

**Company Update**
**Henny Indrawati**

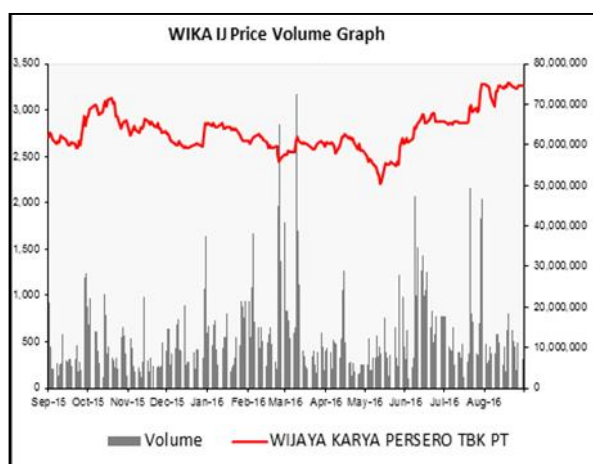
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PT Wijaya Karya (Persero) Tbk is a construction based company primarily engaged in construction, EPC, industry and real estate development. The company also invests in power plants and manufactures industrial precast concrete.

**Current Price: IDR 3,240**
**52-Week Target Price: IDR 3,700**
*Previous Target Price: IDR 2,780*

**Share Price Performance**

Price (IDR)	3,240
52-Week High (08/05/16)	3,390
52-Week Low (05/20/16)	2,200
52-Week Beta	1.25
YTD Change/%	610.00/23.11%

**Stock Information**

Market Cap (IDR)	19,985.0B
Shares Out/Float (M)	5149.2M/2,147.7M

**PT Wijaya Karya (Persero) Tbk (WIKA)**
**High Risk, High Reward**
**NEUTRAL**

We reiterate our NEUTRAL call on PT Wijaya Karya (Persero) Tbk with 52-week target price of IDR 3,700 (14.2% upside) as we roll over our valuation base to FY17E, deriving via P/E method. Our new TP implies FY17E P/E of 23.7x (WIKA's five-year historical mean). On our view, WIKA's FY16 earnings performance will be contingent upon the HSR execution progress since WIKA expects to book ~18% of targeted HSR new contract as revenue in FY16. As a result, any delay from the prior schedule will create a downside risk on management's guidance.

**Increase in GPM across all business segments but partially compensate by higher financing cost.** At 2Q16, GPM on all business segments indicate some improvements, leading to 1H16 GPM of 12.1% (vs. 10.4% in 1H15). GPM on infrastructure and building segment increased to 13% in 2Q16 (vs. 9.6% in 1Q16) where WIKA's 1H16 revenue mostly came from this segment, accounted for 52% of total revenue. However, WIKA's 1H16 net margin only grew moderately by only 0.02% to 4.3% (vs. 4.2% in 1H15) due to higher interest expense. WIKA's 1H16 net gearing ratio is 0.69 (vs. 0.42 in 1H15).

**Keep an eye on HSR project execution.** The HSR project has been running behind the schedule since the groundbreaking in January 2016 where the most important thing to watch is the signing of financial closure with China Development Bank (CDB). According to company's guidance in which the gross margin from HSR project is most likely to stand at ~9%, coupled with low IRR of ~10%, TOD plans are crucial to drive any possible long-term returns on the project. TOD Walini is the one that need to be closely watched since it is the largest township project with total area of 2,900 ha. Regarding to HSR project, WIKA will not use the proceeds of IDR 6.1 tn from the upcoming right issue.

**Gain momentum on new contract achievement.** At 7M16, WIKA's new contract has increased by 100% YoY to IDR 22,735 bn, translated into 43% of target FY16E excluding HSR project which represents a positive sign since its new contract target is the highest among its peers (67% YoY).

The risk to our call: 1) Further delay on HSR project execution, 2) Government budget cuts, 3) Potential right issue

Financial Highlights	2014	2015	2016E	2017F	2018F
Revenue (IDR Bn)	12,463	13,620	18,405	24,867	28,430
% growth		9%	35%	35%	14%
Gross Profit (IDR bn)	1,425	1,655	2,267	3,007	3,466
Net Profit (IDR bn)	615	625	787	1,128	1,217
% growth		2%	26%	43%	8%
EV/EBITDA (x)	20.7	12.4	11.4	8.8	8.1
Gross Margin (%)	11.4%	12.1%	12.3%	12.1%	12.2%
Net Margin (%)	4.9%	4.6%	4.3%	4.5%	4.3%
ROE	14.7%	13.3%	14.4%	17.6%	19.0%
ROA	3.5%	2.8%	2.7%	3.1%	3.4%

*Source: Company Data, Sinarmas Investment Research*

**Appendix I: 1H16 Income Statement**

Income Statement (IDR Bn)	2Q15	1Q16	2Q16	QoQ	YoY	1H15	1H16	YoY
<b>Revenue</b>	<b>2,773</b>	<b>2,983</b>	<b>3,051</b>	<b>2%</b>	<b>10%</b>	<b>4,778</b>	<b>6,034</b>	<b>26%</b>
Infrastructure and Building	1,365	1,338	1,848	38%	35%	2,092	3,186	52%
Energy and Industrial Plant	733	561	510	-9%	-30%	1,407	1,071	-24%
Industry	496	783	682	-13%	37%	1,010	1,465	45%
Realty and Property	137	173	138	-20%	0%	269	311	16%
Elimination	41	128	(128)	-200%	-410%	-	-	-
<b>COGS</b>	<b>2,462</b>	<b>2,691</b>	<b>2,612</b>	<b>-3%</b>	<b>6%</b>	<b>4,282</b>	<b>5,303</b>	<b>24%</b>
Infrastructure and Building	1,251	1,209	1,608	33%	29%	1,916	2,817	47%
Energy and Industrial Plant	641	514	458	-11%	-29%	1,258	972	-23%
Industry	419	690	564	-18%	35%	891	1,254	41%
Realty and Property	109	150	110	-27%	0%	218	260	19%
Elimination	41	128	(128)	-200%	-410%	-	-	-
<b>Gross Profit</b>	<b>311</b>	<b>292</b>	<b>439</b>	<b>50%</b>	<b>41%</b>	<b>496</b>	<b>730</b>	<b>47%</b>
<b>EBIT</b>	<b>262</b>	<b>235</b>	<b>382</b>	<b>63%</b>	<b>46%</b>	<b>414</b>	<b>616</b>	<b>49%</b>
<b>PBT</b>	<b>232</b>	<b>172</b>	<b>171</b>	<b>0%</b>	<b>-26%</b>	<b>347</b>	<b>343</b>	<b>-1%</b>
<b>Net Income</b>	<b>139</b>	<b>72</b>	<b>185</b>	<b>158%</b>	<b>33%</b>	<b>200</b>	<b>257</b>	<b>28%</b>
<b>Gross Margin</b>	<b>11.2%</b>	<b>9.8%</b>	<b>14.4%</b>			<b>10.4%</b>	<b>12.1%</b>	
<b>EBIT Margin</b>	<b>9.4%</b>	<b>7.9%</b>	<b>12.5%</b>			<b>8.7%</b>	<b>10.2%</b>	
<b>Net Margin</b>	<b>5.0%</b>	<b>2.4%</b>	<b>6.1%</b>			<b>4.2%</b>	<b>4.3%</b>	
<b>GPM Infrastructure and Building</b>	<b>8.4%</b>	<b>9.6%</b>	<b>13.0%</b>			<b>8.4%</b>	<b>11.6%</b>	
<b>GPM Energy and Industrial Plant</b>	<b>12.5%</b>	<b>8.3%</b>	<b>10.2%</b>			<b>10.6%</b>	<b>9.2%</b>	
<b>GPM Industry</b>	<b>15.7%</b>	<b>11.9%</b>	<b>17.3%</b>			<b>11.8%</b>	<b>14.4%</b>	
<b>GPM Realty and Property</b>	<b>20.3%</b>	<b>13.3%</b>	<b>20.3%</b>			<b>19.0%</b>	<b>16.4%</b>	

Source: Company Data, Sinarmas Investment Research

**Appendix II: HSR Funding Profile**

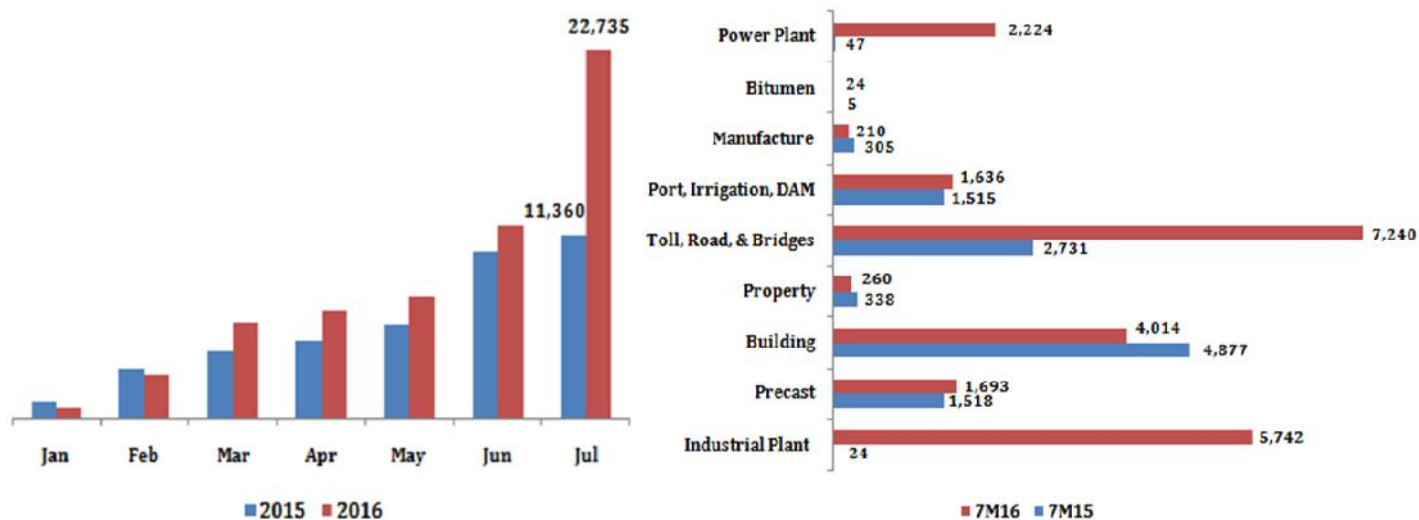

Source: Company Data, Sinarmas Investment Research

**Appendix III: The Right Issue Scheme**

<b>Assumptions</b>	
Outstanding shares (bn)	6.10
New shares (bn)	4.03
Government injection (IDR bn)	4,000
Total Proceeds (IDR bn)	6,149
Current Price (06/09/2016) (IDR)	3,270
<b>Scen. 1</b>	
Theoretical ex-rights price (TERP)* (IDR)	2,576
Exercise Price (IDR)	1,526
<i>Discount to current price</i>	<i>-53.34%</i>
<i>Discount to TERP</i>	<i>-40.77%</i>
Outstanding shares post rights (bn)	10.13

\*assuming current price = cum price

Source: Company Data, Sinarmas Investment Research

**Appendix IV: New Contract Achievement (7M16) (in bn)**


Source: Company Data, Sinarmas Investment Research

**Appendix V: Financial Ratios**

Financial Ratios	2014	2015	2016E	2017E	2018E
P/E	37.15	25.93	25.31	17.67	16.38
P/B	5.82	3.71	3.21	2.74	2.36
EV/EBITDA	20.68	12.43	11.44	8.79	8.09
ROE	14.7%	13.3%	14.4%	17.6%	19.0%
ROA	3.5%	2.8%	2.7%	3.1%	3.4%
Debt/Equity (DER)	0.60	0.63	1.06	1.19	1.29

Source: Company Data, Sinarmas Investment Research

**Appendix VI: Financial Statements**

<b>Income Statement (in IDR Bn)</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
<b>Revenues</b>	<b>12,463</b>	<b>13,620</b>	<b>18,405</b>	<b>24,867</b>	<b>28,430</b>
Cost Of Sales	11,039	11,965	16,137	21,860	24,964
<b>Gross Profit</b>	<b>1,425</b>	<b>1,655</b>	<b>2,267</b>	<b>3,007</b>	<b>3,466</b>
Joint Venture Income	370	288	324	532	603
<b>Gross Profit Incl Joint Venture</b>	<b>1,794</b>	<b>1,943</b>	<b>2,591</b>	<b>3,539</b>	<b>4,068</b>
Selling Expenses	(7)	(8)	(12)	(15)	(17)
General And Administrative Expenses	(387)	(421)	(519)	(610)	(703)
<b>Operating Income</b>	<b>1,401</b>	<b>1,514</b>	<b>2,060</b>	<b>2,913</b>	<b>3,349</b>
Interest Income	73.5	59.7	75.3	81.5	99.8
Financial Charges	(197.7)	(431.4)	(500.9)	(760.0)	(976.2)
Total Gains/Losses	(8.7)	22.8	32.8	46.2	53.7
Other Income/Expenses	(122.2)	(66.9)	(196.6)	(247.1)	(264.8)
<b>Profit Before Tax</b>	<b>1,145.89</b>	<b>1,098.08</b>	<b>1,470.49</b>	<b>2,034.14</b>	<b>2,261.22</b>
Tax Expenses	(395.09)	(395.08)	(552.14)	(746.02)	(852.90)
Minority Interest	(136)	(78)	(131)	(160)	(192)
<b>Net Income</b>	<b>615</b>	<b>625</b>	<b>787</b>	<b>1,128</b>	<b>1,217</b>
<b>EPS (Rp.)</b>	<b>100</b>	<b>102</b>	<b>128</b>	<b>183</b>	<b>198</b>

<b>Balance Sheet (in IDR Bn)</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
<b><u>Current Assets</u></b>					
Cash and Cash Equivalents	2,301	2,560	2,811	3,094	4,102
Total Receivables	2,639	3,836	4,216	6,113	7,099
Inventories	817	1,031	1,293	1,818	2,038
Amount Due From Customers	2,370	3,244	3,641	5,190	6,110
Prepaid Taxes	426	529	673	904	1,072
<b>Total Current Assets</b>	<b>9,514</b>	<b>12,560</b>	<b>14,317</b>	<b>19,443</b>	<b>23,095</b>
Fixed Assets - Net	2,676	3,184	5,790	6,772	8,486
Investments	2,288	2,290	2,832	3,722	4,291
<b>Total Assets</b>	<b>15,915</b>	<b>19,602</b>	<b>24,859</b>	<b>32,698</b>	<b>38,958</b>
<b><u>Current Liabilities</u></b>					
Total Payables	4,160	4,619	5,534	7,578	8,835
Unearned Revenue	179	407	227	297	321
Short Term Debt	1,691	1,796	1,796	1,796	1,796
<b>Total Current Liabilities</b>	<b>8,476</b>	<b>10,598</b>	<b>11,725</b>	<b>15,468</b>	<b>17,934</b>
Total Loans - net	1,275	1,646	4,781	6,829	9,104
<b>Total Liabilities</b>	<b>10,936</b>	<b>14,164</b>	<b>18,660</b>	<b>25,436</b>	<b>30,532</b>
<b><u>Equity</u></b>					
Share Capital & APIC	1,331	1,331	1,331	1,331	1,331
Retained Earnings	1,518	2,013	2,643	3,545	4,518
<b>Total Liabilities &amp; Equity</b>	<b>15,915</b>	<b>19,602</b>	<b>24,859</b>	<b>32,698</b>	<b>38,958</b>

<b>Cash Flow (in IDR Bn)</b>	<b>2,014</b>	<b>2,015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
<b>Net Income</b>	<b>615</b>	<b>625</b>	<b>787</b>	<b>1,128</b>	<b>1,217</b>
Depreciation	188	234	247	261	276
Working Capital	(718)	(770)	(379)	(1,099)	(178)
<b>Operating Cash Flow</b>	<b>816</b>	<b>175</b>	<b>776</b>	<b>437</b>	<b>1,500</b>
Capital Expenditure	(1,223)	(742)	(2,853)	(1,243)	(1,990)
<b>Investing Cash Flow</b>	<b>(1,624)</b>	<b>(152)</b>	<b>(3,503)</b>	<b>(1,976)</b>	<b>(2,524)</b>
Debts	1,296	475	3,135	2,048	2,275
Dividends	(299)	(130)	(157)	(226)	(243)
<b>Financing Cash Flow</b>	<b>1,722</b>	<b>236</b>	<b>2,978</b>	<b>1,822</b>	<b>2,032</b>

Source: Company Data, Sinarmas Investment Research

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