

Indocement Tunggal Prakarsa (INTP)

Waiting for momentum to bounce back

22 August 2022



INTP II	BUY
Sector	Cement
Price at 19 August 2022 (Rp)	9,200
Price target (Rp)	10,500
Upside/Downside (%)	14.1

Stock Information

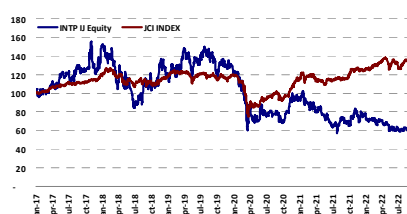
Indocement Tunggal Prakarsa (INTP) is the second largest cement manufacturer in Indonesia. The company currently has 13 plants located in Java and Borneo. As of the end of 2021, annual production capacity of these facilities stood at 25.5mn tons. INTP distributes its cement under a well-known "Tiga Roda"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

Market cap (Rp bn)	33,867
Shares outstanding (mn)	3,681
52-week range (Rp)	12,950-8,975
3M average daily vol. ('000)	6,200
3M average daily val. (Rp mn)	59,830

Shareholders (%)

Birchwood Omnia Ltd.	51.0
Public	43.1
Treasury shares	5.9

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(1.9)	(6.4)	(16.6)

- INTP's 1H22 net profit fell 50.3% YoY to Rp292bn, representing 32.7% of our FY estimate
- We expect domestic cement sales to grow 3% YoY in 2022 amid property recovery and infrastructure development. To ease margin squeeze from strong energy prices and USD, INTP has raised prices, while reducing fixed costs, managing efficient kilns, increasing the usage of alternative fuels and low CV coal, optimizing DMO coal supply
- Reiterate our BUY call with 14.1% 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 50.3% YoY to Rp292bn in 1H22, accounting for 32.7%/17.7% of our/consensus FY forecasts. Despite lower sales volume by 6.2% YoY, net revenues grew 3.7% YoY to Rp6.91tn in 1H22 on the back of higher blended ASP by 10.5% YoY. However, gross margin contracted from 31.4% in 1H21 to 25.6% in 1H22, mainly caused by soaring coal prices. Furthermore, operating margin declined from 9.1% in 1H21 to 3.8% in 1H22 as operating expenses inched up 1.2% YoY to Rp1.5tn, particularly derived from depreciation due to lease of Banyuwangi Grinding Plant as well as delivery, loading and transportation in line with fuel increase that partly compensated by lower advertising and promotion. Moreover, finance income shrunk 55.6% YoY to Rp43bn in 1H22 amid lower interest rates as well as cash and cash equivalents. Nevertheless, it booked higher forex gain in 2Q22. Meanwhile, balance sheet remained robust with net cash position in 1H22.

Improving outlook despite challenges

We expect domestic cement consumption to grow 3% 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, strong commodity prices, and Omnibus Law implementation. Furthermore, we believe that bulk cement demands will continue to rise in 2H22 amidst accelerating construction activities for infrastructure and commercial projects. Moreover, we see that new 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 56.5%, resulting in stiff competition. Meanwhile, INTP strives to maintain market share in home market amid aggressiveness of second-tier brands. Nevertheless, we deem that low utilization rate, lack of distribution channels and alternative fuels usage will hamper performance of smaller players. In addition, we view that surging energy costs, first phase implementation of carbon tax for coal-fired power plant, and ODOL policy will be the main challenges for cement industry.

Navigating headwinds

To reduce margin pressures stemming from soaring coal and oil prices as well as USD appreciation, INTP has raised selling prices, while evaluating pricing situations in each area. Furthermore, the company has secured some of the required amount of coal needs throughout this year at DMO price and seeks to expand partnerships for DMO access. We also anticipate that cement price dynamics will depend on energy cost movements in 2H22. Moreover, INTP strives to maintain EBITDA margin at c.20%. The company also focuses on improving operational excellence, fixed cost reduction, managing efficient kiln utilization, and digital transformation. It continues to implement cost leadership strategy, namely higher usage of alternative fuels that are targeted to reach 25% by 2025, low CV coal, and alternative raw materials substituting clinker, as well as renewable energy development for electricity. To anticipate intense competition, INTP will leverage eco-brand "Rajawali" with contribution of c.10% of total sales. Meanwhile, the company will improve footprints by expanding its market and distribution from Western to Eastern Java and Bali. Thus, it is increasing supply capability by leasing a grinding plant in Banyuwangi with capacity of 1.8mn tons. Going forward, INTP aims to improve 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 Rp10,500 per share. Note that the stock is currently traded at a 2022 PER of 47.1x and EV/EBITDA of 15.9x. 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	15,390	16,105	16,824
Op. income (Rp bn)	1,960	1,908	675	1,030	1,414
Net income (Rp bn)	1,806	1,788	719	923	1,223
EPS (Rp)	491	486	195	251	332
EPS growth (%)	(1.6)	(1.0)	(59.8)	28.3	32.5
ROAA (%)	6.6	6.7	2.9	3.8	5.0
ROAE (%)	8.0	8.4	3.7	4.9	6.4
PER (x)	18.7	18.9	47.1	36.7	27.7
PBV (x)	1.5	1.6	1.8	1.8	1.8
EV/EBITDA (x)	7.9	8.9	15.9	13.4	11.4
Div Yield (%)	7.9	5.4	5.1	2.2	2.8

Analyst(s)

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Indocement Tunggal Prakarsa (INTP)

INTP's Financial Overview

Consolidated Income Statement (Rp bn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Net revenues	6,667	6,911	3.7%	3,558	3,353	(5.7%)
Cost of revenues	4,573	5,142	12.5%	2,597	2,545	(2.0%)
Gross profit	2,094	1,769	(15.5%)	960	808	(15.8%)
<i>Gross profit margin</i>	31.4%	25.6%		27.0%	24.1%	
Operating expenses	1,486	1,503	1.2%	777	726	(6.5%)
Operating income	609	265	(56.4%)	184	82	(55.4%)
<i>Operating profit margin</i>	9.1%	3.8%		5.2%	2.4%	
Other income/(expenses)	110	95		42	53	
Eq. in earnings of associated comp.	13	8		4	4	
Profit before income tax	731	368	(49.7%)	230	138	(39.9%)
Income tax expense	144	76		47	29	
Income before minority int.	587	292	(50.3%)	183	109	(40.3%)
Minority interest	-	-		-	-	
Net income	587	292	(50.3%)	183	109	(40.3%)
<i>Net profit margin</i>	8.8%	4.2%		5.1%	3.3%	

Source: Company, KB Valbury Sekuritas

Financial Indicators (Rp '000/ton)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Average selling price	814	899	10.5%	874	927	6.1%
Cost of revenues	558	669	19.9%	638	704	10.3%
Raw materials used	116	129	11.2%	121	137	13.3%
Direct labor	55	59	9.0%	57	62	9.9%
Fuel and power	223	333	48.9%	349	314	(10.1%)
Manufacturing overhead	129	128	(0.8%)	110	148	35.3%
Packing cost	42	50	19.3%	48	52	8.3%
Others	(6)	(29)	(384.0%)	(46)	(10)	78.2%

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	15,390	16,105	16,824
Revenues growth YoY	(11.0%)	4.1%	4.2%	4.6%	4.5%
Cost of revenues	9,071	9,646	11,178	11,260	11,307
Gross profit	5,114	5,126	4,212	4,844	5,517
Operating expenses	3,154	3,219	3,537	3,814	4,104
Operating income	1,960	1,908	675	1,030	1,414
Op. income growth YoY	(1.9%)	(2.7%)	(64.6%)	52.5%	37.3%
EBITDA	3,362	3,161	1,940	2,323	2,736
EBITDA growth YoY	4.6%	(6.0%)	(38.6%)	19.7%	17.8%
Other income/(expenses)	173	302	213	113	104
Eq. in earnings of associated comp.	15	24	16	18	20
Profit before income tax	2,148	2,234	905	1,161	1,538
Income tax expenses	342	446	185	238	315
Income before minority int.	1,806	1,788	719	923	1,223
Minority interest	-	-	-	-	-
Net income	1,806	1,788	719	923	1,223

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	3,566	3,375	3,257
Trade receivables	2,585	2,587	2,749	2,876	3,005
Inventories	1,824	2,267	2,423	2,441	2,451
Other current assets	193	341	233	240	246
Total current assets	12,299	11,337	8,971	8,931	8,958
Non current assets					
Fixed assets	14,397	14,342	14,665	14,995	15,333
Other non current assets	648	457	531	542	554
Total non current assets	15,045	14,799	15,196	15,537	15,887
Total assets	27,345	26,136	24,167	24,469	24,845
Current liabilities					
Trade payables	1,580	2,083	1,774	1,787	1,795
Taxes payable	391	232	212	245	292
Short term debts and current mat.	254	162	228	247	239
Other current liabilities	1,991	2,170	1,964	2,026	2,086
Total current liabilities	4,216	4,647	4,178	4,304	4,411
Non current liabilities					
Long term debts	247	114	411	367	323
Other non current liabilities	706	755	828	857	889
Total non current liabilities	952	869	1,239	1,224	1,212
Minority interests	-	-	-	-	-
Shareholders' equity	22,176	20,621	18,750	18,940	19,223
Total liabilities and equity	27,345	26,136	24,167	24,469	24,845

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	719	923	1,223
Depreciation	1,402	1,253	1,265	1,293	1,322
Changes in working capital	737	(71)	(744)	(44)	(30)
CF from operating activities	3,946	2,971	1,240	2,172	2,515
Investment in fixed assets	(1,719)	(1,198)	(1,588)	(1,623)	(1,660)
Others	150	191	(74)	(11)	(12)
CF from investing activities	(1,569)	(1,007)	(1,662)	(1,634)	(1,672)
Debts raised/(repaid)	390	(225)	363	(25)	(52)
Dividends paid	(2,669)	(1,841)	(1,740)	(733)	(940)
Others	(52)	(1,454)	(776)	29	31
CF from financing activities	(2,330)	(3,520)	(2,154)	(729)	(961)
Free cash flow	2,419	1,989	(392)	578	881
Net cash flow	46	(1,556)	(2,576)	(191)	(118)
Cash flow, beginning	7,652	7,698	6,141	3,566	3,375
Cash flow, ending	7,698	6,141	3,566	3,375	3,257

Source: Company, KB Valbury Sekuritas

RATIO ANALYSIS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Gross profit margin (%)	36.1	34.7	27.4	30.1	32.8
Operating profit margin (%)	13.8	12.9	4.4	6.4	8.4
Net profit margin (%)	12.7	12.1	4.7	5.7	7.3
ROAE (%)	8.0	8.4	3.7	4.9	6.4
ROAA (%)	6.6	6.7	2.9	3.8	5.0
DER (%)	2.3	1.3	3.4	3.2	2.9
Net (cash) gearing (%)	(32.5)	(28.4)	(15.6)	(14.6)	(14.0)
Sales/Assets (x)	0.5	0.6	0.6	0.7	0.7
Assets/Equity (x)	1.2	1.3	1.3	1.3	1.3
PER (x)	18.7	18.9	47.1	36.7	27.7
PBV (x)	1.5	1.6	1.8	1.8	1.8
EV/EBITDA (x)	7.9	8.9	15.9	13.4	11.4
Dividend Yield (%)	7.9	5.4	5.1	2.2	2.8

Source: Company, KB Valbury Sekuritas

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