

Building strong fiber footprint

6 November 2023



TOWR IJ	BUY
Sector	TowerCo
Price at 07 Nov 2023 (IDR)	960
Price target (IDR)	1,450
Upside/Downside (%)	50.9

Stock Information

Sarana Menara Nusantara was established in 2008 with the prime focus of its business is to invest in the operating companies who own and operate tower telecommunication sites and lease them to wireless communication companies.

Market cap (IDR bn)	48,208
Shares outstanding (mn)	49,798
52-week range (IDR)	820 -1,180
3M average daily vol. ('000)	25,637
3M average daily val. (IDR mn)	24,642

Shareholders (%)

Sapta Adhikari Investama	54.4
Public	42.5

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	2.2	(2.1)	(19.5)

TOWR's 9M23 top-line and EBITDA generally beat KBVS'/consensus at 74.8%-75.6% thanks to strong growth of non-tower business and manageable core cost. Meanwhile, 3Q23 net profit grew 7.4% qoq to IDR866 bn amidst lower cost of finance qoq. Despite that, it fell behind ours/consensus by 3.9-4.8%. Meanwhile, we expect strong growth in fiber to continue as management expects FTTH to reach 2mn homepasses, banking on its vast fiber footprint. Maintain BUY with a higher target price of IDR1,450, implying 10.5x '24 EV/EBITDA, while currently it is trading at 8.0x forward EV/EBITDA.

Stable margin on manageable cost

TOWR's 3Q23 EBITDA grew 1.1% qoq to IDR2.50 tn, bringing 9M23 EBITDA of IDR7.41 tn, or relatively in-line with KBVS'/Street's estimates at 75.6%/74.8% as core cost down 3.1% qoq thanks to lower other cost of revenue on electricity. This brought EBITDA margin to stabilize at 85.0% in 3Q23. Furthermore, revenue was up slightly 1.1% in 3Q23 to IDR2.94 tn or 75.1%/74.9% of ours/consensus, supported by non-tower revenue on fiber as it expanded FTTH to 178,32K or 3.3%/47.0% qoq/yoy. Fiber currently contributes c. 16% to TOWR's total revenue in 9M23. Balance sheet wise, TOWR's net gearing declined to 2.8x in 9M23.

Declined tower revenue

Tower leasing revenue decreased 1.3% qoq/2.5% yoy in 3Q23/9M23 to IDR2.11 tn/IDR6.30 tn on the back of lower monthly lease rate/ tenant by -2.2% qoq in 3Q23 to IDR12.9 mn. This was despite higher tenancy ratio that escalated to 1.81x in 3Q23 from 1.80x in 2Q23 given strong net tenant additions of 478, or higher than our expectations supported by non-IOH, ending a streak of negative growth of tenancies since 1Q23. Meanwhile, also added 123 tower sites in 3Q23 to 29,915.

Supported by fiber

We believe that non-tower to continue becoming TOWR's backbone going forward, especially fiber through FTTH and FTTH that has started to book revenue of IDR82 bn in 9M23. Management targets to build its FTTH footprint to 2mn homepasses. In addition, strong fiber deployment will also support its FTTH expansion going forward. On the other hand, we expect high interest rate environment could pose risks to TOWR's bottom-line, despite lower cost of finance in 9M23 at 6.5% (vs 6.7% in 1H23). To anticipate that, management pinpointed their aspiration to continue to bring down its cost of finance by negotiating interest loan, as well as enter hedging with shorter duration. We therefore adjust our TOWR's '23/'24 net profit assumption by -3.8%/0.7%.

Reiterate BUY with TP of IDR1,450/share

Reiterate our BUY call with higher target price of IDR1,450 (previously: IDR1,380), as we have rolled forward our DCF-based valuation as well as tweak on our WACC assumption due to changes to risk free rate to 6.7%, thus cost of equity and cost of debt amid higher interest environment. Our target price implies 10.5x '24 EV/EBITDA. Note that at current price, TOWR is trading at 8.0x forward EV/EBITDA, rather appealing at slightly above -1SD 5-year historical mean. TOWR has shown meaningful improvement to diversify away from tower to digital infrastructure that should prop up its performance over the long run. However, risks to our call included 1) higher leverage compared to peers; 2) stubborn finance costs.

Exhibit 1 : Key Statistics

Year end Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenue (IDR bn)	8,635	11,036	11,616	12,227	12,794
EBITDA (IDR bn)	7,612	9,899	10,064	10,579	11,065
Net profit (IDR bn)	3,427	3,442	3,281	3,695	4,082
EPS (IDR)	68.8	69.1	65.9	74.2	82.0
EPS growth (%)	20.9	0.4	-4.7	12.6	10.5
ROAA (%)	6.8	5.2	4.9	5.4	5.8
ROAE (%)	30.9	26.0	21.0	20.4	19.5
PER (x)	13.7	13.7	14.3	12.7	11.5
PBV (x)	4.6	3.9	3.3	2.8	2.4
Interest coverage (x)	5.6	4.1	3.5	3.6	4.0
EV/EBITDA (x)	11.4	9.1	8.9	8.3	7.7

Sources: Company, KBVS Research

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Exhibit 2: Performance overview

TOWR's 9M23

Income statement (IDR bn)	9M23	9M22	YoY (%)	3Q23	3Q22	YoY (%)	2Q23	QoQ (%)	2023F	% to '23F	Cons'	% of Cons'
Revenue	8,719	8,107	7.6	2,943	2,791	5.5	2,912	1.1	11,608	75.1	11,645	74.9
Cost of service	(2,466)	(2,184)	12.9	(838)	(743)	12.8	(823)	1.8				
Gross profit	6,254	5,923	5.6	2,105	2,048	2.8	2,089	0.8				
Operating expenses	(781)	(689)	13.4	(265)	(240)	10.2	(267)	(0.7)				
EBIT	5,473	5,235	4.5	1,841	1,808	1.8	1,822	1.0				
EBITDA	7,417	6,967	6.5	2,503	2,396	4.5	2,475	1.1	9,811	75.6	9,916	74.8
Other income/expenses	(218)	(334)	(34.8)	(56)	(135)	(58.6)	(91)	(38.6)				
Net finance costs/income	(2,155)	(1,735)	24.2	(682)	(541)	26.1	(739)	(7.8)				
Pre-tax income	3,100	3,166	(2.1)	1,103	1,132	(2.6)	992	11.2				
Taxes	(626)	(581)	7.8	(228)	(252)	(9.8)	(176)	29.1				
Attributable net profit	2,426	2,559	(5.2)	866	868	(0.1)	807	7.4	3,410	71.1	3,457	70.2
Margins (%)												
EBIT Margin	62.8	64.6		62.5	64.8		62.6					
EBITDA margin	85.1	85.9		85.0	85.9		85.0					
Net Margin	27.8	31.6		29.4	31.1		27.7					
Operational metrics												
Tower	29,915	29,708		29,915	29,708		29,792					
Tenant	54,249	55,029		54,249	55,029		53,771					
Tenancy ratio (x)	1.81	1.85		1.81	1.85		1.80					

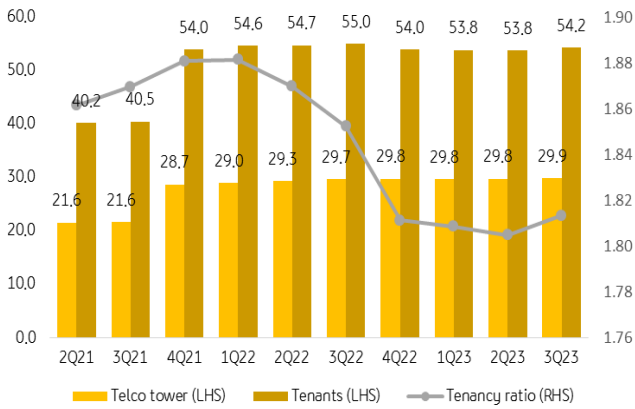
Sources: Company, KBVS Research, Bloomberg

Exhibit 3: Forecast Changes

	New		Old		Changes		Consensus		New VS consensus	
	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Revenue	11,616	12,227	11,608	12,052	0.1	1.4	11,679	12,353	-0.5	-1.0
EBIT	7,263	7,736	7,234	7,483	0.4	3.3	7,345	7,813	-1.1	-1.0
EBITDA	10,064	10,579	9,811	10,180	2.6	3.8	9,938	10,504	1.3	0.7
Net profit	3,281	3,695	3,410	3,668	-3.8	0.7	3,431	3,719	-4.4	-0.7

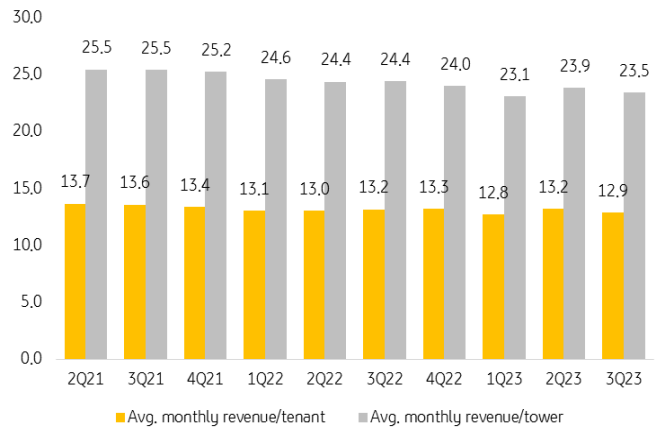
Source: KBVS Research, Bloomberg

Exhibit 4: TOWR's towers, tenants and tenancy ratio



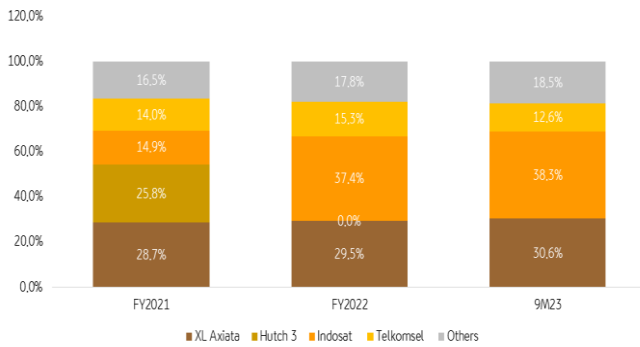
Source: Company, KBVS Research

Exhibit 5: TOWR's avg. revenue/tenant and revenue/site



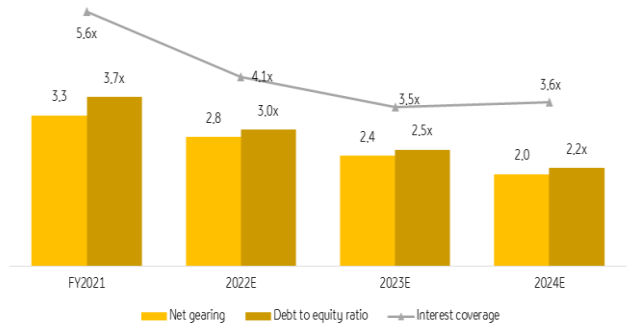
Source: Company, KBVS Research

Exhibit 6: Source of revenue by carrier



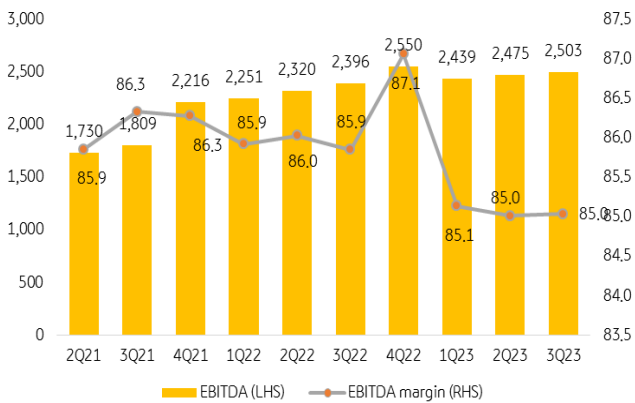
Source: Company, KBVS Research

Exhibit 7: TOWR's leverage metrics



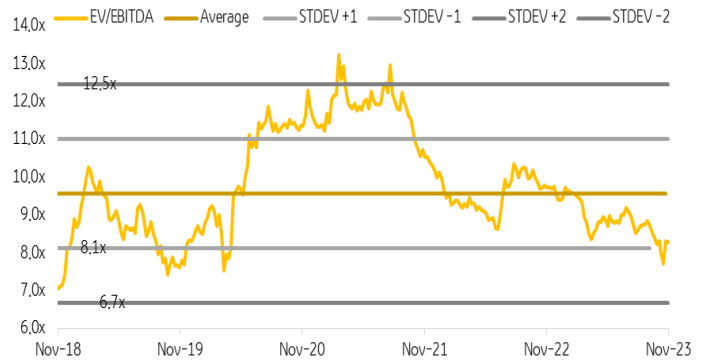
Source: Company, KBVS Research

Exhibit 8: EBITDA & EBITDA margin



Source: Company, KBVS Research

Exhibit 9: Currently trading slightly below 5-year average mean



Source: Company, KBVS Research, Bloomberg

FINANCIAL TABLES

Exhibit 10: Profit & Loss summary

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenue	8,635	11,036	11,616	12,227	12,794
Cost of revenue	(2,340)	(2,914)	(3,308)	(3,371)	(3,470)
Gross profit	6,295	8,121	8,308	8,856	9,324
Operating expenses	7,612	9,899	10,064	10,579	11,065
Operating profit	(721)	(911)	(1,045)	(1,120)	(1,173)
EBITDA	5,575	7,210	7,263	7,736	8,150
Finance income/costs NET	(1,346)	(2,368)	(2,871)	(2,922)	(2,743)
Pretax profit	4,051	4,459	4,203	4,621	5,212
Income tax/benefit	(603)	(963)	(839)	(832)	(1,016)
After tax	3,427	3,442	3,281	3,695	4,082

Source: Company, KBVS Research

Exhibit 11: Balance sheet

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Current Assets					
Cash and cash equivalents	4,748	309	373	729	1,323
Trade receivables	2,171	2,558	2,845	3,119	1,709
Other current assets	478	751	794	824	856
Total Asset	7,398	3,651	4,047	4,672	3,887
Non-current assets					
Fixed assets	32,951	37,152	39,645	40,639	41,792
Other non-current assets	24,570	23,724	23,414	23,376	23,536
Total non-current assets	58,431	61,974	64,140	65,075	66,440
Total assets	65,829	65,625	68,187	69,747	70,327
Current liabilities					
Tower construction, other payables	522	839	881	908	926
Accruals	1,096	1,541	1,361	1,252	1,190
Short term debts	16,794	9,564	11,949	10,354	7,726
Other current liabilities	3,469	2,502	3,141	3,386	3,615
Total current liabilities	21,880	14,446	17,333	15,900	13,457
Non-current liabilities					
Long-term debts	30,191	35,409	32,555	32,999	32,901
Other non-current liabilities	1,695	1,338	1,431	1,384	1,443
Total non-current liabilities	31,886	36,747	33,987	34,383	34,345
Shareholders' equity	12,062	14,432	16,867	19,464	22,526
Total liabilities and equity	65,829	65,625	68,187	69,747	70,327

Source: Company, KBVS Research

Exhibit 9: Cash flow

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Net profit	3,427	3,442	3,281	3,695	4,082
Depreciation & Amortization	1,860	2,307	2,611	2,649	2,720
Changes in working capital	1,162	(897)	170	(107)	1,563
CF from operating activities	6,450	4,852	6,061	6,237	8,366
Investment in fixed assets	(12,053)	(6,507)	(5,104)	(3,644)	(3,873)
Others	(16,990)	657	327	59	(212)
CF from investing activities	(29,043)	(5,850)	(4,777)	(3,585)	(4,085)
Dividends paid	(1,399)	(1,200)	(902)	(1,016)	(1,021)
Debt raised/ repaid	26,788	(2,013)	(467)	(1,152)	(2,725)
Others	510	(229)	150	(129)	59
CF from financing activities	25,899	(3,441)	(1,220)	(2,297)	(3,687)
Change in cash flow	3,306	(4,440)	64	356	594
Cash and cash equivalents, beginning	1,443	4,748	309	373	729
Cash and cash equivalents, ending	4,748	309	373	729	1,323

Source: Company, KBVS Research

Exhibit 10: Ratio analysis

Year End Dec	2021A	2022A	2023F	2024F	2025F
Gross profit margin (%)	72.9	73.6	71.5	72.4	72.9
Operating profit margin (%)	64.6	65.3	62.5	63.3	63.7
EBITDA margin (%)	88.2	89.7	86.6	86.5	86.5
Net profit margin (%)	39.7	31.2	28.2	30.2	31.9
Receivable turnover (x)	5.1	5.3	4.3	4.1	5.3
ROAA (%)	6.8	5.2	4.9	5.4	5.8
ROAE (%)	30.9	26.0	21.0	20.4	19.5
ROCE (%)	28.4	23.8	19.4	19.0	18.1
ROIC (%)	6.3	5.8	5.4	6.0	6.6
Debt/ Equity (x)	3.9	3.1	2.6	2.2	1.8
Net debt/Equity (x)	3.5	3.1	2.6	2.2	1.7
Net debt/ EBITDA (x)	5.5	4.5	4.4	4.0	3.6
Interest coverage (x)	5.6	4.1	3.5	3.6	4.0
BV/Share (IDR)	242.2	289.8	338.7	390.9	452.3
Dividend yield (%)	2.97	2.55	1.92	2.16	2.17

Source: Company, KBVS Research

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