

Overweight (Initiate)

Initiation report
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PT. Daewoo Securities Indonesia

Property

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Construction

Paving its road to exponential growth

Indonesia's weak infrastructure situation..

From 138 countries surveyed by World Economic Forum (WEF), Indonesia ranked the 80th, lagging behind Malaysia (19th), Thailand (72nd), and China (43rd) in the quality of overall infrastructure. Even though Indonesia boasts the 16th largest economy in the world, its infrastructure position fell behind its regional peers, with score of only 3.8 (vs. world average of 4.1). The underdeveloped infrastructure appears to pose major negative impacts to logistic activities in Indonesia. Given the underdevelopment urgency, the government targets to suppress the logistics costs to only 19.2% of the GDP by 2019 (vs. 24% in 2015).

..triggered government's timely response

In the 2015 revised budget (APBN-P) to the 2017 draft budget (RAPBN-P), President Joko Widodo allocated IDR954.1tr to fund the infrastructure development (vs. IDR324.4tr energy subsidy budget). In contrast, in the 2012 financial statement (LKPP) to the 2014 APBN-P, infrastructure budget was only IDR479.3tr (vs. IDR966.8tr energy subsidy budget). The infrastructure budget has accounted for averagely 15.5% of total spending by the new government since 2015. Considering that the budget only accounted for averagely 9.4% of the previous government's spending (prior to 2015), we believe the current government considers the country's infrastructure development as a high priority. On the execution side, we see exponential progress in accordance to government established TEPPRA. According to TEPPRA, PUPR and MoT had absorbed 52% and 44.7% of their budget as of 9M16, respectively (vs. 37.9% and 21.4% absorption as of 9M15).

Builders to benefit from increased infrastructure spending

Between the accumulated builders' revenue and the infrastructure budget, the correlation and coefficient of determination stood at 0.91 and 0.83, respectively. Between the accumulated builders' revenue and the state spending, the respective figures came to 0.87 and 0.75. Should these trends continue, we believe that the construction industry will be the main beneficiary of larger infrastructure budget base and state spending going forward.

Initiate coverage with Overweight call, our top picks are WSKT and TOTL

We initiate our coverage on Indonesian construction companies with an Overweight recommendation. Within the construction space, our top picks are: Waskita Karya (WSKT IJ; Buy; TP IDR3,020/share) and Total Bangun Persada (TOTL IJ; Buy; TP IDR1,030/share). Risks to our call include: 1) government's inconsistency in providing the infrastructure budget, 2) the government's paying the SOEs in huge lump sum cash in the 4Q, 3) volatility in exchange rate, 4) uncertainty in monetary policies, and 5) political instability.

Construction companies covered in this report

Company name	Ticker	Rating	Target price (IDR)	OP margin (%)		ROE (%)		P/E(x)	
				2016F	2017F	2016F	2017F	2016F	2017F
Waskita Karya	WSKT	Buy	3,020	13.8	11.3	7.9	8.9	21.0	17.1
Wijaya Karya	WIKA	Buy	3,055	9.7	9.6	5.4	7.9	22.6	14.0
Pembangunan Perumahan	PTPP	Buy	4,710	11.1	11.6	8.4	9.9	21.3	16.3
Adhi Karya	ADHI	Hold	2,270	7.8	7.9	7.7	11.4	15.3	9.4
Total Bangun Persada	TOTL	Buy	1,030	11.6	11.7	23.7	28.8	11.7	8.5

Source: Daewoo Securities Research estimates

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Industry outlook: Raw but robust

Underdevelopment urgency

Indonesia is the largest archipelagic country in the world, extending 5,120km from east (Aceh) to west (Papua) and 1,760km from north to south, comprising 17,504 islands with a total area of 1,904,569 sq km. For a quick comparison, mainland China spans across 5,026km, while the distance between New York and Los Angeles stretches over 4,527km. Indonesia is divided into 33 provinces, 497 districts, 6,487 sub-districts, and 76,613 villages.

Figure 1. Indonesia is an archipelago that spans across over 5,000km



Source: Google map, Daewoo Securities Research

With such fragmented geographical nature, the Indonesian government faces challenges in providing adequate infrastructure for the country's c.250mn population. Infrastructure development inequality is looming over the country as most development occurs in Java Island, the most populous island in the world and the home of 60% of Indonesian population. A study conducted by the University of Indonesia proves that Jakarta, located in Java Island and the capital city of the country, is the most developed district in Indonesia. Papua, on the other hand, is the least developed one.

Figure 2. Infrastructure inequality in Indonesia at a glance



Source: Internet, Daewoo Securities Research

Note: LHS = Semanggi, Jakarta, Java. RHS = Sumua Bana, Padang Pariaman, West Sumatra

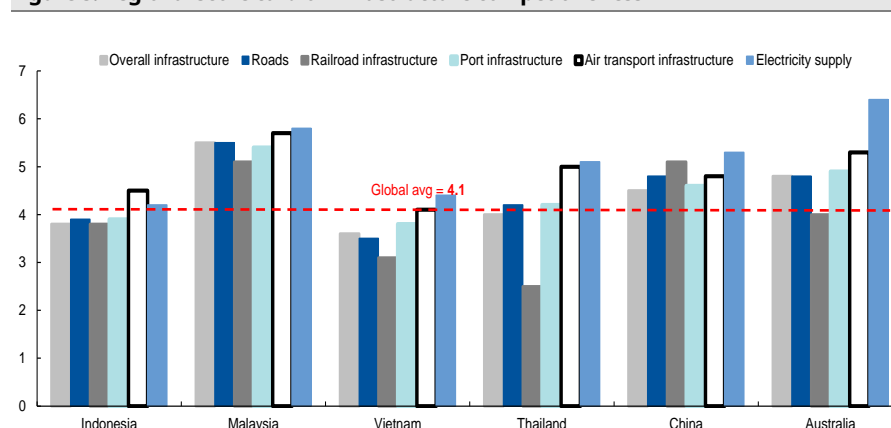
We believe the challenging geographic nature of Indonesia combined with infrastructure development inequality by the central government has led Indonesia's infrastructure competitiveness to lag behind its regional peers. From 138 countries surveyed by World Economic Forum (WEF), Indonesia ranked the 80th, lagging behind Malaysia (19th), Thailand (72nd), and China (43rd) in the quality of overall infrastructure. The survey was conducted by evaluating the infrastructure condition on a scale of 1-7, in which higher score means higher degree of competitiveness. Even though Indonesia boasts the 16th largest economy in the world, its infrastructure position fell behind its regional peers, with score of only 3.8 (vs. world average of 4.1).

Table 1. Infrastructure competitiveness survey 2016-17

Country	Rank	Score
Switzerland	1	6.5
Malaysia	19	5.5
Australia	33	4.8
China	43	4.5
Thailand	72	4.0
Indonesia	80	3.8
Vietnam	85	3.6
Mauritania	138	1.6

Source: World Economic Forum, Daewoo Securities Research

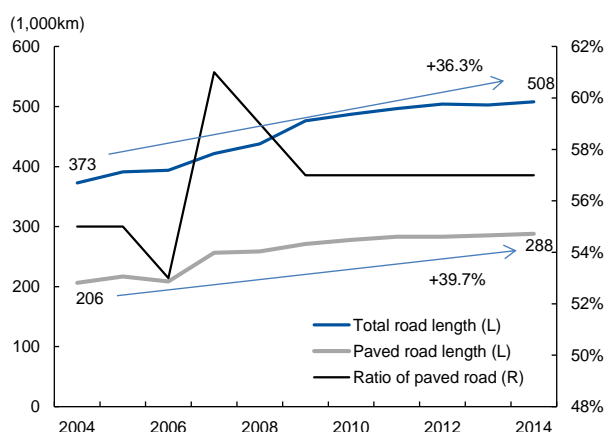
Figure 3. Regional score card of infrastructure competitiveness



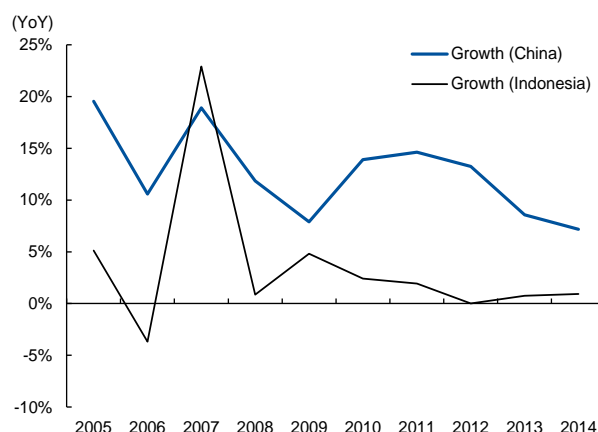
Source: World Economic Forum, Daewoo Securities Research

Note: 1-7 scale. Higher score means higher degree of competitiveness

We consider road growth to be a key proxy to gauging a country's infrastructure development. In regards to this, Indonesia's road growth since 2014 could be seen as quite stagnant, reflected by only 288,000km paved road as of 2014 vs. 206,000km as of 2004. Due to this, we believe that Indonesia's development in terms of infrastructure is trailing behind other countries', such as China.

Figure 4. Stagnant paved road growth (Indonesia)

Source: BPS, Daewoo Securities Research

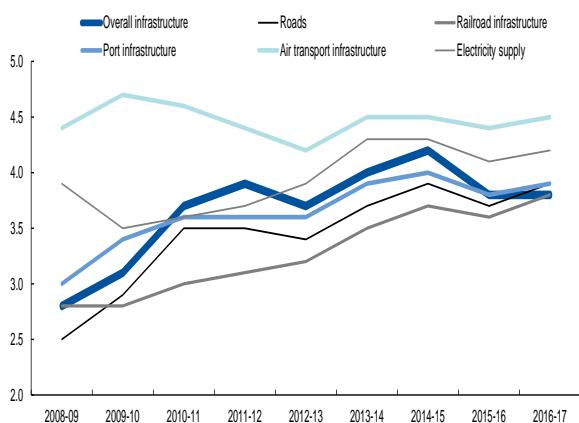
Figure 5. Road length growth

Source: Bloomberg, BPS, Daewoo Securities Research

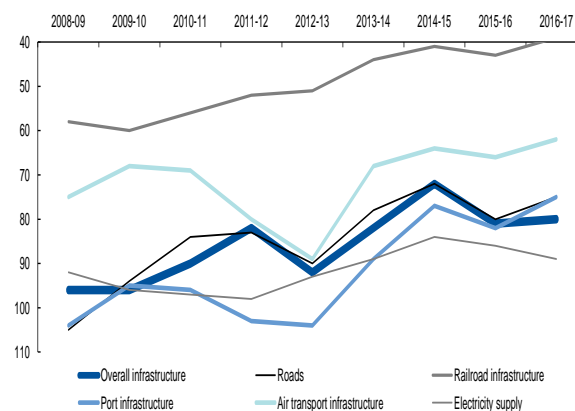
Note: Length of expressway per capita (China) vs. Paved road length (Indonesia)

However, despite the low growth in quantity, we would like to underline the fact that Indonesia's infrastructure quality had gone up 1 point from the last 9 years (2008: 2.8, 2016: 3.8), according to WEF's survey. For a comparison, China's infrastructure development only inched up 0.6 point (2008: 3.9, 2016: 4.5) and Vietnam's 0.9 point (2008: 2.7, 2016: 3.6). In addition, Indonesia's road quality went up 1.4 points (2008: 2.5, 2016: 3.9) vs. China's 0.7 point vs. Vietnam's 0.9 point.

We attribute the increased quality to the government's focus on repair and renovation of existing infrastructure rather than expansion of infrastructure into underdeveloped areas. This strategy, we believe, is quite incongruent with the current unequal development of Indonesian districts. We ascribe this mismatch to a) lack of coordination between the central and regional governments, b) delays in license and permit issuances, c) key obstacles to land acquisitions, and d) funding difficulties.

Figure 6. Indonesia's infrastructure score card

Source: World Economic Forum, Daewoo Securities Research

Figure 7. Indonesia's infrastructure ranking since 2008

Source: World Economic Forum, Daewoo Securities Research

Cost of underdevelopment

Cost to the productivity

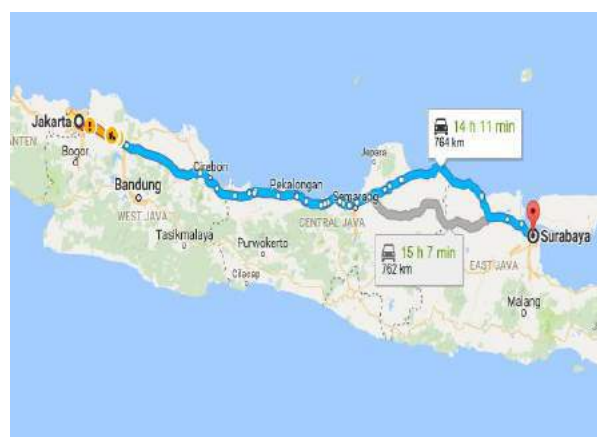
We believe the infrastructure underdevelopment has brought a quite significant cost to the Indonesian economy. One of the easiest ways to measure the cost is to take into account the travel time taken to go from one city to another. For example, we compare the travel time for cities in China with the cities in Indonesia. Distance from Shanghai (China's largest city) to Fuzhou (capital of southeastern China's Fujian province, same island) is 772 km. Distance from Jakarta (Indonesia's capital city, located on Java Island) to Surabaya (second largest city in Indonesia, same island) is 768 km. According to Google Map, travel via land for Shanghai-Fuzhou and Jakarta-Surabaya would take 9.3 hours and 14.2 hours, respectively. Given the estimated average speed of 82.8 km/h for Shanghai-Fuzhou and 53.8 km/h for Jakarta-Surabaya, we deem the travel time in Indonesia is rather slow considering the almost double speed in China. Roughly speaking, Indonesians must pay 28.9 km/h 'cost' for traveling via land, which we believe to be quite 'expensive'.

Figure 8. Land travel time from Shanghai to Fuzhou



Source: Google Map, Daewoo Securities Research

Figure 9. Land travel time from Jakarta to Surabaya



Source: Google Map, Daewoo Securities Research

Cost of traffic congestion

According to the World Bank, Jakarta loses c.USD5bn per year or c.0.6% of Indonesia's GDP due to traffic congestion in the city. To compare, New York loses c.USD10bn per year (c.0.07% of US GDP) due to the same reason.

This estimate of Jakarta's traffic congestion costs only includes those relating to time and excess fuel wasted when cars are moving slowly or stopped due to the traffic congestion. Should it include other externalities, such as health and safety impacts, we believe the costs would be even bigger. Given its high cost to the country's GDP, we believe that Jakarta's traffic congestion should be a national priority.

On a different note, Waze, world's leading navigation app, conducted a survey on driving experience in 38 countries and 235 cities. Based on this survey, Indonesian cities are proven to be among the worst cities to drive in the world. We believe this survey result would further strengthen our underdevelopment urgency thesis.

Figure 10. Traffic jam in Jakarta costs c.0.6% of Indonesia's GDP annually

Source: Internet, Daewoo Securities Research

Table 2. Indonesia is one of the worst countries for driving

Country	Rank	Score
Netherlands	1	7.54
Australia	14	5.99
Malaysia	23	4.94
Singapore	32	3.78
Indonesia	34	3.54
Philippines	37	3.13
El Salvador	38	2.85

Source: Waze, Daewoo Securities Research

Table 3. Indonesian cities are among the worst cities for driving

City	Country	Rank	Score
Valence	France	1	8.81
Sydney	Australia	98	5.79
Kuala Lumpur	Malaysia	137	4.79
Semarang	Indonesia	145	4.58
Malang	Indonesia	146	4.56
Yogyakarta	Indonesia	150	4.42
Singapore	Singapore	167	3.78
Medan	Indonesia	168	3.75
Manila	Philippines	170	3.68
Jakarta	Indonesia	178	3.37
Surabaya	Indonesia	181	3.14
Bandung	Indonesia	182	3.00
Denpasar	Indonesia	183	2.89
Bogor	Indonesia	185	2.15
Cebu	Philippines	186	1.15

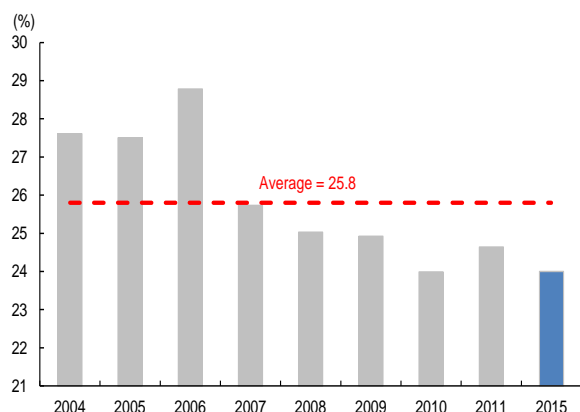
Source: Waze, Daewoo Securities Research

Cost to logistics

The underdeveloped infrastructure appears to pose major negative impacts to logistic activities in Indonesia. In the last 10 years, logistics costs in Indonesia accounted for c.25% of the GDP averagely, which we presume to be very sizable. In comparison, the logistics costs of the neighboring countries, such as Singapore, Malaysia, and Thailand, only accounted for 8%, 14%, and 16% to their GDPs, respectively. Indonesian transportation averagely contributed 46% to the total logistics costs of the country. From such portion, 72.2% came from land transportation, while water transportation and other types of transportation accounted for 19.6% and 8.1%, respectively. According to the World Bank, trucks

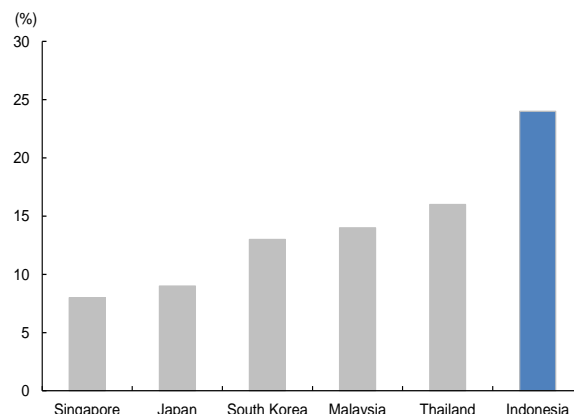
traveling between industrial estates in West Java and Tanjung Priok port spent 60% of their time either queuing or being stuck in the traffic, which we believe stems from the underdeveloped and insufficient land roads.

Figure 11. Indonesia's logistics costs % to GDP



Source: World Bank, Center for Logistics and Supply Chain Studies, Daewoo Securities Research

Figure 12. Regional logistics costs % to GDP

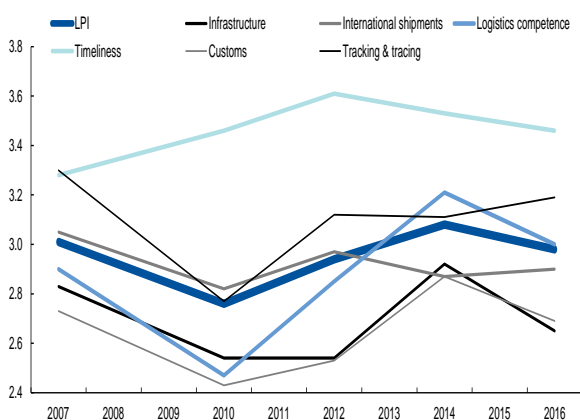


Source: World Bank, Roland Berger, Daewoo Securities Research

Given the high logistics costs, Indonesia's logistics performance has stagnated, represented by its Logistics Performance Index (LPI). LPI is an interactive benchmarking tool reported by the World Bank, created to help countries identify the challenges and opportunities they face in their performance in logistics trade and what they can do to improve it. The higher the LPI score, the better logistics structure it has. Indonesia's most recent LPI stood at 2.98 (vs. 3.01 in 2007). In comparison, China's LPI stood at 3.66 in 2016, going up 0.34 point from 3.32 in 2007, while Thailand's stood at 2.98 in 2016, going up 0.09 point from 2.89 in 2007.

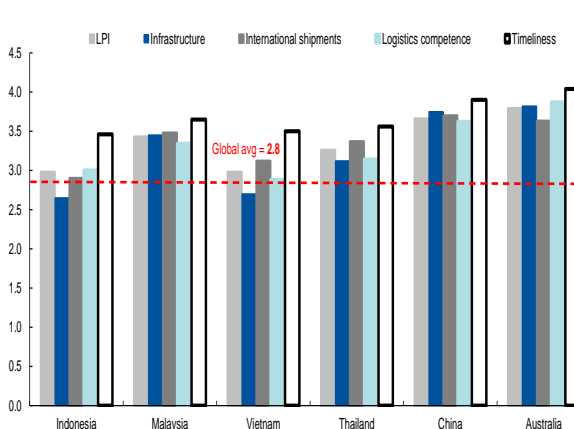
Logistics is one of the most significant cost input factors influencing the economy, in our view. Thus, we believe that high logistics costs will serve as a bottleneck which in turn would discourage businesses from expanding, considering margins would not be as rich as in environments with lower logistics costs. In the end, this would slow down the country's economic activities. Hence, we believe that infrastructure development is crucial in eliminating the bottleneck in Indonesian economic growth.

Figure 13. Indonesia's logistics performance index



Source: World Bank, Daewoo Securities Research

Figure 14. Regional comparison of logistics performance



Source: World Bank, Daewoo Securities Research

Connecting the archipelago

Catching attention

Given the underdevelopment urgency, we view that the current government's effort in developing Indonesia's infrastructure has grown significantly. In the 2015-19 national medium-term development plan (Rencana Pembangunan Jangka Menengah Nasional/RPJMN 2015-19) by the national development planning agency (Badan Perencanaan Pembangunan Nasional/BAPPENAS), the government targets to suppress the logistics costs to only 19.2% of the GDP by 2019 (vs. 24% in 2015). In relation to this, we believe that the developments of roads, ports, and airports, as well as better logistics handling would be the most significant determinants of the target logistics costs. Moreover, considering BAPPENAS' aggressive infrastructure development plan, we believe that the target of lower logistics costs is reachable.

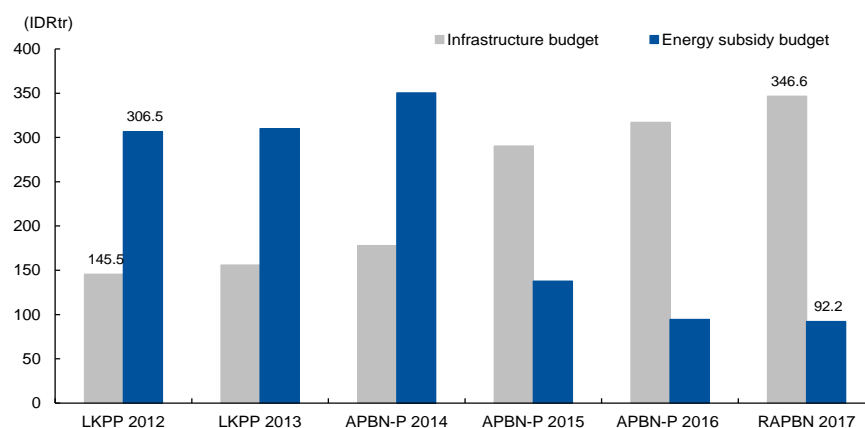
Table 4. Government's target to hasten the infrastructure development

	Unit	Baseline (2014)	Target (2019)
Macro targets			
Economy growth	%	5.1	8.0
Inflation	%	8.4	3.5
Tax ratio (base year 2010)	%	11.5	16.0
Basic infrastructure targets			
Dam development	dams	21.0	49.0
Power plant	GW	50.7	86.6
Electrification ratio	%	81.5	96.6
Basic infrastructure related to logistics targets			
New roads construction (cumm. 5 years)	km	1,200	2,650
New toll roads construction (cumm. 5 years)	km	807	1,000
Railroad length	km	5,434	8,692
Port development	ports	278	450
Port dwelling time	days	6~7	3~4
Total airport	airports	237	252
Logistics costs	% to GDP	23.5	19.2

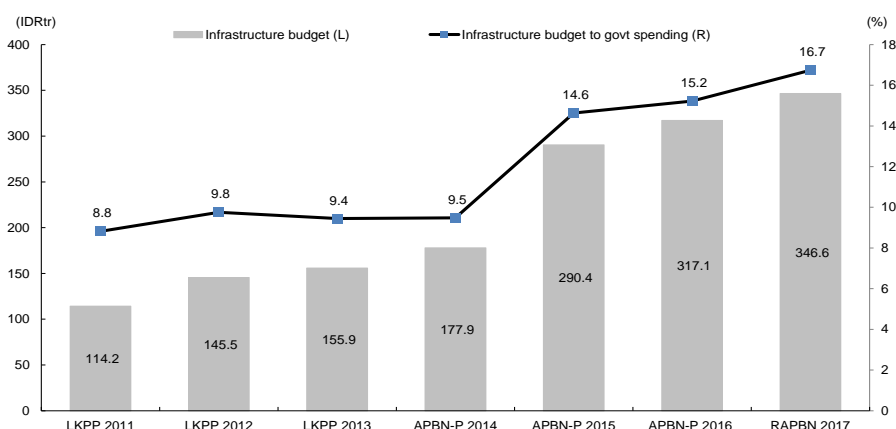
Source: BAPPENAS, Daewoo Securities Research

The aforementioned infrastructure development is very likely to require massive financing. Having said this, we approve of the direction of the current government, which just assumed office in October 2014, to reallocate subsidy budget to infrastructure projects. Prior to the reallocation, energy subsidies, such as for fuel, gas, and electricity, accounted for c.85% of total government's subsidy budget. Given the reallocation policy, we forecast a dwarfed multiplier effect of energy subsidy and an increased infrastructure spending going forward. While energy subsidy is viewed to decelerate the economy in the long run due to environmental issues, International Monetary Fund (IMF) estimated that every incremental dollar invested in infrastructure development would have the potential to add 40 cents to the GDP in the first year and 1.5 dollars after four years of the initial spending increase.

In the 2015 revised budget (APBN-P) to the 2017 draft budget (RAPBN-P), President Joko Widodo allocated IDR954.1tr to fund the infrastructure development (vs. IDR324.4tr energy subsidy budget). In contrast, in the 2012 financial statement (LKPP) to the 2014 APBN-P, infrastructure budget was only IDR479.3tr (vs. IDR966.8tr energy subsidy budget). The infrastructure budget has accounted for averagely 15.5% of total spending by the new government since 2015. Considering that the budget only accounted for averagely 9.4% of the previous government's spending (prior to 2015), we believe the current government considers the country's infrastructure development as a high priority.

Figure 15. Energy subsidy cut to boost the infrastructure budget by the current government

Source: Ministry of Finance, Daewoo Securities Research

Figure 16. Infrastructure development is the priority of the current government

Source: Ministry of Finance, Daewoo Securities Research

Direct budget improvement for bodies

Ministries prioritized to receive the infrastructure budget are 1) the Ministry of Public Works and Public Housings (Kementerian Pekerjaan Umum dan Perumahan Rakyat/PUPR), 2) the Ministry of Transportation/MoT (Kementerian Perhubungan), and 3) the Ministry of Energy and Mineral Resources (Kementerian Energi dan Sumber Daya Mineral/ESDM). PUPR and MoT specialize in road, railway, and bridge developments, while ESDM specializes in power plant development. The three ministries are expected to receive cumulatively IDR151.6tr budget for infrastructure development in 2017 (up 9.6% YoY). We expect these ministries to continue receiving larger budget on the back of greater infrastructure budget going forward.

Table 5. Infrastructure budget allocation to top recipient ministries

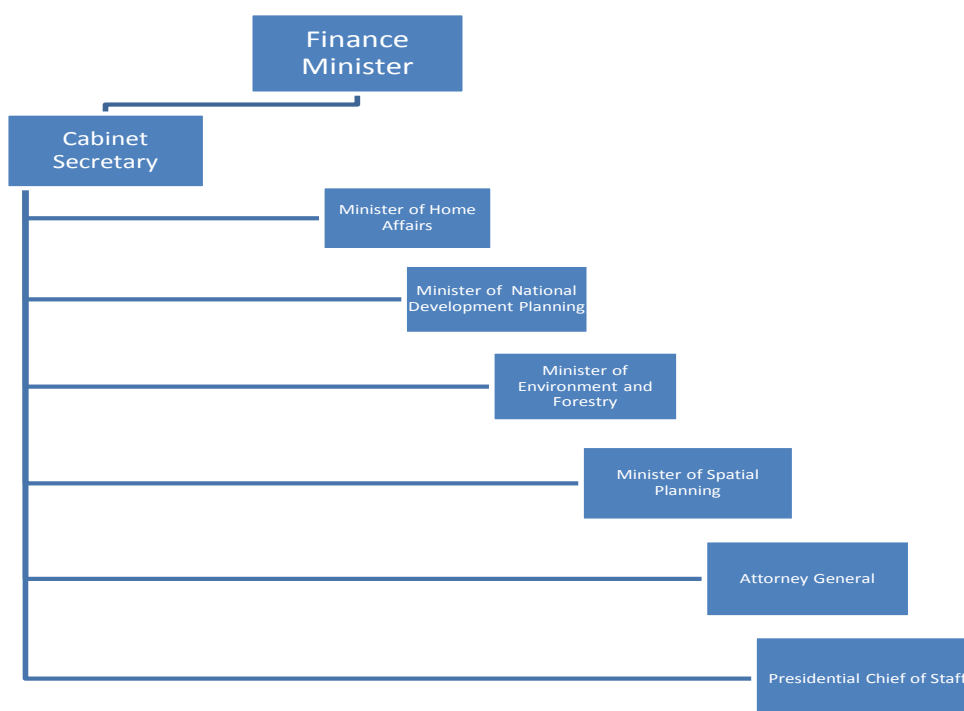
Ministry	LKPP 2011	LKPP 2012	LKPP 2013	APBN-P 2014	APBN-P 2015	APBN-P 2016	RAPBN 2017
PUPR	43.2	58.1	65.4	67.1	105.0	94.7	102.9
MoT	16.0	25.3	26.0	27.3	52.5	39.9	44.9
ESDM	6.2	6.7	7.7	9.3	5.9	3.7	3.8

Source: Ministry of Finance, Daewoo Securities Research

TEPRA the infrastructure development whip

Given the government's shifting focus to the infrastructure development, we consider that the paperwork had been well-executed as the budget met adequate realization. We believe the establishment of the Evaluation and Monitoring of Budget Realization Team (Tim Evaluasi dan Pengawasan Realisasi Anggaran/TEPRA) would be one of the key factors to government's better budget execution. Newly established in September 2015 by Mr. President Joko Widodo, TEPRA is aimed to ensure that the budget is well-spent in accordance to the RPJMN. We believe TEPRA is powerful enough to push budget acceleration, given the fact that 1) the Finance Minister, who acts as the Chairman of TEPRA, has a higher authority over the other ministries involved in the infrastructure development acceleration, 2) TEPRA reports to the President on the second week each month periodically, 3) it is financed directly by the Ministry of Finance (hence less dependency on the other ministries), 4) it has the authority to request data, documents, and evidence from officials, and 5) it is allowed to coordinate directly with local officials, such as governors and mayors.

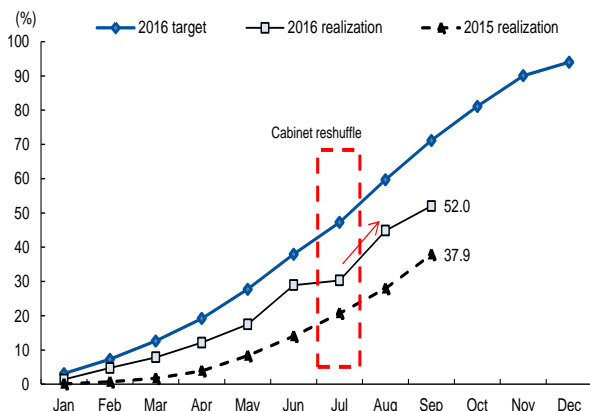
Figure 17. TEPRA's director team consists of ministries involved in the infrastructure development acceleration



Source: TEPRA, Daewoo Securities Research

According to TEPRA, PUPR and MoT had absorbed 52% and 44.7% of their budget as of 9M16, respectively (vs. 37.9% and 21.4% absorption as of 9M15). In terms of physical progress, PUPR and MoT had realized 43.8% and 48.1% of their projects as of 9M16, respectively (vs. 45.8% and 23.1% realization as of 9M15). We would also like to adduce the fact that after the president's cabinet reshuffle in July 2016, the budget and physical constructions became better executed. We believe the execution resilience would continue its strength going forward.

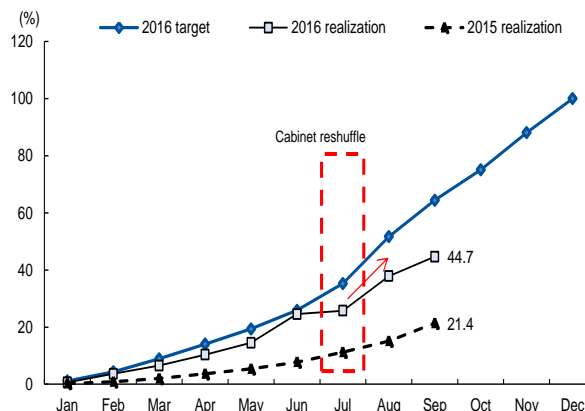
Figure 18. PUPR's budget absorption realization



Source: TEPPRA, Daewoo Securities Research

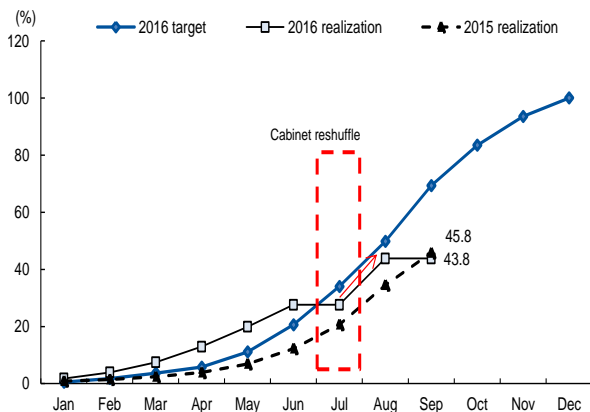
Note: PUPR ministry was one of the few ministries not reshuffled

Figure 19. MoT's budget absorption realization



Source: TEPPRA, Daewoo Securities Research

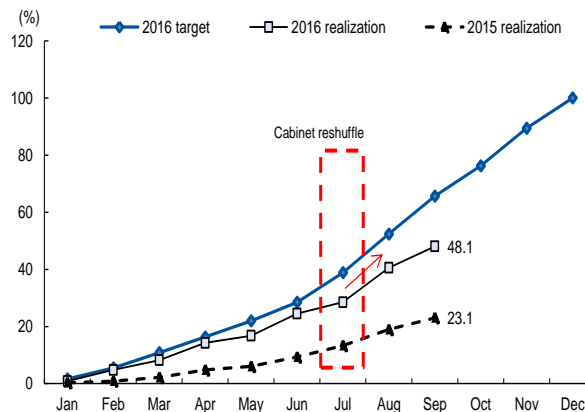
Figure 20. PUPR's physical progress realization



Source: TEPPRA, Daewoo Securities Research

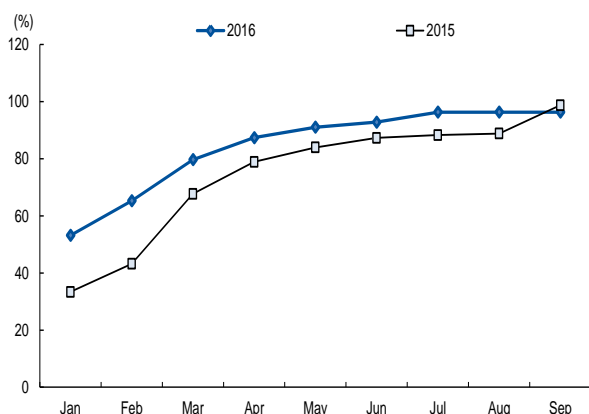
Note: PUPR ministry was one of the few ministries not reshuffled

Figure 21. MoT's physical progress realization

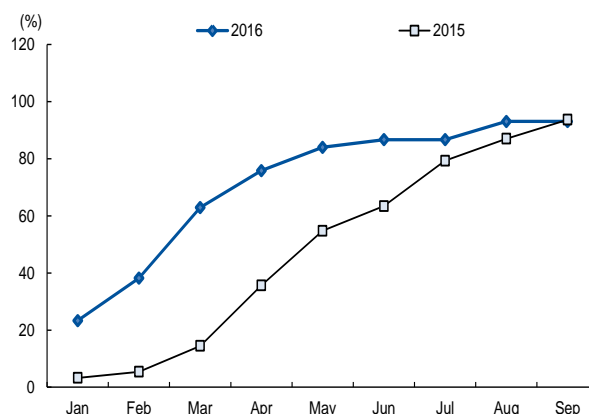


Source: TEPPRA, Daewoo Securities Research

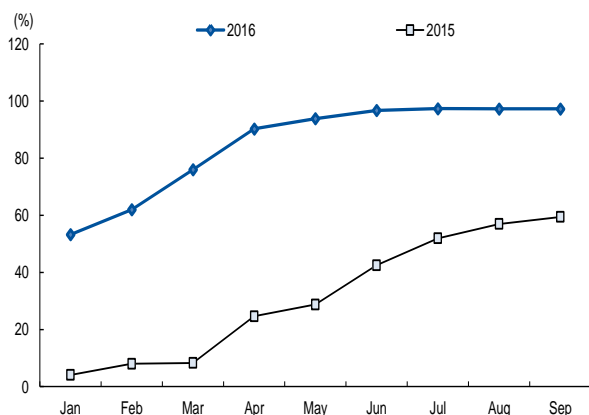
In terms of procurement, we view both ministries' execution had improved after TEPPRA's establishment. Given 1) TEPPRA's success in accelerating both funding and execution and 2) that PUPR and MoT were the two largest ministries to cater for the infrastructure spending from the state budget, we believe the infrastructure development would continue its strong resilience going forward.

Figure 22. PUPR's tender process development

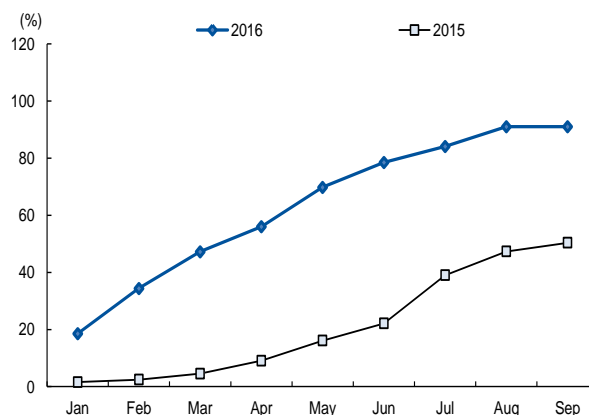
Source: TEPR, Daewoo Securities Research

Figure 23. PUPR's contract signing development

Source: TEPR, Daewoo Securities Research

Figure 24. MoT's tender process development

Source: TEPR, Daewoo Securities Research

Figure 25. MoT's contract signing development

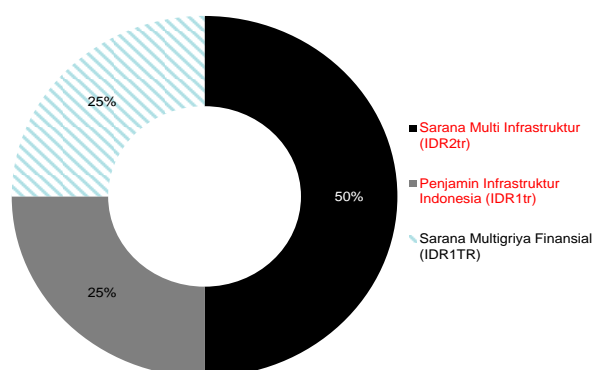
Source: TEPR, Daewoo Securities Research

State-owned enterprises: The spending motor

The government's zeal for infrastructure development is represented by the maximized utilization of state-owned enterprises (SOEs) for infrastructure spending. For this purpose, the government injected fund directly to SOEs' equity via state capital investment (Penanaman Modal Negara/PMN). Under President Joko Widodo's administration, allocation to infrastructure-related SOEs appears to be sizable, accounting for averagely c.75% of the total PMN for SOEs 2015~2017. In comparison, the previous government's PMN for SOEs 2013~2014 lacked allocation to infrastructure-related SOEs.

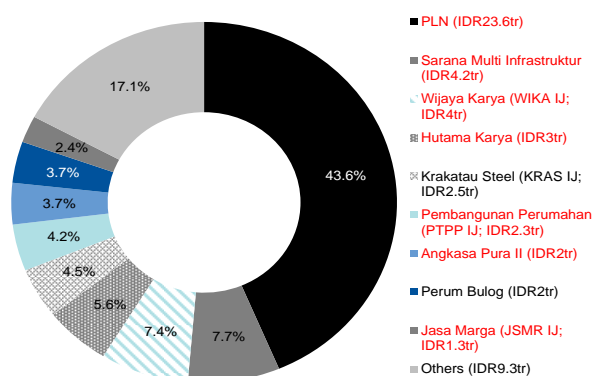
SOEs under our coverage, i.e Waskita Karya (WSKT IJ), Wijaya Karya (WIKA IJ), Pembangunan Perumahan (PTPP IJ), and Adhi Karya (ADHI IJ), were among the few companies which received the largest capital injection from the government. We believe that this demonstrates the government's strong willingness to help boost these companies' future projects. In 2015, WSKT and ADHI received their PMN via rights issue, successfully raising IDR5.3tr for WSKT (IDR3.5tr from PMN, IDR1.8tr from public investors) and IDR2.7tr for ADHI (IDR1.4tr from PMN, IDR1.3tr from public investors). As of 2016, WIKA planned to raise IDR6.1tr fund via rights issue (IDR4tr from PMN, IDR2.1tr from public investors). On the other hand, PTPP planned to raise IDR4.41tr from rights issue (IDR2.25tr from PMN, IDR2.16tr from public investors), expected to be completed by the end 2016.

Figure 26. PMN allocation for SOEs in 2017



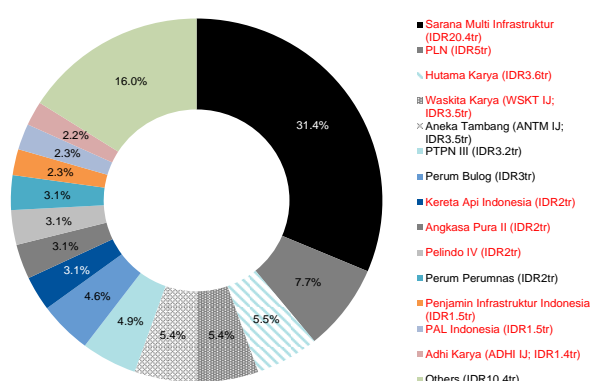
Source: Ministry of Finance, Daewoo Securities Research
 Note: based on RAPBN 2017. Red indicates infrastructure related SOE

Figure 27. PMN allocation for SOEs in 2016



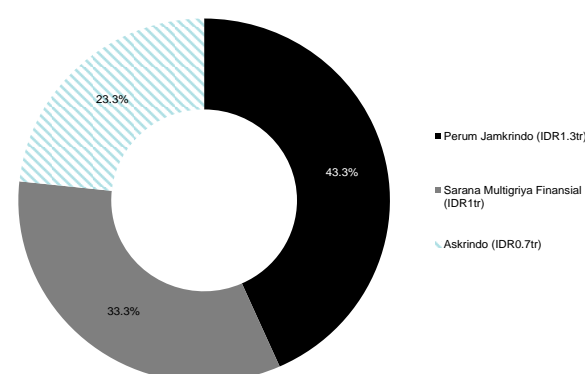
Source: Ministry of Finance, Daewoo Securities Research
 Note: based on RAPBNP 2016. Red indicates infrastructure related SOE

Figure 28. PMN allocation for SOEs in 2015



Source: Ministry of Finance, Daewoo Securities Research
 Note: based on APBNP 2015. Red indicates infrastructure related SOE

Figure 29. PMN allocation for SOEs in 2014

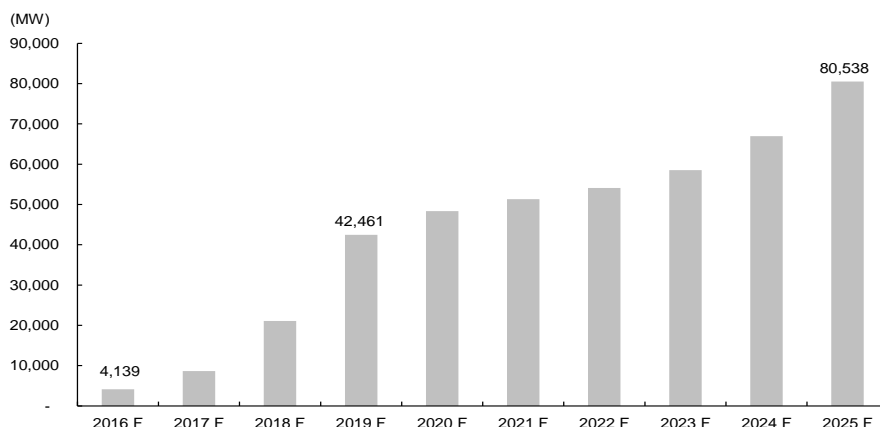


Source: Ministry of Finance, Daewoo Securities Research
 Note: based on LKPP 2014. Red indicates infrastructure related SOE

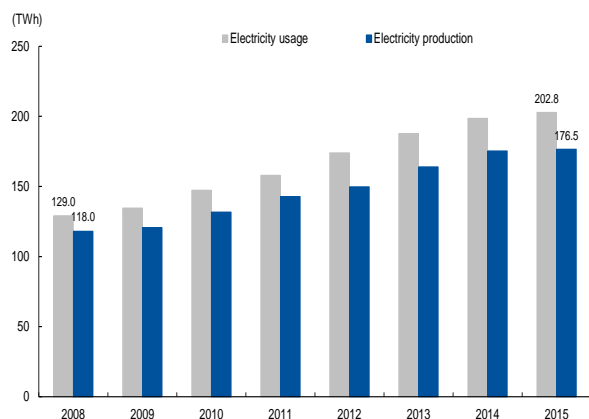
It is also important to note that the state electricity company (Perusahaan Listrik Negara/PLN) and Sarana Multi Infrastructure (SMI) were the largest SOEs to receive the 2015~2016 PMN, amounting to IDR28.56tr and IDR24.51tr, respectively.

PLN receives the largest PMN on the back of the government's aim to expand national power capacity by 35,000 megawatts (MW) by 2019 and 80,500 MW by 2025. We believe the urgency is high, as electricity usage consistently outpaced the electricity production in Indonesia, forcing the government to purchase electricity from third parties. The 35,000 MW project is targeted to build 109 power plants, with 35 projects by PLN (total capacity expected of 10,681 MW) and 74 projects by private entity (Independent Power Producer/IPP; total expected capacity of 25,904 MW).

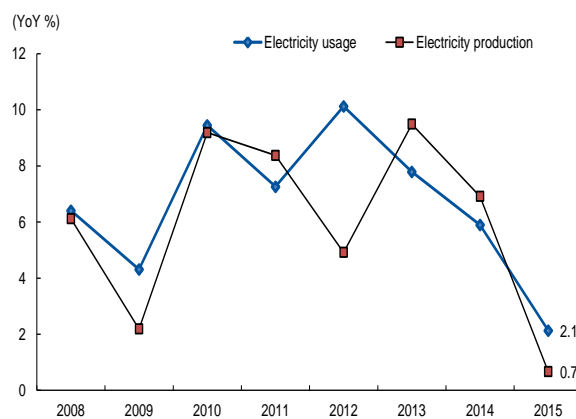
Given PLN's massive capital base, we expect the spillover to benefit construction companies having exposure to PLN's projects, namely WSKT, PTPP, WIKA, and ADHI.

Figure 30. Government's target of 80.5 GW by 2025

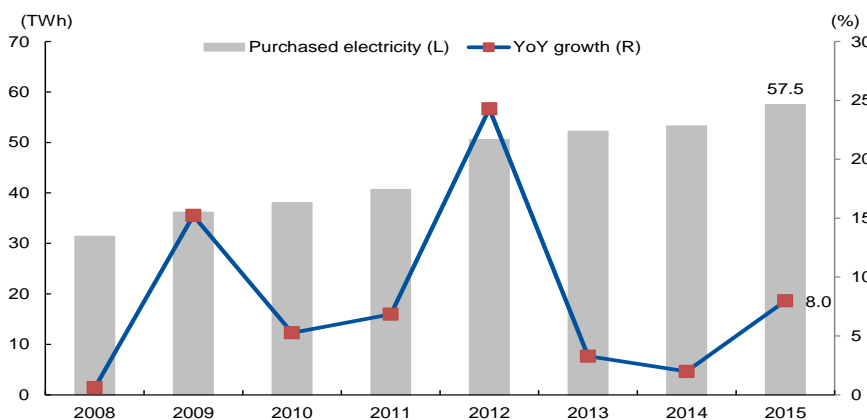
Source: Ministry of Energy and Mineral Resources, Daewoo Securities Research

Figure 31. Electricity usage and production gap in Indonesia

Source: PLN, Daewoo Securities Research

Figure 32. Electricity usage outpaced the production

Source: PLN, Daewoo Securities Research

Figure 33. Electricity deficit resulted in higher electricity purchase by the government

Source: PLN, Daewoo Securities Research

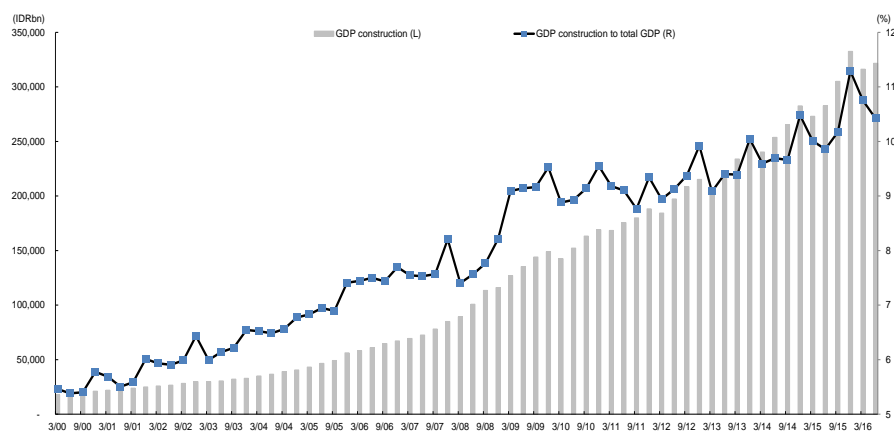
The second largest recipient of 2015~2016 PMN, Sarana Multi Infrastruktur (SMI), is a state-owned company engaging in infrastructure project financing in Indonesia. We predict that the company's large capital base would also benefit the aforementioned construction companies on the back of SMI's easier and lower-rate funding compared to that of commercial banks. Given current LPS rate of 6.25%

until January 2017, SMI's rate for IDR3.7tr financing facility for WSKT came to LPS rate+1%. Considering this and the fact that estimated lending rate for corporate credit from commercial banks is still hovering between 10~12%, SMI's rate could be deemed low. Having said that, we believe that SMI's being the second largest recipient of government's PMN would eventually help the above-mentioned state-owned construction companies to better deliver their performance going forward.

Point-blank effects on SOE builders

Fifteen years ago, Indonesia's GDP from the construction industry only contributed an average of c.5.5% to the country's total GDP. This year, it contributed c.10.5% averagely to the total GDP, reflecting quite exponential growth. We believe that the combination of 1) the current government's shifting focus to infrastructure development and 2) the fact that the infrastructure budget and spending would continue to be well-executed would be the key drivers of Indonesia's more advanced construction industry development.

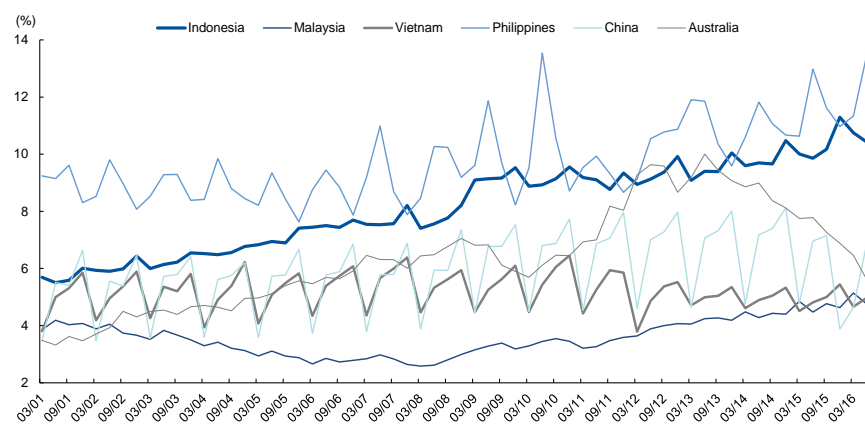
Figure 34. Indonesia's larger construction industry contribution to the total GDP



Source: B PS, Bloomberg, Daewoo Securities Research

In comparison to its regional peers, we consider Indonesia to be one of the few countries with consistent exponential growth in terms of its construction industry. Considering its strong uptrend, we believe the construction industry would be one of the determinant factors for the Indonesian economy going forward.

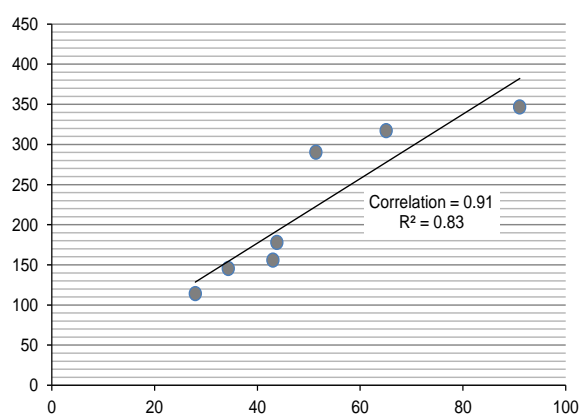
Figure 35. Regional comparison of construction industry to total GDP



Source: Bloomberg, Daewoo Securities Research

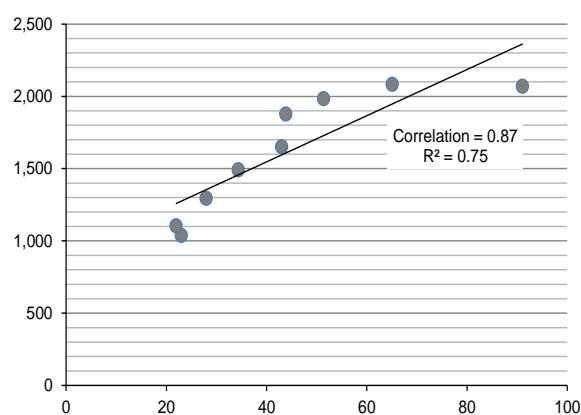
Furthermore, we expect the state-owned construction companies under our coverage: WSKT, WIKA, PTPP, and ADHI, to enjoy the government's larger infrastructure budget spillover and better execution. Having observed these companies' earnings development, we found its strong correlation and coefficient of determination to the government's infrastructure budget and state spending. Between the accumulated revenue and the infrastructure budget, the correlation and coefficient of determination stood at 0.91 and 0.83, respectively. Between the accumulated revenue and the state spending, the respective figures came to 0.87 and 0.75. Should these trends continue, we believe that the construction industry will be the main beneficiary of larger infrastructure budget base and state spending going forward.

Figure 36. Correlation between builders' revenue to the infrastructure budget



Source: Daewoo Securities Research

Figure 37. Correlation between builders' revenue to the state spending



Source: Daewoo Securities Research

Table 6. Quick comparison of 5 builders

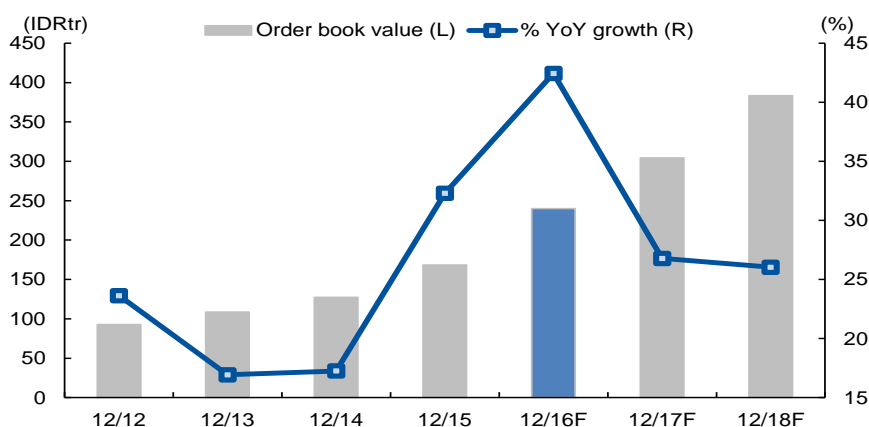
	12/12	12/13	12/14	12/15	12/16F	12/17F	12/18F
New contract growth (% YoY)							
WSKT	25.5	8.6	70.0	41.7	118.2	10.0	25.8
WIKI	23.9	-8.6	23.1	35.6	58.9	18.7	18.9
PTPP	57.7	0.6	3.4	33.8	3.1	33.4	33.6
ADHI	-19.0	13.0	-15.1	51.5	16.0	54.7	26.7
TOTL	10.3	-19.2	83.6	-39.4	37.8	16.5	16.8
Sector average	21.6	1.6	22.1	35.3	56.2	21.3	26.0
Order book growth (% YoY)							
WSKT	29.9	17.5	49.8	56.3	100.7	22.5	24.5
WIKI	17.2	8.1	12.4	16.0	27.8	39.5	27.2
PTPP	50.7	28.1	19.9	33.9	7.9	19.5	26.6
ADHI	12.4	9.7	-10.5	13.6	24.0	43.7	32.0
TOTL	-23.1	21.2	-7.3	19.8	11.7	16.2	8.6
Sector average	23.6	16.9	17.3	32.3	42.4	26.8	26.0
Revenue growth (% YoY)							
WSKT	21.1	10.0	6.2	37.6	47.0	44.9	34.2
WIKI	27.9	20.0	4.9	9.3	16.5	39.5	27.2
PTPP	28.4	45.6	6.6	14.4	29.5	19.5	26.6
ADHI	13.9	28.5	-11.7	8.5	6.4	67.8	32.0
TOTL	16.9	24.7	-7.9	7.6	5.3	42.3	3.4
Sector average	22.6	25.2	1.4	16.8	25.8	40.0	29.3
Net profit growth (% YoY)							
WSKT	47.7	44.9	39.1	104.7	50.7	22.9	13.0
WIKI	34.3	19.7	6.7	2.8	6.2	61.1	20.8
PTPP	28.9	38.3	24.5	38.8	17.8	30.6	16.0
ADHI	16.2	91.9	-18.9	40.9	-8.8	61.7	26.9
TOTL	40.7	10.6	-14.9	15.8	18.5	38.3	3.9
Sector average	32.9	37.8	9.2	42.8	22.7	36.7	16.6
Gross profit margin (%)							
WSKT	9.4	10.5	12.7	13.7	17.4	14.9	13.7
WIKI	11.7	13.3	14.4	14.3	12.7	12.6	12.8
PTPP	10.7	11.0	12.5	14.1	13.3	13.7	13.7
ADHI	12.5	12.2	11.5	10.4	11.5	11.6	11.4
TOTL	19.0	19.3	15.7	17.9	19.4	19.6	19.2
Sector average	11.4	12.2	13.0	13.5	14.4	13.7	13.2
Net profit margin (%)							
WSKT	2.9	3.8	5.0	7.4	7.6	6.4	5.4
WIKI	4.8	4.8	4.9	4.6	4.2	4.8	4.6
PTPP	3.9	3.7	4.3	5.2	4.7	5.2	4.7
ADHI	2.8	4.1	3.8	4.9	4.2	4.1	3.9
TOTL	9.6	8.5	7.8	8.4	9.5	9.2	9.3
Sector average	3.9	4.3	4.7	5.7	5.6	5.4	4.9
ROE (%)							
WSKT	12.7	15.8	18.5	10.8	7.9	8.9	9.2
WIKI	16.8	18.2	12.5	11.5	5.4	7.9	8.6
PTPP	18.7	22.1	22.8	14.5	8.4	9.9	10.3
ADHI	17.9	27.8	20.1	9.0	7.7	11.4	13.0
TOTL	24.9	23.7	21.5	22.1	23.7	28.8	26.8
Sector average	18.2	22.1	18.0	11.8	7.9	10.3	10.9
Net gearing ratio (x)							
WSKT	-0.1	0.2	0.5	0.3	0.0	0.6	0.8
WIKI	-0.1	0.1	0.1	0.2	-0.3	-0.3	-0.2
PTPP	0.3	-0.1	0.3	0.1	-0.2	-0.2	-0.2
ADHI	0.0	-0.2	0.9	-0.2	0.1	0.5	0.8
TOTL	-1.0	-0.6	-0.8	-0.8	-1.0	-1.0	-1.2
Sector average	-0.1	0.0	0.3	0.1	-0.1	0.2	0.3

Source: Daewoo Securities Research

Thick order book..

We would also like to adduce our confidence in the sector predicated on the fat order book achieved by the builders under our coverage. As of 2015, the builders had IDR168.4tr order book in the pipeline, large enough to sustain their revenue for the next several years. For 2016F, we forecast IDR239.9tr order book achievement for the companies, reflecting an increase of 42.4% compared to 2015 on the back of robust new contract achievement throughout the year. As a result, we believe the companies would continue to have relatively better earnings clarity, even after factoring in the worst case scenario of much slower new contracts in the future.

Figure 38. Order book of accumulated builders throughout the periods



Source: Daewoo Securities Research

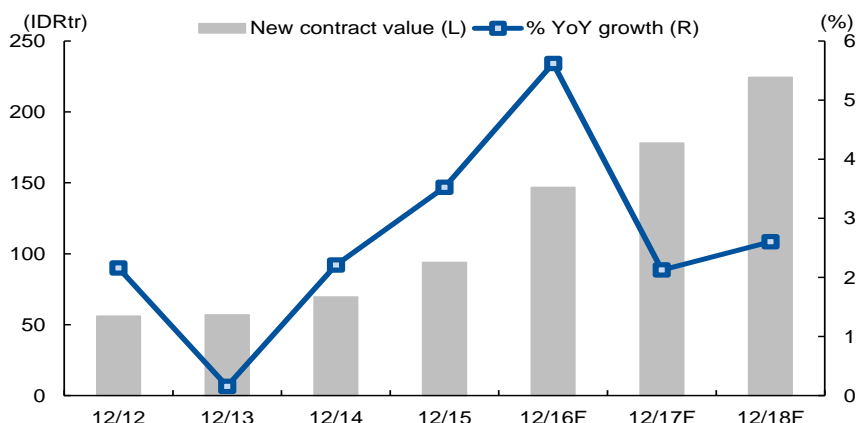
Table 7. Order book of 5 builders

	12/12	12/13	12/14	12/15	12/16F	12/17F	12/18F
WSKT	18.8	22.1	33.2	51.8	104.0	127.4	158.7
WIKI	23.5	25.5	28.6	33.2	42.4	59.2	75.3
PTPP	27.7	35.5	42.5	56.9	61.4	73.4	92.9
ADHI	18.3	20.1	18.0	20.4	25.3	36.3	47.9
TOTL	4.5	5.5	5.1	6.1	6.8	7.9	8.6
Total	92.9	108.6	127.4	168.5	240.0	304.2	383.4

Source: Daewoo Securities Research

..followed by strong new contracts outlook..

We have a favorable view of strong new contract achievement for the builders going forward. Our view is backed by several premises: 1) the government's strong intention to prop up national infrastructure development, 2) better execution and budget absorption by the ministries involved in the infrastructure development, and 3) larger budget for the infrastructure development. We expect the direct spillover of the budget to benefit the builders under our coverage.

Figure 39. New contract value of accumulated builders throughout the periods

Source: Daewoo Securities Research

Table 8. New contracts of 5 builders

	12/12	12/13	12/14	12/15	12/16F	12/17F	12/18F
WSKT	12.3	13.3	22.6	32.1	70.0	77.0	96.9
WIKA	12.2	11.2	13.8	18.7	29.7	35.2	41.9
PTPP	19.5	19.6	20.2	27.1	27.9	37.2	49.7
ADHI	9.6	10.9	9.2	14.0	16.2	25.1	31.8
TOTL	2.4	2.0	3.6	2.2	3.0	3.5	4.1
Total	56.0	56.9	69.5	94.0	146.8	178.0	224.3

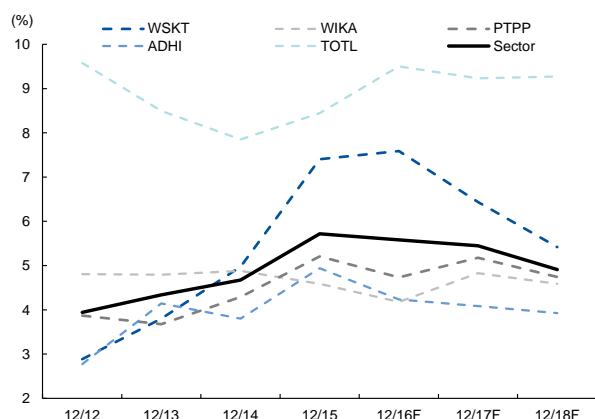
Source: Daewoo Securities Research

..would solidify builders' earnings clarity

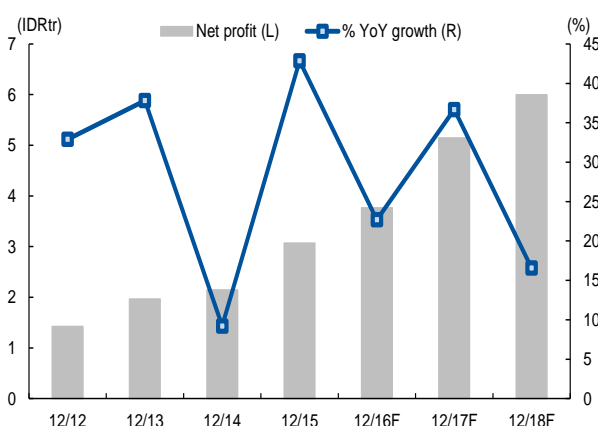
Given the solid top line outlook, we are confident that builders under our coverage would continue to demonstrate earnings clarity going forward. We expect margin to continue performing in its long-term mean trajectory as we believe there will be less contracts with extraordinary margin going forward.

Furthermore, we attribute WSKT's unusual margin jump throughout 2015~2016 period to several high margin projects, such as Pejagan-Pemalang toll road (c.30% gross profit margin (GPM), contract ends Aug 2016) and Becakayu toll road (c.18% GPM, contract ends Nov 2017) vs. other projects with 10~15% GPM. The projects' high margin was attributable to 1) turnkey projects (using WSKT's balance sheet), 2) more efficient construction, and 3) lower interest from working capital funding.

Going forward, we expect WSKT's margin to normalize. On the other hand, we believe WIKA and ADHI would enjoy earnings boost in 2017F, given the revenue recognition of their huge ticket projects, such as Jakarta-Bandung high speed railway (WIKA) and LRT Jabodebek (ADHI).

Figure 40. Net profit margin of builders throughout the periods

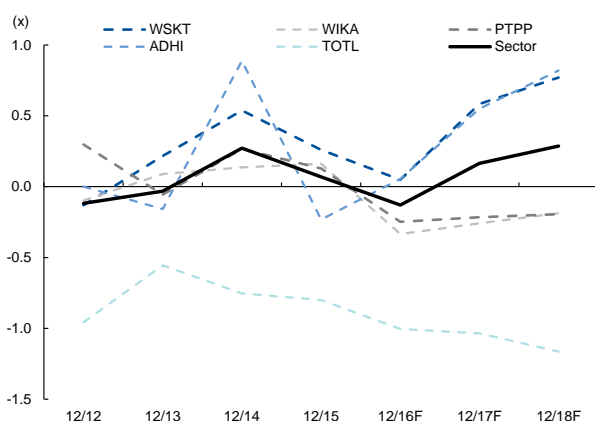
Source: Daewoo Securities Research

Figure 41. Net profit of accum. builders throughout the periods

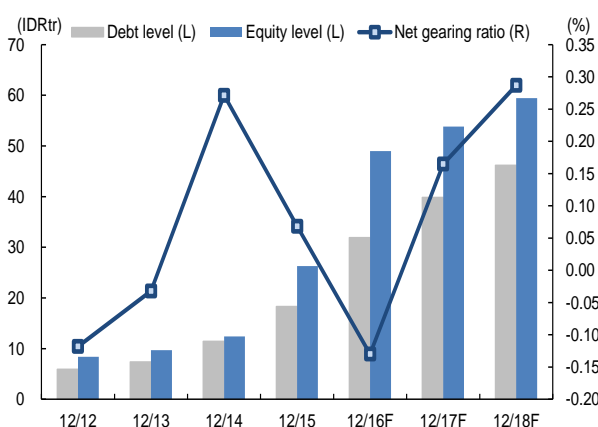
Source: Daewoo Securities Research

Concrete-strong balance sheet, but expect more fundraising

We continue to like the sector on the back of the builders' strong and sound balance sheet profile. Builders under our coverage were able to consistently manage their net gearing level to below 1x, especially TOTL, which has stringent rules about adding debt to its book. Since 2015, the government has actively injected more equity to the state-owned construction companies via state capital investment (penanaman modal negara/PMN), financed directly from the state budget. Hence, the SOE builders' equity base was enlarged, easing their leverage level and widening their ability to add more debt correspondingly. However, considering that PMN is not an every-year event, we believe these SOEs would need to raise more fund to enlarge their capital base hence catching up with the humongous new contracts demand in the pipeline. Besides bond issuance, we expect to see more subsidiaries sale via private placement and IPO going forward. Several subsidiaries, such as Waskita Toll Road, Wika Realty, PP Precast, PP Peralatan, PP Energi, and Adhi Persada Gedung, are expected to be divested within the next several years.

Figure 42. Net gearing level of builders throughout the periods

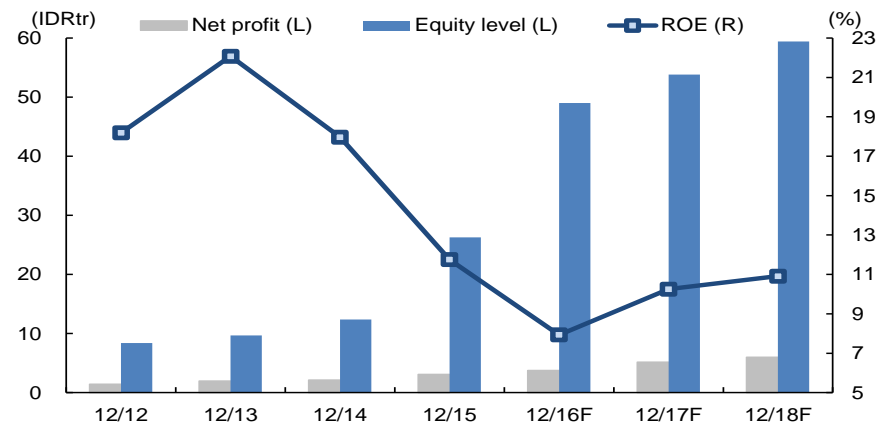
Source: Daewoo Securities Research

Figure 43. Gearing profile of accum. builders throughout the periods

Source: Daewoo Securities Research

Having said that, we believe the four state-owned builders would suffer short term return on equity (ROE) deterioration due to the larger equity base from the PMN in 2015~2016 and divestment in subsidiaries. However, we believe the ROE would recover as the earnings would enjoy boosts from larger capital base bore by the companies.

Figure 44. Return on equity level of accumulated builders throughout the periods



Source: Daewoo Securities Research

Risks

The key risks for investing in the industry and companies under our coverage are as follows:

1. **Government's inconsistency in providing the infrastructure budget.**

The House of Representatives (Dewan Perwakilan Rakyat/DPR) has approved the government's budget and spending cuts. From a total of IDR16.3tr spending cuts, the Ministry of Public Works and Housing (Kementrian PUPR) suffered the biggest cut of IDR7tr as stipulated in the 2016 revised state budget (APBN-P). We believe such a cut is sizable and contradictive, given the government's promise in early 2016 not to cut the infrastructure spending despite potential revenue shortfalls (as quoted from President Joko Widodo's speech on March 3rd, 2016: "If we have to cut the spending, infrastructure spending would not suffer any cuts." <http://goo.gl/3Qxbua>). We believe investors should be aware that if the government's tax amnesty program (expected to buffer the state revenue shortfall in 2016 and 2017) is to encounter challenges, the government must either issue new debt or cut spending. Should this be realized, we believe the spillover will lead to negative sentiments in the construction sector, especially impacting the state-owned builders with a strong correlation to the state spending.

Figure 45. President Joko Widodo's speech in March 2016



Source: Internet, Daewoo Securities Research

Figure 46. Broken promise in Aug 2016 could indicate further infrastructure budget cuts

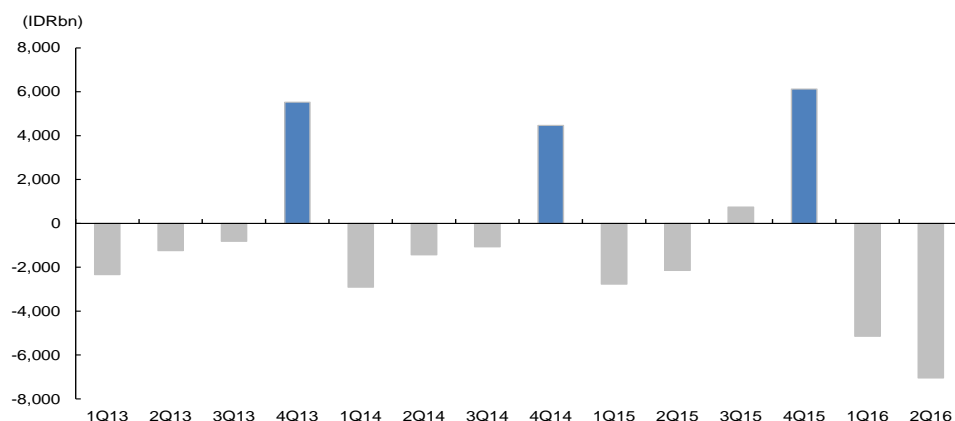


Infrastructure spending in ministries	APBN 2016	APBN-P 2016	RAPBN 2017
Ministry of Public Works and Housing	101.7	94.7	102.9
Ministry of Transportation	45.5	39.9	44.9
Ministry of Agriculture	5.3	4.1	2.9
Ministry of Energy and Mineral Resources	4.6	3.7	3.8

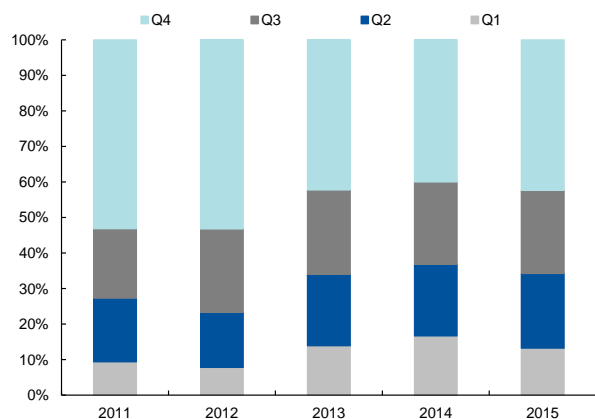
Source: Ministry of Finance, Daewoo Securities Research

2. **The government's paying the SOEs in huge lump sum cash in the 4Q.**

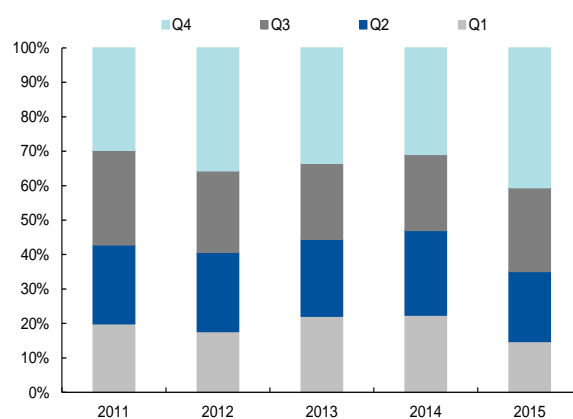
As the government usually pays the contract value to the companies in the fourth quarter, the state-owned builders' operating cash flow rarely demonstrates cash inflow other than in the 4Q. We believe this would be challenging for companies having difficulties in managing working capital, as they have to pay expenses from their own book from 1Q to 3Q until they receive cash from the government in the fourth quarter. Having said that, we think builders who have more diversified project types would have more advantages than builders solely depending on government's projects.

Figure 47. Accumulated operating cash flows of four state-owned builders

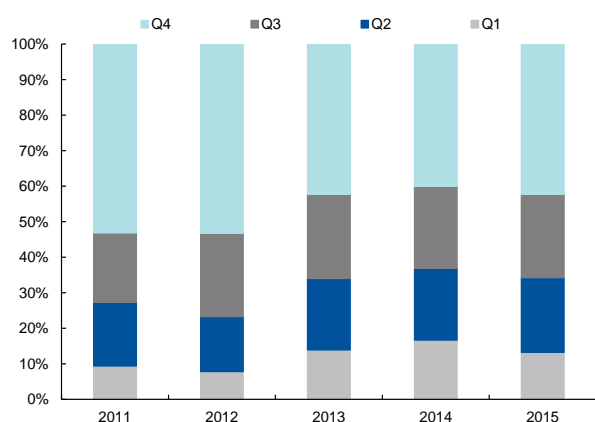
Source: Bloomberg, Daewoo Securities Research

Figure 48. ADHI's revenue seasonality in the last 5 years

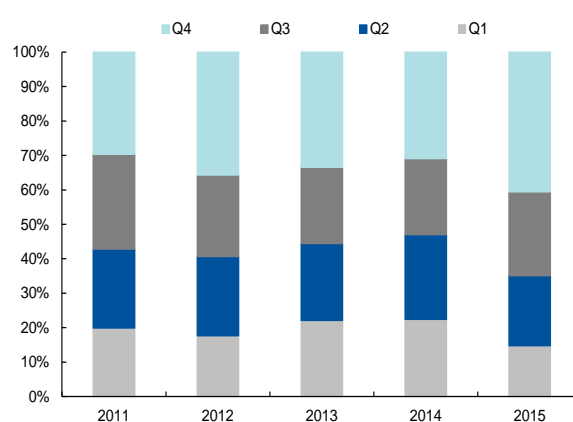
Source: Company data, Daewoo Securities Research

Figure 49. WIKA's revenue seasonality in the last 5 years

Source: Company data, Daewoo Securities Research

Figure 50. ADHI's revenue seasonality in the last 5 years

Source: Company data, Daewoo Securities Research

Figure 51. WIKA's revenue seasonality in the last 5 years

Source: Company data, Daewoo Securities Research

3. **Volatility in the exchange rate.** Our USD/IDR forex rate assumption is IDR13,000~IDR14,000/USD. We believe any sharp hikes would hamper the companies' debt exposure to the USD and companies' ability to further raise debt in the USD, which would result in a negative sentiment.

4. **Uncertainty in monetary policies.** We assume the central bank would maintain its easing stance to the monetary climate in Indonesia. We believe any unexpected tightening policies could hamper the industry and the companies.
5. **Political instability.** We expect the political environment in Indonesia to remain stable and the current government to stay in office until the end of term.

Waskita Karya (WSKT)

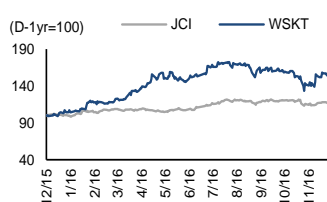
Elephant sized, tiger speed

Construction

(Initiate)	Buy
Target Price (12M, IDR)	3,020
Share Price (12/19/16, IDR)	2,440
Expected Return	23.8%

OP (16F, IDRtr)	2.9
Consensus OP 16F, IDRtr)	2.8
EPS Growth (17F, %)	22.9
Consensus EPS Growth (17F, %)	23.5
P/E (17F, x)	17.1
Consensus P/E (17F, x)	16.5
Market Cap (IDRbn)	33,662.8
Shares Outstanding (mn)	13,573.7
Free Float (%)	33.9
Foreign Ownership (%)	9.7
Beta (12M)	0.8
52-Week High	2,860
52-Week Low	1,605

(%)	1M	6M	12M
Absolute	5.5	4.2	50.8
Relative	4.6	-4.5	34.1



Waskita Karya (WSKT), listed in the Indonesian market, is an Indonesia-based state-owned enterprise (SOE) primarily engaged in infrastructure construction (mainly toll roads). Established in 1961, the company was previously named Volker Annemings Maatschapij N.V. (Dutch-owned). Being subject to nationalization, its name was then changed to Waskita Karya in 1973. The company went public in December 2012, choosing "WSKT" as the company's ticker symbol. WSKT is the largest listed construction company in Indonesia, with asset as large as IDR40.4tr (vs. WIKA, the second largest with IDR20.5tr asset).

For sale: Toll road

Currently, WSKT has 2 toll concession rights for a span of 35-years and 3 more for a span of 45-years. For the early years of the toll road operation, we expect a pressure on the company's earnings due to the fact that 1) new toll roads would need time to increase traffic, 2) interest expense is to be incurred directly in the income statement, as capitalization method is no longer suitable, and 3) depreciation expense would begin to appear in the income statement. To note, 11 out of 14 toll roads owned by Waskita Toll Road (WTR; fully owned by WSKT) are expected to start operation by 2018~2019. Being aware of this issue, WSKT's management mentions that the company targets to focus its operation as a toll road builder, releasing its exposure as a toll road operator. In order to achieve this goal, WSKT plans to divest c.40% ownership in WTR.

Fat order book as a safeguard

Thanks to WSKT's strategy of putting investment in toll road projects to get new contracts without tender process, the company's order book proved to be larger than its peers. As of 1H16, WSKT's order book was worth IDR79.7tr, compared to: WIKA's IDR40.5tr, PTTP's IDR53.1tr, and ADHI's IDR16.1tr. We believe WSKT's large order book would secure the company's future revenue against the risk of slower new contract achievement going forward.

Initiate coverage with a Buy call and TP of IDR3,020/share

We initiate our coverage on WSKT with a Buy recommendation and a 12-month target price of IDR3,020/share. WSKT is currently trading at 17.1x forward 17F P/E, slightly above its 4-year average at 16.4x. We like WSKT for its 1) sizable order book achievement, which would safeguard its revenue from risk of slower new contract achievement in the future, 2) strategy to obtain new contracts via investment basis, and 3) commitment to divest its toll road operation, which we believe would burden the parent entity otherwise.

FY (Dec)	2014	2015	2016F	2017F	2018F
Revenue (IDRbn)	10,286.8	14,152.8	20,805.4	30,144.3	40,459.5
Operating profit (IDRbn)	885.8	1,415.0	2,876.7	3,400.8	4,067.0
OP margin	8.6	10.0	13.8	11.3	10.1
NP (IDRbn)	511.9	1,047.7	1,578.9	1,939.8	2,191.2
EPS (IDR)	37.7	77.2	116.3	142.9	161.4
BPS (IDR)	203.7	714.9	1,467.6	1,600.0	1,749.6
P/E (x)	64.7	31.6	21.0	17.1	15.1
ROE (%)	18.5	10.8	7.9	8.9	9.2

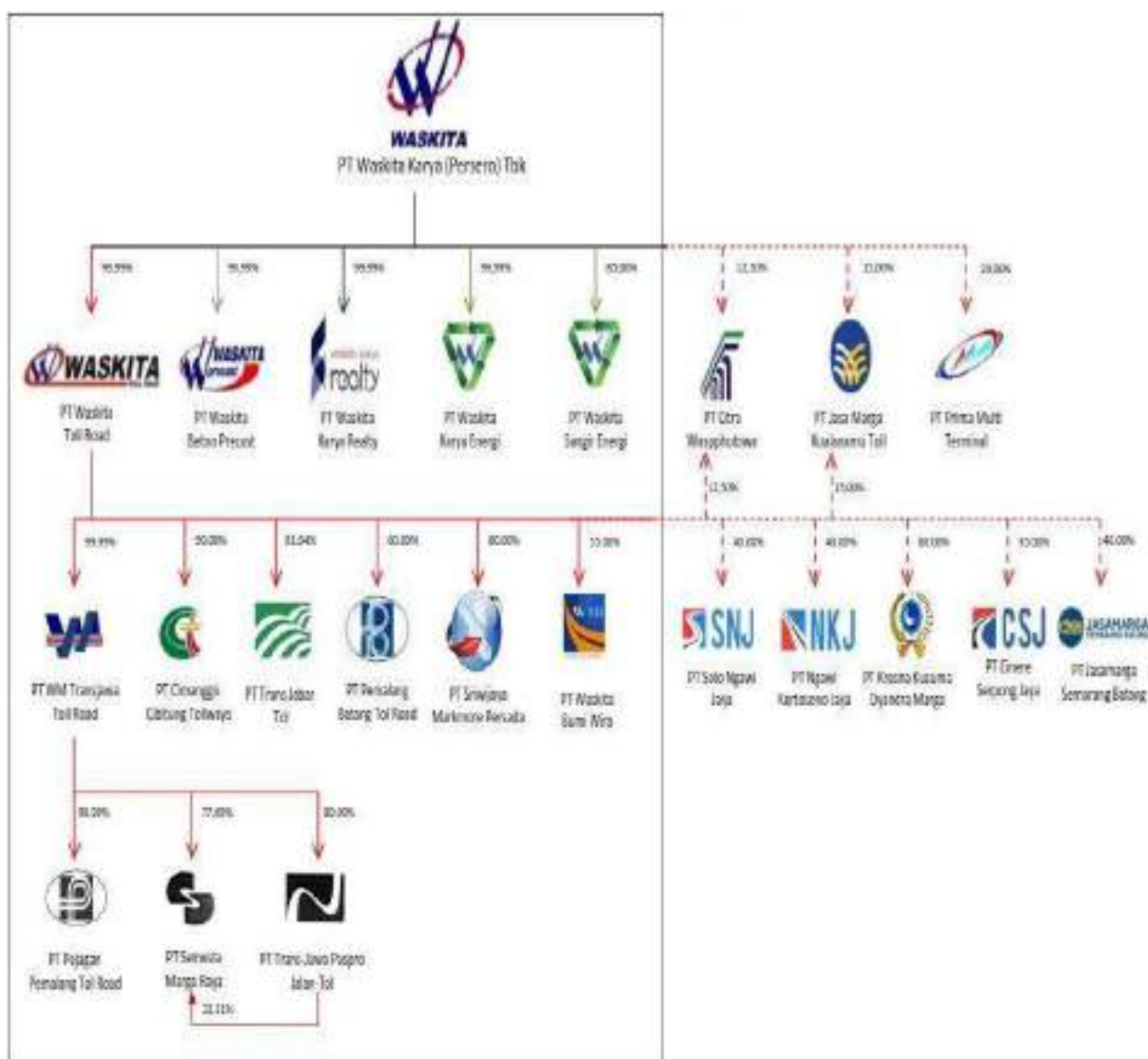
Note: All figures are based on consolidated FS; NP refers to net profit attributable to controlling interests
Source: Company data, Daewoo Research estimates

Company snapshot

Company in brief

Waskita Karya (WSKT), listed in the Indonesian market, is an Indonesia-based SOE primarily engaged in infrastructure construction (mainly toll roads). Established in 1961, the company was previously named Volker Annemings Maatschapij N.V. (Dutch owned). Being subject to nationalization, its name was then changed to Waskita Karya in 1973. The company went public in December 2012, choosing “WSKT” as the company’s ticker symbol. WSKT is the largest listed construction company in Indonesia, with assets as large as IDR50.2tr (vs. PTTP, the second largest at IDR22.4tr).

Figure 52. WSKT's ownership structure and business portfolio



Source: Company data, Daewoo Securities Research

Note: based on 1H16 data

Shareholder structure

Table 1. Shareholder composition (3Q16)

(Shares, %)

	Number of shares	Percentage
Government of Indonesia	8,963,697,887	66.04
Public	4,609,582,963	33.96
Total	13,573,280,850	100.00

Percentage of shares based on geographic ownership

Domestic	90.3%
International	9.7%

Note: Real free float of 33.9% from total outstanding shares

Source: Company data, Daewoo Securities Indonesia

Table 2. List of commissioners and directors (3Q16)

(Shares, %)

Name	Number of shares	Percentage	Position
Mohamad Hasan			President Commissioner
Mohammad Aqil Hirham			Independent Commissioner
Danis Viktor S Sirait			Commissioner
Danis H. Sumadilaga			Commissioner
Arif Baharudin			Commissioner
R Agus Sartono			Commissioner
M. Choliq			President Director
Tunggul Rajagukguk			Director
Desi Arrayani			Director
Adi Wibowo			Director
Nyoman Wirya Adnyana			Director
Agus Sigono			Director

Source: Company data, Daewoo Securities Indonesia

Management team

President Director

Mr. M. Choliq has served WSKT as the President Director since 2008. Previously, he had worked for ADHI as the Project Head since 1979 and served as the company's Director from 2001-2006. Mr. Choliq is an alumnus of Prasetya Mulya School of Management and 10 November Institute of Technology.

Director of Finance

Mr. Tunggul Rajagukguk has served as WSKT's Finance Director since 2011. Previously, he held the position of Finance and Risk Management Director of Perseroan Pengelola Aset from 2009 to 2011 and the Director of Trans Pacific Petrochemical Indonesia from 2008 to 2009. He is an alumnus of the University of Indonesia.

Director of Operation I

Ms. Desi Arrayani has served as WSKT's Operations Director I since 2013. Having been with WSKT as Budgeting Staff for Building Project Affairs since 1987, she then held the position of Operations Director II in the company from 2011 to 2012. She is an alumnus of the University of Indonesia and Prasetya Mulya School of Management.

Director of Operation II

Mr. Adi Wibowo has served as WSKT's Operations Director II since 2012. Previously, he had served as WSKT's Head of Division I since 2008 to 2012. An alumnus of Gajah Mada University, he joined WSKT in 1988 as Engineering Staff.

Director of Operation III

Mr. Nyoman Wiryadnyana has served as WSKT's Operations Director III since 2015. Having been with WSKT as the Section Manager of Technical since 1988, he held the position of the General Manager of Building Division during 2014-2015. He is an alumnus of Prasetya Mulya School of Management and Udayana University.

Director of Business Development and Human Capital

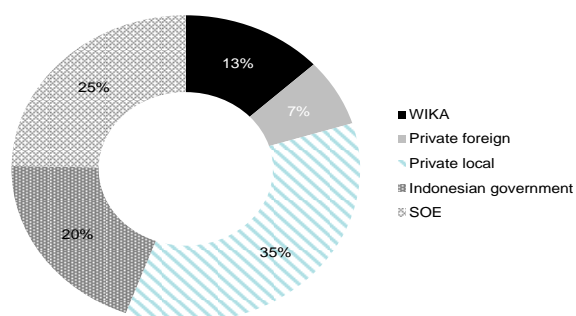
Mr. Agus Sugiono has served as WSKT's Business Development and Human Capital Director since 2014. Having been with WSKT as Project Head since 1990, he was the company's Operations Director III since 2013-2014. Mr. Sugiono is an alumnus of Prasetya Mulya Business School and Gadjah Mada University.

Niche characteristics

Each construction company in Indonesia possesses unique characteristics of its own. We believe the key traits distinguishing WSKT from other builders are as follows:

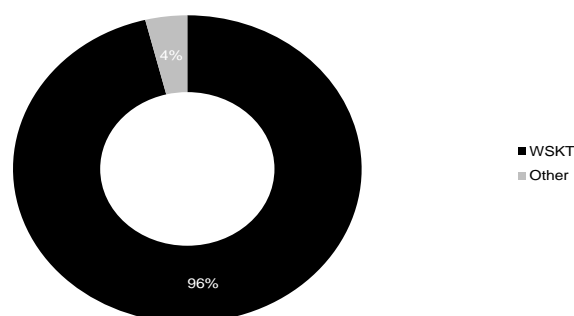
1. **Toll road specialist.** We view WSKT to be the most prominent builder in terms of toll road development and investment. Currently, WSKT has 721 km concession rights in Java and Sumatra Islands, 92 km of which have already begun their operation. The figures are much higher compared to those of other builders, such as WIKA (224 km), PTPP (259 km), and ADHI (95 km). All of WSKT's toll road concession rights are held by Waskita Toll Road (WTR), which is fully owned by WSKT.
2. **Second largest precast concrete producer.** After WTR, Waskita Beton Precast (WSBP IJ; Not-rated) is the second largest subsidiary held by WSKT. WSBP is now the largest concrete player in the industry by asset value (3Q16 asset of WSBP: IDR13.5tr vs. that of WIKA Beton (WTON): IDR4.4tr). WSBP has been aggressively expanding its production capacity for several years and will continue going forward to meet demand from its parent entity. However, we believe WSBP's huge dependency to WSKT could pose a sizable risk to its business if WSKT's demand of concrete & pre-cast supply declines.

Figure 53. WTON's revenue breakdown by customer



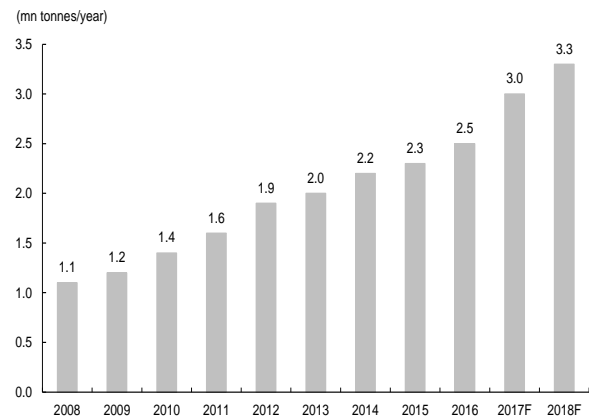
Source: Company data, Daewoo Securities Research

Figure 54. WSBP's revenue breakdown by customer



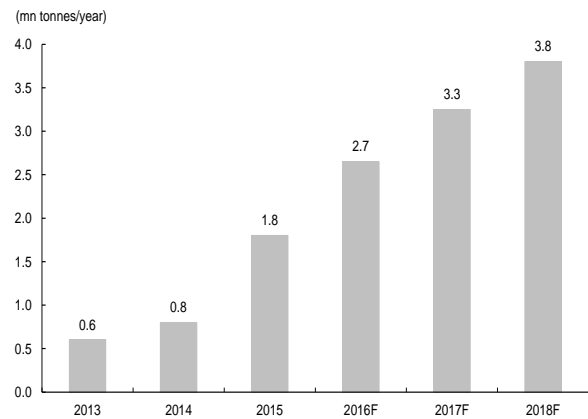
Source: Company data, Daewoo Securities Research

Figure 55. WTON's annual production capacity



Source: Company data, Daewoo Securities Research

Figure 56. WSBP's annual production capacity



Source: Company data, Daewoo Securities Research

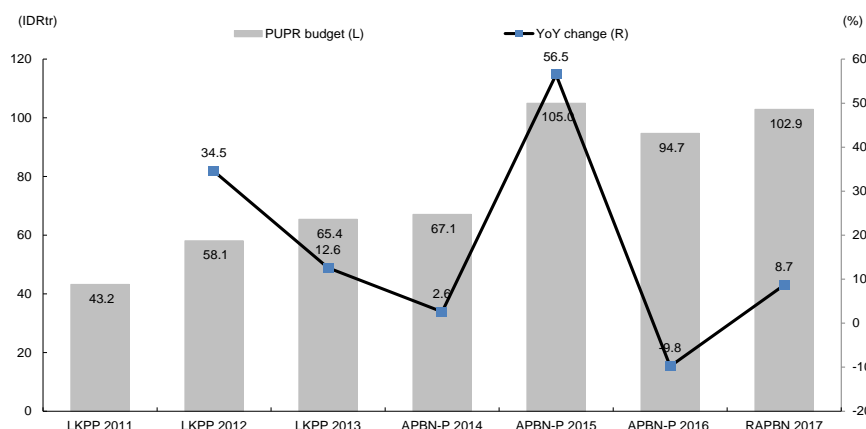
Operations and financials

Aggressive toll road expansion

According to the 2015-19 national medium-term development plan (Rencana Pembangunan Jangka Menengah Nasional/RPJMN 2015-19) by the national development planning agency (Badan Perencanaan Pembangunan Nasional/BAPPENAS), the government plans to build 1,000 km long toll road by 2019. This will add 193 km to the 2014 baseline (see Table 4).

The Ministry of Public Works and Public Housings (Kementerian Pekerjaan Umum dan Perumahan Rakyat/PUPR) has established toll road regulatory body (Badan Pengatur Jalan Tol/BPJT) to focus on toll road development in Indonesia. In RAPBN 2017, PUPR is the main beneficiary of the government's budget (see Table 5). Due to this, we believe the spillover would be enjoyed by BPJT in the form of its increased budget. Factoring in these two findings, we believe toll road projects would continue to increase and listed among the government's top infrastructure priority developments.

Figure 57. PUPR's budget development



Source: Ministry of Finance, Daewoo Securities Research

WSKT is the most appointed builder to carry out the government's toll road projects due to the fact that it also has ownership of the toll road projects. Generally, builders need to go through tender process in order to win a project's construction work. However, since WSKT is also the owner of these projects, the construction work will definitely go to the company, eliminating the time-consuming tender process.

At present, WSKT has 721 km concession rights in Java and Sumatra Islands, 92 km of which have already begun their operation. The management has an aggressive plan to expand its concession rights to 1,000 km by the end of 2016. If this is realized, WSKT will rank the second largest after Jasa Marga (JSRM IJ; Not-rated) with 1,224 km concession rights.

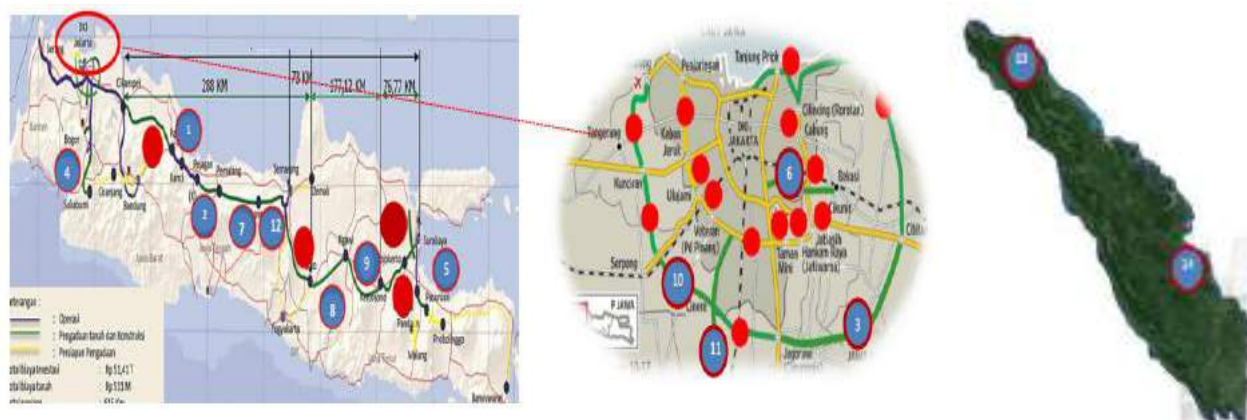
Table 9. WSKT's toll road concession rights list

(kms, %)

No.	Toll road area	Length	WSKT ownership	Target of construction completion
1	Kanci-Pejagan	35	77.69	Operated
2	Pejagan-Pemalang	57	99.99	Sect 1 & 2 : Operated
3	Cimanggis-Cibitung	26	90	
4	Ciawi-Sukabumi	54	81.64	2018
5	Pasuruan-Probolinggo	31	80	2018
6	Bekasi-Cawang-Kampung Melayu	21	60	2017
7	Pemalang-Batang	39	60	2018
8	Solo-Ngawi	90	40	2018
9	Ngawi-Kertosono	87	40	2018
10	Cinere-Serpong	10	35	2018
11	Depok-Antasari	22	25	2017
12	Semarang-Batang	75	40	2018
13	Medan-Kualanamu-Tebing Tinggi	62	30	2018
14	Kayu Agung-Palembang-Betung	112	60	2019
Total		721		

Source: Company Data, Daewoo Securities Research

Figure 58. WSKT's toll road investment in Java and Sumatra Islands

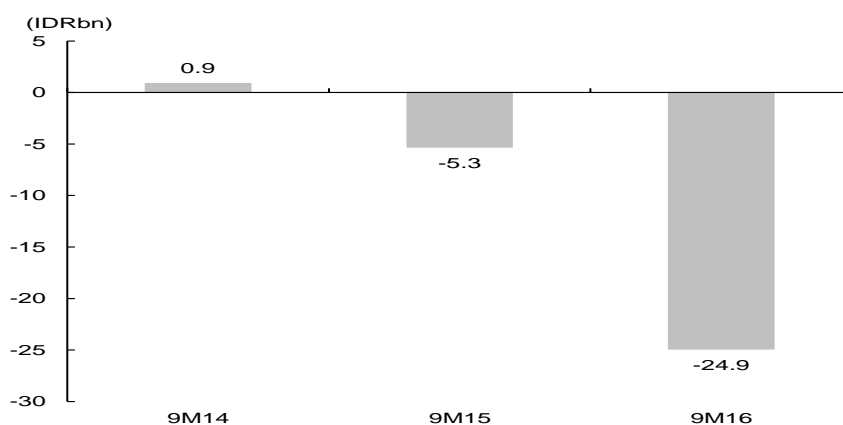


Source: Company data Daewoo Securities Research

Expect margin deterioration

According to the 5th International Conference on Geotechnical and Highway Engineering, Indonesia's toll roads are typically characterized by a payback period of >20 years, debt servicing for 15-20 years, and concession period of 35-40 years. WSKT has two 35-year concession rights and three 45-year concession rights at the moment. Henceforth, we believe the early years of the toll road operation would cause a pressure on the company's earnings as: 1) the new toll roads would need time to generate higher traffic, 2) interest expense to be incurred directly in the income statement, as capitalization method is no longer suitable, and 3) depreciation expense would begin to appear in the income statement.

We would like to note that out of 14 toll roads owned by WTR, 11 toll of them are expected to start their operation by 2018~2019 (see Table 9). Having said that, we expect WSKT's margin to deteriorate by 2018~2019 onwards as the downturn of WTR, which is currently the largest subsidiary of WSKT, would largely affect its parent entity. As of 9M16, WTR booked IDR24.9bn net loss, reflecting a 369.8% increase from 9M15 net loss of IDR5.3bn. Given our arguments, we believe that WTR's net loss trend would continue until its toll roads reach the ~20 year payback period.

Figure 59. Waskita Toll Road's net profit deterioration

Source: Company data, Daewoo Securities Research

Being aware of this issue, WSKT's management stated that it targets to focus its operation as a toll road builder instead of operator. In order to achieve this, WSKT plans to divest c.40% ownership in WTR. The company has two alternatives.

The first alternative would be a private placement by strategic investors. Several financial institutions, such as Badan Penyelenggara Jaminan Sosial (BPJS) Ketenagakerjaan, Tabungan dan Asuransi Pensiun (Taspen), and Sarana Multi Infrastruktur (SMI) have announced their interest in purchasing ownership of WTR. Taspen stated that it would purchase <20% ownership, having prepared a maximum of c.IDR2tr fund for the purchase. SMI stated that it is interested in buying 10-15% ownership of WTR. On the other hand, we have not heard any further clarification from BPJS Ketenagakerjaan so far. However, WSKT stated that final negotiation with the strategic investors is currently in progress, and final decision would be announced by December 2016. The second option would be an IPO to WTR, which is expected to be listed by 2017 with anticipated raised fund of more than IDR5tr. We believe the best outcome would come from the execution of both options: by doing the private placement as well as the IPO. We include IDR3tr proceeds of WTR private placement sale to our assumptions; however, we exclude proceeds of WTR IPO from our assumptions as it still lacks clarity.

Table 10. Toll road concession rights currently owned by WSKT

Toll road company	Toll road area	Concession Start	Concession End	Concession period (years)
Semesta Marga Raya	Kanci-Pejagan	2006	2041	35
Cimanggis Cibitung Tollways	Cimanggis-Cibitung	2007	2042	35
Pejagan Pemalang Tol Road	Pejagan-Pemalang	2014	2059	45
Trans Jabar Tol	Ciawi-Sukabumi	2008	2053	45
Trans Jawa Paspro Jalan Tol	Pasuruan-Probolinggo	2015	2060	45

Source: Company data, Daewoo Securities Research

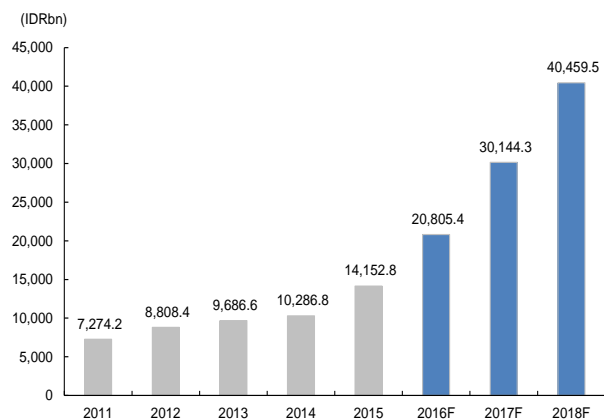
Having said that, we believe WSKT's investment in the toll road concession is merely the company's strategy to gain sizable exposure to toll road project contracts. After being granted the sizable contracts, the concession rights will be sold indirectly as WSKT downsizes its ownership of WTR. The proceeds gained from WTR ownership sale would continue to benefit the company going forward, as more equity shall allow for more leverage for WSKT. Finally, larger capital base would lift WSKT's chance to win other sizable new contracts. Henceforth, we continue to like WSKT's earnings and new contracts clarity going forward.

On a different note, we would like to underline that commitments worth IDR10.8tr have been bound between WSKT and several toll road operators also partly owned by WSKT itself, such as Solo Ngawi Jaya (40% ownership), Ngawi Kertosono Jaya (40% ownership), Kresna Kusuma Dyandra (60% ownership), etc. The majority of the commitments would end in May 2017.

Large order book, secured revenue

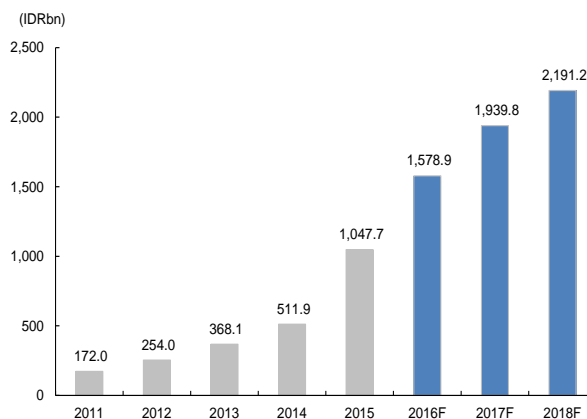
Thanks to WSKT's strategy of putting investment in toll road projects to get new contracts without tender process, the company's order book proved to be larger than its peers. As of 1H16, WSKT's order book was worth IDR79.7tr, compared to: WIKA's IDR40.5tr, PTPP's IDR53.1tr, and ADHI's IDR16.1tr. We believe WSKT's large order book would secure the company's future revenue against the risk of slower new contract achievement going forward.

Figure 60. WSKT's annual revenue performance



Source: Company data, Daewoo Securities Research

Figure 61. WSKT's annual net profit performance



Source: Company data, Daewoo Securities Research

Valuations and recommendations

We initiate our coverage on WSKT with a Buy recommendation and a 12-month target price of IDR3,020/share. Our target price was derived using discounted cash flow (DCF) calculation with the following assumptions:

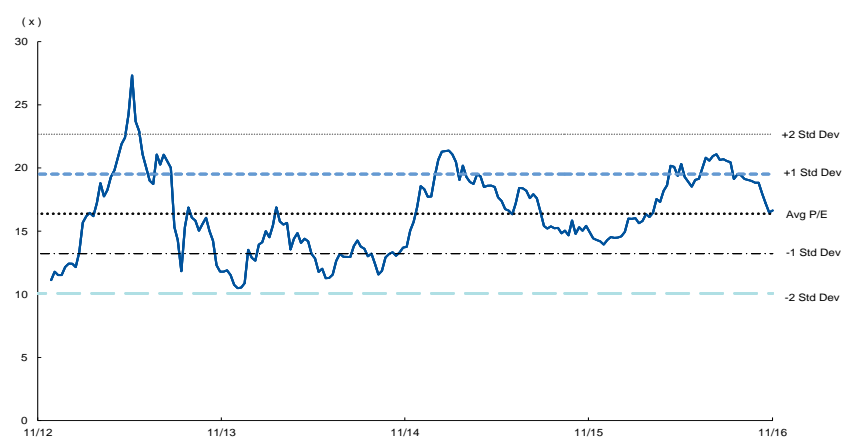
Table 11. Assumptions used for WSKT DCF calculation

Assumptions	
Perpetual growth rate	5.0%
Beta	1.005
Risk-free rate	7.5%
Market risk premium	5.0%
WACC	10.7%

Source: Daewoo Securities Research

WSKT is currently trading at 17.1 forward 17F P/E, slightly above its 4-year average at 16.4x. We like WSKT for its 1) sizable order book achievement, which would safeguard its revenue from risk of slower new contract achievement in the future, 2) strategy to obtain new contracts via investment basis, and 3) commitment to divest its toll road operation, which we believe would burden the parent entity otherwise.

Figure 62. WSKT P/E band



Source: Daewoo Securities Research

Waskita Karya (Ticker WSKT IJ/Buy/TP: IDR3,020)

Income Statement (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Revenue	14,153	20,805	30,144	40,460
Cost of revenue	-12,232	-17,201	-25,956	-35,301
Net revenue from JV	12	12	301	399
Gross profit	1,933	3,616	4,488	5,557
Operating expenses	-518	-739	-1,088	-1,490
Operating profit	1,415	2,877	3,401	4,067
Interest expense	-340	-604	-1,240	-1,239
Net non-operating losses (gains)	323	291	989	730
Pre-tax profit	1,398	2,564	3,150	3,558
Tax expense	-350	-985	-1,210	-1,367
Net profit	1,048	1,579	1,939	2,191
Minority interest	0	0	0	0
Attributable net profit	1,048	1,579	1,940	2,191

Growth (%)	12/15	12/16F	12/17F	12/18F
Revenue	37.6	47.0	44.9	34.2
Cost of revenue	33.3	40.6	50.9	36.0
Gross profit	48.0	87.1	24.1	23.8
Operating expenses	23.2	42.7	47.1	37.0
Operating profit	59.7	103.3	18.2	19.6
Interest expense	85.2	77.7	105.3	-0.1
Net non-operating losses (gains)	406.7	-9.8	239.6	-26.2
Pre-tax profit	82.5	83.4	22.9	13.0
Tax expense	37.7	181.1	22.9	13.0
Net profit	104.8	50.7	22.9	13.0
Minority interest	-53.8	47.0	44.9	34.2
Attributable net profit	104.7	50.7	22.9	13.0

Key performance indicators

	12/15	12/16F	12/17F	12/18F
Per share data				
EPS (IDR)	77.2	116.3	142.9	161.4
EPS growth (%)	104.7	50.7	22.9	13.0
BVPS (IDR)	714.9	1467.6	1600.0	1749.6
BVPS growth (%)	251.0	105.3	9.0	9.3
DPS (IDR)	7.4	8.5	10.5	11.8
Key ratio				
ROE (%)	10.8	7.9	8.9	9.2
ROA (%)	3.5	3.0	3.1	3.0
Gross profit margin (%)	13.7	17.4	14.9	13.7
Operating margin (%)	10.0	13.8	11.3	10.1
Net profit margin (%)	7.4	7.6	6.4	5.4
Net debt/equity (x)	0.3	0.0	0.6	0.8
Debt/equity (x)	0.8	1.0	1.0	0.9
Assets/equity (x)	3.1	2.7	2.9	3.0
Current ratio (x)	1.3	1.5	1.0	0.9
Quick ratio (x)	0.7	1.1	0.5	0.4

Source: Daewoo Securities Research

Balance Sheet (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Cash and equivalents	5,522	18,183	7,979	4,051
Account receivables	4,654	4,284	6,207	8,331
Retention receivables	732	1,205	1,745	2,343
ST due from customers	4,580	6,588	9,545	12,812
Inventories	826	932	1,406	1,913
Other current assets	1,762	1,722	1,806	1,899
Fixed assets	1,923	3,246	4,502	5,270
Other long-term assets	10,311	16,679	28,945	35,746
Total assets	30,309	52,838	62,135	72,363
Account payables	5,472	5,119	7,725	10,506
Short-term debt	3,488	10,522	11,472	12,544
Other short-term liabilities	4,705	5,642	8,205	11,010
Long-term debt	4,547	8,641	9,180	9,789
Other long-term liabilities	2,394	2,993	3,835	4,766
Total liabilities	20,605	32,918	40,418	48,615
Paid in capital	1,732	1,732	1,732	1,732
Additional paid in capital	5,882	8,882	8,882	8,882
Retained earnings	1,933	3,396	5,194	7,224
Total equity attributable to majority	9,547	14,010	15,808	17,838
Non-controlling interest	157	5,910	5,910	5,910
Total shareholders' equity	9,704	19,920	21,718	23,748

Cash Flow Statement (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Net profit	1,048	1,579	1,940	2,191
Depreciation	140	118	185	232
Changes in net working capital	1,803	5,452	139	72
Operating cash flow	2,990	7,149	2,264	2,495
PP&E investing activities	-1,441	-1,441	-1,441	-1,000
I.P investing activities	-422	-541	-759	-838
Others investing activities	-8,073	-5,827	-11,507	-5,963
Investing cash flow	-9,937	-7,809	-13,707	-7,801
Non-current financing activities	4,891	4,695	1,381	1,539
Changes in equity	5,861	3,000	0	0
Changes in minority interest	151	5,753	0	0
Dividend paid	-100	-116	-142	-161
Financing cash flow	10,804	13,332	1,239	1,378
Net worth adjustment	-21	0	0	0
Net cash	3,836	12,672	-10,204	-3,928
Beginning balance	1,675	5,511	18,183	7,979
Ending balance	5,511	18,183	7,979	4,051

Wijaya Karya (WIKA)

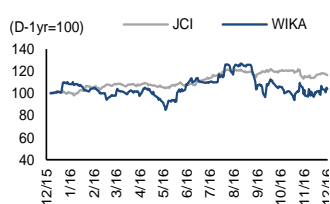
On track to construct the superiority

Construction

(Initiate)	Buy
Target Price (12M, IDR)	3,055
Share Price (12/19/16, IDR)	2,440
Expected Return	25.2%

OP (16F, IDRtr)	1.5
Consensus OP 16F, IDRtr)	1.7
EPS Growth (17F, %)	61.1
Consensus EPS Growth (17F, %)	26.9
P/E (17F, x)	14.0
Consensus P/E (17F, x)	18.4
Market Cap (IDRbn)	22,424.9
Shares Outstanding (mn)	8,970.0
Free Float (%)	55.4
Foreign Ownership (%)	9.2
Beta (12M)	0.6
52-Week High	3,139
52-Week Low	2,037

(%)	1M	6M	12M
Absolute	0.8	-3.6	2.6
Relative	-0.1	-12.3	-14.1



Wijaya Karya is an Indonesia-based SOE primarily engaged in infrastructures (roads, bridges, dams, power plants, airports, and MRT) and building construction. The company went public on October 27th 2007, choosing "WIKI" as its ticker symbol. WIKI is one of the oldest SOEs and the second largest listed construction company in Indonesia with IDR20.5tr asset (vs. Waskita Karya's IDR40.4tr).

Strong railway project outlook

The first phase of North-South MRT project would have c.IDR6tr contract value to WIKI's portion. The IDR2.9tr worth commitment has been bound between WIKI and PT Mass Rapid Transit, securing the contract until May 2018. We believe the second phase and the East-West MRT project would help increase WIKI's new contract achievement in the future. WIKI's investment in the Jakarta-Bandung project (total estimated project cost=c.IDR72tr) via PSBI would bestow on WIKI the privilege to construct Bandung-Surabaya project (total estimated project cost=c.IDR298tr) without any further investments. Hence, we believe WIKI's new contract achievement from the railway construction would be secured in the future, factoring in the potentially huge new contracts from Bandung-Surabaya high speed railway project.

Prominent power plant

In the government's 35,000 MW projects, WIKI has a significant role as an independent power producer (IPP) in the 6,837 MW project and as a builder in the 1,410 MW project. Factoring in the government's strong commitment to expand national power capacity by 80,500 MW by 2025, we believe WIKI's new contract achievement from power plant construction would be secured in the future. Furthermore, from power plant projects, commitments totaling IDR3.6tr have been bound between WIKI and PLN (5 commitments) and Indonesia Power (1 commitment), averagely securing the contract until December 2018.

Initiate coverage with a Buy call and TP of IDR3,055/share

We initiate our coverage on WIKI with a Buy recommendation and a 12-month target price of IDR3,055/share. WIKI is currently trading at 14.0x forward 17F P/E, below its 5-year average at 20x and slightly above its -1 SD at 13.9x. We like WIKI for its 1) well diversified business lines, which would lower risk against possible slower government spending, 2) strong pre-cast subsidiary, which would supply its parent entity, and 3) robust new contracts outlook.

FY (Dec)	2014	2015	2016F	2017F	2018F
Revenue (IDRbn)	12,463.2	13,620.1	15,870.7	22,141.4	28,171.5
Operating profit (IDRbn)	1,401.5	1,513.9	1,533.7	2,119.2	2,723.4
OP margin	11.2	11.1	9.7	9.6	9.7
NP (IDRbn)	608.2	625.0	663.6	1,069.3	1,292.2
EPS (IDR)	99.1	101.8	108.1	174.2	210.5
BPS (IDR)	794.3	885.8	1,989.6	2,200.9	2,436.5
P/E (x)	24.6	24.0	22.6	14.0	11.6
ROE (%)	12.5	11.5	5.4	7.9	8.6

Note: All figures are based on consolidated FS; NP refers to net profit attributable to controlling interests

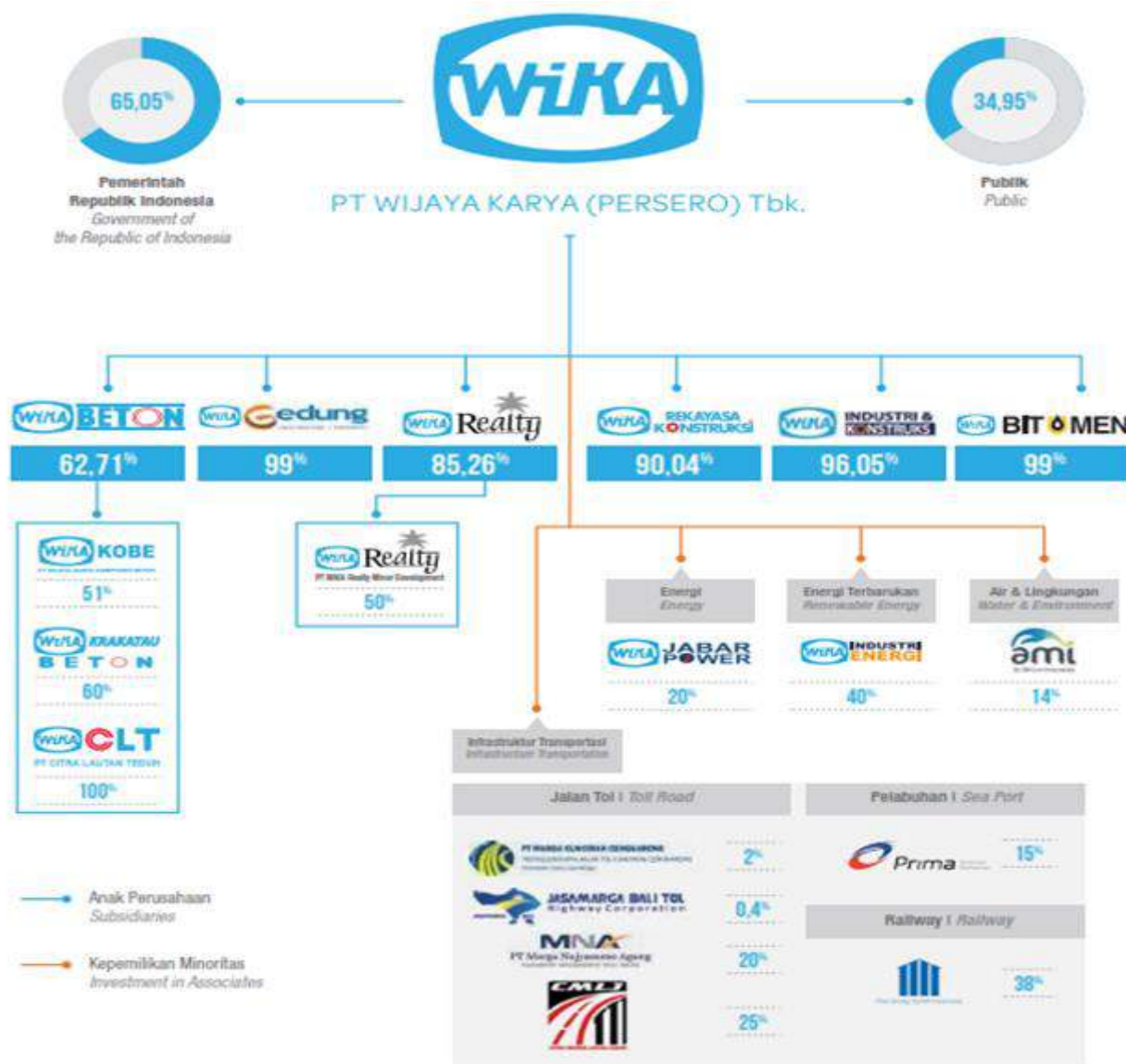
Source: Company data, Daewoo Research estimates

Company snapshot

Company in brief

Wijaya Karya, listed in the Indonesian market, is an Indonesia-based SOE primarily engaged in infrastructures (roads, bridges, dams, power plants, airports, to MRT) and building construction. Founded in 1960, the company was previously named Naamloze Vennootschap Technische Handel Maatschappij en Bouwbedrijf Vis en Co (Dutch owned). Being subject to nationalization, it was merged into PN Widjaja Karja. The company went public on October 27th 2007, choosing “WIKI” as its ticker symbol. WIKI is one of the oldest SOEs and the third largest listed construction company in Indonesia with IDR21.9tr asset (vs. Waskita Karya’s IDR50.2tr, vs. Pembangunan Perumahan’s IDR22.4tr).

Figure 63. WIKI's ownership structure and business portfolio



Source: Company data, Daewoo Securities Research
Note: based on 2015 data

Shareholder structure

Table 3. Shareholder composition (3Q16)

(Shares, %)

	Number of shares	Percentage
Government of Indonesia	4,000,000,000	65.05
WIKA's management	1,507,700	0.02
WIKA's employees	69,969,600	1.14
Public	2,077,747,700	33.79
Total	6,149,225,000	100.00

Percentage of shares based on geographic ownership

Domestic	90.8%
International	9.2%

Note: Real free float of 34.9% from total outstanding shares

Source: Company data, Daewoo Securities Indonesia

Table 4. List of commissioners and directors (3Q16)

(Shares, %)

Name	Number of shares	Percentage	Position
Ir. Mudjiadi, MSc			President Commissioner
Eddy Kristianto			Commissioner
Lilie Mayasari, SE			Commissioner
Drs. Freddy R Saragih, MPAcc			Commissioner
Imas Aan Ubudiah, Spd			Independent Commissioner
Ir. Nurrachman, ST. MM			Independent Commissioner
Bintang Perbowo, SE, MM	1,507,700	0.02	President Director
Antonius N S Kosasih, SE, MM-FI			Director
I Gusti N A Danadiputra, SE, MM			Director
Ir. Gandira Gutawa, MM			Director
Ir. Bambang Pramujo, M.T			Director
Ir. Destiawan Soewardjono, MM			Director

Source: Company data, Daewoo Securities Indonesia

Management team

President Director

Mr. Bintang Perbowo, SE, MM has served WIKA as the President Director since May 2013 and was re-elected for the same position in April 2015. He has been with the company since 2008 as the Managing Director. Previously, he served as Finance Director of PTTP from 1999 to 2008. He is an alumnus of Prasetya Mulya Business School and University Krisnadwipayama.

Director of Finance

Mr. Antonius N S Kosasih, SE, MM-FI has served as WIKA's Director since April 2016. Previously, he held the position of President Director of Transportasi Jakarta (TransJakarta) from 2014 to early 2016 and Finance Director of Perum Perhutani from 2008 to 2012. He is an alumnus of IPMI and Gadjah Mada University.

Director of Human Capital and Development

Mr. I Gusti N A Danadiputra, SE, MM has served as WIKA's Director since April 2016. Previously, he served as the Chief Finance Officer and Risk Director of Garuda Indonesia (GIAA IJ; Trading Buy; TP IDR510) from 2014 to 2016 and the Finance Director of Pelabuhan Indonesia III in 2014. He is an alumnus of the University of Indonesia and Gadjah Mada University.

Director of Operation I

Mr. Ir. Gandira Gutawa, MM has served as WIKA's Director since April 2015. Previously, he held important positions at the Civil Works Department. He is an alumnus of the University of Indonesia and Institute of Technology Bandung.

Director of Operation II

Mr. Ir. Bambang Pramujo, M.T has served as WIKA's Director since May 2013. Previously, he was the President Commissioner of Rekayasa Industri in 2013. He is an alumnus of the University of Indonesia and Sebelas Maret University.

Director of Operation III

Mr. Ir. Destiawan Soewardjono, MM has served as WIKA's Director since March 2014. He has been with WIKA since 1988 and is also a commissioner at WIKA Beton (WTON IJ; Not-rated). He is an alumnus of Brawijaya University and Gadjah Mada University.

Niche characteristics

Each construction company in Indonesia possesses unique characteristics of its own. We believe the key traits distinguishing WIKA from other builders are as follows:

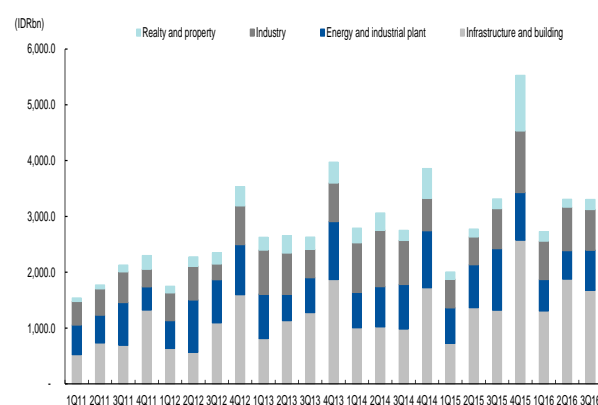
1. **Most diversified line of businesses.** We like WIKA for its diversified project portfolio compared to the other giant construction companies (see Figure 48 to 51), such as WSKT, PTPP, and ADHI. We would like to underline WIKA's sizable exposure to power plant construction and pre-cast concrete industry, which we expect to help lower the company's direct exposure to the government's spending cuts.

Figure 64. WIKA's business pillars



Source: Company data, Daewoo Securities Research

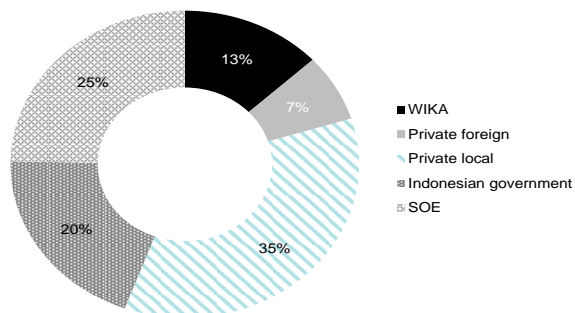
Figure 65. WIKA's revenue growth diversification



Source: Company data, Daewoo Securities Research

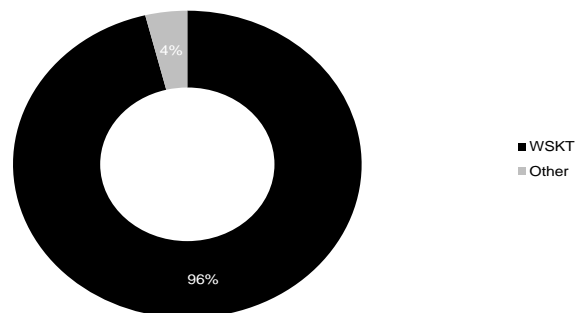
2. **Pre-cast king.** Wijaya Karya Beton (WTON IJ; Not-rated) is one of the most prominent WIKA's subsidiaries, the key player in national concrete industry. Although a competitor's concrete player, Waskita Beton Precast (WSBP IJ; Not-rated), is larger by asset value (WSBP 3Q16 asset: IDR13.5tr vs. WTON 3Q16 asset: IDR4.4tr), we believe WTON is the market leader within the industry. Our premise is backed by the fact that WTON has 1) more experience in the industry (WTON has operated as a division of its parent entity since 1978 vs. WSBP's 2012) and 2) a more diversified customer base compared to WSBP.

Figure 66. WTON's revenue breakdown by customer



Source: Company data, Daewoo Securities Research

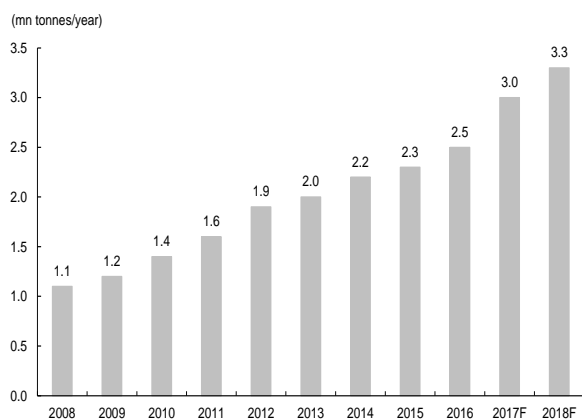
Figure 67. WSBP's revenue breakdown by customer



Source: Company data, Daewoo Securities Research

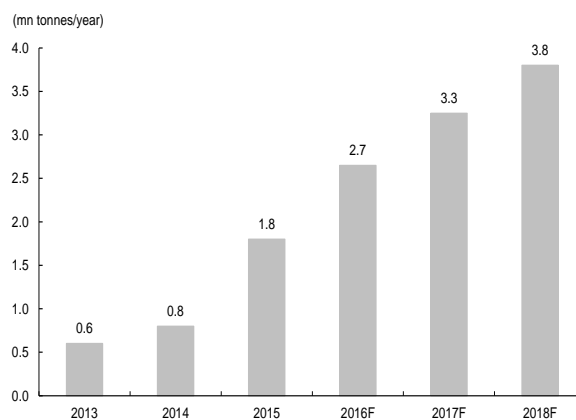
Despite WSBP's confidence to enlarge its production capacity per year going forward, we would like to bring attention to the company's huge dependency to WSKT. We believe this dependency would pose a sizable risk should there be sudden shrinking demand from WSKT combined with unutilized huge production capacity.

Figure 68. WTON's annual production capacity



Source: Company data, Daewoo Securities Research

Figure 69. WSBP's annual production capacity



Source: Company data, Daewoo Securities Research

Operations and financials

Supreme railway maker

According to the 2015-19 national medium-term development plan (Rencana Pembangunan Jangka Menengah Nasional/RPJMN 2015-19) by the national development planning agency (Badan Perencanaan Pembangunan Nasional/BAPPENAS), the government plans to build 8,692 km long railroad by 2019. This would be an addition of 3,258 km to the 2014 baseline (see Table 4). In addition, the Ministry of Transportation states that the government plans to build 12,100 km long railroad by 2030. This project is be comprised of 6,800 km railroad project in Java, Madura, and Bali, 2,900 km in Sumatera and Batam, 1,400 km in Kalimantan, 500 km in Sulawesi, and 500 km in Papua.

Figure 70. Railroad development plan in Sumatra by 2030



Source: Ministry of Transportation, Daewoo Securities Research

Figure 71. Railroad development plan in Kalimantan by 2030



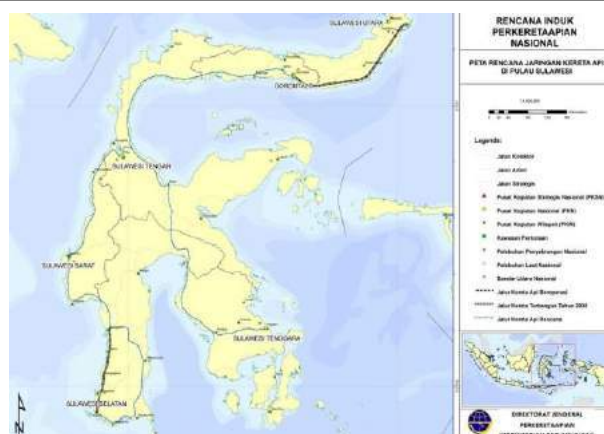
Source: Ministry of Transportation, Daewoo Securities Research

Figure 72. Railroad development plan in Java by 2030



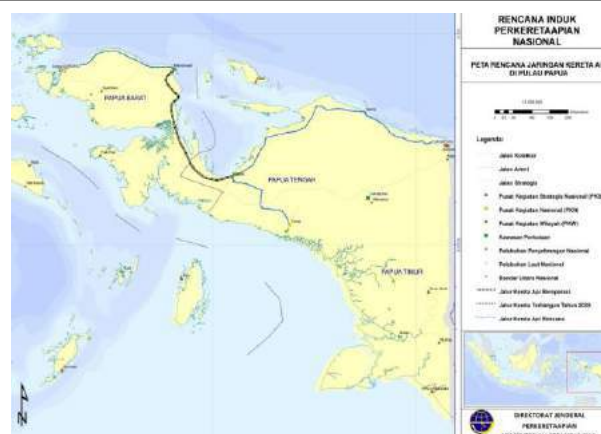
Source: Company data, Daewoo Securities Research

Figure 73. Railroad development plan in Sulawesi by 2030



Source: Ministry of Transportation, Daewoo Securities Research

Figure 74. Railroad development plan in Papua by 2030



Source: Ministry of Transportation, Daewoo Securities Research

We consider WIKA to be one of the most prominent companies to carry out these railroad projects. This is due to the fact that WIKA has excelled its competitors by building more than 100km railroads and having strong arms in the pre-cast industry, such as WTON, which would supply the railroad projects with concrete sleepers. With the new railroad development projects coming down the pipeline, we believe WIKA would have larger potential to win the tender compared to other builders given the aforementioned factors.

Previously, WIKA has won one of Jakarta's mega projects, i.e the Mass Rapid Transit (MRT). The project consists of two lines i.e North-South (with two phases, connecting Kampung Bandan – Lebak Bulus; 23.8 km long) and East-West (in pre-feasibility study, expected to be 87 km long). From the 6 contract packages (CP) in the first phase of North-South MRT project, WIKA secured contracts to build four CPs: CP 101, CP 102, CP 104, and CP 105, which we deem sizable. According to our latest conversation with the company, the first phase of North-South MRT project would have c.IDR6tr contract value in WIKA's portion. The IDR2.9tr worth commitments have been bound between WIKA and PT Mass Rapid Transit, securing the contract until May 2018.

Table 12. First phase of North-South MRT Jakarta construction progress as of Oct 31st, 2016 (%)

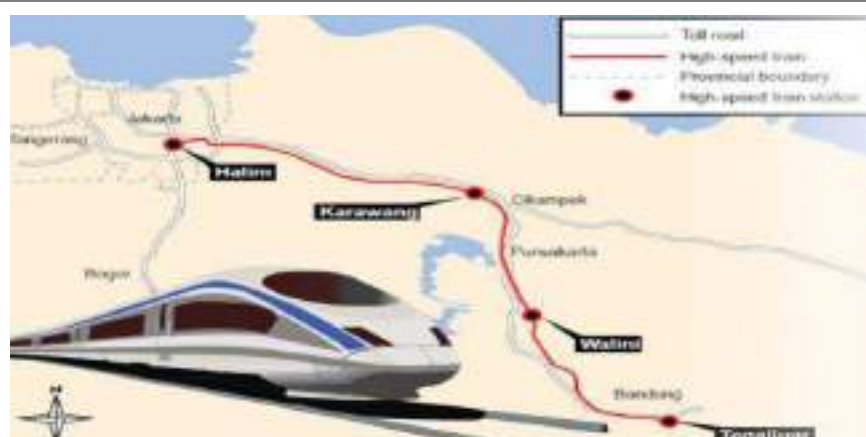
Contract Package (CP)	Progress
CP101 (Depo – St. Lebak Bulus)	36.1
CP102 (TB Simatupang – St. Fatmawati)	48.1
CP103 (St. Haji Nawir – St. Sisingamangaraja)	40.9
CP104 (Transisi – Istora)	72.0
CP105 (Bendungan Hilir – Setiabudi)	69.2
CP106 (Dukuh Atas – Bundaran HI)	82.9
Total	58.3

Source: PT MRT, Daewoo Securities Research

Figure 75. Route plan for the first phase of North-South MRT Jakarta

Source: PT MRT, Daewoo Securities Research

In terms of nation-wide development, the government also has a serious commitment to connect the western part of Java Island (Jakarta) to its eastern part (Surabaya) using a high speed rail system. The first project in the pipeline is the Jakarta-Bandung route, expected to have 142.3 km length (73 km elevated, 52.5 km ground, and 16.8 km tunnel) and cost c.IDR72tr. The project is to be assigned to Kereta Cepat Indonesia China (KCIC), owned by Pilar Sinergi BUMN Indonesia (PSBI; 60% stake) and China Railway International Co Ltd (40% stake). PSBI itself is a consortium comprised of four SOEs: WIKA (owning 38% stake), PTPN VIII (Perkebunan Nusantara VIII, 25% stake), KAI (Kereta Api Indonesia; 25% stake), and Jasa Marga (12% stake). The 50-year concession period, to commence on May 31st 2019 (expected date of route operation), is bestowed on KCIC. The trains are estimated to carry 29,000 passengers/day with IDR200,000/ticket. As a stakeholder, WIKA would have the privilege to be the builder of this project. For this project, the company is expected to book IDR16.7tr new contract value this year, which we consider quite sizable.

Figure 76. Expected route plan for Jakarta-Bandung high speed railway project

Source: Internet, Daewoo Securities Research

Figure 77. High speed railway track construction progress at Walini, West Java, as of Nov 17th 2016

Source: Company data, Daewoo Securities Research

Another project in the pipeline is the Bandung-Surabaya high speed railway, which is estimated to have c.590 km length. The project still lacks detail, as the feasibility study by the government is only to begin next year. However, assuming the project would approximately cost the same as the Jakarta-Bandung counterpart, we estimate that the Bandung-Surabaya high speed railway construction project would cost a sizeable amount of c.IDR298tr. According to our latest conversation with the company, WIKA's investment in the Jakarta-Bandung project via PSBI would grant the company the Bandung-Surabaya railway construction project without any further investment. Hence, we believe WIKA's new contract achievement from the railway construction would be secured in the future, factoring in the potentially huge new contracts from Bandung-Surabaya high speed railway project.

Geared to power plant development

Taking into account the government's serious attention to expand the national electrification ratio (see Figure 30), we believe WIKA, as one of the most prominent power plant builders, would be the main beneficiary. In the government's 35,000 MW projects, WIKA has a significant role as an independent power producer (IPP) in the 6,837 MW project and as a builder in the 1,410 MW project. Factoring in the government's strong commitment to expand national power capacity by 80,500 MW by 2025, we believe WIKA's new contract achievement from power plant construction would be secured in the future. Furthermore, from power plant projects, commitments totaling IDR3.6tr have been bound between WIKA and PLN (5 commitments) and Indonesia Power (1 commitment), averagely securing the contract until December 2018.

Table 13. 35,000 MW projects in which WIKA participates (IPP)

(MW, %)

Project	MW	WIKA's portion
PLTGU JAWA 1 (2X800 MW) WEST JAVA	1,600	20
PLTU JAWA 5 (2X1000 MW) BANTEN	2,000	10
PLTU JAWA 7 (2X1000 MW) BANTEN	2,000	9
PLTGU JAWA BALI-3 PEAKER (500 MW) BANTEN	500	20
PLTA KARANGKATES & KESAMBEN (100+37 MW) EAST JAVA	137	20
PLTU MEULABOH 3&4 (2X200 MW) ACEH	400	40
PLTG BANGKA PEAKER (100 MW) BANGKA BELITUNG	100	20
PLTU SULUT 3 (2X50 MW)	100	30
Total	6,837	-

Source: Company data, Daewoo Securities Research

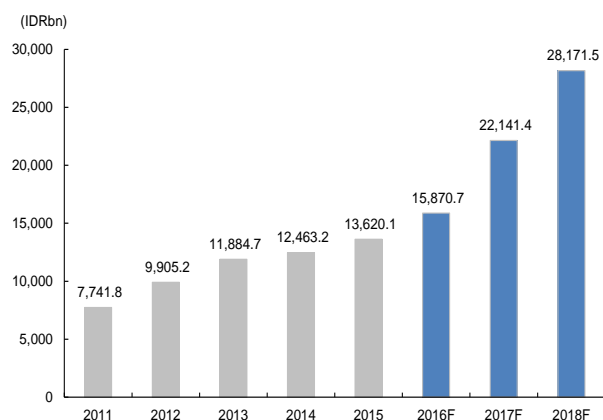
Table 14. 35,000 MW projects in which WIKA participates (construction)

(MW, %)

Project	MW	WIKI's portion
PLTGU MUARA KARANG PEAKER (500 MW) JAKARTA	500	20
PLTGU JAWA 2 TJ PRIOK (800 MW) JAKARTA	800	9
PLTB SIDRAP PARE PARE (70 MW+40 MW) SOUTH SULAWESI	110	100
Total	1,410	

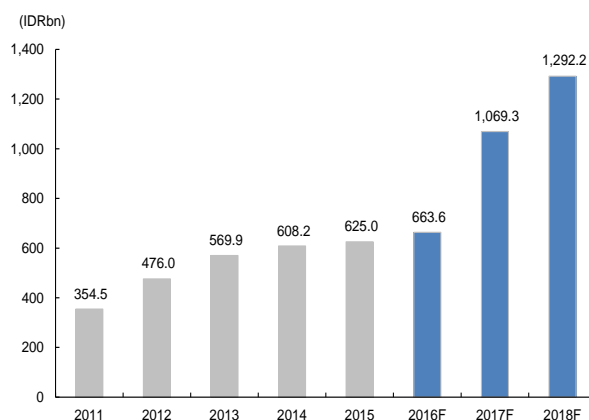
Source: Company data, Daewoo Securities Research

Figure 78. WIKI's annual revenue performance



Source: Company data, Daewoo Securities Research

Figure 79. WIKI's annual net profit performance



Source: Company data, Daewoo Securities Research

Valuations and recommendations

We initiate our coverage on WIKA with a Buy recommendation and a 12-month target price of IDR3,055/share. Our target price was derived using discounted cash flow (DCF) calculation with the following assumptions:

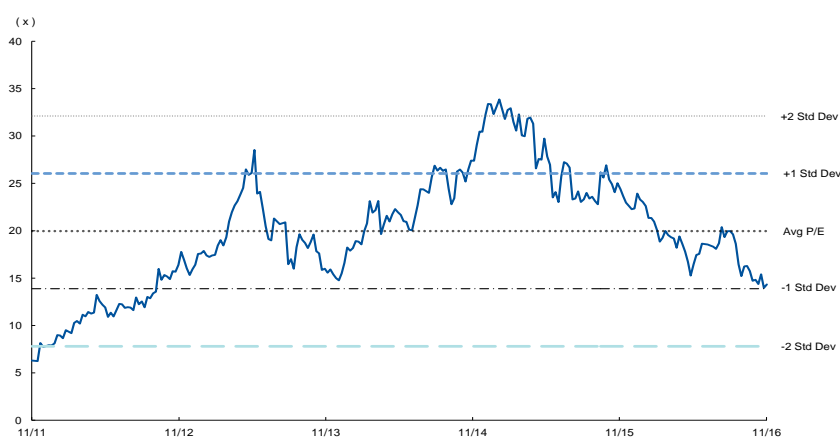
Table 15. Assumptions used for WIKA DCF calculation

Assumptions	
Perpetual growth rate	5.0%
Beta	1.126
Risk-free rate	7.5%
Market risk premium	5.0%
WACC	11.6%

Source: Daewoo Securities Research

WIKA is currently trading at 14.0x forward 17F P/E, below its 5-year average at 20x and slightly above its -1 SD at 13.9x. We like WIKA for its 1) well diversified business lines, which would lower risk against possible slower government spending, 2) strong pre-cast subsidiary, which would supply its parent entity, and 3) robust new contracts outlook.

Figure 80. WIKA P/E band



Source: Daewoo Securities Research

Wijaya Karya (Ticker WIKA IJ/Buy/TP: IDR3,055)

Income Statement (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Revenue	13,620	15,871	22,141	28,172
Cost of revenue	-11,965	-14,149	-19,740	-25,116
Profit (loss) from joint venture	288	288	394	538
Gross profit	1,943	2,010	2,796	3,594
Operating expenses	-429	-476	-676	-871
Operating profit	1,514	1,534	2,119	2,723
Interest expense	-431	-288	-235	-457
Net non-operating losses (gains)	16	-51	10	35
Pre-tax profit	1,098	1,195	1,894	2,302
Tax expense	-395	-441	-698	-849
Net profit	703	754	1,196	1,453
Minority interest	-78	-91	-127	-161
Attributable net profit	625	664	1,069	1,292

Growth (%)	12/15	12/16F	12/17F	12/18F
Revenue	9.3	16.5	39.5	27.2
Cost of revenue	8.4	18.3	39.5	27.2
Gross profit	-22.0	0.0	36.6	36.6
Operating expenses	9.2	11.0	42.0	28.7
Operating profit	8.0	1.3	38.2	28.5
Interest expense	118.2	-33.3	-18.3	94.3
Net non-operating losses (gains)	NM	NM	NM	244.9
Pre-tax profit	-3.6	8.8	58.5	21.5
Tax expense	-0.1	11.5	58.5	21.5
Net profit	-5.5	7.3	58.5	21.5
Minority interest	-42.5	16.5	39.5	27.2
Attributable net profit	2.8	6.2	61.1	20.8

Key performance indicators

	12/15	12/16F	12/17F	12/18F
Per share data				
EPS (IDR)	101.8	108.1	174.2	210.5
EPS growth (%)	2.8	6.2	61.1	20.8
BVPS (IDR)	885.8	1989.6	2200.9	2436.5
BVPS growth (%)	11.5	124.6	10.6	10.7
DPS (IDR)	20.0	26.4	42.6	51.5
Key ratio				
ROE (%)	11.5	5.4	7.9	8.6
ROA (%)	3.2	2.5	3.0	3.1
Gross profit margin (%)	14.3	12.7	12.6	12.8
Operating margin (%)	11.1	9.7	9.6	9.7
Net profit margin (%)	4.6	4.2	4.8	4.6
Net debt/equity (x)	0.2	-0.3	-0.3	-0.2
Debt/equity (x)	0.6	0.2	0.4	0.4
Assets/equity (x)	3.6	2.2	2.7	2.8
Current ratio (x)	1.2	1.7	1.6	1.5
Quick ratio (x)	0.5	0.9	0.9	0.8

Source: Daewoo Securities Research

Balance Sheet (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Cash and equivalents	2,560	6,720	9,414	9,345
Account receivables	2,782	3,242	4,522	5,754
Retention receivables	663	772	1,078	1,371
ST due from customers	3,244	3,781	5,274	6,711
Inventories	1,031	1,474	2,057	2,617
Other current assets	2,280	2,720	3,693	4,716
Fixed assets	3,184	3,565	4,066	4,719
Other long-term assets	3,858	4,682	5,748	7,129
Total assets	19,602	26,956	35,851	42,363
Account payables	4,323	4,533	6,324	8,046
Short-term debt	1,796	1,073	2,411	2,667
Other short-term liabilities	4,479	5,201	7,149	9,132
Long-term debt	1,646	1,562	3,508	3,880
Other long-term liabilities	1,921	2,373	2,948	3,679
Total liabilities	14,164	14,741	22,339	27,404
Paid in capital	1,646	1,646	1,646	1,646
Additional paid in capital	716	6,816	6,816	6,816
Retained earnings	2,013	2,514	3,322	4,298
Total equity attributable to majority	4,375	10,976	11,784	12,760
Non-controlling interest	1,063	1,239	1,728	2,199
Total shareholders' equity	5,438	12,215	13,512	14,959

Cash Flow Statement (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Net profit	625	664	1,069	1,292
Depreciation	234	219	270	335
Changes in net working capital	-698	-1,779	441	-584
Operating cash flow	161	-896	1,780	1,043
PP&E investing activities	-742	-600	-770	-988
I.P investing activities	-12	0	0	0
Others investing activities	-94	-825	-1,066	-1,382
Investing cash flow	-848	-1,425	-1,836	-2,370
Non-current financing activities	1,010	368	2,521	1,104
Changes in equity	-3	6,100	0	0
Changes in minority interest	74	176	489	471
Dividend paid	-123	-162	-262	-316
Financing cash flow	959	6,481	2,749	1,258
Net worth adjustment	-12	0	0	0
Net cash	259	4,160	2,693	-68
Beginning balance	2,301	2,560	6,720	9,414
Ending balance	2,560	6,720	9,414	9,345

Pembangunan Perumahan (PTPP)

Setting sail to bright outlook

Construction

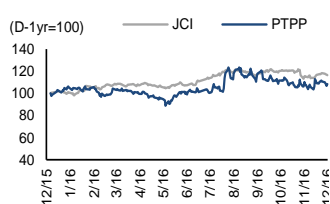
(Initiate)	Buy
Target Price (12M, IDR)	4,710
Share Price (12/19/16, IDR)	3,840
Expected Return	22.7%

OP (16F, IDRtr)	2.1
Consensus OP 16F, IDRtr)	2.2

EPS Growth (17F, %)	30.5
Consensus EPS Growth (17F, %)	24.5
P/E (17F, x)	16.3
Consensus P/E (17F, x)	16.8

Market Cap (IDRbn)	22,903.0
Shares Outstanding (mn)	5,838.9
Free Float (%)	57.3
Foreign Ownership (%)	18.5
Beta (12M)	0.8
52-Week High	4,610
52-Week Low	3,137

(%)	1M	6M	12M
Absolute	-1.6	9.4	8.0
Relative	-2.5	0.8	-8.7



Pembangunan Perumahan, listed in the Indonesian market, is an Indonesia-based state-owned construction company primarily engaged in infrastructures (such as roads, bridges, ports, power plants) and buildings. The company went public in 2009, choosing "PTPP" as the company's ticker symbol. PTPP is one of Indonesia's oldest SOEs and is the second largest listed construction company in Indonesia with IDR22.4tr asset (vs. Waskita Karya's IDR50.2tr).

Supreme port builder

We would like to reiterate our view that PTPP would be the most appointed builder to carry out the construction work of most ports. In the last five years, PTPP has been granted 15 contracts related to port constructions with sizeable total contract value of IDR10.7tr. The government plans to build 450 ports by 2019, an addition of 172 ports to the 2014 baseline. Specifically, 24 ports are to be built in strategic locations to support the sea connectivity within the archipelago. Having said that, we believe port construction projects in the pipeline would remain robust for PTPP, securing its new contract achievement going forward.

To benefit from low-cost housing program

In economic package XIII, the government is committed to ease property ownership for low-income households (masyarakat berpenghasilan rendah/MBR). In 2017, PTPP targets to build 20,000 units of houses in Pulo Gadung and Kemayoran. Assuming construction cost of IDR5mn/m² and an average unit size of 30m², we estimate that PTPP would be able to deliver sizable additional revenue of IDR3tr in 2017F. The government is also determined to build 1mn MBR housings annually to pump up low-cost housings, hence allowing low-income households to own a house. Having said that, we believe PTPP's contract achievements from the MBR housing construction would remain robust in the future.

Initiate coverage with a Buy call and TP of IDR4,710/share

We initiate our coverage on PTPP with a Buy recommendation and a 12-month target price of IDR4,710/share. PTPP is currently trading at 16.3x forward 17F P/E, slightly above its 5-year average at 15x. We like PTPP for its 1) good exposure to the upbeat port infrastructure development by the government, 2) partaking in the MBR housing development fully supported by the government, and 3) strong performance from its largest subsidiary i.e PPRO, which has a strong uptrend earnings trajectory.

FY (Dec)	2014	2015	2016F	2017F	2018F
Revenue (IDRbn)	12,427.4	14,217.4	18,415.8	21,998.7	27,855.5
Operating profit (IDRbn)	1,268.4	1,597.2	2,053.1	2,541.2	3,197.8
OP margin	10.2	11.2	11.1	11.6	11.5
NP (IDRbn)	533.4	740.3	872.1	1,138.6	1,321.0
EPS (IDR)	110.2	152.9	180.1	235.1	272.8
BPS (IDR)	482.2	1,057.1	2,152.4	2,373.1	2,647.2
P/E (x)	34.9	25.1	21.3	16.3	14.1
ROE (%)	22.8	14.5	8.4	9.9	10.3

Note: All figures are based on consolidated FS; NP refers to net profit attributable to controlling interests

Source: Company data, Daewoo Research estimates

Company snapshot

Company in brief

Pembangunan Perumahan, listed in the Indonesian market, is an Indonesia-based state-owned construction company primarily engaged in infrastructures (such as roads, bridges, ports, power plants) and buildings. Established in 1953, the company was previously named NV Pembangunan Perumahan. It changed its name to PT PP (Persero) Tbk in 1971. The company went public in 2009, choosing "PTPP" as the company's ticker symbol. PTPP is one of Indonesia's oldest SOEs and is the second largest listed construction company in Indonesia with IDR22.4tr asset (vs. Waskita Karya's IDR50.2tr).

Figure 81. PTPP's ownership structure and business portfolio



Source: Company data, Daewoo Securities Research

Note: based on 2015 data

Shareholder structure

Table 5. Shareholder composition (3Q16)

(Shares, %)

	Number of shares	Percentage
Government of Indonesia	2,469,642,760	51.00
WIKI's management	26,028,834	0.54
Public	2,346,764,906	48.46
Total	4,842,436,500	100.00

Percentage of shares based on geographic ownership

Domestic	81.5%
International	18.5%

Note: Real free float of 48.4% from total outstanding shares

Source: Company data, Daewoo Securities Indonesia

Table 6. List of commissioners and directors (3Q16)

(Shares, %)

Name	Number of shares	Percentage	Position
Andi Gani Nena Wea, S.H			President Commissioner
Irjen (Purn) Drs. Aryanto S., M.H, M.Sc			Independent Commissioner
Muhammad K. Roziqin, S.E, M.Sc			Commissioner
Letjen TNI (Purn) Sumardi			Commissioner
Ir. Hedyanto W. H., MSCE, M.Si			Commissioner
Ir. Tumiyana, MBA			President Director
Agus Purbianto, S.E, A.K, MM			Director
Ir. M. Toha Fauzi, MT			Director
Ir. Abdul Haris Tatang, M.Sc			Director
Ir. M. Aprindy, MT			Director
Ir. Lukman Hidayat			Director

Source: Company data, Daewoo Securities Indonesia

Management team

President Director

Mr. Ir. Tumiyana, MBA earned his bachelor degree in Civil Engineering from Borobudur University and his master's degree in Management from IPWI in Jakarta. Prior to being appointed as the President Director of PTPP, he had served as the Finance Director since June 24, 2008. Previously, he held the position of a Project Manager of Branch III Jakarta (1995 - 2000), Head of Branch III Jakarta (2000 - 2004), and Head of Operation Division II Jakarta (2004 - 2008). He began his career in PTPP since October 1st, 1985.

Director of Finance

Mr. Agus Purbianto, S.E, A.K, MM earned his bachelor's degree in Economics from Brawijaya University and master's degree in Management from Sebelas Maret University. He started his career at PTPP and has been appointed as Director since April 29th, 2016. He previously served as the General Manager of Finance (2014 - 2016) and Manager of Accounting and Tax at WIKI (2011 - 2013).

Director of Operation

Mr. Ir. M. Toha Fauzi, MT graduated with a bachelor's degree in Civil Engineering from UGM Yogyakarta and with a master's degree in Civil Engineering from Bandung Institute of Technology (ITB). He has started his career at PTPP since 1992 and was appointed as the Director on April 29th, 2016. He previously served as the Head of Operation Division II in Jakarta (2011 - 2016), Head of Operation Division I in Medan (2008 - 2011), and Head of Branch I in Medan (2007 - 2008).

Director of EPC

Mr. Ir. Abdul Haris Tatang, M.Sc graduated with a degree in Civil Engineering from Gadjah Mada University (UGM) Yogyakarta and with a master's degree in Construction Management from Birmingham University, England. He began his career at PTTP in 1990 and was appointed as Director on April 29th, 2016. He previously served as the Chief EPC Division in Jakarta (2014 - 2016), Director of PT PP Dirganeka in Jakarta (2012 - 2014), and Head of Branch VII in Denpasar (2006 - 2012).

Director of Marketing & HRD

Mr. Ir. M. Aprindy, MT graduated with a degree in Civil Engineering from Sriwijaya University and a master's degree in Management from Tarumanegara University. He started his career at PTTP and was appointed as Director since April 29th, 2016. He previously served as the Head of Construction Division I (2014 - 2016) at ADHI, Corporate Secretary at ADHI in 2014, and Director II of Adhi Persada Property (2013 - 2014).

Director of Business Development, Research & Technology

Mr. Ir. Lukman Hidayat graduated with a degree in Civil Engineering from Diponegoro University (UNDIP) Semarang. He started his career at PTTP in 1990 and was appointed as Director of Business Development, Research & Technology on March 28th, 2014. He previously served as the Chief Operation Division III in Surabaya (2009 - 2014), Chief Operation Division II in Jakarta (2008 - 2009), and Head of Branch III in Jakarta (2004 - 2008).

Niche characteristics

Each construction company in Indonesia possesses unique characteristics of its own. The key traits which we believe distinguish PTTP from other builders are as follows:

1. **Top notch port builder.** PTTP has been quite renowned as one of the most appointed builders to construct port and port-related projects. In the last five years, PTTP has been granted fifteen contracts related to port constructions (see Table 18), which we think to be a quite sizable number. One of the government's mega port construction projects, i.e the New Priok Port (which is also widely known as Kalibaru port), has also been granted to PTTP.

Figure 82. Kalibaru port project

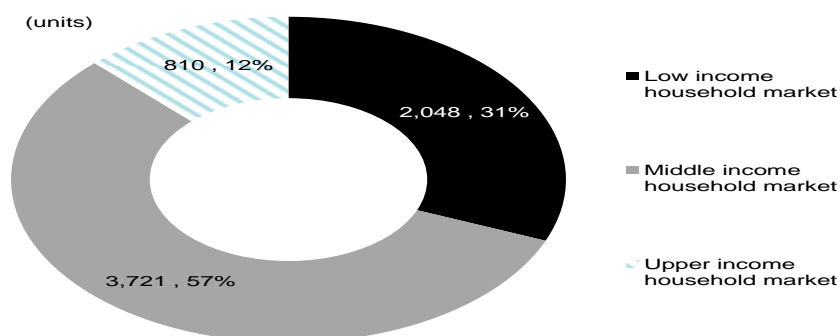


Source: Pelabuhan Indonesia, Daewoo Securities Research

2. **Mid-/low-income segment property specialist.** We view PTTP's largest subsidiary, i.e PP Properti (PPRO IJ; Not-rated), as the market leader within the mid-/low-income segment property sector. PPRO's selling price per unit for low-income households ranges from IDR200mn-IDR600mn/unit,

while for middle-income households, it ranges from IDR600-IDR2,000mn/unit. Other developers, such as Agung Podomoro Land (APLN IJ; Not-rated) and Lippo Cikarang (LPCK IJ; Not-rated), have started to target a piece of this segment as well. APLN is currently selling low-cost apartments with price ranging from IDR200-IDR500mn/unit in Depok, while LPCK plans to launch low-cost landed houses with price ranging from IDR500-IDR600mn this year. Nevertheless, we believe that PPRO has a competitive edge compared to the other developers trying to compete in this segment. This is due to the fact that PPRO has more expertise and experience as a result of having been in this segment since 1991.

Figure 83. PPRO focuses on low-/mid-income segment



Source: Company data, Daewoo Securities Research

PTPP also reiterates its intention to enlarge its exposure to property building for low-income households (masyarakat berpenghasilan rendah/MBR). This intention would be in line with the government's plan to build 1mn housings for MBR.

Operations and financials

Strong outlook for port development

The government plans to start a sea toll road project aimed to improve sea connectivity between the western and eastern regions of Indonesia, which in turn would result in the reduction of the currently high logistics costs paid by Indonesian businesses. This plan should be materialized through the construction of new ports to facilitate more effective water transportation. According to the 2015-19 national medium-term development plan (Rencana Pembangunan Jangka Menengah Nasional/RPJMN 2015-19) by the national development planning agency (Badan Perencanaan Pembangunan Nasional/BAPPENAS), the government plans to build 450 ports by 2019. This represents an addition of 172 ports to the 2014 baseline. Specifically, 24 ports are to be built in strategic locations to support the sea connectivity within the archipelago.

Table 16. Port-related target sby the government to support national infrastructure

	Baseline (2014)	Target (2019)
Ports construction to support government's sea toll road	N/A	24
Ferry ports construction	210	270
Fishing ports construction	21	24
Ports construction	278	450
Ports dwelling time (days)	6~7	3~4

Source: BAPPENAS, Daewoo Securities Research

Figure 84. Twenty four strategic ports to support the sea toll road project



Source: BAPPENAS, Daewoo Securities Research

Massive funding is required to help realize the projects. According to the toll road book by BAPPENAS, the project would still need funds worth c.IDR32.3tr from 2017 to 2019. Therefore, we believe the new contracts would remain rich from ports construction, benefiting builders who have experience and exposure to port construction projects. The appointed *bowheer* (project owner) for the ports would be Pelindo I-IV.

Table 17. Estimated funding required to build 24 strategic ports (excluding land requirement)

(IDRbn)

No.	Port	2015	2016	2017	2018	2019	Total
1	Belawan	600	1,200	1,500	2,700	-	6,000
2	Malahayati	549	1,015	-	-	-	1,564
3	Kuala Tanjung	3,680	5,520	9,200	-	-	18,400
4	Batam (Batu Ampar)	240	360	600	-	-	1,200
5	Tanjung Priok /Kalibaru	1,309	2,181	2,618	-	-	6,108
6	Pontianak /Kijing (West Kalimantan)	291	582	727	1,309	-	2,909
7	Palembang /Tanjung Carat (South Sumatra)	658	1,316	1,645	2,962	-	6,581
8	Jambi /Muara Sabak	-	100	100	100	-	300
9	Teluk Bayur	44	82	35	-	-	161
10	Panjang (Lampung)	24	37	61	-	-	122
11	Tanjung Perak	3,024	1,273	1,638	2,141	487	8,563
12	Tanjung Emas	320	138	287	234	191	1,170
13	Banjarmasin	76	108	139	198	104	625
14	Tenau Kupang	12	21	33	-	12	78
15	Samarinda and TPK Palaran	-	99	149	249	-	497
16	Balikpapan and TP Kariangau	92	138	230	-	-	460
17	Bitung (TPB)	150	166	132	249	444	1,141
18	Pantoloan	64	31	82	82	90	349
19	Kendari new port	6	139	206	338	-	689
20	Makassar	132	131	36	46	-	345
21	Ternate	8	21	68	44	-	141
22	Ambon	135	53	112	44	-	344
23	Sorong	13	439	171	176	-	799
24	Jayapura	25	100	294	34	-	453
Total		11,452	15,250	20,063	10,906	1,328	58,999

Source: BAPPENAS, Daewoo Securities Research

We would like to reiterate our view that PTPP would be the most likely appointed builder to carry out most of the port constructions. In the last five years, PTPP has been granted 15 contracts related to the port constructions with total contract value of IDR10.7tr, which we think to be quite sizable. PTPP has also completed several port projects from Pelindo. For 2017, PTPP would aim Makassar and Sorong ports with estimated combined contract value of IDR1tr. PTPP would also participate in the tender for New Tanjung Priok (Kalibaru) port phase 2 with an estimated contract value of IDR3-5tr. We believe the company would win the tender, factoring in the fact that it has already carried out the Kalibaru port phase 1 project. Having said that, we believe port construction projects in the pipeline would still be robust for PTPP, securing its new contract achievement going forward.

Table 18. Port and port-related project contracts of PTPP in the last five years

(IDRbn)

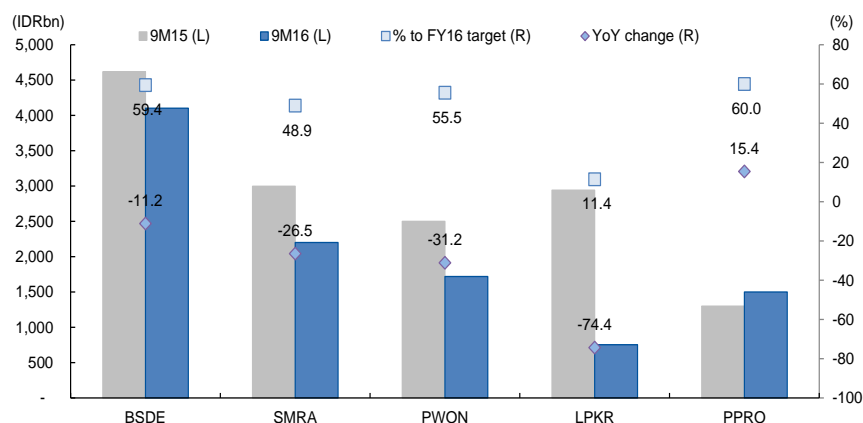
No.	Project name	Contract Value	Bowheer	Contract start	Contract end
1	Reclamation & construction of Makassar port	297.2	Pelindo IV	3-Jun-15	28-May-17
2	Kuala Tanjung port	897.7	Prima Multi Terminal	17-Apr-15	16-Apr-17
3	Kalibaru port	8,208.8	Pelindo II	11-Sep-12	10-Nov-16
4	Teluk Lamong conveyor	144.7	Pelindo III	7-Jan-15	7-Jan-16
5	Semen Padang port	35.9	Semen Padang	15-Jan-14	12-Aug-14
6	Teluk Bayur Pelindo port sect 3 & 4	124.7	Pelindo II	9-Sep-11	14-Jun-14
7	IKI shipyard Makassar	101.6	Industri Kapal Indonesia	24-Sep-12	17-May-14
8	Hata port Makassar	115.2	Pelindo IV	28-Dec-12	24-Dec-13
9	Port IV conveyor	126.0	Krakatau Bandar Samudera	10-May-13	23-Dec-13
10	Trisakti container yard	44.3	Pelindo II	30-Nov-11	3-Feb-13
11	Teluk Bayur port 2, 3, 4 reparation	103.1	Pelindo II	9-Sep-11	8-Jan-13
12	Penajam port upgrade	53.6	Private	9-Sep-11	8-Jan-13
13	Multipurpose port Banten	167.7	Pelindo II	30-Nov-11	31-Dec-12
14	Padang Panjang port Lampung	50.7	Pelindo II	23-Mar-10	21-Mar-12
15	Kariangau port	229.8	Pelindo IV	15-Jun-09	18-Dec-11
Total		10,701.0			

Source: Company data, Daewoo Securities Research

To benefit from housings for the underprivileged

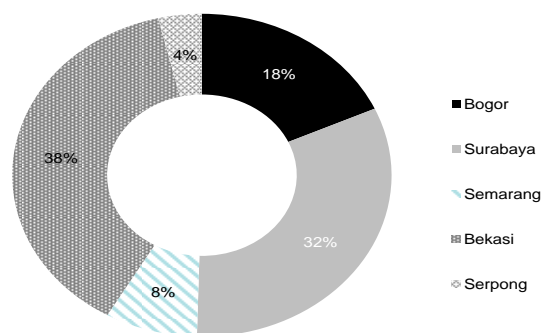
The economic policy package XIII demonstrates the government's commitment to ease property ownership for low-income households (masyarakat berpenghasilan rendah/MBR). Responding to this, PTPP cooperates with BPJS Ketenagakerjaan, Confederation of All Indonesian Labor Union (Konfederasi Serikat Pekerja Seluruh Indonesia/ KSPSI), and Bank Tabungan Negara (BBTN IJ; Not-rated) to develop housings for low-income households. BPJS Ketenagakerjaan is expected to deliver the land, KSPSI to connect with low-income workers, BTN to fund the project, and PTPP as the builder. The project would also be supported by PTPP's subsidiaries, i.e PP Pracetak and PP Peralatan. In 2017, it is targeted to build 20,000 units in Pulogadung and Kemayoran. Assuming construction cost of IDR5mn/m² and average unit size of 30m², we estimate that PTPP will able to deliver quite sizable additional revenue of IDR3tr in 2017F. The government also has a serious goal to build 1mn MBR housings annually to pump up low-cost housings, hence allowing low-income households to own a house. Having said that, we believe contract achievement from the MBR housing construction would remain robust for PTPP in the future.

On a separate note, PTPP's arm in mid-/low-income segment property, i.e PPRO, booked a very resilient performance. PPRO's marketing sales in 9M16 was the strongest among the developers. As of 9M16, PPRO's marketing sales came in at IDR1,500bn, up by 15.4% YoY (9M15: IDR1,300bn), meeting 60% of its full year target of IDR2,500bn.

Figure 85. PPRO had the most resilient marketing sales performance in 9M16

Source: Company data, Daewoo Securities Research

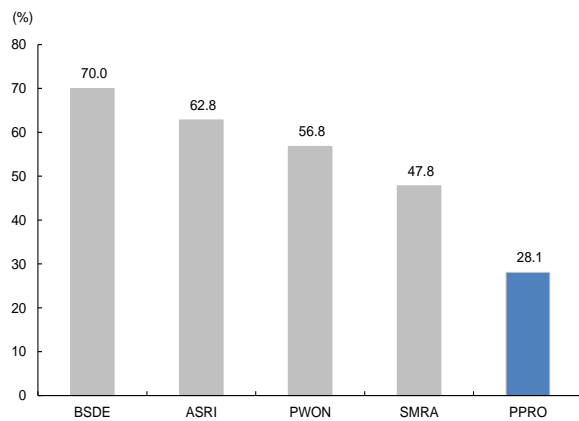
We believe that PPRO's key ingredients to selling to the low-/mid-income households include its: 1) more exposure outside the Jakarta area, hence lower land price range (land price in Pantai Indah Kapuk-North Jakarta ranges IDR15~IDR25mn/m² vs. in Gunung Putri-Bogor IDR1-IDR4mn/m²), 2) its willingness to cut margins, and 3) its focus on non-landed property developments (apartments and condominium units are often cheaper than landed units). All in all, we believe that PPRO would continue its strong performance going forward. We note that PPRO's large revenue contribution to PTPP has been growing over each period up to the point where PPRO's strong performance would significantly influence PTPP's performance onwards.

Figure 86. PPRO's marketing sales by geographical area

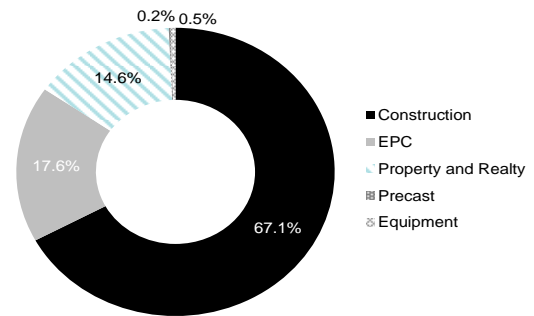
Source: Company data, Daewoo Securities Research

Figure 87. PPRO's more exposure to areas outside Jakarta

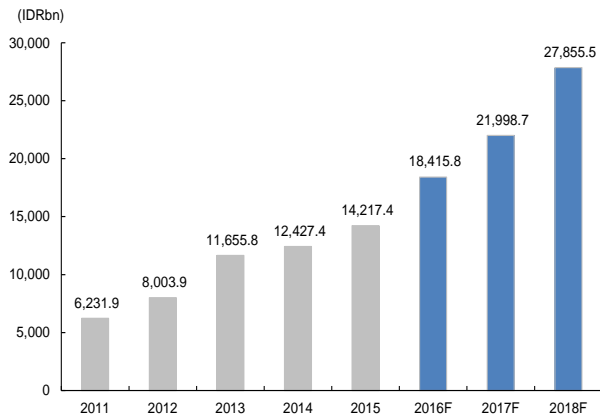
Source: Company data, Daewoo Securities Research

Figure 88. PPRO has the lowest margins in property-selling

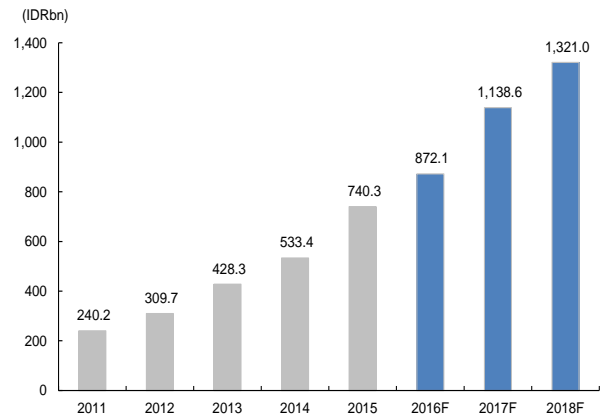
Source: Company data, Daewoo Securities Research
 Note: as of 1H16, gross profit margins

Figure 89. PTPP's revenue breakdown as of 9M16

Source: Company data, Daewoo Securities Research

Figure 90. PTPP's annual revenue performance

Source: Company data, Daewoo Securities Research

Figure 91. PTPP's annual net profit performance

Source: Company data, Daewoo Securities Research

Valuations and recommendations

We initiate our coverage on PTPP with a Buy recommendation and a 12-month target price of IDR4,710/share. Our target price was derived using discounted cash flow (DCF) calculation with the following assumptions:

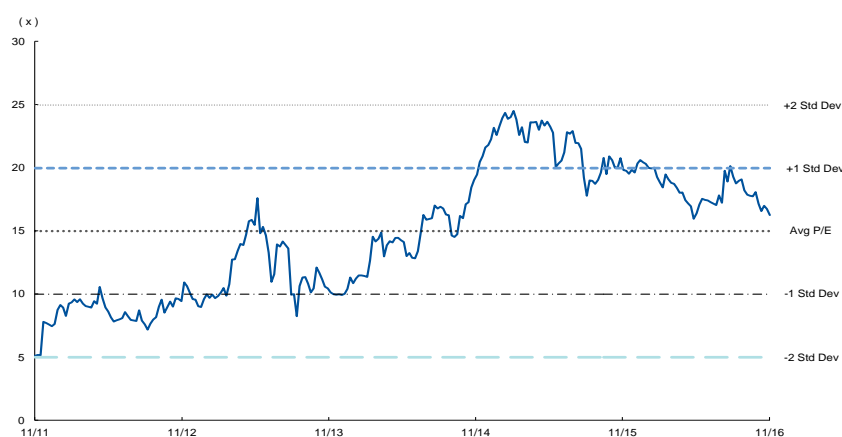
Table 19. Assumptions used for PTPP DCF calculation

Assumptions	
Perpetual growth rate	5.0%
Beta	1.01
Risk-free rate	7.5%
Market risk premium	5.0%
WACC	11.8%

Source: Daewoo Securities Research

PTPP is currently trading at 16.3x forward 17F P/E, slightly above its 5-year average at 15x. We like PTPP for its 1) good exposure to the upbeat port infrastructure development by the government, 2) partaking in the MBR housing development fully supported by the government, and 3) strong performance from its largest subsidiary, i.e PPRO, which has a strong uptrend earnings trajectory.

Figure 92. PTPP P/E band



Source: Daewoo Securities Research

Pembangunan Perumahan (Ticker PTPP IJ/Buy/TP: IDR4,710)

Income Statement (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Revenue	14,217	18,416	21,999	27,855
Cost of revenue	-12,210	-15,968	-18,984	-24,038
Gross profit	2,007	2,448	3,015	3,818
Operating expenses	-410	-395	-474	-620
Operating profit	1,597	2,053	2,541	3,198
Interest expense	-373	-427	-423	-726
Profit from joint venture	67	181	203	256
Net non-operating losses (gains)	-4	-77	-91	-109
Pre-tax profit	1,288	1,730	2,230	2,619
Tax expense	-442	-721	-929	-1,092
Net profit	846	1,008	1,301	1,527
Minority interest	-105	-136	-163	-206
Attributable net profit	740	872	1,139	1,321

Growth (%)	12/15	12/16F	12/17F	12/18F
Revenue	14.4	29.5	19.5	26.6
Cost of revenue	12.3	30.8	18.9	26.6
Gross profit	29.5	22.0	23.2	26.6
Operating expenses	45.7	-3.6	19.9	30.8
Operating profit	25.9	28.5	23.8	25.8
Interest expense	8.5	14.5	-1.1	71.8
Net non-operating losses (gains)	-95.2	2,061.0	17.6	20.0
Pre-tax profit	39.8	34.3	29.0	17.4
Tax expense	14.1	63.2	28.8	17.6
Net profit	58.5	19.3	29.1	17.3
Minority interest	NM	29.5	19.5	26.6
Attributable net profit	38.8	17.8	30.6	16.0

Key performance indicators

	12/15	12/16F	12/17F	12/18F
Per share data				
EPS (IDR)	152.9	180.1	235.1	272.8
EPS growth (%)	38.8	17.8	30.6	16.0
BVPS (IDR)	1057.1	2152.4	2373.1	2647.2
BVPS growth (%)	119.2	103.6	10.3	11.6
DPS (IDR)	22.0	40.5	52.8	61.3
Key ratio				
ROE (%)	14.5	8.4	9.9	10.3
ROA (%)	3.9	3.2	3.5	3.1
Gross profit margin (%)	14.1	13.3	13.7	13.7
Operating margin (%)	11.2	11.1	11.6	11.5
Net profit margin (%)	5.2	4.7	5.2	4.7
Net debt/equity (x)	0.1	-0.2	-0.2	-0.2
Debt/equity (x)	0.7	0.4	0.6	0.8
Assets/equity (x)	3.7	2.6	2.9	3.3
Current ratio (x)	1.4	1.5	1.5	1.5
Quick ratio (x)	0.6	0.7	0.7	0.7

Source: Daewoo Securities Research

Balance Sheet (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Cash and equivalents	3,302	6,305	8,930	12,703
Account receivables	2,927	3,184	3,804	4,817
Retention receivables	1,180	965	1,153	1,460
ST due from customers	4,721	6,082	7,265	9,199
Inventories	2,499	3,519	4,184	5,298
Other current assets	800	1,032	1,229	1,551
Fixed assets	2,989	5,065	5,609	6,081
Other long-term assets	709	737	776	830
Total assets	19,129	26,889	32,950	41,939
Account payables	7,888	9,961	11,831	15,124
Short-term debt	1,765	1,878	3,530	5,972
Other short-term liabilities	1,462	1,808	2,203	2,805
Long-term debt	1,913	1,838	2,913	4,237
Other long-term liabilities	982	982	982	982
Total liabilities	14,010	16,467	21,459	29,120
Paid in capital	1,903	1,903	1,903	1,903
Additional paid in capital	432	4,842	4,842	4,842
Retained earnings	2,047	2,723	3,606	4,630
Total equity attributable to majority	4,382	9,468	10,351	11,375
Non-controlling interest	737	955	1,141	1,444
Total shareholders' equity	5,119	10,423	11,491	12,819

Cash Flow Statement (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Net profit	740	872	1,139	1,321
Depreciation	81	284	356	428
Changes in net working capital	-83	155	1,065	1,647
Operating cash flow	738	1,311	2,559	3,396
PP&E investing activities	-2,360	-2,360	-900	-900
I.P investing activities	-111	0	0	0
Others investing activities	-207	492	-39	-54
Investing cash flow	-2,677	-1,868	-939	-954
Non-current financing activities	512	-75	1,075	1,324
Changes in equity	1,418	4,410	0	0
Changes in minority interest	736	218	186	304
Dividend paid	-106	-196	-256	-297
Financing cash flow	2,560	4,357	1,005	1,331
Net worth adjustment	-4	-520	0	0
Net cash	617	3,279	2,625	3,773
Beginning balance	2,408	3,025	6,305	8,930
Ending balance	3,025	6,305	8,930	12,703

Adhi Karya (ADHI)

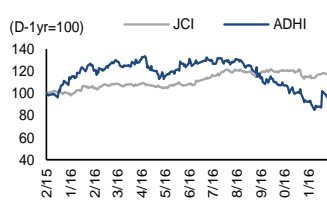
One way ticket to the next level

Construction

(Initiate)	Hold
Target Price (12M, IDR)	2,270
Share Price (12/19/16, IDR)	2,070
Expected Return	9.7%

OP (16F, IDRbn)	779.0
Consensus OP 16F, IDRbn)	873.8
EPS Growth (17F, %)	61.7
Consensus EPS Growth (17F, %)	64.6
P/E (17F, x)	9.4
Consensus P/E (17F, x)	11.7
Market Cap (IDRbn)	7,549.0
Shares Outstanding (mn)	3,560.8
Free Float (%)	49.0
Foreign Ownership (%)	15.8
Beta (12M)	0.8
52-Week High	2,910
52-Week Low	1,830

(%)	1M	6M	12M
Absolute	4.5	-20.7	1.4
Relative	3.6	-29.3	-15.2



Adhi Karya, listed in the Indonesian market, is an Indonesia-based state-owned construction company primarily engaged in infrastructures (roads, bridges, ports, to light rail transit/LRT) and buildings. The company became the first state-owned construction company listed on the IDX on March 18th 2004, choosing "ADHI" as the company's ticker symbol. Given its IDR18.4tr asset, ADHI is the fourth largest listed construction company in Indonesia.

Heavy dependency on LRT project

ADHI is optimistic to sign the contract for government's light rail transit (LRT) project by March 2017, at the latest. Given more than half of ADHI's new contract targets in 2017F are parts of the LRT project, we believe that the company has a heavy dependency on this project. In 2017F, ADHI targets to achieve IDR44tr new contracts, IDR23tr of which alone would come from the LRT project. Having said that, we believe ADHI's huge dependency on the government's LRT project would be a two-edged sword for the company. On one hand, the project's huge contract value would indeed enlarge ADHI's order book going forward. However, the project delays has been a major factor of investors' deterred sentiment towards ADHI.

Sizable exposure to buildings construction

As of 10M16, 46.6% of ADHI's new contracts came from building constructions. We believe this would best gear up ADHI during bullish property market in the future, which is indicated by more building construction demands in the pipeline. However, we would like to reiterate our bearish view on the property developers, taking into account developers' soft marketing sales performance in 9M16. Our view is also supported by the oversupply, low affordability rate, and low mortgage credit quality in Indonesian property market. Given that the property demand would be difficult to recover in the near horizon, we doubt that there will be any significant jump in ADHI's new contract for buildings construction going forward.

Initiate coverage with a Hold call and TP of IDR2,270/share

We initiate our coverage on ADHI with a Hold recommendation and a 12-month target price of IDR2,270/share. ADHI is currently trading at 9.4x forward 17F P/E, below its 5-year average at 13.7x and slightly above its -1 SD at 8.7x. We have a neutral view on ADHI, given: 1) ADHI's sizable exposure to the LRT projects with large contract value, 2) looming uncertainty in the Jabodebek LRT project's contract signing, and 3) ADHI's sizable exposure to the building construction, which we do not think would have a significant upside risk given our bearish view on the property market.

FY (Dec)	2014	2015	2016F	2017F	2018F
Revenue (IDRbn)	8,653.6	9,389.6	9,990.2	16,759.7	22,117.6
Operating profit (IDRbn)	642.0	579.2	779.0	1,322.2	1,685.1
OP margin	7.4	6.2	7.8	7.9	7.6
NP (IDRbn)	329.1	463.7	423.1	684.3	868.2
EPS (IDR)	105.4	148.6	135.6	219.2	278.2
BPS (IDR)	525.7	1,654.0	1,757.6	1,926.9	2,140.7
P/E (x)	19.6	13.9	15.3	9.4	7.4
ROE (%)	20.1	9.0	7.7	11.4	13.0

Note: All figures are based on consolidated FS; NP refers to net profit attributable to controlling interests
Source: Company data, Daewoo Research estimates

Company snapshot

Company in brief

Adhi Karya, listed in the Indonesian market, is an Indonesia-based state-owned construction company primarily engaged in infrastructures (roads, bridges, ports, to light rail transit/LRT) and buildings. Established in 1960, the company was previously named Architecten-Ingenieur-en Annemersbedrijf Associatie Selle en de Bruyn, Reyerse en de Vries N.V. (Assosiate N.V; Dutch owned). However, being subject to nationalization, it was changed to PN Adhi Karya. The company became the first state-owned construction company listed on the IDX on March 18th 2004, choosing "ADHI" as the company's ticker symbol. Given its IDR18.4tr asset, ADHI is the fourth largest listed construction company in Indonesia (vs. Waskita Karya's IDR50.2tr, vs. Pembangunan Perumahan's IDR22.4tr, vs. Wijaya Karya's IDR21.9tr).

Figure 93. ADHI's ownership structure and business portfolio



Source: Company data, Daewoo Securities Research

Shareholder structure

Table 7. Shareholder composition (3Q16)

(Shares, %)

	Number of shares	Percentage
Government of Indonesia	1,816,046,624	51.00
Public	1,744,802,752	49.00
Total	3,560,849,376	100.00

Percentage of shares based on geographic ownership

Domestic	84.2%
International	15.8%

Note: Real free float of 49% from total outstanding shares

Source: Company data, Daewoo Securities Indonesia

Table 8. List of commissioners and directors (3Q16)

(Shares, %)

Name	Number of shares	Percentage	Position
Muhammad Fadjroel Rachman			President Commissioner
Bobby A. A. Nazief			Commissioner
Wicipto Setiadi			Commissioner
Rildo Ananda Anwar			Commissioner
Muchlis R. Luddin			Independent Commissioner
Hironimus Hilapok			Independent Commissioner
Ir. Budi Harto, MM			President director
Ir. Djoko Prabowo			Director
Ir. Budi Saddewa Soediro, MM			Director
Ir. Pundjung Setya Brata			Director
Haris Gunawan, SE, MM			Director
Ir. B.E.P. Adji Satmoko, MM			Director

Source: Company data, Daewoo Securities Indonesia

Management team

President Director

Mr. Ir. Budi Harto, MM has served as the President Director of ADHI since April 2016. He was appointed Deputy Managing Director in April 2015. Previously, he was Director of Operational I from April 2013 to April 2015. In addition, he served as the President Commissioner of WIKA Gedung as of 2013 and previously as the Director of Operations I (2008-2013) of WIKA Gedung. Budi Harto began his career in the company in 1984 and has held several important positions, among others: President Commissioner of WIKA Gedung (2009-2010), President Commissioner of WIKA Intrade (2008-2009), General Manager of the General Civil in 2008, and General Manager Operation 1 (2006-2007).

Director of Operation I

Mr. Ir. Djoko Prabowo has served as the Director of ADHI since April 2013. Previously, he served as: the Head of Construction Division I Jakarta (2011-2013), Head of Construction Division II Jakarta-West Java & Banten Area (2010-2011), and Head of Construction Division III Sumatera Area (2007-2010) Deputy. He graduated from Civil Engineering of Brawijaya University, Malang, in 1989.

Director of Operation II

Mr. Ir. Budi Saddewa Soediro, MM has served as the Director of ADHI since September 2015. Previously, he held several senior positions as the President Director of WIKA Realty (2010-2015), President Director of WIKA Bangunan Gedung (2008-March 2010), and Manager of DBG Division of WIKA (2007). He obtained his

Bachelor of Civil Engineering degree from Diponegoro University, Semarang (1987), and then obtained his Master of Management degree from Sekolah Tinggi Ilmu Manajemen PPM, Jakarta (1997).

Director of Operation III

Mr. Ir. Pundjung Setya Brata has served as the Director of ADHI since June 2014. Previously, he served as: the Business Cooperation Division Head (2013-2014), Deputy Head of the Division of Engineering, Development & Systems Management of Field Link (monorail) (2013), Deputy Chief of Operations Division EPC POWER (2012), Assignment at Adhi Oman, LCC (2010-2011), Assistant Directors (2010), Head of International Division, Jakarta (2007-2010), Project Manager Power Plant EVAL 3 & 4 (2004-2004), Project Manager Cikampek - Cirebon Double Tracking Project Segment I, Division Construction II (2001-2004). He obtained his Civil Engineering degree from Diponegoro University in 1990.

Director of Finance & Legal

Mr. Haris Gunawan, SE, MM has served as the Director of ADHI since September 2015. Previously, he held several senior positions: as the Finance Director of WSBP (2014-2015), Corporate Secretary of WSKT (2014), Head of Department of Finance and Risk of WSKT (2010-2014), and Chief Financial Bureau of WSKT (2010-2011). He holds a bachelor's degree in Economic obtained from Nusantara University, Bandung (1991) and a master's degree in Business Management from Gajah Mada University (2011).

Director of HR, System & Investment

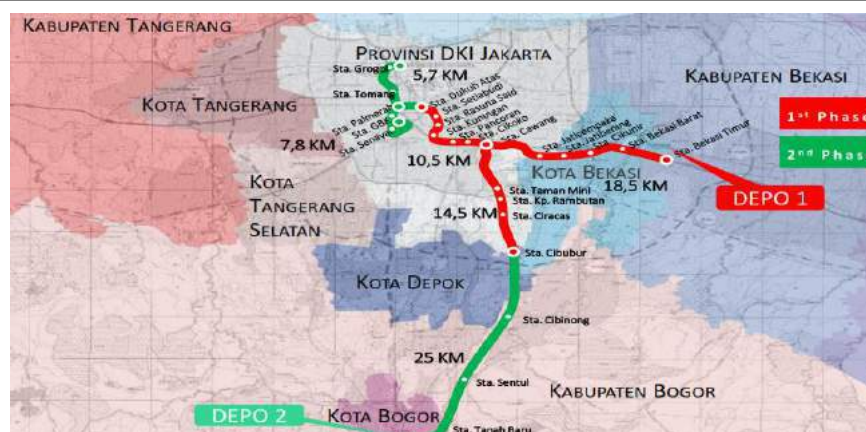
Mr. Ir. B.E.P. Adji Satmoko, MM has served as the Director of ADHI since March 2014. Previously, he held the following positions: Head of Construction Division IV Surabaya (2013-2014), Head of Construction Division III Medan (2011-2013), Production Manager DK V Kalimantan (2008-2011), and Project Manager (1992-2008). He earned his bachelor's degree from Atmajaya University, Yogyakarta, and master's degree from Diponegoro University.

Niche characteristics

Each construction company in Indonesia possesses unique characteristics of its own. We believe the key traits distinguishing ADHI from other builders are as follows:

1. **LRT builder.** ADHI's capacity as one of the most renowned builders has been settled when the government granted it with the first Light Rail Transit (LRT) project in Indonesia: the Jakarta-Bogor-Depok-Bekasi (Jabodebek) LRT. The project is expected to have 82 km length, spanning from Jakarta-Bekasi (43.5 km) and Jakarta-Bogor (38.5 km), with 24 stations to support the commute.

Figure 94. Jabodebek LRT project map



Source: Company Data, Daewoo Securities Research

2. **Discount-trading company.** Since 2013, ADHI's share has been consistently trading below its peer comparisons, i.e WSKT, WIKA, and PTPP, from the P/E perspective. We mainly attribute this to the company's relatively smaller size and order book compared to the other three companies. As of 1H16, order book of ADHI stood at IDR16.1tr, compared to that of WSKT at IDR79.7tr, WIKA at IDR40.5tr, and PTPP at IDR53.1tr. We believe this would lead to lower economies of scale. In relation to this, simple valuation call or peer relative valuation will not be suitable for ADHI as we believe the discount to its peer has been historically consistent and has been largely priced-in.

Figure 95. ADHI is consistently trading below its peer comparisons



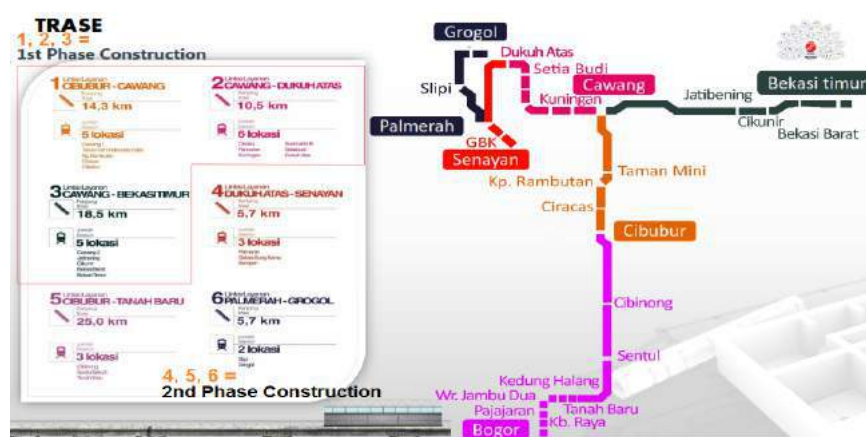
Source: Company data, Daewoo Securities Research

Operations and financials

Hinges on the LRT project

The Jabodebek LRT project is listed as one of the national strategic projects by President Joko Widodo, highlighting its importance within the national infrastructure development. The project itself is divided into two phases, totaling 82 km length and IDR34tr contract value. The first phase is targeted to connect Jakarta-Bekasi-Cibubur (Depok) with estimated 43.5 km length and IDR17tr contract value. The second phase is aimed to connect Jakarta-Cibubur-Bogor with estimated 38.5 km length and IDR17tr contract value. There would be 24 stations built to support the commute, mostly concentrated in the Jakarta area. Two presidential decrees (Peraturan Presiden/Perpres) focusing to hasten the LRT project construction have been issued by the government, namely Perpres 98/2015 and Perpres 65/2016.

Figure 96. Jabodebek LRT project plan



Source: Company Data, Daewoo Securities Research

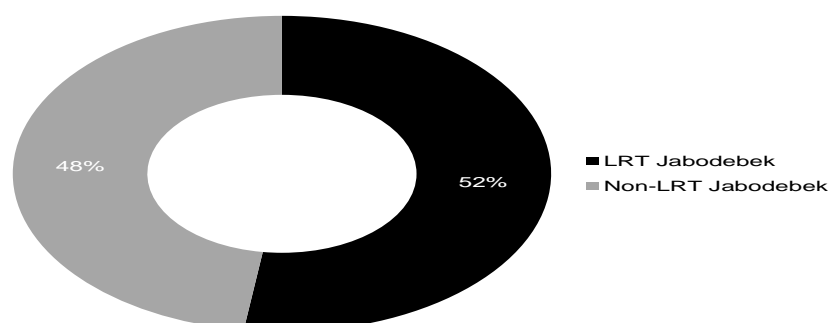
We believe that the LRT project would be one of the key drivers for ADHI to keep up with WSKT, WIKA, and PTPP's sizable order book value. Earlier this year, ADHI expected to sign the LRT project by 3Q16. However, several hurdles occurred within the project, delaying ADHI's contract signing.

ADHI is expected to book IDR4tr revenue from LRT this year; however, up to 8M16, only IDR600bn was successfully booked. Firstly, we ascribe the delay to the different LRT models suggested by the Provincial Government (Pemprov) and the Ministry of Transportation (Kemenhub). Pemprov wanted the LRT to be standard gauge (costing c.IDR36tr) while Kemenhub wanted the narrow gauge (costing c.IDR34tr). Finally, in July 2016, President Joko Widodo issued Perpres 65/2016, which states that the standard gauge was chosen for the project. Secondly, according to our latest conversation with the company, ADHI states that the Kemenhub has yet to appoint contract consultant and needs to evaluate the technical documents and expenses. Therefore, the contract signing delay was inevitable. However, ADHI is optimistic to sign the contract by at least March 2017. Currently, the company is constructing the project using the 2015 state capital investment (penanaman modal negara/PMN 2015). As of 9M16, ADHI has recognized c.IDR900bn revenue from the Jabodebek LRT project.

Figure 97. LRT Jabodebek construction progress as of 10M16

Source: Company Data, Daewoo Securities Research

Given more than half of ADHI's new contract targets in 2017F are parts of the LRT project, we believe that the company has a heavy dependency on this project. In 2017F, ADHI targets to achieve IDR44tr new contracts, IDR23tr of which alone would come from the LRT project.

Figure 98. ADHI's new contract target composition in 2017

Source: Company Data, Daewoo Securities Research

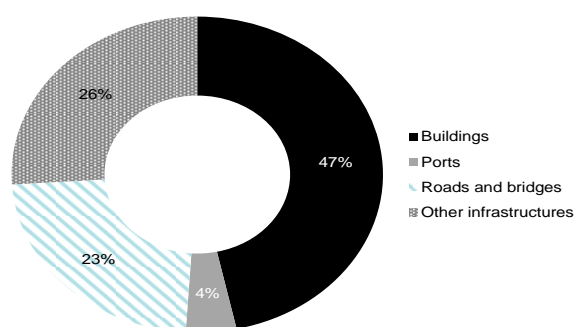
Having said that, we believe ADHI's huge dependency on the government's LRT project would be a two-edged sword for the company. On the one hand, the project's huge contract value would indeed enlarge ADHI's order book going forward. Furthermore, areas alongside the LRT stations are targeted by the company for Transit Oriented Development (TOD), such as malls, apartments, hotels, etc. Therefore, we believe the TOD development would enhance the company's property business performance. However, the project delays has been a major factor of investors' deterred sentiment towards ADHI. We also suspect ADHI's tender failure in the two other key LRT projects, i.e the LRT Palembang (c.IDR12.6tr contract value) and LRT Inner-Jakarta (c.IDR45tr contract value), was mainly due to the hurdles in the Jabodebek LRT. LRT Palembang and LRT Inner-Jakarta were ultimately granted to WSKT and WIKA, respectively, as the builders of the projects.

Other sizable LRT projects in the pipeline are LRT Bandung Raya, LRT Surabaya, and LRT Jayapura. We estimate that LRT Bandung Raya would have c.IDR30tr worth contract value, while LRT Surabaya and LRT Jayapura would have IDR8tr and IDR25tr, respectively. We expect ADHI to have high probability to win the tender for these projects as we see more clarity in the LRT Jabodebek project going forward.

Sizable exposure to building construction

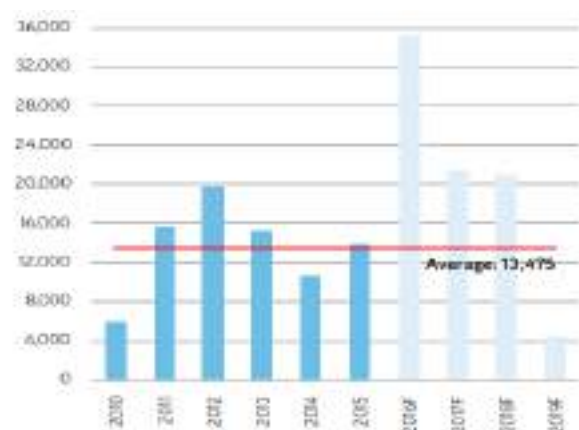
We also would like to highlight ADHI's sizable exposure to the buildings construction. As of 10M16, 46.6% of ADHI's new contracts came from building constructions. We believe this would best gear up ADHI during bullish property market in the future, which is indicated by more building construction demands in the pipeline. However, we would like to reiterate our bearish view on the property developers, taking into account developers' soft marketing sales performance in 9M16. Our view is also supported by the oversupply, low affordability rate, and low mortgage credit quality in Indonesian property market. Given that the property demand would be difficult to recover in the near horizon, we doubt that there will be any significant jump in ADHI's new contract for buildings construction going forward.

Figure 99. ADHI's new contract composition as of 10M16



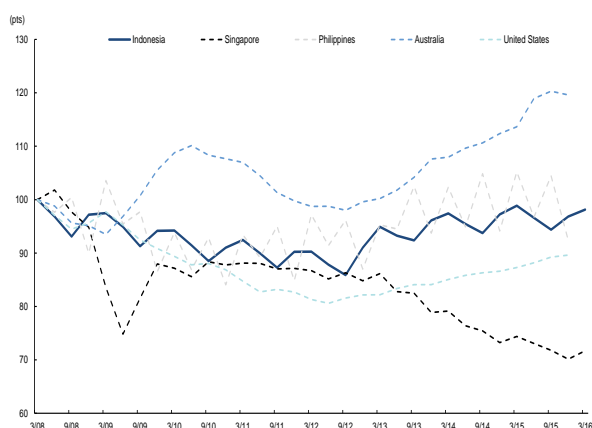
Source: Company data, Daewoo Securities Research

Figure 100. Annual supply of Jakarta apartment units



Source: Colliers, Daewoo Securities Research

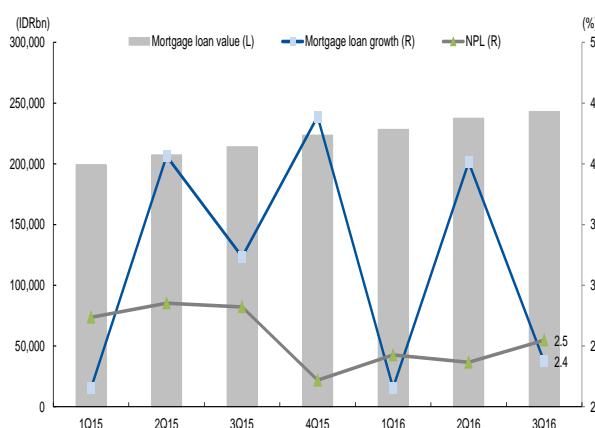
Figure 101. Indonesia's property is becoming more unaffordable



Source: Bloomberg, Daewoo Securities Research

Note: below 100 = property price increases slower than the income growth, above 100 = property price increases faster than the income growth

Figure 102. Mortgage loan development (commercial bank data)



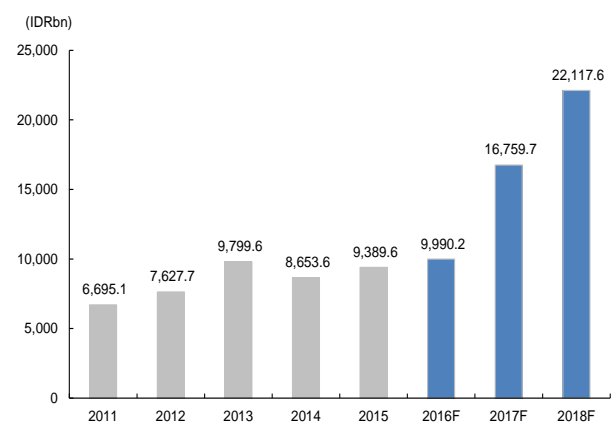
Source: Company data, Daewoo Securities Research

Note: Compiled from BBKA, BBTN, BBNI, and BJBR data; NPL figures are weighted to each banks' mortgage value

Several new contracts achieved by ADHI from building construction are from Samana Bali project (IDR749.8bn), Cinere Terrace Apartment project (IDR315.2bn) and Menara GAPERI Apartment project (IDR241.bn).

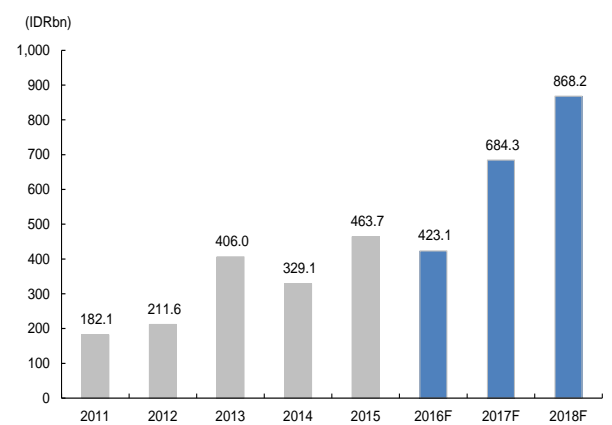
Looking forward to 2017, the company is eyeing new contracts from Pertamina's project for new oil refinery in Balikpapan (IDR30tr) and Pelindo II's West Kalimantan port (IDR7tr).

Figure 103. ADHI's annual revenue performance



Source: Company data, Daewoo Securities Research

Figure 104. ADHI's annual net profit performance



Source: Company data, Daewoo Securities Research

Valuations and recommendations

We initiate our coverage on ADHI with a Hold recommendation and a 12-month target price of IDR2,270/share. Our target price was derived using discounted cash flow (DCF) calculation with the following assumptions:

Table 20. Assumptions used for PTPP DCF calculation

Assumptions	
Perpetual growth rate	5.0%
Beta	1.189
Risk-free rate	7.0%
Market risk premium	5.0%
WACC	11.6%

Source: Daewoo Securities Research

ADHI is currently trading at 9.4x forward 17F P/E, below its 5-year average at 13.7x and slightly above its -1 SD at 8.7x. We have a neutral view on ADHI, given: 1) ADHI's sizable exposure to the LRT projects with large contract value, 2) looming uncertainty in the Jabodebek LRT project's contract signing, and 3) ADHI's sizable exposure to the building construction, which we do not think would have a significant upside risk given our bearish view to the property market.

Figure 105. ADHI P/E band



Source: Daewoo Securities Research

Adhi Karya (Ticker ADHI IJ/Hold/TP: IDR2,270)

Income Statement (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Revenue	9,390	9,990	16,760	22,118
Cost of revenue	-8,415	-8,839	-14,811	-19,586
Gross profit	975	1,151	1,949	2,532
Operating expenses	-395	-372	-627	-847
Operating profit	579	779	1,322	1,685
Interest expense	-137	-240	-426	-426
Interest income	51	134	188	110
Net non-operating losses (gains)	253	82	137	181
Pre-tax profit	746	755	1,221	1,550
Tax expense	-281	-330	-534	-678
Net profit	465	425	687	871
Minority interest	-1	-1	-2	-3
Attributable net profit	464	423	684	868

Growth (%)	12/15	12/16F	12/17F	12/18F
Revenue	8.5	6.4	67.8	32.0
Cost of revenue	9.9	5.0	67.6	32.2
Gross profit	-2.4	18.1	69.4	29.9
Operating expenses	11.0	-6.0	68.6	35.1
Operating profit	-9.8	34.5	69.7	27.4
Interest expense	0.1	75.2	77.8	0.0
Net non-operating losses (gains)	317.2	-67.7	67.8	32.0
Pre-tax profit	24.4	1.2	61.7	26.9
Tax expense	4.9	17.5	61.7	26.9
Net profit	40.2	-8.7	61.7	26.9
Minority interest	-48.2	6.4	67.8	32.0
Attributable net profit	40.9	-8.8	61.7	26.9

Key performance indicators

	12/15	12/16F	12/17F	12/18F
Per share data				
EPS (IDR)	148.6	135.6	219.2	278.2
EPS growth (%)	40.9	-8.8	61.7	26.9
BVPS (IDR)	1654.0	1757.6	1926.9	2140.7
BVPS growth (%)	214.6	6.3	9.6	11.1
DPS (IDR)	20.8	32.1	51.9	65.9
Key ratio				
ROE (%)	9.0	7.7	11.4	13.0
ROA (%)	2.8	2.1	2.6	2.8
Gross profit margin (%)	10.4	11.5	11.6	11.4
Operating margin (%)	6.2	7.8	7.9	7.6
Net profit margin (%)	4.9	4.2	4.1	3.9
Net debt/equity (x)	-0.2	0.1	0.5	0.8
Debt/equity (x)	0.6	1.2	1.1	1.1
Assets/equity (x)	3.2	3.6	4.3	4.7
Current ratio (x)	1.6	1.6	1.3	1.2
Quick ratio (x)	0.7	0.8	0.4	0.3

Source: Daewoo Securities Research

Balance Sheet (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Cash and equivalents	4,317	6,060	3,546	1,622
Account receivables	2,232	1,838	3,084	4,070
Retention receivables	1,080	921	1,546	2,040
ST due from customers	3,093	3,146	5,279	6,966
Inventories	163	149	250	330
Other current assets	3,807	4,050	6,795	8,967
Fixed assets	1,099	2,504	3,872	5,203
Other long-term assets	970	1,191	1,571	2,148
Total assets	16,761	19,861	25,942	31,346
Account payables	6,489	5,542	9,586	12,701
Short-term debt	1,115	1,984	2,550	2,541
Other short-term liabilities	1,810	2,282	3,288	4,650
Long-term debt	2,003	4,376	4,303	4,558
Other long-term liabilities	181	192	203	215
Total liabilities	11,599	14,375	19,929	24,665
Paid in capital	776	776	776	776
Additional paid in capital	2,588	2,588	2,588	2,588
Retained earnings	1,790	2,113	2,635	3,297
Total equity attributable to majority	5,154	5,477	5,999	6,661
Non-controlling interest	8	9	15	20
Total shareholders' equity	5,162	5,486	6,014	6,681

Cash Flow Statement (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Net profit	464	423	684	868
Depreciation	31	45	82	119
Changes in net working capital	355	661	-1,231	-952
Operating cash flow	849	1,129	-465	35
PP&E investing activities	-634	-1,450	-1,450	-1,450
I.P investing activities	26	0	0	0
Others investing activities	-200	-220	-380	-577
Investing cash flow	-808	-1,670	-1,830	-2,027
Non-current financing activities	407	2,383	-63	268
Changes in equity	3,129	0	0	0
Changes in minority interest	1	1	6	5
Dividend paid	-65	-100	-162	-206
Financing cash flow	3,472	2,284	-219	67
Net worth adjustment	-8	0	0	0
Net cash	3,506	1,743	-2,514	-1,925
Beginning balance	811	4,317	6,060	3,546
Ending balance	4,317	6,060	3,546	1,622

Total Bangun Persada (TOTL)

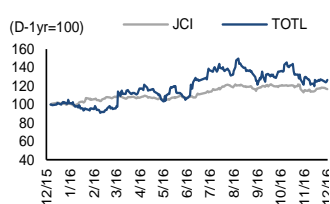
Unbowed, unbent, unbroken

Construction

(Initiate)	Buy
Target Price (12M, IDR)	1,030
Share Price (12/19/16, IDR)	780
Expected Return	32.1%

OP (16F, IDRbn)	276.0
Consensus OP 16F, IDRbn)	291.2
EPS Growth (17F, %)	38.2
Consensus EPS Growth (17F, %)	22.4
P/E (17F, x)	8.5
Consensus P/E (17F, x)	9.3
Market Cap (IDRbn)	2,608.7
Shares Outstanding (mn)	3,410.0
Free Float (%)	33.7
Foreign Ownership (%)	19.4
Beta (12M)	1.2
52-Week High	920
52-Week Low	545

(%)	1M	6M	12M
Absolute	-1.9	18.6	29.7
Relative	-2.8	9.9	13.0



Total Bangun Persada is an Indonesia-based private company primarily engaged in building construction (such as apartments, condominiums, offices, etc). TOTL is the oldest private construction company and the third-largest listed private construction company in Indonesia with IDR2.7tr asset. TOTL has focused on building construction business since its inception in 1970; hence, we consider it to be an expert in the field. The company has built more than 800 buildings, covering high-end commercial buildings, apartments, condominiums, offices, shopping centers, universities, hospitals, religious centers, TV stations, theme parks, etc.

Cloudy property sector still prop-up the company

As of 9M16, TOTL booked IDR2,127bn new contract, reflecting a 15.3% YoY increase (vs. 9M15 at IDR1,845bn). Given the unfavorable macro backdrop in the property sector, we consider TOTL's new contract achievement to be very resilient. We believe TOTL's strong operational performance was backed by 1) TOTL's strong position in the market, and 2) direct contract utilization by the company. TOTL appears to be the key supplier to developers, as 85~90% of its new contracts come from direct appointments (contrary to other builders which had to take part in tenders). When taking part in the tender process, TOTL has a winning rate of 30% averagely, which we deem quite impressive. In 2Q16, 69% of the company's new contracts came from repeat customers, which we expect to continue going forward.

Attractive dividend play

Combining the company's margin resilience, strong new contract achievement, and low financing cost, we believe TOTL's rich dividend payout will attract investor's attention. In the last five years, TOTL's dividend yield averaged 4.8%, which we deem sizable compared to its competitors listed in the JCI. Having said that, we believe TOTL would be one of the best companies with dividend play theme within the construction sector.

Initiate coverage with a Buy call and TP of IDR1,030/share

We initiate our coverage on TOTL with a Buy recommendation and a 12-month target price of IDR1,030/share. TOTL is currently trading at 8.5x forward 17F P/E, below its 5-year average at 13.4x and its -1 SD at 9x. We like TOTL for its 1) strong new contract performance in the midst of property market's unfavorable macro backdrop, 2) margin resilience continuation, 3) very healthy balance sheet, and 4) huge dividend pay.

FY (Dec)	2014	2015	2016F	2017F	2018F
Revenue (IDRbn)	2,106.3	2,266.2	2,386.8	3,396.8	3,514.0
Operating profit (IDRbn)	178.4	228.5	276.0	396.4	400.9
OP margin	8.5	10.1	11.6	11.7	11.4
NP (IDRbn)	165.3	191.4	226.7	313.5	325.9
EPS (IDR)	48.5	56.1	66.5	91.9	95.6
BPS (IDR)	225.2	254.1	280.6	319.2	357.2
P/E (x)	16.1	13.9	11.7	8.5	8.2
ROE (%)	21.5	22.1	23.7	28.8	26.8

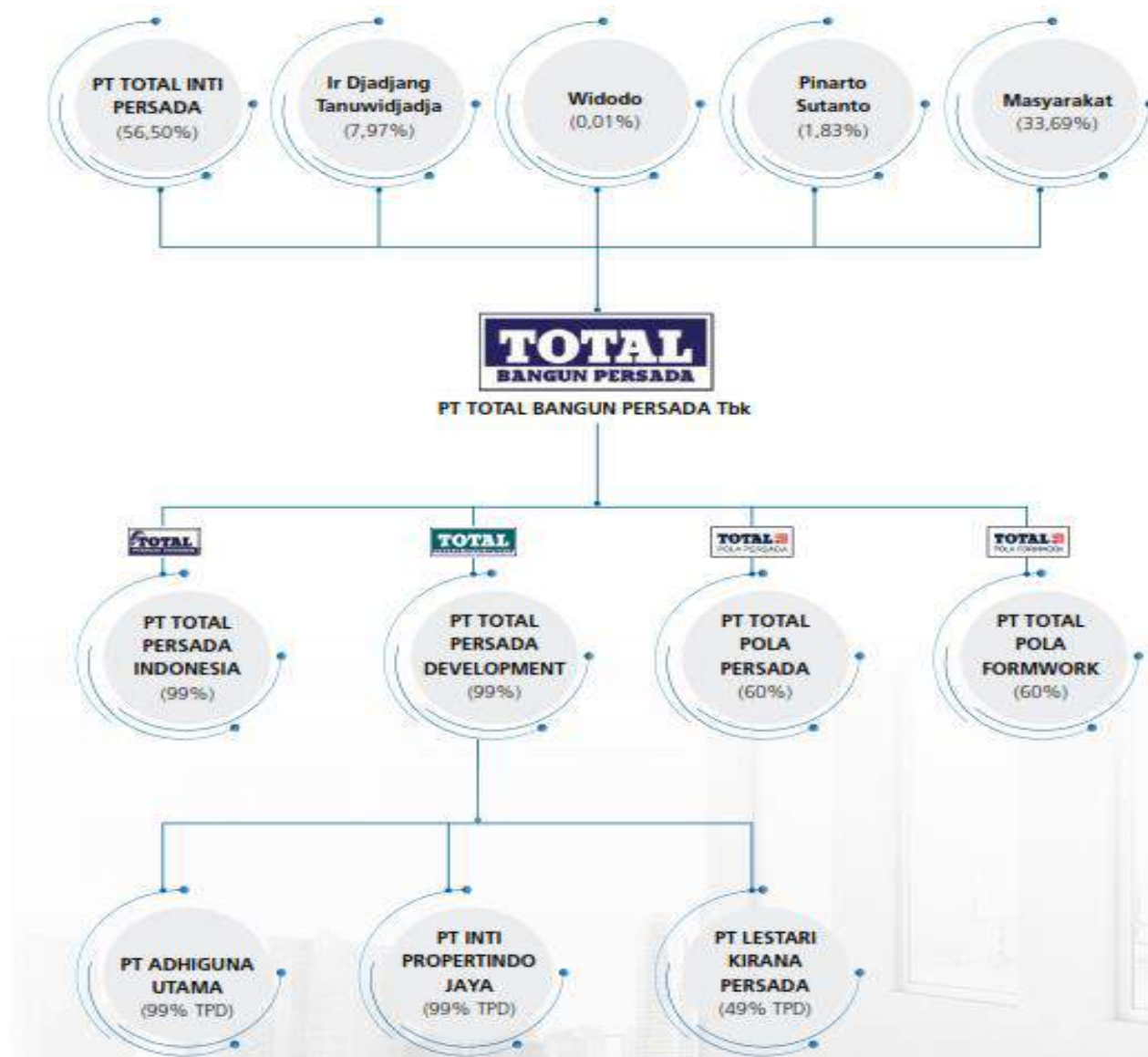
Note: All figures are based on consolidated FS; NP refers to net profit attributable to controlling interests
Source: Company data, Daewoo Research estimates

Company snapshot

Company in brief

Total Bangun Persada, listed in the Indonesian market, is an Indonesia-based private company primarily engaged in building construction (such as apartments, condominiums, offices, etc). Established in 1970, the company was previously named Tjahja Rimba Kentjana. It then changed its name to Total Bangun Persada in 1981. When going public on July 25th 2006, the company chose "TOTL" as its ticker symbol. In Indonesia, TOTL is the oldest private construction company and the third-largest listed private construction company given its IDR2.7tr asset. Other private construction companies listed in the JCI are: Jaya Konstruksi (JKON IJ; Not-rated; IDR 4tr assets), Acset Indonusa (ACST IJ; Not-rated; IDR2.8tr assets), and Nusa Raya Cipta (NRCA IJ; Not-rated; IDR1.9tr assets).

Figure 106. TOTL's ownership structure and business portfolio



Source: Company data, Daewoo Securities Research
Note: based on 2015 data

Shareholder structure

Table 9. Shareholder composition (3Q16)

(Shares, %)

	Number of shares	Percentage
PT Total Inti Persada	1,926,650,000	56.50
Ir. Djadjang Tanuwidjaja, Msc	272,652,240	8.00
Pinarto Sutanto	62,232,500	1.83
Public	1,148,465,260	33.68
Total	3,410,000,000	100.00

Percentage of shares based on geographic ownership

Domestic	80.6%
International	19.4%

Note: Real free float of 33.7% from total outstanding shares

Source: Company data, Daewoo Securities Indonesia

Table 10. List of commissioners and directors (3Q16)

(Shares, %)

Name	Number of shares	Percentage	Position
Ir. Reyno Stephanus Adhiputranto			President Commissioner & Independent Commissioner
Drs. H. Mustofa, Ak			Independent Commissioner
Pinarto Sutanto	62,232,500	1.83	Commissioner
Liliana Komadjaja, MBA			Commissioner
Drs. Wibowo			Commissioner
Rudi Suryajaya Komajaya			Commissioner
Janti Komadjaja, MSc			President Director
Akam Wiranjaya, Dipl. Ing			Independent Director
Ir. CY Handoyo Rusli, M.T.			Director
Ir. Moeljati Soetrisno			Director
Ir. Dedet Syafinal Syafruddin, M.M.			Director
Ir. Anton Lio Sudarto, M.M.	300	0.00	Director
Ir. Saleh Sendiko, M.M.			Director
Ir. Teddy Budjamin			Director

Source: Company data, Daewoo Securities Indonesia

Management team

President Director

Mrs. Janti Komadjaja has served as the President Director of PT Total Bangun Persada Tbk since 2009. She joined the company as Estimator in 1992. Having had various assignments in her career, she was appointed Associate Director in 2001 and promoted to Director in 2004. Mrs. Komadjaja was born in 1965 in Jakarta and graduated from the University of Southern California, USA, holding a master's degree in Construction Management in 1991.

Director

Prior to being appointed Director in 2010, Mr. Akam Wiranjaya initially served as the Associate Director since 2003. He joined PT Total Bangun Persada Tbk in 1994 and started his career as Site Manager. Born in Jakarta in 1950, he graduated from Fachhochschule Hannover, Germany with a Dipl. Ing. degree in 1979. He was an entrepreneur in the construction industry during 1980–1990. Subsequently, he worked for PT PP Taisei as Superintendent, and his last position in the company was Site Manager (1990–1994).

Director

Mr. Handoyo Rusli has served as the Director since 2007. He joined PT Total Bangun Persada Tbk in 1991 as Site Manager. Prior to serving as the Director, he was appointed Project Manager in a number of projects, and then he became an Associate Director in 2005. Born in Pekalongan in 1958, he completed his study at the Civil Engineering Faculty of Diponegoro University, Semarang, in 1982. His Master of Engineering degree was obtained after completing the postgraduate program at Tarumanegara University in 2004. His noteworthy professional experience was obtained initially from serving as the Site Manager (1982) in PT Santraco Abadi. He then joined CV Ika Muda as Technical Manager (1982-1984), PT Wiar Architect & Engineering as Chief Supervisor (1984-1985), PT Jastra Utama/PT Karya Intertek Utama as Site Manager (1985-1990) and PT Citra Sukses Mandiri as Site Manager (1990-1991).

Director

Ms. Moeljati Soetrisno was appointed Director in 2010. Previously, she had served as the Associate Director since 2007. Born in Pekalongan in 1961, Soetrisno obtained her bachelor's degree in Civil Engineering from Trisakti University, Jakarta, in 1987. Before joining PT Total Bangun Persada Tbk as Project Control Staff in 1988, she worked for PT Aura Bramasta as Technical Staff (1987-1988).

Director

Mr. Saleh has served as a Director since 2010. He joined PT Total Bangun Persada Tbk in 1993 as Engineering Staff. He had also served in several positions in the company, including as Project Manager prior to his appointment as Associate Director in 2008. Born in Bagansiapi-api in 1970, he obtained his bachelor's degree in Civil Engineering from Tarumanegara University, Jakarta, in 1993. His Master in Management degree was obtained in 2010 after completing the MM Executive Program, majoring General Management at Bina Nusantara University. His professional career started in 1991 when he was a Planning and Structural Engineer at PT Lamda Citra Karya Engineering.

Director

Mr. Lio Sudarto has been assigned in various prominent positions in PT Total Bangun Persada Tbk. He joined the company in 1990 as an Estimator and was appointed Director in 2010 after having served as an Associate Director since 2007. He was born in Ketapang, West Kalimantan, in 1966 and completed his education in Diponegoro University in 1990, holding a bachelor's degree in Civil Engineering. In 2010, he obtained his Master of Management degree from MM Executive Program in General Management at Bina Nusantara University.

Director

Prior to being appointed Director in 2010, Mr. Dedet Syafinal had served as an Associate Director since 2007. Born in Bandung in 1958, he obtained his bachelor's degree in Civil Engineering from Christian University of Indonesia, Jakarta, in 1986. He then obtained his Master of Management degree from MM Executive Program in Financial Management at Mpu Tantular University in 2010. He worked as a Site Manager at PT Karya Agung Kencana (1987-1988) and at PT Haskon Perdana Contractor. He then developed his career at PT Total Bangun Persada in 1989 as an Estimator.

Director

Teddy Budjamin was born in Jakarta in 1958. In 1984, he earned his bachelor's degree from Tarumanegara University, Jakarta, where he majored in Civil Engineering at the Faculty of Engineering. He started his career as a Construction Staff at PT Raka Utama (1983-1985) prior to serving as a Construction Manager of PT Agresia International Inc. (1985-1987). He once served as a Project Manager of PT Pembangunan Batam (1987- 1989). He firstly joined PT Total Bangun Persada Tbk in 1989 as a Project Manager. His excellent leadership has made him capable of

managing a number of different development projects, such as hospital development in 1989-19990, car factory development in 1990-1992, studio TV in 1994, apartment and condominium in 1994-1995, office project in 1997-2001, educational institution building projects in 2001-2004 and other prestigious projects up to 2010. In 2010-2014, he served as the Project Coordinator for mega-sized projects: 1) Central Park in West Jakarta; an area comprising of malls, office, 3-tower apartment and 1 five-star hotel and 2) Greenbay in North Jakarta, comprising of mall and 12-tower apartment.

Niche characteristics

Each construction company in Indonesia possesses unique characteristics of its own. We believe the key traits distinguishing TOTL from other builders are as follows:

1. **Top-notch builder of buildings.** TOTL has focused in building construction business since its inception in 1970; hence, we deem it to be the expert in the field. The company has built more than 800 buildings, covering high-end commercial buildings, apartments, condominiums, offices, shopping centers, universities, hospitals, religious centers, TV stations, theme parks, etc.

Figure 107. Condominiums built by TOTL



Source: Internet, Daewoo Securities Research

Figure 108. Retail malls built by TOTL

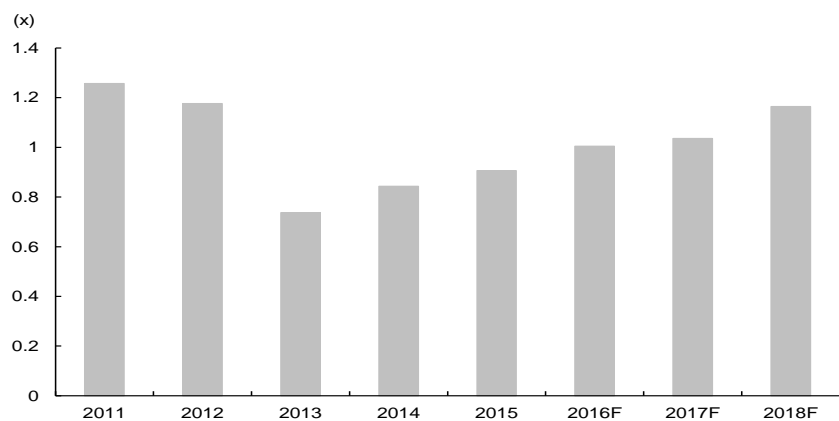


Source: Internet, Daewoo Securities Research

Figure 109. Office buildings built by TOTL

Source: Internet, Daewoo Securities Research

2. **Leverage-conservative builder.** TOTL appears to be the kind of builder which conservatively leverages its balance sheet. Since its inception, TOTL has always maintained its balance sheet in the net cash position. We believe this would limit the company's potential growth when demand is ample. However, it would also safeguard the company in the downturn cycle, which we believe would be very useful for builders engaging with private clients as overdue risk is usually larger.

Figure 110. TOTL's net cash position over the years

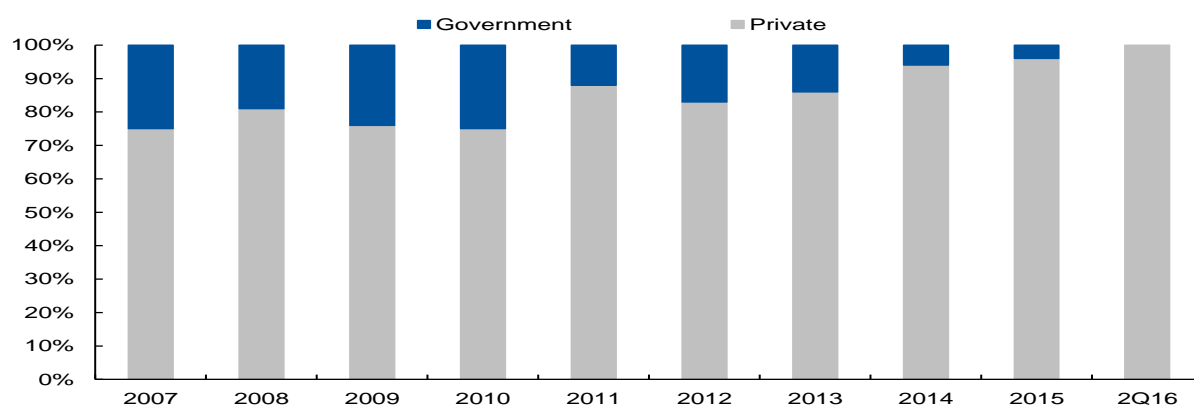
Source: Company data, Daewoo Securities Research

Operations and financials

Cloudy days in property side..

As previously mentioned, the entire TOTL's projects are tied up to private parties' property developments (see Figure 110) as opposed to other SOE construction companies' sizable exposure to the government's infrastructure developments (roads, bridges, power plants, etc.). Hence, we believe a twitch in the property sector would affect TOTL's performance, as unsold properties would serve as a hindrance in the developer's business development.

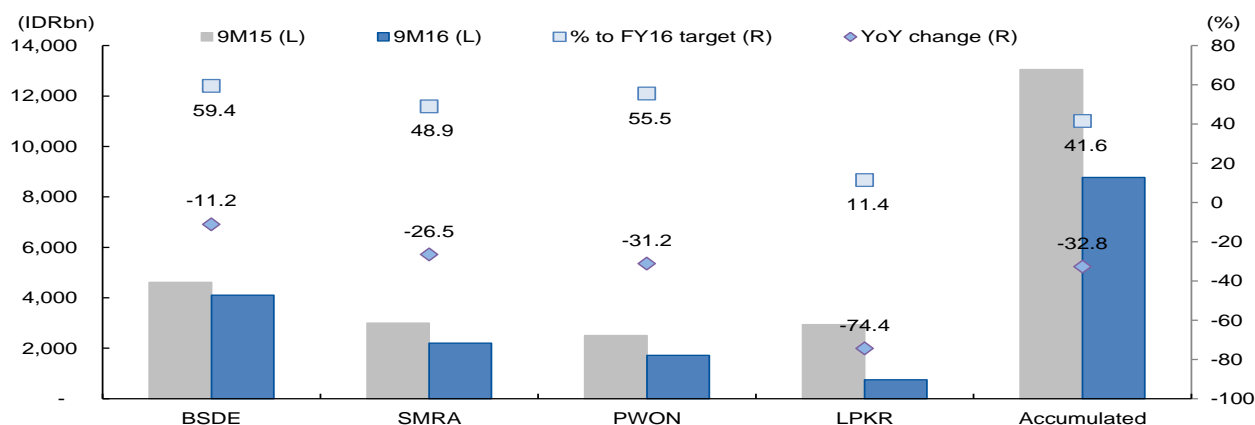
Figure 111. TOTL's revenue breakdown by customer type



Source: Company data, Daewoo Securities Research

Having said that, we believe recent development in the property sector had shown unattractive trends as developers' marketing sales demonstrated disappointing figures. We compiled developers under our coverage which have already released 9M16 marketing sales prints; namely, Bumi Serpong Damai (BSDE IJ; Hold; TP IDR2,090/share), Summarecon Agung (SMRA IJ; Sell; TP IDR1,520/share), Lippo Karawaci (LPKR IJ; Hold; TP IDR900/share), and Pakuwon Jati (PWON IJ; Buy; TP IDR865/share), to analyze demand strength in the property market. The 9M16 marketing sales print was still quite disappointing as it only met 41.6% of the original full-year target cumulatively. It also went down 32.8% YoY, much weaker than the 9M15 performance despite the fact that the government had eased the regulations and policies towards the property sector.

Figure 112. Developers' weak marketing sales performance as of 9M16

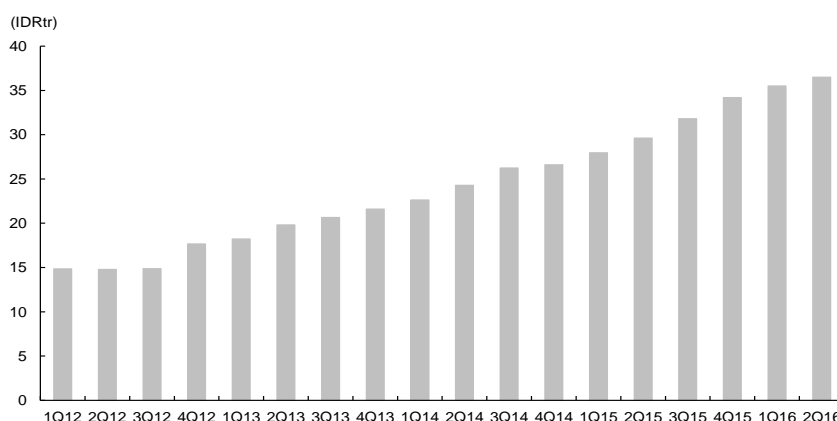


Source: Company data, Daewoo Securities Research

Note: using company's unrevised target (target at inception)

We also compiled inventory data from four property developers under our coverage to identify the property supply's traction. Unsurprisingly, the inventory level went up in the strong upward trajectory, a sign of unhealthy balance between the supply (inventory) and demand (marketing sales) dynamic in the property market. As of 2Q16, the four developers' inventory peaked at IDR36.5tr, went up 23.2% YoY (vs. IDR29.6tr at 2Q15). We believe such high inventory level would hinder developers' ability to build more, as we think developers would be inclined to sell the remaining inventories first rather than develop new projects. All in all, we believe this would harm TOTL's new contract signing as the entire TOTL's contracts came from property developers.

Figure 113. Inventory level of four developers under our coverage

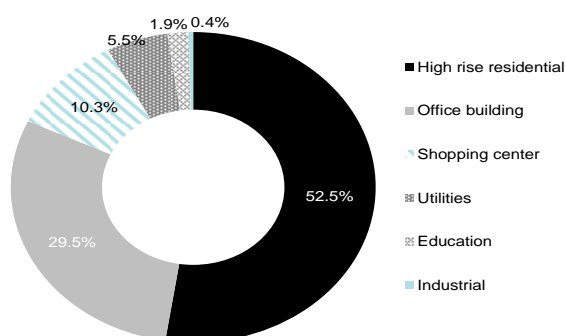


Source: Company data, Bloomberg, Daewoo Securities Research

..but the sun still shines for TOTL

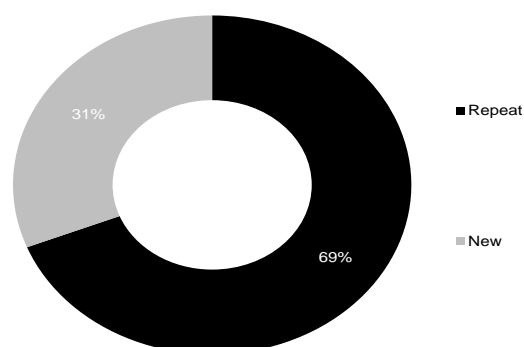
As of 9M16, TOTL booked IDR2,127bn new contract, reflecting a 15.3% YoY increase (vs. 9M15 at IDR1,845bn). Given the unfavorable macro backdrop in the property sector, we consider TOTL's new contract achievement to be very resilient. We believe TOTL's strong operational performance was backed by 1) TOTL's strong position in the market, and 2) direct contract utilization by the company. TOTL appears to be the key supplier to developers, as 85~90% of its new contracts come from direct appointments (contrary to other builders which had to take part in tenders). When taking part in the tender process, TOTL has a winning rate of 30% averagely, which we deem quite impressive. In 2Q16, 69% of the company's new contracts came from repeat customers, which we expect to continue going forward.

Figure 114. TOTL's new contracts breakdown by project



Source: Company data, Daewoo Securities Research
Note: as of 2Q16

Figure 115. TOTL's new contracts breakdown by customers



Source: Company data, Daewoo Securities Research
Note: as of 2Q16

Furthermore, we view the company's strategy to utilize different contract types for the developers were also fruitful. According to our latest conversation with the company, TOTL offers two types of services to the customers (direct type and indirect type). Under the direct contract, most of the work is settled directly between the customer and subcontractors. Under the indirect contract, TOTL acts as an intermediary.

Table 21. Direct contract comprises more tax savings to developers

(IDRbn, %)

	Value	Tax incurred	Value + tax	Tax burden to developer
Own work	1,000	0.0	1,000	-
Direct contract	2,000	0.0	2,000	-
Construction cost	-	-	(a) 3,000	(a * tax) 92.7

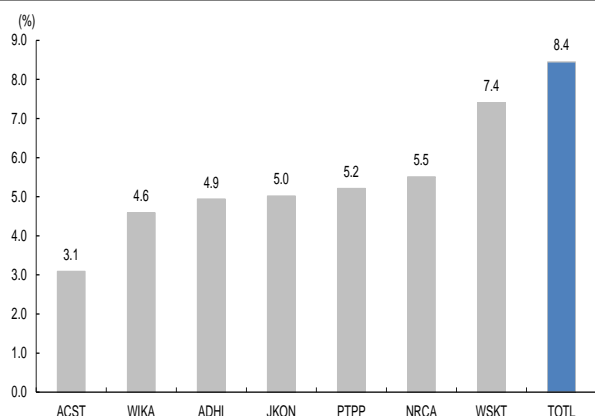
	Value	Tax incurred	Value + tax	Tax burden to developer
Own work	1,000	0.0	1,000	-
Domestic sub-contractor	(b) 2,000	(b * tax) 61.8	2,062	-
Construction cost	-	-	(c) 3,062	(c * tax) 94.6

Source: Daewoo Securities Research

Note: Final tax of 3%

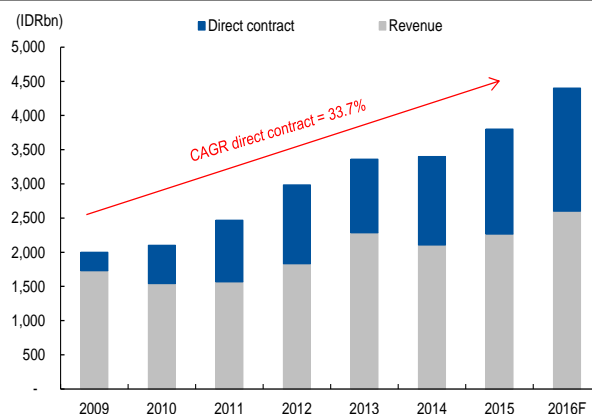
TOTL claimed that the direct contract bears higher margins compared to the indirect one due to the lower tax imposed on customers. This leads to direct gross profit recognition to TOTL's revenue. Although the direct contract portion contribution to the company's revenue remains below 50%, we expect its contribution to increase going forward. Considering the higher direct contract's growth compared to the indirect one, we believe the company's strong margin would continue its resiliency.

Figure 116. Builders' net profit margin as of 2015



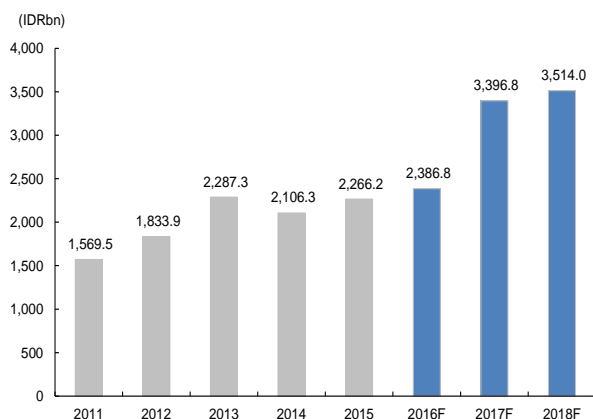
Source: Company data, Bloomberg, Daewoo Securities Research

Figure 117. TOTL's strong direct contract growth



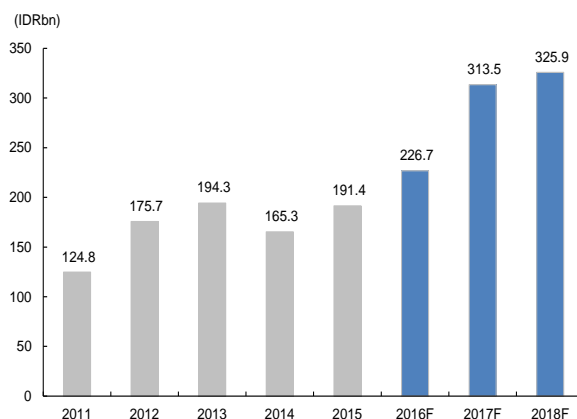
Source: Company data, Daewoo Securities Research

Figure 118. TOTL's annual revenue performance



Source: Company data, Daewoo Securities Research

Figure 119. TOTL's annual net profit performance

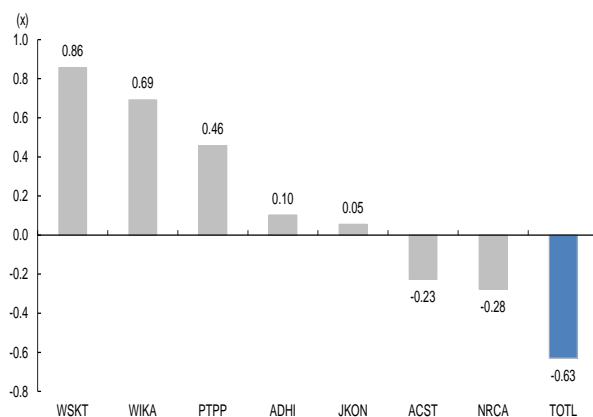


Source: Company data, Daewoo Securities Research

Attractive dividend play

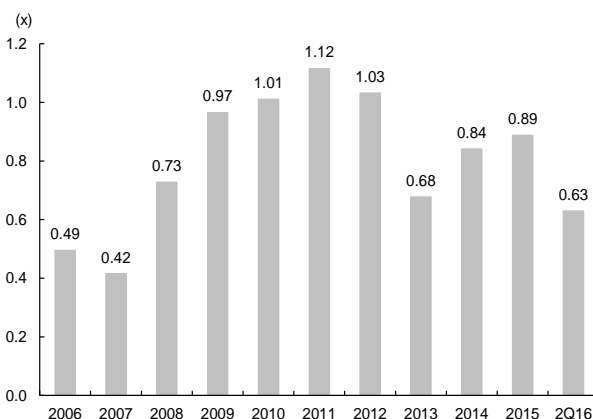
We would also like to highlight the company's unique utilization of leverage compared to its peers. As of 2Q16, TOTL's net debt stood at -0.6x (vs. NRCA -0.27x vs. JKON 5.4x vs. ACST -0.2x). Over the last decade, the company maintained net cash position, which we judge to be a conservative strategy implemented by the management. Hence, we forecast the company's financing expense would be very low to none, securing its net profit margin.

Figure 120. Builders' net debt position as of 2Q16



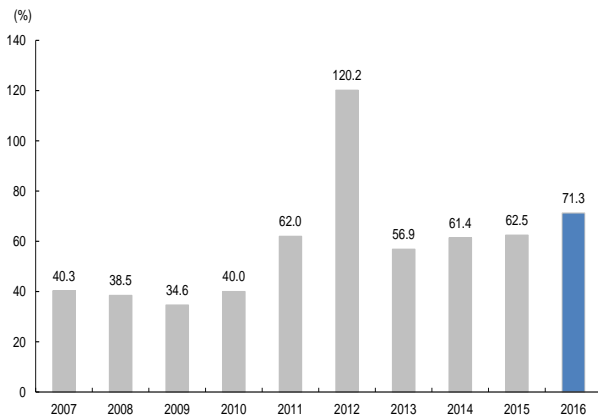
Source: Company data, Daewoo Securities Research

Figure 121. TOTL's net cash position in the last 10 years

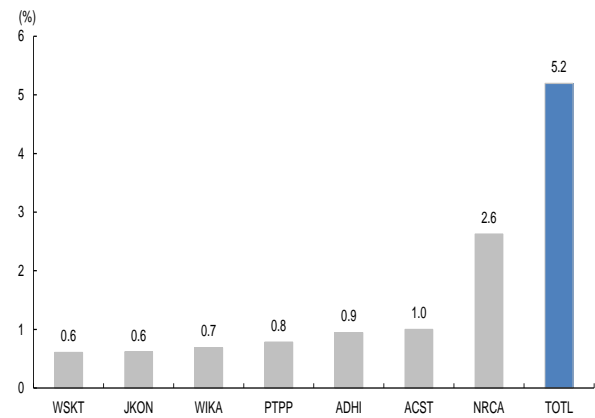


Source: Company data, Bloomberg, Daewoo Securities Research

Combining the company's margin resilience, strong new contract achievement, and low financing cost, we believe TOTL's rich dividend payout will attract investor's attention. In the last five years, TOTL's dividend yield averaged 4.8%, which we deem sizable compared to its competitors listed in the JCI. Having said that, we believe TOTL would be one of the best companies with dividend play theme in the construction sector.

Figure 122. TOTL's dividend payout ratio in the last 10 years

Source: Company data, Daewoo Securities Research

Figure 123. Builders' dividend yield as of 2Q16

Source: Company data, Bloomberg, Daewoo Securities Research

Valuations and recommendations

We initiate our coverage on TOTL with a Buy recommendation and a 12-month target price of IDR1,030/share. Our target price was derived using discounted cash flow (DCF) calculation with the following assumptions:

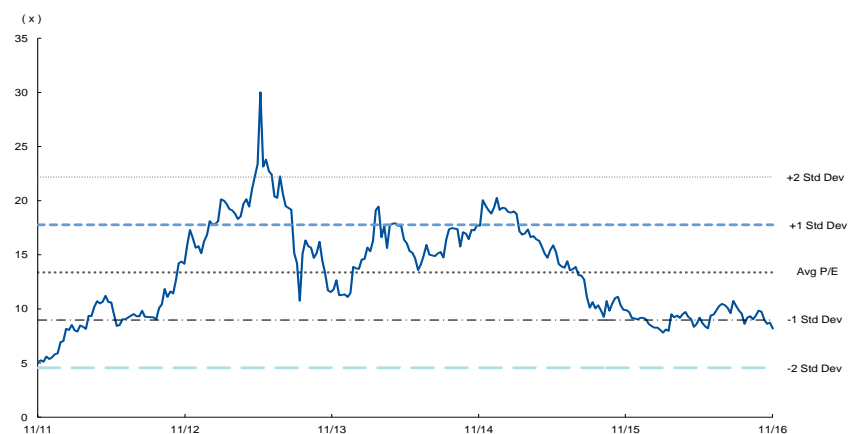
Table 22. Assumptions used for TOTL DCF calculation

Assumptions	
Perpetual growth rate	5.0%
Beta	1.185
Risk-free rate	7.5%
Market risk premium	5.0%
WACC	13.3%

Source: Daewoo Securities Research

TOTL is currently trading at 8.5x forward 17F P/E, below its 5-year average at 13.4x and its -1 SD at 9x. We like TOTL for its 1) strong new contract performance in the midst of property market's unfavorable macro backdrop, 2) margin resilience continuation, 3) very healthy balance sheet, and 4) huge dividend pay.

Figure 124. TOTL P/E band



Source: Daewoo Securities Research

Total Bangun Persada (Ticker TOTL IJ/Buy/TP: IDR1,030)

Income Statement (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Revenue	2,266	2,387	3,397	3,514
Cost of revenue	-1,924	-1,990	-2,825	-2,937
Income from joint operations	62	66	93	97
Gross profit	405	463	666	673
Operating expenses	-176	-187	-269	-273
Operating profit	229	276	396	401
Interest expense	0	-1	0	0
Net non-operating losses (gains)	35	38	37	50
Pre-tax profit	263	313	433	451
Tax expense	-72	-87	-120	-125
Net profit	191	227	313	326
Minority interest	0	0	0	0
Attributable net profit	191	227	313	326

Growth (%)	12/15	12/16F	12/17F	12/18F
Revenue	7.6	5.3	42.3	3.4
Cost of revenue	7.0	3.4	41.9	4.0
Gross profit	22.6	14.3	43.9	1.2
Operating expenses	16.1	6.0	44.2	1.2
Operating profit	28.1	20.8	43.6	1.1
Interest expense	NM	NM	NM	NM
Net non-operating losses (gains)	-46.0	9.9	-3.1	34.1
Pre-tax profit	8.4	19.1	38.3	3.9
Tax expense	-7.1	20.9	38.3	3.9
Net profit	15.6	18.5	38.3	3.9
Minority interest	-234.5	5.3	42.3	3.4
Attributable net profit	15.8	18.5	38.3	3.9

Key performance indicators

	12/15	12/16F	12/17F	12/18F
Per share data				
EPS (IDR)	56.1	66.5	91.9	95.6
EPS growth (%)	15.8	18.5	38.3	3.9
BVPS (IDR)	254.1	280.6	319.2	357.2
BVPS growth (%)	12.8	10.4	13.8	11.9
DPS (IDR)	30.0	40.2	55.6	57.8
Key ratio				
ROE (%)	22.1	23.7	28.8	26.8
ROA (%)	6.7	7.1	7.9	7.2
Gross profit margin (%)	17.9	19.4	19.6	19.2
Operating margin (%)	10.1	11.6	11.7	11.4
Net profit margin (%)	8.4	9.5	9.2	9.3
Net debt/equity (x)	-0.8	-1.0	-1.0	-1.2
Debt/equity (x)	0.0	0.0	0.0	0.0
Assets/equity (x)	3.3	3.3	3.6	3.7
Current ratio (x)	1.3	1.2	1.2	1.2
Quick ratio (x)	0.7	0.7	0.6	0.7

Source: Daewoo Securities Research

Balance Sheet (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Cash and equivalents	809	985	1,127	1,418
Account receivables	351	361	514	532
Retention receivables	235	216	308	318
ST due from customers	416	388	551	571
Inventories	6	77	109	114
Other current assets	419	450	571	642
Fixed assets	194	269	337	492
Other long-term assets	416	428	444	463
Total assets	2,846	3,174	3,962	4,550
Account payables	156	107	152	158
Short-term debt	16	24	0	0
Other short-term liabilities	1,605	1,867	2,437	2,825
Long-term debt	24	0	0	0
Other long-term liabilities	179	219	284	348
Total liabilities	1,980	2,218	2,873	3,332
Paid in capital	340	340	340	340
Additional paid in capital	4	4	4	4
Retained earnings	505	594	718	846
Total equity attributable to majority	849	938	1,062	1,191
Non-controlling interest	18	19	27	27
Total shareholders' equity	866	957	1,088	1,218

Cash Flow Statement (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Net profit	191	227	313	326
Depreciation	19	25	32	45
Changes in net working capital	160	232	30	271
Operating cash flow	371	484	375	642
PP&E investing activities	-143	-100	-100	-200
I.P investing activities	0	0	0	0
Others investing activities	-26	-13	-16	-19
Investing cash flow	-168	-113	-116	-219
Non-current financing activities	45	17	65	64
Changes in equity	-7	0	0	0
Changes in minority interest	16	1	8	1
Dividend paid	-102	-137	-190	-197
Financing cash flow	-48	-120	-117	-132
Net worth adjustment	0	0	0	0
Net cash	154	252	142	290
Beginning balance	579	733	985	1,127
Ending balance	733	985	1,127	1,418

APPENDIX 1

Important Disclosures & Disclaimers

Disclosures

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Buy	Relative performance of 20% or greater	Overweight	Fundamentals are favorable or improving
Trading Buy	Relative performance of 10% or greater, but with volatility	Neutral	Fundamentals are steady without any material changes
Hold	Relative performance of -10% and 10%	Underweight	Fundamentals are unfavorable or worsening
Sell	Relative performance of -10%		

* Ratings and Target Price History (Share price (----), Target price (-----), Not covered (≡), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Daewoo Securities, we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

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