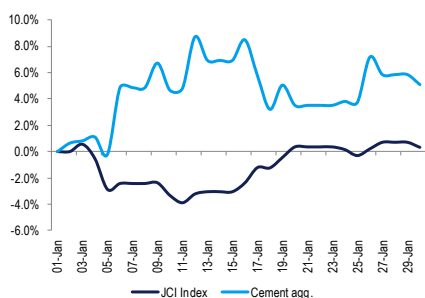


### Sector Index Performance

	3M	6M	12M
Absolute	6.0%	16.5%	5.1%
Relative to JCI	8.6%	17.6%	1.7%



### Summary Valuation Metrics

	2022F	2023F	2024F
<b>P/E (x)</b>			
SMGR IJ	30.7	27.2	NA
INTP IJ	30.8	31.6	16.8
<b>P/BV (x)</b>			
SMGR IJ	1.2	1.2	NA
INTP IJ	1.9	1.9	1.8
<b>Div. Yield</b>			
SMGR IJ	0.5%	0.4%	NA
INTP IJ	5.0%	3.3%	3.2%

## Introduction of 3<sup>rd</sup> tier brand: a sign of intensifying competition

- INTP just recently launched Semen Jempolan, a 3<sup>rd</sup> tier brand priced below its Rajawali fighting brand. Pricing will also be lower than Rajawali.
- Volume has also remained weak in Jan23, a continuation over 4Q trend.
- This suggests an overall weak pricing environment though valuation has been supportive. Maintain Hold.

### Introduction of Semen Jempolan

INTP just recently introduced Semen Jempolan, a 3<sup>rd</sup> tier brand priced below its current fighting brand (Rajawali). This aims to provide customers with more options given the vast choices of cement brands with wide price range. The distribution of the product will be very selective to areas with intense competition, according to the company. Pricing of this brand will be lower than Rajawali – currently Rajawali priced at 10-20% lower vs. Tiga Roda's brand. Rajawali now accounts for c.15% of INTP's total volume.

### Tough pricing environment

Consistent with our retail price survey, cement price (retail and ex-factory) has been increased by 13-20% in FY22, one of the steepest increases in recent memories. This, in our view, has made cement price not so affordable anymore amid higher inflation; and coupled with the absence of WFH and slowing property sales (fig 1) has resulted in weak volume which will lead to subdued pricing power. Indeed our channel checks suggest that prices have come down in areas with intense competition (i.e. certain areas in Java and Sumatra) and some players have offered promotion i.e. cashback.

### Volume has remained weak in Jan23

Our discussion with cement players suggests that Jan23 volume has thus far been weak and may down by mid to high single digit yoy. This was unexpected given that Jan23 was a relatively dryer month compared to previous years Jan; Jan22 was also not a high base month considering Jan22 volume (ex-Hongshi) was 20% lower than Jan20 volume (pre-Covid). We think with negative volume growth, incumbents may opt to cut overall ASP to maintain market share – for every 1% drop in ASP shall result in 11/9% earnings correction for SMGR/INTP.

### Maintain Neutral

Weak demand and pricing suggest limited catalysts despite weak coal price outlook. Lower coal price may also have limited impact to SMGR's bottom line given that it has fully secure DMO. Valuation of 9.5x EV/EBITDA looks appealing vs. its 5Y average of 11.7x and hence, our Neutral rating. Risk to our call is weaker than expected demand.

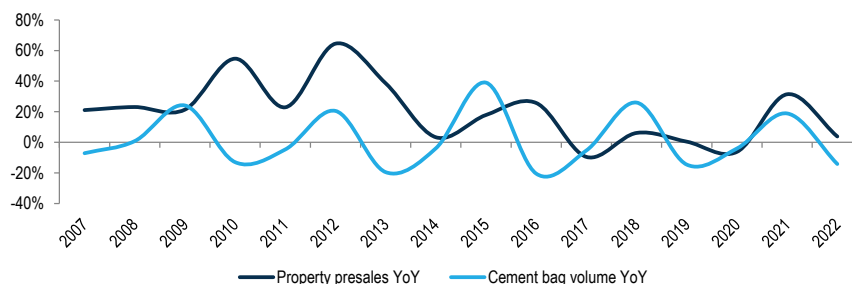
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Fig. 1: Slow property presales (excluding land sales) led to weak bag demand



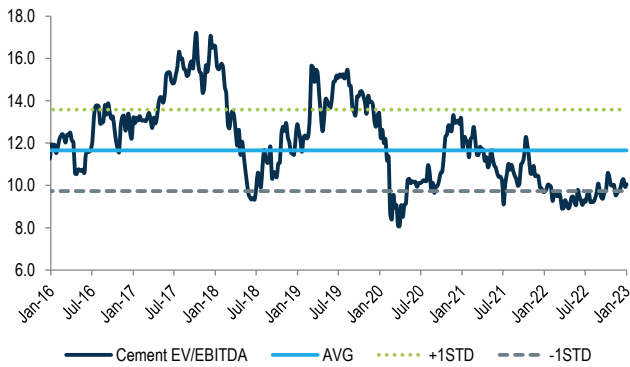
Source: Company, Indo Premier

Fig. 2: INTP just recently introduced Semen Jempolan, a 3rd tier brand priced below its current fighting brand Rajawali



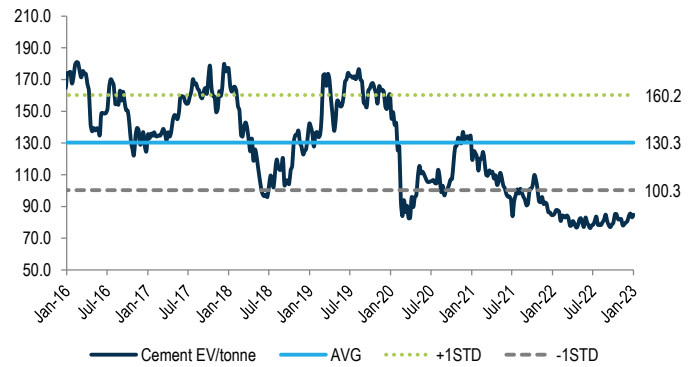
Source: Company, Indo Premier

Fig. 3: Cement forward EV/EBITDA – now trading at 9.5x FY23F EV/EBITDA vs. 5Y average of 11.7x EV/EBITDA



Source: Bloomberg, Company, Indo Premier

Fig. 4: Cement forward EV/tonne – now trading at US\$78 FY23F EV/tonne vs. 5Y average of US\$130 EV/tonne



Source: Bloomberg, Company, Indo Premier

Fig. 5: Peer comparison

Ticker	Closing Price	Target Price	Upside	Recommendation	P/E (x)		EV/EBITDA (x)		P/BV (x)	
					2022F	2023F	2022F	2023F	2022F	2023F
INTP	9,825	10,000	2%	Hold	30.8	31.6	12.3	12.1	1.9	1.9
SMGR	7,225	8,800	22%	Hold	30.7	27.2	9.0	8.6	1.2	1.2

Source: Bloomberg, Company, Indo Premier

Share price closing as of: 30 January 2022

## SECTOR RATINGS

- OVERWEIGHT** : An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
- NEUTRAL** : A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
- UNDERWEIGHT** : An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

## COMPANY RATINGS

- BUY** : Expected total return of 10% or more within a 12-month period
- HOLD** : Expected total return between -10% and 10% within a 12-month period
- SELL** : Expected total return of -10% or worse within a 12-month period

## ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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