

1Q21 results: Still borderline profit

Quick Note

A mere IDR7bn NPAT booked in 1Q21

ADHI reported its 1Q21 results on Friday, 30 April, after market close. The company still booked borderline profit of only IDR7bn in 1Q21, which is only 2% of consensus, mainly due to lower contribution from its flagship Greater Jakarta light rail transit (LRT) project. However, ADHI has secured a new revenue stream, the Jogja-Solo toll road project, which started to book meaningful contribution to revenue. ADHI's 1Q21 new contracts achievement is still soft, at only IDR2.2tn (-12%y-y). ADHI is now trading at 0.7x P/B, based on IDR1,560 BVPS as of Mar'21.

New revenue stream — the Jogja-Solo toll road project

ADHI's 1Q21 revenue was -31%y-y/-11%q-q to IDR2tn, due to lower contribution from Greater Jakarta LRT revenue. Revenue from the Greater Jakarta LRT project was only IDR23bn (1% of revenue) in 1Q21, vs. an average of IDR900bn/quarter in 2019 (~25% of quarterly revenue). Despite achieving 85% completion, ADHI is facing hiccups in LRT revenue recognition as the remaining contracts will be coming from the station depot. 1Q21 top line achievement was driven by construction revenue, which grew +65% q-q. The new revenue stream, Jogja-Solo toll road project, contributed 26% of 1Q21 revenue of IDR545bn, which has started since 4Q20.

Gross profit margin normalized back to 15% after seeing a spike in 4Q20, as all business segments saw normalizing margins (note that the EPC segment was the driver of the 4Q20 margin spike). ADHI managed to book further opex savings in 1Q21, with opex down -9% q-q and -20% y-y.

Interest expense was -24% q-q/-5% y-y to IDR178bn in 1Q21, despite flat gearing at 1.8x as of Mar'21 (interest bearing debt +IDR164bn only q-q). As a result, 1Q21 NPAT was IDR7bn, -23%q-q/y-y vs IDR9bn NPAT in 1Q/4Q20. OCF was -IDR1.5tn, following seasonality of negative OCF in 1H. We believe this soft achievement in 1Q21—of still-borderline profit—will improve in 2H21F, following the start of its Jogja-Bawen toll road construction and other projects being offered for tender.

Earlier market concerns over ADHI's single project risk (LRT) have now been addressed, as evident in its strong new contract signings in FY20. ADHI was the only domestic contractor, in our coverage, to book positive y-y new contracts growth in FY20, thus indicating better visibility of future earnings, coming from toll road projects; namely: 1) Jogja-Solo, 2) Jogja-Bawen, and also 3) MRT Jakarta Phase II. This was due to its better balance-sheet capacity despite being the smallest domestic contractor.

Maintain Buy rating on ADHI

We maintain our Buy rating and TP of IDR1,500 (30% 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, to price in investors' recent concerns on rising bond yields which affected the whole JCI. We believe ADHI remains the cheapest contractor under our coverage, trading at 0.7x 2021F P/B. Risks to our call include a prolonged COVID-19 pandemic, and LRT project and payment delays.

| | |
|-----------------------------|-----------|
| Rating Remains | Buy |
| Target price Remains | IDR 1,500 |
| Closing price 30 April 2021 | IDR 1,155 |

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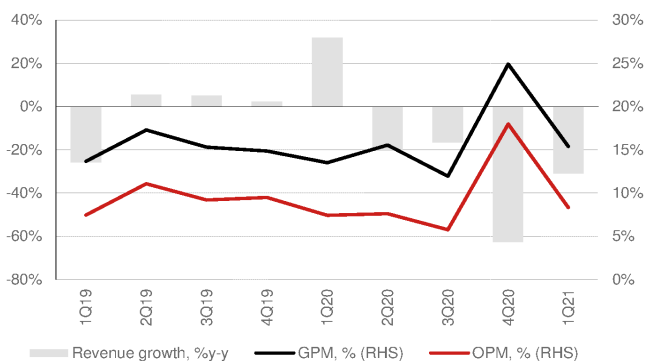
Fig. 1: ADHI – quarterly earnings

| ADHI.IJ IDR bn | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 1Q21 vs. Ve | 1Q21 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 | 14% | 14% | 14,704 | 15,010 |
| GP | 318 | 535 | 538 | 945 | 414 | 382 | 350 | 590 | 326 | 14% | 15% | 2,308 | 2,157 |
| EBIT | 173 | 343 | 323 | 603 | 227 | 187 | 168 | 426 | 176 | 12% | 13% | 1,513 | 1,385 |
| EBITDA | 221 | 384 | 365 | 649 | 271 | 233 | 211 | 456 | 132 | 8% | 8% | 1,756 | 1,606 |
| NP | 76 | 140 | 135 | 313 | 9 | 4 | 3 | 9 | 7 | 2% | 2% | 376 | 378 |
| Growth % | | | | | | | | | | | | | |
| Revenue | -26% | 5% | 5% | 2% | 32% | -21% | -17% | -63% | -31% | | | | |
| GP | -26% | 9% | -5% | -7% | 30% | -29% | -35% | -38% | -21% | | | | |
| EBIT | -44% | 5% | -19% | -21% | 31% | -45% | -48% | -29% | -23% | | | | |
| EBITDA | -36% | 4% | -19% | -21% | 23% | -39% | -42% | -30% | -51% | | | | |
| NP | 3% | 1% | 10% | 1% | -88% | -97% | -98% | -97% | -23% | | | | |
| Profitability % | | | | | | | | | | | | | |
| GP | 14% | 17% | 15% | 15% | 13% | 16% | 12% | 25% | 15% | | | | |
| EBIT | 7% | 11% | 9% | 9% | 7% | 8% | 6% | 18% | 8% | | | | |
| EBITDA | 9% | 12% | 10% | 10% | 9% | 9% | 7% | 19% | 6% | | | | |
| NP | 3% | 5% | 4% | 5% | 0% | 0% | 0% | 0% | 0% | | | | |

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

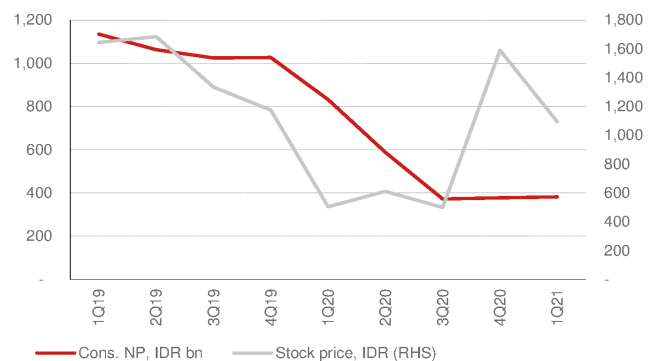
Source: Bloomberg, Company data, Nomura estimates

Fig. 2: ADHI – quarterly profitability



Source: Company data

Fig. 3: ADHI – consensus' NPAT and share price correlation



Source: Bloomberg

Appendix A-1

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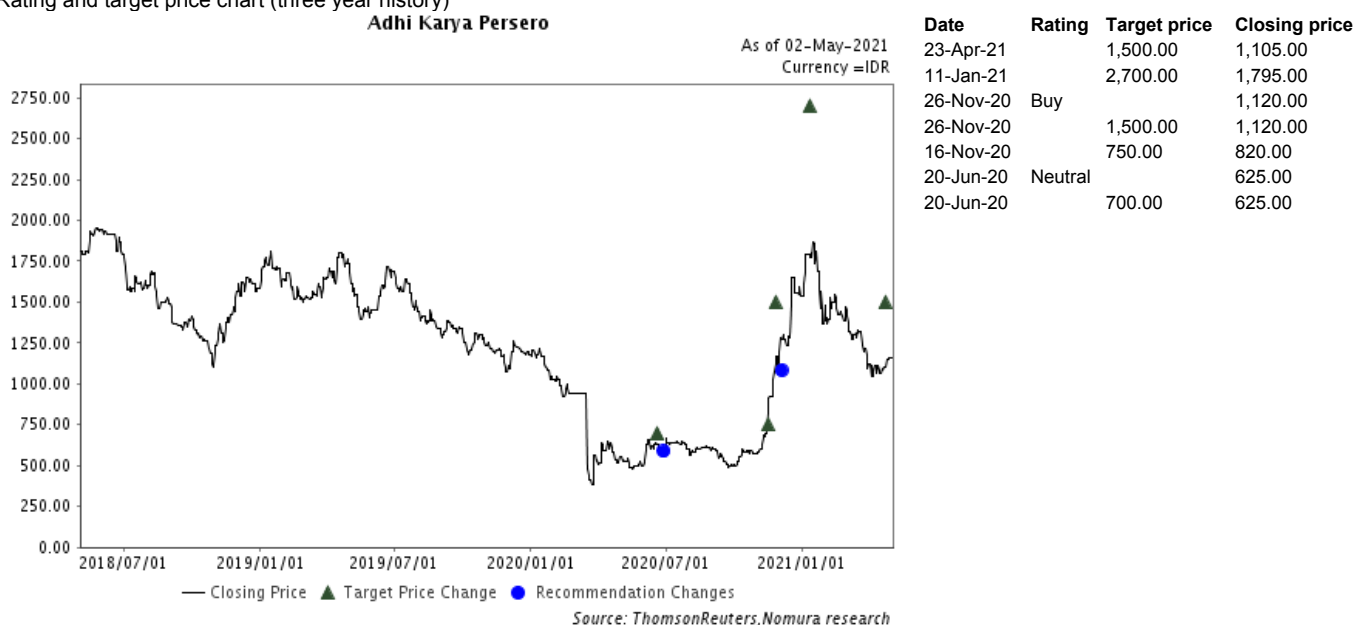
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| Issuer | Ticker | Price | Price date | Stock rating | Sector rating | Disclosures |
|--------------------|---------|-----------|-------------|--------------|---------------|-------------|
| Adhi Karya Persero | ADHI IJ | IDR 1,155 | 30-Apr-2021 | Buy | N/A | |

Adhi Karya Persero (ADHI IJ)

IDR 1,155 (30-Apr-2021) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of IDR1,500 is based on 2022F target P/BV of 0.8x which is 30% discount to sector mean during infra bear cycle. The benchmark index of the stock is JCI Index.

Risks that may impede the achievement of the target price Downside risks to our call include prolonged COVID-19 condition, LRT project and payment delay, and property business risk.

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