

COMPANY VISIT NOTES

Not Rated**Acset Indonusa**

ACSTIJ/ACST.JK

Last Price, Rp	2,230
No. of shares (bn)	500
Market Cap, Rp bn	1,115
(US\$ mn)	98.2
3M T/O, US\$mn	0.2

ACST relative to JCI Index**Big Player in a Niche Market**

From being a specialized construction company with a focus on foundation structures since 1995, Acset has grown into one of the leading private contractors in Indonesia. Presently, the company is known for its integrated construction works - from deep foundations to the finishing of high-rise buildings. Acset's key strength is its ability to effectively integrate specialist works like foundation structures with general construction works, reaching cost and time objectives. Currently, most of the company's projects are in Jakarta, where Acset believes there is still tremendous potential given the rising demand for offices, apartments, and other multi-use properties. Acset's undemanding valuation is very attractive at the moment although the company's shares liquidity may be a matter of concern.

The foundations business is highly profitable

Acset's key strength is in the foundations business where it has a strong track record and is highly competitive. In this business, the company can offer services such as bored piling, driven piling, and diaphragm wall construction. This niche market offers higher gross margins of at least 25-30%, as opposed to the only 8-12% gross margins typically found in private general construction works. Foundation works have grown in importance for Acset over the last three years, accounting for 37% of the company's revenues in 2013, or up from only 19% in 2011, overtaking the remainder contribution from general construction services. As a result, Acset's gross margin has improved from 18.7% in 2011 to 20.5% in 2013. In a comparison with its peers - both private and SOE contractors - Acset's profitability stands out as the best.

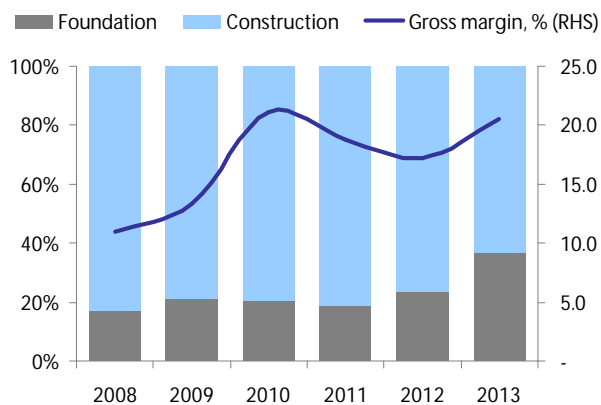
Exhibit 1. Acset's key strengths in foundation works

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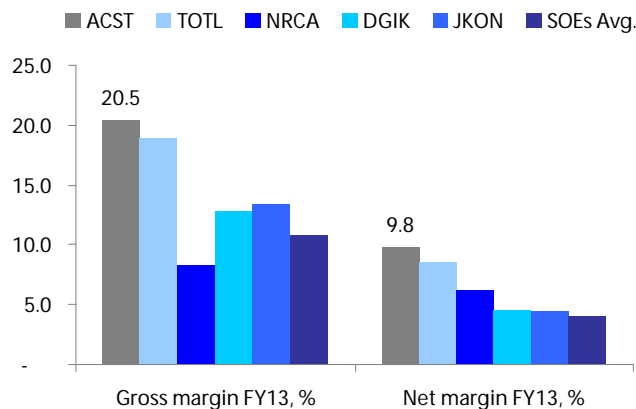
Source: Company

Exhibit 2. Higher contribution in foundation works



Source: Company

Exhibit 3. Acset has the best profitability in the sector



Source: Company

Enjoys a sound reputation

Getting contracts from private project owners is not only a matter of competitive pricing but also hinges on the good reputation and track record of the contractor itself. If the project owner feels comfortable with the contractor, then the contractor may be directly appointed to undertake the project. This has been the case for Acset, with the company receiving repeat orders from a number of reputable private developers such as Pakuwon, Ciputra, Agung Sedayu, and the Pakuwono Group. To handle payments, Acset has developed good risk management, whereby it requires an upfront payment of around 15-20% and then scheduled monthly payments during the project's completion. This sound risk management is reflected in the company's annual impairment which stands at less than Rp1bn p.a. Furthermore, for private projects, working capital loans tend to be less needed in comparison to government projects, thus led to lower interest expenses for the company.

Exhibit 4. Some of Acset's notable projects

Project	Project owner	Type
Gandaria City	Pakuwon	Civil and foundation works
Kota Kasablanka	Pakuwon	Civil works
The Pakuwono Signature	Pakuwuono	Civil and foundation works
The Pakuwono House	Pakuwuono	Civil and foundation works
The Pakuwono Town House	Pakuwuono	Civil and foundation works
Setiabudi Sky Garden	Jakarta Setiabudi	Civil works
District 8 Senopati	Agung Sedayu	Civil works
Ciputra World	Ciputra	Foundation works
PacificPlace	PacificPlace	Foundation works
The St. Regis	Rajawali	Foundation works
SCBD Lot 10	Prima Bangun Investama	Foundation works

Source: Company

Beating expectations in 2013

In the past three years, Acset has delivered strong growth in revenues and net profits at CAGR 50% and 53%, respectively. If we recall, 2013 was a challenging year for contractors in Indonesia for three main reasons: 1) the large increase in minimum wages, 2) the hikes in subsidized fuel prices, and 3) the significant depreciation of the rupiah relative to the USD. Yet despite intensifying cost pressures, Acset could still improve its profitability since some of its contracts are direct contracts where the risk of higher material costs is shouldered by

the project owners. Meanwhile, from its June 2013 IPO proceeds, the company could already fund its capex for machinery expansion since early 2013, meaning the company was not impacted by the rupiah depreciation from its expansion plan. Furthermore, this new equipment also led to efficiency gains in terms of lower productivity costs. As a result, Acset was able to deliver in 2013 on its promises made during its IPO.

Exhibit 5. Beating expectations in 2013

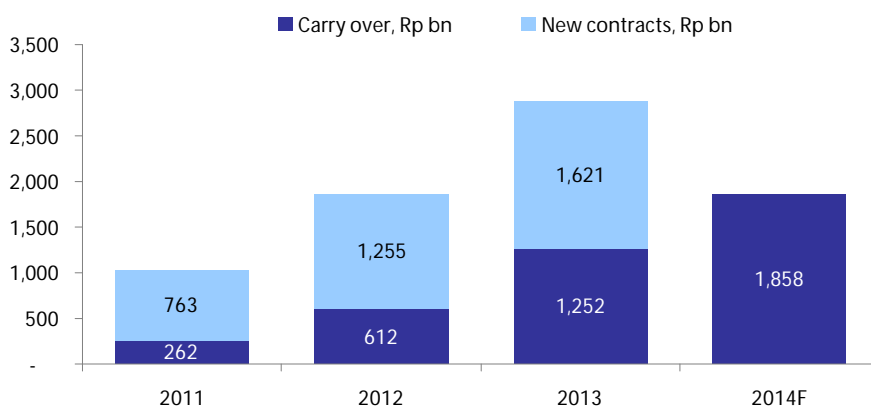
(Rp bn)	2013A	2012A	Chg, %	2013F	A/F, %
New contracts	1,621	1,255	29.2	1,300	124.7
Revenues	1,015	670	51.4	1,000	101.5
Net profit	99	52	89.7	90	110.0

Source: Company

2014: Relying on backlog orders

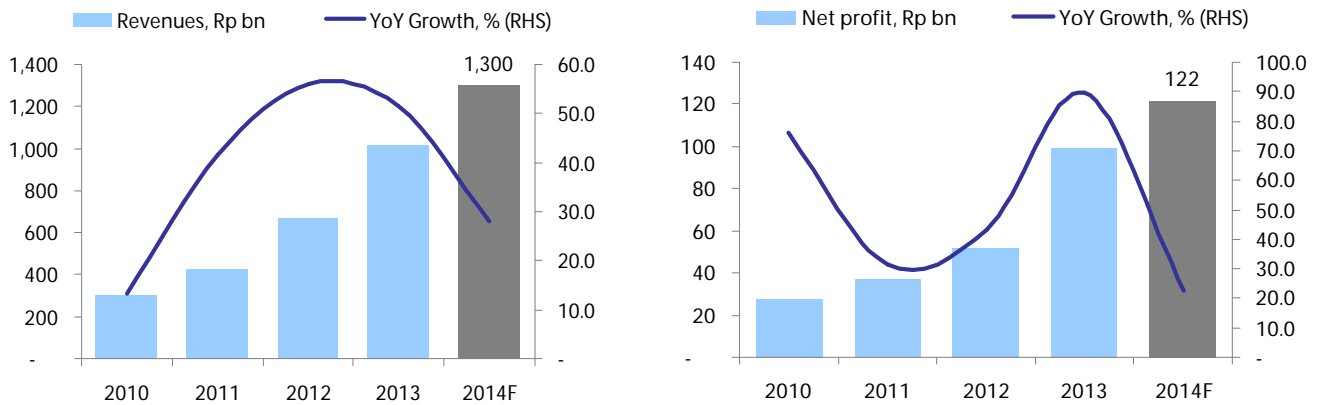
Acset's 2014 targets are slightly lower in terms of growth for its new contracts, revenues and net profits. The management has set realistic targets in view of the elections which will be closely watched by private project owners until at least 3Q14. For 2014, the company only targets Rp1.5tn of new contracts, about the same as in 2013. However, thanks to Rp1.8tn of carry-over contracts from 2013, the company should be able to deliver at least Rp1.3tn of revenues (+28%yoy) and Rp122bn of net profits (+23%yoy) in 2014, considering this figures already secured from last year contracts. In our view, private developers may put their projects on hold until the results of this year's elections are known, thus suggesting that Acset's conservative targets are more realistic.

Exhibit 6. Acset's order book relies on backlog orders from 2013



Source: Company

Exhibit 7. Realistic targets for 2014

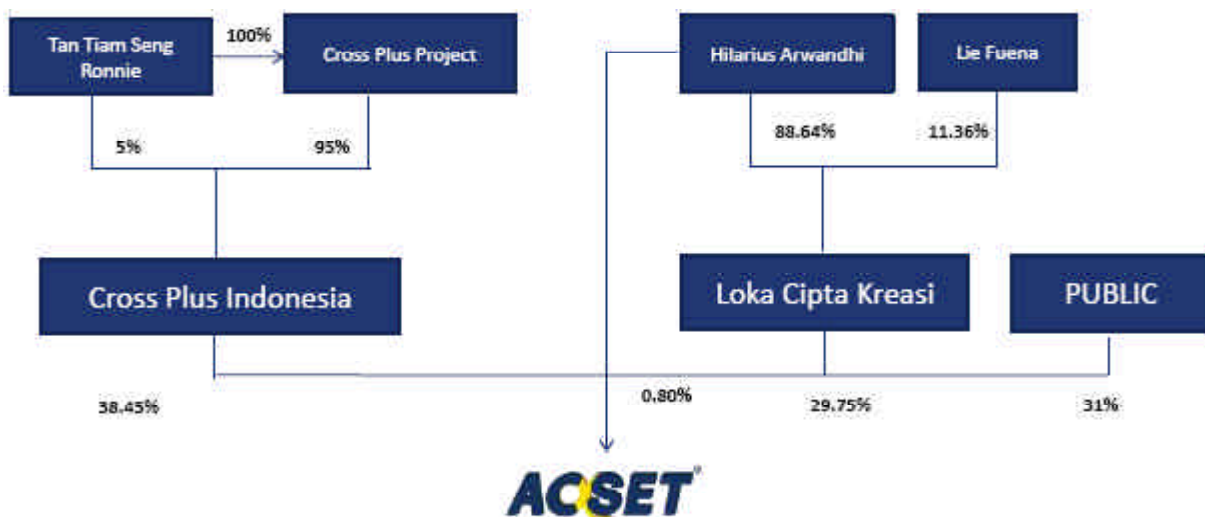


Source: Company

Undemanding valuation, although shares liquidity may be a matter of concern

Despite Acset's solid reputation and the rosy prospects for its niche business, the company's shares liquidity may be a matter of concern. This is because even though the company has 31% free float, daily trading volume is only about 1.0mn shares (Rp2-3bn per day). The main shareholder is the company's founding father, the CEO, Mr. Ronnie Tan, a Singaporean citizen who holds around 38% of the company's shares. Another large shareholder is his business partner, Mr. Hilarius Arwandhi, who also sits on the BOD, with around a 31% shareholding. The lock-up period for the existing shareholders lasts until June 2014. Thus, in June 2014, the company plans to hold an AGM with the main agenda of approving dividend distribution of 20-30% (2-3% yield), in addition to an extraordinary agenda to boost share liquidity - either through stock dividends, a stock split, or possibly a placement from the founding fathers.

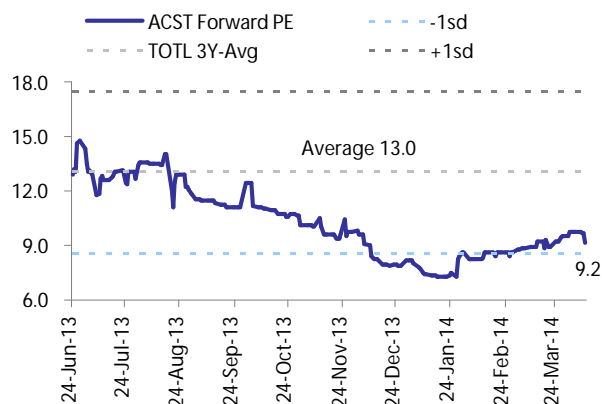
Exhibit 8. Acset's ownership structure



Source: Company

Currently, Acset trades at an undemanding valuation of 9.2x FY14 P/E from the management's target. In our view, Acset's valuation could move towards TOTL's valuation as its closest peer as a private contractor. We believe the company could trade at a valuation which is, at the least, similar to TOTL's 3-year trailing PE in 2011-2013 of 13.0x, provided the company can boost the liquidity of its shares traded in the market.

Exhibit 9. Acset's undemanding valuation



Ticker	Mkt Cap USD mn	Trailing PE x	PE 2014 x	ROE 2013 %
ACST IJ Equity	98	10.1	9.6	25.4
TOTL IJ Equity	240	14.0	13.7	27.5
DGK IJ Equity	78	13.4	n/a	6.2
JKON IJ Equity	840	45.0	42.9	16.2
NRCA IJ Equity	197	n/a	10.8	23.9
WKA IJ Equity	1,151	22.9	20.9	20.6
PTPP IJ Equity	723	19.5	18.9	23.1
WSKT IJ Equity	598	18.5	18.6	16.8
ADHI IJ Equity	452	12.6	14.2	29.9
Average		19.5	18.7	21.1

Source: Bloomberg

Exhibit 10. Profit and loss (Rp bn)

	2010	2011	2012	2013
Revenue	303	429	670	1,015
Gross Profit	64	80	116	208
Operating Profit	35	50	75	153
EBITDA	49	70	101	201
Net Interest	(2)	(1)	(5)	(16)
Other Income (Expenses)	3	1	2	(7)
Pre-tax Income	35	49	72	130
Net Profit	28	36	52	99
Core Profit	26	36	51	104

Source: Company, Danareksa Sekuritas

Exhibit 11. Balance sheet (Rp bn)

	2010	2011	2012	2013
Cash & Equivalent	17	20	65	49
Trade Receivables	28	19	87	137
Project Receivables	71	206	379	711
Other Current Assets	27	14	77	165
Total Current Assets	143	259	608	1,061
Property, Plant, Equipment	80	89	135	221
Other Non-current Assets	3	10	12	16
Total Non-current Assets	83	100	147	237
Total Assets	226	359	755	1,298
Bank Loans	20	28	94	85
Trade Payables	48	53	123	210
Other Current Liabilities	27	108	311	419
Total Current Liabilities	95	189	528	715
Bank Loans	0	2	5	17
Other Non-current Liabilities	1	2	4	6
Total Non-current Liabilities	2	4	9	23
Capital Stock	40	40	40	50
Additional Paid in Capital	-	-	-	232
Retained Earnings	92	128	180	280
Other Equity	(2)	(2)	(2)	(1)
Total Equity	129	166	218	560
Total Liabilities & Equity	226	359	755	1,298

Source: Company, Danareksa Sekuritas

Exhibit 12. Keyratios

	2010	2011	2012	2013
Profitability				
Gross Margin, %	21.1	18.7	17.2	20.5
Operating Margin, %	11.4	11.6	11.2	15.1
EBITDA Margin, %	16.1	16.2	15.0	19.8
Net Margin, %	9.2	8.5	7.8	9.8
Core Margin, %	8.5	8.3	7.6	10.3
ROAE, %	28.8	24.7	27.2	25.4
ROAA, %	13.7	12.5	9.4	9.7
Leverage				
Debt to Equity, %	16.1	18.4	45.5	18.3
Net Debt to Equity, %	3.1	6.1	15.7	9.6
Interest Coverage, x	15.0	18.4	10.9	8.5
Turnover				
Trade Receivables, days	33.4	16.3	46.6	48.5
Inventories, days	-	-	-	-
Trade Payables, days	71.8	54.9	79.7	93.9
Growth				
Revenues, %	13.3	41.6	56.1	51.4
Gross Profit, %	78.6	25.9	43.7	79.9
Operating Profit, %	65.6	44.3	50.9	103.7
EBITDA, %	134.2	42.9	44.2	99.5
Net Profit, %	76.0	31.4	43.1	89.7
Core Profit, %	90.0	38.7	42.3	104.8

Source: Company, Danareksa Sekuritas

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