

PT Semen Indonesia (Persero), Tbk

BUY

Cement, Equity
10 November 2020

Price **IDR.10,225**
Target **IDR. 12,675**
JKSE Index **5,356.005**



Stock code
Bloomberg code **SMGR JI**
Market cap (in Bn) **60,650**
52-week high **13,250**
52-week low **5,475**
6-m avg.dail.val (IDR) **9,442**
Free Float (%) **48.99%**

Major Share Holders (%)
Government RI **51.01%**
Public **48.99%**

USD/IDR-YE
2019 **13,970**
2020F (6m-avg) **14,589**

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Investment Considerations

Slow Cement Demand

- The Covid-19 outbreak PSBB in 2Q2020 and 3Q2020, and the slowdown or postponing of infrastructure projects still overshadows domestic cement demand in 2020. 9M2020 domestic cement sales dropped -9.0% YoY to 44.65 million tons with the biggest pressure on the bulk market which was lower by -20.4% while the Bag market was down -4.9%.
- SMGR recorded sales volume growth of -2.9% YoY to 29.1 million tons in 9M2020. In terms of area, SMGR still had sales growth outside Java while business was more challenging in Java with tight competition and pricing wars. SMGR also recorded export sales growth with higher demand from China because of China's economic recovery.
- SMGR utilization was down inline with decreased domestic demand.
- We revise down our SMGR's sales forecast in 2020F to IDR 37.8 trillion. But we are still expecting SMGR sales volume in 2021 will grow faster than this year as we expect an economic recovery from a recovery in the property sector and continuation of Indonesia Government infrastructure projects.

Margin Recovery

- SMGR revenue decreased -8.9% YoY to IDR 25.6 trillion from IDR 28.1 trillion in 9M2020 due to lower domestic sales volume while SMGR still managed ASP growth in 2020.
- SMGR managed their cost by maintaining cost efficiencies, such as raw material management, integrating the marketing, distribution, procurement functions, and utilizing industrial waste as an alternative source of raw material.
- The result was COGS decreased by -11.5% YoY to IDR 17.4 trillion.
- The greater efficiency in costs is above our expectation, and resulted in a higher gross profit margin of 32.1% from 30.1% last year. Gross profit still decreased -2.9% YoY to IDR 8.23 trillion.
- The EBITDA margin also increased to 24.5% YoY from 21.0% in 9M2020 as depreciation increased by +31% to IDR 2.2 trillion. The increasing EBITDA is expected to continue in 4Q2020 because of the accounting treatment of operating leases under PSAK.
- SMGR maintained double-digit profit growth of 19% YoY to IDR 1.54 trillion helped by lower interest expenses from the refinancing program last year and lower floating rates. SMGR's debt including Temporary Syirkah Funds was also stable at IDR 28 trillion in 9M2020
- We are adjusting our SMGR bottom line 2020F forecast to IDR 2.6 trillion as cost efficiencies are expected to continue in 4Q2020.

Valuation: Maintain BUY, TP 12,675 with 24% upside

- We are now targeting SMGR to trade at 26x PE in 2021F. Target price is IDR 12,675 which represents +24% upside. We maintain our BUY recommendation.

Financial Highlights	2016A	2017A	2018A	2019A	2020F	2021F
Revenue (IDR Bn)	26.134	27.814	30.688	40.368	37.888	41.049
EBITDA (IDR Bn)	7.085	4.963	6.690	8.712	8.327	9.199
Net Income (IDR Bn)	4.522	1.621	3.079	2.392	2.628	2.848
EPS (IDR)	762	273	519	403	443	480
EBITDA Margin (%)	27,1%	17,8%	21,8%	21,6%	22,0%	22,4%
ROA (%)	10,2%	3,3%	6,0%	3,0%	3,3%	3,4%
ROE (%)	15,6%	5,7%	9,9%	7,4%	7,9%	8,4%

Table: Domestic Cement Sales Volume by Area QOQ 2020FY

Area	1Q			2Q			3Q			YTD		
	2020	2019	(%)	2020	2019	(%)	2020	2019	(%)	2020	2019	(%)
Jakarta	853.628	754.808	13,1%	502.335	578.450	-13,2%	735.958	849.607	-13,4%	2.091.921	2.182.865	-4,2%
Banten	708.455	812.846	-12,8%	521.070	683.893	-23,8%	798.016	955.383	-16,5%	2.027.541	2.452.122	-17,3%
West Java	2.443.345	2.737.637	-10,7%	2.130.910	2.438.456	-12,6%	3.019.288	3.472.428	-13,0%	7.593.543	8.648.521	-12,2%
Central Java	1.714.406	1.863.367	-8,0%	1.732.883	1.842.137	-5,9%	2.397.484	2.693.396	-11,0%	5.844.773	6.398.900	-8,7%
Yogyakarta	227.106	386.017	-41,2%	202.542	317.319	-36,2%	310.175	353.685	-12,3%	739.823	1.057.021	-30,0%
East Java	2.019.370	2.120.293	-4,8%	1.641.285	1.871.877	-12,3%	2.427.383	2.645.573	-8,2%	6.088.038	6.637.743	-8,3%
Total Java	7.966.310	8.674.968	-8,2%	6.731.025	7.732.132	-12,9%	9.688.304	10.970.072	-11,7%	24.385.639	27.377.172	-10,9%
Sumatra	3.131.319	3.241.944	-3,4%	2.858.148	2.787.899	2,5%	3.708.150	4.031.029	-8,0%	9.697.617	10.060.872	-3,6%
Kalimantan	968.248	1.074.386	-9,9%	806.683	877.340	-8,1%	1.021.185	1.202.270	-15,1%	2.796.116	3.153.996	-11,3%
Sulawesi	1.240.284	1.335.830	-7,2%	1.009.181	1.125.172	-10,3%	1.459.318	1.690.798	-13,7%	3.708.783	4.151.800	-10,7%
Nusa Tenggara	833.293	917.291	-9,2%	738.960	879.875	-16,0%	1.093.853	1.024.310	6,8%	2.666.106	2.821.476	-5,5%
East Indonesia	482.316	429.059	12,4%	385.356	348.074	10,7%	528.996	465.847	13,6%	1.396.668	1.242.980	12,4%
Total Indonesia	14.621.770	15.673.478	-6,7%	12.529.353	13.750.492	-8,9%	17.499.806	19.384.326	-9,7%	44.650.929	48.808.296	-8,5%
Export Cement	195.075	316.155	-38,3%	119.193	232.350	-48,7%	403.492	406.433	-0,7%	717.760	954.938	-24,8%
Export Clinker	1.191.579	1.105.463	7,8%	2.223.741	1.154.481	92,6%	2.725.493	1.519.936	79,3%	6.140.813	3.779.880	62,5%
Total Export	1.386.654	1.421.618	-2,5%	2.342.934	1.386.831	68,9%	3.128.985	1.926.369	62,4%	6.858.573	4.734.818	44,9%
Grand Total	16.008.424	17.095.096	-6,4%	14.872.287	15.137.323	-1,8%	20.628.791	21.310.695	-3,2%	51.509.502	53.543.114	-3,8%

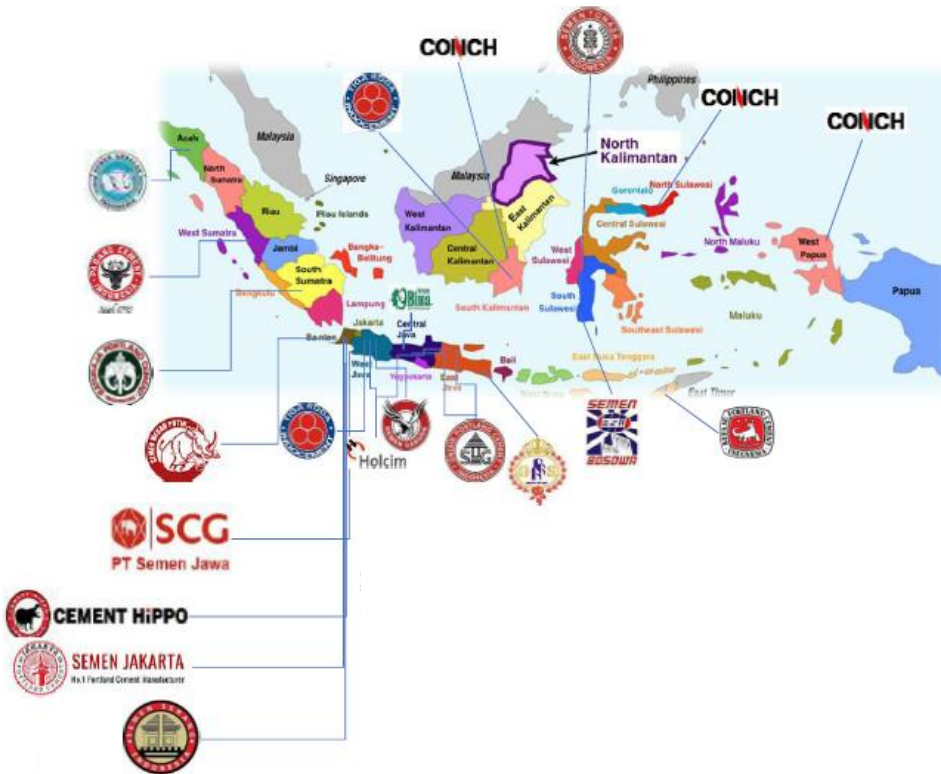
Source: Company and ASI

Picture: Indonesia Cement Players and Installed Capacity

Indonesian Cement Players

Installed Capacity

- 35.5 Semen Indonesia
 - 25.5 Indocement
 - 14.8 Solusi Bangun Indonesia (ex-Holcim)
 - 8.7 Conch Cement Indonesia
 - 7.7 Semen Merah Putih (Cemindo Gemilang)
 - 7.4 Semen Bosowa
 - 3.9 Semen Baturaja
 - 1.8 Semen Garuda (Jui Shin Indonesia)
 - 1.8 Semen Jawa (Siam Cement Group)
 - 1.8 Semen Bima (PT STAR)
 - 0.4 Semen Kupang
 - 3.1 Others (non ASI members)
- Total 2019:
112.4 Mio Ton



Source: Company and ASI

Table: Income Statement YoY in IDR Billion

Income Statement (In IDR Bn)	2016A	2017A	2018A	2019A	2020F	2021F
Revenue	26.134	27.814	30.688	40.368	37.888	41.049
Cost of revenue	-16.278	-19.854	-21.357	-27.654	-25.764	-27.914
Gross Profit	9.856	7.960	9.331	12.714	12.124	13.136
Operating Expense	-4.771	-5.706	-5.226	-9.518	-8.525	-9.236
Profit Before Tax	5.085	2.254	4.105	3.196	3.599	3.900
Taxes	-550	-604	-1.019	-825	-972	-1.053
NIAT	4.535	1.650	3.086	2.371	2.628	2.847
Non-controlling Interest	-13	-29	-7	21	1	1
Net Income	4.522	1.621	3.079	2.392	2.628	2.848
EPS (In IDR)	762	273	519	403	443	480
EBITDA	7.085	4.963	6.690	8.712	8.327	9.199

Source: Company and Binaartha

Table: Cash Flow YoY in IDR Billion

Cash Flow (In IDR Bn)	2016A	2017A	2018A	2019A	2020F	2021F
Net Income	4.522	1.621	3.079	2.392	2.628	2.848
Depreciation	1.637	1.953	1.626	2.311	2.588	2.899
Change in WC	577	-1.959	-1.196	2.060	-1.321	440
Cash From Operating Activities	6.736	1.615	3.509	6.763	3.896	6.187
Capex	-7.877	-3.366	-1.507	-30.311	-3.587	-3.751
Cash From Investing Activities	-7.877	-3.366	-1.507	-30.311	-3.587	-3.751
Long-term liabilities	992	727	157	12.788	164	1.176
Bonds Payable	0	2.993	2	4.070	-2	0
Others Noncurrent Liabilities	396	998	-160	4.600	1.007	-157
Temporary Shirkah temporer Equity	-1.388	-2.149	-389	2.000	0	0
Cash From Financing Activities	-0	2.569	-391	22.222	-299	-947
Net Changes in Cash	-1.141	818	1.611	-1.327	9	1.490
Beginning Balance	3.989	2.848	3.666	5.277	3.950	3.959
Ending Balance	2.848	3.666	5.277	3.950	3.959	5.449

Source: Company and Binaartha

Table: Statement of Financial Position YoY in IDR Billion

Statement of Financial Position (In IDR Bn)	2016A	2017A	2018A	2019A	2020F	2021F
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	2.848	3.666	5.277	3.950	3.959	5.449
Trade Accounts Receivable	4.018	4.995	5.960	6.860	6.062	6.157
Inventories	2.671	3.686	3.544	4.642	4.357	4.515
Others Current Assets	835	1.454	1.227	1.207	1.411	1.529
Total Current Assets	10.373	13.802	16.008	16.659	15.790	17.651
NONCURRENT ASSETS						
Fixed Assets	30.847	32.523	32.749	56.602	57.896	59.345
Other Noncurrent Assets	3.007	2.744	2.399	6.547	6.252	5.654
Total Noncurrent Assets	33.854	35.267	35.148	63.149	64.148	64.999
TOTAL ASSETS	44.227	49.069	51.156	79.807	79.937	82.650
LIABILITIES AND EQUITY						
LIABILITIES						
CURRENT LIABILITIES						
Short-term Loans	819	602	84	3.264	1	1.001
Trade Account Payable	4.383	5.250	4.784	6.245	6.630	6.568
Others Current Liabilities	2.950	2.952	3.335	2.731	3.410	3.284
Total Current Liabilities	8.152	8.804	8.203	12.240	10.041	10.853
NONCURRENT LIABILITIES						
Long-term bank	3.988	4.715	4.872	17.660	17.823	18.999
Bond Payable	0	2.993	2.995	7.065	7.064	7.064
Others Noncurrent Liabilities	1.512	2.510	2.350	6.950	7.957	7.799
Total Noncurrent Liabilities	5.501	10.219	10.217	31.675	32.844	33.862
TOTAL LIABILITIES	13.653	19.022	18.420	43.915	42.885	44.715
Non-controlling interest	1.539	1.524	1.544	1.615	1.819	1.970
EQUITY	29.035	28.522	31.192	32.277	33.234	33.964
TEMPORARY SYIRKAH TEMPORER				2.000	2.000	2.000
TOTAL TEMPORARY SYIRKAH TEMPORER, LIABILITIES & EQUITY	44.227	49.068	51.156	79.807	79.937	82.650

Source: Company and Binaartha

Table: Ratio Highlights YoY

Growth (% YoY)	2017A	2018A	2019A	2020F	2021F
Sales	6,4%	10,3%	31,5%	-6,1%	8,3%
OP	82,1%	-22,1%	12,6%	8,3%	-100,0%
EBITDA	-30,0%	34,8%	30,2%	-4,4%	10,5%
NP	-64,1%	90,0%	-22,3%	9,9%	8,3%
EPS	-64,1%	90,0%	-22,3%	9,9%	8,3%
Profitability					
Gross Profit Margin (%)	28,6%	30,4%	31,5%	32,0%	32,0%
Operating Margin(%)	8,1%	13,4%	7,9%	9,5%	9,5%
EBITDA margin(%)	17,8%	21,8%	21,6%	22,0%	22,4%
NET Profit margin(%)	5,8%	10,0%	5,9%	6,9%	6,9%
ROA(%)	3,3%	6,0%	3,0%	3,3%	3,4%
ROE(%)	5,7%	9,9%	7,4%	7,9%	8,4%
Stability					
Net debt/ equity (x)	0,3	0,3	0,9	0,7	0,8
Int. Coverage (x)	2,2	3,2	0,7	1,2	1,2
Current Ratio (X)	1,6	2,0	1,4	1,6	1,6
Per Share data (IDR)					
EPS	273	519	403	443	480
BV	4.809	5.259	5.442	5.603	5.726
SPS	4.689	5.174	6.806	6.388	6.921
EBITDA/share	837	1.128	1.469	1.404	1.551

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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