

# PT Wijaya Karya Tbk (WIKA IJ)

## New Contract Optimization

Company Update | Sept 08, 2020

### HOLD

<b>Target Price (IDR)</b>	<b>1,410</b>
Consensus Price (IDR)	1,524
TP to Consensus Price	-7.5%
vs. Last Price	+12.8%

#### Shares data

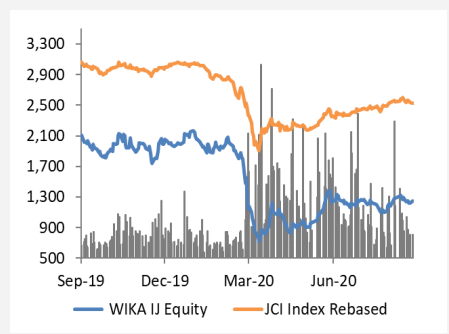
Last Price (IDR)	1,250
Price Date as of	Sept, 07 2020
52 wk Range (Hi/Lo)	2,200/675
Free Float (%)	34.9
Outstanding sh. (mn)	8,970
Market Cap. (IDR bn)	11,212
Market Cap. (USD mn)	759
Avg. Trd Vol - 3M (mn)	33.6
Avg. Trd Val - 3M (bn)	41.8
Foreign Ownership	6.4%

#### Property

#### Construction

Bloomberg	WIKA IJ
Reuters	WIKAJK

#### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-41.3%	11.6%	-4.2%	-38.7%
Rel. Ret.	-24.0%	3.6%	-9.9%	-21.7%

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WIKA booked a net profit of IDR151 billion (-75% YoY) or -27% from our expectations. Construction sector, which is still suppressed by the pandemic, has forced WIKA to revise its new project target to IDR21.3 trillion. Despite having only realized 15.98%, if the income from government project auctions starting in 3Q20 books optimum result, it will be good for WIKA's FY20 and FY21 performance.

#### WIKA's 2Q20 Performance Below Expectations

WIKA booked 1H20 income of IDR7.13 trillion or -37.2% YoY (vs IDR11.36 trillion 1H19), and on a quarterly downtrend by -40% YoY, -30% QoQ to IDR2.93 trillion (vs IDR4.85 trillion 2Q19). 1H20 income for WIKA is under our expectation at IDR8.51 trillion (-16.2%). All of WIKA's income segments are down. Infrastructure and buildings that contributed 62% of total income fell by 36.1% to IDR1.83 trillion in 2Q20, while the energy & industrial plant, concrete industry, realty & property segments each booked income amount of IDR313 billion (-62.3% YoY), IDR705 billion (-52.5% YoY), and IDR83 billion (-62.5% YoY). That resulted in WIKA 1H20 profit only amounted to IDR250 billion or -71.9% YoY (vs IDR890.9 billion in 1H19). However, on a quarterly basis, 2Q20's profit rose 52% QoQ to IDR151 billion due to other income of IDR938.03 billion.

#### Gross Profit Margin Contracted

Various project delays that occurred during the PSBB period increased WIKA's cost of revenue in 2Q20 -especially in the Industry segment- which resulted in GPM contracting to 5% (vs 13% 2Q19), making it the first single digit GPM since 2012. On the other hand, OPM increased significantly to 30% (vs 7% 2Q19) supported by higher other income earned by WIKA. Meanwhile, the increasing losses in WIKA's associates caused EBT Margin and NPM to decrease by 7% (vs 16% 2Q19) and 5% (vs 12% 2Q19), respectively.

#### Counting on Successful Bid of Government Project Auctions

WIKA's new contract target underwent a revision from IDR65.50 trillion to IDR21.37 trillion. Up to 2Q20 IDR3.41 trillion or 15.98% of the target has been obtained. This achievement is the smallest among other state-owned construction companies. Meanwhile, we estimate that the achievement of WIKA's new contracts until 2020 is in the range of IDR17 - IDR19 trillion considering the auction of government projects that will start in 3Q20. In terms of leverage, WIKA's net gearing ratio has increased from 59.2% to 82% in 2Q20 followed by a decrease in cash and cash equivalents. WIKA needs to be careful in managing the value of interest-bearing debt and cash flow, so that cash flow is can be positive and its performance is maintained to finance future projects.

#### Downgrade Rating to HOLD with TP IDR1,410

The rigorous PSBB implementation and rampant project delays, hindered 2Q20 performance growth with results below our expectations. The successful project acquisition at the government project auction can be a positive stimulus. However, if the results are not optimal, it will be a burden for WIKA's future performance. For this reason, we have revised down WIKA's estimated revenue and profit in FY20 to IDR16.49 trillion (-23.1%) and IDR1.09 trillion (-24%). We also lowered the rating from Buy to Hold by revising the target price down to IDR1,410 based on a forward P/E of 8.4x (+0.4 SD) with a potential return of 12.8% from the current price.

#### Wijaya Karya Tbk | Summary

	2019A	2020F	2021F	2022F
Revenue	27,213	16,493	20,081	24,210
Growth (%)	-12.7%	-39.4%	21.8%	20.6%
EBITDA	3,186	3,065	3,739	4,419
Net Profit	2,285	1,092	1,520	1,924
EPS (IDR)	255	122	169	214
Growth (%)	32.1%	-52.2%	39.1%	26.6%
P/E	7.8x	11.6x	8.3x	6.6x
P/BV	0.9x	0.7x	0.7x	0.6x
EV/EBITDA	7.9x	7.4x	6.7x	6.1x
ROE (%)	12.5%	6.0%	8.6%	10.2%
DER (%)	78%	99%	110%	119%
Net Debt	4,733	7,473	10,004	12,021

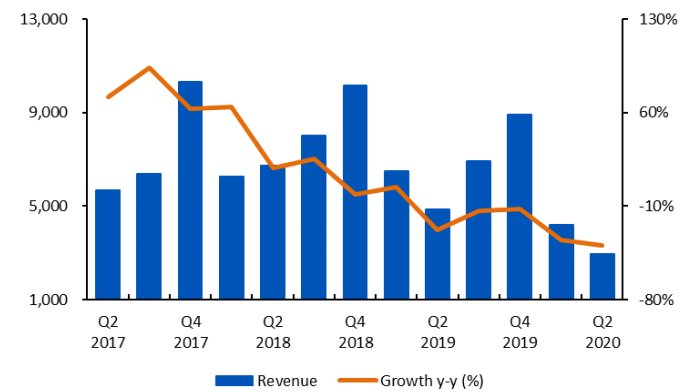
Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

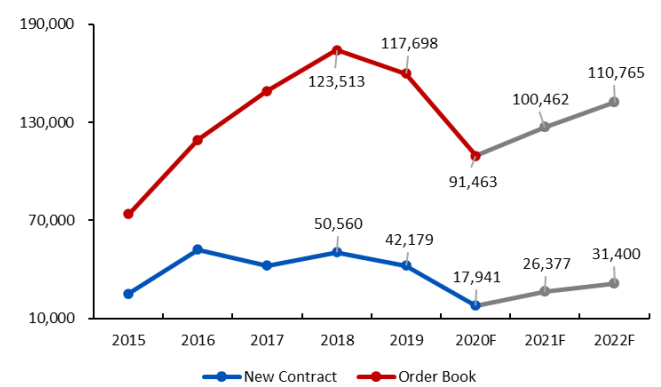
## Performance Highlights in Charts

WIKA Quarterly Revenue (IDR bn) | 2Q17 - 2Q20



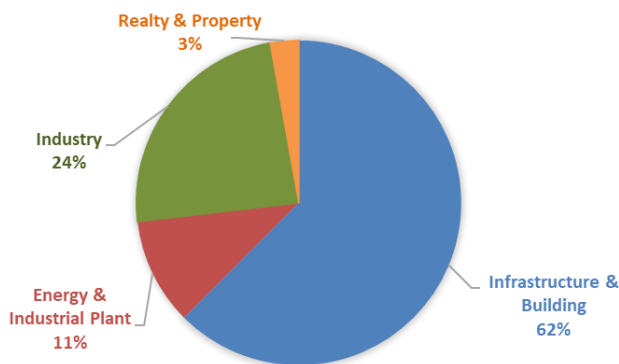
Source: Company Data, NHKSI Research

WIKA Order Book & New Contract



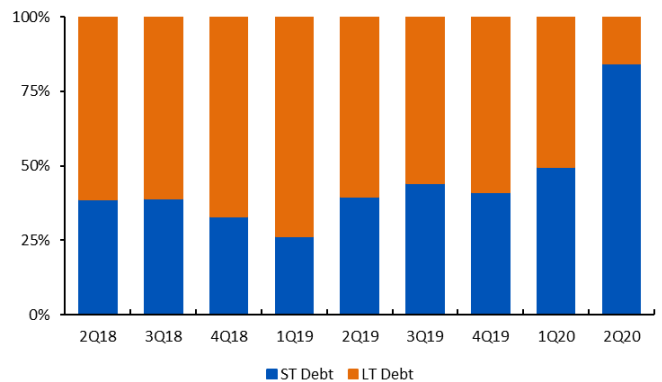
Source: Company Data, NHKSI Research

2Q20's Revenue Breakdown



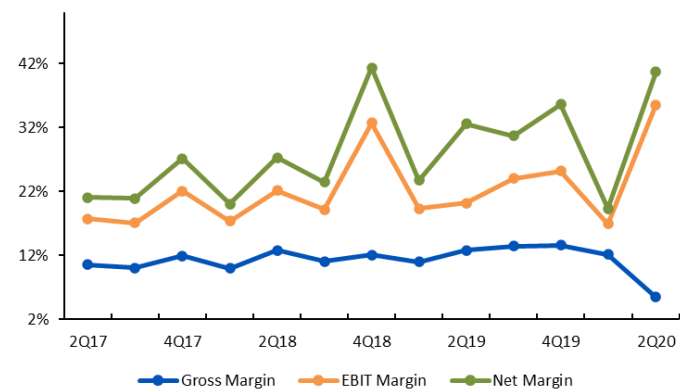
Source: Company Data, NHKSI Research

Debt Portion



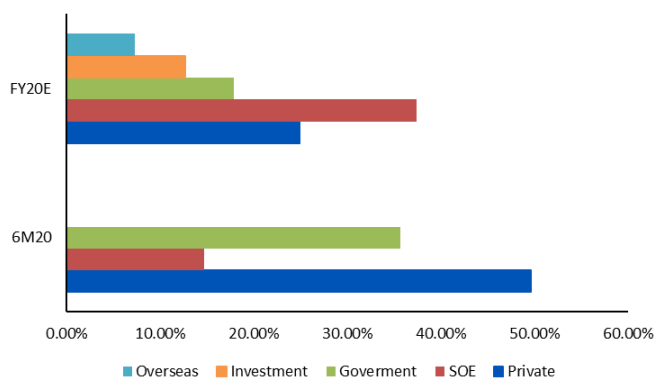
Source: Company Data, NHKSI Research

Margin Ratios



Source: Company Data, NHKSI Research

New Project based on Project Owner | 6M20 & FY20E



Source: Company Data, NHKSI Research

## Quarterly Review

	2Q19	3Q19	4Q19	1Q20	2Q20					3Q20E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
<b>Income statement</b>										
Revenue	4,859	6,933	8,916	4,199	2,934	4,309	-39.6%	-30.1%	-31.9%	4,268
Gross Profit	623	932	1,211	509	161	484	-74.1%	-68.3%	-66.7%	611
EBIT	357	735	1,032	314	882	307	146.9%	333.7%	186.9%	486
EBITDA	587	879	1,040	437	984	527	67.6%	202.1%	86.5%	664
Net Profit	605	462	933	99	151	208	-75.0%	52.4%	-27.1%	280
<b>Margin (%)</b>										
Gross Margin	12.8%	13.4%	13.6%	12.1%	5.5%	11.2%	-7.3%	-6.6%	-51.1%	14.3%
EBIT Margin	7.4%	10.6%	11.5%	7.5%	30.1%	7.1%	22.7%	25.2%	321.4%	11.4%
EBITDA Margin	12.1%	12.7%	11.7%	10.4%	33.5%	12.2%	21.5%	25.8%	174.0%	15.6%
Net Profit Margin	12.4%	6.7%	10.5%	2.4%	5.2%	4.8%	-7.3%	2.8%	7.0%	6.6%

Unit: IDR bn, %

Source: Company Data, NHKSI Research

## Revisions to Earnings

		2020F	2021F	2022F
<b>Income Statement</b>				
Revenue	-Revised	16,493	20,081	24,210
	-Previous	21,458	24,550	31,357
	-Change	-23.1%	-18.2%	-22.8%
Gross Profit	-Revised	2,068	2,544	3,038
	-Previous	2,735	3,132	3,969
	-Change	-24.4%	-18.8%	-23.4%
EBIT	-Revised	2,277	2,799	3,345
	-Previous	2,086	2,390	3,021
	-Change	9.1%	17.1%	10.7%
EBITDA	-Revised	3,065	3,739	4,419
	-Previous	3,081	3,492	4,355
	-Change	-0.5%	7.1%	1.5%
Net Profit	-Revised	1,092	1,520	1,924
	-Previous	1,437	1,700	2,309
	-Change	-24.0%	-10.6%	-16.7%
<b>Margin</b>				
Gross Margin	-Revised	12.5%	12.7%	12.5%
	-Previous	12.7%	12.8%	12.7%
EBIT Margin	-Revised	13.8%	13.9%	13.8%
	-Previous	9.7%	9.7%	9.6%
EBITDA Margin	-Revised	18.6%	18.6%	18.3%
	-Previous	14.4%	14.2%	13.9%
Net Profit Margin	-Revised	6.6%	7.6%	7.9%
	-Previous	6.7%	6.9%	7.4%

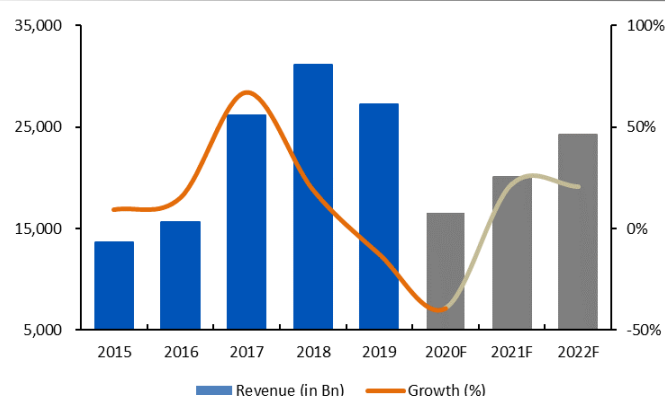
Unit: IDR bn, %

Source: Company Data, NHKSI Research

## Company Overview

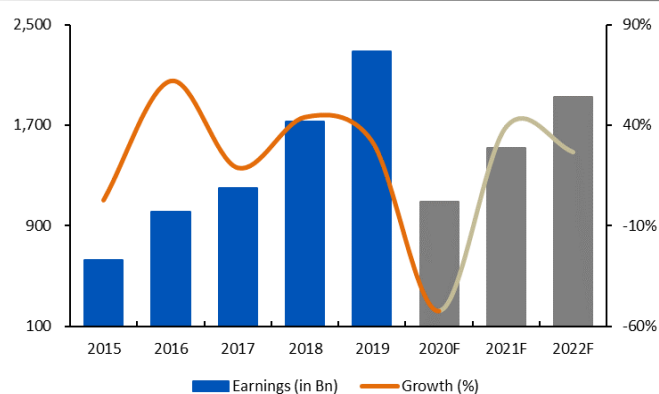
- PT Wijaya Karya Tbk (WIKA) is a construction company established in 1960 named Perusahaan Negara Bangunan Widjaja Karya.
- WIKA was listed on Indonesia Stock Exchange (IDX) in 29 October 2007.
- WIKA has six subsidiaries, namely Wika Beton, Wika Gedung, Wika Industri dan Konstruksi, Wika Rekayasa Konstruksi, Wika Realty, Wika Bitumen, Wika Serang Panimbang.
- WIKA runs four business segments: Industry, Infrastructure and building, Energy and industrial plant, and Realty and Property.
- The Indonesia Government is WIKA's major stockholder with 65.05% stock ownership, while 34.95% of stock ownership is owned by the public.
- WIKA successfully undertaken key national infrastructure projects including the BalikpapanSamarinda Toll Road, the Semanggi Interchange, the Jatigede Dam, Soekarno-Hatta Airport Terminal 3, the Ngurah Rai Airport and the Suramadu Bridge, the Serang-Panimbang Toll Road and the Jakarta-Bandung High Speed Railway.

### Revenue and Growth Movement



Source: Company Data, NHKSI Research

### Earnings and Growth Movement



Source: Company Data, NHKSI Research

## Analysis of Asia-Pacific Peers

	Market Cap (USD mn)	Asset (USD mn)	Sales (LTM) (USD mn)	Net Profit (LTM) (USD mn)	Net Profit Growth (LTM)	Net Profit Margin	ROE (LTM)	EV/EBITDA (LTM)	P/BV
<b>Indonesia</b>									
PT WIJAYA KARYA PERSERO TBK	759	4,486	1,604	115	-21.8%	7.2%	11.3%	8.2x	0.8x
PT PP PERSERO TBK	394	4,058	1,444	41	-57.3%	2.8%	4.9%	13.5x	0.5x
PT WASKITA KARYA PERSERO TBK	579	8,853	1,719	(81)	N/A	-4.7%	-7.0%	28.0x	0.6x
PT ADHI KARYA PERSERO TBK	143	2,637	1,076	32	-28.8%	3.0%	7.7%	12.8x	0.4x
<b>Thailand</b>									
CH. KARNCHANG PUBLIC CO LTD	1,029	2,775	624	13	-86.1%	2.1%	N/A	N/A	N/A
SINO THAI ENGR & CONSTR PCL	607	1,654	1,178	41	-22.6%	3.5%	9.6%	10.3x	1.4x
UNIQUE ENGINEERING & CON PCL	169	1,103	362	19	-27.2%	5.2%	7.3%	7.6x	0.7x
<b>Philippines</b>									
MEGAWIDE CONSTRUCTION CORP	304	1,593	358	(2)	N/A	-0.5%	-2.5%	N/A	1.2x
EEI CORPORATION	143	553	392	(1)	N/A	-0.2%	-0.4%	11.0x	0.9x
HOUSE OF INVESTMENTS	49	1,026	572	6	-50.3%	1.1%	2.2%	12.6x	0.2x
<b>Vietnam</b>									
FLC FAROS CONSTRUCTION JSC	54	460	146	(2)	N/A	-1.2%	-0.7%	24.2x	0.2x
HO CHI MINH CITY INFRASTRUCT	185	1,262	82	18	313.1%	21.3%	7.6%	32.5x	0.8x
HOA BINH CONSTRUCTION GROUP	97	722	645	11	-50.8%	1.7%	7.2%	10.2x	0.6x
<b>Malaysia</b>									
GAMUDA BHD	2,085	4,172	1,013	137	37.5%	13.6%	6.9%	20.8x	1.0x
IJM CORP BHD	1,166	5,637	1,413	46	-53.7%	3.2%	2.0%	11.8x	0.5x
SUNWAY CONSTRUCTION GROUP BHD	586	466	332	20	-39.0%	6.0%	13.9%	N/A	4.1x

Unit: USD mn, %, X

Source: Bloomberg, NHKSI Research

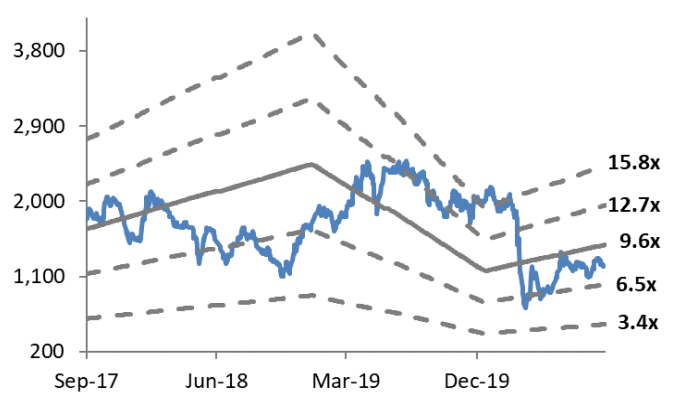
## Valuation Highlights in Charts

### 3-Years Forward P/E Band



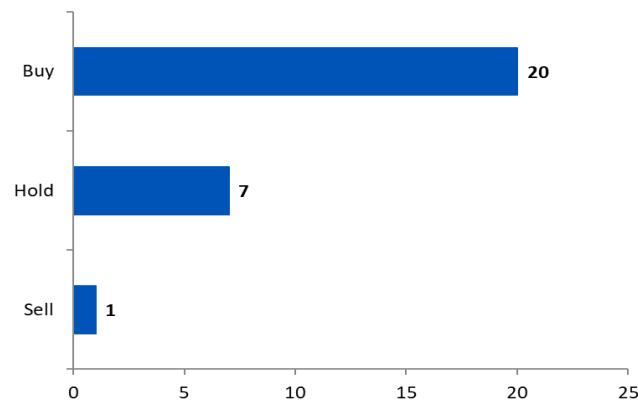
Source: Bloomberg, NHKSI Research

### 3-Years Dynamic Forward P/E band



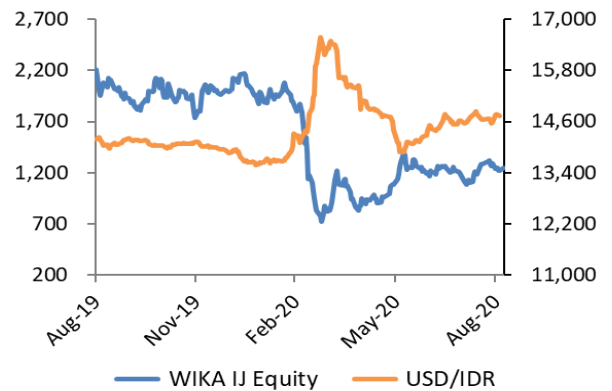
Source: Bloomberg, NHKSI Research

### Analysts' Recommendation



Source: Bloomberg, NHKSI Research

### Correlation between WIKA and USD/IDR



Source: Bloomberg, NHKSI Research

### Closing and Target Price Update



Source: Bloomberg, NHKSI Research

### Rating and Target Price Update

Date	Rating	Target Price	Consensus
26-04-2017	Buy	IDR3,670	IDR3,308
05-05-2017	Buy	IDR2,820	IDR3,310
15-06-2020	Buy	IDR1,840	IDR1,522
08-09-2020	Hold	IDR1,410	IDR1,524

Source: NHKSI Research

### NHKSI Stock Ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.

## Summary of Financials

## INCOME STATEMENT

In IDR bn	2019/12A	2020/12E	2021/12E	2022/12E
Revenue	27,213	16,493	20,081	24,210
Growth (% y/y)	-12.7%	-39.4%	21.8%	20.6%
Cost of Revenue	(23,733)	(14,425)	(17,536)	(21,172)
<b>Gross Profit</b>	<b>3,480</b>	<b>2,068</b>	<b>2,544</b>	<b>3,038</b>
Gross Margin	12.8%	12.5%	12.7%	12.5%
Operating Expenses	(814)	209	255	307
<b>EBIT</b>	<b>2,666</b>	<b>2,277</b>	<b>2,799</b>	<b>3,345</b>
EBIT Margin	9.8%	13.8%	13.9%	13.8%
Depreciation	520	788	940	1,074
<b>EBITDA</b>	<b>3,186</b>	<b>3,065</b>	<b>3,739</b>	<b>4,419</b>
EBITDA Margin	11.7%	18.6%	18.6%	18.3%
Interest Expenses	(884)	(852)	(1,028)	(1,171)
<b>EBT</b>	<b>2,789</b>	<b>1,398</b>	<b>1,899</b>	<b>2,426</b>
Income Tax	(168)	(98)	(124)	(158)
Minority Interest	(336)	(208)	(256)	(345)
<b>Net Profit</b>	<b>2,285</b>	<b>1,092</b>	<b>1,520</b>	<b>1,924</b>
Growth (% y/y)	32.1%	-52.2%	39.1%	26.6%
Net Profit Margin	8.4%	6.6%	7.6%	7.9%

## PROFITABILITY &amp; STABILITY

	2019/12A	2020/12E	2021/12E	2022/12E
ROE	12.5%	6.0%	8.6%	10.2%
ROA	3.8%	1.8%	2.5%	2.8%
ROIC	7.3%	6.2%	6.9%	7.3%
Cash Dividend (IDR bn)	409	457	238	304
Dividend Yield (%)	2.3%	3.6%	1.9%	2.4%
Payout Ratio (%)	18%	42%	16%	16%
DER	78%	99%	110%	119%
Net Gearing	25%	44%	55%	61%
LT Debt to Equity	46%	36%	52%	50%
Capitalization Ratio	44%	50%	52%	54%
Equity Ratio	31%	29%	29%	27%
Debt Ratio	24%	28%	32%	32%
Financial Leverage	333%	335%	347%	361%
Current Ratio	150%	133%	123%	148%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	8,970	8,970	8,970	8,970
Share Price (IDR)	1,990	1,410	1,410	1,410
Market Cap (IDR tn)	17.9	12.6	12.6	12.6

## BALANCE SHEET

In IDR bn	2019/12A	2020/12E	2021/12E	2022/12E
Cash	10,347	9,446	9,976	11,274
Receivables	4,462	2,686	5,286	4,765
Inventories	6,855	6,162	6,492	6,871
<b>Total Current Assets</b>	<b>42,335</b>	<b>40,415</b>	<b>43,267</b>	<b>52,002</b>
Net Fixed Assets	9,396	10,605	11,577	13,408
Other Non Current Assets	10,379	8,484	8,104	8,045
<b>Total Assets</b>	<b>62,111</b>	<b>59,504</b>	<b>62,948</b>	<b>73,455</b>
Payables	12,762	12,543	13,113	15,542
ST Debt	6,188	10,845	10,503	13,588
LT Debt	8,892	6,074	9,477	9,706
<b>Total Liabilities</b>	<b>42,895</b>	<b>42,414</b>	<b>44,784</b>	<b>53,880</b>
Capital Stock + APIC	7,453	7,452	7,452	7,452
Retained Earnings	7,261	5,311	6,593	8,212
<b>Shareholders' Equity</b>	<b>19,216</b>	<b>17,090</b>	<b>18,164</b>	<b>19,576</b>

## VALUATION INDEX

	2019/12A	2020/12E	2021/12E	2022/12E
Price /Earnings	7.8x	11.6x	8.3x	6.6x
Price /Book Value	0.9x	0.7x	0.7x	0.6x
Price/Revenue PS	0.7x	0.8x	0.6x	0.5x
PE/EPS Growth	0.2x	-0.2x	0.2x	0.2x
EV/EBITDA	7.9x	7.4x	6.7x	6.1x
EV/EBIT	9.5x	9.9x	8.9x	8.0x
EV (IDR bn)	25,296	22,626	24,949	26,758
Revenue CAGR (3-Yr)	20.2%	-14.3%	-13.6%	-3.8%
EPS CAGR (3-Yr)	31.2%	-3.1%	-4.2%	-5.6%
Basic EPS (IDR)	255	122	169	214
Diluted EPS (IDR)	255	122	169	214
BVPS (IDR)	2,142	1,905	2,025	2,182
Revenue PS (IDR)	3,034	1,839	2,239	2,699
DPS (IDR)	46	51	27	34

## CASH FLOW STATEMENT

In IDR bn	2019/12A	2020/12E	2021/12E	2022/12E
Operating Cash Flow	770	(1,023)	395	1,400
Investing Cash Flow	(5,483)	(1,701)	(2,480)	(2,905)
Financing Cash Flow	1,102	1,757	2,614	2,803
<b>Net Changes in Cash</b>	<b>(3,610)</b>	<b>(967)</b>	<b>529</b>	<b>1,298</b>

## OWNERSHIP

By Geography	% Shareholders	%
Indonesia	93.6	Republic of Indonesia 65.1
United States	4.8	Vanguard Group 1.2
Luxembourg	0.8	Dimensional Fund Adv. 1.2
Others	0.8	Blackrock Fund Advisor: 0.5

Source: Company Data, NHKSI Research

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