Capital Increase Through Pre-emptive Rights
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Platform: Zoom Meeting

Panelists:
Mr. Andriano Hosny Panangian - Director of Finance and Risk Management
Mr. Andi Krishna Arinaldi - SVP of Business Innovation
Mrs. Febriandita Kusuma - GM of Investor Relations
Mr. Radityo Widinugroho - Investor Relations Senior Officer

[Call started]

Radityo: Good morning, ladies and gentlemen, and welcome to the SIG analyst meeting. Before we start kindly make sure your Zoom display name showed “your institution name_your name”. Thank you.

First of all, we would like to extend our gratitude to all of the participants in join the meeting. We have published a public disclosure and prospectus in regards to our Capital Increase Through Pre-emptive Rights on 5 December 2022, and you can access the documents from IDX website or our website at sig.id.

My name is Radit, IR team member of SIG and before we begin, I would like to introduce you to the speakers we have online with us today. We have Pak Andriano Hosny Panangian, Director of Finance and Risk Management, Pak Andi Krishna Arinaldi, SVP of Business Innovation, Bu Febriandita Kusuma, GM of Investor Relations, members of SIG IR Team and also Joint Lead Arrangers team.

Today’s call will begin with an opening presentation delivered by our GM of Investor Relations, Bu Febriandita, followed by Q&A session. If you would like to ask a question, please press the raise hand button first on the Zoom platform. When your name is called upon then you may ask your question. Please remember to click the unmute button after the call before speaking. Alternatively, you can type your question on the chat box. Without further ado, I would like to give the floor to Ibu Febriandita for the presentation and thank you.

Febriandita: Thank you Radityo and good morning, everyone. And thank you for joining our analyst call today. As we have published the final prospectus for right issue on Monday 5 December 2022, we would like to directly update you with the information related to the right issue transaction.

So, right issue that we conducted is in regards to the president decree on increasing government capital on SIG with the main purpose is to integrate all cement SOEs under SIG. Government will exercise their right by swapping their 75.51% share in SMBR and according to the evaluation conducted by the independent valuer or we called KJPP, which has been approved by the Ministry of Finance, the value of such share is, for SMBR share, is around 2.85 trillion Rupiah. So, the maximum proceed for the right issue is 5.6 trillion Rupiah.

If a public shareholder exercise their rights, we expect to get cash proceed of 2.7 trillion Rupiah and we are planning to use the proceed to finance the ESG capex of around 1.68 trillion Rupiah to support our de-carbonization commitment, through increase internal substitution rate and reduce clinker factor.

We also consider to use the proceed to expand our business in building material sector which can provide higher margin, higher growth opportunity as well as having potential synergies with SIG.

From this slide, you can see the slight profile of SMBR. SMBR is the market leader in South Sumatra. The production capacity is 4.5 million tons with 3.85 million tons integrated plant capacity and around 700,000 tons grinding plant capacity. And SMBR cover around 53% market share in South Sumatra, while SIG currently our market share in South Sumatra is around 15% to 17%. So, if we combine SIG and SMBR market share it will reach around 70%, and it still have high potential to be improved further.

So, during the due dilligence, we see, we expect around 1.7 trillion potential synergy that we can achieve within five years, from the area of Sales and Marketing, Supply Chain Management, Production, Procurement, Shared Services, Financing and so on. So, if we look into the detail in marketing and sales result potential to increase Semen Baturaja pricing as currently, even though they are market leader which represent 30% market share but their price is around 5.6% lower versus our brand. Our brand currently around 15% to 17% of market share. And with a combined market share of 70%, it will be easier for us to increase ASP or to penetrate further the market through cross selling. So, for example, selling our products in SMBR stores, or selling SMBR in our stores, and even acquiring new retail stores that hasn't serviced SMBR as well as SMGR products. On supply chain, we will no longer send our product from Semen Padang plant in west part of Sumatra or from our Java plant to southern part of Sumatra, because it's quite costly. And we can produce other cement needs on Semen Baturaja plant, increase the utilization as well as reduce cost to serve. On production, we can implement the best practice and capability that we already applied into SMBR production. In terms of optimizing clinker factor, increase the thermal substitution rate, and other best practices, such as an alternative raw material, implement lower calorific value of coal and installing plan optimizer to basically optimize production indexes and to reduce the energy consumption. And on the procurement, they can get the benefit of best tariff and economies of scale from SIG, especially for freight costs, raw materials, spare parts, services, and others. And not to mention the potentials synergy that they can get from in terms of financing. So currently, SMBR have 1.5 trillion Rupiah of debt, with interest rates around 9.5%. While SIG, we already have standby facility that can be used by our groups, including later on SMBR which cost of debt of around 6.5% interest rate. So potential interest rate savings should be around 3%.

And if you look at here in our slide, it can give you highlight of our figure or our financial performance post the integration, we use audited 2021 numbers here. And we expect improvement in all level, especially in EBITDA, EBITDA margin, net profit, and ROIC after including this synergy you can see here all are improving.

So, as I mentioned before, that the cash proceeds from the right issue is planned to be used to finance our ESG capex of around 1.68 trillion Rupiah. The capex is mainly for increasing the capacity of our feeding facility that allow us to consume more alternative fuel and raw material, which resulting higher thermal substitution rate allowing us to have a lower clinker factor, lower emission as well as efficiency in fuel costs. So, every 1% increase in the thermal substitution rate, we expect to be able to contribute 40 billion Rupiah reduction in fuel costs assuming using coal at DMO price, and every 1% reduction in clinker factor, we expect to get a result of COGS decrease around 4000 Rupiah/ton cement.

And, also as I mentioned earlier, that we also consider to use the cash proceed to support our initiative in expansion into building material business. Currently, we are still doing the early study on this, we are mapping some types of building material products and we categorize each based on the profitability and the type of products whether it's a commodity type of product or brand sensitive products. So, we consider brand game product to be more suitable currently, as it provided better margin. And there are some potential synergy with SIG that can- that we can leverage by integrating SIG with the building material industries. So, what we want to leverage is literally our current distribution channel and logistics. We cover more than 70,000 building material stores. We operate 10,000 trucks and covering more than 3,000 routes in almost all areas in Indonesia. So, we currently consider either paint, ceramic roofing or ceramic tiles as what we see now, those three types of products currently serve a high margin, with high growth potential and in terms of demand and having potential synergy with our capability.

And then referring to our public disclosure and final prospectus on capital increase through pre-emptive rights, the maximum new shares that we're going to issue assuming 100% shareholders exercise their right will be 846,215,318 new shares with nominal value of 100 per share. And the maximum proceed will be 5.6 trillion Rupiah, the ratio of right is every 100 million old shares would be eligible for 14,266,416 rights with the pricing for each new price would be 6,600 Rupiah. So, in deciding the exercise price, we consider historical discount-to-TERP and the feedback from investors in NDR that we have done previously. And in terms of the timeline, the last date of stock trading with the pre-emptive rights or cum-right will be on 12 December 2022. The start date of stock trading without pre-emptive rights or ex-right will be 13 December, the last recording date to obtain the pre-emptive right is going to be 14 December. Distribution of pre-emptive rights certificates will be on 15 December. And the pre-emptive rights registration, payment, and exercise period will be on 16 to 22 December. The delivery period of shares is going to be during 20 to 26 December 2022. And the last date for additional new shares payment if there are a shareholder with additional order and shareholders that did not execute the rights will be on 26 December. On 27 December will be the date for additional new shares allotment. And 28 December is going to be the refund date. And this right issue will allow shareholders to order new shares more than their portion and the allotment mechanism will be carried out proportionally based on the number of pre-emptive rights that has been exercised by them. And arranger that has been appointed for our right issue transaction is Mandiri Sekuritas, BNI Sekuritas, and CGS CIMB. And the share registrar to support the administration is Datindo Entrycom.

So that's the update that we would like to inform you this morning and we can continue to the Q&A session. Please Radit.

Radityo: Thank you Bu Febri for the opening presentation. Ladies and gentlemen, if you have any question, please press the raise hand button or you can write your questions in the chat box and I will read it by myself.

Once again if you have any other question, please press the raise hand button and I will call your name to ask the question or alternatively you can text your question on the chat box.

Okay, we have our first question come from Rafdi Prima. You can ask your question Rafdi. Thank you.

Rafdi: Hi Pak. My question would be about SMBR going forward. How do we expect the utilization rate in next two years for the SMBR Baturaja? And how SMGR will have the cost of financing of the cement Baturaja? Is there any specific or certain action to be taken in next one year? Thank you.

Hosny: Okay, I think, let me answer this question. So as we explained, basically, after the acquisition, the market in South Sumatra will be dominated by our group around 70% to 75%. And currently, we are delivering the products from our Semen Padang and some actually from our cement Tuban also. With this new facility in South Sumatra, means that basically, we are going to optimize the utilization for our brands and also sales in South Sumatra using the Baturaja plant. So currently, Baturaja utilization around 50%. So, and then after the merge it will theoretically goes up to around 70% to 75% utilization, because the utilization that we provide from our other plant will be actually moved to Semen Baturaja for the production. And what we're going to do with the capacity that we use to use for the products that we send to South Sumatra, we're going to optimize that, depending on the market situation in domestic. If let's say the domestic is- the condition is not increasing aggressively, then we want to utilize the position for export market. So, we want to optimize still the utilizations on our other plants for the export market, because we have the capability. And the price- also the market price for the export market countries is actually pretty good. We still can get contribution margin of around $10 currently, you know, with the market price. On top of that, also if we consider also the foreign exchange USD and IDR, we can get another potential 2-3% increase. So even if we include all the fixed costs, we still have quite a bit of a margin of around $3 to $4 using set by selling the clinker for the export market. So that's the answer.

On the second question. Currently, we are finalizing the sustainable-linked financing. We already- our debt structure mix currently already around 60% fixed. And then 40% we leave it as floating, but we're going to convert all to sustainable-linked financing, which has an ESG covenant on it whereby we already have our ESG framework and also our ESG program towards- until 2030. We're going to also add an accordion facility on our facility in SIG in particular for the Semen Baturaja. So, after the effective consolidation of Batruraja to SIG, this accordion facility will kicks in that has the interest rate around 3% lower than what we're paying right now. Because actually it has a structure whereby it has a cost default with the SIG facility in the holding. So that will impact to the reduction of the finance cost because they still have 1.5 trillion of loan in their book. So that's where the reduction of the finance costs will come from. And it’s actually already approved by the syndicate banks and we are actually finalizing this and hopefully by next week or later by the 19th of December we signed the facility agreement. And after the effective of Semen Baturaja in January will kicks in the accordion facility.

Rafdi: Thank you Pak. If I may follow up, my next question will be, besides the financing costs that would be lower, you see more efficiencies that can be applied to Semen Baturaja as we know that the operating margin is really low in Semen Baturaja compared to Semen Indonesia by this point. Any comment on that? Thank you.

Hosny: Okay. Number 1, we come from the first, the largest cost contributors, energy. Energy around 20- 25% from the costs. Currently, the thermal substitution rate in Semen Baturaja is still around 0.5%, right. In some of our plant, like in Narogong, and also in Cilacap already reaching around 14% to 15%. Average for SIG is around 7%. We increase this 1% in Baturaja, it will basically generate efficiency around 40 billion IDR. So that's something that we are targeting to implement, or the in the first year to increase to reach around 5% of TSR. And it's actually not really rocket science, because to basically increase to around 2% to 3%, actually, we only need a small processing facility, and also can use the biomass for replacing the coal. That's number one.

Number two on the raw material. We actually see an opportunity for using a more efficient products and raw material, like for example, purified gypsum. Currently basically they are only using it around 70% and we are going to increase it around 90%. And then in regards to optimizing the plant, because our integration team already in Baturaja, looking around at basically making sure all this synergy will happen immediately, in the first year. We see that the plant optimizer system that we are now currently using, it's actually will provide, you know, efficiency in terms of utilizing the plant that can also impact to the reductions or maintenance costs. And also, if you see from the distribution, and also the cost to serve, it will also bring, you know, more efficiency, because now we are no longer sending the products from our Semen Padang or our other plants to target the market in South Sumatra.

Rafdi: Thank you.

Radityo: Okay, thank you Pak Rafdi. Next question comes from Robin. Please go-ahead Robin.

Robin: Hi thank you Pak Hosny, Mba Febri, and Radit. So, I guess first off, will these slides be shared with us after the call? And secondly, on the sort of the new entity, the capex? When are we likely going to see that coming into actualization? And at this point, is there, sort of, which of sub segments are we likely to see greater likelihood of SIG entering in? And thirdly, I guess thank you for sharing this synergistic angles. But I think, can we sort of have a look at the other angle to this thing? So, could you perhaps share that sort of projected top line post merger in 2023, and also the projected bottom line? That will be all for now. Thank you.

Hosny: Yeah, so the proceeds that will come from the public shareholders, partly we're gonna use to make sure that our ESG program will come into the picture faster than planned, because we need to make sure that we get the benefit of the incremental thermal substitution rate. We're going to try to utilize this first to make sure all of our plant can get even higher thermal substitution than our target, including the Baturaja.

Secondly, on the expansions to our portfolio, so we have two things. Number one is basically expanding the portfolio not only cement but also to other building material. The structure that we are thinking is not directly acquisitions because the multiplier effect is actually- multiple is actually already pretty high in some of these markets. So, we're going to use, you know, the structure either we're going to do a JV or also co-branding and more utilizing our distribution network as catalyst and also our retail coverage as a catalyst to basically increase our EBITDA composition from non-building material. Secondly, is looking into the potential also to utilize our resources in limestone, because if you see the function of this limestone, we can also enhance the usage for certain building material and we can process it to become derivative of other- of chemicals that can be useful for building materials such as the AAC and also the paint itself, ceramics as raw materials that they can utilize. Thirdly is on the logistics. The logistics, as I mentioned, the cargo consolidation, when it comes into the play, it will bring also a value add whereby it's an ecosystem that can be utilized by other products, including also the initiative that we're going to do with this other building material potential. And it also bring the value add not only reducing the logistic costs, but also potentially give a revenue stream, new revenue streams from this logistic distance. And then the last one is actually on the how are we going to utilize the- our cement derivative products like readymix, and also we have mortar right now. It's a quite a sizable market, and I think what we're gonna do is more into looking into the channels to increase the revenue stream and also provide positive EBITDA. So, I guess on the building material is going to be a mix of a lot of opportunities on paint, ceramic, ceramic tiles. We're going to do differently in terms of the structure, for example, the paint, I think it's more likely we're going to do it as a- as a cobranding and JV, but we're looking into certain area, because paint business is actually very specific on certain areas, you know, depending on which brands actually covering that area, so brand is very important. So, we're not going to do it massively, you know, acquiring companies, so it's not going to be like that. Second on the ready mix and the mortar, this is something that we're going to still develop to make sure that- because we already have that business and optimize them. Third is actually on the limestone resources that we still have we have abundant limestone and we want to, you know, process this into something that is useful as the raw material for other building materials like paints, ceramics, because they also need the calcium carbonate, you know, those kind of thing, which is actually the derivative of limestone. And the price is actually pretty high. And then the fourth one is on the logistic business. I will say the logistic business not only supporting our business but also supporting other typical building materials that has the same handling and this is something that can be developed further into a digital platform and create an ecosystem which has an impact also not only efficiency on the logistic costs, mitigations from the ODOL regulation, but also can be an incremental EBITDA contribution, and also multiples contributor for the old business. So I think that's the plan in terms of utilizing the potential 2.7 something trillion coming from the public shareholders. And we want to do this pretty quick, potentially all initiative should be able to be done by next year. So by 2024, we can see a good stream of incremental on terms of the EBITDA. And in terms of the projections, I would say, for Baturaja, depending on the market condition and the demand for cement, in particular, for next year. But the driver is more into cost efficiency first and also optimizing the sales price. So that's number one. Forget about volume first, the volume depending in terms of the demand, right? What's going to happen next year. But let's say we see the same benchmark, the same benchmark, let's say assuming the same benchmark, anything that happens next year is the same as this year. Let's assume that.

Number one, in terms of the pricing. Pricing definitely after acquisitions, we're going to standardize that. Now, I think the price gap is around 5% lower. We will cover 70% to 75% in all stores. It will be, I mean, I think we all agree that it's not going to be a very difficult task. Because 75% of the products in almost all stores in South Sumatra will be filled by our brand, our products. So, I don't think it's a hard and impossible job to do. Because for others also, in order for them to increase their flow of products to all stores in South Sumatra and get our market share is not easy. Because this is a heavy product. This is unlike the FMCG like Aqua or like Pepsodent, which is very easy to transport, you know. This is very heavy products. If ordering a truck for delivering a one trip, it may takes you about a week to get, you know, the availibity of the trucking. So that's number one. So, we can increase that around 5% in terms of the standardization of the ASP.

Number two, in terms of the cost efficiency, I already told you. So basically, from there, we can see the 347 billion impact to the- from the synergy. This is a very low hanging fruit, impact that will happen on the first year. So, if we assume, let's say anything, the same condition. Let’s say- let’s put the condition is the same in 2022 assuming all the cost efficiency program and ESG program is actually going well. I think it's pretty easy to get another additional 10% to 15% of EBITDA incremental compared to this year. So that’s my feedback Robin.

Robin: Thank you Pak Hosny. Well, can I ask further Pak, how basically, how November volume was for SIG and for the industry, and also our competitors pricing in November?

Hosny: I think November volume pretty much compared to October is pretty much the same. To be honest, in terms of the volume, October as you know, drops a bit from September. It used to be cyclically increased, but November stable. At the beginning we thought that is going to be near or reduced in terms of the volume but pretty much it's stable volume. So, we're looking forward into this December hopefully, you know, the glitch that happens in October it's just because one of psychological effect in terms of, you know, what's going to happen next year, so people kind of like wait and see. Because it shows based on the market conditions in November is actually pretty stable compared October. So, and hopefully, looking into December, I think, pretty much I would say it's, it's pretty much the same also, like in November looking into the volumes.

Robin: Thank you Pak Hosny. I'll get back in the queue.

Radityo: Okay Robin, thank you for the question. And next question is from Arnanto Januri. Please go ahead Arnanto.

Arnanto: Thanks Mas Radit. Hi Pak Hosny. Hi Bu Febri. Just a couple of quick questions for me, in terms of your potential expansion into other building materials? You know, I think earlier, you mentioned that you're trying to leverage your extensive distribution network now? And I feel like paint and ceramics are more consumer centric products. And I'm just trying to figure out like, are you going to be selling, you know, paint, ceramic tiles at the current, you know, cement distribution stores? Like distributors or you think you're going to set up like, different stores for these products? Maybe, maybe I'll start with that.

Hosny: Yeah. So okay, for paint this is something that we think that it's a good brand that we can also utilize to basically- our role will be a catalyst to this industry. Because as you see, it's quite a fragmented market and by utilizing our logistic channels and also distribution network, we can play as a catalyst to also expand and develop the industry. In the meantime, we can basically gain the benefit of going into this industry. Because at the end of the day, all these products goes to the same end market, which is you know, building houses, building, you know, commercial areas, constructions. Whenever you're doing renovations, you need cement, you need mortar, you need paint definitely, you need ceramics, you need perhaps other products like furnitures and also utilities, plumbing, stuff like that. And we see that from the total cost of construction, cement is actually contributes around 11%. The others come from, you know, other materials. And all of these materials actually goes to the same stores. Like now our stores around more than 70,000 stores around Indonesia, they- most of them sells also the paint products. So, I don't think that the concept is not we are non-consumer and they are consumer, but what we see it, you know, we see the end market whereby our cement product and paint product actually becoming the raw material for a construction as a building- as a total building materials, raw material for construction. As you see on the structure, on roofing, on walls, you know, definitely it can be a complimentary. And cement aggregates or woods, you know, that something that also of becoming the contributors for building material. Now, in terms of getting into this industry, like I said as a catalyst, that's why I don't think we're going to do a full-blown acquisition, but we're gonna see an entry strategy. An entry strategy whereby I think cobranding is- with existing players, I think this is something that is also something that we are thinking. Because as you know, we have the premium, medium, low-cost brands, and they also have different channels, like, to market their products, right. And that's why we want to see first where we can do this cobranding with certain brand.

Number two, also, we can do a JV. We've talked with worldwide paints company. And this is also something that we are thinking, because they don't have yet the distribution channel in Indonesia. Whereby we have, and this is what we can offer to this worldwide paints company to come in to penetrated to Indonesia. So, I think that's how we are seeing this opportunity.

Arnanto: Okay, thanks. Just a follow up, in terms of your, you know, strategy in this expansion or initiative. Are you trying to- where are you in terms of positioning? Is it more on the high end, mid or mid to low segment in terms of price point?

Hosny: Okay. So, what we learn in paint, actually, the premium, medium and low, they don't actually compete with each other. For example, if we have the premium brand like Nippon Paint, Akzo Nobel, Mowilex, Danapaint etc. in certain area, and they basically have, what do you call, have already certain channels and consumers. Whereby other brand cannot easily take the shares, right. And then we have also the medium brand, like Avian, which also covers different area, different specific markets, that this market is really focused on that particular brand. And then we have the low cost, small local paint player. And we see that basically, the one that has, you know, synergy with our channels, actually is more into the, I think the premium and medium level. So, this is where I think we can utilize our traditional retail channels. Also, the business-to-business channels, because we also cover quite a lot on the direct sales to the corporates, more of a business to business. It was around 25 to 30% of our market is actually direct sales. And we have the channels also. So, I think more into that segment that we are looking.

Arnanto: Okay, got it, that was very clear. Just two more questions, quick ones. Has Baturaja receive DMO coal and do they have any commitments for next year? And secondly, in terms of the pricing environment. You know, have you seen any player starting to reverse their price hikes or maybe do more promotions on the ground, given the weak demand environment?

Hosny: Yeah. All right. Number one on the DMO, our pipeline is already around 140% of our requirements for next year. Now, we already have a good commitment and also contract with PTBA, another SOE also, and it's actually located near Baturaja plant, and we already secure, I think DMO around up to 1 million ton and SMBR with the capacity, clinker capacity of around 2.7 means they only need around 360,000 to 400,000 of coal. Which basically, it's already done enough, by utilizing the supply from PTBA, because actually the location is very near. So, transportation costs also quite efficient. That's number one.

Number two in terms of the price, as you see in November, we also still increase our price. But yet, we didn't actually get a reduction on the market share. Even our market share slightly going up. Why? The logic is this. This is again a very heavy product. And only, relatively after our integration with SMBR, only four players covering 95% of the market. So, let's say Semen Grobogan, how low they can go, you know, because it's a heavy product, transportation is also not easy to get. Distribution warehouse is not easy to build, because they have to build quite big. It's not like, you know, very small FMCG product, you can store it in very small houses. It's not like that, right? So, in order for you to gain market share is not only about price in this industry, specifically cement. But you also have to invest on distribution channel, on network and logistic. And it's not easy. That's why, you know, October, we didn't reduce price. But we increase our market share, to almost around maybe 0.8%. So, I don't think we want to reduce price, even let's say the demand is weak, let's say the demand is weak, we're not going to reduce the price. Why? Because we have all the network, we have a complete set of facilities across Java. And now with the integration of Sumatra, we have a very complete set of facilities in Sumatra. Why do we have to reduce price? Because our competitor will not be easy to get our market share. They will get, you know, bleeding and need to incur more investments. And it takes time also.

So, I think that's clear strategy. And definitely, we're not going to reduce price, because we have all the full set of capacity and network in order to defend. And it's actually work, but not in reducing price, we still can increase our market share.

Arnanto: Okay. Okay. And just to clarify, I think earlier, you mentioned that November market share was showing positive trend as well, is that correct? Or were you referring to October Pak?

Hosny: Market share we haven't get the information because we still gathering the information from our- from ASI.

Arnanto: So, October was the last one. Okay, maybe just one final question. I think we get this question a lot from investor, I think your guidance for EBITDA margin next year is around 22 to 23%, right? And I think you were very positive on pricing. Not going to reverse. But I think, so in that sense I think the margin guidance looks quite conservative, pak. I mean, this year, is it, you know, your guidance is also 22 to 23%? So why aren't you guiding for higher, or any margin expansion? Given that, you know, your prices have come up? You know, 10-15%, right, and you're getting DMO coal for next year. So, you know, in essence, you should be getting more margin expansion, right pak? So, maybe just more color on that.

Hosny: Okay. So, number one, basically, we already have the DMO, which is okay. Now, coming to the next one, cost structure in terms of the logistic, we are also anticipating ODOL. So, this ODOL, what we're gonna do is basically, we're going to expand our location for distribution center. So there- and also to change the trucking into more 50 ton rather than 20 ton that we're using right now. So, we're using the trailer, the 50 ton, because with the 20 ton some of them actually will be filled in with around 25 to 28 ton, so we gonna do that. So as an anticipation. But again, of course there will be an impact to the increase in terms of logistic costs. So that actually already come into the- to the equation. So, we expect, you know, incremental in terms logistic. Let's say if this ODOL coming to the play, starting next year, around 10% from logistics costs. Now that's- and also, we have, like I said to you in terms of the market also, we have to also see the situation for next year. So that's why, in my opinion, EBITDA margin max up to 23% it is something that is already, you know, good enough for us to basically manage the situation in the market for next year.

Of course, depending again, on the ESG program that we are doing, incremental of the TSR. If, like I said to you, we are going to push the program to expedite the installation of the processing facility of our plants in order to- for us to be able to increase the TSR even faster than what we are planning. But the probability is still, you know, not really high, in terms of how we can basically achieve that depending also in terms of the situation in that- in conditioning, each of our area of operations, because getting the municipal and industrial waste. Also, in parallel, we are doing the discussion with the local governments and also industries surrounding the area that we operate. That's why I think we put that target as a baseline for next year.

Arnanto: Okay, very clear. Thanks. I'll go back to the queue.

Radityo: Okay, thank you Arnanto for the question. Before we move on with the other question in the floor, there is a question from Onkar in the chatbox. Could you throw some color on EBITDA margin benefits from this new business initiatives? Then we'll start on the realizing from 2024, in example paint, limestone, logistic, etc, are these higher margins than your current 22 to 23% EBITDA margin?

Hosny: So, on the other building material like paints. Our strategy is actually more into getting the flavor first in terms of the industry and trying to be a catalyst, to support the industry. So therefore, they can get an efficient way to distribute their products. And we come along into that game in order to get a benefit. So based on our calculation, in terms of the impact to the EBITDA, I think, in 2024 will give additional EBITDA of around 1% additional from this new venture of business, because relatively, based on our calculation, it's still on growing mode. And if we start on 2023 definitely, we need around two to three years to basically get everything up and running smoothly. So, in terms of- number one, we're planning to get a traction first in this new channel. And perhaps during the first year of implementation, given impact around 1% additional margin in terms of EBITDA margin. So that's why I think 23% maximum next year and increase to 24% in 2024, and going forward we're targeting to even further to around 26% to 27%, depending on the market situation. But again, our target is how we can basically increase our ROIC also as a benchmark in order to bring the condition to get the return on investment, basically, higher than our invested of capital. So that's the target.

Radityo: Thank you Pak Hosny for the answer. So, we can go back to the floor, we have Felicia Barus for the next question. You can go ahead Felicia.

Felicia: Okay, thank you everyone. So, I have a few questions. So, first of all, can you share how is the SMBR sales volume doing in this fourth quarter, especially in November? And sorry, October or November? And then secondly, can you update us on the percentage of your fighting brand right now? Because I understand that you guys want to reduce the amount of fighting brand that you deploy to the market. And lastly, can you give us the guidance on the consolidated 2023 financials? Thank you.

Febriandita: Okay thank you Mbak Felicia. So, for SMBR sales volume, so up to nine months, it's around 1.4 million tons. So, it's around- the utilization is around 45% to 47%. And for the third quarter was around 500 to 600 thousand tons of sales volume. So that's what we want to optimize later on. Because we, as we mentioned, before we send our product, our market share in South Sumatra itself, only 15% to 17%. And that, but in other parts of southern part of Sumatra, we also send from Tuban as well as Narogong plant. And by doing so we expect to be able to increase the utilization of SMBR about 70%, starting next year after the integration. We have a huge potential to increase our export next year, as we expect that the situation has- it should be better next year. And then there is no official statement on regulation that we are not allowed to use the coal for export. And, as Pak Hosny also mentioned that the margin, using the DMO price, the margin for export is still promising. And even with the coal market price, we also calculate the current price of exports can cover that. So, we expect for next year, we are able to significantly increase that volume.

Hosny: So basically, if you see the numbers now up until October. What’s the volume?

Febriandita: At nine-month Pak, 1.5.

Hosny: Let's say 1.5 it's only 50% utilization. And then up to the end of the year, perhaps they can get up to 2 million ton, perhaps like 2 million, so we can increase utilization to 70-75%. So that means another 1 million, 1 million ton coming up from Baturaja for next year. So, I'm getting around 3 million. But this 1 million is not going to be exchanged from our other capacity without any sales and revenue, because we are going to tap in export. But again, let's say we are- we are actually in the same demand situation, like this year, the same demand situation. So that 1 million that will come from additional capacity utilization from Baturaja, that 1 million in the form of combinations of clinker and cement will be exported.

Felicia: Okay, thank you.

Febriandita: And the second question. Was it about the guidance?

Felicia: Yeah. Do you have any guidance for 2023 consolidated financials? After the acquisition, sorry.

Hosny: So, I think if you do the math, assuming that actually happens, that's around- you can get the numbers. I give you a guidance already on EBITDA margins and the potential volumes additional that we can utilize from Baturaja. So, I guess that's- you got a guidance already.

Felicia: Okay. And also, just want to clarify that for the DMO coal. You're basically saying that you already have 100% DMO coal secure for all your domestic production, right, for 2023 for both SMGR and SMBR?

Hosny: Yes, even we already got a pipeline of commitment around 140% of our requirement. Why? Because we're also increasing our thermal substitution rate, so we require less coal for next year than this year.

Felicia: Okay. Okay. Thank you. Oh, and one more thing on the fighting brand. Is there an update on what's the portion right now, compared to your total sales?

Febriandita: It's still quite similar Mbak Felicia. So, it's still a low- around 10% to 15%. We currently try to manage on that but we will see what happened for next year with the demand. So, we want to be more micro in managing the strategy in each area. So, for example, if we see East Java- or Jember area, we are not going to carpet bombing all of the Jember area for compete with the new brand. So, we are going to be more selective as we also mentioned that we are going to use the digital CRM to be able to improve our visibility in the market. So that will allow us to be more selective in terms of which retail stores that we need to have our fighting brands available or just the main brand only. So, we expect that the percentage should be maintained.

Felicia: Okay, thank you.

Radityo: Okay, thank you Felicia for the question. So, I guess that will be the last question for today's meeting. And before we end this meeting perhaps Pak Hosny want to give us some closing remarks Pak?

Hosny: Yeah. So, I guess, in regards to the right issue corporate action we do right now. This is momentum for us to even optimize our position in the market especially as we know, 75% of the market actually contributed from Java and Sumatra. And with platform from Baturaja will bring a value add and synergy for our business. On top of it, we are also thinking of how to even further optimize and increase our profitability by utilizing the biggest value in the industry that we have, which is basically our distribution network channels, and also our logistic coverage. And this is a very important aspect in the building material industry. Building material industry economic size is around 450 trillion IDR per year, and cement is only around 65 trillion compared to the whole building materials. So, a lot of value that we can tap in, and this is a momentum. So, I would say that basically SMGR as a State Owned Enterprise, you know, have the chance to do the right issue it's actually pretty seldom so we would like to utilize this opportunity also to make sure that there will be value add coming into picture in a very short period of time. So again, thank you so much for the support and hoping that you guys can all participate in this rights isssue. Thank you.

Radityo: Thank you Pak Hosny for the remarks. That concludes our call for today. Once again thank you for all panelists and participants for joining this call. It was a pleasure to have you with us. If you still have any questions, please feel free to email us at investor.relation@sig.id. Stay safe and healthy, and see you in the next event. Thank you.

Febriandita: Thank you.

Hosny: Thank you all. Have a nice day.

[Call ended]