

Indocement Tunggal

Prakarsa Tbk (INTP IJ)

The Second Quarter Trend Strikes Again

Overshadowed by cement oversupply, INTP's 2Q19 performance was weaker than that in 1Q19 as both cement and ready-mix segments experienced declines in sales. However, expansion plans and new eco-friendly products are keys to INTP's future performance.

Modest Performance

In 2Q19, INTP accounted for IDR3.2 trillion worth of revenues (+6.7% YoY, -12.9% QoQ); IDR979 billion worth of gross profits (-2.6% YoY, -15.9% QoQ); and IDR243 billion worth of net profits (+167.6% YoY, -38.8% QoQ). The 2Q19 modest performance was attributable to a downturn in cement sales. Additionally, gross margins decreased to 24.6% (vs. 35.8% in 1Q19); operating margins declined to 6% (vs. 10.6% in 1Q19); and net profit margins snapped lower to 7.5% (vs. 10.6% in 1Q19).

A Trend of 2Q Downbeat

Looking back through its performance trend since 2016, INTP consistently posted losses in the second quarter due to Eid holiday when domestic consumption is low. Its 2Q19 mediocre performance marked by cement sales of IDR3 trillion (+8.1% YoY, -13.1% QoQ), ready-mix sales of IDR324 billion (-11.3% YoY, -13.4% QoQ) as sales in Jakarta, Sulawesi, and Sumatra contributed the greatest losses to INTP's total sales portion. We estimate that in 2019F, INTP is likely to book sales of IDR15.2 trillion based on an assumption of stable ASP that is supported by the total sales from West, Central, East Java reaching 9.6-9.8 million tons.

Expansion Plans and New Products

INTP in 2019, is likely to acquire a new factory in Java area. If it successfully acquires one factory, its sales volume in Java area will pick up. We are confident that the acquisition is plausible to increase the sales volume of one of its cement brand, Rajawali. Of note, sales of Rajawali brand currently contribute 2% to the total sales volume. INTP's new product, Tiga Roda Superslag, which is a variant of slag cement, reaps the benefits of slag cement used to construct port projects in West Java. Thus, Tiga Roda Superslag has the potential for driving for INTP's buoyant sales performance.

HOLD Rating with the Price Target of IDR22,075

The stagnant cement industry and INTP's premium valuation are two logical takeaways for our HOLD recommendation with the price target of IDR22,075 or a 7.3% potential upside based on the forward P/E of 42x (-0.5 SD). Currently, INTP is traded with a 2019F P/E of 51.4x.

Indocement Tunggal Prakarsa Tbk | Summary

	2018A	2019F	2020F	2021F
Sales	15,190	15,272	15,660	16,129
Growth (%)	5.3%	0.5%	2.5%	3.0%
EBITDA	2,354	2,527	3,046	3,293
Net Profit	1,146	1,345	1,749	1,933
EPS (IDR)	311	365	475	525
Growth (%)	-38.4%	17.4%	30.0%	10.5%
P/E	60.3x	51.4x	39.5x	35.7x
P/BV	3.0x	3.1x	3.0x	2.9x
EV/EBITDA	26.3x	24.5x	20.2x	18.3x
ROE (%)	4.8%	5.9%	7.7%	8.2%
DER (%)	0.5%	0.5%	0.5%	0.5%
Net Debt	-7,110	-7,277	-7,626	-8,910

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Hold

Dec 2020 TP (IDR)	22,075
Consensus Price (IDR)	19,589
TP to Consensus Price	12.7%
vs. Last Price	7.3%

Shares data

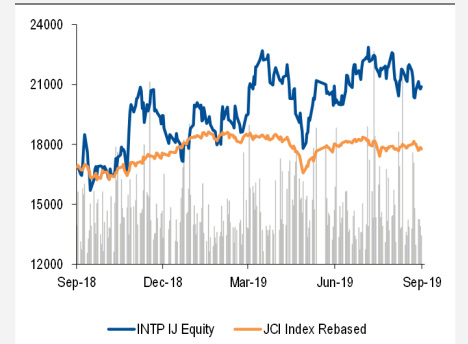
Last Price (IDR)	20,575
Price Date as of	Sep 20, 2019
52 wk Range (Hi/Lo)	22,875 / 15,475
Free Float (%)	49.0
Outstanding sh.(mn)	3,681
Market Cap (IDR bn)	76,938
Market Cap (USD mn)	5,465
Avg. Trd Vol - 3M (mn)	1.98
Avg. Trd Val - 3M (bn)	42.30
Foreign Ownership	99.9%

Basic Industry

Cement

Bloomberg	INTP IJ
Reuters	INTP.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	13.7%	-8.8%	2.5%	21.9%
Rel. Ret.	12.9%	-7.7%	4.1%	16.9%

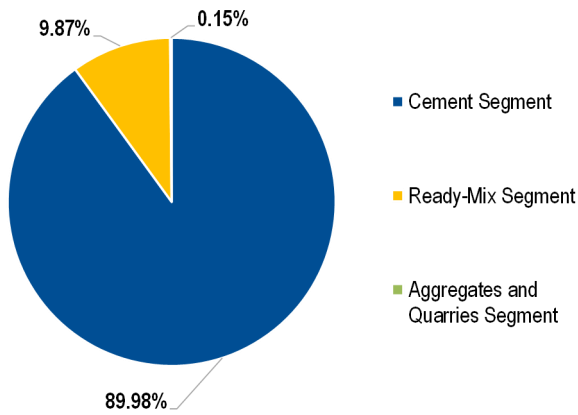
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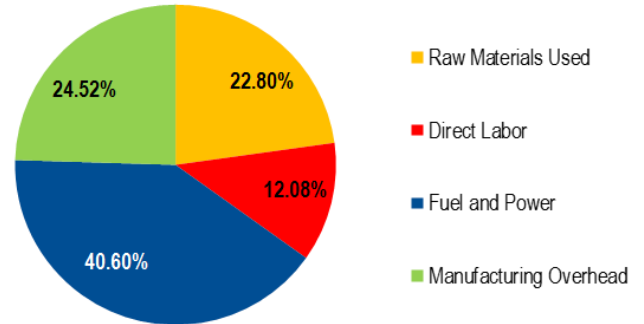
Performance Highlights in Charts

6M19 Revenue Breakdown



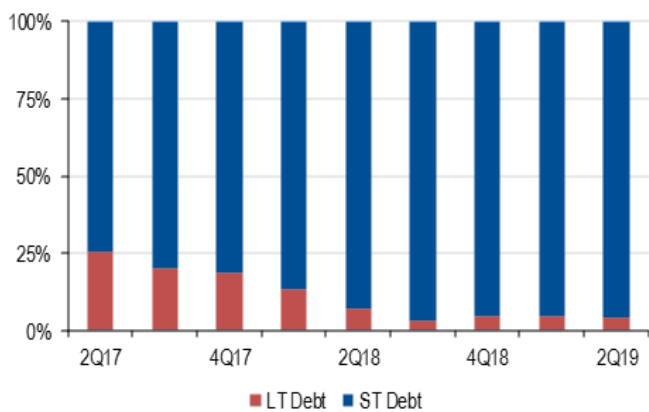
Source: Company Data, NHKS Research

Manufacturing Cost Breakdown



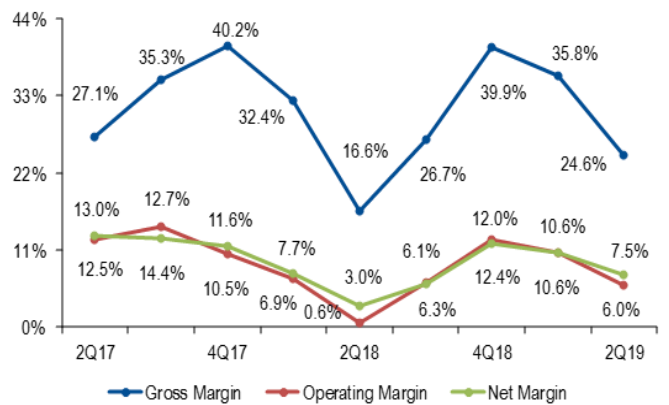
Source: Company Data, NHKS Research

ST Debt & LT Debt



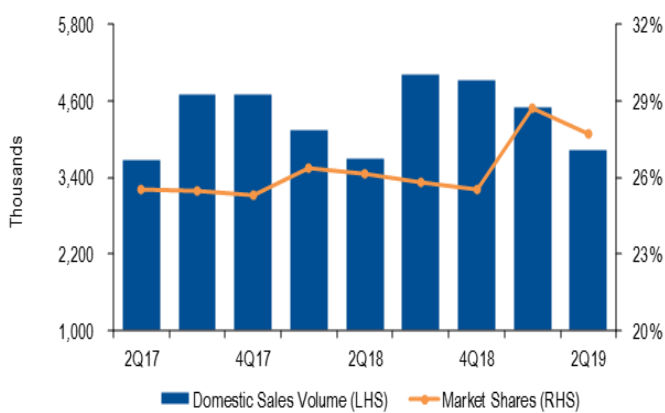
Source: Company Data, NHKS Research

Margin Ratio



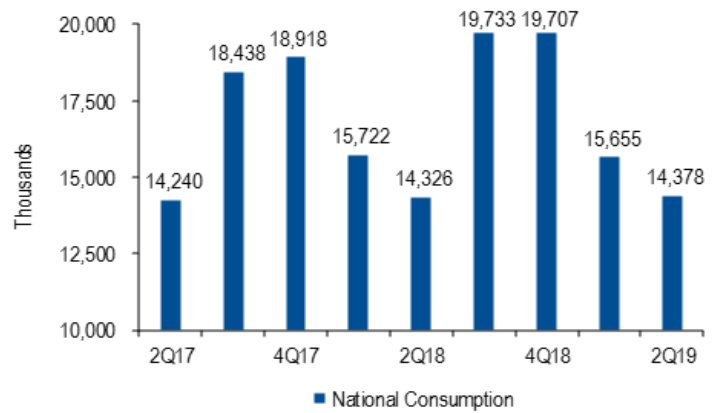
Source: Company Data, NHKS Research

Domestic Sales Volume & Market Shares



Source: Company Data, NHKS Research

National Consumption



Source: Company Data, NHKS Research

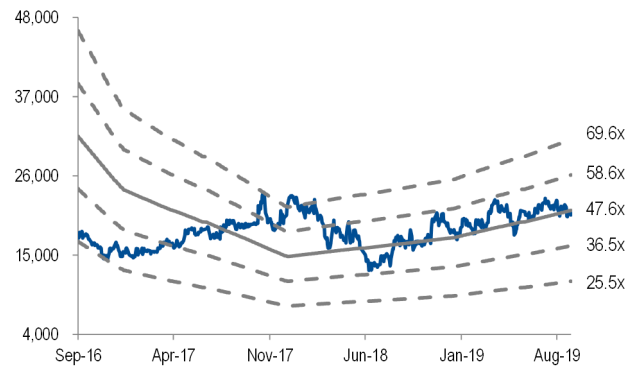
Valuation Highlights in Charts

3-Year Forward P/E Band



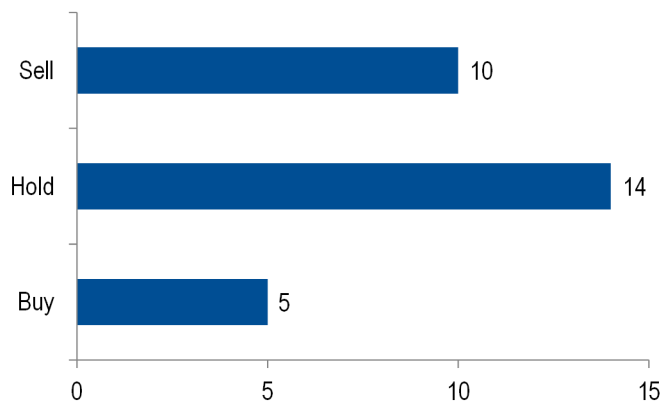
Source: Bloomberg, NHKS Research

3-Year Dynamic Forward P/E Band



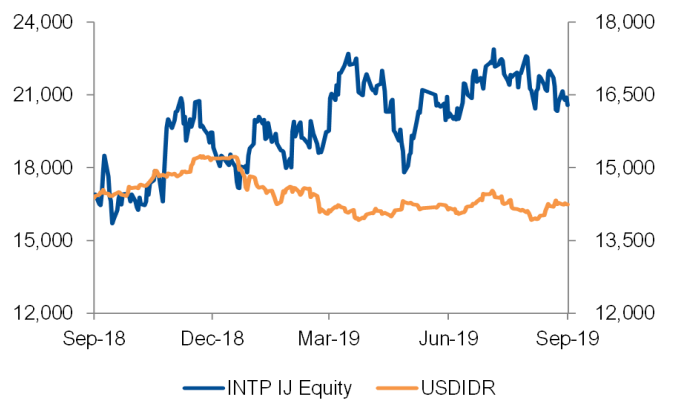
Source: Bloomberg, NHKS Research

Recommendations by Analysts



Source: Bloomberg, NHKS Research

Stock and USDIDR Correlated Negatively



Source: Bloomberg, NHKS Research

Quarterly Review

	2Q18	3Q18	4Q18	1Q19	2Q19			3Q19E	
					Actual	Estimate	Y-Y		Q-Q
Income statement									
Sales	3,045	4,288	4,417	3,733	3,250		6.7%	-12.9%	3,980
Gross Profit	713	1,179	1,491	1,164	979		37.4%	-15.9%	1,196
EBIT	18	272	547	395	195		980.3%	-50.6%	190
EBITDA	313	616	868	702	470		50.1%	-33.3%	14.4%
Net Profit	91	263	528	397	243		167.6%	-38.8%	241
Margin									
Gross Margin	23.4%	27.5%	33.7%	31.2%	30.1%		6.7%	-1.0%	30.0%
EBIT Margin	0.6%	6.3%	12.4%	10.6%	6.0%		6.7%	-1.0%	4.8%
EBITDA Margin	10.3%	14.4%	19.6%	18.8%	14.5%		4.2%	-4.3%	14.4%
Net Profit Margin	3.0%	6.1%	12.0%	10.6%	7.5%		4.5%	-3.2%	6.1%

Unit: IDR bn, %

Source: Company Data, NHKS Research

Earnings Revision

		2019F	2020F	2021F
Income Statement				
Sales	-Revised	15,272	15,660	16,129
	-Previous	15,678	16,462	
	-Change	-2.6%	-4.9%	
Gross Profit	-Revised	4,841	5,105	5,307
	-Previous	4,703	5,103	
	-Change	2.9%	0.0%	
EBIT	-Revised	1,241	1,723	1,936
	-Previous	1,343	1,591	
	-Change	-7.6%	8.3%	
EBITDA	-Revised	2,527	3,046	3,293
	-Previous	2,614	2,898	
	-Change	-3.3%	5.1%	
Net Profit	-Revised	1,345	1,749	1,933
	-Previous	1,366	1,590	
	-Change	-1.5%	10.0%	
Margin				
Gross Margin	-Revised	31.7%	32.6%	32.9%
	-Previous	30.0%	31.0%	
EBIT Margin	-Revised	8.1%	11.0%	12.0%
	-Previous	8.6%	9.7%	
EBITDA Margin	-Revised	16.5%	19.4%	20.4%
	-Previous	16.7%	17.6%	
Net Profit Margin	-Revised	8.8%	11.2%	12.0%
	-Previous	8.7%	9.7%	

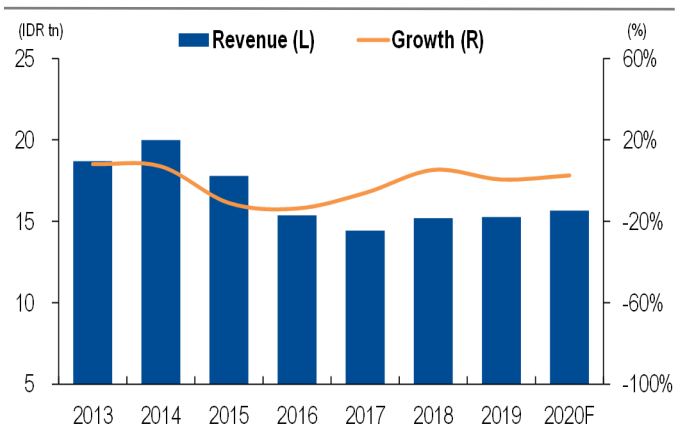
Unit: IDR bn, %

Source: Company Data, NHKS Research

Company Overview

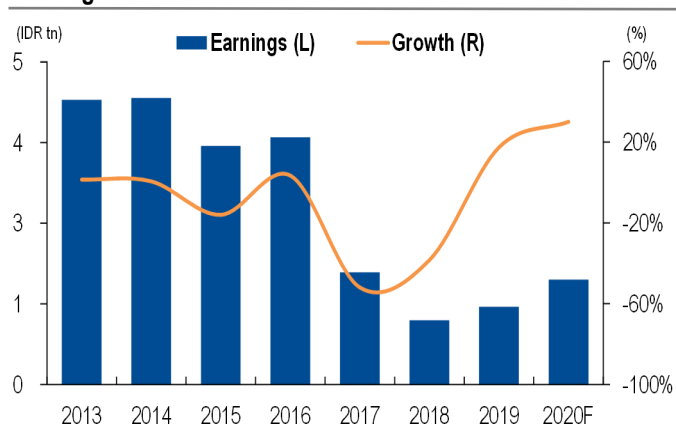
- PT Indocement Tunggal Prakarsa Tbk was founded in 1985 by merging six companies and eight factories in one integrated management and in 1989 made an initial public offering, with INTP as its stock code.
- To date, INTP has 13 cement plants, with the total annual production capacities of 24.9 million tons. Ten plants are located in the Citeureup Factory Complex, Bogor, West Java; two plants are located in the Palimanan Factory Complex, Cirebon, West Java; and another plant is located in the Tarjun Factory Complex, Kotabaru, South Kalimantan.
- INTP has a cement brand that is already well known to consumers, namely Tiga Roda cement. In 2017, INTP launched a new brand that is Rajawali cement. In that year, INTP also launched a new product through the Tiga Roda brand, Tiga Roda Supeslag Cement which is a type of portland cement known as environmentally friendly cement since it produces lower carbon dioxide emissions.

Revenue and Growth Movements



Source: Company Data, NHKS Research

Earnings and Growth Movements



Source: Company Data, NHKS Research

Asia Pacific Companies Peers Analysis

	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Profit Margin	ROE LTM	P/E LTM	P/BV
Indonesia									
INDOCEMENT TUNGGAL PRAKARSA TBK	5,374	1,926	1,086	99	9.0%	9.1%	6.5%	52.9x	3.5x
SEMEN INDONESIA TBK	5,383	3,546	2,335	179	37.0%	7.7%	8.7%	29.2x	2.5x
SOLUSI BANGUN INDONESIA TBK	729	1,294	723	-39	34.2%	-5.4%	-8.9%	N/A	1.7x
SEMEN BATURAJA TBK	512	384	142	4	-46.0%	2.9%	1.7%	122.6x	2.1x
Malaysia									
CAHYA MATA SARAWAK BHD	582	1,015	431	53	-14.6%	12.2%	8.8%	11.2x	1.0x
Thailand									
SIAM CITY CEMEN PUB CO LTD	2,009	2,461	1,446	90	1.1%	6.2%	8.6%	22.0x	2.0x
Philippines									
HOLCIM PHILLIPINES INC	1,705	901	611	46	11.6%	7.4%	10.2%	37.0x	3.4x
China									
ANHUI CONCH CEMENT CO LTD-H	31,246	21,741	22,609	4,714	45.7%	20.9%	30.0%	6.9x	1.9x
CHINA NATIONAL BUILDING MA-H	7,725	63,507	34,561	1,633	37.9%	4.7%	14.0%	5.5x	0.7x
HUAXIN CEMENT CO LTD-B	5,238	4,821	4,351	920	83.6%	21.1%	39.6%	4.6x	1.6x
India									
ULTRATECH CEMENT LTD	15,100	9,309	5,261	348	9.6%	6.6%	8.9%	44.2x	3.8x
SHREE CEMENT LTD	9,098	2,235	1,796	144	-27.3%	8.0%	10.8%	64.5x	6.7x
AMBUJA CEMENTS LTD	5,446	5,358	3,810	319	43.6%	8.4%	10.1%	17.8x	1.7x

Unit: USD mn, %, X

Source: Bloomberg, NHKS Research

Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F		2018/12A	2019/12F	2020/12F	2021/12F
Sales	15,190	15,272	15,660	16,129	ROE	4.8%	5.9%	7.7%	8.2%
<i>Growth</i>	5.3%	0.5%	2.5%	3.0%	ROA	4.0%	4.9%	6.4%	6.9%
COGS	(10,821)	(10,431)	(10,555)	(10,823)	ROIC	18.8%	22.2%	29.8%	34.4%
Gross Profit	4,369	4,841	5,105	5,307	Cash Dividend (IDR bn)	2,025	1,076	1,400	1,547
<i>Gross Margin</i>	28.8%	31.7%	32.6%	32.9%	Dividend Yield	2.9%	1.6%	2.0%	2.2%
Operating Expenses	(3,295)	(3,600)	(3,382)	(3,371)	Payout Ratio	176.7%	80.0%	80.0%	80.0%
EBIT	1,074	1,241	1,723	1,936	DER	0.5%	0.5%	0.5%	0.5%
<i>EBIT Margin</i>	7.1%	8.1%	11.0%	12.0%	Net Gearing	0.6%	0.6%	0.6%	0.5%
Depreciation	(1,280)	(1,286)	(1,323)	(1,358)	LT Debt to Equity	0.5%	0.5%	0.5%	0.5%
EBITDA	2,354	2,527	3,046	3,293	Capitalization Ratio	0.5%	0.5%	0.5%	0.5%
<i>EBITDA Margin</i>	15.5%	16.5%	19.4%	20.4%	Equity Ratio	83.6%	83.6%	83.5%	84.1%
Interest Expenses	(19)	(16)	(18)	(19)	Debt Ratio	0.4%	0.4%	0.5%	0.4%
EBT	1,400	1,657	2,148	2,372	Financial Leverage	118.6%	119.6%	119.7%	119.3%
Income Tax	(254)	(312)	(398)	(439)	Current Ratio	313.7%	327.7%	339.4%	368.0%
Minority Interest	-	-	-	-	Par Value (IDR)	500	500	500	500
Net Profit	1,146	1,345	1,749	1,933	Total Shares (mn)	3,681	3,681	3,681	3,681
<i>Growth</i>	-38.4%	17.4%	30.0%	10.5%	Share Price (IDR)	18,775	18,775	18,775	18,775
<i>Net Profit Margin</i>	7.5%	8.8%	11.2%	12.0%	Market Cap (IDR tn)	69.1	69.1	69.1	69.1

BALANCE SHEET					VALUATION INDEX				
In IDR bn	2018/12A	2019/12F	2020/12F	2021/12F		2018/12A	2019/12F	2020/12F	2021/12F
Cash	7,226	7,397	7,752	9,022	Price/Earnings	60.3x	51.4x	39.5x	35.7x
Receivables	2,966	2,514	2,978	2,679	Price/Book Value	3.0x	3.1x	3.0x	2.9x
Inventories	1,838	1,638	1,879	1,728	Price/Sales	4.5x	4.5x	4.4x	4.3x
Total Current Assets	12,316	11,859	12,903	13,717	PE/EPS Growth	-0.2x	0.3x	0.1x	0.3x
Net Fixed Assets	14,637	14,317	13,934	13,544	EV/EBITDA	26.3x	24.5x	20.2x	18.3x
Other Non Current Assets	730	693	832	863	EV/EBIT	57.7x	49.8x	35.7x	31.1x
Total Assets	27,789	26,961	27,761	28,215	EV (IDR bn)	62,005	61,838	61,489	60,205
Payables	1,760	1,555	1,799	1,640	Sales CAGR (3-Yr)	-5.1%	-0.2%	2.8%	2.0%
Other Liabilities	2,691	2,744	2,652	2,724	EPS CAGR (3-Yr)	-32.6%	-29.7%	-2.0%	19.0%
LT Debt	116	120	126	112	Basic EPS (IDR)	311	365	475	525
Total Liabilities	4,567	4,419	4,577	4,477	Diluted EPS (IDR)	311	365	475	525
Capital Stock	1,841	1,841	1,841	1,841	BVPS (IDR)	6,308	6,124	6,298	6,449
Retained Earnings	18,892	18,213	18,886	19,420	Sales PS (IDR)	4,126	4,149	4,254	4,382
Shareholders' Equity	23,222	22,542	23,183	23,739	DPS (IDR)	550.0	292.4	380.2	420.1

CASH FLOW STATEMENT					TOP OWNERSHIP		
In IDR bn	2018/12A	2019/12F	2020/12F	2021/12F	By Geography	% Shareholders	%
Operating Cash Flow	1,985	3,376	2,574	3,669	United Kingdom	79.2	Birchwood Omnia Ltd 51.0
Investing Cash Flow	(505)	(1,169)	(1,117)	(1,006)	United States	14.3	Invesco Ltd 3.4
Financing Cash Flow	(2,579)	(2,018)	(1,102)	(1,392)	Luxembourg	1.7	Standard Life Aberdeen 2.8
Net Changes in Cash	(1,099)	189	355	1,271	Ireland	1.7	Blackrock 1.4

Source: Company Data, NHKS Research

Closing and target price update



Source: Bloomberg, NHKS Research

Rating and target price update

Date	Rating	Target price	Consensus
2015.07.11	Buy	IDR23,300	IDR22,514
2016.01.29	Buy	IDR24,250	IDR19,811
2016.12.22	Buy	IDR20,050	IDR16,150
2017.08.10	Hold	IDR19,275	IDR15,214
2017.11.22	Hold	IDR21,575	IDR18,134
2018.11.13	Hold	IDR19,950	IDR16,346
2019.09.22	Hold	IDR22,075	IDR19,589

Source: NHKS Research

NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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