

Sarana Menara Nusantara (TOWR)

For the sake of future

09 September 2022



TOWR IJ	BUY
Sector	Telco Tower
Price at 08 Sept 2022 (Rp)	1,240
Price target (Rp)	1,500
Upside/Downside (%)	21.0

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)	65,554
Shares outstanding (mn)	49,799
52-week range (Rp)	915 -1,345
3M average daily vol. ('000)	68,961
3M average daily val. (Rp mn)	78,538

Shareholders (%)

Sapta Adhikari Investama	54.4
Public	42.5

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(6.4)	28.0	(1.6)

- TOWR's 1H22 net profit was Rp1.7tn, growing 0.1% (+0.7% in 2Q22)
- We expect revenue and net profit to grow to Rp10.2tn and Rp3.5tn, respectively
- We reiterate our "BUY" call with 21% upside potential on a 12-month view on positive impact from higher demand for data

Fairly in line

TOWR's 1H22 net profit came in at Rp1.69tn, or relatively flattish YoY (-1.9% QoQ), accounting for 47.8% of our FY estimate. The flattish growth of net profit was partly due to higher finance costs combined with forex loss in 1H22. Meanwhile, its revenue surged 33.9% YoY in 1H22 to Rp5.32tn (+3.0% QoQ), representing 52.4% of our 2022 estimate. GPM was also stabilized at 72.9% in 1H22 (72.9% in 2Q22) as cost of revenue remained controllable, in our view. Furthermore, TOWR's SG&A grew 31.9% YoY in 1H22 on the back of higher from salaries and employee welfare. However, TOWR managed to maintain EBITDA margin at 86.0% in 1H22 (86% in 2Q22) compared to 85.8% in 1H21. In addition, TOWR's net gearing was at 3.3x in 1H22.

Strong non-tower growth

TOWR's top line in 1H22 was propped up by tower rental revenue that strongly grew 30.7% YoY (+0.1% QoQ in 2Q22). The company managed to add 252 towers QoQ in 2Q22 to 29,263 towers (7,688 towers in YoY) with tenancies were up to 54,716. This brought tenancy ratio to be at 1.88x in 1H22 or 1.87x in 2Q22. On the other side, non-tower revenue increased 48.8% YoY (+16.0% QoQ in 2Q22). As a result, non-tower revenue contributed 19.5% of its revenue in 1H22 (20.6% QoQ in 2Q22), growing from 17.8% in 1H21. Higher contribution was also followed by margin expansion of 56.4% in 1H22 from 50.3% in 1H21. TOWR has added 84.6% YoY tower generating revenue to 95,400 in 2Q22 with 13,333 activations.

Focuses on securing sustainable growth

We expect TOWR's revenue to grow 18% YoY in 2022 to Rp10.2tn, supported by tower revenue with growth of non-tower revenue continues to accelerate further in line with recent trend of data expansion. Meanwhile, we estimate TOWR's net profit of Rp3.54tn in 2022, or relatively flattish YoY with EBITDA margin at 87%, or higher YoY. We view that planned acquisition of fiber optic asset of BIT Teknologi Nusantara (BIT) will help it capture growth opportunity amid strong data demands going forward. The transaction is slated to complete in 3Q22 with a value of Rp801bn. According to management, by acquiring the asset, TOWR will add 10,730km of revenue generating fiber with estimated non-cancellable revenue valuing Rp845bn that mostly serves for EXCL and IOH covering Solo, Malang, Surabaya and Bali. On the flip side, we view that highly competitive market in mobile will prompt operators to carry out efficiencies, therefore lower contract negotiation could become a risk in the future.

Reiterate BUY on the back of growing demand for data improvement

We maintain our BUY recommendation with a DCF-based price target of Rp1,500 per share. The stock is currently traded at a 2022F PER of 20.4x and EV/EBITDA of 7.3x. We are sanguine with TOWR's performance, boosted by 1) strong demands by carriers to improve their data services; 2) commercialization of 5G; 3) the country's lower internet penetration compared to ASEAN peers; and 4) relatively stable margins. Nevertheless, we note a number of downside risks to our recommendation, namely 1) higher interest rates; 2) lower lease fee than expected; 3) forex and leverage risks.

Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (Rp bn)	7,445	8,635	10,155	11,357	12,564
EBITDA (Rp bn)	6,405	7,434	8,804	9,872	10,593
Net profit (Rp bn)	2,836	3,427	3,536	4,428	4,677
EPS (Rp)	56.9	68.8	71.0	88.9	93.9
EPS growth (%)	21.1%	20.9%	3.2%	25.2%	5.6%
ROAA (%)	9.2%	6.8%	5.4%	6.6%	6.6%
ROAE (%)	30.0%	30.9%	26.5%	27.1%	23.7%
PER (x)	25.4	21.1	20.4	16.3	15.4
PBV (x)	7.1	6.0	4.9	4.0	3.4
Interest coverage (%)	5.3	5.4	3.9	4.5	4.8
EV/EBITDA (x)	10.0	8.2	7.3	6.2	5.6

Analyst

Devi Harjoto

Sarana Menara Nusantara (TOWR)

TOWR's Financial Overview

Consolidated Statements of Profit or Loss (Rp bn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Revenue	3,972	5,316	33.9%	2,619	2,697	3.0%
Cost of revenue	(1,082)	(1,441)	33.2%	(710)	(731)	2.9%
Gross profit	2,890	3,875	34.1%	1,909	1,966	3.0%
Gross profit margin	72.8%	72.9%		72.9%	72.9%	
EBITDA	3,410	4,571	34.1%	2,251	2,320	3.1%
EBITDA margin	85.8%	86.0%		85.9%	86.0%	0.1%
Operating expenses	(349)	(647)	85.5%	(303)	(345)	13.9%
Operating profit	2,541	3,228	27.0%	1,607	1,621	0.9%
Operating profit margin	64.0%	60.7%		61.3%	60.1%	
Net. Finance income/ expenses	(512)	(1,194)	133.0%	(600)	(594)	(1.1%)
Profit before income tax	2,028	2,034	0.3%	1,006	1,028	2.1%
Tax benefit (expenses)	(328)	(328)	0.2%	(143)	(186)	30.3%
Attributable net profit	1,690	1,691	0.1%	854	838	(1.9%)
Net profit margin	42.5%	31.8%		32.6%	31.1%	

TOWR books strong revenue and stable margin

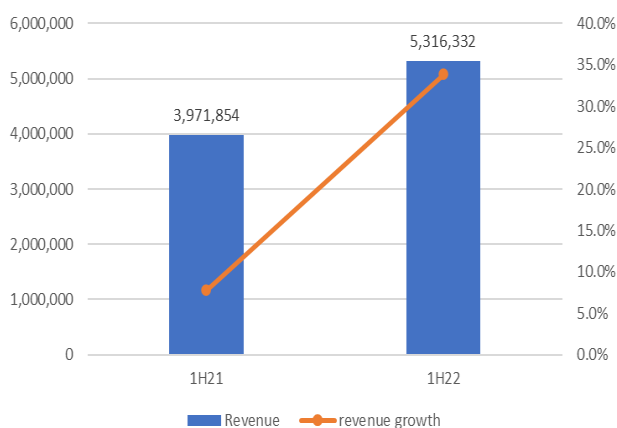


Exhibit 1. TOWR's revenue performance (Companies, KBV)

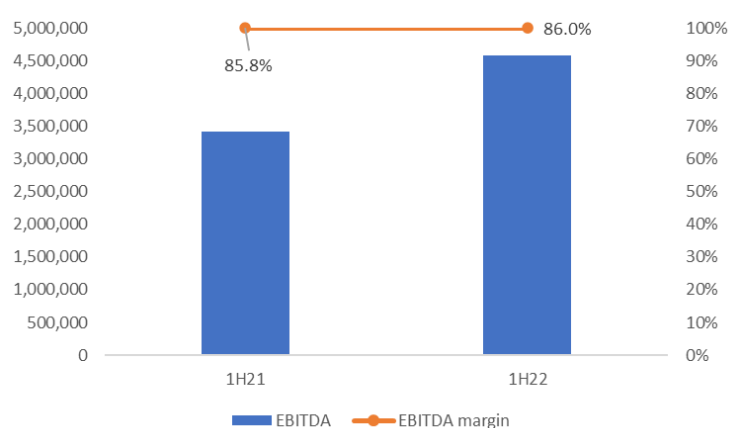


Exhibit 2. EBITDA and EBITDA margin YoY (Companies, KBV)

Non-tower GPM hikes as tower and fiber grow

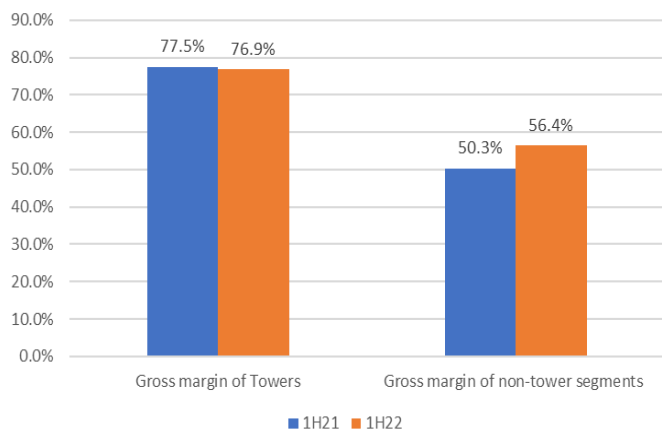


Exhibit 3. Gross margin of segments (Companies, KBV)

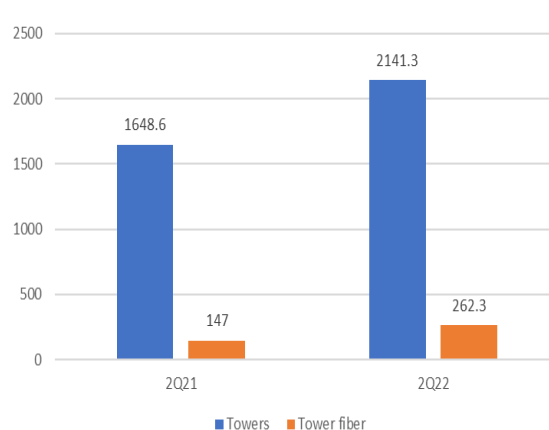


Exhibit 4. Tower and tower fiber growth (Companies, KBV)

Sarana Menara Nusantara (TOWR)

FINANCIAL TABLES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Revenue	7,445	8,635	10,155	11,357	12,564
Cost of revenue	(2,059)	(2,340)	(2,862)	(3,090)	(3,597)
Gross profit	5,386	6,295	7,293	8,267	8,967
Gross profit margin	72.3%	72.9%	71.8%	72.8%	71.4%
EBITDA	6,405	7,434	8,804	9,872	10,593
EBITDA margin	86.0%	86.1%	86.7%	86.9%	84.3%
Operating expenses	(820)	(899)	(946)	(1,026)	(1,366)
Operating profit	4,567	5,397	6,347	7,241	7,600
Operating profit margin	61.3%	62.5%	62.5%	63.8%	60.5%
Net finance income/ expenses	(1,168)	(1,346)	(2,212)	(2,068)	(2,138)
Profit before income tax	3,399	4,051	4,136	5,173	5,462
Tax benefit (expenses)	(545)	(603)	(579)	(724)	(765)
Net profit	2,836	3,427	3,536	4,428	4,677
Net profit margin	38.1%	39.7%	34.8%	39.0%	37.2%

Source: Company, KB Valbury Sekuritas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash and cash equivalents	1,443	4,748	1,569	4,351	6,488
Trade receivables	1,240	2,171	2,782	2,757	3,371
Other current assets	320	478	507	528	549
Total current assets	3,002	7,398	4,859	7,637	10,409
Non-current assets					
Fixed assets	22,758	32,951	34,599	35,637	36,350
Other non-current assets	7,526	24,570	24,234	24,654	25,137
Total non-current assets	31,284	57,521	58,833	60,291	61,487
Total assets	34,286	64,919	63,692	67,928	71,896
Current liabilities					
Tower construction, other payables	535	522	636	668	688
Accruals	510	1,096	1,309	1,178	1,084
Short term debts	4,391	16,794	9,164	8,819	8,481
Other current liabilities	1,789	3,469	3,823	4,166	4,479
Total current liabilities	7,225	21,881	14,932	14,831	14,732
Non-current liabilities					
Long-term debts	15,806	30,191	33,437	34,509	35,084
Other non-current liabilities	1,035	1,695	1,603	1,540	1,506
Total non-current liabilities	16,841	31,886	35,040	36,049	36,590
Shareholders' equity	10,184	12,062	14,710	17,988	21,496
Total liabilities and equity	34,250	65,829	64,683	68,869	72,818

Source: Company, KB Valbury Sekuritas

Sarana Menara Nusantara (TOWR)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	2,836	3,427	3,536	4,428	4,677
Depreciation & amortization	1,644	1,860	2,297	2,458	2,807
Changes in working capital	535	1,162	42	248	(397)
CF from operating activities	5,015	6,450	5,875	7,135	7,087
Investment in fixed assets	(4,754)	(12,053)	(3,944)	(3,496)	(3,520)
Others	(2,946)	(16,990)	254	(370)	(464)
CF from investing activities	(7,700)	(29,043)	(3,690)	(3,867)	(3,985)
Dividends paid	(1,196)	-	(884)	(1,107)	(1,169)
Debt raised/ repaid	5,029	26,788	(4,383)	726	237
Others	(298)	(889)	(97)	(105)	(34)
CF from financing activities	3,534	25,899	(5,364)	(486)	(966)
Change in cash flows	849	3,306	(3,179)	2,782	2,137
Cash and cash equivalents, beginning	594	1,443	4,748	1,569	4,351
Cash and cash equivalents, ending	1,443	4,748	1,569	4,351	6,488

Source: Company, KB Valbury Sekuritas

RATIO ANALYSIS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Gross profit margin (%)	72.3%	72.9%	71.8%	72.8%	71.4%
Operating profit margin (%)	61.3%	62.5%	62.5%	63.8%	60.5%
EBITDA margin (%)	86.0%	86.1%	86.7%	86.9%	84.3%
Net profit margin (%)	38.1%	39.7%	34.8%	39.0%	37.2%
Receivables turnover (x)	5.8	5.1	4.1	4.1	4.1
ROA (%)	9.2%	6.8%	5.4%	6.6%	6.6%
ROE (%)	30.0%	30.9%	26.5%	27.1%	23.7%
ROCE	27.8%	28.4%	24.0%	24.6%	21.8%
ROIC (%)	9.8%	6.3%	6.2%	7.7%	7.9%
Debt/ Equity (%)	2.0	3.9	3.0	2.4	2.0
Net debt/Equity (x)	1.8	3.5	2.9	2.2	1.7
Net debt/ EBITDA (x)	2.9	5.7	4.8	4.0	3.5
Interest coverage (x)	5.3	5.4	3.9	4.5	4.8
EPS	56.9	68.8	71.0	88.9	93.9
BV/share (x)	204.5	242.2	295.4	361.2	431.7

Source: Company, KB Valbury Sekuritas

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