

# Indocement Tunggal Prakarsa Tbk (INTP IJ)

## Higher Manufacturing Efficiency Boosts 3Q20 Performance

Company Update | Nov 27, 2020

### BUY

<b>Target Price (IDR)</b>	<b>18,775</b>
Consensus Price (IDR)	15,502
TP to Consensus Price	+21.1%
vs. Last Price	+27.7%

#### Shares data

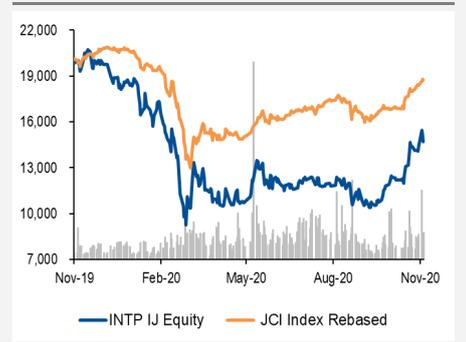
Last Price (IDR)	14,700
Price Date as of	Nov 25, 2020
52 wk Range (Hi/Low)	22,875/ 16,725
Free Float (%)	49.0
Outstanding sh.(mn)	3,681
Market Cap (IDR bn)	54,482
Market Cap (USD mn)	3,860
Avg. Trd Vol - 3M (mn)	3.37
Avg. Trd Val - 3M (bn)	41.43
Foreign Ownership	99.8%

#### Basic Industry

##### Cement

Bloomberg	INTP IJ
Reuters	INTP.JK

#### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-20.6%	20.2%	19.8%	-21.9%
Rel. Ret.	-11.0%	9.5%	13.4%	-14.6%

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INTP's performance in 3Q20 improved on a quarterly basis. Both top line and bottom line booked increases of 41.3% QoQ and 829.3% QoQ. Successful efficiency in using fuel and electricity, as well as company's sales strategy in the home market increased margin. Meanwhile until the end of the year, cement sales growth will face some challenges, such as: rainy season and the long holiday in October and December.

#### Top Line Performance Recovers

INTP booked 3Q20 revenue of IDR3.97 trillion (-9% YoY vs IDR4.36 trillion). However, on a quarterly basis, revenue hiked by 41.3% and all income segments increased significantly. Income from the cement segment was booked at IDR3.78 trillion (+40.5% QoQ), ready-mix concrete segment at IDR275 billion (+64.6% QoQ), and aggregates and quarries at IDR10 billion (+2.629% QoQ). Meanwhile, sales volume also jumped by 42.5% QoQ by 4.78 million tons. Economic recovery in export destinations such as China and the Philippines to increase export sales volume by 233.3% QoQ to 50,000 tons.

#### Outstanding Profitability, Supported by Margin Increase

The high margin in 3Q20 sent INTP to book profit of IDR647 billion (+829.3% QoQ, +20.7% YoY vs IDR536 billion 3Q19). GPM increased to 39.2% (vs 35.2% 3Q19) as an effect of company efficiency in fuel and electricity usage that declined by 17% YoY. Currently INTP is increasing the use of low-calorie value coal and renewable alternative fuel. Moreover, OPM jumped to 18.5% (vs 14.2% 3Q19) due to the cuts to operating expenses. During the pandemic, INTP maximized sales in its home-market, West Java, to minimize freight and transportation costs. NPM also increased to 16.3% (vs 12.3% 3Q19).

#### Challenges for End of Year and Next Year

Approaching the end of 2020, we expect cement sales growth in 4Q20 will slow down by 30% compared to 3Q20, as it will face the upcoming rainy season and long holiday in October and December. We are optimistic that INTP will still book a high margin, as INTP will continue to maximize the use of alternative fuel that can replace coal consumption by up to 30%. Meanwhile for 2021, INTP performance will be influenced by development in Covid-19 cases. Moreover, two new market players, PT Semen Grobogan and Hongsi Holdings Group will also tighten business competition especially in Java. However, we expect INTP to outplay competitors with distribution ability and digital system use through Sales Force Automation (SFA). But Omnibus Law and hike in infrastructure budget allows for multiplier effect from infrastructure development that will encourage the development of industrial estates and factories.

#### BUY Recommendation with TP IDR18,775

With various challenges, we estimate INTP revenue for FY20 and FY21 to be IDR14.70 trillion (-7.8% YoY) and IDR15.72 trillion (+7.0% YoY). We recommend BUY with target price of IDR18,775 or upside potential of 27.7% from the last share price based on forward P/E method of 30.8x (-0.6 SD). Risks to our target price are 1) increase in Covid-19 cases, re-tightening of PSBB, 2) volatility of coal prices, 3) presence of new players may cause oversupply.

#### Indocement Tunggal Prakarsa Tbk | Summary

	2019A	2020F	2021F	2022F
Sales	15,939	14,701	15,724	16,511
Growth (%)	4.9%	-7.8%	7.0%	5.0%
EBITDA	3,106	3,028	3,757	4,042
Net Profit	1,835	1,773	2,248	2,464
EPS (IDR)	499	482	611	669
Growth (%)	60.2%	-3.4%	26.7%	9.6%
P/E	37.0x	39.0x	30.7x	28.1x
P/BV	2.9x	3.0x	3.0x	3.0x
EV/EBITDA	19.4x	20.3x	16.3x	15.0x
ROE (%)	7.9%	7.7%	9.8%	10.6%
DER (%)	0.5%	0.5%	0.5%	0.6%
Net Debt	-7,541	-7,526	-7,746	-8,418

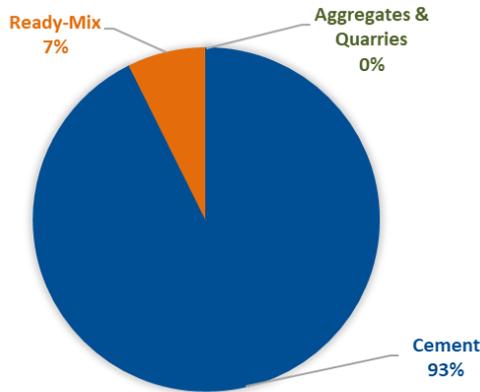
Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

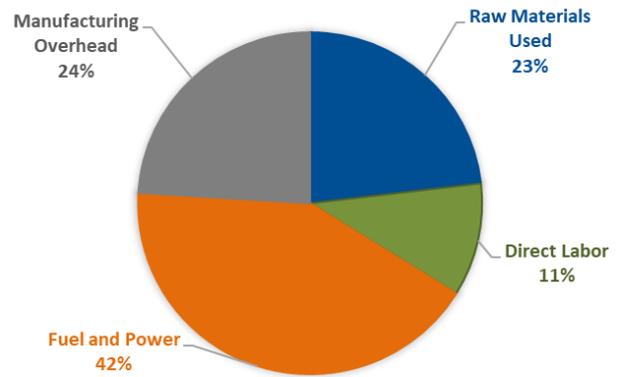
### Performance Highlights in Charts

9M20 Revenue Breakdown



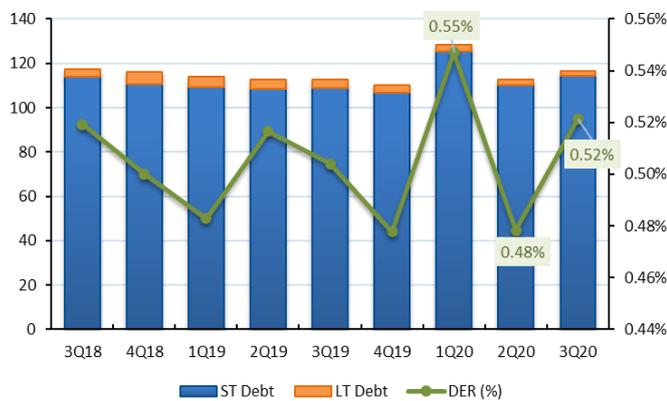
Source: Company Data, NHKSI Research

9M20 Manufacturing Cost Breakdown



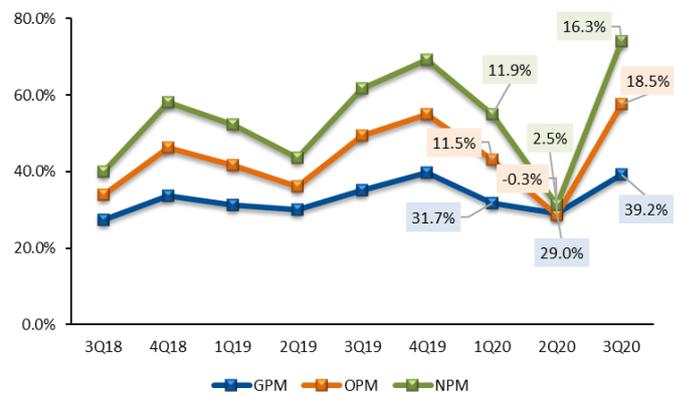
Source: Company Data, NHKSI Research

Debt Portion



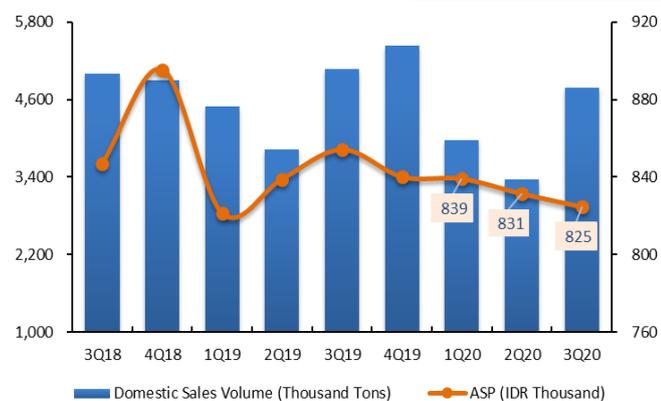
Source: Company Data, NHKSI Research

Margin Ratios



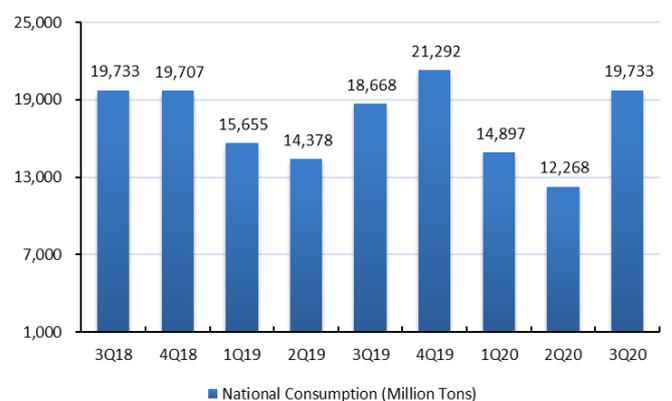
Source: Company Data, NHKSI Research

Domestic Sales Volume & Market Shares



Source: Company Data, NHKSI Research

National Consumption



Source: Company Data, NHKSI Research

## Quarterly Review

	3Q19	4Q19	1Q20	2Q20	3Q20				4Q20E	
					Actual	Estimate	Y-Y	Q-Q		Surprise
<b>Income statement</b>										
Sales	4,365	4,591	3,363	2,812	3,974		-9.0%	41.3%		4,551
Gross Profit	1,535	1,823	1,064	815	1,558		1.5%	91.0%		1,723
EBIT	618	696	386	(9)	736		19.0%	-		714
EBITDA	911	1,023	718	234	1,047		14.9%	346.4%		1,029
Net Profit	536	660	400	70	647		20.7%	829.3%		657
<b>Margin</b>										
Gross Margin	35.2%	39.7%	31.7%	29.0%	39.2%		4.0%	10.2%		37.9%
EBIT Margin	14.2%	15.2%	11.5%	-0.3%	18.5%		4.4%	18.8%		15.7%
EBITDA Margin	20.9%	15.2%	21.3%	8.3%	26.3%		5.5%	18.0%		22.6%
Net Profit Margin	12.3%	14.4%	11.9%	2.5%	16.3%		4.0%	13.8%		14.4%

Unit: IDR bn, %

Source: Company Data, NHKSI Research

## Earnings Revision

		2020F	2021F	2022F
<b>Income Statement</b>				
Sales	-Revised	14,701	15,724	16,511
	-Previous			
	-Change			
Gross Profit	-Revised	5,161	4,954	6,252
	-Previous			
	-Change			
EBIT	-Revised	1,827	2,403	2,652
	-Previous			
	-Change			
EBITDA	-Revised	3,028	3,757	4,042
	-Previous			
	-Change			
Net Profit	-Revised	1,773	2,248	2,464
	-Previous			
	-Change			
<b>Margin</b>				
Gross Margin	-Revised	35.1%	37.9%	37.9%
	-Previous			
EBIT Margin	-Revised	12.4%	15.3%	16.1%
	-Previous			
EBITDA Margin	-Revised	20.6%	23.9%	24.5%
	-Previous			
Net Profit Margin	-Revised	12.1%	14.3%	14.9%
	-Previous			

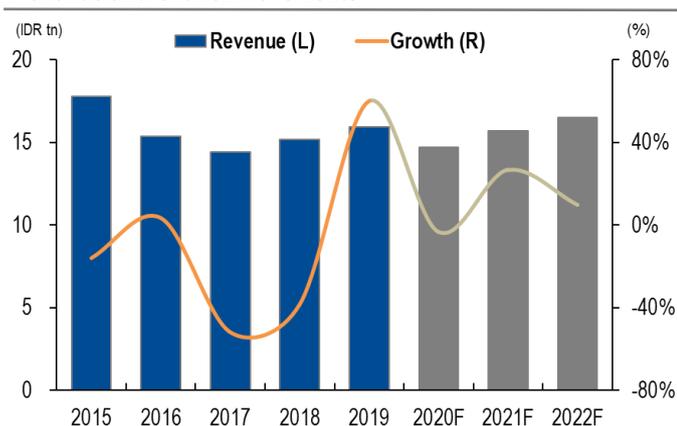
Unit: IDR bn, %

Source: Company Data, NHKSI 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, NHKSI Research

### Earnings and Growth Movements



Source: Company Data, NHKSI Research

### Asia Pacific Companies Peers Analysis

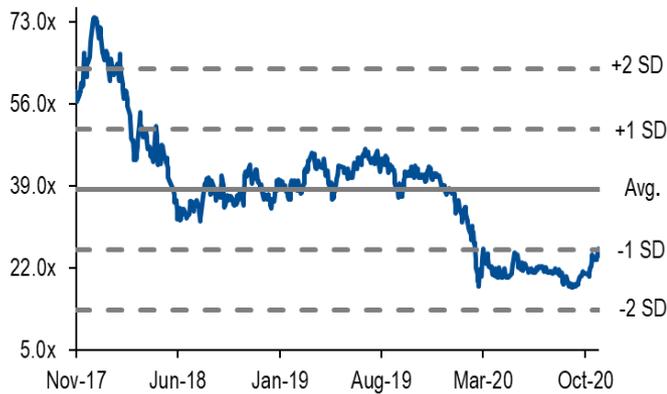
	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Profit Margin	ROE LTM	P/E LTM	P/BV
<b>Indonesia</b>									
INDOCEMENT TUNGGAL PRAKARSA TBK	3,860	2,001	1,019	123	4.2%	12.0%	7.9%	30.7x	2.4x
SEMEN INDONESIA TBK	5,011	5,763	2,617	182	15.4%	7.0%	8.1%	26.8x	2.1x
SOLUSI BANGUN INDONESIA TBK	608	1,413	772	60	-	7.8%	13.0%	10.0x	1.2x
SEMEN BATURAJA TBK	697	402	119	-7	-	-6.1%	-3.1%	N/A	2.9x
<b>Malaysia</b>									
CAHYA MATA SARAWAK BHD	416	1,114	319	20	-14.6%	6.3%	4.2%	19.9x	0.6x
<b>Thailand</b>									
SIAM CITY CEMEN PUB CO LTD	1,337	2,628	1,393	104	-6.0%	7.4%	9.8%	12.6x	1.2x
<b>Philippines</b>									
HOLCIM PHILLIPINES INC	887	884	569	54	34.7%	9.6%	9.9%	15.5x	1.5x
<b>China</b>									
ANHUI CONCH CEMENT CO LTD-H	42,034	25,674	23,307	4,925	23.0%	20.3%	24.7%	6.6x	1.5x
CHINA NATIONAL BUILDING MA-H	11,688	64,128	35,277	1,662	37.9%	4.7%	13.3%	7.2x	0.9x
HUAXIN CEMENT CO LTD-B	6,710	5,263	4,194	788	49.0%	18.8%	26.4%	5.6x	1.4x
<b>India</b>									
ULTRATECH CEMENT LTD	18,774	10,526	5,852	820	9.6%	14.0%	16.0%	23.8x	3.5x
SHREE CEMENT LTD	11,676	2,646	1,816	217	-27.3%	11.9%	13.4%	54.8x	6.5x
AMBUJA CEMENTS LTD	6,899	5,263	3,850	298	43.6%	7.7%	9.0%	24.3x	2.1x

Unit: USD mn, %, X

Source: Bloomberg, NHKSI Research

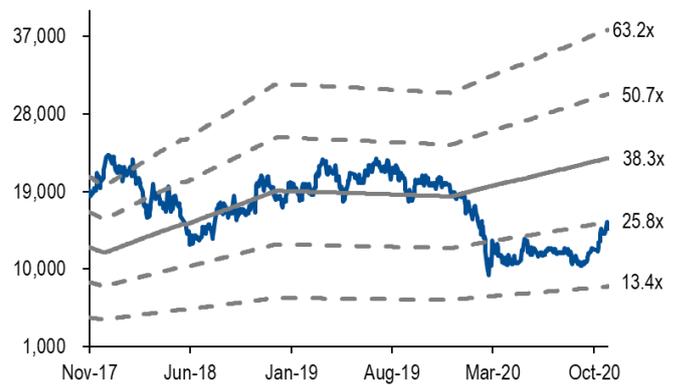
### Valuation Highlights in Charts

#### 3-Years Forward P/E Band



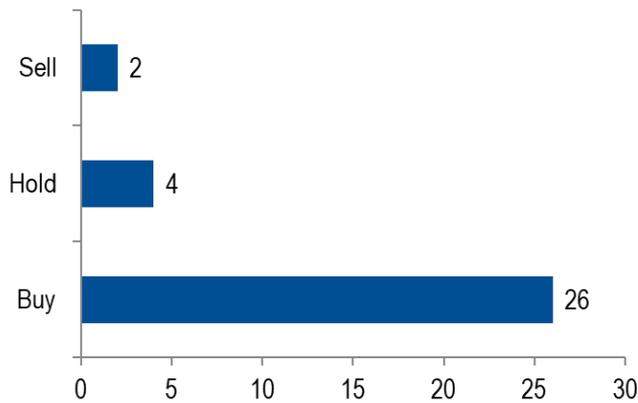
Source: Bloomberg, NHKSI Research

#### 3-Years Dynamic Forward P/E band



Source: Bloomberg, NHKSI Research

#### Analysts' Recommendation



Source: Bloomberg, NHKSI Research

#### Correlation between INTP and USDIDR



Source: Bloomberg, NHKSI Research

#### Closing and Target Price Update



Source: Bloomberg, NHKSI Research

#### Rating and Target Price Update

Date	Rating	Target Price	Consensus
10.08.2017	Hold	IDR19,275	IDR15,214
22.11.2017	Hold	IDR21,575	IDR18,134
13.11.2018	Hold	IDR19,950	IDR16,346
22.09.2019	Hold	IDR22,075	IDR19,589
18.11.2019	Hold	IDR21,000	IDR20,040
27.11.2020	Buy	IDR18,775	IDR15,502

Source: NHKSI Research

#### NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Rating system based on a stock's potential upside from the date of publication
  - Buy : Greater than +15%
  - Overweight : +5% to 15%
  - Hold : -5% to +5%
  - Underweight : -5% to -15%
  - Sell : Less than -15%

## Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F		2019/12A	2020/12F	2021/12F	2022/12F
<b>Sales</b>	<b>15,939</b>	<b>14,701</b>	<b>15,724</b>	<b>16,511</b>	ROE	7.9%	7.7%	9.8%	10.6%
<i>Growth</i>	4.9%	-7.8%	7.0%	5.0%	ROA	6.6%	6.5%	8.3%	9.0%
COGS	(10,439)	(9,540)	(9,770)	(10,259)	ROIC	32.4%	38.3%	43.8%	49.4%
<b>Gross Profit</b>	<b>5,500</b>	<b>5,161</b>	<b>5,954</b>	<b>6,252</b>	Cash Dividend (IDR bn)	2,025	1,841	2,208	2,199
<i>Gross Margin</i>	34.5%	35.1%	37.9%	37.9%	Dividend Yield	3.0%	2.7%	3.2%	3.2%
Operating Expenses	(3,595)	(3,333)	(3,551)	(3,601)	Payout Ratio	110.3%	103.8%	98.2%	89.3%
<b>EBIT</b>	<b>1,905</b>	<b>1,827</b>	<b>2,403</b>	<b>2,650</b>	DER	0.5%	0.5%	0.5%	0.6%
<i>EBIT Margin</i>	12.0%	12.4%	15.3%	16.1%	Net Gearing	0.5%	0.6%	0.6%	0.6%
Depreciation	(1,201)	(1,201)	(1,354)	(1,391)	LT Debt to Equity	0.5%	0.5%	0.5%	0.6%
<b>EBITDA</b>	<b>3,106</b>	<b>3,028</b>	<b>3,757</b>	<b>4,042</b>	Capitalization Ratio	0.5%	0.5%	0.5%	0.6%
<i>EBITDA Margin</i>	19.5%	20.6%	23.9%	24.5%	Equity Ratio	83.3%	85.8%	84.1%	84.6%
Interest Expenses	(8)	(18)	(16)	(16)	Debt Ratio	0.4%	0.4%	0.5%	0.5%
<b>EBT</b>	<b>2,274</b>	<b>2,159</b>	<b>2,760</b>	<b>3,026</b>	Financial Leverage	119.9%	118.3%	117.7%	118.5%
Income Tax	(439)	(385)	(513)	(562)	Current Ratio	331.2%	408.0%	362.9%	388.7%
Minority Interest	-	-	-	-	Par Value (IDR)	500	500	500	500
<b>Net Profit</b>	<b>1,835</b>	<b>1,773</b>	<b>2,248</b>	<b>2,464</b>	Total Shares (mn)	3,681	3,681	3,681	3,681
<i>Growth</i>	60.2%	-3.4%	26.7%	9.6%	Share Price (IDR)	18,450	18,775	18,775	18,775
<i>Net Profit Margin</i>	11.5%	12.1%	14.3%	14.9%	Market Cap (IDR tn)	67.9	69.1	69.1	69.1

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F		2019/12A	2020/12F	2021/12F	2022/12F
Cash	7,652	7,646	7,872	8,550	Price/Earnings	37.0x	39.0x	30.7x	28.1x
Receivables	2,984	2,503	3,011	2,779	Price/Book Value	2.9x	3.0x	3.0x	3.0x
Inventories	1,895	1,974	2,133	2,180	Price/Sales	4.3x	4.7x	4.4x	4.2x
<b>Total Current Assets</b>	<b>12,829</b>	<b>12,408</b>	<b>13,289</b>	<b>13,786</b>	PE/EPS Growth	0.1x	-1.2x	0.1x	0.3x
Net Fixed Assets	14,080	13,703	13,336	12,980	EV/EBITDA	19.4x	20.3x	16.3x	15.0x
Other Non Current Assets	694	598	657	687	EV/EBIT	31.7x	33.7x	25.5x	22.9x
<b>Total Assets</b>	<b>27,708</b>	<b>26,801</b>	<b>27,373</b>	<b>27,544</b>	EV (IDR bn)	60,377	61,589	61,369	60,697
Payables	1,749	1,283	1,822	1,438	Sales CAGR (3-Yr)	1.2%	0.6%	1.2%	1.2%
Other Liabilities	2,768	2,396	2,392	2,667	EPS CAGR (3-Yr)	-22.0%	-1.6%	25.2%	10.3%
LT Debt	110	120	126	132	Basic EPS (IDR)	499	482	611	669
<b>Total Liabilities</b>	<b>4,627</b>	<b>3,799</b>	<b>4,340</b>	<b>4,237</b>	Diluted EPS (IDR)	499	482	611	669
Capital Stock	1,841	1,841	1,841	1,841	BVPS (IDR)	6,270	6,248	6,257	6,331
Retained Earnings	18,703	18,636	18,676	18,940	Sales PS (IDR)	4,330	3,993	4,271	4,485
<b>Shareholders' Equity</b>	<b>23,080</b>	<b>23,002</b>	<b>23,033</b>	<b>23,307</b>	DPS (IDR)	550.0	500.0	599.7	597.4

CASH FLOW STATEMENT					TOP OWNERSHIP			
(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F	By Geography	% Shareholders	%	
Operating Cash Flow	3,531	2,471	3,561	3,914	United Kingdom	840.9	Birchwood Omnia Ltd	51.0
Investing Cash Flow	(1,046)	(711)	(1,125)	(1,053)	United States	10.0	Invesco Ltd	2.8
Financing Cash Flow	(2,026)	(1,839)	(2,210)	(2,184)	Luxembourg	1.9	Vabguard Group Inc	1.2
<b>Net Changes in Cash</b>	<b>458</b>	<b>(79)</b>	<b>226</b>	<b>678</b>	Ireland	1.3	Blackrock	0.8

Source: Company Data, NHKSI Research

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