrastructure budget growth in FY21E, and 3) vaccine development in Indonesia. With expectation on bulk market recovery, we believe that SMGR's margin will continue to expand as SMGR will shift their regional sales (lower margin product) to bulk market. As a result, we maintain our GPM assumption of 31.9% in FY21E as we believe 1Q21 performance has not reflected on potential bulk market recovery in quarters ahead.

We maintain our BUY rating on PT Semen Indonesia Tbk (SGMR) with lower FY21E TP of IDR 14,800, derived from FY21E 12.9x EV/EBITDA (+1SD from its 5-years). We are of the view that market overlooked the bulk market recovery in Mar-21 and overly punish SMGR's share price. To add this point, we believe recent correction provide attractive buying opportunity for the stock as we believe the bulk market currently show a positive sign of recovery. Downside risk to our call: 1) prolonged bulk market recovery, 2) price war, and 3) higher input cost.

| 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 | 12,714 | 11,617 | 12,222 | 13,220 | 13,956 |
| EBITDA | 8,437 | 8,749 | 8,421 | 9,132 | 9,605 |
| Net Profit | 2,392 | 2,792 | 3,164 | 3,849 | 4,457 |
| % growth | -22.3% | 16.7% | 13.3% | 21.6% | 15.8% |
| 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% | 9.4% | 10.2% |
| Return on Assets (%) | 3.7% | 3.5% | 4.1% | 5.0% | 5.7% |
| EPS | 403 | 471 | 533 | 649 | 751 |

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| | |
|-----------------------|-------------|
| Sector | Cement |
| Bloomberg Ticker | SMGR IJ |
| Market Cap. (IDR tn) | 60.2 |
| Share Out./Float (mn) | 5,931/2,906 |
| Current Price | 10,150 |
| FY21E Target Price | 14,800 |
| Upside | 45.8% |

Share Price Performance

| | |
|---------------------|--------|
| 52W High (17/12/20) | 13,000 |
| 52W Low (08/05/20) | 7,250 |
| 52W Beta | 1.40 |
| YTD Change | -19.1% |

Relative Valuations

| | |
|--------------|-------|
| Trailing P/E | 32.9x |
| Forward P/E | 29.1x |
| EV/EBITDA | 12.9x |
| P/BV | 2.4x |

SMGR 1Q21 Earnings summary

| IDR bn | 1Q20 | 4Q20 | 1Q21 | %QoQ | %YoY | 3M20 | 3M21 | %YoY | % DH | % Cons |
|-------------------------|--------------|--------------|--------------|---------------|---------------|--------------|--------------|---------------|------------|------------|
| Net Revenues | 8,580 | 9,547 | 8,077 | -15.4% | -5.9% | 8,580 | 8,077 | -5.9% | 21% | 21% |
| COGS | (5,876) | (6,160) | (5,770) | | | (5,876) | (5,770) | -1.8% | | |
| Gross Profit | 2,704 | 3,386 | 2,307 | -31.9% | -14.7% | 2,704 | 2,307 | -14.7% | | |
| Operating Profit | 1,157 | 1,727 | 1,046 | -39.4% | -9.5% | 1,157 | 1,046 | -9.5% | | |
| EBITDA | 1,806 | 2,615 | 1,807 | -30.9% | 0.0% | 1,806 | 1,807 | 0.0% | | |
| Net Income | 446 | 1,251 | 450 | -64.0% | 0.9% | 446 | 450 | 0.9% | 14% | 15% |
| Margin | | | | | | | | | | |
| Gross Margin | 31.5% | 35.5% | 28.6% | | | 31.5% | 28.6% | | | |
| Opex to Sales | 18.0% | 17.4% | 15.6% | | | 18.0% | 15.6% | | | |
| Operating Profit margin | 13.5% | 18.1% | 13.0% | | | 13.5% | 13.0% | | | |
| EBITDA Margin | 21.1% | 27.4% | 22.4% | | | 21.1% | 22.4% | | | |
| Net Margin | 5.2% | 13.1% | 5.6% | | | 5.2% | 5.6% | | | |
| Operational | | | | | | | | | | |
| Sales volume (mn tons) | 9.5 | 10.7 | 9.7 | -9.5% | 2.1% | 9.5 | 9.7 | 2.1% | | |
| Blended ASP (IDR/kg) | 904 | 891 | 833 | -6.5% | -7.8% | 904 | 833 | -7.8% | | |
| Cash cost (IDR/kg) | 619 | 575 | 595 | 3.5% | -3.8% | 619 | 595 | -3.8% | | |

Source: Company Data, 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) | 38.4 | 32.9 | 29.1 | 23.9 | 20.6 |
| Price to Book (PBV) | 2.7 | 2.6 | 2.4 | 2.2 | 2.0 |
| EV/EBITDA | 12.9 | 12.4 | 12.9 | 11.9 | 11.3 |
| 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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