NEUTRAL

Return (%)	-1D	-1W	-1M
JCI	-0.6	+1.4	+2.3
LQ45	-0.3	+1.6	+0.5
SMGR IJ	+1.2	-3.0	+6.6
INTP IJ	+1.3	-1.6	+1.9

EPS Growth (%)	FY23E	FY24F
SMGR IJ	+6.9	+6.2
INTP IJ	+8.8	+5.3

Cement Sector
Awaiting Decisive Catalyst to Push Through Looming Headwinds

Volume growth is likely in FY23E, but FY24F is laid with more hurdles

- The recovery seen in May-23 (+63% MoM) up to Oct-23 (+3% MoM) gave rise to an optimistic outlook that FY23E's sales is set to grow by at least a mere 1% YoY. This was possible due to several catalysts, including: 1) the IKN project in the near term, potentially reaching 1.4mn tons; 2) the government's remaining 58 PSNs, amounting to IDR420tn of catalyst for cement players.
- Currently, the overall sales are bolstered by the strong demand from Eastern Indonesia, with the sales growing by 1% YoY as opposed to the declining sales (-11% YoY) in the Java region as of 10M23.
- The PPN incentive policy for properties in FY24F is hoped to deliver a domino-effect for cement demand, particularly the bag market which has had a sluggish FY22 (-8% YoY) and 10M23 (-20% YoY) performance. If the market turns out to be more dovish than expected, the property demand should blow up and look past the ongoing general elections.

Positioning for better performance

INTP, focuses on wrapping up the full acquisiton of PT Semen Grobogan located in Grobogan, Central Java in Nov-Dec 2023. The Grobogan factory has a capacity for 1.8mn tons of clinker and more than 2.5mn tons of cement, complemented with a limestone reserve adequate for the next 50 years. This strategic move will reinforce INTP's positioning within the Central Java and East Java market whilst saving logistical expenses for the long run. INTP has also started commissioning their second kiln in Maros to ensure adequate supply to the Eastern Indonesia market as well as the IKN project. We assess that this strategy would bode well for INTP's market share fate in Java and Eastern Indonesia, with hopes of at least a 1% bump of market share in FY24F's.

SMGR, showed good export traction and is looking at an even better FY24F with the addition of US export deal, potentially stacking another 500k tons of sales volume in FY24F. SMGR holds a conservative growth estimate in FY24F, with ~1.5mn tons as the target, with demands predominantly from governmental projects. As the largest market share wielder (51.8% as of Oct-23) and part of the government's agencies, SMGR is confident that cement demands to fulfil projects undertaken by the government in FY24F should be coming their way.

Lurking risks calls for a conservative estimate

In spite of a potential improvement in volume, upon weighing the looming risks ahead we call for a flat sales volume in FY24F. The risk cement players are to face include 1) geopolitical risks interlinked with the further depreciation of USD/IDR, entailing higher energy costs; 2) a possibility of an extended election period, holding off project worktime; 3) higher precipitation intensity post FY23's weak-moderate El-Nino. We view that the blended ASP looks flat in FY24F, at around IDR940k-960k/ton, whilst the COGS likely to be around IDR650k-740k/ton. In addition, regulation also poses as a risk, assuming that the DMO policy would be changed and government interventions be made in the domestic cement ASP.

Neutral Recommendation for the Cement Sector

We change the recommendation from OVERWEIGHT to **NEUTRAL** for the cement sector outlook in FY23F. The valuation is based on SMGR IJ and INTP IJ currently hovering at the -1STD level of their PE bands (3 years average). We anticipate possibilities of margin-chipping commodity prices, whilst being wary of the state of the construction companies' balance sheet which could dampen the sales performance of domestic cements. Our top picks are SMGR (BUY; TP: IDR7,850) and INTP (HOLD; TP: IDR10,400). Risk to our call: 1) weaker demand; 2) ODOL and carbon tax policy; 3) change in DMO regulation.

Ticker	Mkt Cap (IDR tn)	P/E (x)		P/B (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
SMGR IJ	43.7	17.5	16.5	1.0	1.0	BUY	7,850
INTP IJ	34.6	18.2	17.3	1.9	1.9	HOLD	10,400

Sources : Bloomberg, MNCS

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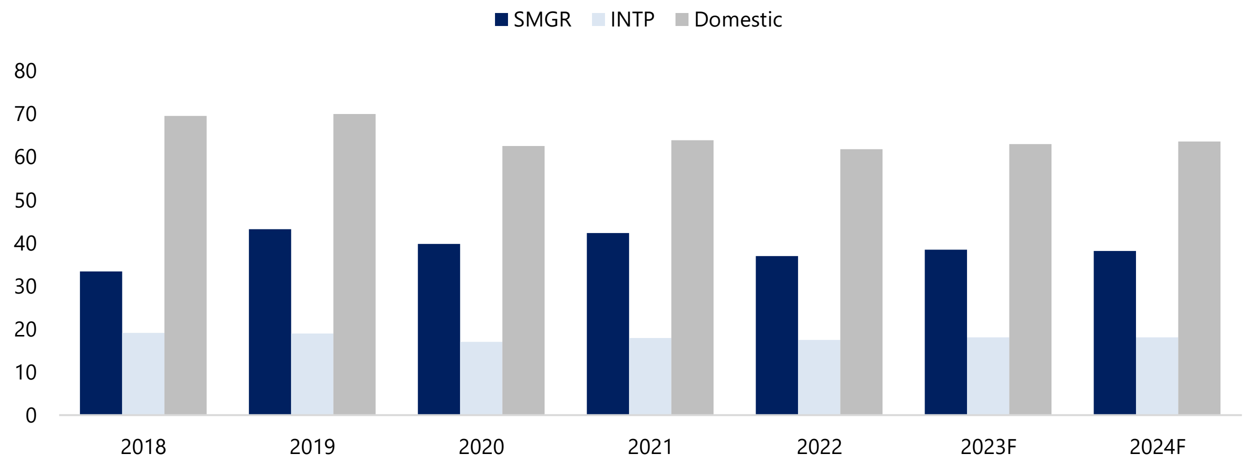
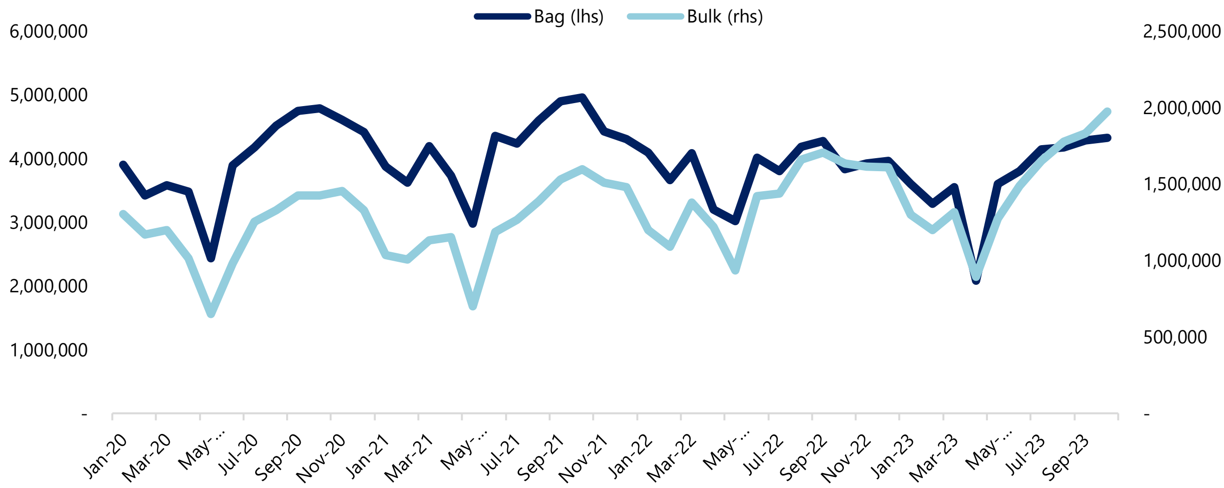
Exhibit 01. The trend of sales volume in FY18-FY24F (million tons)



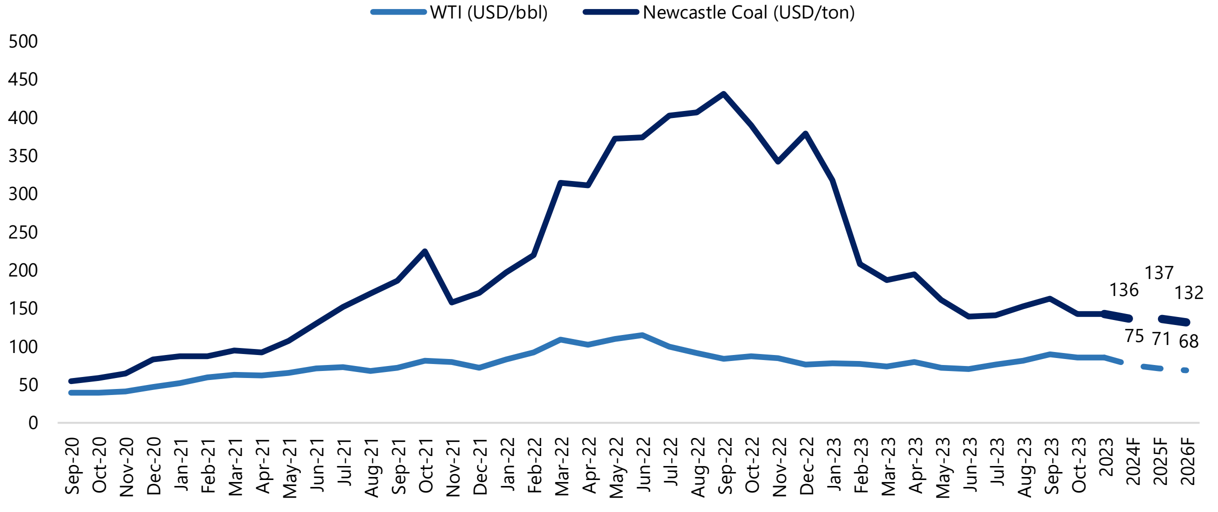
Sources : Companies, MNCS

Exhibit 02. National Cement Domestic volume is expected to grow up to 1% for FY23 and FY24F due to weak growth of bag cement that is expected to continue, despite strong growth of bulk sales



Sources : Companies, MNCS

Exhibit 03. Global situation expected to cause higher WTI Fuel price that will cause our non-subsidized fuel and the FX risk of weakening IDR against USD



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

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