

Friday, 01 November 2019

BUY
Maintain

Last price (IDR) 1,555
Target Price (IDR) 2,900
Upside/Downside +86.5%
Previous Target Price (IDR) 2,900

Stock Statistics

Sector Construction
Bloomberg Ticker WSKT IJ
No of Shrs (mn) 13,574
Mkt. Cap (IDRbn/USDmn) 21,107/1,503
Avg. daily T/O (IDRbn/USDmn) 45.7/3.3

Major shareholders (%)

Govt. Indonesia 66.0
Public 34.0

EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	213.8	236.8	260.5
Consensus	232.3	233.2	221.2
Danareksa/Cons	(7.9)	1.6	17.8

WSKT relative to JCI Index



Source : Bloomberg



Maria Renata

(62-21) 5091 4100 ext. 3513

maria.renata@danareksa.co.id

Waskita Karya (WSKT IJ)

Weak results from a stretched balance sheet

WSKT booked soft 9M19 earnings, below our expectations and the consensus. The net income dived by 69.1%yoy to IDR1.15tn on the back of lower revenues, lower interest and other income, and huge finance costs. Revenues were down by 39.3%yoy on the back of a soft order book caused by low new contracts secured last year. Debt soared to IDR80.3tn, resulting in a DER at 2.75x and finance costs at IDR2.6tn - translating into 1.30x interest coverage. We will review our forecast following the soft results.

WSKT booked 9M19 earnings at IDR1.15tn, or -69.1%yoy, on the back of lower revenues, lower interest and other income, and large finance costs. The result is only 40% of our full year target and 35% of consensus expectations. The ratio is below the historical rate at 80%. WSKT booked IDR1.8tn of other income last year which came from the RDPT issuance. Furthermore, interest income also dropped by 36.5%yoy from IDR1.1tn to IDR689tn on the back of a lower cash position (Sep19: IDR3.5tn, Dec18: IDR10.8tn).

Revenues reached IDR22.0tn, or -39.3%yoy on the back of a lower order book and burn rate. The revenues are 47% of our full year forecast and the consensus. The rate is below the historical rate of 69%. The soft revenues reflect a lower burn rate and order book. The revenues are 27.1% of the realization rate, lower than 35.6% in 9M18.

Order book. WSKT's order book stood at DR81.1tn as of Sep19 (-20.3%yoy). The soft 9M19 order book owed to weak new contracts secured in 2018 (only IDR27.2tn, -51.2%yoy). Nonetheless, new contracts secured in 9M19 grew by +29.7%yoy to IDR15.1tn. This is 33.6% of the new target of IDR45.0tn. WSKT has cut its new contracts target by 19.4% to IDR45.0tn from IDR55.8tn set at the beginning of 2019. The new contracts target implies 65.3%yoy growth.

Margins, debt and cash flow. The gross margin slipped to 18.9% from 19.5% last year. Total debt reached IDR80.3tn as of Sep19 or up from IDR61.5tn as of end-2018. Consequently, the DER arrived at 2.75x (Dec18: 2.13x) and finance costs reached IDR2.6tn (+33.0%yoy). Interest coverage stood at 1.30x (Dec18: 2.94x). Operating cash flow was negative IDR4.9tn.

Valuation. We will revisit our forecast and recommendation on WSKT following the weak interim results. WSKT is trading at 6.6x 2020 PE, below its -1SD historical PE at 7.6x.

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)	4.7	5.3	7.3	6.6	6.0
PBV (x)	1.3	1.2	1.0	0.9	0.8
Dividend yield (%)	2.4	3.7	3.8	2.8	3.0
EV/EBITDA (x)	8.7	11.4	10.5	9.9	9.1

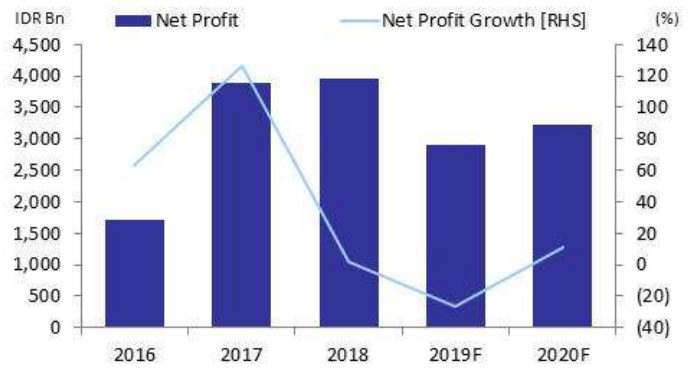
Source : WSKT, Danareksa Estimates

Exhibit 1. Revenues and Growth



Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth



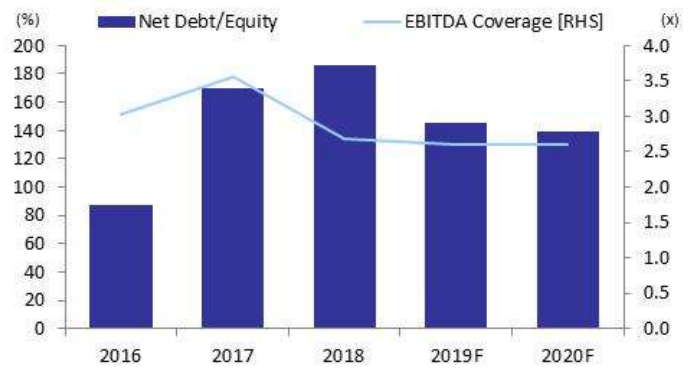
Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins



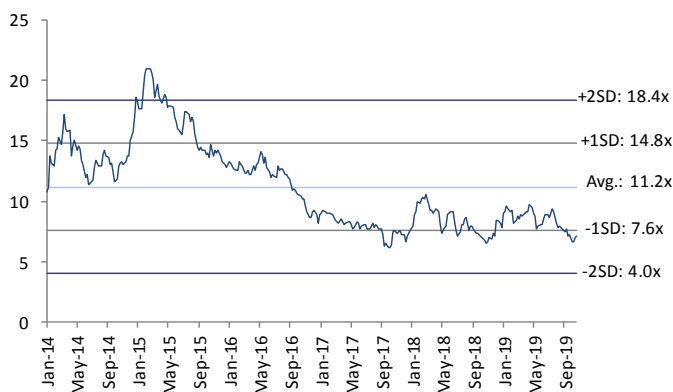
Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level



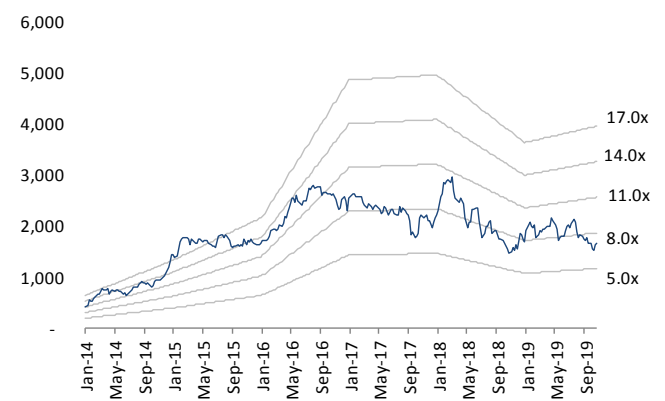
Source: Company, Danareksa Sekuritas estimates

Exhibit 5. PE Band Chart



Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 6. Share Price Chart



Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 7. WSKT 9M19 Result Summary

IDR Bn	3Q18	2Q19	3Q19	QoQ Chg %	YoY Chg %	9M19	YoY Chg %	Danareksa FY19F	9M19/ FY19F %
Revenue	13,333	6,113	7,220	18.1	(45.8)	22,015	(39.2)	46,552	47.3
Gross profit	2,345	1,165	1,242	6.7	(47.0)	4,156	(41.2)	8,581	48.4
Op. profit	1,806	846	921	8.9	(49.0)	3,375	(43.2)	7,106	47.5
Net profit	736	282	153	(45.8)	(79.3)	1,150	(69.1)	2,903	39.6
GPM (%)	17.6	19.1	17.2	(1.8)	(0.4)	18.9	(0.6)	18.4	0.4
OPM (%)	13.5	13.8	12.8	(1.1)	(0.8)	15.3	(1.1)	15.3	0.1
NPM (%)	5.5	4.6	2.1	(2.5)	(3.4)	5.2	(5.1)	6.2	(1.0)

Source: Danareksa Sekuritas estimates

Exhibit 8. 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 9. 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 10. 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 11. 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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