

Monday, 16 January 2017

SELL
Maintained

Last price	Rp 14,950
Target Price	Rp13,000
Upside/Downside	-13.0%
Previous Target Price	Rp13,400

Stock Statistics

Sector	Cement
Bloomberg Ticker	INTP
No of Shares (mn)	3,681
Mkt. Cap (Rpbn/USDmn)	55,0.31/4,138
Avg. daily T/O (Rpbn/USDmn)	22.0/1.7

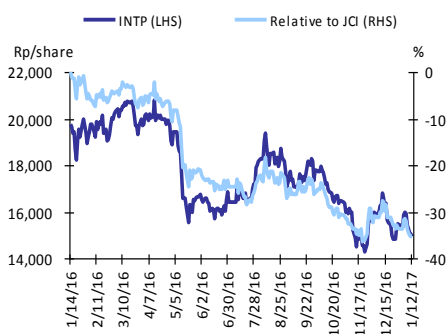
Major shareholders

Birchwood Omnia Limited	51.0%
Mekar Perkasa	13.0%
Estimated free float (%)	39.4

Net Profit Consensus, Rp bn

	2016F	2017F	2018F
Danareksa	3,863	2,561	2,471
Consensus	4,195	3,860	4,139
Danareksa/Cons	(7.9%)	(33.6%)	(40.2%)

INTP relative to JCI Index



Source : Bloomberg

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Indocement Tunggal Prakarsa (INTP JJ)

No respite

We maintain our SELL call on INTP with a target price of Rp13,000 (DCF based valuation with WACC of 13.8% and Terminal Growth of 4.0%). After reporting negative sales growth in two consecutive years, we believe that INTP will manage to achieve 2.0% yoy higher sales volume in 2017. In terms of profitability, however, INTP's EBITDA margin will be squeezed by an estimated 3.3ppt given: (i) continued pressure on pricing, (ii) increasing energy costs.

We foresee sales recovery in 2017. In 2016, INTP recorded total sales of 16.4mn tons, down by 3.1% yoy due to: (i) tighter competition in INTP's home market, (ii) slow progress on government infrastructure projects, (iii) sluggish overall purchasing power. INTP's 2016 sales volume is 100.2% of our full year target of 16.4mn tons – i.e. INLINE. For 2017, we estimate that INTP will record 2.0% higher sales volume.

Maintaining supremacy in its home markets comes at the cost of lower ASP. Although most new players have entered INTP's home markets, INTP would still like to maintain its supremacy in these markets which include Jakarta, Banten, and West Java, even though this will come at the expense of lower pricing. With the close proximity of its production plant to its main markets, the company enjoys lower transportation and distribution costs. Nevertheless, lower ASP seem inevitable. In 2017, we expect INTP's ASP to fall by 6.0%yoy.

Better coal supplier mix to minimize the impact of increasing coal prices. In the face of increasing coal prices, INTP intends to increase the proportion of coal supplied by mid and small coal miners as well as use lower CV coal that typically has lower prices. Nevertheless, as around 40-60% of coal supply price agreements are index linked, we believe that INTP will remain exposed to increasing coal prices. Coupled with the pressure on pricing, we expect INTP to report lower EBITDA by 3.3 ppt in 2017.

Minimal capex in 2017. After completing its P14 plant in 3Q16, INTP has only allocated Rp1.7-1.8tn for capex this year. The capex will mainly be used to build a terminal in Sumatera to facilitate product distribution. Considering that INTP still has Rp1.9tn of cash available, we don't believe the company will need to take on any external financing for its capex.

Maintain SELL with a lower target price. We maintain our SELL call on INTP with a lower target price of Rp13,000 (DCF based valuation with WACC of 13.8% and terminal growth of 4.0%) as we anticipate even more severe pricing pressure in 2017 in addition to higher coal prices. At the same time, we also trim our long term ASP growth from 4.0% yoy to 3.5% yoy. Our new target price implies 18.7x 2017F P/E.

Key Financials

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue, (Rpbn)	19,996	17,798	15,248	14,724	15,170
EBITDA, (Rpbn)	6,732	5,966	4,726	4,081	4,004
EBITDA Growth, (%)	(0.3)	(11.4)	(20.8)	(13.6)	(1.9)
Net profit (Rpbn)	5,271	4,357	3,863	2,561	2,471
EPS (Rp)	1,431.8	1,183.5	1,049.3	695.8	671.2
EPS growth (%)	5.2	(17.3)	(11.3)	(33.7)	(3.5)
BVPS, (Rp)	6,676.3	6,483.1	6,838.8	7,074.6	7,302.1
DPS, (Rp)	899.7	1,349.6	693.6	460.0	443.7
PER (x)	11.5	13.9	15.7	23.7	24.6
PBV (x)	2.5	2.5	2.4	2.3	2.3
Dividend yield (%)	5.5	8.2	4.2	2.8	2.7
EV/EBITDA (x)	7.4	8.7	11.0	12.6	13.0

Source : INTP, Danareksa Estimates

See important disclosure at the back of this report

Upside risks to our SELL call on INTP

- **Faster recovery in purchasing power**
Faster recovery in purchasing power will translate into higher demand for bagged cement.

Exhibit 57. Sensitivity analysis to domestic sales volume 2017

	-5%	-2.5%	Base case	+2.5%	+5%
	15.7	16.3	16.7	17.1	17.6
Utilization rate (%)	70.2%	72.0%	73.9%	75.7%	77.5%
Revenue (Rp bn)	14,062	14,393	14,724	15,055	15,386
EBITDA (Rp bn)	3,866	3,974	4,081	4,188	4,295
Net income (Rp bn)	2,390	2,476	2,561	2,647	2,733
EPS (Rp)	649	673	696	719	742
Impact to EPS	-6.7%	-3.3%		3.3%	6.7%

Source: Danareksa Sekuritas

- **Less severe pressure on pricing**
We estimate that ASP will decline by 6.0% in 2017. However, should the pressure on pricing be less severe, we believe this would create upside from our numbers.

Exhibit 58. Sensitivity analysis to domestic sales volume 2017

	-5%	-2.5%	Base case	+2.5%	+5%
	751,858	771,643	791,429	811,215	831,000
Revenue (Rp bn)	14,062	14,393	14,724	15,055	15,386
EBITDA (Rp bn)	3,422	3,751	4,081	4,410	4,740
Net income (Rp bn)	2,034	2,298	2,561	2,825	3,089
EPS (Rp)	553	624	696	767	839
Impact to EPS	-20.6%	-10.3%		10.3%	20.6%

Source: Danareksa Sekuritas

- **Lower coal prices**
We use USD70/ton as the coal price index in 2017. Should coal prices reverse some of their gains, this would push down the coal price index, and subsequently, result in lower energy prices.

Exhibit 59. Sensitivity analysis to the coal price in 2017

	-5%	-2.5%	Base case	+2.5%	+5%
	67	68	70	72	74
Revenue (Rp bn)	14,724	14,724	14,724	14,724	14,724
EBITDA (Rp bn)	4,203	4,142	4,081	4,020	3,959
Net income (Rp bn)	2,659	2,610	2,561	2,513	2,464
EPS (Rp)	722	709	696	683	669
Impact to EPS	3.8%	1.9%		-1.9%	-3.8%

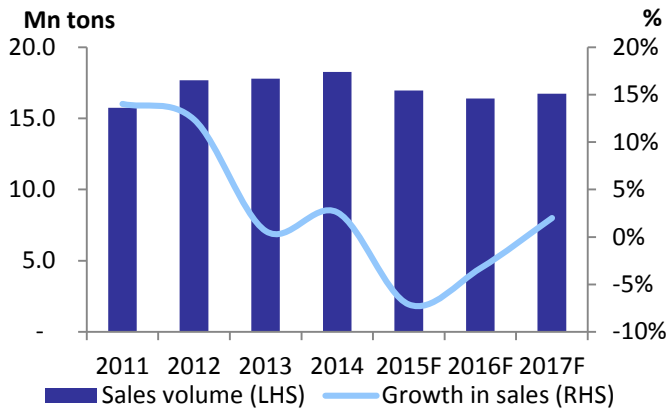
Source: Danareksa Sekuritas

Exhibit 60. Changes in our forecast

	2015	Previous		New		Changes (%)	
		2016	2017	2016	2017	2016	2017
ASP (Rp/ton)	956,377	841,946	816,687	841,946	791,429	-	(3.1)
Sales volume (mn ton)	17.0	16.4	16.9	16.4	16.7	-	(1.0)
Coal price (USD/ton)	59.0	60.0	65.0	60.0	70.0	-	7.7
Electricity cost (Rp/kWh)	1,046	863	898	863	898	-	-
Revenue	17,798	15,248	15,318	15,248	14,724	-	(3.9)
Gross profit	7,909	6,057	5,595	6,057	5,123	-	(8.4)
EBITDA	5,966	4,726	4,475	4,726	4,081	-	(8.8)
Net profit	4,357	3,863	2,808	3,863	2,561	-	(8.8)

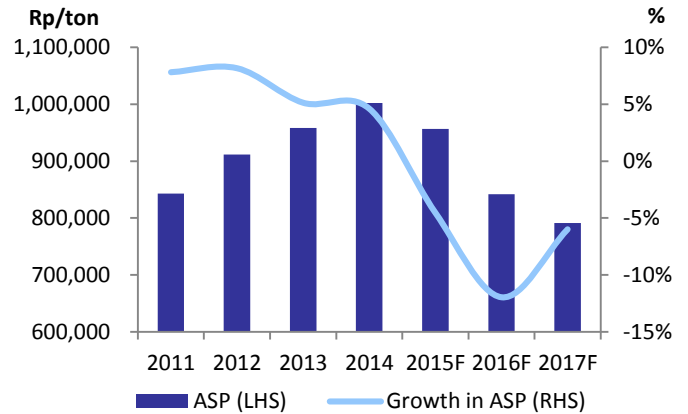
Source: Company, Danareksa Sekuritas

Exhibit 61. INTP's sales volume



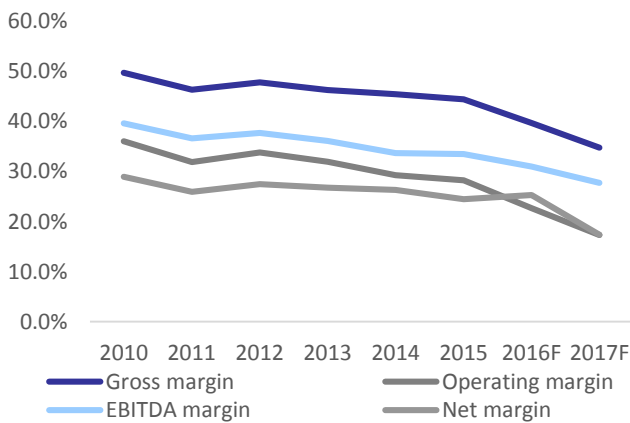
Source: Company, Danareksa Sekuritas

Exhibit 62. Implied ASP for INTP



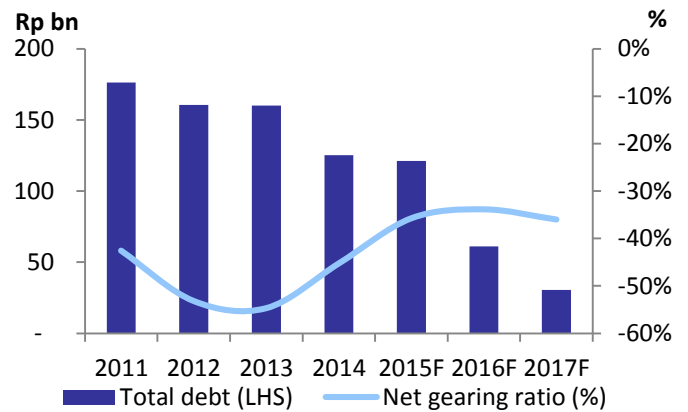
Source: Company, Danareksa Sekuritas

Exhibit 63. Profitability margin trending down



Source: Company, Danareksa Sekuritas

Exhibit 64. Net gearing ratio



Source: Company, Danareksa Sekuritas

Exhibit 65. PE band company



Source: Bloomberg, Danareksa Sekuritas

Exhibit 66. PE band sector



Source: Bloomberg, Danareksa Sekuritas

Exhibit 67. Income Statement

Year to 31 Dec (Rpbn)	2014A	2015A	2016F	2017F	2018F
Revenue	19,996	17,798	15,248	14,724	15,170
COGS	(10,910)	(9,889)	(9,191)	(9,601)	(10,119)
Gross profit	9,087	7,909	6,057	5,123	5,051
EBITDA	6,732	5,966	4,726	4,081	4,004
Operating profit	5,854	5,029	3,464	2,548	2,377
Interest income	812	589	563	601	659
Interest expense	(22)	(27)	0	0	0
Forex Gain/(Loss)	0	0	0	0	0
Income from Assoc. Co's	24	25	25	25	25
Other Income (Expenses)	121	28	28	28	28
Pre-tax profit	6,790	5,645	4,080	3,202	3,089
Income tax	(1,516)	(1,288)	(217)	(640)	(618)
Minority interest	(3)	0	0	0	0
Net profit	5,271	4,357	3,863	2,561	2,471
Core Net Profit	5,271	4,357	3,863	2,561	2,471

Exhibit 68. Balance Sheet

Year to 31 Dec (Rpbn)	2014A	2015A	2016F	2017F	2018F
Cash & cash equivalent	11,256	8,656	8,587	9,410	8,868
Receivables	2,671	2,535	2,506	2,420	2,473
Inventory	1,666	1,521	1,629	1,719	1,808
Other Current Asset	494	422	466	453	464
Fixed assets - Net	12,144	13,814	14,656	14,776	16,109
Other non-current asset	654	691	691	691	691
Total asset	28,885	27,638	28,535	29,468	30,411
ST Debt	0	0	0	0	0
Payables	1,695	1,622	1,407	1,470	1,549
Other Curr. Liabilities	1,565	1,066	899	917	950
Long Term Debt	0	0	0	0	0
Other LT. Liabilities	1,047	1,085	1,054	1,039	1,031
Total Liabilities	4,308	3,772	3,360	3,425	3,530
Shareholder's Funds	24,577	23,866	25,175	26,043	26,881
Minority interests	0	0	0	0	0
Total Equity & Liabilities	28,885	27,638	28,535	29,468	30,411

Exhibit 69. Cash Flow

Year to 31 Dec (Rpbn)	2014A	2015A	2016F	2017F	2018F
Net income	5,271	4,357	3,863	2,561	2,471
Depreciation and Amort.	878	946	1,261	1,533	1,627
Change in Working Capital	(51)	(231)	(475)	105	(32)
Other Oper. Cash Flow	(1,543)	(585)	(563)	(601)	(659)
Operating Cash Flow	4,554	4,486	4,086	3,598	3,408
Capex	(3,374)	(2,665)	(2,103)	(1,653)	(2,960)
Others Inv. Cash Flow	762	557	563	601	659
Investing Cash Flow	(2,611)	(2,107)	(1,541)	(1,052)	(2,302)
Net change in debt	(39)	(16)	(60)	(31)	(15)
New Capital	0	0	0	0	0
Dividend payment	3,312	4,968	2,553	1,693	1,633
Other Fin. Cash Flow	42	5	0	0	0
Financing Cash Flow	3,315	4,956	2,493	1,663	1,618
Net Change in Cash	5,258	7,335	5,038	4,209	2,724
Cash - begin of the year	12,595	11,256	8,656	8,587	9,410
Cash - end of the year	11,256	8,656	8,587	9,410	8,868

Exhibit 70. Key Ratios

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
Growth (%)					
Sales	7.0	(11.0)	(14.3)	(3.4)	3.0
EBITDA	(0.3)	(11.4)	(20.8)	(13.6)	(1.9)
Operating profit	(2.0)	(14.1)	(31.1)	(26.5)	(6.7)
Net profit	5.2	(17.3)	(11.3)	(33.7)	(3.5)
Profitability (%)					
Gross margin	45.4	44.4	39.7	34.8	33.3
EBITDA margin	33.7	33.5	31.0	27.7	26.4
Operating margin	29.3	28.3	22.7	17.3	15.7
Net margin	26.4	24.5	25.3	17.4	16.3
ROAA	19.0	15.4	13.8	8.8	8.3
ROAE	22.3	18.0	15.8	10.0	9.3
Leverage					
Net Gearing (x)	(0.5)	(0.4)	(0.3)	(0.4)	(0.3)
Interest Coverage (x)	312.7	224.8	0.0	0.0	0.0

Source : INTP, Danareksa Estimates