

Tuesday, 13th of Dec'11 was the submitted of report for formulation and synchronization team to working committee for LCA (Land Clearing Act) laws. Once it passed, the expected infrastructure will deliver re-ratings. The next agenda for LCA laws is on 15th-16th of Dec'11 in Paripurna meeting to be approved as Law.

No Downside Risk

We believe the current laggard on infrastructure stocks especially construction companies is mainly due to the market price-in of laggard infrastructure in Indonesia. It means there is no more big downside risk once LCA laws delayed as the market already price in the news.

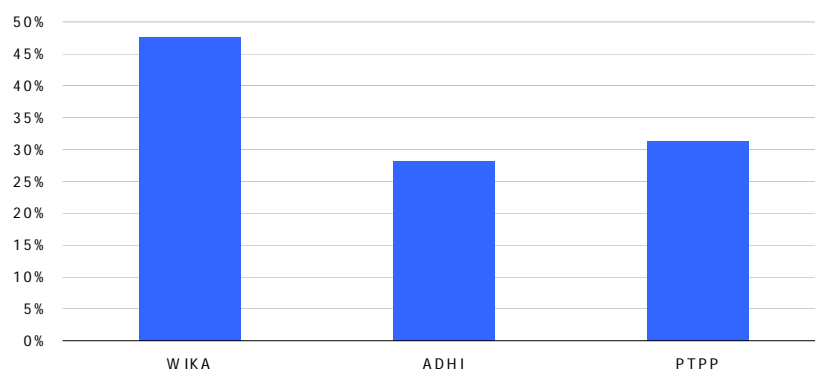
Choice of Fundamental Sound + Capture Java

For fundamental sound, we pick companies that are having the potential growth in Java, supplying the prioritized Trans-Java toll roads need while at the same time the internal condition is sounding.

☐ Construction: WIKA

For construction companies, we like WIKA for its solid balance sheet and diversify business model, construction accounted 60% revenue and the concrete for 20% revenue. It also highly exposure toward road contracts, which is likely to continue as LCA laws passed. For further notes, please read notes on WIKA: Perfect Seat

Road, Bridge, Port Contribution to Total Order Book



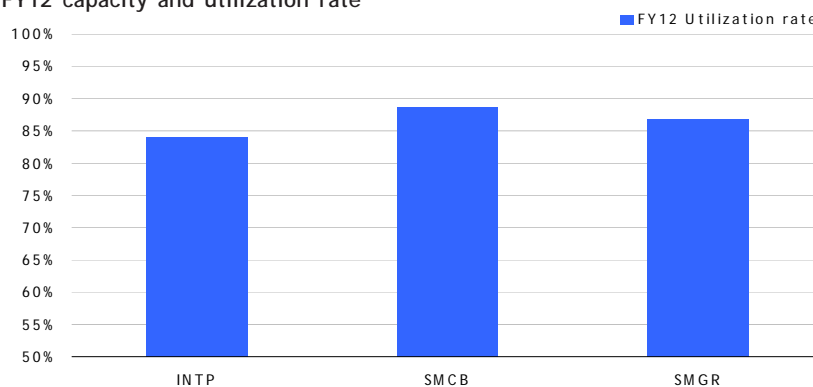
Source: Company, TRIM Research

☐ Cement: SMGR and INTP

We like SMGR for its additional capacity to provide growth further in FY12. 50% of its plant located in Java and the Java new plant delivery could grab back its losing market share during 2010-2011. SMGR as market leader for cement companies unjustified getting a discount PE, hence we believe SMGR could re-rate. For further notes, please read our notes on SMGR: A Path to Grow.

INTP currently hold the lowest utilization rate and 86% of its plant located in Java able to supply the growth in Java. For further information, read our Yearbook 2012 view.

FY12 capacity and utilization rate



Source: Company, TRIM Research

Sentiment to Drive Re-rating

LCA sentiment could boost re-rating of the sector in the midst of LCA euphoria; people will choose the cheap valuation, no matter what happens inside the company.

Construction companies currently traded at 9.7 x forward PE, WIKA at 11.5 x forward PE, ADHI at 5.7 x forward PE, PTPP at 9.1 x forward PE, TOTL at 8.5x forward PE. ADHI and PTPP could re-rate further but WIKA and TOTL on solid balance sheet.

Cement companies currently traded at 16.1 x PE, SMGR at discount for 15.6 x forward PE, SMCB at 16.9 x forward PE, and INTP at 16.4 x forward PE. SMGR could further re-rate as it long time undeserved to get discount.

JSMR is a defensive stock, traded at 20 x PE, first line to benefit from LCA laws as it could fasten the revenue engine.

Laggard Construction Valuation Deserves Re-rating

Infrastructure companies traded at 16.3 x PE. The construction companies that still laggard toward the whole infrastructure companies will continue to re-rating after LCA law passed, and so with SMGR that currently still traded at discount. The next agenda for LCA laws is on 15th-16th of Dec'11. Watch on.

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