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Indonesia
Infrastructure

Stock: **ACST**
Rating: **BUY**
Target Price: **Rp6800/sh**
Upside: **42%**
Market cap: **US$187mn**
Avg. daily turnover: **US$250k**

Stock: **NRCA**
Rating: N-R
Target Price: NA
Market cap: **US$280mn**
Avg. daily turnover: **US$650k**

Swinging in concrete jungle

Better risk – reward trade-off in private builders.

Construction has been the growth driver for Indo economy and expected to continue to do so in the coming years, driven by infra spending increase & more vertical property development. The contractors across the board should see some benefit from construction boom, while we see better risk-reward trade-off in the private names compared to the SOE. We like Acset, and initiate with BUY and Rp6800 TP (+42% upside).

Concrete jungle where money are made

- Construction industry has been the Indo economy growth engine, in 2009-13 booked 17% CAGR vs Indo GDP 13% CAGR (current price).
- The construction industry's growth will likely to accelerate in the coming years, boosted by massive capital spending increase, & more vertical property projects.
- To partake in this ride, we see attractive risk-reward trade-off in private contractor names: Acset Indonusa (ACST IJ).

Private offers more attractive risk-reward in our view

- The private and SOE contractors have different traits in terms of: 1) size, 2) financial position, 3) business diversification, 4) type of project, 5) type of client, 6) return profile, and 7) valuation & trading liquidity.
- The SOE contractors are bigger, more exposure to infra projects, more diversified revenue, higher gearing, (but) lower return, and higher valuation.
- On the flip side, private contractors come from lower-base, thus could generate higher growth rate, lower gearing, higher return and lower valuation.

Acset (ACST IJ) – BUY – Renewed growth foundation

- We initiate coverage with a BUY and TP of Rp6800 (+42% upside). We like Acset competitiveness, new parent support & relatively cheaper valuation.
- Acset has superior skillset to work on foundations that require more technical knowhow; moreover Acset will be further supported from the new parent.
- Contractors' key constraints are human resources, funding & job-order; the team-up with Astra group greatly improve Acset's position in facing these constraints.
- We derived Rp6800 TP from 20x 16CL PE, some 10% below the SOE contractors' valuation.

NRC (NRCA IJ) – Paving the growth road

- NRC is one of few leading private contractors with exposure to infra project; NRC partake on the construction of Trans-Java longest toll-road: 116km of Cipali.
- Post Cipali project, NRC hasn't secured any infra project at the moment and the visibility to gain some are moderate.
- NRC trades at 16x PE 2015F, leaving the upside risk from any infra project.

Construction sector slowed in 2013-14, but likely to accelerate in 2015 onwards?

Source: CLSA, BPS

Construction has been Indo's economy growth engine in the past years and expected to continue to do so on the back of …

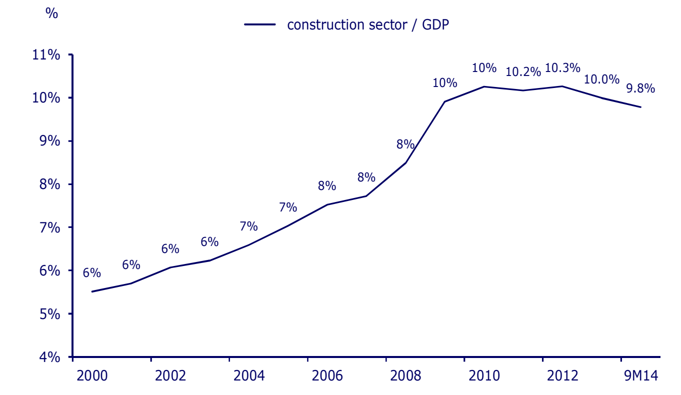
Concrete jungle where money are made

Construction industry has been the growth engine of Indonesia's economy, in 2009-13 booked 17% CAGR vs Indo GDP 13% CAGR (current price). The growth rate decelerated in 2013-14, slower than the economy, as some projects were halted due to budgets cut, macro volatility & election uncertainty. Ahead, the **construction industry's growth will likely to accelerate** supported by **(1) massive infra/capital spending increase**, and **(2) more vertical property developments**.

To partake in this ride, **we see attractive risk-reward trade-off in private contractor names**: **Acset Indonusa (ACST IJ)** & **Nusa Raya Cipta (NRCA IJ)**.

Figure 1

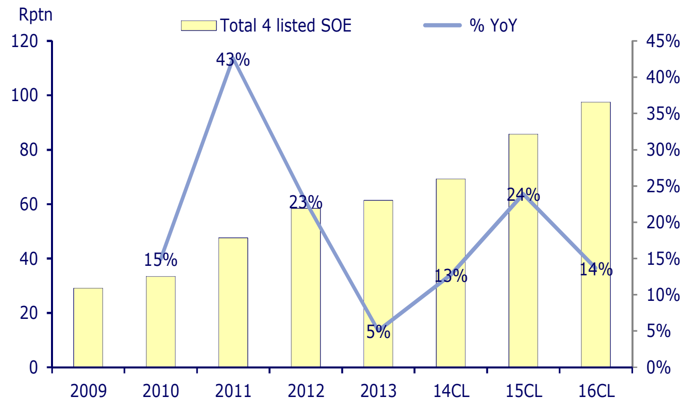
Construction GDP grown faster than the overall econ



Source: CLSA, BPS

Figure 2

Listed SOE contractors' new order-book



Source: CLSA, Companies

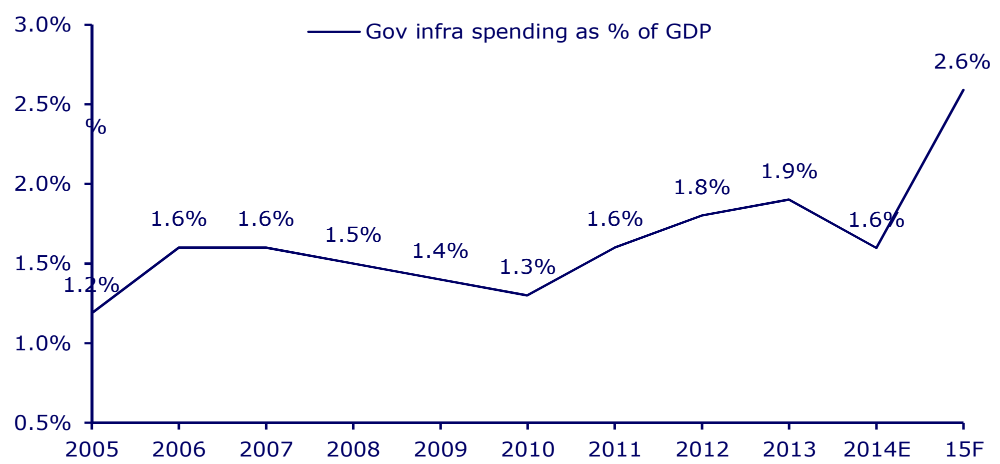
… (1) massive capital spending increase, and …

(1) Massive infra/capital spending increase.

In attempt to tackle high logistic cost problem, the government of Indonesia plans massive infrastructure improvement which also means massive increase in infrastructure spending budget. In Friday the 13th February, the parliament approved the government 2015's budget proposal, which plans 80% YoY capital spending increase (to Rp290tn from ~Rp161tn). This is a step to the right direction, hype is on the air, and execution remains to be seen.

Figure 3

Government's capital spending



Source: Gov't

National Planning Agency (Bappenas) has set targets to improve infrastructures across the board (road, railway, water supply, power plants, port, etc.) The plan implies extended periods of capital spending: **Bappenas mentioned that Indonesia needs to spend US$550-600bn on infrastructure** in the next 5 years, 40% of which funded by the state budget or some Rp440tn (US$44bn) capital spending p.a., **almost triple the capital spending in 2014E**.

Given the growth trajectory, it seems that government capital spending will remain elevated for extended period of years and private contractors could see some of the infrastructure pie. Please see **Bulking up** for discussion.

SOE contractors likely to acquire most of the infrastructure works; private contractors' projects are mostly property development. However, with massive increase of infra spending, the private contractors now stand better chance in getting some infra projects, especially when the private counters **have been making efforts to get some taste of the infrastructure pie**: NRCA entered to infra project in 2012, and ACST team-up with the Indo conglomerate giant Astra (ASII IJ).

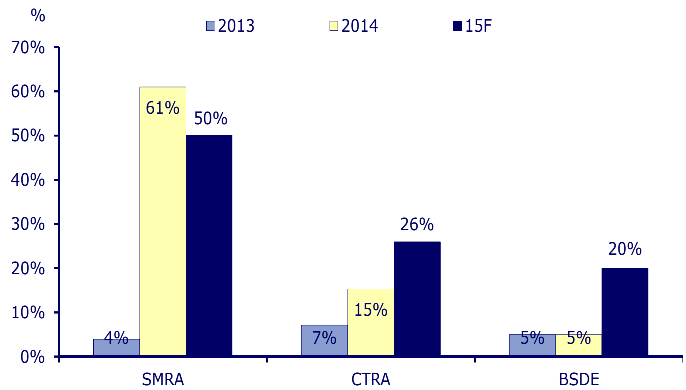
Private contractors could obtain few infra projects, despite only few, the incremental effect of obtaining any infrastructure project will incrementally more significant as the private contractors come from lower base. Next concern will be whether the infra order-book sustainable for the private names;

... (2) more vertical property developments

(2) More vertical property developments.
Property boom in the past years sent land prices tripled. This situation 1) lowers affordability, and 2) makes high-rise development more economic. High-rise development maximizes land-bank monetization and allows the developers to offer smaller units / smaller ticket size to allow affordability. We note township projects in Greater Jakarta that typically develop landed property started to switch to develop high-rise.

Figure 4

Hi-rise as % of total pre-sales: more hi-rise ahead



Source: CLSA, companies

Figure 5

List of township in Outskirt of Jakarta that do high-rise

Developers	Projects	Location
BSDE	Simatupang mix-use	South Jakarta
BSDE	Casa de Parco	West of Jakarta
LPKR & LPCK	Orange County superblock	East of Jakarta
LPKR	Millenium Village superblock	West of Jakarta
SMRA	Serpong mid-town apartment	West of Jakarta
SMRA	Bekasi SpringLake	East of Jakarta
ASRI	Ayodhya	West of Jakarta
JRPT	The Accent	South - West of Jakarta
KIJA	mix-use JV with PLIN	West of Jakarta

Source: CLSA

High-rise developments inside Jakarta are common sight, but lately due property boom in the past years the township projects in the tip of Jakarta or in Greater Jakarta start to go vertical as well. Vertical development creates more jobs for the major contractors, while low-rise development easier to construct thus doesn't need to hire the major contractors. We also note that some developers are targeting increasing contribution from high-rise projects to 2015's pre-sales, i.e. SMRA, BSDE & CTRA.

Demand outlook looks rosy, on the flip side the supply are very fragmented (160k players) that gradually consolidating. This demand-supply position leads could lead to intense competition when orders are short, just like in the past few years. Government budget disbursement & stable business environment are the key determinants of infra & property projects roll-out.

Private vs SOE contractors: better risk-reward in private

The risk – reward trade-off looks better on the private names

The private contractors and SOE have different traits in: 1) size, 2) financial position leverage, 3) business focus/diversification, 4) type of project, 5) client profile, 6) return profile, and 7) valuation & trading liquidity. We see better risk-reward trade-off in the private contractor names.

SOE contractors are relatively bigger in size of revenue, order-book, profit, market cap, etc.

(1) Size. Private contractors size (order-book, market cap, revenue etc.) are smaller compare to the SOE, figure 7-9. This trait gives lower base for the private contractors to grow faster, but limit them to take bigger type of project that require high working capital. As a rule of thumb, the contractors generally need equity value of 10-20% of its order-book value.

Figure 6

New order-book, 2014

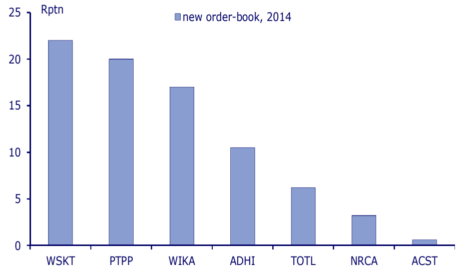


Figure 7

Net profit, 2013

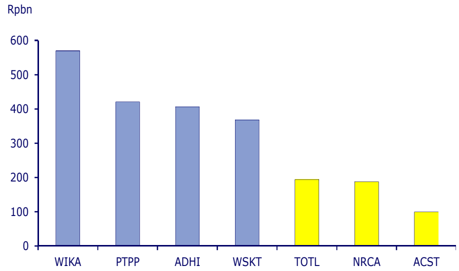
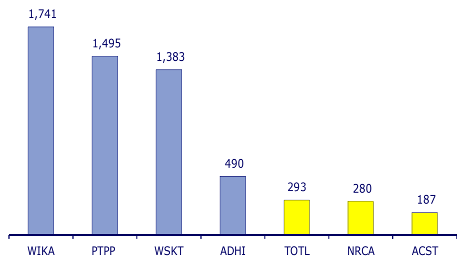


Figure 8

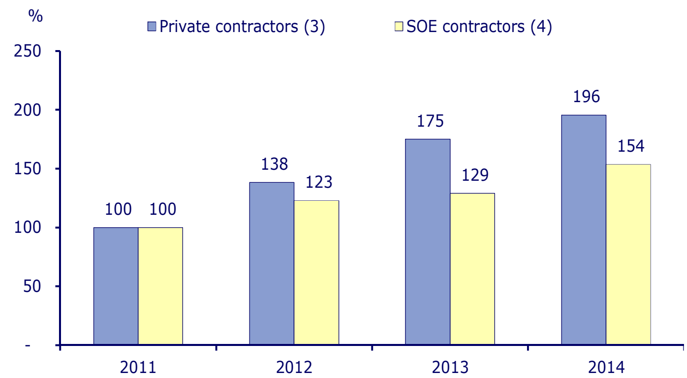
Market cap, US$mn



Source: CLSA, companies

Figure 9

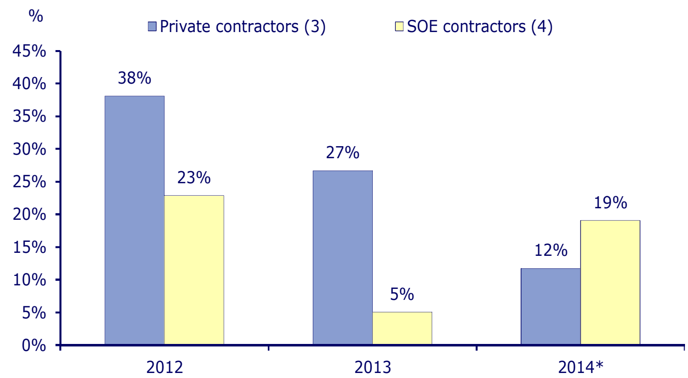
New order-book, private vs SOE; indexed 2011



Source: CLSA, companies

Figure 10

New order-book growth, private vs SOE



Source: CLSA, companies; * excluding Acset that booked negative growth in 2014, the private booked 29% YoY

SOE contractors have higher leverage due to exposure to more capital intensive businesses & government project periodic payment

(2) Financial position. SOE contractors have higher gearing due to periodic payment term from government projects & diversification into more capital intensive businesses. Construction business is a capital light business; in the best case the contractors can only use the down-payment from the clients as the working capital without putting any capital. The contractors clients in the other hand are generally capital heavy business: property (unless when the developer do aggressive pre-sales), infrastructure, etc.

Note that there are no tax saving from using debt financing as the contractors' taxes calculated as 3% of revenue.

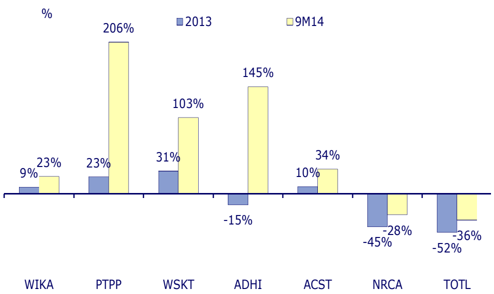
SOE contractors have relatively more diversified revenue stream

(3) Business focus/diversification. The SOE's revenues are more diversified to other construction related businesses like: property, pre-cast, power-plant, etc. This move impacts the SOE contractors in 2 fronts: valuation & capital requirement. Property business has lower valuation multiple vs contractors, thus the gradual diversification into property business should gradually dilute the contractors high valuation; these businesses (property, pre-cast, power-plant, etc) are also more capital intensive than construction business.

On the other hand, the private contractors generate the business from construction job.

Figure 11

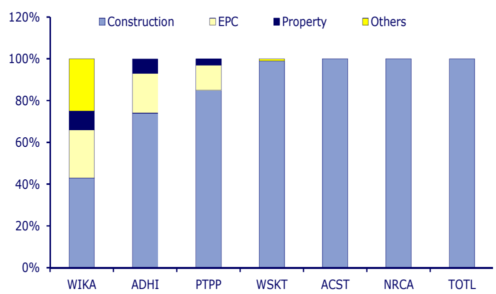
SOE vs private, 13A-9M14 net gearing



Source: CLSA, companies

Figure 12

SOE vs private, 13A-9M14 revenue split



Source: CLSA, companies

SOE contractors have more exposure to infra project and ...

(4) Type of project. SOE contractors have more exposure to EPC & infra projects, while the private counters mostly work on buildings construction & only few infra jobs. NRCA, JKON, & DGIK are the only listed private contractors that have exposure to infra project.

... Government project

(5) Type of client. Private contractors barely see job contracts from government projects, but vice versa for the SOE.

These 2 traits are the key selling point for the SOE contractors

These traits (type of project & client) are the key selling point for SOE contractors given the massive government capital spending budget increase that potentially increase further for extended periods on the back of inadequate infrastructures in Indonesia.

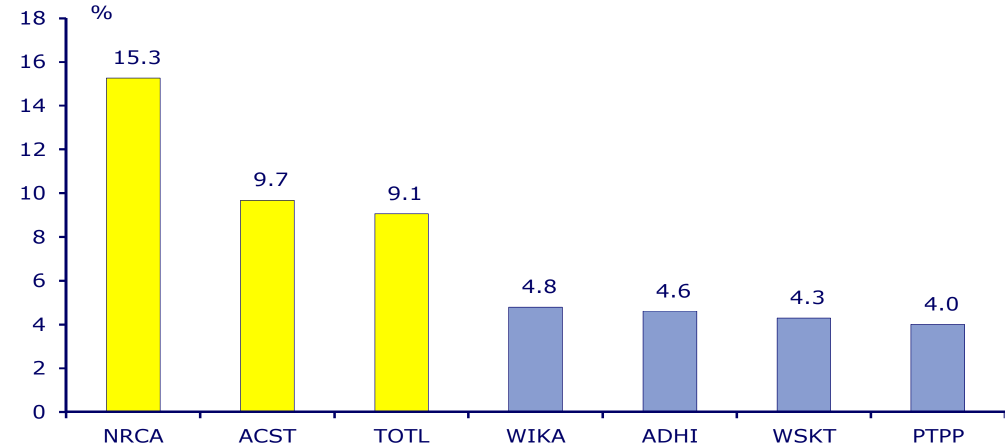
The SOE contractors have relatively lower ROAA & ROAE, but higher valuation

(6) Return profile. Private contractors generate higher return compare to SOE, despite the SOE's higher leverage and diversification to higher margin businesses (property & pre-cast). In some project, SOE contractors put some equity stakes to win the contract, which drags the overall return on capital. Moreover, government projects have longer payment term, thus the project somewhat 'borrow' the contractors financial position and drag the company's return.

(7) Valuation & liquidity. SOE names trade at much higher multiple with high trading liquidity, while private counters trade at lower multiple with lower trading liquidity as well. The SOE contractors' revenues are more diversified to other businesses that trade at lower multiple than construction business, i.e. property business.

Figure 13

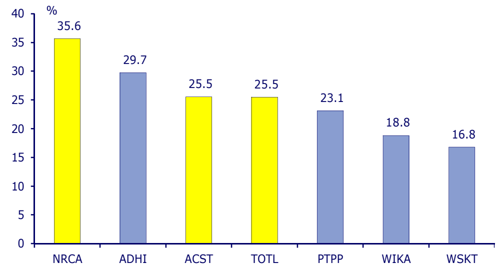
ROAA



Source: CLSA, companies

Figure 14

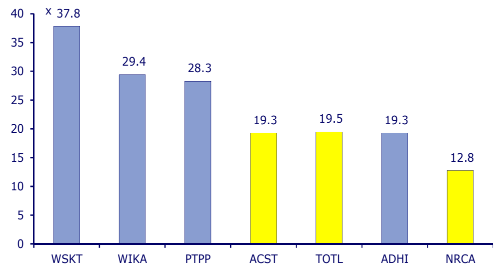
ROAE, 2013



Source: CLSA, companies

Figure 15

Valuation, 2015 PE



Source: CLSA, TOTL & NRCA are consensus

Net-net, taking into account the upside & downside risks, it looks like private contractors offer better risk-reward trade-off. SOE contractors trade at higher valuation, aggressively pricing-in the upside risk from massive infra spending increase and assuming continuous infra projects flow. Separately, the private contractors trade at considerable discount to the SOE contractors, leaving upside risks from any infra projects flow.

It is more challenging for the private contractors to secure infrastructure job, however the growth incremental is much more significant for the private names when it get any infra job. Despite infra project will add the order-book significantly, many questions the sustainability. Given the infra spending trajectory, it seems that the private contractors stand a fair chance to see some infra works flow.

We initiate coverage on Acset with BUY rating & 42% upside

Acset – Renewed growth foundation

We initiate coverage on Acset Indonusa – ACST IJ – with a BUY rating, we like Acset's foundation work niche – competitive edge, new parent support, and relatively cheaper valuation compared to the SOE contractors. Our Rp6,800 TP derived from 20x 16CL PE, 10% lower than the 4 SOE contractors' 16CL PE trading average.

Acset is Indonesia's leading private contractors with niche market & competitive edge in foundation and ground engineering construction works. Astra, through its subsidiary United Tractors (UNTR IJ), bought 40% ownership in Acset from the previous owners and planned to increase the ownership to at least 50%; Acset existing owners still hold 29% ownership in Acset post 40% acquisition.

We like Acset: 1) niche competitive edge in niche foundation work, ...

What we like about Acset:

1) **Niche – competitive edge in foundation work.** Foundation work requires more expertise / technical knowhow compared to general construction work, thus this competitiveness allows for (1) higher margins and (2) shorter learning curve when switching to other less complicated construction of works (building, road, etc.). In Indonesia, there are only few contractors that can handle specialized foundation work due to higher barriers to entry from the expertise & capex for specific equipment.

   Foundation work commands higher margin at 20-30% vs typical building construction's margin of ~10%; contribute 37-50% to Acset's 2013-9M14 revenue.

   Ahead, as property developments are going more vertical, there should be higher demand for foundation work.

Figure 16

Crawler crane doing diaphragm job

Source: Acset

Figure 17

Acset's diaphragm wall work (0.8m thick x 24m depth) in Tanah Abang Blok A, Jakarta

Source: Acset

... (2) new parent support, and ...

2) **Reborn with new parent support.** Acset 'joined' the Astra group in January 2015 as UNTR completed the 40% share acquisition of Acset. UNTR bought the 40% of Acset from previous founders at Rp3,250/sh, at 13.5x PE to 2014 earnings guidance of Rp120bn. Astra is now

Acset's biggest shareholder and plan to increase the ownership to at least 50% through tender offer or more share acquisition from previous owners.

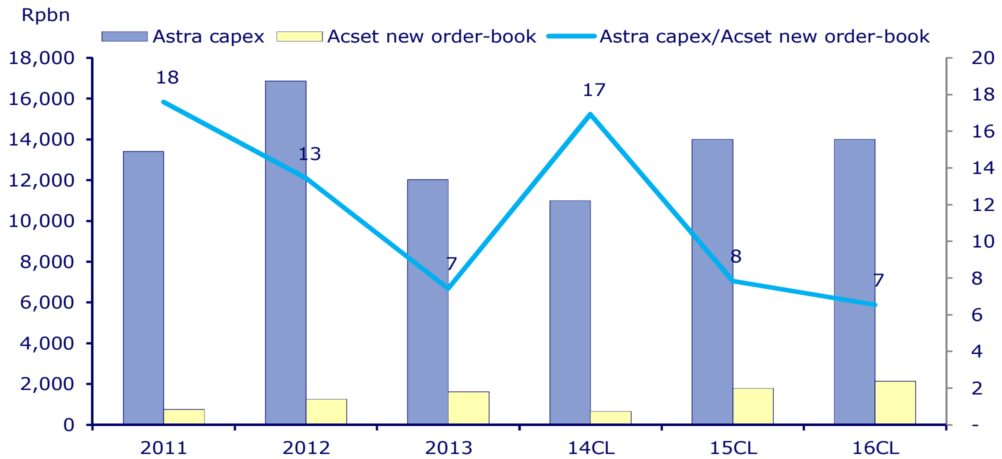
In our view, this acquisition greatly benefits Acset as **this should improve Acset's position in 3 key constraints**: (1) human resource availability, (2) funding, and (3) construction work orders.

Astra is one of the biggest private conglomerate groups in Indonesia. The businesses span from automotive distribution, heavy equipment distribution, financial service, mining services, etc. Importantly for Acset, 'Astra brand' attracts talents. We understand from the contractors that human resource is one of the key constraints to grow, and **this acquisition improves Acset's relative position when competing for the best talent**.

Astra group does Rp15-20tn worth of construction work per-annum, much higher than Acset total order-book of Rp2.5-3tn in 2013-14. Post EGMS in February 2015, Hilarius Arwandhi, one of Acset's founders & directors, was quoted in saying that Acset plans to work on 20-30% of Astra's projects & limit the contribution of Astra's project to maximum 40% of Acset's total new order-book. At the lower end of the range, this implies **new order-book of Rp7.5tn p.a., 5x Acset's 2014 target of Rp1.5tn**.

Figure 18

Astra's capex in 15-16CL, 7-8x Acset's new order-book



Source: CLSA

As one of the key players in Indonesia economy, Astra has relatively better (compared to Acset) relationship with the financial institutions. Post-acquisition, Astra will become majority shareholder of Acset and this subsequently rebrands Acset as an Astra company. Thus, **Acset will likely to enjoy Astra group facility that is cheaper** than Acset's credit facility.

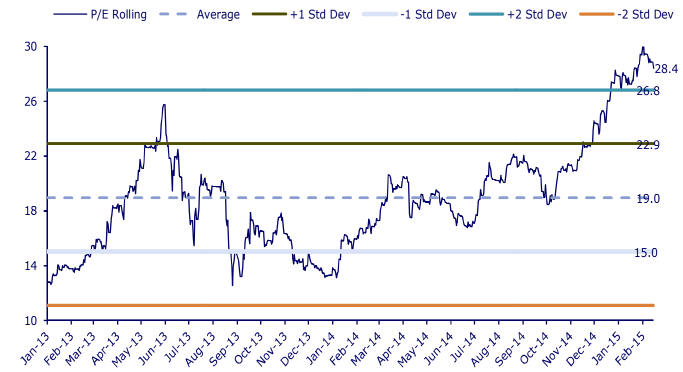
... (3) cheaper valuation vs SOE contractors

3) **Relatively cheap compare to SOE peers, given the outlook**. Given the growth outlook coupled with improving competitive position, Acset should see some re-rating on top of the earnings growth. SOE trade at premium valuation on (1) better chance to secure infra projects and (2) somewhat supported by the government from various

front (i.e. financing). Now, Astra somewhat could act just like the government to SOE; Astra can give sustainable projects and better access to financing.

Figure 19

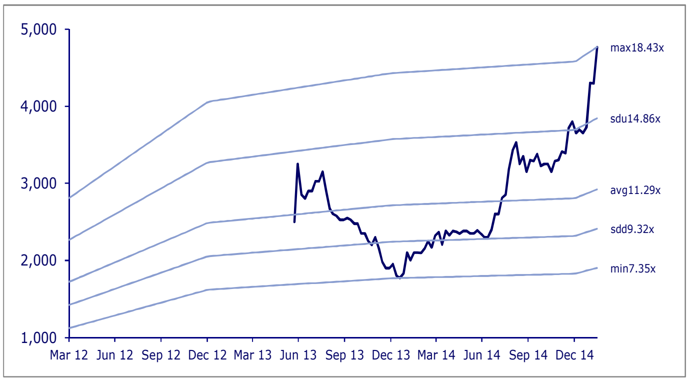
SOE contractors aggregate PE band



Source: CLSA, aggregate valuation of WIKA, PTPP & WSKT

Figure 20

ACST's PE band



Source: CLSA

We assume new order-book of Rp1.8tn in 2015 to send the total order-book to Rp3tn

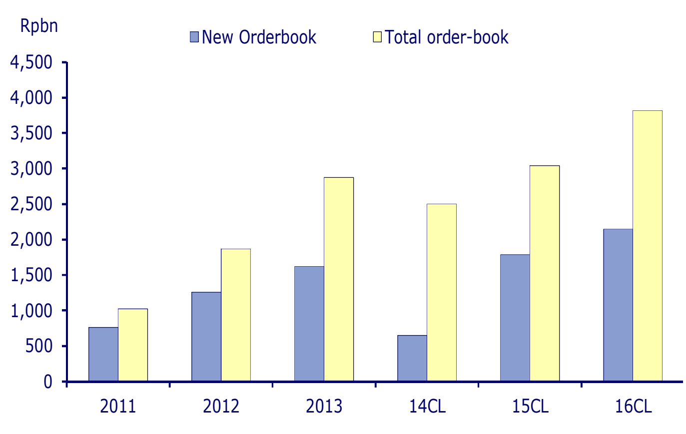
Key forecast assumptions

On order-book, we assume new order-book of Rp1.8tn in 15CL that send the total order-book to Rp3tn; in-line with management guidance (pre-acquisition by UT) to maintain total-order book at ~Rp3tn. We assume 20% new order-book growth in 16CL, slightly faster than construction industry growth rate in the past 5 years. In 2014, Acset only booked ~Rp600bn new order-book, much lower than the Rp1.5tn target due to some tenders delay. Acset is looking closely to get some big ticket project in the near term.

One of the major upcoming hi-rise projects is Thamrin 9 tower in Jakarta's CBD. Thamrin 9 is a 330meter high, 71 floors mix-use building, and will become one of the tallest towers in Indonesia. Acset is working for Thamrin 9 foundation, but the project still hasn't decided the building contractor. Thamrin 9 is expected to proceed to building construction after Acset finish the foundation work in early 2015.

Figure 21

New & total order-book



Source: CLSA, Acset

Figure 22

Thamrin Nine in Jakarta's CBD

Source: Acset website

Figure 23

Revenue recognition assumption

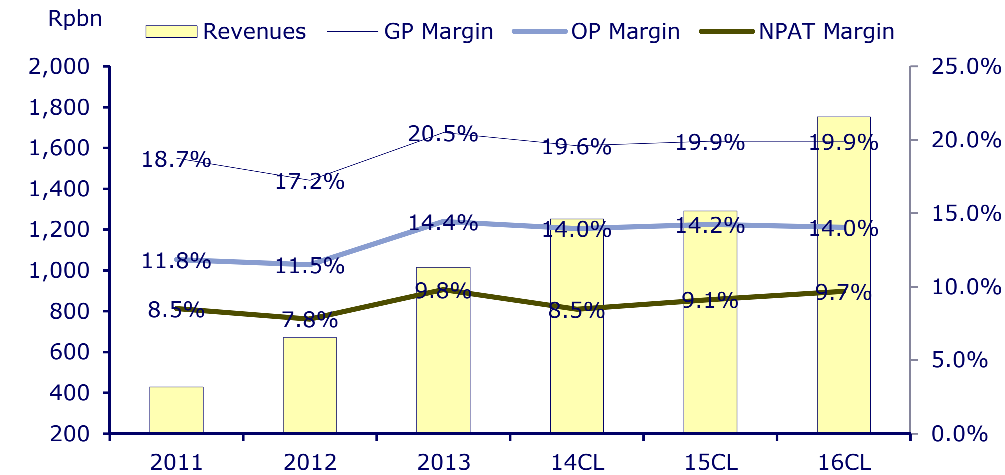
Rpbn	2011	2012	2013	14CL	15CL	16CL
Carry over from Y-1 (+)	262	612	1,252	1,854	1,252	1,748
New order-book (+)	763	1,255	1,621	650	1,788	2,145
Total order-book	**1,025**	**1,867**	**2,873**	**2,504**	**3,040**	**3,889**
Revenue (-)	413	615	1,019	1,252	1,292	1,718
Carry over to next year	**612**	**1,252**	**1,854**	**1,252**	**1,748**	**2,099**
Revenue/total order-book	*40%*	*33%*	*35%*	*50%*	*43%*	*45%*
New order-book growth		*64%*	*29%*	*-60%*	*175%*	*20%*

Source: CLSA, Acset

Primarily due to election uncertainty, some tenders got delayed in 2014, thus the low new order-book. However, easing mortgage & better license certainty in Jakarta should help the private contractors' order-book going forward.

Figure 24

Revenue & margins



Source: CLSA, Acset

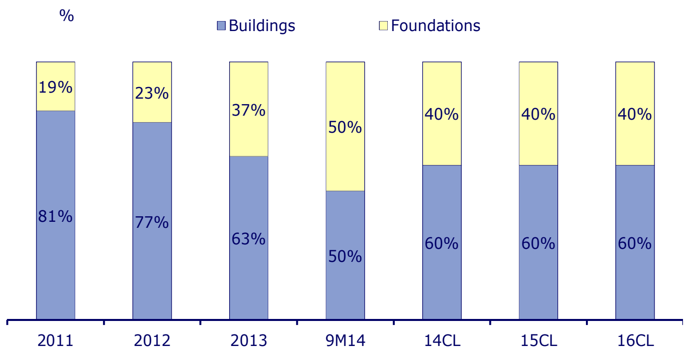
For 2015 performance, we assume slower revenue growth due to low order-book in 2014, but faster profit growth due to lower interest cost on lower cost fund & improve working capital position. For 2014 performance, we model Rp1.25tn revenue, roughly in-line with guidance, and Rp106bn profit, some 10% below target; our model suggests slower profit growth in 2014 on the back of rising interest cost.

Foundation work carries high gross margin of 25-30%, much higher compared to normal construction work of only about 10%. Moreover, foundation work has shorter timeframe of 3-9 months compared to high-rise building construction of 1.5-2.5 years, which lower the risk of materials price fluctuation. Foundation work revenue share has been gradually increasing in the past 3 years, which resulted in Acset's overall gross-margin expansion.

Acset uses different accounting method compared to the SOE contractors, just like its private peers Total Bangun Persada – TOTL IJ. Acset & Total do not record the materials value when the materials are supplied by the project owners, which most likely the case for major projects. This method makes the gross margin for the building work looks higher at ~15% vs 10% when record the materials value.

Figure 25

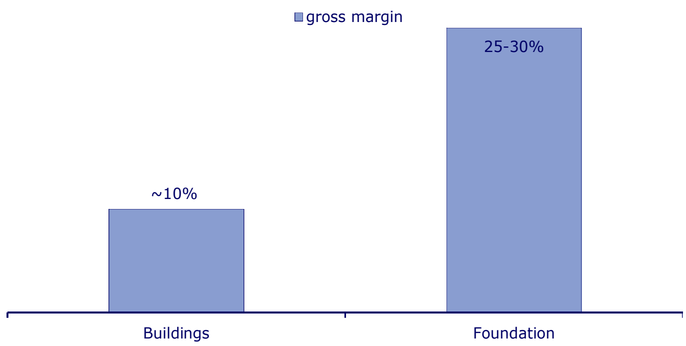
Revenue breakdown



Source: CLSA, company

Figure 26

GPM buildings vs foundation construction

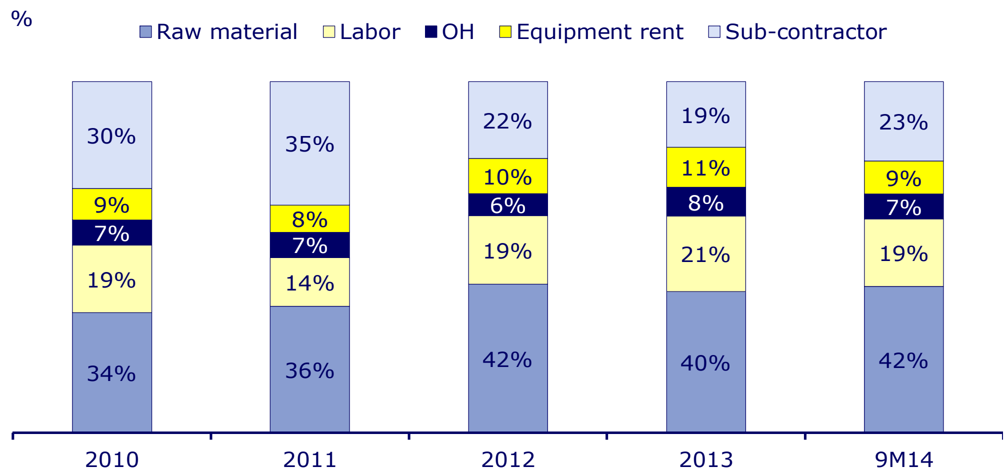


Source: CLSA

Raw material, sub-contractor & labour make up 80-85% of COGS in the past 5 years. Labour cost jumped significantly in 2012-13 on the back of minimum wage increase & tight labour market.

Figure 27

COGS breakdown



Source: Acset

Renewed growth foundation

Acquisition by Astra group is a game changer for Acset in our view. As explained above, this team-up will improve Acset relative position in facing its constraints (human resource, order-book & access to financing).

Acset's director mentioned to the media that the company plans to obtain ~Rp3tn additional new order-book from the parent company and limit it to 40% of overall new order-book; this implies Rp7.5tn new order-book, significant increase compared to its 2014's new order-book target of Rp1.5tn. The Rp7.5tn comprises of Rp3tn from parent + Rp4.5tn from other clients; it could take some times to reach the Rp4.5tn new order-book from the other clients; at the moment, there are no clear timeline on when Acset will reach the indicated order-book figures.

Assuming that Acset generate Rp7.5tn new order-book p.a., the total order-book should reach Rp11-12tn after 2-3 years of order-book accumulation. As a rule of thumb, the contractors generally need 10-20% of order-book value as working capital that could be generated from client's down-payment or contractors' capital. Thus, to work on Rp11-12tn worth of order-book, Acset will need ~Rp2.4tn capital vs 14-15CL equity of Rp650-759bn.

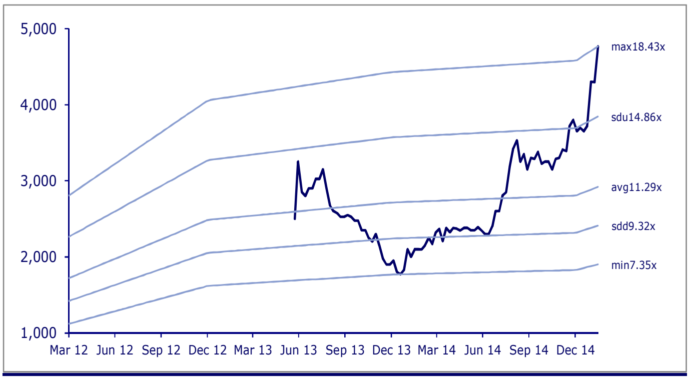
Assuming that Acset takes 50% gearing in 15CL, Acset will obtain some ~Rp240bn capital which will only enough to finance ~Rp1.2tn order-book. Thus, to work on Rp7.5tn new order-book, Acset will likely need some capital injection, however the timeline remain to be seen.

Initiate with BUY, Rp6800/sh TP, +42% upside

We initiate coverage with a BUY and Rp6800/sh TP, derived from 20x 16CL PE. We like Acset's foundation work competitive edge, new parent support, and relatively cheaper valuation compared to the SOE contractors. The main downside risks/drawbacks are slower than expected property market, low rights issue price, and trading liquidity.

Figure 28

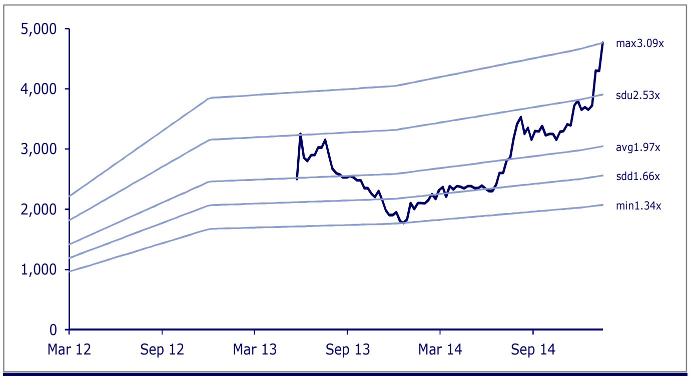
Acset's PE band



Source: CLSA

Figure 29

Acset's PB band



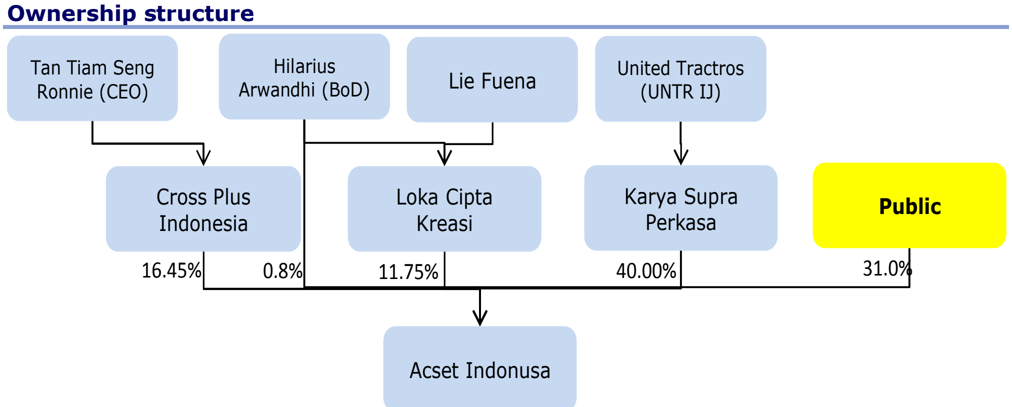
Source: CLSA

Minority shareholders are on the same page with the management

We assign 20x to 16CL PE, 10% below the SOE contractors 16CL PE multiple of 22x.

Figure 30

Ownership structure



Source: CLSA, Acset

Financials

Year to 31 December	12A	13A	14CL	15CL	16CL
Revenue (Rpbn)	670	1,015	1,252	1,292	1,752
Net profit (Rpbn)	52	99	106	118	169
EPS (Rp)	130.55	220.17	211.56	235.08	338.73
CL/consensus (1) (EPS%)	-	-	99	87	102
EPS growth (% YoY)	-	68.7	(3.9)	11.1	44.1
PE (x)	36.8	21.8	22.7	20.4	14.2
Dividend yield (%)	0.0	0.0	0.8	0.9	1.0
FCF yield (%)	(1.3)	(12.3)	(3.7)	9.6	(4.7)
PB (x)	8.8	3.9	3.8	3.3	2.7
ROE (%)	27.3	25.5	17.5	16.9	20.7
Net debt/equity (%)	15.7	9.6	24.9	(6.9)	8.8

Source: CLSA

Figure 31

Construction comps

		Mkt. Cap	P/E		Earnings Growth		PEG		ROA		GP Margin	
Trading Comps	**Rec**	**(US$m)**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Wijaya Karya	U-PF	1,741	29.4	23.0	30%	28%	1.0	0.8	6.8%	7.7%	13%	14%
PTPP	O-PF	1,495	28.3	21.5	49%	32%	0.6	0.7	6.1%	6.1%	13%	12%
Waskita Karya	U-PF	1,383	37.8	27.8	19%	36%	1.9	0.8	5.4%	5.9%	11%	10%
Adhi	U-PF	490	19.3	15.5	30%	24%	0.6	0.6	3.8%	4.1%	12%	12%
Nusa Raya Cipta - NRC	N-R	280	12.8	10.6	12%	21%	1.0	0.5	11.3%	8.3%	9%	9%
Acset	BUY	188	20.4	14.2	11%	44%	1.8	0.3	9.0%	10.5%	20%	20%
Avg Indonesia		**5,576**	**24.7**	**18.7**	**24%**	**29%**	**1.2**	**0.6**	**7.1%**	**7.0%**	**13%**	**13%**
.												
IJM Corp	BUY	2,925	17.2	14.5	10%	19%	1.6	0.8	5.6%	6.4%	26%	25%
Gamuda	O-PF	3,382	16.7	16.9	2%	(1%)	11.0	(18.7)	5.1%	4.6%	18%	18%
Avg Malaysia		**6,307**	**17.0**	**15.7**	**6%**	**9%**	**2.8**	**1.8**	**5.3%**	**5.5%**	**22%**	**22%**
.												
Megawide	O-PF	439	15.0	12.5	3%	20%	5.6	0.6	3.6%	4.0%	18%	19%
EEI	SELL	253	13.6	13.3	13%	2%	1.0	7.5	2.1%	2.0%	10%	11%
Avg Phils		**696**	**14.3**	**12.9**	**8%**	**11%**	**1.8**	**1.2**	**2.8%**	**3.0%**	**14%**	**15%**
.												
Stecon	O-PF	1,183	24.3	23.1	4%	5%	6.0	4.5	5.3%	4.9%	9%	9%
Avg Regionals			**18.6**	**15.8**	**13%**	**17%**	**1.4**	**0.9**	**5.1%**	**5.2%**	**15%**	**14%**

Source: CLSA

evalu@tor The Global Equities Database

ACST' summary financials

Slowdown in 2015 performance due to slow order-book in election year 2014

We expect improving working capital position in 2015 on softer growth

Lightly geared

High margin on more complicated type of work

Year to 31 December	2012A	2013A	2014CL	2015CL	2016CL
Summary P&L forecast (Rpbn)					
Revenue	**670**	**1,015**	**1,252**	**1,292**	**1,752**
Op Ebitda	102	194	229	247	318
Op Ebit	77	146	175	184	246
Interest income	2	2	2	3	6
Interest expense	(7)	(18)	(31)	(28)	(28)
Other items	0	(1)	(3)	(2)	(1)
Profit before tax	**72**	**130**	**144**	**157**	**223**
Taxation	(20)	(31)	(38)	(39)	(53)
Minorities/Pref divs	0	0	0	0	0
Net profit	**52**	**99**	**106**	**118**	**169**
Summary cashflow forecast (Rpbn)					
Operating profit	**77**	**146**	**175**	**184**	**246**
Operating adjustments	0	(1)	(3)	(2)	(1)
Depreciation/amortisation	25	48	54	63	72
Working capital changes	(30)	(276)	(188)	112	(288)
Net interest/taxes/other	(27)	(49)	(69)	(68)	(81)
Net operating cashflow	**45**	**(131)**	**(30)**	**290**	**(52)**
Capital expenditure	(70)	(134)	(60)	(60)	(60)
Free cashflow	**(25)**	**(265)**	**(90)**	**230**	**(112)**
Acq/inv/disposals	1	3	2	3	6
Int, invt & associate div	-	-	-	-	-
Net investing cashflow	**(70)**	**(131)**	**(58)**	**(57)**	**(54)**
Increase in loans	69	3	128	(90)	80
Dividends	0	0	(20)	(21)	(23)
Net equity raised/other	0	243	0	-	0
Net financing cashflow	**69**	**246**	**108**	**(111)**	**57**
Incr/(decr) in net cash	**45**	**(16)**	**21**	**122**	**(50)**
Exch rate movements	-	-	-	-	-
Opening cash	**20**	**65**	**49**	**69**	**191**
Closing cash	**65**	**49**	**69**	**191**	**142**
Summary balance sheet forecast (Rpbn)					
Cash & equivalents	65	49	69	191	142
Debtors	135	214	270	299	365
Inventories	-	-	-	-	-
Other current assets	408	799	884	879	1,236
Fixed assets	135	221	227	223	211
Intangible assets	-	-	-	-	-
Other term assets	12	16	16	16	16
Total assets	**755**	**1,298**	**1,466**	**1,609**	**1,970**
Short-term debt	94	85	190	100	150
Creditors	150	229	229	288	391
Other current liabs	284	401	352	428	458
Long-term debt/CBs	5	17	40	40	70
Provisions/other LT liabs	4	6	8	10	12
Minorities/other equity	0	0	0	0	0
Shareholder funds	218	560	647	743	890
Total liabs & equity	**755**	**1,298**	**1,466**	**1,609**	**1,970**
Ratio analysis					
Revenue growth (% YoY)	-	51.4	23.4	3.2	35.6
Ebitda growth (% YoY)	-	89.6	18.1	8.0	28.7
Ebitda margin (%)	15.3	19.1	18.3	19.1	18.2
Net profit margin (%)	7.8	9.8	8.4	9.1	9.7
Dividend payout (%)	0.0	0.0	18.7	17.9	13.8
Effective tax rate (%)	27.8	23.7	26.4	25.0	23.9
Ebitda/net int exp (x)	22.2	12.4	8.1	9.7	14.4
Net debt/equity (%)	15.7	9.6	24.9	(6.9)	8.8
ROE (%)	27.3	25.5	17.5	16.9	20.7
ROIC (%)	27.1	26.4	18.3	18.6	22.7
EVA®/IC (%)	12.2	11.4	3.4	3.7	7.7

Source: CLSA

NRC – Paving the growth road

NRC is one of few Indonesia's leading private contractors that have exposure to infra projects

Nusa Raya Cipta (NRCA IJ) or NRC for short is Indonesia leading private contractors with exposure to infrastructure projects. NRC is a subsidiary of Surya Semesta (SSIA IJ), 61% owned, property developers that also operate industrial estate & hotel businesses. NRC **is one of few leading private contractors that have exposure to infrastructure projects**, through its participation in 116km Cipali toll-road construction.

It trades at 16x 2015 earnings guidance, looks fair

NRC guides Rp250-230bn profit in 2014-15, trades at 14-16x 2014-15F PE, looks fair. The earnings guidance left any upside from Cipali project replacement. Given government plans to expedite infrastructure improvement, NRC could get some of the toll-road projects in the pipeline, and thus upside to the guidance.

Looking for the replacement of big ticket project, Cipali toll-road

Paving the growth road?

NRC's key upside is its capacity to take toll-road project. Cipali toll-road is expected to complete in mid-2015 and NRC hasn't secure any major infra project to replace this big ticket project. **The JO Company that does the Cipali construction is expected to contribute ~55% & ~30% of NRC's 2014 & 2015 profit**, thus it is important for NRC to find Cipali replacement to maintain its 2014-15's profit performance.

Cipali is a 116km toll-road, the longest section of Trans Java toll-road, owned by 3 parties: Saratoga, Surya Semesta (NRC's parent) & Plus Expressway Berhad (Malaysian based toll-road company). NRC and UEM group (Malaysian based infra service company) formed a JO company named Karabha (45-55: NRC – UEM) to be the main contractors of the Cipali toll-road; this JO Company received Rp7.7tn order-book from Cipali project. Moreover, Karabha JO appointed NRC as sub-contractors of section 5 (Rp1.1tn order-book) & part of section 4 (~Rp235bn order-book).

Cipali, a 116km toll-road, one of the longest sections of TransJava toll-road

Figure 32

Cipali

Source: NRCA

There are 3 Trans Java toll road sections that haven't start construction and due to low land-clearing progress, only 1 out of that 3 sections ready to proceed to construction: 87km Ngawi – Kertosono (East Java). The 2 other toll-road sections, 39km Pemalang – Batang and 75km Batang – Semarang (both Central Java), are less likely to proceed to construction this year due to low land-clearing progress.

Missing links in TransJava toll-road are NRC's potential upside

Figure 33

Trans Java toll-road sections

Source: JSMR

Outside TransJava, there are 2 other toll-roads (Pasuruan – Probolinggo, and Waru – Tg Perak) in Java that haven't start construction. Given low land clearing progress, it is less likely the toll-roads can proceed to construction within the near term. A toll-road generally entered into construction when the land-clearing in the particular section reached ~90%.

NRC will fiercely compete with the SOE contractors to win the project, and we think the SOE still has better chance in winning the project in our view. NRC key upside is the speed of infrastructure construction acceleration that mainly hampered by land clearing process. When infrastructure construction accelerated at fast pace, the SOE could run out of capacity, thus increase the likelihood for NRC to grab the projects.

Franchise: one of the leading private contractors

There are few private contractors that have experience with toll-road project, albeit it's easier than building construction from our understanding; from this angle, NRC stands out among the private peers. Nevertheless, there are only few toll-roads that are ready to enter construction phase due to slow land-acquisition progress.

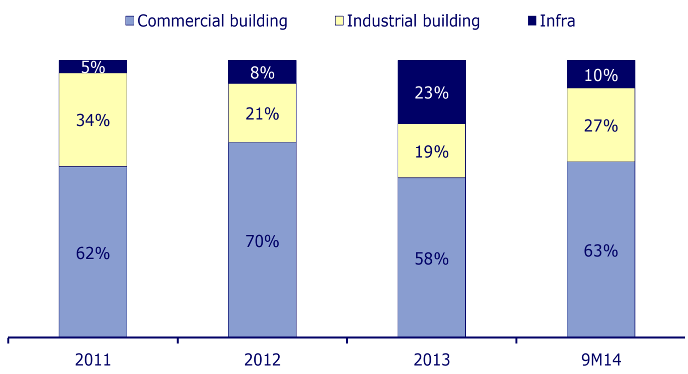
NRC entered to infrastructure construction in 2012 through 2 projects: reconstruction of Tangerang-Merak toll-road and jetty in Tangerang. At the moment, NRC is working on longest section of trans-java toll-road: 116km Cipali toll-road. Cipali toll-road is expected to complete before 2015's Lebaran in July 2015. NRC's parent company, SSIA, has ~23% effective stake in the Cipali toll-road.

NRC targets Rp4.1tn new order-book (ex-JO) in 2015, +28% YoY, on the back of property market recovery post-election year. Rp4.1tn is actually only +15%

YoY to NRC's 2013 new order-book ex-infra and +10% YoY to NRC's 2014 new order-book target.

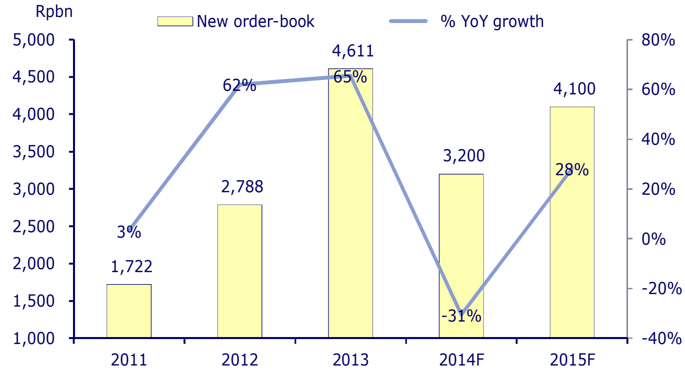
NRC does JO project from time to time and it looks to obtain a big ticket JO project within this or next year.

Figure 34
New order-book composition



Source: NRC

Figure 35
New order-book



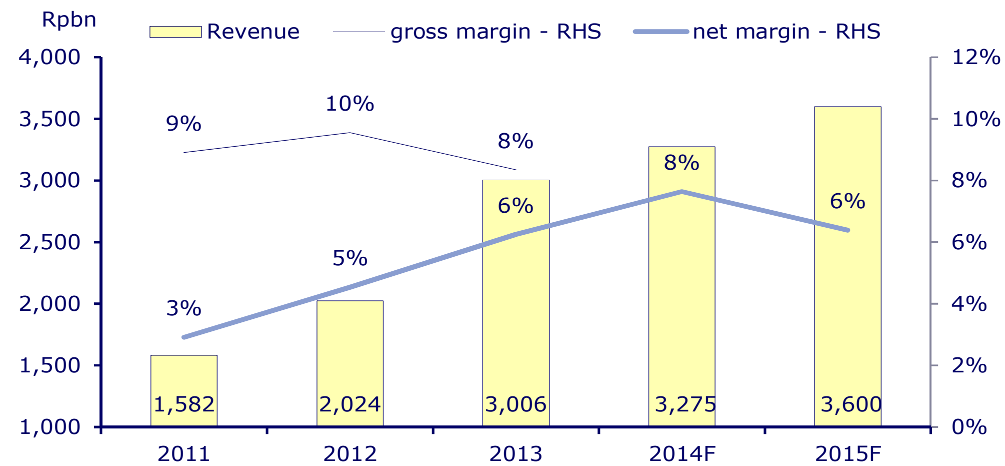
Source: NRC

NRC is free of debt and has small stake in Cipali toll-road that could be realized/sold in the future (and disbursed as special dividend or for other investment). Pre-mezzanine financing dilution in Cipali project, NRC has 14.4% stake, and it will come down to roughly 2% post dilution; at the moment, we estimate Cipali toll-road value to worth Rp8.1tn, thus the 2% could worth some 4.4% of NRC's current market cap.

NRC has relatively higher ROAE & ROAA compared to other contractors, thanks to profit contribution from Cipali JO project.

Lower net margin in 2015 on lower contribution from Cipali project JO

Figure 36
Revenue & margins



Source: CLSA

At 16x 15F PE, it's properly valued with some upside risks from Cipali replacement

Valuation: properly valued existing business with upside from infra
NRC targets 2014-15's profit to land at Rp250-230bn, the declines in 2015 due to lower contribution from Cipali toll-road construction. At 2015's profit guidance, NRC trades at 15.6x PE, some 30% discount to the SOE peers.

Companies mentioned

Acset (N-R)
Nusa Raya Cipta (N-R)

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