

5 November 2018

Basic Materials | Building Materials

Indonesia Cement

Neutral (Maintained)

Demand To Pick Up But Competition Still Intense

Maintain sector NEUTRAL, as demand is expected to increase although competition is likely to remain intense. Our Top Pick is Semen Indonesia on earnings outperformance, driven by higher efficiency. It is also the only listed cement company that booked earnings growth in 9M18. We estimate that, overall, listed cement players recorded higher 9M18 sales, but earnings declined on lower ASP and higher opex. The divestment of Holcim should change the competitive landscape ahead, and the winner of the bid is expected to be announced in mid-November.

Better 9M18 sales, but lower earnings. We estimate that listed Indonesian cement companies' 9M18 sales were at IDR41trn (+5.2% YoY), but earnings dropped 9% YoY to IDR2.1trn on lower ASP and higher opex. Semen Indonesia is the only player with higher 9M18 earnings, due to lower operational expenses.

9M18 national cement sales volume rose to 54m tonnes (+9% YoY), driven by domestic (+5% YoY to 50m tonnes) and export sales (+104% YoY to 4.1m tonnes). In general, export sales GPM is much lower than that of domestic GPM. Cement players also hiked up their export sales to increase production volume, which lowered their fixed costs per unit.

Semen Indonesia: 9M18 earnings at full-year projections, beat estimates. 3Q18 earnings jumped to IDR1.1trn (+99% QoQ, +204% YoY) and took 9M18 net profit to IDR2.1trn (+43% YoY), at 104%/103% of our and Street full-year estimates, ie exceeding expectations. This was driven by lower-than-expected opex. Management said that lower expenses in transportation, salaries, promotions and business trips were the main reason behind the drop in overall opex. In our calculation, 3Q18 sales volume came in at 9.1m tonnes (+25% QoQ, +3% YoY). 3Q18 ASP dipped by 2.7% QoQ to IDR895,000/tonne, but the rate of decline was in line with COGS per unit, which decreased 2.8% QoQ to IDR616,000/tonne. 3Q18 opex fell 34.4% QoQ to IDR105,000/tonne.

Indocement: 9M18 earnings missed expectations. While 3Q18 earnings improved significantly, 9M18 net profit was still lower than our estimate. In 3Q18, Indocement raised its ASP, while opex/tonne was flat. Its IDR263bn net profit for 3Q18 (+189% QoQ, -48% YoY) took 9M18 earnings to IDR618bn (-61% YoY), accounting for 36% and 52% of our/Street full-year estimates. 3Q18 revenue of IDR4.3trn (+65% QoQ, -15% YoY) brought 9M18 revenue to IDR2.9trn (-24% YoY). The company has begun to show improvement, with strong quarterly growth in bottomline and topline on account of its low base of 2Q18.

Holcim Indonesia: higher-than-expected 3Q18 net loss. Holcim booked a IDR91bn net loss in 3Q18 (+56% QoQ, +57% YoY), which was an improvement vs net losses of IDR207bn in 2Q18 and IDR212bn in 3Q17. This took 9M18 net loss to IDR630bn (+3%YoY), which was worse than expected and was at 81% of the Street estimate of FY18 IDR777bn net loss. Revenue was recorded at IDR2.92trn in 3Q18 (+30% QoQ, +13% YoY), bringing 9M18 revenue to IDR7.37trn (+7% YoY).

Holcim Indonesia divestment likely to change the competitive landscape. Holcim is the third largest cement producer in Indonesia, with production capacity of 15m tonnes pa, or 14% of total national capacity. We believe its assets – in West Java, Central Java and Aceh – are attractive since they are located in areas where cement sales are growing faster than the industry average.

Semen Indonesia is bidding for a stake in Holcim, which is owned by Holderfin. Semen Merah Putih (Wilmar) and YTL Cement have also submitted a joint bid. There is still a possibility that Heidelberg – which owns Indocement – is still bidding for the company as well.

Stocks Covered: 2
Ratings (Buy/Neutral/Sell): 1 / 1 / 0
Last 12m Earnings Revision Trend: Neutral

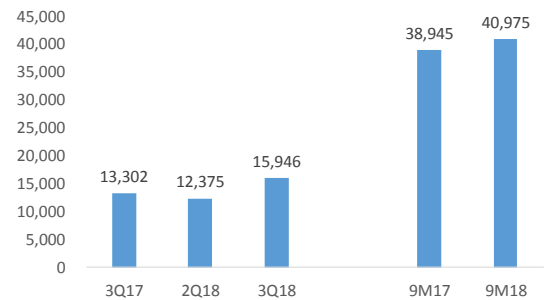
Top Picks

Semen Indonesia (SMGR IJ) – BUY

Target Price

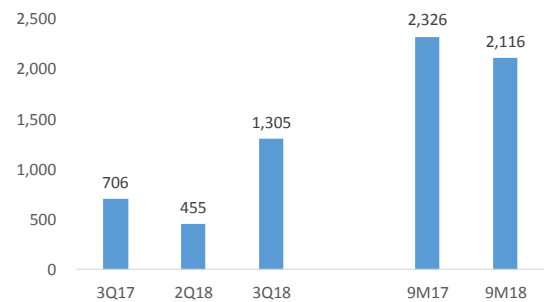
IDR11,500

Total sales for SMGR, INTP, SMCB and SMBR (IDRbn)



Source: Bloomberg

Total earnings - SMGR, INTP, SMCB, SMBR (IDRbn)



Source: Bloomberg

Related reports published recently:

- ◆ [Semen Indonesia: Likely To Sustain Robust Earnings In 9M18; Now a BUY](#)
- ◆ [Indocement Tunggal Prakarsa: 3Q18: Improving QoQ, Still Below Expectations; SELL](#)
- ◆ [Indonesia Cement: Holcim Indonesia Divestment?](#)

Company Name	Rating	Price	Target	% Upside (Downside)	P/E (X) Dec-19F	P/B (X) Dec-19F	Yield (%) Dec-19F
Semen Indonesia	BUY	9,725	11,500	18.3	17.6	1.4	2.0
Indocement Tunggal Prakarsa	SELL	17,350	11,400	-34.3	27.8	1.3	2.5
Holcim Indonesia	NR	1,830	NA	NA	NA	2.2	NA
Semen Baturaja	NR	1,845	NA	NA	335.5	5.1	0.1

Source: Company data, RHB

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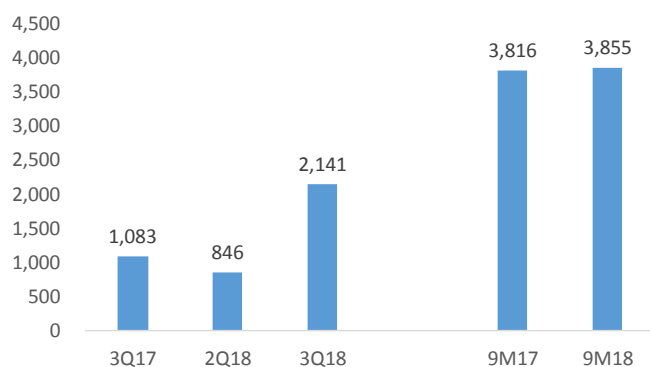
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Figure 1: 9M18 results highlights for SMGR, INTP, SMCB and SMBR

(IDRbn)	3Q17	2Q18	3Q18	QoQ	YoY	9M17	9M18	YoY
Revenue	13,302	12,375	15,946	28.9%	19.9%	38,945	40,975	5.2%
EBIT	1,083	846	2,141	153.1%	97.6%	3,816	3,855	1.0%
EBIT margin	8.1%	6.8%	13.4%			9.8%	9.4%	
Pretax income	955	666	2,418	262.8%	153.2%	3,843	3,680	-4.2%
Pretax margin	7.2%	5.4%	15.2%			9.9%	9.0%	
NP - reported	706	455	1,305	186.6%	84.8%	2,326	2,116	-9.0%
NM - reported	5.3%	3.7%	8.2%			6.0%	5.2%	

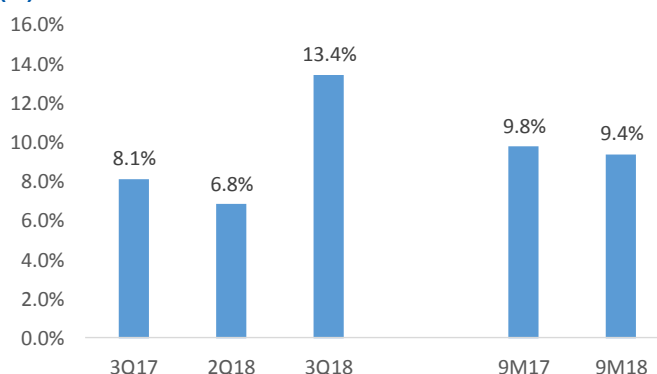
Source: Company data, RHB

Figure 2: EBIT for SMGR, INTP, SMCB and SMBR (IDRbn)



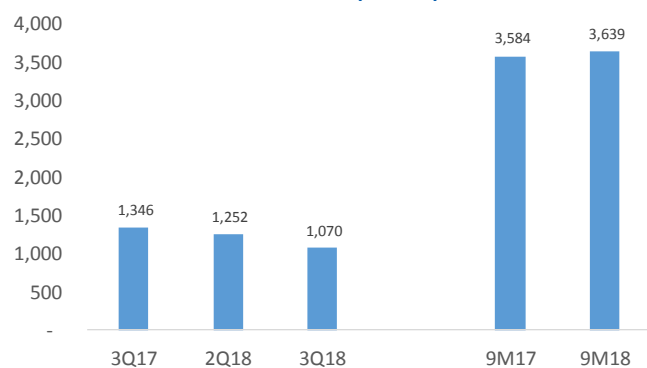
Source: Bloomberg, RHB

Figure 3: EBIT margins for SMGR, INTP, SMCB and SMBR (%)



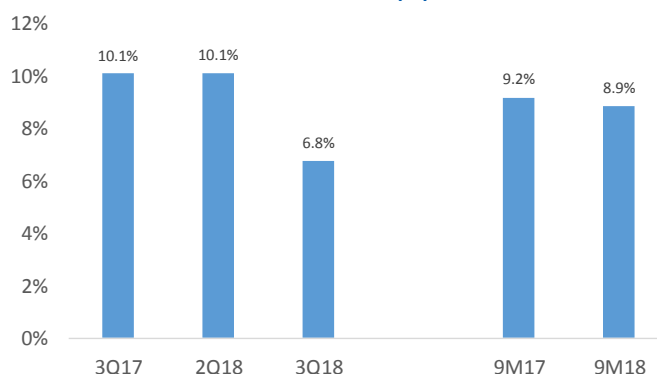
Source: Bloomberg, RHB

Figure 4: Transportation and handling expenses for SMGR, INTP, SMCB and SMBR (IDRbn)



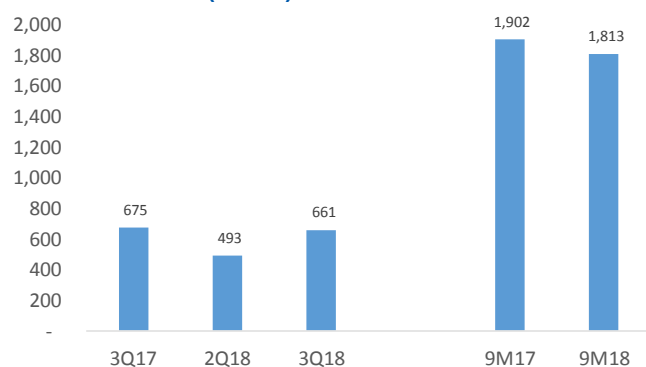
Source: Bloomberg, RHB

Figure 5: Transportation and handling expenses-to-sales for SMGR, INTP, SMCB and SMBR (%)

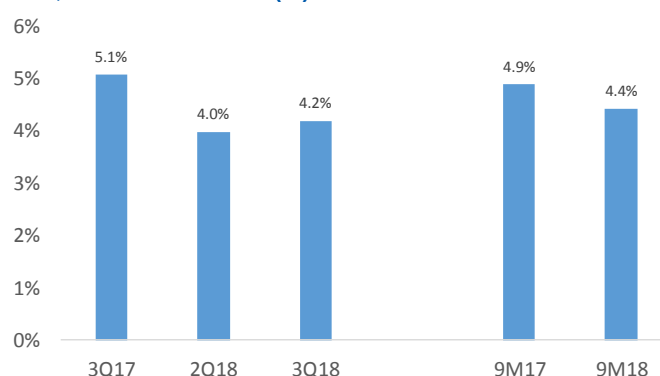


Source: Bloomberg, RHB

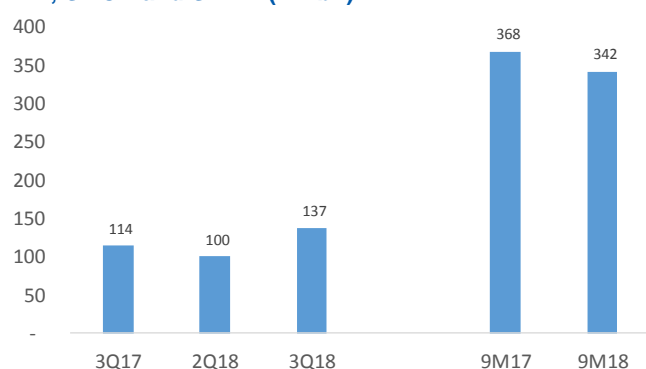
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Figure 6: Salary and wage expenses for SMGR, INTP, SMCB and SMBR (IDRbn)

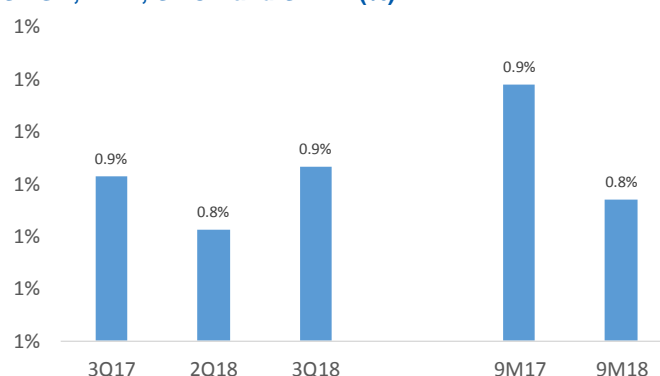
Source: Bloomberg, RHB

Figure 7: Salary and wage expenses-to-sales for SMGR, INTP, SMCB and SMBR (%)

Source: Bloomberg, RHB

Figure 8: Advertising and promotion expenses for SMGR, INTP, SMCB and SMBR (IDRbn)

Source: Bloomberg, RHB

Figure 9: Advertising and promotion expenses-to-sales for SMGR, INTP, SMCB and SMBR (%)

Source: Bloomberg, RHB

Figure 10: SMGR's 9M18 results highlights

(IDRbn)	3Q17	2Q18	3Q18	QoQ	YoY	9M17	9M18	YoY	% RHB FY18F	% Cons FY18F
Revenue	6,368	6,691	8,147	21.8%	27.9%	20,552	21,455	4.4%	75%	74%
EBIT	707	919	1,586	72.6%	124.3%	2,323	3,206	38.0%	111%	102%
EBIT margin	11.1%	13.7%	19.5%			11.3%	14.9%			
Pretax profit	509	758	1,426	88.1%	180.4%	2,002	2,744	37.1%	100%	100%
Pretax margin	8.0%	11.3%	17.5%			9.7%	12.8%			
NP - reported	366.7	559.8	1,116.3	99.4%	204.4%	1,459.7	2,087.7	43.0%	103.9%	102.5%
NM - reported	5.8%	8.4%	13.7%			7.1%	9.7%			

Source: Company data, RHB

Figure 11: SMGR's 9M18 operational highlights

	3Q17	2Q18	3Q18	QoQ	YoY	9M17	9M18	YoY
Volume (m tonnes)	8.9	7.3	9.1	25.1%	2.5%	22.7	23.8	4.9%
Blended ASP (in IDR '000 / tonne)	883	920	895	-2.7%	1.4%	907	903	-0.5%
COGS/ton (in IDR '000 / tonne)	636	634	616	-2.8%	-3.1%	640	636	-0.6%
Opex/ton (in IDR '000 / tonne)	167	160	105	-34.4%	-37.3%	164	132	-19.8%

Source: Company data, RHB

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Figure 12: INTP's 9M18 results highlights

(IDRbn)	3Q17	2Q18	3Q18	QoQ	YoY	9M17	9M18	YoY	%RHB FY18F	%Cons FY18F
Revenue	3,968.9	3,044.9	4,288.4	40.8%	8.1%	10,512.6	10,772.9	2.5%	67.5%	43.2%
EBIT	565.3	2.6	265.5	10021.8%	-53.0%	1,453.8	496.7	-65.8%	27.7%	20.7%
EBIT margin	14.2%	0.1%	6.2%			13.8%	4.6%			
Pretax income	651.5	101.0	335.0	231.8%	-48.6%	1,788.3	761.5	-57.4%	34.9%	29.4%
Pretax margin	16.4%	3.3%	7.8%			17.0%	7.1%			
NP - reported	504.3	90.8	262.6	189.1%	-47.9%	1,406.5	617.7	-56.1%	35.6%	51.8%
NM - reported	12.7%	3.0%	6.1%			13.4%	5.7%			

Source: Company data, RHB

Figure 13: INTP's 9M18 operational highlights

	3Q17	2Q18	3Q18	QoQ	YoY	9M17	9M18	YoY
Volume (m tonnes)	5.0	4.2	5.4	28.9%	8.8%	12.9	13.8	6.6%
Blended ASP (in IDR '000 / tonne)	798	725	792	9.3%	-0.7%	814	783	-3.9%
COGS/ton (in IDR '000 / tonne)	520	555	575	3.5%	10.6%	534	574	7.5%
Opex/ton (in IDR '000 / tonne)	164	169	169	-0.2%	2.7%	168	173	2.9%

Source: Company data, RHB

Figure 14: SMCB's 9M18 results highlights

(IDRbn)	3Q17	2Q18	3Q18	QoQ	YoY	9M17	9M18	YoY	%Cons FY18F
Revenue	2,592.3	2,250.4	2,921.3	29.8%	12.7%	6,880.4	7,373.2	7.2%	76%
EBIT	(256.7)	(123.1)	227.5	-284.7%	-188.6%	(104.2)	0.6	-100.6%	70%
EBIT margin	-9.9%	-5.5%	7.8%			-1.5%	0.0%		
Pretax income	(271.8)	(212.1)	625.4	-394.8%	-330.1%	(100.6)	102.6	-202.0%	-14%
Pretax margin	-10.5%	-9.4%	21.4%			-1.5%	1.4%		
NP - reported	(212.0)	(206.9)	(91.1)	-56.0%	-57.0%	(647.9)	(630.4)	-2.7%	81%
NM - reported	-8.2%	-9.2%	-3.1%			-9.4%	-8.5%		

Source: Company data, RHB

Figure 15: SMBR's 9M18 results highlights

(IDRbn)	3Q17	2Q18	3Q18	QoQ	YoY	9M17	9M18	YoY	%Cons FY18F
Revenue	372	389	590	51.5%	58.5%	999.6	1,373.4	37.4%	75%
EBIT	68	48	62	30.2%	-8.6%	143.5	151.8	5.8%	90%
EBIT margin	18.2%	12.2%	10.5%			14.4%	11.1%		
Pretax income	66	20	32	61.6%	-52.5%	152.9	72.3	-52.8%	113%
Pretax margin	17.9%	5.0%	5.4%			15.3%	5.3%		
NP - reported	47	11	17	47.1%	-64.3%	107.5	40.9	-62.0%	75%
NM - reported	12.6%	2.9%	2.8%			10.8%	3.0%		

Source: Company data, RHB

Figure 16: Peer comparison I – Indonesia cement companies

Name	BBG Ticker	Rating	Price	TP	Upside/ Downside	Market Cap	EPS Growth			PER			PBV		
							FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F
			(IDR)	(IDR)	(%)	(USDm)	(%)	(%)	(%)	(x)	(x)	(x)	(x)	(x)	(x)
Semen Indonesia	SMGR IJ	BUY	9,725	11,500	0.2	3,871	30.1	14.3	16.9	20.1	17.6	15.0	1.5	1.4	1.2
Indocement Tunggal Prakarsa	INTP IJ	SELL	17,350	11,400	-0.3	4,287	-12.8	19.7	17.7	33.3	27.8	23.6	1.4	1.3	1.3
Holcim Indonesia	SMCB IJ	NR	1,830	N/A	N/A	941	-2.4	44.9	79.3	N/A	N/A	N/A	2.1	2.2	2.2
Semen Baturaja	SMBR IJ	NR	1,845	N/A	N/A	1,230	-63.3	0.0	45.5	335.5	335.5	230.6	5.2	5.1	5.0
Sector Weighted Average						10,329	-1.8	17.6	26.3	61.3	58.1	42.9	2.0	1.9	1.8
Sector Weighted Average (excl. SMBR)						9,099	6.5	20.0	23.7	24.2	20.6	17.5	1.5	1.4	1.3

Note: Data as at 2 November 2018

Source: Company data, RHB

5 November 2018

Figure 16: Peer comparison II – Indonesia cement companies

Name	PEG			Yield			ROA			ROE		
	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F
	(x)	(x)	(x)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Semen Indonesia	0.7	1.2	0.9	1.5	2.0	2.3	4.3	5.4	6.7	6.9	8.1	8.1
Indocement Tunggal Prakarsa	-2.6	1.4	1.3	4.5	2.5	3.1	6.1	5.2	5.5	7.1	5.8	6.1
Holcim Indonesia	N/A	N/A	N/A	N/A	N/A	N/A	-4.2	-3.0	-0.6	-9.5	-6.0	-1.8
Semen Baturaja	-5.3	N/A	5.1	0.1	0.1	0.1	1.0	0.9	1.1	1.6	1.6	2.3
Sector Weighted Average	-1.7	1.0	1.7	2.4	1.8	2.1	4.0	4.1	4.9	5.2	5.3	5.8
Sector Weighted Average (excl. SMBR)	-0.8	1.0	0.9	2.4	1.8	2.1	4.6	4.7	5.6	4.9	5.0	5.4

Note: Data as at 2 November 2018

Source: Company data, RHB

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