

Acset Indonusa (ACST IJ)

Share Price: IDR4,145

MCap (USD): 144M

Indonesia

Target Price: IDR5,000 (+21%)

ADTV (USD): 0.1M

Construction

BUY

(Unchanged)

Stronger Backlog to Propel Growth

- Lower TP to IDR5,000 from IDR6,500 after cutting 2015 EPS by 30% for temporary margin pressure. TP still based on 25x FY16 P/E. Maintain BUY as new orders should pave way for recovery in 2016-2017.
- We raise 2015 new-contract target by 25% to IDR2.5t.
- IDR360b project awarded from Astra mark a good start.

What's New

Revenue contributions from ACST's high-margin foundation business were only 20% in 1H15, resulting in a gross-margin contraction to 15.3% from 18.7%. Reflecting this weak profitability, we cut 2015 earnings by 30%. More positively, we are upbeat on recent new orders of IDR2.1t, surpassing management's initial target of IDR2t. These will start making contributions in 2H15. A stronger backlog has brightened ACST's 2016-2017 outlook, potentially paving the way for double-digit earnings growth.

YTD, ACST has secured new projects from the Astra Group amounting to IDR360b. Part of this is for toll-road maintenance (IDR60b) and part for warehouses (IDR60-90b). This augurs well, as we were initially only expecting one award from Astra in 2015. More from the Astra Group are possible in 2016, we believe.

What's Our View

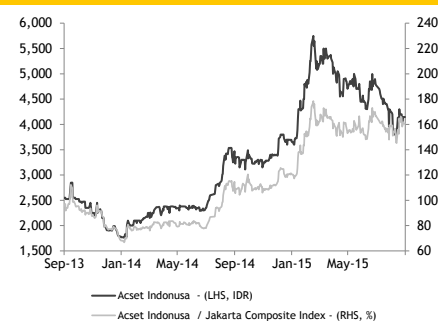
While we cut 2015-2017 earnings, we maintain our BUY rating as we are still expecting its backlog to underpin an EPS CAGR of 53% in 2016-2017. Order book to revenue in 2016 should reach a new record high of 4x, which should allow double-digit growth to sustain. Our new-contract target has upside, potentially from the Astra Group. We lower our TP to IDR5,000 from IDR6,500 after cutting EPS. This is still set at 25x 2016 P/E or 0.6 PEG. Risk to our forecast would be slower than expected projects execution from weak demand in high rise property segment.

FYE Dec (IDR b)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	1,014.5	1,350.9	1,227.4	1,408.2	1,868.6
EBITDA	118.2	134.4	86.2	129.8	208.4
Core net profit	99.4	104.7	59.8	101.2	140.2
Core EPS (IDR)	199	209	120	202	280
Core EPS growth (%)	89.8	5.4	(42.9)	69.3	38.5
Net DPS (IDR)	0	40	42	24	40
Core P/E (x)	20.9	19.8	34.7	20.5	14.8
P/BV (x)	3.7	3.2	3.0	2.7	2.3
Net dividend yield (%)	0.0	1.0	1.0	0.6	1.0
ROAE (%)	25.5	17.4	9.0	13.9	16.8
ROAA (%)	9.7	7.6	3.8	5.7	6.6
EV/EBITDA (x)	0.5	1.4	1.2	0.8	0.9
Net debt/equity (%)	9.6	27.5	14.3	13.7	21.3

Key Data

52w high/low (IDR)	5,750/3,110
3m avg turnover (USDm)	0.1
Free float (%)	31.0
Issued shares (m)	500
Market capitalization	IDR2.1T
Major shareholders:	
-Karya Surya Perkasa	40.0%
-Cross plus Indonesia	16.5%
-Loka Cipta Kreasi	11.8%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	(3.0)	(6.7)	19.5
Relative to index (%)	1.3	2.8	40.0

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	0	0	0
	Maybank Consensus		% +/-
Target Price (IDR)	5,000	na	na
'15 PATMI (IDRb)	60	na	na
'16 PATMI (IDRb)	101	na	na

Source: FactSet; Maybank

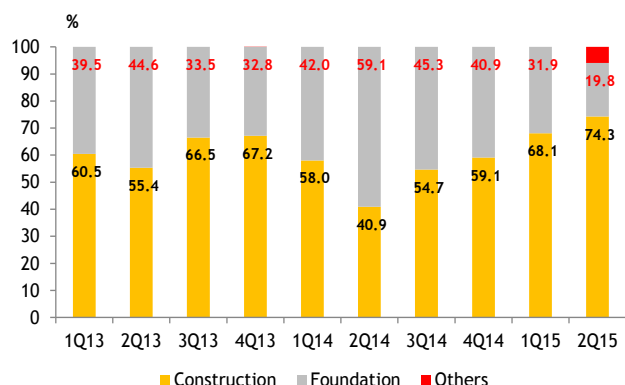
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Temporary margin pressure

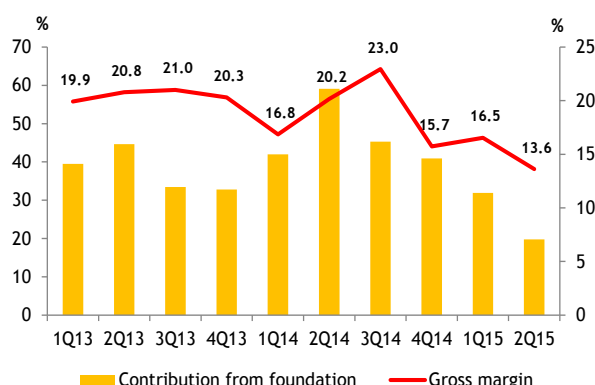
Revenue contributions from its high-margin foundation segment were only 20% in 1H15, resulting in a gross-margin contraction to 15.3% from 18.7% in 1H14. Recall that in this business, contracts are typically short, spanning 3-6 months. After securing a large foundation contract of IDR463b in 2013, new orders in this business fell to IDR225b in 2014, due to presidential elections. The adverse impact showed up in 1H15, but we believe orders and margins will recover in 2H15.

Figure 1: Revenue contributions
Less from its foundation segment resulted in...



Source: Company, Maybank KE

Figure 2: Contributions from foundation & margins
...a margin contraction in 2Q15

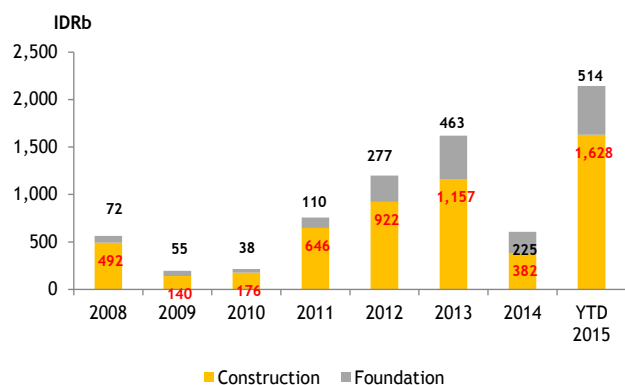


Source: Company, Maybank KE

Strong new contracts suggest recovery

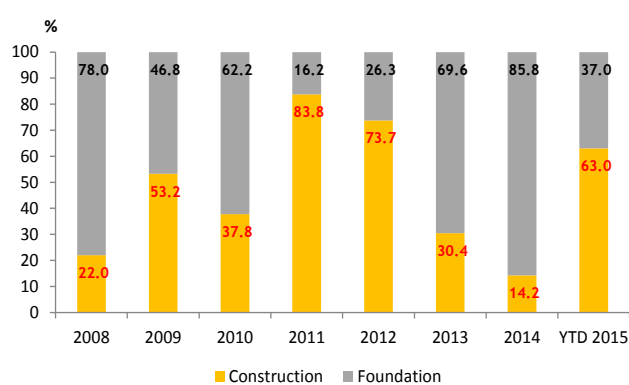
ACST has secured new contracts of IDR2.1t YTD, exceeding management's target of IDR2t. This prompted management to raise its 2015 target to IDR2.5t, up 311% YoY. The strength stemmed from Astra, which recently awarded ACST projects worth IDR360b. YTD, ACST's new foundation projects have more than doubled to IDR514b. With its foundation recovery, we expect ACST's gross margins to return to 18.5% in 2016.

Figure 3: New contracts by business
Strong YTD new contracts in both businesses to...



Source: Company, Maybank KE

Figure 4: Gross profit contributions
...fuel a margin recovery in 2016

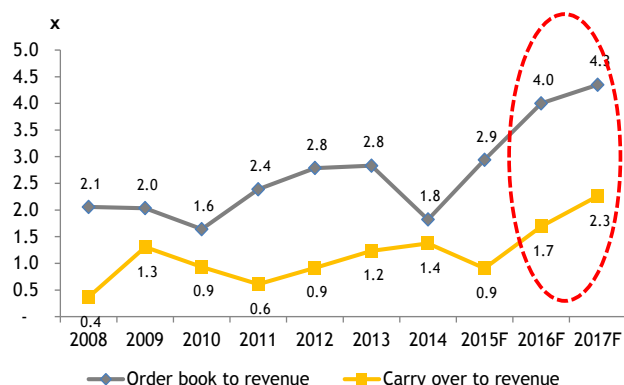


Source: Company, Maybank KE

Stacking up order book

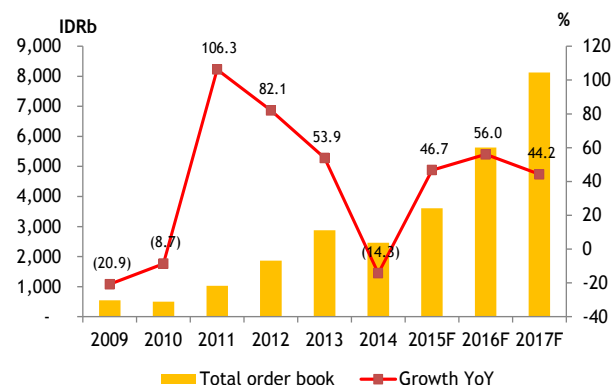
We expect its stronger order book to pave the way for 53% earnings CAGR in 2016-2017. ACST's order book to revenue will likely improve to 4x in 2016 from 2.9x in 2015. Backlog project growth in 2016 will be more than double, partially due to lower revenue realization in 2015. As ACST will deliver softer project execution in 2015, order book savings would pave the way for double-digit growth to sustain going forward. New contract growth will likely normalize at 30% YoY in 2016F and 20% YoY in 2017F. It is worth noting that upside to our forecast will likely stem from higher than expected project awards from Astra group.

Figure 5: Order book to revenue & carry over to revenue
Order book/revenue of 4x is the strongest in the sector



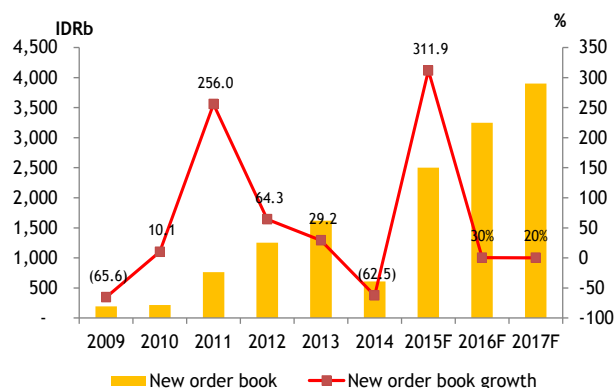
Source: Company, Maybank KE

Figure 6: Total order book
Growth to stay above 40%



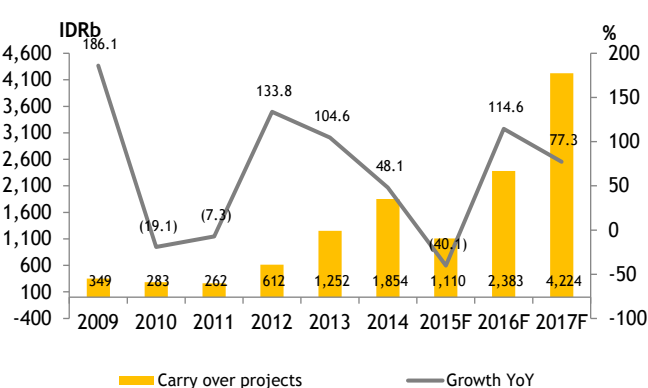
Source: Company, Maybank KE

Figure 7: New order book & YoY growth
Strong 2015 new-contract growth has led to...



Source: Company, Maybank KE

Figure 8: Backlog projects & YoY growth
...a jump in backlog projects



Source: Company, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	20.9	19.8	34.7	20.5	14.8
Core P/E (x)	20.9	19.8	34.7	20.5	14.8
P/BV (x)	3.7	3.2	3.0	2.7	2.3
P/NTA (x)	3.7	3.2	3.0	2.7	2.3
Net dividend yield (%)	0.0	1.0	1.0	0.6	1.0
FCF yield (%)	nm	nm	4.6	nm	nm
EV/EBITDA (x)	0.5	1.4	1.2	0.8	0.9
EV/EBIT (x)	0.4	1.0	0.7	0.6	0.8
INCOME STATEMENT (IDR b)					
Revenue	1,014.5	1,350.9	1,227.4	1,408.2	1,868.6
Gross profit	207.9	248.9	208.7	260.5	373.7
EBITDA	118.2	134.4	86.2	129.8	208.4
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	153.1	176.7	135.8	185.9	251.7
Net interest income / (exp)	(15.7)	(30.1)	(40.1)	(43.4)	(58.2)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(7.4)	(2.2)	0.0	0.0	0.0
Pretax profit	130.0	144.4	95.7	142.5	193.4
Income tax	(30.8)	(40.6)	(36.8)	(42.2)	(54.2)
Minorities	0.1	0.9	0.9	0.9	0.9
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	99.4	104.7	59.8	101.2	140.2
Core net profit	99.4	104.7	59.8	101.2	140.2
BALANCE SHEET (IDR b)					
Cash & Short Term Investments	48.7	49.6	307.9	365.4	429.4
Accounts receivable	214.0	233.8	215.9	245.1	317.8
Inventory	0.0	0.0	0.0	0.0	0.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	220.8	242.0	271.8	288.7	275.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	814.8	948.3	867.5	991.1	1,306.3
Total assets	1,298.4	1,473.6	1,663.1	1,890.4	2,328.7
ST interest bearing debt	85.4	182.8	350.0	401.5	532.8
Accounts payable	210.5	268.6	248.3	279.7	364.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	16.9	44.4	55.5	69.3	86.6
Other liabilities	425.0	331.0	324.0	366.0	451.0
Total Liabilities	737.9	826.3	978.1	1,116.1	1,434.4
Shareholders Equity	560.2	645.1	682.9	772.1	892.0
Minority Interest	0.3	2.2	2.2	2.2	2.2
Total shareholder equity	560.4	647.3	685.1	774.3	894.2
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	1,298.4	1,473.6	1,663.1	1,890.4	2,328.7
CASH FLOW (IDR b)					
Pretax profit	130.0	144.4	95.7	142.5	193.4
Depreciation & amortisation	(34.9)	(42.3)	(49.6)	(56.1)	(43.3)
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	24.8	78.3	6.5	11.9	22.7
Cash taxes paid	(30.8)	(40.6)	(36.8)	(42.2)	(54.2)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	(150.3)	(59.4)	195.8	97.2	8.0
Capex	(133.1)	(78.7)	(100.1)	(100.1)	(80.1)
Free cash flow	(283.4)	(138.1)	95.8	(2.9)	(72.1)
Dividends paid	0.0	(19.8)	(20.9)	(12.0)	(20.2)
Equity raised / (purchased)	241.8	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	22.1	124.9	178.3	65.4	148.6
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	3.3	33.9	5.2	7.0	7.7
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(16.2)	0.9	258.3	57.5	64.0

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	51.4	33.2	(9.1)	14.7	32.7
EBITDA growth	136.7	13.7	(35.8)	50.6	60.5
EBIT growth	103.7	15.4	(23.1)	36.9	35.4
Pretax growth	79.6	11.1	(33.7)	49.0	35.7
Reported net profit growth	89.8	5.4	(42.9)	69.3	38.5
Core net profit growth	89.8	5.4	(42.9)	69.3	38.5
Profitability ratios (%)					
EBITDA margin	11.6	9.9	7.0	9.2	11.2
EBIT margin	15.1	13.1	11.1	13.2	13.5
Pretax profit margin	12.8	10.7	7.8	10.1	10.4
Payout ratio	0.0	18.9	35.0	11.8	14.4
DuPont analysis					
Net profit margin (%)	9.8	7.7	4.9	7.2	7.5
Revenue/Assets (x)	0.8	0.9	0.7	0.7	0.8
Assets/Equity (x)	2.3	2.3	2.4	2.4	2.6
ROAE (%)	25.5	17.4	9.0	13.9	16.8
ROAA (%)	9.7	7.6	3.8	5.7	6.6
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	62.0	59.7	65.9	58.9	54.2
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	74.4	78.3	91.3	82.8	77.6
Dividend cover (x)	nm	5.3	2.9	8.5	6.9
Current ratio (x)	1.5	1.6	1.5	1.5	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.8	1.7	1.7	1.6
Net debt/equity (%)	9.6	27.5	14.3	13.7	21.3
Net interest cover (x)	9.8	5.9	3.4	4.3	4.3
Debt/EBITDA (x)	0.9	1.7	4.7	3.6	3.0
Capex/revenue (%)	13.1	5.8	8.2	7.1	4.3
Net debt/ (net cash)	53.6	177.6	97.5	105.4	190.1

Source: Company; Maybank

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