

Wednesday, 31 July 2019

**BUY**  
**Maintain**

Last price (IDR) 2,100  
Target Price (IDR) 2,900  
Upside/Downside +38.1%  
Previous Target Price (IDR) 2,900

#### Stock Statistics

Sector Construction  
Bloomberg Ticker WSKT IJ  
No of Shrs (mn) 13,574  
Mkt. Cap (IDRbn/USDmn) 28,505/2,032  
Avg. daily T/O (IDRbn/USDmn) 79.3/5.7

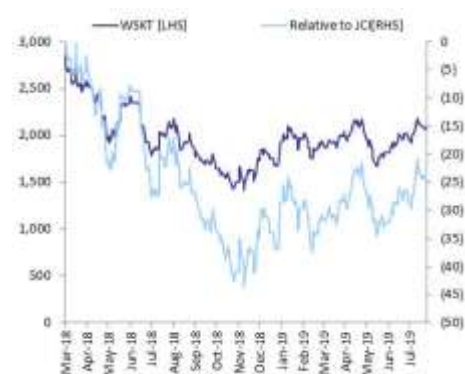
#### Major shareholders (%)

Govt. Indonesia 66.0  
Public 34.0

#### EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	213.8	236.8	260.5
Consensus	260.2	255.5	244.9
Danareksa/Cons	(17.8)	(7.3)	6.4

#### WSKT relative to JCI Index



Source : Bloomberg



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## Waskita Karya (WSKT IJ)

### Weak results

**WSKT booked weak 1H19 results. Earnings fell by 66.6%yoy to IDR998bn due to lower revenues and lower other income. The result is below our estimate and the consensus. Revenues declined by 35.4%yoy on the back of soft carry over contracts. Debt jumped significantly to IDR75.3tn, resulting in a higher DER of 2.61x. WSKT is in the process of undertaking toll road divestment and feasibility studies are being conducted on two toll roads with the expected sale targeted by Aug19. We have a BUY call on WSKT.**

**WSKT booked weak 1H19 results.** Net income in 1H19 dropped by 66.6%yoy to IDR998bn from IDR3.0tn in the previous year. The result is 34.4% of our full year estimate and 30.0% of the consensus, below its average past two-years rate of 54.2%. The soft result reflects negative revenues growth and lower other income. WSKT booked lower other income of IDR278bn in 1H19 vs. IDR1.8tn in 1H18. The high other income in 1H18 came from the issuance of RDPT in Apr18.

**Revenues in 1H19 reached IDR14.8tn, -35.4%yoy (1H18: IDR22.9tn).** This figure is 31.8% and 30.8% of our full year target and the consensus. The realization rate is lower than the average past two-years figure of 54.2%. The weak revenues owe to a lower order book arising from lower carry over contracts.

**Order book.** The order book in Jun19 reached IDR74.1tn, -24.9%yoy on the back of weak carry over contracts. Carry over contracts in 2019 reached IDR65.9tn, down by 24.9%yoy due to soft new contracts booked in 2018. On the other hand, new contracts booked in 1H19 reached IDR8.2tn, up by 6.9%yoy (1H18: IDR7.7tn). The 6M new contracts are 14.7% of the target set at IDR55.8tn (+105%yoy).

**Margins, debt, and cash flow.** The gross margin slipped to 19.7% in 1H19 from 20.6% in 1H18. Interest debt jumped significantly to IDR75.3tn in Jun19 from IDR61.5tn in Dec18. Consequently, the DER rose to 2.61x from 2.13x by end 2018. Finance costs jumped 19.4%yoy to IDR1.6tn. Operating cash flow was negative IDR3.4tn vs. negative IDR3.0tn in the previous year.

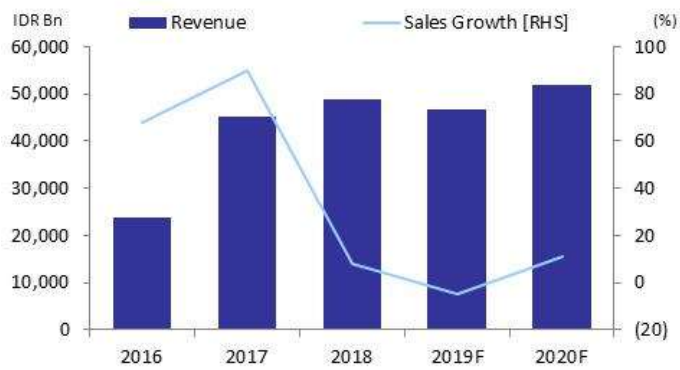
**Imminent divestment.** WSKT will divest several toll roads: Solo – Ngawi and Ngawi – Kertonso. The signing of the purchase agreement is targeted by Aug19. The management mentioned that the company has found potential buyers including a foreign investor from Hong Kong. WSKT owns 40% stakes in both toll roads.

**Maintain BUY.** We have a BUY call on WSKT as we see the upcoming toll road divestments as a positive catalyst as WSKT might book gains to boost its profits.

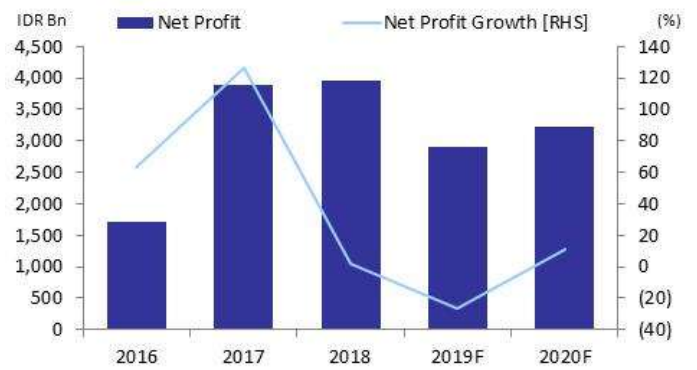
#### Key Financials

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)	6.3	7.2	9.8	8.9	8.1
PBV (x)	1.7	1.6	1.4	1.2	1.1
Dividend yield (%)	1.8	2.7	2.8	2.0	2.3
EV/EBITDA (x)	9.8	12.5	11.6	11.0	10.1

Source : WSKT, Danareksa Estimates

**Exhibit 1. Revenues and Growth**


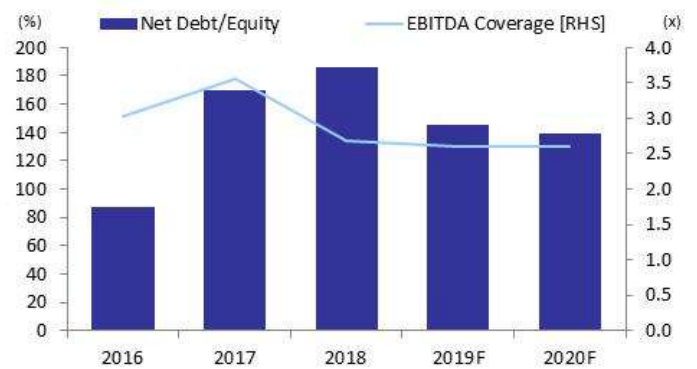
Source: Company, Danareksa Sekuritas estimates

**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. WSKT 1H19 Result Summary**

IDR Bn	2Q18	1Q19	2Q19	QoQ Chg %	YoY Chg %	1H19	YoY Chg %	Danareksa FY19F	1H19/ FY19F %
Revenue	10,503	8,682	6,113	(29.6)	(41.8)	14,795	(35.4)	46,552	31.8
Gross profit	1,938	1,749	1,165	(33.4)	(39.9)	2,914	(38.4)	8,581	34.0
Op. profit	1,452	1,608	846	(47.4)	(41.7)	2,454	(40.7)	7,106	34.5
Net profit	1,470	716	282	(60.7)	(80.8)	998	(66.6)	2,903	34.4
GPM (%)	18.5	20.1	19.1	(1.1)	0.6	19.7	(1.0)	18.4	
OPM (%)	13.8	18.5	13.8	(4.7)	0.0	16.6	(1.5)	15.3	
NPM (%)	14.0	8.2	4.6	(3.6)	(9.4)	6.7	(6.3)	6.2	

Source: Company, Danareksa Sekuritas estimates

### Exhibit 6. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
<b>Revenue</b>	<b>45,213</b>	<b>48,789</b>	<b>46,552</b>	<b>51,789</b>	<b>56,140</b>
COGS	(35,749)	(39,926)	(37,972)	(42,326)	(45,863)
<b>Gross profit</b>	<b>9,464</b>	<b>8,863</b>	<b>8,581</b>	<b>9,463</b>	<b>10,277</b>
<b>EBITDA</b>	<b>6,861</b>	<b>6,586</b>	<b>6,489</b>	<b>7,160</b>	<b>7,781</b>
<b>Oper. profit</b>	<b>7,386</b>	<b>7,224</b>	<b>7,106</b>	<b>7,845</b>	<b>8,525</b>
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
<b>Pre-tax profit</b>	<b>5,788</b>	<b>5,424</b>	<b>5,488</b>	<b>6,473</b>	<b>6,914</b>
Income tax	(1,854)	(2,406)	(1,848)	(2,414)	(2,383)
Minority interest	(320)	(657)	(736)	(845)	(995)
<b>Net profit</b>	<b>3,882</b>	<b>3,963</b>	<b>2,903</b>	<b>3,215</b>	<b>3,536</b>
<b>Core Net Profit</b>	<b>3,614</b>	<b>2,349</b>	<b>2,903</b>	<b>3,215</b>	<b>3,536</b>

### Exhibit 7. 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
<b>Total asset</b>	<b>97,896</b>	<b>124,392</b>	<b>130,776</b>	<b>142,215</b>	<b>151,693</b>
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
<b>Total Liabilities</b>	<b>75,141</b>	<b>95,504</b>	<b>98,653</b>	<b>106,222</b>	<b>111,448</b>
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
<b>Total Equity &amp; Liabilities</b>	<b>97,896</b>	<b>124,392</b>	<b>130,776</b>	<b>142,215</b>	<b>151,693</b>

### Exhibit 8. 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
<b>Operating Cash Flow</b>	<b>(1,889)</b>	<b>(2,698)</b>	<b>15,087</b>	<b>6,962</b>	<b>6,286</b>
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)
<b>Investing Cash Flow</b>	<b>(25,627)</b>	<b>(12,192)</b>	<b>(5,988)</b>	<b>(8,095)</b>	<b>(3,773)</b>
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)
<b>Financing Cash Flow</b>	<b>18,792</b>	<b>19,402</b>	<b>(2,694)</b>	<b>1,683</b>	<b>(443)</b>
<b>Net Change in Cash</b>	<b>(8,724)</b>	<b>4,512</b>	<b>6,405</b>	<b>550</b>	<b>2,071</b>
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 9. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
<b>Growth (%)</b>					
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
<b>Profitability (%)</b>					
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
<b>Leverage</b>					
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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