

25 August 2020  
Building Construction, Equity

Price IDR. 195  
Target Price IDR. 335  
JKSE Index 5277.04



Stock Code WEGE IJ  
Bloomberg code WEGE IJ  
Market cap (IDR.bn) 1895.3  
52-Week High (IDR) 400  
52-Week Low (IDR) 122  
6-m Avg Daily. Val (IDR) 198  
Free Float (%) 30.00

Major Shareholders (%)  
WIKA 69.30%  
KOKAR WIKA 0.70%  
Public 30.00%

USD/IDR-YE  
2019A 13866  
2020F 14864

Key Indicators  
2020F  
Total Debt/ Equity (x) 1.50  
Current ratio (x) 1.57

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## Investment Consideration

### Revised contracts target

WEGE revised its new contract target for 2020 to Rp. 3.4 trillion down 77% from its initial target of Rp. 14.9 trillion due to some large projects experiencing slowdown or holdups during the current unfavorable situation. As of 7M20, new contracts obtained amount to Rp. 1,32 trillion of which 50% are modular hospital projects, such as, Covid 19 hospital on Pulau Galang, Rp. 113 billion, Corona Lamongan Hospital, Rp. 41.32 billion. The rest came from large projects such as Bank Indonesia Palangkaraya Rp. 200 billion, The Park Kendari Rp. 111.75 billion. Most contracts are from Gov and SOE projects. For this year, the company has been looking for projects with a Captive sales Market, such as Graha Mantab. WEGE also has Projects with the private sector for example a hospitals in Surabaya, but this project is constrained by land issues. If the issue has been completed, WEGE is expecting to start work immediately. WEGE also revised its capex, for example, the precast building development and Modular plant will be delayed until next year. As of 2Q20, with lower sales, operating cashflow was negative -Rp202bn compared to -Rp412bn in 1Q. The improving trend of lower sales declines & improving cashflow points to better results ahead. WEGE also continues to maintain a net cash position despite difficult market conditions and has offset lower revenues with lower costs. The order book shows an improving trend too. The new contracts jumped by 100% in one month, May to June. We revise our top line and bottom line down 43% and 50% respectively, from our initial target inline with the lower new contracts target.

### WEGE's pandemic strategy

With the issuance of government regulation No. 22, the company can be appointed directly by the Government in the tender process when it meets pre-qualification and has the basic capabilities required. Therefore, starting April, WEGE can conduct government tenders without going through their holding company. As a result, during this pandemic, WEGE has received many Government and SOE projects. This year, WEGE will also focus on keeping the cash balance by ensuring Account Receivables are paid on time. Going forward, WEGE is focussing on being a leader in Modular Hospital construction by using their growing track record.

### Valuation: 72% upside

Based on 1H20, we adjust and revise our target price to IDR. 335/share or trading at 12,33x PER. With 72% upside, we retain our recommendation to BUY.

Profit and Loss (IDR. in bn)	2017A	2018A	2019A	2020F	2021F
<b>Revenues</b>	<b>3.899</b>	<b>5.823</b>	<b>4.568</b>	<b>4.096</b>	<b>4.627</b>
Cost of Revenues	(3.436)	(5.226)	(4.102)	(3.646)	(4.118)
<b>Gross Profit</b>	<b>464</b>	<b>597</b>	<b>465</b>	<b>451</b>	<b>509</b>
Operating Expenses	(56)	(78)	(71)	(72)	(82)
<b>Operating Income</b>	<b>407</b>	<b>518</b>	<b>394</b>	<b>378</b>	<b>427</b>
Other Income	(112)	(74)	63	(112)	(104)
<b>Profit Before Tax</b>	<b>296</b>	<b>445</b>	<b>457</b>	<b>266</b>	<b>323</b>
Tax expense	0	(0)	(0)	(0)	(0)
EPS	49	46	47	27	33
<b>Net Income</b>	<b>295</b>	<b>444</b>	<b>452</b>	<b>260</b>	<b>320</b>
<b>EBITDA</b>	<b>325</b>	<b>464</b>	<b>499</b>	<b>327</b>	<b>382</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 services, 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 work. 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**

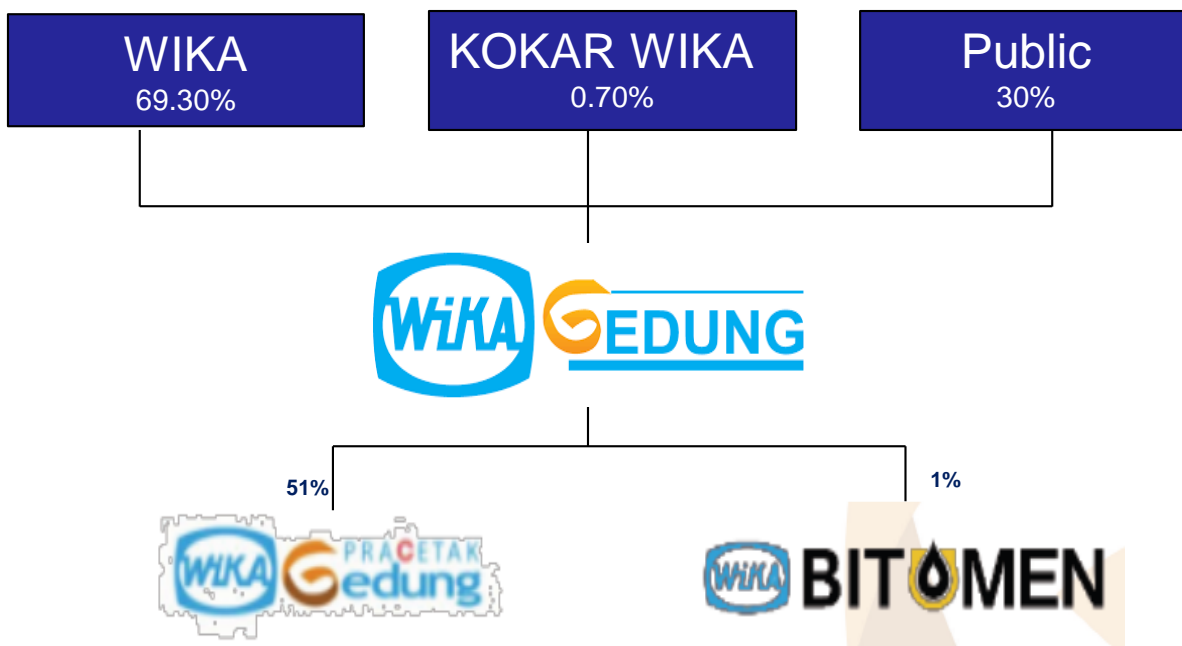


Chart: Total order book vs new contract (IDR. In bn)

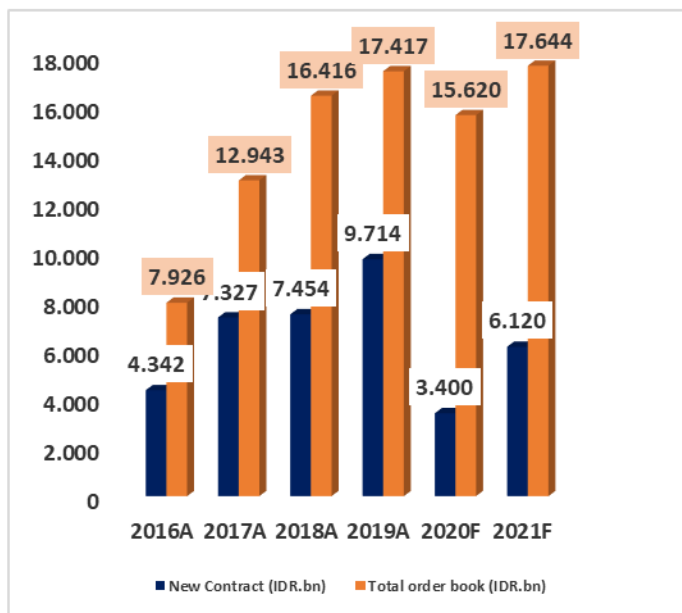


Chart: Net profit margin and EBITDA margin (%) yoy

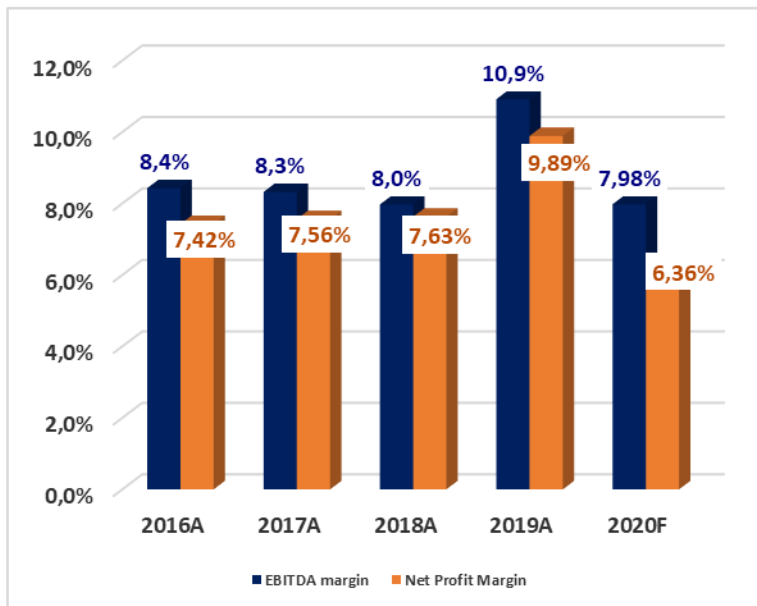


Chart: New contract based on customer profile yoy (%)

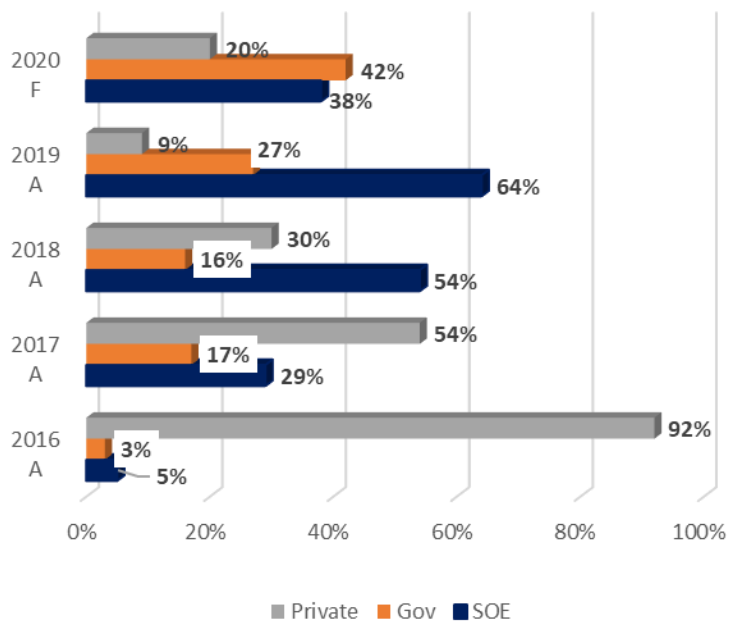
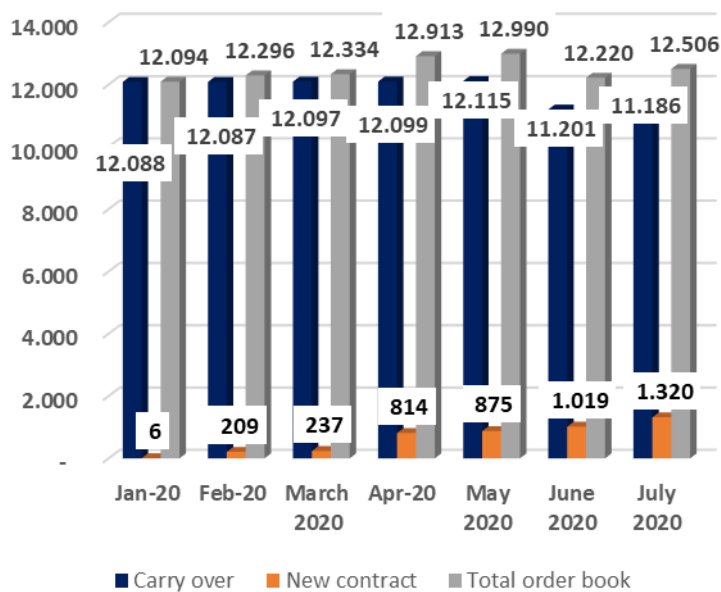


Chart: 2020F's New contract, carry over, and total order book MoM ( in IDR.bn)



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Balance Sheet (IDR. In bn)

Balance Sheet (IDR. in bn)	2017A	2018A	2019A	2020F	2021F
Cash and cash equivalent	1.699	1.766	1.456	1.634	1.493
Trade Account Receivable	944	979	873	976	1.090
inventory	322	299	360	429	451
Other current asset	1.205	2.231	2.398	2.089	2.082
<b>Current Asset</b>	<b>4.170</b>	<b>5.275</b>	<b>5.087</b>	<b>5.129</b>	<b>5.117</b>
Fixed Asset	64	86	149	208	256
other long term asset	374	530	962	1.106	1.157
<b>Total non current Asset</b>	<b>438</b>	<b>616</b>	<b>1.110</b>	<b>1.314</b>	<b>1.413</b>
<b>Total Asset</b>	<b>4.608</b>	<b>5.890</b>	<b>6.197</b>	<b>6.443</b>	<b>6.530</b>
Trade Account Payable	713	2.032	1.875	2.424	2.218
Short Term bank loans	613	0	177	100	100
Other short term liabilities	825	848	1.006	737	925
<b>Total current liabilities</b>	<b>2.152</b>	<b>2.880</b>	<b>3.058</b>	<b>3.261</b>	<b>3.244</b>
long term liabilities	701	869	670	573	671
employee benefits	31	4	10	9	10
<b>Total long term/ non current liabilities</b>	<b>732</b>	<b>873</b>	<b>680</b>	<b>582</b>	<b>681</b>
<b>Total Liabilities</b>	<b>2.884</b>	<b>3.753</b>	<b>3.738</b>	<b>3.844</b>	<b>3.925</b>
non controlling interest	25	26	30	38	39
<b>Total Equities</b>	<b>1.698</b>	<b>2.111</b>	<b>2.429</b>	<b>2.561</b>	<b>2.567</b>
<b>Total Liabilities &amp; Equity</b>	<b>4.608</b>	<b>5.890</b>	<b>6.197</b>	<b>6.443</b>	<b>6.530</b>

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

<b>Cash Flow (IDR. in bn)</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>
+ Net Income	295	444	452	260	320
+Depreciation	13	19	21	31	42
- Change in WC	312	-310	55	339	-146
<b>Cash From Operating Activities</b>	<b>620</b>	<b>154</b>	<b>529</b>	<b>631</b>	<b>215</b>
capex	-105	-197	-516	-235	-141
<b>cash from investing activities</b>	<b>-105</b>	<b>-197</b>	<b>-516</b>	<b>-235</b>	<b>-141</b>
long term liabilities	249	168	-199	-97	97
other long term liabilities	12	-27	5	-1	1
Equity	784	-31	-129	-120	-314
<b>cash from financing activities</b>	<b>1.045</b>	<b>110</b>	<b>-322</b>	<b>-218</b>	<b>-215</b>
Net Changes in Cash	1.559	67	-310	178	-141
<b>Beginning Balance</b>	<b>139</b>	<b>1.699</b>	<b>1.766</b>	<b>1.456</b>	<b>1.634</b>
<b>Ending balance</b>	<b>1.699</b>	<b>1.766</b>	<b>1.456</b>	<b>1.634</b>	<b>1.493</b>

**Ratio Highlights**

<b>Growth (% YoY)</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>
Revenues	102,09%	49,32%	-21,55%	-10,32%	12,96%
OP	108,24%	27,24%	-23,96%	-4,04%	12,96%
EBITDA	99,52%	43,00%	7,45%	-34,46%	16,85%
Net profit	105,88%	50,66%	1,67%	-42,36%	22,74%
EPS	98,50%	-5,32%	1,67%	-42,36%	22,74%
<b>Profitability (%)</b>					
Operating Margin	10,45%	8,90%	8,63%	9,23%	9,23%
EBITDA margin	8,32%	7,97%	10,92%	7,98%	8,25%
NET Profit margin	7,56%	7,63%	9,89%	6,36%	6,91%
ROA	6,40%	7,54%	7,29%	4,04%	4,89%
ROE	17,36%	21,04%	18,59%	10,16%	12,45%
<b>Liquidity (x)</b>					
Current Ratio (X)	1,94	1,83	1,66	1,57	1,58
Cash Ratio	0,79	0,61	0,48	0,50	0,46
<b>Solvability (x)</b>					
Total debt/ Total equity (x)	1,70	1,78	1,54	1,50	1,53
Int. Coverage (x)	19,24	1053,47	22,40	8,93	18,40
Debt Ratio	0,63	0,64	0,60	0,60	0,60
<b>Per Share data (Rp)</b>					
EPS	49,02	46,41	47,19	27,20	33,38
BVS	282,33	220,55	253,76	267,57	268,16

**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.

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