

**Higher interest-expense dragged down 3Q20's bottom-line.** In 3Q20, WIKA posted a mild revenue recovery with revenue recorded at IDR 3.3tn (+10.8% QoQ/-53.1% YoY) lifted by EPC segment (+100.5% QoQ/-11.2% YoY). Operating margin recovers to 1.2% (+380 bps QoQ) as G&A expenses declined to IDR 122bn (-34.1% QoQ/ -0.2% YoY). On the other hand, bottom-line booked a net-loss driven by IDR 102bn loss on reclassification and IDR 397bn finance cost at IDR 397bn (+3.3% QoQ/+45.9% YoY), dragging down company's 9M20 NPATMI to IDR 50bn (-96.3% YoY) which forms 25.7%/7.6% of our/consensus estimates.

**Seizing opportunity to fulfill the target.** Currently, WIKA's 9M20 new contract achievement only reached IDR 6.8tn (-73.4% YoY), achieving 32.0% of FY20 company's target. In order to meet the target, WIKA is participating in tender processes for national and international projects with a total value of around IDR 20tn – IDR 23tn in 4Q20. We forecast WIKA can obtain new contract around 40% from the tender and forming IDR 15.4tn (-62.6% YoY) new contracts achievement in FY20.

**Fine turning our estimates.** Due to sluggish performance in 3Q20, we revise down our FY20's revenue/EPS estimates by -8.9%/-1.9%. Going forward to 4Q20, GPM should continue to improve as company plans to ramp up their strategic project in the pipeline, especially Jakarta-Bandung High-Speed-Railways (HSR) with total contract of IDR 15.7tn, accounting for ~18% of WIKA's total order book. In addition, we forecast NPM still will remained under pressured from its finance cost and lower recovery AR impairment. Nonetheless, we believe WIKA can shows a sharp-recovery in FY21F, driven by company's capabilities to ramp up the project and benefitted from higher infrastructure budget amounted by IDR 414tn (+47.3% YoY), as company has room to take on more projects, thanks to its healthy balance sheet.

**We tone down our call on PT Wijaya Karya Tbk (WIKA) from BUY to ADD with lower target price of IDR 1,380.** Our TP represents 14.5% potential upside, implying 10.3x FY21F PE (+2 SD from its 3-years average PE). WIKA remained as our top picks, driven by its strongest balance sheet and largest order book amongs its peers. WIKA is currently trading at 9.5x (+1.8 SD from its 3-years average PE). Downside risks to our call are: lower-than-expected new contract achievement and higher finance cost.

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Sector	Construction
Bloomberg Ticker	WIKA IJ
Market Cap. (IDR tn)	10.8
Share Out./Float (mn)	8,970/3.134
Current Price	1,205
FY21F Target Price	1,380
Upside	14.5%

**Share Price Performance**

52W High (1/13/2020)	2,200
52W Low (3/26/2020)	675
52W Beta	2.2
YTD Change	-39.4%

**Relative Valuations**

Trailing P/E	12.6x
Forward P/E	10.8x
P/BV	0.9x

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	31,158	27,213	14,513	26,010	29,038
% growth	19.0%	-12.7%	-46.7%	79.2%	11.6%
Gross Profit	3,605	3,480	1,458	3,033	3,477
Net Profit	1,730	2,285	191	1,212	1,445
% growth	43.9%	32.1%	-91.6%	533.0%	19.3%
Gross Margin (%)	11.6%	12.8%	10.0%	11.7%	12.0%
Net Margin (%)	5.6%	8.4%	1.3%	4.7%	5.0%
Return on Equity (%)	12.6%	14.6%	1.2%	7.1%	7.9%
Return on Assets (%)	3.3%	3.8%	0.3%	1.9%	2.0%
EPS (IDR)	193	255	21	135	161

## WIKA 3Q20 Earnings Summary

IDR Bn	3Q19	2Q20	3Q20	%QoQ	%YoY	9M19	9M20	%YoY	%DH	%Cons
Revenues	6,933	2,934	3,250	10.8%	-53.1%	18,297	10,383	-43.3%	71.5%	52.8%
Gross Profit	932	161	219	36.1%	-76.5%	2,269	889	-60.8%		
Operating Profit (Loss)	735	(75)	39	N/A	-94.7%	1,634	278	-47.4%		
Core NPATMI	462	151	(98)	N/A	N/A	1,352	153	-96.3%		
NPATMI	462	151	(200)	N/A	N/A	1,352	50	-96.3%	25.7%	7.6%
Gross Profit Margin	13.4%	5.5%	6.8%			12.4%	8.6%			
Operating Margin	10.6%	N/A	1.2%			8.9%	2.7%			
Core Net Profit Margin	6.7%	5.2%	N/A			7.4%	1.5%			
Net Profit Margin	6.7%	5.2%	N/A			7.4%	0.5%			

Source: Company Data, Sinarmas Investment Research

## Earnings Changes

(IDR Bn)	Previous		New		%Change	
	2020E	2021F	2020E	2021F	2020E	2021F
New Contracts	20,306	30,458	15,400	28,490	-24.2%	-6.5%
Revenue	15,927	26,414	14,513	26,010	-8.9%	-1.5%
Gross Profit	1,539	3,109	1,458	3,033	-5.3%	-2.4%
Operating Profit (Loss)	682	2,243	684	2,065	0.2%	-7.9%
NPATMI	199	1,573	191	1,212	-3.8%	-23.0%

Source: Company Data, Sinarmas Investment Research

<b>Income Statement (IDR Bn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
<b>Revenue</b>	31,158	27,213	14,513	26,010	29,038
% growth	19.0%	-12.7%	-46.7%	79.2%	11.6%
Cost of Revenue	(27,553)	(23,733)	(13,056)	(22,977)	(25,561)
% growth	18.3%	-13.9%	-45.0%	76.0%	11.2%
Gross Profit	3,605	3,480	1,458	3,033	3,477
Operating Expense	(786)	(931)	(774)	(968)	(1,056)
Other Income (Expense)	615	1,302	1,126	836	854
<b>EBIT</b>	<b>3,434</b>	<b>3,852</b>	<b>1,810</b>	<b>2,901</b>	<b>3,276</b>
<b>EBITDA</b>	<b>3,242</b>	<b>4,346</b>	<b>2,335</b>	<b>3,494</b>	<b>3,946</b>
Net Financing	(349)	(367)	(1,198)	(785)	(741)
Profit from JV	533	939	547	847	954
<b>PBT</b>	<b>3,086</b>	<b>3,485</b>	<b>612</b>	<b>2,116</b>	<b>2,535</b>
Tax	(1,012)	(864)	(392)	(726)	(877)
Non Controlling Interest	343	336	28	178	212
<b>Net Profit for the Year</b>	<b>1,730</b>	<b>2,285</b>	<b>191</b>	<b>1,212</b>	<b>1,445</b>
% growth	43.9%	32.1%	-91.6%	533.0%	19.3%

<b>Balance Sheet (IDR Bn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
Cash and Cash Equivalent	13,974	10,347	12,910	14,586	11,136
Receivables	5,351	4,462	2,731	3,799	4,049
Other Current Assets	24,231	27,526	24,339	32,955	36,791
Total Current Assets	43,555	42,335	39,980	51,341	51,977
Fixed Assets	4,676	5,155	5,549	6,015	6,537
Intangible Assets	714	2,394	2,394	2,394	2,394
Other Non Current Assets	10,284	12,226	10,532	12,474	13,987
<b>Total Assets</b>	<b>59,230</b>	<b>62,110</b>	<b>58,455</b>	<b>72,224</b>	<b>74,895</b>
Total Payables	13,183	12,762	7,021	12,356	13,746
Short-Term Loans	4,497	6,188	17,627	7,217	8,034
Other Current Liabilities	10,572	11,399	6,409	10,981	12,193
Total Current Liabilities	28,252	30,349	31,058	30,554	33,972
Long-Term Loans	9,092	8,892	5,946	17,610	15,129
Other Non Current Liabilities	4,671	3,653	2,055	3,516	3,882
<b>Total Liabilities</b>	<b>42,015</b>	<b>42,895</b>	<b>39,059</b>	<b>51,680</b>	<b>52,983</b>
Share & APIC	7,453	7,453	7,453	7,453	7,453
Retained Earnings	5,480	7,261	7,414	8,383	9,540
Non Controlling Interest	2,412	2,713	2,741	2,919	3,132
Other Components of Equity	1,871	1,788	1,788	1,788	1,788
<b>Total Equity</b>	<b>14,804</b>	<b>16,502</b>	<b>16,655</b>	<b>17,624</b>	<b>18,781</b>
<b>Total Equity &amp; Liabilities</b>	<b>59,230</b>	<b>62,110</b>	<b>58,455</b>	<b>72,224</b>	<b>74,895</b>

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
<b>Net Income</b>	<b>1,730</b>	<b>2,285</b>	<b>191</b>	<b>1,212</b>	<b>1,445</b>
Depreciation & Amortization	(192)	494	525	593	670
Change in Working Capital	1,151	1,975	5,813	(221)	1,484
<b>Cash Flow from Operating</b>	<b>388</b>	<b>804</b>	<b>(5,097)</b>	<b>2,026</b>	<b>631</b>
Change in Fixed Assets	(552)	(973)	(919)	(1,059)	(1,192)
Change in Intangible Assets	(575)	(1,680)	-	-	-
Change in Long Term Assets	(4,727)	(5,295)	1,694	(1,941)	(1,513)
Change in Long Term Liabilities	1,608	(1,049)	(1,598)	1,461	365
<b>Cash Flow from Investing</b>	<b>(3,095)</b>	<b>(5,637)</b>	<b>(823)</b>	<b>(1,539)</b>	<b>(2,340)</b>
Change in Share & APIC	-	-	-	-	-
Change in Short Term Loans/Bonds	(2,410)	1,691	11,440	(10,411)	817
Change in Long Term Loans/Bonds	6,984	(200)	(2,946)	11,664	(2,481)
Dividends Paid	254	504	38	242	289
Others	1,107	208	28	178	212
<b>Cash Flow from Financing</b>	<b>5,427</b>	<b>1,206</b>	<b>8,483</b>	<b>1,189</b>	<b>(1,741)</b>
Change in Cash	2,720	(3,627)	2,563	1,676	(3,450)
Beginning Cash	11,254	13,974	10,347	12,910	14,586
<b>Ending Cash</b>	<b>13,974</b>	<b>10,347</b>	<b>12,910</b>	<b>14,586</b>	<b>11,136</b>

Financial Ratio	2018	2019	2020E	2021F	2022F
<b>Profitability</b>					
ROE	12.6%	14.6%	1.2%	7.1%	7.9%
ROA	3.3%	3.8%	0.3%	1.9%	2.0%
Gross Margin	11.6%	12.8%	10.0%	11.7%	12.0%
Operating Margin	9.0%	9.4%	4.7%	7.9%	8.3%
EBITDA Margin	10.4%	16.0%	16.1%	13.4%	13.6%
Net Profit Margin	5.6%	8.4%	1.3%	4.7%	5.0%
<b>Liquidity &amp; Solvency</b>					
Debt to Equity	0.8x	0.8x	1.3x	1.3x	1.1x
Net Gearing	N/A	0.3x	0.6x	0.5x	0.6x
Debt to Assets	0.3x	0.3x	0.5x	0.4x	0.4x
<b>Valuation</b>					
Price to Earnings (PE)	7.1x	5.4x	64.2x	10.2x	8.5x
Price to Book (PBV)	0.9x	1.0x	0.8x	0.7x	0.7x

Source: Company Data, Sinarmas Investment Research

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