

## Indocement (INTP IJ)

21 March 2017

## Company Update

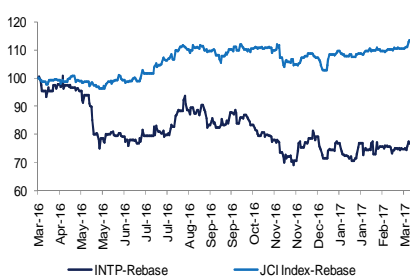
**HOLD** (Unchanged)

## StockData

Target price (Rp)	Rp16,450
Prior TP (Rp)	16,450
Shareprice (Rp)	Rp15,900
Upside/downside (%)	+3.5
Sharesoutstanding (m)	3,681
Marketcap. (US\$ m)	4,396
Free float (%)	36.0
Avg. 6m dailyT/O (US\$ m)	1.6

## Price Performance

	3M	6M	12M
Absolute (%)	6.0	-12.4	-19.3
Relative to JCI (%)	-3.7	-15.1	-33.9
52whigh/low (Rp)	20,800 - 14,300		



## Major Shareholders

Birchwood Omnia Ltd.	51.0%
Mekar Perkasa	13.0%

## Estimate Change; Vs. Consensus

	2017F	2018F
Latest EPS (Rp)	735	754
Vs. Prior EPS (%)	+2.4	+2.5
Vs. Consensus (%)	(25.2)	(27.9)

Source: Bloomberg

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## 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.

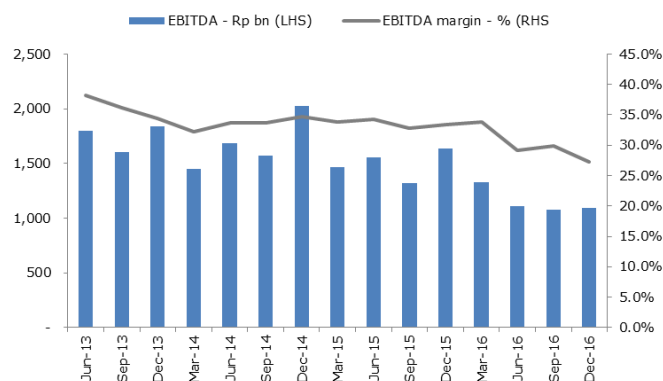
Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (RpBn)	17,798	15,362	15,841	17,426	20,037
EBITDA (RpBn)	5,942	4,743	4,305	4,454	5,100
EBITDA Growth (%)	(10.1)	(20.2)	(9.2)	3.5	14.5
Net Profit (RpBn)	4,357	3,870	2,707	2,775	3,193
EPS (Rp)	1,183	1,051	735	754	867
EPS Growth (%)	(17.3)	(11.2)	(30.1)	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

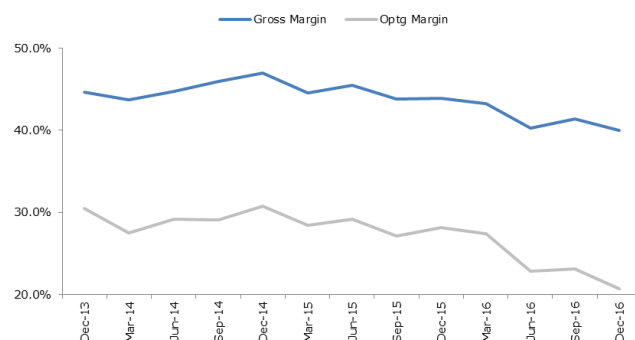
# INTP Company Update

**Fig. 1: Quarterly EBITDA and EBITDA margin**



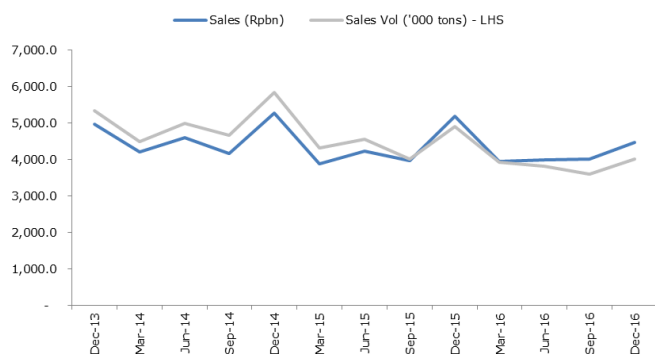
Source: INTP

**Fig. 2: Declining gross and operating margin from competition**



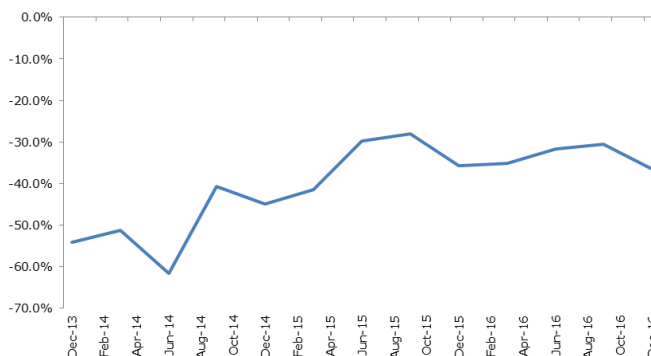
Source: INTP

**Fig. 3: Stagnant sales and volume**



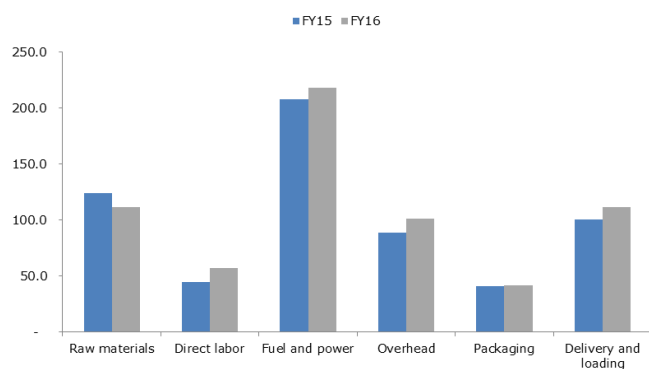
Source: INTP

**Fig. 4: Net gearing in net cash**



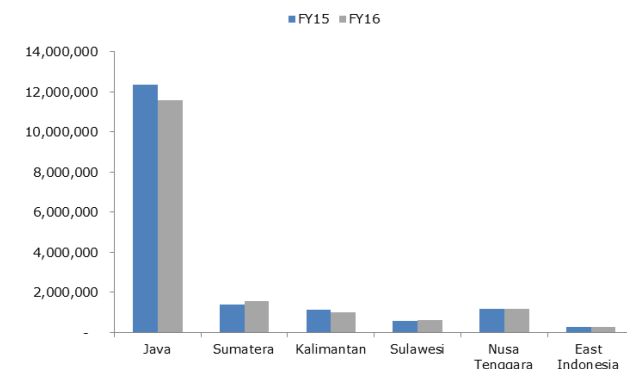
Source: INTP

**Fig. 5: COGS breakdown per tons (Rp '000 per tons)**



Source: INTP

**Fig. 6: INTP sales volume by region (tons)**



Source: INTP

### What is the possibility of consolidation?

There are two important aspect of generating cash flow: 1) to generate enough money to sustain operation or in other words enough EBITDA to cover cash cost 2) sufficient surplus after operation to service financial obligation, if any. We suspect that new cement players used leverage to build new factories. We assume that new comers' investment cost is about US\$200 per tons (greenfield), capital structure of 70:30 (debt to equity), and EBITDA margin of 25%. Meanwhile incumbents are no new investment, debt free and enjoy higher EBITDA margin of 30% due to better economies of scale in operation and procurement. Current cement price is about US\$61 per tons, which based on Indocement's ASP in FY16. We know that new comers undercut prices by 10% which leads to an ASP of US\$55 per tons. With the above assumption new comers are generating EBITDA of US\$13.7 per tons. If we assume that interest cost for new comers is 12%, interest cost could reach US\$16.8 per tons invested. Therefore the EBITDA generate will not be enough to cover interest cost, not to mentioned installment. We concluded that this scenario will not be sustainable unless shareholders inject fresh capital or sell the company. We know that some shareholders are very strong such as An Hui Conch, SCG of Thailand, Salim Group and Artha Graha Group. It remains a question of willingness to pay to stay in this industry of these shareholders. We do not see that consolidation will be imminent. We have not included maintenance capex of US\$2-3 per tons since the factories are new and require minimal maintenance. Incumbents will probably spent maintenance capex of such number, but still will be cash positive.

**Fig. 7: illustration of possible cash flow of INTP vs new comers**

Exchange rate	13,300		
US\$			
Investment cost per ton (US\$)	200		
Debt (US\$)	70%	140	
	<b>INTP</b>	<b>New comers</b>	<b>Note</b>
ASP, US\$ per tons	61	55	(10% lower)
EBITDA margin	30%	25%	5% lower of difference economies of scale)
EBITDA, US\$ per tons	18.3	13.7	
Interest cost, US\$ per tons investment	-	-16.8	
Cash flow	18.3	-3.1	

Source: IndoPremier

## INTP Company Update

Year To 31 Dec (RpBn)	2015A	2016A	2017F	2018F	2019F
<b>Income Statement</b>					
Net Revenue	17,798	15,362	15,841	17,426	20,037
Cost of Sales	(9,889)	(9,030)	(9,778)	(10,982)	(12,635)
Gross Profit	7,909	6,331	6,063	6,444	7,401
SG&A Expenses	(2,880)	(2,714)	(2,924)	(3,196)	(3,549)
Operating Profit	5,029	3,618	3,139	3,248	3,853
Net Interest	563	485	455	438	391
Forex Gain (Loss)	0	0	0	0	0
Others-Net	53	44	17	17	17
Pre-Tax Income	5,645	4,146	3,612	3,702	4,261
Income Tax	(1,288)	(276)	(903)	(926)	(1,065)
Minorities	0	0	(2)	(2)	(2)
Net Income	4,357	3,870	2,707	2,775	3,193
<b>Balance Sheet</b>					
Cash & Equivalent	8,656	9,674	9,000	8,900	7,000
Receivable	2,535	2,605	2,362	2,598	2,988
Inventory	1,521	1,780	1,576	1,770	2,036
Other Current Assets	422	365	1,187	1,049	948
Total Current Assets	13,134	14,425	14,125	14,317	12,972
Fixed Assets - Net	13,814	16,035	15,678	17,230	20,692
Goodwill	71	112	101	91	82
Non Current Assets	478	553	537	537	537
Total Assets	27,638	31,542	30,892	32,665	34,815
ST Loans	0	0	0	0	0
Payable	1,103	1,519	0	1,289	1,483
Other Payables	1,524	1,599	1,400	1,548	1,775
Current Portion of LT Loans	60	70	70	70	70
Total Current Liab.	2,688	3,188	2,618	2,907	3,328
Long Term Loans	61	102	0	0	0
Other LT Liab.	1,024	722	782	878	1,010
Total Liabilities	3,772	4,012	3,400	3,786	4,339
Equity	4,325	4,255	4,255	4,255	4,255
Retained Earnings	19,541	21,883	23,237	24,624	26,221
Minority Interest	0	0	0	0	0
Total SHE + Minority Int.	23,866	26,139	27,492	28,879	30,476
Total Liabilities & Equity	27,638	30,151	30,892	32,665	34,815

Source: INTP, IndoPremier

## INTP Company Update

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
<b>Cash Flow</b>					
Net Income (Excl.Extraordinary&Min.Int)	4,357	3,870	2,709	2,777	3,195
Depr. & Amortization	851	1,187	1,166	1,207	1,247
Changes in Working Capital	(510)	304	(499)	(245)	(382)
Others	(917)	(493)	(56)	(1,306)	(154)
Cash Flow From Operating	3,781	4,868	3,320	2,432	3,906
Capital Expenditure	(2,555)	(3,524)	(782)	(2,749)	(4,700)
Others	595	504	453	435	388
Cash Flow From Investing	(1,960)	(3,020)	(329)	(2,314)	(4,312)
Loans	(4)	51	(102)	0	0
Equity	0	0	0	0	0
Dividends	(4,970)	(1,935)	(1,353)	(1,387)	(1,597)
Others	(66)	(383)	60	96	132
Cash Flow From Financing	(5,040)	(2,267)	(1,396)	(1,291)	(1,464)
Changes in Cash	(3,219)	(419)	1,595	(1,173)	(1,870)
<b>Financial Ratios</b>					
Gross Margin (%)	44.4	41.2	38.3	37.0	36.9
Operating Margin (%)	28.3	23.5	19.8	18.6	19.2
Pre-Tax Margin (%)	31.7	27.0	22.8	21.2	21.3
Net Margin (%)	24.5	25.2	17.1	15.9	15.9
ROA (%)	15.4	13.1	8.7	8.7	9.5
ROE (%)	17.9	15.5	10.1	9.8	10.8
ROIC (%)	20.2	17.4	11.7	11.4	12.0
Acct. Receivables TO (days)	52.8	59.9	55.6	50.4	49.3
Acct. Receivables - Other TO (days)	0.6	1.1	1.6	1.6	1.5
Inventory TO (days)	6.2	5.5	5.8	6.6	6.6
Payable TO (days)	42.0	53.0	49.8	40.5	40.0
Acct. Payables - Other TO (days)	19.2	22.0	19.8	17.4	17.2
Debt to Equity (%)	0.5	0.7	0.3	0.2	0.2
Interest Coverage Ratio (x)	0.0	0.0	0.0	0.0	0.0
Net Gearing (%)	(35.8)	(36.4)	(32.5)	(30.6)	(22.7)

Source: INTP, IndoPremier

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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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