

What does not kill you makes you stronger. Having withstood a tough year, SOE contractors survived the winter storm and are headed toward a brighter spring season. We favor PTPP and WIKA due to the former's solid balance sheet with ample room for growth and the latter's catalyst-driven story. The sector in general has been drilled down to valuations that do not justify their value. The main catalysts for this year are: 1) improving cash flow, 2) new funding instruments, 3) undemanding valuations.

Two sides of the same coin. As with any upside, potential downside risks are omnipresent. The main downside risks that we have identified are: 1) payment and project completion delays, 2) government infrastructure spending decline, 3) political uncertainty. The last point has the potential to develop as a catalyst as there is a chance for Jokowi's reelection and him continuing his infrastructure development focus or his competition building on the foundation Jokowi has laid out as infrastructure is a driver for economic growth

A short walk down memory lane. The construction sector underperformed JCI by 42.1% in FY17 despite most projects progressing in-line with their targets alongside companies' strong new contract and revenue growth. Meanwhile, FY17 EPS grew by 62.5% YoY for SOE contractors compared to JCI's 14.9% YoY. Investors were concerned with the growing order book and deteriorating cash flows due to longer receivables. However, we expect a turnaround in 2018 backed with SOE contractors' improving cash flow, successful divestment stories and project payments, as well as sustainable contract growth as the election year draws near even though share prices are still under pressure.

Wider array of funding instruments. Last year was a rough year for SOE contractors as investors were anxious over negative operating cash flow and future funding sources. 2018 brings fresh funding and divestment options with the limited concession scheme (LCS) policy being planned and perpetual bonds spearheaded by PTPP, which introduces a potentially much needed funding instrument for the sector as it improves gearing ratio by allowing issuers to record them as equity in their books. Furthermore, WSKT has successfully divested Waskita Transjawa Toll Road through the limited participation fund (RDPT). We believe this can trigger a series of divestments for SOE contractors, especially for those that are highly leveraged and are in need to improve operating cash flow.

Bigger, stronger, and wiser. We expect 2018 to be a turnaround year for the construction sector as we assign an OVERWEIGHT stance on the sector backed with improving operating cash flows, undemanding valuations, eclectic array of funding instruments options, and room for future growth as SOE contractors have grown tremendously by surviving the storm.

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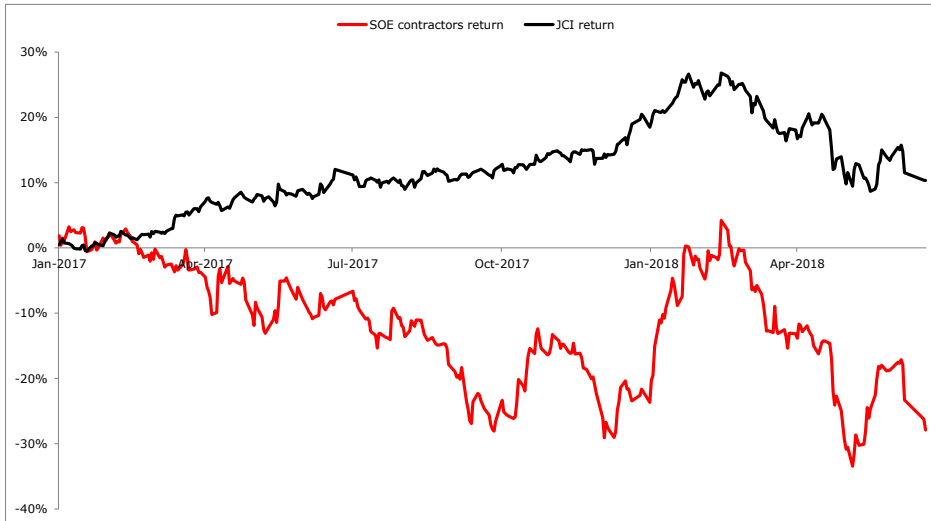
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Ticker	Rating	Current Price (IDR)	End-of-FY19 TP (IDR)	Upside (Downside)
PTPP	BUY	2,200	3,590	63.2%
WIKA	BUY	1,430	2,250	57.3%
WSKT	BUY	2,100	2,860	36.2%
ADHI	BUY	1,810	2,270	25.4%

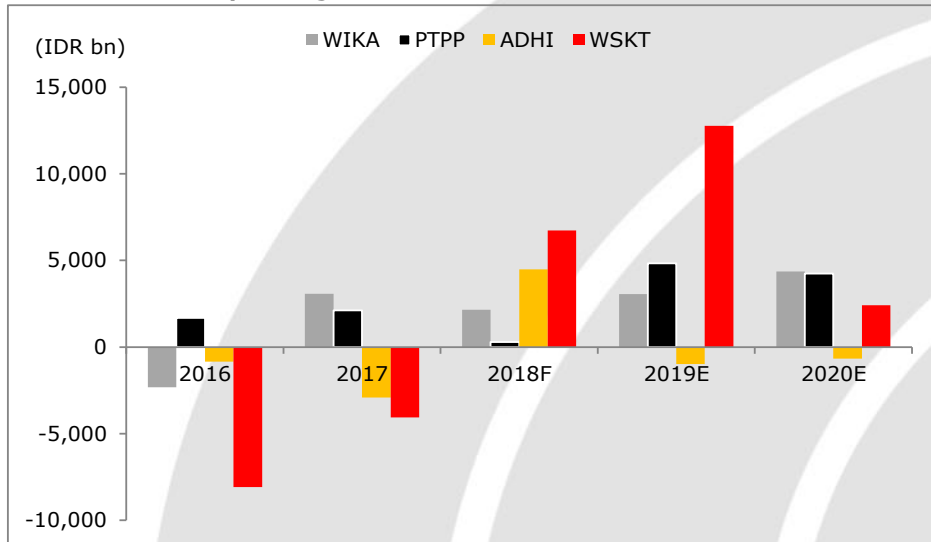
SOE contractors performance vs JCI



Source: Bloomberg, Sinarmas Investment Research

Payday has come. Investors' worries should ease as operating cash flow improved for the sector in general as key projects namely: light rail transit (LRT), mass rapid transit (MRT), and ASEAN Games arenas are mostly scheduled for completion within the next couple of years. Furthermore, turnkey projects from a few years back that take three or more years to complete will start rolling in cash within the next upcoming years. Lastly, new toll road divestment option in the form of limited participation fund (RDPT) that WSKT has successfully issued provides a new channel to access capital and improve cash flow.

SOE contractors operating cash flow



Source: Company data, Sinarmas Investment Research

New leaders take the helm. This year's leadership shift in three out of four companies brings an expected positive change, especially for WIKA as Tumiyana, the previous CEO of PTPP who has a solid track record, steps up as the new CEO. Meanwhile, PTPP welcomes Lukman Hidayat who previously held various executive roles in PTPP. The position typically has a five year term and it is not uncommon for a CEO to hold their position for two terms. This provides them with sufficient time to strategize long-term plans and ensure they come to fruition. However, as with any directional change in the company's focus, there is the potential risk of an abrupt shift and juggling too many balls simultaneously resulting in slower growth until change settles in.

SOE contractors management succession

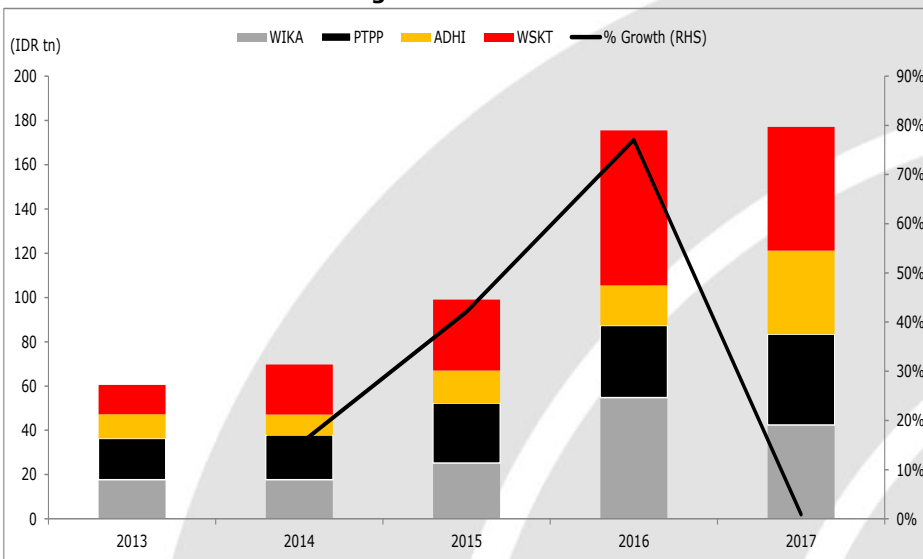
Current CEO	Start	End	Previous Position
WIKA			
Tumiyana	2018	2023-2028	PTPP CEO (2016-2018)
PTPP			
Lukman Hidayat	2018	2023-2028	PTPP Business Development, Research and Technology Director (2014-2018)
WSKT			
I Gusti Ngurah Putra	2018	2023-2028	Hutama Karya CEO
ADHI			
Budi Harto	2016	2021-2026	WIKA Operational I Director (2018-2013)

Source: Company data, Sinarmas Investment Research

Potential temporary slowdown can set the path for another boom.

Ever since Jokowi's inauguration in October 2014, four year CAGR for new contract rose to 36.4%, peaking in FY16 at 77.1% YoY. Despite FY17's soft increment in new contract achievement (+0.9% YoY), it is 153.9% higher compared to pre-Jokowi Era. We believe that this temporary deceleration is partly affected due to high base in FY16 and can set the foundation for a second round of infrastructure development boom.

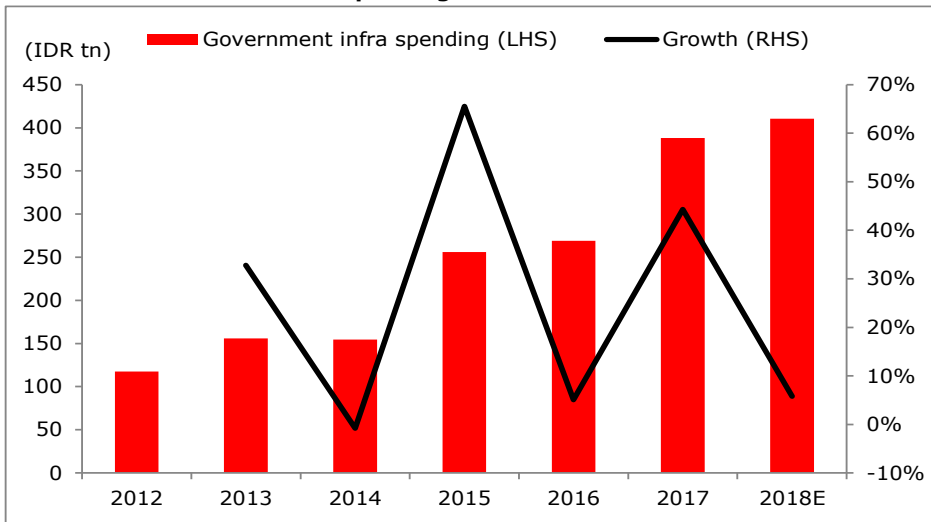
SOE contractors new contract growth



Source: Company data, Sinarmas Investment Research

Reaching a new normal. Government spending on infrastructure has historically dipped down during election year and picks up pace after the election, which occurs in the second half of next year. Thus, this leaves little time for the winning president to implement any directional change within the same year. We expect 2019 to have a similar initial lagging pattern, but believe government spending on infrastructure has the potential to pick up in the following years. Especially, if Jokowi gets reelected there is a higher probability for another round of infrastructure growth given his past focus on developing the nation's infrastructure. Additionally, there is the possibility of an opposition emerging as the victor that assigns a similar focus on infrastructure development to drive economic growth.

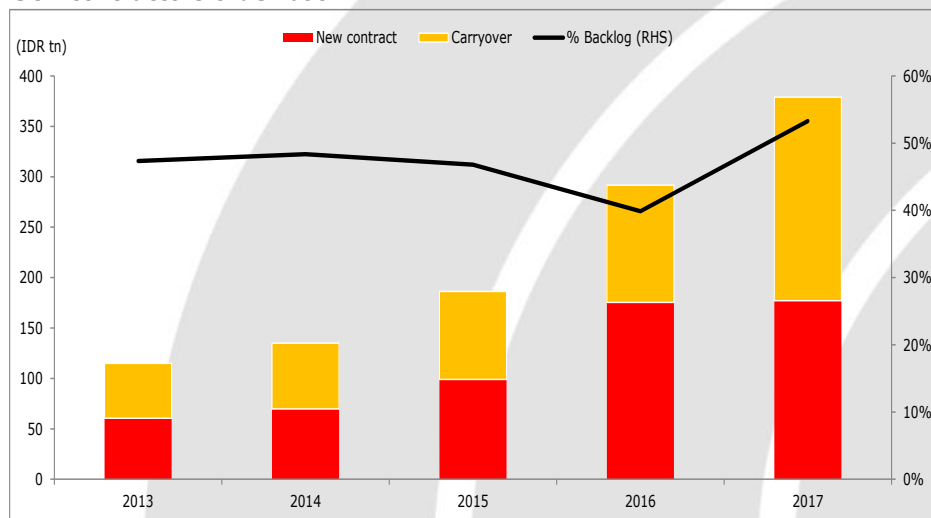
Government infrastructure spending



Source: Financial Ministry, Sinarmas Investment Research

Project delays and a ballooning order book. Within the past five years, the aggregate order book of contractors has grown by an average of 35% YoY to a staggering IDR 379 tn, while the % backlog stood at an average of 47%, with a slight dip in FY16 to 40% followed by a jump to 53% in FY17 due to the large new contract growth increment of IDR 175 tn (+77% YoY) in FY16. Regardless, we expect an improvement in project execution this year as FY17's new contract growth was at a low 0.9% YoY and most construction projects takes three to five years to complete. Thus, the majority of projects that were initiated in FY14-FY15 will be close to completion if not completed in 2018-2019. We expect backlog to gradually normalize back to levels below 50% as key projects such as MRT and LRT are expected to be finalized by 2018-2019.

SOE contractors order book



Source: Company data, Sinarmas Investment Research

1Q18 results and FY17 overview. In 1Q18, PTPP booked revenue of IDR 3,683 bn (+23.6% YoY). FY17 operating cash flow was recorded at IDR 2,123 bn (+27% YoY), continuing its positive trend for three consecutive years. 1Q18 bottom line rose to IDR 156 bn (+19.9% YoY) and FY17 net profit surged to 1,453 bn (+42% YoY). FY17 new contract achieved stood at IDR 41,071 bn (+26% YoY), while contract carryover barely changed at IDR 41,430 bn (+0.1% YoY).

Pioneering the way for others. PTPP has the healthiest cash flow out of the four SOE contractors as it reports positive operating cash flow for three consecutive years since FY15. We believe PTPP has prudent corporate governance and plans well in executing its project and managing order book growth. The company gained the permit to issue up to IDR 1 tn of perpetual bond in the form of RDPT in 2018, of which they have issued IDR 250 bn to fund Meulaboh Steam Power Plant (PLTU). The bond has a coupon rate of 9.6% with a three year call-back period. We believe this provides alternative financing option for the sector in general, which will be crucial if government funding on infrastructure declines over time.

Robust and consistent growth. Management guides 2018 new contract at IDR 49 tn, up 19.7% YoY. PTPP has been the most consistent contractor in terms of new contract growth, which stands at an average of 22.2% YoY over the past four years. This consistency prevents cash flow issues and sudden booms in liability. Furthermore, PTPP's subsidiary, PP Presisi (PPRE) has been growing rampantly. The massive and ever-growing order book of SOE contractors provides tailwind as PPRE provides heavy equipment rental and subcontractor services to PTPP and external contractors. PPRE's top line surged 389% YoY to IDR 1,816 bn, while bottom line jumped 491% YoY to IDR 247 bn in FY17.

Reiterate BUY call on PTPP with our end-of-FY19 TP at IDR 3,590 derived via DCF valuation. Currently, PTPP is trading at 9.2x PE, -1.5SD from its 5 years average PE. At current price, we think PTPP provides an attractive valuation. We remain positive for PTPP supported by robust contract growth, resilient operating cash flow, and soaring subsidiary growth. We expect this trend to persist along with consistent project execution.

Highlights (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	16,459	21,502	29,553	32,733	35,674
% growth	15.8%	30.6%	37.4%	10.8%	9.0%
Gross Profit	2,457	3,251	4,540	5,358	6,159
Net Profit	1,020	1,453	2,244	2,814	3,413
% growth	37.8%	42.5%	54.4%	25.4%	21.3%
Gross Margin (%)	14.9%	15.1%	15.4%	16.4%	17.3%
Net Margin (%)	6.2%	6.8%	7.6%	8.6%	9.6%
Return on Equity (%)	1.3%	2.4%	2.6%	2.8%	3.1%
Return on Assets (%)	3.3%	3.5%	4.8%	5.0%	5.4%
EPS (IDR)	206	234	362	454	550

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Sector	Construction
Bloomberg Ticker	PTPP IJ
Market Cap. (IDR tn)	13.6
Share Out./Float (mn)	6,200/3,033
Current Price	IDR 2,200
End-of-FY19 TP	IDR 3,590
Upside (%)	63.2%

Share Price Performance

52W High (07/05/17)	3,370
52W Low (05/09/18)	2,000
52W Beta	1.5
YTD Change (%)	-16.7%

Relative Valuations

Trailing P/E	9.2x
Forward P/E	7.9x
P/BV	1.2x
EV/EBITDA	4.1x

Income Statement (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	16,459	21,502	29,553	32,733	35,674
% growth	15.8%	30.6%	37.4%	10.8%	9.0%
Cost of Revenue	(14,002)	(18,251)	(25,013)	(27,376)	(29,515)
% growth	14.7%	30.3%	37.1%	9.4%	7.8%
Gross Profit	2,457	3,251	4,540	5,358	6,159
Operating Expense	(492)	(726)	(780)	(926)	(1,050)
Other Income (Expense)	(265)	(90)	(215)	(101)	37
EBIT	2,109	3,089	4,357	5,033	5,931
EBITDA	2,535	3,854	5,571	6,646	7,970
Net Financing	(409)	(653)	(812)	(703)	(786)
Profit from JV	155	361	276	379	467
EBT	1,701	2,436	3,546	4,330	5,145
Tax	(552)	(712)	(963)	(1,083)	(1,174)
Non Controlling Interest	128	271	339	433	558
Net Profit for the Year	1,020	1,453	2,244	2,814	3,413
% growth	37.8%	42.5%	54.4%	25.4%	21.3%

Balance Sheet (IDR Bn)	2016	2017	2018E	2019F	2020F
Cash and Cash Equivalent	9,125	9,383	8,217	11,475	12,010
Receivables	10,975	16,229	19,416	22,094	24,557
Other Current Assets	4,426	4,295	7,497	7,982	8,612
Total Current Assets	24,526	29,908	35,130	41,552	45,179
Fixed Assets	3,780	5,790	7,158	8,800	10,237
Intangible Assets	26	40	40	40	40
Other Non Current Assets	2,885	6,045	4,643	5,926	7,336
Total Assets	31,216	41,783	46,972	56,318	62,793
Total Payables	10,872	15,222	17,968	21,266	22,936
Short-Term Loans	2,547	2,264	3,201	3,665	4,063
Other Current Liabilities	1,771	2,068	1,892	2,991	3,127
Total Current Liabilities	15,865	20,700	24,470	29,458	31,774
Long-Term Loans	3,083	5,419	4,289	5,819	6,250
Other Non Current Liabilities	714	543	1,031	1,096	1,196
Total Liabilities	20,438	27,540	31,394	38,048	40,928
Share & APIC	5,330	5,330	5,330	5,330	5,330
Retained Earnings	2,917	4,063	5,858	8,110	10,840
Non Controlling Interest	1,126	2,789	2,329	2,769	3,634
Other Components of Equity	1,405	2,061	2,061	2,061	2,061
Total Equity	10,778	14,243	15,578	18,270	21,865
Total Equity & Liabilities	31,216	41,783	46,972	56,318	62,793

Cash Flow (IDR Bn)	2016	2017	2018E	2019F	2020F
Net Income	1,020	1,453	2,244	2,814	3,413
Depreciation & Amortization	426	765	1,214	1,613	2,039
Change in Working Capital	(230)	96	3,169	(408)	1,213
Cash Flow from Operating	2,123	289	4,835	4,240	4,910
Change in Fixed Assets	1,217	2,775	2,583	3,254	3,476
Change in Intangible Assets	(6)	15	-	-	-
Change in Long Term Assets	2,177	3,160	(1,402)	1,283	1,410
Change in Long Term Liabilities	128	(68)	976	144	149
Cash Flow from Investing	(3,260)	(6,018)	(205)	(4,393)	(4,738)
Change in Share & APIC	4,383	-	-	-	-
Change in Short Term Loans/Bonds	1,869	(194)	549	1,417	435
Change in Long Term Loans/Bonds	1,203	2,335	(891)	1,521	415
Dividends Paid	148	307	449	563	683
Others	376	2,319	(460)	440	865
Cash Flow from Financing	7,683	4,153	(1,251)	2,816	1,032
Change in Cash	6,100	258	(1,167)	3,258	534
Beginning Cash	3,025	9,125	9,383	8,217	11,475
Ending Cash	9,125	9,383	8,217	11,475	12,010

Financial Ratio	2016	2017	2018E	2019F	2020F
Profitability					
ROE	1.3%	2.4%	2.6%	2.8%	3.1%
ROA	3.3%	3.5%	4.8%	5.0%	5.4%
Gross Margin	14.9%	15.1%	15.4%	16.4%	17.3%
Operating Margin	11.9%	11.7%	12.7%	13.5%	14.3%
EBITDA Margin	15.4%	17.9%	18.9%	20.3%	22.3%
Net Profit Margin	6.2%	6.8%	7.6%	8.6%	9.6%
Liquidity & Solvency					
Debt to Equity	0.7	0.8	0.7	0.7	0.6
Net Gearing	(0.2)	(0.0)	0.1	(0.0)	(0.0)
Debt to Assets	0.2	0.2	0.2	0.2	0.2
Valuation					
Price to Earnings (PE)	17.4	15.3	9.9	7.9	6.5
Price to Book (PBV)	2.3	1.9	1.7	1.4	1.2

Key Assumptions (In IDR Bn)	2016	2017	2018E	2019F	2020F
Burn Rate	22.2%	26.1%	27.3%	26.0%	25.3%
New Contract	41,071	49,709	61,083	73,006	86,871
Contract Carryover	41,400	41,430	58,698	65,044	68,010
Order Book	73,999	82,501	108,407	126,127	141,017

1Q18 results and FY17 overview. In 1Q18, WIKA recorded revenue of IDR 6,257 bn (+64.1% YoY). FY17 was a turnaround year as operating cash flow turned positive to IDR 2,440 bn (+191% YoY). 1Q18 net profit dropped to IDR 171 bn (-30.1% YoY) due to a one off finance cost, while FY17 bottom line went up to IDR 1,202 bn (+14% YoY). 1Q18 new contract achievement stood at IDR 10,449 bn, 18.25% of 2018 target. On the other hand, FY17 new contract stood at IDR 42,402 bn (-22.6% YoY), while order book grew to IDR 106,642 bn (+28% YoY). FY17 gearing ratio inched upwards to 0.71.

Margin and burn rate improvement. Moving forward, management guides 2018 new contract at IDR 57 tn, resulting in 35% YoY new contract growth with 64% contribution from infrastructure and building, 16% from energy and industrial plant, 13% from material industry, and 7% from realty and property. The latter is expected to grow both revenue and new contract contribution wise up to approximately 15% as the company expands on developing transit oriented development (TOD) projects, which we see as a positive catalyst as it improves cash flow when cash is collected prior to construction when marketing sales occur. Burn rate improved to 24.5% in FY17, up from 18.8% in FY16 as project execution ramped up. Improving burn rate will allow the company to cycle the cash received and inject it back into new projects, driving growth forward.

Aggressive new management. WIKA welcomes Tumiyana, the previous CEO of PTPP, as its new CEO in April 2018. He has signaled that he has plans to improve profit margin and drive gearing ratio up to above 1. Moreover, WIKA has been diversifying its new contract source with overseas projects including a IDR 2 tn housing development project in Algeria. The latest one comes from an engineering, procurement, and construction (EPC) toll road project in the Philippines with a contract value of IDR 11.6 tn.

Reiterate BUY call on WIKA with our end-of-FY19 TP at IDR 2,250 derived via DCF valuation. Currently, WIKA is trading at 11.4x PE, -1.5SD below its 5 years average PE. We believe WIKA offers an attractive valuation and is well positioned to achieve stable order book growth boosted by its experience in LRT and MRT projects, which increases their probability of attaining future railway projects.

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Sector	Construction
Bloomberg Ticker	WIKA IJ
Market Cap. (IDR tn)	12.8
Share Out./Float (mn)	8,970/3,132
Current Price	IDR 1,430
End-of-FY19 TP	IDR 2,250
Upside (%)	57.3%

Share Price Performance

52W High (06/14/17)	2,280
52W Low (05/09/18)	1,215
52W Beta	0.9
YTD Change (%)	-7.7%

Relative Valuations

Trailing P/E	11.4x
Forward P/E	6.9x
P/BV	1.0x
EV/EBITDA	5.8x

Highlights (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	15,669	26,163	34,665	36,450	41,673
% growth	15.0%	67.0%	32.5%	5.2%	14.3%
Gross Profit	2,192	2,876	4,730	4,964	5,595
Net Profit	1,576	1,986	2,879	3,266	3,979
% growth	50.1%	26.0%	45.0%	13.4%	21.8%
Gross Margin (%)	14.0%	11.0%	13.6%	13.6%	13.4%
Net Margin (%)	10.1%	7.6%	8.3%	9.0%	9.5%
Return on Equity (%)	12.4%	14.5%	17.5%	17.0%	18.0%
Return on Assets (%)	4.5%	4.0%	4.4%	4.5%	4.9%
EPS (IDR)	218	204	286	323	400

Income Statement (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	15,669	26,163	34,665	36,450	41,673
% growth	15.0%	67.0%	32.5%	5.2%	14.3%
Cost of Revenue	(13,477)	(23,287)	(29,934)	(31,487)	(36,078)
% growth	12.6%	72.8%	28.5%	5.2%	14.6%
Gross Profit	2,192	2,876	4,730	4,964	5,595
Operating Expense	(527)	(677)	(1,062)	(1,108)	(1,255)
Other Income (Expense)	(749)	(1,310)	(1,790)	(1,926)	(1,762)
EBIT	2,096	2,528	4,225	4,525	5,303
EBITDA	2,744	3,946	5,947	6,435	7,613
Net Financing	(384)	(436)	(822)	(955)	(899)
Profit from JV	379	573	683	771	824
PBT	1,660	2,092	3,403	3,570	4,404
Tax	(449)	(736)	(1,364)	(1,174)	(1,428)
Non Controlling Interest	152	154	313	369	394
Net Profit for the Year	1,424	1,832	2,567	2,898	3,585
% growth	46.5%	28.6%	40.1%	12.9%	23.7%

Balance Sheet (IDR Bn)	2016	2017	2018E	2019F	2020F
Cash and Cash Equivalent	9,270	11,254	18,028	20,381	22,523
Receivables	8,726	15,824	18,636	19,559	22,576
Other Current Assets	5,656	7,832	9,460	10,688	11,947
Total Current Assets	23,652	34,910	46,123	50,627	57,047
Fixed Assets	3,325	3,932	4,699	5,267	6,305
Intangible Assets	-	139	139	139	139
Other Non Current Assets	4,379	6,702	7,940	8,792	10,103
Total Assets	31,355	45,684	58,902	64,825	73,595
Total Payables	4,766	9,190	10,707	11,641	13,308
Short-Term Loans	4,712	6,424	6,111	7,840	8,133
Other Current Liabilities	5,431	10,361	12,595	13,645	20,620
Total Current Liabilities	14,909	25,976	29,413	33,125	42,062
Long-Term Loans	932	2,108	7,567	6,939	2,529
Other Non Current Liabilities	2,777	2,968	4,719	5,247	5,971
Total Liabilities	18,617	31,052	41,699	45,312	50,562
Share & APIC	7,442	7,442	7,442	7,442	7,442
Retained Earnings	3,105	4,003	6,057	8,375	11,243
Non Controlling Interest	1,293	1,998	2,517	2,508	3,160
Other Components of Equity	898	1,188	1,188	1,188	1,188
Total Equity	12,738	14,632	17,204	19,513	23,033
Total Equity & Liabilities	31,355	45,684	58,902	64,825	73,595

Cash Flow (IDR Bn)	2016	2017	2018E	2019F	2020F
Net Income	1,424	1,832	2,567	2,898	3,585
Depreciation & Amortization	283	547	686	819	1,017
Change in Working Capital	4,023	(692)	1,092	665	244
Cash Flow from Operating	(2,316)	3,070	2,161	3,052	4,358
Change in Fixed Assets	(424)	(1,154)	(1,454)	(1,387)	(2,056)
Change in Intangible Assets	-	139	-	-	-
Change in Long Term Assets	(529)	(2,455)	(1,199)	(868)	(1,301)
Change in Long Term Liabilities	867	192	1,721	495	705
Cash Flow from Investing	(85)	(3,418)	(932)	(1,760)	(2,651)
Change in Share & APIC	6,122	-	-	-	-
Change in Short Term Loans/Bonds	3,996	1,093	81	2,277	4,912
Change in Long Term Loans/Bonds	(761)	1,176	5,459	(628)	(4,410)
Dividends Paid	(332)	(933)	(513)	(580)	(717)
Others	87	995	519	(8)	652
Cash Flow from Financing	9,111	2,332	5,545	1,061	437
Change in Cash	6,710	1,984	6,774	2,353	2,143
Beginning Cash	2,560	9,270	11,254	18,028	20,381
Ending Cash	9,270	11,254	18,028	20,381	22,523

Financial Ratio	2016	2017	2018E	2019F	2020F
Profitability					
ROE	12.4%	14.5%	17.5%	17.0%	18.0%
ROA	4.5%	4.0%	4.4%	4.5%	4.9%
Gross Margin	14.0%	11.0%	13.6%	13.6%	13.4%
Operating Margin	10.6%	8.4%	10.6%	10.6%	10.4%
EBITDA Margin	17.5%	15.1%	17.2%	17.7%	18.3%
Net Profit Margin	10.1%	7.6%	8.3%	9.0%	9.5%
Liquidity & Solvency					
Debt to Equity	0.6	0.7	1.0	1.0	0.8
Net Gearing	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)
Debt to Assets	0.2	0.2	0.2	0.2	0.2
Valuation					
Price to Earnings (PE)	10.3	11.0	7.9	7.0	5.6
Price to Book (PBV)	1.3	1.6	1.4	1.2	1.0

Key Assumptions (In IDR Bn)	2016	2017	2018E	2019F	2020F
Burn Rate	18.8%	24.5%	26.8%	25.0%	25.9%
New Contract	54,763	42,402	57,230	62,477	74,359
Contract Carryover	28,526	64,240	71,876	83,284	86,516
Order Book	83,290	106,642	129,106	145,761	160,875

1Q18 results and FY17 overview. In 1Q18, WSKT's revenue surged to IDR 12,396 bn (+68.6% YoY). FY17 bottom line leaped to IDR 45,212 bn (+90% YoY) and operating cash flow improved to IDR -4,077 bn (+49.5% YoY). Despite its operating cash flow still in the red, it reflects a leap of recovery that we expect to continue in 2018. 1Q18 net profit surged to IDR 1,520 bn (+313%) with FY17 results showing a similar significant jump to IDR 3,881 bn (+126.6% YoY) as net profit margin rose to 8.6%. FY17 new contract was recorded at IDR 55,834 bn (-20.2% YoY) due to FY16 being an extremely high base of IDR 69,974 bn (+118.1% YoY). FY17 order book backlog jumped to 59.6% due to the increase in contract carryover of IDR 82,273 bn (+141.6% YoY). FY17 gearing ratio rose to 3.1.

A turnaround year. We expect 2018 to be the year that WSKT recovers and generates positive operating cash flow boosted by their successful Waskita Transjawa Toll Road divestment that generated IDR 5 tn. Moreover, as WSKT's order book skyrocketed in FY16 we expect prior years' construction projects to lead revenue realization beginning in 2018 onwards, which supports further revenue and net profit surges. Management guides 2018 new contract at approximately IDR 60 tn (+7.5% YoY) with contract carryover slightly swelling further to IDR 90 tn (+9.8% YoY). A potential upside that WSKT has with having a massive order book is strong revenue growth as burn rate picks up even if new contract growth faces headwind in the near future.

Reiterate BUY call on WSKT with our end-of-FY19 TP at IDR 2,860 derived via DCF valuation. Currently, WSKT is trading at 5.5x PE, -1.8SD from its 5 years average PE. At current price, we believe WSKT provides an attractive valuation as WSKT's thick order book will serve as growth fuel. Additionally, we expect WSKT to book positive operating cash flow by 2018, or 2019 in a grey sky scenario. However, a different downside risk exists for WSKT as it operates toll roads. With the looming odd-even policy implementation, toll tariff rationalization to IDR 1,000/km, paired with vehicle tariff groups consolidation, operating cash flow might suffer slightly once the policies are finalized. On the flipside, WSKT toll road revenue only accounts for 0.7% of total revenue, even though it will gradually grow.

Highlights (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	23,788	45,213	55,079	53,110	52,998
% growth	68.1%	90.1%	21.8%	-3.6%	-0.2%
Gross Profit	3,968	9,464	10,025	10,360	10,073
Net Profit	1,706	3,908	3,886	4,446	4,233
% growth	61.3%	129.1%	-0.6%	14.4%	-4.8%
Gross Margin (%)	16.7%	20.9%	18.2%	19.5%	19.0%
Net Margin (%)	7.2%	8.6%	7.1%	8.4%	8.0%
Return on Equity (%)	15.4%	27.9%	22.7%	21.5%	17.6%
Return on Assets (%)	2.8%	4.0%	3.1%	3.7%	3.4%
EPS (IDR)	126	288	286	328	312

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Sector	Construction
Bloomberg Ticker	WSKT IJ
Market Cap. (IDR tn)	28.5
Share Out./Float (mn)	13,574/4,610
Current Price	IDR 2,100
End-of-FY19 TP	IDR 2,860
Upside (%)	36.2%

Share Price Performance

52W High (02/20/18)	3,150
52W Low (9/29/17)	1,775
52W Beta	1.4
YTD Change (%)	-5.0%

Relative Valuations

Trailing P/E	5.5x
Forward P/E	4.0x
P/BV	1.8x
EV/EBITDA	10.3x

Income Statement (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	23,788	45,213	55,079	53,110	52,998
% growth	68.1%	90.1%	21.8%	-3.6%	-0.2%
Cost of Revenue	(19,791)	(35,582)	(45,054)	(42,750)	(42,926)
% growth	61.8%	79.8%	26.6%	-5.1%	0.4%
Gross Profit	3,968	9,464	10,025	10,360	10,073
Operating Expense	(788)	(2,104)	(2,135)	(2,097)	(2,204)
Other Income (Expense)	(700)	(1,304)	(2,093)	(1,518)	(1,439)
EBIT	3,275	7,653	8,240	8,653	8,199
EBITDA	4,481	9,151	9,987	8,653	8,199
Net Financing	(795)	(1,598)	(2,442)	(1,907)	(1,769)
Profit from JV	(7)	26	26	26	26
EBT	2,473	6,081	5,823	6,772	6,456
Tax	(667)	(1,854)	(1,747)	(2,032)	(1,937)
Non Controlling Interest	100	320	191	294	286
Net Profit for the Year	1,706	3,908	3,886	4,446	4,233
% growth	61.3%	129.1%	-0.6%	14.4%	-4.8%

Balance Sheet (IDR Bn)	2016	2017	2018E	2019F	2020F
Cash and Cash Equivalent	10,656	6,089	5,216	6,282	6,963
Receivables	22,620	39,154	43,655	36,686	39,217
Other Current Assets	6,437	7,184	8,313	8,383	8,086
Total Current Assets	39,713	52,427	57,184	51,351	54,267
Fixed Assets	3,014	4,742	7,385	9,886	11,734
Intangible Assets	11,154	33,933	49,917	49,917	49,917
Other Non Current Assets	7,553	6,794	9,056	9,100	8,943
Total Assets	61,433	97,896	123,541	120,254	124,861
Total Payables	14,886	24,354	30,319	29,815	29,910
Short-Term Loans	27,407	50,172	56,562	46,660	44,446
Other Current Liabilities	15,939	26,429	33,389	33,008	32,702
Total Current Liabilities	31,284	52,309	62,888	57,946	56,291
Long-Term Loans	9,890	18,015	27,725	23,776	24,998
Other Non Current Liabilities	3,486	4,817	6,058	5,512	5,473
Total Liabilities	13,376	22,832	33,783	29,289	30,471
Share & APIC	7,240	6,824	6,824	6,824	6,824
Retained Earnings	3,334	6,681	9,790	13,347	16,733
Non Controlling Interest	5,704	8,748	9,754	12,347	14,041
Other Components of Equity	495	501	501	501	501
Total Equity	16,773	22,755	26,869	33,019	38,099
Total Equity & Liabilities	61,433	97,896	123,541	120,254	124,861

Cash Flow (IDR Bn)	2016	2017	2018E	2019F	2020F
Net Income	1,706	3,908	3,886	4,446	4,233
Depreciation & Amortization	198	525	662	1,027	1,206
Change in Working Capital	9,979	8,484	(2,178)	(7,298)	3,026
Cash Flow from Operating	(8,075)	(4,052)	6,726	12,772	2,413
Change in Fixed Assets	1,289	2,253	3,305	3,529	3,053
Change in Intangible Assets	5,573	22,779	15,984	-	-
Change in Long Term Assets	553	(759)	2,262	45	(157)
Change in Long Term Liabilities	1,234	1,460	1,132	(460)	(20)
Cash Flow from Investing	(6,181)	(22,813)	(20,418)	(4,033)	(2,916)
Change in Share & APIC	1	(416)	-	-	-
Change in Short Term Loans/Bonds	8,870	12,228	2,771	(5,341)	(864)
Change in Long Term Loans/Bonds	5,169	7,995	9,819	(4,035)	1,202
Dividends Paid	176	561	777	889	847
Others	5,538	3,050	1,006	2,592	1,694
Cash Flow from Financing	19,402	22,298	12,819	(7,673)	1,185
Change in Cash	5,145	(4,567)	(873)	1,066	682
Beginning Cash	5,511	10,656	6,089	5,216	6,282
Ending Cash	10,656	6,089	5,216	6,282	6,963

Financial Ratio	2016	2017	2018E	2019F	2020F
Profitability					
ROE	15.4%	27.9%	22.7%	21.5%	17.6%
ROA	2.8%	4.0%	3.1%	3.7%	3.4%
Gross Margin	16.7%	20.9%	18.2%	19.5%	19.0%
Operating Margin	13.4%	16.3%	14.3%	15.6%	14.8%
EBITDA Margin	18.8%	20.2%	18.1%	16.3%	15.5%
Net Profit Margin	7.2%	8.6%	7.1%	8.4%	8.0%
Liquidity & Solvency					
Debt to Equity	2.3	3.1	3.3	2.4	2.0
Net Gearing	1.3	2.7	3.0	2.1	1.7
Debt to Assets	0.4	0.4	0.5	0.4	0.4
Valuation					
Price to Earnings (PE)	22.8	9.9	10.0	8.7	9.2
Price to Book (PBV)	3.5	2.8	2.3	1.9	1.6

Key Assumptions (In IDR Bn)	2016	2017	2018E	2019F	2020F
Burn Rate	22.9%	32.7%	36.6%	32.6%	30.7%
New Contract	69,974	55,834	60,000	59,613	57,938
Contract Carryover	34,049	83,270	90,343	103,252	114,753
Order Book	104,023	138,107	150,347	162,866	172,692

1Q18 results and FY17 overview. In 1Q18, ADHI booked top line of IDR 3,141 bn (+40% YoY), while FY17 revenue rose to IDR 15,156 bn (+37% YoY). FY17 operating cash flow worsened to IDR 2,915 bn (-247% YoY), as payment for the LRT project was yet to be received back then. 1Q18 net profit surged to IDR 73.4 bn (+336% YoY) and FY17 bottom line jumped to IDR 515.4 bn (+64.4% YoY), which resulted in a net profit margin of 3.4%. FY17 new contract jumped substantially to IDR 37,765 bn (+108% YoY), which resulted in a drop in FY17 order backlog to 27% from FY16's 40.5%. FY17 gearing ratio rose quite significantly to 1.28 from FY16 ratio of 0.71.

Picking up steam. ADHI's order book and new contract growth has been relatively smaller compared to other SOE contractors rampant development in recent years. Although, things are changing as ADHI received their first payment of IDR 3.42 tn as part of the IDR 5 tn LRT phase I project contract value. Their knowledge in handling LRT projects increases their chances in attaining LRT phase II contracts as well as other railway projects moving forward. Management guides 2018 new contract at IDR 23.3 tn (-38.3%) with contract carryover jumping to new heights at IDR 22.9 tn (+63.8%). Even though new contract is projected to experience a decline, it is still a 28.8% increase when compared to FY16 level.

TOD spinoff. ADHI plans on spinning off their TOD business in 2019 to provide additional capital for land bank expansion. We see the TOD strategy to payoff in the long run once LRT Phase II is completed, boosted even further with the prospects of new LRT projects outside of Jakarta as other cities develop in tandem with the economy. Additionally, we foresee ADHI's TOD play to be a positive catalyst to fix operating cash flow this year as marketing sales is targeted at IDR 3.3 tn.

Reiterate BUY call on ADHI with our end-of-FY19 TP at IDR 2,270 derived via DCF valuation. Currently, ADHI is trading at 11.3x PE, -0.7SD from its 5 years average PE. At current price, we believe ADHI provides an attractive valuation as ADHI's railway expertise and TOD play will serve as growth catalysts and offer profit margin improvement. Moreover, the LRT phase I payment will serve as a catalyst to fund other projects.

Highlights (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	11,064	15,156	18,481	18,567	22,738
% growth	17.8%	37.0%	21.9%	0.5%	22.5%
Gross Profit	1,115	2,058	2,412	2,674	3,522
Net Profit	313	515	629	1,158	1,593
% growth	-32.4%	64.4%	22.0%	84.1%	37.6%
Gross Margin (%)	10.1%	13.6%	13.1%	14.4%	15.5%
Net Margin (%)	2.8%	3.4%	3.4%	6.3%	7.0%
Return on Equity (%)	5.8%	8.8%	9.9%	15.9%	18.6%
Return on Assets (%)	1.6%	1.8%	2.0%	3.6%	4.3%
EPS (IDR)	88	145	177	325	447

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Sector	Construction
Bloomberg Ticker	ADHI IJ
Market Cap. (IDR tn)	6.4
Share Out./Float (mn)	3,561/1,745
Current Price	IDR 1,810
End-of-FY19 TP	IDR 2,270
Upside (%)	25.4%

Share Price Performance

52W High (03/08/18)	2,510
52W Low (12/08/17)	1,705
52W Beta	1.0
YTD Change (%)	-4.0%

Relative Valuations

Trailing P/E	11.3x
Forward P/E	7.0x
P/BV	1.1x
EV/EBITDA	4.9x

Income Statement (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	11,064	15,156	18,481	18,567	22,738
% growth	17.8%	37.0%	21.9%	0.5%	22.5%
Cost of Revenue	(9,949)	(13,098)	(16,069)	(15,893)	(19,216)
% growth	18.2%	31.7%	22.7%	-1.1%	20.9%
Gross Profit	1,115	2,058	2,412	2,674	3,522
Operating Expense	(456)	(581)	(761)	(756)	(918)
Other Income (Expense)	(47)	(519)	(472)	(213)	(349)
EBIT	708	1,298	1,559	2,036	2,592
EBITDA	764	1,423	1,742	2,247	2,861
Net Financing	(95)	(341)	(381)	(331)	(336)
Profit from JV	69	231	121	146	185
EBT	613	957	1,178	1,705	2,255
Tax	(298)	(440)	(547)	(544)	(658)
Non Controlling Interest	2	2	2	4	4
Net Profit for the Year	313	515	629	1,158	1,593
% growth	-32.4%	64.4%	22.0%	84.1%	37.6%

Balance Sheet (IDR Bn)	2016	2017	2018E	2019F	2020F
Cash and Cash Equivalent	3,365	4,131	7,169	5,027	2,676
Receivables	9,817	15,080	14,519	15,552	19,926
Other Current Assets	3,611	5,607	5,181	6,619	8,161
Total Current Assets	16,792	24,818	26,869	27,198	30,763
Fixed Assets	1,460	1,521	1,925	2,515	2,909
Intangible Assets	-	-	-	-	-
Other Non Current Assets	1,786	1,994	2,576	2,714	3,340
Total Assets	20,038	28,333	31,370	32,427	37,013
Total Payables	8,657	11,925	13,822	13,994	16,975
Short-Term Loans	2,844	3,787	3,947	4,483	4,228
Other Current Liabilities	1,486	1,921	2,719	2,671	3,082
Total Current Liabilities	12,987	17,633	20,488	21,148	24,286
Long-Term Loans	1,428	4,665	4,251	3,747	3,905
Other Non Current Liabilities	180	164	253	229	243
Total Liabilities	14,595	22,463	24,992	25,124	28,434
Share & APIC	2,945	2,945	2,945	2,945	2,945
Retained Earnings	2,024	2,446	2,949	3,875	5,149
Non Controlling Interest	10	11	15	14	17
Other Components of Equity	464	468	468	468	468
Total Equity	5,443	5,870	6,377	7,302	8,579
Total Equity & Liabilities	20,038	28,333	31,370	32,427	37,013

Cash Flow (IDR Bn)	2016	2017	2018E	2019F	2020F
Net Income	313	515	629	1,158	1,593
Depreciation & Amortization	56	124	183	210	269
Change in Working Capital	1,210	3,556	(3,682)	2,347	2,524
Cash Flow from Operating	(841)	(2,916)	4,493	(979)	(662)
Change in Fixed Assets	416	185	587	800	664
Change in Intangible Assets	-	-	-	-	-
Change in Long Term Assets	815	209	581	138	627
Change in Long Term Liabilities	(1)	(16)	89	(24)	14
Cash Flow from Investing	(1,232)	(410)	(1,080)	(961)	(1,277)
Change in Share & APIC	1	-	-	-	-
Change in Short Term Loans/Bonds	1,729	943	160	536	(255)
Change in Long Term Loans/Bonds	(575)	3,237	(414)	(504)	158
Dividends Paid	80	94	126	232	319
Others	47	6	4	(1)	3
Cash Flow from Financing	1,121	4,092	(376)	(201)	(412)
Change in Cash	(952)	766	3,038	(2,142)	(2,351)
Beginning Cash	4,317	3,365	4,131	7,169	5,027
Ending Cash	3,365	4,131	7,169	5,027	2,676

Financial Ratio	2016	2017	2018E	2019F	2020F
Profitability					
ROE	5.8%	8.8%	9.9%	15.9%	18.6%
ROA	1.6%	1.8%	2.0%	3.6%	4.3%
Gross Margin	10.1%	13.6%	13.1%	14.4%	15.5%
Operating Margin	6.0%	9.7%	8.9%	10.3%	11.5%
EBITDA Margin	6.9%	9.4%	9.4%	12.1%	12.6%
Net Profit Margin	2.8%	3.4%	3.4%	6.3%	7.0%
Liquidity & Solvency					
Debt to Equity	0.7	1.3	1.2	1.0	0.8
Net Gearing	0.1	0.6	0.0	0.3	0.5
Debt to Assets	0.2	0.2	0.2	0.2	0.2
Valuation					
Price to Earnings (PE)	25.8	15.7	12.9	7.0	5.1
Price to Book (PBV)	1.5	1.4	1.3	1.1	0.9

Key Assumptions (In IDR Bn)	2016	2017	2018E	2019F	2020F
Burn Rate	36.4%	29.3%	40.0%	39.6%	41.8%
New Contract	18,097	37,765	23,300	26,404	33,349
Contract Carryover	12,331	13,989	22,911	20,458	21,012
Order Book	30,428	51,754	46,211	46,862	54,360

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

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ADD: Share price may range between 10% to 15% over the next 12 months.

NEUTRAL: Share price may range between -10% to +10% over the next 12 months.

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SELL: Share price may fall by more than 15% over the next 12 months.

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