

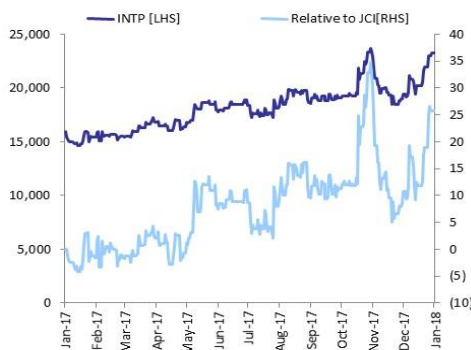
Wednesday, 10 January 2018

UNDERWEIGHT

Cement

Ending 2017 on a high note

INTP relative to JCI Index



SMGR relative to JCI Index



Source : Bloomberg

Thanks to strong cement sales in December 2017 (5.9mn tons, +7.7%yoy), domestic cement sales reached 66.5mn tons in 12M17, +7.5%yoy. This is inline with our forecast of 7%yoy growth. Pricing wise, we note that at the level of building material stores, the prices of Tigaroda and Gresik have tended to be flat in January 2018 (+1.2%mom and +0.4%mom, respectively). But while prices seem to be stabilizing, the cement sector is still trading at a lofty valuation of 44.2x 2018F P/E – unjustifiable in our view.

Strong cement sales in December 2017. Domestic cement sales in December 2017 reached 5.9mn tons, +7.7%yoy. Besides the low base in December 2016 (-2.8%yoy), we believe that the strong cement sales growth was supported by improving purchasing power which boosted bagged cement sales in the period. Regionally, we note that Java, Kalimantan, and Nusa Tenggara recorded higher cement sales growth of 11.3%, 9.9%, and 15.5%yoy, respectively. We believe that the improving commodity prices since 4Q17 have had a trickle-down effect and boosted purchasing power - thus lifting sales in the area.

2017 sales grew inline with our estimate. Cumulatively, domestic cement sales reached 66.5mn tons in 2017, up by 7.5%yoy. This is inline with our estimate (+6%yoy). Including the export sales, we note that total cement sales reached 69.3mn tons, +9.3%yoy. With the tight competition in the domestic market, cement players are looking to boost exports in a bid to maintain the utilization rate. In 2017, total export sales reached 2.8mn tons, +77.2%yoy.

2018: lower domestic cement sales growth, but exports growth will remain stellar. In 2018, we only expect domestic cement sales to grow by 5.0%yoy, lower than in 2017 (+7.5%yoy). This slower growth reflects the expectation of lower growth in bulk cement sales in 2018 given the lower growth in the infrastructure budget allocation in the government's 2018 state budget (+5.3% in 2018 vs. +44.3% in 2017). Nonetheless, we still expect exports to cushion the total sales growth as we expect the overall industry utilization to only improve to 65.6% in 2018 (from 62.5% in 2017) with the utilization of smaller players still skewed toward the lower end.

Pricing check: flat prices. Based on our channel checks with 8 building material stores in the Greater Jakarta area, we note that the cement prices of Tigaroda and Gresik remain flat on a mom basis (up by 1.2%mom and 0.4%mom, respectively). Meanwhile, based on our channel checks with local distributors, we note that INTP and SMGR plan to increase their prices by IDR500-1,000/sack in January 2018. In our view, the impact of price appreciation will lag at the building material stores.

Fully priced in. The cement sector currently trades at 44.2x 2018F P/E, or near to its +2SD forward trailing P/E or 44.1x - which we believe cannot be justified. While we expect a reversal in the ASP trend to take place in 2H18, we only expect the cement sector to rerate up to +1SD forward trailing P/E.



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Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%) 2017F
					2017F	2018F	2017F	2018F	
Semen Indonesia	SMGR IJ	HOLD	8,600	5.9	66,433	35.2	32.4	2.3	2.2
Indocement	INTP IJ	SELL	14,700	3.7	84,668	44.9	43.7	3.2	3.1
Baturaja	SMBR IJ	SELL	460	9.9	31,584	187.1	210.4	9.7	9.4

Exhibit 1. Domestic cement sales

000 tons	Dec-16	Nov-17	Dec-17	yoy chg	mom chg	12M16	12M17	yoy chg
Java	2,952	3,566	3,286	11.3%	-7.9%	33,540	37,559	12.0%
Sumatra	1,276	1,403	1,283	0.5%	-8.5%	13,614	14,168	4.1%
Kalimantan	347	404	381	9.9%	-5.6%	4,196	4,123	-1.8%
Sulawesi	484	494	461	-4.7%	-6.6%	5,442	5,324	-2.2%
Nusa Tenggara	303	349	350	15.5%	0.3%	3,534	3,775	6.8%
Maluku & Papua	129	154	150	16.3%	-2.1%	1,481	1,519	2.6%
Total Outside Java	2,540	2,804	2,627	3.4%	-6.3%	28,267	28,909	2.3%
Total Indonesia	5,492	6,370	5,913	7.7%	-7.2%	61,807	66,469	7.5%
Total exports	108	281	273	152.0%	-3.0%	1,603	2,841	77.2%
Total domestic & export	5,600	6,651	6,186	10.4%	-7.0%	63,411	69,310	9.3%

Source: INTP

INTP: Inline with expectations

Following stiff competition in its home markets (including West Java, Jakarta, and Banten), INTP only recorded sales volume growth of +1.9%yoy in December 2017, considerably less than the industry which saw sales growth of 10.4%yoy. As a result, INTP's market share in the domestic market dropped by 2.0%yoy.

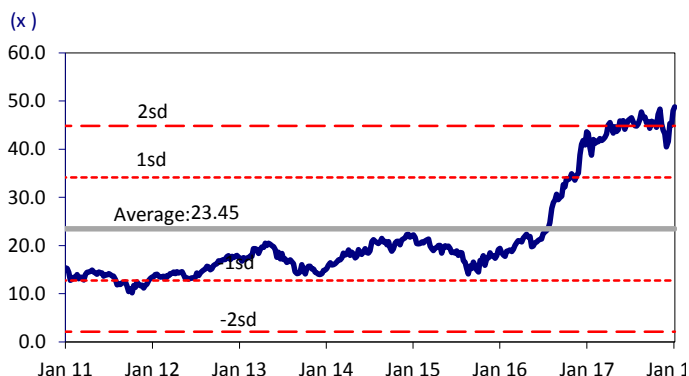
Cumulatively, INTP recorded total sales of 16.8mn tons in 2017, +2.3%yoy. This is 98.9% of our sales volume target of 17.0mn tons (INLINE). We maintain our sales volume target of 5.0%yoy for INTP in 2018.

Exhibit 2. INTP's sales

000 tons	Sales volume						Market share						
	Dec-16	Nov-17	Dec-17	yoy chg	mom chg	12M16	12M17	yoy chg	12M16	12M17	Dec-16	Nov-17	Dec-17
Java	1,014	1,161	1,071	5.6%	-7.7%	11,571	12,318	6.5%	34.5%	32.8%	34.4%	32.6%	32.6%
West Java	385	440	417	8.4%	-5.3%	4,287	4,707	9.8%	49.4%	48.8%	50.1%	46.9%	48.3%
Central Java	232	267	259	12.0%	-2.9%	2,674	2,965	10.9%	34.3%	32.3%	32.9%	30.8%	30.7%
Jakarta	178	195	165	-7.3%	-15.2%	2,092	1,931	-7.7%	44.4%	39.5%	44.0%	41.8%	39.3%
Banten	125	131	122	-2.3%	-6.5%	1,347	1,360	1.0%	46.0%	42.6%	47.4%	41.0%	42.3%
Sumatra	148	136	109	-26.9%	-20.0%	1,545	1,528	-1.1%	11.4%	10.8%	11.6%	9.7%	8.5%
Kalimantan	82	87	88	8.2%	1.2%	985	931	-5.5%	23.5%	22.6%	23.6%	21.6%	23.2%
Other area	161	148	185	14.8%	25.4%	2,014	1,965	-2.4%	19.3%	18.5%	17.6%	14.8%	19.2%
Total Outside Java	391	371	382	-2.4%	3.1%	4,544	4,425	-2.6%	16.1%	15.3%	15.4%	13.2%	14.5%
Total Indonesia	1,406	1,532	1,453	3.4%	-5.1%	16,115	16,743	3.9%	26.1%	25.2%	25.6%	24.0%	24.6%
Total exports	21	-	-	-100.0%	N/A	311	57	-81.7%					
Total domestic & export	1,426	1,532	1,453	1.9%	-5.1%	16,427	16,799	2.3%	25.9%	24.2%	25.5%	23.0%	23.5%

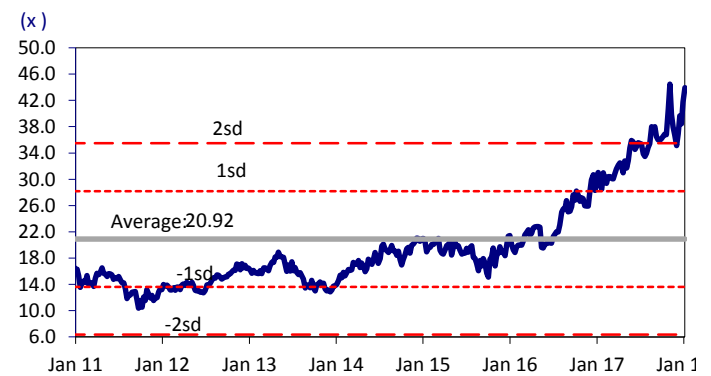
Source: INTP

Exhibit 3. Cement sector's forward trailing P/E



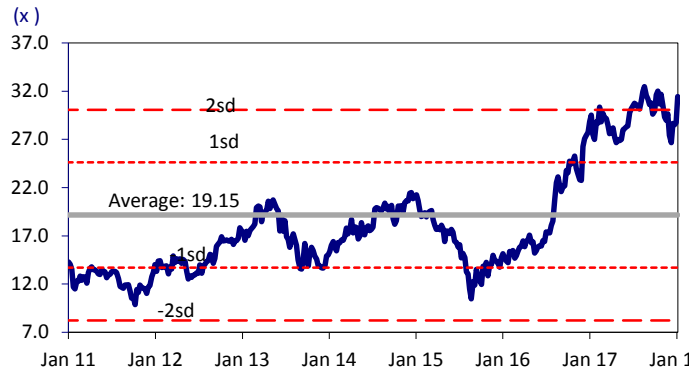
Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 4. INTP's forward trailing P/E



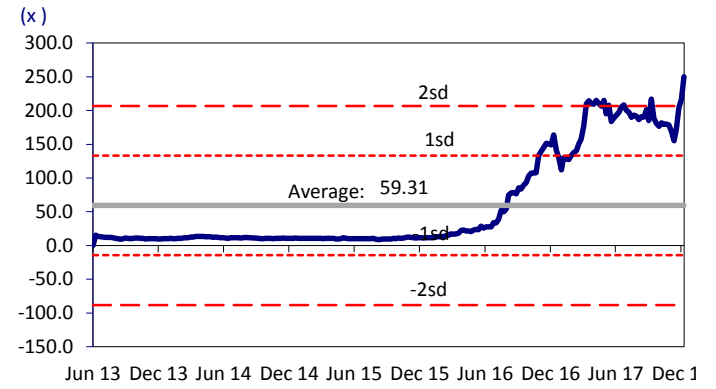
Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 5. SMGR sector's forward trailing P/E



Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 6. SMBR's forward trailing P/E



Source: Bloomberg, Danareksa Sekuritas estimates