

Tuesday, 12 October 2021

BUY
Maintain

Last price (IDR) 1,305
Target Price (IDR) 1,400
Upside/Downside +7.3%
Previous Target Price (IDR) 1,400

Stock Statistics

Sector Construction
Bloomberg Ticker WIKA JJ
No of Shrs (mn) 8,970
Mkt. Cap (IDRbn/USDmn) 11,706/824
Avg. daily T/O (IDRbn/USDmn) 42.4/3.0

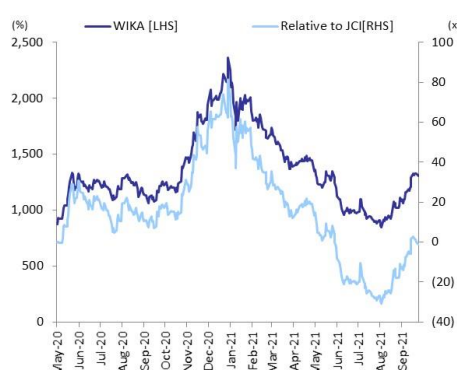
Major shareholders (%)

Govt. Indonesia 65.1
Public 35.0

EPS Consensus (IDR)

	2021F	2022F	2023F
Danareksa	30.5	106.1	132.4
Consensus	62.1	105.3	105.4
Danareksa/Cons	(50.9)	0.8	25.6

WIKA relative to JCI Index



Source : Bloomberg



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Wijaya Karya(WIKA JJ)

Speeding up the high-speed railway project

The issuance of Perpres No.93, year 2021, opens up the possibility of the Jakarta – Bandung HSR project being funded from the government budget. The new regulation stipulates the possibility of changes in the stakes owned by the consortium members of PSBI, including the potential dilution of WIKA's stake on the back of the appointment of KAI as the leader of the consortium. The government also formed a committee led by Mr. Luhut B. Pandjaitan to supervise the project. These are expected to accelerate the development progress of the project. We maintain our forecast and recommendation on WIKA.

On 6 Oct 21, the President signed Perpres (President Regulation) No. 93, year 2021. This is the revision of Perpres No.107, year 2015, and it regulates the acceleration of the development of the Jakarta – Bandung HSR project. The government mandates a consortium consisting of 4 SOEs, namely: KAI, WIKA, JSMR, and PTPN VIII, as the parties to carry out the project. The consortium will be led by KAI (previously by WIKA). The new regulation stipulates the formation of a committee led by the Coordinating Minister for Maritime Affairs and Investments, Luhut Binsar Pandjaitan, as the supervisor of the project. Other members on the committee are the Ministry of Finance, Ministry of SOE, and Ministry of Transportation.

Based on the regulation, the committee's main tasks are to: decide upon any actions to take regarding changes in investment value (cost overrun). This includes: 1) deciding upon the changes in the stakes of the SOE consortium members, 2) deciding upon the size of the capital injections for the members of the consortium, and 3) the government guarantees for liabilities/debts needed by the consortium. KAI is targeted to receive a IDR4.3tn capital injection from the government in 4Q21, with the funds to be injected into the consortium. The new regulation opens up the possibility of changes in the stakes held by the consortium members, including the potential of dilution of WIKA's stake.

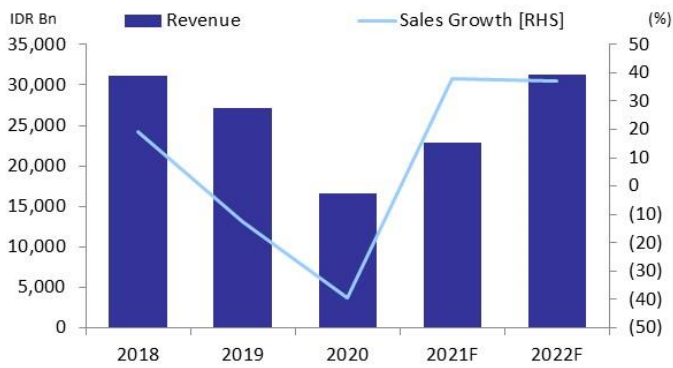
Impact on WIKA. WIKA obtained IDR15.5tn of construction works or 30% of the construction value, while the remaining 70% was divided among 6 or 7 Chinese contractors. WIKA has injected IDR1.7bn as equity into the project and IDR4.6tn as shareholder loans to PSBI. The construction progress of the project has reached 77.9% in total as WIKA has completed 82% of its works. The construction development is targeted to be completed by mid-2022 and the operation of the trains is expected by the end of 2022. The KCIC is still calculating the official cost overruns and how to finance them. Currently, 75% of the project is financed by loans, and the portion might increase in order to cover the increasing investment value.

Maintain BUY. We maintain our forecast on WIKA as we are awaiting more details regarding the updates on the project and new FY21 targets from the management. WIKA plans to cut its 2021 targets. We see the issuance of the Perpres as a positive catalyst for the project and WIKA in particular. We also note that WIKA may reduce its stake in the project to mitigate the equity risk when the railway starts operation.

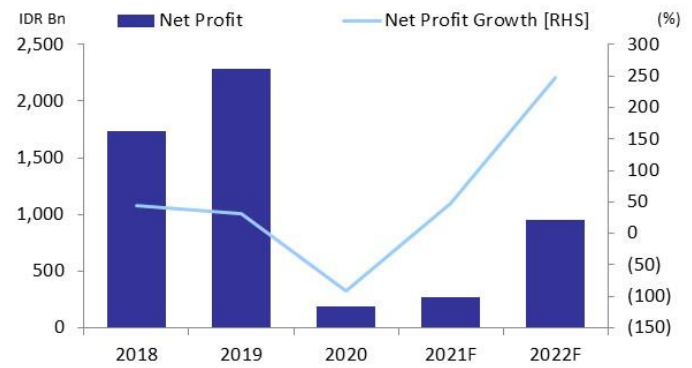
Key Financials

Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
Revenue (IDRbn)	27,213	16,536	22,813	31,272	37,152
EBITDA (IDRbn)	4,035	1,394	2,755	4,061	4,737
EBITDA Growth (%)	11.0	(65.5)	97.6	47.4	16.6
Net profit (IDRbn)	2,285	186	274	952	1,187
EPS (IDR)	254.7	20.7	30.5	106.1	132.4
EPS growth (%)	32.0	(91.9)	47.4	247.8	24.7
BVPS (IDR)	1,839.8	1,524.9	1,555.4	1,655.4	1,766.5
DPS (IDR)	38.6	50.9	0.0	6.1	21.2
PER (x)	5.1	63.0	42.8	12.3	9.9
PBV (x)	0.7	0.9	0.8	0.8	0.7
Dividend yield (%)	3.0	3.9	0.0	0.5	1.6
EV/EBITDA (x)	4.1	16.5	10.1	7.0	6.2

Source : WIKA, BRI Danareksa Estimates

Exhibit 1. Revenues and Growth


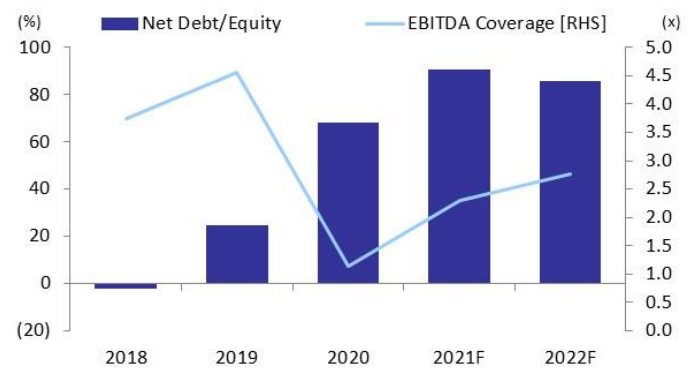
Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


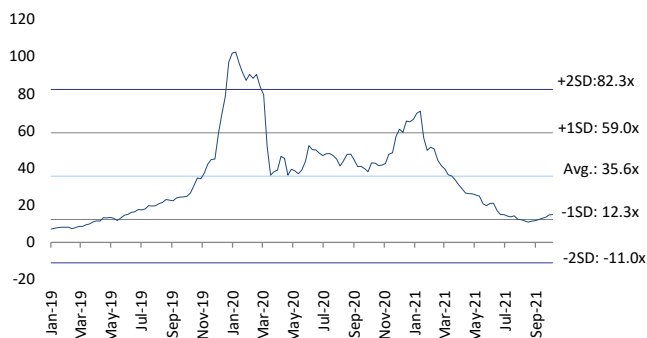
Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 3. Margins

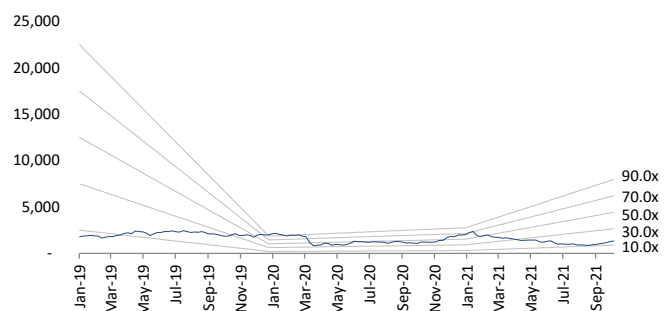

Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 4. Gearing Level


Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 5. PE Band Chart


Source: Bloomberg, BRI Danareksa Sekuritas estimates

Exhibit 6. Share Price Chart


Source: Bloomberg, BRI Danareksa Sekuritas estimates

According to the Vice Minister of the Ministry of SOE, three main problems have been identified in the Jakarta – Bandung HSR project, namely: 1) lack of a capital injection by the PSBI members. The problems involve: a) PTPN VIII's lack of cash. The consortium has declined PTPN VIII assets inbreng in Walini as the equity capital and demanded cash. b) JSMR's planned capital injection in the form of a right of way (ROW) of its toll roads. However, the ROW of the toll roads is owned by DJKN under the Ministry of Finance, c) the capital shortfall from the consortium members. WIKA has a IDR240bn capital shortfall, JSMR 540bn, and PTPN VIII IDR3.14tn, 2) Cost overruns: the prolonged development progress has resulted in cost overruns of approximately USD1.2bn to USD1.9bn, and 3) Cash deficit. This is related to the possibility of negative cash flow from operations in the early years of the operation. This matter is being discussed with CDB as the creditor of the project.

Changes in the route. The new Perpres also confirms the change in the route from Jakarta – Walini – Bandung to become Jakarta – Padalarang – Bandung. There will still be 4 stations. However, the Walini station will be replaced by Padalarang Station. As such, the 4 stations will be: Halim, Karawang, Padalarang, and Tegal Luar. The Padalarang Station will use land owned by KAI.

The Jakarta – Bandung project at a glance. The HSR project kicked off in 2016 with the investment value budgeted at ~USD6.0bn. Based on the initial plan, around 75% of the project will be funded by loans from CDB. This translates to a USD4.4bn loan facility awarded to the project with 2.0%pa interest rate. Some USD2.4bn of loans have been drawn down.

Currently, a 60% stake in KCIC is owned by PSBI, the SOEs consortium, with WIKA holding 38%, KAI 25%, JSMR 25%, and PTPN VIII 12%. The remaining 40% stake in KCIC is owned by Beijing Yawan, a consortium consisting of several Chinese SOE. WIKA's works of scope consist of piling, earth moving, and the construction of stations. The Chinese contractors' works are mostly related to the technology such as girders, signaling, and the telecommunications.

8M21 new contracts. WIKA booked 8M new contracts of IDR12.7tn, +160%yoy from IDR4.9tn in 8M20. The 8M new contracts are 34.0% of our FY21 target and 31.7% of the management's target. We expect the FY21 new contracts to reach IDR37.4tn (+60.0%yoy, FY20: IDR23.4tn). Our target is 7% lower than the management's IDR42.1tn (+71.7%yoy).

Exhibit 7. Our targets and the management's

	2019	2020	BRIDS		YoY (%)		WIKA	YoY	BRIDS vs.
			2021	2022	2021	2022	FY21F	(%)	WIKI (%)
New contracts	41,179	23,370	37,392	44,870	60.0%	20.0%	40,127	71.7%	93.2%
Carry over	76,519	74,715	74,899	114,552	0.2%	52.9%	74,899	0.2%	100.0%
Order book	117,698	98,085	112,291	159,423	14.5%	42.0%	115,026	17.3%	97.6%
Revenues	27,213	16,536	22,813	31,272	38.0%	37.1%	26,247	58.7%	86.9%
Gross Profit	3,480	1,525	2,239	3,525	46.8%	57.4%	na	nm	nm
Op. Profit	3,489	1,102	2,235	3,546	102.7%	58.7%	na	nm	nm
Net Profit	2,285	186	274	952	47.4%	247.8%	1,054	467.4%	26.0%
Burn rate (%)	23.1%	16.9%	20.3%	19.6%			22.8%		
GPM (%)	12.8%	9.2%	9.8%	11.3%			nm		
OPM (%)	12.8%	6.7%	9.8%	11.3%			nm		
NPM(%)	8.4%	1.1%	1.2%	3.0%			4.0%		

Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 8. Income Statement

Year to 31 Dec (IDRbn)	2019A	2020A	2021F	2022F	2023F
Revenue	27,213	16,536	22,813	31,272	37,152
COGS	(23,733)	(15,012)	(20,574)	(27,746)	(32,714)
Gross profit	3,480	1,525	2,239	3,525	4,438
EBITDA	4,035	1,394	2,755	4,061	4,737
Oper. profit	3,489	1,102	2,235	3,546	4,185
Interest income	518	653	209	202	367
Interest expense	(884)	(1,222)	(1,198)	(1,462)	(1,678)
Forex Gain/(Loss)	(17)	41	0	0	0
Income From Assoc. Co's	(264)	(3)	(19)	(17)	(16)
Other Income (Expenses)	644	140	(392)	(450)	(555)
Pre-tax profit	3,485	711	835	1,819	2,303
Income tax	(864)	(389)	(444)	(652)	(807)
Minority interest	(336)	(137)	(118)	(215)	(309)
Net profit	2,285	186	274	952	1,187
Core Net Profit	2,323	1,291	665	1,402	1,742

Exhibit 9. Balance Sheet

Year to 31 Dec (IDRbn)	2019A	2020A	2021F	2022F	2023F
Cash & cash equivalent	10,347	14,952	5,060	9,168	9,907
Receivables	19,294	17,008	21,694	25,856	29,596
Inventory	6,855	9,813	10,146	13,683	16,133
Other Curr. Asset	5,840	6,208	5,063	5,617	6,134
Fixed assets - Net	5,155	5,171	5,619	5,996	6,302
Other non-curr.asset	14,621	14,958	16,649	18,886	20,717
Total asset	62,111	68,109	64,232	79,207	88,789
ST Debt	6,188	21,013	16,674	20,780	22,232
Payables	13,713	16,541	12,457	16,611	19,525
Other Curr. Liabilities	10,449	6,615	10,869	14,668	17,337
Long Term Debt	8,892	5,265	4,408	5,009	5,243
Other LT. Liabilities	3,653	2,018	2,153	2,770	3,221
Total Liabilities	42,895	51,452	46,560	59,838	67,558
Shareholder's Funds	16,503	13,678	13,952	14,849	15,846
Minority interests	2,713	2,979	3,720	4,520	5,385
Total Equity & Liabilities	62,111	68,109	64,232	79,207	88,789

Exhibit 10. Cash Flow

Year to 31 Dec (IDRbn)	2019A	2020A	2021F	2022F	2023F
Net income	2,285	186	274	952	1,187
Depreciation and Amort.	547	292	520	515	551
Change in Working Capital	43	(2,316)	(3,674)	(266)	(1,087)
Other Oper. Cash Flow	(1,360)	1,894	1,066	1,814	1,692
Operating Cash Flow	1,514	56	(1,814)	3,014	2,344
Capex	(1,496)	(341)	(1,369)	(1,292)	(1,257)
Others Inv. Cash Flow	(3,968)	(2,342)	(1,055)	(1,605)	(1,030)
Investing Cash Flow	(5,464)	(2,683)	(2,424)	(2,897)	(2,288)
Net change in debt	1,491	11,198	(5,196)	4,707	1,686
New Capital	11	(1)	0	0	0
Dividend payment	(504)	(3,057)	0	(55)	(190)
Other Fin. Cash Flow	(977)	(1,174)	(1,198)	(1,462)	(1,678)
Financing Cash Flow	21	6,966	(6,394)	3,191	(183)
Net Change in Cash	(3,928)	4,339	(10,632)	3,308	(127)
Cash - begin of the year	13,974	10,347	14,952	5,060	9,168
Cash - end of the year	10,347	14,952	5,060	9,168	9,907

Exhibit 11. Key Ratios

Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
Growth (%)					
Sales	(12.7)	(39.2)	38.0	37.1	18.8
EBITDA	11.0	(65.5)	97.6	47.4	16.6
Operating profit	4.1	(68.4)	102.7	58.7	18.0
Net profit	32.1	(91.9)	47.4	247.8	24.7
Profitability (%)					
Gross margin	12.8	9.2	9.8	11.3	11.9
EBITDA margin	14.8	8.4	12.1	13.0	12.7
Operating margin	12.8	6.7	9.8	11.3	11.3
Net margin	8.4	1.1	1.2	3.0	3.2
ROAA	3.8	0.3	0.4	1.3	1.4
ROAE	14.6	1.2	2.0	6.6	7.7
Leverage					
Net Gearing (x)	0.2	0.7	0.9	0.9	0.8
Interest Coverage (x)	3.9	0.9	1.9	2.4	2.5

Source : WIKA, BRI Danareksa Estimates

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