

2Q21 result: Construction progress still slow

ADHI released its 2Q/1H21 results on 2 August. ADHI only booked net profits after tax of IDR2bn in 2Q21, bringing 1H21 to IDR8bn, which is only 2% of consensus for the year. This is the 10th consecutive quarter in which ADHI has booked less than IDR10bn in net profits after tax. This is because progress on projects remains slow but expenses are returning to normal levels. We maintain our Buy rating because of the sector's likely positive headline news going forward due to execution of Indonesia Investment Authority investment. ADHI's June 2021 BVPS was IDR1,560/share, and so it is trading at 0.4x P/B.

2Q21 results highlights

- **2Q21 NPAT was only IDR2bn, -77%q-q/-57%y-y**, mainly on lower operating leverage as a result of higher expenses and flat interest expenses. 1H21 net profits after tax were IDR8bn, 2% of the consensus forecast for the full year.
- Revenue was -5%y-y/+10%q-q to IDR2.3tn, despite new contracts reaching IDR6.7tn, which was double q-q and triple y-y. Revenue drivers were mainly construction services and the EPC segment, which were +7%q-q/-7%y-y and +117%q-q/-50%y-y, respectively in 2Q21, thanks to projects from The Ministry of Public Works & Public Housing, the Jogja-Solo toll road, and the Trans-Sumatera toll road. **Revenue from the Greater Jakarta light-rail transit (LRT) project was still low** at IDR50bn in 2Q21 (+116%q-q/-94%y-y) vs. IDR23bn in 1Q21 and vs. an average IDR322bn per quarter in 2020. Meanwhile, revenue from the Solo-Jogja-Kulonprogo Airport toll road project decreased by -68%q-q in 2Q21, but still contributed 16% of revenue in 2Q21 vs. 26% in 1Q21. This brings 1H21 revenue to IDR4.4tn, 32% of the consensus forecast for the year.
- **Joint-operations (JO) profits were +14%q-q/5-fold y-y** in 2Q21 from ongoing projects including the MRT Jakarta phase II and Cileunyi-Sumedang-Dawuan Section 5A toll road (which started in May 2021). **Gross profit margin remained flattish** q-q/y-y at 15% in 2Q21.
- **Operating expenses were +23%q-q/-5%y-y in 2Q21**, mainly because G&A expenses reflected activity starting to return to normal and because salary expenses were up by +138%q-q/-14%y-y due to holiday incentives (THR/Tunjangan Hari Raya on Lebaran) in May 2021.
- **Interest expenses were -3%q-q/+6%y-y** to IDR172bn in 2Q21 despite debt increasing +IDR1tn q-q to IDR11tn. Gearing increased slightly to 2x in June 2021, vs. 1.8x in March 2021. Adhi Commuter Properti (ACP, unlisted), which is also scheduled for IPO later this year, issued bonds in May 2021 amounting to IDR500bn to be used for land acquisitions.

We expect that after the end of the PPKM and capital injection, construction projects may be ramped up, boosting revenue and reducing the risk of cost overruns. The ongoing Solo-Jogja-Kulonprogo Airport toll road project is scheduled to begin partial operation in 3Q23 and be fully operational in 2024.

Maintain Buy rating on ADHI

We maintain our Buy rating and TP of IDR1,500 (108% implied upside), based on a mean-reversion target of 0.8x 2022F P/B. Our target P/B of 0.8x is at a 30% discount to the sector mean during the infrastructure bear cycle. We believe ADHI remains the cheapest contractor under our coverage, trading at 0.4x June 2021 P/B. Risks to our call include the COVID-19 pandemic being extended, and LRT project and payment delays.

Rating Remains	Buy
Target price Remains	IDR 1,500
Closing price 03 August 2021	IDR 720

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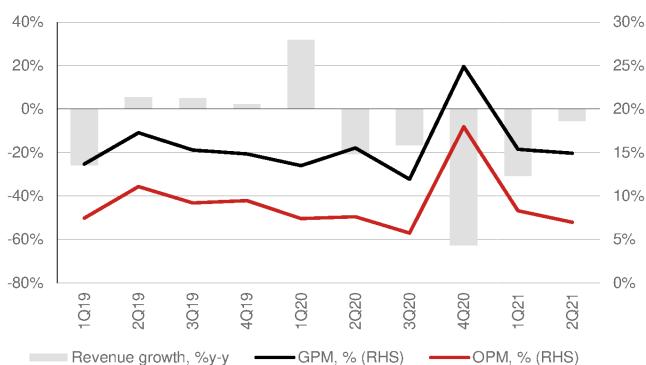
Fig. 1: 2Q21 result

ADHI.U IDR bn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	1H21 vs. Ve	1H21 vs. Cons	FY21 Ve	FY21 Cons
Revenue	2,328	3,098	3,515	6,366	3,066	2,461	2,931	2,370	2,118	2,327	30%	32%	14,704	13,709
GP	318	535	538	945	414	382	350	590	326	347	29%	34%	2,308	1,986
EBIT	173	343	323	603	227	187	168	426	176	162	22%	29%	1,513	1,149
EBITDA	221	384	365	649	271	233	211	456	220	204	24%	29%	1,756	1,463
NP	76	140	135	313	9	4	3	9	7	2	2%	2%	376	340
Growth %														
Revenue	-26%	5%	5%	2%	32%	-21%	-17%	-63%	-31%	-5%				
GP	-26%	9%	-5%	-7%	30%	-29%	-35%	-38%	-21%	-9%				
EBIT	-44%	5%	-19%	-21%	31%	-45%	-48%	-29%	-23%	-13%				
EBITDA	-36%	4%	-19%	-21%	23%	-39%	-42%	-30%	-19%	-12%				
NP	3%	1%	10%	1%	-88%	-97%	-98%	-97%	-23%	-57%				
Profitability %														
GP	14%	17%	15%	15%	13%	16%	12%	25%	15%	15%				
EBIT	7%	11%	9%	9%	7%	8%	6%	18%	8%	7%				
EBITDA	9%	12%	10%	10%	9%	9%	7%	19%	10%	9%				
NP	3%	5%	4%	5%	0%	0%	0%	0%	0%	0%				

Revenue	2,328	3,098	3,515	6,366	3,066	2,461	2,931	2,370	2,118	2,327				
COGS	2,010	2,563	2,978	5,422	2,653	2,079	2,581	1,780	1,793	1,980				
GP	318	535	538	945	414	382	350	590	326	347				
SG&A	145	193	215	342	187	195	182	164	150	185				
EBIT	173	343	323	603	227	187	168	426	176	162				
Depreciation/amortization	47	41	42	46	44	46	43	30	44	42				
EBITDA	221	384	365	649	271	233	211	456	220	204				
Net interest income (expense)	(124)	(155)	(179)	(42)	(169)	(157)	(207)	(216)	(173)	(169)				
Associates' profit (loss)	80	47	84	129	25	14	43	75	65	75				
Other income (expense)	(3)	1	15	(111)	(9)	6	76	(132)	(10)	(20)				
PBT	127	235	243	579	74	50	80	153	58	48				
Taxes	51	95	107	265	65	47	77	144	52	46				
Minorities	0	0	0	1	0	0	0	(0)	(1)	1				
NP	76	140	135	313	9	4	3	9	7	2				

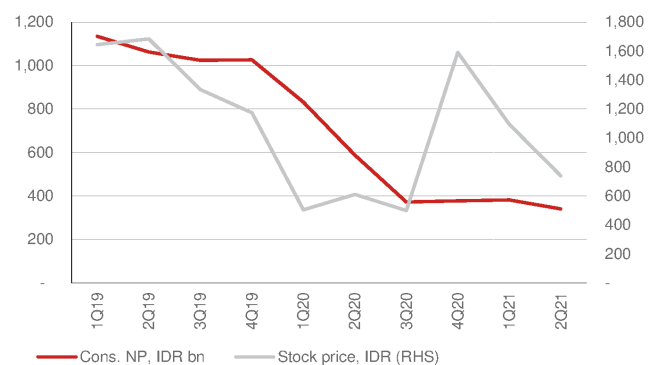
Source: Bloomberg, Company data, Verdhana estimates

Fig. 2: Revenue growth and margin trends



Source: Company data

Fig. 3: Share price and consensus NPAT correlation



Source: Bloomberg

INVESTMENT RATINGS

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