

PT. Wijaya Karya Tbk (WIKA)

Report Origin: Company Update

BUYVolatility Risk : **HIGH**

12-Month Price Target : Rp 750,-

Going Ahead with Construction Business Expansion

Investment highlights:

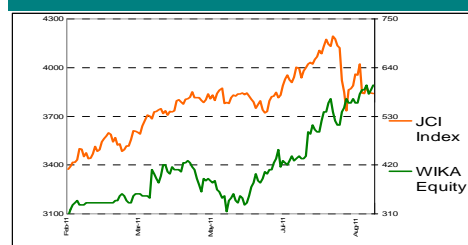
- **Growing performance in 1H11**
- **Large business expansion opportunities for engineering procurement and construction (EPC) business**
- **Significant contribution from subsidiaries**
- **Recurring income from power plant operation**
- **Net cash position**
- **Significant improvement from manufacturing and trading**

Improving operating performance in 1H11

	WIJAYA KARYA		
Rp billion	1H11	1H10	chg
Revenue	3,313.1	2,519.6	31.5%
Gross profit	236.3	254.6	-7.2%
Operating profit	209.5	181.6	15.4%
Net profit	141.0	140.8	0.2%
Gross margin	7.1%	10.1%	
Operating margin	6.3%	7.2%	
Net margin	4.3%	5.6%	

Current Price	: Rp 560/shr
52 Wk high (10/05/2010)	: Rp 770/shr
52 Wk low (09/15/2011)	: Rp 540/shr
YTD % change	: -17.65%
Share Outstanding	: 6023.153 mio shrs
Market capitalization	: Rp 3372.97 bio
Floating rate	: 33.59%

JCI – WIKA

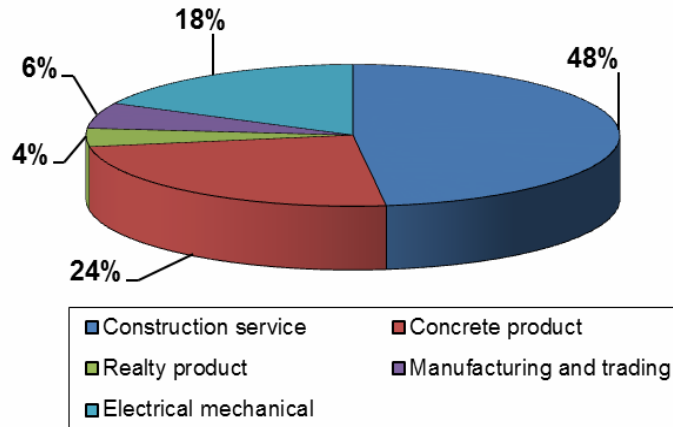


WIKA recorded significant revenue improvement by 31.5% to Rp3.3 trillion in 1H11. The main revenue contributor was construction service, which rose by 35.8% yoy to Rp1.7 trillion. Revenue from subsidiaries also improved meaningfully. The highest percentage growth was recorded by manufacturing and trading, which increased by 53% yoy to Rp212.05 billion. On the other hand, the cost of construction service also increased significantly by 60.5% yoy to Rp1.8 trillion. The main reason was that the cost of two power plants projects in North Sulawesi and South Kalimantan has been recognized but the revenue has not recorded yet due to the claim agreement. In total, cost of sales rose by 35.8% yoy to Rp3.08 trillion. Thus, gross profit declined by 7.2% yoy to Rp236.3 billion. The company recorded significant improvement in income from joint operations to Rp68.6 billion in 1H11 from Rp15.9 billion in 1H10. WIKA booked significant growth in gross profit after joint operations by 11.3% yoy to Rp304.9 billion. Net profit only rose slightly by 0.2% yoy to Rp141 billion in 1H11.

Analyst : **Maxi Liesyaputra**
 Email : maxi@bnisecurities.co.id
 Phone : (62-21) 25543946 (Hunting)
 Fax : (62-21) 57935831

Improving operating...

Business Contribution in 1H11



Source: WIKA financial report in 1H11, processed by BNIS Research

Plan of WIKA Beton Divestment

Previously WIKA had a plan to divest one of its subsidiaries, PT Wika Beton. The subsidiary holds majority market share in domestic concrete market. The latest update has indicated that WIKA has been delaying the divestment plan for some period of time. It is mainly because the subsidiary will develop its 8th plant which is located in Cikampek, West Java. The objective is to support the development of escalated non-toll road in Casablanca Road, South Jakarta. Therefore, WIKA decided to delay the initial public offering (IPO) of PT Wika Beton.

Expansion of Wika Realty

Another subsidiary of WIKA, PT Wika Realty, showed significant improvement. The revenue of WIKA Realty increased by 37.5% yoy to Rp150.2 billion in 1H11. The contribution of Wika Realty to total revenue also improved slightly to 4.5% in 1H11 from 4.3% in 1H10. Currently Wika Realty has a number of projects, such as apartment, commercial building and office where are located in Jl. DI Panjaitan kav 3-4 East Jakarta. The ground breaking has been conducted on March 14th, 2011. Another project of Wika Realty is Tamansari Semanggi, consist of apartments which are closed to prime business area in Jakarta.



THE WALK @ CAWANG

Source: WIKA presentation material for May 2011

EPC business improvement

WIKA proves that the company develops many power plants in Indonesia. The company will develop gas power plant (PLTG) in Rengat, Riau with capacity of 20 MW. WIKA formed consortium to build the power plant with PT Prastiwahyu Trimitra Engineering and PT Navigat Energy. In the consortium, WIKA holds the majority ownership of 53%. The construction period is expected to be 180 days, starting from end of August 2011. WIKA will sell its electricity to state owned electricity company (PLN) in amount of Rp335 per kWh (kilo watt hour).

The company will also develop gas power plant in Borang, East Palembang, South Sumatra with capacity of 60 MW (megawatt) with estimated construction period of 18 months. The investment value is Rp580 billion.

WIKA already completed the development diesel power plant in Bali with capacity of 3 x 18 MW with scheme of BOT (build, operate and transfer) for 8 years + 1 year of construction. The company cooperates with Mirlindo Pandu Kencana with WIKA's ownership of 84.61%. The investment value of the project is Rp544 billion.

Capital expenditure (capex plan) for 2011F

WIKA budgeted capex for 2011F in the amount of Rp522 billion. The biggest amount is for the power plant of Rp150 billion with schemes of BOO (build, own and operate) and BOT (build, operate and transfer). Another large amount for the capex in 2011F is allocated for the development of Surabaya - Mojokerto (Sumo) toll road with the amount of Rp60 billion. In the project, WIKA cooperates with Jasa Marga and PT Moeladi. WIKA holds minority ownership of 20% in the consortium.

For capturing potential market in asphalt, WIKA through Wika Bitumen is developing Buton asphalt plant with annual capacity of 50,000 metric tons (MT). Buton island has reserves of approximately 600 million MT. The mini plant has succeeded. In 2011F WIKA allocates Rp50 billion for the plant. Total investment for the plant is approximately Rp263 billion.

Total capex for subsidiaries is Rp178 billion. Most of its capex is for financing Wika Beton with the amount of Rp175 billion.

Capital expenditure...

2011 Capital Expenditure



(IDR. Bn)

NO	Description	From Equity	Information
Investment in Associated Companies			
1	SUMO TOLL ROAD (PT MNA)	60	Additional Capital (up to 2011 : IDR 180bn)
2	IPP GEOTHERMAL TAMPOMAS 40 MW (WIKI JABAR POWER)	17	Additional Capital (up to 2011 : IDR 21bn)
3	BUTON ASPHALT PLANT (50.000 mt)	50	Capital Placement
4	HARBOUR PORT - BATAM	30	Capital Placement
5	INFRASTRUCTURE DEVELOPMENT	45	Capital Placement
Business Development			
1	POWER PLANT (BOO or BOT Scheme)	150	(100% loan)
2	LAND BANK	50	Location in Jabodetabek
3	OIL & GAS INFRASTRUCTURE	41	LPG Spherical Gas Tank
4	CONSTRUCTION EQUIPMENT	48	
5	BOILER PLANT FACILITIES	19	
Fixed Assets			
1	ARCHIVES BUILDING	5	
2	OFFICE SUPPLIES	7	DRC, Server, Corporate Filling
TOTAL		522	

WIKI's Subsidiaries Capex for 2011 is IDR 178bn (WIKI Beton IDR 175 bn)

Source: WIKI presentation material for May 2011

Valuation and recommendation

As a construction company, WIKI does not rely heavily on construction revenue. In 1H11, the contribution of construction revenue was 48%, slightly declined from 51% in 1H10. The company has significant revenue contribution from subsidiaries, mainly from Wika Beton. The amount from the subsidiaries also improve substantially in recent years. Thus, WIKI is able to compensate the fluctuation of construction revenue by having significant revenue from subsidiaries. The company also has the right strategy for improving its subsidiaries. Such as developing the 8th plant for Wika Beton and developing The Walk of Cawang in East Jakarta for Wika Realty.

WIKI focuses on government projects with much better of payment certainty compared to private projects. Based on data from National Development Planning Agency (Bappenas), Ministry of Public Works has a plan for infrastructure spending with amount of Rp56.5 trillion in 2011F. The figures give a big opportunity for the company to expand its business. Meanwhile for private projects, WIKI selects the project owners prudently in order to secure the company's cash flow.

For financing the projects, the company implements self-financing project policy. In the policy, every project must be able to finance itself. WIKI also implements centralized financial strategy for acquiring building materials. It can increase the company's bargaining power against its suppliers. Regarding with its performance, we expect WIKI to book revenue of Rp7.5 trillion with net profit of Rp308 billion in this year. The target price for WIKI is Rp750 per share for the next 12 months by using DCF method with WACC of 12.75%.

Valuation...

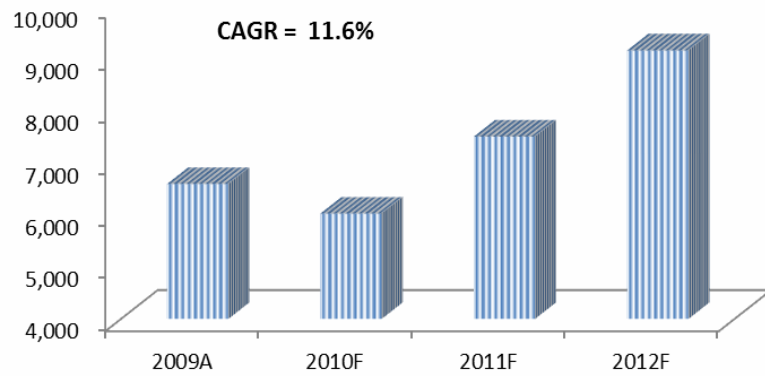
The target price is a potential upside of 34% from WIKA's closing price of Rp560 per share as of September 16, 2011. We set BUY recommendation for the stock.

WIKA Comparison to Peers

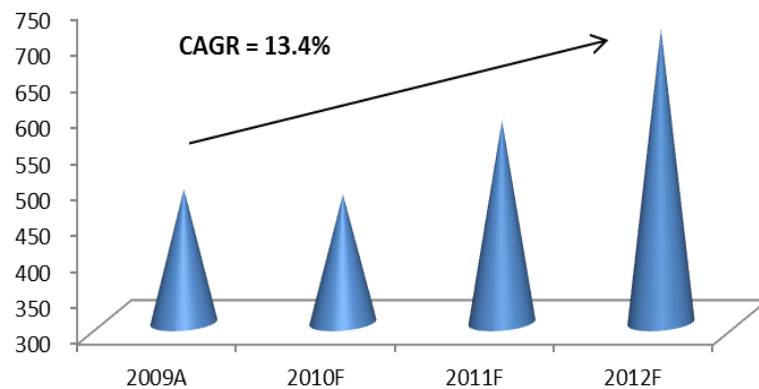
	PER		PBV	
	2011	2012	2011	2012
ADHI	4.06	3.05	1.01	0.82
WIKA	10.63	8.22	1.62	1.43
PTPP	8.32	5.90	1.66	1.54
<i>Average</i>	<i>7.67</i>	<i>5.72</i>	<i>1.43</i>	<i>1.26</i>

Source: BNIS Research estimate

Revenue 2009A - 2012F



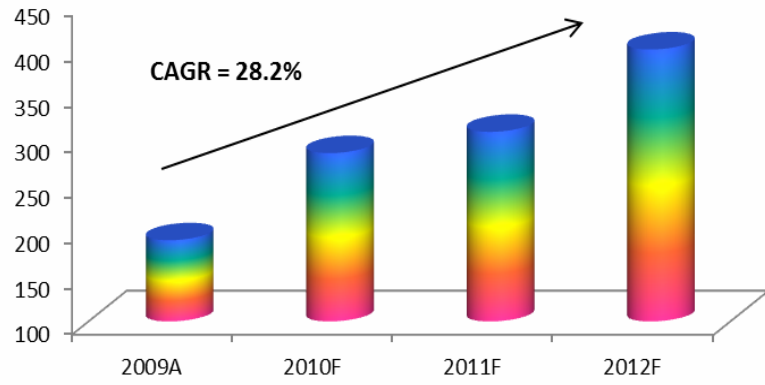
Operating Profit 2009A - 2012F



Source: WIKA financial report and BNIS Research estimates

Valuation...

Net income 2009A - 2012F



Source: WKA financial report and BNIS Research estimates

APPENDIX

WIJAYA KARYA

INCOME STATEMENT

Rp billion	2009A	2010F	2011F	2012F
Revenues	6,591	6,023	7,499	9,153
Gross profit	623	633	765	929
Operating profit	485	478	580	707
Other income (expenses)	(137)	(4)	(32)	(19)
Net income	189	285	308	399

BALANCE SHEET

Rp billion	2009F	2010F	2011F	2012F
Cash	1,211	1,228	1,383	1,668
Current assets	4,963	5,123	5,297	6,103
Fixed assets	738	1,164	1,287	1,360
Total Assets	5,701	6,286	6,584	7,462
Liabilities				
Short term liabilities	3,436	3,642	3,612	4,152
Long-term liabilities	629	728	840	900
Total Liabilities	4,065	4,370	4,451	5,052
Minority	103	115	115	115
Equity				
Capital stock	585	600	600	600
Retained earnings	386	608	824	1,103
Total Equity	1,533	1,802	2,017	2,295
Total Liabilities & Equity	5,701	6,286	6,584	7,462

APPENDIX

CASH FLOW STATEMENT

Rp billion	2009A	2010F	2011F	2012F
Cash flow from operating activities				
Received from customers	6,796	5,320	6,674	8,146
Payment to suppliers and customers	(5,581)	(4,777)	(6,061)	(7,401)
Payment for operating expenses	(161)	(194)	(270)	(302)
Net cash provided by (used for) operating activities	878	210	190	257
Cash flow from investing activities				
Acquisition of fixed assets	(40)	(145)	(100)	(175)
Other investing activities	(40)	(5)		
Net cash provided by (used for) investing activities	(207)	(417)	(100)	(175)
Cash flow from financing activities				
Increase (decrease of bank loan)	(477)	247	250	300
Payment of dividend, tantiem	(50)	(76)	(73)	(73)
Share buyback	(11)			
Net cash provided by (used for) financing activities	(512)	224	65	202
Increase (decrease) of net cash	159	17	155	284
Beginning balance of cash	1,051	1,211	1,228	1,383
Ending balance of cash	1,211	1,228	1,383	1,668

Financial Summary

	2009	2010	2011E	2012E
Revenue (Rp bn)	6,591	6,023	7,499	9,153
Gross profit (Rp bn)	646	673	805	959
Operating profit (Rp bn)	485	478	580	707
Net income (Rp bn)	189	285	308	399
EPS (Rp)	32.3	48.7	52.7	68.2
EPS growth (%)	20.9	50.6	8.2	29.4
Equity (Rp bn)	1,533	1,802	2,017	2,295
Net debt (Rp bn)	-1,054.4	-864.2	1,013.1	-1,282.5
Total asset (Rp bn)	5,701	6,286	6,392	7,295
Dividend/share (Rp)	10.0	14.6	15.8	20.4
Dividend yield (%)	1.8	2.6	2.8	3.7
Book value/share (Rp)	262.0	308.0	344.9	392.3
PER (x)	17.3	11.5	10.6	8.2
PBV (x)	2.1	1.8	1.6	1.4
PEG (x)	0.8	0.2	1.3	0.3
Gross margin (%)	9.8	11.2	10.7	10.5
Operating margin (%)	7.4	7.9	7.7	7.7
Net margin (%)	2.9	4.7	4.1	4.4
ROE (%)	12.3	15.8	15.3	17.4
ROA (%)	3.3	4.5	4.8	5.5
Net debt to equity (x)	net cash	net cash	net cash	net cash

MAIN OFFICE - JAKARTA

PT BNI SECURITIES

Sudirman Plaza, Indofood Tower 16th Floor, Jl. Jend. Sudirman Kav. 76-78
Jakarta 12910, Indonesia
Phone: (62-21) 25543946 (Hunting)
Fax: (62-21) 57935831
e-mail: bnisec@bnisecurities.co.id (General)
Website: <http://www.bnisecurities.co.id>

JAKARTA - Mangga Dua

Pertokoan Mangga Dua Blok E4 No. 7
Jl. Mangga Dua, Jakarta Utara
Phone: (62-21) 6123804/5
Fax: (62-21) 6123806
e-mail: manggadua@bnisecurities.co.id

JAKARTA - Wisma 46

Wisma BNI 46 Lantai 31 Kota BNI
Jl. Jend Sudirman Kav.1 Jakarta 10220
Phone: 021- 2515266
Fax.021-5749837
e-mail: wisma46@bnisecurities.co.id

JAKARTA - Puri Indah

Puri Niaga 3 Blok M8 No. 1B
Puri Kembangan, Jakarta Barat
Phone: (62-21) 58357464
Fax: (62-21) 58357465
e-mail: puriindah@bnisecurities.co.id

BANDUNG

Jl. Perintis Kemerdekaan No. 3
Phone: (62-22) 4213375
Fax: (62-22) 4213376
e-mail: bdg_pk@bnisecurities.co.id

YOGYAKARTA

Gedung BNI Jl. Laksda Adi Sucipto No. 137
Phone: (62-274) 581001
Fax: (62-274) 584023
e-mail: yogya@bnisecurities.co.id

SOLO

Jl. Slamet Riyadi No. 348
Phone: (62-271) 729667
Fax: (62-271) 729668
e-mail: solo@bnisecurities.co.id

SURABAYA

Jl. Pemuda No. 36
Phone: (62-31) 5320912
Fax: (62-31) 5318425
e-mail: surabaya@bnisecurities.co.id

MALANG

Jl. Buring No. 58 Malang
Phone: (62-341) 321214, 321213, 341430
Fax: (62-341) 356876
e-mail: malang@bnisecurities.co.id

DENPASAR

Pertokoan Diponegoro Megah Blok. A5-A6, Lt. 2
Jl. Diponegoro No. 100 Denpasar - Bali
Phone: (62-361) 264 376
e-mail: denpasar@bnisecurities.co.id

MEDAN

Jl. Pemuda No. 12
Phone: (62-61) 4579616
Fax: (62-61) 4579656
e-mail: medan@bnisecurities.co.id

PALEMBANG

Jl. Jend. Sudirman No. 132, Kotak Pos 165 PLG
Phone: (62-711) 3619662
Fax: (62-711) 3619663
e-mail: plb@bnisecurities.co.id

PEKANBARU

BNI Cabang Pasar Pusat
Jl. Jend Sudirman No.365 Pekanbaru 28282
Phone: (62-761) 46757, 839698
Fax: (62-761) 856279
e-mail: pekanbaru@bnisecurities.co.id

SEMARANG

Thamrin Square Blok B5
Jl. MH Thamrin No.5 Semarang
Phone: (62-24) 3566414-5, 64126413-7
Fax: (62-24) 3581713
e-mail: bnissmg@bnisecurities.co.id

ACEH

Jl. KH Akhmad Dahlan No.111 Lt.2
Banda Aceh
Phone: (62-651) 31109
Fax: (62-651) 31107

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