

2Q20 earnings summary. In 2Q20, WEGE posted a lower revenue of IDR 754bn (-33% YoY/-21% QoQ), driven by lower burn rate due to PSBB implementation. This dragged down company's GPM/OPM to 7%/5% (-530 bps /-570 bps YoY and -400 bps/-410 bps QoQ). As a result, WEGE's NPATMI plunged to IDR 15bn (-86% YoY/-82% QoQ). In all, WEGE's 1H20 revenue/NPATMI came in at IDR 1,711bn/97bn (-21%/-47% YoY), reaching 77%/53% of our FY20 estimates.

Future recovery. In 1H20, WEGE's NC achievement came in at IDR 1tn (-43% YoY), accounting for only 25% of our estimates, as most of NC tender were delayed. WEGE total order book as of 2H20 was recorded at IDR 12tn (+4% YoY) which includes strategic projects such as Jakarta International Stadium (JIS) and HSR Halim station. Going forward to 2H20, we expect GPM to improve as company ramp-up construction to catch up with their schedule. On the other hand, we forecast NPM to remain compressed due to potential higher AR impairment and lower income from JV. On the modular side, company will build a modular plant in 4Q20/1Q21 to increase maximum capacity production from 300-400 unit/month to 900-1000 unit/month, driven by pick up in demand by ~30%-50% QoQ. Thus, we estimates the modular revenue will contribute 5%-7% to top-line in FY21/FY22 (vs. 2% in FY20).

Fine turning our estimates. We revise up our top-line estimates in FY20/FY21 to IDR 3,306bn/IDR 4,432bn (+48%/-8% from our initial target) as WEGE has large orderbook and aims to ramp up construction in 2H20. On the other side, we slash our bottom-line estimate to IDR 128bn/IDR 385bn (-29.2%/-10.8% from our initial target) as we raise our concern on potential higher-than-expected AR impairment and lower income from JV.

We reiterate our BUY rating on PT Wijaya Karya Bangunan Gedung Tbk (WEGE) with a lower target price of IDR 300. We lower our TP due to lower-than-expected new contracts achievement and potential higher-than-expected AR impairment. Nonetheless, we believe WEGE can quickly recover in FY21, supported by its large order book, no turnkey project, and strong potential growth from modular technology. Our TP represents 56% potential upside from current price and implies 7.4x FY21F PE. Currently, WEGE is trading at an undemanding valuation (4.8x FY21F PE, -0.6 SD from its 3 years avg. PE), which provides attractive risk and reward for the stock. Downside risks to our call are: delayed NC tender, prolonged PSBB, and slower-than-expected construction progress.

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	5,823	4,568	3,306	4,432	5,764
% growth	49.3%	-21.6%	-27.6%	34.1%	30.1%
Gross Profit	597	465	299	439	568
Net Profit	444	452	128	385	485
% growth	50.6%	1.7%	-71.6%	200.4%	25.8%
Gross Margin (%)	10.2%	10.2%	9.0%	9.9%	9.9%
Net Margin (%)	7.6%	9.9%	3.9%	8.7%	8.4%
Return on Equity (%)	23.3%	19.9%	5.2%	14.1%	15.4%
Return on Assets (%)	8.5%	7.5%	2.2%	6.6%	7.0%
EPS (IDR)	46	47	13	40	51

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Stock Information

Sector	Construction
Bloomberg Ticker	WEGE IJ
Market Cap. (IDR tn)	1.9
Share Out./Float (mn)	9,572/2,939
Current Price	192
FY21F Target Price	300
Upside	56.3%

Share Price Performance

52W High (08/16/19)	404
52W Low (03/20/20)	122
52W Beta	1.7
YTD Change	-37.3%

Relative Valuations

EV/EBITDA	1.3x
P/BV	1.1x

WEGE 2Q20 Earnings Summary

Highlights (IDR Bn)	2Q19	1Q20	2Q20	QoQ	YoY	6M19	6M20	YoY	%DH	%Cons
Revenue	1,122	957	754	-21.3%	-32.8%	2,154	1,711	-20.5%	76.8%	42.8%
Gross Profit	135	102	51	-50.5%	-62.5%	223	153	-31.5%		
Operating Profit	116	84	35	-58.5%	-69.9%	185	119	-35.6%		
NPATMI	104	82	15	-81.7%	-85.6%	182	97	-46.8%	53.4%	28.9%
Gross Margin	12.1%	10.7%	6.7%			10.4%	8.9%			
Operating Margin	10.4%	8.8%	4.6%			8.6%	7.0%			
Net Profit Margin	9.2%	8.5%	2.0%			8.4%	5.6%			

Source: Company Data, Sinarmas Investment Research

Earnings Changes

(IDR Bn)	Previous		New		%Change	
	2020E	2021F	2020E	2021F	2020E	2021F
Revenue	2,228	4,837	3,306	4,432	48.4%	-8.4%
Gross Profit	197	454	299	439	51.7%	-3.2%
EBIT	275	603	271	540	-1.6%	-10.4%
EBITDA	305	642	302	581	-1.1%	-9.5%
Net Income	181	432	128	385	-29.2%	-10.8%

Source: Company Data, Sinarmas Investment Research

Key Assumptions Changes

(IDR Bn)	Previous		New		%Change	
	2020E	2021F	2020E	2021F	2020E	2021F
New Contract	4,371	5,027	3,351	4,692	-23.3%	-6.7%

Source: Company Data, Sinarmas Investment Research

Income Statement (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	5,823	4,568	3,306	4,432	5,764
% growth	0	(0)	(0)	0	0
Cost of Revenue	(5,226)	(4,102)	(3,007)	(3,993)	(5,196)
% growth	1	(0)	(0)	0	0
Gross Profit	597	465	299	439	568
Operating Expense	(78)	(71)	(57)	(74)	(83)
Other Income (Expense)	87	62	50	64	74
EBIT	619	618	271	540	675
EBITDA	638	639	302	581	727
Net Financing	48	6	(12)	0	4
Profit from JV	51	97	28	157	192
EBT	618	597	232	513	651
Tax	(174)	(141)	(102)	(124)	(161)
Non Controlling Interest	-	5	1	4	5
Net Profit	444	452	128	385	485
% growth	50.6%	1.7%	-71.6%	200.4%	25.8%

Balance Sheet (IDR Bn)	2018	2019	2020E	2021F	2022F
Cash and Cash Equivalent	1,766	1,456	1,480	2,186	2,472
Receivables	2,806	2,918	2,523	2,428	3,000
Other Current Assets	702	713	483	644	846
Total Current Assets	5,275	5,087	4,485	5,258	6,318
Fixed Assets	222	185	235	282	331
Intangible Assets	-	-	-	-	-
Other Non Current Assets	393	925	728	766	807
Total Assets	5,890	6,197	5,449	6,307	7,457
Total Payables	2,696	2,681	1,909	2,316	2,729
Short-Term Loans	-	177	373	264	303
Other Current Liabilities	184	200	99	121	156
Total Current Liabilities	2,880	3,058	2,380	2,701	3,187
Long-Term Loans	-	-	-	-	-
Other Non Current Liabilities	873	680	492	660	858
Total Liabilities	3,753	3,738	2,873	3,360	4,045
Share & APIC	1,480	1,480	1,480	1,480	1,480
Retained Earnings	523	523	523	523	523
Non Controlling Interest	26	30	32	36	41
Other Components of Equity	8	7	7	7	7
Total Equity	2,137	2,459	2,576	2,946	3,412
Total Equity & Liabilities	5,890	6,197	5,449	6,307	7,457

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
Net Income	444	452	128	385	485
Depreciation & Amortization	19	21	31	41	52
Change in Working Capital	(304)	121	248	(362)	327
Cash Flow from Operating	767	352	(88)	788	210
Change in Fixed Assets	41	84	81	88	101
Change in Intangible Assets	-	-	-	-	-
Change in Long Term Assets	155	432	(197)	38	41
Change in Long Term Liabilities	141	(193)	(188)	168	198
Cash Flow from Investing	(55)	(709)	(72)	42	56
Change in Share & APIC	-	-	-	-	-
Change in Short Term Loans/Bonds	(613)	177	196	(109)	39
Change in Long Term Loans/Bonds	-	-	-	-	-
Dividends Paid	57	133	13	19	24
Others	25	4	1	4	5
Cash Flow from Financing	(645)	48	184	(124)	20
Change in Cash	67	(310)	24	706	286
Beginning Cash	1,699	1,766	1,456	1,480	2,186
Ending Cash	1,766	1,456	1,480	2,186	2,472

Financial Ratios	2018	2019	2020E	2021F	2022F
Profitability					
ROE	23.3%	19.9%	5.2%	14.1%	15.4%
ROA	8.5%	7.5%	2.2%	6.6%	7.0%
Gross Margin	10.2%	10.2%	9.0%	9.9%	9.9%
Operating Margin	8.9%	8.6%	7.3%	8.2%	8.4%
EBITDA Margin	10.9%	14.0%	9.1%	13.1%	12.6%
Net Profit Margin	7.6%	9.9%	3.9%	8.7%	8.4%
Liquidity & Solvency					
Current Ratio	1.9x	1.7x	1.9x	2.0x	2.0x
Debt to Equity	N/A	0.1x	0.2x	0.1x	0.1x
ICR	1330.5x	30.4x	7.1x	20.0x	28.1x
Valuation					
Price to Earnings (PE)	6.5x	6.4x	22.5x	7.5x	6.0x
Price to Book (PBV)	1.4x	1.2x	1.2x	1.0x	0.9x

Source: Company Data, Sinarmas Investment Research

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