

Friday, 05 July 2019

**BUY**  
**Maintain**

Last price (IDR) 1,615  
Target Price (IDR) 2,300  
Upside/Downside +42.4%  
Previous Target Price (IDR) 2,300

#### Stock Statistics

Sector Construction  
Bloomberg Ticker ADHI IJ  
No of Shrs (mn) 3,561  
Mkt. Cap (IDRbn/USDmn) 5,751/407  
Avg. daily T/O (IDRbn/USDmn) 17.5/1.2

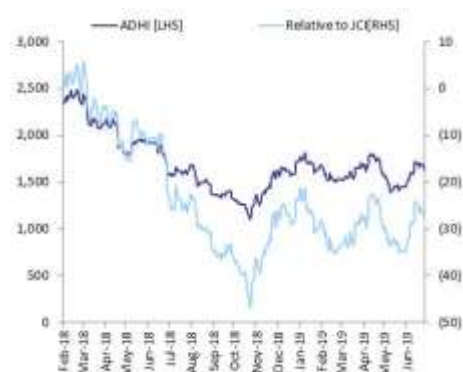
#### Major shareholders (%)

Government 51.0  
Estimated free float 49.0

#### EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	205.8	237.8	285.6
Consensus	245.2	274.0	278.9
Danareksa/Cons	(16.1)	(13.2)	2.4

#### ADHI relative to JCI Index



Source : Bloomberg



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## Adhi Karya(ADHI IJ)

### Removing the land acquisition uncertainty

**Land clearing for the Greater Jakarta LRT Phase 1 has now reached 70% and is targeted to be completed by the end of the month. Meanwhile, LRT development stage 2 is targeted to begin in 2021 following the completion of stage 1. As in stage 1, ADHI will be the contractor in stage 2 for works of ~IDR15.4tn (this is about 70% of the value for the works in stage 1 as there is less elevated track). We maintain our forecast and BUY call on ADHI.**

**Land clearing is targeted to be completed this month.** The Ministry of Transportation (MoT) is targeting land clearing for the Greater Jakarta LRT project to be completed by the end of the month. The target was delivered at a meeting chaired by the Coordinating Minister for Maritime Affairs, Luhut Binsar, early this week. This target includes land clearance for the depo in Bekasi and a station in Cibubur. Meanwhile, according to Sofyan Djalil, the Minister of Agrarian Affairs and Spatial Planning, as well as the head of the National Land Agency (BPN), the prolonged land clearing process is mostly due to complications in land ownership including disputes between the heirs of the land and a lack of documents. The land clearing process now stands at 70%.

**The development progress of Jakarta LRT Phase 1 reached 63.1%** as of the end of Jun19, consisting of: 1) Cawang – Cibubur 82.8%, 2) Cawang – Kuningan – Dukuh Atas 52.1%, and 3) Cawang – Bekasi Timur 57.1%. The project is targeted to be fully operational by early 2021, with the Cawang – Cibubur line expected to be commissioned next year.

**LRT Payments.** ADHI received the third tranche of payment in May19 amounting to IDR1.2tn for works carried out from Jul18-Sep18. The payment is the first one for this year. In 2018, ADHI received two payments totaling IDR5.9tn. In total, ADHI expects to receive IDR5.0-6.0tn of payments this year. The next payment of IDR3.1tn is expected to be made in 2H19 based on works from Oct18-Mar19.

**The LRT stage 2.** The development of the Greater Jakarta LRT stage 2 is targeted to commence following the completion of stage 1 in 2021. ADHI will act as the contractor in phase 2 based on the Presidential Regulation which governs the project. As in stage 1, stage 2 will comprise 3 sections with a total length of 38.5km, namely: Dukuh Atas – Palmerah – Senayan (7.8km), Cibubur – Bogor (25.0km) and Palmerah – Grogol (5.7km). The construction value is expected to be only 70% of that in stage 1 (IDR22.0tn) as more track will be built at grade. Once constructed, the Greater Jakarta LRT will span a total length of 82.9km.

**Maintain BUY.** We maintain our forecast and BUY call on ADHI. ADHI is trading at 2019 PE of 8.0x, slightly above its -1SD historical PE of 7.5x. Our TP implies 11.2x PE.

#### Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	15,156	15,655	17,772	20,811	24,853
EBITDA (IDRbn)	1,589	1,754	1,978	2,281	2,675
EBITDA Growth (%)	136.8	10.4	12.8	15.3	17.3
Net profit (IDRbn)	515	644	733	847	1,017
EPS (IDR)	144.7	180.9	205.8	237.8	285.6
EPS growth (%)	64.4	25.0	13.8	15.6	20.1
BVPS (IDR)	1,645.5	1,762.1	2,101.3	2,494.6	2,970.8
DPS (IDR)	26.4	28.9	36.2	41.2	47.6
PER (x)	11.4	9.1	8.0	6.9	5.8
PBV (x)	1.0	0.9	0.8	0.7	0.6
Dividend yield (%)	1.6	1.8	2.2	2.5	2.9
EV/EBITDA (x)	6.4	6.4	5.5	5.0	4.9

Source : ADHI, Danareksa Estimates

### Exhibit 1. Revenues and Growth



Source: Company, Danareksa Sekuritas estimates

### Exhibit 2. Net Profits and Growth



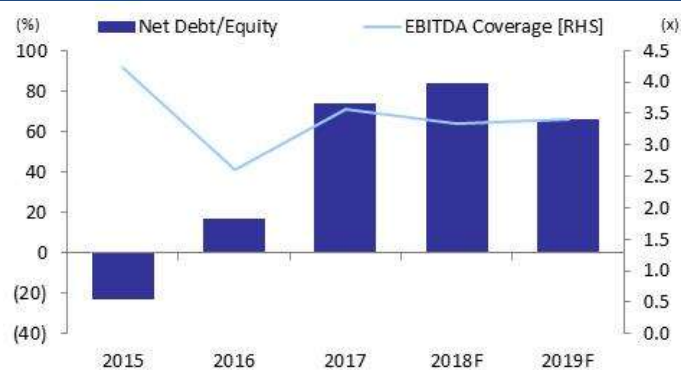
Source: Company, Danareksa Sekuritas estimates

### Exhibit 3. Margins



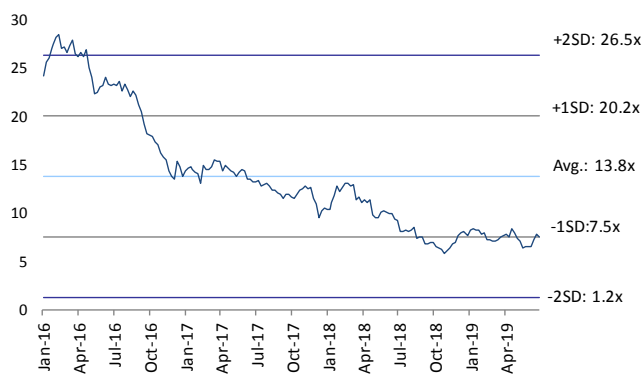
Source: Company, Danareksa Sekuritas estimates

### Exhibit 4. Gearing Level



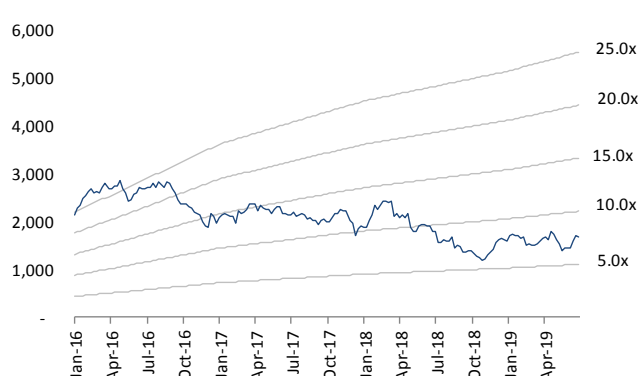
Source: Company, Danareksa Sekuritas estimates

### Exhibit 5. PE Band



Source: Bloomberg, Danareksa Sekuritas estimates

### Exhibit 6. Share Price Chart



Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 7. Greater Jakarta LRT Phase 1 and 2 Map



Source: Company

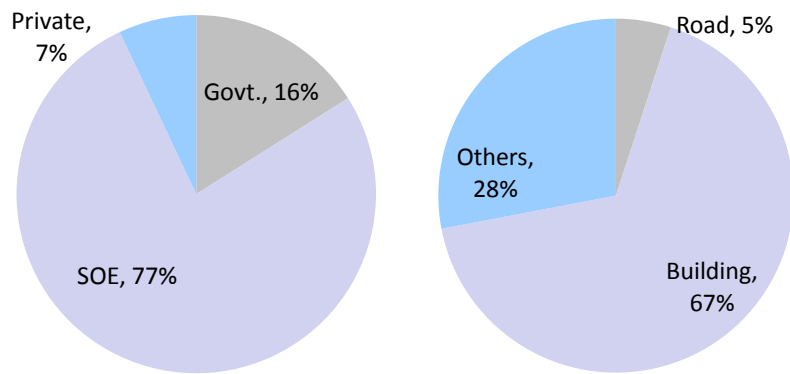
Exhibit 8. LRT Disbursement Flow



Source: Company

**5M19 new contracts.** New contracts as of May19 reached IDR4.7tn with private projects dominating. Private projects accounted for 77% of the total, followed by government projects (16%) and private projects (7%). As a result, building development has become the greatest contributor to works with a contribution reaching 67%. The 5M19 number is 15.4% of the full year target of IDR30.5tn (+24.0%yoy, FY18: IDR24.6tn).

**Exhibit 9. 5M New Contracts Source of Funds and Type of Works**



Source: Company

### Exhibit 10. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
<b>Revenue</b>	<b>15,156</b>	<b>15,655</b>	<b>17,772</b>	<b>20,811</b>	<b>24,853</b>
COGS	(13,098)	(13,149)	(15,007)	(17,568)	(20,985)
<b>Gross profit</b>	<b>2,058</b>	<b>2,507</b>	<b>2,765</b>	<b>3,244</b>	<b>3,868</b>
<b>EBITDA</b>	<b>1,589</b>	<b>1,754</b>	<b>1,978</b>	<b>2,281</b>	<b>2,675</b>
<b>Oper. profit</b>	<b>1,708</b>	<b>1,933</b>	<b>2,171</b>	<b>2,493</b>	<b>2,924</b>
Interest income	104	61	33	38	39
Interest expense	(445)	(524)	(582)	(671)	(711)
Forex Gain/(Loss)	7	1	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(416)	(305)	(292)	(334)	(405)
<b>Pre-tax profit</b>	<b>957</b>	<b>1,168</b>	<b>1,329</b>	<b>1,527</b>	<b>1,847</b>
Income tax	(440)	(523)	(594)	(677)	(827)
Minority interest	(2)	(1)	(2)	(3)	(3)
<b>Net profit</b>	<b>515</b>	<b>644</b>	<b>733</b>	<b>847</b>	<b>1,017</b>
<b>Core Net Profit</b>	<b>485</b>	<b>772</b>	<b>1,025</b>	<b>1,181</b>	<b>1,422</b>

### Exhibit 11. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	4,131	3,263	3,838	3,881	2,957
Receivables	15,067	15,351	17,180	19,655	23,127
Inventory	3,683	4,361	5,002	5,856	6,995
Other Curr. Asset	1,936	2,454	1,975	1,861	2,359
Fixed assets - Net	1,521	1,573	1,732	1,886	2,037
Other non-curr.asset	1,994	3,116	3,549	4,233	5,059
<b>Total asset</b>	<b>28,333</b>	<b>30,119</b>	<b>33,276</b>	<b>37,372</b>	<b>42,534</b>
ST Debt	3,787	3,914	4,675	5,285	8,953
Payables	6,349	7,186	8,779	10,734	13,359
Other Curr. Liabilities	7,497	7,865	7,985	8,134	8,312
Long Term Debt	4,665	4,640	4,135	4,135	1,147
Other LT. Liabilities	164	229	208	190	174
<b>Total Liabilities</b>	<b>22,463</b>	<b>23,833</b>	<b>25,783</b>	<b>28,478</b>	<b>31,945</b>
Shareholder's Funds	5,859	6,274	7,482	8,883	10,578
Minority interests	11	11	11	11	11
<b>Total Equity &amp; Liabilities</b>	<b>28,333</b>	<b>30,119</b>	<b>33,276</b>	<b>37,372</b>	<b>42,534</b>

### Exhibit 12. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	515	644	733	847	1,017
Depreciation and Amort.	119	179	193	212	248
Change in Working Capital	(3,260)	(433)	(253)	(1,082)	(2,276)
Other Oper. Cash Flow	(53)	605	1,070	1,246	1,428
<b>Operating Cash Flow</b>	<b>(2,679)</b>	<b>996</b>	<b>1,743</b>	<b>1,223</b>	<b>418</b>
Capex	(149)	(403)	(484)	(622)	(719)
Others Inv. Cash Flow	(49)	(941)	(230)	(350)	(424)
<b>Investing Cash Flow</b>	<b>(197)</b>	<b>(1,344)</b>	<b>(714)</b>	<b>(972)</b>	<b>(1,143)</b>
Net change in debt	4,181	101	257	609	680
New Capital	0	0	0	0	0
Dividend payment	(94)	(103)	(129)	(147)	(169)
Other Fin. Cash Flow	(444)	(518)	(582)	(671)	(711)
<b>Financing Cash Flow</b>	<b>3,643</b>	<b>(520)</b>	<b>(454)</b>	<b>(208)</b>	<b>(200)</b>
<b>Net Change in Cash</b>	<b>766</b>	<b>(868)</b>	<b>575</b>	<b>43</b>	<b>(925)</b>
Cash - begin of the year	3,365	4,131	3,263	3,838	3,881
Cash - end of the year	4,131	3,263	3,838	3,881	2,957

### Exhibit 13. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
<b>Growth (%)</b>					
Sales	37.0	3.3	13.5	17.1	19.4
EBITDA	136.8	10.4	12.8	15.3	17.3
Operating profit	134.4	13.2	12.3	14.8	17.3
Net profit	64.4	25.0	13.8	15.6	20.1
<b>Profitability (%)</b>					
Gross margin	13.6	16.0	15.6	15.6	15.6
EBITDA margin	10.5	11.2	11.1	11.0	10.8
Operating margin	11.3	12.3	12.2	12.0	11.8
Net margin	3.4	4.1	4.1	4.1	4.1
ROAA	2.1	2.2	2.3	2.4	2.5
ROAE	9.1	10.6	10.7	10.3	10.5
<b>Leverage</b>					
Net Gearing (x)	0.7	0.8	0.7	0.6	0.7
Interest Coverage (x)	3.8	3.7	3.7	3.7	4.1

Source : ADHI, Danareksa Estimates

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