

## Cement: Late Comers Surely Unwelcomed

### New Competition is Underway

Siam Cement Pte Ltd. had been acquires KOIN and KIAS, ceramic producers-in which cement is a complementary product. We view these moves of Siam Cement is aiming to secure the cement demand and distribution channel. However, as they not yet intend to build a new factory in Indonesia, the competition will be muted. Meanwhile, Anhui Conch currently progressing their feasibility study on building cement factory in Indonesia.

### Local Producers Expansion Discourage Competition

Indonesian cement producers are currently underway to expand their production capacity to catch the growth going forward. SMGR, INTP, and SMCB collectively will add 13mn tons annual production by 2014, discouraging competition from regional players. Cement consumers characterize with high brand loyalty. The producers, however, are generally held an anxious on their expansion as they are waiting for 2014 election result which will severely affect their industry outlook.

Expansion Plan of Local Producers & Indonesia Demand								
Year	Capacity mn ton	Base view			Bullish view			captured by new comers
		Dom cons mn ton	Cons growth*	Utilization rate	Domestic cons mn ton	Cons growth	Utilization rate	
2010	50.9	40.5		79.6%	40.50		79.6%	
2011	52.1	44.1	9.0%	84.7%	44.15	9.0%	84.7%	
2012	57.3	48.6	10.0%	84.7%	49.44	12.0%	86.3%	
2013	64.2	52.9	9.0%	82.4%	55.38	12.0%	86.3%	
2014	64.9	56.9	7.5%	87.7%	62.02	12.0%	95.6%	
2015	68.7	61.2	7.5%	89.0%	69.46	12.0%	101.1%	8.30
2016	70.8	65.8	7.5%	92.9%	77.80	12.0%	109.9%	12.04

Source: Newspapers, Companies, TRIM Research

\*) assume the demand slowdown in 2014 and 2015 as if LCA passed end of FY11, projects will be during FY12 and FY13, FY14 slowdown as the election begin

### Producers' Strategy for 2014

The late comers on cement industry should account our best case scenarios, or else they will fail to grab Indonesian domestic market share. We assume 12% annual consumption growth on our best case scenarios, far higher than 7.5% of 10 years historical average. Main risk for new comers is the slower than expected demand, which will forced the new comers to ignite price wars in effort to grab the market shares and aims the supply to the industrial and ready-mix maker, which account for only 20% of total Indonesia demand. Below is the strategy for cement producers until 2014:

### Cement 2014 strategies

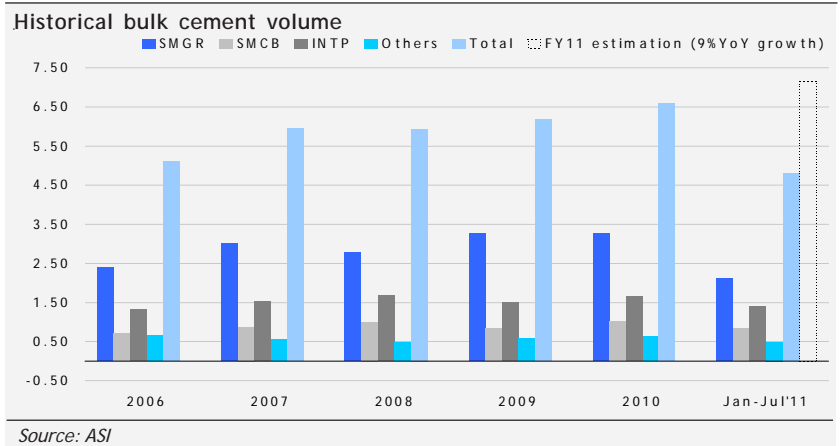
<b>New comers</b>	<ul style="list-style-type: none"> <li>Building network</li> <li>Establishing brand</li> <li>Price war</li> <li>Targeted ready-mix and industrial demand</li> </ul>
<b>Big Local players</b>	<ul style="list-style-type: none"> <li>M&amp;A</li> <li>Import clinker and packed in Indonesia</li> <li>Increase ASP in foreign-unreachable/good brand awareness places</li> </ul>
<b>Smaller local players</b>	<ul style="list-style-type: none"> <li>Already move to fulfill the industrial need due to the lack brand awareness</li> <li>Import clinker and packed in Indonesia</li> <li>Already build network with industries</li> </ul>

Source: Trim Research

### July Update: Industrial Growth & Retail Sales Ready-Mix Support Bulk Cement

Overall, cement demand grew 19.6% YoY in Jul'11, reflects 61% of ASI 2011 estimates and 3.0% above FY11 estimates of 44mn tons. The bagged cement post 16% YoY increase as the domestic consumption grows 20% YoY while the bulk cement increase 40% YoY, which is mainly due to low base bulk calculation. Market shares are generally flat.

Bulk cement grew 40% YoY post 0.8mn ton in Jul'11, highest delivery in a month since 2006 as usually its average delivery is 0.5mn ton/month. This is mainly due to the increase of SMCB bulk cement for 59% YoY or 0.1mn ton and INTP for 62% YoY or 0.2mn ton in Jul'11 as the increasing sales from retail concept ready-mix concrete to grab more bulk market as SMGR already post 0.3mn tons without doing the same strategy but to support the cement-industry based.



### Valuation

We continue to like ID cement sector as its strong oligopolistic play and growing demand. In addition, we like our producers' cost-efficiency program that will improve the margin. We remains put our positive view for SMGR that currently traded at 13.2 x est PE and INTP that currently traded at 14.6 x est PE.

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