

Semen Indonesia (SMGR IJ)

Ahead of peers on ESG

Intense focus on ESG leads to high score

Using Maybank's ESG rating system, SMGR scored 68 points, above the peer average of 50. The company has implemented good ESG strategies to reduce emissions and electricity usage in the coming years. SMGR reduced its Scope 1 & 2 emissions and has already implemented the TCFD framework in its reporting. Reiterate BUY on SMGR with a IDR8,600 TP, based on a target 7.9x FY23E EV/EBITDA, which is within -1SD of its 10-year mean.

High quantitative score

SMGR's overall quantitative score reached 60, above peer average of 50. SMGR reduced Scope 1 & 2 emissions from 26.6m tonnes CO2 in 2021 to 23m tonnes CO2 in 2022. SMGR has also reduced its water and electricity usage by a significant amount. However, SMGR still does not have a mechanism to record its Scope 3 emissions, which dragged down its score. We expect SMGR to continue improving its quantitative score, primarily by recording its Scope 3 emissions.

Supporting its ESG initiatives

SMGR scored 67 in its qualitative segment due to multiple supporting factors that help implement good policies. It has set up a standalone ESG committee, which works alongside the Taskforce on Climate-Related Financial Disclosure committee. It has also implemented strategies to help reduce carbon emissions in the future by increasing usage of alternative fuels and raw materials.

Multiple targets achieved

SMGR has achieved multiple targets it set, including reduction in the use of fresh water use and lowering of dust emissions. They are also on track to achieve other targets such as usage of alternative fuels, reduction in Scope 1 intensity, and usage of alternative fuel and raw materials. Overall we believe SMGR has set good targets to become a greener company, booking an overall score of 68 according to Maybank's ESG rating system.

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	14.9	12.5	10.9
P/BV (x)	1.1	0.9	1.0	0.9	0.9
Net dividend yield (%)	2.6	2.6	3.3	4.0	4.6
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	6.6	6.0	5.3
Net gearing (%) (incl perps)	34.5	16.2	10.5	4.0	net cash
Consensus net profit	-	-	2,726	3,301	3,749
MIBG vs. Consensus (%)	-	-	9.1	7.5	8.7

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BUY

Share Price	IDR 6,575
12m Price Target	IDR 8,600 (+33%)
Previous Price Target	IDR 8,600

Company Description

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

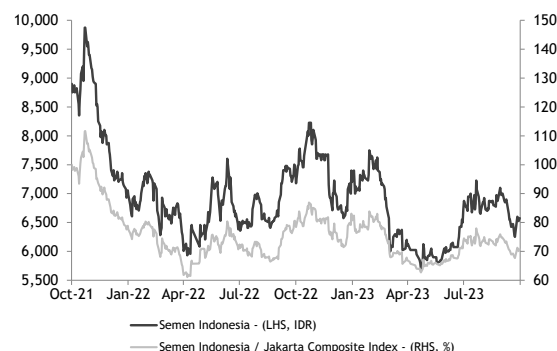
Statistics

52w high/low (IDR)	8,227/5,700
3m avg turnover (USDm)	4.0
Free float (%)	48.8
Issued shares (m)	5,962
Market capitalisation	IDR39.2T USD2.5B

Major shareholders:

Indonesian government	51.2%
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Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(2)	(10)
Relative to index (%)	(6)	(4)	(11)

Source: FactSet

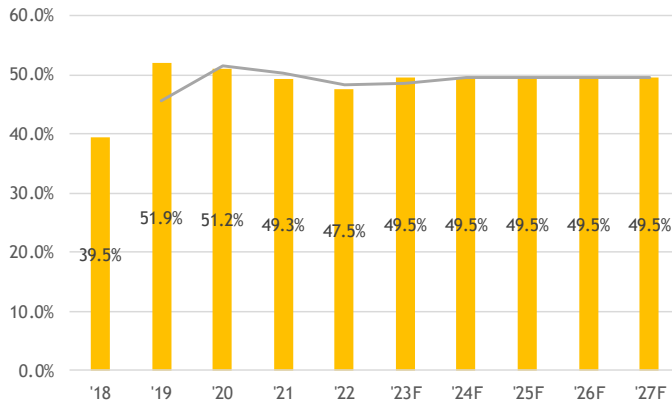
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Tear Sheet Insert

Value Proposition

- The largest cement company, by sales volume and capacity, in Indonesia. It had 47.5% market share by 2022.
- 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

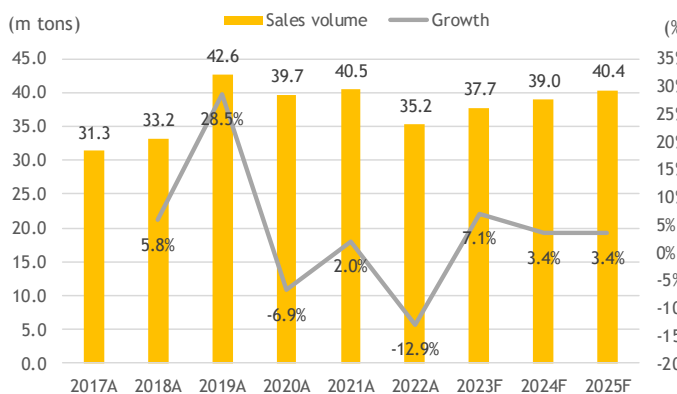


Source: Company, Maybank IBG Research

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

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.

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.

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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.47.5% in 2022, 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 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.
- 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.
- 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).

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Quantitative Parameters (Score: 60)						
	Particulars	Unit	2020	2021	2022	INTP IJ (2022)
E	Scope 1	mtonnesCO2e	25.4	24.5	20.8	10.0
	Scope 2	mtonnesCO2e	2.6	2.2	2.2	1.2
	Total	mtonnesCO2e	28.0	26.6	23.0	11.2
	Scope 3	mtonnesCO2e	NA	NA	NA	0.4
	Total	mtonnesCO2e	NA	NA	NA	11.6
	GHG intensity (Scope 1 & 2)	kgCO2e/ton cement	659	646	655	676
	RE as % of energy consumed	%	4%	5%	6%	16%
	Energy intensity	GJ/ton cement	2.95	2.83	2.83	2.65
	Water intensity	Cu mtr/ ton of clinker	0.34	0.32	0.28	0.27
	% of alternative fuel consumption	%	4%	6%	7%	18%
	% of toxic waste recycled	%	98%	99%	99%	98%
	Nox	tonnes	21,507	16,363	12,351	N/A
	Sox	tonnes	6,257	5,885	5,540	N/A
	Dust particles	tonnes	4,078	2,811	1,391	N/A
Green cement production	mtonnes	8.5	15.2	18.9	13.3	
S	% of women in workforce	%	9.0%	9.2%	10.0%	6.2%
	% of women in management roles	%	22.7%	25.0%	25.0%	0.0%
	Number of complaints	number	45	108	76	640
	Lost time injury rate	number	0.46	0.59	0.46	0.97
G	Profits distributed to shareholders	% of net profit	40.0%	50.0%	70.0%	29.8%
	BoD & BoC salary as % of net profit	%	1.0%	1.4%	1.2%	4.3%
	% Independent commissions (tenure <10 years) of total number of commissioners	%	29%	29%	29%	43%
	Women commissioners on board	%	14%	14%	14%	0%

Qualitative Parameters (Score: 50)	
a) is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of 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. The implementation is done by the organizing committee which includes heads of various functions. The company has a Group head for Sustainability Office who reports to the Chief of Strategy.</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 which is under the ESG Committee, and are in charge of directing the implementation of the SIG sustainability roadmap.</i>
c) Does the company follow TCFD framework for ESG reporting?	<i>Yes, the company does follow 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 is targeting to achieve its first carbon offset milestone in 2025-2030 which is part of its net zero target.</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
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 2.5-25.1% and FY22 net profit will be 8.4-83.9%		
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%	60	30
Qualitative	25%	50	13
Target	25%	100	25
Total			68

As per our ESG assessment, SMGR scored a 68, 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
Key Metrics					
P/E (reported) (x)	27.9	17.5	14.9	12.5	10.9
Core P/E (x)	21.0	16.6	14.9	12.5	10.9
P/BV (x)	1.1	0.9	1.0	0.9	0.9
P/NTA (x)	nm	nm	nm	nm	nm
Net dividend yield (%)	2.6	2.6	3.3	4.0	4.6
FCF yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	7.2	6.5	6.6	6.0	5.3
EV/EBIT (x)	11.9	11.2	10.4	9.2	8.1

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

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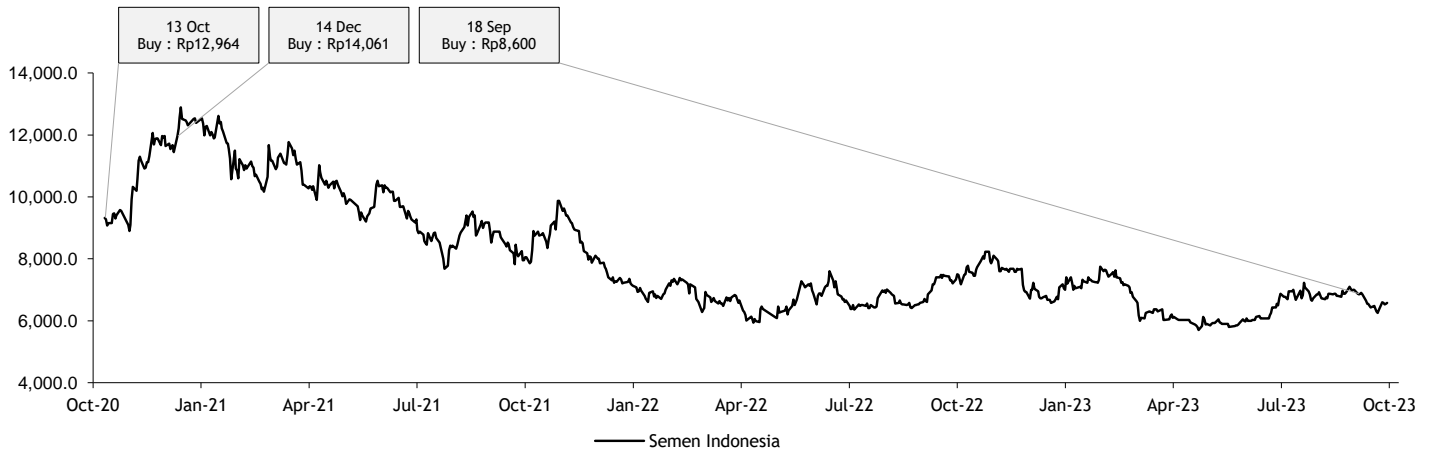
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