

## SMGR Factory Visit (Trip Report)

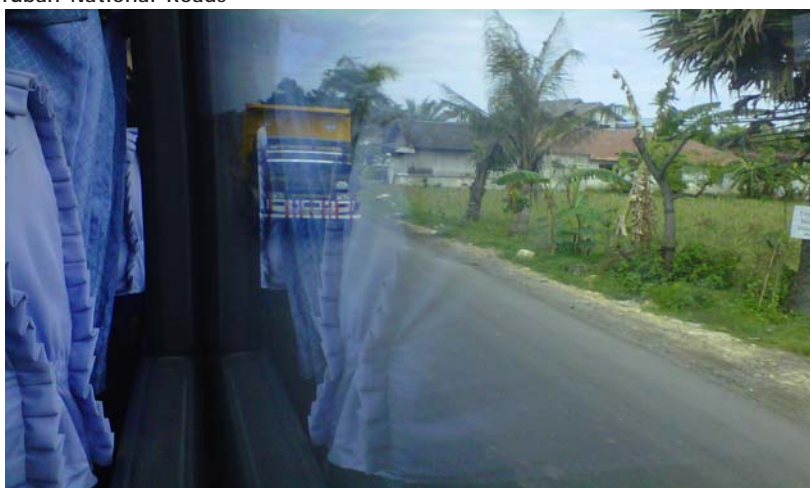
We had been invited by SMGR to visit its new factory in Tuban on 7<sup>th</sup>-8<sup>th</sup> Dec'11, coming with several updates on the company.

### On The Ground Research: Found a SMCB Solusi Rumah but Roads to Favor SMGR

Reached for 3 hours long from Surabaya, Tuban is located near North Java Sea where close to Kalimantan Island and relatively immune toward tsunami threat. SMGR biggest market share in Java located in East Java, reached 70% market share vs 38% market share in overall Java. What we found was proven inline, SMGR brand presence still strong in East Java, at least from Surabaya-Lamongan-Gresik-Tuban. Along the route, we only found one SMCB Solusi Rumah, located in Tuban, as SMCB is building distribution channel, prepares the entry of its FY13 Tuban factory.

Infrastructure along the route is a bottleneck, considering only one line to and one line from Tuban with the trucks dominated the road. Going forward, the road will be more crowded as SMCB entering Tuban in FY13. We see any road bottleneck will be advantageous for SMGR as the current and well-established market leader presence in East Java to impede SMCB move.

Tuban National Roads



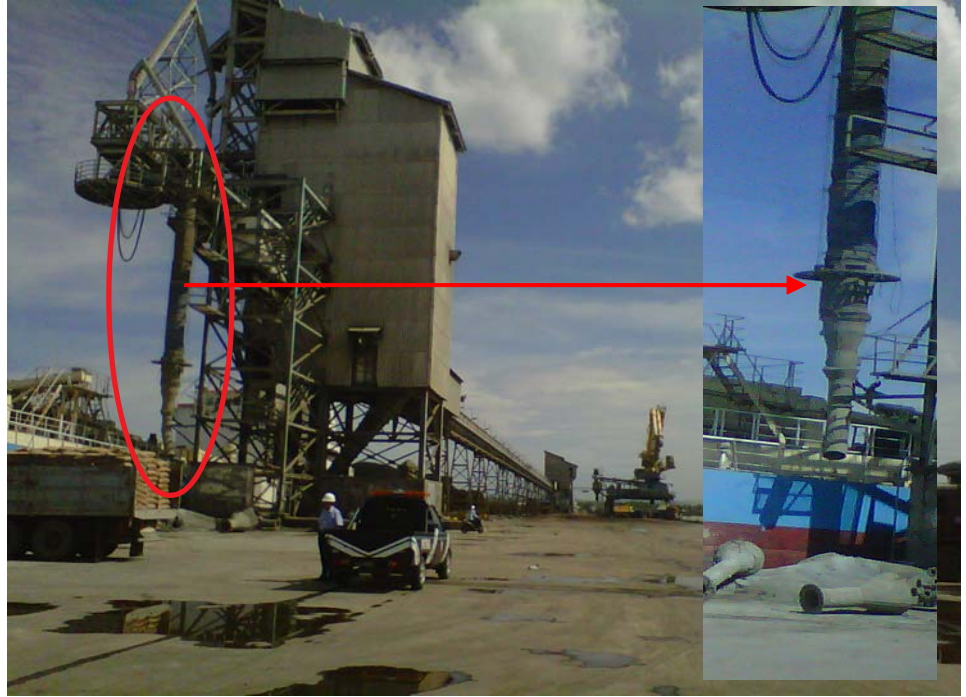
Source: TRIM Research

### Packing Plants to Reduce Transportation Time

As the current market leader which have 42% market share in Indonesia, SMGR understand that the time for loading and unloading to port is time consuming. Thus SMGR provides alternative to directly reduce the time by sending bulk through pipe direct to the ship. SMGR's packing plants are in the areas that having more than 200k tons/year demands within 200km radius.

The newest packing plant located in Banyuwangi, capacity reaches 500k tons p.a, complete the other two packing plants in Tuban and Gresik to supply the cement via sea transportation. SMGR seeks to avoid road bottleneck and faster delivery in cities located near the sea. The other new packing plants located in Sorong, Pontianak, and Dumai. Going forward, SMGR will add 15 more packing plant to reach 34 packing plants in Indonesia in FY15.

## Pipes for Direct Distribution



Source: Company, TRIM Research

## East Java



Source: TRIM Research, Google Map

## New Factories Update

- " Tuban IV plant progress reached 96.7% and expected begin to deliver cement in mid-Jan'12. The de-bottlenecking progress also happens as they already install new coal mills. Current capacity in Tuban reached 50% of total capacity SMGR have. Tuban coal mill could improve the medium-low calories mix from 30%-70% to 50%-50%.
- " Tonasa V plant progress reached 93% and expected to deliver cement in 2Q12. The Tonasa power plant reached 62.8% as the procurement delayed. However, during the lagging time between cement delivery and power plant delivery, Tonasa will use government electricity.

#### Tuban IV Construction



Source: Company, TRIM Research

#### SMGR as a whole

- " The company expects to run full-utilized factories in the next five years if the growth remains strong. Hence, the corporate growth estimates industry growth at FY12 is 5% next year and SMGR has the additional capacity for 17% growth in FY12.
- " Still looking for more raw material land concession in Java since Tuban can't hold any more factory. It will give prioritized land acquisition in Java but also exploring Sumatra as the second plan.

#### Valuation

SMGR currently traded at 14.6x forward PE, a discount to its peers at 15.9x PE. We believe that much discount is not justified as SMGR is the cement market leader with 42% market share in Indonesia. Management effort to continue add more capacity should also be appreciated. Next year they will increase 10% of its capacity to reach 23.5mn tons. Our industry assumption for next year growth stands at 7.5%, hence SMGR still capable to capture the growth. We maintain BUY at Rp11000, reflects 15.7x forward PE.

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