

March 3, 2023



Research Center

Morning KISI/

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Indonesia Cement

Tactical play

Bulk cement to drive domestic sales volumes

This year, we expect cement consumption emerge from slump, given the low-base last year. We project Indonesia domestic cement consumption to post positive growth of 3.2% to 65.0 mn tonnes. Our reasoning for projecting higher cement absorption this year aided by increase in infrastructure spending to IDR392 tn (relatively similar with FY18-19 budget) and historically positive cement demand in one year before election (FY08,13,18) amid weak demand pull from property sector. However, we expect recovery in cement sales volumes to start in May-2023, and weak cement consumption to still persist until Ramadan festive.

Revival of consolidation in Indonesia cement sector

Limited organic growth in recent years have triggered big cement players to look for inorganic growth. In 2H22, Indonesia cement sector has been through another consolidation phase. 1) SMGR consolidated SMBR as part of cement holding via pre-emptive rights and 2) INTIP controls Bosowa Maros' cement capacity starting in Sep-2022 for 3 years ahead through lease agreement. Combining total cement factory controlled by SMGR and INTIP, the incumbent total installed capacity most likely reach 74% of total Indonesia. The last time we seen this condition was back in FY14 (incumbent share of capacity: >70%).

Landscape post consolidation: utilization still low

Post industry consolidation, the most common market perception would be about how stronger the pricing power of incumbent going forward. Unfortunately, this can be argued given low domestic utilization rate. In FY24F, there will be additional 3 mn tonnes new capacity coming in. The location will be in East Kalimantan and owned by Hongshi. We do not expect another new capacity to build, which means the growth of supply will be limited as the government will not grant permit for new cement plant. So, based on our calculation, installed capacity to reach 116.6 mn tonnes by FY24F with utilization rate to stay at 56.9%.

Energy prices cool-off, windfall for cement players

From the beginning 2023 up to date, coal prices have gradually normalized, this was attributed to sluggish demand after the winter passed and easing energy crisis in Europe. Decline in energy prices have become tailwind for cement players. Apart of it, SMGR has secured all of required coal at DMO for FY23F, while INTIP mentioned about a better coal DMO supply this year. We have performed the sensitivity analysis. The result suggest that, with 10p.p. higher DMO portion, gross margin and EBITDA will expand by 0.5%/2.6% from our base assumptions.

Upgrade cement sector recommendation to Overweight

We upgrade our call on cement sector to Overweight due to 1) a significant recovery in sector earnings growth in FY23/24F by 56.0%/14.0%, which we believe can be a tactical reason as cement companies will be outperforming other sectors' bottom-line growth, 2) expansion in ROE to 9.1% (average FY23-24F), surpassing FY17-19 average ROE of 7.3%, and 3) a lower risk posed by energy cost and logistic cost. However, we believe the key concern will be on slow cement sales volumes growth in FY23-24F. we expect there are still upsides for the sector despite of recent rally in cement share prices, especially if coal price keep declining and recovery in cement sales volumes truly emerge in 2H23. Our current pecking order for the sector is INTIP>SMGR, with FY23F TP of IDR13,600/sh (BUY)/IDR8,500/sh (BUY). The preference is based on earnings growth, incremental ROE and likelihood of potential earnings surprise.

Cement sector valuation

	Mkt. cap	PE (x)		EVEBITDA (x)		ROE (%)		EPS growth (%)	
		FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
SMGR	3,197	13.7	13.7	5.9	5.3	7.9	8.2	53.9	9.7
INTIP	2,684	21.0	17.5	9.7	8.4	9.3	11.0	60.1	19.5

Source: KISI

Sector Update

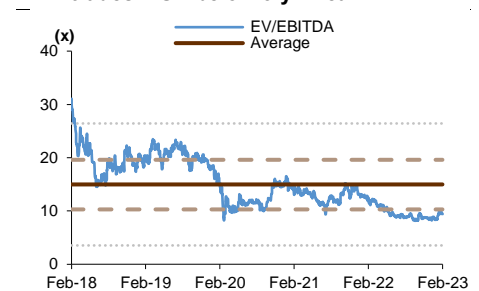
Building Materials

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Overweight (Upgrade)

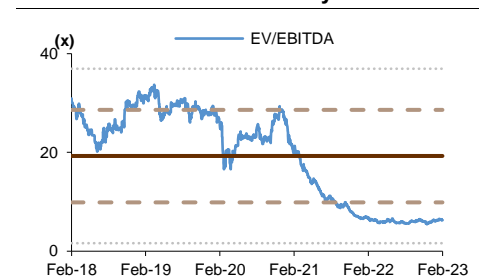
Company	Rating	TP (IDR)
Semen Indonesia	BUY	8,500
Indocement	BUY	13,600

INTIP trades -1SD below 5-yr mean



Source: Bloomberg; KISI

SMGR trades at -1SD below 5-yr mean



Source: Bloomberg; KISI

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Market Commentary

Market Commentary

- JCI ends in modest gains Thursday, after a bit choppy trading as fears that the Fed will keep rising interest rates to combat sticky inflation keep weighing the market sentiment.
- Big banks take the lead to support the index gains along with energy and consumer names.
- Regional markets were mixed at the close, while China stocks swung lower after yesterday's jump as traders continued to digest more hawkish comments from the Fed officials.
- 8/11 sectors ended higher with Energy, Financials, and Industrials among the top performers. While Basic Materials and Transportation were today's lag.
- RUPIAH +0.29% at 15,280 against USD.
- Big banks contributed the most to index gains, while ARTO IJ +5.95% outperformed the most after recent steep drops.
- Energy outperforms the most with help from newcomer stocks HILL IJ +12.40% and ELSA IJ +7.10% after strong FY22 results.
- Commodity stocks were mostly higher as traders weighed signs of a recovery in demand from China. ITMG IJ +2.77%, PTBA IJ +3.09%, INDY IJ +2.17%
- Consumer stocks clawed back from yesterday's losses. MYOR IJ +4.58%, MAPI IJ +4.52%, AMRT IJ +2.42%.
- Among the top active small-mid cap stocks, showing a mixed closed as traders digested the latest batch of their earning results. DRMA IJ +5.26%, DMAS IJ +4.19%, JPFA IJ -2.62%.
- BRPT IJ -6.32% extended its steep drop s in two days ahead of the offering debut of its affiliate mining.
- Top value were: BBKA IJ +0.29%, BMRI IJ +1.24% IJ, GOTO IJ -0.82%
- Top Gainers : BMRI (+1.24%), BBRI (+1.27%), AMRT (+2.42%)
- Top Losers: TLKM (-1.27%), BRPT (-6.32%), MDKA (-2.17%)

News

Macroeconomic, Sector and Corporate News

- JSMR - Recorded FY22 net profit of IDR 2.7tn, +70% YoY. (Kontan)
- ADMR - Recorded FY22 net profit of USD 332mn, +114.2% YoY. (Kontan)
- ADRO - Recorded FY22 net profit of USD 2.5bn, +167.1% YoY, 110%/103% of our/cons FY22 ests. (Kontan)
- UCID - Recorded FY22 net profit of IDR 313bn, down 34.7% YoY. (Kontan)
- MIDI - Recorded FY22 net profit of IDR398.9bn, +48% YoY. (Bisnis)
- TRIM - Recorded FY22 net profit of IDR 177.5bn, 3.4x YoY. (Kontan)
- TOTL - Booked 2M23 new contracts of IDR 65bn, 2.5% of its FY23 target. (Kontan)
- TBIG - Sold 368.74mn treasury shares @ IDR2,425/sh to Bersama Digital Infrastructure Asia Pte Ltd on 1Mar2023. (Bisnis)
- EXCL - Collaborates with PLN Icon Plus to optimize their fiber optics, subsea cables & data centers network. (Investor daily)
- ELSA - Allocates IDR500bn capex in FY23 for maintenance of land seismic survey tools maintenance & well and Hydraulic Workover (HWU). (Bisnis)

Outliers

Outlier Stocks

- Sharp Movers (Up) : HILL (+10.5%), OKAS (+7.6%), ELSA (+7.1%)
 - Sharp Movers (Down) : KRYA (-7%), UFOE (-6.9%), ZATA (-6.9%)
-

Macro Calendar

March 3, 2023

Mon	Tue	Wed	Thu	Fri
		1	2	3
		Korea> January exports and imports US> FOMC meeting January ISM manufacturing PMI January ADP employment chg. MBA mortgage applications China> January Caixin manufacturing PMI Europe> December jobless rate January CPI (P)	Korea> January CPI US> December manufacturing orders December durable goods orders (F) Initial jobless claims Europe> ECB MPC meeting	Korea> January FX reserves US> January ISM services PMI January non-farm payrolls January jobless rate January avg. hourly wages China> January Caixin services PMI
6	7	8	9	10
OECD leading economic index	China> January FX reserves	US> MBA mortgage applications	US> Initial jobless claims China> January M2 money supply (-15 Feb)	US> February U. of Michigan Consumer Confidence (P) China> January CPI January PPI
13	14	15	16	17
China> PBoC MLF release (-16 Feb)	OPEC Monthly Oil Market Report US> January CPI Europe> 4Q22 GDP (P) Japan> 4Q22 GDP (P) December mining and manufacturing production (F)	Korea> January jobless rate US> February manufacturing index (New York) January retail sales MBA mortgage applications	US> January housing starts January PPI Initial jobless claims Japan> December core machinery orders January exports and imports	
20	21	22	23	24
US> Market closed (Presidents' Day) China> PBoC LPR release	US> January existing home sales	US> FOMC minutes release MBA mortgage applications	Korea> BoK MPC meeting US> 4Q22 GDP (S) Initial jobless claims Europe> January CPI (F) Japan> Market closed (emperor's birthday)	US> January personal income January personal consumption expenditure January new home sales February U. of Michigan Consumer Confidence (F) Japan> January CPI
27	28			
US> January durable goods orders (P)	Japan> January mining and manufacturing production (P) January retail sales			

Note: 1) Figures in parentheses represent the latest reported figures, Bloomberg estimates and previous reported figures in that order. For example: Data (actual reported figures, Bloomberg estimate, previous reported figures). Bloomberg estimates are subject to change 2) Earnings release date is from Bloomberg or company announcement