

**MORNING HIGHLIGHT**
**FROM EQUITY RESEARCH**
**Construction: Infrastructure Driven Scenario (Overweight)**

We remain OVERWEIGHT on the construction sector, as the sector benefits directly from the government's accelerated infrastructure program. We have seen evidence of major progress on several infrastructure projects since Jokowi's administration took office. This encourages us to believe that the program will yield positive results, especially for the construction sector. This would consequently boost contractors' order books and bolster their earnings with expected growth of 28% CAGR in FY15F-17F. We select WSKT as our top pick in the sector given its huge new contracts achievement and potentially larger contracts in the coming years. We also recommend BUYs on PTPP and ADHI, but place a HOLD on WIKA given its underperformance in new contracts achievement and high interest payments burden which may place its earnings at risk in the coming years.

**MARKET NEWS**
**\*Analysts' comment inside**

- BBRI to grow lending by above average 15% (TJP)
- JSMR targeting an additional 352 km (BI)
- MTLA targeting IDR 1.3tn (BI)
- PTPP seeks Rp4tn loans (ID)
- UNTR develop a power plant subsidiary (BI)
- World Bank maintain Indonesian economic growth forecast at 4.7% (ID)

**Previous Reports:**

- **AUTO: Still weak on cumulative basis, Construction: PUPR: likely to miss budget target-[Snapshot20151215](#)**
- **Cement: Maintaining sturdy sales volume in November 2015, Retail: No surprise-[Snapshot20151214](#)**
- **Coal Sector: Weak coal prices to persist, Infrastructure: SOE Synergy for Indonesia Transformation-[Snapshot20151211](#)**
- **Bank Rakyat Indonesia: 10M15 Result-[Snapshot20151210](#)**
- **Cement: Fighting on uphill battle-[Snapshot20151202](#)**

**IDX ANNOUNCEMENT**
**Corp Action**

Code	Action	Date	Time (WIB)
MIKA	EGM	17-Dec-15	14
BMRI	EGM	18-Dec-15	--

Source: KSEI

**Key Index**

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
<b>Asean - 5</b>				
Indonesia	4,409	0.8	(15.6)	218
Thailand	1,301	2.6	(13.2)	1,585
Philippines	6,701	(0.7)	(7.3)	83
Malaysia	1,623	(0.4)	(7.9)	369
Singapore	2,816	0.0	(16.3)	606
<b>Regional</b>				
China	3,510	(0.3)	8.5	61,050
Hong Kong	21,274	(0.2)	(9.9)	8,705
Japan	18,566	(1.7)	6.4	11,633
Korea	1,950	0.9	1.8	3,634
Taiwan	8,073	0.4	(13.3)	2,204
India	25,320	0.7	(7.9)	385
NASDAQ	4,995	0.9	5.5	81,364
Dow Jones	17,525	0.9	(1.7)	9,800

**Currency and Interest Rate**

	Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah Rp/1US\$	14,046	(1.1)	(2.2)	(13.4)
SBI rate %	7.10	0.4	0.4	(0.1)
10y Gov Indo bond	9.06	0.5	0.4	1.3

**Hard Commodities**

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	52	0.3	(0.1)	(16.0)
Gold	US\$/toz	1,062	0.1	(1.9)	(10.4)
Nickel	US\$/mt.ton	8,506	(2.3)	(9.4)	(43.6)
Tin	US\$/mt.ton	14,532	(1.2)	(1.6)	(25.2)

**Soft Commodities**

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	3,420	0.5	0.1	15.1
Corn	US\$/mt.ton	143	(0.4)	6.0	0.1
Crude Oil	US\$/barrel	38	1.4	(11.8)	(32.9)
Palm oil	MYR/mt.ton	2,173	0.5	1.5	(5.4)
Rubber	US\$/kg	116	(0.3)	(3.4)	(23.9)
Pulp	US\$/tonne	804	N/A	(2.3)	(13.7)
Coffee	US\$/60kgbag	95	(0.2)	0.5	39.6
Sugar	US\$/MT	401	0.0	1.7	2.6
Wheat	US\$/ton	135	0.2	(0.7)	(20.2)

Source: Bloomberg

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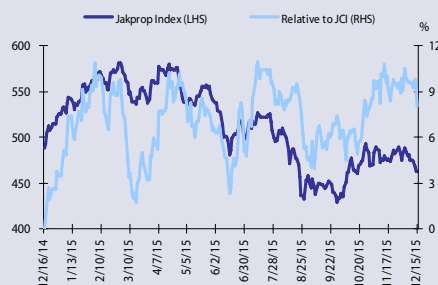
# OVERWEIGHT

# Construction Sector

## Infrastructure Driven Scenario

Stocks	Price Rp	Target price Rp	Rec.
WIKA	2,620	2,900	HOLD
PTPP	3,715	4,700	BUY
WSKT	1,645	2,150	BUY
ADHI	2,065	2,750	BUY

### Jakprop relative to JCI Index



We remain **OVERWEIGHT** on the construction sector, as the sector benefits directly from the government's accelerated infrastructure program. We have seen evidence of major progress on several infrastructure projects since Jokowi's administration took office. This encourages us to believe that the program will yield positive results, especially for the construction sector. This would consequently boost contractors' order books and bolster their earnings with expected growth of 28% CAGR in FY15F-17F. We select WSKT as our top pick in the sector given its huge new contracts achievement and potentially larger contracts in the coming years. We also recommend **BUYs** on PTPP and ADHI, but place a **HOLD** on WIKA given its underperformance in new contracts achievement and high interest payments burden which may place its earnings at risk in the coming years.

### Direct beneficiary of accelerated infrastructure programs

Compared to their private company counterparts we believe SOE contractors will be the primary beneficiaries of the government's accelerated infrastructure programs. The benefits will come in the form of large order books related to government projects, direct appointments to undertake priority infrastructure projects (e.g. the trans-Sumatera and LRT projects) and financing support through capital injections. The sizeable government's infrastructure spending is expected to take place over five years at least and this shall continue to benefit SOE contractors.

### Encouraging progress in projects execution

The Indonesian infrastructure story remains sound and we have seen some encouraging progress on projects execution thus far. We are able to identify progress in several infrastructure projects during Jokowi's first year as president, including the operation of the long-delayed Cipali toll road, the operation of the Jatigede and Nipah Sampang reservoirs, accelerated progress of the Solo-Kertosono and Becakayu toll roads, plus many more. This gives us confidence in the implementation of the infrastructure acceleration program, hopefully ushering in a new era of development.

### Order books to grow further

Government related projects are a large part of the SOE contractors' order books. Thus, with numerous government related projects, we are optimistic that the total construction order book will grow more briskly going forward. We expect the cumulative new order book to grow by 21.6% CAGR in FY15F-17F (vs. 19.3% CAGR in FY13-15F). This will translate into a total order book of Rp208 tn-Rp245 tn in FY16F-17F, thus increasing the total order book ratio to 3.9x in FY16F from 3.1x in FY14, which will boost revenues growth to 30% CAGR in FY15F-17F (vs 12% CAGR in FY13-15F).

### Robust earnings growth, maintain OVERWEIGHT

With huge order book backlog, revenue streams will be secured for at least the next 2-3 years. Profitability wise, better margins can be expected from a higher portion of infrastructure projects. Thus, we estimate that this sector will record robust earnings growth of 28% CAGR in FY15F-17F. We believe, the construction sector's re-rating should remain sound driven by solid order books growth and high earnings visibility. We still see upside potential for the sector since it is currently trading at 20x FY16F P/E, below its peak valuation of 27x P/E in February 2015. All in all, we remain positive on the sector. Maintain **OVERWEIGHT**.



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

Company	Rec.	TP IDR	PE, x FY15F	PE, x FY16F	EPSCAGR FY14-16F, %	ROE FY16F, %	Gearing FY 16F, %
<b>Sector</b>	<b>OVERWEIGHT</b>		<b>26.2</b>	<b>19.8</b>	<b>28.2</b>	<b>13.1</b>	<b>26.6</b>
WIKA IJ	HOLD	2,900	27.7	21.8	9.7	12.6	35.4
PTPP IJ	BUY	4,700	28.1	20.8	27.0	19.1	28.1
WSKT IJ	BUY	2,150	27.0	20.6	47.4	11.7	24.9
ADHI IJ	BUY	2,750	19.3	13.8	31.0	11.0	17.7

## A Great opportunity from government infrastructure acceleration program

Since the new administration took office in October 2014, infrastructure development has always been the number one priority. In this regard, the government has set a bold target over the medium term which has to be achieved by 2019. The funds needed to realize such a target are substantial at around Rp5,500 tn, of which around 40% will be financed by the state budget.

This is actually the first time the government can concentrate on infrastructure development without too much concern on the state budget as the source of funding. Previously, there has always been a constraint on capital expenditure due to the large allocation of government funds on fuel subsidies. However, the government made a breakthrough by slashing fuel subsidies, thereby freeing more funds for infrastructure development. This, in turn, ensures that government projects are more viable.

Among numerous projects on the medium term list, there are some labeled top priority, namely toll roads development, 35GW of power plants, railway development, and ports to ensure better connectivity and lower logistical costs. These projects will have the highest likelihood of good execution. More importantly, SOE contractors are targeting these projects either as pure contractors or as investors. Besides their sizeable value these projects also offer favorable margins.

### Exhibit 1. Medium term infrastructure target

Development Targets	Unit	Baseline 2014	Target 2019
<b>Basic Infrastructure</b>			
Generator capacity	GW	50.7	86.6
Electrification ratio	%	81.5	96.6
Houses backlog	mn	13.5	6.8
<b>Connectivity</b>			
Development of national roads	km	38,570	45,592
Construction of new roads (cumulative 5-year)	km	1,202	2,650
Toll road development (cumulative 5-year)	km	807	1,000
Railway length	km	5,434	8,692
Port Development		278	450
Number of airports		237	252
Logistic cost	% of GDP	23.5	19.2
<b>Food Sovereignty</b>			
Development of irrigation networks	mn ha	8.90	9.89
Rehabilitation of irrigation networks	mn ha	2.71	3.01
Development of pond irrigation	k ha	189.75	304.75
Reservoir development		21	49
<b>Maritime and Marine</b>			
Port development to support sea toll		-	24
Development of ferriage harbor		210	270

Source: Bappenas

### Encouraging progress so far

The Indonesian infrastructure story remains sound and we have seen some encouraging progress on projects execution thus far. We are able to identify progress in several infrastructure projects during Jokowi's first year as president, including the operation of the long-delayed Cipali toll road, the operation of the Jatigede and Nipah Sampang reservoirs, accelerated progress of the Solo-Kertosono and Becakayu toll roads, plus many more. This gives us confidence in the implementation of the infrastructure acceleration program, hopefully ushering in a new era of development.

**Strong support from the government**

The government is providing strong support to realize its infrastructure development targets. This support has come in the form of regulations, presidential decrees, budget allocations and capital injections. With regard to regulations, the implementation of the new land bill this year will help speed up land acquisition going forward. Moreover, the government will soon issue a supporting regulation on the land bill.

The other form of support is from presidential decrees such as those on the trans-Sumatera toll road, greater Jakarta and inner Jakarta railway, and the Jakarta-Bandung MRT. The presidential decrees describe the project mechanism, assign the project leader, and instruct associated government agencies to give full support on the projects. We expect more presidential decrees to be issued in the future, especially for priority projects that need to be accomplished rapidly. Other encouraging initiatives are the steps taken by several ministries to conduct early tenders for 2016 projects. This would ensure better budget absorption and project execution in the coming years. All in all, the action taken thus far raises our confidence in the government's commitment to achieve the targeted goals.

**SOE contractors are the direct beneficiaries...**

As government-owned companies, we believe SOE contractors should be the primary beneficiaries of government infrastructure acceleration programs. With a long list of government projects, there are many opportunities for SOE contractors to get contracts from government-related projects. Supporting our view are the following: 1) given its large portion in the SOE contractors' order books, more government-related projects should result in higher order books, 2) SOE contractors are the most likely option should the government decide to use direct appointments for its priority projects – as has been the case for the trans-Sumatera and LRT projects, and 3) the likelihood that SOE contractors get additional financing support through capital injections.

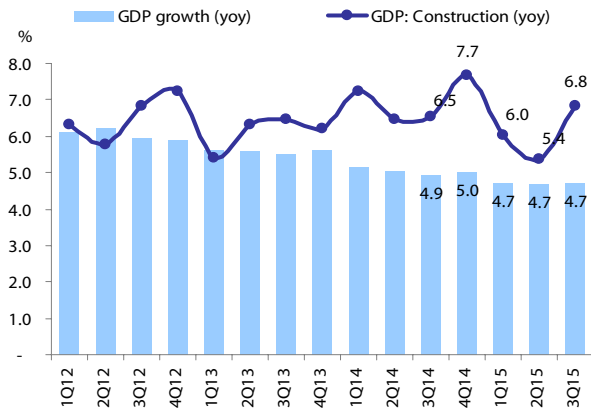
**...leading to robust order books growth in FY15F-17F**

Until 11M15, government related projects have been increasing and dominating the contractors' order books (67% in 11M15 vs 57% in 11M14), indicating a strong correlation between government projects and the SOE contractors' order books. Thus, with sizeable government projects, we are optimistic that the total construction order book will grow more briskly going forward. We expect the cumulative new order book to grow more briskly by 21.6% CAGR in FY15F-17F (vs. 19.3% CAGR in FY13-15F). This will translate into a total order book of Rp208 tn-Rp245 tn in FY16F-17F, thus increasing the total order book ratio to 3.9x in FY16F from 3.1x in FY14. With this, we expect the sector to record brisker revenues growth of 30% CAGR in FY15F-17F (vs 11.8% CAGR in FY13-15F).

**With expected 28% CAGR earnings growth in FY15F-17F**

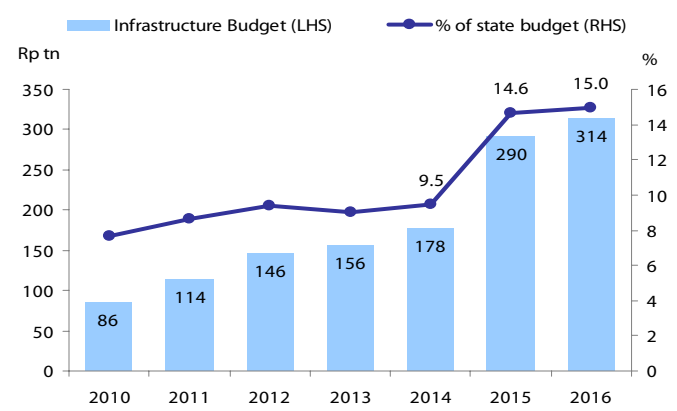
As the order book ratio is expected to reach 3.9x in FY16F, we believe revenues visibility will be secured for at least the next 2-3 years. Profitability wise, we believe margins should be maintained until FY17F thanks to the higher infrastructure portion including toll road and power plant projects which provide better margins (at least 10% gross margin). SOE contractors would focus more on those projects given their sizeable value, we believe. The expected lower interest rate environment would also help the contractors to maintain margins. Thus, we estimate that the sector will record earnings growth of 28% CAGR in FY15F-17F.

**Exhibit 2. Construction GDP growth rising in 3Q15**



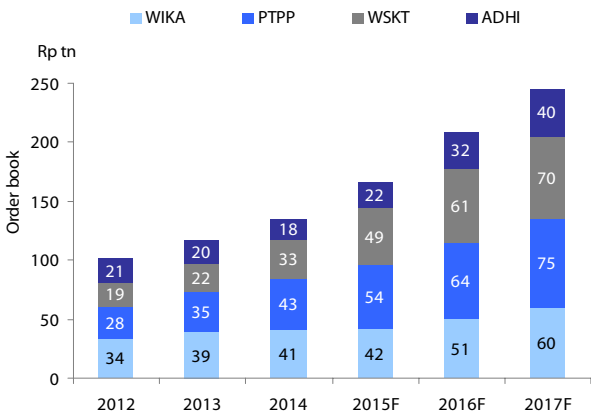
Source: CEIC

**Exhibit 3. Higher infrastructure budget portion**



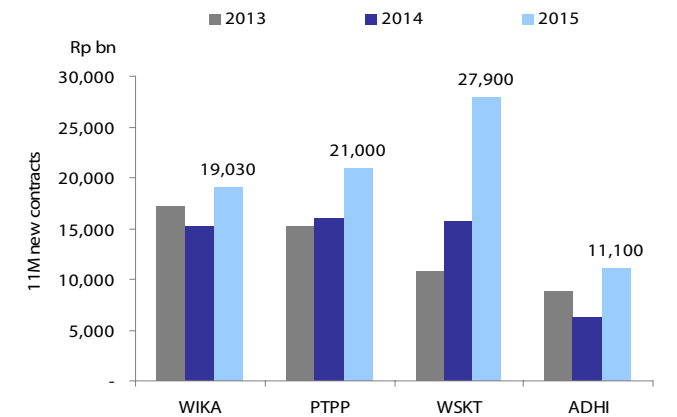
Source: Ministry of Finance

**Exhibit 4. Order books to grow faster**



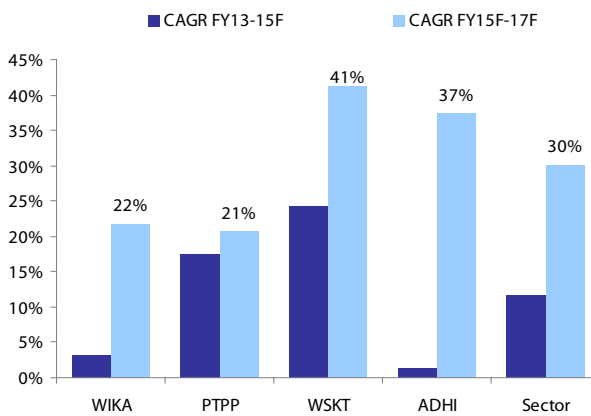
Source: Respective companies, Danareksa Sekuritas

**Exhibit 5. Solid new contract progress**



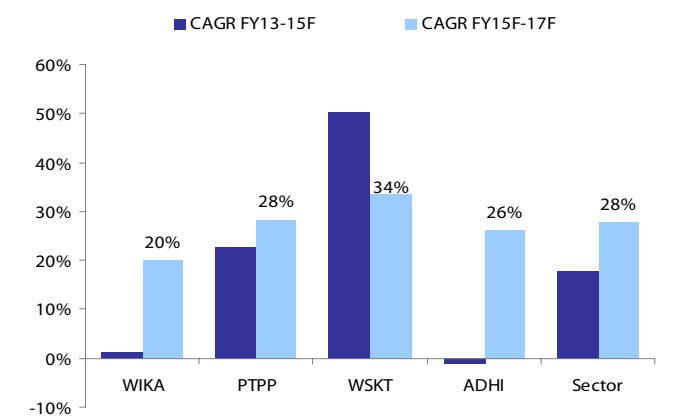
Source: Respective companies, Danareksa Sekuritas

**Exhibit 6. Revenues growth**



Source: Companies, Danareksa Sekuritas

**Exhibit 7. Earnings growth**



Source: Companies, Danareksa Sekuritas

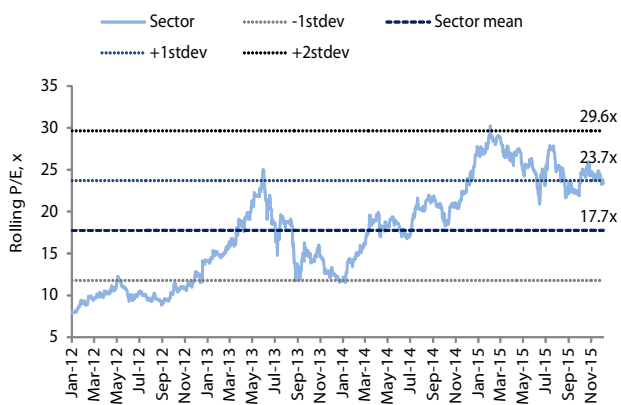
**Valuation**

The construction sector has enjoyed a re-rating since 2012, validated by the sector's solid earnings growth in FY12-14. However, the performance of construction sector shares has been flattish since the beginning of this year, albeit still outperforming the JCI by 7% ytd in 2015 on the back of solid new contracts progress and solid earnings. All in all, we believe that the sector's sound growth story will continue to drive the sector's performance in the coming years.

We see that the sector's re-rating will remain sound at least for the next two years driven by the government's infrastructure acceleration program, which should ensure order book growth and consequently high earnings visibility. The sector is currently trading at 20x FY16F P/E, equal to +1.3 std. deviation of the 5-yr forward P/E but still below its peak valuation of 27x P/E in February 2015. We still see upside potential for the sector as we expect stronger earnings growth of 28% in FY15F-17F. Maintain OVERWEIGHT.

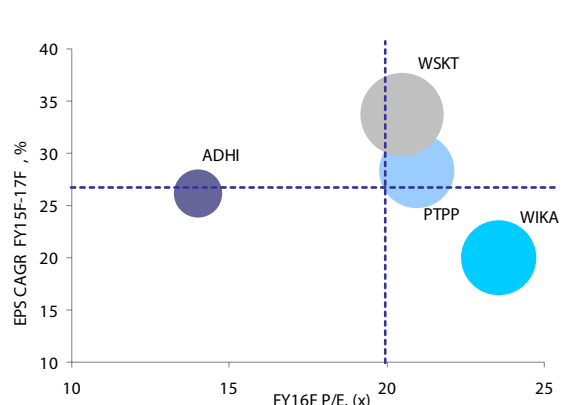
Among individual stocks, we select WSKT as our top pick in the sector given its huge new contracts achievement and potentially larger order book in the coming years, which should translate into higher earnings growth. We also have BUY calls on PTPP and ADHI, while keeping WIKA as a HOLD due to underperformance in new contracts achievement and in view of its high expected interest payments burden which might put its earnings growth at risk.

**Exhibit 8. Construction sector rolling P/E**



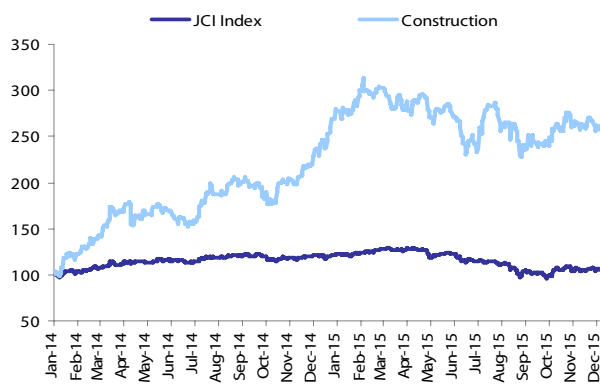
Source: Bloomberg, Danareksa Sekuritas

**Exhibit 9. P/E multiple vs EPS growth Matrix**



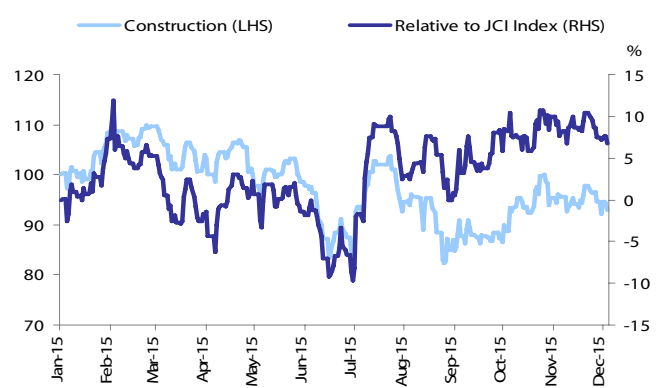
Source: Danareksa Sekuritas

**Exhibit 10. Construction solid shares performance since 2014**



Source: Bloomberg

**Exhibit 11. Construction sector still outperformed JCI Index ytd 2015**



Source: Bloomberg



**Waskita Karya (WSKT IJ, BUY, TP Rp2,150)**

An additional Rp5.3tn in WSKT's equity after the rights issue made WSKT the largest listed SOE contractor by equity size. This allowed WSKT to aggressively invest in high value toll road projects which consequently gave the company sizeable construction contract projects. WSKT currently owns 11 toll road concessions with the potential to add another Rp20 tn to its order books. Thus, we believe WSKT will still be able to book a considerable amount of new contracts in FY16-17F. The impact on earnings is significant given its superior performance thus far. We expect 34% CAGR earnings growth in FY15F-17F on the back of higher new contracts acquisition and margins improvement on the greater contribution from toll road projects. Maintain BUY with a higher TP of Rp2,150 based on 26.7x target FY16F P/E, equal to 1.5x standard deviation above the construction sector's average P/E.

**Pembangunan Perumahan (PTPP IJ, BUY, TP Rp4,700)**

PTPP's large order book backlog should ensure earnings visibility in FY16F. With an expected Rp36.5 tn of order book carry over for FY16F, PTPP should be able to maintain solid earnings growth. For its solid track record on new project acquisitions and good execution, PTPP stands to benefit from sizeable government infrastructure projects, especially related to port development. We expect earnings growth of 28% CAGR on the back of 18% CAGR order book growth in FY15F-17F. We maintain our positive view on PTPP for its solid earnings visibility, good project execution and strong ability to generate new contracts. Maintain BUY with a higher TP of Rp4,700 based on the target FY16F PE of 26.7x, equal to 1.5st.dev above the sector's average P/E.

**Adhi Karya (ADHI IJ, BUY, TP Rp2,750)**

Government support for light rapid transit (LRT) projects should benefit Adhi Karya (ADHI) as it will potentially secure Rp21 tn of construction work for developing 6 LRT routes. The first phase comprises of three routes that should be started as soon as December 2015 and be completed by 2018. On top of this, ADHI has delivered good performance in 2015, recording 76% yoy new contracts growth. Going forward, progress should continue on the back of more government projects. Taking into account the potential contracts from the LRT project, we expect ADHI to record new order book growth of 30.6% CAGR in FY15F-17F. This should translate into earnings growth of Rp26.2% CAGR over the same period. We value ADHI using target P/E of 17.7x based on the construction average P/E multiple, resulting in a higher TP of Rp2,750. ADHI is currently trading at 14x FY16F P/E. Maintain BUY.

**Wijaya Karya (WIKA IJ, HOLD, TP Rp2,900)**

WIKA is likely to miss its new order book target this year due to slow progress in new contracts achievement, despite a slight pick-up in the last two months. Thus, the earnings growth for next year may be at risk. Moreover, the delay in the government's capital injection will force WIKA to rely on debt financing to obtain new projects. There are several big projects being targeted, among others the Java 5/7 power plant and the huge yet risky High Speed Railway (HSR) project. Moreover, higher financing charges will dent next year's earnings. We roll over our valuation base to FY16F and arrive at our new TP of Rp2,900 based on SOTP valuation, implying 24x FY16F P/E. Maintain HOLD on WIKA



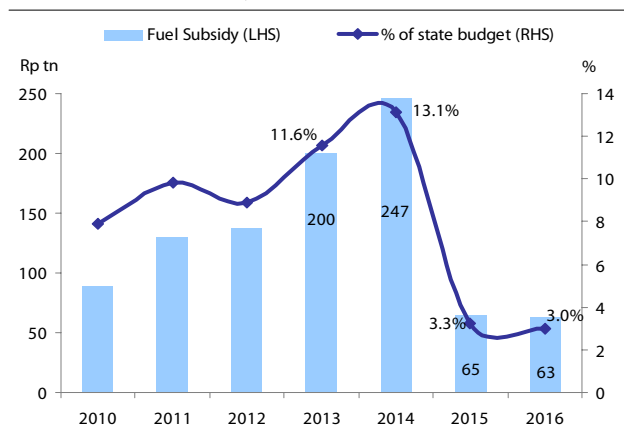
## Boosting the infrastructure development

### Critical structural reform to accelerate infrastructure development

Since the new administration took office in October 2014, infrastructure development has always been the number one priority given the nation's urgent need for infrastructure facilities. To this end, the government has set a high target in its infrastructure development goals over the next five years. The funds needed to realize the target are substantial at around Rp5,500 tn of which 40% will be financed by the state budget.

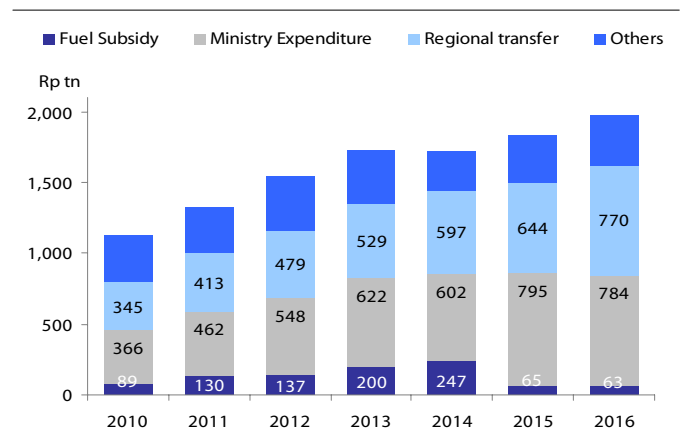
Since the amount of funds needed are so great, Jokowi's administration has made a breakthrough in the structure of the state budget to allocate more funds toward infrastructure development. The government made reforms by cutting a substantial portion of fuel subsidies in the state budget. Before the change, fuel subsidies (with around a 10% share of the total budget) reduced fiscal space and burdened the budget. At times of spiking oil prices, the subsidy portion would be inflated at the expense of other items related to capital spending, such as infrastructure. Thus, the uncertainty of projects execution was quite high.

**Exhibit 12. Fuel subsidy portion is declining**



Source: Ministry of Finance

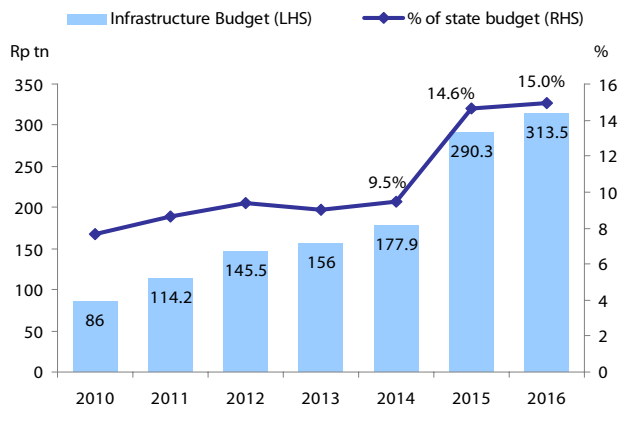
**Exhibit 13. State budget expenditure breakdown**



Source: Ministry of Finance

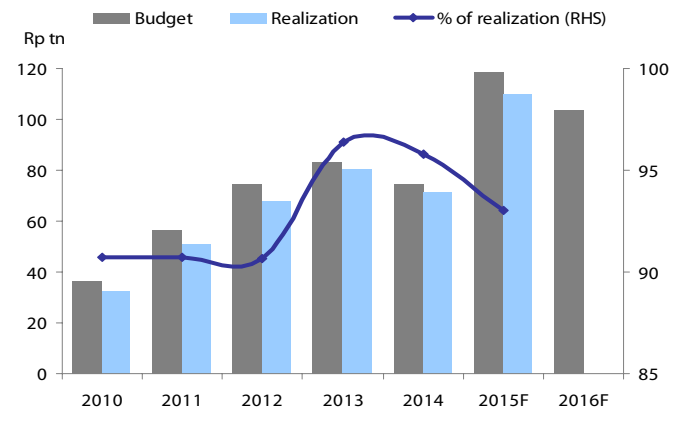
With the cut in fuel subsidies, there are an estimated Rp200 tn p.a. of budget savings which provide more fiscal space. This fiscal space gives the government the flexibility to utilize the budget savings and re-channel them to finance its priority programs, most of which are infrastructure related. Thanks to the reform, the budget allocation to the infrastructure projects is more certain. More importantly, we now have more confidence that infrastructure projects can be executed with less risk on the financing side, albeit still subject to adequate tax revenues. This should help the government to achieve its mid-term goals.

**Exhibit 14. Infrastructure budget**



Source: Ministry of Finance

**Exhibit 15. Ministry of public works budget**



Source: Ministry of Finance

**Encouraging progress on infrastructure projects...**

People have been questioning whether Jokowi’s administration has indeed delivered its promise to accelerate infrastructure development. Despite all the fuss, we believe the government has made some notable progress, especially related to long-stalled projects. Several key projects that have been completed or which show significant progress since Jokowi’s administration took office are as follows:

- a) Jatigede reservoir, first operational in August 8, 2015 after a delay of nearly 50 years due to land acquisition issues. President Jokowi issued Presidential decree (Perpres) No.1/2015 to expedite the project execution
- b) Nipah sampang reservoir, finally completed after a delay of 16 years due to land acquisition problems
- c) Cikopo-Palimanan toll road section, one of the longest toll road sections (116.7km) delayed in 1996. The work resumed in 2011 with very slow progress until the government took action to accelerate the progress. The section was finally operational in July 2015.
- d) Batang power plant, had been delayed since the concession was signed in 2011 due to land acquisition problems. Now the land clearing has reached 100% and the government undertook groundbreaking in August 2015
- e) Solo-Kertosono toll road, had been delayed since 2013 until it was taken over by the government. Currently under construction and is expected to be completed in 2018
- f) Becakayu toll road, had been delayed since 1998 due to the monetary crisis, then resumed at the end of 2014 after several actions were taken such as permit issuance and a new funding scheme established
- g) LRT groundbreaking, on 9 September 2015

There is more evidence of progress, especially on priority projects in the new administration’s first year. What we learned from this breakthrough is Jokowi’s determination to get priority infrastructure projects executed. This is evident from the execution of several projects following actions such as site visits by the president, the issuance of presidential decrees, and continuous monitoring. Thus, we are confident in the future execution of government priority projects.

**Exhibit 16. progress on 10 priority projects in 2015**

Projects	Project cost Rp bn	Progress
1 Construction of oil refinery in Bontang with a minimum capacity of 235k per day	60,000	Land clearing process has completed auction for appointment KPBU be completed in December 2015. Construction expected to start in 2016 and complete in January 2019
2 Drinking Water Management in West Semarang	824	Currently, PDAM Semarang is waiting for issuance regulation of water management cooperation scheme
3 Balikpapan-Samarinda toll road	6,002	85% land acquisition completed concession to be signed in April 2016
4 Revitalization of three small and medium sized airports i.e. (i) Radin Inten II Airport, Lampung, (ii) Airport Mutiara, Palu, (iii) Labuan Bajo Airport, Komodo		Revitalization for Raden Inten and Labuan Bajo Airport are under progress
5 Electrical transmission 'High Voltage Direct Current' (HVDC) Sumatra Java interconnection (ISJ)	20,000	Finalization of land acquisition is targetted in the third quarter 2015.
6 4 toll roads as part of Trans Sumatera Toll Road, i.e. (i) Medan-Binjai Sumatra, (ii) Palembang-Indralaya, (iii) Pekanbaru-Dumai, and (iv) Bekauheni-Tebanggi Besar.	30,000	Signed of concession agreement Land acquisition is ongoing Construction activity has started on several sections
7 Construction of PLTU Batang with capacity of 2x1,000 MW	40,000	Land acquisition issue has been resolved Ground breaking on August 2015
8 Express train to Soekarno Hatta International Airport	24,000	60% land clearing progress and has started construction Expected to be completed in 2016
9 Train in East Kalimantan	4,500	Ground Breaking on 19 Nov 15
10 500 kV electrical transmission from Southern to Northern	35,000	Contractors has been appointed. Target completion 2018/2019

Source: Various sources

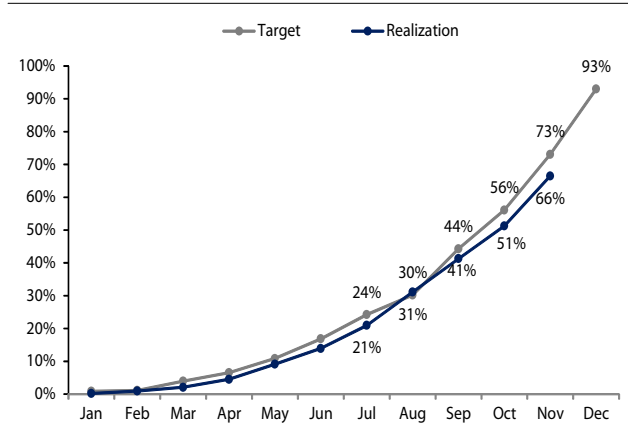
**...despite low absorption of the 2015 budget**

The year of 2015 is the baseline of what will happen over the next four years under Jokowi's administration. In 2015, the government sought to optimize budget absorption especially at the ministries by speeding up the tender process and frontloading the external financing to provide the necessary funding for early budget disbursement.

Nonetheless, this year's budget absorption has been way below the optimum level. As of mid-October, budget realization only reached 65.8%. Hence, the government expects the realization may only reach 93%. For the ministries, the budget realization only reached 53.3% due to the slow tender process on the back of some changes in nomenclature. This was also apparent at the infrastructure related ministries, namely the Ministry of Public Works and the Ministry of Transportation which also recorded subpar budget absorption at 66.5% and 41.2% until November 2015, respectively.

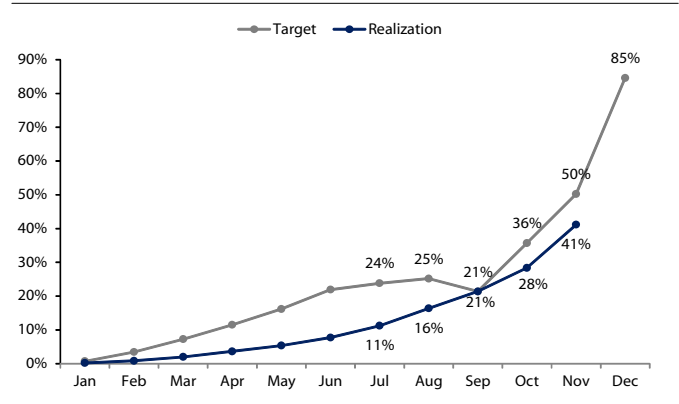
We acknowledge that the transition can be troublesome due to the adjustment period of the new administration, changes in nomenclature, and other bureaucratic matters. However, next year should be less complicated especially since there will be fewer bureaucratic related matters. As such, budget absorption should be more optimal.

**Exhibit 17. Slow PUPR budget absorption rate**



Source: Ministry of Public Works

**Exhibit 18. Low absorption rate of Ministry of Transportation budget**



Source: Ministry of Transportation

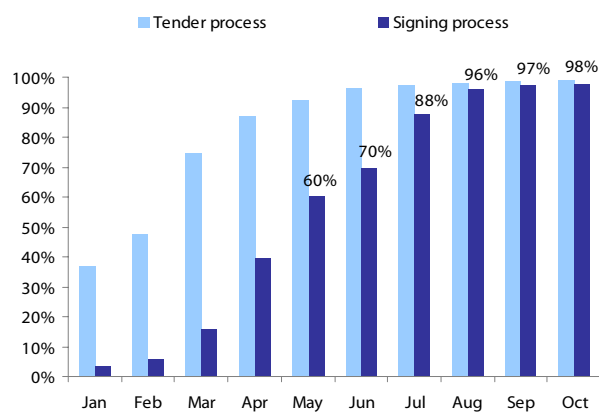
## Stronger foundation for a quantum leap

### A good sign is the Rp33 tn of early tenders by the Ministry of Public Works

The slow tender process has been the main reason for low absorption of the ministry budget. The ministry projects' tender process typically starts in March and needs around 3-6 months until the tenders are awarded. Hence, the construction work would start in June at the earliest. This was also the case in the 2015 budget. For the revised 2015 state budget, the government previously sought to bring forward completion of the tender process to March-April. However, the actual realization is still way behind the target due to changes in the ministry's nomenclature.

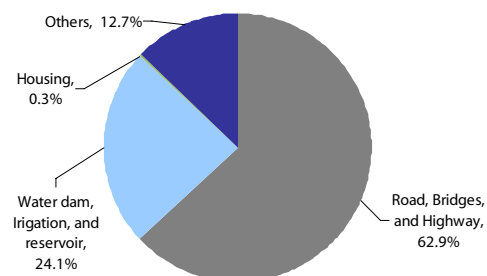
The low budget absorption this year largely owes to slow progress of the tender process. Hence, the ministry has initiated an early tender process for 2016 projects, which started in August 2015. Until September, PUPR through the Directorate General Bina Marga has been able to launch early tender projects with a total value of Rp13 tn and the amount is expected to reach Rp28.3 tn in December 2015. From the data we gathered from PUPR, until mid-November the ministry has already tendered c.Rp33 tn of projects. With this, some projects that have been in the tender process can start early next year, presumably in 1Q16. This is encouraging for next year's budget absorption and is likely to be optimal following the initiatives taken.

**Exhibit 19. Sluggish tender signing progress until 1H15**



Source:Ministry of Public Works

**Exhibit 20. Project composition of the Rp33tn early tender of Ministry of Public Works 2016 budget**



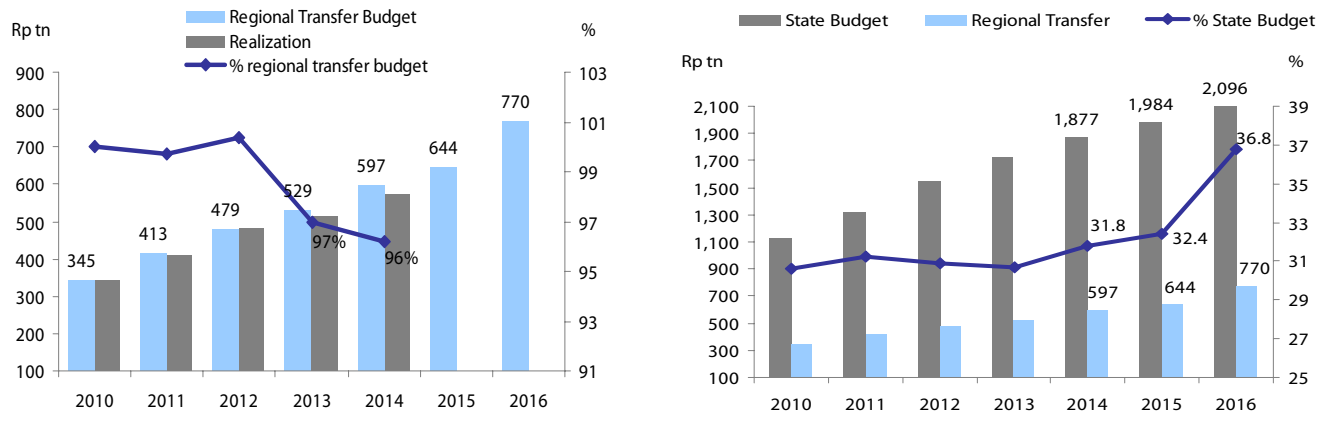
Source:Ministry of Public Works

### 2016 State Budget most likely outcome: good ministries spending vs stagnating local govt. budget realization

After a low absorption rate in the 2015 revised budget, we believe the realization of the 2016 state budget will be more optimal, especially on ministries' spending thanks to the early tender process. The early tender process has not only been carried out at the Ministry of Public Works, but also in several ministries with large infrastructure budgets such as the Ministry of Transportation, the Ministry of Energy and Mineral Resources and the Ministry of Agriculture. We believe this is important since there will be a large number of infrastructure projects coming from those ministries in 2016.

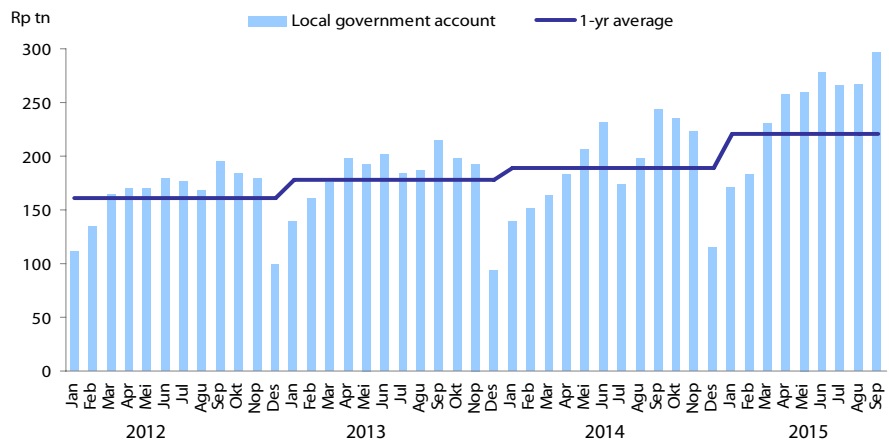
There is a notable difference seen in the 2016 budget, especially in the proportion of regional transfers and village funds. In the 2016 state budget, the regional transfer account is being allocated a Rp770tn budget, 16% higher than the figure in the 2015 revised budget. The main idea behind the large portion of regional transfers is to cut the barriers of central government bureaucracy for quicker infrastructure development in rural areas.

**Exhibit 21. yearly regional transfer**



Source: Ministry of Finance, APBN

**Exhibit 22. Regional government account in bank significantly increased in 2015 prompted question on the effectiveness in infrastructure budget disbursement by local government**



Source: Bank Indonesia

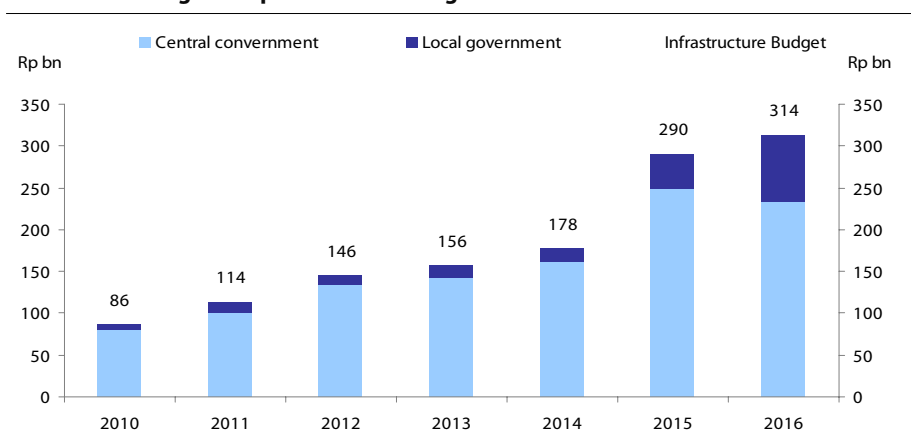
Historically, the regional transfers budget realization was impressive, at more than 98% on average. Despite the impressive figure, we still have concerns on the regional governments' capability to spend such huge sums on infrastructure, given: 1) up until September 2015, there is nearly Rp300 tn of local government money sitting idle in banks, suggesting slow disbursement and 2) the habit of spending the budget funds at the end of the year, suggesting a lack of planning and execution. Thus, we believe the central government's intention to push infrastructure development by the local governments will not be optimal in 2016.

**Exhibit 23. greater infra budget allocation to local government**

	APBNP 2015	APBN 2016	Change %	2015 infra budget %	2016 infra infra budget %
Ministry of Public Works	111.1	101.2	(8.9)	38.3	32.3
Ministry of Transportation	59.1	47.2	(20.1)	20.4	15.1
Special allocation funds	29.7	57.2	92.6	10.2	18.2
Village funds	8.3	18.8	126.5	2.9	6.0
State capital injection	28.8	40.2	39.6	9.9	12.8
Others (below Rp10 tn)	53.4	48.9	(8.4)	18.4	15.6
<b>Total infrastructure budget</b>	<b>290.4</b>	<b>313.5</b>	<b>8.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Ministry of Finance, APBN

Nonetheless, we believe that the infrastructure spending will remain sound in the coming years supported by the central government's budget portion reaching c.Rp234 tn. Most of the state budget allocated for infrastructure (75%) remains under central government control with the majority allocated through ministries' spending. Despite a lower nominal amount allocated to infrastructure related ministries, we believe this is the portion that will boost infrastructure development in 2016 on the back of the better spending rate.

**Exhibit 24. Still a greater portion to central government**

Source: Ministry of Finance, APBN

**Implementation of the new land bill: a good start for acceleration of infrastructure development**

We believe the implementation of the new UU No.2/2012 land acquisition bill will support the infrastructure acceleration program given the greater certainty on the step-by-step process, timeline, and financial closure stipulated by the law. Before the implementation, land acquisition problems often held back infrastructure development given no certainty of success or timely delivery. The most notable examples of land acquisition problems are at Batang Power Plant and at the Cipali toll road section. These problems were finally resolved thanks to president Jokowi's involvement. As for the Batang Power Plant, the land acquisition process of the unsettled land is finally being processed using the new law.

Most of the priority infrastructure projects such as toll roads, power plants, railways, and ports need sizeable amounts of land to be cleared. The new land bill should give investors more confidence in investing in infrastructure projects since the new land bill stipulates the step-by-step process needed to be undertaken and the timeframe for settling any disputes



over land clearance issues. The new land bill specifies four stages in the acquisition process, consisting of: 1) Planning, 2) Preparation, 3) Implementation, and 4) Handover. The timeframe at the planning stage is not specified. While at the preparation and implementation stages, the timeframe is around 100-250 working days, respectively, to complete the process.

Under the law it is essential for a specific timeframe to be set for the maximum time that a court may take to settle disputes related to land acquisition matters and to set the final stage for any appeal to be settled at the Supreme Court at no longer than 30 working days to get a final decision. Following implementation of the law, the Ministry of Public Works has recorded the highest land acquisition budget absorption this year (93.8% as of October 2015) compared to previous years, an indication of successful implementation. Thus, we believe the implementation of the law should provide a strong footing for infrastructure project acceleration.

#### Exhibit 25. UU No.2/2012 profile and timeframe

<b>Land acquisition administrator</b>	Government
<b>Financing source</b>	1)Financing made by respective institution and would be reimbursed by the government; 2)State/regional budget or SOE in case of special assignment
<b>Land acquisition team composition</b>	<b>Preparation phase:</b> Mayor/Regent, provincial working unit, respective institution, other related institution <b>Implementation phase:</b> National Land Agency (BPN)
<b>Land appraiser Requirement</b>	Independent appraiser tendered by BPN Land acquisition plan included in medium term goals and strategic plans
<b>Land value estimation basis</b>	land area above or under the ground, building, plantation, matters related to land, or other valuable losses Incomplete land acquisition process has to renew its location settlement decision letter in 2 years
<b>Other provisions</b>	For government institutions' land:1) No compensation given unless: a)being used, b)owned by SOE, c)village administration's land bank; 2) Timeline max for revocation of right is 60 working days after location settlement Supreme Court decision is final.

Stage/Event	Additional events	Additional days	Time frame working days
<b>I: PLANNING</b>			
<b>II: PREPARATION</b>			
II.1 Initial data collection			30
II.2 Public consultation			60
	Public consultation repeated	30	90
	Review team	44	104
II.3 Location settlement			14
	State administrative court	60	74
	Appeal to supreme court	94	108
<b>III. IMPLEMENTATION</b>			
III.1 Inventory - Identification - Appraisal - Announcement			44
	Verification & revision	28	72
III.2 Negotiation compensation			30
	District court	44	74
	Appeal to supreme court	88	118
III.3 Revocation of right			60
<b>IV. HANDOVER</b>			
			37
<b>Shortest</b>			<b>275</b>
<b>Longest</b>			<b>529</b>

Source: UU No.2/2012, Jasa Marga

## Priority infrastructure development - Big pie for all

Based on one year's performance, we are of the opinion that the current administration has managed to achieve better execution on the back of President Jokowi's active involvement in several priority projects. We recognize the government's determination to realize its mid-term development plans. In the mid-term development planning, there are four main areas of focus for development consisting of food sovereignty, maritime and marine affairs, basic infrastructure, and connectivity. On each of these focuses, there are large portions of infrastructure development such as irrigation and reservoir development in food sovereignty, ports development in maritime affairs, power plant development in basic infrastructure, and roads in connectivity.

### Exhibit 26. Medium term infrastructure target

Development Targets	Unit	Baseline 2014	Target 2019
<b>Basic Infrastructure</b>			
Generator capacity	GW	50.7	86.6
Electrification ratio	%	81.5	96.6
Houses backlog	mn	13.5	6.8
<b>Connectivity</b>			
Development of national roads	km	38,570	45,592
Construction of new roads (cumulative 5-year)	km	1,202	2,650
Toll road development (cumulative 5-year)	km	807	1,000
Railway length	km	5,434	8,692
Port Development		278	450
Number of airports		237	252
Logistic cost	% of GDP	23.5	19.2
<b>Food Sovereignty</b>			
Development of irrigation networks	mn ha	8.90	9.89
Rehabilitation of irrigation networks	mn ha	2.71	3.01
Development of pond irrigation	k ha	189.75	304.75
Reservoir development		21	49
<b>Maritime and Marine</b>			
Port development to support sea toll		-	24
Development of ferriage harbor		210	270

Source: Bappenas

Since the target is optimistic, to be more focused, the government has set several priority projects to be developed. Some of the notable priority projects consist of toll roads development, 35GW of power plants, railway development, and ports to ensure maritime connectivity. We believe these projects have the highest likelihood of good execution. More importantly, these projects are being targeted by SOE contractors either as pure contractors or as the investor due to their sizeable value and good margins. Given the many projects available, we believe the pie is large enough for all contractors. This should be sufficient to ensure high order books growth going forward.

#### Pie no 1: Toll road projects – high value, high margin projects

Toll road development is one of the top infrastructure priorities to achieve land transportation connectivity. In this regard, the government set a target of 1,000 km of new toll roads in 2015-2019. As a comparison, in the second term of SBY's administration (2008-2014), only 43.5 km of toll roads were developed from the targeted 120 km or around 14.5km/year. Looking back to the reformation era (1998-2010), there was only around 111km of toll roads developed or around 9.25 km/year. Given this backdrop, the government's plans to construct 1,000 km of new toll roads over 5 years look ambitious.

Nonetheless, the target is likely to be achieved, as the toll roads currently under construction have already reached 1,060 km. The top priority toll roads development under Jokowi's

tenure are the trans-Java toll road section (305.5 km), trans-Sumatera toll road section (3,509 km), Samarinda-Balikpapan section (99 km), and Manado-Bitung section (39 km). Most of the trans-Java sections are already under construction with only two sections (Pemalang-Batang and Batang-Semarang) still waiting for the construction work to start. For trans-Sumatera, the government is prioritizing the development of eight sections to be completed by 2019 at the latest. All in all, we are confident that projects execution will be much better now since Jokowi himself is monitoring the progress of each new toll road.

The construction of new toll roads will be distributed among the SOE contractors considering the huge amount of investment needed as well as the long distances to be completed in a relatively short time. Hutama Karya, (appointed as the main contractor to build the trans-Sumatera toll road) will share part of the construction work with other contractors due to resource constraints. This is evident in the Bakaheuni-Terbanggi Besar section (~140km), where the construction work is being divided into four sections which will be constructed collectively by PTPP, WSKT, ADHI, and WIKA. Similar schemes will likely be adopted on the remaining sections of the trans-Sumatera toll road.

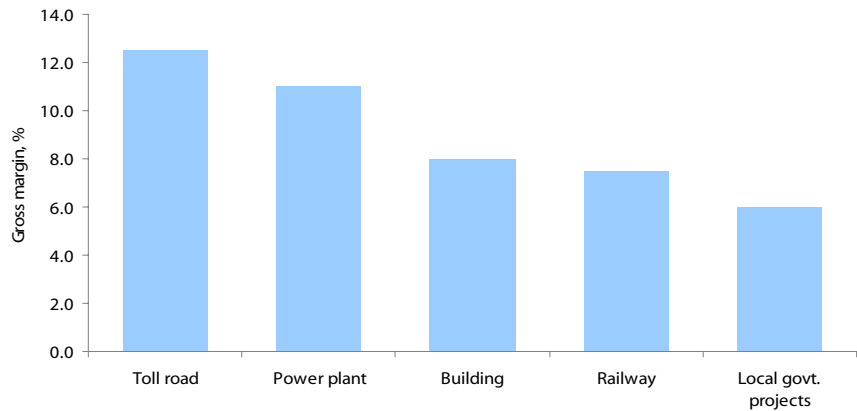
Despite its huge contract value, toll road projects have relatively high margins. According to the contractors, they can obtain a gross margin of around 13% in toll road projects, or higher compared to other infrastructure projects which might offer around 7-10% gross margins. With regard to toll road investment, WSKT is the leader as it currently already has 11 toll road concessions under its name (include minority ownerships) and is still seeking new toll road sections to be acquired.

#### Exhibit 27. Toll road priority projects progress

Toll road section	Length Km	Section status	Land acquisition status, %	Construction progress, %	Completion Date
<b>Trans Java Toll Road</b>					
Cikampek-Palimanan	116.8	Operational	Completed	Completed	2015
Pejagan-Pemalang	57.5	Construction	42.0	10.0	2018
Pemalang-Batang	39.2	Land clearing	1.9	Not started	2018
Batang-Semarang	75.0	Land clearing	20.3	Not started	2019
Semarang-Solo	72.6	Construction	61.6	31.4	2019
Solo-Ngawi	90.1	Construction	89.5	15.2	2018
Ngawi-Kertosono	87.0	Land clearing	67.0	Not started	2018
Mojokerto-Jombang-Kertosono	40.5	Construction	93.1	65.0	2017
Mojokerto-Surabaya	36.3	Construction	82.2	32.3	2017
<b>Trans Java Toll Road</b>	<b>615.0</b>				
<b>Trans Sumatera Toll Road</b>					
Medan-Banda Aceh	470.8	Not started	Not started	Not started	2019
Bakaheuni-Palembang	335.0	Construction	N/A	N/A	2019
Medan-Binjai	16.7	Construction	70.0	1.22	2018
Medan-Kualanamu-Tebing Tinggi	61.7	Construction	86.0	32	2017
Pekanbaru-Kandis-Dumai	135.0	Land clearing	15.0	Not started	2019
Palembang-Indralaya	22.0	Construction	34.5	2.21	2017
Bakaheuni-Terbanggi Besar	138.0	Construction	0.3	0.43	2018
Terbanggi Besar-Kayu Agung	185.0	Not started	Not started	Not started	2019
Kayu Agung-Palembang-Betung	111.0	Section I land clearing	100.0	Not started	2019
<b>Trans Sumatera Toll Road</b>	<b>1,475.2</b>				
<b>Manado-Bitung Toll Road</b>					
Manado-Airmadidi	13.5	Construction	50	44	2018
Airmadidi-Bitung	25.5	Land clearing	Not started	Not started	2018
<b>Manado Bitung Toll Road</b>	<b>39.0</b>				
<b>Balikpapan-Samarinda Toll Road</b>					
Section I. Km 13-Sp. Samboja	25.1	Construction	80.4	Not started	2018
Section II. Samboja-Palaran 1	23.3	Land clearing	98.3	Not started	2018
Section III. Samboja-Palaran 2	21.9	Land clearing	98.0	Not started	2018
Section IV. Palaran-Jembatan Mahkota	17.7	Land clearing	55.7	Not started	2018
Section V. Km 13-Sepinggalan	11.1	Land clearing	54.0	Not started	2018
<b>Balikpapan-Samarinda Toll Road</b>	<b>99.0</b>				

Source: Various publications

**Exhibit 28. Typical gross margin of infrastructure projects**

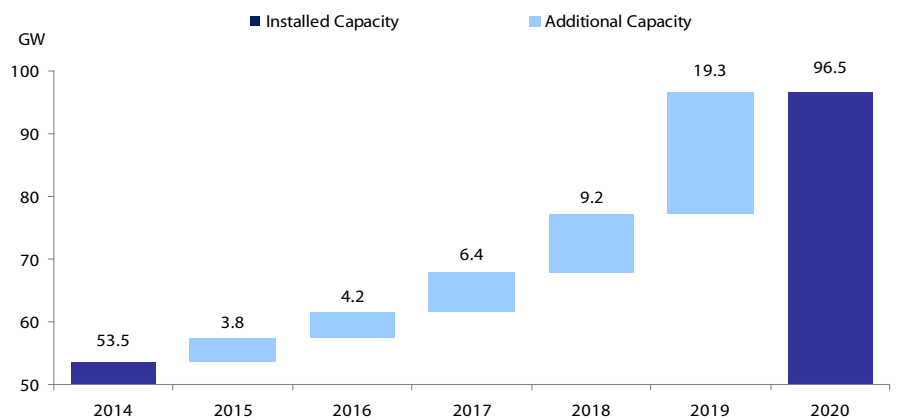


Source: Companies

**Pie no 2: The huge 35GW of power plant projects**

The 35GW of mega projects in the energy sector also offer potentially huge construction value. The plan is to develop power plants in 291 locations valued c.USD60 bn over the next 5 years. The projects comprise of 5GW power plants to be built by PLN (the National Electricity Company) and 30GW by private IPP. Of the total power plants investment value, 30% is usually construction work, which is the part done by civil contractors. This means there is c.USD15 bn of potential construction value which could be targeted by contractors. The progress of this project is encouraging with a total of 12GW out of this year’s target of 20GW already in the tender process. PLN targets the signing of contractors by 4Q16.

**Exhibit 29. 35GW Power Plants target roadmap**

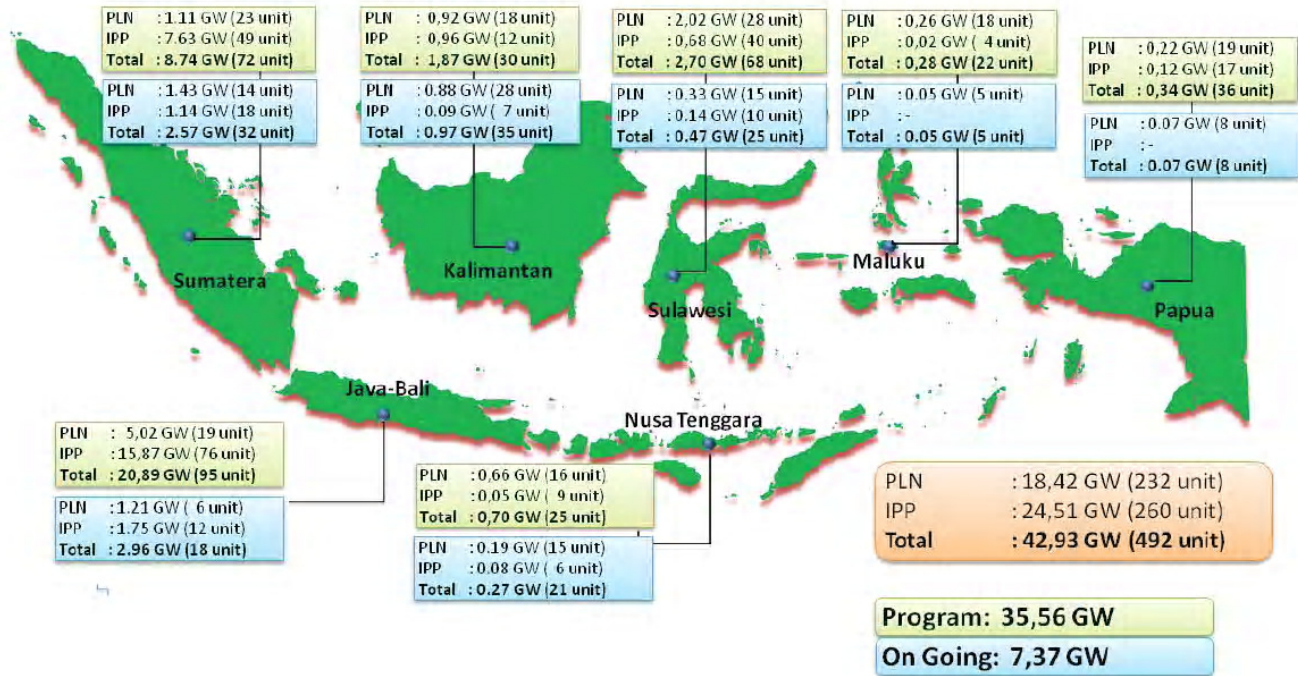


Source: Ministry of Energy and Mineral Resources

Construction companies such as WIKA and PTPP have been actively seeking to take part in these projects. For WIKA, its experience in power plant construction and investment gives it the edge in getting these projects. In this regard, WIKA has a track record in constructing 9.3GW of power plants, 200MW of which was through investment. For its future targeted projects, WIKA is currently participating in 2x1,000MW Jawa 5/7 IPP tender projects and targeting a 2x100MW mine mouth IPP in Aceh next year. Although not as impressive, PTPP also has a track record in handling several power plant projects and is currently undertaking construction of a 2x50MW gas turbine power plant in Sulawesi.

We believe the next 3-4 years will be a busy time for power plant construction since the Ministry of Energy and Natural Resources is targeting to have an additional 42.9GW of capacity installed by 2019, consisting of 7GW of ongoing projects and 35GW of new projects. This provides a large opportunity for construction companies, especially the experienced ones.

**Exhibit 30. 35GW development target by province**



Source: Ministry of Energy and Mineral Resources

**Pieno 3: Port projects – the heart of maritime connectivity**

Future port development will be through the sea toll road program initiated by the government. The sea toll concept is to connect main ports (hubs) and feeder ports. In this regard, the ministry has identified 5 ports, namely: Belawan/Kuala Tanjung, Tg.priok/Kalibaru, Tg. Perak, Makassar, and Bitung to be the hubs in the west to the eastern part of Indonesia. There will be 19 main feeder ports to support the hub ports. To build the ports infrastructure in 2016-2020, the Ministry of Transportation will need approximately USD12.3bn, of which 27.6% (~USD3.4bn) will be financed by the government with the other 72.4% (~USD8.9bn) coming from the private sector.

Despite the ambitious plans, we believe it will take quite sometime for them to materialize given that the recent progress of hub ports development is still lethargic. Other than phase I Kalibaru port that will be completed in 2017, most hub ports are still in the land acquisition and concession awarding phase. Among the SOE contractor names, PTTP stands out as the leader to benefit from port related projects owing to its success in executing Kalibaru port.

Exhibit 31. Sea toll road development plans



Source: Bappenas

#### Pie no 4: Railway projects – the longest mile

The Ministry of Transportation's main program is to have a national railways network covering 12,100 km by 2030. The total investment required is around USD67 bn (30% government and 70% private sector). Meanwhile, for its medium term strategic plans (2015-2019), the directorate general of railways is targeting to develop a railway network on every large island in Indonesia, i.e.: 1) Trans Sumatera, 2) the double track Java South-line, 3) Trans Sulawesi, 4) Trans Borneo, 5) Trans Kalimantan, and 6) Trans Papua. The total length of the planned railway is 3,957 km with a total estimated cost of USD7.9 bn. As such, the planned railways development is the most ambitious land transportation target set by the government in its medium term goal.



**Exhibit 32. Railways priority development plan**

	Length Km	Est. Cost USD mn	Inv/Km USD mn	Target operation	Financing sources
<b>Java South-line double tracking project</b>					
Kroya-Kutoarjo	76	135	1.78	2018	GOI
Solo-Paron-Madiun	95	145	1.53	2018	GOI
Madiun-Mojokerto-Wonokromo	166	286	1.72	2018	GOI
<b>Total</b>	<b>337</b>	<b>566</b>	<b>1.68</b>		
<b>Trans Sumatera Railway Network</b>					
Lhokeumawe-Langsa-Besitang	248	506	2.04	2019	GOI
Besitang-Binjai	85	48	0.56	2019	GOI
Rantauprapat-Duri-Dumai	240	516	2.15	2019	GOI
Duri-Pekanbaru	90	184	2.04	2019	GOI
Pekanbaru-Teluk Kuantan-Muaro	164	334	2.04	2019	GOI
Muaro Kalaban-Muaro	26	38	1.46	2019	GOI
Pekanbaru-Jambi	350	715	2.04	2019	GOI
Jambi-Palembang/Kertapati	217	506	2.33	2019	GOI
Double Tracking Prabumulih-Kertapati	80	185	2.31	2019	GOI
<b>Total</b>	<b>1,500</b>	<b>3,032</b>	<b>2.02</b>		
<b>Trans Sulawesi Railway Network</b>					
Manado-Bitung	48	129	2.69	2019	NA
Bitung-Gorontalo-Isimu	340	695	2.04	NA	NA
Pare-Pare - Mamuju	225	428	1.90	NA	NA
Makassar - Pare-Pare	145	286	1.97	2019	NA
Makassar-Bulukumba-Watampone	259	529	2.04	NA	NA
<b>Total</b>	<b>1,017</b>	<b>2,067</b>	<b>2.03</b>		
<b>Trans Borneo Railway Network</b>					
Banjarmasin-Palangkaraya	194	397	2.05	NA	NA
Banjarmasin-Tanjung	196	401	2.05	NA	NA
Tanjung-Balikpapan	234	479	2.05	NA	NA
Blaikpapan-Samarinda	89	182	2.04	NA	NA
<b>Total</b>	<b>713</b>	<b>1,459</b>	<b>2.05</b>		
<b>Trans Papua Railway Network</b>					
Sorong-Manokwari	390	795	2.04	NA	NA
<b>Total</b>	<b>390</b>	<b>795</b>	<b>2.04</b>		
<b>Total Railway Strategic Plans</b>	<b>3,957</b>	<b>7,919</b>	<b>2.00</b>		

Source: Ministry of Transportation

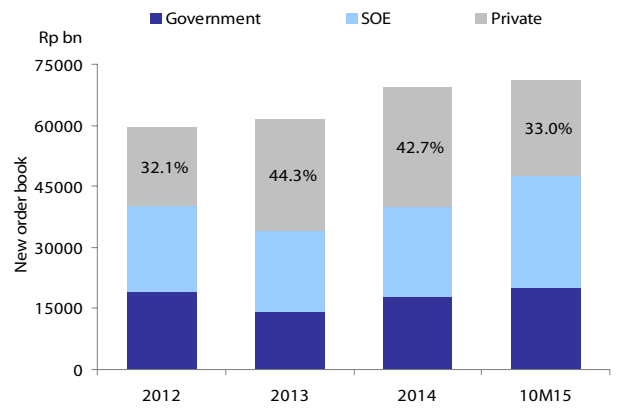
**The private sector – interest rate driven catalyst**

The private sector experienced a slowdown this year, owing to lower purchasing power and the high interest rate environment, which, in turn, hit demand for property. The slowdown also negatively impacted the construction sector given that property is a relatively sizeable proportion of yearly new order books. From the four SOE contractors, PTPP has the largest portion of private projects, comprising around 59% of its order book, followed by WIKA (47%), ADHI (32%), and WSKT (26%). The slowdown in the property sector will affect the acquisition of new contracts from the private sector by contractors.

Nonetheless, in view of better expected macroeconomic conditions in the coming years as well as the benign inflation rate, our economist believes there is room for the BI benchmark rate to be cut. In fact, our economist expects BI to cut the interest rate by 50 bps next year. This should serve as a catalyst for the property sector to recover, which would benefit the contractors as well.

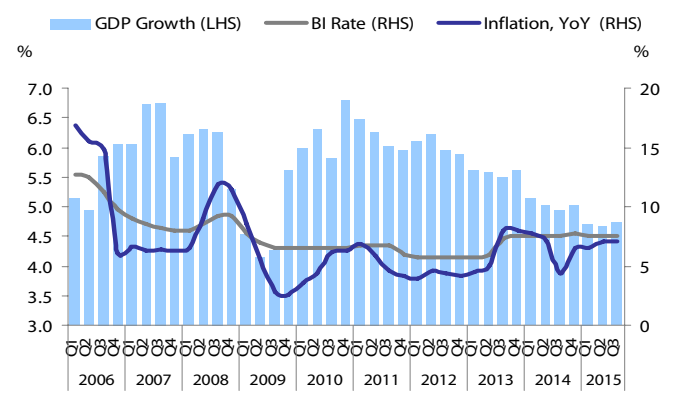


**Exhibit 33. shares of project owners**



Source: Ministry of Finance, APBN

**Exhibit 34. Benign inflation provides room for rate cut**



Source: CEIC

## Direct beneficiaries of infrastructure development

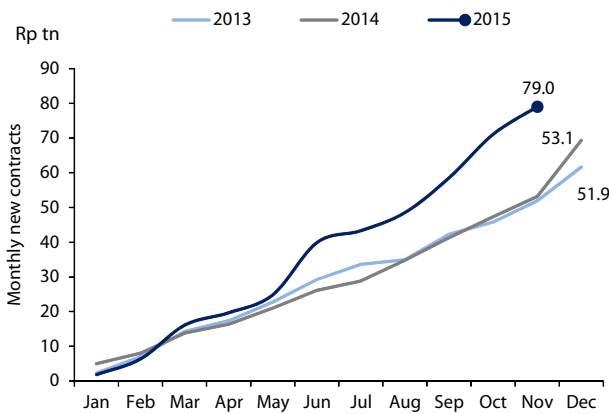
As government-owned companies, we believe SOE contractors should be the primary beneficiaries of government infrastructure acceleration programs. With a long list of government projects, there are many opportunities for SOE contractors to get contracts from government-related projects. Supporting our view are the following: 1) given its large portion in the SOE contractors' order books, more government-related projects should result in higher order books, 2) SOE contractors are the most likely option should the government decide to use direct appointments for its priority projects, and 3) the government is more likely to support financing through capital injections to SOE contractors.

### Solid new contracts progress thus far

The four listed SOE contractors, namely WSKT, WIKA, PTPP and ADHI, have been enjoying the up-cycle of the infrastructure boom since 2012. Since then, a considerable amount of government related projects have come into their order books. We believe this trend will continue or even strengthen in the coming years. Up until November 2015, the total construction new orders book had reached Rp78tn, up 46.8% compared to last year's number, of which the total government related projects contributed 67%. This is considerably higher than in the previous two years, when total government related projects contributed less than 60%, suggesting a rapid acceleration in government related projects.

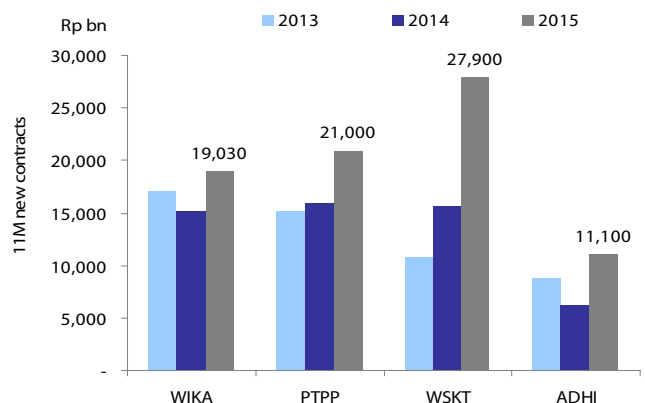
For new contracts, acceleration has been seen since June 2015 when the government started to award its projects. We believe there will be more projects awarded in the coming months since 4Q has always been the busiest quarter for contractors with regard to the awarding of government projects, with an average of around 36% of order books acquired in 4Q. Up until November 2015, WSKT led the pack with new contracts reaching Rp27.9 tn, 78% higher than last year's 11M14 figure. Next comes PTPP with Rp20 tn (+25% yoy), WIKA with Rp19 tn (+25.6%), and ADHI with Rp11.1 tn of new contracts.

**Exhibit 35. Monthly new contracts progress**



Source: Companies

**Exhibit 36. SOE contractors' new contracts**



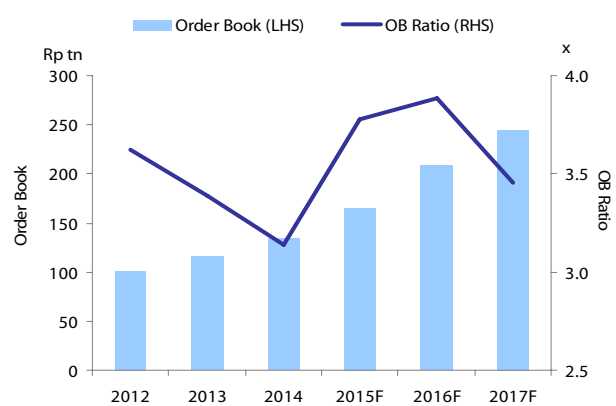
Source: Companies

### Order books to increase further...

We are optimistic that the total construction order book will grow more briskly going forward on the back of the potential sizeable value coming from government infrastructure projects coupled with huge projects already in the pipeline. The total order book until 11M15 has reached Rp156.5 tn, consisting of Rp78 tn of carry over contracts and Rp71 tn of new contracts. With this achievement, the total order book ratio (OB/Revenues t-1) reached 2.8x, a higher ratio suggesting greater new order books and better revenues sustainability. In addition, we also expect a backlog ratio of 1.8x in FY15F, or higher than the historical peak of 1.6x in FY13. This bodes well for solid revenues visibility in the coming years.

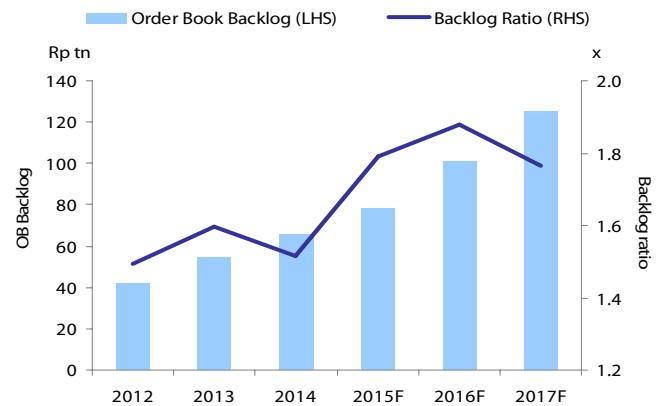
We expect the cumulative order book to grow by 21.6% CAGR in FY15F-17F (vs. 19.3% CAGR in FY13-15F). This will translate into a total order book of Rp208tn-Rp245tn in FY16F-17F, thus increasing the total order book ratio to 3.9x in FY16F from 3.1x in FY14. With this, the order book backlog ratio is expected to reach 1.9x in FY16F, translating into higher revenues growth of 30.1% CAGR in FY15F-17F (vs 11.8% CAGR in FY13-15F).

**Exhibit 37. Order book ratio rose in FY16F**



Source: Companies, Danareksa Sekuritas

**Exhibit 38. High backlog ratio ensures revenues visibility**



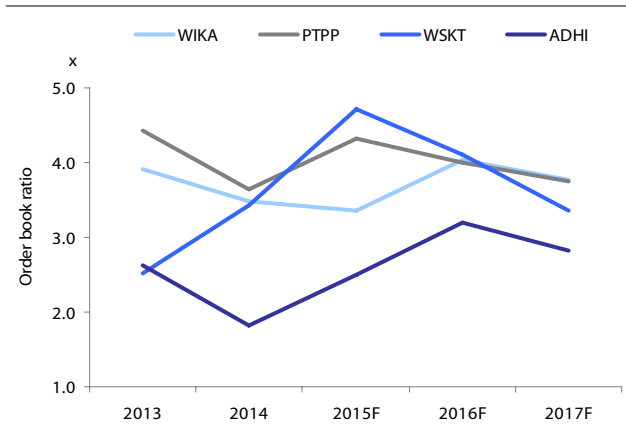
Source: Companies, Danareksa Sekuritas

Among the individual contractor names, PTPP remains the leader in terms of order book size due to the huge order book carry over. With an additional Rp21tn of new contracts up to 11M15, PTPP recorded a total order book of Rp50tn, the largest among its peer contractors. Going forward, we expect PTPP to record order book growth of 18% CAGR in FY15F-FY17F on the back of huge carry over contracts and consistency in acquiring a considerable amount of new contracts.

Meanwhile, the 10M15 new contracts have already placed WSKT as the leader in new contracts achievement. With an additional Rp26.6tn of new contracts, WSKT has a total order book of Rp46.8tn, second largest among the SOE contractors. Furthermore, in light of the considerable estimated carry over contracts and sizeable toll road projects in the pipeline, we expect WSKT to record total order book growth of 20.1% in FY15F-FY17F to reach Rp70 tn in FY17F.

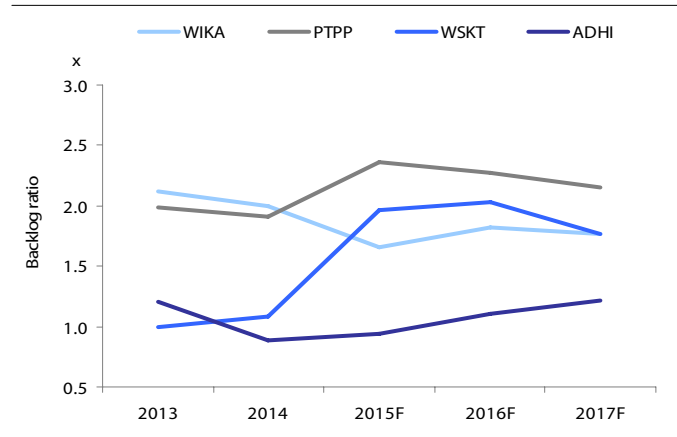
For ADHI, with a low base of contracts achievement in FY14, this year should be a turnaround story with its expected order book reaching Rp21.5 tn by the end of FY15F. We expect ADHI to maintain its solid performance and record the highest order book growth in the sector of 36.8% in FY15F-17F. Meanwhile, WIKA, given its lagging new contracts achievement until 11M15, is expected to have a total order book of Rp41.7 tn in FY15F. However, in FY16F, we expect WIKA's new contracts achievement to improve, given its numerous projects which are in the pipeline, including the sizeable Jawa 5 power plant. Thus, the company's order book is expected to grow by 19.7% CAGR in FY15F-17F.

**Exhibit 39. Order book ratio**



Source: Companies, Danareksa Sekuritas

**Exhibit 40. Backlog ratio**



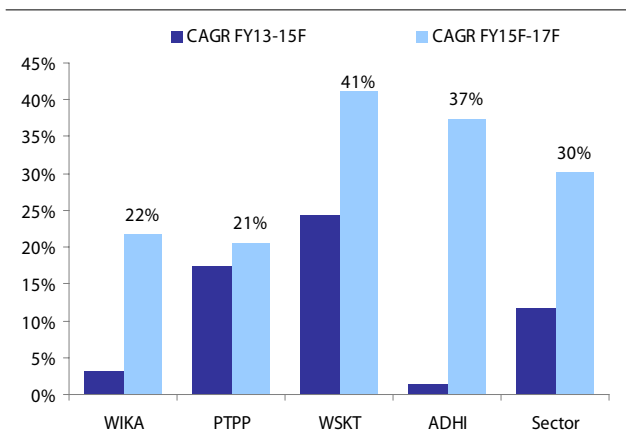
Source: Companies, Danareksa Sekuritas

**... to drive strong earnings**

As the order book ratio is expected to reach 3.9x in FY16F, we believe revenues visibility will still be pronounced for at least the next 2-3 years. Profitability wise, we believe margins should be maintained until FY17F on the back of the higher infrastructure portion, including toll roads and power plants, which provide better margins (10-15% gross margin). SOE contractors will focus more on those projects given their sizeable value. The expected lower interest rate environment will also help the contractors to maintain margins. Thus, we expect the sector to record earnings growth of 28% CAGR in FY15F-17F on the back of 30% CAGR revenues growth.

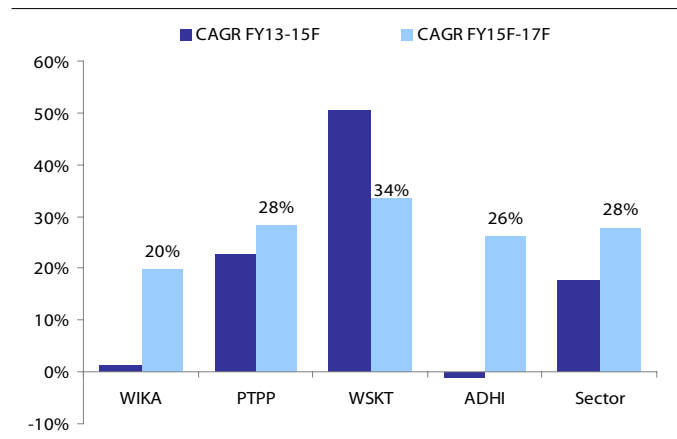
Among individual companies, we expect WSKT to deliver the strongest earnings growth of 34% CAGR in FY15F-17F, given its sizeable toll road projects ensuring strong revenues growth, followed by PTPP with earnings growth of 28% CAGR given its huge carry over contracts, ADHI with earnings growth of 26% CAGR from LRT projects and WIKA with earnings growth of 20% CAGR from its power plants and recovery of its precast business.

**Exhibit 41. Revenues growth**



Source: Danareksa Sekuritas

**Exhibit 42. Earnings growth**

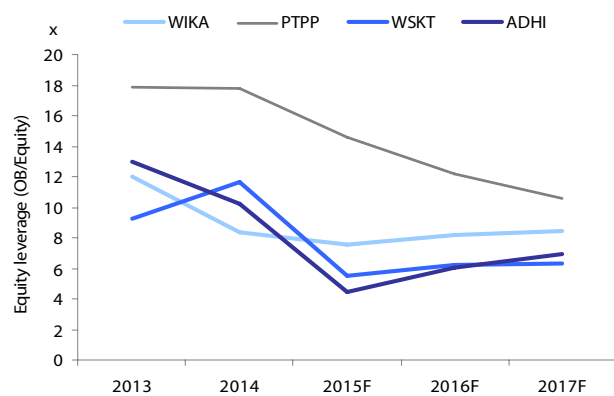


Source: Danareksa Sekuritas

### Ample room to leverage

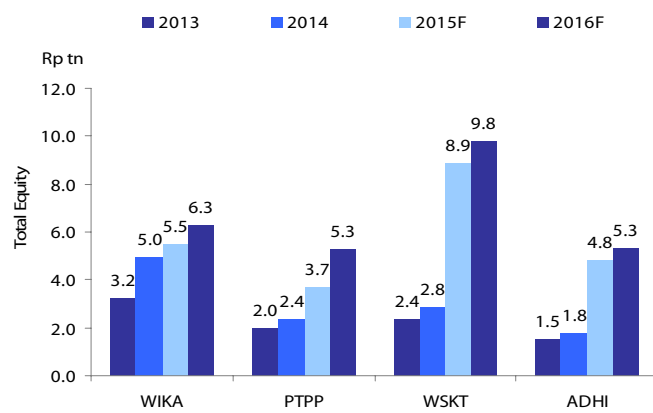
To seize the available opportunities, the contractors will need sufficient space for financing capacity. In this regard, we believe the contractors' equity is still sufficient to increase leverage to obtain larger order books. We expect the combined OB/Equity ratio to stand at 7.2x in FY15F, still below its peak of 15.4x in 2011 thanks to additional capital coming from the successful rights issues of WSKT and ADHI. Thus, using the assumption of 10x equity leverage, there is still room for c.Rp63-78 tn of additional capacity to further obtain larger order books.

**Exhibit 43. OB/Equity declining as equity increases**



Source: Companies, Danareksa Sekuritas

**Exhibit 44. Greater equity provides ample room to leverage**



Source: Companies, Danareksa Sekuritas

### Alternative funding from state capital injections

In addition to direct allocation of the infrastructure budget to the ministries, the government is also likely to utilize another alternative financing scheme, namely state capital injections. Capital injections are made to State Owned Enterprises (SOE) with the objective to develop certain infrastructure. In 2015, Rp46 tn was allocated for state capital injections, most of which (Rp28.8 tn) was allocated to finance infrastructure development. WSKT, ADHI and the non-listed contractor Hutama Karya (HK) were among the names receiving capital injections.

In the 2016 proposed state budget, the government allocated Rp39 tn of capital injections for infrastructure spending of which Rp9.3 tn is allocated to three SOE contractors, namely WIKA (Rp4 tn), PTPP (Rp2.3 tn) and HK (Rp3 tn). The government's capital injection allocation to HK in two consecutive budget periods is to support the development of the Trans-Sumatera toll road of which HK has been appointed as the lead project contractor. However, the 2016 state capital injection budget has stalled as it was rejected by the parliament. The government still wants to propose capital injections as part of the 2016 revised budget which will probably be submitted in 1Q16. Should this materialize, then the capital injections will be allocated as follows:

**Exhibit 45. State capital injection**

Company	2015	2016F	Business Scope
Adhi Karya	1,400	-	Contractors
Hutama Karya	3,600	3,000	Contractors
Pembangunan Perumahan	-	2,250	Contractors
Waskita Karya	3,500	-	Contractors
Wijaya Karya	-	4,000	Contractors
PLN	5,000	10,000	
Sarana Multi Infrastruktur	2,000	5,000	Infrastructure Financing
Sarana Multigriya Finansial	1,000	1,000	Infrastructure Financing
Penjaminan Infrastruktur Indonesia	1,500	1,000	Infrastructure Insurance
Perum Perumnas	1,000	235	Public Housing
Angkasa Pura II	2,000	2,000	Airport operator
Jasa Marga	-	1,250	Toll road operator
Pelayaran Nasional Indonesia	500	565	Ship company
Kereta Api Indonesia	2,000	-	Railway operator
Pelindo IV	2,000	-	Port operator
<b>Total Capital Injection</b>	<b>46,277</b>	<b>38,160</b>	

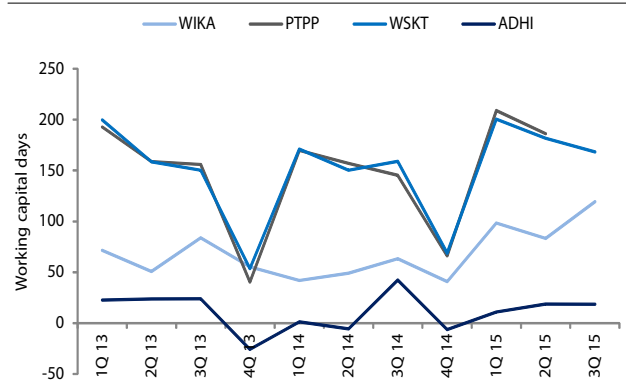
Source: Ministry of Finance, APBN

**Rising working capital is inevitable**

The greater number of projects financed by the state budget will consequently increase the contractors' needs for higher working capital due to the cash disbursement gap from the budget. Typical government funded projects result in higher working capital days. Historically, the contractors' working capital days in the peak quarter could reach 100-200 days, depending on the project composition. Going forward, we believe the working capital will tend to rise, especially for ADHI given its turnkey LRT projects. WSKT will also face a similar trend given its large toll road projects and possible LRT projects coming in following years.

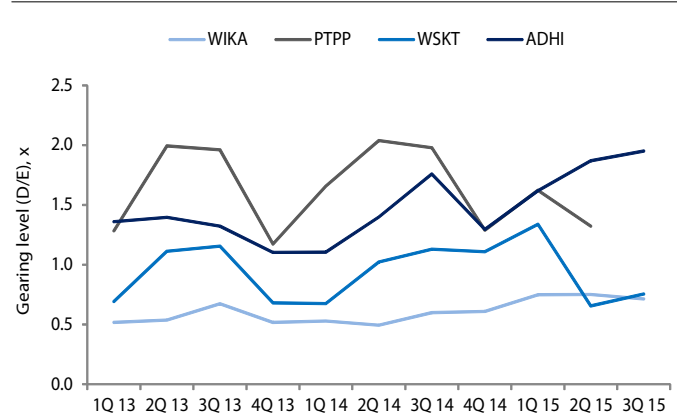
Consequently, we expect gearing to head higher, especially in the peak quarter due to greater utilization of bank loans for working capital facilities and the tendency of late payments for government projects, most likely in the 4<sup>th</sup> quarter. Among the SOE contractors, ADHI has the most stretched balance sheet with a 2x D/E ratio as of 3Q15, although the leverage should decline on the back of the successful rights issue in October 2015. Overall, the balance sheet is still manageable with a D/E ratio of 1.4x. We anticipate soaring gearing for PTPP and WIKA given their intention to obtain huge projects in addition to the delayed capital injections in 2016. Consequently, financing charges will be higher, putting their earnings at risk.

**Exhibit 46. Working capital is heading higher**



Source: Companies, Danareksa Sekuritas

**Exhibit 47. Gearing during the peak quarter is still manageable**



Source: Companies, Danareksa Sekuritas

## Notable risks to sector performance

### **Softereconomic growth**

In our assumptions we expect economic growth to recover next year on the back of demand recovery and early disbursement of government spending. There are several risks related to the macroeconomic slowdown: 1) shortfall in government revenues, 2) infrastructure budget cuts, 3) projects delay, 4) increased working capital – cash drag and 4) slow private sector projects. As such, construction companies would be hampered as the targeted new order book would be difficult to achieve, revenues would stagnate, and earnings would fall.

### **Landacquisition problems**

Land acquisition is a vital part of infrastructure projects. Failure in smooth execution of land acquisition would cause costly delays to the projects. Furthermore, ineffective implementation of the land acquisition bill in the field would also put the land acquisition process at risk. The government still needs to more actively enforce the new land acquisition bill so that it is effectively implemented.

### **Politicalrisk and government intervention**

Heightened political tensions would risk the stability of the current administration. Since the infrastructure acceleration program is initiated by the current administration, any unhealthy political intervention would put the government's infrastructure development plans at risk. Likewise, any inappropriate government intervention into economic sectors might have an unfavorable impact.

### **High interest rates environment**

Construction companies need high working capital to undertake business, especially in government-related projects. An unfavorable interest rates environment will have an adverse impact on the bottom line given that the nature of the business is characterized by low margins. In addition, high interest rates will also weaken demand for property. As a result, there would be fewer private projects.

### **Unwieldy bureaucracy**

Many parties are involved in infrastructure projects, from the project owner, central government, local government, associated ministries, and other unmentioned parties. Thus bureaucracy would be an important issue, especially in regard to granting licenses and permission. Layered bureaucracy might risk the project execution, timeliness and trigger cost overruns.



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## CONSTRUCTION SECTOR/COMPANY UPDATE

**BUY**

Target Price, Rp 2,150  
Upside 30.7%

## WSKTJ/WSKTJK

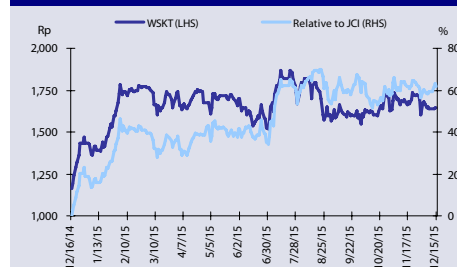
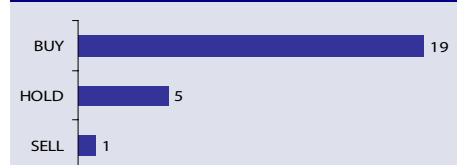
Last Price, Rp 1,645  
No. of shares, mn 13,567

Market Cap, Rp 22,317

(US\$ mn) 1,590  
3M T/O, US\$mn 1.6

**Last Recommendation**

30-Jul-2015	BUY	Rp 2,000
11-Jun-2015	BUY	Rp 2,150
22-May-2015	BUY	Rp 2,100

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

	Our	Cons	% Diff
Target price, Rp	2,150	1,990	8.0
EPS 2016F, Rp	80	80	0.0
PE 2016F, x	20.5	20.6	0.5

**Waskita Karya****Highway Rising Star**

An additional Rp5.3 tn in the company's equity after the rights issue makes WSKT the largest listed SOE contractor by equity size. This allowed WSKT to aggressively invest in high value toll road projects, which consequently gave the company sizeable construction projects contract. With 11 toll road sections it currently owned, WSKT has a potential to add c.Rp20 tn order book in the coming years. Thus, we believe WSKT's new contract achievement will remain robust in FY16-17F. We expect 34% CAGR earnings growth in FY15F-17F on the back of larger order book and margins improvement on a greater contribution from toll road projects. Maintain BUY with a higher TP of Rp2,150 based on 26.7x target FY16F P/E, equal to 1.5x standard deviation above the construction sector average P/E.

**Sizeable toll road projects to support robust order books growth**

Starting its toll road investments in late FY14, WSKT is now focusing more on the toll road projects as these investments bore fruit in 2015. Toll road projects are favored due to their huge value and high margins. In toll roads, WSKT currently has a total of 11 sections with a total length of ~470km. This should translate into a total order book size of c.Rp30 tn up until FY17F. In FY16, WSKT expects to book c.Rp20 tn of new contracts from its toll roads. In addition, WSKT is still actively looking for new toll road sections to be acquired, including Pemalang-Batang, Bocimi, and four toll road sections in Bali.

**The outstanding performance should continue**

WSKT's achievement of booking Rp28 tn of new contracts up until 11M15 made the company the best performing contractor among the SOE contractors. With a new contracts target of Rp30 tn by the end of FY15, which is likely to be achieved, WSKT is estimated to have a total order book of Rp48 tn by the end of this year. The huge order book backlog will ensure revenues growth for next year. WSKT's aggressive moves will ensure high growth for the next two years at least. We expect the investment will translate into solid order book growth. Given the contracts size and better profitability from the toll road projects and rapid progress in land acquisition and construction works, we believe WSKT will deliver the highest earnings growth with a 34% CAGR in FY15F-17F.

**Negative earnings on toll road investment should be expected**

As the majority of its toll roads will be completed in FY17-FY18, WSKT should book negative earnings on its newly operating toll sections during the traffic consolidation period. Typically, new toll road sections generate positive earnings after 4-5 years, assuming the traffic volume meets expectations. Furthermore, 3 of its toll road sections will be consolidated in the balance sheet following the recent acquisition of 38.5% of MNC's ownership in WMTTR, meaning WSKT owns a majority ownership in the section. To reduce pressure on its balance sheet, WSKT is said to look for strategic partners to divest c.30% ownership in the Waskita Toll Road. Should this materialize, WSKT would receive additional cash to strengthen its project financing capacity.

	2013	2014	2015F	2016F	2017F
Revenues, Rp bn	9,687	10,287	14,970	20,844	29,847
EBITDA, Rp bn	725	961	1,534	2,278	3,338
EBITDA Growth, %	26.3	32.6	59.5	48.6	46.5
Net Profit, Rp bn	368	502	833	1,089	1,487
Core Profit, Rp bn	363	488	833	1,089	1,487
Core EPS, Rp	38	50	61	80	110
Core EPS Growth, %	63.2	33.1	22.4	30.8	36.6
Net Gearing, %	21.1	52.2	Net cash	24.9	32.3
PER, x	43.1	31.9	26.8	20.5	15.0
Core PER, x	43.7	32.8	26.8	20.5	15.0
PBV, x	6.6	5.6	2.5	2.3	2.0
EV/EBITDA, x	22.5	18.2	14.3	10.9	7.8
Yield, %	0.1	0.7	0.4	0.7	1.0

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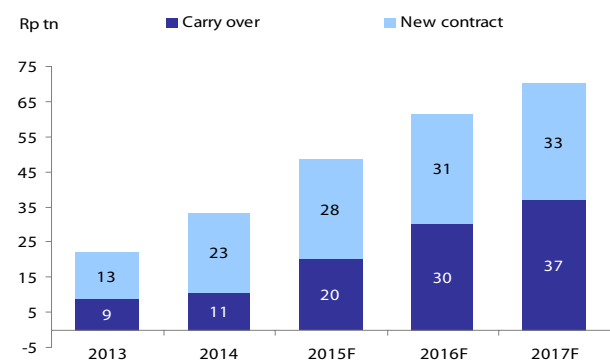
**Valuation, BUY with a TP of Rp2,150**

With equity size reaching Rp8.8 tn, WSKT is able to leverage its balance sheet up to 3x, which would translate to additional project financing capacity of c.Rp26 tn, sufficient to finance its toll road construction projects at once. Thus, we are optimistic the toll road construction work will run smoothly without financing difficulty. However, we already anticipate higher financing charges on the back of increasing leverage. We value WSKT using target FY16F P/E of 26.7x, equal to 1.5 standard deviation above the construction sector average P/E multiple. As such, we arrive at a higher TP of Rp2,150. Maintain BUY.

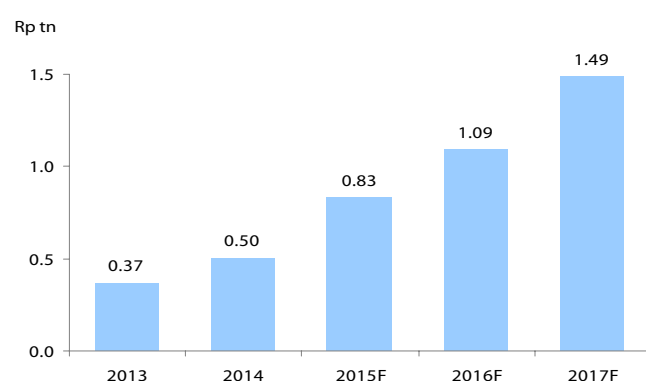
**Exhibit 1. Changes in our forecast, Rp bn**

	2014	Current			Previous			Changes, %		
		2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F
New contracts	22,625	28,320	31,045	33,245	21,825	22,283	24,755	29.8	39.3	34.3
Order book	33,141	48,580	61,392	70,064	42,085	47,221	50,446	15.4	30.0	38.9
Revenues	10,287	14,970	20,844	29,847	14,268	18,568	21,874	4.9	12.3	36.5
JO income	197	195	211	279	168	139	191	16.1	51.4	45.8
Gross profit - ex. JO	1,109	1,764	2,580	3,659	1,650	2,138	2,408	6.9	20.7	52.0
Operating profit	875	1,408	2,086	3,074	1,277	1,618	1,873	10.3	28.9	64.1
Net profit	502	833	1,089	1,487	725	1,054	1,167	14.9	3.3	27.4
Gross margin - ex. JO	10.8	11.8	12.4	12.3	11.6	11.5	11.0	0.2	0.9	1.3
Operating margin	8.5	9.4	10.0	10.3	8.9	8.7	8.6	0.5	1.3	1.7
Net margin	4.9	5.6	5.2	5.0	5.1	5.7	5.3	0.5	(0.5)	(0.4)

Source: Danareksa Sekuritas

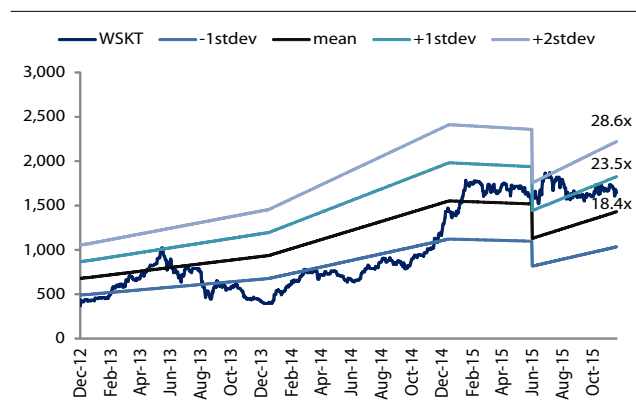
**Exhibit 2. WSKT's order book**

Source: Company, Danareksa Sekuritas

**Exhibit 3. Solid earnings in FY15F-17F**

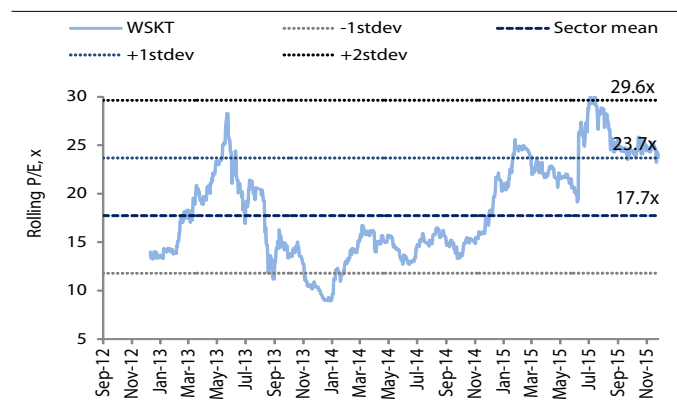
Source: Company, Danareksa Sekuritas

Exhibit 4. WSKT P/E Band



Source: Bloomberg, Danareksa Sekuritas

Exhibit 5. WSKT relative to sector



Source: Bloomberg, Danareksa Sekuritas

Exhibit 6. WSKT's toll road projects

Toll Road Section	WSKT	Length Km	Land Acquisition progress, %	Construction progress %	Total investment Rp bn	Construction cost Rp bn	Estimated completion
<b>Majority Ownership</b>							
1 Pejagan-Pemalang	100.0	57.5	100	50.0	5,500	1,679	2016
2 Kanci - Pejagan	95.5	35.0	100	Not started	1,100	1,000	Operation
3 Cimanggis-Cibitung	90.0	25.4	< 5	1.39	8,600	5,700	2018
4 Pasuruan-Probolinggo	80.0	31.3	< 5	Not Started	3,551	2,300	2018
5 Bekasi-Cawang-Kampung Melayu	60.0	21.0	83	30.0	7,581	4,214	2017
<b>Minority Ownership</b>							
6 Solo-Ngawi	40.0	90.0	95	< 5	5,400	3,201	2017
7 Ngawi-Kertosono	40.0	87.0	78	< 5	4,100	2,361	2017
8 Depok-Antasari	12.5	21.0	80	Phase IA (13.25%)	2,900	2,049	2017
9 Medan-Kualanamu-Tebing Tinggi	15.0	61.0	83	Phase III (2.8%)	4,072	3,101	2018
10 Cinere-Serpong	35.0	10.1	< 5	Not Started	2,500	1,220	2018
11 Legundi-Bunder	48.0	29.2	< 5	Not Started	5,957	3,200	2018
<b>Total current section</b>		<b>469</b>			<b>51,261</b>	<b>30,025</b>	
<b>Potential acquisition</b>							
12 Bogor-Ciawi-Sukabumi	Majority	53.6	92%	Section I	5,400	N/A	2019
13 Pemalang-Batang	60.0	39.2	N/A	N/A	4,077	2,270	2018

Source: Company

**Exhibit 7. Profit and loss, Rp bn**

	2013	2014	2015F	2016F	2017F
Revenues	9,687	10,287	14,970	20,844	29,847
COGS	8,776	9,178	13,207	18,263	26,188
Gross profit	911	1,109	1,764	2,580	3,659
Income from JO	102	197	195	211	279
Gross profit incl. JO	1,012	1,306	1,959	2,791	3,938
Operating expenses	(340)	(431)	(551)	(705)	(864)
Operating profit	672	875	1,408	2,086	3,074
Net interest	(70)	(140)	(205)	(481)	(849)
Other income (expenses)	9	20	-	-	-
Pre-tax income	611	756	1,203	1,605	2,225
Income tax	(243)	(254)	(370)	(515)	(738)
<b>Net profit</b>	<b>368</b>	<b>502</b>	<b>833</b>	<b>1,089</b>	<b>1,487</b>
<b>Core profit</b>	<b>363</b>	<b>488</b>	<b>833</b>	<b>1,089</b>	<b>1,487</b>

Source: Company, Danareksa Sekuritas

**Exhibit 8. Balance sheet, Rp bn**

	2013	2014	2015F	2016F	2017F
Cash & equivalent	1,120	1,675	3,425	2,136	1,924
Trade receivables	1,710	2,307	3,951	6,081	7,878
Project receivables	3,944	4,954	7,610	11,150	15,109
Inventories	292	604	1,143	1,327	1,902
Other current assets	715	984	1,166	1,613	2,300
<b>Total Current Assets</b>	<b>7,781</b>	<b>10,524</b>	<b>17,295</b>	<b>22,306</b>	<b>29,113</b>
LT investments	570	1,363	3,332	4,643	5,022
Fixed assets	415	622	926	1,203	1,454
Other assets	21	33	33	33	33
<b>Total Non-current Assets</b>	<b>1,007</b>	<b>2,018</b>	<b>4,291</b>	<b>5,879</b>	<b>6,508</b>
<b>TOTAL ASSETS</b>	<b>8,788</b>	<b>12,542</b>	<b>21,586</b>	<b>28,185</b>	<b>35,622</b>
ST loans	875	1,917	400	400	1,500
Trade payables	2,291	2,572	3,599	4,977	7,136
Current portion of LT loans	-	-	-	1,174	350
Other current liabilities	2,261	3,239	4,998	7,401	9,864
<b>Total Current Liabilities</b>	<b>5,427</b>	<b>7,728</b>	<b>8,997</b>	<b>13,952</b>	<b>18,851</b>
LT loans	748	1,246	2,674	3,000	3,650
Other liabilities	230	719	1,034	1,428	2,046
<b>Total Non-current Liabilities</b>	<b>978</b>	<b>1,965</b>	<b>3,707</b>	<b>4,428</b>	<b>5,696</b>
Capital stock	1,794	1,854	7,155	7,155	7,155
Retained earnings	563	954	1,686	2,609	3,878
Other equity	26	41	41	41	41
<b>Total Equity</b>	<b>2,383</b>	<b>2,849</b>	<b>8,883</b>	<b>9,805</b>	<b>11,075</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>8,788</b>	<b>12,542</b>	<b>21,586</b>	<b>28,185</b>	<b>35,622</b>

Source: Company, Danareksa Sekuritas

**Exhibit 9. Cash flow, Rp bn**

	2013	2014	2015F	2016F	2017F
Pretax profit	611	756	1,203	1,605	2,225
Tax	(462)	(305)	(577)	(775)	(1,134)
Depreciation	53	86	125	192	264
Changes in W/C	(291)	(694)	(2,270)	(2,343)	(2,134)
<b>Cash Flow from Operation</b>	<b>(89)</b>	<b>(157)</b>	<b>(1,518)</b>	<b>(1,320)</b>	<b>(778)</b>
Capex	(228)	(292)	(430)	(470)	(514)
Investments	(253)	(968)	(1,794)	(1,311)	(379)
Others	(205)	469	380	477	752
<b>Cash Flow from Investing</b>	<b>(687)</b>	<b>(791)</b>	<b>(1,844)</b>	<b>(1,303)</b>	<b>(141)</b>
ST loans	(297)	1,042	(1,517)	-	1,100
Current portion of LT loans	-	-	-	1,174	(824)
LT loans	1	498	1,428	326	650
Equity	29	74	5,301	-	-
Dividend	(20)	(110)	(100)	(167)	(218)
<b>Cash Flow from Financing</b>	<b>(288)</b>	<b>1,504</b>	<b>5,112</b>	<b>1,334</b>	<b>708</b>
<b>Change in Cash</b>	<b>(1,064)</b>	<b>556</b>	<b>1,750</b>	<b>(1,289)</b>	<b>(212)</b>

Source: Company, Danareksa Sekuritas

**Exhibit 10. Key Ratios**

	2013	2014	2015F	2016F	2017F
<b>Profitability, %</b>					
Gross margin - excl. JO	9.4	10.8	11.8	12.4	12.3
Gross margin - incl. JO	10.5	12.7	13.1	13.4	13.2
Operating margin	6.9	8.5	9.4	10.0	10.3
EBITDA margin	7.5	9.3	10.2	10.9	11.2
Net margin	3.8	4.9	5.6	5.2	5.0
Core margin	3.7	4.7	5.6	5.2	5.0
ROAE	16.8	19.2	14.2	11.7	14.2
ROAA	4.3	4.7	4.9	4.4	4.7
<b>Leverage</b>					
Debt to equity, %	68.1	111.0	34.6	46.7	49.7
Net debt to equity, %	21.1	52.2	Net cash	24.9	32.3
Interest coverage, x	6.9	4.8	4.5	3.7	3.4
<b>Turnover, days</b>					
Trade receivables	64	81	95	105	95
Inventories	12	24	31	26	26
Trade payables	94	101	98	98	98
<b>Growth, %</b>					
Revenues	10.0	6.2	45.5	39.2	43.2
Operating profit	24.5	30.2	60.8	48.1	47.4
EBITDA	26.3	32.6	59.5	48.6	46.5
Net profit	44.9	36.3	66.0	30.8	36.6
Core profit	63.2	34.5	70.7	30.8	36.6

Source: Company, Danareksa Sekuritas

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## CONSTRUCTION SECTOR/COMPANY UPDATE

**BUY**

Target Price, Rp 4,700

Upside 26.5%

## PTPPIJ/PTPPJK

Last Price, Rp 3,715

No. of shares, mn 4,842

**Market Cap, Rp bn 17,988**

(US\$ mn) 1,281

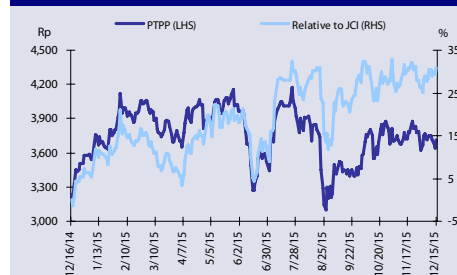
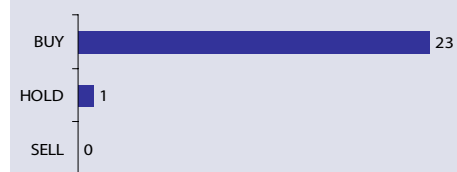
3M T/O, US\$mn 3.0

**Last Recommendation**

24-Aug-2015 BUY Rp 4,600

04-May-2015 BUY Rp 4,600

26-Mar-2015 BUY Rp 4,600

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

	Our	Cons	% Diff
Target price, Rp	4,700	4,558	3.1
EPS 2016F, Rp	177	190	-6.8
PE 2016F, x	21.0	19.5	7.7

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

**Pembangunan Perumahan****Earnings visibility still intact**

**PTPP's solid order book backlog should ensure earnings visibility in FY16F. With expected c.Rp36.5 tn of order books carry over for FY16F, PTPP should be able to maintain solid earnings growth. Given its sound track record on new project acquisition and good execution, PTPP stands to benefit from sizeable government infrastructure projects, especially related to port development. We expect earnings growth of 28% CAGR on the back of 18% CAGR order book growth in FY15F-17F. We maintain our positive view on PTPP for its solid earnings visibility, good project execution and strong ability to generate new contracts. Maintain BUY with a higher TP of Rp4,700 based on the target FY16F PE of 26.7x, equal to 1.5 standard deviation above the sector average P/E.**

**Sizeable order book ensures earnings visibility**

Having sizeable contracts on hand should ensure the visibility of PTPP's earnings growth for next year. With a new order book achievement reaching Rp21tn, PTPP's order book has reached Rp50.3tn as of 11M15. We expect order book carry over of Rp36.5tn for next year, and this should be able to keep revenues healthy. PTPP has cemented its strong track record on project acquisition and good execution. This prompts us to believe that PTPP will be able to get considerable contracts from government infrastructure projects, especially port related projects. Hence, we expect new order book growth of 18% CAGR in FY15F-17F. This would support earnings growth of 28% in FY15F-17F.

**Hands on to get more infrastructure projects**

The majority of PTPP's order book comes from the private sector, which in the currently weak economy, poses a risk of delay or project discontinuity. PTPP's private clients are mostly big developers and should thus pose less risk than small developers. In this regard, PTPP has made several preemptive actions to minimize impairment risk. Nonetheless, the private proportion has dropped to 47% (vs 62% in FY14) from its new order book this year as it already took more government infrastructure related projects through SOE as well as from the ministry budget. The government and SOE's project portion is estimated to reach 56% by the end of FY15. Furthermore, PTPP plans to participate more strongly in the government's 35GW power plant projects as it intends to set up a new subsidiary related to the energy business, especially power plant investments next year.

**Delays in capital injection narrow the investment project option**

The delay in the Rp2.25 tn state capital injection (PMN) next year will reduce PTPP's flexibility to venture into several targeted investment projects. However, the impact on the balance sheet is minimal thanks to successful PPRO IPO which relaxed the balance sheet. The talk on PMN is still on as the government plans to resubmit the proposal in next year's revised budget. Should the proposal be approved, PTPP will focus on minority investments in several power plants, ports, and toll road projects. This would help to secure construction works.

Year end to Dec	2013	2014	2015F	2016F	2017F
Revenues, Rp bn	11,656	12,427	16,061	19,953	23,400
EBITDA, Rp bn	1,188	1,391	1,732	2,187	2,571
EBITDA Growth, %	38.2	17.0	24.5	26.3	17.5
Net Profit, Rp bn	421	532	635	857	1,045
Core Profit, Rp bn	486	569	667	898	1,100
Core EPS, Rp	100	118	138	185	227
Core EPS Growth, %	35.6	17.2	17.2	34.6	22.5
Net Gearing, %	(5.5)	26.1	25.6	27.1	21.3
PER, x	42.8	33.8	28.3	21.0	17.2
Core PER, x	37.1	31.6	27.0	20.0	16.4
PBV, x	9.1	7.5	4.9	3.4	2.5
EV/EBITDA, x	15.0	13.4	10.9	8.9	7.6
Yield, %	0.5	0.7	0.6	0.7	1.0



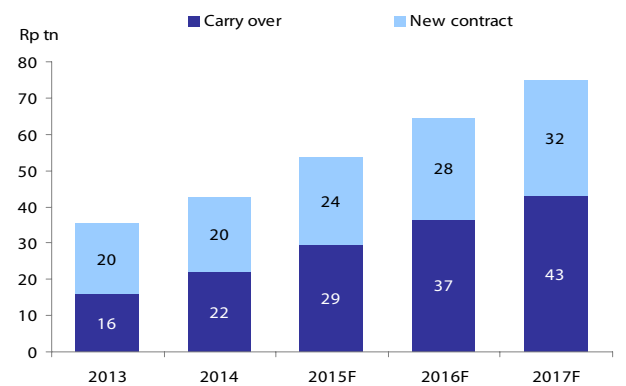
**Valuation, BUY with TP of Rp4,700**

We maintain our positive view on PTPP for its solid earnings visibility, good project execution and strong ability to generate new contracts. PTPP shares have outperformed the construction sector by 11% and the JCI by 17.5%. Maintain BUY with a higher TP of Rp4,700. We derive our target price based on the target FY16F P/E of 26.7x, equal to 1.5 standard deviation above the sector average P/E multiple.

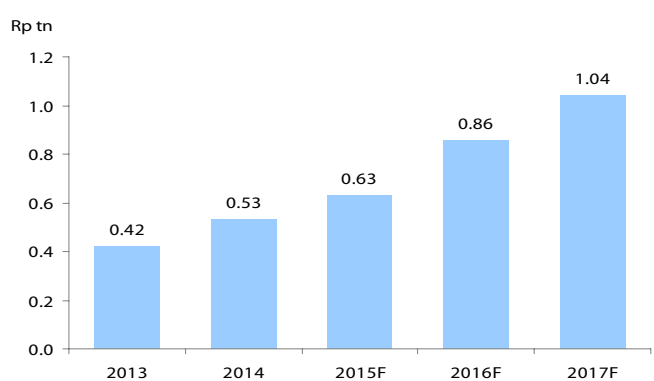
**Exhibit 1. changes in our forecast**

	2014	Current			Previous			Changes, %		
		2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F
New contracts	20,240	24,411	27,859	31,723	22,168	24,145	26,480	10.1	15.4	19.8
Order book	42,518	53,802	64,380	74,757	51,559	57,392	62,260	4.4	12.2	20.1
Revenues	12,427	16,061	19,953	23,400	17,203	20,405	23,107	(6.6)	(2.2)	1.3
Gross profit - excl. JO	1,533	1,950	2,444	2,833	2,073	2,493	2,824	(5.9)	(2.0)	0.3
Operating profit	1,328	1,659	2,098	2,453	1,757	2,115	2,411	(5.6)	(0.8)	1.8
Net interest	(344)	(388)	(449)	(470)	(387)	(442)	(491)	0.3	1.6	(4.4)
Net profit	532	635	857	1,045	694	856	968	(8.5)	0.2	7.9
Gross margin - ex. JO	12.3	12.1	12.2	12.1	12.0	12.2	12.2	0.1	0.0	(0.1)
Operating margin	10.7	10.3	10.5	10.5	10.2	10.4	10.4	0.1	0.1	0.1
Net margin	4.3	4.0	4.3	4.5	4.0	4.2	4.2	(0.1)	0.1	0.3

Source: Danareksa Sekuritas

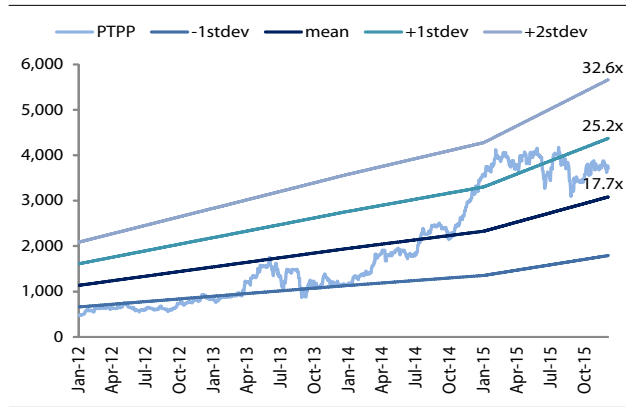
**Exhibit 2. PTPP's order book**

Source: Company, Danareksa Sekuritas

**Exhibit 3. Strong earnings visibility**

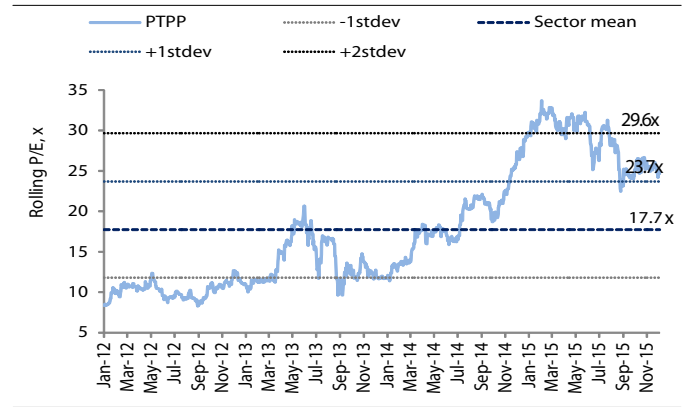
Source: Company, Danareksa Sekuritas

**Exhibit 4. PTPP P/E Band**



Source: Bloomberg, Danareksa Sekuritas

**Exhibit 5. PTPP relative to sector**



Source: Bloomberg, Danareksa Sekuritas

**Exhibit 6. Profit & Loss, Rp bn**

	2013	2014	2015F	2016F	2017F
Revenues	11,656	12,427	16,061	19,953	23,400
COGS	10,383	10,895	14,111	17,509	20,567
Gross profit	1,273	1,533	1,950	2,444	2,833
Income from JO	94	71	61	70	79
Gross profit incl. JO	1,367	1,604	2,011	2,514	2,912
Operating expenses	200	276	352	416	459
Operating profit	1,168	1,328	1,659	2,098	2,453
Net interest	(283)	(344)	(388)	(449)	(470)
Other income (expenses)	(118)	(64)	(53)	(65)	(87)
Pre-tax income	767	919	1,218	1,584	1,896
Income tax	(346)	(387)	(482)	(599)	(702)
Minority interest	(0)	(0)	(101)	(128)	(150)
<b>Net profit</b>	<b>421</b>	<b>532</b>	<b>635</b>	<b>857</b>	<b>1,045</b>
<b>Core profit</b>	<b>486</b>	<b>569</b>	<b>667</b>	<b>898</b>	<b>1,100</b>

Source: Company, Danareksa Sekuritas

**Exhibit 7. Balance Sheet, Rp bn**

	2013	2014	2015F	2016F	2017F
Cash & equivalent	2,397	2,408	1,962	1,828	1,921
Trade receivables	1,710	2,300	3,435	4,545	5,655
Project receivables	4,679	4,944	6,443	8,559	10,362
Inventories	1,777	2,675	3,322	4,122	4,842
Other current assets	1,339	1,322	1,663	1,971	2,243
<b>Total Current Assets</b>	<b>11,902</b>	<b>13,650</b>	<b>16,826</b>	<b>21,024</b>	<b>25,024</b>
LT investments	349	435	650	876	1,066
Fixed assets	142	494	733	1,008	1,290
Other assets	24	33	33	33	33
<b>Total Non-current Assets</b>	<b>514</b>	<b>962</b>	<b>1,416</b>	<b>1,917</b>	<b>2,389</b>
<b>TOTAL ASSETS</b>	<b>12,416</b>	<b>14,612</b>	<b>18,242</b>	<b>22,942</b>	<b>27,413</b>
ST loans	945	1,567	1,150	1,500	2,000
Trade payables	6,300	7,022	8,969	11,129	13,073
Current portion of LT loans	530	10	-	330	700
Other current liabilities	1,039	1,225	1,489	1,842	2,160
<b>Total Current Liabilities</b>	<b>8,814</b>	<b>9,838</b>	<b>11,624</b>	<b>14,816</b>	<b>17,948</b>
LT loans	813	1,455	1,757	1,427	727
Other liabilities	804	878	1,121	1,379	1,612
<b>Total Non-current Liabilities</b>	<b>1,617</b>	<b>2,383</b>	<b>2,928</b>	<b>2,856</b>	<b>2,389</b>
Minority interest	1	1	772	1,621	2,554
Capital stock	947	946	946	946	946
Retained earnings	1,037	1,443	1,971	2,702	3,575
<b>Total Equity</b>	<b>1,985</b>	<b>2,390</b>	<b>3,690</b>	<b>5,269</b>	<b>7,075</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>12,416</b>	<b>14,612</b>	<b>18,242</b>	<b>22,942</b>	<b>27,413</b>

Source: Company and Danareksa Sekuritas

**Exhibit 8. Cash Flow, Rp bn**

	2013	2014	2015F	2016F	2017F
Pretax profit	767	919	1,218	1,584	1,896
Minority interest	(0)	(0)	(101)	(128)	(150)
Tax	(489)	(231)	(661)	(693)	(784)
Depreciation	7	57	61	77	105
Changes in W/C	(256)	(999)	(1,403)	(1,917)	(1,735)
Change in other assets	843	168	416	450	405
<b>Cash Flow from Operation</b>	<b>872</b>	<b>(86)</b>	<b>(471)</b>	<b>(627)</b>	<b>(262)</b>
Capex	(76)	(408)	(300)	(351)	(387)
Investments	(102)	(113)	(215)	(227)	(189)
<b>Cash Flow from Investing</b>	<b>(178)</b>	<b>(521)</b>	<b>(515)</b>	<b>(578)</b>	<b>(577)</b>
ST loans	(171)	622	(417)	350	500
Current portion of LT loans	380	(520)	(10)	330	370
LT loans	283	642	302	(330)	(700)
Equity	1	(0)	771	848	933
Dividend & CSR	(93)	(126)	(106)	(127)	(171)
<b>Cash Flow from Financing</b>	<b>400</b>	<b>618</b>	<b>540</b>	<b>1,071</b>	<b>932</b>
<b>Change in Cash</b>	<b>1,094</b>	<b>11</b>	<b>(446)</b>	<b>(134)</b>	<b>93</b>

Source: Company, Danareksa Sekuritas

**Exhibit 9. Key Ratios**

	2013	2014	2015F	2016F	2017F
<b>Profitability, %</b>					
Gross margin - excl. JO	10.9	12.3	12.1	12.2	12.1
Gross margin - incl. JO	11.7	12.9	12.5	12.6	12.4
Operating margin	10.0	10.7	10.3	10.5	10.5
EBITDA margin	10.2	11.2	10.8	11.0	11.0
Net margin	3.6	4.3	4.0	4.3	4.5
Core margin	4.2	4.6	4.2	4.5	4.7
ROAE	23.1	24.3	20.9	19.1	16.9
ROAA	4.0	3.9	3.9	4.2	4.1
<b>Leverage</b>					
Debt to equity, %	115.2	126.8	78.8	61.8	48.4
Net debt to equity, %	Net cash	26.1	25.6	27.1	21.3
Interest coverage, x	4.0	3.7	4.1	4.5	5.0
<b>Turnover, days</b>					
Trade receivables	53	67	77	82	87
Inventories	62	88	85	85	85
Trade payables	218	232	229	229	229
<b>Growth, %</b>					
Revenue	45.6	6.6	29.2	24.2	17.3
Operating profit	37.0	13.7	25.0	26.4	16.9
EBITDA	38.2	17.0	24.5	26.3	17.5
Net profit	35.9	26.4	19.4	35.0	21.9
Core profit	35.6	17.2	17.2	34.6	22.5

Source: Company, Danareksa Sekuritas

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# BUY

Target Price, Rp 2,750  
Upside 33.2%

## ADHIJ/ADHIJK

Last Price, Rp 2,065  
No. of shares, mn 1,801

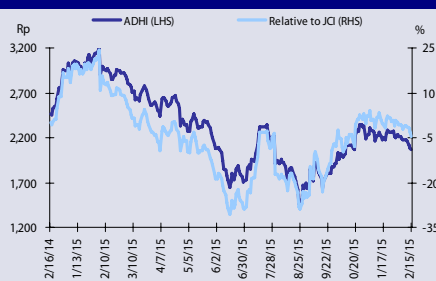
Market Cap, Rp bn 3,719

(US\$ mn) 265  
3M T/O, US\$mn 2.0

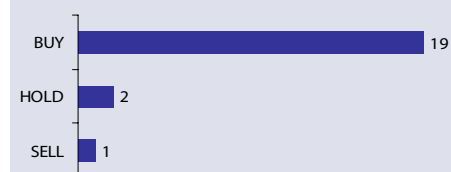
### Last Recommendation

03-Aug-2015	BUY	Rp 3,700
14-Jul-2015	BUY	Rp 3,700
08-May-2015	BUY	Rp 3,700

### ADHI relative to JCI Index



### Market Recommendation



### Danareksa vs Consensus

	Our	Cons	% Diff
Target price, Rp	2,750	2,811	-2.2
EPS 2016F, Rp	157	167	-6.0
PE 2016F, x	13.2	12.3	-7.3

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# Adhi Karya

## Sound value proposition

**Government support on light rapid transit (LRT) projects should benefit Adhi Karya (ADHI) as it would potentially secure c.Rp21 tn of construction work for developing 6 LRT routes. On top of this, ADHI has delivered good performance in 2015, recorded 76% yoy new contracts growth. Going forward, the positive trend should continue on the back of more government projects. Taking into account the potential contracts from the LRT project, we expect ADHI to record new order book growth of 30.6% CAGR in FY15F-17F. This should translate into earnings growth of Rp26.2% CAGR over the same period. We value ADHI using target P/E of 17.7x based on the construction average P/E multiple, resulting in a higher TP of Rp2,750. Maintain BUY.**

### LRT to be the major booster for ADHI

The issuance of presidential decree (Perpres) no.98 year 2015 instructing ADHI to build the Light Rapid Transit (LRT) transportation system is the game changer for ADHI. Through this decree, ADHI will be responsible for construction work covering 20.7 km comprising of 6 routes. The estimated construction value is expected to reach around Rp21 tn. The construction of these routes will be divided into 2 phases, for which some would be constructed in parallel. We expect the phase one construction to kick in 1Q16 and be completed by FY18 (timeline set by the government). This would be followed by phase two which we expect to start in FY17F. However, worth noting is that ADHI has the right to match the bidder in the operator tender process, meaning the chance that ADHI becomes the LRT operator is reasonably high. Notable risks should this materialize include negative earnings in early years of operation, a heavy balance sheet burden, and the risk of low IRR.

### Positive performance should continue in the coming years

Putting aside the LRT project, ADHI's new contract achievement has reached Rp11.1 tn as of 11M15, up 76% from the previous year, making ADHI one of the best performer among SOE contractors in terms of growth in new order book. While this is mainly due to the low base in 2014, we still view this development positively and the positive trend should continue in the foreseeable future on the back of sizeable government projects to be awarded in the coming years. Government projects are now the largest portion of ADHI's order book (43% in 11M15 vs 37% in FY14), indicating that ADHI already stands to benefit from more government projects. Taking into account the potential contracts from LRT projects, we expect ADHI to record 30.6% new order book growth in FY15F-17F. This should translate into earnings growth of Rp26.2% CAGR in FY15F-17F.

### Time to deliver

Previously, ADHI had a poor reputation given poor planning, weak project execution, and a tendency to set excessively ambitious targets. This caused ADHI's stock price to be valued at a discount to its peer SOE contractors. We believe, however, that now is the time for ADHI to deliver its promise through good execution of LRT projects. All in all, with improvements in the new contracts achievement, on track with the company's guidance, and good execution of the LRT project, ADHI should warrant a valuation at par to its peers.

Year end to Dec	2013	2014	2015F	2016F	2017F
Revenues, Rp bn	9,800	8,654	10,067	14,291	19,020
EBITDA, Rp bn	934	681	900	1,244	1,670
EBITDA Growth, %	16.8	(27.1)	32.2	38.2	34.2
Net Profit, Rp bn	406	324	397	556	632
Core Profit, Rp bn	480	301	439	602	694
Core EPS, Rp	135	84	123	169	195
Core EPS Growth, %	34.4	(37.3)	45.8	37.3	15.3
Net Gearing, %	Net cash	83.2	Net cash	17.7	42.3
PER, x	18.1	22.7	18.5	13.2	11.6
Core PER, x	15.3	24.4	16.8	12.2	10.6
PBV, x	4.7	4.2	1.5	1.4	1.3
EV/EBITDA, x	7.6	12.9	6.7	6.7	5.9
Yield, %	0.6	1.7	0.9	1.1	1.5

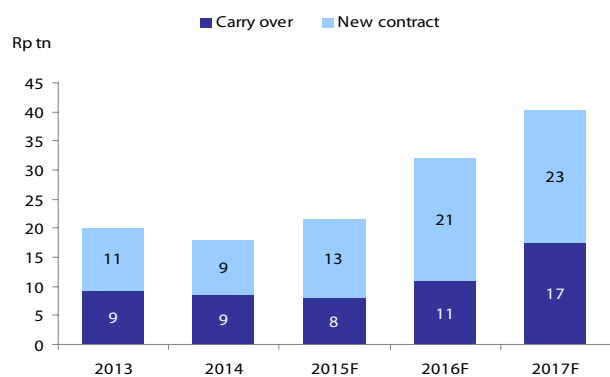
**Valuation, BUY with TP of Rp2,750**

ADHI's share price has underperformed the sector by 19% and the JCI index by 12% ytd 2015 due to uncertainty over its LRT projects before the issuance of the presidential decree. We believe, as the LRT project is becoming more certain and the progress of new contracts excluding LRT is impressive, ADHI deserves to get a better valuation. We value ADHI using target P/E of 17.7x based on construction average P/E multiple, resulting in a higher TP of Rp2,750. ADHI is currently trading at 13x FY16F P/E, offering 36% upside potential. Maintain BUY.

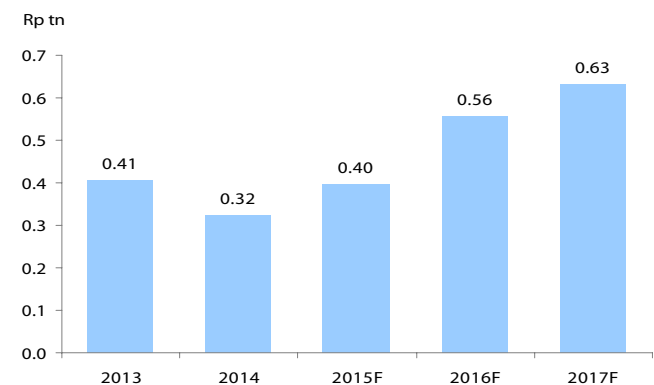
**Exhibit 1. changes in our forecast**

Rp bn	2014	Current			Previous			Changes, %		
		2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F
New contracts	9,217	13,460	21,020	22,966	14,581	13,618	17,879	(7.7)	54.4	28.5
Order book	17,884	21,585	32,102	40,399	22,706	24,692	29,855	(4.9)	30.0	35.3
Revenues	8,654	10,067	14,291	19,020	11,190	12,326	15,064	(10.0)	15.9	26.3
Gross profit - ex. JO	998	1,247	1,644	2,131	1,412	1,592	1,991	(11.7)	3.2	7.0
Operating profit	655	868	1,203	1,619	1,031	1,156	1,487	(15.8)	4.1	8.9
Net interest	(103)	(82)	(118)	(273)	(145)	(179)	(225)	(43.3)	(34.5)	21.4
Net profit (in %)	324	397	556	632	461	505	697	(14.0)	10.1	(9.4)
Gross margin	11.5	12.4	11.5	11.2	12.6	12.9	13.2	(0.2)	(1.4)	(2.0)
Operating margin	7.6	8.6	8.4	8.5	9.2	9.4	9.9	(0.6)	(1.0)	(1.4)
Net margin	3.7	3.9	3.9	3.3	4.1	4.1	4.6	(0.2)	(0.2)	(1.3)

Source: Danareksa Sekuritas

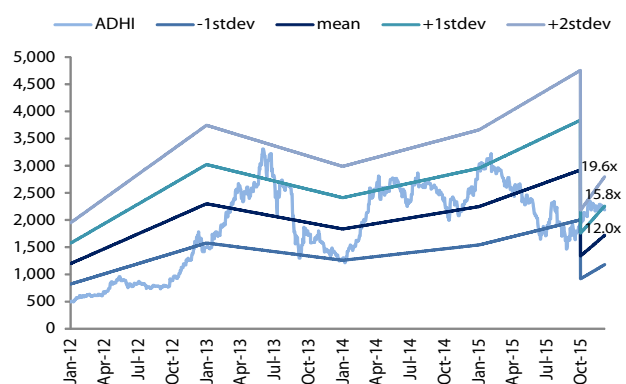
**Exhibit 2. ADHI order book**

Source: Companies, Danareksa Sekuritas

**Exhibit 3. ADHI net profit to gain growth momentum in FY15F**

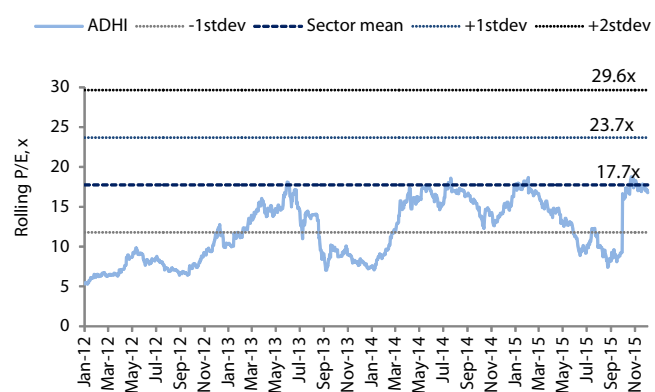
Source: Companies, Danareksa Sekuritas

Exhibit 4. ADHI P/E Band



Source: Bloomberg, Danareksa Sekuritas

Exhibit 5. ADHI relative to sector



Source: Bloomberg, Danareksa Sekuritas

Exhibit 6. ADHI's LRT projects

Routes	Est. length, km	Est. start	Est. completion	Est. Investment value, Rp bn	Est. construction value, Rp bn
<b>Phase I</b>					
Bekasi-Cawang	17.9	2016	2018	5,593	3,646
Cibubur-Cawang-Dukuh Atas	24.2	2016	2018	6,969	4,994
<b>Total</b>	<b>42.1</b>			<b>12,562</b>	<b>8,640</b>
<b>Phase II</b>					
Bogor-Depok-Cibubur	24.0	2017	2020	7,161	4,924
Dukuh Atas-Palmerah-Senayan	7.5	2017	2020	2,238	1,539
Palmerah-Grogol	8.0	2018	2021	2,387	1,641
<b>Total</b>	<b>39.5</b>			<b>11,786</b>	<b>8,104</b>

Source: Companies, Danareksa Sekuritas



**Exhibit 7. Profit and loss, Rp bn**

	2013	2014	2015F	2016F	2017F
Revenues	9,800	8,654	10,067	14,291	19,020
COGS	8,606	7,655	8,820	12,647	16,889
Gross profit	1,193	998	1,247	1,644	2,131
Income from JO	55	18	22	19	18
Gross profit incl. JO	1,248	1,017	1,269	1,662	2,149
Operating expenses	(329)	(361)	(400)	(459)	(531)
Operating profit	919	655	868	1,203	1,619
Net interest expenses	(75)	(103)	(82)	(118)	(273)
Other income (expenses)	(129)	42	(74)	(83)	(120)
Pre-tax income	714	595	712	1,003	1,225
Income tax	(306)	(268)	(312)	(442)	(589)
Minority interest	(2)	(3)	(3)	(4)	(5)
<b>Net profit</b>	<b>406</b>	<b>324</b>	<b>397</b>	<b>556</b>	<b>632</b>
<b>Core profit</b>	<b>480</b>	<b>301</b>	<b>439</b>	<b>602</b>	<b>694</b>

Source: Company, Danareksa

**Exhibit 8. Balance sheet, Rp bn**

	2013	2014	2015F	2016F	2017F
Cash & equivalent	1,940	811	3,779	2,057	1,033
Trade receivables	1,503	1,954	2,237	4,565	6,604
Project receivables	3,655	3,877	4,417	6,601	8,718
Inventories	162	132	155	222	296
Other current assets	1,840	2,710	2,639	3,525	4,433
<b>Total Current Assets</b>	<b>9,099</b>	<b>9,484</b>	<b>13,227</b>	<b>16,970</b>	<b>21,084</b>
LT investments	279	414	566	698	825
Fixed assets	271	496	674	864	1,068
Other assets	72	64	64	64	64
<b>Total Non-current Assets</b>	<b>621</b>	<b>975</b>	<b>1,304</b>	<b>1,626</b>	<b>1,957</b>
<b>TOTAL ASSETS</b>	<b>9,721</b>	<b>10,459</b>	<b>14,531</b>	<b>18,597</b>	<b>23,041</b>
ST loans	212	692	1,000	1,500	2,500
Trade payables	4,767	4,923	5,515	7,908	10,560
Current portion of LT loans	-	-	-	500	250
Other current liabilities	1,562	1,454	1,626	2,317	3,083
<b>Total Current Liabilities</b>	<b>6,542</b>	<b>7,070</b>	<b>8,141</b>	<b>12,225</b>	<b>16,393</b>
LT loans	1,497	1,577	1,498	999	749
Other liabilities	134	61	61	61	61
<b>Total Non-current Liabilities</b>	<b>1,631</b>	<b>1,638</b>	<b>1,558</b>	<b>1,060</b>	<b>810</b>
Minority interest	9	7	10	15	20
Capital stock	230	230	2,975	2,975	2,975
Retained earnings	1,307	1,510	1,841	2,318	2,838
Other equity	2	5	5	5	5
<b>Total Equity</b>	<b>1,548</b>	<b>1,752</b>	<b>4,831</b>	<b>5,313</b>	<b>5,838</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>9,721</b>	<b>10,459</b>	<b>14,531</b>	<b>18,597</b>	<b>23,041</b>

Source: Company, Danareksa

**Exhibit 9. Cash flow, Rp bn**

	2013	2014	2015F	2016F	2017F
Pretax profit	714	595	712	1,003	1,225
Minority interest	(2)	(3)	(3)	(4)	(5)
Tax	(422)	(373)	(262)	(561)	(723)
Depreciation	15	25	32	41	51
Changes in W/C	269	(437)	(236)	(2,083)	(1,464)
Change in other assets	202	(796)	523	202	221
<b>Cash Flow from Operation</b>	777	(989)	765	(1,403)	(695)
Capex	(99)	(250)	(210)	(231)	(254)
Investments	(408)	(329)	(499)	(514)	(470)
<b>Cash Flow from Investing</b>	(507)	(579)	(709)	(745)	(725)
ST loans	11	480	308	500	1,000
Current portion of LT loans	-	-	-	500	(250)
LT loans	749	80	(79)	(499)	(250)
Equity	4	1	2,748	4	5
Dividend & CSR	(42)	(122)	(65)	(79)	(111)
<b>Cash Flow from Financing</b>	722	439	2,912	426	395
<b>Change in Cash</b>	991	(1,129)	2,968	(1,722)	(1,025)

Source: Company, Danareksa

**Exhibit 10. Ratios**

	2013	2014	2015F	2016F	2017F
<b>Profitability, %</b>					
Gross margin - incl. JO	12.7	11.7	12.6	11.6	11.3
Operating margin	9.4	7.6	8.6	8.4	8.5
EBITDA margin	9.5	7.9	8.9	8.7	8.8
Net margin	4.1	3.7	3.9	3.9	3.3
Core margin	4.9	3.5	4.4	4.2	3.6
ROAE	29.7	19.6	12.1	11.0	11.3
ROAA	4.6	3.2	3.2	3.4	3.0
<b>Leverage</b>					
Debt to equity, %	110.4	129.6	51.7	56.4	59.9
Net debt to equity, %	Net cash	83.2	Net cash	17.7	42.3
Interest coverage, x	8.5	4.8	6.3	6.5	5.3
<b>Turnover, days</b>					
Trade receivables	55	81	80	115	125
Inventories	7	6	6	6	6
Trade payables	199	232	225	225	225
<b>Growth, %</b>					
Revenue	28.5	(11.7)	16.3	42.0	33.1
Operating profit	15.9	(28.7)	32.5	38.6	34.5
EBITDA	16.8	(27.1)	32.2	38.2	34.2
Net profit	91.9	(20.2)	22.4	40.1	13.6
Core profit	34.4	(37.3)	45.8	37.3	15.3

Source: Company, Danareksa

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## CONSTRUCTION SECTOR/COMPANY UPDATE

**HOLD**

Target Price, Rp 2,900

Upside 10.7%

WIKAIJ/WIKAJK

Last Price, Rp 2,620

No. of shares, mn 6,149

**Market Cap, Rp bn 16,110**

(US\$ mn) 1,118

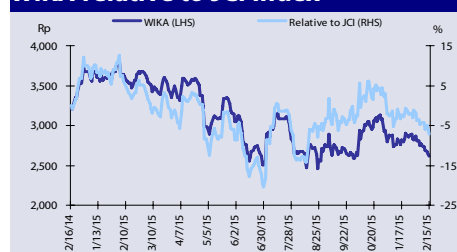
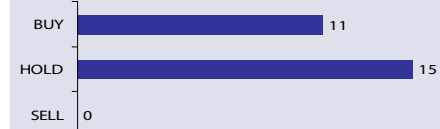
3M T/O, US\$mn 1.9

**Last Recommendation**

01-Dec-2015 HOLD Rp 2,500

20-Aug-2015 BUY Rp 2,500

31-Jul-2015 BUY Rp 4,000

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

	Our	Cons	% Diff
Target price, Rp	2,900	3,164	-8.3
EPS 2016F, Rp	121	130	-6.9
PER 2016F, x	21.7	20.1	7.9

**Wijaya Karya****Risks return uncertainty**

**WIKAI is likely to miss its new order book target this year due to slow new contracts progress, despite a slight pick-up in the last two months. Thus, earnings growth for next year will be at risk. Moreover, the delay in capital injection means WIKAI must utilize debt financing to obtain potential target projects. There are several big projects targeted by WIKAI, including the Jawa 5/7 power plant and the huge yet risky High Speed Railway (HSR) project. Higher financing charges would hurt next year's earnings, we believe. We roll over our valuation base to FY16F and arrive at a new TP of Rp2,900 based on SOTP valuation, implying 24x FY16F P/E. Maintain HOLD on WIKAI.**

**Upturn in new contracts achievement to cushion earnings**

WIKAI's new contracts achievement reached Rp19 tn until 11M15, still way below the management's target of Rp30 tn. This makes WIKAI the laggard performer among the SOE contractors. Nonetheless, with the Jawa 5 power plant to be awarded soon, estimated in mid Dec 2015, new contracts could reach c.Rp35 tn by the end of this year. Assuming a delay, we expect WIKAI to obtain Rp21 tn of new contracts by the end of this year. Next year's order book acquisition should be better since WIKAI has been targeting equity ownership to secure construction work in several projects in power plants, toll roads, fuel storage and the High Speed Railway. Better expected new contracts achievement next year would support earnings growth of 21.7% CAGR in FY15F-17F.

**State capital injection delay puts pressure on next year's projects acquisition**

The delay in the state capital injection has lessened WIKAI's ability to participate in Rp70 tn of project tenders as one of the investors. Before the delay was announced, WIKAI targeted Rp13.4 tn of equity participation in those seven projects to ensure the construction works. Post delay, WIKAI has to reassess which projects it should bid for due to capital constraints. WIKAI has dropped three out of seven projects that it targeted due to this delay, reducing its investment needs to Rp10 tn. Learning from the long Jawa 5 IPP tender process, the wrong choice would jeopardize new order book achievement. Due to this uncertainty, we expect WIKAI's new order book growth to reach 19.7% CAGR in FY15F-17F, slightly lower than the sector average of 21.6%.

**Risk return on a signature High Speed Railway (HSR) project**

Through a presidential decree WIKAI has been awarded the right to develop the high speed railway (HSR) transportation system serving Jakarta-Walini-Bandung, with a total track length of around 150 km. To develop HSR, WIKAI formed a JV with 4 SOEs and will inject c.Rp4.5 tn until the project is completed. Since WIKAI is not the controlling shareholder, it can record construction work as revenues which are estimated at Rp30-40 tn. However, there are several noticeable risks for WIKAI on this project, including the low margin construction work (est. 6% GM vs 8.2% for other infrastructure projects), low project IRR, high forex exposure, and large capex needs. Further clarity is needed on the project with an announcement expected in March 2016.

	2013	2014	2015F	2016F	2017F
Revenues, Rp bn	11,885	12,463	12,663	15,881	18,766
EBITDA, Rp bn	1,356	1,592	1,555	2,008	2,439
EBITDA Growth, %	40.8	17.4	(2.3)	29.1	21.5
Net Profit, Rp bn	570	615	584	741	841
Core Profit, Rp bn	668	701	616	772	872
Core EPS, Rp	109	114	100	126	142
Core EPS Growth, %	33.0	4.7	(12.2)	25.4	12.9
Net Gearing, %	8.9	14.7	28.8	35.4	38.1
PER, x	28.2	26.2	27.6	21.7	19.2
Core PER, x	24.1	23.0	26.2	20.9	18.5
PBV, x	5.0	3.2	2.9	2.6	2.3
EV/EBITDA, x	12.1	10.6	11.4	9.1	7.7
Yield, %	0.7	0.8	0.8	0.8	0.9

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

**Valuation, HOLD with TP of Rp2,900**

We value WIKA using the SOTP method due to its diverse businesses. We use FY16F target P/E of 29.6x equal to +2 standard deviation above the construction sector average P/E to value its construction and 26.7x P/E to its industrial business. Meanwhile, we utilize a 40% discount to NAV to value its property business, DCF for power plants, and 1x PBV for other businesses. Hence, we arrive at a new target price of Rp2,900, implying 24x FY16F P/E, slightly above its 3-yr average rolling P/E of 22.8x.

**Exhibit 1. Changes in our forecast, Rp bn**

	2014	Current			Previous			Changes, %		
		2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F
New contracts	17,632	21,039	28,050	31,849	22,722	26,935	31,299	(7.4)	4.1	1.8
Order book	41,416	41,738	51,091	59,823	43,420	51,183	60,130	(3.9)	(0.2)	(0.5)
Revenues	12,463	12,663	15,881	18,766	12,813	15,589	18,782	(1.2)	1.9	(0.1)
Gross profit - ex. JO	1,425	1,339	1,691	2,025	1,310	1,620	2,008	2.2	4.4	0.8
Operating profit	1,401	1,288	1,626	1,949	1,268	1,515	1,848	1.6	7.4	5.4
Net interest	(124)	(160)	(233)	(342)	(160)	(235)	(348)	(0.0)	(0.8)	(2.0)
Net profit	615	584	741	841	574	638	723	1.9	16.1	16.4

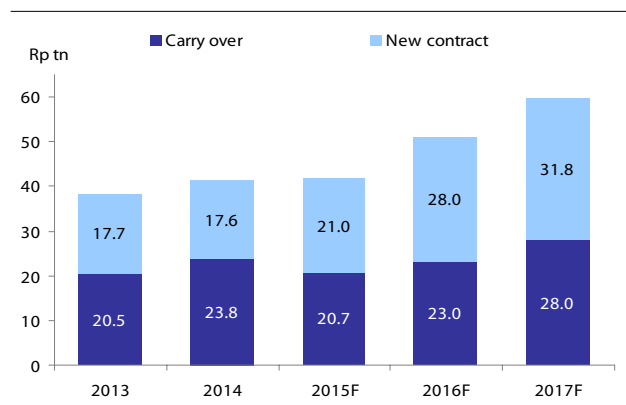
Source: Danareksa Sekuritas

**Exhibit 2. WIKA's SOTP valuation**

Business line	Method	Base multiples x	Own %	Net profit Rp bn	EV Rp bn
<b>Ongoing business</b>				2016F	
Construction	P/E	29.6	100%	494	14,637
Industrial	P/E	26.7	65%	154	2,664
Subtotal					17,302
<b>Investments</b>					
Real estate	NAV	40%	85%	2,203	1,127
Power plants	DCF				1,595
Others	P/BV	1.0			1,327
Subtotal					4,049
Total enterprise value					21,351
Net debt					2,217
Minority interests					1,182
Net equity value					17,951
<b>Value per share, Rp</b>	Number of shares, bn	6.15			<b>2,900</b>

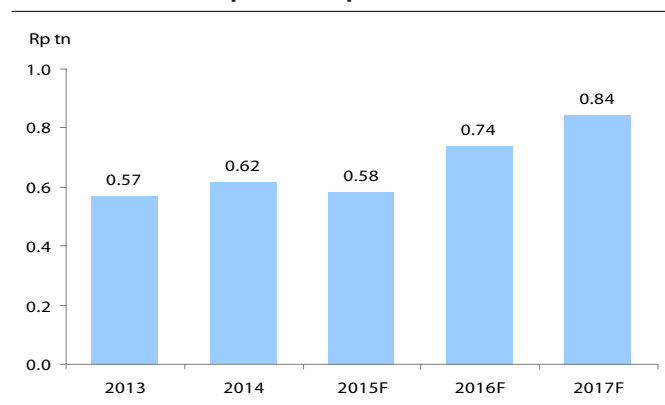
Source: Danareksa Sekuritas

Exhibit 3. WIKA's order book



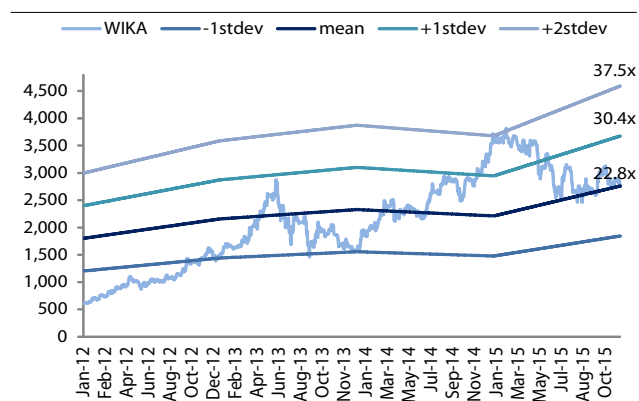
Source: Company, Danareksa Sekuritas

Exhibit 4. WIKA's net profit to improve in FY16F



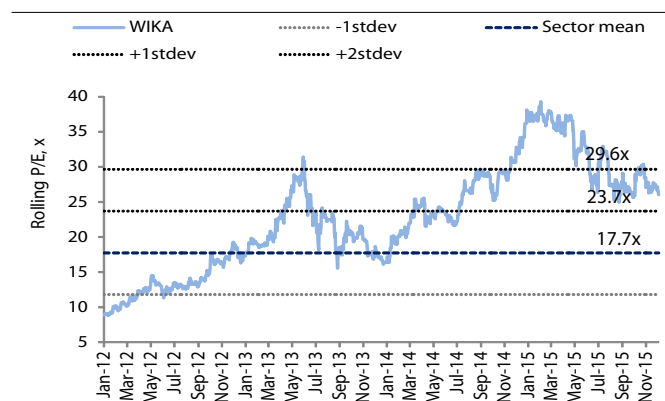
Source: Company, Danareksa Sekuritas

Exhibit 5. WIKA P/E Band



Source: Bloomberg, Danareksa Sekuritas

Exhibit 6. WIKA relative to sector



Source: Bloomberg, Danareksa Sekuritas

Exhibit 7. WIKA's target projects acquisition in 2016

Project	Investment Value Rp bn	WIKA Share %	Investment Rp bn	PMN Rp bn
1. Kawasan industri Kuala Tanjung*	8,000	20	1,600	480
2. PLTU Banten 2X1000MW (Jawa 5/7/Unsolicited)	37,500	15	5,625	1,688
3. PLTU Aceh 2x200MW	10,000	40	4,000	1,200
4. Soreang-Pasir Koja Toll Road	1,500	25	375	113
5. Manado-Bitung Toll Road*	3,300	20	660	198
6. Samarinda-Balikpapan*	8,392	10	839	252
7. Water sanitation; WTP Jatiluhur 5,000l/sec	2,000	14	280	84
<b>Total</b>	<b>70,692</b>		<b>13,379</b>	<b>4,015</b>

\* Likely to be dropped

Source: Companies

**Exhibit 8. Profit & Loss, Rp bn**

	2013	2014	2015F	2016F	2017F
Revenues	11,885	12,463	12,663	15,881	18,766
COGS	10,562	11,039	11,324	14,189	16,741
Gross profit	1,322	1,425	1,339	1,691	2,025
Income from JO	261	370	339	425	500
Gross profit incl. JO	1,583	1,794	1,678	2,116	2,525
Operating expenses	(367)	(393)	(389)	(490)	(576)
Operating profit	1,216	1,401	1,288	1,626	1,949
Net interest expenses	(40)	(124)	(160)	(233)	(342)
Other income (expenses)	(159)	(131)	(50)	(50)	(50)
Pre-tax income	1,017	1,146	1,078	1,343	1,557
Income tax	(392)	(395)	(404)	(499)	(593)
Minority interest	(54)	(136)	(90)	(104)	(123)
<b>Net profit</b>	<b>570</b>	<b>615</b>	<b>584</b>	<b>741</b>	<b>841</b>
<b>Core profit</b>	<b>668</b>	<b>701</b>	<b>616</b>	<b>772</b>	<b>872</b>

Source: Company, Danareksa Sekuritas

**Exhibit 9. Balance Sheet, Rp bn**

	2013	2014	2015F	2016F	2017F
Cash & equivalent	1,387	2,301	1,497	1,662	1,693
Trade receivables	1,479	1,963	2,110	2,647	3,128
Project receivables	2,564	2,938	2,744	3,441	4,066
Inventories	1,118	817	944	1,182	1,395
Other current assets	1,446	1,496	1,546	1,894	2,199
<b>Total Current Assets</b>	<b>7,994</b>	<b>9,514</b>	<b>8,841</b>	<b>10,826</b>	<b>12,481</b>
LT investments	2,236	3,176	3,540	4,182	4,790
Fixed assets	1,640	2,676	3,711	4,695	5,639
Other assets	724	548	438	328	218
<b>Total Non-current Assets</b>	<b>4,601</b>	<b>6,401</b>	<b>7,689</b>	<b>9,205</b>	<b>10,647</b>
<b>TOTAL ASSETS</b>	<b>12,595</b>	<b>15,915</b>	<b>16,530</b>	<b>20,031</b>	<b>23,127</b>
ST loans	278	929	1,750	2,750	4,250
Trade payables	3,089	3,903	3,775	4,730	5,580
Current portion of LT loans	124	780	201	993	92
Other current liabilities	3,808	2,865	2,961	3,710	4,377
<b>Total Current Liabilities</b>	<b>7,298</b>	<b>8,476</b>	<b>8,687</b>	<b>12,183</b>	<b>14,300</b>
LT loans	1,271	1,324	1,141	136	47
Other liabilities	799	1,137	1,173	1,455	1,708
<b>Total Non-current Liabilities</b>	<b>2,070</b>	<b>2,460</b>	<b>2,313</b>	<b>1,590</b>	<b>1,755</b>
Minority interest	278	989	1,079	1,182	1,305
Capital stock	1,317	1,321	1,321	1,321	1,321
Retained earnings	1,202	1,518	1,980	2,604	3,297
Other equity	429	1,151	1,151	1,151	1,151
<b>Total Equity</b>	<b>3,227</b>	<b>4,979</b>	<b>5,530</b>	<b>6,257</b>	<b>7,073</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>12,595</b>	<b>15,915</b>	<b>16,530</b>	<b>20,031</b>	<b>23,127</b>

Source: Company and Danareksa Sekuritas

**Exhibit 10. Cash flow, Rp bn**

	2013	2014	2015F	2016F	2017F
Pretax profit	1,017	1,146	1,078	1,343	1,557
Minority interest	(54)	(136)	(90)	(104)	(123)
Tax	(630)	(370)	(407)	(565)	(653)
Depreciation	140	191	266	381	490
Changes in W/C	33	(718)	(130)	(23)	(29)
Others	127	338	36	282	253
<b>Cash Flow from Operation</b>	<b>632</b>	<b>451</b>	<b>754</b>	<b>1,315</b>	<b>1,496</b>
Capex	(597)	(1,226)	(1,301)	(1,366)	(1,434)
Investments	(420)	(806)	(284)	(559)	(516)
<b>Cash Flow from Investing</b>	<b>(1,017)</b>	<b>(2,032)</b>	<b>(1,585)</b>	<b>(1,924)</b>	<b>(1,950)</b>
ST loans	44	650	821	1,000	1,500
Current portion of LT loans	37	656	(578)	792	(901)
LT loans	337	53	(183)	(1,005)	(89)
Equity	(40)	1,308	90	104	123
Dividend & CSR	(137)	(171)	(123)	(117)	(148)
<b>Cash Flow from Financing</b>	<b>240</b>	<b>2,496</b>	<b>27</b>	<b>774</b>	<b>485</b>
<b>Change in Cash</b>	<b>(145)</b>	<b>914</b>	<b>(803)</b>	<b>165</b>	<b>31</b>

Source: Company, Danareksa Sekuritas

**Exhibit 11. Ratios**

	2013	2014	2015F	2016F	2017F
<b>Profitability, %</b>					
Gross margin - excl. JO	11.1	11.4	10.6	10.6	10.8
Gross margin - incl. JO	13.3	14.4	13.2	13.3	13.5
Operating margin	10.2	11.2	10.2	10.2	10.4
EBITDA margin	11.4	12.8	12.3	12.6	13.0
Net margin	4.8	4.9	4.6	4.7	4.5
Core margin	5.6	5.6	4.9	4.9	4.6
ROAE	18.8	15.0	11.1	12.6	12.6
ROAA	4.8	4.3	3.6	4.1	3.9
<b>Leverage</b>					
Debt to equity, %	51.8	60.9	55.9	62.0	62.1
Net debt to equity, %	8.9	14.7	28.8	35.4	38.1
Interest coverage, x	19.0	7.1	4.9	5.2	4.6
<b>Turnover, days</b>					
Trade receivables	45	57	60	60	60
Inventories	38	27	30	30	30
Trade payables	105	127	120	120	120
<b>Growth, %</b>					
Revenue	20.0	4.9	1.6	25.4	18.2
Operating profit	39.8	15.2	(8.0)	26.2	19.8
EBITDA	40.8	17.4	(2.3)	29.1	21.5
Net profit	19.7	7.9	(5.0)	26.8	13.5
Core profit	33.7	5.0	(12.2)	25.4	12.9

Source: Company and Danareksa Sekuritas



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## MARKET NEWS

### Amnesty Tax Rates Could be Below 2% (ID)

The Government will provide tariff relief ransom for taxpayers who repatriate capital from abroad, namely below the generally accepted tariff between 2%-5%. Tax amnesty bill is a priority program of national legislation in 2015 and will be discussed in the plenary session of the Parliament next year. Rates for tax amnesty is divided into three groups: 1) 2% for person/institution who apply on Jan-Mar 2016; 2) 3% if filed on Apr-Jun 2016; and 3) 5% if filed in July-Dec 2016.

### BBRI to grow lending by above average 15% (TJP)

Bank Rakyat Indonesia (BBRI), said it will boost its lending by 15% next year, more than banking sector average of 12-13%, as it pushes loan to small and medium sized companies. This optimism is contrast with Bank Central Asia (BBCA) that only aim less than 10% loan increase next year. BBCA reins its lending plans for next year amid concerns that bad loans will rise as economic slowing thus will raise the NPL and negatively impact profitability.

### JSMR targeting an additional 352 km (BI)

Jasa Marga (JSMR) targeting the addition of new sections along 352km with an investment of Rp 49tn, and this addition is out of the current 460km development with Rp 40tn investment's plan.

### MTLA targeting IDR 1.3tn (BI)

Metropolitan Land (MTLA) targeting marketing sales of Rp 1.3tn in 2016, an increase of 30% yoy from the Rp 1tn target in 2015. Marketing sales will derived from the development of existing projects and also from Kaliana apartment Kaliana located in Metland Transyogi, Bogor, which will be launched in 1Q16. Allocated 2016's capex land acquisition estimated to be Rp 50tn worth and mostly will be used for land acquisition in Cibitung. For MTLA's high-rise projects in an area of 1.3 ha which will be cooperate with Singapore based company, Ascenda, the construction will begin in 4Q16 with a first phase investment of SGD 300mn.

### PTPP seeks Rp4tn loans (ID)

Pembangunan Perumahan (PTPP) seeks bank loan financing of about Rp4tn for next year. Proceeds from the loan will be used to finance working capital around Rp6-7tn in 2016. PTPP will begin to explore loan in 1Q16. This working capital need is expected to sustain the company's expansion strategy and achieve revenue target of Rp20tn 2016, an 28% increase compared to this year's revenue target for Rp15.63tn. In addition, PTPP also prepared Rp2tn capital expenditure for next year, up 11% compared to this year's allocation worth Rp1.8tn.

### UNTR develop a power plant subsidiary (BI)

United Tractor (UNTR) formally established Unitra Persada Energia (UPE) which will be engaged in the power plant industry and involving in generator, sales, transmission and distribution and related businesses activities. UPE shareholders are UNTR and its subsidiary Pamapersada Nusantara (PAMA), with a capital injection of Rp 259mn from UNTR and Rp 1mn from PAMA.

### World Bank maintain Indonesian economic growth forecast at 4.7% (ID)

World Bank confirms to maintain Indonesia's economic growth forecast of 4.7% in 2015 on the back of (i) lower revenue collection may hinder budget expenditure, (ii) weaken exports and imports, (iii) decrease in private investment following economic slowdown in China. Considering budget expenditure in the 10M15 reached Rp99tn, or 35.8% of the target of Rp276tn and revenue collection of Rp1,199.7 tn, budget deficit was reached Rp284tn, or 2.5% of GDP. Meanwhile, World Bank also retains economic growth projection for Indonesia in 2016 amounted to 5.3%.



**Equity Valuation**

	Rating	Price (Rp)	Price Target	Mkt Cap Rp Bn	Net profit, Rp bn		EPS (Rp)		Core EPS (Rp)		EPS Growth		PER (x)		EV / EBITDA (x)		PBV (x)		Net Gearing 2015	ROE 2015
					2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016		
<b>Danareksa Universe</b>				<b>2,578,433</b>	<b>185,683</b>	<b>204,377</b>	<b>288.7</b>	<b>317.8</b>			<b>4%</b>	<b>10%</b>	<b>13.9</b>	<b>12.6</b>	<b>11.6</b>	<b>10.7</b>	<b>2.3</b>	<b>2.1</b>		<b>17.8</b>
<b>Auto</b>				<b>264,884</b>	<b>24,706</b>	<b>29,222</b>	<b>452.6</b>	<b>535.3</b>			<b>15%</b>	<b>18%</b>	<b>10.7</b>	<b>9.1</b>	<b>8.8</b>	<b>7.6</b>	<b>1.3</b>	<b>1.6</b>		<b>18.6</b>
Astra International	HOLD	6,275	8,300	254,034	23,976	28,096	592	694	497	567	16%	17%	10.6	9.0	9.0	7.7	1.9	1.6	33.5	19.1
Gajah Tunggal	BUY	483	1,500	1,683	266	633	76	182	140	127	-1%	138%	6.3	2.7	4.1	4.0	0.3	0.2	95.0	4.4
Selamat Pempurna	BUY	4,900	5,300	7,054	465	493	323	342	332	352	19%	6%	15.2	14.3	9.2	8.5	4.9	4.1	net cash	36.0
<b>Banks</b>				<b>909,785</b>	<b>75,582</b>	<b>81,994</b>	<b>701.6</b>	<b>761.1</b>			<b>2%</b>	<b>8%</b>	<b>12.0</b>	<b>11.1</b>	<b>12.0</b>	<b>11.1</b>	<b>2.2</b>	<b>1.9</b>		<b>19.5</b>
BCA	HOLD	13,100	13,500	322,981	19,966	21,921	725	800	725	800	8%	10%	18.1	16.4	NA	NA	3.6	3.0	NA	23.8
BNI	BUY	4,790	5,850	89,327	7,506	8,596	402	461	402	461	-30%	15%	11.9	10.4	NA	NA	1.4	1.2	NA	12.1
BRI	BUY	10,750	13,400	265,193	24,352	25,863	987	1,048	987	1,048	0%	6%	10.9	10.3	NA	NA	2.3	2.0	NA	23.0
Bank Tabungan Negara	BUY	1,280	1,450	13,545	1,588	1,964	151	187	151	187	42%	24%	8.5	6.8	NA	NA	1.0	0.9	NA	12.4
Bank Mandiri	BUY	8,750	11,450	204,167	20,144	21,413	863	918	863	918	1%	6%	10.1	9.5	NA	NA	1.7	1.5	NA	18.2
Bank Tabungan Pensiunan	BUY	2,495	4,500	14,572	2,026	2,237	347	383	347	383	8%	10%	7.2	6.5	NA	NA	1.1	0.9	NA	15.8
<b>Cement</b>				<b>136,417</b>	<b>9,522</b>	<b>9,566</b>	<b>991</b>	<b>995</b>			<b>-13%</b>	<b>0%</b>	<b>14.3</b>	<b>14.3</b>	<b>9.0</b>	<b>8.7</b>	<b>2.5</b>	<b>2.3</b>		<b>17.6</b>
Indocement	HOLD	20,300	21,000	74,729	4,915	4,919	1,335	1,336	1,305	1,306	-9%	0%	15.2	15.2	9.5	9.2	2.6	2.4	net cash	16.9
Semen Indonesia	BUY	10,400	12,300	61,688	4,608	4,648	777	784	761	767	-17%	2%	13.4	13.3	8.5	8.2	2.4	2.2	net cash	18.4
<b>Construction</b>				<b>102,970</b>	<b>4,317</b>	<b>5,350</b>	<b>99</b>	<b>123</b>			<b>17%</b>	<b>24%</b>	<b>23.9</b>	<b>19.2</b>	<b>11.3</b>	<b>9.7</b>	<b>3.0</b>	<b>2.7</b>		<b>14.4</b>
Jasa Marga	BUY	4,725	8,000	32,130	1,531	1,779	480	614	513	657	19%	28%	9.8	7.7	11.4	10.2	2.6	2.3	95.6	12.8
Wijaya Karya	HOLD	2,620	2,500	16,111	673	638	93	104	98	109	-7%	11%	28.1	25.3	11.5	9.7	2.9	2.6	29.0	10.9
Pembangunan Perumahan	BUY	3,715	4,600	17,990	694	856	143	177	150	185	30%	23%	25.9	21.0	10.5	8.8	6.0	4.9	39.2	25.8
Adhi Karya	BUY	2,065	UR	7,353	399	531	112	149	123	163	23%	33%	18.4	13.8	8.9	7.5	3.5	2.9	66.6	20.8
Waskita Karya	BUY	1,645	2,000	22,327	725	1,054	53	78	53	78	4%	46%	30.8	21.2	14.7	12.3	2.5	2.3	net cash	12.5
Wika Beton	HOLD	810	1,350	7,060	396	491	45	56	46	57	32%	24%	17.8	14.4	9.0	7.1	2.8	2.4	net cash	17.1
<b>Consumer</b>				<b>391,026</b>	<b>13,419</b>	<b>14,186</b>	<b>488</b>	<b>516</b>			<b>7%</b>	<b>6%</b>	<b>29.1</b>	<b>27.6</b>	<b>17.2</b>	<b>16.3</b>	<b>6.9</b>	<b>5.8</b>		<b>25.9</b>
Indofood CBP	BUY	12,150	13,800	70,846	3,033	3,308	520	567	520	567	16%	9%	23.4	21.4	16.1	15.1	4.5	4.0	net cash	20.3
Indofood	BUY	4,890	7,100	42,936	3,704	4,059	422	462	563	610	-5%	10%	11.6	10.6	5.4	5.2	1.5	1.4	19.5	13.8
Unilever	SELL	35,125	30,475	268,004	5,889	6,234	772	817	772	817	6%	6%	45.5	43.0	31.2	29.6	26.2	16.4	net cash	80.4
Nippon Indosari Corpindo	BUY	1,170	1,680	5,922	266	309	53	61	53	61	41%	16%	22.2	19.1	11.8	10.3	4.9	4.1	59.5	24.7
Mandom	BUY	16,500	21,170	3,318	526	276	2,618	1,375	279	1,373	202%	-47%	6.3	12.0	7.0	6.1	2.0	1.9	net cash	35.7
<b>Healthcare</b>				<b>106,251</b>	<b>2,981</b>	<b>3,387</b>	<b>211</b>	<b>266</b>			<b>24%</b>	<b>26%</b>	<b>35.6</b>	<b>31.4</b>	<b>22.4</b>	<b>19.1</b>	<b>6.1</b>	<b>5.5</b>		<b>18.6</b>
Kalbe Farma	HOLD	1,235	1,355	57,891	2,040	2,274	44	49	43	49	-1%	12%	28.4	25.5	18.5	16.1	5.6	5.0	net cash	20.6
Kimia Farma	BUY	825	1,200	4,582	259	303	47	55	42	47	12%	17%	17.6	15.0	11.7	10.2	2.4	2.1	0.7	13.9
Siloam Hospital	HOLD	9,800	10,500	11,330	93	134	80	116	84	127	49%	44%	121.9	84.8	22.0	17.0	6.5	6.0	16.1	5.5
Mitra Keluarga	BUY	2,230	2,995	32,448	589	676	40	46	40	45	14%	15%	55.1	48.0	49.2	41.8	9.7	8.8	net cash	23.9
<b>Heavy Equipment</b>				<b>58,702</b>	<b>5,973</b>	<b>6,297</b>	<b>1,307</b>	<b>1,378</b>			<b>7%</b>	<b>6%</b>	<b>9.8</b>	<b>9.3</b>	<b>4.3</b>	<b>3.6</b>	<b>1.4</b>	<b>1.3</b>		<b>14.6</b>
Hoindo Adiperkasa	HOLD	1,275	3,650	1,071	220	260	262	309	238	273	13%	18%	4.9	4.1	2.1	1.3	0.4	0.4	net cash	8.0
United Tractors	HOLD	15,450	18,500	57,631	5,753	6,037	1,542	1,619	1,542	1,619	7%	5%	10.0	9.5	4.4	3.7	1.4	1.3	net cash	15.1
<b>Mining</b>				<b>59,175</b>	<b>6,396</b>	<b>7,645</b>	<b>80</b>	<b>96</b>			<b>-25%</b>	<b>20%</b>	<b>9.3</b>	<b>7.7</b>	<b>3.3</b>	<b>3.0</b>	<b>0.5</b>	<b>0.5</b>		<b>6.3</b>
Adaro Energy	BUY	463	900	14,809	2,249	2,054	70	64	70	64	9%	-9%	6.6	7.2	2.9	2.7	0.4	0.4	32.0	6.4
Timah	BUY	483	850	3,597	157	237	21	32	21	32	-75%	51%	22.9	15.2	5.8	5.4	0.7	0.6	24.9	2.9
Vale Indonesia	BUY	1,490	3,700	14,805	1,386	1,790	140	180	140	180	-36%	29%	10.7	8.3	3.5	2.9	0.7	0.6	net cash	6.2
Aneka Tambang	BUY	289	472	6,945	(698)	(112)	(73)	(12)	(73)	(12)	-6%	-84%	(4.0)	(24.6)	11.8	9.2	0.4	0.4	13.3	-4.8
Bukit Asam	BUY	4,630	8,400	10,668	1,560	1,674	718	770	718	770	-23%	7%	6.5	6.0	4.5	4.2	1.1	1.0	net cash	17.4
Indo Tambangraya Megah	HOLD	5,775	10,600	6,525	1,622	1,800	1,435	1,593	1,435	1,593	-23%	11%	4.0	3.6	0.9	0.7	0.5	0.5	net cash	15.2
Harum Energy	HOLD	675	1,750	1,825	119	202	44	75	44	75	-53%	69%	15.3	9.1	2.0	1.6	0.5	0.5	net cash	3.1
<b>Plantation</b>				<b>42,877</b>	<b>5,510</b>	<b>5,938</b>	<b>211</b>	<b>227</b>			<b>11%</b>	<b>8%</b>	<b>7.8</b>	<b>7.2</b>	<b>4.3</b>	<b>3.8</b>	<b>1.1</b>	<b>1.0</b>		<b>14.9</b>
Astra Agro Lestari	BUY	16,450	27,100	25,905	2,770	2,832	1,759	1,798	1,759	1,798	18%	19%	6.1	5.2	4.2	3.6	0.8	0.7	31.8	14.5
Sampoerna Agro	BUY	1,500	2,600	2,835	464	550	245	291	253	299	8%	7%	8.2	7.6	3.9	3.2	1.1	1.0	net cash	13.9
PP London Sumatra	HOLD	1,270	2,090	8,665	1,055	1,133	155	166	155	166	8%	7%	6.3	5.9	3.6	3.1	1.1	1.0	net cash	14.5
Salm Indesa Pratama	BUY	346	850	5,472	1,221	1,423	77	90	87	98	33%	17%	4.5	3.8	3.1	2.7	0.4	0.3	37.6	8.2
<b>Property</b>				<b>90,887</b>	<b>8,896</b>	<b>10,205</b>	<b>87</b>	<b>99</b>			<b>-10%</b>	<b>15%</b>	<b>10.2</b>	<b>8.9</b>	<b>8.1</b>	<b>7.9</b>	<b>1.8</b>	<b>1.6</b>		<b>18.8</b>
Alam Sutera	BUY	325	700	6,386	1,254	1,516	64	77	73	85	15%	21%	5.1	4.2	6.1	5.1	0.9	0.8	75.3	18.9
Bumi Serpong Damai	BUY	1,615	2,100	31,083	2,369	2,617	135	150	140	156	-36%	10%	11.9	10.8	10.4	9.2	2.1	1.8	net cash	16.6
Metropolitan Land	BUY	203	620	1,554	290	322	38	43	38	43	14%	11%	5.3	4.8	4.2	4.0	0.7	0.6	27.7	14.2
Surya Semesta Internusa	HOLD	585	1,040	2,753	464	415	99	88	103	93	32%	-11%	5.9	6.6	2.3	2.3	0.9	0.8	net cash	16.9
Lippo Karawaci	BUY	1,125	1,200	25,962	1,565	1,763	72	82	58	64	-38%	13%	15.5	13.8	11.8	10.1	1.6	1.5	27.3	10.1
PP Properti	BUY	169	242	2,374	1,626	1,963	21	26	22	28	172%	27%	8.2	6.5	5.7	5.5	1.1	0.9	8.8	100.6
Summarecon	BUY	1,440	2,045	20,775	1,327	1,609	92	111	92	111	-5%	21%	15.7	12.9	11.6	9.6	4.2	3.4	57.1	

## COVERAGE PERFORMANCE

### LEADERS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		15-Dec-2015	14-Dec-2015					
United Tractors	UNTR	15,450	14,000	10.4	(2.2)	(12.7)	(11.0)	HOLD
Vale Indonesia	INCO	1,490	1,380	8.0	(4.5)	(17.5)	(58.9)	BUY
Bukit Asam	PTBA	4,630	4,315	7.3	(9.7)	(23.2)	(63.0)	BUY
Timah	TINS	483	458	5.5	(7.1)	(10.6)	(60.7)	BUY
Indocement	INTP	20,300	19,400	4.6	0.7	3.6	(18.8)	HOLD
Siloam Hospital	SILO	9,800	9,375	4.5	2.9	5.4	(28.5)	HOLD
Tower Bersama	TBIG	6,100	5,850	4.3	0.8	(5.8)	(37.1)	HOLD
Perusahaan Gas Negara	PGAS	2,405	2,315	3.9	(14.1)	(6.6)	(59.9)	BUY
Kimia Farma	KAEF	825	795	3.8	(13.6)	(15.4)	(43.7)	BUY
Indofood CBP	ICBP	12,150	11,725	3.6	(2.4)	(1.6)	(7.3)	BUY

Sources: Bloomberg

### LAGGARDS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		15-Dec-2015	14-Dec-2015					
Adaro Energy	ADRO	463	477	(2.9)	(9.2)	(17.3)	(55.5)	BUY
Indosat	ISAT	5,050	5,200	(2.9)	(8.2)	6.0	24.7	BUY
Summarecon	SMRA	1,440	1,475	(2.4)	(10.6)	0.3	(5.3)	BUY
Selamat Sempurna	SMSM	4,900	5,000	(2.0)	0.9	(0.1)	3.2	BUY
Salim Ivomas Pratama	SIMP	346	351	(1.4)	(7.7)	(13.1)	(50.9)	BUY
Ace Hardware	ACES	745	755	(1.3)	(7.5)	-	(5.1)	HOLD
Nippon Indosari Corpindo	ROTI	1,170	1,185	(1.3)	(6.4)	0.4	(15.5)	BUY
Gajah Tunggal	GJTL	483	489	(1.2)	(9.7)	(21.5)	(66.1)	BUY
Hexindo Adiperkasa	HEXA	1,275	1,290	(1.2)	(3.8)	(22.7)	(63.6)	HOLD
Metropolitan Land	MTLA	203	205	(1.0)	(1.5)	1.0	(53.9)	BUY

Sources: Bloomberg

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