

Indocement Tunggal Prakarsa (INTP)

Expecting improvement from recovery year

11 May 2022



INTP II	BUY
Sector	Cement
Price at 10 May 2022 (Rp)	10,025
Price target (Rp)	12,000
Upside/Downside (%)	19.7

Stock Information

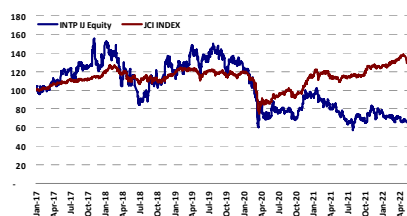
Indocement Tunggal Prakarsa (INTP) is the second largest cement manufacturer in Indonesia. The company currently has 13 plants located in Java and Borneo. As of the end of 2021, annual production capacity of these facilities stood at 25.5mn tons. INTP distributes its cement under a well-known "Tiga Roda" brand and becomes the only white cement producer in Indonesia.

Market cap (Rp bn)	36,904
Shares outstanding (mn)	3,681
52-week range (Rp)	12,950-8,800
3M average daily vol. ('000)	3,608
3M average daily val. (Rp mn)	37,908

Shareholders (%)

Birchwood Omnia Ltd.	51.0
Public	44.8
Treasury shares	4.2

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(4.1)	(7.6)	(19.5)

- INTP's 1Q22 net profit fell 48.0% YoY to Rp183bn, representing 10.7% of our FY forecast
- We expect domestic cement sales to grow 5% YoY in 2022 amid property recovery and infrastructure development. Strong energy prices and USD will result in margin squeeze. INTP has raised prices, while improving operational excellence, reducing fixed costs, managing efficient kilns, as well as increasing the usage of alternative fuels and low CV coal
- Reiterate our BUY call with 19.7% upside potential on a 12-month view, backed by 1) economic recovery along with fiscal stimulus; 2) higher selling prices and cost leadership strategy; as well as 3) robust balance sheet

Below expectations

INTP's net profit plunged 48.0% YoY to Rp183bn in 1Q22, accounting for 10.7%/10.5% of our/consensus FY estimates. Net revenues grew 3.5% YoY to Rp3.56tn in 1Q22. However, gross margin contracted from 32.0% in 1Q21 to 27.0% in 1Q22, mainly caused by soaring coal prices. Furthermore, operating margin declined from 10.6% in 1Q21 to 5.2% in 1Q22 as operating expenses increased 5.7% YoY to Rp777bn, particularly derived from delivery, loading and transportation, depreciation, as well as professional fees that partly compensated by lower allowance for impairment loss on trade receivables as well as advertising and promotion. Moreover, finance income tumbled 49.3% YoY to Rp26bn in 1Q22 amid lower interest rates as well as cash and cash equivalents. Meanwhile, balance sheet remained robust with net cash position in 1Q22.

Recovery is happening, but challenges are coming

We maintain our domestic cement consumption growth assumption of 5% YoY in 2022 amid property sector recovery and infrastructure development, supported by improving economy in line with eased mobility restrictions, low interest rates, value-added tax waiver for property purchase, soaring commodity prices, and Omnibus Law implementation. Furthermore, we believe that the initiation of Nusantara Capital City development will be one of the long-term catalysts for cement industry. However, we anticipate oversupply to reach c.50mn tons this year with utilization rate of 57.3%, leading to stiff competition. Meanwhile, INTP aims to maintain its market share in home market amidst aggressiveness of second-tier brands and a new player in Central Java that has commenced commercial production since 4Q21. Moreover, we see that surging coal prices will still be the prime challenge, in addition to the implementation of first phase of carbon tax for coal fired power plant this year and ODOL policy in 2023, in which INTP is preparing new logistics strategies.

Turning headwinds into tailwinds

We expect that soaring coal and oil prices coupled with USD appreciation will result in margin pressures. To ease the burden, INTP has raised selling prices since March 2022 for both bag and bulk cement, while closely monitoring how competitors would response. Meanwhile, the government has committed to facilitate the company in procuring coal at DMO price. Furthermore, INTP focuses on improving operational excellence, fixed cost reduction program, efficient kiln management, and digital transformation. The company also continues to implement cost leadership strategy, namely higher use of alternative fuels that are targeted to reach 25% by 2025, low CV coal, alternative raw materials substituting clinker, and renewable energy development for electricity. Moreover, INTP has introduced hydraulic cement, slag cement, and PCC in order to gradually replace OPC. To anticipate competition, the company will leverage its fighting brand with contribution of c.10% of total sales. In addition, INTP continues its digital transformation for sales by launching TiroMax mobile app, engaging in community platform "Masterumah.id", and optimizing supply chain. To increase market penetration, the company has acquired a terminal in Samarinda and added more bulk fleets. Meanwhile, INTP aims to expand sustainability strategy, distribution channels, automation process, as well as explore a possibility of merger and acquisition for synergy.

Reiterate BUY on the back of improving economy and robust balance sheet

We maintain our BUY call with a lower DCF-based price target of Rp12,000 per share. Note that the stock is currently traded at a 2022 PER of 41.4x and EV/EBITDA of 14.9x. We remain optimistic with INTP's outlook, driven by 1) improving economy along with fiscal stimulus that will boost property recovery and infrastructure development; 2) higher selling prices as well as strategic initiatives including cost leadership and focus on home market; as well as 3) robust balance sheet with net cash position. On the other hand, we note several downside risks to our recommendation, namely 1) lower-than-expected sales volume and persistent oversupply that leads to intense competition particularly in its main market, thus limiting ability to raise prices; 2) risk of margin squeeze due to surging energy prices; as well as 3) aggressive interest rate hikes and USD appreciation.

Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (Rp bn)	14,184	14,772	15,498	16,218	16,927
Op. income (Rp bn)	1,960	1,908	913	1,279	1,675
Net income (Rp bn)	1,806	1,788	892	1,096	1,410
EPS (Rp)	491	486	242	298	383
EPS growth (%)	(1.6)	(1.0)	(50.1)	22.9	28.6
ROAA (%)	6.6	6.7	3.4	4.3	5.5
ROAE (%)	8.0	8.4	4.4	5.5	7.1
PER (x)	20.4	20.6	41.4	33.7	26.2
PBV (x)	1.7	1.8	1.9	1.9	1.9
EV/EBITDA (x)	8.8	9.8	14.9	12.8	11.1
Div Yield (%)	7.2	5.0	3.9	3.0	3.7

Analyst(s)

Budi Rustanto, CFA, FRM

Devi Harjoto

Indocement Tunggal Prakarsa (INTP)

INTP's Financial Overview

Consolidated Income Statement (Rp bn)	1Q21	1Q22	YoY Change	4Q21	1Q22	QoQ Change
Net revenues	3,438	3,558	3.5%	4,163	3,558	(14.5%)
Cost of revenues	2,338	2,597	11.1%	2,629	2,597	(1.2%)
Gross profit	1,100	960	(12.7%)	1,534	960	(37.4%)
<i>Gross profit margin</i>	32.0%	27.0%		36.8%	27.0%	
Operating expenses	735	777	5.7%	899	777	(13.6%)
Operating income	364	184	(49.6%)	635	184	(71.1%)
<i>Operating profit margin</i>	10.6%	5.2%		15.2%	5.2%	
Other income/(expenses)	69	42		52	42	
Eq. in earnings of associated comp.	6	4		7	4	
Profit before income tax	439	230	(47.7%)	694	230	(66.9%)
Income tax expense	88	47	(46.5%)	114	47	(58.6%)
Income before minority int.	351	183	(48.0%)	580	183	(68.5%)
Minority interest	-	-		-	-	
Net income	351	183	(48.0%)	580	183	(68.5%)
<i>Net profit margin</i>	10.2%	5.1%		13.9%	5.1%	

Source: Company, KB Valbury Sekuritas

Indocement Tunggal Prakarsa (INTP)

FINANCIAL TABLES

CONSOLIDATED STATEMENTS OF INCOME

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net revenues	14,184	14,772	15,498	16,218	16,927
Revenues growth YoY	(11.0%)	4.1%	4.9%	4.6%	4.4%
Cost of revenues	9,071	9,646	11,066	11,143	11,173
Gross profit	5,114	5,126	4,432	5,075	5,754
Operating expenses	3,154	3,219	3,520	3,796	4,079
Operating income	1,960	1,908	913	1,279	1,675
Op. income growth YoY	(1.9%)	(2.7%)	(52.2%)	40.2%	30.9%
EBITDA	3,362	3,161	2,177	2,573	2,997
EBITDA growth YoY	4.6%	(6.0%)	(31.1%)	18.2%	16.5%
Other income/(expenses)	173	302	182	68	63
Eq. in earnings of associated comp.	15	24	21	23	25
Profit before income tax	2,148	2,234	1,115	1,370	1,762
Income tax expenses	342	446	223	274	352
Income before minority int.	1,806	1,788	892	1,096	1,410
Minority interest	-	-	-	-	-
Net income	1,806	1,788	892	1,096	1,410

Source: Company, KB Valbury Sekuritas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash and cash equivalents	7,698	6,141	5,019	4,599	4,260
Trade receivables	2,585	2,587	2,667	2,791	2,913
Inventories	1,824	2,267	2,457	2,474	2,481
Other current assets	193	341	302	312	322
Total current assets	12,299	11,337	10,445	10,176	9,975
Non current assets					
Fixed assets	14,397	14,342	14,665	14,995	15,333
Other non current assets	648	457	494	506	518
Total non current assets	15,045	14,799	15,160	15,501	15,851
Total assets	27,345	26,136	25,604	25,677	25,827
Current liabilities					
Trade payables	1,580	2,083	1,928	1,941	1,947
Taxes payable	391	232	229	253	293
Short term debts and current mat.	254	162	239	246	260
Other current liabilities	1,991	2,170	2,193	2,264	2,333
Total current liabilities	4,216	4,647	4,589	4,704	4,833
Non current liabilities					
Long term debts	247	114	410	347	284
Other non current liabilities	706	755	782	809	838
Total non current liabilities	952	869	1,191	1,156	1,122
Minority interests	-	-	-	-	-
Shareholders' equity	22,176	20,621	19,824	19,817	19,872
Total liabilities and equity	27,345	26,136	25,604	25,677	25,827

Source: Company, KB Valbury Sekuritas

Indocement Tunggal Prakarsa (INTP)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net income	1,806	1,788	892	1,096	1,410
Depreciation	1,402	1,253	1,265	1,293	1,322
Changes in working capital	737	(71)	(366)	(42)	(25)
CF from operating activities	3,946	2,971	1,791	2,347	2,707
Investment in fixed assets	(1,719)	(1,198)	(1,588)	(1,623)	(1,660)
Others	150	191	(38)	(11)	(13)
CF from investing activities	(1,569)	(1,007)	(1,625)	(1,635)	(1,672)
Debts raised/(repaid)	390	(225)	373	(56)	(48)
Dividends paid	(2,669)	(1,841)	(1,431)	(1,103)	(1,355)
Others	(52)	(1,454)	(231)	27	29
CF from financing activities	(2,330)	(3,520)	(1,288)	(1,132)	(1,375)
Free cash flow	2,419	1,989	196	753	1,072
Net cash flow	46	(1,556)	(1,123)	(419)	(339)
Cash flow, beginning	7,652	7,698	6,141	5,019	4,599
Cash flow, ending	7,698	6,141	5,019	4,599	4,260

Source: Company, KB Valbury Sekuritas

RATIO ANALYSIS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Gross profit margin (%)	36.1	34.7	28.6	31.3	34.0
Operating profit margin (%)	13.8	12.9	5.9	7.9	9.9
Net profit margin (%)	12.7	12.1	5.8	6.8	8.3
ROAE (%)	8.0	8.4	4.4	5.5	7.1
ROAA (%)	6.6	6.7	3.4	4.3	5.5
DER (%)	2.3	1.3	3.3	3.0	2.7
Net (cash) gearing (%)	(32.5)	(28.4)	(22.0)	(20.2)	(18.7)
Sales/Assets (x)	0.5	0.6	0.6	0.6	0.7
Assets/Equity (x)	1.2	1.3	1.3	1.3	1.3
PER (x)	20.4	20.6	41.4	33.7	26.2
PBV (x)	1.7	1.8	1.9	1.9	1.9
EV/EBITDA (x)	8.8	9.8	14.9	12.8	11.1
Dividend Yield (%)	7.2	5.0	3.9	3.0	3.7

Source: Company, KB Valbury Sekuritas

Indocement Tunggal Prakarsa (INTP)

Disclaimer

This report is prepared by PT KB Valbury Sekuritas, a member of the Indonesia Stock Exchange, or its subsidiaries or its affiliates ("KBVS"). All the material presented in this report is under copyright to KBVS. None of the parts of this material, nor its contents, may be copied, photocopied, or duplicated in any form or by any means or altered in any way, or transmitted to, or distributed to any other party without the prior written consent of KBVS.

The research presented in this report is based on the information obtained by KBVS from sources believed to be reliable, however KBVS do not make representations as to their accuracy, completeness or correctness. KBVS accepts no liability for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from the use of the material presented in this report and further communication given or relied in relation to this document. The material in this report is not to be construed as an offer or a solicitation of an offer to buy or sell any securities or financial products. This report is not to be relied upon in substitution for the exercise of independent judgement. Past performance and no representation or warranty, express or implied, is made regarding future performance. Information, valuations, opinions, forecasts and estimates contained in this report reflects a judgement at its original date of publication by KBVS and are subject to change without notice, its accuracy is not guaranteed or it may be incomplete.

The Research Analyst(s) primarily responsible for the content of this research report, in part or as a whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The Analyst also certifies that no part of his/her compensation was, is or will be related to specific recommendation views expressed in this report. It also certifies that the views and recommendations expressed in this report do not and will not take into account client circumstances, objectives, needs and no intentions involved as a use for recommendations for sale or buy any securities or financial instruments.