

FROM EQUITY RESEARCH

Semen Indonesia: New branding to reduce costs (SMGR.IJ IDR. 11,350 BUY TP IDR. 17,400)

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.

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- Retail Sector: Retail sales under pressure in 3Q19

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- MNC Vision Networks (IPTV IJ): talks about potential synergies of a combined company
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KEY INDEX

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	6.029	(0,2)	(2,7)	414
Thailand	1.616	0,2	0,7	1.384
Philippines	7.681	(1,0)	(8,2)	61
Malaysia	1.551	(0,5)	17,3	409
Singapore	3.090	(0,7)	(0,6)	665
Regional				
China	2.925	0,4	(0,6)	31.070
Hong Kong	25.683	(0,8)	2,9	9.608
Japan	21.456	(0,6)	12,0	9.528
Korea	2.030	(0,8)	(0,5)	2.846
Taiwan	10.890	(1,2)	5,8	4.201
India	38.178	1,7	19,1	306
Nasdaq	7.904	1,0	12,9	75.946
Dow Jones	26.346	0,7	12,9	8.070

CURRENCY AND INTEREST RATE

		Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah	Rp/1US\$	14.173	0,2	(1,0)	1,5
BI7DRRR	%	5,25	(0,3)	(0,5)	(0,8)
10y Gov	Indo bond	7,28	0,0	0,0	(0,7)

HARD COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	67	0,8	2,9	(33,9)
Gold	US\$/toz	1.510	0,3	1,6	17,7
Nickel	US\$/mt.ton	17.491	(1,0)	(3,4)	64,9
Tin	US\$/mt.ton	16.417	0,2	(5,3)	(15,9)

SOFT COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	2.398	0,4	8,2	1,4
Corn	US\$/mt.ton	143	(1,1)	12,4	7,1
Oil (WTI)	US\$/barrel	52	(0,4)	(8,7)	15,3
Oil (Brent)	US\$/barrel	58	(0,5)	(7,0)	7,9
Palm oil	MYR/mt.ton	2.086	0,1	(1,1)	6,8
Rubber	US\$/kg	128	1,2	(4,0)	2,3
Pulp	US\$/tonne	1.205	N/A	2,8	20,5
Coffee	US\$/60kgbag	67	(0,1)	1,0	(6,0)
Sugar	US\$/MT	343	0,3	13,0	3,1
Wheat	US\$/ton	136	(0,1)	3,6	(7,9)
Soy Oil	US\$/lb	30	(0,5)	4,8	7,5
Soy Bean	US\$/by	919	(0,5)	7,0	4,2

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

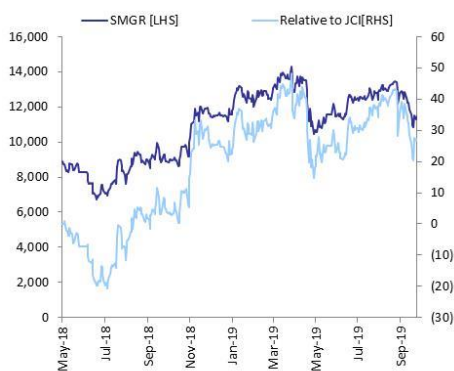
Major shareholders (%)

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) has no longer using Holcim brand which has been replaced by Dynamix for all its products since end of Sep19. Thus, SBI is no longer needs for paying the 7% royalty for using Holcim brand which should help to improve gross margin and operating margin. However, the saving cost impact will be enjoyed starting Feb 2020 as based on transitional services and license agreement (TSLA) signed with Holcim Technology, SBI has agreed to pay USD50mn (~IDR700bn) as license fee for the period from 1 Feb 2019 to 31 Jan 2020. The license fee is proportionally charged until expired time of the license in Feb 2020. The fee is recorded under two accounts 1) cost of revenues worth USD33.3mn and 2) general administrative expense of USD16.7mn.

Expecting 24.7%yoy sales growth in group level for 2019. We expect cement sales volume for Semen Indonesia Group (SMIG) in FY19 to have 24.7%yoy growth to 41.34mn tons in the back of consolidation with SBI starting in Feb19. Excluding SBI, the sales volume to decline by -2.5%yoy to 32.32mn tons (FY18: 33.15mn tons) due to weak sales in 8M19 (19.49mn tons, -6.1%yoy). SMGR and TLCC (Thang Long Vietnam) sales in 8M19 accounted for 60.3% of the target, the ratio slightly lower than previous year rate at 62.6%. This is translating into 3.21mn tons of target sales in Sep – Dec19, given 3.5%yoy growth. However, we expect lower sales for SBI in the back of the transition year and market penetration of the new brand, Dynamix.

Transition and transformation year dragging down SBI's FY19 sales. We expect SBI's sales to reach 9.96mn tons in FY19, dropped by 15.5%yoy due to the transition year and change in trademark. The sales in 8M19 of 6.67mn tons (-2.7%yoy) accounted for 66.9% of the target. The realization rate higher than last year rate of 58.2% in the back of lower growth target. Hence, we expect the average monthly sales in Sep-Dec19 to reach 0.82mn tons, given negative growth of 33.2%yoy (avg monthly sales in Sep-Dec18 was 1.23mn tons).

Valuation. We roll over our DCF valuation (WACC: 10.6% and TG: 2.0%) to end 2020 to arrive at new TP of IDR17,400. SMGR is traded at USD137.3 EV/ton, cheaper than INTP's USD169.2/ton, while SBI at USD88.2/ton. SMIG's production capacity accounts for 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	9.1

Source : SMGR, Danareksa Estimates

MARKET NEWS

SECTOR

Electricity: Government plans to include the coal price in the formula for electricity tariffs adjustment in 2020

The government plans to include the coal price in the formula for electricity tariffs adjustment in 2020 as coal-based power plants account for about 48% of the total power plants capacity. Currently the formula for non-subsidy electricity tariffs - which are adjusted every three months and only applicable for non-subsidy customers - is derived from the Indonesia oil price (ICP), the IDR forex rate and inflation. (Source: Investor Daily)

Property: Bahasa Indonesia must be used in property project names

According to President Regulation no. 63/2019, property projects such as residential property, buildings, offices, apartments, and trade centers that are owned by Indonesian citizens or Indonesian companies should use Bahasa Indonesia as the project name unless the building has historical, cultural, or religious value.

Retail Sector: Retail sales under pressure in 3Q19

Bank Indonesia's Retail Sales Index depicted mere 1.1% yoy growth or slower than Jul19's figure of 2.4% yoy. The slowdown is driven by F&B plus tobacco for which the growth only reached 0.3% compared to 2.7% yoy in Jul19. The estimate for the September figure is only 2.1% yoy, which brings the 3Q19 growth to 1.8% yoy, or lower than 4.2% yoy in 2Q19 and 4.6% yoy in 3Q18. The sluggishness reflects the general slowdown in the global economy. (Source Kontan)

CORPORATE

MNC Vision Networks (IPTV IJ): talks about potential synergies of a combined company

The MNC group seems increasingly keen on acquiring LINK. Pak Harry Tanoe openly discussed this on 9/10/19 at the analyst meeting on LINK by outlining operational and financial synergies. Among others, he pinpointed additional revenues coming from FTA and MNC channels, the MNC library and its original production as well as advertising sales. The founder also expects additional revenues from the relocation of overlapping network. There are also potential new revenues from OTT SVOD/AVOD type models. Moreover, MVN expects to initially save costs on a combined company amounting to 1% to 3%. Gradual OPEX reduction will come from marketing and bandwidth costs. The combined company would potentially have ~4mn home passes. Additional strategic action would be to monetize with the sale/leaseback of the network to infra providers. For new areas, IPTV will lease network from third parties to reduce future capex/OPEX. (MVN analyst meeting)

Waskita Beton Precast: To issue IDR1.5tn of bonds with a BBB+ rating

Waskita Beton Precast (WSBP) will issue IDR1.5tn of bonds with a 9.75% coupon rate for loan reprofiling and business preparation next year. This bond is rated by Fitch ratings agency with a BBB+ grade. The loans reprofiling is aimed at matching working capital with multiyear projects. The company also needs working capital for projects in Plant Penajam, East Kalimantan with capacity of 250,000 tonnes/year with 70% completion this year. (Bisnis Indonesia)

COVERAGE PERFORMANCE
LEADERS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		09-Oct-19	08-Oct-19					
Aneka Tambang	ANTM	990	930	6,5	7,6	(12,4)	29,4	BUY
Media Nusantara Citra	MNCN	1.295	1.240	4,4	4,9	(0,8)	87,7	BUY
Matahari Putra Prima	MPPA	179	173	3,5	0,6	-	17,8	SELL
Matahari Department Store	LPPF	3.920	3.800	3,2	11,4	30,2	(30,0)	BUY
Kino Indonesia	KINO	4.200	4.100	2,4	22,8	25,4	50,0	BUY
Bumi Serpong Damai	BSDE	1.355	1.325	2,3	0,4	2,7	8,0	BUY
Indo Tambangraya Megah	ITMG	12.650	12.400	2,0	4,1	(13,9)	(37,5)	BUY
Astra Agro Lestari	AALI	10.925	10.750	1,6	(0,5)	4,0	(7,6)	BUY
Tower Bersama	TBIG	6.400	6.325	1,2	2,4	3,2	77,8	BUY
Ramayana	RALS	1.310	1.295	1,2	8,3	14,9	(7,7)	BUY

Sources: Bloomberg

LAGGARDS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		09-Oct-19	08-Oct-19					
Indofood CBP	ICBP	12.000	12.400	(3,2)	(1,6)	(0,2)	14,8	BUY
Harum Energy	HRUM	1.310	1.350	(3,0)	(2,6)	(10,9)	(6,4)	BUY
BTPS	BTPS	3.800	3.900	(2,6)	16,6	22,2	111,7	HOLD
Charoen Pokphand	CPIN	5.075	5.200	(2,4)	(1,5)	-	(29,8)	SELL
Jasa Marga	JSMR	5.500	5.625	(2,2)	(1,3)	(0,5)	28,5	BUY
Waskita Beton	WSBP	320	326	(1,8)	1,3	(5,9)	(14,9)	BUY
Timah	TINS	875	890	(1,7)	(2,8)	(27,4)	15,9	BUY
Adhi Karya	ADHI	1.185	1.205	(1,7)	(6,3)	(12,9)	(25,2)	BUY
Pakuwon Jati	PWON	600	610	(1,6)	(2,4)	(8,4)	(3,2)	HOLD
Wijaya Karya	WIKA	1.815	1.845	(1,6)	(3,5)	(11,0)	9,7	BUY

Sources: Bloomberg

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- Astra International: [Maintains market share of above 50%](#)

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Economic Calendar

Date Time	Event	Period
13-Sep-19	Local Auto Sales	Aug
16-Sep-19	Exports YoY	Aug
16-Sep-19	Imports YoY	Aug
16-Sep-19	Trade Balance	Aug
19-Sep-19	Bank Indonesia 7D Reverse Repo	19-Sep
1-Oct-19	Markit Indonesia PMI Mfg	Sep
1-Oct-19	CPI YoY	Sep
1-Oct-19	CPI NSA MoM	Sep
1-Oct-19	CPI Core YoY	Sep
4-Oct-19	Consumer Confidence Index	Sep
7-Oct-19	Foreign Reserves	Sep
7-Oct-19	Net Foreign Assets IDR	Sep
15-Oct-19	Trade Balance	Sep
15-Oct-19	Local Auto Sales	Sep
24-Oct-19	Bank Indonesia 7D Reverse Repo	24-Oct
1-Nov-19	Markit Indonesia PMI Mfg	Oct
1-Nov-19	CPI YoY	Oct
1-Nov-19	CPI NSA MoM	Oct
1-Nov-19	CPI Core YoY	Oct
1-Nov-19	Danareksa Consumer Confidence	Oct
4-Nov-19	GDP YoY	3Q
4-Nov-19	GDP QoQ	3Q
5-Nov-19	Consumer Confidence Index	Oct
7-Nov-19	Net Foreign Assets IDR	Oct
7-Nov-19	Foreign Reserves	Oct
8-Nov-19	BoP Current Account Balance	3Q
15-Nov-19	Trade Balance	Oct

Source: Bloomberg

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