

# Wijaya Karya

Sector: Construction (Neutral)

**BUY**

(Unchanged)

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Price: IDR590

TP: IDR830 (Under Review)

TP/consensus: 112%

JCI: 3,844

### 2Q11 performance

- Partly due to higher-than expected bad-debt allowance, WIKA booked 2Q11 bottom line of IDR56b (-34.7% q-q and +30.6% y-y); however, strong 1Q11 earnings brought 1H11 net profit in line with our forecast but some 5-6% higher than consensus estimate.
- At the operating level, higher cost and opex in 2Q11 brought 2Q11 operating profit to IDR103b (-0.3% q-q but +24.9% y-y), some 6-7% lower than our and consensus estimates. This led to lower 1H11 operating margin of 6.3%, compared to our full-year 2011 projection of 8.2%.
- On the top line, WIKA reported 2Q11 revenue of IDR1.77t, +15% q-q and 27.6%y-y, in line with our and consensus estimates. This brought 1H11 revenue to 42.4% of our full-year estimate, on track to reach our 2011 forecast due to the seasonality of higher 2H11 performance.

### Outlook

In 2011, WIKA aims to secure new contracts amounting to IDR9.4t, bringing total book order to IDR19.7t (excluding JO), up 20% y-y. With substantial projects on hand and three investment projects to support recurring income growth, we maintain our positive view on the company.

### Recommendation and valuation

Diversified businesses and continued expansions through various investments have us maintain our positive view and BUY recommendation on WIKA, although we are likely to trim our operating earnings slightly on the back of this result release. Exhibit 4 shows that the stock has underperformed the market by 17% ytd, allowing WIKA to trade on demanding 2012 PE of 8.2x, more than 45% discount to the market.

#### Exhibit 1. Company information

Market cap (IDRb/USDm)	: 3,554/413
3M avg.daily t.o.(IDRb/USDm)	: 3.1/0.4
Bloomberg code	: WIKA IJ

#### Exhibit 2. Shareholders information

Government of Indonesia (%)	: 66.4
Free float (%)	: 33.6

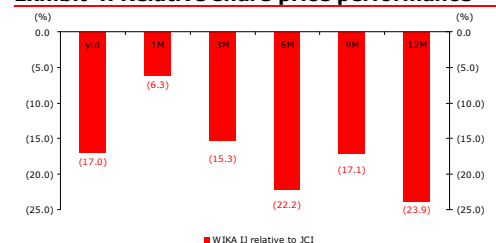
Source: Company

#### Exhibit 3. Key forecasts and valuations

	2010	2011F	2012F
Sales (IDRb)	6,023	7,814	9,650
Net profit (IDRb)	285	332	432
EPS (IDR)	50	55	72
EPS growth (%)	50.3	10.2	30.1
EV/EBITDA	5.3	4.3	3.5
P/E (x)	11.8	10.7	8.2
BVPS (IDR)	317	339	391
PBV (x)	1.9	1.7	1.5
DPS (IDR)	10	17	19
Yield (%)	1.7	2.8	3.3

Source: Company, Bahana estimates

#### Exhibit 4. Relative share price performance



Source: Bloomberg

#### Exhibit 5: Result summary

End of 30 June 2011	2Q10	1Q11	2Q11	q-q (%)	y-y (%)	1H11	y-y (%)	1H11/2011F	1H11/Cons.
<b>Sales (IDRb)</b>	<b>1,389</b>	<b>1,541</b>	<b>1,772</b>	<b>15.0</b>	<b>27.6</b>	<b>3,313</b>	<b>18.8</b>	<b>42.4</b>	<b>39.2</b>
<b>Gross profit</b>	<b>128</b>	<b>150</b>	<b>155</b>	<b>3.0</b>	<b>20.9</b>	<b>305</b>	<b>21.2</b>	<b>34.2</b>	
<b>Gross profit after JO projects</b>	<b>128</b>	<b>150</b>	<b>155</b>	<b>3.0</b>	<b>20.9</b>	<b>305</b>	<b>21.2</b>	<b>34.2</b>	
Selling expense	(45)	(43)	(52)	19.2	13.6	(95)	22.1	37.7	
G&A expense									
<b>Operating profit</b>	<b>83</b>	<b>107</b>	<b>103</b>	<b>(3.6)</b>	<b>24.9</b>	<b>210</b>	<b>20.7</b>	<b>32.8</b>	<b>32.5</b>
Net interest inc./(expenses)	11	20	2	(89.3)	(80.6)	22	93.1	52.4	
Forex gain (expenses)	2	(2)	19	(1,095.2)	753.5	17	76.1	(405.5)	
Other income/(expenses)	(7)	2	3	12.6	(140.0)	5	(44.1)	(50.4)	
<b>Pretax profit</b>	<b>83</b>	<b>124</b>	<b>106</b>	<b>(14.6)</b>	<b>28.0</b>	<b>230</b>	<b>19.3</b>	<b>40.2</b>	<b>39.1</b>
Taxation	(32)	(32)	(46)	46.0	43.3	(78)	17.0	37.0	
Minority interest	(8)	(6)	(4)	(44.7)	(52.7)	(10)	(2.3)	33.7	
<b>Net profit</b>	<b>43</b>	<b>86</b>	<b>56</b>	<b>(34.7)</b>	<b>30.6</b>	<b>142</b>	<b>22.6</b>	<b>42.8</b>	<b>49.8</b>
<b>Balance sheet &amp; ratio analysis</b>	<b>2Q10</b>	<b>1Q11</b>	<b>2Q11</b>	<b>1H10</b>	<b>1H11</b>	<b>2011F</b>			
Gross margin (%)	8.8	8.1	6.3	10.1	7.1	10.2			
Gross margin after JO projects (%)	9.2	9.8	8.7	10.7	9.2	11.4			
Operating margin (%)	5.9	6.9	5.8	7.2	6.3	8.2			
Pretax margin (%)	6.0	8.1	6.0	6.9	6.9	7.3			
Net margin (%)	3.1	5.6	3.2	4.3	4.3	4.2			
Inventory Days	73	58	40	82	43	51			
Receivable Days	71	57	46	79	50	49			
Payable Days	80	73	56	89	61	73			
Total cash (IDRb)	822	1,077	750	822	750	845			
Total debt (IDRb)	137	417	436	137	436	546			
Net gearing (%)	nc	nc	nc	nc	nc	nc			

Source: Company, Bloomberg, Bahana estimates

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