International Cement Group Ltd.

Date: 6 September 2021

BUY **(Maintained)**

BBG	ICG SP
Market Cap	S$166.3 million
Price (31 August 2021)	S$0.029
52-week range	S$0.024 – S$0.097
Target Price	S$0.089
Shares Outstanding	5,734.7 million
Free Float	37.1%
Major Shareholder	Victory Gate Ventures 54.9% Ma Zhaoyang 3.8% Zhang Zengtao 3.8%

P/BV (06/21)	0.7x
Net Debt to EBITDA (12/20)	Net Cash

Source: Company data, Bloomberg, SAC Capital

Analyst

Lam Wang Kwan +65 6232 3237
lamwk@saccapital.com.sg

Demand for cement to remain high in Central Asia

ICG's 1H21 results came ahead of our estimate as the Group recorded a 34.6% growth in revenue to S$84.9m (56.6% of our FY21E forecasts), spurred on by contribution from the Kazakhstan plant, which began sales in 3Q20. The lower cost of raw materials in Kazakhstan also helped to improve gross margin by 370bp to 43.7%. Overall, the Group booked a 116.7% growth in net profit to S$13.0m. (81.8% of our FY21E forecasts).

Robust construction demand to continue in Central Asia. Demand for construction materials, including cement, is driven by projected plans for reconstruction, urbanisation and infrastructure growth in Central Asia. Tajikistan has ~US$33.3b of infrastructure investment planned until 2030. The demand for cement is further boosted by China's Belt and Road Initiative and the export market. Kazakhstan saw the construction industry grow by 11.2% in 2020 despite the pandemic. With oil prices sustaining at US$69 per barrel, the oil revenue will help to fund ~US$167b fiscal programmes in Kazakhstan.

As an established cement producer in both Kazakhstan and Tajikistan, ICG will be able to capture the growth in demand in these markets. The Group is also in the midst of finalising the purchase of a cement plant in East Kazakhstan region for ~S$22m in a 60:40 JV with a local partner. The new plant will increase the annual cement production capacity by 1m tonnes and will further strengthen the Group's foothold in Kazakhstan.

Navigating potential pitfall. Kazakhstan is currently faced with an overcapacity of cement. ICG carefully selects its cement plant sites in areas that are deemed to be profitable, taking into account: demand and supply capacity of cement in the operating region, transportation costs and conditions of the surrounding cement plants. In Tajikistan, operation is faced with political instability in Afghanistan. Export sales to Afghanistan is expected to decline by 25% - 50% as compared to the first half of 2021. ICG is mitigating the effect by putting in more effort in the domestic market.

Maintain BUY. Encouraged by the strong first half showing, we raised our topline estimates by 4.5% and 2.6% and bottomline estimates by 43.4% and 44.3% for FY21E and FY22E respectively. Our target price of S$0.089 per share reflects our optimism that ICG will be able to continue to benefit from its exposure to the nascent Central Asia infrastructure sector.

Key Risks: Foreign exchange risk

Year ended Dec (S$'mil)	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Revenue	114.1	131.2	141.6	156.8	169.3
EBIT	31.2	33.8	30.1	46.4	51.2
Net profit	16.4	15.7	8.8	22.8	25.7
EPS (S$ cents)	0.29	0.28	0.15	0.40	0.45
DPS (S$ cents)	-	-	-	-	-
Net Cash / (Debt)	8.8	(3.0)	(3.9)	24.8	43.4
Valuation					
EBIT Margin (%)	27.4	25.7	21.2	29.5	30.2
ROIC (%)	13.6	11.6	8.9	15.4	16.2
EV/EBITDA (x)	4.4	3.8	3.7	3.3	3.7
P/E (x)	10.0	10.5	18.9	7.3	6.5
Dividend Yield (%)	-	-	-	-	-

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Revenue Breakdown

Revenue (S$m)	1H21	1H20
Aluminium	**4.3**	3.9
Cement	**80.6**	59.2
Total	**84.9**	63.1

Cement Revenue Breakdown

Revenue (S$m)	1H21	1H20
Afghanistan	**11.3**	9.6
Kazakhstan	**25.8**	-
Tajikistan	**43.0**	48.1
Uzbekistan	**0.5**	1.4
Total	**80.6**	59.2

Source: Company Data, SAC Capital

ICG's 1H21 results came ahead of our estimate as the Group recorded a 34.6% growth in revenue to S$84.9m (56.6% of our FY21E forecasts), spurred on by contribution from the Kazakhstan plant, which began sales in 3Q20. The lower cost of raw materials in Kazakhstan also helped to improve gross margin by 370bp to 43.7%. Overall, the Group booked a 67.5% growth in net profit to S$18.7m (57.4% of our FY21E forecasts).

Construction demand remains robust in Central Asia. Demand for construction materials, including cement, is driven by projected plans for reconstruction, urbanisation and infrastructure growth in Central Asia.

According to OECBilibrary, Tajikistan has ~US$33.3b of infrastructure investment planned until 2030, ranging across sectors such as energy, transport, mining and quarrying, manufacturing as well as water supply and sanitation. The demand for cement is further boosted by China's Belt and Road Initiative and the export market. In 2020, Tajikistan produced 4.2Mt of cement and exported ~1.3Mt to neighbouring countries, including Uzbekistan, Afghanistan and Kyrgyzstan. It was reported that the Tajikistan Ministry of Industry and New Technologies has forecasted a 46% increase in cement exports to 1.9Mt per year by 2023.

Kazakhstan saw the construction industry grow by 11.2% in 2020 despite the pandemic. According to GlobalData, the total construction project pipeline in Kazakhstan in 2019 is ~US$167b as the government plans to develop the country's overall infrastructure, which includes transport infrastructure, healthcare centers and hospitals, solar power plants and affordable housings. Some of the projects include: reconstruction of 10,000km of roads and repair of 11,000km of national roads and 27,000km of state roads by 2025; building of 16 new hospitals; construction of 50MW of new solar plants in the Karaganda Region and affordable houses for low- and middle-income citizens. With oil prices sustaining at US$69 per barrel, the oil revenue will help to fund these fiscal programmes. In 2020, Kazakhstan produced 10.8Mt of cement, breaking the 10Mt market for the first time.

Being in the right place. As an established cement producer in both Kazakhstan and Tajikistan, ICG will be able to capture the growth in demand in these markets. The Group is also in the midst of finalising the purchase of a cement plant in East Kazakhstan region for ~S$22m in a 60:40 JV with a local partner. The new plant will increase the annual cement production capacity by 1m tonnes and will further strengthen the Group's foothold in Kazakhstan.

Navigating potential pitfall. Kazakhstan is currently faced with an overcapacity of cement. It was reported that production capacities in 2020 exceeded the needs of the domestic market by 40.6%. The problem is further worsened by limited export opportunities to neighbouring markets as countries are trying to protect the local cement producers. Taking the situation into consideration, ICG carefully selects its cement plant sites in areas that are deemed to be profitable. Some of the factors taken into consideration include: demand and supply capacity of cement in the region, transportation costs and conditions of the surrounding cement plants.

On the other hand, ICG's Tajikistan operation is faced with political instability in Afghanistan (13% of 1H2021 revenue), resulting a decline in construction activity and demand for cement. Export sales to Afghanistan is expected to decline by 25% - 50% as compared to the first half of 2021. ICG is mitigating the effect by putting in more effort in the domestic market.

Manpower crunch the biggest bugbear

Maintain BUY. Encouraged by the strong first half showing, we raised our topline estimates by 4.5% and 2.6% and bottomline estimates by 43.4% and 44.3% for FY21E and FY22E respectively. Our target price of S$0.089 per share reflects our optimism that ICG will be able to continue to benefit from its exposure to the nascent Central Asia infrastructure sector.

SAC CAPITAL

Income Statement (S$'million)

FYE Dec	FY2018	FY2019	FY2020	FY2021E	FY2022E
Revenue	**114.1**	**131.2**	**141.6**	**156.8**	**168.3**
Cost of sales	-	(80.9)	(85.0)	(88.6)	(95.7)
Gross profit	**-**	**50.4**	**56.6**	**68.2**	**73.7**
Other income	1.3	1.2	4.1	1.2	1.2
Distribution expenses	-	(1.5)	(2.7)	(3.8)	(3.4)
Administrative expenses	-	(15.4)	(15.4)	(16.1)	(16.9)
Reversal of / (loss allowance) on receivables	1.5	0.5	0.2	0.0	0.0
Other expenses	(34.0)	(1.4)	(12.7)	(3.1)	(3.4)
Changes in inventories	(1.0)	-	-	-	-
Raw materials used	(32.6)	-	-	-	-
Staff and related costs	(9.6)	-	-	-	-
Depreciation of PPE	(5.4)	-	-	-	-
Amortisation expenses	(3.1)	-	-	-	-
Finance income	0.3	0.2	0.0	0.0	0.0
Finance expenses	(0.4)	(0.6)	(3.9)	(3.9)	(3.9)
Profit before tax	**31.1**	**33.4**	**26.2**	**42.5**	**47.3**
Income tax expense	(4.4)	(5.0)	(7.3)	(8.5)	(9.5)
Profit for the year	**26.7**	**28.4**	**18.9**	**34.0**	**37.9**
Profit/(loss) attributable to:					
Owners of the Company	**16.4**	**15.7**	**8.8**	**22.8**	**25.7**
Non-controlling interests	10.3	12.7	10.1	11.2	12.1
Basic and diluted earnings per share (S$ cents)	**0.29**	**0.28**	**0.15**	**0.40**	**0.45**

Cash Flow Statement (S$'million)

FYE Dec	FY2018	FY2019	FY2020	FY2021E	FY2022E
Profit before tax	**26.7**	**28.4**	**18.9**	**34.0**	**37.9**
Depreciation charges	5.4	6.1	10.7	9.7	9.9
Amortisation	3.1	3.0	2.8	2.5	2.5
Others	3.8	6.4	21.5	3.8	3.8
Changes in working capital	(5.4)	6.4	(4.1)	8.3	0.5
Net Cash (used in)/ from operations	**33.5**	**50.3**	**50.0**	**58.4**	**54.6**
Purchase of PPE	(38.1)	(57.5)	(26.1)	(16.7)	(21.9)
Others	1.0	2.4	(0.0)	0.0	0.0
Net Cash (used in)/ from investing	**(37.1)**	**(55.1)**	**(26.1)**	**(16.7)**	**(21.9)**
Net change in debt	(4.9)	11.9	(3.4)	0.0	0.0
Net change in equity	0.0	3.2	0.0	0.0	0.0
Dividends paid	(3.1)	(6.5)	(16.1)	(9.1)	(10.3)
Others	(3.8)	(1.1)	(6.3)	(3.9)	(3.9)
Net Cash (used in)/ from financing	**(11.7)**	**4.3**	**(25.8)**	**(13.0)**	**(14.2)**

Balance Sheet (S$'million)

FYE Dec	FY2018	FY2019	FY2020	FY2021E	FY2022E
Cash and bank balances	13.1	12.4	10.1	38.8	57.4
Trade and Other Receivable	19.2	19.5	25.5	24.9	26.9
Inventories	19.4	19.9	21.1	21.3	23.0
Contract assets	0.7	2.0	1.2	1.8	1.9
Others	0.0	0.4	0.4	0.4	0.4
Total current assets	**52.4**	**54.1**	**58.3**	**87.2**	**109.6**
PPE	160.8	262.5	238.7	245.7	257.7
Intangible assets	53.7	48.8	38.9	36.4	33.9
Investment properties	0.6	0.1	0.1	0.1	0.1
Others	25.2	2.9	1.4	1.4	1.4
Total non-current assets	**240.3**	**314.3**	**279.1**	**283.6**	**293.1**
Total assets	**292.7**	**368.5**	**337.4**	**370.8**	**402.7**
Bank Borrowings	1.7	0.0	0.0	0.0	0.0
Trade and Other Payables	27.2	58.2	42.4	52.4	56.6
Contract liabilities	0.2	0.2	3.4	1.8	2.0
Others	0.7	0.0	0.0	0.0	0.0
Total current liabilities	**29.8**	**58.4**	**45.8**	**54.3**	**58.6**
Bank Borrowings	2.6	15.4	14.0	14.0	14.0
Trade and other payables	0.6	21.8	28.2	28.2	28.2
Deferred tax liabilities	8.9	8.9	10.1	10.1	10.1
Others	0.0	0.1	0.1	0.1	0.1
Total non-current liabilities	**12.1**	**46.1**	**52.4**	**52.4**	**52.4**
Share capital	273.6	276.8	276.8	276.8	276.8
Capital reserve	0.4	1.4	2.5	2.5	2.5
Revaluation reserve	2.7	0.4	0.2	0.2	0.2
Currency translation reserve	(10.4)	(14.9)	(37.0)	(37.0)	(37.0)
Retained earnings	(71.4)	(58.7)	(49.7)	(36.0)	(20.6)
Equity attributable to owners of the Company	**194.9**	**205.1**	**192.7**	**206.4**	**221.9**
Non-controlling interests	56.0	58.9	46.5	57.7	69.8
Total equity	**250.9**	**263.9**	**239.2**	**264.1**	**291.7**
Total equity and liabilities	**292.7**	**368.5**	**337.4**	**370.8**	**402.7**

Ratios

FYE Dec	FY2018	FY2019	FY2020	FY2021E	FY2022E
Profitability (%)					
Gross profit/(loss) margin	-	38.4	40.0	43.5	43.5
Profit/(loss) before tax margin	27.2	25.5	18.5	27.1	27.8
Net margin	23.4	21.6	13.3	21.7	22.4
Liquidity (x)					
Current ratio	1.8	0.9	1.3	1.6	1.9
Quick ratio	1.1	0.5	0.8	1.2	1.4
Interest coverage ratio	97.6	71.8	11.2	15.1	16.4
Net Debt to Equity (%)	Net cash	1.1	1.6	Net cash	Net cash
Valuation (x)					
P/E	10.0	10.5	18.9	7.3	6.5
P/B	0.6	0.5	0.6	0.5	0.5
Returns (%)					
Return on equity	8.5	7.9	4.4	11.4	12.0
Return on asset	9.3	8.6	5.4	9.6	9.8

N/A: Not Applicable

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