

**SMGR 3Q20 results: Stronger than expected.** SMGR booked 3Q20 revenue of IDR 9.6tn (+28.9% QoQ), driven by higher sales volume (+30.0% QoQ) and flat blended ASP (-0.9% QoQ). On margin side, GPM improved to 35.6% (+3.4% YoY), driven by higher utilization rate at 85% (vs. 65% in 2Q20), and lower fuel and energy cost (-10.6% YoY). It is worth noting that fuel and energy contribute 33% of COGS. Opex to sales was at 16.5% (-14bps YoY) as G&A expenses declined by 8.4% (-42bps YoY), which brings operating profit to IDR 1.8tn (+96.9% QoQ/-0.1% YoY). Meanwhile, SMGR booked lower interest expenses at IDR 553bn (-7.2% QoQ/-36.8% YoY), driven by lower interest rate. Hence, SMGR posted net profit of IDR 929bn (+459.4% QoQ), with NPM at 9.7%. In all, SMGR recorded 9M20's revenue/net profit at IDR 25.6tn/1.5tn (-8.9% YoY/+19.0% YoY), reaching 69%/97% of our estimate.

**Sales volume recovery.** In 3Q20, SMGR showed strong sales volume recovery at 11.2mn tons (+30.0% QoQ). We think clinker was the main contributor of sales volume recovery as Indonesia's clinker export grew by 62.5% YoY. It is worth noting that SMGR sales volume in 3Q20 had recovered to pre-Covid-19 level (9.4mn tons in 1Q20). Going forward, we believe that sales volume will gradually improve in 4Q20 onwards, given easing in PSBB and sovereign wealth fund (SWF) that will support national infrastructure project.

**Strong margin improvement.** SMGR's 3Q20 cost/ton decreased by -10.9% QoQ/-12.6% YoY, benefited by lower fuel and energy price (average YTD coal price at USD 58/Mt. and Brent oil price at USD 42.5/bbl.) and higher utilization rate, which managed to fully offset the weak growth in blended ASP (-0.9% QoQ/-8.2% YoY). As a result, SMGR posted 3Q20's gross profit/EBITDA/net profit grew by 62.1%/80.1%/459.4% QoQ. Going forward, we view that low coal price could persist until FY21F; thus we revise our coal price assumption from **USD 65/69/Mt. to USD 60/65/Mt. in FY20E/FY21F.** As a result, we upgrade our **EPS forecast by 35.1%/20.2% in FY20E/FY21F.** Our sensitivity analysis shows that every 1% change in Coal price will change our earnings forecast by 1.8%.

**We maintain our BUY call rating on SGMR with a higher FY21F TP of IDR 11,600.** Our target price is derived from DCF valuation and implies IDR 2mn EV/Ton. We believe that SMGR deserves premium valuation, given margin improvement, and better cement outlook. As of now, SMGR is traded at attractive valuation of IDR 1.5mn EV/Ton (-1.7SD form its 5y-avg.). Downside risks to our call are longer than expected economic activity recovery and higher coal price.

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	30,688	40,368	36,961	40,085	42,203
% growth	10.3%	31.5%	-8.4%	8.5%	5.3%
Gross Profit	9,331	12,713	12,116	13,065	13,719
Net Profit	3,079	2,391	2,100	2,880	3,642
% growth	90.0%	-22.4%	-12.2%	37.2%	26.4%
Gross Margin (%)	30.4%	31.5%	32.8%	32.6%	32.5%
Net Margin (%)	10.0%	5.9%	5.7%	7.2%	8.6%
Return on Equity (%)	9.8%	7.2%	6.1%	8.0%	9.5%
Return on Assets (%)	6.2%	3.7%	2.7%	3.7%	4.6%
EPS	519	403	354	486	614

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Sector	Cement
Bloomberg Ticker	SMGR IJ
Market Cap. (IDR tn)	52.93
Share Out./Float (mn)	5,931/2,906
Current Price	8,925
FY21F Target Price	11,600
Upside	30%

**Share Price Performance**

52W High (23/01/20)	13,250
52W Low (20/03/20)	5,475
52W Beta	1.50
YTD Change	-25.6%

**Relative Valuations**

Trailing P/E	20.1x
Forward P/E	18.4x
EV/EBITDA	6.75x
P/BV	1.54x

## SMGR 3Q20 Earnings summary

IDR bn	3Q19	2Q20	3Q20	%QoQ	%YoY	9M19	9M20	%YoY	% DH	% Cons
<b>Net Revenues</b>	<b>11,772</b>	<b>7,446</b>	<b>9,599</b>	<b>28.9%</b>	<b>-18.5%</b>	<b>28,123</b>	<b>25,625</b>	<b>-8.9%</b>	<b>69%</b>	<b>66%</b>
COGS	(7,961)	(5,338)	(6,181)			(19,647)	(17,394)	-11.5%		
<b>Gross Profit</b>	<b>3,811</b>	<b>2,108</b>	<b>3,418</b>	<b>62.1%</b>	<b>-10.3%</b>	<b>8,476</b>	<b>8,231</b>	<b>-2.9%</b>		
Operating Profit	1,854	932	1,836	96.9%	-1.0%	3,895	3,925	0.8%		
EBITDA	2,443	1,545	2,782	80.1%	13.9%	5,575	6,134	10.0%		
<b>Net Income</b>	<b>810</b>	<b>166</b>	<b>929</b>	<b>459.4%</b>	<b>14.6%</b>	<b>1,295</b>	<b>1,541</b>	<b>19.0%</b>	<b>97%</b>	<b>79%</b>
<b>Margin</b>										
Gross Margin	32.4%	28.3%	35.6%			30.1%	32.1%			
Opex to Sales	16.6%	15.8%	16.5%			16.3%	16.8%			
EBITDA Margin	20.7%	20.8%	29.0%			19.8%	23.9%			
Net Margin	6.9%	2.2%	9.7%			4.6%	6.0%			
<b>Operational</b>										
Sales volume (mn tons)	12.6	8.6	11.2	30.0%	-11.1%	30.0	29.1	-2.9%		
Blended ASP (kIDR/ton)	936	867	859	-0.9%	-8.2%	937	880	-6.1%		
Cost/ton (kIDR/ton)	633	621	553	-10.9%	-12.6%	655	597	-8.8%		

Source: Company Data, Sinarmas Investment Research

## Earnings Revision Changes

(IDR Bn)	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
Revenue	36,961	40,085	36,961	40,085	0.0%	0.0%
Gross Profit	11,397	12,444	12,116	13,055	6.3%	4.9%
Operating Profit	4,406	5,457	5,126	6,068	16.3%	11.2%
Net Profit	1,557	2,398	2,100	2,873	34.9%	19.8%
EPS (IDR)	262	404	354	484	35.1%	19.9%
Gross Margin	30.8%	31.0%	32.8%	32.6%	1.9%	1.5%
Operating Margin	11.9%	13.6%	13.9%	15.1%	1.9%	1.5%
Net Margin	4.2%	6.0%	5.7%	7.2%	1.5%	1.2%

Source: Sinarmas Investment Research

## Key Assumption Changes

Key Assumption	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
Coal Prices	65	69	60	65	-7.7%	-5.8%
USDIDR	15,000	15,200	14,700	14,900	-2.0%	-2.0%

Source: Sinarmas Investment Research

<b>Income Statement (IDR Bn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
<b>Revenue</b>	<b>30,688</b>	<b>40,368</b>	<b>36,961</b>	<b>40,085</b>	<b>42,203</b>
% growth	10.3%	31.5%	-8.4%	8.5%	5.3%
COGS	(21,357)	(27,656)	(24,844)	(27,020)	(28,483)
<b>Gross Profit</b>	<b>9,331</b>	<b>12,713</b>	<b>12,116</b>	<b>13,065</b>	<b>13,719</b>
% growth	17.2%	36.2%	-4.7%	7.8%	5.0%
Operating Expenses	(4,557)	(6,621)	(6,990)	(6,987)	(6,851)
Opex to Sales (%)	14.9%	16.4%	18.9%	17.4%	16.2%
<b>Operating Profit</b>	<b>4,773</b>	<b>6,092</b>	<b>5,126</b>	<b>6,077</b>	<b>6,869</b>
% growth	81.3%	27.6%	-15.9%	18.6%	13.0%
<b>EBITDA</b>	<b>6,399</b>	<b>8,436</b>	<b>7,460</b>	<b>8,456</b>	<b>9,295</b>
% growth	45.1%	31.8%	-11.6%	13.3%	9.9%
Other Income	107	92	84	91	96
Net Financing	(777)	(2,987)	(2,339)	(2,245)	(2,015)
<b>PBT</b>	<b>4,105</b>	<b>3,194</b>	<b>2,870</b>	<b>3,922</b>	<b>4,948</b>
Tax	(1,019)	(825)	(741)	(1,012)	(1,277)
Minority Interest	7	(21)	29	29	29
<b>Net Income</b>	<b>3,079</b>	<b>2,391</b>	<b>2,100</b>	<b>2,880</b>	<b>3,642</b>
% growth	90.0%	-22.4%	-12.2%	37.2%	26.4%

<b>Balance Sheet (IDR Bn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
Cash and Cash Equivalent	5,246	3,950	4,337	4,532	7,440
Trade Receivables	5,786	6,490	5,620	6,387	6,519
Inventories	3,544	4,642	3,747	4,284	4,356
Other Current Assets	1,515	1,577	1,456	1,698	1,679
<b>Total Current Assets</b>	<b>16,091</b>	<b>16,659</b>	<b>15,161</b>	<b>16,900</b>	<b>19,995</b>
Fixed Assets	32,392	56,602	55,869	55,221	54,616
Other Non Current Assets	2,301	6,547	5,239	5,265	5,294
<b>Total Assets</b>	<b>50,784</b>	<b>79,807</b>	<b>76,269</b>	<b>77,387</b>	<b>79,904</b>
Trade Payables	4,476	5,670	4,645	5,405	5,433
Other Current Liabilities	3,704	6,570	8,500	9,559	10,331
<b>Total Current Liabilities</b>	<b>8,180</b>	<b>12,240</b>	<b>13,144</b>	<b>14,965</b>	<b>15,764</b>
Bank Loans	7,912	24,750	23,862	21,366	19,980
Other Non Current Liabilities	2,076	8,925	4,151	3,904	4,519
<b>Total Liabilities</b>	<b>18,169</b>	<b>45,915</b>	<b>41,158</b>	<b>40,235</b>	<b>40,263</b>
Share & APIC	2,051	2,051	2,051	2,051	2,051
Retained Earnings	28,614	29,774	30,918	32,958	35,448
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>35,111</b>	<b>37,152</b>	<b>39,642</b>
<b>Total Equity &amp; Liabilities</b>	<b>50,784</b>	<b>79,807</b>	<b>76,269</b>	<b>77,387</b>	<b>79,904</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>2,391</b>	<b>2,100</b>	<b>2,880</b>	<b>3,642</b>
Depreciation	1,590	13,410	2,211	2,251	2,294
Chg. in NWC	1,103	(596)	(4)	591	13
Chg. in Other CT Assets	-	-	-	-	-
Chg. in Other CT Liabilities	-	-	-	-	-
<b>CF from Operating</b>	<b>3,566</b>	<b>16,396</b>	<b>4,315</b>	<b>4,541</b>	<b>5,923</b>
Capital Expenditure	1,459	37,620	1,478	1,603	1,688
Chg. in LT Assets	(443)	4,246	(1,308)	26	29
Chg in LT Liabilities	(44)	6,849	(4,774)	(247)	614
<b>CF from Investing</b>	<b>(1,060)</b>	<b>(35,017)</b>	<b>(4,944)</b>	<b>(1,877)</b>	<b>(1,102)</b>
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	(417)	18,439	1,897	(1,630)	(760)
Dividends Paid	806	1,230	956	840	1,152
Others	296	116	76	0	0
<b>CF from Financing</b>	<b>(927)</b>	<b>17,325</b>	<b>1,017</b>	<b>(2,470)</b>	<b>(1,912)</b>
Change in Cash	1,579	(1,295)	387	195	2,908
Beginning Cash	3,666	5,246	3,950	4,337	4,532
<b>Ending Cash</b>	<b>5,246</b>	<b>3,950</b>	<b>4,337</b>	<b>4,532</b>	<b>7,440</b>

Financial Ratio	2018	2019	2020E	2021F	2022F
<b>Profitability</b>					
ROE	9.8%	7.2%	6.1%	8.0%	9.5%
ROA	6.2%	3.7%	2.7%	3.7%	4.6%
Gross Margin	30.4%	31.5%	32.8%	32.6%	32.5%
Operating Margin	15.6%	15.1%	13.9%	15.2%	16.3%
EBITDA Margin	20.9%	20.9%	20.2%	21.1%	22.0%
Net Margin	10.0%	5.9%	5.7%	7.2%	8.6%
<b>Liquidity</b>					
Current Ratio	2.0	1.4	1.2	1.1	1.3
<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	2.9	3.5	4.1
Net Debt to EBITDA	2.8	4.4	4.8	3.5	2.9
<b>Valuation</b>					
Price to Earning (PE)	17.9	23.0	26.2	19.1	15.1
Price to Book (PBV)	1.7	1.6	1.6	1.5	1.4
EV/EBITDA	16.8	15.1	9.3	10.5	8.8

Key Assumptions	2018	2019	2020E	2021F	2022F
Coal Prices (USD/Mt.)	89.8	80.4	60.0	65.0	67.0
USDIDR	14,248.0	14,140.0	14,700.0	14,900.0	15,049.0
Sales Volume Growth (YoY)	5.6%	32.3%	-8.4%	7.6%	4.8%
ASP Growth (YoY)	-0.6%	-2.6%	-2.0%	2.0%	1.0%
Market Share	39.5%	52.2%	54.0%	54.5%	54.5%

Source: Company data, Sinarmas Investment Research

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