

Company Update
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PT Wijaya Karya Beton Tbk (WTON) is an Indonesian-based company primarily involved in the manufacturing of precast concrete. The company mainly produces prestressed concrete poles, prestressed concrete piles, concrete open channels and bridge girders.

Current Price: IDR 995
52-Week Target Price: IDR 1,225
HSR & LRT Total Precast Needs (IDR bn) 10,400

	FY15F	FY16E	FY17E
Without LRT & HSR			
New Contracts (IDR bn)	3,200	4,170	5,100
Total Utilization Rate (%)	78%	82%	80%
Revenue growth (%)	-23%	11%	11%
EPS growth (%)	-36%	24%	15%
With LRT & HSR			
New Contracts (IDR bn)	3,200	5,000	5,800
Total Utilization Rate (%)	78%	110%	109%
Revenue growth (%)	-23%	50%	12%
EPS growth (%)	-36%	65%	15%

Financial Highlights	12/15F	12/16E	12/17E
Revenue (IDR bn)	2,525	3,787	4,239
% growth	-23%	50%	12%
Gross Profit (IDR bn)	347	499	563
Net Profit (IDR bn)	208	342	392
% growth	-36%	65%	15%
EV/EBITDA (x)	25.7	18.4	16.3
P/E (x)	46.8	28.2	24.6
Gross Margin (%)	14%	13%	13%
Net Margin (%)	8%	9%	9%
Return on Equity (%)	9%	14%	15%
Return on Assets (%)	6%	8%	9%

Source: Bloomberg, Sinarmas Investment Research

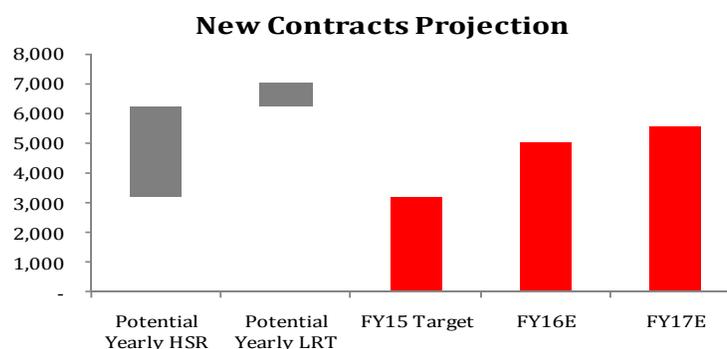
PT Wijaya Karya Beton Tbk (WTON)
A Major Beneficiary
BUY

We upgrade PT Wijaya Karya Beton Tbk (WTON) to a BUY, with a 52-week target price of Rp. 1,225/share, implying a 23% upside from the current price. At these forecasts this would imply a forward P/E of 31x (v.s. TTM P/E of 36x) as we forecast net income to increase by 65%/15% in FY16E/FY17E as the company looks to benefit from increased precast demand from the Jakarta-Bandung high speed rail project (HSR) and the Light Rail Transit project (LRT). We forecast a total demand for precast products to be around IDR 10.4tn over three years from the two megaprojects in West Java and Jakarta, where the company's operations have previously slowed due to increased competition.

Company's Java operations to be significantly boosted by two megaprojects. The company's operations in Java, which accounted for 60%/53% of total revenue in FY14/FY15F, had been under major concern due to market share loss. Utilization rates of factories in and around the area had fallen from 90% to c.66% in Java from FY14 to 1H15 as more contractors become more self-sufficient with precast products and government budget absorption had been below expectations. With the approval of both the LRT and HSR projects from FY16 to FY18-19, we expect a pickup in the company's Java plants' activities.

Bad news looks to be priced in. In our opinion, news of the company's lackluster 1H15 performance, which saw revenues decrease 47% YoY, and also news of the company losing market share to other SOE contractors have been priced in. The stock price has corrected c.32% since its Feb '15 high. We believe that there is upside for the share price as government-related projects start to kick off mid-3Q15 into 4Q15.

Expect share price to overshoot on positive sentiment. We believe that the company's share price can overshoot over our fundamental target price as optimism grows over the potential of the whole precast industry. However, project construction execution smoothness still remains our key risk for the company in the medium term.



Source: Company Data, Sinarmas Investment Research

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