CEMENT SECTOR UPDATE

The Agility to Survive

Cement Demand to Surge

- Domestic cement consumption grew 4.72% YoY in 9M21 to 46.93 million tons, driven by demand for bag cement which grew 6.86% YoY, while bulk cement was stagnant at 0.64% YoY in 9M21. This was supported by the Sulawesi region which grew +23.33% YoY, followed by Yogyakarta (+18.63% YoY), Banten (+16.35% YoY). Sumatera and West Java as the largest regions of domestic cement absorbers grew +4.07%/+2.69% YoY respectively.
- The presence of the 2nd wave of Covid-19 in June-21 did not affect domestic cement absorption which grew by 50.63% MoM. The downward trend only occurred in July-21 of -0.79% MoM due to the early implementation of PPKM level 4, while August +8.75% MoM, and September +7.44% MoM. With the easing of the semi-lockdown since mid-August-21 and the decline in daily cases of COVID-19 which until now has entered PPKM level 1, domestic cement demand continues to improve.
- The relaxation o value added tax (VAT) will apply to landed houses and apartments: 1) From 10% to 0% for primary market products under IDR2 billion; 2) 50% discount (from 10% to 5%) for IDR2 billion-IDR5 billion products. Relaxation also only applies to a maximum of one property unit per buyer and the product cannot be sold in one year continues to improve. We also note that the relaxation VAT potentially extended to FY22F.

There is still a chance for Better Absorption in FY21E and FY22F

- The government is still prioritizing infrastructure development in FY22F of IDR384.8 trillion, although lower than FY21 (IDR417.4 trillion) but we consider the value to be relatively huge. This will benefit from the demand side of bulk cement going forward, which until 9M21 growth was still stagnant. In addition, the government is also quite confident about moving to the new capital city, which cement players hope can seize opportunities from the continuation of the plan.
- The multiplier effect of infrastructure development will encourage the development of industrial estates and factories, as well as e-commerce which has the potential to build new warehouses.
- Low interest rates and relaxation have been proven to increase property sales, so developers need more inventory.
- We estimate domestic's consumption to rise around 65.91 million tons in FY21E, implying growth of 5% MoM and ~70 million tons in FY22F.

Commodity Boom and Their Impacts

- We understand that an increase in coal prices has negative implications for cement production costs. Currently, the price of New Castle Coal is in the range of USD150-200/ton. This increase in coal prices has the potential to increase coal cost prices by 10%-15% in FY21. Based on Bloomberg commodity price consensus, coal price will be at USD112/metric ton in FY21E and USD95.22/metric ton in FY23F.
- Meanwhile, the Government has released KEPMEN ESDM No.206.K/HK.02/MEM.B/2021 regarding the determination of the selling price of coal to meet the demand for raw materials/fuel for the domestic cement and fertilizer industry with the amount of USD90/metric ton. This decision helped the cement industry to stabilize production costs, amidst highly fluctuating coal prices.
- On the other hand, we see rising CPO prices to have a positive impact. This is based on the CPO producing areas in Indonesia, namely Sumatera and Kalimantan, which will increase the income of the region.

Still seeing risk amid improving catalyst

The ODOL (Over Dimension & Over Loading) policy will significantly increase the transportation costs of cement players. The government is currently still in calculation to determine the ODOL policy that is going to be applied to all transportation companies. The pandemic remains a factor of uncertainty that must be monitored closely because it will determine the Government's actions to restrict mobility. In addition, we also see the implementation of a carbon tax as a risk that will interfere with ASP in the future, so we assess that cement prices are expected to remain the same considering that we still have to look at the direction of overall economic growth in FY22F.

OVERWEIGHT Recommendation for the Cement Sector

We transfer our coverage on cement sector, from T. Herditya Wicaksana to Muhamad Rudy Setiawan. We recommendation **OVERWEIGHT** outlook for cement sector in FY21E-FY22F. The valuation is based on SMGR IJ and INTP IJ at the level -0.5STD PE band (average 3 years). It is also supported by positive catalysts from 1) Raising demand on property in FY22F; 2) a huge infrastucture budget on FY22F. Our top picks are **SMGR (BUY; TP: IDR12,500) and INTP (BUY; TP: IDR14,000)**. Our call risk: 1) The continuing energy crisis has an impact on demand and higher coal price; 2) ODOL and carbon tax policy.

Ticker	Market Cap (IDR bn)	PER (x)		PBV (x)		Rec.	Target Price (IDR)
		FY21E	FY22F	FY21E	FY22F		
INTP IJ	47,670	30.13	26.90	2.35	2.33	BUY	14,000
SMGR IJ	59,760	29.95	22.91	2.05	1.93	BUY	12,500

Sources: Bloomberg, MNCS

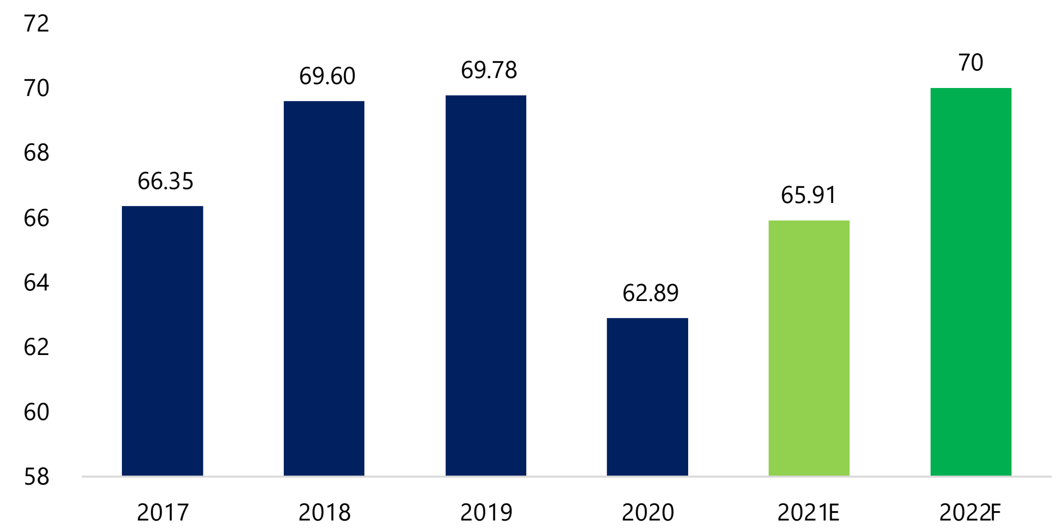
Research Analyst
Muhamad Rudy Setiawan
Muhamad.setiawan@mncgroup.com

Exhibit 01. Domestic Consumption (in metric tons)

Month	2020		2021		Bag	Bulk
	Bag	Bulk	Bag	Bulk	YoY	YoY
January	3,901,743	1,306,155	3,871,006	1,035,142	-0.79%	-20.75%
February	3,426,120	1,170,481	3,627,117	1,007,414	5.87%	-13.93%
March	3,587,753	1,200,916	4,200,246	1,132,105	17.07%	-5.73%
April	3,486,049	1,015,280	3,735,064	1,155,311	7.14%	13.79%
May	2,438,490	653,259	2,983,334	702,082	22.34%	7.47%
June	3,894,112	983,176	4,363,236	1,188,253	12.05%	20.86%
July	4,178,030	1,256,336	4,238,347	1,269,215	1.44%	1.03%
August	4,517,032	1,328,355	4,602,041	1,387,378	1.88%	4.44%
September	4,751,543	1,427,829	4,903,850	1,531,134	3.21%	7.24%
YTD	34,180,872	10,341,787	36,524,241	10,408,034	6.86%	0.64%

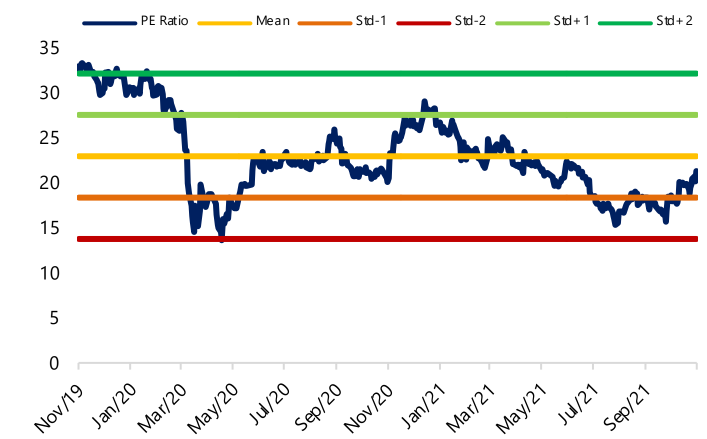
Sources : Ministry of Industry, MNCS

Exhibit 02. Trend of Domestic Consumption in FY17-FY20 and Estimated in FY21E-FY22F (million metric tons)



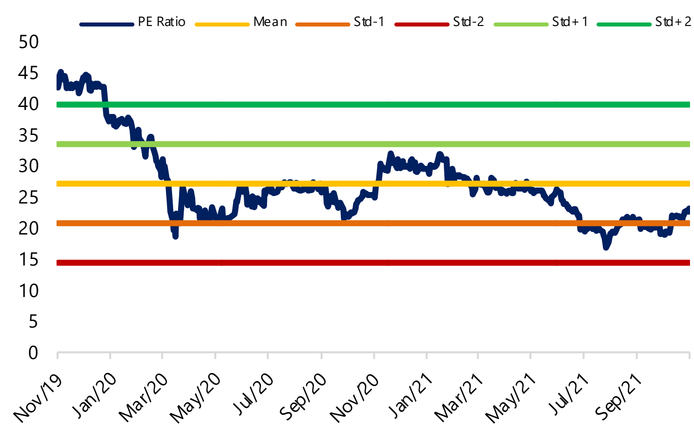
Sources : Ministry of Industry, MNCS

Exhibit 03. SMGR is currently trading at 21.30x PE, close to its -0.5STD (3-years Average)



Sources : Bloomberg, MNCS

Exhibit 04. INTP is currently trading at 23.17x PE, close to its -1STD (3-years Average)



Sources : Bloomberg, MNCS

MNC Research Industry Ratings Guidance

OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

PT MNC SEKURITAS
MNC Financial Center Lt. 14 – 16
Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340
Telp : (021) 2980 3111
Fax : (021) 3983 6899
Call Center : 1500 899