Maybank Sekuritas Indonesia

Materials

Indonesia

Indonesia Cement

POSITIVE

Good growth potential

Initiate with POSITIVE view; Top Pick SMGR

We initiate coverage of Indonesia's cement sector with a POSITIVE view due to recovery in demand and turnaround in the local property sector in 2022. We expect these factors will benefit both SMGR and INTP. We initiate coverage of SMGR and INTP, based on target 7.9x and 10.2x FY23E EV/EBITDA and 1.1x and 1.5x FY23E EV/ton target, which is within -1SD of their 10-year mean. We like SMGR as a proxy to Indonesia's cement sector as it has the largest market share among cement producers with around 52% as of 7M23. We also like INTP due to its expansion into East Indonesia, which should help increase its relatively low market share there. Furthermore, INTP's debt-free balance sheet allows it to benefit from the current high interest rates. Risks to our call are a weakening economy, political uncertainty ahead of the 14 Feb-24 presidential poll, and regulatory changes to help combat global warming.

Windfall from revival of the property market

The property market is one of the main drivers of the cement sector and it has experienced significant revival since the onset of Covid-19 in 2020. We believe this will trickle down into the cement sector and we forecast domestic cement demand to reach 65/67.1/69.2m tonnes in FY23-25E as a result of the high demand from the property sector. We also believe SMGR's market share will rebound from 48% in 2022 to 50% in FY23E and stabilize at this level in FY24E/25E, while INTP's share is projected to rise to 28%/28%/29% in FY23E/24E/25E, respectively, from 25% in 2022.

Still room for growth

As Indonesia becomes the largest economy in Southeast Asia in 2022 we expect government infrastructure and spending budgets to increase. Currently, Indonesia is one of the largest cement consumers in the world, but there is still room for growth when looking at per capita cement consumption. As of 2020, the world average cement consumption was around 549kg/per capita, while Indonesia's is currently just 226kg/capita. Furthermore, the government has increased its 2023-24 infrastructure budget to IDR392t (+7.2% YoY) and IDR423t (+7.8% YoY), which we estimate should represent 14.0% of total government expenditure.

Sales volume should increase in 2H23

Indonesia cement consumption is typically back-loaded wherein 2H experiences a 28.1% HoH increase compared to 1H. We expect 2H23 to have the same story as previous years where 2H experiences larger demand compared to 1H. We expect 2H23 cement demand to reach 37.6m tonnes (+37% HoH, +10.7% YoY), resulting in 2023 domestic cement demand reaching 65.0m tonnes (+3% YoY).

Analysts

William Jefferson W
(62) 21 8066 8563
william.jefferson@maybank.com

Jeffrosenberg Chenlim
(62) 21 8066 8680
Jeffrosenberg.lim@maybank.com

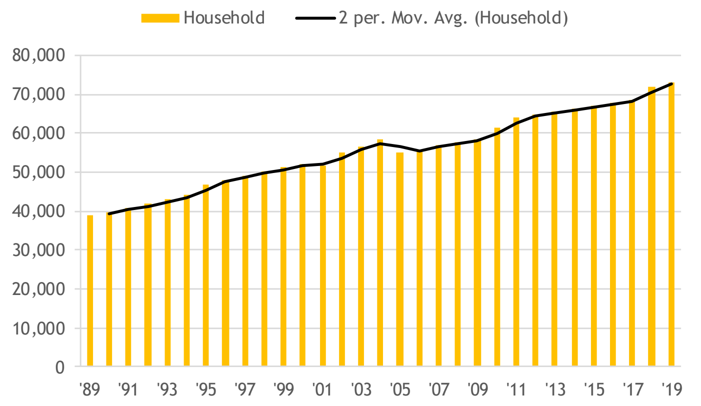
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x) 23E	P/E (x) 24E	P/B (x) 23E	P/B (x) 24E	Div yld (%) 23E	Div yld (%) 24E
Semen Indonesia	SMGR IJ	2,718	Buy	7,000	8,600	25	15.9	13.3	1.1	1.0	3.1	3.8
Indocement	INTP IJ	2,402	Buy	10,750	12,800	22	18.2	15.8	1.7	1.7	4.4	5.0

1. Positive demand outlook

1.1 Property driving up cement demand

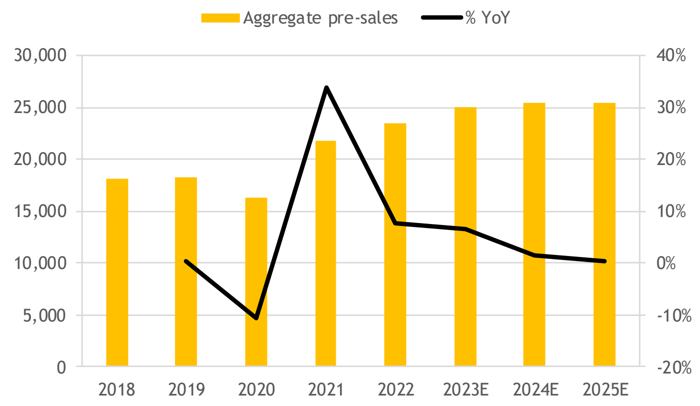
Housing remains the main driver of domestic cement demand. The number of households has been steadily increasing in Indonesia, reaching 73.1m in 2021 from 69.5m in 2020. The rapid recovery of the property sector, helped by the commodities boom in 2022, saw housing demand increasing dramatically. Aggregate pre-sales by developers in our universe totaled IDR23.5t in FY22, and we forecast the growth to continue up to IDR25.4t in FY25E, implying a FY20-25E CAGR of 9.3%.

Fig 1: Number of households in Indonesia (m)



Source: CEIC, BPS, Maybank IBG Research

Fig 2: Aggregate pre-sales of our property universe (IDR billion)

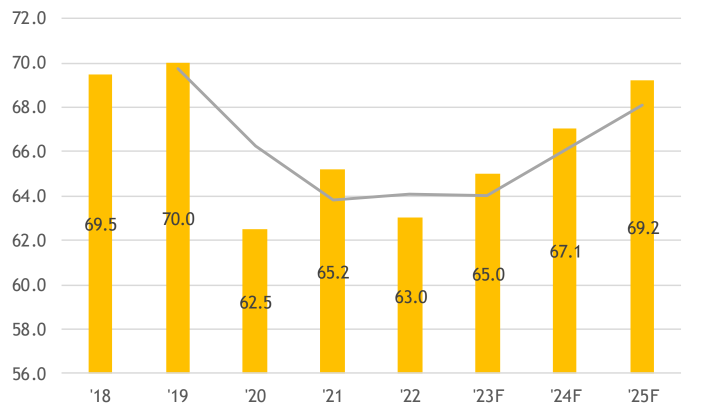


Source: Company, Maybank IBG Research

Furthermore, a survey by Rumah.com in 2022 shows four out of five respondents are looking to buy a house in the next year, indicating strong demand in the property market in 2023 and 2024.

We believe developers' strong pre-sales will trickle down into the cement industry in Indonesia and we forecast cement demand of 65.0/67.1/69.2m tonnes in Indonesia in 2023/24/25E, respectively.

Fig 3: Cement demand in Indonesia

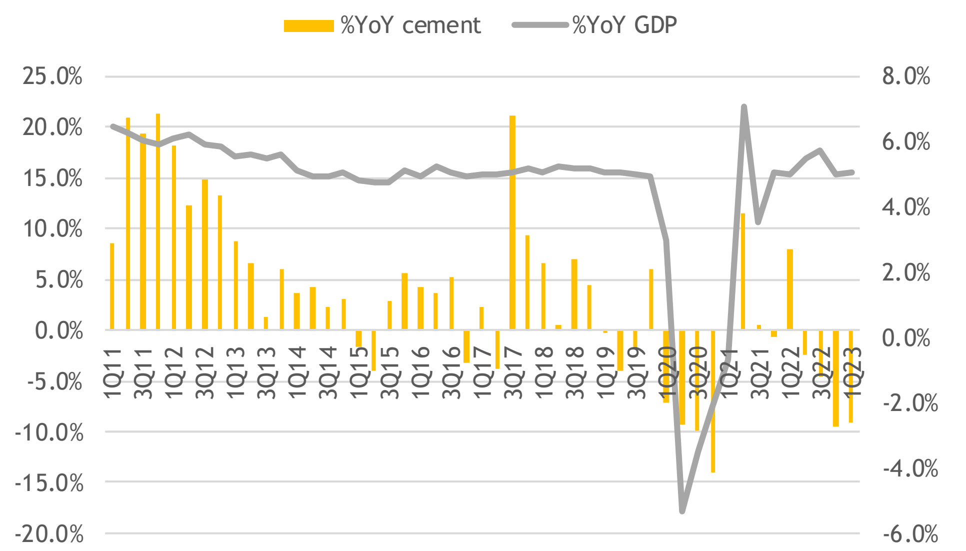


Source: CEIC, ASI, Maybank IBG Research

1.2 Government spending

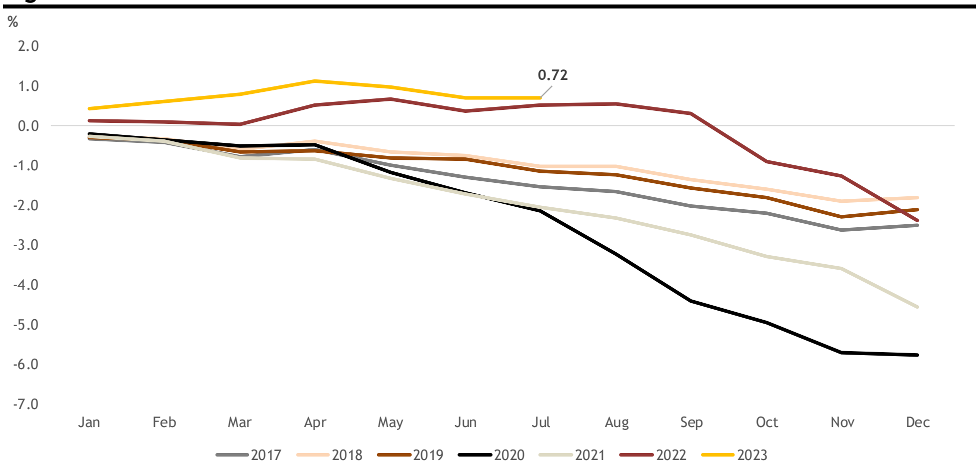
Government spending was lower than expected in 1H23, but we believe it will speed up in 2H23. Typically, government spending is followed by GDP growth as these have a high correlation of 55.8 to domestic cement demand. We also believe higher government spending should translate into higher spending power, meaning more consumers may purchase tier-1 cement products sold by INTP and SMGR.

Fig 4: Cement demand



Source: CEIC, ASI, Maybank IBG Research

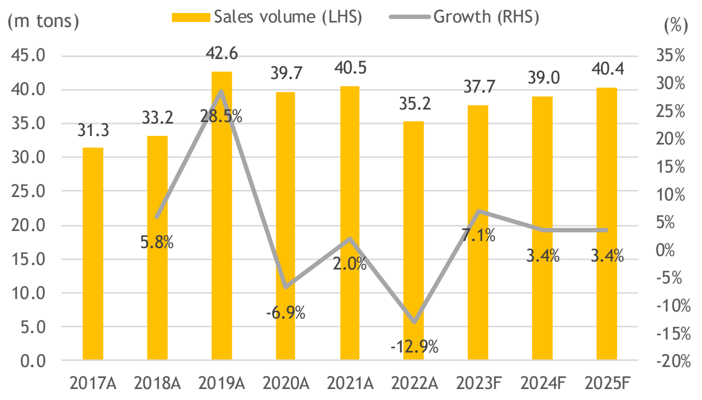
Fig 5: Government fiscal deficit



Source: Ministry of Finance, CEIC, Maybank IBG Research

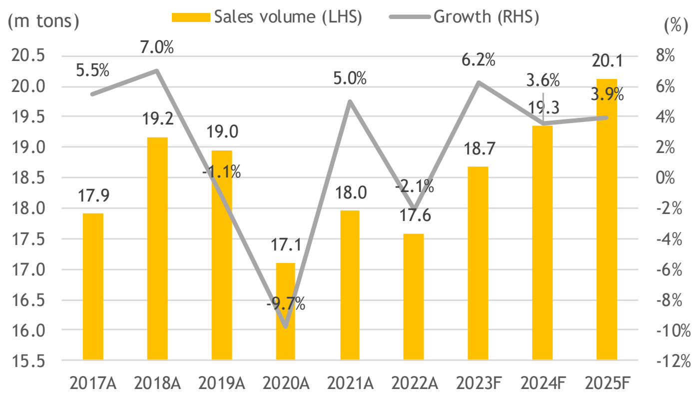
As a result, we forecast SMGR and INTP to reach 32.2m (+7.5% YoY) and 18.3m (+18.2% YoY) tonnes of cement sales in FY23 respectively, implying 2H23 sales volume of 18.0m (+26% HoH, +13.6% YoY) and 10.8m (+44.0% HoH, 28.2% YoY) tonnes.

Fig 6: SMGR's cement sales volume (tonnes)



Source: Company, Maybank IBG Research

Fig 7: INTP's cement sales volume (tonnes)



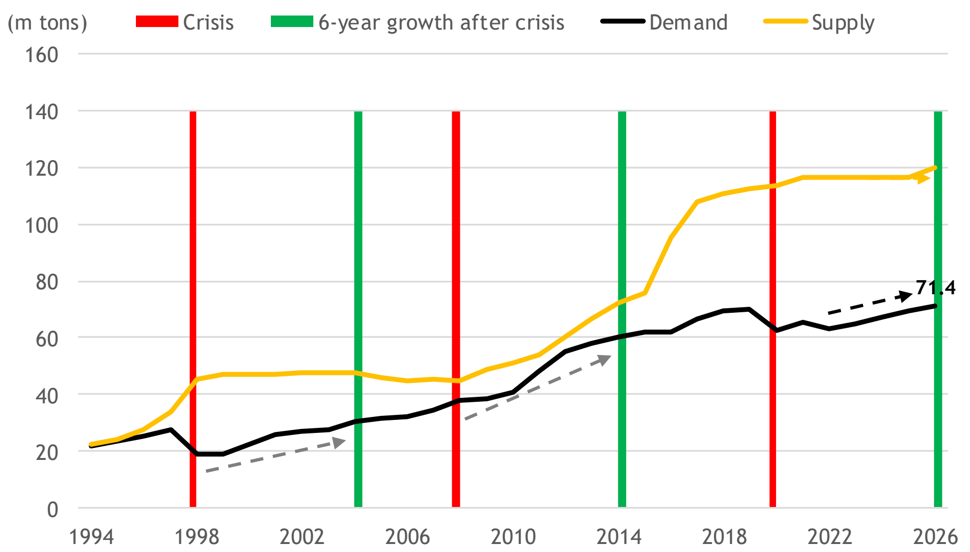
Source: Company, Maybank IBG Research

1.3 Strong rebound after economic crises

The cement industry has gone through multiple economic crises in recent decades, notably the 1998 economic collapse of Indonesia and the 2008 global financial crisis. However, we observed a trend whereby cement consumption picks up quite dramatically after these events.

After the 1998 economic collapse, cement sales in Indonesia rebounded from 19.1m to 30.2m tonnes in 2004, or at a 7-year CAGR of 7.9%, increasing by more than 150% in the span of 7 years. Meanwhile, cement consumption in 2008 surged from 38.1m tonnes to 60.5m tonnes in 2014, almost doubling within several years.

Fig 8: Cement demand timeline in Indonesia



Source: CEIC, Company, Maybank IBG Research

Cement demand usually rebounds after setbacks due to economic crises. Therefore, while cement demand dropped during Covid-19, we started to see signs of recovery in July '23 (+9.7% MoM, +10.7% YoY) with consumption recorded at 5.8m tonnes. Furthermore, we have a positive long-term outlook as we forecast cement consumption to grow to 71.4m tonnes in 2026, based on our 4% FY20-26 CAGR forecast, due to the revival of the economy as well as strong property sales.

1.4 Plenty of room for growth in Indonesia for cement

The 2020 world average for per capita cement consumption was 549kg/capita, while South Asia averaged 358kg/capita. In comparison, Indonesia currently is only at 226kg/capita, still behind the world's and South Asia's average. As a comparison, for Indonesia to reach the average cement consumption per capita, it would need to consume 98m tonnes of cement in total each year. In 2022, Indonesia consumed 63m tonnes per year.

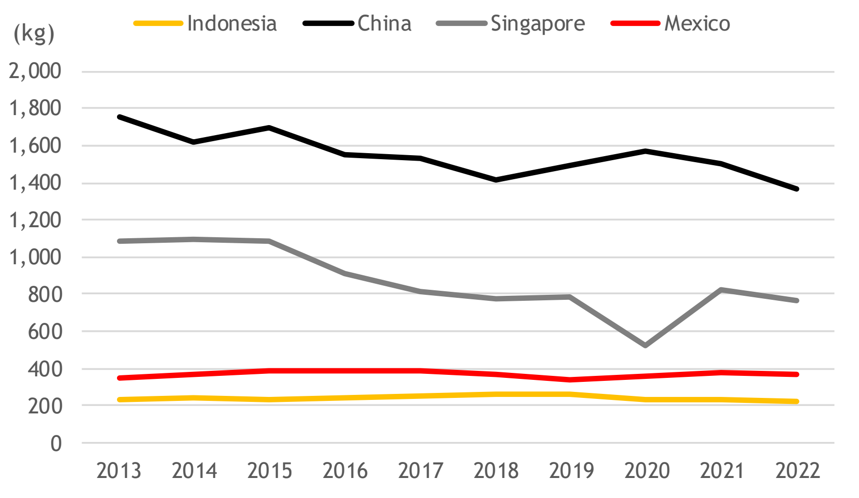
Fig 9: Total and per capita cement consumption

Area	Total cement consumption (Mt)	Per Capita Cement Consumption (kg)
Africa - north	96.2	394
Africa - east	39.2	88
Africa - central	10.1	58
Africa - west	58	145
Africa - south	14.9	221
Africa - total	**218.3**	**164**
America - north	114	310
America - central	58.4	264
America - south	107.7	491
America - Latin	166	377
America - total	**280**	**346**
Asia - north	2485.9	1515
Asia - south	217.2	358
Asia - total	**2703.2**	**1202**
Australasia	**12.8**	**316**
Europe - west	128.8	303
Europe - central	55.2	459
Europe - east	166.5	442
Europe - total	**350.5**	**380**
Indian subcontinent	**388.5**	**201**
Middle East	**190.4**	**723**
WORLD	**4143.7**	**549**

Source: The Global Cement Report, 14th Edition, Maybank IBG Research

Peer countries such as China, Singapore and Mexico are far ahead of Indonesia in terms of this metric as well. This indicates the cement industry in Indonesia is not yet at its full potential. As Indonesia becomes the largest economy in Southeast Asia, we expect more infrastructure projects and developments to follow suit, resulting in growing domestic cement demand.

Fig 10: Per capita cement consumption of peer countries

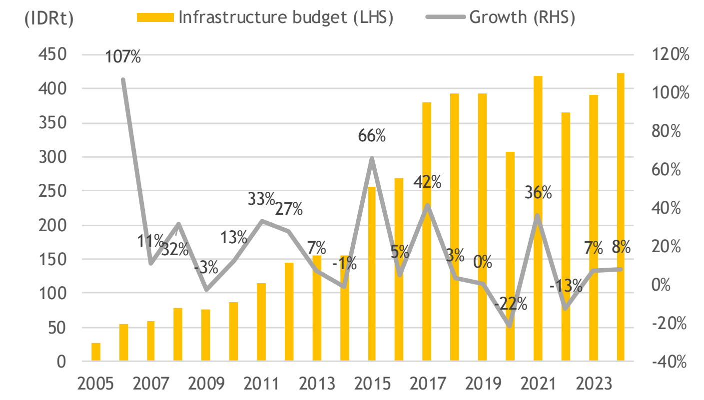


Source: CEIC, Maybank IBG Research

1.5 Normalizing of infrastructure budget

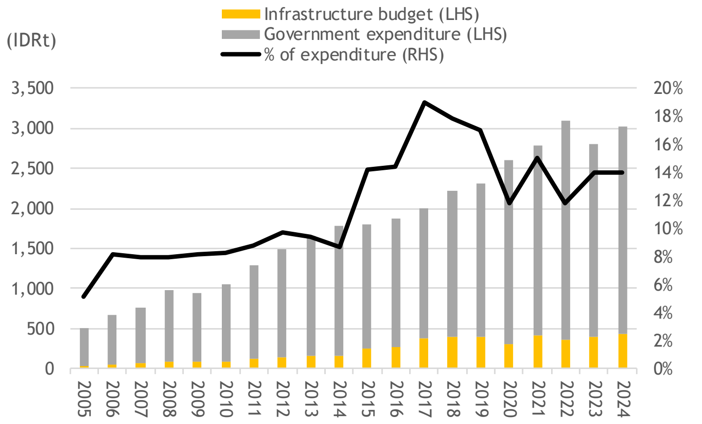
The government has been slowly increasing its infrastructure budget again. Shifting its focus from alleviation of economic pain caused by the pandemic, the government has decided to increase its infrastructure budget by 7.2% to IDR392t for 2023E and by 7.8% to IDR423t for 2024E. We expect the cement sector to receive some windfall from this as a significant chunk of cement demand comes from the building of infrastructure.

Fig 11: Indonesia's infrastructure budget



Source: Company, Maybank IBG Research

Fig 12: Infrastructure budget to total expenditure



Source: Company, Maybank IBG Research

With progressive growth in Indonesia's economy, we expect infrastructure will be a key focus for the government in future. Projects to be built include roads and bridges, harbors, airports, and many more. We expect the cement sector to receive a windfall from this and experience an increase in demand. We expect the allocation for infrastructure budget will rise to 14.0% of total government expenditure in 23-24E from 11.8% in 2022.

Fig 13: Regulation No.9 of 2022 by the Coordinating Minister of the Economy

	Sectors	Number of Projects	Location
1	Roads and bridges	53	Various
2	Harbours	21	Various
3	Airports	6	Papua and Java
4	Railway	14	Sumatra, Sulawesi and Java
5	Regional	10	Various
6	Housing	2	National
7	Dam and irrigation	55	Various
8	Water and sanitation	13	Java and Bali
9	Beach embankment	1	Java
10	Energy	20	Various
11	Education	1	Java
12	Tourism	1	Java
13	Plantation	1	Papua

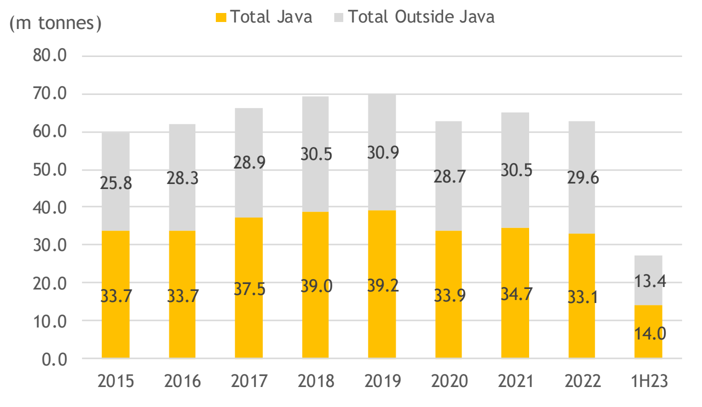
Source: Ekon.go.id, Maybank IBG Research

1.6 Growing ex-Java demand

The ex-Java market for cement has been growing quite steadily over the past few years, increasing from 43.4% YoY in 2015 to 48.8% YoY in 1H23 of total cement consumption. We also saw ex-Java consistently outperforming Java ever since 2018. We expect additional demand to be driven by areas such as Sumatra, Kalimantan and Sulawesi.

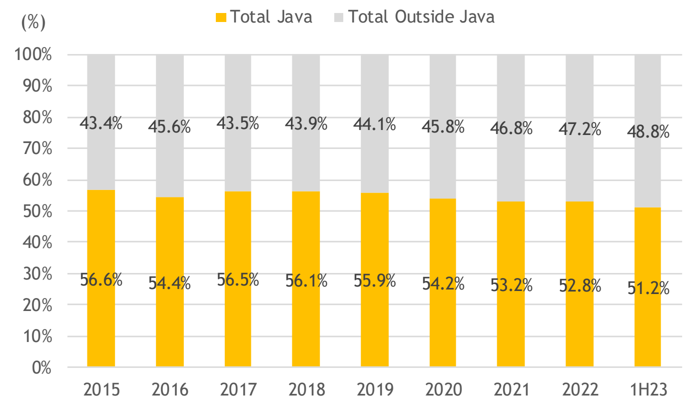
We believe this growing ex-Java demand will benefit SMGR and INTP as both companies have the widest geographical coverage compared to other smaller cement producers. We have seen INTP put more focus on East Indonesia with its Maros operation (Semen Bosowa) in Sulawesi, which increased its East Indonesia market share significantly.

Fig 14: Java vs ex-Java cement demand



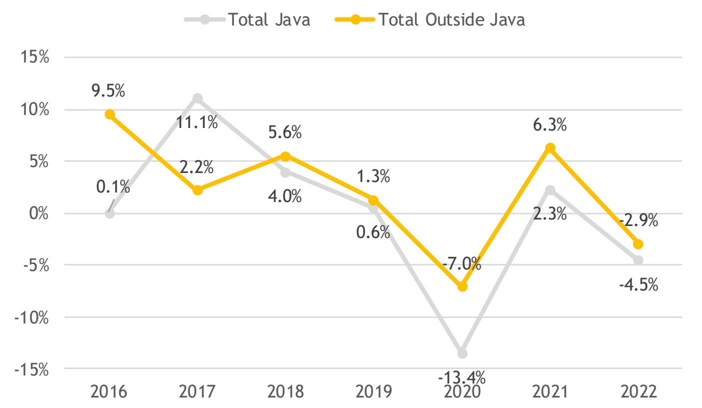
Source: Company, Maybank IBG Research

Fig 15: Java vs ex-Java demand contribution



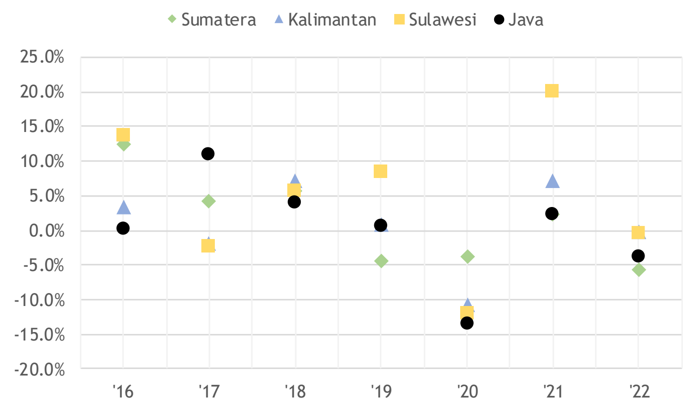
Source: Company, Maybank IBG Research

Fig 16: Java vs ex-Java YoY growth



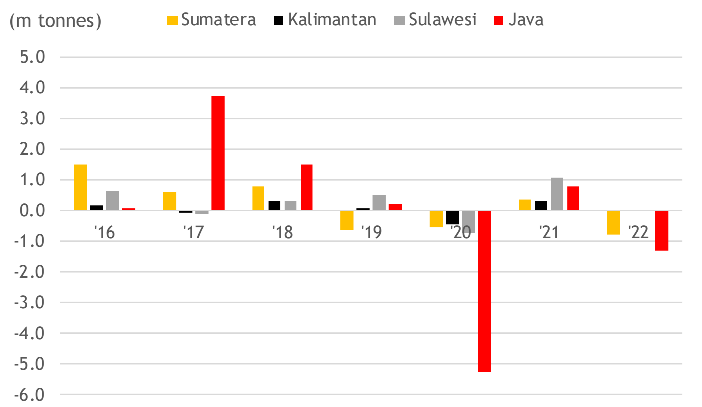
Source: Company, Maybank IBG Research

Fig 17: Ex-Java demand growth per island vs Java



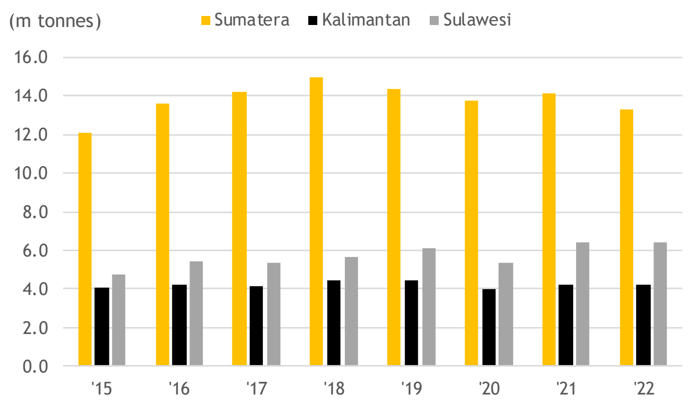
Source: Company, Maybank IBG Research

Fig 18: Nominal additional demand YoY



Source: Company, Maybank IBG Research

Fig 19: Historical ex-Java demand

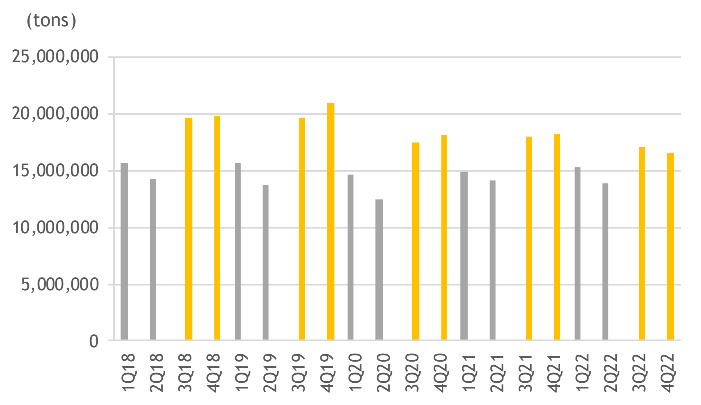


Source: Company, Maybank IBG Research

1.7 Demand upside in 2H

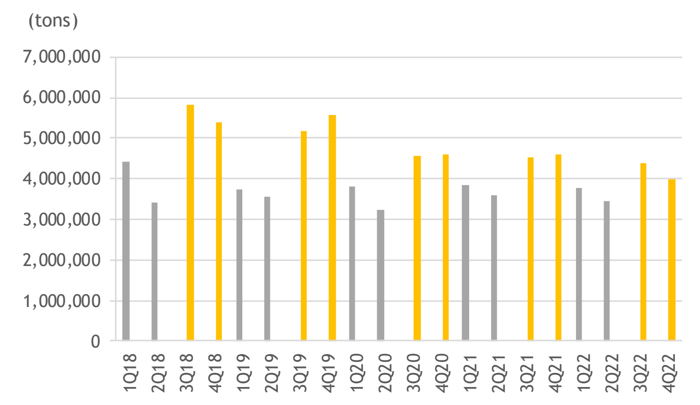
Cement consumption is back-end-loaded in Indonesia, typically experiencing a 5-year average increase of 29% HoH in 2H. This is true for the companies under our coverage as well, with INTP experiencing a 5-year average increase of 27% HoH and SMGR with 29% HoH.

Fig 20: Domestic cement consumption



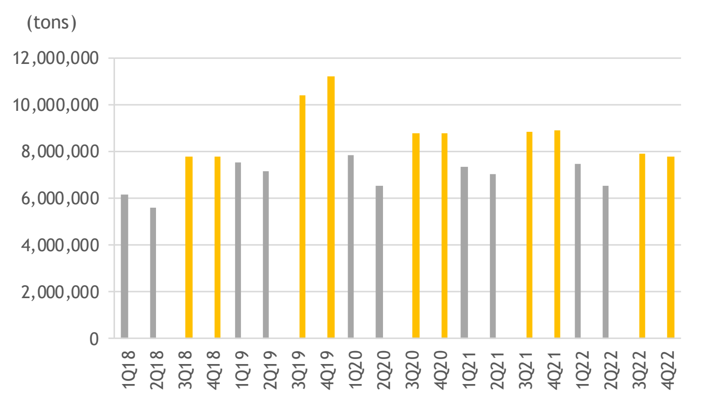
Source: CEIC, Company, Maybank IBG Research

Fig 21: INTP's domestic cement sales volume



Source: Company, Maybank IBG Research

Fig 22: SMGR's domestic cement sales volume



Source: Company, Maybank IBG Research

Fig 23: % HoH cement sales volume

	%HoH '18	%HoH '19	%HoH '20	%HoH '21	%HoH '22	5-year Average
SMGR	31.9%	47.4%	21.9%	24.1%	12.0%	27.5%
INTP	42.7%	47.4%	30.6%	22.8%	16.4%	32.0%
Market	**31.3%**	**38.1%**	**31.4%**	**24.9%**	**15.7%**	**28.3%**

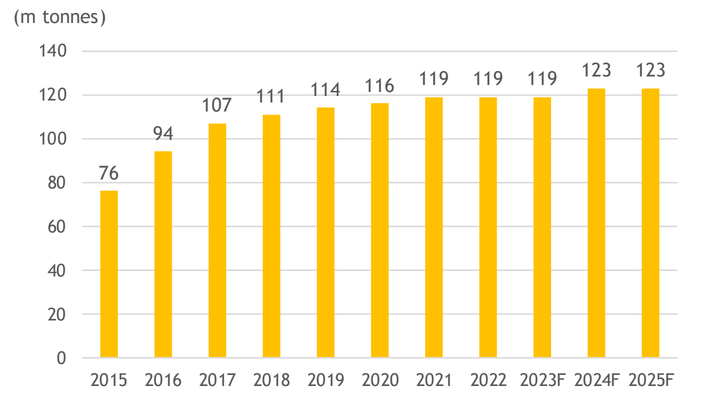
Source: CEIC, Company, Maybank IBG Research

SMGR and INTP will benefit from this seasonality and experience the biggest nominal increase as the two companies have the largest market share among their competitors. We expect SMGR and INTP to achieve 18.0m (+14% YoY) and 10.8m (+28% YoY) tonnes of cement sales in 2H23.

2. Limited increase in new supply

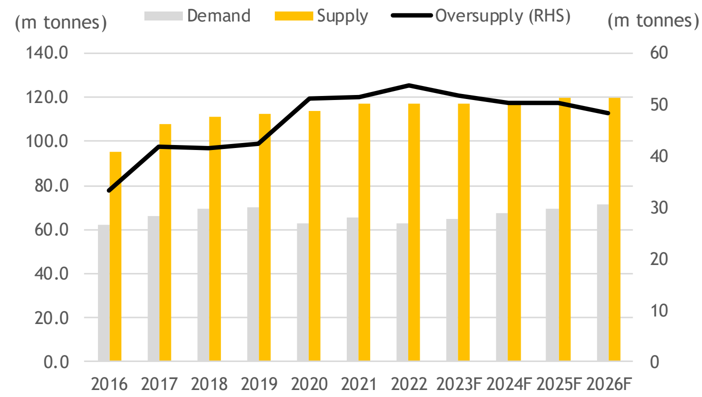
In 2020, the government put a moratorium on additional cement capacity in Indonesia. As a result, we expect the gap between demand and supply to continue to narrow in the future, resulting in higher utilization rates for the cement plants. The additional supply in 2024-2026E will come from cement producers that were given the rights to produce before 2019 but have not been producing and are expected to start producing in 2024.

Fig 24: Indonesia cement supply



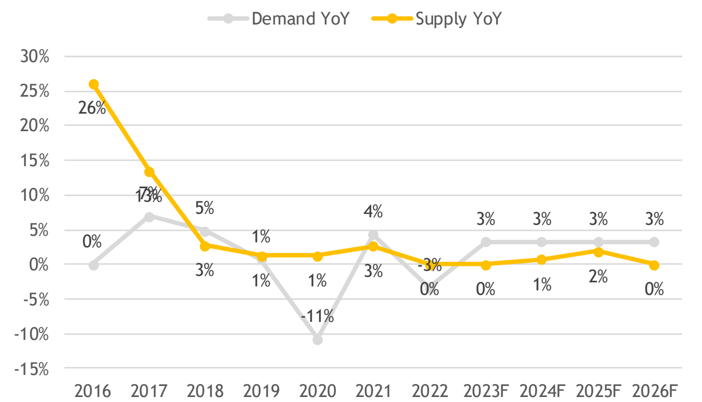
Source: Company, Maybank IBG Research

Fig 25: Indonesia demand, supply and oversupply



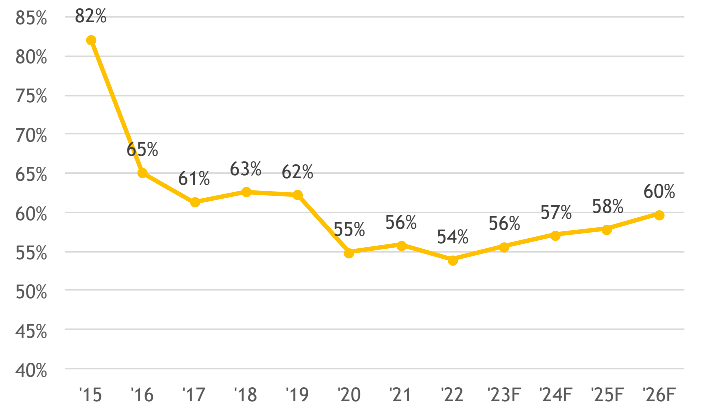
Source: Company, Maybank IBG Research

Fig 26: Demand vs supply growth



Source: Company, Maybank IBG Research

Fig 27: Utilization rate



Source: Company, Maybank IBG Research

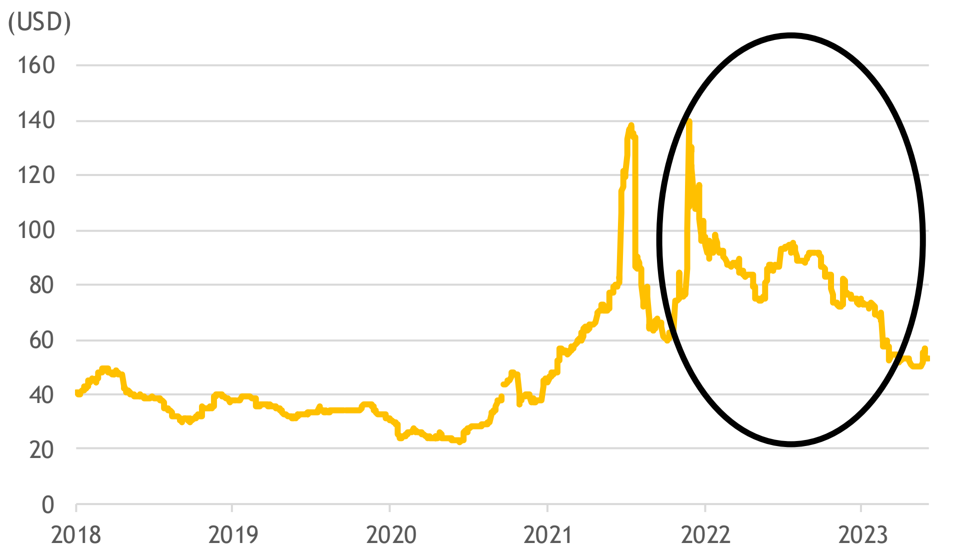
However, it is worth mentioning the addition of PT. Kobexindo Cement, which adds 8m tonnes of cement production capacity per year, located in Kalimantan. But Kobexindo has promised 90% of its 8m tonne capacity will be put towards exports instead of fulfilling domestic demand. Aside from the addition of Kobexindo's capacity, we do not expect the government to award any new cement production licenses. We expect domestic cement capacity to remain at 123m tonnes p.a. for the foreseeable future.

3. Additional tailwinds

3.1 Protected from volatile coal price movements

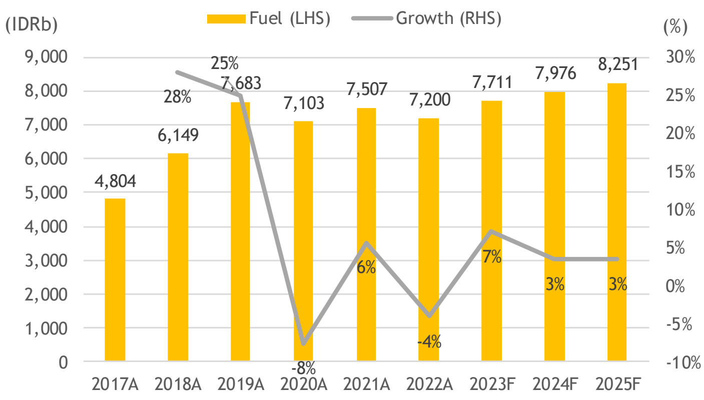
The cement industry requires a lot of heat in the production process, and in turn, a lot of coal is consumed. In early 2022, the price of coal saw an incredible jump with the low calorie value coal price reaching USD123/tonne from USD65 in Dec '21. However, the cement industry was given domestic market obligations (DMO) quotas by the government to help control costs. This resulted in cement companies experiencing only minor increases in their fuel and energy expenses, helping them to maintain healthy margins even during unfavourable periods.

Fig 28: ICI4 coal price



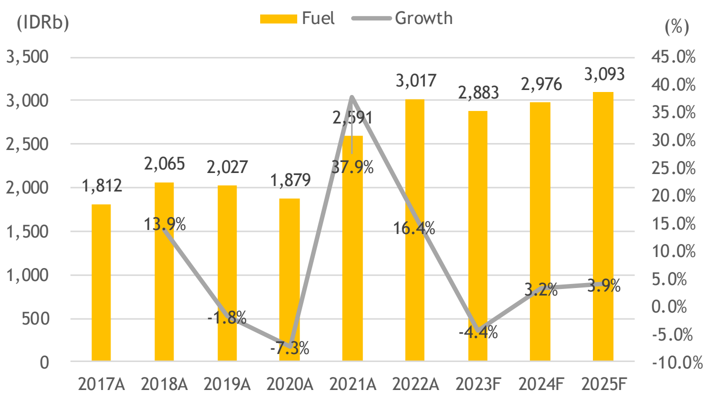
Source: Bloomberg, Maybank IBG Research

Fig 29: SMGR's fuel cost



Source: Company, Maybank IBG Research

Fig 30: INTP's fuel cost



Source: Company, Maybank IBG Research

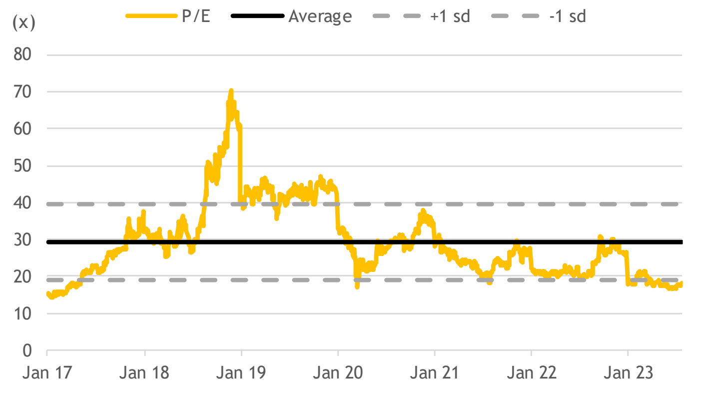
We believe future surges in coal prices will not have a significant effect on the cement sector as the Indonesian government will provide cement producers with DMO quotas, helping them to contain coal costs.

3.2 Attractive valuations, good entry point

INTP and SMGR are trading at cheap valuations compared to their historical averages. INTP is trading at one standard deviation below its 6-year average P/E. SMGR is trading at a significant discount to its 6-year average P/E.

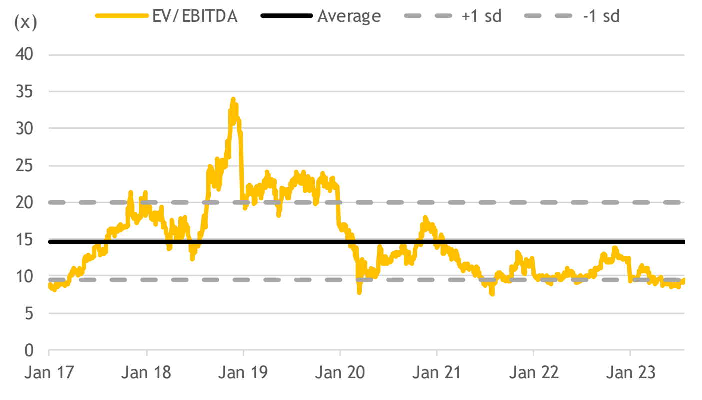
EV/EBITDA also tells a similar story as both INTP and SMGR are trading at one standard deviation below their 6-year averages. This relatively cheap valuation provides a good entry point into the Indonesian cement sector.

Fig 31: INTP - historical P/E



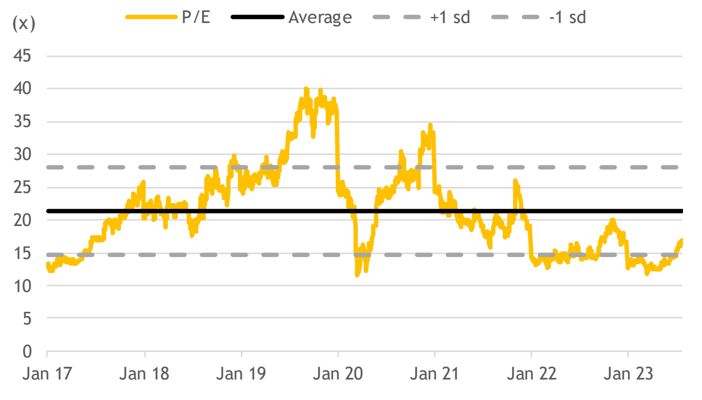
Source: Bloomberg, Maybank IBG Research

Fig 32: INTP - historical EV/EBITDA



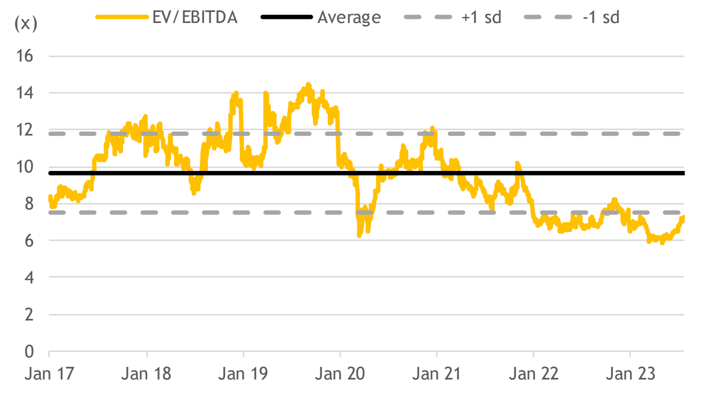
Source: Bloomberg, Maybank IBG Research

Fig 33: SMGR - historical P/E



Source: Bloomberg, Maybank IBG Research

Fig 34: SMGR - historical EV/EBITDA

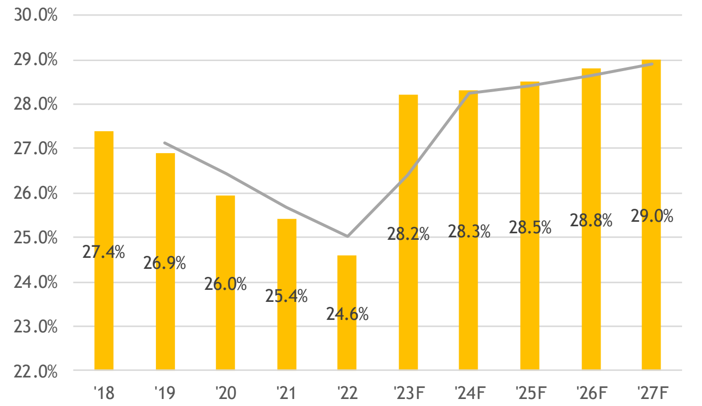


Source: Bloomberg, Maybank IBG Research

4. Financial analysis

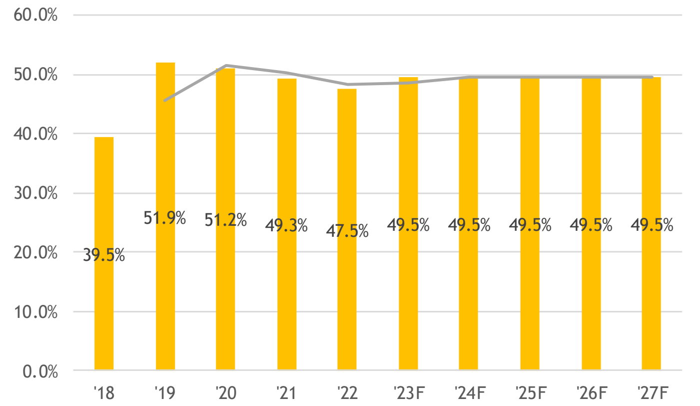
We expect both INTP and SMGR to regain market share in 2023 through their strong brand presence and increasing Ex-Java demand, primarily in East Indonesia, such as Kalimantan, Sulawesi and Papua. We forecast INTP's market share to reach 29% (from 25% in FY22) and SMGR to increase to 50% in FY26E (from 48% in FY22).

Fig 37: INTP's market share



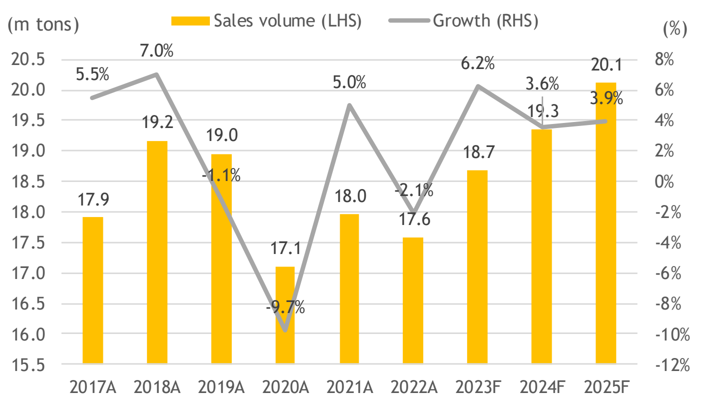
Source: Company, Maybank IBG Research

Fig 38: SMGR's market share



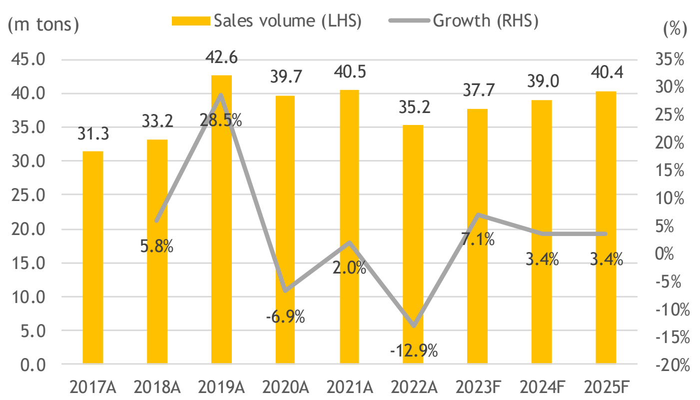
Source: Company, Maybank IBG Research

Fig 39: INTP's sales volume



Source: Company, Maybank IBG Research

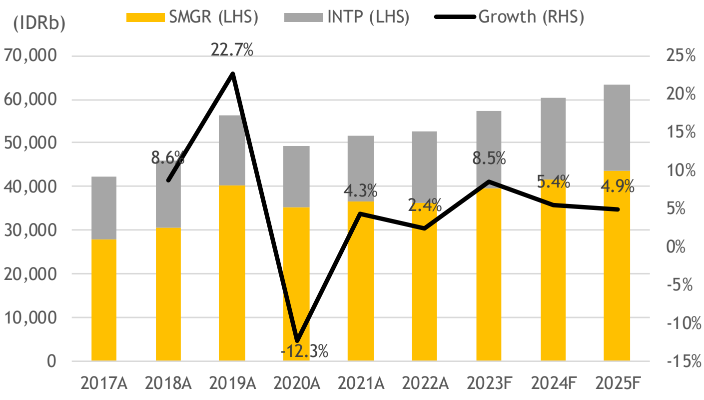
Fig 40: SMGR's sales volume



Source: Company, Maybank IBG Research

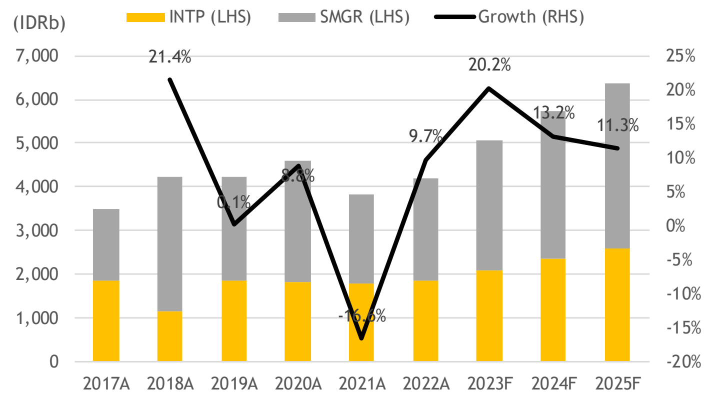
As a result, we forecast INTP and SMGR's revenue growth will be driven by sales volume instead of aggressive ASP increases. We expect consolidated revenue of INTP and SMGR to reach IDR57.2t/IDR60.3t/IDR63.2t in FY23-25E, respectively, growing by 8.5%/5.4%/5.9% YoY.

Fig 41: Sector aggregate revenue



Source: Company, Maybank IBG Research

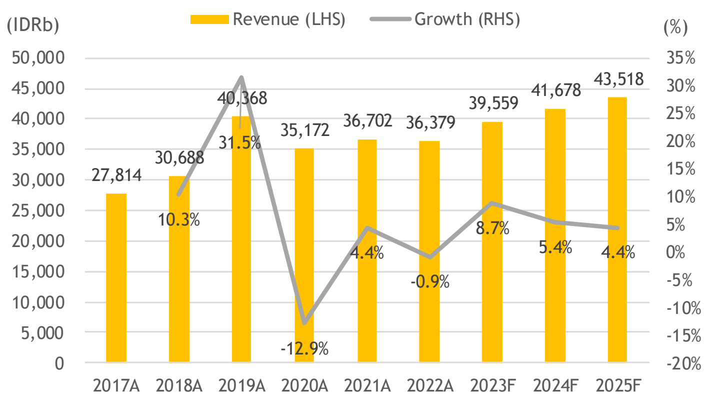
Fig 42: Sector aggregate net profit



Source: Company, Maybank IBG Research

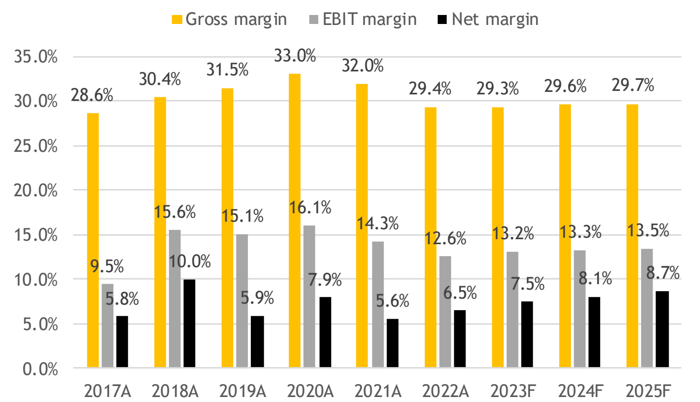
Meanwhile, we expect consolidated net profit to reach IDR5.1t/IDR5.7t/IDR6.4t in FY23-25E, growing by 20.2%/13.2%/11.3% YoY in FY23-25E, respectively. We forecast the larger net profit growth to be driven by lower COGS and operating expenses, leading to higher margins for both INTP and SMGR.

Fig 43: SMGR - revenue forecast



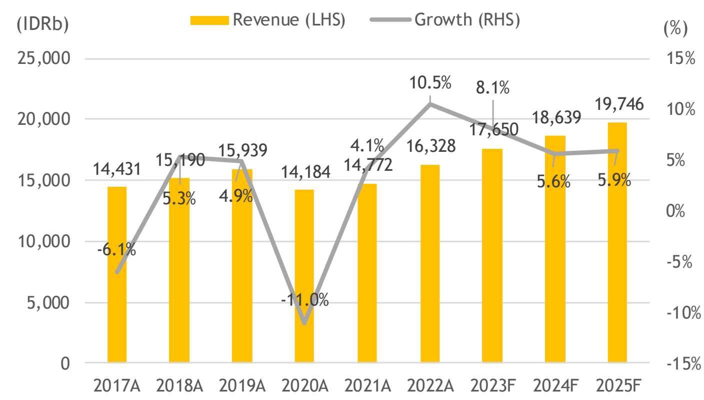
Source: Company, Maybank IBG Research

Fig 44: SMGR - profit margins



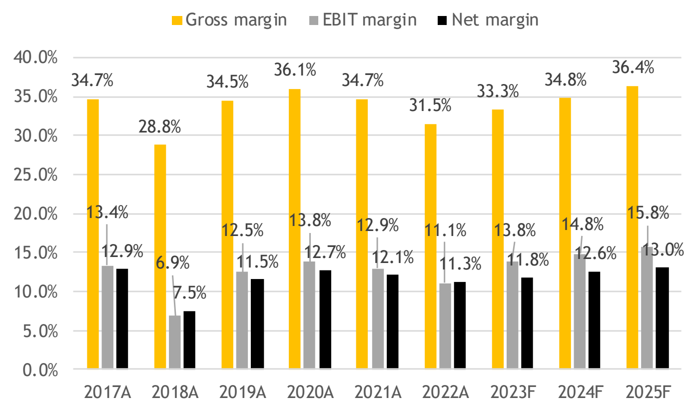
Source: Company, Maybank IBG Research

Fig 45: INTP - revenue forecast



Source: Company, Maybank IBG Research

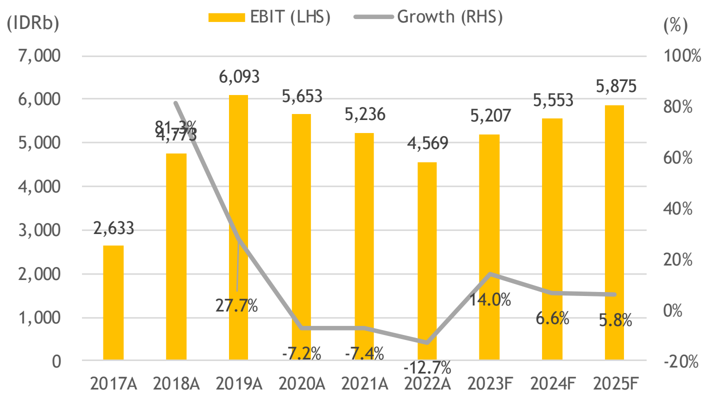
Fig 46: INTP - profit margins



Source: Company, Maybank IBG Research

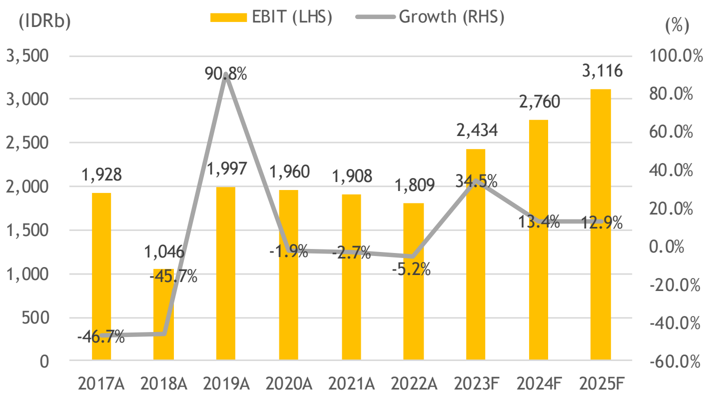
We expect some margin expansion due to lower COGS and operating expenses, resulting in a higher gross and EBIT margin. Meanwhile, we also see net profit improving, driven by higher net finance income.

Fig 47: SMGR – EBIT forecasts



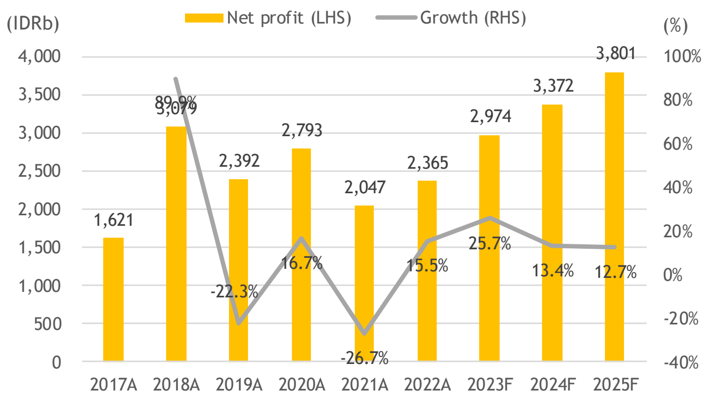
Source: Company, Maybank IBG Research

Fig 48: INTP – EBIT forecasts



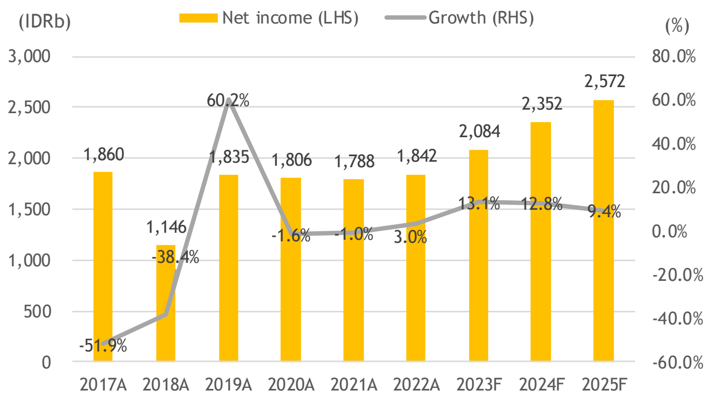
Source: Company, Maybank IBG Research

Fig 49: SMGR – net profit forecasts



Source: Company, Maybank IBG Research

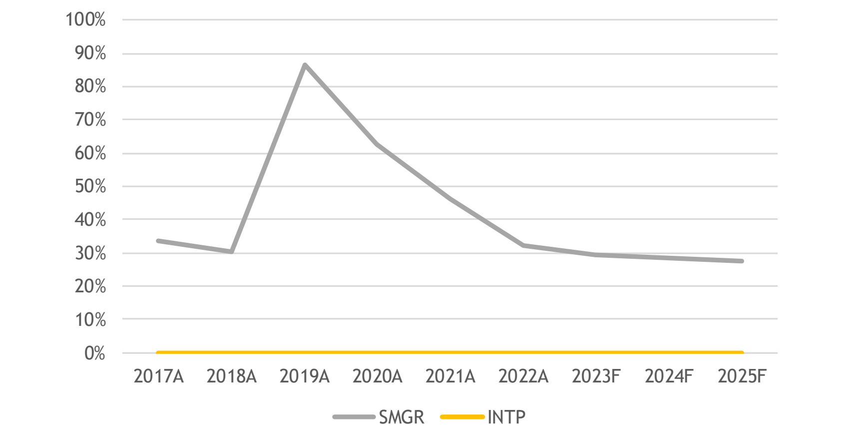
Fig 50: INTP – net profit forecasts



Source: Company, Maybank IBG Research

We also expect net profit growth for both companies, driven by efficiency gains in operations and a relatively low base from FY22. We forecast a FY20-25E CAGR of 6.7% for consolidated net profit. Furthermore, the relatively low debt of the companies under our coverage also means they have a healthy balance sheet.

Fig 51: Debt to equity ratio of SMGR and INTP



Source: Company, Maybank IBG Research

5. Initiate sector coverage with POSITIVE view; Top Picks SMGR and INTP

We initiate coverage of the Indonesian cement sector with a POSITIVE view. Our Top Pick in the sector is SMGR. We like SMGR as it has around 50% market share, making it a proxy to the recovering industry. In addition, SMGR has good corporate strategies to boost sales. We also like INTP due to its clean balance sheet and steadily growing market share in East Indonesia, due to its Maros project.

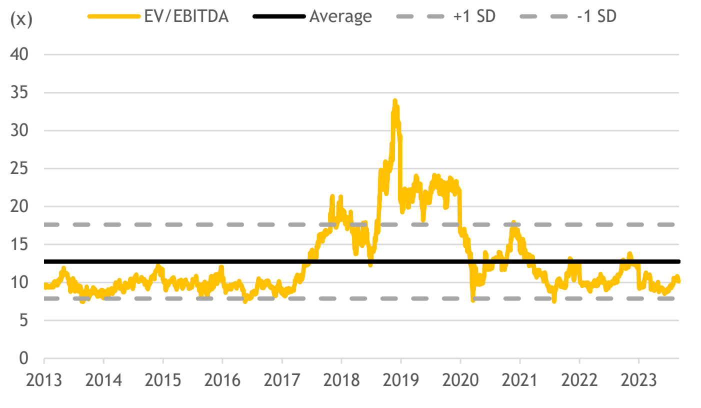
We initiate coverage of SMGR with a TP of IDR8,600, implying 19.5x FY23E P/E and based on 7.9x FY23E EV/EBITDA target and 1.1x FY23E EV/tonne target (both valuation targets are within -1 SD of their 10-year mean). We like SMGR as a leader in the cement industry. SMGR made many acquisitions over the past five years and with no plans to make more acquisitions, it can now focus on integrating these new companies and efficiency gains.

Furthermore, ongoing government projects such as IKN and the light rail transits (LRTs) will benefit SMGR as it has the highest allocation of government project quotas.

We initiate coverage of INTP with a TP of IDR12,800, implying 21.1x FY23E P/E and based on 10.2x FY23E EV/EBITDA target and 1.5x FY23E EV/tonne target (both valuation targets are within -1 SD of their 10-year mean). We like INTP due to its clean balance sheet and being the second-largest cement producer in Indonesia. We also like INTP due to its innovative technology to increase use of alternative fuels, resulting in higher cost efficiency gains.

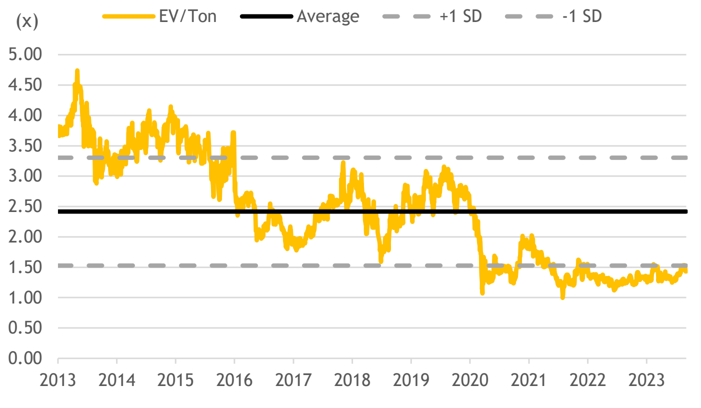
We believe INTP's Maros operation will result in steady growth in market share in East Indonesia. Falling costs will also help INTP widen margins, resulting in higher profits.

Fig 31: INTP EV/EBITDA



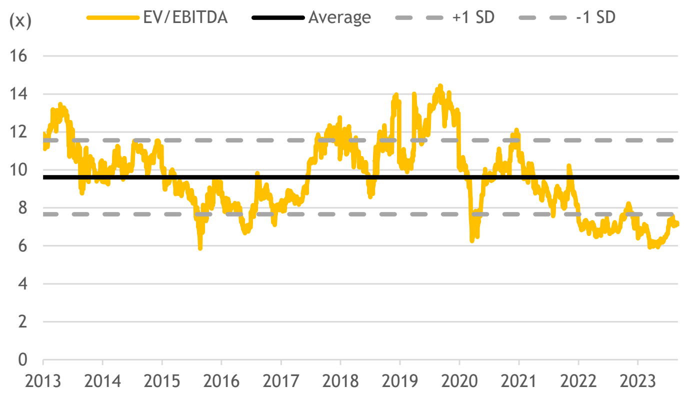
Source: Bloomberg, Maybank IBG Research

Fig 32: INTP EV/tonne



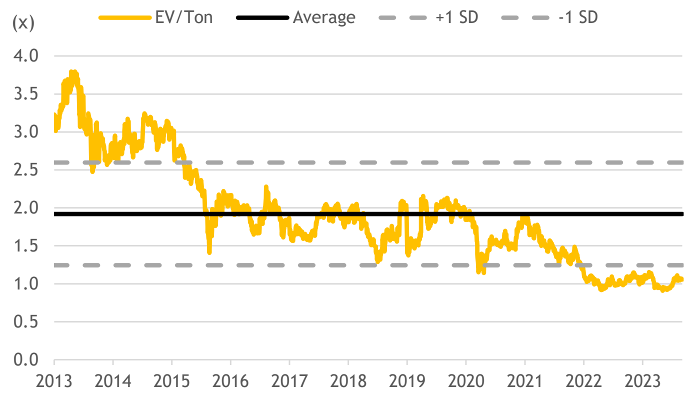
Source: Bloomberg, Maybank IBG Research

Fig 33: SMGR - EV/EBITDA



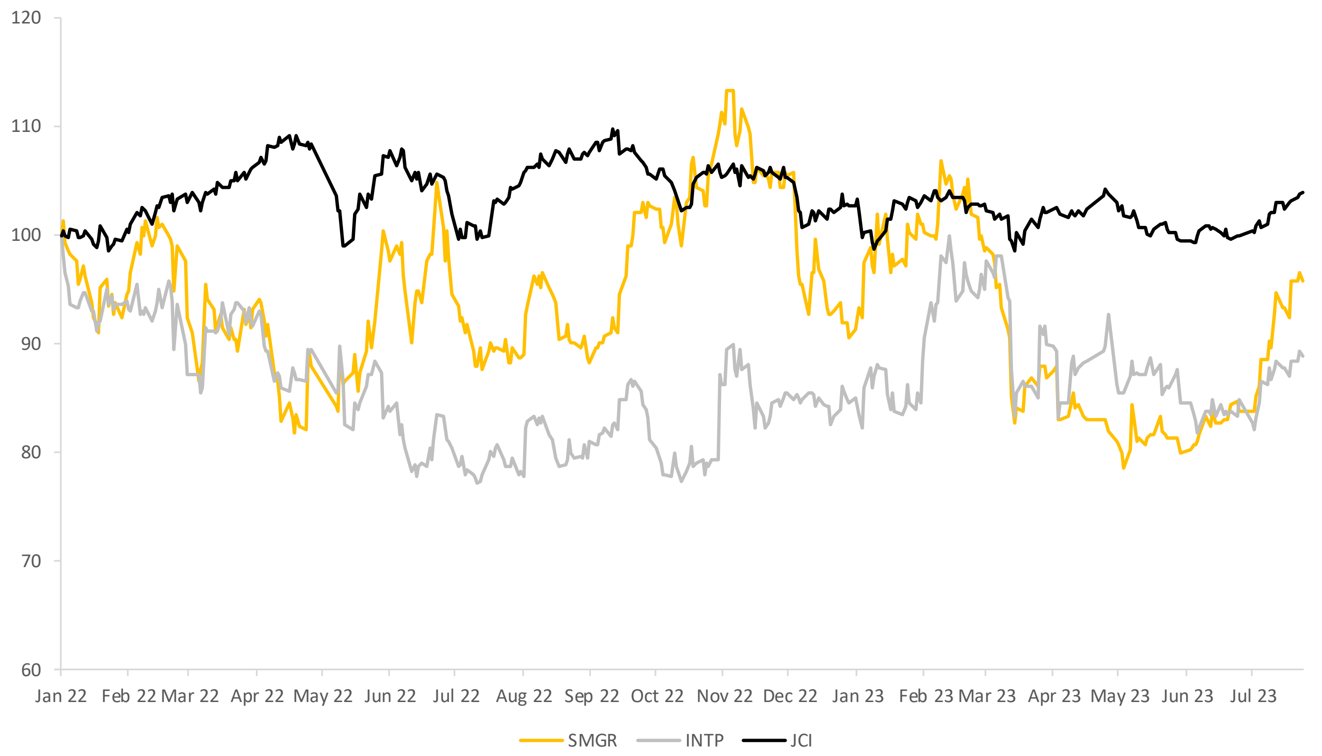
Source: Bloomberg, Maybank IBG Research

Fig 34: SMGR - EV/tonne



Source: Bloomberg, Maybank IBG Research

Fig 52: Stock performance vs JCI



Source: Bloomberg, Maybank IBG Research

6. Risks to our views

6.1 Political uncertainty

With the 2024 general election to be held on 14 Feb, the extent of the government's focus on infrastructure remains uncertain. The impact on the cement industry will depend on who is elected and the projects launched.

6.2 Weak appetite for home improvement

Home improvement is one of the sources of demand for the cement sector. The upcoming elections might deter customers from making any large purchases, resulting in a decrease in appetite for home improvements.

6.3 Economic uncertainties

A recession could dampen the growth potential of the cement industry in Indonesia.

6.4 Carbon tax

The government is planning carbon trading and carbon tax. As cement production emits a large amount of CO_2, this might affect the profitability of cement producers in Indonesia.

Semen Indonesia (SMGR IJ)

The Empire strikes back

BUY

Share Price	IDR 7,000
12m Price Target	IDR 8,600 (+25%)

Initiate coverage of SMGR with IDR8,600 TP

We initiate coverage of Semen Indonesia (SMGR) with BUY and TP of IDR8,600, based on a target FY23E EV/EBITDA of 7.9x, within -1SD of its 10-year mean. Our TP also implies 19.5x FY23E P/E. We believe SMGR's size and brand equity should put it ahead of the competition. We forecast FY23-25E revenue to grow by 8.7%/5.4%/4.4% YoY. We also forecast attractive div. yields at 4.5/5.1/5.8% for FY23-25E, respectively. Risks to our call include economic uncertainty, the 14 Feb-24 presidential election, and the government's carbon initiatives.

On the offensive to gain market share

The acquisition of Semen Baturaja (SMBR) in 2022 and Holcim (SMCB) in 2019 has increased SMGR's market share from 38% pre-acquisition to 52% as of 7M23. With the acquisitions done, SMGR can now focus on integrating the two plants into its ecosystem to further enlarge its market share. We expect market share to consolidate at 49.5%, up +200bps from 47.5% in FY22, and forecast SMGR's sales volume to increase to 37.7/39.0/40.4m tonnes in FY23E/24E/25E from 35.2m tonnes in FY22.

Margins are increasing

We believe EBIT and net margin will expand due to economies of scale and forecast opex-to-revenue to drop to 0.16x for all FY23E-25E from 0.17x in FY22, resulting in a higher EBIT margin of 13.2%/13.3%/13.5% for FY23E/24E/25E. Meanwhile, lower finance costs should result in higher net margin of 7.5%/8.1%/8.7% for FY23-25E, respectively, from 6.5% for FY22. However, we do not expect any major improvements in gross margin and expect it to stabilize at 29.3%/29.6%/29.7% in FY23/24/25E.

Prime beneficiary of rising infrastructure budget

SMGR typically receives the highest allocation of government projects. We expect SMGR to benefit from several governmental projects, such as Ibu Kota Negara (IKN) and infrastructure construction. Furthermore, the government has an infrastructure budget of IDR392t and IDR423t for 2023-2024, increasing by +7.2% and +7.8% YoY, respectively. As a result, we expect FY23E/24E/25E revenue to rise by 8.7%/5.4%/4.4% YoY to IDR39.6t/41.7t/43.5t, respectively.

FYE Dec (IDR b)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	36,702	36,379	39,559	41,678	43,518
EBITDA	8,660	7,890	8,135	8,557	8,914
Core net profit	2,047	2,365	2,974	3,549	4,075
Core EPS (IDR)	344	397	440	526	604
Core EPS growth (%)	(27.0)	15.4	11.0	19.4	14.8
Net DPS (IDR)	188	172	220	263	302
Core P/E (x)	21.0	16.6	15.9	13.3	11.6
P/BV (x)	1.1	0.9	1.1	1.0	0.9
Net dividend yield (%)	2.6	2.6	3.1	3.8	4.3
ROAE (%)	5.5	5.8	6.8	7.7	8.3
ROAA (%)	2.5	2.9	3.5	4.2	4.9
EV/EBITDA (x)	7.2	6.5	7.0	6.3	5.7
Net gearing (%) (incl perps)	34.5	16.2	10.5	4.0	net cash
Consensus net profit	-	-	2,726	3,273	3,604
MIBG vs. Consensus (%)	-	-	9.1	8.4	13.1

Company Description

Semen Indonesia is a government-owned cement company, which has the largest market share in Indonesia.

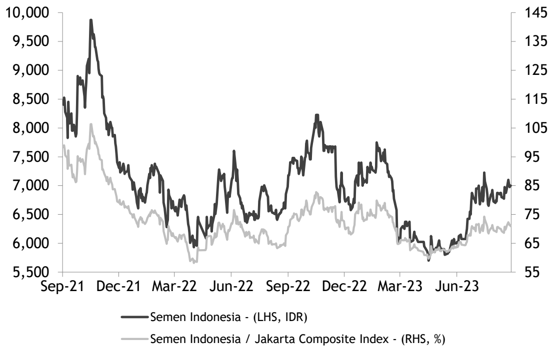
Statistics

52w high/low (IDR)	8,227/5,700
3m avg turnover (USDm)	4.5
Free float (%)	48.8
Issued shares (m)	5,962
Market capitalisation	IDR41.7T
	USD2.7B

Major shareholders:

Indonesian government	51.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	15	6
Relative to index (%)	1	11	11

Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

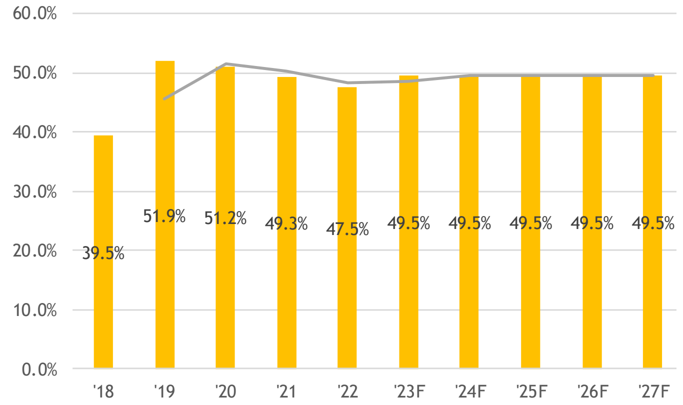
William Jefferson W
william.jefferson@maybank.com
(62) 21 8066 8563

Jeffrosenberg Chenlim
Jeffrosenberg.lim@maybank.com
(62) 21 8066 8680

Value Proposition

- The largest cement company, by sales volume and capacity, in Indonesia. It had 52% market share by 7M23.
- The only cement company in Indonesia with diverse operations on three main islands (Java, Sulawesi and Sumatera).
- These diverse locations help SMGR to tap demand across the country faster than competitors.
- Negatively impacted by industry oversupply and higher input costs, lowering margins.

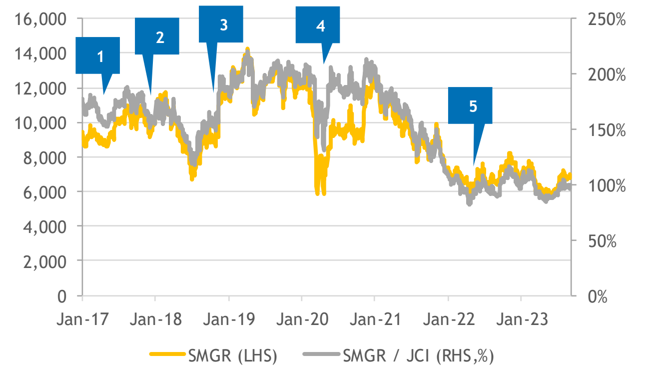
SMGR's market share



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



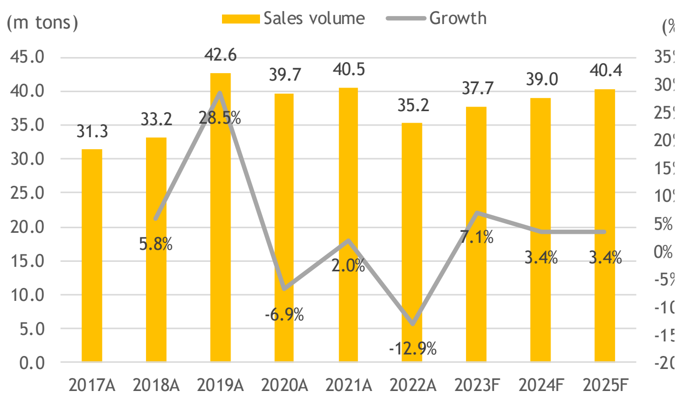
Source: Company, Maybank IBG Research

1. Earnings under pressure due to higher commodity prices and IDR depreciation.
2. Better-than-expected results due to cost efficiencies.
3. Acquisition of SMCB.
4. Onset of Covid-19 pandemic.
5. Rising coal prices from commodity boom in FY22.

Financial Metrics

- Forecast revenue to increase, driven by sales volume growth.
- Protected from volatile coal prices, resulting in stable gross margins.
- Deleveraging trend leading to a healthier balance sheet and allows SMGR to maintain above 25% dividend payout ratio.

SMGR's sales volume



Source: Company, Maybank IBG Research

Swing Factors

Upside

- Domestic demand recovery driven by the property sector and other infrastructure projects.
- Major supply cuts by existing players, which will bring supply and demand to a healthier level.
- Largest market share and geographical footprint amongst all the cement producers in Indonesia.

Downside

- Not protected from the oversupply situation in the cement industry.
- Price intervention by the government.
- Upcoming elections might hinder demand.

william.jefferson@maybank.com

ESG@MAYBANK IBG

william.jefferson@maybank.com

Risk Rating & Score[1]	32.4
Score Momentum[2]	-2.1
Last Updated	19 Apr 2023
Controversy Score[3] (Updated: 19 Apr 2023)	1 - Operations incidents

Business Model & Industry Issues

- SMGR has made considerable efforts to implement its Sustainable Development Goals (SDGs) since 2009. Within 10 years, SMGR has made significant progress in reducing carbon emissions and increasing the use of alternative fuels, putting it on track to achieving its targets in 2024. Its diverse presence across the country also helps to empower the local communities via its partnership programmes, especially on the outer islands.
- Being an SOE, SMGR has higher requirements and responsibilities with regards to serving the local communities and conserving the environment. This is demonstrated by its higher allocation to its CSR budget, of about 6% of its net profit (an average of 1.5% among its peers).
- Overall, we believe SMGR's significant efforts and commitment towards ESG initiatives will ensure the broad sustainability of its business as the nation's largest cement company with market share of c.53% in 2019, post-acquisition of Holcim Indonesia (SMCB IJ).

Material E issues

- In 2018, SMGR obtained 14001 ISO certification. This is an international standard that requires a structured-management approach towards environment sustainability.
- SMGR has managed to reduce its carbon emission by 17%, to 590kg CO2/tonne cement compared to 708kg CO2/tonne in 2010.
- Numerous initiatives have been implemented to conserve the natural environment through more environmentally-friendly mining, with greenbelt areas surrounding the mine and reclamation and revegetation of post-mine sites. SMGR also uses industrial waste and biomass as alternative fuels and is also pursuing efficiencies in water usage and conservation of flora and fauna in the post-mine areas, which are repurposed for agriculture and aquaculture.

Material S issues

- Due to the nature of the cement business, most employees are male (88% in 2022). There were no reports of employees being paid below the minimum wage.
- With strong enforcement of health and worker safety awareness, SMGR reported a consistent decline in in lost time injury frequency rate , to 0.21 in 2022, from 1.28 in 2018.
- Within 10 years of its implementation, 73,000 people receive benefits of its partnership programme in cement distribution. The programme helps to empower local communities in entrepreneurial development.
- As one of the realisations of its commitment in its SDGs, SMGR allocated IDR110b for its CSR programme in 2022 (4.7% of FY19 net profit). The programme involves local communities.

Key G metrics and issues

- Being an SoE, SMGR belongs to the Government of Indonesia (GoI), which directly owns SMGR via 1,000 series A shares and controls 51.01% of series B shares.
- Through the series-A shares, the GoI has four main authorities, namely: (1) appointment of the Board of Commissioners (BoC) and the Board of Directors (BoD); (2) change of capital structure and use of profits; (3) change of articles of associations; and (4) M&A and divestments.
- The BoC consists of eight members, with one female (12.5%). There are two independent commissioners on the board.
- The BoD consists of six members, all of whom are male.
- Every year, there is a minimum of two meetings, namely the BoC meeting and the BoC coordination meeting with the BoD. In 2022, there were 12 joint meetings of the BoC and BoD.
- The total remuneration for the BoC and BoD was c.4.5% of SMGR's FY22 net profit. This is relatively in line with peers' average.
- In its 2019 AGM, SMGR changed its external auditor to PWC, from Deloitte. The reason why SMGR replaced its external auditor to PWC was not disclosed.
- According to local media reports, the Corruption Eradication Committee is investigating a corruption case at Perusahaan Gas Negara (PGAS IJ), when SMGR's current CEO, Mr. Hendi Prio Santoso, was serving as CEO. He was re-appointed as SMGR's CEO at the AGM in May'20.
- For the first time in history in Jan'15, President Joko Widodo instructed all SOE cement producers to cut cement prices.
- In 2019, SMGR completed the acquisition of 80.6% stake in Holcim Indonesia (SMCB IJ) from LafargeHolcim for an enterprise value of USD1.75b. For the acquisition, SMGR secured an USD1.28b syndicate loan. SMCB is the third largest cement producer in the country, with c.14% market share (based on capacity). The transaction implies EV/capacity of USD117/tonne, which is similar to SMGR's valuation. Post the acquisition, SMGR's domestic cement market share increased to c.53% from 38%.

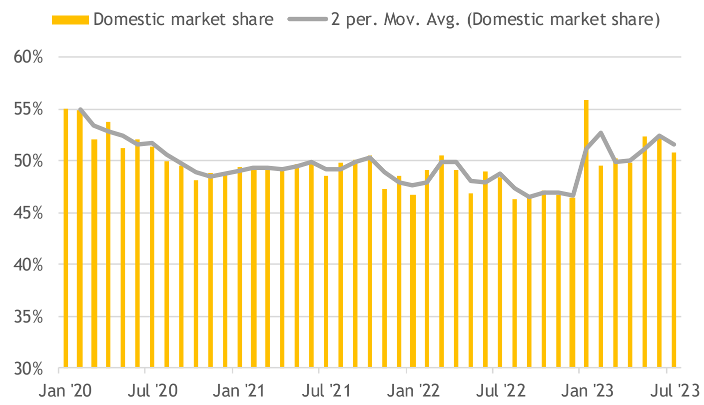
[1] ***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2] ***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3] ***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

1. Investment thesis

1.1 Market share recovery

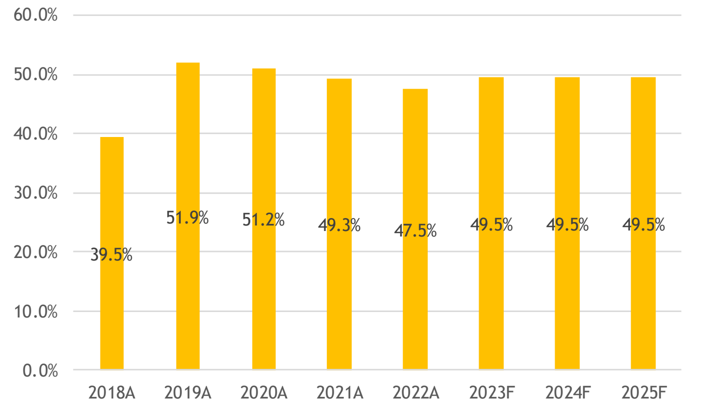
SMGR gained significant market share in early 2023. This was done through leveraging strong brand equity, promotions, and good pricing strategies. We expect SMGR to maintain this position and consolidate market share at 49% for the rest of the year. With the growing cement industry in Indonesia, we expect the 49% market share to translate into 6.2% sales volume growth to 37.4m tonnes in FY23E.

Fig 1: SMGR - historical monthly market share



Source: Company, ASI, Maybank IBG Research

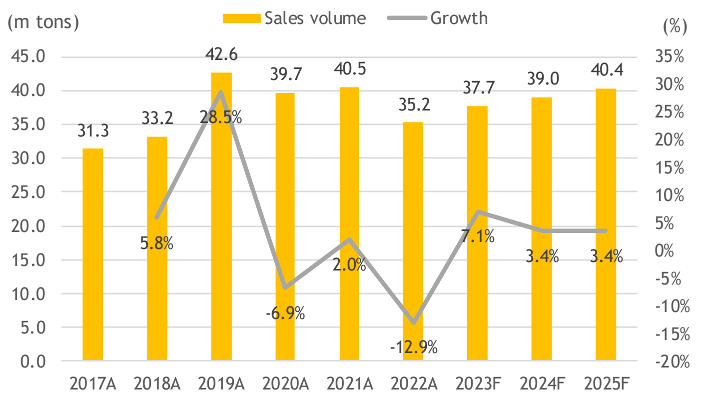
Fig 2: SMGR - market share forecasts



Source: Company, ASI, Maybank IBG Research

Meanwhile, we also expect this growth to continue onwards to 49.5% and 49.8% in FY24-25E, resulting in a 4.3% and 3.0% increase in sales volume to 39m and 40.5m tonnes.

Fig 3: SMGR - sales volume

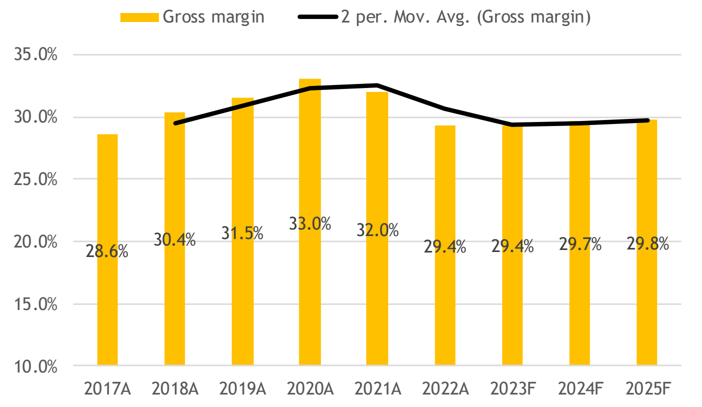


Source: Company, ASI, Maybank IBG Research

1.2 Margin expansion

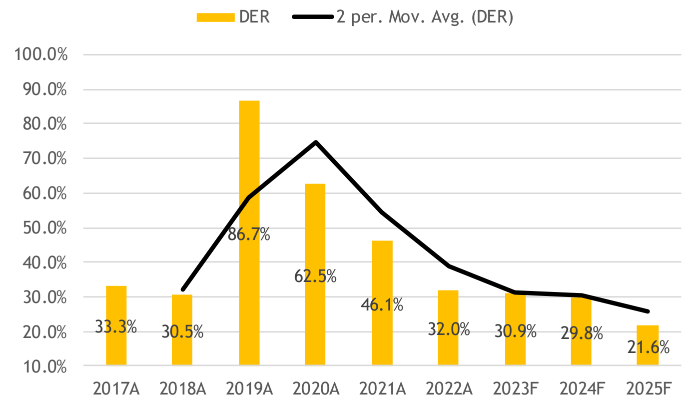
SMGR was impacted only slightly by the increase in coal prices in FY22 as it receives 100% allocation of domestic market obligation (DMO) priced coal resource. With other costs being somewhat stagnant, we do not expect any major improvements in gross margin. However, we expect higher EBIT and net margins.

Fig 4: SMGR - gross margin



Source: Company, Maybank IBG Research

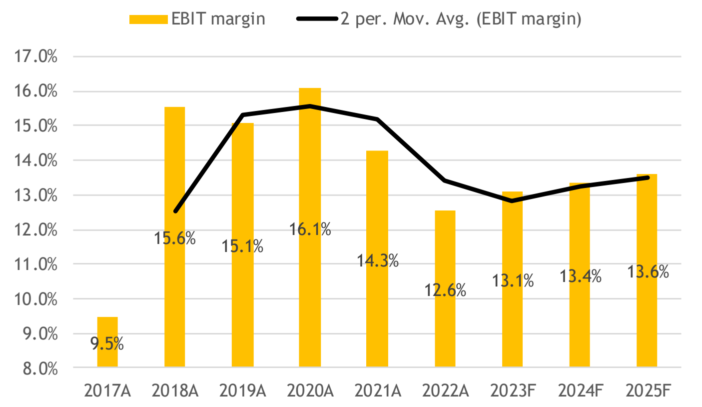
Fig 5: SMGR - debt-to-equity ratio (DER)



Source: Company, Maybank IBG Research

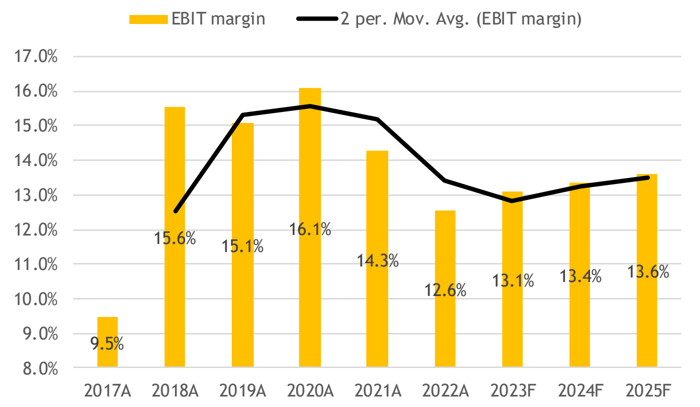
As competition is abating and volume starts to recover, we expect SMGR going forward will be able to maintain a stable level of SG&A as % of revenue, resulting in a 13.1%/13.4%/13.6% EBIT margin in FY23E-25E. Meanwhile, with no major capex planned for the near future, we expect improving debt-to-equity (DER) ratio will steadily reduce financing cost. We expect the ratio of finance cost as % of EBIT to drop from 31% in FY22 to 22%/19%/13% in FY23-25E. This should result in a higher net margin of 7.4%/8.1%/8.9%, recovering from 6.5% in FY22.

Fig 6: SMGR - EBIT margin



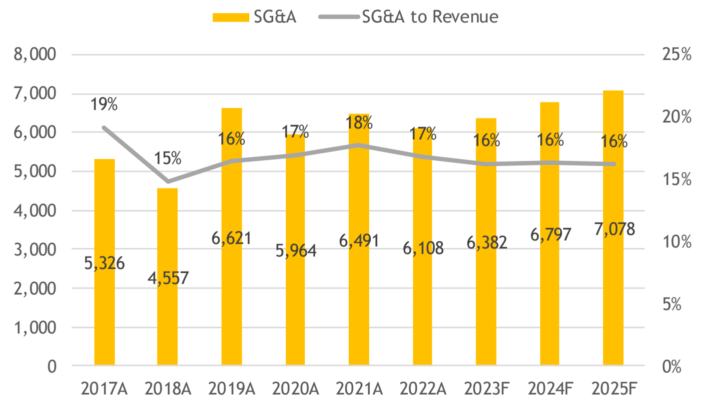
Source: Company, Maybank IBG Research

Fig 7: SMGR - net margin



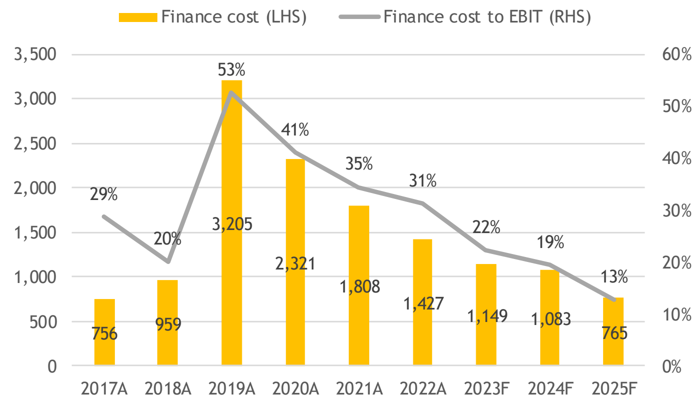
Source: Company, Maybank IBG Research

Fig 8: SMGR - SG&A cost



Source: Company, Maybank IBG Research

Fig 9: SMGR - finance cost

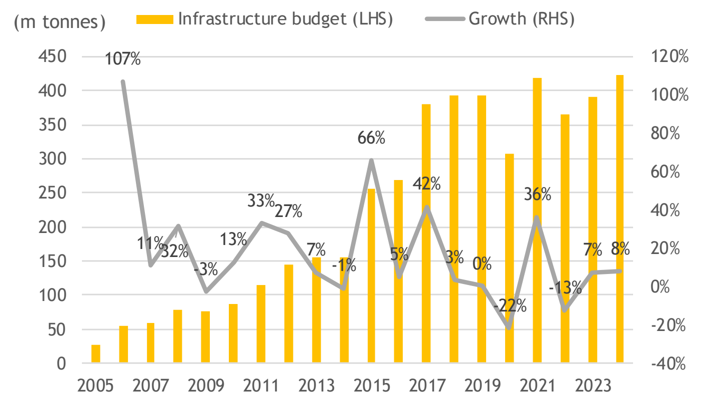


Source: Company, Maybank IBG Research

1.3 Primary beneficiary of government projects

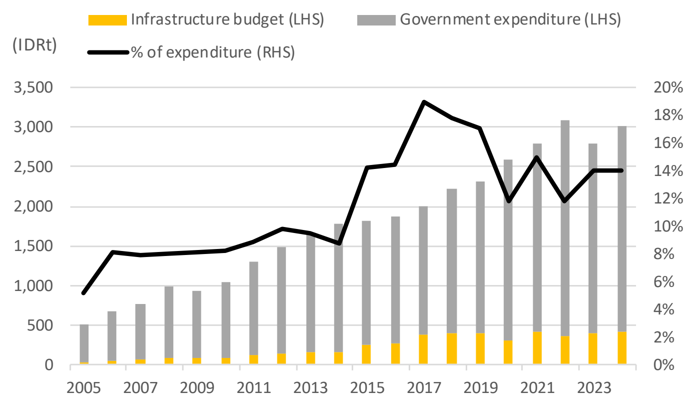
SMGR receives the largest amount of quota for governmental projects, such as IKN and other infrastructure construction. We believe SMGR has a 'safety net' to its sales volume due to this. Moreover, we have seen the government continuously putting emphasis on infrastructure in Indonesia. In 2022, the government allocated IDR365.8t for infrastructure, accounting for 11.8% of government expenditure. The government has increased this to IDR392.0t and IDR422.7t for FY23-24E.

Fig 1: Indonesia's infrastructure budget



Source: Company, Maybank IBG Research

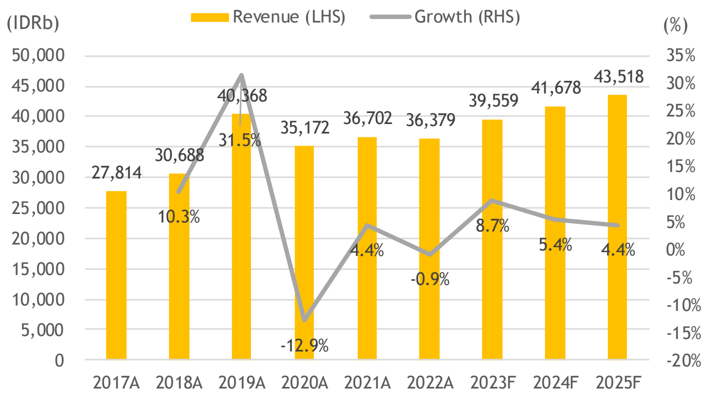
Fig 2: Infrastructure budget to total government expenditure



Source: Company, Maybank IBG Research

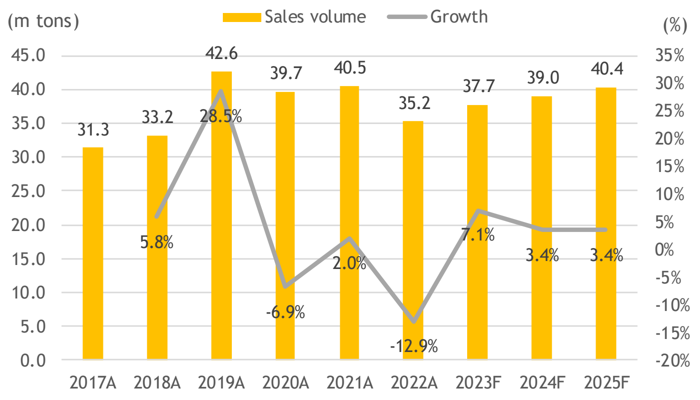
With support from the government, we expect SMGR to experience revenue growth of 7.9%/6.2%/4.8% YoY for FY23E-25E respectively, driven by sustained sales volume growth instead of ASP increases.

Fig 3: SMGR - revenue



Source: Company, Maybank IBG Research

Fig 4: SMGR - sales volume



Source: Company, Maybank IBG Research

Fig 5: Regulation No.9 of 2022 by the Coordinating Minister of the Economy

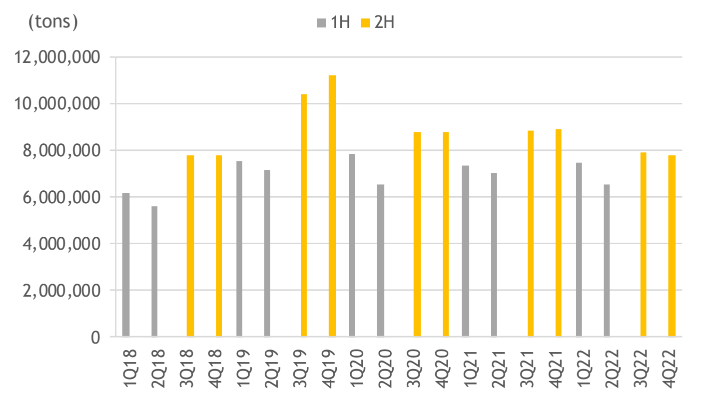
	Sectors	Number of projects	Location
1	Roads and bridges	53	Various
2	Harbour	21	Various
3	Airports	6	Papua and Java
4	Railway	14	Sumatra, Sulawesi and Java
5	Regional	10	Various
6	Housing	2	National
7	Dam and irrigation	55	Various
8	Water and sanitation	13	Java and Bali
9	Beach embankment	1	Java
10	Energy	20	Various
11	Education	1	Java
12	Tourism	1	Java
13	Plantation	1	Papua

Source: Maybank IBG Research

1.4 Expecting demand to recover in 2H23

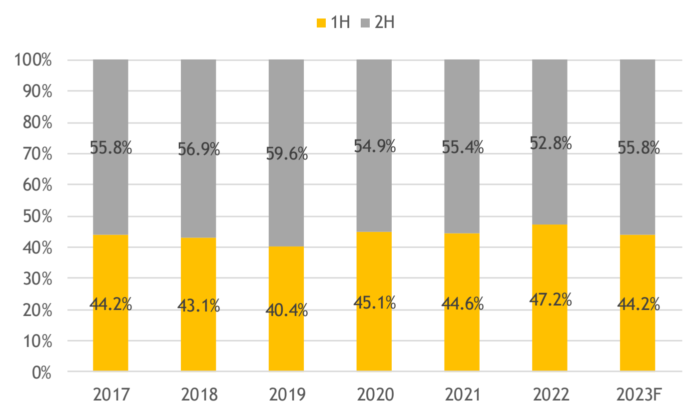
We observe seasonality in the cement sector wherein the past 5 years, 2H consumption averaged 56% of total full-year consumption. This is also true for SMGR as 56% of sales volume came in the 2H.

Fig 15: SMGR – sales volume seasonality



Source: Company, ASI, Maybank IBG Research

Fig 16: SMGR – sales volume contribution



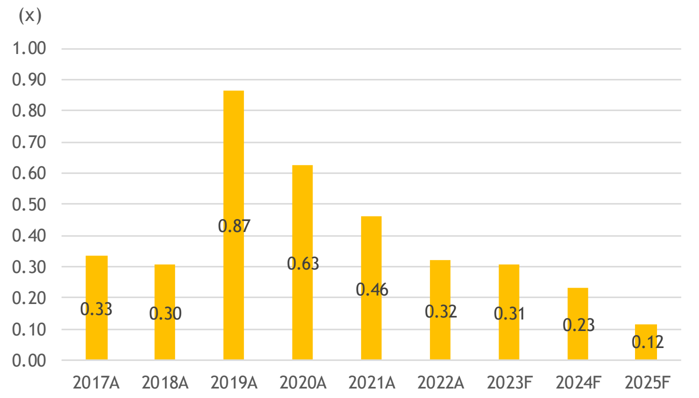
Source: Company, Maybank IBG Research

As a result, we expect the second half recovery to benefit SMGR and expect domestic cement sales to reach 32.2m tonnes this year, or an additional 17.9m tonnes in FY23E from 14.2m tonnes in 1H23.

1.5 Continuous balance sheet deleveraging

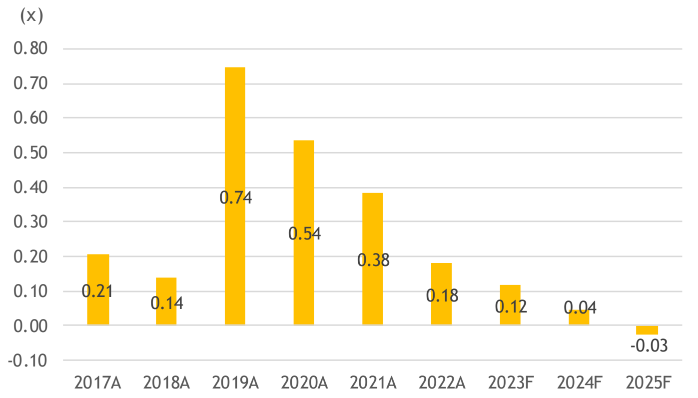
After a period of inorganic growth over the past few years, we expect SMGR to focus on integrating its acquisitions into its large ecosystem. We do not expect any further acquisitions and instead SMGR should start paying off its debt. We expect gross debt-to-equity ratio (DER) to trend downwards, pointing to a healthier balance sheet where we forecast gross DER to reach 0.31/0.23/0.12 in FY23-25E respectively.

Fig 17: SMGR - gross DER



Source: Company, Maybank IBG Research

Fig 18: SMGR - net DER



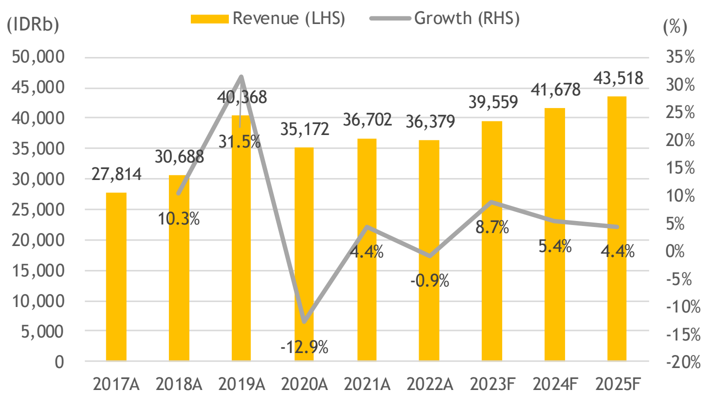
Source: Company, Maybank IBG Research

Meanwhile, with its debt continuously dropping, we believe SMGR's net DER to continue falling until ultimately becoming a net cash company by 2025E with a net DER of -0.03.

2. Financial analysis

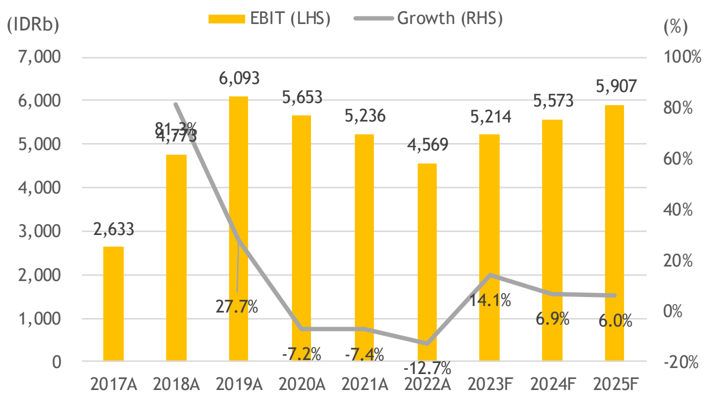
We expect revenue to continue growing, driven by increasing sales volume due to SMGR's growing market share rather than ASP increases. As a result, we do not expect gross margin to expand. However, lower SG&A cost and finance cost should result in higher EBIT margin and net margin. We believe growing profitability to be sustained for the foreseeable future and expect an earnings CAGR of 6.7% for FY20-25E.

Fig 19: SMGR - revenue forecasts



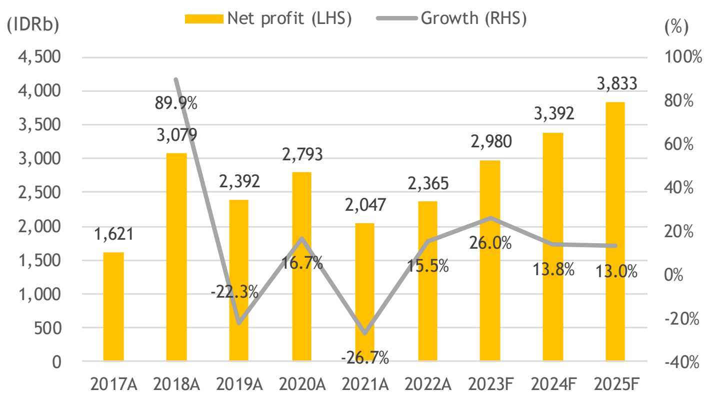
Source: Company, Maybank IBG Research

Fig 20: SMGR - EBIT forecasts



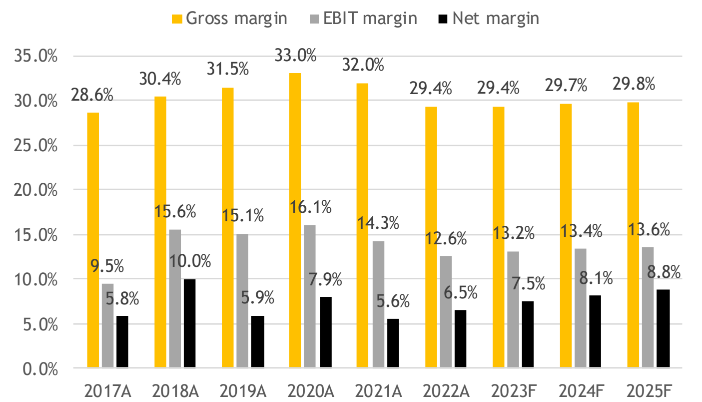
Source: Company, Maybank IBG Research

Fig 21: SMGR - net profit forecasts



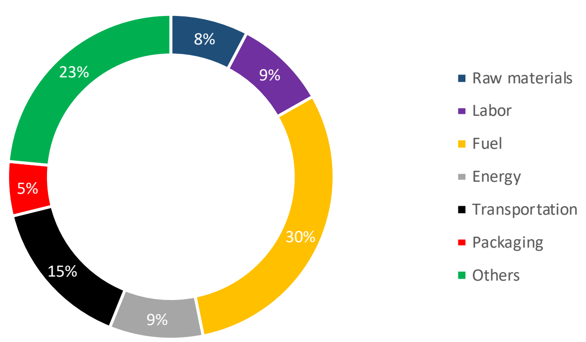
Source: Company, Maybank IBG Research

Fig 22: SMGR - margins



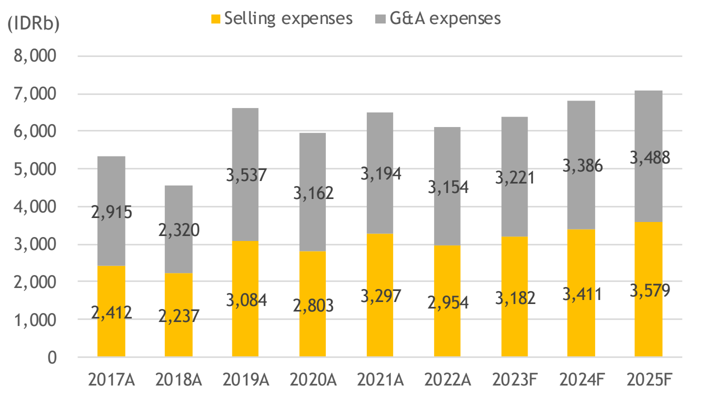
Source: Company, Maybank IBG Research

Fig 23: SMGR - cost structure



Source: Company, Maybank IBG Research

Fig 24: SMGR - operating expense structure

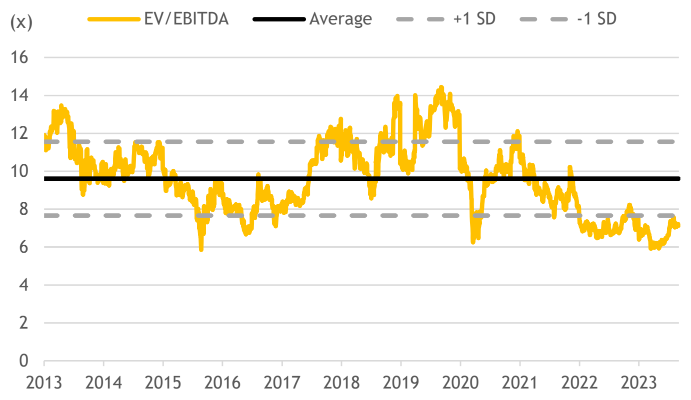


Source: Company, Maybank IBG Research

3. Valuation

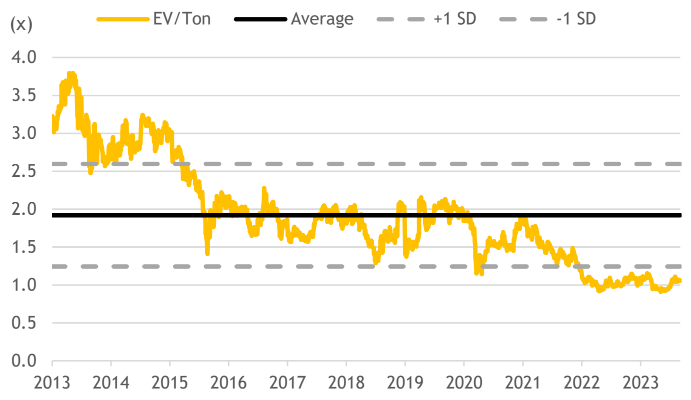
We initiate coverage of Semen Indonesia (SMGR IJ) with BUY and IDR8,600 TP, implying 19.5x FY23E P/E. We set our target price based on FY23E EV/EBITDA target of 7.9x, within -1SD of its 10-year mean. We also base the valuation on its FY23E EV/tonne of 1.1x, within -1SD of its 10-year mean. We believe SMGR is trading at a significant discount to its historical value and this period provides a good entry point into the proxy of the cement sector.

Fig 25: SMGR - EV/EBITDA



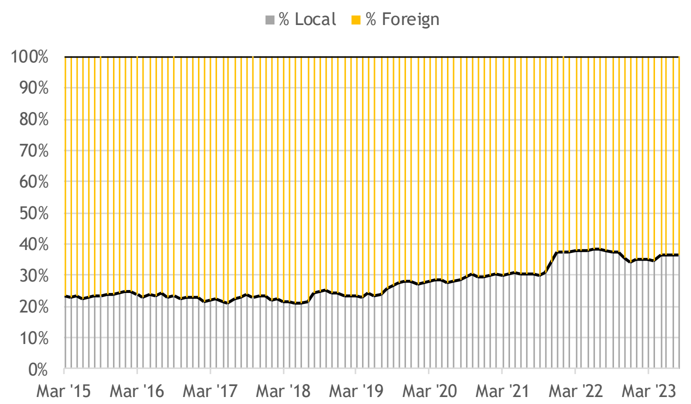
Source: Company, Maybank IBG Research

Fig 26: SMGR - EV/tonne



Source: Company, Maybank IBG Research

Fig 27: SMGR - foreign ownership vs local ownership



Source: Company, Maybank IBG Research

4. Risks

4.1 Less appetite for home improvements

Home improvement is one of the sources of demand for cement. The upcoming elections might deter customers from making any large purchases, resulting in a worsening in sentiment for home improvements.

4.2 Economic uncertainties

A recession may dampen growth potential of the cement industry in Indonesia.

4.3 Carbon initiatives

The government is planning carbon trading and carbon tax initiatives. As cement production emits large amounts of CO_2 emissions, this might affect the profitability of cement players in Indonesia.

4.4 Political uncertainty

With the 2024 elections approaching, the extent of the government's focus on infrastructure remains uncertain. The impact on the industry will depend on who is elected, and the projects that will be launched.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	27.9	17.5	15.9	13.3	11.6
Core P/E (x)	21.0	16.6	15.9	13.3	11.6
P/BV (x)	1.1	0.9	1.1	1.0	0.9
P/NTA (x)	nm	nm	nm	nm	nm
Net dividend yield (%)	2.6	2.6	3.1	3.8	4.3
FCF yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	7.2	6.5	7.0	6.3	5.7
EV/EBIT (x)	11.9	11.2	10.9	9.7	8.6
INCOME STATEMENT (IDR b)					
Revenue	36,702.3	36,378.6	39,559.1	41,677.9	43,517.6
EBITDA	8,659.6	7,890.4	8,134.9	8,557.3	8,913.6
Depreciation	(3,423.5)	(3,321.2)	(2,927.7)	(3,004.3)	(3,038.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	5,236.1	4,569.1	5,207.1	5,553.1	5,874.9
Net interest income /(exp)	(1,637.1)	(1,328.8)	(1,050.9)	(807.1)	(392.6)
Associates & JV	(32.7)	2.4	(16.7)	(20.3)	(24.1)
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(28.3)	56.3	56.3	56.3	56.3
Pretax profit	3,538.0	3,299.0	4,195.9	4,782.0	5,514.6
Income tax	(1,420.5)	(799.8)	(1,087.7)	(1,098.3)	(1,305.5)
Minorities	(70.5)	(134.2)	(134.2)	(134.2)	(134.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,046.9	2,365.0	2,973.9	3,549.5	4,074.8
Core net profit	2,046.9	2,365.0	2,973.9	3,549.5	4,074.8
BALANCE SHEET (IDR b)					
Cash & Short Term Investments	2,955.0	6,007.3	8,488.7	9,068.4	7,025.8
Accounts receivable	5,690.9	5,521.3	6,004.1	6,325.6	6,604.9
Inventory	4,547.8	4,848.5	5,610.2	5,321.9	5,584.3
Property, Plant & Equip (net)	58,839.1	57,806.0	57,072.6	56,277.2	55,419.8
Intangible assets	2,500.6	2,498.3	2,337.3	2,161.9	2,014.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	7,233.0	6,278.6	5,284.5	5,881.1	5,900.0
Total assets	**81,766.3**	**82,960.0**	**84,797.4**	**85,036.0**	**82,548.8**
ST interest bearing debt	3,564.7	998.6	998.6	4,362.6	1,289.5
Accounts payable	7,855.3	8,095.9	8,423.1	8,838.4	9,214.7
LT interest bearing debt	14,171.5	12,668.6	12,686.6	6,789.0	4,464.6
Other liabilities	13,300.0	13,957.0	13,426.0	12,773.0	13,135.0
Total Liabilities	**38,891.3**	**35,720.7**	**35,534.1**	**32,763.3**	**28,103.7**
Shareholders Equity	38,513.5	42,748.2	44,772.2	47,781.6	49,953.9
Minority Interest	4,361.5	4,491.1	4,491.1	4,491.1	4,491.1
Total shareholder equity	**42,875.0**	**47,239.4**	**49,263.3**	**52,272.8**	**54,445.1**
Total liabilities and equity	**81,766.3**	**82,960.0**	**84,797.4**	**85,036.0**	**82,548.8**
CASH FLOW (IDR b)					
Pretax profit	3,538.0	3,299.0	4,195.9	4,782.0	5,514.6
Depreciation & amortisation	3,423.5	3,321.2	2,927.7	3,004.3	3,038.7
Adj net interest (income)/exp	1,637.1	1,328.8	1,050.9	807.1	392.6
Change in working capital	2,074.7	(1,212.3)	(504.4)	3,208.4	(3,253.2)
Cash taxes paid	(1,227.9)	(1,035.8)	(1,087.7)	(1,098.3)	(1,305.5)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	8,504.6	7,312.6	6,701.2	7,395.1	7,485.1
Capex	(1,738.7)	(1,838.8)	(1,700.0)	(1,700.0)	(1,700.0)
Free cash flow	6,765.9	5,473.8	5,001.2	5,695.1	5,785.1
Dividends paid	(1,116.9)	(1,024.1)	(1,487.0)	(1,774.7)	(2,037.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(5,963.1)	(1,397.4)	(3,584.5)	(6,204.6)	(1,217.1)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(314.2)	3,052.3	(70.2)	(2,284.3)	2,530.6

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.4	(0.9)	8.7	5.4	4.4
EBITDA growth	(4.5)	(8.9)	3.1	5.2	4.2
EBIT growth	(7.4)	(12.7)	14.0	6.6	5.8
Pretax growth	1.4	(6.8)	27.2	14.0	15.3
Reported net profit growth	(26.7)	15.5	25.7	19.4	14.8
Core net profit growth	(26.7)	15.5	25.7	19.4	14.8
Profitability ratios (%)					
EBITDA margin	23.6	21.7	20.6	20.5	20.5
EBIT margin	14.3	12.6	13.2	13.3	13.5
Pretax profit margin	9.6	9.1	10.6	11.5	12.7
Payout ratio	54.6	43.3	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	5.6	6.5	7.5	8.5	9.4
Revenue/Assets (x)	0.4	0.4	0.5	0.5	0.5
Assets/Equity (x)	2.1	1.9	1.9	1.8	1.7
ROAE (%)	5.5	5.8	6.8	7.7	8.3
ROAA (%)	2.5	2.9	3.5	4.2	4.9
Liquidity & Efficiency					
Cash conversion cycle	19.6	9.6	13.4	14.4	11.4
Days receivable outstanding	57.0	55.5	52.4	53.2	53.5
Days inventory outstanding	66.2	65.8	67.4	67.1	64.2
Days payables outstanding	103.6	111.7	106.4	105.9	106.3
Dividend cover (x)	1.8	2.3	2.0	2.0	2.0
Current ratio (x)	1.1	1.4	1.7	1.4	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	2.1	2.3	2.4	2.6	2.9
Net gearing (%) (incl perps)	34.5	16.2	10.5	4.0	net cash
Net gearing (%) (excl. perps)	34.5	16.2	10.5	4.0	net cash
Net interest cover (x)	3.2	3.4	5.0	6.9	15.0
Debt/EBITDA (x)	2.0	1.7	1.7	1.3	0.6
Capex/revenue (%)	4.7	5.1	4.3	4.1	3.9
Net debt/ (net cash)	14,781.3	7,659.9	5,196.6	2,083.3	(1,271.8)

Source: Company; Maybank IBG Research

Maybank Sekuritas Indonesia

Materials

Indonesia

Indocement (INTP IJ)

Recapturing market share

BUY

Share Price	IDR 10,750
12m Price Target	IDR 12,800 (+22%)

Initiate with BUY and IDR12,800 TP

We initiate coverage of Indocement (INTP IJ) with a BUY and a TP of IDR12,800 TP, implying 21.1x FY23E P/E, based on 10.2x FY23E EV/EBITDA target, within -1 SD of its 10-year mean. Our valuation is also derived from a 1.5x FY23E EV/ton target, within -1 SD of its 10-year mean. We like INTP due to its growing market share and efficient operations. Furthermore, the Maros operation provides a great passage for INTP to capture the East Indonesia market which is largely untouched. Moreover, we forecast INTP to have attractive div. yields at 4.4/4.9/6.6% in FY23-25E. Risks to our call include economic uncertainty, the 14 Feb-24 presidential election, and the government's carbon initiatives.

Revenue on the rise

Having successfully recaptured its market share in 2023 by employing good marketing strategies and utilizing its Maros operation, we expect INTP to maintain this form and retain a market share above 28% mark (vs. 24.6% in FY22). As a result, we expect INTP to sell 18.3/19.0/19.7m tons of cement in FY23E/24E/25E. Meanwhile, we project revenue to reach IDR17.7t/18.6t/19.7t in FY23E/24E/25E as a result of sales volume growth, which implies revenue growth of 8.1%/5.6%/5.9% in FY23-25E, respectively.

Revenue growth to outpace cost growth; margins rise

We expect margins to expand as we believe revenue growth will outpace cost growth due to INTP procuring almost 100% of its coal at domestic market obligation (DMO) prices. While we project COGS to rise by around 5.3%/3.2%/3.2% in FY23E/24E/25E, this should be outpaced by our respective rapid revenue growth forecasts of 8.1%/5.6%/5.9%. As a result, we expect gross margin to expand to 33.3%/34.8%/36.4% in FY23-25E from 31.5% in FY22.

Rising interest rates to benefit INTP

The current high interest environment is weighing on companies with high-debt, but INTP has been able to cruise through. With no debt, INTP can now benefit from high time-deposit rates, sharply lifting its net finance income. We expect INTP to earn IDR314b/329b/346b from finance income in FY23E/24E/25E, increasing by +200% YoY from 2022's IDR104b, helping drive net income up to IDR2.0t/2.3t/2.6t in FY23E/24E/25E respectively.

FYE Dec (IDR b)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	14,772	16,328	17,650	18,639	19,746
EBITDA	3,161	3,037	3,517	3,962	4,295
Core net profit	1,788	1,842	2,032	2,336	2,614
Core EPS (IDR)	490	532	592	681	762
Core EPS growth (%)	(0.1)	8.5	11.3	15.0	11.9
Net DPS (IDR)	502	415	477	533	710
Core P/E (x)	24.7	18.6	18.2	15.8	14.1
P/BV (x)	2.1	1.8	1.7	1.7	1.6
Net dividend yield (%)	4.2	4.2	4.4	5.0	6.6
ROAE (%)	8.4	9.2	10.0	10.9	11.8
ROAA (%)	6.7	7.1	7.7	8.6	9.4
EV/EBITDA (x)	12.0	9.8	9.0	7.8	7.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	2,050	2,302	2,651
MIBG vs. Consensus (%)	-	-	(0.9)	1.5	(1.4)

William Jefferson W
william.jefferson@maybank.com
(62) 21 8066 8563

Jeffrosenberg Chenlim
Jeffrosenberg.lim@maybank.com
(62) 21 8066 8680

Company Description

Indocement is the second largest cement company in Indonesia in terms of capacity, production, and market share.

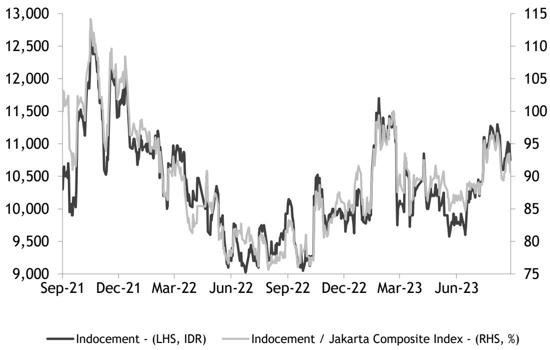
Statistics

52w high/low (IDR)	11,700/9,050
3m avg turnover (USDm)	2.1
Free float (%)	42.2
Issued shares (m)	3,431
Market capitalisation	IDR36.9T
	USD2.4B

Major shareholders:

Birchwood Omnia	51.0%
Treasury	6.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	8	12
Relative to index (%)	(5)	4	17

Source: FactSet

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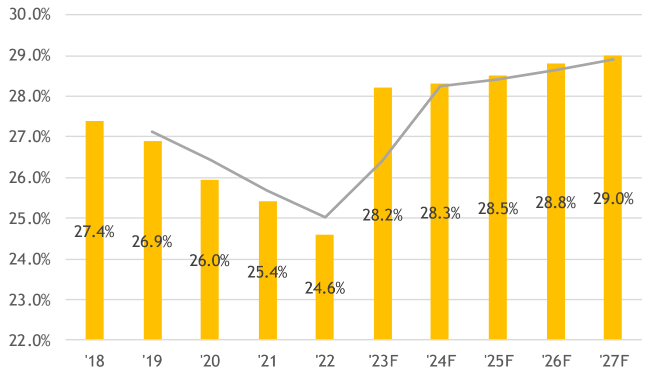
Tear Sheet Insert

Value Proposition

- The second-largest cement company, based on production volume, in Indonesia with 24.6% market share in 2022.
- The largest cement company in West Java, which has the largest market share of domestic cement consumption in Indonesia.
- INTP is not free from the negative impact of oversupply in the domestic industry, putting pressure on margins and profitability.
- Cost efficiency and segment focus are key to maintaining margins, and so far, INTP has been able to do this.

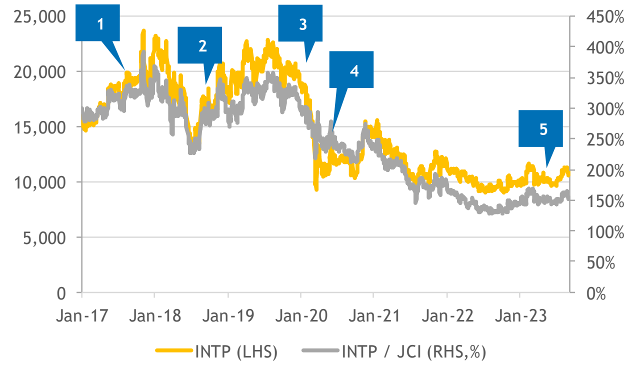
INTP - market share



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



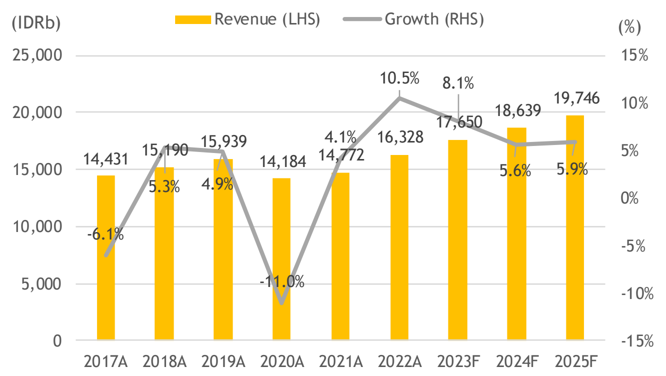
Source: Company, Maybank IBG Research

6. Domestic demand started to show improvement
7. Higher commodity prices and IDR depreciation put pressure on earnings.
8. Weak demand due to elections.
9. Onset of Covid-19 pandemic.
10. Increasing market share in early 2023.

Financial Metrics

- We project sustained top-line growth in FY23-25E, driven by higher sales volume.
- Debt free balance sheet provides advantage in high-interest rate environment.
- Strong net cash position allows for high dividend payout ratio (DPR).

INTP - revenue



Source: Company, Maybank IBG Research

Swing Factors

Upside

- High single-digit growth due to revival of the property sector.
- Increasing utilisation due to restricted increase of supply.
- High interest rate environment to expand finance income.

Downside

- Continued oversupply in the market.
- Price intervention by government.
- Upcoming presidential election may slow demand.

william.jefferson@maybank.com

ESG@MAYBANK IBG

william.jefferson@maybank.com

Risk Rating & Score[1]	29.8
Score Momentum[2]	+0.1
Last Updated	13 Apr 2023
Controversy Score[3]	0 - No evidence of controversies

Business Model & Industry Issues

- We think INTP has put serious effort into tackling ESG issues not only by putting the right policies in place but also by continuously reducing emissions and consumption of fossil fuels and replacing them with alternative ones. For the latter, INTP has also engaged the surrounding community via community development programmes.
- On the governance front, we notice that INTP is planning to go beyond requirements by adopting higher and internationally recognised standards. For instance, the statutory minimum number of independent commissioners is 33% of total, but the higher standard suggests 50%.
- Overall, we think serious ESG efforts, along with INTP's robust balance sheet and strong cash flows should provide limited downside to valuations.

Material E issues

- Majority of INTP's main process filters are electrostatic precipitators (ESP), which is an older technology with higher particle emissions. INTP has a master plan to reduce dust emission by converting ESP to Fabric Bag house filters by 2022.
- Four out of nine factories have implemented online real-time emissions monitoring, directly connected to the Ministry of Environment and Forestry. The ministry has appointed INTP as a role model on this front.
- Proportion of fossil fuels to total fuels has decreased to 93% from 2015's 98% and is replaced by alternative fuels.
- INTP has received ISO 14001:2015 on Environment Management System. In 2019, its Citeureup, Cirebon, and Tarjun factories received Green Industry Certificate from the Ministry of Industry. The Cirebon factory has also managed to get Green PROPER designation, which indicates its environmental management exceeds requirements.

Material S issues

- BoD set up two committees on safety and ethics to help it make Occupational Health & Safety and Environment policies and implement a Code of Conduct. It also has policies in place on gratification, anti-corruption, and whistleblowing.
- INTP engages the community at every plant. In 2017-19 it developed 293 'local heroes', c. 7.8% of INTP's workforce.
- At the end of 2019, most employees (94%) were male due to the physical nature of the cement business. No reports of below minimum wage payments.
- Number of work accidents reached 22 in 2019, down from 2018's 42 and 2017's 45.
- INTP allocated 1.1-1.8% of net profit in the past two years to community development funds.
- INTP has certification on Occupational Health and Safety Management System from the Ministry of Manpower.

Key G metrics and issues

- Until the end of 2019, INTP had performed assessment of GCG implementation for the Board of Commissioners and (BoC) and Board of Directors (BoD) conducted by the Indonesian Institute for Corporate Directorship (IICD). The assessment is based on the criteria set by the ASEAN Corporate Governance Scorecard (ACGS). The scoresheet suggests 80% of INTP's GCG practices have been following the criteria.
- BoD runs day-to-day operations of the company. It consists of seven members (all male).
- BoC supervises the BoD's activities and consists of seven members (all male). Three of them (43%) are independent commissioners. There is no BoD member sitting in the BoC and the other way around. In performing its functions, duties, and responsibilities, the BoC is assisted by Audit Committee and Nomination and Remuneration Committee.
- No disclosure on shares of the BoC and BoD members' in the company.
- In 2022 total remuneration of the BoC and BoD was IDR78.8b (c.4.3% of net profit), increasing 3.8% from IDR75.9b in 2021. The remuneration consists of salary, allowances, and facilities, but there is no percentage breakdown of each component.
- There was no material related party transactions that were negative to minority interests in the past. INTP did not have any major M&A deals in the past 10 years.
- Ernst & Young has been the auditor of the company for more than 10 years.

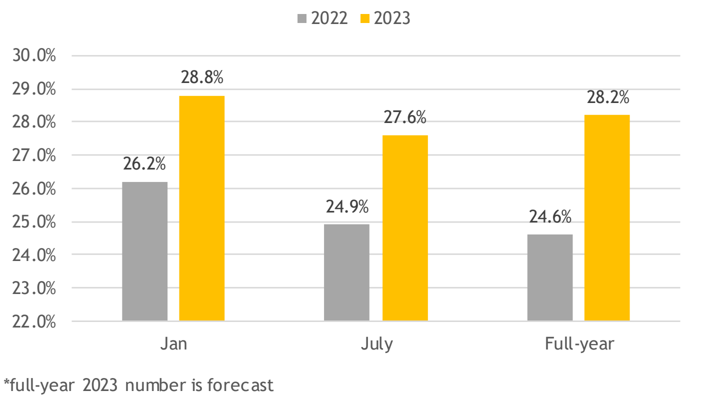
[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

5. Investment thesis

5.1 Positive sales volume outlook

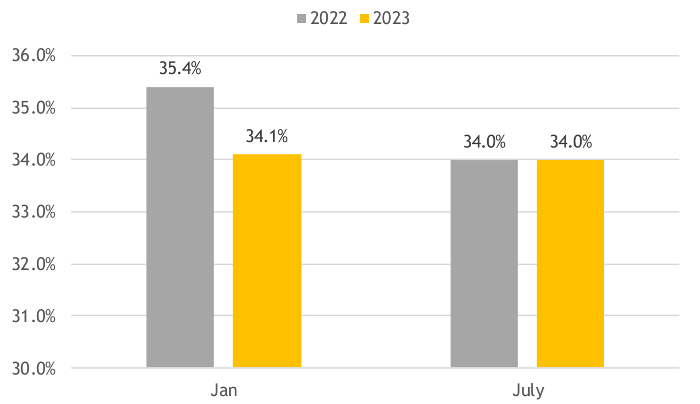
As of 7M23, INTP's market share sits at 27.6% (vs. 24.9% in 7M22) and we believe it will strengthen to 28%/28%/29% in FY23E-25E (vs. 24.6% in FY22). We expect growth to come from ex-Java (21.0% in 7M23 vs 14.7% in 7M22), helped by its Maros operations which allows it more efficient access to East Indonesia. Furthermore, INTP's strong brand and good pricing strategies have enabled it to maintain its Java market share at around 34.0% in July '23.

Fig 6: INTP - Indonesia market share



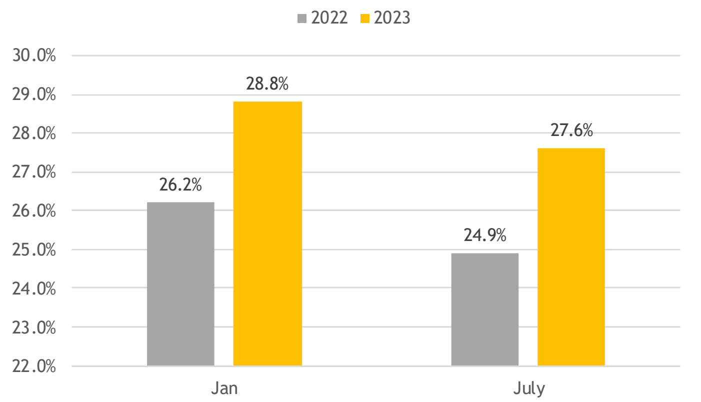
Source: Company, ASI, Maybank IBG Research

Fig 7: INTP - Java market share



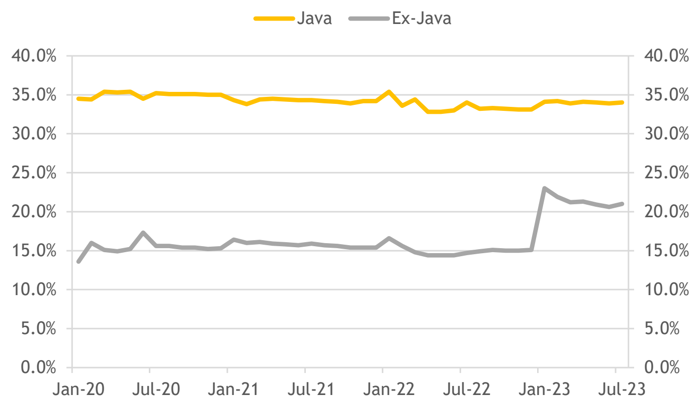
Source: Company, ASI, Maybank IBG Research

Fig 3: INTP - ex-Java market share



Source: Company, ASI, Maybank IBG Research

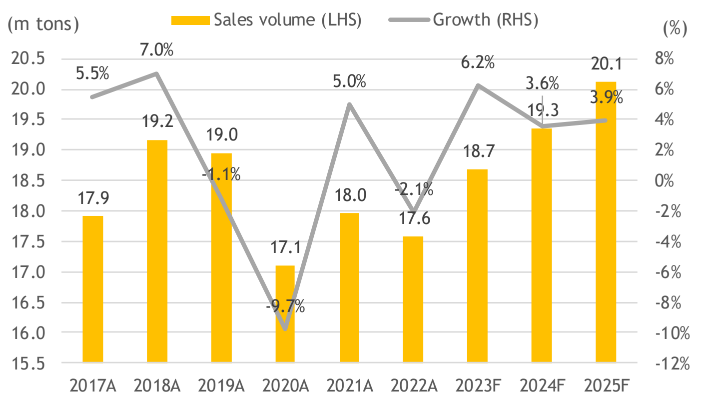
Fig 4: INTP - historic Java vs ex-Java market share



Source: Company, ASI, Maybank IBG Research

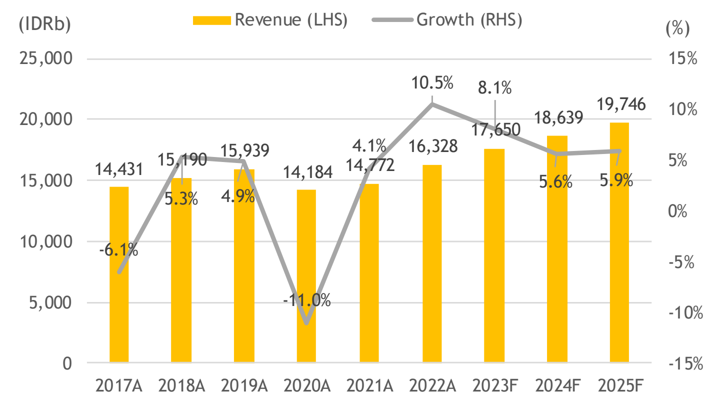
We expect this market share growth to translate into 8.1%/5.6%/5.9% revenue growth for FY23E-25E. We believe revenue growth will mainly be driven by sales volume instead of any ASP increases as the competitive landscape in the cement industry in Indonesia does not allow for any aggressive price hikes.

Fig 5: INTP - sales volume



Source: Company, Maybank IBG Research

Fig 6: INTP - revenue

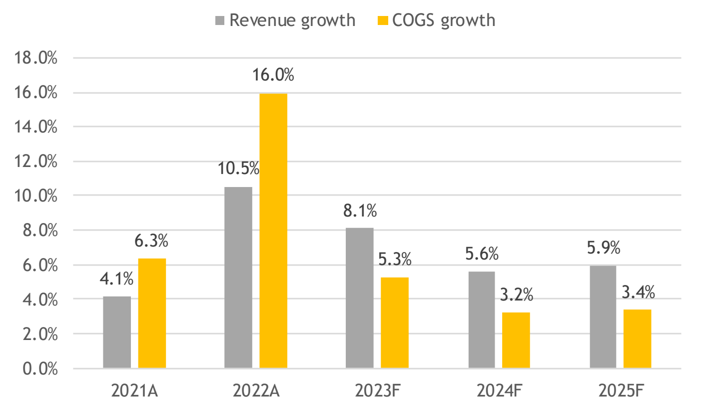


Source: Company, Maybank IBG Research

5.2 Revenue growth outpaces cost growth; margin growth

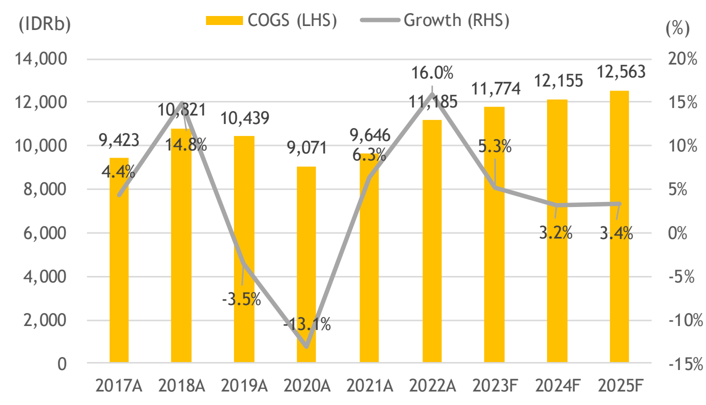
INTP has been able to secure almost 100% of its coal cost at DMO prices, additionally we also expect packing cost to be maintained. As a result, we expect total COGS to grow 5.3% in FY23E, outpaced by its revenue growth of 8.1%. We expect this revenue and cost growth trend to continue to FY24-25E, resulting in increasing gross margins for the next three years.

Fig 7: INTP - revenue vs COGS growth



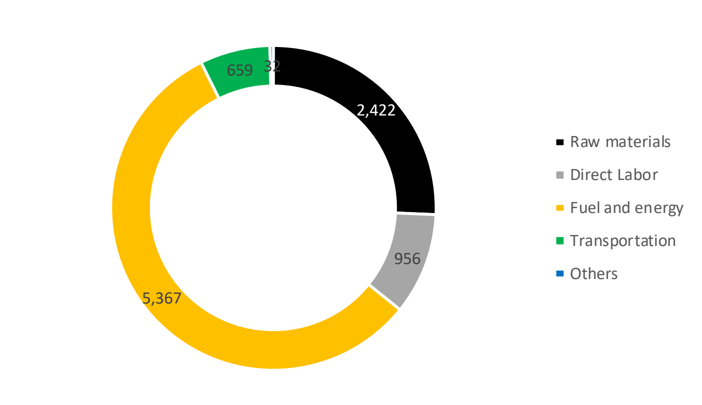
Source: Company, Maybank IBG Research

Fig 8: INTP - COGS



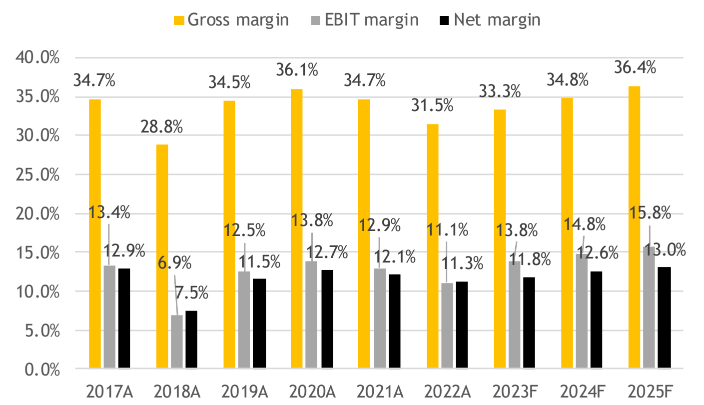
Source: Company, Maybank IBG Research

Fig 9: INTP - FY23E cost structure



Source: Company, Maybank IBG Research

Fig 10: INTP - profitability margins



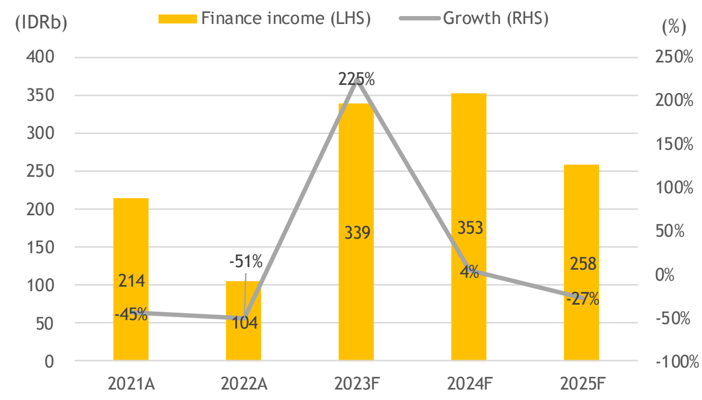
Source: Company, Maybank IBG Research

As a result, we forecast gross margins to increase in FY23-25E to 33.3%/34.8%/36.4% from 31.5% in FY22. Meanwhile, we expect this expansion to trickle down to EBIT level with a +271/+102/+97 bps increase in EBIT margins to 13.8%/14.8%/15.8% in FY23-25E.

5.3 Benefitting from high interest rates

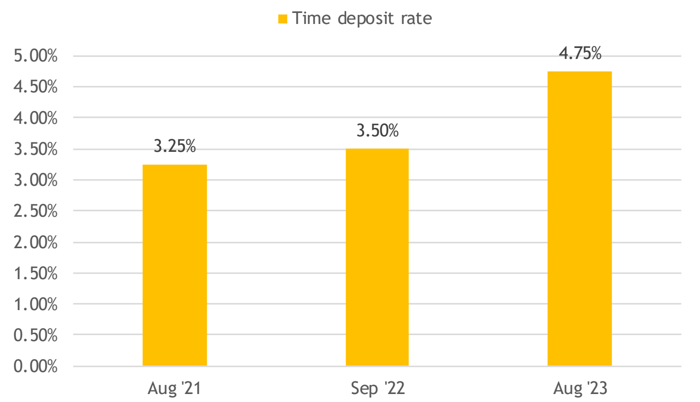
As INTP does not have any interest-bearing debt, its finance cost is largely unaffected by the current high interest rate environment. Instead, INTP is benefitting from higher-than-normal time deposit rates. Historical time deposit rates jumped to 4.75% in Aug '23 from 3.50% in Dec '22 for amounts above IDR250m with a 12m tenor.

Fig 11: INTP - finance income



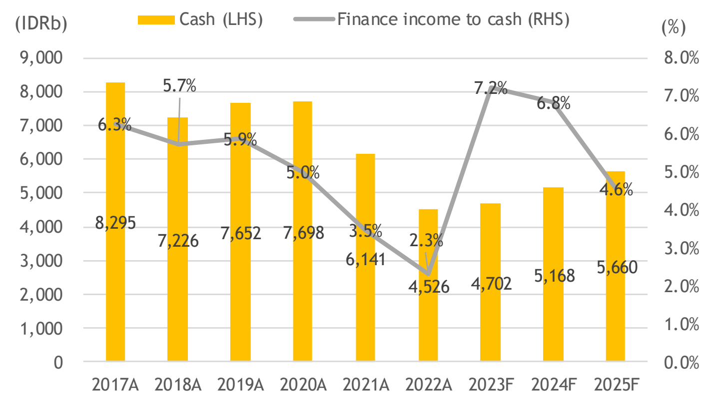
Source: Company, Maybank IBG Research

Fig 12: Time deposit rates



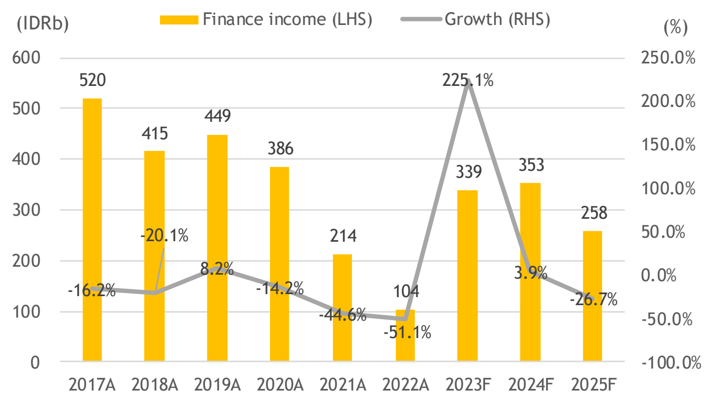
Source: Company, Maybank ID, Maybank IBG Research

Fig 13: INTP - finance income to cash



Source: Company, Maybank IBG Research

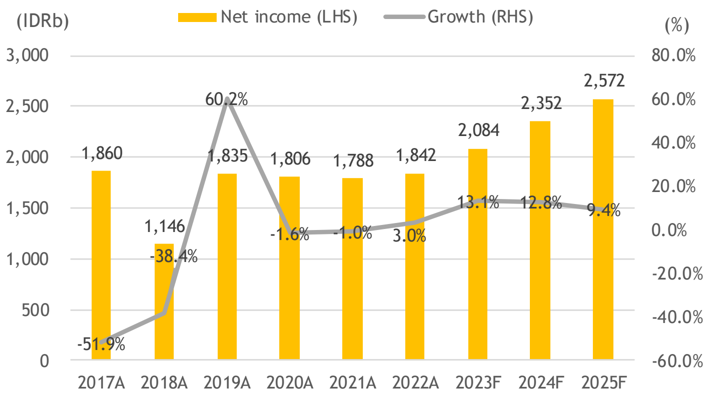
Fig 14: INTP - finance income



Source: Company, Maybank IBG Research

We believe the level of finance income to cash will jump to 7.2%/6.8%/4.6% in FY23E-25E from a 5-year low of 2.3% in FY22. As a result, we expect finance income to surge 225% in FY23E to IDR339b. We believe this will help INTP's earnings growth which we forecast to reach 13.1%/12.8%/9.4% in FY23-25E at IDR2.1t/2.4t/2.6t, respectively.

Fig 15: INTP - finance income to cash

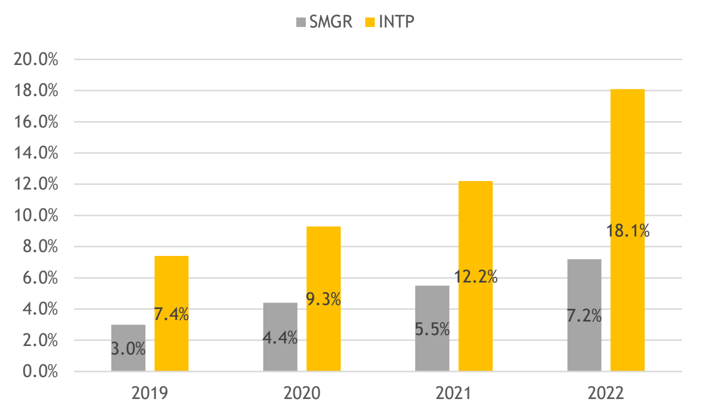


Source: Company, Maybank IBG Research

5.4 Good green initiatives

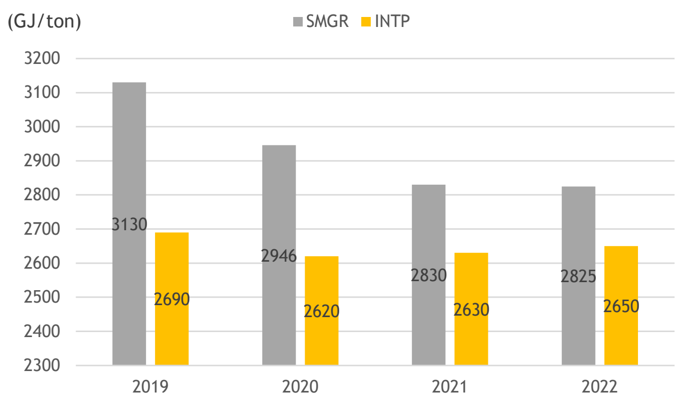
INTP is known as one of the greenest cement producers in the world, winning the green PROPER award for two years in a row. Currently, INTP has the highest usage of alternative fuels with a thermal substitution rate (TSR) of 17.5%. Additionally, INTP also has a lower energy intensity as well as Scope 1 emission intensity compared to rival SMGR.

Fig 16: INTP vs SMGR TSR



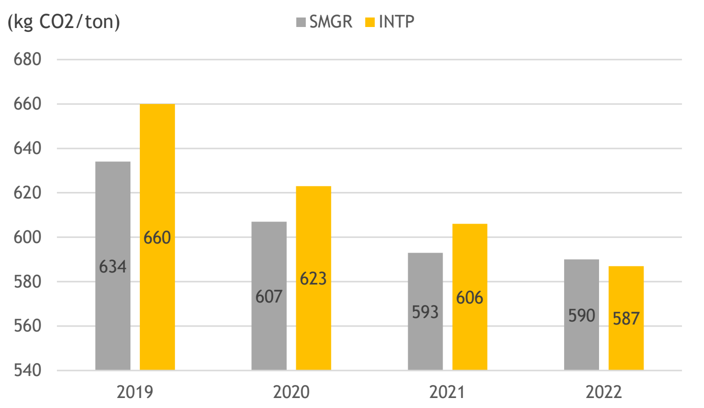
Source: Company, Maybank IBG Research

Fig 17: INTP vs SMGR energy intensity



Source: Company, Maybank IBG Research

Fig 18: INTP vs SMGR Scope 1 intensity

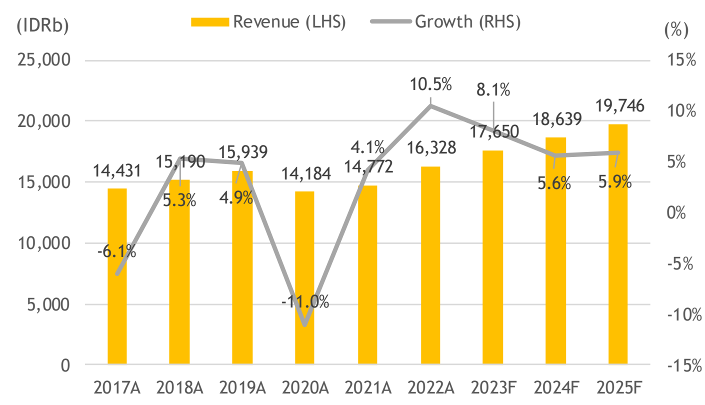


Source: Company, Maybank IBG Research

6. Financial analysis

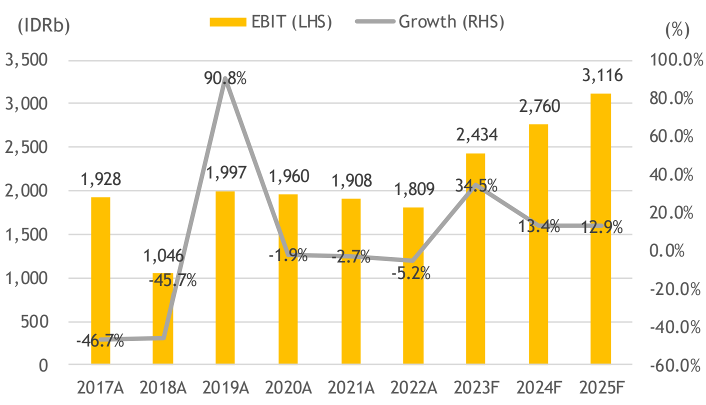
We believe INTP's revenue trajectory to be solid and forecast FY22-25E revenue CAGR of 6.8% to IDR19.7t in FY25E, driven by consistently-growing sales volume which we predict will reach 20.1m tons (fig. 4), implying a 28.5% market share. Meanwhile, we expect cost contraction to lead to higher gross margins of 33.3%/34.8%/36.4% in FY23-25E. Additionally, we forecast FY20-25E earnings CAGR of 7.3%, driven by higher finance income and lower opex to revenue.

Fig 19: INTP - revenue



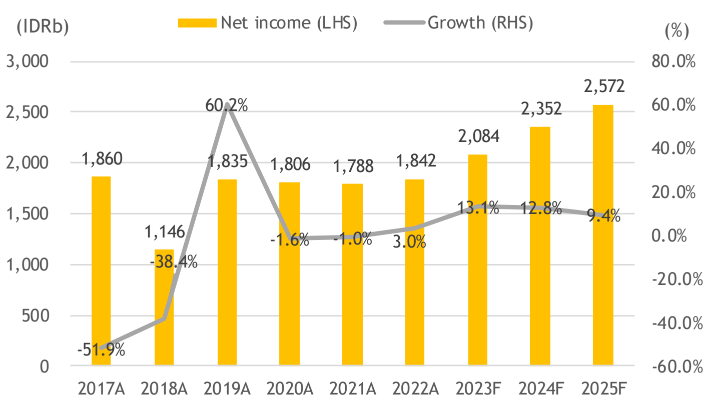
Source: Company, Maybank IBG Research

Fig 20: INTP - EBIT



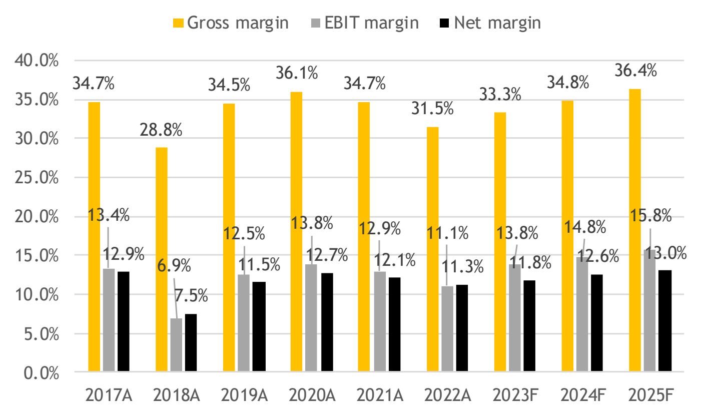
Source: Company, Maybank IBG Research

Fig 21: INTP - net income



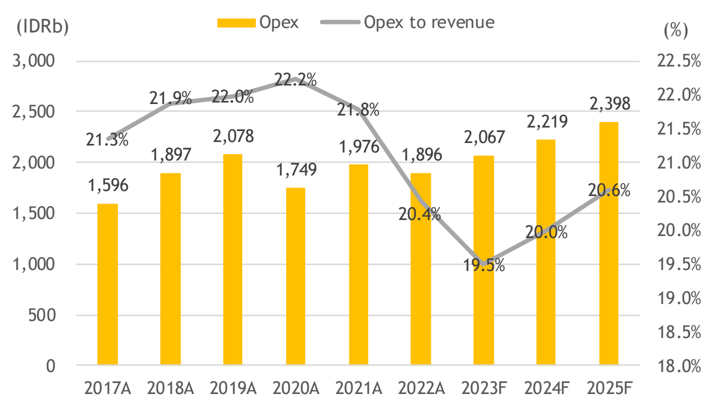
Source: Company, Maybank IBG Research

Fig 22: INTP - profitability margins



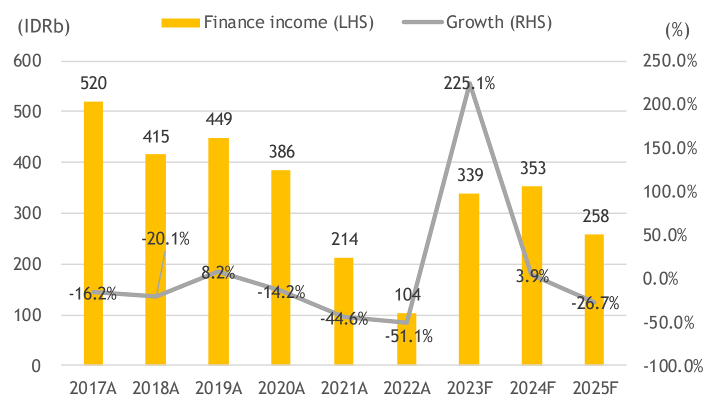
Source: Company, Maybank IBG Research

Fig 23: INTP - Opex vs opex to revenue



Source: Company, Maybank IBG Research

Fig 24: INTP - Finance income



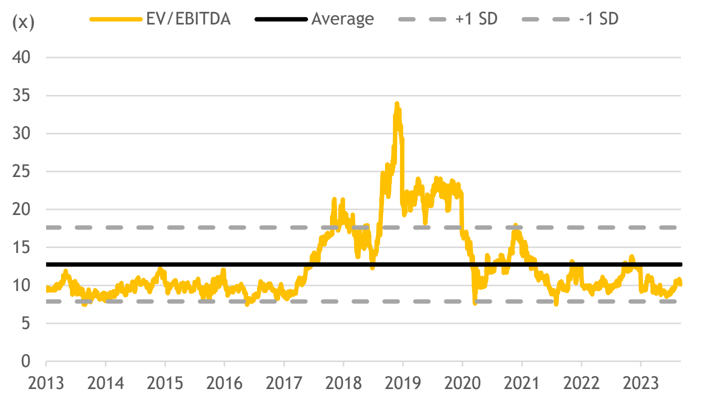
Source: Company, Maybank IBG Research

7. Valuation

We initiate coverage of Indocement (INTP IJ) with a BUY and a IDR12,800 TP, implying a 21.1x FY23E P/E, based on 10.2x FY23E EV/EBITDA target, within -1 SD of its 10-year mean of 7.9x. Additionally, the valuation was also derived from a 1.5x FY23E EV/ton target, within -1 SD of its 10-year mean. We believe INTP is currently trading at a large discount, and current cheap valuations provide a good entry point to the cement industry in Indonesia.

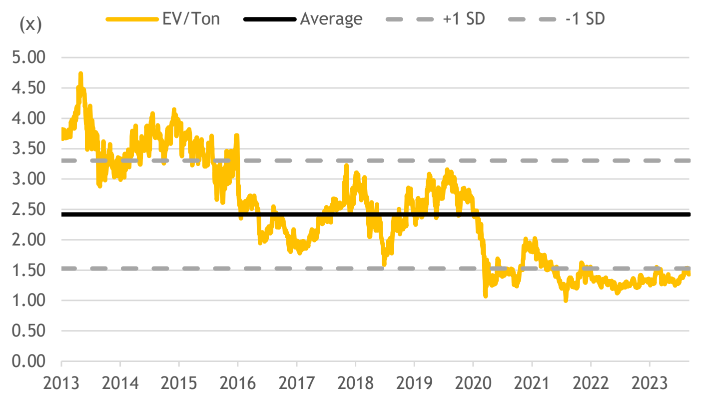
We like INTP due to its attractive Maros operation which is set to gain market share in East Indonesia, its improving profitability due to cost contractions, and its ability to benefit from the current high interest rate environment.

Fig 25: INTP - EV/EBITDA



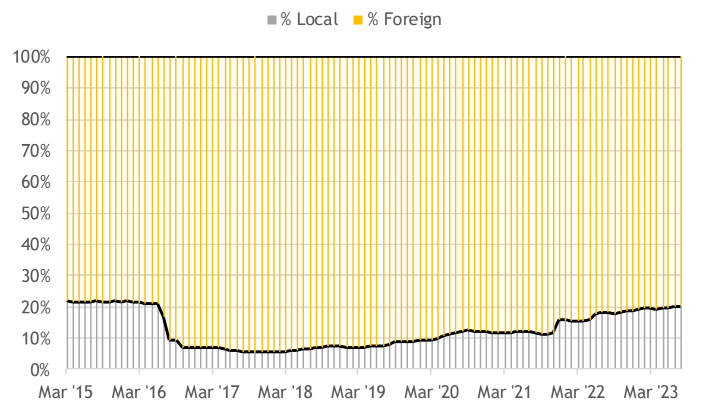
Source: Company, Maybank IBG Research

Fig 26: INTP - EV/Ton



Source: Company, Maybank IBG Research

Fig 27: INTP - EV/EBITDA



Source: Company, KSEI, Maybank IBG Research

8. Risks

8.1 Slow appetite for home improvements

Home improvements are one of the sources of demand for the cement sector. The upcoming election might hinder customers from making any large expenses, resulting in a decrease in overall sentiment for home improvements.

8.2 Economic uncertainties

With the current turbulent nature of the global economy, a recession will dampen the growth potential for the cement industry in Indonesia.

8.3 Carbon initiatives

The government is planning to place carbon trading and carbon tax initiatives. As cement production emits large CO_2 emissions, this might affect the profitability of cement players in Indonesia.

8.4 Political uncertainty

With the 2024 election due on 14 Feb-24, the government's focus on infrastructure remains uncertain. Depending on who is elected, and the projects set to launch, the cement industry might feel some impacts.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	24.4	18.8	18.2	15.8	14.1
Core P/E (x)	24.7	18.6	18.2	15.8	14.1
P/BV (x)	2.1	1.8	1.7	1.7	1.6
P/NTA (x)	nm	nm	nm	nm	nm
Net dividend yield (%)	4.2	4.2	4.4	5.0	6.6
FCF yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	12.0	9.8	9.0	7.8	7.0
EV/EBIT (x)	19.9	16.5	13.5	11.2	9.8
INCOME STATEMENT (IDR b)					
Revenue	14,771.9	16,328.3	17,650.2	18,639.2	19,746.4
EBITDA	3,160.6	3,037.0	3,517.4	3,962.3	4,294.8
Depreciation	(1,253.0)	(1,228.2)	(1,163.4)	(1,194.9)	(1,224.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,907.5	1,808.9	2,354.1	2,767.4	3,070.2
Net interest income /(exp)	182.0	61.5	268.5	282.0	296.1
Associates & JV	24.2	22.8	22.8	22.8	22.8
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	163.3	417.6	(84.1)	(84.1)	(84.1)
Pretax profit	2,277.1	2,310.8	2,561.4	2,988.1	3,305.0
Income tax	(488.6)	(468.4)	(529.5)	(652.4)	(691.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,788.5	1,842.4	2,031.9	2,335.8	2,613.9
Core net profit	1,788.5	1,842.4	2,031.9	2,335.8	2,613.9
BALANCE SHEET (IDR b)					
Cash & Short Term Investments	6,141.3	4,525.5	5,192.2	5,965.6	6,929.1
Accounts receivable	2,599.5	2,658.2	2,873.4	3,034.4	3,214.7
Inventory	2,267.4	2,830.7	2,989.4	3,073.7	3,173.9
Property, Plant & Equip (net)	14,342.4	14,894.9	14,799.2	14,504.3	14,079.7
Intangible assets	5.7	7.3	7.3	7.3	7.3
Investment in Associates & JVs	135.3	177.0	177.0	177.0	177.0
Other assets	644.6	612.5	753.4	753.4	753.4
Total assets	**26,136.1**	**25,706.2**	**26,791.9**	**27,515.7**	**28,335.1**
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	2,082.8	1,834.8	1,937.6	1,992.2	2,057.2
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	3,432.0	4,305.0	4,305.0	4,305.0	4,305.0
Total Liabilities	**5,515.2**	**6,139.3**	**6,242.2**	**6,296.8**	**6,361.7**
Shareholders Equity	20,621.0	19,566.9	21,107.0	21,814.7	22,600.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**20,621.0**	**19,566.9**	**21,107.0**	**21,814.7**	**22,600.7**
Total liabilities and equity	**26,136.1**	**25,706.2**	**27,349.2**	**28,111.5**	**28,962.4**
CASH FLOW (IDR b)					
Pretax profit	2,277.1	2,310.8	2,561.4	2,988.1	3,305.0
Depreciation & amortisation	1,253.0	1,228.2	1,163.4	1,194.9	1,224.6
Adj net interest (income)/exp	(182.0)	(61.5)	(268.5)	(282.0)	(296.1)
Change in working capital	(1,024.3)	(766.8)	(476.8)	(299.9)	(345.4)
Cash taxes paid	(412.2)	(330.4)	(529.5)	(652.4)	(691.1)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	2,606.7	2,401.8	2,720.4	3,026.5	3,297.2
Capex	(571.5)	(892.0)	(900.0)	(900.0)	(800.0)
Free cash flow	2,035.2	1,509.8	1,820.4	2,126.5	2,497.2
Dividends paid	(1,849.1)	(1,739.8)	(1,422.3)	(1,635.0)	(1,829.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(1,742.4)	(1,385.7)	268.5	282.0	296.1
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(1,556.4)	(1,615.8)	666.7	773.4	963.5

Maybank Sekuritas Indonesia

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.1	10.5	8.1	5.6	5.9
EBITDA growth	(6.0)	(3.9)	15.8	12.6	8.4
EBIT growth	(2.7)	(5.2)	30.1	17.6	10.9
Pretax growth	2.3	1.5	10.8	16.7	10.6
Reported net profit growth	(1.0)	3.0	10.3	15.0	11.9
Core net profit growth	(1.0)	3.0	10.3	15.0	11.9
Profitability ratios (%)					
EBITDA margin	21.4	18.6	19.9	21.3	21.7
EBIT margin	12.9	11.1	13.3	14.8	15.5
Pretax profit margin	15.4	14.2	14.5	16.0	16.7
Payout ratio	102.5	77.9	80.5	78.3	93.2
DuPont analysis					
Net profit margin (%)	12.1	11.3	11.5	12.5	13.2
Revenue/Assets (x)	0.6	0.6	0.7	0.7	0.7
Assets/Equity (x)	1.3	1.3	1.3	1.3	1.3
ROAE (%)	8.4	9.2	10.0	10.9	11.8
ROAA (%)	6.7	7.1	7.7	8.6	9.4
Liquidity & Efficiency					
Cash conversion cycle	71.2	77.0	87.6	88.7	88.5
Days receivable outstanding	63.2	58.0	56.4	57.1	57.0
Days inventory outstanding	76.3	82.0	88.7	89.9	89.7
Days payables outstanding	68.4	63.0	57.5	58.2	58.1
Dividend cover (x)	1.0	1.3	1.2	1.3	1.1
Current ratio (x)	2.4	2.1	2.3	2.5	2.7
Leverage & Expense Analysis					
Asset/Liability (x)	4.7	4.2	4.3	4.4	4.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	3.9	5.5	5.1	4.8	4.1
Net debt/ (net cash)	(6,141.3)	(4,525.5)	(5,192.2)	(5,965.6)	(6,929.1)

Source: Company; Maybank IBG Research

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank.com

Dr Zamros DZULKAFLI
Malaysia | Philippines
(603) 2082 6818
zamros.d@maybank-ib.com

Erica TAY
China | Thailand
(65) 6231 5844
erica.tay@maybank.com

Brian LEE Shun Rong
Indonesia | Singapore | Vietnam
(65) 6231 5846
brian.lee1@maybank.com

Fatin Nabila MOHD ZAINI
(603) 2297 8685
fatinnabila.mohdzaini@maybank-ib.com

Luong Thu Huong
(65) 6231 8467
hana.thuhuong@maybank.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com

Fiona LIM
(65) 6320 1374
fionalim@maybank.com

Alan LAU
(65) 6320 1378
alanlau@maybank.com

Shaun LIM
(65) 6320 1371
shaunlim@maybank.com

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, FCA
Head of Fixed Income
(65) 6340 1079
winsonphoon@maybank.com

SE THO Mun Yi, CFA
(603) 2074 7606
munyi.st@maybank-ib.com

PORTFOLIO STRATEGY

ONG Seng Yeow
(65) 6231 5839
ongsengyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

Jigar SHAH
Head of Sustainability Research
(91) 22 4223 2632
jigars@maybank.com

Neerav DALAL
(91) 22 4223 2606
neerav@maybank.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

MALAYSIA

Anand PATHMAKANTHAN *Head of Research*
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Strategy

WONG Chew Hann, CA
(603) 2297 8686
wchewh@maybank-ib.com
• Non-Bank Financials (stock exchange)
• Construction & Infrastructure

Desmond CH'NG, BFP, FCA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

ONG Chee Ting, CA
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

YIN Shao Yang, CPA
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming – Regional
• Media • Aviation • Non-Bank Financials

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property • Glove

Jade TAM
(603) 2297 8687 jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

Nur Farah SYIFAA
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Renewable Energy • REITs

LOH Yan Jin
(603) 2297 8687
lohyanjin.loh@maybank-ib.com
• Ports • Shipping • Automotive

Arvind JAYARATNAM
(603) 2297 8692
arvind.jayaratnam@maybank.com
• Petrochemicals • Technology

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858 szechiah.t@maybank-ib.com
• Retail Research

Nik Ihsan RAJA ABDULLAH, MSTA, CFTe
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com
• Chartist

Amirah AZMI
(603) 2082 8769 amirah.azmi@maybank-ib.com
• Retail Research

SINGAPORE

Thilan WICKRAMASINGHE *Head of Research*
(65) 6231 5840 thilanw@maybank.com
• Banking & Finance - Regional
• Consumer

Eric ONG
(65) 6231 5849 ericong@maybank.com
• Healthcare • Transport • SMIDs

Kelvin TAN
(65) 6231 5837 kelvin.tan1@maybank.com
• Telcos • Industrials

LI Jialin
(65) 6231 5845 jialin.li@maybank.com
• REITs

Jarick SEET
(65) 6231 5848 jarick.seet@maybank.com
• Technology

Krishna GUHA
(65) 6231 5842 krishna.guha@maybank.com
• REITs

PHILIPPINES

Jacqui de JESUS *Head of Research*
(63) 2 8849 8840
jacqui.dejesus@maybank.com
• Strategy • Conglomerates

Rachelleen RODRIGUEZ, CFA
(63) 2 8849 8843
rachelleen.rodriguez@maybank.com
• Banking & Finance • Transport • Telcos

Daphne SZE
(63) 2 8849 8847
daphne.sze@maybank.com
• Consumer

Fiorenzo de JESUS
(63) 2 8849 8846
fiorenzo.dejesus@maybank.com
• Utilities

Alexa Mae CARVAJAL
(63) 2 8849 8838
alexamae.carvajal@maybank.com
• Consumer • Gaming • Property • REITs

THAILAND

Chak REUNGSINPINYA *Head of Research*
(66) 2658 5000 ext 1399
chak.reungsinpinya@maybank.com
• Strategy • Energy

Jesada TECHAHUSDIN, CFA
(66) 2658 5000 ext 1395
jesada.t@maybank.com
• Banking & Finance

Wasu MATTANAPOTCHANART
(66) 2658 5000 ext 1392
wasu.m@maybank.com
• Telcos • REITs

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank.com
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank.com
• Food & Beverage • Commerce

INDONESIA

Jeffrosenberg CHENLIM *Head of Research*
(62) 21 8066 8680
Jeffrosenberg.lim@maybank.com
• Strategy • Banking & Finance • Property

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank.com
• Consumer

Etta Rusdiana PUTRA
(62) 21 8066 8683
etta.putra@maybank.com
• Telcos

William Jefferson W
(62) 21 8066 8563
william.jefferson@maybank.com
• Property

Adi WICAKSONO
(62) 21 8066 8686
Adi.Wicaksono@maybank.com
• Plantations

Satriawan HARYONO, CEWA, CTA
(62) 21 8066 8682
satriawan@maybank.com
• Chartist

VIETNAM

Quan Trong Thanh *Head of Research*
(84 28) 44 555 888 ext 8184
thanh.quan@maybank.com
• Strategy • Banks

Hoang Huy, CFA
(84 28) 44 555 888 ext 8181
hoanghuy@maybank.com
• Strategy • Technology

Le Nguyen Nhat Chuyen
(84 28) 44 555 888 ext 8082
chuyen.le@maybank.com
• Oil & Gas • Logistics

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
trami.nguyen@maybank.com
• Consumer Discretionary

Tran Thi Thanh Nhan
(84 28) 44 555 888 ext 8088
nhan.tran@maybank.com
• Consumer Staples

Nguyen Le Tuan Loi
(84 28) 44 555 888 ext 8182
loi.nguyen@maybank.com
• Property

Nguyen Thanh Hai
(84 28) 44 555 888 ext 8081
thanhhai.nguyen@maybank.com
• Industrials

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank.com
• Retail Research

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Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

Singapore

Maybank Securities Pte Ltd
Maybank Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

London

Maybank Securities (London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

Hong Kong

MIB Securities (Hong Kong) Limited
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

Indonesia

PT Maybank Sekuritas Indonesia
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

India

MIB Securities India Pte Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

Philippines

Maybank Securities Inc
17/F, Tower One & Exchange
Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 8849 8888
Fax: (63) 2 8848 5738

Thailand

Maybank Securities (Thailand) PCL
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

Vietnam

Maybank Securities Limited
Floor 10, Pearl 5 Tower,
5 Le Quy Don Street,
Vo Thi Sau Ward, District 3
Ho Chi Minh City, Vietnam

Tel : (84) 28 44 555 888
Fax : (84) 28 38 271 030

Sales Trading

Indonesia
Helen Widjaja
helen.widjaja@maybank.com
(62) 21 2557 1188

London
Greg Smith
gsmith@maybank.com
Tel: (44) 207-332-0221

Philippines
Keith Roy
keith_roy@maybank.com
Tel: (63) 2 848-5288

India
Sanjay Makhija
sanjaymakhija@maybank.com
Tel: (91)-22-6623-2629

www.maybank.com/investment-banking
www.maybank-keresearch.com