

WTON 9M15 Update—Results Still Disappointing, Yet Bet on a Strong Year End

- **9M15 results still as disappointing as its 1H15 results.** 9M15 results reported saw a 33.3%/61.7% decrease in revenue/net income over lackluster demand, especially in Java where the company is facing market share loss problems. As a result, we revise down our FY15F earnings to Rp 196bn from Rp 208bn., while leaving our top line forecasts unchanged at Rp 2.6tn. We leave our FY16-onwards forecasts unchanged over largely positive trickle-down effects from mega infrastructure projects planned to kick start early to mid next year, including the Jakarta-Bandung high speed rail and the Jawa-5 and Jawa-7 2GW power plants. (Fig. 1)
- **Bulk of new contracts still have not been reflected into revenue, in our view.** Since July '15, WTON has booked Rp 1.1tn in new contracts (v.s. Rp1.3tn in 1H15). Since the company normally requires 2-3 months to translate new contracts into revenue, in our view most of these new contracts acquired since July have not been reflected in the 9M15 results. Most of these contracts should translate into FY15 revenue, however. Our new contracts forecasts for FY15 are in-line with the company's at Rp 3.4tn.
- **First Q3 positive QoQ revenue growth historically, positive Q3 YoY sales growth.** Historically, WTON (or WIKA's precast/concrete division) has recorded a Q3 QoQ sales drop averaging -24% QoQ (Fig. 2) in Q3. In Q3 15, WTON reported a 42% increase in QoQ sales, albeit from a low base. More encouraging, though, is that WTON reported a Q3 2.3%/0.8% sales/gross profit YoY growth, only to suffer at the net income level (-33% YoY on significantly higher interest and operating expenses). In our view, this shows signs that the bottom for WTON may be looming and we therefore bet on a strong Q4 15 going into FY16.
- **We remain wary over the risks of the company going forward.** The company still faces huge risks going into 2016, risks that include market share loss from ever-growing competitors (especially in Java) and a possible overhang over the freezing of the state budget (PMN) until mid-2016.
- **Valuation: We decrease our 52-week TP to Rp 1,115 from prev. Rp 1,225, yet we maintain our BUY call as TP represents a 24% upside .** We feel that most of the bad news thus far has been priced in, as WTON has corrected 37% from its 52-week high, and 16% from its most recent high achieved when the Jakarta-Bandung high speed train was formally announced. (Fig. 3)