

Indonesia Industry Focus

Indonesia Infrastructure

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 May 2015

Time to deliver

- **May be biggest beneficiary of Jokowi's reforms**
- **Strong expectations for rollout in 3Q this year**
- **But there are lingering challenges**
- **Top picks: Buy PTPP, WTON; Sell cement players**

A promising start. Indonesia's infrastructure sector appears to be the biggest beneficiary of Jokowi's reforms. The most visible changes are in i) fuel subsidies, ii) capital injections, and iii) revisions to the land bill. The channelling of fuel subsidies to fund infrastructure was a good start. SOE contractors should be direct beneficiaries of the increase in infra spending (50% more than original budget, almost double last year's budget), if it materialises. Jokowi's 5-year development plan (RPJMN) that will cost Rp5,519tr bears some similarities with the MP3EI but is more focused and 60% is skewed towards energy, maritime and roads.

All eyes on 3Q rollout. There are strong expectations from contractors for the Rp290tr APBN-P budget to be rolled out next quarter. The initial March deadline was unrealistic; part of the delay is related to the finalisation of officers within the Ministries, which has been resolved. Most of the contractors are retaining their guidance, and will only revise them in 3Q15 if projects are still not forthcoming.

Need more capital. SOE contractors would need more capital to participate in the expected surge in infrastructure projects. WSKT's upcoming rights issue will raise Rp5.3tr (c.30% of its market cap), while WIKA and PTPP have hinted at raising funds next year for investment projects.

Lingering challenges. 1) Despite revisions, the land acquisition bill remains the biggest obstacle to infrastructure development. 2) Funding - based on the RPJMN, 30% of funding needs to come from the private sector, but its historical contributions were much lower. 3) Shortfall in tax revenue could lead to spending cuts and delay planned infrastructure projects.

BUY: PTPP and WTON. We are more cautious this year as it will be a transitional year. Also, expectations are high and most of the positives have been priced in, as valuations remain high relative to earnings delivery thus far. The minimal cuts to consensus earnings also suggest expectations for a strong 2H. Our top pick is PTPP, for its strong orderbook backlog, solid execution and less dependency on government projects. The property venture will also support growth and enhance margins. We also like WTON as a direct proxy to the infrastructure boom, given its dominant lead in the precast industry. We maintain our negative stance on cement due to i) cautious view on the property sector; ii) competition from new entrants will intensify next year and iii) valuations remain high for companies with muted earnings growth.

JCI : 5,315.15

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STOCKS

	Price	Mkt Cap	Target Price	Performance (%)		Rating
	Rp	US\$m	Rp	3 mth	12 mth	
Wijaya Karya	3,350	1,567	3,000	-7.8	42	Hold
PT PP (Persero)	4,075	1,501	4,650	2.8	118.5	Buy
Waskita Karya	1,765	1,306	1,320	-3.3	141.8	Fully Valued
Adhi Karya	2,800	384	N/A	-19.8	-12.6	N/R
Wijaya Karya Beton	1,205	799	1,200	-14.5	54.5	Buy
Semen Indonesia	13,125	5,922	12,000	-11	-12.4	Fully Valued
Indocement Tunggal P.	22,425	6,280	20,000	-5.2	-2.8	Fully Valued
Holcim Indonesia	1,625	947	N/A	-17.5	-39.5	N/R

Source: AllianceDBS, DBS Vickers

Wijaya Karya : Wijaya Karya is a construction company with interests in EPC, civil, building works, precast and realty.

PT PP (Persero) : PT PP (Persero) is Indonesia's leading construction company with business portfolio ranging from building constructions and civil infrastructure constructions.

Waskita Karya : PT Waskita Karya Tbk, is a stated owned construction company engaging in a wide variety of construction activities including highways, bridges, ports, airports, buildings, sewerage plants, cement plants, factories and other industrial facilities.

Wijaya Karya Beton : Wika beton (a subsidiary of Wijaya Karya) is a leader in precast in Indonesia with c.40% market share.

Semen Indonesia : Semen Gresik (SMGR IJ) : SMGR was established in 1957. In 1995 the company completed an acquisition of Semen Padang and Semen Tonasa. It is currently the largest player in the market with 40.7% market share.

Indocement Tunggal P. : Indocement was established in 1975. The expanded heavily in the 90's, prior to Heidelberg Cement Group becoming the majority shareholder in 2001. The company trades under the brand "Tiga Roda".

Holcim Indonesia : Holcim (SMCB IJ): Holcim was established in 1971 under the name Semen Cibinong and became the first company to be listed in the exchange in 1977. The company became PT. Holcim Indonesia in 2006.

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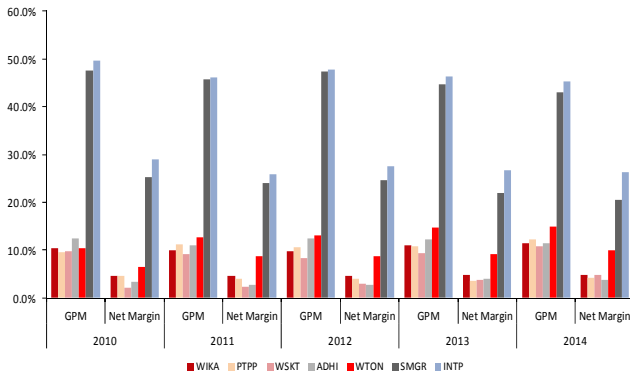
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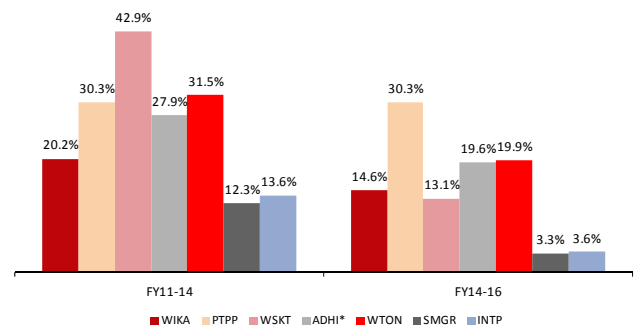
Focus charts

Margin comparison



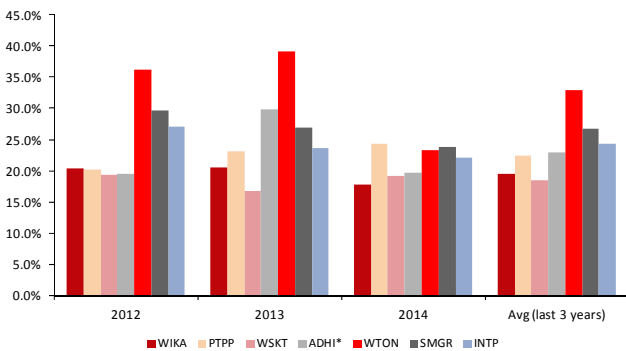
Source: AllianceDBS, DBS Vickers, Various Companies

EPS growth



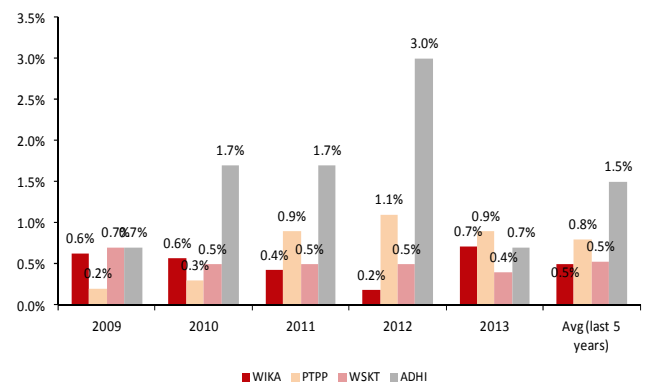
Source: AllianceDBS, DBS Vickers, Various Companies
Note*: Not covered, forecasts based on consensus

ROAE comparison



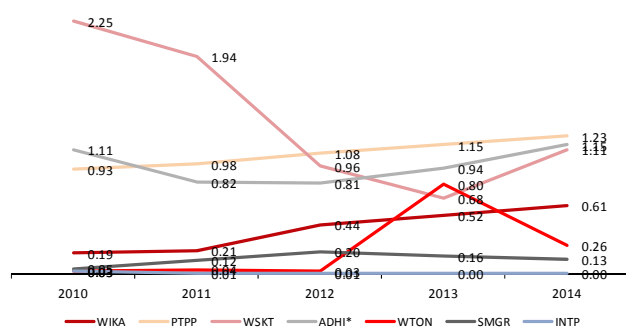
Source: AllianceDBS, DBS Vickers, Various Companies

Bad debt provisioning



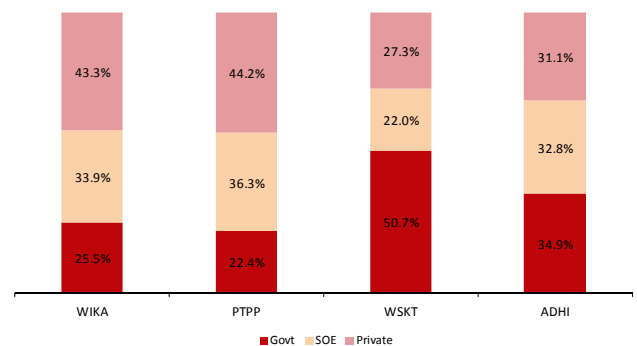
Source: AllianceDBS, DBS Vickers, Various Companies

Gross gearing comparisons



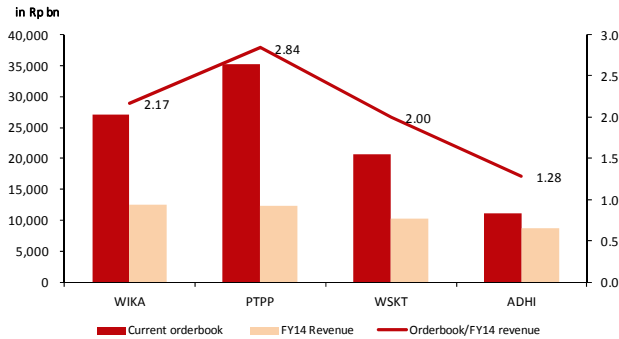
Source: AllianceDBS, DBS Vickers, Various Companies

Exposure to government, SOE and private projects (5-year average)



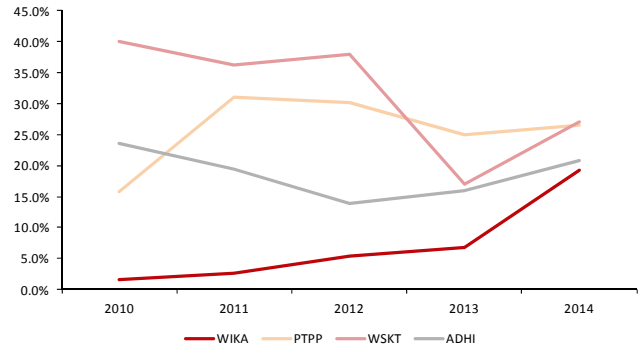
Source: AllianceDBS, DBS Vickers, Various Companies

Revenue visibility



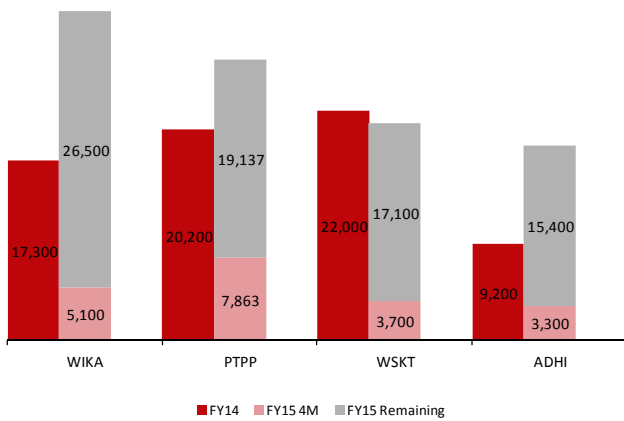
Source: AllianceDBS, DBS Vickers, Various Companies

Interest expense/EBIT comparisons



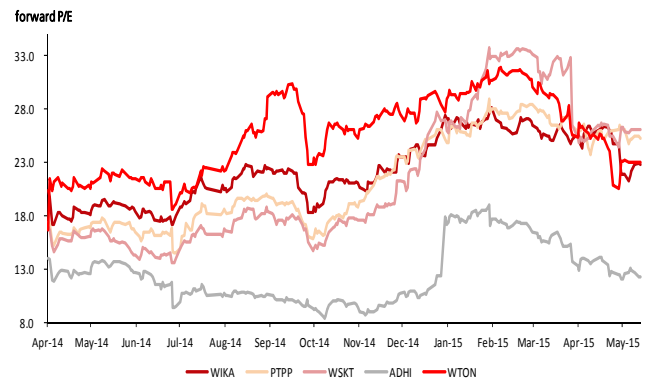
Source: AllianceDBS, DBS Vickers, Various Companies

New contract signings: 2015 vs 2014 (in Rp bn)



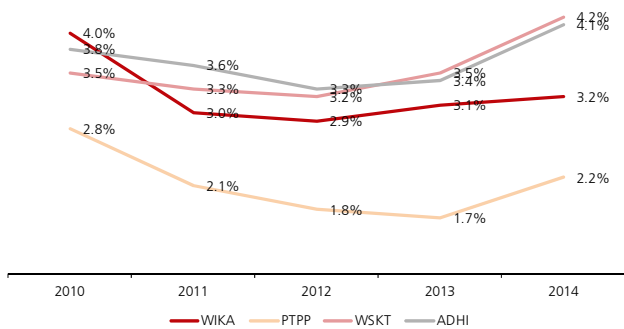
Source: AllianceDBS, DBS Vickers, Various Companies

12M forward P/E of SOE contractors and WTON



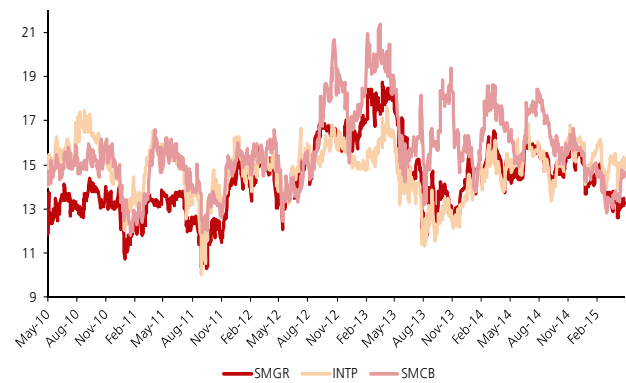
Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

OPEX to sales comparisons



Source: AllianceDBS, DBS Vickers, Various Companies

12M forward P/E of Indonesia cement companies



Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

Government has shown commitment to accelerate infrastructure development

The Jokowi government has, thus far, shown commitment to accelerate infrastructure development in Indonesia. The three most visible changes are:

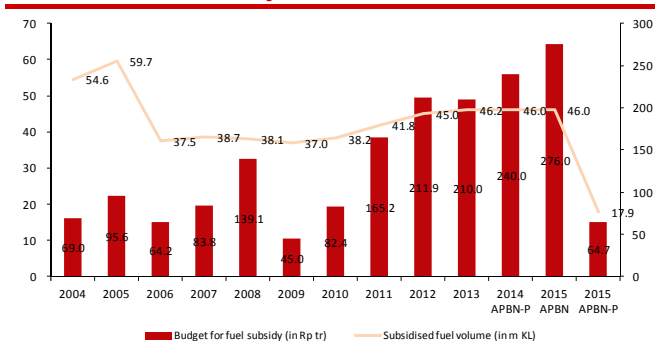
- 1) Reallocating the fuel subsidy budget to infrastructure
- 2) Continuous revisions to speed up the land acquisition process
- 3) Injecting capital into SOE contractors, and has proposed dividend cuts to support growth

Lowest fuel subsidy volume in the last decade

Jokowi has taken a brave step in removing the subsidy for RON88 (gasoline) fuel and fixing the subsidy for solar at Rp1,000/liter effective this year. We welcome this move because channeling the fuel subsidies into infrastructure development is the quickest way to ensure a higher budget for infrastructure spending. Over the past 3-5 years, about 25-30% of the government budget has been spent on fuel subsidies vs. only 10-15% on infrastructure. On average, fuel subsidies had exceeded targets by about 60% in the last three years; it would have been worse had fuel prices not been raised by 45% in June 2013.

Based on the revised budget (2015 APBN-P), the subsidised fuel volume would drop to 17.9m KL (from 46m KL) as there would be no more subsidy for gasoline. The government would save more than Rp200tr annually, and much of this savings would be channeled to infrastructure development.

Indonesia's fuel subsidy trend



Source: Ministry of Finance

APBN 2015 vs. APBNP 2015

(Figures in Rp tr)	APBN 2015	APBNP 2015	Change
Income	1,793.6	1,761.6	(32.0)
Tax Revenue	1,380.0	1,489.3	109.3
Oil and gas income	224.3	81.4	(142.9)
State expenditure	2,039.5	1,984.1	(55.4)
Infrastructure	190.0	290.0	100.0
Fuel subsidies	276.0	64.7	(211.3)
LPG subsidies	43.6	26.0	(17.6)
Capital injections to SOEs	7.3	67.5	60.2

Source: Ministry of Finance

4 mega projects that recently broke ground

We have seen some positive signs with the groundbreaking of 4 mega projects by Jokowi. The first mega project is the 1m low cost housing. The first stage involves the building of 2 towers in Ungaran, Semarang, Central Java. The second project is Trans Sumatra toll road. The total length of this toll road is 2,600km, but for a start 4 sections will be the priority (Palembang-Indralaya, Bakauheni- Terbanggi Besar, Pekanbaru-Kandis-Dumai and Medan-Binjai). The first 4 sections is targeted to be completed by 2019. Next is Trans Java toll road, where recently the section Ngawi-Kertosono just broke ground. The last mega project is the 35,000 MW power plant projects, where the first stage was the groundbreaking of 2,000 MW in various locations such as Yogyakarta, West Java, South Sulawesi and South Sumatra.

Mega projects that recently broke ground

Project Name	Potential Beneficiaries	Completion	Value (in Rp tr)
1 million low cost housing	Cement companies	-	-
Trans Sumatra toll road	JSMR, WSKT, WIKA, WTON	2025	300
Trans Java toll road	JSMR, construction companies	2018	51.6
35,000 MW power plant projects	WIKA, PTPP	2019	1,080

Source: Various, AllianceDBS, DBS Vickers

Continuous revision to land acquisition bill

The new land acquisition law (Law No 2/2012) provides better clarity on the timeline of land acquisition for public projects. However, there were still weaknesses, including the following:

- 1) The process could still take up to 583 days to complete
- 2) No guarantee that targeted land would be approved by the governor and/or the courts (in case the affected party objects)
- 3) Ongoing projects for which >75% of the land had been acquired is subject to the old land bill, while the rest of the ongoing projects (<75% of land acquired) must start the whole process again under the new bill
- 4) Funding for the land acquisition must wait for disbursement of the state budget (APBN), which is typically time-consuming.

The latest revisions to the land bill (Perpres 30/2015) address issue 3 and 4: 1) All ongoing projects or which the land acquisition stage has not been completed can use the new land bill and resume from the implementation stage (implying 178-294 working days remaining), and not have to start from planning and preparation stage, 2) Project owners can finance the land acquisition to speed up the process, while waiting for the state budget (APBN). These changes are positive, but it remains to be seen whether they are sufficient to speed up the land acquisition process on the ground.

The litmus test may be the long-delayed construction of a US\$4bn coal-fired power plant in Batang, expected to start soon. This will be the largest in Southeast Asia. This BOT project is undertaken by PT Bimasena Power Indonesia, a joint venture between PT Adaro Energy Tbk, Itochu Corp and Electric Power Development Co Ltd (J-Power).

According to the President, the problems have been resolved and work will resume soon. The problems included difficulty in securing land for the site as the farmers and fishermen did not want to give up the land.

A recent article on CNBC highlighted that there is still a lot of backlash from fishermen and farmers. Jokowi is supposed to get more directly involved in the process. However, if things cannot be resolved, a palace official said the government might order compulsory acquisition under new regulations that allow for the procurement of private property when it is in the public interest.

Capital injection and dividend cut

The government realises that the fastest way to boost infrastructure is by injecting capital into infrastructure-related SOEs, as that will have leverage impact on their individual financial capacity. As such, the government has proposed to the Parliament and received approval for capital injections into several SOEs. The two beneficiaries in the contractor space this year are WSKT and ADHI, which will receive Rp3.5tr and Rp1.4tr, respectively. All SOE contractors (WIKA, PTPP, WSKT and ADHI) have also indicated that they are eyeing capital injections from the government next year. Also, the government is planning to reduce dividend payouts by infrastructure-related SOEs, which would further boost their growth.

Breakdown of PMN (government capital injections) to SOE

Program/Entity	Amount (in Rp tr)
PT Hutama Karya	3.6
PT Waskita Karya Tbk (WSKT)	3.5
PT Adhi Karya Tbk (ADHI)	1.4
PT Kereta Api Indonesia	2.0
PT Angkasa Pura II	2.0
Perum Perumnas	1.0
PT PLN	5.0
PT Penjamin Infrastruktur Indonesia	1.5
PT Sarana Multi Infrastruktur	20.4
Infrastructure and connectivity	40.4
Food security	8.2
National economic independence	6.8
Maritime development	5.2
Defense and security	1.1
BPJS (social security)	3.5
Formation of BLU asset management	1.5
PT Lapindo Brantas Inc./ PT Minarak Lapindo Jaya	0.8
Total	67.5

Source: Ministry of Finance

Feedback from Company Visits

Why the delay in rolling out APBN allocation?

Most of the companies we met believed the delay was due to the appointment of officers within the respective Ministries. This has since been addressed and all are optimistic of the funds being channeled in 3Q15. Most contractors are also retaining their forecasts for now.

A firmer plan ahead vs. a broad MP3EI

All the companies we met (contractors, precast and cement players) appear to be positive on Jokowi's infrastructure reforms. On top of this, the contractors are positive that the longer-term commitment from the government remains firm where Jokowi's 5-year Infrastructure plan (2015-2019) that will cost US\$450bn will allocate 60% of the budget to road, energy and maritime projects.

What are some of the large scale projects?

WIKA is eyeing large-scale power plant and transportation related projects, which are 1) 2x1,000MW power plant in West Java, and 2) High Speed Train from Jakarta to Bandung (144km).

The total investment cost for the power plant is Rp37tr and construction cost is estimated at Rp10tr. WIKA has passed the prequalification stage and will likely have 15% stake in the operation of the plant.

The Jakarta-Bandung High Speed Rail is under feasibility study now, which will conclude in August. The Indonesian government has not decided whether to leverage on the Chinese or Japanese for technical expertise and financing. We understand Japan has already placed some deposit but is only willing to start the project in 2019, while China is agreeing to start in 2016. There will be two consortiums for this project – one comprising the foreign party and the other led by WIKA (51%) which will be appointed under a Presidential Decree. Land acquisition is not expected to be an issue.

Both projects will also benefit WIKA's subsidiary WTON, given that 40% of the construction work for the power plant is precast while 70% of the 144km railway will be elevated.

PTPP is bullish on clinching more seaport projects. In the pipeline are upgrading works for Belawan Port (Rp550bn),

Kuala Tanjung in South Sumatra (Rp900bn), and additional works for Kalibaru Phase 1 (Rp1tr, half approved in April).

Single-year projects for March 2016 deadline?

Jokowi had requested the ministries to start the tender process by March this year, mostly for single-year projects. Multi-year projects will proceed with the tendering process in 2H. This has yet to happen in 2015, and it remains to be seen if it will happen in 2016. If it does, it would create a more even distribution of contract wins relative to the previous years where 4Q used to contribute >50%.

More transparent tender process

Most contractors believe the Jokowi-led government will ensure a more transparent tender process. Under the proposed new tender process, the time between calling of tender and award of contract is supposed to be reduced. Currently, projects valued at more than Rp50bn each take an average of 50 working days to be awarded, while the other projects take 40 days. This may be reduced soon.

Contractors diversifying into other businesses

All the major SOE contractors are diversifying into other businesses (precast, property, power plant, toll road, etc). WIKA noted that it is unrealistic to achieve >30% EPS CAGR over the next five years solely through its construction arm. Given 5% net margin for civil construction work, it would need to book Rp35tr revenue to achieve Rp1.7tr net profit by 2018, a difficult feat if relying on only civil construction jobs. Therefore, they have been diversifying into other businesses such as Precast, Property, Asphalt mining and Power Plant. They have indicated they are targeting to boost recurring income (from investments in power plant and water management projects) to cover half of their overhead costs in the next few years. This will give them an edge when bidding for projects.

PTPP has also indicated that it is looking to increase investments in the following businesses (by order of preference): 1) Seaport, 2) Power plant, and 3) Toll road. While a power plant offers good IRR and faster payback period, the concern is fluctuations in costs that can impact the IRR calculation, due to dependency on imported materials. Toll road is lowest in the pecking order due to the long payback period and uncertainty over land acquisition, which could significantly impact the IRR calculation.

One stop platform for business license

To realise these infrastructure projects, Jokowi has committed to cutting bureaucratic red tape. Effective this year, investors only need to go to the Investment Coordinating Board (BKPM)'s one-stop facility to process their business permits, instead of visiting many layers of ministries.

He added that the government would also improve project planning capacity for ministries and institutions so that they can disburse funds more efficiently.

So far, the one-stop facility has had its fair share of criticisms, with some suggestions that it only aims to smooth out how investors interact with the different national level ministries, and does not take into account regional politics. In Indonesia, there are different regulations for investing in the individual provinces and municipalities.

5-Year Infrastructure Plan

Construction and precast players will be biggest beneficiaries

Broadly, Jokowi's 5-year infrastructure plan (2015-2019) that will cost Rp5,500tr aims to develop more infrastructure: new roads from 1,028km to 2,650km, toll roads from 260km to 1,000km, railway from 5,434 km to 8,692km, seaports from 278 to 450, and airports from 237 to 252. This should benefit all listed

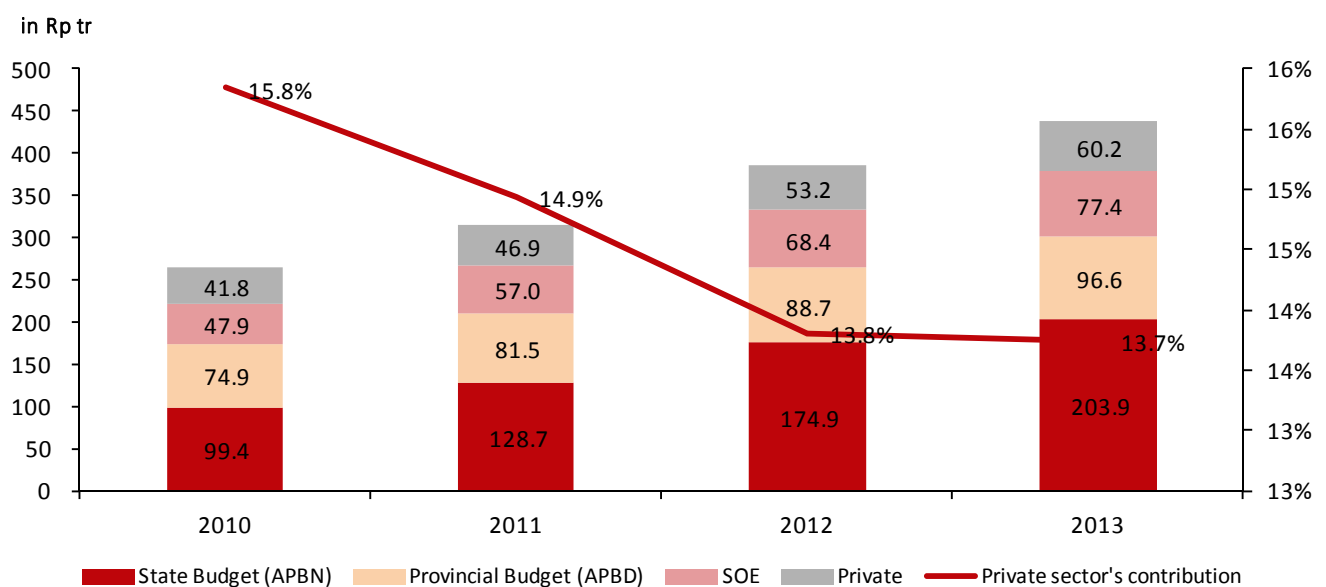
construction players, given their diversified expertise and orderbooks. WTON will also benefit given its dominant position (c.40% market share) in the precast market. Of the total investment, 60% will be earmarked for three focus areas – maritime, roadworks and energy. The key is funding as the private sector is expected to contribute c.30% of the total amount needed; historically, the private sector only contributed 14-16%.

Infrastructure Investment Requirements (RPJMN) 2015-2019 (In Rp tr)

Sector	APBN	APBD	SOE	Private	Total
Roads	340.0	200.0	65.0	200.0	805.0
Railways	150.0	-	11.0	122.0	283.0
Sea Transportation	498.0	-	238.2	163.8	900.0
Air Transportation	85.0	5.0	50.0	25.0	165.0
Land Transportation	50.0	-	10.0	-	60.0
Urban Transportation	90.0	15.0	5.0	5.0	115.0
Electricity	100.0	-	445.0	435.0	980.0
Oil and gas	3.6	-	151.5	351.5	506.6
Information and Communication Technology	12.5	15.3	27.0	223.0	277.8
Water Resources	275.5	68.0	7.0	50.0	400.5
Clean Water and Sewage	227.0	198.0	44.0	30.0	499.0
Public Housing	384.0	44.0	12.5	87.0	527.5
Total Infrastructure	2,215.6	545.3	1,066.2	1,692.3	5,519.4

Source: Bappenas, AllianceDBS, DBS Vickers

Breakdown of infrastructure spending by source of funding



Source: Varrious, AllianceDBS, DBS Vickers

Location of 15 New Airports and 24 New Ports



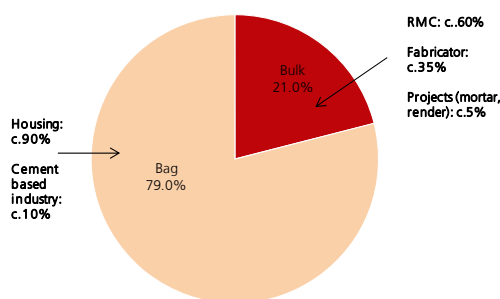
Source: Bappenas

Cement will get a demand boost, but there is still oversupply risk

The new government’s focus on infrastructure will also boost cement demand, but the impact will be less direct. About 70% of cement demand in Indonesia is from housing, so the boost in cement consumption would come from the multiplier effect of rising housing demand as a result of better infrastructure. However, we expect demand for cement to remain weak this year as there are multiple headwinds in the Property sector (see our report “Bulky Valuations” dated 17 Feb 2015 for more details). We are also concerned that the weak economy and low commodity prices will hurt disposable income, which will in turn hurt demand for cement.

Our demand growth forecast is 2.6%/8%/10% for FY15/16/17. The incumbent players have also turned cautious and revised down expectations for volume growth. Despite the expected boost in demand starting next year, we forecast utilisation will continue to slide as the incremental supply will outstrip incremental demand substantially in the next few years.

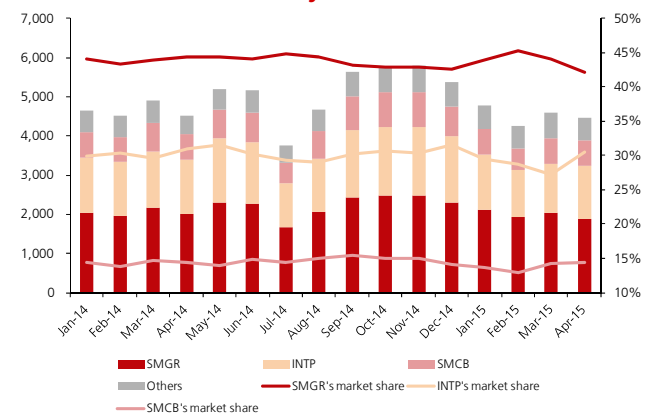
Indonesia: Cement domestic consumption breakdown



Source: Semen Indonesia Presentation

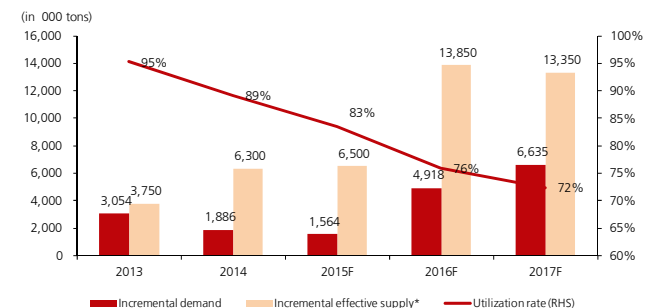
The sector is experiencing an unprecedented structural shift that will see the derating of key incumbent listed players. Cement demand growth peaked in 2010-2013, driven by the property sector which generated a multiplier of 2.4-2.7x GDP. But by 2017, cement supply will outstrip demand by a staggering 28m tonnes with incoming capacities from new foreign entrants.

Indonesia: Cement monthly sales trend



Source: Companies, AllianceDBS, DBS Vickers

Indonesia: Utilisation rate will continue to drop as incremental supply outpaces incremental demand



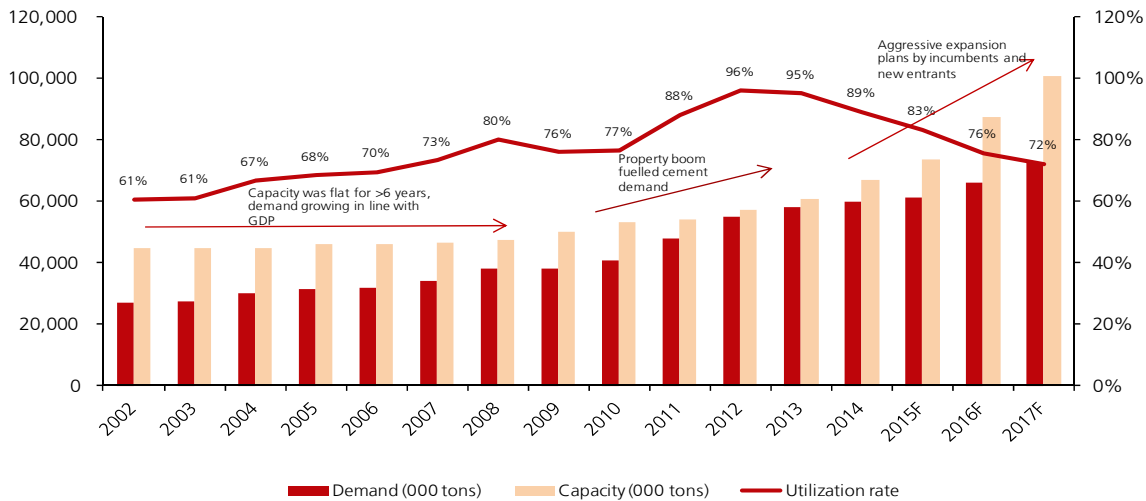
Source: Companies, AllianceDBS, DBS Vickers
Note*: Effective supply is the prorated supply in each year

Indonesia cement companies: historical and planned capacities

Company	Location	2012	2013	2014	2015F	2016F	2017F
SMGR	East Java	11,600	14,000	14,400	14,400	14,400	14,400
	Central Java	-	-	-	-	3,000	3,000
	West Sumatra	6,330	6,400	7,300	7,300	10,300	10,300
	South Sulawesi	4,620	7,300	7,800	9,300	9,300	9,300
		22,550	27,700	29,000	30,500	36,500	36,500
INTP	West Java	16,000	16,000	17,900	22,300	22,300	22,300
	South Kalimantan	2,600	2,600	2,600	2,600	2,600	2,600
	Central Java	-	-	-	-	-	2,500
		18,600	18,600	20,500	24,900	24,900	27,400
SMCB	West Java	5,600	5,600	5,600	5,600	5,600	5,600
	Central Java	3,500	3,500	3,500	3,500	3,500	3,500
	East Java	-	-	1,700	3,400	3,400	3,400
		9,100	9,100	10,800	12,500	12,500	12,500
Bosowa	South Sulawesi	2,300	2,300	4,000	4,000	4,000	4,000
	Riau	1,200	1,200	1,200	1,200	1,200	1,200
	East Java	-	-	-	-	1,100	1,100
	Papua	-	-	-	-	750	750
		3,500	3,500	5,200	6,300	7,050	7,050
Baturaja	South Sumatra	1,250	2,000	2,000	2,000	2,000	3,850
Andalas (Lafarge)	Aceh	1,600	1,600	1,600	1,600	1,600	1,600
Kupang	NTT	550	550	550	550	550	550
Anhui Conch	South Kalimantan	-	-	1,500	1,500	1,500	1,500
	West Java	-	-	-	-	-	2,000
	Others	-	-	-	-	-	3,000
		-	-	1,500	1,500	1,500	6,500
Siam Cement	West Java	-	-	-	-	1,800	1,800
Semen Merah Putih (Wilmar)	Banten	-	-	750	1,750	5,750	5,750
Panasia	Central Java	-	-	-	-	1,500	1,500
Juishin	West Java	-	-	-	1,500	1,500	1,500
Total		57,150	63,050	71,900	83,100	97,150	106,500

Source: Companies, AllianceDBS, DBS Vickers

Indonesia cement industry: supply, demand and utilization rate



Source: Companies, AllianceDBS, DBS Vickers

Competition will only get worse

We have seen a glimpse of how stiff competition can get in 1Q15, with utilisation low due to the weak demand. Holcim (SMCB) started a promotional campaign, giving away 10 free bags for every 8 tons of cement purchased, and SMGR followed in order to maintain market share. INTP's market share suffered as it did not want to get involved in the promotional war. This is an indication that competition is very tight. The entry of Semen Merah Putih, Anhui Conch and Siam Cement will intensify competition. We estimate these three players will control >10% of capacity by 2017 and will be serious competitors due to their

expertise and financial strength. Based on our channel checks, Anhui Conch is the biggest threat to the incumbents due to its lower cost structure and aggressive pricing strategy. Based on conversations with cement producers, we estimate Anhui Conch's cost per tonne is 5-10% cheaper than their Indonesian peers, and the company has started selling their products at c.15% cheaper than Indocement (INTP) in Kalimantan. Therefore, we are worried a price war might start once their other facilities (2m tons in West Java and 3m tons in other areas) come onstream.

Construction and Precast

Valuation

We looked at the valuation of SOE contractors and WTON that stretches back to April last year. We did not look further back as historical valuations may not be comparable because the sector is undergoing a massive transformation.

Valuation for the Indonesian SOE contractors are currently at 12.3x-26.1x forward PE, implying -0.7SD to +0.9SD, and 13%-35% below peak valuation in Feb 2015. These suggest the market is being more cautious, likely because of the delays in rolling out projects and lackluster 1Q15 results.

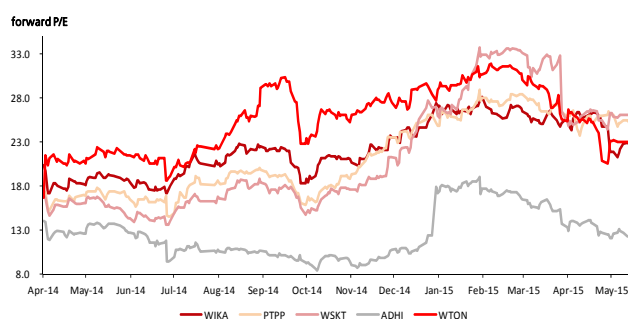
We believe the current valuation is fair and further rerating to and beyond peak valuation must be supported by strong rollout of projects in 2H15. Therefore, we would advise investors to be more selective in increasing exposure to the sector.

Summary of SOE contractors and WTON's valuations (12M forward P/E)

	WIKA	PTPP	WSKT	ADHI	WTON
mean	22.3	21.4	21.4	12.6	25.6
SD	3.1	4.3	6.3	2.8	3.6
Current	22.8	25.3	26.1	12.3	23.0
Current deviation (SD)	+0.2	+0.9	+0.7	-0.1	-0.7
Peak	28.1	28.9	33.8	19.1	31.9
Discount from peak	19.0%	12.5%	22.7%	35.4%	27.7%

Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

Indonesian SOE contractors and WTON: forward P/E



Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

Consensus earnings and share prices

YTD, consensus earnings revisions for contractors and precast players have been mixed. The largest downgrades were for WIKA and WTON after disappointing 1Q15 results (-9 % to -10%), while the largest upgrades were for WSKT (+17% to +25%) after securing approval for capital injections.

Recently, there is some positive correlation between consensus downgrades and the shares' underperformance. In 2014, this was not the case; stocks had continued to rally despite poor earnings delivery due to the deferment of contracts and because of positive sentiment towards the new government. This suggests the market is getting impatient and waiting for more results.

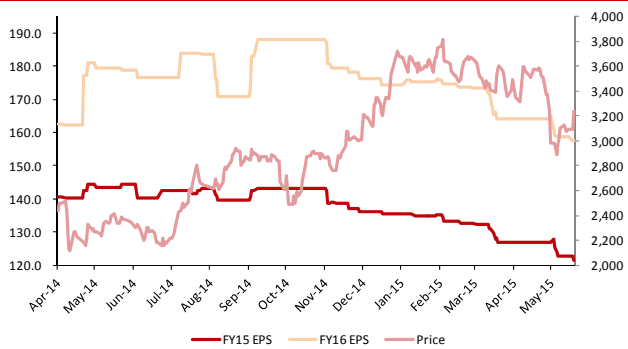
Note that our forecast earnings are generally below consensus (except for PTPP where we are 6% above consensus) as we are taking a more cautious stance.

Summary of EPS revisions and share performance YTD

	WIKA	PTPP	WSKT	ADHI	WTON
FY15 EPS revision	-10.3%	0.8%	17.0%	2.9%	-8.6%
FY16 EPS revision	-9.8%	2.1%	24.8%	9.9%	-6.0%
YTD share performance	-12.0%	9.1%	20.1%	-23.5%	-13.8%
DBSV vs. consensus (FY15)	90.0%	105.7%	97.5%	N/A	92.1%
DBSV vs. consensus (FY16)	86.6%	97.4%	79.0%	N/A	89.0%

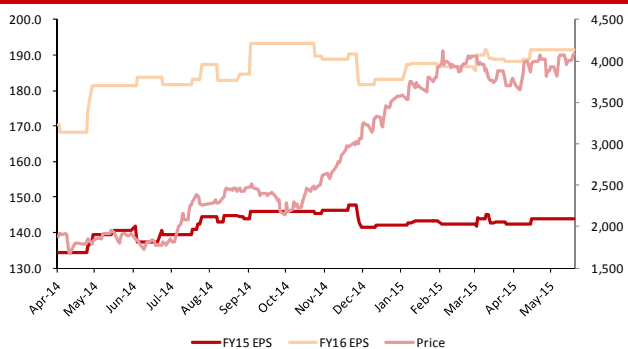
Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

WIKA's consensus EPS trend vs. share price



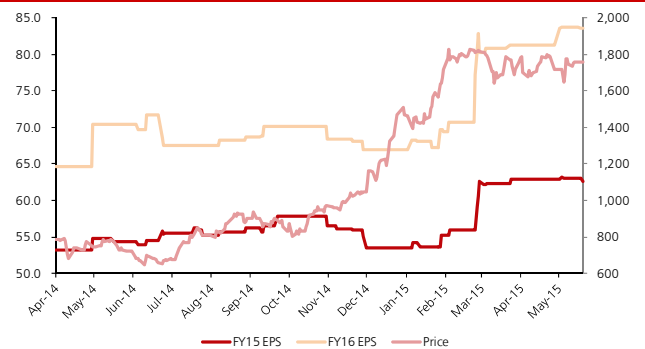
Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

PTPP's consensus EPS trend vs. share price



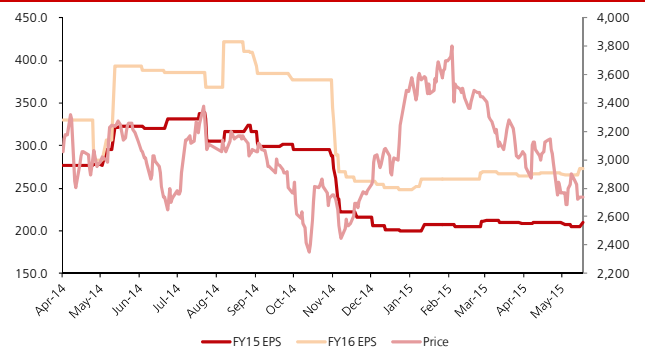
Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

WSKT's consensus EPS trend vs. share price



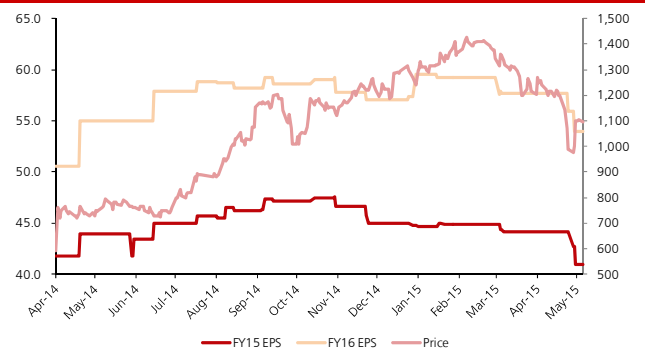
Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

ADHI's consensus EPS trend vs. share price



Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

WTON's consensus EPS trend vs. share price



Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

YTD new contract wins vs. share price performance

In the first four months of 2015, PTPP recorded the best contract win performance, achieving 29% of its FY15 guidance, and WTON 25%. WIKA, WSKT and ADHI only achieved 16-18% of guidance. The strong contract wins by PTPP was followed by solid share price performance (+9% YTD). WIKA's weak contract win was reflected in its share price performance (-12% YTD). WSKT's weak contract in achievement, however, did not affect its share price performance (+20%) as there was positive sentiment towards the planned capital injection.

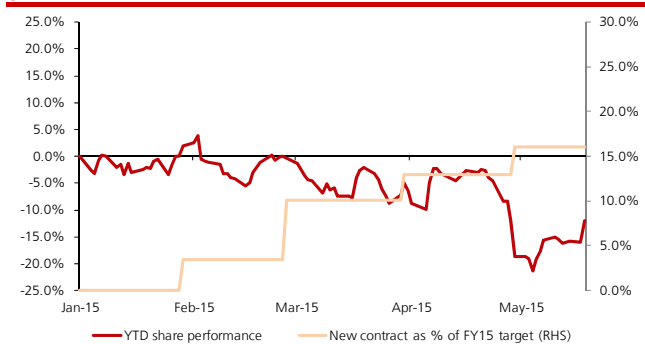
Assuming the contract wins translate into positive earnings, PTPP and WTON would be safer choices at this juncture. PTPP is the clear winner in terms of contract achievements, but its YTD share price performance still lacks WSKT's. WTON's contract wins have been better than WIKA and WSKT, yet the share price has underperformed relative to those two.

Summary of new contract win vs. share performance YTD

	WIKA	PTPP	WSKT	ADHI	WTON
4M15 new contract win (% of FY15 guidance)	16.1%	29.1%	17.8%	17.6%	25.0%
YTD share performance	-12.0%	9.1%	20.1%	-23.5%	-13.8%

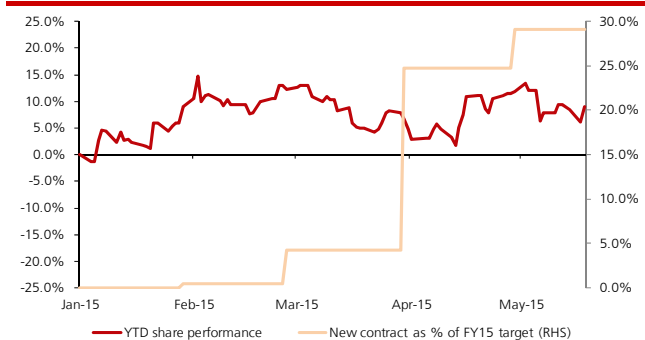
Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

WIKA's new contract progress vs. YTD share performance



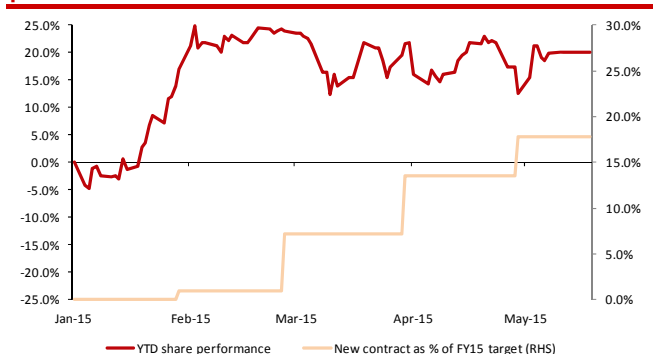
Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

PTPP's new contract progress vs. YTD share performance



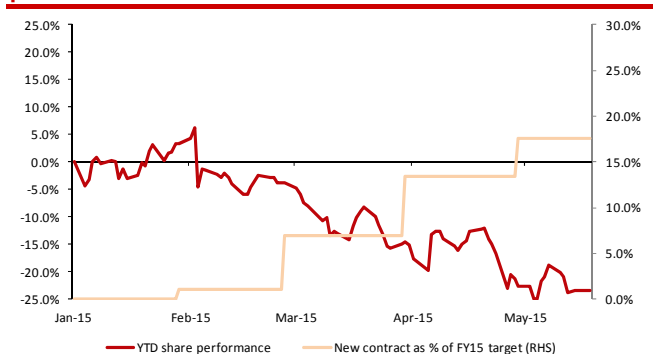
Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

WSKT's new contract progress vs. YTD share performance



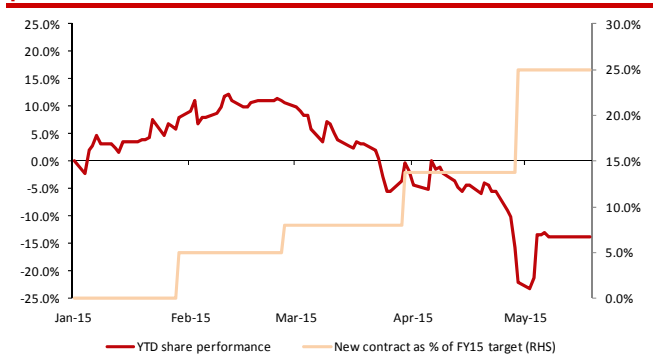
Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

ADHI's new contract progress vs. YTD share performance



Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

WTON's new contract progress vs. YTD share performance



Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

Cement

Consensus earnings and share prices

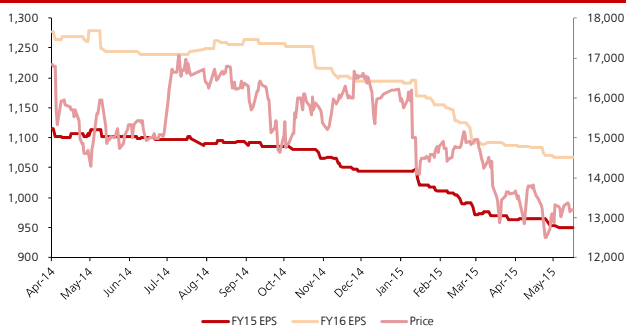
Analysts have been cutting earnings for cement players since last year. There seems to be a strong correlation between earnings downgrades and stock price performance for cement players. Our FY15F earnings are now in line with consensus earnings after the recent downgrades by consensus, but there is still downside risk to our and consensus' numbers if sales volumes and/or ASP do not rebound in 2H15. Our FY16F earnings are still 5-6% below consensus estimates as we continue to believe that earnings growth for the Indonesian cement players will be weak due to intensifying competition from new entrants.

Summary of EPS revisions and share performance YTD

	SMGR	INTP	SMCB
FY15 EPS revision	-9.0%	-5.7%	-25.8%
FY16 EPS revision	-10.7%	-7.5%	-23.1%
YTD share performance	-9.4%	-9.4%	-25.9%
DBSV vs. consensus (FY15)	98.7%	99.9%	N/A
DBSV vs. consensus (FY16)	93.9%	94.8%	N/A

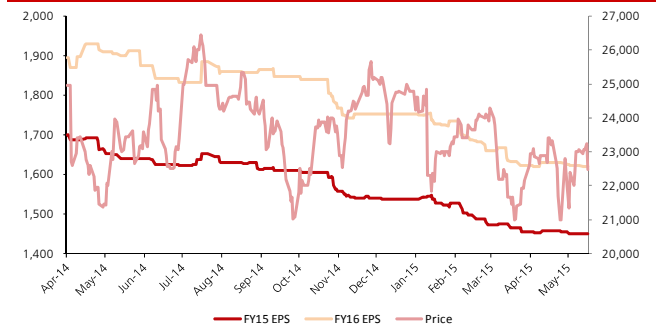
Source: Bloomberg Finance L.P., DBS Vickers, AllianceDBS

SMGR's consensus EPS trend vs. share price



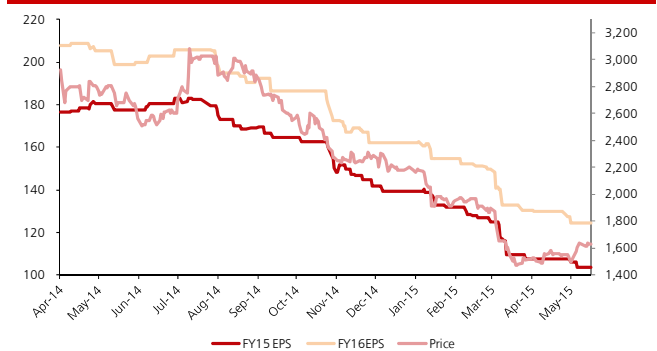
Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

INTP's consensus EPS trend vs. share price



Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

SMCB's consensus EPS trend vs. share price



Source: Bloomberg Finance L.P., AllianceDBS, DBS Vickers

Valuation

Indonesian cement companies are currently trading at 13.2x-14.8x 12M forward P/E, or slightly below of 5-year mean valuation. Despite the seemingly attractive valuation relative to the historical average, there may be further derating in the next few years due to supply-demand imbalance, which will derail cement players' margins and earnings growth. Furthermore, there could be further downside risks to consensus EPS forecasts for FY16; our forecasts are 5-6% lower. We retain our FULLY VALUED calls for both SMGR and INTP.

Summary of Indonesia cement companies' valuations (12M forward P/E)

	SMGR	INTP	SMCB
5 year mean	14.3	14.8	15.7
SD	1.6	1.2	1.8
Current	13.3	14.8	14.6
Current deviation (SD)	-0.7	0	-0.6
Peak	28.1	28.9	33.8
Discount from peak	19.0%	12.5%	22.7%

Source: Bloomberg, AllianceDBS, DBS Vickers

Investment Strategy and Stock Picks

Peer comparison table: Indonesia construction precast and cement

	Market Cap (IDR bn)	Price	Rec.	TP (IDR)	Diluted PE (x)			P/B(x)		EV/EBITDA (x)			Net Div Yield (%)			ROE (%)			EPS CAGR (%)	
					FY14	FY15	FY16	FY14	FY15	FY16	FY14	FY15	FY16	FY14	FY15	FY16	FY14	FY15	FY16	FY14-FY16
Construction and precast																				
Wijaya Karya	20,600	1,765	Hold	3,000	32.3	30.6	24.6	5.0	4.5	4.0	15.4	13.8	11.6	0.9%	1.0%	1.1%	19.2%	19.4%	18.2%	14.6%
PT PP (Persero)	19,733	22,425	Buy	4,650	37.1	26.5	21.9	8.3	5.0	4.2	15.8	10.3	8.5	6.0%	4.5%	4.8%	22.0%	21.2%	21.4%	30.3%
Waskita Karya	17,169	13,125	FV	1,320	34.0	28.9	26.7	6.0	5.2	4.6	19.4	17.3	15.4	3.2%	3.2%	3.4%	24.8%	21.8%	20.6%	13.1%
Adhi Karya	5,044	2,800	N/R	N/A	19.3	13.2	10.2	3.6	2.4	2.0	11.0	7.0	5.7	1.0%	1.6%	1.8%	19.7%	19.6%	21.0%	23.3%
Wijaya Karya Beton	10,502	1,205	Buy	1,200	32.0	32.0	25.1	4.9	4.5	4.0	20.2	18.1	14.4	1.1%	1.1%	1.4%	23.3%	14.6%	16.8%	19.9%
Average					30.9	26.2	21.7	5.5	4.3	3.8	16.4	13.3	11.1							
Cement																				
Semen Indonesia Indocement	77,851	4,075	FV	12,000	14.0	14.0	13.1	3.2	2.9	2.6	9.5	9.2	8.4	0.5%	0.8%	0.9%	24.3%	23.6%	20.9%	3.3%
Tunggal P.	82,552	1,625	FV	20,000	15.7	15.5	14.7	3.3	3.3	3.0	10.4	9.9	9.2	0.0%	0.0%	0.0%	17.7%	17.7%	0.0%	3.2%
Holcim Indonesia	12,452	3,350	N/R	N/A	25.1	15.8	13.1	1.9	1.3	1.2	10.9	8.0	7.0	0.0%	2.7%	2.9%	7.6%	9.6%	8.9%	18.4%
Average					18.3	15.1	13.6	2.8	2.5	2.3	10.3	9.0	8.2							

Source: Companies, AllianceDBS, DBS Vickers

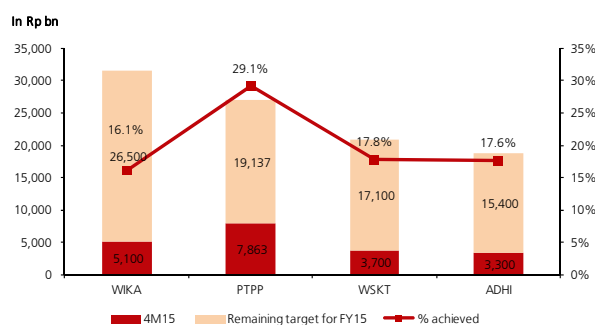
Note: Adhi Karya and Holcim Indonesia forecasts are based on consensus

Not expecting instant results: BUY PTPP and WTON

Despite all the positives, we are cautious this year as we believe this is a transition year, yet, expectations remain extremely high. There are already signs that there will not be immediate improvements this year. Contract wins by SOE contractors in 4M15 were mostly weak, except for PTPP which has been able to win contracts from the private sector. YTD wins (up to mid-May) have hit Rp8.9tr and is on well on track to meet its Rp27tr target for 2015. YTD wins have been largely driven by the private sector. Also, 40% of the wins comprise of civil engineering jobs which command higher margins. Typically, building jobs offer lower margins and are fixed-price contracts with no scope for variations.

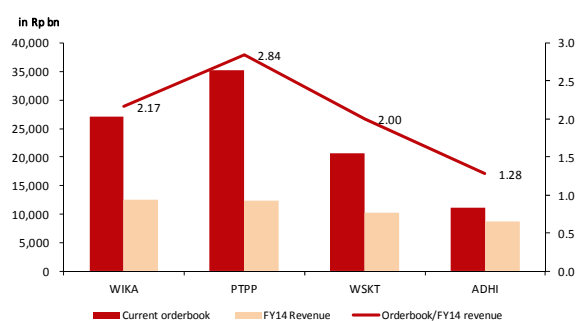
Jokowi’s promise to roll out single year projects by March did not materialise. Up to mid-May, the government’s capital expenditure has only reached Rp10.2tr (3.7% of FY15 target; down 39% y-o-y). The government was more recently targeting capex to hit 15% of FY15 target by end 2Q (from 20% previously). This suggests there could be downside risk to contract win targets of SOE contractors that are highly dependent on government projects. Therefore, we prefer contractors with strong order backlog and less dependency on government projects. PTPP fits these criteria; furthermore, rising contribution from its property arm will support earnings growth and further enhance margins and ROE.

SOE contractors’ achievements as of 4M15



Source: Companies, AllianceDBS, DBS Vickers

Revenue visibility comparison of SOE contractors

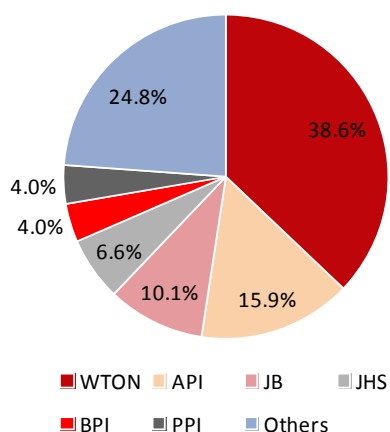


Source: Companies, AllianceDBS, DBS Vickers

WTON is the most direct proxy

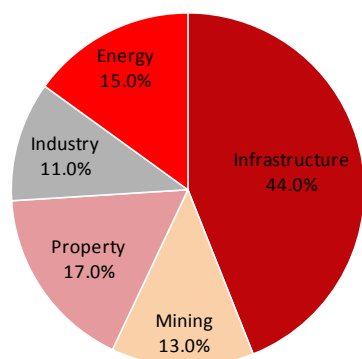
We also like WTON as we believe it is the biggest beneficiary of infrastructure boom in Indonesia, given its dominance in the Precast market. It controls c.40% market share in Precast vs. c.5% for the largest player in construction space. Given the needs for Precast in many infrastructure developments, WTON serves as the best proxy to infrastructure boom in Indonesia.

Market share of Indonesian Precast Players (by capacity)



Source: MARS

Customer profile based on line of business (revenue contribution)



Source: Company

Cement is not a direct infra play and risk from competition looms

We maintain our negative stance on Indonesia cement sector as

- 1) We remain cautious on the property sector due to the number of headwinds in the near term
- 2) Competition from new entrants will intensify next year
- 3) Valuations remain high for companies with muted earnings growth. Additionally, we believe there are more downside risks for consensus earnings in FY16 (where we are 6-7% below).

Key Risks

Currency risks

The IDR has depreciated by c.6% against the USD YTD, to Rp13,100. This is 7% higher than the assumption in the APBN-P (revised budget). The weak IDR has implications for the infrastructure sector.

For the construction and precast players, the biggest risk is the cancellation of projects, as the Rp290tr infrastructure budget was based on 12,200 IDR/USD assumption.

If IDR depreciates further to over 14,000, some projects may be cancelled or postponed. In terms of profitability of SOE

contractors, they will be affected less as they have the ability to pass on higher raw material costs for multi-year government projects. Note that Indonesian contractors do not have USD debt exposure.

For cement, the risk of a weaker IDR is lower profit margins, as 40-50% of their total COGS are directly or indirectly linked to the USD.

Shortfall in tax revenue

The government is targeting a 31% increase in tax revenues this year. This seems aggressive and the progress in 4M15 supports our concern. A large shortfall in tax revenue could lead to spending cuts, which could reduce the infrastructure budget.

Indonesia FY15 tax revenue target and progress

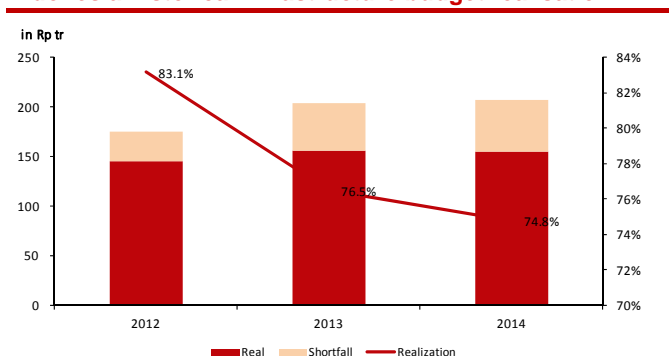
Figures in Rp bn	FY14	FY15 (target)	y-o-y increase	4M14	4M15	y-o-y increase	4M15 share of FY15 target
Income tax (non oil and gas)	458,692	629,835	37.3%	162,937	180,168	10.6%	28.6%
VAT and Sales tax on luxury goods	408,995	576,469	40.9%	117,495	111,322	-5.3%	19.3%
Land and building tax	23,475	26,689	13.7%	873	308	-64.7%	1.2%
Other tax	6,293	11,729	86.4%	1,721	1,557	-9.5%	13.3%
Income tax (oil and gas)	87,446	49,534	-43.4%	31,112	16,744	-46.2%	33.8%
Total tax revenue	984,901	1,294,256	31.4%	314,139	310,100	-1.3%	24.0%

Source: Indonesia tax authority

Low budget absorption

The budget absorption for infrastructure development from APBN has been low historically. Given the achievement to date (3.7% of FY15 target as of mid-May), there is a possibility absorption may not be optimal again this year. This suggests downside risk for construction companies that rely on the public infrastructure budget.

Indonesia historical infrastructure budget realisation



Source: Ministry of Finance, AllianceDBS, DBS Vickers

STOCK PROFILES

Indonesia Company Focus

Wijaya Karya

Bloomberg: WIKA IJ | Reuters: WIKA.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 May 2015

HOLD Rp3,350 JCI : 5,315.15

Price Target : 12-Month Rp 3,000

Reason for Report : Sector update

Potential Catalyst: Strong rollout of projects

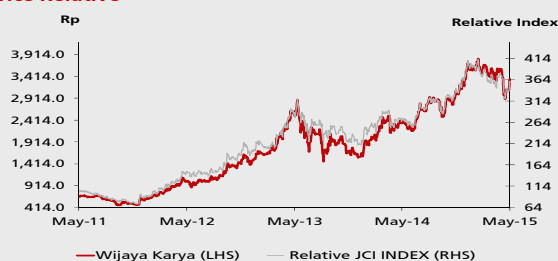
Where we differ: More conservative earnings forecasts

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (Rp bn)	2013A	2014A	2015F	2016F
Turnover	11,885	12,463	14,816	18,823
EBITDA	1,150	1,399	1,611	1,986
Pre-tax Profit	1,017	1,146	1,266	1,551
Net Profit	570	615	649	809
Net Pft (Pre Ex.)	570	615	649	809
EPS (Rp)	96	104	109	136
EPS Pre Ex. (Rp)	96	104	109	136
EPS Gth (%)	20	8	5	25
EPS Gth Pre Ex (%)	20	8	5	25
Diluted EPS (Rp)	96	104	109	136
Net DPS (Rp)	22	35	37	46
BV Per Share (Rp)	497	673	745	836
PE (X)	34.9	32.3	30.6	24.6
PE Pre Ex. (X)	34.9	32.3	30.6	24.6
P/Cash Flow (X)	68.5	769.4	93.9	93.7
EV/EBITDA (X)	17.7	15.4	13.8	11.6
Net Div Yield (%)	0.6	1.0	1.1	1.4
P/Book Value (X)	6.7	5.0	4.5	4.0
Net Debt/Equity (X)	0.1	0.1	0.2	0.3
ROAE (%)	20.6	17.7	15.4	17.2

Earnings Rev (%): -

Consensus EPS (Rp): 124

No. of brokers following: B: 13 S: 5 H: 5

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: Wijaya Karya is a construction company with interests in EPC, civil, building works, precast and realty.

Source of all data: Company, AllianceDBS, DBS Vickers, Bloomberg Finance L.P.

Aggressive target

- Weak contract wins YTD
- New contract target looks stretched
- Maintain HOLD, Rp3,000 TP

Slow progress. As of 4M15, WIKA only managed to clinch Rp5.1tr worth of new contracts, or 16% of its FY15 target. This is lower than PTPP's (29%), WSKT's (18%) and ADHI's (18%) achievement. WIKA has been hurt by the slow rollout of government projects. Nonetheless, we understand if we include contracts where WIKA is the lowest bidder until mid-May, total wins would rise to Rp7.2tr. There are two large scale projects which WIKA is eyeing, related to power plants and high speed rail, but this may only materialise in 2016.

Contract target looks stretched. The Company has not revised its contract target and financial guidance despite the slow start. WIKA mentioned that it will only revise its financial guidance after the release of 2Q15 results if 1H15 NPAT does not hit Rp280-300bn. We believe WIKA needs a very strong 2H to achieve its guidance. We are more conservative with our forecasts given the slow start. Our new contract assumption for this year is Rp23.9tr vs. company guidance of Rp31.6tr. Our NPAT estimate is 15% below guidance and 10% below consensus' forecasts.

Maintain HOLD, Rp3,000 TP. Based on our earnings forecast, WIKA is still trading at 24.6x FY16 EPS. We see limited upside in WIKA's share price. Our TP is based on 22x FY16F EPS.

At A Glance

Issued Capital (m shrs)	6,149
Mkt. Cap (Rpbn/US\$m)	20,600 / 1,567
Major Shareholders	
Republic of Indonesia (%)	65.2
Free Float (%)	33.8
Avg. Daily Vol.('000)	15,366

INVESTMENT THESIS

Profile	Rationale
<p>Wijaya Karya is a construction company with interests in EPC, civil, building works, precast and realty.</p>	<p>Most diversified contractor, which we believe helps to secure new contracts</p> <ul style="list-style-type: none"> Wika is the largest cap and most diversified proxy to the Indonesian construction sector, enabling it to capitalise on a myriad of public and private sector jobs. Its precast arm, Wika Beton, enables it to sustain strong gross margins and is synergistic with its construction business. The acquisition of 100% of Sarana Karya, a state-controlled asphalt producer, puts it in good stead to clinch more road infrastructure works. First-mover advantage in power plants, a key focus of the MP3EI. <p>Potential surge in infrastructure spending this year</p> <ul style="list-style-type: none"> Savings from fuel subsidy is c.Rp200tr. We expect most of this (c.Rp90tr) to be channelled into infrastructure. Based on the proposed budget revision, infrastructure spending by the central government could increase by 40% this year.
Valuation	Risks
<p>We peg our TP of Rp3,000 to 22x FY16 EPS. Maintain HOLD given limited upside to our TP.</p>	<p>Slow contract wins</p> <ul style="list-style-type: none"> If contract wins are slow again this year, WIKA would face risks of being derated as sentiment towards Indonesia's construction sector could turn negative. <p>Further depreciation of the IDR</p> <ul style="list-style-type: none"> If the IDR depreciates to beyond 14,000 against the USD, there is risk that some projects might get delayed or cancelled.

Source: AllianceDBS, DBS Vickers

Key Assumptions

FY Dec	2012A	2013A	2014A	2015F	2016F
New contract wins	17,125	17,732	17,774	23,939	31,447
Blended GP margins	9.7	11.1	11.4	10.8	10.6

Segmental Breakdown

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenues (Rp bn)					
Construction	4,042	5,094	4,731	6,936	8,488
Mechanical	3,183	2,931	3,178	2,449	3,398
Industrial	2,339	2,990	3,271	3,921	5,175
Real Estate	842	1,132	1,283	1,510	1,762
Others	(501)	(262)	N/A	N/A	N/A
Total	9,905	11,885	12,463	14,816	18,823
PBT (Rp bn)					
Construction	363	349	378	445	504
Mechanical	210	179	295	433	562
Industrial	188	325	347	404	444
Real Estate	103	349	167	195	215
Others	(31)	(185)	0	0	0
Total	833	1,017	1,187	1,476	1,726
PBT Margins (%)					
Construction	9.0	6.9	8.0	6.4	5.9
Mechanical	6.6	6.1	9.3	17.7	16.6
Industrial	8.0	10.9	10.6	10.3	8.6
Real Estate	12.2	30.8	13.0	12.9	12.2
Others	6.2	70.8	N/A	N/A	N/A
Total	8.4	8.6	9.5	10.0	9.2

Income Statement (Rp bn)

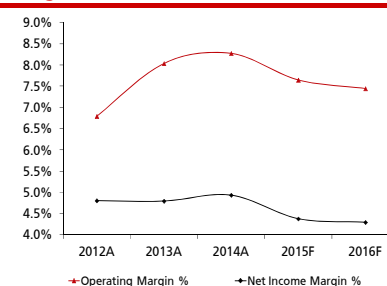
FY Dec	2012A	2013A	2014A	2015F	2016F
Revenue	9,905	11,885	12,463	14,816	18,823
Cost of Goods Sold	(8,947)	(10,562)	(11,039)	(13,211)	(16,822)
Gross Profit	958	1,322	1,425	1,605	2,002
Other Opng (Exp)/Inc	(285)	(367)	(393)	(472)	(600)
Operating Profit	673	955	1,031	1,133	1,401
Other Non Opg (Exp)/Inc	(38)	(159)	(124)	(149)	(179)
Associates & JV Inc	198	261	363	417	521
Net Interest (Exp)/Inc	0	(40)	(124)	(134)	(193)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	833	1,017	1,146	1,266	1,551
Tax	(309)	(392)	(395)	(474)	(564)
Minority Interest	(47)	(54)	(136)	(143)	(178)
Preference Dividend	0	0	0	0	0
Net Profit	476	570	615	649	809
Net Profit before Except.	476	570	615	649	810
EBITDA	925	1,150	1,399	1,611	1,986
Growth					
Revenue Gth (%)	27.9	20.0	4.9	18.9	27.0
EBITDA Gth (%)	36.1	24.3	21.7	15.1	23.2
Opg Profit Gth (%)	9.3	42.0	8.0	9.9	23.7
Net Profit Gth (%)	34.3	19.7	7.9	5.5	24.6
Margins & Ratio					
Gross Margins (%)	9.7	11.1	11.4	10.8	10.6
Opg Profit Margin (%)	6.8	8.0	8.3	7.6	7.4
Net Profit Margin (%)	4.8	4.8	4.9	4.4	4.3
ROAE (%)	20.4	20.6	17.7	15.4	17.2
ROA (%)	4.9	4.8	4.3	3.9	4.4
ROCE (%)	10.3	11.2	9.1	7.4	8.4
Div Payout Ratio (%)	27.1	22.6	33.7	33.7	33.7
Net Interest Cover (x)	NM	23.9	8.3	8.4	7.3

Source: Company, AllianceDBS, DBS Vickers

Sensitivity Analysis

		2015
New contract wins	+/- 5%	Net Profit +/- 3%
GPM +/- 10bps		Net Profit +/- 2.3%

Margins Trend



Quarterly / Interim Income Statement (Rp bn)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	2,792	3,061	2,752	3,858	2,005
Cost of Goods Sold	(2,476)	(2,708)	(2,482)	(3,373)	(1,821)
Gross Profit	316	353	271	485	185
Other Oper. (Exp)/Inc	(85)	(93)	(104)	(112)	(82)
Operating Profit	231	260	167	373	103
Other Non Opg (Exp)/Inc	(3)	(28)	(3)	(91)	17
Associates & JV Inc	47	42	72	202	48
Net Interest (Exp)/Inc	(2)	(17)	(22)	(83)	(53)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	273	258	214	401	115
Tax	(90)	(93)	(78)	(135)	(48)
Minority Interest	(16)	(50)	(18)	(52)	(5)
Net Profit	168	115	118	214	62
Net profit bef Except.	168	115	118	214	62
EBITDA	275	275	236	484	168

Growth

Revenue Gth (%)	(29.7)	9.7	(10.1)	40.2	(48.0)
EBITDA Gth (%)	(34.5)	0.1	(14.2)	104.7	(65.3)
Opg Profit Gth (%)	(26.3)	12.7	(36.0)	124.0	(72.5)
Net Profit Gth (%)	(6.9)	(31.3)	2.5	81.7	(71.3)

Margins

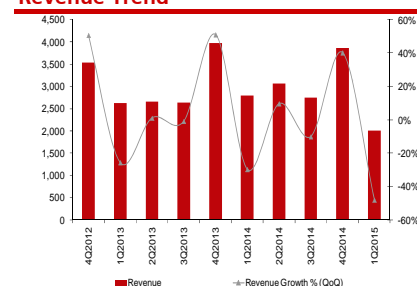
Gross Margins (%)	11.3	11.5	9.8	12.6	9.2
Opg Margins (%)	8.3	8.5	6.1	9.7	5.1
Net Profit Margins (%)	6.0	3.8	4.3	5.6	3.1

Balance Sheet (Rp bn)

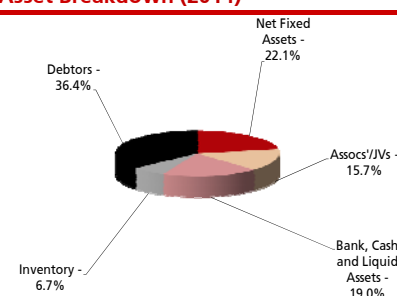
FY Dec	2012A	2013A	2014A	2015F	2016F
Net Fixed Assets	1,184	1,640	2,676	3,065	3,424
Invt in Associates & JVs	1,197	1,548	1,908	2,325	2,846
Invt & Devt Properties	N/A	N/A	N/A	N/A	N/A
Other LT Assets	N/A	N/A	N/A	N/A	N/A
Cash & ST Invt	1,544	1,421	2,334	1,925	2,063
Dev Props held for sale	N/A	N/A	N/A	N/A	N/A
Inventory	1,143	1,118	817	1,425	1,817
Debtors	1,348	3,509	4,416	4,375	5,558
Other Current Assets	N/A	N/A	N/A	N/A	N/A
Total Assets	11,021	12,595	15,915	17,073	19,879
ST Debt	321	402	1,691	1,691	1,691
Creditor	2,557	3,089	3,903	3,847	4,906
Other Current Liab	3,702	3,808	2,882	3,323	3,555
LT Debt	934	1,271	1,324	1,524	2,324
Other LT Liabilities	672	799	1,137	1,137	1,137
Shareholder's Equity	2,594	2,949	3,990	4,420	4,956
Minority Interests	240	278	989	1,132	1,310
Total Cap. & Liab.	11,021	12,595	15,915	17,073	19,879
Non-Cash Wkg. Capital	(552)	(324)	395	772	1,270
Net Cash/(Debt)	288	(251)	(681)	(1,290)	(1,952)
Debtors Turn (avg days)	49.5	74.6	116.0	108.3	96.3
Creditors Turn (avg days)	97.1	98.4	117.0	108.8	96.3
Inventory Turn (avg days)	41.8	39.4	32.4	31.5	35.7
Asset Turnover (x)	1.0	1.0	0.9	0.9	1.0
Current Ratio (x)	1.1	1.1	1.1	1.1	1.2
Quick Ratio (x)	0.4	0.7	0.8	0.7	0.8
Net Debt/Equity (X)	CASH	0.1	0.1	0.2	0.3
Net Debt/Equity ex MI (X)	CASH	0.1	0.2	0.3	0.4
Capex to Debt (%)	39.6	36.1	29.9	18.7	14.9

Source: Company, DBS Vickers

Revenue Trend



Asset Breakdown (2014)

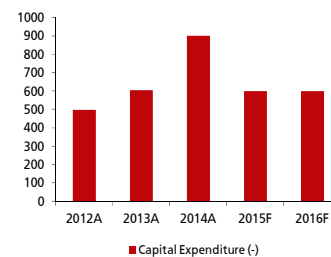


Cash Flow Statement (Rp bn)

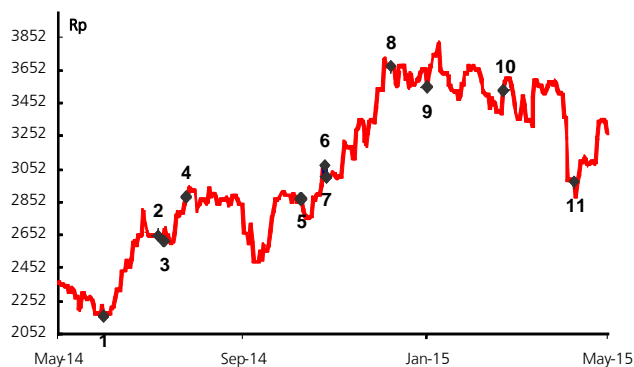
FY Dec	2012A	2013A	2014A	2015F	2016F
Pre-Tax Profit	833	1,017	1,146	1,266	1,550
Dep. & Amort.	92	94	131	213	244
Tax Paid	(113)	(184)	(225)	(169)	(474)
Assoc. & JV Inc/(loss)	(198)	(261)	(363)	(417)	(521)
Chg in Wkg.Cap.	85	(180)	(663)	(682)	(588)
Other Operating CF	(221)	(195)	0	0	0
Net Operating CF	478	290	26	212	212
Capital Exp.(net)	(498)	(605)	(900)	(600)	(600)
Other Invt.(net)	(42)	(17)	0	0	0
Invt in Assoc. & JV	(115)	(93)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(417)	95	0	0	0
Net Investing CF	(1,073)	(620)	(900)	(600)	(600)
Div Paid	(129)	(129)	(207)	(219)	(272)
Chg in Gross Debt	795	417	1,200	200	800
Capital Issues	204	(23)	0	0	0
Other Financing CF	0	(80)	0	0	0
Net Financing CF	871	185	993	(19)	528
Currency Adjustments	0	0	0	0	0
Chg in Cash	277	(144)	119	(407)	140
Opg CFPS (Rp)	66	79	116	151	135
Free CFPS (Rp)	(3)	(53)	(147)	(66)	(65)

Source: Company, AllianceDBS, DBS Vickers

Capital Expenditure



Target Price & Ratings History



Note : Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	25 Jun 14	2160	3150	Buy
2:	31 Jul 14	2650	3150	Buy
3:	04 Aug 14	2615	3150	Buy
4:	19 Aug 14	2885	3150	Buy
5:	03 Nov 14	2875	3150	Buy
6:	19 Nov 14	3075	2950	Buy
7:	20 Nov 14	3005	3200	Hold
8:	02 Jan 15	3675	3200	Hold
9:	26 Jan 15	3550	4050	Buy
10:	18 Mar 15	3530	4000	Buy
11:	04 May 15	2975	3000	Hold

Source: AllianceDBS, DBS Vickers

Indonesia Company Focus

PT PP (Persero)

Bloomberg: PTPP IJ | Reuters: PTPP.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 May 2015

BUY Rp4,075 JCI : 5,315.15

Price Target : 12-month Rp 4,650

Reason for Report : Sector update

Potential Catalyst: Faster rollout of government projects

Where we differ: Strongest earnings forecasts in the street

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (Rp bn)	2013A	2014A	2015F	2016F
Revenue	11,656	12,427	16,830	20,662
EBITDA	1,087	1,272	1,864	2,296
Pre-tax Profit	767	919	1,357	1,695
Net Profit	421	532	745	902
Net Pft (Pre Ex.)	421	532	745	902
EPS (Rp)	87	110	154	186
EPS Pre Ex. (Rp)	87	110	154	186
EPS Gth (%)	36	26	40	21
EPS Gth Pre Ex (%)	36	26	40	21
Diluted EPS (Rp)	87	110	154	186
Net DPS (Rp)	26	22	31	37
BV Per Share (Rp)	410	493	813	969
PE (X)	46.9	37.1	26.5	21.9
PE Pre Ex. (X)	46.9	37.1	26.5	21.9
P/Cash Flow (X)	30.3	69.9	88.5	74.2
EV/EBITDA (X)	17.9	15.8	10.3	8.5
Net Div Yield (%)	0.6	0.5	0.8	0.9
P/Book Value (X)	9.9	8.3	5.0	4.2
Net Debt/Equity (X)	CASH	0.1	CASH	CASH
ROAE (%)	23.1	24.3	23.6	20.9

Earnings Rev (%): 3 0
 Consensus EPS (Rp): 144 191
 No. of brokers following: B: 18 S: 1 H: 0

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: PT PP (Persero) is Indonesia's leading construction company with business portfolio ranging from building constructions and civil infrastructure constructions.

Source of all data: Company, AllianceDBS, DBS Vickers, Bloomberg Finance L.P.

Safest bet

- Strongest contract achievement YTD
- Least dependent on government projects
- Remains our top pick in the sector
- Maintain BUY, TP unchanged at Rp4,650

Strong contract wins YTD. As of 4M14, PTPP has secured Rp7.86tr worth of new contracts, or 29% of its FY15 target (vs. 16%-18% for WIKA, WSKT and ADHI). And, in the first two weeks of May, PTPP clinched another c.Rp1tr worth, taking total new wins to Rp8.9tr YTD or 32% of target. Hence, PTPP is on track to meet or exceed its FY15 new contracts target.

Less dependent on government projects. PTPP outperformed peers in 1Q15 because of its ability to win mostly private sector contracts. And since this is a transitional year for the sector, PTPP is the safest bet - among the SOE contractors - against potential disappointments with the rollout of government projects, for which there are high expectations. It is bullish on clinching more seaport projects. In the pipeline are upgrading works for Belawan Port (Rp550bn), Kuala Tanjung in Sumatra South (Rp900bn), and additional works for Kalibaru Phase 1 (Rp1tr, of which half has been approved in April).

Maintain BUY, Rp4,650 TP. We continue to like PTPP for its strong order backlog (2.8x FY14 revenue), solid execution, and expertise in seaport projects. We forecast NPAT will grow at 30% CAGR (FY14-16) and exceed Rp900bn by next year. The strong earnings growth will be supported by the expanding property business, which will also enhance margins and ROE.

At A Glance

Issued Capital (m shrs)	4,842
Mkt. Cap (Rpbn/US\$m)	19,733 / 1,501
Major Shareholders	
Republic of Indonesia (%)	51.0
Koperasi Karyawan Pemegang	6.2
Free Float (%)	42.8
Avg. Daily Vol.('000)	12,802

INVESTMENT THESIS

Profile	Rationale
<p>PT PP is Indonesia's leading construction company which portfolio ranges from building and civil engineering to infrastructure construction. It has established a solid reputation in the construction of high rise buildings, which accounts for c.55% of its regular construction portfolio. Additionally, PTPP enjoys c.40% market share in the seaport sector (company estimate).</p>	<p>Potential surge in infrastructure spending this year</p> <ul style="list-style-type: none"> Savings from fuel subsidy is c.Rp200tr. We expect c.Rp90tr of this to be channelled into infrastructure. Based on the proposed budget revision, infrastructure spending by the central government could increase by 40% this year. <p>Strongest earnings growth and revenue visibility</p> <ul style="list-style-type: none"> PTPP will register the strongest earnings growth (29% CAGR FY14-16) and highest revenue visibility with orderbook at 2.1x FY14 revenue. Earnings growth would be supported by rising contribution from the property arm, which commands higher margins. <p>Lower dependence on government projects</p> <ul style="list-style-type: none"> PTPP has the highest private sector contribution among the SOE contractors. Its ability to clinch private sector projects will cushion the company against slower rollout of government projects (like in 2014).
Valuation	Risks
<p>We peg our TP (Rp4,650) to 25x FY16 EPS. PTPP deserves to trade at a high valuation due to its strong track record and strong EPS growth potential (30% CAGR between FY14-16).</p>	<p>Slow rollout of infrastructure projects</p> <ul style="list-style-type: none"> We assume the new government will accelerate the rollout of new projects. If they fail to do that, there will be downside risk to our forecast revenues and earnings. <p>Slowdown in property sector</p> <ul style="list-style-type: none"> PTPP is dependent on its property arm (20-30% profit contribution). If the property market experiences a significant slowdown, PTPP's revenue and earnings will be impacted. <p>Funds outflow</p> <ul style="list-style-type: none"> PTPP's share price has performed well, with an increase in foreign shareholding. But should there be a large outflow of foreign funds, the stock could be de-rated.

Source: AllianceDBS, DBS Vickers

Key Assumptions

FY Dec	2012A	2013A	2014A	2015F	2016F
New Contract Won	19,475	19,584	22,668	26,839	32,078
Gross Profit Margin	10.7	10.9	12.3	13.0	13.0

Sensitivity Analysis

	2015
New contract win	Net Profit +/-
+/- 5%	2.1%
GPM +/- 10bps	Net Profit +/-
	2.3%

Segmental Breakdown

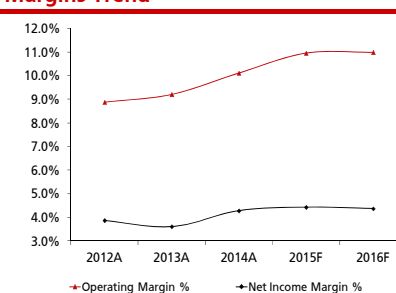
FY Dec	2012A	2013A	2014A	2015F	2016F
Revenues (Rp bn)					
Construction	6,529	9,952	10,662	13,761	16,669
Real Estate	124	259	645	1,500	1,950
Property	1,351	1,445	1,091	1,527	1,986
EPC	0	0	29	41	58
Total	8,004	11,656	12,427	16,830	20,662
Gross Profit (Rp bn)					
Construction	662	1,077	1,232	1,486	1,800
Real Estate	31	57	250	525	663
Property	161	139	143	176	228
EPC	161	139	143	176	228
Total	1,015	1,411	1,675	2,363	2,920
Gross Profit Margins (%)					
Construction	10.1	10.8	11.6	10.8	10.8
Real Estate	25.1	22.0	38.7	35.0	34.0
Property	11.9	9.6	13.1	11.5	11.5
EPC	N/A	N/A	486.6	427.7	397.1
Total	12.7	12.1	13.5	14.0	14.1

Income Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenue	8,004	11,656	12,427	16,830	20,662
Cost of Goods Sold	(7,149)	(10,383)	(10,894)	(14,643)	(17,970)
Gross Profit	855	1,273	1,533	2,187	2,692
Other Opg (Exp)/Inc	(144)	(200)	(276)	(342)	(420)
Operating Profit	711	1,073	1,257	1,845	2,272
Other Non Opg (Exp)/Inc	(115)	(148)	(95)	(192)	(245)
Associates & JV Inc	145	96	72	87	109
Net Interest (Exp)/Inc	(195)	(255)	(315)	(383)	(441)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	545	767	919	1,357	1,695
Tax	(236)	(346)	(387)	(529)	(649)
Minority Interest	0	0	0	(83)	(143)
Preference Dividend	0	0	0	0	0
Net Profit	310	421	532	745	902
Net Profit before Except.	310	421	532	745	902
EBITDA	714	1,087	1,272	1,864	2,296
Growth					
Revenue Gth (%)	28.4	45.6	6.6	35.4	22.8
EBITDA Gth (%)	23.9	52.2	17.0	46.6	23.1
Opg Profit Gth (%)	23.7	51.0	17.1	46.8	23.1
Net Profit Gth (%)	28.9	35.9	26.4	40.1	21.1
Margins & Ratio					
Gross Margins (%)	10.7	10.9	12.3	13.0	13.0
Opg Profit Margin (%)	8.9	9.2	10.1	11.0	11.0
Net Profit Margin (%)	3.9	3.6	4.3	4.4	4.4
ROAE (%)	20.1	23.1	24.3	23.6	20.9
ROA (%)	4.0	4.0	3.9	4.6	4.6
ROCE (%)	11.8	13.2	12.8	15.4	15.4
Div Payout Ratio (%)	38.7	40.8	25.3	28.0	24.2
Net Interest Cover (x)	3.6	4.2	4.0	4.8	5.2

Source: Company, AllianceDBS, DBS Vickers

Margins Trend



Quarterly / Interim Income Statement (Rpbn)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	1,999	2,603	3,205	4,619	1,982
Cost of Goods Sold	(1,802)	(2,264)	(2,829)	(3,999)	(1,704)
Gross Profit	198	339	375	621	278
Other Oper. (Exp)/Inc	(59)	(105)	(46)	(66)	(86)
Operating Profit	139	234	330	555	192
Other Non Opg (Exp)/Inc	(17)	(35)	(22)	(20)	(20)
Associates & JV Inc	9	7	27	30	3
Net Interest (Exp)/Inc	(9)	(35)	(97)	(174)	(13)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	122	169	238	390	162
Tax	(61)	(84)	(94)	(148)	(68)
Minority Interest	0	0	0	0	0
Net Profit	61	85	143	242	94
Net profit bef Except.	61	85	143	242	94
EBITDA	131	205	335	564	175

Growth

Revenue Gth (%)	(54.6)	30.2	23.1	44.1	(57.1)
EBITDA Gth (%)	(72.6)	56.5	63.3	68.7	(69.0)
Opg Profit Gth (%)	(72.1)	68.4	41.1	68.3	(65.4)
Net Profit Gth (%)	(69.6)	38.8	68.2	68.6	(61.3)

Margins

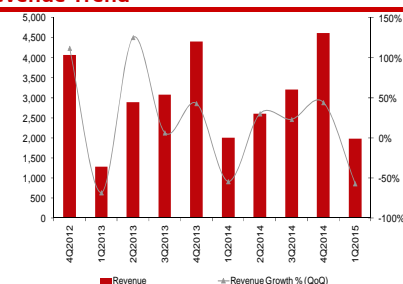
Gross Margins (%)	9.9	13.0	11.7	13.4	14.0
Opg Margins (%)	6.9	9.0	10.3	12.0	9.7
Net Profit Margins (%)	3.1	3.3	4.5	5.2	4.7

Balance Sheet (Rp bn)

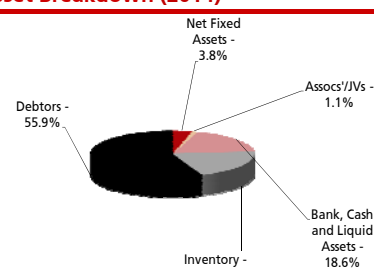
FY Dec	2012A	2013A	2014A	2015F	2016F
Net Fixed Assets	73	142	494	658	845
Invts in Associates & JVs	61	70	147	147	147
Other LT Assets	228	407	426	426	426
Cash & ST Invts	1,444	2,573	2,611	3,952	4,358
Inventory	1,566	1,777	2,675	3,205	3,933
Debtors	4,323	6,389	7,244	8,530	10,473
Other Current Assets	856	1,058	1,015	1,015	1,015
Total Assets	8,551	12,416	14,612	17,933	21,197
ST Debt	1,266	1,475	1,475	1,475	1,475
Creditor	4,244	6,300	7,022	8,213	10,079
Other Current Liab	523	1,001	1,342	1,342	1,342
LT Debt	530	813	1,455	1,955	2,455
Other LT Liabilities	333	842	928	928	928
Shareholder's Equity	1,656	1,984	2,389	3,937	4,690
Minority Interests	0	1	1	84	227
Total Cap. & Liab.	8,551	12,416	14,612	17,933	21,197
Non-Cash Wkg. Capital	1,978	1,923	2,571	3,195	4,000
Net Cash/(Debt)	(351)	286	(319)	523	428
Debtors Turn (avg days)	168.7	167.7	200.2	171.1	167.8
Creditors Turn (avg days)	196.8	185.6	223.5	190.1	186.0
Inventory Turn (avg days)	80.5	58.8	74.7	73.4	72.6
Asset Turnover (x)	1.0	1.1	0.9	1.0	1.1
Current Ratio (x)	1.4	1.3	1.4	1.5	1.5
Quick Ratio (x)	1.0	1.0	1.0	1.1	1.1
Net Debt/Equity (X)	0.2	CASH	0.1	CASH	CASH
Net Debt/Equity ex MI (X)	0.2	CASH	0.1	CASH	CASH
Capex to Debt (%)	5.8	4.1	5.5	5.4	5.4
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, AllianceDBS, DBS Vickers

Revenue Trend



Asset Breakdown (2014)

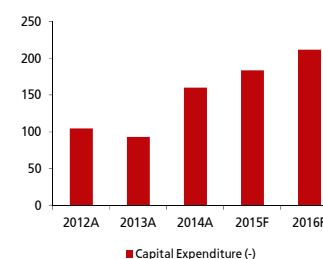


Sharp increase in equity with the listing of its property arm in May 2015 (PPRO IJ)

Cash Flow Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Pre-Tax Profit	545	767	919	1,357	1,695
Dep. & Amort.	3	14	15	20	24
Tax Paid	(236)	(346)	(387)	(529)	(649)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	(530)	55	(648)	(625)	(804)
Other Operating CF	413	161	384	0	0
Net Operating CF	196	651	282	223	266
Capital Exp.(net)	(105)	(93)	(160)	(184)	(211)
Other Invt.(net)	(411)	(35)	(192)	0	0
Invt in Assoc. & JV	32	(106)	(78)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	18	(129)	(95)	0	0
Net Investing CF	(465)	(363)	(525)	(184)	(211)
Div Paid	(79)	(93)	(126)	(106)	(149)
Chg in Gross Debt	337	529	369	500	500
Capital Issues	0	0	0	909	0
Other Financing CF	0	223	0	0	0
Net Financing CF	258	659	243	1,302	351
Currency Adjustments	8	(6)	0	0	0
Chg in Cash	(3)	940	0	1,342	405
Opg CFPS (Rp)	150	123	192	175	221
Free CFPS (Rp)	19	115	25	8	11

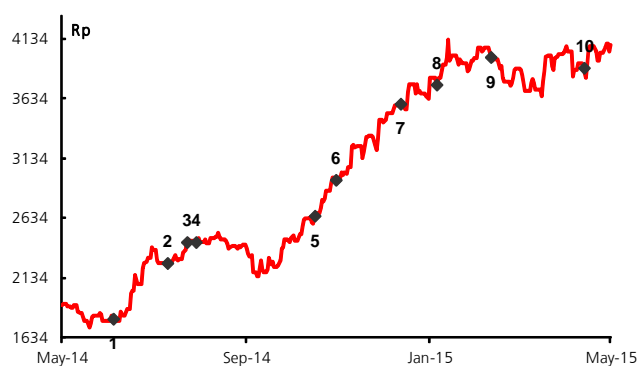
Capital Expenditure



Cash received from the listing of PPRO

Source: Company, AllianceDBS, DBS Vickers

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	25 Jun 14	1795	2250	Buy
2:	31 Jul 14	2260	2250	Buy
3:	13 Aug 14	2435	2250	Hold
4:	19 Aug 14	2435	2250	Hold
5:	06 Nov 14	2655	2250	Hold
6:	20 Nov 14	2955	3300	Hold
7:	02 Jan 15	3590	3300	Buy
8:	26 Jan 15	3750	4650	Buy
9:	03 Mar 15	3980	4650	Buy
10:	04 May 15	3890	4650	Buy

Source: AllianceDBS, DBS Vickers

Indonesia Company Focus

Waskita Karya

Bloomberg: WSKT IJ | Reuters: WSKT.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 May 2015

FULLY VALUED Rp1,765 JCI : 5,315.15

Price Target : 12-Month Rp 1,320

Reason for Report : Sector update

Potential Catalyst: Stronger cash flow from operation

Where we differ: Non-consensus fully valued call

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (Rp bn)	2013A	2014A	2015F	2016F
Revenue	9,687	10,287	12,927	16,203
EBITDA	734	952	1,113	1,321
Pre-tax Profit	611	756	892	1,009
Net Profit	368	502	594	642
Net Pft (Pre Ex.)	368	502	594	642
EPS (Rp)	38	52	61	66
EPS Pre Ex. (Rp)	38	52	61	66
EPS Gth (%)	0	36	18	8
EPS Gth Pre Ex (%)	0	36	18	8
Diluted EPS (Rp)	38	52	61	66
Net DPS (Rp)	11	16	18	20
BV Per Share (Rp)	247	294	338	386
PE (X)	46.2	34.0	28.9	26.7
PE Pre Ex. (X)	46.2	34.0	28.9	26.7
P/Cash Flow (X)	nm	nm	141.6	nm
EV/EBITDA (X)	23.8	19.4	17.3	15.4
Net Div Yield (%)	0.6	0.9	1.0	1.1
P/Book Value (X)	7.1	6.0	5.2	4.6
Net Debt/Equity (X)	0.2	0.5	0.6	0.8
ROAE (%)	16.8	19.2	19.4	18.2

Earnings Rev (%)			0	0
Consensus EPS (Rp):			63	84
No. of brokers following:	B: 12	S: 3	H: 2	

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: PT Waskita Karya Tbk is a stated-owned contractor that is involved in broad construction activities including highways, bridges, ports, airports, buildings, sewerage plants, cement plants, factories and other industrial facilities.

Source of all data: Company, AllianceDBS, DBS Vickers, Bloomberg Finance L.P.

Overhang from rights issue

- Massive rights issue exercise in June
- Concerns over profitability of projects given aggressive target
- Precast margins not sustainable
- Maintain FULLY VALUED, TP Rp1,320

Rights issue. WSKT is expected to complete the rights issue in June. It plans to sell 4.08bn shares (29% of its equity). The offer price is Rp1,300-Rp1,650/share, implying 7-26% discount from the last closing price. The rights issue is expected to raise Rp5.3tr-Rp6.7tr. The listing date is scheduled for 24 June.

Concerns over profitability and earnings dilution.

We are cautious of the rights issue on two fronts: i) profitability of projects, and ii) earnings dilution. It will be difficult for WSKT to achieve its aggressive target of Rp40tr worth of new contracts this year (vs. Rp20tr without the rights issue), without sacrificing profitability. WSKT has only secured Rp3.7tr worth YTD-April.

Precast margins not sustainable. WSKT's investments in toll roads has thus far benefited its precast division, which margins have risen to 18.2% in FY14 from 9.3% in FY13, as the bulk of its precast products were supplied to its affiliated toll roads such as Becakayu (Bekasi-Cawang-Kampung Melayu). However, the high margins are not sustainable as Wika Beton which leads with c.40% share of the precast market registers only 13-15% GPM. Furthermore, WSKT's strategy to secure controlling stakes in toll roads will stretch its balance sheet, given the large investments needed and extremely long payback period for road projects. WSKT has also yet to book a positive operating cash flow since its IPO. Maintain FULLY VALUED call. Our TP is based on 20x FY16F EPS.

At A Glance

Issued Capital (m shrs)	9,728
Mkt. Cap (Rpbn/US\$m)	17,169 / 1,306
Major Shareholders	
Republic of Indonesia (%)	68.0
Free Float (%)	32.0
Avg. Daily Vol. ('000)	30,468

INVESTMENT THESIS

Profile	Rationale
<p>PT Waskita Karya Tbk (WSKT) is a state-owned construction company engaged in a wide variety of construction activities including toll road, bridges, ports and buildings. It is the most leveraged proxy to the Indonesian construction sector, deriving 99% of its revenues from construction and >50% of its projects from the Government of Indonesia.</p>	<p>Potential earnings dilution from planned rights issue</p> <ul style="list-style-type: none"> WSKT is planning a rights issue to raise Rp10tr in two phases. The first, by June 2015, is expected to raise Rp5.3tr. The remaining Rp4.7tr will be done next year. For the first phase, the Government of Indonesia (GoI) will inject Rp3.5tr while the balance (Rp1.8tr) would come from the public. The new shares issued under Phase I will represent about 39% of the current share base. <p>Concern over rising interest expense as WSKT invests in more toll roads.</p> <ul style="list-style-type: none"> We are more worried about WSKT plans to issue bonds to finance its toll road projects. FY14 interest expense was c.27% of WSKT's EBIT (17% in FY13), and hence, NPAT is highly sensitive to its gearing ratio. <p>Concerns over profitability of projects given aggressive target</p> <ul style="list-style-type: none"> WSKT has an aggressive target of doubling new contract wins this year (pending approval of rights issue). Hence, we are concerned that some projects might not be profitable.
Valuation	Risks
<p>Our target price of Rp1,320 is pegged to 20x FY16 EPS. Maintain FULLY VALUED call as there is more than 10% downside to our TP.</p>	<p>Persistently weak operating cash flow</p> <ul style="list-style-type: none"> We have yet to see positive operating cash flow at WSKT, despite its strong contract wins last year. As such, its balance sheet could remain stretched, forcing it to make another rights or bond issue. <p>Unsustainable margins</p> <ul style="list-style-type: none"> We are cautious of the sustainability of its precast margins (18%) as Wika Beton (market leader in precast) is only registering 13-15% GPM. <p>Policy risk</p> <ul style="list-style-type: none"> New government is unable to speed up infrastructure development in Indonesia. <p>Funds outflow</p> <ul style="list-style-type: none"> Derating of Indonesia's stocks as foreign investors shift funds elsewhere.

Source: AllianceDBS, DBS Vickers

Key Assumptions

FY Dec	2012A	2013A	2014A	2015F	2016F
New contract wins	12,264	13,318	22,700	22,000	25,800
Construction GPM (%)	8.9	9.4	10.1	9.7	9.5

Segmental Breakdown

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenues (Rp bn)					
Construction	8,808	9,559	9,484	11,723	14,397
Building rentals/Property	1	0	0	0	0
Precast	0	127	803	1,204	1,806
Energy	0	0	0	0	0
Total	8,808	9,687	10,287	12,927	16,203
Gross Profit (Rp bn)					
Construction	781	899	963	1,137	1,368
Building rentals/Property	1	0	0	0	0
Precast	(50)	12	146	169	199
Energy	0	0	0	0	0
Total	732	911	1,109	1,306	1,567
Gross Profit Margins (%)					
Construction	8.9	9.4	10.1	9.7	9.5
Building rentals/Property	100.0	100.0	100.0	100.0	100.0
Precast	N/A	9.3	18.2	14.0	11.0
Energy	N/A	N/A	N/A	N/A	N/A
Total	8.3	9.4	10.8	10.1	9.7

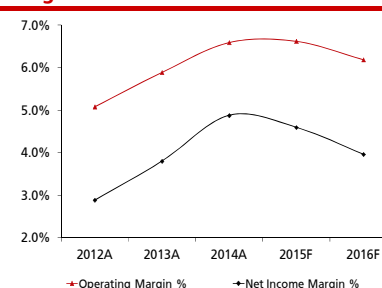
Surge in precast contribution because WSKT supply to affiliated toll roads

Precast GPM not sustainable

Income Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenue	8,808	9,687	10,287	12,927	16,203
Cost of Goods Sold	(8,076)	(8,776)	(9,178)	(11,621)	(14,636)
Gross Profit	732	911	1,109	1,306	1,567
Other Opng (Exp)/Inc	(285)	(340)	(431)	(450)	(564)
Operating Profit	448	571	678	856	1,003
Other Non Opg (Exp)/Inc	57	8	20	0	0
Associates & JV Inc	94	103	197	186	228
Net Interest (Exp)/Inc	(138)	(70)	(140)	(150)	(223)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	460	611	756	892	1,009
Tax	(206)	(243)	(254)	(299)	(367)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	254	368	502	594	642
Net Profit before Except.	254	368	502	594	643
EBITDA	632	734	952	1,113	1,321
Growth					
Revenue Gth (%)	21.1	10.0	6.2	25.7	25.3
EBITDA Gth (%)	31.6	16.2	29.7	16.9	18.7
Opg Profit Gth (%)	5.3	27.5	18.9	26.2	17.1
Net Profit Gth (%)	47.7	44.9	36.3	18.4	8.1
Margins & Ratio					
Gross Margins (%)	8.3	9.4	10.8	10.1	9.7
Opg Profit Margin (%)	5.1	5.9	6.6	6.6	6.2
Net Profit Margin (%)	2.9	3.8	4.9	4.6	4.0
ROAE (%)	19.3	16.8	19.2	19.4	18.2
ROA (%)	3.8	4.3	4.7	4.4	4.0
ROCE (%)	8.0	8.1	8.2	7.6	7.2
Div Payout Ratio (%)	8.0	30.0	30.0	30.0	30.0
Net Interest Cover (x)	3.3	8.2	4.8	5.7	4.5

Margins Trend



Source: Company, AllianceDBS, DBS Vickers

Quarterly / Interim Income Statement (Rpbn)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	1,035	2,147	2,099	5,006	1,403
Cost of Goods Sold	(924)	(1,945)	(1,911)	(4,397)	(1,246)
Gross Profit	111	202	188	609	157
Other Oper. (Exp)/Inc	(47)	(120)	(97)	(158)	(50)
Operating Profit	63	81	91	451	107
Other Non Opg (Exp)/Inc	(15)	30	2	(4)	(18)
Associates & JV Inc	14	31	63	89	11
Net Interest (Exp)/Inc	(18)	(36)	(31)	(55)	(50)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	44	107	125	480	50
Tax	(37)	(53)	(57)	(108)	(38)
Minority Interest	0	0	0	0	0
Net Profit	7	54	68	372	12
Net profit bef Except.	7	54	68	372	12
EBITDA	62	142	156	536	100

Growth

Revenue Gth (%)	(77.2)	107.5	(2.2)	138.5	(72.0)
EBITDA Gth (%)	(83.6)	130.9	9.9	242.5	(81.3)
Opg Profit Gth (%)	(80.8)	28.6	12.1	394.9	(76.2)
Net Profit Gth (%)	(97.3)	701.2	26.1	445.6	(96.8)

Margins

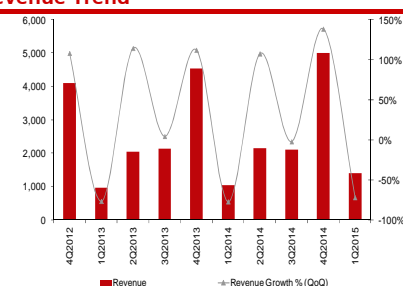
Gross Margins (%)	10.7	9.4	9.0	12.2	11.2
Opg Margins (%)	6.1	3.8	4.3	9.0	7.6
Net Profit Margins (%)	0.7	2.5	3.3	7.4	0.8

Balance Sheet (Rp bn)

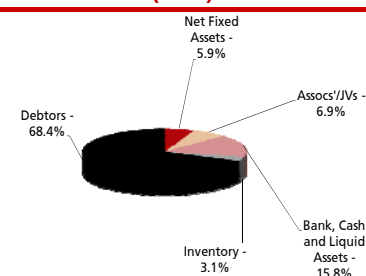
FY Dec	2012A	2013A	2014A	2015F	2016F
Net Fixed Assets	240	415	622	1,151	1,763
Invts in Associates & JVs	124	343	735	735	735
Other LT Assets	212	249	661	661	661
Cash & ST Invts	2,208	1,144	1,700	2,070	1,980
Inventory	393	281	327	385	485
Debtors	4,731	5,654	7,261	8,115	10,172
Other Current Assets	458	702	1,236	1,520	1,845
Total Assets	8,366	8,788	12,542	14,638	17,639
ST Debt	1,172	875	1,917	1,917	1,917
Creditor	3,568	4,086	5,272	5,925	7,463
Other Current Liab	552	466	539	539	539
LT Debt	747	748	1,246	2,246	3,246
Other LT Liabilities	320	230	719	719	719
Shareholder's Equity	2,007	2,382	2,843	3,286	3,750
Minority Interests	0	1	6	6	6
Total Cap. & Liab.	8,366	8,788	12,542	14,638	17,639
Non-Cash Wkg. Capital	1,462	2,085	3,014	3,557	4,500
Net Cash/(Debt)	289	(479)	(1,463)	(2,092)	(3,183)
Debtors Turn (avg days)	165.8	195.7	229.1	217.1	206.0
Creditors Turn (avg days)	141.9	160.1	187.2	176.9	167.9
Inventory Turn (avg days)	16.9	14.1	12.2	11.3	10.9
Asset Turnover (x)	1.3	1.1	1.0	1.0	1.0
Current Ratio (x)	1.5	1.4	1.4	1.4	1.5
Quick Ratio (x)	1.3	1.3	1.2	1.2	1.2
Net Debt/Equity (X)	CASH	0.2	0.5	0.6	0.8
Net Debt/Equity ex MI (X)	CASH	0.2	0.5	0.6	0.8
Capex to Debt (%)	4.3	14.1	10.4	14.4	13.6
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, AllianceDBS, DBS Vickers

Revenue Trend



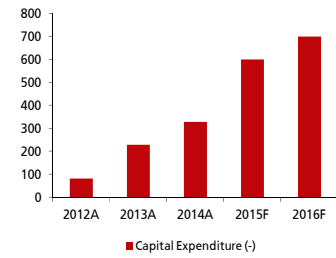
Asset Breakdown (2014)



Cash Flow Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Pre-Tax Profit	460	611	756	892	1,008
Dep. & Amort.	34	53	56	71	89
Tax Paid	(206)	(243)	(254)	(299)	(367)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	(678)	(623)	(753)	(543)	(944)
Other Operating CF	203	(183)	107	0	0
Net Operating CF	(188)	(385)	(89)	121	(213)
Capital Exp.(net)	(82)	(229)	(329)	(600)	(700)
Other Invts.(net)	(42)	(17)	0	0	0
Invts in Assoc. & JV	(115)	(135)	(755)	0	0
Div from Assoc & JV	0	1	1	0	0
Other Investing CF	212	2	0	0	0
Net Investing CF	(28)	(379)	(1,082)	(600)	(700)
Div Paid	0	(20)	(110)	(150)	(178)
Chg in Gross Debt	795	(297)	1,782	1,000	1,000
Capital Issues	204	0	59	0	0
Other Financing CF	815	0	(3)	0	0
Net Financing CF	1,815	(317)	1,728	850	822
Currency Adjustments	0	0	0	0	0
Chg in Cash	1,599	(1,081)	557	371	(91)
Opg CFPS (Rp)	74	25	69	68	75
Free CFPS (Rp)	(40)	(64)	(43)	(49)	(94)

Capital Expenditure

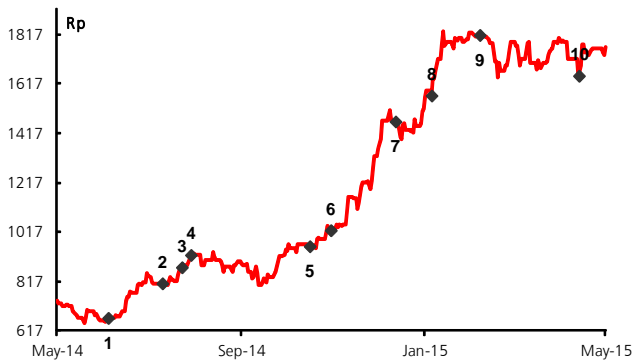


CFO has been weak

Investment in toll roads is cash-intensive

Source: Company, AllianceDBS, DBS Vickers

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	25 Jun 14	670	850	Buy
2:	31 Jul 14	810	850	Buy
3:	13 Aug 14	875	850	Buy
4:	19 Aug 14	925	850	Buy
5:	06 Nov 14	960	850	Hold
6:	20 Nov 14	1025	965	Hold
7:	02 Jan 15	1465	965	Hold
8:	26 Jan 15	1570	1100	Fully Valued
9:	27 Feb 15	1815	1320	Fully Valued
10:	04 May 15	1650	1320	Fully Valued

Source: AllianceDBS, DBS Vickers

Indonesia Company Focus

Wijaya Karya Beton

Bloomberg: WTON IJ | Reuters: WTON.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 May 2015

BUY Rp1,205 JCI : 5,315.15

Price Target : 12-Month Rp 1,200

Reason for Report : Sector update

Potential Catalyst: Faster rollout of government projects, better GPM

Where we differ: More conservative earnings forecast

Analyst

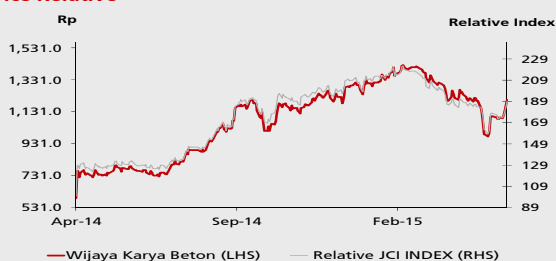
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Price Relative



Forecasts and Valuation

FY Dec (Rp bn)	2013A	2014A	2015F	2016F
Turnover	2,644	3,277	3,921	5,175
EBITDA	393	499	552	696
Pre-tax Profit	329	412	435	556
Net Profit	243	329	328	418
Net Pft (Pre Ex.)	243	329	328	418
EPS (Rp)	36	38	38	48
EPS Pre Ex. (Rp)	36	38	38	48
EPS Gth (%)	34	4	0	27
EPS Gth Pre Ex (%)	34	4	0	27
Diluted EPS (Rp)	36	38	38	48
Net DPS (Rp)	16	13	13	17
BV Per Share (Rp)	101	246	270	302
PE (X)	33.3	32.0	32.0	25.1
PE Pre Ex. (X)	33.3	32.0	32.0	25.1
P/Cash Flow (X)	45.1	54.1	14.4	14.7
EV/EBITDA (X)	21.0	20.2	18.1	14.4
Net Div Yield (%)	1.4	1.1	1.1	1.4
P/Book Value (X)	11.9	4.9	4.5	4.0
Net Debt/Equity (X)	0.2	CASH	CASH	CASH
ROAE (%)	39.2	23.3	14.6	16.8

Earnings Rev (%):			(17)	(17)
Consensus EPS (Rp):			43	56
No. of brokers following:		B: 7	S: 2	H: 1

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: Wika Beton (a subsidiary of Wijaya Karya) is a leader in Indonesia's precast industry with c.40% market share.

Source of all data: Company, DBS Vickers, AllianceDBS, Bloomberg Finance L.P

Solid pickup in April

- Won Rp450bn worth of new contracts in April; on track to meet internal FY15 target of Rp4tr
- Further upside would come from margin recovery
- Maintain BUY, TP unchanged at Rp1,200

Solid pickup of new contracts in April. WTON won Rp450bn worth of new contracts in April (vs. Rp550bn in 3M15), taking the total to Rp1tr YTD-April, or 25% of its FY15 target. This suggests WTON is on track to meet its FY15 new contract guidance as we expect government projects to kick in soon.

Margin recovery would boost stock performance.

WTON's earnings are sensitive to margins, given that GPM is only 13-15%. In 1Q15, profit tumbled when GPM fell to 8% due to low utilisation (60-65%) and rising competition. Our sensitivity analysis estimates that every 1ppt movement in utilisation rate would swing NPAT by 1.5%, and every 50bps change in GPM would swing NPAT by 4.2%. We are confident margins will improve from 2Q15 onwards as utilisation picks up, but we forecast FY15 GPM will still drop to 13% vs. 14.9% in FY14, as competition will get worse this year. If WTON is able to achieve better margins, there would be upside to the stock price.

Maintain BUY, Rp1,200 TP. WTON remains the best proxy to Indonesia's infrastructure boom, and deserves premium valuation. Our TP is pegged to 25x FY16F PE, which is c.14% premium to WIKA's valuation.

At A Glance

Issued Capital (m shrs)	8,715
Mkt. Cap (Rpbn/US\$m)	10,502 / 799
Major Shareholders	
Wijaya Karya (%)	60.0
KKMS (%)	11.2
Free Float (%)	28.8
Avg. Daily Vol.('000)	21,803

INVESTMENT THESIS

Profile	Rationale
<p>PT Wijaya Karya Beton Tbk (WTON) is the dominant market leader in precast concrete with c.40% market share. It is a subsidiary of PT Wijaya Karya Tbk (WIKA), an SOE construction company. WTON was listed in April 2014, with WIKA's ownership falling to 60% (from 78.4% pre-IPO).</p>	<p>Potential big increase in infra spending this year</p> <ul style="list-style-type: none"> The savings from fuel subsidy is c.Rp200tr. We expect c.Rp90tr of this to be channelled into infrastructure. Based on the proposed budget revision, infra spending by the central government could increase by 50% this year. <p>Best infra proxy</p> <ul style="list-style-type: none"> WTON remains the best proxy to the infrastructure boom in Indonesia, given its leading 40% market share in the precast industry. As comparison, in the fragmented construction space, the largest player only commands c.5% market share. As such, WTON deserves premium valuation relative to other construction names. Additionally, among contractors and cement players, it also has the strongest pricing power due to its dominant capacity (2.5x/4x as big as Adhimix/JayaBeton) and much wider distribution coverage (nine plants covering the major islands in Indonesia, while its competitors are mostly in Java). As a result, WTON has a high tender success rate of 60-70% in areas outside Greater Jakarta.
Valuation	Risks
<p>We value WTON based on 25x FY16 EPS, which translates into Rp1,200 target price. WTON deserves a premium valuation due to its dominance in the precast industry. It is by far the best proxy to the infrastructure boom in Indonesia.</p>	<p>Increasing competition from SOE contractors</p> <ul style="list-style-type: none"> Major SOE contractors are investing in their precast division. If they manage to significantly increase their capacities and compete with WTON in terms of quality of products, WTON might lose some pricing power and suffer from margin erosion. <p>Slower-than-expected infrastructure growth</p> <ul style="list-style-type: none"> WTON is investing heavily to expand its production capacities, in anticipation of fast-growing demand for precast concrete. If infrastructure development is slower than expected, demand for precast concrete will be lower than expected and WTON's factories will suffer from lower utilisation rates. <p>Bulk of COGS is linked to USD</p> <ul style="list-style-type: none"> Steel and cement make up 30% and 20% of its COGS. Additionally, some overhead costs for its production facilities are also in USD. If the USD/IDR exchange rate swings significantly, its COGS could be affected. However, the company has mitigated the risk by signing umbrella contracts (3-month) for its major raw materials. For multi-year Government projects, there is a cost escalation clause.

Source: DBS Vickers, AllianceDBS

Key Assumptions

FY Dec	2012A	2013A	2014A	2015F	2016F
Gross profit margin	13.1	14.7	14.9	13.0	12.8
Sales volume	1,439	1,457	1,617	1,811	2,174
Utilization rate (%)	77.8	72.8	73.5	78.8	86.9

Segmental Breakdown

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenues (Rp bn)					
Concrete	2,017	2,622	3,228	3,872	5,111
Service	13	22	50	49	64
Head office	0	0	0	0	0
Total	2,031	2,644	3,277	3,921	5,175
Gross Profit (Rp bn)					
Concrete	262	334	403	425	551
Service	3	3	6	6	8
Head office	(34)	0	0	0	0
Total	231	336	409	431	558
Gross Profit Margins					
Concrete	13.0	12.7	12.5	11.0	10.8
Service	24.7	11.7	12.0	12.0	12.0
Head office	N/A	N/A	0.0	N/A	N/A
Total	11.4	12.7	12.5	11.0	10.8

Income Statement (Rp bn)

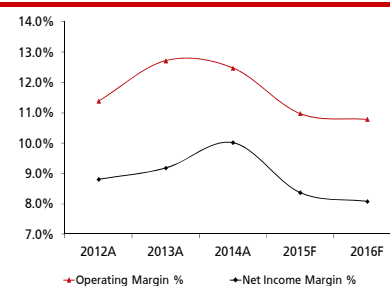
FY Dec	2012A	2013A	2014A	2015F	2016F
Revenue	2,031	2,644	3,277	3,921	5,175
Cost of Goods Sold	(1,765)	(2,256)	(2,790)	(3,413)	(4,514)
Gross Profit	265	388	487	509	661
Other Opng (Exp)/Inc	(34)	(52)	(78)	(78)	(103)
Operating Profit	231	336	409	431	558
Other Non Opg (Exp)/Inc	0	(4)	(3)	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	2	(4)	6	4	(3)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	234	329	412	435	556
Tax	(54)	(87)	(89)	(109)	(139)
Minority Interest	0	2	6	3	2
Preference Dividend	0	0	0	0	0
Net Profit	179	243	329	328	418
Net Profit before Except.	179	243	329	328	419
EBITDA	276	393	499	552	696
Growth					
Revenue Gth (%)	24.2	30.2	24.0	19.7	32.0
EBITDA Gth (%)	29.0	42.3	27.1	10.4	26.3
Opg Profit Gth (%)	31.2	45.4	21.6	5.3	29.7
Net Profit Gth (%)	23.9	35.7	35.3	0.0	27.4
Margins & Ratio					
Gross Margins (%)	13.1	14.7	14.9	13.0	12.8
Opg Profit Margin (%)	11.4	12.7	12.5	11.0	10.8
Net Profit Margin (%)	8.8	9.2	10.0	8.4	8.1
ROAE (%)	36.2	39.2	23.3	14.6	16.8
ROA (%)	8.4	9.1	9.8	6.8	6.5
ROCE (%)	32.4	25.5	15.4	10.1	11.3
Div Payout Ratio (%)	35.0	45.5	35.0	35.0	35.0
Net Interest Cover (x)	NM	92.9	NM	NM	162.8

Source: Company, DBS Vickers, AllianceDBS,

Sensitivity Analysis

	2015
GPM +/- 50bps	Net Profit +/- 4.2%
Utilization rate +/- 1ppt	Net Profit +/- 1.5%

Margins Trend



Quarterly / Interim Income Statement (Rp bn)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	814	864	644	955	428
Cost of Goods Sold	(686)	(735)	(564)	(805)	(393)
Gross Profit	128	129	80	150	34
Other Oper. (Exp)/Inc	(14)	(22)	(18)	(24)	(18)
Operating Profit	114	107	62	125	16
Other Non Opg (Exp)/Inc	(1)	0	(5)	2	(2)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(8)	8	5	0	3
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	105	116	62	128	17
Tax	(26)	(26)	(13)	(25)	(2)
Minority Interest	1	2	1	2	2
Net Profit	80	92	51	105	17
Net profit bef Except.	80	92	51	105	17
EBITDA	113	108	57	127	14

Growth

Revenue Gth (%)	35.2	6.2	(25.5)	48.2	(55.2)
EBITDA Gth (%)	74.6	(4.6)	(47.1)	123.4	(88.9)
Opg Profit Gth (%)	78.6	(5.9)	(42.3)	102.1	(87.1)
Net Profit Gth (%)	64.6	14.7	(44.7)	106.4	(83.8)

Margins

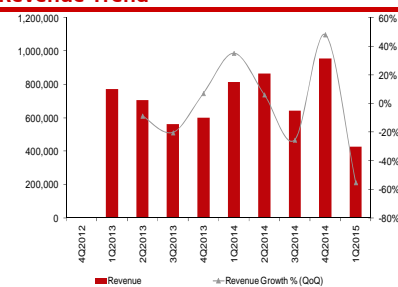
Gross Margins (%)	15.7	15.0	12.4	15.7	8.0
Opg Margins (%)	14.0	12.4	9.6	13.1	3.8
Net Profit Margins (%)	9.9	10.7	7.9	11.0	4.0

Balance Sheet (Rp bn)

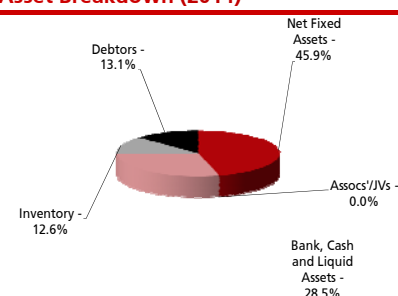
FY Dec	2012A	2013A	2014A	2015F	2016F
Net Fixed Assets	585	1,012	1,671	2,050	2,513
Invts in Associates & JVs	0	0	0	0	0
Invnt & Devt Properties	N/A	N/A	N/A	N/A	N/A
Other LT Assets	N/A	N/A	N/A	N/A	N/A
Cash & ST Invts	340	413	1,038	1,600	1,666
Dev Props held for sale	N/A	N/A	N/A	N/A	N/A
Inventory	881,217	846,027	457,603	1,262,585	1,678,790
Debtors	309,419	421,906	475,688	537,009	708,717
Other Current Assets	N/A	N/A	N/A	N/A	N/A
Total Assets	2,401	2,917	3,802	5,808	7,014
ST Debt	19	173	565	565	565
Creditor	421	325	420	455	605
Other Current Liab	1,338	1,297	524	1,833	2,519
LT Debt	0	369	1	452	552
Other LT Liabilities	19	24	89	89	89
Shareholder's Equity	558	680	2,144	2,357	2,629
Minority Interests	46	50	59	57	55
Total Cap. & Liab.	2,401	2,917	3,802	5,808	7,014
Non-Cash Wkg. Capital	(305)	(139)	144	(135)	(293)
Net Cash/(Debt)	321	(128)	472	583	549
Debtors Turn (avg days)	55.4	50.5	50.0	47.1	43.9
Creditors Turn (avg days)	80.0	62.0	50.4	48.5	44.2
Inventory Turn (avg days)	168.1	143.6	88.2	95.4	122.6
Asset Turnover (x)	1.0	1.0	1.0	0.8	0.8
Current Ratio (x)	1.0	1.1	1.4	1.3	1.2
Quick Ratio (x)	0.4	0.5	1.0	0.7	0.6
Net Debt/Equity (X)	CASH	0.2	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	0.2	CASH	CASH	CASH
Capex to Debt (%)	894.0	84.0	123.6	49.1	53.7
Z-Score (X)	NA	3.6	5.3	3.1	2.7

Source: Company, DBS Vickers, AllianceDBS,

Revenue Trend



Asset Breakdown (2014)

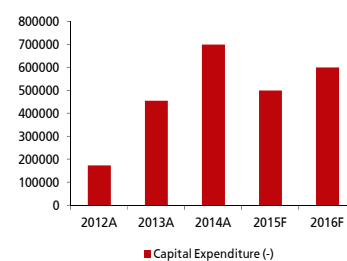


Cash Flow Statement (Rp bn)

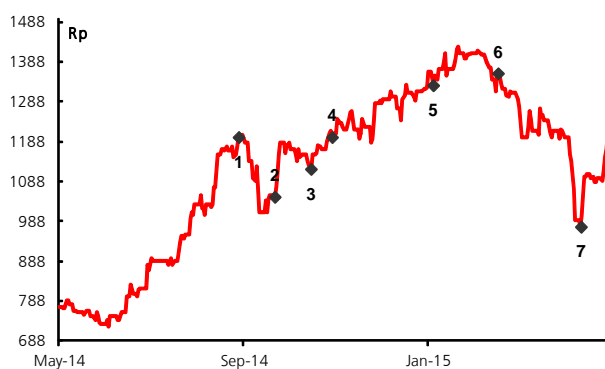
FY Dec	2012A	2013A	2014A	2015F	2016F
Pre-Tax Profit	234	329	412	435	555
Dep. & Amort.	44	62	96	123	140
Tax Paid	(113)	(184)	(89)	(109)	(139)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	84	(166)	(283)	279	158
Other Operating CF	45	140	59	0	0
Net Operating CF	294	180	194	728	714
Capital Exp.(net)	(174)	(454)	(700)	(500)	(600)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	0	0	0
Net Investing CF	(174)	(454)	(700)	(500)	(600)
Div Paid	(51)	(63)	(115)	(115)	(146)
Chg in Gross Debt	0	519	392	451	100
Capital Issues	46	(53)	1,193	0	0
Other Financing CF	0	0	0	0	0
Net Financing CF	(5)	403	1,470	336	(46)
Currency Adjustments	0	0	0	0	0
Chg in Cash	115	128	965	564	68
Opg CFPS (Rp)	32	51	55	52	64
Free CFPS (Rp)	18	(41)	(58)	26	13

Source: Company, DBS Vickers, AllianceDBS,

Capital Expenditure



Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	19 Sep 14	1200	1200	Hold
2:	13 Oct 14	1050	1200	Buy
3:	06 Nov 14	1120	1200	Buy
4:	20 Nov 14	1200	1200	Buy
5:	26 Jan 15	1330	1600	Buy
6:	10 Mar 15	1360	1600	Buy
7:	04 May 15	975	1200	Buy

Source: DBS Vickers, AllianceDBS,

Indonesia Company Focus

Semen Indonesia

Bloomberg: SMGR IJ | Reuters: SMGR.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 May 2015

FULLY VALUED Rp13,125 JCI : 5,315.15

Price Target : 12-Month Rp 12,000

Reason for Report : Sector update

Potential Catalyst: Strong rebound in domestic sales volume

Where we differ: FY16 earnings 6% below consensus

Analyst

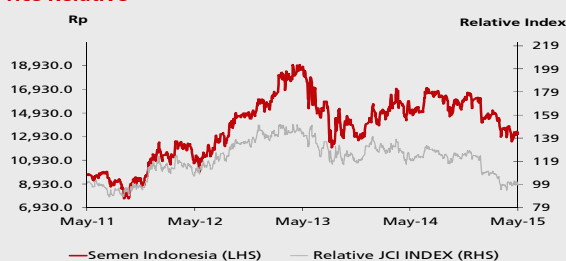
Deidy WIJAYA +6221 3003 4931

Deidy.Wijaya@id.dbsvickers.com

CHONG Tjen San, CFA +603 2604 3972

tjensan@alliancedbs.com

Price Relative



Forecasts and Valuation

FY Dec (Rp bn)	2013A	2014F	2015F	2016F
Revenue	24,501	26,987	28,990	32,134
EBITDA	8,099	8,195	8,443	9,093
Pre-tax Profit	6,920	7,091	7,200	7,679
Net Profit	5,370	5,566	5,565	5,941
Net Pft (Pre Ex.)	5,370	5,566	5,565	5,941
EPS (Rp)	905	938	938	1,002
EPS Pre Ex. (Rp)	905	938	938	1,002
EPS Gth (%)	11	4	0	7
EPS Gth Pre Ex (%)	11	4	0	7
Diluted EPS (Rp)	905	938	938	1,002
Net DPS (Rp)	407	422	422	451
BV Per Share (Rp)	3,521	4,052	4,568	5,147
PE (X)	14.5	14.0	14.0	13.1
PE Pre Ex. (X)	14.5	14.0	14.0	13.1
P/Cash Flow (X)	12.9	12.2	11.6	10.8
EV/EBITDA (X)	9.6	9.5	9.2	8.4
Net Div Yield (%)	3.1	3.2	3.2	3.4
P/Book Value (X)	3.7	3.2	2.9	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	28.1	24.8	21.8	20.6

Earnings Rev (%): -

Consensus EPS (Rp): 953

No. of brokers following: B: 19 S: 7 H: 8

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: Semen Gresik (SMGR IJ) : SMGR was established in 1957. In 1995 the company completed an acquisition of Semen Padang and Semen Tonasa. It is currently the largest player in the market with 40.7% market share.

Source of all data: Company, DBS Vickers, AllianceDBS, Bloomberg Finance L.P.

Market lead under pressure

- Domestic cement sales remain weak in April
- April market share fell to 42%, lowest since Dec 2012
- Still pricey at 14x/13x FY15/16 EPS given flat growth this year
- Maintain FULLY VALUED, Rp12,000 TP

Weak cement sales in April. Domestic cement sales fell by 2.8% m-o-m and 1.1% y-o-y to 4.47m tons. The weak volume was not surprising given the weak property sector and lack of government infrastructure projects up to now. As of 4M15, SMGR's domestic sales volume reached 7.93m tons (29% of our FY15 target).

Market share under pressure. SMGR's market share has been sliding since Feb 2015 (45.3%), hitting the lowest level (42.1%) since December 2012. We expect the fight for market share to intensify as Anhui's plant has come on-stream and Siam Cement is expected to start production in 2016. We estimate EBITDA margin will continue to drop to 28.3% by next year from 30.4% in FY14. Our recent company visit revealed it is looking at more conservative industry volume growth of 2-3% this year vs 5-6% previously. For now, the strategy is to be more rational on pricing and all rebates have been halted.

Maintain FULLY VALUED, Rp12,000 TP. SMGR's share price has corrected by 11% since we started coverage in Feb, but there is further downside as it is still pricey at 14x/13x FY15/16 EPS given pedestrian earnings growth over the next few years.

At A Glance

Issued Capital (m shrs)	5,932
Mkt. Cap (Rpbn/US\$m)	77,851 / 5,922
Major Shareholders	
Govt. of Indonesia (%)	60.0
Free Float (%)	40.0
Avg. Daily Vol.('000)	5,955

INVESTMENT THESIS

Profile	Rationale
<p>Semen Indonesia (SMGR) is the largest cement player in Indonesia with >40% market share. It has production facilities on three key islands (Java, Sumatra and Sulawesi) and solid distribution channels, which enables it to command high market shares throughout Indonesia. SMGR sells cement under three brands, "Semen Gresik", "Semen Padang" and "Semen Tonasa" which have strong brand equities in Java, Sumatra and Sulawesi, respectively.</p>	<p>Cement industry is facing an unprecedented structural shift</p> <ul style="list-style-type: none"> We estimate new supply to be more than double of new demand, bringing utilisation down from 89% to 72% by 2017. <p>Margins could continue to slide due to weakening pricing power and rising contribution from bulk cement</p> <ul style="list-style-type: none"> Three major players are entering Indonesia – Semen Merah Putih (Wilmar Group), Anhui Conch and Siam Cement. Anhui Conch and Siam Cement are market leaders in China and Thailand, respectively. With their Indonesia plants contributing only c.3% to their total capacities, there could be a price war once their plants come on stream as they try to gain market share. The fast growing segment in Indonesia is the bulk segment (contribution estimated to rise from 22% to 27% by FY17), which is used for infrastructure projects and high rise buildings. With less barriers to entry (brand equity and distribution channels), this segment (which already commands lower margins) will be the likely target for the new entrants. <p>Benefits from low energy prices offset by lower ASP</p> <ul style="list-style-type: none"> After Jokowi recently instructed SOE cement companies to reduce bag cement price by Rp3,000/bag (cut by 4-5%), the positive impact from lower energy prices are wiped out. We also fear Jokowi would continue to control SMGR's and SMBR's cement prices, and erase prospects of higher margins as a result of lower costs. <p>Rich valuations unwarranted given slower growth and declining ROE</p> <ul style="list-style-type: none"> SMGR is currently trading at 14x/13.1x FY15/FY16 EPS (-0.7 SD below mean) but earnings growth will be at lowest pace in a decade.
Valuation	Risks
<p>Our target price of Rp12,000 is pegged to 12x FY16 EPS (-1SD of 5-year mean). Maintain FULLY VALUED call.</p>	<p>Weak demand due to slow rollout of infrastructure projects</p> <ul style="list-style-type: none"> If the new government fails to speed up infrastructure development, cement demand growth could disappoint and hurt SMGR's utilisation rates and profitability. <p>Timely completion of facilities</p> <ul style="list-style-type: none"> SMGR plans to increase capacity by c.25% over the next three years. Delays could cause SMGR to lose market share. <p>Expansion outside Indonesia facing some risks</p> <ul style="list-style-type: none"> SMGR faces some country and political risks as it expands into Vietnam and Myanmar. Also, the expansion will reduce profitability as ASPs are much lower in these countries.

Source: DBS Vickers, AllianceDBS

Key Assumptions

FY Dec	2012A	2013A	2014F	2015F	2016F
Domestic Sales Volume (000 ton)	22,478	25,450	26,485	27,350	29,100
Domestic ASP/tonne (in Rp)	850,692	904,542	954,291	978,149	1,017,275
EBITDA margin	35.0	33.1	30.4	29.1	28.3

Sensitivity Analysis

	2015
Domestic sales volume +/- 5%	Net Profit +/- 7.2%
EBITDA margin +/- 50bps	Net Profit +/- 2.4%

Segmental Breakdown

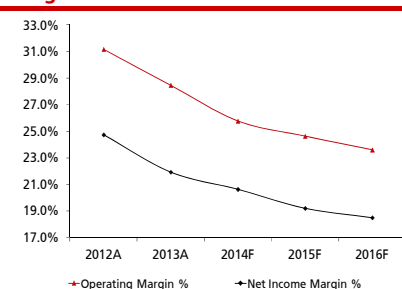
FY Dec	2012A	2013A	2014F	2015F	2016F
Revenues (Rp bn)					
Cement	19,195	24,152	26,335	28,393	31,449
Others	404	370	652	596	686
Total	19,598	24,522	26,987	28,990	32,134
Operating profit (Rp bn)					
Cement	5,947	6,998	7,078	7,019	7,446
Others	162	(26)	(124)	119	137
Total	6,109	6,972	6,954	7,139	7,583
Operating profit Margins					
Cement	31.0	29.0	26.9	24.7	23.7
Others	40.0	(7.0)	(19.0)	20.0	20.0
Total	31.2	28.4	25.8	24.6	23.6

Cement contributes 98% of SMGR's revenue

Income Statement (Rp bn)

FY Dec	2012A	2013A	2014F	2015F	2016F
Revenue	19,598	24,501	26,987	28,990	32,134
Cost of Goods Sold	(10,301)	(13,557)	(15,388)	(16,903)	(19,077)
Gross Profit	9,298	10,944	11,599	12,086	13,057
Other Opng (Exp)/Inc	(3,189)	(3,972)	(4,645)	(4,948)	(5,475)
Operating Profit	6,109	6,972	6,954	7,139	7,583
Other Non Opg (Exp)/Inc	73	91	202	80	80
Associates & JV Inc	28	35	32	43	48
Net Interest (Exp)/Inc	78	(177)	(97)	(62)	(32)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	6,287	6,920	7,091	7,200	7,679
Tax	(1,361)	(1,566)	(1,517)	(1,629)	(1,738)
Minority Interest	(79)	16	(8)	(5)	0
Preference Dividend	0	0	0	0	0
Net Profit	4,847	5,370	5,566	5,565	5,941
Net Profit before Except.	4,847	5,370	5,566	5,565	5,941
EBITDA	6,869	8,099	8,195	8,443	9,093
Growth					
Revenue Gth (%)	19.7	25.0	10.1	7.4	10.8
EBITDA Gth (%)	27.2	17.9	1.2	3.0	7.7
Opg Profit Gth (%)	26.3	14.1	(0.3)	2.7	6.2
Net Profit Gth (%)	23.5	10.8	3.6	0.0	6.7
Margins & Ratio					
Gross Margins (%)	47.4	44.7	43.0	41.7	40.6
Opg Profit Margin (%)	31.2	28.5	25.8	24.6	23.6
Net Profit Margin (%)	24.7	21.9	20.6	19.2	18.5
ROAE (%)	30.5	28.1	24.8	21.8	20.6
ROA (%)	21.0	18.7	17.1	15.6	15.1
ROCE (%)	24.6	22.5	20.1	18.4	17.7
Div Payout Ratio (%)	45.0	45.0	45.0	45.0	45.0
Net Interest Cover (x)	NM	39.4	71.8	115.5	235.7

Margins Trend



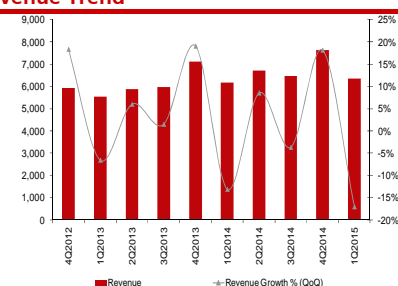
We expect margins and ROE to decline as competition intensify

Source: Company, DBS Vickers, AllianceDBS

Quarterly / Interim Income Statement (Rpbn)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	6,178	6,708	6,463	7,638	6,340
Cost of Goods Sold	(3,503)	(3,620)	(3,776)	(4,490)	(3,781)
Gross Profit	2,675	3,088	2,688	3,148	2,560
Other Oper. (Exp)/Inc	(1,036)	(1,163)	(1,141)	(1,304)	(1,078)
Operating Profit	1,639	1,924	1,547	1,844	1,481
Other Non Opg (Exp)/Inc	16	26	58	103	8
Associates & JV Inc	7	8	7	10	7
Net Interest (Exp)/Inc	(3)	(8)	(27)	(59)	5
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,658	1,951	1,584	1,897	1,501
Tax	(354)	(420)	(326)	(417)	(307)
Minority Interest	(2)	(7)	4	(3)	(4)
Net Profit	1,303	1,523	1,262	1,478	1,190
Net profit bef Except.	1,303	1,523	1,262	1,478	1,190
EBITDA	1,953	2,245	1,892	2,204	1,850

Revenue Trend



Growth

Revenue Gth (%)	(13.1)	8.6	(3.6)	18.2	(17.0)
EBITDA Gth (%)	(13.6)	15.0	(15.7)	16.5	(16.1)
Opg Profit Gth (%)	(14.9)	17.4	(19.6)	19.2	(19.6)
Net Profit Gth (%)	(11.0)	16.9	(17.1)	17.1	(19.5)

Margins

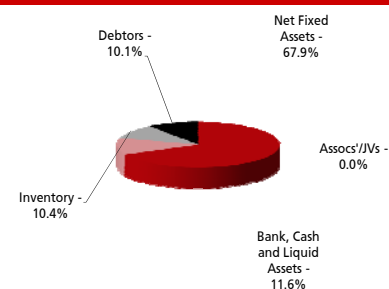
Gross Margins (%)	43.3	46.0	41.6	41.2	40.4
Opg Margins (%)	26.5	28.7	23.9	24.1	23.4
Net Profit Margins (%)	21.1	22.7	19.5	19.3	18.8

Margin has been trending down

Balance Sheet (Rp bn)

FY Dec	2012A	2013A	2014F	2015F	2016F
Net Fixed Assets	16,794	18,863	21,622	23,817	25,807
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	1,554	1,958	1,958	1,958	1,958
Cash & ST Invt	3,317	4,213	3,837	4,211	5,575
Inventory	2,285	2,646	3,302	3,627	4,093
Debtors	2,523	2,916	3,212	3,450	3,825
Other Current Assets	106	197	222	242	272
Total Assets	26,579	30,793	34,153	37,306	41,530
ST Debt	350	321	321	321	321
Creditor	2,691	2,822	3,224	3,529	3,973
Other Current Liab	1,784	2,155	2,296	2,419	2,601
LT Debt	3,222	3,242	2,902	2,562	2,722
Other LT Liabilities	367	449	449	449	449
Shareholder's Equity	17,347	20,883	24,032	27,093	30,529
Minority Interests	818	921	929	934	934
Total Cap. & Liab.	26,579	30,793	34,153	37,306	41,530
Non-Cash Wkg. Capital	439	782	1,216	1,372	1,615
Net Cash/(Debt)	(255)	650	614	1,329	2,532
Debtors Turn (avg days)	40.8	40.5	41.4	41.9	41.3
Creditors Turn (avg days)	86.4	80.9	78.0	79.0	77.9
Inventory Turn (avg days)	82.1	72.4	76.7	81.1	80.2
Asset Turnover (x)	0.8	0.9	0.8	0.8	0.8
Current Ratio (x)	1.7	1.9	1.8	1.8	2.0
Quick Ratio (x)	1.2	1.3	1.2	1.2	1.4
Net Debt/Equity (X)	0.0	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.0	CASH	CASH	CASH	CASH
Capex to Debt (%)	95.4	71.4	124.1	121.4	115.0
Z-Score (X)	10.3	19.2	18.0	17.4	NA

Asset Breakdown (2014)



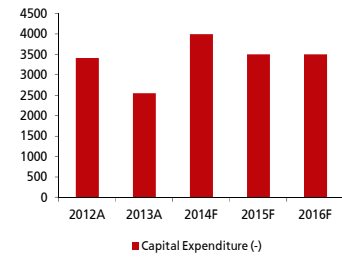
Balance sheet remains strong

Source: Company, DBS Vickers, AllianceDBS

Cash Flow Statement (Rp bn)

FY Dec	2012A	2013A	2014F	2015F	2016F
Pre-Tax Profit	6,287	6,920	7,091	7,200	7,679
Dep. & Amort.	760	1,127	1,241	1,305	1,510
Tax Paid	0	0	0	0	0
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	436	(585)	(433)	(156)	(243)
Other Operating CF	(531)	151	0	0	0
Net Operating CF	5,592	6,047	6,381	6,719	7,208
Capital Exp.(net)	(3,408)	(2,544)	(4,000)	(3,500)	(3,500)
Other Invt.(net)	(1,374)	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	7	(131)	0	0	0
Net Investing CF	(4,774)	(2,675)	(4,000)	(3,500)	(3,500)
Div Paid	(1,976)	(2,211)	(2,417)	(2,505)	(2,504)
Chg in Gross Debt	831	(112)	(340)	(340)	160
Capital Issues	0	0	0	0	0
Other Financing CF	(26)	0	0	0	0
Net Financing CF	(1,171)	(2,324)	(2,757)	(2,845)	(2,345)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(354)	1,048	(376)	374	1,363
Opg CFPS (Rp)	869	1,118	1,149	1,159	1,256
Free CFPS (Rp)	368	591	401	543	625

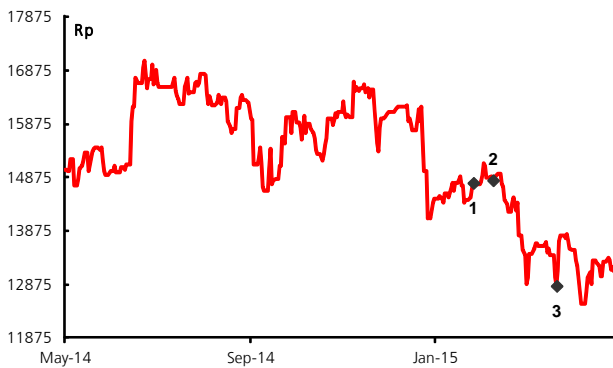
Capital Expenditure



CAPEX to fund expansion projects

Source: Company, DBS Vickers, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	18 Feb 15	14775	12200	Fully Valued
2:	03 Mar 15	14825	12200	Fully Valued
3:	14 Apr 15	12850	12000	Fully Valued

Source: DBS Vickers, AllianceDBS

Indonesia Company Focus

Indocement Tunggal P.

Bloomberg: INTP IJ | Reuters: INTP.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 May 2015

FULLY VALUED Rp22,425

JCI : 5,315.15

Price Target : 12-Month Rp 20,000

Reason for Report : Sector update

Potential Catalyst: Strong rebound in domestic sales volume

Where we differ: FY16 EPS is 7% below consensus

Analyst

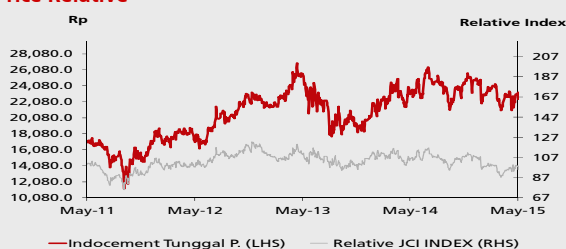
Deidy WIJAYA +6221 3003 4931

Deidy.Wijaya@id.dbsvickers.com

CHONG Tjen San, CFA +603 2604 3972

tjensan@alliancedbs.com

Price Relative



Forecasts and Valuation

FY Dec (Rp bn)	2013A	2014A	2015F	2016F
Turnover	18,691	19,996	21,340	24,134
EBITDA	6,785	6,732	7,189	7,739
Pre-tax Profit	6,595	6,790	7,018	7,388
Net Profit	5,010	5,271	5,330	5,611
Net Pft (Pre Ex.)	5,010	5,271	5,330	5,611
EPS (Rp)	1,361	1,432	1,448	1,524
EPS Pre Ex. (Rp)	1,361	1,432	1,448	1,524
EPS Gth (%)	5	5	1	5
EPS Gth Pre Ex (%)	5	5	1	5
Diluted EPS (Rp)	1,361	1,432	1,448	1,524
Net DPS (Rp)	900	1,350	1,014	1,067
BV Per Share (Rp)	6,234	6,765	6,864	7,374
PE (X)	16.5	15.7	15.5	14.7
PE Pre Ex. (X)	16.5	15.7	15.5	14.7
P/Cash Flow (X)	15.2	15.2	13.3	12.9
EV/EBITDA (X)	10.3	10.4	9.9	9.2
Net Div Yield (%)	4.0	6.0	4.5	4.8
P/Book Value (X)	3.6	3.3	3.3	3.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	23.7	22.0	21.2	21.4

Earnings Rev (%):

Consensus EPS (Rp):			(2)	(2)
No. of brokers following:	B: 19	S: 7	H: 9	

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: Indocement was established in 1975. The expanded heavily in the 90's, prior to Heidelberg Cement Group becoming the majority shareholder in 2001. The company now trades under the brand "Tiga Roda".

Source of all data: Company, DBS Vickers, AllianceDBS, Bloomberg Finance L.P

Volume recovery in April

- Domestic cement sales remained weak in April
- INTP regained market share in April
- Upcoming competition in Western Java remains the biggest risk
- Maintain FULLY VALUED, Rp20,000 TP

Weak domestic sales in April. Domestic cement sales volume fell by 2.8% m-o-m and 1.1% y-o-y to 4.47m tons. The weak volume is not surprising given lackluster property growth and lack of infrastructure projects from the government up to now. INTP's April sales however, rebounded 8.9% m-o-m to 1.36m tons. As of 4M15, INTP's domestic sales volume has reached 5.24m tons (28.3% of our FY15 target).

Regained market share. INTP managed to regain market share in April (30.5%) after shrinking in the prior three months (27.2% in March) due to aggressive promotional offers by SMGR and SMCB. INTP has chosen not to be as aggressive as its competitors in terms of pricing and promotion as it tries to maintain margins. INTP also aims to increase its presence in the RMC market by tying up with larger developers.

Maintain FULLY VALUED call. INTP's costs saving measures had a positive impact on margins; 1Q15 EBITDA margin recovered to 33.9% from a low of 32.2% in 1Q14. The company has also indicated further cost saving once the P14 plant comes onstream in October this year. We remain cautious of upcoming competition in Western Java however, given the additional supply coming onstream.

At A Glance

Issued Capital (m shrs)	3,681
Mkt. Cap (Rpbn/US\$m)	82,552 / 6,280
Major Shareholders	
HC Indocement Gmbr (%)	64.1
Mekar Perkasa (%)	13.0
Free Float (%)	22.9
Avg. Daily Vol.('000)	3,252

INVESTMENT THESIS

Profile	Rationale
<p>Indocement (INTP) is the most profitable cement player (highest margins) among peers. It trades under the “Tiga Roda” brand, arguably the most popular brand in Indonesia. It is the market leader in Java (c.39% market share), where its sales volume is concentrated (72%). It commands higher margins due to its centralised production facilities and premium pricing. It also has a strong RMC arm.</p>	<p>Cement industry is facing an unprecedented structural shift</p> <ul style="list-style-type: none"> We estimate new supply to be more than double of new demand, bringing utilisation down from 89% to 72% by 2017. <p>Margins could continue to slide due to weakening pricing power and rising contribution from bulk cement</p> <ul style="list-style-type: none"> Three major players are entering Indonesia – Semen Merah Putih (Wilmar Group), Anhui Conch and Siam Cement. Anhui Conch and Siam Cement are market leaders in China and Thailand, respectively. With their Indonesia plants contributing only c.3% to their total capacities, there could be a price war once their plants come on stream as they try to gain market share. The fast growing segment in Indonesia is the bulk segment (contribution estimated to rise from 22% to 27% by FY17), which is used for infrastructure projects and high rise buildings. With less barriers to entry (brand equity and distribution channels), this segment (which already commands lower margins) will be the likely target for the new entrants. <p>Benefits from low energy prices offset by lower ASP</p> <ul style="list-style-type: none"> After Jokowi recently instructed SOE cement companies to reduce bag cement price by Rp3,000/bag (cut by 4-5%), the positive impact from lower energy prices are wiped out. We also fear Jokowi would continue to control SMGR’s and SMBR’s cement prices, and erase prospects of higher margins as a result of lower costs. <p>Rich valuations unwarranted given slower growth and declining ROE</p> <ul style="list-style-type: none"> INTP is currently trading at 15.5x/14.7x FY15/16 EPS (above 5 year mean) despite slowing earnings growth and declining ROE.
Valuation	Risks
<p>Our target price of Rp20,000 is pegged to 13x FY16 EPS (-1SD of 5-year mean). Maintain FULLY VALUED call.</p>	<p>Weak demand growth due to slow rollout of infrastructure projects</p> <ul style="list-style-type: none"> If the new government does not live up to expectation in speeding up infrastructure development, cement demand growth could disappoint, thus hurting INTP’s utilization and profitability. <p>Competition in Western Java</p> <ul style="list-style-type: none"> INTP’s dominance in Western Java could be under threat once the new players start production. We expect oversupply of cement in Western Java by 2017, and INTP’s dominance in that region will be threatened.

Source: DBS Vickers, AllianceDBS

Key Assumptions

FY Dec	2012A	2013A	2014A	2015F	2016F
Domestic Sales Vol ('000 tonnes)	17,611	17,642	18,189	18,495	19,843
Domestic ASP/tonne (in Rp)	911,182	958,265	1,001,387	1,031,428	1,077,843
EBITDA margin (%)	38.3	36.3	33.7	33.7	32.1

Sensitivity Analysis

	2015
Domestic sales volume +/- 5%	Net Profit +/- 3.5%
EBITDA margin +/- 50bps	Net Profit +/- 2%

Segmental Breakdown

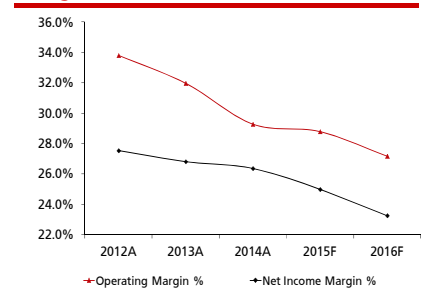
FY Dec	2012A	2013A	2014A	2015F	2016F
Revenues (Rp bn)					
Cement	16,115	17,046	18,293	19,194	21,612
Ready Mix Concrete	1,934	2,739	2,819	3,486	4,065
Aggregates	81	116	135	160	184
Other Businesses	(839)	(1,209)	(1,251)	(1,501)	(1,727)
Total	17,290	18,691	19,996	21,340	24,134
Operating profit (Rp)					
Cement	5,799	6,139	5,930	6,049	6,325
Ready Mix Concrete	76	(86)	43	70	203
Aggregates	2	11	2	24	28
Other Businesses	0	0	0	0	0
Total	5,877	6,064	5,975	6,143	6,556
Operating profit					
Cement	36.0	36.0	32.4	31.5	29.3
Ready Mix Concrete	3.9	(3.1)	1.5	2.0	5.0
Aggregates	2.5	9.2	1.6	15.0	15.0
Other Businesses	0.0	0.0	0.0	0.0	0.0
Total	34.0	32.4	29.9	28.8	27.2

Growing RMC business

Income Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenue	17,290	18,691	19,996	21,340	24,134
Cost of Goods Sold	(9,020)	(10,037)	(10,910)	(11,700)	(13,488)
Gross Profit	8,270	8,655	9,087	9,640	10,646
Other Opng (Exp)/Inc	(2,425)	(2,680)	(3,233)	(3,497)	(4,089)
Operating Profit	5,845	5,975	5,854	6,143	6,556
Other Non Opg (Exp)/Inc	32	89	121	100	130
Associates & JV Inc	9	18	24	25	26
Net Interest (Exp)/Inc	354	513	790	749	675
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	6,240	6,595	6,790	7,018	7,388
Tax	(1,476)	(1,583)	(1,516)	(1,684)	(1,773)
Minority Interest	(3)	(2)	(3)	(3)	(4)
Preference Dividend	0	0	0	0	0
Net Profit	4,760	5,010	5,271	5,330	5,611
Net Profit before Except.	4,760	5,010	5,271	5,330	5,611
EBITDA	6,619	6,785	6,732	7,189	7,739
Growth					
Revenue Gth (%)	24.5	8.1	7.0	6.7	13.1
EBITDA Gth (%)	30.0	2.5	(0.8)	6.8	7.7
Opg Profit Gth (%)	32.0	2.2	(2.0)	4.9	6.7
Net Profit Gth (%)	32.3	5.2	5.2	1.1	5.3
Margins & Ratio					
Gross Margins (%)	47.8	46.3	45.4	45.2	44.1
Opg Profit Margin (%)	33.8	32.0	29.3	28.8	27.2
Net Profit Margin (%)	27.5	26.8	26.4	25.0	23.2
ROAE (%)	27.1	23.7	22.0	21.2	21.4
ROA (%)	23.3	20.3	19.1	18.6	18.7
ROCE (%)	24.1	20.5	18.3	17.9	18.4
Div Payout Ratio (%)	34.8	66.1	94.3	70.0	70.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Margins Trend



We expect margins to keep declining as competition intensify

Source: Company, DBS Vickers, AllianceDBS

Indocement Tunggal P.

Quarterly / Interim Income Statement (Rp bn)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	4,500	4,999	4,668	5,829	4,328
Cost of Goods Sold	(2,531)	(2,764)	(2,524)	(3,090)	(2,400)
Gross Profit	1,969	2,235	2,144	2,739	1,928
Other Oper. (Exp)/Inc	(729)	(774)	(786)	(944)	(695)
Operating Profit	1,240	1,461	1,358	1,795	1,233
Other Non Opg (Exp)/Inc	(24)	91	9	45	43
Associates & JV Inc	4	6	7	7	8
Net Interest (Exp)/Inc	218	215	180	177	183
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,438	1,773	1,554	2,025	1,466
Tax	(307)	(390)	(348)	(470)	(320)
Minority Interest	(1)	(2)	0	0	0
Net Profit	1,129	1,380	1,206	1,555	1,146
Net profit bef Except.	1,129	1,380	1,206	1,555	1,146
EBITDA	1,451	1,684	1,571	2,026	1,465

Growth

Revenue Gth (%)	(15.8)	11.1	(6.6)	24.9	(25.8)
EBITDA Gth (%)	(21.0)	16.1	(6.7)	29.0	(27.7)
Opg Profit Gth (%)	(23.9)	17.9	(7.0)	32.2	(31.3)
Net Profit Gth (%)	(19.4)	22.2	(12.6)	28.9	(26.3)

Margins

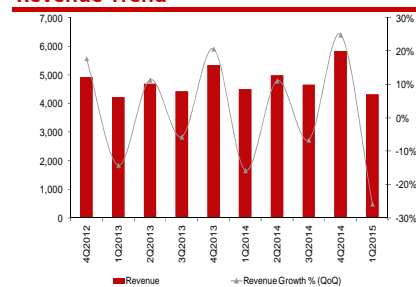
Gross Margins (%)	43.8	44.7	45.9	47.0	44.5
Opg Margins (%)	27.5	29.2	29.1	30.8	28.5
Net Profit Margins (%)	25.1	27.6	25.8	26.7	26.5

Balance Sheet (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Net Fixed Assets	7,935	9,305	10,427	11,881	13,199
Invt in Associates & JVs	0	0	0	0	0
Invt & Devt Properties	N/A	N/A	N/A	N/A	N/A
Other LT Assets	N/A	N/A	N/A	N/A	N/A
Cash & ST Invt	10,474	12,595	12,721	11,437	11,597
Dev Props held for sale	N/A	N/A	N/A	N/A	N/A
Inventory	1,470,305	1,473,645	1,772,731	1,901,203	2,191,720
Debtors	2,454,818	2,518,588	2,793,215	2,980,896	3,371,171
Other Current Assets	N/A	N/A	N/A	N/A	N/A
Total Assets	22,755	26,607	28,471	28,980	31,189
ST Debt	0	0	0	0	0
Creditor	1,332	1,375	1,394	1,499	1,736
Other Current Liab	1,086	1,365	1,249	1,288	1,376
LT Debt	108	93	93	93	93
Other LT Liabilities	809	797	797	797	797
Shareholder's Equity	19,388	22,947	24,905	25,267	27,147
Minority Interests	31	30	34	37	41
Total Cap. & Liab.	22,755	26,607	28,471	28,980	31,189
Non-Cash Wkg. Capital	1,687	1,511	2,224	2,419	2,826
Net Cash/(Debt)	10,366	12,502	12,628	11,344	11,504
Debtors Turn (avg days)	46.8	48.6	48.5	49.4	48.0
Creditors Turn (avg days)	48.0	53.5	50.4	49.6	48.0
Inventory Turn (avg days)	61.9	58.2	59.1	62.9	60.7
Asset Turnover (x)	0.8	0.8	0.7	0.7	0.8
Current Ratio (x)	6.0	6.1	6.7	6.0	5.6
Quick Ratio (x)	5.3	5.5	5.9	5.2	4.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	886.6	2,161.0	2,155.2	2,694.1	2,694.1
Z-Score (X)	14.3	16.8	15.8	14.7	NA

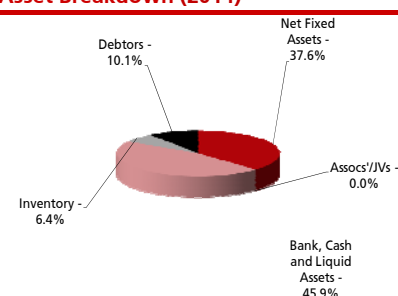
Source: Company, DBS Vickers, AllianceDBS

Revenue Trend



1Q is seasonally weakest

Asset Breakdown (2014)

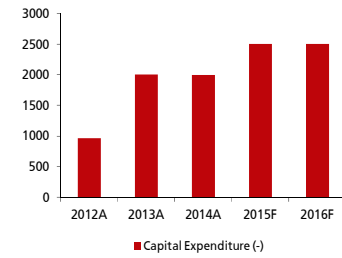


Strong balance sheet

Cash Flow Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Pre-Tax Profit	6,240	6,595	6,790	7,018	7,388
Dep. & Amort.	773	810	878	1,046	1,183
Tax Paid	0	0	0	0	0
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	280	160	(714)	(195)	(407)
Other Operating CF	(142)	(563)	0	0	0
Net Operating CF	5,675	5,419	5,439	6,184	6,391
Capital Exp.(net)	(961)	(2,005)	(2,000)	(2,500)	(2,500)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	2	0	0	0	0
Net Investing CF	(959)	(2,005)	(2,000)	(2,500)	(2,500)
Div Paid	(1,078)	(1,658)	(3,313)	(4,968)	(3,731)
Chg in Gross Debt	(48)	(49)	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	0	0	0	0	0
Net Financing CF	(1,126)	(1,707)	(3,313)	(4,968)	(3,731)
Currency Adjustments	20	414	0	0	0
Chg in Cash	3,610	2,121	126	(1,284)	160
Opg CFPS (Rp)	1,466	1,429	1,671	1,733	1,846
Free CFPS (Rp)	1,281	927	934	1,001	1,057

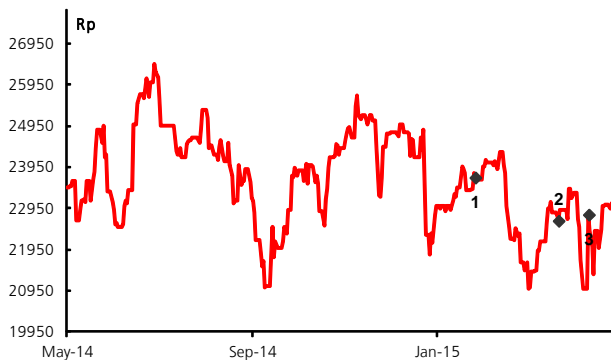
Capital Expenditure



Strong CFO and high earnings quality

Source: Company, DBS Vickers, AllianceDBS

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	18 Feb 15	23700	20200	Fully Valued
2:	14 Apr 15	22650	20200	Fully Valued
3:	04 May 15	22800	20000	Fully Valued

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Vickers, DBS Vickers, AllianceDBS

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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