

11 MAY 2018
COMPANY UPDATE
BUY
STOCK INFORMATION

Bloomberg Code	ADHI JI
Sector	Construction
Current Price	Rp 1,795
Target Price	Rp 2,800
Upside/Downside	55.9%
Share Out (bn shares)	3.56
Market Cap (Rp bn)	6,390.2
52 – w range (low-high)	Rp 1,720 – Rp 2,480
52 – w average daily	Rp 2,141

SHAREHOLDERS INFORMATION

Government Of Republic of Indonesia	51%
Public (below 5%)	49%

Source: Company data

PRICE CHART


Source: Bloomberg and Lotus Andalan Research

PE BAND


Source: Bloomberg and Lotus Andalan Research

PT ADHI KARYA (PERSERO) TBK
On the threshold of better expectations

1Q18 result proved to be a good start for ADHI, which bottom line surprisingly grew by 282.8% YoY to Rp73 billion (accounting for 17.6% of our estimates), thanks to LRT Jakarta Cawang – Cibubur projects, Teluk Lamong dock project in East Java, and EPC business. This robust earnings growth came on the back of 39.7% YoY net revenue and a higher margin as the result of EPC business has started reap the positive margin after the loss making since 2014. As of 1Q18, the company has secured Rp3 trillion of new contract and accounting for 13% of our new contract target in 2018F of Rp23 trillion. We believe this decent 1Q18 overall result and its recovery in EPC business will be the positive catalyst for the counter. Hence, we maintain our BUY call to the stock with target price at Rp2,800/share.

Bottom line improvement came from its main star: construction

The company recorded an improvement with the total net income grew by 282.8% YoY to Rp73 billion on the back of 39.7% YoY revenues growth (Rp3.1 trillion) and higher margins which contributed by LRT Jakarta Cawang – Cibubur project, Teluk Lamong dock project in East Java, and EPC business. Segment wise, construction remained key as it contributed 84% of consolidated sales, followed by EPC (8.1%), property (5.2%) and precast division (2.7%). GPM grew by 316 bps YoY to 13.7% mostly due to positive gross margin of 14.1% in EPC power plant project in south Sumatra, after years of loss making since 2014. Consequently, the NPM expanded 2.3% grew by 148 bps YoY.

Moderate new contract achievement

As of 1Q18, ADHI has managed to book new contract of Rp3 trillion (accounting for only 13% of our FY18 new contracts target of IDR23tn) mainly came from the construction, building and energy business projects such as Trans Park Bekasi, Bakauheni – Terbanggi toll gate in Lampung, Gelora Bung Karno refurbishment. The management is also confident that they will soon obtain additional tender of building project worth of Rp400 billion and infrastructure project of Rp967 billion.

LRT Jakarta Cawang – Cibubur project update

As of April 2018, the company has accomplished the LRT project of 36.3%, comprises of: Cawang – Cibubur section (58.4%), Cawang – Kuningan – Dukuh Atas section (19.9%) and Cawang Bekasi Timur section (32%). On more positive notes, ADHI has received its first phase collection of Rp3.4 trillion. The payment is based on the works carried out as of September 2017. ADHI is scheduled to receive second phase collection of Rp1.5 trillion this month. Hence, we project the company will recorded positive operating cash flow by this year. In regards of TOD project development, the company will receive another additional funds to expand TOD's property and infrastructure once it has approval from the shareholder to spin off and execute an IPO plan of Adhi Commuter Properti.

Maintain BUY rating – Target price at Rp2,800 per share

Based on our DCF-10 year valuation, we generate the fair equity value of ADHI at Rp2,800 per share which represents a 2018F PER target of 6.93x and EV/EBITDA target of 2.49x. Based on yesterday's closing price, ADHI was trading at an attractive valuation of 8.78x PER and 3.59x EV/EBITDA 2018F indicating that our fair value offers 55.9% upside potential. Hence, we maintain our BUY recommendation to the stock.

Financial Summary

(Rp billion)	2016A	2017A	2018F	2019F	2020F
Revenue	11,064	15,156	18,423	22,004	23,811
EBITDA	786	1,827	1,828	2,212	2,393
Net profit	313	515	728	993	1,098
EPS (Rp)	88	145	204	279	308
PER (x)	23.86	14.51	8.78	6.44	5.82
BVPS (Rp)	1,525	1,645	1,796	1,999	2,203
PBV (x)	1.38	1.28	1.00	0.90	0.81
EV/EBITDA (x)	7.56	4.24	3.59	1.93	1.64
Dividend yield (%)	1.55	2.55	4.21	5.75	6.36
RoE (%)	5.92	9.13	11.88	14.69	14.67

Source: Company data and Lotus Andalan Research

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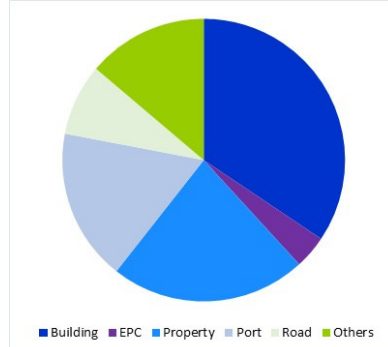
Interim Financial Result										
	1Q17	1Q18	YoY	FY18F	% cov.	4Q17	1Q18	QoQ		Comments
Assumption										
New Contract (in Rp Bn)	3,700	3,000	-18.9%	23,000	13.0%	9,200	3,000	-67.4%		
P/L (In Rp billion)										
Revenue	2,249	3,142	39.7%	18,423	17.1%	6,441	3,142	-51.2%		Higher revenue contributed by LRT project
Cost of revenue	2,011	2,710	34.8%	15,912	17.0%	5,396	2,710	-49.8%		
Gross profit	238	432	81.4%	2,512	17.2%	1,046	432	-58.7%		
Operating Expense	108	124	15.0%	791	15.7%	215	124	-42.3%		
Operating profit	130	308	136.2%	1,721	17.9%	831	308	-62.9%		
EBITDA	176	344	95.7%	1,828	18.8%	943	344	-63.5%		
Net Profit	19	73	282.8%	728	10.1%	310	73	-76.4%		
Profitability										
Gross margin	10.6%	13.7%	3.2%	13.6%		16.2%	13.7%			Favorable margin from sales of LRT & TOD project
EBIT margin	5.8%	9.8%	4.0%	9.3%		12.9%	9.8%			
EBITDA margin	7.8%	11.0%	3.1%	9.9%		14.6%	11.0%			
Net margin	0.9%	2.3%	1.5%	3.9%		4.8%	2.3%			
Revenue Breakdown										
Construction services	1,979	2,633	33.0%			5,137	2,633	-48.7%		
EPC	132	254	91.7%			281	254	-9.7%		EPC business records loss since 2014
Property	97	163	68.5%			878	163	-81.4%		
Precast	41	92	126.7%			146	92	-36.9%		
Total Revenue	2,249	3,142	39.7%			6,441	3,142	-51.2%		

Source: Company data and Lotus Andalan Sekuritas Research

ADHI's capex projection 2018F

No.	Project	Contract Value (IDR Billion)	%
1.	Purchase of Fixed Asset	742.1	15.6%
2.	Investment Property	103.8	2.2%
3.	Investment Project	936.0	19.6%
4.	Investment in subsidiaries	2,982.0	62.6%
		4,763.8	100.0%

Source: Company data and Lotus Andalan Research

New Contract Target Composition 2018F

Source: Company data and Lotus Sekuritas Research

Financial Highlights of PT Adhi Karya (Persero) Tbk

In Rp Billion									
BALANCE SHEET					INCOME STATEMENT				
ASSETS	2016A	2017A	2018F	2019F		2016A	2017A	2018F	2019F
Cash and cash equivalent	3,365	4,131	4,103	5,890	Total Revenues	11,064	15,156	18,423	22,004
Accounts Receivable	2,907	2,923	8,833	10,550	COGS	9,949	13,098	15,912	18,980
Inventories	2,276	3,683	654	780	Gross profit	1,115	2,058	2,512	3,024
Other current assets	8,244	14,081	5,527	6,601	Profit(loss) from JV	69	231	45	50
Total Current Assets	16,792	24,818	19,117	23,821	Operating expenses	456	581	791	943
Fixed Assets	1,460	1,521	1,359	1,493	Operating profit	729	1,708	1,766	2,130
Land for development	355	355	346	352	EBITDA	786	1,827	1,828	2,212
Other non-current assets	1,431	1,640	1,237	1,436	Financial Charges	163	104	124	150
Total Non-Current Assets	3,245	3,515	2,942	3,281	Gain (Loss) Associated Entity	(258)	(445)	(411)	(349)
TOTAL ASSETS	20,038	28,333	22,059	27,102	Others	(21)	(409)	(158)	(129)
					Total other income/(expenses)	(116)	(750)	(446)	(328)
LIABILITIES & EQUITY					Income before tax	613	957	1,320	1,802
Short term loan	732	564	365	115	Tax expense	(298)	(440)	(590)	(805)
Accounts Payable	8,425	11,611	6,539	10,400	Net profit before minority interest	315	517	730	997
Current maturities—LT debts	-	-	-	-	Minority interest	2	2	3	4
Other current liabilities	3,832	5,458	4,254	5,083	Net profit	313	515	728	993
Total Current Liabilities	12,989	17,633	11,159	15,598	EPS (Rp)	88	145	204	279
LT debt-net current maturities	1,099	3,840	3,908	3,658					
Other noncurrent liabilities	509	989	560	686					
Total Non-Current Liabilities	1,608	4,830	4,468	4,344					
Minority Interest	10	11	38	42					
Capital Stock	356	356	356	356					
Additional paid in capital	2,589	2,589	2,589	2,589					
Others equity	462	468	468	468					
Retained earnings	2,024	2,446	2,981	3,703					
Total Equity	5,431	5,859	6,395	7,117					
TOTAL LIABILITIES & EQUITY	20,037	28,333	22,059	27,102					
CASH FLOW STATEMENT					KEY FINANCIAL RATIOS				
Net profit	313	515	728	993	Growth (%)				
Depreciation & Amortization	58	119	62	82	Revenue	17.83	36.99	21.56	19.43
Change in WC	226	1,763	(7,953)	2,018	Gross profit	14.42	84.53	22.06	20.39
Others	678	(4,210)	7,349	(245)	Operating Profit	19.20	134.38	3.41	20.63
Net Operating Cash Flow	1,276	(1,813)	186	2,848	EBITDA	22.23	132.31	0.09	21.01
Change in fixed assets-net	(418)	(180)	100	(216)	Net Profit	(32.40)	64.43	41.17	36.43
Others	(815)	(209)	411	(204)	Profitability (%)				
Net Investing Cash Flow	(1,233)	(389)	511	(421)	Gross margin	10.08	13.58	13.63	13.74
Change in borrowings-net	(1,287)	2,574	(131)	(500)	Operating margin	6.59	11.27	9.59	9.68
Change in equity	42	7	-	-	EBITDA margin	7.11	12.05	9.92	10.05
Change in other liabilities	328	480	(429)	126	Net Profit margin	2.83	3.40	3.95	4.51
Dividend payment	(173)	-	(192)	(271)	ROAA	1.70	2.13	2.89	4.04
Adjustment	1	1	1	27	ROAE	5.92	9.13	11.88	14.69
Net Financing Cash Flow	(1,089)	3,062	(751)	(617)	Solvency(x)				
Change in cash	(1,047)	861	(54)	1,810	Current ratio	1.29	1.41	1.71	1.53
Cash at the beginning period	4,317	3,365	4,131	4,103	Quick ratio	1.12	1.20	1.65	1.48
Cash at the ending period	3,365	4,131	4,103	5,890	DER	0.34	0.75	0.67	0.53
					EBITDA coverage	3.05	4.11	4.45	6.34
					Net debt to equity	Netcash	0.05	0.03	Netcash

Source: Company data and Lotus Andalan Research

Notes:

The definitions of Lotus Andalan Research for Investment Ratings:

- **BUY** : +15% and above, over the next 12 months
- **Neutral** : -15% to +15%, over the next 12 months
- **SELL** : -15% and worse, over the next 12 months

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