



CEMENT

Cyclical Downturn Only

Rating : Overweight (Maintain)

Analyst: Irwan Budiarto

Investment Thesis

Robust domestic cement sales growth of 13.1% YoY in 8M11 underscore our OVERWEIGHT recommendation for the sector. We believe its spectacular performance will be continuing in 2H11 with respect to rapid infrastructure development as well as strong property demand, supported by low interest rates. Our top pick for this sector remains SMGR, since we believe the completion of its new plant in Tuban (in operation less than 6 months), will provide a positive catalyst for the counter. Additionally, SMGR's valuation at a FY11 P/E of 12.5x is more attractive than that of INTP (FY11 P/E of 14.8x) or SMCB (FY11 P/E of 15.9x).

Key Catalysts

- **Aug11 domestic sales slid on Fasting season.** Based on Indonesia Cement Association (ASI) data, domestic cement sales volume slid by 17.7% MoM or 0.3% YoY to 3.6m tons in Aug11 due to a corollary effect of the fasting season. Comparing the performance with last year's fasting season, which took place in Sep10, the Aug11 domestic sales were actually 41.0% YoY higher. On the other hand, national cement export in Aug11 increased by 27.1% MoM to 102.6k tons, mostly driven by SMCB, which recorded 2408.4% MoM growth in its export sales to 32.6k tons.
- **Java was still the main source of growth.** In 8M11, Java posted the highest growth of 15.2% YoY for domestic cement sales, following by Sulawesi (+12.6% YoY), Sumatra (+12.0% YoY), Kalimantan (+11.5% YoY) and Nusa Tenggara (+9.3% YoY). We believe rapid infrastructure development, along with strong property demand, is the key driver for robust sales in Java, particularly for Jakarta and Banten, which posted sales growth of 22.5% YoY and 29.4% YoY in 8M11, respectively. On the flip side, Eastern Indonesia was the only region reporting a volume drop, by 11.2% YoY to 545.9k tons in 8M11. Overall, domestic cement sales in 8M11 were recorded at 30.5m tons, up 13.1% YoY from 27.0m tons in 8M10, and still in line with our forecast of 13.0% YoY.
- **SMGR gaining market share.** Amongst the three top players, SMGR posted the smallest decline, marking just 15.6% MoM on domestic sales volume in Aug11, while SMCB and INTP recorded a drop of 19.7% MoM and 21.9% MoM, respectively. Hence, market share-wise, SMGR improved by 1.0% MoM to 40.5%, while SMCB and INTP declined by 0.4% MoM and 1.7% MoM to 16.1% and 30.8%, respectively.

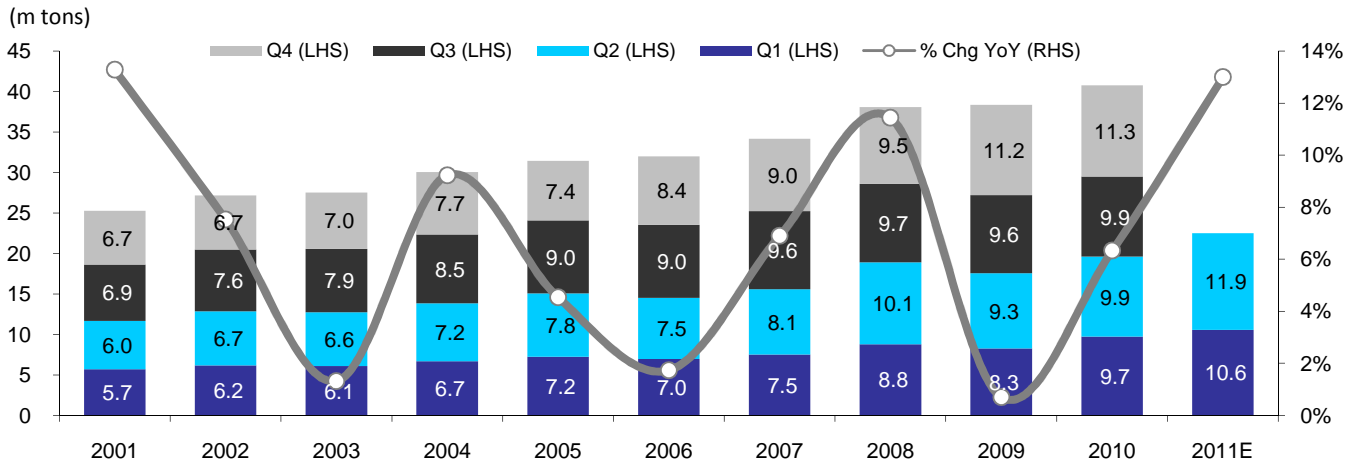
Impact

- **Expect a 12% MoM growth in Sep11, maintain FY11 growth forecast of 13.0% YoY.** Historically, monthly domestic cement sales will rebound strongly post-fasting season. According to our prediction, domestic sales will grow by 12.0%-15.0% MoM to 4.0m-4.1m tons in Sep11 or 57.9%-62.1% YoY higher than that in Sep10. With 8M11 achievement having accounted for 66.2% of our FY estimate, we maintain our FY11 growth target of 13.0% YoY for the moment.
- **SMGR remains our top BUY in the sector.** We continue to favour Semen Gresik (BUY - TP Rp10,950) because of: 1) The progress of its 2 new plants, which have reached around 90% completion: it is estimated Tuban IV will be completed by the end of this year while Tonasa V should come on stream by Mar12, signifying additional capacity of 5.0m tons p.a. in the pipeline, thus resolving capacity constraint issues, 2) During the first 7 months the company has carried out maintenance on its all plants across Indonesia, while during the remainder of this year, the company has only scheduled four maintenance sessions in its plants, namely, Indarung II, Indarung IV, Tuban I and Tuban III. In our view, this signifies lower maintenance costs by the end of the year, while on the upside it will potentially facilitate increased company production volume, and 3) SMGR is the only one who might be able to preserve its net margin (+0.2% YoY) in 1H11, while others are still struggling to control increasing costs.
- **INTP: a BUY merely because of recent share plunge in the market.** We upgrade our recommendation for INTP from HOLD to BUY (TP still at Rp16,650), mainly because of recent price correction. Although the company still possesses excess capacity (and can thus more confidently meet strong demand this year), our concern lies in the company's margins, which posted a painful fall in 1H11, slumping by 4.3% to 47.4%, the sharpest decline among its competitors. Valuation wise, INTP is now trading at a 7.2% premium to the market's FY11 P/E of 13.8x, a multiple that we feel no longer is sufficiently attractive.
- **SMCB: HOLD on potential increasing threat from SMGR's new plants.** We believe that SMCB's strong domestic cement sales (+29.8% YoY in 8M11) are unlikely to be sustainable over the next year, with respect to the increasing pressure of product after the completion of SMGR's new plants. At the moment, the counter only warrants a HOLD rating because of the limited upside potential that it offers to our TP of Rp2,200 and the unjustified premium multiple of 15.9x FY11 P/E.

Financial Highlights

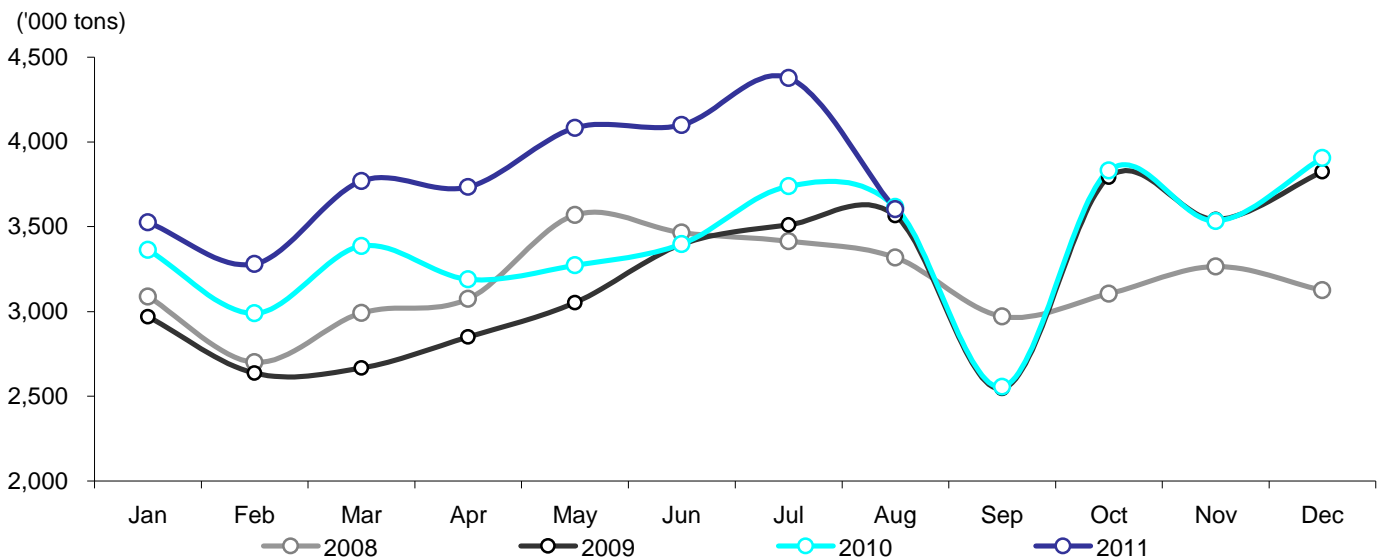
	Current	Target	Upside	Rec	EPS Growth (%)		P/E (x)		EV/ton (US\$)		Div. Yield (%)
	Price	Price	(%)		11E	12F	11E	12F	11E	12F	
INTP	14,100	16,650	18.1	BUY	8.9	3.3	14.8	14.3	264	242	1.9
SMCB	1,980	2,200	11.1	HOLD	15.4	7.3	15.9	14.8	214	218	1.2
SMGR	8,500	10,950	28.8	BUY	11.2	4.8	12.5	11.9	271	248	3.6
Average					10.7	4.5	13.8	13.2	258	242	2.5

Quarterly cement sales



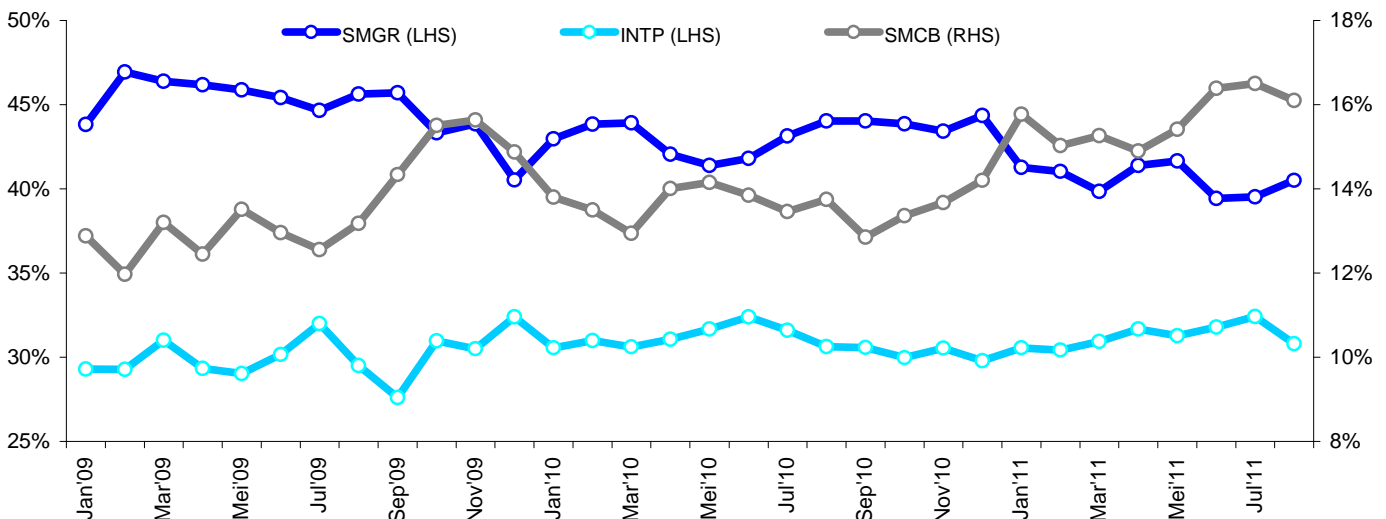
Source: Indonesia Cement Association, Kresna Research

Monthly cement sales



Source: Indonesia Cement Association, Kresna Research

Trend of market share



Source: Indonesia Cement Association, Kresna Research

Cement Sector - OW

Cyclical Downturn Only



National Cement Sales on August 2011

(000 tons)	SMGR			INTP			SMCB			DOMESTIC		
	Aug'10	Aug'11	%Chg	Aug'10	Aug'11	%Chg	Aug'10	Aug'11	%Chg	Aug'10	Aug'11	%Chg
Sumatra	372	326	-12.4%	129	131	1.0%	79	94	18.2%	845	810	-4.2%
Java	809	694	-14.2%	800	785	-1.9%	387	441	13.9%	2,026	1,956	-3.4%
Kalimantan	135	129	-4.8%	65	67	3.1%	21	32	56.6%	243	254	4.5%
Sulawesi	139	181	30.6%	29	55	89.4%	1	3	167.3%	215	307	42.7%
Nusa Tenggara	84	84	-0.9%	76	59	-22.7%	9	10	20.0%	216	206	-4.3%
East Indonesia	52	47	-11.0%	9	12	40.9%	0	0	92.6%	70	69	-1.2%
Total Domestic	1,592	1,460	-8.3%	1,108	1,109	0.1%	497	581	16.8%	3,615	3,603	-0.3%
Export: Cement	37	4	-88.5%	2	1	-3.8%	26	-	N.A	68	6	-91.6%
Clinker	-	-	N.A	94	27	-71.7%	127	33	-74.3%	220	97	-56.0%
Total Sales	1,629	1,465	-10.1%	1,203	1,137	-5.5%	650	613	-5.6%	3,903	3,706	-5.1%

Source: Indonesia Cement Association

National Market Share on August 2011

	SMGR			INTP			SMCB			OTHERS		
	Aug'10	Aug'11	%Chg	Aug'10	Aug'11	%Chg	Aug'10	Aug'11	%Chg	Aug'10	Aug'11	%Chg
Sumatra	44.1%	40.3%	-3.8%	15.3%	16.1%	0.8%	9.4%	11.6%	2.2%	31.2%	32.0%	0.7%
Java	39.9%	35.5%	-4.5%	39.5%	40.1%	0.6%	19.1%	22.5%	3.4%	1.5%	1.9%	0.4%
Kalimantan	55.6%	50.7%	-4.9%	26.8%	26.4%	-0.4%	8.5%	12.8%	4.3%	9.1%	10.1%	1.0%
Sulawesi	64.4%	59.0%	-5.5%	13.5%	17.9%	4.4%	0.5%	1.0%	0.5%	21.6%	22.1%	0.6%
Nusa Tenggara	39.1%	40.5%	1.4%	35.3%	28.5%	-6.8%	4.0%	5.0%	1.0%	21.6%	26.1%	4.4%
East Indonesia	74.7%	67.2%	-7.4%	12.6%	18.0%	5.4%	0.2%	0.3%	0.2%	12.5%	14.5%	1.9%
Average	44.0%	40.5%	-3.5%	30.6%	30.8%	0.1%	13.7%	16.1%	2.4%	11.6%	12.6%	1.0%

Source: Indonesia Cement Association

National Cement Sales in 8M11

(000 tons)	SMGR			INTP			SMCB			DOMESTIC		
	8M10	8M11	%Chg	8M10	8M11	%Chg	8M10	8M11	%Chg	8M10	8M11	%Chg
Sumatra	2,831	2,996	5.8%	1,001	1,153	15.2%	595	809	36.0%	6,358	7,123	12.0%
Java	5,513	6,006	8.9%	5,885	6,749	14.7%	2,788	3,593	28.9%	14,541	16,755	15.2%
Kalimantan	1,029	1,050	2.0%	523	604	15.5%	214	280	30.6%	1,926	2,148	11.5%
Sulawesi	1,166	1,334	14.4%	312	296	-5.0%	16	17	6.5%	1,952	2,198	12.6%
Nusa Tenggara	600	627	4.4%	585	633	8.2%	67	84	24.1%	1,560	1,704	9.3%
East Indonesia	427	347	-18.7%	104	98	-5.6%	5	2	-59.3%	615	546	-11.2%
Total Domestic	11,566	12,359	6.9%	8,409	9,533	13.4%	3,686	4,786	29.8%	26,952	30,474	13.1%
Export: Cement	137	71	-48.2%	17	17	2.4%	234	59	-74.9%	403	173	-57.1%
Clinker	-	-	N/A	637	367	-42.3%	750	176	-76.6%	1,387	607	-56.2%
Total Sales	11,703	12,430	6.2%	9,063	9,918	9.4%	4,670	5,020	7.5%	28,741	31,254	8.7%

Source: Indonesia Cement Association

National Market Share in 8M11

	SMGR			INTP			SMCB			OTHERS		
	8M10	8M11	%Chg	8M10	8M11	%Chg	8M10	8M11	%Chg	8M10	8M11	%Chg
Sumatra	44.5%	42.1%	-2.5%	15.7%	16.2%	0.4%	9.4%	11.4%	2.0%	30.4%	30.4%	0.0%
Java	37.9%	35.8%	-2.1%	40.5%	40.3%	-0.2%	19.2%	21.4%	2.3%	2.4%	2.4%	0.0%
Kalimantan	53.4%	48.9%	-4.5%	27.1%	28.1%	1.0%	11.1%	13.0%	1.9%	8.3%	10.0%	1.6%
Sulawesi	59.7%	60.7%	1.0%	16.0%	13.5%	-2.5%	0.8%	0.8%	0.0%	23.5%	25.1%	1.6%
Nusa Tenggara	38.5%	36.8%	-1.7%	37.5%	37.1%	-0.4%	4.3%	4.9%	0.6%	19.7%	21.2%	1.5%
East Indonesia	69.4%	63.5%	-5.9%	16.9%	18.0%	1.1%	0.9%	0.4%	-0.5%	12.8%	18.1%	5.3%
Average	42.9%	40.6%	-2.4%	31.2%	31.3%	0.1%	13.7%	15.7%	2.0%	12.2%	12.5%	0.2%

Source: Indonesia Cement Association

IMPORTANT DISCLOSURES AND DISCLAIMERS

This report has been produced by PT Kresna Graha Sekurindo Tbk (Kresna Securities), Indonesia.

Definition of ratings :

- 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)

Analyst Certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

This report is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning Kresna Securities, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of Kresna Securities as a result of using different assumptions and criteria.

Kresna Securities is under no obligation to update or keep current the information contained herein. Kresna Securities, its directors, officers and employees or clients may have or have had interests or long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in them as principal or agent. Kresna Securities may act or have acted as market-maker in the securities or other financial instruments discussed in this report, and may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant companies. Employees of Kresna Securities may serve or have served as officers or directors of the relevant companies. Kresna Securities may rely on information barriers, such as "Chinese Walls", to control the flow of information contained in one or more areas within Kresna Securities, into other areas, units, groups or affiliates of the company.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative, products and futures are not suitable for all investors, and trading in these instruments is considered risky. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their respective sales representative. Neither Kresna Securities nor any of its affiliates, directors, employees or agents accept any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

2011 Kresna Securities. All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of Kresna Securities and the firm accepts no liability whatsoever for the actions of third parties in this respect.