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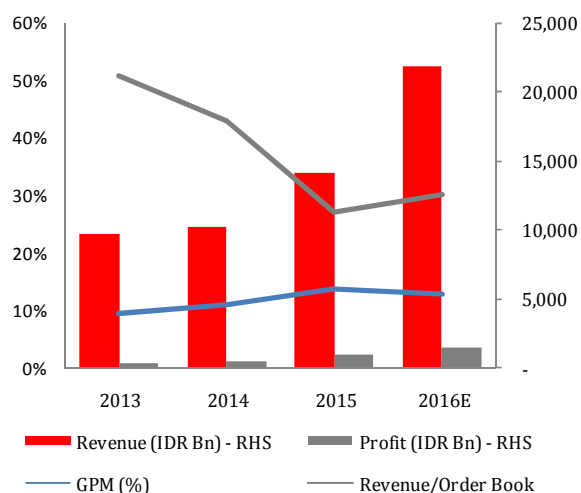


PT Waskita Karya (Persero) Tbk is a construction-based company primarily engaged in construction, precast and real estate development. The company also invests in toll roads. The company is currently Indonesia's largest construction company by market capitalization.

Current Price: IDR 1,850

52-Week Target Price: IDR 1,870

Construction & Precast to Fuel Margin Expansion



We predict robust revenue growth in FY16, pushed by a gross margin expansion due to better construction and precast margins.

Company Update

PT Waskita Karya (Persero) Tbk (WSKT)

Earnings a Healthy Beat; Risks Remain Intact

NEUTRAL

We maintain our NEUTRAL stance on WSKT despite the 109% increase in net income, as we remain wary of the risks associated with the company's core toll road business. The IDR 14.2tn/1.05tn in revenue/net income was -15%/29% above our estimates. Excluding one-off items, WSKT's net income was actually in-line with our estimates.

We see potential positive tailwinds from increased "secured" new orders and a margin expansion. WSKT has targeted IDR 40tn in new orders in FY16, up 29% from its FY15 realization. We estimate that 50% of this will come from toll roads, a majority of which are self-owned (v.s. ~30% contribution from toll roads in FY15). Along with the ~IDR 7tn Palembang LRT, this should see secured contract wins for the company. We also see a gross margin expansion from its construction and precast businesses, as WSKT tends to charge higher construction margins for its toll roads.

Continued aggressiveness in toll road investments could backfire in the medium term. We continue to reiterate concerns that WSKT's aggressive expansion into toll road investments may impact their financials by: i) total depreciation (operating & non-operating) expenses that could reach IDR 1tn when all tolls are fully operational, and ii) initial operating losses that are likely to happen with these tolls being in currently low traffic areas. Significant impacts could be seen as early as 1H17.

Funding could also be a major issue. Assuming a 30%/70% equity/debt funding scheme, we estimate that the company will need to inject ~IDR 12tn (and rising) as equity to fulfill its toll road investments. We raise concerns that SOEs in general may find it difficult to obtain a capital injection through the state budget as the government has called on SOEs to be more self-sufficient.

With these results, we upgrade WSKT's FY16E revenue/earnings to IDR 21.8tn/1.5tn. This is on the back of faster-than previously expected execution on several of its construction works and an expansion in margin contributed by the construction of self-owned toll roads. This will allow faster translation of the order book into earnings.

Financial Highlights	2014	2015	2016E	2017E	2018E
Revenue (IDR Bn)	10,287	14,153	21,841	26,905	25,654
% growth		38%	54%	23%	-5%
Gross Profit (IDR bn)	1,109	1,921	2,744	3,012	3,230
Net Profit (IDR bn)	501	1,048	1,513	1,480	1,698
% growth		109%	44%	-2%	15%
EV/EBITDA (x)		12.8	9.9	10.6	10.7
Gross Margin (%)	10.8%	13.6%	12.6%	11.2%	12.6%
Net Margin (%)	4.9%	7.4%	6.9%	5.5%	6.6%
Return on Equity (%)		16.7%	15.0%	9.4%	10.0%
Return on Assets (%)		4.9%	4.8%	3.1%	3.4%

Source: Company Data, Sinarmas Investment Research

Appendix I: Financial Ratios Forecasts

Ratios	2015F	2016E	2017E	2018E	2019E
Profitability					
ROE	16.7%	15.0%	9.4%	10.0%	10.6%
ROA	4.9%	4.8%	3.1%	3.4%	3.7%
Gross margin	13.6%	12.6%	12.9%	12.6%	12.5%
Net margin	7.4%	7.0%	4.4%	4.6%	4.8%
Net income growth	109.0%	45.3%	-31.9%	14.7%	15.5%
Liquidity					
Current Ratio (x)	1.32	1.20	1.11	1.28	1.24
Solvency					
D/E (x)	0.60	0.67	0.57	0.47	0.49
Valuations					
P/E (x)	20.74	16.67	24.49	21.35	18.48
P/BV (x)	2.66	2.42	2.26	2.08	1.90
EV/EBITDA (x)	12.83	9.93	10.58	10.65	10.76

Source: Company Data, Sinarmas Investment Research

Appendix II: WSKT Toll Road Investments

Toll Road *	Investment (IDR Bn)	WSKT Ownership	Length (km)	Invested Amount
Depok-Antasari	2,900	25.0%	21.0	725
Kanci-Pemalang	9,875	100.0%	57.5	9,875
Becakayu	9,000	60.0%	21.0	5,400
Jasa Marga Kualanamu	4,000	30.0%	61.8	1,200
Legundi-Bunder	5,900	48.0%	29.3	2,832
Solo-Ngawi	5,400	40.0%	90.1	2,160
Ngawi-Kertosono	4,100	40.0%	87.0	1,640
Serpong-Cinere	2,500	35.0%	10.1	875
Cimanggis-Cibitung	8,600	90.0%	26.3	7,740
Pasuruan - Probolinggo	4,000	80.0%	31.0	3,200
Bogor - Ciawi - Sukabumi	5,400	81.6%	54.0	
Total	61,675			
Portion attributable to WSKT	40,056	64.9%		

*excluding Bali Island toll worth ~IDR 35tn

Source: Company Data, Sinarmas Investment Research

Appendix III: Financial Statements

Balance Sheet (in IDR Mn)	2014	2015	2016E	2017E	2018E
Current Assets					
Cash And Cash Equivalents	1,675,283	5,511,188	2,442,160	2,449,115	1,307,137
Total Receivables	2,990,509	5,512,986	5,128,172	6,126,469	6,026,808
Inventories	604,279	826,384	976,737	1,156,221	1,193,256
Amount due from Customers	4,270,520	4,579,715	8,109,386	7,029,380	7,731,411
Prepaid Taxes	554,591	679,791	1,027,940	897,213	1,002,044
Total Current Assets	10,524,167	18,074,851	18,315,558	18,397,221	18,002,727
Investment In Associates	7,315	421,813	421,813	1,976,215	2,259,415
Joint Ventures Assets	727,645	1,150,040	1,150,040	1,796,159	2,155,391
Toll Road Concessions	-	5,580,332	6,427,984	7,143,145	8,102,626
Fixed Assets	621,792	1,923,144	1,923,144	1,564,801	1,282,005
Total Assets	12,542,041	30,309,111	31,397,471	35,450,869	36,927,110
Current Liabilities					
Short-Term Bank Loans	1,917,129	3,193,905	3,261,099	4,411,941	1,996,705
Total Payables	5,272,332	8,772,554	9,765,106	10,696,438	11,450,092
Total Current Liabilities	7,728,154	13,664,812	14,113,578	16,254,238	14,720,558
Non Current Liabilities					
Bonds Payable	1,245,657	2,670,635	2,745,657	2,745,657	4,745,657
Total Loans	-	2,925,423	2,925,423	3,877,338	3,925,423
Total Liabilities	9,693,211	20,604,904	20,756,148	24,077,802	24,572,849
Equity					
Share Capital & APIC	1,853,540	7,238,796	7,238,796	7,238,796	7,238,796
Retained Earnings	954,024	1,933,161	3,245,340	3,977,085	4,958,279
Total Liabilities & Equity	12,542,041	30,309,111	31,397,471	35,450,869	36,927,110

Income Statement (in IDR Mn)	2014	2015F	2016E	2017E	2018E
Revenue	10,286,813	14,152,753	21,841,193	23,324,760	25,654,226
Cost Of Revenues	(9,177,917)	(12,231,515)	(19,097,427)	(20,313,159)	(22,424,065)
Gross Profit	1,108,896	1,921,238	2,743,766	3,011,602	3,230,161
Joint Venture Income	197,116	11,599	446,396	486,572	583,886
Gross Profits include JV	1,306,012	1,932,837	3,190,162	3,498,173	3,814,047
Selling Expenses	(25,516)	(37,411)	(53,152)	(56,505)	(61,653)
General/Admin Expenses	(405,043)	(480,433)	(783,006)	(1,152,958)	(1,183,205)
Other Income/Expenses	63,930	324,507	119,472	142,255	155,472
EBIT	939,383	1,739,500	2,473,476	2,430,966	2,724,660
Interest Expense	(183,596)	(341,496)	(309,546)	(386,546)	(462,630)
Loss on investments	-	-	(135,000)	(564,300)	(564,300)
Income Before Tax	755,602	1,398,004	2,028,930	1,480,120	1,697,730
Income Tax Expenses	(254,389)	(350,413)	(507,232)	(444,036)	(509,319)
Net Income	501,213	1,047,591	1,521,697	1,036,084	1,188,411

Source: Sinarmas Investment Research

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