

Thursday, 11 July 2019

BUY
Maintain

Last price (IDR) 2,010
Target Price (IDR) 2,900
Upside/Downside +44.3%
Previous Target Price (IDR) 2,900

Stock Statistics

Sector Construction
Bloomberg Ticker WSKT IJ
No of Shrs (mn) 13,574
Mkt. Cap (IDRbn/USDmn) 27,284/1,931
Avg. daily T/O (IDRbn/USDmn) 88.9/6.3

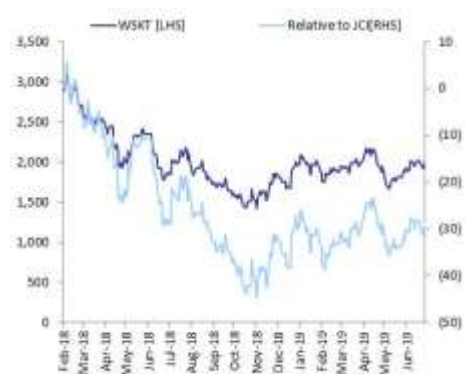
Major shareholders (%)

Govt. Indonesia 66.0
Public 34.0

EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	213.8	236.8	260.5
Consensus	258.2	252.4	244.9
Danareksa/Cons	(17.2)	(6.2)	6.4

WSKT relative to JCI Index



Source : Bloomberg



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Waskita Karya (WSKT IJ)

Imminent divestment

WSKT seeks to complete the divestment of the Solo-Ngawi and Ngawi-Kertosono toll roads by Aug19. We expect the transaction to be in the range of 1.8x-3.75x BV based on the historical data. Hence, WSKT might book additional net income of IDR738bn to IDR2.5tn from both toll roads. We see Astra Group as the most likely potential buyer as the two toll roads are the missing link for Astra in connecting Semarang and Surabaya. We have a BUY call on WSKT.

WSKT seeks to complete the divestment of two toll roads: Solo-Ngawi (90.4km) and Ngawi-Kertosono (87.0km) in Aug19. The asset divestment is a long-time agenda for WSKT and now the company says it has found potential buyers for both toll roads. WSKT owns a 40% stake in both toll roads and plans to sell the entire stakes.

The missing link for Astra connecting Semarang – Surabaya. Although there are no further details regarding the transaction from the management, we believe that Astra Group is the most likely buyer considering: 1) it targets 500km of toll roads, while currently it owns only 350km consisting of 6 toll roads. Recall that In May19 Astra Group bought a 44.5% stake in the Surabaya – Mojokerto (Sumo) toll road from two sellers, Moeladi (24.2%) and Wijaya Karya (WIKA, 20.3%). The transaction value totaled IDR1.7tn. And: 2) both toll roads will connect to Astra's exiting Semarang – Solo and Jombang – Mojokerto toll roads. Hence, Astra could own toll roads that connect Semarang, the capital city of Central Java and Surabaya, the capital city of East Java.

Divestment valuation. We expect WSKT's toll road divestment to be in the valuation range of 1.8x-3.75x BV. The 1.8x BV target is based on the Cipali toll road divestment in 2017 as Astra Group bought a 40% stake from Saratoga Group with a transaction value of IDR2.5tn. Meanwhile, the 3.75x maximum range is based on the Sumo transaction between Astra Group and WIKA for a 20.3% stake with a value of IDR715bn. Hence, we expect WSKT to book additional net income of IDR738bn to IDR2.5tn from the transactions.

There are five toll roads targeted to be sold this year. WSKT seeks to divest five toll roads this year with the other three being: Kanci – Pejagan (35km), Pejagan – Pemalang (57.5km), and Pasuruan – Probolinggo (31.3km). WSKT currently owns 30% stakes in those toll roads. Those toll roads were previously bundled in an RDPT issued by WSKT in Apr18. The RDPT valuation stands at 1.87x BV, based on our valuation back then.

Maintain BUY. We see the upcoming assets divestment as the positive catalyst as WSKT might book gains to boost its P&L performance and help increase the working capital. Astra's ambitious target for connecting Semarang – Surabaya might boost the valuation for the divestment which is a favorable for WSKT.

Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	45,213	48,789	46,552	51,789	56,140
EBITDA (IDRbn)	6,861	6,586	6,489	7,160	7,781
EBITDA Growth (%)	130.7	(4.0)	(1.5)	10.3	8.7
Net profit (IDRbn)	3,882	3,963	2,903	3,215	3,536
EPS (IDR)	334.1	291.9	213.8	236.8	260.5
EPS growth (%)	126.5	(12.6)	(26.8)	10.8	10.0
BVPS (IDR)	1,205.6	1,326.2	1,484.3	1,681.3	1,897.4
DPS (IDR)	37.9	57.2	58.4	42.8	47.4
PER (x)	6.0	6.9	9.4	8.5	7.7
PBV (x)	1.7	1.5	1.4	1.2	1.1
Dividend yield (%)	1.9	2.8	2.9	2.1	2.4
EV/EBITDA (x)	9.6	12.3	11.4	10.8	9.9

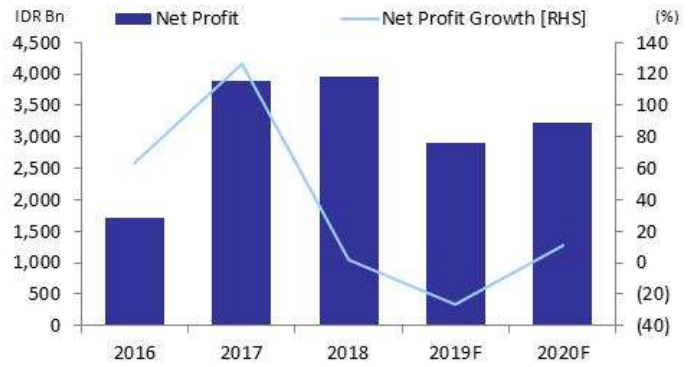
Source : WSKT, Danareksa Estimates

Exhibit 1. Revenues and Growth



Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth



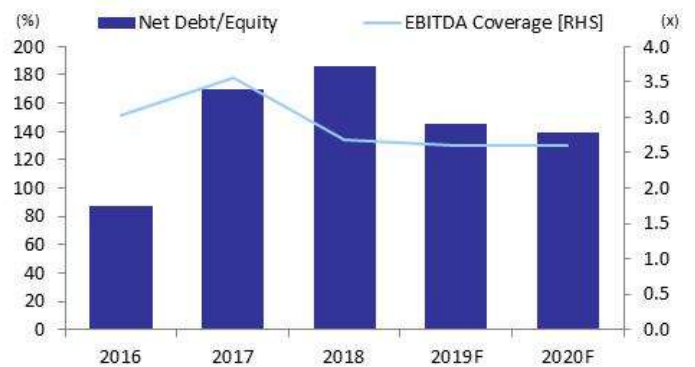
Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins



Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level



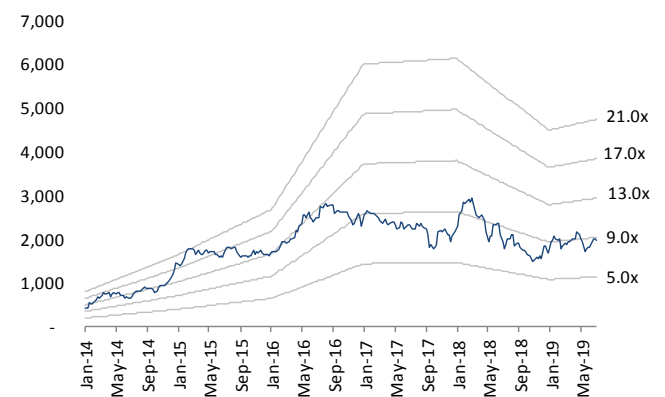
Source: Company, Danareksa Sekuritas estimates

Exhibit 5. PE Band Chart



Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 6. Share Price Chart



Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 7. Scenarios of the divestment valuation

		SUMO	Solo - Ngawi	Ngawi - Kertosono
Seller		WIKA	WSKT	WSKT
% stake	%	20.3%	40.0%	40.0%
Length	Km	36.3	90.43	87.0
Equity value as of Mar19	IDR Bn	190.6	829.4	400.6
Equity per Km(100%)	IDR/KM	25.87	22.93	11.51
% different with SUMO	%		-11.4%	-55.5%
Transaction value	IDR Bn	715.0		
Price/km for 100% stake	IDR bn/KM	97.0		
Valuation (BV)	x	3.75		
Scenario 1. Based on SUMO's BV: 3.75x				
Valuation BV	x		3.75	3.75
Transaction value	IDR Bn		3,111	1,503
Potential gain - net	IDR Bn		1,711	826
Potential gain total	IDR Bn			2,538
Scenario 2. Based on 1.87x BV(WSKT's RDPT)				
Applied BV	x		1.87	1.87
Price for WSKT	IDR Bn		1,551	749
Potential gain - net	IDR Bn		541	261
Potential gain total	IDR Bn			803
Scenario 3. Based on 1.8x BV(Cipali's divestment)				
Applied BV	x		1.80	1.80
Price for WSKT	IDR Bn		1,493	721
Potential gain - net	IDR Bn		498	240
Potential gain total	IDR Bn			738

Source: Danareksa Sekuritas estimates

Another scenario. We realize that the transaction of a 20% stake in Sumo is reflected in the price per km of IDR97.0bn/km. If we applied the price to both toll roads, WSKT might book IDR4.2tn of gains (after tax). This would be reflected in a valuation of 4.23x BV for Solo – Ngawi and 8.43x for Ngawi – Kertosono. The high valuation owes to lower equity/km on both toll roads. The equity per km needed to build Solo – Ngawi and Ngawi – Kertosono is 11.4% and 55.5% lower than Sumo's. We believe there are several factors affecting the valuations, such as length, stake size, investment cost, location, and expected IRR. Such a scenario looks unrealistic in our view, however. Instead, the valuation range as indicated in scenarios 2 and 3 (as listed above) is much more likely, we believe.

Exhibit 8. Toll roads owned by the Astra Group

	Ownership	Km
Operated		
Merak - Tangerang	79.3%	72.5
Cikopo - Palimanan	45.0%	116.8
Semarang - Solo	40.0%	72.6
Jombang – Mojokerto	100.0%	40.5
Surabaya-Mojokerto	44.5%	36.3
Under Construction		
Kunciran - Serpong	40.0%	11.2
Total		349.9

Source: ASII

Exhibit 9. Astra: Connecting Semarang and Surabaya



Source: JSMR

Exhibit 10. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Revenue	45,213	48,789	46,552	51,789	56,140
COGS	(35,749)	(39,926)	(37,972)	(42,326)	(45,863)
Gross profit	9,464	8,863	8,581	9,463	10,277
EBITDA	6,861	6,586	6,489	7,160	7,781
Oper. profit	7,386	7,224	7,106	7,845	8,525
Interest income	334	648	868	1,376	1,422
Interest expense	(1,932)	(2,459)	(2,486)	(2,747)	(3,033)
Forex Gain/(Loss)	0	12	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	0	0	0	0	0
Pre-tax profit	5,788	5,424	5,488	6,473	6,914
Income tax	(1,854)	(2,406)	(1,848)	(2,414)	(2,383)
Minority interest	(320)	(657)	(736)	(845)	(995)
Net profit	3,882	3,963	2,903	3,215	3,536
Core Net Profit	3,614	2,349	2,903	3,215	3,536

Exhibit 11. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	6,089	10,846	17,195	17,780	19,904
Receivables	13,122	13,870	13,524	13,910	15,079
Inventory	3,236	5,089	4,161	4,638	5,026
Other Curr. Asset	29,972	37,176	32,113	33,135	34,286
Fixed assets - Net	4,742	7,091	9,003	10,894	12,766
Other non-curr.asset	40,726	50,311	54,771	61,849	64,624
Total asset	97,896	124,392	130,776	142,215	151,693
ST Debt	26,606	31,580	30,740	32,880	35,863
Payables	24,729	22,208	24,549	27,351	29,653
Other Curr. Liabilities	975	3,012	3,466	3,816	4,186
Long Term Debt	18,015	33,063	33,267	34,951	33,898
Other LT. Liabilities	4,817	5,641	6,630	7,223	7,848
Total Liabilities	75,141	95,504	98,653	106,222	111,448
Shareholder's Funds	14,006	18,001	20,148	22,822	25,756
Minority interests	8,748	10,886	11,975	13,172	14,489
Total Equity & Liabilities	97,896	124,392	130,776	142,215	151,693

Exhibit 12. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	3,882	3,963	2,903	3,215	3,536
Depreciation and Amort.	525	638	616	685	743
Change in Working Capital	(7,611)	(8,226)	9,188	1,389	93
Other Oper. Cash Flow	1,315	928	2,380	1,674	1,914
Operating Cash Flow	(1,889)	(2,698)	15,087	6,962	6,286
Capex	(2,253)	(2,987)	(2,528)	(2,577)	(2,615)
Others Inv. Cash Flow	(23,374)	(9,206)	(3,460)	(5,519)	(1,158)
Investing Cash Flow	(25,627)	(12,192)	(5,988)	(8,095)	(3,773)
Net change in debt	18,895	19,584	(471)	3,882	1,992
New Capital	(416)	85	0	0	0
Dividend payment	(514)	(776)	(793)	(581)	(643)
Other Fin. Cash Flow	827	510	(1,430)	(1,619)	(1,792)
Financing Cash Flow	18,792	19,402	(2,694)	1,683	(443)
Net Change in Cash	(8,724)	4,512	6,405	550	2,071
Cash - begin of the year	10,656	6,089	10,846	17,195	17,780
Cash - end of the year	6,089	10,846	17,195	17,780	19,904

Exhibit 13. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Growth (%)					
Sales	90.1	7.9	(4.6)	11.2	8.4
EBITDA	130.7	(4.0)	(1.5)	10.3	8.7
Operating profit	132.8	(2.2)	(1.6)	10.4	8.7
Net profit	126.6	2.1	(26.8)	10.8	10.0
Profitability (%)					
Gross margin	20.9	18.2	18.4	18.3	18.3
EBITDA margin	15.2	13.5	13.9	13.8	13.9
Operating margin	16.3	14.8	15.3	15.1	15.2
Net margin	8.6	8.1	6.2	6.2	6.3
ROAA	4.9	3.6	2.3	2.4	2.4
ROAE	31.0	24.8	15.2	15.0	14.6
Leverage					
Net Gearing (x)	1.7	1.9	1.5	1.4	1.2
Interest Coverage (x)	3.8	2.9	2.9	2.9	2.8

Source : WSKT, Danareksa Estimates

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