

# Indocement (INTP IJ)

## Making good progress in ESG

### Winner of green award

Using Maybank's ESG rating system, INTP scored 67 points, above the average of 50. The company has implemented good ESG policies, winning the green PROPER award for two years in a row. Starting in 2022, the company began tracking its Scope 3 emissions and increasing its usage of renewable energy. Reiterate BUY on INTP IJ with a TP of IDR12,800, based on a target 21.1x FY23E EV/EBITDA, within -1SD of its 10-year mean.

### Strong quantitative showing

INTP scored 50 in Maybank's quantitative scoring system. The score was attributed to reduction in Scope 1 and 2 emissions, less water and coal usage, and higher usage of renewable energy. However, an increase in the number of complaints and energy intensity dragged down its score. Overall, we believe INTP is making good progress towards becoming a greener company. Reduction in the number of complaints and energy intensity will help increase its score.

### Policies supporting ESG initiatives

In the qualitative segment, INTP achieved a score of 67, above peer average of 50. This was driven by good implementation of policies that support its ESG initiatives, including a standalone ESG committee, introducing a mechanism to capture Scope 3 emissions, and strategies to mitigate carbon/water/waste emissions. However, INTP has not yet implemented a TCFD framework and this is hindering it from achieving a perfect score of 100.

### Slightly behind targets

INTP is serious about green initiatives. This led it to set high ESG targets and standards. Even though it has reached its goal of reducing dust emissions and electricity consumption in supporting facilities, INTP failed to reduce specific heat consumption. Overall, INTP scored 67 points based on Maybank's ESG rating system. We believe this can be improved by reducing energy intensity and the number of complaints.

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	16.9	14.7	13.1
P/BV (x)	2.1	1.8	1.7	1.6	1.6
Net dividend yield (%)	4.2	4.2	4.8	5.3	7.1
ROAE (%)	8.4	9.2	10.1	11.2	12.1
ROAA (%)	6.7	7.1	7.7	8.6	9.4
EV/EBITDA (x)	12.0	9.8	8.3	7.2	6.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	2,049	2,303	2,653
MIBG vs. Consensus (%)	-	-	(0.8)	1.4	(1.5)

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# BUY

Share Price	IDR 10,000
12m Price Target	IDR 12,800 (+31%)
Previous Price Target	IDR 12,800

### Company Description

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

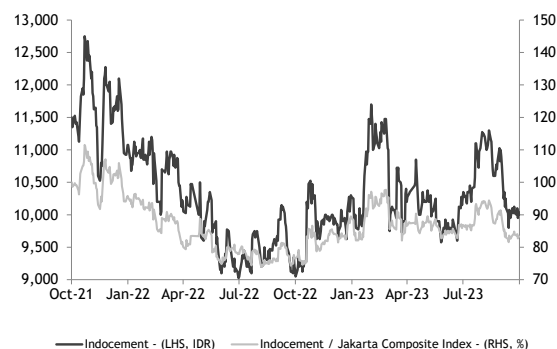
### Statistics

52w high/low (IDR)	11,700/9,050
3m avg turnover (USDm)	2.0
Free float (%)	42.2
Issued shares (m)	3,431
Market capitalisation	IDR34.3T USD2.2B

### Major shareholders:

Birchwood Omnia	51.0%
Treasury	6.8%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(9)	(2)	9
Relative to index (%)	(9)	(4)	9

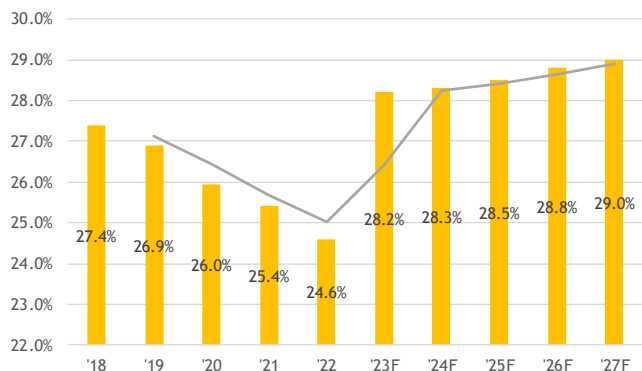
Source: FactSet

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 Tear Sheet Insert

## Value Proposition

- The second-largest cement company in Indonesia, based on production volume with 24.6% market share in 2022.
- The largest cement producer in West Java and it has the biggest market share of domestic cement consumption in Indonesia.
- INTP is not immune from the negative impact of oversupply in the domestic industry, exerting pressure on margins and profitability.
- Cost efficiency and focusing on certain segments are the keys to maintaining margins.

### INTP - market share

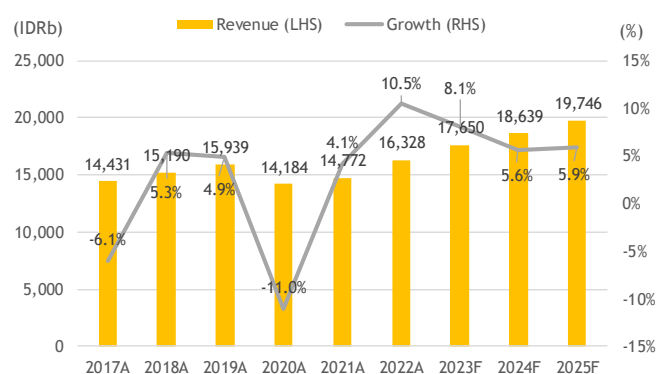


Source: Company, Maybank IBG Research

## Financial Metrics

- We forecast sustained top-line growth in FY23-25E, driven by higher sales volume.
- High-interest rate environment but its balance sheet is debt-free.
- Large net cash position allows for high dividend payout ratio.

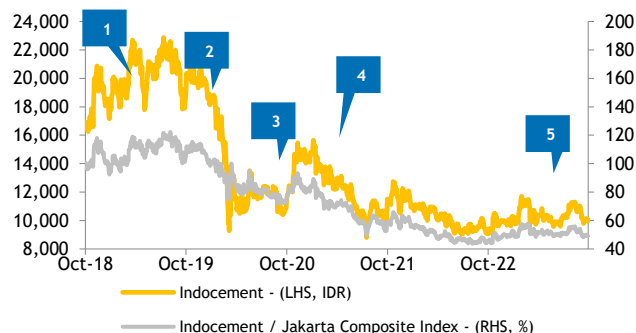
### INTP - revenue



Source: Company, Maybank IBG Research

## Price Drivers

### Historical share price trend



Source: Company, Maybank IBG Research

1. Domestic demand started to show signs of improvement.
2. Higher commodity prices and IDR depreciation exerts pressure on earnings.
3. Weak demand due to elections.
4. Onset of Covid-19 pandemic.
5. Increasing market share in early 2023.

## Swing Factors

### Upside

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

### Downside

- Oversupply in the market.
- Price intervention by the government.
- Presidential elections in Feb'24 may slow demand for cement.

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Risk Rating & Score <sup>1</sup>	29.8
Score Momentum <sup>2</sup>	+0.1
Last Updated	13 Apr 2023
Controversy Score <sup>3</sup>	0 - No evidence of controversies

## Business Model & Industry Issues

- We think INTP has made tackling ESG issues a priority 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.
- On the governance front, 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 all commissioner, but the higher standard suggests 50%.
- Overall, we think INTP's emphasis on ESG, along with its strong balance sheet and high cash flows should, will limit downside to valuations.

### Material E issues

- The majority of INTP's main process filters are electrostatic precipitators (ESP), which is an older technology with higher particle emissions. INTP has also reduced dust emission by converting ESPs to fabric bag house filters.
- 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 accredited with ISO 14001:2015 for 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

- The 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 staff being paid below the minimum wage.
- Number of work accidents reached 22 in 2019, down from 42 in 2018 and 45 in 2017.
- 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 has performed assessment of good corporate governance (GCG) implementation for the Board of Commissioners (BoC) and Board of Directors (BoD) conducted by the Indonesian Institute for Corporate Directorship. The assessment is based on the criteria set by the ASEAN Corporate Governance Scorecard. 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).
- The 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 vice versa. In performing its functions, duties, and responsibilities, the BoC is assisted by the Audit Committee and the Nomination and Remuneration Committee.
- No disclosure on shares of the BoC and BoD members' in the company.
- In 2022, the 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 salaries, allowances, and facilities, but there is no percentage breakdown of each component.
- There were 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.

<sup>1</sup>**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. <sup>2</sup>**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. <sup>3</sup>**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).

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Quantitative Parameters (Score: 50)						
	Particulars	Unit	2020	2021	2022	INTP IJ (2022)
E	Scope 1	million tCO2e	10.6	11.1	10.0	20.8
	Scope 2	million tCO2e	0.9	1.0	1.2	2.2
	Total	tCO2e	11.5	12.1	11.2	23.0
	Scope 3	tCO2e	NA	NA	0.4	NA
	Total	tCO2e	NA	NA	11.6	NA
	GHG intensity (Scope 1 & 2)	kgCO2e/ton cement	680	679	676	655
	RE as % of energy consumed	%	8%	11%	16%	6%
	Energy intensity	GJ/ton cement	2.62	2.63	2.65	2.83
	Water intensity	cu mtr/ton of clinker	0.26	0.29	0.27	0.28
	% of alternative fuel consumption	%	9.3%	12.2%	18.1%	0.07
	% of toxic waste recycled	%	95%	98%	98%	0.99
	Nox	mg/Nm3	239	224	223	N/A
	Sox	mg/Nm3	346	329	337	N/A
	Dust particles	mg/Nm3	19.4	21.9	13.8	N/A
Green cement production	mtonnes	12.7	13.4	13.3	18.9	
S	% of women in workforce	%	6.1%	6.1%	6.2%	10.0%
	% of women in management roles	%	0.0%	0.0%	0.0%	25.0%
	Number of customer complaints	number	472	337	640	76
	Lost time injury rate	number	0	1.22	0.97	0.46
G	Profits distributed to shareholders	% of net profit	147.8%	97.3%	29.8%	70.0%
	BoD & BoC salary as % of net profit	%	4.5%	4.2%	4.3%	1.2%
	% Independent commissions (tenure <10 years) of total number of commissioners	%	33%	43%	43%	29%
	Women commissioners on board	%	0%	0%	0%	14%

Qualitative Parameters (Score: 67)	
a) Is there an ESG policy in place and is there is a standalone ESG Committee or is it part of the Risk committee?	<i>Yes, the company has a standalone Sustainability Committee established by the board in 2021 for monitoring and evaluation of the implementation of the SIG Sustainability Roadmap.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>No, however, the Board of Directors is part of a Steering Committee that is under the ESG Committee.</i>
c) Does the company follow TCFD framework for ESG reporting?	<i>Yes, the company follows the TCFD framework for ESG reporting.</i>
d) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No, the company has not implemented a mechanism to capture Scope 3 emissions.</i>
e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>The company aims to increase usage of alternative fuels and alternative raw materials, optimize the production process through advance process control application, thermal energy efficiency, and initiate the use of hydrogen technology in the process.</i>
f) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes. The company sequestered carbon totalling 618.63 tonnes/Ha through biodiversity driven.</i>

Target (Score: 100)			
Particulars	Target	Achieved	
Increase alternative fuel usage by 2030	20%	7%	
Reduce Scope 1 intensity by 2030	515kg/ton	590kg/ton	
Reduction in Scope 2 emissions by 2030	23.9%	N/A	
Reduction of specific fresh water by 2030	12%	15%	
Waste converted and utilized as alternative fuel and raw material by 2030	2.8m tonnes	1.6m tonnes	
Reduce cement production-related SOx and NOx emissions by 40% and dust by 80% compared to 2008	40-80%		
Dust emission reduction by 2030	25%	46%	
Impact			
Assuming carbon price of USD10/50/100 and threshold scope 1 intensity of 550 kgCO2e for cement, the impact on FY22 EBITDA will be 3.4-33.7% and FY22 net profit will be 5.5-55.4%			
Overall Score: 68			
As per our ESG matrix, Semen Indonesia (SMGR IJ) has an overall score of 68.			

ESG score	Weights	Scores	Final Score
Quantitative	50%	50	25
Qualitative	25%	67	17
Target	25%	100	25
<b>Total</b>			<b>67</b>

As per our ESG assessment, SMGR scored 67 points, above the average of 50. SMGR has made good progress towards becoming a green company by reducing its Scope 1 and 2 emissions, water, and energy usage. We believe its score can be improved by recording its Scope 3 emissions as well as its GHG intensity.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	24.4	18.8	16.9	14.7	13.1
Core P/E (x)	24.7	18.6	16.9	14.7	13.1
P/BV (x)	2.1	1.8	1.7	1.6	1.6
P/NTA (x)	nm	nm	nm	nm	nm
Net dividend yield (%)	4.2	4.2	4.8	5.3	7.1
FCF yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	12.0	9.8	8.3	7.2	6.4
EV/EBIT (x)	19.9	16.5	12.4	10.2	8.9

**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
<b>Total assets</b>	<b>26,136.1</b>	<b>25,706.2</b>	<b>26,791.9</b>	<b>27,515.7</b>	<b>28,335.1</b>
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
<b>Total Liabilities</b>	<b>5,515.2</b>	<b>6,139.3</b>	<b>6,242.2</b>	<b>6,296.8</b>	<b>6,361.7</b>
Shareholders Equity	20,621.0	19,566.9	20,549.7	21,219.0	21,973.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>20,621.0</b>	<b>19,566.9</b>	<b>20,549.7</b>	<b>21,219.0</b>	<b>21,973.4</b>
<b>Total liabilities and equity</b>	<b>26,136.1</b>	<b>25,706.2</b>	<b>26,791.9</b>	<b>27,515.7</b>	<b>28,335.1</b>

**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
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
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
<b>Profitability ratios (%)</b>					
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
<b>DuPont analysis</b>					
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	10.1	11.2	12.1
ROAA (%)	6.7	7.1	7.7	8.6	9.4
<b>Liquidity &amp; Efficiency</b>					
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
<b>Leverage &amp; Expense Analysis</b>					
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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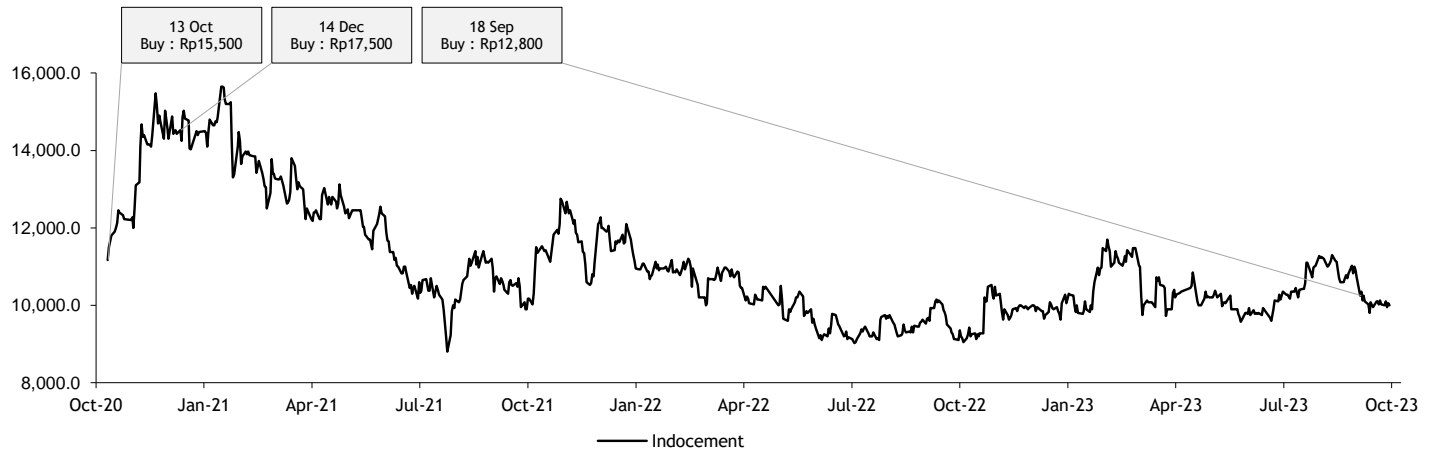
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