

19 December 2019  
Building Construction, Equity

Price **IDR. 298**  
Target Price **IDR. 420**  
JKSE Index **6287.25**



**Stock Code**  
**Bloomberg code** **WEGE IJ**  
**Market cap (IDR.bn)** **2871.6**  
**52-Week High (IDR)** **434**  
**52-Week Low (IDR)** **236**  
**6-m Avg Daily. Val (IDR)** **328**  
**Free Float (%)** **30.00**

**Major Shareholders (%)**  
**WIKAKEDUNG** **69.30%**  
**KOKAR WIKAKEDUNG** **0.70%**  
**Public** **30.00%**

**USD/IDR-YE**  
**2018A** **14390**  
**2019F (Avg)** **14006**

**Key Indicators**  
**2020F**  
**Total Debt/ Equity (x)** **2.00**  
**Current ratio (x)** **1.58**

**Analyst: Revita Dhiah Anggrainy**  
revita.anggrainy@binaartha.com

## Investment Consideration

### Profit still on track

WEGE is on track to deliver higher profits yoy as we predicted in our previous report despite the slowdown during the election. Although 9M19 revenue was down 13% yoy, the bottom line still grew 5% YoY. The decrease in revenue was because WEGE chose to let go risky projects rather than losing capital. To overcome the issue, WEGE has been adding new contracts from clients with lower risk, such as SOEs. This can be seen in the customer profile which shows that WEGE's contracts during 9M19 were dominated by SOE (58%), followed by private companies (35%) and the government (7%), while the targeted customer profile was SOE (51%), private (29%) and the government (20%). As of 9M19, WEGE won new contracts with a total value of only IDR5.2 trillion out of the targeted IDR11.9 trillion. The balance will be achieved through several new projects which can be recognized as 2019 sales even though they were obtained in November. In addition, there are some new big contracts from private companies that will be delayed slightly into early 2020. We believe WEGE will be able to grow sales faster in 2020 due to the improved political situation and several large new contracts.

### JV with Patrajasa

Following the success of the concession business as featured by De Braga Hotel Bandung and Mandiri Proklamasi building, WEGE together with PT Patra Jasa and PT WIKAKEDUNG Realty formed a joint venture company (JV) under the name of PT Patra Wijaya Realtindo, in which WEGE has a 10% share, WIKAKEDUNG Realty 30% and Patra Java 60%. The first project that the JV will develop is the Pakubuwono. The JV is the second one WEGE formed after the JV between WEGE and PT WIKAKEDUNG Pracetak Gedung (WPG), a subsidiary of WEGE called WEGE Solusi Proklamasi in which WEGE has 90% shares. WEGE Solusi Proklamasi later acted as the developer, building management service provider, and operator of Bank Mandiri's assets in Jakarta.

### Valuation: 41% upside

After some adjustments due to the 9M19 results, we estimate a one-year target price of IDR420/shares, which means the share will be traded at a PER of 7.08x. With 41% upside potential, our recommendation remains BUY.

Profit and Loss (IDR. in bn)	2016A	2017A	2018A	2019F	2020F	2021F
<b>Revenues</b>	<b>1,929</b>	<b>3,899</b>	<b>5,823</b>	<b>7,473</b>	<b>10,135</b>	<b>12,320</b>
Cost of Revenues	(1,693)	(3,436)	(5,226)	(6,651)	(9,021)	(10,965)
<b>Gross Profit</b>	<b>237</b>	<b>464</b>	<b>597</b>	<b>822</b>	<b>1,115</b>	<b>1,355</b>
Operating Expenses	(41)	(56)	(78)	(159)	(216)	(262)
<b>Operating Income</b>	<b>196</b>	<b>407</b>	<b>518</b>	<b>663</b>	<b>899</b>	<b>1,093</b>
Other Income	(52)	(112)	(74)	(94)	(122)	(148)
<b>Profit Before Tax</b>	<b>143</b>	<b>296</b>	<b>445</b>	<b>569</b>	<b>778</b>	<b>945</b>
Tax expense	0	0	(0)	(0)	(0)	(1)
EPS	25	49	46	59	81	98
<b>Net Income</b>	<b>143</b>	<b>295</b>	<b>444</b>	<b>567</b>	<b>775</b>	<b>942</b>
<b>EBITDA</b>	<b>163</b>	<b>325</b>	<b>464</b>	<b>610</b>	<b>850</b>	<b>1,026</b>

**Company Profile**

PT Wijaya Karya Bangunan Gedung Tbk (WEGE) is a subsidiary of PT Wijaya Karya (Persero) Tbk and was established on October 24th, 2008. Initially WEGE focused on providing building construction service, particularly for private companies, with the scope of works covering mechanical and electrical work, as well as interior and exterior work, while the construction services for the government and SOEs were done by one of WIKA's divisions i.e DBG (Building Construction Division). The company officially entered into the property business in 2013 through joint operations between the company and land owners to develop and market the property together. To further grow the capacity of the company, in February 2016, DBG was merged into WEGE, as WIKA focused on infrastructure while WEGE focused on building construction works. The Company went public by offering 2.872 million shares or 30% of its total paid up capital after IPO and was listed in November 2017. Currently, WEGE has 2 business segments, construction building services and investment & concessions.

**Company Structure**

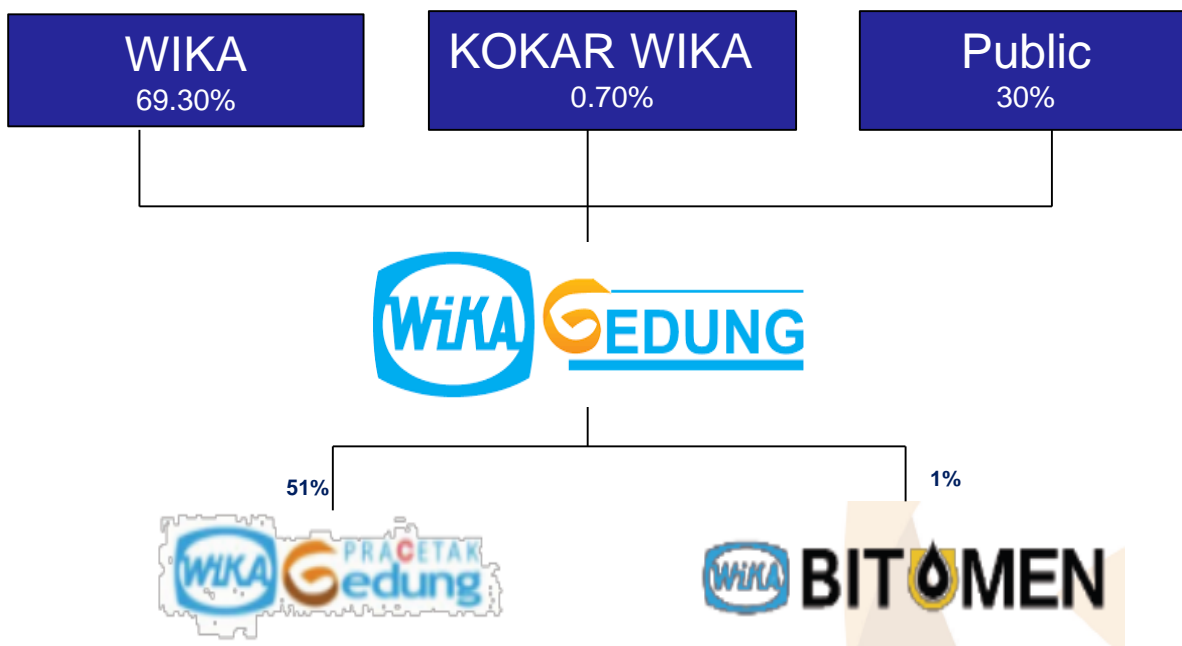


Chart: Total order book vs new contract (IDR. In bn)

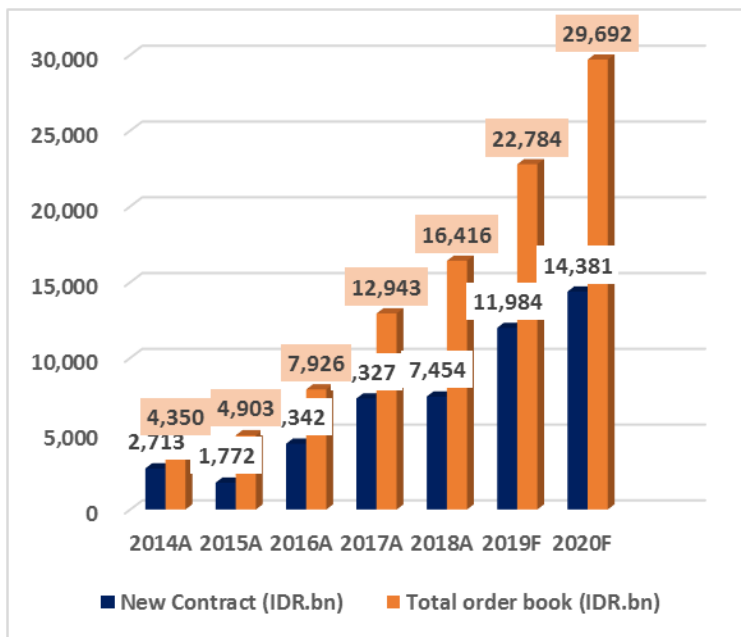


Chart: Net profit margin and EBITDA margin (%) yoy

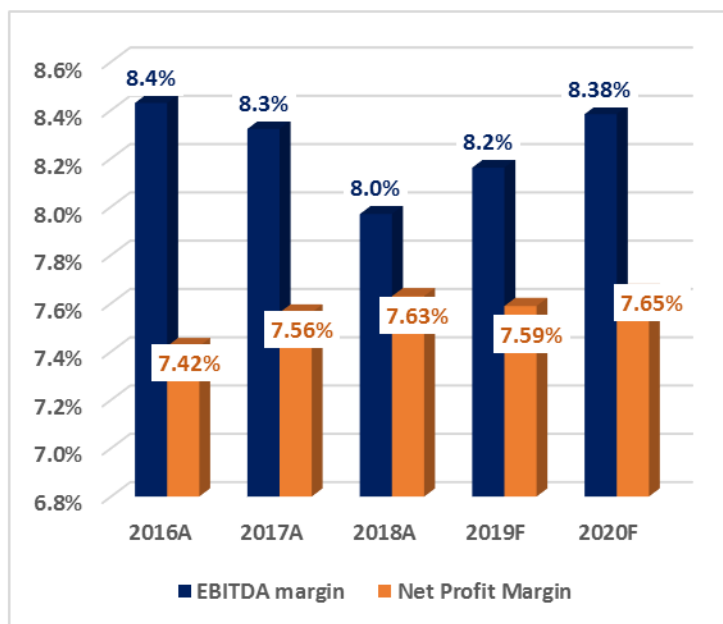


Chart: New contract based on customer profile yoy (%)

New Contract based on Customer Profile

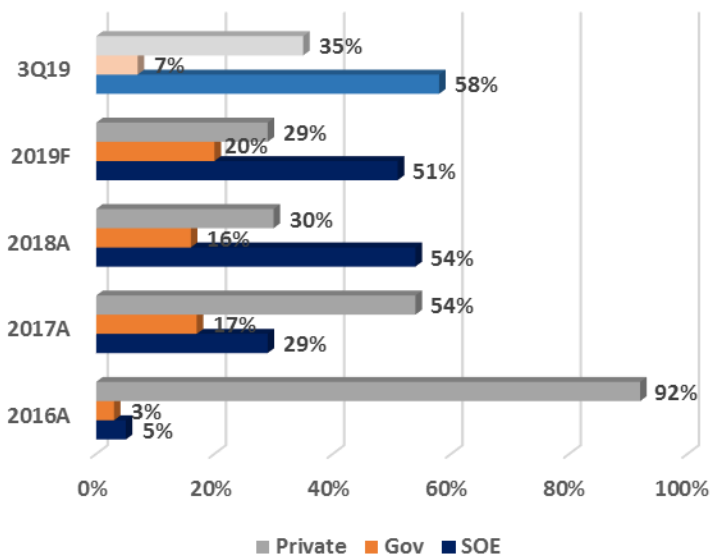
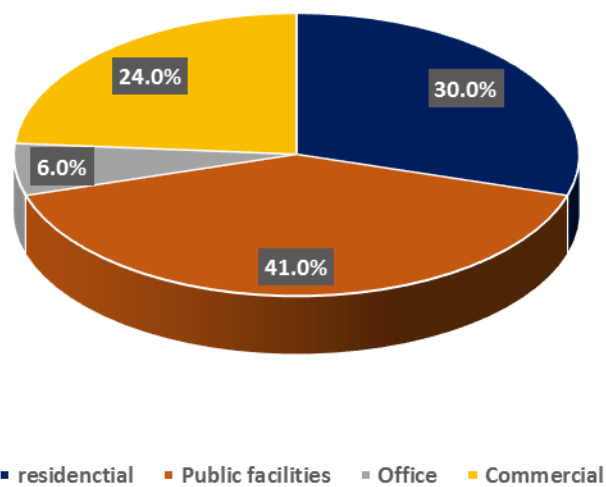


Chart: 2019F's New contract based on project type (%)

New contracts target 2019F by By project type



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Balance Sheet (IDR. In bn)

Balance Sheet (IDR. in bn)	2016A	2017A	2018A	2019F	2020F	2021F
Cash and cash equivalent	139	1,699	1,766	1,557	1,879	2,361
Trade Account Receivable	410	944	979	1,495	1,833	2,059
inventory	371	322	299	364	741	901
Other current asset	762	1,205	2,231	2,989	4,054	4,928
<b>Current Asset</b>	<b>1,683</b>	<b>4,170</b>	<b>5,275</b>	<b>6,405</b>	<b>8,507</b>	<b>10,250</b>
Fixed Asset	31	64	86	127	191	287
other long term asset	315	374	530	598	811	986
<b>Total non current Asset</b>	<b>346</b>	<b>438</b>	<b>616</b>	<b>725</b>	<b>1,002</b>	<b>1,272</b>
<b>Total Asset</b>	<b>2,029</b>	<b>4,608</b>	<b>5,890</b>	<b>7,130</b>	<b>9,509</b>	<b>11,522</b>
Trade Account Payable	238	713	2,032	1,392	1,833	2,228
Short Term bank loans	423	613	0	150	300	300
Other short term liabilities	252	825	848	2,391	3,243	3,943
<b>Total current liabilities</b>	<b>913</b>	<b>2,152</b>	<b>2,880</b>	<b>3,934</b>	<b>5,376</b>	<b>6,470</b>
long term liabilities	452	701	869	598	912	1,109
employee benefits	19	31	4	8	11	14
<b>Total long term/ non current liabilities</b>	<b>471</b>	<b>732</b>	<b>873</b>	<b>606</b>	<b>923</b>	<b>1,122</b>
<b>Total Liabilities</b>	<b>1,384</b>	<b>2,884</b>	<b>3,753</b>	<b>4,540</b>	<b>6,299</b>	<b>7,593</b>
non controlling interest	0	25	26	46	60	70
<b>Total Equities</b>	<b>645</b>	<b>1,698</b>	<b>2,111</b>	<b>2,545</b>	<b>3,150</b>	<b>3,859</b>
<b>Total Liabilities &amp; Equity</b>	<b>2,029</b>	<b>4,608</b>	<b>5,890</b>	<b>7,130</b>	<b>9,509</b>	<b>11,522</b>

**Cash Flow (IDR. In bn)**

<b>Cash Flow (IDR. in bn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
+ Net Income	143	295	444	567	775	942
+Depreciation	9	13	19	28	42	64
- Change in WC	43	312	(310)	(286)	(338)	(166)
<b>Cash From Operating Activities</b>	<b>195</b>	<b>620</b>	<b>154</b>	<b>309</b>	<b>480</b>	<b>840</b>
Net fixed asset	(18)	(46)	(41)	(70)	(106)	(159)
Other long term asset	(219)	(60)	(155)	(68)	(213)	(175)
<b>cash from investing activities</b>	<b>(237)</b>	<b>(105)</b>	<b>(197)</b>	<b>(138)</b>	<b>(319)</b>	<b>(334)</b>
long term liabilities	(144)	249	168	(271)	314	197
other long term liabilities	6	12	(27)	4	3	2
Equity	215	784	(31)	(113)	(156)	(223)
<b>cash from financing activities</b>	<b>77</b>	<b>1,045</b>	<b>110</b>	<b>(380)</b>	<b>161</b>	<b>(24)</b>
Net Changes in Cash	36	1,559	67	(209)	322	482
<b>Beginning Balance</b>	<b>104</b>	<b>139</b>	<b>1,699</b>	<b>1,766</b>	<b>1,557</b>	<b>1,879</b>
<b>Ending balance</b>	<b>139</b>	<b>1,699</b>	<b>1,766</b>	<b>1,557</b>	<b>1,879</b>	<b>2,361</b>

**Ratio Highlights**

<b>Growth (% YoY)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
Revenues	34.74%	102.09%	49.32%	28.35%	35.63%	21.56%
OP	44.03%	108.24%	27.24%	27.89%	35.63%	21.56%
EBITDA	3.64%	99.52%	43.00%	31.44%	39.31%	20.79%
Net profit	32.54%	105.88%	50.66%	27.66%	36.65%	21.56%
EPS	32.54%	98.50%	-5.32%	27.66%	36.65%	21.56%
<b>Profitability (%)</b>						
Operating Margin	10.14%	10.45%	8.90%	8.87%	8.87%	8.87%
EBITDA margin	8.43%	8.32%	7.97%	8.16%	8.38%	8.33%
NET Profit margin	7.42%	7.56%	7.63%	7.59%	7.65%	7.65%
ROA	7.06%	6.40%	7.54%	7.95%	8.15%	8.18%
ROE	22.20%	17.36%	21.04%	22.28%	24.61%	24.41%
<b>Liquidity (x)</b>						
Current Ratio (X)	1.84	1.94	1.83	1.63	1.58	1.58
Cash Ratio	0.15	0.79	0.61	0.40	0.35	0.36
<b>Solvability (x)</b>						
Total debt/ Total equity (x)	2.14	1.70	1.78	1.78	2.00	1.97
Int. Coverage (x)	13.94	19.24	1053.47	43.20	26.13	53.87
Debt Ratio	0.68	0.63	0.64	0.64	0.66	0.66
<b>Per Share data (Rp)</b>						
EPS	24.69	49.02	46.41	59.25	80.97	98.42
BVS	111.25	282.33	220.55	265.88	329.07	403.20

**Stock Ratings:**

Buy: a recommendation to purchase the security with upside potential of 20% or greater

Hold: a recommendation to neither buy nor sell a security with upside potential of 0-19%.

Sell: a recommendation to close out a long position in a security with upside potential below 0% or negative.

**RESEARCH TEAM**  
**(62-21) 520-6678 ext.612**

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