

# Semen Indonesia Tbk (SMGR IJ)

## Increasing Margin, Profit Higher Than Expected

SMGR booked an income of IDR9.59 trillion (-18.5% YoY, +28.9% QoQ). GPM, OPM, and NPM reached record numbers in 3Q20, as SMGR succeeded in executing cost efficiency. However, until the end of the year, SMGR's sales was faced with challenges such as rainy season and long holiday. We predict sales and performance will be better next year, as Indonesian economy recovers and the boost for infrastructure and construction sector starts.

### Quarterly Income Increases Supported by Gains in All Segments

3Q20 income for SMGR was recorded at IDR9.59 trillion or down 18.5% YoY (vs IDR11.77 trillion 3Q19) or -14.9% under our estimates of IDR11.28 trillion. However, it increased by 28.9% from the previous quarter. We assume the relaxation of PSBB in 3Q20 to be quite effective in the recovery of the company's sales, as some construction projects have restarted. All 3 segments experienced quarterly gains. Income segment from cement, clinker, and ready mix concrete each recorded IDR8.06 trillion, IDR813 billion, and IDR473 billion or increased by 31%, 7% and 43% QoQ.

### Reaches Highest Margin in 3Q20

SMGR also booked an excellent bottom line performance, by recording 3Q20 profit of IDR935 billion or 16.1% higher YoY (vs IDR806 billion 3Q19) and significantly higher by 417% QoQ (vs IDR181 billion 2Q20). The income was +23% higher than our estimates of IDR760 billion. Other than due to improving quarterly sales, SMGR reached a high margin this year. GPM, OPM, and NPM increased to 35.6%, 19.1%, 97% from 28.3%, 11.3% and 2.4% in 2Q20. SMGR managed to execute cost efficiency, starting from production cost, raw material management by optimizing the composition of raw and auxiliary materials, integrating marketing, distribution and procurement functions, and utilizing industrial waste as an alternative source of raw materials.

### Challenges for Increasing Sales Trend

Sales volume until 3Q20 was recorded at 29.13 million tons or slightly declining by 2.9% YoY. Meanwhile, on a quarterly basis, it achieved 11.01 million tons or an increase of 8% QoQ. We estimate that sales in 4Q20 will experience problems due to the arrival of the rainy season and the long holiday at the end of the year. On the other hand, SMGR market share dominated by bulk cement sales will benefit from the recovery of infrastructure and construction sector. So we predict the sales of SMGR cement will recover next year with infrastructure projects are optimally underway. As the economy of export destination country such as China recovers, it can boost the future SMGR sales.

### Maintain BUY rating with TP IDR13,325

We cut down our estimates for SMGR's FY20 and FY21 income each to IDR 36.92 trillion (-5.9%) and IDR39.17 trillion (-3.6%) and revised up FY20 and FY21 profit estimates to IDR2.50 trillion (+14.2%) and IDR2.76 trillion (19.9%). We see that as the pandemic has not slowed down significantly until 3Q20, it became a challenge for cement sales. Meanwhile, we forecast that SMGR is able to be more cost efficient in both production and sales cost. Thus, we maintain buy rating and revised down target price to IDR13,325 with forward P/E method 28.6x (+0.8 SD) and potential upside of 19% from the current price.

### Semen Indonesia Tbk | Summary

	2019A	2020F	2021F	2022F
Sales	40,368	36,925	39,172	40,604
Growth (%)	31.5%	-8.5%	6.1%	3.7%
EBITDA	8,680	8,668	8,777	9,080
Net Profit	2,731	2,507	2,767	2,837
EPS (IDR)	400	423	467	478
Growth (%)	-23.2%	5.7%	10.4%	2.5%
P/E	30.0x	27.2x	24.7x	24.0x
P/BV	2.1x	1.9x	1.8x	1.7x
EV/EBITDA	11.2x	10.1x	9.6x	9.0x
ROA (%)	3.6%	3.2%	3.5%	3.4%
DER (%)	7.1%	7.2%	7.5%	7.3%
Net Debt	21,954	16,166	12,944	10,257

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

## BUY

Target Price (IDR)	13,325
Consensus Price (IDR)	11,934
TP to Consensus Price	+11.7%
vs. Last Price	+19.0%

### Shares data

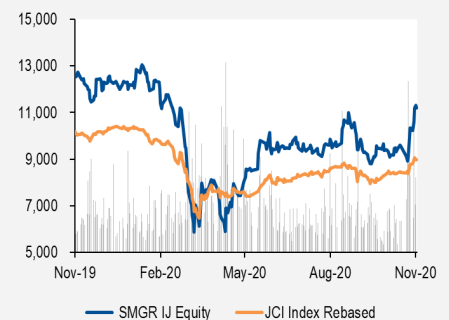
Last Price (IDR)	11,200
Price Date as of	Nov 13, 2020
52 wk Range (Hi/Lo)	13,250 / 5,475
Free Float (%)	48.9
Outstanding sh.(mn)	5,932
Market Cap (IDR bn)	66,433
Market Cap (USD mn)	4,670
Avg. Trd Vol - 3M (mn)	5.9
Avg. Trd Val - 3M (bn)	57.5
Foreign Ownership	21.6%

### Basic Industry

#### Cement

Bloomberg	SMGR IJ
Reuters	SMGR.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-8.2%	19.8%	15.2%	-10.6%
Rel. Ret.	4.9%	13.4%	10.9%	0.5%

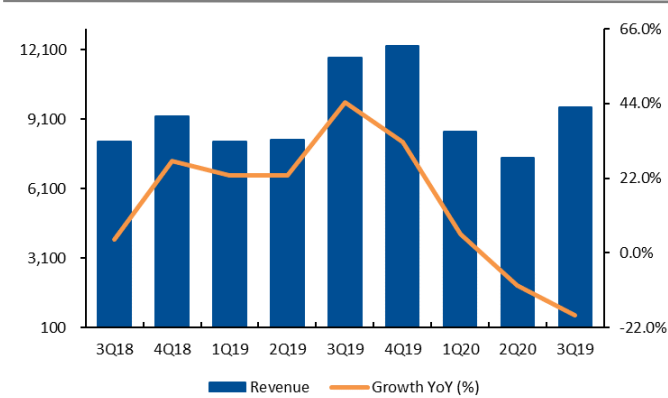
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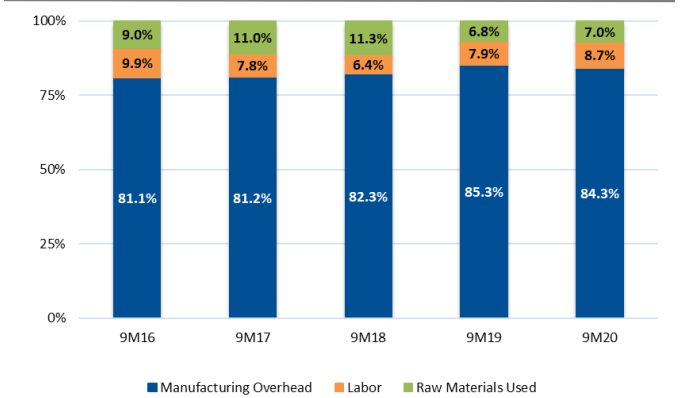
### Performance Highlights in Chart

SMGR Quarterly Revenue (IDR bn) | 3Q18 - 3Q20



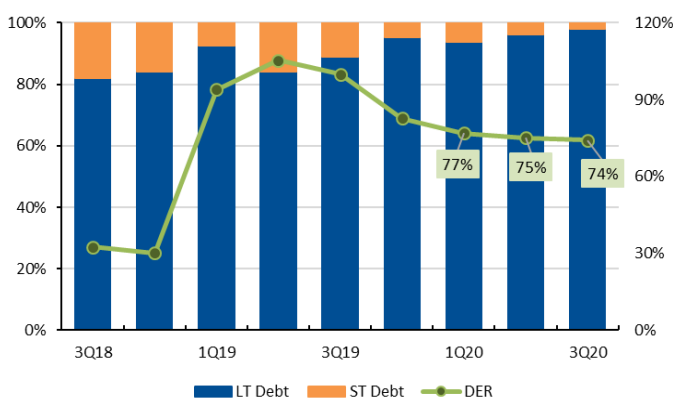
Source: Company Data, NHKSI Research

9M20 Manufacturing Cost Breakdown



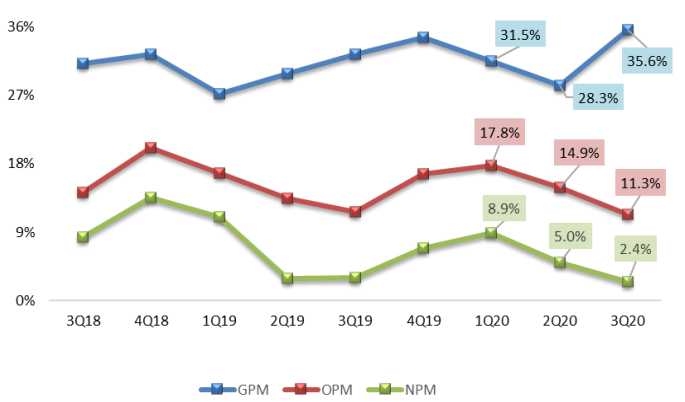
Source: Company Data, NHKSI Research

### Debt Portion



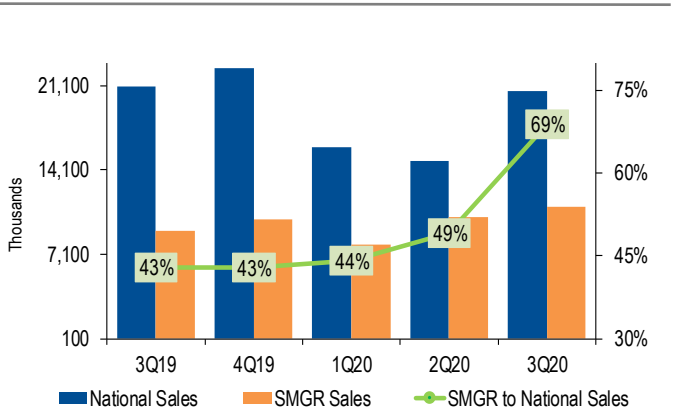
Source: Company Data, NHKSI Research

### Margin Ratios



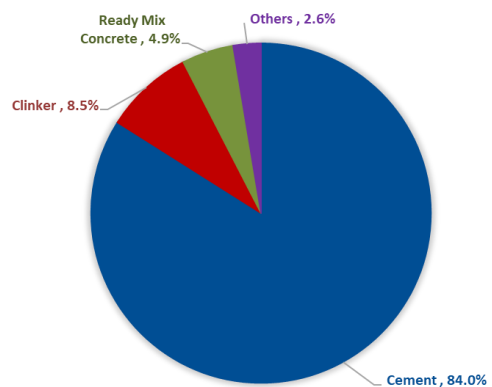
Source: Company Data, NHKSI Research

### Domestic Sales Volume (Tons) & Market Share



Source: Company Data, NHKSI Research

### 3Q20 Revenue Breakdown



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	11,772	12,245	8,580	7,446	9,599	11,284	-18.5%	28.9%	-14.9%	11,300
Gross Profit	3,811	4,238	2,704	2,108	3,418	3,552	-10.3%	62.1%	-3.8%	3,595
EBIT	1,961	2,174	1,274	843	1,835	1,658	-6.4%	117.8%	10.7%	1,823
EBITDA	2,725	2,826	2,071	1,399	2,806	2,324	3.0%	100.5%	20.7%	2,392
Net Profit	806	1,085	425	181	935	760	16.1%	416.8%	23.0%	966
<b>Margin</b>										
Gross Margin	32.4%	34.6%	31.5%	28.3%	35.6%	31.5%	3.2%	7.3%	13.1%	31.8%
EBIT Margin	16.7%	17.8%	14.9%	11.3%	19.1%	14.7%	2.5%	7.8%	30.1%	16.1%
EBITDA Margin	20.5%	29.1%	24.1%	18.8%	29.2%	20.6%	6.1%	10.4%	41.9%	21.2%
Net Profit Margin	11.0%	8.9%	5.0%	2.4%	9.7%	6.7%	2.9%	7.3%	44.6%	8.5%

Unit: IDR bn, %

Source: Company Data, NHKSI Research

## Earnings Revision

		2020F	2021F	2022F
<b>Income Statement</b>				
Sales	-Revised	36,925	39,172	40,604
	-Previous	39,238	40,640	41,255
	-Change	-5.9%	-3.6%	-1.6%
Gross Profit	-Revised	11,825	12,440	12,949
	-Previous	11,994	12,610	13,614
	-Change	-1.4%	-1.3%	-4.9%
EBIT	-Revised	5,504	5,971	6,833
	-Previous	5,504	5,971	6,833
	-Change	4.9%	1.2%	-7.7%
EBITDA	-Revised	8,668	8,777	9,080
	-Previous	8,260	9,816	9,739
	-Change	4.9%	-10.6%	-6.8%
Net Profit	-Revised	2,507	2,767	2,837
	-Previous	2,194	2,308	2,654
	-Change	14.2%	19.9%	6.9%
<b>Margin</b>				
Gross Margin	-Revised	32.0%	31.8%	31.9%
	-Previous	30.6%	31.0%	33.0%
EBIT Margin	-Revised	15.6%	15.4%	15.5%
	-Previous	14.0%	14.7%	16.6%
EBITDA Margin	-Revised	23.5%	22.4%	22.4%
	-Previous	21.1%	24.2%	23.6%
Net Profit Margin	-Revised	6.8%	7.1%	7.0%
	-Previous	5.6%	5.7%	6.4%

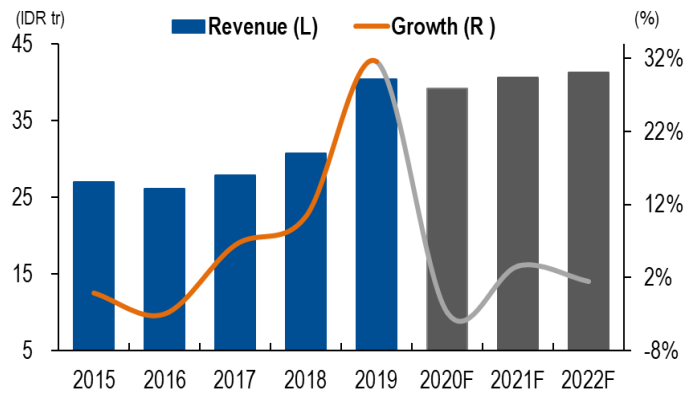
Unit: IDR bn, %

Source: Company Data, NHKS Research

## Company Overview

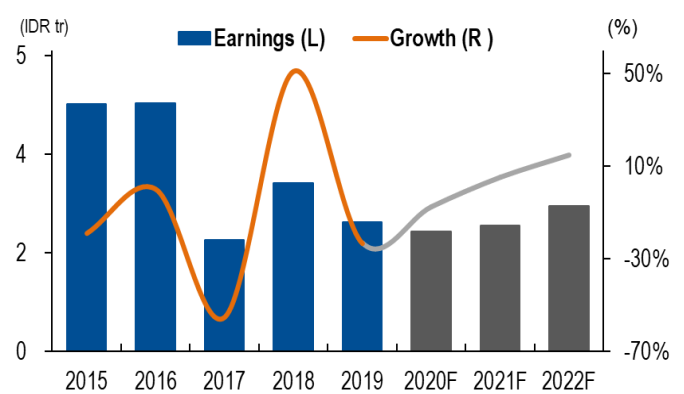
- PT Semen Indonesia (Persero) Tbk is a state-owned enterprise engaging in manufacturing building materials with cement as its product. The company was founded in 1957 in Gresik and became the first BUMN whose stocks listed on IDX.
- Until the end of 2018, the company owns and operates 5 integrated cement plants in Indarung (West Sumatra), Tuban (East Java), Pangkep (South Sulawesi), Rembang (Central Java) and Quan Ninh (Vietnam).
- The company has 4 leading product brands selling in domestic and foreign markets, namely Semen Gresik, Semen Padang, Semen Tonasa, and Thai Long Cement.
- On January 31, 2019, the company through its subsidiary PT Semen Indonesia Industri Bangunan officially acquired 80,6% ownership of Holderfin B.V. at PT Holcim Indonesia Tbk.
- PT Holcim Indonesia Tbk now is one of the company's subsidiary and changes its name into PT Solusi Bangun Indonesia Tbk.

### Revenue and Growth Movement



Source: Company Data, NHKSI Research

### Earnings and Growth Movement



Source: Company Data, NHKSI Research

### Asia Pacific Companies Peers Analysis

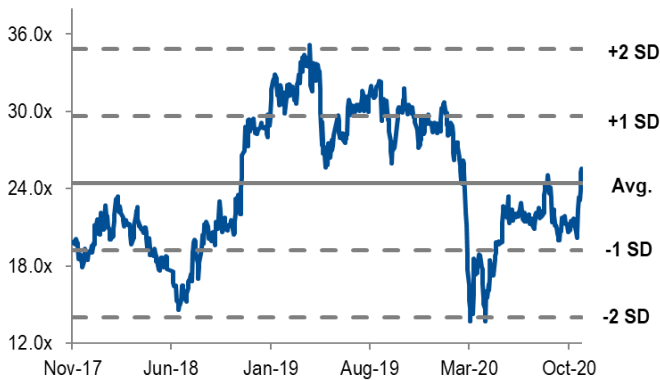
	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Profit Margin	ROE LTM	P/E LTM	P/BV
<b>Indonesia</b>									
SEMEN INDONESIA TBK	4,670	5,763	2,617	182	15.41%	7.0%	8.1%	25.2x	2.0x
INDOCEMENT TUNGGAL PRAKARSA TBK	3,726	2,001	1,019	123	4.24%	12.0%	7.9%	29.8x	2.4x
SOLUSI BANGUN INDONESIA TBK	582	1,413	772	60	4.14%	7.8%	13.0%	9.6x	1.2x
SEMEN BATURAJA TBK	394	402	119	-7	-58.31%	-6.1%	-3.1%	245.6x	1.7x
<b>Malaysia</b>									
CAHYA MATA SARAWAK BHD	359	1,114	329	26	-48.74%	8.0%	4.2%	13.3x	0.6x
<b>Thailand</b>									
SIAM CITY CEMENT PUB CO LTD	1,323	2,628	1,393	104	9.11%	7.4%	9.8%	12.4x	1.2x
<b>Philippines</b>									
HOLCIM PHILIPPINES INC	826	884	569	54	2.07%	9.6%	9.9%	14.5x	1.4x
<b>China</b>									
ANHUI CONCH CEMENT CO LTD-H	42,077	25,674	24,307	4,925	4.81%	20.3%	24.7%	6.9x	1.6x
CHINA NATIONAL BUILDING MA-H	11,531	64,128	35,277	1,662	6.21%	4.7%	13.3%	7.2x	0.9x
HUAXIN CEMENT CO LTD-B	6,696	5,263	4,194	788	-16.50%	18.8%	26.4%	5.5x	1.4x
<b>India</b>									
ULTRATECH CEMENT LTD	18,984	10,526	5,852	820	141.93%	14.0%	16.0%	24.3x	3.6x
SHREE CEMENT LTD	11,329	2,646	1,816	217	52.61	11.9%	13.4%	53.8x	6.4x
AMBUJA CEMENTS LTD	6,856	5,642	3,850	298	-3.78%	7.7%	9.0%	24.4x	2.1x

Unit: USD mn, %, X

Source: Bloomberg, NHKSI Research

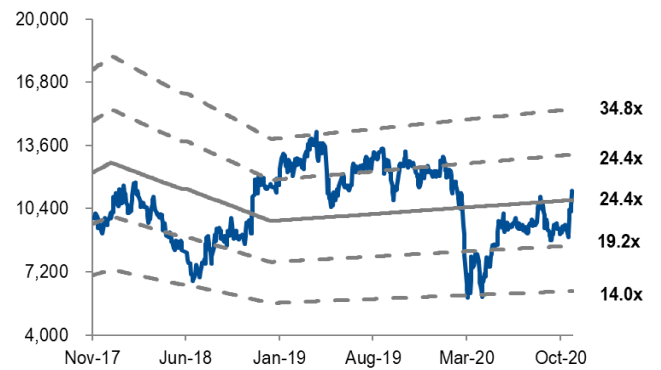
### Valuation Highlights in Charts

3-Years Forward P/E Band



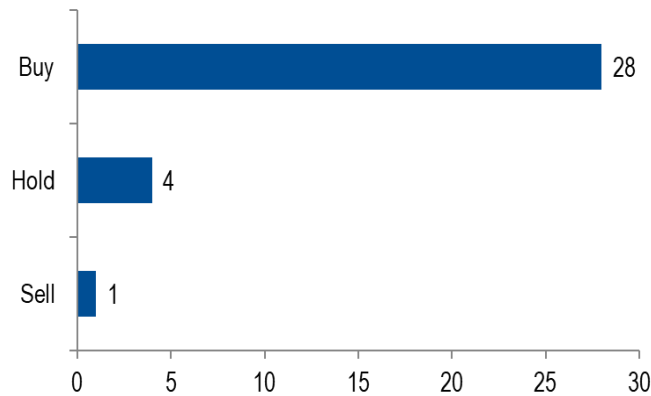
Source: Bloomberg, NHKSI Research

3-Years Dynamic Forward P/E band



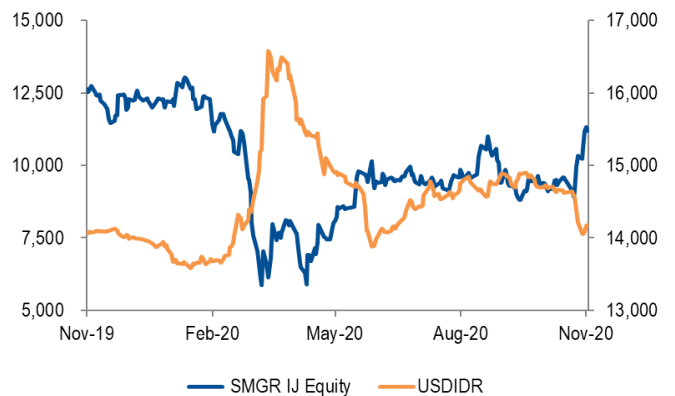
Source: Bloomberg, NHKSI Research

Analysts' Recommendation



Source: Bloomberg, NHKSI Research

Correlation between SMGR 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
2017.08.03	Hold	IDR11,900	IDR9,969
2017.12.04	Buy	IDR11,550	IDR10,771
2018.12.04	Hold	IDR13,500	IDR12,025
2019.08.02	Hold	IDR14,200	IDR13,699
2019.11.11	Hold	IDR14,300	IDR14,327
2020.08.14	Buy	IDR11,500	IDR11,343
2020.11.16	Buy	IDR13,250	IDR11,934

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

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
<b>Sales</b>	<b>40,368</b>	<b>36,925</b>	<b>39,172</b>	<b>40,604</b>
Growth	31.5%	-8.5%	6.1%	3.7%
COGS	(27,654)	(25,100)	(26,732)	(27,655)
<b>Gross Profit</b>	<b>12,714</b>	<b>11,825</b>	<b>12,440</b>	<b>12,949</b>
Gross Margin	31.5%	32.0%	31.8%	31.9%
Operating Expenses	(6,529)	(6,051)	(6,396)	(6,643)
<b>EBIT</b>	<b>6,185</b>	<b>5,775</b>	<b>6,044</b>	<b>6,305</b>
EBIT Margin	15.3%	15.6%	15.4%	15.5%
Depreciation	(2,495)	(2,893)	(2,733)	(2,775)
<b>EBITDA</b>	<b>8,680</b>	<b>8,668</b>	<b>8,777</b>	<b>9,080</b>
EBITDA Margin	21.5%	23.5%	22.4%	22.4%
Interest Expenses	(3,205)	(2,322)	(2,258)	(2,460)
<b>EBT</b>	<b>3,196</b>	<b>3,618</b>	<b>3,996</b>	<b>4,097</b>
Income Tax	(825)	(1,121)	(1,238)	(1,269)
Minority Interest	(21)	9	9	9
<b>Net Profit</b>	<b>2,371</b>	<b>2,507</b>	<b>2,767</b>	<b>2,837</b>
Growth	-23.2%	5.7%	10.4%	2.5%
Net Profit Margin	5.9%	6.8%	7.1%	7.0%

## PROFITABILITY &amp; STABILITY

	2019/12A	2020/12F	2021/12F	2022/12F
ROE	7.1%	7.2%	7.5%	7.3%
ROA	3.6%	3.2%	3.5%	3.4%
ROIC	6.5%	6.4%	6.6%	6.8%
Cash Dividend (IDR bn)	1,232	946	1,001	1,104
Dividend Yield	1.7%	1.4%	1.5%	1.6%
Payout Ratio	51.9%	37.8%	36.2%	38.9%
DER	82.7%	65.0%	60.0%	55.0%
Net Gearing	92.3%	72.6%	66.7%	60.9%
LT Debt to Equity	79.2%	58.2%	55.4%	50.0%
Capitalization Ratio	45.3%	39.4%	37.5%	35.5%
Equity Ratio	42.5%	46.0%	46.8%	46.9%
Debt Ratio	35.1%	29.9%	28.1%	25.8%
Financial Leverage	196.6%	226.1%	215.4%	213.5%
Current Ratio	136.6%	159.4%	174.3%	169.7%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	5,932	5,932	5,932	5,932
Share Price (IDR)	12,000	11,500	11,500	11,500
Market Cap (IDR tn)	71.2	68.2	68.2	68.2

## BALANCE SHEET

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Cash	4,008	6,258	8,553	10,310
Receivables	6,490	4,739	5,027	6,869
Inventories	4,642	5,539	6,768	7,711
<b>Total Current Assets</b>	<b>16,716</b>	<b>18,157</b>	<b>22,064</b>	<b>26,773</b>
Net Fixed Assets	56,602	54,104	53,189	52,373
Other Non Current Assets	2,110	1,894	1,596	1,571
<b>Total Assets</b>	<b>79,807</b>	<b>78,362</b>	<b>80,890</b>	<b>84,608</b>
Payables	5,670	4,460	5,838	5,070
Other Liabilities	3,278	3,471	3,842	7,494
LT Debt	24,750	19,987	19,742	18,592
<b>Total Liabilities</b>	<b>45,915</b>	<b>42,292</b>	<b>43,020</b>	<b>44,962</b>
Capital Stock	593	593	593	593
Retained Earnings	29,774	31,714	33,480	35,212
<b>Shareholders' Equity</b>	<b>33,892</b>	<b>36,069</b>	<b>37,870</b>	<b>39,645</b>

## VALUATION INDEX

	2019/12A	2020/12F	2021/12F	2022/12F
Price/Earnings	30.0x	27.2x	24.7x	24.0x
Price/Book Value	2.1x	1.9x	1.8x	1.7x
Price/Sales	1.8x	1.8x	1.7x	1.7x
PE/EPS Growth	-0.1x	0.5x	0.2x	1.0x
EV/EBITDA	11.2x	10.1x	9.6x	9.0x
EV/EBIT	15.7x	15.1x	13.9x	12.9x
EV (IDR bn)	96,827	87,248	84,260	81,624
Sales CAGR (3-Yr)	15.6%	9.9%	8.5%	0.2%
EPS CAGR (3-Yr)	29.1%	14.6%	29.3%	28.0%
Basic EPS (IDR)	399.77	422.64	466.50	478.26
Diluted EPS (IDR)	400	423	467	478
BVPS (IDR)	5,714	6,081	6,385	6,684
Sales PS (IDR)	6,806	6,225	6,604	6,845
DPS (IDR)	207.6	159.6	168.7	186.2

## CASH FLOW STATEMENT

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Operating Cash Flow	5,609	5,125	5,638	5,543
Investing Cash Flow	(17,161)	(1,640)	(1,653)	(1,807)
Financing Cash Flow	10,285	(1,234)	(1,690)	(1,979)
<b>Net Changes in Cash</b>	<b>(1,267)</b>	<b>2,250</b>	<b>2,295</b>	<b>1,757</b>

## TOP OWNERSHIP

By Geography	% Shareholders	%
Indonesia	78.5 Rep. of Indonesia	51.0
United States	9.7 Invesco Ltd	2.2
Luxembourg	4.0 Vanguard Group Inc	1.8
Norway	1.8 Blackrock	1.7

Source: Company Data, NHKSI Research

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