

Outlook for PT. Semen Indonesia, Tbk (SMGR) and PT. Indocement Tunggal Prakarsa, Tbk (INTP): Decreasing profit despite increasing sales volume

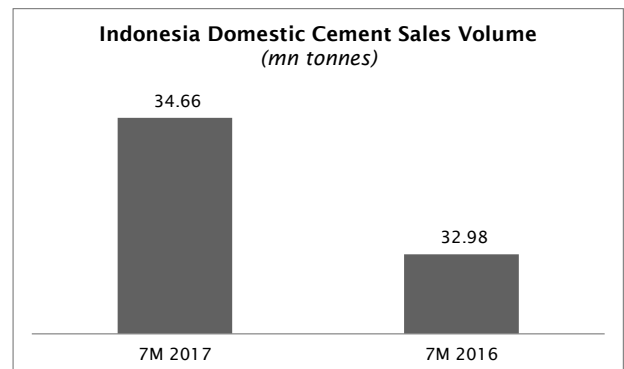
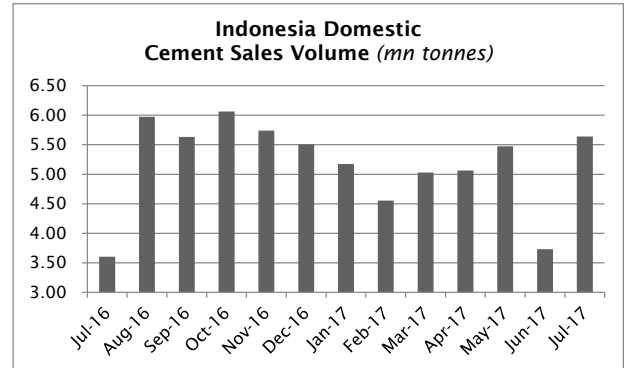
Domestic cement sales in the first 7-months of this year rose 5% to 34.6 million tonnes, from 32.9 million tonnes in the same period a year earlier, where SMGR and INTP together now hold almost 70% of market share, a slight decline from 74-75% range in the last 3-4 years, after faced with increasing competition from Semen Jawa (Siam Cement Group) and Conch Cement Indonesia that are quite aggressive in increasing their market share.

SMGR and INTP's share price performance now has risen above the composite (IHSG). However, after reviewing the financial performance of these two companies, each of which still has the potential to experience a decrease in net profit this year, we see the appreciation of both share prices lately still considered as a speculative movement.

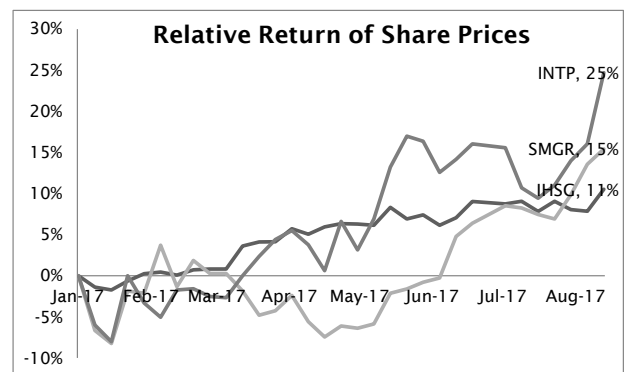
Although sales volume is expected to increase this year, but selling prices that tend to fall due to competition, as well as increasing costs, especially from the use of coal to burn clinkers, could reduce profitability that can bring down net profits.

We are assigning a **Hold** rating for **SMGR** and **INTP** with target prices of **Rp 11400** and **Rp 20800** each respectively, implying 18x and 20x of 2018E P/E Ratio that we think is fair enough for both companies considering those level has been accomplished before, back in the year 2013, where the cement industry is also experiencing growth.

Other factors that may change our recommendation to be more positive are: 1) Government's intervention in controlling the increase of production capacity from cement producers, considering that the current production capacity has exceeded market's ability to absorb. 2) The recovery of residential property demand and construction activities.



| | 7M 2017 | Mkt Share |
|-----------------------|---------|-----------|
| SMGR | 15.3 | 44% |
| INTP | 8.9 | 26% |
| Total Domestic | 34.6 | |



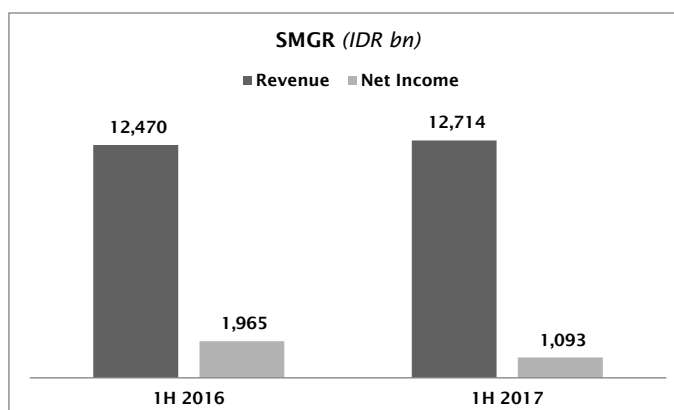
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Hold

| | (IDR bn) | 2015A | 2016A | 2017E | 2018E | |
|-------------------------|----------|---------------|--------|--------|--------|--------|
| Last Price | 10,875 | Revenue | 26,948 | 26,134 | 26,724 | 29,197 |
| 2018F P/E | 17.3 | growth | | -3.0% | 2.3% | 9.3% |
| Target Price | 11,400 | Gross Profit | 10,646 | 9,856 | 10,483 | 10,509 |
| 2018F P/E | 18.1 | margin | 39.5% | 37.7% | 39.2% | 36.0% |
| 52-weeks-high | 11,275 | EBIT | 5,934 | 5,108 | 4,135 | 4,976 |
| 2018F P/E | 17.9 | EBITDA | 7,361 | 6,834 | 6,201 | 6,900 |
| 52-weeks-low | 8,050 | margin | 27.3% | 26.1% | 23.2% | 23.6% |
| 2018F P/E | 12.8 | Net Income | 4,521 | 4,522 | 3,267 | 3,731 |
| Mkt Cap (IDR tn) | 65 | growth | | 0.0% | -27.7% | 14.2% |
| Mkt Cap (USD bn) | 4.8 | margin | 16.8% | 17.3% | 12.2% | 12.8% |
| Daily Avg Val (IDR bn) | 60.4 | EPS | | 762 | 551 | 629 |
| Daily Avg Val (USD mn) | 4.5 | Current Price | | | 10,875 | 10,875 |
| USDIDR | 13,362 | P/E | | | 19.7 | 17.3 |
| Beta vs IHSG | 1.3 | Target Price | | | 11,400 | 11,400 |
| BVPS, latest | 4,761 | P/E | | | 20.7 | 18.1 |
| PBV, current price | 2.3 | | | | | |
| Shares Outstanding (mn) | 5,932 | | | | | |
| Div Paid (IDR bn) 2016 | 1,808.59 | | | | | |
| Div Per Share 2016 | 304.91 | | | | | |
| Avg Share Price 2016 | 9,880 | | | | | |
| Div Yield | 3.1% | | | | | |

PT. Semen Indonesia, Tbk (SMGR) is a state-owned-enterprise holding company of Semen Gresik, Semen Padang, dan Semen Tonasa. In December 2012 the company has also acquired Thang Long Cement (Vietnam).

| Balance Sheet (bn IDR) | FY 2015 | FY 2016 | FY 2017E | FY 2018E | FY 2019E | Liabilities & Shareholders' Equity | FY 2015 | FY 2016 | FY 2017E | FY 2018E | FY 2019E |
|--------------------------------|---------|---------|----------|----------|----------|--|---------|---------|----------|----------|----------|
| Total Assets | | | | | | Total Current Liabilities | 6,599 | 8,152 | 9,374 | 10,781 | 12,398 |
| + Cash, Cash Equivalents & STI | 3,966 | 2,848 | 5,036 | 7,760 | 11,119 | + LT Debt | 3,156 | 4,450 | 5,117 | 5,885 | 6,768 |
| + Cash & Cash Equivalents | 3,964 | 2,834 | 5,022 | 7,744 | 11,102 | + LT Borrowings | 2,997 | 3,988 | 4,587 | 5,275 | 6,066 |
| + ST Investments | 2 | 13 | 15 | 16 | 18 | + LT Capital Leases | 159 | 461 | 531 | 610 | 702 |
| + Accounts & Notes Receiv | 3,544 | 3,838 | 4,222 | 4,644 | 5,108 | + Other LT Liabilities | 958 | 1,051 | 1,209 | 1,390 | 1,598 |
| + Accounts Receivable, Net | 3,544 | 3,838 | 4,222 | 4,644 | 5,108 | + Deferred Tax Liabilities | 108 | 39 | 44 | 51 | 59 |
| + Inventories | 2,409 | 2,671 | 2,938 | 3,232 | 3,555 | + Misc LT Liabilities | 850 | 1,012 | 1,164 | 1,339 | 1,540 |
| + Raw Materials | 776 | 752 | 827 | 910 | 1,001 | Total Noncurrent Liabilities | 4,113 | 5,501 | 6,326 | 7,275 | 8,366 |
| + Work In Process | 401 | 521 | 573 | 630 | 693 | Total Liabilities | 10,712 | 13,653 | 15,700 | 18,055 | 20,764 |
| + Finished Goods | 311 | 427 | 470 | 517 | 568 | + Preferred Equity and Hybrid Capital | - | - | - | - | - |
| + Other Inventory | 921 | 971 | 1,069 | 1,175 | 1,293 | + Share Capital & APIC | 2,051 | 2,051 | 2,051 | 2,051 | 2,051 |
| + Other ST Assets | 620 | 1,016 | 1,118 | 1,230 | 1,353 | - Treasury Stock | - | - | - | - | - |
| Total Current Assets | 10,539 | 10,373 | 13,314 | 16,865 | 21,136 | + Retained Earnings | 23,815 | 26,528 | 30,507 | 35,083 | 40,346 |
| + Property, Plant & Equip, Net | 25,168 | 30,847 | 33,931 | 37,325 | 41,057 | + Other Equity | 553 | 456 | 524 | 603 | 693 |
| + Property, Plant & Equip | 36,651 | 44,441 | 48,885 | 53,774 | 59,151 | Equity Before Minority Interest | 26,420 | 29,035 | 33,083 | 37,737 | 43,090 |
| - Accumulated Depreciation | 11,483 | 13,594 | 14,954 | 16,449 | 18,094 | + Minority/Non Controlling Interest | 1,021 | 1,539 | 1,770 | 2,036 | 2,341 |
| + LT Investments & Receivables | 176 | 161 | 178 | 195 | 215 | Total Equity | 27,441 | 30,574 | 34,853 | 39,773 | 45,431 |
| + Other LT Assets | 2,271 | 2,846 | 3,130 | 3,443 | 3,788 | Total Liabilities & Equity | 38,153 | 44,227 | 50,553 | 57,828 | 66,195 |
| + Total Intangible Assets | 1,134 | 1,355 | 1,491 | 1,640 | 1,804 | | | | | | |
| + Goodwill | 166 | 205 | 226 | 248 | 273 | | | | | | |
| + Other Intangible Assets | 968 | 1,150 | 1,265 | 1,391 | 1,530 | | | | | | |
| + Deferred Tax Assets | 90 | 752 | 828 | 911 | 1,002 | | | | | | |
| + Investments in Affiliates | 223 | 93 | 103 | 113 | 124 | | | | | | |
| + Misc LT Assets | 823 | 645 | 709 | 780 | 858 | | | | | | |
| Total Noncurrent Assets | 27,614 | 33,854 | 37,239 | 40,963 | 45,059 | | | | | | |
| Total Assets | 38,153 | 44,227 | 50,553 | 57,828 | 66,195 | | | | | | |



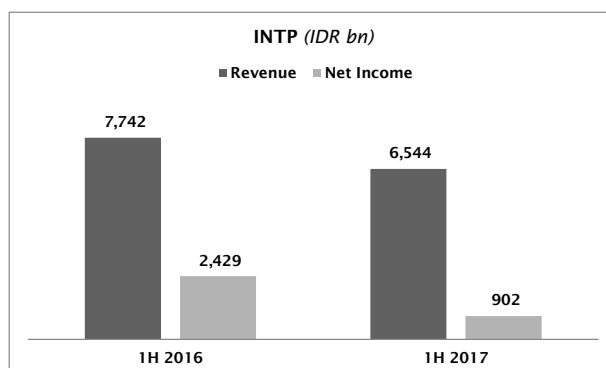
Hold

| | |
|-------------------------|----------|
| Last Price | 19,800 |
| 2018F P/E | 19.3 |
| Target Price | 20,800 |
| 2018F P/E | 20.2 |
| 52-weeks-high | 19,850 |
| 2018F P/E | 19.3 |
| 52-weeks-low | 14,275 |
| 2018F P/E | 13.9 |
| Mkt Cap (IDR tn) | 73 |
| Mkt Cap (USD bn) | 5.5 |
| Daily Avg Val (IDR bn) | 42.6 |
| Daily Avg Val (USD mn) | 3.2 |
| USDIDR | 13,362 |
| Beta vs IHSG | 1.5 |
| BVPS, latest | 6,417 |
| PBV, current price | 3.1 |
| Shares Outstanding (mn) | 3,681 |
| Div Paid (IDR bn) 2016 | 1,527.25 |
| Div Per Share 2016 | 414.87 |
| Avg Share Price 2016 | 17,835 |
| Div Yield | 2.3% |

| (IDR bn) | 2015A | 2016A | 2017E | 2018E |
|---------------|--------|--------|--------|--------|
| Revenue | 17,798 | 15,362 | 17,107 | 20,127 |
| growth | | -13.7% | 11.4% | 17.7% |
| Gross Profit | 7,909 | 6,331 | 7,058 | 9,049 |
| margin | 44.4% | 41.2% | 41.3% | 45.0% |
| EBIT | 5,064 | 3,661 | 3,415 | 4,296 |
| EBITDA | 6,010 | 4,654 | 4,735 | 5,590 |
| margin | 33.8% | 30.3% | 27.7% | 27.8% |
| Net Income | 4,357 | 3,870 | 3,183 | 3,785 |
| growth | | -11.2% | -17.7% | 18.9% |
| margin | 24.5% | 25.2% | 18.6% | 18.8% |
| EPS | | 1,051 | 865 | 1,028 |
| Current Price | | | 19,800 | 19,800 |
| P/E | | | 22.9 | 19.3 |
| Target Price | | | 20,800 | 20,800 |
| P/E | | | 24.1 | 20.2 |

PT. Indocement Tunggal Prakarsa, Tbk (INTP) is the owner of Semen Tiga Roda trademark, which own a main production facility located in Citeureup, West Java. 51% of the company is owned by Birchwood Omnia Ltd, a part of Salim Group.

| Balance Sheet (bn IDR) | FY 2015 | FY 2016 | FY 2017E | FY 2018E | Liabilities & Shareholders' Equity | FY 2015 | FY 2016 | FY 2017E | FY 2018E |
|--------------------------------|---------------|---------------|---------------|---------------|---|---------------|---------------|---------------|---------------|
| Total Assets | | | | | Liabilities & Shareholders' Equity | | | | |
| + Cash, Cash Equivalents & STI | 8,656 | 9,674 | 11,468 | 13,634 | + Payables & Accruals | 1,103 | 1,519 | 1,747 | 2,009 |
| + Cash & Cash Equivalents | 8,656 | 9,674 | 11,468 | 13,634 | + Accounts Payable | 1,103 | 1,519 | 1,747 | 2,009 |
| + ST Investments | - | - | - | - | + ST Debt | 60 | 70 | 81 | 93 |
| + Accounts & Notes Receiv | 2,535 | 2,605 | 2,866 | 3,152 | + ST Borrowings | - | - | - | - |
| + Accounts Receivable, Net | 2,535 | 2,605 | 2,866 | 3,152 | + ST Capital Leases | 60 | 70 | 81 | 93 |
| + Inventories | 1,521 | 1,780 | 1,958 | 2,154 | + Other ST Liabilities | 1,524 | 1,599 | 1,839 | 2,114 |
| + Raw Materials | 455 | 586 | 645 | 709 | + Misc ST Liabilities | 1,524 | 1,599 | 1,839 | 2,114 |
| + Work In Process | 122 | 225 | 247 | 272 | Total Current Liabilities | 2,688 | 3,188 | 3,666 | 4,216 |
| + Finished Goods | 438 | 431 | 474 | 522 | + LT Debt | 61 | 37 | 43 | 49 |
| + Other Inventory | 507 | 538 | 592 | 651 | + LT Borrowings | - | - | - | - |
| + Other ST Assets | 422 | 365 | 401 | 441 | + LT Capital Leases | 61 | 37 | 43 | 49 |
| Total Current Assets | 13,134 | 14,425 | 16,694 | 19,382 | + Other LT Liabilities | 1,024 | 787 | 905 | 1,041 |
| + Property, Plant & Equip, Net | 13,814 | 14,644 | 16,108 | 17,719 | + Deferred Tax Liabilities | 323 | - | - | - |
| + Property, Plant & Equip | 23,964 | 25,716 | 28,288 | 31,116 | + Misc LT Liabilities | 700 | 787 | 905 | 1,041 |
| - Accumulated Depreciation | 10,150 | 11,072 | 12,180 | 13,398 | Total Noncurrent Liabilities | 1,085 | 824 | 948 | 1,090 |
| + LT Investments & Receivables | 4 | 19 | 21 | 23 | Total Liabilities | 3,772 | 4,012 | 4,614 | 5,306 |
| + Other LT Assets | 687 | 1,063 | 1,169 | 1,286 | + Preferred Equity and Hybrid Capital | - | - | - | - |
| + Total Intangible Assets | 71 | 112 | 123 | 135 | + Share Capital & APIC | 4,539 | 4,539 | 4,539 | 4,539 |
| + Goodwill | - | - | - | - | - Treasury Stock | - | - | - | - |
| + Other Intangible Assets | 71 | 112 | 123 | 135 | + Retained Earnings | 19,541 | 21,883 | 25,166 | 28,941 |
| + Deferred Tax Assets | 39 | 322 | 354 | 390 | + Other Equity | (214) | (284) | (327) | (376) |
| + Investments in Affiliates | 103 | 93 | 102 | 113 | Equity Before Minority Interest | 23,866 | 26,139 | 29,379 | 33,104 |
| + Misc LT Assets | 474 | 536 | 589 | 648 | + Minority/Non Controlling Interest | - | - | - | - |
| Total Noncurrent Assets | 14,505 | 15,726 | 17,299 | 19,028 | Total Equity | 23,866 | 26,139 | 29,379 | 33,104 |
| Total Assets | 27,638 | 30,151 | 33,992 | 38,410 | Total Liabilities & Equity | 27,638 | 30,151 | 33,992 | 38,410 |



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