

Indonesia building materials

Global Markets Research

10 December 2021

EQUITY: BASIC MATERIALS

Riding on property recovery momentum

Beneficiary of home improvement proxy

Recovery track: Property market and its proxy

We are closing in on 2021 with a recovering economy, supported by government incentives and reopening of activities. The property market also seems to be reaping the benefits, as reflected in the steady increase trend of property developers' pre-sales numbers (despite a slight hiccup in 3Q21 due to large-scale social restrictions), strong demand for mortgage credit, and high take-up rates of property launches. Property developers are on track to reach their FY21 pre-sales targets or even exceed them. Besides the primary property market, we note the spillover effect on home improvement and renovation from excess liquidity, and as homeowners spent more time at home due to work from home (WFH) implementation. As shown in Fig. 8, cement bag sales volume was quite resilient while top lines of home renovation suppliers grew impressively (for example IMPC [IMPC IJ, Not rated]).

Increasing pre-sales; strong mortgage disbursements

Pre-sales have been on an increasing trend since 3Q20, which grew strongly in 2Q21, and exceeded the all-time sales high on an annualized basis in 3Q21. This resulted mainly from the pre-sales of the top 4 developers, supported by: 1) record-low mortgage rates; 2) aggressive promotions offered by developers; 3) innovative products; and 4) strong underlying demand after a seven-year bust cycle. Mortgage loan disbursements have also increased since Sept 2020, becoming the major consumer credit growth driver.

Who is the beneficiary?

Besides the property sector, the home renovation and improvement business saw increased demand due to WFH implementation, prompting demand influx for home remodeling. Building materials suppliers (i.e., roofing, ceramic, pipes and facades) were well-positioned in the industry, especially IMPC. As the market leader in roofing materials, the company recorded solid sales growth during the pandemic. Furthermore, we believe as the home renovation trend are increasing, cement players (such as SMGR IJ, and INTP IJ; both rated Buy) will likely benefit from the home remodeling trend as total cement bag sales, which accounted for 75% of total cement sales volume in Indonesia for Oct 2021, is also used for landed residential developments and home renovation. Thus, We remain positive on SMGR IJ, INTP IJ and the overall cement sector.

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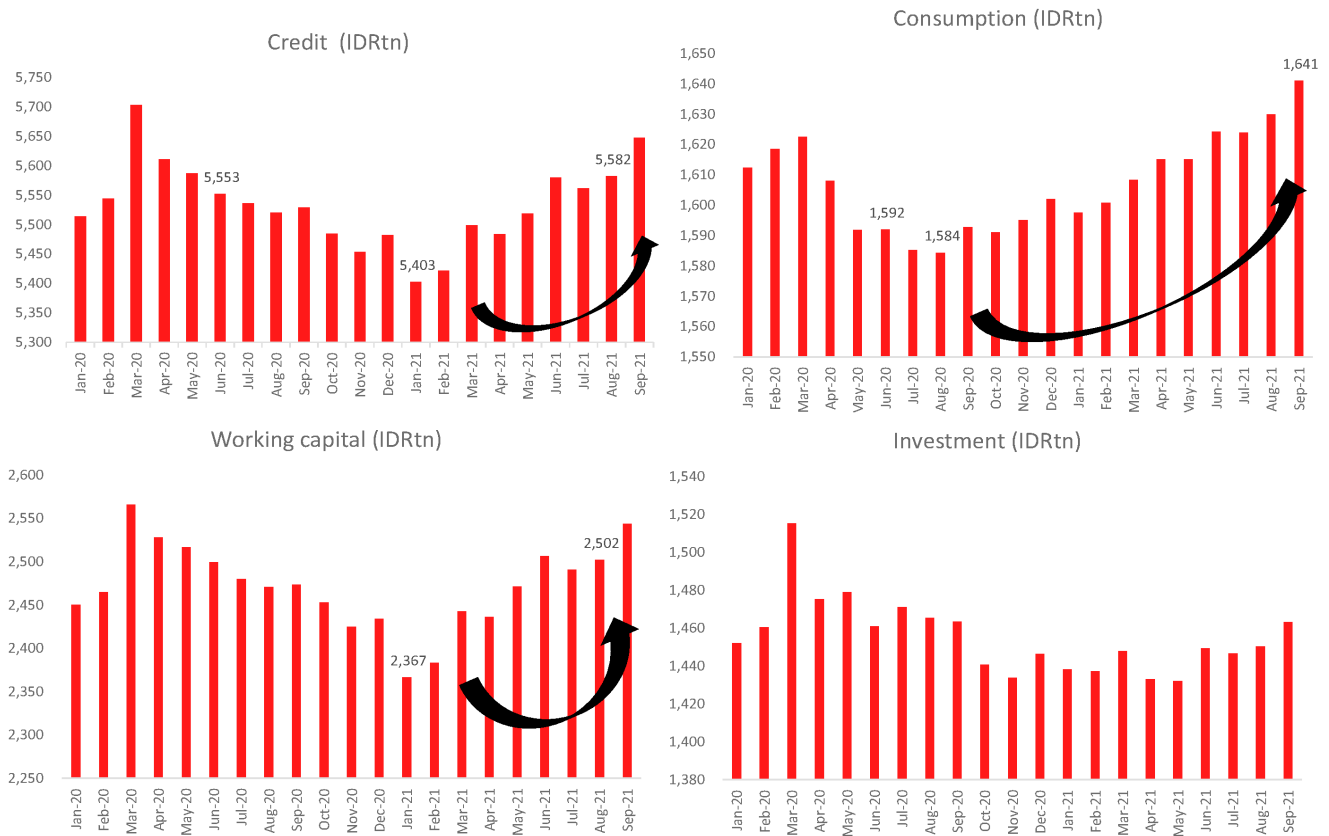
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Strong mortgage loan disbursements

As shown in *Fig. 4*, loan growth has recovered back to the pre-COVID level in terms of nominal credit disbursed, but has not been equal across credit types. Consumption credit (~30% of total credit) has been the first to recover and is already above the pre-Covid level; it continues to increase while working capital and investment credit still lag behind.

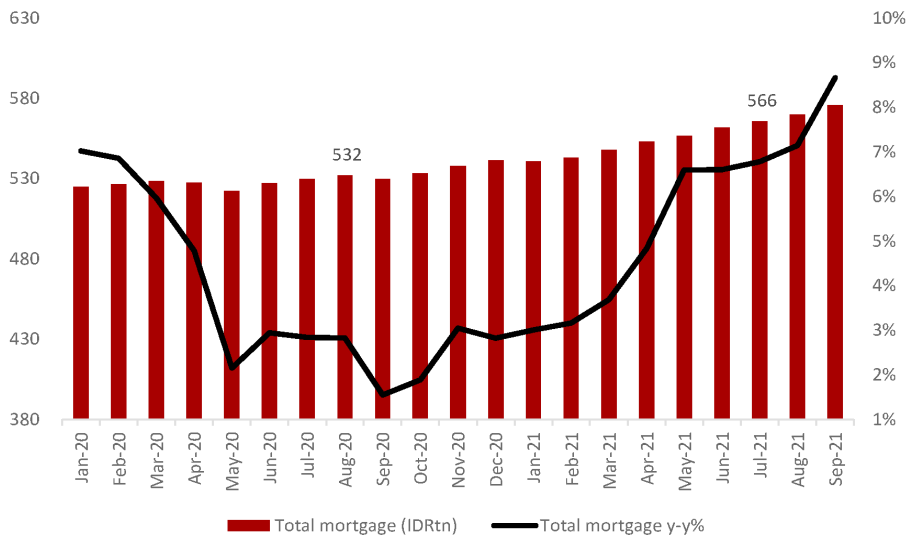
Mortgage disbursements accounted for a-third of consumption credit, driving the recovery in total consumption credit. However, mortgage disbursements accounted for about 2/3rd of total consumer loan disbursement, indicating mortgage as the current driver of total consumption credit while other areas might still be flat or in the negative territory, in our view.

Fig. 1: Consumption credit is the first to recover...



Source: Bank Indonesia, Nomura research

Fig. 2: ...mainly driven by mortgage disbursements

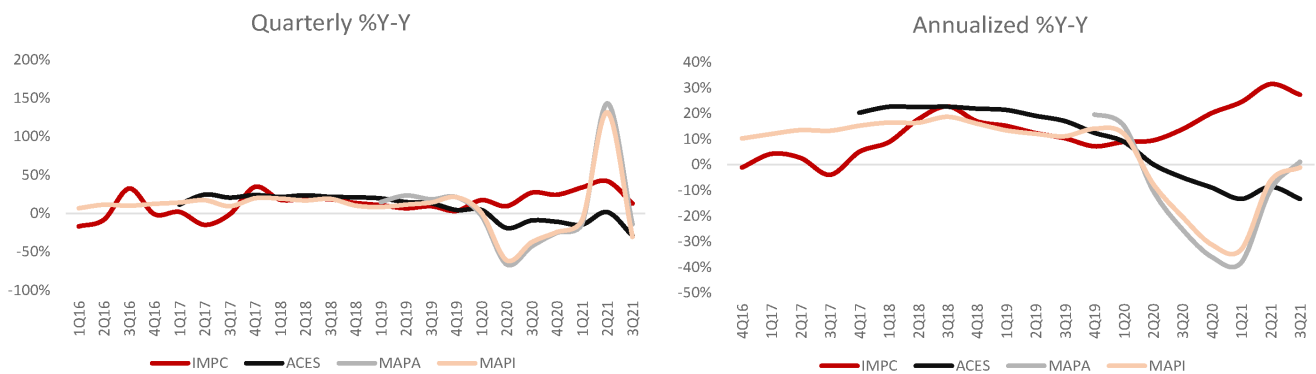


Source: Bank Indonesia, Nomura research

Spending shifts towards home improvement

Prior to the pandemic, both home improvement names and retailers recorded stable top line y-y growth. However, the retailers were hit significantly due to store closures (on large-scale social restrictions) in 1H20. However, ACES IJ (Buy), one of the home improvement players in Indonesia, did not see much impact on sales as most of its stores remained open – a similar trend was seen for IMPC IJ, with the company posting increasing top line growth YTD in 2021, except in 3Q21 when sales slightly dipped as COVID-19 cases peaked.

Fig. 3: IMPC – top line remained resilient during pandemic



Source: Company data, Nomura research

IMPC booked strong top-line growth during the pandemic mainly on: 1) the rising home improvement and renovation trend as homeowners were not able to travel frequently and spent more time at home, resulting in higher liquidity; 2) 70% of IMPC IJ's sales came from the retail segment, of which 90% was from home renovation; and 3) IMPC IJ's focus was on smaller traditional retail building material stores compared to modern outlet trade, such as ACES and Mitra 10 (unlisted), due to the company's emphasis on direct sales rather than on consignment basis, according to management. This helped the company avoid store closures during strict social restrictions.

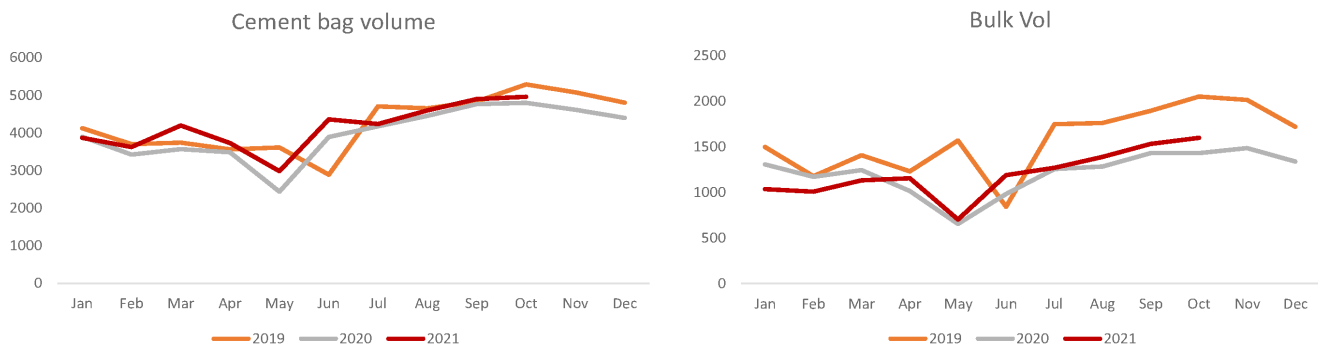
Cement sales slightly back to pre-pandemic levels

Besides the sales performance of ACES IJ and IMPC IJ, we note that cement sales recovery, specifically in the bag category, in terms of volume further help establish the increasing home renovation trend.

Cement volume can be divided into two categories, based on packaging – bag and bulk; these contributed around 75% and 25%, respectively, of the total sales of cement players in October 2021, according to the Ministry of Industry monthly data. While bag cement

sale are driven by retail consumption (small residential developments, including home renovations), bulk cement sales are driven by infrastructure projects and big-scale residential developments. Bulk volume sales were significantly low in 2020 due to infrastructure project delays owing to the pandemic. Lately, we have been seeing gradual resumption in infrastructure projects, with soft volume during 3Q21, which normalized again in Sept-Oct 2021 as bulk sales volume grew 7%/12%y-y on seasonality

Fig. 4: Bag volume remained resilient vs bulk

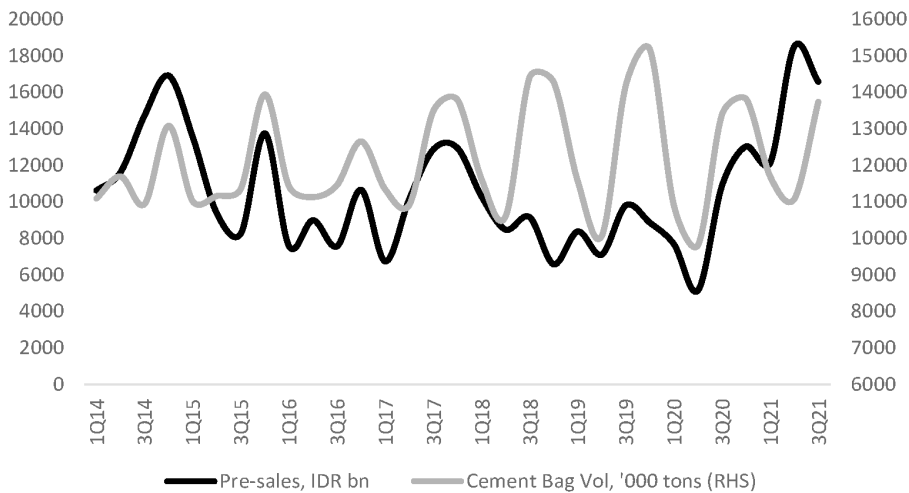


Source: INTP data

Bag cement volume, however, tells a different story as 10M21 volume was resilient compared with the 2019 level, indicating a resilient trend of home improvement & renovation. Cement names directly benefited from the home renovation trend due to increased bag sales. As of 10M21, bag sales had recovered close to the 2019 pre-pandemic level.

We also observe a positive correlation between cement bag volumes and property pre-sales, indicating that bag cement volumes have also benefited from increased primary property launches.

Fig. 5: Correlation between cement bag and pre-sales



Source: Companies data, Nomura estimates

We believe that the home renovation trend and property pre-sales improvement will sustain well into 2022, given the easing COVID-19 situation and improving economic condition. Furthermore, we also expect infrastructure projects to normalize in 2022, similar to the trend seen during Sept-Oct 2021 where bulk cement started to record volume growth. Thus, We remain positive on SMGR IJ, INTP IJ and the overall cement sector.

Riding on property recovery momentum

Home renovation and design business saw radical transformation due to increased WFH trend, resulting in demand influx for home remodeling. As a company offering home renovation and building material products, IMPC has been quite resilient during the

economic downturn, recording 20% y-y earnings growth and ROE of 8% in FY20, according to management. At the same time, the company gained market share from competitors (small players) due to the strong branding of its products. In the long run, the company’s management targets to increase its market share to 90% through increased diversification and a larger distribution network.

Fig. 6: IMPC – market share

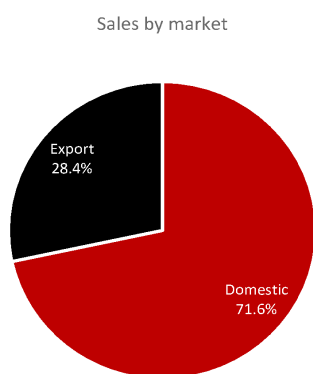
Products	Market Share				
	Indonesia	Malaysia	Vietnam	Australia	New Zealand
Roofing					
PC	85%	20%	25%	26%	50%
uPVC	50%				
FRP	30%	35%			50%
Façade					
ACP	15%				
Impraboard	65%				
Material					
PVC Compound	50%				
Sealant & Adhesive	15%				
Trading					
Toilet Cubical	35%				

Source: Company data, Nomura research

IMPC at a glance

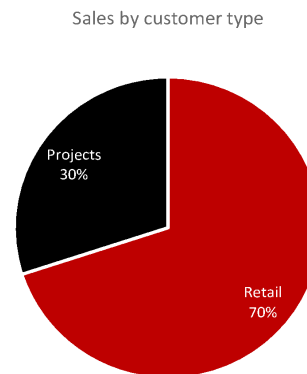
IMPC was established in 1981 and commenced production of the first-ever polypropylene twinwall sheet in Southeast Asia under its Impraboard brand. Since then, the company has launched successful products; Solartuff – the first polycarbonate sheet in SE Asia (1992), first quality vinyl roofing in Indonesia (1996), and first embossed polycarbonate sheet in Indonesia (2009). Currently, it is one of the leaders in polycarbonate roof manufacturing in Indonesia, with market share of 90% as of 9M21, according to management. Other than roofing, IMPC has also diversified its products to façade, materials, pipe, trading, and real estate. Its segment-wise revenue contribution currently stands at: 1) Manufacture (84%) – building materials and home-improvement products; 2) Distribution (15%); and 3) property rental (1%). Geographically, IMPC generated around 72% of its sales from the domestic market and the remaining from exports (to Australia, New Zealand, Vietnam) in 9M21. For the domestic segment, 70% of its revenue currently comes from the retail segment and the rest is project-based (property developers or infrastructure).

Fig. 7: IMPC – sales by market as of 9M21



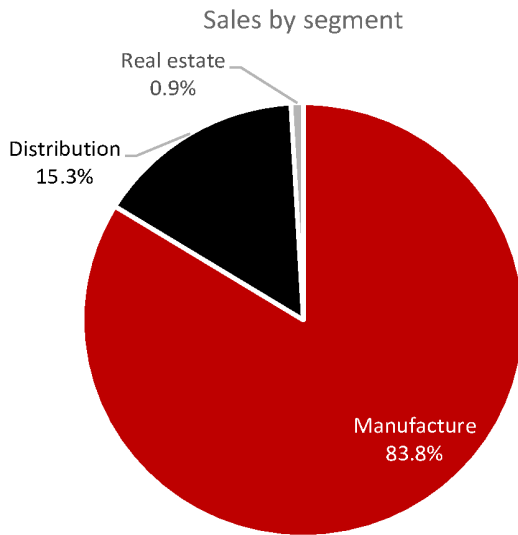
Source: Company data, Nomura research

Fig. 8: IMPC – sales by customer type as of 9M21



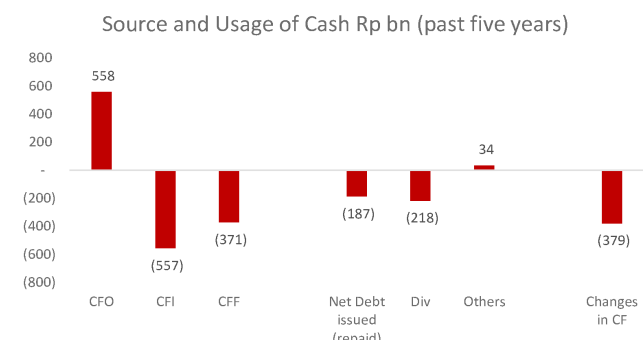
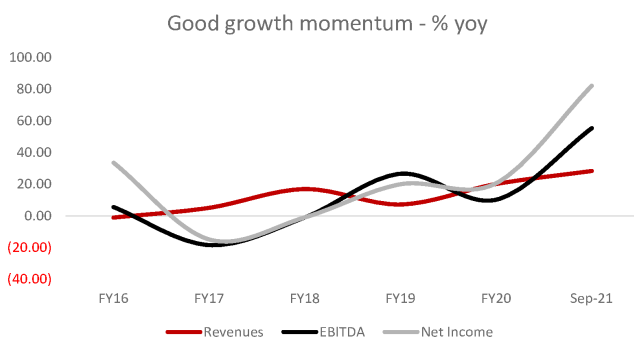
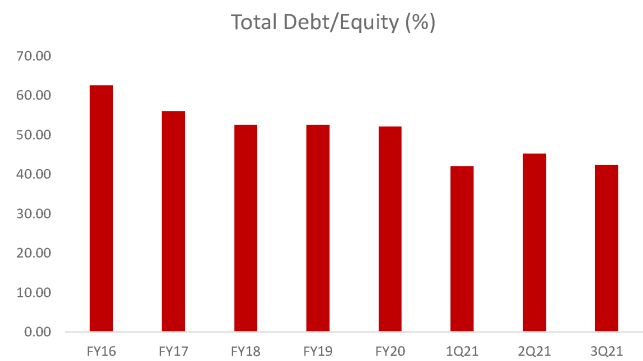
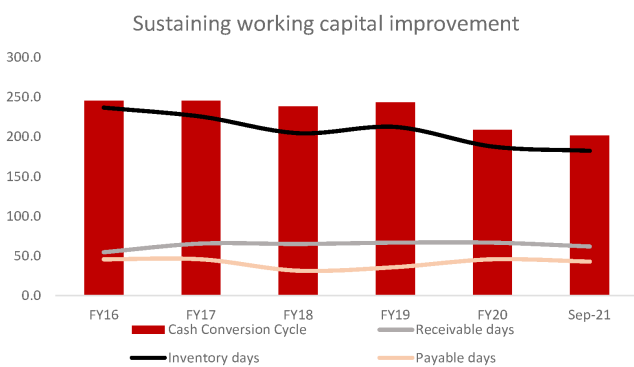
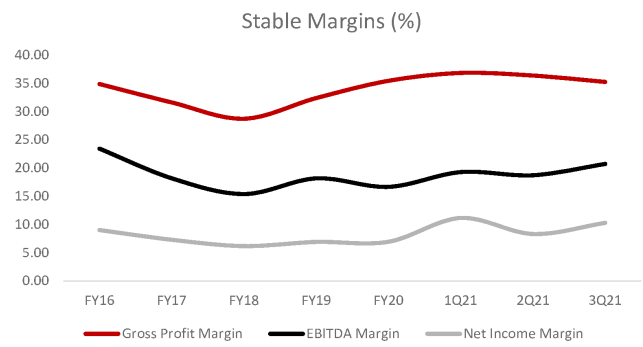
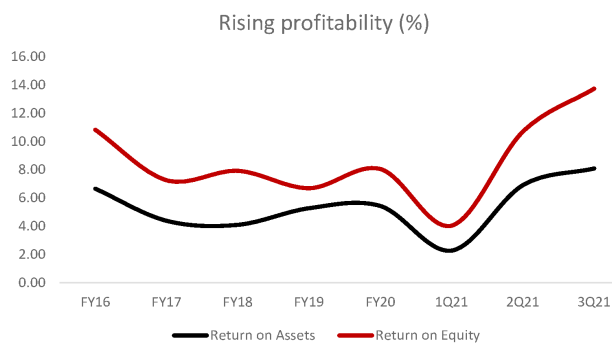
Source: Company data, Nomura research

Fig. 9: Sales by segment as of 9M21



Source: Company data, Nomura research

Fig. 10: IMPC – financial metrics



Source: Company data, Nomura research

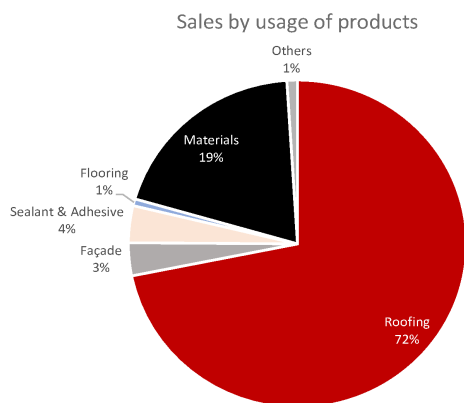
Leader in roofing products

Roofing is a major product of IMPC, with ~85% plastic roofing market share in Indonesia. It is manufactured in three main types: polycarbonate (PC), un-plasticized polyvinyl chloride (uPVC), and fiber reinforced polyester (FRP). Polycarbonate and uPVC contributed 40% and 24% of its FY20 total sales, respectively, and have major market shares domestically (~90% for polycarbonate and 65% for uPVC). According to management, these products also generate high margin, at ~50% for polycarbonate and ~30-35% for uPVC, due to their higher ASPs, ~20% above competitors. IMPC also provides 15 years warranty for its products.

IMPC’s manufacturing plants in Indonesia are located in West Java – three in Cikarang (polycarbonate, ACP, FRP, PVC pipes) and one in Karawang (PVC compounds). Overseas, it has manufacturing plants in Vietnam, New Zealand, Malaysia, and Australia. Going forward, IMPC plans to increase its market share in East Indonesia with the addition of a plant in Surabaya, and to expand in Australia and New Zealand for roofing and pipe sales.

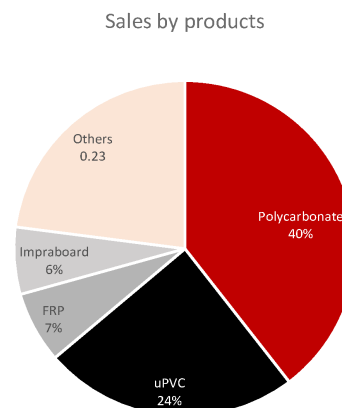
As for the distribution network, it has 18 third-party distributors, 28 agents, and 3,534 retailers worldwide. IMPC relies more on traditional building material retailers rather than modern building material solution stores, such as ACES and Mitra 10, given the company’s emphasis on direct sales rather than on consignment basis.

Fig. 11: Sales by usage of products as of FY20



Source: Company data, Nomura research

Fig. 12: Sales by product as of FY20



Source: Company data, Nomura research

Fig. 13: Increasing GPM in each product

Product	GPM		
	2018	2019	2020
Polycarbonate	35%	43%	48%
uPVC	27%	34%	36%
FRP	23%	20%	28%
Impraboard	21%	20%	21%
PVC Compound	8%	15%	17%

Source: Company data, Nomura research

Competitive advantage

IMPC's retail segment currently contributes around 70% of its total sales, while the rest comes from commercial projects. According to management, the demand for commercial projects declined during the pandemic due to projects being delayed. However, the retail segment remained resilient, which it attributed to increased demand for home renovation and improvement. This trend can also be seen in cement bag volume growth, where one of the drivers is also home renovation and improvement.

According to management, IMPC's capability to maintain a significant market share is attributable to its good reputation and brand value. Thus, the company has been charging a higher price compared to its competitors. According to the company, it also has the lowest-cost producer for its PC and uPVC building materials due to its cost optimization strategy and operational efficiency. As a result, IMPC has maintained its gross margin at ~35% since 2017.

Fig. 14: IMPC brands

PVC Compound polyvic [®] est. 1981	Versatile Plastic Board Impraboard [®] HIGH QUALITY CARTON PLASTIC SHEET est. 1981	Polycarbonate Roofing SolarTuff [®] est. 1992	Australia-New Zealand's Polycarbonate Roofing LASERLITE [®] est. 1994	Polycarbonate Roofing LWIN Lite [®] Premium Quality Multi-wall Polycarbonate Roofing Sheet est. 1998
FRP Roofing ALSYNITE [®] ROOFING PRODUCTS est. 1999	uPVC Corrugated Roofing LaserCool [®] est. 2000	Aluminium Composite Panel Alcotuff [®] simply the best est. 2014	Aluminium Composite Panel DECOBOND [®] est. 2014	uPVC Roofing, Pipe & Utilities Alderon [®] INNOVATIVE BUILDING MATERIALS est. 2015
Sealant & Adhesives OCI [®] est. 2018	Australia's Fiberglass Roofing Topglass [®] est. 2018	Recycled PET Roofing ECOLITE [®] est. 2020	Vinyl Flooring ALVERA [®] BEYOND THE ORDINARY est. 2021	uPVC Roofing LaserTuff [®] Superior Quality uPVC Twinwall Roofing est. 2021

Source: Company data, Nomura research

9M21 results

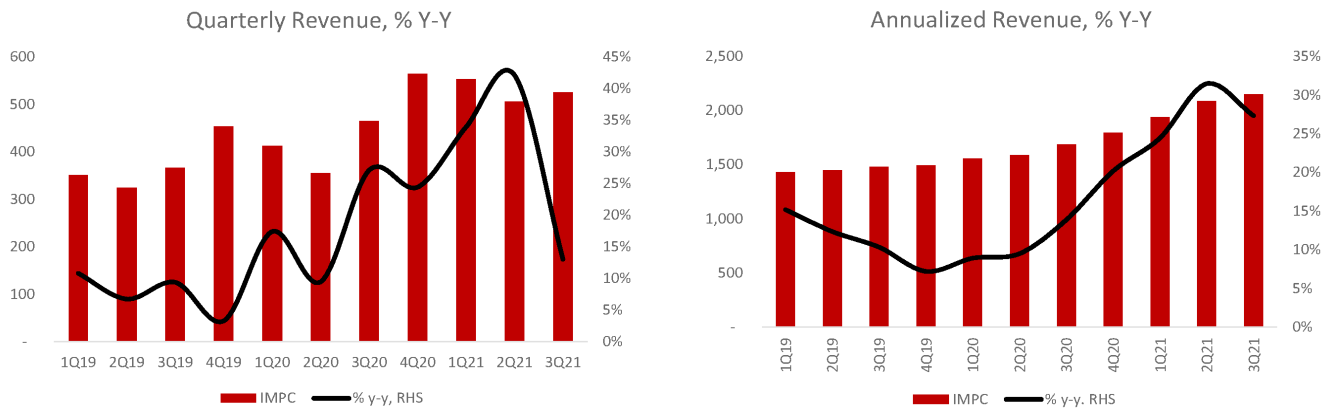
IMPC recorded 3Q21 revenue at IDR526bn, +4% q-q / +13% y-y, leading to 9M21 revenue of IDR1,584bn (+28%y-y). This was supported by increased WFH-related demand due to large-scale social restrictions in July-August. Gross margin stood at 37% as of 9M21 (vs 36% in 9M20). Furthermore, IMPC plans to deleverage to be positive in the future. As of 9M21, net gearing stood at 0.2x.

Fig. 15: IMPC – 9M21 results

IMPC, IDR bn	9M20	9M21	y-y, %	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	q-q, %	y-y, %
Revenues	1,233	1,584	28.4	413	356	465	564	552	505	526	4.1	13.0
Gross profit	443	586	32.5	151	124	168	208	208	188	190	1.1	13.4
Operating profit	151	260	72.0	55	31	65	87	91	80	88	9.4	34.9
EBITDA	202	312	54.2	78	42	83	101	109	98	105	8.1	27.5
Int exp	(51)	(37)	(27.1)	(17)	(17)	(16)	(15)	(14)	(12)	(12)	5.9	(25.7)
Pre-tax income	111	215	93.6	74	(39)	76	65	84	64	66	3.2	(12.5)
Net profit	87	158	82.4	60	(30)	57	30	62	42	54	29.1	(5.2)
(in %)												
Gross Margin	36%	37%		37%	35%	36%	37%	38%	37%	36%		
Operating Margin	12%	16%		13%	9%	14%	15%	17%	16%	17%		
EBITDA Margin	16%	20%		19%	12%	18%	18%	20%	19%	20%		
Net Margin	7%	10%		14%	-9%	12%	5%	11%	8%	10%		

Source: Company data, Nomura research

Fig. 16: IMPC – top-line growth trend



Source: Company data, Nomura research

Appendix A-1

Analyst Certification

I, Tushar Mohata, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Ace Hardware Indonesia	ACES IJ	IDR 1,295	07-Dec-2021	Buy	N/A	
Indocement Tunggal Prakarsa	INTP IJ	IDR 12,150	07-Dec-2021	Buy	N/A	
Semen Indonesia Persero	SMGR IJ	IDR 8,075	07-Dec-2021	Buy	N/A	

Ace Hardware Indonesia (ACES IJ)

IDR 1,295 (07-Dec-2021) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of IDR1,600 is based on 2022F target P/E of 30x which is 1.2SD above its historical mean. The benchmark index of the stock is JCI Index.

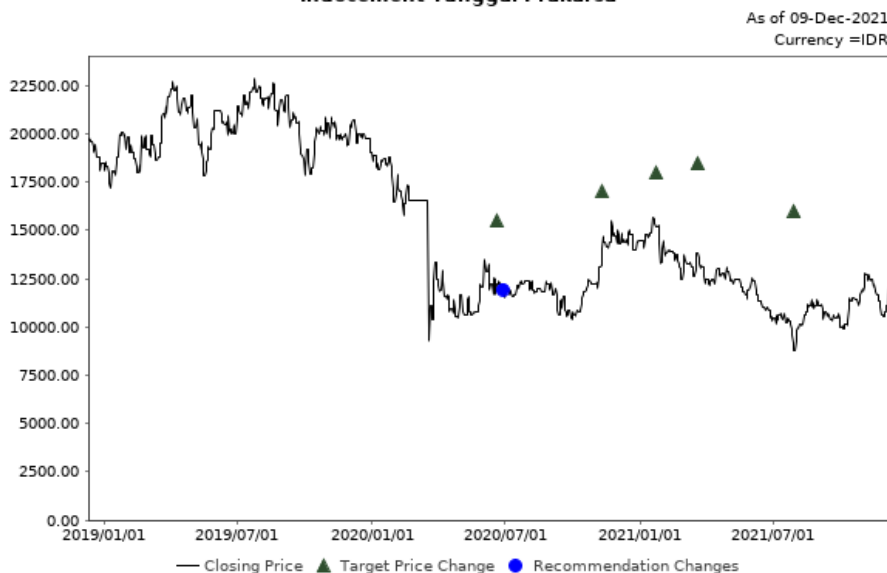
Risks that may impede the achievement of the target price Downside risk includes another strict tightening with stores closure.

Indocement Tunggal Prakarsa (INTP IJ)

IDR 12,150 (07-Dec-2021) Buy (Sector rating: N/A)

Rating and target price chart (three year history)

Indocement Tunggal Prakarsa



Date	Rating	Target price	Closing price
30-Jul-21		16,000.00	8,800.00
20-Mar-21		18,500.00	13,800.00
23-Jan-21		18,000.00	15,200.00
10-Nov-20		17,000.00	14,100.00
19-Jun-20	Buy		12,250.00
19-Jun-20		15,500.00	12,250.00

As of 09-Dec-2021
Currency = IDR

Source: ThomsonReuters, Nomura research

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of IDR16,000 is based on average 2022F target EV/EBITDA of 15x which aligns with its historical mean. The benchmark index of the stock is JCI Index.

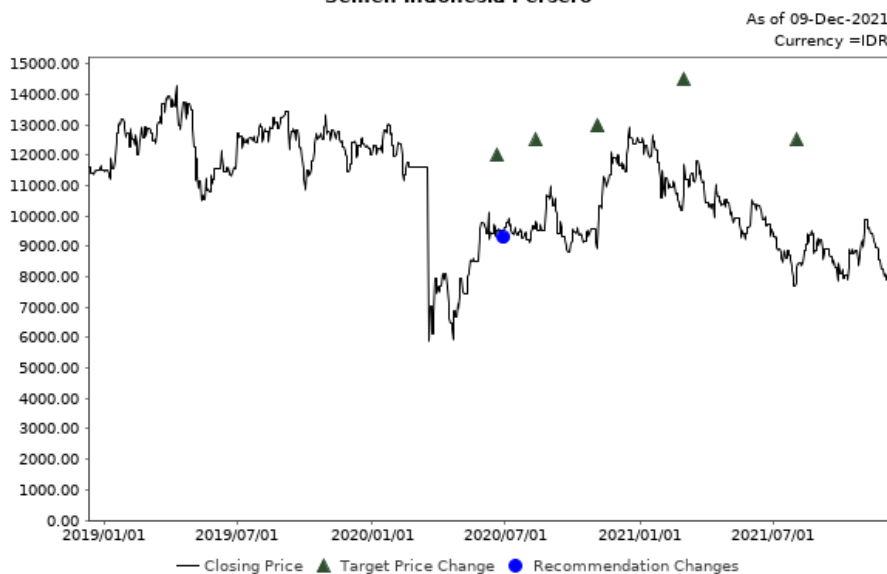
Risks that may impede the achievement of the target price Risks for our call are new cement players, rising coal and oil prices, Rupiah depreciation, and prolonged COVID-19 condition.

Semen Indonesia Persero (SMGR IJ)

IDR 8,075 (07-Dec-2021) Buy (Sector rating: N/A)

Rating and target price chart (three year history)

Semen Indonesia Persero



Date	Rating	Target price	Closing price
03-Aug-21		12,500.00	8,300.00
01-Mar-21		14,500.00	10,675.00
04-Nov-20		13,000.00	9,125.00
12-Aug-20		12,500.00	9,850.00
20-Jun-20	Buy		9,500.00
20-Jun-20		12,000.00	9,500.00

As of 09-Dec-2021
Currency = IDR

Source: ThomsonReuters, Nomura research

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of IDR12,500 is based on average 2022F target EV/EBITDA of 9.7x which is at par with its historical mean. The benchmark index of the stock is JCI Index.

Risks that may impede the achievement of the target price Risks to our call are new cement players, rising coal and oil prices, Rupiah depreciation, and prolonged COVID-19 condition.

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As at 30 September 2021.

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** As defined by the EU Market Abuse Regulation

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<http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx>; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology; **Japan**: Russell/Nomura Large Cap.

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A '**Bullish**' stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A '**Neutral**' stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A '**Bearish**' stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Sectors that are labelled as '**Not rated**' or shown as '**N/A**' are not assigned ratings. Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia. **Japan/Asia ex-Japan**: Sector ratings are not assigned.

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