

30 July 2021

Basic Materials | Building Materials

Indocement (INTP IJ)

Buy (Maintained)

Improved Logistics Costs Boosts Performance

- **BUY and IDR14,000 TP, 52% upside and c.8% FY21F yield.** 1H21 earnings were fairly in line at 34% of our FY21 estimates; 1H18-1H20 earnings were at 31%, 34.9%, and 26% of full-year numbers. Production costs/tonne rose to IDR626k/ton on rising coal prices, though Indocement has managed to partially mitigate this by using alternative fuels. Better transportation & logistics systems helped to reduce delivery costs, opex's biggest component. We expect overall 2H21 cash costs/tonne to likely decline on cyclically high sales volumes – this should trim fixed costs/tonne.
- **Achievable 2021 target.** INTP booked 2Q21 earnings of IDR235bn (-33% QoQ, +238% YoY), bringing the cumulative 1H21 figure to IDR587bn (+24.8% YoY) – this accounted for 34% and 32% of our and Street's estimates. This achievement was fairly in line; note: 1H18-1H20 earnings were at 31%, 34.9%, and 26% of the full-year achievement. Bottomline cyclically improved in 2H, thank to cyclically heavy sales volumes, which should reduce fixed costs/unit and improve production efficiency.
- **Sales volumes cyclically decline during Lebaran.** INTP's 1H21 total sales were fairly in line with our estimate, but below consensus – at 47% and 44%. 2Q21 sales were at IDR3.2trn (-6.1% QoQ, +14.8% YoY), driven by lower domestic sales volume of 3.6m tonnes (1Q21: 3.9m tonnes, 2Q20: 3.3m tonnes) – this was impacted by lower working days in May during *Lebaran*, which reduced construction activities. Starting July, the Government enacted the Emergency Enforcement of Restrictions on Public Activities or PPKM due to rising COVID-19 cases. Although construction activities normally accelerate in 2H, social restrictions may hamper such activity. However, it should not be as severe as last year's, in our view.
- **Lower delivery costs offset increased production costs.** INTP's overall production costs increased to IDR626k/ton (+2.8% YoY), driven by higher fuel costs/tonne (+23.1% YoY) from rising coal prices and higher labour costs/tonne (+7.7% QoQ, +4.6%) for *Lebaran* allowances. However, since the beginning of the year, the company has managed to improve its transportation & logistics system and cut delivery costs by 9.2% YoY. Nevertheless, INTP's EBIT margin has contracted on a short-term basis to 8% (1Q21: 11%, 2Q21: 4%). We expect EBIT margins to improve in 2H21, as production costs/tonne gradually decreases thanks to better operating leverages on higher sales volumes.
- **Outlook and risk.** Bulk cement sales began to improve in April, indicating a recovery in infrastructure projects. However, this recovery may take longer than expected due to the Emergency PPKM. We believe a significant recovery will be seen on August if the PPKM is not prolonged.

Target Price (Return): IDR14,000 (52.2%)
 Price: IDR9,200
 Market Cap: USD2,338m
 Avg Daily Turnover (IDR/USD): 27,056m/1.84m

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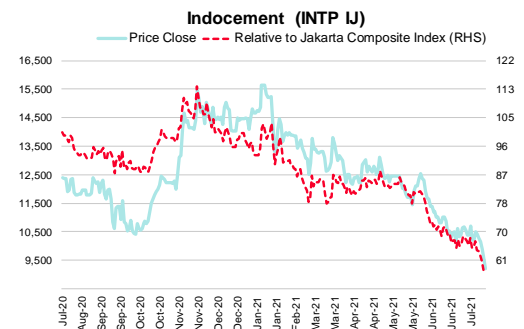


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(36.5)	(12.6)	(29.9)	(31.2)	(25.8)
Relative	(38.3)	(14.9)	(31.2)	(35.1)	(44.9)
52-wk Price low/high (IDR)	9,200 – 15,650				



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: Good

INTP adopted its holding company HeidelbergCement's 2030 Sustainability Commitments as a part of its strategy and targets. The company is utilising waste as alternative fuels and raw materials, and has successfully reduced its usage of fossil fuels.

S: Excellent

Although the industry is a high-risk place to work in, INTP reported zero fatalities for its employees. The company has its own committees to monitor its occupational health and safety (OHS) programmes. It also has a commitment to ensure that safety standards and practices are continuously implemented and improved upon. It has also participated in corporate social responsibility activities, and are involved in education, health, and economic social outreach initiatives.

G: Excellent

INTP applies the best practices of good corporate governance to boost responsibility, accountability and business transparency. The company is easily reachable by shareholders and provides timely disclosures of material information.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F
Total turnover (IDRb)	15,939	14,184	14,141	14,617
Recurring net profit (IDRb)	1,981	1,942	1,905	2,010
Recurring net profit growth (%)	66.3	(2.0)	(1.9)	5.5
Recurring P/E (x)	17.09	17.44	17.77	16.85
P/B (x)	1.5	1.5	1.6	1.6
P/CF (x)	18.75	9.66	15.85	11.18
Dividend Yield (%)	6.0	7.9	7.8	7.5
EV/EBITDA (x)	8.41	9.02	8.82	8.57
Return on average equity (%)	7.9	8.0	8.7	9.3
Net debt to equity (%)	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (IDR)	Dec-19	Dec-20	Dec-21F	Dec-22F
Indonesia	Recurring EPS	538.22	527.59	517.59	545.94
Basic Materials	DPS	550.00	725.00	713.56	691.04
Indocement	BVPS	6,269.71	6,024.14	5,841.14	5,646.91
INTP IJ	Return on average equity (%)	7.9	8.0	8.7	9.3
Buy					
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	17.09	17.44	17.77	16.85
DCF, assuming 9.6% WACC, 3% TG	P/B (x)	1.5	1.5	1.6	1.6
	FCF Yield (%)	3.7	6.5	3.6	6.7
	Dividend Yield (%)	6.0	7.9	7.8	7.5
	EV/EBITDA (x)	8.41	9.02	8.82	8.57
	EV/EBIT (x)	13.14	13.56	14.74	14.14
Key drivers					
i. Accelerated infrastructure projects;					
ii. Lower loan to value and mortgage rates, which boost housing sales;					
iii. Tax amnesty.					
Key risks					
i. Cement overcapacity situation;					
ii. Rising competition;					
iii. Prolonged risk from COVID-19 cases.					
Company Profile					
INTP is Indonesia's second-largest cement producer by capacity, with plants in Citeureup and Palimanan (West Java) and Tarjun (South Kalimantan).					
	Income statement (IDRb)	Dec-19	Dec-20	Dec-21F	Dec-22F
	Total turnover	15,939	14,184	14,141	14,617
	Gross profit	5,500	5,114	4,921	5,233
	EBITDA	3,120	2,945	3,142	3,280
	Depreciation and amortisation	(1,123)	(985)	(1,261)	(1,293)
	Operating profit	1,997	1,960	1,881	1,988
	Net interest	441	335	404	429
	Pre-tax profit	2,275	2,148	2,277	2,378
	Taxation	(440)	(342)	(386)	(407)
	Reported net profit	1,835	1,806	1,891	1,970
	Recurring net profit	1,981	1,942	1,905	2,010
	Cash flow (IDRb)	Dec-19	Dec-20	Dec-21F	Dec-22F
	Change in working capital	(313)	562	(470)	(407)
	Cash flow from operations	1,806	3,506	2,137	3,030
	Capex	(566)	(1,302)	(930)	(762)
	Cash flow from investing activities	(414)	(1,151)	(934)	(748)
	Dividends paid	(2,025)	(2,669)	(2,627)	(2,544)
	Cash flow from financing activities	(1,934)	(2,183)	(2,602)	(2,544)
	Cash at beginning of period	7,226	7,652	7,698	6,146
	Net change in cash	(543)	172	(1,399)	(262)
	Ending balance cash	7,652	7,698	6,146	5,755
	Balance sheet (IDRb)	Dec-19	Dec-20	Dec-21F	Dec-22F
	Total cash and equivalents	7,652	7,698	6,146	5,755
	Tangible fixed assets	14,080	14,397	14,066	13,535
	Total investments	76	96	105	113
	Total assets	27,708	27,345	25,132	24,852
	Short-term debt	107	254	107	107
	Total long-term debt	4	247	3	3
	Total liabilities	4,627	5,168	3,809	4,243
	Total equity	23,080	22,176	21,324	20,609
	Total liabilities & equity	27,708	27,345	25,132	24,852
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F
	Revenue growth (%)	4.9	(11.0)	(0.3)	3.4
	Recurrent EPS growth (%)	66.3	(2.0)	(1.9)	5.5
	Gross margin (%)	34.5	36.1	34.8	35.8
	Operating EBITDA margin (%)	19.6	20.8	22.2	22.4
	Net profit margin (%)	11.5	12.7	13.4	13.5
	Dividend payout ratio (%)	110.3	147.8	138.9	129.1
	Capex/sales (%)	3.6	9.2	6.6	5.2
	Interest cover (x)	258	38	134	141

Source: Company data, RHB

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Figure 1: Indocement's 2Q21 financial results

(IDR bn)	2Q20	1Q21	2Q21	QoQ	YoY	6M20	6M21	YoY	% RHB	% Cons
Sales	2,812	3,438	3,229	-6.1%	14.8%	6,175	6,667	8.0%	47%	44%
Cost of revenues	-1,997	-2,338	-2,234	-4.5%	11.9%	-4,295	-4,573	6.5%		
Gross profit	815	1,100	995	-9.6%	22.0%	1,880	2,094	11.4%	43%	40%
Opex	-694	-735	-750	2.0%	8.1%	-1,465	-1,486	1.4%		
Operating profit	121	364	244	-33.0%	101.7%	415	609	46.8%	32%	31%
Financing income	103	64	59	-8.6%	-43.1%	214	123	-42.8%		
Financing expenses	15	-13	-8	-37.8%	-153.4%	-6	-21	239.8%		
Interest expenses - net	118	51	50	-1.1%	-57.3%	208	101	-51.3%		
Others	-130	31	2	-93.7%	-101.5%	-37	33	-190.0%		
Total other income (exp.)	-12	82	52	-36.2%	-551.2%	171	135	-21.4%		
Associated companies	3	6	7	20.5%	158.3%	7	13	83.6%		
Pretax profit	112	452	303	-32.9%	170.6%	593	756	27.5%	35%	34%
Tax expenses	-43	-101	-68	-32.4%	60.2%	-123	-169	37.8%		
Net profit	70	351	235	-33.0%	238.0%	470	587	24.8%	34%	32%
Profit margins										
Gross	29%	32%	31%			30%	31%			
Operating	4%	11%	8%			7%	9%			
Net	2%	10%	7%			8%	9%			
Operating costs-to-sales ratio	24.7%	21.4%	23.2%			23.7%	22.3%			

Source: Company data, RHB

Figure 2: Sales and costs per tonne

	2Q20	1Q21	2Q21	QoQ	YoY	6M20	6M21	YoY
Domestic volume (k tonnes)	3,283	3,852	3,572	-7.3%	8.8%	7,082	7,424	4.8%
Domestic ASP (IDR '000/tonne)	857	893	904	1.3%	5.5%	872	898	3.0%
Cost of revenues per tonne (IDR '000/tonne)	608	607	626	3.0%	2.8%	607	616	1.6%
Opex per tonne (IDR '000/tonne)	212	191	210	10.1%	-0.7%	207	200	-3.3%
Cash cost per tonne (IDR '000/tonne)	820	798	836	4.7%	1.9%	813	816	0.3%

Source: Company data, RHB

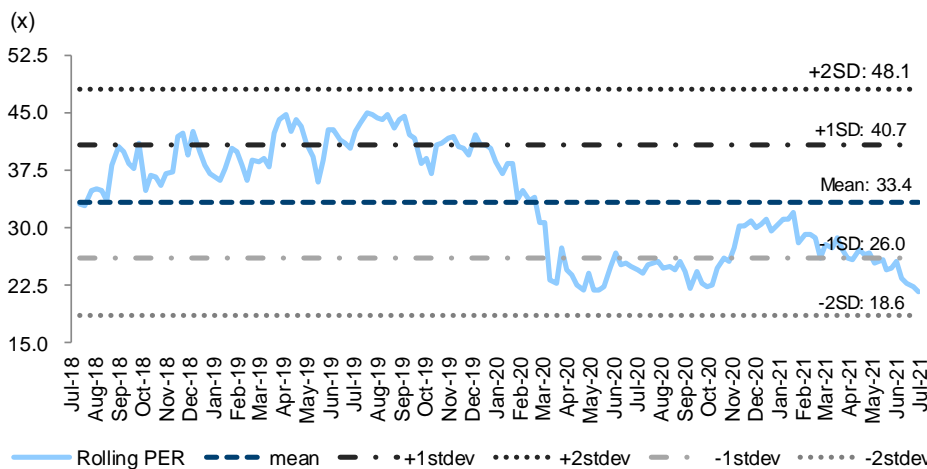
Figure 3: Cost breakdown

Cost of revenues breakdown	2Q20	1Q21	2Q21	QoQ	YoY	6M20	6M21	YoY
Raw material used (IDR '000/tonne)	120	137	117	-14.9%	-2.2%	126	128	1.0%
Direct labour (IDR '000/tonne)	60	58	62	7.7%	4.6%	61	60	-1.6%
Fuel and power (IDR '000/tonne)	205	241	253	4.8%	23.1%	226	247	8.9%
Manufacturing overhead (IDR '000/tonne)	160	137	148	8.7%	-7.4%	151	142	-5.7%
Packing cost (IDR '000/tonne)	52	46	46	-1.3%	-11.4%	53	46	-13.1%

Opex breakdown	2Q20	1Q21	2Q21	QoQ	YoY	6M20	6M21	YoY
Delivery and selling (IDR '000/tonne)	136	118	124	4.4%	-9.2%	135	121	-10.7%
G&A (IDR '000/tonne)	36	30	33	8.3%	-8.1%	33	32	-4.4%

Source: Company data, RHB

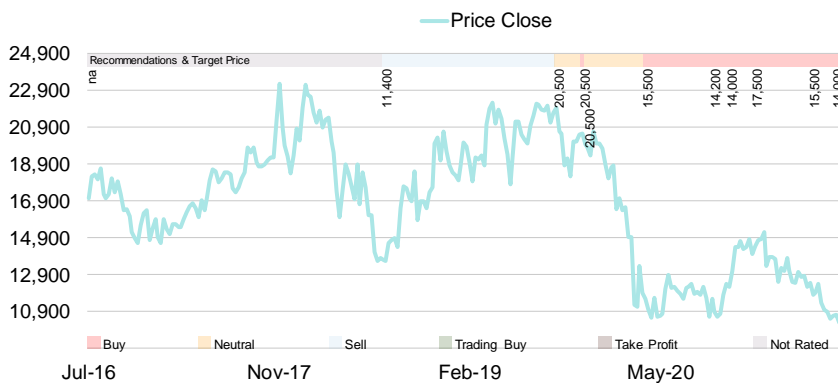
Figure 4: INTP's 3-year average P/E band



◆ INTP is trading near -1.5SD from its 3-year forward-rolling P/E mean. This represents a c.31% upside to its FY21F target P/E of 29.5x (currently at 21.6x)

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-07-05	Buy	14,000	10,175
2021-05-09	Buy	15,500	12,250
2020-12-21	Buy	17,500	14,775
2020-10-21	Buy	14,000	12,125
2020-09-11	Buy	14,200	10,600
2020-03-31	Buy	15,500	12,500
2019-11-12	Neutral	20,500	20,600
2019-11-01	Buy	20,500	20,525
2019-08-30	Neutral	20,500	21,725
2018-11-01	Sell	11,400	16,875
2018-08-01	Sell	na	14,900
2018-07-10	Sell	11,400	13,950

Source: RHB, Bloomberg

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