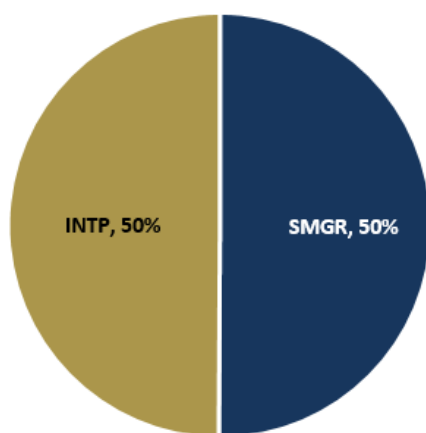


### Neutral

#### Stock Recommendation

Ticker	Rating	Price (IDR)	TP (IDR)	Upside
SMGR	BUY	5,700	9,800	71.9%
INTP	BUY	10,000	12,200	22.0%

#### Sector Market Cap Weighting



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## Expect Better Performance in 2H23

**1Q23 review.** INTP booked revenue of IDR 4.2tn in 1Q23 (-9.0% qoq, +19.3% yoy) with a domestic sales volume of 3.9mn tons (-0.9% qoq, +3.6% yoy); the company's top line performance was in line with our estimate and consensus (SSI: 24.9%, Cons: 24.5%), supported by the increase in blended ASP (+13.2% yoy to IDR 961k/ton), though the figure was lower than 4Q22 (-9.9% qoq). Meanwhile, SMGR posted sales of IDR 8.9tn (-19.5% qoq, +4.5%); the decline in sales was mainly caused by the drop in domestic sales volume to 6.7mn tons (-12.4% qoq, -0.8% yoy) and domestic ASP to IDR 910k/ton (-8.3% qoq, +5.8% yoy). SMGR's top-line performance was slightly below ours and cons (SSI: 23.1%, Cons: 23.0%). The deceleration in SMGR and INTP's sales volume growth was mainly caused by the high-base effect in 1Q22 and the longer Ramadhan holiday in 1Q23. Despite the somewhat unremarkable performance, both SMGR and INTP managed to increase their market share in 1Q23; INTP posted 27.7% (vs. 4Q22: 24.0%, 1Q22: 25.0%) while SMGR booked 48.8% (vs. 4Q22: 46.8%, 1Q22: 48.0%). *\*Note: SMGR's sales volume was not included in our market share calculation*

**Costs remain elevated even with DMO.** Both SMGR and INTP already secured DMO coal supply through Apr-23; however, their total COGS remain elevated in 1Q23, due to the spike in overhead costs and the impact of fuel hikes in 3Q22 and 4Q22 (though fuel prices already normalized in 1Q23 and we expect no significant hikes throughout the rest of the year). INTP's total COGS went up +0.1% qoq, +14.3% yoy, with its overhead cost rising +17.4% qoq, +32.9% yoy, partly due to the Bosowa Maros plant (the plant ran at a 50% capacity in 1Q23, since it only utilized one of its two clinker production lines; it plans to utilize the second production line in June 2023). Overall, the increase in costs brought INTP's total cost/ton to IDR 752k/ton (+0.9% qoq, +12.4% yoy). Meanwhile, SMGR's total cost/ton was recorded at IDR 870k/ton (-12.5% qoq, +6.8% yoy), mainly due to higher distribution expenses and fuel hikes.

**Optimism for 2H23.** If we take a look at historical data, cement sales volume in 1H is usually lower than in 2H due to the rainy season and the Ramadan holiday. Since 2018, domestic 1Q and 2Q sales only contributed 20-23% of the full-year volume, and sales usually picked up in 3Q with an average sales volume increase of +30.4% (see figure 4). In addition, we see another potential catalyst for cement sales, the election (which will be held in 1Q24), which should help boost demand and purchasing power, especially in the retail market (bagged cement). However, we believe that bulk cement (1Q23: +6.0% yoy) will remain the main driver of the Indonesian cement industry in 2H23, especially with the potential demand from the IKN project in Kalimantan.

**Neutral rating.** We reiterate our NEUTRAL rating for the cement sector; we expect to see better sales volume in 2H23, especially with the potential for huge demand from projects outside Java. We have BUY recommendations on SMGR (TP: IDR 9,800; -0.75x 5-year PER average) and INTP (TP: IDR 12,200; -0.70x 5-year PER average). Main risks: declining demand for cement and higher distribution expenses.

8 May 2023

JCI Index: 6,788

**Table 1. Valuation Highlights**

Ticker	Rating	CP	TP	Upside	P/E (X)		NP (IDRbn)		EPSG (%)		ROE (%)		ROA (%)	
		(IDR)	(IDR)		(%)	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F
SMGR	BUY	5,700	9,800	71.9	11.5	8.8	3,334	4,394	24.4	31.8	6.9	8.6	4.1	5.4
INTP	BUY	10,000	12,200	22.0	18.5	16.6	1,406	1,773	59.4	26.1	7.3	9.0	5.8	7.2
<b>Sector</b>					<b>15.0</b>	<b>12.7</b>			<b>41.9</b>	<b>29.0</b>	<b>4.9</b>	<b>7.1</b>	<b>5.0</b>	<b>6.3</b>

Source: Bloomberg, SSI Research

**Table 2. SMGR 1Q23 Results**

SMGR (IDR Bn)	1Q22	4Q22	1Q23	QoQ (%)	YoY (%)	FY23/SSI	FY23/Cons
<b>Revenue</b>	8,554	11,098	8,935	-19.5	4.5	23.1	23.0
<b>Gross Profit</b>	2,449	3,335	2,446	-26.6	-0.1	20.6	20.9
<b>Operating Profit</b>	1,068	1,260	1,099	-12.7	2.9	20.0	20.7
<b>EBITDA</b>	1,912	2,193	1,884	-14.1	-1.5	21.1	21.7
<b>Net Profit</b>	506	715	562	-21.4	11.1	16.9	18.2
<b>Gross Margin</b>	28.6%	30.0%	27.4%	-2.7%	-1.3%		
<b>Operating Margin</b>	12.5%	11.3%	12.3%	1.0%	-0.2%		
<b>Net Margin</b>	5.9%	6.4%	6.3%	-0.1%	0.4%		
<b>Operational Data</b>	<b>1Q22</b>	<b>4Q22</b>	<b>1Q23</b>	<b>QoQ (%)</b>	<b>YoY (%)</b>		
<b>Domestic Cement Sales</b>	6,803	7,703	6,746	-12.4	-0.8		
<b>COGS</b>	6,105	7,763	6,489	-16.4	6.3		
<b>OPEX</b>	1,381	2,075	1,347	-35.1	-2.5		
<b>Domestic Volume (Mn Ton)</b>	7,908	7,762	7,414	-4.5	-6.3		
<b>Domestic ASP (IDR `000/ton)</b>	860	992	910	-8.3	5.8		
<b>Cost/ton (IDR `000)</b>	772	1,000	875	-12.5	13.4		
<b>Opex/ton (IDR `000)</b>	175	267	182	-32.0	4.0		

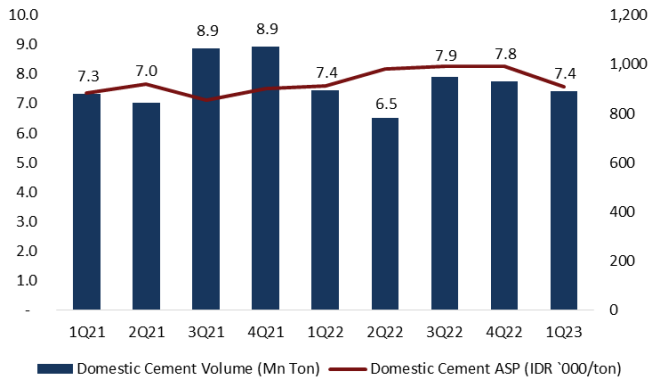
Source: Company, SSI Research

**Table 3. INTP 1Q23 Results**

INTP (IDR Bn)	1Q22	4Q22	1Q23	QoQ (%)	YoY (%)	FY23/SSI	FY23/Cons
<b>Revenue</b>	3,558	4,667	4,246	-9.0	19.3	24.9	24.5
<b>Gross Profit</b>	960	1,701	1,276	-25.0	32.8	20.6	21.0
<b>Operating Profit</b>	184	755	454	-39.9	147.2	20.0	19.0
<b>EBITDA</b>	468	1,111	785	-29.3	67.9	22.1	21.8
<b>Net Profit</b>	183	896	371	-58.5	103.4	20.0	18.5
<b>Gross Margin</b>	27.0%	36.4%	30.1%	-6.4%	3.1%		
<b>Operating Margin</b>	5.2%	16.2%	10.7%	-5.5%	5.5%		
<b>Net Margin</b>	5.1%	19.2%	8.7%	-10.4%	3.6%		
<b>Operational Data</b>	<b>1Q22</b>	<b>4Q22</b>	<b>1Q23</b>	<b>QoQ (%)</b>	<b>YoY (%)</b>		
<b>Domestic Cement Sales</b>	3,237	4,256	3,797	-10.8	17.3		
<b>COGS</b>	2,597	2,967	2,970	0.1	14.3		
<b>OPEX</b>	777	945	822	-13.0	5.8		
<b>Domestic Volume (Mn Ton)</b>	3,815	3,990	3,952	-0.9	3.6		
<b>Domestic ASP (IDR `000/ton)</b>	848	1,067	961	-9.9	13.2		
<b>Cost/ton (IDR `000)</b>	681	743	751	1.1	10.4		
<b>Opex/ton (IDR `000)</b>	204	237	208	-12.2	2.2		

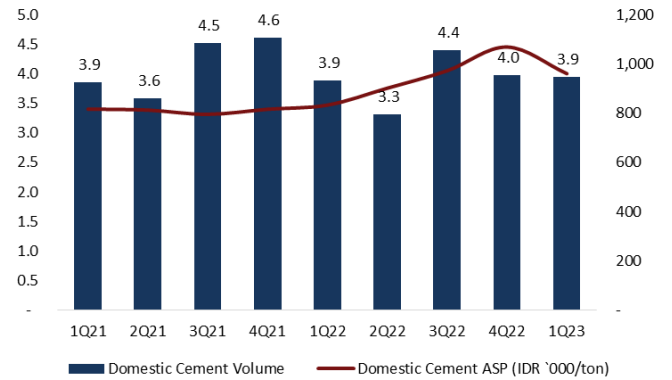
Source: Company, SSI Research

**Figure 1. SMGR Domestic Sales Volume and ASP**



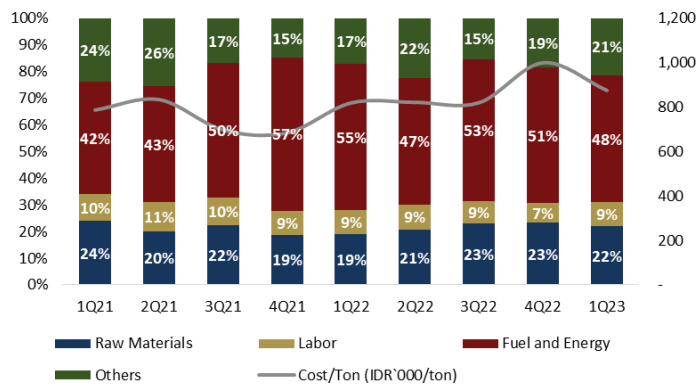
Source: Company, SSI Research

**Figure 2. INTP Domestic Sales Volume and ASP**



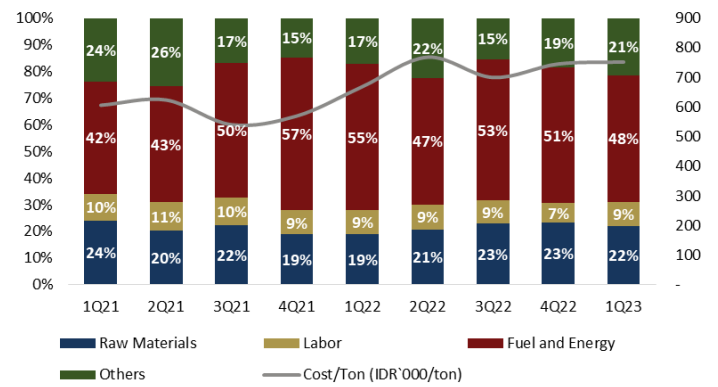
Source: Company, SSI Research

**Figure 3. SMGR Cost Breakdown**



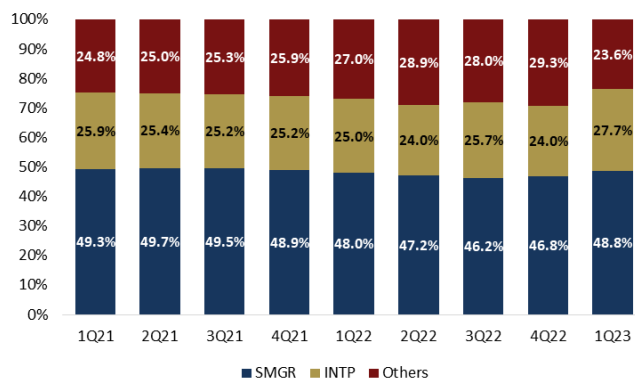
Source: Company, SSI Research

**Figure 4. INTP Cost Breakdown**



Source: Company, SSI Research

**Figure 3. National Cement Market Shares by Volume**



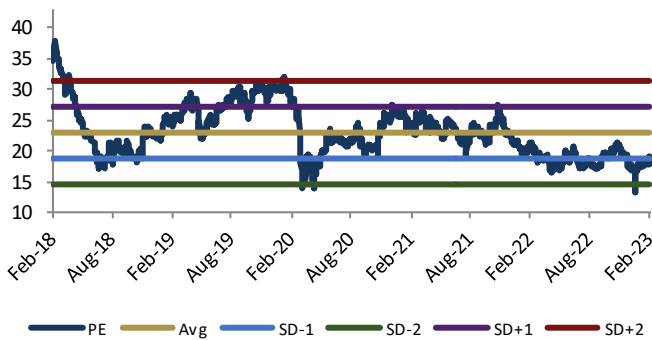
Source: Companies, ASI, SSI Research

**Figure 4. National Cement Consumption Seasonality**

Seasonality	2018	2019	2020	2021	2022
1Q	21.8%	23.6%	23.3%	22.8%	24.6%
2Q	21.7%	20.5%	19.9%	21.7%	21.9%
3Q	28.1%	27.1%	27.9%	27.5%	27.1%
4Q	28.4%	28.9%	28.8%	28.0%	26.3%

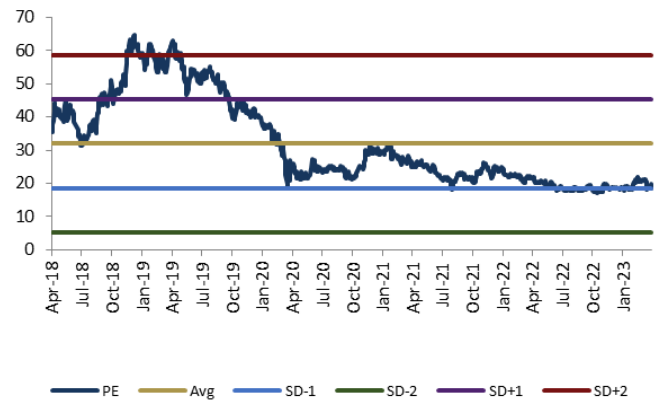
Source: ASI, SSI Research

Figure 7. SMGR's PE Band



Source: Bloomberg, Company, SSI Research

Figure 8. INTP's PE Band



Source: Bloomberg, Company, SSI Research

Table 4. Peers Comparison

Company Ticker	Country	Company Ticker	Market Cap (USD Mn)	PER (x)		EV/EBITDA (x)		PBV (x)		ROE (%)	
				2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
XINJIANG TIAN-A	CN	000877 CH	10,805	9.5	8.0	6.9	6.2	0.8	0.7	8.1	8.9
TANGSHAN JIDON-A	CN	000401 CH	3,262	9.9	10.4	6.5	6.0	0.7	0.7	5.8	6.5
CONCH CEMENT-H	CN	914 HK	19,692	6.3	5.7	3.5	3.1	0.6	0.6	9.5	10.0
CHINA NATL BDG-H	CN	3323 HK	5,803	4.2	3.4	7.3	6.4	0.4	0.3	8.2	9.7
CHINA NATL BDG-H	CN	3323 HK	5,803	4.2	3.4	7.3	6.4	0.4	0.3	8.2	9.7
AMBUJA CEMENTS	IN	ACEM IN	9,820	30.0	26.0	14.1	11.8	2.6	2.3	9.0	9.4
ACC LTD	IN	ACC IN	4,078	25.5	18.2	13.9	10.3	2.2	2.1	9.1	12.0
ULTRATECH CEMENT	IN	UTCEM IN	26,973	30.2	25.7	16.6	14.6	3.7	3.3	12.6	13.4
SHREE CEMENT	IN	SRCM IN	10,834	70.9	36.9	29.0	20.6	4.8	4.4	7.2	11.5
ASIA CEMENT CORP	TW	1102 TT	5,117	13.6	12.1	12.4	12.3	1.0	1.0	6.8	7.5
TAIWAN CEMENT	TW	1101 TT	9,172	24.1	22.0	15.7	14.8	1.3	1.2	5.4	6.3
SSANGYONG C&E CO	KR	003410 KS	2,256	20.6	19.1	9.3	9.3	1.9	1.9	9.1	9.9
SAMPYO CEMENT CO	KR	038500 KS	288	16.6	13.5	7.6	7.0	0.5	0.5	3.3	4.0
SIAM CEMENT PCL	TH	SCC TB	11,557	12.8	10.7	11.5	9.6	1.0	0.9	8.0	9.1
HOLCIM LTD	US	HOLN SW	41,131	11.8	11.1	6.5	6.3	1.2	1.1	10.1	10.6
HEIDELBERGCEMENT	DE	HEI GR	14,896	8.1	7.7	5.3	5.1	0.8	0.7	9.7	8.9
ADBRI LTD	AU	ABC AU	691	10.9	10.3	6.0	5.7	0.7	0.7	7.2	7.4
BORAL LTD	AU	BLD AU	2,960	37.3	27.0	11.4	9.7	2.2	2.1	6.4	8.2
EAGLE MATERIALS	US	EXP US	5,639	13.0	12.8	8.9	9.0	5.0	4.0	37.0	31.3
CEMEX SAB-CPO	MX	CEMEXCPO N	9,134	10.0	5.3	5.7	5.4	0.8	0.8	8.3	8.7
SEMEN INDONESIA	ID	SMGR UJ	2,622	12.2	10.4	5.9	5.5	0.8	0.8	6.9	7.7
INDOCEMENT TUNGG	ID	INTP UJ	2,508	17.1	14.8	9.0	7.9	1.7	1.7	9.8	11.3
Global Weighted Average			205,041	18.3	14.5	10.2	8.9	1.7	1.6	10.0	10.6

Source: Bloomberg, SSI Research

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