

FLASH NOTE: China to Agree to Non-Subsidized Train Projects

17 September 2015

China has agreed to build a consortium between Indonesian and Chinese SOEs in the building of fast train, electrical train and light rail transit. China will also build an aluminum smelter in Indonesia to supply raw materials for the train projects.

The Indonesian government has formed a consortium involving PT Wijaya Karya (WIKA), Jasa Marga (JSMR), Perkebunan Nusantara VIII and Inka for the fast train project from Jakarta-Bandung. WIKA will still maintain the majority share of the built consortium. The estimated total investment for this project is USD 5 bn, or around Rp 70tn.

For the fast train project, no state budget or government guarantee will be given. Our investors should note that **if the consortium will also operate the fast train**, then we reiterate our concerns over the economic feasibility of the fast train operation, especially with no government subsidy.

Previously, Indonesia scrapped bids from China and Japan for the Jakarta-Bandung train project as both parties required a form of government subsidy. It should also be noted that in the previous deal, PT Pembangunan Perumahan (PTPP) was also included in the consortium; the company has pulled out since.

Of the companies in our coverage, we maintain a NEUTRAL on PT Jasa Marga (JSMR) with a FY16E TP of IDR 5,500.

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