

Holcim Cement

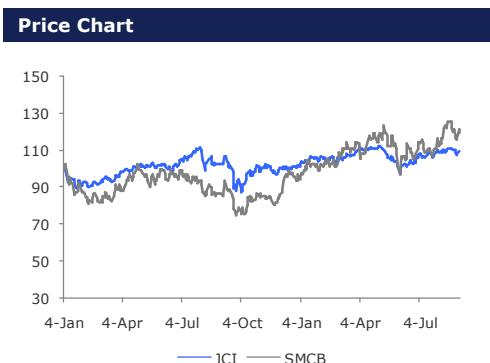
Company Update

Silver lining from the new plant

- 2Q12: Gross profit margin declined to 32%.
- However, balance sheet improved with some debt repayments.
- Revised down EPS forecast by 15% for FY12F and 6% for FY13-14F
- Downgraded to HOLD, lower TP to Rp2,800 at 14.5x FY13F PER.

SMCB	HOLD
Target Price	(Downgraded from BUY) Rp 2,800
Current Price	(Previously Rp 3,000) Rp 2,675
Upside (downside)	5% 5%

Share Performance	3 M	6 M	12 M
Absolute (%)	23.0	9.2	37.9
Relative to JCI (%)	10.7	6.7	31.0
52-WK range (Rp)	1,650 – 2,850		



Source: Bloomberg

Share Data	
Out' shares (m)	7,663
Market Cap (US\$ m)	2,137.9
6 M avg.daily (US\$)	1,489,485

Shareholder information	
Holderfin BV Netherlands	80.6%
Free float	19.4%

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Unencouraging 2Q12 results. SMCB's latest results are disappointing with gross profit margin declined to 32.8% in 1H12 and 32.1% in 2Q12. Although this was similar to the industry, SMCB posted higher decline in gross profit margin. We think SMCB's strategy to import clinker produced by Holcim Malaysia (HMSB) and sell it in the domestic market pressurized the margin. The import volume was almost double in 1H12 vs FY11 as SMCB runs at around 105% capacity utilization. However, we expect margin pressure to ease with the completion of Tuban plant next year (production capacity: 1.7m tons p.a.).

Higher financial flexibility. SMCB's net gearing was relatively low at 7.4% in Jun12, following the repayment of some bank loans including the one to its parent company. We think SMCB has higher financial flexibility going forward to finance expansion of production capacity so that the company can maintain market share of 15-16%. The company has not made any statement regarding further expansion and we could not contact the company to get more detail plans.

Revised down forecast. Following SMCB's 1H12 results, we revised our forecast by raising cement sales volume and production costs as well as lowering distribution expenses. We think our previous gross margin estimate of 40% and 39% for FY12F and FY13F were too high and we lowered them to 35% for FY12F and FY13F. However we believe that SMCB should be able to improve its efficiency once the new plant (20% additional new capacities) is in operation next year. As a result, we lower EPS estimate by 15% for FY12F and 8% for FY13.

Downgraded to HOLD, lowered TP to Rp2,800. We downgraded our recommendation to HOLD as we lowered our valuation to Rp2,800, implying 14.5x FY13F PER. We think, SMCB has already faced capacity constraints as domestic sales volume grew faster (+14% yoy in 7M12) than our estimate (previously 12% yoy for FY12F) such that SMCB had to import clinker from its Malaysian subsidiary. However, we believe efficiency will improve once the new plant is in operation next year. Re-entry price is Rp2,400.

Key Financial	2010	2011	2012F	2013F	2014F
Sales	5,961	7,524	8,935	10,248	11,354
EBITDA	1,451	2,261	2,428	3,007	3,456
Net Profit	828	1,063	1,119	1,471	1,893
EPS	108	139	146	192	247
Dividend Yield	-	1.7	1.0	1.1	1.4
EBIT Margin	22	23	20	21	23
EV/EBITDA	15	9	9	7	5
P/E	24.7	19.3	18.3	13.9	10.8
P/B	3.0	2.7	2.4	2.1	1.8

Source: The company, IndoPremier

Company Update

1H12 Results

	1H011	1H12	yoY	1Q12	2Q12	qoq
Sales volume (mn ton)	3,682.2	4,094.8	11.2%	2,048.81	2,045.98	-0.1%
Revenue (Rp bn)	3,540	4,191	18.4%	2,012	2,179	8.3%
Gross profit (Rp bn)	1,246	1,375	10.4%	674	701	3.9%
Operating profit (Rp bn)	725	811	11.8%	406	405	-0.4%
Net profit (Rp bn)	457	504	10.4%	249	255	2.3%
ASP/ton	806.39	884.90	9.7%	981.87	1,065.00	8.5%
Cost/ton	623.02	687.68	10.4%	652.78	722.62	10.7%
Gross margin	35.2%	32.8%		33.5%	32.1%	
Operating margin	20.5%	19.4%		20.2%	18.6%	
Net margin	12.9%	12.0%		12.4%	11.7%	

Source: SMCB, IndoPremier

Forecast Revision

Rp bn	FY12F			FY13F			FY14F		
	New	Old	%	New	Old	%	New	Old	%
Market share	15.5	15.7	(1.3)	15.5	16	(3.1)	15.5	16	(3.1)
Cement Sales Volume	8,905	8863.245	0.5	9,752	9884.434	(1.3)	10,405	10546.59	(1.3)
Revenue	8,935	8,818	1.3	10,248	10,247	0.0	11,354	11,353	0.0
COGS	(5,849)	(5,329)	9.8	(6,632)	(6,228)	6.5	(7,154)	(6,773)	5.6
Gross Profit	3,086	3,488	(11.5)	3,616	4,019	(10.0)	4,199	4,581	(8.3)
Operating expenses	(1,281)	(1,292)	(0.9)	(1,423)	(1,469)	(3.2)	(1,559)	(1,610)	(3.2)
Operating profit	1,805	2,196	(17.8)	2,193	2,550	(14.0)	2,641	2,970	(11.1)
EBITDA	2,428	2,819	(13.9)	3,007	3,364	(10.6)	3,456	3,786	(8.7)
EBT	1,600	1,889	(15.3)	2,102	2,288	(8.1)	2,705	2,968	(8.9)
Net income	1,119	1,322	(15.3)	1,471	1,601	(8.1)	1,893	2,077	(8.9)
EPS	146	173	(15.3)	192	209	(8.1)	247	271	(8.9)
Gross Profit Margin	34.5	39.6		35.3	39.2		37.0	40.3	
Op. Profit Margin	20.2	24.9		21.4	24.9		23.3	26.2	
Net Profit Margin	12.5	15.0		14.4	15.6		16.7	18.3	

Source: IndoPremier

Company Update

DCF Valuation		13F	14F	15F	16F	17F	18F
EBITA	Rp bn	2,193	2,734	3,062	3,337	3,866	3,837
Tax	Rp bn	(548)	(683)	(765)	(834)	(966)	(959)
Changes in deferred taxes	Rp bn						
NOPLAT	Rp bn	1,645	2,050	2,296	2,503	2,899	2,878
Depreciation	Rp bn	814	816	826	1,058	1,073	1,089
Changes in working capital	Rp bn	(60)	(9)	(0)	(45)	7	45
Changes in other, net	Rp bn	11	10	10	9	9	8
Capex	Rp bn	(827)	(1,031)	(2,204)	(1,746)	(993)	(1,022)
FCFF	Rp bn	1,583	1,836	927	1,780	2,995	2,999
Discount factor		1.14	1.29	1.47	1.67	1.90	2.15
Total PV	Rp bn	20,239					
Debt	Rp bn	1,072					
Equity value	Rp bn	21,311					
# Shares		7,663					
Fair value	Rp	2,781	(Rounded to Rp2,800)				
Implied PER x 13		14.5					
Valuation Assumptions							
Adj Beta		1.1					
Rf		6.5%					
Risk premium		8.0%					
Ke		15.3%					
Kd		10.0%					
WACC		13.6%					
Terminal growth		3.0%					

Source: IndoPremier

Company Update

Financials Summary

Profit & Loss										Balance Sheet				
Year to 31 Dec (RpB)	2011A	2012F	2013F	2014F	Year to 31 Dec (RpB)	2011A	2012F	2013F	2014F					
Net turnover	7,524	8,935	10,248	11,354	Fixed assets	8,238	9,702	9,715	9,931					
EBITDA	2,261	2,428	3,007	3,456	Other LT assets	244	233	222	211					
Deprec. & amort.	(560)	(623)	(814)	(816)	Cash/ST invesment	1,127	2,572	1,809	1,698					
EBIT	1,701	1,805	2,193	2,641	Other current assets	1,341	1,579	1,845	1,996					
Total other non-operating income	-21	17	22	29	Total assets	10,951	14,085	13,592	13,837					
Associate contributions	0	0	0	0	ST debt	341	2,000	1,500	0					
Net interest income/(expense)	(147)	(223)	(114)	35	Other current liabilities	1,343	1,641	1,849	1,996					
Pre-tax profit	1,533	1,600	2,102	2,705	LT debt	1,176	1,447	0	0					
Tax	(470)	(480)	(630)	(811)	Other LT liabilities	564	564	564	564					
Minorities	(0)	(0)	(1)	(1)	Shareholders' equity	7,524	8,431	9,678	11,276					
Net profit	1,063	1,119	1,471	1,893	Minority interest	2	2	2	1					
Net profit (adj.)	1,090	1,123	1,471	1,893	Total liabilities & equity	10,950	14,085	13,592	13,837					
Cash Flow										Key Metrics				
Year to 31 Dec (RpB)	2011A	2012F	2013F	2014F	Year to 31 Dec (%)	2011A	2012F	2013F	2014F					
Operating	1,903	1,824	2,224	2,704	Profitability									
Pre-tax profit	1,533	1,600	2,102	2,705	EBITDA margin	30.1%	27.2%	29.3%	30.4%					
Tax	(470)	(480)	(630)	(811)	Pre-tax margin	20.4%	17.9%	20.5%	23.8%					
Deprec. & Amort.	560	623	814	816	Net margin	14.1%	12.5%	14.4%	16.7%					
Working capital changes	270	61	(60)	(4)	ROA	9.7%	7.9%	10.8%	13.7%					
Other operating cashflows	8	21	(1)	(1)	ROE	14.1%	13.3%	15.2%	16.8%					
Investing	(867)	(2,075)	(816)	(1,021)										
Capex	(905)	(2,087)	(827)	(1,031)	Growth									
Others	38	11	11	10	Turnover	26.2%	18.8%	14.7%	10.8%					
Financing	(978)	1,695	(2,171)	(1,794)	EBITDA	55.8%	7.4%	23.9%	14.9%					
Dividend payments	(352)	(213)	(224)	(294)	Pre-tax profit	33.6%	4.3%	31.4%	28.7%					
Others/interest paid	(626)	1,908	(1,947)	(1,500)	Net profit	28.3%	5.3%	31.4%	28.7%					
Net cash inflow (outflow)	57	1,444	(762)	(111)	Net profit (adj.)	28.3%	5.3%	31.4%	28.7%					
Beginning cash & cash equivalent	1,071	1,127	2,572	1,809	EPS	28.3%	5.3%	31.4%	28.7%					
Ending cash & cash equivalent	1,128	2,572	1,809	1,698										
Leverage														
										Debt to total capital	19.2%	40.9%	15.5%	0.0%
										Debt to equity	19.2%	40.9%	15.5%	0.0%
										Net debt/(cash) to equity	5.2%	10.4%	-3.2%	-15.1%
										Interest cover (x)	15	11	26	(100)

Source: Company

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INVESTMENT RATINGS

Buy : Expected total return of 10% or more within a 12-month period
 Hold: Expected total return between -10% and 10% within a 12-month period
 Sell : Expected total return of -10% or worse within a 12-month period

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