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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

Current Price: IDR 2,800

52-Week Target Price: IDR 2,840

Previous Target Price: IDR 2,657



Share Price Performance

Price (IDR)	2,800
52-Week High (07/28/16)	2,860
52-Week Low (08/26/15)	1,505
52-Week Beta	0.52
YTD Change/%	1,140/68.26%

Stock Information

Market Cap (IDR)	38,141.1B
Shares Out/Float (M)	13,573.1M/4,609M

Company Update

PT Waskita Karya (Persero) Tbk (WSKT)

1H16 Earnings Review

NEUTRAL

We maintain our NEUTRAL standpoint on PT Waskita Karya Tbk (WSKT) with 52-week target price of IDR 2,840 (1.4% upside), deriving via DCF with 10.7% WACC and 5.0% terminal growth. Our valuation implies a FY16E P/E of 24x. We have increased our FY16E new contract target due to stronger-than-expected new contract achievement, and we have also raised our FY16E earnings forecast by 9.2%.

Solid 1H16 Result. WSKT recorded a strong 1H16 revenue and net income of IDR 8.085 tn (102.91% YoY) and IDR 582 bn (239.53% YoY) respectively. Those represent 30.5% and 36.5% of our FY16E revenue and net income forecasts. The upside on 1H16 net income is entirely due to the surprise on 2Q16 construction gross margin of 18% (vs. 16% in 1Q16, and general construction margin among its peers of ~9-10%). This significant high margin was mainly contributed by WSKT's in-house toll road construction and precast.

Leverage Accelerating. The aggressiveness of company's core toll road investments has restricted its balance sheet. WSKT net/gross gearing ratio continued to increase significantly. The 2Q16 net/gross gearing ratio stood at 0.96x/1.47x (vs. 0.59x/1.04x in 1Q16, 0.26x/0.8x in 4Q16). The net/gross gearing ratio has increased by 63%/41% QoQ. At the end of 1H16, the company's total debt stood at IDR 15.14 tn (IDR 8.8 tn net debt). Further, WSKT operating cash flow has deteriorated to IDR -5.91 tn in 1H16. This adds our concern on WSKT's cash flow. Until 2018, WSKT estimates that they will need IDR 70 tn to finish all toll road constructions of 930 km. IDR 20 tn is most likely obtained from equity, while the rest of IDR 50 tn will be derived from external source. The balance sheet and cash flow will most likely be stretched further.

On our view, if the company's plan to divest 30-35% of its toll road stakes is materialised, it will bring a positive signal for WSKT regarding its balance sheet and cash flow health to encourage the performance of fundamental. Besides, the initial public offering (IPO) on WSKT's precast segment with targeted proceeds of IDR 4 tn can become the additional catalyst in 2H16.

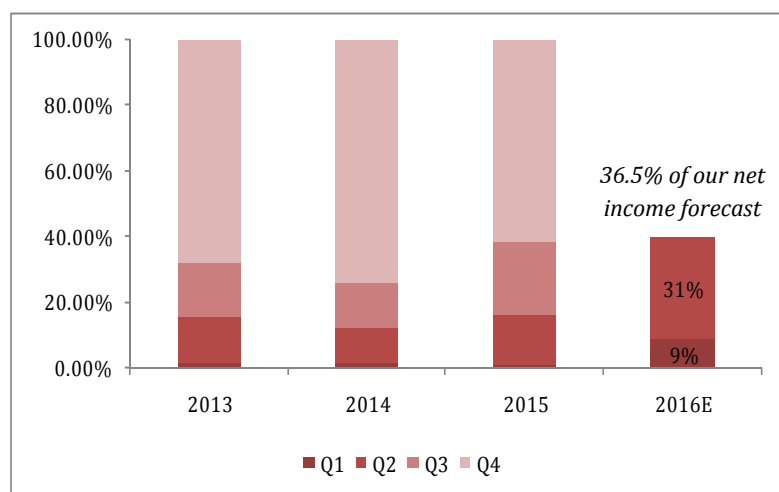
Financial Highlights	2014	2015	2016E	2017F	2018F
Revenue (IDR bn)	10,287	14,153	26,548	30,277	33,114
% growth		38%	88%	14%	9%
Gross Profit (IDR bn)	1,109	1,921	3,690	4,144	4,394
Net Profit (IDR bn)	501	1,048	1,595	1,676	1,803
% growth		109%	52%	5%	8%
EV/EBITDA (x)	16.4	16.1	13.2	11.6	10.7
Gross Margin (%)	10.8%	13.6%	13.9%	13.7%	13.3%
Net Margin (%)	4.9%	7.4%	6.0%	5.5%	5.4%
Return on Equity (%)	19.2%	16.9%	15.6%	14.4%	13.8%
Return on Assets (%)	4.7%	4.9%	4.4%	3.8%	3.7%

Source: Company Data, Sinarmas Investment Research

Income Statement	2Q15	1Q16	2Q16	QoQ	YoY	1H15	1H16	YoY
Revenue	2,581	3,071	5,013	63%	94%	3,984	8,085	103%
Construction	2,214	2,852	4,833	69%	118%	3,364	7,684	128%
Precast	367	191	144	-25%	-61%	620	335	-46%
Toll Road Concession	-	29	36	27%	-	-	65	-
Buildings Rental	0.13	0.06	0.44	619%	248%	0.28	0.50	81%
COGS	2,258	2,552	4,043	58%	79%	3,503	6,595	88%
Construction	1,951	2,387	3,926	64%	101%	2,982	6,313	112%
Precast	306	138	107	-22%	-65%	521	245	-53%
Toll Road Concession	-	27	10	-63%	-	-	37	-
Buildings Rental	-	-	-	-	-	-	-	-
Gross Profit	324	520	970	87%	199%	481	1,489	210%
EBIT	286	430	899	109%	214%	402	1,328	230%
PBT	204	260	663	155%	224%	254	923	263%
Net Income	160	124	458	269%	187%	171	582	240%
EPS	15.3	9.4	33.8	260%	121%	16.5	43.2	161%
Construction Margin	11.9%	16.3%	18.8%			11.4%	17.8%	
Precast Margin	16.5%	28.0%	25.2%			15.9%	26.8%	
Gross Profit Margin	12.5%	16.9%	19.3%			12.1%	18.4%	
EBIT Margin	11.1%	14.0%	17.9%			10.1%	16.4%	
Net Margin	6.2%	4.0%	9.1%			4.3%	7.2%	
Revenue Contribution								
Construction	85.8%	92.8%	96.4%			84.4%	95.1%	
Precast	14.2%	6.2%	2.9%			15.6%	4.1%	
Toll Road Concession	0.0%	0.9%	0.7%			0.0%	0.8%	
Buildings Rental	0.0%	0.0%	0.0%			0.0%	0.0%	

Source: Company, Sinarmas Investment Research

% Achievement of Quarterly Net Income



Source: Company, Sinarmas Investment Research

Appendix I: Financial Statements

Income Statement (in IDR Bn)	2014	2015	2016E	2017F	2018F
Revenues	10,287	14,153	26,548	30,277	33,114
Cost Of Sales	(9,178)	(12,232)	(22,859)	(26,134)	(28,720)
Gross Profit	1,109	1,921	3,690	4,144	4,394
Joint Venture Income	197	12	130	144	156
Gross Profit Incl JV	1,306	1,933	3,820	4,287	4,550
Selling Expenses	(26)	(37)	(67)	(77)	(85)
General/Admin Expenses	(405)	(480)	(718)	(828)	(888)
Other Income/Expenses	64	325	290	404	521
Operating Income	939	1,739	3,325	3,787	4,097
Financial Charges	(184)	(340)	(949)	(1,217)	(1,315)
Equity In Net Income Of Associates	(0)	(1)	0	(0)	(0)
Income Before Tax	756	1,398	2,376	2,569	2,782
Tax Expenses	(254)	(350)	(781)	(893)	(978)
Net Income	501	1,048	1,595	1,676	1,803
EPS (Rp.)	37	77	117	123	133

Balance Sheet (in IDR Bn)	2014	2015	2016E	2017F	2018F
Current Assets					
Cash and Cash Equivalents	1,675	5,511	4,000	4,000	4,000
Total Receivables	2,991	5,513	7,988	9,817	11,200
Inventories	604	826	1,246	1,445	1,746
Amount Due From Customers	4,271	4,580	9,252	10,818	11,958
Prepaid Taxes	555	680	1,478	1,803	1,957
Total Current Assets	10,524	18,075	25,203	29,362	32,703
Investment in Associates	7	682	682	682	682
Joint Ventures Assets	-	1,150	1,150	1,150	1,150
Toll Road Concessions	-	5,580	5,433	5,285	5,137
Fixed Assets - Net	622	1,923	6,206	7,297	8,447
Total Assets	12,542	30,309	41,573	46,676	51,019
Current Liabilities					
Total Payables	4	1,049	1,049	1,049	1,049
Customer Advances	716	1,276	1,276	1,276	1,276
Total Loans - Net	3,163	8,035	13,046	14,002	15,217
Total Liabilities	9,693	20,605	30,484	34,229	37,104
Equity					
Share Capital & APIC	1,854	7,239	7,239	7,239	7,239
Retained Earnings	954	1,933	3,319	4,676	6,144
Total Equity	2,849	9,704	11,090	12,447	13,915

Financial Ratios	2014	2015	2016E	2017F	2018F
P/E	28.32	18.52	24.15	22.97	21.35
P/B	5.03	2.37	3.47	3.09	2.77
EV/EBITDA	16.40	16.08	13.23	11.61	10.74
ROE	17.6%	16.7%	15.3%	14.2%	13.7%
ROA	4.0%	4.9%	4.4%	3.8%	3.7%
Net Debt/Equity	0.52	0.26	0.82	0.80	0.81
Net Debt/Assets	0.12	0.08	0.22	0.21	0.22

Source: Company, Sinarmas Investment Research

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