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Danareksa Snapshot

Thursday, August 28, 2014

From Research:

Construction Sector: Entering the next growth cycle (OVERWEIGHT)

With Jokowi now officially elected as the next president of Indonesia, we are more bullish on the prospects for Indonesia's infrastructure sector. Despite some stern challenges on the macroeconomic front, we are optimistic that the new government will have the resolve to raise subsidized fuel prices in 2015, saving the government money which can be spent in more productive ways. Hence, by pricing in expectations of greater infrastructure spending, we believe that 2015 will be a rosy year for Indonesian state-owned contractors as the direct proxy for accelerated infrastructure development. We roll over our base Target Prices to 2015 based on a target P/E multiple of 21x – at par with 1sd above the sector mean, which is justified during the sector up-cycle. We are OVERWEIGHT on the Indonesian construction sector with WIKA and PTPP as our Top Picks.

- Wijaya Karya (WIKA IJ. Rp 2,830. BUY. TP Rp 3,250)
- Pembangunan Perumahan (PTPP IJ. Rp 2,425. BUY. TP Rp 2,950)
- Waskita Karya (WSKT IJ. Rp 880. BUY. TP Rp 1,150)
- Adhi Karya (ADHI IJ. Rp 3,045. BUY. TP Rp 3,700)

Adaro Energy - Continue on cost efficiency (ADRO IJ. Rp 1,340. BUY. TP Rp 1,450)

Despite higher revenue by 7% yoy, Adaro Energy (ADRO) reported a decline in net profit by 32% yoy to US\$168mn in 1H14. This was mainly attributable to one-time non cash gain from the acquisition of Balangan worth of US\$146mn booked in 1H13. While revenue was within our expectation, net profit was still above our expectation as a result of lower-than expected on the expenses. As the largest single-concession coal producer in Indonesia, which gives large economies of scale and vertically integrated business model to create better cost control, we maintain BUY recommendation with target price of Rp1,450, based on DCF valuation with WACC of 9.8%. Our target price implies 16x 2015F PE.

From Today's Headlines:

(Please see our analysts' comment inside)

- Adaro obtains US\$1 Billion Loan (BI)
- Newmont Told to Show Good Faith (TJP)
- Ramayana Joins SPAR (BI)

From Market:

Cash announcement

Code	Ex-Date	Date Payable	Amount (Rp)
GGRM	7-Aug-14	25-Aug-14	800
SCMA	19-Aug-14	4-Sep-14	51
AKRA	10-Sep-2014	26-Sep-2014	50

Source: Stockwatch

	Key Index			
	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	5,165	0.4	20.8	378
Thailand	1,565	0.3	20.5	1,410
Philippines	7,160	0.2	21.6	232
Malaysia	1,872	0.6	0.3	674
Singapore	3,341	0.6	5.5	769
Regional				
China	2,209	0.1	4.4	21,884
Hong Kong	24,919	(0.6)	6.9	8,805
Japan	15,535	0.1	(4.6)	8,543
Korea	2,082	0.4	3.5	3,630
Taiwan	9,486	1.0	10.2	3,866
India	26,560	0.4	25.5	484
NASDAQ	4,570	(0.0)	9.4	50,706
Dow Jones	17,122	0.1	3.3	4,430

Currency and Interest Rate					
		Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah	(Rp/1US\$)	11,682	0.2	(0.9)	4.0
SBI rate	(%)	6.97	(0.1)	(0.1)	(0.3)
10-y Govt Indo bond		8.29	(0.0)	0.3	(0.2)

Hard Commodities					
	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	70	n/a	2.0	(17.8)
Gold	US\$/toz	1,283	0.1	(1.6)	6.4
Nickel	US\$/mt.ton	18,763	(0.5)	(2.0)	35.6
Tin	US\$/mt.ton	21,682	(1.2)	(3.3)	(2.9)

Soft Commodities					
	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	3,263	(0.0)	0.9	14.1
Corn	US\$/mt.ton	141	(1.5)	(0.7)	(11.8)
Crude Oil	US\$/barrel	103	0.2	(5.2)	(7.3)
Palm oil	MYR/mt.ton	2,003	0.6	(14.6)	(22.1)
Rubber	US\$/kg	162	0.5	(1.2)	(28.3)
Pulp	US\$/tonne	929	n/a	0.1	2.5
Coffee	US\$/60kgbag	115	0.5	2.2	17.4
Sugar	US\$/MT	426	(0.6)	(4.8)	(5.1)
Wheat	US\$/mt.ton	207	1.0	0.4	(12.2)

Source: Bloomberg



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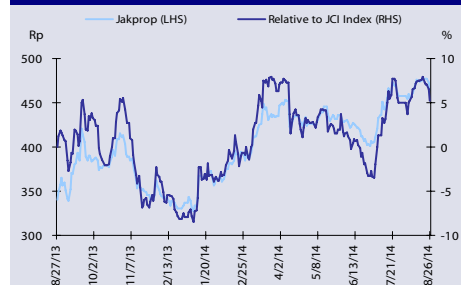
OVERWEIGHT

Construction Sector

Entering the next growth cycle

Stocks	Price (Rp)	Target price (Rp)	Rec.
WIKA	2,830	3,250	BUY
PTPP	2,425	2,950	BUY
WSKT	880	1,150	BUY
ADHI	3,045	3,700	BUY

Jakprop relative to JCI Index



With Jokowi now officially elected as the next president of Indonesia, we are more bullish on the prospects for Indonesia's infrastructure sector. Despite some stern challenges on the macroeconomic front, we are optimistic that the new government will have the resolve to raise subsidized fuel prices in 2015, saving the government money which can be spent in more productive ways. Hence, by pricing in expectations of greater infrastructure spending, we believe that 2015 will be a rosy year for Indonesian state-owned contractors as the direct proxy for accelerated infrastructure development. We roll over our base Target Prices to 2015 based on a target P/E multiple of 21x – at par with 1sd above the sector mean, which is justified during the sector up-cycle. We are OVERWEIGHT on the Indonesian construction sector with WIKA and PTPP as our Top Picks.

Living on expectations

2015 promises to be an exciting year for the Indonesian construction sector, buoyed by hopes of greater infrastructure spending by the new government. In our view, president-elect Jokowi has a solid track record on project execution, and thus assuming the same approach to work, we believe that he will renew his focus on infrastructure development on a nationwide level. In relation to the stern challenge on the fiscal side related to booming fuel subsidies, we expect the new government to raise subsidized fuel prices by 30% in March 2015 at the soonest, saving the government at least Rp60tn. As a result, the new government would have more money to spend in more productive ways, thereby paving the way for the next infrastructure growth cycle.

Bridging the gaps to 2015

Year-to-date, the state-owned contractors have still depended mostly on carry-over projects from 2013 to be booked as earnings since new contracts progress still lags behind management expectations. As a result, until year-end, we maintain our expectation of flattish new contracts in 2014 and mid-teens growth in earnings. Meanwhile, for 2015, we are more bullish and expect a substantial amount of new contracts after 2Q15 contingent on the government raising subsidized fuel prices. We believe that state-owned contractors – as long-term partners of the government – stand to benefit. Hence, we slightly raise our new contracts target for 2015 by 0.4-13.5%, thus resulting in y-y growth of 15.3-27.7%. As a result, we now expect a high double-digits growth in earnings in 2015 as we expect the industry to grow by 29.8% y-y (vs. 5.8% in 2014).

Blue sky scenario: shift to OVERWEIGHT

With the expectation of greater infrastructure spending, we believe that 2015 will be a rosy year for Indonesian state-owned contractors. Hence, we are bullish on all four state-owned contractors under our coverage, despite their considerable outperformance relative to the JCI in 2014. We roll over our base Target Prices to 2015 based on a target P/E multiple of 21x – at par with 1sd above the sector mean, which is justified during the sector up-cycle. All in all, we are OVERWEIGHT on the Indonesian construction sector with WIKA and PTPP as our Top Picks. In our view, share price volatility may continue up to 1Q15 until the new government produces the revised state budget of 2015.



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

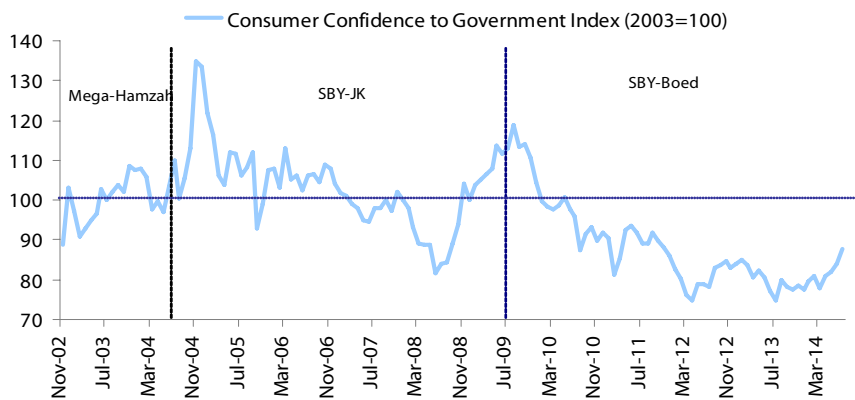
Company	Rec.	Target Price Rp	Price Rp	P/E, x 2015	EPS growth, % 2015	PEG, x 2015
WIKA IJ Equity	BUY	3,250	2,830	20.5	32.3	0.6
PTPP IJ Equity	BUY	2,950	2,425	17.9	32.8	0.5
WSKT IJ Equity	BUY	1,150	880	16.3	24.7	0.7
ADHI IJ Equity	BUY	3,700	3,045	13.1	29.2	0.5
Sector	OVERWEIGHT			17.0	29.8	0.6

Living on expectations

2015 promises to be an exciting year for the Indonesian construction sector, buoyed by hopes of greater infrastructure spending by the new government. For president-elect Jokowi, investment in much-needed infrastructure has been identified as one of his top priorities to remove long-standing bottlenecks. Meanwhile, the latest macroeconomic developments have been encouraging, as evident in both the stability of the rupiah in the past few weeks and increasing confidence that the current account deficit will narrow by year-end.

Nonetheless, the new government still faces a stiff challenge on the fiscal side. We, however, remain confident that this problem can be tackled by raising subsidized fuel prices early next year to free up funds which can be spent on new government programs and initiatives. With the public's confidence in the government currently high, the time will be ripe for the new government to make some much-needed reforms, in our view.

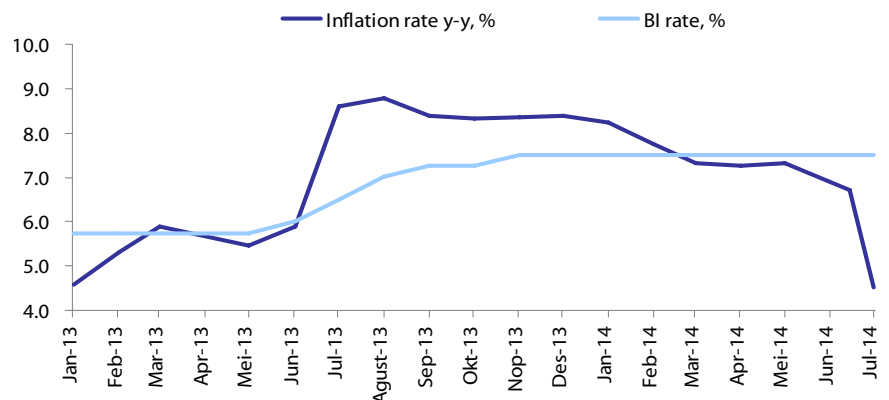
Exhibit 1. Consumer confidence in the government trended higher during the elections



Source: Danareksa Research Institute

The new government will also have more room to pursue such policies since the inflation rate normalized at 4.5% in July 2014 after increasing significantly due to last year's subsidized fuel price hikes. Nevertheless, we expect the central bank to keep its benchmark policy rate at 7.5% in 2015. Against this backdrop, our economist estimates that even with a 30% increase in subsidized fuel prices from the current Rp6,500/liter, the y-y inflation rate would only be boosted by an additional 2.1%, meaning that the central bank would not need to further raise its benchmark policy rate.

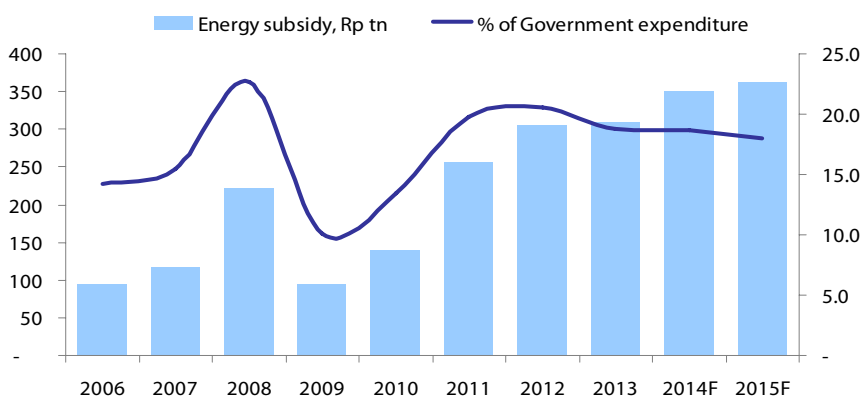
Exhibit 2. The inflation rate has returned to its normal level



Source: BPS

Our economist expects the new government to raise subsidized fuel prices by 30% in March 2015 at the soonest, saving the government at least Rp60tn in its planned 2015 expenditure. As a result, the new government would have more money to spend in more productive ways, such as on the healthcare program and infrastructure. Both these programs have a multiplier effect on spurring economic growth, we believe. In our view, since infrastructure budgets are likely to increase the most, state-owned contractors would likely be major beneficiaries. It is worth noting that in the recent past, expenditure on energy subsidies has reached around 18% of the government's total expenditure, or three times the spending on infrastructure (at only 6% of the government's total expenditure).

Exhibit 3. Huge expenditure on energy subsidies in the government budget

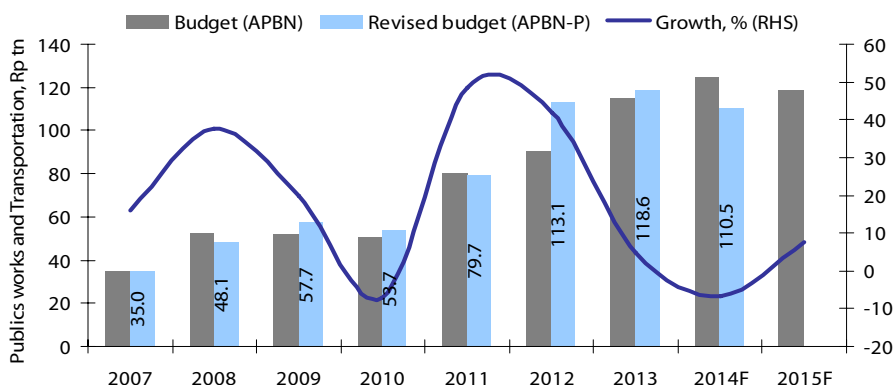


Source: Ministry of Finance

The next growth cycle

The phase of greater infrastructure development in Indonesia started back in 2011 when the government - through the Ministry of Public Works and Transportation - allocated substantially more of its state budget on MP3EI which kicked off at that time. Consequently, the budget allocation for these two ministries increased significantly from only around Rp50tn pre-2011 to Rp80tn in 2011 (+49%y-y) and then to Rp113tn (+42%y-y) in 2012. However, increases in government spending on infrastructure were curtailed in 2013-2014 due to the extremely costly fuel subsidies which placed a heavy burden on the budget. This is also the case for the draft state budget of 2015, in which the budget allocation for Ministry of Public Works and Transportation was only increased 8% to Rp119tn given the budget deficit was near its threshold of 2.5%.

Exhibit 4. The growth cycle in the Ministry of Public Works and Transportation budgets



Source: Ministry of Finance

However, we do not use the draft state budget of 2015 as our base case since we acknowledge that the new government appears committed to revising the state budget of 2015 sooner than expected. To create more fiscal leeway, the new government would slash energy subsidies. Hence, after the inauguration of the new president in October 2014, the new government will propose a draft revised state budget 2015 to the parliament with approval expected by January 2015 at the soonest. As such, we believe that the next infrastructure growth cycle will take place soon in 2015, after the new government has tackled the pressing problem of energy subsidies in the state budget.

Exhibit 5. The draft state budget of 2015 is business-as-usual in style

	2013 Realization	2014 APBN	2014 APBN-P	2015 RAPBN	Chg, %
A. Government revenue and grant	1,439	1,667	1,635	1,762	7.8
I. Domestic revenue	1,432	1,666	1,633	1,759	7.7
1. Tax revenue	1,077	1,280	1,246	1,371	10.0
% Tax ratio to GDP	11.86	12.35	12.38	12.32	(0.06)
2. Non-tax revenue	355	385	387	388	0.3
II. Grant	7	1	2	3	47.6
B. Government expenditure	1,651	1,843	1,877	2,020	7.6
I. Central government expenditure	1,137	1,250	1,280	1,380	7.8
1. Ministries expenditure	583	638	602	601	(0.3)
2. Non-ministries expenditure	554	612	678	779	14.9
2.1. Subsidy	355	334	403	434	7.6
2.1.1 Energy subsidy	310	282	350	364	3.8
a. Fuel subsidy	210	211	247	291	18.1
b. Electricity subsidy	100	71	104	72	(30.0)
II. Regional transfer	513	593	597	640	7.3
C. Primary balance	(90)	(54)	(106)	(104)	(2.4)
D. Surplus / (Deficit)	(212)	(175)	(241)	(258)	6.7
% Budget deficit to GDP	(2.33)	(1.69)	(2.40)	(2.32)	0.1
E. Financing	237	175	(241)	(258)	6.7

Source: Ministry of Finance

The big plan in national connectivity

During his campaign, Jokowi acknowledged that high logistics costs are a major cause of Indonesia's lack of competitiveness. As such, one of the new government's main priorities will be to accelerate some infrastructure projects that have been halted for many years due to issues with financing availability or problems with land acquisition. The blueprint is to create better national connectivity to lower logistics costs.

The ability of the government to execute the programs will be a key issue, however. In our view, Jokowi has a solid track record on project execution during his time in Solo and then in the capital, Jakarta. Thus, assuming the same approach to work, we believe that he will renew his focus on infrastructure development on a nationwide level, i.e. by accelerating toll road developments (Trans-Java and Trans-Sumatera), deep-water seaports, airports, double-track railways, as well as developing mass transportation in the major cities.

The new land bill is effective in 2015

The implementation of the new land bill for public infrastructure starting in 2015 may also help resolve land acquisition problems that have delayed major infrastructure projects. Until now, the government still uses the obsolete land law (Law No. 5/1960) which does not take a firm stance in regard to land acquisition for the public interest. Hence, through the implementation of the new Law No. 2/2012, land procurement for public infrastructure will give certainty not only to land owners but also to the project investors. The bill should ensure land usage for the development of vital public infrastructure projects, i.e. roads, ports, airports, irrigation, railways, and electricity projects.

Under the new land bill, people will be imposed to sell property assets if this is deemed necessary for public infrastructure needs. However, the law guarantees that land owners will receive fair compensation. For instance, the law will follow a democratic process by providing a 60-day public consultation period prior to when the acquisition takes place. If the land owners do not wish to sell their assets, then they can appeal to the State Administrative Court (PTUN) which would issue a ruling in 30 days. Should the public remain dissatisfied, they will be given a 14-day period to appeal to the Supreme Court (MK), which should issue a ruling in 30 days. Hence, we believe the new land bill has the potential to be the game changer by establishing a precise timeline for the development of public infrastructure projects.

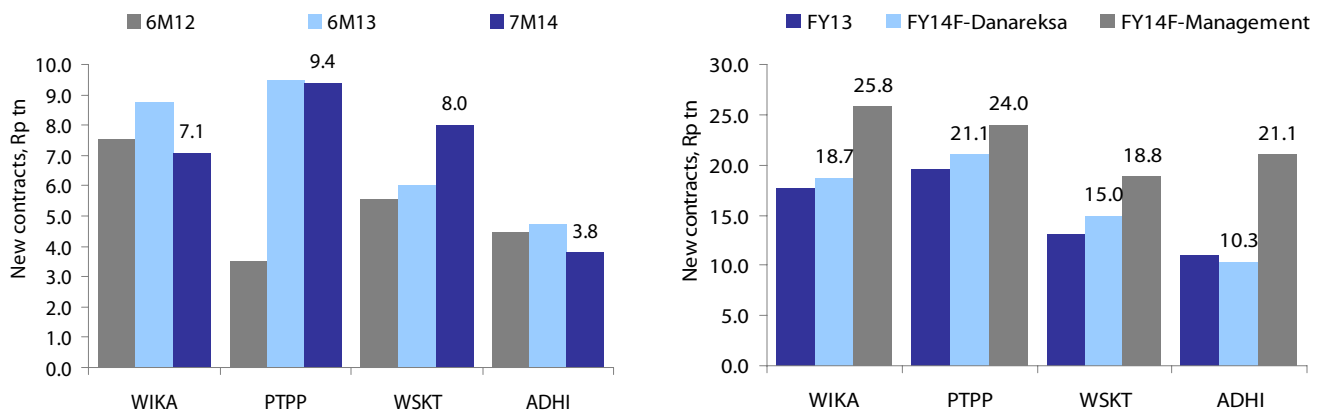
Bridging the gaps to 2015

Earnings seasonality for state-owned contractors remains a challenge in making predictions considering the variation in the contractors' order book balance between government-related projects and private projects. Year-to-date, contractors have still depended mostly on carry-over projects from 2013 to be booked as earnings since new contracts progress still lags behind management expectations.

In 7M14, the four-biggest listed state-owned contractors could only bag a total of Rp28tn of new contracts, or only reaching 18-43% of management full year targets. This amount is flat compared to last year's achievement. Moreover, it is also well below management expectations taking into account seasonality. However, the new contracts progress is still in line with our expectations, as earlier this year, we already expected that the new contracts in 2014 would be flattish due to the fiscal issues and political uncertainty related to the elections which led to the postponement of some major projects.

As a result, the earnings growth in the 1H14 results dropped to the mid-teens - as we had expected. Until year-end, we keep our expectation of flattish new contracts in 2014 and mid-teens growth in earnings, mainly driven by the carry-over contracts from 2013.

Exhibit 7. Year-to-date new contracts progress still lagging behind management expectations



Source: Companies, Danareksa Sekuritas

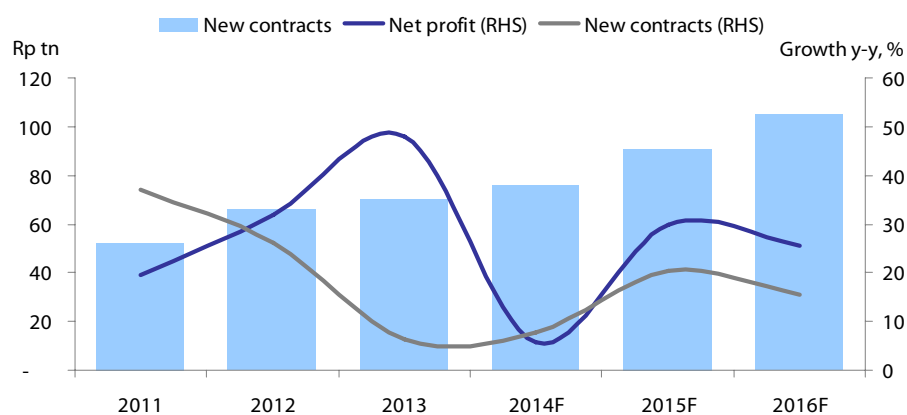
Stronger earnings growth outlook

Meanwhile, for 2015, we are more bullish on the prospects for higher new contracts. We expect a substantial amount of new contracts after 2Q15 contingent on the government raising subsidized fuel prices to create more room for infrastructure development. We believe that state-owned contractors - as long-term partners of the government - stand to benefit. We slightly raise our new contracts target for 2015 by 0.4-13.5%, thus resulting in y-y growth of 15.3-27.7%. As a result, we now expect double-digits growth in earnings in 2015 as we also expect the industry to grow by 29.8% y-y (vs. 5.8% in 2014).

Exhibit 8. Changes in our forecast

(Rp bn)	2013	Current			Previous			Changes, %		
		2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
WIKA IJ										
New contracts	17,731	18,651	22,853	26,216	18,651	22,754	26,102	-	0.4	0.4
Order book	38,709	42,792	53,175	62,084	42,792	53,077	61,894	-	0.2	0.3
Revenue	11,885	13,941	16,805	19,558	13,941	16,782	19,518	-	0.1	0.2
Net profit	570	639	846	1,015	664	803	955	(3.7)	5.4	6.2
PTPP IJ										
New contracts	19,584	21,128	24,369	27,808	21,128	23,672	26,323	-	2.9	5.6
Order book	35,453	43,061	51,329	59,984	43,061	50,217	57,326	-	2.2	4.6
Revenue	11,656	14,517	17,325	20,264	14,932	17,439	19,927	(2.8)	(0.7)	1.7
Net profit	421	494	656	821	562	676	811	(12.1)	(2.9)	1.2
WSKT IJ										
New contracts	13,181	14,996	17,411	19,973	13,272	15,343	17,601	13.0	13.5	13.5
Order book	21,995	25,418	30,494	35,941	23,694	26,923	30,859	7.3	13.3	16.5
Revenue	9,687	10,706	12,710	14,601	10,631	12,101	13,989	0.7	5.0	4.4
Net profit	368	418	521	593	421	479	565	(0.8)	8.8	5.0
ADHI IJ										
New contracts	10,854	10,322	13,183	15,122	10,209	12,983	14,893	1.1	1.5	1.5
Order book	20,072	19,067	20,428	22,885	18,954	20,299	22,728	0.6	0.6	0.7
Revenue	9,800	11,154	11,950	13,388	10,842	11,611	13,001	2.9	2.9	3.0
Net profit	406	325	420	603	410	495	628	(20.7)	(15.2)	(4.1)

Source: Danareksa Sekuritas

Exhibit 9. Stronger earnings growth outlook

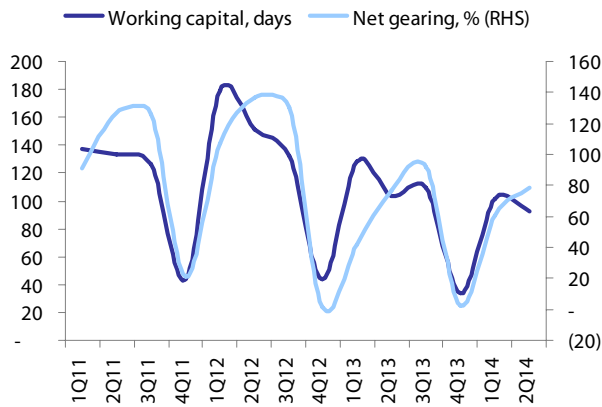
Source: Danareksa Sekuritas

What to expect in the next 12 months?

There are two important matters worthy of scrutiny as state-owned contractors enter the next cycle of Indonesia's infrastructure acceleration: 1) the company's working capital and leverage and 2) the safe level of profitability going forward.

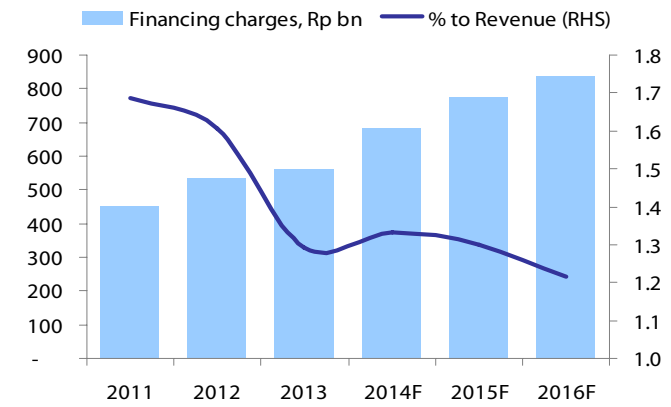
In the past two years, the working capital cycle for state-owned contractors has continued to decline despite growing order books. With the chance of getting higher new contracts post-election, it is very important for the state-owned contractors to manage their working capital efficiently. Previously, higher working capital in the peak quarters would lead to higher interest costs to be paid. However, the working capital cycle has continued to improve (as seen in 2Q14), and thus gearing could be maintained at below 1.0x. In our view, with lower gearing, order book growth will not be constrained by a lack of equity over the near-term.

Exhibit 10. Improvements in working capital...



Source: Companies

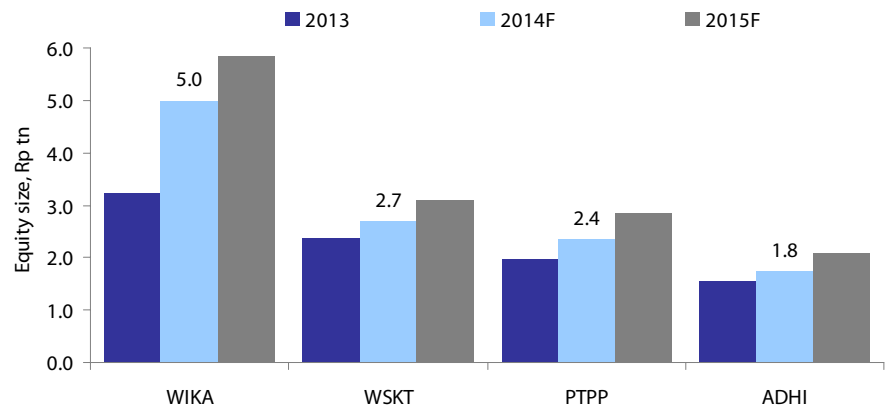
Exhibit 11helped manage interest cost



Source: Companies, Danareksa Sekuritas

Also worth noting is the capacity of the state-owned contractors to get the new contracts. Among the others, WIKA has the largest equity thanks to its business diversification. After WIKA comes WSKT which went public in 2012. Going forward, state-owned contractors will try to enlarge their equity through listings of subsidiaries in an effort to get bigger order books.

Exhibit 12. WIKA has the largest equity among the state-owned contractors



Source: Companies

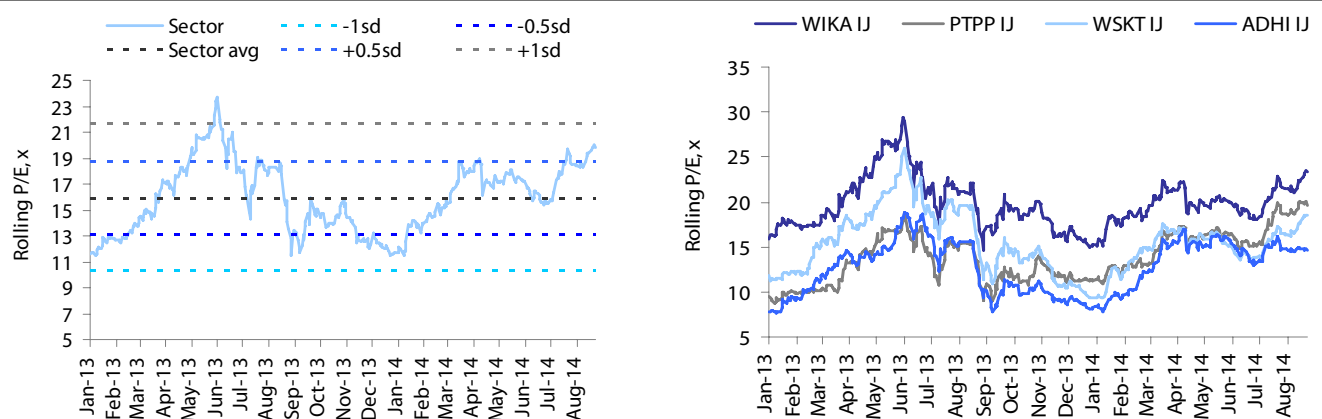
On the profitability side, we have fewer concerns as we believe that the competition on pricing and raw material issues will be less severe going forward. With the expectation of higher infrastructure budgets going forward, the state-owned contractors will be better placed to take on cherry-picked projects that give the highest return. Moreover, diversification into the precast and property businesses will also boost margins. Hence, we expect the margins of state-owned contractors to slightly improve by 10-20bps p.a. going forward.

Valuation: Blue sky scenario

Pricing in expectations of greater infrastructure spending in 2015 as well as the new government's ability to execute some major infrastructure projects and the implementation of the new land bill starting next year, we believe that 2015 will be a rosy year for Indonesian state-owned contractors as the direct proxy for accelerated infrastructure development. Hence, we are bullish on all four state-owned contractors under our coverage, despite their massive outperformance in 2014 (+102% vs. JCI +22%). We forecast sector earnings to grow by 28% CAGR 2014-2016 on the back of rising new contracts that will flow through to a better bottom line.

All in all, we roll over our base Target Prices to 2015 based on a target P/E multiple of 21x – at par with 1sd above the sector mean, which is justified during the sector up-cycle (as seen in early 2013). We are **OVERWEIGHT** on the Indonesian construction sector. Our Top Picks are WIKA – as it offers complete business diversification as the first proxy for accelerated infrastructure development – and PTPP – as it offers the highest earnings visibility growth thanks to its solid new contracts progress and huge reserved contracts. In our view, share price volatility may continue to 1Q15 until the new government produces the revised state budget of 2015.

Exhibit 13. Rolling P/E toward +1sd above sector mean



Source: Bloomberg

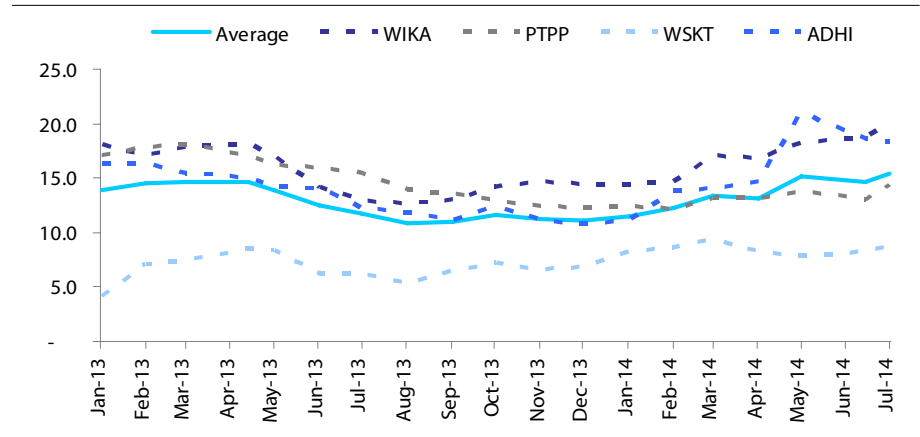
Exhibit 14. Sector valuation guide

Company	Rec.	TP, Rp	Valuation	Implies P/E, x 2015	EPS growth, % 2015	Implies PEG, x 2015
WIKA IJ Equity	BUY	3,250	SOTP	23.6	32.3	0.7
PTPP IJ Equity	BUY	2,950	Mean + 1.0sd	21.8	32.8	0.7
WSKT IJ Equity	BUY	1,150	Mean + 1.0sd	21.3	24.7	0.9
ADHI IJ Equity	BUY	3,700	Mean	15.9	29.2	0.5
Sector	OVERWEIGHT			20.7	29.8	0.7

Source: Danareksa Sekuritas

Interestingly, foreign investors have continued to accumulate shares in state-owned contractors as the direct proxy for the expected acceleration of infrastructure development. At the beginning of the year, foreign holdings stood at 11.5% on average, but trended up to 15.4% as of July 2014. This is slightly higher than when the companies traded at peak valuations back in April 2013.

Exhibit 15. Foreign ownership continues to trend higher



Source: Bloomberg

Wijaya Karya (WIKA IJ. BUY. TP Rp3,250)

We believe WIKA is the closest proxy to Indonesia's infrastructure story. The company has the largest market cap liquidity, most diversified business portfolio, in addition to prudent corporate governance. These strengths justify the company's premium valuation. Until year-end, WIKA will still mostly depend on its huge reserve of contracts from 2013 as well as the good performance from WTON - as seen in the 1H14 results. We continue to value the company using the SOTP valuation of its businesses, arriving at a Target Price of Rp3,250, implying FY15 P/E of 23.6x and PEG of 0.7x. BUY.

Pembangunan Perumahan (PTPP IJ. BUY. TP Rp2,950)

PTPP retains its best new contracts performer status among its peers in 7M14. With the solid new contracts progress, huge carry over projects, and the ongoing New Priok port project, we believe PTPP will continue to deliver the highest earnings growth in 2014 among its peers. On the issue of rising opex post-acquisition of PT PJA, we believe it will normalize along with higher recognition of revenues in 2H14. All in all, we value the company with a target FY15 P/E of 21x – 1sd above the sector mean. Our TP is set at Rp2,950, implying FY15 PEG of 0.7x. Maintain BUY.

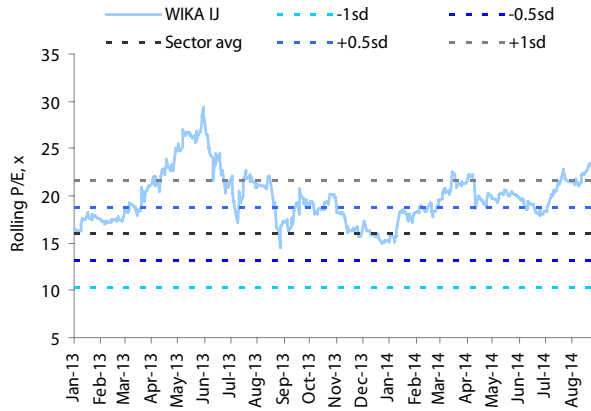
Waskita Karya (WSKT IJ. BUY. TP Rp1,150)

WSKT has delivered on its promise to improve its gross margin - as seen in the 1H14 result. With the company having the second-largest equity in the sector after WIKA, we believe WSKT's balance sheet is strong enough to allow the company to get larger contracts going forward. Meanwhile, with Rp8.0tn of new contracts in 7M14, WSKT was the only state-owned contractor that could grow its new contracts in 2014. We value WSKT using the target FY15 P/E of 21x – at par with 1sd above the sector mean. Our Target Price is set at Rp1,150, implying FY15 PEG of 0.9x. BUY.

Adhi Karya (ADHI IJ. BUY. TP Rp3,700)

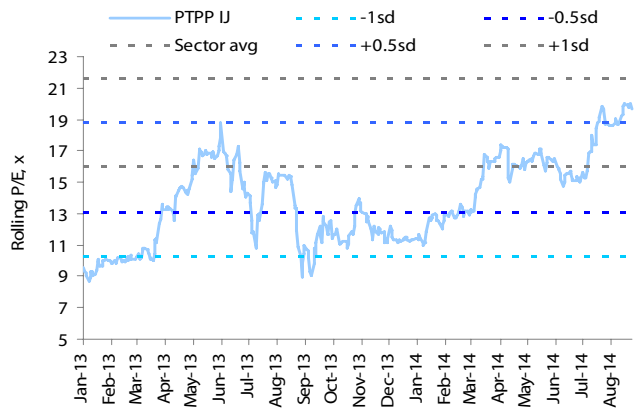
ADHI is still struggling to get new contracts as the company has been more careful in taking on new projects since the Hambalang case. Thus, in 2014, ADHI is relying on its growing property business to support its earnings. Moreover, ADHI's better working capital cycle and low gearing will help the company to reduce its interest costs. All in all, we believe the worst is out of the way for ADHI and that the company can recover in 2015 recording higher new contracts. We value ADHI using FY15 P/E of 16x – at par with the sector mean, to arrive at our Target Price of Rp3,700, implying FY15 PEG of 0.5x. ADHI's undemanding valuation is clearly attractive at the current level, even though the corporate governance issue still lingers. BUY.

Exhibit 16. WIKA rolling P/E



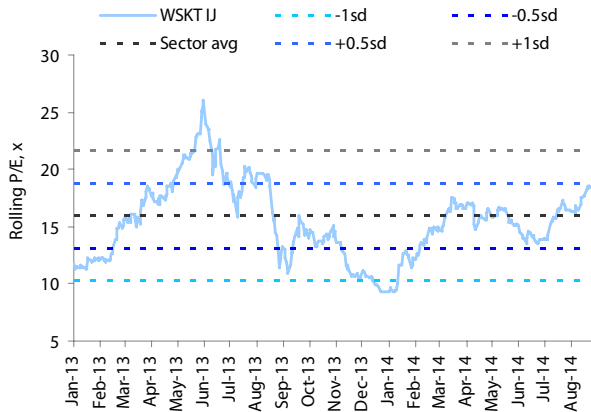
Source: Bloomberg

Exhibit 17. PTPP rolling P/E



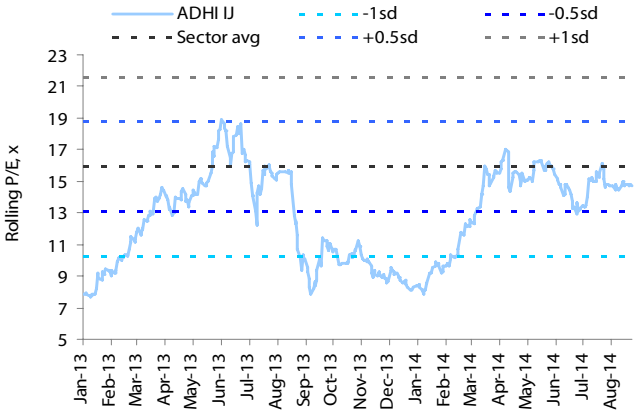
Source: Bloomberg

Exhibit 18. WSKT rolling P/E



Source: Bloomberg

Exhibit 19. ADHI rolling P/E



Source: Bloomberg

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CONSTRUCTION SECTOR/COMPANY UPDATE

BUY

Target Price, Rp 3,250

Upside 14.8%

WIKAIJ/WIKAJK

Last Price, Rp 2,830

No. of shares (mn) 6,107

Market Cap, Rp bn 17,283

(US\$ mn) 1,480

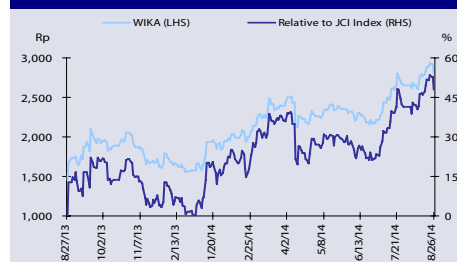
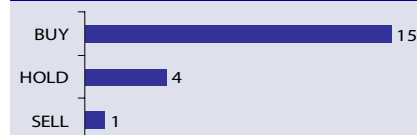
3M T/O, US\$mn 5.0

Last Recommendation

23-Jun-14 HOLD Rp 2,400

19-Jun-14 HOLD Rp 2,400

25-Apr-14 BUY Rp 2,400

WIKAI relative to JCI Index**Market Recommendation****Danareksa vs Consensus**

	Our	Cons	% Diff
Target price, Rp	3,250	2,891	12.4
EPS 2014F, Rp	104	113	-7.9
PER 2014F, x	27.2	24.9	9.2

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

Wijaya Karya**The first proxy for infrastructure**

We believe WIKAI is the closest proxy to Indonesia's infrastructure story. The company has the largest market cap liquidity, most diversified business portfolio, in addition to prudent corporate governance. These strengths justify the company's premium valuation. Until year-end, WIKAI will still mostly depend on its huge reserve of contracts from 2013 as well as the good performance from WTON - as seen in the 1H14 results. We continue to value the company using the SOTP valuation of its businesses, arriving at a Target Price of Rp3,250, implying FY15 P/E of 23.6x and PEG of 0.7x. BUY.

The closest proxy to Indonesia's infrastructure story

WIKAI is a good choice for investors seeking to tap into Indonesia's infrastructure cycle considering it has the largest market cap liquidity in the sector, the most diversified business portfolio, and prudent corporate governance. Currently, general construction remains the core business comprising 60% of the total revenues, with the precast and property businesses offering higher margins and more room for growth. In our view, these strengths justify WIKAI's premium valuation.

Good 1H14 results

Overall, WIKAI's 1H14 result is in line with our expectation. Revenues continued to grow by a modest pace of 11%y-y to Rp5.8tn thanks to its industrial sector growth drivers (WTON and SAKA) with the operating margin maintained at a sound level of 10%. However, the minority expenses from the divestment of WTON slightly hit the bottom line. Going forward, we believe that the increasing portion of general construction revenues in 2H14 will offset the effect of higher minority expenses.

Slow contracts progress continues in 2014

WIKAI only managed to book Rp7.1tn of new contracts in 7M14, flat growth compared to the figures in 6M13. Until year-end, WIKAI shall still depend mostly on its huge reserve of contracts from 2013. Nonetheless, we remain comfortable with our flat new contracts target for this year. For 2015, we believe WIKAI will benefit from its considerable equity which can be leveraged to help the company get more new contracts. The company has almost two times the average state-owned contractors' equity thanks to its business diversification. As seen in the June 2014 figures, WIKAI's net gearing remains in a healthy position at only 7%, also strengthened by the proceeds from WTON's IPO.

Valuation: BUY with TP of Rp3,250

WIKAI currently trades at 21x FY15 P/E, or 1sd above the sector mean. In the past, during the up-cycle, WIKAI could trade at a 20-30% premium to the sector average thanks to its diversified business model and balanced quarterly cash flow. We continue to value the company using the SOTP valuation of its businesses, resulting in a Target Price of Rp3,250, implying FY15 P/E of 23.6x and PEG of 0.7x. BUY.

	2012	2013	2014F	2015F	2016F
Revenue, Rp bn	9,905	11,885	13,941	16,805	19,558
EBITDA, Rp bn	963	1,356	1,678	2,173	2,645
EBITDA Growth, %	33.3	40.8	23.7	29.5	21.7
Net Profit, Rp bn	476	570	639	846	1,015
Core Profit, Rp bn	500	668	743	954	1,129
Core EPS, Rp	82	109	121	156	184
Core EPS Growth, %	25.6	33.0	11.2	28.4	18.3
Net Gearing, %	Net cash	8.9	1.8	7.5	9.4
PER, x	36.3	30.5	27.2	20.5	17.1
Core PER, x	34.6	26.0	23.4	18.2	15.4
PBV, x	6.1	5.4	3.5	3.0	2.5
EV/EBITDA, x	17.7	13.0	10.4	8.2	6.8
Yield, %	0.6	0.7	0.7	0.7	0.8

Exhibit 1. Profit and loss (Rp bn)

	2012	2013	2014F	2015F	2016F
Revenue	9,905	11,885	13,941	16,805	19,558
COGS	8,947	10,562	12,363	14,825	17,222
Gross profit	958	1,322	1,577	1,980	2,336
Income from JO	198	261	324	405	490
Gross profit incl. JO	1,155	1,583	1,901	2,386	2,827
Operating expenses	(285)	(367)	(428)	(520)	(605)
Operating profit	870	1,216	1,473	1,865	2,221
Net interest expenses	0	(40)	(70)	(119)	(146)
Other income (expenses)	(38)	(159)	(166)	(168)	(175)
Pre-tax income	833	1,017	1,238	1,578	1,900
Income tax	(309)	(392)	(464)	(560)	(667)
Minority interest	(47)	(54)	(134)	(172)	(218)
Net profit	476	570	639	846	1,015
Core profit	500	668	743	954	1,129

Source: Company

Exhibit 2. Balance sheet (Rp bn)

	2012	2013	2014F	2015F	2016F
Cash & equivalent	1,532	1,387	1,850	1,325	1,184
Trade receivables	1,348	1,479	1,743	2,101	2,445
Project receivables	2,025	2,564	3,021	3,641	4,238
Inventories	1,143	1,118	1,545	1,853	2,153
Other current assets	1,202	1,446	1,923	2,279	2,632
Total Current Assets	7,251	7,994	10,082	11,199	12,651
LT investments	1,783	2,236	2,684	3,186	3,708
Fixed assets	1,184	1,640	2,552	3,502	4,437
Other assets	803	724	607	489	374
Total Non-current Assets	3,770	4,601	5,843	7,177	8,519
TOTAL ASSETS	11,021	12,595	15,924	18,376	21,170
ST loans	235	278	800	1,300	1,550
Trade payables	2,557	3,089	3,606	4,324	5,023
Current portion of LT loans	87	124	544	41	39
Other current liabilities	3,702	3,808	4,430	5,312	6,171
Total Current Liabilities	6,580	7,298	9,381	10,977	12,784
LT loans	934	1,271	595	424	236
Other liabilities	672	799	945	1,145	1,340
Total Non-current Liabilities	1,606	2,070	1,540	1,569	1,576
Minority interest	240	278	412	584	802
Capital stock	1,367	1,317	2,492	2,492	2,492
Retained earnings	1,204	1,202	1,670	2,324	3,086
Other equity	24	429	429	429	429
Total Equity	2,834	3,227	5,004	5,830	6,810
TOTAL LIABILITIES AND EQUITY	11,021	12,595	15,924	18,376	21,170

Source: Company

Exhibit 3. Cash flow (Rp bn)

	2012	2013	2014F	2015F	2016F
Pretax profit	833	1,017	1,238	1,578	1,900
Minority interest	(47)	(54)	(134)	(172)	(218)
Tax	(343)	(630)	(508)	(625)	(728)
Depreciation	93	140	205	308	423
Changes in W/C	354	33	(249)	68	81
Others	(53)	127	146	200	196
Cash Flow from Operation	836	632	697	1,357	1,654
Capex	(521)	(597)	(1,117)	(1,257)	(1,358)
Investments	(970)	(420)	(522)	(431)	(462)
Cash Flow from Investing	(1,491)	(1,017)	(1,639)	(1,688)	(1,820)
ST loans	104	44	522	500	250
Current portion of LT loans	11	37	421	(504)	(1)
LT loans	680	337	(676)	(171)	(188)
Equity	254	(40)	1,309	172	218
Dividend & CSR	(117)	(137)	(171)	(192)	(254)
Cash Flow from Financing	932	240	1,405	(194)	25
Change in Cash	277	(145)	464	(525)	(141)

Source: Company

Exhibit 4. Key ratios

	2012	2013	2014F	2015F	2016F
Profitability, %					
Gross margin - excl. JO	9.7	11.1	11.3	11.8	11.9
Gross margin - incl. JO	11.7	13.3	13.6	14.2	14.5
Opex to sales	2.9	3.1	3.1	3.1	3.1
Operating margin	8.8	10.2	10.6	11.1	11.4
EBITDA margin	9.7	11.4	12.0	12.9	13.5
Net margin	4.8	4.8	4.6	5.0	5.2
Core margin	5.0	5.6	5.3	5.7	5.8
ROAE	18.8	18.8	15.5	15.6	16.1
ROAA	4.9	4.8	4.5	4.9	5.1
Leverage					
Debt to equity, %	44.3	51.8	38.8	30.3	26.8
Net debt to equity, %	net cash	8.9	1.8	7.5	9.4
Interest coverage, x	24.0	19.0	15.2	12.9	13.4
Turnover, days					
Trade receivables	49	45	45	45	45
Inventories	46	38	45	45	45
Trade payables	103	105	105	105	105
Growth, %					
Revenue	27.9	20.0	17.3	20.5	16.4
Operating profit	33.1	39.8	21.2	26.6	19.1
EBITDA	33.3	40.8	23.7	29.5	21.7
Net profit	34.3	19.7	12.1	32.3	20.0
Core profit	31.1	33.7	11.2	28.4	18.3

Source: Company

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BUY

Target Price, Rp 2,950

Upside 21.6%

PTPP IJ/PTPP JK

Last Price, Rp 2,425

No. of shares (bn) 4,842

Market Cap, Rp bn 11,742

(US\$ mn) 1,005

3M T/O, US\$mn 1.3

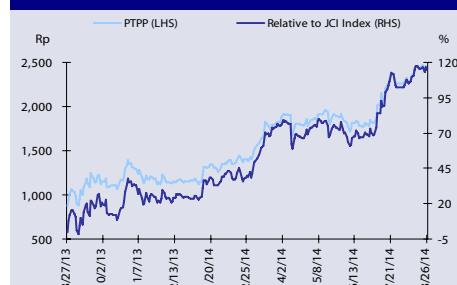
Last Recommendation

24-Jul-14 BUY Rp 2,600

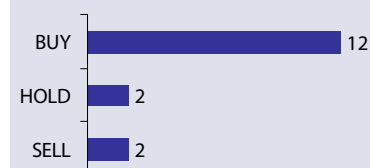
18-Jul-14 BUY Rp 2,600

19-Jun-14 BUY Rp 2,600

PTPP relative to JCI Index



Market Recommendation



Danareksa vs Consensus

	Our	Cons	% Diff
Target price, IDR	2,950	2,577	14.5
EPS 2014F, IDR bn	102	112	-8.9
PE 2014F, x	23.8	21.7	9.6

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Pembangunan Perumahan

Sustained growth

PTPP retains its best new contracts performer status among its peers in 7M14. With the solid new contracts progress, huge carry over projects, and the ongoing New Priok port project, we believe PTPP will continue to deliver the strongest earnings growth in 2014 among its peers. On the issue of rising opex post-acquisition of PT PJA, we believe it will normalize along with higher recognition of revenues in 2H14. All in all, we value the company with a target FY15 P/E of 21x – 1sd above the sector mean. Our TP is set at Rp2,950, implying FY15 PEG of 0.7x. Maintain BUY.

Strongest earnings delivery

Year-to-date, PTPP has remained as the best new contracts achiever among its peers recording Rp9.4tn of new contracts. Even though this figure is flat over last year's figure, we believe the post-elections confidence will help the company to bag a substantial amount of government-related projects in 2H14. Moreover, with the multi-year New Priok port project in its order book, PTPP continue to enjoy sizeable annual revenues recognition as well as the solid margin from this project. Overall, PTPP is the contractor with the highest earnings growth visibility in our assessment.

1H14 results surprise in opex; will normalize in 2H14

In 1H14, PTPP revenues grew a modest 10%y-y while the net profit only edged up 2%y-y as the company booked significantly higher opex due to the consolidation of PT PJA. The company spent capex of Rp335bn in 1H14, which includes the consolidation of the newly acquired subsidiary named PT Prima Jasa Aldodua (PJA), the heavy equipment producer which will support the company's core business. As a result, the depreciation expenses increased significantly to Rp21bn, thus pushing up the opex to sales ratio to 3.6% in 1H14. We have already priced in this figure into our model and we believe the opex to sales ratio will normalize at 2.1% by year-end along with higher recognition of revenues in 2H14.

Stretched balance sheet, but there is still some room to grow

PTPP's 1H14 working capital cycles of five months was unchanged from last year's, a normal figure given the seasonality. As a result, the company's net gearing as of June 2014 remained elevated at 1.5x, a reflection of the company's working capital needs for its huge order book. With the current working capital cycle and equity size, PTPP still has some room to gear up further to add to its order book.

Maintain BUY with TP of Rp2,950

With solid new contracts progress and huge carry over projects, we believe PTPP will continue to deliver the highest earnings growth for this year. All in all, we value the company with a target FY15 P/E of 21x – 1sd above the sector mean. Our target valuation is justified by strong earnings growth, high earnings visibility, and the company's consistency in winning new contracts. Our TP is set at Rp2,950, implying FY15 PEG of 0.7x. Maintain BUY.

Year end to Dec	2012	2013	2014F	2015F	2016F
Revenue, Rp bn	8,004	11,656	14,517	17,325	20,264
EBITDA, Rp bn	860	1,188	1,518	1,803	2,130
EBITDA Growth, %	29.6	38.2	27.8	18.7	18.2
Net Profit, Rp bn	310	421	494	656	821
Core Profit, Rp bn	358	486	557	735	916
Core EPS, Rp	74	100	115	152	189
Core EPS Growth, %	28.8	35.6	14.7	31.9	24.7
Net Gearing, %	29.7	(5.5)	31.3	24.3	15.7
PER, x	37.9	27.9	23.8	17.9	14.3
Core PER, x	32.8	24.2	21.1	16.0	12.8
PBV, x	7.1	5.9	5.0	4.1	3.4
EV/EBITDA, x	14.2	9.8	8.2	6.9	5.8
Yield, %	0.8	1.1	1.3	1.7	2.1

Exhibit 1. Profit & Loss, Rp bn

	2012	2013	2014F	2015F	2016F
Revenues	8,004	11,656	14,517	17,325	20,264
COGS	7,149	10,383	12,956	15,440	18,037
Gross profit	855	1,273	1,561	1,885	2,227
Income from JO	142	94	98	113	129
Gross profit incl. JO	996	1,367	1,659	1,999	2,356
Operating expenses	144	200	304	356	416
Operating profit	853	1,168	1,355	1,643	1,941
Net interest	(222)	(283)	(307)	(327)	(346)
Other income (expenses)	(85)	(118)	(119)	(141)	(165)
Pre-tax income	545	767	929	1,176	1,429
Income tax	(236)	(346)	(436)	(520)	(608)
Minority interest	(0)	(0)	(0)	(0)	(0)
Net profit	310	421	494	656	821
Core profit	358	486	557	735	916

Source: Company, Danareksa Sekuritas

Exhibit 2. Balance Sheet, Rp bn

	2012	2013	2014F	2015F	2016F
Cash & equivalent	1,303	2,397	579	604	854
Trade receivables	1,339	1,710	2,154	2,571	3,007
Project receivables	2,957	4,679	5,752	6,864	8,029
Inventories	1,566	1,777	2,324	2,769	3,235
Other current assets	1,023	1,339	1,586	1,859	2,144
Total Current Assets	8,189	11,902	12,395	14,667	17,270
LT investments	282	349	435	516	591
Fixed assets	73	142	467	432	388
Other assets	7	24	25	25	25
Total Non-current Assets	362	514	926	972	1,003
TOTAL ASSETS	8,551	12,416	13,321	15,640	18,273
ST loans	1,116	945	500	600	700
Trade payables	4,244	6,300	7,866	9,374	10,951
Current portion of LT loans	150	530	115	-	-
Other current liabilities	523	1,001	983	1,162	1,350
Total Current Liabilities	6,032	8,776	9,463	11,136	13,001
LT loans	530	813	700	700	700
Other liabilities	333	842	805	943	1,087
Total Non-current Liabilities	863	1,655	1,505	1,643	1,787
Minority interest	(0)	1	1	1	1
Capital stock	946	947	947	947	947
Retained earnings	709	1,037	1,405	1,913	2,537
Total Equity	1,656	1,985	2,353	2,860	3,485
TOTAL LIABILITIES AND EQUITY	8,551	12,416	13,321	15,640	18,273

Source: Company and Danareksa Sekuritas

Exhibit 3. Cash Flow, Rp bn

	2012	2013	2014F	2015F	2016F
Pretax profit	545	767	929	1,176	1,429
Minority interest	(0)	(0)	(0)	(0)	(0)
Tax	(407)	(489)	(509)	(605)	(697)
Depreciation	4	7	146	135	158
Changes in W/C	(399)	(256)	(563)	(544)	(571)
Change in other assets	111	843	(200)	207	216
Cash Flow from Operation	(146)	872	(197)	369	536
Capex	(1)	(76)	(471)	(100)	(115)
Investments	(179)	(102)	(50)	(82)	(75)
Cash Flow from Investing	(180)	(178)	(522)	(182)	(189)
ST loans	204	(171)	(445)	100	100
Current portion of LT loans	(181)	380	(415)	(115)	-
LT loans	380	283	(113)	-	-
Equity	(0)	1	-	-	-
Dividend & CSR	(79)	(93)	(126)	(148)	(197)
Cash Flow from Financing	323	400	(1,099)	(163)	(97)
Change in Cash	(3)	1,094	(1,817)	24	250

Source: Company, Danareksa Sekuritas

Exhibit 4. Key Ratios

	2012	2013	2014F	2015F	2016F
Profitability, %					
Gross margin - excl. JO	10.7	10.9	10.8	10.9	11.0
Gross margin - incl. JO	12.4	11.7	11.4	11.5	11.6
Operating margin	10.7	10.0	9.3	9.5	9.6
EBITDA margin	10.7	10.2	10.5	10.4	10.5
Net margin	3.9	3.6	3.4	3.8	4.1
Core margin	4.5	4.2	3.8	4.2	4.5
ROAE	20.1	23.1	22.8	25.2	25.9
ROAA	4.0	4.0	3.8	4.5	4.8
Leverage					
Debt to equity, %	108.4	115.2	55.9	45.4	40.2
Net debt to equity, %	29.7	Net cash	31.3	24.3	15.7
Interest coverage, x	3.5	4.0	4.2	4.9	5.5
Turnover, days					
Trade receivables	60	53	53	53	53
Inventories	79	62	65	65	65
Trade payables	214	218	219	219	219
Growth, %					
Revenue	28.4	45.6	24.5	19.3	17.0
Operating profit	30.2	37.0	16.1	21.3	18.1
EBITDA	29.6	38.2	27.8	18.7	18.2
Net profit	28.9	35.9	17.4	32.8	25.2
Core profit	28.8	35.6	14.7	31.9	24.7

Source: Company, Danareksa Sekuritas

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CONSTRUCTION SECTOR/COMPANY UPDATE

BUY

Target Price, Rp 1,150
Upside 30.6%

WSKTJ/WSKT.JK

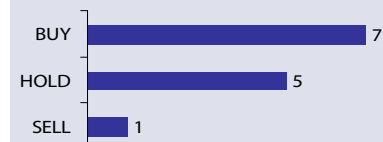
Last Price, Rp 880
No. of shares (mn) 9,632

Market Cap, Rp bn 8,476

(US\$ mn) 726
3M T/O, US\$mn 3.8

Last Recommendation

23-Jun-14	BUY	Rp 700
19-Jun-14	HOLD	Rp 700
22-Nov-13	HOLD	Rp 470

WSKT relative to JCI Index**Market Recommendation****Consensus**

	Our	Cons	% Diff
Target price, IDR	1,150	910	26.4
EPS 2014F, IDR	43.3	44.3	-2.3
PE 2014F, x	20.3	19.8	2.5

Waskita Karya**Solid progress**

WSKT has delivered on its promise to improve its gross margin - as seen in the 1H14 result. With the company having the second-largest equity in the sector after WIKA, we believe WSKT's balance sheet is strong enough to allow the company to get bigger contracts going forward. Meanwhile, with Rp8.0tn of new contracts in 7M14, WSKT was the only state-owned contractor that could grow its new contracts in 2014. We value WSKT using the target FY15 P/E of 21x - at par with 1sd above the sector mean. Our Target Price is set at Rp1,150, implying FY15 PEG of 0.9x. BUY.

The improvement in gross margin has been maintained

WSKT has delivered on its promise to improve its gross margin - as seen in the 1H14 result in which the company managed to maintain its gross margin before JO profits at above 9%. This has been the case since 4Q13 and, by year-end, the management targets a gross margin of 10%. In our view, this should be achievable given the company's cherry-picking approach toward selecting projects. Furthermore, the company's expansion into the precast and property segments also bode well for margins expansion going forward.

Solid results with strong order books achievement

WSKT's 1H14 result is in line with the company's seasonality. Revenues grew 6%y-y to Rp3.2tn with net profits of Rp61bn (+8%y-y) in 1H14. Gross margins are improving as the company could maintain its gross margin above 9% in 1Q-2Q14. Worth noting, WSKT booked one-time impairment from PT BPD Riau which elevated the opex during the period. Meanwhile, WSKT is the only state-owned contractor which has been able to grow its new contracts in 2014 with achievement of Rp8.0tn in 7M14 - in line with the seasonality. Given the company has the second-largest equity in the sector after WIKA, we believe WSKT's balance sheet is strong enough to allow the company to get larger contracts going forward. As reflected in its net gearing of only 69% in June 2014, we believe that WSKT has greater capacity than other SOEs to stretch its balance sheet and boost its order book once market confidence strengthens in 2015.

Toll roads as the alternative investment

WSKT has plans to build five toll roads over the next five years, namely: 1) Pejagan-Pemalang, 2) Depok-Antasari, 3) Medan-Tebing Tinggi, 4) Legundi-Bunder, and 5) Penajam-Balikpapan. WSKT plans to limit its ownership to a minority stake in order to get the construction works. As this plan is still in the initial stage, we haven't included any potential upside from the envisaged toll road investments.

A BUY

All in all, we value WSKT using the target FY15 P/E of 21x - at par with 1sd above the sector mean. This is justified, we believe, given: 1) WSKT's improving gross margin, 2) the better-than-expected new contracts progress, and 3) WSKT's status as having the second-largest equity in the industry. Our Target Price is set at Rp1,150, implying FY15 PEG of 0.9x. BUY.

	2012	2013	2014F	2015F	2016F
Revenue, Rp bn	8,808	9,687	10,706	12,710	14,601
EBITDA, Rp bn	574	725	847	1,054	1,217
EBITDA Growth, %	21.7	26.3	16.8	24.4	15.5
Net Profit, Rp bn	254	368	418	521	593
Core Profit, Rp bn	222	363	417	520	592
Core EPS, Rp	23	38	43	54	61
Core EPS Growth, %	32.5	63.2	15.0	24.8	13.8
Net Gearing, %	Net cash	21.1	7.3	9.9	10.3
PER, x	33.4	23.0	20.3	16.3	14.3
Core PER, x	38.1	23.4	20.3	16.3	14.3
PBV, x	4.2	3.6	3.2	2.7	2.4
EV/EBITDA, x	14.3	12.4	10.2	8.3	7.3
Yield, %	-	0.2	1.3	1.5	1.8

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

Exhibit 1. Profit & Loss, Rp bn

	2012	2013F	2014F	2015F	2016F
Revenue	8,808	9,687	10,706	12,710	14,601
COGS	8,076	8,776	9,635	11,431	13,119
Gross profit	732	911	1,071	1,280	1,482
Income from JO	93	102	133	163	182
Gross profit incl. JO	825	1,012	1,203	1,443	1,664
Operating expenses	(285)	(340)	(431)	(486)	(565)
Operating profit	540	672	773	957	1,099
Net interest	(138)	(70)	(88)	(119)	(143)
Other income (expenses)	57	9	1	1	1
Pre-tax income	460	611	685	839	958
Income tax	(206)	(243)	(268)	(318)	(365)
Net profit	254	368	418	521	593
Core profit	222	363	417	520	592

Source: Company, Danareksa Sekuritas

Exhibit 2. Balance Sheet, Rp bn

	2012	2013F	2014F	2015F	2016F
Cash & equivalent	2,184	1,120	1,652	1,569	1,611
Trade receivables	1,464	1,710	1,833	2,177	2,500
Project receivables	3,267	3,944	4,208	4,996	5,739
Inventories	413	292	357	424	486
Other current assets	462	715	681	804	920
Total Current Assets	7,790	7,781	8,732	9,969	11,257
LT investments	318	570	504	619	752
Fixed assets	240	415	566	619	660
Other assets	19	21	26	26	26
Total Non-current Assets	577	1,007	1,096	1,264	1,439
TOTALASSETS	8,366	8,788	9,828	11,233	12,696
ST loans	1,172	875	100	200	300
Trade payables	2,003	2,291	2,494	2,958	3,395
Current portion of LT loans	-	-	75	-	675
Other current liabilities	2,117	2,261	2,473	2,933	3,365
Total Current Liabilities	5,292	5,427	5,142	6,091	7,735
LT loans	747	748	1,674	1,674	1,000
Other liabilities	320	230	321	381	437
Total Non-current Liabilities	1,067	978	1,995	2,056	1,437
Capital stock	1,794	1,794	1,794	1,794	1,794
Retained earnings	215	563	870	1,266	1,703
Other equity	(2)	26	26	26	26
Total Equity	2,007	2,383	2,691	3,087	3,523
TOTAL LIABILITIES AND EQUITY	8,366	8,788	9,828	11,233	12,696

Source: Company, Danareksa Sekuritas

Exhibit 3. Cash Flow, Rp bn

	2012	2013F	2014F	2015F	2016F
Pretax profit	460	611	685	839	958
Tax	(159)	(462)	(205)	(381)	(425)
Depreciation	34	53	74	97	118
Changes in W/C	(495)	(497)	20	(273)	(261)
Cash Flow from Operation	(160)	(295)	575	282	390
Capex	(81)	(228)	(225)	(150)	(159)
Investments	(5)	(253)	66	(115)	(134)
Cash Flow from Investing	(86)	(481)	(159)	(265)	(292)
ST loans	(33)	(297)	(775)	100	100
Current portion of LT loans	-	-	75	(75)	675
LT loans	747	1	926	0	(674)
Equity	1,140	29	-	-	-
Dividend	-	(20)	(110)	(125)	(156)
Cash Flow from Financing	1,854	(288)	116	(100)	(56)
Change in Cash	1,607	(1,064)	532	(83)	42

Source: Company, Danareksa Sekuritas

Exhibit 4. Key Ratios

	2012	2013F	2014F	2015F	2016F
Profitability, %					
Gross margin - excl. JO	8.3	9.4	10.0	10.1	10.1
Gross margin - incl. JO	9.4	10.5	11.2	11.4	11.4
Operating margin	6.1	6.9	7.2	7.5	7.5
EBITDA margin	6.5	7.5	7.9	8.3	8.3
Net margin	2.9	3.8	3.9	4.1	4.1
Core margin	2.5	3.7	3.9	4.1	4.1
ROAE	19.3	16.8	16.5	18.0	17.9
ROAA	3.8	4.3	4.5	4.9	5.0
Leverage					
Debt to equity, %	95.6	68.1	68.7	60.7	56.0
Net debt to equity, %	Net cash	21.1	7.3	9.9	10.3
Interest coverage, x	3.2	6.9	6.5	6.2	6.3
Turnover, days					
Trade receivables	60	64	62	62	62
Inventories	18	12	13	13	13
Trade payables	89	94	93	93	93
Growth, %					
Revenue	21.1	10.0	10.5	18.7	14.9
Operating profit	20.3	24.5	14.9	23.9	14.9
EBITDA	21.7	26.3	16.8	24.4	15.5
Net profit	47.7	44.9	13.5	24.7	13.8
Core profit	32.5	63.2	15.0	24.8	13.8

Source: Company, Danareksa Sekuritas

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CONSTRUCTION SECTOR/COMPANY UPDATE

BUY

Target Price, Rp **3,700**
Upside **21.5%**

ADHIJ/ADHIJK

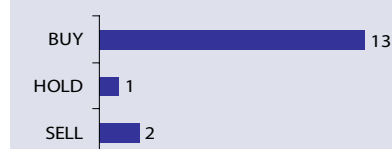
Last Price, Rp 3,045
No. of shares (bn) 1,801

Market Cap, Rp bn **5,484**

(US\$ mn) 470
3M T/O, US\$mn 3.2

Last Recommendation

23-Jul-14 HOLD Rp 2,900
19-Jun-14 BUY Rp 2,900
09-Jan-14 HOLD Rp 1,830

ADHI relative to JCI Index**Market Recommendation****Danareksa vs Consensus**

	Our	Cons	% Diff
Target price, IDR	3,700	3,580	3.4
EPS 2014F, IDR	181	268	-32.4
PE 2014F, x	16.9	11.4	48.2

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Direct and Bloomberg.

Adhi Karya**Building from a low base**

ADHI is still struggling to get new contracts as the company has been more careful in taking on new projects since the Hambalang case. Thus, in 2014, ADHI is relying on its growing property business to support its earnings. Moreover, ADHI's better working capital cycle and low gearing will help the company to reduce its interest costs. All in all, we believe the worst is out of the way for ADHI and that the company can recover in 2015 recording higher new contracts. We value ADHI using FY15 P/E of 16x – at par with the sector mean, to arrive at our Target Price of Rp3,700, implying FY15 PEG of 0.5x. ADHI's undemanding valuation is clearly attractive at the current level, even though the corporate governance issue still lingers. BUY.

Unexciting 1H14 results as expected, relying on its property business

ADHI's net profits dropped 12%y-y in 1H14 to Rp60bn on the back of slower revenues growth as well as lower profitability margins. Construction services only grew 2%y-y due to lower carry over contracts and a lack of new contracts in 2014. Furthermore, the EPC business also contributed less and incurred losses. On the bright side, ADHI's property business posted strong growth of 71%y-y with a healthy 31.4% gross margin in 1H14.

Order books still lagging behind

ADHI only booked Rp3.8tn of new contracts in 7M14, or flat compared to last year's performance. This figure is far below the management's full year target of Rp21tn. We, however, expect the company to book Rp10tn of new contracts this year as we haven't included any potential upside from ADHI's three planned monorail projects. Nevertheless, with low carry over contracts and modest new contracts performance this year, ADHI's earnings may deteriorate further in 2014. Hence, 2014 will be a low base for the company from which to recover. In 2015, we expect the company to record higher new contracts on the back of stronger infrastructure spending.

The best working capital cycle

ADHI's working capital cycle continued to improve to only 16 days in 1H14 from 47 days in 1H13. In our view, this stems from ADHI's current low order books and its project mix which is tilted towards less government projects. As a result, the company's net gearing only rose to 88% as of June 2014. In our view, ADHI's better working capital cycle and low gearing will help the company to reduce its interest costs to cushion its profitability.

Valuation: Attractive at the current price

All in all, we believe the worst is out of the way for ADHI and that the company can recover in 2015 recording higher new contracts on the back of a pick-up in infrastructure spending. We value ADHI using FY15 P/E of 16x – at par with the sector mean, to arrive at our Target Price of Rp3,700, implying FY15 PEG of 0.5x. ADHI's undemanding valuation (13x FY15 P/E) is clearly attractive at the current level, even though the corporate governance issue still lingers. BUY.

Year end to Dec	2012	2013	2014F	2015F	2016F
Revenue, Rp bn	7,628	9,800	11,154	11,950	13,388
EBITDA, Rp bn	799	934	848	1,014	1,247
EBITDA Growth, %	42.2	16.8	(9.2)	19.6	22.9
Net Profit, Rp bn	212	406	325	420	603
Core Profit, Rp bn	357	480	363	474	663
Core EPS, Rp	198	266	201	263	368
Core EPS Growth, %	35.6	34.4	(24.4)	30.9	39.7
Net Gearing, %	Net cash	Net cash	Net cash	Net cash	Net cash
PER, x	25.9	13.5	16.9	13.1	9.1
Core PER, x	15.4	11.4	15.1	11.6	8.3
PBV, x	4.6	3.5	3.1	2.6	2.1
EV/EBITDA, x	6.9	5.6	5.9	4.7	3.5
Yield, %	1.0	0.8	2.2	1.8	2.3

Exhibit 1. Profit & Loss, Rp bn

	2012	2013	2014F	2015F	2016F
Revenue	7,628	9,800	11,154	11,950	13,388
COGS	6,672	8,606	9,953	10,565	11,727
Gross profit	956	1,193	1,201	1,386	1,661
Income from JO	87	55	33	43	48
Gross profit incl. JO	1,043	1,248	1,235	1,429	1,709
Operating expenses	(251)	(329)	(406)	(435)	(490)
Operating profit	792	919	829	994	1,219
Net interest expenses	(81)	(75)	(91)	(111)	(108)
Other income (expenses)	(288)	(129)	(75)	(100)	(100)
Pre-tax income	423	714	663	783	1,010
Income tax	(210)	(306)	(335)	(359)	(402)
Minority interest	(2)	(2)	(3)	(4)	(6)
Net profit	212	406	325	420	603
Core profit	357	480	363	474	663

Source: Company, Danareksa Sekuritas

Exhibit 2. Balance Sheet, Rp bn

	2012	2013	2014F	2015F	2016F
Cash & equivalent	949	1,940	2,102	2,362	2,753
Trade receivables	1,343	1,503	1,709	1,831	2,051
Project receivables	3,600	3,655	4,266	4,571	5,120
Inventories	117	162	183	194	215
Other current assets	1,274	1,840	1,927	1,912	1,961
Total Current Assets	7,283	9,099	10,188	10,870	12,102
LT investments	361	279	301	303	309
Fixed assets	187	271	352	446	548
Other assets	40	72	72	72	72
Total Non-current Assets	589	621	725	820	928
TOTAL ASSETS	7,872	9,721	10,912	11,691	13,029
ST loans	201	212	100	100	100
Trade payables	4,277	4,767	5,543	5,883	6,530
Current portion of LT loans	-	-	-	-	500
Other current liabilities	1,375	1,562	1,884	1,993	2,202
Total Current Liabilities	5,853	6,542	7,526	7,977	9,332
LT loans	748	1,497	1,497	1,498	999
Other liabilities	91	134	134	134	134
Total Non-current Liabilities	839	1,631	1,631	1,632	1,133
Minority interest	7	9	13	17	23
Capital stock	230	230	230	230	230
Retained earnings	944	1,307	1,511	1,834	2,310
Other equity	0	2	2	2	2
Total Equity	1,181	1,548	1,755	2,082	2,565
TOTAL LIABILITIES AND EQUITY	7,872	9,721	10,912	11,691	13,029

Source: Company and Danareksa Sekuritas

Exhibit 3. Cash flow (Rp bn)

	2012	2013	2014F	2015F	2016F
Pretax profit	423	714	663	783	1,010
Minority interest	(2)	(2)	(3)	(4)	(6)
Tax	(166)	(422)	(335)	(378)	(435)
Depreciation	7	15	19	21	28
Changes in W/C	290	269	(38)	(85)	(121)
Change in other assets	(13)	202	123	37	75
Cash Flow from Operation	540	777	430	374	551
Capex	26	(99)	(100)	(114)	(130)
Investments	(405)	(408)	63	93	89
Cash Flow from Investing	(379)	(507)	(37)	(22)	(41)
ST loans	36	11	(112)	-	-
Current portion of LT loans	(500)	-	-	-	500
LT loans	720	749	0	1	(499)
Equity	38	4	3	4	6
Dividend & CSR	(59)	(42)	(122)	(98)	(126)
Cash Flow from Financing	236	722	(230)	(93)	(119)
Change in Cash	397	991	163	260	391

Source: Company, Danareksa Sekuritas

Exhibit 4. Ratios

	2012	2013	2014F	2015F	2016F
Profitability, %					
Gross margin - excl. JO	12.5	12.2	10.8	11.6	12.4
Gross margin - incl. JO	13.7	12.7	11.1	12.0	12.8
Operating margin	10.4	9.4	7.4	8.3	9.1
EBITDA margin	10.5	9.5	7.6	8.5	9.3
Net margin	2.8	4.1	2.9	3.5	4.5
Core margin	4.7	4.9	3.3	4.0	5.0
ROAE	19.5	29.7	19.7	21.9	25.9
ROAA	3.0	4.6	3.2	3.7	4.9
Leverage					
Debt to equity, %	80.3	110.4	91.0	76.7	62.3
Net debt to equity, %	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage, x	9.2	8.5	5.7	6.9	8.4
Turnover, days					
Trade receivables	63	55	55	55	55
Inventories	6	7	7	7	7
Trade payables	231	199	200	200	200
Growth, %					
Revenue	13.9	28.5	13.8	7.1	12.0
Operating profit	42.5	15.9	(9.8)	19.9	22.6
EBITDA	42.2	16.8	(9.2)	19.6	22.9
Net profit	16.2	91.9	(19.9)	29.2	43.4
Core profit	35.6	34.4	(24.4)	30.9	39.7

Source: Company and Danareksa Sekuritas

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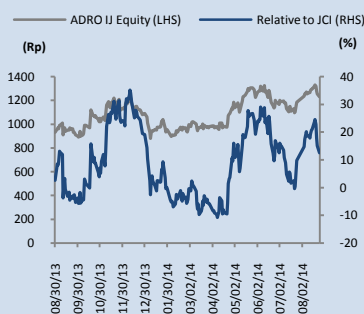
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BUY

Target Price, Rp	1,450
Upside	8.21%
ADRO IJ/ADRO.JK	
Last Price, Rp	1,340
No. of shares (bn)	31.9
Market Cap, Rpbn	42,861
(US\$ mn)	3,669
3M T/O, US\$mn	5.8

Last Recommendation

11-Jul-14 BUY Rp1,450

Company relative to JCI Index**1H14 Result, A/F, % (ABOVE)**

	1H14, US\$ mn	A/F, %
Revenue	1,693	49
EBITDA	513	58
Net profit	168	65

Consensus

	Our	Cons	% Diff
Target Price, IDR	1,450	1,276	14
EPS 2014F, IDR	0.01	0.01	-11
PE 2014F, x	15.7	12.1	29

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

COMPANY RESULT

Adaro Energy**Continue on cost efficiency amid unfavorable coal prices**

Despite higher revenue by 7% yoy, Adaro Energy (ADRO) reported a decline in net profit by 32% yoy to US\$168mn in 1H14. This was mainly attributable to one-time non cash gain from the acquisition of Balangan worth of US\$146mn booked in 1H13. While revenue was within our expectation, net profit was still above our expectation as a result of lower-than expected on the expenses. As the largest single-concession coal producer in Indonesia, which gives large economies of scale and vertically integrated business model to create better cost control, we maintain BUY recommendation with target price of Rp1,450, based on DCF valuation with WACC of 9.8%. Our target price implies 16x 2015F PE.

Lower net profit on one time gain on the Balangan acquisition on 1H13

Despite the company reported higher revenue by 7% yoy, Adaro Energy (ADRO) reported a decline in net profit by 32% yoy to US\$168mn in 1H14 due to one-time non cash gain from the acquisition of Balangan worth of US\$146mn booked in 1H13. Core net profit, exclude a non cash gain from Balangan acquisition, however, jumped by 18% yoy. With higher revenue and maintain COGS level, the company managed to improve its gross margin to 25.6% in 1H14 from 20.8% in 1H13. On the quarterly basis, net profit also went down by 69% qoq to US\$40mn in 2Q14 due to lower ASP (-4% qoq) and higher cash cost of production (ex royalty) by 12% qoq as a result of rising stripping ratio by 20% qoq.

Managed to lower cash cost at lower than of company's target.

The company managed to lower cash cost (ex royalty) by 13% yoy to US\$31.7/tons in 1H14, which was lower than company's initial target of US\$35 – 38/tons. This was mainly attributable to cost reduction initiatives, lower stripping ratio, reduced fuel prices and lower freight and handling. Despite the company experienced higher stripping ratio by 20% qoq to 5.85x in 2Q14 as the company was able to remove more overburden removal owing to the end of wet season, the actual stripping ratio was still declined by 6% yoy to 5.4x in 1H14 from 5.7x in 1H13. With company's planned stripping ratio of 5.78x for 2014, we expect higher than the planned stripping ratio in 3Q14.

Better coal sales volume, but lower ASP

While the company posted lower ASP by 5% yoy, the company reported higher revenue by 7% yoy to US\$1,693mn in 1H14. This was mainly attributable to improvement in the coal sales volume, which increased by 13% yoy to 28.3mn tons in 1H14. This is in-line with the rising coal production in the Tutupan and Paringin mining areas and also reflects the commencement of operations of one of three coal licenses under Balangan Coal for which the company acquired a 75% stake in 2013. About 22% of the coal was sold to the domestic market in 1H14, with the remaining 78% exported – the three largest export markets were India (16%), China (13%), and Japan (10%).

	2012	2013	2014F	2015F	2016F
Revenue, US\$ mn	3,722	3,285	3,470	3,735	4,008
EBITDA, US\$ mn	1,137	858	887	968	1,038
EBITDA Growth, %	-23.6	-24.5	3.4	9.0	7.3
Net profit, US\$ mn	385	231	260	297	325
EPS, US\$	0.012	0.007	0.008	0.009	0.010
EPS growth, %	-30.0	-40.0	12.4	14.3	9.5
BVPS, US\$	0.080	0.085	0.089	0.094	0.099
DPS, US\$	0.007	0.002	0.004	0.004	0.005
Net Gearing, %	76	57	47	35	23
PER, x	11.8	18.1	15.7	14.4	13.4
PBV, x	1.7	1.4	1.4	1.4	1.4
EV/EBITDA, x	5.8	6.9	6.1	5.5	4.9
Yield, %	5.0	1.8	3.1	3.3	3.7

Stronger balance sheet with lower gearing level.

As the company managed to lower its debt position by declining its interest bearing debt by 4% to US\$2,248m in 1H14, while its cash jumped by 68% yoy to US\$938m, net gearing declined to 0.40x in 1H14 from 0.55x during the same period last year.

Exhibit 1. 1H14 net profit

Operational performance	1Q14	2Q14	qoq, %	1H13	1H14	yoy, %	2014F	A/F, %
Coal Sales - AI								
Production volume, mn tons	14.0	13.8	(1)	24.9	27.8	12	56.0	50
Sales volume, mn tons	13.9	14.5	4	25.0	28.3	13	56.0	51
ASP, US\$/ton	57.2	54.6	(4)	59.1	55.9	(5)	57.9	96
Strip ratio, bcm/ton	4.9	5.9	20	5.7	5.4	(6)	5.80	93
Cash cost ex royalty, US\$/ton	29.9	33.7	12	36.5	31.7	(13)	35.2	90
Mining Services - SIS								
Overburden removal, mn bcm	38.6	44.0	14	78.9	82.6	5	176.0	47
Coal mined & hauled, mn tons	7.2	7.2	(0)	13.2	14.5	9	30.1	48
Financial performance	1Q14	2Q14	qoq, %	1H13	1H14	yoy, %	2014F	A/F, %
Net sales, US\$m	845	848	0	1,579	1,693	7	3,470	49
COGS, US\$m	(599)	(661)	10	(1,251)	(1,260)	1	(2,718)	46
Gross profit, US\$m	245	187	(24)	328	433	32	752	58
Operating profit, US\$m	242	120	(50)	398	361	(9)	572	63
EBITDA, US\$m	306	207	(32)	393	513	31	887	58
Net profit, US\$m	128	40	(69)	248	168	(32)	260	65
Core profit, US\$m	109	57	(47)	142	167	18	260	64
Gross margin, %	29.0	22.1	(7.0)	20.8	25.6	4.8		
Operating margin, %	28.6	14.1	(14.5)	25.2	21.3	(3.9)		
EBITDA margin, %	36.2	24.4	(11.8)	24.9	30.3	5.4		
Net margin, %	15.2	4.7	(10.5)	15.7	9.9	(5.8)		

Source: Adaro Energy, Danareksa Sekuritas

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TODAY'S HEADLINES

Adaro obtains US\$1 Billion Loan (BI)

ADRO obtains amortizing unsecured loan facility worth US\$1 billion from 14 foreign banks to restructure some of its debt with total loan commitments of US\$9.1 billion. ADRO plans to use the proceeds of the loan with a tenor of seven years, which will be combined with internal cash, for payment of bonds worth US\$800 million issued in October 2009 and for a loan facility worth US\$750 million were obtained in July 2011.

Newmont Told to Show Good Faith (TJP)

The government has asked Newmont Nusa Tenggara to show its commitment to comply with the new Mining Law, before letting the company resume its copper export, despite the mining giant's decision to withdraw its arbitration appeal. Newmont had decided to withdraw its arbitration appeal at International Center for Settlement of Investment Disputes (ICSID) against the Indonesian government's ore export ban. The withdrawal decision was made as the government had promised to reopen negotiations with the company. The renegotiation covers six main issues: adjustment in royalties, divestment, mining size, continuity of operation post contract expiry, an obligation to process and refine minerals in domestic facilities, as well as the obligation to use local goods and services. If the company concludes the MoU this September, it will have an export quota of 270,000 tons of copper concentrate until December.

Ramayana Joins SPAR (BI)

RALS will join as a member of the organization SPAR International B.V. starts 1 September 2014. SPAR, which comes from the Netherlands, has successfully developed a system for purchasing, warehousing, distribution, marketing and sales for both food and nonfood. SPAR International currently has more than 12,000 outlets around the world with total sales reaching 32 billion euros.



LEADERS AND LAGGARDS

The leaders on Danareksa coverage

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		27-Aug-14	26-Aug-14					
Adaro Energy	ADRO	1,340	1,270	5.5	1.5	13.1	22.9	BUY
Harum Energy	HRUM	2,300	2,195	4.8	1.8	9.0	(16.4)	HOLD
BW Plantation	BWPT	1,045	1,000	4.5	(1.9)	(9.5)	(21.4)	BUY
XL Axiata	EXCL	5,775	5,575	3.6	0.9	6.9	11.1	HOLD
Multistrada Arah Sarana	MASA	300	290	3.4	3.4	-	(23.1)	HOLD
Nippon Indosari Corpindo	ROTI	1,240	1,200	3.3	2.1	(5.3)	21.6	BUY
Bukit Asam	PTBA	13,575	13,275	2.3	(0.5)	16.5	33.1	BUY
Indofood CBP	ICBP	10,500	10,275	2.2	2.2	0.5	2.9	BUY
Indo Tambangraya Megah	ITMG	28,500	27,900	2.2	(2.6)	9.0	-	HOLD
Bank Tabungan Negara	BBTN	1,150	1,135	1.3	(4.6)	6.5	32.2	BUY

Sources: Bloomberg

The laggards on Danareksa coverage

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		27-Aug-14	26-Aug-14					
United Tractors	UNTR	22,125	22,675	(2.4)	(9.3)	(3.4)	16.4	BUY
Ace Hardware	ACES	920	940	(2.1)	-	(0.5)	55.9	HOLD
Metropolitan Land	MTLA	425	434	(2.1)	4.9	5.5	11.8	BUY
Surya Semesta Internusa	SSIA	795	805	(1.2)	(2.5)	7.4	42.0	BUY
Semen Indonesia	SMGR	16,250	16,450	(1.2)	(2.1)	(2.0)	14.8	BUY
Holcim	SMCB	2,900	2,925	(0.9)	(3.7)	(4.3)	27.5	HOLD
Mitra Adi Perkasa	MAPI	5,975	6,025	(0.8)	2.1	14.9	8.6	HOLD
Indofood	INDF	6,950	7,000	(0.7)	(1.8)	(1.8)	5.3	HOLD
Timah	TINS	1,430	1,440	(0.7)	(1.7)	0.7	32.3	BUY
Waskita Karya	WSKT	880	885	(0.6)	(3.8)	8.6	117.3	HOLD

Sources: Bloomberg

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