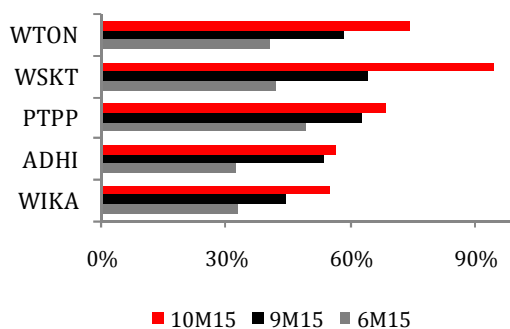
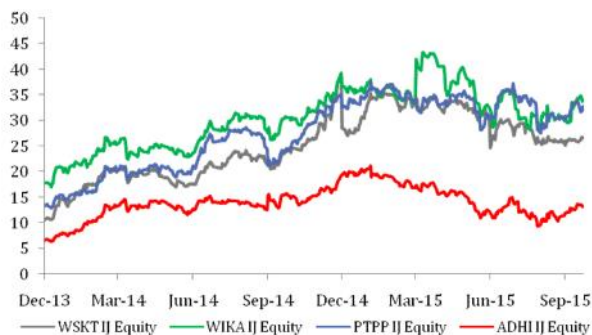


## Sectoral Update

**Construction & Building Materials**
**Remain Upbeat on Contractors**
**BUY**

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**Contracts as % of FY target**

**Industry Trailing PER (x)**


We continue to recommend a strong **BUY** on the Indonesian construction sector, owing to improvements in the state capital spending budget absorption and as SOE contractors' FY15 new contract targets now look much more realizable.

**10M15 capital spending absorption supports an upbeat Q4 15 for SOE contractors.** Total funds disbursed by the Ministry of Public Works reached 48.5% of the total year target in 10M15, a significant improvement from the 14% of total infrastructure spending disbursed by 7M15. Also, building material company WIKA Beton has recorded additional 50% worth of contracts from Aug '15 to Oct '15 of ~Rp 800bn. These factors support the notion that infrastructure project execution is starting to kick off in what has historically been SOE contractors' strongest quarter.

**New contracts target look very achievable across the board.** WSKT's 10M15 contracts are +90% YoY to Rp 26.6tn, representing 95% of the company's target. WIKA is currently in the tendering process of various megaprojects that, if successful, could post numbers that surpass their initial estimates. ADHI, although only achieving Rp 10.6tn in contracts (or 57% of its FY target), has not included a potential ~Rp 24tn in LRT construction contracts, which the company expects to include in its FY15 numbers. In the coming few months, contracts awarding should pick up pace as there is still currently ~Rp 21 tn worth of projects currently being tendered and expected to be awarded soon. This amount does not include potential contract awards that are to be awarded by immediate appointment.

**Reiterate ADHI and WTON as our sectoral top picks (30% and 34% upside potential respectively); WSKT least upside potential.** ADHI and WTON will be greatly benefited from various megaprojects going into FY16 onwards. The two companies will be greatly benefited from megaprojects that will multiply the sizes of contracts that they have received in the past. Earnings visibility of megaprojects will also be easier to follow, improving transparency. On the other hand, we least favor WSKT as the majority of its projects remain in toll road construction & potential operation, as the construction process & potential operation of toll roads generally incur huge initial setbacks.

Company	Rec.	TP	New Contracts (IDR Bn)			C/F	Change		P/E (x)	
			10M14	9M15	10M15		MoM (%)	YoY (%)	FY15F	FY16E
ADHI	<b>TOP PICK</b>	2,950	5,300	10,100	10,600	57%	5%	100%	13.0	14.1
WTON	<b>TOP PICK</b>	1,225	N/A	1,933	2,460	75%	27%	N/A	40.2	24.0
WSKT	NEUTRAL	1,870	14,010	18,000	26,600	95%	48%	90%	28.8	25.8
PTPP	BUY	4,555	14,500	16,960	18,600	69%	10%	28%	23.4	17.7
WIKA	BUY	3,580	13,522	14,092	17,520	55%	24%	30%	29.4	22.4

Source: Company Data, Sinarmas Investment Research

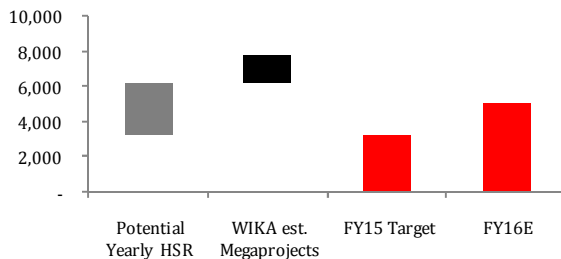
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## Our Recommendations

### Top Picks

**Very attractive valuations & secured megaproject should provide very decent upside for the stock...**

#### Precast Demand Estimates (IDR Bn)



*WIK A Beton is the beneficiary of megaproject undertaking by its parent, PT Wijaya Karya (WIK A).*

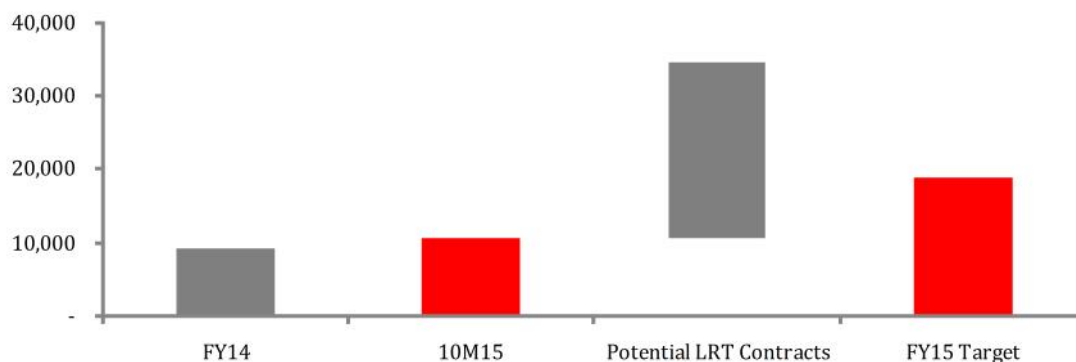
**By tilting towards a toll road investor & operator, WSKT will sacrifice its earnings in the first few years of operations.**

- **PT Adhi Karya (Persero) Tbk (ADHI):** At current valuations, ADHI remains our sectoral top pick as it moves on with the construction of the Jakarta LRT, and with the potential of additional government infrastructure projects in the future. The Jakarta LRT is projected to bring in ~IDR 8tn in revenues annually from FY16 to FY18 ; by comparison, FY14/FY15F revenues are forecasted to be IDR 8.6/8.8tn. ADHI has also won various government project tenders, including part of the Solo-Kertosono toll road construction work. This opens up the possibility of additional government projects in the future. At 13x/14x FY15F/16E P/E, ADHI is currently trading at a 52% discount to the sector. We believe that in the future valuations should catch up with its peers over better earnings visibility and contracts achievements, providing a very decent upside for the stock.

- **PT Wijaya Karya Beton Tbk (WTON):** At current levels, we believe that WTON is seriously underpriced. Having already corrected > 40% from its 52-week high, we feel that WTON should be rewarded more with the potential of huge new contracts stemming from megaprojects undertaken by its parent, WIK A. For instance, we project the Jakarta-Bandung high speed rail to bring in ~Rp3 tn in new contracts annually from FY16 to FY18; by comparison, FY14 total new contracts amounted to IDR 2.6tn. WIK A is also involved in major power plant projects, where precast demand is expected to reach ~IDR 5tn over the next three years. WTON's lackluster 1H15 performance has also seemed to bottom out, 2H15TD contracts almost equaling 1H15 total contracts.

### Waskita Has Been Priced to Perfection

- **PT Waskita Karya (Persero) Tbk (WSKT):** WSKT has been the standout performer YTD, achieving 95% of its year end target. The company has also been appointed to construct a ~Rp 5tn LRT project in Palembang. However, among our picks in the sector, we least favor WSKT in the longer term as its toll roads will continue to be a drag on earnings. We forecast that from FY17E onwards, the company (along with its subsidiaries) will be subject to ~Rp 750bn in depreciation expenses annually. If the company can successfully diversify out of its traditional toll roads business, we believe that there is upside potential in the stock. However, we maintain our stance that the company will continue to grow its toll road business and hence its huge potential in the pure construction business will be partially impaired.

**Adhi Karya: 10M15 New Contract Wins Already Surpassing FY14 Achievements**


Income Statement (in IDR Mn)	2013	2014	2015F	2016E	2017E
<b>Revenues</b>	<b>9,799,598</b>	<b>8,653,578</b>	<b>8,846,500</b>	<b>15,907,460</b>	<b>19,736,557</b>
Cost Of Revenues	(8,606,444)	(7,655,377)	(7,700,732)	(13,955,214)	(17,351,052)
<b>Gross Profits</b>	<b>1,193,155</b>	<b>998,202</b>	<b>1,145,768</b>	<b>1,952,246</b>	<b>2,385,505</b>
Joint Ventures Income	54,557	18,387	18,797	33,799	41,935
<b>Gross Profits incl. Joint Ventures</b>	<b>1,247,711</b>	<b>1,016,588</b>	<b>1,164,565</b>	<b>1,986,046</b>	<b>2,427,440</b>
Interest Income	32,515	33,425	18,257	39,642	57,909
Total Gains (Losses)	120,331	100,280	102,515	184,340	228,712
General/Admin Expenses	(309,990)	(344,581)	(322,909)	(574,738)	(729,611)
Selling Expenses	(18,971)	(16,598)	(21,208)	(35,680)	(41,912)
<b>Operating Income</b>	<b>822,702</b>	<b>738,267</b>	<b>803,678</b>	<b>1,406,203</b>	<b>1,721,456</b>
Interest Expense	(107,919)	(136,530)	(154,015)	(279,104)	(347,021)
<b>Income Before Tax</b>	<b>714,365</b>	<b>594,553</b>	<b>649,663</b>	<b>1,127,099</b>	<b>1,374,435</b>
Tax Expenses	(305,927)	(267,896)	(294,810)	(515,282)	(614,991)
<b>Income For The Year</b>	<b>408,438</b>	<b>326,657</b>	<b>354,853</b>	<b>611,817</b>	<b>759,444</b>

**Valuations**

Ratios	FY15F	FY16E	FY17E	FY18E	FY19E
<b>Profitability</b>					
Gross margin	13.0%	12.3%	12.1%	12.0%	12.1%
Net margin	4.0%	3.8%	3.8%	3.8%	3.7%
<b>Liquidity</b>					
Current Ratio (x)	1.29	1.30	1.21	1.22	1.23
<b>Valuations</b>					
P/E (x)	12.98	14.12	11.22	10.92	11.87

FY15/16 CAGR EPS	30%	37%	40%	50%	60%
<b>PER as % of industry</b>					
<b>30%</b>	1,615	1,702	1,739	1,864	1,988
<b>52%</b>	2,800	<b>2,950</b>	3,015	3,230	3,446
<b>60%</b>	3,230	3,404	3,479	3,727	3,976
<b>80%</b>	4,307	4,539	4,638	4,970	5,301
<b>100%</b>	5,384	5,674	5,798	6,212	6,626

**Waskita Karya: Higher stakes in toll roads will hurt earnings from FY17E**

Toll Road Investments	Investment (IDR Bn)	WSKT Ownership	Construction cost	Invested Amount
Depok-Antasari	2,900	25.0%	2,000	725
Kanci-Pemalang	9,875	100.0%	3,900	9,875
Becakayu	9,000	60.0%	6,800	5,400
Jasa Marga Kualanamu	4,000	30.0%	3,100	1,200
Legundi-Bunder	5,900	48.0%	3,200	2,832
Solo-Ngawi	5,400	40.0%	3,600	2,160
Ngawi-Kertosono	4,100	40.0%	1,400	1,640
Serpong-Cinere	2,500	35.0%	1,200	875
Cimanggis-Cibitung	8,600	90.0%	6,700	7,740
<b>Total</b>	<b>52,275</b>			
<b>Portion attributable to WSKT</b>	<b>32,447</b>	<b>62.1%</b>		

Income Statement (in IDR Mn)	2013	2014	2015F	2016E	2017E
<b>Revenues</b>	<b>9,686,610</b>	<b>10,286,813</b>	<b>16,619,179</b>	<b>19,388,342</b>	<b>22,800,388</b>
Cost Of Revenues	(8,775,914)	(9,177,917)	(14,717,938)	(17,170,393)	(20,147,111)
Joint Venture Income	101,675	197,116	297,597	446,396	486,572
<b>Gross Profits incl. Joint Ventures</b>	<b>1,012,371</b>	<b>1,306,012</b>	<b>2,198,838</b>	<b>2,664,345</b>	<b>3,139,848</b>
Selling Expenses	(23,894)	(25,516)	(39,115)	(47,183)	(55,234)
General/Admin Expenses	(316,290)	(405,043)	(706,608)	(907,990)	(1,458,624)
Other Income/Expenses	34,712	63,930	109,884	106,055	139,057
<b>EBIT</b>	<b>706,899</b>	<b>939,383</b>	<b>1,563,000</b>	<b>1,815,227</b>	<b>1,765,047</b>
Interest Expense	(96,851)	(183,596)	(212,825)	(309,546)	(386,546)
Loss from unconsolidated toll roads	-	-	-	(135,000)	(564,300)
<b>Income Before Tax</b>	<b>611,201</b>	<b>755,602</b>	<b>1,350,175</b>	<b>1,370,681</b>	<b>814,201</b>
Income Tax Expenses	(243,230)	(254,389)	(540,070)	(548,272)	(325,680)
<b>Net Income</b>	<b>367,970</b>	<b>501,213</b>	<b>810,105</b>	<b>822,409</b>	<b>488,521</b>

**At current levels, FY17E valuations onwards to be stretched**

Ratios	2015F	2016E	2017E	2018E	2019E
<b>Profitability</b>					
ROE	15.1%	10.0%	5.6%	7.4%	7.8%
ROA	4.9%	3.8%	1.9%	2.3%	2.5%
Gross margin	11.4%	11.4%	11.6%	11.8%	11.7%
Net margin	4.9%	4.2%	2.1%	2.6%	2.7%
<b>Solvency</b>					
D/E (x)	0.47	0.38	0.73	0.61	0.66
<b>Valuations</b>					
P/E (x)	28.81	28.38	47.77	34.70	30.70
P/BV (x)	2.97	2.74	2.64	2.48	2.33
EV/EBITDA (x)	13.09	12.23	11.60	11.20	11.60

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