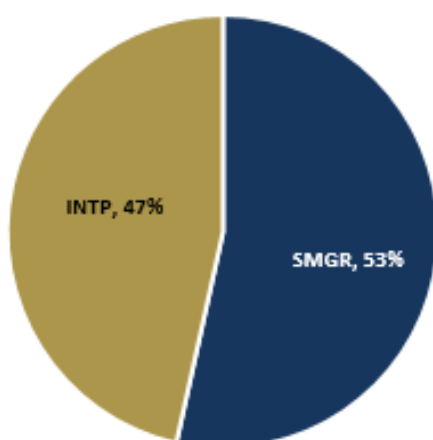


### Neutral

#### Stock Recommendation

Ticker	Rating	Price (IDR)	TP (IDR)	Upside
SMGR	BUY	6,825	7,925	16.1%
INTP	BUY	10,575	12,625	19.4%

#### Sector Market Cap Weighting



## Slow First Half; Better Second Half?

**Lower-than-expected performance.** The two cement players under our coverage booked lower-than-expected numbers in 2Q23, mainly due to the long Eid holiday, which led to a decline in cement sales volume (SMGR -8.1% QoQ and INTP -9.6% QoQ). SMGR posted revenue of IDR 8.1tn in 2Q23 (-9.4% QoQ, -0.6% YoY), with cumulative 1H23 revenue of IDR 17.0tn (+2.0% YoY), below our estimate and consensus (SSI FY23F: 44.1%, consensus FY23F: 44.2%). Meanwhile, INTP posted revenue of IDR 3.7tn in 2Q23 (-12.3% QoQ, +11.1% YoY), with cumulative 1H23 revenue of IDR 8.10tn (+15.3% YoY), again below our estimate and consensus (SSI FY23F: 46.6%, FY23F consensus: 45.6%). Regarding costs, SMGR reported higher costs due to an increase in cost/ton (+2.7% QoQ, +6.8% YoY to IDR 899k/ton), which itself was caused by the spike in raw material costs (+78.5% QoQ), although the company also reported a higher ASP (+1.2% QoQ to IDR 921k/ton). Meanwhile, INTP's cost/ton fell -4.4% QoQ, -6.4% YoY in 2Q23, thanks to DMO coal, which helped the company cut its energy expense. However, INTP's blended ASP also fell by -2.3% QoQ, +4.1% YoY to IDR 939k/ton. On their bottom lines, SMGR and INTP posted considerable net profit decline in 2Q23 (-45.8% QoQ and -12.0% QoQ, respectively); even so, both still managed to book positive net profit growth in 1H23 (+3.1% YoY and +139.0% YoY). However, their 1H23 net profit figures fell way short of our estimates (26.0% and 37.5% of SSI's FY23F projections).

**Expect better numbers in 2H23.** Throughout the last three weeks of Jul-23, SMGR reported sales volume growths of 8-12% YoY, showing signs of recovery in demand. We believe that by the end of 2023, national cement sales volume will reach 63.6-64.0 million tons (+1-2% YoY). In 1H23 alone, national cement sales reached 27.4 million tons, driven mainly by bulk cement (+4.1% YoY). We estimate that in 2H23, national cement sales volume will reach approx. 36 million tons (+7.6% YoY), supported by several catalysts: 1) Government projects (especially IKN, toll road projects, and the MRT). 2) election momentum, which is expected to boost people's purchasing power and increase demand, especially for bagged cement. Therefore, we are optimistic that SMGR and INTP will achieve our net profit targets (SMGR: IDR 2.8tn, INTP: IDR 1.4tn).

**How about 2024?** Supported by improving macroeconomic conditions (Indonesia's GDP is projected to grow +4.9% YoY in FY24F, with relatively low inflation [+3.3% YoY] and low benchmark interest rate [FY24F projection: 4.25%]), we are confident that people's purchasing power will increase, which will help boost landed housing industry. Therefore, we project national cement sales to grow +1-2% YoY to 64.0-64.5 million tons in FY24F. We also project that SMGR and INTP's ASP will remain stable as competition within the Indonesian cement industry becomes less intense. Supported by these factors, we project SMGR and INTP's sales volume to reach 37.3 million tons (+3.9% YoY) and 18.6 million tons (+2.9% YoY), respectively in FY24F, with net profit growth of +13.3% YoY and +13.7% YoY. We have BUY recommendations on SMGR (TP: IDR 7,925; 16.9x FY24F P/E) and INTP (TP: IDR 12,625; 20.5x FY24F P/E). Main risks: Fluctuations in cement demand, fuel and distribution costs.

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**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	6,825	7,925	16.1	16.5	14.6	2,793	3,164	4.2	13.3	5.8	6.3	3.4	3.9
INTP	BUY	10,575	12,625	19.4	19.5	17.2	1,859	2,113	0.9	13.7	9.5	10.5	7.3	8.2
<b>Sector</b>					<b>18.0</b>	<b>15.9</b>			<b>2.6</b>	<b>13.5</b>	<b>7.7</b>	<b>8.4</b>	<b>5.4</b>	<b>6.1</b>

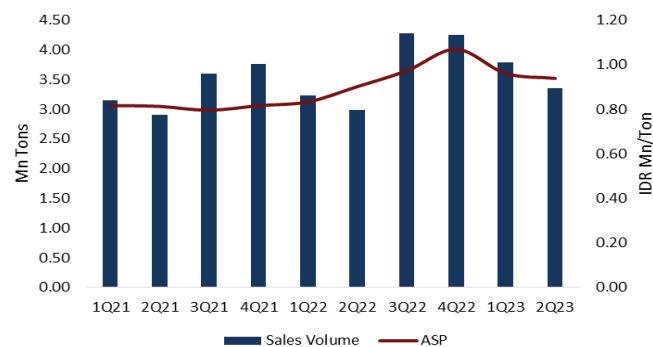
Source: Bloomberg, SSI Research (\*Valuation at closing price 02/08/23)

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



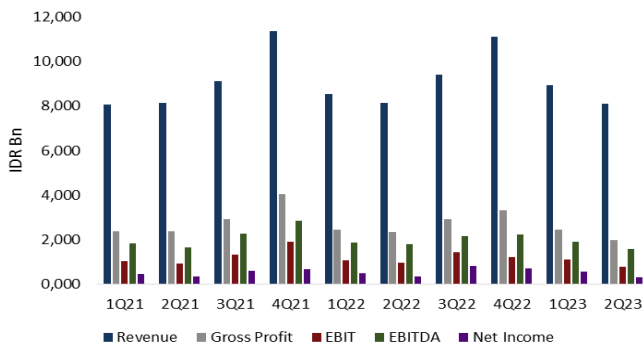
Source: ASI, Company, SSI Research

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



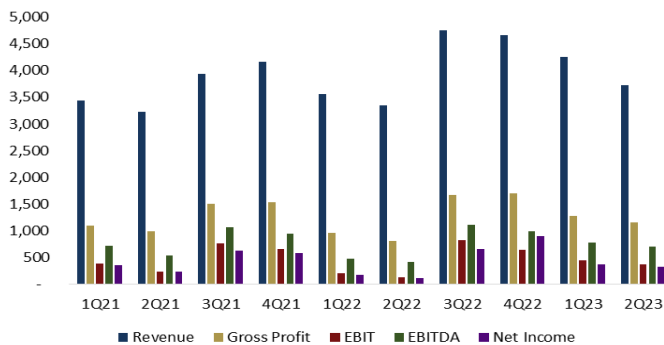
Source: ASI, Company, SSI Research

**Figure 3. SMGR's Financial Performance**



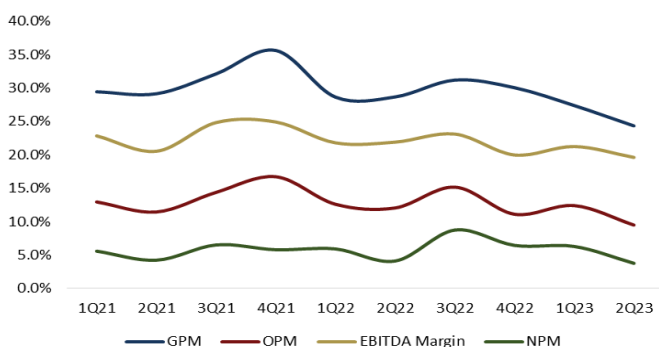
Source: Company, SSI Research

**Figure 4. INTP's Financial Performance**



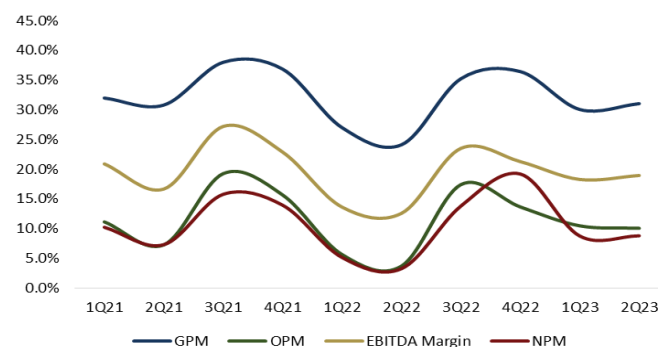
Source: Company, SSI Research

**Figure 5. SMGR's Profitability Margins**



Source: Company, SSI Research

**Figure 6. INTP's Profitability Margins**



Source: Company, SSI Research

**Table 2. SMGR 1H23 Results**

SMGR (IDR Bn)	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)	FY23/SSI	FY23/Cons
Revenue	8,147	8,935	8,097	-9.4	-0.6	16,701	17,032	2.0	44.1	44.2
Gross Profit	2,335	2,446	1,970	-19.5	-15.6	4,784	4,416	-7.7	37.3	39.3
Operating Profit	904	1,099	771	-29.9	-14.7	1,972	1,870	-5.2	34.1	38.0
EBITDA	1,702	1,861	1,535	-17.5	-9.8	3,556	3,396	-4.5	38.1	41.2
Net Profit	334	562	304	-45.8	-8.9	840	866	3.1	26.0	31.4
Gross Margin	28.7%	27.4%	24.3%	-3.0%	-4.3%	28.6%	25.9%	-2.7%		
Operating Margin	11.1%	12.3%	9.5%	-2.8%	-1.6%	11.8%	11.0%	-0.8%		
EBITDA Margin	20.9%	20.8%	19.0%	-1.9%	-1.9%	21.3%	19.9%	-1.4%		
Net Margin	4.1%	6.3%	3.8%	-2.5%	-0.3%	5.0%	5.1%	0.1%		
Operational Data	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)		
Domestic Cement Sales	6,328	6,746	6,277	-7.0	-0.8	13,131	13,023	-0.8		
COGS	5,811	6,489	6,127	-5.6	5.4	11,916	12,616	5.9		
OPEX	1,432	1,347	1,199	-11.0	-16.3	2,813	2,546	-9.5		
Domestic Volume (000 Ton)	6,522	7,414	6,814	-8.1	4.5	14,862	14,228	-4.3		
Domestic ASP (IDR `000/ton)	970	910	921	1.2	-5.1	884	915	3.6		
Cost/ton (IDR `000)	891	875	899	2.7	0.9	802	887	10.6		
Opex/ton (IDR `000)	220	182	176	-3.2	-19.9	189	179	-5.5		

Source: Company, SSI Research

**Table 3. INTP 1H23 Results**

INTP (IDR Bn)	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)	FY23/SSI	FY23/Cons
Revenue	3,353	4,246	3,724	-12.3	11.1	6,911	7,970	15.3	46.6	45.6
Gross Profit	809	1,276	1,156	-9.4	43.0	1,769	2,432	37.5	39.3	40.8
Operating Profit	81	454	383	-15.5	370.5	265	837	215.8	36.9	34.9
EBITDA	379	785	714	-9.1	88.2	847	1,499	77.0	42.2	40.4
Net Profit	109	371	327	-12.0	198.4	292	698	139.0	37.5	34.2
Gross Margin	24.1%	30.1%	31.0%	1.0%	6.9%	25.6%	30.5%	4.9%		
Operating Margin	2.4%	10.7%	10.3%	-0.4%	7.9%	3.8%	10.5%	6.7%		
EBITDA Margin	11.3%	18.5%	19.2%	0.7%	7.9%	12.3%	18.8%	6.6%		
Net Margin	3.3%	8.7%	8.8%	0.0%	5.5%	4.2%	8.8%	4.5%		
Operational Data	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)		
Domestic Cement Sales	2,989	3,797	3,353	-11.7	12.2	6,226	7,150	14.8		
COGS	2,545	2,970	2,568	-13.5	0.9	5,142	5,538	7.7		
OPEX	726	822	773	-6.0	6.5	1,503	1,595	6.1		
Domestic Volume (000 Ton)	3,312	3,949	3,571	-9.6	7.8	7,123	7,513	5.5		
Domestic ASP (IDR `000/ton)	902	962	939	-2.3	4.0	874	952	8.9		
Cost/ton (IDR `000)	768	752	719	-4.4	-6.4	722	737	2.1		
Opex/ton (IDR `000)	219	208	216	4.0	-1.2	211	212	0.6		

Source: Company, SSI Research

Figure 7. 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	10,655	10.2	9.4	7.3	6.8	0.8	0.8	7.8	8.2
TANGSHAN JIDON-A	CN	000401 CH	3,036	15.3	16.4	8.2	6.7	0.7	0.7	2.6	4.2
CONCH CEMENT-H	CN	914 HK	18,755	6.6	5.8	3.7	3.2	0.6	0.5	8.9	9.6
CHINA NATL BDG-H	CN	3323 HK	5,191	4.6	3.6	7.8	6.9	0.3	0.3	6.5	8.4
CHINA NATL BDG-H	CN	3323 HK	5,191	4.6	3.6	7.8	6.9	0.3	0.3	6.5	8.4
AMBUJA CEMENTS	IN	ACEM IN	10,982	33.1	30.3	15.0	13.6	2.3	2.3	8.8	9.0
ACC LTD	IN	ACC IN	4,468	30.9	22.4	16.4	13.0	2.6	2.4	9.9	11.2
ULTRATECH CEMENT	IN	UTCEM IN	28,845	31.6	26.2	17.6	15.1	3.9	3.5	13.3	14.1
SHREE CEMENT	IN	SRCM IN	10,498	43.2	33.2	20.5	17.3	4.3	3.8	10.6	12.1
ASIA CEMENT CORP	TW	1102 TT	4,458	11.6	10.5	14.2	13.5	0.9	0.9	7.2	7.5
TAIWAN CEMENT	TW	1101 TT	8,417	25.9	20.8	18.7	14.6	1.2	1.1	5.1	6.0
SSANGYONG C&E CO	KR	003410 KS	2,115	20.5	19.2	9.0	9.1	1.8	1.8	8.4	9.1
SAMPYO CEMENT CO	KR	038500 KS	277	10.5	9.8	6.6	6.5	0.5	0.5	4.9	5.0
SIAM CEMENT PCL	TH	SCC TB	11,308	13.2	11.0	12.3	10.3	1.0	0.9	8.2	8.2
HOLCIM LTD	US	HOLN SW	39,788	11.8	11.1	7.2	6.9	1.2	1.2	10.2	10.5
HEIDELBERG MATER	DE	HEI GR	15,795	7.7	7.4	5.5	5.4	0.8	0.7	10.6	10.3
ADBRI LTD	AU	ABC AU	1,063	15.4	15.3	7.7	7.4	1.1	1.1	7.6	7.6
BORAL LTD	AU	BLD AU	3,175	39.4	29.1	12.1	10.4	2.4	2.2	6.4	8.4
EAGLE MATERIALS	US	EXP US	6,637	13.6	12.3	9.5	8.9	4.5	3.7	35.0	29.9
CEMEX SAB-CPO	MX	CEMEXCPO N	11,040	11.2	9.6	6.7	6.3	1.0	0.9	8.8	9.5
SEMEN INDONESIA	ID	SMGR IJ	3,049	16.5	13.8	7.3	6.8	1.0	1.0	6.3	7.2
INDOCEMENT TUNGG	ID	INTP IJ	2,566	18.5	16.3	9.9	9.1	1.8	1.7	9.4	10.4
<b>Global Weighted Average</b>			<b>207,310</b>	<b>17.9</b>	<b>15.3</b>	<b>10.6</b>	<b>9.4</b>	<b>1.8</b>	<b>1.6</b>	<b>10.2</b>	<b>10.7</b>

Source: Companies, Bloomberg, SSI Research (\*Valuation at closing price 02/08/23)

Figure 8. SMGR's P/E Band



Source: Bloomberg, Company, SSI Research

Figure 9. INTP's P/E Band



Source: Bloomberg, Company, SSI Research

3 August 2023

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