

Still reeling from weak construction business. ADHI reported 1Q21 revenue of IDR 2.1 tn (-10.6% QoQ/ -30.9% YoY) achieving 15.3%/ 14.6% of ours'/consensus' estimates and landing slightly below its 5-year 1Q historical average of 16.9%. The decline in the top-line can be attributed to weak construction services (-30.2% YoY). GPM and OPM normalized to 15.4% (-950 bps QoQ/ +180 bps YoY) and 18% (-970 bps QoQ/ +80 bps YoY) respectively after an exceptional 4Q20. We view this current margin level as sustainable, aided by significant increase in JV income (+165.5% YoY) as well as a more modest savings in finance costs (-4.81% YoY). That being said, the weak top-line brought the company's bottom-line down to IDR 6.7 bn (-21.5% QoQ/-26.3% YoY), translating to only 1.8%/ 1.8% ours'/consensus' estimates. On the balance sheet side, debt levels were kept fairly stable, with total interest-bearing debt only barely increasing to IDR9.9 tn (+1.7% YoY), and gearing ratio remains flat at 1.8x.

Ambitious growth strategy in 2021. In a bid to pursue long-term growth in equity, ADHI plans to take on c. IDR4.3 tn in additional financing. We view that this additional loan is acceptable as gearing ratio remains relatively reasonable at 2.2x post-financing. 70% of the fund is allocated for investment in toll road projects (Solo-Jogja-Kulonprogo, Jogja-Bawen) and a drinking water supply system (SPAM Karian-Serpong), while the rest is reserved as working capital for the ongoing Phase I Jabodebek LRT project. The management has stated that they intend the toll road investments to be short-term and will prioritize divestment even if the offer made is at the 1.2–1.3x PBV range. Additionally, the company's subsidiary Adhi Commuter Property (ADCP) is expected to hold its IPO in 4Q21, which is expected to raise IDR 1.7 tn in funding, further strengthening ADHI's balance sheet. With regards to new contracts, ADHI's 4M21 new contracts (excluding tax) stands at IDR 3.6 tn (+38.5% YoY), translating to 15% (vs. 13.2% in 4M20) of target. Overall, we remain optimistic on the company's capability to fulfill its target given its current standing given its traditionally strong earnings and new contract achievement in the 4Q period.

We reinitiate PT Adhi Karya Tbk (ADHI) with a BUY rating and a FY21E target price of IDR 1,460 per share. Our TP represents a 47.4% potential upside, and is pegged to 0.8x FY21F PBV (its 5-year mean). Currently, the stock is traded at 0.6x FY21F PBV (-0.5SD from its 5-yr mean). We believe the current valuation to be attractive, given its steady OCF from planned completion of its 2 biggest projects (Sigli-Banda Aceh and LRT Phase I), and potential SWF (INA) initiatives.

Highlights (IDR Bn)	2019	2020	2021E	2022F	2023F
Revenue	15,308	10,828	13,816	16,985	20,141
% growth	-2.2%	-29.3%	27.6%	22.9%	18.6%
Gross Profit	2,336	1,736	2,171	2,683	3,216
Net Profit	664	24	296	393	680
% growth	3.1%	-96.4%	1134.9%	32.8%	72.9%
Gross Margin (%)	15.3%	16.0%	15.7%	15.8%	16.0%
Net Margin (%)	4.3%	0.2%	2.1%	2.3%	3.4%
Return on Equity (%)	10.1%	0.4%	5.0%	6.1%	9.1%
Return on Assets (%)	2.0%	0.1%	0.7%	0.9%	1.4%
EPS (IDR)	186	7	83	110	191

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Sector	Construction
Bloomberg Ticker	ADHI IJ
Market Cap. (IDR tn)	3.5
Share Out./Float (mn)	3,560.8/1,744.6
Current Price	990
FY21F Target Price	1460
Upside	47%

Share Price Performance

52W High (1/18/2021)	2,040
52W Low (9/24/2020)	488
52W Beta	2.6
YTD Change	-34.9%

Relative Valuations

Trailing P/E	147.0x
Forward P/E	11.91x
Trailing P/BV	0.6x
Forward P/BV	0.6x

ADHI 1Q21 Earnings Summary

IDR Bn	1Q20	4Q20	1Q21	%QoQ	%YoY	3M20	3M21	%YoY	%DH	%Cons
Revenues	3,066	2,370	2,118	-10.6%	-30.9%	3,066	2,118	-30.9%	15.3%	14.6%
Gross Profit	417	590	326	-44.8%	-22.0%	417	326	-22.0%		
Operating Profit (Loss)	231	426	176	-58.7%	-23.8%	231	176	-23.8%		
NPATMI	9	9	7	-21.5%	-26.3%	9	6.7	-26.3%	1.8%	1.8%
Gross Profit Margin	13.6%	24.9%	15.4%			13.6%	15.4%			
Operating Profit Margin	7.5%	18.0%	8.3%			7.5%	8.3%			
Net Profit Margin	0.3%	0.4%	0.3%			0.3%	0.3%			

Source: Company Data, Sinarmas Investment Research

Earnings Changes

(IDR Bn)	Previous		New		%Change	
	2021E	2022F	2021E	2022F	2021E	2022F
Revenue	17,456	21,436	13,816	16,985	-20.9%	-20.8%
Gross Profit	2,240	3,066	2,171	2,683	-3.1%	-12.5%
EBIT	1,725	2,391	1,537	1,914	-10.9%	-20.0%
EBITDA	1,986	2,700	1,725	2,146	-13.1%	-20.5%
Net Income	411	734	296	393	-28.0%	-46.4%

Source: Company Data, Sinarmas Investment Research

Key Assumptions Changes

(IDR Bn)	Previous		New		%Change	
	2021E	2022F	2021E	2022F	2021E	2022F
New Contract	25,740	27,027	23,640	26,004	-8.2%	-3.8%
Burn Rate	25%	27%	26%	26%	1.0%	-1.0%

Source: Company Data, Sinarmas Investment Research

Income Statement (IDR Bn)	2019	2020	2021E	2022F	2023F
Revenue	15,308	10,828	13,816	16,985	20,141
% growth	-2.2%	-29.3%	27.6%	22.9%	18.6%
Cost of Goods Sold	(12,972)	(9,092)	(11,645)	(14,302)	(16,926)
% growth	-1.3%	-29.9%	28.1%	22.8%	18.3%
Gross Profit	2,336	1,736	2,171	2,683	3,216
Operating Expense	(894)	(728)	(868)	(1,049)	(1,229)
Other Income (Expense)	305	143	234	280	325
EBIT	1,747	1,151	1,537	1,914	2,312
EBITDA	1,893	1,307	1,725	2,146	2,589
Net Financing	(564)	(795)	(825)	(975)	(984)
Profit from JV	340	157	248	297	345
PBT	1,184	356	712	939	1,328
Tax	(519)	(333)	(414)	(544)	(645)
Non Controlling Interest	1	(0)	1	2	3
Net Profit for the Year	664	24	296	393	680
% growth	3.1%	-96.4%	1134.9%	32.8%	72.9%

Balance Sheet (IDR Bn)	2019	2020	2021E	2022F	2023F
Cash and Cash Equivalent	3,255	2,364	2,719	3,074	2,580
Receivables	3,904	2,987	4,542	4,653	5,518
Other Current Assets	23,156	24,740	26,838	27,316	31,785
Total Current Assets	30,315	30,091	34,100	35,043	39,883
Fixed Assets	1,837	2,204	2,823	3,407	3,949
Intangible Assets	-	-	-	-	-
Other Non Current Assets	4,364	5,799	6,711	7,425	8,010
Total Assets	36,516	38,094	43,633	45,874	51,842
Total Payables	8,294	12,084	12,762	13,714	14,839
Short-Term Loans	5,128	4,687	6,015	8,459	9,756
Other Current Liabilities	11,141	10,298	14,811	13,450	14,331
Total Current Liabilities	24,563	27,069	33,588	35,623	38,927
Long-Term Loans	873	749	992	1,261	1,468
Other Non Current Liabilities	4,246	4,700	2,892	2,159	3,408
Total Liabilities	29,682	32,519	37,473	39,043	43,802
Share & APIC	2,945	2,945	2,945	2,945	2,945
Retained Earnings	3,397	1,990	2,281	2,615	3,216
Non Controlling Interest	24	27	29	33	38
Other Components of Equity	468	614	905	1,239	1,840
Total Equity	6,834	5,575	6,160	6,832	8,040
Total Equity & Liabilities	36,516	38,094	43,633	45,874	51,842

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2019	2020	2021E	2022F	2023F
Net Income	664	24	296	393	680
Depreciation & Amortization	146	156	188	232	277
Change in Working Capital	1,009	(2,759)	2,022	(2,260)	3,517
Cash Flow from Operating	(200)	2,939	(1,538)	2,886	(2,559)
Change in Fixed Assets	(409)	(524)	(806)	(816)	(820)
Change in Intangible Assets	-	-	-	-	-
Change in Long Term Assets	1,248	1,435	912	714	585
Change in Long Term Liabilities	(4)	163	(56)	21	48
Cash Flow from Investing	(1,662)	(1,796)	(1,774)	(1,509)	(1,357)
Change in Share & APIC	-	-	-	-	-
Change in Short Term Loans/Bonds	1,714	(919)	4,887	(814)	1,487
Change in Long Term Loans/Bonds	254	169	(1,509)	(486)	1,407
Dividends Paid	259	1,432	5	59	79
Others	144	148	294	337	607
Cash Flow from Financing	1,854	(2,034)	3,667	(1,022)	3,423
Change in Cash	(8)	(891)	356	355	(494)
Beginning Cash	3,263	3,255	2,364	2,719	3,074
Ending Cash	3,255	2,364	2,719	3,074	2,580

Financial Ratio	2019	2020	2021E	2022F	2023F
Profitability					
ROE	10.1%	0.4%	5.0%	6.1%	9.1%
ROA	2.0%	0.1%	0.7%	0.9%	1.4%
Gross Margin	15.3%	16.0%	15.7%	15.8%	16.0%
Operating Margin	9.4%	9.3%	9.4%	9.6%	9.9%
EBITDA Margin	12.4%	12.1%	12.5%	12.6%	12.9%
Net Profit Margin	4.3%	0.2%	2.1%	2.3%	3.4%
Liquidity & Solvency					
Debt to Equity (x)	1.5	1.8	2.1	1.7	1.8
Net Gearing (x)	1.1	1.3	1.7	1.3	1.5
Debt to Assets (x)	0.3	0.3	0.3	0.3	0.3
Valuation					
Price to Earnings (x)	7.8	216.8	17.6	13.2	7.6
Price to Book (x)	0.8	0.9	0.8	0.8	0.6

Source: Company Data, Sinarmas Investment Research

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