Indonesia Industry Focus

Indonesia Construction Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Jan 2015

Capitalising on low oil prices

- Faster-than-expected fuel subsidy removal due to low oil price
- Government spending on infrastructure could increase by 50% this year
- Expect this to translate into record new wins over next few years
- Premium valuations to persist; buy PTPP, WTON, WIKA

Fuel subsidies almost completely removed. The government has taken the opportunity amidst a low oil price environment to almost completely remove its fuel subsidies. Based on the proposed budget revision (RAPBN-P), there would be c.Rp200tr reductions in fuel subsidies, from Rp276tr in the original budget to Rp81.8tr (including Rp25tr carryover). Tentatively, half or c.Rp100tr has been earmarked for additional spending on infrastructure.

Infra spending could increase by 50%. Based on RAPBN-P 2015, infrastructure is the biggest beneficiary of the reductions in fuel subsidies. Government spending on infrastructure for FY15 could increase by 50% to Rp282tr compared to the original budget of Rp190tr, subject to the Parliament's approval. This positive trend is echoed by the contractors which are on average expecting a 40% increase in new wins to Rp96.4tr for 2015.The longer-term commitment from the government remains firm where Jokowi's 5-year infrastructure plan (2015-2019) of US$450bn focuses on roadworks, energy and maritime works forming 60% of the total budget. This should benefit all listed SOE construction names, given their diversified expertise and orderbooks. While this will provide sentiment uplift, there will be a lag effect before it actually flows down to the contractors' bottomlines as the tender process and execution of projects will take some time. The March deadline for government project tenders may provide some urgency for rollout.

Expect premium valuations to persist. Our construction universe currently trades on average at 28x/23x FY15-16F EPS respectively which is at >+2SD above mean. Given the changing landscape in Indonesia and commitment to infrastructure spending together with new reforms, we expect the sector's seemingly high valuations to persist. This is also backed by the sector's average EPS CAGR of 24% over FY14-FY16F. As such, we have rolled forward our valuation base to FY16 to better reflect the earnings potential of the construction companies. Based on our new valuations, our top picks remain PTPP, WTON, WIKA (in this order) with new TPs of Rp4,650, Rp1,600 and Rp4,050 respectively based on 25-27.5x FY16 EPS.

JCI :5,253.18

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Wijaya Karya : Wijaya Karya is a construction company with interests in EPC, civil, building works, precast and realty.

PT PP (Persero) : PT PP (Persero) is Indonesia's leading construction company with business portfolio ranging from building constructions and civil infrastructure constructions.

Waskita Karya : PT Waskita Karya Tbk, is a stated-owned construction company engaged in a wide variety of construction activities including highways, bridges, ports, airports, buildings, sewerage plants, cement plants, factories and other industrial facilities.

Wijaya Karya Beton : Wika beton (a subsidiary of Wijaya Karya) is a leader in precast in Indonesia with c.40% market share.

Adhi Karya : Adhi Karya is a construction company with interests in civil, building works, realty and monorail.

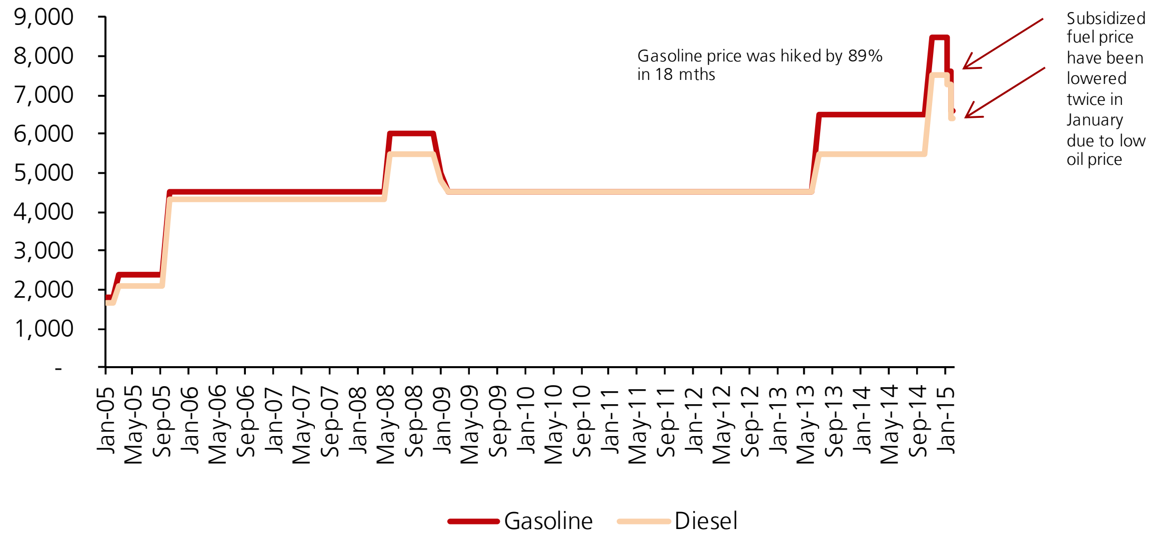
STOCKS

	Price	Mkt Cap	Target	Perform. (%)		
	Rp	US$m	Price Rp	3 mth	12 mth	Rating
Wijaya Karya	3,600	1,760	4,050	23.9	84.1	Buy
PT PP (Persero)	3,645	1,403	4,650	47.9	172	Buy
Waskita Karya	1,505	1,164	1,100	59.3	171.2	FV
Wijaya Karya Beton	1,320	915	1,600	11.9	N.A	Buy
Adhi Karya	3,570	511	N/A	25.7	54.5	N/R

Source: AllianceDBS, DBS Vickers

Budget revisions would benefit infra the most, if approved by the Parliament. The Parliament is currently reviewing the proposed budget revision proposed by Jokowi's team. The highlights of the revisions include the huge cut in fuel subsidies from Rp276tr to Rp81tr (which includes Rp25tr of carryover from last year). The government was able to severely cut the subsidies for fuel without causing much inflationary pressure due to the sharp fall in oil price. For gasoline outside Java and Bali, the government will only subsidise the distribution costs, while there are currently zero subsidies for gasoline in Java and Bali. Even after removing the subsidies, gasoline price is now only Rp6,600-6,700/per litre vs. Rp6,500/liter (before the hike in Nov 2014). As such, there should not be major objections to the revised fuel subsidy budget. Out of the Rp195tr savings, Rp92tr is proposed to be channeled into infrastructure developments. If approved, infrastructure spending from APBN could increase by c.40% y-o-y to Rp282tr.

Historical price of subsidised gasoline and diesel



Source: Pertamina, AllianceDBS, DBS Vickers

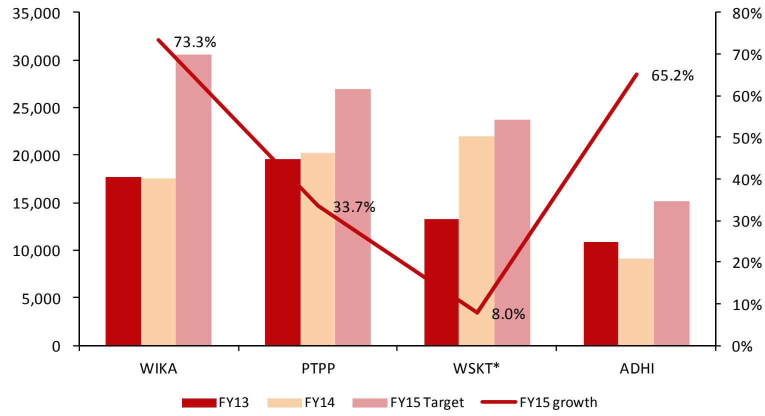
APBN 2015 vs. RAPBN-P 2015

(Figures in Rp tr)	APBN 2015	RAPBN-P 2015	Proposed change
Income	1,793.6	1,769.6	(24.0)
Tax Revenue	1,380.0	1,490.0	110.0
Tax from oil and gas	224.3	130.0	(94.3)
State expenditure	2,039.5	1,994.0	(45.5)
Infrastructure	190.0	282.0	92.0
Fuel subsidies	276.0	81.0	(195.0)
LPG subsidies	43.6	26.0	(17.6)
Capital injections to SOEs	7.3	48.0	40.7

Source: Kontan Newspaper, AllianceDBS, DBS Vickers

SOE contractors targeting strong contract win. WIKA, PTPP, WSKT and ADHI are all confident of recording record new contract wins for this year. Based on the companies' guidance, the total new contracts targeted for this year amount to Rp96.4tr, implying c.50% increase vs. the original budget. WIKA and ADHI are the most aggressive, with 73% and 65% y-o-y target increases respectively.

SOE contractor new contract achievements and target



Source: Companies, Various sources
Note: For WSKT's target, we have not included potential increase in new projects from rights issue*

Infrastructure Investment Requirements (RPJMN) 2015-2019 (In Rp tn)

Sector	APBN	APBD	SOE	Private	Total
Roads	340.0	200.0	65.0	200.0	805.0
Railways	150.0	-	11.0	122.0	283.0
Sea Transportation	498.0	-	238.2	163.8	900.0
Air Transportation	85.0	5.0	50.0	25.0	165.0
Land Transportation	50.0	-	10.0	-	60.0
Urban Transportation	90.0	15.0	5.0	5.0	115.0
Electricity	100.0	-	445.0	435.0	980.0
Oil and gas	3.6	-	151.5	351.5	506.6
Information and Communication Technology	12.5	15.3	27.0	223.0	277.8
Water Resources	275.5	68.0	7.0	50.0	400.5
Clean Water and Sewage	227.0	198.0	44.0	30.0	499.0
Public Housing	384.0	44.0	12.5	87.0	527.5
Total Infrastructure	2,215.6	545.3	1,066.2	1,692.3	5,519.4

Source: Bappenas, AllianceDBS, DBS Vickers

Location of 15 New Airports and 24 New Ports

Source: Bappenas

Premium valuations to persist; buy PTPP, WTON, WIKA. Our construction universe currently trades on average at 26x/21x FY15-16F EPS respectively which is at >+2SD above mean. Given the changing landscape in Indonesia and commitment to infrastructure spending together with new reforms, we expect the sector's seemingly high valuations to persist. This is also backed by the sector’s average EPS CAGR of 24% over FY14-FY16F. As such, we have rolled forward our valuation base to FY16 to better reflect the earnings potential of the construction companies. Based on our new valuations, our top picks remain PTPP, WTON, WIKA (in this order) with new TPs of Rp4,650, Rp1,600 and Rp4,050 respectively, based on 25-27.5x FY16 EPS.

Peer comparisons of construction names under our coverage

		P/E		EPS CAGR
	Share Price (Rp)	FY15	FY16	(FY14-16)
WIKA	3,635	28.2	22.3	24.4%
PTPP	3,770	25.2	20.2	28.6%
WSKT	1,540	30.0	28.1	12.1%
WTON	1,330	23.2	22.9	27.5%

Source: AllianceDBS, DBS Vickers

Stock Profiles

Wijaya Karya

Bloomberg: WIKA IJ | Reuters: WIKA.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 Jan 2015

BUY Rp3,595 JCI : 5,215.27

Upgrade to BUY (previously HOLD)
Price Target : 12-Month Rp 4,050 (Prev Rp 3,200)
Potential Catalyst: Stronger than expected contract win
DBSV vs Consensus: Inline

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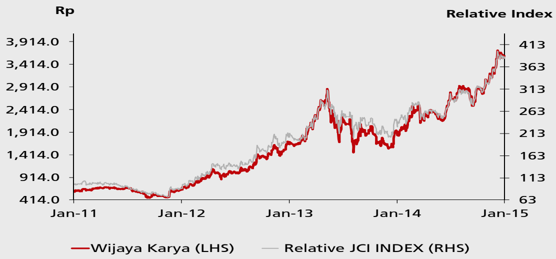
Price Relative



Forecasts and Valuation

FY Dec (Rp bn)	2013A	2014F	2015F	2016F
Turnover	11,885	13,310	16,499	20,520
EBITDA	1,150	1,314	1,671	2,086
Pre-tax Profit	1,017	1,122	1,380	1,709
Net Profit	570	624	764	965
Net Pft (Pre Ex.)	570	624	764	965
EPS (Rp)	96	105	129	163
EPS Pre Ex. (Rp)	96	105	129	163
EPS Gth (%)	20	9	22	26
EPS Gth Pre Ex (%)	20	9	22	26
Diluted EPS (Rp)	96	105	129	163
Net DPS (Rp)	22	35	43	55
BV Per Share (Rp)	497	567	653	760
PE (X)	37.4	34.2	27.9	22.1
PE Pre Ex. (X)	37.4	34.2	27.9	22.1
P/Cash Flow (X)	73.5	53.5	32.6	25.8
EV/EBITDA (X)	19.0	17.2	13.7	11.1
Net Div Yield (%)	0.6	1.0	1.2	1.5
P/Book Value (X)	7.2	6.3	5.5	4.7
Net Debt/Equity (X)	0.1	0.3	0.3	0.3
ROAE (%)	20.6	19.8	21.1	23.0
Earnings Rev (%):		0	0	0
Consensus EPS (Rp):		108	134	169
Other Broker Recs:		B: 17	S: 3	H: 2

ICB Industry : Industrials
ICB Sector: Construction & Materials
Principal Business: Wijaya Karya is a construction company with interests in EPC, civil, building works, precast and realty.

Source of all data: Company, Alliance DBS, DBS Vickers, Bloomberg Finance L.P.

Making amends in 2015

- **Ended 2014 with flat contract wins y-o-y**
- **Contract awards pushed to 2015 - expect record wins with 73% y-o-y growth**
- **Strong execution and diversified business to capitalise on surge in government spending**
- **Upgrade to BUY with new TP of Rp4,050**

Expecting a record year. WIKA only achieved 68% (Rp17.6tr) of its original target for new contract wins for FY14, implying flat growth. This was mainly due to the extended and lengthy election process, which delayed the award of new projects. However, this means the awards would be pushed to 2015. WIKA is confident of securing a record high Rp30.5tr worth of contracts in 2015, implying 73% y-o-y jump, as the government will increase infrastructure spending by 40%. WIKA will be a key beneficiary because of its solid track record and execution, diversified business, and the strength of its precast arm.

Rolled forward valuation base to better reflect earnings potential. We rolled forward the valuation base to FY16 and derived a new TP of Rp4,050, based on 25x FY16 EPS. This is still below its peak valuation of 27x 12M forward P/E. The premium valuations for Indonesia construction companies will persist given the changing landscape in Indonesia and the current government's commitment to infrastructure spending and reforms.

Attractive 13% upside to revised TP, upgrade to BUY. Note that we modelled in lower contract wins of Rp25tr vs. management's forecast of Rp30.5tr for this year, leaving room for us to upgrade our target valuation when the company delivers more solid contract wins.

At A Glance

Issued Capital (m shrs)	6,149
Mkt. Cap (Rpbn/US$m)	22,106 / 1,772
Major Shareholders	
Republic of Indonesia (%)	65.2
Free Float (%)	33.8
Avg. Daily Vol.('000)	16,647

INVESTMENT THESIS

Profile	Rationale
Wijaya Karya is a construction company with interests in EPC, civil, building works, precast and realty.	**Most diversified contractor, which we believe helps to secure new contracts** • Wika is the largest cap and most diversified proxy to the Indonesian construction sector, enabling it to capitalise on a myriad of public and private sector jobs. Its precast arm, Wika Beton, enables it to sustain strong gross margins and is synergistic with its construction business. The acquisition of 100% of Sarana Karya, a state-controlled asphalt producer, puts it in good stead to clinch more road infrastructure works. First-mover advantage in power plants, a key focus of the MP3EI **Potential surge in infrastructure spending this year** • Savings from fuel subsidy is c.Rp200tr. We expect most of this (c.Rp90tr) to be channelled into infrastructure. Based on the proposed budget revision, infrastructure spending by the central government could increase by 40% this year.
Valuation	**Risks**
We peg our TP of Rp4,050 to 25x FY16 EPS. Upgrade to BUY given the potential upside of more than 10%.	**Slow contract wins** • If contract wins are slow again this year, WIKA would face risks of being derated as sentiment towards the Indonesia construction sector could turn negative.

Source: Alliance DBS, DBS Vickers

Income Statement (Rp bn)

FY Dec	2013A	2014F	2015F	2016F
Turnover	11,885	13,310	16,499	20,520
Cost of Goods Sold	(10,562)	(11,850)	(14,705)	(18,276)
Gross Profit	1,322	1,461	1,794	2,245
Other Opng (Exp)/Inc	(367)	(424)	(526)	(654)
Operating Profit	955	1,036	1,268	1,590
Other Non Opg (Exp)/Inc	(159)	(100)	(120)	(144)
Associates & JV Inc	261	249	333	417
Net Interest (Exp)/Inc	(40)	(63)	(101)	(155)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	1,017	1,122	1,380	1,709
Tax	(392)	(439)	(543)	(651)
Minority Interest	(54)	(60)	(73)	(92)
Preference Dividend	0	0	0	0
Net Profit	570	624	764	965
Net Profit before Except.	570	624	764	966
EBITDA	1,150	1,314	1,671	2,086
Sales Gth (%)	20.0	12.0	24.0	24.4
EBITDA Gth (%)	24.3	14.3	27.2	24.8
Opg Profit Gth (%)	42.0	8.5	22.4	25.4
Net Profit Gth (%)	19.7	9.5	22.4	26.3
Effective Tax Rate (%)	38.6	39.1	39.4	38.1

Balance Sheet (Rp bn)

FY Dec	2013A	2014F	2015F	2016F
Net Fixed Assets	1,640	2,411	2,821	3,199
Invts in Associates & JVs	1,548	1,797	2,130	2,547
Other LT Assets	1,412	1,412	1,412	1,412
Cash & ST Invts	1,421	1,908	2,203	2,603
Inventory	1,118	1,284	1,591	1,978
Debtors	1,479	1,657	2,054	2,554
Other Current Assets	3,975	4,571	5,029	5,531
Total Assets	12,595	15,041	17,240	19,824
ST Debt	402	402	402	402
Creditor	3,089	3,468	4,295	5,342
Other Current Liab	3,808	4,201	4,494	4,799
LT Debt	1,271	2,471	2,971	3,471
Other LT Liabilities	799	799	799	799
Shareholder's Equity	2,949	3,363	3,869	4,509
Minority Interests	278	338	411	503
Total Cap. & Liab.	12,595	15,041	17,240	19,824
Non-Cash Wkg. Capital	(324)	(157)	(116)	(77)
Net Cash/(Debt)	(251)	(965)	(1,169)	(1,269)

Cash Flow Statement (Rp bn)

FY Dec	2013F	2014F	2015F	2016F
Pre-Tax Profit	1,017	1,122	1,380	1,708
Dep. & Amort.	94	131	192	225
Tax Paid	(184)	(225)	(439)	(543)
Assoc. & JV Inc/(loss)	(261)	(249)	(333)	(417)
Chg in Wkg.Cap.	(180)	(381)	(145)	(147)
Other Operating CF	(195)	0	0	0
Net Operating CF	290	399	655	827
Capital Exp.(net)	(605)	(900)	(600)	(600)
Other Invts.(net)	(17)	0	0	0
Invts in Assoc. & JV	(93)	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	95	0	0	0
Net Investing CF	(620)	(900)	(600)	(600)
Div Paid	(129)	(210)	(257)	(325)
Chg in Gross Debt	417	1,200	500	500
Capital Issues	(23)	0	0	0
Other Financing CF	(80)	0	0	0
Net Financing CF	185	990	243	175
Currency Adjustments	0	0	0	0
Chg in Cash	(144)	489	297	402

Rates & Ratio

FY Dec	2013F	2014F	2015F	2016F
Gross Margins (%)	11.1	11.0	10.9	10.9
Opg Profit Margin (%)	8.0	7.8	7.7	7.8
Net Profit Margin (%)	4.8	4.7	4.6	4.7
ROAE (%)	20.6	19.8	21.1	23.0
ROA (%)	4.8	4.5	4.7	5.2
ROCE (%)	11.2	9.7	9.7	10.9
Div Payout Ratio (%)	22.6	33.7	33.7	33.7
Net Interest Cover (x)	23.9	16.5	12.6	10.3
Asset Turnover (x)	1.0	1.0	1.0	1.1
Debtors Turn (avg days)	43.4	43.0	41.0	41.0
Creditors Turn (avg days)	98.4	102.1	97.6	97.4
Inventory Turn (avg days)	39.4	37.4	36.1	36.1
Current Ratio (x)	1.1	1.2	1.2	1.2
Quick Ratio (x)	0.4	0.4	0.5	0.5
Net Debt/Equity (X)	0.1	0.3	0.3	0.3
Net Debt/Equity ex MI (X)	0.1	0.3	0.3	0.3
Capex to Debt (%)	36.1	31.3	17.8	15.5
Z-Score (X)	NA	NA	NA	NA
N. Cash/(Debt)PS (Rp)	(42)	(163)	(197)	(214)
Opg CFPS (Rp)	79	132	135	164
Free CFPS (Rp)	(53)	(85)	9	38

Quarterly / Interim Income Statement (Rp bn)

FY Dec	4Q2013	1Q2014	2Q2014	3Q2014
Turnover	3,972	2,792	3,061	2,752
Cost of Goods Sold	(3,494)	(2,476)	(2,708)	(2,482)
Gross Profit	478	316	353	271
Other Oper. (Exp)/Inc	(165)	(85)	(93)	(104)
Operating Profit	314	231	260	167
Other Non Opg (Exp)/Inc	24	(3)	(28)	(3)
Associates & JV Inc	82	47	42	72
Net Interest (Exp)/Inc	(40)	(2)	(17)	(22)
Exceptional Gain/(Loss)	(65)	0	0	0
Pre-tax Profit	314	273	258	214
Tax	(129)	(90)	(93)	(78)
Minority Interest	(6)	(16)	(50)	(18)
Net Profit	180	168	115	118
Net profit bef Except.	245	168	115	118
EBITDA	420	275	275	236
Sales Gth (%)	51.0	(29.7)	9.7	(10.1)
EBITDA Gth (%)	67.8	(34.5)	0.1	(14.2)
Opg Profit Gth (%)	79.3	(26.3)	12.7	(36.0)
Net Profit Gth (%)	64.0	(6.9)	(31.3)	2.5
Gross Margins (%)	12.0	11.3	11.5	9.8
Opg Profit Margins (%)	7.9	8.3	8.5	6.1
Net Profit Margins (%)	4.5	6.0	3.8	4.3

Segmental Breakdown / Assumptions

FY Dec	2013A	2014F	2015F	2016F
Revenues (Rp bn)				
Construction	5,094	5,700	6,696	7,716
Mechanical	2,931	2,739	3,692	5,091
Industrial	2,990	3,655	4,751	6,177
Real Estate	1,132	1,217	1,360	1,537
Others	(262)	N/A	N/A	N/A
Total	11,885	13,310	16,499	20,520
PBT (Rp bn)				
Construction	349	378	445	504
Mechanical	179	295	433	562
Industrial	325	347	404	444
Real Estate	349	167	195	215
Others	(185)	0	0	0
Total	1,017	1,187	1,476	1,726
PBT Margins (%)				
Construction	6.9	6.6	6.6	6.5
Mechanical	6.1	10.8	11.7	11.0
Industrial	10.9	9.5	8.5	7.2
Real Estate	30.8	13.7	14.3	14.0
Others	70.8	N/A	N/A	N/A
Total	8.6	8.9	8.9	8.4
Key Assumptions				
New contract wins	N/A	24,792	27,271	29,726
Blended GP margins	11.1	11.0	10.9	10.9

Source: Company, Alliance DBS, DBS Vickers

PT PP (Persero)

Bloomberg: PTPP IJ EQUITY | Reuters: PTPP.JK

Refer to important disclosures at the end of this repor

DBS Group Research . Equity

22 Jan 2015

BUY Rp3,630 JCI : 5,215.27

Price Target : 12-month Rp 4,650 (Prev Rp 3,300)
Potential Catalyst: Strong than expected contract win
DBSV vs Consensus: Higher

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Price Relative

Forecasts and Valuation

FY Dec (Rp bn)	2013A	2014F	2015F	2016F
Turnover	11,656	14,081	17,942	21,967
EBITDA	1,087	1,271	1,649	2,032
Pre-tax Profit	767	965	1,257	1,552
Net Profit	421	546	725	904
Net Pft (Pre Ex.)	421	546	725	904
EPS (Rp)	87	113	150	187
EPS Pre Ex. (Rp)	87	113	150	187
EPS Gth (%)	36	30	33	25
EPS Gth Pre Ex (%)	36	30	33	25
Diluted EPS (Rp)	87	113	150	187
Net DPS (Rp)	26	34	45	56
BV Per Share (Rp)	410	496	612	754
PE (X)	41.8	32.2	24.2	19.5
PE Pre Ex. (X)	41.8	32.2	24.2	19.5
P/Cash Flow (X)	27.0	nm	nm	162.2
EV/EBITDA (X)	15.9	13.8	10.8	8.9
Net Div Yield (%)	0.7	0.9	1.2	1.5
P/Book Value (X)	8.9	7.3	5.9	4.8
Net Debt/Equity (X)	CASH	CASH	0.1	0.2
ROAE (%)	23.1	24.9	27.0	27.3
Earnings Rev (%):		7	12	9
Consensus EPS (Rp):		107	142	183
Other Broker Recs:		B: 16	S: 0	H: 2

ICB Industry : Industrials
ICB Sector: Construction & Materials
Principal Business: PT PP (Persero) is Indonesia's leading construction company with business portfolio ranging from building constructions and civil infrastructure constructions.
Source of all data: Company, AllianceDBS, DBS Vickers, Bloomberg Finance L.P.

Top pick in the sector

- **Strongest earnings growth and revenue visibility**
- **Jokowi's emphasis on seaports is positive for PTPP**
- **Expect narrower valuation gap to WIKA**
- **Maintain BUY, TP raised to Rp4,650**

Strongest growth in sector. We forecast PTPP's earnings will grow at 29% CAGR over FY14-FY16 (from Rp546bn to Rp904bn), backed by a strong c.Rp29tr orderbook (2.1x FY14 revenue; highest in the sector). The key project remains the Kalibaru seaport project (Rp8.2tr), of which c.40% has been recognised. Given strong execution and delivery thus far, this will pave the way for Kalibaru Phase 2 (c.Rp7tr), where tenders could open by 2016. The company is targeting Rp27tr contract wins (+34% y-o-y) this year, in line with our assumption. Additionally, Jokowi's strong emphasis on sea ports development could benefit PTPP, given its strong track record in building ports.

Rolled forward valuation base to better reflect earnings potential. We rolled forward our valuation base to FY16 and derived a new TP of Rp4,650, based on 25x FY16 EPS. We also removed the discount to WIKA's valuation as PTPP now deserves to trade on par with WIKA, given stronger earnings growth (29% vs. 24%) and highest earnings visibility.

Maintain BUY, TP raised to Rp4,650. Our new TP implies more than 20% upside from PTPP's current price, the largest upside among peers. PTPP remains our top pick in the sector.

At A Glance

Issued Capital (m shrs)	4,842
Mkt. Cap (Rpbn/US$m)	17,578 / 1,409
Major Shareholders	
Republic of Indonesia (%)	51.0
Koperasi Karyawan Pemegang	6.2
Free Float (%)	42.8
Avg. Daily Vol.('000)	13,291

INVESTMENT THESIS

Profile	Rationale
PT PP is Indonesia's leading construction company which portfolio ranges from building and civil engineering to infrastructure construction. It has established a solid reputation in the construction of high rise buildings, which accounts for c.55% of its regular construction portfolio. Additionally, PTPP enjoys c.40% market share in the seaport sector (company estimate).	Potential surge in infrastructure spending this year • Savings from fuel subsidy is c.Rp200tr. We expect most of this (c.Rp90tr) to be channelled into infrastructure. Based on the proposed budget revision, infrastructure spending by the central government could increase by 40% this year. Highest earnings growth and revenue visibility • PTPP has the highest earnings growth (29% CAGR FY14-16) and highest revenue visibility with orderbook at 2.1x FY14 revenue.
Valuation	**Risks**
We rolled forward our valuation base to FY16 and derived a new TP of Rp4,650, based on 25x FY16 EPS. We also removed the discount to WIKA's valuation as PTPP now deserves to trade on par with WIKA, given stronger earnings growth (29% vs. 24%) and highest earnings visibility (orderbook is 2.1x FY14 revenue).	Policy risk • New government is not able to speed up infrastructure development in Indonesia Pressure on margin • Tight competition puts pressure on margin, translating into lower profit than expected. Funds outflow • Derating on Indonesia stocks as foreign investors allocate funds elsewhere.

Source: AllianceDBS, DBS Vickers

Income Statement (Rp bn)

FY Dec	2013A	2014F	2015F	2016F
Turnover	11,656	14,081	17,942	21,967
Cost of Goods Sold	(10,383)	(12,524)	(15,928)	(19,488)
Gross Profit	1,273	1,557	2,013	2,479
Other Opng (Exp)/Inc	(200)	(303)	(386)	(472)
Operating Profit	1,073	1,254	1,628	2,006
Other Non Opg (Exp)/Inc	(148)	(169)	(215)	(264)
Associates & JV Inc	96	115	138	165
Net Interest (Exp)/Inc	(255)	(235)	(293)	(356)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	767	965	1,257	1,552
Tax	(346)	(419)	(532)	(649)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	421	546	725	904
Net Profit before Except.	421	546	725	904
EBITDA	1,087	1,271	1,649	2,032
Sales Gth (%)	45.6	20.8	27.4	22.4
EBITDA Gth (%)	52.2	16.9	29.7	23.3
Opg Profit Gth (%)	51.0	16.8	29.8	23.3
Net Profit Gth (%)	35.9	29.9	32.7	24.6
Effective Tax Rate (%)	45.1	43.4	42.3	41.8

Balance Sheet (Rp bn)

FY Dec	2013A	2014F	2015F	2016F
Net Fixed Assets	142	233	335	451
Invts in Associates & JVs	70	70	70	70
Other LT Assets	302	302	302	302
Cash & ST Invts	2,573	2,897	3,172	3,621
Inventory	1,777	2,227	2,833	3,466
Debtors	6,418	6,481	8,258	10,111
Other Current Assets	1,134	1,247	1,372	1,509
Total Assets	12,416	13,457	16,342	19,530
ST Debt	1,475	1,475	1,475	1,475
Creditor	6,300	6,340	8,063	9,865
Other Current Liab	1,001	1,001	1,001	1,001
LT Debt	813	1,395	1,995	2,695
Other LT Liabilities	842	842	842	842
Shareholder's Equity	1,984	2,404	2,965	3,651
Minority Interests	1	1	1	1
Total Cap. & Liab.	12,416	13,457	16,342	19,530
Non-Cash Wkg. Capital	2,027	2,615	3,399	4,220
Net Cash/(Debt)	286	28	(297)	(548)

Cash Flow Statement (Rp bn)

FY Dec	2013A	2014F	2015F	2016F
Pre-Tax Profit	767	965	1,257	1,552
Dep. & Amort.	14	17	21	26
Tax Paid	(346)	(419)	(532)	(649)
Assoc. & JV Inc/(loss)	0	0	0	0
Chg in Wkg.Cap.	(49)	(588)	(784)	(821)
Other Operating CF	266	0	0	0
Net Operating CF	651	(25)	(38)	108
Capital Exp.(net)	(93)	(107)	(123)	(142)
Other Invts.(net)	(35)	0	0	0
Invts in Assoc. & JV	(106)	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(129)	0	0	0
Net Investing CF	(363)	(107)	(123)	(142)
Div Paid	(93)	(126)	(164)	(218)
Chg in Gross Debt	529	582	600	700
Capital Issues	0	0	0	0
Other Financing CF	223	0	0	0
Net Financing CF	659	456	436	482
Currency Adjustments	(6)	0	0	0
Chg in Cash	940	324	275	449

Rates & Ratio

FY Dec	2013A	2014F	2015F	2016F
Gross Margins (%)	10.9	11.1	11.2	11.3
Opg Profit Margin (%)	9.2	8.9	9.1	9.1
Net Profit Margin (%)	3.6	3.9	4.0	4.1
ROAE (%)	23.1	24.9	27.0	27.3
ROA (%)	4.0	4.2	4.9	5.0
ROCE (%)	13.2	12.6	14.0	14.7
Div Payout Ratio (%)	40.8	39.0	39.8	37.4
Net Interest Cover (x)	4.2	5.3	5.6	5.6
Asset Turnover (x)	1.1	1.1	1.2	1.2
Debtors Turn (avg days)	168.2	167.2	149.9	152.6
Creditors Turn (avg days)	185.6	184.4	165.2	168.1
Inventory Turn (avg days)	58.8	58.4	58.1	59.1
Current Ratio (x)	1.4	1.5	1.5	1.5
Quick Ratio (x)	1.0	1.1	1.1	1.1
Net Debt/Equity (X)	CASH	CASH	0.1	0.2
Net Debt/Equity ex MI (X)	Cash	Cash	0.1	0.2
Capex to Debt (%)	4.1	3.7	3.6	3.4
Z-Score (X)	NA	NA	NA	NA
N. Cash/(Debt)PS (Rp)	59	6	(61)	(113)
Opg CFPS (Rp)	145	116	154	192
Free CFPS (Rp)	115	(27)	(33)	(7)

Quarterly / Interim Income Statement (Rp bn)

FY Dec	4Q2013	1Q2014	2Q2014	3Q2014
Turnover	4,400	1,999	2,603	3,205
Cost of Goods Sold	(3,854)	(1,802)	(2,264)	(2,829)
Gross Profit	546	198	339	375
Other Oper. (Exp)/Inc	(49)	(59)	(105)	(46)
Operating Profit	498	139	234	330
Other Non Opg (Exp)/Inc	(57)	(17)	(35)	(22)
Associates & JV Inc	37	9	7	27
Net Interest (Exp)/Inc	(142)	(9)	(35)	(97)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	336	122	169	238
Tax	(133)	(61)	(84)	(94)
Minority Interest	0	0	0	0
Net Profit	202	61	85	143
Net profit bef Except.	202	61	85	143
EBITDA	478	131	205	335
Sales Gth (%)	42.9	(54.6)	30.2	23.1
EBITDA Gth (%)	100.9	(72.6)	56.5	63.3
Opg Profit Gth (%)	86.7	(72.1)	68.4	41.1
Net Profit Gth (%)	170.3	(69.6)	38.8	68.2
Gross Margins (%)	12.4	9.9	13.0	11.7
Opg Profit Margins (%)	11.3	6.9	9.0	10.3
Net Profit Margins (%)	4.6	3.1	3.3	4.5

Segmental Breakdown / Assumptions

FY Dec	2013A	2014F	2015F	2016F
Revenues (Rp bn)				
Construction	9,952	11,736	14,742	17,557
Real Estate	97	175	262	393
Property	162	291	495	842
EPC	1,445	1,879	2,442	3,175
Others	0	0	0	0
Total	11,656	14,081	17,942	21,967
Gross Profit (Rp bn)				
Construction	1,077	1,256	1,577	1,879
Real Estate	33	59	88	132
Property	24	45	79	135
EPC	139	197	269	333
Others	0	0	0	0
Total	1,273	1,557	2,013	2,479
Gross Profit Margins (%)				
Construction	10.8	10.7	10.7	10.7
Real Estate	33.6	33.6	33.6	33.6
Property	15.0	15.5	16.0	16.0
EPC	9.6	10.5	11.0	10.5
Others	N/A	N/A	N/A	N/A
Total	10.9	11.1	11.2	11.3
Key Assumptions				
New Contract Won (Rp bn)	13,034	14,448	17,113	20,571
Contract Carryover (Rp bn)	15,870	19,570	23,837	28,199
Gross Profit Margin (%)	10.9	11.1	11.2	11.3

Source: Company, AllianceDBS, DBS Vickers

Indonesia Company Focus

Waskita Karya

Bloomberg: WSKT IJ | Reuters: WSKT.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 Jan 2015

FULLY VALUED Rp1,515 JCI : 5,215.27

Downgrade to FULLY VALUED (previously HOLD)

Price Target : 12-Month Rp 1,100 (Prev Rp 965)

Potential Catalyst: Stronger operating cash flow

DBSV vs Consensus: Lower

Analyst

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Price Relative

Forecasts and Valuation

FY Dec (Rp bn)	2013A	2014F	2015F	2016F
Turnover	9,687	10,913	13,417	16,014
EBITDA	734	873	1,059	1,239
Pre-tax Profit	611	692	825	920
Net Profit	368	420	494	528
Net Pft (Pre Ex.)	368	420	494	528
EPS (Rp)	38	44	51	55
EPS Pre Ex. (Rp)	38	44	51	55
EPS Gth (%)	0	14	18	7
EPS Gth Pre Ex (%)	0	14	18	7
Diluted EPS (Rp)	38	44	51	55
Net DPS (Rp)	11	13	15	16
BV Per Share (Rp)	247	280	318	357
PE (X)	39.6	34.7	29.5	27.6
PE Pre Ex. (X)	39.6	34.7	29.5	27.6
P/Cash Flow (X)	nm	nm	nm	nm
EV/EBITDA (X)	20.5	18.3	16.0	14.6
Net Div Yield (%)	0.8	0.9	1.0	1.1
P/Book Value (X)	6.1	5.4	4.8	4.2
Net Debt/Equity (X)	0.2	0.5	0.8	1.0
ROAE (%)	16.8	16.6	17.2	16.2
Earnings Rev (%):		0	1	(10)
Consensus EPS (Rp):		42	54	67
Other Broker Recs:		B: 10	S: 2	H: 3

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: PT Waskita Karya Tbk, is a stated owned construction company engaging in a wide variety of construction activities including highways, bridges, ports, airports, buildings, sewerage plants, cement plants, factoreis and other industrial facilities.

Source of all data: Company, AllianceDBS, DBS Vickers, Bloomberg Finance L.P.

Cautious on rights issue

- **Planned rights issue will expand share base by 39%**
- **Profitability of new projects are questionable**
- **Solid contract wins have not translated into positive operating cash flow**
- **Downgrade to FULLY VALUED, TP of Rp1,100**

Aggressive rights issue. WSKT planning a rights issue to raise Rp10tr in two phases, which reflects its weak balance sheet relative to peers. The first phase - in June 2015 – will raise Rp5.3tr. The balance will be raised in 2016. For the first phase, the Government of Indonesia (GoI) will inject Rp3.5tr, while the balance (Rp1.8tr) would come from the public. The new shares issued under Phase I will represent c.39% of the existing share base. The GoI will be required to maintain at least 66% stake (currently 67.33%) in WSKT. The rights issue price will be the average price in the last 25 days before the rights issue date.

Cautious on rights. WSKT's share price has rallied following news of the rights issue as the Company expects to double its new contract target from Rp20tr to c.Rp40tr in FY15. We are cautious on the rights issue on two fronts: i) profitability of projects, and ii) earnings dilution. Given the aggressive target, we are concerned some of the new projects might not be profitable. Additionally despite the strong contract wins last year, we have yet to see positive operating cash flow. The rights issue may provide a temporary relief for its balance sheet, but its weak operating cash flow remains a concern. Assuming incremental contract wins of Rp5tr, Rp10tr, Rp15tr, respectively, beyond our base case of Rp22tr, and a larger share base, we estimate the impact on FY15F EPS would be -16%, -4% and +8%, respectively. This assumes constant margins and earnings recognition, which is unlikely to be the case.

Downgrade to FULLY VALUED, TP of Rp1,100. WSKT is trading at c.30x/23x FY15/FY16 EPS, before adjusting for dilution impact. Our TP of Rp1,100 (20x FY16 EPS, 20% discount to WIKA) implies over 20% downside to the share price.

At A Glance

Issued Capital (m shrs)	9,728
Mkt. Cap (Rpbn/US$m)	14,737 / 1,182
Major Shareholders	
Republic of Indonesia (%)	68.0
Free Float (%)	32.0
Avg. Daily Vol.('000)	54,332

www.dbsvickers.com

ed: SGC / sa: MA

DBS VICKERS SECURITIES

WSKT: Sensitivity analysis - EPS (assuming 39% increase in share base after rights issue)

Additional new contract (In Rp bn)	5,000	10,000	15,000
NPAT	576	658	739
EPS	43.0	49.1	55.2
EPS change	-16%	-4%	8%

Source: AllianceDBS, DBS Vickers

INVESTMENT THESIS

Profile	Rationale
PT Waskita Karya Tbk (WSKT) is a state-owned construction company engaged in a wide variety of construction activities including toll road, bridges, ports and buildings. It is the most leveraged proxy to the Indonesian construction sector, deriving 99% of its revenues from construction and >50% of its projects from the Government of Indonesia.	Needs very strong 4Q results to meet FY forecasts • In the last two years, 4Q NPAT accounted for 60% and 68% to its full year numbers. Hence, WSKT would need very strong 4Q results to meet our/consensus FY14 forecasts. Earnings dilution from planned rights issue • WSKT is planning a rights issue to raise Rp10tr in two phases. The first, by June 2015, is expected to raise Rp5.3tr. The remaining Rp4.7tr will be done next year. For the first phase, the Government of Indonesia (GoI) will inject Rp3.5tr while the balance (Rp1.8tr) would come from the public. The new shares issued under Phase I will represent about 39% of the current share base. Concern over rising interest expense as WSKT invests in more toll roads. • We are more worried aboutWSKT plans to issue bonds to finance its toll road projects. 3Q14 interest expense was c.50% of WSKT's EBIT, and hence, NPAT is highly sensitive to its gearing ratio. Downgrade to Fully Valued, TP of Rp1,100 • WSKT is currently trading at 28x/23x FY15/FY16 EPS, before adjusting for earnings dilution. Based on our TP of Rp1,100 (based on 20x FY16 EPS), there is more than 20% downside to WSKT's share price
Valuation	**Risks**
Our target price of Rp1,100 is pegged to 20x FY15 EPS (20% discount to WIKA). Downgrade to FULLY VALUED as there is more than 20% downside to our TP.	Policy risk • New government is unable to speed up infrastructure development in Indonesia. Pressure on margin • Tight competition will pressure margins, translating into lower-than-expected profit. Funds outflow • Derating of Indonesia's stocks as foreign investors shift funds elsewhere. Persistently weak operating cash flow • We have yet to see positive operating cash flow at WSKT, despite its strong contract wins last year. As such, its balance sheet could remain stretched, forcing it to make another rights or bond issue.

Source: AllianceDBS, DBS Vickers

Income Statement (Rp bn)

FY Dec	2013A	2014F	2015F	2016F
Turnover	9,687	10,913	13,417	16,014
Cost of Goods Sold	(8,776)	(9,877)	(12,143)	(14,508)
Gross Profit	911	1,036	1,274	1,506
Other Opng (Exp)/Inc	(340)	(380)	(467)	(557)
Operating Profit	571	656	807	949
Other Non Opg (Exp)/Inc	8	0	0	0
Associates & JV Inc	103	157	179	202
Net Interest (Exp)/Inc	(70)	(122)	(161)	(231)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	611	692	825	920
Tax	(243)	(272)	(331)	(392)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	368	420	494	528
Net Profit before Except.	368	420	494	529
EBITDA	734	873	1,059	1,239
Sales Gth (%)	10.0	12.7	22.9	19.4
EBITDA Gth (%)	16.2	19.0	21.3	17.0
Opg Profit Gth (%)	27.5	15.1	23.0	17.6
Net Profit Gth (%)	44.9	14.2	17.6	6.8
Effective Tax Rate (%)	39.8	39.3	40.1	42.5

Balance Sheet (Rp bn)

FY Dec	2013A	2014F	2015F	2016F
Net Fixed Assets	415	856	1,383	1,995
Invts in Associates & JVs	343	343	343	343
Other LT Assets	249	249	249	249
Cash & ST Invts	1,144	1,224	1,253	1,133
Inventory	281	538	661	790
Debtors	5,654	5,980	7,352	8,775
Other Current Assets	702	858	1,100	1,403
Total Assets	8,788	10,047	12,340	14,686
ST Debt	875	875	875	875
Creditor	4,086	4,035	4,960	5,926
Other Current Liab	466	466	466	466
LT Debt	748	1,748	2,748	3,748
Other LT Liabilities	230	230	230	230
Shareholder's Equity	2,382	2,692	3,060	3,440
Minority Interests	1	1	1	1
Total Cap. & Liab.	8,788	10,047	12,340	14,686
Non-Cash Wkg. Capital	2,085	2,875	3,687	4,575
Net Cash/(Debt)	(479)	(1,399)	(2,370)	(3,490)

Cash Flow Statement (Rp bn)

FY Dec	2013A	2014F	2015F	2016F
Pre-Tax Profit	611	692	825	919
Dep. & Amort.	54	62	75	90
Tax Paid	(243)	(272)	(331)	(392)
Assoc. & JV Inc/(loss)	0	0	0	0
Chg in Wkg.Cap.	(623)	(790)	(812)	(889)
Other Operating CF	(183)	0	0	0
Net Operating CF	(384)	(308)	(242)	(270)
Capital Exp.(net)	(229)	(500)	(600)	(700)
Other Invts.(net)	(17)	0	0	0
Invts in Assoc. & JV	(93)	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(40)	0	0	0
Net Investing CF	(379)	(500)	(600)	(700)
Div Paid	(20)	(110)	(126)	(148)
Chg in Gross Debt	417	1,000	1,000	1,000
Capital Issues	(23)	0	0	0
Other Financing CF	(691)	0	0	0
Net Financing CF	(317)	890	874	852
Currency Adjustments	0	0	0	0
Chg in Cash	(1,080)	82	32	(119)

Rates & Ratio

FY Dec	2013A	2014F	2015F	2016F
Gross Margins (%)	9.4	9.5	9.5	9.4
Opg Profit Margin (%)	5.9	6.0	6.0	5.9
Net Profit Margin (%)	3.8	3.9	3.7	3.3
ROAE (%)	16.8	16.6	17.2	16.2
ROA (%)	4.3	4.5	4.4	3.9
ROCE (%)	8.1	8.2	7.8	7.2
Div Payout Ratio (%)	30.0	30.0	30.0	30.0
Net Interest Cover (x)	8.2	5.4	5.0	4.1
Asset Turnover (x)	1.1	1.2	1.2	1.2
Debtors Turn (avg days)	195.7	194.6	181.3	183.8
Creditors Turn (avg days)	160.1	151.0	136.0	137.8
Inventory Turn (avg days)	14.1	15.2	18.1	18.4
Current Ratio (x)	1.4	1.6	1.6	1.7
Quick Ratio (x)	1.3	1.3	1.4	1.4
Net Debt/Equity (X)	0.2	0.5	0.8	1.0
Net Debt/Equity ex MI (X)	0.2	0.5	0.8	1.0
Capex to Debt (%)	14.1	19.1	16.6	15.1
Z-Score (X)	NA	NA	NA	NA
N. Cash/(Debt)PS (Rp)	(50)	(145)	(246)	(362)
Opg CFPS (Rp)	25	50	59	64
Free CFPS (Rp)	(64)	(84)	(87)	(101)

Quarterly / Interim Income Statement (Rp bn)

FY Dec	4Q2013	1Q2014	2Q2014	3Q2014
Turnover	4,538	1,035	2,147	2,099
Cost of Goods Sold	(4,054)	(924)	(1,945)	(1,911)
Gross Profit	484	111	202	188
Other Oper. (Exp)/Inc	(155)	(47)	(120)	(97)
Operating Profit	329	63	81	91
Other Non Opg (Exp)/Inc	3	(15)	30	2
Associates & JV Inc	45	14	31	63
Net Interest (Exp)/Inc	(17)	(18)	(36)	(31)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	360	44	107	125
Tax	(110)	(37)	(53)	(57)
Minority Interest	0	0	0	0
Net Profit	249	7	54	68
Net profit bef Except.	249	7	54	68
EBITDA	377	62	142	156
Sales Gth (%)	112.1	(77.2)	107.5	(2.2)
EBITDA Gth (%)	180.7	(83.6)	130.9	9.9
Opg Profit Gth (%)	300.1	(80.8)	28.6	12.1
Net Profit Gth (%)	304.7	(97.3)	701.2	26.1
Gross Margins (%)	10.7	10.7	9.4	9.0
Opg Profit Margins (%)	7.3	6.1	3.8	4.3
Net Profit Margins (%)	5.5	0.7	2.5	3.3

Segmental Breakdown / Assumptions

FY Dec	2013A	2014F	2015F	2016F
Revenues (Rp bn)				
Construction	9,559	10,672	13,006	15,397
Building rentals/Property	0	0	0	0
Precast	127	242	411	616
Energy	0	0	0	0
Others	N/A	N/A	N/A	N/A
Total	9,687	10,913	13,417	16,014
Gross Profit (Rp bn)				
Construction	899	1,014	1,236	1,447
Building rentals/Property	0	0	0	0
Precast	12	22	38	59
Energy	0	0	0	0
Others	N/A	N/A	N/A	N/A
Total	911	1,036	1,274	1,506
Gross Profit Margins (%)				
Construction	9.4	9.5	9.5	9.4
Building rentals/Property	100.0	100.0	100.0	100.0
Precast	9.3	9.1	9.3	9.5
Energy	N/A	N/A	N/A	N/A
Others	N/A	N/A	N/A	N/A
Total	9.4	9.5	9.5	9.4
Key Assumptions				
New contract wins (Rp bn)	13,318	18,769	22,000	25,300
Contract Carryover (Rp bn)	8,815	10,422	14,608	18,996
Construction GPM (%)	9.4	9.5	9.5	9.4

Source: Company, AllianceDBS, DBS Vickers

Indonesia Company Focus

Wijaya Karya Beton

Bloomberg: WTON IJ EQUITY | Reuters: WTON.JK **Refer to important disclosures at the end of this report**

DBS Group Research . Equity 22 Jan 2015

BUY Rp1,320 JCI : 5,215.27

Price Target : 12-Month Rp 1,600 (Prev Rp 1,200)
Potential Catalyst: Better than expected gross margin
DBSV vs Consensus: Inline

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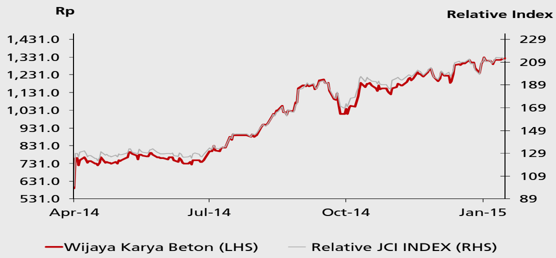
Price Relative



Forecasts and Valuation

FY Dec (Rp bn)	2013A	2014F	2015F	2016F
Turnover	2,644	3,236	4,027	5,186
EBITDA	393	498	618	784
Pre-tax Profit	329	411	526	672
Net Profit	243	311	397	505
Net Pft (Pre Ex.)	243	311	397	505
EPS (Rp)	36	36	46	58
EPS Pre Ex. (Rp)	36	36	46	58
EPS Gth (%)	34	(1)	28	27
EPS Gth Pre Ex (%)	34	(1)	28	27
Diluted EPS (Rp)	36	36	46	58
Net DPS (Rp)	16	12	16	20
BV Per Share (Rp)	101	238	268	305
PE (X)	36.5	37.0	29.0	22.8
PE Pre Ex. (X)	36.5	37.0	29.0	22.8
P/Cash Flow (X)	71.1	61.1	19.5	15.0
EV/EBITDA (X)	23.0	22.3	18.0	14.2
Net Div Yield (%)	1.2	0.9	1.2	1.5
P/Book Value (X)	13.0	5.5	4.9	4.3
Net Debt/Equity (X)	0.2	CASH	CASH	CASH
ROAE (%)	39.2	22.6	18.0	20.2
Earnings Rev (%):		(2)	0	4
Consensus EPS (Rp):		35	45	57
Other Broker Recs:		B: 5	S: 1	H: 4

ICB Industry : Industrials
ICB Sector: Construction & Materials
Principal Business: Wika beton (a subsidiary of Wikaya Karya) is a leader in precast in Indonesia with c.40% market share.

Source of all data: Company, AllianceDBS, DBS Vickers, Bloomberg Finance L.P.

Still the best infra proxy

- **Aggressive new contract target of Rp4tr**
- **Remains the best proxy given its dominant market share**
- **High valuation to persist given the lack of alternatives**
- **Maintain BUY, TP upgraded to Rp1,600**

Expect strong growth this year. WTON will benefit from higher government spending on infrastructure this year. The company has guided for new contract wins to increase by >50% to Rp4tr this year. We estimate WTON will register strong revenue growth of 25% CAGR (FY13-16) as it executes its expansion plans.

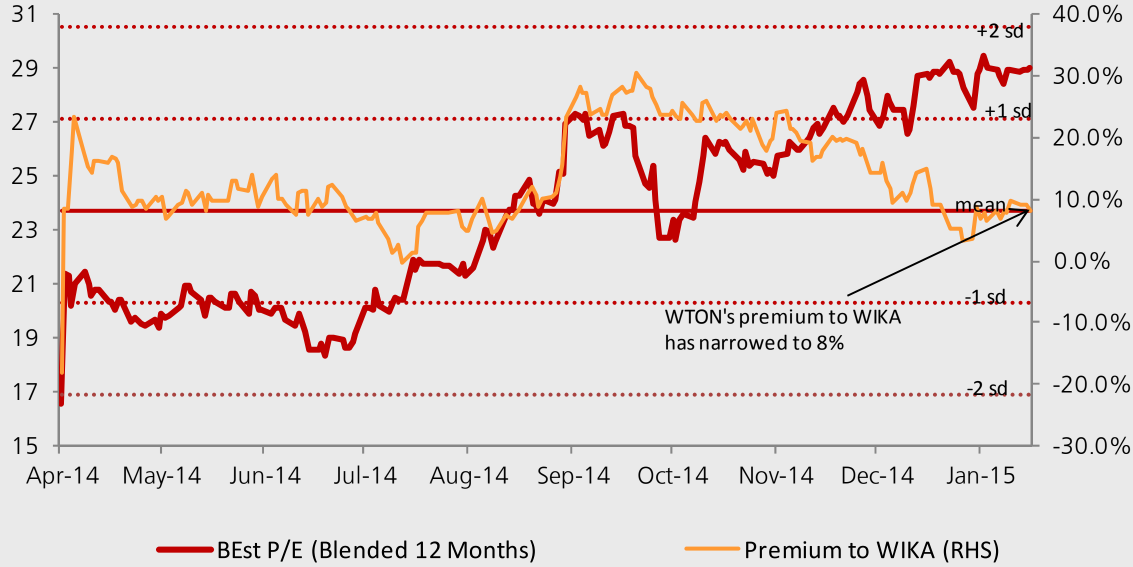
Best proxy. WTON remains the best proxy to the infrastructure boom in Indonesia, given its leading 40% market share in the Precast industry. As comparison, in the fragmented construction space, the largest player only commands c.5% market share. As such, WTON deserves premium valuation relative to other construction names. Additionally, among contractors and cement players, it also has the strongest pricing power due to its dominant capacity (2.5x/4x as big as Adhimix/JayaBeton) and much wider distribution coverage (nine plants covering the major islands in Indonesia, while its competitors are mostly in Java). As a result, WTON has a high tender success rate of 60-70% in areas outside Greater Jakarta.

Maintain BUY, TP upgraded to Rp1,600. We rolled forward valuation base to FY16F and derived a new TP of Rp1,600 (27.5x FY16 EPS, 10% premium to WIKA). WTON will continue to command premium valuation given the expected strong earnings growth (27% CAGR over FY14-16) and the lack of alternative infrastructure proxies in Indonesia. Furthermore, WTON's premium to WIKA has narrowed to 8% (from a peak of 30%).

At A Glance

Issued Capital (m shrs)	8,715
Mkt. Cap (Rpbn/US$m)	11,504 / 922
Major Shareholders	
Wijaya Karya (%)	60.0
KKMS (%)	11.2
Free Float (%)	28.8
Avg. Daily Vol.('000)	27,839

WTON's 12M forward P/E band and historical premium to WIKA



Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

INVESTMENT THESIS

Profile	Rationale
PT Wijaya Karya Beton Tbk (WTON) is the dominant market leader in precast concrete with c.40% market share. It is a subsidiaryof PT Wijaya Karya Tbk (WIKA), an SOE construction company. WTON was listed in April 2014, with WIKA's ownership falling to 60% (from 78.4% pre-IPO).	Potential big increase in infra spending this year • The savings from fuel subsidy is c.Rp200tr. We expect most of this (c.Rp90tr) will be channelled into infrastructure. Based on proposed budget revision, infra spending by the central government could increase by 40% this year. Best infra proxy • WTON remains the best proxy to the infrastructure boom in Indonesia, given its leading 40% market share in the Precast industry. As comparison, in the fragmented construction space, the largest player only commands c.5% market share. As such, WTON deserves premium valuation relative to other construction names. Additionally, among contractors and cement players, it also has the strongest pricing power due to its dominant capacity (2.5x/4x as big as Adhimix/JayaBeton) and much wider distribution coverage (nine plants covering the major islands in Indonesia, while its competitors are mostly in Java). As a result, WTON has a high tender success rate of 60-70% in areas outside Greater Jakarta.
Valuation	**Risks**
We value WTON at a 10% premium to WIKA (which we value at 25x FY15 EPS). Based on 27.5x FY16 EPS, we derived a TP of Rp1,600 for WTON.	Increasing competition from SOE contractors • Major SOE contractors are investing in their precast division. If they manage to significantly increase their capacities and compete with WTON in terms of quality of products, WTON might lose some pricing power and suffer from margin erosion. Slower-than-expected infrastructure growth • WTON is investing heavily to expand its production capacities, in anticipation of fast-growing demand for precast concrete. If infrastructure development is slower than expected, demand for precast concrete will be lower than expected and WTON's factories will suffer from lower utilisation rates. Bulk of COGS is linked to USD • Steel and cement make up 30% and 20% of its COGS. Additionally, some overhead costs for its production facilities are also in USD. If the USD/IDR exchange rate swings significantly, its COGS could be affected. However, the company has mitigated the risk by signing umbrella contracts (3-month) for its major raw materials. For multi-year Government projects, there is a cost escalation clause.

Source: AllianceDBS, DBS Vickers

Income Statement (Rp bn)

FY Dec	2013A	2014F	2015F	2016F
Turnover	2,644	3,236	4,027	5,186
Cost of Goods Sold	(2,256)	(2,766)	(3,446)	(4,434)
Gross Profit	388	470	581	752
Other Opng (Exp)/Inc	(52)	(64)	(80)	(103)
Operating Profit	336	406	500	649
Other Non Opg (Exp)/Inc	(4)	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(4)	4	25	22
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	329	411	526	672
Tax	(87)	(103)	(131)	(168)
Minority Interest	2	3	3	2
Preference Dividend	0	0	0	0
Net Profit	243	311	397	505
Net Profit before Except.	243	311	397	506
EBITDA	393	498	618	784
Sales Gth (%)	30.2	22.4	24.4	28.8
EBITDA Gth (%)	42.3	26.8	24.1	26.8
Opg Profit Gth (%)	45.4	20.8	23.2	29.7
Net Profit Gth (%)	35.7	28.0	27.6	27.3
Effective Tax Rate (%)	26.6	25.0	25.0	25.0

Cash Flow Statement (Rp bn)

FY Dec	2013A	2014F	2015F	2016F
Pre-Tax Profit	329	411	526	671
Dep. & Amort.	62	94	120	137
Tax Paid	(184)	(103)	(131)	(168)
Assoc. & JV Inc/(loss)	0	0	0	0
Chg in Wkg.Cap.	(166)	(214)	77	125
Other Operating CF	85	0	0	0
Net Operating CF	125	188	591	765
Capital Exp.(net)	(454)	(700)	(500)	(600)
Other Invts.(net)	0	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	0	0	0	0
Net Investing CF	(454)	(700)	(500)	(600)
Div Paid	(63)	(109)	(139)	(177)
Chg in Gross Debt	519	0	0	100
Capital Issues	(53)	1,193	0	0
Other Financing CF	0	0	0	0
Net Financing CF	403	1,084	(139)	(77)
Currency Adjustments	0	0	0	0
Chg in Cash	74	572	(48)	88

Quarterly / Interim Income Statement (Rp bn)

FY Dec	4Q2013	1Q2014	2Q2014	3Q2014
Turnover	0	814	864	644
Cost of Goods Sold	0	(686)	(735)	(564)
Gross Profit	0	128	129	80
Other Oper. (Exp)/Inc	0	(14)	(22)	(18)
Operating Profit	0	114	107	62
Other Non Opg (Exp)/Inc	0	(1)	0	(5)
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	0	(8)	8	5
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	0	105	116	62
Tax	0	(26)	(26)	(13)
Minority Interest	0	1	2	1
Net Profit	0	80	92	51
Net profit bef Except.	0	80	92	51
EBITDA	0	113	108	57
Sales Gth (%)	N/A	N/A	6.2	(25.5)
EBITDA Gth (%)	N/A	N/A	(4.6)	(47.1)
Opg Profit Gth (%)	N/A	N/A	(5.9)	(42.3)
Net Profit Gth (%)	N/A	N/A	14.7	(44.7)
Gross Margins (%)	N/A	15.7	15.0	12.4
Opg Profit Margins (%)	N/A	14.0	12.4	9.6
Net Profit Margins (%)	N/A	9.9	10.7	7.9

Balance Sheet (Rp bn)

FY Dec	2013A	2014F	2015F	2016F
Net Fixed Assets	1,012	1,620	2,002	2,468
Invts in Associates & JVs	0	0	0	0
Other LT Assets	9	9	9	9
Cash & ST Invts	413	983	933	1,019
Inventory	846	1,172	1,459	1,885
Debtors	422	478	595	766
Other Current Assets	215	277	334	413
Total Assets	2,917	4,540	5,333	6,560
ST Debt	173	173	173	173
Creditor	325	440	547	707
Other Current Liab	1,297	1,413	1,842	2,483
LT Debt	369	369	369	469
Other LT Liabilities	24	24	24	24
Shareholder's Equity	680	2,075	2,333	2,661
Minority Interests	50	47	44	42
Total Cap. & Liab.	2,917	4,540	5,333	6,560
Non-Cash Wkg. Capital	(139)	75	(2)	(126)
Net Cash/(Debt)	(128)	442	392	378

Rates & Ratio

FY Dec	2013A	2014F	2015F	2016F
Gross Margins (%)	14.7	14.5	14.4	14.5
Opg Profit Margin (%)	12.7	12.5	12.4	12.5
Net Profit Margin (%)	9.2	9.6	9.9	9.7
ROAE (%)	39.2	22.6	18.0	20.2
ROA (%)	9.1	8.3	8.0	8.5
ROCE (%)	25.5	15.3	13.3	15.4
Div Payout Ratio (%)	45.5	35.0	35.0	35.0
Net Interest Cover (x)	92.9	NM	NM	NM
Asset Turnover (x)	1.0	0.9	0.8	0.9
Debtors Turn (avg days)	50.5	50.8	48.6	47.9
Creditors Turn (avg days)	62.0	52.2	54.1	53.2
Inventory Turn (avg days)	143.6	137.7	144.3	141.9
Current Ratio (x)	1.1	1.4	1.3	1.2
Quick Ratio (x)	0.5	0.7	0.6	0.5
Net Debt/Equity (X)	0.2	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.2	Cash	Cash	Cash
Capex to Debt (%)	84.0	129.4	92.4	93.6
Z-Score (X)	4.0	4.2	3.6	3.2
N. Cash/(Debt)PS (Rp)	(19)	51	45	43
Opg CFPS (Rp)	43	46	59	73
Free CFPS (Rp)	(49)	(59)	10	19

Segmental Breakdown / Assumptions

FY Dec	2013A	2014F	2015F	2016F
Revenues (Rp bn)				
Concrete	2,622	3,201	3,978	5,122
Service	22	35	49	64
Head office	0	0	0	0
Others	-	-	-	-
Total	2,644	3,236	4,027	5,186
Gross Profit (Rp bn)				
Concrete	334	402	495	641
Service	3	4	6	8
Head office	0	0	0	0
Others	-	-	-	-
Total	336	406	500	649
Gross Profit Margins (%)				
Concrete	12.7	12.6	12.4	12.5
Service	11.7	12.0	12.0	12.0
Head office	N/A	N/A	N/A	N/A
Others	-	-	-	-
Total	12.7	12.5	12.4	12.5
Key Assumptions				
Gross profit margin (%)	14.7	14.5	14.4	14.5
Sales volume	1,456,99	1,617,26	1,843,67	2,138,66
Utilization rate	72.8	73.5	82.0	85.5

Source: Company, AllianceDBS, DBS Vickers

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e.> -10% over the next 12 months)
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Share price appreciation + dividends

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