



CONSTRUCTION SECTOR UPDATE

Arriving at Borderline

A Gradual Progress on New Contracts Recovery

- New contract realization on average grew by 163.39% YoY in 1Q22. WIKA IJ led the highest new contracts, with the amount reaching IDR9.56tn (+105.34% YoY), followed by WSKT IJ at IDR5.68tn (+395.87% YoY), ADHI IJ at IDR3.9tn (+129% YoY), and PTPP IJ at IDR3.08tn (+23.39% YoY).
- The higher growth of new contracts in 1Q22 is primarily due to the major contracts awarded in 1Q22 were mostly pending contracts carried forward from 2021.
- Furthermore, the government noted that tax payments in all major business sectors continued to improve in the positive zone in 1Q22 and Apr-22. The construction and real estate sectors recorded growth of 21.2% YoY (vs -18.3% YoY in 1Q21), while in Apr-22 grew to 43.9% MoM.

New IKN Development to Prioritize Basic Infrastructure

- IKN development is expected to be realized soon with various accelerations on the construction of basic infrastructure, especially water management facilities and road construction to connect the new IKN with its surrounding regions. Through UU No.3,2022 concerning the Capital City (UU IKN) as the legal basis for the development of the New Capital City in East Kalimantan, the government is still trying to get investors in the IKN mega project, after previously SoftBank was reported to have withdrawn from the IKN megaproject consortium. The government hopes that the private sector and state-owned enterprises contribute around 80% of the ~USD33bn (around IDR466tn) project value.
- As of now, the government remains optimistic about getting new investors, from Saudi Arabia, Abu Dhabi and Chinese partnership funds, which are said to be interested in becoming IKN investors. The Minister of Public Work and Public Housing (PUPR) estimates that a IDR46tn budget is needed for the first development phase of IKN in FY22E-FY24F.
- In the initial stage, the government allocated IDR511bn in FY22 which was intended for the grand design of the IKN spatial plan as well as the construction of terminals, dams, Drinking Water Supply System (SPAM), land & forest rehabilitation.
- Meanwhile, INA has committed to invest in the three sections of Trans-Sumatera toll road (347 km), owned by Hutama Karya, as well as two sections of Trans-Jawa toll road owned by WSKT, Kanci-Pejagan (35 km) and Pejagan-Pemalang (58 km). The total investment value agreed for these toll roads combined is IDR39tn. WSKT to divest 4-5 asset toll roads in FY22E.

Leverage is still the Main Focus: Continued Access to Funds may be Impacted

- Balance of payment will be a concern in FY22E as the DER level for ADHI IJ, PTPP IJ, WIKA IJ, and WSKT IJ are stood at 1.86x/1.36X/1.63x and 4.40x in FY21. We also note that market should pay attention to some challenges and risks include: 1) Infrastructure acceleration policies; 2) Interest rate hikes; 3) The uncertainty of the economy.
- Special note to WSKT, management is currently trying to restructure the company's financial ratios. In line with the restructuring process that has been carried out by the company since last year, the company is optimistic that it can reduce the its interest expense by up to 15% YoY in FY22E. This is in line with the company's focus on achieving targets during the recovery period. This year, WSKT will also get the Government's fiscal support in the form of issuance of Bonds/Sukuk with Government and PMN guarantees. WSKT has also scheduled to conduct IDR1tn. Right issue around 3Q22, following the preceding capital injection from the government worth IDR3tn.

NEUTRAL Recommendation for the Construction Sector

Recommendation **NEUTRAL** outlook for **Construction sector** in FY22E. We see that the risk-reward of this sector is still quite high. However, we believe IKN-INA sentiment could be a turnaround story in the futures to overcome the balance sheet construction players. Risks include: 1) Slower new contract achievement, burn rate; and 2) Hyperinflated material cost during commodity boom.

Ticker	Market Cap (IDR bn)	PER (x)		PBV (x)		Rec.	Target Price (IDR)
		FY22E	FY23F	FY22E	FY23F		
ADHI IJ	3,970	118.02	88.88	0.41	0.44	HOLD	750
PTPP IJ	7,750	50.82	41.53	0.61	0.56	HOLD	1,100
WIKI IJ	11,620	48.19	36.09	0.68	0.65	HOLD	1,150
WSKT IJ	11,060	N/A	N/A	1.32	1.54	HOLD	880

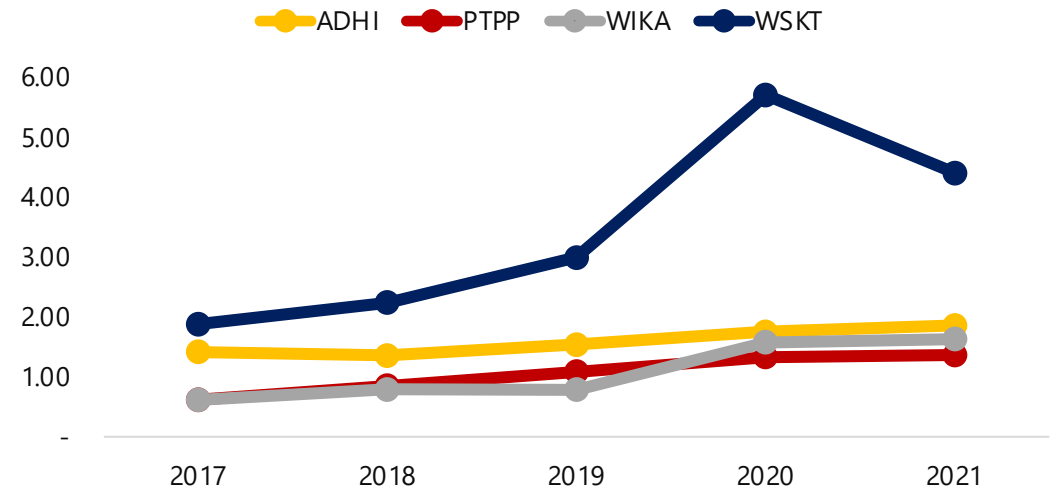
Sources: Bloomberg, MNCS



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The average DER of construction companies remains high, ranging between 1.37x-4.40x.

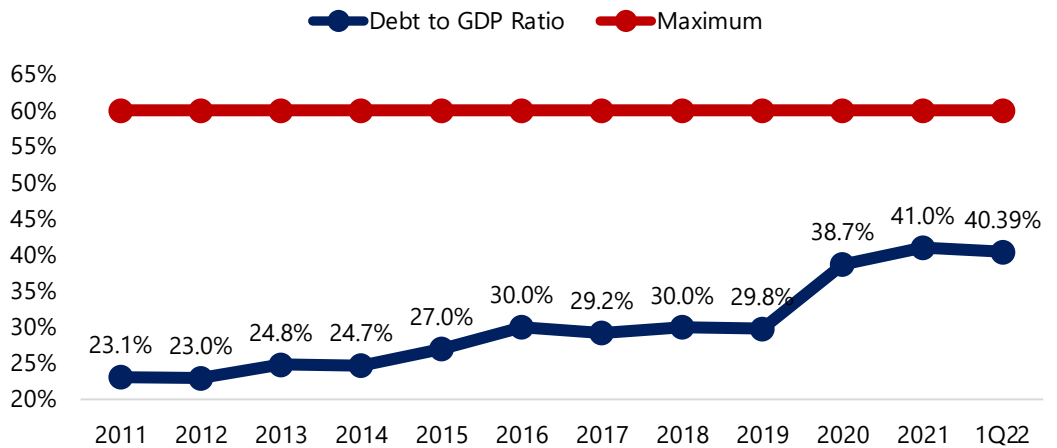
Exhibit 01. The Trend of DER in FY17-FY21



Sources : Companies, MNCS

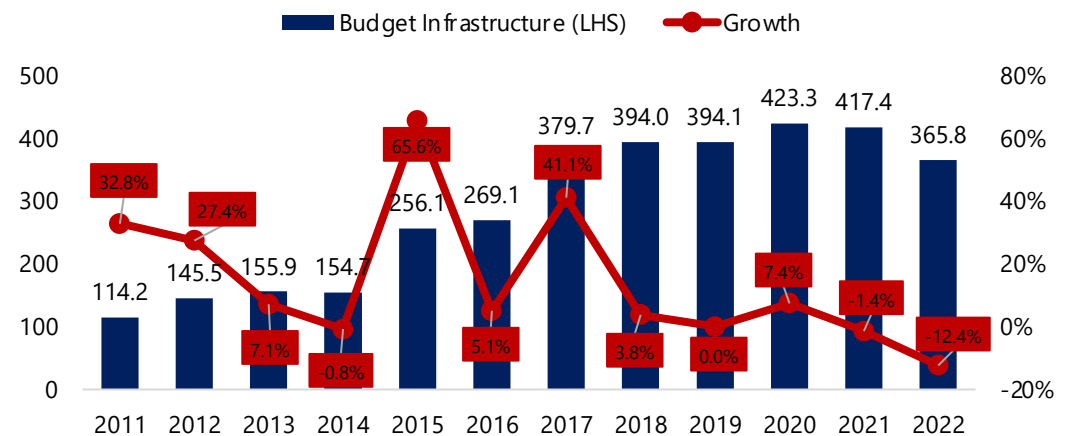
Indonesia's debt to GDP ratio is currently approaching the maximum level, which is limited by the government's room for infrastructure budgeting through debt schemes

Exhibit 02. Trend of Debt to GDP Indonesia in FY11-1Q22



Source: Ministry of Finance

Exhibit 03. The Trend Budget Infrastructure in FY11-FY22 (IDR bn)



Source: Ministry of Finance

MNC Research Industry Ratings Guidance

OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

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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