

3 November 2023

Basic Materials | Building Materials

## Semen Indonesia (SMGR IJ)

### Buy (Maintained)

### In-Line Performance, Share Price Lagging; BUY

Target Price (Return): IDR9,300 (53.7%)  
Price (Market Cap): IDR6,050 (USD2,573m)  
ESG score: 2.8 (out of 4)  
Avg Daily Turnover (IDR/USD) 51,502m/3.34m

- **Keep BUY and IDR9,300 TP, 54% upside, c.3% FY24F yield.** Semen Indonesia's 9M23 performance was in line with expectations, with earnings at IDR1.7trn (+1.8% YoY) – at 59% and 63% of our and consensus' FY23 forecasts (5-year average: 63%). The new capital city's (IKN) overall cement utilisation reached 300k tonnes (SMGR's FY23 IKN cement utilisation estimate: c.500k tonnes), and is estimated at 1.5m tonnes in 2024. Note that SMGR controls 82% of the IKN market share. The company raised ASPs in September – this should have an impact on October sales.
- **Robust 4Q23 sales outlook.** SMGR's topline grew 7.4% YoY (+31.3% QoQ) to IDR10.6trn, with cumulative 9M23 sales of IDR27.7trn (+4% YoY) – in line with expectations at 70% and 71% of our and Street's estimates (5-year average: 71%). Revenue growth was driven by stronger export volumes (+34.1% YoY) and domestic sales that outperformed the industry (+0.7% YoY). Domestic ASPs grew only 0.6% YoY due to a higher sales mix of bulk cement (c.31%), while SMGR raised bag cement ASPs by IDR1k/bag in September. In 4Q23, we expect sales growth to accelerate from last year's low base, which was dragged by a fuel price hike.
- **Maintaining net margins despite higher production costs.** Production cost per ton rose 1.2% YoY from higher raw material (+12.8% YoY), and energy costs (+3.4% YoY) due to higher coal logistics costs. However, production costs continued to normalise in 3Q23, and SMGR guided that the current production cost per ton is sustainable. Moreover, it is consolidating its logistics operations, which are able to maintain its flattish cement transportation costs amidst higher fuel prices. Overall GPM narrowed to 26.9% (9M22: 29.7%), while net profit was less impacted at 6.2% (9M22: 6.3%)
- **Earnings.** SMGR posted 3Q23 earnings of IDR848bn (+178.3% QoQ, +0.6% YoY), bringing 9M23 PATMI to IDR1.7trn (+1.8% YoY). This was at 59% and 63% of our and Street's FY23 forecasts – slightly below our expectations but in line with consensus' (5-year 9M average: 63%). Historically, 4Q contributes the largest portion of its full-year earnings (30-45%), and SMGR's share price is currently lagging behind its performance.
- **ESG.** Our TP includes a 4% ESG discount based on SMGR's ESG score of 2.8 (below the country median).
- **Key risks:** Nationwide oversupply conditions, with the additional capacity from Hongshi in Kalimantan. However, consolidation in the industry should help reduce the risk of a price war.

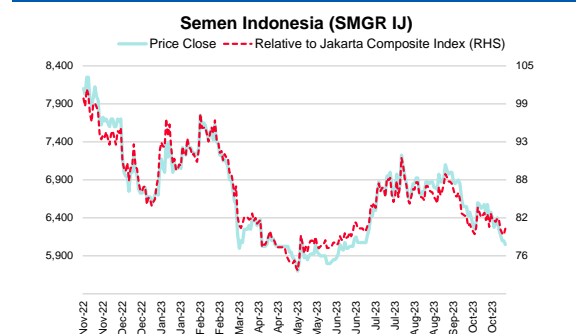
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.0)	(5.8)	(10.0)	1.7	(24.6)
Relative	(5.0)	(1.5)	(6.4)	5.7	(18.8)
52-wk Price low/high (IDR)				5,700 – 8,250	



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (IDRb)	36,702	36,379	39,401	41,011	43,869
Recurring net profit (IDRb)	2,083	2,320	2,837	3,131	3,719
Recurring net profit growth (%)	(26.5)	11.4	22.3	10.4	18.8
Recurring P/E (x)	17.23	16.53	14.40	13.04	10.98
P/B (x)	1.0	1.1	0.9	0.9	0.8
P/CF (x)	5.26	6.70	10.85	4.09	9.17
Dividend Yield (%)	3.1	2.0	2.3	2.8	3.1
EV/EBITDA (x)	6.31	6.44	5.83	5.07	4.77
Return on average equity (%)	5.8	6.4	7.0	6.8	7.7
Net debt to equity (%)	31.3	19.6	14.2	5.2	7.3

Source: Company data, RHB

#### Overall ESG Score: 2.8 (out of 4)

##### E: GOOD

SMGR is exploring alternative fuel usage to reduce carbon emissions. The company is also seeking to adopt the newest technologies to monitor both energy consumption and carbon emissions during the manufacturing process.

##### S: GOOD

SMGR supported IDR4.01bn in CSR assistance for Semen Gresik Hospitals or RSSG to increase inpatient room capacities for COVID-19 cases. It also increased intensive care unit capacity by 25%.

##### G: GOOD

SMGR strives to ensure the implementation of Good Corporate Governance or GCG and improve the implementation of corporate risk management during these challenging times.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (IDR)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Indonesia	Recurring EPS	351.22	365.90	420.23	463.80	550.77
Basic Materials	DPS	188.30	121.26	140.11	170.70	185.52
<b>Semen Indonesia</b>	BVPS	6,096.50	5,585.05	6,672.99	6,966.09	7,331.49
SMGR IJ	Return on average equity (%)	5.8	6.4	7.0	6.8	7.7
Buy						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	17.23	16.53	14.40	13.04	10.98
DCF base, assuming 9.2% WACC, 3.0% TG	P/B (x)	1.0	1.1	0.9	0.9	0.8
	FCF Yield (%)	14.1	2.8	(8.1)	13.6	(0.2)
<b>Key drivers</b>	Dividend Yield (%)	3.1	2.0	2.3	2.8	3.1
i. Appreciation of IDR;	EV/EBITDA (x)	6.31	6.44	5.83	5.07	4.77
ii. Substantial infrastructure budget;	EV/EBIT (x)	10.03	10.91	9.74	8.26	7.43
iii. Financing costs.						
	<b>Income statement (IDRb)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Key risks</b>	Total turnover	36,702	36,379	39,401	41,011	43,869
i. Higher financing costs;	Gross profit	11,727	10,678	12,395	13,309	14,669
ii. Higher interest rates;	EBITDA	8,324	7,740	8,918	9,405	10,295
iii. Low infrastructure budget;	Depreciation and amortisation	(3,087)	(3,171)	(3,582)	(3,630)	(3,680)
iv. Higher commodity prices (oil and gas).	Operating profit	5,236	4,569	5,335	5,775	6,615
	Net interest	(1,637)	(1,329)	(1,346)	(1,382)	(1,418)
<b>Company Profile</b>	Pre-tax profit	3,538	3,299	4,048	4,393	5,196
SMGR manufactures cement, including Portland, oil well, and mixed cement. Through its subsidiaries, the company also develops and operates an industrial estate, mines limestone and clay, and packages and distributes cement.	Taxation	(1,420)	(800)	(1,012)	(1,098)	(1,299)
	Reported net profit	2,047	2,365	2,881	3,131	3,719
	Recurring net profit	2,083	2,320	2,837	3,131	3,719
	<b>Cash flow (IDRb)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Change in working capital	1,160	385	(3,131)	2,881	(3,441)
	Cash flow from operations	6,829	5,728	3,766	9,985	4,455
	Capex	(1,754)	(4,660)	(7,076)	(4,419)	(4,525)
	Cash flow from investing activities	(1,754)	(4,660)	(7,076)	(4,419)	(4,525)
	Dividends paid	(239)	(1,117)	(819)	(946)	(1,152)
	Cash flow from financing activities	(4,327)	(8,222)	1,390	(3,933)	(2,516)
	Cash at beginning of period	2,931	2,470	10,586	8,867	11,945
	Net change in cash	748	(7,154)	(1,920)	1,633	(2,586)
	Ending balance cash	2,470	10,586	8,867	11,815	8,669
	<b>Balance sheet (IDRb)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	3,828	10,586	8,867	11,945	8,674
	Tangible fixed assets	54,720	56,209	59,702	60,492	61,336
	Total investments	0	5	2	1	0
	Total assets	76,504	77,335	82,784	84,060	85,642
	Short-term debt	3,913	507	507	507	507
	Total long-term debt	12,936	18,551	15,563	14,199	12,199
	Total liabilities	34,940	34,090	32,039	31,174	30,110
	Total equity	41,564	43,245	50,744	52,886	55,532
	Total liabilities & equity	76,504	77,335	82,784	84,060	85,642
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	4.4	(0.9)	8.3	4.1	7.0
	Recurrent EPS growth (%)	(26.5)	4.2	14.8	10.4	18.8
	Gross margin (%)	32.0	29.4	31.5	32.5	33.4
	Operating EBITDA margin (%)	22.7	21.3	22.6	22.9	23.5
	Net profit margin (%)	5.6	6.5	7.3	7.6	8.5
	Dividend payout ratio (%)	54.6	34.6	32.8	36.8	33.7
	Capex/sales (%)	4.8	12.8	18.0	10.8	10.3
	Interest cover (x)	2.90	3.20	3.69	3.89	4.33

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

SMGR has reduced its clinker factor and implemented: i) energy optimisation programmes for each cement plant, ii) Smart Plants through automation technology, iii) Waste Heat Recovery Power Generation-(WHRPG). It also increased the amount of waste utilised as alternative fuel by installing the required equipment.

The total volume of GHG emissions in 2022 was recorded at 23,036,305 tons of CO<sub>2</sub>, 13.51% lower than in 2021 (26,634,394 tons of CO<sub>2</sub>), and 3.56% lower than in 2020 (25,359,445 tons of CO<sub>2</sub>).

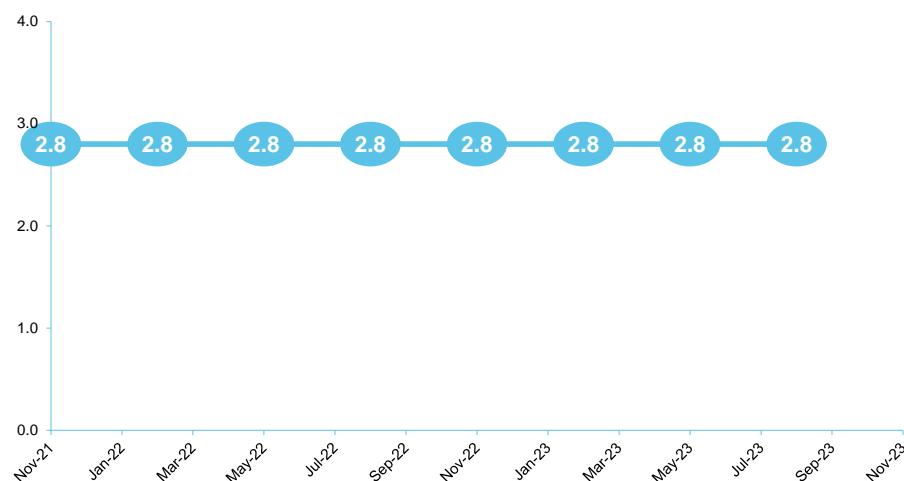
Emissions (tCO <sub>2</sub> e)	Dec-20	Dec-21	Dec-22
Scope 1	na	na	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

Source: Company data, RHB

## Latest ESG-Related Developments

- SMGR has taken steps to reduce its clinker factor, digitalise its electricity usage and efficiency, and has initiated the use of solar panel technology.
- Overall achievements include:
  - Thermal Substitution Rate (TSR) reached 7.35% in 2022
  - Efficiency specific thermal energy consumption (STEC) reached 821 kcal/kg in 2022.
  - Brought the use of purified gypsum and alternative materials throughout its plants to a minimum of 85%, with purified gypsum's actual use exceeding the target, at 86%.
  - Clinker factor decrease for Ordinary Portland Cement (OPC; <88%) and Portland Composite Cement (PCC) regular to 63%, with actual clinker factor efficiency at 62.9%.

## ESG Rating History



Source: RHB

3 November 2023

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Figure 1: 3Q23 results highlights

(in IDRbn)	3Q22*	2Q23	3Q23	Chg QoQ	Chg YoY	9M22*	9M23	Chg YoY	% of RHB	% of Cons
<b>Sales</b>	<b>9,899</b>	<b>8,097</b>	<b>10,629</b>	<b>31.3%</b>	<b>7.4%</b>	<b>26,600</b>	<b>27,661</b>	<b>4.0%</b>	<b>70%</b>	<b>71%</b>
Cost of revenues	(6,787)	(6,127)	(7,605)	<b>24.1%</b>	<b>12.1%</b>	(18,704)	(20,221)	<b>8.1%</b>		
<b>Gross profit</b>	<b>3,112</b>	<b>1,970</b>	<b>3,024</b>	<b>53.5%</b>	<b>-2.8%</b>	<b>7,897</b>	<b>7,440</b>	<b>-5.8%</b>	<b>60%</b>	<b>66%</b>
Operating expenses	(1,611)	(1,199)	(1,528)	<b>27.4%</b>	<b>-5.2%</b>	(4,424)	(4,074)	<b>-7.9%</b>		
<b>Operating profit</b>	<b>1,501</b>	<b>771</b>	<b>1,496</b>	<b>94.2%</b>	<b>-0.3%</b>	<b>3,473</b>	<b>3,366</b>	<b>-3.1%</b>	<b>63%</b>	<b>69%</b>
<b>Depreciation</b>	<b>770</b>	<b>764</b>	<b>821</b>	<b>7.4%</b>	<b>6.6%</b>	<b>2,354</b>	<b>2,347</b>	<b>-0.3%</b>		
<b>EBITDA</b>	<b>2,271</b>	<b>1,535</b>	<b>2,318</b>	<b>51.0%</b>	<b>2.0%</b>	<b>5,827</b>	<b>5,713</b>	<b>-2.0%</b>	<b>64%</b>	<b>69%</b>
Interest income	15	48	42	<b>-11.1%</b>	<b>174.0%</b>	63	137	<b>115.7%</b>		
Interest expense	(335)	(344)	(350)	<b>1.6%</b>	<b>4.5%</b>	(1,080)	(1,034)	<b>-4.2%</b>		
Other income (loss)	16	27	63	<b>128.4%</b>	<b>285.1%</b>	84	85	<b>1.3%</b>		
Sum other income (loss)	<b>(303)</b>	<b>(269)</b>	<b>(245)</b>	<b>-9.1%</b>	<b>-19.2%</b>	<b>(932)</b>	<b>(813)</b>	<b>-12.8%</b>		
Income from asso. company	0	-	(16)	<b>N/A</b>	<b>N/A</b>	2	(14)	<b>N/A</b>		
<b>Pre-tax profit</b>	<b>1,198</b>	<b>501</b>	<b>1,235</b>	<b>146.5%</b>	<b>3.1%</b>	<b>2,543</b>	<b>2,539</b>	<b>-0.1%</b>	<b>63%</b>	<b>66%</b>
Tax	(307)	(193)	(333)	<b>72.9%</b>	<b>8.3%</b>	(767)	(746)	<b>-2.8%</b>		
<b>Profit before MI</b>	<b>891</b>	<b>309</b>	<b>902</b>	<b>192.4%</b>	<b>1.3%</b>	<b>1,775</b>	<b>1,794</b>	<b>1.0%</b>		
MI	(48)	(4)	(55)	<b>1272.0%</b>	<b>13.3%</b>	(93)	(80)	<b>-13.9%</b>		
<b>Net profit</b>	<b>843</b>	<b>305</b>	<b>848</b>	<b>178.3%</b>	<b>0.6%</b>	<b>1,683</b>	<b>1,714</b>	<b>1.8%</b>	<b>59%</b>	<b>63%</b>
<b>Profit margin</b>										
Gross	31.4%	24.3%	28.5%			29.7%	26.9%			
Operating	15.2%	9.5%	14.1%			13.1%	12.2%			
EBITDA	22.9%	19.0%	21.8%			21.9%	20.7%			
Pretax margin	12.1%	6.2%	11.6%			9.6%	9.2%			
Net	8.5%	3.8%	8.0%			6.3%	6.2%			

\*Note: Revised after Semen Baturaja (SMBR) consolidation

Source: Company data, RHB

Figure 2: 3Q23 operational highlights

	3Q22*	2Q23	3Q23	Chg QoQ	Chg YoY	9M22*	9M23	Chg YoY
Sales (IDR bn)	9,899	8,097	10,629	31.3%	7.4%	26,600	27,661	4.0%
Domestic	9,085	7,138	9,453	32.4%	4.0%	24,039	24,354	1.3%
Export	814	999	1,171	17.2%	43.9%	2,561	3,307	29.1%
Volume (m tons)	9.7	8.5	11.3	32.6%	16.7%	27.6	29.2	6.0%
Domestic	8.4	6.8	9.2	35.2%	9.6%	23.3	23.4	0.7%
Export	1.3	1.7	2.1	22.1%	63.1%	4.3	5.8	34.1%
Blended ASP/tonne (in IDRk)	1,022	949	940	-1.0%	-8.0%	965	947	-1.9%
Domestic ASP (in IDRk)	1,081	1,048	1,026	-2.0%	-5.1%	1,033	1,039	0.6%
Export ASP* clinker (in IDRk)	634	583	559	-4.0%	-11.8%	596	574	-3.7%
COGS/tonne (in IDRk)	701	718	673	-6.4%	-4.0%	679	692	2.0%
Opex/tonne (in IDRk)	166	141	135	-3.9%	-18.7%	161	140	-13.1%
COGS + Opex /tonne (in IDRk)	867	859	808	-6.0%	-6.8%	839	832	-0.9%
Production cost	6,787	6,288	7,496	19.2%	10.5%	18,930	20,299	7.2%
Raw material used	323	607	452	-25.4%	40.1%	1,195	1,429	19.5%
Labour & manufacturing costs	6,464	5,681	7,044	24.0%	9.0%	17,735	18,870	6.4%
Fuel & energy cost	2,457	2,225	2,879	29.4%	17.2%	6,945	7,608	9.6%
Production cost (in IDR '000 / ton)	701	737	663	-10.1%	-5.3%	687	695	1.2%
Raw material used (in IDR '000 / ton)	33	71	40	-43.7%	20.1%	43	49	12.8%
Labor & manufacturing costs (in IDR '000 / ton)	667	666	623	-6.5%	-6.6%	643	646	0.4%
Fuel & energy cost (in IDR '000 / ton)	254	261	255	-2.4%	0.4%	252	261	3.4%
Opex (in IDR '000 / ton)	166	141	135	-3.9%	-18.7%	161	140	-13.1%
Marketing (in IDR '000 / ton)	82	63	56	-11.1%	-32.0%	80	61	-23.9%
G&A (in IDR '000 / ton)	84	78	79	1.8%	-5.9%	80	78	-2.3%

\*Note: Revised after SMBR consolidation

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-03-16	Buy	9,300	6,000
2023-02-03	Buy	10,500	7,275
2022-12-12	Buy	10,200	6,750
2022-03-09	Buy	9,100	6,425
2021-11-04	Buy	10,600	9,900
2021-05-05	Buy	12,800	10,150
2021-03-02	Buy	14,700	11,700
2021-01-14	Buy	14,700	11,925
2020-08-11	Buy	11,300	9,600
2020-05-18	Buy	10,900	8,600
2020-03-19	Buy	9,500	5,875
2020-02-17	Buy	17,100	11,575
2020-02-17	Buy	17,100	11,575
2019-12-05	Buy	17,100	12,425
2019-11-12	Buy	16,300	12,650

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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