

We maintain our **NEUTRAL** recommendation on PT Semen Indonesia (Persero) Tbk (SMGR) with 52-week target price of IDR 10,600 (10.13% upside), deriving via DCF with 13.8% WACC and 5% terminal growth. Our valuation implies a FY17E P/E of 13.5x. We forecast FY17E industry cement volume to grow by 4% yoy. We believe the stock has started to become more resilient to negative news. Well-dispersed locations of cement plant would provide a buffer to downside risks.

**4Q16 earnings result.** SMGR booked 4Q16 revenue of IDR 7.07tn, down 10% yoy due to a combination of poor domestic cement sales volume (-9% yoy) and ASP (-5% yoy), resulted in FY16 revenue went down by 3% yoy to IDR 26.13tn. It was in line with consensus but ~4% lower than our estimate. Weak FY16 revenue of core cement business has dragged down the overall SMGR's revenue, given its poor performance (-6.4% yoy), while ready-mix concrete (RMC) was picking up the slack (+108.5% yoy).

**Boosted FY16 NPAT, partially backed by asset tax revaluation benefit.** SMGR recorded IDR 1.6tn NPAT in 4Q16 (+20% yoy) which was boosted by tax benefit from asset revaluation of IDR 517bn and gain recognition from acquisition of RMC subsidiaries of IDR 127bn, bringing FY16 NPAT of IDR 4.5tn, a flat figure to last year. Stripping out these one-offs, SMGR's 4Q16 NPAT would be IDR 948bn (-28% yoy, -2% qoq), resulted in FY16 NPAT would stand at IDR 3.9tn (-14% yoy)

**Margin was still compressed.** SMGR's 4Q16 gross margin was eroded to 32% from 39% in 3Q16. We believed this was mainly due to lower ASP and an increase on COGS by 1.5% yoy, 18.5% qoq. Moving forward, EBITDA margin was still showing a declining trend to only 22.5% in 4Q16, bringing FY16 EBITDA margin to 25.3% (vs. 27% in FY15). SMGR's FY16 ASP stood at IDR 902k/ton, down 5% yoy, 0.3% qoq, in order to preserve domestic sales volume which only decreased by 1% yoy. We foresee the ASP still continues to go down further in 2017, albeit in much lower rate compared to 2016.

**Healthy balance sheet.** FY16 gross gearing stood at 0.20x vs. 0.15x in FY15. Higher gearing was still manageable considering SMGR took additional loan for Semen Indonesia Beton (SIB) and Rembang plant completion. SMGR's FY16 net gearing stood at 0.11x with net debt of IDR 3.4tn.

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)	26,948	26,134	26,548	28,489	31,179
% growth	-0.1%	-3.0%	1.6%	7.3%	9.4%
Gross Profit (IDR bn)	10,646	9,856	9,457	10,283	11,489
Net Profit (IDR bn)	4,521	4,522	3,577	3,847	4,341
% growth	-19%	0%	-21%	8%	13%
Gross Margin	39.5%	37.7%	35.6%	36.1%	36.8%
Net Margin	16.8%	17.3%	13.5%	13.5%	13.9%
Return on Equity (ROE)	17.2%	15.6%	11.4%	11.5%	12.0%
Return on Assets (ROA)	12.5%	11.0%	7.9%	7.8%	8.1%
EPS (IDR)	762	762	776	834	941

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Sector	Cement
Bloomberg Ticker	SMGR IJ
Market Cap (IDR Tn)	IDR 57.09
Share Out/ Float (M)	5,931/2,906
Current Price	IDR 9,625
52 - Week Target Price	IDR 10,600
Upside (%)	10.13%

**Share Price Performance**

52 W High (08/10/16)	11.875
52 W Low (11/24/16)	8.050
52 W Beta	1.508
YTD Change (%)	4.9%

**Relative Valuations**

Trailing P/E	12.63x
Forward P/E	13.66x
P/BV	1.97x
EV/EBITDA	8.96x

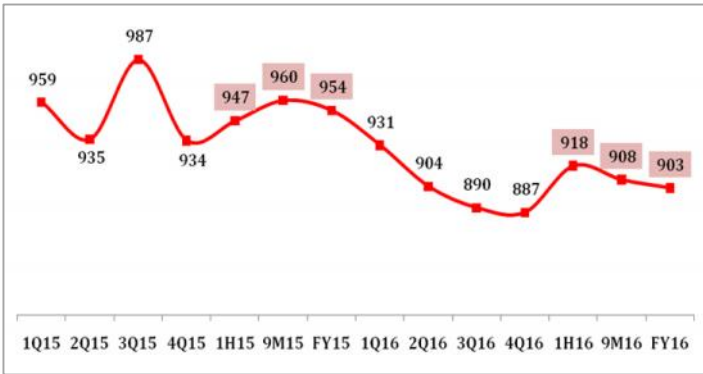
## FY16 Earnings Result

Income Statement (in IDR Bn)	4Q15	3Q16	4Q16	QoQ	YoY	FY15	FY16	YoY
Domestic Cement Sales ('000 tonne)	7,755	6,460	7,037	9%	-9%	25,969	25,682	-1%
Export ('000 tonne)	90	208	179	-14%	97%	482	600	24%
Total ('000 tonne)	7,846	6,668	7,216	8%	-8%	26,451	26,282	-1%
ASP	934	890	887	-0.3%	-5%	953	902	-5%
<b>Revenue</b>	<b>7,833</b>	<b>6,612</b>	<b>7,052</b>	<b>7%</b>	<b>-10%</b>	<b>26,948</b>	<b>26,134</b>	<b>-3%</b>
Sales of Cement	7,612	6,084	6,276	3%	-18%	25,958	24,296	-6%
Ready Mix Concrete	187	322	525	63%	181%	523	1,091	108%
Clinker	(33)	36	345	854%	-1153%	180	424	135%
Mining Services	27	13	(4)	-126%	-113%	71	34	-52%
Sales of Cement Bags	36	26	18	-30%	-50%	81	91	12%
Industrial Estate Land Rental	6	6	7	13%	26%	21	25	18%
Sales of Industrial Real Estate	0	0	0	0%	0%	1	0	-100%
Blasting Services	7	0	4	3891%	-42%	7	10	48%
Other	(8)	125	(120)	-196%	1329%	106	164	55%
<b>COGS</b>	<b>(4,700)</b>	<b>(4,026)</b>	<b>(4,769)</b>	<b>18%</b>	<b>1%</b>	<b>(16,302)</b>	<b>(16,278)</b>	<b>0%</b>
Raw Material Used	(257)	(207)	(190)	-8%	-26%	(873)	(826)	-5%
Labor	(337)	(370)	(392)	6%	16%	(1,403)	(1,534)	9%
Manufacturing Overhead	(3,659)	(3,469)	(3,471)	0%	-5%	(13,743)	(13,272)	-3%
Work in Process (Inventory)	(232)	36	(343)	-1039%	47%	-213	(184)	-13%
Finished Goods Inventory	(217)	(19)	(374)	1867%	73%	(70)	(462)	564%
Industrial Land and Other	1.52	1.64	0.00	-100%	-100%	(0.30)	0.00	-100%
<b>Gross Profit</b>	<b>3,133</b>	<b>2,586</b>	<b>2,282</b>	<b>-12%</b>	<b>-27%</b>	<b>10,646</b>	<b>9,856</b>	<b>-7%</b>
Selling Expenses	(773)	(734)	(573)	-22%	-26%	(2,659)	(2,719)	2%
General and Administration Expenses	(559)	(543)	(608)	12%	9%	(2,088)	(2,163)	4%
<b>Operating Profit</b>	<b>1,800</b>	<b>1,309</b>	<b>1,101</b>	<b>-16%</b>	<b>-39%</b>	<b>5,899</b>	<b>4,973</b>	<b>-16%</b>
<b>EBITDA</b>	<b>2,198</b>	<b>1,691</b>	<b>1,591</b>	<b>-6%</b>	<b>-28%</b>	<b>7,326</b>	<b>6,611</b>	<b>-10%</b>
<b>Net Income</b>	<b>1,323</b>	<b>964</b>	<b>1,593</b>	<b>65%</b>	<b>20%</b>	<b>4,521</b>	<b>4,521</b>	<b>0%</b>
<b>Gross Profit Margin</b>	<b>40%</b>	<b>39%</b>	<b>32%</b>			<b>40%</b>	<b>38%</b>	
<b>Operating Profit Margin</b>	<b>23%</b>	<b>20%</b>	<b>16%</b>			<b>22%</b>	<b>19%</b>	
<b>EBITDA Margin</b>	<b>28%</b>	<b>26%</b>	<b>23%</b>			<b>27%</b>	<b>25%</b>	
<b>Net Income Margin</b>	<b>17%</b>	<b>15%</b>	<b>23%</b>			<b>17%</b>	<b>17%</b>	

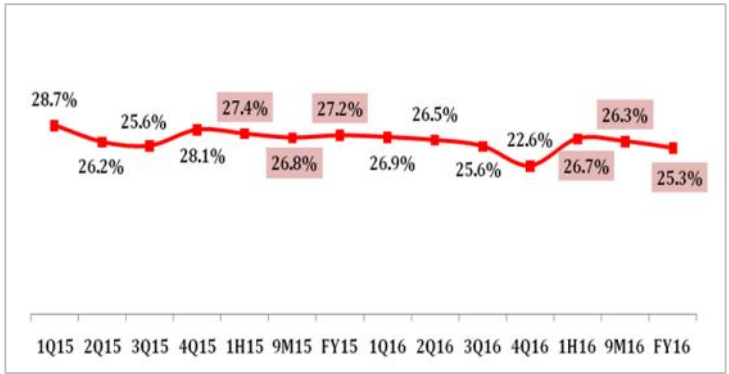
## Financial Ratios

Financial Ratios	2015	2016	2017E	2018F	2019F
P/E	14.96	12.04	12.40	11.53	10.23
P/B	2.56	1.87	1.82	1.70	1.58
EV/EBITDA	9.33	8.57	10.22	10.06	9.54
ROE	17.2%	15.6%	11.4%	11.5%	12.0%
ROA	12.5%	11.0%	7.9%	7.8%	8.1%
DER	0.15	0.20	0.23	0.25	0.26

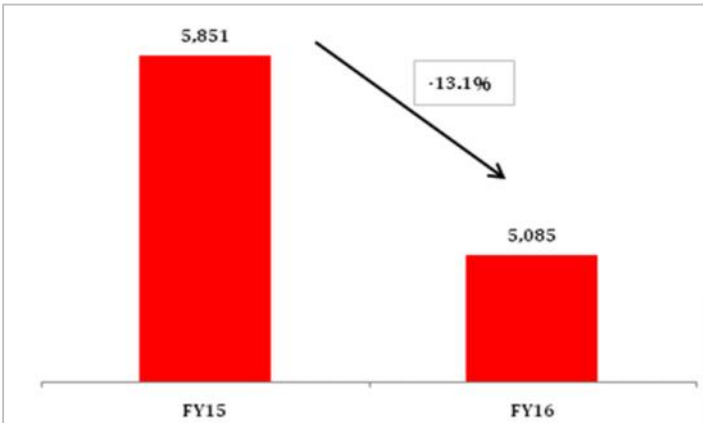
### Quarterly Average Selling Price (ASP)



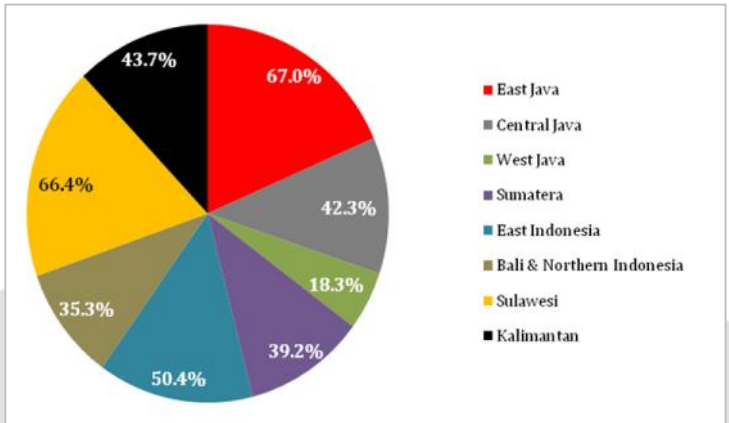
### Quarterly EBITDA Margin



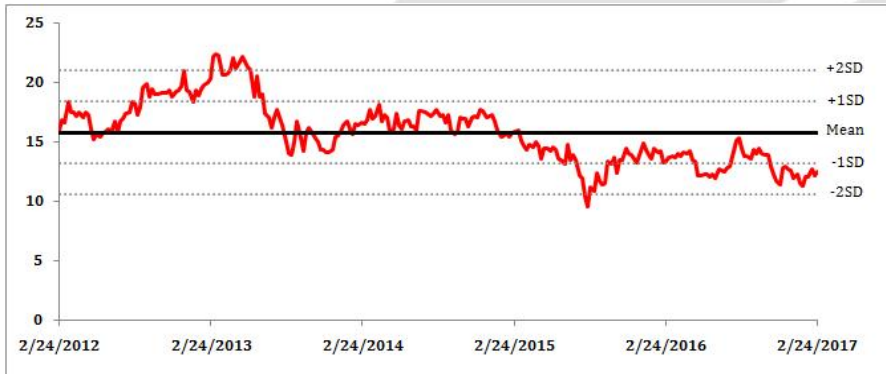
### Profit Before Income Tax



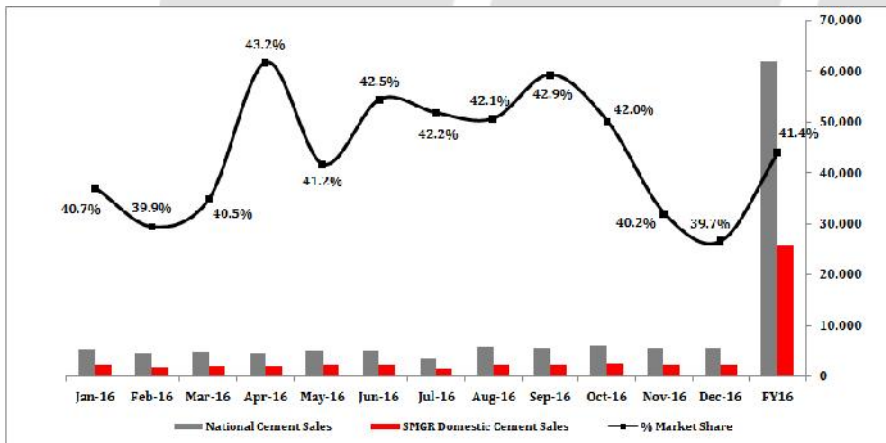
### Domestic Market Share (1M17)



### P/E Valuation Chart



### Monthly Market Share



## SMGR Financial Statements

Balance Sheet (in IDR Bn)	2015	2016	2017E	2018F	2019F
Cash and Short Term Investments	3,992	2,862	1,616	1,245	1,125
Total Receivables	3,629	4,018	3,548	3,912	4,360
Inventories	2,409	2,671	2,816	2,893	3,201
Other Current Assets	509	822	680	874	1,109
<b>Total Current Assets</b>	<b>10,539</b>	<b>10,373</b>	<b>8,660</b>	<b>8,923</b>	<b>9,795</b>
Fixed Assets	25,168	30,847	35,218	39,263	42,961
Other Non-Current Assets	2,447	3,007	3,007	3,007	3,007
<b>Total Assets</b>	<b>38,153</b>	<b>44,227</b>	<b>46,885</b>	<b>51,193</b>	<b>55,762</b>
Short Term Loans	846	1,811	1,811	1,811	1,811
Total Payables	4,253	4,747	4,479	5,022	5,583
Other Current Liabilities	1,500	1,594	1,507	1,687	1,830
<b>Total Current Liabilities</b>	<b>6,599</b>	<b>8,152</b>	<b>7,797</b>	<b>8,520</b>	<b>9,224</b>
Long Term Loans	3,156	4,450	5,710	6,865	7,915
Other Non-Current Liabilities	958	1,051	1,051	1,051	1,051
<b>Total Liabilities</b>	<b>10,712</b>	<b>13,653</b>	<b>14,557</b>	<b>16,436</b>	<b>18,189</b>
Share Capital	593	593	593	593	593
Additional Paid in Capital	1,458	1,458	1,458	1,458	1,458
Other Components of Equity	553	456	427	427	427
Retained Earnings	23,815	26,528	28,297	30,713	33,515
Minority Interest	1,021	1,539	1,553	1,566	1,580
<b>Total Equity</b>	<b>27,441</b>	<b>30,574</b>	<b>32,328</b>	<b>34,758</b>	<b>37,573</b>
<b>Total Liabilities &amp; Equity</b>	<b>38,153</b>	<b>44,227</b>	<b>46,885</b>	<b>51,193</b>	<b>55,762</b>

Income Statement (in IDR Bn)	2015	2016	2017E	2018F	2019F
Revenue	26,948	26,134	26,548	28,489	31,179
Cost of Revenue	(16,302)	(16,278)	(17,091)	(18,206)	(19,691)
<b>Gross Profit</b>	<b>10,646</b>	<b>9,856</b>	<b>9,457</b>	<b>10,283</b>	<b>11,489</b>
SG&A Expenses	(4,747)	(4,882)	(4,827)	(5,212)	(5,712)
<b>Operating Income</b>	<b>5,899</b>	<b>4,973</b>	<b>4,630</b>	<b>5,071</b>	<b>5,777</b>
Other Operating Inc/Exp	80	291	291	291	291
Finance Costs - Net	(129)	(180)	(318)	(412)	(485)
<b>Profit Before Income Tax</b>	<b>5,851</b>	<b>5,085</b>	<b>4,604</b>	<b>4,950</b>	<b>5,583</b>
Income Tax Expenses	(1,325)	(550)	(1,013)	(1,089)	(1,228)
Minority Interest	(4)	(13)	(13)	(13)	(13)
<b>Net Profit For the Year</b>	<b>4,521</b>	<b>4,522</b>	<b>3,577</b>	<b>3,847</b>	<b>4,341</b>

Cash Flow (in IDR Bn)	2015	2016	2017E	2018F	2019F
Net Income	4,521	4,522	3,577	3,847	4,341
Depreciation	1,366	2,111	1,689	1,496	1,273
Change in NWC	1,150	(368)	103	89	(288)
Change in Minority Interest	63	518	13	13	13
Others	4	-731	0	0	0
<b>Cash Flow From Operating</b>	<b>7,104</b>	<b>6,051</b>	<b>5,384</b>	<b>5,447</b>	<b>5,339</b>
Capex	(6,312)	(7,790)	(6,061)	(5,542)	(4,970)
Change in NCA	49	102	0	0	0
Change in NCL	180	163	0	0	0
<b>Cash Flow From Investing</b>	<b>(6,083)</b>	<b>(7,525)</b>	<b>(6,061)</b>	<b>(5,542)</b>	<b>(4,970)</b>
Changes in share capital and APIC	0	0	0	0	0
Change in short term loans	248	965	0	0	0
Change in long term loans	-160	1,294	1,260	1,155	1,050
Others Equity	78	-97	-29	0	0
Dividend	(2,226)	(1,809)	(1,809)	(1,431)	(1,539)
<b>Cash Flow From Financing</b>	<b>(2,060)</b>	<b>353</b>	<b>(578)</b>	<b>(276)</b>	<b>(489)</b>
<b>Beginning Cash</b>	<b>5,032</b>	<b>3,992</b>	<b>2,870</b>	<b>1,616</b>	<b>1,245</b>
<b>Additional Cash</b>	<b>(1,040)</b>	<b>(1,122)</b>	<b>(1,255)</b>	<b>(371)</b>	<b>(120)</b>
<b>Ending Cash</b>	<b>3,992</b>	<b>2,870</b>	<b>1,616</b>	<b>1,245</b>	<b>1,125</b>

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