

COMPANY UPDATE

Adhi Karya (ADHI IJ)

Fully Achieves 2022 New Contract Target And Receives Rp2.67t In New Capital

ADHI fully achieved its 2022 target by booking Rp23.7t in new contracts (+57% yoy). The rights issue is already completed, and uncertainty over the share price has lifted. ADHI received Rp2.67t in new equity which strengthened its balance sheet with a lower DER of 1.2x (from 1.8x). LRT projects reached 95% progress and should start commercial operations in Jul 23, which should boost ADHI's TOD property marketing sales. Upgrade to BUY. Target price: Rp645.

WHAT'S NEW

- **57% yoy growth of 2022 new contract achievement.** Adhi Karya (ADHI) secured Rp Rp23.7t in new contracts in 2022. ADHI surpassed its own new contract target by 103%. Management targets 10-15% growth which translates to Rp26t-27.3t for new contracts in 2023. ADHI is optimistic on booking positive new contract growth in 2023 despite entering a political year. A huge project, the Jakarta Outer Ring Road (JORR), will be announced in 2023 with ADHI targeting to secure a Rp5t contract.
- **LRT Jabodebek to commence commercial operations in Jul 23.** ADHI's flagship project of Light Rail Transit (LRT) Jabodebek reached 95.5% completion as of Dec 22. Currently, the LRT is in the testing and commissioning phase. Indonesia Railways Company (KAI), the project owner of LRT Jabodebek, is targeting to commence commercial operations for the public in Jul 23. This should bring positive impact for the marketing sales of ADHI's transit-oriented development (TOD) properties located close to LRT stations. ADHI's property segment contributes gross margin that is on average 20% higher than the construction segment (average of 15%). The positive growth of the property segment's revenue may boost margins for ADHI.

SHAREHOLDER STRUCTURE AFTER RIGHTS ISSUE

Shareholders	Pre- Rights Issue Shares (b)	Ownership (%)	add new shares (b)	After Rights Issue Shares (b)	Ownership (%)	Change in ownership (%)
Republic of Indonesia	1.82	51.0%	3.59	5.41	64.3%	26.1%
Public	1.74	49.0%	1.25	3.00	35.7%	-27.2%
Total	3.56	100.0%	4.85	8.41	100.0%	

Source: UOB Kay Hian

- **Additional Rp2.67t in new capital.** ADHI finalised the equity funding through a rights issue in Nov 22. ADHI received Rp1.97t of state capital injection, with the number of shares of the Republic of Indonesia increasing by 3.6b shares to 5.4b. ADHI also got Rp690b in new capital from 36% of its public investors that exercised their rights. Since the public portion of rights were not fully subscribed (then forfeited), public ownership diluted by 27.2% (from 49% to the current 35.7%). Meanwhile, the ownership of the Republic of Indonesia increased from 51% to 64.3%.

KEY FINANCIALS

Year to 31 Dec (Rpb)	2020	2021	2022F	2023F	2024F
Net turnover	10,828	11,530	13,949	15,900	14,756
EBITDA	1,171	1,290	1,259	1,532	1,579
Operating profit	1,008	1,121	1,115	1,383	1,416
Net profit (rep./act.)	24	55	72	216	292
Net profit (adj.)	24	55	72	216	292
EPS (Rp)	6.7	15.5	20.2	60.7	81.9
PE (x)	73.1	31.7	24.3	8.1	6.0
P/B (x)	3.2	3.1	2.1	2.1	2.0
EV/EBITDA (x)	9.7	8.8	9.0	7.4	7.2
Dividend yield (n.a.)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	0.2	0.5	0.5	1.4	2.0
Net debt/(cash) to equity (%)	133.1	132.3	55.5	80.0	76.9
Interest cover (x)	1.5	1.5	1.5	1.7	1.8
ROE (%)	0.4	1.0	1.0	2.6	3.4
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: ADHI, Bloomberg, UOB Kay Hian

BUY (Upgraded)

Share Price	Rp492
Target Price	Rp645
Upside	+31.1%
(Previous TP)	Rp775)

COMPANY DESCRIPTION

Adhi Karya engages in the construction, engineering, property, real estate, infrastructure investment, railway infrastructure, hotel and procurement of goods businesses.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	ADHI IJ
Shares issued (m):	8,407.6
Market cap (Rpb):	4,136.5
Market cap (US\$m):	274.0
3-mth avg daily t'over (US\$m):	0.8

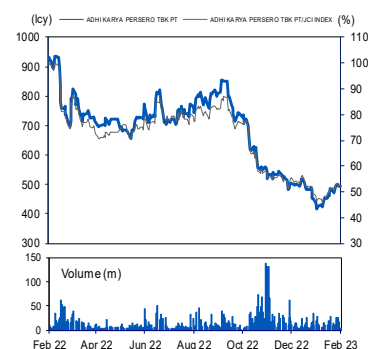
Price Performance (%)

52-week high/low	Rp856/Rp416			
1mth	3mth	6mth	1yr	YTD
8.8	(11.4)	(29.8)	(41.0)	1.7

Major Shareholders

Republic of Indonesia	64.3
FY23 NAV/Share (Rp)	240
FY23 Net Debt/Share (Rp)	1,918

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Stronger balance sheet with adequate cash flow.** ADHI's book value rose to Rp8.7t in 2022 (from Rp6.1t in Sep 22). With higher equity portion, ADHI's balance sheet became stronger. Debt equity ratio may fall to 1.2x in 2022 (from 1.8x in Sep 22). ADHI should have sufficient liquidity, supported by: a) additional capital raised from public investors of Rp690b, and b) progress payments from projects, especially two flagship projects LRT and Sigli-Aceh Toll Road that reached >90% completion.
- **Rp4.8t payment received in 2022 from two flagship projects.** ADHI received additional payment of Rp2t in 2022, with a total of Rp17t received from the LRT project. The total value of the LRT project is Rp23t, consisting of Rp19t in progress payments and Rp4t in turnkey payment. Management targets to receive Rp2t in payment in 2023, while the turnkey payment may be in early-24. Besides the LRT, ADHI also received Rp2.8t in 2022 from the Sigli-Aceh Toll Road projects that reached 90.4% progress as of Dec 22.
- **Targeting stable debt level to maintain interest expense.** In 2023, ADHI only has to repay one bond of Rp289.6b that will mature in November. The company has no plan to issue new bonds. Management is optimistic on financing the opex and repaying the bonds from operating cash flow. As of Sep 22, ADHI's debt portion consists of 50% floating rate and 50% fixed rate debt. Management is trying to minimise the impact of interest rate hikes on higher interest expense by maintaining current debt level.

EARNINGS REVISION/RISK

EARNINGS REVISION

(Rpb)	New		Old		chg (%)	
	2022F	2023F	2022F	2023F	2022F	2023F
New contract	23,700	23,000	25,200	24,000	-6.0%	-4.2%
Revenue	13,949	15,900	14,076	16,200	-0.9%	-1.9%
Gross Profit	1,827	2,226	2,083	2,472	-12.3%	-10.0%
Operating Profit	1,115	1,383	1,278	1,548	-12.7%	-10.7%
Net income	72	216	106	279	-32.1%	-22.6%
Gross Margin	13.1%	14.0%	14.8%	15.3%	-170 bps	-130 bps
EBITDA Margin	8.0%	8.7%	9.1%	9.6%	-110 bps	-90 bps
Net Margin	0.5%	1.4%	0.8%	1.7%	-30 bps	-30 bps

Source: UOB Kay Hian

- **Cut 2022 and 2023 net profit by 32.1% and 22.6% respectively.** According to our channel check, ADHI renews the contract with its suppliers every six months. Therefore, 4Q22 gross profit may still be impacted by high material prices. We revise down our gross profit projection which means lower net profit.

We are still positive that ADHI will push progress on infrastructure projects in 2023, therefore we expect 14% yoy revenue growth. However, we are still conservative on gross profit and also assigned 50bps higher interest expense which lowers our net profit projection.

VALUATION/RECOMMENDATION

- **Upgrade to BUY with target price of Rp645,** derived from the stock's average five-year average forward EV/EBITDA of 8.3x. We lower our target price due to a downward revision in 2023 earnings.

We upgrade our recommendation to BUY on the back of: a) upcoming LRT operations possibly bringing positive impact on ADHI's property marketing sales, b) ADHI currently trading near its -1SD, with a stronger balance sheet, and c) the risk on high inflation, economic downturn and hike in interest rates should have been priced in.

NEW CAPITAL ALLOCATION PLANS

From State Capital Injection (Rpb)	
Solo –Jogja –Kulon Progo toll road	1,041
Jogja – Bawen toll road	390
SPAM Karian- Serpong	185
From Public Fund (Rpb)	
JORR Elevated Cikunir-Ulujami toll road, Sumatera Preservation Highway, FPLS Medan Industrial Area	690

Source: ADHI, UOB Kay Hian

FORWARD P/B BAND



Source: Bloomberg, UOB Kay Hian

FORWARD EV/EBITDA BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rpb)	2021	2022F	2023F	2024F
Net turnover	11,530	13,949	15,900	14,756
EBITDA	1,290	1,259	1,532	1,579
Deprec. & amort.	168	144	149	163
EBIT	1,121	1,115	1,383	1,416
Total other non-operating income	(513)	(502)	(572)	(531)
Associate contributions	356	373	392	412
Net interest income/(expense)	(864)	(824)	(893)	(878)
Pre-tax profit	99	163	310	418
Tax	(13)	(21)	(40)	(54)
Minorities	(31)	(70)	(54)	(73)
Net profit	55	72	216	292
Net profit (adj.)	55	72	216	292

BALANCE SHEET

Year to 31 Dec (Rpb)	2021	2022F	2023F	2024F
Fixed assets	2,150	2,118	2,286	2,418
Other LT assets	6,149	6,902	9,460	9,818
Cash/ST investment	3,152	5,869	3,879	4,253
Other current assets	28,449	27,513	27,601	27,710
Total assets	39,900	42,401	43,226	44,199
ST debt	8,431	4,725	4,820	4,954
Other current liabilities	22,696	22,180	22,583	23,000
LT debt	2,128	5,775	5,891	6,055
Other LT liabilities	987	997	1,007	1,017
Shareholders' equity	5,600	8,338	8,539	8,787
Minority interest	58	386	386	386
Total liabilities & equity	39,900	42,401	43,226	44,199

CASH FLOW

Year to 31 Dec (Rpb)	2021	2022F	2023F	2024F
Operating	1,516	636	680	762
Pre-tax profit	99	163	310	418
Tax	(13)	(21)	(40)	(54)
Deprec. & amort.	168	144	149	163
Working capital changes	1,293	420	315	307
Other operating cashflows	(31)	(70)	(54)	(73)
Investing	(529)	(854)	(2,866)	(643)
Capex (growth)	(108)	(112)	(318)	(295)
Others	(421)	(743)	(2,548)	(348)
Financing	(198)	2,935	196	255
Dividend payments	0.0	0.0	(14)	(43)
Proceeds from borrowings	810	(59)	210	298
Others/interest paid	(1,008)	2,994	0.0	0.0
Net cash inflow (outflow)	789	2,716	(1,990)	374
Beginning cash & cash equivalent	2,364	3,152	5,869	3,879
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	3,152	5,869	3,879	4,253

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	11.2	9.0	9.6	10.7
Pre-tax margin	0.9	1.2	1.9	2.8
Net margin	0.5	0.5	1.4	2.0
ROA	0.1	0.2	0.5	0.7
ROE	1.0	1.0	2.6	3.4
Growth				
Turnover	6.5	21.0	14.0	(7.2)
EBITDA	10.1	(2.3)	21.6	3.1
Pre-tax profit	149.7	64.1	90.2	35.0
Net profit	130.2	30.4	200.0	35.0
Net profit (adj.)	130.2	30.4	200.0	35.0
EPS	130.2	30.4	200.0	35.0
Leverage				
Debt to total capital	65.1	54.6	54.5	54.5
Debt to equity	188.6	125.9	125.4	125.3
Net debt/(cash) to equity	132.3	55.5	80.0	76.9
Interest cover (x)	1.5	1.5	1.7	1.8

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