

3Q19 results are in-line, showing that recovery is on track. We maintain our BUY call as new contract achievement are still set to meet our estimate in 4Q19 despite certain project tender delays. WEGE reported 3Q19 revenue of IDR1.2tn (+8.3% QoQ, -17% YoY) and NPATMI of IDR121bn (+17% QoQ, +12.7% YoY). 9M19 revenue/NPATMI accounted for 49%/60% of our estimates. Historically, 9M NPAT accounts for 60%-65% of FY achievement. **We would like to highlight that 9M19 revenue including JO came in at ~IDR4.2tn (+3.4% YoY).** We calculated this by assuming a 7.5% NPM for JO projects, similar to company's historical and forward NPM. Furthermore, WEGE managed to book a positive OCF of IDR109bn in 3Q19 amidst company's effort to improve cash collection and timely payments from customers. Management expects FY19E OCF to be positive at above IDR100bn.

New contract achievement will still meet our estimates. WEGE has secured IDR5.3tn new orders as of 9M19 (52%/44% of our/company estimate). Management mentioned that they are still optimistic on achieving their target of 11.9tn NC as there are 2 jumbo projects worth ~IDR2tn each in the pipeline for 2019 on top of other smaller projects. We are confident on our new contract estimate of IDR10.2tn as it is more conservative than company's guidance and based on their pipeline it is highly probable that WEGE will secure this. Another important aspect to note is that out of IDR5.3tn NC and IDR15.3tn OB as of 9M19, IDR1.9tn and IDR2.2tn constitutes of JO projects.

Attractive valuation amidst BI easing cycle to support sector growth, capital city relocation, and WIKA group TOD development initiative. We maintain our **BUY** call with a **TP of IDR480, implying 50.9% upside and 9.2x FY19E PE.** WEGE's business segment which is building construction will benefit in terms of demand from BI easing cycle as CoF for property developers will decline. Additionally, company stated that the demand and interest for modular construction, which has higher margin and is one of WEGE's business strategy going forward, has been positive and is gaining traction. Management has previously mentioned that medium term growth should be at mid-teens CAGR, however, more color will be provide in the upcoming analyst meeting. As company's long term growth outlook is still highly attractive supported by multiple catalyst, WEGE is our top pick in the construction sector. Downside risks: 1) lower than expected new contract achievement, 2) impairment of receivables in case of project discontinuation, 3) payment delays.

Highlights (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	3,899	5,823	6,905	8,569	10,212
% growth	102.1%	49.3%	18.6%	24.1%	19.2%
Gross Profit	464	597	724	900	1,081
Net Profit	295	444	503	582	667
% growth	105.9%	50.6%	13.2%	15.8%	14.5%
Gross Margin (%)	11.9%	10.2%	10.5%	10.5%	10.6%
Net Margin (%)	7.6%	7.6%	7.3%	6.8%	6.5%
Return on Equity (%)	25.2%	23.3%	22.0%	21.8%	21.5%
Return on Assets (%)	8.9%	8.5%	7.8%	7.6%	7.2%
EPS (IDR)	49	46	53	61	70

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Sector	Construction
Bloomberg Ticker	WEGE IJ
Market Cap. (IDR tn)	3.04
Share Out./Float (mn)	9,572/2,939
Current Price	318
52-week Target Price	IDR 480
Upside (%)	50.9%

Share Price Performance

52W High (08/27/18)	434
52W Low (02/08/18)	210
52W Beta	1.1
YTD Change (%)	32.5%

Relative Valuations

Trailing P/E	6.9x
Forward P/E	6.0x
P/BV	1.2x

3Q19 Earnings summary

IDR Bn	3Q18	2Q19	3Q19	%QoQ	%YoY	9M18	9M19	%YoY	%Est
Revenue	1,465	1,122	1,215	8.3%	-17.0%	3,868	3,369	-12.9%	48.8%
Gross Profit	152	135	145	7.1%	-4.4%	417	368	-11.6%	50.9%
Operating Profit	130	116	126	8.7%	-2.7%	357	311	-12.9%	50.5%
NPATMI	108	104	122	17.2%	12.8%	289	303	5.0%	60.3%

Margins

Gross Margin	10.3%	12.1%	11.9%			10.8%	10.9%		
Operating Margin	8.9%	10.4%	10.4%			9.2%	9.2%		
Net Profit Margin	7.4%	9.2%	10.0%			7.5%	9.0%		

Source: Company data, Sinarmas Investment Research

Income Statement (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	3,899	5,823	6,905	8,569	10,212
% growth	102.1%	49.3%	18.6%	24.1%	19.2%
Cost of Revenue	-3,436	-5,226	-6,181	-7,669	-9,130
% growth	103.0%	52.1%	18.3%	24.1%	19.1%
Gross Profit	464	597	724	900	1,081
Operating Expense	-56	-78	-108	-137	-166
Other Income (Expense)	30	87	76	66	54
EBIT	429	619	710	840	973
EBITDA	443	632	734	877	1,023
Net Financing	-6	60	63	49	34
Profit from JV	21	51	64	71	78
EBT	414	618	710	840	973
Tax	-118	-174	-207	-257	-306
Non Controlling Interest	1	0	0	0	0
Net Profit	295	444	503	582	667
% growth	105.9%	50.6%	13.2%	15.8%	14.5%

Balance Sheet (IDR Bn)	2017	2018	2019E	2020F	2021F
Cash and Cash Equivalent	1,699	1,766	1,359	1,091	834
Receivables	1,939	2,806	3,100	3,965	4,864
Other Current Assets	532	702	1,234	1,532	1,826
Total Current Assets	4,170	5,275	5,694	6,588	7,524
Fixed Assets	200	222	374	457	540
Intangible Assets	-	-	-	-	-
Other Non Current Assets	238	393	899	1,406	1,913
Total Assets	4,608	5,890	6,966	8,451	9,977
Total Payables	1,062	2,696	2,738	3,398	4,045
Short-Term Loans	613	-	-	-	-
Other Current Liabilities	476	184	573	709	844
Total Current Liabilities	2,152	2,880	3,311	4,107	4,889
Long-Term Loans	-	-	-	-	-
Other Non Current Liabilities	732	873	1,166	1,447	1,724
Total Liabilities	2,884	3,753	4,477	5,554	6,613
Share & APIC	1,480	1,480	1,480	1,480	1,480
Retained Earnings	523	523	523	523	523
Non Controlling Interest	25	26	26	26	26
Other Components of Equity	-17	8	8	8	8
Total Equity	1,724	2,137	2,489	2,897	3,364
Total Equity & Liabilities	4,608	5,890	6,966	8,451	9,977

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2017	2018	2019E	2020F	2021F
Net Income	295	444	503	582	667
Depreciation & Amortization	13	14	24	37	50
Change in Working Capital	-121	-304	395	366	412
Cash Flow from Operating	429	762	132	253	305
Change in Fixed Assets	46	70	142	121	133
Change in Intangible Assets	-	-	-	-	-
Change in Long Term Assets	60	155	505	507	507
Change in Long Term Liabilities	261	141	293	281	277
Cash Flow from Investing	156	-84	-355	-347	-363
Change in Share & APIC	1,000	-	-	-	-
Change in Short Term Loans/Bonds	191	-613	-	-	-
Change in Long Term Loans/Bonds	-	-	-	-	-
Dividends Paid	233	57	151	175	200
Others	17	25	-	-	-
Cash Flow from Financing	974	-645	-151	-174	-200
Change in Cash	1,559	33	-373	-268	-258
Beginning Cash	139	1,699	1,766	1,359	1,091
Ending Cash	1,699	1,732	1,393	1,091	834

Financial Ratios	2017	2018	2019E	2020F	2021F
Profitability					
ROE	25.2%	23.3%	22.0%	21.8%	21.5%
ROA	8.9%	8.5%	7.8%	7.6%	7.2%
Gross Margin	11.9%	10.2%	10.5%	10.5%	10.6%
Operating Margin	10.4%	8.9%	8.9%	8.9%	9.0%
EBITDA Margin	11.4%	10.9%	10.6%	10.2%	10.0%
Net Profit Margin	7.6%	6.9%	6.8%	6.8%	6.5%
Liquidity & Solvency					
Current Ratio	1.9	1.8	1.7	1.6	1.5
Debt to Equity	0.4	N/A	N/A	N/A	N/A
ICR	27.9	49.5	N/A	N/A	N/A
Valuation					
Price to Earnings (PE)	9.9	10.4	9.2	7.9	6.9
Price to Book (PBV)	1.7	2.2	1.9	1.6	1.4

Key Assumptions (IDR Bn)	2017	2018	2019E	2020F	2021F
Burn Rate	35.7%	44.5%	38.0%	37.5%	37.5%
New Contract	7,327	7,454	10,186	10,696	11,231
Contract Carryover	5,616	7,247	10,809	13,440	15,419
Order Book	12,943	14,701	20,995	24,136	26,650

Source: Company data, Sinarmas Investment Research

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