

Sarana Menara Nusantara (TOWR)

Future is looking bright

23 December 2022



TOWR IJ	BUY
Sector	Telco Tower
Price at 22 Dec 2022 (Rp)	1,055
Price target (Rp)	1,500
Upside/Downside (%)	42.2

Stock Information

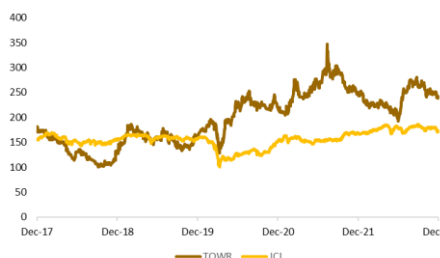
Sarana Menara Nusantara was established in 2008 with the prime focus of its business is to invest in the operating companies who own and operate tower telecommunication sites and lease them to wireless communication companies.

Market cap (Rp bn)	55,605
Shares outstanding (mn)	49,799
52-week range (Rp)	880 -1,285
3M average daily vol. ('000)	47,889
3M average daily val. (Rp mn)	55,810

Shareholders (%)

Sapta Adhikari Investama	54.4
Public	42.5

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(2.7)	(7.9)	(3.9)

Analyst

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TOWR's efforts to expand offerings to fiber will drive up its growth over the long run, as it takes advantage of low fiber-based internet penetration and 5G adoption. However, ongoing consolidation could result in moderate topline growth in '22 and '23, respectively. Maintain BUY, with a target price of IDR1,500, implying 12.3x '23F EV/EBITDA, while it is trading at 10.1x or slightly below 5-year historical mean.

Strong top line growth, yet dragged down by financing costs

TOWR's net profit came in at IDR868 bn in 3Q22, bringing 9M22 net profit of IDR2.56 tn, or representing 72.4%/71.5% of ours/consensus. Soft bottom line yoy was dragged down by higher finance costs that jumped 120.9% yoy (-8.8% qoq) amid high interest environment. Meanwhile, 3Q22 revenue grew 3.5% qoq to IDR2.79 tn, making up 9M22 revenue of IDR8.11 tn, above ours/consensus at 79.8%/76.4%. Nevertheless, TOWR managed to maintain low growth of cost of revenue at 1.6% qoq, although cash cost added 4.8% qoq. Furthermore, 3Q22 EBITDA increased 3.3% qoq with margin relatively flattish at 85.9%. However, 9M22 EBITDA reached 79.1%/76.3% of ours/consensus or went up by 33.5% yoy. TOWR's net gearing was improved to 2.9x in 9M22.

Offerings diversification comes to fruition

TOWR's towers and tenants grew 1.5% qoq and 0.6% qoq in 3Q22 to 29,708 and 55,029, respectively, bringing tenancy ratio down slightly from 1.87x in 2Q22 to 1.85x. The lower tenancy ratio in 3Q22 was in line with industry's ongoing telco consolidation phase. Nevertheless, TOWR's monthly lease fee/tenant grew 1.1% qoq to IDR13.2 mn, yet dropped 3.7% yoy in 9M22. On the other hand, TOWR managed to expand fiber revenue contribution to 9.5% in 9M22/10.5% in 3Q22 as revenue generating fiber reached 121,289 kms following Alita acquisition.

Outlook remains bright despite consolidation

In the midst of industry consolidation, we expect TOWR's growth to be modest in '22 and '23, respectively due to limited potential acquisition going forward. Therefore, revenue in tower will be mainly driven by organic growth. Nevertheless, we are sanguine that mobile consolidation will encourage providers to improve service and coverage expansion which mean higher demand potential for towers, despite potential pressure on lease rate. Over the long run, TOWR aims to diversify its offerings especially fiber FTTT/FTTH on the back of remained low penetration of fiber-based internet service and 5G that must be supported by fiber optic backbone.

Reiterate BUY on the back of fiber expansion

We maintain our BUY call with a DCF-based price target of IDR1,500/ share, implying 12.3x 2023 EV/EBITDA or below +2SD 5 year-historical mean. We like TOWR's move to expand fiber infrastructure in an anticipation of growing fixed broadband demand going forward and incoming 5G technology. However, we note that TOWR could be affected by high interest environment given increasing blended funding cost that may hurt EPS growth, as well as ISAT's network integration program post-merger.

Exhibit 1: Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (Rp bn)	7,445	8,635	10,417	11,044	11,714
EBITDA (Rp bn)	6,405	7,434	9,091	9,618	10,181
Net profit (Rp bn)	2,836	3,427	3,582	3,889	4,161
EPS (Rp)	55.6	67.2	70.2	76.2	81.6
EPS growth (%)	21.1	20.9	4.5	8.6	7.0
ROAA (%)	9.2	6.8	5.4	5.7	5.8
ROAE (%)	30.0	30.9	26.6	24.0	21.9
PER (x)	19.6	16.2	15.5	14.3	13.4
PBV (x)	6.3	5.5	4.6	3.7	3.2
Interest coverage (%)	5.3	5.4	3.8	3.8	4.0
EV/EBITDA (x)	11.3	12.8	10.6	10.1	9.5

Source: Company, KBVS Research

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Exhibit 2: Financial Summary

Income statement (IDR bn)	9M22	9M21	YoY (%)	3Q22	3Q21	YoY (%)	2Q22	QoQ (%)	% to '22F	% of Cons'
Revenue	8,107	6,067	33.6	2,791	2,095	33.2	2,697	3.5	79.8	76.4
Cost of revenue	(2,184)	(1,631)	33.9	(743)	(549)	35.3	(731)	1.6		
Gross profit	5,923	4,436	33.5	2,048	1,546	32.5	1,966	4.2		
Operating expenses	(1,023)	(526)	94.3	(375)	(177)	111.7	(345)	8.8		
EBIT	4,901	3,910	25.3	1,673	1,369	22.2	1,621	3.2	77.2	71.6
EBITDA	6,967	5,218	33.5	2,396	1,809	32.5	2,320	3.3	79.1	76.3
Net finance cost/income	(1,735)	(778)	122.9	(541)	(266)	103.4	(594)	(8.9)		
Pre-tax income	3,166	3,131	1.1	1,132	1,103	2.6	1,028	10.2		
Taxes	(581)	(523)	11.0	(603)	(195)	208.7	(186)	224.7		
Attributable net profit	2,559	2,580	(0.8)	868	890	(2.5)	838	3.6	72.4	71.5
Margins (%)										
EBIT Margin	60.5%	64.4%		59.9%	65.3%		60.1%			
EBITDA margin	85.9%	86.0%		85.9%	86.3%		86.0%			
Net Margin	31.6%	42.5%		31.1%	42.5%		31.1%			

Operational metrics

Tower				29,708	21,639	37.3	29,263.0	1.5
Tenant				55,029	40,456	36.0	54,716.0	0.6
Tenancy ratio (x)				1.85	1.87		1.87	

Source: Company, KBVS Research

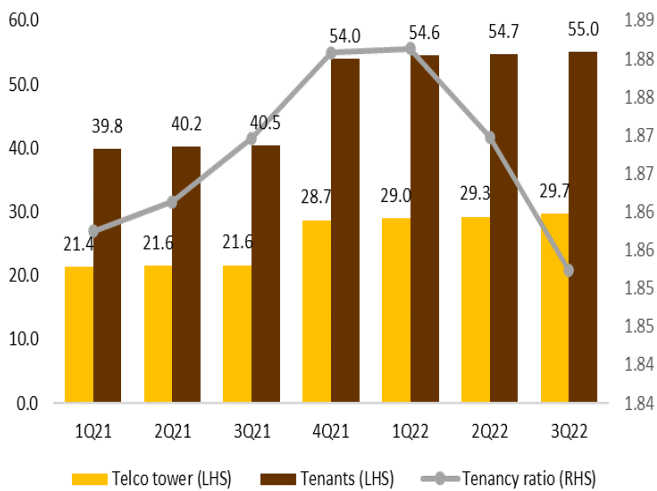
Exhibit 3: Forecast revisions

	New		Old		Changes		Consensus		New VS consensus	
	2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F
Revenue	10,417	11,044	10,155	11,357	2.6	-2.8	10,615	11,042	-1.9	0.0
EBIT	6,575	7,097	6,347	7,241	3.6	-2.0	6,824	7,150	-3.6	-0.7
EBITDA	9,091	9,618	8,804	9,872	3.3	-2.6	9,133	9,493	-0.5	1.3
Net profit	3,582	3,889	3,536	4,428	1.3	-12.2	3,577	3,859	0.2	0.8

Source: Company, KBVS Research

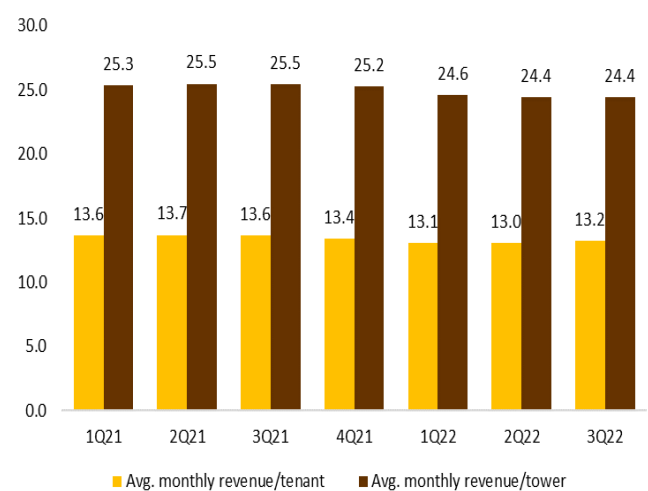
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Exhibit 4: TOWR's towers, tenants and tenancy ratio



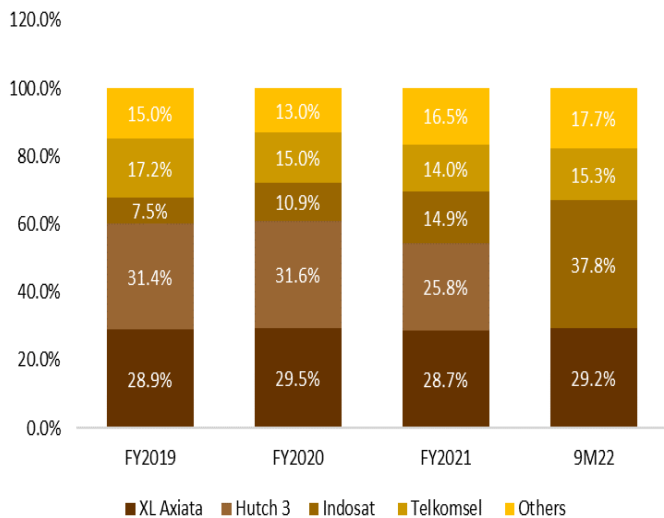
Source: Company, KBVS Research

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



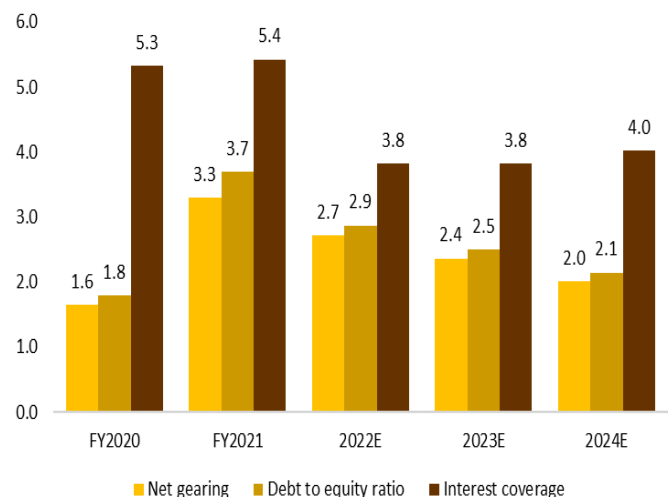
Source: Company, KBVS Research

Exhibit 6: Source of revenue by carrier



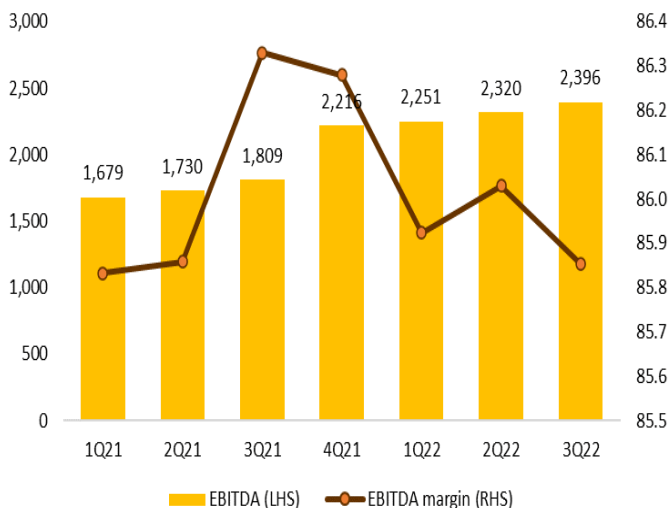
Source: Company, KBVS Research

Exhibit 7: TOWR's leverage metrics



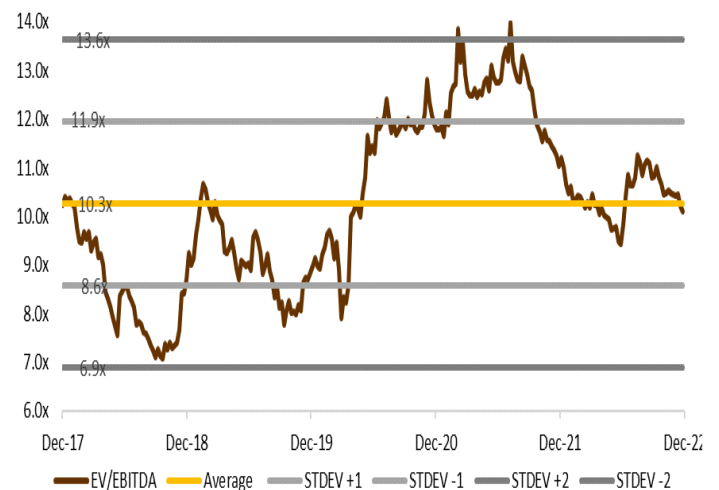
Source: Company, KBVS Research

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)	2020A	2021A	2022F	2023F	2024F
Revenue	7,445	8,635	10,417	11,044	11,693
Cost of revenue	(2,059)	(2,340)	(2,852)	(3,004)	(3,185)
Gross profit	5,386	6,295	7,565	8,039	8,509
Gross profit margin	72.3%	72.9%	72.6%	72.8%	72.8%
EBITDA	6,405	7,434	9,091	9,618	10,161
EBITDA margin	86.0%	86.1%	87.3%	87.1%	86.9%
Operating expenses	(820)	(899)	(990)	(942)	(1,058)
Operating profit	4,567	5,397	6,575	7,097	7,451
Operating profit margin	61.3%	62.5%	63.1%	64.3%	63.7%
Net finance income/ expenses	(1,168)	(1,346)	(2,337)	(2,454)	(2,475)
Profit before income tax	3,399	4,051	4,239	4,643	4,976
Tax benefit (expenses)	(545)	(603)	(636)	(734)	(811)
Net profit	2,836	3,427	3,582	3,889	4,144
Net profit margin	38.1%	39.7%	34.4%	35.2%	35.4%

Source: Company, KBVS Research

Exhibit 11: Balance Sheet

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash and cash equivalents	1,443	4,748	2,331	2,272	2,727
Trade receivables	1,240	2,171	1,760	3,628	2,077
Other current assets	320	478	687	716	744
Total current assets	3,002	7,398	4,777	6,615	5,547
Non-current assets					
Fixed assets	22,758	32,951	37,092	38,448	42,508
Other non-current assets	7,526	24,570	24,246	24,428	24,904
Total non-current assets	31,247	58,431	61,932	63,662	68,182
Total assets	34,250	65,829	66,709	70,277	73,729
Current liabilities					
Tower construction, other payables	535	522	1,043	1,096	1,128
Accruals	510	1,096	1,501	1,351	1,243
Short term debts	4,391	16,794	9,709	9,417	9,131
Other current liabilities	1,789	3,469	2,680	2,933	3,161
Total current liabilities	7,225	21,880	14,933	14,797	14,663
Non-current liabilities					
Long-term debts	15,806	30,191	35,188	36,359	36,975
Other non-current liabilities	1,035	1,695	1,672	1,606	1,571
Total non-current liabilities	16,840	31,886	36,860	37,964	38,546
Shareholders' equity	10,184	12,062	14,916	17,516	20,520
Total liabilities and equity	34,250	65,829	66,709	70,277	73,729

Source: Company, KBVS Research

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Exhibit 12: Cash Flow

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	2,836	3,427	3,582	3,889	4,144
Depreciation & amortization	1,644	1,860	2,294	2,455	2,591
Changes in working capital	535	1,162	341	(1,742)	1,676
CF from operating activities	5,015	6,450	6,217	4,602	8,411
Investment in fixed assets	(4,754)	(12,053)	(6,434)	(3,811)	(6,651)
Others	(2,946)	(16,990)	406	(141)	(461)
CF from investing activities	(7,700)	(29,043)	(5,795)	(4,185)	(7,111)
Dividends paid	(1,196)	(1,399)	(901)	(1,069)	(1,140)
Debt raised/ repaid	5,029	26,788	(2,088)	879	330
Others	(298)	510	150	(286)	(35)
CF from financing activities	3,534	25,899	(2,840)	(476)	(845)
Change in cash flows	849	3,306	(2,418)	(59)	455
Cash and cash equivalents, beginning	594	1,443	4,748	2,331	2,272
Cash and cash equivalents, ending	1,443	4,748	2,331	2,272	2,727

Source: Company, KBVS Research

Exhibit 13: Ratio Analysis

Year End Dec	2020A	2021A	2022F	2023F	2024F
Gross profit margin (%)	72.3	72.9	72.6	72.8	72.8
Operating profit margin (%)	61.3	62.5	63.1	64.3	63.7
EBITDA margin (%)	86.0	86.1	87.3	87.1	86.9
Net profit margin (%)	38.1	39.7	34.4	35.2	35.4
Receivables turnover (x)	5.8	5.1	5.3	4.1	4.1
ROA (%)	9.2	6.8	5.4	5.7	5.8
ROE (%)	30.0	30.9	26.6	24.0	21.8
ROCE	27.8	28.4	24.0	22.2	20.2
ROIC (%)	9.8	6.3	6.2	6.4	6.5
Debt/ Equity (%)	2.0	3.9	3.0	2.6	2.2
Net debt/Equity (x)	1.8	3.5	2.9	2.5	2.1
Net debt/ EBITDA (x)	2.9	5.7	4.7	4.5	4.3
Interest coverage (x)	5.3	5.4	3.8	3.8	4.0
EPS	55.6	67.2	70.2	76.2	81.2
BV/share (x)	199.6	236.4	292.4	343.3	402.2

Source: Company, KBVS Research

Sarana Menara Nusantara (TOWR)

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