Construction: Waiting for government actions Underweight

Review

Strong 9M10 net profit. Adhi Karya (ADHI) booked 9M10 revenue of Rp3.1tn (-36.8% yoy), while Wijaya Karya (WIKA) chalked Rp3.9tn (-13.8% yoy) due to lower orders secured. The delay on the winner announcement of the government projects was the main reason, as around 70% of constructions orders are government-related projects. By end Sep10 ADHI only secured new order amounting to Rp3.5tn of the FY10F target of Rp8.6tn (initial target was Rp9.8tn). While, WIKA by end Sep10 secured new order amounting to Rp5.3tn from FY10F target of Rp10.0tn. In the bottom line, ADHI registered net profit 9M10 at Rp76bn (+18.0% yoy), while WIKA reported net profit Rp204bn (+53.9% yoy). Meanwhile, toll road operators enjoyed higher margins resulted from increasing tariffs effective in Sep09 and traffic volume growth. Jasa Marga (JSMR) 9M10 revenue was up by 22.6% yoy to Rp3.2tn, while Citra Marga Nusaphala Persada (CMNP)'s revenue rose 24.7% yoy to Rp552bn. Traffic volume for JSMR's toll roads was up by 3.3% yoy to 705bn vehicles, while traffic in the Jakarta Inner Ring Road (JIRR), which 55% is owned by CMNP, reached Rp181bn (-5.8% yoy). JSMR's 9M10 net profit was Rp961bn (+30.7% yoy), while CMNP's bottom-line jumped by 398.1% yoy to Rp480bn.

Government has implemented new regulation to boost infrastructure sector. President has approved President Regulation (Perpres) No.13/2010 to replace President Regulation No.67/2005, concerning public private partnership (PPP). The new regulation is expecting to accelerate infrastructure growth. Under the new regulation, land acquisition is the responsibility of government and land cost will be based on appraisal from independent advisor.

Outlook

We are waiting new land law to accelerate land clearing process. Currently, the government is reviewing laws on land acquisition for public interests. Such new legislation will set certain time limits on land acquisition period and land appraisal will be conducted by independent party. Initially the land law was expected to be passed within 2010, but the draft was just submitted to the House of Representative on Dec 15, 2010. The bill is now expected to be approved at least by mid-2011.

Our skepticism on construction companies expectations. ADHI and WIKA expects new contracts for 2011 will grow by around 20-30% yoy supported by new projects to be tendered and those carried over from 2010 whose bidding completion is delayed to next year. But, we are skeptical that the target can be achieved based on past experience with government projects. We are targeting revenue for ADHI in FY11F to reach Rp7.7tn (+25.6% yoy), while WIKA revenue Rp9.3tn (+13.2% yoy). Meanwhile, net profit for FY11F is expected to reach Rp191bn (+9.7% yoy) and Rp352bn (+30.3% yoy) for ADHI and WIKA, respectively.

Revenue growth still will happen in FY11F. We expect growth in revenue still occur in toll road companies supported by higher traffic volume and operations of new toll roads. In FY11F revenue in JSMR is expected to reach Rp4.8tn (+10.8% yoy), while CMNP's is targeted to reach Rp776bn (+8.3% yoy). Traffic volume in JSMR's toll roads is expected to exceed 1bn vehicles, up by 8.4% yoy from 947mn vehicles in FY10F. JSMR is targeting to operate 2 new toll roads: Semarang-Ungaran (11.2Km) and Waru-Sepanjang (2.3Km) in FY11F. Meanwhile, tariff increase is expected to occur in Sep'11 for the 12 of 14 existing toll roads operated by JSMR including the JIRR. The tariff increase is expected to be around 10-12% based on inflation rate from Sep09 to Aug'11.

JSMR is our top pick. In FY09, JSMR operated 13 sections of toll road covering 76% of the country's total toll road length (693.0Km). The future of the company looks promising as JSMR has 7 ongoing new toll roads projects with total length amounting to 190.6Km. Four of the new toll roads are connected to the existing ones and the remaining are located in Java Island, the most populous island in Indonesia.

EXHIBIT 27. 9M10 RESULTS

	Revenue			Operating income			Net income		
Rp bn	Amount	qoq (%)	yoy (%)	Amount	qoq (%)	yoy (%)	Amount	qoq (%)	yoy (%)
ADHI	3,071	33.8	(36.8)	187	157.3	44.6	76	175.5	18.0
WIKA	3,947	2.8	(13.8)	288	28.3	(16.6)	204	92.0	53.9
JSMR	3,210	1.4	22.6	1,571	(18.7)	43.8	961	(9.2)	30.7
CMNP	552	(0.8)	24.7	320	(13.1)	40.3	480	18.6	398.1

Source: Mandiri Sekuritas estimates

EXHIBIT 28. TOLL ROAD PROJECTS TO BE TENDERED IN 2011 UNDER GOVERNMENT-PRIVATE COOPERATION SCHEME

No.	Toll Road projects	Location	Investment (Rp tn)
1	Pekanbaru - Kandis - Dumai	Riau	8.4
2	Manado - Bitung	Sulut	5.6
3	Kisaran - Tebing Tinggi	Sumut	5.3
4	Bukit Tinggi - Padang Panjang - Lubuk Alung - Padang	Sumbar	10.2
5	Terbanggi Besar - Menggala - Pematang Panggang	Sumsel	5.8
6	Bakauheni - Terbanggi Besar	Lampung	8.2
7	Cilegon - Bojonegara	Banten	0.9
8	Kamal - Teluk Naga - Batu Ceper	Banten	3.6
9	Gedebage - Majalaya	Bandung	0.9
10	Yogyakarta - Bawen	Jawa Tengah	6.1
11	Yogyakarta - Solo	Jawa Tengah	2.3
12	Medan - Kualanamu - Tebing Tinggi	Sumut	4.9
13	Cileunyi - Sumedang - Dawuan	Bandung	4.1
14	Palembang - Indralaya	Lampung	1.0
15	Tagineneng - Babelan	Lampung	2.7
16	Pasir Koja - Soreang	Bandung	1.0
17	Medan - Binjai	Sumut	1.3
18	Terusan Pasteur - Ujung Berung - Cileunyi - Gedebage	Bandung	6.9
19	Kemayoran - Kampung Melayu	Jakarta	6.9
20	Sunter - Rawa Buaya - Batu Ceper	Jakarta	9.8
21	Ulujami - Tanah Abang	Jakarta	4.2
22	Pasar Minggu - Casablanca	Jakarta	5.7
23	Sunter - Pulogebang - Tambelang	Jakarta	7.4
24	Duri Pulo - Kampung Melayu	Jakarta	5.9
25	Bandara Juanda - Tanjung Perak	Surabaya	5.0

Source: Ministry of Public Affairs

EXHIBIT 29. VALUATION

Ticker	30-Dec-10	PER (x)		EV/EBITDA (x)		P/BV (x)		TP	Rec
	Last price	FY10F	FY11F	FY10F	FY11F	FY10F	FY11F	(Rp/share)	
ADHI	910	9.4	8.6	4.4	3.5	1.9	1.6	870	Neutral
WIKA	680	14.7	11.3	4.5	3.5	2.3	2.0	810	Buy
JSMR	3,425	17.5	15.4	11.1	10.4	2.9	2.6	4,100	Buy
CMNP	1,360	4.4	8.4	6.0	5.0	1.3	1.2	1,450	Neutral

Source: Mandiri Sekuritas estimates