Semen Indonesia Tbk (SMGR IJ)

Exports Need to be Boosted

Company Update | Nov 11, 2019

SMGR in the quarter period recorded better performance, but in the annual period of 9M19, it recorded lower performance compared with its performance in 9M18. Although 9M19's revenues increased, soaring finance costs put pressure on its net profit. Thus, SMGR must boost exports amid declining domestic consumption.

Weakening Performance Still Lingers

In 9M19, SMGR recorded revenues of IDR28.1 trillion (+31.1% YoY) even though sales volume was at 22.7 million tons (-3% YoY); its performance was supported by an increase in blended ASP (+47.1% YoY). However, its financial costs jumped to IDR2.3 trillion (+235.5% YoY) due to the debt re-profiling process carried out after the acquisition of SMCB. The swelling financial costs are the main factor eroding its net profits to IDR1.2 trillion (-38.3% YoY).

Margins Are Potential for Increasing

SMGR managed to increase 3Q19's margins, with GPM at 32.4% (vs. 29.8% in 2Q19), OPM at 16.7% (vs. 11.7% in 2Q19), and NPM at 6.8% (vs. 3.0% in 2Q19). The 3Q19's increase will potentially increase further in 4Q19 supported by rising ASPs, lower global coal prices, and a relatively stable Rupiah.

Exports Can Still Be Boosted

The relatively stable rupiah also has a positive impact on revenues from exports contributing 6.7% to SMGR's total revenues. Looking at 2Q18's performance, SMGR can boost exports to reach 13.7%. Exports to countries such as China and the Philippines still have the potential to be increased through TLCC's products in Vietnam so that the impact of decreased cement consumption on the domestic market can be minimized. We project that in 2019F, SMGR is likely to be capable of attaining revenues of IDR38.7 trillion and 9M19 revenue has reached 72.6% of our target.

Maintain HOLD Rating with the Price Target of IDR14,300

We believe that SMGR's performance is likely to be weak at least until the end of the year; it is attributable to several factors, namely 1) cement oversupply in Indonesia market; 2) property projects accounting for ~70% cement consumption still sluggish; 3) cutting interest rates along with LTV relaxation has not been able to increase purchasing power in the property sector; 4) yet to be maximized cost efficiencies. Based on factors, we recommend HOLD with the higher price target of IDR14,300 or an 11.5% upside potential based on the estimates using the forward P/E of 27.5x (+0.5 SD). At present, SMGR is traded with P/E 2019F of 40.7x.

Semen Indonesia Tbk | Summary

	2018A	2019F	2020F	2021F
Sales	30,688	38,758	39,955	40,754
Growth (%)	10.3%	26.3%	3.1%	2.0%
EBITDA	6,570	7,862	8,950	9,400
Net Profit	3,086	2,025	2,754	3,088
EPS (IDR)	520	341	464	521
Growth (%)	51.0%	-34.4%	35.9%	12.1%
P/E	22.6x	40.7x	31.2x	29.2x
P/BV	2.1x	2.5x	2.4x	2.4x
EV/EBITDA	11.6x	12.7x	12.0x	11.9x
ROE (%)	9.8%	6.1%	8.0%	8.5%
DER (%)	30.1%	66.0%	29.4%	35.7%
Net Debt	4,415	5,943	8,105	8,138

Unit: IDR bn, %, x
Source: Company Data, Bloomberg, NHKS Research
Please consider the rating criteria & important disclaimer

Hold

Dec 2020 TP (IDR)	**14,300**
Consensus Price (IDR)	14,327
TP to Consensus Price	-0.2%
vs. Last Price	+11.5%

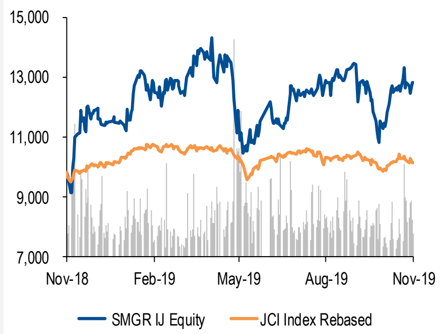
Shares data

Last Price (IDR)	12,825
Price Date as of	Nov 8, 2019
52 wk Range (Hi/Lo)	14,450 / 9,000
Free Float (%)	48.9
Outstanding sh.(mn)	5,932
Market Cap (IDR bn)	71,327
Market Cap (USD mn)	4,977
Avg. Trd Vol - 3M (mn)	6.8
Avg. Trd Val - 3M (bn)	67.4
Foreign Ownership	25.8%

Basic Industry
Cement

Bloomberg	**SMGR IJ**
Reuters	**SMGR.JK**

Share Price Performance

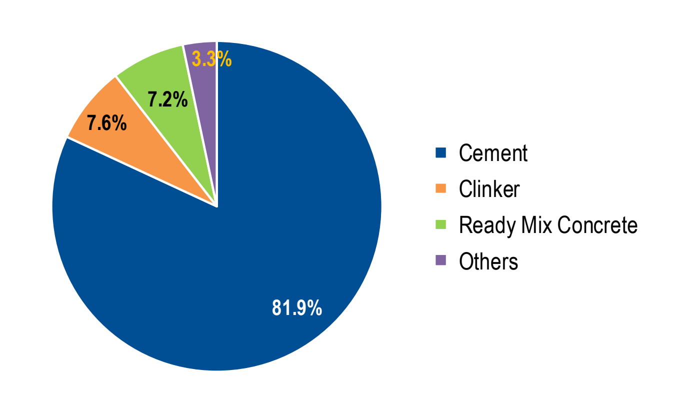


	YTD	1M	3M	12M
Abs. Ret.	11.8%	12.0%	-0.6%	31.9%
Rel. Ret.	11.8%	9.7%	1.0%	27.9%

Meilki Darmawan
(021)797-6202, ext: 170
meilki.darmawan@nhsec.co.id

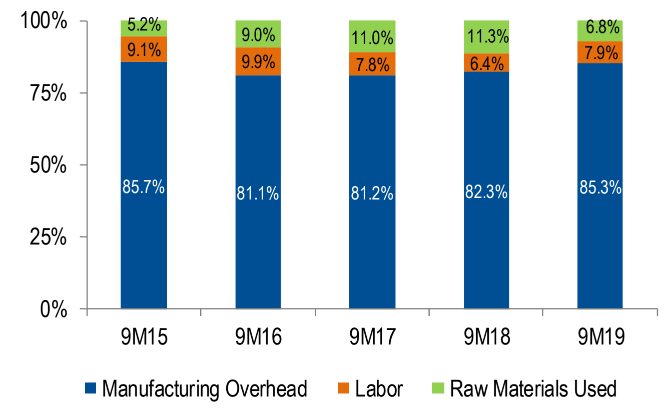
Performance Highlights in Chart

9M19 Revenue Breakdown



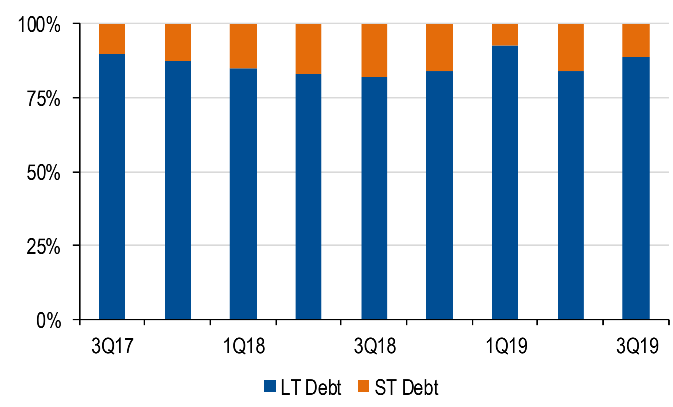
Source: Company Data, NHKS Research

9M19 Manufacturing Cost Breakdown



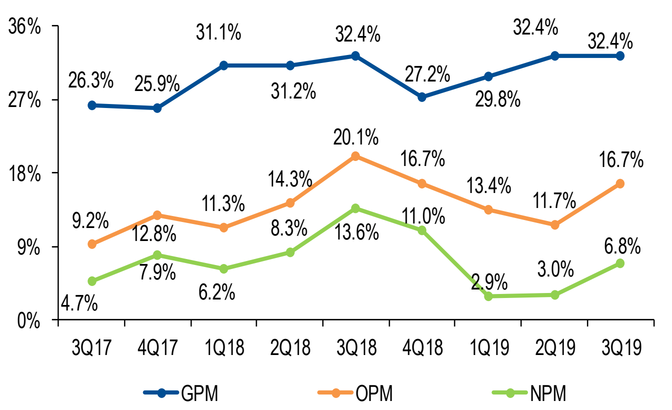
Source: Company Data, NHKS Research

Debt Portion



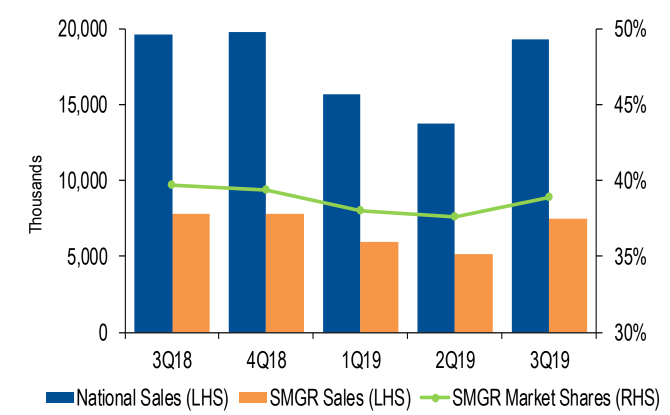
Source: Company Data, NHKS Research

Margin Ratios



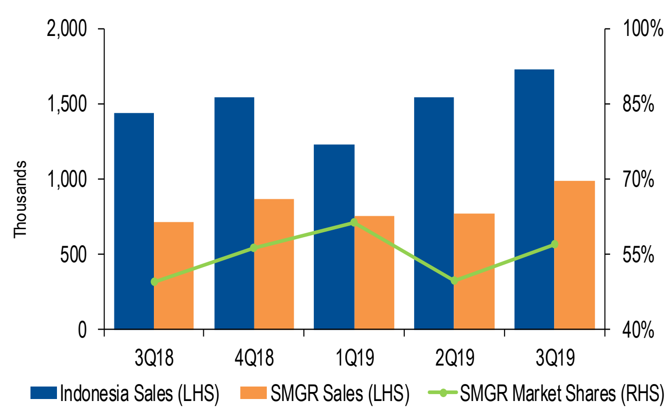
Source: Company Data, NHKS Research

Domestic Sales Volume (Tons) & Market Share



Source: Company Data, NHKS Research

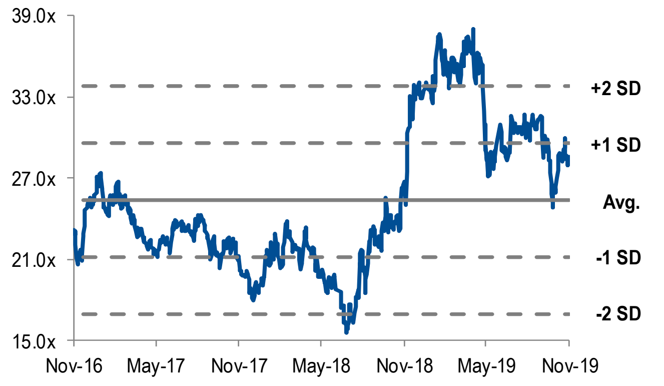
Export Sales Volume (Tons) & Market Share



Source: Company Data, NHKS Research

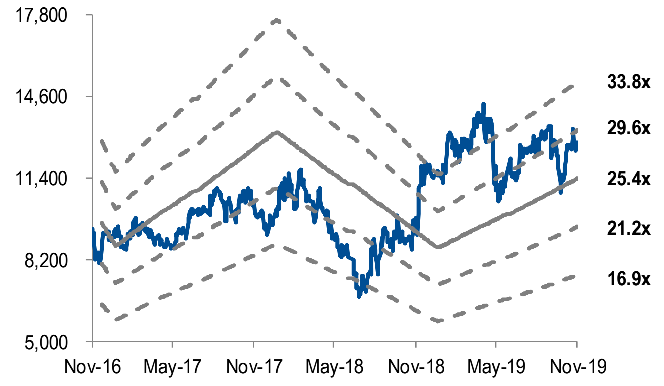
Valuation Highlights in Chart

3-Year Forward P/E Band



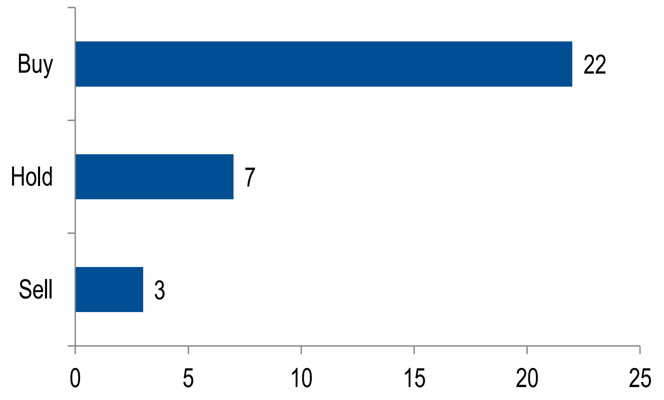
Source: Bloomberg, NHKS Research

3-Year Dynamic Forward P/E Band



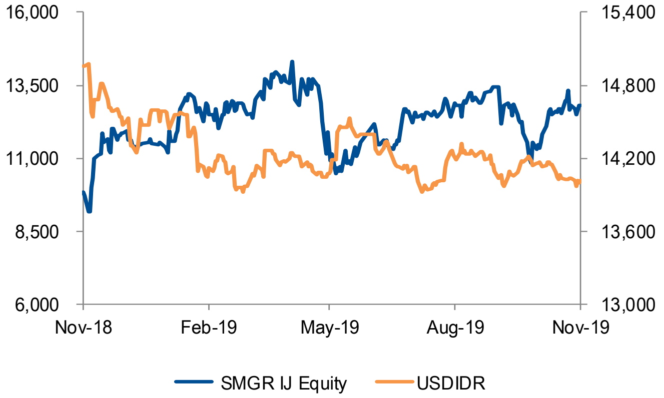
Source: Bloomberg, NHKS Research

Recommendations by Analysts



Source: Bloomberg, NHKS Research

Stock and USDIDR Correlated Negatively



Source: Bloomberg, NHKS Research

Quarterly Review

	3Q18	4Q18	1Q19	2Q19	3Q19					4Q19E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
Income statement										
Sales	8,147	9,232	8,127	8,224	11,772	8,224	44.5%	43.1%	43.1%	10,635
Gross Profit	2,541	2,991	2,214	2,451	3,811	2,451	50.0%	55.5%	55.5%	3,443
EBIT	1,635	1,545	1,092	958	1,961	958	19.9%	104.6%	104.6%	1,811
EBITDA	2,082	1,895	1,589	1,973	2,725	1,973	30.9%	76.8%	38.1%	2,008
Net Profit	1,104	1,016	238	243	806	243	-27.0%	231.7%	231.7%	739
Margin										
Gross Margin	31.2%	32.4%	27.2%	29.8%	32.4%	29.8%	1.2%	2.6%	2.6%	32.4%
EBIT Margin	20.1%	16.7%	13.4%	11.7%	16.7%	11.7%	-3.4%	5.0%	5.0%	17.0%
EBITDA Margin	25.6%	20.5%	19.6%	24.0%	23.1%	24.0%	-2.4%	4.4%	-0.8%	18.9%
Net Profit Margin	13.6%	11.0%	2.9%	3.0%	6.8%	3.0%	-6.7%	3.9%	3.9%	6.9%

Unit: IDR bn, %

Source: Company Data, NHKS Research

Earnings Revision

		2019F	2020F	2021F
Income Statement				
Sales	-Revised	38,758	39,955	40,754
	-Previous	33,236	34,478	36,891
	-Change	16.6%	15.9%	10.5%
Gross Profit	-Revised	11,919	12,286	12,532
	-Previous	9,695	10,271	10,990
	-Change	22.9%	19.6%	14.0%
EBIT	-Revised	5,822	6,465	6,595
	-Previous	5,018	5,266	5,627
	-Change	16.0%	22.8%	17.2%
EBITDA	-Revised	7,862	8,950	9,400
	-Previous	7,059	7,299	7,713
	-Change	11.4%	22.6%	21.9%
Net Profit	-Revised	2,025	2,754	3,088
	-Previous	2,541	3,266	3,520
	-Change	7.6%	9.5%	9.5%
Margin				
Gross Margin	-Revised	30.8%	30.7%	30.7%
	-Previous	29.2%	29.8%	29.8%
EBIT Margin	-Revised	15.0%	16.2%	16.2%
	-Previous	15.1%	15.3%	15.3%
EBITDA Margin	-Revised	20.3%	22.4%	23.1%
	-Previous	21.2%	21.2%	20.9%
Net Profit Margin	-Revised	5.2%	6.9%	7.6%
	-Previous	7.6%	9.5%	9.5%

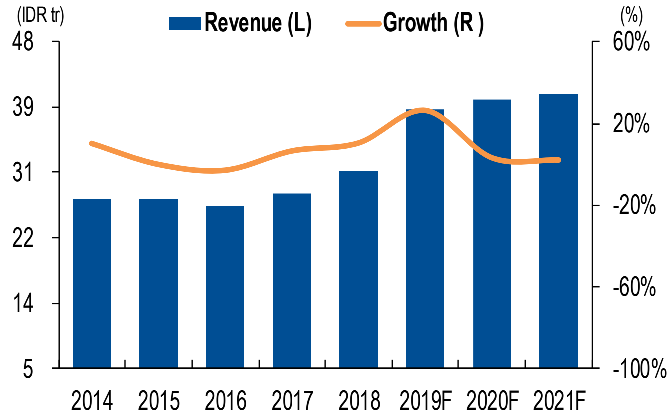
Unit: IDR bn, %

Source: Company Data, NHKS Research

Company Overview

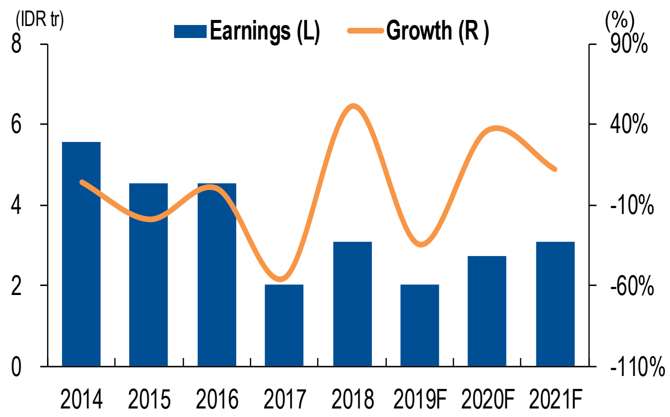
- PT Semen Indonesia (Persero) Tbk is a state-owned enterprise engaging in manufacturing building materials with cement as its product. The company was founded in 1957 in Gresik and became the first BUMN whose stocks listed on IDX.
- Until the end of 2018, the company owns and operates 5 integrated cement plants in Indarung (West Sumatra), Tuban (East Java), Pangkep (South Sulawesi), Rembang (Central Java) and Quan Ninh (Vietnam).
- The company has 4 leading product brands selling in domestic and foreign markets, namely Semen Gresik, Semen Padang, Semen Tonasa, and Thai Long Cement.
- On January 31, 2019, the company through its subsidiary PT Semen Indonesia Industri Bangunan officially acquired 80,6% ownership of Holderfin B.V. at PT Holcim Indonesia Tbk.
- PT Holcim Indonesia Tbk now is one of the company's subsidiary and changes its name into PT Solusi Bangun Indonesia Tbk.

Revenue and Growth Movement



Source: Company Data, NHKS Research

Earnings and Growth Movement



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									
SEMEN INDONESIA TBK	5,365	3,546	2,608	160	-13.4%	6.1%	7.5%	33.0x	2.4x
INDOCEMENT TUNGGAL PRAKARSA TBK	5,362	1,926	1,101	119	59.1%	10.8%	7.6%	44.2x	3.4x
SOLUSI BANGUN INDONESIA TBK	720	1,294	750	-4	91.4%	-0.6%	-1.0%	N/A	1.5x
SEMEN BATURAJA TBK	396	384	143	4	-27.6%	2.8%	1.7%	97.7x	1.6x
Malaysia									
CAHYA MATA SARAWAK BHD	606	1,015	431	53	14.6%	12.2%	8.8%	11.5x	1.0x
Thailand									
SIAM CITY CEMENT PUB CO LTD	2,141	2,461	1,479	93	-6.0%	6.3%	8.6%	22.0x	2.0x
Philippines									
HOLCIM PHILIPPINES INC	1,857	901	612	51	34.7%	8.4%	11.2%	35.0x	3.6x
China									
ANHUI CONCH CEMENT CO LTD-H	32,856	21,741	23,472	4,787	23.0%	20.4%	28.5%	7.0x	1.8x
CHINA NATIONAL BUILDING MA-H	7.779	63,507	34,561	1,633	37.9%	4.7%	14.0%	5.4x	0.7x
HUAXIN CEMENT CO LTD-B	5,248	4,821	4,494	962	49.0%	21.4%	38.1%	4.2x	1.4x
India									
ULTRATECH CEMENT LTD	16,773	9,309	5,261	348	9.6%	6.6%	8.9%	46.7x	4.0x
SHREE CEMENT LTD	9,757	2,235	1,796	144	-27.3%	8.0%	10.8%	69.2x	7.2x
AMBUJA CEMENTS LTD	5,628	5,358	3,810	319	43.6%	8.3%	10.1%	18.4x	1.8x

Unit: USD mn, %, X
Source: Bloomberg, NHKS Research

Summary of Financials

INCOME STATEMENT

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Sales	**30,688**	**38,758**	**39,955**	**40,754**
Growth	10.3%	26.3%	3.1%	2.0%
COGS	(21,357)	(26,839)	(27,669)	(28,223)
Gross Profit	**9,331**	**11,919**	**12,286**	**12,532**
Gross Margin	30.4%	30.8%	30.7%	30.7%
Operating Expenses	(4,450)	(6,097)	(5,821)	(5,936)
EBIT	**4,881**	**5,822**	**6,465**	**6,596**
EBIT Margin	15.9%	15.0%	16.2%	16.2%
Depreciation	(1,690)	(2,040)	(2,486)	(2,804)
EBITDA	**6,570**	**7,862**	**8,950**	**9,400**
EBITDA Margin	21.4%	20.3%	22.4%	23.1%
Interest Expenses	(959)	(3,272)	(3,079)	(2,762)
EBT	**4,105**	**2,748**	**3,734**	**4,187**
Income Tax	(1,019)	(719)	(978)	(1,096)
Minority Interest	7	(11)	(3)	(3)
Net Profit	**3,086**	**2,025**	**2,754**	**3,088**
Growth	51.0%	-34.4%	35.9%	12.1%
Net Profit Margin	10.1%	5.2%	6.9%	7.6%

PROFITABILITY & STABILITY

	2018/12A	2019/12F	2020/12F	2021/12F
ROE	9.8%	6.1%	8.0%	8.5%
ROA	6.2%	3.4%	3.9%	4.0%
ROIC	13.8%	9.8%	9.9%	9.1%
Cash Dividend (IDR bn)	806	1,234	810	1,102
Dividend Yield	1.2%	1.5%	0.9%	1.2%
Payout Ratio	26.1%	60.9%	29.4%	35.7%
DER	30.1%	66.0%	74.6%	71.7%
Net Gearing	33.8%	74.0%	83.1%	79.5%
LT Debt to Equity	25.4%	54.4%	62.5%	59.2%
Capitalization Ratio	23.2%	39.8%	42.7%	41.8%
Equity Ratio	64.0%	48.7%	48.5%	46.6%
Debt Ratio	19.3%	32.1%	36.2%	33.4%
Financial Leverage	158.5%	181.1%	205.8%	210.5%
Current Ratio	195.1%	89.9%	81.8%	84.3%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	5,932	5,932	5,932	5,932
Share Price (IDR)	11,500	13,900	14,500	15,210
Market Cap (IDR tn)	68.2	82.4	86.0	90.2

BALANCE SHEET

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Cash	5,277	6,630	6,917	7,203
Receivables	5,786	7,692	6,203	7,970
Inventories	3,544	5,542	3,825	5,730
Total Current Assets	**16,008**	**21,571**	**19,870**	**25,053**
Net Fixed Assets	32,749	44,193	50,166	52,354
Other Non Current Assets	1,056	1,547	1,505	1,571
Total Assets	**51,156**	**68,674**	**72,954**	**80,371**
Payables	4,476	7,341	4,842	7,584
Other Liabilities	2,003	3,285	3,785	5,929
LT Debt	8,140	8,694	10,755	10,647
Total Liabilities	**18,420**	**35,253**	**37,559**	**42,944**
Capital Stock	593	593	593	593
Retained Earnings	28,614	29,228	31,171	33,158
Shareholders' Equity	**32,736**	**33,421**	**35,395**	**37,428**

VALUATION INDEX

	2018/12A	2019/12F	2020/12F	2021/12F
Price/Earnings	22.1x	40.7x	31.2x	29.2x
Price/Book Value	2.1x	2.5x	2.4x	2.4x
Price/Sales	2.2x	2.1x	2.2x	2.2x
PE/EPS Growth	0.0x	-0.1x	0.1x	0.2x
EV/EBITDA	11.3x	12.7x	12.0x	11.9x
EV/EBIT	15.2x	17.1x	16.6x	16.9x
EV (IDR bn)	74,344	99,488	107,132	111,530
Sales CAGR (3-Yr)	4.4%	14.0%	12.8%	9.9%
EPS CAGR (3-Yr)	8.0%	-0.3%	-3.7%	15.1%
Basic EPS (IDR)	520	341	464	521
Diluted EPS (IDR)	520	341	464	521
BVPS (IDR)	5,519	5,635	5,967	6,310
Sales PS (IDR)	5,174	6,534	6,736	6,871
DPS (IDR)	135.8	208.1	136.6	185.7

CASH FLOW STATEMENT

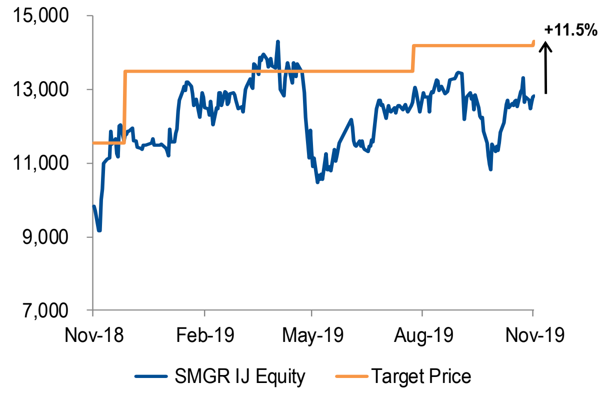
(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Operating Cash Flow	4,462	4,066	5,239	5,893
Investing Cash Flow	(1,790)	(13,745)	(8,519)	(4,984)
Financing Cash Flow	(1,065)	11,032	3,567	(623)
Net Changes in Cash	**1,608**	**1,353**	**287**	**286**

TOP OWNERSHIP

By Geography	%	Shareholders	%
Indonesia	78.2	Rep. of Indonesia	51.0
United States	9.9	Vanguard Group Inc	1.8
Luxembourg	4.6	Lazard Ltd	1.5
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
2017.08.03	Hold	IDR11,900	IDR9,969
2017.12.04	Buy	IDR11,550	IDR10,771
2018.12.04	Hold	IDR13,500	IDR12,025
2019.08.02	Hold	IDR14,200	IDR13,699
2019.11.11	Hold	IDR14,300	IDR14,327

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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