

Henny Indrawati
Research Associate
henny.indrawati@sinarmassekuritas.co.id



PT Semen Indonesia (Persero) Tbk is a cement manufacturing company that classifies its business into cement production and non-cement production segments. Cement Manufacturing mainly are located at Indarung, Tuban and Pangkep Indonesia, also at Quang Ninh Vietnam.

Current Price: IDR 10,900

52-Week Target Price: IDR 11,200

Previous Target Price: IDR 11,050



Share Price Performance

Price (IDR)	10,900
52-Week High (6/24/15)	11,875
52-Week Low (8/24/15)	7,100
52-Week Beta	1.21
YTD Change/%	-400.00/-3.51%

Stock Information

Market Cap (IDR)	65,246.7B
Shares Out/Float (M)	5,931.5M/2,906.1M

Source: Bloomberg, Sinarmas Investment Research

Company Update

PT Semen Indonesia (Persero) Tbk

1H16 Earnings Review

NEUTRAL

We reiterate our **NEUTRAL** call on PT Semen Indonesia (Persero) Tbk (SMGR) with 52-week target price of IDR 11,200 (2.8% upside), deriving via DCF with 12.01% WACC and 3.21% LTG. Our valuation implies a FY16E P/E of 15.7x. SMGR 1H16 earnings is still in-line with our forecasts on both top and bottom line, making up about 45% and 44% of our FY16E estimates. We forecast FY16E industry cement sales volume to grow by 5% YoY.

Better performance in 2Q16 supported by the increase in cement sales volume, though ASP continues to decline. SMGR 2Q16 revenue was IDR 6.45 tn (7.1% QoQ, 2.4% YoY) contributed by the increase on domestic cement sales volume at 6.3 mn tonnes (5.5% QoQ), resulting in 1H16 revenue of IDR 12.5 tn (-1.34% YoY). Slight decrease in 1H16 revenue compared to 1H15 indicates that an overall ASP cement has fall down by 2.7% YoY, due to a tight competition and slow cement demand in Java (-0.1% YoY). SMGR 1H16 market share in Java and Outside Java slightly declined by 0.8% and 0.3% respectively, making up the total SMGR 1H16 market share in Indonesia nearly 41.7% (-0.4% YoY). Regardless, SMGR solid existence in growing markets (i.e Sumatera and Sulawesi) should help to compensate a weak growth in Java.

1H16 gross profit margin remains steady, while EBIT and Net Margin slightly decline. SMGR could maintain its gross profit margin at a level of 40%, while 1H16 revenue has decreased slightly by 1.3% YoY. A slight decrease on 1H16 revenue was offset by cost reductions. SMGR 1H16 manufacturing overhead which takes a portion of 80% of COGS and 50% of revenue dropped by 5.4% YoY due to lower fuel and electricity costs. However, 1H16 EBIT margin still decreased by 1% YoY due to higher transportation cost (14.37% YoY, 4% QoQ) and promotion cost (14.79% YoY, 151% QoQ). SMGR 1H16 net margin stood at 16% (vs. 17.4% in 1H15). We expect margins will still continue to decline because of tight competition and continued shifts from bag to bulk cement which carry lower margins.

The risks to our call include: 1) delay in infrastructure execution, 2) changes on government policy, 3) further price control by government.

Financial Highlights	2014	2015	2016E	2017F	2018F
Revenue (IDR bn)	26,987	26,948	27,983	29,619	31,289
% growth		-0.14%	3.84%	5.85%	5.64%
Gross Profit (IDR bn)	11,579	10,646	10,800	11,068	11,501
Net Profit (IDR bn)	5,568	4,525	4,233	4,223	4,217
% growth		-18.7%	-6.5%	-0.2%	-0.1%
Gross Margin (%)	42.9%	39.5%	38.6%	37.4%	36.8%
Net Margin (%)	20.6%	16.8%	15.1%	14.3%	13.5%
PER	17.26	14.94	15.70	15.73	15.76
EPS	938.7	763.0	713.6	712.0	711.0

Source: Company Data, Sinarmas Investment Research

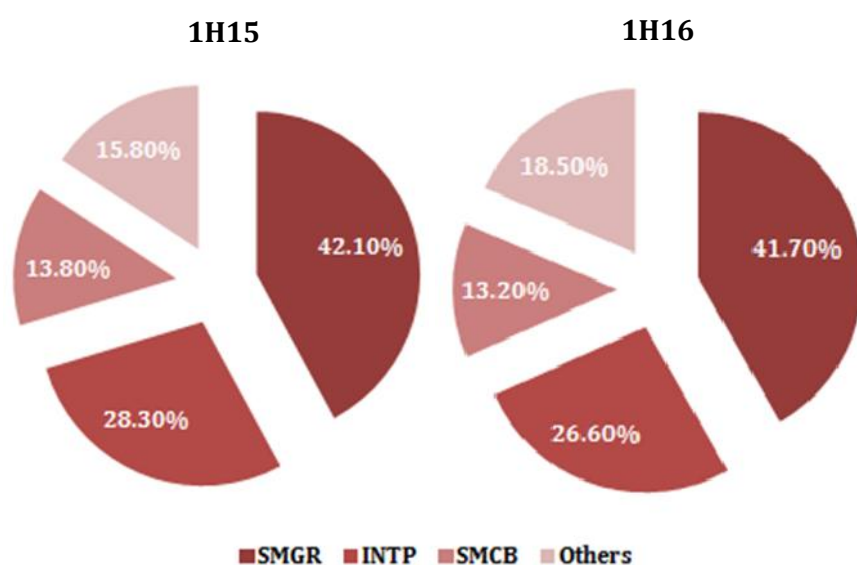
Appendix I : 1H16 Income Statement

Income Statement	2Q15	1Q16	2Q16	QoQ	YoY	1H15	1H16	YoY
Revenue	6,300	6,021	6,449	7.1%	2.4%	12,640	12,470	-1.3%
Sales of Cement	5,996	5,822	6,114	5.0%	2.0%	12,116	11,936	-1.5%
Ready Mix Concrete	126	104	140	35.3%	11.1%	226	244	8.1%
Clinker	101	36	6	-83.7%	-94.1%	158	42	-73.3%
Sales of Cement Bag	17	28	19	-33.8%	7.0%	24	47	94.8%
Mining Service	16	11	14	28.9%	-14.1%	29	24	-15.7%
Industrial Estate Land Rental	5	6	6	-1.1%	25.5%	10	12	12.3%
Sales Industrial Estate Land	1	-	-	-	-100.0%	1	-	-100.0%
Blasting Service	-	3	3	32.7%	-	-	6	-
Others	37	12	148	1129.2%	297.3%	77	160	108.1%
COGS	3,854	3,596	3,887	8.1%	0.8%	7,635	7,483	-2.0%
Raw Material Used	205	223	206	-7.5%	0.9%	405	430	6.2%
Direct Labor	352	385	388	0.9%	10.2%	694	773	11.3%
Manufacturing Overhead	3,373	3,199	3,132	-2.1%	-7.1%	6,695	6,331	-5.4%
Work in Process (Inventory)	(28)	(192)	70	-136.5%	-347.9%	(76)	(122)	59.7%
Finished Goods Inventory	(49)	(20)	89	-544.1%	-282.5%	(84)	69	-181.6%
Cost of Goods Sales - Industrial	1	1	1	43.2%	79.7%	1	2	22.1%
Gross Profit	2,446	2,425	2,563	5.7%	4.8%	5,006	4,988	-0.4%
Operating Expenses	1,133	1,215	1,261	3.8%	11.3%	2,219	2,476	11.6%
Selling Expense	612	685	727	6.1%	18.8%	1,241	1,412	13.8%
Transportation & Handling	474	546	568	3.9%	19.8%	974	1,114	14.4%
Promotion	73	47	119	150.6%	62.1%	145	166	14.8%
Salaries, Wages, and Bonus	46	49	46	-7.6%	-1.7%	89	95	6.6%
Depreciation & Amortization	4	26	(22)	-184.4%	-613.4%	6	4	-32.6%
Other Costs	14	16	17	6.5%	19.7%	27	33	22.9%
General and Administration Exp	525	506	506	0.0%	-3.6%	975	1,012	3.8%
Salaries, Wages, and Bonus	306	303	233	-23.1%	-23.9%	559	535	-4.2%
Depreciation & Amortization	28	37	25	-30.9%	-9.8%	65	62	-4.3%
Maintenance	28	23	23	0.9%	-18.0%	54	47	-13.6%
Supplies, Electricity, and Water	13	11	10	-8.8%	-24.3%	25	21	-16.4%
Other Costs	150	133	215	61.6%	43.4%	272	347	27.7%
Other Operating Income	(5)	23	28	18.8%	-712.3%	3	51	1390.3%
EBIT	1,304	1,257	1,357	8.0%	4.1%	2,794	2,615	-6.4%
PBT	1,297	1,243	1,331	7.1%	2.6%	2,798	2,574	-8.0%
Net Income	1,000	1,050	941	-10.4%	-5.9%	2,194	1,991	-9.2%
Gross Margin	38.8%	40.3%	39.7%			39.6%	40.0%	
EBIT Margin	20.7%	20.9%	21.0%			22.1%	21.0%	
Net Margin	15.9%	17.4%	14.6%			17.4%	16.0%	

Appendix II : Financial Ratio

Financial Ratio	2014	2015	2016E	2017F	2018F
Gross Margin	42.9%	39.5%	38.6%	37.4%	36.8%
EBITDA Margin	31.0%	27.1%	26.5%	24.9%	24.4%
EBIT Margin	26.5%	22.1%	20.4%	18.8%	17.7%
Net Margin	20.6%	16.8%	15.1%	14.3%	13.5%
ROA	16.2%	11.9%	10.0%	9.9%	9.7%
ROE	22.3%	16.5%	14.5%	13.7%	13.0%

Source: Company Data, Sinarmas Investment Research

Appendix III : Market Shares


SMGR 1H16 market shares has slightly decreased from 42.10% to 41.70% because cement sales volume in Feb-16 dropped by 6% YoY, 16% MoM.

Source: Company Data, Sinarmas Investment Research

Appendix IV : Growth on National Cement Sales by Area

Area	1Q16	2Q16	1H16
Jakarta	-13.2%	-16.2%	-15.4%
Banten	1.7%	-7.0%	-4.6%
Jawa Barat	10.3%	3.0%	5.0%
Jawa Tengah	14.2%	10.9%	11.8%
Jawa Timur	13.1%	8.8%	10.0%
Yogyakarta	5.8%	0.9%	2.3%
Total Java	6.4%	1.3%	2.7%
Sumatera	13.6%	6.6%	8.6%
Kalimantan	-25.4%	-18.9%	-20.8%
Sulawesi	23.6%	21.1%	21.8%
Nusa Tenggara	-1.4%	2.7%	1.5%
Maluku & Irian Jaya	1.9%	14.7%	10.8%
Total Indonesia	5.8%	2.6%	3.5%

Source: Company Data, Sinarmas Investment Research

Appendix V : Balance Sheet

Balance Sheet (in IDR Bn)	2014	2015	2016E	2017F	2018F
Assets					
Cash and Cash Equivalent	4,940	3,989	4,144	3,679	2,186
Receivable	3,433	3,629	3,768	3,988	4,213
Inventories	2,812	2,409	2,539	2,741	2,924
Other Current Asset	465	512	287	337	384
Total Current Assets	11,649	10,539	10,738	10,746	9,707
Fixed Assets	20,221	25,168	29,066	29,377	31,166
Other Non-Current Liabilities	2,462	2,447	2,455	2,469	2,483
Total Non-Current Assets	22,683	27,614	31,522	31,846	33,649
Total Asset	34,332	38,153	42,259	42,593	43,356
Short-Term Borrowing	82	139	132	125	119
Payables	3,518	4,253	4,640	4,990	5,255
Other Current Liabilities	1,672	2,207	2,475	2,218	2,031
Total Current Liabilities	5,272	6,599	7,247	7,333	7,405
Long-Term Liabilities	4,043	4,103	5,869	4,426	3,431
Other Non-Current Liabilities	12	10	10	10	10
Total Non-Current Liabilities	4,055	4,113	5,879	4,436	3,441
Total Liabilities	9,327	10,712	13,126	11,769	10,846
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	475	553	553	553	553
Retained Earning	21,520	23,815	25,508	27,197	28,884
Non-Controlling Interest	958	1,021	1,021	1,021	1,021
Total Equity	25,005	27,441	29,134	30,823	32,510
Total Liabilities & Equity	34,332	38,153	42,259	42,593	43,356

Appendix VI : Income Statement

Income Statement (in IDR Bn)	2014	2015	2016E	2017F	2018F
Revenue	26,987	26,948	27,983	29,619	31,289
Cost of Revenue	15,408	16,302	17,183	18,552	19,788
Gross Profit	11,579	10,646	10,800	11,068	11,501
Selling Expenses	(2,694)	(2,659)	(2,845)	(3,069)	(3,312)
G&A Expenses	(1,938)	(2,088)	(2,297)	(2,501)	(2,737)
Other Operating Income	195	46	57	70	85
Operating Income	7,142	5,946	5,716	5,568	5,537
Finance Income	286	241	250	222	132
Finance Cost	(383)	(370)	(566)	(402)	(290)
Share in Net Profit of Associates	32	34	34	34	34
Profit Before Income Tax	7,077	5,851	5,434	5,422	5,414
Income Tax Expenses	(1,510)	(1,325)	(1,201)	(1,199)	(1,197)
Net Profit For the Year	5,568	4,525	4,233	4,223	4,217

DISCLAIMER

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Additional information is available upon request.

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.

©Sinarmas Sekuritas(2016). All rights reserved.