SIG 1Q 2022 Earnings Call
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Panelists:
Mr. Andriano Hosny Panangian - Director of Finance & Risk Management Director
Mr. Aulia Multi Oemar - Director of Business & Marketing
Mr. Agung Wiharto - Director of Human Capital & General Affair
Mr. Antonius Ardian Bermana – Chief of Strategy
Mr. Hasan Arifin – SVP of Finance
Mr. Hadi Setiadi - SVP of Procurement
Mr. Oepoyo Prakoso - SVP of Sustainability Office
Ms. Vita Mahreyni – Corporate Secretary
Mr. Nova Kurniawan - VP of Financial Plan & Analysis
Mr. Fajar Aristyanto - SM of Production Planning & Management
Ms. Febriandita Kusuma – GM of Investor Relation

Febriandita: Good afternoon, everyone. We would like to thank you for joining our first quarter result earnings call this afternoon. I'm Febriandita Kusuma, Investor Relation of Semen Indonesia as the moderator for today's earnings call. We would like to remind you as well to fill the registration form from the link that we put on the chat box. And before we begin, let me introduce today's panelists. I have Bpk. Adriano Hosny Panangian as Director of Finance and Risk Management. I also have Bpk. Agung Wiharto as Director of Human Capital & General Affair, and present as well here Bpk. Antonius Ardian Bermana - Chief of Strategy, Bpk. Hasan Arifin - SVP of Finance, Bpk. Hadi Setiadi - SVP of Procurement, Bpk. Oepoyo Prakoso as SVP of Sustainability Office Ibu Vita Mahreyni as Corporate Secretary, and Bpk. Nova Kurniawan - VP of Financial Plan & Analysis as well as Bpk. Fajar Aristyanto, from production management. So we have quite a comprehensive team to hopefully able to address your concern this afternoon. And on today's call, we will present SIG performance for the first quarter 2022, which we publish on 27 of May 2022, through the IDX website and our website, sig.id. And our presentation today is available at our website and the presentation will be divided into three parts which are key highlights details of financial performance, SIG strategy and action plans. And as disclaimer this presentation contains several forward-looking statements which are based on current expectation and estimates of future events that may be affected by risks, uncertainties and other factors beyond our control, which may cause actual results to differ materially from historical results or expectations. So, to begin, I would like to give the opportunity Pak Adriano Hosny for the key highlights presentation. Please Pak Hosny.

Hosny: Thank you so much Bu Febri. So we published our audited interim cue quarter one 2022 on 26th ya, on 26th of May. In the first quarter, we recorded an increase of revenue around 0.7% mainly from the increase of average selling price of cement around 7.2%. Our ability to manage the cost of the production and also our, our good relationship and ability to get most of our coal requirement with the domestic price obligations in the first quarter resulted in a more manageable cost of goods sold. And in addition to that our operational excellence also resulted in a more efficient operational expenses on top of our deleveraging program, which could reduce further our finance costs in the first quarter. And therefore our earnings after tax could increase around 7.7-10.7% year on year. On the back of this result we also have put forward a robust strategy to manage our operational excellence and also our sustainability and ESG agenda. From the operational excellence side we have mainly focus on to further reduce our dependency of fossil fuel requirements and substitute some of our electricity with more environmental friendly source such as solar panel and we also enhance our ability to penetrate the market with a digitalization and enhancement of our business process.

So therefore, we can get a more efficient way of operating and also to consolidate our logistic with what we call optimizations on the cargo consolidation. On the ESG front, we put forth a robust plan on the scope 1, which is the internally processed production activities to reduce further our emission to be below on the target standards of IAE. And in order to do that, we also have put an agenda to increase further our thermal substitution rate and to reduce further our clinker factor, and these two sides besides can also reduce our emissions target, it also can reduce further our costs because main contributor of the cost now from the fuel costs mainly from the coal, we can substitute with more environmental friendly energy per source of fuel.

The second scope is basically to reduce our requirements for electricity using the fossil fuel and increase the electricity source from the solar panel. And these two items, hopefully we could target until 2030. Furthermore, I think in terms of our strategy and in the market, we are balancing out our strategy to increase price while also maintaining our dominance in several areas. And we are using or optimizing our strong five brands to fight in the market more delicately and more cautiously. So, therefore, the usage of economic brand will be utilized in a more proper manner to basically maintain our, you know, presence in certain market around Indonesia. I think, on the back of that, we also have put forth a plan to re-profile some of our loan this year into sustainable linked financing. Basically, this is to show our focus on our ESG agenda whereby with sustainable linked financing, then we also have to commit on achieving a KPI for our ESG target. And this will show our focus and commitment on our ESG agenda. Because if we fail to do so, it will get, you know, consequences on our margin and also interest expense going forward. Now, to explain further for you on our presentations, I will let Bu Febri to continue.

Febriandita: Thank you Pak Hosny. Maybe to the next slide, please. Yes, so this is the net profit bridge to show you what's changing from the first quarter 2021 to 2022. The contribution of the incremental in net profit bridge are basically from the increase in revenue growth even though in terms of total volume we record a decrease, but in terms of revenue per ton was increased and resulting in 60 billion Rupiah improvement in revenue. And in COGS, as you might know that we experience a significant increase in coal price in terms of in the market however, we are able to secure better pricing with the DMO and integrated procurement for strategic items including coal that allow us to manage the incremental only 181 billion Rupiah in the first quarter. And then in terms of operating expense, we are able to reduce as well by 74 billion Rupiah, mostly from the decrease in promotion as well as labor costs. And on the other expense and or income, we improve 96 billion, mostly is from the 116 decrease in interest expense as we have lower interest bearing debt compared to last year. So, if you can move to the next slide, here in terms of breakdown from the 0.7% revenue growth mostly contributed by increase in bulk sales volume, which increased 8.2%. And that improvement in terms of sales volume in Java Island as you might know that the margin is higher compared to outer Java and we were able to increase by 2% in the first quarter this year, and that regional sales recorded lower 29% compared to first quarter last year mostly because we are focusing on domestic and because we need to secure the coal availability to serve the domestic production and sales. And in terms of revenue per ton, we record a 7% increase from 833,000 to 891,000 in the first quarter mostly contributed by the increase in the domestic selling price by 2.3% and regional selling price by 27%. And in terms of proportion as well domestic sales volume that in terms of price is higher compared to regional price as well increased by 7% compared to the first quarter last year. And moving on to next slide.

On the cost side, even though our costs of revenue recorded increase, but the incremental is quite manageable, because if we compare to the industry coal price has been increased by almost 100% in the first quarter this year compared to last year. However, we are able to maintain the incremental of fuel and energy costs by 36% only in the first quarter because we're able to secure the most of our coal procurement using the DMO price which is around 47 US dollar per ton FOB. And on the other costs, we are able to be more efficient. You can see here that non fuel and energy COGS decreased by 3.2%, mostly from the efficiency in raw material as we are able to reduce the clinical factors by 1% this quarter compared to first quarter last year. And then operating expense also decreased 5.7% due to promotion and labor costs, finance costs as well decreased by 26% through the lower interest-bearing debt balance. And from that, we are able to report higher net profit that increased 10.7% and net profit margin increased by 0.5%. And if we compare to the peers, because we are able to record higher revenue per ton growth, lower COGS per ton growth and lower growth in fuel and energy cost per ton, we are able to achieve EBITDA growth that is only contracted by minus 3.5%, if we compared to peers that has been contracted around 30% and EBITDA margin expansion just decreased by minus 1%. While our peers contracted by minus 7.2%. Net profit we are able to record growth by 10.7% and our peers decrease almost minus 50% and net profit margin we are able to record 0.5% improvement while other peers record minus 4.8% in the first quarter of 2022.

And as Pak Hosny mentioned before maybe in the next slide, that we are moving forward we are focusing on four Strategy.

The first one is domestic market leadership and then moving closer to customers with a solution and products, operational excellence and value chain digitalization and the last one is driving sustainable growth. If you look at the initiative, one by one and the next slide and in terms of domestic market leadership, we are basically going to strengthen more our present in retail market as well as in the bulk market. We have five strong brands that are premium in each area and we are we are still able to leverage those brand by selling at a more premium compared to competitors. And we are also our focus is basically to make sure that we are available in every layer and and can serve all types of customers that are brand sensitive as well as customers that are price sensitive. And we develop this strategy selectively based on the situation competition level of competition and situation in each area. So, for example, in West Sumatra, where we have very significant market share and very low competition only two competing brands other than us and our market share there is almost 100%, 96%. So, there we are able to strengthen our brand equity and selling at the very premium price. And compared to that, if we see the East Java, we have eight competing brands, so it's the competition level is different. So, here we introduce the Semen Padang as a competing brand for example. So, basically, it's to manage our market share as well as to be available for the customers that are more price sensitive. And in the bulk market, we already actually already have secured 75% share of wallet in 2021. Basically, for the for the national strategic projects, and we are aiming to increase our share of wallets in those projects by serving various tailor-made solution for the specific project requirements and supporting as well by the nation one, nationwide production and supply chain facilities that we have along Indonesia.

And the second strategy we are not only focusing on the existing market, but we are aiming to tap into the new market with the new product, we have developed various product value added products for example, we are addressing the 12.75 million units backlog housing that need to be that become a homework for the government. So, the government now in 2022 planning to build around 240,000 units of cheap house for the low-income groups. And we are aiming to support that initiative through our product called Dynahome that able to serve or build the small house in four times faster. So, in terms of cost and time is faster as well as maintain the quality. And then we also have developed value added, various value-added products with better margin like SpeedCrete, that is fast drying concrete and then ThruCrete that able to help us to have more area to prevent from flood. And then we also have mortar, is instant cement, as well as Masonry cement that is cement with a lower clinker factors and suitable for non-structure application based. So basically, it's also in terms of costs, it's lower and can serve our target to reduce emission or de-carbonization. And we also want to increase our involvement in how we can support to small infrastructure programs in village level that mostly supported by the government budget.

And then to the next slide is we are continuing to improve our operational excellence; we implemented utilization and apply industry best practice. So, for example, we are in progression of implementing plant optimizer to basically able to optimize our production process, the index as well as composition and consumptions of materials and energy. So hopefully, we are aiming to secure our or to be more efficient in terms of electricity and thermal consumption by 2%. And at the end, we'll achieve improvement in overall equipment effectiveness that we aiming to achieve around 85% based on the industrial leading practice. And then we also want to implement solar panel. Now it's still small in terms of portion but we are aiming to increase the portion to 25% in 2025, and hopefully it would it is expected to reduce the tariff by up to 15%. And then we also aiming to be more efficient in terms of distribution costs by implementing backhauling cargo consolidation, as already mentioned before by Pak Hosny, and estimated to be able to serve to reduce freight costs of around 10%, when it's 100% implemented.

And the last but not least, our commitment to the de-carbonization, it's very important for us. We are, previously, our target is only 18%. But we are revisiting our target up to 2030. We benchmark with the International Energy Agency's. The standard is at least to reduce to 520 kilogram CO_2 per ton cement equivalent. And we are aiming to achieve 493 kilogram CO_2 per ton cement equivalent in 2030. So, it's translated into 30% reduction compared to baseline 2010. And how to achieve that, we would conduct two approach. First is to increase the thermal substitution rate. Currently, we are at 5.5% level and we are aiming to achieve 20%. And to also reduce the average clinical factors, currently, we're at 70% and we're aiming to achieve 61%. And not only focusing on target CO_2 emission intensity scope one, we also put strategy to put target to reduce to emission scope two as well. So, we expand as well our focus to scope two and we are aiming to reduce up to 24% in 2030. And how we achieve that? It's through two approach, first is to implement a plan optimizer as well as to implement solar panel to replace some portion of our electricity consumption. So, I think that's what we can deliver now. And we are we can now move the Q&A. So, if you have any question please raise your hand and we will allow you to unmute your speaker.

Febriandita: Okay, we have Madhav Marda. Can we allow, allow to unmute please.

Madhav: Hello, am I.. (unclear voice)

Febriandita: Yeah Madhav, you can unmute yourself.

Madhav: Hello, I'm on the below. Can I speak?. Hello? Hello?

Febriandita: Hello

Madhav: Yeah, can you hear me?

Febriandita: Yes, we can hear you Madhav.

Madhav: Sure, sure. Yes, so my question was, what percent of our coal requirement is coming from DMO, like in the last two or three months or last six months. What percent of coal is DMO?

Febriandita: Okay, Pak Hosny?

Hosny: Hi Madhav. Okay, so during the first quarter, we still use the inventory of our coal from the fourth quarter 2021 which is the higher price, around 50%,, and 50% is actually from the domestic price obligation that we get from January until February. Average composite actually happened in first quarter is around 960,000 rupiah per ton so 50:50 DMO and also the previous market price. But starting from Q2 until Q4, we should be able to manage the coal requirement using the DPO price.

Madhav: Okay, so basically for the rest of the year, are price of coal or the power and fuel cost per ton should come down right because we'll switch to the DMO linked pricing?

Hosny: Yeah, it will converge to around 870,000 to around 880,000 for Q2 until end of year, because the there is also an increase a bit on the logistic price for the transporting the coal but it will compensate with because of the reduce of the coal itself. Now, from Q2 until the end of this year 100% using the Domestic Price Obligation price.

Madhav: Okay, that's great. And just to reconfirm Jan to March, which is Q1, average consumption was 960,000, which will go down to 880,000 right?

Hosny: Yes, 960,000 the average composite price of coal per ton that we consume, Q2 until end of year around 860,000 to 870,000 composite average coal price per ton.

Madhav: And do we have supplier assurance that all of our coals can come from the DMO link, like we have the assurance from the coal supplier?

Hosny: Yes, until now, we already have commitment from our coal suppliers. And this is also with regards to our, with regards also from the government that is pushed forward for suppliers to provide coal with DPO price to local industries, especially, you know, the state-owned enterprises.

Madhav: Okay, so just last, the last part of this question. So, 100% of our coal repeat DMO linked for the rest of the year, would it be a mix between DMO and non DMO?

Hosny: So, for starting Q2 until end of year 100% will be the DMO price. Because all the inventory from last year already utilized in the first quarter.

Madhav: Alright, and also on the Semen Baturaja transaction. Could you give us an update on like, what is happening there? Like is that something which will be happening in this year?

Hosny: Sorry, can you repeat that again?

Madhav: The acquisition of Baturaja…

Hosny: Ahh.. okay, yeah. Okay, so the process is ongoing and that's why we audited our first quarter, it's basically for the preparation of the rights issue transaction. So, the structure will be a rights issue whereby the government will exercise by injecting their shares in Baturaja, in SMBR. The process now is waiting for the approval from the Ministry of Finance. And hopefully by June, it will be concluded, and therefore we can start the capital market transaction and aiming to finalize the transactions by end of Q3 or, latest, early Q4 this year.

Madhav: And what is the valuation have we decided, the valuation for Baturaja?

Hosny: Still actually under calculation, because we're using the valuer, the public valuer. Hopefully by the end of June, we can get the figures of the valuation.

Madhav: Got it. All right. Thank you so much.

Febriandita: Thank you, Madhav and if the other has other questions from the floor, you can raise your hand button. Or you can also type your question on the chat box and we will read it.

Febriandita: We have Akshay Sugandi, you can unmute yourself.

Akshay: Thank you very much. Can you hear me okay?

Febriandita: Yes, we can hear you.

Akshay: All right. Thanks for the presentation. This is Akshay from Macquarie. So, the question I have is on your sales volume. Noted that the first quarter the regional sales were down quite a lot, which dragged down the overall sales volume. So, what is your strategy on the regional sales is the first question. And on the second question, how do you see a full year market share being on the domestic side given the entry of new players as well? Thank you.

Febriandita: Okay, so the first question was regional sales. How's our approach on the regional sales considering the decrease in the first quarter? Is that the question?

Akshay: Yes, correct.

Febriandita: Yeah, okay. So, basically, in the first quarter, we are focusing our, we always focusing our sales for serving domestic market. However, if we see that regional sales can help us to reduce our fixed costs as well as adding more profitability, then we will serve the market. However, as you know, that we need to focus on the coal availability to serve domestic market first, then that's why in terms of volume in the first quarter is we can, we record decrease in terms of regional sales. And going forward, we will see what is the opportunity, how is the price in the market because regional price is quite fluctuated. It's also, we also compete with the other countries and as you know that the other countries, for example Vietnam, they have different approach on coal pricing. They have, like, some sort of subsidized from the government, so it's more challenging to increase the price in the regional market compared to the domestic market. And in terms of availability as well, we need to focus on domestic. So, we are going to see more closely on the on the market and any opportunity to be able to increase volume domestically. And regionally, we will see what we what we can do later on. But our main focus is on domestic. Maybe Pak Hosny, you want to add?

Hosny: Yeah, in addition to that, basically the- looking at the situation right now, we have this cost push from the coal, and also the dynamic in the competition in the domestic. While as you know, basically, the driver for the margin definitely comes from the domestic market. Therefore, this year, we will focus more into how to manage the profitability, rather than the market share. So, what we're aiming is to enhance and get more EBITDA share, and then put forth the market share on the on the second line. Doesn't mean that we don't care about our market share, definitely, we also want to see where is the, what do you call, the equilibrium will happen in terms of the profitability and market share. But first thing that we would like to focus is how we basically drive the market in order to increase the profitability. And we see now, until now, most of our competitors already also increasing their price. But again, we will see on the second half, how this goes forward, because there supposed to be a saturation in the market. And we also need to maintain our market share, in order for us to be able to maintain our premium positions in several areas. So, we are looking closely in terms of how to strategize and, you know, balancing that situation. Now, in terms of the regional sales, definitely, this is an opportunistic basis. If we see that there is residuals on our clinker or bulk cement left after we basically focus on our domestic sales, then definitely, we will tap in the regional or export market. But if we see that, you know, we have to focus and, you know, the room for us to increase further on domestic is still quite big, then we will focus on our domestic. But the main point is that we will focus to target the market, which can bring profitability.

Febriandita: And maybe the second question Pak Hosny or Pak Agung, the full year market share expectation?

Hosny: I think, now, our market shares actually is around 49% right? So it's going to be hovering around 49%-50% until the end of the year, yeah..

Akshay: Got it. And if I may ask the last question, what are your thoughts on any further price increases for the year?

Hosny: Yes. So, we have increased our ASP from April even until now, we will increase further in June. Second half we will see if, you know, because we also have to see that situations based on the conditions of our, you know, we don't want our market share to drop like 45% or 46%, right? Because it's going to be tough also for us to take again the shares going forward. So, we will see, if there is a good opportunity to increase further on the second half, whereby the decrease of our market share is not decrease rapidly, then we will increase. Because now, in terms of the costs, I think we should be able to manage, because of the coal price we are able to manage now. And also, other costs we supposed to be able to manage, notwithstanding the strategic initiative of increasing the TSR, cargo consolidation, and also decreasing the clinker factor which will support further on our cost efficiency agenda. Now its how we dance in the market, right, by combining the right ingredients of increasing price and also maintaining market share, but not much to focus only on market share, but also to see where the profitability is. Our aim is, basically, to manage the margin, EBITDA margin, around 23%. If, let's say, we should be able to manage that, perhaps that's the time for us to increase again our market share. But if it's kind of dropped, then we have to sacrifice a bit on the market share and increase the price. So that's, that's how we play the game.

Akshay: Got it. I think that's very very clear. Thanks so much for answering the questions. Thank you.

Febriandita: Okay, thank you Akshay. And for the next question from Yung Juen, I will allow you to unmute yourself.

Yung: Yeah, thanks a lot. Can you give us the coal cost in first quarter 2021? And second quarter 2021?

Febriandita: The coal cost that you were asking?

Yung: That's right. Just for reference, you know, you mentioned first quarter 2022 was 960,000. Right? Yeah. So, I'm just curious, what is the coal costs the previous year in first quarter 2021 and second quarter 2021?

Hosny: Okay, so the first quarter of 2021, our composite coal costs is 580,000 per ton. First quarter 2022 is 960,000, which is an increase around 66%. Second quarter, we expect the composite goes down to around 870,000. And last year, I think it's still around 580,000 the second quarter. Because the second quarter last year, it's still stable, the coal price. The coal price increase, basically, happens in Q4 of last year.

Yung: Thank you. And now that you have the DMO supply, and at the DMO price, how does this change the way you raise prices in the market? Does it have any impact at all?

Hosny: Okay, just like we explained, we would like to balance out market share and also ASP, but the main target is, basically, to maintain profitability. So, I gave you a guidance of EBITDA margin 23%. So that's where we play the game in the market. I mean, let's say if we see we able to maintain margin, then perhaps it's time for us to maintain a bit on our market share or increase. But then if we see that in the market, basically, there is a chance further to increase the price without even jeopardizing the market share, then we will do it. We will get that chance even, you know, getting a higher profitability.

Yung: Right, but there's no requirement from the regulator from the government that because you're getting the DMO price you are limited on your- limited on pricing power?

Hosny: No, there is no regulation on that.

Yung: Okay. Last one, can you comment on Indocement, you know, they took over operations in East Java of Bosowa. Just curious if you can give some color on the competitive environment there.

Hosny: Okay, so we don't, we still don't know yet about the transaction. Let's say if it's right, I think at the end of the day consolidations will happen in the market. We and Indocement, basically, we know the market very well and we compete in this same playing field. I think, overall, it shouldn't be a detrimental effect to us. I think pretty much those areas where we basically compete each other are basically already in situations that we can manage together. So, I think it's- it will not affect anything to us.

Yung: Thank you.

Febriandita: Thank you. Moving on to the next question from Brijesh, I will allow you to unmute yourself.

Brijesh: Hi, good afternoon, everyone. So, I had two questions as well. So, the first one is on volume. What's kind of the expectation you have for full year? I know you're saying you will be growing with market, but if you can give a little more flavor how you see the full year panning out in terms of volume?

Aulia: We definitely, in our budget, to expect the volume to be two and a half percent higher than last year. Up to now, the volume is still tracking for budget. So, we will see what would happen to see after the Eid festive last month, I'm sorry, this month, whether the following will- is gonna pick up on this June onward.

Hosny: In terms of domestic volume, we are targeting to increase. But again, total volume because we will see the export, we will see if there is a chance, we may tap in export market. But if, let's say, it's enough for us to basically get the target from the domestic market then perhaps not so much on the export market. So, what we are saying is that basically the domestic definitely that we are aiming to achieve increase in terms of the volume.

Brijesh: Okay, so if I heard it correctly, it's two and a half percent increase in domestic volume?

Aulia: Yep.

Brijesh: Okay. And looking at the current market trend, how- have you seen any kind of pickup in demand on the infrastructure side? Have you seen any kind of slowdown in the retail part?

Aulia: Well, up to Q1or until March?

Brijesh: Well, I'm just looking the current one after the holiday.

Aulia: The current one is still tracking our budget.

Brijesh: Alright. I have another question on the de-carbonization, those targets were very helpful. I just wanted to understand, what's the kind of capex associated with those targets?

Aulia: Capex not much, we're going to invest on CRM on the IT side, but it's not going to be on which most capex is going to spend, you know, the manufacture department and our target on ESG.

Febriandita: So, it's that answering your question Brijesh?

Brijesh: Okay, that's all right. Thank you.

Febriandita: Okay, moving on to the next question from Onkar. I will allow you to unmute yourself.

Febriandita: Hello Onkar? Hi, we are still not able to hear you. Or I think we also have your question on the chat box. Maybe I can read to the meeting. Is there some restriction that you cannot use DMO coal for cement that is exported? Pak Hosny? Oh okay.

So, there's no specific regulation that prevent us not to use the call for export. But as we know the availability we need to secure the availability, and our focus is to serve domestic market as the margin is higher compared to regional. So, our focus now is still on the domestic, but there is no specific restriction for using the coal for, DMO coal for export, or maybe Pak Hadi if you want to add something to that pak? No? Okay.

So hopefully that's answering your question. And there's the follow up question. ASP increase on a year-on-year basis is up 2.3% on domestic cement. How much is it up versus second half last year, also coal price for third quarter 2021 and fourth quarter 2021 numbers? So maybe I will answer the ASP increase.

So, January to September 2021, basically, we did not adjust up price. We just start adjusting price in October and November. So, from October until April, our domestic ASP has increased almost 7% if we compare to the September level, which basically not- quite flat during January to September 2021. And then for the second, second half, sorry, coal price for third quarter to fourth quarter 2021, Pak Hasan maybe? Pak Hosny?

Hosny: I can answer that. So, third quarter 2021, only composite average coal price is around, is around seven 680,000. And on the fourth quarter of 2021 is average, around 970,000 per ton.

Febriandita: Yeah, hopefully that's answering your question Onkar. If you still have a further question, you can put your question on the chat box. Okay. So, if you still have more questions, participants still have questions, please raise your hand button, and we will allow you to unmute yourself.

Febriandita: Okay, I think we already addressed all-

Madhav: Oh sorry, can I ask?

Febriandita: Yes, please Madhav.

Madhav: Could you just help me with the content for implementation of the ODOL and the likely impact that can have? And secondly, do you expect fuel and electricity tariffs to be raised, especially because of carbon tax coming in for them? Thank you.

Febriandita: The first one is regarding, the first one related to the over dimension and over load. There is no, up until now, there's no update from the government related to that regulation. So basically, it will be implemented in 2023. And in terms of impact, it will impacted our transportation costs in selling expense. However, we are able- it will happen and it will impact all players in Indonesia. And we will be able to pass on that, we should be able to pass on that to the price. And then in terms of how it will impacted SIG compared to others. Because as you know, we have extensive distribution network all around Indonesia compared to the other, so the impact should be better for us compared to the others. And basically, it will impact the land transportation costs. It's represent around 50% from our total transportation cost to the customer.

And for the second one regarding the electricity tariff. Up until now there's not yet adjustment, yeah, on the electricity tariff. We have heard that the government plan to adjust up the price but because it's also related to the political decision, so up until now, we haven't heard any clear plan on how much the government will increase the electricity tariffs. But we actually have also calculate that on our projection, and hopefully, it will not impact so much on our costs as we still in the plan to adjust up our price again later on. This going to be one of the consideration to adjust the ASP, or maybe Pak Hosny also have more comment on that?

Hosny: He also asked about the carbon tax, yeah? So that's actually one of the thing that we are targeting is basically to achieve this net zero carbon. So, on the debit side, as you see already in our initiative, that scope one and scope two, that's basically what we are aiming to do on our internal process to reduce the emission. But on the credit side, we are also now focusing on getting the credit, carbon credit. So therefore, by 2030, we can get the net zero. One of the example is basically to move our server from on premise to cloud, which is currently in progress, which we get, we will get the carbon credit on that, and also plenty planting some trees in our ex-mining area. So, it's actually work in progress. So eventually, by 2030, we're going to get that net zero.

Here also, we have Pak Oepoyo yeah. So basically, first thing I also would like to give you an overview. We restructured our organization in first of April, whereby we changed a bit on the organization's to be more focused on delivering the robust agenda that we already mentioned to you. So, for example, Pak Aulia now is the director focusing on the business development, and marketing and sales. So, focusing on that. Pak Adi Munandir, he used to be the supply chain and sales, now focusing only on supply chain, inbound and outbound. So, procurement now is under him, distribution and also, inbound procurement inbound logistic. So, it's more focused. And in terms of the ESG, we established a group. So, there is this Group of Sustainability and ESG. And we have here appointed Pak Oepoyo, who used to be the, the head of ESG at Holcim. And now we appointed to focus on, you know, lead ESG initiative for SIG. And it's under Chief of Strategy, which is under President Directorate, the Chief of Strategy is Pak Antonius Bermana, yeah Pak Antoni which is here also with us. So, perhaps Pak Oepoyo you can introduce yourself and perhaps you can give a bit of flavor of how we can get to that net net zero.

Oepoyo: Thank you. So, we'll introduce myself. So, basically, as we know that we will focus also in the ESG part. So, the ESG part is, we follow the pillars, we have five pillars, which is a sustainable solution pillars. We have targeted part of revenue, our revenue is not only from the cement selling, but also some solution product as presented before such as a ecolabel product and then some concrete which is a lower CO_2 content and cement, lower CO_2 content. And also, the second pillar is about the circular economy and climate, which is we have a target to reduce our CO_2 footprint 30% from the 2010’s baseline below 500 kilogram CO_2 per ton cement. And then the circular economy also we have target to have like a quantity of alternative fuel and raw material, which is three millions in 2030 that we will use as our alternative fuel and raw material. And then the other pillar is also the water and nature pillar, which is we have a target also to put some reduction of our CO-, sorry, water usage footprint and also improve our Biodiversity Action Plan. And then also the last pillar is about the people and community, which is we will improve our occupational health and safety, including the beneficiary for our community for several program and then inclusive business. So, we will increase our beneficiary for our community development program. So that's the summary of our ESG or sustainable development strategy to further improvement. Thank you.

Madhav: And just one last question from my side, is the DMO coal for us for rest of the year like all of our coal will be DMO priced. Is that the same for the entire Indonesian cement industry? Or do the SOEs are getting some sort of preference for DMO price? Thank you.

Hosny: I think, okay so, we focus on ourselves first, and the rest of the players, of course, they will they will try to get the DPO price, but it also depends on how they procure the coal itself, right? Because it comes again, on the planning, the planning itself. We already planned about this since last year. That's why we focus to have a midterm and long-term contract with several big miners and have strong traction with them. So therefore, it's easier for us to manage. But the rest of the players, I don't know, maybe they do spot basis. So, for them to engage a new contract with several big miners, probably it's harder, but they will try and also to get the government support, I believe. But again, it depends at the end on each company's strategy and planning of how to get this procurement of the domestic price obligations coal. I think that's, you know, what I can say about others.

Madhav: Thank you so much. Thank you.

Febriandita: Okay, thank you Madhav. Next question from Yung Juen, I will allow you to unmute yourself.

Yung: Thanks. Just wanted to follow up on the ASP increasing mentioned in June, is there any more color you can give us? How much you increase, what region, is it nationwide?

Aulia: So we increased the price in April. So in the middle of April, takes full impact on this point of May. The future plan, I think we just want to target on our EBITDA margin target, which we expect not to be worse than last year, or at least equal to last year. So we'll look at the situations,you know, the demand itself whether it's striking our protection or not.

Yung: Understood. Okay. Understood. But just to be clear, there is another price increase scheduled for June. But you're saying you can't really comment on that now. Right?

Aulia: Um, I can't make comment at this moment. Where are we gonna do another project adjustment, but what we do look at is first the EBITDA margin, and secondly the competition itself.

Yung: Got it. And can I just ask about the smaller players and also the- some of the fighting brands, are they also increasing prices as well? Is that sort of follow through from the smaller players?

Aulia: Yeah, we're observing them because their financial situation is worse than us. Like day to day, most of the- even most of the major players have to buy coal on non DMO. So we expect these smaller players will suffer more if they don't do any price increase. We observe in the market that they follow, it reflects in our market share in April which is lower a little bit by point four something percent, but we still maintain 49.4% based on the latest data from the Indonesian Semen Association. So we are quite encouraged with, you know, with the result, when we do the price increase. For ourselves itself, we will scale back on the fighting brand. So there are two ways for us to do the ASP increase, first the price itself outright. Secondly, by having a better product mix. We will scale back on the fighting brand. I say it's a name- fighting brand is not going to be a permanent, it's just going to be temporary where we you see it fits. Otherwise, we'll pull back on a fighting brand and replace it with our main brand

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Yung: Right. Okay, so just want to clarify, in May is there any volume color you can give us? Because I think April is skipped by Lebaran timing, which I think was in in the first week of May last year. So I'm just curious for me, is there any volume color you can give in terms of volume, domestic volume?

Aulia: The domestic volume in April actually is a bit lower than our expected. But it's still tracking and in the month of May, it's still pretty much equal to the May last year.

Yung: Okay, so just finally on the DMO, there's- for 2023. Is there any volume for 2023? Or when do you start to negotiate the procurement of coal for 2023? Thanks.

Hosny: I think for price 2023, it will happen on the Q4, beginning of Q4. And it all depends on the dynamic of the commodity coal price in the market. Anything can happen still, but I guess, looking at the situation, if we see the situations this year, I think, pretty much we are very confident in order to get the coal supply with the with the target price that we that we are targeting. Because as I explained before, we already anticipate this from last year and have a good traction with big miners in Indonesia.

Yung: Right. If I can just follow up, what has changed, actually, because this DMO was talked about since I think November last year, October, November. So, I'm just curious what actually changed from then until now. Because I think the initial response was a bit disappointing in terms of you didn't get much volume at the DMO price, but now you've been able to get to full year's volume. So just curious if you can share with us what actually change?

Hosny: Definitely, you know, how we basically communicate this to regulators, stakeholders and industry. And then also the ability to basically negotiate with our suppliers, yeah, because we have a long-standing relationship with suppliers. As you know, we are the second largest coal buyers in Indonesia. But again, also in terms of, you know, get the traction from the government also to put forth their attention on this because it is also their intention or, you know, objective in order to, to support the local industry requires the coal as one of the raw materials and energy source. So I think that's one of the thing that we did during the first of this year.

Febriandita: If I may add, the difference between the DMO regulation on- that approved in November, it did not mention about government support, specific government support. And in the new regulation that approved in end of March, government mentioned that they will support to ensure that the coal vendor would support this DMO, basically through Ministry of Energy and Natural Resources. And that's also one of the things that was Pak Hosny mentioned, we are able also to get more support from the government. That's the different with the previous regulation.

Yung: Thank you very much. It sounds like conditions are improving and congratulations. So, thank you again very much.

Febriandita: Thank you. And we also have a question from the chat box, and I think considering the time, it would be the last question for this afternoon.

The question from Swati, how much is the mix of fighting brand now in total volumes? I think we have answered that question before, around 10 percent yeah, and it will change later on based on the situation with the market. And then the second one, will all the industry players get DMO pricing for coal? And the third question, is the margin stabilized now, or we could see more pressure due to higher electricity or logistics?

Yeah, number two actually, we also have answered the question before. Basically with the DMO regulation, government expected that all players would be able to get coal at DMO. And government also stated their support on the new DMO regulation, however, how it would be different on how each companies would approach to the to the coal vendors, for example, Semen Indonesia, as we are the biggest coal consumer after the PLN. And we also have long term and strong relationship with our vendors. So we are able to secure more in terms of percentage compared to our competitors. And for the third question, regarding the margin will be stabilized pak or we could see more pressure on the electricity or logistics?

Hosny: So, margin will stabilize. Although you know, there is this pressure, you're right on the electricity and logistic but, as you already see in our strategic initiative, we put forth a robust agenda to make optimizations to our operational. So therefore, number one in terms of electricity, the solar panel initiative, and reducing the electricity consumed, consumptions index, and also the cargo consolidation to basically compensate for any of the impact of the increase of these two aspects. So that's why we are aiming to get, you know, stabilized margin and targeting margin of at least the same or better than last year.

Aulia: Just to add to that thing, we just decided we're going to focus on profitability there, then other than anything, other than anything else, or if we can do maintain our margin, or margin by way of efficiencies, we'll do that. But we are not going to be afraid of passing through the price to customers, the cost to customers.

Febriandita: Okay, thank you very much. I think, because of the time, I think that will be the last question for this session. Should you still have any more question, you can send email on investor.relations@sig.id. And thank you very much to all the panelists as well as participant for the meeting today and hopefully we can see you soon in other occasion; in one-on-one meetings, investor conference or the next earnings call. Thank you very much for your attention, and have a good day.

Hosny: Thank you so much. See you later. Bye bye.