

Sluggish 2Q20 results. In 2Q20, ADHI posted a lower revenue of IDR 2.5 tn (-20.6% YoY/-19.7% QoQ), due to lower burn rate at ~6.6% (vs. ~6.9% in 2Q19) as PSBB was strictly implemented. GPM was booked at 15.5% (-180 bps YoY/+200 bps QoQ) driven by construction and property segment as margin fell to 16.6%/6.5% (vs. 17.1%/21.7% in 2Q19) respectively. Meanwhile, OPM declined to 7.4% (-370bps YoY/ -20 bps QoQ) as depreciation expenses expanded by +416.5% YoY/-0.2% QoQ) incurred from additional fixed assets by IDR 228.9 bn in FY19. In all, ADHI posted a net loss of IDR 3 bn as income from JV declined by -69.3% YoY/-42.0% QoQ.

Cautious on solvency ratio. In 1H20, ADHI's interest-bearing debt remained at IDR 10.4 tn (-1.1% YoY). Though ADHI's interest coverage ratio and debt to equity ratio were stable at 1.2x/1.8x as of 1H20 (vs 1.2x/1.7x in 1H19), we remain cautious on ADHI's solvency ratio as we view that lower new contract growth and burn rate will continue to pressure EBIT.

Adjusting our forecast due to soft performance in 1H20. In 1H20, ADHI booked new contract achievement at IDR 3.7tn (-39.3% YoY), reached 28.8% of our estimates. Due to weaker-than-expected new contract achievement, we revise down our new contracts target to IDR 9.9tn/11.2tn (-22.3%/-13.8 from the initial target) in FY20E/FY21F. On the other hand, we revise up ADHI's burn rate from 20.0%/25.0% to 23.0%/26.0% in FY20E/FY21F, as we believe LRT projects will be ramped up to meet its completion target by FY21F. To note, LRT projects generated around 20.0%-22.0% of revenue in FY19. Therefore, we revise our revenue estimates by +7.3%/+0.4% in FY20E/FY21F, while reducing our NPATMI target by -82.2%/-3.1% in FY20E/FY21F, following lower-than-expected JV income and higher G&A expense.

We maintain our NEUTRAL rating on PT Adhi Karya Tbk (ADHI) with a lower target price of IDR 640. Our TP represents 9.5% potential upside, implying 5.0x FY21F P/E. Currently, ADHI is traded at 4.6x FY21F PE (-1SD from its 3-yr avg PE). Despite undemanding valuation, we raise our concern on ADHI as the company revenue stream is too concentrated on LRT project which currently is facing long delays due to Covid-19 outbreak. In addition, ADHI's new contract achievement came in much lower than our expectation, which will potentially leads to lower revenue in years ahead.

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	15,655	15,308	9,567	14,320	15,856
% growth	3.3%	-2.2%	-37.5%	49.7%	10.7%
Gross Profit	2,507	2,336	1,022	1,766	2,143
Net Profit	644	664	54	456	608
% growth	25.0%	3.1%	-91.8%	740.9%	33.2%
Gross Margin (%)	16.0%	15.3%	10.7%	12.3%	13.5%
Net Margin (%)	4.1%	4.3%	0.6%	3.2%	3.8%
Return on Equity (%)	10.3%	9.7%	0.9%	7.3%	9.1%
Return on Assets (%)	2.1%	1.8%	0.2%	1.8%	2.2%
EPS (IDR)	181	186	15	128	171

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Sector	Construction
Bloomberg Ticker	ADHI IJ
Market Cap. (IDR tn)	2.1
Share Out./Float (mn)	3,560.8/1,744.6
Current Price	585
FY20F Target Price	640
Upside	9.5%

Share Price Performance

52W High (8/20/2019)	1,480
52W Low (3/24/2020)	362
52W Beta	2.2
YTD Change	-51.9%

Relative Valuations

Trailing P/E	4.5
Forward P/E	7.5
P/BV	0.4

ADHI 2Q20 Earnings Summary

Highlights (IDR Bn)	2Q19	1Q20	2Q20	QoQ	YoY	6M19	6M20	YoY	%DH	%Cons
Revenue	3,098	3,066	2,461	-19.7%	-20.6%	5,426	5,527	1.9%	62.2%	40.4%
Gross Profit	535	413	382	-7.5%	-28.6%	854	796	-6.7%		
Operating Profit	343	232	181	-21.9%	-47.2%	516	414	-19.8%		
NPATMI	139	15	(3)	N/A	N/A	215	11	-94.8%	3.7%	2.6%
Gross Margin	17.3%	13.5%	15.5%			15.7%	14.4%			
Operating Margin	11.1%	7.6%	7.4%			9.5%	7.5%			
Net Profit Margin	4.5%	0.5%	-0.1%			4.0%	0.2%			

Sinarmas Investment Research

Source: Company Data, Sinarmas Investment Research

Earnings Changes

(IDR Bn)	Previous		New		%Change	
	2020E	2021F	2020E	2021F	2020E	2021F
Revenue	8,893	14,269	9,567	14,320	7.6%	0.4%
Gross Profit	1,184	2,154	1,022	1,766	-13.7%	-18.0%
EBIT	786	1,493	521	1,289	-33.7%	-13.7%
EBITDA	1,010	1,755	744	1,546	-26.4%	-11.9%
Net Income	305	471	54	456	-82.2%	-3.1%

Source: Company Data, Sinarmas Investment Research

Key Assumptions Changes

(IDR Bn)	Previous		New		%Change	
	2020E	2021F	2020E	2021F	2020E	2021F
New Contract	12,863	12,991	9,996	10,996	-22.3%	-15.4%
Burn Rate	20.0%	25.0%	23.0%	26.0%	3.0%	1.0%

Source: Company Data, Sinarmas Investment Research

Income Statement (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	15,655	15,308	9,567	14,320	15,856
% growth	3.3%	-2.2%	-37.5%	49.7%	10.7%
Cost of Revenue	(13,149)	(12,972)	(8,545)	(12,554)	(13,713)
% growth	0.4%	-1.3%	-34.1%	46.9%	9.2%
Gross Profit	2,507	2,336	1,022	1,766	2,143
Operating Expense	(708)	(894)	(502)	(745)	(825)
Other Income (Expense)	(107)	287	2	267	323
EBIT	1,692	1,729	521	1,289	1,641
EBITDA	1,868	1,875	744	1,546	1,930
Net Financing	(462)	(482)	(323)	(531)	(699)
Profit from JV	134	340	108	414	442
EBT	1,168	1,184	198	758	942
Tax	(523)	(519)	(144)	(301)	(333)
Non Controlling Interest	1	1	0	1	1
Net Profit for the Year	644	664	54	456	608
% growth	25.0%	3.1%	-91.8%	740.9%	33.2%

Balance Sheet (IDR Bn)	2018	2019	2020E	2021F	2022F
Cash and Cash Equivalent	3,263	3,255	1,638	1,232	3,808
Receivables	15,364	19,520	14,533	12,235	11,925
Other Current Assets	6,803	7,540	3,694	5,767	5,733
Total Current Assets	25,430	30,315	19,865	19,234	21,467
Fixed Assets	1,573	1,837	2,093	2,293	2,438
Intangible Assets	-	-	-	-	-
Other Non Current Assets	3,116	4,364	4,043	3,983	3,925
Total Assets	30,119	36,516	26,000	25,511	27,830
Total Payables	12,950	16,632	9,728	8,189	5,648
Short-Term Loans	3,914	5,558	4,056	6,620	6,891
Other Current Liabilities	2,101	2,303	1,172	1,796	1,967
Total Current Liabilities	18,964	24,493	14,956	16,604	14,506
Long-Term Loans	4,640	4,963	5,074	2,535	6,455
Other Non Current Liabilities	229	225	106	141	151
Total Liabilities	23,833	29,682	20,135	19,280	21,112
Share & APIC	2,945	2,945	2,945	2,945	2,945
Retained Earnings	2,993	3,397	2,441	2,806	3,292
Non Controlling Interest	11	24	11	12	14
Other Components of Equity	337	468	468	468	468
Total Equity	6,285	6,834	5,865	6,231	6,718
Total Equity & Liabilities	30,119	36,516	26,000	25,511	27,830

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
Net Income	644	664	54	511	651
Depreciation & Amortization	176	146	222	257	289
Change in Working Capital	276	1,009	(798)	691	2,026
Cash Flow from Operating	545	(200)	1,075	77	(1,087)
Change in Fixed Assets	229	409	478	458	434
Change in Intangible Assets	-	-	-	-	-
Change in Long Term Assets	1,121	1,248	(321)	(59)	(58)
Change in Long Term Liabilities	65	(4)	(119)	35	10
Cash Flow from Investing	(1,285)	(1,662)	(276)	(363)	(366)
Change in Share & APIC	-	-	-	-	-
Change in Short Term Loans/Bonds	127	1,645	(1,503)	2,564	271
Change in Long Term Loans/Bonds	(26)	324	110	(2,539)	3,920
Dividends Paid	97	259	1,011	102	130
Others	(132)	144	(13)	1	1
Cash Flow from Financing	(128)	1,854	(2,416)	-76	4,062
Change in Cash	(868)	(8)	(1,617)	(361)	2,610
Beginning Cash	4,131	3,263	3,255	1,638	1,276
Ending Cash	3,263	3,255	1,638	1,276	3,886

Financial Ratio	2018	2019	2020E	2021F	2022F
Profitability					
ROE	10.3%	9.7%	0.9%	8.2%	9.6%
ROA	2.1%	1.8%	0.2%	2.0%	2.3%
Gross Margin	16.0%	15.3%	10.7%	12.3%	13.5%
Operating Margin	11.5%	9.4%	5.4%	7.1%	8.3%
EBITDA Margin	11.9%	12.2%	7.8%	11.0%	12.2%
Net Profit Margin	4.1%	4.3%	0.6%	3.6%	4.1%
Liquidity & Solvency					
Debt to Equity	1.5x	1.4x	1.4x	1.6x	1.5x
Net Gearing	0.8x	0.9x	0.9x	1.3x	1.3x
Debt to Assets	0.3x	0.3x	0.3x	0.4x	0.4x
Valuation					
Price to Earnings (PE)	4.1x	4.0x	48x	5.3x	4x
Price to Book (PBV)	0.5x	0.4x	0.5x	0.5x	0.4x

Source: Company Data, Sinarmas Investment Research

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