

Thursday, 01 August 2019

BUY
Maintain

Last price (IDR) 12,650
Target Price (IDR) 17,000
Upside/Downside +34.4%
Previous Target Price (IDR) 17,000

Stock Statistics

Sector Cement
Bloomberg Ticker SMGR IJ
No of Shrs (mn) 5,932
Mkt. Cap (IDRbn/USDmn) 75,034/5,349
Avg. daily T/O (IDRbn/USDmn) 86.9/6.2

Major shareholders (%)

Republic of Indonesia 51.0
Estimated free float 49.0

EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	616.6	673.5	768.7
Consensus	378.4	586.9	704.6
Danareksa/Cons	62.9	14.8	9.1

SMGR relative to JCI Index



Source : Bloomberg



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Semen Indonesia (Persero)(SMGR IJ)

Hit by large interest expenses

SMGR booked weak 1H19 earnings, -50.1%yoy to IDR485bn dragged down by higher interest expense. The result is below our and consensus estimates. Revenues grew by 20.7%yoy in the back of strong sales volume coming from the consolidation with SBI. Cement sales jumped by 19.0%yoy, while ASP booked flattish growth at 1.4%yoy. SMGR booked strong interest expense of IDR1.5tn in the back of the purchasing of SBI. Total debt increased to IDR33.6tn resulting in 1.05x DER.

SMGR booked weak 1H19 earnings. Net income in 1H19 dropped by -50.1%yoy to IDR485bn on the back of higher interest cost. The result accounted for 13.3% of our target and 23.0% of the consensus; below the average two-year past figure of 42.9%. Revenues in 1H19 grew by 22.9%yoy to IDR16.4tn (1H18: IDR13.3tn) in the back of higher ASP and sales volume. The revenues are above our target (49.5%) but, below the consensus (40.4%). The average two-year past recognition is 44.5%

ASP was slightly higher. Revenues from cement grew by 20.7%yoy to IDR13.4tn thanks to strong sales volume growth. The cement sales contributed 81.7% of the revenues. Based on our calculation, the blended ASP was slightly higher, +1.4%yoy to IDR765k per tons.

Strong sales volume. SMGR recorded cement sales in 6M19 of 17.47mn tons, +19.0%yoy on the back of consolidation with SBI. Excluding SBI, sales were -6.6%yoy to 13.71mn tons on the back of soft domestic consumption (-1.9%yoy) arising from the impact of elections in April that were followed by the fasting month and Lebaran holidays. SMGR owned 52.9% of domestic cement market share (1H18: 39.3%), the largest in the country.

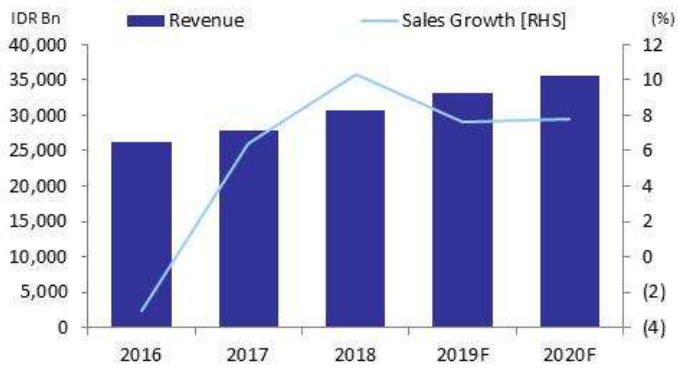
Margins, and leverage. Margins were flat. Gross margin was stable at 28.5%, resulting in operating margin of 12.5%. However, interest finance jumped significantly to IDR1.5tn from IDR460bn (+227.4%yoy) caused by higher debt which been used for acquiring SBI. Total interest-bearing debts jumped from IDR9.9tn in Dec18 to IDR33.6tn in Jun19. Consequently, DER inflated to 1.05x from 0.30x in Dec18. SMGR is conducting debt restructuring to obtain lower cost. Previously, SMGR had USD1.28bn of loan facility from syndication banks in overseas which had been used for purchasing SBI. The effective cost for the loans reaches 10.5%pa.

Maintain BUY. We maintain our BUY call on SMGR as we view the acquisition of SBI as a positive catalyst on the long term. The ongoing debt restructuring will lower SMGR's finance cost in the future.

Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	27,814	30,688	33,037	35,614	38,609
EBITDA (IDRbn)	4,901	6,399	7,348	7,998	8,938
EBITDA Growth (%)	(25.9)	30.6	14.8	8.8	11.8
Net profit (IDRbn)	2,014	3,079	3,657	3,995	4,560
EPS (IDR)	339.5	519.1	616.6	673.5	768.7
EPS growth (%)	(55.5)	52.9	18.8	9.2	14.1
BVPS (IDR)	4,874.8	5,258.7	5,667.6	6,094.6	6,593.8
DPS (IDR)	304.9	139.4	207.6	246.6	269.4
PER (x)	37.3	24.4	20.5	18.8	16.5
PBV (x)	2.6	2.4	2.2	2.1	1.9
Dividend yield (%)	2.4	1.1	1.6	1.9	2.1
EV/EBITDA (x)	16.6	12.4	10.8	9.9	8.7

Source : SMGR, Danareksa Estimates

Exhibit 1. Revenues and Growth


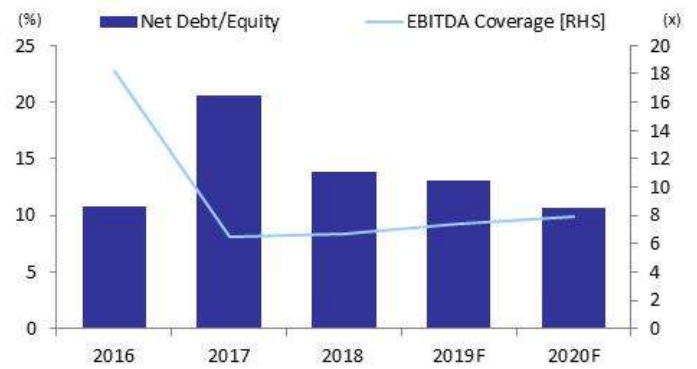
Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins


Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level


Source: Company, Danareksa Sekuritas estimates

Exhibit 5. SMGR 1H19 Result Summary

IDR Bn	2Q18	1Q19	2Q19	QoQ Chg %	YoY Chg %	1H19	YoY Chg %	Danareksa FY19F	1H19/FY19F %
Revenue	6,691	8,127	8,224	1.2	22.9	16,351	22.9	33,037	49.5
Gross profit	2,082	2,214	2,451	10.7	17.7	4,665	22.8	10,474	44.5
Op profit	919	1,061	980	(7.6)	6.7	2,041	26.0	5,533	36.9
Net profit	560	268	217	(19.2)	(61.3)	485	(50.1)	3,657	13.3
GPM (%)	31.1	27.2	29.8	2.6	(1.3)	28.5	(0.0)	31.7	
OPM (%)	13.7	13.1	11.9	(1.1)	(1.8)	12.5	0.3	16.7	
NPM (%)	8.4	3.3	2.6	(0.7)	(5.7)	3.0	(4.3)	11.1	

Source: Company, Danareksa Sekuritas estimates

Exhibit 6. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Revenue	27,814	30,688	33,037	35,614	38,609
COGS	(19,854)	(21,357)	(22,563)	(24,414)	(26,275)
Gross profit	7,960	9,331	10,474	11,199	12,333
EBITDA	4,901	6,399	7,348	7,998	8,938
Oper. profit	3,126	4,773	5,533	5,953	6,746
Interest income	169	182	157	202	235
Interest expense	(756)	(959)	(986)	(1,005)	(1,084)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	(10)	2	59	60	60
Other Income (Expenses)	218	107	112	116	121
Pre-tax profit	2,747	4,105	4,876	5,326	6,079
Income tax	(704)	(1,019)	(1,211)	(1,322)	(1,509)
Minority interest	(29)	(7)	(8)	(9)	(10)
Net profit	2,014	3,079	3,657	3,995	4,560
Core Net Profit	2,014	3,079	3,657	3,995	4,560

Exhibit 7. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	3,638	5,246	6,731	7,848	8,690
Receivables	4,995	5,960	5,843	6,298	6,828
Inventory	3,686	3,544	4,189	4,533	4,879
Other Curr. Asset	1,454	1,227	1,647	1,771	1,913
Fixed assets - Net	32,523	32,749	35,397	37,007	38,481
Other non-curr.asset	2,638	2,399	2,408	2,426	2,444
Total asset	48,964	51,156	56,246	59,914	63,265
ST Debt	1,795	1,635	1,341	1,466	4,604
Payables	5,250	4,784	5,966	6,455	6,947
Other Curr. Liabilities	1,759	1,783	1,630	1,679	1,732
Long Term Debt	8,099	8,140	9,999	10,395	7,023
Other LT. Liabilities	1,622	2,076	2,148	2,223	2,302
Total Liabilities	18,524	18,420	21,084	22,219	22,609
Shareholder's Funds	28,915	31,192	33,618	36,150	39,111
Minority interests	1,524	1,544	1,544	1,544	1,544
Total Equity & Liabilities	48,964	51,156	56,246	59,914	63,265

Exhibit 8. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	2,014	3,079	3,657	3,995	4,560
Depreciation and Amort.	1,775	1,626	0	0	0
Change in Working Capital	(2,069)	(999)	45	(372)	(463)
Other Oper. Cash Flow	588	777	829	803	848
Operating Cash Flow	2,308	4,483	4,531	4,426	4,944
Capex	(3,427)	(1,844)	(2,630)	(1,600)	(1,464)
Others Inv. Cash Flow	513	414	130	174	207
Investing Cash Flow	(2,915)	(1,430)	(2,499)	(1,426)	(1,257)
Net change in debt	3,759	(155)	1,599	509	(243)
New Capital	0	0	0	0	0
Dividend payment	1,809	827	1,232	1,463	1,598
Other Fin. Cash Flow	(541)	(462)	(914)	(929)	(1,005)
Financing Cash Flow	5,027	210	1,916	1,042	350
Net Change in Cash	4,421	3,262	3,948	4,043	4,038
Cash - begin of the year	2,834	3,638	5,246	6,731	7,848
Cash - end of the year	3,638	5,246	6,731	7,848	8,690

Exhibit 9. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Growth (%)					
Sales	6.4	10.3	7.7	7.8	8.4
EBITDA	(25.9)	30.6	14.8	8.8	11.8
Operating profit	(37.1)	52.7	15.9	7.6	13.3
Net profit	(55.5)	52.9	18.8	9.2	14.1
Profitability (%)					
Gross margin	28.6	30.4	31.7	31.4	31.9
EBITDA margin	17.6	20.9	22.2	22.5	23.2
Operating margin	11.2	15.6	16.7	16.7	17.5
Net margin	7.2	10.0	11.1	11.2	11.8
ROAA	4.3	6.2	6.8	6.9	7.4
ROAE	7.0	10.2	11.3	11.5	12.1
Leverage					
Net Gearing (x)	0.2	0.1	0.1	0.1	0.1
Interest Coverage (x)	4.1	5.0	5.6	5.9	6.2

Source : SMGR, Danareksa Estimates

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