FLASH NOTE: Company Visit WIKA/WTON

Yesterday, we attended WIKA/WTON's analyst meeting. Here are our main takeaways and views:

- **WIKA: Excellent 1H15 new order book and expansions overseas.** In 1H15, WIKA recorded 48% YoY growth in new contracts (worth Rp10.6tn from Rp7.2tn) . This figure accounted for 35% of the company's FY15 new contract guidance (v.s. industry's average 43%). These numbers do not include domestic contracts that WIKA have obtained, including involvements in consortiums in toll roads around Palembang, spanning a distance of ~120 km. Furthermore, WIKA has started to expand overseas into Malaysia, Myanmar and East Timor, and is currently awaiting license approval for expansions into Saudi Arabia. In this regard, the company forecasts overseas expansions to account for an additional Rp6-7tn in new contracts for WIKA in FY15.
- **WIKA: Remain reserved over financial feasibility of overseas projects and Jakarta-Bandung high-speed railway (HSR) uncertainties.** While the overseas projects will help WIKA diversify away from domestic construction concerns, we will choose to adopt a wait-and-see stance on their expansions to further evaluate the financial feasibility of conducting projects abroad. Meanwhile, we raise our concerns on the economic feasibility of the Jakarta-Bandung HSR project, worth up to Rp70tn, as we await the government's decision over the awardee of the project. Should China be the awardee, a joint venture will be set up with WIKA to gain at least 33% share of the new JV responsible for the construction and operation of the HSR. With no ticket tariff subsidy or APBN allocation in place for the HSR, questions remain as to whether this project would be financially beneficial for WIKA in the longer term.
- **WTON: Rapidly losing market share to competitors, yet locations ex-Java still present exciting growth opportunities.** Over the past two years, WTON has gone from prominently enjoying 60-65% market share to a company under massive threat of losing a significant portion. As of 1H15, 44% of WTON's sales have gone to infrastructure projects nationwide. Among the 44%, 26% of sales have gone to the larger state-owned contractors (i.e. ADHI, PTPP, WSKT, WIKA) with WIKA responsible for 8% of sales. This leaves 18% of sales to other state-owned contractors, all three of which now have the capability to produce very similar products to WTON's. The company forecasts that it will have to regain 12-13% of this 18% in the future as the company expects to continue to lose market share, especially in Java where other producers have multiple plants. However, outside Java, it is still currently cheaper for other contractors to buy WTON materials than to produce materials themselves. This presents very promising growth opportunities for WTON outside Java, especially with the government focusing on more rural areas.
- **Overall, we rate WIKA as a short term buy and a longer term neutral while we remain negative on WTON.** WIKA has posted very strong new order book numbers and this will help both their top and bottom line figures in the coming future. Overseas expansions will also help them mitigate domestic risks. In this regard we rate WIKA as a short term buy due to positive sentiment from its new contract numbers. **However, we still maintain a wait-and-see attitude towards developments of the HSR project and its potential impact to WIKA. As for WTON, we raise our utmost concerns over the company losing a great amount of its market share in the coming future.**

DISCLAIMER

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Additional information is available upon request.

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.