

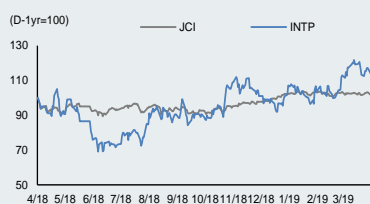
## Cement

Company Report  
April 23, 2019

(Maintain)	Hold
Target Price (12M, IDR)	19,500
Share Price (4/22/19, IDR)	21,250
Expected Return	-8.2%

Consensus OP (19F, IDRtr)	1.5
EPS Growth (19F, %)	48.8
P/E (19F, x)	45.9
Industry P/E (19F, x)	16.1
Benchmark P/E (19F, x)	15.4
Market Cap (IDRbn)	78,226.2
Shares Outstanding (mn)	3,681.2
Free Float (mn)	1,803.8
Institutional Ownership (%)	15.4
Beta (Adjusted, 24M)	1.5
52-Week Low (IDR)	12,500
52-Week High (IDR)	22,700

(%)	1M	6M	12M
Absolute	1.0	28.0	15.3
Relative	2.6	18.2	14.1



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### Basic Industry

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# Indocement Tunggul Prakarsa (INTP IJ)

## Recovery is on track

### Volume growth slows in 1Q19; better volume expected in 2H19

During the first three months of 2019, domestic cement consumption growth was notably flat. As the second largest cement producer in Indonesia, Indocement Tunggul Prakarsa (INTP) suffered a 1.2% YoY decline in domestic cement sales volume during the period: -2.8% YoY in January (to 1.5mn tonnes), +1.4% YoY in February (to 1.3mn tonnes), and -1.7% YoY in March (to 1.4mn tonnes). Cumulative 3M19 volume stood at 4.1mn tonnes. Growth was far behind that seen during the first three months of 2018 (+9.8% YoY). We attribute the sluggishness during 3M19 to heavy rain and slower progress on construction projects in the run-up to the April election. Going forward, we expect domestic cement consumption to remain soft in 2Q19 given the presidential election on April 17<sup>th</sup>, Ramadan in May, and Lebaran in June. That said, we look for a rebound in cement consumption in 2H19 and project INTP's domestic sales volume to grow roughly 5% in FY19.

### Java's slow cement consumption is a concern

As the majority of INTP's plants are located in West Java, the Java market is very important to the company (72.0% contribution to 3M19 domestic cement sales). Thus, it is concerning that Java's cement consumption fell 1.7% YoY during 3M19 (compared with +1.2% YoY for ex-Java). We believe Java growth was sluggish because many infrastructure projects there had already been completed, and investors appeared to adopt a wait-and-see stance during 1Q19 due to the presidential election in April. Worryingly, Jakarta continued to display weak cement consumption in 3M19 (-12.8% YoY to 1.1mn tonnes). Considering INTP's market share in Jakarta (40.9% in 3M19), the protracted weakness of Jakarta's cement consumption could have a negative impact on INTP's overall volume.

### ASP has remained stable since November

INTP's ASP was stable from November 2018 through March. Given the soft demand outlook in 1H19, we see limited prospects of ASP hikes in 1H19. That said, we estimate ASP in 1Q19 was likely higher vs. 1Q18 due to ASP increases carried out from June to December 2018. We also believe 1Q19 profit margin improved YoY and estimate net profit grew significantly on a YoY basis, despite decreasing QoQ.

### Maintain Hold with TP of IDR19,500

We maintain our Hold recommendation on INTP with a target price of IDR19,500. Despite sluggish volume during 1Q19, we look for a possible rebound in 2H19. ASP was stable during 1Q19, which is encouraging. Overall, we think the recovery is on track. That said, we believe INTP's relatively high valuation warrants caution. Our target price (IDR19,500) implies a 2019F P/E of 42.1x.

FY (Dec.)	12/16	12/17	12/18	12/19F	12/20F
Revenue (IDRbn)	15,362	14,431	15,190	16,854	19,269
Operating profit (IDRbn)	3,618	1,928	1,046	1,917	2,886
Net Profit (IDRbn)	3,870	1,860	1,146	1,705	2,511
EPS (IDR)	1,051	505	311	463	682
BPS (IDR)	7,101	6,671	6,308	6,662	7,182
P/E (x)	20.2	42.1	68.3	45.9	31.2
P/B (x)	3.0	3.2	3.4	3.2	3.0
EV/EBITDA (x)	15.0	23.9	31.7	22.0	15.8
ROE (%)	14.8%	7.6%	4.9%	7.0%	9.5%
ROA (%)	12.8%	6.4%	4.1%	5.9%	8.0%
Dividend Yield (%)	4.4%	3.3%	0.5%	0.8%	1.1%
Net gearing (x)	net cash	net cash	net cash	net cash	net cash

Note: Net profit refers to net profit attributable to controlling interests

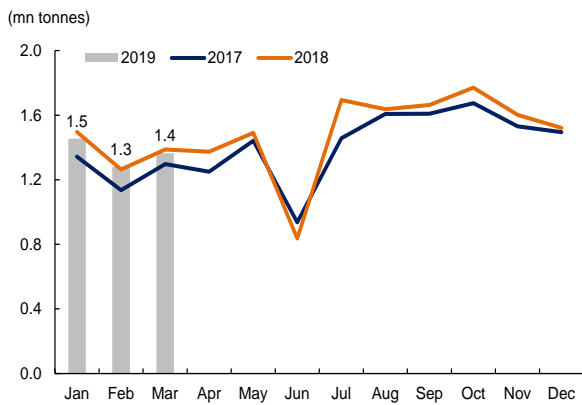
Source: Company data, Mirae Asset Sekuritas Indonesia Research

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**Volume growth slows in 1Q19; better volume expected in 2H19**

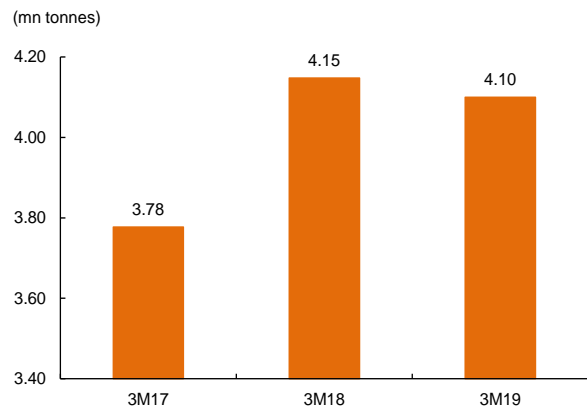
During the first three months of 2019, domestic cement consumption growth was notably flat. As the second largest cement producer in Indonesia, Indocement Tunggal Prakarsa (INTP) suffered a 1.2% YoY decline in domestic cement sales volume during the period: -2.8% YoY in January (to 1.5mn tonnes), +1.4% YoY in February (to 1.3mn tonnes), and -1.7% YoY in March (to 1.4mn tonnes). Cumulative 3M19 volume stood at 4.1mn tonnes. Growth was far behind that seen during the first three months of 2018 (+9.8% YoY). We attribute the sluggishness during 3M19 to heavy rain and slower progress on construction projects in the run-up to the April election.

**Figure 1. INTP's domestic cement sales volume**



Source: Company data, ASI, Mirae Asset Sekuritas Indonesia Research

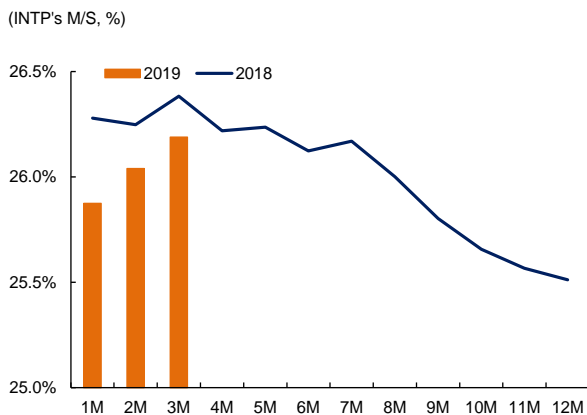
**Figure 2. INTP's historical 3M domestic cement sales volume**



Source: Company data, ASI, Mirae Asset Sekuritas Indonesia Research

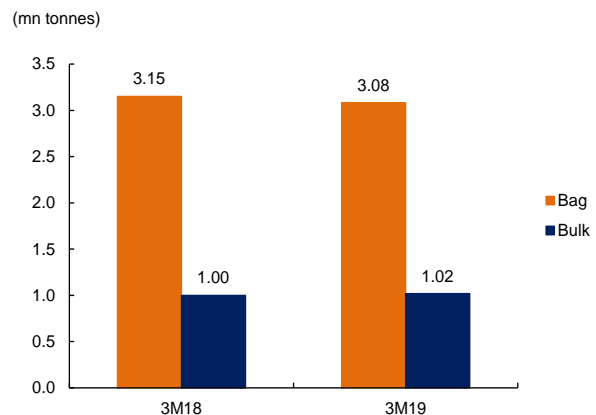
During 3M19, INTP's bag sales (75% of domestic volume) declined 2.2% YoY while bulk sales were up 2.0% YoY, indicating that property market progress remained slow during the period. INTP's market share slightly declined to 26.2% (vs. 26.4% in 1Q18). Going forward, we expect domestic cement consumption to remain soft in 2Q19 given the presidential election on April 17<sup>th</sup>, Ramadan (fasting month) in May, and Lebaran in June (lower productivity due to holiday season). That said, we look for a rebound in cement consumption in 2H19 and project INTP's domestic sales volume to grow roughly 5% in FY19.

**Figure 3. INTP's market share**



Source: Company data, ASI, Mirae Asset Sekuritas Indonesia Research

**Figure 4. INTP's bag vs. bulk**

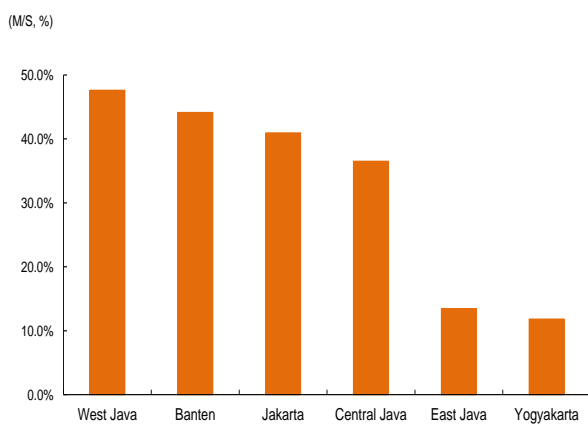


Source: Company data, ASI, Mirae Asset Sekuritas Indonesia Research

**Java's slow cement consumption is a concern**

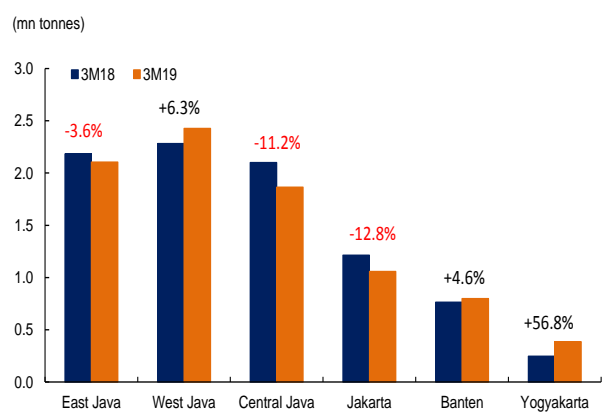
As the majority of INTP's plants are located in West Java, the Java market is very important to the company (market share of 34.2% in 3M19; Java accounted for 72.0% of INTP's domestic cement sales). Thus, it is concerning that Java's cement consumption fell 1.7% YoY during 3M19 (compared with +1.2% YoY for ex-Java). We believe Java growth was sluggish because many infrastructure projects there had already been completed, and investors appeared to adopt a wait-and-see stance during 1Q19 due to the presidential election in April. Worryingly, Jakarta continued to display weak cement consumption in 3M19 (-12.8% YoY to 1.1mn tonnes). INTP's market share in Jakarta stood at 40.9% in 3M19, and Jakarta accounted for 10.6% of its 3M19 domestic cement sales; thus, the protracted weakness of Jakarta's cement consumption could have a negative impact on INTP's overall volume. However, we expect Jakarta consumption to recover in the coming months, especially with the removal of uncertainties following the April election.

**Figure 5. INTP's market share by region (3M19)**



Source: Company data, ASI, Mirae Asset Sekuritas Indonesia Research

**Figure 6. Java's cement consumption (industry)**

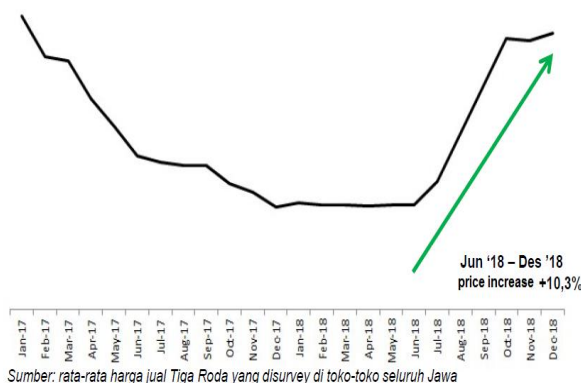


Source: Company data, ASI, Mirae Asset Sekuritas Indonesia Research

**ASP has remained stable since November**

INTP's ASP was stable from November 2018 through March. Given the soft demand outlook in 1H19, we see limited prospects of ASP hikes in 1H19. That said, we estimate ASP in 1Q19 was around 8-9% higher vs. 1Q18 due to ASP increases carried out from June to December 2018. Although 1Q19 profit margin might have contracted QoQ due to lower efficiency, we still expect YoY margin improvement. Thus, we believe 1Q19 net profit grew significantly YoY, despite declining QoQ. We estimate INTP's 1Q19 net profit at IDR400.8bn (achieving 23.5% of our FY18 net profit forecast).

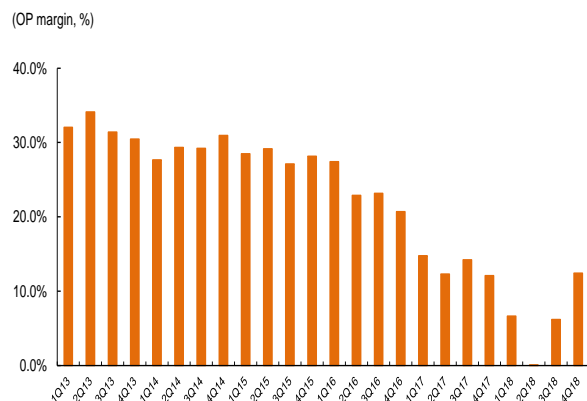
**Figure 7. INTP's ASP trend**



Sumber: rata-rata harga jual Tiga Roda yang disurvei di toko-toko seluruh Jawa

Source: Market survey, company data, Mirae Asset Sekuritas Indonesia Research

**Figure 8. INTP's operating profit margin**



Source: Company data, Mirae Asset Sekuritas Indonesia Research

**Maintain Hold with TP of IDR19,500**

We maintain our Hold recommendation on INTP with a target price of IDR19,500. Despite sluggish volume during 1Q19, we look for a possible rebound in 2H19. ASP was stable during 1Q19, which is encouraging. We estimate 1Q19 profit margin improved significantly (vs. 1Q18) due to ASP hikes during June-December 2018. Overall, we think the recovery is on track. The cement industry still faces oversupply and relatively slow demand growth. However, we believe the worst is already behind us. That said, we believe INTP's relatively high valuation warrants caution. Our target price (IDR19,500) implies a 2019F P/E of 42.1x.

Upside risks to our call include better-than-expected ASP and property market recoveries, more industry consolidation, and weaker-than-expected coal prices. Downside risks to our call include lower-than-expected demand growth and higher-than-expected coal prices.

## Indocement Tunggal Prakarsa (INTP/Hold/TP IDR19,500)

**Income Statement (Summarized)**

(IDRbn)	12/17	12/18	12/19F	12/20F
Revenue	14,431	15,190	16,854	19,269
Cost of Goods Sold	9,423	10,821	11,539	12,541
Gross Profit	5,008	4,369	5,316	6,728
Operating Expenses	3,080	3,323	3,398	3,842
Operating Profit	1,928	1,046	1,917	2,886
Pretax Profit	2,287	1,400	2,215	3,260
Income Tax	-427	-254	-509	-750
Non-Controlling Interest	0	0	0	0
Net Profit	1,860	1,146	1,705	2,511

**Profitability ratio**

Gross Profit Margin	34.7%	28.8%	31.5%	34.9%
Operating Profit Margin	13.4%	6.9%	11.4%	15.0%
Net Profit Margin	12.9%	7.5%	10.1%	13.0%
Return on Equity	7.6%	4.9%	7.0%	9.5%
Return on Asset	6.4%	4.1%	5.9%	8.0%

**Cash Flow (Summarized)**

(IDRbn)	12/17	12/18	12/19F	12/20F
<b>Operating Cash Flow</b>				
Net income	1,860	1,146	1,705	2,511
Depreciation	1,054	1,166	1,309	1,465
Changes in operating accounts				
Δ in trade receivables	-121	481	36	430
Δ in inventories	-12	69	375	192
Δ in others CA	-30	-48	31	45
Δ in trade payable	30	211	105	162
Δ in accrued expense	96	59	28	29
Δ in others CL	147	153	-324	115
<b>CFO</b>	3,367	2,257	2,327	3,622
<b>Investing Cash Flow</b>				
Δ in PPE	1,390	824	1,227	1,200
Others	-81	-166	-634	29
<b>CFI</b>	-1,309	-659	-593	-1,229
<b>Financing Cash Flow</b>				
Δ in other liability	4	-187	196	119
Δ in equity	3,442	2,481	401	597
Δ in minority interest	0	0	0	0
<b>CFF</b>	-3,438	-2,668	-206	-478
Net cash	-1,379	-1,069	1,529	1,915
beginning balance	9,674	8,295	7,226	8,754
<b>ending balance</b>	8,295	7,226	8,754	10,670

Source: Company, Mirae Asset Sekuritas Indonesia Research estimates

**Statement of Financial Condition (Summarized)**

(IDRbn)	12/17	12/18	12/19F	12/20F
Cash	8,295	7,226	8,754	10,670
Trade Receivables	2,485	2,966	3,001	3,431
Inventories	1,769	1,838	2,213	2,405
Other CA	335	286	317	363
PPE	14,979	14,637	14,556	14,290
Other Non-CA	1,001	836	202	231
<b>Total Assets</b>	28,864	27,789	29,044	31,390
Trade Payables	1,549	1,760	1,865	2,027
ST loans + CPLTD	88	111	57	65
Total CL	3,479	3,926	3,681	3,995
Long-term debt	20	5	5	5
<b>Total Liabilities</b>	4,307	4,567	4,518	4,951
Common Stock	1,841	1,841	1,841	1,841
Paid in Capital	2,699	2,699	2,699	2,699
Retained Earnings	20,323	18,892	20,197	22,110
Non-Controlling interest	0	0	0	0
<b>Equity (ex minority)</b>	24,557	23,222	24,526	26,440

**Forecasts/ Valuations (Summarized)**

	12/17	12/18	12/19F	12/20F
P/E (x)	42.1	68.3	45.9	31.2
P/B (x)	3.2	3.4	3.2	3.0
EV/EBITDA (x)	23.9	31.7	22.0	15.8
EPS (IDR)	505	311	463	682
BPS (IDR)	6,671	6,308	6,662	7,182
DPS (IDR)	700	109	162	239
Payout ratio (%)	139%	35%	35%	35%
Dividend Yield (%)	3.3%	0.5%	0.8%	1.1%
Revenue growth (%)	-6.1%	5.3%	11.0%	14.3%
GP growth (%)	-20.9%	-12.8%	21.7%	26.6%
OP growth (%)	-46.7%	-45.7%	83.2%	50.5%
EBITDA growth (%)	-35.9%	-23.5%	41.2%	35.3%
NP growth (%)	-51.9%	-38.4%	48.8%	47.2%
AR turnover (x)	6	6	6	6
Invt. turnover (x)	5	6	5	5
AP turnover (x)	6	7	6	6
ROA (%)	6.4%	4.1%	5.9%	8.0%
ROE (%)	7.6%	4.9%	7.0%	9.5%
<b>Gearing</b>				
Total debt (IDRbn)	108	116	62	70
Debt/equity (%)	0.4%	0.5%	0.3%	0.3%
Net cash (IDRbn)	8,187	7,110	8,692	10,599
<b>Net debt/equity (%)</b>	net cash	net cash	net cash	net cash

## APPENDIX 1

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Sell	Relative performance of -10%		

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