SIG 1H 2023 Earnings Call
Date: Wednesday, August 2, 2023
Time 09:00 – 10.00 PM JKT Time Zone

Panelists :

Mr. Andriano Hosny Panangian	: Director of Finance & Portofolio Management
Mr. Subhan	: Director of Business & Marketing
Mr. Joni Gunawan	: SVP of Sales & Mega Distributor
Mr. Hasan Arifin	: SVP of Corporate Finance
Mr. Gathut Wicaksono	: SVP of Marketing
Mr. Faried Nugraha	: VP of Financial Planning & Analysis
Mrs. Febriandita Kusuma	: GM of Investor Relations

Radityo : Ladies and gentlemen, good morning and welcome to the SIG 1H of 2023 earnings call. My name is Radit and I will be the moderator for today. Thank you for joining this call, we will begin shortly.

On the line with us today, we have:
- Bapak Andriano Hosny Panangian : Director of Finance & Portfolio Management
- Bapak Hasan Arifin : SVP of Corporate Finance
- Bapak Joni Gunawan : SVP of Sales & Mega Distributor
- Bapak Gathut Wicaksono : SVP of Marketing
- Bapak Faried Nugraha : VP of Financial Planning & Analysis
- Ibu Febriandita Kusuma : GM of Investor Relations and my colleagues from IR team.

We have released our 1H of 2023 result on Monday, 31 July 2023 and the reports are available on our website at sig.id under the investor relations menu. Let me begin with a rundown of today's agenda, as well as some functions of Microsoft Teams platform. Today's call will begin with an opening presentation delivered by our GM of Investor Relations, Ibu Febriandita, and followed by a Q&A session. If you would like to ask a question, please press the raise hand button on the top right of your screen. When your name is called upon, I will proceed by giving you access to unmute your mic. Please remember to click the unmute button after that before speaking, alternatively, you can also type your question in the chat box. Let us begin the call,and I would like to give the floor to Ibu Febriandita for the presentation. Thank you.

Febriandita : Thank you Radityo. Aaa..good morning everyone, allow me to briefly update you with the 1H of 2023 achievement of SMGR. So, as you know despite 5% contraction in national demand- cement demand in the 1H of this year, we were able to record slightly positive sales volume growth for..aaa this first semester of this year, which mainly driven by 41% growth in export sales volume. And then the blended ASP up to June still recorded a 2% increase YoY both from the increase in domestic ASP by 5% and export by 0.5% or quite flat. Both volume and revenue increase supported 2% YoY increase in SMGR revenue in the 1H of 2023. And..on the cost side, the increase in energy price still has some impacts on our COGS, especially on our freight cost, which are our distribution cost, which recorded increase around 30% YoY, logistic cost for coal which impacted the coal price to increase by around 7% YoY and raw materials which increased around 12% YoY. SIG consistently conduct efficiency efforts to minimize the impact of the rising cost through operational excellences efforts, both through the efficiency in material consumption index such as coal consumption index, which decrease around 4% YoY, the..uh..decrease in PCC clinker factor by 0.4%, decrease in the specific thermal energy consumption or STEC by 2% and the increasing of the..uh..utilization of the AFR or alternative fuel which allow us to increase thermal substitution rate by 0.7% in the 1H of this year. And we also conduct operational cost management in a disciplined manner to achieve operating cost efficiency, which you can see recorded decrease by almost 10% YoY in the 1H of 2023. So, our COGS recorded increase by 5.9% but the incremental were more gentle if we compare to 1Q of 2023 YoY. So, the above efforts and supported by finance cost efficiency which was down by 8% YoY from the deleveraging program has supported SIG..uh..to still be able to record better net profit for 1H of 2023. So..uh..we also see that the industry demand is starting to show improvement where the national demand contraction in June was only -1% YoY, so it's much better compared to the previous months which recorded..uh..almost 6% minus ya, contraction up to May 2023. So, our cement release until the third week of July also showed positive growth around ..uh..low teens high single digit to low teens both in bag and bulk. So, in addition SIG export sales also have continued to increase. We saw around 40% MoM increase in July compare to June to optimize the utilization of our production facility further. So, we also have started calibrating our ASP in several regions by mainly increasing the ASP of fighting brand which has been responded positively by tier 2 competitors and we also continue to conduct efficiency efforts..uh..such as further efficiency efforts in the production index, efficiency in coal cost especially in terms of procurement cost by increasing coal acquisition from nearby location and renegotiating the freight cost, and then efficiency of cement shipping cost by adjusting delivery terms to distributors from free on truck to FRANCO, and increase the use of portion of woven packaging with lower cost than kraft bags. And promotion cost also expected to be lower as we saw that..uh..as we expect that demand will start to improve in the 2H of this year. Uh…G&A cost..uh..its'- it's continually will be maintained, remaining selective in carrying out activities as we did and aim for efficient cost. So, the improvement of demand and the intensity of competition in June and July as well as supported by potential export demand, which is still quite promising, will provide opportunities for SMGR to be able to increase sales volume and conduct price adjustment opportunistically in order to absorb the impact of rising coal while we also continue conduct every cost efficiency to increase profitability. So that's brief update on our performance for the 1H of 2023 and now we can move to the Q&A session.

Radityo : Okay. Thank you, Bu Febri, for the presentation. Ladies and gentleman if you have any questions please press the raise hand button and then I will mention your name and give you access to unmute yourself.

Okay, we have our first question from Kharel from Trimegah. Okay you can unmute yourself, Kharel and ask the question. Thank you.

Kharel : Hi thank you for the opportunity. Good morning and congrats for the results and I want to ask about the- can you care to explain the higher raw materials cost in the 2Q? Thank you.

Febriandita : So…yaa..thank you. Uh..I believe you saw the numbers on QoQ basis, right? So, the system and..and how we record the cost is we..uh..record all the input costs, the materials that been input to the process, and it would be eliminated on the inventory difference. So if you see COGS breakdown at the bottom there would be..uh..inventory differences that to- to be matched with the real volume that being sold on that period. So we suggest you to..uh..if you want to make a projection going forward..uh..the basis that will be more representative is to use the per ton basis of raw materials on the year to date- year to date basis. So, it's recorded increase around 11% to 12% if you calculated the year-to-date numbers up to June. So that would be more representative because the fluctuations of the number of the input material volume that we use in each period could be different. So, you can see in our..uh.. notes to the financial statement on the inventory, the inventory of the finished goods recorded increase as well so that's also impact the- the..uh..inventory differences that we adjusted on the COGS breakdown. So, hope that answer your question.

Kharel : Okay thank you, and sorry I have one more question. Can you explain about- can you give me a color about your fighting brand contribution to your total cement sales volume volume revenue? Total cement sales volume sorry.

Febriandita : Okay, so usually in terms of the percentage, we calculate the percentage of fighting brand s from the total domestic volume. It's still around ..uh.. 14 to 15%, a bit higher if we compare to the ..uh.. 4Q of last year because ..uh.. you know that we a bit adjusted in the 1Q because of the competition. But it's starting to..uh.. to go lower and we expect it to be lower in the 4Q of this year because you see that the competition- intensity of the competition expected to be not as intense as in the 1H because in the- we saw that demand start to improve in the second- three- third, and fourth week of June and then start to improve positively in July so hopefully that will support to lower the intensity of the competition and we can adjust down the portion of the fighting brand.

Hosny : In addition to that, I think one note that you have to clearly understand is that, even though the portion of the fighting brand increase, but the price of the fighting brand has also increased aggressively ya.. So, we recorded increase of 7% of the ASP of the fighting brand compared to last year while the main brand increase around 4% ya compared to 1H last year. So overall, despite the increase of the portion of the fighting brand slightly compare to 1H last year, but overall impact to the weighted average ASP increase of the cement bags ya cement bags sale in Indonesia still has increase 3.7%.

Kharel : Okay, thank you, thank you.

Radityo : Okay, thank you Kharel for the question and I believe we also have a question in the chat box which is asked by Onkar but I believe it also had been answered on this previous one. So, moving on, we're gonna have our next question from Akhsay Sugandi. You can go ahead and unmute yourself, Akhsay. Thank you.

Akhsay : Yes. Thank you very much. Um..you said earlier that the demand in July has already started to improve MoM, right? So, what do you see as the driver of the demand growth for the 2H of the year? And what is your updated guidance for the domestic volume growth? I'll start here for the first question.

Febriandita : Pak Gathut, if you have response to the what supported the growth of demand?

Gathut : Yes, of course. Yes, thank you, I'll try to answer your question. I see that there are some good changes in..uh..in the last of second..uh..1H in this year because as you see, there are 3 parameters right now, for example. The first is the increase of budget ya, the increase of budget of infrastructure, civil and also building. The second is government confidence getting better, and then the economical also getting better. This is the driver of the increase of the demand. I think the three factors is very influencing to the increase of the demand ya.

Akhsay : Got it, what about…

Hosny : But, in terms of the demand growth, we think still can go up to 1-2%.

Gathut : Yes. 1-2% full year can be achieved. Yes.

Febriandita : So, ya. So..so..in the 1H if we see the demand contracted around 5-6% ya up to June, and we expected- because we started at the low base for the 2H of last year decrease by -7% so if- . We see that the trend that we recorded up to June increasing at high single digit until low teens, so we expect if demand can grow by 6-7% then demand for the full year still end up able to increase by 1 to 2%.

Hosny : But again, I think in terms of the demand drivers, we divided into two segments ya. The bag segment, which goes to the retail market, you know consumers demography, households, that one I think, we think that the growth full year, I think would be around 0.9-1.2% but the main driver, high holder for this year is actually coming from the bulk, from the direct sales. We have drivers from two main projects in Sumatera and also the IKN, and a couple of other projects in Java especially on the infrastructure side. We are confident that the growth can be up to 10%, even optimistically low double digit, in terms of volume growth compare to last year for full year.

Akhsay : Got it very much. So, you think the bag will around 1% and the bulk will be around 10%?

Hosny : Ya.

Akhsay : Got it and the next question I have is on the margin side. So, umm..after the integration with SMBR, where do you see the full year margin for this year and how do you think the synergies will kick in for next year?

Hosny : Ya, so I think in terms of the synergy already kicks in, in terms of some of the synergies especially on the cost to serve, optimization of the utilization especially on the South Sumatera market. We expect our guidance for EBITDA margin 21-22% still stand. I think pretty much we should be able to deliver that in the 1H. And we believe with the potential leverage on the market growth ya, especially on the bulk and direct sales side, especially if you see one of the key drivers is the toll road projects in the Sumatera area which is very close to the SMBR site. We believe that we should be able to maintain and get this guidance for margins until full year. Next year, we expect this to maintain, even we see a trajectory of even higher margin if we can see a bit of- loosen a bit in logistic side. The problem for logistic currently this year is not only because of fuel, but the availability of the vessels ya. It's very hard now to find tugs and barges to deliver the coal from the sites. The supply is abundant, but the transporters are limited. But we see in the 3Q this year, the supply of the vessels are picking up so hopefully next year we should be able to see a bit lower logistic cost ya compare to this year. And a bit on the margin side, would be around 1% additional ya for next year and hopefully the growth for the demand will continue to increase closer to the GDP growth within the next 2 to 3 years and we foresee good freeze again in the margin in the next 2-3 years.

Akhsay : Got it, thanks for that ..umm..just the last one, so you are saying that even though you got the coal at the DMO 100% this year, the main issue is coming from the logistic side from fuel and the cost of the vessels. Is that correct?

Hosny : Yes that's right. Yes, that's right. But..it's- it's because of the availability of the vessels ya..of the...of the fleet, of the tugs and barges, it's quite sparse now in the market. So, we have to compete with the coal trader, sometimes with the CPO trader, CPO producer, and other commodities. Because most of the coal are coming from Kalimantan, some actually from Sumatera but on the lower GAR side, so we have to transport it by sea ya to the Java right, to our Tuban plant, to our Narogong plant, to our Tonasa plant.

Akhsay : Got it and how much is that cost gonna by?

Hosny : Okay, so I think if you see our, what do you call- the coal price..coal price per second, second half- 1H 2023 stands in around IDR 963 thousand and this is has gone up around…

Febriandita : 7%

Hosny : 7%

Febriandita : 7% last year on the 1H.

Hosny : Hopefully we see a bit of a lower coal price composite, we expect in the 2H it can go down to around IDR 883 thousand per ton because we are able to get lower coal price and get closer source of coal compared to the 1H. We see a bit of a lower of coal cost in this 2H, hopefully it will start to kicks in to our inventory by August and September. So we expect the coal price composite will go down to around IDR 883 thousand from currently around IDR 963 thousand.

Akhsay : Got it and how much just the component for the logistic of the vessel going up by?

Hosny : Oh okay, for the logistic itself…

Febriandita : So, last year it could be around USD 10, now could reach USD 15-20 in the 1H. USD/ton.

Akhsay : Got it. Got it. Thanks very much for the comprehensive answers. Appreciate it, good luck.

Radityo : Okay, thank you, Akhsay for your questions and then the next question is from Vivek. You can go and unmute yourself, Vivek. Thank you.

Vivek : Thank you, Sir. Can you hear me?

Radityo : Yes Vivek, we can hear you clearly.

Vivek : Thank you, sir. Thank you so much for the presentation. I have two questions, but just before that I just want one clarification to what you said to the previous participant. I think you are talking about, you know, the bulk demand of, you know, close around 10%, bag demand of about 1%. Was this comparison for the 2H of this year or were you talking about of FY23 perspective?

Hosny : Okay. That was the full year, full year growth compared to last year but I think in terms of the bag itself, in 2H it will be much more incremental. So if you are talking about around 1% currently bags only it's actually drop ya, around 10% so I think we see the 2H growth around 11% so overall for bag increase 1%. On the bulk side, however the 1H I think is already kicks in steadily so I think..

Febriandita : 5% for the bulk.

Hosny : 1H, the bulk itself compare to last year is already 10.7% increase ya compare to last year. The 1H only, so the 2H we see around pretty much the same around 10%, 9 to 10% on the 2H.

Vivek : Got it sir. Thank you for the clarification. Just two other questions from my side. Firstly, you know on the cost front, you obviously mentioned that you know the cost has risen because of the fuel and the tax and all of that. Just wanna do, you know, check, is there also an impact coming in from the integration of Batu Raja? Because I would assume, that the cost profile of SMGR would have to be more efficient vs Batu Raja and the synergy value coming from next year. Would that be a fair statement?

Hosny : Okay. Synergy already happened this year but if you see Batu Raja compared to the whole consolidation of SIG is very small ya. So, there only 2.7-3 million tons capacity compared to us around 50 million. So, if we have synergy the impact to the margin is zero point something percent. It cannot increase, you know, increase the margin up to 2-3%, different from the case of Holcim. Holcim is the size around 35% at that time compared to the size of SIG at that time, so..uh..just a bit impact of our synergy can be pushed up the margin quite a lot. But this one..uh..we we can see in the..the..in the synergy that happens in the SIG and also SMBR, I think we are targeting around IDR 270 billion ya, IDR 270 billions of synergy happening this year and currently I think we are already progressing, in the 1H we make IDR 100-120 billion but this is coming from the top line because we are able to optimize the volume and also the price in South Sumatera, second coming from the cost to serve and that's why you see the logistic cost on the selling side can be more efficient.

Febriandita : Yes, and to add on that, actually some of the potential synergy already realized in the 2022 because we were expecting that the integration would happen earlier but end up in December. So because we are- both of us are SOE, so we already build communication with them, so for example how we already support SMBR on how they can reduce the clinker factor. At that time they were still 70% and our clinker factor for PCC already achieved 62% so we already guide them on how they can significantly decrease the clinker factor, so the- some of the benefit being realized in the SMBR report in 2022.

Vivek : Um..sure, very clear, thank you so much. And the last question from my side was, you know, you speak about 2023 demand just you know looking beyond, going into 2024 you know it's also an election year and that's obviously brings its own challenges on infrastructure and execution. So just wanna hear your thoughts, how you see the demand progressing, demand growth progressing for 2024 and 2025? That will be really helpful. Thank you so much.

Febriandita : Pak Gathut if you have, or Pak Subhan, any comment for 2024 expected demand?

Gathut : Yes. Yes, what I see is uh..it should be getting better about this year. Because that you see even in this political year, but we see there are some infrastructure projects that are keep going on. For example toll road in Sumatera and also some of smelter project scattered all around Indonesia, it's very high volume. So yes, we believe that the demand will be increased better than this year. For example this year, full year maybe around 1-2%, maybe for the next year is come up more than 1-2% growth ya because I think the infrastructure still have a lot of opportunity to be rely on and usually the retail will follow infrastructure sector ya, that is still on site.

Vivek : Okay thank you very much for the answer and all the very best.

Radityo : Okay, thank you Vivek for your question and then we have another question from the chat box. It's from Andreas Christo Saragih. So, aa..could the floor give reminder to us about the price gap and EBITDA margin gap between the main brand and the fighting brand after the ASP adjust.

Febriandita : So, in terms of the difference between fighting brand and main brand, the gap, Pak….(talk to Pak Hosny)

Hosny : The price ya? I think in terms of the price, the Q2 main brand ASP is around 1,051 thousand ya and the fighting brand the ASP is 843 thousand ya. That's the difference but the quarter to quarter, I think, no I mean in terms of growth from last year, we see that fighting brand already increase more than 5% ya, the ASP, compared to last year and the main brand increase around 6.9% in the 1H, if we compare to 1H YoY.

Febriandita : So, the gap already decreased if we compare to the last year, compare to- last year compared to this year the gap already reduced by 2%. So, it could reach around 20% price difference but the gap starting to be lower because in the May-June we did a price increase on the fighting brand. So it's being perceived by the second tier players as their competitor, real competitor. So that's why when we increase our main brand last year, it were not really followed by the other by the similar percentage. But when we increase the fighting brand price because it's perceived as competitor, real competitor of the second tier players, then their start to also increase their price. And we are able to further increase the fighting brand and reduce the gap between fighting brand and main brand by 2% compare to last year.

Radityo : Okay, Andre if you think that's answer your question please let us know on the chat box and to clarify Onkar's second question which on the chat box also. Is Rp 963,000 per ton coal price including logistics cost of $15 per ton in 1H23?

Hosny : Yes, it's already, blended, because we- our contract is always up to our stock pile in the plant ya.

Radityo : Yes, thank you Pak Hosny. And then the next question is from Akhsay again, please go ahead Akhsay.

Akhsay : Hi, ya sorry, just wanna to check whether the other tier two players have also rise prices umm..at this point of time?

(SMGR discuss)

Gathut : I think the one condition happened in the 1H is when we are trying to increase the price they are follow as in the price

Akhsay : Sorry, could you repeat that?

Gathut : They are follow increase of the price following by our policy to increase the price and in our..in our planning for the 2H we are also make some planning to do more increase ya, several times. Beause we see there are opportunity to increase the price for this 2H.

Hosny : Including main brand.

Gathut : Yes including main brand. Fighting brand and main brand. Because the market getting better for the demand.

Akhsay : Got it and will be this for the bulk, bag, or both?

Hosny : This is our bag.

Gathut : Yes, it's for the bag.

Hosny : So the dynamic of bag and bulk is different ya. Bag is more about the fight in the stores ya, how you win the stores..drama, you know, how you win the acquisitions of the stores, the activation of your brand in every stores in certain region. So it's more about how you play with your main brand, your fighting brand, you know, psychologically, psychologically entice other competitors, smaller player to also increase their price by introducing the fighting brand and trying to increase the price of the fighting brand together. But the bulk is different, the bulk is how you can get connection and ability to propose your solution ya, for certain projects. This is aa..the thing that we think one of our bread and butter and also our leverage because our position as a state-owned enterprise. We all have the networks, we all have the access to the decision makers, right? And the gameplay is different, the gameplay is more about that, you know, how to penetrate further. I think these two drivers, we see a good traction up to the 1H and we see also very optimistic on the 2H.

Akhsay : Got it. Got it. Thanks, that's all from my side.

Radityo : Okay, thank you Akhsay. Now, the next question is from Arnanto. You can unmute yourself Arnanto, thank you.

Arnanto : Thank you. Thank you, Mas Radit. Just three questions from my side, umm..number one, earlier you mentioned the price difference between the main brand and fighting brand which is around 20%. Umm..just wanted to get a sense of the margin: is the cost basically the same for the main brand and the fighting brand or is there any source of difference in the cost structure between the two? Question number two..

(SMGR's team talked)

Arnanto : Should I stop here first, Bu Febri or…?

Febriandita : Yes, please go on.

Arnanto : Okay, question number two. I think earlier you also mentioned that volume has improved at third week of June, um.. especially on the bag side. Can I know if that, if..if the volume improvement is led by the fighting brand or the main brand? And..and the question number three, I mean we have seen on the news headline there are some SOE contractors that are struggling. Umm..do you think that's a concern at all especially with regards to your expectations of the strong bulk cement improvement on the 2H of this year?

Febriandita : Okay, so the difference on margin if we see on the overall, the differences are around 10%, but if we see the difference on the localized area it could reach around 15 to 20% because of the, there are still a difference in the price gap. But overall, it's around maximum 10% in terms of margin difference. And then ..aa..the volume growth for 2H or July that you were asking?

Arnanto : July, Bu.

Febriandita : Okay. July increased both for bag as well as bulk, increased to high single digit to low teens.

Arnanto : Sorry, Bu, could you, could you repeat that?

Febriandita : Okay, it's increased on June numbers, yoy increase both bag and bulk by high single digit to low teens.

Arnanto : Okay. Okay, and..and..

Febriandita : That's up to third week of June ya, eh sorry July.

Arnanto : Okay okay, thank you, Bu. And is there a more specific split between the fighting brand and the main brand under the bulk- under the bag cement?

Febriandita : Okay, the portion around 20%, 21%.

Arnanto : Sorry bu, 21% for?

Febriandita : 21% fighting brand over total bag sales. So, around 15% from the total domestic sales volume.

Arnanto : Okay, got it.

Hosny : Okay, on your last question regarding the SOE contractor situation, whether this will impact to our target for the direct sales or bulk sales. This is the thing: with SOE contractor, the problem with SOE contractor is because they aa..they couldn't manage the management of the working capital ..aa..precisely by project. So, what happen is that all the working capital commingling and also there are a lot of side screens here and there, which basically at the end it will make them difficult to manage the cashflow. What we are doing is actually we are not doing a conventional method in terms of designing the terms of commercials on each of every project for the direct sales on the bulk market, on the bulk sale. Bulk going to the projects, going to certain company, certain developers, certain EPC contractors which at the end what we are doing is that we are ring fencing the whole projects from end to end, from supply to the project owner. Not necessarily that we are required bank guarantee or LC scheme or those kinds of instruments which this EPC, which this SOE contractor as you know hard to get these all facilities from the banking market by now. But, we are introducing a different innovations in terms of how we design the commercial terms by ring fencing the whole structure from flow of goods and services to the flow of fund and money coming from the project owners up to the suppliers. So, there are one of the mechanisms in terms of designing a cash waterfall escrow arrangement using our ecosystem of banking market, capital market, financial institution market, to jump in and support projects overall not only from the SOE contractor or the contractor EPC side but up to the project owners. So we are ring fencing the whole projects from end to end and therefore we may no need to get, you know, that bank guarantee or guarantee structure cause we aren't able to have feasibility of how the flow of goods mechanism of the contracts and works in the field and also the fund, the source of, even from the source of the fund from end to end. So, that's what we are doing and that's why most of the project that we are doing we don't depend on how the EPC contractors, the SOE contractors can get the banking facility because we are utilizing the whole ecosystem that we have, to support the projects, not support the SOE contractors but supporting the projects because they are only part of the projects for certain works. But the whole ecosystem of the projects come from the all the suppliers and also the funding, where is the funding coming from. So, this is that we are ring fencing, that's the thing that we are doing differently.

Arnanto : Okay. Got it. Got it, Pak Hosny. Aa..very clear..aa…

Hosny : So it will not affect. It will not affect our target volume for the bulk.

Arnanto : Okay, okay. I have two more questions, if..if I may. Number one, regarding with the new plant construction by Hongshi and Kobexindo in East Kalimantan aa..what's your take on it? Do you think that's gonna disrupt the domestic market even more? And question number two, I think with- as you mentioned the fighting brands have also followed you guys in increasing the price and..and therefore the pricing landscape is much better now umm…do..do you see Merah Putih rerouting some of their exports into the domestic market umm..do you see that as a potential risk? Thank you.

Febriandita : Okay so on the construction of Kobexindo and Hongshi the location was in Kalimantan, so I think it would not give much of disruption as what we saw on Singa Merah and Grobogan because their location is in main market of Semen Indonesia. And the margin of..of..of cement, the biggest margin of cement mainly are from area in Java area. So, we believe that it wouldn't really give a disruption impact as big as what we saw in 2020 and 2021. And it would be quite challenging for them to bring the volume from Kalimantan to..to Java or even to Sumatera. And location wise as well, if they want to sell in Kalimantan it would be more challenging as they want to sell in Java if the integrated plant located in Java because the infrastructure in Kalimantan is not as developed as in Java so there would be more challenges that they have to maintain as they start to operate in Kalimantan. And then the second question, the ASP, the increase of ASP is being followed by the second tier including I think including Merah Putih as what we heard. But do we see any their rerouting their export volume to local, I think not ya..not yet because- even their location is quite far, the integrated plant was in Bayah, it's more challenging in terms of transportation cost as well to serve the location that they want to sell in terms of retail or bulk in domestic. And then the growth of demand we saw aa..aa not only in Java actually, more growth happens in Sulawesi and then in Kalimantan. So it would be also still challenging for them to send a quite far from the Bayah area to Kalimantan or to Sulawesi. If you see the Kalimantan demand growth recorded around 50% that mostly supported by bulk project for the IKN, so- and we haven't seen significant numbers of volume that they reroute from exports to domestic. Currently 50% of their utilization, same as Conch, their utilization use for domestic and the 50% of the utilization to support the export market. It's..it's still make sense for them for export considering the location.

Arnanto..

Radityo : Okay, okay. Thank you, Arnanto for the clarification. I believe the next question is come from chat box again. It's from Onkar again, he has two questions about..First about colour on power costs. How has it moved over the last 2 quarters on a YoY basis and also the outlook for the year? And the second one is, what is the growth at Ready Mix concrete and how is that impacting your bag/bulk sales?

Febriandita : Is that power cost means electricity?

Radityo : Aaa..it's said power cost

Hosny : I believe in terms of power stays aa..stays the same, there is no increase. There is a slight decrease ..aa..around 1 to 2% quarter to quarter. Overall, we see same you know on our basis ya in the end of the year I think should be around the same with electricity. And the ready mix concrete it's a combination ya, if we do direct sales and bulk sales is a combination of ready mix and bulk. Depending on the situation, depending on the channels, it go to the project like I said going to the direct sales and bulk is more about tailor-made design in terms of the mix of product that we have supported in each of the projects. But I think in terms of the ready mix itself, this year we are expecting to increase around 10% similar to bulk compared to last year. So, it's kinda inline with the increase of the direct sales.

Radityo : Okay, thank you for the answer. I hope that answer your questions, Onkar. So, aa..the next question is from Felicia , you can unmute yourself, Felicia. Thank you.

Felicia : Umm..ya..hi everyone. Thanks for the opportunity. So, I just wanna check, umm you mentioned that July sales volume is up high single digit to low teens yoy, can I just check what's the growth rate in terms of mom? Because I saw that July last year was actually very low base so I just wanna confirm that if it's high single digit growth or low teens then that would mean about flat mom? Thank you.

Febriandita : It's still improving aaa..positively on mom basis aa..it's low percentage but it's improving on mom basis.

Felicia : Okay, thank you and also…

(SMGR's team discuss)

Febriandita : I think it's around mid single digit mom.

Felicia : Mid single digit growth mom?

Febriandita : That is still up to third week ya.

Felicia : Okay, mba. Okay and can I also just check in terms of your energy cost, what is the breakdown between power and coal?

Febriandita : The percentage ya?

Hosny : So for fuel is around 25% and electricity alone is around…

Febriandita : Electricity 11% and fuel 25%.

Felicia : Electricity is 11% and energy, sorry and fuel is…

Hosny : From the COGS ya.

Febriandita : Ya, from the total COGS.

Felicia : Okay, okay got it. Thank you, thank you everyone.

Radityo : Okay, thank you, Felicia. The next question is from Robin, you can go and unmute yourself, Robin. Thank you.

Robin : Hi, thanks Radit for the opportunity. Can I just check on your transport cost per ton, has been quite a steep cost saving, is it sustainable and what went on then?

Febriandita : The transportation cost in opex ya? It's a- actually it's still impacted by the increase in fuel price but it's also impacted by the volume, domestic volume that decreased. So in the 1H demand decreased by 5% and our domestic sales volume decreased by 4% so it's impacted our transportation cost. So because some of our term for selling cement, we use franco, so we cover the transportation cost until the..up to the customer so when the volume decrease the transportation cost on OPEX also decrease.

Robin : On a per ton basis, within full year, would you have a guidance, Bu Febri? This is in the 1H -26% yoy per ton.

Febriandita : Ya, so the impact should be around..aa..aa..10% increase ya but expected in the sec.., sorry 4Q it would be more flattish- around 5 to 6% increase on the per ton basis. But it also depend on the volume of export, because we expect that later on export volume will increase quite significantly in 2H, so if you divide by the total sales volume because aa.. export mostly we sell at FOB so we do not cover the transportation cost. So it could be- the better approach would be just divided by the domestic volume even though we also sell at the aa.. free on truck, of free on truck basis which there would be no impact on the transportation cost at opex. But if we see the tariff for the..for the..aa..shipment it should be increased yoy in the 3Q and would be flat- roughly flat on the 4Q, yoy basis.

Robin : Umm..thanks Bu Febri. My next question is on ASP, Pak Hosny. Did you mention earlier that on the blended basis it went up 3.7% yoy in the 1H, cause I don't think I'm getting that number.

Hosny : So, if we're talking about the bags ya? The bags alone the effect to get an increase around 3.7% full year 2023 compared to full year last year. That's the guidance for the ASP and target that we're aiming, 3.7%.

Robin : Thanks pak. And I'm assuming there are no more, no significant increase in the bag prices for the 2H?

Febriandita : Yes, there will be increase. So, we actually already- on the 1H of this year for bag is already increased by 6% if you remember that the price increase conducted gradually last year. Aa..so the gap between last year with this year should be flattening towards December but we still expect another additional 1 to 1.3% increase in the 2H because we are planning to increase on fighting brand and main brand ..aa..aa ASP but we'll not be as aggressive as last year so there will be still additional increase in the 2H. And it would end up around 3.7% full year for bag.

Robin : Moving on, basically there was around 1 to 2% yoy volume growth, I think, I assume in the industry, could you come with the expected market share as well?

Febriandita : Ya, if you see that our market share started to improving ya ..on..aa..from January to current market share, especially in the- our lowest point were in April and it start to gradually increased, currently around 52%. Ya..52%. So, we expect that we can gain more on the bulk market because we expect that the growth of bulk would be higher compared to bag. And usually our share of wallet on the infrastructure project usually quite high so we expect the portion of our bulk volume would be higher compared to the industry so that's why we can get better incremental of volume compared to the market in the 2H.

Robin : Thank you, Bu Febri. Perhaps last question from me, Pak Hosny mentioned earlier synergies expected this year from the consolidation is at Rp 270 billion, correct me if I'm wrong, and how does that compare to the total you know Rp 1.7 trillion expected over 5 years that was provided prior to the consolidation?

Hosny : Ya, so, that's actually part of the Rp 1.7 trillion, so Rp 1.7 trillion potential synergies divided into 5 years, the first year target is Rp 270 billion. We are in the- in progress, I think we are making a good progress up to 1H, I think we should be able to get around 110% above the expected progress for 1H. And that was also the prior support as much as we can achieve in the 1H but as you see the impact from the Batu Raja is not that much because it's a small operation, so it will not like you see when we acquired Holcim ya, the impact is less significant because of the size.

Robin : Got that, Pak Hosny. Thank you SMGR team for the opportunity. Goodluck for the rest of the year.

Radityo : Okay, thank you Robin. So, I guess in the interest of time that was our last question for today. Before we wrap up this session perhaps maybe Pak Hosny or Pak Subhan would like to give closing remarks?

Hosny : So, thank you so much for attending this call. I think in the 1H as we discuss earlier, it's still quite a challenging situation. I think in terms of the impact on the cost push of the logistics, situation on the market, but I think what we have planned to be able to optimize the key drivers of our top line from the retail and also from the direct sales and the projects. So, we have to be able to optimize our accessibility on the export, plus trying to manage the cost ya, we should be able to..for us to maintain these earnings. And we see that we are going to the right track and we are utilizing all our efforts and also resources in order to make sure that we can achieve the target for 2023. We see that eventhough it is political year but what we have seen in the market, we can sense the vibe is still there, in terms of the economic circulation is actually growing quite fast as we foresee that thing..despite the challenges and also situation of this political year I think we should be able to get to the traction and achieve the target that we have already planned. So, let's keep in touch, if there's still questions or clarifications please feel free to ask us and we'll see you soon on our meetings in the future. Thank you so much.

Radityo : Okay, thank you, Pak for the remarks, and that concludes our call for today. Once again, thank you for all the panelists and participants for joining this call. It was a pleasure to have you with us. If you still have any question, please feel free to reach us at investor.relations@sig.id. Stay safe and healthy and have a nice day everyone. See you again.

Febriandita & Hosny : Thank you.

[Call Ended]