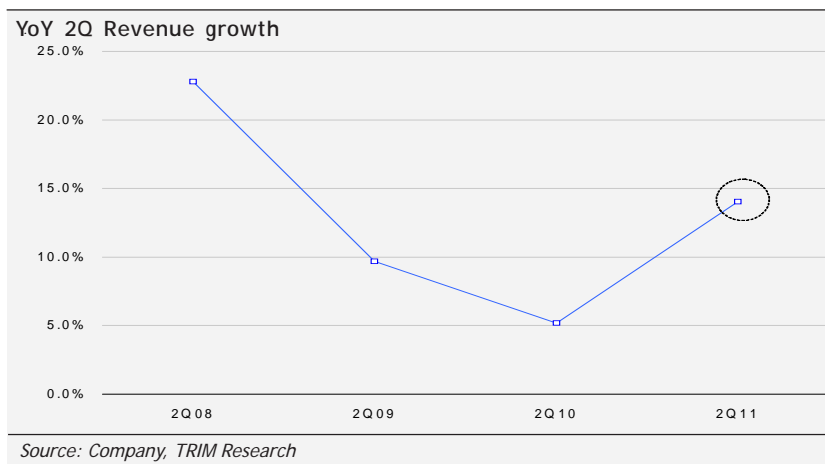


SMGR: The Rebound Begins

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SMGR booked 14% QoQ revenue growth, post the second highest growth since 2008, reaching Rp 7.6tr in 1H11. Revenue posts 48% realization of consensus target, which is normal as usually 2Q is the beginning of cements peak season, topped in 3Q. However, operating profit has reaching 47% consensus estimates, drive to the 48% realization of net profit margin.



SMGR QoQ (Rpbn)	2Q11	1Q11	QoQg (%)	Qtr Margin (%)	2Q11	1Q11
Revenue	4,052	3,554	14.0			
GP	1,852	1,644	12.6	GPM	45.7	46.3
OP	1,214	1,058	14.7	OPM	30.0	29.8
NP	1,002	871	15.1	NPM	24.7	24.5
YTD YoY (Rpbn)	2Q11	2Q10	YoYg (%)	YTD Margin (%)	2Q11	2Q10
Revenue	7,606	6,661	14.2			
GP	3,496	3,161	10.6	GPM	46.0	47.5
OP	2,273	2,050	10.8	OPM	29.9	30.8
NP	1,873	1,627	15.1	NPM	24.6	24.4
Bloomberg Est (Rpbn)			Realization (%)	Margin (%)		
Revenue	15,950		47.7			
OP	4,889		46.5	OPM	30.7	
NP	3,917		47.8	NPM	24.6	

Source: Company, Bloomberg

Price to Offset...

Hit by full utilization rate, SMGR increase the price for 2% YoY at the backbone of strong consumption growth while the other tends to decrease its price. SMGR post 9.1mn tons during 1H11, increase 9.2% YoY.

However, the higher COGS likely drive the margin decrease for 1.5% YoY. The most contributed COGS component for decrease the margin is the raw material used, increase 30% YoY.

Although hampered by full capacity issue, it still booked 15%YoY additional net profit with the support from other income that increases for 58% YoY due to the sales of scrap material, support the net profit margin increase 20 bps YoY.

...While Waiting for Additional Capacity

We believe that SMGR will continue to deliver earnings growth as the demand targeted by Indonesia Cement Association to increase 8.0% this year vs 6.0% last year and the volume reaches 9.2% YoY in 1H11. Hence to grab back its market share, SMGR will ready for its 5mn tons factories in Tuban and Tonasa plant at the end of this year. This will add 25% of SMGR current capacity and re-established itself as the leader in the market with 25mn tons annual capacity.

Valuation

SMGR currently traded at 14.3 x forward PE, a discount among its peers while the industry traded at 15.1 x forward PE. The production capacity problem may justify this discount valuation. However, since the new plants will start to operate at the end of this year, with 5mn tons production capacity, the capacity problem won't be a relevant issue in medium term. Hence, we expect SMGR to be traded in premium valuation instead of discount, backed by its market leadership.

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