



*The Jakarta Advisory Group*

INTERCEM Asia 2016  
Meliá Hanoi Hotel | Vietnam | 19<sup>th</sup> – 21<sup>st</sup> September 2016



# Indonesian Cement Industry

## From Darling to Potentially Risky Market !

### September 2016



# Indonesian Cement Industry

*The Jakarta Advisory Group*

1. Country profile
2. Cement consumption
3. Market players in Indonesia
4. Performance of cement producers
5. What's next?



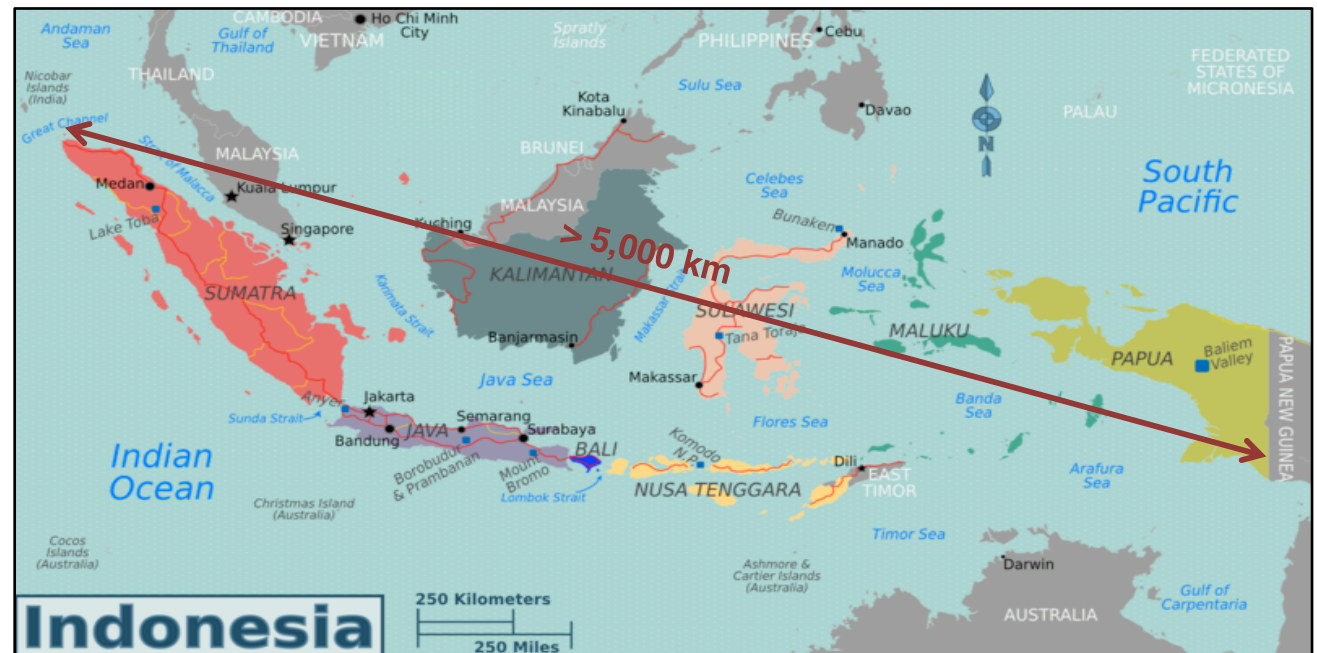
## About Indonesia

- Indonesia is one of the largest archipelagos in the world with over 17,000 islands.
- The country is the fourth most populated country with 255 m inhabitants.
- Indonesia has a young population with more than 56% under the age of 30.
- The majority of the population and its economic activity is located on Java island.



### Indonesia in numbers:

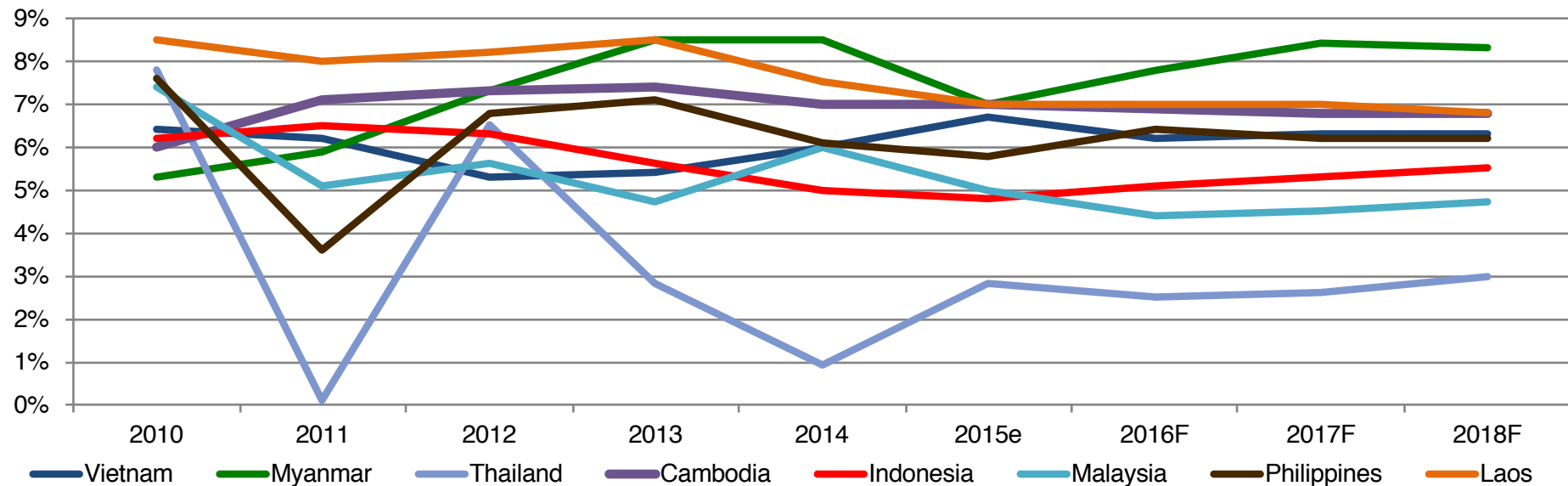
|                                      |         |
|--------------------------------------|---------|
| Population (2015):                   | 255 m   |
| Avg. population growth:              | 1.2%    |
| Consuming class (2012):              | 45 m    |
| Consuming class (2030F):             | 135 m   |
| Urbanisation rate:                   | 52%     |
| Inhabitants under 30 yrs.:           | 56%     |
| Area (km <sup>2</sup> ):             | 1.905 m |
| Density (inhab. / km <sup>2</sup> ): | 132     |



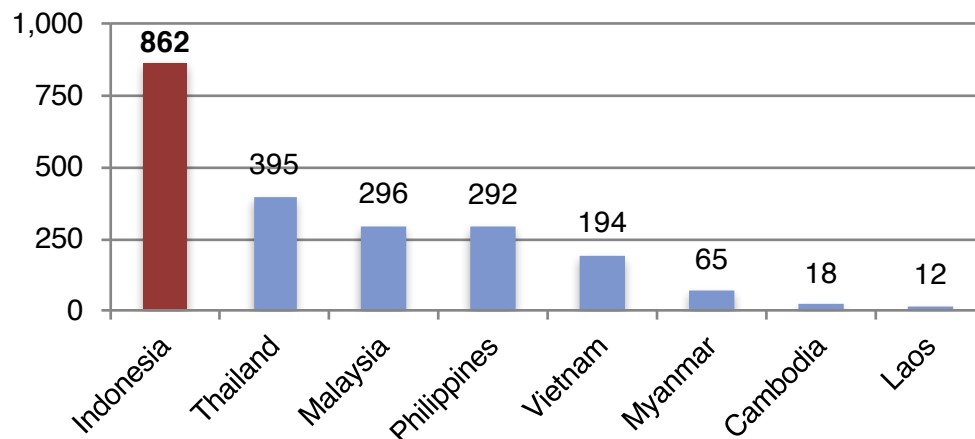


## Indonesia is the largest economy in ASEAN region

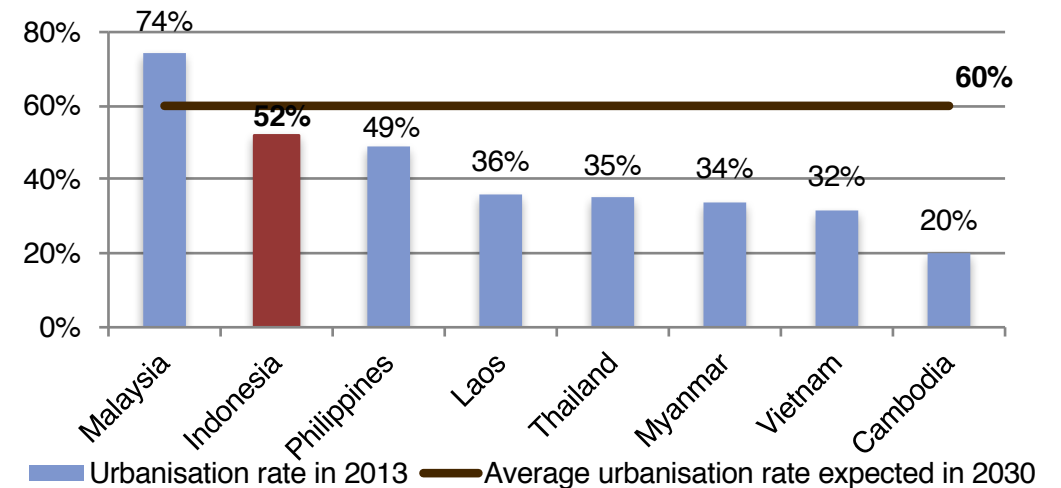
Real GDP growth (%) in ASEAN region



GDP per country (b USD, 2015)



Urbanisation rates per country (%)





# Indonesian Cement Industry

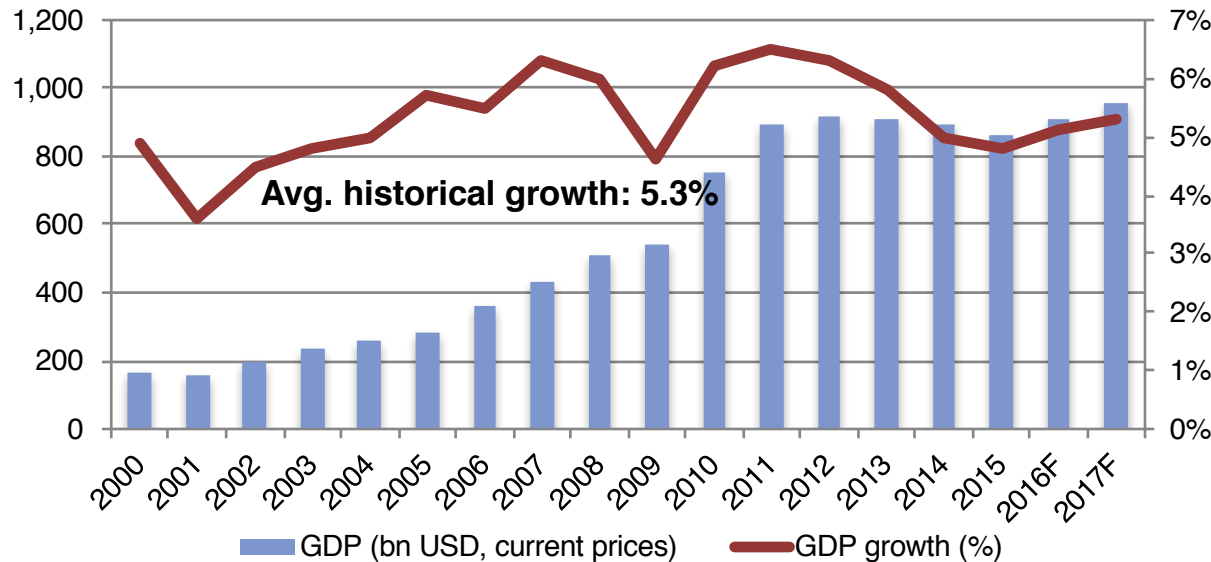
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# Indonesian economy: solid growth & strong consumption

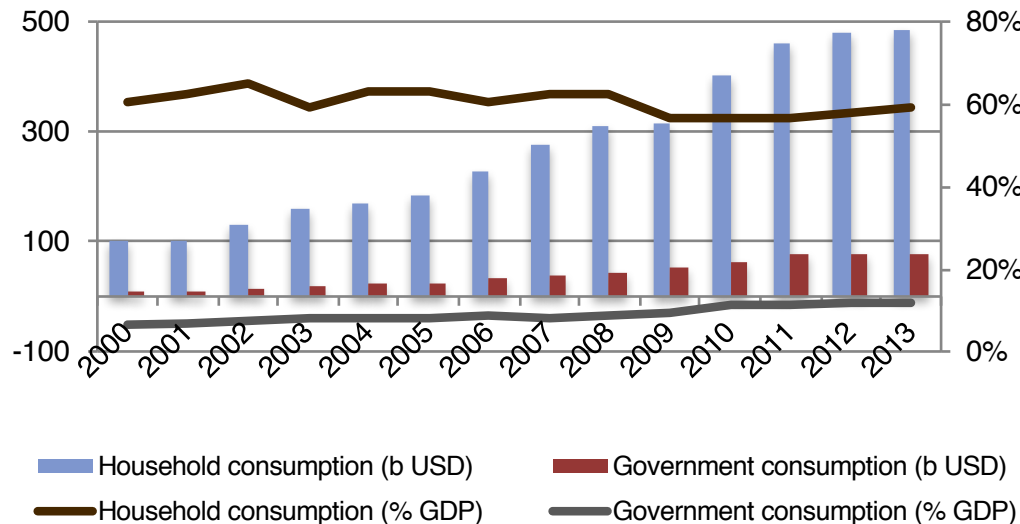
**Indonesian GDP & GDP growth (current b USD, %)**



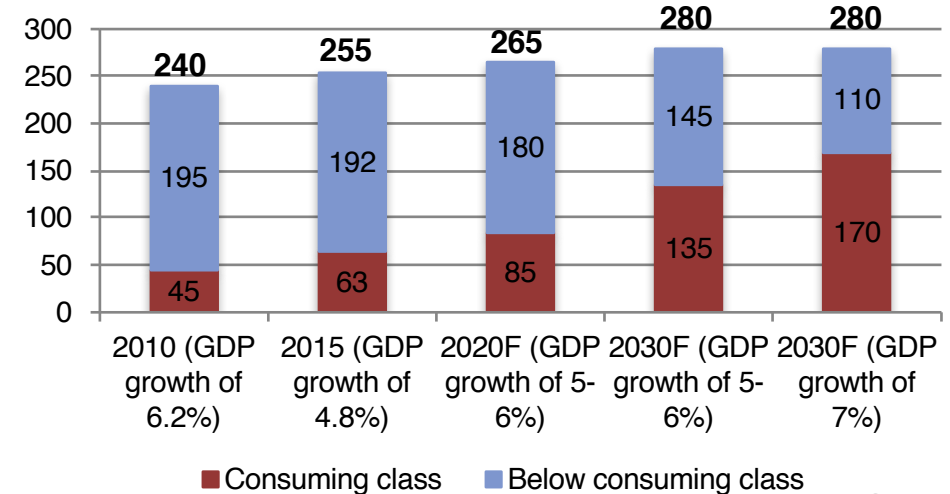
## Indonesian economy in numbers:

|                               |        |
|-------------------------------|--------|
| GDP (2015, USD, current):     | 862 b  |
| GDP growth (2015, %, real):   | 4.8%   |
| Inflation rate (July '16, %): | 3.21%  |
| BI rate (%):                  | 6.5%   |
| Unemployment rate (%):        | 5.5%   |
| Govt. balance (% GDP):        | -2.53% |
| Share of debt / GDP (%):      | 27%    |
| Current account (% GDP):      | -2.39% |

**Household & govt. expenditure**



**Indonesian consuming class (m people)**



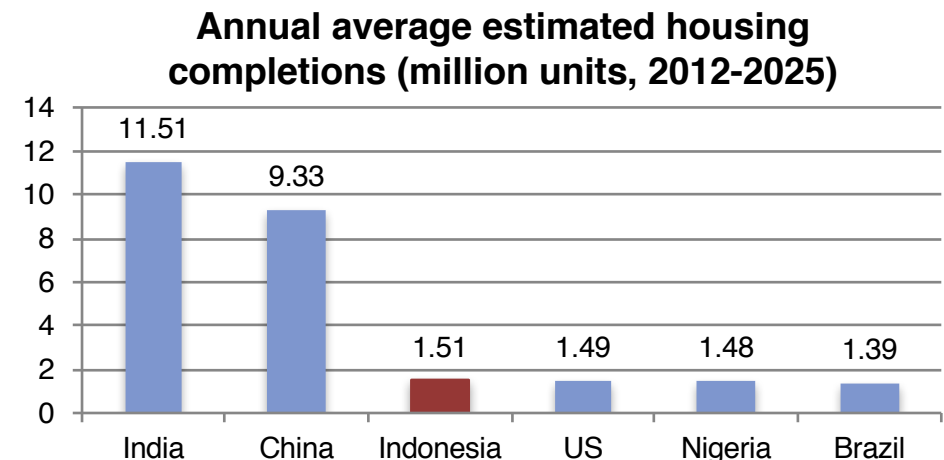
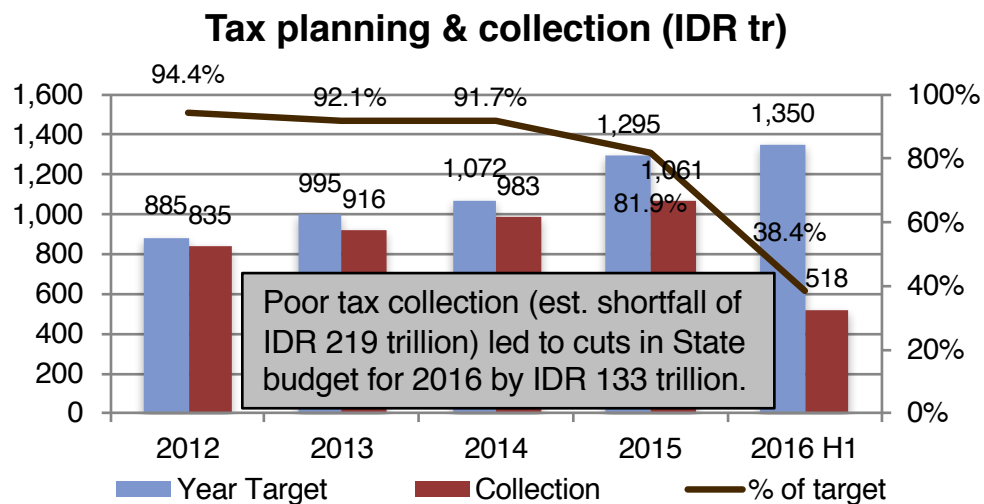
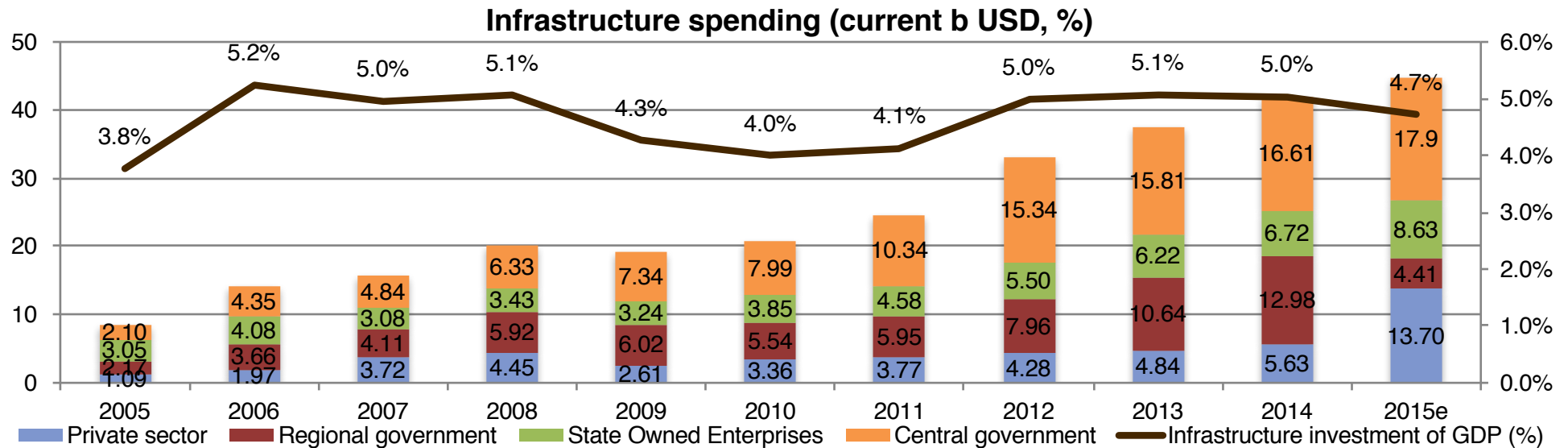




## The Indonesian Govt. is a crucial link in the cement market

**Govt. continues to account for the majority of infrastructure spending in Indonesia.**

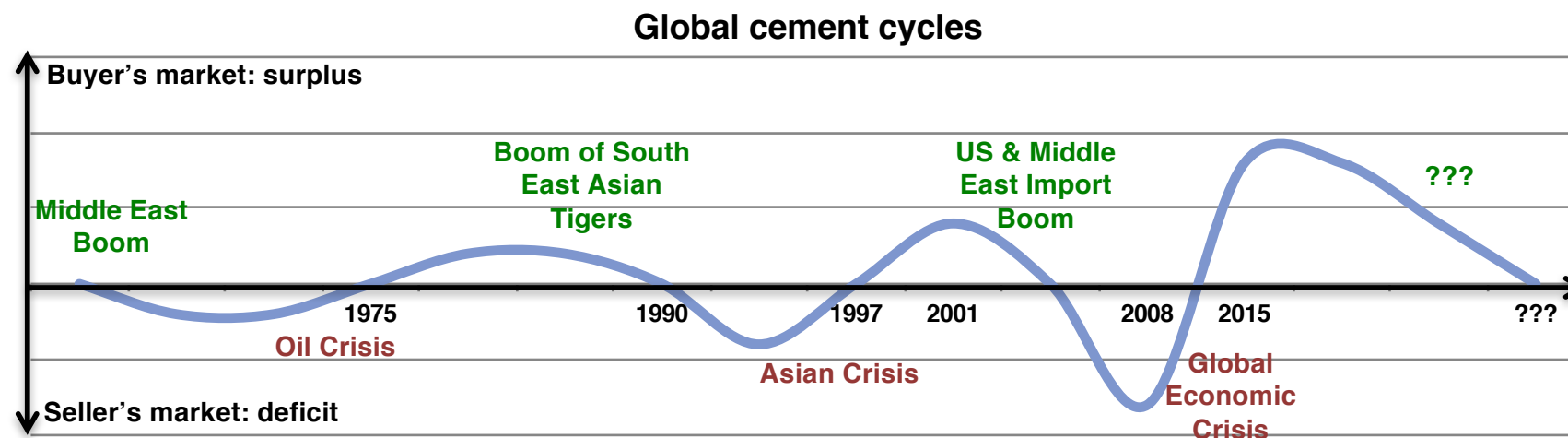
**Govt. has ambitious plans to accelerate infrastructure spending .....**



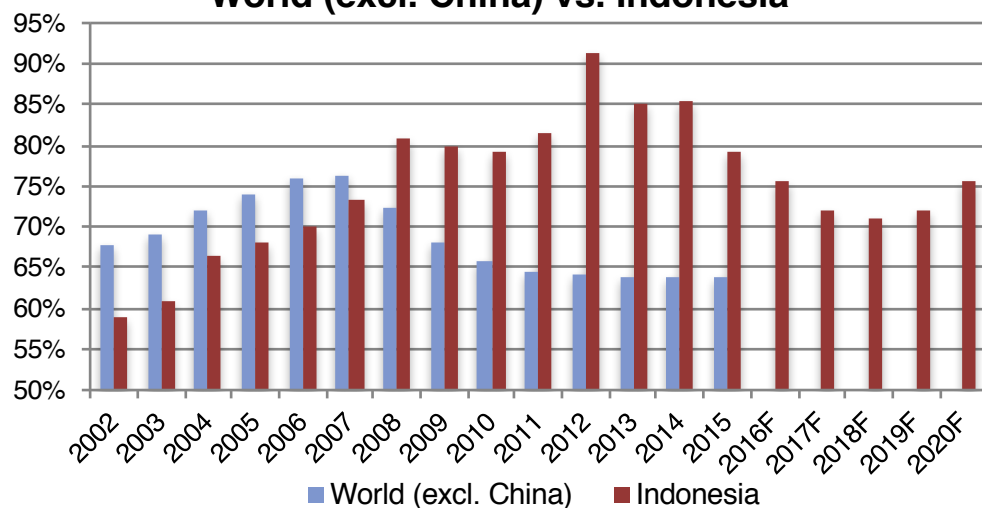


# Lessons learned from cycles in the global cement industry

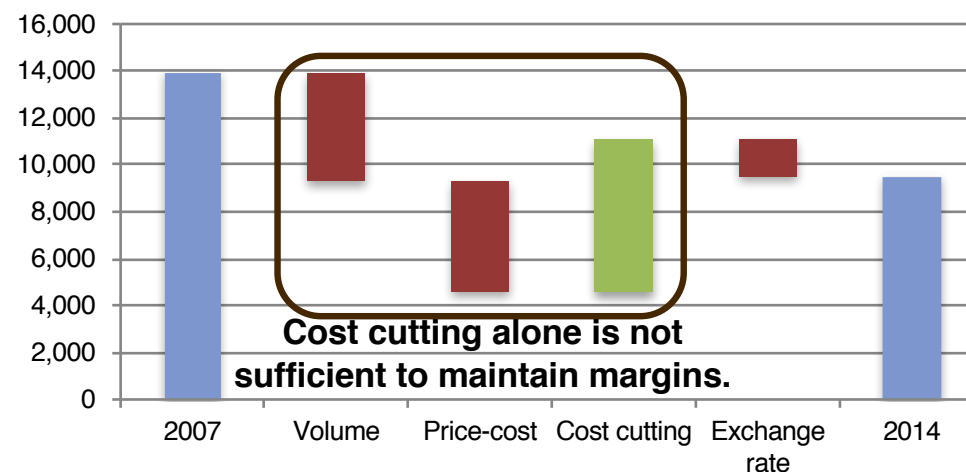
Indonesian cement industry has experienced a long upward cycle which is ending.  
The industry was changed into a buyers market driven by regional surpluses and new entrants.



**Capacity utilisation rates:  
World (excl. China) vs. Indonesia**



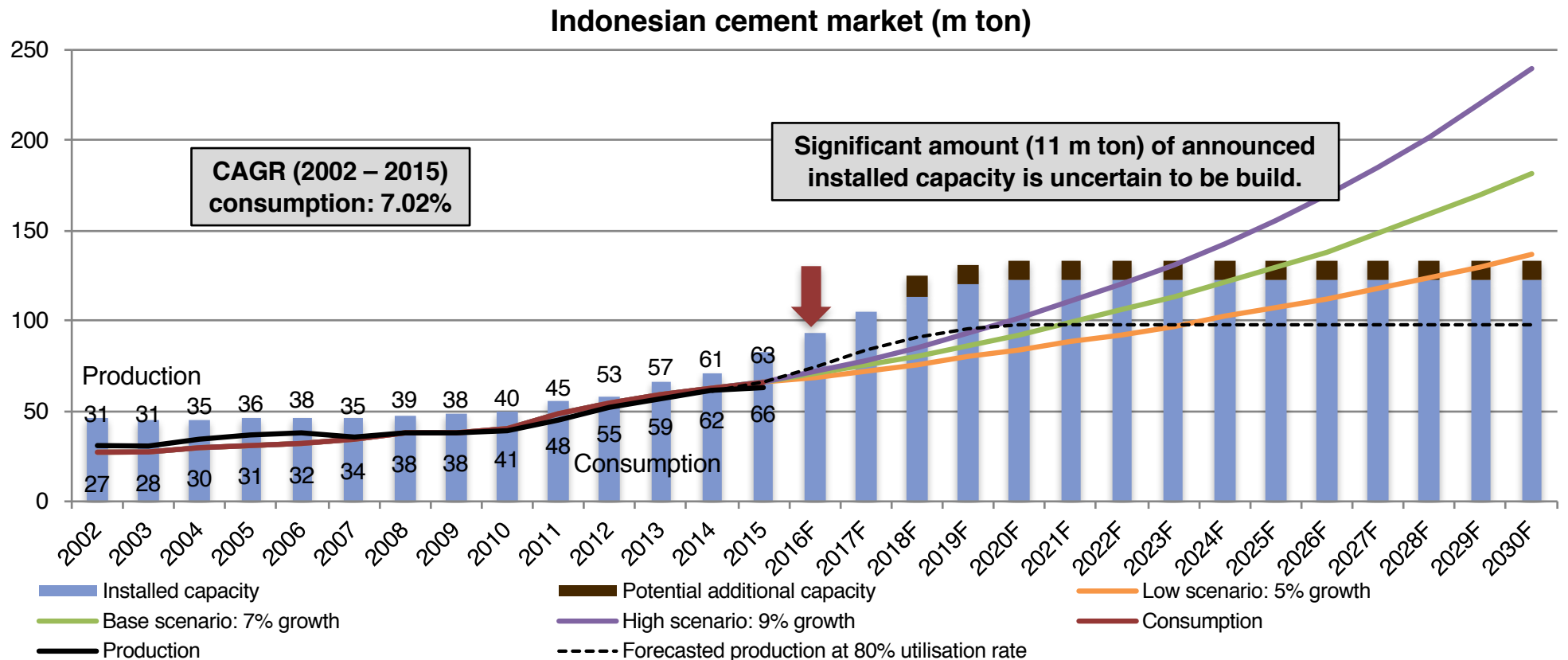
**Sector EBITDA drivers 2007-2014**







## Indonesian market will experience surplus in coming years



| Domestic utilisation rates (%): |      |      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
|---------------------------------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                                 | 2014 | 2015 | 2016F | 2017F | 2018F | 2019F | 2020F | 2021F | 2022F | 2023F | 2024F | 2025F | 2026F | 2027F | 2028F | 2029F | 2030F |
| 5% growth:                      | 86%  | 79%  | 74%   | 69%   | 67%   | 67%   | 69%   | 72%   | 76%   | 80%   | 83%   | 88%   | 92%   | 97%   | 101%  | 107%  | 112%  |
| 7% growth:                      | 86%  | 79%  | 76%   | 72%   | 71%   | 72%   | 75%   | 81%   | 86%   | 92%   | 99%   | 106%  | 113%  | 121%  | 130%  | 139%  | 149%  |
| 9% growth:                      | 86%  | 79%  | 77%   | 75%   | 75%   | 78%   | 83%   | 90%   | 98%   | 107%  | 117%  | 127%  | 139%  | 151%  | 165%  | 180%  | 196%  |

**Based on the total cement capacity, Indonesia will experience excess capacity in the years to come.**

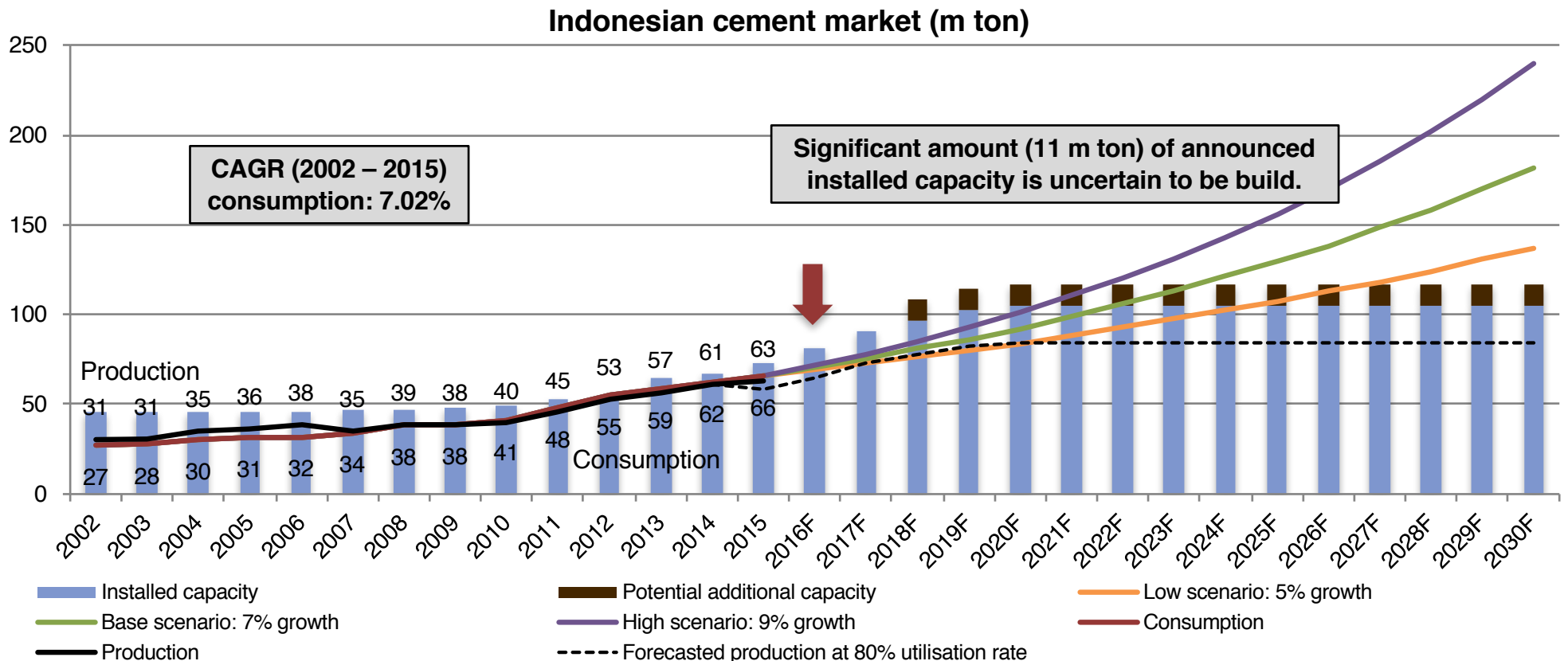
**With a similar growth of demand (7%) & production at 80% utilisation, surplus will remain until 2021.**

Note: Domestic utilisation rates are based on domestic consumption and total installed capacity (incl. grinding mills).

Source: Global Cement, CW Research, Morgan Stanley, DBS Research, ASI, TJAG



## Outlook is different when only considering integrated plants



### Domestic utilisation rates (%):

|            | 2014 | 2015 | 2016F | 2017F | 2018F | 2019F | 2020F | 2021F | 2022F | 2023F | 2024F | 2025F | 2026F | 2027F | 2028F | 2029F | 2030F |
|------------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 5% growth: | 92%  | 90%  | 85%   | 80%   | 79%   | 78%   | 80%   | 84%   | 88%   | 92%   | 97%   | 102%  | 107%  | 112%  | 118%  | 124%  | 130%  |
| 7% growth: | 92%  | 90%  | 86%   | 83%   | 83%   | 84%   | 88%   | 94%   | 100%  | 107%  | 115%  | 123%  | 132%  | 141%  | 151%  | 161%  | 172%  |
| 9% growth: | 92%  | 90%  | 88%   | 86%   | 88%   | 90%   | 96%   | 105%  | 114%  | 125%  | 136%  | 148%  | 161%  | 176%  | 192%  | 209%  | 228%  |

**Considering only the capacity of integrated plants, excess capacity will still be significantly lower.**

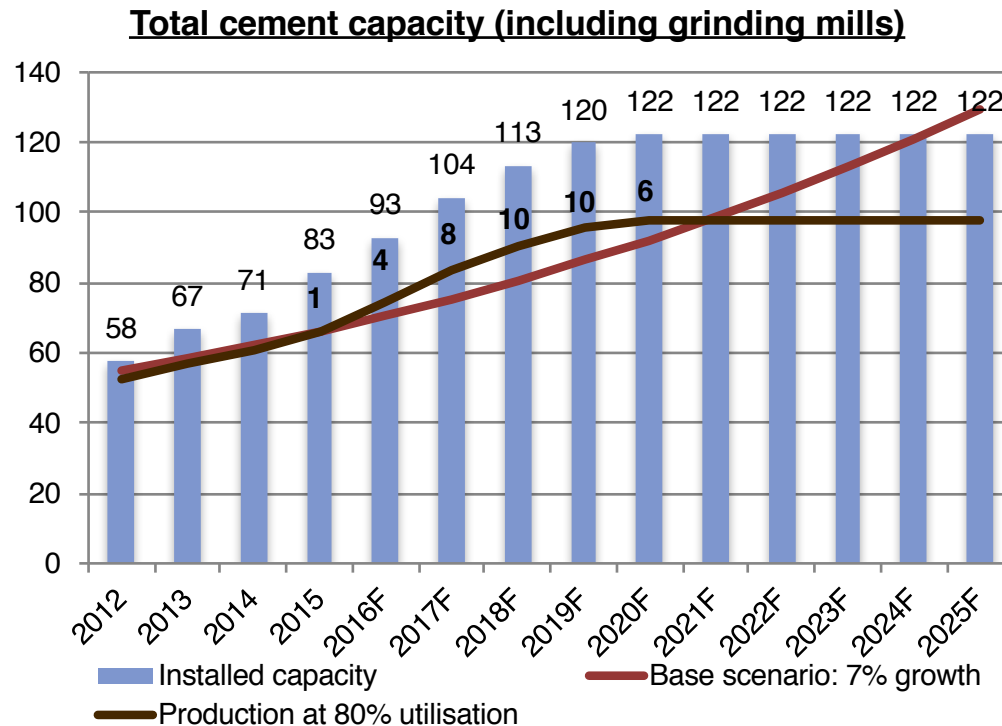
**With a similar growth of demand (7%) & production at 80% utilisation, there will not be any surplus.**

Note: Domestic utilisation rates are based on domestic consumption and total installed capacity of integrated plants (cement capacity). 10

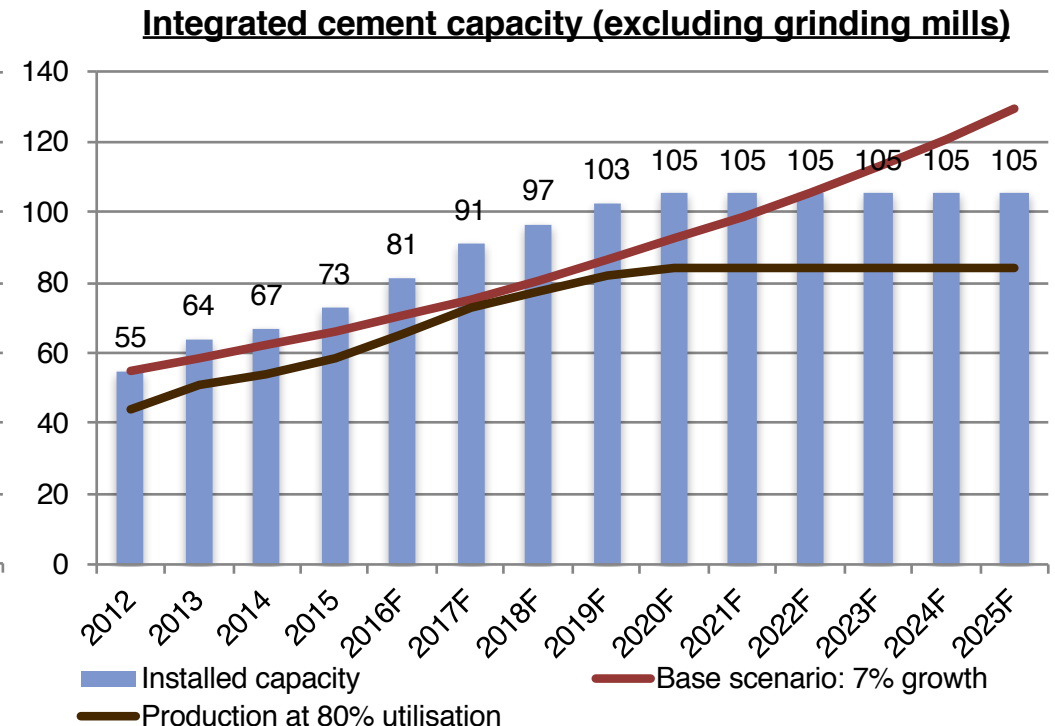
Source: Global Cement, CW Research, Morgan Stanley, DBS Research, ASI, TJAG



## Expected excess capacity might be smaller than expected



Note: Considering total installed capacity (incl. grinding mills).

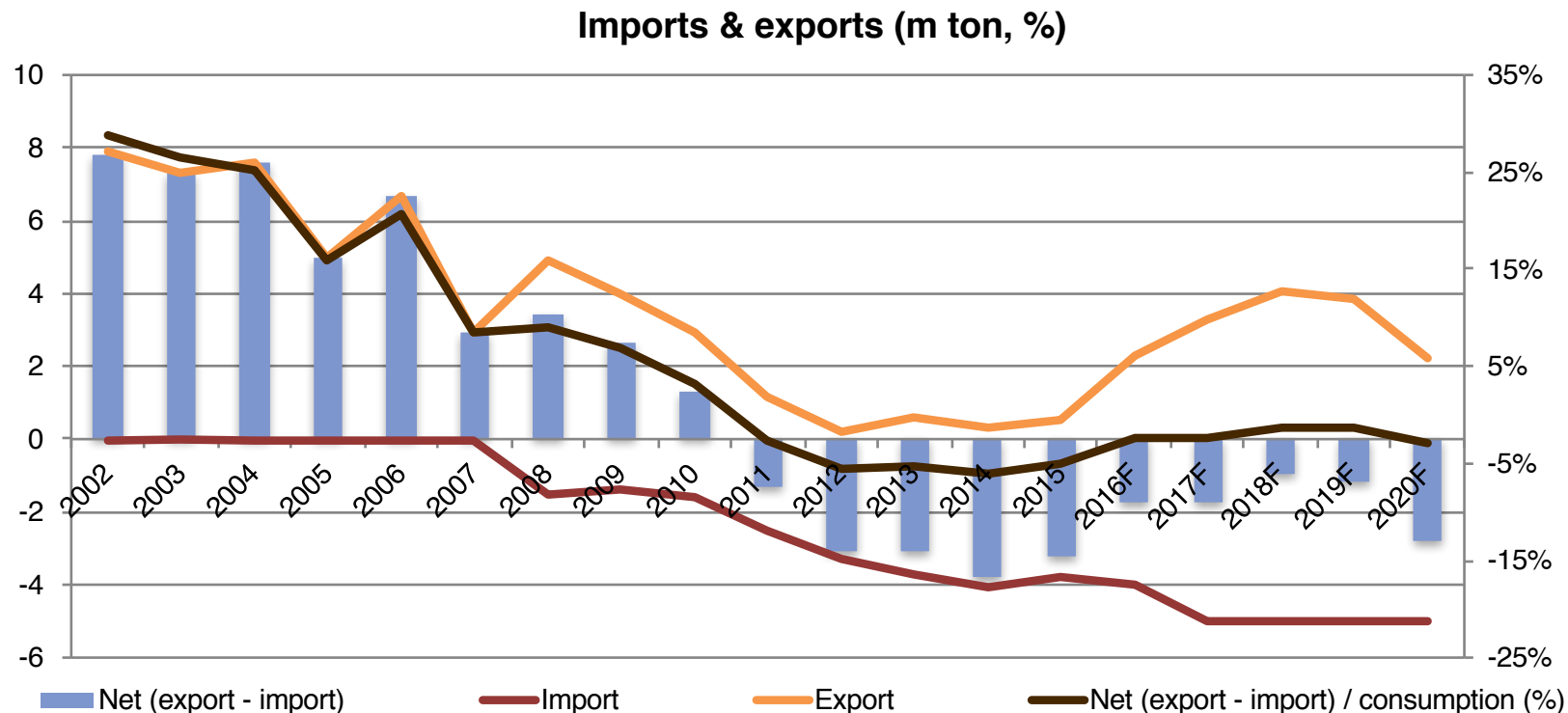


Note: Considering total cement capacity of integrated plants (excl. grinding mills).

- Considering the total installed cement capacity that is likely to start production in the near future, the surplus is expected to be big. However, if we consider only integrated plants and assuming production at 80% utilisation rate, there will not be any surplus.
- Indonesian import regulation could have a big impact on the cement industry in the years to come. In principal, only companies with an integrated plant can import clinker for their own production.



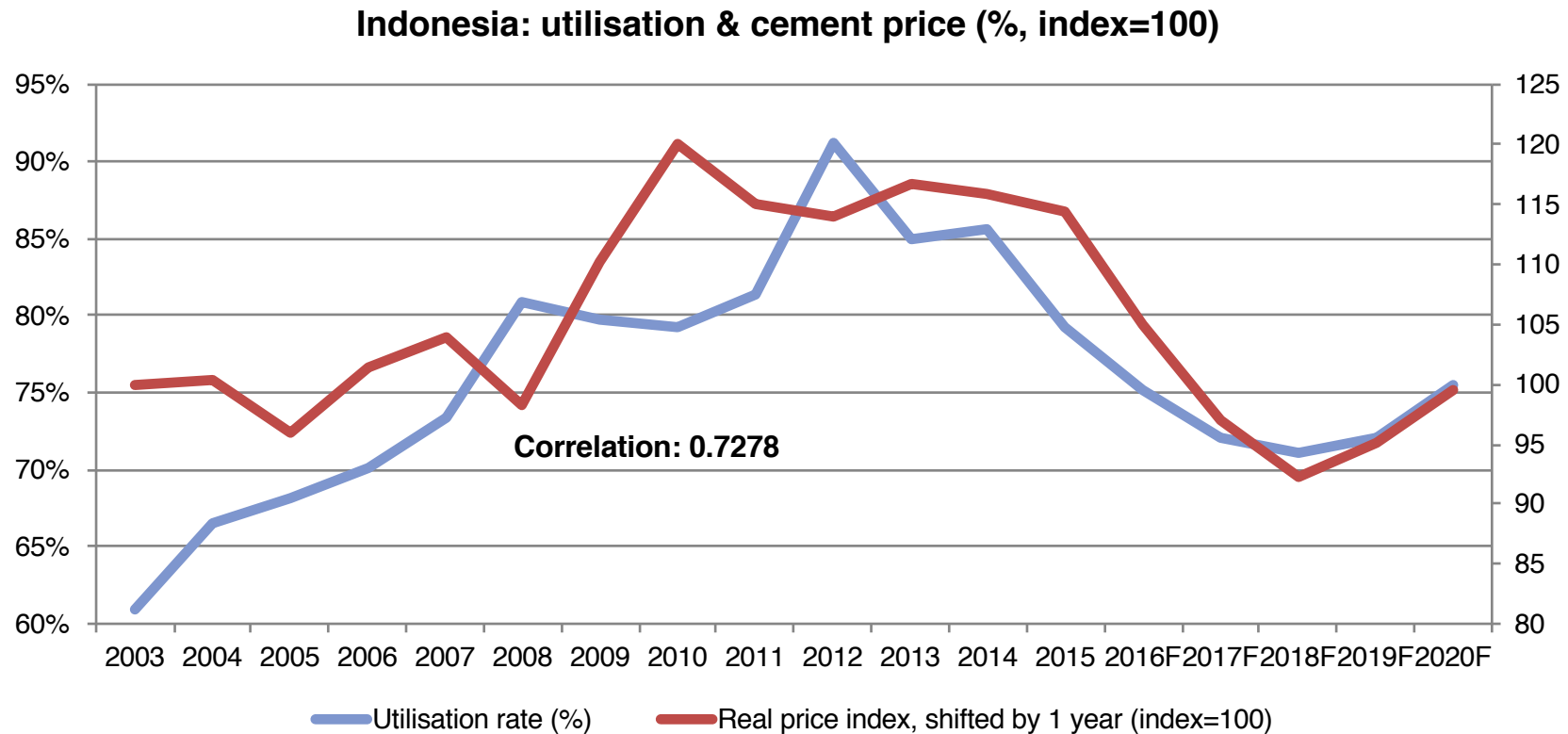
## Indonesian cement market: imports & exports



- Even though there may not be an actual surplus in Indonesia on country level, exports will be unavoidable for some cement plants due to their location (e.g. Sumatra and Sulawesi).
- At the same time, clinker production is likely to be insufficient to meet the domestic demand. Therefore, clinker imports will increase further in the near future and Indonesia will remain a net importer.
- Most of the imports until 2015 were done by Semen Merah Putih, who brings cement and clinker from Vietnam. This strategy allowed them to capture market share while they were completing their plant.



## Correlation between utilisation rates & cement price in Indonesia



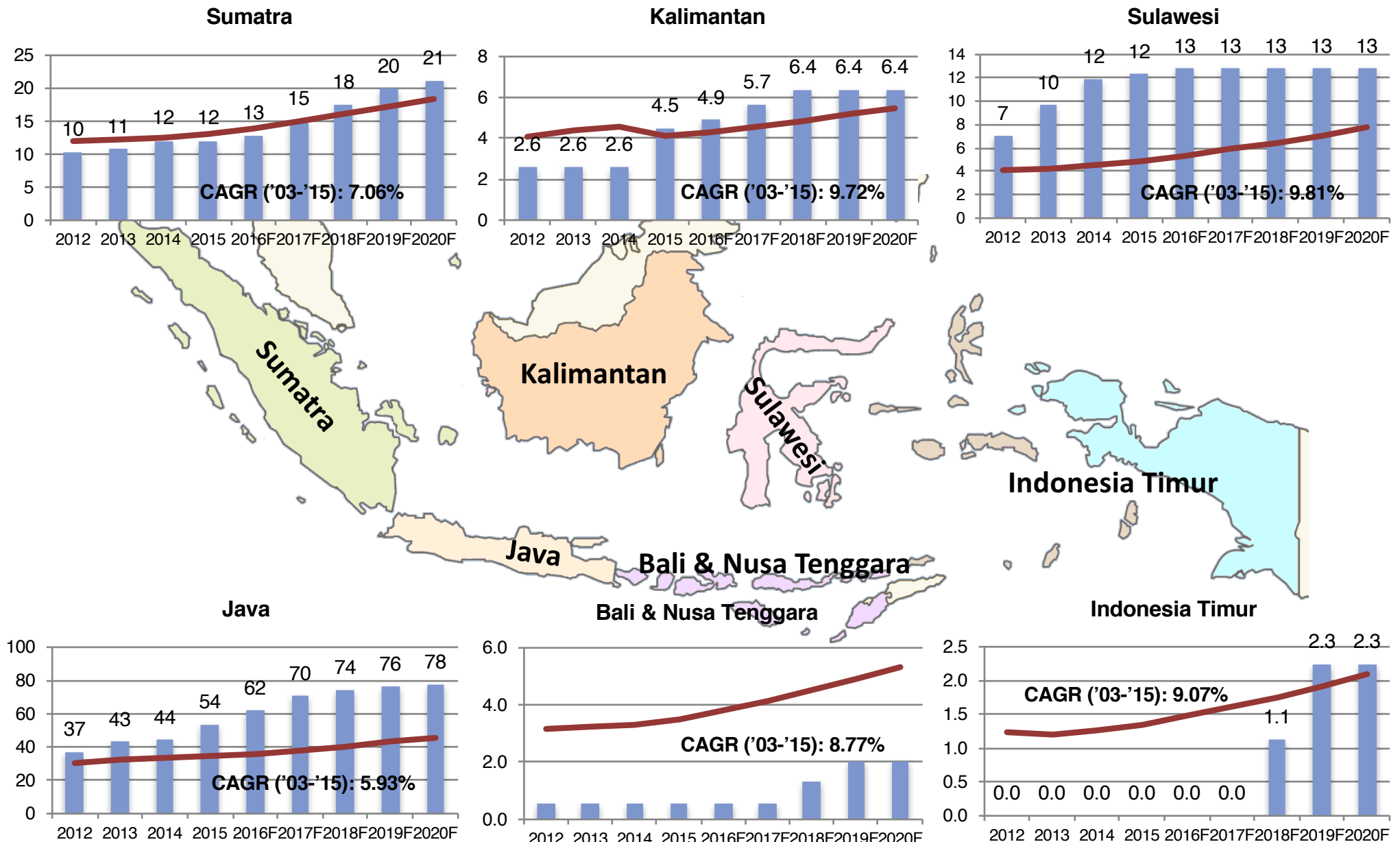
- There is a strong correlation between utilisation rates and price of cement. Since utilisation rates are expected to go down, one can expect that price will reach a low in 2018.
- Especially, in Java where most of the surplus will be located, prices can be expected to go down. However, on the other Indonesian islands prices are likely to remain higher.
- Despite utilisation rates were below 100%, Indonesia was already a net importer for the past 5 years.

Note: Real price index indicates cement prices with index 100 in 2003 as base and is corrected for inflation.

Source: Morgan Stanley, TJAG



# Indonesian cement market per region: capacity & demand



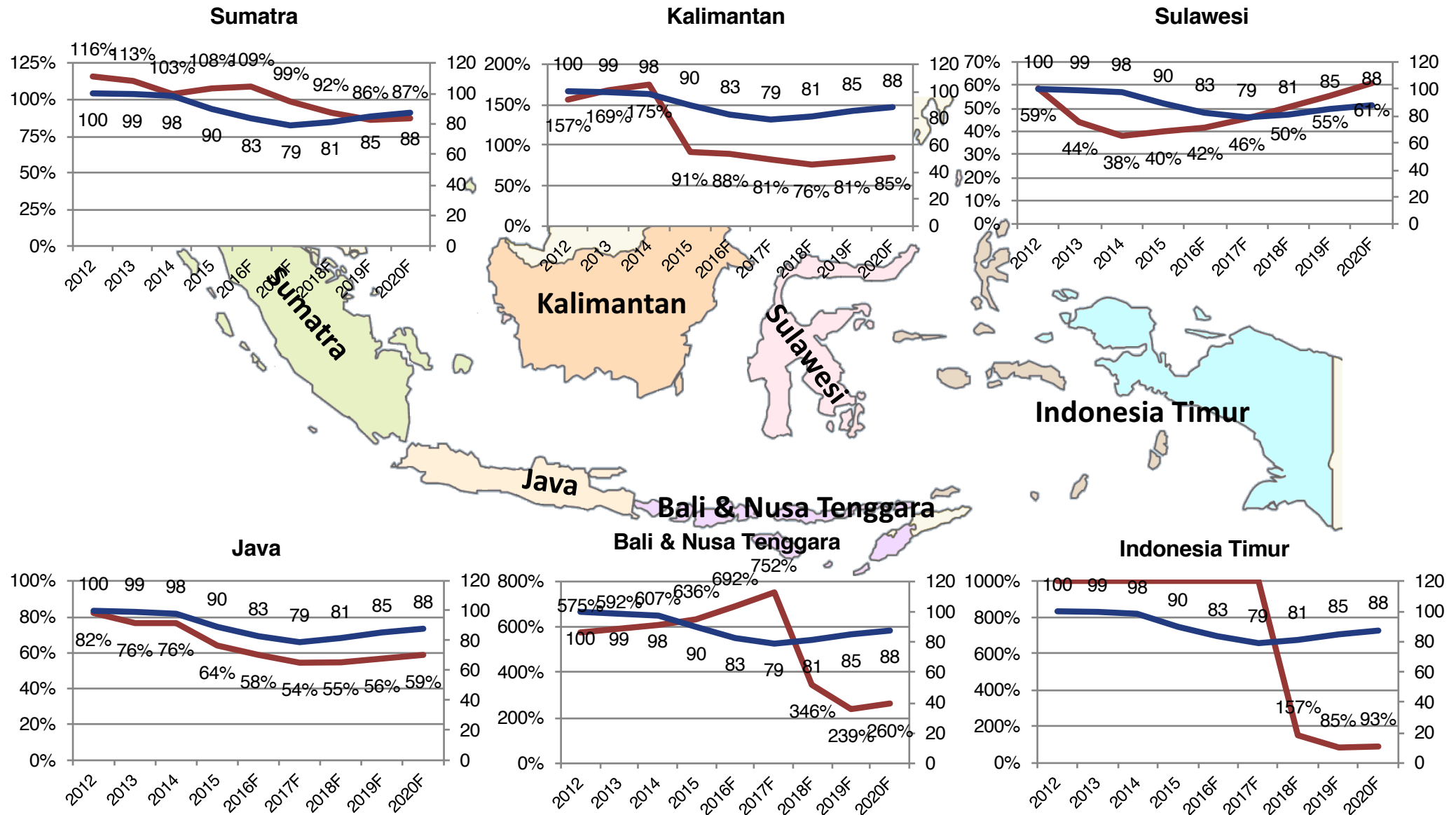
Note: Forecasted cement consumption is based on historical CAGR (2003-2015) of that region.

Source: Semen Indonesia, ASI, TJAG



# Indonesian cement market per region: utilisation & cement price

Utilisation rate based on regional cement demand (LHS) & National real price index of cement (RHS)



Note: Forecasted utilisation is based on demand growth similar to historical levels of that region - CAGR (2003-2015).

Source: Semen Indonesia, ASI, TJAG





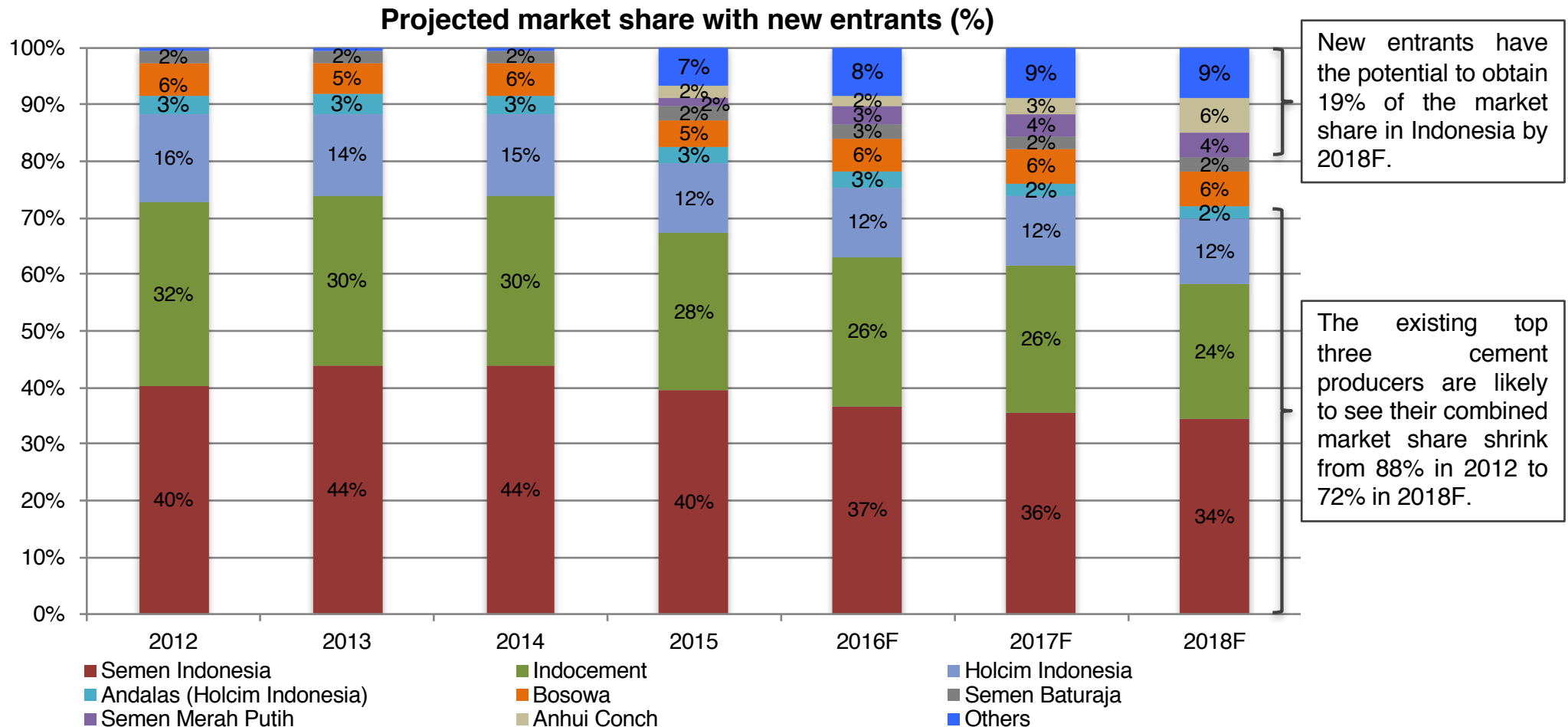
## Sales per cement producer in Indonesia

| Sales per producer (7% growth)        | 2012        | 2013        | 2014        | 2015        | 2016F       | 2017F       | 2018F       |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Semen Indonesia                       | 22.1        | 25.7        | 27.2        | 26.0        | 25.9        | 26.9        | 27.8        |
| Indocement                            | 17.8        | 17.7        | 18.6        | 18.3        | 18.6        | 19.6        | 19.2        |
| Holcim Indonesia                      | 8.6         | 8.5         | 9.1         | 8.1         | 8.6         | 9.1         | 9.3         |
| Bosowa                                | 3.1         | 3.2         | 3.6         | 3.1         | 4.0         | 4.7         | 5.0         |
| Semen Andalas (Lafarge)               | 1.8         | 2.0         | 2.0         | 2.0         | 2.0         | 1.8         | 1.7         |
| Semen Baturaja                        | 1.3         | 1.3         | 1.3         | 1.5         | 1.9         | 1.4         | 2.0         |
| Semen Kupang                          | 0.3         | 0.2         | 0.2         | 0.8         | 0.8         | 0.8         | 0.8         |
| Semen Puger                           | 0.0         | 0.0         | 0.0         | 0.2         | 0.2         | 0.2         | 0.2         |
| <b>Existing producers</b>             | <b>55.0</b> | <b>58.6</b> | <b>62.0</b> | <b>59.9</b> | <b>61.9</b> | <b>64.4</b> | <b>66.0</b> |
| Anhui Conch                           | 0.0         | 0.0         | 0.0         | 1.4         | 1.5         | 2.1         | 5.0         |
| Siam Cement Group                     | 0.0         | 0.0         | 0.0         | 0.0         | 1.0         | 1.0         | 1.1         |
| Semen Merah Putih                     | 0.0         | 0.0         | 0.0         | 1.0         | 2.2         | 3.2         | 3.4         |
| Panasia                               | 0.0         | 0.0         | 0.0         | 0.9         | 0.9         | 0.9         | 1.3         |
| Jui Shin                              | 0.0         | 0.0         | 0.0         | 0.9         | 0.9         | 0.9         | 0.9         |
| Semen Jakarta                         | 0.0         | 0.0         | 0.0         | 0.7         | 0.7         | 0.8         | 0.8         |
| Semeru Surya                          | 0.0         | 0.0         | 0.0         | 0.4         | 0.8         | 0.8         | 0.8         |
| Sun Food Industries                   | 0.0         | 0.0         | 0.0         | 0.7         | 0.7         | 0.8         | 0.8         |
| YTL Group                             | 0.0         | 0.0         | 0.0         | 0.0         | 0.2         | 0.8         | 0.8         |
| <b>New entrants</b>                   | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>5.9</b>  | <b>8.6</b>  | <b>11.2</b> | <b>15.0</b> |
| <b>Total Indonesian cement market</b> | <b>55.0</b> | <b>58.6</b> | <b>62.0</b> | <b>65.9</b> | <b>70.5</b> | <b>75.5</b> | <b>81.0</b> |

|                                  |      |      |      |     |     |     |     |
|----------------------------------|------|------|------|-----|-----|-----|-----|
| Market share existing producers: | 100% | 100% | 100% | 91% | 88% | 85% | 81% |
| Market share new entrants:       | 0%   | 0%   | 0%   | 9%  | 12% | 15% | 19% |



## Existing producers will lose market share to new entrants

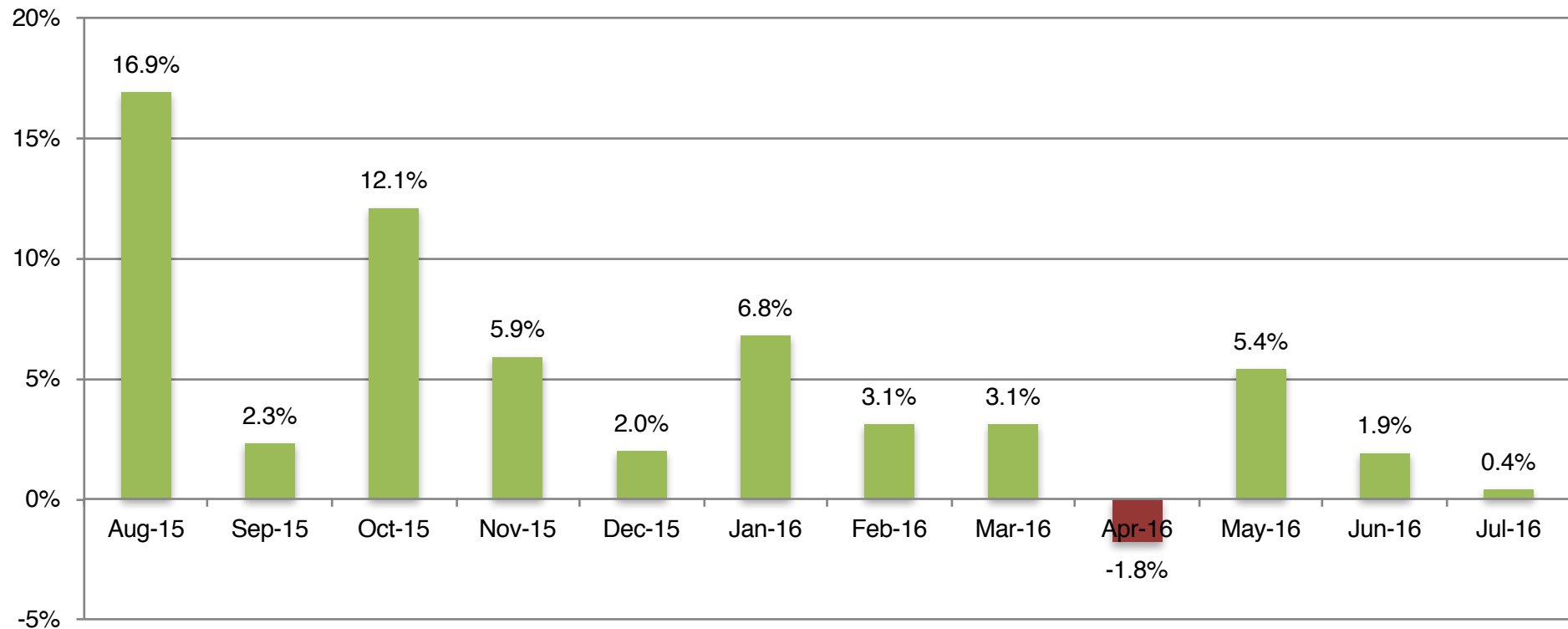


- Taking into account the location of the new entrants and the current sales per region of existing players, it seems that Semen Indonesia will be losing most market share.
- Some new plants are in a better location to serve particular markets, which will have severe impact on some existing plants who will be forced to export or leading to idle capacity.



## Growth of cement consumption in past 12 months by ASI

**Monthly cement demand growth (YoY %)**

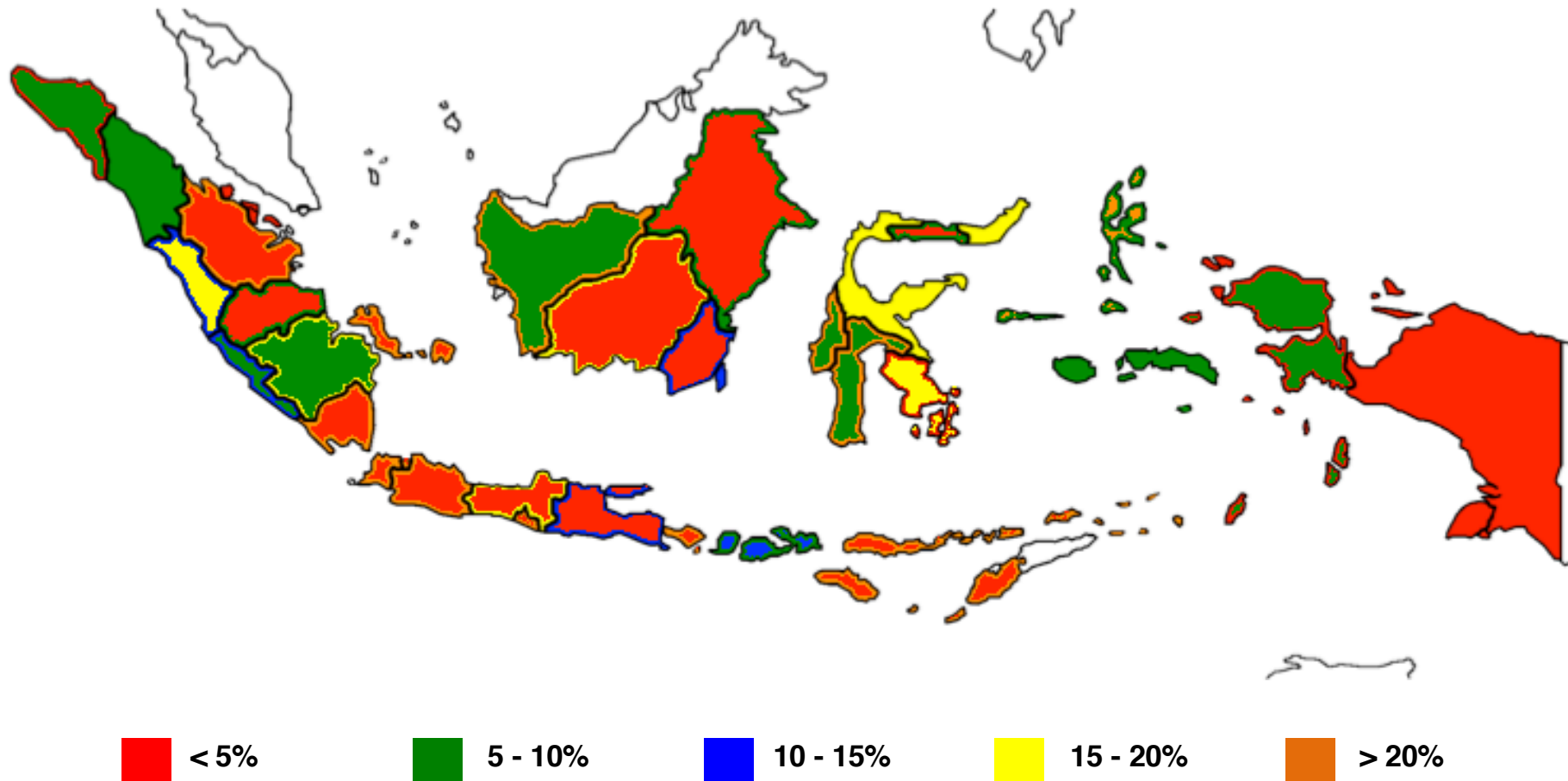


- Growth in cement consumption has been mostly positive for the past 12 months. Especially, second half of 2015 made up for the slowdown in cement consumption on the first half of the year.
- In H1 2016, the cement demand increased by 3.1% (YoY) according to ASI. Growth is expected to increase during H2 2016, while the total growth for 2016 is expected to be between 5-6%.



## Domestic growth of consumption per province in 2015

**Cement consumption has grown between 0 – 10% in most of the provinces according to ASI.**

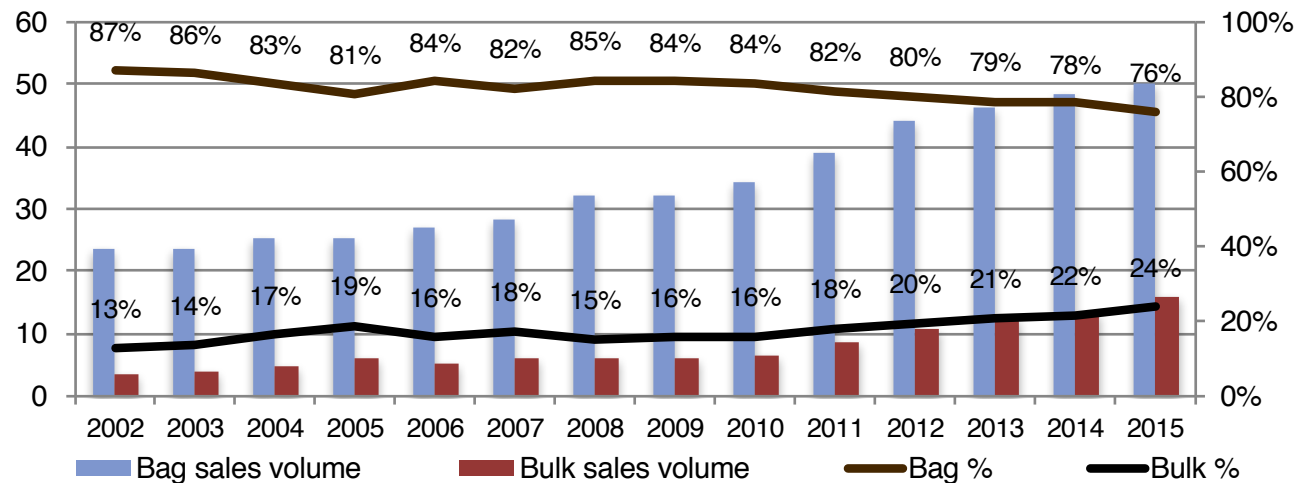


Note: Different color surrounding each province indicates growth figure of 2014.

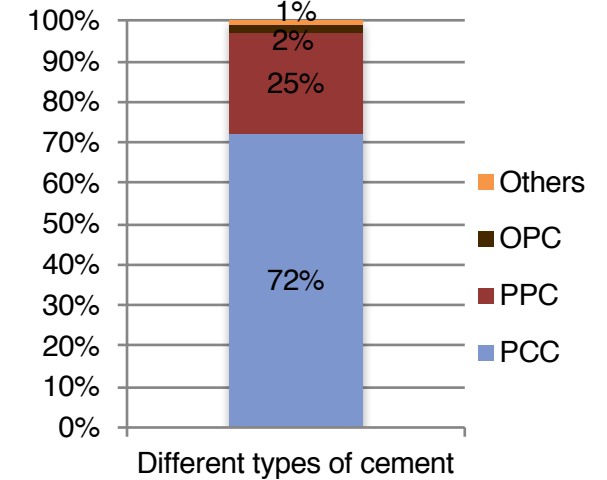


## Bag consumption remains significant, but bulk is increasing

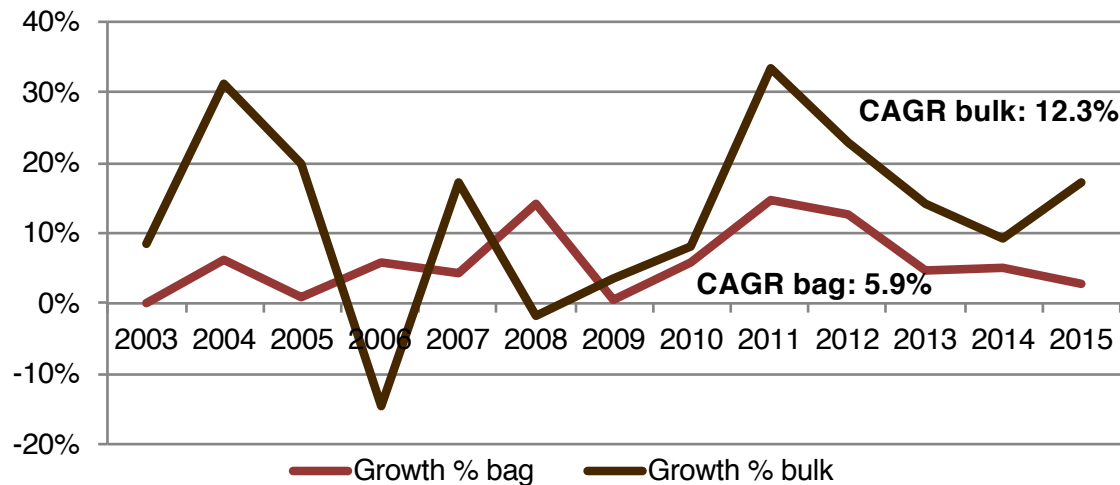
**Bag vs Bulk (m ton, %)**



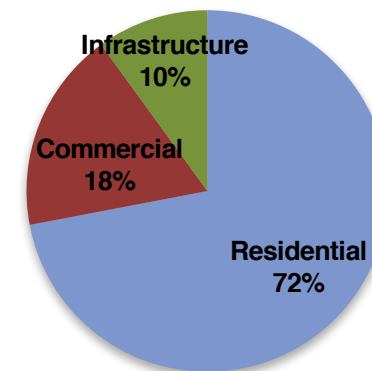
**Types of Cement (%)**



**Growth of bag & bulk (%)**



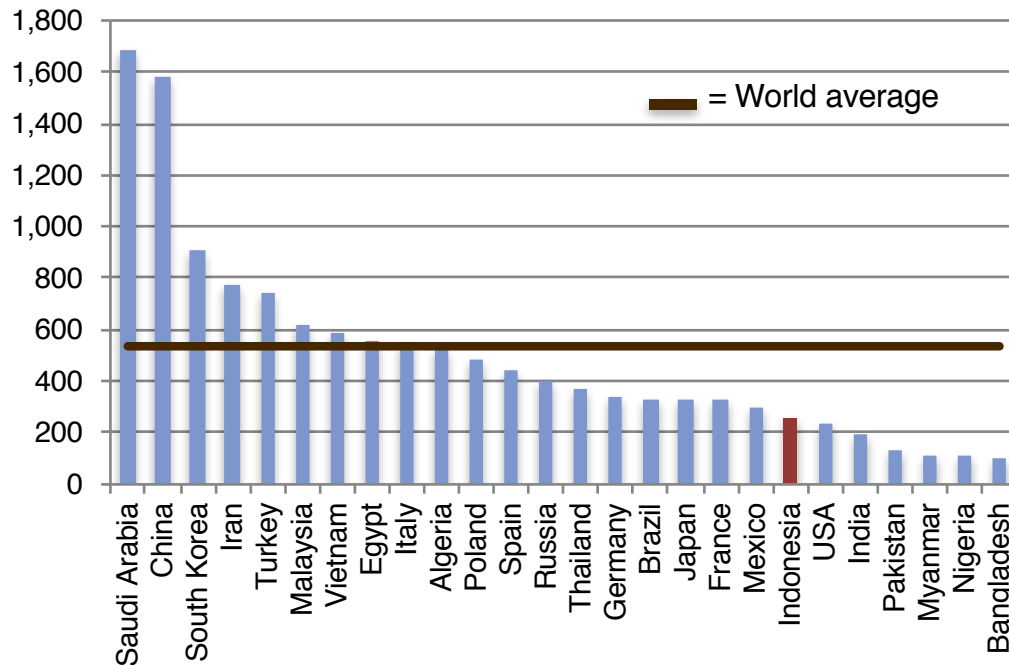
**Sales breakdown per segment**





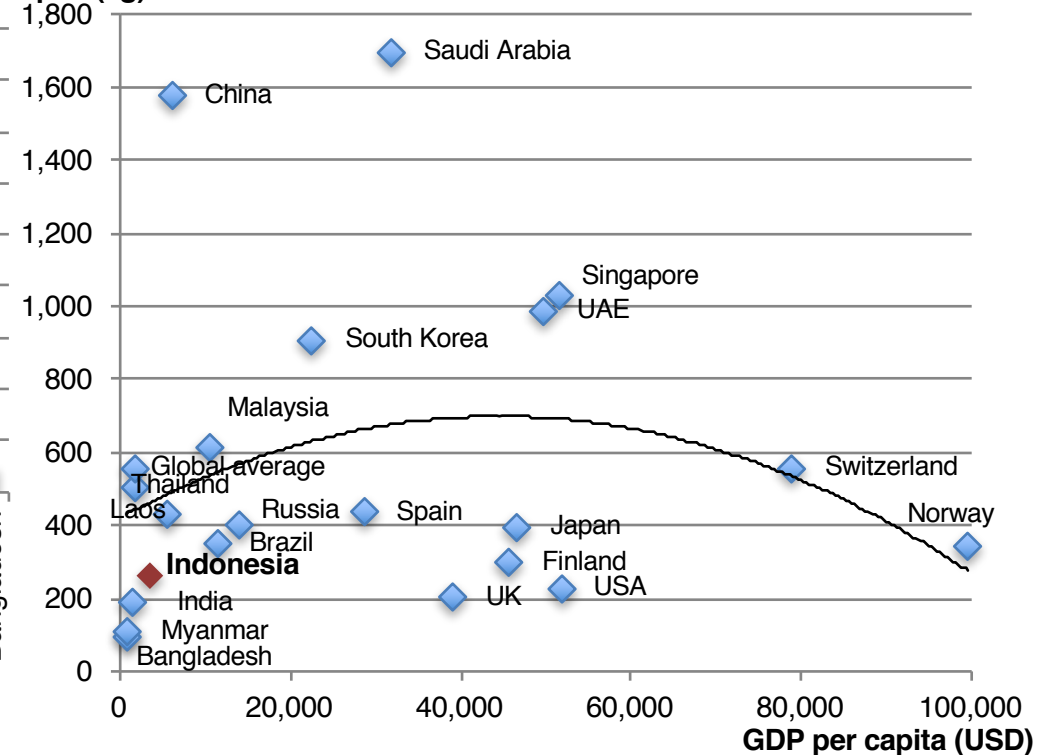
# Indonesian cement market compared to other ASEAN countries

Cement consumption per capita (kg)

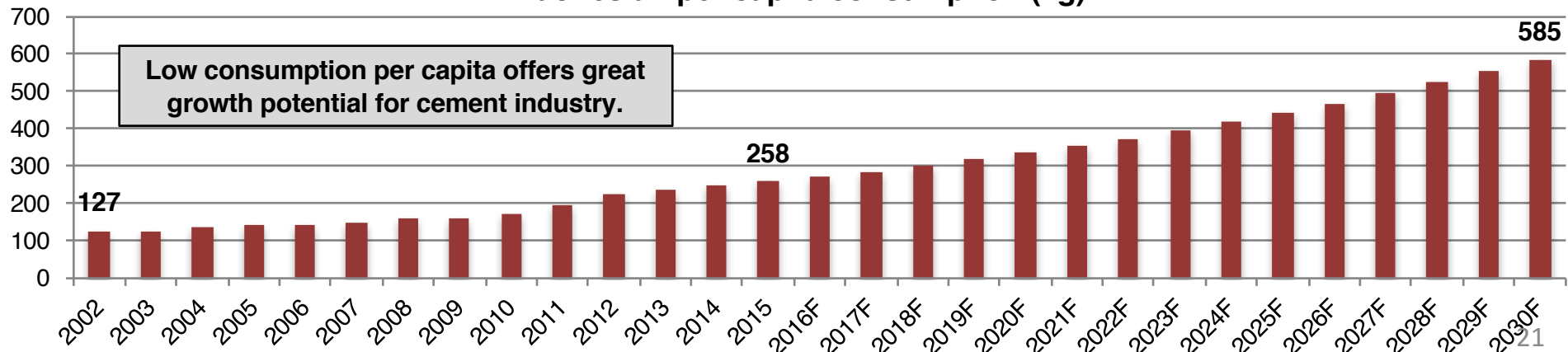


Cement per capita (kg)

Cement consumption & GDP per capita



Indonesian per capita consumption (kg)





# Indonesian Cement Industry

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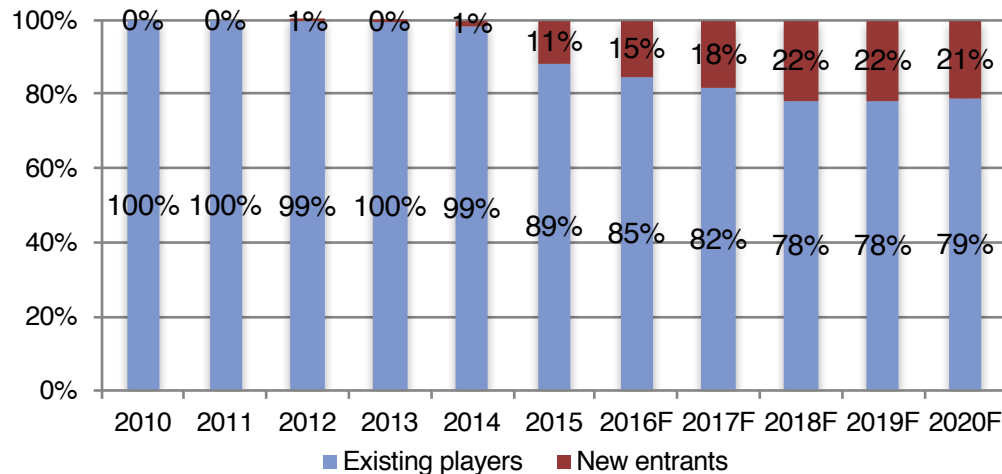
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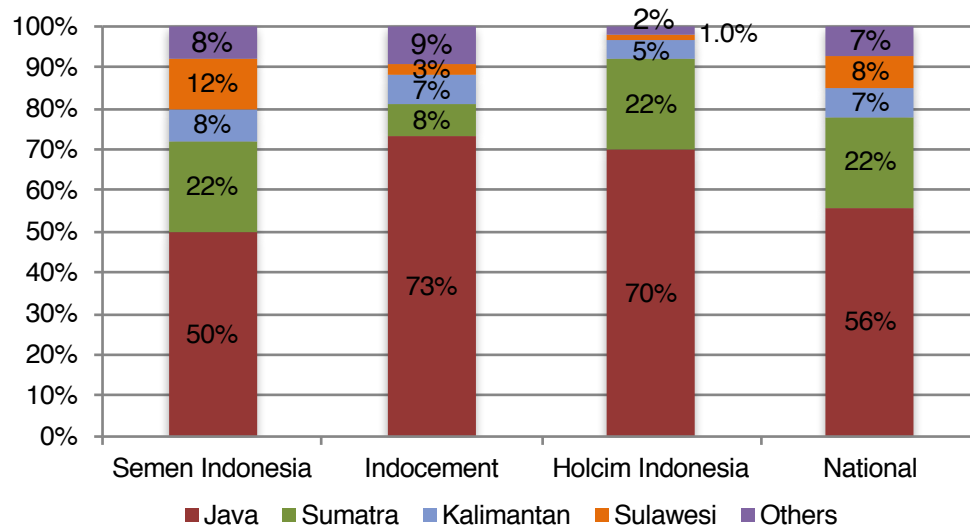


## Traditional Indonesian cement firms will feel more pressure

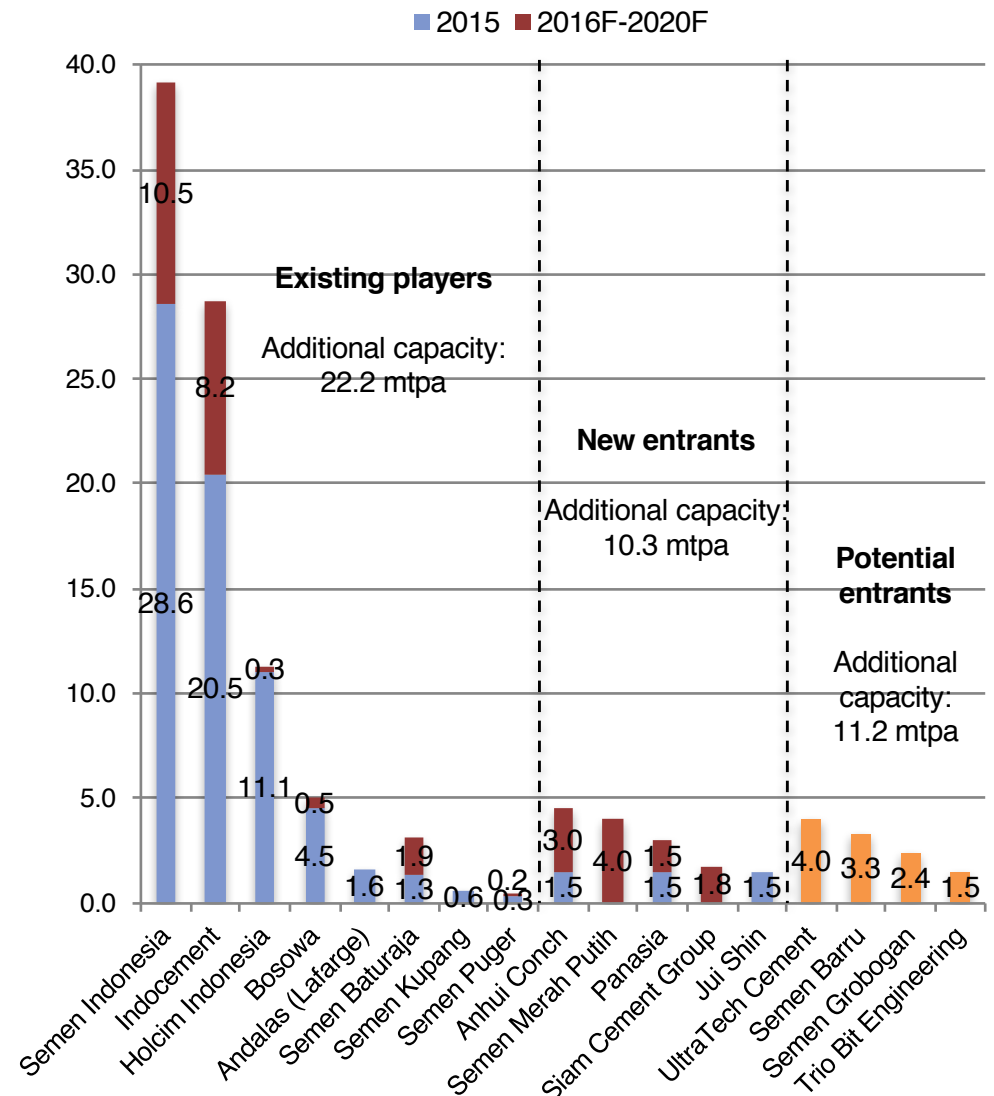
**Cement capacity: existing vs new firms (%)**



**Sales volume by region (%)**

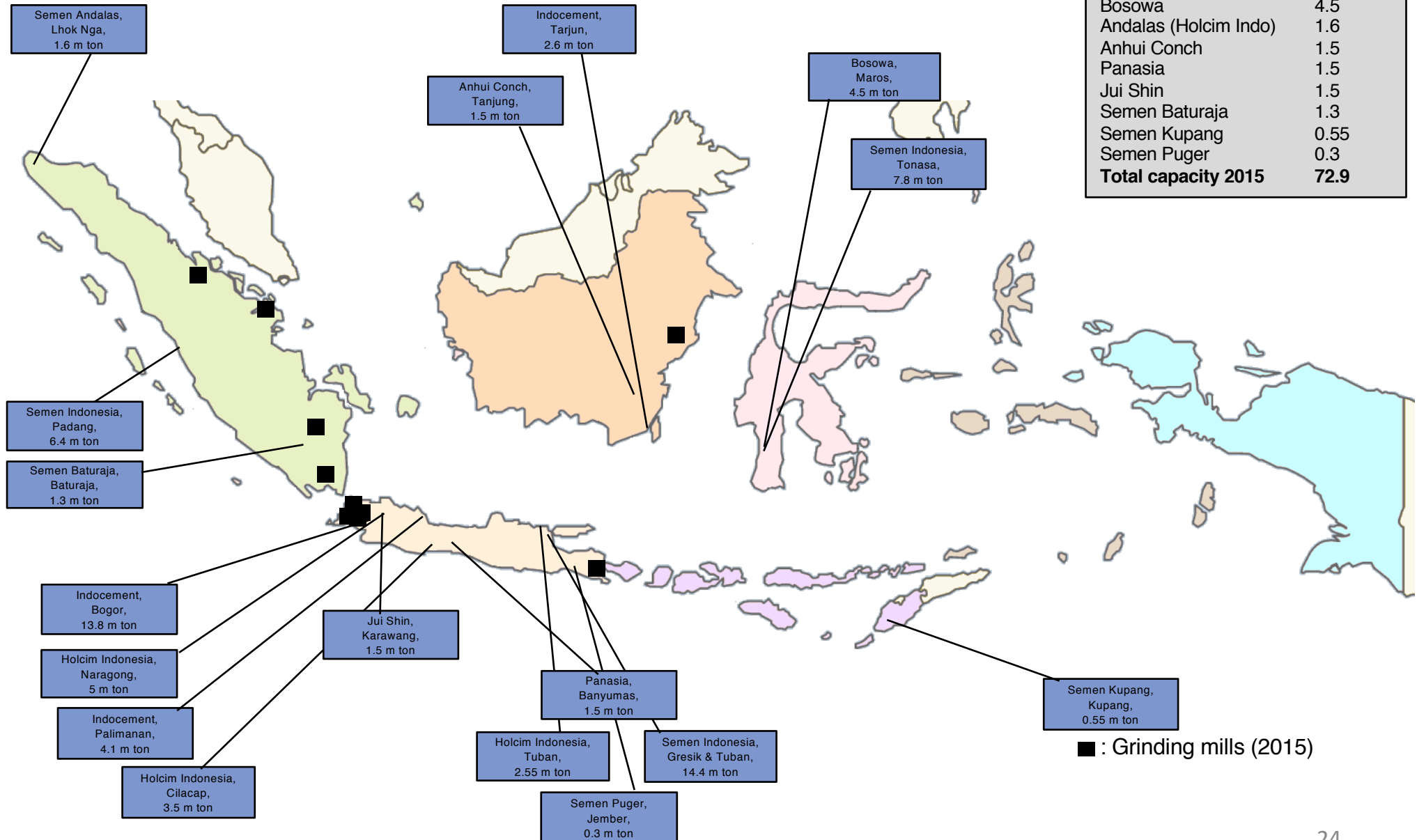


**Expansion of integrated plants (m ton)**



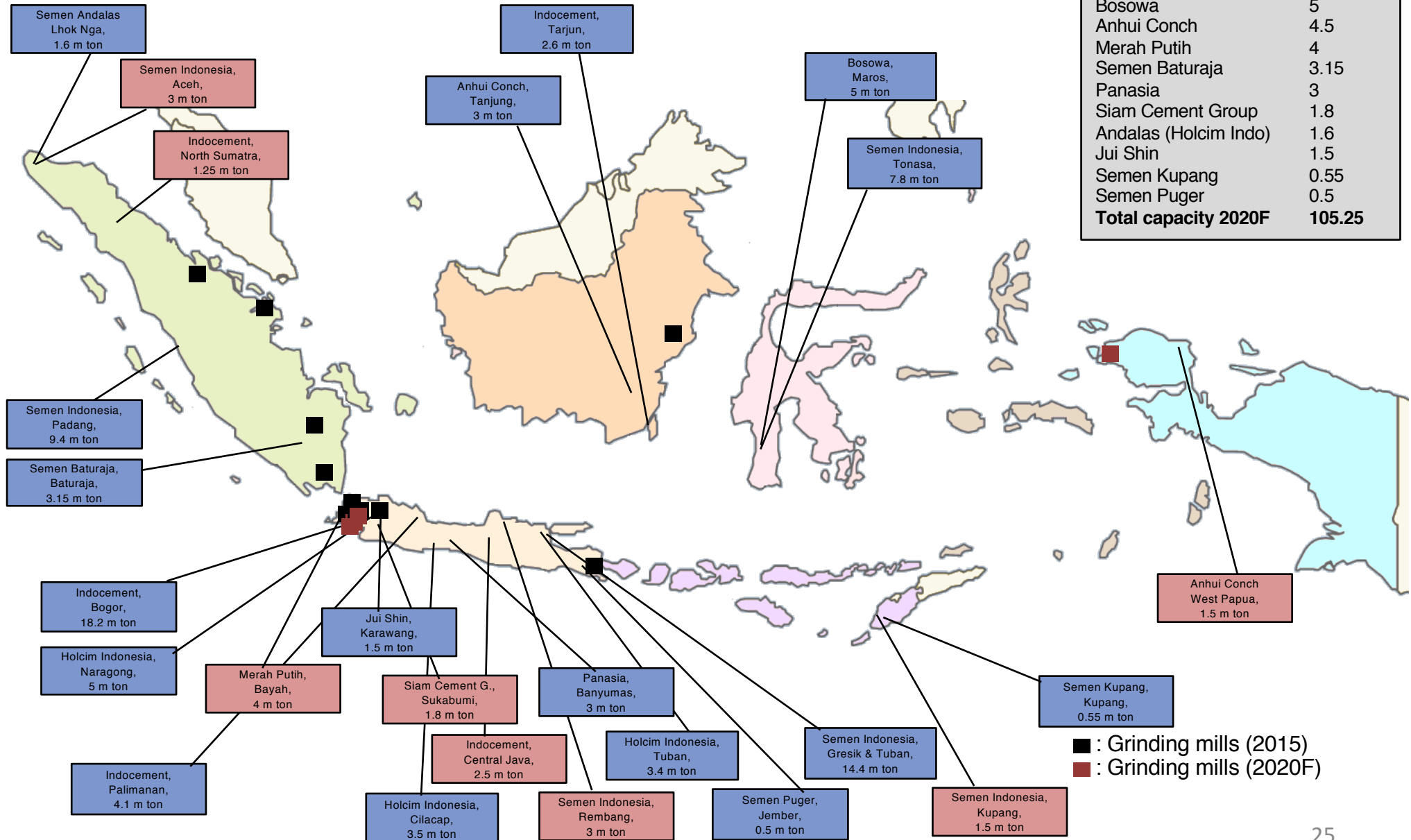


## Map of integrated plants in Indonesia (2015)





## Map of integrated plants in Indonesia (2020F)





## Cement capacity of integrated plants by cement player

| Cement capacity per producer            | 2012        | 2013        | 2014        | 2015        | 2016F       | 2017F       | 2018F       |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Semen Indonesia                         | 22.6        | 27.7        | 28.6        | 28.6        | 30.9        | 34.6        | 36.9        |
| Indocement                              | 18.6        | 20.5        | 20.5        | 20.5        | 21.6        | 24.9        | 24.9        |
| Holcim Indonesia                        | 8.5         | 10.2        | 10.2        | 11.1        | 11.9        | 11.9        | 11.9        |
| Bosowa                                  | 2.4         | 2.4         | 4.1         | 4.5         | 5.0         | 5.0         | 5.0         |
| Semen Andalas (Lafarge)                 | 1.6         | 1.6         | 1.6         | 1.6         | 1.6         | 1.6         | 1.6         |
| Semen Baturaja                          | 0.6         | 0.9         | 1.3         | 1.3         | 1.3         | 1.3         | 2.2         |
| Semen Kupang                            | 0.6         | 0.6         | 0.6         | 0.6         | 0.6         | 0.6         | 0.6         |
| Semen Puger                             | 0.3         | 0.3         | 0.3         | 0.3         | 0.3         | 0.3         | 0.4         |
| <b>Existing producers</b>               | <b>55.1</b> | <b>64.2</b> | <b>67.2</b> | <b>68.4</b> | <b>73.1</b> | <b>80.2</b> | <b>83.4</b> |
| Anhui Conch                             | 0.0         | 0.0         | 0.0         | 1.5         | 1.5         | 2.3         | 3.8         |
| Siam Cement Group                       | 0.0         | 0.0         | 0.0         | 0.0         | 1.8         | 1.8         | 1.8         |
| Semen Merah Putih                       | 0.0         | 0.0         | 0.0         | 0.0         | 2.0         | 4.0         | 4.0         |
| Panasia                                 | 0.0         | 0.0         | 0.0         | 1.5         | 1.5         | 1.5         | 2.3         |
| Jui Shin                                | 0.0         | 0.0         | 0.0         | 1.5         | 1.5         | 1.5         | 1.5         |
| Semen Jakarta                           | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Semeru Surya                            | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Sun Food Industries                     | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| YTL Group                               | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>New entrants</b>                     | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>4.5</b>  | <b>8.3</b>  | <b>11.1</b> | <b>13.3</b> |
| <b>Total integrated cement capacity</b> | <b>55.1</b> | <b>64.2</b> | <b>67.2</b> | <b>72.9</b> | <b>81.4</b> | <b>91.2</b> | <b>96.7</b> |

|                                    |      |      |      |     |     |     |     |
|------------------------------------|------|------|------|-----|-----|-----|-----|
| Capacity share existing producers: | 100% | 100% | 100% | 94% | 90% | 88% | 86% |
| Capacity share new entrants:       | 0%   | 0%   | 0%   | 6%  | 10% | 12% | 14% |



# Indonesian Cement Industry

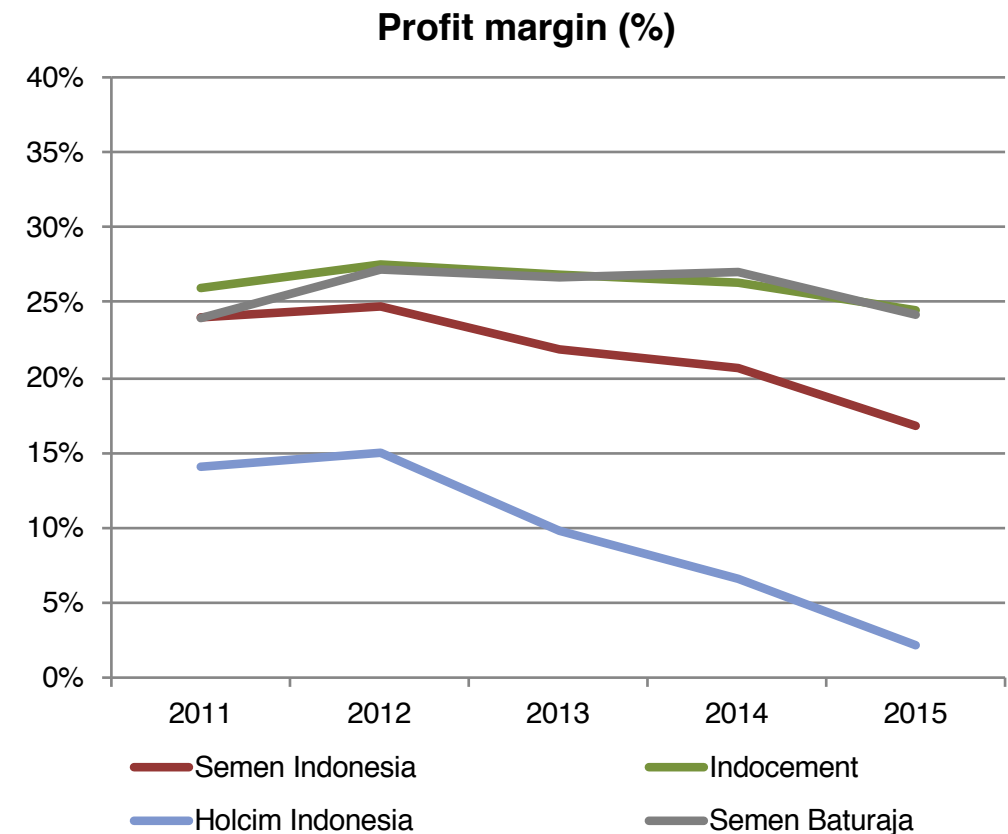
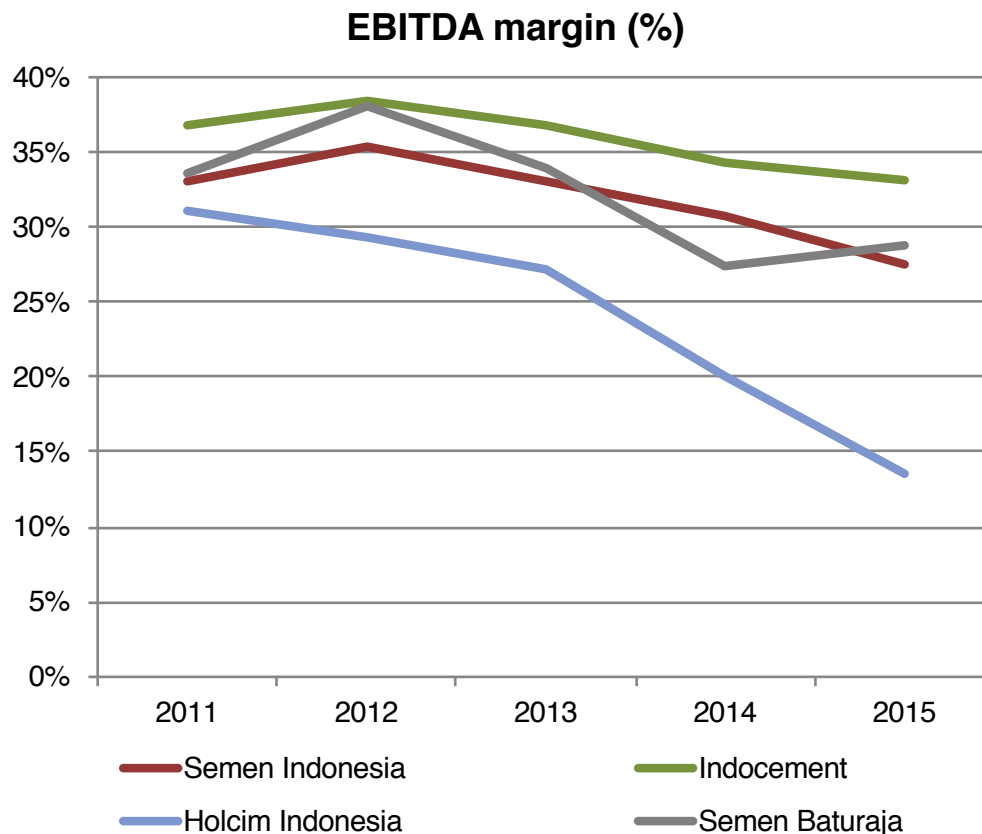
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1. Country profile
2. Cement consumption
3. Market players in Indonesia
4. Performance of cement producers
5. What's next?



## High financial margins decreased in recent past

- Although EBITDA margins have decreased over the past years, they are still amongst the highest in the world, they. Profit margins are also at lower levels.
- These high financial margins make Indonesia an attractive market for new entrants. It is expected that these financial margins will deteriorate further in the near future due to increased competition.

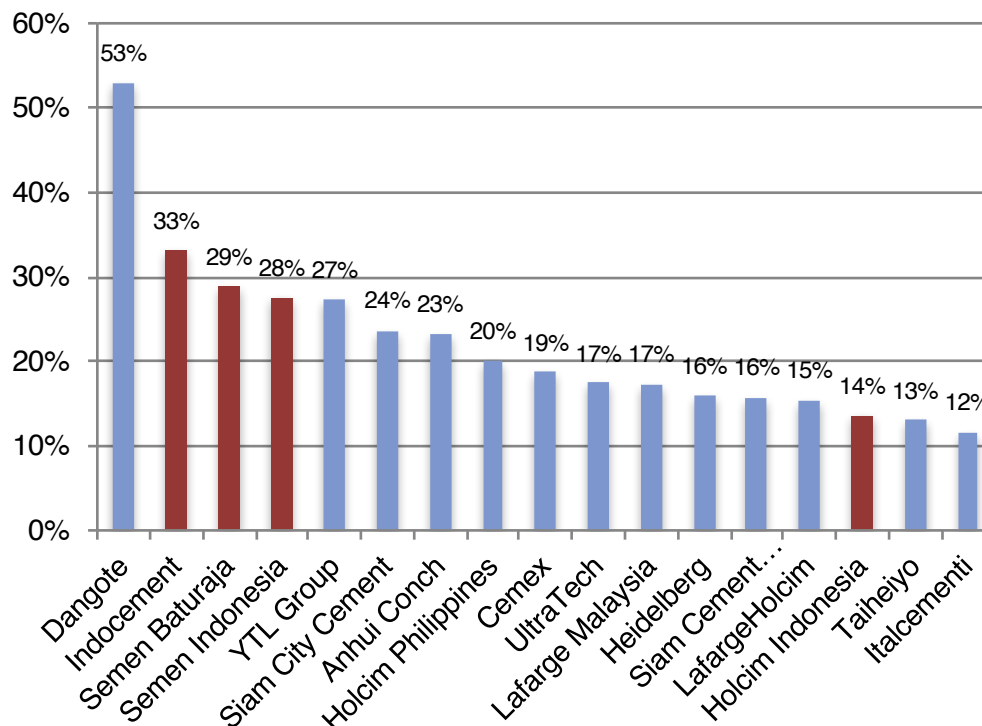




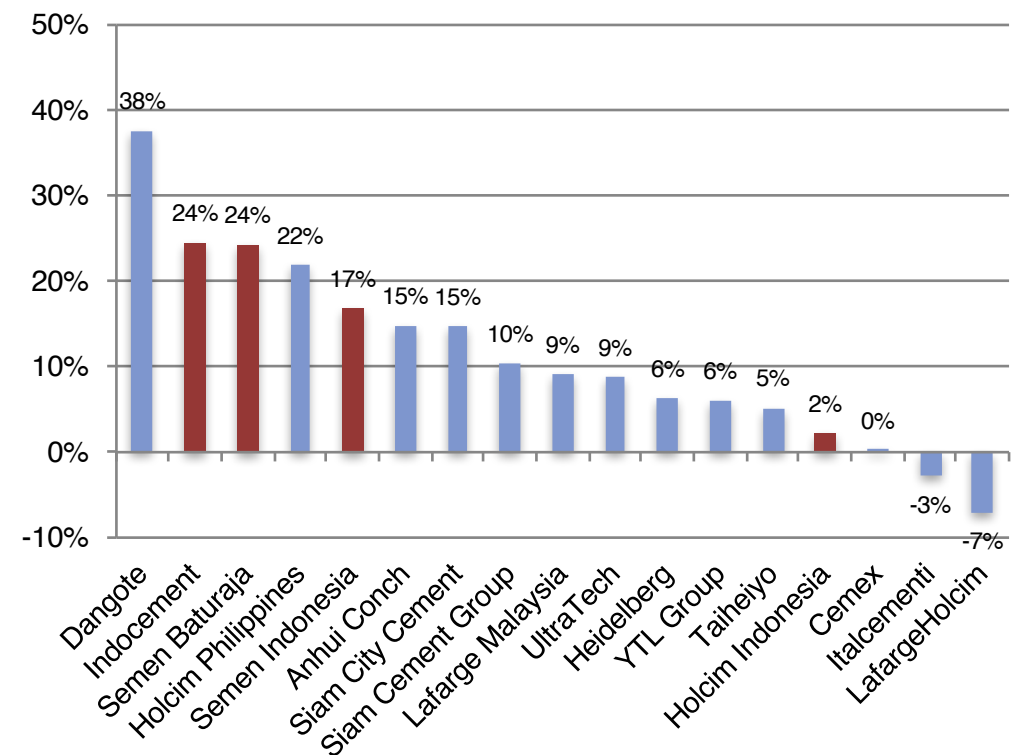
## Margins remain among the highest in the industry

- Both EBITDA and profit margins of Indonesian cement companies are amongst the highest in the industry worldwide.
- Holcim Indonesia seems to underperform significantly compared to its peers. However, a royalty payment to its parent company amounting to about 5% of the revenue has direct impact on the bottom line.

**EBITDA margins (% , 2015)**



**Profit margins (% , 2015)**







## Share prices of existing cement companies under pressure



- After stock prices of Indonesian cement companies have peaked in 2013, their value has decreased significantly with a low in August 2015.
- Since August 2015 these share prices started to recover, but most firms still trade significantly lower than their value in 2013.



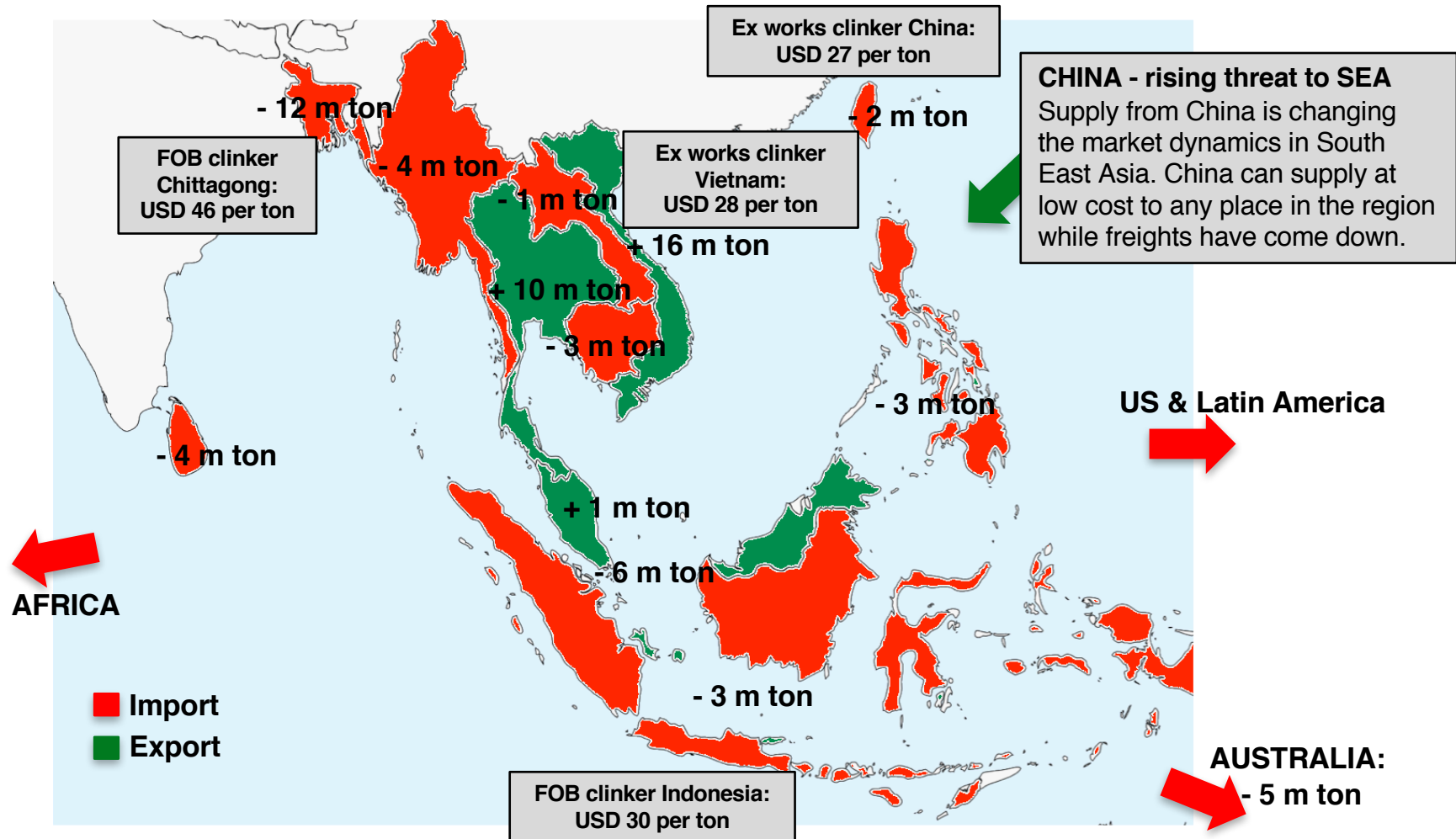
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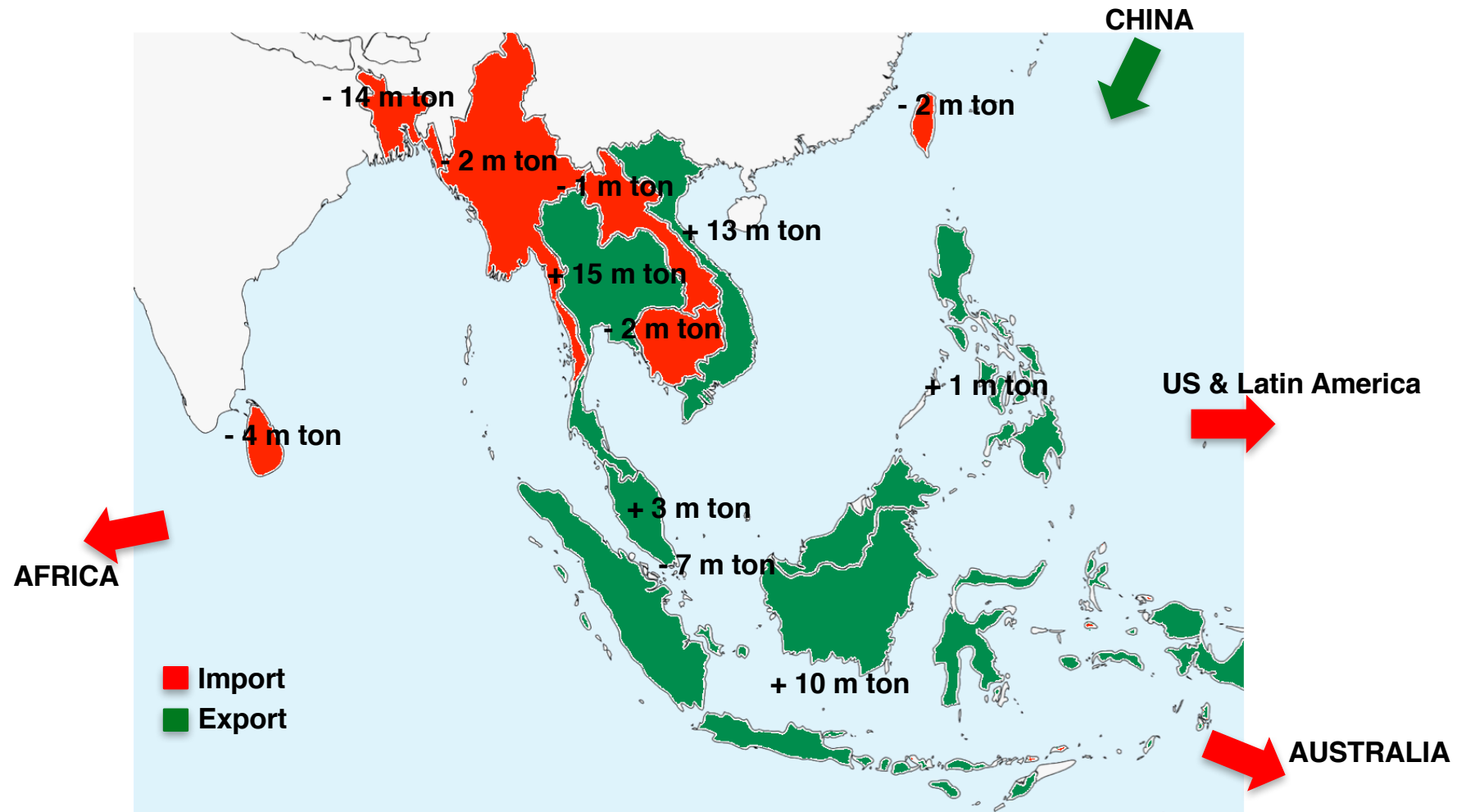
## Current dynamics in Southeast Asian cement market



- Vietnam and Thailand are traditionally the main suppliers for countries with a deficit in the region.
- Exports from China started to pick up again and export prices have been under pressure.
- The total surplus in Southeast Asian market amounts to almost 7 m ton, which is exported to other countries like Bangladesh, Sri Lanka, Australia, Africa, and the Americas.



## Outlook of regional dynamics of cement industry (2018F)



- The surplus in Southeast Asian region is expected to increase significantly and has the potential to reach about 30 million ton by 2018.
- The Southeast Asian cement industry will face challenges to get rid of its surplus while Chinese exports could make life very difficult for cement companies in the region.



## What's next for the Indonesian cement Industry?

- Large potential in the industry in the long run
- Competition will continue to increase
- Cement prices and financial performance will remain under pressure
- Lack of leadership of incumbents will push new entrants to act as leaders.
- Consolidation opportunities will arise
- Changing dynamics in the region will have an impact

***The cement players will have to find an answer to the challenges ahead while preparing themselves to grasp the large potential of the Indonesian market...***



## Measures to support the Indonesian cement industry

### Potential Measures to be taken by the Government

- Moratorium on new permits to build additional capacity;
- Freezing on construction of new capacity if the plants are not under construction yet by an agreed date;
- Prohibit the imports of clinker & cement;
- Implement incentives to the local producers;
- Incentive private investment on infrastructure (local & foreign investors);
- Create special programs for low income people, incentive for low cost construction.

### Potential Measures to be taken by industry players

- Cement players need to optimize further regional consolidation. New international players bring additional risk while new local players will disrupt markets in order to survive;
- Local producers need to improve customer & market understanding. Main focus should be distribution cost, pricing and product differentiation;
- Cement players need to improve services and take more control of their distribution channels;
- Local players need to adopt a policy of defend and positioning customizing to their particular market;
- Major efforts are needed towards cost excellence, energy prices management, cut operational fat.



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Thank you.





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