

8 May 2023

Basic Materials | Building Materials

## Semen Indonesia (SMGR IJ)

**Buy** (Maintained)

### Higher FY23F Utilisation Rate; Keep BUY

Target Price (Return): IDR9,300 (63.2%)  
 Price (Market Cap): IDR5,700 (USD2,622m)  
 ESG score: 2.80 (out of 4)  
 Avg Daily Turnover (IDR/USD) 60,065m/3.99m

- **Keep BUY and IDR9,300 TP, 63% upside, c.3% yield.** After securing 100% of its coal at domestic market obligation (DMO) prices, Semen Indonesia's exports surged +97.2% QoQ to 2m tonnes. It targets export sales of 8.5 tonnes this year, which should boost its utilisation to 76% (FY22: 65%). The moderate decline in 1Q23 domestic ASPs (-1.9% QoQ) showed that the price war situation was manageable. Despite weaker GPM due to the fuel price hike, earnings were at IDR562bn (+11.1% YoY) from a lighter balance sheet.
- **Higher export sales.** SMGR's 1Q23 domestic volumes contracted 6.2% YoY, in line with the industry (6.5% YoY), due to the rainy season. Export volumes ramped up to 2m tonnes (+97.2% QoQ, +16.4% YoY) after SMGR secured 100% of its coal at DMO prices for the year. Domestic ASPs were down slightly (-1.9% QoQ) to IDR1,052k/tonne after it used a micro market strategy that offers promotions in cities with strong competition. However, we have not seen a severe price war in the market so far.
- **Higher production costs.** Total sales were in line – 23% of our and Street estimates – at IDR8.9trn (-19.5% QoQ, +4.5% YoY) as it softened during the fasting and *Ramadhan* season. GPM fell to 27.4% (4Q22: 30%, 1Q22: 28.6%) due to the Nov 2022 fuel price hike, which pushed energy cost/tonne up by 7.8% QoQ from coal transportation, and raw material cost/ton, which rose 11.5% YoY from distribution costs. The QoQ decrease in raw material costs was due to a change in sales mix, as export volumes recovered.
- **Absolute EBITDA target.** EBITDA was flattish (+0.4% YoY) at IDR1.9trn despite lower EBITDA margin of 20.8% (1Q22: 21.7%) – at 20%/21% of our/consensus' estimates, below expectations. Management guided 5-10% absolute EBITDA growth but expects flat-to-narrower margins.
- **Lighter balance sheet.** In 1Q23, SMGR lightened its balance sheet amidst the higher interest rate environment, with total debt of IDR13.2trn (-28.7% YoY) – cutting its interest expenses by 7.8% YoY. This drove net profit growth of +11.1% YoY to IDR562bn, and wider net margin of 6.3% (1Q22: 5.9%) – below expectations at 19% of our and consensus FY23 forecasts. It now has IDR7.3trn in sustainability linked loans with rates as low as 0.4% if SMGR achieves 560kg Co2/ton for cement by 2025.
- **ESG framework update.** As there is now greater focus on the E pillar on critical climate change issues, we tweaked our ESG weightage. We now assign a 50% weightage to the E pillar, followed by 25% each to the S and G pillars. See our [2 May thematic research](#) for more details. Our TP currently includes a 4% ESG discount.

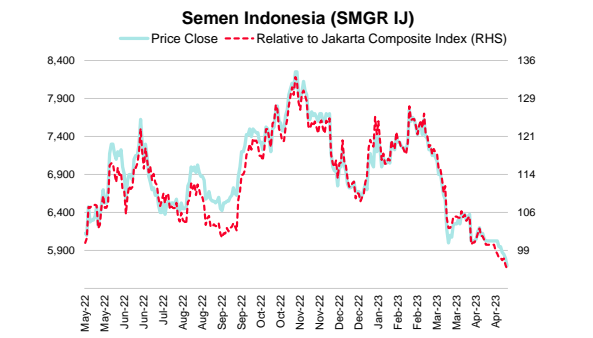
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(13.3)	(5.4)	(21.7)	(30.9)	(10.9)
Relative	(12.4)	(4.9)	(19.9)	(27.2)	(4.8)
52-wk Price low/high (IDR)	5,700 – 8,250				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22	Dec-23F	Dec-24F
Total turnover (IDRb)	35,172	36,702	36,379	39,401	41,011
Recurring net profit (IDRb)	2,836	2,083	2,320	2,837	3,131
Recurring net profit growth (%)	22.0	(26.5)	11.4	22.3	10.4
Recurring P/E (x)	11.92	16.23	15.58	13.56	12.29
P/B (x)	1.0	0.9	1.0	0.9	0.8
P/CF (x)	4.89	4.95	6.31	10.22	3.85
Dividend Yield (%)	0.7	3.3	2.1	2.5	3.0
EV/EBITDA (x)	6.31	6.06	6.15	5.56	4.82
Return on average equity (%)	8.4	5.8	6.4	7.0	6.8
Net debt to equity (%)	53.2	31.3	19.6	14.2	5.2

Source: Company data, RHB

#### Overall ESG Score: 2.80 (out of 4)

##### E: GOOD

SMGR is exploring the use of alternative fuels to reduce carbon emissions. It is also seeking to adopt the newest technologies to monitor both energy consumption and carbon emissions during the manufacturing process.

##### S: GOOD

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

##### G: GOOD

SMGR strives to ensure the implementation of good corporate governance and to improve corporate risk management.

## Financial Exhibits

Asia	Financial summary (IDR)	Dec-20	Dec-21	Dec-22	Dec-23F	Dec-24F
Indonesia	Recurring EPS	478.17	351.22	365.90	420.23	463.80
Basic Materials	DPS	40.33	188.30	121.26	140.11	170.70
<b>Semen Indonesia</b>	BVPS	5,762.50	6,096.50	5,585.05	6,672.99	6,966.09
SMGR IJ	Return on average equity (%)	8.4	5.8	6.4	7.0	6.8
Buy						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Recurring P/E (x)	11.92	16.23	15.58	13.56	12.29
	P/B (x)	1.0	0.9	1.0	0.9	0.8
	DCF base, assuming 9.2% WACC, 3.0% TG	12.9	15.0	3.0	(8.6)	14.5
	FCF Yield (%)	12.9	15.0	3.0	(8.6)	14.5
	Dividend Yield (%)	0.7	3.3	2.1	2.5	3.0
	EV/EBITDA (x)	6.31	6.06	6.15	5.56	4.82
	EV/EBIT (x)	9.76	9.64	10.42	9.30	7.85
	<b>Income statement (IDRb)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total turnover	35,172	36,702	36,379	39,401	41,011
	Gross profit	11,824	11,727	10,678	12,395	13,309
	EBITDA	8,749	8,324	7,740	8,918	9,405
	Depreciation and amortisation	(3,096)	(3,087)	(3,171)	(3,582)	(3,630)
	Operating profit	5,653	5,236	4,569	5,335	5,775
	Net interest	(2,107)	(1,637)	(1,329)	(1,346)	(1,382)
	Pre-tax profit	3,489	3,538	3,299	4,048	4,393
	Taxation	(814)	(1,420)	(800)	(1,012)	(1,098)
	Reported net profit	2,792	2,047	2,365	2,881	3,131
	Recurring net profit	2,836	2,083	2,320	2,837	3,131
	<b>Cash flow (IDRb)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Change in working capital	1,622	1,160	385	(3,131)	2,881
	Cash flow from operations	6,911	6,829	5,728	3,766	9,985
	Capex	(2,548)	(1,754)	(4,660)	(7,076)	(4,419)
	Cash flow from investing activities	(2,548)	(1,754)	(4,660)	(7,076)	(4,419)
	Dividends paid	(1,245)	(239)	(1,117)	(819)	(946)
	Cash flow from financing activities	16,933	(4,327)	(8,222)	1,390	(3,933)
	Cash at beginning of period	3,950	2,931	2,470	10,586	8,867
	Net change in cash	21,296	748	(7,154)	(1,920)	1,633
	Ending balance cash	2,931	2,470	10,586	8,867	11,815
	<b>Balance sheet (IDRb)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	4,034	3,828	10,586	8,867	11,945
	Tangible fixed assets	56,053	54,720	56,209	59,702	60,492
	Total investments	35	0	5	2	1
	Total assets	78,006	76,504	77,335	82,784	84,060
	Short-term debt	2,110	3,913	507	507	507
	Total long-term debt	21,844	12,936	18,551	15,563	14,199
	Total liabilities	40,572	34,940	34,090	32,039	31,174
	Total equity	37,435	41,564	43,245	50,744	52,886
	Total liabilities & equity	78,006	76,504	77,335	82,784	84,060
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(12.9)	4.4	(0.9)	8.3	4.1
	Recurrent EPS growth (%)	22.0	(26.5)	4.2	14.8	10.4
	Gross margin (%)	33.6	32.0	29.4	31.5	32.5
	Operating EBITDA margin (%)	24.9	22.7	21.3	22.6	22.9
	Net profit margin (%)	7.9	5.6	6.5	7.3	7.6
	Dividend payout ratio (%)	8.6	54.6	34.6	32.8	36.8
	Capex/sales (%)	7.2	4.8	12.8	18.0	10.8
	Interest cover (x)	2.44	2.90	3.20	3.69	3.89

Source: Company data, RHB

Figure 1: 1Q23 results highlights

(in IDRbn)	1Q22*	4Q22	1Q23	Chg QoQ	Chg YoY	% of RHB FY23F	% of Cons FY23F
<b>Sales</b>	<b>8,554</b>	<b>11,098</b>	<b>8,935</b>	<b>-19.5%</b>	<b>4.5%</b>	<b>23%</b>	<b>23%</b>
Cost of revenues	(6,105)	(7,763)	(6,489)	-16.4%	6.3%		
<b>Gross profit</b>	<b>2,449</b>	<b>3,335</b>	<b>2,446</b>	<b>-26.7%</b>	<b>-0.1%</b>	<b>20%</b>	<b>21%</b>
Operating expenses	(1,381)	(2,075)	(1,347)	-35.1%	-2.5%		
<b>Operating profit</b>	<b>1,068</b>	<b>1,260</b>	<b>1,099</b>	<b>-12.7%</b>	<b>2.9%</b>	<b>19%</b>	<b>21%</b>
<b>Depreciation</b>	<b>786</b>	<b>934</b>	<b>761</b>	<b>-18.4%</b>	<b>-3.1%</b>		
<b>EBITDA</b>	<b>1,854</b>	<b>2,193</b>	<b>1,861</b>	<b>-15.2%</b>	<b>0.4%</b>	<b>20%</b>	<b>21%</b>
Interest income	31	43	47	7.4%	51.0%		
Interest expense	(369)	(470)	(340)	-27.6%	-7.8%		
Other income (loss)	12	(25)	(5)	-79.9%	-141.1%		
Sum other income (loss)	<b>(326)</b>	<b>(451)</b>	<b>(298)</b>	<b>-33.9%</b>	<b>-8.5%</b>		
Income from associate company	1	(0)	2	N/A	83.1%		
<b>Pre-tax profit</b>	<b>743</b>	<b>808</b>	<b>803</b>	<b>-0.7%</b>	<b>8.1%</b>	<b>17%</b>	<b>19%</b>
Tax	(210)	(41)	(220)	431.1%	4.8%		
<b>Profit before MI</b>	<b>533</b>	<b>767</b>	<b>583</b>	<b>-24.0%</b>	<b>9.4%</b>		
MI	(27)	(52)	(21)	-59.6%	-22.3%		
<b>Net profit</b>	<b>506</b>	<b>715</b>	<b>562</b>	<b>-21.4%</b>	<b>11.1%</b>	<b>19%</b>	<b>19%</b>
<b>Profit margin</b>							
Gross	28.6%	30.0%	27.4%				
Operating	12.5%	11.3%	12.3%				
EBITDA	21.7%	19.8%	20.8%				
Pretax margin	8.7%	7.3%	9.0%				
Net	5.9%	6.4%	6.3%				

\*Note: Restated with SMBR consolidation

Source: Company data, RHB

Figure 2: 1Q23 operational highlights

	1Q22*	4Q22	1Q23	Chg QoQ	Chg YoY
Volume (m tons)	9.6	10.8	9.4	-12.9%	-2.3%
Domestic	7.9	9.8	7.4	-24.1%	-6.2%
Export	1.7	1.0	2.0	97.2%	16.4%
Blended ASP/tonne (in IDRk)	892	1,031	954	-7.5%	6.9%
Domestic ASP (in IDRk)	962	1,072	1,052	-1.9%	9.3%
Export ASP	563	627	581	-7.3%	3.2%
COGS/tonne (in IDRk)	637	721	693	-4.0%	8.8%
Opex/tonne (in IDRk)	144	193	144	-25.4%	-0.2%
COGS + Opex /tonne (in IDRk)	781	914	836	-8.5%	7.1%
Production cost (IDR '000 / ton)	651	871	695	-20.2%	6.9%
Raw material used (in IDR '000 / ton)	35	55	39	-28.8%	11.5%
Fuel & energy cost (in IDR '000 / ton)	259	248	267	7.8%	3.4%

Source: Company data, RHB

## Recommendation Chart

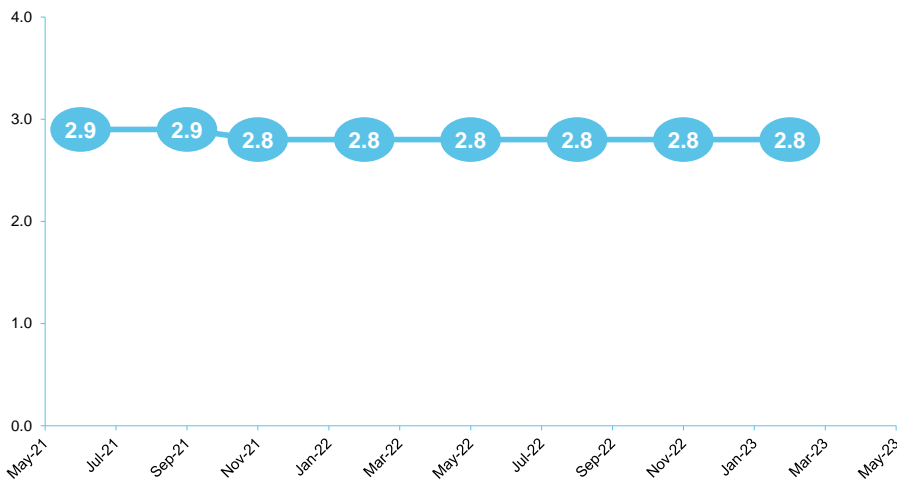


Source: RHB, Bloomberg

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

## ESG Rating History



Source: RHB

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