

2 AUGUST 2019

COMPANY UPDATE

BUY

STOCK INFORMATION

Bloomberg Code	WTON IJ
Sector	Precast Concrete
Current Price	Rp 580
Target Price	Rp 830
Previous Target Price	Rp 830
Upside/Downside	43%
Share Out (bn shares)	8.7
Market Cap (Rp bn)	Rp 5,055
52 – w range (low-high)	Rp 298 – Rp 650
Average daily turnover (Rp bn)	
1 month	Rp 13.2
3 month	Rp 11.6
YTD 2019	Rp 17.9

PRICE CHART



Source: Bloomberg

SHAREHOLDERS INFORMATION, AS OF 30 JUNE 2019

PT Wijaya Karya (Persero) Tbk	60.0%
Koperasi Karya Mitra Satya (KKMS)	6.2%
Yayasan Wlajaya Karya	1.0%
Public (below 5%)	28.5%
Treasury Stock	4.3%

Source: Company data

FORWARD PER BAND



Source: Bloomberg and Lotus Andalan Research

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PT WIJAYA KARYA BETON Tbk

Below Expectation due to Seasonal Factor

WTON's 1H19 revenue and net profit only covered by 34% and 31% to our 2019 forecast due to the seasonal factor i.e.: lower infrastructure spending and 2019 Election effect. However, the company managed to improve its gross margin by 104 bps in 2Q19 to the level of 13.4% (vs 12.4% n 1Q19) which was mainly fuelled by a significant increases in its service's gross margin of 558 bps to 9.4% (vs 3.8% in 1Q19) thanks to its transformation as a one-stop solution of precast concrete business strategy. Recently, the share price increased by 54% YTD 2019 and still trading below its 3-years average fwd PER band of 15.47x, translated into an attractive valuation. Keep BUY rating on the counter.

1H19 Below expectation due seasonal factor and election effect

During the 1H19 period, WTON's revenue and net profit only inched up by 1.6% YoY and 3.8% YoY became to Rp 2.64 trillion (vs Rp 2.59 trillion in 1H18) and to Rp 167 billion (vs Rp 161 billion in 1H18), respectively, which was mainly due to the seasonal factor i.e.: 1) lower infrastructure spending and 2) 2019 presidential election process that has delayed new project contract tenders. As a result, the company's new contract declined by 13.2% YoY in 1H19 from Rp 3.13 trillion to Rp 2.72 trillion which was still dominated by infrastructure (61%) and energy (25%) sectors. In all, the company's revenue and net profit came below expectation which only covered by 34% and 31% to our 2019F of Rp 7.86 trillion in revenue and Rp 530 billion in net profit.

Improving quarterly profitability thanks to its one-stop solution strategy

On quarterly basis, WTON managed to improve its gross margin by 104 bps in 2Q19 to the level of 13.4% (vs 12.4% n 1Q19) which was mainly fuelled by a significant increases in its service's gross margin of 558 bps to 9.4% (vs 3.8% in 1Q19) thanks to its transformation as a one-stop solution of precast concrete business strategy (i.e.: precast sales and installation services). At bottom line, the company's net margin surged by 166 bps to the level of 7.1% in 2Q19 (vs 5.5% in 1Q19) on the back of the recovery of receivable's impairment loss of Rp 20.6 billion, mainly came from SoE construction company, i.e.: Hutama Karya dan Istaka Karya.

Gearing ratio improved to finance its aggressive capex

We note that the company's net debt to equity ratio has increased to 0.67x in 1H19 (vs 0.51x in 1H18) since the company obtained its total short term loan worth of Rp 2.5 trillion (+57% YoY) in order to finance its aggressive capex allocation this year of Rp 779 billion (+82% YoY) mainly for land expansion, increase capacity and ready mix development as well as to support the construction of its ongoing projects. This increasing gearing ratio was still reasonable and maintained at healthy level, in which, we forecast that the company's gearing ratio will be maintained at the level of 0.39x in 2019F-2020F.

Keep BUY rating with TP Rp 830/share

YTD 2019, the share price has increased by 54% which was still traded below its 3-years average fwd PER band of 14.95x, translated into an attractive valuation. We keep our BUY rating on the counter with 43% upside potential.

The Risk: 1) delays in infrastructure projects; 2) rising raw material prices; 3) weakening Rupiah currency; 3) delays in production capacity expansions; 4) contingencies from being labour-intensive; and 5) increasing competition.

Financial Summary

(Rp billion)	2017A	2018A	2019F	2020F	2021F
Revenue	5,362	6,931	7,858	9,440	11,144
EBITDA	709	959	1,035	1,253	1,487
Net profit	337	486	530	671	824
EPS (Rp)	39	56	61	77	94
PER (x)	14.99	10.39	9.53	7.54	6.14
BVPS (Rp)	307	352	396	454	526
PBV (x)	1.89	1.65	1.47	1.28	1.10
EV/EBITDA (x)	8.27	6.25	6.20	5.23	4.58
Dividend yield (%)	2.09	2.89	3.15	3.98	4.89
RoE (%)	13.22	16.94	16.28	18.10	19.28

Source: Company data and Lotus Andalan Research

Interim Financial Result									
	1H18	1H19	YoY	FY19F	%cover	1Q19	2Q19	QoQ	The Comments
Assumption (In Rp billion)									
New Contract	3,133	2,720	-13.2%	9,077	30%	1,469	1,251	-14.8%	Below due to the seasonal
P/L (In Rp billion)									
Revenue	2,596	2,638	1.6%	7,858	34%	1,294	1,344	3.9%	Below due to the seasonal
Cost of revenue	2,262	2,297	1.6%	6,847	34%	1,133	1,164	2.7%	
Gross profit	334	341	2.1%	1,011	34%	161	181	12.6%	
Operating Expense	74	77	3.6%	186	41%	32	45	38.1%	
Operating profit	260	264	1.7%	825	32%	129	136	5.4%	
EBITDA	354	397	12.0%	1,035	38%	188	209	10.8%	
Net Profit	161	167	3.8%	530	31%	71	96	35.4%	Below due to the seasonal
Profitability									
Gross margin	12.9%	12.9%		12.9%		12.4%	13.4%		QoQ profitability improved thanks to the company's strategy transformation as one-stop solution and impairment recovery from Hutama Karya and Istaka Karya
EBIT margin	10.0%	10.0%		10.5%		9.9%	10.1%		
EBITDA margin	13.7%	15.0%		13.2%		14.6%	15.5%		
Net margin	6.2%	6.3%		6.7%		5.5%	7.1%		
Revenue Breakdown									
Concrete	2,330	2,247	-3.6%			1,105	1,142	3.3%	
Quarry	20	42	110.2%			31	11	-63.8%	
Service	246	350	42.2%			158	192	21.2%	
Total Revenue	2,596	2,638	1.6%			1,294	1,344	3.9%	
Gross Margin Breakdown									
Concrete	13.6%	14.0%				13.9%	14.1%		
Quarry	8.8%	6.4%				4.7%	11.0%		
Service	5.9%	6.9%				3.8%	9.4%		
Total Gross Margin	12.9%	12.9%				12.4%	13.4%		

Source: Company data and Lotus Andalan Research

Healthy balance sheet						
In billion Rp	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
Interest bearing debt	1,571.1	1,568.7	1,726.8	1,805.2	2,122.8	2,466.8
Cash and Cash Equivalent	129.3	178.9	477.4	865.0	266.5	390.3
Equity	2,632.5	2,735.4	2,854.7	3,064.5	2,989.4	3,081.8
Debt to equity ratio (DER) - (x)	0.60	0.57	0.60	0.59	0.71	0.80
Net debt to equity ratio - (x)	0.55	0.51	0.44	0.31	0.62	0.67

Source: Company data and Lotus Andalan Research

Financial Highlights of PT Wijaya Karya Beton Tbk

In Rp Billion									
BALANCE SHEET	2017A	2018A	2019F	2020F	INCOME STATEMENT	2017A	2018A	2019F	2020F
ASSETS									
Cash and cash equivalent	638	865	522	626	Total Revenues	5,362	6,931	7,858	9,440
Accounts Receivable	1,228	1,231	1,292	1,552	COGS	4,696	6,048	6,847	8,203
Inventories	1,034	1,206	1,313	1,573	Gross profit	667	882	1,011	1,238
Other current assets	1,451	2,569	2,237	2,687	Operating expenses	136	150	186	223
Total Current Assets	4,351	5,871	5,364	6,438	Operating profit	530	733	825	1,015
Fixed Assets	2,679	2,948	3,288	3,617	EBITDA	709	959	1,035	1,253
Investments in associates	-	-	-	-	Equity net income of associates	-	-	-	-
Other non-current assets	37	63	63	63	Interest income	4	5	7	6
Total Non-Current Assets	2,717	3,011	3,351	3,680	Interest expenses	(89)	(95)	(138)	(154)
TOTAL ASSETS	7,068	8,882	8,715	10,118	Others	(26)	(23)	(26)	(25)
LIABILITIES & EQUITY					Total other income/(expenses)	(111)	(113)	(157)	(173)
Short term loan	1,245	1,455	1,878	2,128	Income before tax	420	619	668	842
Accounts Payable	1,223	1,146	1,313	1,573	Tax expense	(79)	(133)	(134)	(168)
Current maturities - LT debts	200	-	-	-	Net profit before minority interest	340	487	535	673
Other current liabilities	1,548	2,647	1,860	2,224	Minority interest	(3)	(0)	(4)	(3)
Total Current Liabilities	4,216	5,248	5,051	5,925	Net profit	337	486	530	671
LT debt - net current maturities	-	350	-	-	EPS (Rp)	39	56	61	77
MTN	-	-	-	-					
Other non-current liabilities	104	147	120	123					
Total Non-Current Liabilities	104	497	120	123					
Minority Interest	72	72	95	109					
Capital Stock	872	872	872	872					
Additional paid in capital	973	973	973	973					
Others equity	(103)	(58)	(58)	(58)					
Retained earnings	935	1,278	1,662	2,174					
Total Equity	2,676	3,064	3,449	3,960					
TOTAL LIABILITIES & EQUITY	7,068	8,882	8,715	10,118					
CASH FLOW STATEMENT	2017A	2018A	2019F	2020F	KEY FINANCIAL RATIOS	2017A	2018A	2019F	2020F
Net profit	337	486	530	671	Growth (%)				
Depreciation & Amortization	179	226	210	238	Revenue	54.01	29.25	13.38	20.13
Change in WC	(281)	(252)	(22)	(246)	Gross profit	32.16	32.37	14.59	22.38
Others	(158)	332	(783)	(100)	Operating Profit	29.91	38.12	12.63	23.02
Net Operating Cash Flow	77	792	(65)	562	EBITDA	30.42	35.18	7.95	21.05
Change in fixed assets - net	(639)	(494)	(550)	(566)	Net Profit	23.49	44.27	9.03	26.47
Others	(33)	(26)	-	-	Profitability (%)				
Net Investing Cash Flow	(672)	(520)	(550)	(566)	Gross margin	12.43	12.73	12.87	13.11
Change in borrowings - net	976	10	423	250	Operating margin	9.89	10.57	10.50	10.75
Change in equity	(2)	45	-	-	EBITDA margin	13.22	13.83	13.17	13.27
Change in other liabilities	(4)	43	(27)	4	Net Profit margin	6.29	7.02	6.75	7.10
Dividend payment	(85)	(106)	(146)	(159)	ROAA	5.75	6.10	6.03	7.12
Adjustment	7	(37)	23	13	ROAE	13.22	16.94	16.28	18.10
Net Financing Cash Flow	891	(45)	273	108	Solvency (x)				
Change in cash	296	227	(343)	104	Current ratio	1.03	1.12	1.06	1.09
Cash at the beginning period	342	638	865	522	Quick ratio	0.79	0.89	0.80	0.82
Cash at the ending period	638	865	522	626	DER	0.54	0.59	0.54	0.54
					EBITDA coverage	8.01	10.11	7.50	8.12
					Net debt to equity	0.30	0.31	0.39	0.38

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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