

Indocement Tunggal

Prakarsa Tbk (INTP IJ)

Production Efficiency Sustains Performance

INTP's performance in 9M19 was better than 9M18 proven by a 5.3% YoY increase in revenues and an 8.1% YoY increase in ASP. Indeed, efficiency at the production process strengthened its performance. INTP should put concerted efforts to increase sales volume amid soft national cement consumption.

Performance Improvement

In 9M19, INTP recorded revenues of IDR11.3 trillion (+5.3% YoY) thanks to an increase in domestic ASP (+8.1% YoY) and lower fuel use (-8% YoY) as production efficiency accelerated. The weak global coal prices curbed cost of revenues to only account for 67.6% (vs. 73.3% in 9M18) as INTP's financial costs totaled IDR5.9 billion (-70% YoY). It resulted in rising net profits to IDR1.1 trillion (+90.4% YoY). INTP's 9M19 revenue has reached 74.3% of our target in 2019F.

Sales Volume Weakens, Margins Strengthens

Until 9M19, INTP still had difficulty in leveraging domestic sales volume amid the soft national cement consumption (-2.2% YoY) and only recorded domestic sales volume of 13.4 million tons (-1.9% YoY) with a significant proportion of soft sales to occur in Jakarta and Sulawesi. It was able to spur margins, one of the factors attributable to 3Q19's improving performance, as OPM hiked to 12.3% (vs. 6% in 2Q19), and NPM doubled to 14.2% (vs. 7.5% in 2Q19).

West Java Is A Mainstay

Although the 9M19's weak national cement consumption of -1.1% YoY in Java was a challenge for the cement industry, the sales of cement consumption in West Java still increased (+9% YoY). INTP benefited from the solid cement sales in West Java because its cement plants with a total capacity of ~22.7 million tons are mostly located West Java. We still maintain the previous estimate (9.6 million tons-9.8 million tons) on grounds of sales figures in West Java, Central Java, and East Java for 2019F, as well as heavy rainfall from Oct. to Dec., posed risks to production.

Maintain HOLD Rating with the Price Target of IDR21,000

Positive catalysts are cost efficiency and focus on vertical integration of the ready mix concrete and aggregate segments. However, INTP is yet to be attractive due to looming oversupply, heavy rainfall in Q4 reducing cement consumption. We expect the cement industry to improve in Q2 2020 as we assume that LTV relaxation will spur the development of new property projects, leading to higher demand for cement. Acknowledging the factors, we retain HOLD recommendations with a lower price target of IDR21,000 or a 5.3% potential upside based on a 44.6x (-0.25 SD) forward P/E. At present, INTP is traded with 2019F P/E of 46.5x.

Indocement Tunggal Prakarsa Tbk | Summary

	2018A	2019F	2020F	2021F
Sales	15,190	15,272	15,660	16,130
Growth (%)	5.3%	0.5%	2.5%	3.0%
EBITDA	2,354	2,791	2,944	3,100
Net Profit	1,146	1,505	1,629	1,733
EPS (IDR)	311	409	442	471
Growth (%)	-38.4%	31.3%	8.2%	6.4%
P/E	60.3x	46.5x	44.2x	42.5x
P/BV	3.0x	3.1x	3.1x	3.1x
EV/EBITDA	26.3x	22.4x	21.9x	20.9x
ROE (%)	4.8%	6.6%	7.1%	7.4%
DER (%)	0.5%	0.5%	0.5%	0.5%
Net Debt	-7,110	-7,468	-7,565	-8,747

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Hold

Dec 2020 TP (IDR)	21,000
Consensus Price (IDR)	20,040
TP to Consensus Price	+4.8%
vs. Last Price	+5.3%

Shares data

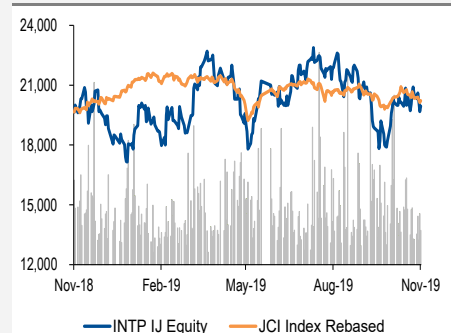
Last Price (IDR)	19,950
Price Date as of	Nov 15, 2019
52 wk Range (Hi/Lo)	22,875 / 16,725
Free Float (%)	49.0
Outstanding sh.(mn)	3,681
Market Cap (IDR bn)	76,938
Market Cap (USD mn)	5,465
Avg. Trd Vol - 3M (mn)	1.98
Avg. Trd Val - 3M (bn)	42.30
Foreign Ownership	99.9%

Basic Industry

Cement

Bloomberg	INTP IJ
Reuters	INTP.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	13.7%	-8.8%	2.5%	21.9%
Rel. Ret.	12.9%	-7.7%	4.1%	16.9%

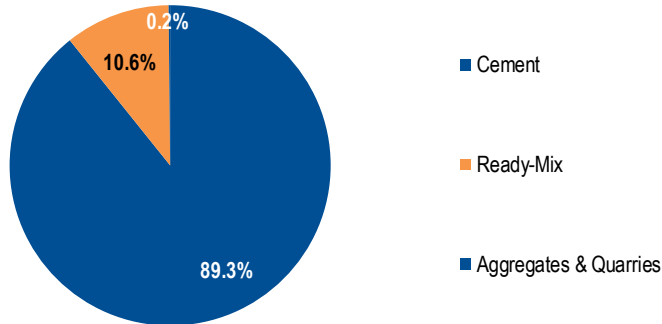
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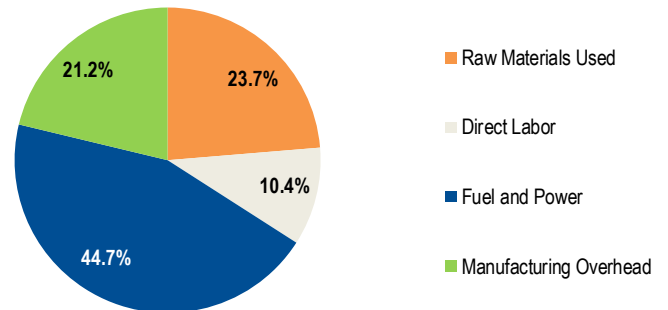
Performance Highlights in Charts

9M19 Revenue Breakdown



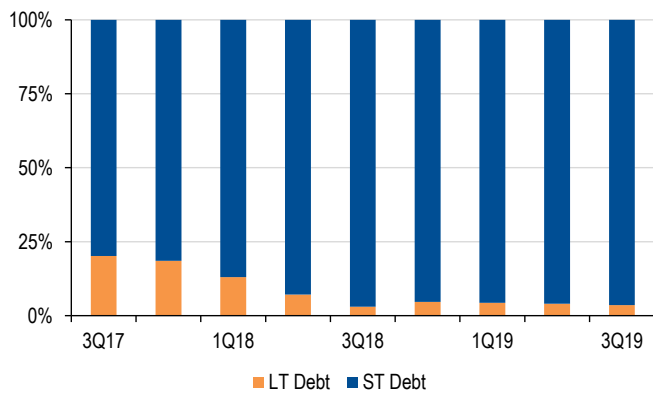
Source: Company Data, NHKS Research

9M19 Manufacturing Cost Breakdown



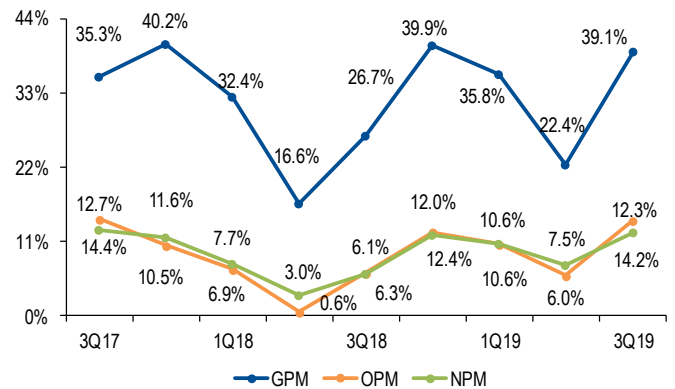
Source: Company Data, NHKS Research

Debt Portion



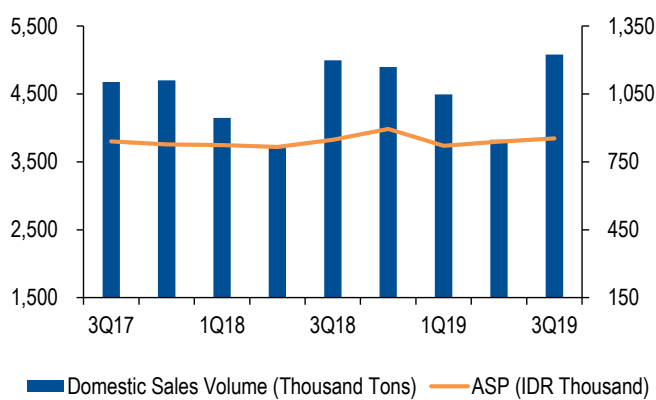
Source: Company Data, NHKS Research

Margin Ratios



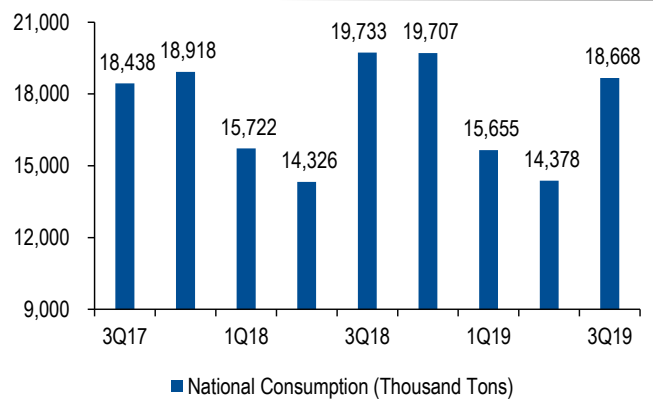
Source: Company Data, NHKS Research

Domestic Sales Volume & Market Shares



Source: Company Data, NHKS Research

National Consumption



Source: Company Data, NHKS Research

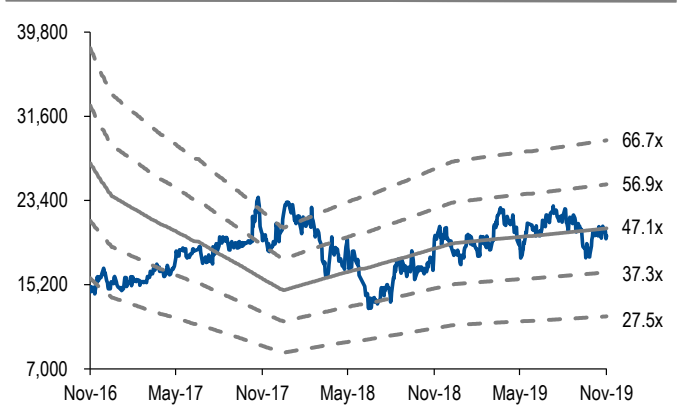
Valuation Highlights in Charts

3-Year Forward P/E Band



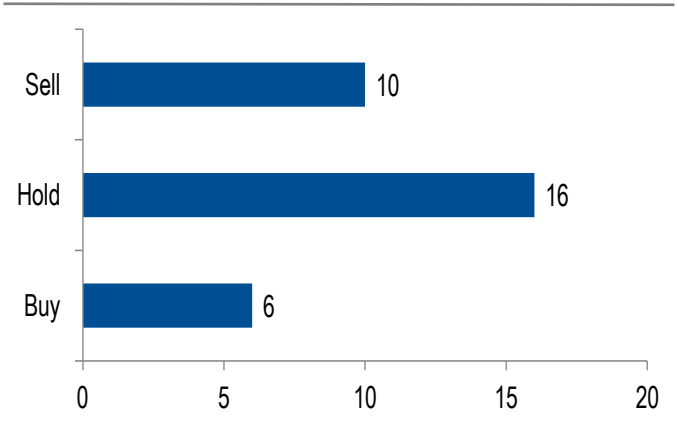
Source: Bloomberg, NHKS Research

3-Year Dynamic Forward P/E Band



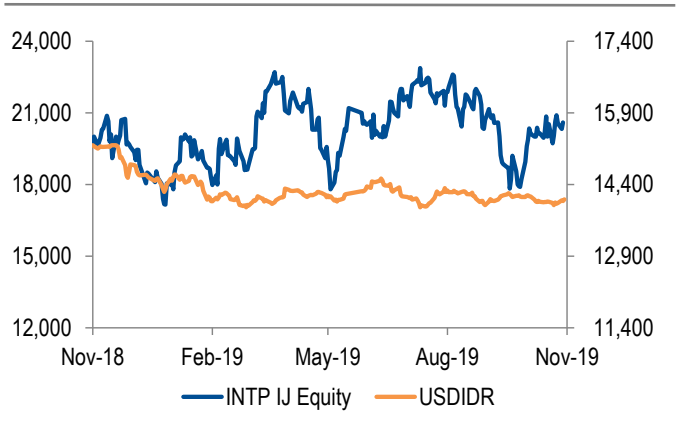
Source: Bloomberg, NHKS Research

Recommendations by Analysts



Source: Bloomberg, NHKS Research

Stock and USDIDR Correlated Negatively



Source: Bloomberg, NHKS Research

Quarterly Review

	3Q18	4Q18	1Q19	2Q19	3Q19					4Q19E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
Income statement										
Sales	4,288	4,417	3,733	3,250	4,365	3,980	1.8%	34.2%	9.7%	3,924
Gross Profit	1,179	1,491	1,164	979	1,535	1,196	30.2%	56.8%	28.4%	1,163
EBIT	272	547	395	195	618	190	127.4%	216.8%	224.7%	296
EBITDA	616	868	702	470	911	14.4%	47.9%	93.8%	58.6%	708
Net Profit	263	528	397	243	536	241	104.0%	120.4%	121.9%	329
Margin										
Gross Margin	27.5%	33.7%	31.2%	30.1%	35.2%	30.0%	7.7%	5.0%	5.1%	29.6%
EBIT Margin	6.3%	12.4%	10.6%	6.0%	14.2%	4.8%	7.8%	8.2%	9.4%	7.6%
EBITDA Margin	14.4%	19.6%	18.8%	14.5%	20.9%	14.4%	6.5%	6.4%	6.4%	18.0%
Net Profit Margin	6.1%	12.0%	10.6%	7.5%	12.3%	6.1%	6.2%	4.8%	6.2%	8.4%

Unit: IDR bn, %

Source: Company Data, NHKS Research

Earnings Revision

		2019F	2020F	2021F
Income Statement				
Sales	-Revised	15,272	15,660	16,130
	-Previous	15,272	15,660	16,129
	-Change	0.0%	0.0%	0.0%
Gross Profit	-Revised	4,841	4,965	5,114
	-Previous	4,841	5,105	5,307
	-Change	0.0%	-2.8%	-3.6%
EBIT	-Revised	1,505	1,621	1,742
	-Previous	1,241	1,723	1,936
	-Change	21.2%	-5.9%	-10.0%
EBITDA	-Revised	2,791	2,944	3,100
	-Previous	2,527	3,046	3,293
	-Change	10.4%	-3.3%	-5.9%
Net Profit	-Revised	1,505	1,629	1,733
	-Previous	1,345	1,749	1,933
	-Change	11.9%	-6.9%	-10.4%
Margin				
Gross Margin	-Revised	31.7%	31.7%	31.7%
	-Previous	31.7%	32.6%	32.9%
EBIT Margin	-Revised	9.9%	10.4%	10.8%
	-Previous	8.1%	11.0%	12.0%
EBITDA Margin	-Revised	18.3%	18.8%	19.2%
	-Previous	16.5%	19.4%	20.4%
Net Profit Margin	-Revised	9.9%	10.4%	10.7%
	-Previous	8.8%	11.2%	12.0%

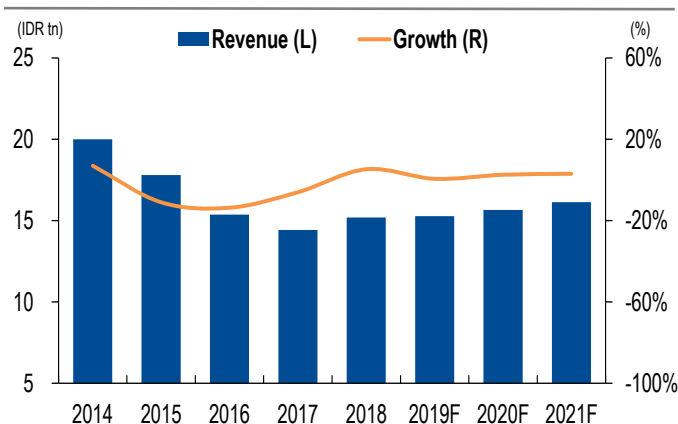
Unit: IDR bn, %

Source: Company Data, NHKS Research

Company Overview

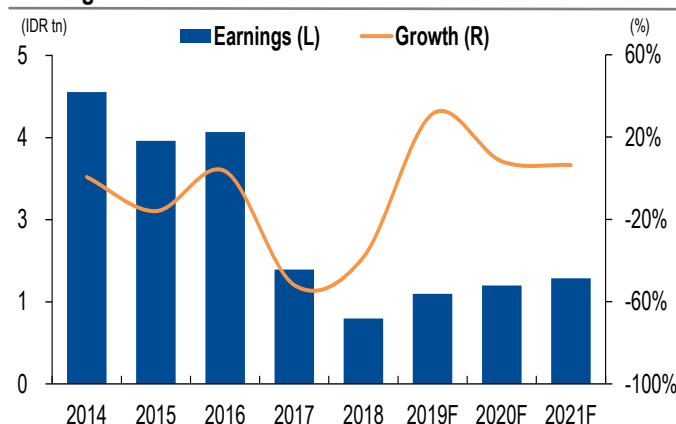
- PT Indocement Tunggak Prakarsa Tbk was founded in 1985 by merging six companies and eight factories in one integrated management, and in 1989 it performed an initial public offering, with INTP as its stock code.
- To date, INTP has 13 cement plants, with the total annual production capacities of 24.9 million tons. Ten plants are located in Citeureup factory complex, Bogor, West Java; two plants are located in the Palimanan Factory Complex, Cirebon, West Java; and another plant is located in the Tarjun factory complex, Kotabaru, South Kalimantan.
- INTP has a cement brand that is already well known to consumers, namely Tiga Roda cement. In 2017, INTP launched a new brand: Rajawali cement. In the same year, INTP through Tiga Roda brand launched a new product, namely, Tiga Roda Supeslag Cement—a type of environmental friendly portland cement producing lower carbon dioxide emissions.

Revenue and Growth Movements



Source: Company Data, NHKS Research

Earnings and Growth Movements



Source: Company Data, NHKS Research

Asia Pacific Companies Peers Analysis

	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Profit Margin	ROE LTM	P/E LTM	P/BV
Indonesia									
INDOCEMENT TUNGGAL PRAKARSA TBK	5,374	1,926	1,101	119	59.1%	10.8%	7.8%	44.4x	3.4x
SEMEN INDONESIA TBK	5,277	3,546	2,608	160	-13.4%	6.1%	7.5%	32.5x	2.4x
SOLUSI BANGUN INDONESIA TBK	710	1,294	750	-4	91.4%	-0.6%	-1.0%	N/A	1.5x
SEMEN BATURAJA TBK	374	384	143	4	-27.6%	2.8%	1.7%	92.5x	1.5x
Malaysia									
CAHYA MATA SARAWAK BHD	607	1,015	431	53	-14.6%	12.2%	8.8%	11.6x	1.0x
Thailand									
SIAM CITY CEMEN PUB CO LTD	2,127	2,461	1,479	93	-6.0%	6.3%	9.1%	21.8x	2.0x
Philippines									
HOLCIM PHILLIPINES INC	1,809	901	612	51	34.7%	8.4%	11.2%	34.2x	3.5x
China									
ANHUI CONCH CEMENT CO LTD-H	32,133	21,741	23,472	4,787	23.0%	20.4%	28.5%	6.9x	1.8x
CHINA NATIONAL BUILDING MA-H	7,572	63,507	34,561	1,633	37.9%	4.7%	14.0%	5.3x	0.7x
HUAXIN CEMENT CO LTD-B	5,121	4,821	4,494	962	49.0%	21.4%	38.1%	4.1x	1.4x
India									
ULTRATECH CEMENT LTD	16,668	9,309	5,261	348	9.6%	6.6%	8.9%	46.7x	4.0x
SHREE CEMENT LTD	9,640	2,235	1,796	144	-27.3%	8.0%	10.8%	68.7x	7.1x
AMBUJA CEMENTS LTD	5,484	5,358	3,810	319	43.6%	8.4%	10.1%	18.0x	1.8x

Unit: USD mn, %, X

Source: Bloomberg, NHKS Research

Summary of Financials

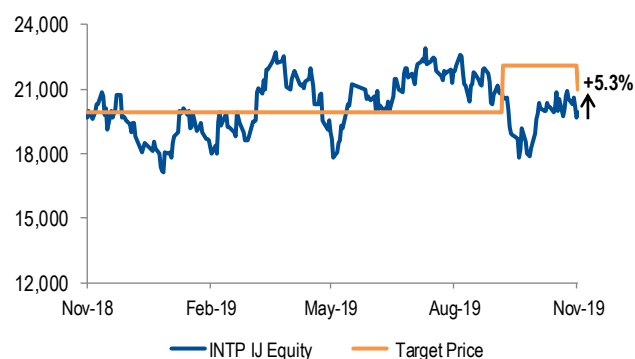
INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F		2018/12A	2019/12F	2020/12F	2021/12F
Sales	15,190	15,272	15,660	16,130	ROE	4.8%	6.6%	7.1%	7.4%
<i>Growth</i>	5.3%	0.5%	2.5%	3.0%	ROA	4.0%	5.5%	5.9%	6.2%
COGS	(10,821)	(10,431)	(10,695)	(11,016)	ROIC	18.8%	26.4%	27.6%	30.6%
Gross Profit	4,369	4,841	4,965	5,114	Cash Dividend (IDR bn)	2,025	1,204	1,303	1,547
<i>Gross Margin</i>	28.8%	31.7%	31.7%	31.7%	Dividend Yield	3.0%	1.7%	1.8%	2.1%
Operating Expenses	(3,295)	(3,336)	(3,343)	(3,371)	Payout Ratio	176.7%	80.0%	80.0%	89.3%
EBIT	1,074	1,505	1,621	1,742	DER	0.5%	0.5%	0.5%	0.5%
<i>EBIT Margin</i>	7.1%	9.9%	10.4%	10.8%	Net Gearing	0.6%	0.6%	0.6%	0.5%
Depreciation	(1,280)	(1,286)	(1,323)	(1,358)	LT Debt to Equity	0.5%	0.5%	0.5%	0.5%
EBITDA	2,354	2,791	2,944	3,100	Capitalization Ratio	0.5%	0.5%	0.5%	0.5%
<i>EBITDA Margin</i>	15.5%	18.3%	18.8%	19.2%	Equity Ratio	83.6%	83.7%	83.3%	84.0%
Interest Expenses	(19)	(12)	(16)	(17)	Debt Ratio	0.4%	0.4%	0.5%	0.4%
EBT	1,400	1,891	2,013	2,145	Financial Leverage	118.6%	119.6%	119.7%	119.5%
Income Tax	(254)	(386)	(384)	(412)	Current Ratio	313.7%	333.0%	335.1%	362.4%
Minority Interest	-	-	-	-	Par Value (IDR)	500	500	500	500
Net Profit	1,146	1,505	1,629	1,733	Total Shares (mn)	3,681	3,681	3,681	3,681
<i>Growth</i>	-38.4%	31.3%	8.2%	6.4%	Share Price (IDR)	18,450	19,000	19,550	20,000
<i>Net Profit Margin</i>	7.5%	9.9%	10.4%	10.7%	Market Cap (IDR tn)	67.9	69.9	72.0	73.6

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F		2018/12A	2019/12F	2020/12F	2021/12F
Cash	7,226	7,588	7,691	8,859	Price/Earnings	59.3x	46.5x	44.2x	42.5x
Receivables	2,966	2,514	2,978	2,679	Price/Book Value	2.9x	3.1x	3.1x	3.1x
Inventories	1,838	1,639	1,926	1,746	Price/Sales	4.5x	4.6x	4.6x	4.6x
Total Current Assets	12,316	12,051	12,889	13,571	PE/EPS Growth	-0.2x	0.1x	0.5x	0.7x
Net Fixed Assets	14,637	14,315	13,932	13,542	EV/EBITDA	25.8x	22.4x	21.9x	20.9x
Other Non Current Assets	730	691	831	862	EV/EBIT	56.6x	41.5x	39.7x	37.2x
Total Assets	27,789	27,148	27,744	28,067	EV (IDR bn)	60,809	62,475	64,403	64,878
Payables	1,760	1,555	1,844	1,657	Sales CAGR (3-Yr)	-5.1%	-0.2%	2.8%	2.0%
Other Liabilities	2,691	2,744	2,652	2,724	EPS CAGR (3-Yr)	-32.6%	-27.0%	-4.3%	14.8%
LT Debt	116	120	126	112	Basic EPS (IDR)	311	409	442	471
Total Liabilities	4,567	4,419	4,622	4,494	Diluted EPS (IDR)	311	409	442	471
Capital Stock	1,841	1,841	1,841	1,841	BVPS (IDR)	6,308	6,174	6,281	6,404
Retained Earnings	18,892	18,400	18,825	19,255	Sales PS (IDR)	4,126	4,149	4,254	4,382
Shareholders' Equity	23,222	22,729	23,122	23,573	DPS (IDR)	550.0	327.1	354.0	420.2

CASH FLOW STATEMENT					TOP OWNERSHIP		
(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F	By Geography	% Shareholders	%
Operating Cash Flow	1,985	3,731	2,451	3,470	United Kingdom	79.6	Birchwood Omnia Ltd 51.0
Investing Cash Flow	(505)	(1,330)	(1,118)	(1,007)	United States	14.2	Invesco Ltd 3.4
Financing Cash Flow	(2,579)	(2,019)	(1,230)	(1,295)	Ireland	1.6	Standard Life Aberdeen 2.8
Net Changes in Cash	(1,099)	383	103	1,168	Luxembourg	1.6	Blackrock 1.4

Source: Company Data, NHKS Research

Closing and target price update



Source: Bloomberg, NHKS Research

Rating and target price update

Date	Rating	Target price	Consensus
2015.07.11	Buy	IDR23,300	IDR22,514
2016.01.29	Buy	IDR24,250	IDR19,811
2016.12.22	Buy	IDR20,050	IDR16,150
2017.08.10	Hold	IDR19,275	IDR15,214
2017.11.22	Hold	IDR21,575	IDR18,134
2018.11.13	Hold	IDR19,950	IDR16,346
2019.09.22	Hold	IDR22,075	IDR19,589
2019.11.18	Hold	IDR21,000	IDR20,040

Source: NHKS Research

NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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