

PT Wijaya Karya Tbk (WIKA IJ)

Books First Net Loss in 3Q20

In 3Q20, WIKA booked an income of IDR3.25 trillion (-53% YoY, +11% QoQ). However, the high financial cost of IDR397 billion pushed the bottom line to record a net loss of IDR200 billion and 9M20 profit to IDR50 billion. New contract acquisitions in 3Q20 which were better than 2Q20 provides a positive catalyst for WIKA's performance until the end of the year. Meanwhile, WIKA must control its interest-bearing debt, in order to withstand a jump in leverage ratio.

Facing PSBB Relaxation, Income Up 11% QoQ

In 3Q20, WIKA booked an income of IDR3.25 trillion (-53% YoY vs IDR6.93 trillion 3Q19). This number is 23.8% under our projection of IDR2.47 trillion. However, on a quarterly basis, WIKA's income managed to jump by 11%. We see that this was due to WIKA's effort to prove its business resilience facing the pandemic in the third quarter with PSBB not as strict as in the second quarter. WIKA still recorded single digit GPM of 7%, higher than 5% in 2Q20 as WIKA effectively restrained a jump in cost of revenue. Meanwhile, the high financial cost at IDR397 billion pushed WIKA's bottom line which recorded net loss of IDR200 billion (vs net profit IDR463 billion in 3Q19), made it the first quarterly loss experienced by the company. The result suppressed the 9M20 profit to IDR50 trillion or down by 96% YoY.

Must Control Leverage Ratio

After reaching the highest net and gross gearing ratio in 2Q20 of 126% and 82%, in 3Q20; both indicators increased to 141% and 93.7%. We anticipate WIKA's performance balance sheet to maintain its interest-bearing debt and control the source of project funding to keep leverage ratio under control. Meanwhile, WIKA was able to increase operating cash flow of IDR1.41 trillion supported by cash receipt from customers that increased by up to 90% QoQ. Until the end of the year, we are quite optimistic that WIKA will be able to book a positive cash flow driven by the receipt of fresh funds from projects that are completed at the end of 2020.

New Contract Target Revised Down

Since July, WIKA revised down its new contract to IDR21.47 trillion. During 9M20, realization of new contracts amount to IDR6.84 trillion or 32% of target. In 3Q20, new contracts from all segments booked an increase. The infrastructure and building, industry, realty and property, each jumped 274%, 183%, and 56% on a quarterly basis. Although it is still far from target, we forecast that WIKA's new contract achievement in 4Q20 will recover. Currently, WIKA is still working on strategic national projects such as the 16 dams with 10%-90% construction progress. The first session of Serang-Panimbang toll road will also be completed by the end of the year and ready to operate in early 2021.

OVERWEIGHT Rating with Target Price Revised Down to IDR1,310

We revised down our FY20 income and net profit as WIKA's 3Q20 performance was still below our projection. WIKA income and net profit were both revised down by 7.7% to IDR15.23 trillion and 65.3% to IDR379 billion. We see the construction sector will not be stable enough until the fourth quarter, although new contract achievements of WIKA's segments are recovering. Thus, we gave the overweight rating and revised down the target price to IDR1,310 based on forward P/E 21.6x (+0.47 SD) with 12.4% potential return from last price.

Wijaya Karya Tbk | Summary

	2019A	2020F	2021F	2022F
Revenue	27,213	15,228	18,848	21,992
Growth (%)	-12.7%	-44.0%	23.8%	16.7%
EBITDA	3,186	2,096	2,856	3,100
Net Profit	2,285	379	545	904
EPS (IDR)	255	42	61	101
Growth (%)	32.1%	-83.4%	43.8%	66.0%
P/E	7.8x	30.6x	21.2x	12.8x
P/BV	0.9x	0.7x	0.7x	0.7x
EV/EBITDA	7.9x	10.9x	8.3x	7.7x
ROE (%)	12.5%	2.1%	3.3%	5.3%
DER (%)	78%	120%	132%	140%
Net Debt	4,733	8,686	9,882	10,236

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

Company Update | Nov 06, 2020

OVERWEIGHT

Target Price (IDR)	1,310
Consensus Price (IDR)	1,388
TP to Consensus Price	-5.6%
vs. Last Price	+12.4%

Shares data

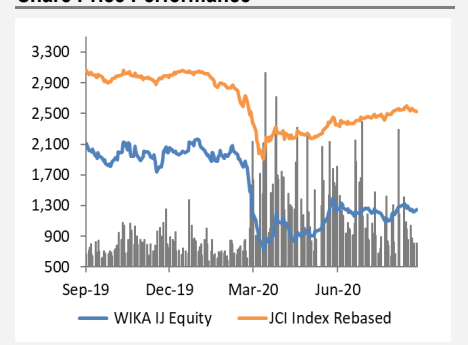
Last Price (IDR)	1,165
Price Date as of	Nov, 04 2020
52 wk Range (Hi/Lo)	2,200/675
Free Float (%)	34.9
Outstanding sh. (mn)	8,970
Market Cap. (IDR bn)	10,943
Market Cap. (USD mn)	760
Avg. Trd Vol - 3M (mn)	19.5
Avg. Trd Val - 3M (bn)	23.4
Foreign Ownership	6.4%

Property

Construction

Bloomberg	WIKA IJ
Reuters	WIKA.IK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-42.3%	6.9%	6.9%	-39.9%
Rel. Ret.	-23.6%	3.6%	6.3%	-22.6%

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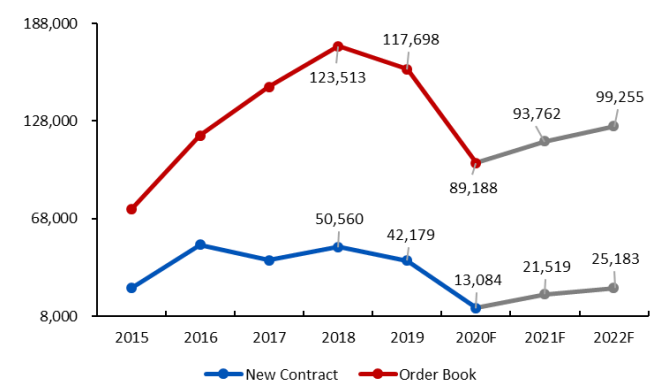
Performance Highlights in Charts

WIKA Quarterly Revenue (IDR bn) | 3Q17 - 3Q20



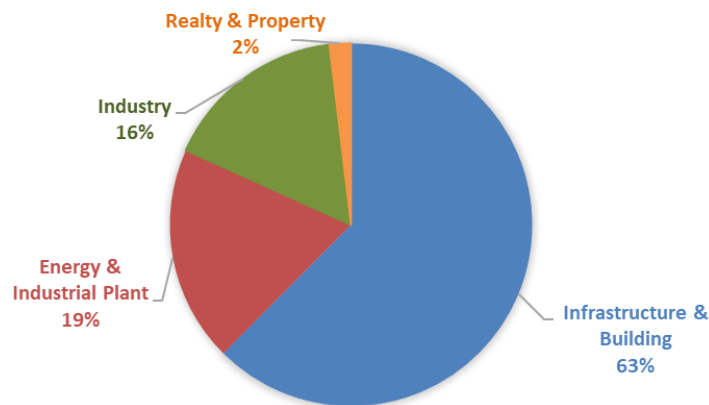
Source: Company Data, NHKSI Research

WIKA Order Book & New Contract



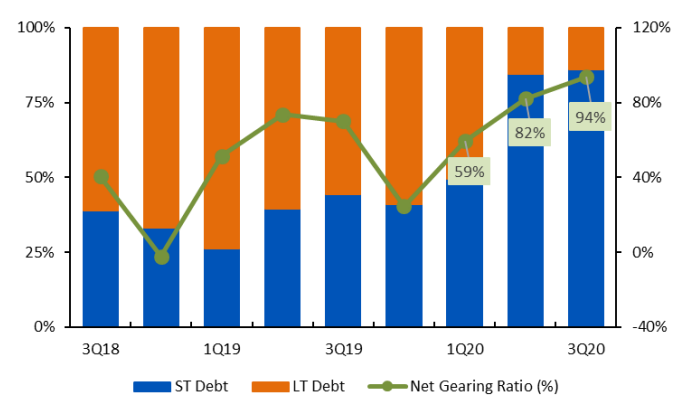
Source: Company Data, NHKSI Research

3Q20's Revenue Breakdown



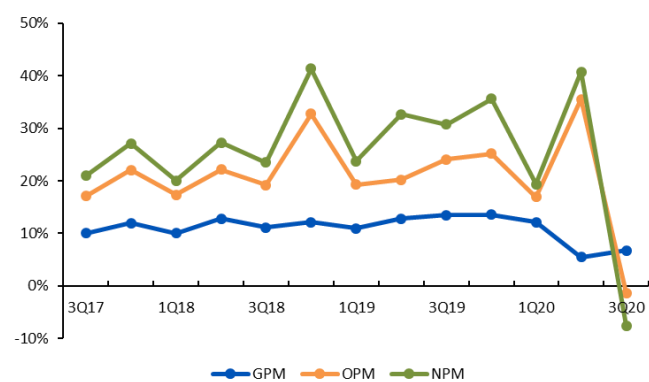
Source: Company Data, NHKSI Research

Debt Portion



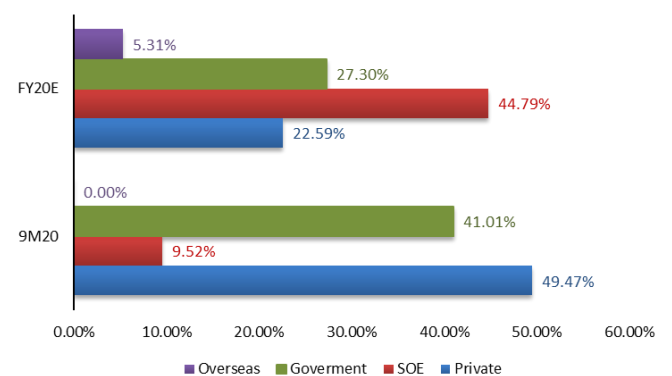
Source: Company Data, NHKSI Research

Margin Ratios



Source: Company Data, NHKSI Research

New Project based on Project Owner | 9M20 & FY20E



Source: Company Data, NHKSI Research

Quarterly Review

	3Q19	4Q19	1Q20	2Q20	3Q20				4Q20E	
					Actual	Estimate	Y-Y	Q-Q		Surprise
Income statement										
Revenue	6,933	8,916	4,199	2,934	3,250	4,268	-53.1%	10.8%	-23.8%	4,845
Gross Profit	932	1,211	509	161	219	611	-76.5%	36.1%	-64.1%	594
EBIT	735	1,032	314	882	-264	486				516
EBITDA	879	1,040	437	984	-114	664				900
Net Profit	462	933	99	151	-200	280				328
Margin (%)										
Gross Margin	13.4%	13.6%	12.1%	5.5%	6.8%	14.3%				12.3%
EBIT Margin	10.6%	11.5%	7.5%	30.1%	-8.1%	11.4%				10.7%
EBITDA Margin	12.7%	11.7%	10.4%	33.5%	-3.5%	15.6%				18.6%
Net Profit Margin	6.7%	10.5%	2.4%	5.2%	-6.2%	6.6%				6.8%

Unit: IDR bn, %

Source: Company Data, NHKSI Research

Revisions to Earnings

		2020F	2021F	2022F
Income Statement				
Revenue	-Revised	15,228	18,848	21,992
	-Previous	16,493	20,081	24,210
	-Change	-7.7%	-6.1%	-9.2%
Gross Profit	-Revised	1,483	2,102	2,247
	-Previous	2,068	2,544	3,038
	-Change	-28.3%	-18.8%	-23.4%
EBIT	-Revised	1,338	1,922	2,037
	-Previous	2,277	2,799	3,345
	-Change	9.1%	17.1%	10.7%
EBITDA	-Revised	2,096	2,856	3,100
	-Previous	3,065	3,739	4,419
	-Change	-31.6%	-23.6%	-29.8%
Net Profit	-Revised	379	545	904
	-Previous	1,092	1,520	1,924
	-Change	-65.3%	-64.2%	-53.0%
Margin				
Gross Margin	-Revised	9.7%	11.2%	10.2%
	-Previous	12.7%	12.8%	12.7%
EBIT Margin	-Revised	8.8%	10.2%	9.3%
	-Previous	9.7%	9.7%	9.6%
EBITDA Margin	-Revised	13.8%	15.2%	14.1%
	-Previous	14.4%	14.2%	13.9%
Net Profit Margin	-Revised	2.5	2.9%	4.1%
	-Previous	6.7%	6.9%	7.4%

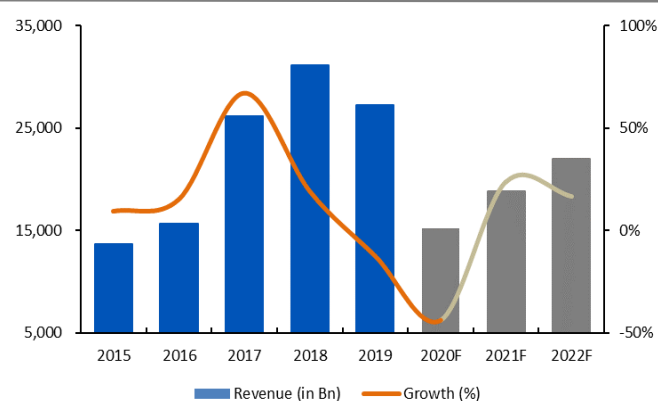
Unit: IDR bn, %

Source: Company Data, NHKSI Research

Company Overview

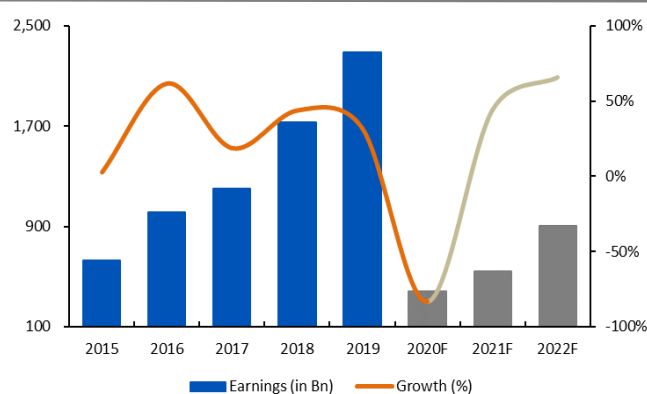
- PT Wijaya Karya Tbk (WIKA) is a construction company established in 1960 named Perusahaan Negara Bangunan Widjaja Karya.
- WIKA was listed on Indonesia Stock Exchange (IDX) in 29 October 2007.
- WIKA has six subsidiaries, namely Wika Beton, Wika Gedung, Wika Industri dan Konstruksi, Wika Rekayasa Konstruksi, Wika Realty, Wika Bitumen, Wika Serang Panimbang.
- WIKA runs four business segments: Industry, Infrastructure and building, Energy and industrial plant, and Realty and Property.
- The Indonesia Government is WIKA's major stockholder with 65.05% stock ownership, while 34.95% of stock ownership is owned by the public.
- WIKA successfully undertaken key national infrastructure projects including the BalikpapanSamarinda Toll Road, the Semanggi Interchange, the Jatigede Dam, Soekarno-Hatta Airport Terminal 3, the Ngurah Rai Airport and the Suramadu Bridge, the Serang-Panimbang Toll Road and the Jakarta-Bandung High Speed Railway.

Revenue and Growth Movement



Source: Company Data, NHKSI Research

Earnings and Growth Movement



Source: Company Data, NHKSI Research

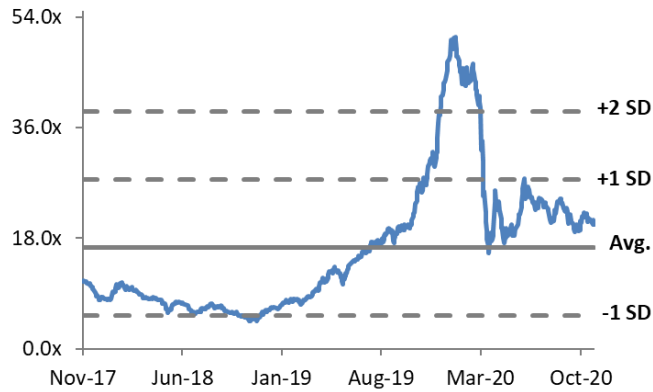
	Market Cap (USD mn)	Asset (USD mn)	Sales (LTM) (USD mn)	Net Profit (LTM) (USD mn)	Net Profit Growth (LTM)	Net Profit Margin	ROE (LTM)	EV/EBITDA (LTM)	P/BV
Indonesia									
PT WIJAYA KARYA PERSERO TBK	760	4,486	1,334	68	-21.8%	5.1%	11.3%	11.7x	0.8x
PT PP PERSERO TBK	396	4,058	1,286	28	-57.3%	2.2%	4.9%	12.8x	0.5x
PT WASKITA KARYA PERSERO TBK	712	8,853	1,719	(81)	N/A	-4.7%	-7.0%	28.0x	0.6x
PT ADHI KARYA PERSERO TBK	146	2,637	1,024	23	-28.8%	2.2%	7.7%	10.3x	0.4x
Thailand									
CH. KARNCHANG PUBLIC CO LTD	839	2,775	624	13	-86.1%	2.1%	1.5%	122.8x	0.9x
SINO THAI ENGR & CONSTR PCL	531	1,654	1,178	41	-22.6%	3.5%	9.6%	10.3x	1.4x
UNIQUE ENGINEERING & CON PCL	149	1,103	362	19	-27.2%	5.2%	7.3%	7.6x	0.7x
Philippines									
MEGAWIDE CONSTRUCTION CORP	316	1,593	358	(2)	N/A	-0.5%	-2.5%	N/A	1.2x
EEL CORPORATION	156	553	392	(1)	N/A	-0.2%	-0.4%	11.0x	0.9x
HOUSE OF INVESTMENTS	55	1,026	572	6	-50.3%	1.1%	2.2%	12.6x	0.2x
Vietnam									
FLC FAROS CONSTRUCTION JSC	54	460	146	(2)	N/A	-1.2%	-0.7%	24.2x	0.2x
HO CHI MINH CITY INFRASTRUCT	174	1,262	82	18	313.1%	21.3%	7.6%	32.5x	0.8x
HOA BINH CONSTRUCTION GROUP	104	722	645	11	-50.8%	1.7%	7.2%	10.2x	0.6x
Malaysia									
GAMUDA BHD	2,160	4,172	1,013	137	37.5%	13.6%	6.9%	20.8x	1.0x
IJM CORP BHD	1,255	5,637	1,413	46	-53.7%	3.2%	2.0%	11.8x	0.5x
SUNWAY CONSTRUCTION GROUP BHD	559	466	332	20	-39.0%	6.0%	13.9%	N/A	4.1x

Unit: USD mn, %, X

Source: Bloomberg, NHKSI Research

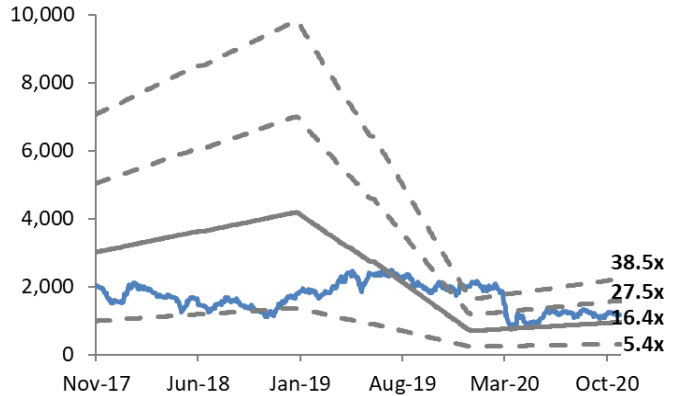
Valuation Highlights in Charts

3-Years Forward P/E Band



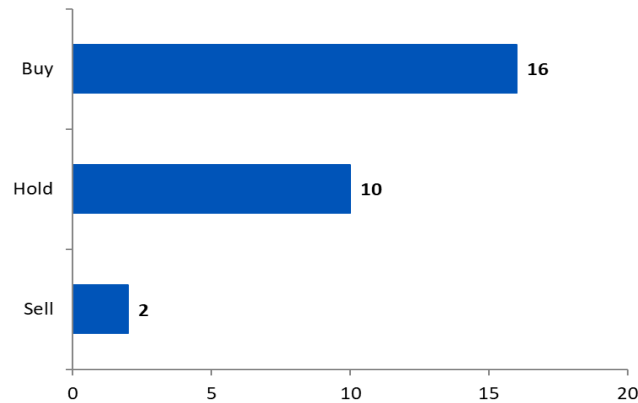
Source: Bloomberg, NHKSI Research

3-Years Dynamic Forward P/E band



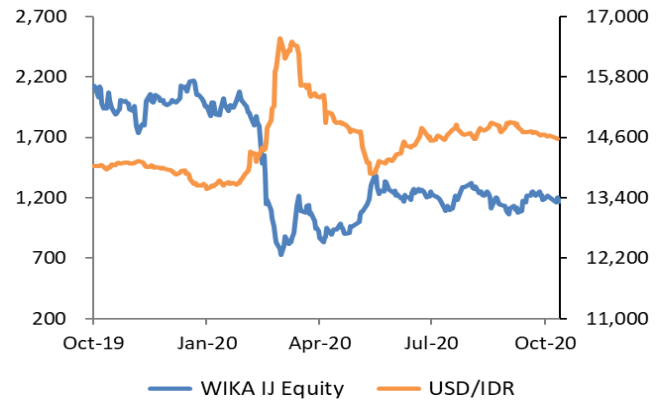
Source: Bloomberg, NHKSI Research

Analysts' Recommendation



Source: Bloomberg, NHKSI Research

Correlation between WIKA and USD/IDR



Source: Bloomberg, NHKSI Research

Closing and Target Price Update



Source: Bloomberg, NHKSI Research

Rating and Target Price Update

Date	Rating	Target Price	Consensus
26-04-2017	Buy	IDR3,670	IDR3,308
05-05-2017	Buy	IDR2,820	IDR3,310
15-06-2020	Buy	IDR1,840	IDR1,522
08-09-2020	Hold	IDR1,410	IDR1,524
06-11-2020	Overweight	IDR1,310	IDR1,388

Source: NHKSI Research

NHKSI Stock Ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Rating system based on a stock's potential upside from the date of publication

- Buy : greater than +15%
- Overweight : +5% to +15%
- Hold : -5% to +5%
- Underweight : -5% to -15%
- Sell : less than -15%

Summary of Financials

INCOME STATEMENT

In IDR bn	2019/12A	2020/12E	2021/12E	2022/12E
Revenue	27,213	15,228	18,848	21,992
Growth (% y/y)	-12.7%	-44.0%	23.8%	16.7%
Cost of Revenue	(23,733)	(13,745)	(16,747)	(19,745)
Gross Profit	3,480	1,483	2,102	2,247
Gross Margin	12.8%	9.7%	11.2%	10.2%
Operating Expenses	(814)	(145)	(180)	(210)
EBIT	2,666	1,338	1,922	2,037
EBIT Margin	9.8%	8.8%	10.2%	9.3%
Depreciation	520	758	934	1,063
EBITDA	3,186	2,096	2,856	3,100
EBITDA Margin	11.7%	13.8%	15.2%	14.1%
Interest Expenses	(884)	(1,169)	(1,484)	(1,101)
EBT	2,789	567	733	1,166
Income Tax	(168)	(49)	(54)	(86)
Minority Interest	(336)	(139)	(135)	(176)
Net Profit	2,285	379	545	904
Growth (% y/y)	32.1%	-83.4%	43.8%	66.0%
Net Profit Margin	8.4%	2.5%	2.9%	4.1%

PROFITABILITY & STABILITY

	2019/12A	2020/12E	2021/12E	2022/12E
ROE	12.5%	2.1%	3.3%	5.3%
ROA	3.8%	0.6%	0.9%	1.3%
ROIC	7.3%	3.4%	4.6%	4.5%
Cash Dividend (IDR bn)	409	457	83	109
Dividend Yield (%)	2.3%	3.9%	0.7%	0.9%
Payout Ratio (%)	18%	121%	15%	12%
DER	78%	120%	132%	140%
Net Gearing	25%	53%	59%	59%
LT Debt to Equity	46%	32%	57%	49%
Capitalization Ratio	44%	55%	57%	58%
Equity Ratio	31%	27%	26%	23%
Debt Ratio	24%	33%	34%	32%
Financial Leverage	333%	344%	377%	410%
Current Ratio	150%	130%	113%	137%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	8,970	8,970	8,970	8,970
Share Price (IDR)	1,990	1,310	1,310	1,310
Market Cap (IDR tn)	17.9	11.8	11.8	11.8

BALANCE SHEET

In IDR bn	2019/12A	2020/12E	2021/12E	2022/12E
Cash	10,347	10,987	12,133	13,977
Receivables	4,462	3,052	3,964	4,349
Inventories	6,855	8,249	8,727	9,665
Total Current Assets	42,335	39,338	41,436	49,138
Net Fixed Assets	9,396	10,528	11,430	13,006
Other Non Current Assets	10,379	10,449	11,344	12,909
Total Assets	62,111	60,315	64,210	75,053
Payables	12,762	12,469	12,031	14,692
ST Debt	6,188	14,423	12,587	15,797
LT Debt	8,892	5,250	9,428	8,415
Total Liabilities	42,895	43,921	47,533	57,759
Capital Stock + APIC	7,453	7,452	7,452	7,452
Retained Earnings	7,261	4,582	5,044	5,839
Shareholders' Equity	19,216	16,394	16,678	17,295

VALUATION INDEX

	2019/12A	2020/12E	2021/12E	2022/12E
Price /Earnings	7.8x	31.0x	21.6x	13.0x
Price /Book Value	0.9x	0.7x	0.7x	0.7x
Price/Revenue PS	0.7x	0.8x	0.6x	0.5x
PE/EPS Growth	0.2x	-0.4x	0.5x	0.2x
EV/EBITDA	7.9x	11.0x	8.4x	7.8x
EV/EBIT	9.5x	17.2x	12.5x	11.9x
EV (IDR bn)	25,296	22,971	23,989	24,165
Revenue CAGR (3-Yr)	20.2%	-16.5%	-15.4%	-6.9%
EPS CAGR (3-Yr)	31.2%	-32.0%	-32.0%	-26.6%
Basic EPS (IDR)	255	42	61	101
Diluted EPS (IDR)	255	42	61	101
BVPS (IDR)	2,142	1,828	1,859	1,928
Revenue PS (IDR)	3,034	1,698	2,101	2,452
DPS (IDR)	46	51	9	12

CASH FLOW STATEMENT

In IDR bn	2019/12A	2020/12E	2021/12E	2022/12E
Operating Cash Flow	770	359	1,548	2,249
Investing Cash Flow	(5,483)	(2,177)	(2,483)	(2,315)
Financing Cash Flow	1,102	2,377	2,081	1,910
Net Changes in Cash	(3,610)	559	1,146	1,844

OWNERSHIP

By Geography	% Shareholders	%
Indonesia	94.6	65.1
United States	4.5	1.2
Luxembourg	0.3	1.2
Others	0.2	0.6

Source: Company Data, NHKSI Research

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