Danareksa

MORNING HIGHLIGHTS

Danareksa Snapshot

Friday, 25 April 2014

From Research:

Initiating coverage: WTON – Cementing a Stronger Future (WTON IJ. Rp735. BUY. TP Rp850)

With more than 30 years of experience in the precast business, WTON has become the largest precast producer in Indonesia. Expansion will be undertaken over the next three years to boost the company's capacity from 2.0mn tons in 2013 to 2.6mn tons in 2016. Our Target Price of Rp850 implies PE FY14 of 24.1x, a 10% premium to WIKA's valuation, yet justified in our view, given WTON's first-mover leading advantage in precast and the company's sound growth prospects. We believe that WTON is quite attractive since it still trades at PEG 2014-2016 of 0.7x (vs. 1.1x for the construction sector on average).

Company update: WIKA – Fully Valued (WIKA IJ. Rp2,220. HOLD. TP Rp2,400)

The first three months seems pretty solid for WIKA with new contracts achievement of Rp4.5tn. While we see WIKA will continue to record decent growth in 2014, short term volatility may arise from the election sentiment. Thus, we only expect WIKA to win Rp18.7tn of new contracts in 2014. Using SOTP valuation, we set our new TP of Rp2,400. Potential uprisk comes from the elections "exuberance" fueling another re-rating of the market and sector. Given the limited potential upside, we change our recommendation to HOLD.

1Q2014 Result:

- **UNVR – bottom line is slightly below (UNVR IJ. Rp29,300. HOLD. TP Rp28,300)**

From Today's Headlines:

(please see our analysts' comment inside)

- B Surya Internusa Seeks Loans Rp1.1tn (ID)
- Mandom Prepares Rp390bn for Plant Expansion (ID)
- 1Q14 Performance: SMBR Sales Rise 27.73% (BI)
- Subsidiary of AISA bag Rp400 billion (BI)

From IDX:

Cash announcement

Code	**Ex-Date**	**Date Payable**	**Amount (Rp)**
BBNI	29-Apr-14	14-May-14	146
ITMG	29-Apr-14	14-May-14	975
PTPP	22-Apr-14	7-May-14	26
KAEF	21-Apr-14	8-May-14	10

Source: Stockwatch

Key Index

	Close	Chg (%)	Ytd (%)	Vol (US$ m)
Asean - 5				
Indonesia	4,891	(0.0)	14.4	463
Thailand	1,423	(0.1)	9.5	1,112
Philippines	6,731	(0.6)	14.3	150
Malaysia	1,865	(0.1)	(0.1)	642
Singapore	3,284	0.8	3.7	1,069
Regional				
China	2,057	(0.5)	(2.8)	10,803
Hong Kong	22,563	0.2	(3.2)	6,528
Japan	14,405	(1.0)	(11.6)	9,547
Korea	1,996	(0.1)	(0.8)	4,046
Taiwan	8,945	(0.1)	3.9	3,145
India	22,877	0.5	8.1	430
Nasdaq	4,148	0.5	(0.7)	92,212
Dow Jones	16,502	-	(0.5)	5,570

Currency and Interest Rate

	Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah (Rp/1US$)	11,603	(1.6)	(2.0)	4.7
SBI rate (%)	7.13	(0.0)	(0.0)	(0.1)
10-y Govt Indo bond	8.05	0.1	(0.2)	(0.4)

Hard Commodities

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US$/ton	73	n/a	(1.8)	(13.8)
Gold	US$/toz	1,292	(0.1)	(1.5)	7.2
Nickel	US$/mt.ton	18,312	(0.1)	13.9	32.4
Tin	US$/mt.ton	23,872	0.1	4.1	6.9

Soft Commodities

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US$/mt.ton	3,085	0.3	1.8	7.9
Corn	US$/mt.ton	193	(0.3)	3.9	21.0
Crude Oil	US$/barrel	110	1.1	3.3	(0.4)
Palm oil	MYR/mt.ton	2,705	(0.4)	(5.4)	5.1
Rubber	USd/kg	171	0.5	(7.6)	(24.6)
Pulp	US$/tonne	924	n/a	0.3	2.0
Coffee	US$/60kg bag	119	(0.7)	3.5	21.3
Sugar	US$/MT	476	(0.8)	5.8	6.0
Wheat	US$/mt.ton	256	2.0	(2.8)	12.9

Source: Bloomberg

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CONSTRUCTION SECTOR/INITIATING COVERAGE

Wika Beton

Cementing a Stronger Future

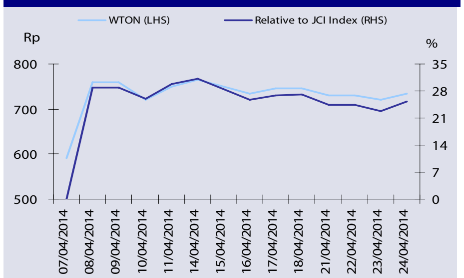
BUY

Target Price, Rp	850
Upside	15.6%

WTON IJ/WTON.JK

Last Price, Rp	735
No. of shares (mn)	8,715
Market Cap, Rp bn	**6,406**
(US$ mn)	552

WTON relative to JCI Index



With more than 30 years of experience in the precast business, WTON has become the largest precast producer in Indonesia. The company's factories are geographically well-spread and this will be a key factor in enabling the company to ride the wave of the nation's infrastructure development. Expansion will be undertaken over the next three years to boost the company's capacity from 2.0mn tons in 2013 to 2.6mn tons in 2016 with cost efficiencies supported by the near-to-shore location of its factories and the acquisition of quarries. Our Target Price of Rp850 implies PE FY14 of 24.1x, a 10% premium to WIKA's valuation, yet justified in our view, given WTON's first-mover leading advantage in precast and the company's sound growth prospects. We believe that WTON is quite attractive since it still trades at PEG 2014-2016 of 0.7x (vs. 1.1x for the construction sector on average).

Having the largest capacity and an extensive distribution network

WTON is the most experienced precast producer in Indonesia with a track record of more than 30 years. Presently, the company owns eight factories that are geographically well-spread, with the largest precast production capacity in Indonesia of 2.0mn tons p.a. Thus, besides the fact that the company enjoys significant economies of scale and integration of its factories, its greater timeliness in meeting delivery schedules has given the company a solid reputation in the eyes of its customers. On top of that, WTON's well-diversified customer base has helped the company's revenues stream to be resilient to potential customer migration in the future.

Significant expansion to take place post-IPO

Post-IPO, WTON is ready to develop three near-to-shore factories that will increase the capacity to 2.6mn tons in 2016. Furthermore, WTON is also pursuing a vertical integration strategy through acquiring four stone quarries which will provide the main raw materials for precast concrete. Interestingly, prior to the IPO, WTON moved fast to secure all the land bank required to facilitate the planned expansion. Thus, with a growing number of projects, combined with the company's additional capacity and market leading position, we expect WTON to deliver 3-year top line and bottom line growth of 26% and 29%, respectively.

Further efficiencies plus preservation of strong balance sheet

WTON has succeeded in improving its gross margin from 10.3% in 2010 to 14.7% in 2013 thanks to economies of scale, product innovation and production automation. In our view, further efficiencies will come from the company's new quarries and factories which will help improve the company's cost competitiveness in the market. Furthermore, WTON's healthy working capital from adopting a prudent risk policy has preserved the company's strong balance sheet with a net cash position. Going forward, Rp1.7tn will be spent on capex for expansion over the next three years, mostly sourced from the company's IPO proceeds and internal cash flow.

	2012	2013	2014F	2015F	2016F
Revenues, Rp bn	2,031	2,644	3,485	4,375	5,229
EBITDA, Rp bn	276	397	547	719	881
EBITDA Growth, %	33	44	38	31	23
Net Profit, Rp bn	179	243	307	401	516
Core Profit, Rp bn	174	251	308	402	518
Core EPS, Rp	20.0	28.8	35,4	46.2	59.4
Core EPS Growth, %	27.4	43.9	22.7	30.5	28.8
Net Gearing, %	Net cash	17.7	Net cash	Net cash	Net cash
PER, x	35.1	25.8	20.5	15.7	12.2
Core PER, x	36.0	25.0	20.4	15.6	12.1
PBV, x	10.4	8.6	2.9	2.5	2.1
EV/EBITDA, x	21.6	16.1	9.1	6.4	4.7
Yield, %	0.8	1.0	1.2	1.5	1.9

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

Having the largest capacity and an extensive distribution network

WTON is the most experienced precast producer in Indonesia with a track record of more than 30 years. Presently, the company owns eight factories which are geographically well-spread and which have total production capacity of 2.0mn tons in 2013. Compared to its peers - which only have one or two factories in a single location – WTON has much greater reach to its customers supported by two factories in Sumatera, five in Java, and one in Sulawesi. Besides enjoying significant economies of scale, the company also benefits from the integration of its factories, and, on top of this, greater timeliness in terms of being able to meet nationwide delivery schedules.

Exhibit 1. WTON currently has eight factories with capacity of 2.0mn tons p.a.

WTON's factory	Location	Size, ha	Capacity, '000 tons p.a.
North Sumatera	Binjai, North Sumatera	5.1	210
Lampung	Natar, Lampung	6.1	170
Bogor	Bogor, West Java	13.2	530
Karawang	Karawang, West Java	10.5	240
Majalengka	Majalengka, West Java	3.4	110
Boyolali	Boyolali, Central Java	4.1	210
Pasuruan	Pasuruan, East Java	10.4	400
South Sulawesi	Makassar, South Sulawesi	3.4	130
TOTAL		**56.2**	**2,000**

Source: Company

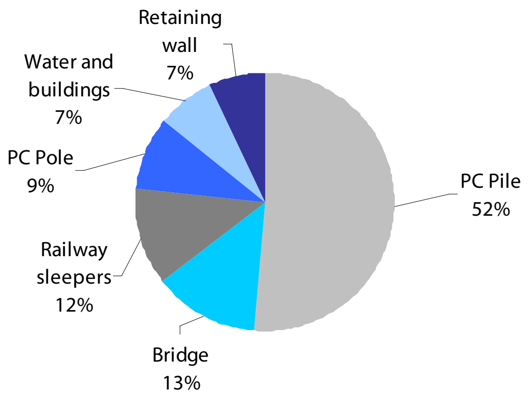
PC Pile is the company's main product, with Java accounting for the bulk of the sales

The precast concrete produced by WTON is high-strength concrete (K-500 or 500kg/cm2) sold to the B-to-B market with its main use in infrastructure projects and the construction of high-rise buildings. In this business, the company has the most comprehensive range of concrete products. Its most important product is PC Pile. As PC Pile products have high tech characteristics and high investment costs are needed to enter this business, there are some barriers in the way of new entrants to make such products. All in all, PC Pile contributes more than 50% of WTON's total revenues. Geographically, more than 65% of the company's sales are generated in Java, the main area for infrastructure development in Indonesia in recent years supported by the island's large and growing population

Exhibit 2. Some of WB precast products

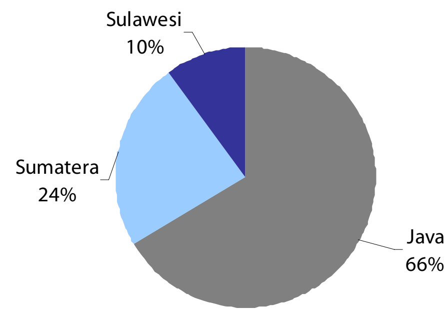
Source: Company

Exhibit 3. PC pile as the company's main product



Source: Company

Exhibit 4. Java is a very important area for WTON



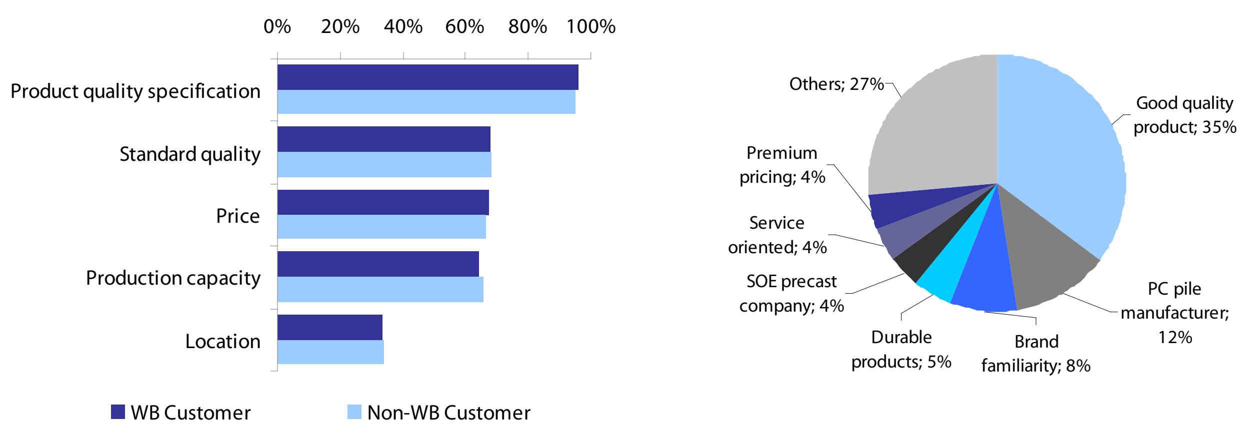
Source: Company

Solid track record, ahead of the curve

For a company to get orders in Indonesia's precast market it is important to have a sound reputation and have references made by people associated with projects. Based on MARS' survey conducted in 2013, WTON enjoys a sound reputation and is ranked first in the precast industry by project owners and contractors. Interestingly, the most important consideration is product quality - rather than pricing - for precast customers in selecting precast suppliers. This is a vital distinction since it means that precast concrete cannot be categorized as a commodity like cement or fresh concrete, where pricing is generally the determining factor for customers.

It is also interesting to note that the other players in the industry still undertake works based on a 'project base' style since they can only meet supply for projects located close to their factories. WTON, by contrast, is already a step ahead since it undertakes works based on its 'industrial base' style. In this way, the company can supply precast for any project in Indonesia thanks to the geographical spread of its factories which ensures the most efficient cost structure for both the company and its customers.

Exhibit 5. Product quality is the key determinant in selecting a precast company

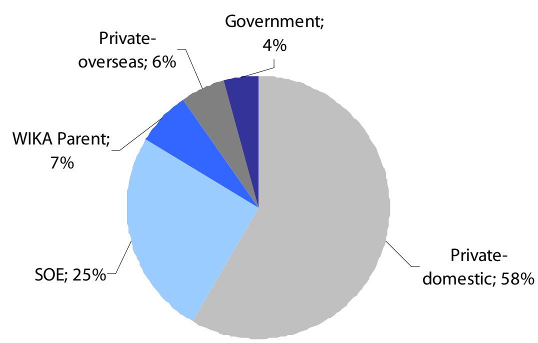


Source: MARS Indonesia

Diversified range of customers to dampen volatility in demand

With rising competition in the precast industry, having a strong customer base is vital since it mitigates the impact on the company if a customer switches to another supplier. Over the years, WTON has managed to build up a well-diversified customer base, with WTON's revenues stream not heavily exposed to a single customer. Generally, the company's largest customer has been its parent company, WIKA – accounting for around 7% of WTON's revenues while the largest chunk of revenues comes from sales to the private sector (comprising hundreds of names). With such a well-diversified customer base, we believe WTON's revenues stream should be resilient going forward.

Exhibit 6. WIKA is WTON's largest single customer

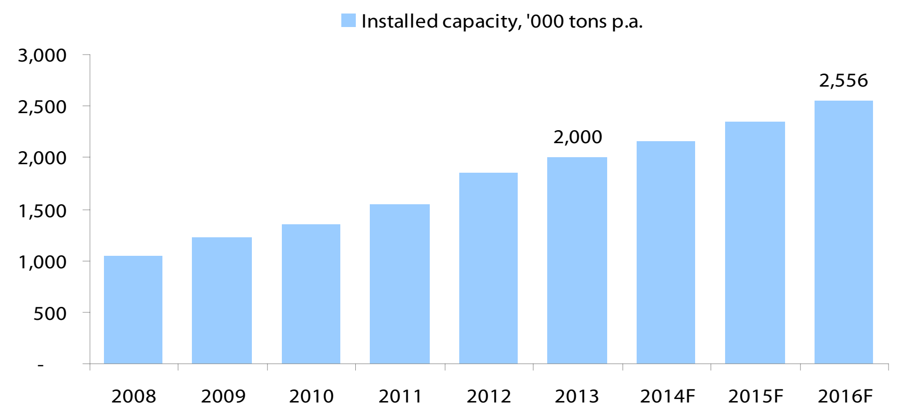


Source: Company

Significant expansion to take place post-IPO

Using the proceeds from the IPO in early 2014, WTON will develop three new factories located in South Lampung (Lampung), Pasuruan (East Java), and Balikpapan (East Kalimantan). These new factories will have near-to-shore locations and be equipped with a jetty to load products and materials, minimizing transportation costs - one of the large cost components in the past. For the existing factories, WTON will continuously undertake debottlenecking and modernization which could raise production capacity by 5k tons (~5%) per factory p.a. Over the next three years, we estimate that WTON's production capacity will increase by at least 556k tons to reach 2.6mn tons p.a. of installed production capacity.

Exhibit 7. WB's installed capacity will reach 2.6mn tons p.a. in 2016



Source: Company, Danareksa Sekuritas

WTON will also pursue a strategy of vertical integration. In this regard, the company will develop four stone quarries in Cigudeg (West Java), Donggala (Sulawesi), Boyolali (Central Java), and South Lampung (Lampung) to supply the main raw materials to its factories in the surrounding areas. These quarries are estimated to have a life-time of over 40 years. This another prove to WTON's ahead of the curve strategy that we believe should help the company to rein in material costs and make the company less dependent on third-party suppliers, thereby providing greater certainty over both volumes and prices.

Although Java is still the major area for infrastructure development in the country, expansion into areas out of Java will be crucial, in our view. To tap these areas, some of which offer tremendous growth potential, WTON will benefit from having first mover advantage. Through such aggressive expansion - almost Rp1.7tn is expected to be spent on capex over the next three years - WTON hopes to stay one step ahead of its competitors. Interestingly, prior to the IPO process, WTON moved fast to secure all the land bank required for its future expansion plans, a wise move considering how crucial the acquisition process is in Indonesia.

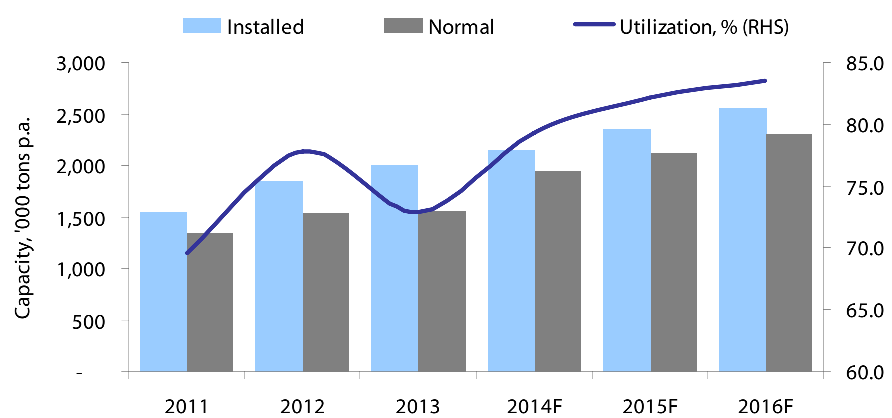
Exhibit 8. WTON's future expansion plans

Source: Company

High growth market reward high utilization

With the acceleration of infrastructure projects since MP3EI back in 2011, WTON has been enjoying consistently high revenues growth at 23% CAGR in the past three years. However, as a result, WTON's utilization nearly maxed out at 73% in 2013. Initially, at the beginning of the year, the company ran two shifts per day (8 hours per shift) with a total of 250 working days per year. Yet considering the high demand for precast products, and even with the additional 556k tons p.a. of installed capacity from the new factories over the next three years, we envisage that the utilization will remain on the high side at 84% in 2016. Thus, further expansion post-2016 will be needed in our view to meet the growing demand.

Exhibit 9. High utilization to meet strong market demand

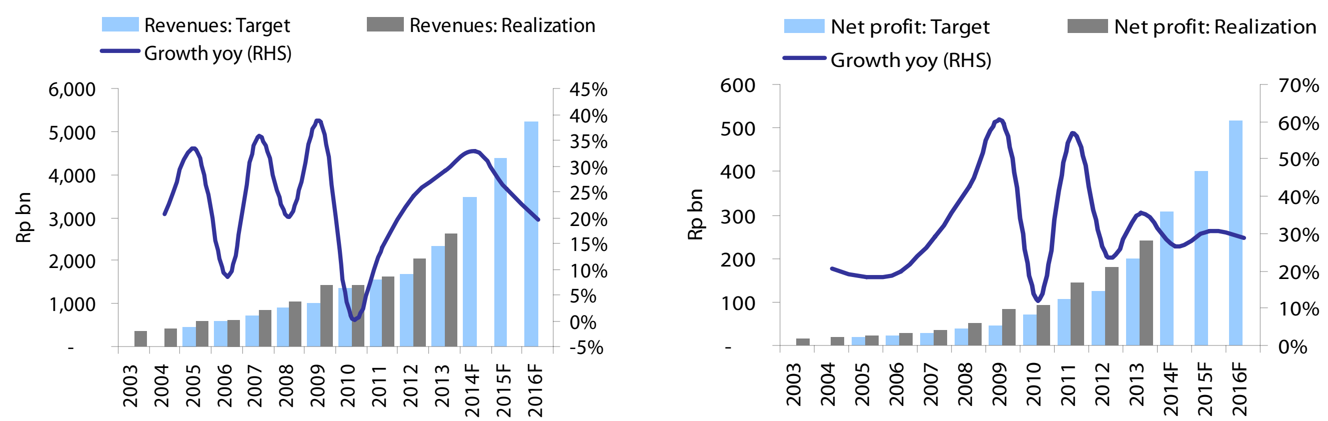


Source: Company, Danareksa Sekuritas

Proven growth consistency

We like the fact that WTON has been able to meet its targets each year. Over the past ten years, WTON has shown consistent growth, always beating the management's targets by 5-10%. In the past five years, net profits have tripled from Rp82bn in 2009 to Rp243bn in 2013 with CAGR of 31%. In the same period, revenues have grown by CAGR of 17%. With growth in the number of infrastructure projects supported by the company's additional capacity and further efficiencies taking place in 2014 onwards, we expect the company to deliver 3-year top line growth of CAGR 26% and 3-year bottom line growth of CAGR 29%, yet still slightly slower than company's expectation.

Exhibit 10. Consistent growth in both revenues and net profits



Source: Company, Danareksa Sekuritas

Subsidiaries to help meet captive market demand

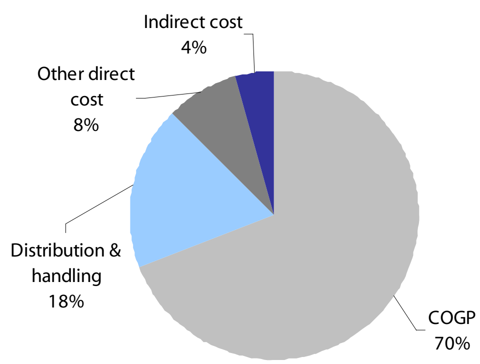
Besides utilizing its own capacity, WTON also has subsidiaries named WIKA Komponen Betonjaya (WIKA Kobe) and WIKA Krakatau Beton (WIKA Kraton) to meet captive market demand. WIKA Kobe is owned 51% by WTON with production targeted to meet demand from Japanese funded projects (i.e. the Jakarta MRT) as this kind of project requires at least 30% of the materials and works to be undertaken by local players. WIKA Kraton, meanwhile, is 60% owned by WTON with production targeted to meet the captive market in the Krakatau Industrial Estate area. Both companies will build their own precast factories with capacity of around 50-100k tons p.a. to supply the designated projects.

Further efficiencies plus preservation of strong balance sheet

The raw materials for precast concrete are steel (30-35%), cement (20%), and sand split sourced from stone quarries (20-30%). For these raw materials, WTON has entered into forward contracts with some suppliers that are reviewed every three to six months in order to get the best quality at the best price. Raw materials are a significant chunk of WTON's cost of goods production (COGP), along with the direct labor and overhead costs. The second largest cost component is distribution and handling (transportation logistics) costs, reflecting the bulky nature of precast products. Other costs - such as marketing and R&D - are a relatively small part of the total COGS.

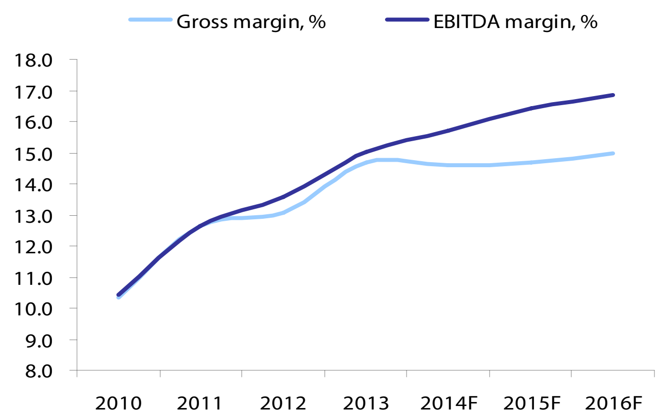
In the past five years, the company has managed to improve its gross margin from 10.3% in 2010 to 14.7% in 2013 thanks to economies of scale, product innovation and production automation. In our view, further efficiencies will come from the acquisition of quarries and new factories constructed close to shore. The impact will be more evident over the longer term, we believe, and help maintain the company's cost competitiveness in the market. We estimate that a gross margin of around 14% is sustainable for WTON in view of its first mover advantage amidst stiffening competition in the industry. As its competitors are still building up capacity and keen to retain customers, they are likely to adopt competitive pricing strategies to challenge the incumbent market leaders like WTON.

Exhibit 11. WTON's cost structure



Source: Company

Exhibit 12. Sustainable profitability going forward

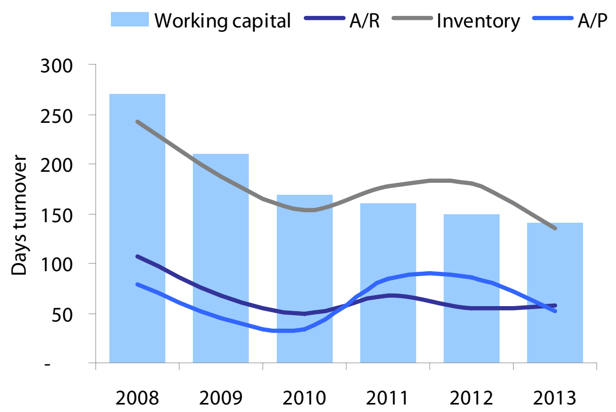


Source: Company, Danareksa Sekuritas

Strong balance sheet with unique working capital cycle

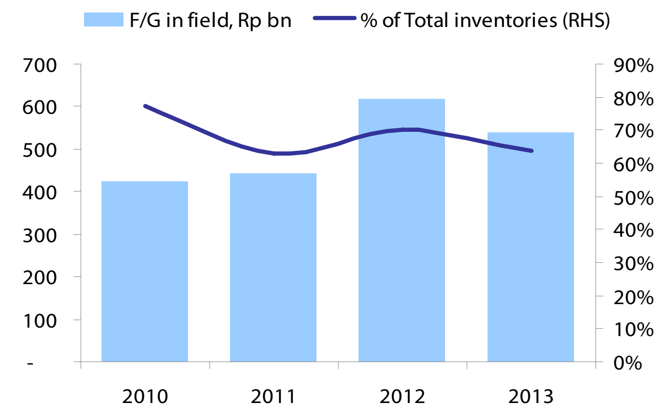
Thanks to ample cash flow from its healthy working capital cycle, WTON has hardly ever made use of bank loans for expansion in previous years. Its healthy working capital reflects the company's policy of requiring 10-20% upfront payments from customers and cash payment before delivery of its products. The high working capital cycle of around four to five months owes to the company's high inventory level that reached between five to six months, while the receivables and payables are normally within three to four months. The high inventory level is a reflection of WTON's business cycle, in which some inventories of finished goods are stored at WTON's factories or project sites, thus resulting in large unearned revenues in the company's liabilities. Another thing on high inventory is its lower risk compared to the receivables considering the company can directly sell the inventory at cost in worst case scenario.

Exhibit 13. High inventory in working capital ...



Source: Company

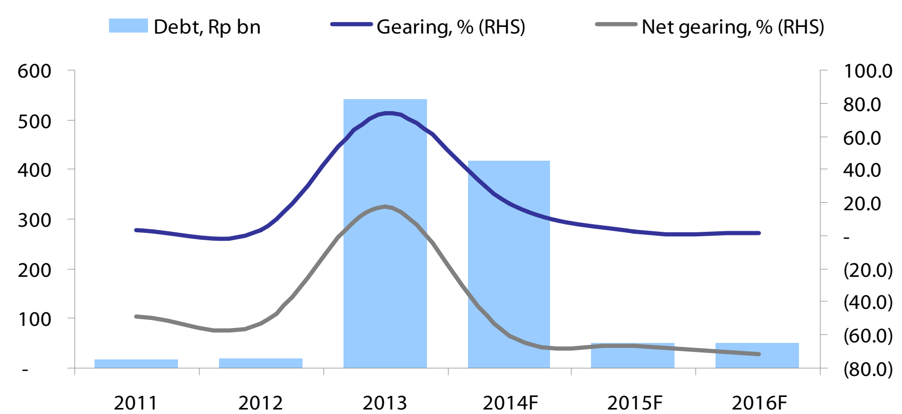
Exhibit 14. . . . due to the high portion of F/G in the field



Source: Company

As a result, WTON's balance sheet is nearly always in a net cash position at the end of the year. Only in 2013 did the company have to gear up by issuing Rp366bn of MTN carrying a 9.5% coupon to fund its expansion plans prior to the IPO, mostly for land acquisition. The MTN will mature in November 2015. Going forward, to fund its Rp1.7tn of planned expansion over the next three years, WTON will use its IPO proceeds, thus keeping the company in a healthy net cash position.

Exhibit 15. Healthy balance sheet with net cash position

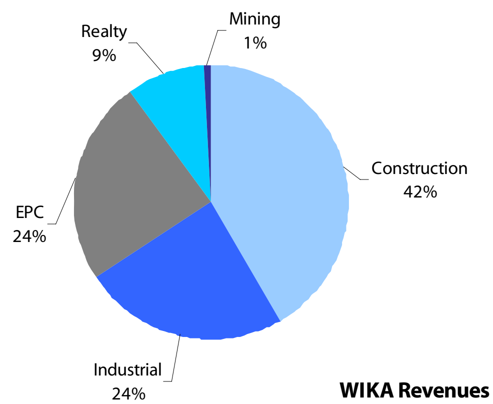


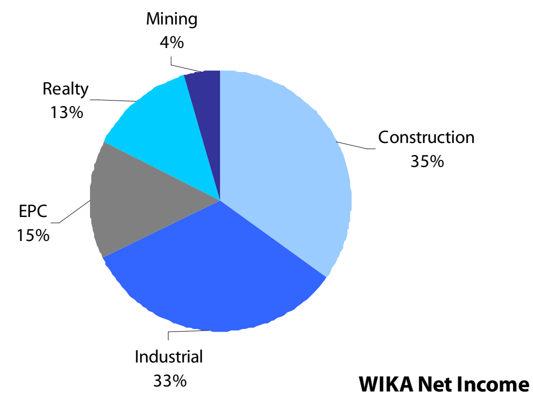
Source: Company, Danareksa Sekuritas

Valuation: at a premium to WIKA

In our view, WTON is very important for WIKA considering: 1) the higher gross margin of WTON vis-à-vis WIKA's pure construction services gross margin (~14% vs. ~10%), meaning WTON contributes a substantial portion of WIKA's earnings (33% in FY13), 2) WTON's stronger working capital cycle and balance sheet which has helped make WIKA's balance sheet the healthiest in the construction sector, and 3) WTON's lower working capital risk considering its business is more similar in nature to the manufacturing industry. Thus, we believe a premium in WTON's valuation relative to WIKA's valuation is warranted.

Exhibit 16. WTON's high contribution to WIKA's revenues and earnings





Source: Company

For WTON, we value the company using the DCF valuation approach. Using a WACC of 13.9% from zero-debt cost structure post-IPO, and terminal growth of 3%, we arrive at our Target Price of Rp850, implying FY14 PE of 24.1x, or a 10% premium to WIKA's 2014 trailing PE of 22.0x. We believe this premium is justified considering how crucial WTON is to its parent. Furthermore, looking at the current valuation, WTON is quite attractive as it still trades at PEG 2014-2016 of 0.7x, compared to 1.1x in the construction sector average.

Exhibit 17. Our DCF valuation

WACC Calculation	
Risk-free, %	6,5
Risk-premium, %	7,4
Beta, x	1,0
Tax Rate, %	25,0
Cost of Equity, %	13,9
Cost of Debt, %	11,0
Target D/E, %	-
WACC, %	13,9
Terminal Growth, %	3,0

Year Ended 31 Dec, Rp bn	**2014F**	**2015F**	**2016F**	**2017F**	**2018F**	**2019F**
EBIT	440	557	682	790	916	1.020
Tax	(110)	(139)	(171)	(197)	(229)	(255)
Depreciation	107	161	199	239	283	330
Capex	(850)	(400)	(430)	(462)	(497)	(535)
Working Capital	717	222	216	209	239	233
FCFF	305	402	496	578	712	794
Terminal value						7.469
DCF	305	353	382	391	422	4.302
Enterprise value	6.154					
Net debt (cash)	(1.314)					
Minorities	69					
Equity value	7.399					
Equity value per share, Rp	850					

Source: Danareksa Sekuritas

Exhibit 18. Peers' comparison with the SOE contractors

Company	Market cap Rp bn	PE, x 2014	PE, x 2015	ROE, % 2014	NI CAGR, % 2014-2016	PEG,x
WTON*	6,362	20.5	15.7	21.4	28.5	0.7
WIKA	13,262	18.5	15.2	20.7	16.2	1.1
PTPP	8,644	17.7	13.7	22.8	17.7	1.0
WSKT	7,032	17.4	14.0	16.2	14.0	1.2
ADHI	5,215	12.5	10.0	24.1	9.1	1.4
Average		16.5	13.7	21.0	17.1	1.1

Notes: *using Danareksa Sekuritas forecast

Source: Bloomberg as of 23 April 2014

Key Risks

Slowdown in infrastructure projects
Stronger demand for precast concrete hinges on further development of infrastructure projects across the country. Precast concrete is especially needed for the construction of bridges, ports, elevated roads, and high-rise buildings. Any government budget cuts or slow budget disbursement could hit the construction industry in Indonesia and adversely impact WTON's growth prospects going forward.

Stiffer competition and an inability to maintain market share
With more SOEs entering the precast industry, competition will get more intense over the next three years, in our view. Currently, the SOEs are still in the process of fulfilling their own precast supply needs and trying to step up the precast learning curve. In our view, over the next three years, stiffer competition could possibly drag down the industry's profitability if there is erosion in WTON's main advantages of having well-diversified distribution channels, premium brand categorization, and long-term customer relations.

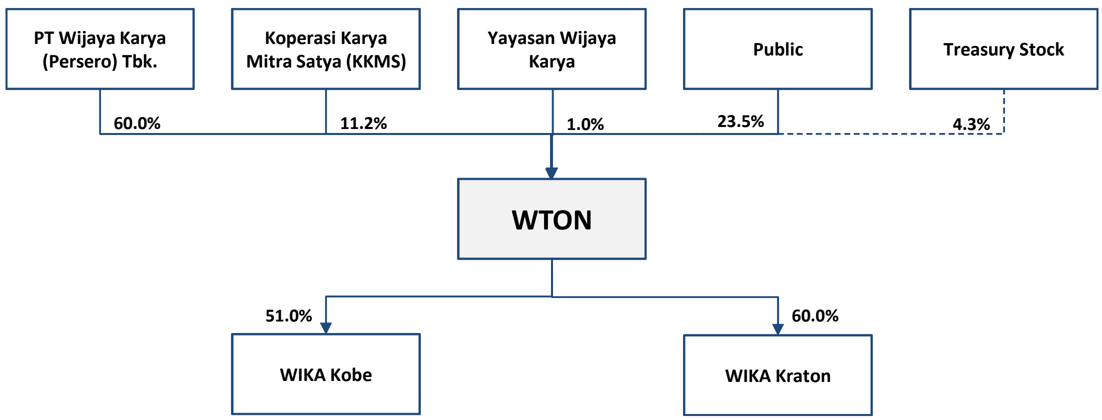
Delays in expansion
We acknowledge that WTON clearly needs to undertake expansion considering its high utilization at the current time. Any delays or problems in constructing new factories or the acquisition of quarries could stall WTON's growth in the future. Furthermore, weak demand in the areas surrounding the new factories might result in low returns on investment.

Higher interest rates
The nature of the government construction business is that significant working capital is needed. Any changes in interest rates will have a significant impact on the bottom line, especially for the SOE contractors. Furthermore, the high interest rate environment would have an adverse impact on property and realty development as well. This could indirectly impact WTON's performance in securing new contracts in the future.

Brief description

PT Wijaya Karya Beton (WIKA Beton/WTON) specializes in the precast concrete industry. WTON was originally established as one of the divisions of WIKA and it developed the country's first concrete electricity poles. After its first precast factory was constructed in Bogor in the 1980s, the company built seven more factories in other strategic locations to support national infrastructure development. Supported by a large number of factories, an extensive product range, and professional management with lengthy track records, WTON has become the biggest manufacturer of precast products in Indonesia.

Exhibit 19. Ownership structure



Source: Company

Exhibit 20. Profit and loss (Rp bn)

	2012	2013	2014F	2015F	2016F
Net Revenues	2.031	2.644	3.485	4.375	5.229
COGS	1.765	2.256	2.977	3.732	4.445
Gross Profit	265	388	508	643	784
Operating Expenses	34	52	68	86	102
Operating Profit	231	336	440	557	682
EBITDA	276	397	547	719	881
Net Interests	2	(4)	(23)	(13)	19
Other Income (Expenses)	0	(4)	(2)	(2)	(3)
Pre-tax Income	234	329	415	542	698
Income Tax & Minorities	(55)	(86)	(108)	(142)	(182)
Net Profit	**179**	**243**	**307**	**401**	**516**
Core Profit	**174**	**251**	**308**	**402**	**518**

Source: Company

Exhibit 21. Balance sheet (Rp bn)

	2012	2013F	2014F	2015F	2016F
Cash & Equivalent	340	413	1.732	1.718	2.164
Trade Receivables	309	422	581	729	872
Inventories	881	846	1.075	1.348	1.605
Other Current Assets	263	215	355	446	533
Total Current Assets	**1.794**	**1.896**	**3.744**	**4.241**	**5.173**
Net Fixed Assets	585	1.012	1.755	1.994	2.225
Other Non-current Assets	23	9	9	9	9
Total Non-current Assets	**607**	**1.021**	**1.764**	**2.002**	**2.234**
Total Assets	**2.401**	**2.917**	**5.507**	**6.243**	**7.407**
Trade Payables	421	325	496	622	741
ST Portion of LT Debt	19	174	417	51	51
Other Current Liabilities	1.338	1.295	2.405	3.018	3.608
Total Current Liabilities	1.778	1.794	3.318	3.691	4.399
Long-term Debt	-	369	2	1	0
Other Non-current Liabilities	19	24	30	36	42
Total Non-current Liabilities	**19**	**393**	**32**	**37**	**42**
Total Liabilities	**1.797**	**2.187**	**3.350**	**3.728**	**4.441**
Shareholder's Equity	**604**	**730**	**2.158**	**2.516**	**2.966**
Total Liabilities and Equity	**2.401**	**2.917**	**5.507**	**6.243**	**7.407**

Source: Company

Exhibit 22. Cash flow (Rp bn)

	2012	2013	2014F	2015F	2016F
Pre-tax Profit	234	329	415	542	698
Minority Interest	(0)	2	(5)	(6)	(8)
Tax	(51)	(106)	(70)	(130)	(169)
Depreciation	44	61	107	161	199
Changes in Working Capital	75	(136)	717	222	216
Others	13	6	6	6	6
Operating Cash Flow	**315**	**155**	**1.172**	**795**	**941**
Capex	(199)	(488)	(850)	(400)	(430)
Investment	-	0	0	0	0
Investing Cash Flow	**(199)**	**(488)**	**(850)**	**(400)**	**(430)**
ST Debt	4	153	(123)	-	-
Current portion of LT Debt	-	1	366	(366)	-
LT Debt	-	369	(367)	(1)	(1)
Equity	46	(55)	1.194	49	55
Dividend	(51)	(63)	(73)	(92)	(120)
Financing Cash Flow	**(1)**	**406**	**997**	**(410)**	**(66)**
Changes in Cash	**115**	**73**	**1.319**	**(14)**	**445**

Source: Company

Exhibit 23. Key ratios

	2012	2013F	2014F	2015F	2016F
Profitability					
Gross Margin, %	13,1	14,7	14,6	14,7	15,0
Operating Margin, %	11,4	12,7	12,6	12,7	13,0
EBITDA Margin, %	13,6	15,0	15,7	16,4	16,8
Net Margin, %	8,8	9,2	8,8	9,2	9,9
Core Margin, %	8,6	9,5	8,8	9,2	9,9
ROAE, %	34,6	36,4	21,2	17,1	18,8
ROAA, %	8,4	9,1	7,3	6,8	7,6
Capitalization					
Debt to Equity, %	3,2	74,3	19,4	2,1	1,7
Net Debt to Equity, %	Net cash	17,7	Net cash	Net cash	Net cash
Interest Coverage, x	81,8	36,1	10,9	15,5	122,4
Turnover					
Trade Receivables, days	55	57	60	60	60
Inventories, days	180	135	130	130	130
Trade Payables, days	86	52	60	60	60
Growth					
Net Revenues, %	24,2	30,2	31,8	25,5	19,5
Gross Profit, %	28,7	46,2	30,9	26,6	22,0
Operating Profit, %	31,2	45,4	30,8	26,8	22,3
EBITDA, %	33,3	44,0	37,8	31,3	22,5
Net Profit, %	23,9	35,7	26,3	30,6	28,8
Core Profit, %	27,4	43,9	22,7	30,5	28,8

Source: Company

HOLD

Target Price, Rp	2,400
Upside	8.1%

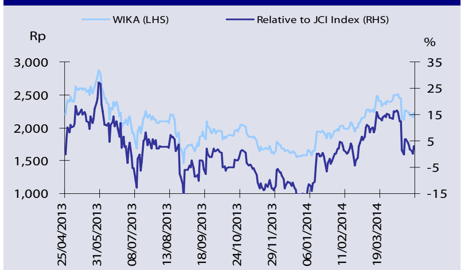
WIKA IJ/WIKA.JK

Last Price, Rp	2,220
No. of shares (mn)	6,107
Market Cap, Rp bn	**13,558**
(US$ mn)	1,169
3M T/O, US$mn	3.0

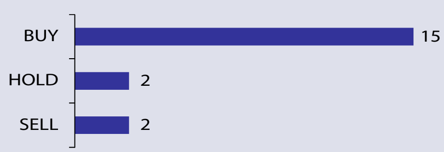
Last Recommendation

21-Jan-14	BUY	Rp 2,100
22-Nov-13	BUY	Rp 2,100
10-Sep-13	BUY	Rp 3,175

WIKA relative to JCI Index



Market Recommendation



Danareksa vs Consensus

	Our	Cons	% Diff
Target price, Rp	2,400	2,448	-5.7
EPS 2014F, Rp	108	117	-5.0
PER 2014F, x	20.5	18.9	5.5

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CONSTRUCTION SECTOR/COMPANY UPDATE

Wijaya Karya

Fully Valued

The first three months seems pretty solid for WIKA with new contracts achievement of Rp4.5tn. While we see WIKA will continue to record decent growth in 2014, short-term volatility may arise from the election sentiment. Thus, we only expect WIKA to win Rp18.7tn of new contracts in 2014. Furthermore, we foresee WIKA will takes more financing given its strong investments in the past years and higher order book. Having said that, the potential listing of WIKA Realty along with the rights issue plan is open in 2015 to further leverage its balance sheet in the future. Using SOTP valuation, we set our new TP of Rp2,400. Potential uprisk comes from the elections "exuberance" fueling another re-rating of the market and sector. Given the limited potential upside, we change our recommendation to HOLD.

Operationally fine but setting a conservative target because it is an election year

After three months, WIKA strategy to focus both on oil and gas along with the government projects appears to be bearing fruit with Rp4.5tn of new contracts – the biggest among the peers. However, we put more conservative view on 2014 new contracts target at Rp18.7tn (vs. company's Rp25.8tn) to consider the risks in the election year. For 2014, we expect WIKA's revenues to grow 17% to Rp13.9tn with net profits climbing 16%yoy to Rp664bn thanks to huge carry-over contracts of Rp24.1tn. In our view, potential upside may emerge if - post the presidential elections in 2H14 - smooth political transition leads to greater optimism on new contracts achievement.

Higher gearing may become a concern

WIKA has some minority equity investments which are still not at the operational stage yet. These investments has absorbed as much as Rp2.1tn of WIKA's internal and external funding which could limit the working capital considering WIKA's equity only Rp3.2tn as of December 2013. Furthermore, with carried-over order books of Rp24tn, the company substantially needs its working capital loans during the peak quarters. Thus, we foresee that WIKA would takes on more financing that will raise its financing charges to Rp97bn in 2014, up 51% from the previous year. Consequently, WIKA will not be able to retain its position as the only SOE contractor with net cash in its balance sheet. However, among its SOE peers, WIKA still has the strongest balance sheet thanks to its solid business model which strikes a balance between the construction and non-construction segments.

More corporate actions to increase equity in 2015

After the IPO of WIKA Beton in early 2014, the parent plans to list another subsidiary named WIKA Realty that operates in the property realty business that targeted to raise up to Rp2tn from listing 30% of its shares in 2015. This company operates with 'Tamansari' brand name with most of the project are high-rise buildings through either JO or JV scheme with the land owners. Furthermore, WIKA is also mulling a potential rights issue in 2015 with 10-15% placement from the government's shareholding, which is estimated to raise another Rp2-3tn of fresh funds. In our view, this corporate action is needed to boost WIKA's equity so the company can take on more new contracts and undertake investments to sustain WIKA's recurring income going forward.

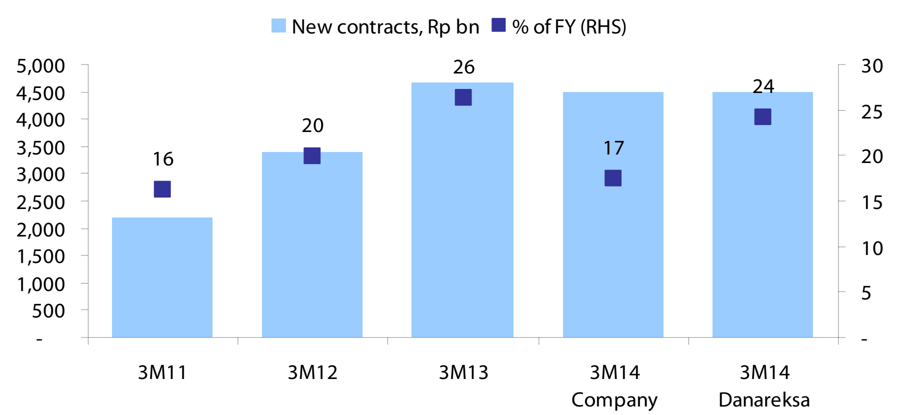
	2012	2013	2014F	2015F	2016F
Revenue, Rp bn	9,905	11,885	13,941	16,782	19,518
EBITDA, Rp bn	963	13,56	1,665	2,105	2,560
EBITDA Growth, %	33.3	40.8	22.8	26.4	21.6
Net Profit, Rp bn	476	570	664	803	955
Core Profit, Rp bn	500	668	756	907	1,068
Core EPS, Rp	82	109	123	148	174
Core EPS Growth, %	25.6	33.0	13.2	20.0	17.7
Net Gearing, %	Net cash	8.9	1.5	7.9	10.5
PER, x	28.5	23,9	20.5	17.0	14.3
Core PER, x	27.1	20.4	18.0	15.0	12.8
PBV, x	4.8	4.2	2.7	2,4	2.0
EV/EBITDA, x	13.8	10.3	8.2	6.7	5.6
Yield, %	0.8	0.9	0.9	0.9	1.0

Operationally fine but setting a conservative target because it is an election year

As we previously stated, WIKA will focus more closely this year on getting contracts for both oil and gas projects and government projects - a reflection of the slowdown in private projects because of this year's elections. After three months, this strategy appears to be bearing fruit since the company has been awarded more new contracts than its SOE construction peers, reaching Rp4.5tn, or equivalent to 17% of the company's new contracts target of Rp25.8tn. Of this year's new contracts awarded so far, the two largest are in the oil and gas sector for EPC projects coming from Pertamina as the project owner.

Historically, a look-back at the past three years reveals that the first three months of the year are usually a quiet period for new contracts. This is because most of the contracts - especially government contracts - are still undergoing the tendering process in this period. Even though the first quarter figure looks promising in our view, we still have to take into account the higher risks associated with the election year, which could potentially shift back some new contracts to the end of 2014. As such, we set a more conservative 2014 target for WIKA's new contracts at only Rp18.7tn (+5%yoy). Thanks to huge carry-over contracts to 2014 of Rp24.1tn - which could translate into two years of revenues - we still envisage decent growth in 2014. For 2014, we expect WIKA's revenues to grow 17% to Rp13.9tn with net profits climbing 16%yoy to Rp664bn. In our view, potential upside may emerge if - post the presidential elections in 2H14 - an improvement is seen in the nation's current account and a smooth political transition leads to greater optimism among private companies in undertaking their capex plans.

Exhibit 1. Quite new contracts figures in first quarter of the year



Source: Company, Danareksa Sekuritas

Exhibit 2. A bit conservative new contracts target in election year

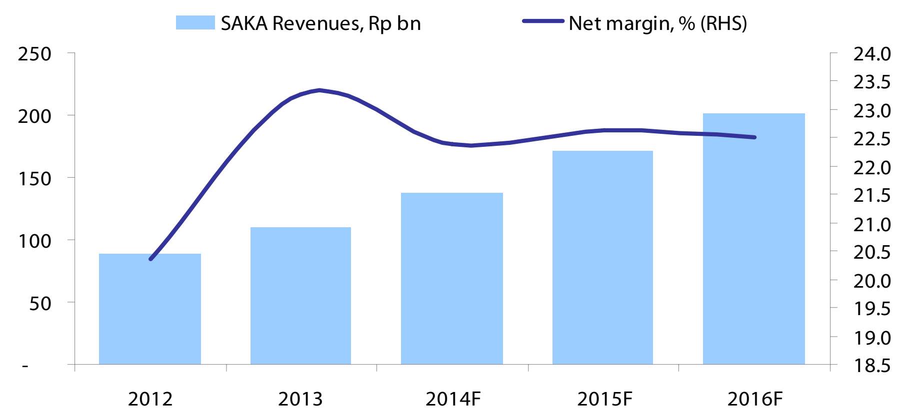
(Rp bn)	Danareksa: 2014F	Company: 2014F	Consensus: 2014F
New contracts	18,651	25,831	N/A
Revenues	13,941	14,098	14,069
Gross profit	1,577	1,621	N/A
Operating profit	1,461	1,545	1,436
Net profit	664	679	717

Source: Company, Danareksa Sekuritas

Turnaround of SAKA could help boost profits

As we stated back in January 2014, WIKA succeeded in acquiring a natural asphalt company which operates in Buton Island called PT Sarana Karya. Surprisingly, even though SAKA's revenues contribution to WIKA's top line is only 1%, the contribution to the bottom line is quite high at 4%, reflecting SAKA's high gross and net margins of 60% and 23%, respectively, in 2013. Going forward, WIKA will transform this company from being not just an asphalt trading company, but also into the country's only natural asphalt extractor. Around Rp119bn has been earmarked on capex to build the extraction plant in Buton Island over the next two years to produce more value added asphalt products. According to the latest information, Indonesia's asphalt supplies only reach 400-500k tons p.a., while demand may top 1.5mn tons p.a. In this state of undersupply, we believe SAKA has the potential to be a main driver of WIKA's profits going forward. For the time being, SAKA will continue to supply natural asphalt to China's traders, targeting Rp30bn of net profits (+18%yoy) this year.

Exhibit 3. SAKA as a main driver of WIKA's profitability



Source: Company, Danareksa Sekuritas

The 1Q14 result should be in line with the seasonality

The 1Q14 result should be out at the end of the month, and we expect it to be consistent with the seasonality in 2013. We expect WIKA could book 20-25% of FY14 at the top and bottom lines in 1Q14. Profitability is expected to be maintained with gross and operating margins of 11% and 10%, respectively, since there were no significant developments which could have adversely hit the margins during the period. In our view, a potential surprise comes from the strengthening in the rupiah/USD exchange rate which would help the company to counter the lower margin in the EPC business due to its US dollar costs. Meanwhile, we expect WIKA to gear up further given the high existing investments and high working capital seasonality in the first quarter. Hence, we don't expect the company to be net cash in 1Q14.

Higher gearing may become a concern

WIKA, with its well-diversified business model, has some minority equity investments which are still not at the operational stage yet. In previous years, several investments in toll roads and power plants absorbed as much as Rp2.1tn of WIKA's internal and external funding. This potentially limits the working capital considering WIKA's equity of Rp3.2tn as of December 2013. According to the company, there was a mismatch in financing whereby some short-term working capital loans were used to finance long-term investment. Furthermore, with carried-over order books of Rp24tn, the company needs its working capital loans during the peak quarters. Given this situation, WIKA plans to take on long-term financing either through issuing MTN or bonds in 2H14 to achieve a better financing structure. With a current corporate rating of idA+ and potential tenor three to five years, the potential coupon rate could be at least 8.8-10.4%, or slightly higher than the company's current effective bank loans rate of 10.0%.

Exhibit 4. Some investments made in the past three years

Investment name	Type	Status progress	Stake, %	Rp bn	Equity : Debt
Marga Nujyasumo Agung	Toll road	Construction	20.0	153.2	100 : 0
WIKA Intrade Energy	Infrastructure	In operation	40.0	36.6	100 : 0
WIKA Jabar Power	Geothermal	Construction	20.0	6.8	100 : 0
Marga Kunciran Cengkareng	Toll road	Construction	2.1	3.4	100 : 0
Jasamarga Bali Tol	Toll road	In operation	1.5	3.0	100 : 0
Prima Terminal Petikemas	Container terminal	Construction	15.0	27.0	100 : 0
WIKA Krakatau Beton	Precast	Construction	10.0	1.3	100 : 0
IPP Bali 54 MW	Power plant	In operation	84.6	558.0	33 : 67
IPP Borang 60 MW	Power plant	In operation	70.0	806.0	28 : 72
IPP Rengat 21 MW	Power plant	In operation	70.0	147.0	100 : 0
IPP Ambon 34 MW	Power plant	In operation	85.0	200.0	35 : 65
IPP Rawa Minyak 25 MW	Power plant	In operation	70.0	176.0	25 : 75
Total				**2,118.3**	

Source: Company

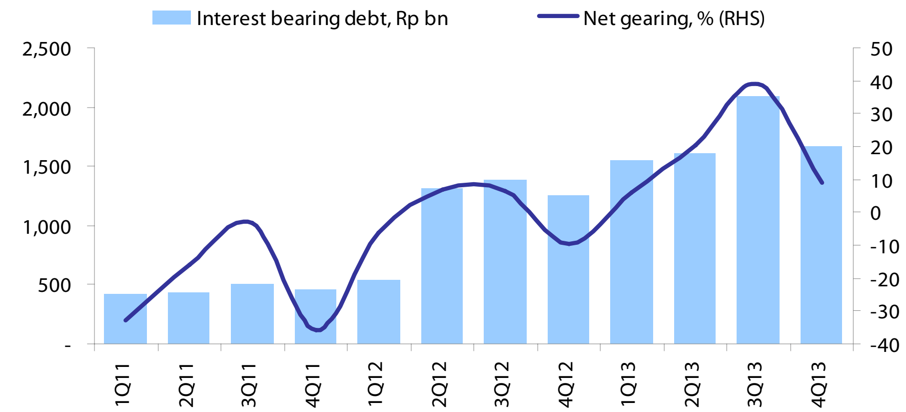
Exhibit 5. Coupon rate for idA+ bonds could stands between 8.8-10.4%

Tenor	Series	Coupon %	22 Apr 14	YTM (%) -1 day	-1 week			
1.1 - yr	FR0027	9.50	6.54	6.58	6.58			
2 - yr	FR0030	10.75	7.06	7.08	7.02			
2.9 - yr	FR0060	6.25	7.27	7.28	7.27			
4.9 - yr	FR0069	7.88	7.55	7.51	7.52			
7.2 - yr	FR0053	8.25	7.83	7.80	7.77			
9.8 - yr	FR0070	8.38	8.03	7.91	7.89			
Rating	**Average**	**Mar-14**	**Feb-14**	**Jan-14**	**Des-13**	**Nop-13**	**Okt-13**	**Sep-13**
AAA	162	205	184	183	182	154	129	110
AA+	180	212	195	197	202	176	149	133
AA	200	219	207	213	224	203	172	161
AA-	224	227	219	230	249	232	198	194
A+	250	234	233	248	276	267	227	234
A	281	243	247	268	307	306	262	283
A-	316	251	262	289	341	351	302	342
BBB+	356	260	278	312	379	403	348	413
BBB	403	269	295	337	421	463	400	499

Source: Danareksa Debt Research

Thus, if WIKA takes on more financing, its financing charges could rise to Rp97bn this year, up 51% from the previous year. In 2014, we assume Rp800bn of short-term bank loans carrying an interest rate of 10.5-11.0% (vs. 10.0-10.5% in 2013) throughout the year. Consequently, WIKA will not be able to retain its position as the only SOE contractor with net cash in its balance sheet. However, among its SOE peers, WIKA still has the strongest balance sheet thanks to its solid business model which strikes a balance between the construction and non-construction segments.

Exhibit 6. WIKA has started to gear up to finance investments



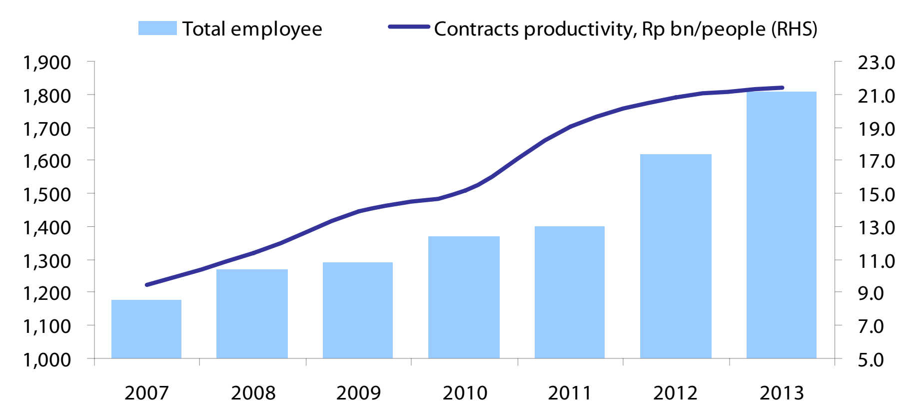
Source: Company

Potential risk on human capital scarcity

With strong growth posted in the last three years (revenues CAGR FY11-13 of 25%), buoyed by infrastructure projects momentum post-MP3EI, concerns over the availability of human resources have mounted - especially for project managers. In our meetings, state-owned contractors have acknowledged the risks of growth stagnation, especially if growth is strong and continues to exceed 25% p.a. WIKA's productivity in terms of contracts per person has continued to increase, reaching Rp21bn, with a sharp increase taking place in the past three years.

On the bright side, higher productivity per employee is evident, but this could underline the heightened risk of new contracts growth stagnation due to scarcity of human capital in the future. For this year, WIKA targets an additional 300 new employees, slightly higher than the 200-250 new employees recruited each year in the past two years. These new employees are expected to be sufficiently trained in the next three to five years. Hence, we think the company's strategy to limit new contracts for this year at Rp25tn is appropriate, especially since the company can cherry-pick more profitable projects with a minimum size of Rp50bn.

Exhibit 7. Rising productivity may eventually translate into limited growth potential



Source: Company

More corporate actions to increase equity in 2015

WIKA plans more corporate actions. After the IPO of WIKA Beton in early 2014, the parent plans to list another subsidiary that operates in the property and realty business named WIKA Realty (WR) in 2015. In the past three years, WR's revenues have grown by a breakneck CAGR of 41% thanks to the rising demand for both residential and high rise property. The company operates with the 'Tamansari' brand name and most of the projects are high-rise buildings - either apartments or office buildings. With the current projects mostly developed through JV with the land owners, WR posted gross margins at 16-18%, or lower than other property developers whose gross margins can average 35%. In our view, the main challenge regarding the IPO of WR is on how the company manages to boost its land bank (given its state-owned status, the company cannot directly buy new landbank above or below the market price). WR is aiming to raise up to Rp2tn from listing 30% of its shares.

Exhibit 8. WR potential value from the existing projects

Project	Scheme	Saleable area M^2	Estimated NAV Rp bn
Tamansari Manglayang Regency Bandung	Joint-operation	225,308	23.5
Tamansari Puri Bali Depok	Joint-operation	118,443	65.8
Tamansari Bukit Mutiara Balikpapan	Joint-operation	176,751	178.2
Grand Tamansari Samarinda	Joint-operation	497,400	266.1
Tamansari Metropolitan Manado	Joint-venture	119,548	56.8
Tamansari Majapahit Semarang	Joint-venture	59,219	50.1
The Green Tamansari Surabaya	Joint-venture	36,076	13.8
Tamansari Palabuhan Ratu	Joint-operation	346,392	95.4
The Hill Tamansari Semarang	Joint-venture	58,828	36.3
Debang Tamansari Medan	Joint-venture	30,336	27.2
Tamansari Kahyangan Kendari	Joint-venture	245,372	66.8
Skylounge Tamansari Tangerang	Joint-venture	13,168	25.4
Tamansari Semanggi Apartemen	Joint-venture	45,638	158.0
The Hive Tamansari	Joint-operation	20,162	78.4
La Grande at Tamansari	Joint-venture	22,491	85.1
Tamansari Sudirman Apartemen	Joint-venture	45,638	158.0
TOTAL		**2,060,770**	**1,384.9**

Source: Company

Furthermore, WIKA is also mulling a potential rights issue in 2015 (although approval would be needed from the House of Representatives). Currently, the government through the Ministry of SOE owns 65.5% of WIKA's shares. Accordingly, WIKA plans to undertake a placement of 10-15% of the government's shareholding, which is estimated to raise around Rp2-3tn of fresh funds. In our view, this corporate action is needed to boost WIKA's equity so the company can take on more new contracts and undertake investments to sustain WIKA's recurring income going forward. Due to their preliminary status, we do not include any potential upside from either WIKA Realty going public or WIKA's rights issue plan.

Rich valuation post WTON listing

In our view, with WIKA Beton (WTON) now a publicly listed company, WIKA loses the benefit of a higher ownership in its precast concrete business (which offers better gross margins than WIKA's core business of pure construction services). Despite this, WIKA can still benefit from unlocking WTON's value – albeit with a reduced stake from 80% to 64%. As such, we still believe that WIKA's premium to its SOE construction peers is still warranted given the company's well-diversified business and strongest balance sheet in the sector.

We continue to value WIKA using the SOTP valuation since the company has multiple businesses which create value for WIKA. Incorporating the 2013 results, we arrive at our new TP of Rp2,400, implying FY14 PE of 22.2x. While we see that WIKA will continue to record decent growth this year, short-term volatility may arise from the company's planned corporate actions along with the election sentiment. Potential upside to our valuation comes from the elections "exuberance" fueling another re-rating of the market and sector. Given the limited potential upside, we change our recommendation to HOLD.

Exhibit 9. WIKA SOTP valuation

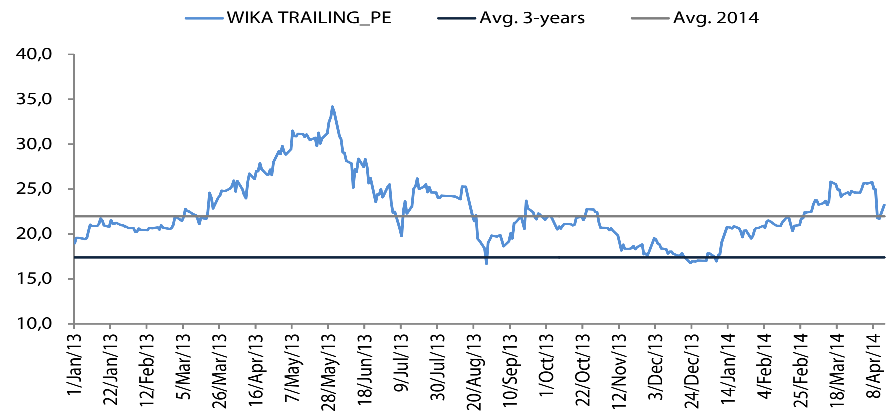
Business line			**Method**	**Base assumption**	**%own**	**EV, Rp bn**
Ongoing business						
Construction	Net Profit FY14, Rp bn	300	P/E	16,9	100	5.076
Mechanical electrical	Net Profit FY14, Rp bn	70	P/E	17,8	100	1.252
Industrial			DCF	7.399	64	4.760
Mining	Net Profit FY14, Rp bn	31	P/E	14,0	100	433
Subtotal						**11.521**
Investments						
Real estate	NAV, Rp bn	1.385	Discount to NAV	30%	85	827
Power plants			DCF			1.546
Others	Book value FY14, Rp bn					1.309
Subtotal						**3.681**
Total enterprise value						**15.202**
Net debt	FY14, Rp bn					73
Minority interests	FY14, Rp bn					404
Net equity value						14.725
Value per share, Rp	**Number of shares, bn**	**6,1**				**2.400**

Source: Danareksa Sekuritas

We continue to use SOTP valuation to apply different valuation methodologies into WIKA' multiple businesses. Some key assumptions that we have made:

- **Construction business**. We apply 16.9x FY14 target PE for the construction business, the multiple derived from the sector average trailing PE in 2012-2013 (post-MP3EI momentum).
- **Mechanical electrical**. With better profitability and less competition in ME business warrantied a premium to this business segment. We only set a slight 5% premium to construction target P/E considering the short-term volatility in USDIDR that could potentially affect ME's profitability.
- **Industrial**. For WTON, we value the company using DCF approach using a WACC of 13.9% from zero-debt cost structure post-IPO, and terminal growth of 3.0%.
- **Mining**. For this WIKA's new segment derived from SAKA, we apply 14.0x FY14 target PE, derived from the average PE in mining sector.
- **Realty**. We value the real estate business model based on NAV from WIKA's current projects, to which apply a further 30% discount rate.
- **Power plants**. We value the five power plants that have contributed to WIKA's earnings using DCF with 12.5% WACC.
- **Others**. We take the book value of WIKA's other investments in toll-roads and infrastructure projects.

Exhibit 10. WIKA's trailing PE



Source: Bloomberg

Exhibit 11. Profit and loss (Rp bn)

	2012	2013	2014F	2015F	2016F
Revenue	9.905	11.885	13.941	16.782	19.518
COGS	8.947	10.562	12.363	14.855	17.248
Gross profit	958	1.322	1.577	1.927	2.269
Income from JO	198	261	324	405	489
Gross profit incl. JO	1.155	1.583	1.901	2.332	2.758
Operating expenses	(285)	(367)	(441)	(534)	(621)
Operating profit	870	1.216	1.461	1.797	2.137
Net interest expenses	0	(40)	(70)	(120)	(147)
Other income (expenses)	(38)	(159)	(146)	(164)	(175)
Pre-tax income	833	1.017	1.245	1.513	1.815
Income tax	(309)	(392)	(456)	(550)	(654)
Minority interest	(47)	(54)	(126)	(161)	(205)
Net profit	**476**	**570**	**664**	**803**	**955**
Core profit	**500**	**668**	**756**	**907**	**1.068**

Source: Company

Exhibit 12. Balance sheet (Rp bn)

	2012	2013	2014F	2015F	2016F
Cash & equivalent	1.532	1.387	1.852	1.298	1.113
Trade receivables	1.348	1.479	1.743	2.098	2.440
Project receivables	2.025	2.564	3.021	3.636	4.229
Inventories	1.143	1.118	1.545	1.857	2.156
Other current assets	1.202	1.446	1.923	2.277	2.628
Total Current Assets	**7.251**	**7.994**	**10.084**	**11.165**	**12.565**
LT investments	1.783	2.236	2.684	3.183	3.703
Fixed assets	1.184	1.640	2.552	3.502	4.434
Other assets	803	724	607	489	374
Total Non-current Assets	**3.770**	**4.601**	**5.843**	**7.174**	**8.512**
TOTAL ASSETS	**11.021**	**12.595**	**15.926**	**18.340**	**21.077**
ST loans	235	278	800	1.300	1.550
Trade payables	2.557	3.089	3.606	4.333	5.031
Current portion of LT loans	87	124	540	36	35
Other current liabilities	3.702	3.808	4.430	5.323	6.181
Total Current Liabilities	**6.580**	**7.298**	**9.377**	**10.992**	**12.796**
LT loans	934	1.271	585	417	234
Other liabilities	672	799	945	1.147	1.342
Total Non-current Liabilities	**1.606**	**2.070**	**1.530**	**1.563**	**1.576**
Minority interest	240	278	404	565	770
Capital stock	1.367	1.317	2.492	2.492	2.492
Retained earnings	1.204	1.202	1.695	2.298	3.013
Other equity	24	429	429	429	429
Total Equity	**2.834**	**3.227**	**5.020**	**5.785**	**6.705**
TOTAL LIABILITIES AND EQUITY	**11.021**	**12.595**	**15.926**	**18.340**	**21.077**

Source: Company

Exhibit 13. Cash flow (Rp bn)

	2011	2012	2013F	2014F	2015F
Pretax profit	833	1.017	1.245	1.513	1.815
Minority interest	(47)	(54)	(126)	(161)	(205)
Tax	(343)	(630)	(499)	(613)	(715)
Depreciation	93	140	205	308	423
Changes in W/C	354	33	(249)	93	86
Others	(53)	127	146	202	196
Cash Flow from Operation	**836**	**632**	**722**	**1.342**	**1.599**
Capex	(521)	(597)	(1.117)	(1.257)	(1.355)
Investments	(970)	(420)	(522)	(428)	(460)
Cash Flow from Investing	**(1.491)**	**(1.017)**	**(1.639)**	**(1.686)**	**(1.815)**
ST loans	104	44	522	500	250
Current portion of LT loans	11	37	417	(505)	(1)
LT loans	680	337	(685)	(169)	(183)
Equity	254	(40)	1.300	161	205
Dividend & CSR	(117)	(137)	(171)	(199)	(241)
Cash Flow from Financing	**932**	**240**	**1.383**	**(211)**	**30**
Change in Cash	**277**	**(145)**	**466**	**(555)**	**(185)**

Source: Company

Exhibit 14. Key ratios

	2011	2012	2013F	2014F	2015F
Profitability, %					
Gross margin - excl. JO	9,7	11,1	11,3	11,5	11,6
Gross margin - incl. JO	11,7	13,3	13,6	13,9	14,1
Opex to sales	2,9	3,1	3,2	3,2	3,2
Operating margin	8,8	10,2	10,5	10,7	11,0
EBITDA margin	9,7	11,4	11,9	12,5	13,1
Net margin	4,8	4,8	4,8	4,8	4,9
Core margin	5,0	5,6	5,4	5,4	5,5
ROAE	18,8	18,8	16,1	14,9	15,3
ROAA	4,9	4,8	4,7	4,7	4,8
Leverage					
Debt to equity, %	44,3	51,8	38,4	30,3	27,1
Net debt to equity, %	net cash	8,9	1,5	7,9	10,5
Interest coverage, x	24,0	19,0	15,1	12,4	12,9
Turnover, days					
Trade receivables	49	45	45	45	45
Inventories	46	38	45	45	45
Trade payables	103	105	105	105	105
Growth, %					
Revenue	27,9	20,0	17,3	20,4	16,3
Operating profit	33,1	39,8	20,1	23,1	18,9
EBITDA	33,3	40,8	22,8	26,4	21,6
Net profit	34,3	19,7	16,4	21,0	19,0
Core profit	31,1	33,7	13,2	20,0	17,7

Source: Company

Danareksa

TODAY'S HEADLINES

Surya Internusa Seeks Loans Rp1.1tn (ID)

SSIA is approaching three to four banks to get a loan of US$100mn. Of the total loan, around 40% are USD loan and the remainder in the form of Rupiah. SSIA is planning to build an office tower worth Rp1.6tn with target completion by the end of 2017, which is planned later for lease. The company prepares capital expenditure this year of Rp1.4tn, with most of it will be used to finance projects in Bekasi and Karawang industrial area.

Mandom Prepares Rp390bn for Plant Expansion (ID)

TCID will build a new factory in MM2100 industrial area in Cibitung, West Java, with an investment of around Rp390bn. Approximately 60% of the funds will come from loans and the rest from internal cash. The plant will increase production capacity by 1.5x of current production of 900mn items. For this year, the company is targeting the sales to up 10 % over last year's sales of Rp2.0tn. Yesterday, TCID's AGM decided a dividend of Rp74bn or equivalent Rp370 per share (2.6 % yield).

1Q14 Performance: SMBR Sales Rise 27.73% (BI)

SMBR posted a sales increase in 1Q14 from Rp222.56 billion in 1Q13 to Rp284.27 billion or rose 27.73% compared with the same quarter of the previous year. The increase in the topline also impacts the bottom line to Rp75.69 billion from Rp47.62 billion, up 59.0%. SMBR managed to sell 304,815 tons of cement, up about 25% in volume compared 1Q13.

Comments: SMBR results show strong improvement, which in our view, mainly driven solid top sales volume growth. Bottom line growth were outstanding at 59%, but it was mainly coming from low base last year, of when SMBR recorded poor sales figures. (Helmy)

Subsidiary of AISA bag Rp400 billion (BI)

PT Dunia Pangan, a subsidiary of AISA obtained an import loan facility and local debt financing worth a total of Rp400 billion from HSBC that will mature 180 days from the due date of related note with the daily rate +3.75% per year. Meanwhile other subsidiaries, PT Bumi Raya Investindo get the extention on its loan repayment totals of Rp53.3 billion to Bunge Agribusiness Singapore Pte. Ltd. up until May 16, 2014, of which is used for the development of plantation crops.

Equity Valuation

	Rating	Price (Rp)	Price Target	Mkt Cap Rp Bn	Net profit, Rp bn 2013	2014	2015	EPS (Rp) 2013	2014	2015	EPS Growth 2014	2015	PER (x) 2014	2015	EV / EBITDA (x) 2014	2015	PBV (x) 2014	2015	Net Gearing 2014	ROE 2014
Danareksa Universe				**2,743,905**	**155,178**	**180,424**	**205,102**	**256.4**	**298.1**	**338.8**	**16%**	**14%**	**15.2**	**13.4**	**12.8**	**11.4**	**2.9**	**2.6**		**20.1**
Auto				**336,394**	**19,844**	**23,420**	**28,676**	**363.5**	**429.0**	**525.3**	**18%**	**22%**	**14.4**	**11.7**	**11.9**	**10.1**	**2.6**	**2.2**		**19.5**
Astra International	BUY	7,950	8,050	321,844	19,417	21,600	26,760	480	534	661	11%	24%	14.9	12.0	12.4	10.6	2.8	2.4	42.8	19.9
Gajah Tunggal	BUY	1,885	2,550	6,569	120	1,455	1,406	35	417	404	1091%	-3%	4.5	4.7	4.9	4.4	0.9	0.8	45.5	22.6
Multistrada	HOLD	311	390	2,856	43	86	161	5	10	18	100%	80%	31.1	17.3	8.4	6.8	0.7	0.8	45.7	2.1
Selamat Sempurna	HOLD	3,560	3,350	5,125	264	279	349	183	194	243	6%	25%	18.4	14.7	9.6	8.0	4.6	3.9	9.5	26.4
Banks				**855,574**	**64,296**	**72,268**	**81,733**	**631.2**	**709.4**	**802.3**	**12%**	**13%**	**11.8**	**10.5**			**2.5**	**2.1**		**20**
BCA	HOLD	11,000	10,800	271,205	14,254	15,741	17,856	579	631	716	9%	13%	17.4	15.4	NA	NA	3.6	3.1	NA	22.6
BNI	BUY	5,000	5,400	93,243	9,058	10,319	11,807	486	553	633	14%	14%	9.0	7.9	NA	NA	1.7	1.5	NA	20.0
BRI	BUY	10,050	10,300	247,925	21,218	23,830	26,641	860	966	1,080	12%	12%	10.4	9.3	NA	NA	2.6	2.2	NA	27.2
Bank Tabungan Negara	BUY	1,210	1,400	12,784	1,562	1,794	2,061	149	171	197	15%	15%	7.1	6.1	NA	NA	1.0	0.9	NA	14.7
Bank Mandiri	BUY	9,875	10,500	230,417	18,204	20,584	23,368	780	882	1,001	13%	13%	11.2	9.9	NA	NA	2.3	1.9	NA	21.8
Cement				**195,037**	**11,334**	**11,294**	**11,336**	**656**	**654**	**656**	**0%**	**0%**	**17.3**	**17.2**	**11.0**	**10.3**	**3.3**	**3.0**		**20.3**
Holcim	HOLD	2,710	2,300	20,766	952	1,274	1,465	124	166	191	34%	15%	16.3	14.2	9.1	8.2	2.0	1.8	31.7	12.9
Indocement	HOLD	22,325	21,300	82,184	5,012	4,839	5,215	1,362	1,315	1,417	-3%	8%	17.0	15.8	10.8	9.4	3.4	3.1	net cash	21.1
Semen Indonesia	BUY	15,525	17,500	92,087	5,370	5,180	4,657	905	873	785	-4%	-10%	17.8	19.8	11.8	11.7	3.8	3.5	22.1	22.8
Construction				**67,740**	**3,017**	**4,168**	**4,462**	**154**	**213**	**228**	**38%**	**7%**	**16.3**	**15.2**	**8.6**	**7.6**	**3.2**	**2.8**		**21.1**
Jasa Marga	BUY	5,875	7,100	39,950	1,335	2,196	2,175	196	323	320	65%	-1%	18.2	18.4	11.4	10.2	3.8	3.4	106.5	22.1
Wijaya Karya	BUY	2,220	2,100	13,631	588	690	830	96	112	135	17%	21%	19.8	16.4	8.7	7.2	3.5	3.0	net cash	19.2
Pembangunan Perumahan	BUY	1,810	1,750	8,765	421	553	634	87	114	131	32%	15%	15.8	13.8	6.5	5.6	3.6	3.0	27.1	25.2
Adhi Karya	HOLD	2,995	1,830	5,395	343	360	415	190	200	231	5%	16%	15.0	13.0	6.4	5.9	3.2	2.7	48.1	23.2
Waskita Karya	HOLD	760	470	7,320	331	369	408	34	38	42	12%	11%	20.0	18.1	9.0	8.1	2.8	2.4	net cash	14.8
Consumer				**425,532**	**12,342**	**14,833**	**16,573**	**166**	**199**	**223**	**20%**	**12%**	**28.7**	**25.7**	**17.5**	**15.5**	**7.5**	**6.7**		**27.5**
Indofood CBP	BUY	10,000	13,050	58,310	2,225	2,949	3,671	382	506	630	33%	25%	19.8	15.9	12.4	9.8	4.0	3.5	net cash	21.7
Indofood	HOLD	7,200	7,050	63,219	2,504	3,191	3,368	285	363	384	27%	6%	19.8	18.8	9.4	8.5	2.6	2.4	31.8	13.5
Kalbe Farma	HOLD	1,540	1,350	72,188	1,922	2,471	2,921	41	53	62	29%	17%	29.1	24.8	19.4	16.2	6.6	5.7	net cash	24.3
Unilever	HOLD	29,300	28,300	223,559	5,353	5,775	6,047	702	757	792	8%	5%	38.7	37.0	27.5	26.2	47.2	45.7	3.4	128.2
Nippon Indosari Corpindo	BUY	1,075	1,400	5,441	178	268	350	35	53	69	50%	31%	20.3	15.6	11.7	9.1	5.3	4.1	43.1	29.1
Mandom	BUY	14,000	13,600	2,815	160	180	216	796	893	1,075	12%	20%	15.7	13.0	9.3	8.2	2.2	2.0	28.2	14.7
Heavy Equipment				**85,022**	**5,116**	**5,730**	**6,601**	**1,119**	**1,254**	**1,444**	**12%**	**15%**	**14.8**	**12.9**	**6.8**	**5.9**	**2.2**	**2.0**		**15.4**
Hexindo Adiperkasa	HOLD	3,745	3,175	3,146	282	348	381	335	414	453	24%	9%	9.0	8.3	7.0	6.2	1.2	1.2	18.7	13.2
United Tractors	BUY	21,950	23,300	81,876	4,834	5,382	6,220	1,296	1,443	1,667	11%	16%	15.2	13.2	6.7	5.9	2.3	2.1	net cash	15.6
Mining				**153,550**	**8,400**	**11,464**	**13,993**	**129**	**176**	**215**	**36%**	**22%**	**13.4**	**11.0**	**6.4**	**5.8**	**1.6**	**1.7**		**12.4**
Adaro Energy	BUY	1,085	1,220	34,705	2,370	3,167	3,241	74	99	101	34%	2%	11.0	10.7	4.6	4.3	1.1	1.2	45.8	10.1
Timah	BUY	1,560	1,575	11,619	515	625	706	102	124	140	21%	13%	12.6	11.1	8.6	7.2	2.2	2.1	net cash	12.4
Vale Indonesia	BUY	3,675	3,400	36,516	396	1,009	1,239	40	102	125	155%	23%	36.2	29.5	11.8	11.0	1.9	2.1	net cash	5.2
Aneka Tambang	HOLD	1,215	1,000	11,589	410	1,063	2,281	43	111	239	159%	115%	10.9	5.1	12.4	8.5	0.9	0.8	40.8	8.4
Bukit Asam	HOLD	10,075	11,050	23,214	1,826	2,113	2,595	793	917	1,126	16%	23%	11.0	8.9	7.2	5.8	2.4	2.1	net cash	23.3
Indo Tambangraya Megah	HOLD	26,275	30,000	29,689	2,373	2,863	3,281	2,100	2,534	2,904	21%	15%	10.4	9.0	4.8	4.5	2.7	2.9	net cash	25.9
Harum Energy	HOLD	2,300	2,850	6,218	510	624	649	189	231	240	22%	4%	10.0	9.6	2.9	3.4	1.5	1.6	net cash	15.9
Plantation				**87,718**	**3,210**	**5,089**	**6,144**	**105**	**166**	**201**	**59%**	**21%**	**17.2**	**14.3**	**8.9**	**7.7**	**2.4**	**2.2**		**14.2**
Astra Agro Lestari	HOLD	29,000	24,700	45,668	1,834	2,527	2,918	1,165	1,604	1,853	38%	15%	18.1	15.7	10.3	9.2	4.3	3.9	net cash	25.0
Sampoerna Agro	BUY	2,310	2,200	4,366	119	251	379	63	133	201	111%	51%	17.4	11.5	8.2	7.5	1.5	1.4	52.1	9.2
BW Plantation	BUY	1,360	1,380	6,081	182	372	575	42	83	128	97%	54%	16.5	10.7	8.9	6.3	2.6	2.1	106.4	16.9
PP London Sumatra	BUY	2,395	2,130	16,341	688	946	995	101	139	146	37%	5%	17.3	16.4	10.2	9.0	2.3	2.1	net cash	13.8
Salim Ivomas Pratama	BUY	965	970	15,263	388	994	1,277	25	63	81	156%	29%	15.4	11.9	6.6	5.6	1.1	1.0	35.3	7.1
Property				**70,753**	**6,273**	**5,777**	**6,366**	**87**	**80**	**88**	**-8%**	**10%**	**12.2**	**11.1**	**8.7**	**7.8**	**1.9**	**1.7**		**16.5**
Alam Sutera	BUY	530	770	10,414	1,286	1,658	1,877	65	84	96	29%	14%	6.3	5.5	6.3	5.7	1.5	1.2	46.3	26.6
Bumi Serpong Damai	BUY	1,615	1,960	28,258	2,432	1,896	1,996	139	108	114	-22%	5%	14.9	14.2	11.1	10.5	2.2	1.9	net cash	15.4
Metropolitan Land	BUY	435	600	3,297	233	345	421	31	45	56	45%	24%	9.7	7.8	7.1	5.5	1.6	1.4	21.6	18.5
Surya Semesta Internusa	BUY	845	870	3,976	726	776	804	154	165	171	7%	4%	5.1	4.9	2.8	2.4	1.3	1.1	net cash	28.9
Lippo Karawaci	BUY	1,075	1,040	24,809	1,596	1,102	1,268	74	51	59	-31%	15%	21.1	18.3	11.8	10.2	2.0	1.9	28.4	9.3
Telco				**300,904**	**12,456**	**15,757**	**18,943**	**109**	**137**	**165**	**27%**	**20%**	**19.1**	**15.9**	**5.0**	**4.3**	**2.9**	**2.7**		**16.2**
XL Axiata	SELL	4,950	5,500	42,246	1,033	(430)	768	121	(50)	90	-142%	-279%	(98.3)	55.0	7.5	5.5	2.9	2.8	117.4	-2.9
Indosat	BUY	3,915	4,500	21,274	(2,782)	728	905	(512)	134	167	-126%	24%	29.2	23.5	3.4	2.9	1.3	1.2	116.8	4.4
Telkom	BUY	2,355	2,650	237,384	14,205	15,459	17,270	147	159	171	8%	8%	14.8	13.7	5.0	4.4	3.3	3.1	net cash	23.5
Utility				**132,722**	**7,713**	**9,219**	**8,573**	318	380	354	20%	-7%	**14.4**	**15.5**	**9.0**	**9.1**	**4.4**	**4.4**		**31.4**
PGN	BUY	5,475	6,000	132,722	7,713	9,219	8,573	318	380	354	20%	-7%	14.4	15.5	9.0	9.1	4.4	4.4	net cash	31.4
Retail				**32,959**	**1,176**	**1,404**	**1,702**	45	54	66	19%	21%	**23.5**	**19.4**	**12.5**	**10.5**	**3.8**	**3.3**		**17.3**
Mitra Adi Perkasa	HOLD	6,300	6,350	10,458	330	419	526	199	252	317	27%	26%	25.0	19.9	10.3	8.8	3.7	3.2	78.5	16.0
Ramayana	HOLD	1,310	1,240	9,296	413	477	574	58	67	81	16%	20%	19.5	16.2	11.1	9.2	2.7	2.5	net cash	14.4
Ace Hardware	HOLD	770	750	13,206	433	508	602	25	30	35	17%	18%	26.0	22.0	17.5	14.5	5.5	4.5	net cash	23.2

Danareksa

LEADERS AND LAGGARDS

The leaders on Danareksa coverage

	Code	Price as on 24-Apr-14	23-Apr-14	Chg, %	w-w, %	m-m, %	YTD, %	Rating
Wintermar Offshore Marine	WINS	1,000	950	5.3	14.9	29.9	47.1	BUY
Waskita Karya	WSKT	760	730	4.1	2.7	(1.3)	87.7	HOLD
Jaya Agra Wattie	JAWA	365	351	4.0	-	(3.7)	(3.9)	BUY
Adhi Karya	ADHI	2,995	2,895	3.5	(2.0)	1.5	98.3	HOLD
Wijaya Karya	WIKA	2,220	2,160	2.8	(0.9)	(5.9)	40.5	BUY
Surya Semesta Internusa	SSIA	845	825	2.4	(6.1)	(12.0)	50.9	BUY
Tower Bersama	TBIG	6,550	6,425	1.9	4.4	9.2	12.9	BUY
Lippo Karawaci	LPKR	1,075	1,055	1.9	(3.6)	(4.9)	18.1	BUY
Adaro Energy	ADRO	1,085	1,070	1.4	10.2	10.7	(0.5)	BUY
Pembangunan Perumahan	PTPP	1,810	1,785	1.4	0.3	1.1	56.0	BUY

Sources: Bloomberg

The laggards on Danareksa coverage

	Code	Price as on 24-Apr-14	23-Apr-14	Chg, %	w-w, %	m-m, %	YTD, %	Rating
Bank Tabungan Negara	BBTN	1,210	1,305	(7.3)	(13.9)	(2.4)	39.1	BUY
Mitra Adi Perkasa	MAPI	6,300	6,500	(3.1)	(0.8)	(3.4)	14.5	HOLD
Harum Energy	HRUM	2,300	2,370	(3.0)	7.0	6.7	(16.4)	HOLD
Selamat Sempurna	SMSM	3,560	3,650	(2.5)	(6.2)	(5.6)	3.2	HOLD
Unilever	UNVR	29,300	29,975	(2.3)	(2.7)	3.7	12.7	HOLD
Hexindo Adiperkasa	HEXA	3,745	3,825	(2.1)	(3.2)	(0.7)	16.1	HOLD
Aneka Tambang	ANTM	1,215	1,240	(2.0)	8.5	6.1	11.5	HOLD
Ramayana	RALS	1,310	1,335	(1.9)	(3.3)	(6.4)	23.6	HOLD
Nippon Indosari Corpindo	ROTI	1,075	1,095	(1.8)	(4.9)	2.4	5.4	BUY
Bank Negara Indonesia	BBNI	5,000	5,075	(1.5)	(0.5)	4.2	26.6	BUY

Sources: Bloomberg

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