Neutral

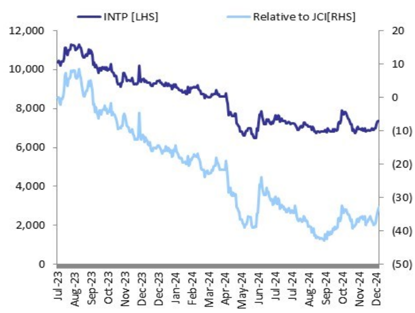
(Maintained)

Cement

FY25 Outlook: Limited Growth Catalysts Despite Undemanding Valuation

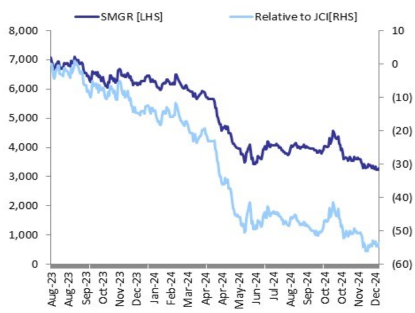
- **We expect cement sales volume to grow by 2.3% yoy in FY25, with flattish bag cement growth and moderating bulk growth to 8% yoy.**
- **We expect blended ASP hike of 0.5-1%, with improvement in bag pricing (+0.5%-1% yoy) to be offset by a higher bulk ratio and fighting brand.**
- **Maintain Neutral rating on the sector on lack of meaningful growth catalysts, despite recovery traction. Our top pick remains INTP.**

INTP relative to JCI Index



Source: Bloomberg

SMGR relative to JCI Index



Source: Bloomberg

BRI Danareksa Sekuritas Analysts

Richard Jerry, CFA
(62-21) 5091 4100 ext. 3511
Richard.jerry@brids.co.id

Sabela Nur Amalina
(62-21) 5091 4100 ext. 4202
sabela.amalina@brids.co.id

Sluggish bag, decent bulk segment growth outlook

We expect cement sales volume to grow by 2.3% yoy in FY25, with flattish bag cement growth (-0.3% yoy vs 10M24: -1.6% yoy) and moderating bulk segment growth (+8% yoy vs 10M24: +9.1% yoy). We continue to see soft purchasing power, as we believe government programs to support low-income households may take time to trickle down to household spending, with even further time needed to extend into spending on house renovation or construction. Meanwhile, we expect bulk cement growth to moderate, amid a lower budget on infra (-5% yoy), PUPR (Ministry of Public Works, -31% yoy), and IKN (Nusantara, -64% yoy). We think the 3mn housing program may help boost bulk volume growth, but we have not included this scenario in our estimates due to a lack of clarity.

ASP outlook: Diluted by higher fighting brand and bulk growth

We expect limited blended ASP upside for the cement industry of around 0.5%-1% yoy, as we expect recovery on bag price due to better volume growth (compared to a contraction in FY24). As of Nov24, the average bag price has improved by 2-3% vs. lowest level in Apr24, albeit still ~1% lower than Dec23. However, we expect the improvement in bag prices to be offset by a higher bulk sales ratio. Additionally, we expect a higher fighting brand contribution (15%-25% of total sales as of 9M24), where it is priced 12%-25% cheaper than the main brand. We noted a higher fighting brand ratio as the result of downtrading, which we expect to continue amid our expectation of flattish bag market growth and wider availability of fighting brand in the market. Nonetheless, we still expect 30-70bps improvement in the gross margin in FY25F due to slight improvement in blended ASP and lower fuel cost.

Maintain Neutral rating on sector. Lack of meaningful growth catalysts despite recovery traction. Despite our observation of a better volume run rate in 2H24, we do not expect sales to return to the pre-pandemic era in FY25. In the near-term, we see limited catalysts for cement, amid weaker purchasing power and lower infra budget. Therefore, we maintain our **Neutral** rating for the sector, as we see limited downside due to cheap valuations. We reiterate our top pick on **INTP (Buy, TP Rp8,800)** amid its ability to manage opex and maintain **Hold** rating for SMGR with TP of **Rp3,900**. Upside risks to our call: 1) 3mn housing scheme could bring large volume demand with market price; 2) Faster recovery in purchasing power; 3) Upward revision on infra/PUPR budget. Downside risks: 1) Delays on government scheme to help middle-low, prolonging the recovery phase; 2) Wider availability of Tier-3 brands; 3) Entrance of new players.

Company	Ticker	Rec	Target Price (Rp)	Market Cap. (Rpbn)	P/E (x) 2025F	P/E (x) 2026F	P/BV (x) 2025F	P/BV (x) 2026F	ROE (%) 2025F
Indocement	INTP IJ	BUY	8,800	23,134.2	13.6	12.5	1.1	1.0	8.1
Semen Indonesia	SMGR IJ	HOLD	3,900	21,739.9	11.9	9.4	0.4	0.4	3.6
Sector					**12.8**	**11.0**	**0.8**	**0.7**	**5.9**

FY25 Outlook: Limited Growth Catalysts Despite Undemanding Valuation

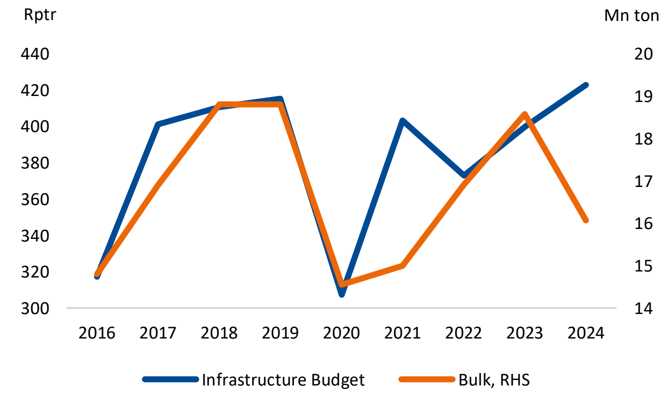
Demand: Sluggish bag segment, decent bulk segment growth

We expect cement sales volume to grow by 2.3% yoy in FY25, with flattish bag cement growth (-0.3% yoy vs 10M24: -1.6% yoy) and moderating bulk growth (+8% yoy vs 10M24: +9.1% yoy). This brings our bag-to-total-sales ratio to 67%-68% (vs 10M24 average of 69.5%). We believe purchasing power has yet to return, with government programs to support low-income households only beginning in early 2025, such as Makan Siang Bergizi, social aid (rice), tax relief for middle-low income workers in labor-intensive industries, and a temporary electricity discount for the middle-low segment.

Thus, we think it will take time for the government support to trickle down, despite the minimum wage (UMP) increasing by 6.5% (vs. an average of 4.5% in 2020-24), and even further time will be needed to extend into spending for house renovation or construction (which is main driver for bag market). Our finding from BI data indicate that: 1) Income index has not returned to pre-pandemic level, for those with <Rp3mn/month income; 2) All income category showed weaker income index since 3Q24; 3) Consumption is being financed by sacrificing saving, thus saving portion to total income has declined to lowest level (16%-18%) since FY18 (~20%) across income category. This picture is somewhat aligned with cement's sales volume, as the cement industry's annual sales have not reached pre-pandemic levels despite the inclusion of several new players (i.e., Grobogan) in the industry figures. Therefore, we expect the bag market will not return to a growth state in the short term.

Meanwhile, we expect bulk cement growth to moderate, amid a lower budget for infra (-5% yoy to Rp400tr), PUPR (Ministry of Public Works, -31% yoy to Rp116tr), and IKN (Nusantara, -64% yoy to ~Rp15tr). We think the 3mn houses program should help boost bulk growth; however, given that the scheme is not clear enough and a limited budget (~Rp5tr) is allocated to Kementerian Perumahan dan Kawasan Pemukiman (PKP, or Housing Ministry), we have not included this scenario in our estimates. We expect some growth for the bulk segment to be derived from toll road construction (JSMR has 4 toll routes under construction) and other PUPR projects (non-toll roads, bridges, water management, etc).

Exhibit 1. Infrastructure Budget vs Bulk Cement Sales



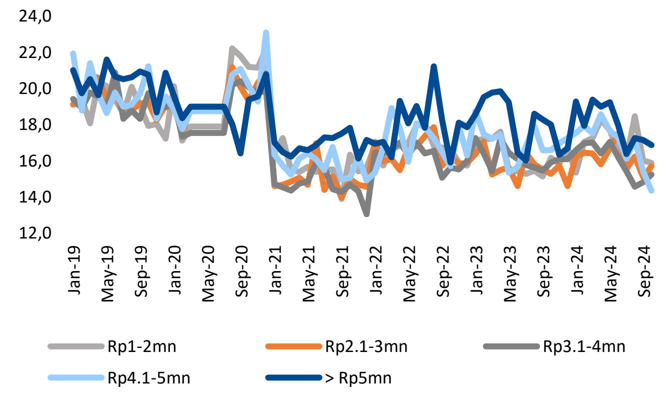
Source: ASI, MoF

Exhibit 2. Toll Road Under Construction

	Section	Length (km)
2024	Jogja-Solo (Section 1.1)	22.30
2025 (± 70 km)	Probolinggo-Banyuwangi (Phase 1)[1]	49.68
	Jogja-Solo (Section 1.2)	20.08
2026 (± 72 km)	Jakarta-Cikampek II South (Section II-III)	54.75
	Jogja-Bawen (Section 1 & 6)	13.78
	Jogja-Solo (Section 2.2B)	3.25

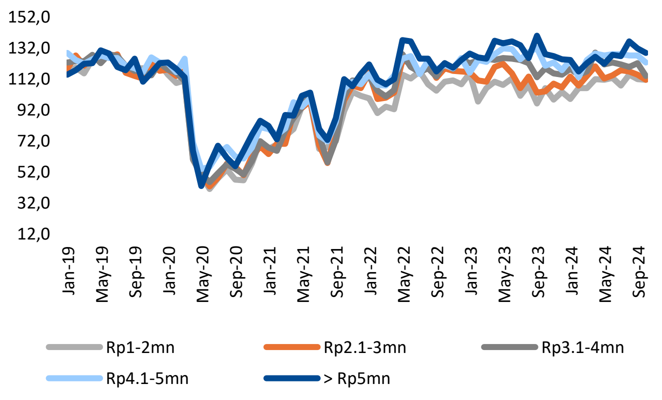
Source: JSMR

Exhibit 3. Average Saving Ratio Across Income Categories



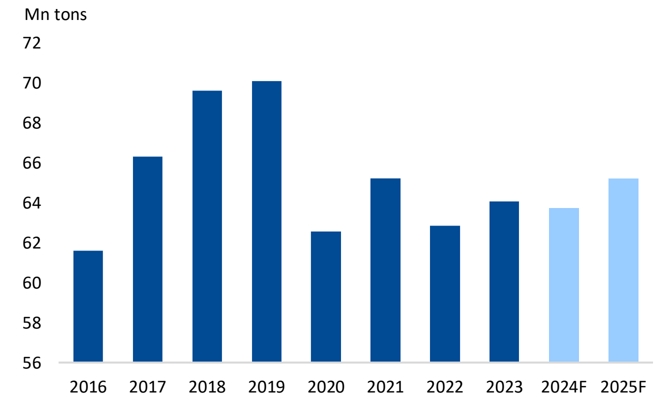
Source: Bank Indonesia

Exhibit 4. Income Index Across Income Categories



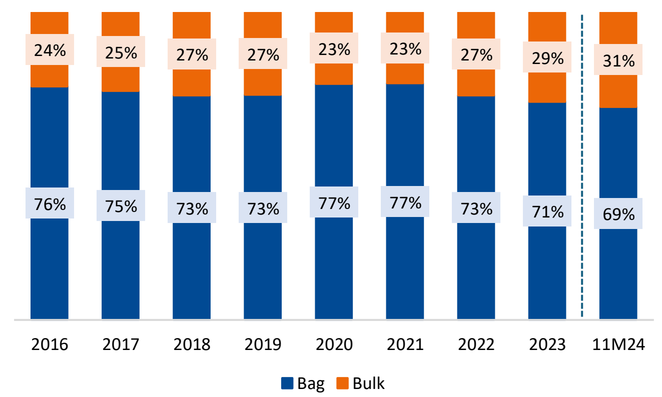
Source: Bank Indonesia

Exhibit 5. Industry Sales Volume Trend



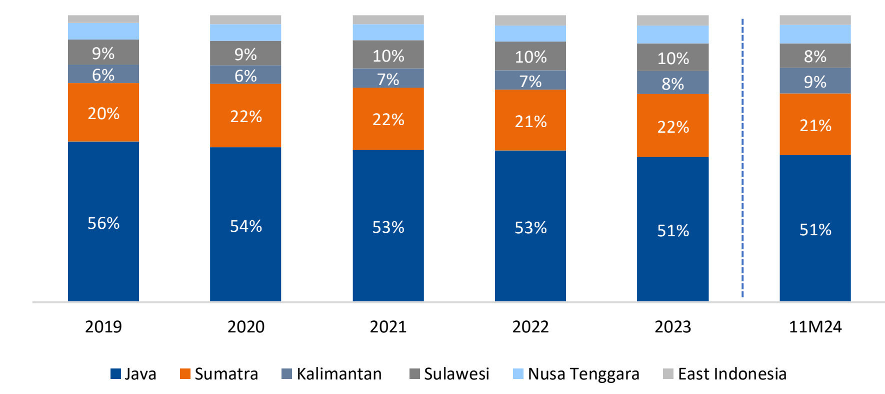
Source: ASI, BRIDS Estimates

Exhibit 6. Industry Bag/Bulk Ratio



Source: ASI

Exhibit 7. Sales Based on Regions



Source: ASI

ASP: Diluted by higher fighting brand and bulk growth

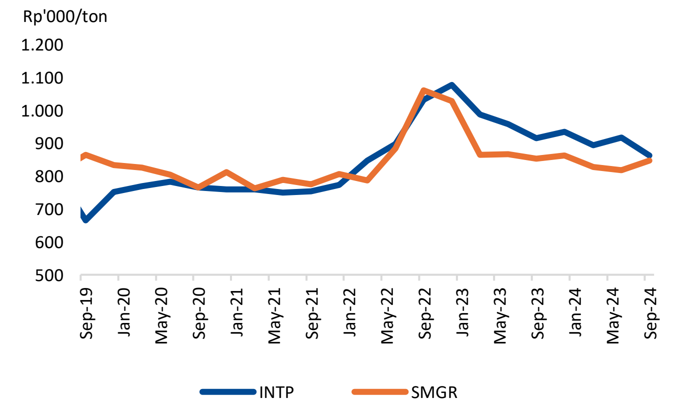
We expect limited blended ASP upside for the cement industry of around 0.5%-1% yoy, as we expect recovery in bag price due to better volume growth (compared to the contraction in 2024). However, we think such recovery will not be significant, given purchasing power has not fully recovered yet, and thus a significant hike might impair sales volume growth. As of Nov24, average bag prices have improved by 2-3% vs the lowest level in Apr24, albeit still ~1% lower than last year. However, improvement in bag prices may be offset by:

1) A higher bulk ratio (we expect 8% yoy bulk growth vs. flattish bag growth in 2025). Bulk prices are 7%-18% cheaper than bag prices, but this depends on specific projects. Cement companies admit that, gradually, small to medium housing projects have begun to use bulk cement in the past few years, whereas they previously used bag. We have seen a growing bulk ratio relative to total sales; hence, the dilution from bulk will be bigger in the upcoming years.

2) A higher fighting brand contribution (15%-25% of total sales as of 9M24), as it is priced 12%-15% cheaper than the main brand for Tier 2 (Padang, Baturaja by SMGR, Rajawali by INTP), and 20%-25% cheaper than the main brand for Tier 3 (Jempolan by INTP, Merdeka by SMGR). We see a higher fighting brand ratio as a result of downtrading in the cement sector, which we expect to continue, given our expectation of flattish bag market growth due to subdued income trends across categories and the wider availability of fighting brands in the market.

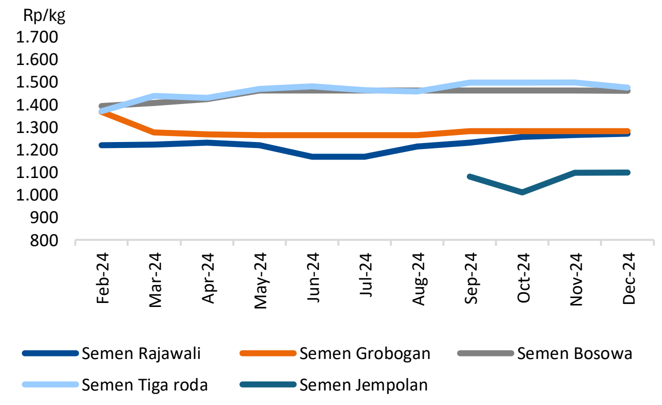
We see limited upside in the export market, given most of imports are clinker (hence priced lower compared to domestic cement price), with competition starting to come from China. In a specific case for SMGR, the company expects to export cement (not clinker) to the US market, which mgmt. indicated would be priced similar to the domestic bulk price. However, given that the project will just begin in 4Q24F, we do not expect a large contribution yet to average ASP.

Exhibit 8. SMGR/INTP Blended ASP Trend



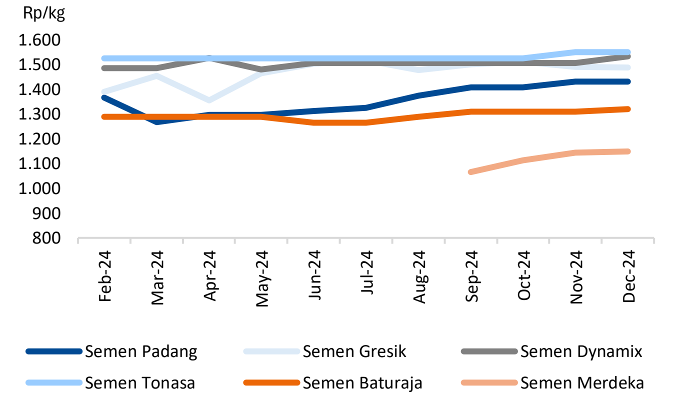
Source: Company

Exhibit 9. INTP Bag Price Movement



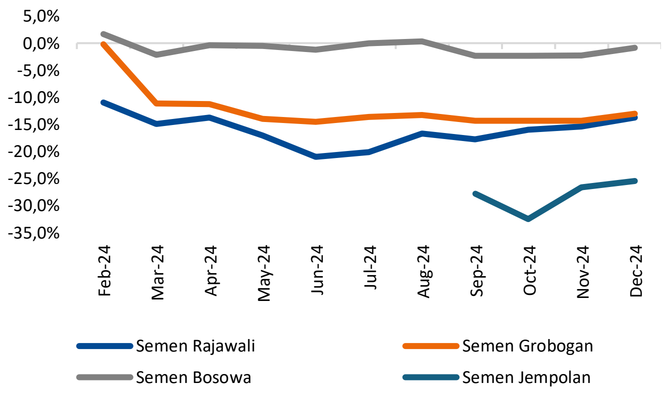
Source: Company

Exhibit 10. SMGR Bag Price Movement



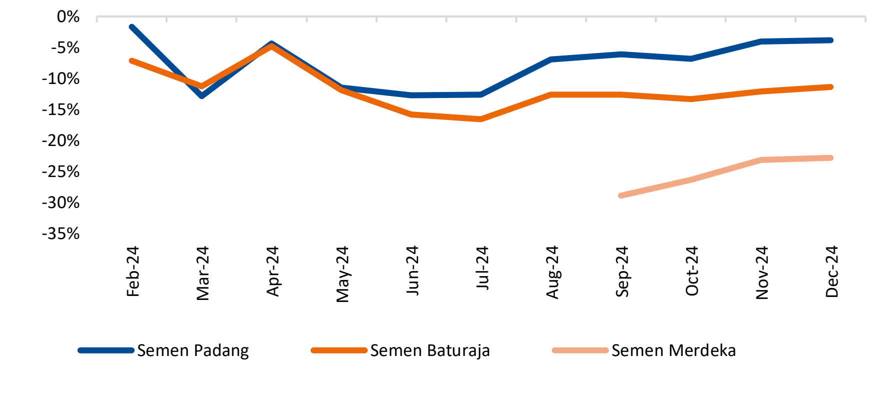
Source: Tokopedia

Exhibit 11. INTP Fighting Brand Price Disc to Main Brand



Source: Tokopedia

Exhibit 12. SMGR Fighting Brand Price Disc to Main Brand



Source: Tokopedia

Margin: Slight margin improvement in FY25F, after significant drop in FY24F

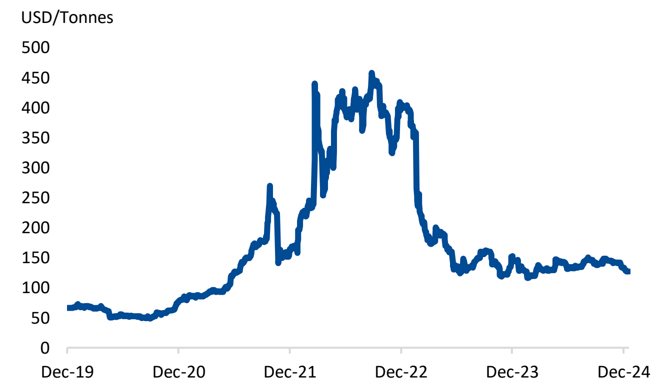
We expect a slight rise in material price due to the carryover impact of a stronger USDIDR in FY24 (+4% average exchange rate vs FY23 level), as some materials are linked to USDIDR movement, including packaging cost (6%-8% of total COGS). However, we expect this to be offset by price increases (we expect +0.5%-1% blended ASP for FY25F) and lower fuel cost per ton (1%-4% yoy lower for FY25F), on which fuel cost constitutes 23%-40% of total COGS. For every 1% price/fuel per ton movement, GPM is affected by 60-70/20-30 bps.

We observed that since FY23, SMGR and INTP were able to maintain flattish or up to 6% lower energy cost per ton annually, due to:

1. Declining coal price, as the average coal price (Newcastle) declined by 51% yoy in FY23 and 21% yoy for YTD24 average;
2. Rising alternative fuel portion of the total fuel (AF ratio). SMGR's AF ratio was at ~7% in 9M24 and stable in yoy basis; while INTP's was at ~21% (+200 bps yoy).

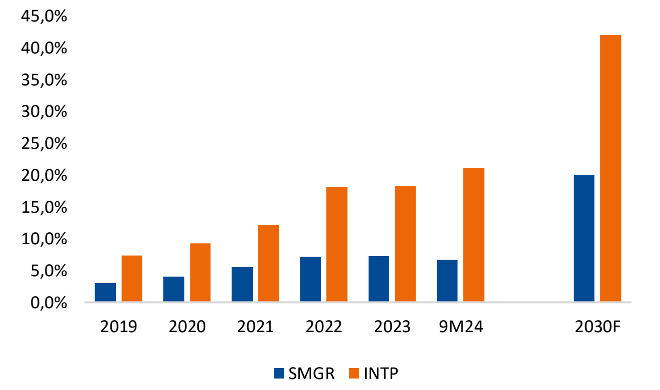
Therefore, as we expect lower coal price with Newcastle at US$120 per thousand metric tons (-12% vs YTD-24 average) and gradual improvement on AF ratio, we expect 30-70 bps improvement in the gross margin level in FY25F.

Exhibit 13. Newcastle Price Trend



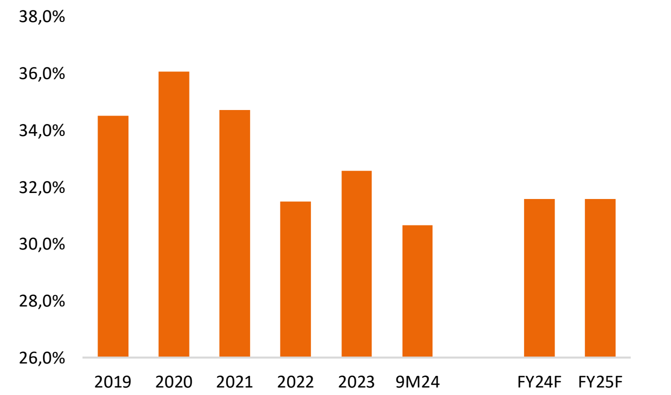
Source: Bloomberg

Exhibit 14. INTP & SMGR' AF Ratio



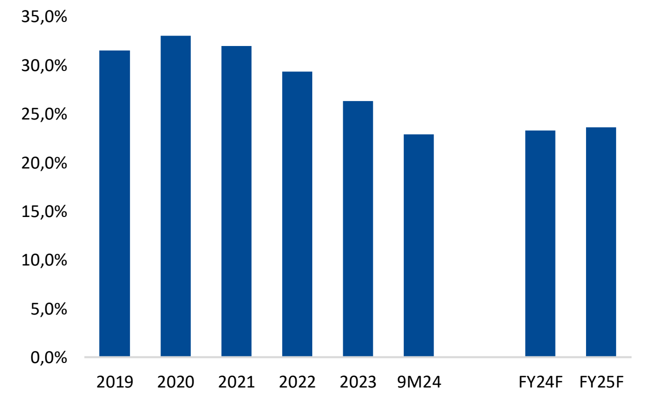
Source: Company

Exhibit 15. INTP's GPM Trend



Source: Company, BRIDS Estimates

Exhibit 16. SMGR's GPM Trend



Source: Company, BRIDS Estimates

Maintain Neutral rating on sector. Limited growth catalysts despite some recovery traction

Despite our observation of positive sales vol. run rate (6.05mn tons/month avg from Jul-Nov 24, vs 5.3mn tons/month in May-Jun24 and 4.3mn tons/month avg in Jan-Apr 24), sales have not returned to pre-pandemic era (currently 63-65mn tons vs 66-70mn tons during 2017-9, with 2H run rate of 6.5-6.7mn tons/month during 2017-9). In the near-term, we see limited catalysts left for cement, amid: 1) Purchasing power, which affects bag (thus driving most of industry sales vol), has dropped to lower level vs pre-pandemic. Government programs to help the middle-low only start in early FY25F, and we think it will take time before the trickling impact affects cement sales; 2) Budget related to infra is much lower in FY25F, therefore, bulk growth would be moderating vs FY24F growth rate.

Therefore, we maintain our **Neutral** rating for our sector, amid lack of meaningful catalysts, yet we expect a limited downside due to cheap valuations. Additionally, we also reiterate our top pick in **INTP (Buy, Rp8,800)** amid its ability to manage opex and margin. Despite INTP's blended ASP falling by 8% in 9M24 vs FY22, INTP's GPM/OPM fell only by 80 bps/330 bps in 9M24 vs FY22, vs SMGR at 12% lower ASP and dragged GPM/OPM by 650 bps/650 bps. Given our expectation of challenges to remain for cement industry in FY25F, we think having resiliency in managing blended ASP and opex is crucial. Meanwhile, we have a **Hold** rating for **SMGR** with a **TP of Rp3,900**.

Upside risks to our call: 1) 3mn housing scheme could bring large volume demand with market price; 2) Faster recovery in purchasing power; 3) Upward revision on infra/PUPR budget. Downside risks: 1) Delay on government scheme to help middle-low, prolonging the recovery phase; 2) Wider availability of Tier-3 brands; 3) Entrance of new players.

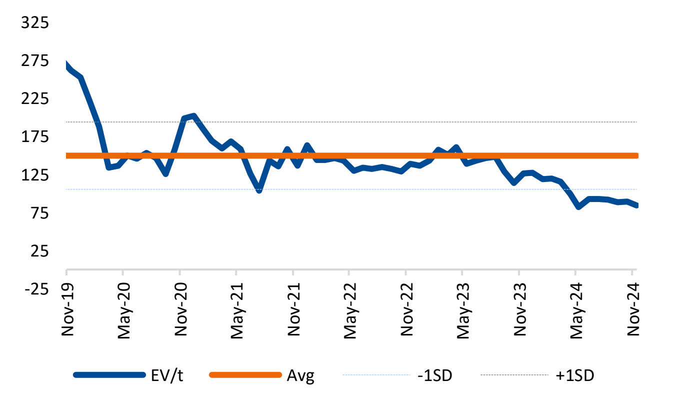
- **INTP (Buy, TP Rp8,800):** we expect 3%/4% revenue growth in FY25F/FY26F with 1.5%/2% sales vol. and 1.3%/1.5% ASP improvement, as sales and ASP recover from low base in 2Q24. Thus, we expect GPM margin improvement to 32.3%/32.7% (+70 bps/40 bps) and OPM at 12.5%/13% (+140 bps/+50 bps). ROE is expected to be maintained at 8-9%.

  We expect transportation cost per ton could be further optimized in FY25F from the Grobogan plant, while we also expect upside from fuel cost per ton saving amid the lower coal price expectation, higher AF ratio, and optimization of the Grobogan plant. Downside risks: 1) Renewal of Bosowa lease at above market cost; 2) Delay on government scheme to help the middle-low, prolonging the recovery phase.

- **SMGR (Hold, TP Rp3,900)**: we expect 3%/4% revenue growth in FY25F/FY26F with 2.5%/3% sales vol. and 0.5%/0.5% ASP improvement, as domestic sales are expected to improve, yet we expect a flattish export in FY25F before recovering in FY26F due to rising competition. On margin, we expect 30 bps/30 bps improvement in FY25F/FY26F to 23.6%/23.9% and OPM to improve by 70/40 bps to 8%/8.4%. ROE is expected to remain at 3-4% in the medium term.

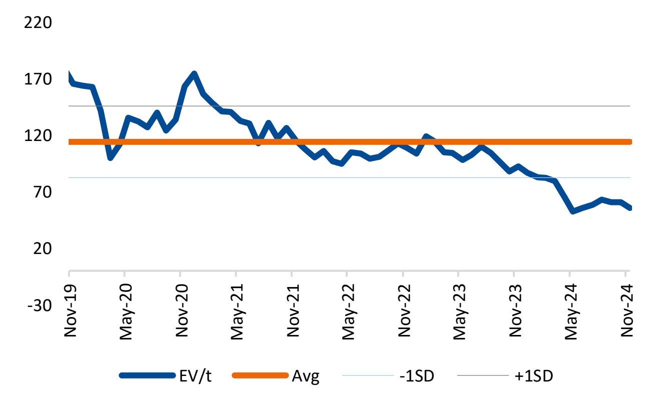
  Upside risks: 1) 3mn housing scheme could bring large volume demand with market price; 2) Upward revision on infra/PUPR budget. Downside risks: 1) Merdeka remains positioned as a Tier-3 brand, and its availability is getting wider; 2) Delay on government scheme to help middle-low, prolonging the recovery phase.

Exhibit 17. INTP EV/t Band



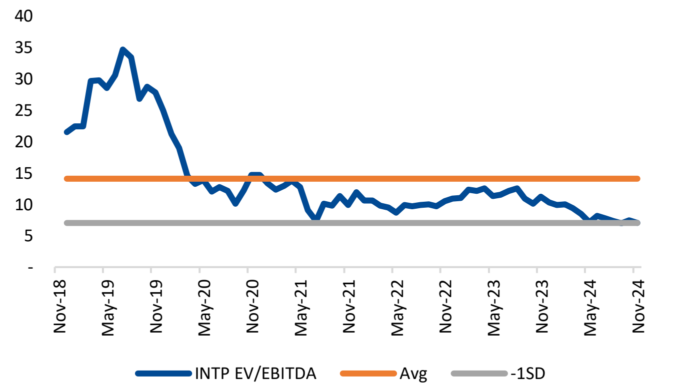
Source: Company, BRIDS Estimates

Exhibit 18. SMGR EV/t Band



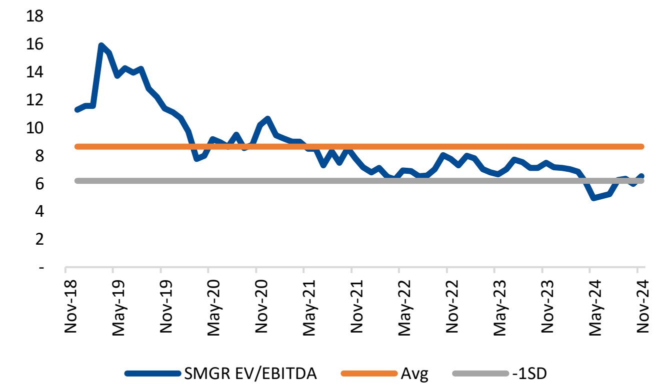
Source: Company, BRIDS Estimates

Exhibit 19. INTP EV/EBITDA Band



Source: Company, BRIDS Estimates

Exhibit 20. SMGR EV/EBITDA Band



Source: Company, BRIDS Estimates

BRI Danareksa Equity Research Team		
Erindra Krisnawan, CFA	Head of Equity Research, Strategy, Coal	erindra.krisnawan@brids.co.id
Natalia Sutanto	Consumer, Cigarettes, Pharmaceuticals, Retail	natalia.sutanto@brids.co.id
Niko Margaronis	Telco, Tower, Technology, Media	niko.margaronis@brids.co.id
Timothy Wijaya	Metal, Oil and Gas	timothy.wijaya@brids.co.id
Victor Stefano	Banks, Poultry	victor.stefano@brids.co.id
Ismail Fakhri Suweleh	Healthcare, Property, Industrial Estate	ismail.suweleh@brids.co.id
Richard Jerry Tambayong	Automotive, Cement, Infrastructure	richard.jerry@brids.co.id
Ni Putu Wilastita Muthia Sofi	Research Associate	wilastita.sofi@brids.co.id
Naura Reyhan Muchlis	Research Associate	naura.muchlis@brids.co.id
Sabela Nur Amalina	Research Associate	sabela.amalina@brids.co.id
Kafi Ananta Azhari	Research Associate	kafi.azhari@brids.co.id

BRI Danareksa Economic Research Team		
Helmy Kristanto	Chief Economist, Macro Strategy	helmy.kristanto@brids.co.id
Dr. Telisa Aulia Falianty	Senior Advisor	telisa.falianty@brids.co.id
Kefas Sidauruk	Economist	kefas.sidauruk@brids.co.id

BRI Danareksa Institutional Equity Sales Team		
Yofi Lasini	Head of Institutional Sales and Dealing	yofi.lasini@brids.co.id
Novrita Endah Putrianti	Institutional Sales Unit Head	novrita.putrianti@brids.co.id
Ehrliech Suhartono	Institutional Sales Associate	ehrliech@brids.co.id
Yunita Nababan	Institutional Sales Associate	yunita@brids.co.id
Adeline Solaiman	Institutional Sales Associate	adeline.solaiman@brids.co.id
Andreas Kenny	Institutional Sales Associate	andreas.kenny@brids.co.id
Christy Halim	Institutional Sales Associate	christy.halim@brids.co.id
Jason Joseph	Institutional Sales Associate	Jason.joseph@brids.co.id

BRI Danareksa Sales Traders		
Mitcha Sondakh	Head of Sales Trader	mitcha.sondakh@brids.co.id
Suryanti Salim	Sales Trader	suryanti.salim@brids.co.id

INVESTMENT RATING	
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