Company Report

Semen Indonesia (SMGR)

KB Valbury Sekuritas

Staying agile amid challenging times

30 May 2022

SMGR IJ	BUY
Sector	Cement
Price at 27 May 2022 (Rp)	6,700
Price target (Rp)	9,000
Upside/Downside (%)	34.3

Stock Information

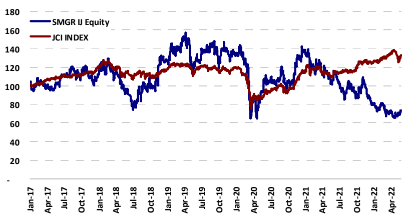
Semen Indonesia is the largest cement producer in Indonesia with total production capacity of 52.6mn tons as of December 2021. The state-owned-enterprise operates through its subsidiaries, namely Semen Padang, Semen Gresik, Semen Tonasa, and Solusi Bangun Indonesia which span in islands of Sumatera, Java, and Sulawesi. It has set its footprints in Vietnam by acquiring Thang Long.

Market cap (Rp bn)	39,741
Shares outstanding (mn)	5,932
52-week range (Rp)	10,600-5,850
3M average daily vol. ('000)	12,564
3M average daily val. (Rp mn)	81,773

Shareholders (%)

Government of Indonesia	51.0
Public	49.0

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	3.5	(6.9)	(29.5)

- **SMGR's 1Q22 net profit rose 10.7% YoY to Rp499bn, representing 17.7% of our FY estimate**
- **We expect domestic cement sales to grow 5% YoY in 2022 amid property recovery and infrastructure development. To anticipate soaring energy prices that will result in margin squeeze, SMGR has increased prices and the use of low CV coal, alternative raw materials and fuels, while applying a multi-brand strategy as well as improving efficiency**
- **Reiterate our BUY call with 34.3% upside potential on a 12-month view, backed by 1) economic recovery along with fiscal stimulus; 2) cost transformation and synergy with SMCB; 3) strategic plant locations; 4) market leadership; and 5) lower gearing ratio**

Below expectations

SMGR's net profit grew 10.7% YoY to Rp499bn in 1Q22, accounting for 17.7%/18.3% of our/consensus FY forecasts. Revenue inched up 0.7% YoY to Rp8.14tn in 1Q22 as blended ASP escalated 7.0% YoY, while sales volume went down 5.8% YoY. Although domestic sales edged up 1.6% YoY, regional sales plunged 29.0% YoY in 1Q22 due to its focus on domestic market and coal availability. Furthermore, cost of revenue only rose 3.2% YoY to Rp5.88tn in 1Q22 on the back of tight cost control amid a 28% YoY hike in fuel and energy cost, which is lower than 88% YoY increase in average coal market price, as it was able to secure coal supply at DMO price. Meanwhile, raw material cost declined 28.5% YoY in line with muted sales volume and 1% lower average clinker factor in 1Q22. However, gross margin contracted from 29.4% in 1Q21 to 27.7% in 1Q22. Moreover, opex decreased 6.6% YoY to Rp1.24tn in 1Q22, mainly sourced from salaries, wages, employee welfare and bonuses, promotion, as well as office supplies that offset higher taxes and insurance. In addition, finance costs shrunk 26.2% YoY to Rp327bn in 1Q22 amid lower interest rates and interest-bearing debts. Meanwhile, DER improved from 70.0% in 1Q21 to 46.9% in 1Q22.

Anticipating solid demand recovery

SMGR's cement sales nationwide inched down 1.2% YoY to 9.62mn tons in 4M22 ahead of Eid holiday, while exports declined 37.6% YoY to 1.66mn tons. We maintain our domestic cement consumption growth assumption of 5% YoY in 2022 amid property sector recovery and infrastructure development, mainly supported by improving economy, low interest rates, value-added tax waiver on property purchase, sizeable infrastructure budget, and Omnibus Law implementation. We also believe that new capital city 'Nusantara' development will bolster cement demands in the long run. However, we anticipate headwinds are coming from oversupplied market that leads to intense competition particularly from second-tier brands, further decrease in exports, surging coal prices, as well as the implementation of ODOL policy by 2023 and carbon tax. Meanwhile, despite DMO pricing scheme, many players are facing difficulties in obtaining coal supply.

In a bid to contain headwinds

To anticipate soaring coal and oil prices that will result in margin squeeze, SMGR has increased selling prices, the use of low CV coal, and secured long-term contracts with coal suppliers. Furthemore, the company continues its strategic initiatives, namely 1) applying a multi-brand portfolio strategy and expanding distribution channels; 2) improving operational excellence to enhance efficiency by reducing clinker factors, increasing the usage of alternative raw materials and fuels, optimizing coal procurement management; as well as 3) implementing agile and lean operating model. SMGR focuses on improving profitability, while preserving its market leadership by optimizing eco brand. To boost domestic sales, the company is developing a wide array of digital platforms, such as SobatBangun, AksesToko, and SIG online store. In addition, SMGR will utilize sustainable financing and exercise debt reprofiling to reduce finance costs.

Reiterate BUY on the back of improving economy and higher selling prices

We maintain our BUY recommendation with a lower DCF-based price target of Rp9,000 per share. The stock is currently traded at a 2022 EV/EBITDA of 6.6x and PER of 15.6x, translating into 1.6stdev below its 5-year historical mean, which we consider to be relatively undemanding. We remain sanguine on SMGR's outlook, driven by 1) improving economy along with low interest rates and fiscal stimulus that will accelerate property recovery and infrastructure development; 2) higher selling prices coupled with cost transformation and synergy with SMCB; 3) strategic plant locations and extensive distribution networks; 4) market leadership with relatively high utilization rate; as well as 5) improved leverage ratio. However, we note several downside risks, including 1) lower-than-expected sales volume and selling prices; 2) soaring energy costs; as well as 3) aggressive rate hikes.

Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (Rp bn)	35,172	34,958	37,333	39,204	41,022
Operating profit (Rp bn)	5,653	5,019	4,831	5,342	5,872
Net profit (Rp bn)	2,792	2,021	2,555	3,015	3,537
EPS (Rp)	471	341	431	508	596
EPS growth (%)	16.7	(27.6)	26.4	18.0	17.3
ROAA (%)	3.5	2.6	3.4	4.0	4.7
ROAE (%)	8.4	5.7	6.9	7.8	8.7
PER (x)	14.2	19.7	15.6	13.2	11.2
PBV (x)	1.2	1.1	1.1	1.0	1.0
EV/EBITDA (x)	6.9	6.7	6.6	5.9	5.3
Div Yield (%)	0.6	2.8	2.6	2.9	3.4

Analyst(s)

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Devi Harjoto

SMGR's Financial Overview

Consolidated Statements of Profit or Loss (Rp bn)	1Q21	1Q22	YoY Change	4Q21	1Q22	QoQ Change
Revenue	**8,077**	**8,137**	***0.7%***	**9,627**	**8,137**	***(15.5%)***
Cost of revenue	5,699	5,881	*3.2%*	6,118	5,881	*(3.9%)*
Gross profit	**2,377**	**2,256**	***(5.1%)***	**3,509**	**2,256**	***(35.7%)***
Gross profit margin	*29.4%*	*27.7%*		*36.4%*	*27.7%*	
Operating expenses	1,331	1,243	*(6.6%)*	1,833	1,243	*(32.2%)*
Operating profit	**1,046**	**1,012**	***(3.2%)***	**1,676**	**1,012**	***(39.6%)***
Operating profit margin	*13.0%*	*12.4%*		*17.4%*	*12.4%*	
Other income/(expenses)	(374)	(285)		(328)	(285)	
Equity income in associates	(2)	1		1	1	
Profit before income tax	**670**	**729**	***8.7%***	**1,349**	**729**	***(46.0%)***
Income tax expense	224	205	*(8.4%)*	711	205	*(71.1%)*
Profit before minority interests	**446**	**523**	***17.3%***	**639**	**523**	***(18.0%)***
Minority interests	(4)	25		5	25	
Net profit	**450**	**499**	***10.7%***	**633**	**499**	***(21.3%)***
Net profit margin	*5.6%*	*6.1%*		*6.6%*	*6.1%*	

Source: Company, KB Valbury Sekuritas

Financial Indicators (Rp '000/ton)	1Q21	1Q22	YoY Change	4Q21	1Q22	QoQ Change
Blended average selling price	833	891	*7.0%*	910	891	*(2.0%)*
Cost of revenue	588	644	*9.6%*	578	644	*11.4%*
Operating expenses	137	136	*(0.8%)*	173	136	*(21.4%)*
Manufacturing costs						
Raw materials used	44	33	*(24.1%)*	21	33	*58.7%*
Labor	49	43	*(12.2%)*	55	43	*(21.9%)*
Manufacturing overhead	495	580	*17.3%*	522	580	*11.3%*
Total manufacturing costs	588	657	*11.7%*	598	657	*9.9%*

Source: Company, KB Valbury Sekuritas

FINANCIAL TABLES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Revenue	**35,172**	**34,958**	**37,333**	**39,204**	**41,022**
Revenue growth YoY	*(12.9%)*	*(0.6%)*	*6.8%*	*5.0%*	*4.6%*
Cost of revenue	23,348	24,005	26,569	27,312	27,963
Gross profit	**11,824**	**10,953**	**10,764**	**11,892**	**13,058**
Operating expenses	6,171	5,935	5,933	6,549	7,186
Operating profit	**5,653**	**5,019**	**4,831**	**5,342**	**5,872**
Operating profit growth YoY	*(7.2%)*	*(11.2%)*	*(3.7%)*	*10.6%*	*9.9%*
EBITDA	**8,758**	**8,115**	**7,870**	**8,344**	**8,839**
EBITDA growth YoY	*3.6%*	*(7.3%)*	*(3.0%)*	*6.0%*	*5.9%*
Other income/(expenses)	(2,111)	(1,516)	(1,112)	(971)	(760)
Equity income in associates	(53)	(33)	6	8	10
Profit before income tax	**3,489**	**3,470**	**3,725**	**4,380**	**5,122**
Income tax expense	814	1,388	1,080	1,270	1,485
Profit before minority interests	**2,674**	**2,082**	**2,645**	**3,109**	**3,636**
Minority interests	(118)	61	89	95	99
Net profit	**2,792**	**2,021**	**2,555**	**3,015**	**3,537**

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	2,931	2,470	1,630	2,447	2,163
Trade receivables	5,777	5,513	5,333	5,601	5,860
Inventories	4,548	4,615	5,109	5,251	5,377
Other current assets	2,309	2,672	2,759	2,815	2,869
Total current assets	**15,565**	**15,270**	**14,831**	**16,114**	**16,269**
Non-current assets					
Fixed assets	56,053	54,720	54,009	53,361	52,774
Other non-current assets	6,388	6,514	6,633	6,679	6,719
Total non-current assets	**62,442**	**61,234**	**60,641**	**60,040**	**59,493**
Total assets	**78,006**	**76,504**	**75,472**	**76,154**	**75,762**
Current liabilities					
Trade payables	6,521	7,613	7,814	8,033	8,224
Accrued expenses	1,130	1,120	1,131	1,187	1,242
Taxes payable	562	392	525	617	722
Short-term debts	2,110	3,913	924	934	944
Other current liabilities	1,184	1,173	1,150	1,201	1,253
Total current liabilities	**11,506**	**14,210**	**11,543**	**11,972**	**12,386**
Non-current liabilities					
Long-term debts	21,844	12,936	12,940	11,239	8,215
Other non-current liabilities	9,003	9,575	9,508	9,550	9,542
Total non-current liabilities	**30,847**	**22,511**	**22,448**	**20,789**	**17,757**
Minority interests	1,480	3,628	3,683	3,738	3,794
Shareholders' equity	**34,173**	**36,155**	**37,798**	**39,655**	**41,825**
Total liabilities and equity	**78,006**	**76,504**	**75,472**	**76,154**	**75,762**

Source: Company, KB Valbury Sekuritas

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	2,792	2,021	2,555	3,015	3,537
Depreciation	3,105	3,096	3,039	3,001	2,967
Changes in working capital	522	736	(78)	(48)	(36)
CF from operating activities	**6,419**	**5,853**	**5,516**	**5,969**	**6,468**
Investment in fixed assets	(2,557)	(1,763)	(2,328)	(2,353)	(2,380)
Others	159	(126)	(119)	(46)	(40)
CF from investing activities	**(2,398)**	**(1,889)**	**(2,447)**	**(2,400)**	**(2,420)**
Dividends paid	(239)	(1,117)	(1,024)	(1,158)	(1,367)
Debts raised (repaid)	(4,088)	(7,106)	(2,985)	(1,691)	(3,013)
Others	(714)	3,797	100	97	48
CF from financing activities	**(5,041)**	**(4,425)**	**(3,909)**	**(2,752)**	**(4,332)**
Free cash flows	**5,800**	**4,942**	**3,996**	**4,355**	**4,691**
Net cash flows	**(1,020)**	**(460)**	**(840)**	**817**	**(284)**
Cash and cash equivalents, beginning	**3,950**	**2,931**	**2,470**	**1,630**	**2,447**
Cash and cash equivalents, ending	**2,931**	**2,470**	**1,630**	**2,447**	**2,163**

Source: Company, KB Valbury Sekuritas

RATIO ANALYSIS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Gross profit margin (%)	33.6	31.3	28.8	30.3	31.8
Operating profit margin (%)	16.1	14.4	12.9	13.6	14.3
Net profit margin (%)	7.9	5.8	6.8	7.7	8.6
ROAE (%)	8.4	5.7	6.9	7.8	8.7
ROAA (%)	3.5	2.6	3.4	4.0	4.7
DER (%)	70.1	46.6	36.7	30.7	21.9
Net (cash) gearing (%)	61.5	39.8	32.4	24.5	16.7
Interest coverage ratio (x)	2.4	3.1	3.7	4.8	6.5
Sales/Assets (x)	0.4	0.5	0.5	0.5	0.5
Assets/Equity (x)	2.3	2.1	2.0	1.9	1.8
PER (x)	14.2	19.7	15.6	13.2	11.2
PBV (x)	1.2	1.1	1.1	1.0	1.0
EV/EBITDA (x)	6.9	6.7	6.6	5.9	5.3
Dividend Yield (%)	0.6	2.8	2.6	2.9	3.4

Source: Company, KB Valbury Sekuritas

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