International Cement Group Ltd.

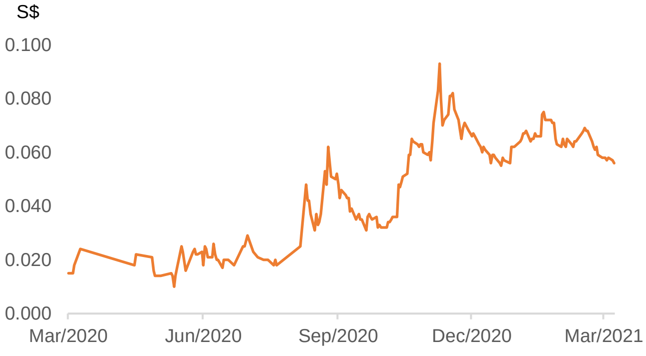
Date: 10 March 2021

BUY **Target Price: S$0.089**

(Maintained) **(+58.9%)**

ICG SP

Price: S$0.056 **(as at 9 March 2021)**



Share price	1M	3M	6M	1Y
ICG	-9.7%	-6.7%	+16.7%	+250.0%
STI	+5.9%	+9.3%	+22.4%	+21.9%

Market capitalisation	S$320.9 million
Current price	S$0.056
Shares outstanding	5.73 billion(1)
Free Float	38.9%
Major shareholders	Victory Gate Ventures Limited 54.9%
Recommendation of other brokers	N/A

(1) 70,916,430 Placement shares are not listed on the SGX-ST due to a lapse for the listing and quotation of the Placement shares
Source: Company data, Bloomberg, SAC Capital

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FY2020 net profit set back by forex loss

FY2020 revenue was marginally above our projections but net profit missed. FY2020 revenue was 1.1% above our estimates, but net profit of S$9m was 40% below, set back by forex loss of S$10.7m from the weakening of Tajikistan Somoni and Kazakhstan Tenge. The construction costs of the cement plants are payable in USD and CNY. The weaker Somoni affected inter-company loans to 65%-owned Tajikistan subsidiary and dividend receivable denominated in Somoni. Tenge fell 10% against the USD and CNY, and Somoni depreciated by 15% vs SGD.

Commencement of the 87.5%-owned Kazakhstan cement plant added 1.2 million MT of capacity. FY2020 revenue rose by 7.9% to S$141.6m, with maiden contribution from the Kazakhstan cement plant in 2H2020, offset by decline in project sales for aluminium products. Aluminium accounts for a mere 6.1% of revenue. However, operationally, the Kazakhstan plant is still in the red and the legacy aluminium operations remained loss-making.

With the commencement of the Kazakhstan plant, depreciation and interest expense have also risen. Depreciation rose by about S$5m to S$11m, while capitalised interest cost of about S$3.8m are amortised.

Return to normalcy. We see continued revenue growth in FY2021, fuelled by improved demand from economic recovery post COVID-19 and higher production capacity. Brent crude oil price nearly doubled from a low of US$38 at end Oct 2020 to US$69 per barrel currently. ICG's key cement markets, Kazakhstan and Afghanistan are major oil producers and oil revenue helps fund their fiscal programmes.

Construction of the cement plants were financed by interest-free shareholders loans ~S$14m and vendor financing from EPC contractor ~S$70m at 8.4% interest rate. The repayment of these loans will begin from 2021.

Maintain BUY. ICG offers exposure to the nascent Central Asia infrastructure sector. With higher output and absence of forex loss, we expect earnings to rebound in FY2021.

Key risks: Foreign exchange risk.

Key Financials

Year ended 31 December (S$'000)	2018	2019	2020	2021F	2022F
Revenue	114,107	131,229	141,626	150,000	165,000
% Growth	177.5%	15.0%	7.9%	5.9%	10.0%
Gross Margin	N.A.	38.4%	40.0%	39.7%	39.7%
EBITDA	39,717	42,880	43,625	54,217	58,402
EBITDA Margin	34.8%	32.7%	30.8%	36.1%	35.4%
Profit Before Tax	31,083	33,405	26,229	39,737	44,271
Profit/(loss) attributable to owners	16,388	15,730	9,010	15,895	17,708
Net Margin	14.4%	12.0%	6.4%	10.6%	10.7%
EPS (Singapore Cents)	0.29	0.28	0.16	0.28	0.31
P/EBITDA (x)	8.1	7.5	7.4	5.9	5.75
P/E (x)	19.4	20.3	35.6	20.2	18.1
P/B (x)	1.6	1.6	1.7	1.6	1.5
Net Debt / Equity	Net Cash	1.1%	1.7%	Net Cash	Net Cash

N.A: Not Applicable.

FY2020 net profit set back by forex loss

Revenue by segment

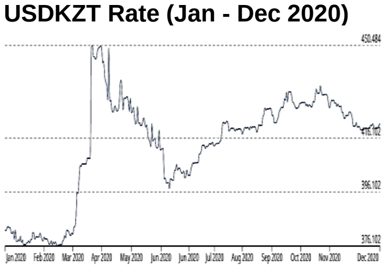
(S$ million)	FY2020	FY2019
Aluminium	**8.7**	17.3
Cement	**132.9**	113.9
Total	**141.6**	**131.2**

Revenue by geography

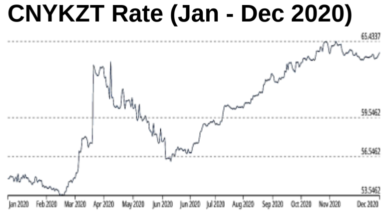
(S$'000)	FY2020	FY2019
Singapore	7,294	11,330
Malaysia	12	4,195
Australia	1,397	1,702
Kazakhstan	12,548	0
Tajikistan	98,372	85,663
Afghanistan	18,748	22,339
Uzbekistan	3,255	5,830
Others	0	170

Source: Company data, SAC Capital

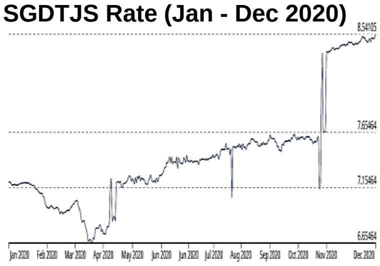
USDKZT Rate (Jan - Dec 2020)



CNYKZT Rate (Jan - Dec 2020)



SGDTJS Rate (Jan - Dec 2020)



Source: xe.com

Maiden contribution from the Kazakhstan plant. ICG reported a 7.9% or a S$10.4 million increase in revenue from S$131.2 million in FY2019 to S$141.6 million in FY2020. The increase was attributed to higher contribution from the cement segment owing to higher demand for cement in Tajikistan and the commencement of sales of the Group's Kazakhstan plant. The cement segment recorded a year-on-year growth of 16.7% from S$113.9 million in FY2019 to S$132.9 million in FY2020. The revenue increase was partially offset by a decrease in revenue from the Group's aluminium segment from S$17.3 million in FY2019 to S$8.7 million in FY2020. The decrease was mainly due to lower level of construction activities in Singapore as a result of the effects of the COVID-19 pandemic as well as the cessation of the extrusion business in Malaysia at the end of 2019. Overall, the Group's gross margin improved slightly from 38.4% to 40.0%

Higher expenses capped gains. Other expenses increased from S$1.4 million in FY2019 to S$12.7 million in FY2020, of which S$10.7 million was attributed to foreign exchange loss arising from 1) a revaluation of amounts owed to the Engineering, Procurement and Construction ("**EPC**") contractor and intercompany loans relating to the Kazakhstan plant which are denominated in US Dollar ("**USD**") and Chinese Yuan ("**CNY**") and 2) a revaluation of dividend receivables from the cement plant in Tajikistan and intercompany loans denominated in Tajikistan Somoni ("**TJS**"). During FY2020, the Kazakhstani Tenge ("**KZT**") depreciated 10% against the USD and CNY while the TJS depreciated 15% against the Singapore Dollar ("**SGD**"). The National Bank of Tajikistan decided to harmonise official and black-market rates in November due to a reduction in remittances. Oil-dependent Kazakhstan suffered an economic downturn with the decline in oil prices, leading to a weakening of the Tenge.

Finance expense also rose from S$0.6 million in FY2019 to S$3.8 million in FY2020. The increase was due to 1) the recognition of interest expense on the outstanding payables to the EPC contractor for the Kazakhstan plant, which was previously capitalised under "construction costs" when the plant was under construction and 2) the unwinding of discount on present value of interest-free loans from non-controlling interest and major shareholder. In addition, the Group also incurred higher marketing costs to create brand awareness for its newly-opened Kazakhstan plant and to boost sales in Tajikistan.

Return to normalcy. The Group's cement sales in 1H2020 was affected by COVID-induced lockdown in Tajikistan and Afghanistan, its primary export market, which caused construction activities to slow down and tighter border controls. Mobility restrictions have eased from 2H2020. The Kazakhstan plant only came on stream in later part of 3Q2020. On the other hand, the Group's aluminium business faced intense pressure from shutdown of construction activities in Singapore and manpower disruptions. These have resumed progressively, but tight controls are still in place which would push out the project delivery timeline.

FY2020 net profit set back by forex loss

Maintain BUY. We maintained our BUY rating at the target price of S$0.089 per share. We think the forex loss is one-off. With the roll-out of vaccines, and increased pace of vaccinations, we expect economic recovery to drive demand for building materials.

Kazakhstan and Afghanistan are dependent on oil revenue to fund fiscal programmes. Crude oil prices have recovered from US$38 per barrel at end Oct 2020 to US$69 currently, potentially benefit these countries' GDP.

FY2021 earnings will see a full year's contribution from the Kazakhstan cement plant.

Company Background

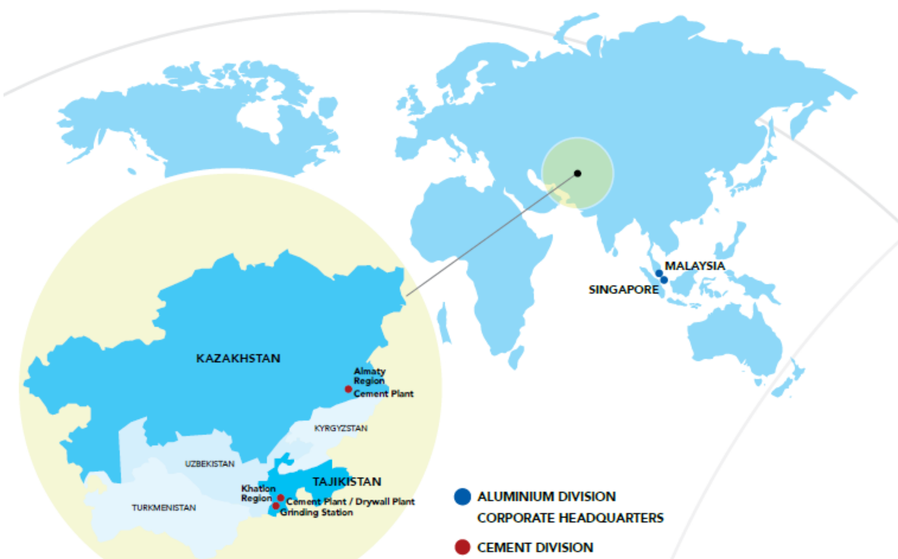
International Cement Group Ltd. (“**ICG**”) was listed on the Mainboard of the Singapore Exchange on 8 March 2019 after Compact Metal Industries Ltd transferred its listing status to ICG following an internal restructuring exercise pursuant to a scheme of arrangement.

ICG’s core business is in the production and distribution of cement for use in construction of infrastructure projects, including residential buildings, roads, bridges, highways and railways, in the Central Asia region. The Group owns and operates the largest cement plant and a grinding station in Khatlon region in Tajikistan (under the “Mohir” brand). The Group also owns and operates a cement plant in Kazakhstan (under the “Alacem” brand). As at 31 December 2019, the Group has a combined annual cement production capacity of about 3 million metric tonnes.

Business Overview:

International Cement Group Ltd. and its subsidiaries (collectively the “**Group**” or “**ICG**”) are primarily in the business of cement production in the Central Asia region. Currently, ICG owns and operates the largest cement plant and a grinding station in Khatlon region in Tajikistan (under the “Mohir” brand) as well as a cement plant in Kazakhstan (under the “Alacem” brand). Aside from its cement business, the Group has also retained its aluminium operations in the manufacturing and marketing of aluminium windows and doors primarily for residential properties in Singapore.

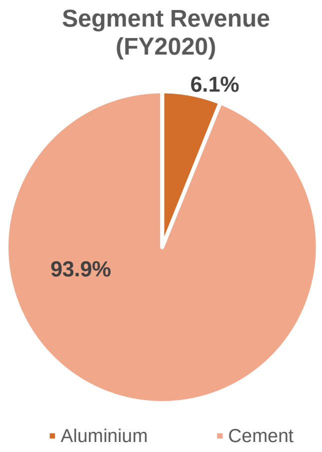
In addition, the Group is also in the business of manufacturing and marketing aluminium windows and doors primarily for residential properties in Singapore. The aluminium business was the principal business activity of Compact Metal Industries Ltd, which is retained by ICG after the transfer of listing status.



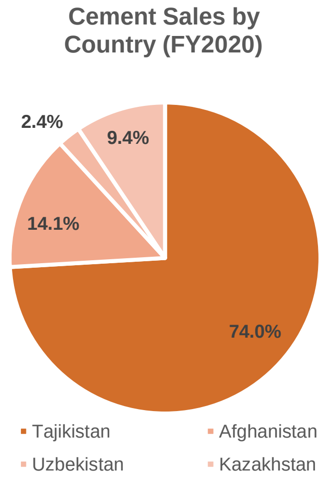
Existing Plant	Location	Annual Production Capacity
TAJIKISTAN (MOHIR)		
1 Cement Plant	Yovon District, Khatlon Region	1.2 mil MT
1 Grinding Station	Kolkhozabad, Khatlon Province	0.6 mil MT
Upcoming development		
1 Drywall (Gypsum Plasterboard) Plant	Yovon District, Khatlon Region	30 mil M²
KAZAKHSTAN (ALACEM)		
1 Cement Plant	Sary-Ozek, Almaty Region	1.2 mil MT

Source: Company data

Business Overview



Source: Company data, SAC Capital



Source: Company data, SAC Capital

ICG's core business is in the production and distribution of cement. In addition to its cement business, the Group is also in the business of the manufacturing and marketing aluminium windows and doors for residential properties.

Cement Division

ICG's main business is the production and distribution of cement in the Central Asia region for the use in the construction of infrastructure projects, including residential buildings, roads, bridges, highways and railways. Currently, ICG's production facilities are located in Tajikistan and Kazakhstan.

In Tajikistan, the Group owns and operates the largest cement plant in the Yovon district of the Khatlon region. Producing cement under the "Mohir" brand, the Mohir plant has an annual production capacity of 1.2 million metric tonnes. Additionally, the Group also owns and operates a grinding station with an annual production capacity of 0.6 million metric tonnes in the Kolkhozabad district of the Khatlon Province. The grinding station is strategically located close to the Group's export customers, thus reducing transportation costs.

ICG's Tajikistan cement production serves both the domestic and the export markets. Currently, the Group's cement is exported to Afghanistan and Uzbekistan. Customers of the Group's products include retail customers, construction firms and distributors who resell the cement to other end users.

In Kazakhstan, the Group owns and operates a cement plant with an annual production capacity of 1.2 million metric tonnes, which was constructed in December 2019. Producing cement under the "Alacem" brand, the Alacem plant sells its cement to the domestic market, specifically to the Almaty and Taldykorgan areas, as well as the Horgos ports near the Kazakh-Chinese border.

Aluminium Division

ICG is also in the business of manufacturing and marketing of aluminium windows and doors for residential properties. The Group currently owns and operates a fabrication plant at Sedenak, Johor Bahru after disposing its extrusion plant at Pasir Gudang, Johor in December 2019. The Group primarily undertakes valuing-adding fabrication work for aluminium windows, doors, curtain walls, cladding and roofing panels. As at 31 December 2020, the Group has an order book of approximately S$14.7 million, which is expected to be progressively recognised over the next 3 years.

Income Statement (S$'000)

	Fiscal Year Ended 31 December				
	2018	2019	2020	2021F	2022F
Revenue	114,107	131,229	141,626	150,000	165,000
Cost of sales	N.A.	(80,852)	(85,026)	(90,485)	(99,534)
Gross Profit	**N.A.**	**50,377**	**56,600**	**59,515**	**65,466**
Other income	1,295	1,177	4,085	1,527	1,527
Changes in inventories	(1,020)	N.A.	N.A.	N.A.	N.A.
Raw materials used	(32,633)	N.A.	N.A.	N.A.	N.A.
Staff and related costs	(9,566)	N.A.	N.A.	N.A.	N.A.
Depreciation of PPE	(5,412)	N.A.	N.A.	N.A.	N.A.
Amortisation of intangible assets	(3,072)	N.A.	N.A.	N.A.	N.A.
Selling and distribution expenses	N.A.	(1,529)	(2,682)	(1,544)	(1,369)
Administrative expenses	N.A.	(15,438)	(15,395)	(13,976)	(15,373)
Reversal of/(loss allowance) on receivables and contract assets	1,502	540	187	0	0
Other expenses	(33,968)	(1,369)	(12,731)	(1,950)	(2,145)
Finance income	257	244	43	43	43
Finance costs	(407)	(597)	(3,878)	(3,878)	(3,878)
Profit before tax	**31,083**	**33,405**	**26,229**	**39,737**	**44,271**
Tax credit/(expense)	(4,425)	(5,024)	(7,335)	(7,947)	(8,854)
Profit for the year	**26,658**	**28,381**	**18,894**	**31,789**	**35,417**
Profit/(Loss) attributable to:					
Owners of the Company	**16,388**	**15,730**	**9,010**	**15,895**	**17,708**
Non-controlling interests	10,270	12,651	9,884	15,895	17,708
EPS/(LPS) (Singapore cents)	0.29	0.28	0.16	0.28	0.31

FY2019 Income Statement had been restated.

Balance Sheet (S$'000)

	Fiscal Year Ended 31 December				
	2018	2019	2020	2021F	2022F
PPE	160,765	262,488	238,746	232,617	226,703
Intangible assets	53,697	48,849	38,851	36,561	34,407
Investment properties	612	145	125	125	125
Trade and other receivables	23,599	1,564	0	0	0
Contract assets	1,634	1,296	1,348	1,348	1,348
Deferred tax assets	0	0	38	38	38
Total non-current assets	**240,307**	**314,342**	**279,108**	**270,690**	**262,621**
Inventories	19,439	19,853	21,082	21,884	24,072
Trade and other receivables	19,234	19,474	25,536	22,947	25,242
Contract assets	682	1,978	1,230	1,230	1,230
Other investments	1	1	1	1	1
Cash and cash equivalents	13,084	12,402	10,105	53,899	90,868
Assets held for sale	0	425	361	361	361
Total current assets	**52,440**	**54,133**	**58,315**	**100,321**	**141,774**
Total assets	**292,747**	**368,475**	**337,423**	**371,011**	**404,395**
Share capital	273,633	276,824	276,824	276,824	276,824
Capital reserve	404	1,437	2,517	2,517	2,517
Revaluation reserve	2,668	357	156	156	156
Currency translation reserve	(10,438)	(14,855)	(37,868)	(37,868)	(37,868)
Accumulated losses	(71,407)	(58,686)	(49,495)	(39,958)	(29,333)
Equity attributable to owners	**194,860**	**205,077**	**192,134**	**201,671**	**212,296**
Non-controlling interests	56,036	58,855	47,095	62,990	80,698
Total equity	**250,896**	**263,932**	**239,229**	**264,660**	**292,994**
Loans and borrowings	2,588	15,357	14,075	14,075	14,075
Trade and other payables	615	21,763	28,129	28,129	28,129
Provisions	0	106	0	0	0
Deferred tax liabilities	8,899	8,887	10,089	10,089	10,089
Total non-current liabilities	**12,102**	**46,113**	**52,293**	**52,293**	**52,293**
Trade and other payables	27,185	58,239	42,342	50,499	55,549
Contract liabilities	151	152	3,390	3,390	3,390
Provisions	615	34	145	145	145
Loans and borrowings	1,746	0	24	24	24
Current tax payable	52	5	0	0	0
Total current liabilities	**29,749**	**58,430**	**45,901**	**54,058**	**59,108**
Total liabilities	**41,851**	**104,543**	**98,194**	**106,351**	**111,401**

Cash Flow Statement (S$'000)

	Fiscal Year Ended 31 December				
	2018	2019	2020	2021F	2022F
Profit for the year	26,658	28,381	18,894	31,789	35,417
Amortisation of intangible assets	3,072	2,984	2,821	2,290	2,155
Depreciation of PPE	5,412	6,138	10,740	8,356	8,142
Finance costs	407	597	3,878	3,878	3,878
Finance income	(257)	(244)	(43)	(43)	(43)
Others	3,634	6,030	17,685	0	0
Change in working capital	(5,401)	6,385	(4,070)	9,944	567
Net cash from/(used in) operations	**33,525**	**50,271**	**49,905**	**56,214**	**50,115**
Acquisition of PPE	(38,067)	(57,498)	(26,102)	(2,228)	(2,228)
Acquisition of intangible assets	(2)	(145)	(135)	0	0
Interest received	231	28	28	43	43
Others	740	2,501	91	0	0
Net cash from/(used in) investing	**(37,098)**	**(55,114)**	**(26,118)**	**(2,185)**	**(2,185)**
Dividends paid	(3,069)	(6,474)	(16,136)	(6,358)	(7,083)
Net change in equity	0	3191	0	0	0
Net change in debt	(4,865)	11,850	(3,375)	0	0
Others	(3,807)	(4,294)	(6,252)	(3,878)	(3,878)
Net cash (used in)/from financing	**(11,741)**	**4,273**	**(25,763)**	**(10,236)**	**(10,961)**
Net increase/(decrease) in cash	**(15,314)**	**(570)**	**(1,976)**	**43,794**	**36,969**
Cash at beginning of the year	28,570	13,027	12,345	10,047	53,841
Effect of exchange rate fluctuations	(229)	(112)	(322)	0	0
Cash at end of the year	13,027	12,345	10,047	53,841	90,810

Ratios

	Fiscal Year Ended 31 December				
	2017	2018	2019	2020F	2021F
Profitability					
Gross Margin	N.A.	38.4%	40.0%	39.7%	39.7%
EBITDA Margin	34.8%	32.7%	30.8%	36.1%	35.4%
Profit Before Tax Margin	27.2%	25.5%	18.5%	26.5%	26.8%
Net Margin	14.4%	12.0%	6.4%	10.6%	10.7%
Liquidity (x)					
Current Ratio	2.6	1.8	0.9	1.4	2.1
Quick Ratio	1.9	1.1	0.6	0.9	1.6
Interest Coverage Ratio	15.8	97.6	71.8	11.9	13.4
Net Debt to Equity	Net Cash	1.1%	1.7%	Net Cash	Net Cash
Valuation (x)					
P/S	2.8	2.4	2.3	2.1	1.9
P/EBITDA	8.1	7.5	7.4	5.9	5.5
P/E	19.4	20.3	35.6	20.2	18.1
P/B	1.6	1.6	1.7	1.6	1.5
Returns					
Return on Equity	8.5%	7.9%	4.5%	8.1%	8.6%
Return on Assets	5.7%	4.8%	2.6%	4.5%	4.6%

N.A: Not Applicable.

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Nature of Business Relation	**Date of Business Relation**
Nil	Nil

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Analyst name	**Quantum of position**
Nil	Nil

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