

Waskita Karya (WSKT IJ; Buy)

Rising financial costs

- Involvement in TOD development may improve margins
- Longer reimbursement on Palembang LRT is negative news
- Toll road divestment is now crucial to help lower gearing
- We cut earnings but maintain Buy at lower TP of Rp2,900

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Longer reimbursement on Palembang LRT. Transportation ministry (Kemenhub) extended Palembang Light Rail Transit (LRT) payment period until 2020, before initially intended to pay remaining contract to WSKT in full by 2018. As of June 2017, government has paid 10% of LRT's full amount (Rp10.9tn) and will pay Rp3.3tn annually in next three following years. We believe longer payment term will only give limited negative impact to WSKT as company will receive full payment at the end with bank interest to be paid by the government. On the downside, we expect heavier working capital in next three years to continue given 70% of LRT project is financed by bank loan. Currently, the progress of Palembang LRT has reached 42% and estimated to reach 80% at the end of year.

Toll road divestment is now crucial. WSKT plans to sell 20% its stake on Waskita toll road (WTR) and retain 55% ownership after the transaction. WSKT expects Rp7tn of proceeds which will be used to finance other projects. Currently, WTR owns 18 toll road concessions (998 km) with operational route of 55km. WTR targets to operate additional 246km this year and to increase its toll road concession to 1,800km by FY19. The management claimed there are 13 investors who are interested, including State owned Jasa Marga (JSMR IJ; Rp5,050; Buy) and subsidiaries of Astra International, Astratel.

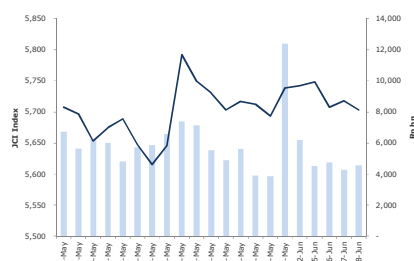
Cut earnings, maintain BUY at lower TP of Rp2,900. WSKT has increased its debt to Rp34tn in 1Q17 which raised DER to 1.8x in FY17 from 1.5x in FY16. Despite expecting improvement in operating, we cut FY17/18F earnings by 7/16% as we factored in higher interest expense, thus lowering our target price to Rp2,900 from Rp3,400 previously. Our new TP implies 17.1x PE FY17F and 28% upside. Hence, the sell-off of Waskita Toll Road is now crucial for WSKT to lowering company's gearing level and serve as potential upside for WSKT.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (RpBn)	14,153	23,788	36,207	47,023	55,993
EBITDA (RpBn)	1,261	2,981	4,101	5,229	6,100
EBITDA Growth (%)	96.9	136.5	37.6	27.5	16.7
Net Profit (RpBn)	1,048	1,713	2,371	3,080	3,770
EPS (Rp)	77	126	174	227	277
EPS Growth (%)	49.9	63.5	38.4	29.9	22.4
Net Gearing (%)	15.0	86.8	92.2	62.3	106.4
PER (x)	29.9	18.3	13.2	10.1	8.3
PBV (x)	3.2	1.8	1.7	1.5	1.3
Dividend Yield (%)	0.3	1.0	2.0	2.8	3.7
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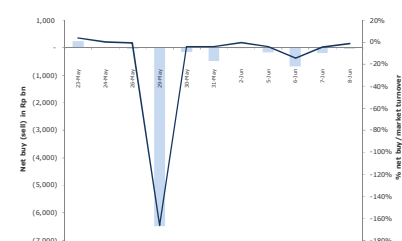
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Share Price Closing as of : 07-June-2017

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Foreign net buy (sell)



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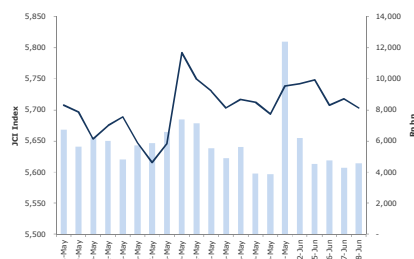
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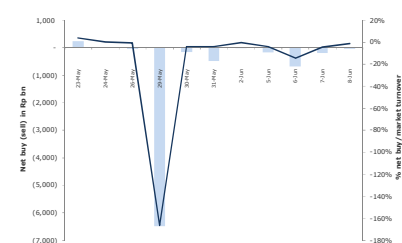
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- We cut earnings but maintain Buy at lower TP of Rp2,900

Entering property development to improve margins. WSKT's subsidiary, Waskita Realty (WKR), is bidding for two property development projects in Transit Oriented Development (TOD) in Bekasi and Bogor. The projects will involve both residential and commercial, with total investment to reach Rp18tn. Aside from TOD, Waskita Realty is also planning to acquire 50ha land alongside WSKT's toll road and has allocated Rp1.4tn capex. We think further involvement in property is positive for WSKT as it may improve consolidated margin given higher property margin compared to other businesses.

Longer reimbursement on Palembang LRT. Transportation ministry (Kemenhub) extended Palembang Light Rail Transit (LRT) payment period until 2020, before initially intended to pay remaining contract to WSKT in full by 2018. As of June 2017, government has paid 10% of LRT's full amount (Rp10.9tn) and will pay Rp3.3tn annually in next three following years. We believe longer payment term will only give limited negative impact to WSKT as company will receive full payment at the end with bank interest to be paid by the government. On the downside, we expect heavier working capital in next three years to continue given 70% of LRT project is financed by bank loan. Currently, the progress of Palembang LRT has reached 42% and estimated to reach 80% at the end of year.

Toll road divestment is now crucial. WSKT plans to sell 20% its stake on Waskita toll road (WTR) and retain 55% ownership after the transaction. WSKT expects Rp7tn of proceeds which will be used to finance other projects. Currently, WTR owns 18 toll road concessions (998 km) with operational route of 55km. WTR targets to operate additional 246km this year and to increase its toll road concession to 1,800km by FY19. The management claimed there are 13 investors who are interested, including State owned Jasa Marga (JSMR IJ; Rp5,050; Buy) and subsidiaries of Astra International, Astratel.

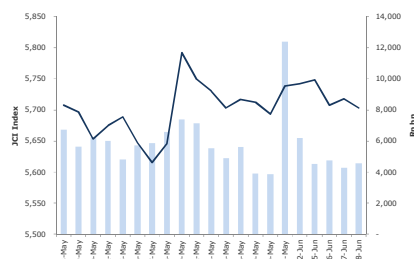
Cut earnings, maintain BUY at lower TP of Rp2,900. WSKT has increased its debt to Rp34tn in 1Q17 which raised DER to 1.8x in FY17 from 1.5x in FY16. Despite expecting improvement in operating, we cut FY17/18F earnings by 7/16% as we factored in higher interest expense, thus lowering our target price to Rp2,900 from Rp3,400 previously. Our new TP implies 17.1x PE FY17F and 28% upside. Hence, the sell-off of Waskita Toll Road is now crucial for WSKT to lowering company's gearing level and serve as potential upside for WSKT.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (RpBn)	14,153	23,788	36,207	47,023	55,993
EBITDA (RpBn)	1,261	2,981	4,101	5,229	6,100
EBITDA Growth (%)	96.9	136.5	37.6	27.5	16.7
Net Profit (RpBn)	1,048	1,713	2,371	3,080	3,770
EPS (Rp)	77	126	174	227	277
EPS Growth (%)	49.9	63.5	38.4	29.9	22.4
Net Gearing (%)	15.0	86.8	92.2	62.3	106.4
PER (x)	29.9	18.3	13.2	10.1	8.3
PBV (x)	3.2	1.8	1.7	1.5	1.3
Dividend Yield (%)	0.3	1.0	2.0	2.8	3.7
EV/EBITDA (x)	22.6	13.9	11.2	10.7	10.4

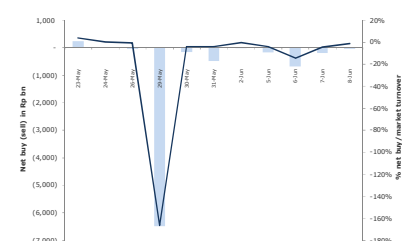
Source : WSKT, IndoPremier

Share Price Closing as of : 07-June-2017

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,703	-0.3%	16.9%	7.7%
LQ45	956	-0.3%	14.6%	8.1%
DJI	21,183	0.0%	17.8%	7.2%
SET	1,570	0.2%	9.4%	1.8%
HSI	26,063	0.3%	22.4%	18.5%
NKY	19,909	-0.4%	19.4%	4.5%
FTSE	7,450	-0.4%	19.5%	4.3%
FSSTI	3,237	0.2%	13.8%	12.4%
EIDO	27	0.1%	15.2%	11.8%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	45.6	-0.2%	-10.9%
CPO/tonne	572.1	-0.4%	-5.6%
Soy/bushel	9.1	0.8%	-21.7%
Rubber/kg	1.8	1.5%	13.9%
Nickel/tonne	8,759	0.0%	-1.8%
Tins/tonne	19,289	-0.6%	12.7%
Copper/tonne	5,704	2.0%	24.9%
Gold/try.oz (Spot)	1,278	-0.7%	0.7%
Coal/tonne	79.3	1.1%	48.5%
Corn/bushel	3.6	0.3%	-15.0%
Wheat/bushel*	138.4	-5.5%	-15.3%

* : 1 month change

Source : Bloomberg

News & Analysis

Corporates

ADRO: Adaro Indonesia (ADRO IJ; Rp1,575; Buy) is expanding to the water treatment and distribution business. ADRO's CEO, Garibaldi Thohir believed that growth potential on the water business is huge with few private players in the segment. ADRO has acquired local government water company (PDAM) Gresik with capacity of 400 liters per second and PDAM Banjarbaru with capacity of 500 liters per second. Total acquisition cost for these two built operate and transfer (BOT) projects is Rp150bn. ADRO targets another expansion in the water business, including water treatment project in Bandar Lampung. ADRO formed consortium with Adhi Karya (ADHI IJ) on the Bandar Lampung water treatment project (55% owned by ADRO) which will need investment project of Rp700-800bn. ADRO targets its water treatment capacity will reach 4,000 liters per second in the next five years. (Kontan)

Comment: Despite positive for ADRO, this is a long term project, thus, the impact will not be material for ADRO in the short term. However, we like ADRO's continues effort to diversify its business. ADRO is our top pick in the coal sector. Buy.

AISA: According to Tiga Pilar's (AISA IJ; Rp1,920; Buy) Finance Director, the decline in rice sales in 1Q17 is due to company's decision to eliminate the bulk rice. AISA is currently focusing on its branded packed rice especially Maknyuss and planning to release smaller packaging of 2.5kg which will be marketed starting May/June 2017. The company is now preparing for its rice business for an IPO by the end of this year. In addition, Company is also eyeing on large scale unbranded cooking oil producers for joint venture. (Kontan)

Comment: Despite the sales contraction in 1Q17, we are still positive on AISA due to its rice business prospect. In addition, the contribution from branded packed rice will lift the company's margin going forward. Maintain BUY (TP: RP2,200).

BEST: Bekasi Fajar Industrial Estate (BEST IJ; Rp350; Not Rated) is in the process to complete 7ha sale to electronic Japanese company with ASP Rp2.5-3mn. With the sale, company will concluded 19ha marketing sales, which is 47.5% of their FY17 target of 40ha. BEST already acquired 23ha of landbank with acquisition cost of Rp300bn. Out of their Rp800bn FY17 capex, the remaining capex will be used for acquiring more land, infrastructure development, and completion of BEST office tower and Hotel Enzo. In company's warehousing JV with Daiwa House Industry, company currently owns 51% of the JV but plans to reduce ownership and transfer some shares to Daiwa somewhere this year. (Bisnis Indonesia)

INDF: Indofood SM (INDF IJ; Rp8,600; Buy) allocates capex of Rp2tn to upgrade Bogasari factory capacity up to 18,000ton/day and silo in 2017. To date, Bogasari has total capacity of 16,450ton/day and 84 silo. (Kontan)

Comment: The capex allocation is within INDF's capex guidance for this year. Company guides this year total capex at Rp9.1tn with 51% to ICBP, 22% to Bogasari, 22% to Agribusiness, and 5% to Distribution segment. We are positive with the news as it enables Bogasari to secure its leadership in flour market share. Maintain Buy rating.

INTP: Indocement (INTP IJ; Rp17,800; Hold) released its sales volume for May17 with slight improvement mom, but continuously feeling competition pressure cumulatively. Market share dropped to 25.6% in May17 vs 26.5 in May16 but higher vs 24.7% in Apr17. Despite improving demand, Jakarta and Banten remained very competitive. Meanwhile West, Central Java showed significant improvement with growth of +9.6% yoy and +11.3% yoy. Overall demand of Indocement grew +6.0% yoy inline with industry growth of +6.6% yoy. Cumulatively, demand cement grew +3.8% up to May17. (Company)

Comment: Indocement has started positive gradual recovery in volumes. However, we do not think that better volume will translate into higher profitability. Pricing and cost pressure remains as an issue, depressing profitability.

JKON: Jaya Konstruksi (JKON IJ; Rp595; Buy) will increase ownership in Jakarta outer ring road west 2 north (JORR W2), although company has not disclose the portion company is aiming for. JKON is also planning to expand its business through expanding water treatment in Waduk Jatiluhur as well as adding capacity in its precast business to 300,000 ton/ year from 140,000 ton currently. As of FY17, JKON is aiming new contract of Rp7tn or 30% growth from FY16. (Kontan)

Comment: JKON's new contract guidance FY17 is higher than our estimate that stands at Rp6.7tn. We think JKON has upside potential on revenue as it managed to secure six inner toll road routes in its recent achievement, better than our expectation of two toll routes. We will review our estimate based on this development.

MDKA: Merdeka Copper Gold (MDKA IJ; Rp2,530; Not Rated) targets revenue of US\$130m and EBITDA of US\$45m for 2017 on the back of its start of commercial production since March. MDKA plans to produce 100,000 oz of gold and 300,000 oz of silver each year from its Tujuh Bukit gold-silver project in East Java. The company plans to start a detailed feasibility study for its underground copper mine (depth: 400m) in next 2-3 years to determine its reserve potential. (Bisnis Indonesia)

Comment: MDKA's initial gold production and EBITDA targets for 2017 is in line with forecasts stated during IPO in 2013. Despite the start of its gold production, we view most of the company's market value is derived from its undeveloped underground copper mine, which is potentially Indonesia's second largest after Freeport's Grasberg mine, although its reserve potential will be known only after more detailed survey is performed in coming years.

SIDO: Some key takeaways from yesterday's visit to SIDO (SIDO IJ; Rp510; Not Rated):

- SIDO sets revenue and earnings target of 15% yoy in 2017
- Plans to expand in MT channel (currently only 10% of total sales)
- Promote other type of traditional jamu apart from Tolak Angin by formula rejuvenation and innovation to be more accepted by market
- Plans to increase the export sales contribution by active marketing
- Capex allocation of Rp260bn for new machinery.

Comment: We are positive on the outlook of SIDO given the growing awareness of herbal related product among younger generation and company's initiative to adapt with current trend.

Markets & Sector

Construction sector: Waskita Karya (WSKT IJ; Rp2,250; Buy) and Jasa Marga (JSMR IJ; Rp5,100; Buy) will speed up construction on several trans java routes (Brebes timur – Ngaliyan, Semarang – Surabaya) and trans sumatera (Bakauheni – Terbanggin besar, Palembang – indralaya, Medan binjai section II, Medan – Kualanamu – Tebing tinggi) to achieve its operational target FY17. The routes are expected to improve traffic during eid al-fitr. So far, WSKT has distributed Rp6.5tn for reserve fund to accelerate land acquisition. (Kontan)

Economic

Foreign Reserves: Indonesia's foreign reserves grew to record US\$124.95bn by May17, from a previous US\$123.25bn. Increase came from tax revenues and government oil and gas export proceeds along with BI's foreign exchange bills. Reserves were sufficient to cover for 8.9 months of import and 8.6 months of import and debt servicing. (Bank Indonesia)

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INVESTMENT RATINGS

BUY : Expected total return of 10% or more within a 12-month period
HOLD : Expected total return between -10% and 10% within a 12-month period
SELL : Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION.

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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