SIG 1Q 2023 Earnings Call
Date: Friday, May 5, 2023
Time 10:00 – 11.00 AM JKT Time Zone

Panelists :

Mr. Andriano Hosny Panangian	: Director of Finance & Portofolio Management
Mr. Bapak Hasan Arifin	: SVP of Finance
Mr. Nova Kurniawan	: GM of Financial Plan & Analysis
Mr. Febriandita Kusuma	: GM of Investor Relations

Radityo : Ladies and gentlemen, good morning and welcome to the SIG 1Q of 2023 earnings call. My name is Radit and I will be the moderator for today. Before we start kindly fill the attendance list using the link provided on the chat box. Thank you.

On the line with us today, we have:

- Bapak Andriano Hosny Panangian : Director of Finance & Portfolio Management
- Bapak Hasan Arifin : SVP of Finance
- Bapak Nova Kurniawan : GM of Financial Plan & Analysis
- Ibu Febriandita Kusuma : GM of Investor Relations

and my colleagues from IR team.

We have released our 1Q of 2023 result onTuesday, 2 May 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 on your text 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 Radit. Umm..good afternoon everyone, allow me to briefly update you with our 1Q of 2023 achievement. Umm..the industry demand still showed the continuation of demand contraction from previous quarters. Based on ASI data, demand decreased by 6.3% yoy and the 1Q23 contractions were also due to the high based in the 1Q22 which recorded grew by 4.7% yoy and impacted by shifting in fasting month which started 1.5..aaa…1 and half week earlier in this year vs last year. And competition wise, more or less still similar with the previous months. We did not see competitor aggressively decreasing price except giving promotion as the temporary program. And the increase in subsidized fuel price also provided a challenge in the 1Q in this year if we compare to the 1Q of last year as it was not happened in the 1Q and it just started in the 4Q of last year. The impact was to our transportation cost as well as to our inbound logistics cost for material and coal. We are still focused on SIG four main strategy. The first one is red ocean market, we successfully increased our export sales volume by more than 16% yoy in this 1Q and on blue ocean market also recorded similar trend of improving volume especially for ready mix and masonry cement. In terms of operational excellences also still on track, where the TSR recorded increase yoy and average clinker factor decreased yoy. Coal is still covered 100%

using DMO price even though the freight cost for bringing the…aaa..the coal to our facility were increased, impacted by the increase in fuel price and longer destination from the mining location to our facilities. And decarbonization were also on track, decreasing by 1.0% yoy in 1Q compared to 1Q of last year. Despite of these challenges and…from the approach taken during 1Q 2023 we were able to maintain our performances and recorded increase in net profit.

So, looking at the breakdown of the 1Q result, revenue recorded increase by 4.5% yoy supported by increase in domestic as well as regional revenue. Despite lower domestic volume yoy due to the contraction in national demand, domestic revenue still increased by 2% supported by higher ASP by almost 8% and revenue from regional sales also increase 20% from higher volume as well as ASP. COGS increased by 6.3% yoy mainly from higher manufacturing overhead due to higher distribution cost as subsidized fuel price happened aaa…subsidized fuel price increase happened in 4Q last year. OPEX recorded 2.5% lower yoy mainly from lower transportation cost inline with lower domestic sales volume. Export sales are using FOB terms, so the increase in export volume did not significantly impacted transportation cost and interest expenses still contributed to efficiency which decreased almost 8% yoy aaa…so for aaa…for 1Q 2023 we recorded 11% increase in net profit and 0.4% increase in net profit margin yoy.

So how we see 2023 and what is our approach? The first one we still expect that demand will grow positively especially in second half by 2 to 4% and SMGR is still focused and still consistent on improving profitability in absolute numbers. And we aim to achieve increase in sales volume mostly from export volume as we have capability to export up to 8.5 million tons per year supported by certainty in coal availability and attractive export price. And then on cost side we will continue to conduct operational excellence, optimizing production index, increasing thermal substitution rate, and optimizing clinker factor, and so on. The increase in fuel cost per ton due to increase in coal freight cost as the allocation from Ministry of Energy and Mineral Resources is quite aaa…we also consider that to impact coal cost increase. And in terms of distribution cost in COGS might also increase per ton domestic sales volume. On absolute fixed cost might also increase slightly above inflation mainly from maintenance cost and retribution cost due to increase in tariff. In terms of selling expense, we expect a slight increase mainly from transportation and handling cost inline with the increase in sales volume that we expected this year and full impact of fuel cost. While for GA, we expect to increase inline with inflation but we are trying to control it aaa…by doing more discipline expenditure during this year. And based on this assumption and expectation, we expect that absolute EBITDA still can increase by 5 point ten 5% to 10% yoy subject to development of demand situation later on. So, I think that was the brief update for the 1Q performance and our guidance. I'll pass on to for Q&A session. Thank you.

Radityo : Thank you Bu Febri for the presentation. Ladies and gentlemen, 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, our first question come from Akshay Sugandi. Please go ahead and unmute yourself to ask the question, Akshay. Thank you.

Akshay : Iya hai, umm..thanks very much for having the call today. Sorry, I missed it earlier but can you share what is the..uumm..revenue growth and EBITDA growth targets again? Umm..and where do you see the margins for this year compared to last year? That is my first question. Thanks.

Febriandita : So, aaa…we expect..so we are focusing on profitability, so we expect that..aa..even though export will increase more in terms of volume ya compare to the domestic, but we expect that EBITDA will still increase in terms of absolute numbers by 5 to 10% or should be more if we able to see far better demand going forward in the second half. So, aaa..in terms of margin, maybe more or less flat or slightly decrease because of the combination between export and domestic. So, aaa…that is all our guidance for this year.

Akshay : Got it and also can you share the promotional pricing that you set to place at the beginning of the year because the was some rumours of price cut happening.

Febriandita : Ya, as I mention before there is no price cut, even we..we even slightly increase our price for fighting brand, so aaa..doing some calibration in certain area where we see aaa..it's slightly..a bit lower compared to the economic brand because they started to adjust up the price in the 4Q last year because of the increase in the fuel price. So, we doing those calibrations in the certain area in Java, and no price cut that we saw in the market in terms of the pricing from the factories, from us, as well as from the competitors. What we and other competitors do is doing a promotion and promotion is temporary approach considering the situation with the demand.

Akshay : Got it aaa…do you think the promotion…when do you think the promotional will stop and when do you see normalization in pricing?

Febriandita : So, as you know that in April it's quite challenging in terms of demand, we have longer or fewer aaa..active days because longer holiday this year compared to last year and in March also we saw shifting one and half months of Ramadhan starting in March compared to last year, so it's quite challenging and that's why a lot of..aaa..almost all players quite aggressive in terms of giving a promotion, but later on we still expect in the second half that demand will pick up hopefully starting in June or July, we haven't seen the situation in in for May ya but aaa..if we see pick up in demand then definitely promotion is only aaa…aaa..temporary approach.

Akshay : Got it and my last question is on the bulk cement pricing, do you think you will umm..increase prices for the bulk cement this year as most of the pricing increase was from the bag last year?

Febriandita : We ask…We actually have adjusted slightly last year for bulk and bulk we cannot adjust right away like in bag because it's based on the project, so there is a term for certain project that we can adjust, but we definitely try to see any opportunities where we can have better pricing for each projects because there are projects that give us some specifications and you know that we have aa..certain aaa..we have..various type of bulk products that can be suitable for each specification for each project, so aa..I think that's one of the opportunity for us to be able to have better pricing for each project.

Akshay : Got it, thank you very much for the questions, wish you all the best.

Radityo : Okay, thank you Akshay, next question come from Aurelia Setiabudi, you can go and unmute yourself, Aurelia.

Aurelia : Ya, thank you for the opportunity. Good morning Pak Hosny, Mba Febri, and Mas Radit, congratulations on the strong set of result of 1Q23, just a few questions from me, just want to eee..maybe if you can please share more colour in terms of the performance of SMCB, Solusi Bangun Indonesia vs SMGR excluding SMCB or consolidated I may say, umm..if we looked at SMCB alone we saw that EBITDA margin was quite under pressure in the 1Q this year at 15.7%..umm..and then if we looked at the cost drivers, we saw that the raw materials and also labour cost were also significantly higher than the consolidated SMGR umm…maybe I'll start there.

Hosny : Okay..so..the way we actually run the business is to aaa..consolidate all the..and centralized all the operations in mega distributors which is the SIG and we aaa..has meaningful to fix some rerouting mechanism that was not really efficient before. So, therefore some of the rerouting that we do actually involving other cement companies such as SMBR Batu Raja, also Padang, so that was the actually why some of the aaa..you know..performance of the SMCB which actually lower than last year. But for us the most important part is actually the consolidation results because that's what we are aiming to be able to make the consolidation performance more efficient. Now in terms of the cost there are couple of aaa..you know..things that actually happens in SMCB in regards to the accrual basis on the labour that we have adjusted because of the adjustment on the salary. Because as we know when we acquired SMCB actually there are couple of things that need to adjust in terms of, the salary package and also the starting position of the accrual on the labour cost. But that's actually on contribution level isn't really have impacting that much on the consolidation result. So, my advice is that aaa…we..actually we haven't see the SMCB result in stand alone basis. Because as you know with mega distributor we off take all revenue of SMCB. What we are looking for is actually the effectiveness and the efficiency as the consolidation that's the business model we've been doing since 2020 so this kind of things happens continuously based on which rerouting is actually more efficient as long as the impact to the consolidation, is more more optimum.

Aurelia : Noted pak. Thank you, maybe if I can ask a follow up questions and also relating to the aa..about the..aa..the energy cost. Mba Febri mentioned that there were..you know..longer distances from the coal mine to the plant, can I please clarify to which plant this is?

Febriandita : So, for example when without..aaa..without..DMO regulation we usually able to buy it's still from Kalimantan but it's aa…we cannot select which vendor that we can buy. So, for example in Kalimantan we can choose more proportion from South Kalimantan but now because it's being aaa…assigned by the ministry, so we might have allocated other miners like in the east part of Kalimantan for example. But we expect that with the later on with the BLU if it's being applied then it would be easier for all players to select their own vendor.

Aurelia : Noted, mbak. So, one more follow up, so..umm..can you please share like the absolute amount or..aa..for example like in percentage the impact from the rerouting to the overall total energy cost that we see in the 1Q?

Febriandita : So, aa…in terms of the aaa…C..I…CIF ya..so..FOB price plus the transportation cost for coal, it's around 5 to 7% increase for the 1Q this year.

Aurelia : Okay, noted. Thank you so much for the explanation, all the best for SIG team. Thank you.

Radityo : Okay, thank you Aurelia for the question, the next question come from Vivek Rajamani, you can go unmute yourself, Vivek. Thank you.

Vivek : Umm..Hi, thank you so much for the presentation. I am just..umm..I just one clarification and one question. I am not sure if you mentioned what was the differential in the price between the promotional like what you were saying and the normal price? Did you mention what's the ..you know the discount of what they're offering at the moment?

Febriandita : Promotion aa…aa..could be in many ways ya. Some other players give cashback, for example, or free bag for example if we sell 100 then we can add one or two bag for free. So something like that, or giving promotion to the retail stores, giving discount for example, but not cutting the price itself.

Vivek : Umm..sure mam umm..and the second question I had was ..umm..obviously the industry as a whole has taken significant price hikes over the last year because of cost. I am just wondering, you know, going into this year where obviously the demand situation is still little bit shaky. Do you now see a possibility of, you know, maybe them cutting back on the..on the prices, given that they've taken substantial price hike, if the demand situation doesn't improve? Obviously right now you are saying the promotional is temporary, so you don't see that..you know..leading the price cut. But just, an extended demand downturn you kinda see this situation reverting back? And how do you think you would respond in such situation if that wouldn't play out?

Febriandita : I think no yaa..because all of players already learn from the past that cutting price will not improve demand, will not improve the profitability. So that's why giving promotion is the way that almost all players do right now and other than that because we still see the impact of aa..aa..increase in raw materials, fuel, and all players still kinda feel the impact of those price increase. So this is very temporary, I think we all agree that we should not cut price given the situation.

Vivek : Umm..sure mam, that's really helpful. Just one clarification, even if it has not happen, but what if it does happen, you know, some players start to get more aggressive in terms of price cut, you are very clear with your strategy that you will prioritize profitability and you will not follow the same route, would that be a fair comment?

Febriandita : We have implemented strategy by multi brand strategy and we have fighting brand as well, and we see that it's quite works. As you see that we have able to increase, on month on month basis, our market share, and even in the certain area we are able to..aa…do calibration or adjusting our ASP for the fighting brand as well. So our approach would be more or less similar, with the pricing difference in each area, doing multi brand, and having promotion as temporary approach, and different strategy for each micro market so that is very important. So aa..aa..in an area where there is a significant competition, maybe we..we are going to increase slightly the portion of the fighting brand and it will not apply in the other area where we still has strong market share and we still see that demand that still stable or growing. So aa.aa..micro market strategy is very important and we see that this strategy currently works. Maybe if Pak Hosny or Pak Subhan- actually we already have Pak Subhan as well, our Marketing Director joining us. Or if not, maybe if you still have question, you can ask your question.

Vivek : No mam, all is good. Thank you so much for the clarification and all the best.

Febriandita : Thank you.

Radityo : Thank you, Vivek for the question. The next question is from Andrey Wijaya. You can go and unmute yourself Andrey.

Andrey : Thank you. Thank you..aa..semen..SIG Management, thank you Pak Hosny, Bu Febri. My question is a follow up from the Vivek actually, more related on the competition and also from on the movement on the selling price. If I…this is based on my calculation that..aa..quarter on quarter ASP it is still declined by 7.5% aa…mostly driven by export which is declined 7.3%. But if we looked at domestic ASP also declined by 1.9% quarter on quarter. You said that there is no aa..aa..declining in the selling price on the domestic market actually, but I believe this is more on the higher sales contribution for the fighting brands. Would you, like, more elaborate that how much the fighting brands sales contribution in the 1Q compared to the previous quarter and what is your outlook on the fighting brand contribution to the total sales in domestic in the second and third quarter?

Febriandita : Iya pak, so it is only because of the product mix actually. You are right, export and domestic, as well as bag and bulk- as you see that our bulk portion is increase quite good ya. And..and then..umm..the geographical mix also impact..impacting to this. And if you see that our ready mix volume also improved, so I think that's- more because of that and maybe slightly increase due to the fighting brand in certain area but that was temporary. So that's why we cannot say how..what is the percentage of fighting brand that we expect during the year, but we only expect not so much increase in this year compare to last year because it would be temporary. If Pak Hosny want to add?

Hosny : I think as per our explanations during our meeting in The East ya..back in February, we explained that domestic cement bags actually we target only to increase by 500,000, bulk has a quite bigger chunk of the growth around 900,000 as export basically up to 4 million. And from the cement bags, we actually targeting to increase the main brand around 150,000, and the rest is actually from the fighting brand, which is 350,000, but again we'll see on the dynamic of the situation in the competition. The 1Q I think contribution wise of the fighting brand is only- they increase only like 50,000 tonnes. We will see in second quarter and also the second half. I think in terms of the composition wise is not that much compare to cement bags volume. But again this strategy is for the main brand: we are not going to decrease the price, so even we are slightly increasing the price in the certain area. And for the fighting brand, depending on the situations, in some area actually we have increased the price of the fighting brand. And because the composition is bigger as a whole and also the impact from the export volume that's actually why it's kinda shows the composite- the blended is decreasing.

Andrey : Okay, thank you. I have follow up question on the export. As we see that export sales volume increase quite significant aaa..almost double in quarter on quarter basis, but if we looked the ASP is declined quite significant as well, decline by 7%. Umm..this the...the reason of the..declining on the ASP export quarter on quarter because of the penetration of new market or because the existing market ASP declined?

Hosny : Okay, the dollar wise is not that decreasing but because of the impact on the decrease in the USD, it's not 14,700-14,600

Andrey : And..what..what..the margin if you can elaborate between the domestic and export? And what do you see the export going forward, the mix between the domestic and export in the..maybe second quarter or maybe in second half?

Hosny : So, export we need to..to do export in order to aaa..optimize the utilization of our infrastructures of all plant. We still quite- we still have aa..aa..quite decent margin, in terms of the contribution margin ya? I think it's around USD 6, umm..USD 10 margin which quite okay. Although if you compare to domestic, of course, it's actually way below because you are selling bag cement, bulk cement, but what we export is mostly clinker ya. But actually, contribution margin wise it has positive impact to the total EBITDA. So I think we have to utilize up to the maximum capacity that we can do for export which is currently around 8.5 million tonnes capacity for export and that's actually what we are planning to do this year. But again if the domestic demand increasing and if let's say the impact, the increase is quite significant definitely will..will shift some of the capacity towards the – focusing towards the domestic market.

Andrey : Okay thank you, it's quite clear. Thank you, Pak Hosny, Bu Febry, Mas Radit, thank you all.

Radityo : Thank you, Pak Andrey for the question and the next question is from Arnanto. You can unmute yourself and ask the question Arnanto.

Arnanto : Thanks Mas Radit...aaa..just a few questions from my side. First one..umm..we've seen more players are using a new eco brand like aaa..Jempolan and I think Semen Bima is also introduce their own fighting brand..umm..what's been the impact to the market so far and is SIG also planning to introduce their own new eco brand to compete with these new ones? I'll start from there.

Febriandita : Sorry Arnanto..aaa..can you speak up louder? It wasn't really clear, your question.

Arnanto : Aa…can you hear me fine now? Is it better or?

Febriandita : Yes yes..

Arnanto : Okay. Umm..so basically we've seen more players introducing their eco brand like aaa..Jempolan and I think Semen Bima is also introduce their own fighting brand umm…any..any plan for SIG to compete with this new brand and what's been the impact to the market so far?

Febriandita : Ya aa..the..aa..the eco brand that we saw, the fighting brand ya, a new fighting brand from the competitor that we saw- it's really secluded in the certain area only. It's not applied for..aaa..wider location. And we- currently we haven't seen necessary- it's necessary to have another fighting brand with level lower than the fighting brand that currently we already applied. So if there is some aaa…aa..consideration to issue new brand, it's just because- just because we currently used fighting..aa..fighting brand that we used is premium brand in other area. So we just want to be- have separate name of brand that is not associated as a premium in other location, that's the only consideration for us currently. But we haven't have any decision to launch any new fighting brand and- and..especially fighting brand that we'll sell lower compare to the current fighting brand.

Arnanto : Okay, just a quick follow up. So basically, for Grobogan in Central Java and Hongshi in East Java, where are they placed in terms of pricing? Is it comparable to your fighting brand or is it more comparable to the new fighting brand that was recently introduced?

Febriandita : It's..aa- it's quite comparable. They're not that aggressive in terms of price in all areas ya. But in area where they are quite low..aaa..as you know that we also have masonry cement. Masonry cement, in terms of cost, is far lower because the clinker factor is also lower. It's a special..aaa..type of cement, non structural cem- type of cement aa..that can be used for non structural aa..aa..construction works. So we can utilize that to compete with ..aa..aa..in the certain area where we see that the new players have a lower price compared to the other economic brand.

Arnanto : Okay, that's very clear. Umm..second part of my question moving on the cost side. What was the realized coal ASP in the 1Q on the per ton basis? And I think raw materials and packaging cost remained quite sticky on the elevated side, do you expect those raw materials and packaging cost to remain elevated for the rest of the year? Thank you.

Febriandita : Your question aaa..the coal price increase for this year compare to last year? And the second, raw material and packaging cost whether it's still- it's going to be still elevated until end of this year. Is that the question?

Arnanto : Aaa..yes yes bu. On the coal price, what..what was..what was the realized coal price in the 1Q including the transportation?

Hosny : I think the energy cost that's already accounted for 1Q will stay the same until the end of this year. We're hoping..umm..you know, there is a bit of a positive side, if let's say the coal prices decreasing and we are also trying to optimize logistic by using our SILOG to basically manage the cargo. Therefore, you know, we should be able to maintain the cost structure. For the raw materials, I think it's pretty much also already stable, just depending on, you know, how much volume of sales that we are doing because it's actually a variable cost structure. But in terms of cost per ton basis, I think pretty much we can assume that is already- what we accounted for 1Q it's already something that will have- will continue until the end of the year. Because all the impact of the fuel price, all the impact of the logistic already being accounted in the in the cost.

Arnanto : Okay and lastly on the demand side. I mean typically the second half is you would see a stronger demand compare to first half. But only- see, we are entering the political season..umm..February 2024 is the election, and I think we've also been hearing more SOE contractors having cashflow issues. Where do you see demand moving in the second half for this year?

Febriandita : I think we're still quite positive about the demand in the second half, given the election. We expected that would help to boost demand for bag cement that we did not see last year, as well as demand the low base in the last year ya- that would also help us to see better growth in terms of demand for bag. And for bulk, we're also still quite optimistic because government already allocate certain budget for the infrastructure and we still see that infrastructures still going on until now. So for the second half we are still quite optimistic for demand.

Arnanto : Okay, thank you very much Bu Febri, Pak Hosny.

Radityo : Thank you Arnanto for the question. The next question come from Kharel, you can go and unmute yourself, Kharel. Thank you.

Kharel, you can unmute yourself now. Or if you have trouble with your mic, you can type your question on the chat box.

Okay, the question from Kharel: will you do more promotion activity in the remaining quarter?

Febriandita : Umm..we have our Marketing Director, Pak Subhan, if you want to give your view on this?

Okay, I think there is a trouble with the connection with Pak Subhan. So as we mentioned before that promotion is temporary, given the demand. For second quarter, yes, we still give promotion. And hopefully- this is temporary and hopefully in the 3Q and 4Q when demand increasing, because it's really based on the situation ya, we hope- hopefully promotion would be able to decrease, promotion cost can be decrease in the 2H. But yes, we still do it in the 2Q.

Radityo : Okay Kharel, do you have further question? Okay. Ladies and gentleman if you have- if you still have any other questions please feel free to raise your hand or chat your question on the chat box.

Okay, if there is no other questions coming from the floor, I guess we can wrap up this session for today. Before we close the Earnings Call, maybe Pak Hosny have some closing remarks?

Hosny : Ya, thank you so much Radit. So, basically, we have a strategy, we already elaborated our strategy and we discussed. And also in the gathering on the last time in The East ya. So, I think we're still aiming to get that target, to have an increase of EBITDA, hopefully by 10%. EBITDA margin hopefully can sits around 21% to 22%, and I think our strategy so far in the 1Q has shown that we are on the right track. Definitely there are a lot of dynamics in the market, supply and demand situation, you know, political situation, but we are trying to do optimize all the angles that we have to- at the end to get the target and to get all that we aim achieved by the end of this year. So, I think thank you all for the participation and also for the support, I'll see you again in our next meetings and also earnings call. Thank you so much.

Radityo : Okay thank you Pak Hosny for the remarks, 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 everybody. Thank you. Bye-bye.

[Call Ended]