8 October 2019

Basic Materials | Cement

Semen Indonesia (SMGR IJ)

Buy (Maintained)

3Q19F Results: Likely Better EBIT Margin; BUY

Target Price (Return)	IDR16,300 (+44%)
Price:	IDR11,300
Market Cap:	USD4,735m
Avg Daily Turnover (IDR/USD)	77,983m/5.5m

- **BUY this Sector Pick, with IDR16,300 TP** (45x-33x FY20-21F P/Es), 44% upside plus 2% yield. Although 3Q19 sales volume growth remains slow, EBIT margin should improve, thanks to higher ASP and lower energy costs. Financing costs are likely to decline after the bridging loan restructuring. SMGR introduced *Dynamix* to replace *Holcim* in October. In 2020, marketing expenses should slightly increase from promotion activities to introduce the new brand. However, it should be offset by the absence of royalty payment on *Holcim*.
- **Higher 3Q19F ASP**. Semen Indonesia revealed that it increased ASP in 3Q19 by 4.5% YTD, alongside an increase of SBI's (ex-Holcim Indonesia) ASP by 5% since the acquisition in Feb 2019. Despite the ASP hike, the company said its ASP was still 12% lower than that of its peak level in 2015. SMGR's ASP hike was followed by its peers – such as Conch Cement Indonesia – which raised its ASP by 1-5% in Sumatra, 3-10% (Kalimantan), and 1-4% (Sulawesi).
- **Lower production costs** came from lower energy costs (thanks to lower coal prices)**.** Benchmark prices of coal – which accounted for around 20% of COGS – fell 32% since early this year. SMGR said there is around a 3-month time lag from lower coal benchmark prices to lower SMGR's energy costs. Hence, SMGR's fuel cost is likely to continue declining in 3Q19-4Q19.
- **Higher marketing costs should be offset by lower sales discount.** In 4Q19, SMGR allocated an additional IDR40bn marketing expenses to promote its new brand *Dynamix* (replacing *Holcim*) to distributors and retail customers. However, this higher costs should be offset by lower selling expenses. So far, SBI has lowered selling expenses by IDR150-190bn, thanks to lower distributor discount.
- **Lower financing costs**. SMGR recently refinanced its IDR13.5trn bridging loan (which was used for the SBI acquisition). Notably, the bridging loan's effective interest rate (including hedging cost) was c.10.7% pa. The bridging loan was refinanced to IDR4trn worth of bonds with a 9-9.1% pa coupon rate, and IDR9.4trn worth of syndicated loans with an 8% pa (3-months JIBOR rate + 1.85%) effective interest rate. The recent consecutive rate cut of BI-7DRR should alleviate the financing costs as well.
- **New brand launch in October**. There is a risk of losing market share from the introduction of *Dynamix* – especially in the West Java market (*Holcim*'s home market) – since customers need time to be familiar with the new brand. However, the risk of slower sales growth should be offset by the absence of royalty payment. In 2019, SBI paid a *Holcim* brand royalty of USD50m (c.IDR800bn), around 37% of FY20 earnings estimates.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (IDRbn)	27,814	30,688	40,378	43,748	47,437
Reported net profit (IDRbn)	1,621	3,079	996	2,158	2,943
Recurring net profit growth (%)	(64.1)	90.0	(67.6)	116.6	36.4
Recurring EPS (IDR)	273	519	168	364	496
P/E (x)	41.3	21.8	67.3	31.1	22.8
P/B (x)	2.4	2.2	2.2	2.1	2.0
Dividend Yield (%)	2.7	1.2	1.8	0.6	1.3
EV/EBITDA (x)	24.0	17.2	18.9	16.1	14.2
Return on average equity (%)	5.6	10.3	3.2	6.9	8.9
Net debt to equity (%)	22.3	14.7	72.2	62.1	54.3

Source: Company data, RHB

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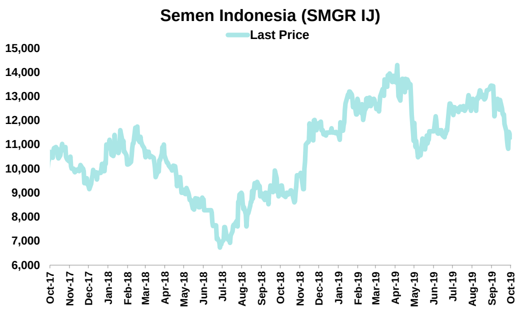
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.74)	(15.99)	(10.32)	(17.22)	26.61
Relative	1.39	(11.10)	(4.47)	(9.90)	21.92
52-wk Price low/high (IDR)					8,550 – 14,450



Source: Bloomberg

Previous reports on cement sector/company:
Semen Indonesia: Say Hello To Dynamix
Sector: Likely To See a Silver Lining; O/W
Sector: Still OVERWEIGHT; Rainbow After The Rain
Semen Indonesia: Cementing Solid Growth; BUY

Financial Exhibits

Asia
Indonesia
Basic Materials – Building Materials
Semen Indonesia

Major shareholders (%)

Republic of Indonesia	51.01

Valuation basis

Our 10-year DCF assumptions include:
i. WACC of 9.3%;
ii. Terminal growth rate (TG) of 3%;

Key drivers

Our forecasts are more sensitive to:
i. Appreciation of IDR;
ii. Substantial infrastructure budget;
iii. Financing costs

Key risks

The downside risks include:
i. Appreciation of IDR;
ii. Higher financing cost;
iii. Higher interest rates;
iv. Low infrastructure budget;
v. Higher commodity prices (oil and gas)

Company Profile

Semen Indonesia manufactures cement including Portland cement, oil well cement, and mixed cement. Through its subsidiaries, the company also develops and operates an industrial estate, mines limestone and clay, and packages and distributes cement.

Financial Summary	2017	2018	2019F	2020F	2021F
EPS (IDR)	273	519	168	364	496
DPS (IDR)	308	139	209	68	146
BVPS (IDR)	4,787	5,170	5,129	5,425	5,775

Financial Summary (IDRbn)	2017	2018	2019F	2020F	2021F
Total Turnover	27,814	30,688	40,378	43,748	47,437
Gross Profit	7,960	9,331	11,456	12,843	14,230
EBITDA	4,586	6,399	5,810	6,847	7,724
Depreciation and Amortisation	1,953	1,626	1,055	1,063	1,076
Operating Profit	2,633	4,773	4,755	5,785	6,648
Pre-Tax Profit	2,254	4,105	1,796	3,101	4,007
Taxation	(604)	(1,019)	(765)	(902)	(1,017)
Minority Interests	(29)	(7)	(35)	(41)	(47)
Net Profit	1,621	3,079	996	2,158	2,943

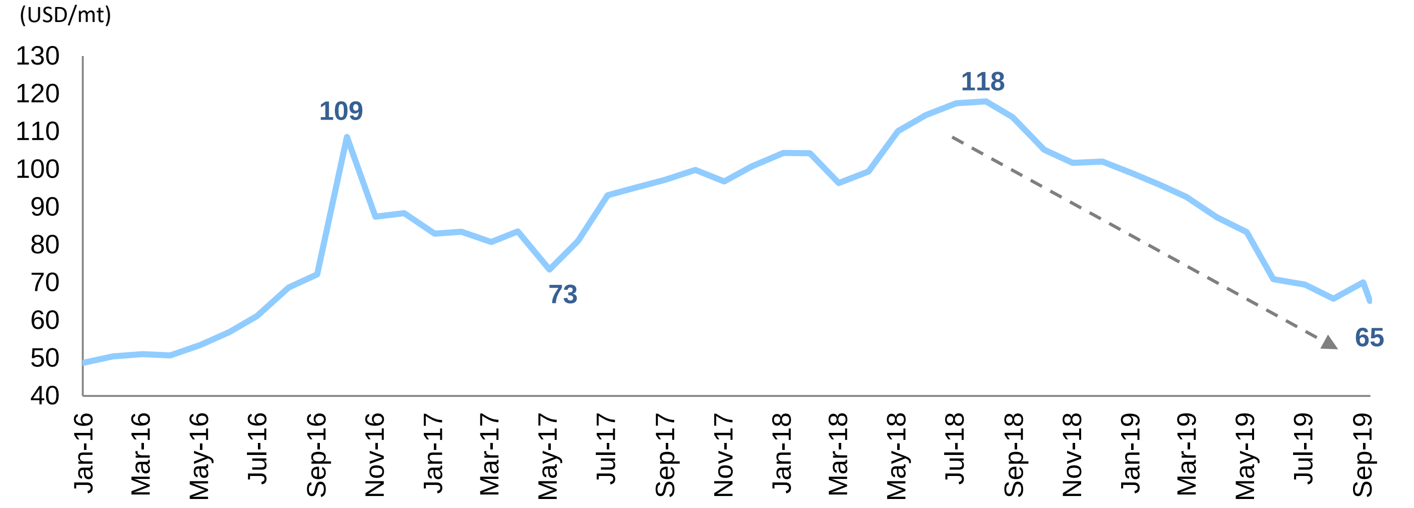
Cash Flow	2017	2018	2019F	2020F	2021F
Change in Working Capital	(1,379)	(821)	(339)	198	(722)
Cash Flow from Operations	1,505	3,705	2,546	3,433	3,312
Cash Flow from Investing	(2,296)	(1,551)	(18,194)	(1,089)	(1,114)
Cash Flow from Financing	1,610	(544)	21,088	(359)	(821)
Cash at Beginning of Period	2,848	3,666	5,277	10,717	12,701
Net Change in Cash	818	1,611	5,440	1,984	1,377
Ending Balance Cash	3,666	5,277	10,717	12,701	14,078

Balance Sheet (IDRbn)	2017	2018	2019F	2020F	2021F
Total Cash and Equivalents	3,666	5,277	10,717	12,701	14,078
Tangible Fixed Assets	32,523	32,749	49,388	49,358	49,336
Total Assets	49,069	51,156	71,483	74,593	76,578
Short-Term Debt	1,921	1,724	5,233	5,233	5,233
Total Long-Term Debt	8,099	8,140	27,449	27,449	27,449
Total Liabilities	19,023	18,420	39,481	40,793	40,656
Total Equity	28,522	31,192	30,423	32,180	34,255
Minority Interests	1,524	1,544	1,579	1,620	1,667
Total Liabilities & Equity	49,069	51,156	71,483	74,593	76,578

Key Metrics	2017	2018	2019F	2020F	2021F
Revenue Growth (%)	6.4	10.3	31.6	8.3	8.4
EPS Growth (%)	-66.0	105.2	-66.8	116.6	36.4
Gross Margin (%)	28.6	30.4	28.4	29.4	30.0
EBITDA Margin (%)	16.5	20.9	14.4	15.7	16.3
Net Profit Margin (%)	5.8	10.0	2.5	4.9	6.2
Capex / Sales (%)	13.0	6.0	43.8	2.4	2.2
Interest Cover (x)	3.5	5.0	1.5	1.9	2.2

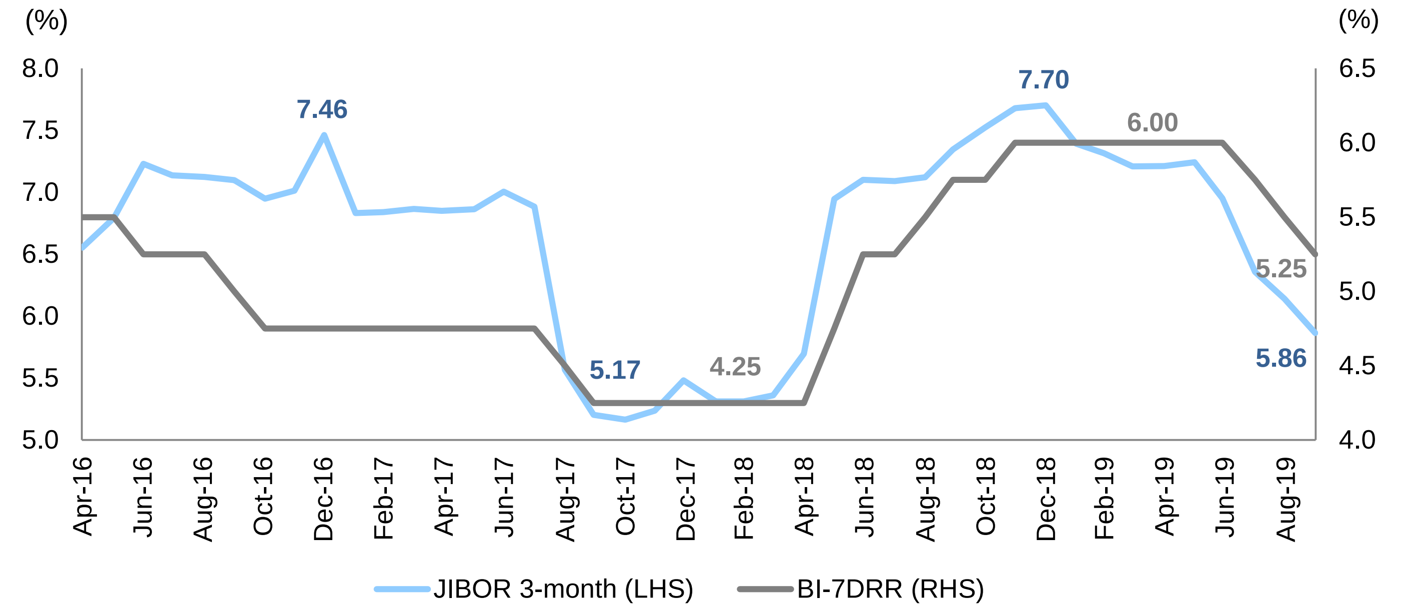
Source: Company data, RHB

Figure 1: Coal benchmark prices – Downtrend still persist



Source: Bloomberg, RHB

Figure 2: JIBOR vs BI rate – Recent rate cut should ease financing cost



Source: Bloomberg, RHB

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