

# M&L CAPITAL RESEARCH

## PT Waskita Karya (Persero) Tbk

Property industry – Construction

Ticker :Stockbit WSKT:IJ (WSKT.JK)

### Reccomendation :BUY

Price Target	IDR 3,537.09
Price Jul 23, 2018:	IDR 2,020
Upside	57.11%

#### Market Profile

52 week price range(IDR/Share)	1770--3150
Average daily volume	38,87 M
Beta	-0.18
Dividend Yield	2.9%
Share Outstanding	13.57 B
Market Capitalization (in Billion IDR)	26,944
Government Holdings	66.04%
Book Value per Share (IDR)	1230.81
Return on Equity	33.5%

Source:stockbit

#### Key Financial Data

Net Income per share	IDR 309.65
Current ratio	1.0
Debt/equity (times)	3.35
ROE	27.71%
ROA	3.97%
Net profit margin	14%
Operating margin	14.2%
EV/EBITDA (times)	9.22
Price to Earning Ratio (times)	4.5
Forward 12 month ratios:	
Price to Earning Ratio (times)	5.7

Source:stockbit

### HIGHLIGHTS

PT Waskita Karya Tbk is an example of a state-owned enterprise that become the mainstay of the government to boost infrastructure programs.



Source: Indonesia Infrastructure Report, Business Monitor International Ltd

**Infrastructure has enormous potential** to continue to grow in the construction sector based on the graph above.

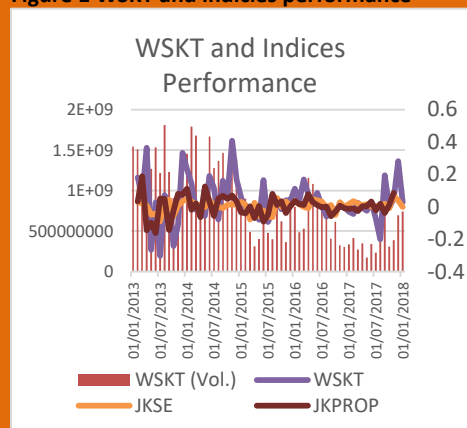
**No significant competitors** in a mid term give an impact on projects undertaken by WSKT, so the trend is soaring.

**The WSKT success indicator** is seen from the rise number of projects that have an impact on the increase in revenues and business profit from year to year.

**WSKT received major projects** such as Light Rail Transit (LRT) development in South Sumatera worth Rp8.4 trillion and in 2017 signed a contract for the Cibitung-Cilincing toll road project worth Rp5.08 trillion.

**For valuation**, we use the Dividend Discount Model and Multiple Relative Valuation Model. We choose more than one model to reduce bias in our result and these two models can complement each other

Figure 1 WSKT and indices performance



## INVESTMENT SUMMARY

### Good prospect from the undervalued stocks

By using the Dividend Discount Model (DDM), we assume that in the first year the growth rate will be 59% and the second until infinity it will be constant at 5%. This assumption based on the political condition that effecting this company. There might be a chance that the next government will not focus on the construction sectors. The estimated price of this model is IDR 4,063.18. and also with relative model to the competitor WSKT is the most prospect company with undervalue price IDR 3,011

### Historical WSKT's stock price

Based on historical data on the last 5 years, the stock price performance has shown the positive movement significantly in the last 2 months of 2017 but started to weaken slightly in January 2018.

### Good Corporate Governance.

Assessment of GCG implementation in the company is an important contribution for GCG in the future. Overall, the GCG performance of PT Waskita Karya Tbk at 88.245 out of 100 is very good. By following up of an action plan based on commitment of all related parties, it will improve performance and good corporate image for the company.

Aspek Pengujian Evaluation Aspects	Bobot Quality	Pencapaian Tahun Buku 2017 Achievement of the 2017 Fiscal Year	
		Nilai Score	Pencapaian (%) Achievement (%)
Komitmen terhadap Penerapan Tata Kelola Perusahaan yang Baik Secara Berkelanjutan Commitment to the Implementation of a Sustainable Good Corporate Governance	7,00	6,734	96,19
Pemegang Saham dan RUPS/Pemilik Modal Shareholders and GMS / Capital Owners	9,00	8,675	96,39
Dewan Komisaris/Dewan Pengawas Board of Commissioners/Supervisory Board	35,00	31,924	91,21
Direksi Board of Directors	35,00	32,685	93,39
Pengungkapan Informasi dan Transparansi Disclosure of Information and Transparency	9,00	8,226	91,40
Aspek Lainnya Other Aspects	5,00	-	-
Skor Keseluruhan Total Score	100,00	88,245	
Kualifikasi Kualitas Penerapan GCG Quality Qualification of GCG Implementation			"Sangat Baik" "Very Good"

## BUSINESS DECSRIPTION

PT Waskita Karya (Persero) Tbk was established on January 1, 1961 based on Deed No.80 dated 15-3-1973 drawn up before Kartini Muljadi, Bachelor of Law, Notary in Jakarta. Waskita is a company born from government policy to nationalize foreign companies in Indonesia in order to create independence and sovereignty in managing its potential to improve the welfare of the nation.

In the 1980s to 2000s, the company which engaged to

infrastructure sector continued to grow and won the trust of various parties to work on large-scale construction projects, such as Soekarno Hatta Airport, Siwabessy Multipurpose Reactor, Suramadu Bridge, BI Building, King Abdullah Financial District Riyadh and other major projects. The Company also equips itself with international quality certifications, such as ISO 9001:2000, ISO 14001:2004 and OHSAS 18001:2007 certification.

In December 2012, the Company embarked on a new phase by conducting an Initial Public Offering on the Indonesia Stock Exchange by releasing more than 30% ownership of shares to the public, following May 2012 bond issuance amounted to IDR75 billion. In 2014, the Company issued PUB I Bond phase I in November with A-rating amounted to IDR500 billion. In the same year, the Company established several subsidiaries including Waskita Toll Road, Waskita Beton Precast, Waskita Karya Realty, Prima Multi Terminal and Jasamarga Kualanamou Tol.

In 2015, the Company obtained State Capital Participation. (PMN) amounted to IDR3.5 trillion and Public Fund amount to IDR1.8 trillion, thus the total amount from Limited Public Offering through rights Issue is IDR5.3 trillion. On September 20, 2016, a subsidiary of PT Waskita Beton Precast performed initial public offering in the Indonesia Stock Exchange. In 2016, the Company issued Pub II Bond phase I and II with A-rating amounted to IDR2.9 trillion.

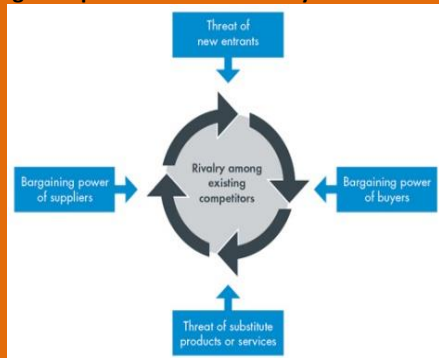
#### **INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING**

The positive developments in developed and emerging economies as the main motor of the world economy, the World Bank projects that the world economy will rise by 2.9% in 2018 from 2.7% in 2017. The strengthening of world economic growth is mainly sustained by the role of developing countries which is projected to record 4.5% GDP growth in addition to the contribution of 1.8% growth of developed economies.

The quality of economic development in Indonesia is supported by the confidence of foreign investors in the Indonesian economy. Currently, Indonesia's state debt rating has been categorized as worthy of investment by the three international rating agencies after Standard & Poor's (S&P) upgraded Indonesia's sovereign debt to BBB- with a stable outlook on May 19, 2017.

The efforts of the Government of the Republic of Indonesia to develop the economy by building the infrastructure impact on the significant growth of the domestic construction industry. The construction industry in Indonesia seems to rise and be in a new era, the golden era that sustains the development of this country.

Figure 2 porter five forces analysis



Based on data from the Central Bureau of Statistics (BPS), the construction sector as the second largest contributor to national economic growth after processing industry with a contribution of 0.67%.

The high contribution of the construction sector to the national economic growth is due to the allocation of Government's budget to infrastructure development in APBN 2017 at 19% which is higher than APBN 2016. The budget is used to build roads, bridges, ports, airport development, including pioneer airports for better connectivity. In addition, in the Strategic Plan of the Ministry of Public Works and People's Housing 2015-2019, said that the government will continue to encourage infrastructure development to support the achievement of regional economic growth.

These are the competitive positioning using the Porter's Five Forces analysis:

**Competitive Rivalry: Moderate**

In the construction sector, there are another State-Owned Enterprise like PT Pembangunan Perumahan (Persero) Tbk, PT Wijaya Karya (Persero) Tbk and PT Adhi Karya Persero Tbk. In the private sector, there are Total Bangun Persada, Pulau Intan, Acset Indonusa, etc. In practice, State-Owned Enterprise usually get more projects. But they often collaborates with the private sector, such as PT Waskita Karya, which works with private parties to build LRT(Light Rail Transit).

**Bargaining Power of Suppliers: Low**

Based on the firm's rule, if they can't finish the project on time, they have to change the suppliers. So suppliers' bargaining power for this part is quite low.

**Bargaining Power of Customers: High**

The main customer of PT Waskita Karya Tbk is the government. So if the company works poorly, then the government can give the penalty sanctions by not providing projects or even restructure the board of directors.

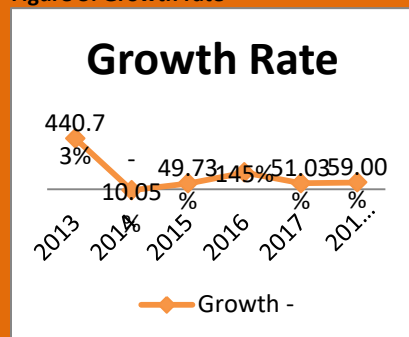
**Threat of Substitute Products or Services: Moderate**

The threat of substitute services could have occurred because in past months, there have been some work accidents.

**Threat of New Entrants: Moderate**

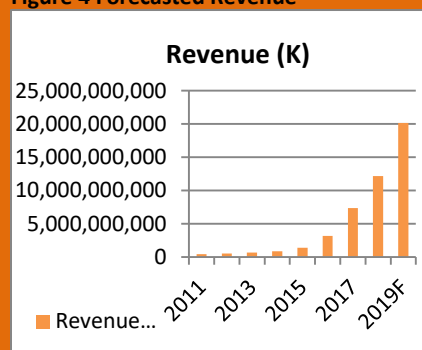
There are threats from various private parties who become new players in the field of construction. But for State-Owned Enterprises, they have their own percentages, especially for government projects. So the threat level is not too high.

Figure 3: Growth rate



Source : Team analysis

Figure 4 Forecasted Revenue



Source : Team analysis

## VALUATION

For the valuation, we use the Dividend Discount Model and Multiple Relative Valuation Model. The two model will complement each other and gave the best result. We choose more than one model to reduce bias in our result. The dividend discount model (DDM) is a procedure for valuing a stock's price by discounting predicted dividends to the present value. If the value obtained from the DDM is higher than the current trading price of shares, then the stock is undervalued, the Multiple Relative Valuation Model looks at the market valuation for WSKT benchmarked with its competitor.

**Dividend Discount Model (DDM).** We use this model because WSKT is a firm that always pays their dividend to their shareholders. To run this model, we need to find the expected future dividend. We use the average of the accumulated growth of the company from the first dividend until the latest one. From the six years of data, we find that the average growth rate is 59.00%. This number is considered as the high number of growth rate. After examining more thoroughly in the financial statements, this amount become makes sense because it is followed by high revenue from the company annually. With the growth rate, we will also find the future dividend by multiplying the growth rate with the latest dividend which show Rp 90.94 for 2018.

Table 1: Dividend &amp; Growth Rate WSKT

Year	Dividend	Growth
2012	Rp 2.12	-
2013	Rp 11.46	440.73%
2014	Rp 10.31	-10.05%
2015	Rp 15.44	49.73%
2016	Rp 37.87	145.3%
2017	Rp 57.19	51.03%
2018F	Rp 90.94	59.00%

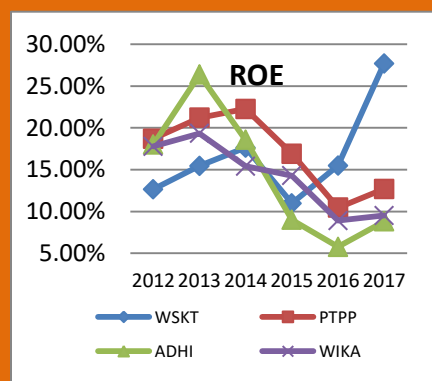
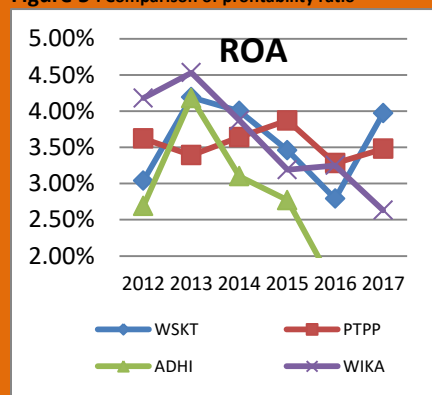
Source : Team analysis

After we have all of the data, we run the model. We use uneven growth rate DDM which combining the Gordon growth and multistage. We assume that in the first year the growth rate will be 59% and the second until infinity it will be constant at 5%. This assumption based on the political condition that effecting this company. There might be a chance that the next government will not focus on the construction sectors. The estimated price of this model is IDR 4,063.18

**Multiple Relative Valuations: Price to Earnings Ratio (PER).** We use PTPP, ADHI, WIKA to benchmark WSKT multiple.

RELATIVE VALUATION					
	WSKT	PTPP	ADHI	WIKA	INDUSTRY
EPS 2017	Rp 285.97	Rp 234.38	Rp 144.75	Rp 134.01	
DIVIDEND PAYOUT RATIO	20%	20%	20%	20%	
ROE 2017	27.71%	12.69%	8.80%	9.51%	
EXPECTED GROWTH RATE	22.17%	10.15%	7.04%	7.61%	
EPS 2018F	Rp 349.36	Rp 258.17	Rp 154.94	Rp 144.21	
PRICE TODAY	Rp 2,000	Rp 2,110	Rp 1,625	Rp 1,455	
FORWARD PE 2018	5.7	8.2	10.5	10.1	8.6
FAIR PRICE	<b>Rp 3,011</b>	<b>Rp 2,225</b>	<b>Rp 1,335</b>	<b>Rp 1,243</b>	

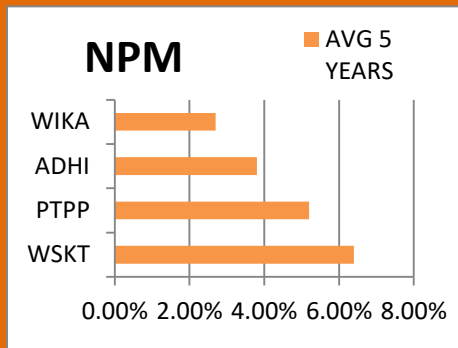
Figure 5 : Comparison of profitability ratio



PER is a method in multiples valuation that includes the market value in its calculation. To run the model above we should find the latest EPS, dividend payout ratio and ROE of 2017. After that, we can find the expected growth rate by multiplying the (1- Dividend Payout Ratio) with ROE. After that, we can find the forecasted EPS in 2018 by multiplying the latest EPS with an expected growth rate. By dividing the latest price with forecasted EPS, we will find forward PE 2018. To arrive in the fair price of the stock, we should find the industry PE by averaging the stock with all the competitor stock and multiply it with forecasted EPS 2018. The fair price with this model is IDR 3,011.

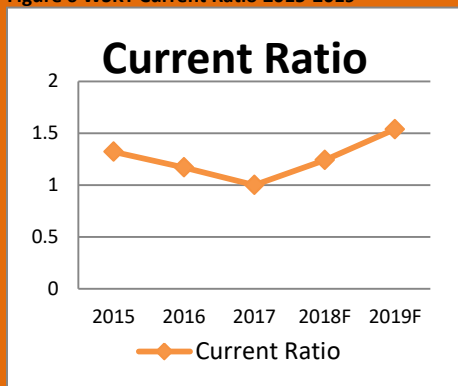
**The weighting of the models & Conclusions.** We assume that both models have the same value and are no better than one and the other. We assigned the same weight for both of the model 50% for DDM and another 50% for Multiple relative valuations. From this weight, we arrived at a price of IDR 3,537.09 per share compared to the previous price on July 23, 2018, of IDR 2,020 per share. We believe that WSKT is undervalued with a potential upside gain of 57.11% by the end of 2018.

	Weight	Price (IDR)	Weight x Price (IDR)
DDM	50%	Rp 4,063.18	Rp 2,031.59
Multiple Relative Valuation	50%	Rp 3,011.00	Rp 1,505.50
<b>Target Price</b>		<b>Rp</b>	<b>3,537.09</b>



Source :WSKT financial performance and team calculation

Figure 6 WSKT Current Ratio 2015-2019



Source :WSKT financial performance and team calculation

## FINANCIAL ANALYSIS

**Increasing Revenue.** Based on the five years performance the company revenue is growing year by year. It is caused by the higher number of infrastructure project that given from government to WSKT. We are forecasting the company revenue to be higher in the next year and reach 20,000 billion in the near future. The number shows in figure 5.

**Profitability ratio.** Based on profitability ratio analysis in the figure 3, WSKT had better performance compare to another construction firms in In Indonesia especially in 2017. WSKT have better performance in the last two years and outperforming another firm. In this analysis, we compare to another firm such as PTPP, ADHI, WIKA.

**Decreasing in a current ratio from 2014- 2017.** It is happening because there is so many projects that given to WSKT and they have to invest more in it. We expect in 2018 the current ratio will rise because of the information that WSKT will receive the reimbursement from government project as much as 15 trillion rupiahs. And it will increase the current asset of the company.

## INVESTMENT RISK

Risks faced by the company in running the business activities throughout the year, based on the Report of Risk Management are as follows :

**Change in economic condition.** As a construction company, WSKT needs to invest a big amount of money in running their project. The money to operate their business is from debt, and it depends on the interest rate and currency rate. The interest rate already hikes to 5.25% in 2018 (2017: 4.25%). And also to pay their debt that paid in dollar WSKT need to pay more because of the weakening of rupiah. To anticipate it WSKT needs to monitor the interest rate changes and do differentiation of loan portfolio also issuing the fixed rate bonds in local currencies.

**Work Accidents.** PT Waskita Karya Tbk is an example of a state-owned enterprise that become the mainstay of the government to boost infrastructure programs. But the number of projects being worked out is to be the mastermind behind the increased accidents. The company is considered negligent in paying attention to work safety because it is pursuing to the schedule of project deadlines being worked on. This condition is worsened by the construction project which became the land of Waskita, which continues to grow rapidly, but it is not balanced with the availability of sufficient labor. To minimize this risk, they make a

RK3LM documents before executing the project and regularly evaluating any reports which identify the risks along with the progress of the project work. Moreover, they recruit the experts of General K3 to plan and to implement the Occupational Safety and Health Management Systems, as well as identifying the danger and the plan to control it.

**Delays in Finishing the Project.** A fine penalty is what will be earned if Waskita is late in completing the project. It certainly has an impact on their finances because it increase the cost that must be incurred by the company. To reduce this problem, first they make a deal on both datelines for procurement of goods and materials, and the sanctions for the mismatch of time, material quality and volume and the impacts caused by these mismatch. They also optimize the land work during good weather. Furthermore, they make a coordination with the related parties to purchase materials in advance and utilize the required equipment owned by subcon and partners.

**Error and/or Delay in Sending Tax Reports.** The effect of late in sending the tax report is the firm has to pay a fine. Meanwhile, misreporting taxes inflict the company being investigated by the tax authorities of the government. In the inspection process, there will usually be found other problems in the company that may have not been discovered. The effort that firm has taken to avoid this problem is by having an external auditor to conduct the examination on the financial statements. Waskita also makes a regular reconciliation to some accounts, give reminders to the business units regarding the financial data reports using the taxation system to minimize the human error potentials and the tax record error. Furthermore, they increase the number and competency of HRD dealing with the tax aspects in Accounting and Taxation Department.

**Having Environmental Pollution Due To The Waste/Noise.** Waste produced by the company requires it to compensate the affected environment. In addition, the company is also asked to improve the waste disposal system and complete the full range of administrative requirements of the company in order to stop environmental pollution. What the company does to minimize this risk is regularly monitoring the trash and waste in the surrounding area, implemented the project trash and waste management program based on regular report of project performance and conducting AMDAL.

## APPENDIX

## APPENDIX I: INCOME STATEMENT

Dalam Ribuan IDR	12M 2017	12M 2016	12M 2015	12M 2014	12M 2013	12M 2012	12M 2011
<b>Total Pendapatan</b>	45,212,897,633	23,788,322,626	14,152,752,848	10,286,813,284	9,686,610,302	8,808,415,749	7,274,166,638
<b>Total Beban Pokok Penjualan</b>	-	-	-12,231,514,814	-9,177,916,819	-8,775,913,965	-8,076,157,819	-6,610,972,813
<b>Laba Kotor</b>	<b>9,463,532,426</b>	<b>3,967,838,258</b>	<b>1,921,238,033</b>	<b>1,108,896,465</b>	<b>910,696,337</b>	<b>732,257,930</b>	<b>663,193,825</b>
<b>Pendapatan Bersih Ventura Bersa...</b>	-	-	11,599,215	197,115,674	101,674,839	92,576,890	24,201,504
<b>Laba Kotor Setelah Ventura Bersa...</b>	9,463,532,426	3,967,838,258	1,932,837,249	1,306,012,139	1,012,371,176	824,834,819	687,395,329
<b>Total Beban Usaha</b>	-2,103,899,171	-788,282,594	-517,844,198	-430,558,649	-340,184,653	-284,720,190	-238,296,140
<b>Laba Usaha</b>	<b>7,359,633,255</b>	<b>3,179,555,664</b>	<b>1,414,993,051</b>	<b>875,453,490</b>	<b>672,186,522</b>	<b>540,114,629</b>	<b>449,099,189</b>
<b>Penghasilan/beban Lain-lain</b>	-2,738,987,100	-1,023,966,591	-16,988,927	-119,851,531	-60,985,888	-80,201,251	-117,272,258
<b>Laba Sebelum Pajak</b>	<b>4,620,646,155</b>	<b>2,155,589,073</b>	<b>1,398,004,124</b>	<b>755,601,960</b>	<b>611,200,635</b>	<b>459,913,378</b>	<b>331,826,931</b>
<b>Beban Pajak Penghasilan</b>	-419,073,664	-342,520,457	-350,413,451	-254,389,168	-243,230,406	-205,882,087	-159,837,737
<b>Laba Bersih Tahun Berjalan</b>	<b>4,201,572,491</b>	<b>1,813,068,617</b>	<b>1,047,590,673</b>	<b>501,212,792</b>	<b>367,970,229</b>	<b>254,031,292</b>	<b>171,989,194</b>
<b>Pendapatan Komprehensif Lain</b>	-24,790,005	-3,885,141	435,675,741	-4,155,181	-1,340,788	331,809	467,611
<b>Jumlah Laba Komprehensif</b>	<b>4,176,782,486</b>	<b>1,809,183,476</b>	<b>1,483,266,414</b>	<b>497,057,611</b>	<b>366,629,441</b>	<b>254,363,101</b>	<b>172,456,805</b>
<b>Laba Bersih Yang Dapat Diatribu...</b>	<b>4,201,572,491</b>	<b>1,813,068,617</b>	<b>1,047,590,673</b>	<b>501,212,792</b>	<b>367,970,229</b>	<b>254,031,292</b>	<b>171,989,194</b>
<b>Laba Komprehensif Yang Dapat Di...</b>	4,176,782,486	1,809,183,476	1,483,266,414	497,057,611	366,629,441	254,363,101	172,456,805

## APPENDIX II: BALANCE SHEET

Dalam Miliaran IDR	12M 2017	12M 2016	12M 2015	12M 2014	12M 2013	12M 2012	12M 2011
<b>Aset</b>							
Aset Lancar	52,427 B	36,882 B	18,075 B	10,524 B	7,781 B	7,790 B	4,604 B
Aset Tidak Lancar	45,469 B	24,543 B	12,234 B	2,018 B	1,007 B	577 B	512 B
<b>Total Aset</b>	<b>97,896 B</b>	<b>61,425 B</b>	<b>30,309 B</b>	<b>12,542 B</b>	<b>8,788 B</b>	<b>8,366 B</b>	<b>5,116 B</b>
<b>Liabilitas Dan Ekuitas</b>							
Liabilitas	75,141 B	44,652 B	20,605 B	9,693 B	6,405 B	6,359 B	4,496 B
Ekuitas	22,755 B	16,773 B	9,704 B	2,849 B	2,383 B	2,007 B	620 B
<b>Total Liabilitas Dan Ekuitas</b>	<b>97,896 B</b>	<b>61,425 B</b>	<b>30,309 B</b>	<b>12,542 B</b>	<b>8,788 B</b>	<b>8,366 B</b>	<b>5,116 B</b>
<b>Saham Beredar</b>	<b>14 B</b>	<b>14 B</b>	<b>14 B</b>	<b>10 B</b>	<b>10 B</b>	<b>10 B</b>	<b>0 B</b>

## APPENDIX III: FINANCIAL RATIOS

Dalam IDR	12M 2017	12M 2016	12M 2015	12M 2014	12M 2013	12M 2012	12M 2011
Share Outstanding	13.57 B	13.57 B	13.57 B	9.73 B	9.63 B	9.63 B	0.02 B
EPS (Annual)	285.97	126.23	77.20	51.56	38.21	26.37	9554.96
PE Ratio (Annual)	7.73	20.20	21.63	28.51	10.60	17.06	0.00
Price to Sales (Annual)	0.66	1.45	1.60	1.39	0.40	0.49	0.00
Return on Assets (Annual)	3.97%	2.79%	3.46%	4.00%	4.19%	3.04%	3.36%
Return on Equity (Annual)	27.71%	15.48%	10.97%	17.64%	15.45%	12.66%	27.73%
Return on Capital Employed (Annual)	19.48%	13.64%	13.19%	21.42%	20.89%	28.64%	128.69%
Interest Coverage (Annual)	3.81	3.24	4.16	4.77	6.94	3.18	2.92