July 13, 2011

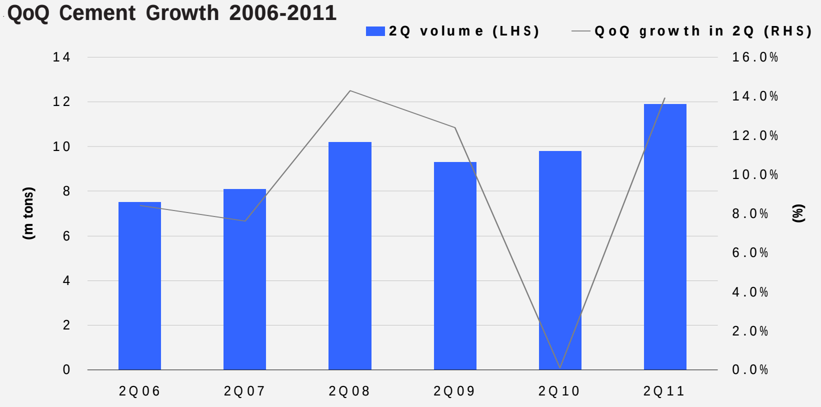
TRIM Notes

Cement: Early Surprise, June "Surprise"

Domestic Sales Record High

Domestic sales up 14% QoQ (0.5% MoM) to 4.1mn tons on Jun' 11, record high since 2006. Jun' is traditionally strong season for cement while YTD consumption has reached 22mn tons or 51% of Indonesian Cement Association target. Bag and bulk cement record 15% QoQ and 8.4% QoQ while strong domestic demand leads to -63% QoQ drop in export sales.

QoQ Cement Growth 2006-2011

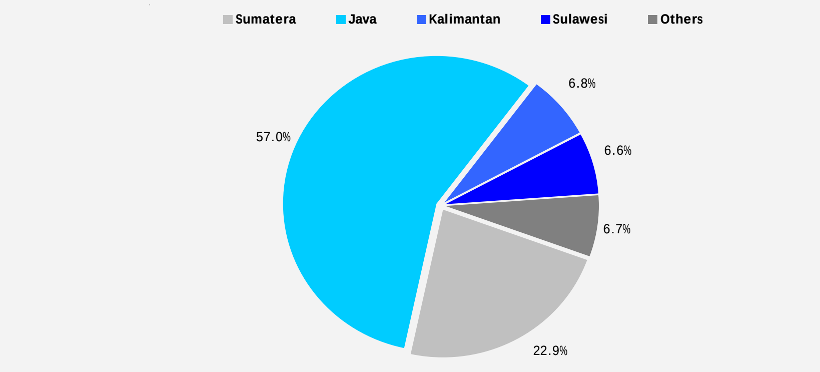


Source: ASI

Java Lead the Growth

Java sales grew 15% QoQ, contributed by strong 24% QoQ sales growth in Central Java and 22% QoQ of Banten. Beyond Java sales growth: Sumatra 5.3% QoQ, Kalimantan 24% QoQ, Sulawesi 18% QoQ, while others 20% QoQ. Java contributes 57% of total domestic sales, while Sumatra 23%, Kalimantan 7%, Sulawesi 7%, and others 7%.

Details Breakdown



Source: ASI

MoM Sales Drop in Kalimantan: SMGR is the Biggest Loser

Kalimantan sales slid -4.8% MoM, contributed by -21% MoM of West Kalimantan and -21% MoM of East Kalimantan. SMGR overall Kalimantan market share drop -6.2% to 45% on Jun' 11, while INTP and SMCB won 3% and 1.4% of market share. The biggest contributors are +16% gains on East Kalimantan for INTP and +8% gains on West Kalimantan for SMCB.

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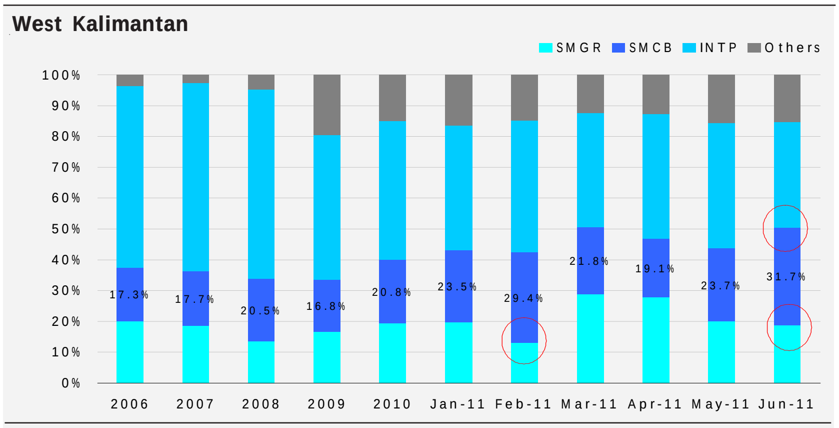
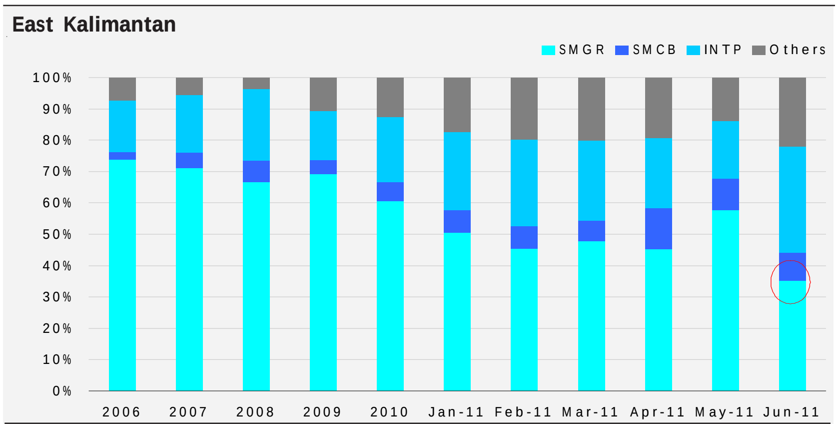
SMGR lost market share both in West Kalimantan...



Source: ASI

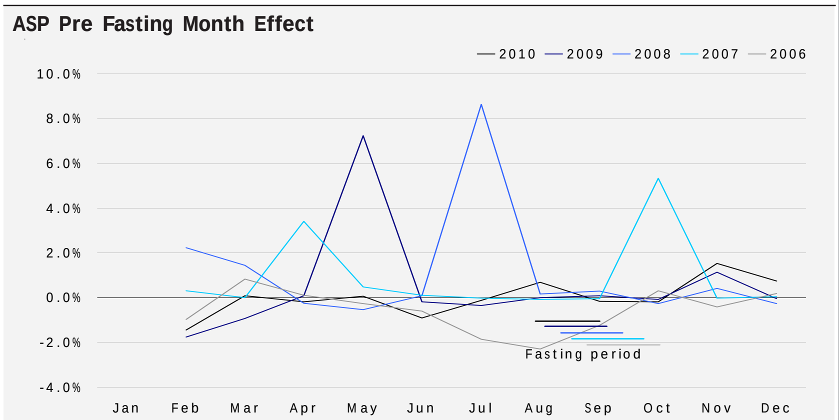
...and East Kalimantan



Source: ASI

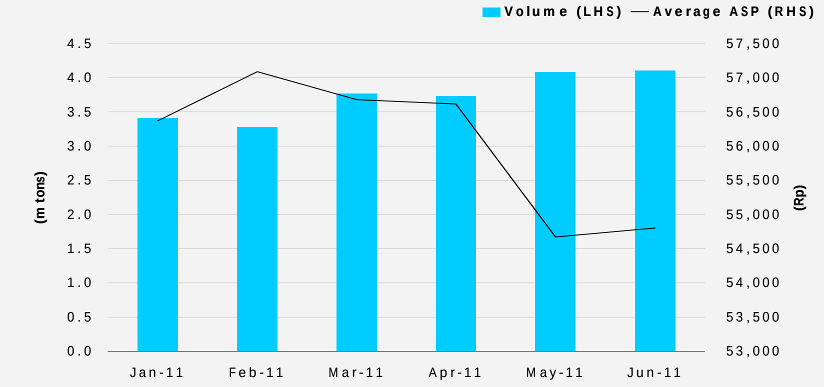
Anticipating Climbing ASP

Overall cement price increase 0.2% MoM and 0.6% YoY should not post demand threat for cement sector, after dropped -3.5% MoM on May. Our sensitivity analysis of building cost for 36-sqm houses shows a mere Rp11k increase of total cost for each percentage point increase in cement prices. Going forward, we could expect climbing ASP, as suggested by pre-fasting month effect which might post some sales pressure. On 2010, the effect broken down by KPPU investigation on cartel-like business model.



Source: Trim Research

2011 Volume



Source: ASI

Valuation: We Still Like SMGR

Cement sector valuation remains attractive with 2012 consensus PE of 13.4x vs. 15x of JCI. Considering its strong sales performance and the prospect of higher infrastructure development, the sector provide considerable upside potential going forward. We prefer SMGR as our top pick, as its capacity building is on the cards and expected to start the delivery by 2012. Market share dropped on Jun should be considered as short term phenomenon as competitors raging its market share through pricing strategies. Undemanding valuation at 2012 consensus PE of 12.8x vs. 13.9x of INTP and SMCB also provide re-rating potential for this stock going forward.

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