

Thursday, 10 October 2019

BUY
Maintain

Last price (IDR) 11,350
Target Price (IDR) 17,400
Upside/Downside +53.3%
Previous Target Price (IDR) 17,000

Stock Statistics

Sector Cement
Bloomberg Ticker SMGR IJ
No of Shrs (mn) 5,932
Mkt. Cap (IDRbn/USDmn) 67,323/4,750
Avg. daily T/O (IDRbn/USDmn) 91.5/6.5

Major shareholders (%)

Government 51.0
Public 49.0

EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	267.5	428.8	531.8
Consensus	346.9	532.6	689.9
Danareksa/Cons	(22.9)	(19.5)	(22.9)

SMGR relative to JCI Index



Source : Bloomberg



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Semen Indonesia(SMGR IJ)

New branding to reduce costs

SBI no longer uses the Holcim brand as its trademark as it was replaced by Dynamix in Sep19. However, SBI had previously signed a USD50.0mn fee agreement to use the brand until the end of Jan2020. Thus, we expect royalty cost savings of 7% to only kick in as of Feb2020. We expect SMIG's cement sales to grow by 24.7%yoy in FY19 supported by the consolidation with SBI, while we expect 4%yoy growth for domestic sales in 2020. We assume 1.2%yoy and 3.0%yoy ASP growth in 2019 and 2020. We roll over our DCF to arrive at a new TP of IDR17,400. Maintain BUY.

Dynamix is the new trademark. Solusi Bangun Indonesia (SBI or SMCB) no longer uses the Holcim brand as it was replaced by Dynamix for all its products in Sep19. Thus, SBI no longer needs to pay the 7% royalty to use the Holcim brand. As such, this should help to improve the gross and operating margins. However, the cost savings may only kick in as of Feb 2020 since based on the transitional services and license agreement (TSLA) signed with Holcim Technology, SBI agreed to pay a USD50mn (~IDR700bn) license fee for the period from 1 Feb 2019 to 31 Jan 2020. The license fee is proportionally charged until the license expires in Feb 2020. The fee is recorded under two accounts: 1) the cost of revenues (USD33.3mn) and 2) general administrative expenses (USD16.7mn).

Expecting 24.7%yoy sales growth at the group level in 2019. We expect cement sales volume for Semen Indonesia Group (SMIG) to grow 24.7%yoy in FY19 to 41.34mn tons on the back of consolidation with SBI which started in Feb19. Excluding SBI, the sales volume is expected to decline by 2.5%yoy to 32.32mn tons (FY18: 33.15mn tons) due to the weak sales in 8M19 (19.49mn tons, -6.1%yoy). The sales of SMGR and TLCC (Thang Long Vietnam) in 8M19 are 60.3% of the FY target, or slightly lower than the previous year's 62.6%. This translates into 3.21mn tons of targeted sales in Sep – Dec19, meaning 3.5%yoy growth. However, we expect lower sales for SBI given this year was a transition year and it will take time for the new brand, Dynamix, to penetrate the market.

The transition has dragged down SBI's FY19 sales. We expect SBI's sales to reach 9.96mn tons in FY19, down by 15.5%yoy due to the transition and change in trademark. The sales in 8M19 of 6.67mn tons (-2.7%yoy) are 66.9% of the FY target. The realization rate is higher than last year's rate of 58.2% due to the lower growth target. As such, we expect the average monthly sales in Sep-Dec19 to reach 0.82mn tons, meaning negative growth of 33.2%yoy (avg monthly sales in Sep-Dec18 were 1.23mn tons).

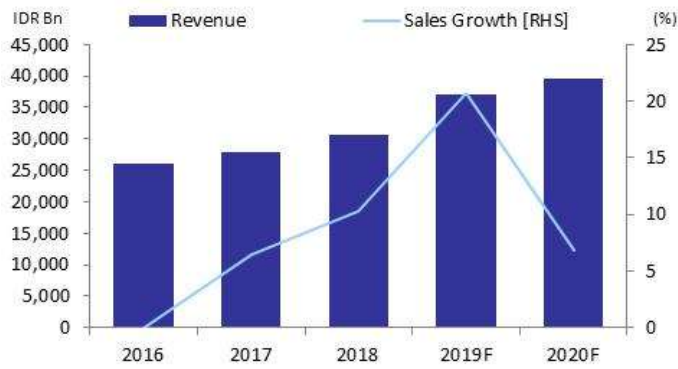
Valuation. We roll over our DCF valuation (WACC: 10.6% and TG: 2.0%) to end 2020 to arrive at our new TP of IDR17,400. SMGR trades at USD130.4 EV/ton, or lower than INTP's USD169.2/ton, while SBI is at USD88.2/ton. SMIG's production capacity is 46.4% of the national capacity.

Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	27,814	30,688	37,049	39,580	42,285
EBITDA (IDRbn)	4,804	6,506	7,151	9,238	10,095
EBITDA Growth (%)	(30.0)	35.4	9.9	29.2	9.3
Net profit (IDRbn)	1,621	3,079	1,587	2,544	3,154
EPS (IDR)	273.3	519.1	267.5	428.8	531.8
EPS growth (%)	(64.1)	90.0	(48.5)	60.3	24.0
BVPS (IDR)	4,808.5	5,258.7	5,318.5	5,640.4	6,000.6
DPS (IDR)	304.9	135.8	207.6	107.0	171.5
PER (x)	41.5	21.9	42.4	26.5	21.3
PBV (x)	2.4	2.2	2.1	2.0	1.9
Dividend yield (%)	2.7	1.2	1.8	0.9	1.5
EV/EBITDA (x)	15.3	11.1	13.7	10.5	9.4

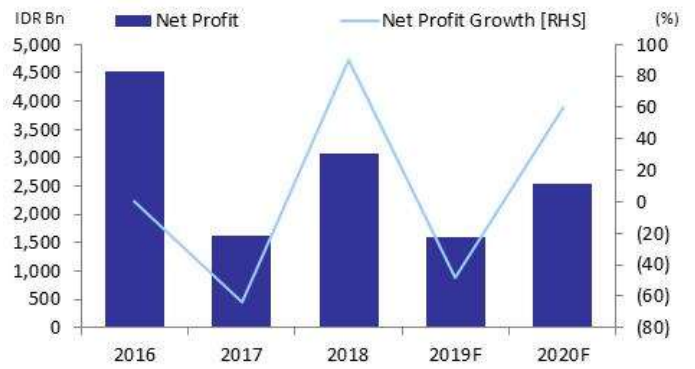
Source : SMGR, Danareksa Estimates

Exhibit 1. Revenues and Growth



Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth



Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins



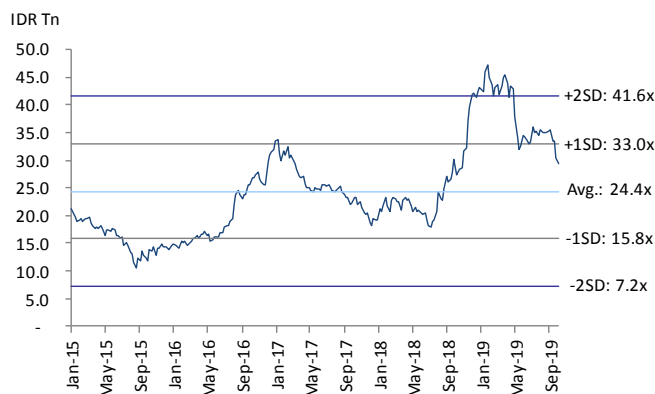
Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level



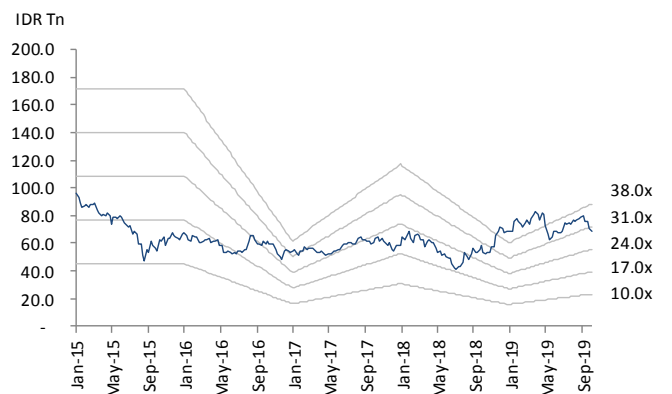
Source: Company, Danareksa Sekuritas estimates

Exhibit 5. PE Band Chart



Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 6. Share Price Chart



Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 7. Changes in forecast

(IDR Bn)	New targets				Old targets		Chg. (%yoy)	
	2019	% yoy	2020	% yoy	2019	2020	2019	2020
Sales vol. (mn tons)	41.34	24.7%	42.96	3.9%	31.86	33.24	29.8%	29.2%
ASP growth (%yoy)	1.2%		3.0%		4.0%	4.0%		
Revenues	37,049	20.7%	39,580	6.8%	33,037	35,614	12.1%	11.1%
Gross profit	10,429	11.8%	11,487	10.1%	10,474	11,199	-0.4%	2.6%
Operating profit	5,054	5.9%	6,006	18.8%	5,533	5,953	-8.7%	0.9%
Net profit	1,587	-48.5%	2,544	60.3%	3,657	3,995	-56.6%	-36.3%
GPM (%)	28.1%		29.0%		31.7%	31.4%		
OPM (%)	13.6%		15.2%		16.7%	16.7%		
NPM (%)	4.3%		6.4%		11.1%	11.2%		

Source: Danareksa Sekuritas estimate

Weak domestic cement consumption in 8M19 (-2.26%yoy) results in a negative growth target for domestic cement sales in 2019. We expect cement sales for Semen Indonesia and Thang Long to drop by 2.5%yoy in FY19 to 32.32 mn tons. However, for 2020, we expect domestic cement sales to grow by 4.0%yoy.

Exhibit 8. Cement sales volume

	FY18	FY19	FY20
Semen Indonesia	30.58	30.28	31.50
%yoy	5.6%	-1.0%	4.0%
Domestic	27.42	26.92	28.00
%yoy	1.2%	-1.8%	4.0%
Export	3.16	3.36	3.49
%yoy	68.7%	6.4%	4.0%
Thang Long (TLCC)	2.57	2.04	2.08
%yoy	7.9%	-20.8%	2.0%
Solusi Bangun Indonesia (SBI) - SMCB	11.79	9.02	9.38
%yoy	6.4%	-23.5%	4.0%
Domestic	11.29	8.58	8.92
%yoy	7.4%	-24.0%	4.0%
Export	0.50	0.44	0.46
%yoy	-12.1%	-12.2%	4.0%
Semen Indonesia + Thang Long (ex. SBI)	33.15	32.32	33.58
%yoy	5.8%	-2.5%	3.9%
SMIG - total (mn tons)	33.15	41.34	42.96
%yoy	5.8%	24.7%	3.9%

Source: Danareksa Sekuritas estimate

As we expect cement sales in 2019 for SMGR and TLCC to reach 32.32mn tons, the average monthly sales in Sep-Dec19 have to reach 3.21mn tons, meaning 3.5%yoy growth. The 8M19 sales are 60.3% of the FY19 target vs. 62.6% in the previous year.

We expect more conservative growth for SBI in 2019 considering the transition of ownership which began in Feb19 and the introduction of the new trademark, Dynamix. We expect SBI sales in FY19 to reach 9.96mn tons, or -15.5%yoy (FY18: 11.79mn tons). SBI sold 6.67mn tons of cement in 8M19 (-2.7%yoy, 8M18: 6.85mn tons) or 66.9% of the full year target. The high ratio reflects the lower target. Hence, we expect sales in Sep-Dec19 to reach 0.82mn tons/month, -33.2%yoy lower than the average in the previous year of 1.23mn tons.

Exhibit 9. FY19 sales volume target calculation

SMGR + TLCC	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
2018 monthly sales	2.79	2.11	2.56	2.71	2.80	1.79	2.91	3.11	3.00	3.39	3.11	2.89
8M18 sales	20.76											
FY18 sales	33.15											
% 8M18 to FY18	62.6%											
Avg mo sales Sep-Dec18	3.10											

SMGR + TLCC	Actual								Assumptions			
	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Monthly sales	2.50	2.29	2.35	2.31	2.52	1.74	2.88	2.93	3.21	3.21	3.21	3.21
Sales 8M19	19.49											
Avg mo sales Jan-Aug19	2.44											
Target FY19F	32.32											
%yoy	-2.5%											
% 8M19 to FY19	60.3%											
Target Sep - Dec 19	12.83											
Avg mo sales Sep-Dec19	3.21											
%yoy	3.5%											

SBI sales	Actual								Assumptions			
	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Monthly sales scenario 1	0.94	0.80	0.81	0.75	0.83	0.57	0.94	1.03	0.82	0.82	0.82	0.82
Monthly sales scenario 2									1.03	0.76	0.76	0.76
Sales 8M19	6.67											
Avg mo sales Jan-Aug19	0.83											
Target sales Feb - Dec19	9.02											
Target FY19F	9.96											
Sales FY18	11.79											
%yoy	-15.5%											
% 8M19 to FY19	66.9%											
Target Sep - Dec 19	3.30											
Avg mo sales Sep-Dec19	0.82											
SMIG sales FY19F	41.34											
SBI contribution	21.8%											

Source: Danareksa Sekuritas estimates

Exhibit 10. EV/ton comparison

		SMGR	SBI	INTP
Market cap	IDR Bn	67,323	9,617	65,986
Debt	IDR Bn	33,632	9,647	113
Cash	IDR Bn	2,889	124	5,689
Production capacity	mn tons	53.7	15.5	25.5
Forex	USD/IDR	14,000		
EV	USD mn	7,005	1,367	4,315
EV/ton	USD/tons	130.44	88.20	169.21

Source: Danareksa Sekuritas estimates

Exhibit 11. DCF Valuation based on WACC of 10.6% and 2% of TG

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
		0	1	2	3	4	5	6	7	8	9
EBIT * (1-tax)	3,790	4,504	5,053	5,811	6,976	8,224	9,560	10,969	12,466	14,051	15,720
Depreciation	2,088	3,232	3,358	3,484	3,610	3,736	3,862	3,988	4,114	4,240	4,366
Chg in working cap.	(1,805)	(634)	(672)	(712)	(753)	(804)	(862)	(918)	(990)	(1,070)	(1,161)
Capex	27,534	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Minority interest	(9)	(2)	3	9	14	19	25	31	37	44	51
FCFF	(23,451)	4,104	4,736	5,575	6,819	8,137	9,536	11,009	12,554	14,177	15,874
Discount factor		1.00	1.11	1.22	1.35	1.50	1.66	1.83	2.02	2.24	2.48
PV of FCF			4,282	4,557	5,040	5,438	5,762	6,014	6,201	6,331	6,409
Terminal value											204,092
PV of terminal value											82,403
NPV	IDR Bn	132,435									
Net debt (as of end 2020)	IDR Bn	29,481									
Equity value	IDR Bn	102,954									
Outstanding share	Bn sh	5.93									
Equity value per share	IDR/sh	17,357									
Target price	IDR/sh	17,400									
Current price	IDR/sh	11,350									
% upside/(downside)	%	53.3%									
Recommendation		BUY									

Source: Danareksa Sekuritas estimates

Exhibit 12. Dynamix cement


Source: Solusi Bangun Indonesia

Exhibit 13. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Revenue	27,814	30,688	37,049	39,580	42,285
COGS	(19,854)	(21,357)	(26,620)	(28,094)	(29,732)
Gross profit	7,960	9,331	10,429	11,487	12,553
EBITDA	4,804	6,506	7,151	9,238	10,095
Oper. profit	2,851	4,881	5,063	6,006	6,737
Interest income	169	182	105	55	59
Interest expense	(756)	(959)	(3,064)	(2,671)	(2,586)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	(10)	2	0	0	0
Other Income (Expenses)	0	0	0	0	0
Pre-tax profit	2,254	4,105	2,103	3,389	4,210
Income tax	(604)	(1,019)	(526)	(847)	(1,052)
Minority interest	(29)	(7)	9	2	(3)
Net profit	1,621	3,079	1,587	2,544	3,154
Core Net Profit	1,621	3,079	1,587	2,544	3,154

Exhibit 14. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	3,638	5,246	2,738	2,951	3,487
Receivables	4,995	5,960	6,366	6,807	7,278
Inventory	3,686	3,544	5,916	6,243	6,607
Other Curr. Asset	1,474	1,250	1,323	1,414	1,515
Fixed assets - Net	32,523	32,749	47,607	47,374	47,016
Other non-curr.asset	2,744	2,399	12,499	13,130	13,796
Total asset	49,069	51,156	76,507	77,981	79,764
ST Debt	1,921	1,724	5,751	4,751	4,721
Payables	5,250	4,784	5,854	6,161	6,502
Other Curr. Liabilities	1,634	1,695	1,671	1,589	1,511
Long Term Debt	8,099	8,140	27,681	27,681	26,711
Other LT. Liabilities	2,120	2,076	2,363	2,621	2,918
Total Liabilities	19,023	18,420	43,320	42,803	42,364
Shareholder's Funds	28,522	31,192	31,547	33,456	35,593
Minority interests	1,524	1,544	1,640	1,722	1,808
Total Equity & Liabilities	49,069	51,156	76,507	77,981	79,764

Exhibit 15. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	1,621	3,079	1,587	2,544	3,154
Depreciation and Amort.	1,953	1,626	2,088	3,232	3,358
Change in Working Capital	(2,088)	(1,002)	(1,805)	(634)	(672)
Other Oper. Cash Flow	1,632	1,013	3,170	2,928	2,878
Operating Cash Flow	3,117	4,716	5,039	8,070	8,719
Capex	(3,629)	(1,851)	(16,946)	(3,000)	(3,000)
Others Inv. Cash Flow	447	267	(9,873)	(551)	(579)
Investing Cash Flow	(3,182)	(1,584)	(26,819)	(3,551)	(3,579)
Net change in debt	6,824	0	27,656	(1,000)	(1,000)
New Capital	0	0	0	0	0
Dividend payment	(1,809)	(806)	(1,232)	(635)	(1,017)
Other Fin. Cash Flow	(1,082)	(563)	(3,064)	(2,671)	(2,586)
Financing Cash Flow	3,933	(1,369)	23,360	(4,306)	(4,604)
Net Change in Cash	3,868	1,763	1,580	213	536
Cash - begin of the year	2,834	3,638	5,246	2,738	2,951
Cash - end of the year	3,638	5,246	2,738	2,951	3,487

Exhibit 16. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Growth (%)					
Sales	6.4	10.3	20.7	6.8	6.8
EBITDA	(30.0)	35.4	9.9	29.2	9.3
Operating profit	(45.5)	71.2	3.7	18.6	12.2
Net profit	(64.1)	90.0	(48.5)	60.3	24.0
Profitability (%)					
Gross margin	28.6	30.4	28.1	29.0	29.7
EBITDA margin	17.3	21.2	19.3	23.3	23.9
Operating margin	10.3	15.9	13.7	15.2	15.9
Net margin	5.8	10.0	4.3	6.4	7.5
ROAA	3.5	6.1	2.5	3.3	4.0
ROAE	5.6	10.3	5.1	7.8	9.1
Leverage					
Net Gearing (x)	0.2	0.1	0.9	0.8	0.7
Interest Coverage (x)	3.8	5.1	1.7	2.2	2.6

Source : SMGR, Danareksa Estimates

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