

12 September 2023

Construction & Engineering | Construction

Wijaya Karya (WIKA IJ)**Neutral** (from Buy)**Challenging Times Still Persist; D/G To NEUTRAL**

Target Price (Return): IDR456 (5.1%)
 Price (Market Cap): IDR434 (USD254m)
 ESG score: 2.78 (out of 4)
 Avg Daily Turnover (IDR/USD) 7,095m/0.45m

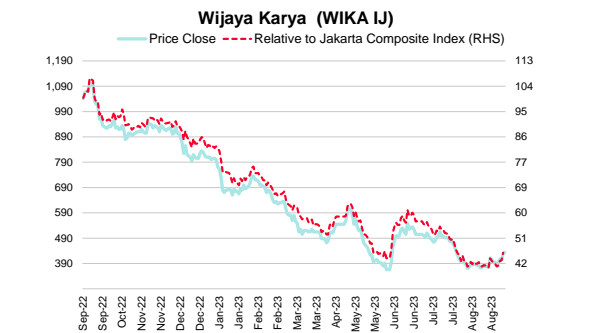
- **D/G to NEUTRAL from Buy, new IDR456 TP from IDR1,100, 5% upside.** Wijaya Karya's performance was dragged by IDR5-6trn in cost overruns (WIKA's portion) on its High-Speed Railway (HSR) project, which severely impacted its cash position (1H23: IDR1.8trn, -57.7% YTD) and project financing capabilities. It is proposing a standstill agreement with its lenders, and the Government has approved a IDR6trn capital injection (PMN) to help WIKA's cash position. Merger plans with Pembangunan Perumahan (PTPP IJ, TRADING BUY, TP: IDR700) are unlikely to materialise, following leadership changes after next year's presidential election.
- **HSR cost overrun payments have not been completed.** Of the total cost overruns of USD1.2bn (IDR18trn) – due to design changes and delayed land clearing – WIKA is still trying to collect payments of IDR5-6trn. The cost overruns disrupted WIKA's cash flow and working capital position, dragging its overall project financing capabilities. The collection of payments may also take longer than expected, as China Development Bank (CDB) is seeking additional capital from the Indonesian government.
- **Debt restructuring proposal in progress.** WIKA has proposed a standstill agreement for its short-term and long-term loans, due to its issues with the HSR project. As the proposal is still in progress, WIKA is unable to use the project financing facility from its lenders, and is instead depending on payments from its other projects – dragging the HSR project's progress.
- **WIKA-PTPP merger.** The Government's plan to merge WIKA and PTPP is very positive for WIKA, which is in financial distress. However, we think the consolidation is unlikely to happen, given the upcoming election and presidential cabinet changes in 2024. Note that previous plans to appoint Hutama Karya as a construction holding company also did not materialise.
- **PMN in 2024.** The Ministry of Finance approved additional PMN of IDR12.1trn for 2024, of which IDR6trn is allocated for WIKA to strengthen its project financing capabilities, as its loan facilities have been halted due to the standstill proposal. Post PMN, WIKA should be able to accelerate its existing orderbook of IDR61.4trn. However, historically, PMN is only completed in 2H. Therefore, progress of its projects may be slow in 1H24.
- **Focus on progress-payment projects.** As of July, WIKA secured new contracts worth IDR15.4trn (+4.8% YoY), at 42.8% of its FY23 guidance. Most contracts are from LPG Tuban (IDR3.5trn) and the new capital city project (IKN; IDR3.6trn) which have better payment terms (monthly-progress payments). However, despite the better payment terms for large projects such as the IKN, WIKA is unable to boost the construction progress due to its limited working capital.
- **ESG.** We incorporated a 4% ESG discount to the intrinsic value, based on WIKA's ESG score of 2.8 (below the country median), to derive our TP.

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**Share Performance (%)**

	YTD	1m	3m	6m	12m
Absolute	(45.8)	11.9	(12.5)	(22.5)	(58.1)
Relative	(46.9)	11.2	(15.9)	(24.9)	(53.7)
52-wk Price low/high (IDR)				366	– 1,100

**Overall ESG Score: 2.8 (out of 4)****E: GOOD**

WIKA uses three sources of water: Drilled wells, rainwater harvesting, and natural resources. The company prioritises the use of natural sources (rain) and rainwater harvesting for domestic activities. Moreover, it built a wastewater treatment plant at its headquarters to treat grey water from ablution, janitorial works, and pantry use. Rainwater is reused to flush toilets. In 2020, WIKA's water usage fell to 12,477 cu m (-17.5% YoY)

S: GOOD

WIKA has a competency development programme. It has clocked 141,528 training hours, with upskilling sessions attended by 5,897 employees from different divisions. In 2020, company spent IDR149.4bn (2019: IDR11.98bn) on employee training and education. In fact, instead of retrenching workers in a challenging 2020, it actually increased the headcount of permanent employees to 2,834 (+2.4% YoY)

G: GOOD

WIKA has been consistently communicating with shareholders, to ensure that the latter is well-informed on their financial and non-financial performance. Investor relations teams also help to facilitate engagement between shareholders and the companies' management teams.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (IDRb)	17,810	21,481	24,217	25,418	29,153
Recurring net profit (IDRb)	84	(58)	123	(364)	74
Recurring net profit growth (%)	(31.6)	(169.3)	-	(395.9)	-
Recurring P/E (x)	46.47	na	31.64	na	52.74
P/B (x)	0.3	0.3	0.4	0.4	0.4
P/CF (x)	1.83	na	na	na	na
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	6.04	7.92	7.64	7.09	6.33
Return on average equity (%)	1.0	(0.5)	(6.6)	(3.0)	0.6
Net debt to equity (%)	121.0	157.1	170.8	170.5	164.8

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Indonesia	Recurring EPS	9.34	(6.47)	13.71	(40.58)	8.23
Construction & Engineering	BVPS	1,327.70	1,318.27	1,233.53	1,197.54	1,204.85
Wijaya Karya	Return on average equity (%)	1.0	(0.5)	(6.6)	(3.0)	0.6
WIKA IJ						
Neutral						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring P/E (x)	46.47	na	31.64	na	52.74
	P/B (x)	0.3	0.3	0.4	0.4	0.4
	FCF Yield (%)	(74.6)	(91.5)	(73.1)	(14.3)	(8.1)
	EV/EBITDA (x)	6.04	7.92	7.64	7.09	6.33
	EV/EBIT (x)	10.82	10.24	9.35	8.54	7.40
	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	17,810	21,481	24,217	25,418	29,153
	Gross profit	1,695	2,202	2,482	2,606	2,989
	EBITDA	2,775	2,174	2,522	2,628	2,999
	Depreciation and amortisation	(1,225)	(491)	(462)	(448)	(436)
	Operating profit	1,550	1,683	2,060	2,180	2,563
	Net interest	(1,044)	(1,088)	(2,030)	(1,897)	(1,742)
	Pre-tax profit	609	551	(305)	248	781
	Taxation	(395)	(538)	(498)	(539)	(620)
	Reported net profit	118	(60)	(760)	(323)	66
	Recurring net profit	84	(58)	123	(364)	74
	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	616	(4,084)	(2,221)	(509)	(740)
	Cash flow from operations	2,129	(3,598)	(2,632)	(332)	(79)
	Capex	(5,032)	36	(214)	(225)	(236)
	Cash flow from investing activities	(13,296)	(3,727)	840	390	(12)
	Cash flow from financing activities	3,199	6,011	(243)	324	(1,205)
	Cash at beginning of period	14,952	6,984	5,670	3,634	4,016
	Net change in cash	(7,968)	(1,314)	(2,035)	381	(1,296)
	Ending balance cash	6,984	5,670	3,634	4,016	2,719
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	6,984	5,670	3,634	4,016	2,719
	Tangible fixed assets	8,833	8,306	8,058	7,834	7,635
	Total investments	12,613	18,677	19,300	20,026	20,875
	Total assets	69,386	75,070	73,090	76,552	77,547
	Short-term debt	15,899	15,429	14,807	15,407	16,007
	Total long-term debt	12,187	17,721	18,391	18,001	16,523
	Total liabilities	51,951	57,576	55,780	59,311	59,454
	Total equity	17,435	17,493	17,310	17,241	18,094
	Total liabilities & equity	69,386	75,070	73,090	76,552	77,547
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	7.7	20.6	12.7	5.0	14.7
	Recurrent EPS growth (%)	(31.6)	(169.3)	0.0	(395.9)	0.0
	Gross margin (%)	9.5	10.3	10.2	10.3	10.3
	Operating EBITDA margin (%)	15.6	10.1	10.4	10.3	10.3
	Net profit margin (%)	0.7	(0.3)	(3.1)	(1.3)	0.2
	Capex/sales (%)	28.3	(0.2)	0.9	0.9	0.8
	Interest cover (x)	1.34	1.23	0.89	1.05	1.32

Source: Company data, RHB

Figure 1: DCF calculation

	2023F	2024F	2025F	2026F
(IDRbn)				
EBIT	2,060	2,180	2,563	2,774
Tax on EBIT	(515)	(545)	(641)	(693)
EBIT x (1-tax)	1,545	1,635	1,922	2,080
Depreciation and Amortisation	462	448	436	424
Capital Expenditures	(214)	(225)	(236)	(248)
Changes in Net Working Capital	(2,174)	(489)	(676)	1,172
Free Cash Flow	(381)	1,369	1,446	3,430
PV FCF	(381)	1,238	1,182	2,535
Terminal Value				46,489
Sum of PV FCF	4,575			
PV of TV	34,364			
Enterprise value (IDRbn)	38,939			
Cash (IDRbn)	3,634			
Debt (IDRbn)	(33,198)			
Minority interest (IDRbn)	(5,106)			
Equity value	4,268			
o/s shares (m)	8,970			
DCF/share (IDR)	475			
ESG discount	4%			
TP after ESG discount (IDR)	456			

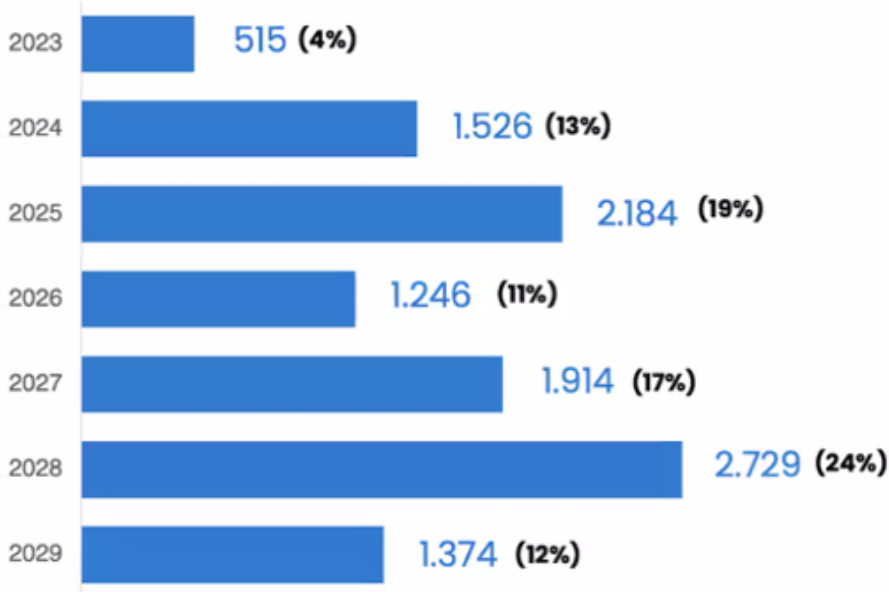
Source: Company data, RHB

Figure 2: Forecast revision

Income Statement (IDRbn)	New			Old			% Change		
	2023F	2024F	2025F	2023F	2024F	2025F	2022F	2024F	2025F
Revenue	24,217	25,418	29,153	25,888	28,253	30,577	-6.5%	-10.0%	-4.7%
EBITDA	2,522	2,628	2,999	3,508	3,883	4,253	-28.1%	-32.3%	-29.5%
EBIT	2,060	2,180	2,563	2,546	2,817	3,083	-19.1%	-22.6%	-16.9%
Net Income	(760)	(323)	66	504	868	966	N/A	N/A	-93.2%
Margin									
EBITDA	10.4%	10.3%	10.3%	13.6%	13.7%	13.9%			
EBIT	8.5%	8.6%	8.8%	9.8%	10.0%	10.1%			
Net income	-3.1%	-1.3%	0.2%	1.9%	3.1%	3.2%			

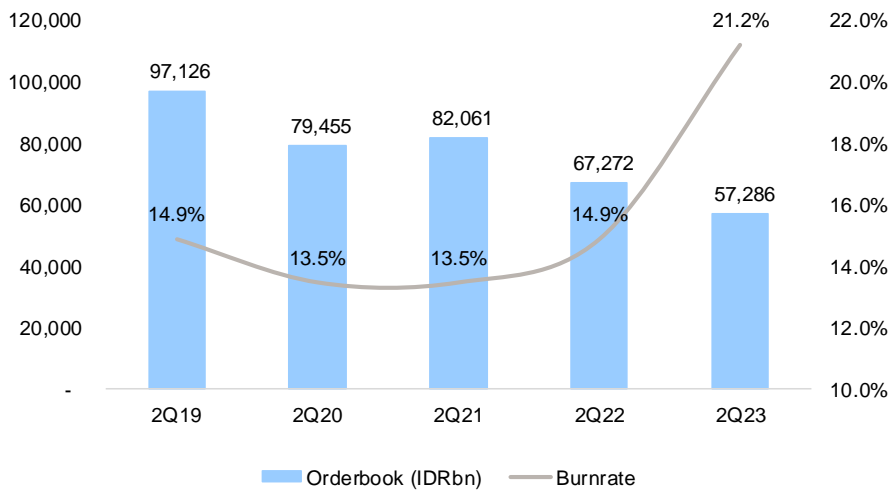
Source: Company data, RHB

Figure 3: Bonds and sukuk maturities with average coupon of 8.93%



Source: Company data, RHB

Figure 4: Contract burn-rate increased due to lower total orderbook



Source: Company data, RHB

Recommendation Chart

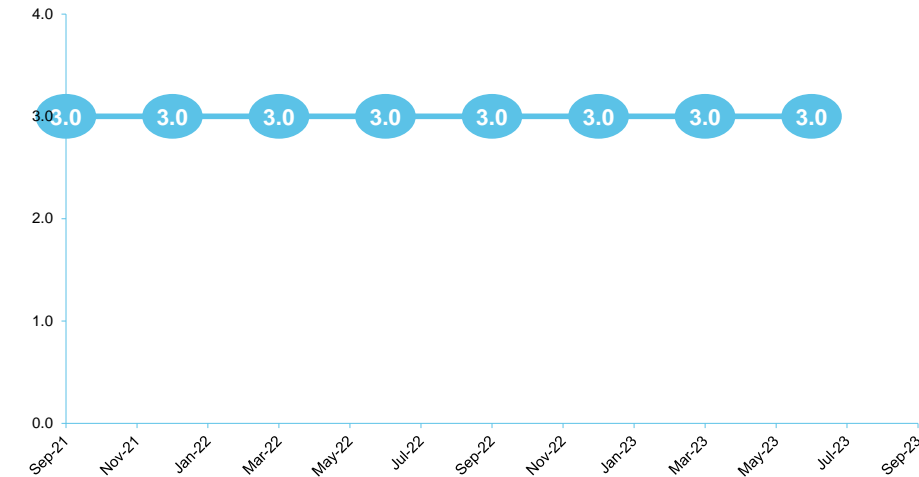


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-05	Buy	1,100	980
2021-09-10	Buy	1,400	1,020
2021-06-06	Buy	1,800	1,310
2021-03-29	Buy	2,500	1,580
2021-03-03	Buy	2,500	1,785
2020-11-25	Buy	1,800	1,565
2020-11-06	Neutral	1,190	1,240
2020-08-18	Buy	1,400	1,285
2020-06-10	Buy	1,850	1,285
2020-04-08	Buy	1,300	1,135
2020-02-11	Buy	2,900	1,960
2020-01-28	Buy	2,900	1,990
2019-11-01	Buy	2,900	1,940
2019-10-01	Buy	2,900	1,910
2019-08-01	Buy	2,900	2,340

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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