

BUY

Current Price	360
2018E P/E	6.2
Target Price	430
2018E P/E	7.5

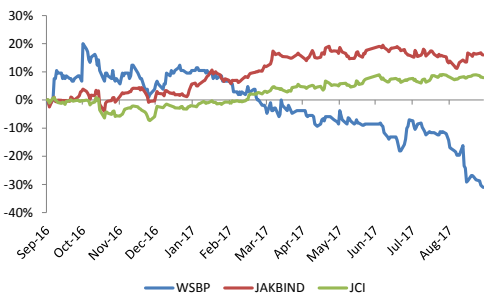
Precast

Bloomberg Ticker	WSBP.IJ
Reuters Ticker	WSBP.JK
52 week High	645
52 week Low	354
Market Cap (<i>Rp tn</i>)	9.49
Shares Outstanding (<i>millions</i>)	26,361
Daily avg vol (<i>'000 shares</i>)	97,895

Major Shareholders (%):

WSKT	60.00
Public	40.00

Relative performance vs JCI JKSE & basic industry index:



Source: Bloomberg, Reliance Research

PT Waskita Beton Precast Tbk (WSBP) is a subsidiary of PT Waskita Karya Tbk that specializes in precast and readymix production.

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Heavy Cloud from Parent's Divestment Setback

The failure in toll road divestment agenda of its major customer and consecutive lower gross margin in both Q1 and Q2 compared to last year may point to lower gross margin to come.

WSBP current operation which relies on its parent company for its turnkey contracts requires a lot of capital in the form of current and long term receivables. It has maintained high gross margin for both its precast and readymix products thanks to its turnkey arrangement with its parents. However, there are two problems underlying this seemingly good performance:

1. As we have mentioned in [our previous report](#), turnkey requires a lot of capital in the form of long term receivables (current receivables when it is due) and hence needs to be compensated by higher margin. According to our calculation, assuming cost of capital at 11.7%, a level similar to its close competitor Wika Beton, WSBP would require 23.7% gross margin just to cover its 2016 capital charge, all else constant. For the record, WSBP could only achieve gross margin of 22.3% in 2016.
2. The need of high margin to cover its cost of capital leads to the second problem which is its sustainability that is looking increasingly fragile. We first thought that readymix margin would quickly collapse considering there are a lot of competitors in readymix market. This has not been the case so far, and neither the slack in capacity utilization seems to affect precast margin at all. Except in the first quarter, gross margin for both precast and readymix still fly in the same note. This seemingly impressive persistency of high gross margin however, seems a suspect when we take a look comparatively between this year and last year performance: Gross margin for precast and readymix in the first and second quarter are both lower compared to the same periods in last year.

Aside from decreasing margin development, its parent company which is also a major customer, is having difficulties in its financing side. Not only this would create problems for WSBP to grow its new contracts, but it may put pressure on gross margin as well. The financing difficulties of its parent company also put WSBP at risk to accept more turnkeys from the parent even in the case where the constructions taken by the parent may not be turnkeys originally. That situation has not occurred thus far, but it is a possibility to consider.

Nonetheless, it is likely that turnkeys would continue to make up a huge portion of WSBP orderbook as we expect at least one new turnkey project, presumably Probolinggo-Banyuwangi toll road, would be added later in this year. We estimate this year turnkey contract value would make up 51% of its targeted IDR 22.6 trillion order book. With the high proportion of its turnkey values, it is then likely that WSBP could only start to earn positive free cash flow in 2020.

Valuation and Recommendation

Our revised valuation based on DCF estimate indicates that WSBP share is undervalued at current price, hence still warranting a **BUY** recommendation. Our estimated target price is IDR 430/share, implying a forward P/E 2018E multiple at 7.5 and P/B 2018E multiple at 1.1.

Investment Risks

Despite the current financing issue with its major customer who is a major toll road construction builder, the toll road development is still far from over and a lot more new toll road addition is in the government agenda. Therefore, the opportunity is there for WSBP to grow its new contract, especially if it could expand its customer base.

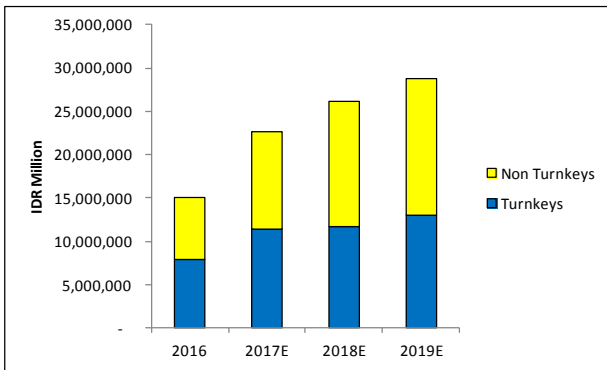
Other upside factor to consider is the addition of new quarry that could possibly rise its gross margin. For the moment, we remain cautious of its gross margin sustainability. As its high margin is largely achieved through turnkey deal with its parent company, the divestment setback of parent company put continuity of favorable margin at risk. The failure of toll road divestment of the parent company and consecutive lower gross margin in Q1 and Q2 compared to last year may point to lower gross margin to come.

Discounted Cash Flow Valuation

In IDR Million	2015	2016	2017E	2018E	2019E	2020E	2021E
NOPLAT	272,316	715,383	1,136,760	1,560,326	1,744,568	1,910,200	2,069,150
Depreciation	87,379	117,127	231,942	377,768	518,528	579,755	634,798
Gross Cash Flow	359,695	832,510	1,368,703	1,938,094	2,263,096	2,489,955	2,703,948
Change in working capital	1,433,188	(2,292,462)	(3,593,969)	213,713	(701,447)	(1,065,559)	(182,401)
Net Capex	(853,055)	(1,062,628)	(1,447,160)	(1,550,762)	(1,028,758)	(1,038,444)	(1,074,986)
Other investments	(2,232,062)	(1,322,357)	1,113,502	(1,047,149)	(566,155)	(55,446)	(131,260)
Gross investments	(1,651,929)	(4,677,447)	(3,927,628)	(2,384,199)	(2,296,359)	(2,159,449)	(1,388,647)
Free Cash Flow	(1,292,234)	(3,844,937)	(2,558,925)	(446,105)	(33,263)	330,506	1,315,302
ROIC	13.7%	10.9%	11.1%	12.7%	12.4%	12.2%	12.6%
WACC	11.68%						
Sum of disc Cash Flow exc t		3,589,491					
Terminal assumptions							
growth	5%						
RONIC	13.00%						
PV of Cont Val		6,931,670					
Operating Value		10,521,161					
Non operating assets		4,205,820					
Enterprise Value		14,726,981					
Non equity claims		3,357,977					
Equity Value		11,369,004					
Shares outstanding (million)		26,361					
Equity/Share (IDR/Share)							431

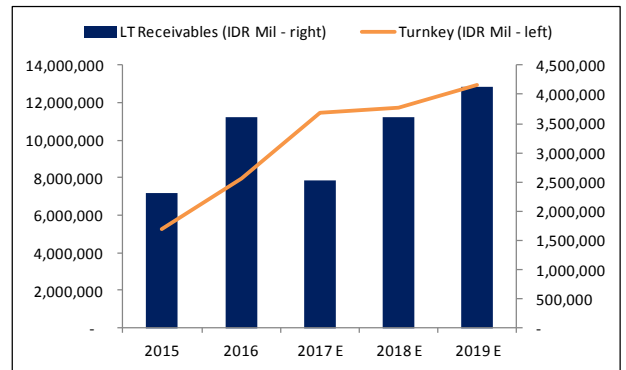
Source: Reliance Sekuritas Research

Order Book Composition Projection



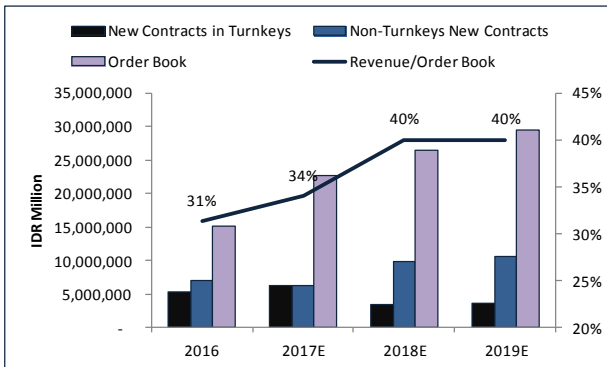
Source: Company, Reliance Sekuritas Research

Turnkeys and LT Receivables Projection



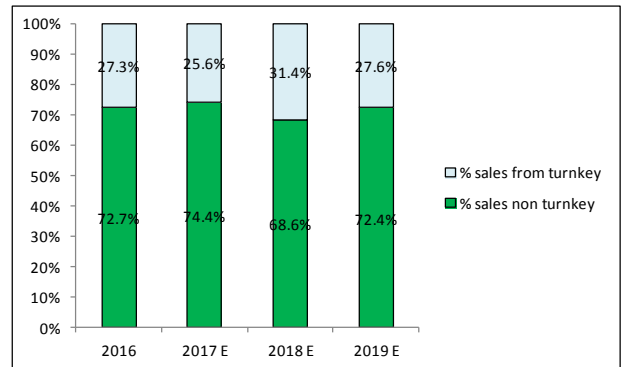
Source: Company, Reliance Sekuritas Research

New Contracts Projection



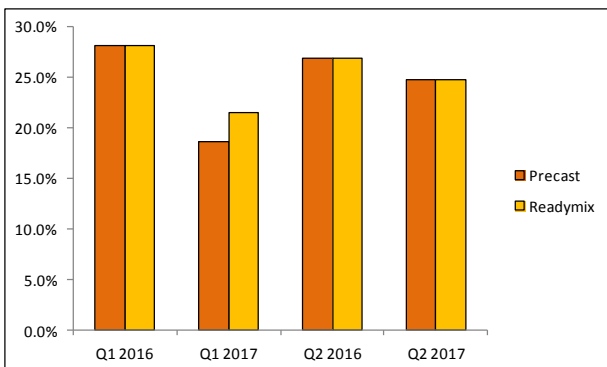
Source: Company, Reliance Sekuritas Research

Turnkeys Contribution to Revenue



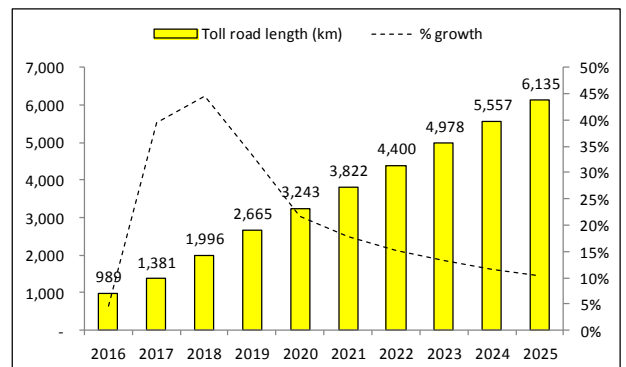
Source: Reliance Sekuritas Research

Products Gross Margin



Source: Company, Reliance Sekuritas Research

Toll Road Length Agenda



Source: BPS, BJPT, Reliance Sekuritas Research

Financial Analysis

Income Statement

(IDR Mil)	2015	2016	2017 E	2018 E	2019 E
Revenue	2,644,320	4,717,150	7,678,220	10,539,180	11,783,643
COGS	(2,224,890)	(3,667,088)	(6,019,724)	(8,262,717)	(9,238,376)
Gross Profit	419,430	1,050,062	1,658,496	2,276,463	2,545,267
SGA	(56,076)	(97,012)	(158,171)	(217,107)	(242,743)
Other expense	(266)	(15,922)	(11,517)	(15,809)	(17,675)
Profits in JV	-	16,716	26,874	36,887	41,243
EBIT	363,088	953,844	1,515,681	2,080,434	2,326,091
Interest income	2,359	58,048	84,116	68,104	78,429
Interest expense	(19,582)	(45,154)	(102,505)	(122,569)	(140,348)
Others	(316)	606	-	-	-
EBT	345,549	967,344	1,497,292	2,025,969	2,264,173
Income taxes	(11,181)	(332,525)	(374,323)	(506,492)	(566,043)
Net Income exc extraor	334,368	634,819	1,122,969	1,519,477	1,698,130
Net Income (reported)	429,018	635,271	1,122,969	1,519,477	1,698,130

Cash Flow Statement

(IDR Mil)	2015	2016	2017 E	2018 E	2019 E
Net Income	429,018	635,271	1,122,969	1,519,477	1,698,130
Depreciation	87,379	117,127	231,942	377,768	518,528
Change in work. capital	1,433,188	(2,292,462)	(3,593,969)	213,713	(701,447)
Others	(2,232,062)	(1,307,381)	1,129,238	(1,035,706)	(561,177)
CFO	(282,477)	(2,847,445)	(1,109,819)	1,075,252	954,034
CaPex	(853,055)	(1,062,628)	(1,447,160)	(1,550,762)	(1,028,758)
Other investments	-	(17,819)	(12,894)	(11,444)	(4,978)
CFI	(853,055)	(1,080,447)	(1,460,054)	(1,562,206)	(1,033,735)
CFF	961,497	8,035,526	1,769,265	1,003,215	888,916
Change in cash	(174,035)	4,107,634	(800,608)	516,262	809,214

Ratios

Growth	2015	2016	2017 E	2018 E	2019 E
Revenue		78.4%	62.8%	37.3%	11.8%
NOPLAT		162.7%	58.9%	37.3%	11.8%
Net Income		48.1%	76.9%	35.3%	11.8%
Profitability					
ROE	32.2%	8.6%	13.2%	15.1%	14.5%
ROIC	13.7%	10.9%	11.1%	12.7%	12.4%
EBIT margin	13.7%	20.2%	19.7%	19.7%	19.7%
Net Margin	16.2%	13.5%	14.6%	14.4%	14.4%
Leverage					
Debt/Equity	57%	45%	60%	61%	60%
Debt/Invested Capital	38%	51%	50%	50%	50%
Valuation					
Implied P/E(x)		17.91	10.12	7.48	6.70
Implied P/Book(x)		1.54	1.33	1.13	0.97
Implied EV/Inv. Cap(x)		2.25	1.44	1.20	1.05
Implied EV/EBITDA(x)		13.75	8.43	5.99	5.18

Source: Reliance Sekuritas Indonesia Research

Balance Sheet

(IDR Mil)	2015	2016	2017 E	2018 E	2019 E
Cash and eq	98,186	4,205,820	3,405,212	3,921,473	4,730,688
Account Receivables	516,900	3,046,134	7,884,261	8,871,368	10,095,148
Inventory	54,551	231,947	376,548	516,853	577,883
Prepaid taxes	181,373	291,621	475,419	652,563	729,617
Prepaid expenses	152,655	357,098	580,600	796,935	891,037
Total Current Assets	1,003,665	8,132,620	12,722,040	14,759,193	17,024,373
LT AR	2,320,143	3,609,830	2,533,056	3,614,537	4,195,625
Net PPE	987,351	1,932,852	3,148,070	4,321,064	4,831,294
Deffered taxes	-	2,843	-	-	-
Investment in JV	-	17,819	30,713	42,157	47,135
Other LT assets	21,249	38,303	61,426	84,313	94,269
Total Non-Current Assets	3,328,743	5,601,647	5,773,265	8,062,071	9,168,323
Total Assets	4,332,408	13,734,267	18,495,305	22,821,264	26,192,696
LIABILITIES					
Account Payable	730,169	1,541,852	2,509,621	3,444,724	3,851,476
Gross amount to third parties	1,062,218	891,651	1,451,499	1,992,338	2,227,593
Taxes payable	208,284	161,773	262,953	360,931	403,549
Accrued expenses	77,188	83,989	136,735	187,684	209,846
Advances from customers	48,149	123,587	201,948	277,195	309,926
ST bank loan	301,785	1,907,061	2,921,393	3,493,225	3,999,907
Other liabilities	4,389	56,404	92,559	127,048	142,049
Total Current Liabilities	2,432,182	4,766,317	7,576,708	9,883,145	11,144,346
LT bank loans	459,255	1,448,924	2,203,858	2,635,240	3,017,474
Other LT liabilities	109,330	111,533	184,277	252,940	282,807
Pension fund liabilities	816	1,992	1,992	1,992	1,992
Total LT liabilities	569,401	1,562,449	2,390,127	2,890,172	3,302,273
Total Liabilities	3,001,583	6,328,766	9,966,835	12,773,317	14,446,619
EQUITY	1,330,825	7,405,501	8,528,470	10,047,947	11,746,077

Key Assumptions

	2015	2016	2017 E	2018 E	2019 E
New Contract Growth		360.5%	1.3%	7.0%	7.0%
Order Book Growth	43.2%	156.4%	50.0%	16.7%	11.8%
Turnkey (IDR)/OrderBook(IDR)		52.8%	50.7%	45.0%	45.0%
Revenue/Order Book	45.0%	31.3%	34.0%	40.0%	40.0%
Gross Margin					
Precast	15.9%	22.3%	21.0%	21.0%	21.0%
Readymix	15.9%	22.3%	21.0%	21.0%	21.0%
Service			27.0%	27.0%	27.0%

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