

WIKA 9M15 Update—Core Businesses Picking Up; Still Largely a Waiting Game

- WIKA's 9M15 results show clear signs of improvement.** WIKA's 9M15 revenue/net income decreased 6%/13% YoY, albeit a strong showing from the infrastructure/energy segments which grew 15% YoY. Together, these two segments made up 74% of total sales. The biggest drag on results were the precast and realty segments, with precast sales falling 33% YoY. Despite the bad news, in our view WIKA's top and bottom lines should have bottomed, as results came in a significant improvement from their 1H15 results (figure at the bottom of page). Going forward, we project the precast division sales to pick up on the back of positive trickle-down effects from nationwide megaprojects and a pick up in infrastructure execution. The infrastructure/energy segments, WIKA's core segments, should also see solid growth as new contract achievements grow at a solid pace YoY.
- Currently still waiting on tender wins of multiple projects to fulfill their year-end new contracts target.** As of 10M15, WIKA only booked new contracts of Rp 17.5tn, or 55% of the company's FY15 target. The company is still waiting on multiple tenders across the field to fulfill this target, including the tender of construction works of Jawa-5 2GW power plant (est. Rp10tn to be announced in mid-December), various oil & gas projects (est. USD 300mn) and also an est. Rp 2.3tn seaport project. The company is also waiting for an approval of its Rp 4tn state budget injection to be finalized in the 2016 revised state budget, with the company expecting to raise a total of ~Rp6.2tn from its planned rights issue next year. We are optimistic on WIKA's chances of winning most of the tenders, especially the megaprojects, as WIKA has both expertise and part ownership in the said megaprojects.
- WIKA set to book ~Rp 30tn in new contracts in FY16 from Jakarta-Bandung high speed train.** From our channel checks, WIKA will be the main contractor of the Jakarta-Bandung high speed train directly appointed by PT Pilar Sinergi BUMN Indonesia (consortium that owns the Jakarta-Bandung train). The estimated construction contracts to be gained by this project will be ~Rp 30tn, with ~Rp 9tn of precast required. However, the risks associated with this project cannot be ignored, including: i) lower-than-normal construction margins as WIKA owns 38% of the consortium, ii) legal & operational execution risks and iii) financial feasibility of operating this non-subsidized rail at current planned ticket prices. **Maintain BUY at 52-week target price of Rp 3,580 despite potential shorter term uncertainties.**

In IDR Bn	Results				Growth (%)	
	1H14	9M14	1H15	9M15	1H15 YoY	9M15 YoY
Revenue	5,852.9	8,605.4	4,778.5	8,091.5	-18%	-6.0%
Gross Profit	668.7	939.5	496.3	979.1	-26%	4.2%
Interest Expense	(49.5)	(91.9)	(103.6)	(263.2)	109%	186.5%
Net Income	282.7	484.5	200.5	420.9	-29%	-13.1%

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