



Wijaya Karya

A Buoyant IQ08 Result

(WIKA,JKI/WIKA IJ - Rp365) - BUY

Result

- WIKA booked strong IQ08 revenue growth of 90.5% YoY, from Rp599.5bn to Rp1.1tr, on the back of construction revenue growth of 87.7% YoY to Rp719.0bn, concrete sales growth of 36.1% YoY to Rp198.1bn, property sales growth of 24.4% YoY to Rp35.8bn and trading and industrial sales, which increased by 349.4% YoY to Rp189.3bn.
- Strong top line growth did not fully trickle down to gross profit as IQ08 gross profit only grew by 71.0% YoY to Rp71.0bn from Rp40.3bn a year earlier, translating to a 0.5% squeeze in IQ08 gross margin to 6.2%. However, at operating profit level, growth rebounded to 147.0% YoY from Rp18.3bn to Rp45.2bn on the back of moderate operating expense growth of only 10.8% YoY from Rp21.7bn to Rp24.0bn.
- In addition to strong growth at operating level, a ballooning IQ08 interest income to Rp12.2bn from Rp322.3m in IQ07 has added weight to growth in net profit, which posted growth of 451.3% YoY to Rp36.2bn from Rp6.6bn in a year earlier.

Comment

- In general, IQ08 earnings are above our expectation. We deem revenue, which has reached 19.1% of our FY08 forecast of Rp6.0tr, to be at the high end of our expectation as historically IQ revenue only represents 15.0% of FY figure. Gross and operating profit stand at 14.0% and 14.3% of our FY08 estimate of Rp507.9bn and Rp315.8bn are deemed to be inline. Meanwhile, net profit managed to beat our expectation as IQ08 net profit already represent 25.9% of our FY08 estimate of Rp139.7bn.
- On revenue side, we are planning to review our assumption, especially on trading and industrial sales. In our model, we only expect sales from this segment to grow moderately at 20.0% YoY, from Rp513.7bn to Rp616.4bn, while in IQ08 it managed to post growth of 349.4 YoY to Rp189.3bn. Compared to our FY estimate, IQ08 trading and industrial sales has reached 30.7% of our FY08 estimate of Rp616.4bn.
- On gross level, we are also planning to review our margin assumption as we see downside risk from our current estimate. This risk stems from surging construction material prices that WIKI may not be able to fully pass on to their customers. To minimize this risk, WIKI has entered into a long-term purchase contract for key materials. Despite a likely downgrade in margin, we are unlikely to see gross profit shrinkage due to strong top line performance. At operating profit level, as the result is still inline with our expectation, hence we plan to maintain our current estimate.
- Meanwhile, we are planning to review non-operating level performance with main focus on interest income and tax expense. IQ08 interest income is quite surprising as it already breached our FY08 estimate of Rp1.8bn by a wide margin. WIKI also surprised us on taxes with IQ08 effective tax rate is only 28.8% compared to our conservative estimate of 40.1% tax rate.
- With FY08 earnings potentially revised upwards, we are maintaining our positive bias on the counter. Currently, the counter offers an attractive upside potential of 69.9% from our DCF target price of Rp620 per share, implying an undemanding FY08 P/BV of 1.5x (vs ADHI = 1.7x and TOTL = 1.7x). BUY call maintained.

Stock Data

Target Price:	Rp620
P/E (x):	15.3
P/BV (x):	1.5
Div. Yield (%):	2.0

Stanley Tjiandra
Tel: (6221) 515 2727
stanley@trimegah.com

Financial Summary

Y-o-Y and Q-o-Q Profitability Performance

(Rpbn)	1Q07	1Q08	Chg (%)	4Q07	1Q08	Chg (%)
Revenue	600	1,142	90.5	1,685	1,142	(32.2)
Gross Profit	40	71	76.3	149	71	(52.2)
Operating Profit	18	45	147.0	102	45	(55.6)
Net Profit	7	36	451.3	58	36	(37.2)
Gross Margin (%)	6.7	6.2		8.8	6.2	
Operating Margin (%)	3.1	4.0		6.0	4.0	
Net Margin (%)	1.1	3.2		3.4	3.2	

Source : Company

PT Trimegah Securities Tbk
19thFl, Artha Graha Building
Jl. Jend. Sudirman Kav. 52-53
Jakarta 12190, INDONESIA
Tel : (6221) 515 2727 Fax : (6221) 515 4580

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