

15 NOVEMBER 2017

COMPANY UPDATE

PT WASKITA KARYA (PERSERO) Tbk

BUY

STOCK INFORMATION

Bloomberg Code	WSKT IJ
Sector	Construction
Current Price	Rp 2,180
Target Price	Rp 3,300
Upside/Downside	51.3%
Share Out (bn shares)	11.62
Market Cap (Rp bn)	25,331
52 – w range (low-high)	Rp 2,180 – Rp 2,820
52 – w average daily	Rp 2,483

SHAREHOLDERS INFORMATION

Government Of Republic of Indonesia	66.04%
Public (below 5%)	33.96%

Source: Company data

PRICE CHART



Source: Bloomberg and Lotus Andalan Research

PE BAND



Source: Bloomberg and Lotus Andalan Research

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Pursuit of a stellar earning's growth

WSKT managed to book stellar earning's growth of 175.2% YoY in 9M17 and beat our FY17 estimate of Rp2.4 trillion by 6.1%. Net revenue grew by 103.7% YoY to Rp28.5 trillion thanks to Terbanggi besar - Kayu Agung, Jakarta - Cikampek, Cibitung - Cilincing, Cinere - Serpong toll road projects. Furthermore, GPM grew by 248 bps YoY to 19.8% mostly due to increasing profitability in precast business from 24% in 9M16 to 27% in 9M17 as the result of precast sales in LRT Palembang project. As of 9M17, it has secured Rp44.5 trillion of new contract and accounting for 74.2% of its new contract target in 2017F of Rp60 trillion. Hence, we maintain our BUY call to the stock with target price at Rp3,300/share.

Stellar performance exceeding estimates

WSKT has managed stellar performance which the total revenue grew by 103.7% YoY to Rp28.5 trillion thanks to Terbanggi besar - Kayu Agung, Jakarta - Cikampek, Cibitung - Cilincing, Cinere - Serpong toll road projects. This result was mainly supported by construction and precast business revenue which grew by 98.4% and 219% YoY, respectively. GPM grew by 248 bps YoY to 19.8% mostly due to increasing profitability in precast business from 24% in 9M16 to 27% in 9M17 as the result of precast sales in LRT Palembang. On more positive notes, net profit grew 175% YoY to Rp2.57 trillion mainly due to strong revenue growth and better than expected interest income of Rp327 billion (+159% YoY) which came from shareholder loan to its subsidiaries. Historically, this is the first time for the company that 9M17's earning result has beat our full year estimates of Rp2.4 trillion.

FY18F outlook: Focus on its huge order book

Current order book has reached IDR124.5tn as of 9M17, including IDR44.5tn of new contracts or formed 74.2% of the management's full year target of IDR60.0tn. The 9M17 order book grew 19.7% YTD from IDR104.0tn in FY16. As such, WSKT still has around IDR105.5tn of contracts on its pipeline in 2018F. On balance sheet wise, total interest-bearing liabilities spiked to IDR35.5tn (Vs. IDR21.7tn in 2016), mainly from additional IDR12tn bank loan. Consequently, net gearing level increased to 233% YoY to 1.3x. WSKT's operating cash flow is still negative at -Rp5.1 trillion (higher than previous quarter of -Rp4 trillion) due to higher cash paid for interest expense of Rp1.3 trillion.

Maintain BUY rating – Target price at Rp3,300 per share

Based on our DCF-10 year valuation, we generate the fair equity value of WSKT at Rp3,300 per share which represents a 2018F PER target of 12.29x and EV/EBITDA target of 9.55x. Based on yesterday's closing price, WSKT was trading at an attractive valuation of 10.45 PER and 7.31x EV/EBITDA 2018F indicating that our fair value offers a hefty 51.3% upside potential. Hence, we maintain our BUY recommendation to the stock.

Key Risks: delay on divestment plan and high gearing level.

Financial Summary

(Rp billion)	2015A	2016A	2017F	2018F	2019F
Revenue	14,153	23,788	34,463	44,040	52,605
EBITDA	1,546	3,377	4,979	6,346	7,380
Net profit	1,047	1,713	2,423	3,089	3,616
EPS (Rp)	90	147	209	266	311
PER (x)	24.95	15.26	9.13	7.16	6.12
BVPS (Rp)	822	953	1,132	1,356	1,614
PBV (x)	2.74	2.36	1.68	1.41	1.18
EV/EBITDA (x)	18.35	11.03	6.66	6.57	5.95
Dividend yield (%)	0.80	1.31	2.19	2.79	3.27
RoE (%)	16.91	16.62	20.01	21.38	20.97

Source: Company data and Lotus Andalan Research

Interim Financial Result

	9M16	9M17	% growth	FY17F	2Q17	3Q17	% growth	The Comments
Assumption								
New Contract	59,000	44,500	-24.6%	60,000	20,850	12,000	-42.4%	Slower Government toll road project
P/L (In Rp billion)								
Revenue	14,008	28,534	103.7%	34,463	8,406	12,986	54.5%	
Cost of revenue	11,581	22,884	97.6%	28,766	6,751	10,026	48.5%	
Gross profit	2,427	5,650	132.8%	5,697	1,655	2,960	78.8%	
Operating Expense	358	744	107.9%	1,361	238	358	50.8%	
Operating profit	2,069	4,906	137.1%	4,336	1,418	2,602	83.5%	
EBITDA	2,203	5,022	128.0%	4,979	1,516	2,718	79.3%	
Net Profit	935	2,572	175.2%	2,423	875	1,290	47.3%	
Profitability								
Gross margin	17.3%	19.8%	14.3%	16.5%	19.7%	22.8%		
EBIT margin	14.8%	17.2%	16.4%	12.6%	16.9%	20.0%		
EBITDA margin	15.7%	17.6%	11.9%	14.4%	18.0%	20.9%		
Net margin	6.7%	9.0%	35.1%	7.0%	10.4%	9.9%		
Revenue Breakdown								
Constructions	13,284	26,359	98.4%		8,085	11,309	39.9%	
Precast	554	1,770	219.1%		183	1,519	732.0%	
Toll Road	148	238	60.3%		85	86	1.2%	
Rental and Others	21	168	698.7%		54	73	34.8%	
Total Revenue	14,008	28,534	103.7%		8,406	12,986	54.5%	

Source: Company data and Lotus Andalan Research

Valuation Matrix

Company Name	Ticker	Market Cap *	PER (x)		EV/EBITDA (x)		PBV (x)	
			2017F	2018F	2017F	2018F	2017F	2018F
Indonesia								
PT Waskita Karya Tbk	WSKT IJ	29.59	12.03	9.51	7.21	7.06	1.97	1.68
PT Pembangunan Perumahan Tbk	PTPP IJ	17.3	14.82	12.62	5.68	4.91	1.84	1.64
PT Adhi Karya Tbk	ADHI IJ	7.83	9.33	8.56	3.42	3.5	1.19	1.09
PT Wijaya Karya Tbk	WIKA IJ	17.94	13.16	10.68	7.45	6.62	1.29	1.18
PT Total Bangun Persada Tbk	TOTL IJ	2.42	9.53	8.89	8.19	4.74	2.51	2.5
PT Nusa Raya Cipta Tbk	NRCA IJ	1.1	7.07	n.a.	1.89	n.a.	0.91	n.a.
Industry Average			10.99	10.05	5.64	5.37	1.62	1.62

*) In Rp Trillion

At closing price of November 13, 2017

Source: Bloomberg and Lotus Andalan Research

Financial Highlights of PT Waskita Karya (Persero) Tbk

In Rp Billion									
BALANCE SHEET					INCOME STATEMENT				
ASSETS	2015A	2016A	2017F	2018F		2015A	2016A	2017F	2018F
Cash and cash equivalent	5,511	10,654	6,740	1,704	Total Revenues	14,153	23,788	34,463	44,040
Accounts Receivable	3,116	3,205	6,116	7,815	COGS	12,232	19,820	28,766	36,820
Inventories	826	2,557	3,711	4,750	Gross profit	1,921	3,968	5,697	7,220
Other current assets	6,352	20,467	20,979	26,809	Profit(loss) from JV	518	788	1,361	1,652
Total Current Assets	15,806	36,882	37,545	41,077	Operating expenses	1,403	3,180	4,336	5,568
Fixed Assets	1,923	3,275	6,415	7,444	Operating profit	1,546	3,377	4,979	6,346
Land for development	-	-	-	-	EBITDA	-	-	-	-
Other non-current assets	12,580	21,267	7,203	13,684	Financial Charges	73	187	84	22
Total Non-Current Assets	14,503	24,543	13,618	21,128	Gain (Loss) Associated Entity	(340)	(983)	(1,129)	(1,370)
TOTAL ASSETS	30,309	61,425	51,164	62,205	Others	262	96	4	6
					Total other income/(expenses)	(5)	(700)	(1,041)	(1,341)
LIABILITIES & EQUITY					Income before tax	1,398	2,480	3,294	4,226
Short term loan	3,194	12,063	5,844	7,344	Tax expense	(350)	(667)	(826)	(1,059)
Accounts Payable	5,472	7,362	10,684	13,675	Net profit before minority interest	1,048	1,813	2,469	3,167
Current maturities-LT debts	-	-	-	-	Minority interest	(0)	(100)	(46)	(78)
Other current liabilities	4,999	12,037	7,347	8,803	Net profit	1,047	1,713	2,423	3,089
Total Current Liabilities	13,665	31,462	23,875	29,822	EPS (Rp)	90	147	209	266
LT debt-net current maturities	1,876	4,148	5,971	6,971					
Other noncurrent liabilities	2,671	5,568	5,971	6,971					
Total Non-Current Liabilities	2,394	3,475	2,196	2,688					
Minority Interest	6,940	13,190	14,137	16,629					
Capital Stock	157	5,704	4	4					
Additional paid in capital	1,357	1,357	1,357	1,357					
Others equity	5,882	5,883	5,883	5,883					
Retained earnings	504	495	495	495					
Total Equity	1,805	3,334	5,412	8,014					
TOTAL LIABILITIES & EQUITY	30,309	61,425	51,164	62,205					
CASH FLOW STATEMENT	2015A	2016A	2017F	2018F	KEY FINANCIAL RATIOS	2015A	2016A	2017F	2018F
Net profit	501	1,047	1,713	2,423	Growth (%)				
Depreciation & Amortization	86	143	198	643	Revenue	37.58	68.08	44.87	27.79
Change in WC	(641)	2,488	70	(742)	Gross profit	73.26	106.53	43.57	26.74
Others	(287)	726	(7,077)	(5,202)	Operating Profit	60.30	126.56	36.36	28.42
Net Operating Cash Flow	(341)	4,404	(5,095)	(2,878)	EBITDA	60.83	118.45	47.40	27.46
Change in fixed assets-net	(292)	(1,444)	(1,550)	(3,783)	Net Profit	108.98	63.57	41.41	27.50
Others	(805)	(11,184)	(8,687)	14,064	Profitability (%)				
Net Investing Cash Flow	(1,097)	(12,628)	(10,237)	10,281	Gross margin	13.58	16.68	16.53	16.39
Change in borrowings-net	1,540	4,578	14,038	(3,993)	Operating margin	9.92	13.37	12.58	12.64
Change in equity	69	5,854	(7)	-	EBITDA margin	10.92	14.20	14.45	14.41
Change in other liabilities	490	1,674	1,081	(1,279)	Net Profit margin	7.40	7.20	7.03	7.01
Dividend payment	(100)	(210)	(212)	(345)	ROAA	4.89	3.74	4.30	5.45
Adjustment	(5)	164	5,575	(5,700)	ROAE	16.91	16.62	20.01	21.38
Net Financing Cash Flow	1,994	12,060	20,475	(11,317)	Solvency(x)				
Change in cash	556	3,836	5,143	(3,914)	Current ratio	1.16	1.17	1.57	1.38
Cash at the beginning period	1,120	1,675	5,511	10,654	Quick ratio	1.10	1.09	1.42	1.22
Cash at the ending period	1,675	5,511	10,654	6,740	DER	0.81	1.97	1.35	1.35
					EBITDA coverage	4.55	3.44	4.41	4.63
					Net debt to equity	0.23	1.00	0.84	1.24

Source: Company data and Lotus Andalan Research

Notes:

The definitions of Lotus Andalan Research for Investment Ratings:

- **BUY** : +15% and above, over the next 12 months
- **Neutral** : -15% to +15%, over the next 12 months
- **SELL** : -15% and worse, over the next 12 months

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