INDOPREMIER

2 April 2014

EQUITY RESEARCH

Semen Baturaja

Initiating Coverage

Caught between a rock and a hard place

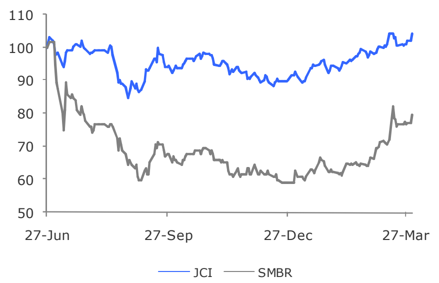
- Plans to add 3.7 mtpa new capacity may not be supported by sales
- Tough competition in SMBR's main markets has eroded market share
- Low capacity utilizations owing to slow sales put pressure on pricing
- Heavy capital investments and negative cash flows suppress our valuation
- We initiate coverage with a SELL rating and a DCF-based TP of Rp351/share

SMBR IJ	SELL
Target Price	**Rp 351**
Current Price	Rp 445
Upside (Downside)	-21%

Share Performance

	3 M	6 M	12 M
Absolute (%)	30.3	14.7	-
Relative to JCI (%)	18.4	7.9	-
52-WK range (Rp)	325 - 700		

Price Chart



Source: Bloomberg

Share Data

Out' shares (m)	9,838
Market Cap (US$ m)	371.7
6 M avg.daily (US$)	266,343

Shareholder information

Government of Indonesia	76.2%
Free float	23.8%

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We are bearish on Semen Baturaja (SMBR) as we believe the company's plans to double/triple capacity in the next 3-5 years to not be supported by strong sales growth due to weak brand equity. Rising competition in the South Sumatera province from the "Big Three" has steadily eroded SMBR's market share since 2006. Excessive capex and negative FCF in the long-run suppress the stock's valuation. Initiate SELL on SMBR with DCF-based TP of Rp351/share, implying target FY14E P/E of 8.1x.

New capacity may not translate into sales. We are concerned with SMBR's plans to open two new cement plants with capacity of 1.85 mtpa each, which will double its existing capacity byFY16E and triple it by FY18/19E. The company has not shown ability to defend its market share in the past seven years in the face of escalating competition. If the two new plants proceed as planned, we forecast SMBR's capacity to grow at 21.0% CAGR in FY13-20E, well outpacing our sales volume growth assumption of 12.2% CAGR.

Rising competition in home market. SMBR's highly localized market in South Sumatera has been raided by the "Big Three," particularly by Holcim Indonesia (SMCB IJ; BUY) whom managed to expand its sales by 35.0% CAGR in FY05-FY13 (vs. 6.8% for SMBR). Similarly, in the Lampung province, SMBR's sales growth of 6.8% CAGR has been surpassed by SMCB's 18.4% during the same period. Although we expect SMBR will compete by lowering its selling price, we believe the "Big Three" will have the flexibility to match SMBR's pricing in these markets while setting prices higher elsewhere given their nationwide market presence compared to a local player such as SMBR.

Low utilization suggests subdued pricing outlook. While we expect SMBR's capacity utilization to remain at >75% in FY14E-16E, we forecast this figure to sharply decline below 53% from FY17E onwards when its Baturaja II plant with 1.85 mtpa capacity comes online. SMBR's competitiveness could erode further if it decides to proceed with its Baturaja III cement plant (1.85 mtpa also), whose commercial operation in FY18E/19E could further depress utilization to 43% (vs. our industry forecast of 84%). Such poor operational outlook impedes SMBR's ability to effectively raise its ASP, which we assume to grow at only 4.2% CAGR for FY13-20E (vs. peers who are at around 5-6%).

Massive capex, negative FCF, initiate SELL. SMBR's large capex requirements associated with its Baturaja III plant (US$463mn), unproven track record of growth, as well as long-term negative FCF has led to our SELL rating with a DCF-based TP of Rp351/share, implying target FY14E P/E of 8.1x (45% discount to sector peers). While it is possible that management may decide to scrap this expansion plan if capacity utilization remains low, thus improving our fair-value estimate by 27%, this is not our base case scenario given the substantial sunk cost arising from the infrastructure investments for this greenfield plant.

Financial Highlights

(Rp Billions)	2012	2013	2014F	2015F	2016F
Sales Revenue	1,098	1,169	1,449	1,650	1,958
EBITDA	417	394	834	1,378	1,706
Net Profit	299	312	422	474	533
EPS (Rp)	30	32	43	48	54
EPS Growth (%)	18.6	4.6	35.2	12.4	12.4
P/E Ratio (x)	14.6	14.0	10.3	9.2	8.2
EV/EBITDA (x)	9.4	6.4	3.0	2.1	2.1
ROA (%)	24.9%	11.5%	13.7%	13.6%	13.4%
ROE (%)	31.3%	12.7%	15.0%	14.8%	14.6%
Dividend Yield (%)	1.2%	1.4%	1.8%	1.9%	2.2%

Source: SMBR, IndoPremier (Share price as of closing April 1st, 2014)

Caught between a rock and a hard place

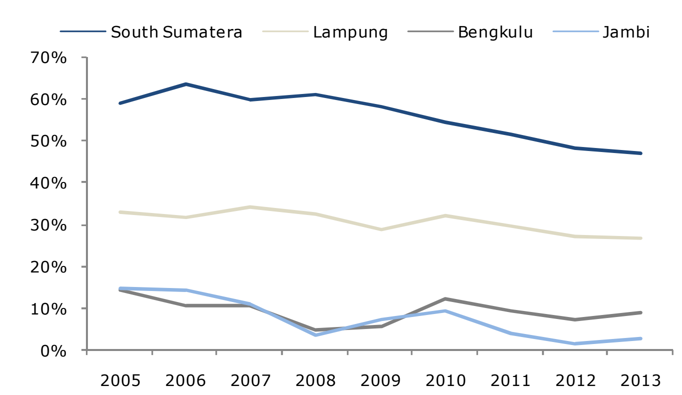
We strongly disagree with the company's aggressive expansion plan to double/triple up capacity in the next 3-5 years as it has not established a strong track record of growth. Escalating competition in SMBR's main markets (South Sumatera and Lampung) by sector's "Big Three," particularly from Holcim Indonesia (SMCB), has steadily eroded the company's market share since 2006. Heavy capex, unpromising returns, and negative FCF keep our valuation impaired. Initiate SELL with TP of Rp351/share, implying FY14E P/E of 8.1x.

Excessive expansion appetite, unproven growth

We view SMBR's expansion approach to be extremely aggressive and unlike the sector's "Big Three" where the market leaders focus on bolstering their sales and market shares prior to opening a new plant—let alone two new plants. SMBR's years of deteriorating market share makes us question the company's long-term strategy. We would prefer the company to expand in a cautious mode while regaining its market share in the South Sumatera regions before opening its second new plant (Baturaja III).

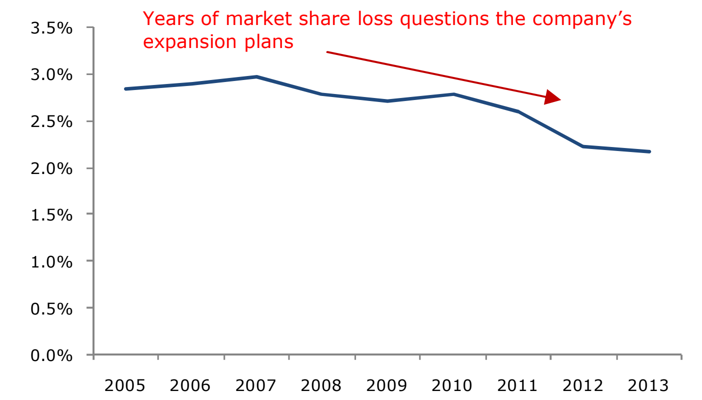
In the charts below, the only times when SMBR lost its market share due to capacity constraints was in FY11-FY12. Periods outside this time-frame show strong evidence of the company's difficulty in defending its market share.

Exhibit 1. SMBR's Deteriorating Market Share FY05-13 (%)



Source: SMBR, CEIC, IndoPremier

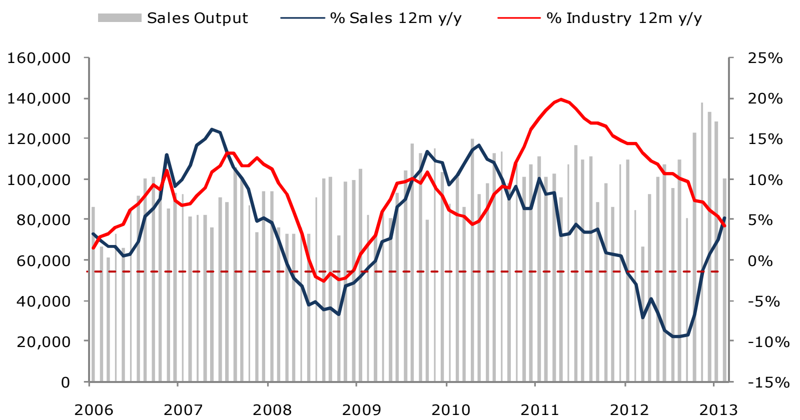
Exhibit 2. SMBR's National Market Share FY05-13 (%)



Source: SMBR, CEIC, IndoPremier

The company will increase capacity by 21.0% CAGR from FY13-20E by building two new plants with 1.85 mtpa capacity each in South Sumatera and Jambi. We view such expansions to be too excessive and hasty as the company has not proved itself in achieving robust sales growth. Historically, the company has only been recording sales expansion of 4.4% CAGR from FY05-FY13 vs. industry's 8.0% CAGR. The "Big Three" registered a minimum of 7.3% CAGR for the same period.

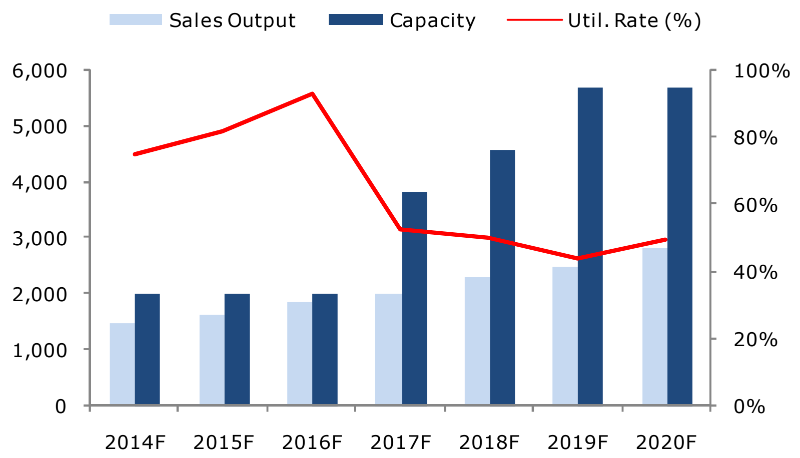
Exhibit 3. SMBR's Lagging Sales vs. Industry Growth Rate FY06-FY13 (tons)



Source: SMBR, CEIC, IndoPremier

During our management visit, the company revised down its FY14E sales output target by 6.3% to 1.5mn tons, citing challenges from other competitors—particularly from Holcim Indonesia (SMCB) and Semen Indonesia (SMGR)—in South Sumatera regions who offer products at a competitive price. This further raises our doubt that SMBR can successfully translate its new capacities into sales as local consumers continue to prefer stronger cement brands. And although our sales forecast is at a double digit, 12.2% CAGR FY13-20E, this is largely disproportionate relative to its massive capacity expansion rate of 21.0%.

Exhibit 4. A Bad Mix: Unproven Sales Growth & Aggressive Expansions ('000 tons)



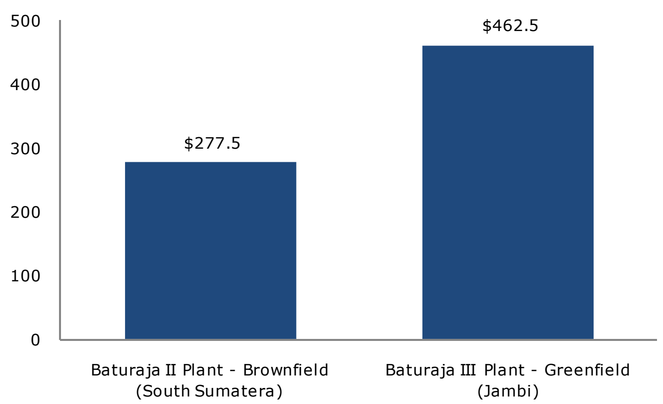
Source: SMBR, IndoPremier

Expansions to swallow IPO proceeds

SMBR raised approximately Rp1.3tn (US$113mn) through its IPO back in June 2013. The company will utilize its IPO proceeds to finance its Baturaja II brownfield plant set to commence construction this July with expected completion in 4Q16. Total cost for the plant is US$278mn, or US$150/ton, with 1.85 mtpa capacity. The plant will be located in South Sumatera to serve its home market.

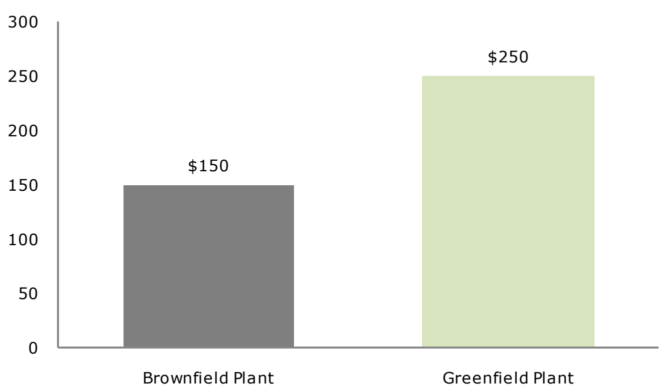
Its second upcoming plant, Baturaja III, with another 1.85 mtpa capacity, will swallow a massive US$463mn. The plant costs US$250/ton, much higher than Baturaja II since the company would need to develop infrastructures and supporting facilities around Baturaja III. This greenfield plant will be located in Sarolangun, Jambi (near South Sumatera), separated from its main compound. So far, the company has invested Rp50bn (US$4.3mn) in acquiring 500 hectares of land. From our meeting with management, the company seemed to be certain in making this investment as they are confident with their brand power and expect to boost sales from such expansion. Groundbreaking for the plant will begin once all necessary licenses are obtained and the major toll road project in Sumatera is completed. We forecast groundbreaking to occur by 2H15 with expected completion in 1H18.

Exhibit 5. SMBR's Massive Expansion Plans (US$ million)



Source: SMBR, IndoPremier

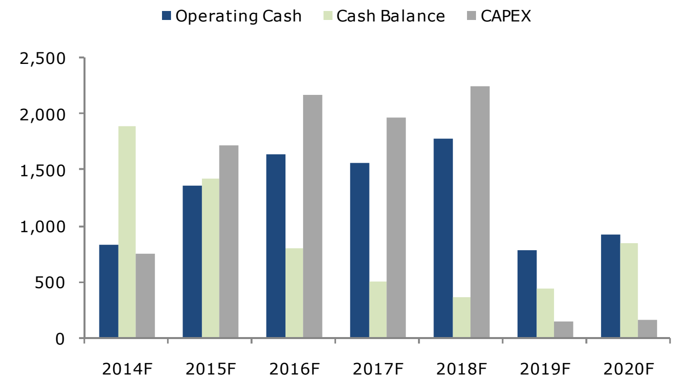
Exhibit 6. SMBR's Plant Replacement Cost (US$/ton)



Source: SMBR, IndoPremier

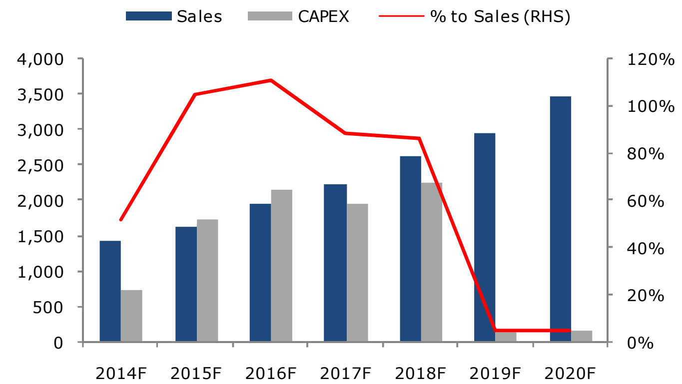
According to our analysis, we deem it unlikely for SMBR to take out any debt within the next few years to support its new projects as its raised funds from IPO coupled with cash from operations should be enough to cover for future capex. We forecast SMBR would start to take out loans in FY17E as its Baturaja III greenfield plant nears completion (our projection).

Exhibit 7. SMBR's Cash Position vs. CAPEX needs (in Rpbn)



Source: SMBR, IndoPremier

Exhibit 8. SMBR's CAPEX Proportion vs. Sales Revenue (in Rpbn)

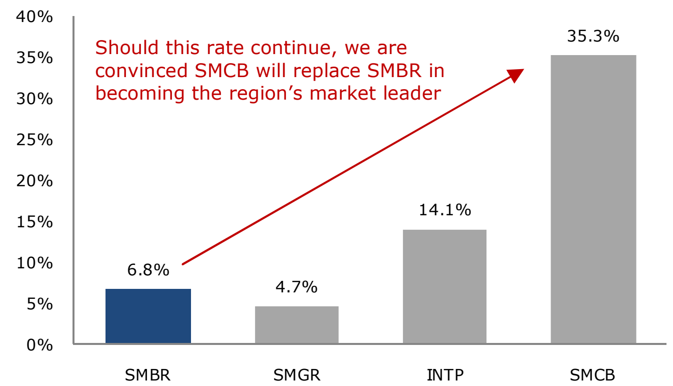


Source: SMBR, IndoPremier

Tightening competition in SMBR's home market

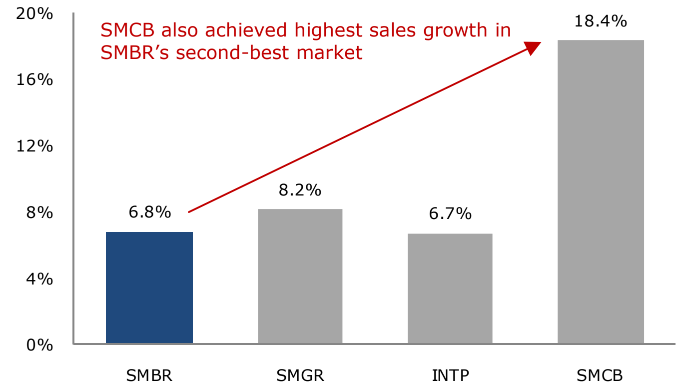
Our study shows that Holcim Indonesia (SMCB) has been the most aggressive player to engage SMBR in its main markets in South Sumatera and Lampung. From FY05-FY13, SMCB's sales in the South Sumatera region grew by a massive 35.3% CAGR vs. SMBR's 6.8%. Holcim Indonesia (SMCB) also amplified its sales in Lampung by 18.4% CAGR vs. SMBR's same figure of 6.8%, for the same period. We grow bolder with our thesis by looking at these numbers.

Exhibit 9. South Sumatera Sales CAGR FY05-FY13 (%)



Source: SMBR, CEIC, IndoPremier

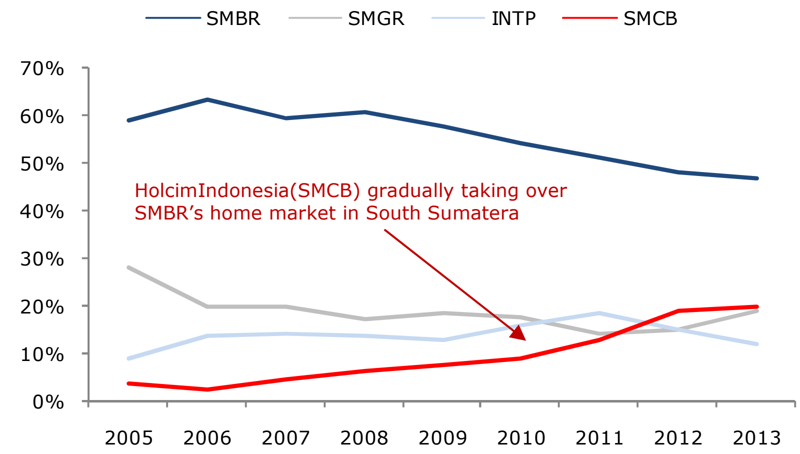
Exhibit 10. Lampung Sales CAGR FY05-FY13 (%)



Source: SMBR, CEIC, IndoPremier

During our previous company visit, we learned that Holcim Indonesia (SMCB) will increasingly focus on markets outside of Java to solidify its market share in its second-best region, South Sumatera. The sector's largest operator, Semen Indonesia (SMGR), will also add 3.0 mtpa new capacity by 4Q15 to solidify its Sumatera markets. In fact, SMGR will open up a new 900k tpa plant this 2Q14 to strengthen its presence in Sumatera. And even though Semen Baturaja (SMBR) is the market leader in the area for bulk cement (due to logistics constraints faced by other players), we forecast the company's market share to not exceed beyond 2.7% by FY20E (50bps gain from FY13's level of 2.2%). SMBR's domestic market share reached its peak in FY07 with 3.0% market share.

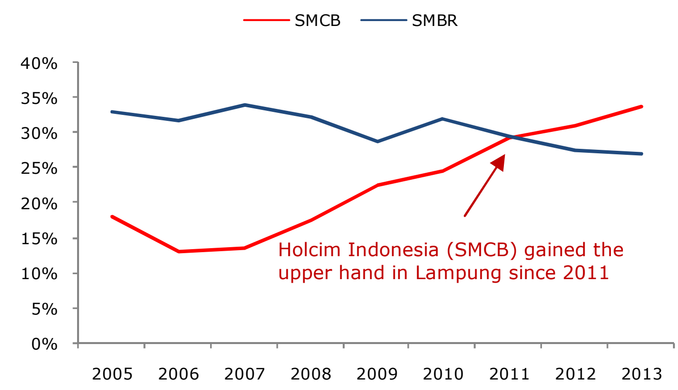
Exhibit 11. SMBR's Losing Proposition in South Sumatera FY05-FY13 (%)



Source: CEIC, IndoPremier

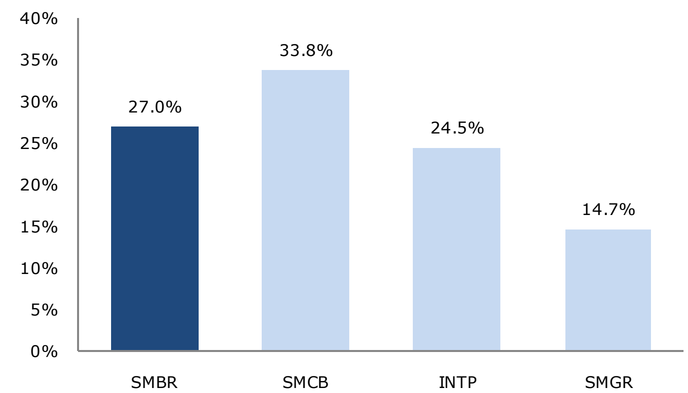
Our analysis also shows that Holcim Indonesia (SMCB) seized SMBR's second-best market, Lampung, since FY11. SMBR's unpromising track record may lead the company to lose its entire grip in the area going forward. As of FY13, Holcim Indonesia (SMCB) dominated Lampung with 34% market share, followed by Semen Baturaja (SMBR, 27%), Indocement (INTP, 24%), and Semen Indonesia (SMGR, 15%):

Exhibit 12. SMCB Gaining Strong Momentum in Lampung (%)



Source: SMCB, SMBR, CEIC, IndoPremier

Exhibit 13. Lampung's Market Share as of FY13 (%)



Source: CEIC, IndoPremier

The company currently operates 1 major cement plant, 1 cement mill, and 3 grinding plants in the South Sumatera regions. SMBR competes in Semen Padang's (SMGR's subsidiary) main arena in which the sector leader holds approximately 43% of total Sumatera market share (SMBR only possesses 10%). With subpar brand power, the presence of the "Big Three," as well as smaller operator such as Semen Bosowa Maros in SMBR's principal market undoubtedly curtails the company's growth prospects.

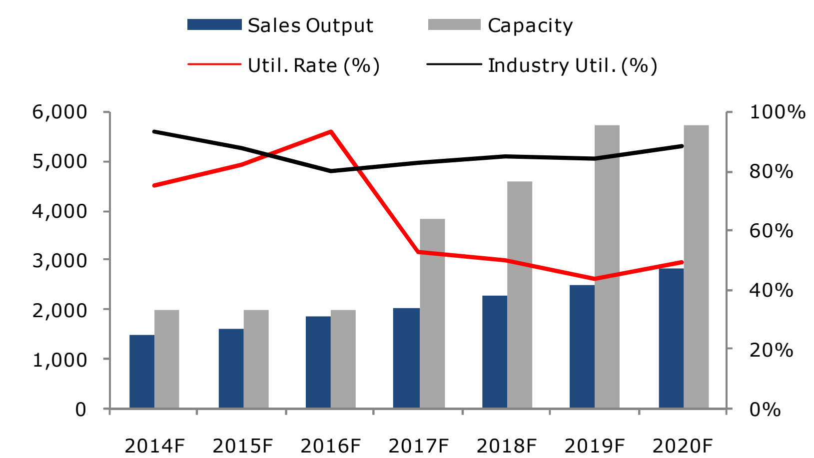
Exhibit 14. SMBR's Plant Locations in Greater South Sumatera Regions

Source: SMBR

Poor utilization gives pricing grim outlook

Even though SMBR will run at >75% utilization rate from FY14E-16E, we forecast this figure to sharply decline below 53% in FY17E onwards as its Baturaja II plant with 1.85 mtpa capacity comes online. SMBR's competitiveness could erode further if it decides to proceed with its Baturaja III cement plant (1.85 mtpa also), whose commercial operation in FY18E/19E could further depress utilization to 43% (vs. our industry forecast of 84%).

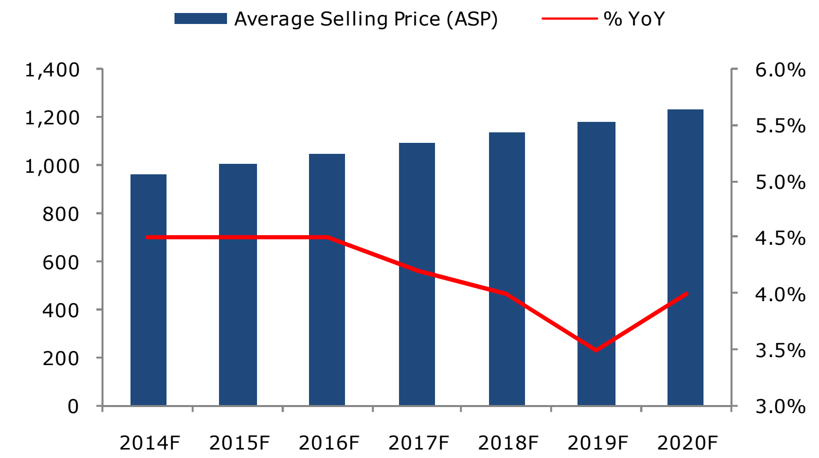
Exhibit 15. SMBR's Excess Capacity & Low Utilization vs. Industry ('000 tons)



Source: SMBR, IndoPremier

With a poor outlook on capacity utilizations, we believe SMBR will lag behind in raising prices compared to peers going forward. Historically, SMBR's ASP growth has been 4.3% CAGR in the course of five years (FY08-FY13). We forecast SMBR's average price realizations to grow at 4.2% CAGR for FY13-FY20E (vs. peers who are around 5-6%). We anticipate a major slowdown in ASP growth when SMBR's Baturaja III plant becomes fully operational in FY19E (our projection), with selling price forecasted to grow only by 3.5% YoY.

Exhibit 16. SMBR's Poor ASP Outlook Due to Excess Capacity FY14E-FY20E (Rp '000)



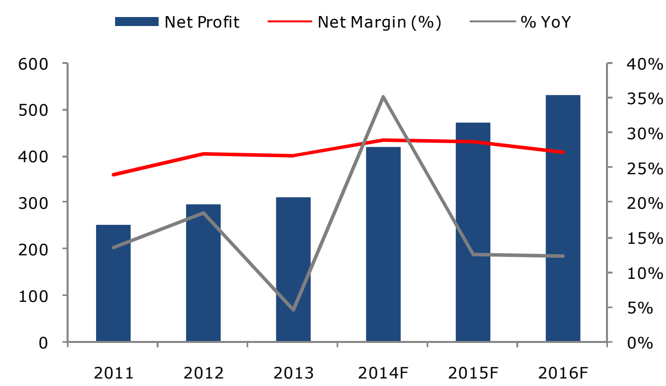
Source: SMBR, IndoPremier

FY14E earnings outlook to include a one-off

We forecast SMBR's FY14E earnings to grow by 35% YoY to Rp422bn (US$37mn), mainly supported by its new 750k tpa capacity which came online since last September. While we are not arguing that SMBR will not experience any operational growth going forward, we anticipate the company to face increasing challenges in fully monetizing its new capacities amidst tightening competitive landscape.

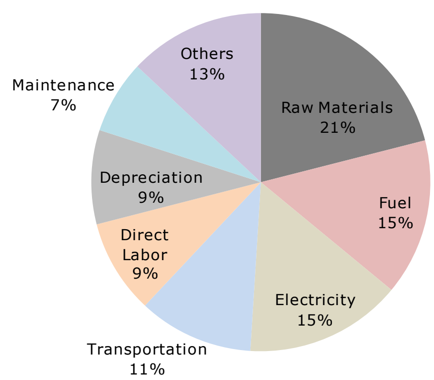
Furthermore, we expect 21% of its FY14E earnings to come from interest income as the company stores its IPO cash in local banks. We use a 6% deposit interest rate in our FY14E forecast (which is at the lower band of FY13's deposit rate). Ruling out the one-off, we estimate the company's core earnings to increase by 7% YoY (with net margin decreasing by 3.6ppt from FY13's level to 23.1%), lower than the company's guidance of 12% as we project higher electricity cost owing to subsidy removal by the government. SMBR falls under the I-3 electricity tariff bracket, which will start this May with cost rising gradually by 8.6% every two months till end of year, equating to a total of 38.9% hike by year-end.

Exhibit 17. SMBR's Profitability Outlook FY11-FY16E (in Rpbn)



Source: SMBR, IndoPremier

Exhibit 18. SMBR's COGS Breakdown in FY13 (%)



Source: SMBR, IndoPremier

Sensitivity analysis on earnings forecasts

Our sensitivity analysis shows that SMBR's earnings for the next two years will be most responsive to changes in deposit interest rate. We believe this makes sense as the company will have substantial amount of IPO cash stored in local banks before being fully utilized for expansion purposes. SMBR's earnings will be most sensitive to price changes starting in FY16E.

Impact on Pre-Tax Earnings (%)			
	2014F	2015F	2016F
ASP: -1%	-2.7%	-2.7%	-2.9%
Sales Volume: -1%	-0.9%	-0.9%	-1.0%
Deposit Int. Rate: -1 ppt	-3.4%	-3.0%	-2.0%

Source: IndoPremier

Valuation

Our Rp351/share target price is based on discounted cash flow method.

In our base case scenario, we forecast SMBR's market share to increase by 30bps from 2.4% to 2.7% (FY14E-FY20E). Even though SMBR will have ample of new capacity throughout our forecast years, we believe the company will face continued difficulty in monetizing its capacity due to minimal brand power and intensifying competition in SMBR's main markets (South Sumatera and Lampung), particularly from the "Big Three." Years of market share losses further increases our conviction level that the company's outlook will be largely limited. We project ASP to increase by 4.2% CAGR while sales volume to grow at 12.2% CAGR from FY13-FY20E.

Upside Risk (Rp445/share, 27% uplift):

Our major upside risk mainly comes from a major turnaround in the company's long-term expansion strategy, thus generating a DCF-based target price of Rp445/share, or 27% higher from our base case. In this scenario, we assume management scraps out its Baturaja III plant project due to low utilizations from its existing capacity. We also project that the company absorbs a sunk cost approximately US$185mn as they abandon infrastructures that have been built to support the new cement plant. Our upside scenario assumes unchanged competitive landscape for SMBR from our base case. Sales forecast, pricing, as well as market share assumptions remain the same in this scenario.

➢ **DCF Valuation**

Our target price of Rp351/share is derived from our fair-value estimate at the end of 2013, using a two-stage DCF methodology based on the following assumptions:

- Explicit forecast for FY14E-20E forms the first stage of our DCF analysis, which produces EPS CAGR of 12.0%, assuming ASP growth of 4.1% CAGR.
- The second stage of our DCF analysis, the terminal value, is based on a terminal growth rate of 6.0%, which we expect to be sustainable.
- WACC of 13.9%, cost of equity of 14.0% and cost of debt of 10.0%. This is derived from input factors such as risk-free rate (8%), market risk premium (6%), target gearing (3%), effective tax rate (20%), and beta (1.0x).

SMBR's WACC Assumptions	
Risk-Free Rate (Rf)	8.0%
Market Return (Rm)	14.0%
Market Risk Premium	6.0%
Beta	1.0
Cost of Equity (ke)	14.0%
After-Tax Cost of Debt	10.0%

Source : IndoPremier

DCF Valuation	2014F	2015F	2016F	2017F	2018F	2019F	2020F
(Rp Billions)							
EBIT	427.95	495.12	598.22	681.41	803.50	890.25	1,043.65
Tax Rate	-85.59	-99.02	-119.64	-136.28	-160.70	-178.05	-208.73
NOPAT	**342.36**	**396.10**	**478.58**	**545.13**	**642.80**	**712.20**	**834.92**
Depr. &Amort.	405.95	882.97	1,107.82	1,006.10	1,151.87	75.42	88.78
CAPEX	-753.44	-1,731.31	-2,172.20	-1,972.74	-2,258.58	-147.87	-174.08
NWC	12.16	1.98	1.48	-0.08	2.01	2.91	5.53
FCFF	**7.02**	**-450.26**	**-584.32**	**-421.59**	**-461.90**	**642.65**	**755.15**
PV of FCF	6.17	-347.25	-395.75	-250.76	-241.26	294.79	304.20
PV Ter. Value	4,096.87						
Value of Firm	3,467.34						
Total Debt	-27.00						
Value of Equity	3,440.34						
# Shares Outs.	9,800	million					
Value per Share	**351**						

Source: IndoPremier

Sensitivity Analysis to 1 ppt Change in WACC and Terminal Growth Assumptions

Rp 351		Terminal Growth Rate				
		4%	**5%**	**6%**	**7%**	**8%**
WACC	**15%**	207	237	274	320	380
	14%	260	300	**351**	416	504
	13%	311	362	428	516	640
	12%	385	455	548	678	873

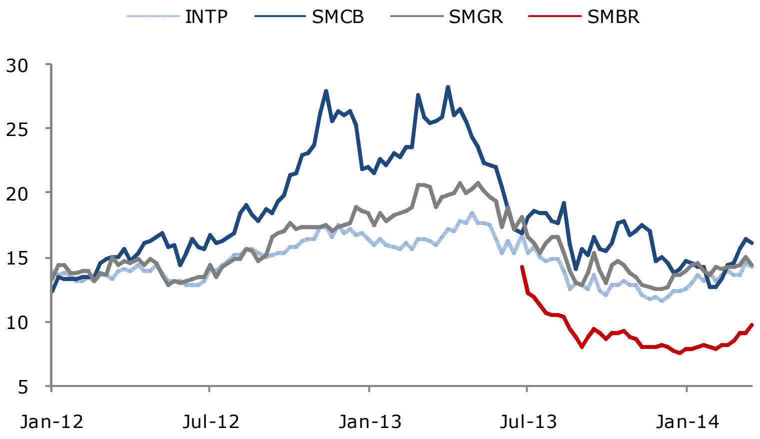
Source: IndoPremier

➢ **Multiple Valuation**

Our target price of Rp351/share implies target FY14E P/E of 8.1x (FY15E P/E 7.2x), roughly a 45% discount to sector's peers valuation.

We prefer to use an earnings-based multiple, such as the P/E ratio, as our valuation basis due to the market's affinity for valuing cement stocks on prevailing earnings expectations. Historically, our four stocks (SMGR, INTP, SMCB, and SMBR) have been trading at corresponding margins; even at narrower margins should SMCB be excluded from the equation (at times, SMCB falls out of the band due to high royalty fee).

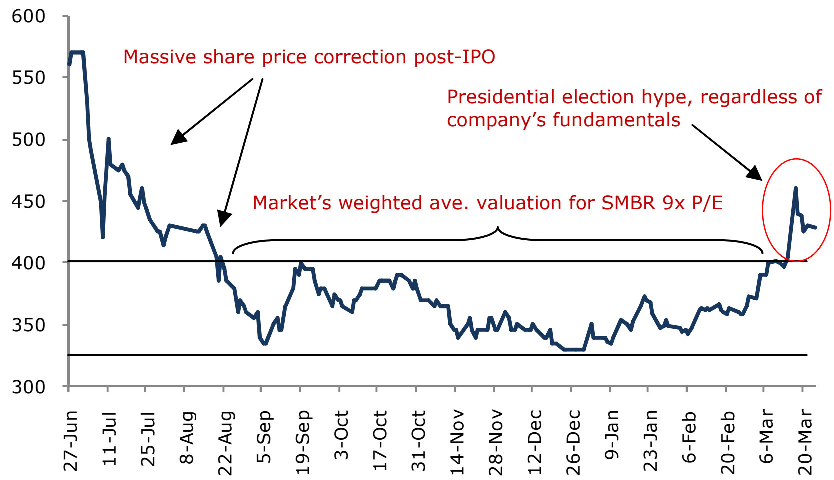
Exhibit 19. Historical 12-Months Forward P/E Ratio of Cement Stocks (x)



Source: IndoPremier, Bloomberg (Retrieved March 24th, 2014)

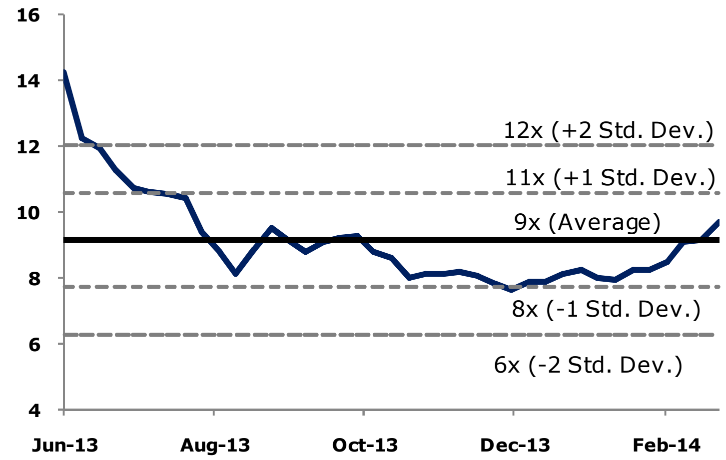
Back in June 2013, Semen Baturaja (SMBR) went public with Rp560/share, or 12-months forward PER of >14x (almost implying its business scale is as large as the "Big Three"), which collapsed to more than 40% within two months' time, hitting a low Rp335/share in early September. Ever since, the stock has been valued at a weighted-average P/E of 9x, hovering around Rp330-391/share (from last August to early March 2014), until the presidential election hype coming from the "Jokowi Effect" started to kick in from early March onwards. The stock is currently valued at 10x FY14E P/E, higher than its previous weighted-average P/E. We believe the company warrants a lower valuation given its grim outlook along with a misguided long-term expansion strategy. Our target valuation puts SMBR at a 45% discount to sector's peers.

Exhibit 20. SMBR's Stock Price Analysis Post-IPO from June 2013 (Rp/share)



Source: IndoPremier, Bloomberg (Retrieved March 24th, 2014)

Exhibit 21. SMBR's 12-Months Forward P/E Band since IPO (x)



Source: IndoPremier, Bloomberg (Retrieved March 24th, 2014)

Company Overview

- Company was founded back in November 1974 with PT. Semen Gresik and PT. Semen Padang as its major shareholders, 45% and 55%, respectively.
- Major shareholding restructuring took place in November 1979, with the government of Indonesia acquiring 88% stake in the company, PT. Semen Gresik 5%, and PT. Semen Padang 7%. Since 1991, the government holds 100% of the company until June 2013 where the company went public.
- The company has been operating with 1.25 mtpa capacity since 2001, with additional 750k tpa since September 2013. Current total capacity is 2 mtpa.
- Owns 1 major cement plant, 1 cement mill, and 3 grinding plants in the South Sumatera regions.
- Produces Ordinary Portland Cement Type I (OPC) and Portland Composite Cement (PCC).
- Semen Baturaja's main markets are located in South Sumatera (60%), Lampung (34%), Bengkulu (4%), and Jambi (2%).
- Fifth-largest cement operator in Indonesia after the "Big Three" and Semen Bosowa Maros in terms of installed capacity. The company possesses 2.2% domestic market share as of 2013.

Key Risks:

- **Macro/Demand Risk.** As domestic cement consumption typically moves at 1.5x the economy's real GDP, sluggish macroeconomic growth could adversely impact SMBR's earnings forecast due to lower sales and lower demand.

- **Currency Risk.** As cement business generally incur 30-50% US$-denominated costs, every Rp500 depreciation in the Rupiah could reduce SMBR's earnings by 1.2%.

- **Supply Risk.** Potential oversupply in FY16E-FY17E arising from new entrants could worsen SMBR's pricing power due to an abundance of substitute products and thus, has higher potential to erode its margins.

- **Branding Risk (upside).** Stronger-than-expected brand equity from SMBR in its home markets poses an upside risk to our thesis mainly arising from positive sales and earnings surprises.

- **Competition Risk (upside).** Unforeseen circumstances faced by SMBR's main competitors—Holcim Indonesia (SMCB) and Semen Padang (SMGR's subsidiary)—creates an upside risk for SMBR as it would be able to boost sales and strengthen its market base in the absence of major players.

Management Profile

Board of Directors:

Mr. Pamudji Rahardjo, 57, President Director/CEO
Mr. Pamudji assumed his role as CEO in the company since 2007. Previously, he worked for PT. Semen Padang (SMGR's subsidiary) as a director (2004-2007), production director (1995-2003), and head of operations II (1995). Mr. Pamudji completed his bachelor's degree in electrical engineering at Surabaya Institute of Technology (1980).

Mr. Ageng Purboyo Angrenggono, 56, Director of Finance
Mr. Ageng took on his role as finance director since 2012. He was a deputy assistant in several departments for a state-owned company ranging from manufacturing industries, agriculture, fisheries, paper, and printing (2006-2012). Mr. Ageng obtained his bachelor's degree in management from Pancasila University, Jakarta (1987).

Mr. Agus Wahyudin, 45, Director of Production
Mr. Agus assumed his role as production director since 2007. Formerly a marketing director (2006-2007), bureau chief in Panjang plant (2005-2006), and head of production in Baturaja plant spearheading the Optimization II project (2001-2005). Mr. Agus acquired his bachelor's degree in chemical engineering from Gajah Mada University, Yogyakarta (1993). He then obtained his master's in management from Sriwijaya University, Palembang (2008).

Mr. Romlan Kurniawan, 53, Director of Human Resources
Mr. Romlan assumed his position as human resource director since 2012. Previously, he was the department head of finance (2008-2012), administration bureau chief (2007-2008), and accounting bureau chief (2005-2007) within the company. Mr. Romlan completed his bachelor's degree in accounting at Bandar Lampung University (2000).

Ms. Rusniwati Alie, 55, Director of Marketing
Ms. Rusniwati took on her role as marketing director since 2012. She previously held several other positions within the company such as department head of marketing (2011-2012) and marketing bureau chief (2010-2011). Ms. Rusniwati obtained her bachelor's degree in management from Sriwijaya University, Palembang (2001).

Board of Commissioners:

Mr. Benny Wachjudi, 60, President Commissioner
Mr. Benny assumed his current position since 2008. He currently serves as chief general in the government's Ministry of Agriculture Industry (2010-Present). Formerly a chief general in the government's Ministry of Chemical Industry (2004-2010). Mr. Benny acquired his bachelor's degree in industrial engineering from Bandung Institute of Technology (1980). He then completed his master's degree at University of Bridgeport, Connecticut (1989).

Mr. Anas Rosjidi, 62, Independent Commissioner
Mr. Anas assumed his current role in 2013. He previously served as human resources director in PT. Semen Baturaja (SMBR) from 2007-2012. He also worked with PT. Semen Gresik (SMGR's subsidiary) as corporate secretary (2006-2007), head of general department (2003-2006), and department head of finance (2002-2003). Mr. Anas obtained his bachelor's degree in electrical engineering from Surabaya Institute of Technology (1981).

Mr. Darusman Mawardi, 65, Independent Commissioner
Mr. Darusman took on his current role in 2013. He currently serves as chief in Indonesia's Institute of Cement and Concrete (2003-Present). Previously, he worked for PT. Semen Tonasa (SMGR's subsidiary) as research & development director (2002-2005) and commercial director (2002). Mr. Darusman completed his bachelor's degree in mechanical engineering at Bandung Institute of Technology (1974).

Mr. Syahrial B.P. Peliung, 63, Independent Commissioner
Mr. Syahrial assumed his current role in 2013. He currently serves as the general head of PEPABRI in South Sumatera. He previously held the position of Army Commander at Kodam II Sriwijaya (2003-2006). Mr. Syahrial came from a military background, Alumnus AKABRI Darat 1973, with last held position as Chief General of the Indonesian Army.

Ms. Chairiah, 48, Commissioner
Ms. Chairiah took on her current role in 2013. She currently serves as deputy assistant in a state-owned company (2012-Present). She was formerly the head of Business Development and Restructuring within the government body (2010-2012). Ms. Chairiah obtained her bachelor's degree in agriculture from Indonesia Institute of Technology (1992). She also acquired her master's degree from Monash University, Melbourne (1999).

Financial Summary

Profit and Loss Statement

Year to 31 Dec (Rpbn)	2012	2013	2014F	2015F	2016F
Revenue	1,098	1,169	1,449	1,650	1,958
Cost of Sales	(608)	(706)	(863)	(980)	(1,159)
Gross Profit	490	462	585	670	799
SG&A Expenses	(124)	(135)	(157)	(175)	(201)
Oper. Profit	366	327	428	495	598
EBITDA	417	394	834	1,378	1,706
Net Interest:	28	71	111	111	83
Int. Income	28	71	111	111	83
Int. Expense	(0)	(0)	(0)	(0)	(0)
FX Gain (Loss)	-	-	-	-	-
Others - Net	1	2	2	2	2
Pre-Tax Profit	395	400	541	608	683
Inc. Tax - Net	(97)	(88)	(119)	(134)	(150)
Minority Interest	-	-	-	-	-
Net Profit	299	312	422	474	533

Cash Flow Statement

Year to 31 Dec (Rpbn)	2012	2013	2014F	2015F	2016F
Net Income	299	312	422	474	533
Dep. &Amort.	51	67	406	883	1,108
Minority Interest	-	-	-	-	-
Changes in W/C	47	(45)	12	2	1
CF from Oper.	(194)	1,251	840	1,359	1,642
CAPEX	(215)	(139)	(753)	(1,731)	(2,172)
Others	2	5	-	-	-
CF Investing	(213)	(134)	(753)	(1,731)	(2,172)
Change in Debt	(28)	(14)	(14)	(14)	-
S-T Borrowings	3	(3)	0	0	0
Dividends Paid	(50)	(60)	(78)	(84)	(95)
Others	580	344	0	0	0
CF Financing	504	267	(92)	(98)	(95)
Cash Reclass.	0	0	0	0	0
Change in Cash	98	1,384	(5)	(470)	(625)
Beg. Cash Balance	400	498	1,883	1,878	1,408
End. Cash Balance	498	1,883	1,878	1,408	783

Balance Sheet

Year to 31 Dec (Rpbn)	2012	2013	2014F	2015F	2016F
Cash & Equiv.	498	1,883	1,878	1,408	783
Receivables	0	36	44	50	60
Inventory	117	132	162	183	217
Others	45	56	56	56	56
Current Assets	661	2,107	2,140	1,698	1,116
Fixed Assets - Net	518	590	937	1,786	2,850
Other LT Assets	20	15	15	15	15
Non-Curr. Assets	538	605	952	1,801	2,865
Total Assets	1,199	2,711	3,092	3,498	3,981
Curr. Maturities	14	14	14	-	-
ST Borrowings	3	0	0	0	0
Trade Payables	64	68	83	94	112
Other Liabilities	91	112	142	161	188
Curr. Liabilities	171	194	238	255	299
LT Debt	27	14	-	-	-
Other Liabilities	46	37	43	43	43
Non-Curr. Liab.	73	51	43	43	43
Total Liabilities	244	244	281	298	342
Total Equity	954	2,467	2,811	3,201	3,639
Total Liab. & Eq.	1,199	2,711	3,092	3,498	3,981

Key Ratios

Year to 31 Dec	2012	2013	2014F	2015F	2016F
Earnings Margin					
Gross Margin (%)	44.6%	39.6%	40.4%	40.6%	40.8%
Oper. Margin (%)	33.3%	28.0%	29.5%	30.0%	30.6%
EBITDA Margin (%)	37.9%	33.7%	57.6%	83.5%	87.1%
Net Margin (%)	27.2%	26.7%	29.1%	28.7%	27.2%
Valuation					
P/E (x)	14.1	13.5	10.0	8.9	7.9
P/BV (x)	4.4	1.7	1.5	1.3	1.2
EV/EBITDA (x)	9.0	6.0	2.8	2.0	2.0
EV/Metric Ton (US$)	264.9	162.1	136.1	149.2	160.6
Leverage					
Oper. CF/Debt (x)	-4.41	46.33	62.24	N/A	N/A
Debt/Equity (x)	0.05	0.01	0.00	0.00	0.00
Debt/Tot. Capital (x)	0.04	0.01	0.00	0.00	0.00
Profitability					
ROA (%)	24.9%	11.5%	13.7%	13.6%	13.4%
ROE (%)	31.3%	12.7%	15.0%	14.8%	14.6%
ROIC (%)	24.9%	10.1%	12.2%	12.2%	12.0%
Earnings Yield (%)	7.1%	7.4%	10.0%	11.3%	12.6%
Dividend Yield (%)	1.2%	1.4%	1.9%	2.0%	2.3%

Source: SMBR, 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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