



# CEMENT

## Still on Track

**Rating : Overweight (Maintain)**

**Analyst: Irwan Budiarto**

### Investment Thesis

We reiterate our **OVERWEIGHT** recommendation on the sector, underpinned by robust domestic cement sales in 9M11, which grew by 16.3% YoY to 34.3m tons. We believe such strong performance will repeat in 4Q11, boosted by rapid infrastructure developments and strong property demand. Also worth noting that based on historical data, the Government of Indonesia is usually disbursing most of its budget by the end of the year. Our top pick in the sector remains **SMGR (BUY - TP Rp10,950)** given its undemanding valuation; it is trading at FY11 P/E of 12.7x, more attractive than its competitors: **INTP (BUY - TP Rp16,650)** is trading at FY11 P/E of 15.0x, while **SMCB (BUY - TP Rp2,200)** is at FY11 P/E of 14.9x.

### Key Catalysts

- **Sep11 domestic sales rebounds as Fasting season ends.** The rebounding cement sales in Sep11 arrived as expected, growing 6.6% MoM to 3.8m tons compared to 3.6m tons in Aug11, since the fasting month was over; meaning that construction and infrastructure activities have normal again. Under our coverage, SMGR posted the highest growth of 11.3% MoM, followed by INTP (+8.0% MoM) and SMCB (-0.2% MoM). SMGR's remarkable performance was mainly attributed from its winning in three largest cement markets: Java (+1.7%), Sumatera (+4.6%) and Sulawesi (+5.1%). Nationally, both SMGR and INTP posted an increase in market share by 1.8% MoM and 0.4% MoM to 42.3% and 31.2%, respectively, while SMCB's dipped by 1.0% MoM to 15.1%.
- **Positive growth across the region.** In 9M11, positive growth was seen across the regions, except in Eastern Indonesia (-12.5% YoY). Java posted the highest growth of 19.2% YoY to 18.9m tons, followed by Kalimantan (+14.7% YoY to 2.4m tons), Sumatera (+14.6% YoY to 8.0m tons), Sulawesi (+14.6% YoY to 2.5m tons) and Nusa Tenggara (+12.2% YoY to 2.0m tons). Overall, domestic cement sales in 9M11 was recorded at 34.3m tons, up 16.3% YoY from 29.5m tons in 9M10; the number is still in line with our forecast, reaching 74.4% of our FY11 estimate of 46.1m tons.
- **Export: only a temporary surge.** Cement export in Sep11 jumped 68.2% MoM to 172.5k tons from 102.6k tons in Aug11. Robust export in Sep11 were mostly driven by INTP's and SMCB's strong sales, which recorded a 192.0% MoM and 83.3% MoM growth to 81.8k tons and 59.8k tons, respectively. However, we believe such high export number was more of an anomaly and should decline in the following months as demand at home will see a strong rebound post-fasting season, as it did in the previous years.

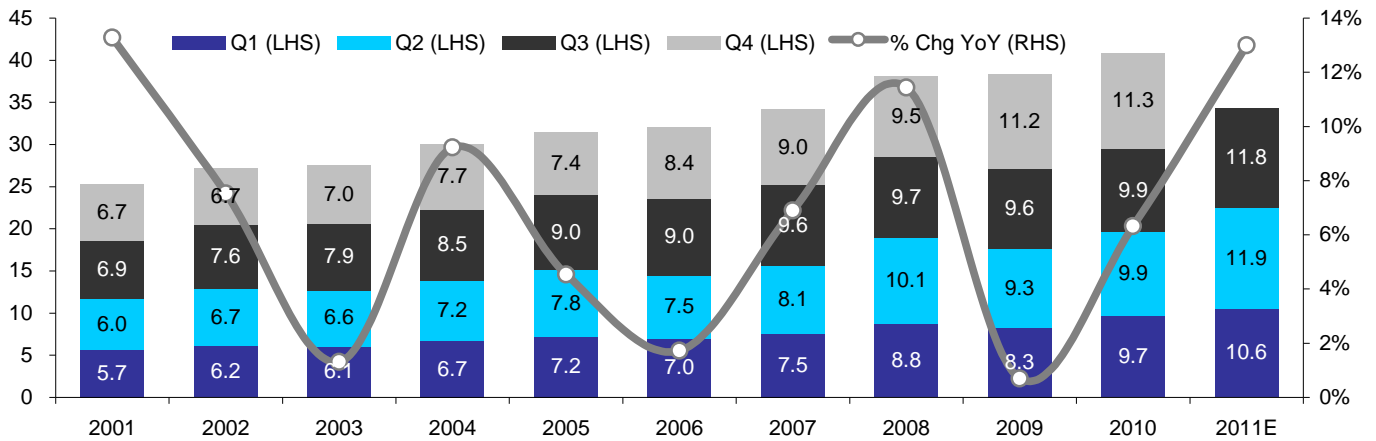
### Impact

- **Maintain FY11 growth forecast.** Although Sep' cement sales growth of 6.6% MoM was below our projection, yet we prefer to maintain our forecast since we believe the sales could accelerating in the upcoming months. Our reasoning is, historically, the Government of Indonesia is usually disbursing most of its budget by the end of years, especially for infrastructure development. 9M11 sales has also achieved around 74.4% of our full year estimate of 46.1m tons.
- **SMGR's 9M11 revenue may up by 12% YoY – still our top pick.** Recently, the company announced that revenue in 9M11 may go up by 12% YoY to Rp11.5tr, from Rp10.3tr in 9M10, while net income was projected to increase by 5%-10% YoY to Rp2.6tr-Rp2.7tr. Amid stable selling price this year, the increase in revenue was mainly supported by higher sales volume, which reported up by 9%-10% YoY. The company, however, also indicated that margins could slip this year, due to higher input costs, particularly related with energy costs. However, we have incorporated that scenario in our model, hence projecting a 1.4% YoY decline in gross margin to 46.1% and EPS growth of 11.2% YoY in 2011. Our top pick in the sector remains SMGR given its undemanding valuation. At the moment SMGR is trading at FY11 P/E of 12.7x, making it more attractive than its competitors: INTP (BUY - TP Rp16,650) with FY11 P/E of 15.0x and SMCB (BUY - TP Rp2,200) with FY11 P/E of 14.9x.

### Financial Highlights

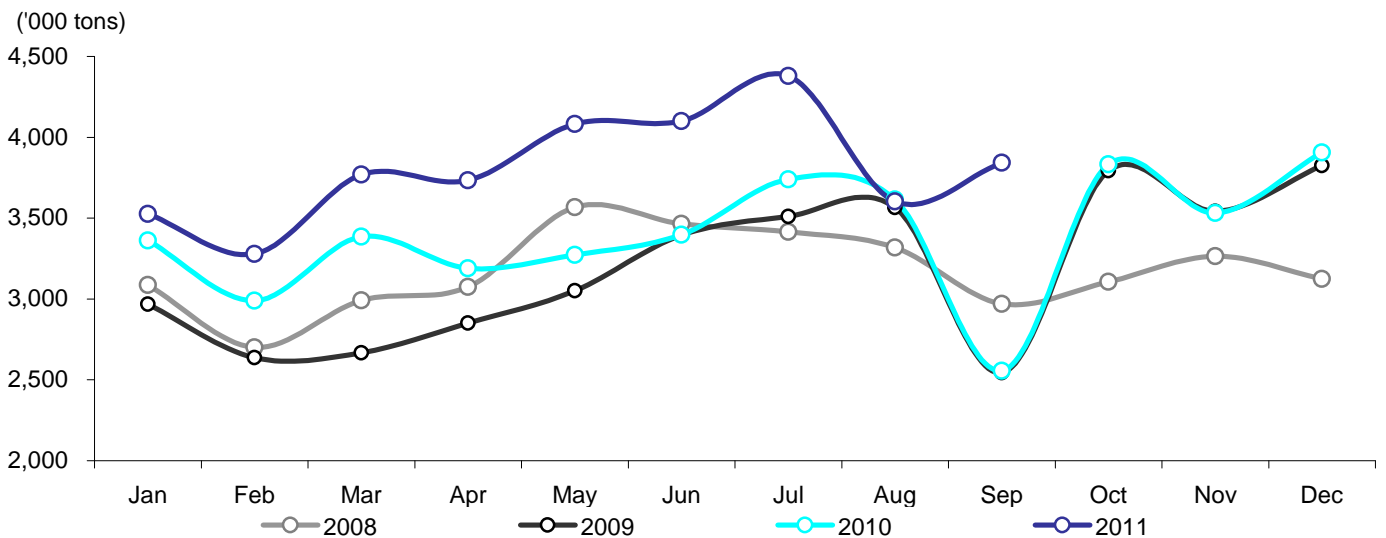
	Current	Target	Upside	Rec	EPS Growth (%)		P/E (x)		EV/ton (US\$)		Div. Yield (%)
	Price	Price	(%)		11E	12F	11E	12F	11E	12F	
INTP	14,300	16,650	16.4	BUY	8.9	3.3	15.0	14.5	269	250	2.0
SMCB	1,860	2,200	18.3	BUY	15.4	7.3	14.9	13.9	202	206	1.2
SMGR	8,650	10,950	26.6	BUY	11.2	4.8	12.7	12.1	263	216	3.5
<b>Average</b>					<b>10.7</b>	<b>4.5</b>	<b>13.8</b>	<b>13.2</b>	<b>255</b>	<b>227</b>	<b>2.5</b>

## Quarterly cement sales



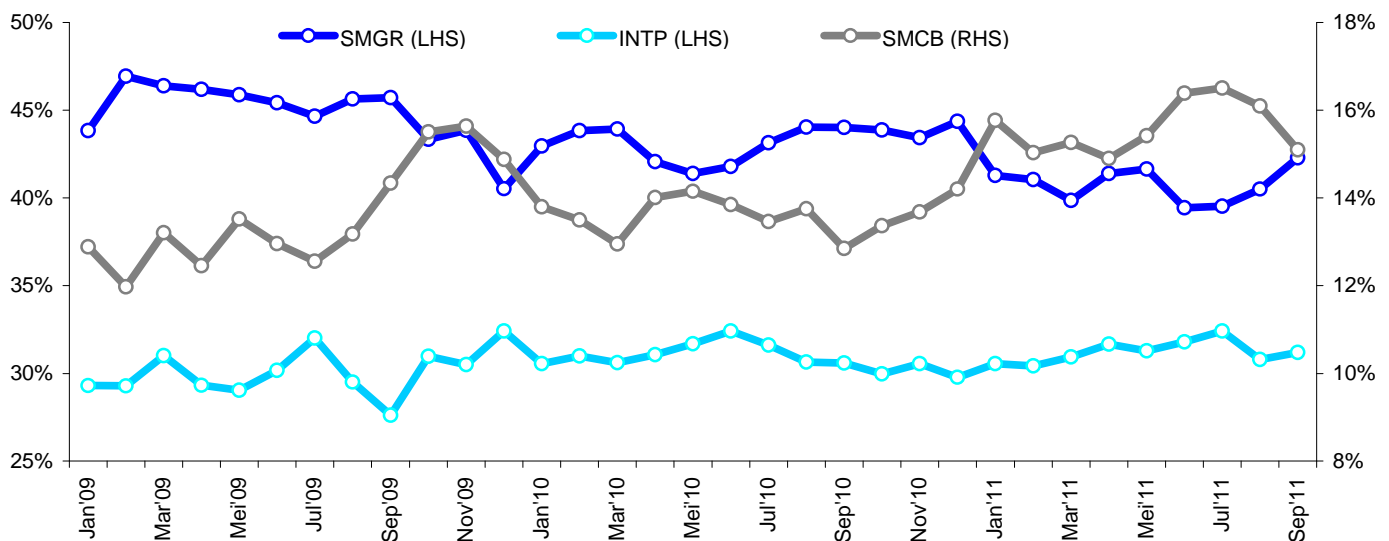
Source: Indonesia Cement Association, Kresna Research

## Monthly cement sales



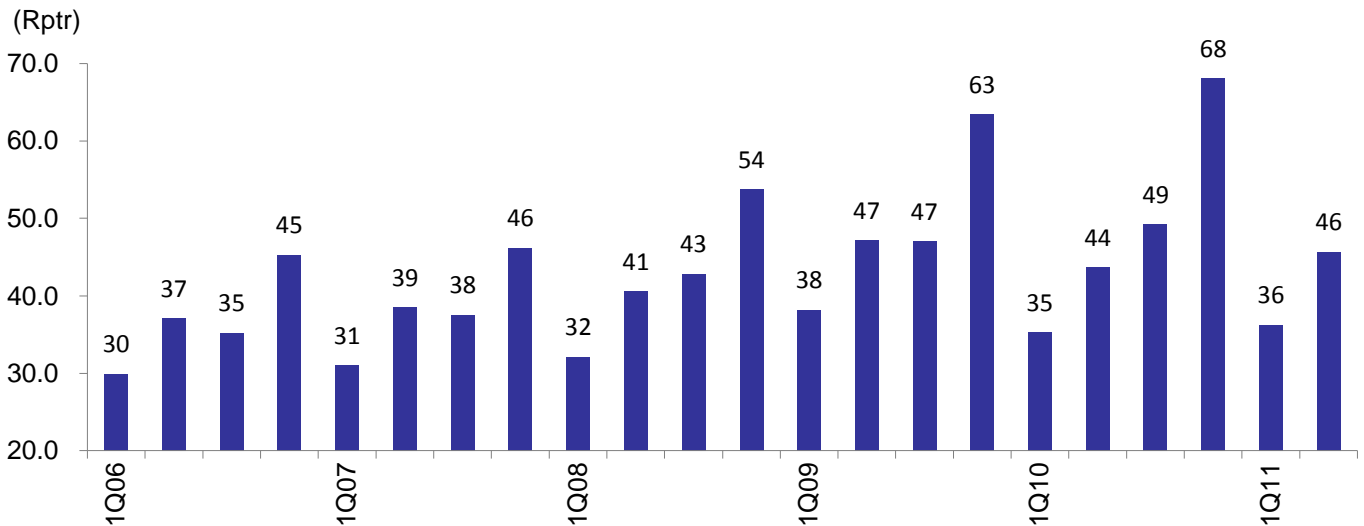
Source: Indonesia Cement Association, Kresna Research

## Trend of market share



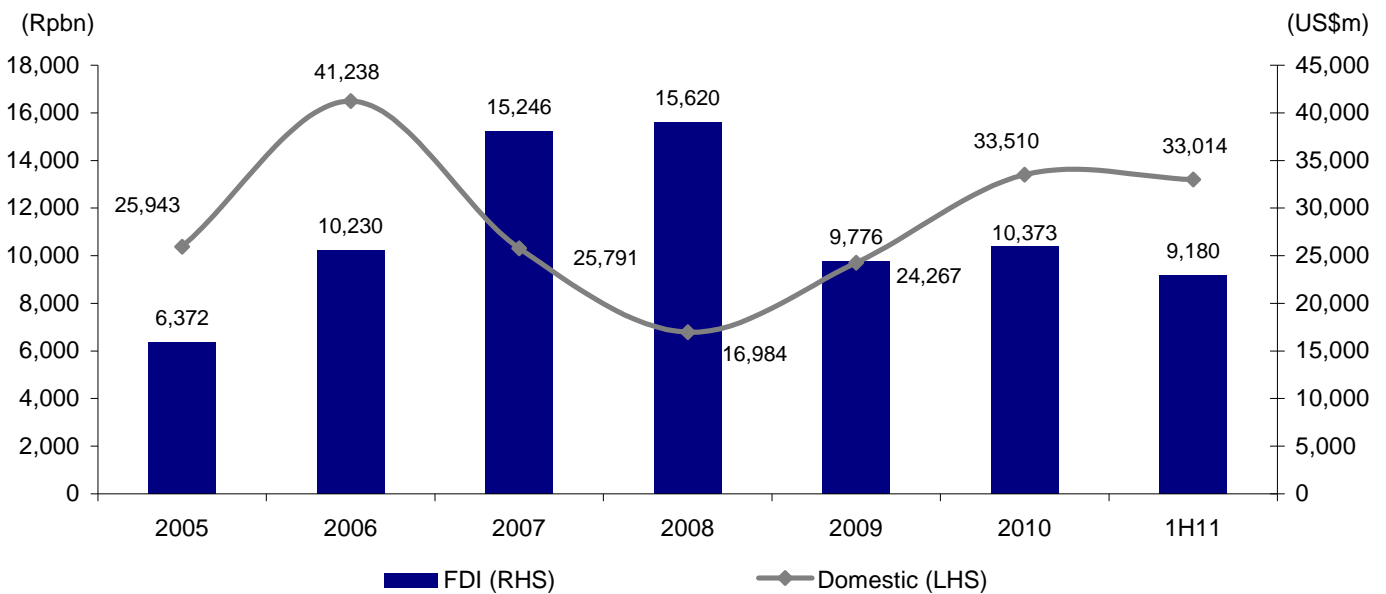
Source: Indonesia Cement Association, Kresna Research

**Quarterly government spending**



Source: Bloomberg, Kresna Research

**Robust Investment in 1H11**



Source: BKPM, CEIC, Kresna Research

**National Cement Sales on September 2011**

(000 tons)	SMGR			INTP			SMCB			DOMESTIC		
	Aug'11	Sep'11	%Chg	Aug'11	Sep'11	%Chg	Aug'11	Sep'11	%Chg	Aug'11	Sep'11	%Chg
Sumatra	326	391	19.8%	131	123	-5.9%	94	99	5.1%	810	871	7.6%
Java	694	779	12.3%	785	858	9.3%	441	423	-3.9%	1,956	2,096	7.1%
Kalimantan	129	125	-3.0%	67	86	27.4%	32	44	36.4%	254	280	10.4%
Sulawesi	181	187	3.5%	55	45	-19.1%	3	4	16.2%	307	293	-4.7%
Nusa Tenggara	84	100	20.1%	59	81	37.7%	10	10	-6.0%	206	249	20.4%
East Indonesia	47	43	-8.1%	12	5	-56.7%	0	0	-54.2%	69	54	-22.6%
Total Domestic	1,460	1,625	11.3%	1,109	1,197	8.0%	581	580	-0.2%	3,603	3,843	6.6%
Export: Cement	4	5	21.2%	1	0	-68.2%	-	1	N.A	6	6	12.1%
Clinker	-	-	N.A	27	81	206.5%	33	59	80.9%	97	166	71.5%
Total Sales	1,465	1,631	11.3%	1,137	1,279	12.5%	613	639	4.3%	3,706	4,015	8.3%

Source: Indonesia Cement Association

**National Market Share on September 2011**

	SMGR			INTP			SMCB			OTHERS		
	Aug'11	Sep'11	%Chg	Aug'11	Sep'11	%Chg	Aug'11	Sep'11	%Chg	Aug'11	Sep'11	%Chg
Sumatra	40.3%	44.9%	4.6%	16.1%	14.1%	-2.0%	11.6%	11.3%	-0.3%	22.5%	22.7%	0.2%
Java	35.5%	37.2%	1.7%	40.1%	40.9%	0.8%	22.5%	20.2%	-2.3%	54.3%	54.6%	0.3%
Kalimantan	50.7%	44.5%	-6.1%	26.4%	30.5%	4.1%	12.8%	15.8%	3.0%	7.1%	7.3%	0.2%
Sulawesi	59.0%	64.0%	5.1%	17.9%	15.2%	-2.7%	1.0%	1.2%	0.2%	8.5%	7.6%	-0.9%
Nusa Tenggara	40.5%	40.4%	-0.1%	28.5%	32.5%	4.1%	5.0%	3.9%	-1.1%	5.7%	6.5%	0.7%
East Indonesia	67.2%	79.8%	12.6%	18.0%	10.0%	-7.9%	0.3%	0.2%	-0.1%	1.9%	1.4%	-0.5%
Average	40.5%	42.3%	1.8%	30.8%	31.2%	0.4%	16.1%	15.1%	-1.0%	100.0%	100.0%	0.0%

Source: Indonesia Cement Association

**National Cement Sales in 9M11**

(000 tons)	SMGR			INTP			SMCB			DOMESTIC		
	9M10	9M11	%Chg	9M10	9M11	%Chg	9M10	9M11	%Chg	9M10	9M11	%Chg
Sumatra	3,096	3,387	9.4%	1,099	1,276	16.1%	656	908	38.4%	6,974	7,994	14.6%
Java	6,022	6,785	12.7%	6,392	7,607	19.0%	3,028	4,017	32.7%	15,817	18,851	19.2%
Kalimantan	1,135	1,175	3.5%	562	689	22.6%	235	324	37.9%	2,117	2,428	14.7%
Sulawesi	1,296	1,521	17.4%	361	341	-5.5%	18	21	16.7%	2,174	2,491	14.6%
Nusa Tenggara	658	727	10.5%	668	714	6.9%	73	93	27.4%	1,741	1,953	12.2%
East Indonesia	484	390	-19.4%	110	104	-5.5%	6	2	-66.7%	686	600	-12.5%
Total Domestic	12,691	13,984	10.2%	9,191	10,731	16.8%	4,015	5,365	33.6%	29,508	34,317	16.3%
Export: Cement	174	76	-56.3%	20	18	-10.0%	260	60	-76.9%	472	179	-62.1%
Clinker	-	-	N/A	765	449	-41.3%	876	235	-73.2%	1,642	773	-52.9%
Total Sales	12,865	14,060	9.3%	9,977	11,197	12.2%	5,151	5,660	9.9%	31,622	35,269	11.5%

Source: Indonesia Cement Association

**National Market Share in 9M11**

	SMGR			INTP			SMCB			OTHERS		
	9M10	9M11	%Chg	9M10	9M11	%Chg	9M10	9M11	%Chg	9M10	9M11	%Chg
Sumatra	44.4%	42.4%	-2.0%	15.8%	16.0%	0.2%	9.4%	11.4%	2.0%	23.6%	23.3%	-0.3%
Java	38.1%	36.0%	-2.1%	40.4%	40.4%	-0.1%	19.1%	21.3%	2.2%	53.6%	54.9%	1.3%
Kalimantan	53.6%	48.4%	-5.2%	26.5%	28.4%	1.9%	11.1%	13.3%	2.3%	7.2%	7.1%	-0.1%
Sulawesi	59.6%	61.1%	1.5%	16.6%	13.7%	-2.9%	0.8%	0.8%	0.0%	7.4%	7.3%	-0.1%
Nusa Tenggara	37.8%	37.2%	-0.6%	38.4%	36.6%	-1.8%	4.2%	4.8%	0.6%	5.9%	5.7%	-0.2%
East Indonesia	70.5%	65.0%	-5.6%	16.0%	17.3%	1.2%	0.9%	0.4%	-0.5%	2.3%	1.7%	-0.6%
Average	43.0%	40.8%	-2.3%	31.1%	31.3%	0.1%	13.6%	15.6%	2.0%	100.0%	100.0%	0.0%

Source: Indonesia Cement Association

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