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COMPANY STOCK VALUATION OF PT. WASKITA KARYA TBK AND THE IMPACT OF DELAYED BONDS PAYMENT

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Abstract: The construction industry has demonstrated resilience during the pandemic, becoming a global economic engine. Indonesia's PT Waskita Karya Tbk, a state-owned construction company, reported negative financial performance in its annual report, indicating a decline in revenues. As a public corporation, the company must maintain excellent financial performance and offer opportunities for shareholders. The movement of SOE's Construction shares with the code WSKT has also experienced a downward trend. Based on the dynamics of the business environment, the purpose of this research is to gain a deeper understanding of the Indonesian construction industry to identify Waskita Karya's challenges and opportunities. In addition, the study will determine the company's intrinsic and relative value if it defaults on its debts. The research will compute the company's value using the discounted cash flow (DCF) method and comparable companies. The study analyzes the impact of bond payment delays on Waskita Karya's financial performance, examining how these delays affect cash flow, liquidity, and overall financial health. The study focuses on the company stock valuation of PT. Waskita Karya Tbk and the impact caused by bond payment delays. The findings provide valuable insights for investors, stakeholders, and financial analysts, helping them make informed decisions about their investment in Waskita Karya's and better understand associated risks and opportunities. In conclusion, using the discounted cash flow analysis method, the implied value per share is IDR 550.22. Using the relative valuation method, the implied value of EV/Revenue per share is IDR 38 and EV/EBITDA per share is IDR 495, while the P/E and PBV values are IDR 625 and IDR 23, respectively. Delays in bond payments can negatively affect Waskita Karya's financial performance, causing liquidity constraints, increased interest expenses, and downgraded credit ratings. To mitigate these issues, Waskita must address delays, communicate effectively with stakeholders, and implement financial restructuration programs. Advising and partnering with experts is crucial for long-term success.

Keywords: valuation, discounted cash flow, implied value, financial performance

INTRODUCTION

The construction industry has shown remarkable resilience during the COVID-19 pandemic, with an average annual growth rate of 4.5% between 2020 and 2025. This growth is fueled by a swift recovery from the effects of COVID-19 and massive stimulus support from governments. PT. Waskita Karya Tbk, an established construction and infrastructure development corporation in Indonesia, has been in business since 1961 and has contributed to Indonesia's development. However, the pandemic has impacted the entire business sector in Indonesia, leading to uncertain business flows and hindering Waskita's ability to conduct business operations.

In recent years, PT. Waskita Karya has experienced difficulties in fulfilling its financial obligations, particularly the timely payment of its bonds. These delays can be caused by factors such as cash flow constraints, project delays, economic downturns, or improper fund management. These delays can significantly affect a company's valuation, which is crucial for investors, creditors, and other stakeholders to assess its financial health, profitability, and potential investment risks.

Construction will be a growth driver for the global economy over the medium term, with an average growth rate of 4.4% between 2020 and 2025, higher than the growth rates of manufacturing and services. Between 2020 and 2030, the construction industry will continue to be a major growth driver for the global economy, with an average annual growth rate of nearly 3.5%. Indonesia, as part of the developing countries group, is estimated to realize economic growth of 3.7%, or below the cumulative value of the group at 6.3% by 2021. However, the level of capital cultivation in Indonesia has been limited, with data from the Central Statistical Authority (BPS) showing that the capital planting rate in the third quarter of 2021 reached 4,825 projects worth Rp10.339,8 billion, an increase from the previous year's 1,973 projects.

Table 1. The financial highlights of PT Waskita Karya Tbk
(In billion rupiahs unless otherwise stated)

Description	2022	2021	2020*	2019*	2018*	YoY (2021-2022)
Revenues	15,302	12,224	16,190	31,387	48,789	25.19%
Cost of Revenues	-13,853	-10,326	-15,136	-28,095	-40,711	34.17%
Gross Profit (Loss)	1,449	1,898	1,054	3,292	8,078	-23.66%
Profit (Loss) Before Financial Charges, Equity in Net Income of Associates and Joint Ventures	1,968	4,076	-3,499	1,629	6,527	51.70%
Profit (Loss) for the year	-1,673	-1,839	-9,288	-2,769	3,068	9.03%
Other Comprehensive Income (Expenses) for the Year	36.09	121	26	-66	306	-129.93%
Total Comprehensive Income (Loss) for the Year	1,708	-1,718	-9,262	-2,835	3,374	-0.54%

*) Restated

Waskita Karya's financial performance has been negatively impacted by the pandemic, with a negative trend in its financial performance in 2018. In 2018, the company earned IDR 48.8 trillion in revenue, which was 1.5 times higher than in 2019 and 3 times higher than in 2020.

The movement of SOE's Construction shares with the code WSKT has also experienced a downward trend in the past year, due to persistent global economic growth, inflation, geopolitical conflicts, and market conditions. Delays in bond payments could cause financial difficulties for PT. Waskita Karya Tbk, impacting cash flow, growth, and potential deterioration of the company's financial condition. These issues include debt servicing, operational expenses, and new project investments.

This study aims to evaluate the financial impact of bond payment delays on PT. Waskita Karya Tbk and determine its intrinsic and relative value in case of default. It will use the discounted cash flow (DCF) method and compare comparable companies. The report will answer questions about current challenges, opportunities, financial performance, and intrinsic and relative value of Waskita. The findings will provide recommendations for Waskita to improve its financial performance and avoid default.

LITERATURE REVIEW

Damodaran (2006) emphasizes the importance of understanding the asset's value and its intrinsic value when selecting an investment for a portfolio. Investors benefit from buying goods at prices below their fair value.

Financial Ratio Analysis

Ratio analysis is the process of calculating and evaluating financial ratios to examine and monitor the firm's performance. The income statement and balance sheet of the company are the primary inputs to ratio analysis. Financial statement ratio analysis is of interest to shareholders, creditors, and the firm's management. Current and prospective shareholders are interested in the company's current and future risk and return, which have a direct effect on the share price. In addition, management monitors the firm's performance from period to period using ratios. Ratio analysis is not merely the calculation of a given ratio. More important is the interpretation of the ratio value (Gitman & Zutter, 2015: 67).

There are two types of ratio comparison: cross-sectional and time-series. Cross-sectional analysis compares financial ratios of different companies at the same time, allowing analysts to assess a firm's performance in comparison to other companies in its industry. Time-series analysis evaluates performance over time, allowing analysts to assess the firm's progress. Developing trends can be seen through multiyear comparisons, and significant year-to-year changes may indicate a problem, especially if the same trend is not an industry-wide phenomenon.

Liquidity Ratio

Liquidity ratio measures a company's ability to meet short-term obligations and maintain financial solvency. Low or declining liquidity can indicate cash flow issues and potential business failure. Ensuring sufficient liquidity for daily operations is crucial for a company's financial stability and ability to pay expenses.

Solvency Ratio

The debt position of a company indicates how much money is being used to generate profits. Financial analysts are most concerned with long-term debts, as they adhere to contractual payments over time. A company's debt increases the risk of failing to meet obligations, as creditors must be satisfied before earnings can be distributed to shareholders. Current and prospective shareholders and lenders are also concerned about the company's ability to repay debts.

Profitability Ratio

Profitability measures evaluate a firm's profits based on sales, assets, and owners' investment. Without profits, a firm cannot attract outside capital. Owners, creditors, and management prioritize boosting profits due to the market's high importance of earnings.

Market Ratio

Market ratios measure a firm's market value by its share price and accounting values, providing insight into investors' perception of the firm's risk and return. There are two popular ratios: earnings-based and book value-based.

DuPont Analysis

The DuPont analysis is a variation of ROE calculation that disregards accumulated depreciation by utilizing the gross asset value. In accordance with DuPont's analysis, ROE is computed using three variables: net profit margin, assets turnover, and equity multiplier. Under the DuPont analysis, the formula for calculating ROE is as follows:

$$ROE = Net\ profit\ margin \times Asset\ turnover \times Equity\ multiplier$$

Valuation

Valuation is the estimation of an asset's value based on variables associated with future investment returns. To obtain a useful estimate of intrinsic value, accurate forecasts and an appropriate valuation model are necessary. The process involves five steps: understanding the business, forecasting company performance using projections of sales, earnings, dividends, and financial position, selecting the appropriate valuation model, converting forecasts to valuation, applying valuation conclusions, and applying the conclusions to make stock investment recommendations, transaction opinions, or strategic investment evaluations. The process is influenced by the company's characteristics and the valuation context.

Free Cash Flow to Firm (FCFF)

Free cash flow to the firm (Pinto, 2010) is the cash flow available to capital suppliers after operating expenses, investments, and capital expenditures. It includes cash flow from operations minus capital expenditures, and can include common stockholders, bondholders, and preferred stockholders. According to (Damodaran, 2006), FCFF and Firm Value can be estimated by following equation:

$$FCFF = [EBIT * (1 - tax\ rate)] + Depreciation - Capital\ Expenditure - \Delta\ Net\ Capital$$

$$Firm\ Value = \sum_{t=1}^{\infty}\left(\frac{FCFF_t}{(1+WACC)^t} + \frac{FCFF_{n+1}}{(WACC-g)} * \frac{1}{(1+WACC)^n}\right)$$

Weighted Average Cost of Capital (WACC)

The cost of capital is the required rate of return for a company's capital providers. Estimating this cost is typically done using the company's after-tax weighted average cost of capital (WACC), which is a weighted average of required rates of return for capital sources. Calculate $WACC$ using formula:

$$WACC = Wd * CoD * (1 - t) + We * CoE$$

Where Wd is debt to capital and We is equity to capital, as shown in the following equation:

Wd = Debt/(Debt+Equity)

We = Equity/(Debt+Equity)

Note:

t = Tax Rate

CoD = Cost of Debt

CoE = Cost of Equity

Company Valuation

Valuation is the process of determining a company's present or future economic value by analyzing financial records, management experience, competitive advantage, and business environment. Theoretically, the equation can be used to calculate a company's value:

$$Company\ value = \frac{Cash\ flow}{Discount\ rate - Cash\ flow\ growth\ rate}$$

Relative Valuation

Relative valuation involves determining the value of an asset by comparing the prices of comparable assets standardized using a common variable (Damodaran, 2013). This approach is exemplified by an industry-average price-earnings ratio, where other firms are comparable to the firm being valued and the market prices them correctly on average. To perform relative evaluation, one must identify comparable assets, obtain market values, convert these to standard values, and compare the standardized value or multiple to the standardized values of comparable assets, controlling for differences between firms that could affect the multiple's determination of undervalued or overvalued.

The author took the main competitors of WSKT from construction and property industry and listed on IDX based on the market share, namely: Wijaya Karya (WIKA), Pembangunan Perumahan (PTPP), Adhi Karya (ADHI), Total Bangun Persada (TOTAL), Jaya Konstruksi (JKON).

Intrinsic Valuation

Intrinsic valuation involves a comprehensive analysis of a company's performance and business outlook, focusing on its financial flows rather than external factors. This method, known as discounted cash flow analysis

(DCF), forecasts financial flows for several years until the company's terminal period. The subsequent phase involves discounting both cash flows and terminal value and adding both variables to determine the implied value.

Conceptual Framework

A conceptual framework is a document that explains the key concepts, factors, or variables, and their relationships. It represents the flow of study and helps the author formulate study questions to answer the current study. The framework is graphically and narratively presented in figure 1, allowing for a clear understanding of the research's objectives and potential connections.

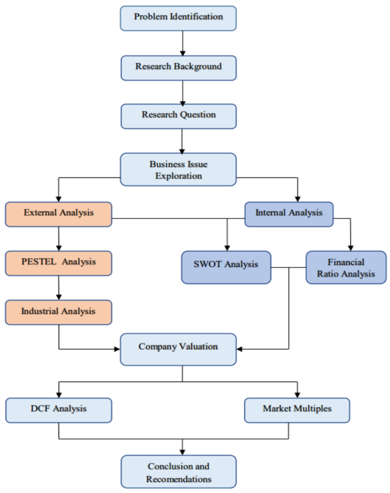

Figure 1. The Conceptual framework (Source: Author analysis)

RESEARCH METHODS

Data Collection Method

This study utilizes secondary data from various sources, including the company's website, Indonesian Stock Exchange (BEI) website, stockbit.com, Pefindo, IDX.co.id, Google Finance, phei.co.id, previous years' financial statements, key statistics, and equity research from IMF and BPS Indonesia. The Waskita Karya 2022 Annual Report serves as the primary reference for internal analysis.

Data Analysis Method

This study uses a data analysis technique consisting of three parts: calculating share intrinsic value, calculating free cash flow to firm (FCFF), and analyzing financial statements. It also calculates cash flow, capital cost, terminal value, enterprise value, equity value, and price per share. The analysis also identifies overvalued and undervalued shares.

RESULTS AND DISCUSSION

Free Cash Flow to Firm (FCFF) Value Calculation

The author forecasts revenue, cost of revenue, operating expenses, capital expenditure, and depreciation for 2023-2032, calculating free cash flow and determining Waskita Karya's value. Indonesia's economic growth is depicted using a 19.68% WACC and 3%

terminal growth rate. The terminal value of WSKT after ten years is IDR 161,685 billion, with an assumed economic growth rate of 3%. The company's implied value for equity shareholders is IDR 15,852 trillion, with 28,81 million outstanding shares. The implied value per share is IDR 550.22, but the closing price on May 5, 2023, was IDR 202. WSKT is undervalued relative to its fair equity value, suggesting it should be held for investment or bought for profit-taking.

Table 2. WSKT Stock Valuation

Implied Share Price Calculation	
Sum of PV of FCF	45,018
Growth Rate	3%
WACC	19.86%
Terminal Value	161,685
PV of Terminal Value	26,420
Enterprise Value	71,438
(+) Cash	8,945
(-) Debt	59,386
(-) Minority Interest	5,145
Equity Value	15,852
Diluted Shares Outstanding (m)	28.81
Implied Share Price	**550.22**
Current Price - As per May 5, 2023	**202**
Upside - (HOLD / BUY)	**172%**

Relative Valuation of PT Waskita Karya, Tbk

Waskita Karya's valuation is assessed using four dimensions: enterprise value to revenue (EV/Revenue), enterprise value to earnings before interest, taxes, depreciation, and amortization (EV/EBITDA), price to earnings (P/E ratio), and price to book value (PBV). It faces competition from PT. Wijaya Karya, PT. Pembangunan Perumahan, PT. Adhi Karya, PT. Total Bangun Persada, and PT. Jaya Konstruksi, Tbk. on the Indonesia Stock Exchange.

Table 3. Comparable Companies Analysis

Code	Market Data (in IDR Billion)							Financials (in IDR Billion)			Valuation			
	Share Price (IDR)	Shares Outstanding	Equity Value	Net Debt (+)	Cash (-)	Enterprise Value	Book Value Per Share	Revenue	EBITDA	Net Income	EV/Revenue	EV/EBITDA	P/E	PBV
WSKT	360	28.88	10,397	59,386	8,945	60,838	316	15,302	(272)	(1,885)	3.98x	-223.7x	-5.5x	1.14x
WIKA	515	8.97	4,620	32,838	5,669	31,789	1,446	21,480	1,838	(59)	1.48x	17.3x	-78.3x	0.36x
PTPP	590	6.20	3,658	21,676	5,441	19,893	1,799	18,921	2,022	271	1.05x	9.8x	13.5x	0.33x
ADHI	452	8.41	3,801	10,835	4,336	10,300	998	13,549	1,041	81	0.76x	9.9x	46.8x	0.45x
TOTL	334	3.41	1,139	4	931	212	364	2,276	104	92	0.09x	2.0x	12.4x	0.92x
JKON	108	16.31	1,761	241	441	1,561	173	4,465	306	200	0.35x	5.1x	8.8x	0.62x
High											1.5x	17.3x	46.8x	0.9x
75th Percentile											1.1x	9.9x	13.5x	0.6x
Average											0.7x	8.8x	0.6x	0.54x
Median											**0.8x**	**9.8x**	**12.4x**	**0.45x**
25th Percentile											0.3x	5.1x	8.8x	0.4x
Low											0.1x	2.0x	-78.3x	0.3x

Waskita Karya's EV/revenue is above the industry median in 2022, indicating overvaluation by this metric. EV/EBITDA, which excludes taxation policies and depreciation and amortization expenses, is significantly lower than the sector median. The P/E ratio is below the industry median, indicating undervaluation. The PBV is above the industry median, indicating overvaluation by this metric. Overall, Waskita Karya's valuation is overvalued by these metrics.

Table 4. Summary of Relative Valuation in Comparison to Its Sector Peers

WSKT	EV/Revenue	EV/EBITDA	P/E	PBV
Implied Enterprise Value	46,251	598,539	755,788	27,547
Net Debt	45,147	584,256	737,752	26,889
Implied Market Value	1,104	14,283	18,036	657
Shares Outstanding	28.88	28.88	28.88	28.88
Implied Value Per Share (IDR)	**38**	**495**	**625**	**23**
Result	**Overvalued**	**Undervalued**	**Undervalued**	**Overvalued**

Table 4 displays WSKT's relative valuation using EV/Revenue, EV/EBITDA, P/E, and PBV multiples. The average of these methods represents industry and calculates the implied value of WSKT using relative valuation. The EV/Revenue implied value per share is IDR 38, EV/EBITDA is IDR 495while the P/E and PBV values are IDR 625 and IDR 23, respectively.

Waskita Karya is overvalued, with marginal undervaluation based on DCF analysis and significantly undervalued compared to its sector peers. However, only EV/EBITDA and P/E valuation metrics suggest overvaluation. Table 5 displays the valuation summary for Waskita Karya.

Table 5. Summary of Valuation

Valuation Method	Result
Discount cash flow analysis	Undervalued
EV/Revenue	Overvalued
EV/EBITDA	Undervalued
Price to earnings	Undervalued
Price to book	Overvalued

CONCLUSION

Indonesia's construction industry faces increased competition from new entrants, posing challenges for Waskita Karya. High competition in contract value acquisition can lead to lower prices and stricter contract conditions, affecting profit margins. Delays in construction work, licensing, technical difficulties, policy changes, and financial issues can negatively impact cash flow, project progress, and reputation. Financial restructuration programs and delays in divestment programs can also hinder Waskita Karya's ability to divest assets or businesses not related to its core business.

Waskita Karya primarily engages in multiyear projects, such as the 10-year IKN project, which offers steady revenue and potential long-term contracts. By attracting investors for strategic toll road partnerships, the company can accelerate growth and foster collaboration. Expanding its market share in overseas projects diversifies revenue streams, expands geographic footprint, and gains exposure to new markets. Successful execution of overseas projects can enhance reputation, attract international clients, and open doors for future opportunities.

Delays in bond payments can significantly impact Waskita Karya's financial performance, causing liquidity constraints, increased interest expenses, and a credit rating downgrade. Legal and reputational consequences may arise, and stakeholder relations may be strained. To mitigate these issues, Waskita Karya must address delays, communicate effectively, and implement financial restructuration programs.

DCF analysis shows Waskita stock is undervalued due to higher intrinsic value. Relative valuations may be undervalued if EV/EBITDA and P/E ratios are lower than the sector average, but overvalued if EV/Sales ratio is above. Analyze company fundamentals and industry trends before investment decisions.

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