INDOPREMIER

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Premier Insight

22 March 2017

Indocement (INTP IJ; Hold)

Defending market share

- **Still bearish on cement**
- **P14 contribute higher efficiency**
- **Consolidation might be possible**
- **Maintain Hold, TP Rp16,450**

No reason to be more optimistic. We expect flattish volume for cement demand based on the fact the within the first three months demand from property remains weak. We think that marketing sales from the property company should be the leading indicator. Meanwhile, infrastructure spending will remain but not sufficient to trigger growth momentum. Indocement is slight more optimistic seeing the market to grow by 3-5%. We think that Indocement should be able to maintain its market share at 26%, due to limited room for more aggressive pricing from new comers. Moreover, cost pressure from increasing coal cost is expected to reduce EBITDA margin to 27.2% in FY17 from 30.1% in FY16.

Optimizing cost mix. Indocement has started to fire up P14 since Oct16. This plant has a capacity of 4.4mn tons and equipped with state of the art equipment to lower production cost by US$7-8 per tons. By optimizing this plant together with the other 13 line of production to produce different types of cement, Indocement is expected to create most efficient cost mix compared to the competition. Export is also expects to expand to 500k tons in FY17 to support higher utilization rate. By being a low cost cement producer, Indocement has raised its survival rate against competition. Not to mentioned that it has a very strong balance sheet with positive net cash.

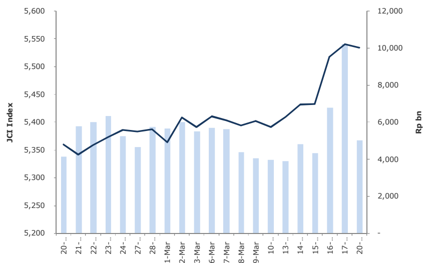
Is consolidation happening? We think that consolidation among the new cement player is possible unless the founding shareholders are willing to inject fresh capital. Based on our estimates, under current cement selling price new comers are hardly making money to serve interest. Therefore, new comers will barely meet financial obligations not including installments. This will force founding shareholders to inject fresh funds to put the company for sale. We know that almost every new comer has strong shareholders, which might lead to prolonged consolidation.

Maintained Hold. We are not upbeat on the cement industry due to lack of support from the property sector. Demand from infrastructure is not enough to create significant growth. Nevertheless, we are confident that Indocement has the capacity to survive competitive pressure. Its strong balance sheet will allow any strategic moves if necessary. We maintain our Hold call on the counter with target price Rp16,450.

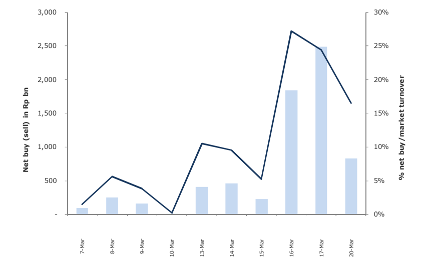
Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (RpBn)	17,798	15,362	15,841	17,426	20,037
EBITDA (RpBn)	5,942	4,743	4,305	4,454	5,100
EBITDA Growth (%)	(10.1)	(20.2)	(9.2)	3.5	14.5
Net Profit (RpBn)	4,357	3,870	2,707	2,775	3,193
EPS (Rp)	1,183	1,051	735	754	867
EPS Growth (%)	(17.3)	(11.2)	(30.1)	2.5	15.1
Net Gearing (%)	(35.8)	(36.4)	(32.5)	(30.6)	(22.7)
PER (x)	13.4	15.1	21.6	21.1	18.3
PBV (x)	2.5	2.2	2.1	2.0	1.9
Dividend Yield (%)	3.7	3.3	2.3	2.4	2.7
EV/EBITDA (x)	8.5	10.2	11.5	11.2	10.1

Source: INTP, IndoPremier *Share Price Closing as of : 20 March 2017*

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,543	0.2%	14.1%	4.7%
LQ45	922	0.1%	9.1%	4.3%
DJI	20,668	-1.1%	17.5%	4.6%
SET	1,569	0.3%	12.3%	1.7%
HSI	24,593	0.4%	19.0%	11.8%
NKY	19,456	-0.3%	14.1%	0.1%
FTSE	7,378	-0.7%	19.1%	3.3%
FSSTI	3,159	-0.2%	9.6%	8.6%
EIDO	25	-1.2%	7.7%	5.3%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	47.3	-1.8%	18.6%
CPO/tonne	634.0	1.0%	4.6%
Soy/bushel	9.8	0.2%	9.8%
Rubber/kg	2.5	-0.9%	60.6%
Nickel/tonne	10,097	-0.1%	15.7%
Tins/tonne	20,495	0.0%	20.6%
Copper/tonne	5,748	-1.8%	12.9%
Gold/try.oz (Spot)	1,245	0.8%	-0.3%
Coal/tonne	80.6	-0.4%	54.9%
Corn/bushel	3.4	-0.7%	-5.2%
Wheat/bushel*	137.1	11.6%	-16.7%

** : 1 month change*

Source : Bloomberg

Refer to Important disclosures in the last page of this report

News & Analysis

Corporates

TPIA: We visited Chandra Asri Petrochemical (TPIA IJ; Rp23,750; Not Rated) and met with the management on the analyst meeting yesterday. TPIA recorded earnings of US$300mn in FY16, jumped over 11x yoy. Net profit jumped on the back of revenue growth and margin expansion. Revenues reached US$1.9bn in FY16, up 40% yoy due to factory's lower operational days as the five-year routine shut down for maintenance in 2015 came longer than expected (85 days actual shutdown vs. scheduled shutdown of 45 days). Margin increased as the spread between material cost (Naphtha and LPG) and ASP of TPIA's main products (Ethylene and Propylene) expanded. (Company)

Comment: We note that TPIA's margins tend to be volatile as the spread between material costs and ASP is volatile, resulting in high earnings volatility. TPIA's share price increased 569% in the past one year. Currently, the counter is traded at trailing P/E16 of 19.6x, below its 7-year average trailing P/E ratio of 32x. However, we view that the FY16 good results have been fully priced in while earnings volatility risks remain high.

TOTL: Total Bangun Persada (TOTL IJ; Rp800; Not Rated) booked FY16 net profit at Rp223bn (+17% yoy, +41% qoq) in line with consensus, but revenue 3% below consensus expectation of Rp2.45tn. Net margin expanded to 9.4% from 8.4% FY15 supported by better gross and operating margin of 20% and 12% (vs 18% and 10% in FY15). (Investor Daily)

Markets & Sector

Utilities sector: The Government intended to regulate the gas distribution margin with a upper cap of 7% from gas purchase price. According to the Ministry of Energy and Mineral Resources, average gas cost is about US$6/MMBTU while selling price at the consumer level hits US$14/MMBTU. Under the new proposed regulation, gas distributors are only allowed to charge transmission fee and 7% distribution margin. However, gas distributors requested a margin of 10% which should be sufficient to cover investment cost. Other countries such as Malaysia and Thailand charge distribution and toll fee of US$2.0-2.1 per MMBTU. (Kontan)

Comment: This could be negative for PGN if the Government implements this regulation, as PGN's distribution fee in total is US$3.2 per MMBTU. However, the Government had not specified about the toll fee. Looking at PGN's toll fee, it is not higher than US$1.0 per MMBTU. This leaves a potential decline on margin for PGN if implemented.

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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

ANALYSTS CERTIFICATION.

The views expressed in this research report accurately reflect the analyst;s personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.