

Adhi Karya (ADHI IJ)

27 February 2015

Results Note

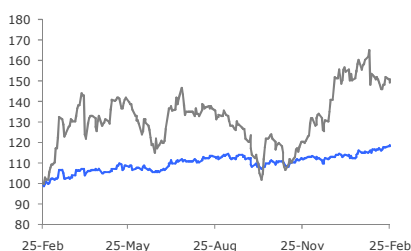
BUY (From Hold)

StockData

Target price (Rp)	Rp4,400
Prior TP (Rp)	Rp2,750
Shareprice (Rp)	Rp3,440
Upside/downside (%)	+27.9
Sharesoutstanding (m)	1,801
Marketcap. (US\$ m)	482
Free float (%)	49.0
Avg. 6m dailyT/O (US\$ m)	5.96

Price Performance

	3M	6M	12M
Absolute (%)	24.8	13.0	42.8
Relative to JCI (%)	19.6	7.6	25.1
52whigh/low (Rp)	3,470 - 2,350		



Major Shareholders

Government of The Republic of Indonesia	51.0%
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Estimate Change; Vs. Consensus

	2014F	2015F
Latest EPS (Rp)	179.9	209.9
Vs. Prior EPS (%)	27.6	16.9
Vs. Consensus (%)	1.8	5.7

Source: Bloomberg

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Improved performance, upgrade to BUY

- **FY14 earnings above estimates....**
- **.... Leading to 27.6-16.9% earnings upgrade in FY15-16**
- **Expect more projects post rights issue**
- **Upgrade to BUY with TP of Rp4,400.**

FY14 Result: Above-estimates earnings. Adhi Karya reported 4Q14 earnings of Rp233bn, slightly down yoy but up 460% qoq, which led to FY14 net profit of Rp324bn, down 20% yoy. Despite reported slow performance, this FY14 result was 21% above our forecast and 10% above consensus estimates. On the top line, ADHI booked FY14 revenue of Rp8.6tn, down 11.7% yoy, on the back of slower-than-expected new contracts in FY14 of Rp9.2tn (FY13: Rp10.8tn). Slow top line combined with higher interest expense resulted in ADHI booking low FY14 net profit margin of 3.7% (FY13: 4.1%).

2015: Hopeful of improved performance. ADHI targets robust FY15 new contracts of Rp15.2tn, translating to 65% yoy growth, which is the second highest target (after WIKA's 70% yoy). On top of a major contribution from construction services to this year's new contracts (82% of the total), the company targets to book the remaining contracts from property (Rp1.7tn) and EPC/Precast (Rp1tn). We are hopeful that increasing government spending on infrastructure would help ADHI book robust new contracts growth this year.

27.6-16.9% upgrade to FY15-16F earnings. On the back of the higher-than-expected FY14 result and strong FY15 new contracts (+40% yoy), we expect ADHI to book strong FY15-16 revenue growth of 31% and 16% to Rp11.3tn and Rp13.2tn, respectively. Improved margin in construction/EPC business with steady revenue contribution from high-margin businesses (property/real estate) would help the company book improved margins across the board, we believe. It is also worth noting that we assume the company will implement prudent risk management and book minimum allowance for receivables allowance from 2015 onward. Hence, we raise our FY15-16F earnings estimates by 27.6% and 16.9% to Rp378bn and Rp437bn, respectively.

Upgrade to BUY with higher TP. Post the rights issue, ADHI will have a larger capacity to secure more projects, which would filter through to greater earnings in the coming years. Therefore, given its potential growth from multiyear projects, we believe we will see further rerating on construction sector. We upgrade our TP on ADHI to Rp4,400, implying FY16F P/E of 18.1x, a 30% discount to the sector. Risks to our recommendation; continued slow new contracts booking and higher interest rates.

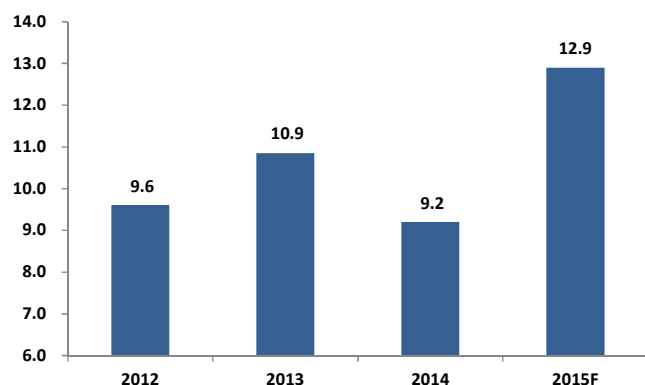
Year To 31 Dec	2012A	2013A	2014F	2015F	2016F
Revenue(RpBn)	7,628	9,800	8,654	11,333	13,242
EBITDA(RpBn)	706	874	613	1,073	1,178
EBITDA Growth (%)	46.0	23.8	(29.8)	74.9	9.8
Net Profit(RpBn)	212	406	324	378	437
EPS (Rp)	117	225	180	210	243
EPS Growth (%)	16.2	91.9	(20.2)	16.7	15.6
Net Gearing (%)	70.3	42.2	127.2	140.0	155.6
PER (x)	29.3	15.3	19.1	16.4	14.2
PBV (x)	5.2	4.0	3.5	3.0	2.6
Dividend Yield (%)	0.7	2.0	1.6	1.8	2.1
EV/EBITDA (x)	7.7	6.0	11.1	6.9	7.0

Source : ADHI,IndoPremier

Share Price Closing as of : 25-February-2015

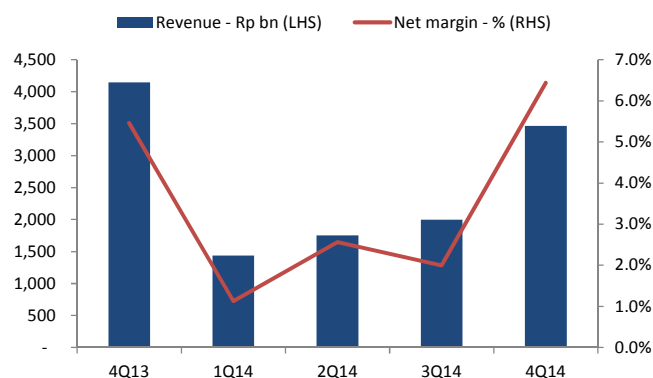
ADHI Results Note

Fig. 1: New contracts, 2012-15F



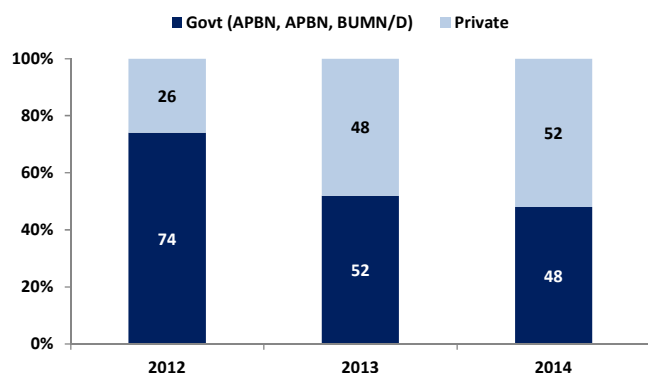
Source : ADHI, Indopremier

Fig. 2: Quarterly revenue and margin, 4Q13-4Q14



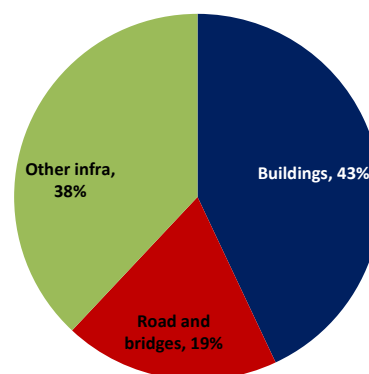
Source : ADHI

Fig. 3: New contracts based on project owner



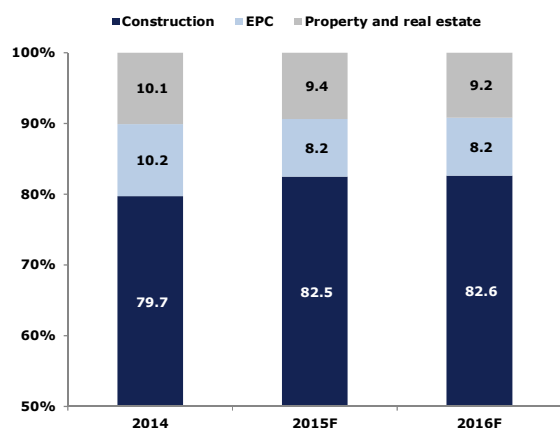
Source : ADHI

Fig. 4: Based on project type – FY14 new contracts



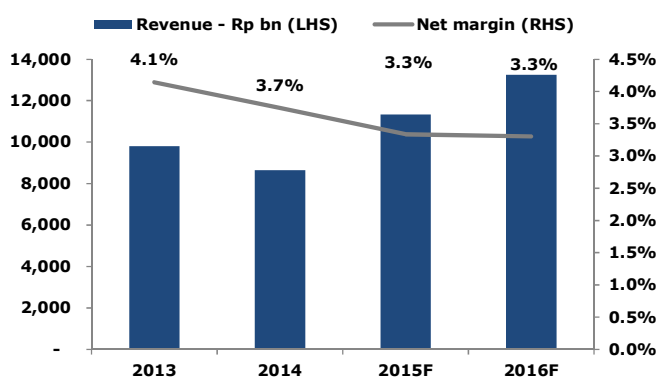
Source : ADHI

Fig. 5: Revenue contribution, 2014-16F



Source : ADHI, Indopremier

Fig. 6: Revenue and net margin, 2013-16F



Source : ADHI, Indopremier

ADHI Results Note

FY14 Result										
Rpbn	4Q13	3Q14	4Q14	yoy	qoq	FY13	FY14	yoy	FY14/ FY14F*	FY14/ Cons
Revenue	4,144	1,998	3,463	-16.4%	73.4%	9,800	8,654	-11.7%	85%	86%
Gross profit	649	192	536	-17.3%	179.9%	1,193	998	-16.3%		
GP after JO	645	200	543	-15.8%	170.8%	1,248	1,017	-18.5%		
Opex	(140)	(79)	(138)	-1.2%	74.5%	(329)	(361)	9.8%		
Operating profit	505	121	405	-19.8%	233.5%	919	655	-28.7%	78%	85%
Net interest inc (exp)	(26)	(31)	(43)	66.7%	40.1%	(75)	(103)	36.7%		
Forex gain (loss)	67	(13)	36	-46.6%	-370.5%	120	100	-16.7%		
Allowance for impairment	(55)	(5)	(38)	-31.3%	na	(65)	(43)	-34.8%		
Other	(111)	37	(33)	na	na	(184)	(15)	-91.6%		
Pretax profit	380	110	327	-14.0%	198.5%	714	595	-16.8%		
Net profit	226	40	223	-1.4%	459.8%	406	324	-20.2%	121%	110%

Margins	4Q13	3Q14	4Q14	FY13	FY14	2015F	2016F
Gross margin	15.7%	9.6%	15.5%	12.2%	11.5%	12.8%	12.5%
GPM after JO	15.6%	10.0%	15.7%	12.7%	11.7%	13.0%	12.6%
EBIT margin	12.2%	6.1%	11.7%	9.4%	7.6%	9.2%	8.9%
Pretax margin	9.2%	5.5%	9.4%	7.3%	6.9%	6.8%	6.7%
Net margin	5.5%	2.0%	6.4%	4.1%	3.7%	3.3%	3.3%

Source: ADHI, Indopremier *Before earnings upgrade

Changes in earnings forecast									
Dec 31 (Rpbn)	(old)			(new)			($\%$) change		
	2014F	2015F	2016F	2014A	2015F	2016F	2014	2015	2016
Revenue	10,179	11,721	13,689	8,654	11,333	13,242	-15.0%	-3.3%	-3.3%
Gross profit	1,159	1,303	1,511	998	1,453	1,655	-13.9%	11.5%	9.5%
EBIT	845	950	1,094	655	1,043	1,182	-22.4%	9.8%	8.1%
Net income	268	296	374	324	378	437	20.8%	27.6%	16.9%
Margins									
Gross margin	11.4%	11.1%	11.0%	11.5%	12.8%	12.5%			
EBIT margin	8.3%	8.1%	8.0%	7.6%	9.2%	8.9%			
Net margin	2.6%	2.5%	2.7%	3.7%	3.3%	3.3%			

Source: ADHI, Indopremier

ADHI Results Note

Year To 31 Dec (RpBn)	2012A	2013A	2014F	2015F	2016F
Income Statement					
Net Revenue	7,628	9,800	8,654	11,333	13,242
Cost of Sales	(6,672)	(8,606)	(7,655)	(9,880)	(11,588)
Gross Profit	956	1,193	998	1,453	1,655
SG&A Expenses	(251)	(329)	(361)	(426)	(491)
Operating Profit	705	864	637	1,027	1,164
Net Interest	(81)	(75)	(103)	(165)	(205)
Forex Gain (Loss)	18	110	100	(21)	0
Others-Net	(219)	(185)	(39)	(72)	(77)
Pre-Tax Income	423	714	595	770	881
Income Tax	(210)	(306)	(268)	(389)	(441)
Minorities	(2)	(2)	(3)	(3)	(3)
Net Income	212	406	324	378	437
Balance Sheet					
Cash & Equivalent	949	1,940	811	1,283	1,343
Receivable	4,943	5,158	5,831	7,880	9,063
Inventory	117	162	132	189	222
Other Current Assets	1,274	1,840	2,710	2,585	2,912
Total Current Assets	7,283	9,099	9,484	11,938	13,540
Fixed Assets - Net	486	490	857	1,278	1,621
Goodwill	0	0	0	0	0
Non Current Assets	48	79	72	21	26
Total Assets	7,872	9,721	10,459	13,284	15,236
ST Loans	980	1,003	1,407	2,556	3,053
Payable	4,277	4,767	0	6,157	6,745
Other Payables	596	772	739	953	1,104
Current Portion of LT Loans	0	0	0	0	375
Total Current Liab.	5,853	6,542	7,070	9,666	11,276
Long Term Loans	799	1,590	1,632	1,575	1,588
Other LT Liab.	39	41	5	10	11
Total Liabilities	6,691	8,172	8,707	11,251	12,875
Equity	965	1,136	1,423	1,137	1,137
Retained Earnings	209	404	322	887	1,211
Minority Interest	7	9	7	10	13
Total SHE + Minority Int.	1,181	1,548	1,752	2,034	2,361
Total Liabilities & Equity	7,872	9,721	10,459	13,284	15,236

Source : ADHI, IndoPremier

ADHI Results Note

Year to 31 Dec	2012A	2013A	2014F	2015F	2016F
Cash Flow					
Net Profit	213	408	327	381	441
Depr.& Amortization	2	10	(15)	42	18
Changes in Working Capital	99	410	(1,026)	(634)	(686)
Others	184	(305)	(492)	33	138
Cash Flow From Operating	498	524	(1,207)	(177)	(89)
Capital Expenditure	35	(45)	(345)	(412)	(366)
Others	8	35	41	23	23
Cash Flow From Investing	42	(10)	(305)	(389)	(343)
Loans	284	813	447	1,091	885
Equity	31	0	0	0	0
Dividends	(55)	(42)	(122)	(97)	(113)
Others	43	63	148	(469)	(226)
Cash Flow From Financing	303	833	473	525	546
Changes in Cash	844	1,347	(1,038)	(41)	114
Financial Ratios					
Gross Margin (%)	12.5	12.2	11.5	12.8	12.5
Operating Margin (%)	9.2	8.8	7.4	9.1	8.8
Pre-Tax Margin (%)	5.5	7.3	6.9	6.8	6.7
Net Margin (%)	2.8	4.1	3.7	3.3	3.3
ROA (%)	3.0	4.6	3.2	3.2	3.1
ROE (%)	19.5	29.7	19.6	20.0	19.9
ROIC (%)	8.0	12.4	8.0	7.4	6.7
Acct. Receivables TO (days)	52.5	53.0	72.9	75.5	81.7
Acct. Receivables - Other TO (days)	164.1	135.1	158.8	145.3	151.8
Inventory TO (days)	72.1	61.9	52.2	61.5	56.3
Payable TO (days)	202.7	191.8	231.0	204.7	203.2
Acct. Payables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Debt to Equity (%)	150.7	167.4	173.5	203.1	212.5
Interest Coverage Ratio (x)	0.1	0.1	0.2	0.2	0.2
Net Gearing (%)	70.3	42.2	127.2	140.0	155.6

Source : ADHI, IndoPremier

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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

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