

1 NOVEMBER 2018

COMPANY UPDATE

BUY

STOCK INFORMATION

Bloomberg Code	WTON IJ
Sector	Precast Concrete
Current Price	Rp 394
Target Price	Rp 700
Upside/Downside	133%
Share Out (bn shares)	8.7
Market Cap (Rp bn)	Rp 2,615
52 – w range (low-high)	Rp 298 – Rp 695
52 – w average daily	Rp 478

PRICE CHART



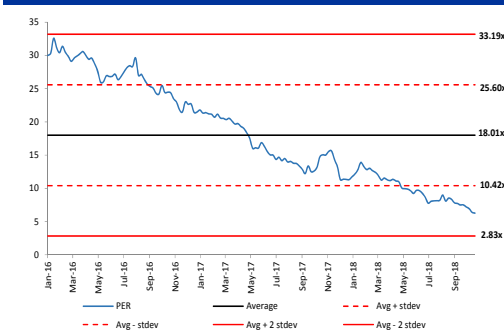
Source: Bloomberg

SHAREHOLDERS INFORMATION, AS OF 30 SEPTEMBER 2018

PT Wijaya Karya (Persero) Tbk	60.0%
Koperasi Karya MitraS atya (KKMS)	6.7%
Yayasan Wlajaya Karya	1.0%
Public (below 5%)	28.0%
Treasury Stock	4.3%

Source: Company data

FORWARD PER BAND



Source: Bloomberg and Lotus Andalan Research

PT WIJAYA KARYA BETON Tbk

Strong 9M18 Result – Very Attractive Valuation

WTON managed to book a strong 9M18 result, in which the revenue and net profit grew by 19.9% YoY and 26.9% YoY reached to Rp 4.1 trillion and to Rp 280 billion backed by its solid 9M18 new contract of Rp 5.4 trillion (+28.2% YoY dominated from infrastructure projects) and a 14-fold significant increases in joint venture profit. Despite a strong result, the share price has shrunk significantly by 52% from its highest closing price this year which translated into a very attractive valuation at 6.01x PER 2019F (below its 5 years average PER – 1 std dev of 10.42x). Hence, we kept our BUY rating.

9M18 Strong Result

WTON managed to book a strong 9M18 result, in which the revenue and net profit grew by 19.9% YoY and 26.9% YoY reached to Rp 4.1 trillion (vs Rp 3.4 trillion in 9M17) and to Rp 280 billion (vs Rp 220 billion in 9M17) owing to 1) solid 9M18 new contract of Rp 5.4 trillion (+28.2% YoY) still dominated from infrastructure projects, such as: HSR Jakarta-Bandung, Kijing-Mempawah jetty, KBN-Marunda jetty and Kunciran-Cengkareng toll road; and 2) a 14-fold significant increases in joint venture profit of Rp 22.8 billion (vs Rp 1.6 billion in 9M17), mainly came from KSO WTON-Emrail Sdn Bhd (namely Jakarta LRT Kelapa Gading – Velodrome). We note that the 9M18 net profit figure came in-line with our expectation and formed 72% to 2018F net profit of Rp 387 billion. Meanwhile, the company's revenue was below our expectation which only covered 63% to 2018F revenue of Rp 6.5 trillion due to the characteristic of precast concrete businesses that depend on the progress of infrastructure projects construction.

One-stop solution strategy encouraged profitability improvement

As a result of strategy's transformation as one-stop solution of precast concrete business (i.e.: sales and installation) and lower marketing expense (-17.4% YoY), the company managed to improve its 9M18 gross and operating margins by 50 bps and 35 bps became to 13.3% (vs 12.7% in 9M17) and to 10.4% (vs 10.1% in 9M17), respectively. On quarterly basis, we note that the company's profitability remained solid in 3Q18, where the gross margin registered at a stable level of 14% while its operating and net margins rose by 34 bps and 56 bps to the level of 11.2% and 7.9%, respectively.

Maintain BUY rating with TP Rp 700/share

We note that the recent share price shrunk significantly by 52% from its highest closing price this year at Rp 625/shr (as of 25 January 2018) and corrected by 20% YTD 2018 which translated into a very attractive valuation at 6.01x PER 2019F (below its 5 years average PER – 1 std dev of 10.42x). Hence, we kept our BUY rating since our fair value at Rp 700/share offer a significant upside potential of 133%.

**The Risk:** 1) delays in infrastructure projects; 2) rising raw material prices; 3) weakening Rupiah currency; 3) delays in production capacity expansions; 4) contingencies from being labour-intensive; and 5) increasing competition.

Financial Summary

(Rp billion)	2016A	2017A	2018F	2019F	2020F
Revenue	3,482	5,362	6,514	7,718	8,459
EBITDA	544	709	826	924	1,040
Net profit	273	337	387	435	546
EPS (Rp)	31	39	44	50	63
PER (x)	9.58	7.76	6.76	6.01	4.79
BVPS (Rp)	278	307	340	376	424
PBV (x)	1.08	0.98	0.88	0.80	0.71
EV/EBITDA (x)	5.04	4.83	4.03	3.54	3.06
Dividend yield (%)	3.27	3.87	4.44	4.99	6.26
RoE (%)	11.80	13.22	13.72	13.94	15.65

Source: Company data and Lotus Andalan Research

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Interim Financial Result									
	9M17	9M18	YoY	FY18F	%cover	2Q18	3Q18	QoQ	The Comments
<b>Assumption (In Rp billion)</b>									
New Contract	4,196	5,381	28.2%	7,560	71%	1,600	2,251	40.7%	Strong QoQ growth, relatively inline
<b>P/L (In Rp billion)</b>									
Revenue	3,425	4,106	19.9%	6,514	63%	1,402	1,510	7.7%	Below expectation depend on the progress
Cost of revenue	2,992	3,561	19.0%	5,749	62%	1,205	1,300	7.8%	
Gross profit	433	544	25.6%	765	71%	197	210	6.5%	
Operating Expense	87	115	31.8%	163	71%	45	41	-9.0%	
Operating profit	346	429	24.0%	602	71%	152	169	11.0%	
EBITDA	464	596	28.5%	826	72%	195	242	24.2%	
Net Profit	220	280	26.9%	387	72%	103	119	15.9%	Inline backed by gain from JV
<b>Profitability</b>									
Gross margin	12.7%	13.3%		11.7%		14.1%	13.9%		YoY profitability improvement thanks to the company's strategy transformation as one-stop solution of precast product (sales and installation)
EBIT margin	10.1%	10.4%		9.2%		10.9%	11.2%		
EBITDA margin	13.6%	14.5%		12.7%		13.9%	16.0%		
Net margin	6.4%	6.8%		5.9%		7.3%	7.9%		
<b>Revenue Breakdown</b>									
Concrete	3,057	3,701	21.1%			1,258	1,371	9.0%	
Quarry	23	12	-48.2%			17	(8)	N.A.	
Service	346	392	13.5%			127	146	15.1%	
<b>Total Revenue</b>	<b>3,425</b>	<b>4,106</b>	<b>19.9%</b>			<b>1,402</b>	<b>1,510</b>	<b>7.7%</b>	
<b>Gross Margin Breakdown</b>									
Concrete	12.7%	14.0%				15.0%	14.7%		One-stop solution strategy encouraged gross margin improvement
Quarry	21.9%	11.2%				7.9%	5.1%		
Service	11.3%	6.0%				5.6%	6.2%		
<b>Total Gross Margin</b>	<b>12.7%</b>	<b>13.3%</b>				<b>14.1%</b>	<b>13.9%</b>		

Source: Company data and Lotus Andalan Research

## Financial Highlights of PT Wijaya Karya Beton Tbk

In Rp Billion									
<b>BALANCE SHEET</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>	<b>INCOME STATEMENT</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>
<b>ASSETS</b>									
Cash and cash equivalent	342	638	406	291	<b>Total Revenues</b>	<b>3,482</b>	<b>5,362</b>	<b>6,514</b>	<b>7,718</b>
Accounts Receivable	663	1,228	1,338	1,586	COGS	2,977	4,696	5,749	6,850
Inventories	694	1,034	1,102	1,314	<b>Gross profit</b>	<b>504</b>	<b>667</b>	<b>765</b>	<b>868</b>
Other current assets	740	1,451	1,398	1,795	Operating expenses	96	136	163	201
<b>Total Current Assets</b>	<b>2,440</b>	<b>4,351</b>	<b>4,245</b>	<b>4,985</b>	<b>Operating profit</b>	<b>408</b>	<b>530</b>	<b>602</b>	<b>667</b>
Fixed Assets	2,219	2,679	2,811	2,820	<b>EBITDA</b>	<b>544</b>	<b>709</b>	<b>826</b>	<b>924</b>
Investments in associates	-	-	-	-	Equity net income of associates	-	-	-	-
Other non-current assets	4	37	15	19	Interest income	16	4	21	14
<b>Total Non-Current Assets</b>	<b>2,223</b>	<b>2,717</b>	<b>2,826</b>	<b>2,839</b>	Interest expenses	(57)	(89)	(122)	(111)
<b>TOTAL ASSETS</b>	<b>4,663</b>	<b>7,068</b>	<b>7,070</b>	<b>7,824</b>	Others	(27)	(26)	(20)	(25)
<b>LIABILITIES &amp; EQUITY</b>					<b>Total other income/(expenses)</b>	<b>(67)</b>	<b>(111)</b>	<b>(121)</b>	<b>(121)</b>
Short term loan	350	1,245	1,058	870	<b>Income before tax</b>	<b>341</b>	<b>420</b>	<b>481</b>	<b>546</b>
Accounts Payable	664	1,223	1,417	1,689	Tax expense	(59)	(79)	(91)	(103)
Current maturities - LT debts	120	200	58	81	<b>Net profit before minority interest</b>	<b>282</b>	<b>340</b>	<b>391</b>	<b>443</b>
Other current liabilities	730	1,548	1,076	1,318	Minority interest	(9)	(3)	(4)	(8)
<b>Total Current Liabilities</b>	<b>1,864</b>	<b>4,216</b>	<b>3,608</b>	<b>3,958</b>	<b>Net profit</b>	<b>273</b>	<b>337</b>	<b>387</b>	<b>435</b>
LT debt - net current maturities	200	-	323	392	<b>EPS (Rp)</b>	<b>31</b>	<b>39</b>	<b>44</b>	<b>50</b>
MTN	-	-	-	-					
Other non-current liabilities	108	104	97	103					
<b>Total Non-Current Liabilities</b>	<b>308</b>	<b>104</b>	<b>419</b>	<b>495</b>					
<b>Minority Interest</b>	<b>69</b>	<b>72</b>	<b>81</b>	<b>91</b>					
Capital Stock	872	872	872	872					
Additional paid in capital	973	973	973	973					
Others equity	(101)	(103)	(103)	(103)					
Retained earnings	679	935	1,220	1,540					
<b>Total Equity</b>	<b>2,423</b>	<b>2,676</b>	<b>2,962</b>	<b>3,281</b>					
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>4,663</b>	<b>7,068</b>	<b>7,070</b>	<b>7,824</b>					
<b>CASH FLOW STATEMENT</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>	<b>KEY FINANCIAL RATIOS</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>
Net profit	273	337	387	435	<b>Growth (%)</b>				
Depreciation & Amortization	135	179	224	257	Revenue	31.26	54.01	21.47	18.49
Change in WC	(74)	(281)	(18)	(186)	Gross profit	53.52	32.16	14.75	13.44
Others	(381)	(158)	(62)	(86)	Operating Profit	71.23	29.91	13.52	10.78
<b>Net Operating Cash Flow</b>	<b>(46)</b>	<b>77</b>	<b>530</b>	<b>420</b>	EBITDA	65.59	30.42	16.43	11.91
Change in fixed assets - net	(357)	(639)	(355)	(266)	Net Profit	57.01	23.49	14.75	12.50
Others	(0)	(33)	22	(4)	<b>Profitability (%)</b>				
<b>Net Investing Cash Flow</b>	<b>(357)</b>	<b>(672)</b>	<b>(333)</b>	<b>(270)</b>	Gross margin	14.49	12.43	11.74	11.24
Change in borrowings - net	(62)	976	(330)	(165)	Operating margin	11.73	9.89	9.24	8.64
Change in equity	(4)	(2)	-	-	EBITDA margin	15.62	13.22	12.67	11.97
Change in other liabilities	29	(4)	(7)	6	Net Profit margin	7.84	6.29	5.94	5.64
Dividend payment	(55)	(85)	(101)	(116)	ROAA	5.99	5.75	5.47	5.84
Adjustment	13	7	9	10	ROAE	11.80	13.22	13.72	13.94
<b>Net Financing Cash Flow</b>	<b>(78)</b>	<b>891</b>	<b>(429)</b>	<b>(265)</b>	<b>Solvency (x)</b>				
<b>Change in cash</b>	<b>(481)</b>	<b>296</b>	<b>(232)</b>	<b>(115)</b>	Current ratio	1.31	1.03	1.18	1.26
Cash at the beginning period	824	342	638	406	Quick ratio	0.94	0.79	0.87	0.93
Cash at the ending period	342	638	406	291	DER	0.19	0.54	0.38	0.29
					EBITDA coverage	9.62	8.01	6.78	8.36
					Net debt to equity	0.05	0.30	0.24	0.20

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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