

FLASH NOTES

Company: Further options for toll roads divestment

(WSKT IJ. Rp1,905. BUY. TP Rp2,800)

WSKT conducted an analyst meeting yesterday, with the highlights as follows:

- According to the management, the company's difficulties in divesting 10 toll roads was mainly due to disagreement on the pricing. WSKT had tendered the 10 toll roads in three packages:
 - a) a bundle of toll roads in which 100% stakes are owned by WSKT, namely: Kanci – Pejagan, Pejagan – Pemalang, and Pasuruan – Probolinggo,
 - b) a bundle of toll roads in which WSKT had formed partnerships with JSMR, namely: Batang – Semarang, Solo – Ngawi, and Ngawi – Kertosono, and
 - c) stand-alone toll roads offered to investors, namely: Pemalang – Batang, Kayungung – Palembang – Betung, Becakayu, and Medan – Kualanamu – Tebing tinggi.
- As a result, the company has changed its divestment scheme to "one-on-one" for the assets and investors. However, if this scheme fails to meet its target the company is also looking at other ways to raise funds. In its backup plan, WSKT plans to bundle 7 toll roads which are part of the Trans Java toll road under a new subsidiary, Waskita Trans Java Toll Road (WTJTR), and conduct an IPO of the new company. WSKT would expect the IPO to take place by the end of 1H18.
- The management claims that the company still has sufficient funds to continue the development of 18 toll roads which are still in the pipeline. WSKT has an IDR8.0tn bank loans facility - excluding another IDR5.0tn bank loans facility from Sumitomo Mitsui for which the agreement was signed recently. Furthermore, WSKT is in the process of issuing IDR3.0tn of bonds.
- Total equity as of Aug 17 stood at IDR21.8tn, or higher than IDR20.8tn in Jun 17. Meanwhile, total debt as of Aug reached IDR34.0tn (Jun17: IDR30.8tn). Hence, the debt-to-equity ratio as of 8M reached 1.56x (Jun17: 1.48x). However, including the IDR3.0tn of additional debts from the bonds issuance, the ratio would rise to 1.70x, yet still below the management's internal covenant policy of 2.0x.
- WSKT expects to receive around IDR30.0tn of receivables payments in 2018 for several turnkey projects carried out by the company. This amount includes around IDR10.0tn of payments for the Palembang LRT project, around IDR6.0tn from PLN for transmission development, and around IDR14.0tn from JSMR.
- WSKT booked new contracts in 8M17 of IDR43.0tn or 71.7% of the target of IDR60.0tn. WSKT admits that it has delayed the acquisition of new contracts, especially under the turnkey scheme, due to the delays in its toll roads divestment. 2017 carry over contracts stand at IDR86.7tn.
- The management indicates that the 2017 net income will reach IDR3.6tn, or higher than the management's initial target of IDR2.8tn. The new target is double the FY16 net income of IDR1.7tn, and 51.1% higher than our 2017 target of IDR2.4tn.
- We have a BUY recommendation on WSKT with a TP of IDR2,800.

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