

Sarana Menara Nusantara (TOWR)

Monetizing fiber asset synergy

7 August 2023



TOWR IJ	BUY
Sector	Telco Tower
Price at 04 Aug 2023 (Rp)	965
Price target (Rp)	1,380
Upside/Downside (%)	43.0

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 (Rp bn)	49,484
Shares outstanding (mn)	49,798
52-week range (Rp)	895 -1,1,250
3M average daily vol. ('000)	24,470
3M average daily val. (Rp mn)	25,156

Shareholders (%)

Sapta Adhikari Investama	54.4
Public	42.5

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(7.6)	(1.0)	(19.8)

Analyst

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TOWR's 1H23 results were broadly mixed with top-line and EBITDA beats ours/street's estimates by 0.9-1.5% on lease rate improvement while 1H23 net profits miss by 7.5%/8.5% of ours/consensus estimates amidst higher costs. As such, we lift '23F/'24F revenue and EBITDA by c. 2-3%, yet reduce its earnings forecast by -7.5% on adjustment of CoF assumption. We like TOWR's shifting focus to digital infrastructure and reiterate BUY with TP of IDR1,380 while currently trading at an appealing 9.0x forward EV/EBITDA.

Still weighed down by higher costs

TOWR's 2Q23 earnings rose 7.2% qoq to IDR807 bn, bringing 1H23 net profit of IDR1.56 tn or declined 7.8% yoy. This came in below ours/consensus at 42.3%/41.5%, caused by higher costs +2.2% on D&A, while cash cost to revenue increased by 12bps qoq. Despite flattish finance cost +1.04% qoq, annualized CoF inched up from 6.5% in 1Q23 to 6.7% in 2Q23. Furthermore, TOWR's 2Q23 EBITDA grew tepidly 1.5% qoq to IDR2.48 tn, pressuring EBITDA margin to decline 12.4bps/90.4bps qoq/yoy. Nevertheless, 1H23 EBITDA still topped ours/consensus by 1.2%/0.9%. This was supported by tower revenue growth of 2.1% qoq in 2Q23, making up revenue of IDR5.78 tn or achieving 51.5%/51.3% of ours/consensus. Leverage was improved YTD with net gearing down to 2.8x in 1H23.

Improving lease rate

2Q23 top-line growth was largely supported by tower revenue that surged 3.5% qoq as it recorded an improvement in monthly lease rate/tenant by +3.6% to IDR13.2 mn thanks to its diversified services to customers, in our view. This despite a slightly lower tenancy ratio of 1.80x in 2Q23 (vs 1Q23: 1.81x) on the back of 49 net-churn tenants while net-add was 35 towers. Meanwhile, tower fiber revenue grew 3.3% qoq/74.8% yoy in 2Q23/1H23 as TOWR's revenue-generating fiber expanded to 172,593 kms.

Striving for more fiber synergy

Management aims to shift its business focus from tower to digital infrastructure, especially FTTH- FTTH and connectivity, while striving to achieve synergy value on these fiber-based businesses. On FTTH, the company has an exclusive deal with EXCL, committed to deliver 500,000 km home passes, which is managed under B2S model for a payback period of 7-8 years on a 10 years contract with an expected return of c. 12%. The deal also enables the company to obtain incremental upside from the basic target that has been agreed upon.

We revise up '23F/'24F revenue and EBITDA by c. 2-3% amid higher revenue recognition of other scope of works. On the other hand, we cut our '23F/'24F earnings by 7.5%/7.8% as we lift our CoF assumptions to 6.3% (vs. 6.2% on previous forecasts).

Reiterate BUY with TP of IDR1,380/share

Reiterate our BUY call with slightly lower target price of IDR1,380 (previously: IDR1,400), implying 11.4x '23F EV/EBITDA. Note that at current price, TOWR is trading at 9.0x 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	2021A	2022A	2023F	2024F	2025F
Revenue (Rp bn)	8,635	11,036	11,608	12,052	12,627
EBITDA (Rp bn)	7,612	9,899	9,811	10,180	10,671
Net profit (Rp bn)	3,427	3,442	3,410	3,668	4,000
EPS (Rp)	68.8	69.1	68.5	73.7	80.3
EPS growth (%)	20.9	0.4	-0.9	7.6	9.0
ROAA (%)	6.8	5.2	5.1	5.3	5.7
ROAE (%)	30.9	26.0	21.8	20.2	19.1
PER (x)	14.1	14.0	14.2	13.2	12.1
PBV (x)	4.7	4.0	3.3	2.8	2.5
Interest coverage (%)	5.6	4.1	3.5	3.7	4.1
EV/EBITDA (x)	11.7	9.3	9.3	8.8	8.1

Source: Company, KBVS Research

Sarana Menara Nusantara (TOWR)

Exhibit 2: Financial Summary

Income statement (IDR bn)	1H23	1H22	YoY (%)	2Q23	2Q22	YoY (%)	1Q23	QoQ (%)	2022F	% to '22F	Cons'	% of Cons'
Revenue	5,776	5,316	8.7	2,912	2,697	8.0	2,865	1.6	11,225	51.5	11,254	51.3
Cost of service	(1,628)	(1,441)	13.0	(823)	(731)	12.6	(805)	2.2				
Gross profit	4,148	3,875	7.0	2,089	1,966	6.2	2,060	1.4				
Operating expenses	(516)	(449)	15.1	(267)	(224)	19.2	(250)	6.7				
EBIT	3,632	3,427	6.0	1,822	1,742	4.6	1,810	0.7	7,232	50.2	7,285	49.9
EBITDA	4,914	4,571	7.5	2,475	2,320	6.7	2,439	1.5	9,603	51.2	9,651	50.9
Other income/expenses	(162)	(199)	(18.6)	(91)	(121)	(24.9)	(804)	(88.7)				
Net finance costs/income	(1,473)	(1,194)	23.4	(739)	(594)	24.6	(734)	0.8				
Pre-tax income	1,997	2,034	(1.8)	992	1,028	(3.5)	1,006	(1.4)				
Taxes	(398)	(328)	21.3	(176)	(186)	(5.0)	(222)	(20.5)				
Attributable net profit	1,559	1,691	(7.8)	807	838	(3.7)	752	7.2	3,687	42.3	3,755	41.5
Margins (%)												
EBIT Margin	62.9	64.5		62.6	64.6		63.2					
EBITDA margin	85.1	86.0		85.0	86.0		85.1					
Net Margin	27.0	31.8		27.7	31.1		26.3					
Operational metrics												
Tower				29,792	29,263		29,757					
Tenant				53,771	54,716		53,820					
Tenancy ratio (x)				1.80	1.87		1.81					

Source: Company, KBVS Research

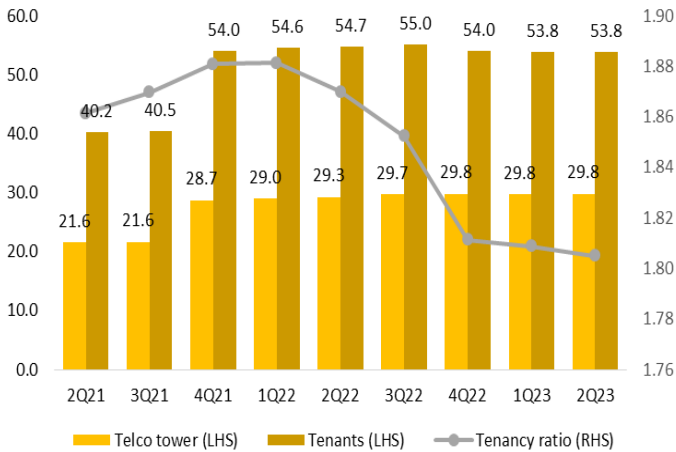
Exhibit 3: Forecast revisions

	New		Old		Changes		Consensus		New VS consensus	
	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Revenue	11,608	12,052	11,225	11,883	3.4	1.4	11,575	12,122	0.3	-0.6
EBIT	7,234	7,483	7,232	7,624	0.0	-1.9	7,400	7,754	-2.2	-3.5
EBITDA	9,811	10,180	9,603	10,180	2.2	0.0	9,887	10,324	-0.8	-1.4
Net profit	3,410	3,668	3,687	3,979	-7.5	-7.8	3,505	3,712	-2.7	-1.2

Source: Company, KBVS Research

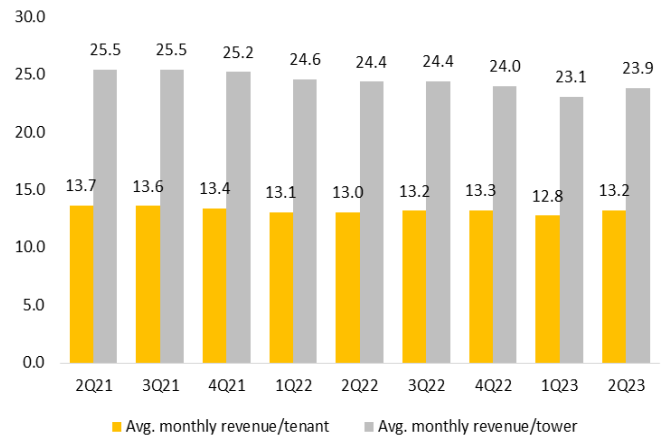
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Exhibit 4: TOWR's towers, tenants and tenancy ratio



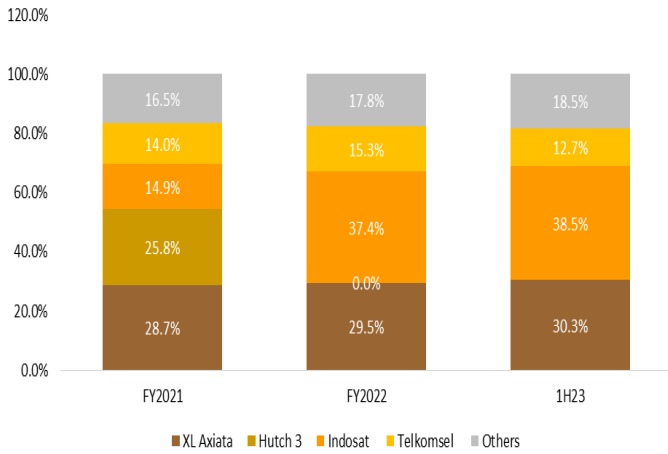
Source: Company, KBVS Research

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



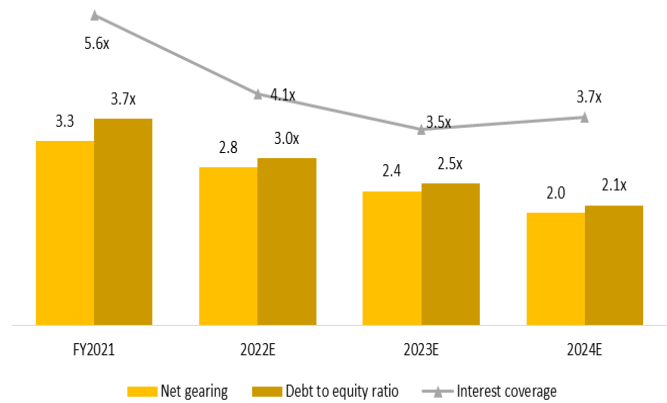
Source: Company, KBVS Research

Exhibit 6: Source of revenue by carrier



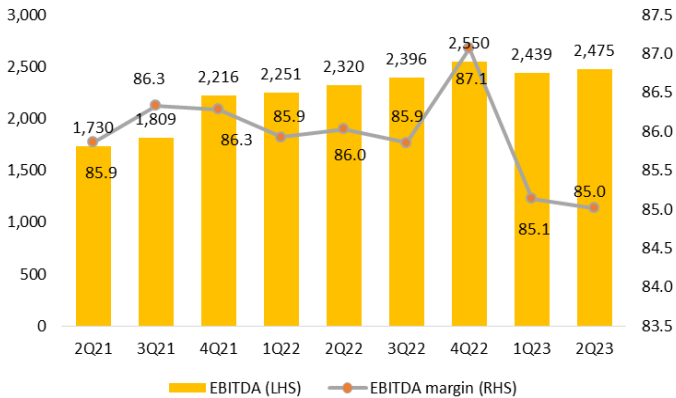
Source: Company, KBVS Research

Exhibit 7: TOWR's leverage metrics



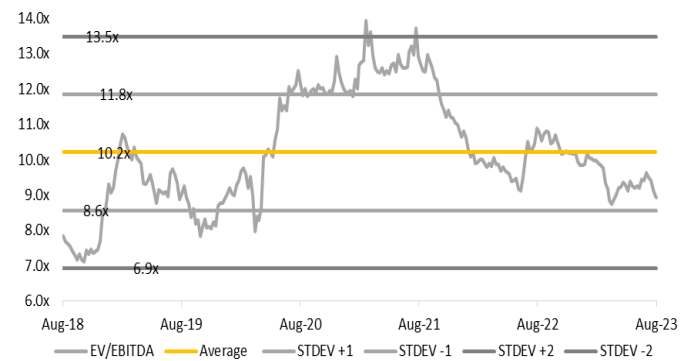
Source: Company, KBVS Research

Exhibit 8: EBITDA & EBITDA margin



Source: Company, KBVS Research

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



Source: Company, KBVS Research, Bloomberg

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FINANCIAL TABLES

Exhibit 10: Profit & Loss Summary

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
Revenue	8,635	11,036	11,608	12,052	12,627
Cost of revenue	(2,340)	(2,914)	(3,183)	(3,295)	(3,423)
Gross profit	6,295	8,121	8,424	8,756	9,203
EBITDA	7,612	9,899	9,811	10,180	10,671
Operating expenses	(721)	(911)	(1,190)	(1,274)	(1,339)
Operating profit	5,575	7,210	7,234	7,483	7,864
Net finance income/ expenses	(1,346)	(2,368)	(2,779)	(2,701)	(2,563)
Profit before income tax	4,051	4,459	4,265	4,588	5,107
Tax benefit (expenses)	(603)	(963)	(768)	(826)	(996)
Net profit	3,427	3,442	3,410	3,668	4,000

Source: Company, KBVS Research

Exhibit 11: Balance Sheet

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
Current assets					
Cash and cash equivalents	4,748	309	1,467	1,907	2,368
Trade receivables	2,171	2,558	2,841	3,038	1,727
Other current assets	478	751	794	824	856
Total current assets	7,398	3,651	5,137	5,768	4,951
Non-current assets					
Fixed assets	32,951	37,152	38,648	39,618	40,741
Other non-current assets	24,570	23,724	23,414	23,376	23,536
Total non-current assets	58,431	61,974	63,143	64,054	65,390
Total assets	65,829	65,625	68,281	69,822	70,341
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	16,961	19,539	22,539
Total liabilities and equity	65,829	65,625	68,281	69,822	70,341

Source: Company, KBVS Research

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Exhibit 12: Cash Flow

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net profit	3,427	3,442	3,410	3,668	4,000
Depreciation & amortization	1,860	2,307	2,388	2,505	2,612
Changes in working capital	1,162	(897)	174	(29)	1,463
CF from operating activities	6,450	4,852	5,972	6,144	8,075
Investment in fixed assets	(12,053)	(6,507)	(3,884)	(3,474)	(3,735)
Others	(16,990)	657	327	59	(212)
CF from investing activities	(29,043)	(5,850)	(3,557)	(3,415)	(3,948)
Dividends paid	(1,399)	(1,200)	(938)	(1,009)	(1,000)
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)	(1,256)	(2,289)	(3,666)
Change in cash flows	3,306	(4,440)	1,159	439	461
Cash and cash equivalents, beginning	1,443	4,748	309	1,467	1,907
Cash and cash equivalents, ending	4,748	309	1,467	1,907	2,368

Source: Company, KBVS Research

Exhibit 13: Ratio Analysis

Year End Dec	2021A	2022A	2023F	2024F	2025F
Gross profit margin (%)	72.9	73.6	72.6	72.7	72.9
Operating profit margin (%)	64.6	65.3	62.3	62.1	62.3
EBITDA margin (%)	88.2	89.7	84.5	84.5	84.5
Net profit margin (%)	39.7	31.2	29.4	30.4	31.7
Receivables turnover (x)	5.1	5.3	4.3	4.1	5.3
ROA (%)	6.8	5.2	5.1	5.3	5.7
ROE (%)	30.9	26.0	21.8	20.2	19.1
ROCE	28.4	23.8	20.1	18.8	17.7
ROIC (%)	6.3	5.8	5.7	6.0	6.6
Debt/ Equity (%)	3.9	3.1	2.6	2.2	1.8
Net debt/Equity (x)	3.5	3.1	2.5	2.1	1.7
Net debt/ EBITDA (x)	5.5	4.5	4.4	4.1	3.6
Interest coverage (x)	0.2	0.2	0.2	0.2	0.2
EPS	5.6	4.1	3.5	3.7	4.1
BV/share (x)	68.8	69.1	68.5	73.7	80.3

Source: Company, KBVS Research

Sarana Menara Nusantara (TOWR)

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