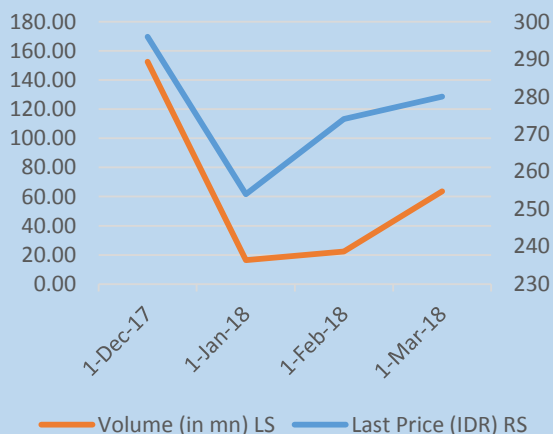


12 March 2018  
Building Construction, Equity

Price **IDR. 276**  
Target Price **IDR. 485**  
JKSE Index **6433.322**



### Investment Consideration Higher profit

WEGE is on the way to higher profits in future not only in building construction work by strengthening the supply chain but also in its recurring income business. To strengthen the supply chain, WEGE will expand modular / pre fabricated building capabilities by forming a JV company. This is to target the medium-high end building segment with higher quality. Overall, modular is for time saving. WEGE will also strengthen geotechnic capabilities to increase competency within WIKAR Group and plans to acquire a geotechnics company. Both are targeted to be done this year. WEGE has also established a joint venture with PT Wijaya Karya Beton (Wika Beton), to provide precast concrete building components and applications. For recurring income, WEGE is developing concession and investment projects related to the Government & SOEs in the form of social infrastructure (PPP schemes and SOE Hospital Developments) and infrastructure (Airport terminals). In 2018, projects will come from office towers in Jakarta & Surabaya, airport building in Banten, Hotels in Bandung, Regional hospitals in Sidoarjo. We believe this mix of projects from construction to investment and concessions will maintain and increase WEGE's profitability in future. We estimate, WEGE's bottom line will grow CAGR 73% 2016A to 2018F.

Stock Code **WEGE IJ**  
Bloomberg code **2661.0**  
Market cap (IDR.bn) **314**  
52-Week High (IDR) **250**  
52-Week Low (IDR) **270**  
6-m Avg Daily. Val (IDR) **30.00**  
Free Float (%) **30.00**

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

USD/IDR-YE  
2017A **13555**  
2018F (Avg) **13500**

Key Indicators  
2018F  
Total Debt/ Equity (x) **1.75**  
Current ratio (x) **1.92**

Analyst: Revita Dhiah Anggrainy  
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### Higher sales

With DBG (WIKAR group) merger with WEGE in 2016, WEGE managed to book contracts not only from private companies (54%) but also from SOEs (46%) in 2017A. With the additional contracts from SOE and Government, WEGE's burn rate which is the ratio of sales to total order book increased to 30.13% in 2017 compared to 24% in 2016. Going forward, the burn rate is targeted to improve above 30%, increasing sales further.

### Valuation: 76% upside

With business expansion through JVs in modular and geotech, as well as entry into concession and investment projects, WEGE's bottom line will improve in future. We are targeting TP within one year of 485 or 6.83 x PER. With 76% upside, we recommend BUY.

Profit and Loss (IDR. in bn)	2014A	2015A	2016A	2017A	2018F	2019F
<b>Revenues</b>	<b>1,219</b>	<b>1,432</b>	<b>1,929</b>	<b>3,899</b>	<b>5,229</b>	<b>6,276</b>
Cost of Revenues	(1,099)	(1,269)	(1,693)	(3,436)	(4,549)	(5,461)
<b>Gross Profit</b>	<b>120</b>	<b>163</b>	<b>237</b>	<b>464</b>	<b>680</b>	<b>816</b>
Operating Expenses	(19)	(27)	(41)	(56)	(92)	(111)
<b>Operating Income</b>	<b>102</b>	<b>136</b>	<b>196</b>	<b>407</b>	<b>587</b>	<b>705</b>
Other Income	1	16	(52)	(112)	(52)	(63)
<b>Profit Before Tax</b>	<b>102</b>	<b>152</b>	<b>143</b>	<b>296</b>	<b>535</b>	<b>642</b>
Tax expense	(37)	(43)	0	0	(107)	(128)
EPS	11	19	25	49	71	85
<b>Net Income</b>	<b>66</b>	<b>108</b>	<b>143</b>	<b>296</b>	<b>427</b>	<b>513</b>
<b>EBITDA</b>	<b>107</b>	<b>157</b>	<b>163</b>	<b>325</b>	<b>564</b>	<b>687</b>

**Company Profile**

PT.Wijaya Karya Bangunan Gedung Tbk (WEGE) is a subsidiary of PT Wijaya Karya (Persero) Tbk and was established on October 24, 2008. Initially, WIKA Gedung was mostly focused on Building Construction Services, particularly for private companies with scope of work covering mechanical and electrical work, as well as interior and exterior work. Construction services for Government and SOE was still done by WIKA's division 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 injected into the company (WEGE), as WIKA focused on infrastructure while WEGE focused on building construction work. The Company went public by offering 2.872 million or 30% of its total paid up capital after IPO and was listed on November 2017. WEGE has diversified geographical exposure and has a strong foothold across the whole archipelago, but more than 60% of revenues were from greater Jakarta in 2016.

**Company Structure**

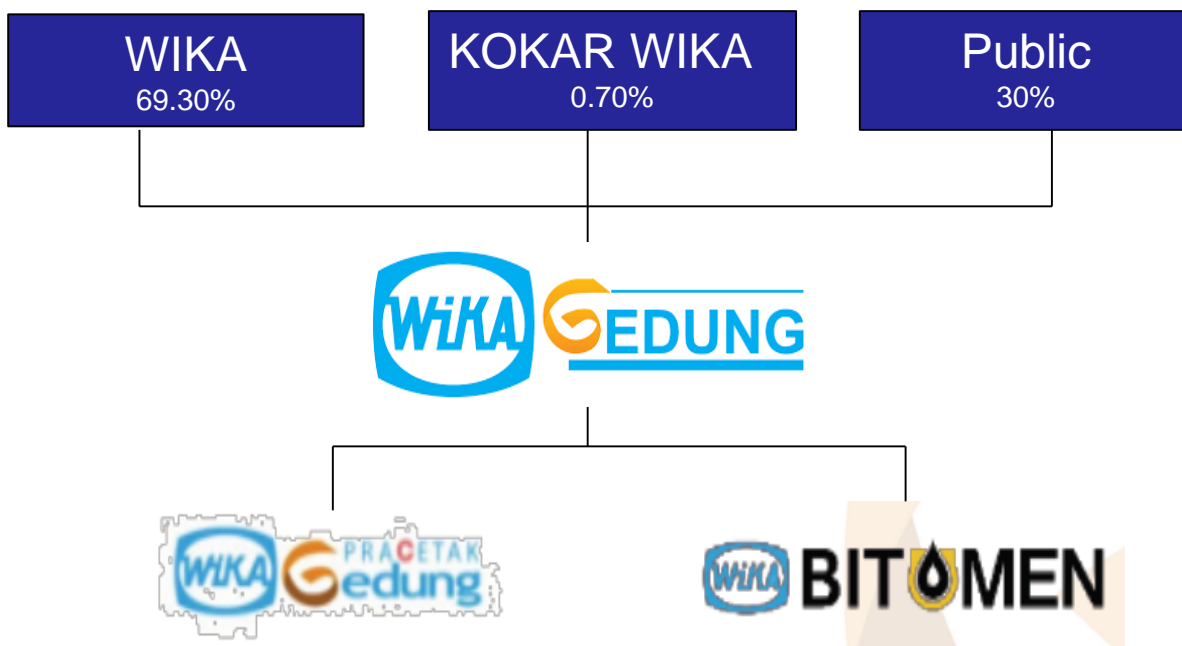
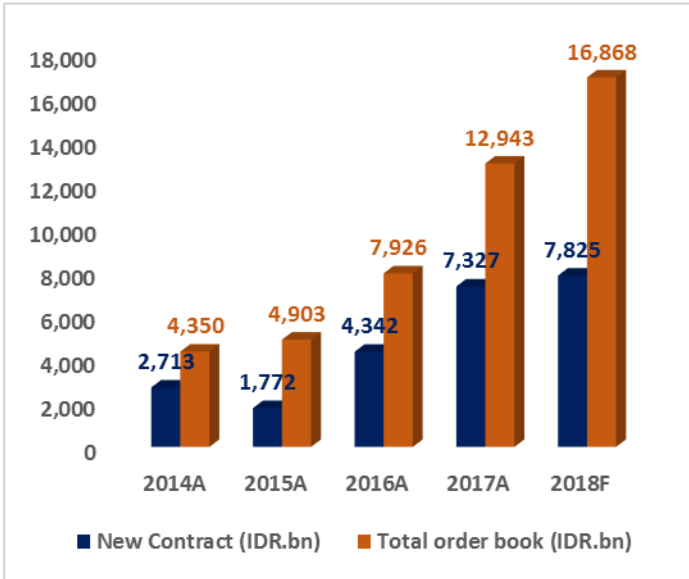


Chart: Total order book vs new contract (IDR. In trillion)



**Higher profit**

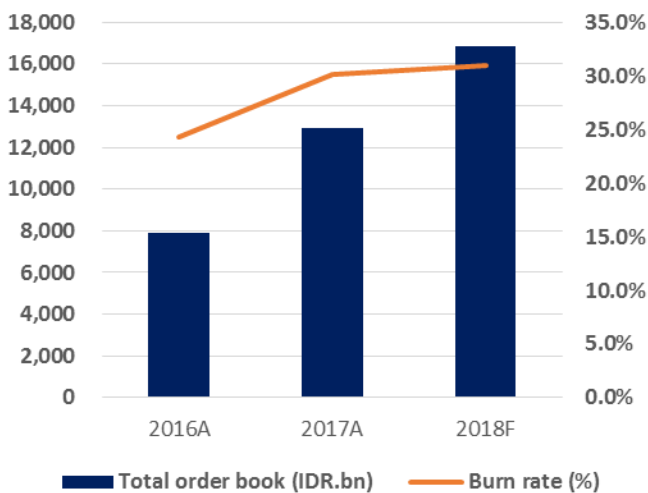
WEGE is on the way to higher profits not only in building construction through strengthening the supply chain but also in recurring income. To strengthen the supply chain, WEGE will expand in modular / pre fabricated building capabilities by forming a JV company. Modular is to target the medium-high end building segment with higher quality. Modular is for time saving. WEGE will also strengthen geotechnics capabilities to increase competency within WIKA Group and plans to acquire a geotechnics company. Both targeted for this year. WEGE has established a joint venture with PT Wijaya Karya Beton (Wika Beton), to provide precast concrete building components and applications which contributed to profit last year. In recurring income, WEGE is developing concession and investment projects related to Government & SOE social infrastructure (PPP scheme and SOE’s Hospital Development) and infrastructure (Airport terminal). In 2018, projects will come from office towers in Jakarta & Surabaya, airport buildings in Banten, Hotels in Bandung, Regional hospitals in Sidoarjo. We believe projects from construction to investment and concessions will maintain and increase WEGE’s profitability in the future. We calculate WEGE’s bottom line will grow CAGR 73% from 2016A to 2018F.

Chart: New contract based on project’s owner yoy

New Contract	Project owner		
	SOE	Gov	Private
2016A		8%	92%
2017A	29%	17%	54%
2018F	29%	33%	38%

**Higher sales**

After DBG (WIKI group) merger with WEGE in 2016, WEGE booked contracts not only from private companies (54%) but also from SOEs and Government (46%) in 2017A . During 2013-2017, the total order book has grown 4-fold with the private portion decreasing. With the additional contracts from SOE and Government WEGE’s burn rate which is the ratio of sales to total order book increased to 30.13% in 2017 from 24% in 2016. Going forward, the burn rate is targeted to improve to above 30%, increasing sales further.



Profit and Loss (IDR.bn)

Profit and Loss (IDR. in bn)	2013A	2014A	2015A	2016A	2017A	2018F	2019F
<b>Revenues</b>	<b>1,172</b>	<b>1,219</b>	<b>1,432</b>	<b>1,929</b>	<b>3,899</b>	<b>5,229</b>	<b>6,276</b>
Cost of Revenues	(1,079)	(1,099)	(1,269)	(1,693)	(3,436)	(4,549)	(5,461)
<b>Gross Profit</b>	<b>92</b>	<b>120</b>	<b>163</b>	<b>237</b>	<b>464</b>	<b>680</b>	<b>816</b>
Operating Expenses	(16)	(19)	(27)	(41)	(56)	(92)	(111)
<b>Operating Income</b>	<b>76</b>	<b>102</b>	<b>136</b>	<b>196</b>	<b>407</b>	<b>587</b>	<b>705</b>
Other Income	1	1	16	(52)	(112)	(52)	(63)
<b>Profit Before Tax</b>	<b>77</b>	<b>102</b>	<b>152</b>	<b>143</b>	<b>296</b>	<b>535</b>	<b>642</b>
Tax expense	(35)	(37)	(43)	0	0	(107)	(128)
EPS	844,160	11	19	25	49	71	85
<b>Net Income</b>	<b>42</b>	<b>66</b>	<b>108</b>	<b>143</b>	<b>296</b>	<b>427</b>	<b>513</b>
<b>EBITDA</b>	<b>80</b>	<b>107</b>	<b>157</b>	<b>163</b>	<b>325</b>	<b>564</b>	<b>687</b>

Balance Sheet (IDR. in bn)

	2013A	2014A	2015A	2016A	2017A	2018F	2019F
Cash and cash equivalent	158	119	104	139	1,699	1,929	2,389
Trade Account Receivable	133	182	296	410	944	1,255	1,506
inventory	37	129	230	371	322	471	565
Other current asset	409	521	603	762	1,205	1,621	1,946
<b>Current Asset</b>	<b>737</b>	<b>950</b>	<b>1,232</b>	<b>1,683</b>	<b>4,170</b>	<b>5,275</b>	<b>6,406</b>
Fixed Asset	16	16	23	31	64	102	163
other long term asset	1	46	95	315	374	523	628
<b>Total non current Asset</b>	<b>17</b>	<b>62</b>	<b>118</b>	<b>346</b>	<b>438</b>	<b>625</b>	<b>791</b>
<b>Total Asset</b>	<b>755</b>	<b>1,012</b>	<b>1,350</b>	<b>2,029</b>	<b>4,608</b>	<b>5,900</b>	<b>7,197</b>
Trade Account Payable	176	49	144	238	713	941	1,130
Short Term bank loans	0	134	106	423	613	863	1,063
Other short term liabilities	422	278	204	252	825	941	1,130
<b>Total current liabilities</b>	<b>597</b>	<b>461</b>	<b>455</b>	<b>913</b>	<b>2,152</b>	<b>2,746</b>	<b>3,323</b>
long term liabilities	0	342	596	452	701	940	1,128
employee benefits	5	13	13	19	31	41	50
<b>Total long term/ non current liabilities</b>	<b>5</b>	<b>355</b>	<b>608</b>	<b>471</b>	<b>732</b>	<b>981</b>	<b>1,178</b>
<b>Total Liabilities</b>	<b>602</b>	<b>816</b>	<b>1,063</b>	<b>1,384</b>	<b>2,884</b>	<b>3,727</b>	<b>4,501</b>
non controlling interest	0	0	0	0	25	47	58
<b>Total Equities</b>	<b>153</b>	<b>196</b>	<b>287</b>	<b>645</b>	<b>1,698</b>	<b>2,125</b>	<b>2,638</b>
<b>Total Liabilities &amp; Equity</b>	<b>755</b>	<b>1,012</b>	<b>1,350</b>	<b>2,029</b>	<b>4,608</b>	<b>5,900</b>	<b>7,197</b>

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

<b>Cash Flow (IDR. in bn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>
+ Net Income	42	66	108	143	296	427	513
+Depreciation	3	5	5	9	13	23	36
- Change in WC	(12)	(388)	(303)	43	312	(282)	(93)
<b>Cash From Operating Activities</b>	<b>33</b>	<b>(318)</b>	<b>(190)</b>	<b>195</b>	<b>621</b>	<b>168</b>	<b>456</b>
capex	(12)	(5)	(12)	(18)	(46)	(61)	(97)
other long term asset	(0)	(45)	(49)	(219)	(60)	(149)	(105)
<b>cash from investing activities</b>	<b>(12)</b>	<b>(49)</b>	<b>(61)</b>	<b>(237)</b>	<b>(105)</b>	<b>(209)</b>	<b>(202)</b>
long term liabilities	0	342	254	(144)	249	239	188
other long term liabilities	1	9	(1)	6	12	11	8
Equity	(11)	(22)	(17)	215	783	22	10
<b>cash from financing activities</b>	<b>(10)</b>	<b>328</b>	<b>236</b>	<b>77</b>	<b>1,044</b>	<b>271</b>	<b>207</b>
Net Changes in Cash	11	(39)	(15)	36	1,559	230	461
<b>Beginning Balance</b>	<b>147</b>	<b>158</b>	<b>119</b>	<b>104</b>	<b>139</b>	<b>1,699</b>	<b>1,929</b>
<b>Ending balance</b>	<b>158</b>	<b>119</b>	<b>104</b>	<b>139</b>	<b>1,699</b>	<b>1,929</b>	<b>2,389</b>

**Ratio Highlights**

<b>Growth (% YoY)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>
Revenues	21.65%	4.04%	17.48%	34.74%	102.09%	34.11%	20.03%
OP	31.02%	33.90%	33.56%	44.03%	108.24%	44.20%	20.03%
EBITDA	32.41%	33.00%	46.71%	3.64%	99.52%	73.90%	21.67%
Net profit	37.35%	55.61%	64.53%	32.54%	106.49%	44.41%	20.03%
EPS	37.35%	-100.00%	64.53%	32.54%	99.09%	44.41%	20.03%
<b>Profitability (%)</b>							
Operating Margin	6.48%	8.34%	9.49%	10.14%	10.45%	11.23%	11.23%
EBITDA margin	6.87%	8.78%	10.96%	8.43%	8.32%	10.79%	10.94%
NET Profit margin	3.60%	5.39%	7.55%	7.42%	7.58%	8.17%	8.17%
ROA	5.59%	6.49%	8.00%	7.06%	6.42%	7.24%	7.12%
ROE	27.64%	33.50%	37.63%	22.20%	17.41%	20.09%	19.43%
<b>Liquidity</b>							
Current Ratio (X)	1.23	2.06	2.71	1.84	1.94	1.92	1.93
Cash Ratio	0.26	0.26	0.23	0.15	0.79	0.70	0.72
<b>Solvability</b>							
Total debt/ Total equity (x)	3.94	4.16	3.70	2.14	1.70	1.75	1.71
Int. Coverage (x)	709.66	493.77	364.25	13.94	19.24	81.66	79.58
Debt Ratio	0.80	0.81	0.79	0.68	0.63	0.63	0.63
<b>Per Share data (Rp)</b>							
EPS	844,160	11.32	18.63	24.69	49.16	71.00	85.22
BVS	3,053,808	33.80	49.51	111.25	177.43	222.05	275.60

**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**  
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