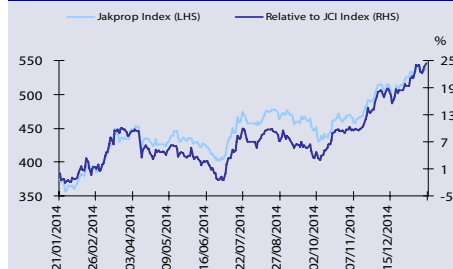


OVERWEIGHT

Stocks	Price (Rp)	Target price (Rp)	Rec.
WIKA	3,600	4,000	BUY
PTPP	3,645	4,100	BUY
WSKT	1,505	1,650	BUY
ADHI	3,570	3,900	BUY

Jakprop relative to JCI Index



Joko Sogje

(62-21) 2955 5827

jokos@danareksa.com

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

Construction Sector

RAPBN-P 2015: The infrastructure story is ON!

Indonesia's infrastructure story is on a firmer footing now that the new government has published more details on the draft of the revised 2015 state budget (RAPBN-P) since it provides greater clarity on budget allocations. With the significantly reduced of fuel subsidies, the government has freed up some room to undertake more productive spending, especially on infrastructure and social-welfare. This can be seen in the substantial increases in the 2015 budgets for the Ministry of Public Works and the Transportation Ministry at Rp119tn (+41%) and Rp65tn (+45%), respectively. Furthermore, the government's intention to inject capital into a number of state-owned companies also underscores its commitment toward accelerating its programs as well. Thus, if the government can deliver on its promises, we believe that the state-contractors stand to enjoy multi-year expansion growth. Maintain OVERWEIGHT on the sector with blanket BUYs on the four state-contractors. PTPP and WSKT are our Top Picks.

The Public Works and the Transportation Ministry get the biggest increases

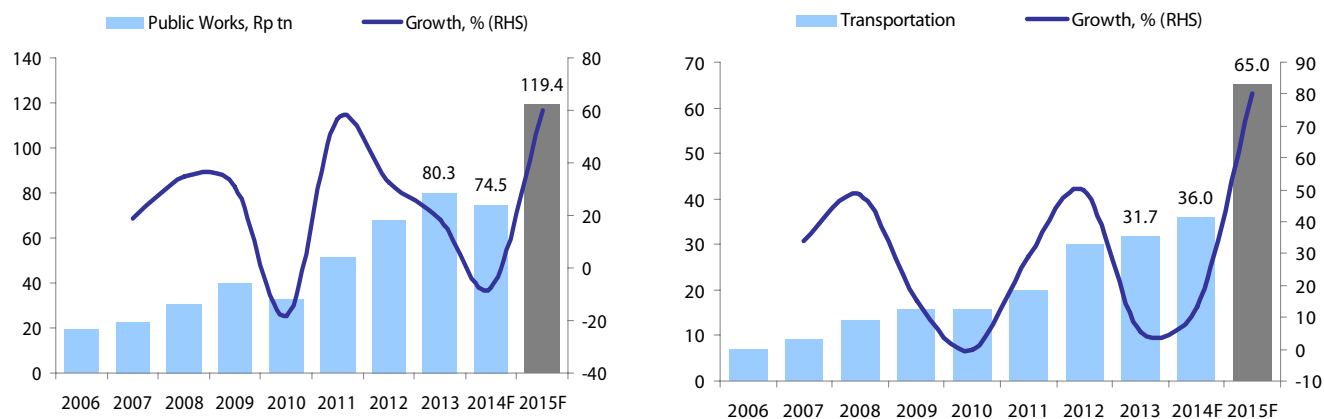
The new government's commitment toward accelerating infrastructure development is clearly reflected in its draft of the revised 2015 state budget (RAPBN-P) which will be deliberated by parliament. With fuel subsidies reduction, the government has freed up some room to reallocate the savings toward more productive spending in the budgets of its ministries. Two ministries that are directly responsible for the nation's infrastructure program – the Ministry of Public Works and the Transportation Ministry – enjoyed the largest budget increases. From only an average of 6.2% of total expenditures during the MP3EI period, the government's budget allocation to these two ministries has been increased to 9.2% for FY15F. Compared to the initial 2015 state budget, the budget of the Ministry of Public Works has been increased by 41% to Rp119tn while the budget of the Transportation Ministry is up 45% to Rp65tn. These budget increases are consistent with the new government's plans to bolster much-needed infrastructure development. More specifically, the government plans to undertake more spending on several priority programs, such as: 1) irrigation, dams, and flood control, 2) roads, 3) new seaports at 77 locations, and 4) railroad infrastructure.

WSKT and ADHI to receive capital injections

Besides setting larger budgets for infrastructure development, the new government also aims to accelerate growth by injecting capital into a number of state-owned companies. Among the 42 companies slated to receive capital injections are three state-contractors, namely Hutama Karya (Rp3.6tn), Waskita Karya (Rp3.5tn), and Adhi Karya (Rp1.4tn). Both Hutama and Waskita will use the proceed into the toll road projects, while Adhi will use it for its long-halted monorail projects. In our view, these capital injections should act as a positive catalyst for growth given that the additional equity will provide more room for the companies to gear up and get more large-scale projects as infrastructure spending accelerates.

Substantial new contracts to be awarded in 2Q15 at the soonest

Our view is that a further rerating of the sector can happen once realization of the government budget takes place. This will be in the form of new contract achievements for the state-contractors. In terms of timing, the government plans to commence the tender process for projects once the revised state budget gets parliamentary approval in February 2015. Hence, we will start to see some sizeable new contracts being awarded from the government's budget in April 2015 at the soonest. This should provide the state-contractors with plenty of projects to keep the multi-year growth story on track. For this year, we estimate that total new contracts will grow a robust 20% to Rp83tn from the four listed state-contractors. Maintain OVERWEIGHT on the sector with blanket BUYs on the four state-contractors. PTPP and WSKT are our Top Picks.

Exhibit 1. Substantial increment in Public Works and Transportation Ministry budget

*Notes: 2006-2013: Budget realization (LKPP); 2014F-2015F: Revised state budget (APBN-P)

Source: RAPBN-P 2015, Ministry of Finance

Exhibit 2. Public Works Ministry budget details

Programs	APBN 2015,Rp tn	RAPBN-P 2015,Rp tn	Chg,%
Road infrastructure	41.30	51.82	25.5
Public housing infrastructure	18.79	27.38	45.7
Water infrastructure	22.36	30.56	36.7
Others	2.46	9.63	291.5
TOTAL	84.91	119.39	40.6

Additional priority program	Budget increase, Rp tn
1. Irrigations, dams, and flood control	8.45
2. Clean water and housing facility	9.11
3. Road infrastructure	10.00
4. Port and seaport access (toll road)	5.75
TOTAL	33.31

Source: Ministry of Finance

Exhibit 3. Transportation Ministry budget details

Programs	APBN 2015,Rp tn	RAPBN-P 2015,Rp tn	Chg,%
Land transportation	4.04	6.08	50.5
Sea transportation	11.32	22.84	101.8
Air transportation	10.03	11.75	17.1
Rail transportation	14.36	18.67	30.0
Others	5.18	5.61	8.3
TOTAL	44.93	64.95	44.6

Additional priority program	Budget increase, Rp tn
1. Seaports in 77 locations (sea toll road concept)	11.93
2. Multi-purpose training ships and aircrafts	2.14
3. Railroad infrastructure, double-track, and 1,000 Bus Transit	6.89
TOTAL	20.96

Source: Ministry of Finance

Exhibit 4. State-contractors plan on using the capital injection proceed

Company	Proceeds
Hutama Karya	1. Trans Sumatera toll road (Medan-Binjai, Pekanbaru-Dumai, Palembang-Indralaya, Bakaheuni-Terbanggi Besar) 2. Financial leverage
Waskita Karya	1. Acquisition of the long-halted toll roads projects 2. Financial leverage
Adhi Karya	1. Greater Jakarta monorail (Bekasi-Cibubur-Cawang) 2. Financial leverage

Source: Ministry of Finance

Exhibit 5. Valuation table

Company	Rec.	Target Price Rp	P/E, x FY15F	EPS CAGR FY13-15F	ROE, % FY15F	Gearing, % FY15F
Sector	OVERWEIGHT		22.0	21.8	21.3	39.7
WIKAIJ	BUY	4,000	26.2	21.6	15.4	8.9
PTPP IJ	BUY	4,100	23.2	34.6	27.1	17.1
WSKT IJ	BUY	1,650	23.4	29.6	20.5	40.0
ADHI IJ	BUY	3,900	15.4	1.5	22.4	92.7

Source: Danareksa Sekuritas (as of Jan 20, 2014)

DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.
