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7 July 2023

Indonesia Materials

Impack Pratama IMPC IJ
Rec N-R
Market cap US\$1.3bn
3M ADV US\$0.9m
Price Rp360

Asahimas AMFG IJ
Rec N-R
Market cap US\$0.2bn
3M ADV US\$0.1m
Price Rp5,775

Prices as of 6 July market close.



Roof and glass

Industry insights from Impack (IMPC IJ) and Asahimas (AMFG IJ)

Indonesia's building materials industry is starting to see signs of recovery this year, 1Q23 performance is improving, and companies in the space are still targeting double-digit revenue growth this year. Impack Pratama (N-R) and Asahimas (N-R) as market leaders in the roofing and flat glass industries, respectively, continue to be optimistic for this year targeting +17% and +11% sales growth after the strong performance last year. IMPC is currently trading at 40x 2024 consensus PE, while AMFG is trading at 5.9x trailing PE.

Signs of recovery

- Companies within Indonesia's building materials industry are still targeting double-digit growth this year, as signs of recovery starts to be seen in 1Q23 performance.
- Across companies, IMPC has the highest revenue growth target, with a margin profile that is one of the highest across peers.
- As of 1Q23, all companies generally saw an increase in revenue. In terms of earnings, IMPC has the highest net profit growth of +48% YoY.

IMPC: Leader of roofing products

- IMPC is a market leader in roofing products in Indonesia, having 90% and 70% market share in its two main products of PC (polycarbonate) and uPVC roofs.
- Sales of its main roofing products (79% of revenue) were strong in the past two years (+31% in both 2021 and 2022), and this continued in 1Q23 with +9% YoY.
- After raising prices significantly about +15% in 2021-2022 due to cost pressure from raw materials, IMPC is now able to enjoy thicker margins as costs started to normalise.

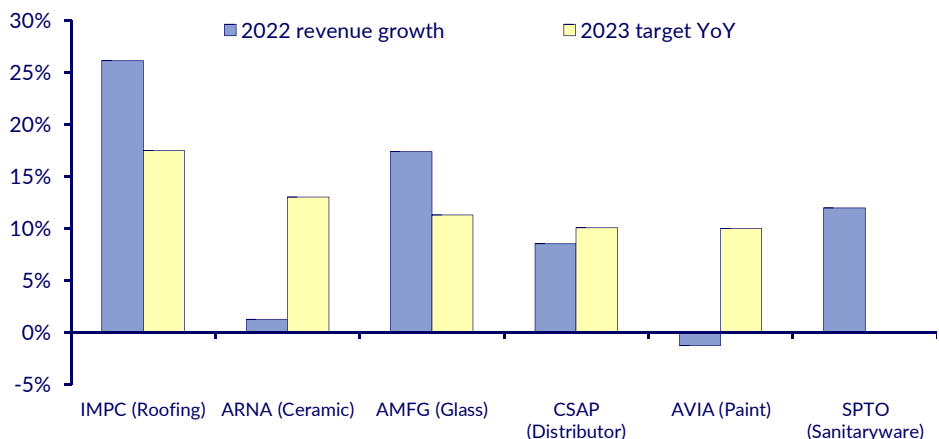
AMFG: Resilient glass market

- Robust performance was also felt by AMFG, the market leader in the flat glass industry, driven by both its auto glass and flat glass segments. 1Q23 revenue rose +7% YoY after growing by +26% in 2021 and +17% in 2022.
- Auto glass has been especially strong following the domestic car sales trend, and has been growing faster than flat glass in recent years.
- Nevertheless, flat glass remains AMFG's main revenue contributor (70%). Sales have remained resilient, partly supported by rising use of glass and mirrors amidst the shifting trend to smaller-sized houses in the property sector.

Outlook from management

- Management of both IMPC and AMFG remain positive on the outlook for this year, with IMPC targeting Rp3.3tn revenue (+17%) and Rp390bn net profit (+27%), and AMFG aiming to achieve Rp6.2tn revenue (+11%) and Rp550bn net profit (+26%).
- IMPC is currently trading at 50.6x 2023 and 40.1x 2024 consensus PE, while AMFG is trading at 5.9x trailing PE.

Revenue growth of building material players (2022 and 2023T)



Source: CLSA

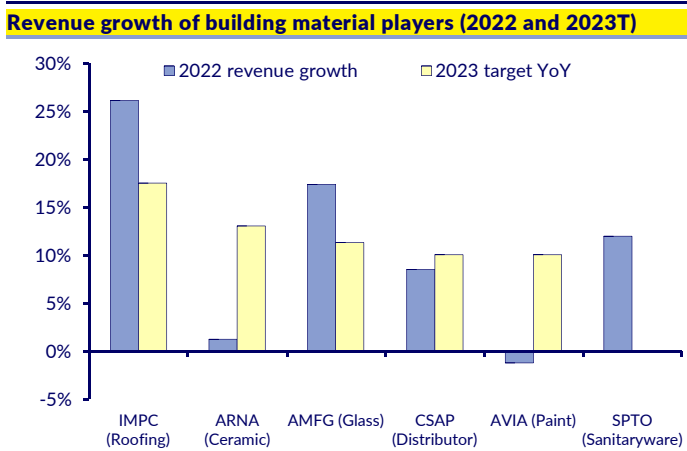


Signs of recovery in the building materials industry

Signs of recovery

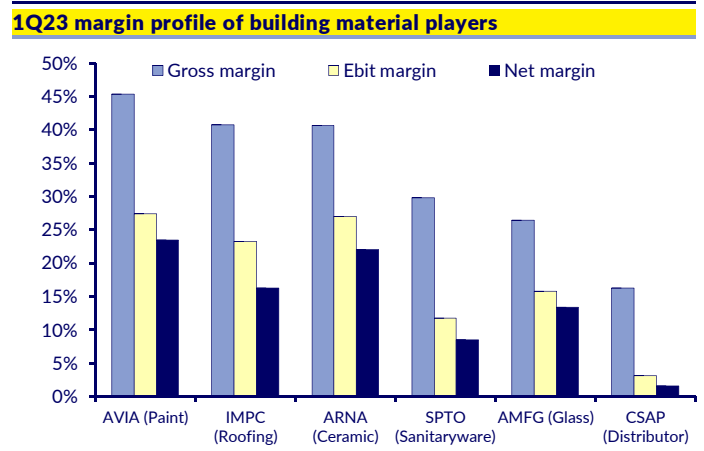
Indonesia's building materials industry is starting to see signs of recovery this year, as noted in our previous report *'Building materials recovery,'* and companies within the space are still targeting double-digit revenue growth this year, after a softer performance since late last year. Across the companies, Impack Pratama (IMPC IJ) has the highest target of +17% growth this year after growing by +26% last year. Interestingly, its margin profile is one of the highest across peers, with gross margin of 41% coming second to Avian, and third highest net margin of 16%. Asahimas Flat Glass (AMFG IJ) is another company with a similar profile, aiming at +11% revenue growth this year.

Figure 1



Source: CLSA, Companies

Figure 2



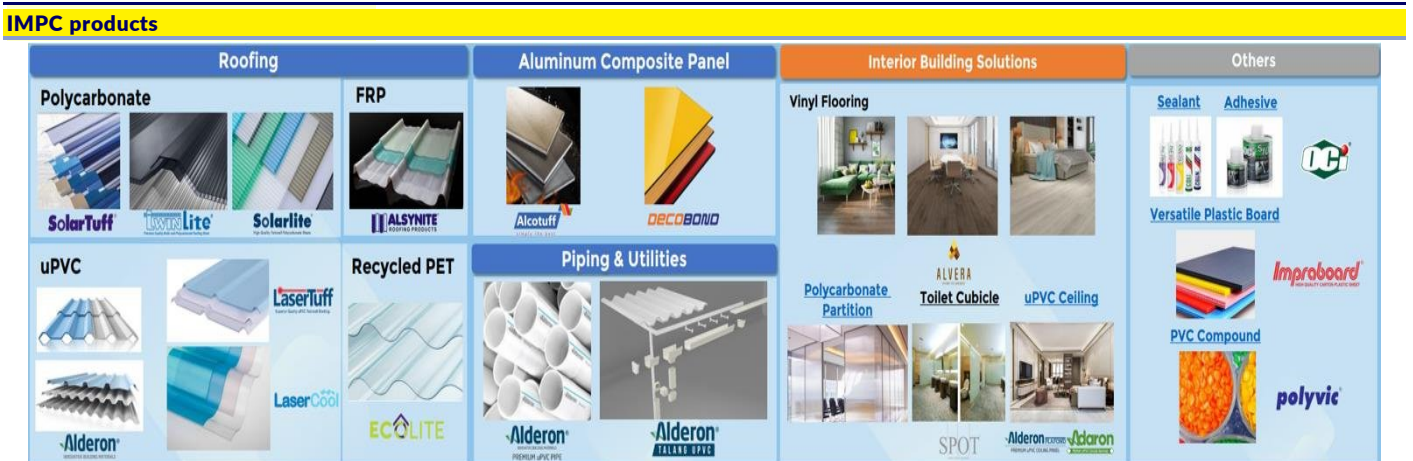
Source: CLSA, Companies

IMPC is market and price leader in roofing products

IMPC: Leader of roofing products

IMPC is a market leader in roofing products in Indonesia, having 90% and 70% market share in its two main products of PC (polycarbonate) and uPVC roofs. With its well-known brands (Solartuff, Alderon, Alcotuff etc) and reputation since establishment in 1981, the company is also able to maintain the highest price in the market at about 20-25% higher than competitors. Other than roofing, IMPC also sells other building material products such as aluminium composite panel (ACP), pipes, vinyl flooring, uPVC ceiling and others like sealants, adhesives and plastic boards.

Figure 3



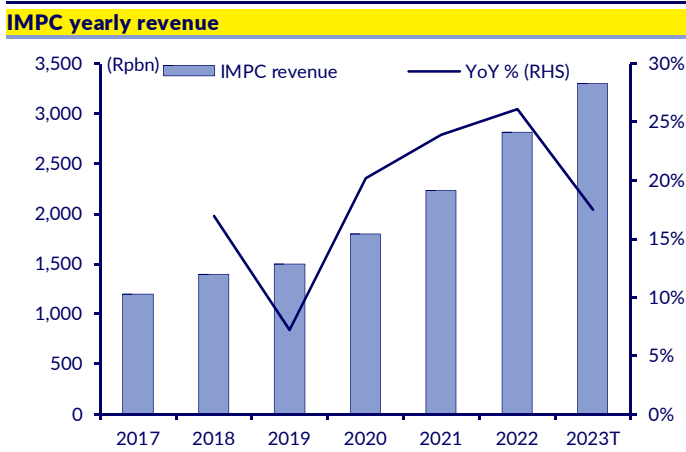
Source: CLSA, IMPC

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Strong roofing sales in the past three years

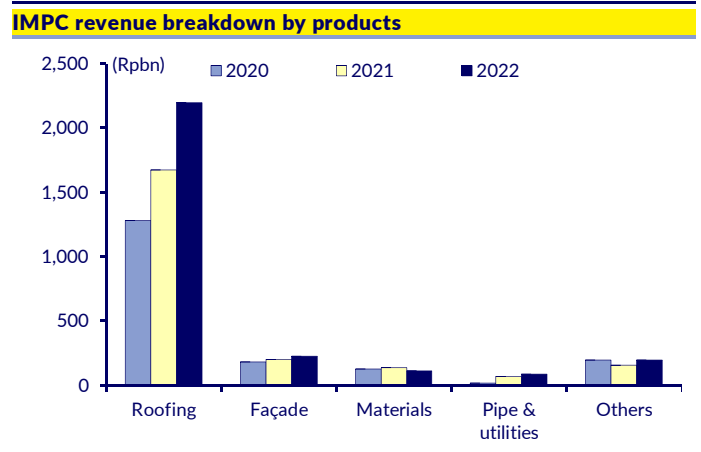
Across IMPC's diverse portfolio of products, roofing remains as its core business, contributing 79% of its revenue in 1Q23, followed by façade (7%), materials (3%), pipes (3%) and others (8%). Sales of roofing were strong in the past two years, increasing significantly by +31% in both 2021 and 2022, which should be partly thanks to the home renovation trend during the pandemic, and this continues in 1Q23 with +9% YoY. This enables the company's revenue to grow rapidly to Rp2.8tn in 2022 (+26% YoY), and it remain optimistic about reaching another record high this year, targeting +17% growth to Rp3.3tn.

Figure 4



Source: CLSA, IMPC

Figure 5



Source: CLSA, IMPC

IMPC products are widely used, growing its brand presence

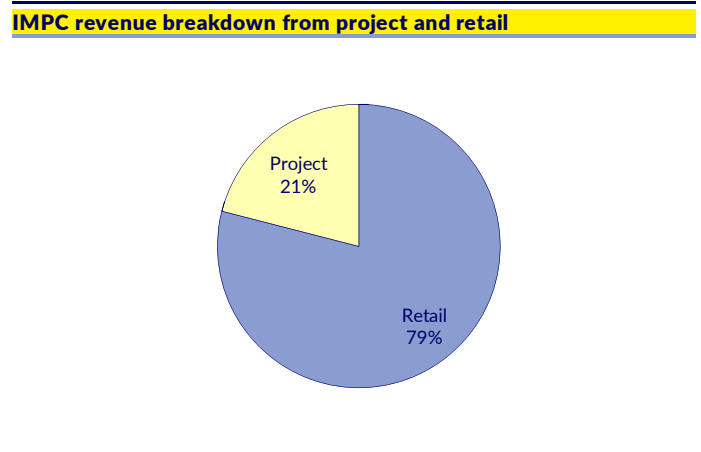
IMPC's products are widely used in many places such as residential, commercial areas like malls and airports (Figure 6) as well as industrial. Most of the company's products are sold through the traditional building material retail shops across Indonesia, but it also sells directly to project customers such as contractors and property developers, though the contribution is small at about 20%. Popular developers like Ciputra (CTRA IJ), Summarecon (SMRA IJ) and Agung Sedayu are among IMPC's project customers. While retail has a relatively better margin, the management is comfortable about having a good mix of project customers as it would be able to grow and expand its brand presence and at the same time able to take up larger volume orders.

Figure 6



Source: CLSA, IMPC

Figure 7



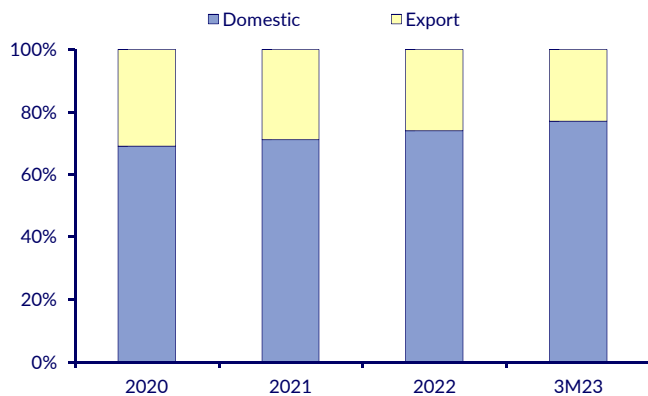
Source: CLSA, IMPC

Large market potential within Indonesia, especially ex-Java

IMPC's business still largely comes from the domestic Indonesia market, and the portion has been growing to 77% of sales in 1Q23 from 69% in 2020. The majority (about 90%) of this is still concentrated in Java, and the management is planning to expand its presence in areas outside Java by introducing lower-end products. Outside Indonesia, IMPC also has presence in other neighbouring countries like Malaysia, Vietnam, Australia and New Zealand, which altogether account for 23% of revenue. Management noted that it is either the first or second player in these markets.

Figure 8

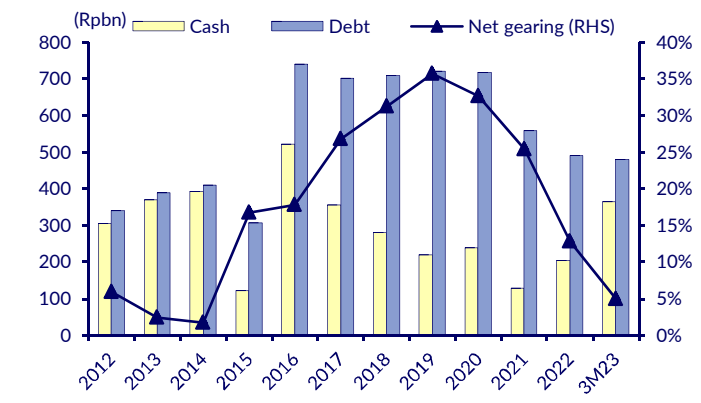
IMPC revenue breakdown from domestic and export



Source: CLSA, IMPC

Figure 9

IMPC balance sheet



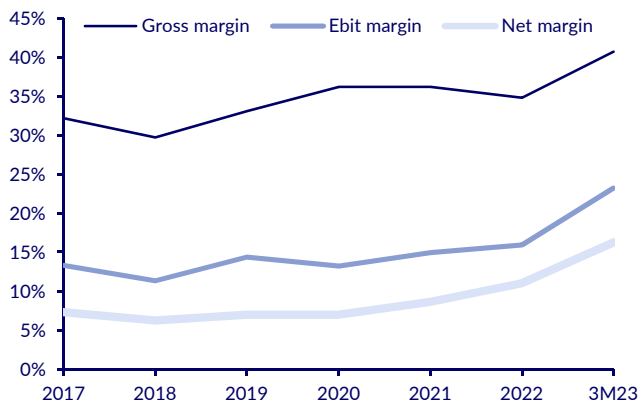
Source: CLSA, IMPC

Margin expansion from normalising raw materials cost

Along with rising revenue, IMPC also managed to steadily expand its margins, mainly on the back of lower cost of raw materials. In 2021-2022, raw materials cost increased substantially, and this made the company increase its selling price by about +15% within two years (+10% in 2021 and +5% in 2022). As raw materials prices have started to normalise, IMPC is able to enjoy the expansion in margins, as reflected in 1Q23 gross margin of 41% from 35% in 2022. The company has no plans to implement another price hike this year, if raw materials prices remain stable. With this margin expansion, management is aiming net profit to reach Rp390bn (+27% YoY) this year.

Figure 10

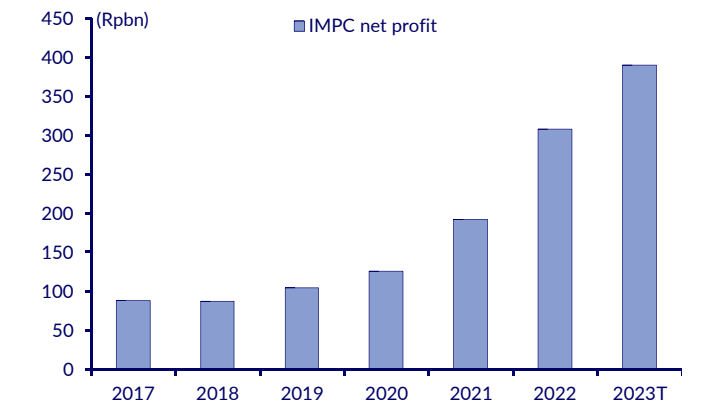
IMPC margin trend



Source: CLSA, IMPC

Figure 11

IMPC yearly net profit



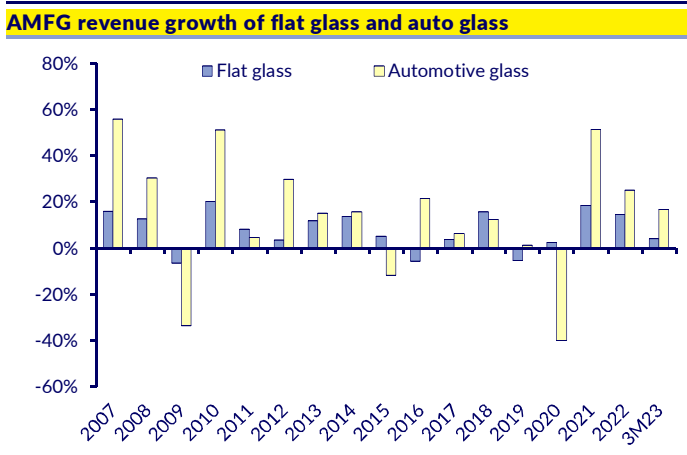
Source: CLSA, IMPC

Robust auto glass sales following strong domestic car sales

AMFG: Resilient glass market

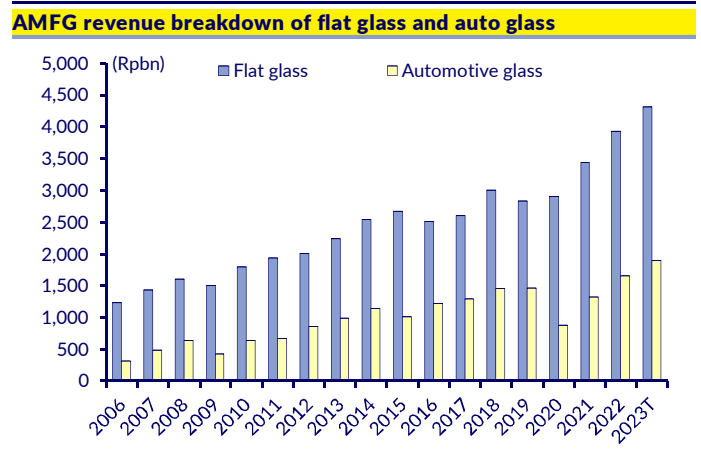
Asahimas, the market leader in flat glass industry with 45% share, is another player in the building material space that has seen robust performance. After revenue grew by +26% and +17% in 2021 and 2022, 1Q23 revenue keeps the momentum with +7% YoY to Rp1.6tn. The auto glass segment has been especially strong following the domestic car sales trend, and has been growing faster than flat glass in recent years. This is further supported by the shift to more premium cars from LCGC (low cost green car) that uses better quality glass with higher ASP. Nevertheless, flat glass is still its main revenue contributor (70%). Sales have remained resilient and seems to be not really affected by the fuel price hike last year.

Figure 12



Source: CLSA, AMFG

Figure 13



Source: CLSA, AMFG

Shifting trend to smaller size houses brings higher demand for glass

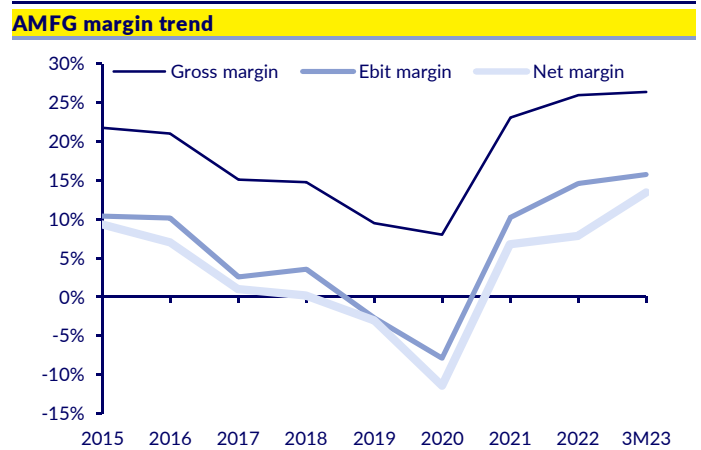
The management has observed the shifting trend towards smaller houses in the property sector, and developers are getting more creative by using more glass and mirrors in their interior design to give a more spacious feel and premium look (refer to Figure 12 as example). Management also noticed increasing use of glass components in the downstream market such as furniture and others, which also helps to support demand. With sales picking up after the pandemic, along with additional incentive from the \$6 gas price regulation from the government, margins were able to recover from the bottom in 2020 and continued to rise until 1Q23.

Figure 14s



Source: CLSA, AMFG

Figure 15

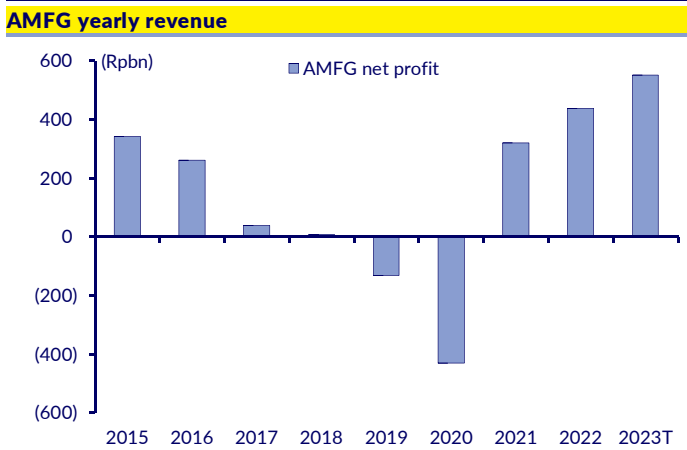


Source: CLSA, AMFG

Asahimas maintaining positive outlook for this year

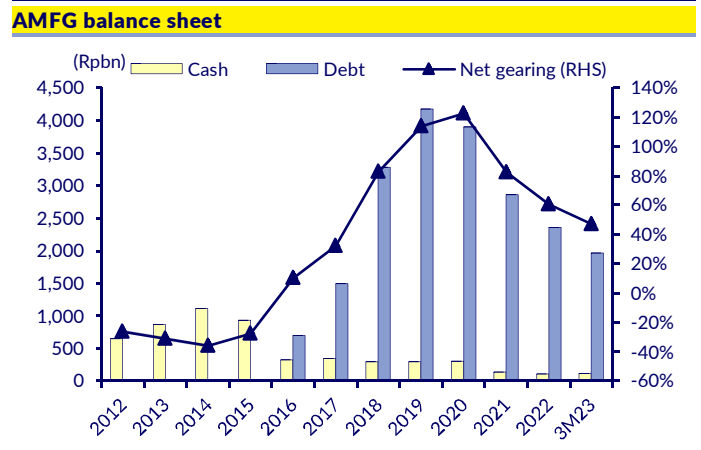
Asahimas's management expects the positive trend to continue this year, as it targets revenue and net profit to reach Rp6.2tn (+11% YoY) and Rp550bn (+26% YoY), respectively. However, management has anticipated several large well-known foreign players coming to Indonesia, such as KCC Glass from Korea and Xinyi Glass from China, in around 2025, which could put pressure the domestic market. Lowering debt balance is another focus of the management, with net gearing consistently declining from the peak of 123% in 2020 to 47% in 1Q23. The company's debt started back in 2016-2018 when it relocated its factory from Jakarta to Cikampek in West Java.

Figure 16



Source: CLSA, AMFG

Figure 17



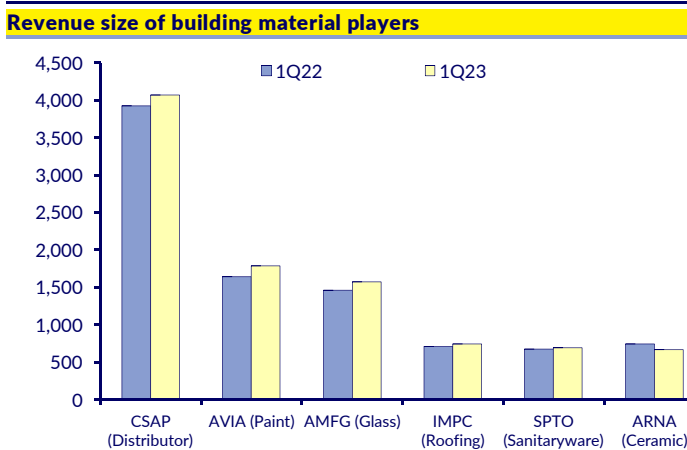
Source: CLSA, AMFG

Seeing signs of recovery

Performance across building material players

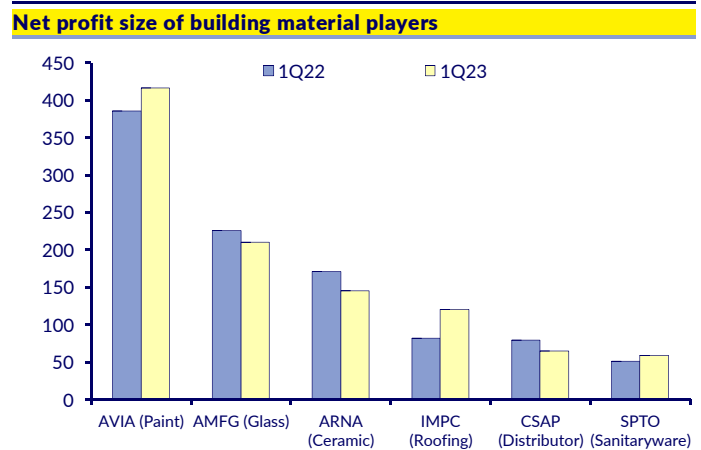
Looking into the 1Q23 performance of building material companies that we observe, revenue generally increased in 1Q23 across the board except for ARNA as 1Q22 last year was a high base for the company due to rising demand from home renovation. It is interesting to note that AMFG's revenue is quite sizeable and is almost comparable to AVIA. In terms of earnings, IMPC has the highest net profit growth across peers at +48% YoY, ahead of its FY23 target (+17%). This is followed by SPTO (+14%) and AVIA (+8%); however, AVIA is still the largest in term of size with Rp417tn. IMPC is currently trading at 50.6x 2023 and 40.1x 2024 consensus PE, while AMFG is trading at 5.9x trailing PE.

Figure 18



Source: CLSA, Companies

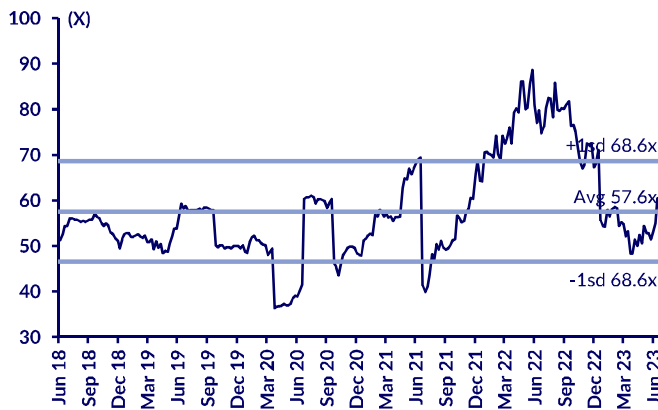
Figure 19



Source: CLSA, Companies

Figure 20

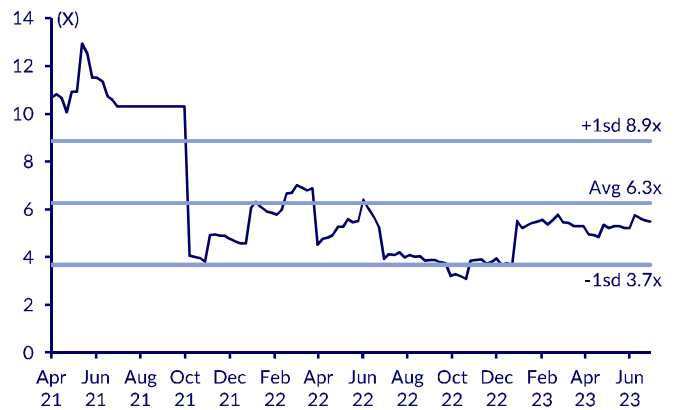
IMPC trailing PE



Source: CLSA, IMPC, Bloomberg

Figure 21

AMFG trailing PE



Source: CLSA, AMFG, Bloomberg

Figure 22

Building material peers comparison

Company	Business	Market cap (US\$bn)	P/E (x)			ROE (%)			Revenue growth			Net profit growth		
			2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
Avia Avian (AVIA IJ)	Paint	2.7	28.7	23.3	20.9	14.8	18.2	19.2	(1%)	10%	9%	(2%)	23%	14%
Impack Pratama (IMPC IJ)	Roofing	1.3	55.8	50.6	40.1	18.9	17.9	21.2	26%	19%	19%	60%	26%	26%
Arwana (ARNA IJ)	Ceramic	0.4	12.0	n/a	n/a	37.5	28.7	29.8	1%	11%	12%	22%	5%	22%
Asahimas (AMFG IJ)	Glass	0.2	5.9	n/a	n/a	11.3	n/a	n/a	17%	n/a	n/a	37%	n/a	n/a
Catur Sentosa (CSAP IJ)	Distributor	0.2	14.1	n/a	n/a	9.8	n/a	n/a	8%	n/a	n/a	13%	n/a	n/a
Surya Pertiwi (SPTO IJ)	Sanitary	0.1	7.4	n/a	n/a	15.3	n/a	n/a	12%	n/a	n/a	5%	n/a	n/a
Average			20.7	37.0	30.5	17.9	21.6	23.4	11%	13%	13%	23%	18%	21%

Source: CLSA, Companies, Bloomberg



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Companies mentioned

Agung Sedayu (N-R)
 Arwana Citramulia (N-R)
 Asahimas Flat Glass (N-R)
 Catur (N-R)
 Ciputra Dev (CTRA IJ - RP1,075 - BUY)
 KCC Glass (N-R)
 Metland (N-R)
 PT Avia Avian Tbk (N-R)
 PT Impack Pratama Industri Tbk (N-R)
 Summarecon (SMRA IJ - RP680 - O-PF)
 Surya Pertiwi (N-R)
 Xinyi Glass (868 HK - HK\$12.44 - O-PF)

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