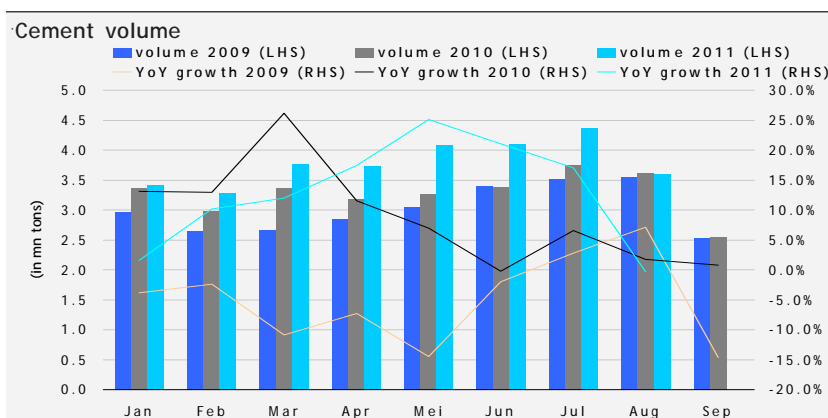


Cement: Continued Robust Demand

Strong Domestic Demand Continues Amid led Holiday

Cement strong demand continues with 3.6mn tons consumption on Aug'11, posting -0.2%YoY amid the full month fasting and led Holiday. As a comparison, the consumption was slump 15% YoY on Sept' 09, during the full month fasting and led holiday period of 2009.

The domestic demand still being the main driver since the exported cement reached -64% YoY to 0.1mn tons in Aug'11. The total consumption reached 30mn tons YTD, represents 75% of ASI FY11 target at 44mn tons. The bagged cement decrease 3.8% YoY but supported by the growth of bulk cement of 16% YoY.



Source: ASI

*) note: The growth in 2010 vs 2011 in Aug is not comparable since the fasting period 2010 in the mid-Aug'10 until mid-Sept'10, hence the 2009 fasting period is in full month Sept'09

Growth Driver: The Eastern Indonesia

The national cement consumption increased by 0.2mn tons YoY, with Sulawesi as a main source of growth contributes 50% or 0.1mn tons YoY. This growth mainly from infrastructure construction projects in North and South East Sulawesi. The second highest growth comes from the overall Kalimantan grew for 26% YoY or 0.06mn tons, contributed mostly from West Kalimantan for 64% YoY. Furthermore, the decrease only comes from Sumatra for 4.8% YoY.

Still a Growing Industry Outlook

SMCB increase 20% YoY bagged cements sales in Aug'11 and lower bulk for 5.9% YoY growth. SMGR posted -12.1% YoY and INTP for -4% YoY in bagged cement. However, on industries basis that supplied mostly by SMGR and INTP, the bulk supplies from SMGR for 9.7% YoY and INTP for 24% YoY plus the other cements (especially Bosowa Cement) that move its position to serve the bulk demand that grow 48% YoY vs increase 1% YoY in bag cement, make the total bulk cement increase 16% YoY. The high figure for SMCB and INTP are due to the low base in 2010.

Valuation

The cement industry currently traded at 14 x forward PE. SMGR, the leader with 40% market share currently traded at 13 x forward PE, INTP as the second largest company with 31% market share traded at 14 x PE, and SMCB for 16% market share traded at 16 x PE. We see the growth of SMCB, however, the valuation of SMCB is already reflected in premium price. As a comparison, SMCB capacity stands at 8mn tons vs INTP at 19mn tons and SMGR at 21mn tons.

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