

Wijaya Karya

Sector: Construction and infrastructure related (Overweight)

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BUY

(Unchanged)

Price: IDR345

TP: IDR420 (From IDR400)

JCI: 2,323

All buffed up

Solid order book

Despite just 12.6% absorption of the IDR12.2t government infrastructure stimulus package, total new contracts awarded to Wijaya Karya (WIKA) in 7M09 had reached IDR6.1t (68% of our full-year estimate), which compared favorably to the full-year 2008 level of IDR8.9t. Contribution from government infrastructure projects through the department of public works (PU) and state owned enterprises (SOEs) remains substantial on WIKA's order book, accounting for 70% of total new contracts while the remaining contribution came from the private sector. In 2H09, the flow of tenders on potential infrastructure projects would normally accelerate. Our recent meeting with WIKA revealed that total outstanding bidding on potential projects stood at around IDR22t. To complete the remaining 2009 target on new contracts, WIKA must win at least 10% (IDR2.2t) of the outstanding bids, which in our view is achievable. Some of the most recent tenders won by WIKA are mechanical construction for aircraft fuel filling depot in Soekarno Hatta (USD30m) and LPG terminal in Tanjung Sekong, Banten (USD32m). As such, we retain our 2009 total order book of IDR16.1t, which comprised of IDR7.1t carried over from 2008 and IDR9t in new contracts.

Power plant projects to remain supportive

From the utility sector, WIKA has pocketed seven contracts from power plant projects with total capacity of 4,150MW (IDR2.97t). One of WIKA's power plant projects (PLTU Labuan 2) with 600MW electricity capacity worth IDR795b, will commence operation before the end of year. With such a high participation in the domestic power plant development (30% of 10,000MW project), we become increasingly comfortable with WIKA's capability as a diversified construction player. It is worth highlighting that the government is currently in the process of preparing to tender the second phase of the 10,000MW power plant projects. Having said that, these potential power plant projects would support the company's book order in 2010 and beyond.

Reiterate BUY with higher TP of IDR420

On non-construction business unit, WIKA Intrade booked new contracts in 7M09 worth IDR2.2t (35% of total new contract) vis-à-vis IDR79b in 3M09. The higher contract value mainly stemmed from the inclusion of 2.6m mt (520k mt/year) tons of coal supplies agreement to PLTU Tanjung Jati for five years, which will start initial delivery in September. The contract to PLN would generate additional revenue of around IDR380b per annum in 2009–13. In 2010, we believe that raw materials prices would be less volatile relative to 2008, enabling operating margin to conservatively rise to 4.6% from 4.4% in 2008. Furthermore, with infrastructure development remaining as the top priority in the next five years, we believe that WIKA will continue to benefit from sizeable potential infrastructure projects going forward. Thus, we reiterate our BUY rating and raise our TP to IDR420 based on 2010 PE of 11x, 40% discount to the average regional PE of 18.5x.

Key forecasts and valuations

Year to 31 Dec	2008A	2009F	2010F	2011F
Revenue (IDRb)	6,559	7,503	8,778	10,317
EBITDA (IDRb)	326	382	424	493
Net profit (IDRb)	156	176	218	279
EPS (IDR)	27	30	37	48
Growth (%)	20.8	12.9	23.6	28.1
PER (x)	13.5	11.9	9.7	7.5
BVPS (IDR)	237	259	287	324
P/Book Value (x)	1.5	1.4	1.3	1.1
EV/EBITDA (x)	4.9	5.5	2.4	2.0
ROA (%)	2.7	2.6	3.4	2.9
ROE (%)	11.3	11.6	13.0	14.7
Dividend (Rp)	6.6	8.0	9.0	11.2
Dividend Yield	1.8	2.2	2.5	3.1
Net gearing (%)	nc	nc	nc	nc

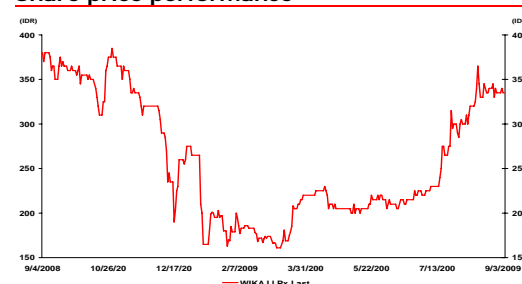
Company information

Share price (9/7/09)	:	345
Share outstanding (m)	:	5,846
Mkt cap. (IDRb/USDm)	:	2,017/199
3-M avg.daily t.o.(IDRb/USDm)	:	6.7/0.7
Bloomberg code	:	WIKA IJ

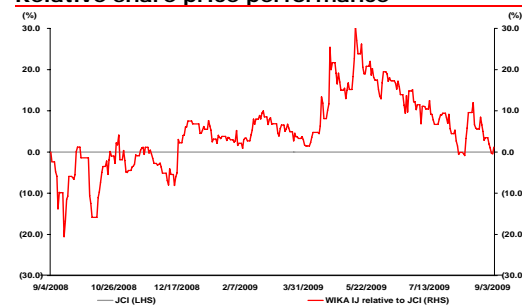
Shareholders information

Government of Indonesia (%)	:	68.4
Free float (%)	:	31.6

Share price performance



Relative share price performance



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PROFIT & LOSS

Year to 31 Dec (IDRb)	2008A	2009F	2010F	2011F
Total revenue	6,559	7,503	8,778	10,317
Cost of sales (COGS)	(6,113)	(6,986)	(8,175)	(9,608)
Gross profit	446	517	604	709
Profit - JO Projects	(3)	3	3	3
Gross profit after JO	443	520	607	713
Operating expenses	(155)	(160)	(199)	(234)
Operating profit	288	361	407	478
EBITDA	326	382	424	493
Interest expense	(44)	(35)	(13)	(13)
Interest income	54	34	37	55
Forex gains (losses)	26	(0)	-	-
Other income (expense)	(68)	(65)	(77)	(80)
Earnings before taxes	256	294	355	440
Income taxes	(82)	(96)	(113)	(132)
Earnings before minority	175	197	243	308
Minority interest	(19)	(21)	(25)	(29)
Net income	156	176	218	279

BALANCE SHEET

As at 31 Dec (IDRb)	2008A	2009F	2010F	2011F
Cash & equivalents	1,051	456	1,204	1,230
Receivables	2,098	4,015	2,422	5,076
Inventory	1,350	646	840	906
Other current assets	730	922	973	1,278
Total current assets	5,230	6,040	5,441	8,490
P,P & E, net	336	634	717	753
Other assets	193	218	252	292
Total assets	5,771	6,892	6,410	9,536
Short-term bank loan	604	542	211	211
Trade payables	1,307	1,798	1,472	3,332
Current maturities	24	-	-	-
Other current liabilities	1,686	2,168	2,027	2,898
Total current liabilities	3,621	4,508	3,711	6,441
Long-term maturities	6	-	-	-
Others	756	869	1,020	1,202
Shareholders' equity	1,385	1,514	1,679	1,893
Total liabilities & equity	5,771	6,892	6,410	9,536

KEY RATIOS

Year to 31 Dec	2008A	2009F	2010F	2011F
Profitability				
ROA (%)	2.7	2.6	3.4	2.9
ROE (%)	11.3	11.6	13.0	14.7
Gross margin (%)	6.8	6.9	6.9	6.9
Gross margin - aft JO(%)	6.8	6.9	6.9	6.9
EBITDA margin (%)	5.0	5.1	4.8	4.8
Operating margin (%)	4.4	4.8	4.6	4.6
Pretax margin (%)	3.9	3.9	4.0	4.3
Net margin (%)	2.4	2.3	2.5	2.7
Financial stability				
Current ratio (x)	1.4	1.3	1.5	1.3
Quick ratio (x)	0.9	1.0	1.0	1.0
Net debt/equity (x)	(0.3)	0.1	(0.6)	(0.5)
Liquidity				
Debtors t.o. (days)	45.6	60.8	48.7	52.1
Creditors t.o. (days)	16.3	27.0	24.3	24.3

KEY ASSUMPTIONS

Year to 31 Dec	2008A	2009F	2010F	2011F
Carry over from prev. yr	6,177	7,126	8,633	10,305
New contract secured	7,508	9,010	10,451	12,123
Total contract	13,685	16,136	19,084	22,428
Revenue recognize	6,559	7,503	8,778	10,317
Carry over to next year	7,126	8,633	10,305	12,111

CAPITAL HISTORY

Type of action	Term	Adj. factor
Oct-07 IPO at IDR420 per share	-	-

CASH FLOW

As at 31 Dec (IDRb)	2008A	2009F	2010F	2011F
Net earnings	156	176	218	279
Depr. & amortization	(38)	(22)	(17)	(14)
Dividends	(38)	(47)	(53)	(65)
Chg in working capital	(785)	(432)	881	(293)
Fixed assets	(128)	(320)	(100)	(50)
Other-net	7	(25)	(34)	(41)
Net cash in (out) flow	(763)	(614)	929	(156)
S-T bank loan	428	(62)	(331)	-
Current maturities	(110)	(24)	-	-
L-T maturities	6	(6)	-	-
L-T contracts advances	121	96	129	156
Other L-T liabilities	(4)	1	2	2
Minority Interest	18	17	20	24
Total financing	450	18	(181)	182
Change in cash	(313)	(595)	748	26
Beginning cash balance	1,365	1,051	456	1,204
Ending cash balance	1,051	456	1,204	1,230

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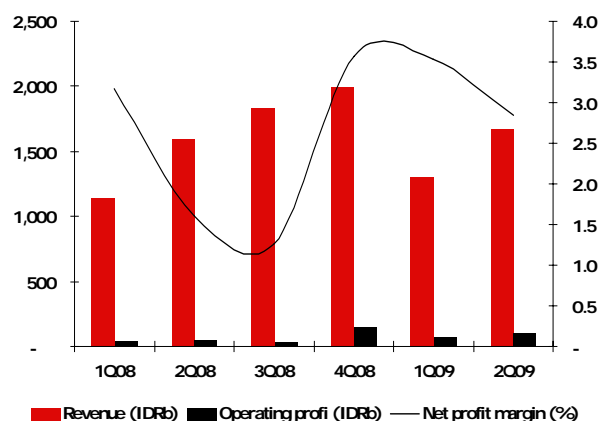


Table 1. WIKA new construction contract, 1H09

Description	Value (IDRb)	Owner	Source of Fund
General Construction			
Sabo Dam & Tanggul Gn. Merapi	58.9	Dept. PU	LOAN JICA
Pengendalian Banjir Bengawan Solo Hulu	77.3	Dept. PU	APBN
Pemb. Jalan Tol SUMO Seksi IB	515.0	PT MNA	PT MNA
Pemb. Jalan Tol SUMO Seksi II	172.7	PT MNA	PT MNA
Pemb. Jalan Tol SUMO Seksi III	215.9	PT MNA	PT MNA
Pemb. Jalan Tol SUMO Seksi IV	504.9	PT MNA	PT MNA
Perkerasan Jalan Pelabuhan Bagendang Sampit	13.2	PT PELINDO III	PT PELINDO III
Jembatan Kakap Cs	23.3	Dept. PU	APBN
Sabo Dam Cibatuh Tahap III Kab Garut	21.3	Dept. PU	APBN
Civil & Structure Poerhouse PLTA Poso II	43.2	PT Poso Energy	PT Poso Energy
Bendung Karet Cikoneng Tahap II	6.5	Dept. PU	APBN
Bendungan Gonggang Tahap IV	32.7	Dept. PU	APBN
Bendung Sungai Bawah Tanah di Bribin	1.1	Dept. PU	APBD
Jembatan Sungai Liong	15.5	Dept. PU	APBD
Lapangan Penumpukan Peti Kemas	1.4	PT Masaji Tatanan	PT Masaji Tatanan
Lanjutan Pengaman Pantai Amal IV Tarakan	11.8	Dept. PU	APBD
Revetment Pantai Amal V Tarakan	37.8	Dep PU & Pemkot	APBD&Subsidi
Dermaga Bengkulu	33.3	PT PELINDO III	PT PELINDO III
Perkuatan tebing sungai sesayap	8.7	Dept. PU	APBD
Construction of evacuation facility-Yogya	8.5	Dept. PU	JICA
Peningkatan jalan Kimihay-Napan	22.2	Dept. PU Papua	IBRD & APBD
Jembatan KA Jalur Ganda Serpong	34.7	Dept. Perhub	APBN
Alabio Irrigation Project	12.7	PT Ruhaak Phala	PT Ruhaak Phala
Pek Rigid Alam Sutera	3.2	PT Alam Sutra Realty	PT Alam Sutra Realty
Pek Jembatan Simpang Susun Alam Sutera (Thp II)	13.0	PT Alam Sutra Realty	PT Alam Sutra Realty
Manpower Supply for Construction at Algeir USD 41,400	0.4	COOJAL	COOJAL
Road for Coal Trucking and Production Support KPC	4.4	PT KPC	PT KPC
Pelabuhan Perikanan Nusantara Brondong - Lamongan	21.1	Dept. Kelautan & Perikanan	Dept. Kelautan & Perikanan
Pemancangan Jembatan Sabak Jambi	12.1	WASKITA-UBH JO	WASKITA-UBH JO
Others Project	1.5	-	-
Subtotal	1,928.4		
Building Construction			
Bandara Internasional Lombok	46.6	PT Angkasa Pura I	PT Angkasa Pura I
Bandara SSK Pekanbaru	150.5	PT Angkasa Pura II	PT Angkasa Pura II
Universitas Lambung Mangkurat	24.4	Dinas PU Kalsel	Dinas PU Kalsel
Subtotal	221.5		
Mechanical Electrical			
Pengadaan 7 Set Jembatan Panel Balley - Type DS Skyline Conveyor System	4.3	PT Bimara Transia	PT Bimara Transia
Pengadaan dan Fabrikasi Jembatan Baja EINRIP	72.0	PT Indominco Mandiri	PT Indominco Mandiri
Pabrikasi Welded H-BeamKBI A-572 Gr.50	12.6	PT Karunia Berca Ind	PT Karunia Berca Ind
Pabrikasi Link Set Type B60 (1 unit) Wiratama	0.2	PT Karunia Berca Ind	PT Karunia Berca Ind
Pengadaan jembatan rangka baja Pidie NAD	0.2	PT Wiratama Globalindo	PT Wiratama Globalindo
P9 PCC Part 19 - Construction of Dryer Plant Civil and Mechanical Works	3.8	PT Arie Kharisma	PT Arie Kharisma
DPPU Kualanamu	13.2	PT Indocement	PT Indocement
	454.7	PT Pertamina	PT Pertamina
Subtotal	560.9		
Power Plant			
1 Jetty PLTU Cilacap	13.1	PT Sumber Segara	PT Sumber Segara
Subtotal	13.1		
TOTAL WIKA HOLDING	2,723.9		

Source: Company

Table 2. Valuation of regional average peers

Company name	Country	Mkt Cap (USDm)	Current Price		PE10 (x)	PBV10 (x)	EV/EBITDA 09 (X)
IJM Corp.	Malaysia	1,587	MYR	4.8	17.0	1.1	11.1
Gamuda	Malaysia	1,768	MYR	2.3	19.1	1.9	33.6
Sino Thai Engr. & Const.	Thailand	164	THB	3.7	17.2	1.2	6.3
Italian-Thai Development	Thailand	360	THB	2.3	29.8	1.0	8.6
CH. Karnchang	Thailand	178	THB	3.6	18.0	1.1	15.9
Adhi Karya	Indonesia	79	IDR	330	7.7	1.0	5.1
Wijaya Karya	Indonesia	199	IDR	275	11.9	1.2	4.4
Total Bangun Persada	Indonesia	52	IDR	129	10.2	1.1	3.3
Average		4,388			18.5	1.4	19.5

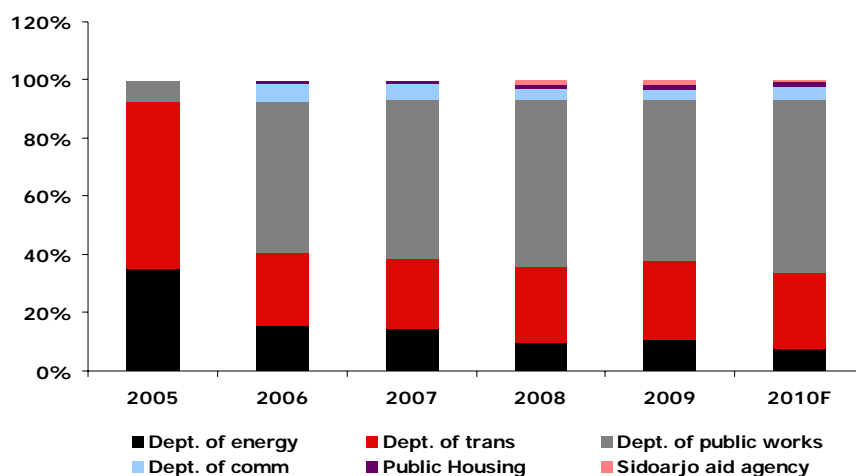
Source: Bloomberg, as of 3 September 2009

Table 3. Government infrastructure budget, 2005 – 2010F

Realization on infrastructure budget (IDRb)	2005	2006	2007	2008	2009	2010F*
Department of energy	3,297	5,382	6,458	5,964	6,745	3,781
Department of transportation	5,408	8,452	10,468	16,687	16,978	12,635
Department of public works	697	18,014	24,213	36,109	34,987	29,023
Department of communication	-	2,061	2,459	2,410	2,061	2,130
State Ministry of public housing	-	414	533	749	964	812
Sidoarjo mud aid agency	-	-	-	1,100	1,148	349
Total	9,402	34,324	44,131	63,019	62,883	48,731

Source: Bappenas

*In parliament discussion

Chart 1. Government infrastructure budget, 2005 – 2010F


Allocation to Department of Public Works accounted for 50%+ of the government's infrastructure budget

Source: Bappenas

*In parliament discussion

Table 4. Wijaya Karya's 1H09 results

Year-end 31 Dec (IDRb)	2Q08	1Q09	2Q09	q-q (%)	y-y (%)	1H08	1H09	% chg.	2009F	1H09/ 2009F	1H08/ 2008	2009 Cons.	1H09/ Cons.
Sales	1,591	1,301	1,671	28.4	5.0	2,734	2,972	8.7	7,363	40	42	7,268	41
COGS	1,490	1,182	1,542	30.5	3.5	2,561	2,724	6.4	6,796	40	42		
Gross profit	101	119	129	8.4	27.1	172	248	43.8	567	44	39		
Profit from JO projects	(3)	(8)	11	(243.4)	(485.9)	(5)	3	(172.1)	3	106	148		
Gross profit after JO	99	111	140	25.6	41.9	168	251	49.7	570	44	38		
G&A expense	39	33	32	(4.0)	(17.2)	62	66	5.4	207	32	41		
Selling expense	1	0	0	12.8	(38.3)	1	1	(37.0)	15	6	52		
Operating expenses	40	34	33	(3.8)	(17.6)	64	66	4.5	222	30	41		
Operating profit	59	77	107	38.5	81.7	104	185	77.2	349	53	36	374	49
Interest income	11	9	10	22.9	(1.5)	23	19	(16.8)	50	38	43		
Interest expense	(18)	(16)	(14)	(11.9)	(21.1)	(25)	(30)	20.8	(35)	85	56		
Forex gain (expenses)	3	(4)	(8)	91.0	(352.7)	4	(13)	(437.8)	(0)	24,122	14		
Bad debt expense	(8)	(7)	(3)	(56.5)	(61.1)	(15)	(11)	(28.8)	(59)	18	30		
Other	8	2	(36)	(1,746.0)	(574.1)	9	(34)	(476.8)	(17)	196	(52)		
Total other inc. (costs)	(9)	(17)	(52)	203.1	476.0	(4)	(69)	1,638.2	(62)	111	13		
Pretax profit	50	60	56	(7.9)	11.1	100	116	15.8	287	40	39		
Taxation	(18)	(9)	(9)	(2.2)	(51.0)	(29)	(18)	(38.0)	(93)	19	36		
Minority interest	(6)	(5)	1	(112.6)	(110.9)	(9)	(5)	(49.7)	(21)	22	50		
Net profit	26	46	47	3.3	84.9	62	93	51.0	173	54	40	169	55
Others													
Gross margin (%)	6.4	9.1	7.7			6.3	8.3		7.7				
Gross margin after JO (%)	6.2	8.6	8.4			6.1	8.5		7.7				
Operating margin (%)	3.7	6.0	6.4			3.8	6.2		4.7				
Pretax margin (%)	3.1	4.6	3.3			3.7	3.9		3.9				
Net margin (%)	1.6	3.5	2.8			2.3	3.1		2.4				

Source: Company, Bloomberg, Bahana estimates

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