

Above estimates 4Q19 results. SMGR recorded better than expected 4Q19 earnings. While top-line figure was relatively in-line, reaching IDR 12.2 tn in 4Q19 (+32.6% YoY), bottom-line was recorded 9%/18% higher than our and consensus' forecast, at IDR 1.4tn, growing by 42.4% YoY. Looking into margin details, GPM inched up by 220bps QoQ, EBITDA margin was higher by 260bps QoQ, and net margin rose by 210bps QoQ. The improvement was driven by soft commodity prices and far better SBI's (previously Holcim) profitability. Worth to note that SBI has adjusted pricing higher since 2Q19 and managed to improve efficiency on the purchasing and operating sides. As a result, profitability significantly jumped as the company turned profitable in 3Q19 after 12 quarters of loss strike. As of 4Q19, SBI's GPM stood at 30.9% while EBITDA margin was at 17.4%, resulting in strong net profit of IDR 365bn (c. 33% of SMGR's consolidated 4Q19 NPAT).

Outlook on 2020 performance. Heavy rainfall and floods occurred during Jan-Feb 2020 severely weighed on cement industry's sales performance as distribution was challenged and development projects were delayed. Consequently, SMGR's consolidated 2M20 domestic sales growth dropped by 5% YoY, comparable with the industry's. In addition, we anticipate the disruption in sales due to ongoing coronavirus issue which might cause a pause on development projects as the government shifts focus to combat the virus and its economic impact, while property purchase might be hit as citizens are likely to reduce big ticket spending. Hence, we lower our volume/ASP growth assumption for FY20 to 0%/0%. On the bright side, significant drop in crude oil price should provide a relief for margins, whereas lower interest rate environment should reduce interest burden.

Undemanding valuation following recent deep correction. Given the selling pressure on equity, SMGR share price has declined by 49% YTD, leading the company to trade at 7.2x EV/EBITDA (-1.5SD 5yr avg), lowest since 2015. While the company currently has no plan on share buyback, we think that valuation has turned attractive as the company's FY20 earnings growth should be backed by 1) lower cost of fund from refinancing (c. IDR 200bn), 2) revocation of royalty payment for Holcim brand (c. IDR 700bn), 3) SBI's sustained profitability turnaround. We maintain our BUY rating on SMGR with lower target price of IDR 10,400 which is derived from DCF valuation and 1.8mn EV//ton assumption. Downside risks to our call: economic slowdown, spiking input costs, and government intervention.

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Sector	Cement
Bloomberg Ticker	SMGR IJ
Market Cap. (IDR tn)	36.6
Share Out./Float (mn)	5,932/2,906
Current Price	5,875
52-week Target Price	10,400
Upside	77.0%

Share Price Performance

52W High (04/04/19)	14,450
52W Low (03/20/20)	5,475
52W Beta	1.8
YTD Change	-48.5%

Relative Valuations

EV/EBITDA	7.2
Trailing P/E	15.3
Forward P/E	12.7
P/BV	1.1

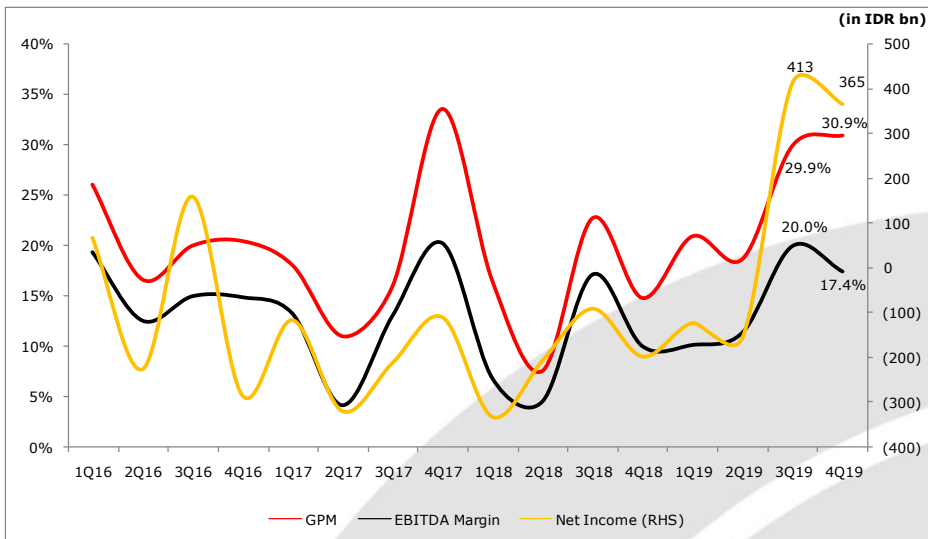
Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	30,688	40,368	40,350	41,902	43,514
% growth	10.3%	31.5%	0.0%	3.8%	3.8%
Gross Profit	9,331	12,714	12,959	13,392	13,908
Net Profit	3,079	2,392	2,750	3,019	3,621
% growth	90.0%	-22.3%	15.0%	9.8%	19.9%
Gross Margin (%)	30.4%	31.5%	32.1%	32.0%	32.0%
Net Margin (%)	10.0%	5.9%	6.8%	7.2%	8.3%
Return on Equity (%)	9.8%	7.2%	7.9%	8.2%	9.3%
Return on Assets (%)	6.2%	3.7%	3.5%	3.9%	4.6%
EPS	519	403	464	509	610

SMGR 4Q19 Earnings Summary

IDR bn	4Q18	3Q19	4Q19	%QoQ	%YoY	12M18	12M19	%YoY	% DH	% Cons
Net Revenues	9,232	11,772	12,245	4.0%	32.6%	30,688	40,368	31.5%	97%	101%
COGS	(6,241)	(7,961)	(8,007)	0.6%	28.3%	(21,357)	(27,654)	29.5%		
Gross Profit	2,991	3,811	4,238	11.2%	41.7%	9,331	12,714	36.3%	100%	109%
Operating Profit	1,568	1,854	2,198	18.6%	40.2%	4,773	6,093	27.7%	102%	112%
EBITDA	1,908	2,443	2,862	17.2%	50.0%	6,399	8,437	31.9%	98%	103%
Net Income	992	810	1,097	35.4%	10.6%	3,079	2,392	-22.3%	109%	118%
Gross Margin	32.4%	32.4%	34.6%			30.4%	31.5%			
Opex to Sales	15.7%	15.7%	16.9%			14.5%	16.2%			
EBITDA Margin	20.7%	20.7%	23.4%			20.9%	20.9%			
Net Margin	10.7%	6.9%	9.0%			10.0%	5.9%			

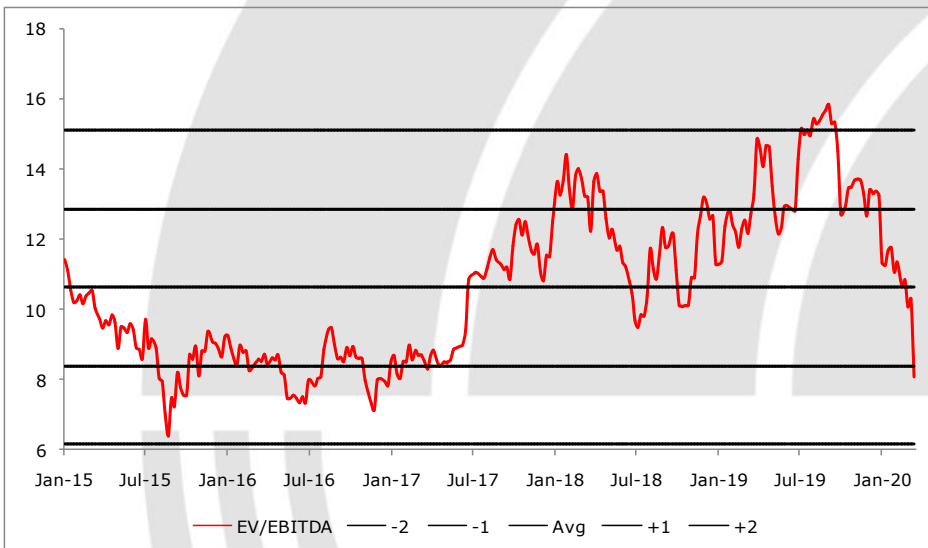
Source: Company data, Sinarmas Investment Research

SBI (SMCB) profitability figures



Source: Company data, Sinarmas Investment Research

SMGR EV/EBITDA band



Source: Bloomberg, Sinarmas Investment Research

Income Statement (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	30,688	40,368	40,350	41,902	43,514
% growth	10.3%	31.5%	0.0%	3.8%	3.8%
COGS	(21,357)	(27,654)	(27,391)	(28,510)	(29,606)
Gross Profit	9,331	12,714	12,959	13,392	13,908
% growth	17.2%	36.3%	1.9%	3.3%	3.8%
Operating Expenses	(4,557)	(6,621)	(6,624)	(6,950)	(7,121)
Opex to Sales (%)	14.9%	16.4%	16.4%	16.6%	16.4%
Operating Profit	4,773	6,093	6,335	6,442	6,787
% growth	81.3%	27.7%	4.0%	1.7%	5.3%
EBITDA	6,399	8,437	8,669	8,825	9,219
% growth	45.1%	31.9%	2.7%	1.8%	4.5%
Other Income	107	92	92	92	92
Net Financing	(777)	(2,987)	(2,746)	(2,491)	(2,025)
PBT	4,105	3,196	3,679	4,041	4,852
Tax	(1,019)	(825)	(949)	(1,043)	(1,252)
Minority Interest	7	(21)	(21)	(21)	(21)
Net Income	3,079	2,392	2,750	3,019	3,621
% growth	90.0%	-22.3%	15.0%	9.8%	19.9%

Balance Sheet (IDR Bn)	2018	2019	2020E	2021F	2022F
Cash and Cash Equivalent	5,246	3,950	3,848	2,697	4,413
Trade Receivables	5,786	6,490	6,135	6,676	6,722
Inventories	3,544	4,642	4,091	4,478	4,491
Other Current Assets	1,515	1,577	1,730	1,936	1,909
Total Current Assets	16,091	16,659	15,805	15,786	17,535
Fixed Assets	32,392	56,602	56,142	55,660	55,184
Other Non Current Assets	2,301	6,547	6,001	6,009	6,033
Total Assets	50,784	79,807	77,948	77,455	78,751
Trade Payables	4,476	5,670	5,071	5,650	5,601
Other Current Liabilities	3,704	6,570	8,722	8,678	8,417
Total Current Liabilities	8,180	12,240	13,792	14,328	14,018
Bank Loans	7,912	24,750	23,862	21,366	19,980
Other Non Current Liabilities	2,076	8,925	4,532	4,081	4,659
Total Liabilities	18,169	45,915	42,186	39,775	38,658
Share & APIC	2,051	2,051	2,051	2,051	2,051
Retained Earnings	28,614	29,774	31,568	33,487	35,900
Non Controlling Interest	1,423	1,615	1,615	1,615	1,615
Other Components of Equity	527	451	527	527	527
Total Equity	32,615	33,892	35,761	37,680	40,094
Total Equity & Liabilities	50,784	79,807	77,948	77,455	78,751

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
Net Income	3,079	2,392	2,750	3,019	3,621
Depreciation	1,590	13,410	2,218	2,263	2,309
Chg. in NWC	1,103	(596)	481	464	(33)
Chg. in Other CT Assets	-	-	-	-	-
Chg. in Other CT Liabilities	-	-	-	-	-
CF from Operating	3,566	16,398	4,488	4,818	5,962
Capital Expenditure	1,459	37,620	1,759	1,781	1,832
Chg. in LT Assets	(443)	4,246	(546)	8	24
Chg in LT Liabilities	(44)	6,849	(4,393)	(451)	578
CF from Investing	(1,060)	(35,017)	(5,606)	(2,240)	(1,278)
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	(417)	18,439	1,897	(2,630)	(1,760)
Dividends Paid	806	1,232	957	1,100	1,208
Others	296	116	76	-	-
CF from Financing	(927)	17,324	1,016	(3,730)	(2,968)
Change in Cash	1,579	(1,295)	(102)	(1,152)	1,717
Beginning Cash	3,666	5,246	3,950	3,848	2,697
Ending Cash	5,246	3,950	3,848	2,697	4,413

Financial Ratio	2018	2019	2020E	2021F	2022F
Profitability					
ROE	9.8%	7.2%	7.9%	8.2%	9.3%
ROA	6.2%	3.7%	3.5%	3.9%	4.6%
Gross Margin	30.4%	31.5%	32.1%	32.0%	32.0%
Operating Margin	15.6%	15.1%	15.7%	15.4%	15.6%
EBITDA Margin	20.9%	20.9%	21.5%	21.1%	21.2%
Net Margin	10.0%	5.9%	6.8%	7.2%	8.3%
Liquidity					
Current Ratio	2.0	1.4	1.1	1.1	1.3
Solvency					
Debt to Equity	0.6	1.1	1.0	0.8	0.7
Debt to Assets	0.4	0.5	0.5	0.4	0.3
Interest Coverage	6.7	2.6	3.0	3.4	4.2
Net Debt to EBITDA	2.8	4.4	4.1	3.3	2.8
Valuation					
Price to Earning (PE)	11.3	14.6	12.7	11.5	9.6
Price to Book (PBV)	1.1	1.0	1.0	0.9	0.9
EV/EBITDA	10.5	7.9	7.7	7.6	7.3
Market Share	38.0%	53.5%	53.3%	53.3%	53.3%
Sales Volume Growth (YoY)	5.6%	35.8%	0.0%	3.0%	3.0%
ASP Growth (YoY)	-0.6%	-5.1%	0.0%	1.0%	1.0%

Source: Company data, Sinarmas Investment Research

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

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