



CEMENT

Growth Momentum

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Investment Thesis

We reiterate our OVERWEIGHT recommendation on the sector on the back of strong national cement demand as well as strong earnings prospect this year. Domestic cement sales in May11 showed a good result as sales volume grew by 24.8% YoY to 4.1m tons, bringing 5M11 sales to 18.4m tons, increased by 13.5% YoY. We also expect the sector to deliver 20.5% YoY EPS growth this year, nearly doubled from 10.3% YoY EPS growth last year. Within the sector, we recommend BUY on both INTTP and SMGR, with SMGR as our top pick. Attractive valuation, coupled with highest upside potential of 26.4% to our TP serves as positive catalyst for SMGR. Currently, SMGR is trading at FY11 P/E of 13.4x, discounted by 13%-15.7% from its peers.

5M11 national cement sales: so far, so good...

Domestic cement sales in May11 showed a good result as sales volume rose by 24.8% YoY to 4.1m tons from 3.3m tons in May10 or grew by 9.3% MoM from 3.7m tons in Apr11. YTD, sales has grown by 13.5% YoY from 16.2m tons in 5M10 to 18.4m tons in 5M11. The result was inline with our expectation as it accounted for 41.4% of our FY11 target of 44.4m tons.

Kalimantan, Nusa Tenggara and Java: the main growth driver

Looking at national sales volume geographically, Kalimantan recorded the highest growth of 47.5% YoY to 302.5K tons in 5M11 followed by Nusa Tenggara by 30.7% YoY to 239.5K tons and Java by 28.3% YoY to 2.3m tons. Java continues to have the biggest market share, holding 55.3% of total national sales, followed by Sumatra (22.8%), Kalimantan (7.4%) and Sulawesi (6.5%).

Aggressive pricing strategy allowed SMCB grew faster than others

SMCB, with the aggressive low pricing strategy, managed to show superior growth performance where 5M11 domestic sales increased by 26.8% YoY versus industry average growth of 13.5% YoY. As such, SMCB's market share increased significantly by 1.6% YoY from 13.7% in 5M10 to 15.3% in 5M11. On the other hand, INTTP as the strongest contender in Java only recorded 5M11 sales growth of 13.6% YoY, at par with the industry average. In terms of market share, INTTP's position did not change much, still hovering at 31.0% level. SMGR the national market leader, however, its performance was not very pleasing, as it recorded underperforming growth of 8.8% YoY which deteriorated its market share by 1.8% YoY, from 42.8% in 5M10 to 41.1% in 5M11. SMGR's lagging performance was merely due to weak production in 1Q11 as the company was still in the process of aligning the new de-bottlenecking technology in the Tuban plants. Improving sales in Apr11 and May11 should build confidence going forward. We believe the trend will positively reverse in the following quarters of the year.

Export sales: the second priority

Most cement producer experienced sharp decline in export sales but SMGR. SMGR recorded impressive 52% YoY increase in export sales to 11.4K tons in May11 or grew by 14.5% YoY to 52.3K tons in 5M11. On the other hand, INTTP recorded a sharp fall in export sales of 46.2% YoY to 46.4K tons in May11 or -34.2% YoY to 237.6K tons in 5M11. Finally, SMCB export sales in May11 also tumbled by 99.6% YoY to 400 tons, or dropping by 70.5% YoY in 5M11 to 200.2K tons. In total, May11 national export fell by 67.9% YoY to 63.5K tons while 5M11 national export down by 51.5% YoY to 531.0K tons. The weak cement export this year was due to strong demand from more profitable domestic market. As an illustration, price of domestic cement is US\$90.5/ton-US\$91.5/ton while export is only around US\$40.1/ton-US\$63.5/ton.

Indonesian Cement: Valuation Comparison

	Current Price	Target Price	Upside (%)	Rec	EPS Growth (%)		P/E (x)		EV/ton (US\$)		Div. Yield (%)
					11E	12F	11E	12F	11E	12F	
INTTP	16,550	18,700	13.0	BUY	22.7	13.6	15.4	13.6	316	292	1.6
SMCB	2,175	2,350	8.0	HOLD	26.7	2.1	15.9	15.6	239	247	1.1
SMGR	9,650	12,200	26.4	BUY	17.3	6.9	13.4	12.6	295	236	3.5
Average					20.5	9.2	14.6	13.3	293	258	2.3

Source: Kresna Research

National Cement Sales in May11

(000 tons)	SMGR			INTP			SMCB			DOMESTIC		
	May-10	May-11	%Chg	May-10	May-11	%Chg	May-10	May-11	%Chg	May-10	May-11	%Chg
Sumatra	350	413	18.0%	142	151	6.2%	73	101	38.9%	805	932	15.7%
Java	632	820	29.8%	716	913	27.4%	355	474	33.7%	1,761	2,258	28.3%
Kalimantan	117	154	31.8%	49	79	60.0%	26	40	57.3%	205	303	47.5%
Sulawesi	136	172	26.4%	35	32	-7.6%	1	2	96.8%	233	267	14.6%
Nusa Tenggara	60	89	49.1%	81	86	6.2%	8	11	30.4%	183	239	30.7%
East Indonesia	61	53	-12.0%	13	17	24.5%	0	0	52.1%	86	85	-1.1%
Total Domestic	1,355	1,701	25.5%	1,037	1,277	23.2%	463	629	35.9%	3,272	4,083	24.8%
Export: Clinker	8	11	52.0%	2	3	26.8%	35	-	N.A	47	20	-58.0%
Cement	-	-	N.A	84	43	-48.3%	67	0	-99.4%	151	44	-71.0%
Total Sales	1,363	1,712	25.7%	1,123	1,324	17.9%	566	630	11.4%	3,470	4,146	19.5%

National Market Share in May11

	SMGR			INTP			SMCB			OTHERS		
	May-10	May-11	%Chg	May-10	May-11	%Chg	May-10	May-11	%Chg	May-10	May-11	%Chg
Sumatra	43.4%	44.3%	0.8%	17.7%	16.2%	-1.5%	9.0%	10.8%	1.8%	29.9%	28.7%	-1.2%
Java	35.9%	36.3%	0.4%	40.7%	40.4%	-0.3%	20.2%	21.0%	0.9%	3.3%	2.3%	-1.0%
Kalimantan	57.1%	51.0%	-6.1%	24.0%	26.0%	2.0%	12.5%	13.4%	0.8%	6.4%	9.6%	3.2%
Sulawesi	58.5%	64.5%	6.0%	14.9%	12.0%	-2.9%	0.5%	0.9%	0.4%	26.1%	22.6%	-3.5%
Nusa Tenggara	32.6%	37.2%	4.6%	44.1%	35.9%	-8.3%	4.6%	4.6%	0.0%	18.7%	22.3%	3.7%
East Indonesia	71.0%	63.1%	-7.9%	15.7%	19.8%	4.1%	0.3%	0.4%	0.1%	13.0%	16.7%	3.6%
Average	41.4%	41.7%	0.3%	31.7%	31.3%	-0.4%	14.2%	15.4%	1.3%	12.8%	11.6%	-1.1%

Source: Indonesia Cement Association (ASI), Kresna Research

National Cement Sales in 5M11

(000 tons)	SMGR			INTP			SMCB			DOMESTIC		
	5M10	5M11	%Chg	5M10	5M11	%Chg	5M10	5M11	%Chg	5M10	5M11	%Chg
Sumatra	1,717	1,842	7.3%	614	708	15.4%	361	494	36.7%	3,856	4,405	14.3%
Java	3,250	3,638	11.9%	3,418	4,029	17.9%	1,663	2,093	25.8%	8,559	10,019	17.1%
Kalimantan	635	651	2.6%	333	360	8.2%	135	160	18.6%	1,200	1,303	8.5%
Sulawesi	713	813	14.1%	239	164	-31.2%	12	8	-29.7%	1,265	1,304	3.1%
Nusa Tenggara	352	372	5.5%	341	372	8.8%	41	54	32.3%	913	993	8.8%
East Indonesia	274	235	-14.3%	74	68	-8.5%	3	1	-55.1%	407	366	-10.0%
Total Domestic	6,940	7,551	8.8%	5,018	5,701	13.6%	2,215	2,810	26.8%	16,200	18,391	13.5%
Export: Clinker	46	52	14.5%	9	11	30.6%	137	59	-57.0%	199	137	-31.2%
Cement	-	-	N.A	352	226	-35.8%	543	141	-74.0%	895	394	-56.0%
Total Sales	6,986	7,603	8.8%	5,380	5,939	10.4%	2,895	3,010	4.0%	17,294	18,922	9.4%

National Market Share in 5M11

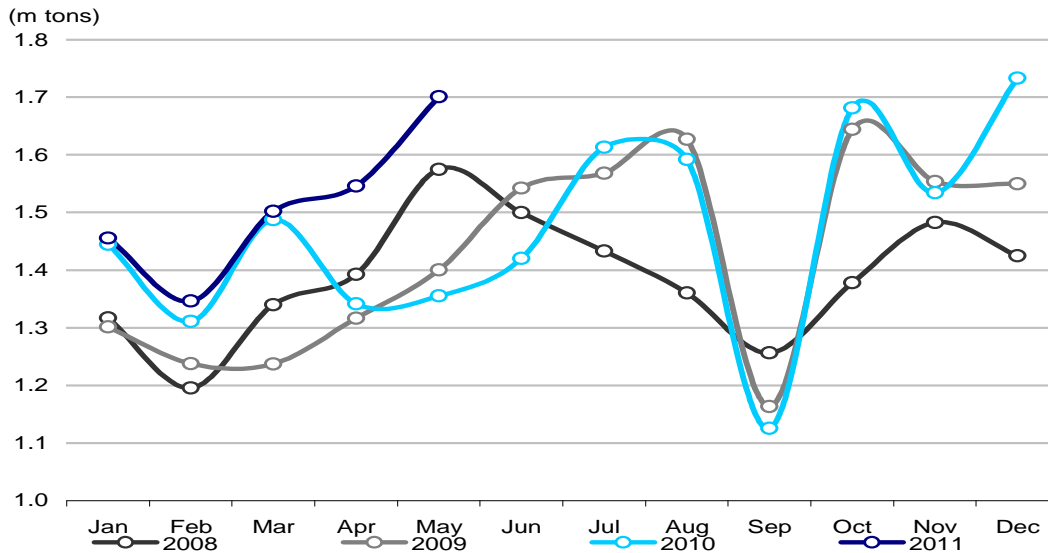
	SMGR			INTP			SMCB			OTHERS		
	5M10	5M11	%Chg	5M10	5M11	%Chg	5M10	5M11	%Chg	5M10	5M11	%Chg
Sumatra	44.5%	41.8%	-2.7%	15.9%	16.1%	0.2%	9.4%	11.2%	1.8%	30.2%	30.9%	0.7%
Java	38.0%	36.3%	-1.7%	39.9%	40.2%	0.3%	19.4%	20.9%	1.5%	2.7%	2.6%	-0.1%
Kalimantan	52.9%	50.0%	-2.9%	27.7%	27.7%	-0.1%	11.2%	12.3%	1.0%	8.1%	10.1%	1.9%
Sulawesi	56.3%	62.3%	6.0%	18.9%	12.6%	-6.3%	1.0%	0.6%	-0.3%	23.9%	24.4%	0.6%
Nusa Tenggara	38.6%	37.4%	-1.2%	37.4%	37.4%	0.0%	4.5%	5.5%	1.0%	19.6%	19.7%	0.2%
East Indonesia	67.4%	64.2%	-3.3%	18.1%	18.4%	0.3%	0.8%	0.4%	-0.4%	13.6%	17.0%	3.4%
Average	42.8%	41.1%	-1.8%	31.0%	31.0%	0.0%	13.7%	15.3%	1.6%	12.5%	12.7%	0.2%

Source: Indonesia Cement Association (ASI), Kresna Research

Semen Gresik (SMGR): BUY - TP Rp12,200

After successfully aligned the new technology in Tuban plants, East Java, in Apr11, sales volume was progressing impressively. Sales growth in Apr11 and May11 reached 15.2% YoY and 25.5% YoY, respectively, accelerated from 0.7% YoY in Jan11, 2.7% YoY in Feb11 and 1.0% YoY in Mar11. We believe the trend will continue, thus catching up our FY11 domestic sales target of 19.2m tons. Presently, SMGR is trading at FY11 P/E of 13.4x, a 13% discount to INTP and 15.7% discount to SMCB. In addition, the company also promises attractive FY11 dividend yield of 3.5%. We have a BUY rating on the stock with TP of Rp12,200. It is our best pick in Indonesia cement sector.

Sales volume was progressing impressively since Apr11



Source: Indonesia Cement Association (ASI), Kresna Research

Financial Highlights

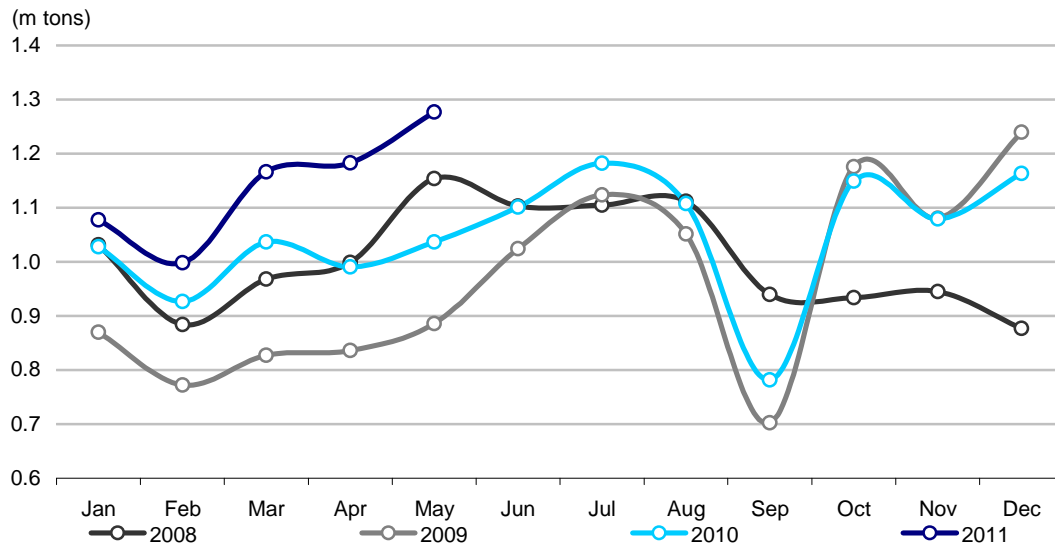
Year to Dec	2009	2010	2011E	2012F	2013F
Revenue (Rpb)	14,388	14,344	16,139	17,608	20,060
EBITDA (Rpb)	4,768	4,964	5,589	6,192	7,465
Net Profit (Rpb)	3,326	3,633	4,260	4,553	5,374
EPS (Rp)	561	613	718	768	906
EPS Growth (%)	31.8	9.2	17.3	6.9	18.0
ROAE (%)	36.4	32.7	32.4	29.6	30.0
DPS (Rp)	271	308	337	395	422
Div. Yield (%)	5.2	3.6	3.5	4.1	4.4
P/E (x)	9.3	14.1	13.4	12.6	10.7
P/BV (x)	3.0	4.3	4.0	3.5	3.0
EV/EBITDA (x)	5.4	9.7	9.8	8.5	6.7

Source: Kresna Research

Indocement Tunggal Prakarsa (INTP): BUY - TP Rp18,700

As market leader in Java (40.2% market share), INTP will become the main beneficiary from robust cement demand in the island, as shown by its outstanding sales performance in 5M11 (Java = +17.9% YoY, national = +13.6 YoY). Current utilization rate of 73% (the lowest amongst SMGR and SMCB) will give ability to serve growing domestic demand in the future with less capex spending. INTP is also the most profitable cement company in Indonesia and plausibly in the world. We maintain our BUY recommendation on the counter with TP of Rp18,700.

Strong monthly domestic sales volume



Source: Indonesia Cement Association (ASI), Kresna Research

Financial Highlights

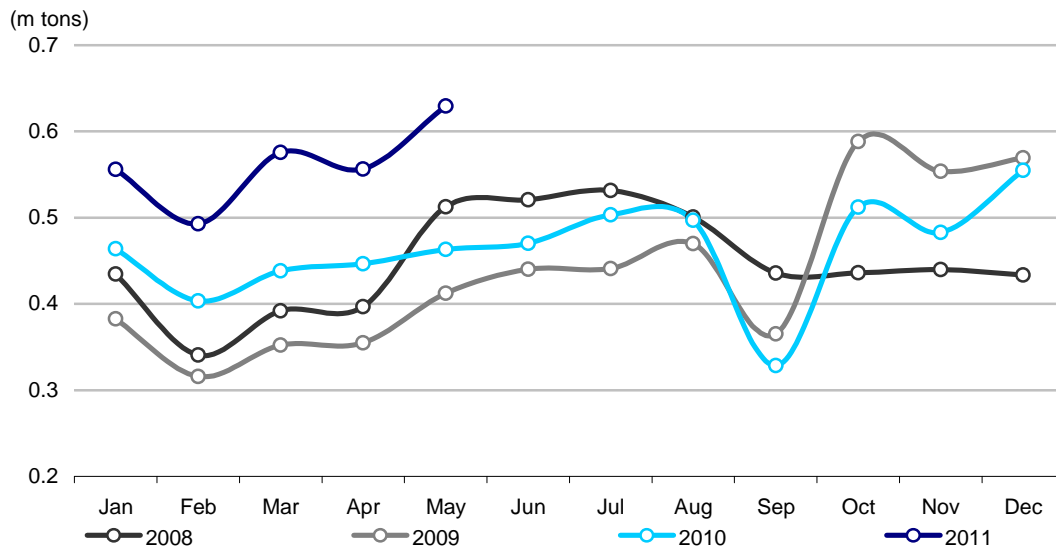
Year end Dec	2009	2010	2011E	2012F	2013F
Revenue (Rpbn)	10,576	11,138	12,910	14,085	15,831
EBITDA (Rpbn)	4,263	4,641	5,386	5,959	6,693
Net Profit (Rpbn)	2,747	3,225	3,956	4,495	5,208
EPS (Rp)	746	876	1,075	1,221	1,415
EPS Growth (%)	57.4	17.4	22.7	13.6	15.9
ROAE (%)	28.6	27.1	27.1	25.4	24.4
DPS (Rp)	150	225	262	322	366
Div Yield (%)	1.9	1.4	1.6	1.9	2.2
P/E (x)	10.6	18.2	15.4	13.6	11.7
P/BV (x)	2.7	4.7	3.8	3.1	2.6
EV / EBITDA (x)	6.3	12.2	9.8	8.3	7.0

Source: Kresna Research

Holcim Indonesia (SMCB): HOLD - TP Rp2,350

SMCB posted higher volume growth than SMGR and INTP in 5M11. However this was because the company run an aggressive pricing strategy. In 1Q11, SMCB's average selling price (ASP) almost unchanged compared to last year, while INTP and SMGR increased their ASP by 1%-7% YoY. Amid increasing energy cost, this strategy does not bode well for SMCB's profitability outlook. Should the company maintains this low price strategy throughout this year, we may cut our FY11 EPS estimate by about 6% to Rp129. Maintain our HOLD rating on SMCB with TP of Rp2,350.

Accelerating sales volume in 2011



Source: Indonesia Cement Association (ASI), Kresna Research

Financial Highlights

Year to Dec	2009	2010	2011E	2012F	2013F
Revenue (Rpbn)	5,944	5,961	7,016	7,387	8,244
EBITDA (Rpbn)	1,840	1,854	2,226	2,286	2,548
Net Profit (Rpbn)	896	828	1,050	1,071	1,367
EPS (Rp)	117	108	137	140	178
EPS Growth (%)	217.4	(7.5)	26.7	2.1	27.6
ROAE (%)	29.3	16.3	14.3	12.7	14.2
DPS (Rp)	-	-	23	34	35
Div. Yield (%)	-	-	1.1	1.6	1.6
P/E (x)	9.2	20.0	15.9	15.6	12.2
P/BV (x)	2.5	2.4	2.1	1.9	1.6
EV/EBITDA (x)	5.4	9.7	8.0	8.0	6.9

Source: Kresna Research

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BUY = stock return > 10% over the next 12 months (excluding dividend)

HOLD = stock return -10% to 10% over the next 12 months (excluding dividend)

SELL = stock return <10% over the next 12 months (excluding dividend)

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