

INTP: Most Benefit on Cash Position

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INTP booked 18% YoY revenue increase or 49.1% consensus realization with a stable market share (31%). Sales volume increased 15% YoY reaching 7.0mn tons. The bottom line increase 5.2% YoY, hampered by high COGS that increase 33% YoY, mainly from fuel cost which up 42% YoY, post Rp 1.7tr net profit in 1H11.

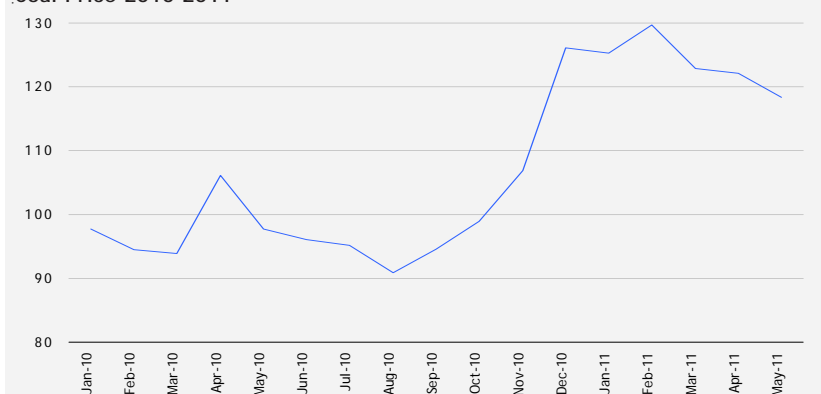
INTP						
QoQ (Rpbn)	2Q11	1Q11	QoQg (%)	Qtr Margin (%)	2Q11	1Q11
Revenue	3,387	2,944	15.1			
GP	1,563	1,439	8.7	GPM	46.1	48.9
OP	1,048	1,061	(1.2)	OPM	30.9	36.0
NP	860	865	(0.6)	NPM	25.4	29.4
YTD YoY (Rpbn)	IH11	IH10	YoYg (%)	YTD Margin (%)	1H11	1H10
Revenue	6,331	5,360	18.1			
GP	3,002	2,774	8.2	GPM	47.4	51.7
OP	2,109	2,052	2.8	OPM	33.3	38.3
NP	1,726	1,640	5.2	NPM	27.3	30.6
Bloomberg Est (Rpbn)			Realization (%)	Margin (%)		
Revenue	12,888		49.1			
OP	4,626		45.6	OPM	35.9	
NP	3,684		46.8	NPM	28.6	

Source: Company, Bloomberg

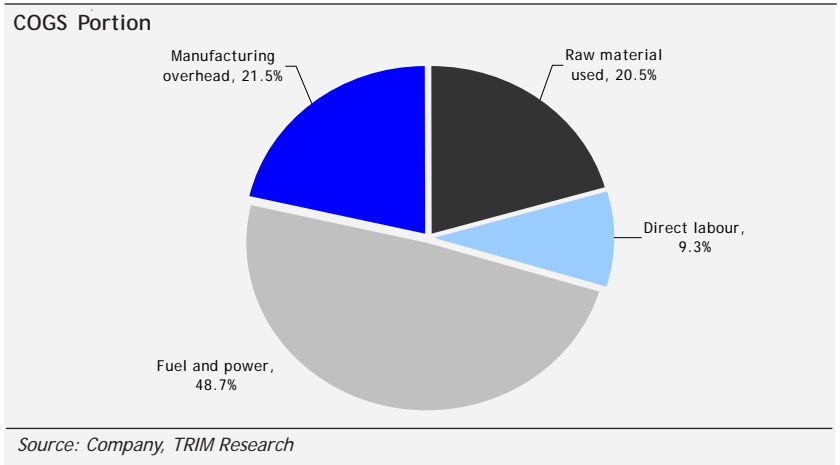
The Energy Cost

The major increase in COGS mainly due to the increase of labor cost 68% YoY, raw material cost 44% YoY, and 42% YoY fuel cost. As the fuel is contributes 44% of INTP COGS, the hike in the coal price in the end of 2010 until Mar'11 give the rise in COGS. However, as its good cost management, the cost per mn ton has only increase for 12% YoY in the back of 18% YoY revenue increase. INTP power consumption rely 40% to government and the 60% from its own power system. Citeurup plant is using 30% gas, 15% diesel, and 55% government electricity. In Tarjun, they use low to medium rank coal to heating the raw material and also using low rank coal for its power plant.

Coal Price 2010-2011



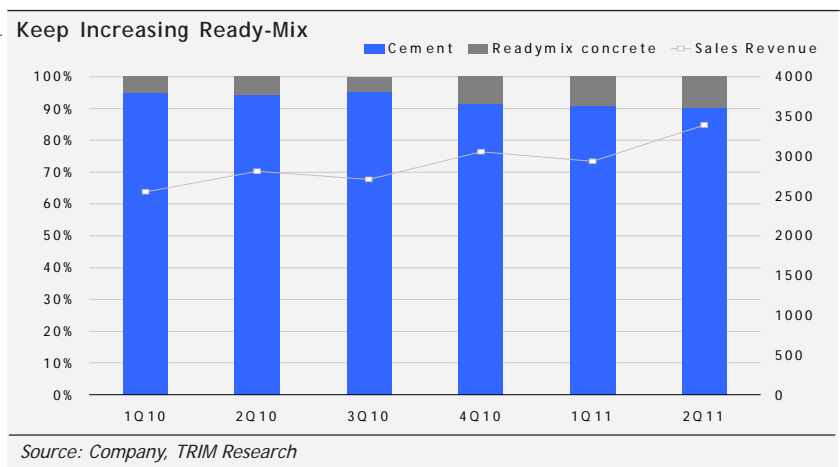
Source: Bloomberg, TRIM Research



INTP is continuing the research to reduce its clinker composition with fly ash and trash to have more cement production to support the margin. Currently, they export the over-production clinker. Hence, they targeted 76% clinker composition in 2012 as they finish the grinding mills; decrease 4% from clinker composition in 2011 to add annually 2mn tons cement.

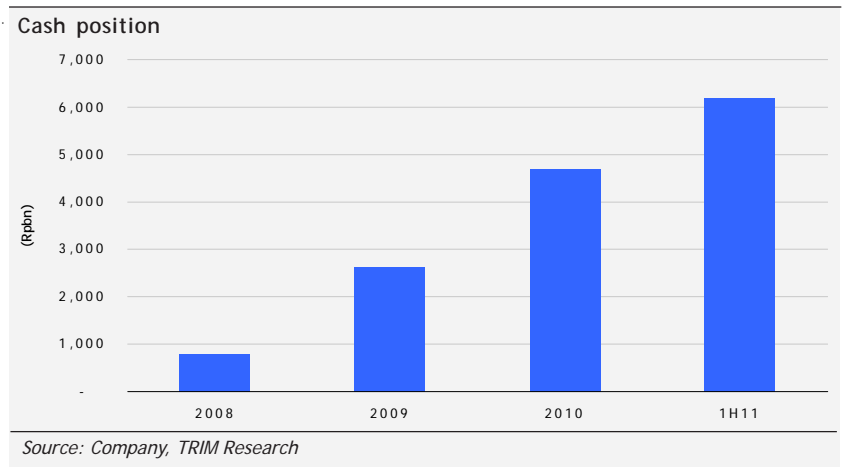
In an Expansion Mode

INTP currently expand to ready-mix plants, as it is needed in building the big cities such as Jakarta and West Java, to strengthen its position as a leader in Java. It already installs 50 additional truck and 2 batching plants in 2011, make the current position of 150 trucks and 7 batching plants, post 0.2mn m3 additional capacity to 1.6mn m3 in 2011. As a result, they booked 116% YoY increase in ready-mix sales to Rp331.6bn in 1H11.



Support by Strong Cash Position

INTP has the benefit to expand without using debt as they intentionally leave their company in net cash position to do the expansion. Net cash will be a benefit compared to the high interest rate debt given by the parent company, Heidelberg, which currently facing a financial problem. The nearest expansion plan will be to install additional grinding machine worth USD100mn that expected to start operates in 2013 to add 2mn tons cement capacity. They also consider building new factory in the end of 2012 as they have enough raw material reserve to build additional factories produce 5mn tons, divided into one in Central Java and the other is Outside Java.



Valuation

Currently INTP traded at 15.5 x FY11 PE, a premium toward its peers while industry at 15.1x FY11 PE. We expect INTP will continue to book earnings growth but as the valuation is already premium, we preferred to buy on weakness for INTP.

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