

Monday, 16 January 2017

SELL
Maintain

Last price Rp 2,200
Target Price Rp390
Upside/Downside -82.3%
Previous Target Price Rp400

Stock Statistics

Sector Cement
Bloomberg Ticker SMBR IJ
No of Shares (mn) 9,838
Mkt. Cap (Rpbn/USDmn) 21,643/1,627
Avg. daily T/O (Rpbn/USDmn) 17.7/1.3

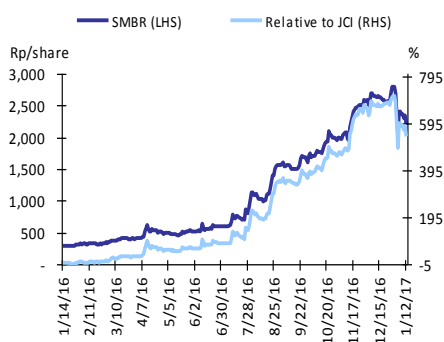
Major shareholders

Indonesian Government 76.2%
Public 23.8%
Estimated free float (%) 23.8

Net Profit Consensus, Rp bn

	2016F	2017F	2018F
Danareksa	245	150	105
Consensus	243	220	248
Danareksa/Cons	0.8%	(31.8%)	(57.6%)

SMBR relative to JCI Index



Source : Bloomberg

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Semen Baturaja (Persero) (SMBR IJ)

Improving performance but rich valuation

We reiterate our SELL call on SMBR with a target price of Rp390 (DCF based valuation with WACC of 12.0% and growth of 3.0%). Our target price implies 25.6x 2017F PE, slightly below SMBR's four-year average forward PE of 30.4x. While we believe that SMBR can increase its sales volume by 6.5% yoy and its EBITDA margin by 3.5ppt in 2017, we don't believe that its lofty valuation can be justified. SMBR is currently trading at 144.3x 2017F P/E.

Encouraging performance in 2016 and we expect the trend to continue in 2017. In 2016, SMBR managed to record sales volume of 1.6mn tons, up by 6.1%, outperforming the industry which saw flattish cement sales in 2016. SMBR's stellar performance was supported by the development of multiple infrastructure projects, including LRT Palembang and the Palembang Indralaya toll road. In 2017, we expect the uptrend in cement sales to continue, with the company estimated to record total sales of 1.7mn tons, up by 6.5% yoy. Note that our sales target is 15.0% lower than the management's target of 2.0mn tons.

Higher sales will come at the expense of lower ASP, however. Given the arrival of new entrants and considering the close proximity of SMBR's home market to the western part of Java, we believe that pricing pressure in the retail market will be more severe in 2017, particularly in Lampung and South Sumatera. Our view is that SMBR will more aggressively defend its supremacy in its home market following the commencement of the Baturaja II plant with capacity of 1.85mn tons.

Baturaja II to start commercial production soon. SMBR is still constructing its Baturaja II plant with installed capacity of 1.85mn tons. Construction progress has reached 90%. As such, the company expects to start commercial production in 2H17. Upon commencement of this plant, we believe that the portion of externally purchased clinkers will decline considerably (in 2016, purchased clinkers reached 280,000 tons, while in 2017 they will only reach an estimated 120,000 tons). Coupled with lower electricity costs from the migration to electricity consumption bracket I-4 from I-3, we estimate that the company's EBITDA margin will widen by 3.5ppt in 2017.

Maintain SELL. We reiterate our SELL call on SMBR with a target price of Rp390 (DCF based valuation with WACC of 12.0% and growth of 3.0%), slightly lower than our previous target price of Rp400, as we take into account the expectation of higher energy prices and more severe pressure on pricing.

Key Financials

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue, (Rpmm)	1,214,915	1,461,248	1,504,513	1,538,272	1,621,593
EBITDA, (Rpmm)	321,671	422,503	407,535	470,249	495,479
EBITDA Growth, (%)	(18.4)	31.3	(3.5)	15.4	5.4
Net profit (Rpmm)	335,955	354,180	245,018	150,028	105,210
EPS (Rp)	34.1	36.0	24.9	15.3	10.7
EPS growth (%)	7.6	5.4	(30.8)	(38.8)	(29.9)
BVPS, (Rp)	272.7	299.8	318.6	330.1	338.2
DPS, (Rp)	7.9	8.3	6.1	3.7	2.6
PER (x)	64.4	61.1	88.3	144.3	205.7
PBV (x)	8.1	7.3	6.9	6.7	6.5
Dividend yield (%)	0.4	0.4	0.3	0.2	0.1
EV/EBITDA (x)	60.9	48.3	54.3	47.9	45.2

Source : SMBR, Danareksa Estimates

Completely reliant on PTBA for coal: quality comes at a price. Although SMBR does not have its own power plant, it still requires a substantial amount of coal during the clinker production process. To fulfill its needs of around 300,000-tons pa, SMBR completely relies on the coal supplied by Bukit Asam (PTBA). Although the coal supplied by PTBA is typically of better quality than the coal supplied by medium and smaller miners, prices are higher. In regard to the coal supply agreement, SMBR and PTBA are holding negotiations to determine the coal price based on spot prices.

Upside risk to our SELL call on SMBR

- **Faster recovery in purchasing power**

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

Exhibit 71. Sensitivity analysis to domestic sales volume 2017

	-5%	-2.50%	Base case	2.50%	5%
	1.65	1.69	1.74	1.78	1.82
Utilization rate (%)	43.5%	44.6%	45.7%	46.9%	48.0%
Revenue (Rpbn)	1,461.4	1,499.8	1,538.3	1,576.7	1,615.2
EBITDA (Rpbn)	435.4	452.8	470.2	487.7	505.1
Net income (Rpbn)	124.1	137.0	150.0	163.0	176.0
EPS (Rp)	12.6	13.9	15.3	16.6	17.9
Impact to EPS	-17.3%	-8.7%		8.7%	17.3%

Source: Danareksa Sekuritas

- **Less severe pressure on pricing**

We estimate that ASP will decline by 5.0% in 2017. However, should the pressure on pricing be less severe, we believe this would create upside from our numbers.

Exhibit 72. Sensitivity analysis to ASP in 2017

	-5%	-2.50%	Base case	2.50%	5%
	840,827	862,954	885,081	907,208	929,336
Revenue (Rpbn)	1,461.4	1,499.8	1,538.3	1,576.7	1,615.2
EBITDA (Rpbn)	393.9	432.1	470.2	508.4	546.6
Net income (Rpbn)	93.1	121.6	150.0	178.5	206.9
EPS (Rp)	9.5	12.4	15.3	18.1	21.0
Impact to EPS	-37.9%	-19.0%		19.0%	37.9%

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 73. Sensitivity analysis to coal price in 2017

	-5%	-2.50%	Base case	2.50%	5%
	66.50	68.25	70.00	71.75	73.50
Revenue (Rpbn)	1,538.3	1,538.3	1,538.3	1,538.3	1,538.3
EBITDA (Rpbn)	477.9	474.1	470.2	466.4	462.6
Net income (Rpbn)	155.7	152.9	150.0	147.2	144.4
EPS (Rp)	15.8	15.5	15.3	15.0	14.7
Impact to EPS	3.8%	1.9%		-1.9%	-3.8%

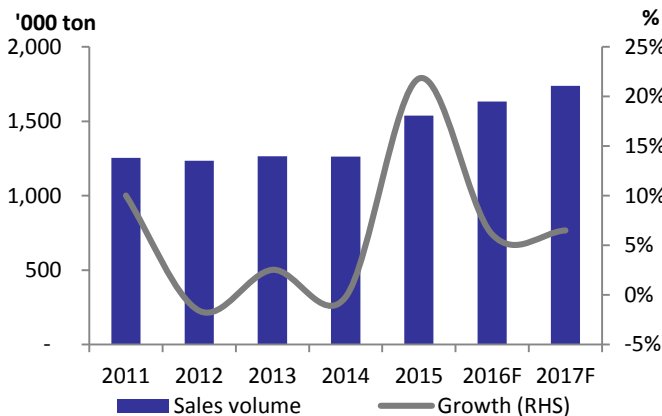
Source: Danareksa Sekuritas

Exhibit 74. Changes in our forecast

	2015	Previous		New		Changes (%)	
		2016	2017	2016	2017	2016	2017
ASP (Rp/ton)	950,066	921,960	913,478	921,960	885,081	-	-3.1%
Sales volume (mn ton)	1.54	1.58	1.66	1.63	1.74	3.3%	4.8%
Coal price (USD/ton)	58.6	60.0	65.0	60.0	70.0	-	7.7%
Electricity cost (Rp/kWh)	1,177	1,129.8	1,044.1	1,130	1,044	-	0.0%
Revenue	1,461	1,456	1,515	1,505	1,538	3.3%	1.6%
Gross profit	494	467	463	479	424	2.5%	-8.4%
EBITDA	423	396	502	408	470	2.9%	-6.3%
Net profit	354	236	103	245	150	3.6%	45.0%

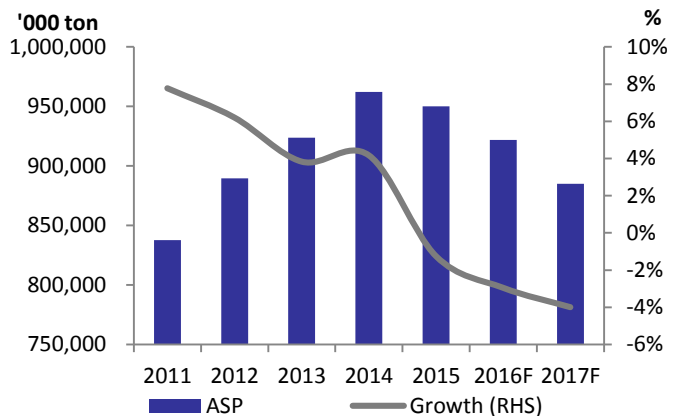
Source: Danareksa Sekuritas

Exhibit 75. SMBR's sales volume



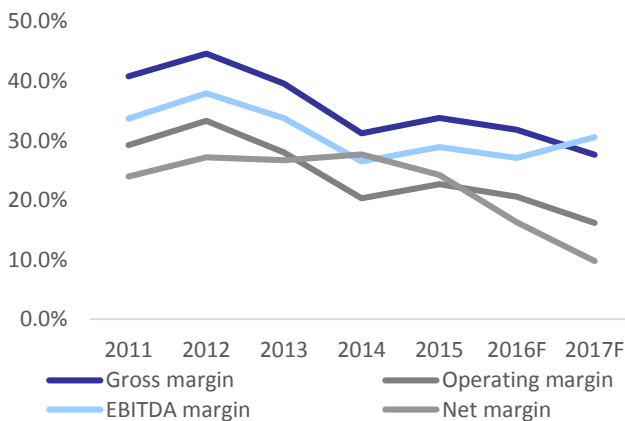
Source: Company, Danareksa Sekuritas

Exhibit 76. Implied ASP of SMBR



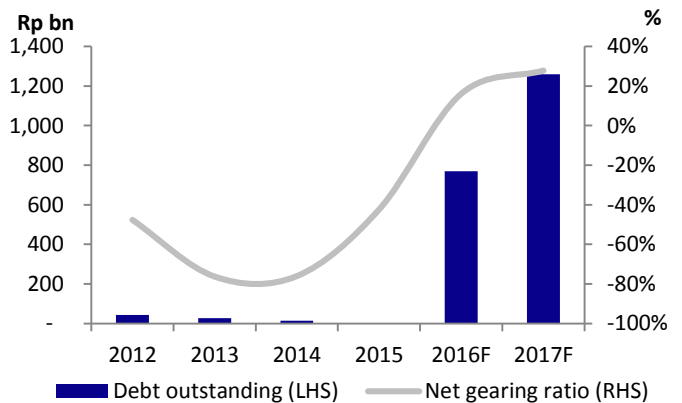
Source: Company, Danareksa Sekuritas

Exhibit 77. Profitability margin trending down



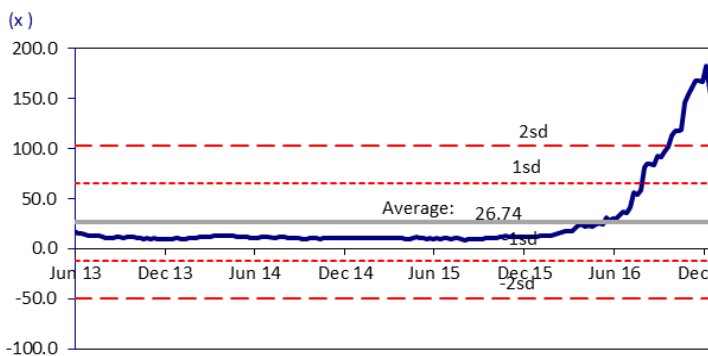
Source: Company, Danareksa Sekuritas

Exhibit 78. Net gearing ratio of the company



Source: Company, Danareksa Sekuritas

Exhibit 79. PE band company



Source: Bloomberg, Danareksa Sekuritas

Exhibit 80. PE band sector



Source: Bloomberg, Danareksa Sekuritas

Exhibit 81. Income Statement

Year to 31 Dec (Rpmn)	2014A	2015A	2016F	2017F	2018F
Revenue	1,214,915	1,461,248	1,504,513	1,538,272	1,621,593
COGS	(835,736)	(967,669)	(1,025,682)	(1,113,835)	(1,185,678)
Gross profit	379,179	493,579	478,831	424,437	435,915
EBITDA	321,671	422,503	407,535	470,249	495,479
Operating. profit	246,349	330,835	309,299	248,297	245,546
Interest income	151,673	120,302	19,271	21,391	21,409
Interest expense	(157)	(151)	0	(68,500)	(125,869)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	6,945	(7,572)	0	0	0
Pre-tax profit	404,810	443,414	328,570	201,188	141,087
Income tax	(68,855)	(89,234)	(83,552)	(51,160)	(35,877)
Minority interest	0	0	0	0	0
Net profit	335,955	354,180	245,018	150,028	105,210
Core Net Profit	335,955	354,180	245,018	150,028	105,210

Exhibit 82. Balance Sheet

Year to 31 Dec (Rpmn)	2014A	2015A	2016F	2017F	2018F
Cash & cash equivalent	2,053,924	1,251,360	267,393	356,815	349,781
Receivables	80,553	39,417	40,585	41,495	41,521
Inventory	187,421	185,853	182,285	202,933	217,310
Other Current. Asset	13,821	461,886	449,985	433,931	429,868
Fixed assets - Net	557,907	787,024	2,769,305	3,286,447	3,183,704
Other non-current asset	34,805	543,077	550,902	554,879	567,972
Total asset	2,928,480	3,268,668	4,260,504	4,876,549	4,790,206
ST Debt	0	0	179,813	179,813	179,813
Payables	91,259	109,968	144,662	157,095	167,227
Other Curr. Liabilities	88,490	146,027	148,017	149,570	153,404
Long Term Debt	0	0	590,188	1,078,875	899,063
Other LT. Liabilities	65,639	63,320	63,320	63,320	63,320
Total Liabilities	245,389	319,315	1,125,999	1,628,673	1,462,826
Shareholder's Funds	2,683,092	2,949,353	3,134,505	3,247,876	3,327,380
Minority interests	0	0	0	0	0
Total Equity & Liabilities	2,928,480	3,268,668	4,260,504	4,876,549	4,790,206

Exhibit 83. Cash Flow

Year to 31 Dec (Rpmm)	2014A	2015A	2016F	2017F	2018F
Net income	335,955	354,180	245,018	150,028	105,210
Depreciation and Amort.	75,322	91,668	98,236	221,952	249,933
Change in Working Capital	(81,919)	(321,724)	50,987	8,481	3,626
Other Oper. Cash Flow	(182,577)	(633,501)	(27,728)	42,500	90,735
Operating Cash Flow	146,780	(509,377)	366,513	422,961	449,503
Capex	(56,991)	(320,153)	(2,009,886)	(669,962)	(146,558)
Others Inv. Cash Flow	162,531	119,617	19,271	21,391	21,409
Investing Cash Flow	105,540	(200,536)	(1,990,615)	(648,570)	(125,150)
Net change in debt	(13,500)	(13,500)	700,000	420,188	(179,813)
New Capital	(13,500)	(13,500)	0	(179,813)	(179,813)
Dividend payment	(78,046)	(82,084)	(59,865)	(36,656)	(25,706)
Other Fin. Cash Flow	(14,198)	2,933	0	(68,500)	(125,869)
Financing Cash Flow	(119,244)	(106,151)	640,135	135,219	(511,200)
Net Change in Cash	133,076	(816,064)	(983,967)	(90,391)	(186,846)
Cash - begin of the year	1,882,848	2,053,924	1,251,360	267,393	356,815
Cash - end of the year	2,053,924	1,251,360	267,393	356,815	349,781

Exhibit 84. Key Ratios

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
Growth (%)					
Sales	4.0	20.3	3.0	2.2	5.4
EBITDA	(18.4)	31.3	(3.5)	15.4	5.4
Operating profit	(24.7)	34.3	(6.5)	(19.7)	(1.1)
Net profit	7.6	5.4	(30.8)	(38.8)	(29.9)
Profitability (%)					
Gross margin	31.2	33.8	31.8	27.6	26.9
EBITDA margin	26.5	28.9	27.1	30.6	30.6
Operating margin	20.3	22.6	20.6	16.1	15.1
Net margin	27.7	24.2	16.3	9.8	6.5
ROAA	11.9	11.4	6.5	3.3	2.2
ROAE	13.1	12.6	8.1	4.7	3.2
Leverage					
Net Gearing (%)	(76.0)	(42.4)	16.0	27.8	21.9
Interest Coverage (x)	2,051.6	2,799.4	0.0	6.9	3.9

Source : SMBR, Danareksa Estimates

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