PEFINDO
CREDIT RATING AGENCY

Rating Rationale

PT Wijaya Karya Beton Tbk

Credit Rating

General Obligation (GO) ${}_{id}$A/Stable

Rating Period

March 10, 2023 – March 1, 2024

Published Rating History

MAR 2021	${}_{id}$A/Stable
JUL 2019	${}_{id}$A+/Stable
APR 2018	${}_{id}$A+/Stable
SEP 2016	${}_{id}$A+/Stable

PEFINDO has assigned its ${}_{id}$A rating with stable outlook to PT Wijaya Karya Beton Tbk (WTON). The rating reflects its strong likelihood of support from its parent, PT Wijaya Karya (Persero) Tbk (WIKA), strong market position, and extensive network with wide range of services and products. The rating is constrained by its moderate financial profile and sensitivity to changes in macroeconomic conditions.

The rating may be raised if WTON further strengthens its market position and significantly improves its financial profile as reflected in the growth of its revenue and improvement in profitability, in addition to a stronger cash flow protection measures and lower leverage on a sustained basis. The rating may be lowered if WTON's revenue or EBITDA significantly falls short of its targets, and if its debt exceeded the projections without a corresponding revenue and profitability margin increase, worsening its capital structure and cash flow protection measures on a sustained basis. The rating will also be under pressure if we view that WTON is no longer considered as a strategically important subsidiary to WIKA which may be indicated by significant decline in WIKA's ownership, business synergy, and control over the Company.

WTON, established in 1997, is the largest precast concrete manufacturers in Indonesia and one of the largest in South-East Asia. As of December 31, 2022, WIKA was its majority shareholder with 60.0% ownership, followed by Koperasi Karya Mitra Satya (KKMS, 5.67%), Yayasan Wijaya Karya (0.99%), the public (32.65%), and the rests are by key management.

Financial Highlights

As of/for the year ended	Dec-2022 (Audited)	Dec-2021 (Audited)	Dec-2020 (Audited)	Dec-2019 (Audited)
Total adjusted assets [IDR bn]	9,447.5	9,082.5	8,670.1	10,337.9
Total adjusted debt [IDR bn]^	2,750.0	3,055.3	2,788.3	2,912.3
Total adjusted equity [IDR bn]	3,637.8	3,484.8	3,424.9	3,508.4
Total sales [IDR bn]	6,003.8	4,459.0	4,803.4	7,083.4
EBITDA [IDR bn]	605.6	365.1	434.8	1,049.2
Net income after MI [IDR bn]	162.9	85.5	128.1	512.3
EBITDA margin [%]	10.1	8.2	9.1	14.8
Adjusted debt/EBITDA [X]	4.5	8.4	6.4	2.8
Adjusted debt/adjusted equity [X]	0.8	0.9	0.8	0.8
FFO/adjusted debt [%]	17.3	8.5	10.8	26.2
EBITDA/IFCCI [X]	7.1	4.2	3.8	7.1
USD exchange rate [IDR/USD]	15,731	14,269	14,105	13,901

FFO = EBITDA – IFCCI + Interest Income – Current Tax Expense
EBITDA = Operating Profit + Depreciation Expense + Amortization Expense
IFCCI = Gross Interest Expense + Other Financial Charges + Capitalized Interest; (FX Loss not included)
MI= Minority Interest **annualized* *^include Supply Chain Financing Payable*

The above ratios have been computed based on information from the company and published accounts. Where applicable, some items have been reclassified according to PEFINDO's definitions.

Rating Definition

An obligor rated ${}_{id}$A has a strong capacity to meet its long-term financial commitments relative to that of other Indonesian obligors. However, the obligor is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than higher-rated obligors.
Suffix (sy) indicates Islamic principles compliant.

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Key Strengths

Strong likelihood of support from WIKA

We are of the view that WTON is a strategically important subsidiary of WIKA and we expect high probability of WTON receiving support in the event of financial distress. WIKA's strong control is reflected in its 60% ownership and significant control in directing the company's strategy through its representatives in WTON's board of management. We expect that WIKA will retain its controlling ownership in WTON over the near to medium term. WTON has also benefited from the business synergy within the group as WIKA has always been the largest customer, averaging around 20% of revenue over the past five years. We also view that the sharing of brand names is an indication of the parent's willingness to share reputation risk with the subsidiary, thereby supporting the subsidiary to maintain the parent's image. On the other hand, WTON also provides earnings diversification, and we expect it to sustain a significant amount of revenue and EBITDA contribution to the group over the near to medium term. WTON's contribution to WIKA's revenue and EBITDA in 9M2022 was around 29% and 32% respectively. We consider WIKA as having strong financial capacity to provide timely and extraordinary support, reflected by its well-maintained net profit despite the margin compression during the pandemic, adequate liquidity profile, and also its strong financial flexibility.

Strong market position as one of the largest precast manufacturers

WTON is the largest domestic precast manufacturer, supported by an installed annual capacity of 5.4 million tons. The Company commanded a dominant market share of 35%-45% (based on revenue) by mid-2022, well above other competitors. WTON's large production scale has allowed it to secure several prominent construction projects that require sizable amount of concrete, being the only one capable of performing it. Despite WTON's negative revenue growth in 2020-2021 due to the pandemic, we still view that WTON will continue to benefit from the infrastructure development across the country, especially with the higher allocation of infrastructure budget in the 2023 state budget, up by 7.8% to IDR392 trillion in 2023.

Extensive network with wide range of services and products

We are of the view that WTON has an extensive network that allows it to handle logistics and quickly deliver concrete products to majority of the construction sites across Indonesia at competitive prices. The Company has seven sales areas, ten factories (excluding mobile plants), and three quarry plants. Given the relatively low barrier to entry nature of the precast business, having an extensive network is pivotal due to the significant weight and length of the products with its various shapes. WTON's capability to install mobile plants near its major projects and its two factories in the coastal area also give them an advantage, especially to transport longer and wider diameter concretes. In addition, we are also of the view that WTON has a wide array of product categories that can fulfill its customers' needs. It also provides engineering, production, and installation (EPI) services to its customers for enhancing its vertical integration operation. Accordingly, we expect WTON's revenue to be more resilient relative to its peers given its diversified products, services, and network coverages.

Key Weaknesses

Moderate financial profile

We are of the view that WTON's financial profile will remain at a moderate level for the rating category, with debt to EBITDA and funds from operations (FFO) to debt ratios averaging around 4.5x-4.9x and 14.7%-18.1%, respectively, in 2023-2025. We expect that WTON will remain dependable on external financings, to finance both its working capital and annual mandatory capex of IDR230 billion (to maintain its production facilities), due to a relatively long cash conversion cycle, mainly led by long receivables collection.

Sensitivity to changes in macroeconomic conditions

As most of WTON's customers are from the construction sector, it will be directly impacted by the inherent volatility of the industry, depending on macroeconomic conditions and changes in government policies. Unfavorable macroeconomic conditions and/or unprecedented adverse events may induce the government to reallocate its budget, cutting spending on infrastructure projects. The pandemic in 2020 prompted delays in some projects' completion until 2021, leading to a lower cash flow generation to construction companies, adversely impacting its supply chain, including WTON. Moreover, the upcoming presidential and legislative elections in 2024 may also result in more cautious construction projects realization.