

SECTOR UPDATE REPORT

MNC Sekuritas Research Division | April, 24 2019



CONSTRUCTION SECTOR UPDATE

Winding Road!

Positive Growth Amid New Contracts Limited to FY18

The construction sector continues as a 'locomotive' of economic growth, surging above the National GDP in FY18, with a level of 6.09% YoY (vs 6.79% YoY in FY17). We see that new contract disbursement which only reached 81.87% of companies target in FY18, became an indicator for weakening condition. A decline in the value of new contracts was the result of: 1) Delay of several large projects (e.g. 15,000 MW power plant project); 2) A rising leverage levels with debt-to-equity ratio (DER) of construction companies by 1.28x in FY18 (vs 1.13x in FY17).

Construction Sector Scenario in Future Governments

Bull Scenario: According to Jokowi-Ma'ruf Vision and Mission "Indonesia Maju" (at point 3) explicitly, incumbent will continue his equality development through decentralization program, infrastructure development and fostering local industries. It is expected that sustainable infrastructure development will continue to be carried out in order to support National Strategic Projects. In addition, Jokowi has allotted IDR415 trillion for infrastructure in the 2019 State Budget, for an increase of 1.04% YoY (vs IDR410.7 trillion in FY18).

Bear Scenario: In the first point of Vision-Mission, the government will focus on the development of human quality and industry 4.0, as shown in the 2019 State Budget, by raising education and health budgets at 10.90% YoY. This reflects a transition from a phase of 'hard infrastructure' to 'soft infrastructure'.

Geopolitical Instability Potentially Suppresses the Rate of Infrastructure Development

The so-called 'Trade War' between the United States, Europe and China, echoing global economic instability, will exert a significant impact on emerging market countries, such as Indonesia. The most significant one was volatility in world oil prices, rising by 41.77% YoY to USD73.25/bbl in 9M18, then swooning by -24.84% YoY to USD45.41/bbl for FY18. On the other hand, even though the Fed is displaying a dovish tendency in FY19E, this does not rule out a possible increase in FFR, which in FY18 popped up 100bps to 2.50%. This could potentially exert an impact on: 1) Volatility in world oil prices, disrupting fuel subsidies and infrastructure budgets in FY19E; 2) Depreciation of the Rupiah, with the potential of spiking construction costs; 3) Increase in 7-DRR has the potential to spike cost of funds for companies.

NEUTRAL Recommendations with Selected Stock: PTPP and WIKA

We consider that the construction sector's growth is relatively limited to FY19E to 1H20F, due to several things, including: 1) Consolidation and the focus of government for the new 2019-2024 period will be seen in 10M19; 2) Geopolitical condition potentially affect the Indonesian macro economy focus, thus giving an impact on the improvement of national infrastructure development. We maintain **NEUTRAL** ratings for the construction sector, with selected shares of **PTPP (HOLD TP Rp.2,490)** and **WIKI (HOLD TP Rp.2,220)**.

Ticker	Market Cap (IDR bn)	P/E (x)		PBV (x)		Rec.	Target Price (IDR)
		FY19E	FY20F	FY19E	FY20F		
ADHI	6,338.31	5.72	5.94	0.63	0.79	HOLD	1,970
PTPP	15,189.74	7.89	7.20	0.49	0.77	HOLD	2,490
WIKI	21,527.88	12.65	10.37	0.71	1.30	HOLD	2,220
WSKT	29,183.99	6.50	8.36	1.50	1.30	HOLD	2,200
WSBP	11,651.63	7.57	8.63	1.10	1.19	HOLD	460

Sources: Bloomberg, MNCS (as of April 24 2019)



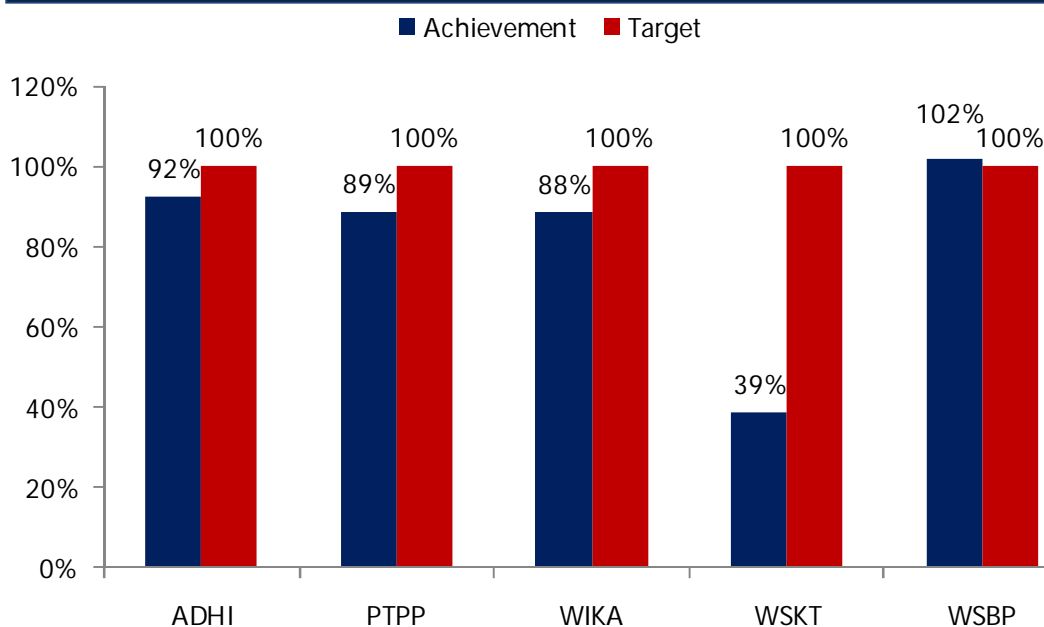
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Positive Growth Amid New Contracts Limited to FY18

Construction players under MNCS coverage reported positive performance through FY18. Revenues were observed to rise an average of 13.79% YoY (vs 55.07% YoY in FY17), reflecting 94.99%/93.68% of the MNCS/Consensus' target. WIKA led with the highest FY18 revenue growth at 19.03% YoY, followed by PTPP (16.82% YoY), WSBP (12.61% YoY), WSKT (7.91% YoY) and ADHI (3.29% YoY). Furthermore, average net income increased to 18.57% YoY (vs 60.70% in FY17), reflecting 88.01%/79.61% of the MNCS/Consensus target. WIKA booked 43.94% YoY in net profit growth, higher compared to others in FY18, followed by ADHI (24.98% YoY), WSBP (10.31% YoY), WSKT (10.25% YoY) and PTPP (3.36% YoY). PTPP lower net income growth (compared to peers) suffered from higher operating expenses and interest expenses, which rose by 26.36%/15.34% YoY in FY18. Against this, new contracts obtained in FY18 only marked 81.87% of the stated target; e.g. WSKT which only reached 39%, while it was only WSBP that exceeded the new contract target, recording 102%.

Exhibit 01. FY18 New Contract Results



Source : Company, MNCS

Exhibit 02. FY18 Financial Results

Company	Revenue (IDR Bn)		Growth YoY	Achivement		Net Income (IDR Bn)		Growth YoY	Achivement	
	FY18	FY17		MNCS	Cons	FY18	FY17		MNCS	Cons
ADHI	15,655.50	15,156.18	3.29%	75.97%	84.53%	644.16	515.42	24.98%	99.74%	83.12%
ACST	3,725.30	3,026.99	23.07%	110.08%	101.90%	21.42	153.79	-86.07%	11.72%	10.20%
PTPP	25,119.56	21,502.26	16.82%	95.94%	93.69%	1,501.97	1,453.14	3.36%	92.30%	88.35%
WIKI	31,158.19	26,176.40	19.03%	98.65%	93.23%	1,730.26	1,202.07	43.94%	134.57%	110.91%
WSBP	48,788.95	45,212.90	7.91%	95.13%	95.89%	4,252.33	3,856.92	10.25%	101.78%	95.34%
WSKT	8,000.15	7,104.16	12.61%	94.15%	92.81%	1,103.47	1,000.33	10.31%	87.93%	89.71%

Source : Company, MNCS

Bull and Bear Construction Sector Case Scenario in Future Governments Jokowi- Ma'ruf

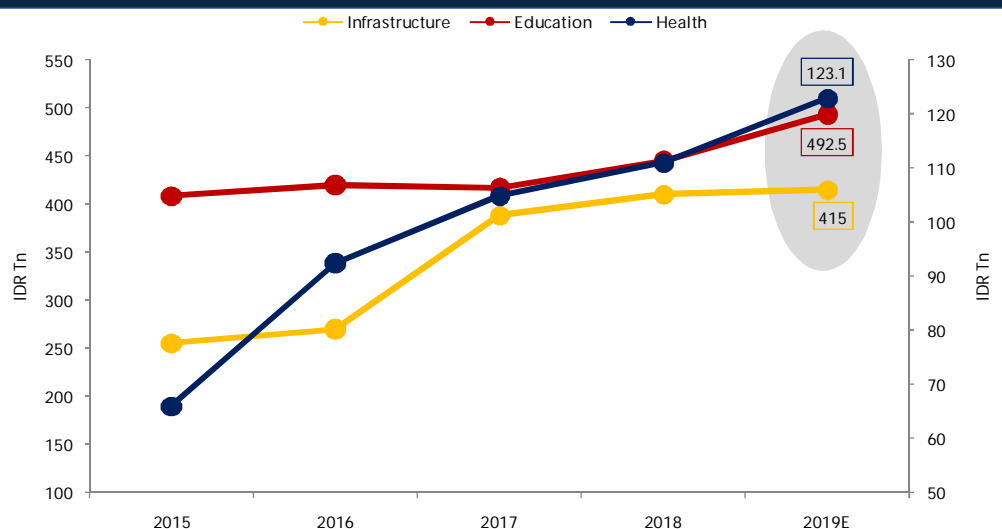
Bull Case

We believe that vision-mission and work program in 2019-2024 become the main focus for the infrastructure development. Based on KPU publications and several other sources (including the vision & mission and work programs outlined), several alternative scenarios deals with the potential sustainability of future infrastructure development are:

According to Jokowi-Ma'ruf Vision and Mission "Indonesia Maju" (at point 3) explicitly, incumbent will continue his equality development through decentralization program, infrastructure development and fostering local industries. It is expected that sustainable infrastructure development will continue to be carried out in order to support National Strategic Projects. In addition, Jokowi has allotted IDR415 trillion for infrastructure in the 2019 State Budget, for an increase of 1.04% YoY (vs IDR410.7 trillion in FY18).

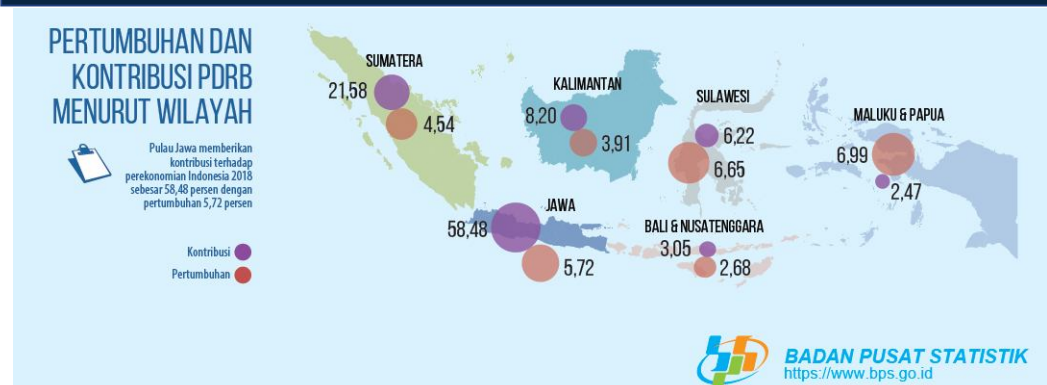
We believe there is hope for sustainability infrastructure development along with Kijing Port project and and 144 km of Pontianak-Singkawang toll road development at West Kalimantan. On the other hand, Jokowi still maintains his infrastructure budget for FY19E. This is quite relevant if we see that the GDP growth of Kalimantan only reached 3.91% YoY, where Kalimantan contributed 8.20% to National GDP.

Exhibit 03. Trend of Infrastructure, Education and Health Subsidies



Source : Ministry of Finance, MNCS

Exhibit 04. Growth and Contribution GDP by Region



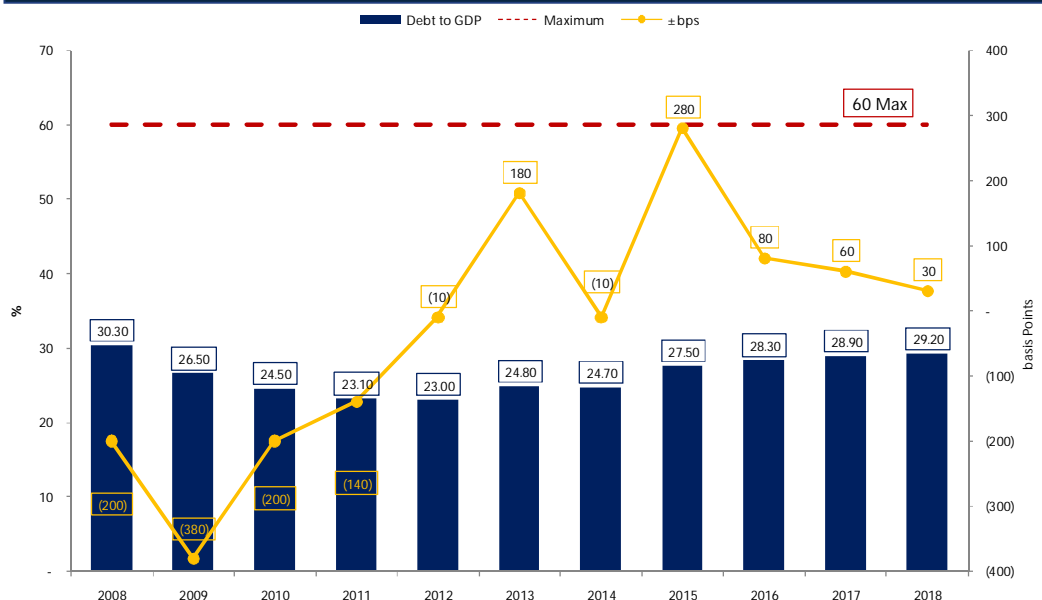
Source : BPS

Bear Case

In the first point of Vision-Mission, the government will focus on the development of human quality and industry 4.0, as shown in the 2019 State Budget, by raising education and health budgets at 10.90% YoY. This reflects a transition from a phase of 'hard infrastructure' to 'soft infrastructure'.

We see that Jokowi-Ma'ruf policy focusing on human resource development can potentially suppress the growth of new infrastructure and they prefer to continue the previous projects. On the other hand, based on IMF data, Indonesia's looming debt to GDP bulge, at 29.8% YoY in FY18 (vs 28.28% YoY in FY17) will stand as a challenge to national infrastructure financing. Some of these scenarios reveal new contracts in FY19E only tending to grow moderately, due to the process of consolidation and bargaining in determining a new government structure.

Exhibit 05. Trend of Debt to GDP Indonesia



Source : IMF, MNCS

Creative Financing as the Backbone Infrastructure Outlay

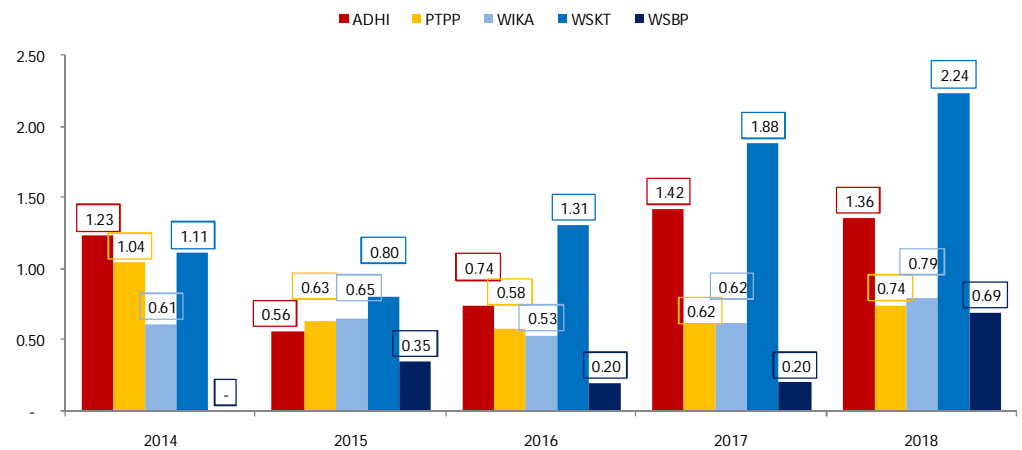
In the previous report: [Serene, until the Moment is Back](#) we discussed creative financing as a solution to financing needs, marked by the formation of a joint company, named PT Bandha Investasi Indonesia, to secure infrastructure funding. A Macquarie Group joint venture with PT Bandha Investasi may potentially generate USD600 million in investment, with the aim of funding toll road infrastructure projects. Furthermore, the establishment of Bandha Investment looks to provide funding of USD2-3 billion. In addition, JSRM has developed DINFRA Toll Road Mandiri-001, synergizing with PT Mandiri Manajemen Investasi, looking at a funding target of Rp1 trillion, through the basic asset of the Gempol-Pandaan toll road (13.61 km in length). We consider such a funding scheme as quite helpful in winding up several pending projects. In FY19E, the government targets the completion of 1,834.7 km of roads, including the 229km Trans Sumatra Toll Road.

Link Report: <https://www.mncsekuritas.id/detailpost/construction-sector-update-06112018>

SOE Holding as another Solution?

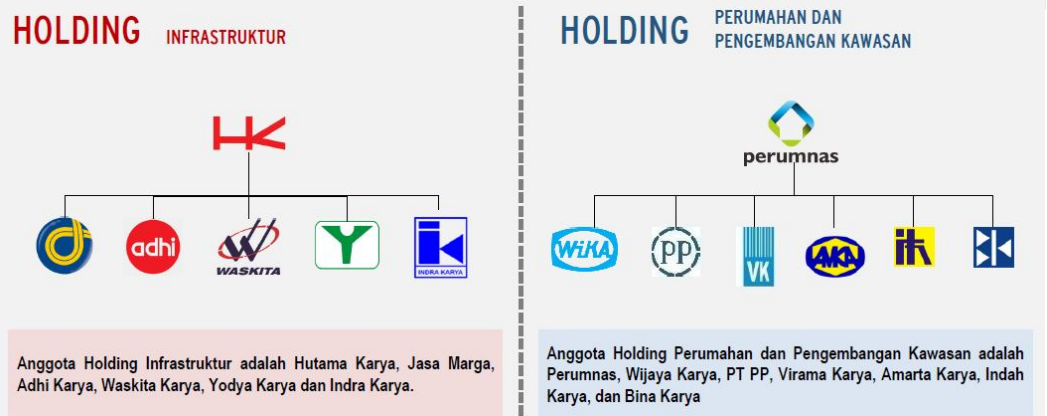
The establishment of two (2) holding companies under Hutama Karya and Perumnas is expected to create a more resilient and synergic business climate, allowing the Government to assess how similarity of business can bring four (4) benefits, including: 1) More efficient and controlled funding; 2) Strengthening and developing expertise through implementing best practices; 3) Integration of regional infrastructure, for an optimal structure; 4) Taking ownership of end-to-end of Build, Operate, Own, Transfer (BOOT) infrastructure projects. We consider the establishment of this holding provides benefits for the government side, particularly in accelerating development of projects such as the Trans Sumatra and Trans Kalimantan toll roads. Meanwhile, the evenly-distributed portion in each new project (no tender offers) has the potential to suppress contract growth and margins. Nevertheless, company funding will become more stable, along with the support from the holding. For example, WSKT has the possibility of squeezing down DER, which has swollen to 2.24x in FY18 (vs 1.88x in FY17).

Exhibit 06. Trend of Debt to Equity Ratio Construction Sector



Source : Companies, MNCS

Exhibit 07. Plan Mode SOE Holding

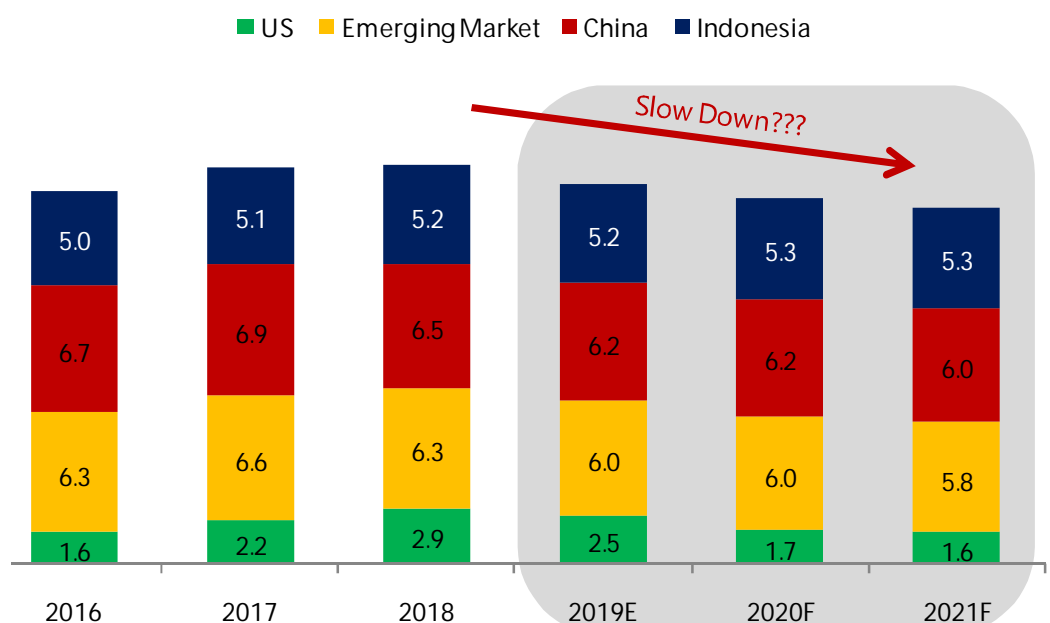


Source : Ministry of SOE

Geopolitical Instability will Potentially Impair the Rate of Infrastructure Development

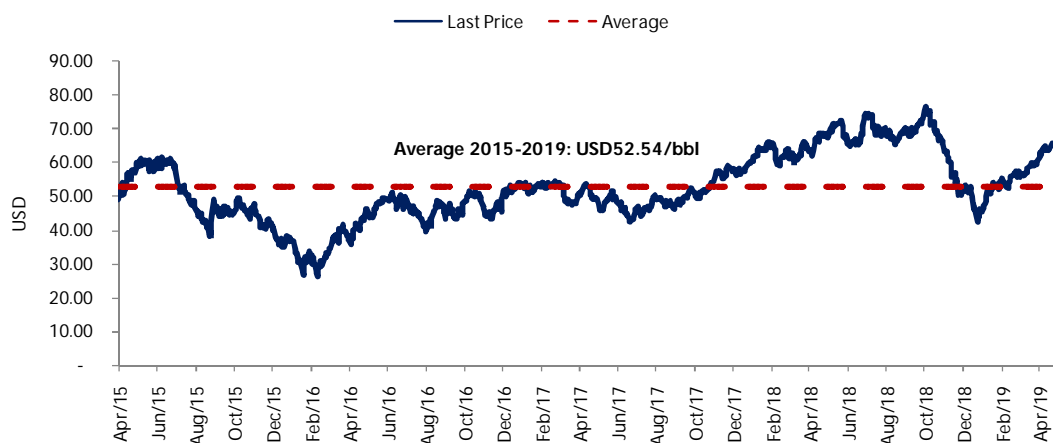
The ongoing Trade War between the United States, Europe and China, echoing global economic instability, will exert a significant impact on emerging market countries, such as Indonesia. The most significant one was volatility in world oil prices, rising by 41.77% YoY to USD73.25/bbl in 9M18, then swooning by -24.84% YoY to USD45.41/bbl for FY18. On the other hand, even though the Fed is displaying a dovish tendency in FY19E, this does not rule out a possible increase in FFR, which in FY18 popped up 100bps to 2.50%. This could potentially exert an impact on: 1) Volatility in world oil prices, disrupting fuel subsidies and infrastructure budgets in FY19E; 2) Depreciation of the Rupiah, with the potential of spiking construction costs; 3) Increase in 7-DRR has the potential to spike cost of funds for companies.

Exhibit 08. Forecast Economic Growth



Source : World Bank, MNCS

Exhibit 06. Trend of WTI Price



Source : Bloomberg, MNCS

NEUTRAL Recommendations with Selected Shares: PTPP and WIKA

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Exhibit 07. PE Band JAKINFRA



Exhibit 08. PE Band ADHI

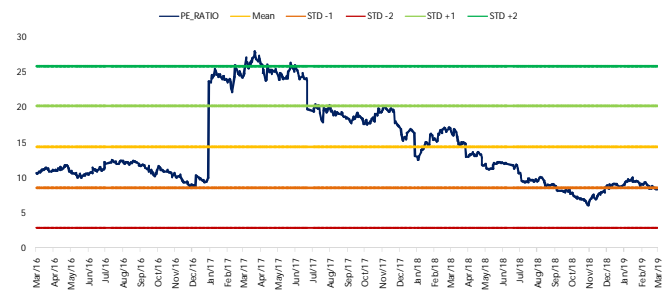


Exhibit 09. PE Band PTPP



Exhibit 10. PE Band WIKA

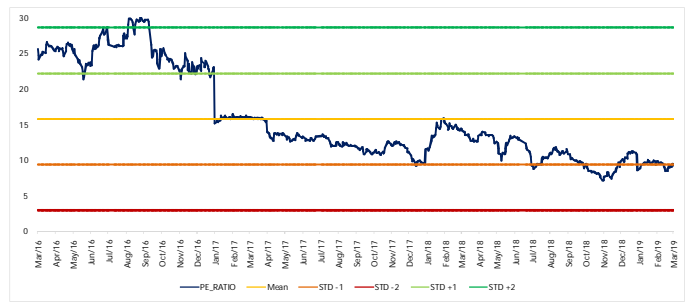


Exhibit 11. PE Band WSBP

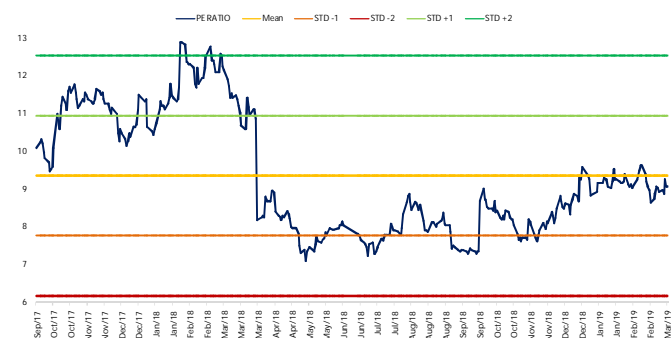


Exhibit 12. PE Band WSKT



Source : Bloomberg, MNCS

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MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

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