

BUY

Share price: IDR1,910
Target price: IDR2,850

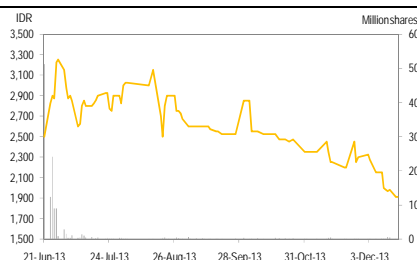
Stock Information

Description: PT Acset Indonusa is one of the leading building contractors in Indonesia and the only local construction company that is able to provide services spanning the entire value chain of general and infrastructure construction projects.

Ticker:	ACST.IJ
Shares Issued (m):	500
Market Cap (US\$ m):	78
3-mth Avg Daily Turnover (US\$ m):	0.0
IDX index:	4,203
Free float (%):	31.8

Major Shareholders:	%
PT Cross Plus Indonesia	38.4
PT Loka Cipta Kreasi	29.8

Historical Chart



Performance:

52-week High/Low IDR3,475/IDR1,910

	1-mth	3-mth	Since IPO
Absolute (%)	(15.1)	(25.1)	(32.4)
Relative (%)	(10.8)	(19.3)	(26.8)

Acset Indonusa

The Rise of Resilient Fortress

Outstanding reputation for premium projects. ACSET, noted for its construction of many of the most prestigious high-rise buildings in Greater Jakarta Area, is set to surpass its own growth record. The company has a competitive advantage over peers, being the only listed construction firm in Indonesia with in-house capabilities to handle works from the deepest foundations and basements to high-rise buildings. ACSET has successfully executed complex foundation projects, making it even more difficult for competitors to challenge its position. Notably, the company has just secured three new projects in 2Q13: District 8, Thamrin 9, and factory building, totaling a potential new order book of IDR1.1t. We believe its rich experience and the relatively high entry barriers to the construction sector will continue to support its market leadership status in the future.

Cloudy view on continued Rupiah depreciation. Indonesia construction and property sectors (Jakprop) index tumbled by 41% from its peak in June 2013. This was mainly due to Rupiah depreciation, down by 26% YTD reaching its lowest level of the year. Hypothetically, this also triggered higher procurement cost, whereas the contractors could not directly pass on price escalation to customer. Thus, in investor's eyes, margins contraction seems inevitable.

But margins are still manageable. We believe the company's margin to be resilient despite the continued weakening rupiah given its status as the only contractor which trusted to handle the foundation of premium buildings, thus gives them a strong pricing power. Historically, the company able to pass on higher raw material cost to customer. For example, in 2009 when global financial crisis which impact to IDR depreciated to IDR12,160/USD, the company able to increase its gross margin to 13.4% during the year (from 11% in 2008).

ACSET valuation provides 49% potential upside, BUY. We recommend Buy on Acset Indonusa (ACSET) with a TP of IDR2,850/share, based on DCF (assuming 11.8% WACC and 3% terminal growth). Our TP represent 12.3x FY14F PER. Vs. industry peers at 10x 2014F PER. Notably, ACSET offers higher EPS growth of 68% and 33% in FY13F-14F, respectively, compared to peers average's 30%.

Risks to our call. We have identified downside risks to our valuation, namely: i) lower than expected new order wins; ii) poor execution, resulting in project delays, and higher cost; iii) customer defaults/delays in project payment, impacting cashflows; iv) intensifying competition.

Acset Indonusa – Summary Earnings Table

FYE Dec (IDR b)	2011A	2012A	2013F	2014F	2015F
Revenue	429	670	1,062	1,415	1,786
Revenue growth (%)	41.6	56.1	58.5	33.3	26.2
Gross profit	80.4	115.5	191.1	261.8	321.4
Gross profit growth (%)	25.9	43.7	65.4	37.0	22.8
EBITDA	66	102	154	200	247
EBITDA growth (%)	36.7	54.1	50.7	30.0	23.1
Net profit	36	53	87	115	141
Net profit growth (%)	31.4	44.4	64.6	33.0	22.3
ROE (%)	22.0	24.1	13.4	15.8	16.6
ROA (%)	10.2	7.0	7.2	7.9	8.0
Consensus Net Profit (IDR b)	N/A	N/A	N/A	N/A	N/A

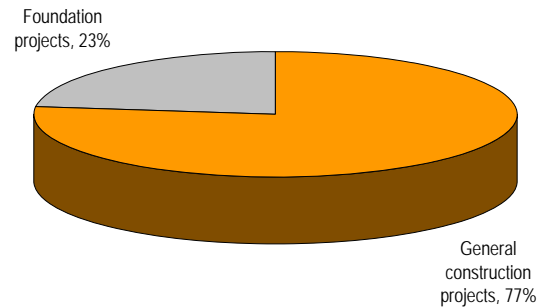
Source: Company, Kim Eng estimates

Company profile

Top local construction firm with foreign connection. Acset Indonusa (ACSET) provides technical and construction services for building, civil and marine works. The company was established in 1995 and saw rapid growth from 2000 onwards. Today, it is one of the leading Building and Foundation Specialist contractors in Indonesia. It is also the only local construction company which is capable to provide services spanning the entire value chain of general and infrastructure construction projects. To top it all, it has a foreign connection, given that founders first gained experience and knowledge while working as a professional in L&M Group and Bored Piling Pte Ltd, both specialist contractors in Singapore.

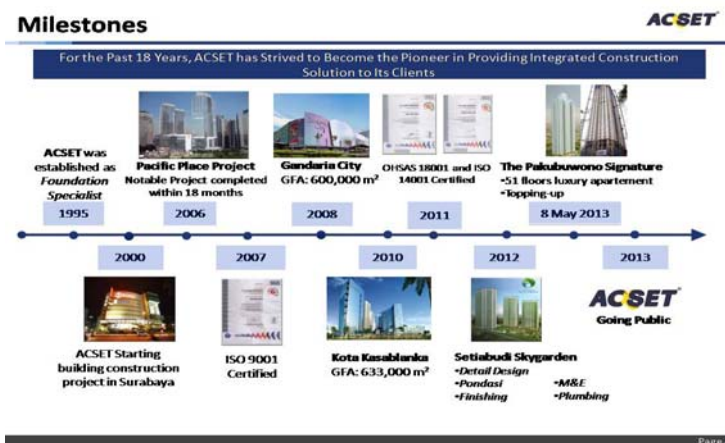
Two main business pillars. In 1995, ACSET began operations by undertaking foundation and diaphragm wall works for its clients. Today, the company has become a strong corporation with two main business pillars – General construction and Foundation Specialist works. It has also amassed vast experience in constructing prestigious high-rise buildings as well as bored piling, diaphragm wall, marine, silo slip forming, geotechnical and waterproofing works. Moving forward, ACSET plans to expand its portfolio by adding more civil engineering in power plant and toll road projects.

Figure 1: Revenue breakdown (as of FY12)



Source: Company data

Figure 2: Key milestones



Source: Company data

ACSET has gained a reputation of foundation specialist due to its expertise.

Signature projects. ACSET has earned an outstanding reputation for constructing grade A office buildings, high-rise apartments and malls of great prestige. Its completed signature projects include the following:

- 1) Pacific Place (PP) – Main contractor
PP is an iconic high-end shopping mall located in Sudirman Central Business District (CBD), South Jakarta. It is part of a mixed-use development, which comprises Pacific Place Mall, One Pacific Place office tower, Ritz-Carlton Hotel and residential units.
- 2) Gandaria City (GC) – Main contractor
GC is a mixed-use development in South Jakarta area and boasts a gross floor area (GFA) of 600,000 sqm. The mall is targeted at the middle- and upper-income consumers.
- 3) Equity Tower (ET) – Main contractor
Primarily an office building, ET is strategically located in Sudirman, the most prestigious area in Jakarta's CBD, and has a GFA of 132,000 sqm.
- 4) Residence 8 and Office 8, Senopati – Main contractor
This high-rise luxury development is located in the heart of Jakarta's CBD, comprises two 34-storey apartment blocks atop of a seven-storey podium. There is a 32-storey office tower with three basement levels. The total GFA is 225,450 sqm.
- 5) Kota Kasablanca (KK) – Main contractor
KK is one of the newest malls in Kuningan, South Jakarta. It is part of the mixed-use development which consists of a shopping mall, two Apartment blocks, and two Office towers. The development is managed by the Pakuwon Group and is targeted at the middle- and upper-income consumers.
- 6) British Embassy (BE) – Main subcontractor
This project is another feather in ACSET's cap, providing proof that the company is able to execute work according to international standards.

Note that most of these projects are located in the prime Jakarta CBD.

Figure 3: Signature projects (Residence8 and Pacific Place)



Source: Company data

A foundation specialist. ACSET's expertise lies in foundation and Diaphragm wall works. The company has more than 18 years of experience in this field in Indonesia. Among its earliest projects were Menara Sahid and Graha Niaga II (Energy Tower) in Jakarta, both of which required the construction of deep bored piles and diaphragm walls. ACSET subsequently went on to undertake numerous Foundation works for premium high-rise buildings in the Jakarta CBD,

as well as in Surabaya, Kalimantan, Medan and Aceh. The company has since expanded overseas to Ho Chi Minh City in Vietnam, with its involvement in the construction of a Residential high-rise project, The Estella for Singapore-based Keppel Land.

Figure 4: Project portfolio

Selected Construction Projects	Selected Foundation Projects
<p>Jakarta</p> <ol style="list-style-type: none"> 1. Pacific Place 2. Gandaria City 3. Equity Tower 4. Residence 8@Senopati 5. The Pakubuwono Signature, The Pakubuwono House & Town House 6. Kota Kasablanka 7. New British Embassy 8. Menara Satrio Office Tower 9. Setiabudi Sky Garden <p>Surabaya</p> <ol style="list-style-type: none"> 1. Supermall Pakuwon Indah & PTC Surabaya 2. BG Junction 3. Plaza Tunjungan IV 4. Imperial Family Club <p>Others</p> <ol style="list-style-type: none"> 1. TS Suites Hotel Mall (Bali) 2. Alila Hotel, Seminyak (Bali) 3. Sun Plaza (Medan) 4. The Estella High-Rise Residential Development (Vietnam) 5. Tanjung Jati B Power Plant Expansion Project 	<p>Jakarta</p> <ol style="list-style-type: none"> 1. Ciputra World 2. Pacific Place 3. Tanjung Priok Access Road E2A 4. BII Plaza 5. Bank Indonesia Building "D" 6. Menara Sahid 7. Graha Niaga II, Jakarta 8. Plaza Asia & Sudirman Mansion 9. Pasar Tanah Abang Blok A & B 10. Smesco Promotion & Convention Center 11. The St. Regis 12. Menara Satrio Office Tower 13. Plaza Sudirman 14. Gandaria City 15. 18 Office Park 16. The Pakubuwono Signature, The Pakubuwono House & Town House 17. District 8 Office Tower 18. Bahana Office Tower <p>Surabaya</p> <ol style="list-style-type: none"> 1. Wisma Dharmala 2. Surabaya Madura Approach Bridge <p>Others</p> <ol style="list-style-type: none"> 1. Coal Fired Power Plant in Rembang (Central Java) 2. Tanjung Jati B Coal Power Plant 3. Estella Residential Development (Vietnam) 4. Sun Plaza (Medan) 5. Plaza Ambarukmo (Yogyakarta) 6. Margo City (Depok) 7. Medan Focal Point (Medan) 8. Semen Andalas (Aceh)

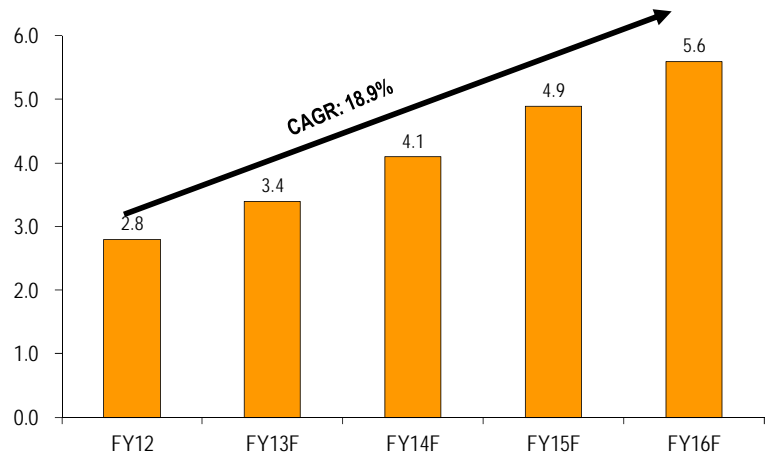


Source: Company data

Company outlook

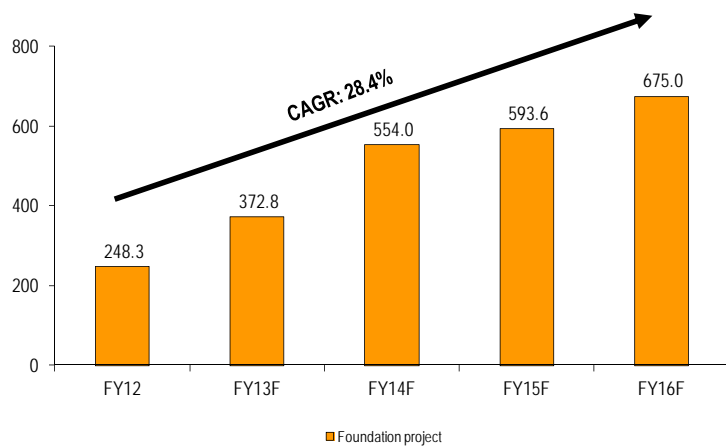
Strong order book. Until right now ACSET's order book stood at IDR1.1t. Management expects the order book is likely to grow to IDR1.6t by year end, whereas general construction projects – mainly for high-rise buildings – will still make up the bulk of the order book in the future. Based on our projections, orderbook would grow by 21% YoY and 20% YoY to IDR3.4t and IDR4.1t in FY13F-14F, respectively, and revenues would correspondingly surge by 59% YoY and 33% YoY to IDR1.1t and IDR1.4t in FY13F and FY14F, respectively. In addition, we expect the revenue contribution from foundation works to grow larger against the general construction works starting FY14 and will make the overall contribution to 75%-25% from 77%-23% at present time.

Figure 8: Order book growth (in IDR t)



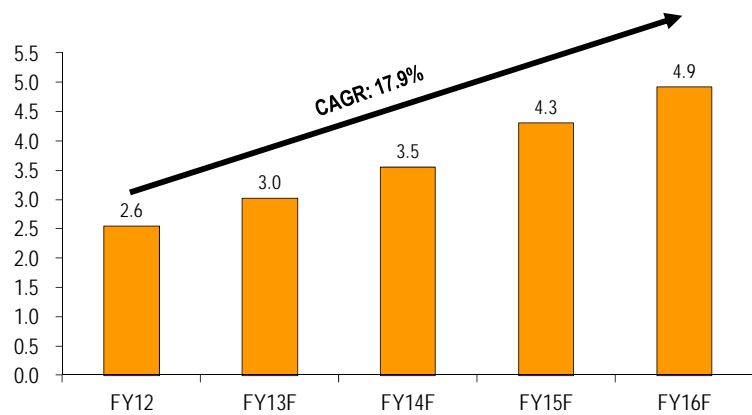
Source: Company data, Kim Eng estimates

Figure 9: Foundation projects growth (in IDR b)



Source: Company data, Kim Eng estimates

Figure 10: General construction projects growth (in IDR t)



Source: Company data, Kim Eng estimates

High barriers to entry. Foundation works offer higher margins than General construction works. Nevertheless, construction companies are reluctant to enter or take on such Specialist works for the following reasons: 1) a huge upfront investment in specialised equipment, 2) lack of specialised operators and skilled workers, 3) lack of trained and experienced project management team, 4) difficulties in acquiring specific knowledge of soil and site conditions, and 5) it is a high-risk job with a long learning curve. Thus, we believe these high entry barriers will benefit ACSET.

Valuations

ACSET valuation provides 49% potential upside, BUY. We recommend Buy on Acset Indonusa (ACSET) with a TP of IDR2,850/share, based on DCF (assuming 11.8% WACC and 3% terminal growth). Our TP represent 12.3x FY14F PER. Vs. industry peers at 10x 2014F PER. Notably, ACSET offers higher EPS growth of 68% and 33% in FY13F-14F, respectively, compared to peers average's 30%.

PER comparison 2014.

	Market caps (USD m)	PER (x)	PBV (x)	EV/EBITDA (x)	ROE (%)	EPS growth (%)
Wijaya Karya	812.2	13.7	2.8	7.5	21.3	23.4
Waskita Karya	338.5	9.8	1.6	6.8	16.8	25.0
PP (persero)	448.4	11.8	2.5	7.1	24.0	25.7
Adhi Karya	230.8	6.6	1.6	3.6	24.4	22.8
Total Bangun Persada	152.2	7.5	2.0	4.6	30.1	18.6
Acset Indonusa	81.9	8.3	1.3	6.2	15.8	33.0
Average		9.6	2.0	6.0	22.0	24.7

Financial Highlights

INCOME STATEMENT (IDR b)

FYE Dec	2012	2013F	2014F	2015F
Revenue	670	1,062	1,415	1,786
EBITDA	102	154	200	247
Depreciation & Amortisation	25	35	42	50
Operating Profit (EBIT)	77	119	158	197
Interest (Exp)/Inc	-2	-2	2	-4
Associates	0	0	0	0
One-offs	-2	3	0	3
Pre-Tax Profit	73	120	160	196
Tax	-20	-34	-45	-55
Minority Interest	0	0	0	0
Net Profit	53	87	115	141
Recurring Net Profit	53	87	115	141
Revenue Growth %	56.1	58.5	33.3	26.2
EBITDA Growth (%)	54.1	50.7	30.0	23.1
EBIT Growth (%)	62.1	54.7	32.5	24.7
Net Profit Growth (%)	44.4	64.6	33.0	22.3
Recurring Net Profit Growth (%)	44.4	64.6	33.0	22.3
Tax Rate %	27.6	28.0	28.0	28.0

CASH FLOW (IDR b)

FYE Dec	2012	2013F	2014F	2015F
Profit before taxation	73	120	160	196
Depreciation	25	35	42	50
Net interest receipts/(payments)	-2	-2	2	-4
Working capital change	-33	-50	-4	-49
Cash tax paid	-20	-34	-45	-55
Others (incl'd exceptional items)	-8	1	-3	4
Cash flow from operations	35	71	153	141
Capex	-67	-107	-122	-90
Disposal/(purchase)	-1	0	0	0
Others	-1	0	0	0
Cash flow from investing	-69	-108	-122	-90
Debt raised/(repaid)	69	56	51	54
Equity raised/(repaid)	0	375	0	0
Dividends (paid)	0	0	0	-28
Others	2	0	0	0
Cash flow from financing	71	431	51	26
Change in cash	37	394	83	77

BALANCE SHEET (IDR b)

FYE Dec	2012	2013F	2014F	2015F
Fixed Assets	135	169	212	261
Other LT Assets	48	38	45	53
Cash/ST Investments	65	459	542	619
Other Current Assets	553	575	703	884
Total Assets	755	1,206	1,459	1,768
ST Debt	94	149	199	250
Other Current Liabilities	434	406	530	663
LT Debt	5	6	8	10
Other LT Liabilities	4	4	4	5
Minority Interest	0	0	0	0
Shareholders' Equity	218	645	732	847
Total Liabilities-Capital	755	1,210	1,473	1,776
Share Capital (m)	40	415	415	415
Gross Debt/(Cash)	99	155	206	260
Net Debt/(Cash)	34	-305	-337	-361
Working Capital	90	479	516	589

RATES & RATIOS

FYE Dec	2012	2013F	2014F	2015F
EBITDA Margin %	15.3	14.5	14.2	13.8
Op. Profit Margin %	5.7	6.8	7.3	7.0
Net Profit Margin %	7.9	8.2	8.2	7.9
ROE %	24.1	13.4	15.8	16.6
ROA %	7.0	7.2	7.9	8.0
Net Margin Ex. EI %	7.9	8.2	8.2	7.9
Dividend Cover (x)	n/a	n/a	n/a	n/a
Interest Cover (x)	24.1	23.1	24.1	23.4
Asset Turnover (x)	1.9	2.0	2.2	2.2
Asset/Debt (x)	1.4	2.1	2.0	1.9
Debtors Turn (days)	12.6	10.5	10.4	10.2
Creditors Turn (days)	7.6	6.8	6.4	6.2
Inventory Turn (days)	5.5	6.2	6.8	6.7
Net Gearing %	15.7	net cash	net cash	net cash
Debt/ EBITDA (x)	1.0	1.0	1.0	1.1
Debt/ Market Cap (x)	n/a	n/a	n/a	n/a

Source: Company, Kim Eng estimates

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Maybank Kim Eng Research uses the following rating system:

BUY	Total return is expected to be above 10% in the next 12 months
HOLD	Total return is expected to be between -10% to +10% in the next 12 months
SELL	Total return is expected to be below -10% in the next 12 months

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Some common terms abbreviated in this report (where they appear):

Adex = Advertising Expenditure	FCF = Free Cashflow	PE = Price Earnings
BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth
CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
EV = Enterprise Value	PBT = Profit Before Tax	

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