

Solusi Bangun Indonesia (SMCB)

Strengthening collaboration to sustain growth

31 May 2022



SOLUSI BANGUN INDONESIA

SMCB IJ	BUY
Sector	Cement
Price at 30 May 2022 (Rp)	1,610
Price target (Rp)	1,950
Upside (%)	21.1

Stock Information

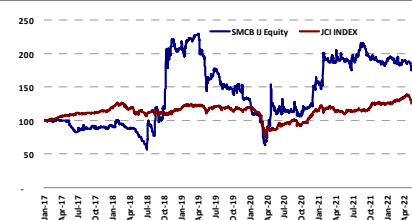
Solusi Bangun Indonesia is Indonesia's third largest cement producer with total capacity of 15mn tons as of December 2021. The company operates mainly in Java where more than half Indonesians reside. Through its subsidiary, Solusi Bangun Beton, it produces ready-mix concrete and aggregates.

Market cap (Rp bn)	14,521
Shares outstanding (mn)	9,019
52-week range (Rp)	1,970-1,530
3M average daily vol. ('000)	679
3M average daily val. (Rp mn)	1,154

Shareholders (%)

Semen Indonesia Industri B.	83.5
Taiheiyō Cement Corporation	15.0
Public	1.4

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(5.0)	(6.7)	(5.3)

- SMCB's 1Q22 net profit rose 13.8% YoY to Rp178bn, representing 21.2% of our FY estimate
- We expect domestic cement sales to grow 5% YoY in 2022 amid property recovery and infrastructure development. To mitigate surging energy prices, SMCB has raised selling prices, while focusing on increasing the use of alternative fuels and raw materials to enhance efficiency, market expansions, and product innovations
- Reiterate our BUY call with 21.1% upside potential on a 12-month view, backed by 1) economic rebound along with supportive fiscal policy; 2) higher selling prices; 3) synergy with SMGR and TCC; as well as 4) improving capital structure

In line with our expectation

SMCB's net profit increased 13.8% YoY to Rp178bn in 1Q22, accounting for 21.2% of our FY forecast. Revenue grew 13.4% YoY to Rp2.90tn in 1Q22 as sales volume rose 7.3% YoY to 3.39mn tons. However, gross margin contracted from 25.7% in 1Q21 to 21.2% in 1Q22, mainly caused by higher manufacturing costs in line with soaring coal prices. Amid cost transformation program and synergy with SMGR, operating expenses were down 3.8% YoY to Rp290bn in 1Q22 due to lower salaries, wages and allowances, compensating higher distribution and allowance for expected credit losses. Furthermore, finance costs tumbled 49.2% YoY to Rp69bn in 1Q22 on the back of lower debts and interest rates. Meanwhile, capital structure improved with net gearing decreased from 111.9% in 1Q21 to 38.7% in 1Q22 following rights issue.

Solid demands from infrastructure and property

We maintain our domestic cement consumption growth assumption of 5% YoY in 2022 amid property sector recovery and acceleration of infrastructure development, supported by improving economy along with eased mobility restrictions, low interest rates, value-added tax waiver on property purchase, and Omnibus Law implementation. However, we anticipate cement oversupply to reach c.50mn tons this year with utilization rate of 57.6%, thus resulting in intense competition. Furthermore, we expect challenges to come from surging energy prices and the implementation of ODOL policy by early 2023 that will increase logistics cost as well as carbon tax. In the midst of supply and demand dynamics, cement producers will boost exports to optimize utilization rate.

Headwinds from soaring energy costs

To mitigate surging coal and oil prices that will lead to margin squeeze, SMCB has raised selling prices. Furthermore, the company focuses on sustainable initiatives, namely developing digital application to improve operational excellence, increasing the use of alternative fuels and raw materials to enhance efficiency as well as reduce carbon emission. SMCB has managed to boost the usage of alternative fuels to 11.4% compared to 8.8% a year prior. Moreover, the company participates in national strategic projects, including Suralaya coal-fired power plant in Banten and Jakarta-Bandung High Speed Railway spanning 142.3km. In addition, SMCB continues its synergy with TCC and SMGR in terms of 1) market expansions; 2) achieving economies of scale by ramping up production; 3) product innovations; 4) integrated procurement, marketing, and distribution; 5) strengthening ready mix segment; as well as 6) funding and tech supports. Meanwhile, SMCB has introduced LocoCrete as a low CO2 emission concrete innovation.

Reiterate BUY on the back of economic recovery and improving capital structure

We maintain our BUY recommendation with a DCF-based price target of Rp1,950 per share. SMCB's share price is currently traded at a 2022 PER of 18.7x and EV/EBITDA of 9.0x. We remain optimistic with its outlook, driven by 1) property recovery and infrastructure development amid economic rebound along with supportive fiscal policy; 2) selling price hikes; 3) synergy with SMGR and TCC; as well as 4) improving capital structure post rights issue. However, we note several downside risks, stemming from 1) margin squeeze due to soaring coal and oil prices; 2) persistent supply glut with stiff competition; as well as 3) aggressive rate hikes.

Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenues (Rp bn)	10,108	11,218	12,118	12,724	13,290
Operating profit (Rp bn)	1,621	1,496	1,426	1,651	1,883
Net profit (Rp bn)	651	721	777	979	1,181
EPS (Rp)	72	80	86	109	131
EPS growth (%)	30.4	10.7	7.8	26.0	20.6
ROAA (%)	3.2	3.4	3.6	4.4	5.3
ROAE (%)	8.9	7.7	6.8	8.1	9.1
PER (x)	22.3	20.1	18.7	14.8	12.3
PBV (x)	1.9	1.3	1.2	1.2	1.1
EV/EBITDA (x)	10.6	9.0	9.0	7.8	6.7
Div Yield (%)	0.2	1.3	1.5	1.6	2.0

Analyst(s)

Budi Rustanto, CFA, FRM
Devi Harjoto

Solusi Bangun Indonesia (SMCB)

SMCB's Financial Overview

Consolidated Statements of Profit or Loss (Rp bn)	1Q21	1Q22	YoY Change	4Q21	1Q22	QoQ Change
Sales	2,562	2,905	13.4%	3,139	2,905	(7.5%)
Cost of goods sold	1,905	2,290		2,351	2,290	
Gross profit	657	614	(6.5%)	788	614	(22.0%)
<i>Gross profit margin</i>	25.7%	21.2%		25.1%	21.2%	
Operating expenses	302	290		374	290	
Operating profit	356	324	(8.9%)	414	324	(21.7%)
<i>Operating profit margin</i>	13.9%	11.2%		13.2%	11.2%	
Other income (expenses)	(142)	(77)		26	(77)	
Profit (loss) before income tax	214	247	15.3%	440	247	(43.9%)
Tax benefit (expense)	(58)	(69)		(178)	(69)	
Net profit (loss)	156	178	13.8%	262	178	(32.1%)
<i>Net profit margin</i>	6.1%	6.1%		8.3%	6.1%	

Source: Company, KB Valbury Sekuritas

Solusi Bangun Indonesia (SMCB)

FINANCIAL TABLES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Revenues	10,108	11,218	12,118	12,724	13,290
Sales growth YoY	(8.6%)	11.0%	8.0%	5.0%	4.4%
Cost of goods sold	7,125	8,364	9,286	9,598	9,865
Gross profit	2,984	2,854	2,832	3,127	3,425
Operating expenses	1,363	1,358	1,406	1,476	1,542
Operating profit	1,621	1,496	1,426	1,651	1,883
Operating profit growth YoY	37.6%	(7.7%)	(4.6%)	15.7%	14.1%
EBITDA	2,163	2,105	2,027	2,244	2,472
EBITDA growth YoY	26.9%	(2.7%)	(3.7%)	10.7%	10.2%
Other income/(expenses)	(643)	(407)	(316)	(252)	(196)
Profit (loss) before income tax	978	1,088	1,110	1,399	1,688
Tax benefit (expense)	(327)	(367)	(333)	(420)	(506)
Net profit	651	721	777	979	1,181

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	527	291	275	316	426
Trade accounts receivable	2,338	3,280	3,672	3,856	4,027
Inventories	1,048	1,019	1,243	1,285	1,320
Other current assets	304	649	654	685	714
Total current assets	4,216	5,238	5,844	6,142	6,489
Non-current assets					
Property, plant and equipment	15,259	15,007	14,812	14,664	14,561
Other non-current assets	1,263	1,246	1,308	1,333	1,360
Total non-current assets	16,522	16,253	16,120	15,997	15,921
Total assets	20,738	21,492	21,964	22,139	22,410
Current liabilities					
Trade accounts payable	2,015	3,101	3,575	3,696	3,798
Short-term debts	1,436	214	192	173	156
Other current liabilities	691	585	678	726	767
Total current liabilities	4,141	3,899	4,445	4,595	4,721
Non-current liabilities					
Long-term debts	7,497	4,494	3,826	3,071	2,287
Other non-current liabilities	1,533	1,916	1,935	1,969	2,010
Total non-current liabilities	9,031	6,410	5,760	5,040	4,297
Minority interest	-	-	-	-	-
Shareholders' equity	7,566	11,182	11,758	12,504	13,392
Total liabilities and equity	20,738	21,492	21,964	22,139	22,410

Source: Company, KB Valbury Sekuritas

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	651	721	777	979	1,181
Depreciation	542	609	600	593	588
Changes in working capital	(1,011)	(278)	(54)	(88)	(93)
CF from operating activities	182	1,052	1,324	1,484	1,676
Investment in fixed assets	(335)	(357)	(405)	(445)	(486)
Others	(368)	17	(61)	(26)	(26)
CF from investing activities	(703)	(341)	(466)	(471)	(512)
Debts raised/(repaid)	271	(4,225)	(690)	(774)	(801)
Rights issue	-	3,105	-	-	-
Dividends	(28)	(195)	(216)	(233)	(294)
Others	418	368	34	35	40
CF from financing activities	662	(948)	(873)	(973)	(1,054)
Net cash flows	140	(236)	(15)	41	110
Cash and cash equivalents, beginning	387	527	291	275	316
Cash and cash equivalents, ending	527	291	275	316	426

Source: Company, KB Valbury Sekuritas

RATIO ANALYSIS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Gross profit margin (%)	29.5	25.4	23.4	24.6	25.8
Operating profit margin (%)	16.0	13.3	11.8	13.0	14.2
Net profit margin (%)	6.4	6.4	6.4	7.7	8.9
ROAE (%)	8.9	7.7	6.8	8.1	9.1
ROAA (%)	3.2	3.4	3.6	4.4	5.3
DER (x)	1.2	0.4	0.3	0.3	0.2
Net (cash) gearing (x)	1.1	0.4	0.3	0.2	0.2
Interest coverage ratio (x)	2.4	3.3	4.9	6.5	9.5
Sales/Assets (x)	0.5	0.5	0.6	0.6	0.6
Assets/Equity (x)	2.7	1.9	1.9	1.8	1.7
PER (x)	22.3	20.1	18.7	14.8	12.3
PBV (x)	1.9	1.3	1.2	1.2	1.1
EV/EBITDA (x)	10.6	9.0	9.0	7.8	6.7
Dividend Yield (%)	0.2	1.3	1.5	1.6	2.0

Source: Company, KB Valbury Sekuritas

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