INDOPREMIER

Equity | Indonesia | Research Daily

Premier Insight

12 February 2016

Waskita Karya (WSKT IJ: Buy)

Beating expectations

- **FY15 earnings doubled, well ahead of consensus estimates.**
- **Margin and profitability improvement across all business divisions.**
- **On track to become toll road player with strong pipeline.**
- **We upgrade our earnings and TP and reiterate BUY rating.**

Strong core profit. Waskita Karya (WSKT) reported net profit of Rp1.0tn in FY15 (+109% yoy), which was 40% above our and consensus estimates, as net margin expanded 252bps to 7.4%, from 4.9%. The strong bottom line earnings is mostly supported by gains on fixed assets sales and revaluation (Rp92bn), and a surge in other income to Rp185bn (from Rp37bn), driven by incomes from other project and joint operation, which grew by 183% yoy. However, even excluding these one off items, WSKT's core profit of Rp769bn still grew by 65.4% yoy in FY15.

Rising profit margins. WSKT's revenue grew by 37% yoy to Rp14.1tn in FY15, while its gross profit margin expanded to 13.6% (+279bps yoy). The company's higher-margin precast-concrete division recorded an outstanding growth of 158%, doubling its revenue contribution to 14.6% in 2015 (vs. 7.8% in FY14). The IPO plan for WSKT's precast business subsidiary later this year should bring additional capacity, further increasing its contribution. Meanwhile, construction division also improved its gross margin to 12.9% in FY15 (vs. 10.15% in FY14) while its toll road operation started generating income of Rp 31.7bn.

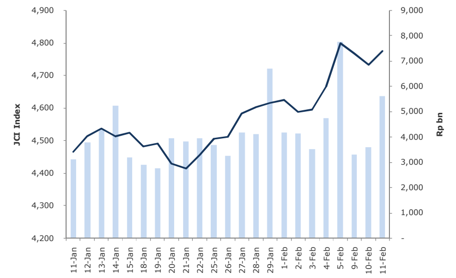
Solid pipeline of toll road projects. WSKT managed to achieve new contracts of Rp32.1tn in FY15 and a revenue carry-over of Rp 52.1tn, which are growth of 35% and 38% CAGR in FY11-FY15, respectively. Going forward, the company is aiming for Rp100tn of total new contracts; of which Rp70tn is expected from toll road projects. WSKT plans to take over several stalled toll road projects, including the Bogor–Sukabumi toll road. The company is currently working on seven toll road projects with plans to open four of them in 2016 (Depok-Antasari, Serpong–Cinere, Pejagan–Pemalang, Kanci–Pejagan). WSKT also plans to divest some of its minority stakes in these toll roads to cover for its toll road investments once many of them start operation in 2017-2018.

Upgrade earnings, Maintain BUY. Indonesia is predicted to require as much as 6,115km of toll roads until 2025 with projected investment value of Rp723tn. This should translate into a supportive demand environment for construction projects in the country. We raise our FY16F revenue and earnings forecasts by 18% and 75%, respectively, on the back of WSKT's stronger than expected FY15 earnings and its strong pipeline of projects, and raise our TP to Rp2,500 (from Rp1,940). We reiterate our BUY rating.

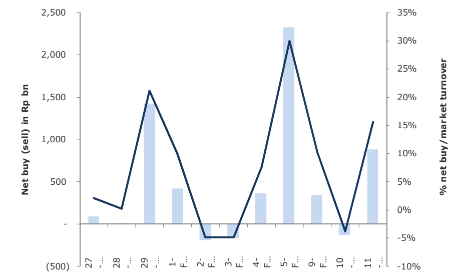
Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	10,287	14,153	20,034	26,260	32,801
EBITDA (RpBn)	716	1,543	2,606	3,513	4,571
EBITDA Growth (%)	15	115.7	68.9	34.8	30.1
Net Profit (RpBn)	502	1,048	1,749	2,404	3,534
EPS (Rp)	52	92	133	182	268
EPS Growth (%)	36.3	76.2	44.6	37.5	47
Net Gearing (%)	8.5	-15.5	7.4	-2.6	-10.9
PER (x)	35.6	20.2	14	10.2	6.9
PBV (x)	6.3	2.2	2.2	1.7	1.4
Dividend Yield (%)	0.6	0.5	0.9	1.4	2
EV/EBITDA (x)	24.6	14.7	9.1	7.1	5.8

Source : WSKT, IndoPremier *Share Price Closing as of : 11-February-2016*

JCI Index



Foreign net buy (sell)



Index	Closing	1 day	1 year	YTD
JCI	4,776	0.9%	-10.6%	4.0%
LQ45	839	1.1%	-9.7%	5.9%
DJI	15,660	-1.6%	-12.9%	-10.1%
SET	1,281	-1.8%	-20.6%	-0.6%
HSI	18,546	-3.8%	-24.1%	-15.4%
NKY	15,713	-2.3%	-11.0%	-20.1%
FTSE	5,537	-2.4%	-18.9%	-11.3%
FSSTI	2,538	-1.7%	-25.8%	-11.9%
EIDO	23	1.2%	-15.9%	8.4%

Commodity price

Commodities *(in USD)*	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	26.2	-4.5%	-46.3%
CPO/tonne	615.8	1.1%	10.0%
Soy/bushel	8.7	1.4%	-10.5%
Rubber/kg	1.3	-0.6%	-27.0%
Nickel/tonne	7,562	-3.6%	-48.5%
Tins/tonne	15,651	-1.4%	-11.2%
Copper/tonne	4,454	0.1%	-20.6%
Gold/try.oz (Spot)	1,247	4.1%	2.0%
Coal/tonne*	50.7	-1.6%	-27.2%
Corn/bushel	3.5	0.0%	-7.5%
Wheat/bushel**	163.8	3.8%	-29.7%

** : 1 week change*
***: 1 month change*

Source : Bloomberg

Refer to Important disclosures on the last of this report

Indofood (INDF IJ: Buy)

Holding on to consumer business

- **Indofood CBP raised its major noodle prices by 5%.**
- **Declining fresh fruit bunch (FFB) production in agribusiness.**
- **Downgrade earnings on the back of depressed agribusiness.**
- **Reiterate Buy rating with lower TP of Rp7,900.**

Resilient consumer branded products. We expect consumer branded products from 80.5% owned subsidiary, Indofood CBP (ICBP IJ; Rp15,850; Buy), will continue to drive INDF's earnings. We noted an increase of c.5% ASP for its major noodle brands at the end of 2015, in-line with our forecast. In our view, ICBP's ability to increase prices and pursue product innovations in all business segments (i.e. *Indomie Goreng Rasa Soto, Indomie Goreng Rasa Ayam Bawang, Chitato Rasa Indomie Goreng, and Qtela Choco Delight*) will help to keep gross margin intact at 28.8% and maintain contribution of 54% to INDF's top-line in 2016.

Negative impact of El Nino. Still, we believe the company's FFB production will continue to be stressed, due, apart from the low production cycle trend, to the impact of extreme dry weather conditions in the later part of 2015. In 9M15, the group's FFB nucleus production achieved a marginal increase of +0.8% yoy; we expect a production downtrend until 1H16. We estimate that every 1% change in FFB production will affect FY16 agribusiness earnings by c.6%. Having said that, we maintain our CPO price assumption at US$650/MT and project agribusiness operating profit to grow at 3% yoy in FY16F, after a decline of c.17% in FY15F.

Earnings revision. We lower our earnings forecast by 9% and 7% for FY16/17F respectively, on the back of lower operating margins to 10.6/11.0% (from 11.7/11.8%). We keep our ICBP sales growth assumption at 10% for FY16F, while tweaking Bogasari FY16/17F ASP price assumption to Rp6,535/kg and Rp6,603/kg (from c.Rp7,000/kg) to reflect weak global wheat price. We also trim our FY16/17F FFB production yield assumption to 15.5/16.5% (from 17.6%) to factor in the extreme dry weather.

Valuation and Risks. We cut our DCF-derived TP to Rp7,900 (from Rp9,700), but keep our Buy rating unchanged. Currently, INDF is trading at 17.3x P/E FY16F, which is still below the 4-year mean. Our TP implies a targeted FY16F P/E of 20.3x. Downside risks include: slumped CPO price (16% of revenue is from agribusiness), high USD denominated debt, and declining noodles market share post ASP hike due to intensifying competition.

Year To 31 Dec	2013A	2014A	2015F	2016F	2017F
Revenue (RpBn)	55,624	63,594	65,566	71,576	78,180
EBITDA (RpBn)	5,557	6,874	6,822	7,614	8,577
EBITDA Growth (%)	-17.7	23.7	-0.8	11.6	12.7
Net Profit (RpBn)	2,504	3,885	3,261	3,413	4,044
EPS (Rp)	285	443	371	389	461
EPS Growth (%)	-23.2	55.2	-16.1	4.7	18.5
Net Gearing (%)	27.2	31	14.3	14.5	12.1
PER (x)	23.6	15.2	18.1	17.3	14.6
PBV (x)	1.6	1.4	1.4	1.3	1.2
Dividend Yield (%)	2.8	2.1	3.3	2.8	2.9
EV/EBITDA (x)	8.8	6.7	7.7	6.9	6.2

Source : INDF, IndoPremier *Share Price Closing as of : 11-February-2016*

News & Analysis

Corporates

JSMR: Jasa Marga (JSMR IJ; Rp6,000; Buy) reported revenue growth of 5.6% to Rp7.63tn with toll revenue increased by 7.1% yoy to Rp7.1tn in FY15. Traffic growth was 4.5% yoy to 1.4bn vehicles driving EBITDA to grow by 6.9% yoy to Rp4.3tn. Nevertheless, due to expansion activities interest cost increased 15.6% yoy to Rp1.4tn which affected net income to grow only by 1.4% yoy to Rp1.5tn in FY15. (Investor Daily)

Comment: The result was better than our expectation on net profit, but inline on revenue and EBITDA with our and consensus estimates.

SMCB: Holcim Indonesia (SMCB IJ; Rp915; Hold) has completed the merger with Semen Lafarge Indonesia post the merger of the parent companies. Holcim Indonesia bought 99.99% ownership of Lafarge Indonesia with a total value of Rp2.13tn. This acquisition will be finance using shareholders loans of EUR150m with scheduled repayment of EUR50m in year 4, 5 and 6, after withdrawal. Interest cost will be around 4.09-4.29%. (Investor Daily)

Comment: the acquisition price seems to be reasonable at around US$160m for a capacity of 2.0m ton, or about US$100 per ton capacity. A new factory could cost about US$150 per ton capacity. Semen Lafarge Indonesia has a port and pre-cast production facility. It will help Holcim to widen its footage in North Sumatera. It is beneficiary from a logistic stand point.

SSIA: Surya Semesta Internusa (SSIA IJ; Rp610; Not rated) is planning to establish joint venture company with initial investment of Rp1.3tn. The established company will focus on land acquisition in Kerawang. SSIA is currently for partner but will hold majority of ownership. SSIA hopes the JV company will be able to manage SSIA's landbank by 110ha, partner's 130ha and acquire the remaining 160ha. This year SSIA will also add its landbank in Subang by 300ha. (Bisnis Indonesia)

Economic Update

Direct investment: The government announced a planned revision of its Negative Investment List (DNI), which specify sectors restricted from foreign investments, by opening up 35 previously closed business sectors and allow greater foreign ownership in many other industries. Foreign investors would be allowed full ownership in sectors such as cold storage, crumb rubber, tourism, film industry, sports centres, restaurants, e-commerce marketplaces valued above Rp100bn, pharmaceutical raw materials, toll roads, telecommunication testing & labs etc. Meanwhile, sectors with higher foreign ownership cap include distribution & warehouse (67% vs. 33%). (Jakarta Post)

Comment: We view this as good news for the economy, which increasingly relies on investments for growth, although this plan has been anticipated for some time. However, the higher foreign ownership cap in distribution and warehouse business will increase competition for Mega Manunggal Property (MMLP IJ; Rp760; Not rated) although the industry is still at a nascent stage of development, hence a lot of growth opportunities ahead. We also view positively on Kalbe Farma (KLBF IJ; Rp1,320; Buy) due to opening up pharmaceutical raw material industry. Meanwhile, the telecommunication tower business seems remain close to foreign investments, which would be good news for Tower Bersama (TBIG IJ; Rp6,125; Buy).

Fiscal incentive: The government plans to give more incentive to labour-intensive industries to stem rising job cuts in industries such as garment and shoes, which will be given tax allowance facility including a discounted corporate income tax (of 30% over a 6 year period or 5% p.a), reduction of personal income tax by as much as 50% for low-income earners (<Rp5m a month) in labour-intensive industries and increase the threshold for non tax deductibility of wages for employees in all industries (currently at Rp36m), to be based on prevailing minimum wage levels each year. (Kontan)

INDOPREMIER

Head Office

PT INDO PREMIER SECURITIES

Wisma GKBI 7/F Suite 718

Jl. Jend. Sudirman No.28

Jakarta 10210 - Indonesia

p +62.21.5793.1168

f +62.21.5793.1167

Institutional Equity & Private Client

Benny B. Soebagjo	Head of Equities	benny.soebagjo@ipc.co.id
Angkula Ruriawan	Equity Sales	angkula.ruriawan@ipc.co.id
Alexander Salim	Equity Sales	alexander.salim@ipc.co.id
Edward Azizy	Equity Sales	edazizy@ipc.co.id
Henry Sutanto	Equity Sales	henry.sutanto@ipc.co.id
Isna Alfiathi	Equity Sales	isna.alfiathi@ipc.co.id
Angky Amarylis	Sales Trader	angky.amarylis@ipc.co.id
Thomas Samuil	Sales Trader	thomas.samuil@ipc.co.id

INVESTMENT RATINGS

BUY : Expected total return of 10% or more within a 12-month period

HOLD : Expected total return between -10% and 10% within a 12-month period

SELL : Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION.

The views expressed in this research report accurately reflect the analyst;s personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.