

Indocement (INTP IJ)

Recapturing market share

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)

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BUY

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

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

Link to sector note:

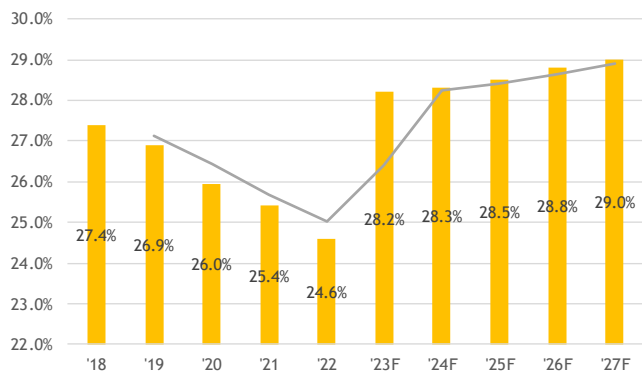
[Indonesia Cement - Good growth potential | POSITIVE **INITIATION**](#)

ESG@MAYBANK IBG
 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.

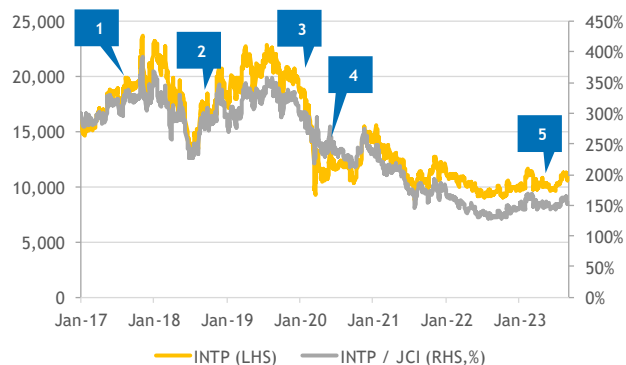
INTP - market share



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



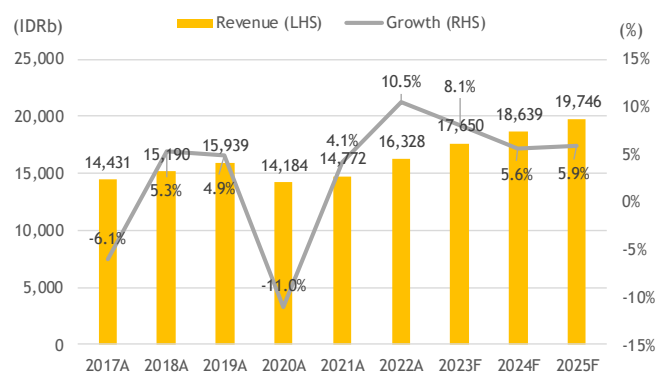
Source: Company, Maybank IBG Research

1. Domestic demand started to show improvement
2. Higher commodity prices and IDR depreciation put pressure on earnings.
3. Weak demand due to elections.
4. Onset of Covid-19 pandemic.
5. 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.

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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.

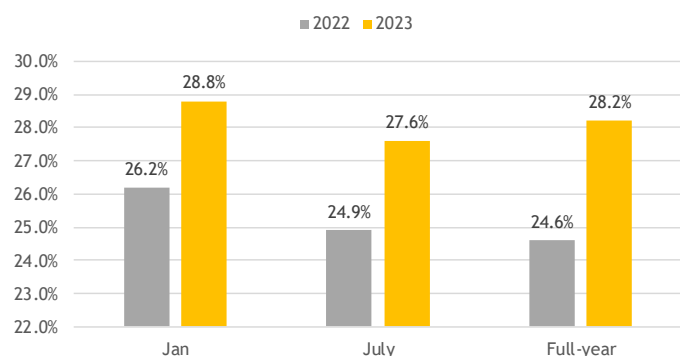
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven 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).

1. Investment thesis

1.1 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.

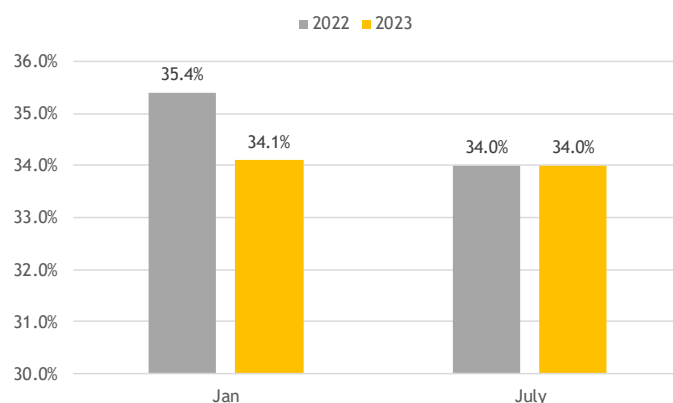
Fig 1: INTP - Indonesia market share



*full-year 2023 number is forecast

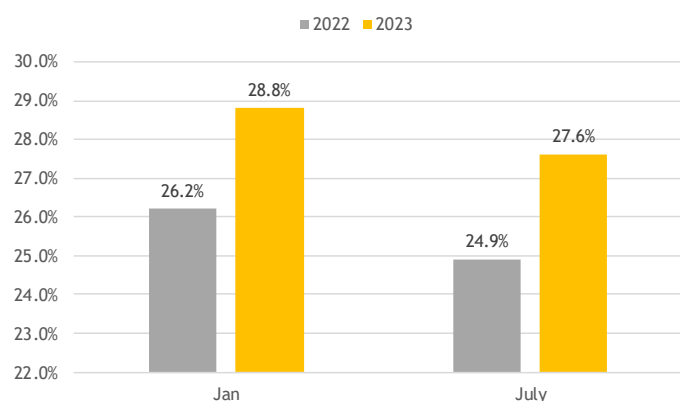
Source: Company, ASI, Maybank IBG Research

Fig 2: INTP - Java market share



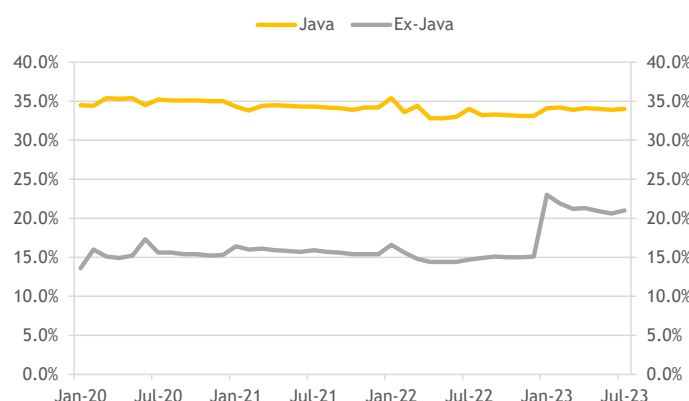
Source: Company, ASI, Maybank IBG Research

Fig 3: INTP - ex-Java market share



Source: Company, ASI, Maybank IBG Research

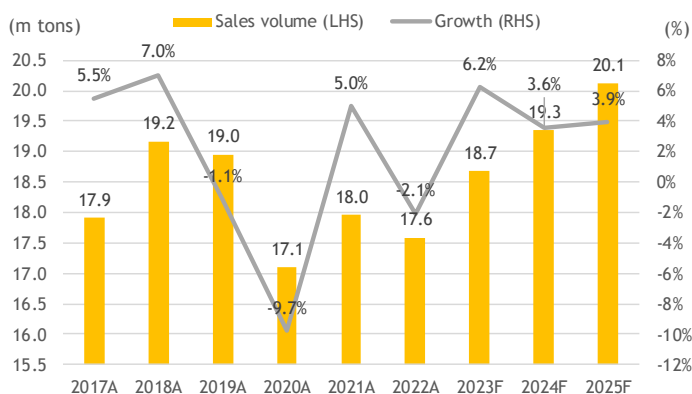
Fig 4: INTP - historic Java vs ex-Java market share



Source: Company, ASI, Maybank IBG Research

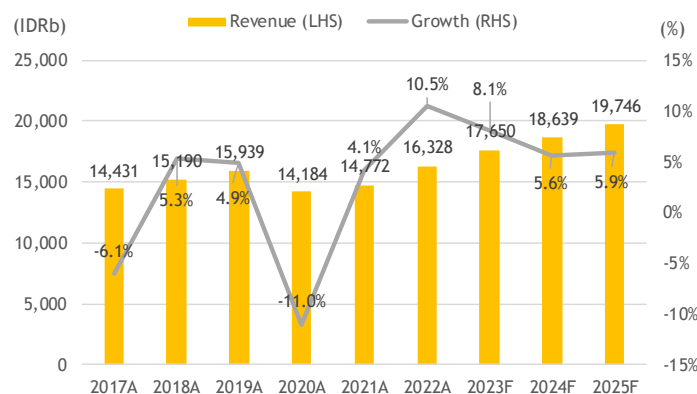
We expect this market share growth to translate into 8.1%/5.6%/5.9% revenue growth for FY23E-25E. We believe revenue growth will mainly be driven by sales volume instead of any ASP increases as the competitive landscape in the cement industry in Indonesia does not allow for any aggressive price hikes.

Fig 5: INTP - sales volume



Source: Company, Maybank IBG Research

Fig 6: INTP - revenue

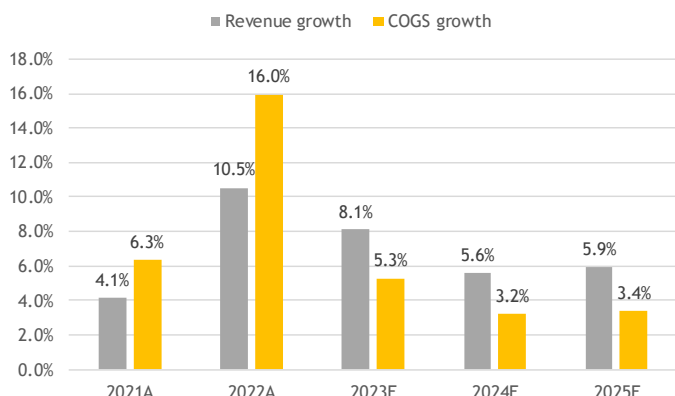


Source: Company, Maybank IBG Research

1.2 Revenue growth outpaces cost growth; margin growth

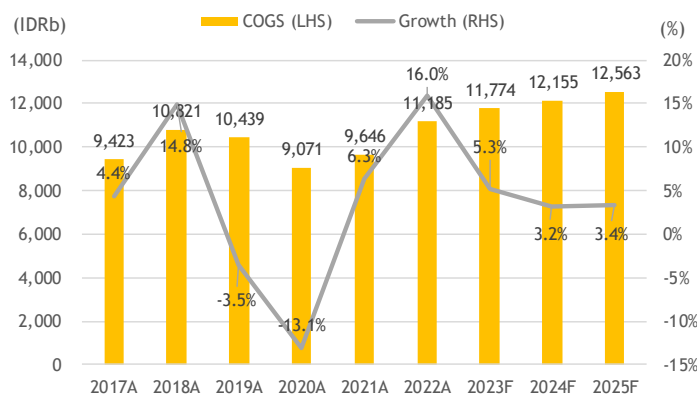
INTP has been able to secure almost 100% of its coal cost at DMO prices, additionally we also expect packing cost to be maintained. As a result, we expect total COGS to grow 5.3% in FY23E, outpaced by its revenue growth of 8.1%. We expect this revenue and cost growth trend to continue to FY24-25E, resulting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

Fig 7: INTP - revenue vs COGS growth



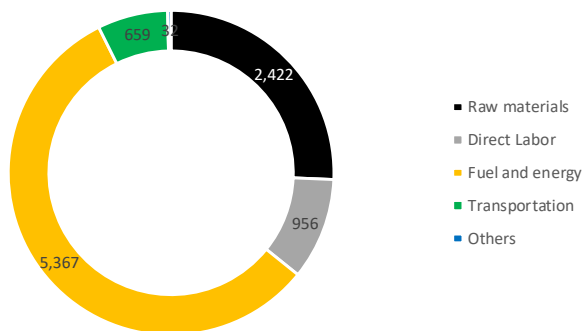
Source: Company, Maybank IBG Research

Fig 8: INTP - COGS



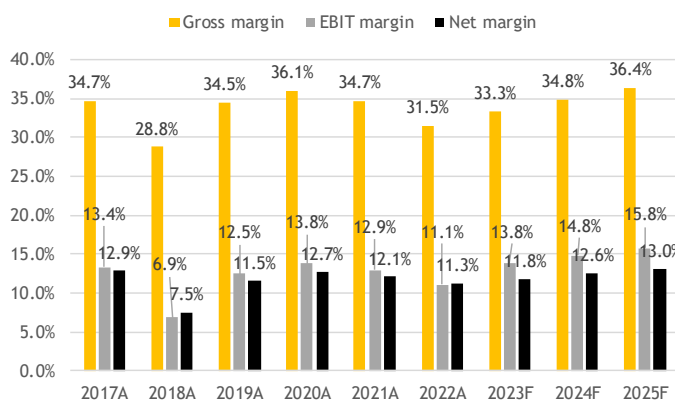
Source: Company, Maybank IBG Research

Fig 9: INTP - FY23E cost structure



Source: Company, Maybank IBG Research

Fig 10: INTP - profitability margins



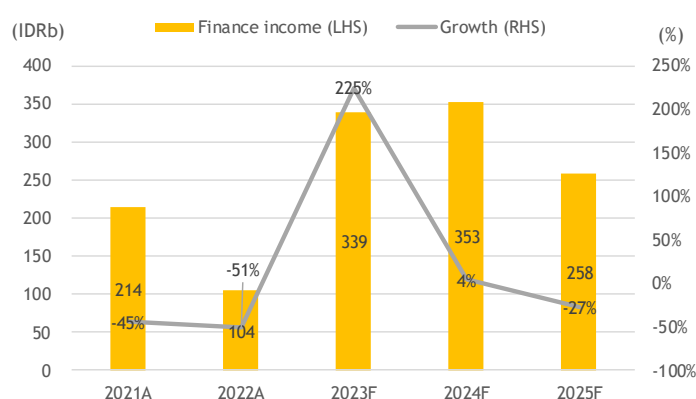
Source: Company, Maybank IBG Research

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.

1.3 Benefitting from high interest rates

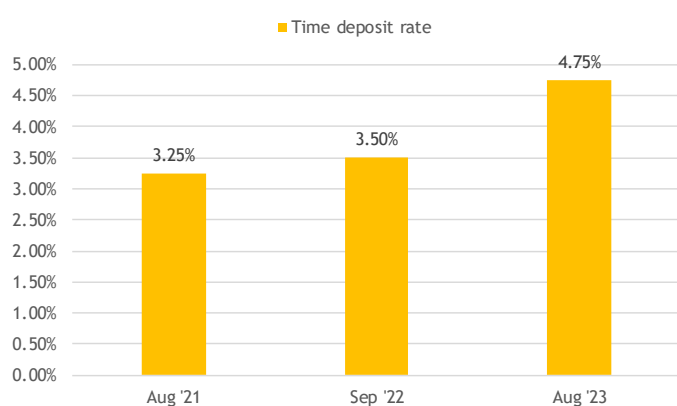
As INTP does not have any interest-bearing debt, its finance cost is largely unaffected by the current high interest rate environment. Instead, INTP is benefitting from higher-than-normal time deposit rates. Historical time deposit rates jumped to 4.75% in Aug '23 from 3.50% in Dec '22 for amounts above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

Fig 11: INTP - finance income



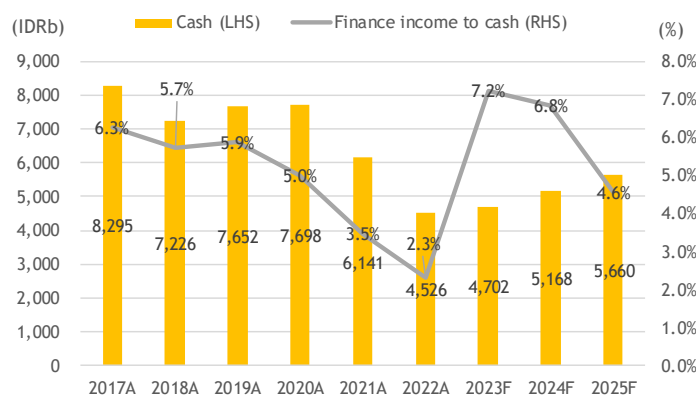
Source: Company, Maybank IBG Research

Fig 12: Time deposit rates



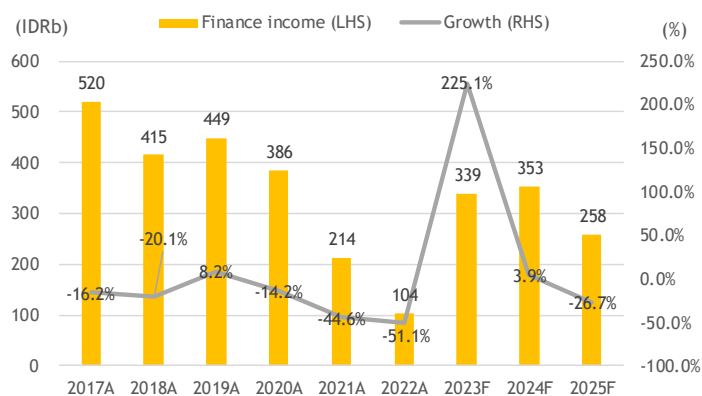
Source: Company, Maybank ID, Maybank IBG Research

Fig 13: INTP - finance income to cash



Source: Company, Maybank IBG Research

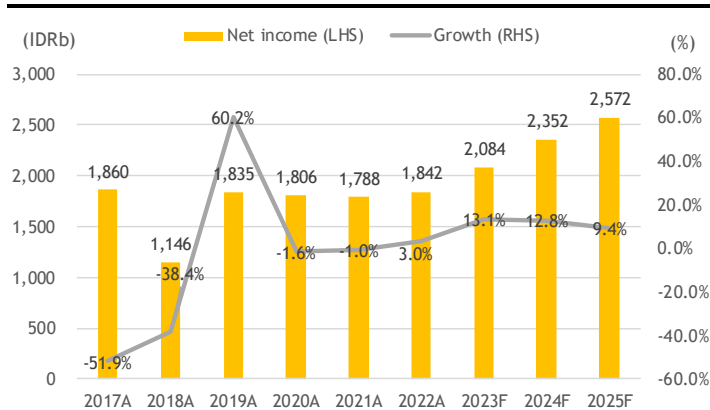
Fig 14: INTP - finance income



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

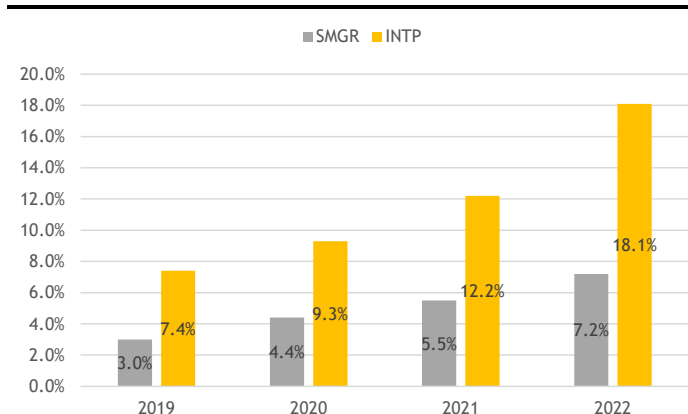


Source: Company, Maybank IBG Research

1.4 Good green initiatives

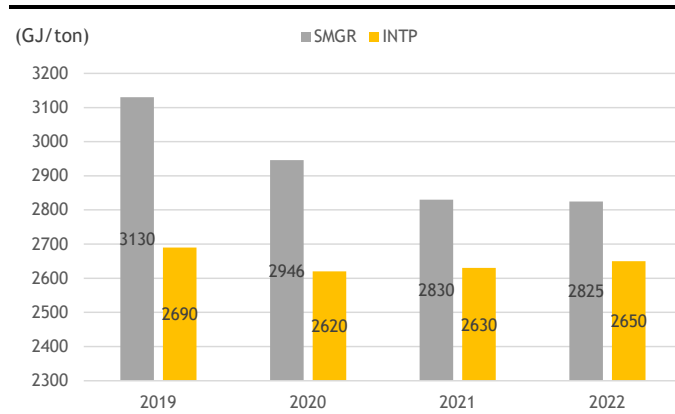
INTP is known as one of the greenest cement producers in the world, winning the green PROPER award for two years in a row. Currently, INTP has the highest usage of alternative fuels with a thermal substitution rate (TSR) of 17.5%. Additionally, INTP also has a lower energy intensity as well as Scope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

Fig 16: INTP vs SMGR TSR



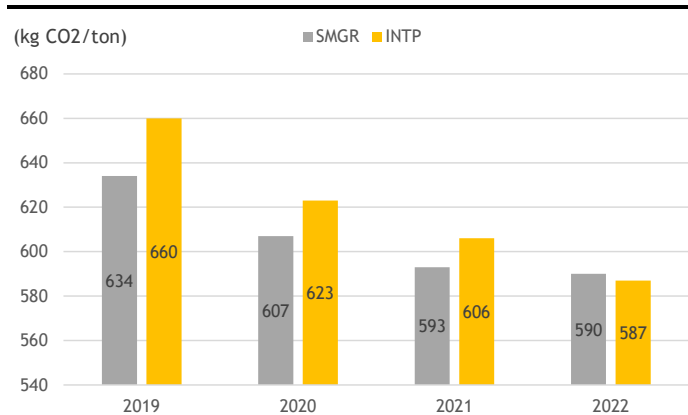
Source: Company, Maybank IBG Research

Fig 17: INTP vs SMGR energy intensity



Source: Company, Maybank IBG Research

Fig 18: INTP vs SMGR Scope 1 intensity

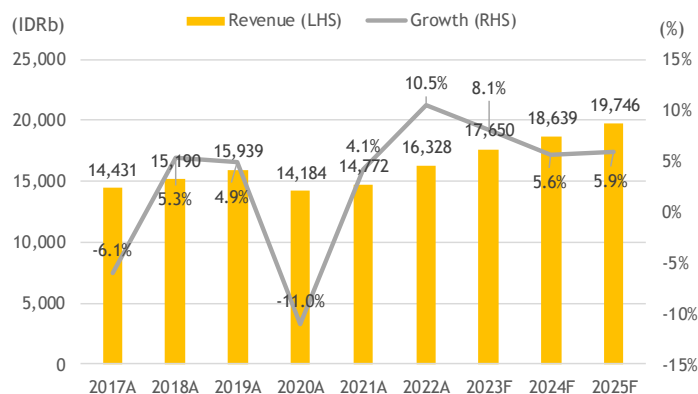


Source: Company, Maybank IBG Research

2. Financial analysis

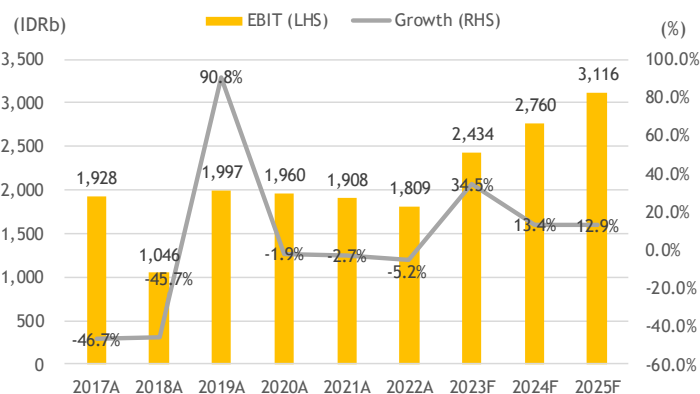
We believe INTP’s revenue trajectory to be solid and forecast FY22-25E revenue CAGR of 6.8% to IDR19.7t in FY25E, driven by consistently-growing sales volume which we predict will reach 20.1m tons (fig. 4), implying a 28.5% market share. Meanwhile, we expect cost contraction to lead to higher gross margins 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



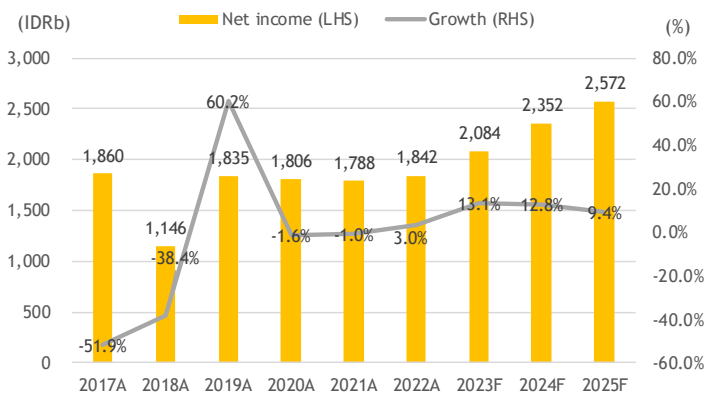
Source: Company, Maybank IBG Research

Fig 20: INTP - EBIT



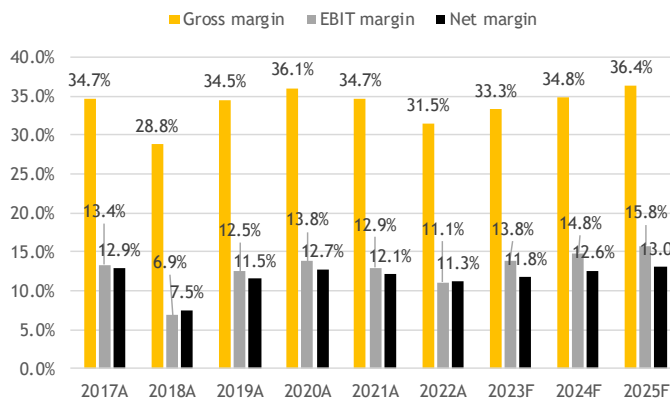
Source: Company, Maybank IBG Research

Fig 21: INTP - net income



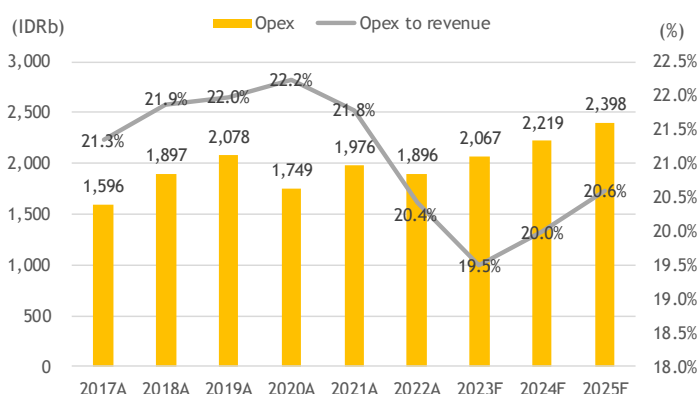
Source: Company, Maybank IBG Research

Fig 22: INTP - profitability margins



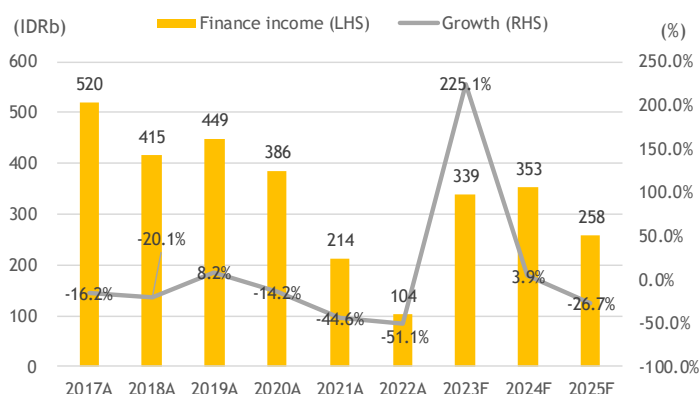
Source: Company, Maybank IBG Research

Fig 23: INTP - Opex vs opex to revenue



Source: Company, Maybank IBG Research

Fig 24: INTP - Finance income



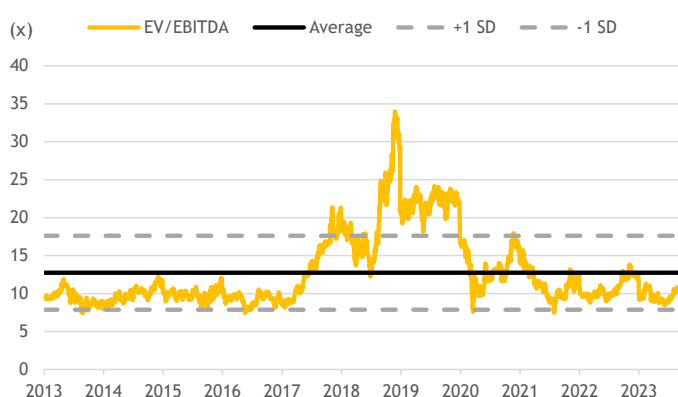
Source: Company, Maybank IBG Research

3. 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.

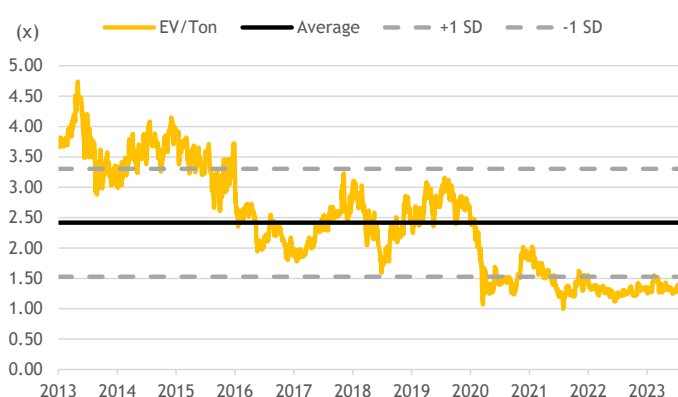
We like INTP due to its attractive Maros operation which is set to gain market share in East Indonesia, its improving profitability due to cost contractions, and its ability to benefit from the current high interest rate environment.

Fig 25: INTP - EV/EBITDA



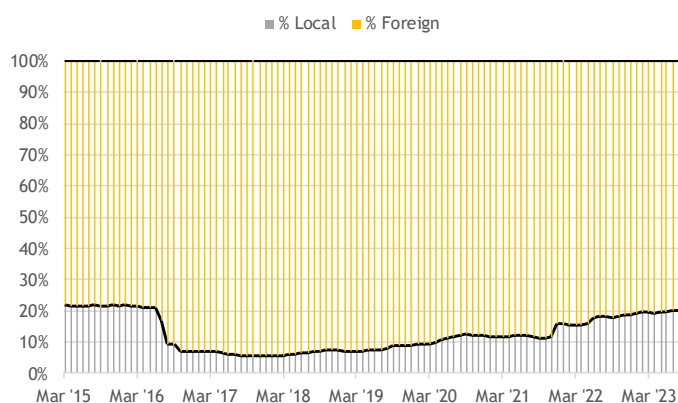
Source: Company, Maybank IBG Research

Fig 26: INTP - EV/Ton



Source: Company, Maybank IBG Research

Fig 27: INTP - EV/EBITDA



Source: Company, KSEI, Maybank IBG Research

4. Risks

4.1 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.

4.2 Economic uncertainties

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

4.3 Carbon initiatives

The government is planning to place carbon trading and carbon tax initiatives. As cement production emits large CO₂ emissions, this might affect the profitability of cement players in Indonesia.

4.4 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

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

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