

International Cement Group Ltd.

Date: 23 March 2022

BUY (Maintained)

BBG	ICG SP	
Market Cap	S\$160.6 million	
Price (22 March 2022)	S\$0.028	
52-week range	S\$0.023 – S\$0.062	
Target Price	S\$0.062 (previously 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 (12/21)	0.6x
Net Debt to EBITDA (12/21)	0.7x

Net Debt includes loans from shareholders and amounts owed to EPC contractors
Source: Company data, Bloomberg, SAC Capital

Analyst

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

Concrete foundation, constructing the next level

FY21 revenue of S\$181.4m (+28.1% y-o-y) was driven by full year contribution from Alacem cement plant in Kazakhstan, slightly offset by slowdown in construction activities in Tajikistan and Singapore's aluminium segment. Gross margin improved 1.2% pt to 41.2% due to lower cost of raw materials in Kazakhstan. Overall, net profit increased by 3-fold to S\$26.5m, coming 15.8% ahead of our estimate largely due to stronger than expected growth in revenue, which exceeded our forecast by 15.7%.

Near term headwinds. 1) YTD, Kazakhstani Tenge has depreciated against USD by ~17%. ICG will incur forex loss as they pay EPC contractors in USD while operating expenses are in local currency. We forecast that ICG will incur ~S\$8m of forex loss in FY22E. 2) ICG is anticipating increased competition in Tajikistan. Another cement producer is adding a big cement plant in the country and will be operational in 2023. The entry of the new competitor is expected to negatively impact cement price in the region and reduce ICG's Tajikistan sales by an estimated 10% in FY23E and FY24E annually, before growing at 3% thereafter following consolidation in the market. 3) Higher oil prices is driving up cost of sales, which include transportation costs for raw materials and running fuel costs for the plants. We expect margins to be slightly affected with an estimated 1.2% pt erosion on gross margin.

New cement plant to contribute in 2023. ICG is setting up 2 new cement plants in Kazakhstan. Sharcem, in East Kazakhstan, is expected to commence commercial sales in 2H22, however we expect to see significant contribution in FY23. With an annual production capacity of 1m tonne, we expect Sharcem to add ~S\$60m and ~S\$15m to the top and bottom line in FY23E. In addition, construction of the Korcem cement plant in the Jambyl region is also underway. The output will be exported to Kyrgyzstan in 2025. ICG will fund the construction of Sharcem through shareholders' loan and internal resources, while Korcem is funded via vendor financing and internal resources. Cement demand in Central Asia is underpinned by the reconstruction, urbanisation and infrastructure growth plans.

Maintain BUY at lower target price of S\$0.062 (COE: 14.7%). We estimate topline to grow 7.7% in FY22E while bottom line to drop 18.6% due to forex loss. The next earnings uplift is expected in FY23E with contribution from Sharcem, contributing to a 22.4% growth in revenue and 60.3% growth in net profit with the absence of significant forex loss. While we are optimistic about ICG operations and long term growth plan, the revised price reflects the higher cost of equity required by the current market environment.

Year ended Dec (S\$'mil)	FY2019A	FY2020A	FY2021E	FY2022E	FY2023E
Revenue	131.2	141.6	181.4	195.4	239.2
EBIT	33.8	30.1	51.5	42.8	65.8
Net profit	15.7	8.8	26.4	20.7	33.2
EPS (S\$ cents)	0.28	0.15	0.46	0.36	0.58
DPS (S\$ cents)	-	-	-	-	-
Net Cash / (Debt)	(24.7)	(32.1)	(50.2)	(64.9)	(77.4)
Valuation					
EBIT Margin (%)	25.7	21.2	28.4	21.9	27.5
ROIC (%)	11.7	9.0	14.1	10.6	14.5
EV/EBITDA (x)	2.3	2.4	1.6	1.7	1.2
P/E (x)	10.2	18.3	6.1	7.8	4.8
Dividend Yield (%)	-	-	-	-	-

Net Debt includes loans from shareholders and amounts owed to EPC contractors

Income Statement (\$S'million)

FYE 31 Dec	2019	2020	2021	2022E	2023E
Revenue	131.2	141.6	181.4	195.4	239.2
Cost of sales	(80.9)	(85.0)	(106.6)	(117.2)	(139.9)
Gross profit	50.4	56.6	74.8	78.2	99.3
Other income	1.2	4.1	1.5	1.6	1.9
Distribution expenses	(1.5)	(2.7)	(3.5)	(3.9)	(4.8)
Administrative expenses	(15.4)	(15.4)	(17.8)	(21.1)	(25.8)
Reversal of / (loss allowance) on receivables	0.5	0.2	0.1	-	-
Other expenses	(1.4)	(12.7)	(3.6)	(11.9)	(4.8)
EBIT	33.8	30.0	51.5	42.8	65.8
Finance income	0.2	0.0	0.0	0.0	0.0
Finance expenses	(0.6)	(3.9)	(4.8)	(4.8)	(4.8)
Profit before tax	33.4	26.2	46.7	38.0	61.0
Income tax expense	(5.0)	(7.3)	(9.3)	(7.6)	(12.2)
Profit for the year	28.4	18.9	37.4	30.4	48.8
Profit/(loss) attributable to:					
Owners of the Company	15.7	8.8	26.4	20.7	33.2
Non-controlling interests	12.7	10.1	11.0	9.7	15.6
Basic and diluted earnings per share (\$S cents)	0.28	0.15	0.46	0.36	0.58

Cash Flow Statement (\$S'million)

FYE 31 Dec	2019	2020	2021	2022E	2023E
Profit before tax	28.4	18.9	37.4	30.4	48.8
Depreciation charges	6.1	10.7	14.6	11.5	12.0
Amortisation	3.0	2.8	2.5	2.7	2.7
Finance costs	0.6	3.9	4.8	4.8	4.8
Unrealised exchange loss	-	9.8	2.1	-	-
Others	5.8	7.8	5.3	(0.0)	(0.0)
Changes in working capital	6.4	(4.1)	(14.7)	3.4	(2.4)
Net Cash (used in)/ from operations	50.3	50.0	52.0	52.8	66.0
Purchase of PPE	(57.5)	(26.1)	(58.9)	(22.6)	(24.2)
Others	2.4	(0.0)	(1.7)	0.0	0.0
Net Cash (used in)/ from investing	(55.1)	(26.1)	(60.6)	(22.5)	(24.2)
Net change in debt	11.8	-	24.4	-	-
Net change in equity	3.2	-	-	-	-
Dividends paid to NCI	(6.5)	(16.1)	(6.3)	(15.2)	(24.4)
Others	(4.2)	(9.6)	(7.3)	(14.8)	(14.8)
Net Cash (used in)/ from financing	4.3	(25.8)	10.8	(30.0)	(39.2)

Balance Sheet (\$S'million)

FYE 31 Dec	2019	2020	2021	2022E	2023E
Cash and bank balances	12.4	10.1	12.4	12.7	15.3
Trade and Other Receivable	19.5	25.5	29.4	29.6	36.2
Inventories	19.9	21.1	27.2	26.6	31.8
Contract assets	2.0	1.2	1.2	1.3	1.6
Others	0.4	0.4	-	-	-
Total current assets	54.1	58.3	70.2	70.2	84.9
PPE	262.5	238.7	279.4	315.5	352.7
Intangible assets	48.8	38.9	39.7	37.0	34.2
Investment properties	0.1	0.1	0.1	0.1	0.1
Trade and other receivables	1.6	-	2.6	2.6	2.6
Others	1.3	1.4	1.1	1.1	1.1
Total non-current assets	314.3	279.1	323.0	356.4	390.8
Total assets	368.5	337.4	393.2	426.6	475.7
Bank Borrowings	-	-	-	-	-
Trade and Other Payables	58.2	42.4	44.4	46.9	56.0
Contract liabilities	0.2	3.4	2.5	3.2	3.8
Others	0.0	0.0	0.5	0.5	0.5
Total current liabilities	58.4	45.8	47.4	50.6	60.3
Bank Borrowings	15.4	14.0	36.7	36.7	36.7
Trade and other payables	21.8	28.2	25.9	40.9	55.9
Deferred tax liabilities	8.9	10.1	10.6	10.6	10.6
Others	0.1	0.1	0.0	0.0	0.0
Total non-current liabilities	46.1	52.4	73.2	88.2	103.2
Share capital	276.8	276.8	276.8	276.8	276.8
Capital reserve	1.4	2.5	4.5	4.5	4.5
Revaluation reserve	0.4	0.2	-	-	-
Currency translation reserve	(14.9)	(37.0)	(33.9)	(33.9)	(33.9)
Retained earnings	(58.7)	(49.7)	(23.2)	(2.5)	30.7
Equity attributable to owners of the Company	205.1	192.7	224.3	244.9	278.1
Non-controlling interests	58.9	46.5	48.3	42.8	34.0
Total equity	263.9	239.2	272.6	287.8	312.2
Total equity and liabilities	368.5	337.4	393.2	426.6	475.7

Ratios

FYE 31 Dec	2019	2020	2021	2022E	2023E
Profitability (%)					
Gross profit margin	38.4	40.0	41.2	40.0	41.5
EBIT Margin	25.7	21.2	28.4	21.9	27.5
Profit before tax margin	25.5	18.5	25.8	19.5	25.5
Net margin	21.6	13.3	20.6	15.6	20.4
Liquidity (x)					
Current ratio	0.9	1.3	1.5	1.4	1.4
Quick ratio	0.6	0.8	0.9	0.9	0.9
Net Debt to Equity (%)	12.1	16.7	22.4	26.5	27.8
Valuation (x)					
P/E	10.2	18.3	6.1	7.8	4.8
P/B	0.6	0.7	0.6	0.6	0.5
Returns (%)					
Return on equity	7.9	4.4	12.6	8.8	12.7
<u>Return on asset</u>	<u>8.6</u>	<u>5.4</u>	<u>10.2</u>	<u>7.4</u>	<u>10.8</u>

Net Debt includes loans from shareholders and amounts owed to EPC contractors

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