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# **Construction**

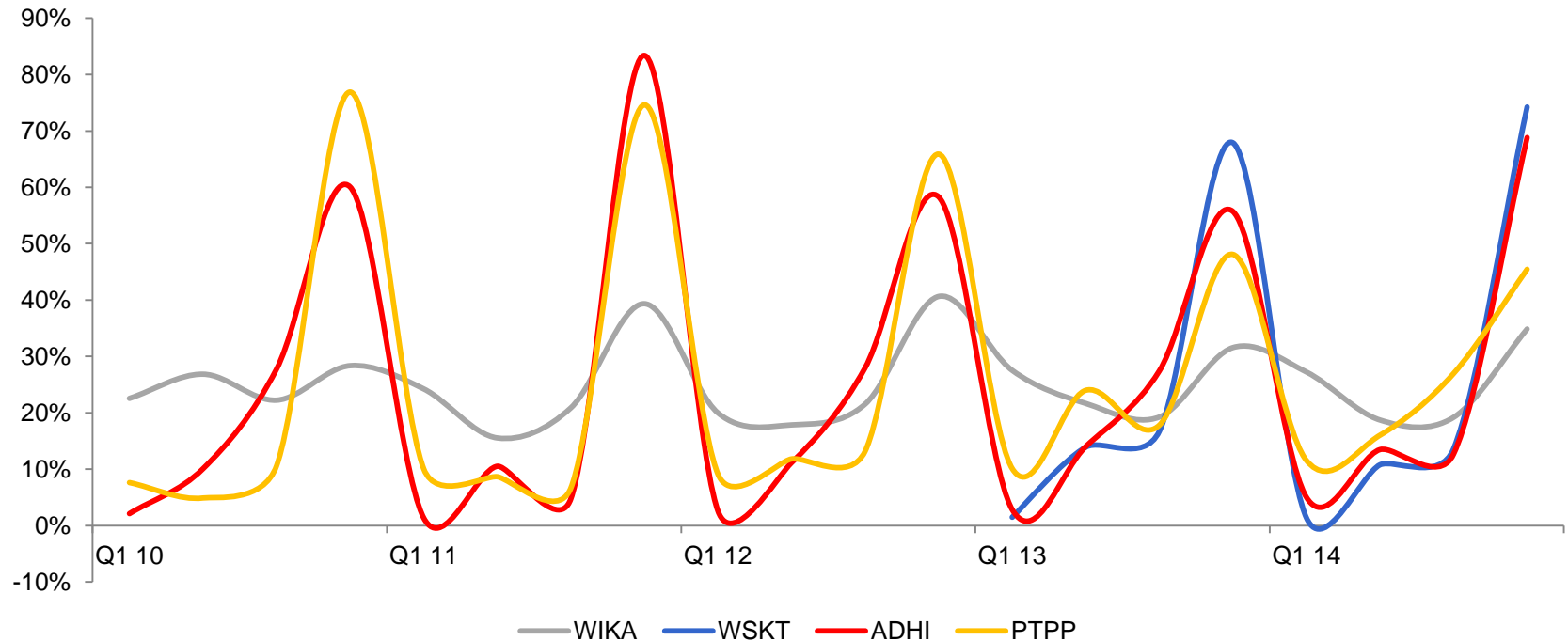
by Sinarmas Investment Research

# Construction is set to be Indonesia's darling sector...

Infrastructure Investment Requirement (RPJMN) 2015-2019 (Rp trillion)					
Sector	Full Scenario (100%)	Partial Scenario(75%)		Basic Scenario(50%)	
		Needs	% of Full Scenario	Needs	% of Full Scenario
Road	1274	851	67%	637	50%
Railway	278	222	80%	140	50%
Mass Transportation	166	115	69%	75	45%
Sea Transportation	563	424	75%	282	50%
Ferry and ASDP	91	80	88%	60	66%
Air Transportation	182	165	91%	100	55%
Electricity	1,080	762	71%	714	66%
Energy and Gas	535	420	79%	268	50%
Water Resources	1,091	845	77%	645	59%
Clean Water and Sewage	666	450	68%	330	50%
Public Housing	384	247	64%	180	47%
Information and Communication Technology	242	200	83%	130	54%
<b>Total</b>	<b>6,552</b>	<b>4,781</b>		<b>3,561</b>	

The seasonal effect is very apparent...

% of FY revenue generated per quarter

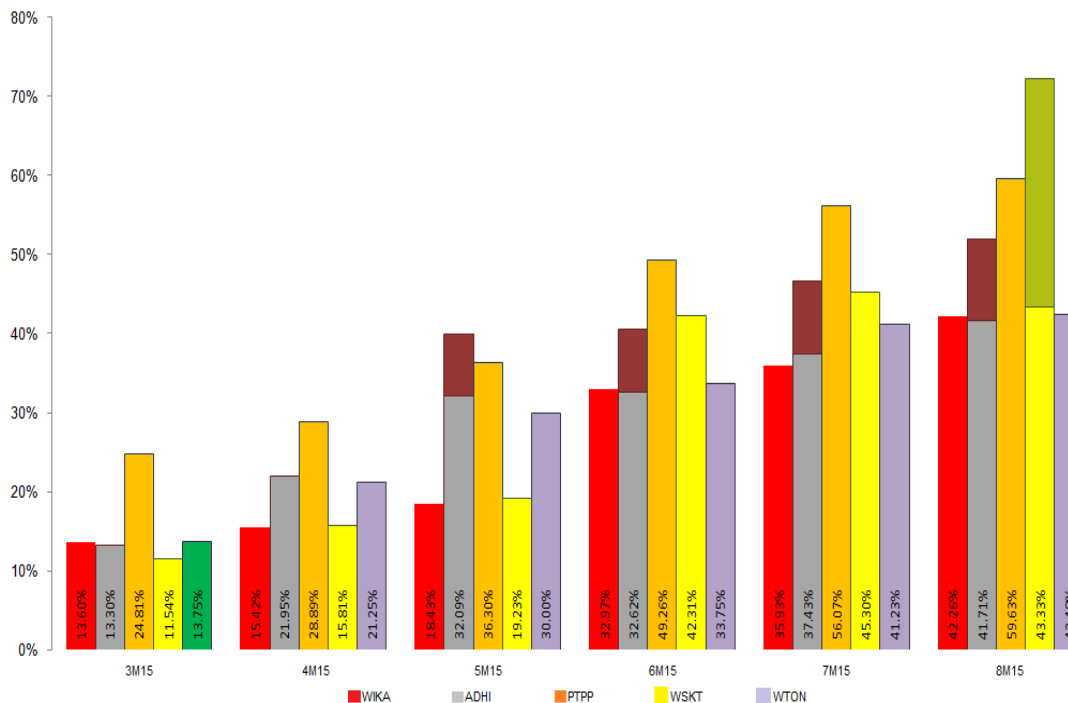


... And so we are betting on an upbeat Q4 15.

# Contractors are still struggling to meet their FY15 new contracts target.

A lot of this has to do with the lackluster government budget absorption and a slowing domestic economy. As the economy slows, private project owners tend to slow down faster than state-owned project owners, putting private projects at more risk in general. Going forward, government absorption is vital to the resurgence of the construction sector.

## New contracts, % of full year target



New Contracts Target		
Company	Old Target, IDR Bn	New Target, IDR Bn
WIKA	31,618	-
ADHI	15,038	18,700
PTPP	27,000	-
WSKT	23,400	39,000
WTON	4,000	3,200

Source: Sinarmas Investment Research, Company data

## OUR RECOMMENDATIONS

Company	Recommendation	52-Week Target Price
PT Pembangunan Perumahan Tbk (PTPP)	BUY	IDR 4,250 <b>+16.3%</b>
PT Adhi Karya (Persero) Tbk (ADHI)	BUY	IDR 2,490 <b>+24.2%</b>
PT Waskita Karya (Persero) Tbk (WSKT)	NEUTRAL	IDR 1,720 <b>+6.5%</b>
PT Wijaya Karya Beton Tbk (WTON)	NEUTRAL	IDR 880 <b>-8.5%</b>
PT Wijaya Karya (Persero) Tbk (WIKA)	NEUTRAL	IDR 2,835 <b>-3.1%</b>

# PT Pembangunan Perumahan (Persero) Tbk (PTPP)



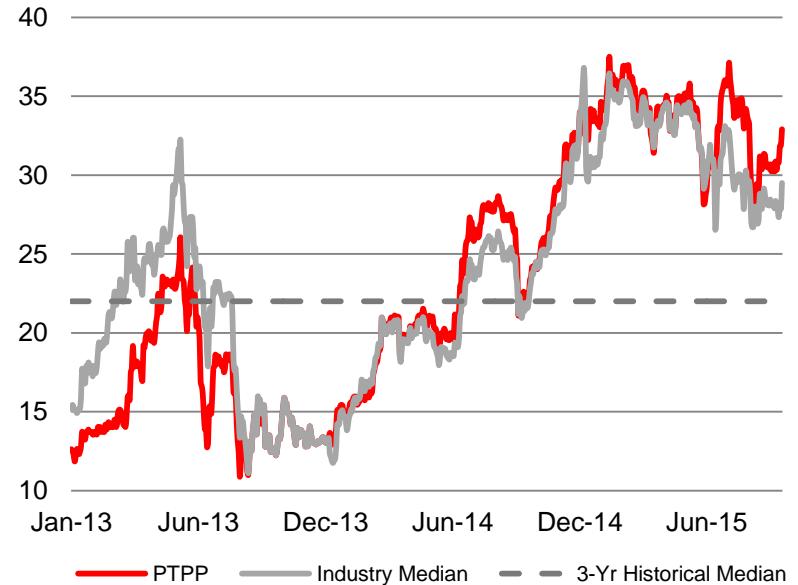
**BUY**

**Current Price: IDR 3,655 / 52-Week Target Price: IDR 4,250**

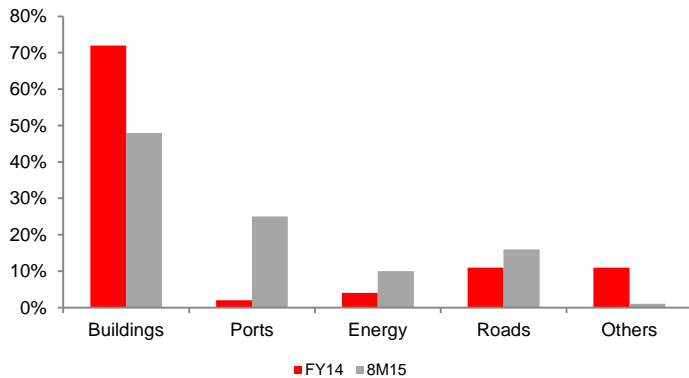
<b>Financial Highlights</b>	<b>12/14</b>	<b>12/15F</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Revenue (IDR Bn)	12,427	18,076	21,897	24,946	28,504
% growth		45%	21%	14%	14%
Gross Profit (IDR bn)	1,533	2,330	2,817	3,278	3,702
Net Profit (IDR bn)	532	810	1,099	1,352	1,488
% growth		52%	36%	23%	10%
EV/EBITDA (x)	13.8	10.7	9.7	8.2	7.3
Gross Margin (%)	12.3%	12.9%	12.9%	13.1%	13.0%
Net Margin (%)	4.3%	4.5%	5.0%	5.4%	5.2%
Return on Equity (%)	24.3%	29.8%	27.6%	24.8%	22.6%
Return on Assets (%)	3.9%	4.7%	5.0%	5.3%	5.0%

(in IDR Billion)

**Trailing PER VS Industry**

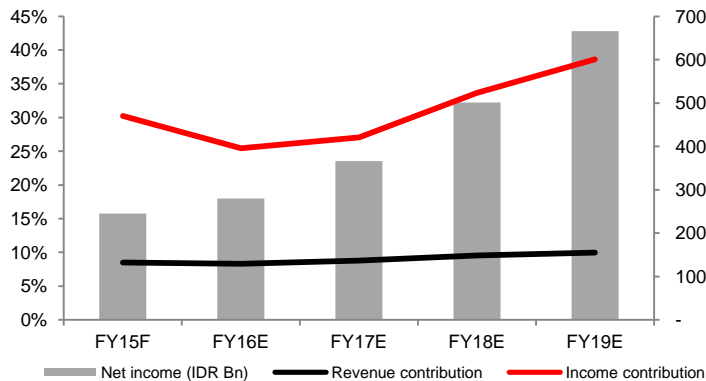


## Projects Portfolio



\*as of August 31, 2015

## Realty/Property Contribution to Total



## We favor ports and power plants over roads and buildings

- Land acquisition remains a major concern; this makes ports more feasible than power plants or toll roads
- Ports and power plants construction usually offer higher margins compared to buildings & toll roads
- Shift in projects portfolio to benefit PTPP greatly

## PP Property to show resilience despite market slowdown

- Marketing sales from middle-to-low class housing units in prospectful areas to outperform broader property market
- Grand Kamala Lagoon project in Bekasi to greatly benefit from industrial estate deregulation
- Company NAV monetization rate of 24% is way above industry median NAV monetization of 12%

Source: Company Data, Sinarmas Investment Research

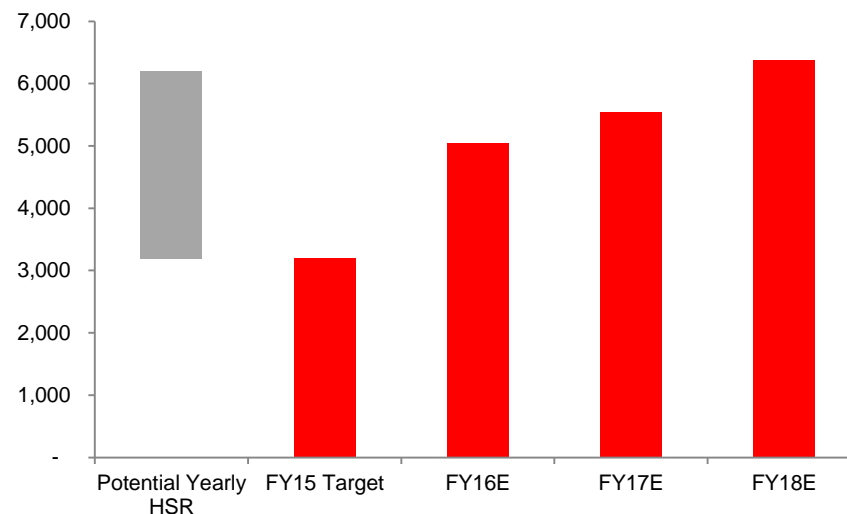
**NEUTRAL**

Current Price: IDR 955 / **52-Week TP: IDR 880**

Financial Highlights	12/13	12/14	12/15E	12/16E	12/17E
Revenue	2,644	3,277	2,525	2,829	2,923
% growth		24%	-23%	12%	3%
Gross Profit (IDR bn)	388	487	260	439	454
Net Profit (IDR bn)	241	322	155	297	309
% growth		34%	-52%	91%	4%
EV/EBITDA (x)	27.8	15.6	14.7	13.2	12.1
Gross Margin (%)	14.7%	14.9%	10.3%	15.5%	15.5%
Net Margin (%)	9.1%	9.8%	6.2%	10.5%	10.6%
Return on Equity (%)	36.2%	21.8%	6.8%	12.4%	12.0%
Return on Assets (%)	9.1%	9.6%	4.1%	7.6%	7.5%

(in IDR Billion)

**New Contracts Set to Jump**





# WTON: When a Door Closes, Another Opens

## Losing Market Share

44% of FY14 sales from infrastructure projects

18% of FY14 sales to non-WIKA SOE contractors



SOE contractors aggressively expanding precast business

We predict up to 12% market share loss in the next three years

## In-Java precast business competition



## The company must grow outside Java

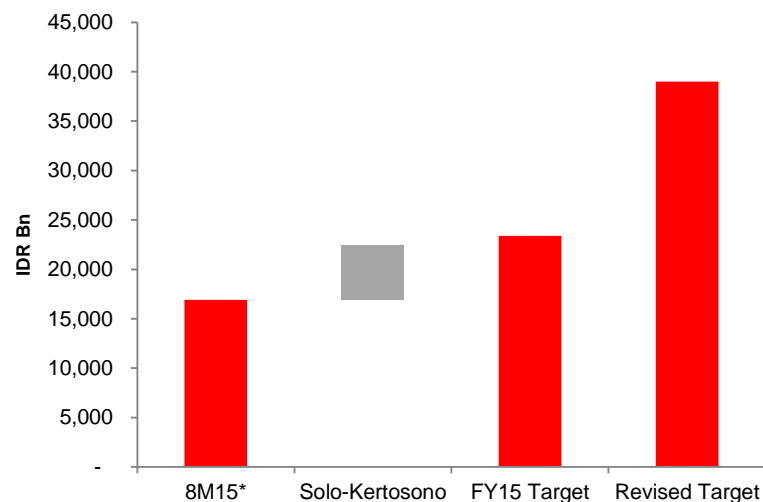


Source: Company Data, Sinarmas Investment Research

**NEUTRAL**

Current Price: IDR 1,615 / 52-Week TP: IDR 1,720

## 8M15 Contracts Achievements Impressive



\*excludes Solo-Kertosono toll project already won

## Toll Road Investments: Tough Funding?

Toll Road	Investment (IDR Bn)	WSKT Ownership	Predicted IRR
Depok-Antasari	2,900	12.5%	16.8%
Pejagan-Pemalang	5,500	100.0%	17.2%
Casablanca-Duren Jaya	9,000	60.0%	16.8%
Jasa Marga Kualanamu	4,000	15.0%	14.5%
Legundi-Bunder	5,900	48.0%	15.5%
Solo-Ngawi	5,400	40.0%	17.4%
Ngawi-Kertosono	4,100	40.0%	17.8%
Serpong-Cinere	2,500	35.0%	17.5%
Cimanggis-Cibitung	8,600	90.0%	17.3%
<b>Total</b>	<b>47,900</b>		
WSKT Portion	27,109	56.6%	16.8%
2Q15 Debt	4,696		
2Q15 Equity	7,090		
<b>Funds still required</b>	<b>15,323</b>		

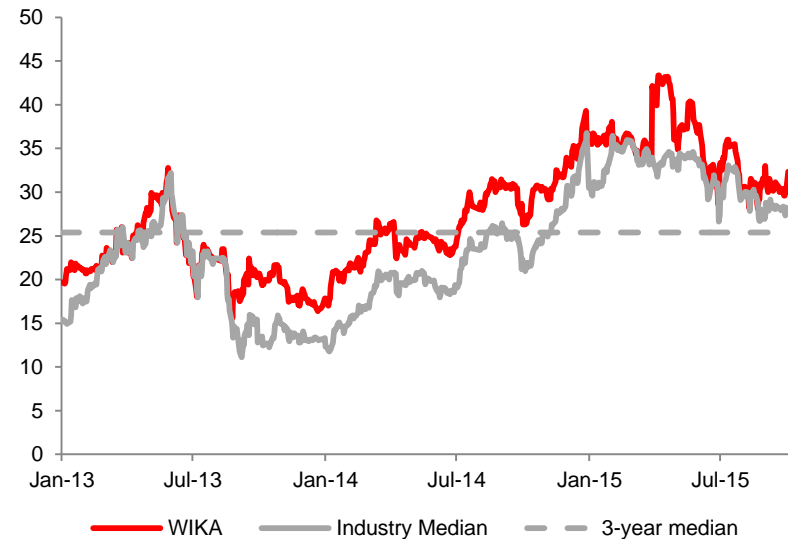
**NEUTRAL**

Current Price: IDR 2,925 / 52-Week Target Price: IDR 2,835

Financial Highlights	12/14	12/15F	12/16E	12/17E	12/18E
Revenue (IDR Bn)	12,463	12,826	14,437	16,173	19,996
% growth		3%	13%	12%	24%
Gross Profit (IDR bn)	1,794	1,774	1,936	2,313	2,630
Net Profit (IDR bn)	751	641	793	873	1,080
% growth		-15%	24%	10%	24%
Gross Margin (%)	14.4%	13.8%	13.4%	13.4%	13.2%
Net Margin (%)	6.0%	5.0%	5.5%	5.4%	5.4%
Return on Equity (%)	18.3%	14.8%	14.0%	16.3%	17.4%
Return on Assets (%)	4.7%	4.6%	4.3%	4.9%	5.2%

(in IDR Billion)

Trailing PER v.s. Industry



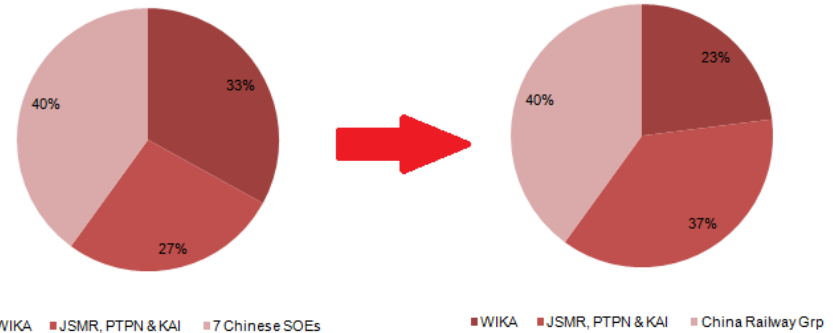
## Jakarta-Bandung High Speed Rail: Catalyst or Risk?

- Since WIKA is no longer the majority shareholder, all construction revenues **will be** included into WIKA's financial statements.

- Payback period of total investments from ticket sales is 29 years.

- Although we estimate IDR 10tn/year of added construction projects, GPM will only be ~6%, implying net margins of ~1-2%.

- Financial feasibility too dependent on TOD projects around HSR.



## Slowing non-construction segments

Segment	Δ 1H15 Income (%)	FY14 contribution
WTON	(68.5%)	53.4%
Realty	(92.5%)	16.8%

- WTON faces market share loss problems

- WIKI Realty had expanded into the high-end segment amid the property market slowdown

- We forecast FY15 revenue to grow 10% and income to fall 5% in our most **optimistic case**.

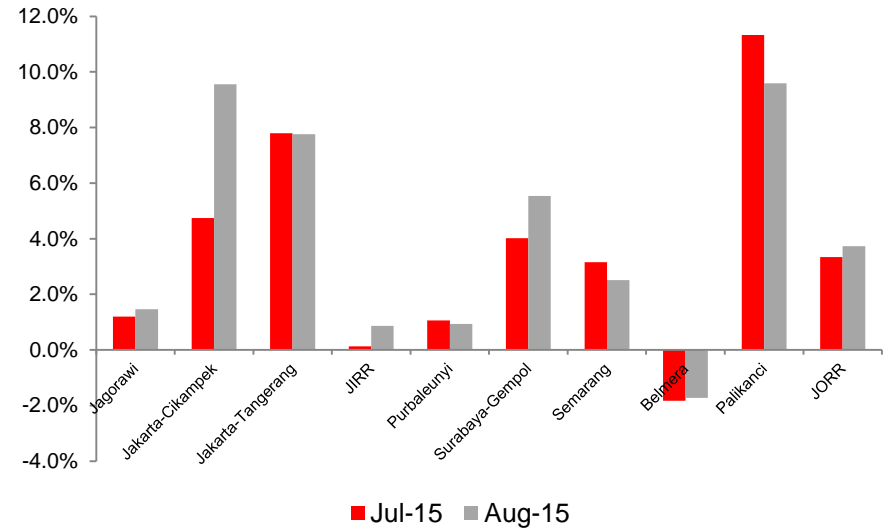
# PT Jasa Marga (Persero) Tbk (JSMR IJ)



**NEUTRAL**

Current Price: IDR 5,100 / 52-Week Target Price: IDR 5,525

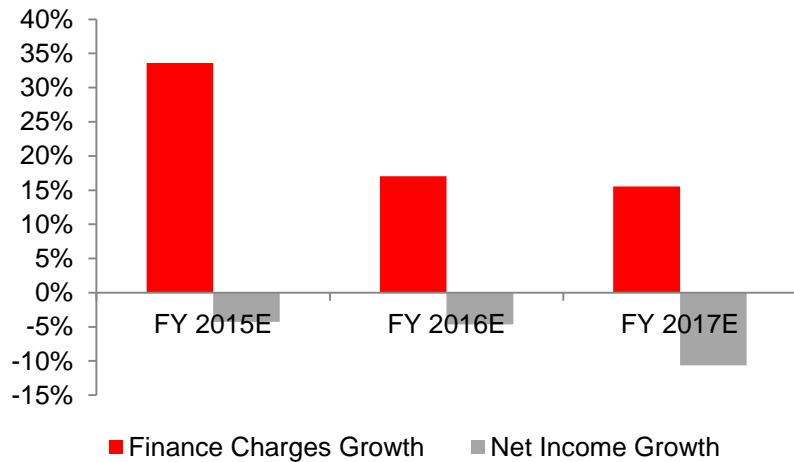
Toll traffic YoY Growth (%)



Financial Highlights	12/13	12/14	12/15F	12/16E	12/17E
Revenue ex constructi	6,311	7,229	7,797	8,593	9,436
% growth		15%	8%	10%	10%
Gross Profit (IDR bn)	2,213	3,019	3,344	3,554	3,586
Net Profit (IDR bn)	882	1,191	1,204	1,301	1,332
% growth		35%	1%	8%	2%
EV/EBITDA (x)	12.3	11.4	11.3	11.3	12.1
Gross Margin (%)	35%	42%	43%	41%	38%
Net Margin (%)	15%	18%	17%	17%	15%
Return on Equity (%)	8.7%	10.8%	10.2%	8.1%	6.5%
Return on Assets (%)	3.3%	4.0%	3.7%	3.4%	3.0%

(in IDR Billion)

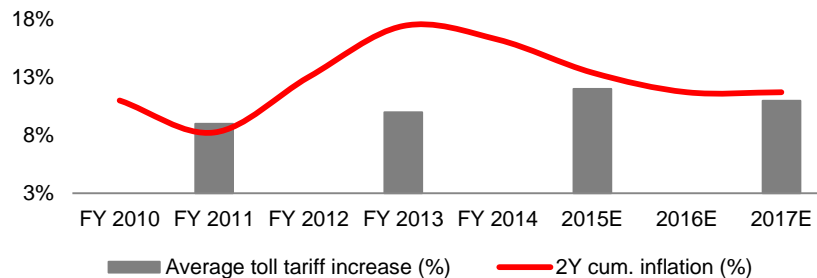
## Aggressive expansions will hurt the company in the short term



- The company must raise funds to meet its IDR 4-5tn yearly capital expenditure ambitions.

- With a rights issue in 2016 only planning to raise IDR 1.8tn, JSMR must borrow; this will cause a significant rise in interest expenses.

## High inflation beneficial for the company



## Ramadhan tariff discount to negatively affect company

Effect	Before	After
Revenue growth (%)	7.9%	6.6%
Income growth (%)	1.1%	-4.3%
Net Margin (%)	15.6%	14.8%
<b>Target price (Rp)</b>	<b>5,525</b>	<b>5,500</b>

Source: Company Data, Sinarmas Investment Research