

PT. Indocement Tunggul Prakarsa Tbk.

SELL

Investment Consideration

Oversupply Still Exists

- Oversupply Still Exists.
- Oversupply still weighs on the domestic cement industry.
- For 2018, we estimate installed capacity will grow 7.6 percent to 108.6 million tons, and oversupply will still exist in the domestic cement industry.
- New players have taken market share from the top three.
- Because the new players sell at lower prices, there is still an intense price war which will continue to depress the average selling prices (ASPs) of the top three.

INTP still dominates in Java

- In January Java is the biggest market for INTP.
- Java was 71.8% of INTP sales volume in January and market share improved slightly to 33.6% from 33.2%.
- Overall as of January 2018, INTP domestic market shares increased slightly to 26.3% from 26% from the previous January.
- With INTP focusing on the domestic market, we are targeting INTP sales volume in 2018F can reach 17.8 million tons, and grow slightly, +6.0%, from 2017 sales volume of 16.84 million tons.

The fight back

- INTP has launched a new lower priced fighting brand, Rajawali, to compete with the new players who sell at lower prices. With the launch of the new Rajawali brand, we expect INTP market share can be maintained.
- INTP also expects higher bulk sales as private contractors take an increasing role in infrastructure projects, and allow INTP to supply to those projects. Previously infrastructure cement sales were controlled by the state owned companies. We expect this will also help to maintain market share.

Valuation: TP 18,355 SELL

- Despite the oversupplied market and tighten competitor, INTP has maintained their margins better compared to peers.
- Using DCF valuation with WACC at 13.09%, we are targeting INTP to trade at 31x 2018F PE within a year.
- Target Price is IDR 18,355 which represents -13.8% of downside. SELL

Financial Highlights	2013A	2014A	2015A	2016A	2017F	2018F	2019F
Revenue (IDR Bn)	18,693	19,996	17,798	15,362	14,567	15,441	16,368
EBITDA (IDR Bn)	7,458	7,689	6,618	5,151	3,696	3,934	4,186
Net Profit (IDR Bn)	5,014	5,274	4,357	3,870	2,086	2,211	2,344
EPS (IDR)	1,362	1,433	1,183	1,051	567	601	637
EBITDA Margin (%)	40%	38%	37%	34%	25%	25%	26%
ROE (%)	18.85%	18.26%	15.76%	12.84%	6.87%	6.69%	6.65%
ROA (%)	21.82%	21.28%	18.25%	14.81%	7.96%	7.81%	7.68%

Source: company & Binaartha

26 February 2018
Basic Industry – Cement

Price	IDR	21,300
Target Price	IDR	18,355
JKSE Index		6,619.804



Stock Information

Bloomberg Code	INTP IJ
Market Cap (IDR bn)	79,422.6
52-week high (IDR)	23,950
52-week low (IDR)	15,150
Shares issued (mn)	3,681.2
6-m avg. daily Val (IDR)	20,496
Free float	49%

Major share holders

Birchwood Omnia Ltd	51%
Public	49%

USD/ IDR – YE (IDR)

2017	13,480
2018F (6m-avg)	13,474

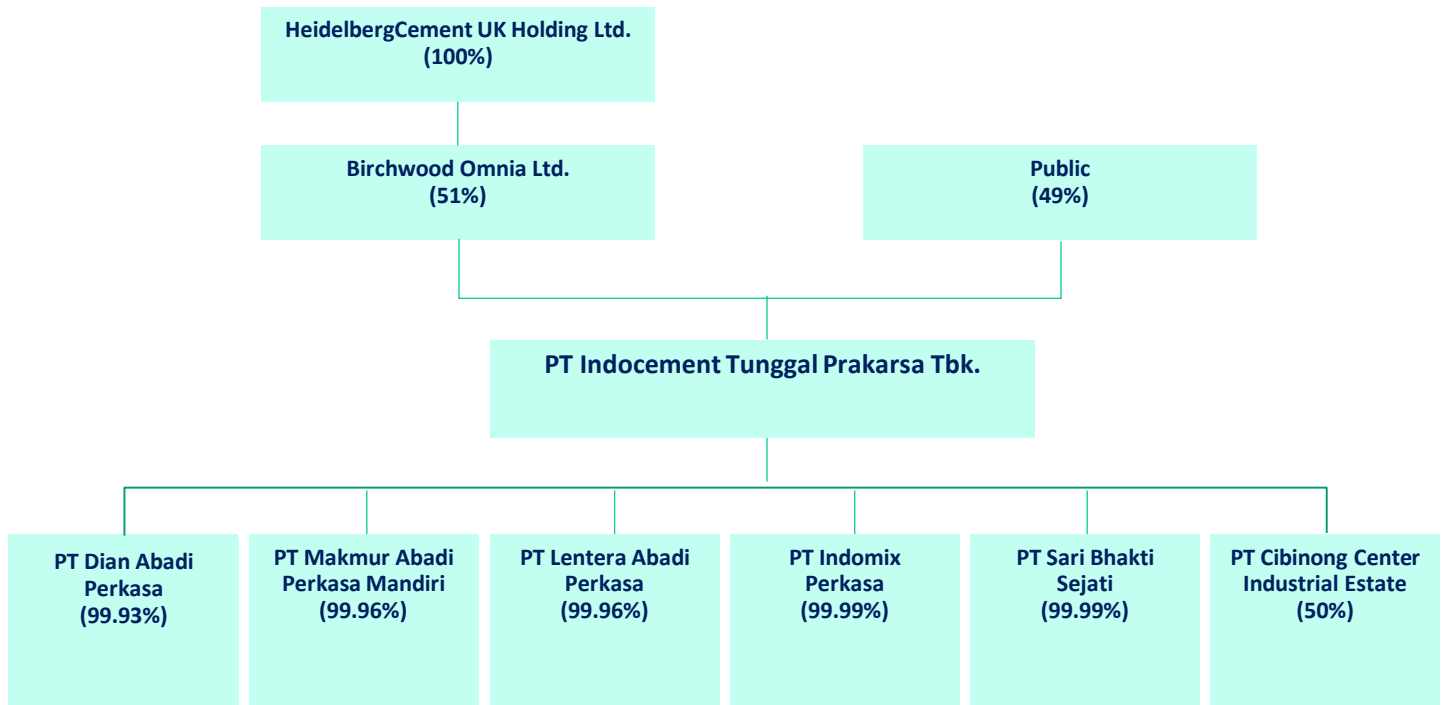
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Company Profile

PT Indocement Tunggal Prakarsa Tbk began in 1975 with the completion of Indocement’s first plant in Citeureup, Bogor, West Java. Within 10 years after the operation of the first plant, the company built 7 more plants, with total production capacity of 7.7 million tons per year. In 1989, the company became a publicly listed company with code “INTP”. Currently, the company ultimate parent company, HeidelbergCement, based in Germany, is one of the world’s largest integrated manufacturers of building material.

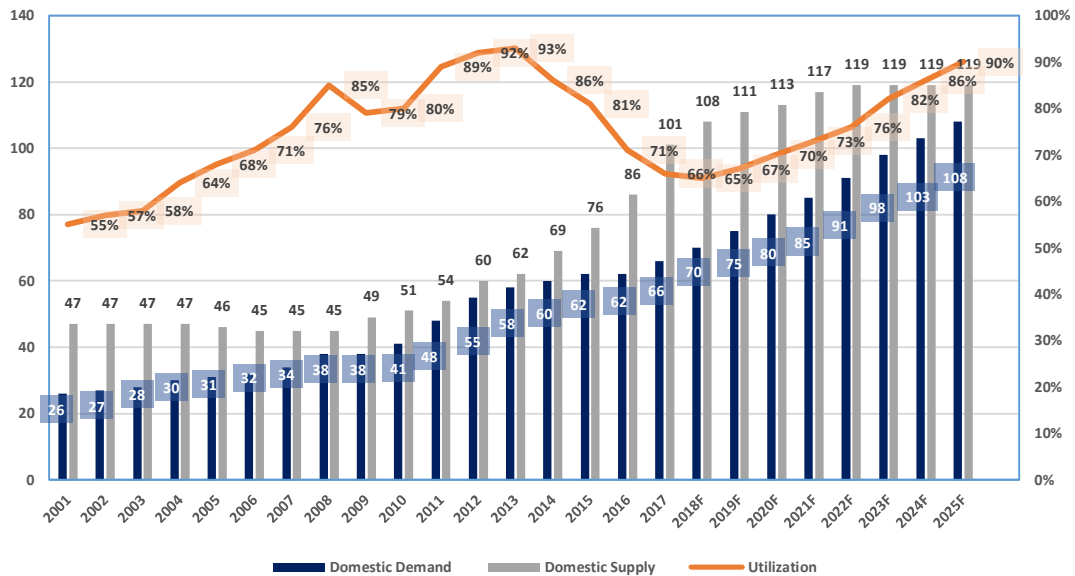
INTP acquired Plant-9 in 1991 and completed the construction of Plant 10 in Palimanan, Cirebon, West Java in 1996 and completed Plant 11 in 1997 as anticipation of the increasingly strong market growth. As of December 2017, the company has total production capacity of 24.5 million ton per year with 13 kilns in 3 location.

Company Structure



Source: company

Chart: Domestic Cement Industry Supply and Demand YoY (Million Tons)



Source: company

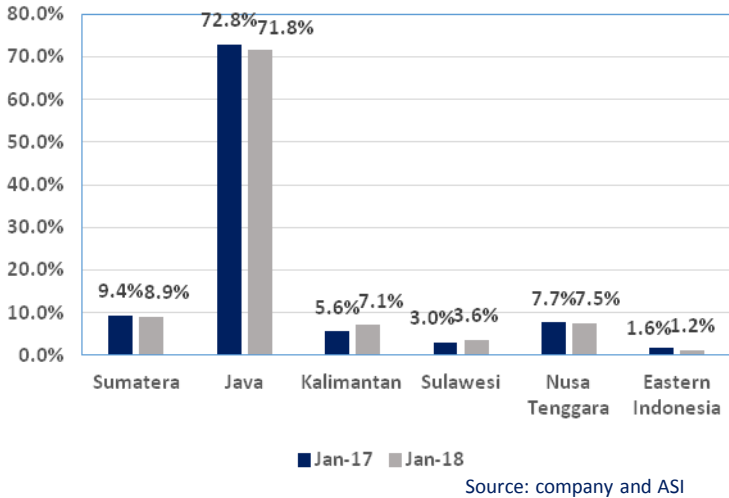
Oversupply Still Exists

Oversupply still weighs on the domestic cement industry. The domestic installed production capacity cement industry in 2017 is 101 million tons and 2017 cement demand of 69 million tons. The largest capacity is still occupied by Semen Indonesia of 32.3 tons per year, Indocement is in second position at 24.2 tons per year and Holcim of 14 million tons per year.

For 2018, we estimate installed capacity will grow 7.6 percent to 108.6 million tons, and oversupply will still exist in the domestic cement industry.

While oversupply still exists, new players have taken market share from the top three. Since 2012 many new players have entered the domestic cement industry, at least in 6 years there is 1 new player entered. Until now, there are 11 cement companies listed in the Indonesian Cement Association (ASI). Because the new players sell at lower prices, there is still an intense price war which will continue to depress the average selling prices (ASPs) of the top three.

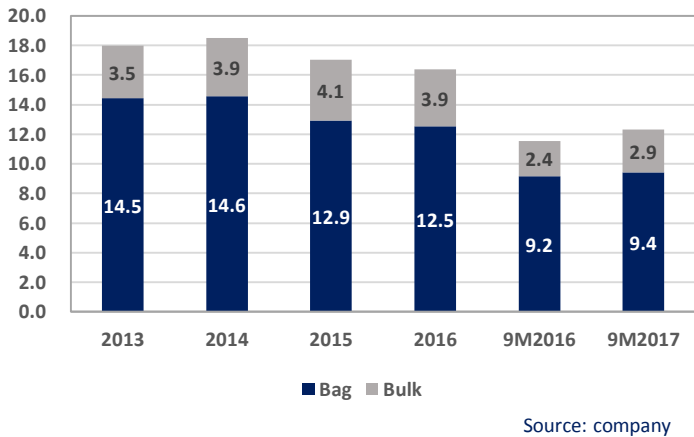
Chart: INTP Sales Volume January 2017 vs January 2018



INTP still dominates in Java

In January, Java is the biggest market for INTP. INTP recorded sales volume at 1.49 million tons, +11.4% compared to January 2017. Java was 71.8% of INTP sales volume in January and market share improved slightly to 33.6% from 33.2%. With Jakarta market shares recovered from 39.1% to 41.2%, while Banten market share decreased from 44.7% to 43.7%. West Java and East Java market share also decreased slightly to 48.4% and 32.2%. Kalimantan market share increased to 30.2% from 23.8% in January 2017. The increased in Kalimantan was boosted by operation of the new Pontianak terminal in 2017. Overall as of January 2018, INTP domestic market shares increased slightly to 26.3% from 26% from the previous January. With INTP focusing on the domestic market, we are targeting INTP sales volume in 2018F can reach 17.8 million tons, and grow slightly, +6.0%, from 2017 sales volume of 16.84 million tons.

Chart: Bag and Bulk Sales Volume YoY (in Million Tons)



The fight back

INTP has launched a new lower priced fighting brand, Rajawali, to compete with the new players who sell at lower prices. Until now, Rajawali is offered in 6 cities in Banten, 15 cities in West Java, and 8 cities in Central Java. Including Greater Jakarta, Rajawali is now offered in 30 cities in Java. The sales of Rajawali brand are only in areas that experienced market share declines and the sales contributor is limited to < 2% of total sales of INTP. With the launch of the new Rajawali brand, we expect INTP market share can be maintained. And we are targeting INTP revenue will grow 6% to IDR 15.4 trillion in 2018F from our forecast 2017 revenue of IDR. 14.6 trillion. INTP also expects higher bulk sales as private contractors take an increasing role in infrastructure projects, and allow INTP to supply to those projects. As of January 2018, bulk sales grew by +25.3% yoy while bag sales grew +7.7%. Previously infrastructure cement sales were controlled by the state owned companies. We expect this will also help to maintain market share.

Chart: Composition of Manufacturing Cost

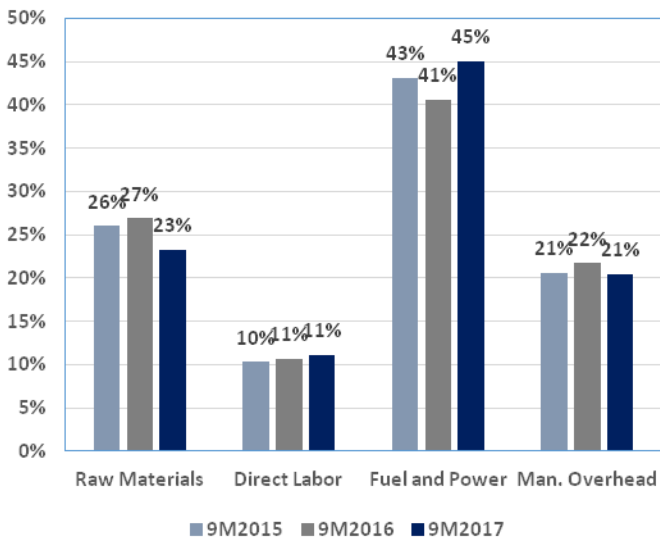


Table: Top Three Cement Company Margins 9M2017 vs 9M2018

	INTP		SMGR		SMCB	
	9M2016	9M2017	9M2016	9M2017	9M2016	9M2017
Gross Margin	42%	34%	40%	29%	20%	15%
Net Profit Margin	28%	13%	15%	7%	-2%	-9%
Ebitda Margin	31%	25%	28%	19%	14%	13%

Source: company

More efficient with P14

Amid 'the Price War' which decreased ASP,s, fuel and power cost increased from higher coal prices. Fuel and Power cost as a % of costs increased to 45.1% in 9M2017 from 43.1% in 9M2016. One of INTP's strategies is to maintain costs by running P14 production at full-swing in 2018. P14 will help to reduce production cost by about USD 7-8 per ton. To be more efficient in logistics, INTP has built new terminals in Palembang and Lampung. The new terminal in Palembang is expected to start operating in 1Q2018. And the new terminal in Lampung will operate in 2Q2018.

Valuation: TP 18,355 SELL

Despite market oversupply and more competitor, INTP can maintain their margins better than their peers. Using a DCF valuation with WACC at 13.09% We are targeting INTP to trade at 31x 2018F PE within a year. Target Price is IDR 18,355 which represents -13.8% downside. SELL

Table: Income Statement YoY in IDR Billion

Income Statement (In IDR Bn)	2013A	2014A	2015A	2016A	2017F	2018F	2019F
Revenue	18,693	19,996	17,798	15,362	14,567	15,441	16,368
Cost of revenue	(10,037)	(10,910)	(9,889)	(9,030)	(9,541)	(10,114)	(10,721)
Gross Profit	8,657	9,087	7,909	6,331	5,026	5,327	5,647
Operating Expense	(2,591)	(3,112)	(2,852)	(2,687)	(2,913)	(3,088)	(3,274)
Operating Profit	6,066	5,975	5,057	3,645	2,112	2,239	2,373
Other Income	531	815	588	502	495	525	556
Profit Before Tax	6,597	6,790	5,645	4,146	2,608	2,764	2,930
Taxes	(1,583)	(1,516)	(1,288)	(276)	(522)	(553)	(586)
NIAT	5,014	5,274	4,357	3,870	2,086	2,211	2,344
Non-controlling Interest	0	0	0	0	0	0	0
Net Income	5,014	5,274	4,357	3,870	2,086	2,211	2,344
EPS (In IDR)	1,362	1,433	1,183	1,051	567	601	637
EBITDA	7,458	7,689	6,618	5,151	3,696	3,934	4,186

Source: company & Binaartha

Table: Statement of Financial Position YoY in IDR Billion

Statement of Financial Position (In IDR Bn)	2012A	2013A	2014A	2015A	2016A	2017F	2018F	2019F
ASSETS								
CURRENT ASSETS								
Cash and Cash Equivalents	10,474	12,595	11,256	8,656	9,674	7,821	10,859	11,385
Trade Accounts Receivable	2,455	2,519	2,671	2,535	2,605	3,059	2,531	2,683
Inventories	1,470	1,474	1,666	1,609	1,780	2,039	1,570	1,739
Others Current Assets	180	259	494	335	365	583	463	491
Total Current Assets	14,579	16,846	16,087	13,134	14,425	13,502	15,423	16,298
NONCURRENT ASSETS								
Fixed Assets	7,935	9,305	12,144	13,814	14,644	15,710	16,856	18,086
Other Noncurrent Assets	240	456	655	691	1,082	1,165	761	888
Total Noncurrent Assets	8,175	9,761	12,798	14,505	15,726	16,876	17,617	18,974
TOTAL ASSETS	22,755	26,607	28,885	27,638	30,151	30,378	33,040	35,272
LIABILITIES AND EQUITY								
LIABILITIES								
CURRENT LIABILITIES								
Short-term liability	84	94	123	114	106	109	124	114
Trade Account Payable	1,391	1,500	1,767	1,641	2,126	1,894	2,471	2,337
Others Current Liabilities	943	1,147	1,371	933	956	1,020	1,081	1,103
Total Current Liabilities	2,419	2,740	3,261	2,688	3,188	3,023	3,675	3,555
NONCURRENT LIABILITIES								
Long-term liability	293	334	377	700	787	1,020	936	1,069
Others Noncurrent Liabilities	625	556	463	385	37	122	130	137
Total Noncurrent Liabilities	918	889	840	1,085	824	1,142	1,066	1,206
TOTAL LIABILITIES	3,336	3,630	4,100	3,772	4,012	4,165	4,741	4,761
Non-controlling interest	0	0	0	0	0	0	0	0
EQUITY	19,419	22,978	24,785	23,866	26,139	26,213	28,299	30,510
TOTAL LIABILITIES & EQUITY	22,755	26,607	28,885	27,638	30,151	30,378	33,040	35,272

Source: company & Binaartha

Table: Cash Flow YoY in IDR Billion

Cash Flow (In IDR Bn)	2013A	2014A	2015A	2016A	2017F	2018F	2019F
Net Income	5,014	5,274	4,357	3,870	2,086	2,211	2,344
Depreciation	809	878	946	993	1,067	1,146	1,230
Change in WC	176	(59)	(220)	228	(1,096)	1,769	(469)
Cash From Operating Activities	5,999	6,093	5,082	5,091	2,057	5,126	3,105
Capex	(2,395)	(3,915)	(2,652)	(2,215)	(2,216)	(1,887)	(2,587)
Cash From Investing Activities	(2,395)	(3,915)	(2,652)	(2,215)	(2,216)	(1,887)	(2,587)
Long-term liabilities	41	43	323	87	233	(84)	133
Others Noncurrent Liabilities	(69)	(93)	(78)	(347)	85	7	8
Equity	(1,455)	(3,467)	(5,276)	(1,598)	(2,012)	(125)	(133)
Cash From Financing Activities	(1,484)	(3,517)	(5,030)	(1,858)	(1,694)	(202)	8
Net Changes in Cash	2,121	(1,339)	(2,601)	1,018	(1,853)	3,038	526
Beginning Balance	10,474	12,595	11,256	8,656	9,674	7,821	10,859
Ending Balance	12,595	11,256	8,656	9,674	7,821	10,859	11,385

Source: company & Binaartha

Table: Ratio Highlights YoY

Growth (% YoY)	2013A	2014A	2015A	2016A	2017F	2018F	2019F
Revenue	8.11%	6.97%	-10.99%	-13.69%	-5.17%	6.00%	6.00%
OP	3.22%	-1.50%	-15.37%	-27.93%	-42.04%	6.00%	6.00%
EBITDA	0.79%	3.11%	-13.94%	-22.16%	-28.25%	6.42%	6.42%
NP	5.27%	5.18%	-17.39%	-11.16%	-46.10%	6.00%	6.00%
EPS	5.27%	5.18%	-17.39%	-11.16%	-46.10%	6.00%	6.00%
Profitability							
Operating Margin(%)	32.45%	29.88%	28.41%	23.72%	14.50%	14.50%	14.50%
EBITDA margin(%)	39.89%	38.45%	37.18%	33.53%	25.37%	25.47%	25.58%
NET Profit margin(%)	26.82%	26.37%	24.48%	25.19%	14.32%	14.32%	14.32%
ROA(%)	18.85%	18.26%	15.76%	12.84%	6.87%	6.69%	6.65%
ROE(%)	21.82%	21.28%	18.25%	14.81%	7.96%	7.81%	7.68%
Stability							
Tot debt/ equity (x)	0.158	0.165	0.158	0.153	0.159	0.168	0.156
Int. Coverage (x)	98	245	164	327	95	92	89
Current Ratio (X)	6.15	4.93	4.89	4.53	4.47	4.20	4.58
Per Share data (IDR)							
EPS	1,362	1,433	1,183	1,051	567	601	637
BV	6,242	6,733	6,483	7,101	7,121	7,687	8,288
SPS	5,078	5,432	4,835	4,173	3,957	4,195	4,446
EBITDA/share	2,026	2,089	1,798	1,399	1,004	1,069	1,137

Source: company & Binaartha

Stock Ratings:

- Buy : a recommendation to purchase the security with upside potential of **20% or greater**
- Hold : a recommendation to neither buy nor sell a security with upside potential of **0-19%**.
- Sell : a recommendation to close out a long position in a security with upside potential **below 0% or negative**.

RESEARCH TEAM
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