

2Q20 review. In 2Q20, WSKT posted a lower revenue of IDR 3,868bn (-36.7% YoY/-7.2% QoQ), as burn rate fell due to slow construction activity. GPM plunged to 5.9% (-1,310 bps YoY/-1,410 bps QoQ) driven by increased cost of subcontractor to IDR 1,676bn (+6.1% YoY/47.4% QoQ). EBIT declined to IDR -1,258bn (vs. IDR 365bn in 2Q19/IDR 116bn in 1Q20) as finance cost expanded to IDR 1,225bn (+38.6% YoY/+74.9% QoQ). Due to company's operating deleverage and expanded finance cost, WSKT posted a net loss of IDR 1,138bn.

Divestment in need. In 1H20, WSKT's cash/debt were recorded at IDR 1,4tn/IDR 66tn, where around IDR 20-21tn of the debt will mature in 2H20. As such of company has received support from government such as: 1) reallocation IDR 2.75tn ST debt to LT debt, 2) lowered interest cost from 10% to 8% of debt amounted to IDR 12tn 3) fasten the payment from LMAN amounted to IDR ~4-5tn. On the other side, WSKT will divest shares in WTRR toll roads (Kanci-Pejagan, Pejagan-Pemalang, Pasuruan-Probolinggo) and Becakayu toll roads. Assuming divestment at 1.1x PBV, it will generate IDR ~6.2tn of cash inflow, and IDR ~550bn of divestment gain. Management aims the divestment progress will be completed by FY20, but we expect it will be postponed to FY21.

Earnings cut. Due to weak 1H20 performance, WSKT slashed their NC target in FY20E to IDR ~26tn (vs. IDR 45tn from initial target). Inline with the management, we also trim our FY20 estimates for NC/top-line/bottom-line to IDR 23.4tn/19.5tn/-1.4tn (-4.5%/-2.2%/-553.8%) due to company's high finance cost as well as AR impairment. Going forward to FY21F, we forecast company to report a positive bottom-line as we bake in divestment gain from WTRR and Becakayu toll roads. Nevertheless, if we exclude the divestment gain, the company will still record a net loss of IDR ~200bn. Hence, we expect WSKT's recovery will be longer than its peers.

We maintain our NEUTRAL rating on PT Waskita Karya Tbk (WSKT) with a lower target price of IDR 680. Our TP represents 4.8% potential upside, implying 0.61x FY21F PBV. As of now, WSKT's share price is traded at 0.59x PBV, -0.25 SD from its 3-yr avg PBV. Despite undermanding valuation, we remain concern to the company's high leverage/finance cost and short cash position to ramp up projects execution, which provides less attractive risk and reward, in our view. Downside risk to our call are: longer-than-expected payment from LMAN and divestment shares.

Kharel Devin Fielim

Research Associate

+62 21 392 5550 ext. 159

kharel.fielim@sinarmassekuritas.co.id**Stock Information**

Sector	Construction
Bloomberg Ticker	WSKT IJ
Market Cap. (IDR tn)	8.8
Share Out./Float (mn)	13,574/4,609
Current Price	645
FY21F Target Price	680
Upside	5.4%

Share Price Performance

52W High (9/12/2019)	1,800
52W Low (3/24/2020)	394
52W Beta	2.1
YTD Change	-56.6%

Relative Valuations

EV/EBITDA	27.7x
P/BV	0.6x

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	48,789	31,387	19,564	23,962	30,394
% growth	7.9%	-35.7%	-37.7%	22.5%	26.8%
Gross Profit	8,863	5,605	2,287	3,721	5,258
Net Profit	3,963	938	(1,434)	293	1,001
% growth	2.1%	-76.3%	N/A	120.4%	241.9%
Gross Margin (%)	18.2%	17.9%	11.7%	15.5%	17.3%
Net Margin (%)	8.1%	3.0%	N/A	1.2%	3.3%
Return on Equity (%)	22.0%	5.2%	-9.6%	1.9%	6.3%
Return on Assets (%)	3.2%	0.8%	-1.3%	0.3%	0.9%
EPS (IDR)	292	69	N/A	22	74

WSKT 2Q20 Earnings Summary

Highlights (IDR Bn)	2Q19	1Q20	2Q20	QoQ	YoY	6M19	6M20	YoY	%DH	%Cons
Revenue	6,113	4,170	3,868	-7.2%	-36.7%	14,795	8,038	-45.7%	40.2%	27.1%
Gross Profit	1,165	837	229	-72.6%	-80.3%	2,914	1,066	-63.4%		
Operating Profit	917	626	(48)	N/A	N/A	2,455	578	N/A		
EBIT	365	116	(1,258)	N/A	N/A	1,391	(1,143)	N/A		
NPATMI	282	42	(1,138)	N/A	N/A	998	(1,095)	N/A	N/A	N/A
Gross Margin	19.1%	20.1%	5.9%			19.7%	13.3%			
Operating Margin	15.0%	15.0%	N/A			16.6%	7.2%			
EBIT Margin	6.0%	2.8%	N/A			9.4%	N/A			
Net Profit Margin	4.6%	1.0%	N/A			6.7%	N/A			

Source: Company Data, Sinarmas Investment Research

Earnings Changes

(IDR Bn)	Previous		New		%Change	
	2020E	2021F	2020E	2021F	2020E	2021F
Revenue	20,006	24,046	19,564	23,962	-2.2%	-0.4%
Gross Profit	3,241	4,275	2,287	3,721	-29.4%	-13.0%
EBIT	2,425	3,453	956	2,770	-60.6%	-19.8%
EBITDA	3,128	4,188	2,003	3,859	-36.0%	-7.9%
Net Income	316	738	(1,434)	293	-553.8%	-60.3%

Source: Company Data, Sinarmas Investment Research

Key Assumptions Changes

(IDR Bn)	Previous		New		%Change	
	2020E	2021F	2020E	2021F	2020E	2021F
New Contract	24,500	28,600	23,400	28,080	-4.5%	-1.8%

Source: Company Data, Sinarmas Investment Research

Income Statement (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	48,789	31,387	19,564	23,962	30,394
% growth	7.9%	-35.7%	-37.7%	22.5%	26.8%
Cost of Revenue	(39,926)	(25,783)	(17,277)	(20,241)	(25,136)
% growth	11.7%	-35.4%	-33.0%	17.2%	24.2%
Gross Profit	8,863	5,605	2,287	3,721	5,258
Operating Expense	(1,668)	(1,372)	(1,755)	(1,677)	(2,249)
Other Income (Expense)	1,642	465	424	726	220
EBIT	8,837	4,698	956	2,770	3,228
EBITDA	9,926	5,299	2,003	3,859	4,346
Net Financing	(1,811)	(2,663)	(1,828)	(1,547)	(859)
Profit from JV	29	(290)	(31)	(31)	(31)
EBT	7,026	2,035	(872)	1,223	2,369
Tax	(2,406)	(1,006)	(715)	(899)	(1,261)
Non Controlling Interest	657	91	(154)	31	107
Net Profit for the Year	3,963	938	(1,434)	293	1,001
% growth	2.1%	-76.3%	N/A	120.4%	241.9%

Balance Sheet (IDR Bn)	2018	2019	2020E	2021F	2022F
Cash and Cash Equivalent	10,846	9,258	1,630	3,385	7,079
Receivables	46,880	31,212	21,402	16,819	14,809
Other Current Assets	9,263	8,568	8,698	8,142	8,064
Total Current Assets	66,989	49,038	31,730	28,346	29,952
Fixed Assets	7,091	8,663	9,696	11,070	10,364
Intangible Assets	40,233	55,379	63,503	60,850	67,261
Other Non Current Assets	10,078	9,509	9,789	9,806	9,841
Total Assets	124,392	122,589	114,718	110,073	117,418
Total Payables	23,411	16,452	26,572	18,155	25,748
Short-Term Loans	56,311	44,325	22,370	14,155	28,918
Other Current Liabilities	25,636	18,863	31,676	28,788	35,248
Total Current Liabilities	56,800	45,023	45,431	38,721	54,759
Long-Term Loans	33,063	43,894	30,043	28,447	14,267
Other Non Current Liabilities	3,416	3,192	9,254	13,257	15,891
Total Liabilities	38,705	48,447	42,432	45,465	34,672
Share & APIC	6,909	6,909	6,909	6,909	6,909
Retained Earnings	10,347	10,233	7,271	7,505	8,306
Non Controlling Interest	10,886	11,236	11,936	10,733	12,032
Other Components of Equity	744	740	740	740	740
Total Equity	28,887	29,118	26,855	25,887	27,987
Total Equity & Liabilities	124,392	122,589	114,718	110,073	117,418

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
Net Income	3,963	938	(1,434)	293	1,001
Depreciation & Amortization	631	601	1,047	1,088	1,117
Change in Working Capital	9,394	(9,968)	(21,116)	(2,505)	(10,752)
Cash Flow from Operating	(4,800)	11,507	20,729	3,886	12,871
Change in Fixed Assets	2,980	2,173	2,080	2,463	411
Change in Intangible Assets	6,301	15,146	8,124	(2,653)	6,411
Change in Long Term Assets	3,284	(569)	280	17	35
Change in Long Term Liabilities	682	597	8,236	4,760	3,639
Cash Flow from Investing	(11,883)	(16,154)	(2,248)	4,933	(3,218)
Change in Share & APIC	85	-	-	-	-
Change in Short Term Loans/Bonds	4,079	(5,380)	(11,029)	(4,076)	7,374
Change in Long Term Loans/Bonds	15,191	9,146	(14,251)	(1,727)	(14,432)
Dividends Paid	297	1,052	0	59	200
Others	2,381	345	2,228	(1,203)	1,299
Cash Flow from Financing	21,439	3,059	(26,109)	(7,064)	(5,959)
Change in Cash	4,757	(1,587)	(7,628)	1,755	3,693
Beginning Cash	6,089	10,846	9,258	1,630	3,385
Ending Cash	10,846	9,258	1,630	3,385	7,079

Financial Ratio	2018	2019	2020E	2021F	2022F
Profitability					
ROE	22.0%	5.2%	-9.6%	1.9%	6.3%
ROA	3.2%	0.8%	-1.3%	0.3%	0.9%
Gross Margin	18.2%	17.9%	11.7%	15.5%	17.3%
Operating Margin	14.7%	13.5%	2.7%	8.5%	9.9%
EBITDA Margin	20.3%	16.9%	10.2%	16.1%	14.3%
Net Profit Margin	8.1%	3.0%	N/A	1.2%	3.3%
Liquidity & Solvency					
Debt to Equity	3.6x	3.9x	3.0x	2.6x	1.8x
Net Gearing	3.0x	3.4x	2.9x	2.4x	1.3x
Debt to Assets	0.5x	0.6x	0.4x	0.4x	0.2x
Valuation					
Price to Earnings (PE)	2.3x	9.9x	N/A	31.6x	9.2x
Price to Book (PBV)	0.5x	0.5x	0.6x	0.6x	0.6x

Source: Company Data, Sinarmas Investment Research

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