Reliance Securities

PT. Semen Baturaja, Tbk (SMBR)

April 21st 2016

Buy

Current Price	530
2017E P/E	18.5
Target Price	590
2017E P/E	20.5
JCI JKSE	4876
USDIDR	13,145

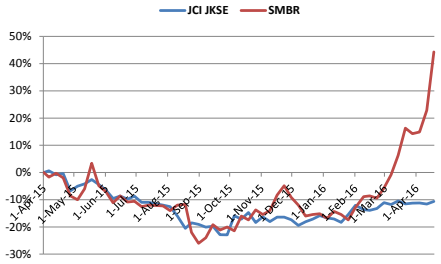
Basic industry, Cement.

Bloomberg ticker	SMBR IJ
Reuters ticker	SMBR JK
52 weeks high	630
52 weeks low	242
Market Cap (Rp tn)	10.7
Market Cap (US$ mn)	812.9
Free float (%)	24
Daily average val (Rp bn)	15.8
Daily average val (US$ mn)	1.2

Major Shareholders (%)

Government	76.24
Public	23.76

Relative performance vs JCI JKSE:



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Expecting growth from infrastructure development projects in Southern Sumatra.

Financial and operational performance

Sales revenue in 2015 grew 20% yoy to Rp1.46 trillion from Rp1.21 trillion in the year before, as a result of 22% increase in cement sales volume to 1.54 million tons. Net income also managed to grew 5.4% yoy to Rp354 billion from Rp336 billion.

Semen Baturaja managed to grow significantly last year above its peers. This enhancement is partially because the company is recovering from the maintenance and overhauling process in its factories in the year before.

Possible Opportunities and Challenges

As a local player in Southern Sumatra, Semen Baturaja is expected to maintain its position as a market leader, given the brand image that is already considered reliable to the consumer in the region. We expect the ongoing project of Trans Sumatra Toll Road could enhance the company's sales performance in the future.

However, the decline of Rupiah exchange rate since SMBR's IPO has led to an increasing budget for the Baturaja II project that will use imported machineries and foreign contractors. The company is currently looking for up to Rp750 bn of financing from bank loans or bond issuance, that we expect to increase interest expense this year and possibly could lower its profit margins.

Baturaja II development progress

Last year SMBR have signed an EPC contract with Tianjin Cement Industry Design (TCID) worth US$170.7 million, to build a clinker and cement production facility that will have a capacity of around 5,000 tons per day, or approximately 1.85 million tons per annum that will be fully operating by mid 2017. The estimated total budget for this project is Rp3.32 trillion, where almost 80% of it will be financed with internal cash from the company's IPO in 2013, and the rest will be financed with bank loans or bond issuance. Semen Baturaja currently operating 3 factories in Baturaja and Palembang with 2 million tons of annual production capacity. Recently the company has secured Rp1.5 trillion of loan commitment from PT Bank Negara Indonesia (BBNI).

Valuation and recommendation

We are upgrading to Buy rating with target price at Rp590, implying 20.5x of 2017E P/E Ratio. Currently SMBR's share price is trading at 18.5x of 2017E P/E Ratio.

Our valuation and recommendation is already considering the possibility of sales enhancement from Trans Sumatra Toll Road project, and the prospect of increasing production capacity after Baturaja II plant fully operating.

Recently SMBR has also announced a cash dividend of Rp9,- per share which translated to approximately 2% of dividend yield at the day of announcement.

PT. Semen Baturaja, Tbk (SMBR)

Board of Directors and Backgrounds	
CEO	**Ir. Pamudji Rahardjo** = Former Semen Padang executive.
CFO	**Ageng Purboyo Angrenggono, SE** = Former Ministry of State Owned Company executive.
CPO	**Ir. Agus Wahyudin, MM** = Internal career development.
CMO	**Rusniwati Alie, SE** = Internal career development.
CHRO	**Romlan Kurniawan, SE** = Internal career development.

Revenue Contribution	
Bagged Cement	62.3%
Bulk Cement	37.7%

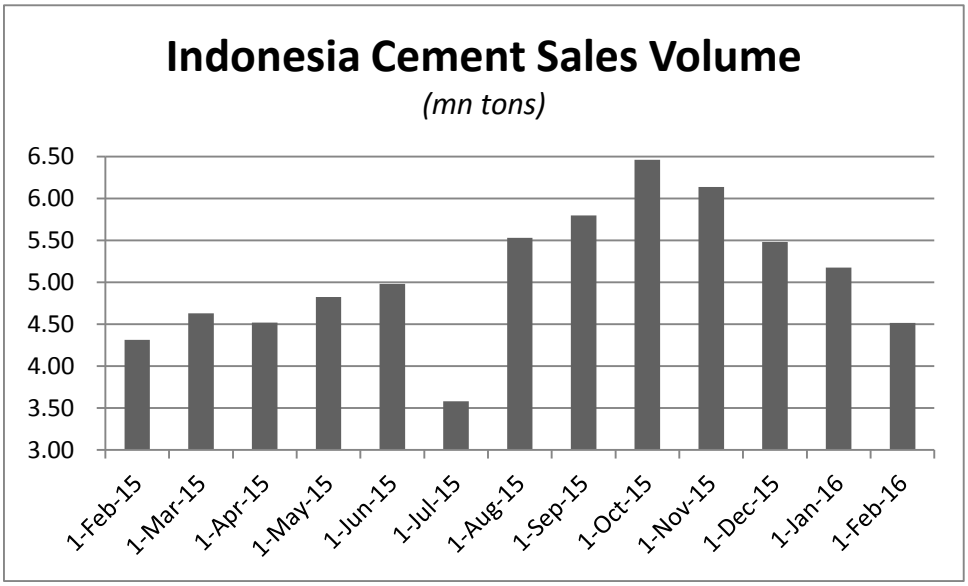
Cost Structure	
Raw materials	36.0%
Electricity	20.6%
Transportation	12.7%
Depreciation	10.4%
Labor Cost	8.8%
Maintenance	6.4%
Other manuf expense	5.2%

Production Facilities	
Baturaja	Clinker Production, Mill, & Packaging.
Palembang	Clinker Mill, Packaging.
Panjang	Clinker Mill, Packaging.

Raw Materials Origin	
Limestone	Baturaja.
Clay	Baturaja.
Silica powder	Baturaja.
Iron ore	Cilacap (PT Aneka Tambang, Tbk).
Gypsum	Thailand & Gresik.
Coal	South Sumatera.
Cement bag	Local producer.

Domestic Cement Production Capacity	*(mn ton p.a.)*
PT Semen Indonesia, Tbk (SMGR)	29.5
Semen Gresik	14.4
Semen Padang	7.3
Semen Tonasa	7.8
PT Indocement Tunggal Prakarsa, Tbk (INTP)	20.5
PT Semen Holcim, Tbk (SMCB)	12.1
Lafarge (Semen Andalas)	1.6
PT Semen Baturaja, Tbk (SMBR)	2.0
Semen Bosowa	6.0
Semen Kupang	0.5
TOTAL	**72.2**

Sources: Company's report, Reliance Research.



PT. Semen Baturaja, Tbk (SMBR)

Income Statement (bn Rp)	2014	2015	2016E	2017E	2018E
Revenue	1,214.9	1,461.2	1,772.1	2,166.9	2,627.9
Gross Profit	379.2	493.6	604.6	738.2	893.9
Operating Expenses	(125.9)	(170.3)	(203.8)	(249.1)	(302.2)
Income From Operations	253.3	323.3	400.8	489.0	591.7
Other financial income (expense)	151.5	120.2	171.9	208.6	250.9
EBT	404.8	443.4	572.8	697.6	842.6
EAT	336.0	354.2	475.3	578.9	699.3
Net Income	336.0	354.2	475.3	578.9	699.3
EPS	16.7	17.6	23.6	28.7	34.7
Current Price				530	
P/E				18.5	
Target Price				590	
P/E				20.5	
Market Cap (Rp tn)				10.7	
Market Cap (US$ mn)				812.9	
USDIDR				13,145	
Ratios & Margins:	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Revenue growth	4.0%	20.3%	21.3%	22.3%	21.3%
Gross profit margin	31.2%	34.2%	34.1%	34.1%	34.0%
Net profit growth	7.6%	5.4%	34.2%	21.8%	20.8%
Net profit margin	27.7%	24.2%	26.8%	26.7%	26.6%
ROA	11.5%	10.8%	12.3%	13.3%	14.2%
ROE	12.5%	12.0%	13.1%	14.2%	15.1%
DPR	25.0%	25.0%	25.0%	25.0%	25.0%
DPS	4.2	4.4	5.9	7.2	8.7

Source: financial report, Reliance Research estimates.

Balance Sheet					
Assets (bn Rp)	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Cash	2,053.9	1,251.4	1,576.8	1,769.3	2,052.6
Trade receivables	80.6	39.4	40.4	41.4	42.4
Inventories	187.4	185.9	190.5	195.3	200.1
Other current assets	13.8	461.9	473.4	485.3	497.4
Total current assets	**2,335.8**	**1,938.6**	**2,281.2**	**2,491.3**	**2,792.7**
Fixed assets	557.9	787.0	1,018.4	1,252.2	1,488.2
Intangible assets & def taxes	5.4	4.6	4.9	5.1	5.4
Other non current assets	29.4	538.4	565.4	593.6	623.3
Total nc assets	**592.7**	**1,330.1**	**1,588.7**	**1,850.9**	**2,116.9**
Total assets	**2,928.5**	**3,268.7**	**3,869.8**	**4,342.2**	**4,909.6**
Liabilities (bn Rp)	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Trade payables	91.3	110.0	115.5	121.2	127.3
Taxes payable	13.6	42.4	44.5	46.8	49.1
Accrued expenses	30.4	67.2	68.9	70.6	72.4
Due to related parties	13.5	-	-	-	-
Employee ben liabs	29.1	35.2	36.1	37.0	37.9
Other current liabs	1.9	1.2	1.2	1.3	1.3
Total ST liabilities	**179.7**	**256.0**	**266.2**	**276.9**	**288.0**
Defered tax liabilities	-	-	-	-	-
Employee ben liabs	58.8	55.8	57.2	58.6	60.1
Mine reclamation	6.9	7.6	7.7	7.9	8.1
Total LT Liabilities	**65.6**	**63.3**	**64.9**	**66.5**	**68.2**
Total Liabilities	**245.4**	**319.3**	**331.1**	**343.4**	**356.2**
Equity (bn Rp)	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Share capital	983.8	983.8	983.8	983.8	983.8
Add paid in capital	1,034.0	1,034.0	1,034.0	1,034.0	1,034.0
Retained earnings	707.1	979.2	1,610.3	2,070.4	2,625.0
Approriated	371.1	617.4	617.4	617.4	617.4
Unappropriated	336.0	361.8	992.9	1,453.0	2,007.6
Total Equity	**2,683.1**	**2,949.4**	**3,628.1**	**4,088.2**	**4,642.8**

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