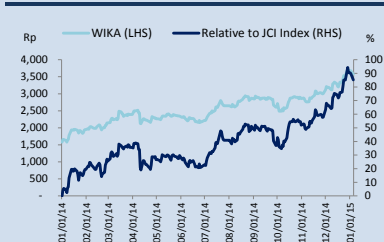


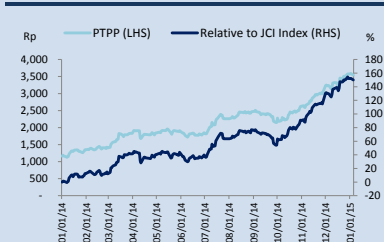
CONSTRUCTION/SECTOR UPDATE

# OVERWEIGHT

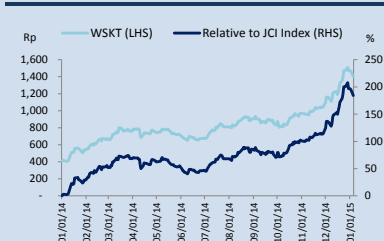
## WIKA relative to JCI Index



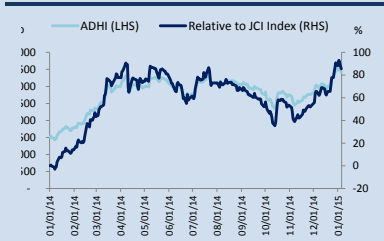
## PTPP relative to JCI Index



## WSKT relative to JCI Index



## ADHI relative to JCI Index



# Construction Sector

## Infrastructure's compelling story

We remain **OVERWEIGHT** on the sector with a blanket **BUY** on all four state-owned contractors. Our confidence is backed by the government's initiatives to accelerate the development of much-needed infrastructure in the country. The new government will not only boost the number of projects going forward but may also undertake capital injection in infrastructure-related state-owned companies to better leverage their balance sheets. Thus, if the government can deliver on its promises, the state-owned contractors stand to enjoy multi-year expansion growth. All in all, our Top Picks are **PTPP** and **WSKT**.

### Structural changes are coming

The new government led by President Jokowi is intent on accelerating the nation's infrastructure development to ease logistical costs. The first initiative taken by the government was the reduction in fuel subsidies which has freed up around Rp100tn of state funds. Going forward, the government will undertake other initiatives to support infrastructure development: 1) the plan to almost double the combined budget of the Public Works and Transportation Ministry from Rp111tn in FY14F to Rp205tn in the FY15F revised state budget coupled with plans to hasten project tenders by March-April 2015; 2) the State-owned Ministry's proposal to lower dividend payouts for state-owned companies; and 3) potential capital injection from the government to state-owned companies which is directly related to infrastructure development. All in all, confidence among state-owned contractors is high and their guidance of 25-30% growth in earnings in FY15F is sensible following the flattish performance in 2014.

### Capital for leverage

As state-owned contractors will see a strong multi-year supply of government projects, equity size might become a key consideration for state-owned contractors in the future. The company with the largest equity will obtain the biggest opportunity to win sizeable projects given its greater leverage. In our view, the government's initiative to lower dividend payouts will have only a marginal impact although the government's proposal to undertake capital injections will be the game changer, especially for PTPP and ADHI given the government's ownership already limited at 51%. Even so, without any equity raising, we believe that the state-owned contractors are still able to handle up to Rp200tn in their order books given that the current leverage during the peak quarter is still at 2.0x (vs. covenants of 3.5-4.0x).

### Valuations moving towards the peak of the cycle

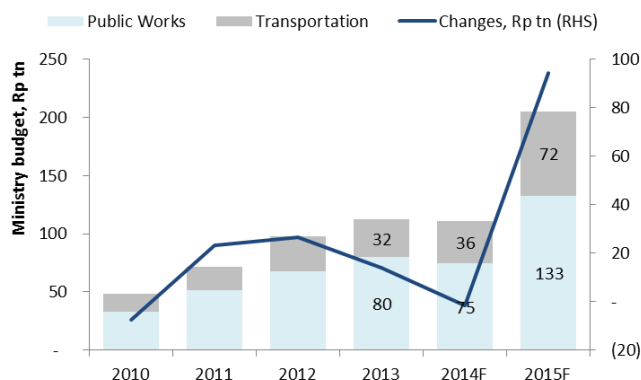
With the government's strong commitment toward infrastructure spending coupled with better execution, we believe that the state-owned contractors stand to be the direct beneficiaries of the expected infrastructure developments in the future. At current valuations, investors already appear to price in this bullish scenario of multi-year growth. Thus, valuations might move towards the peak of the cycle (+2sd above mean – 29x PE) to account for the high growth expectations. All in all, we reiterate our **OVERWEIGHT** call on the sector. Our Top Picks in our construction universe are **PTPP** (BUY, TP Rp4,100) given its strong earnings visibility and credibility in water projects that have strong potential given Jokowi's emphasis on maritime development and **WSKT** (BUY, TP Rp Rp1,650) given its huge carry-over projects and the government intention of capital injection in the company. Potential upside comes from better-than-expected new contracts achievement that would directly lead to higher earnings growth. Key risks include lower-than-expected infrastructure budgets, poor government execution, and potential increases in interest rates.



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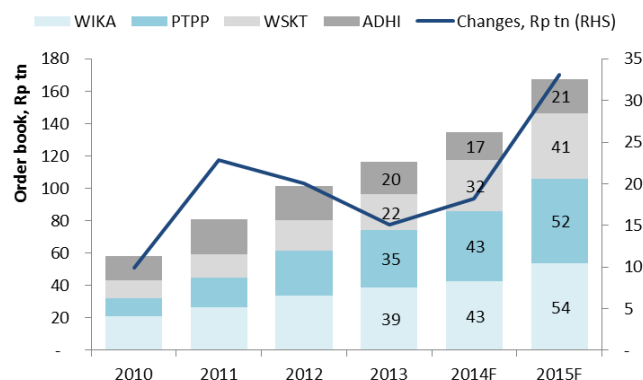
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**Exhibit 1. Substantially higher budgets...**



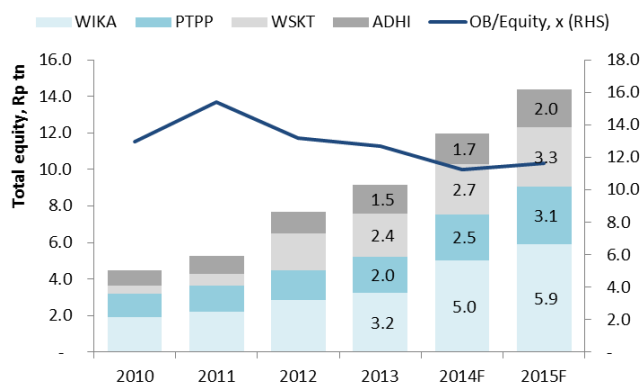
Source: Ministry of Finance

**Exhibit 2. ...lead to huge order book size**



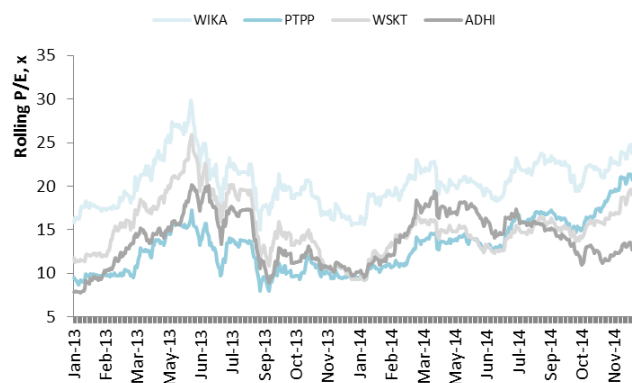
Source: Companies, Danareksa Sekuritas

**Exhibit 3. Equity to leverage**



Source: Companies, Danareksa Sekuritas

**Exhibit 4. Valuation toward up-cycle period**



Source: Bloomberg

**Exhibit 5. Valuation table**

Company	Recommendation	Target Price, Rp	PE FY15F, x	EV/EBITDA FY15F, x	EPS CAGR FY13-15F, %	ROE FY15F, %	Net gearing FY15F, %
<b>Sector</b>	<b>OVERWEIGHT</b>		<b>21.3</b>	<b>10.1</b>	<b>21.8</b>	<b>21.3</b>	<b>39.7</b>
WIKA IJ	BUY	4,000	26.0	10.7	21.6	15.4	8.9
PTPP IJ	BUY	4,100	22.5	10.0	34.6	27.1	17.1
WSKT IJ	BUY	1,650	21.9	11.6	29.6	20.5	40.0
ADHI IJ	BUY	3,900	14.7	7.9	1.5	22.4	92.7

Source: Bloomberg as of 5 January 2015, Danareksa Sekuritas

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CONSTRUCTION SECTOR/COMPANY UPDATE

**BUY**

Target Price, Rp 4,000

Upside 11.9%

WIKA IJ/WIKA.JK

Last Price, Rp 3,575

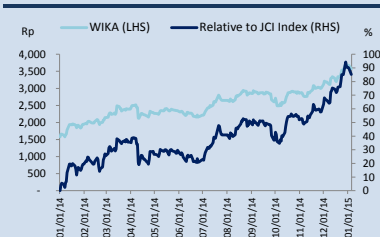
No. of shares (mn) 6,134

Market Cap, Rp bn 21,929

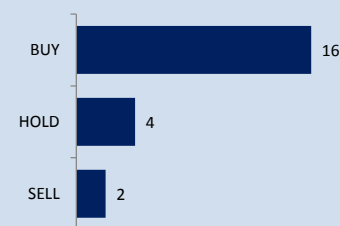
(US\$ mn) 1,739

3M T/O, US\$mn 4.5

**WIKA relative to JCI Index**



**Market Recommendation**



**Danareksa vs. Consensus**

	Our	Cons	% Diff
Target Price, IDR	4,000	3,238	23.5
EPS 2015F, IDR	137	134	2.2
PE 2015F, x	26.0	26.6	-2.3

# Wijaya Karya

## The king of the pack

WIKA remains the first entry point for investors to ride Indonesia’s infrastructure growth story given its wide range of businesses. The company has the largest market cap, a balanced business model and sound corporate governance. As such, we believe that WIKA deserves its premium rating over its state-owned peers. Utilizing a SOTP valuation during the sector up-cycle, we arrive at our Target Price of Rp4,000, implying FY15F/16F PE of 29.1/24.4x and PEG of 0.8x. **BUY.**

**The first proxy to Indonesia’s infrastructure story**

WIKA is the first choice for investors seeking to tap into Indonesia’s infrastructure up-cycle considering it has the largest market liquidity in the sector, the most diversified business portfolio and prudent corporate governance. This is reflected in its current shareholding structure with 19% of the shares held by foreign investors, or higher than the figure of 10-15% for its state-owned peers. Currently, the general construction (infrastructure, building, and EPC) remains the core business comprising 60% of the total revenues albeit only contributing 40% of the total earnings. Thus, the precast and property businesses continue to be the earnings driver going forward given its higher profitability. The good thing about WIKA’s balance business model is it should help support continued growth whilst also providing a cushion against volatility in the industry. In our view, these strengths justify WIKA’s premium valuation.

**New contracts accelerating since October 2014**

WIKA’s new contracts progress has accelerated from only Rp11.5tn in 9M14 to Rp15.1tn in November 2014. Amidst cut-backs in government projects in 2014, the company made several strategic moves such as venturing into overseas projects. Overseas projects, which are prudently managed in regard to payment terms, are lucrative to the company since they offer better gross margins. For 2015, however, we are more upbeat on the outlook for government spending and expect a larger budget allocation to result in a higher portion of government projects. Having said that, we expect new contracts accelerates to Rp22.8tn in FY15F from Rp18.6tn in FY14F.

**Higher gearing as the cost of growth**

Aside from its existing businesses, WIKA still seeks to diversify its income streams. For next year, WIKA has earmarked Rp1.7tn for capex, some of which will be used to undertake acquisitions and investments in new businesses such as water treatment, gas pipes, and power plants. Accordingly, higher gearing is inevitable, we believe. Hence, going forward, we estimate that WIKA’s interest costs will increase to 0.9% of its revenues compared to 0.5% historically.

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	2012	2013	2014F	2015F	2016F
Revenues, Rp bn	9,905	11,885	13,244	16,504	19,486
EBITDA, Rp bn	963	1,356	1,600	2,102	2,538
EBITDA Growth, %	33.3	40.8	18.0	31.4	20.7
Net Profit, Rp bn	476	570	617	843	1,004
Core Profit, Rp bn	500	668	711	932	1,098
Core EPS, Rp	82	109	116	152	179
Core EPS Growth, %	25.6	33.0	6.5	31.0	17.8
Net Gearing, %	Net cash	8.9	3.4	8.9	10.1
PER, x	45.9	38.5	35.6	26.0	21.8
Core PER, x	43.7	32.8	30.8	23.5	20.0
PBV, x	7.7	6.8	4.4	3.7	3.2
EV/EBITDA, x	22.4	16.4	13.8	10.7	8.9
Yield, %	0.5	0.5	0.6	0.6	0.6

**Exhibit 1. Profit and loss, Rp bn**

	2012	2013	2014F	2015F	2016F
Revenues	9,905	11,885	13,244	16,504	19,486
COGS	8,947	10,562	11,738	14,561	17,194
Gross profit	958	1,322	1,506	1,944	2,292
Income from JO	198	261	318	397	481
Gross profit incl. JO	1,155	1,583	1,823	2,341	2,773
Operating expenses	(285)	(367)	(421)	(525)	(619)
Operating profit	870	1,216	1,403	1,816	2,154
Net interest expenses	0	(40)	(75)	(131)	(157)
Other income (expenses)	(38)	(159)	(151)	(138)	(145)
Pre-tax income	833	1,017	1,177	1,547	1,853
Income tax	(309)	(392)	(437)	(544)	(651)
Minority interest	(47)	(54)	(123)	(160)	(198)
Net profit	476	570	617	843	1,004
Core profit	500	668	711	932	1,098

Source: Company, Danareksa Sekuritas

**Exhibit 2. Balance sheet, Rp bn**

	2012	2013	2014F	2015F	2016F
Cash & equivalent	1,532	1,387	1,970	1,440	1,327
Trade receivables	1,348	1,479	2,023	2,522	2,977
Project receivables	2,025	2,564	2,870	3,576	4,222
Inventories	1,143	1,118	1,239	1,537	1,815
Other current assets	1,202	1,446	1,599	1,953	2,282
<b>Total Current Assets</b>	<b>7,251</b>	<b>7,994</b>	<b>9,701</b>	<b>11,027</b>	<b>12,623</b>
LT investments	1,783	2,236	2,587	3,227	3,868
Fixed assets	1,184	1,640	2,390	3,182	3,961
Other assets	803	724	597	480	365
<b>Total Non-current Assets</b>	<b>3,770</b>	<b>4,601</b>	<b>5,574</b>	<b>6,889</b>	<b>8,194</b>
<b>TOTAL ASSETS</b>	<b>11,021</b>	<b>12,595</b>	<b>15,275</b>	<b>17,916</b>	<b>20,817</b>
ST loans	235	278	1,000	1,500	1,750
Trade payables	2,557	3,089	3,424	4,247	5,015
Current portion of LT loans	87	124	544	41	39
Other current liabilities	3,702	3,808	3,607	4,474	5,283
<b>Total Current Liabilities</b>	<b>6,580</b>	<b>7,298</b>	<b>8,575</b>	<b>10,262</b>	<b>12,088</b>
LT loans	934	1,271	595	424	236
Other liabilities	672	799	1,071	1,315	1,545
<b>Total Non-current Liabilities</b>	<b>1,606</b>	<b>2,070</b>	<b>1,666</b>	<b>1,739</b>	<b>1,781</b>
Minority interest	240	278	601	761	959
Capital stock	1,367	1,317	1,320	1,320	1,320
Retained earnings	1,204	1,202	1,705	2,424	3,260
Other equity	24	429	1,409	1,409	1,409
<b>Total Equity</b>	<b>2,834</b>	<b>3,227</b>	<b>5,035</b>	<b>5,915</b>	<b>6,948</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>11,021</b>	<b>12,595</b>	<b>15,276</b>	<b>17,916</b>	<b>20,817</b>

Source: Company, Danareksa Sekuritas

**Exhibit 3. Cash flow, Rp bn**

	2012	2013	2014F	2015F	2016F
Pretax profit	833	1,017	1,177	1,547	1,853
Minority interest	(47)	(54)	(123)	(160)	(198)
Tax	(343)	(630)	(458)	(618)	(717)
Depreciation	93	140	198	286	384
Changes in W/C	354	33	(948)	(74)	(44)
Others	(53)	127	272	245	230
<b>Cash Flow from Operation</b>	<b>836</b>	<b>632</b>	<b>117</b>	<b>1,226</b>	<b>1,508</b>
Capex	(521)	(597)	(948)	(1,078)	(1,164)
Investments	(970)	(420)	(244)	(541)	(547)
<b>Cash Flow from Investing</b>	<b>(1,491)</b>	<b>(1,017)</b>	<b>(1,192)</b>	<b>(1,619)</b>	<b>(1,711)</b>
ST loans	104	44	722	500	250
Current portion of LT loans	11	37	421	(504)	(1)
LT loans	680	337	(676)	(171)	(188)
Equity	254	(40)	1,305	160	198
Dividend & CSR	(117)	(137)	(114)	(123)	(169)
<b>Cash Flow from Financing</b>	<b>932</b>	<b>240</b>	<b>1,658</b>	<b>(138)</b>	<b>90</b>
<b>Change in Cash</b>	<b>277</b>	<b>(145)</b>	<b>583</b>	<b>(530)</b>	<b>(113)</b>

Source: Company, Danareksa Sekuritas

**Exhibit 4. Key ratios**

	2012	2013	2014F	2015F	2016F
<b>Profitability, %</b>					
Gross margin - excl. JO	9.7	11.1	11.4	11.8	11.8
Gross margin - incl. JO	11.7	13.3	13.8	14.2	14.2
Operating margin	8.8	10.2	10.6	11.0	11.1
EBITDA margin	9.7	11.4	12.1	12.7	13.0
Net margin	4.8	4.8	4.7	5.1	5.2
Core margin	5.0	5.6	5.4	5.6	5.6
ROAE	18.8	18.8	14.9	15.4	15.6
ROAA	4.9	4.8	4.4	5.1	5.2
<b>Leverage</b>					
Debt to equity, %	44.3	51.8	42.5	33.2	29.2
Net debt to equity, %	net cash	8.9	3.4	8.9	10.1
Interest coverage, x	24.0	19.0	12.5	11.5	12.1
<b>Turnover, days</b>					
Trade receivables	49	45	55	55	55
Inventories	46	38	38	38	38
Trade payables	103	105	105	105	105
<b>Growth, %</b>					
Revenue	27.9	20.0	11.4	24.6	18.1
Operating profit	33.1	39.8	15.3	29.5	18.6
EBITDA	33.3	40.8	18.0	31.4	20.7
Net profit	34.3	19.7	8.2	36.7	19.1
Core profit	31.1	33.7	6.5	31.0	17.8

Source: Company, Danareksa Sekuritas

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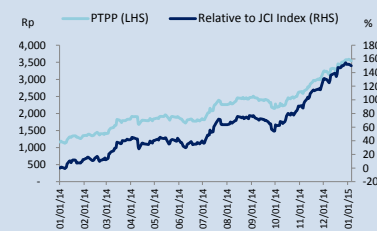


CONSTRUCTION SECTOR/COMPANY UPDATE

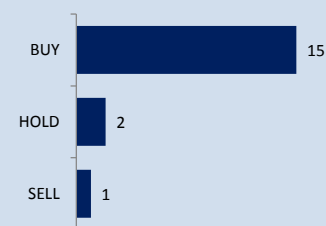
**BUY**

Target Price, Rp	4,100
Upside	15.8%
PTPP IJ/PTPP.JK	
Last Price, Rp	3,540
No. of shares (mn)	4,842
<b>Market Cap, Rp bn</b>	<b>17,142</b>
(US\$ mn)	1,359
3M T/O, US\$mn	3.1

**PTPP relative to JCI Index**



**Market Recommendation**



**Danareksa vs. Consensus**

	Our	Cons	% Diff
Target Price, IDR	4,100	3,231	26.9
EPS 2015F, IDR	157	142	10.6
PE 2015F, x	22.5	24.9	-9.6

# Pembangunan Perumahan

## Overtaking the biggest contractor

PTPP maintained its status as the biggest new contracts achiever for the third consecutive year. Its order book is estimated to reach Rp40tn in FY14F – at par with WIKA’s as the biggest state-owned contractor in Indonesia. Going forward, we believe PTPP can benefit from its expertise in maritime construction in view of Jokowi’s vision on infrastructure development. Encouraged by this progress, PTPP remains one of our Top Picks in the sector. Consequently, we raise our Target Price to Rp4,100, derived from 25.9x FY15F PE, implying PEG of 0.9x. **BUY.**

**The best new contracts achiever for the third consecutive year**

In 11M14, PTPP was awarded Rp16tn of new contracts, surpassing the other state-owned contractors despite the lack of government projects throughout the year. Hence, by year-end, we see that PTPP’s new contracts may accelerate to Rp18-20tn at best, looking at its historical performance. This will bring PTPP’s order book up to Rp40tn in FY14F – at par with WIKA’s estimated order book. Going forward, we believe the company is on the right track to get more contracts, especially from the government’s accelerated projects, considering its expertise in maritime-based projects, as reflected in the Rp8.2tn signature New Priok Port project which is on-track. As such, we expect PTPP to win Rp24tn of new contracts in FY15F, yet still below the management’s guidance.

**Sound earnings growth expected in 2015**

PTPP’s carry-over projects to 2015 are estimated to be around Rp25-27tn, or 1.8-2.0x its FY14F revenues. Looking at those figures, the management has expressed its optimism with targeted net profits of Rp730bn in FY15F, or growth of 32% CAGR in FY13-15F. In our view, the management’s target is reasonable considering the company’s strong earnings visibility. Also worth noting are the company’s strong marketing sales from its high margins property projects that will materialized in FY15F.

**PP Properti’s IPO in 1Q15F**

PTPP’s property arm, PP Properti is estimated to go public in March 2015 at the latest. PTPP plans to raise Rp1.5tn in equity from divestment of a 35% stake in PP Properti. For 2015, PTPP has earmarked around Rp800-900bn in capex to develop its property projects. Through this equity raising, PTPP’s gearing would fall from 2.0x to 1.0x during the peak cycle, giving the company more room to get projects during the infrastructure up-cycle, we believe.

**The valuation is justified**

Among its peers, PTPP continues to stand out thanks to its huge order book which gives the best earnings visibility. PP Properti’s plans to go public have been well received since they allow PTPP to leverage its equity to undertake more government projects in the future. All in all, we believe PTPP’s valuation is justified to +1.5sd above the sector mean during the up-cycle period. Utilizing targeted FY15F PE of 25.9x, we raise our Target Price to Rp4,100.

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Danareksa research reports are also available at Reuters Multex and First Call Direct and Bloomberg.

	2012	2013	2014F	2015F	2016F
Revenues, Rp bn	8,004	11,656	14,138	17,037	20,626
EBITDA, Rp bn	860	1,188	1,608	1,769	2,100
EBITDA Growth, %	29.6	38.2	35.3	10.0	18.7
Net Profit, Rp bn	310	421	592	762	936
Core Profit, Rp bn	358	486	656	831	1,009
Core EPS, Rp	74	100	135	172	208
Core EPS Growth, %	28.8	35.6	35.1	26.6	21.5
Net Gearing, %	29.7	(5.5)	24.4	17.1	10.1
PER, x	55.4	40.7	29.0	22.5	18.3
Core PER, x	47.9	35.3	26.1	20.6	17.0
PBV, x	10.4	8.6	6.9	5.5	4.4
EV/EBITDA, x	20.5	14.3	11.0	10.0	8.4
Yield, %	0.5	0.5	0.7	0.9	1.1



**Exhibit 1. Profit and loss, Rp bn**

	2012	2013	2014F	2015F	2016F
Revenues	8,004	11,656	14,138	17,037	20,626
COGS	7,149	10,383	12,505	15,079	18,310
Gross profit	855	1,273	1,633	1,957	2,316
Income from JO	142	94	74	85	97
Gross profit incl. JO	996	1,367	1,706	2,043	2,413
Operating expenses	144	200	281	340	399
Operating profit	853	1,168	1,425	1,703	2,014
Net interest	(222)	(283)	(299)	(315)	(339)
Other income (expenses)	(85)	(118)	(110)	(115)	(121)
Pre-tax income	545	767	1,016	1,273	1,555
Income tax	(236)	(346)	(424)	(511)	(619)
Minority interest	(0)	(0)	(0)	(0)	(0)
Net profit	310	421	592	762	936
Core profit	358	486	656	831	1,009

Source: Company, Danareksa Sekuritas

**Exhibit 2. Balance sheet, Rp bn**

	2012	2013	2014F	2015F	2016F
Cash & equivalent	1,303	2,397	1,613	1,695	1,933
Trade receivables	1,339	1,710	2,491	3,001	3,634
Project receivables	2,957	4,679	5,209	6,277	7,599
Inventories	1,566	1,777	2,243	2,705	3,284
Other current assets	1,023	1,339	1,709	2,023	2,412
<b>Total Current Assets</b>	<b>8,189</b>	<b>11,902</b>	<b>13,264</b>	<b>15,701</b>	<b>18,862</b>
LT investments	282	349	443	512	567
Fixed assets	73	142	433	500	576
Other assets	7	24	24	24	24
<b>Total Non-current Assets</b>	<b>362</b>	<b>514</b>	<b>900</b>	<b>1,035</b>	<b>1,167</b>
<b>TOTAL ASSETS</b>	<b>8,551</b>	<b>12,416</b>	<b>14,164</b>	<b>16,736</b>	<b>20,029</b>
ST loans	1,116	945	1,000	1,200	1,300
Trade payables	4,244	6,300	7,592	9,155	11,117
Current portion of LT loans	150	530	190	-	330
Other current liabilities	523	1,001	1,022	1,228	1,487
<b>Total Current Liabilities</b>	<b>6,032</b>	<b>8,776</b>	<b>9,815</b>	<b>11,594</b>	<b>14,245</b>
LT loans	530	813	1,030	1,030	700
Other liabilities	333	842	775	925	1,113
<b>Total Non-current Liabilities</b>	<b>863</b>	<b>1,655</b>	<b>1,856</b>	<b>2,006</b>	<b>1,865</b>
Minority interest	(0)	1	1	1	1
Capital stock	946	947	947	947	947
Retained earnings	709	1,037	1,545	2,188	2,972
<b>Total Equity</b>	<b>1,656</b>	<b>1,985</b>	<b>2,492</b>	<b>3,136</b>	<b>3,920</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>8,551</b>	<b>12,416</b>	<b>14,164</b>	<b>16,736</b>	<b>20,029</b>

Source: Company, Danareksa Sekuritas

**Exhibit 3. Cash flow, Rp bn**

	2012	2013	2014F	2015F	2016F
Pretax profit	545	767	1,016	1,273	1,555
Minority interest	(0)	(0)	(0)	(0)	(0)
Tax	(407)	(489)	(467)	(594)	(721)
Depreciation	4	7	163	33	38
Changes in W/C	(399)	(256)	(761)	(602)	(726)
Change in other assets	111	843	(70)	250	314
<b>Cash Flow from Operation</b>	<b>(146)</b>	<b>872</b>	<b>(120)</b>	<b>359</b>	<b>460</b>
Capex	(1)	(76)	(454)	(100)	(115)
Investments	(179)	(102)	(59)	(68)	(55)
<b>Cash Flow from Investing</b>	<b>(180)</b>	<b>(178)</b>	<b>(513)</b>	<b>(168)</b>	<b>(170)</b>
ST loans	204	(171)	55	200	100
Current portion of LT loans	(181)	380	(340)	(190)	330
LT loans	380	283	217	-	(330)
Equity	(0)	1	-	-	-
Dividend & CSR	(79)	(93)	(84)	(118)	(152)
<b>Cash Flow from Financing</b>	<b>323</b>	<b>400</b>	<b>(152)</b>	<b>(108)</b>	<b>(52)</b>
<b>Change in Cash</b>	<b>(3)</b>	<b>1,094</b>	<b>(784)</b>	<b>83</b>	<b>238</b>

Source: Company, Danareksa Sekuritas

**Exhibit 4. Key ratios**

	2012	2013	2014F	2015F	2016F
<b>Profitability, %</b>					
Gross margin - excl. JO	10.7	10.9	11.5	11.5	11.2
Gross margin - incl. JO	12.4	11.7	12.1	12.0	11.7
Operating margin	10.7	10.0	10.1	10.0	9.8
EBITDA margin	10.7	10.2	11.4	10.4	10.2
Net margin	3.9	3.6	4.2	4.5	4.5
Core margin	4.5	4.2	4.6	4.9	4.9
ROAE	20.1	23.1	26.4	27.1	26.5
ROAA	4.0	4.0	4.5	4.9	5.1
<b>Leverage</b>					
Debt to equity, %	108.4	115.2	89.1	71.1	59.4
Net debt to equity, %	29.7	Net cash	24.4	17.1	10.1
Interest coverage, x	3.5	4.0	4.4	5.0	5.4
<b>Turnover, days</b>					
Trade receivables	60	53	63	63	63
Inventories	79	62	65	65	65
Trade payables	214	218	219	219	219
<b>Growth, %</b>					
Revenue	28.4	45.6	21.3	20.5	21.1
Operating profit	30.2	37.0	22.0	19.5	18.3
EBITDA	29.6	38.2	35.3	10.0	18.7
Net profit	28.9	35.9	40.7	28.7	22.9
Core profit	28.8	35.6	35.1	26.6	21.5

Source: Company, Danareksa Sekuritas

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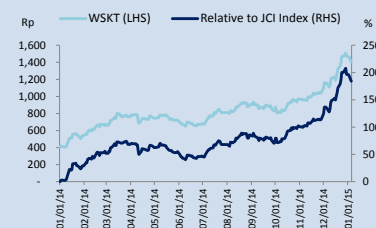
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CONSTRUCTION SECTOR/COMPANY UPDATE

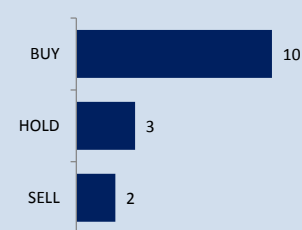
**BUY**

Target Price, Rp	1,650
Upside	17.4%
WSKT IJ/WSKT.JK	
Last Price, Rp	1,405
No. of shares (mn)	9,632
<b>Market Cap, Rp bn</b>	<b>13,533</b>
(US\$ mn)	1,073
3M T/O, US\$mn	4.2

**WSKT relative to JCI Index**



**Market Recommendation**



**Danareksa vs. Consensus**

	Our	Cons	% Diff
Target Price, IDR	1,650	1,115	47.9
EPS 2015F, IDR	64	54	18.5
PE 2015F, x	21.9	25.9	-15.4

# Waskita Karya

## A high risk-rewards contractor

In 2014, WSKT's new contracts surpassed expectations thanks to the contribution from some of its owned toll road projects. The rationale of venturing into the toll road business is to boost its order book and improve its profitability going forward. We do see an exit risk for WSKT, however, as maintaining ownership in toll roads after their completion will limit the company's balance sheet capacity, but overall, we are positive on WSKT's toll road ventures. With a brighter outlook for government projects in 2015, we believe WSKT will have a robust order book to maintain its growth story. Utilizing the sector's up-cycle target PE FY15F of 25.9x, we raise our Target Price to Rp1,650, implying 0.5x PEG. Maintain BUY.

### High risk-rewards in the toll road business

In our view, WSKT's ventures into toll roads are a high risk-reward business. At the current juncture, WSKT still holds the majority of the shares in its toll road subsidiary, PT Waskita Toll Road (WTR), meaning that WSKT cannot book the projects under WTR in its order book. With plans to sell its shares to a third-party with a buy back option in the near-term, WSKT should be able to book the profits during the construction progress. In that case, we recognize its toll road projects as normal projects. With four toll roads in the pipeline, WSKT could bag a high-margin order book between Rp4.0-6.0tn until 2017. However, risks are embedded in the execution of the option by the third party. If the option is not executed, WSKT's balance sheet and profitability might be weighed down by the heavy cycle in toll roads during the first five years. Hence, at this point, we still believe WSKT will hold a minority of the shares in WTR, thereby elevating the company's order book as well as its profitability until at least FY16F.

### Potential equity raising in 2015

With government ownership in the company still standing at 65%, WSKT still has the chance to undertake a rights issue with the government making a placement in order to leverage its equity. At the current share price, a 15% placement by the government could increase WSKT's equity by Rp2tn, elevating the total equity to Rp5tn at YE15F – creating the company as the biggest contractor in Indonesia in terms of its equity size. In that scenario, WSKT's gearing could fall to only 0.4-0.5x during the peak cycle, giving the company ample room to get sizeable projects in the future. As such, we believe a rights issue would be a positive catalyst for WSKT.

### Revising up our estimates

WSKT's better-than-expected new contracts achievement in 2014 has led us to revise up our estimates. We continue to value WSKT based on its core business in construction services as we expect the company to liquidate its ownership in the toll road investments once they are completed. Utilizing the target PE during the sector up-cycle, we set WSKT's TP at Rp1,650.

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	2012	2013	2014F	2015F	2016F
Revenues, Rp bn	8,808	9,687	10,523	13,707	16,946
EBITDA, Rp bn	574	725	856	1,280	1,502
EBITDA Growth, %	21.7	26.3	18.0	49.6	17.4
Net Profit, Rp bn	254	368	420	618	725
Core Profit, Rp bn	222	363	399	617	724
Core EPS, Rp	23	38	41	64	75
Core EPS Growth, %	32.5	63.2	10.0	54.8	17.3
Net Gearing, %	Net cash	21.1	27.5	40.0	44.2
PER, x	53.3	36.8	32.3	21.9	18.7
Core PER, x	60.9	37.3	33.9	21.9	18.7
PBV, x	6.7	5.7	4.9	4.1	3.5
EV/EBITDA, x	23.1	19.4	16.7	11.6	10.2
Yield, %	-	0.2	0.5	0.6	0.9

Danareksa research reports are also available at Reuters Multex and First Call Direct and Bloomberg.

**Exhibit 1. Profit and loss, Rp bn**

	2012	2013	2014F	2015F	2016F
Revenues	8,808	9,687	10,523	13,707	16,946
COGS	8,076	8,776	9,470	12,197	15,154
Gross profit	732	911	1,053	1,510	1,792
Income from JO	93	102	155	165	189
Gross profit incl. JO	825	1,012	1,207	1,675	1,981
Operating expenses	(285)	(340)	(441)	(507)	(613)
Operating profit	540	672	766	1,168	1,368
Net interest	(138)	(70)	(117)	(208)	(220)
Other income (expenses)	57	9	34	1	1
Pre-tax income	460	611	683	961	1,148
Income tax	(206)	(243)	(263)	(343)	(424)
Net profit	254	368	420	618	725
Core profit	222	363	399	617	724

Source: Company, Danareksa Sekuritas

**Exhibit 2. Balance sheet, Rp bn**

	2012	2013	2014F	2015F	2016F
Cash & equivalent	2,184	1,120	994	964	760
Trade receivables	1,464	1,710	1,802	2,347	2,902
Project receivables	3,267	3,944	4,131	5,381	6,653
Inventories	413	292	526	678	842
Other current assets	462	715	960	1,190	1,425
<b>Total Current Assets</b>	<b>7,790</b>	<b>7,781</b>	<b>8,413</b>	<b>10,561</b>	<b>12,582</b>
LT investments	318	570	514	666	830
Fixed assets	240	415	776	1,064	1,338
Other assets	19	21	260	260	260
<b>Total Non-current Assets</b>	<b>577</b>	<b>1,007</b>	<b>1,550</b>	<b>1,990</b>	<b>2,428</b>
<b>TOTAL ASSETS</b>	<b>8,366</b>	<b>8,788</b>	<b>9,964</b>	<b>12,551</b>	<b>15,010</b>
ST loans	1,172	875	500	600	800
Trade payables	2,003	2,291	2,451	3,157	3,922
Current portion of LT loans	-	-	75	-	1,175
Other current liabilities	2,117	2,261	2,479	3,191	3,963
<b>Total Current Liabilities</b>	<b>5,292</b>	<b>5,427</b>	<b>5,505</b>	<b>6,948</b>	<b>9,860</b>
LT loans	747	748	1,174	1,674	500
Other liabilities	320	230	540	650	770
<b>Total Non-current Liabilities</b>	<b>1,067</b>	<b>978</b>	<b>1,714</b>	<b>2,325</b>	<b>1,270</b>
Capital stock	1,794	1,794	1,816	1,816	1,816
Retained earnings	215	563	909	1,443	2,044
Other equity	(2)	26	20	20	20
<b>Total Equity</b>	<b>2,007</b>	<b>2,383</b>	<b>2,745</b>	<b>3,279</b>	<b>3,880</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>8,366</b>	<b>8,788</b>	<b>9,964</b>	<b>12,551</b>	<b>15,010</b>

Source: Company, Danareksa Sekuritas

**Exhibit 3. Cash flow, Rp bn**

	2012	2013	2014F	2015F	2016F
Pretax profit	460	611	683	961	1,148
Tax	(159)	(462)	(304)	(478)	(559)
Depreciation	34	53	89	112	134
Changes in W/C	(495)	(497)	134	(514)	(432)
<b>Cash Flow from Operation</b>	<b>(160)</b>	<b>(295)</b>	<b>601</b>	<b>81</b>	<b>291</b>
Capex	(81)	(228)	(450)	(400)	(409)
Investments	(5)	(253)	(345)	(152)	(164)
<b>Cash Flow from Investing</b>	<b>(86)</b>	<b>(481)</b>	<b>(795)</b>	<b>(552)</b>	<b>(572)</b>
ST loans	(33)	(297)	(375)	100	200
Current portion of LT loans	-	-	75	(75)	1,175
LT loans	747	1	426	500	(1,174)
Equity	1,140	29	15	-	-
Dividend	-	(20)	(74)	(84)	(124)
<b>Cash Flow from Financing</b>	<b>1,854</b>	<b>(288)</b>	<b>68</b>	<b>442</b>	<b>77</b>
<b>Change in Cash</b>	<b>1,607</b>	<b>(1,064)</b>	<b>(126)</b>	<b>(30)</b>	<b>(204)</b>

Source: Company, Danareksa Sekuritas

**Exhibit 4. Key ratios**

	2012	2013	2014F	2015F	2016F
<b>Profitability, %</b>					
Gross margin - excl. JO	8.3	9.4	10.0	11.0	10.6
Gross margin - incl. JO	9.4	10.5	11.5	12.2	11.7
Operating margin	6.1	6.9	7.3	8.5	8.1
EBITDA margin	6.5	7.5	8.1	9.3	8.9
Net margin	2.9	3.8	4.0	4.5	4.3
Core margin	2.5	3.7	3.8	4.5	4.3
ROAE	19.3	16.8	16.4	20.5	20.2
ROAA	3.8	4.3	4.5	5.5	5.3
<b>Leverage</b>					
Debt to equity, %	95.6	68.1	63.7	69.4	63.8
Net debt to equity, %	Net cash	21.1	27.5	40.0	44.2
Interest coverage, x	3.2	6.9	4.8	4.9	5.4
<b>Turnover, days</b>					
Trade receivables	60	64	62	62	62
Inventories	18	12	20	20	20
Trade payables	89	94	93	93	93
<b>Growth, %</b>					
Revenues	21.1	10.0	8.6	30.3	23.6
Operating profit	20.3	24.5	14.0	52.4	17.1
EBITDA	21.7	26.3	18.0	49.6	17.4
Net profit	47.7	44.9	14.0	47.3	17.2
Core profit	32.5	63.2	10.0	54.8	17.3

Source: Company, Danareksa Sekuritas

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CONSTRUCTION SECTOR/COMPANY UPDATE

**BUY**

Target Price, Rp 3,900

Upside 14.0%

ADHI IJ/ADHI.JK

Last Price, Rp 3,420

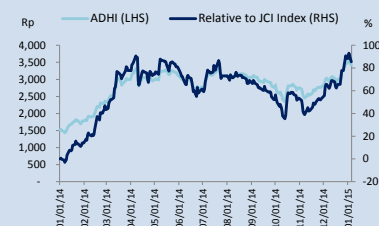
No. of shares (mn) 1,801

Market Cap, Rp bn 6,161

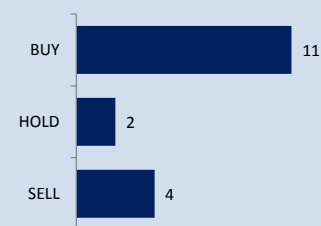
(US\$ mn) 489

3M T/O, US\$mn 3.4

**ADHI relative to JCI Index**



**Market Recommendation**



**Danareksa vs. Consensus**

	Our	Cons	% Diff
Target Price, IDR	3,900	3,194	22.1
EPS 2015F, IDR	232	200	16.0
PE 2015F, x	14.7	17.1	-14.0

# Adhi Karya

## Betting on the government

ADHI underperformed its state-owned peers in 2014. Low order books, which led to weaker earnings visibility, were the main reason behind the lagging share price performance. However, 2015 should be a better year for ADHI with the government’s plans to increase the Public Works Ministry’s budget from 81tn to Rp132tn. This will be the main catalyst to fuel ADHI’s order book and growth in 2015. Given the stock’s undemanding valuation, we believe ADHI represents a good opportunity for bottom-fishing in our construction stock universe. All in all, we reiterate our BUY call on ADHI with a TP of Rp3,900, derived from target FY15F PE of 16.8x – at par with the sector mean during the up-cycle period.

### Ready to take off in 2015

2014 was a tough year for ADHI given the company’s shortfall in carry-over projects from 2013 along with the weak new contracts progress following the government’s budget cuts and the company’s losses in the EPC business. However, some positive developments have been seen – especially in December 2014, when the company won some noteworthy projects, thus raising its new contracts progress to Rp7.5tn in mid-December 2014 (vs. Rp4.9tn in 9M14). Learning from the past, it can be seen that ADHI has a high dependency on government projects as the biggest portion of its construction revenues are derived from the Public Works Ministry. Hence, with the Public Works Ministry’s budget expected to increase 63% to Rp132tn in the 2015 revised state budget, this will be the main catalyst to fuel ADHI’s order book we believe. As such, we set our base new contracts in FY15F at Rp14.4tn (vs. Rp8.3tn in FY14F) with the FY15F earnings projected to grow by 56% to Rp419bn after the low-base seen in FY14F.

### The balance sheet is ready to be leveraged

ADHI’s working capital was quite soft during the peak quarters in 2013/14 given the flat order book. With Rp1.7tn of equity estimated at YE14F, we believe ADHI still has some room to take on more projects given that its gearing stood at 1.8x in September 2014. Moreover, our Rp21tn order book estimate in FY15F is the same size as seen in FY11-13. During the peak cycle in 2011-2013, ADHI’s gearing reached 1.5x. Thus, the balance sheet shouldn’t be an issue as infrastructure momentum gathers pace. Encouragingly for ADHI, the potential governments’ rights issue execution plan should be the game changer for the company going forward considering the government’s ownership in ADHI is already limited at 51%.

### Cheapest valuation

ADHI’s share price has underperformed relative to its state-owned peers since its all-time high in May 2013. The bleak outlook in 2014 was the main culprit and ADHI has been well-punished by the market. Yet given that ADHI will likely benefit from the government’s infrastructure drive, we believe that the stock represents a good opportunity for bottom-fishing in our construction stock universe. ADHI currently trades at a 30% discount to its peers’ average.

**Joko Sogie**

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Danareksa research reports are also available at Reuters Multex and First Call Direct and Bloomberg.

	2012	2013	2014F	2015F	2016F
Revenues, Rp bn	7,628	9,800	9,589	11,947	14,083
EBITDA, Rp bn	799	934	662	1,025	1,248
EBITDA Growth, %	42.2	16.8	(29.1)	54.8	21.7
Net Profit, Rp bn	212	406	268	419	530
Core Profit, Rp bn	357	480	271	462	581
Core EPS, Rp	198	266	150	257	322
Core EPS Growth, %	35.6	34.4	(43.5)	70.5	25.7
Net Gearing, %	Net cash	Net cash	86.1	92.7	89.2
PER, x	29.1	15.2	23.0	14.7	11.6
Core PER, x	17.3	12.8	22.7	13.3	10.6
PBV, x	5.2	4.0	3.6	3.0	2.5
EV/EBITDA, x	7.7	6.3	11.5	7.9	6.7
Yield, %	0.9	0.7	2.0	1.3	2.0

**Exhibit 1. Profit and loss, Rp bn**

	2012	2013	2014F	2015F	2016F
Revenues	7,628	9,800	9,589	11,947	14,083
COGS	6,672	8,606	8,595	10,532	12,381
Gross profit	956	1,193	994	1,414	1,703
Income from JO	87	55	24	31	36
Gross profit incl. JO	1,043	1,248	1,019	1,445	1,739
Operating expenses	(251)	(329)	(376)	(445)	(525)
Operating profit	792	919	643	1,000	1,214
Net interest expenses	(81)	(75)	(79)	(139)	(167)
Other income (expenses)	(288)	(129)	(6)	(80)	(90)
Pre-tax income	423	714	558	780	957
Income tax	(210)	(306)	(288)	(358)	(422)
Minority interest	(2)	(2)	(2)	(3)	(4)
Net profit	212	406	268	419	530
Core profit	357	480	271	462	581

Source: Company, Danareksa Sekuritas

**Exhibit 2. Balance sheet, Rp bn**

	2012	2013	2014F	2015F	2016F
Cash & equivalent	949	1,940	1,036	858	816
Trade receivables	1,343	1,503	1,869	2,328	2,745
Project receivables	3,600	3,655	3,561	4,437	5,230
Inventories	117	162	205	252	296
Other current assets	1,274	1,840	2,539	3,180	3,809
<b>Total Current Assets</b>	<b>7,283</b>	<b>9,099</b>	<b>9,211</b>	<b>11,055</b>	<b>12,896</b>
LT investments	361	279	380	371	362
Fixed assets	187	271	346	446	555
Other assets	40	72	313	313	313
<b>Total Non-current Assets</b>	<b>589</b>	<b>621</b>	<b>1,039</b>	<b>1,130</b>	<b>1,229</b>
<b>TOTAL ASSETS</b>	<b>7,872</b>	<b>9,721</b>	<b>10,250</b>	<b>12,185</b>	<b>14,125</b>
ST loans	201	212	1,000	1,250	1,500
Trade payables	4,277	4,767	4,428	5,426	6,378
Current portion of LT loans	-	-	-	-	500
Other current liabilities	1,375	1,562	1,556	1,901	2,229
<b>Total Current Liabilities</b>	<b>5,853</b>	<b>6,542</b>	<b>6,984</b>	<b>8,577</b>	<b>10,608</b>
LT loans	748	1,497	1,497	1,498	999
Other liabilities	91	134	71	71	71
<b>Total Non-current Liabilities</b>	<b>839</b>	<b>1,631</b>	<b>1,568</b>	<b>1,569</b>	<b>1,070</b>
Minority interest	7	9	11	15	19
Capital stock	230	230	230	230	230
Retained earnings	944	1,307	1,454	1,792	2,197
Other equity	0	2	2	2	2
<b>Total Equity</b>	<b>1,181</b>	<b>1,548</b>	<b>1,697</b>	<b>2,038</b>	<b>2,447</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>7,872</b>	<b>9,721</b>	<b>10,250</b>	<b>12,185</b>	<b>14,125</b>

Source: Company, Danareksa Sekuritas

**Exhibit 3. Cash flow, Rp bn**

	2012	2013	2014F	2015F	2016F
Pretax profit	423	714	558	780	957
Minority interest	(2)	(2)	(2)	(3)	(4)
Tax	(166)	(422)	(461)	(466)	(517)
Depreciation	7	15	20	25	34
Changes in W/C	290	269	(608)	(334)	(255)
Change in other assets	(13)	202	(545)	83	86
<b>Cash Flow from Operation</b>	<b>540</b>	<b>777</b>	<b>(1,039)</b>	<b>85</b>	<b>301</b>
Capex	26	(99)	(94)	(126)	(143)
Investments	(405)	(408)	(439)	(311)	(329)
<b>Cash Flow from Investing</b>	<b>(379)</b>	<b>(507)</b>	<b>(533)</b>	<b>(437)</b>	<b>(472)</b>
ST loans	36	11	788	250	250
Current portion of LT loans	(500)	-	-	-	500
LT loans	720	749	0	1	(499)
Equity	38	4	2	3	4
Dividend & CSR	(59)	(42)	(122)	(80)	(126)
<b>Cash Flow from Financing</b>	<b>236</b>	<b>722</b>	<b>669</b>	<b>174</b>	<b>129</b>
<b>Change in Cash</b>	<b>397</b>	<b>991</b>	<b>(904)</b>	<b>(178)</b>	<b>(42)</b>

Source: Company, Danareksa Sekuritas

**Exhibit 4. Key ratios**

	2012	2013	2014F	2015F	2016F
<b>Profitability, %</b>					
Gross margin - excl. JO	12.5	12.2	10.4	11.8	12.1
Gross margin - incl. JO	13.7	12.7	10.6	12.1	12.3
Operating margin	10.4	9.4	6.7	8.4	8.6
EBITDA margin	10.5	9.5	6.9	8.6	8.9
Net margin	2.8	4.1	2.8	3.5	3.8
Core margin	4.7	4.9	2.8	3.9	4.1
ROAE	19.5	29.7	16.5	22.4	23.6
ROAA	3.0	4.6	2.7	3.7	4.0
<b>Leverage</b>					
Debt to equity, %	80.3	110.4	147.2	134.8	122.5
Net debt to equity, %	Net cash	Net cash	86.1	92.7	89.2
Interest coverage, x	9.2	8.5	4.8	6.0	6.4
<b>Turnover, days</b>					
Trade receivables	63	55	70	70	70
Inventories	6	7	9	9	9
Trade payables	231	199	185	185	185
<b>Growth, %</b>					
Revenue	13.9	28.5	(2.1)	24.6	17.9
Operating profit	42.5	15.9	(30.0)	55.6	21.4
EBITDA	42.2	16.8	(29.1)	54.8	21.7
Net profit	16.2	91.9	(33.9)	56.1	26.6
Core profit	35.6	34.4	(43.5)	70.5	25.7

Source: Company, Danareksa Sekuritas

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