

# PT Semen Indonesia Tbk.

## Reinforcing Its Leading Position



BUY (TP: IDR 10,600)

19 May 2020

**1Q20 review.** SMGR booked IDR 8.6tn in revenue (+5.6% yoy) and IDR 446bn (+66.5% yoy) in NPATMI. Top-line was relatively in-line with ours in which growth was mainly coming from higher volume due to SMCB consolidation effect, diluting the impact from flood in 1Q20. On the other hand, bottom-line came in lower due to higher opex to sales (+390bps yoy) and 40% tax rate due to non-deductible treatment on finance costs derived from loans for SMCB acquisition. According to the company, the outlier tax rate should normalise by the end of FY20. In addition, gross margin expanded significantly (+430bps yoy) on the back of 1) lower coal and crude oil prices, and 2) savings from royalty for Holcim brand.

**Outlook on 2020 performance.** SMGR guided 10-20% volume decline in FY20E. Looking at April's figure, industry's domestic sales volume was down by 6%, while SMGR's was down by 4%. Amidst the challenging economic condition, company's export sales grew robustly by 26.7% yoy in 4M20, following the reopening of lockdown in China and Australia. Additionally, SMGR was able to regain its market share (53.6% as of Apr-20) after share dropped due to ASP increases in some regions conducted in 2M20. 2Q20 volume data should give clearer readings on COVID-19 impact towards cement sales. Pricing in COVID-19 impact to company's performance, we lower our volume/ASP growth assumption for FY20 to -7.6%/0%, whereas GPM should enjoy expansion. Our sensitivity analysis suggests that every 1% drop in energy prices (oil and coal) translates to ~5bps hike in GPM.

**Better balance sheet outlook should the SMCB rights issue carry on.** As announced on late April, SMCB is planning to sell 20% of its stakes through rights issue. 15% of which is likely to be bought by Taiheiyō Cement at acquisition value range of JPY 20-25bn (IDR 2.9 - 3.6tn). This implies IDR 1.8 mn/ton valuation (vs prev. acquisition by SMGR at IDR 1.6 mn/ton). The deal is under review by both parties with closing date of final contract: July 2020, and rights exercise: March 2021. Post the transaction, we forecast company's DER to decline from 0.9x to 0.8x, assuming the deal take place at middle range of proposed value.

**Maintain our BUY recommendation with FY20E TP of IDR 10,600.** Our target price derived from DCF valuation and IDR 2.0 million per ton assumption. Amid weak demand environment during PSBB implementation especially within the red-zone areas, we observe that the company is able to diversify the pressures coming from recent pandemic given its nationwide plant locations. Share price is currently trading at 8.7x EV/EBITDA (-1.3SD from its 5-yr average). Downside risks to our call: worse-than-expected economic condition, and spiking input costs.

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	30,688	40,368	37,842	39,837	41,943
% growth	10.3%	31.5%	-6.3%	5.3%	5.3%
Gross Profit	9,331	12,714	12,317	12,430	12,972
Net Profit	3,079	2,392	2,506	2,605	2,901
% growth	90.0%	-22.3%	4.7%	4.0%	11.3%
Gross Margin (%)	30.4%	31.5%	32.5%	31.2%	30.9%
Net Margin (%)	10.0%	5.9%	6.6%	6.5%	6.9%
Return on Equity (%)	9.8%	7.2%	7.2%	7.2%	7.6%
Return on Assets (%)	6.2%	3.7%	3.2%	3.4%	3.7%
EPS	519	403	422	439	489

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### Stock Information

Sector	Cement
Bloomberg Ticker	SMGR IJ
Market Cap. (IDR tn)	53.1
Share Out./Float (mn)	5,932/2,906
Current Price	8,600
52-week Target Price	10,600
Upside	23.3%

### Share Price Performance

52W High (09/06/19)	13,500
52W Low (03/20/20)	5,475
52W Beta	1.5
YTD Change	-25.4%

### Relative Valuations

EV/EBITDA	8.7x
Trailing P/E	20.6x
Forward P/E	20.4x
P/BV	1.6x

## SMGR 1Q20 Earnings Summary

IDR bn	1Q19	4Q19	1Q20	%QoQ	%YoY	% DH	% Cons
Net Revenues	8,127	12,245	8,580	-29.9%	5.6%	21%	21%
COGS	(5,913)	(8,007)	(5,876)				
Gross Profit	2,214	4,238	2,704	-36.2%	22.2%		
Operating Profit	1,061	2,198	1,157	-47.4%	9.0%		
EBITDA	1,560	2,862	1,806	-36.9%	15.8%	21%	20%
Net Income	268	1,097	446	-59.3%	66.5%	19%	16%
Gross Margin	27.2%	34.6%	31.5%				
Opex to Sales	14.2%	16.7%	18.0%				
EBITDA Margin	19.2%	23.4%	21.1%				
Net Margin	3.3%	9.0%	5.2%				

Source: Company data, Sinarmas Investment Research

## Earnings Revision

(IDR Bn)	Old		New		Changes
	FY20	FY21	FY20	FY21	FY20
Revenue	40,350	41,902	37,842	39,837	-6.2%
Gross Profit	12,959	13,392	12,317	12,430	-5.0%
Operating Profit	6,335	6,442	5,623	5,642	-11.2%
Net Profit	2,750	3,019	2,506	2,605	-8.9%
EPS (IDR)	464	509	422	439	-9.0%
Gross Margin	32.1%	32.0%	32.5%	31.2%	0.4%
Operating Margin	15.7%	15.4%	14.9%	14.2%	-0.8%
Net Margin	6.8%	7.2%	6.6%	6.5%	-0.2%

Source: Company data, Sinarmas Investment Research

Income Statement (IDR Bn)	2018	2019	2020E	2021F	2022F
<b>Revenue</b>	<b>30,688</b>	<b>40,368</b>	<b>37,842</b>	<b>39,837</b>	<b>41,943</b>
% growth	10.3%	31.5%	-6.3%	5.3%	5.3%
COGS	(21,357)	(27,654)	(25,525)	(27,408)	(28,971)
<b>Gross Profit</b>	<b>9,331</b>	<b>12,714</b>	<b>12,317</b>	<b>12,430</b>	<b>12,972</b>
% growth	17.2%	36.3%	-3.1%	0.9%	4.4%
Operating Expenses	(4,557)	(6,621)	(6,694)	(6,787)	(7,136)
Opex to Sales (%)	14.9%	16.4%	17.7%	17.0%	17.0%
<b>Operating Profit</b>	<b>4,773</b>	<b>6,093</b>	<b>5,623</b>	<b>5,642</b>	<b>5,836</b>
% growth	81.3%	27.7%	-7.7%	0.3%	3.4%
<b>EBITDA</b>	<b>6,399</b>	<b>8,437</b>	<b>7,957</b>	<b>8,022</b>	<b>8,263</b>
% growth	45.1%	31.9%	-5.7%	0.8%	3.0%
Other Income	107	92	86	91	96
Net Financing	(777)	(2,987)	(2,359)	(2,248)	(2,048)
<b>PBT</b>	<b>4,105</b>	<b>3,196</b>	<b>3,349</b>	<b>3,483</b>	<b>3,881</b>
Tax	(1,019)	(825)	(864)	(899)	(1,001)
Minority Interest	7	(21)	(21)	(21)	(21)
<b>Net Income</b>	<b>3,079</b>	<b>2,392</b>	<b>2,506</b>	<b>2,605</b>	<b>2,901</b>
% growth	90.0%	-22.3%	4.7%	4.0%	11.3%

Balance Sheet (IDR Bn)	2018	2019	2020E	2021F	2022F
Cash and Cash Equivalent	5,246	3,950	4,713	4,480	6,765
Trade Receivables	5,786	6,490	5,754	6,347	6,479
Inventories	3,544	4,642	3,837	4,257	4,329
Other Current Assets	1,515	1,577	1,486	1,689	1,670
<b>Total Current Assets</b>	<b>16,091</b>	<b>16,659</b>	<b>15,790</b>	<b>16,773</b>	<b>19,243</b>
Fixed Assets	32,392	56,602	55,903	55,245	54,629
Other Non Current Assets	2,301	6,547	5,249	5,262	5,291
<b>Total Assets</b>	<b>50,784</b>	<b>79,807</b>	<b>76,942</b>	<b>77,280</b>	<b>79,163</b>
Trade Payables	4,476	5,670	4,756	5,372	5,399
Other Current Liabilities	3,704	6,570	8,557	9,543	10,314
<b>Total Current Liabilities</b>	<b>8,180</b>	<b>12,240</b>	<b>13,313</b>	<b>14,915</b>	<b>15,713</b>
Bank Loans	7,912	24,750	23,862	21,366	19,980
Other Non Current Liabilities	2,076	8,925	4,250	3,880	4,491
<b>Total Liabilities</b>	<b>18,169</b>	<b>45,915</b>	<b>41,425</b>	<b>40,161</b>	<b>40,184</b>
Share & APIC	2,051	2,051	2,051	2,051	2,051
Retained Earnings	28,614	29,774	31,323	32,926	34,785
Non Controlling Interest	1,423	1,615	1,615	1,615	1,615
Other Components of Equity	527	451	527	527	527
<b>Total Equity</b>	<b>32,615</b>	<b>33,892</b>	<b>35,516</b>	<b>37,120</b>	<b>38,978</b>
<b>Total Equity &amp; Liabilities</b>	<b>50,784</b>	<b>79,807</b>	<b>76,942</b>	<b>77,280</b>	<b>79,163</b>

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
<b>Net Income</b>	<b>3,079</b>	<b>2,392</b>	<b>2,506</b>	<b>2,605</b>	<b>2,901</b>
Depreciation	1,590	13,410	2,212	2,252	2,294
Chg. in NWC	1,103	(596)	81	481	13
Chg. in Other CT Assets	-	-	-	-	-
Chg. in Other CT Liabilities	-	-	-	-	-
<b>CF from Operating</b>	<b>3,566</b>	<b>16,398</b>	<b>4,637</b>	<b>4,376</b>	<b>5,182</b>
Capital Expenditure	1,459	37,620	1,514	1,593	1,678
Chg. in LT Assets	(443)	4,246	(1,298)	14	29
Chg in LT Liabilities	(44)	6,849	(4,675)	(370)	611
<b>CF from Investing</b>	<b>(1,060)</b>	<b>(35,017)</b>	<b>(4,890)</b>	<b>(1,978)</b>	<b>(1,096)</b>
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	(417)	18,439	1,897	(1,630)	(760)
Dividends Paid	806	1,232	957	1,002	1,042
Others	296	116	76	0	0
<b>CF from Financing</b>	<b>(927)</b>	<b>17,324</b>	<b>1,016</b>	<b>(2,632)</b>	<b>(1,802)</b>
Change in Cash	1,579	(1,295)	763	(233)	2,285
Beginning Cash	3,666	5,246	3,950	4,713	4,480
<b>Ending Cash</b>	<b>5,246</b>	<b>3,950</b>	<b>4,713</b>	<b>4,480</b>	<b>6,765</b>

Financial Ratio	2018	2019	2020E	2021F	2022F
<b>Profitability</b>					
ROE	9.8%	7.2%	7.2%	7.2%	7.6%
ROA	6.2%	3.7%	3.2%	3.4%	3.7%
Gross Margin	30.4%	31.5%	32.5%	31.2%	30.9%
Operating Margin	15.6%	15.1%	14.9%	14.2%	13.9%
EBITDA Margin	20.9%	20.9%	21.0%	20.1%	19.7%
Net Margin	10.0%	5.9%	6.6%	6.5%	6.9%
<b>Liquidity</b>					
Current Ratio	2.0	1.4	1.2	1.1	1.2
<b>Solvency</b>					
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	3.1	3.3	3.6
Net Debt to EBITDA	2.8	4.4	4.5	3.7	3.3
<b>Valuation</b>					
Price to Earning (PE)	20.4	26.3	25.1	24.1	21.7
Price to Book (PBV)	1.9	1.9	1.8	1.7	1.6
EV/EBITDA	14.7	11.1	11.8	11.7	11.4
<b>Key Assumptions</b>					
Market Share	39.5%	53.5%	53.3%	53.3%	53.3%
Sales Volume Growth (YoY)	5.6%	35.8%	-7.6%	4.8%	4.8%
ASP Growth (YoY)	-0.6%	-5.1%	0.0%	1.0%	1.0%

Source: Company data, Sinarmas Investment Research

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**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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