

PT Waskita Karya Tbk (WSKT IJ)

Sluggish Construction, FY19's Outlook Is Grim

Company Update | April 15, 2020

Buy

Dec. 2020 PT (IDR)	960
Consensus Price (IDR)	1,192
PT to Consensus Price	-19.5%
vs. Last Price	+44.4%

Shares data

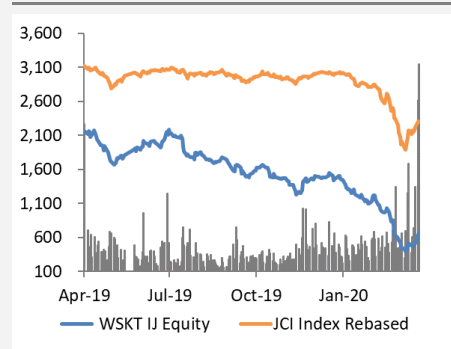
Last Price (IDR)	665
Price Date as of	April, 07 2020
52 wk Range (Hi/Lo)	2,180/398
Free Float (%)	34.0
Outstanding sh.(mn)	13,574
Market Cap. (IDR bn)	8,484
Market Cap. (USD mn)	520.2
Avg. Trd Vol. - 3M (mn)	50.6
Avg. Trd Val. - 3M (bn)	44.6
Foreign Ownership	5.9%

Property

Construction

Bloomberg	WSKT IJ
Reuters	WSKT.JK

Share Price Performance



Ajeng Kartika Hapsari

(021) 5088 9130
ajeng@nhsec.co.id

WSKT in 2019 obtained new contract of IDR26 trillion equal to 57.8% of the target as FY19's revenue and profit accounted for IDR31.4 trillion (-36% YoY) and IDR938 billion (-76% YoY), respectively. The divestment of its two toll-road sections had yet to result in the positive growth of bottom-line and top-line. Conversely, turnkey project payments of IDR9 trillion turned FY19's cash-flow performance into positive. WSKT in 2020 targets to divest its six toll-road sections to spur revenue and cash-flow performance.

Postponed Divestment Leaves Revenue and Profit Tumbling

WSKT posted a 190% YoY net loss of IDR212 billion in 4Q19 (vs. 4Q18's net profit of IDR236 billion), and that loss was the lowest within four quarters in 2019. The four-quarter losing streak cut FY19 profit by 76% YoY to IDR938 billion (vs. IDR3.9 trillion in FY18), and that was the year when WSKT recorded the first losses since 2013. The net losses were attributable to 4Q19's low revenue of IDR9.4 trillion or a 25% YoY decline (vs. 4Q18's revenue of IDR12.6 trillion). Furthermore, FY19's revenue of IDR31.4 trillion or declining by 36% YoY (vs. FY18's revenue of 48.8 trillion). Postponed divestment of toll-road sections, deep declines in joint-venture revenue, and 2019's election were hiccups in FY19's revenue and profit.

WSKT Wins Half More of New Contract Targets

WSKT in 2019 succeeded to achieve a new contract of IDR26 trillion or 57.8% of the target achievement. A breakdown of 2019's contract sources as follows SOEs projects by 46.1%, business developer projects by 34.7%, and the government & private projects by 1.9%. Prabumulih-Muara Enim toll-road and Juanda Airport Development projects with respective values of IDR4.5 trillion and IDR623 billion are prestigious projects WSKT wins.

Other Segment Outshone whilst Construction Segment Underperformed

WSKT's construction segment in 4Q19 contributed 89.6% to its total revenue, but its 4Q19's revenue declined by 34% YoY to IDR8.4 trillion (vs. IDR12.7 trillion in 4Q18) and FY19's revenue dipped by 40% YoY to IDR28.6 trillion. The FY19's losses marked the first-worst performance since 2013 because the post-election backdrop stirred the grim prospect of unstable construction industry and delays to projects. Jokowi's second arrival to power calling for continuing infrastructure boom by means of the more substantial state budget (APBN) for financing the infrastructure sector is the pretty favorable outlook of higher revenues for WSKT's construction segment. Besides, the precast and toll roads outshining with a 137% growth and 395% growth in revenue were WSKT's best-performing segments.

Cash Flow Soars 100%

The operation cash conversely soared with a significant amount of IDR10.24 trillion to boost 4Q19's net cash flow at IDR5.8 trillion prior to the negative cash-flow performance in 1Q19 and 3Q19. FY2019's cash-flow performance marked 100% growth from IDR9.04 trillion in FY18 thanks to the fresh fund of IDR44 trillion derived from payments of a number of turnkey projects in 2019. Nevertheless, WSKT's total debt surging by 7.02% YoY to IDR69.7 trillion per December 2019 spurred Debt to Equity Ratio (DER) to 2.38x.

Rating BUY with PT of IDR960

With respect to the virus containment, the slowdown in business construction and more funds allocated to buffer the damages caused by the virus are inevitable; thus, we estimate that WSKT in 2020 is likely to attain a new contract of IDR27.0-IDR30.0 trillion. WSKT, additionally, focuses on divesting 6 toll-road sections as it accelerates payments of its receivable. Based on the elaborated facts, we recommend BUY with a 9.7x P/E (-0.21 SD) and a 44.4% yield potential from its current stock price. Its price target displays the 2020F P/E ratio of 9.9x.

PT Waskita Karya Tbk | Summary

	2019A	2020F	2021F	2022F
Revenue	31,387	39,656	46,459	48,336
Growth (%)	-35.7%	26.3%	14.6%	6.3%
EBITDA	4,748	5,566	6,938	7,134
Net Profit	938	1,317	1,349	1,597
EPS (IDR)	69	97	99	118
Growth (%)	-76.3%	40.4%	2.4%	18.4%
P/E	9.6x	7.7x	7.5x	6.4x
P/BV	0.3x	0.3x	0.3x	0.3x
EV/EBITDA	14.5x	13.2x	11.0x	11.6x
ROE (%)	3.2%	4.5%	4.4%	5.1%
DER (%)	238%	247%	262%	279%
Dividend Yield (%)	11%	2.3%	3.2%	3.5%

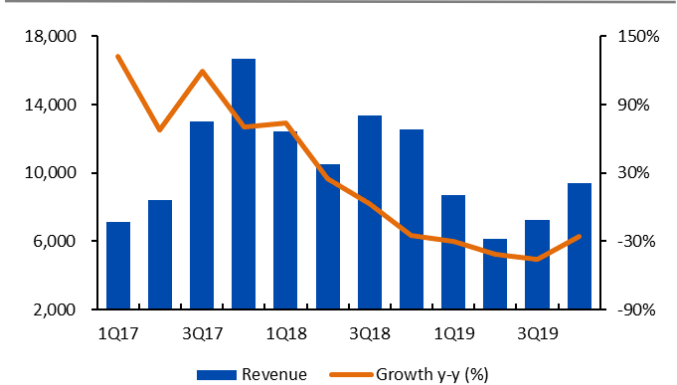
Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKSI Research

Consider NHKSI's Stock Ratings and Important Disclaimer

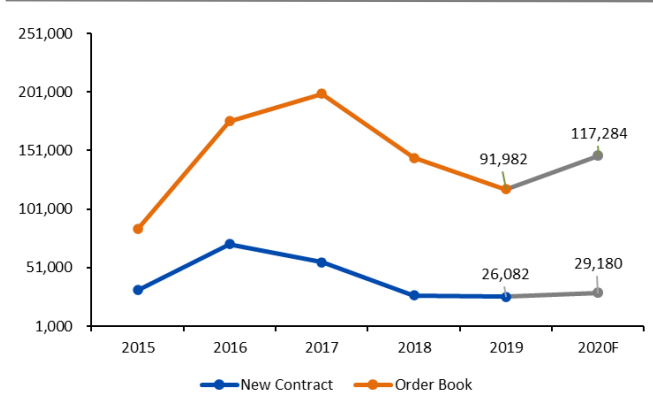
Performance Highlights in Charts

WSKT's Quarterly Revenue (IDR Bn) | 4Q18-4Q19



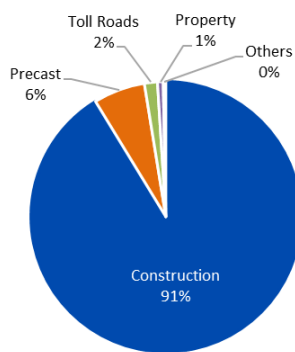
Source: Company Data, NHKSI Research

WSKT Order Book & New Contract



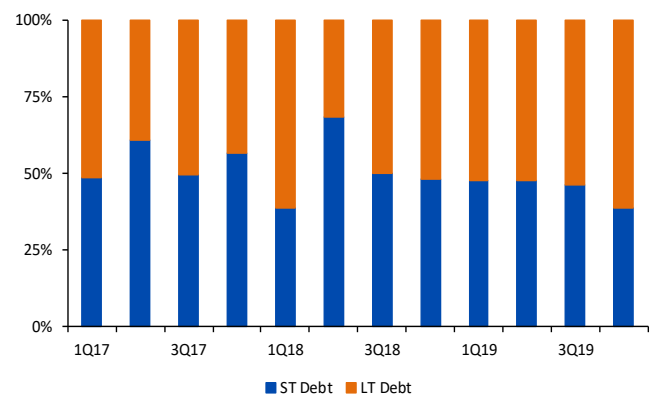
Source: Company Data, NHKSI Research

FY19's Revenue Breakdown



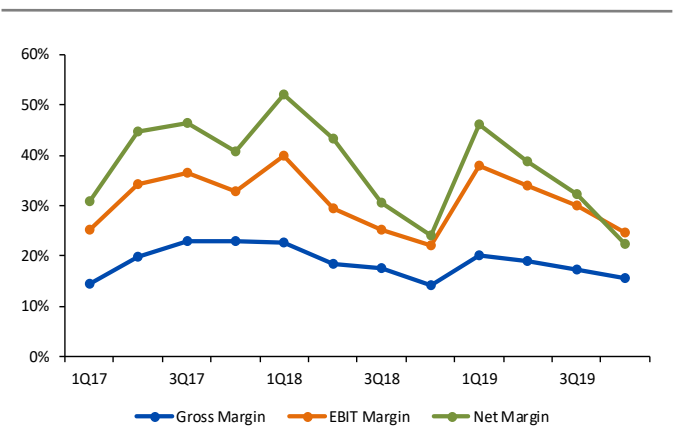
Source: Company Data, NHKSI Research

Debt Portion



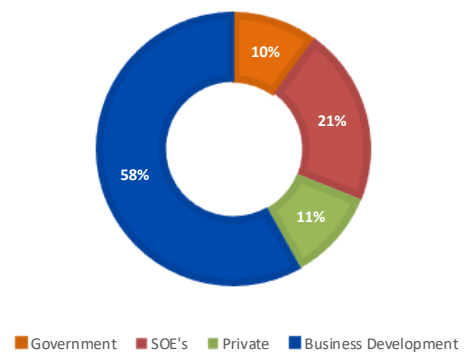
Source: Company Data, NHKSI Research

Margin Ratio



Source: Company Data, NHKSI Research

FY19's Order Book Segmentation



Source: Company Data, NHKSI Research

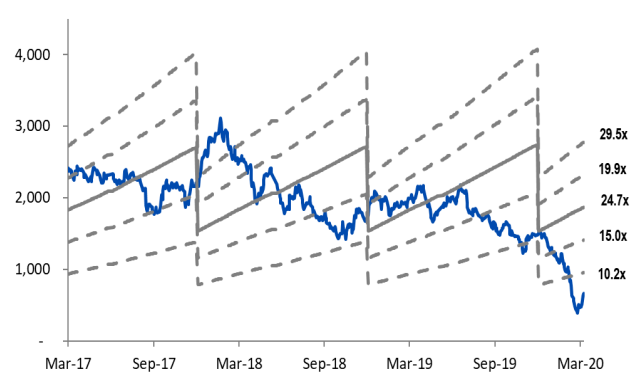
Valuation Highlights in Charts

3-Year Forward P/E Band



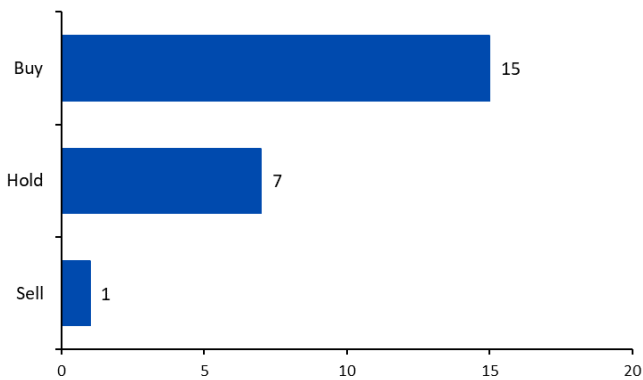
Source: Bloomberg, NHKSI Research

3-Year Discount to NAV Band



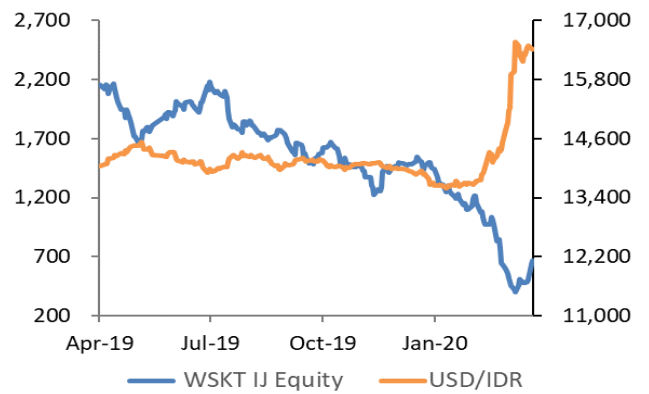
Source: Bloomberg, NHKSI Research

Analysts' Recommendation



Source: Bloomberg, NHKSI Research

Correlation between WSKT and USD/IDR



Source: Bloomberg, NHKSI Research

Quarterly Review

	4Q18	1Q19	2Q19	3Q19	4Q19				1Q20E
					Actual	Estimate	Y-Y	Q-Q	
Income statement									
Revenue	12,556	8,682	6,113	7,220	9,372		-25.4%	-29.8%	6,905
Gross Profit	1,789	1,749	1,165	1,242	1,448		-19.0%	-16.6%	1,463
EBIT	992	1,538	917	926	852		-14.1%	-8.1%	1,197
EBITDA	1,080	1,697	953	1,128	970		-10.2%	-14.0%	1,366
Net Profit	236	716	282	153	-212		-189.8%	-239.1%	261
Margin (%)									
Gross Margin	14.2%	20.1%	19.1%	17.2%	15.5%		1.2%	-1.8%	2.12%
EBIT Margin	7.9%	17.7%	15.0%	12.8%	9.1%		1.2%	-3.7%	17.3%
EBITDA Margin	8.6%	19.5%	15.6%	15.6%	10.3%		1.7%	-5.3%	19.8%
Net Profit Margin	1.9%	8.2%	4.6%	2.1%	-2.3%		-4.1%	-4.4%	3.8%

Unit: IDR (bn), %

Source: Company Data, NHKSI Research

Revisions to Earnings

		2020F	2021F	2022F
Income Statement				
Revenue	-Revised	39,656	45,459	48,336
	-Previous			
	-Change			
Gross Profit	-Revised	7,204	8,377	8,948
	-Previous			
	-Change			
EBIT	-Revised	4,759	5,826	6,137
	-Previous			
	-Change			
EBITDA	-Revised	5,566	6,938	7,134
	-Previous			
	-Change			
Net Profit	-Revised	1,317	1,349	1,597
	-Previous			
	-Change			
Margin				
Gross Margin	-Revised	18.2%	18.4%	18.5%
	-Previous			
EBIT Margin	-Revised	12.0%	12.8%	12.7%
	-Previous			
EBITDA Margin	-Revised	14.0%	15.3%	14.8%
	-Previous			
Net Profit Margin	-Revised	3.3%	3.0%	3.3%
	-Previous			

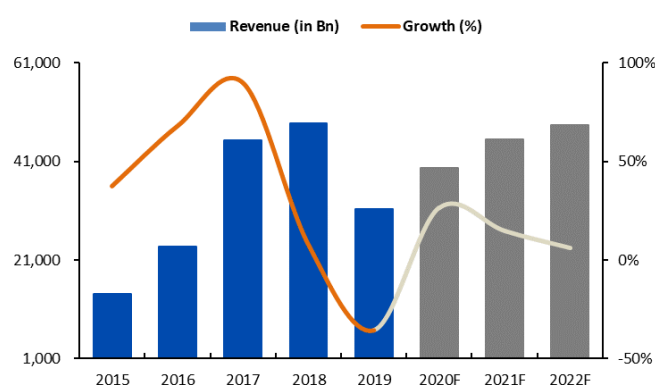
Unit: IDR (bn), %

Source: Company Data, NHKSI Research

Company Overview

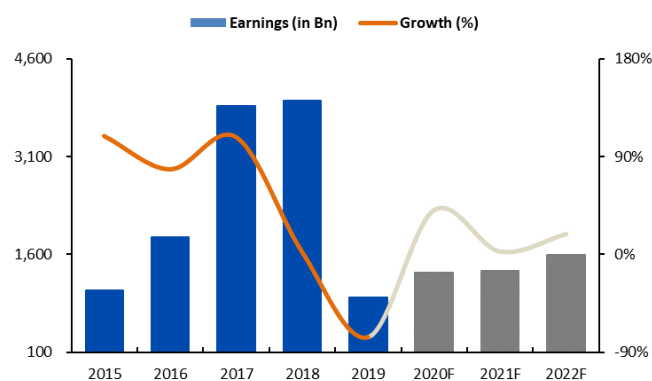
- PT Waskita Karya Tbk (WSKT) is a construction company established on January 1, 1961. WSKT changed its legal entity into "Persero" since 1961 and was listed on Indonesia Stock Exchange (IDX) in December 2012.
- The Indonesia Government is WSKT's major stockholder with 64.04% stock ownership, while 33.96% of stock ownership is owned by the public.
- WSKT whose headquarters is in Jakarta has four subsidiaries, namely PT Waskita Beton Precast Tbk, PT Waskita Toll Road, PT Waskita Karya Realty, and PT Waskita Karya Infrastruktur.
- WSKT runs five business lines, covering construction, toll roads, precast, realty, and energy.
- WSKT in 2019 worked on some prestigious projects: Prabumulih—Muara Enim toll road, renovation of Istiqlal Mosque, development of Juanda airport, and development of Leuwikeris dam.

Revenue and Growth Movement



Source: Company Data, NHKSI Research

Earnings and Growth Movement



Source: Company Data, NHKSI Research

Analysis of Asia-Pacific Peers

	Market Cap. (USD M)	Asset (USD M)	Sales (LTM) (USD M)	Net Profit (LTM) (USD M)	Net Profit Growth (LTM)	Net Profit Margin	ROE (LTM)	P/E (LTM)	P/BV
Indonesia									
PT WASKITA KARYA PERSERO TBK	521	8,853	2,220	66	-76.3%	3.0%	5.2%	19.3x	0.5x
PT PP PERSERO TBK	270	4,273	1,744	66	-38.1%	3.8%	7.1%	6.5x	0.3x
PT WIJAYA KARYA PERSERO TBK	636	4,486	1,924	162	32.1%	8.4%	14.6%	7.9x	0.6x
PT ADHI KARYA PERSERO TBK	131	2,088	1,059	46	2.2%	4.4%	10.5%	8.1x	0.3x
Thailand									
CH. KARNCHANG PUBLIC CO LTD	831	2,775	741	57	-28.7%	7.7%	6.7%	115.3x	1.0x
SINO THAI ENGR & CONSTR PCL	590	1,654	1,063	48	-8.2%	4.5%	11.7%	7.4x	1.3x
	142	1,103	388	24	-8.4%	6.1%	9.2%	7.0x	0.6x
Philippines									
MEGAWIDE CONSTRUCTION CORP	251	1,258	321	15	-54.8%	4.6%	2.8%	20.6x	0.9x
EEI CORPORATION	111	429	442	12	-36.8%	2.8%	7.9%	9.6x	0.7x
HOUSE OF INVESTMENTS	58	756	644	14	-29.9%	2.1%	5.3%	8.4x	0.2x
Vietnam									
FLC FAROS CONSTRUCTION JSC	96	460	208	8	-16.5%	3.7%	3.0%	54.2x	0.4x
HO CHI MINH CITY INFRASTRUCT	198	1,347	78	31	657.8%	39.6%	12.9%	37.4x	0.8x
HOA BINH CONSTRUCTION GROUP	68	721	803	19	-29.8%	2.4%	14.0%	7.8x	0.4x
Malaysia									
GAMUDA BHD	1,832	4,172	1,141	171	58.5%	15.0%	8.8%	17.8x	1.0x
IJM CORP BHD	1,486	5,637	1,437	101	114.4%	7.1%	4.4%	13.1x	0.7x
SUNWAY CONSTRUCTION GROUP BHD	492	466	427	31	-10.5%	7.3%	21.3%	13.2x	3.4x

Unit: USD (mn), %, X

Source: Bloomberg, NHKSI Research

Summary of Financials

INCOME STATEMENT

In IDR bn	2019/12A	2020/12E	2021/12E	2022/12E
Revenue	31,387	39,656	45,459	48,336
Growth (% y/y)	-35.7%	26.3%	14.6%	6.3%
Cost of Revenue	(25,783)	(32,452)	(37,082)	(39,388)
Gross Profit	5,605	7,204	8,377	8,948
Gross Margin	17.9%	18.2%	18.4%	18.5%
Operating Expenses	(1,372)	(2,446)	(2,551)	(2,811)
EBIT	4,233	4,759	5,826	6,137
EBIT Margin	13.5%	12.0%	12.8%	12.7%
Depreciation	515	808	1,112	997
EBITDA	4,748	5,566	6,938	7,134
EBITDA Margin	15.1%	14.0%	15.3%	14.8%
Interest Expenses	(3,621)	(3,862)	(4,957)	(4,951)
EBT	1,329	1,406	1,588	1,884
Income Tax	(300)	(292)	(220)	(261)
Minority Interest	(91)	202	(18)	(25)
Net Profit	938	1,317	1,349	1,597
Growth (% y/y)	-76.3%	40.4%	2.4%	18.4%
Net Profit Margin	3.0%	3.3%	3.0%	3.3%

BALANCE SHEET

In IDR bn	2019/12A	2020/12E	2021/12E	2022/12E
Cash	9,258	10,872	14,348	16,774
Receivables	3,556	5,637	4,936	6,288
Inventories	4,471	5,596	7,031	8,107
Total Current Assets	49,038	55,275	67,649	80,898
Net Fixed Assets	8,663	13,326	20,397	29,018
Other Non Current Assets	64,888	95,047	118,532	139,612
Total Assets	122,589	163,648	206,579	249,527
Payables	12,381	12,144	16,973	18,754
ST Debt	26,993	33,569	35,596	39,463
LT Debt	42,286	40,647	45,100	50,000
Total Liabilities	93,471	133,585	175,825	217,469
Capital Stock + APIC	6,909	6,909	6,909	6,909
Retained Earnings	10,233	11,316	12,030	13,273
Shareholders' Equity	29,118	30,062	30,753	32,058

CASH FLOW STATEMENT

In IDR bn	2019/12A	2020/12E	2021/12E	2022/12E
Operating Cash Flow	5,371	3,455	6,349	3,924
Investing Cash Flow	(14,925)	(6,405)	(9,002)	(9,971)
Financing Cash Flow	7,978	4,564	6,128	8,473
Net Changes in Cash	(1,576)	1,614	3,476	2,426

PROFITABILITY & STABILITY

	2019/12A	2020/12E	2021/12E	2022/12E
ROE	3.2%	4.5%	4.4%	5.1%
ROA	0.8%	0.9%	0.7%	0.7%
ROIC	3.3%	3.6%	4.5%	4.3%
Cash Dividend (IDR bn)	991	235	329	354
Dividend Yield (%)	11.0%	1.8%	2.5%	2.7%
Payout Ratio (%)	106%	18%	24%	22%
DER	238%	247%	262%	279%
Net Gearing	598%	586%	603%	611%
LT Debt to Equity	145%	135%	147%	156%
Capitalization Ratio	70%	71%	72%	74%
Equity Ratio	24%	18%	15%	13%
Debt Ratio	57%	45%	39%	36%
Financial Leverage	426%	484%	609%	726%
Current Ratio	109%	96%	93%	91%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	13,574	13,574	13,574	13,574
Share Price (IDR)	665	960	960	960
Market Cap (IDR tn)	9.0	13.0	13.0	13.0

VALUATION INDEX

	2019/12A	2020/12E	2021/12E	2022/12E
Price / Earnings	9.6x	9.9x	9.7x	8.2x
Price / Book Value	0.3x	0.4x	0.4x	0.4x
Price / Revenue	0.3x	0.3x	0.3x	0.3x
PE / EPS Growth	-0.1x	0.2x	4.0x	0.4x
EV / EBITDA	14.5x	13.7x	11.4x	12.0x
EV / EBIT	16.3x	16.0x	13.6x	14.0x
EV (IDR bn)	69,047	76,375	79,380	85,720
Revenue CAGR (3-Yr)	9.7%	-4.3%	-2.3%	15.5%
EPS CAGR (3-Yr)	-20.5%	-30.3%	-30.2%	19.4%
Basic EPS (IDR)	69	97	99	118
Diluted EPS (IDR)	69	97	99	118
BVPS (IDR)	2,145	2,215	2,266	2,362
Revenue PS (IDR)	2,312	2,922	3,349	3,561
DPS (IDR)	73	17	24	26

OWNERSHIP

By Geography	% Shareholders	%
Indonesia	94.1	66.0
United States	4.5	1.1
Norway	0.7	1.0
United Kingdom	0.2	0.6

Source: Company Data, NHKSI Research

Closing and Price-Target Update



Source: Bloomberg, NHKSI Research

Rating and Price-Target Update

Date	Rating	Price Target	Consensus
04-26-2017	Buy	IDR3,670	IDR3,308
02-08-2017	Buy	IDR3,240	IDR3,207
04-15-2020	Buy	IDR960	IDR1,192

Source: NHKSI Research

NHKSI's Stock Ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the publication date
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
- This document is strictly confidential and is being supplied to you solely for your information. The recipients of this report must make their own independent decisions regarding any securities or financial instruments mentioned herein. This document may not be quoted, reproduced, exhibited, redistributed, transmitted, edited, translated, or published, in whole or in part, for any purpose without notice. Any failure to comply with this restriction may constitute a violation of civil or criminal laws.

DISCLAIMER

This report and any electronic access hereto are restricted and intended only for the clients and related entities of PT NH Korindo Sekuritas Indonesia. This report is only for information and recipient use. It is not reproduced, copied, or made available for others. Under no circumstances is it considered as a selling offer or solicitation of securities buying. Any recommendation contained herein may not be suitable for all investors. Although the information hereof is obtained from reliable sources, its accuracy and completeness cannot be guaranteed. PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, and agents are held harmless from any responsibility and liability for claims, proceedings, action, losses, expenses, damages, or costs filed against or suffered by any person as a result of acting pursuant to the contents hereof. Neither is PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, nor agents are liable for errors, omissions, misstatements, negligence, inaccuracy contained herein. All rights reserved by PT NH Korindo Sekuritas Indonesia.