

23 August 2019

Infrastructure | Construction

Indonesia Infrastructure

Overweight (Maintained)

Beneficiaries Of BI Rate Cut; O/W

Stocks Covered 5
Ratings (Buy/Neutral/Sell): 5 / 0 / 0
Last 12m Earnings Positive

- **Stay OVERWEIGHT, Top Picks: Jasa Marga, Waskita Karya, Wijaya Karya, and PP Persero.** Bank Indonesia's (BI) recent rate cut – 50bps decline in just two months – should be positive for infrastructure firms. In our calculation, their FY20F earning should increase 6.5% on average, assuming the BI rate declines 50bps starting in Sep 2019. Heavily-leveraged firms like JSMR and WSKT are the biggest beneficiaries of lower financing costs. Meanwhile, PTPP has the strongest interest coverage among construction companies under our coverage.
- **BI's second rate cut in a row.** After Jul 2019's rate cut, the central bank consecutively reduced its benchmark interest rate 25 bps in Aug 2019. This caused the BI benchmark rate to decline to 5.5% in Aug 2019 from 6% in Jun 2019 – indicating clearly that BI will be more pro-growth. We see this move directly affecting the infrastructure sector, as it should lower financing costs at an extent degree. Our calculations show that every 25bps reduction results in the sector's FY20F earnings increasing 3.3% on average
- **JSMR is the biggest beneficiary,** as – based on our calculations – its FY20F earning should increase 11.9%, assuming its financing cost declined by 50bps. The company's NDER was 1.5x at end Jun 2019, with a 1H19 interest coverage ratio of 2.5x. JSMR's total debt stood at IDR30.8trn, with cash of IDR4.6trn. After divesting Jasamarga Pandaan Tol, we expect to see further divestments or securitisation of toll roads – this should support the company's cash position.
- **WSKT is the next likely beneficiary.** Assuming financing costs declined 50bps, in our calculation the company's FY20F earning should increase 8.2%. In Jun 2019, WSKT's NDER was 4x, with interest coverage ratio of 1.5x. Its total debt stood at IDR80trn, with cash amounting to IDR4.2trn. WSKT has indicated that it should receive payments in the next 2-3 months from its completed turnkey projects – amounting to ~IDR20trn. This should lower its debt and strengthen the company's cash position going forward.
- **Adhi Karya is the third-biggest beneficiary.** ADHI's FY20F earnings should increase 4.9%, assuming the BI rate declines 50bps. Based on its latest results, ADHI's interest coverage stood at 2x, with NDER of 1.3x as at end Jun 2019. Total debt stood at IDR10.5trn with cash of IDR2.2trn. It has taken loans to finance its total carry-over orderbook and new contracts at IDR36.3trn and IDR6.1trn, with more on the Jabodetabek Light Rapid Transit project.
- **Although it has low gearing, WIKA should also benefit.** Its FY20F earnings should increase 4.2% for every 50bps adjustment in the BI rate. At end June, WIKA's NDER was 0.8x, supported mainly by ample of cash that comparably suppressed its debt burden. The company's EBIT during this period covered 2.1x of interest expenses.
- **PTPP's interest coverage is the strongest.** It has shown to have the best ability to cover its interest – at 3.6x in 1H19 – the strongest at the lot. However, its cash amount to EBIT, by comparison, was the smallest vis-à-vis the others. PTPP recorded 1H19 NDER of 1.1x – the 50bps sensitivity will revert its earnings to 3.5%.

Pecking Order

Target Price

Jasa Marga (JSMR IJ) – BUY	IDR7,000
Waskita Karya (WSKT IJ) – BUY	IDR2,700
Wijaya Karya (WIKI IJ) – BUY	IDR2,900
PP Persero (PTPP IJ) – BUY	IDR2,800
Adhi Karya (ADHI IJ) – BUY	IDR2,100

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Interest rate sensitivity to earnings

Company	FY19F	FY20F
	Change Earnings -50bp	Change Earnings -50bp
Waskita Karya	2.1%	8.2%
Wijaya Karya	1.0%	4.2%
PP Persero	1.0%	3.5%
Adhi Karya	1.5%	4.9%
Jasa Marga	2.9%	11.9%
Sector Average	1.7%	6.5%

Note: Assuming 50bps rate cut starting in September
Source: Company data, RHB

Link to previous reports:

[Infrastructure Budget Recorded New High; O/W Infrastructure Holding Company – New Era; O/W Infra Still a Key Focus for Jokowi's 2nd Term New Toll Projects, Lower Bond Taxes; O/W Solid 4M19 Secured New Contracts; O/W Likely Higher State Budget For Infra In 2020](#)

Company Name	Rating	TP (IDR)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
Jasa Marga	BUY	7,000	23%	19.8	1.9	1.5
Waskita Karya	BUY	2,700	49%	6.7	1.2	3.2
Wijaya Karya	BUY	2,900	23%	11.1	1.3	1.8
PP Persero	BUY	2,800	46%	6.8	0.7	2.9
Adhi Karya	BUY	2,100	51%	6.5	0.7	2.6

Source: Company data, RHB

Figure 1: Interest rate sensitivity on earnings

Company	FY19F*		FY20F	
	Earnings change -25bps	Earnings change -50bps	Earnings change -25bps	Earnings change -50bps
Waskita Karya	1.0%	2.1%	4.1%	8.2%
Wijaya Karya	0.5%	1.0%	2.1%	4.2%
PP Persero	0.5%	1.0%	1.7%	3.5%
Adhi Karya	0.7%	1.5%	2.5%	4.9%
Jasa Marga	1.5%	2.9%	5.9%	11.9%
Sector average	0.9%	1.7%	3.3%	6.5%

Note: Assuming FY19F interest rate cut 50bps effective Sep 2019

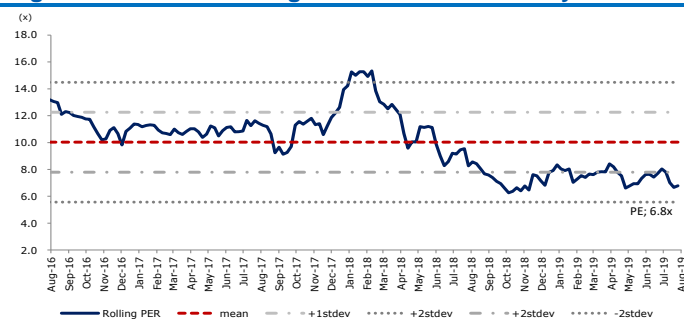
Source: Company data, RHB

Figure 2: Infrastructure companies' debt profile highlights (1H19)

1H19 debt calculation (IDRbn)	JSMR	WSKT	ADHI	WIKA	PTPP
EBIT	2,757	2,454	643	1,218	1,045
Interest expenses	1,094	1,627	315	579	291
Cash	4,559	4,243	2,234	5,625	156
Short-term debts	4,859	36,012	5,033	6,929	5,151
Long-term debts	25,966	39,951	5,438	11,105	8,937
Total debts	30,826	75,962	10,471	18,034	14,088
Shareholder's equity	17,660	18,024	6,361	15,348	12,809
DER (x)	1.7	4.2	1.6	1.2	1.1
NDER (x)	1.5	4.0	1.3	0.8	1.1
Interest coverage (x)	2.5	1.5	2.0	2.1	3.6

Source: Company data, RHB

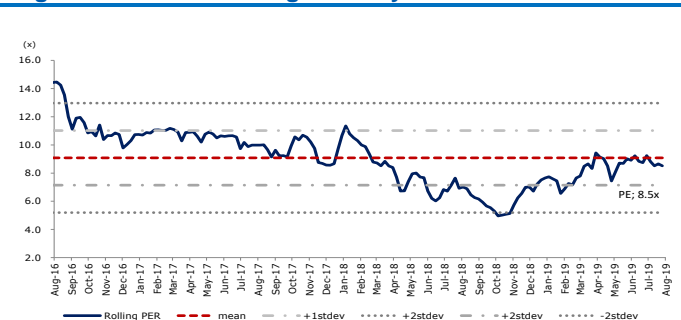
Figure 3: WSKT is trading below -1SD from its 3-year mean



Note: Data is as at 22 Aug 2019

Source: Company data, RHB, Bloomberg

Figure 4: WIKA is trading at its 3-year mean



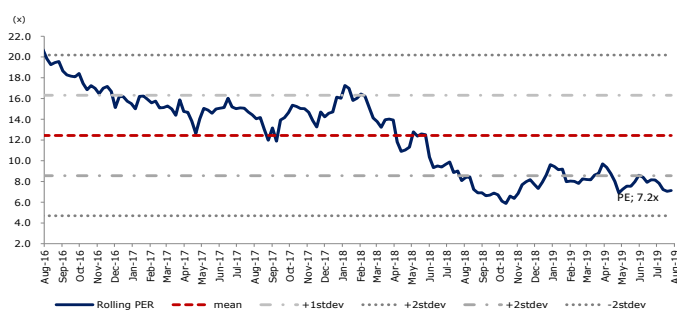
Note: Data is as at 22 Aug 2019

Source: Company data, RHB, Bloomberg

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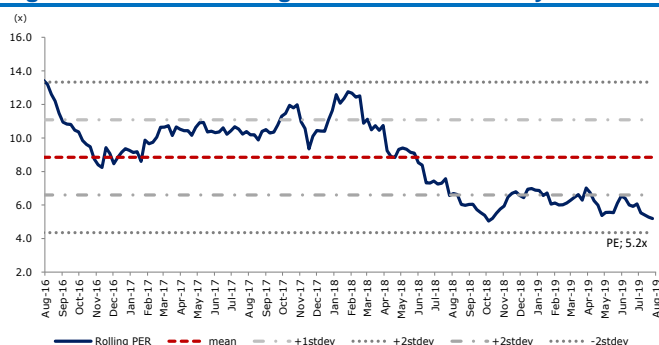
Figure 5: PTPP is trading near its -1SD from its 3-year mean



Note: Data is as at 22 Aug 2019

Source: Company data, RHB, Bloomberg

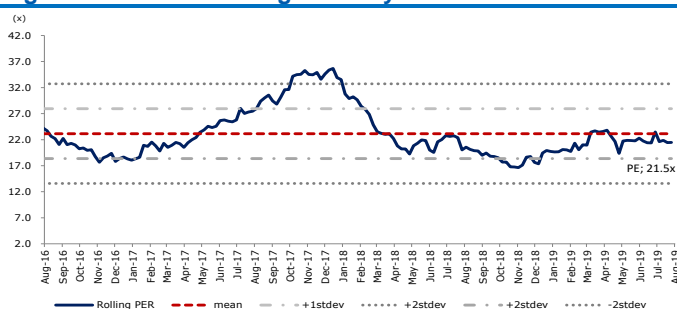
Figure 6: ADHI is trading near -2SD from its 3-year mean



Note: Data is as at 22 Aug 2019

Source: Company data, RHB, Bloomberg

Figure 7: JSMR is trading at its 3-year mean



Note: Data is as at 22 Aug 2019

Source: Company data, RHB, Bloomberg

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