Company Report Initiation

Dayamitra Telekomunikasi (MTEL)

Perfect recipe for quick wins **16 August 2023**

MTEL IJ	BUY
Sector	TowerCo
Price at 15 August 2023 (IDR)	730
Price target (IDR)	870
Upside/Downside (%)	19.2

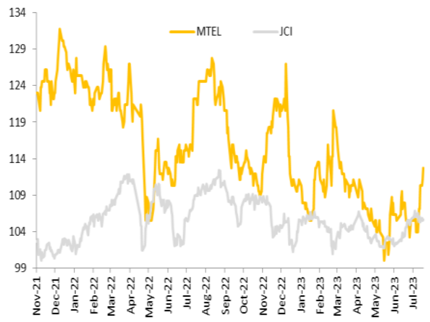
Stock Information

Dayamitra Telekomunikasi is one of the SEA's largest tower telecommunication companies by assets and Indonesia's largest market share of telco tower provider. The company offers an array of telco-related infrastructure service including fiber and power-to-the-tower.

Market cap (IDR bn)	58,878
Shares outstanding (mn)	83,515
54-week range (IDR)	620-805
3M average daily vol. ('000)	40,729
3M average daily val. (IDR mn)	27,092

Shareholders (%)	
Telkom Indonesia	71.9
Maleo Investasi Indonesia	6.0
Public	21.4

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	4.4	5.1	(7.2)

Analyst(s)

Devi Harjoto

devi.harjoto@kbvalbury.com

Khairunnisa Syahfiraputri

khairunnisa.syahfiraputri@kbvalbury.com

MTEL has a solid position among towercos peers on its unique tower locations, especially in ex-Java that is aligned with MNOs strategy to further penetrate into these areas. On top of that, MTEL is also deemed to be the least risky against forex fluctuations and interest rates thanks to its robust balance sheet. Initiate BUY with a blended target price of IDR870, implying 10.6x '23F EV/EBITDA still lower than peers' average of 11.1x.

Dragged by higher costs

MTEL's 2Q23/1H23 revenue grew 0.9% qoq/10.0% yoy, supported mostly by tower-related business that grew 20.3% qoq. Furthermore, EBITDA margin decreased by 68bps/+310bps yoy in 2Q23/1H23 to 81.3%, in-line with higher cash costs 4.8% qoq due to increased construction & project management +16.7% qoq in-line with its organic expansion efforts. Despite higher costs, MTEL's 2Q23 net profit inched up 4.0% qoq to IDR521.2 bn. MTEL's balance sheet remained to be superior compared to peers with net gearing at 0.4x in 1H23.

Soft 2Q23 top-line amidst lower lease rate

MTEL's tower leasing revenue edged down by 1.4% qoq in 2Q23 to IDR1.71 tn, as revenue from EXCL dropped by 28.8% qoq on the back of delayed revenue recognition, followed by lower average revenue per tenant to IDR10.4 mn/ month, or -4.0% qoq in 2Q23. On the other hand, MTEL's tenancy ratio was up from 1.46x in 1Q23 to 1.49x thanks to net addition of 1,401 of tenants in 2Q23, while colocation growth was strong with 1,121 of additions qoq or much better than peers. Meanwhile, MTEL net added 280 towers in 2Q23.

Picking low-hanging fruits

MTEL derives its competitive advantage mostly from its unique locations of tower portfolio, with c.58% of which are located in ex-Java, or aligned with non-incumbent MNOs expansion strategy for network deployment in these areas amidst tight competition in Java. MNOs expansion to ex-Java while also pressure to be more capex efficient and needs for rapid expansion should bolster demand for colocation going forward with 25K potential sites for IOH, 30K for EXCL and 34K for FREN. On top of that, MTEL's tower locations are more dispersed with only 14% of towers within 300-500 meter radius. MTEL's robust balance sheet is also deemed to be its strongest point to thrive in capital intensive industry in order to capture investment opportunities.

Management guides 11% revenue and EBITDA growth in 2023 (VS KBVS '23E of 9%/12.7% yoy) with additions of 4K and 1.5K or organic and inorganic tenants. Also, MTEL expects to add 13K kms of fiber this year.

Initiate BUY with TP of IDR870 on attractive valuation

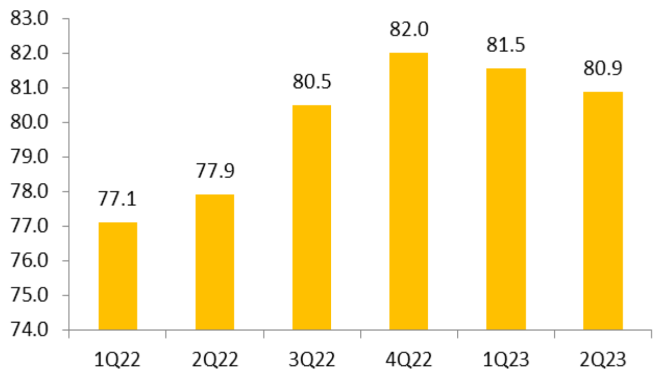
We initiate coverage on MTEL with BUY with a target price of IDR870 per share, derived from a combination of DCF-based and EV/EBITDA multiple methods. We assign MTEL's EV/EBITDA at 11.5x or premium compared to weighted-average peers at 11.1x EV/EBITDA. In our view, MTEL's distinctive tower portfolio coupled with a robust balance sheet that shields it against interest and forex risks should deserve a premium. Combining these two methods, our target price implies 10.6x EV/EBITDA or below +1SD 5-year historical mean. Meanwhile, the company is currently trading at 10.1x of '23 EV/EBITDA or below 5-year historical average.

Exhibit 1: Key Statistics

Year end Dec	2021A	2022A	2023F	2024F	2025F
Revenue (IDR bn)	6,870	7,729	8,415	9,138	9,772
EBITDA (IDR bn)	5,185	6,142	6,923	7,501	7,942
Operating profit (Rp)	2,757	3,137	3,757	4,156	4,566
Net profit (IDR bn)	1,381	1,785	2,015	2,302	2,624
EPS (IDR)	16.5	21.4	24.1	27.6	31.4
ROAA (%)	3.3	3.1	3.4	3.7	4.0
ROAE (%)	9.4	6.6	5.3	5.9	6.5
PER (x)	15.3	42.6	33.0	29.2	25.6
PBV (x)	1.7	1.7	1.7	1.7	1.6
EV/EBITDA (x)	11.5	11.4	10.1	9.9	9.8
Dividend yield (%)	3.7	1.6	1.8	2.1	2.5

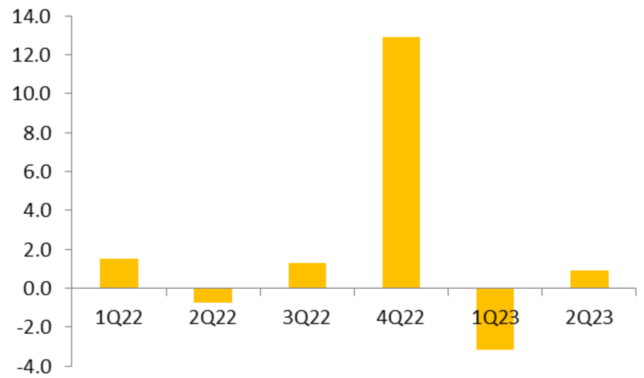
Source: Company, Bloomberg, KBVS Research

Exhibit 2: MTEL EBITDA margin (%)



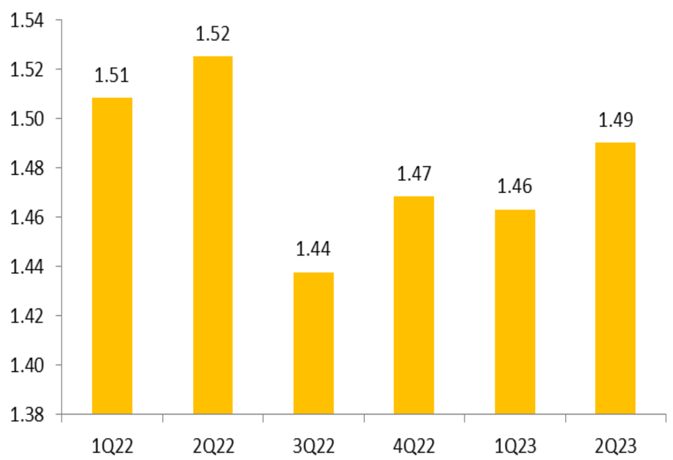
Source: Company, KBVS Research

Exhibit 3: MTEL revenue growth (%)



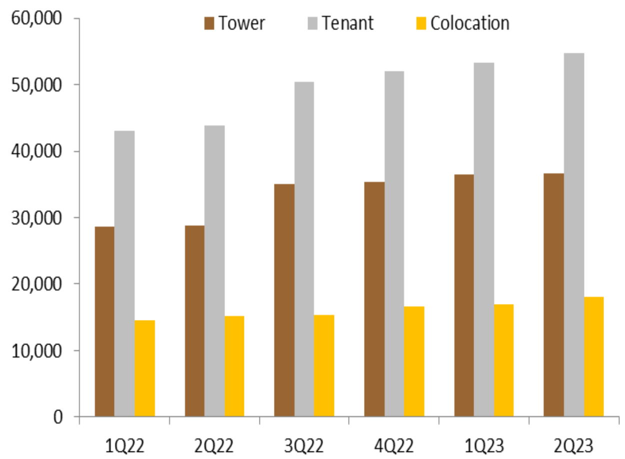
Source: Company, KBVS Research

Exhibit 4: Tenancy ratio



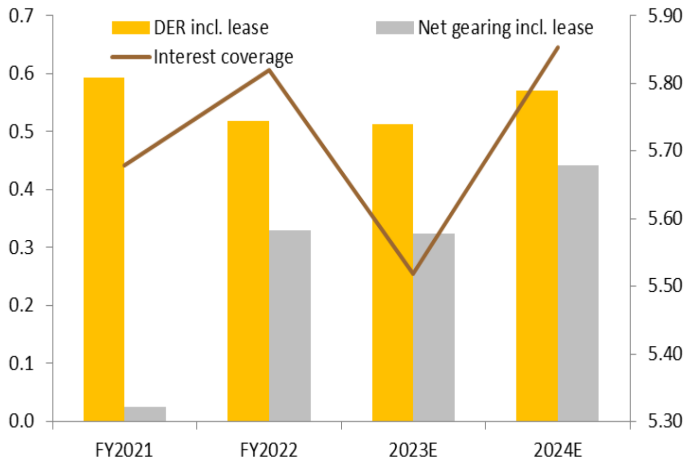
Source: Company, KBVS Research

Exhibit 5: Tower, tenant and colocation



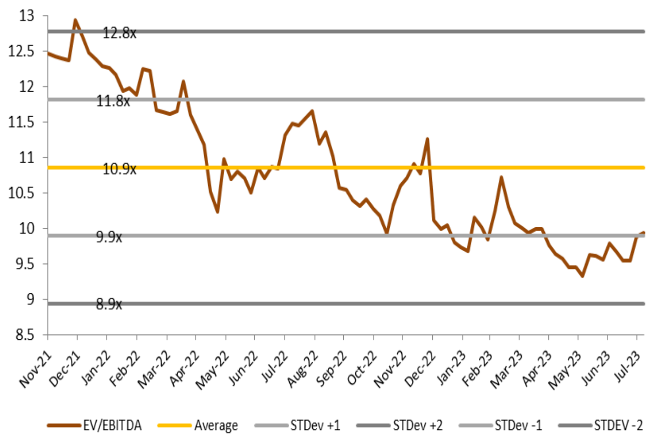
Source: Company, KBVS Research

Exhibit 6: MTEL leverage metrics (%)



Source: Company, KBVS Research

Exhibit 7: EV/EBITDA valuation



Source: Company, Bloomberg, KBVS Research

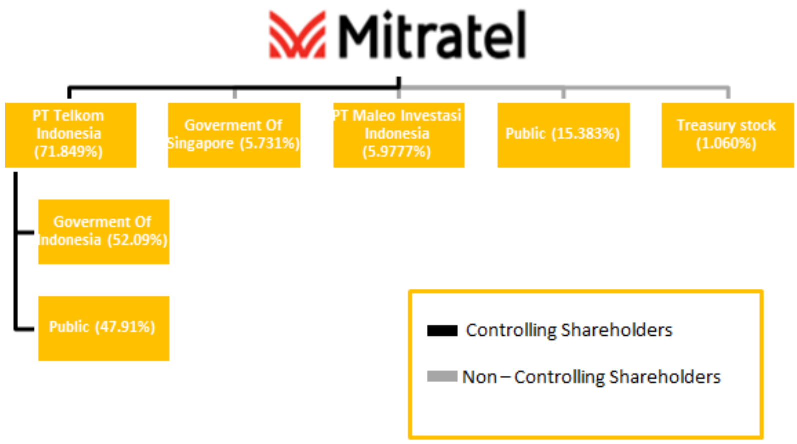
Company Profile & Business Outlook

Dayamitra Telekomunikasi (MTEL) is among one of largest Southeast Asia's tower telecommunication company by assets whose towers currently stand at 36,719 units as of June 2023. The company through its business model has long been enjoying synergistic benefits with Telkom Group (TLKM), Indonesia's largest telecommunication company, especially its mobile arm, Telekomunikasi Selular (Telkomsel) that controls c. 55% of mobile market share. The company also contributes significant portion of MTEL's revenue of c. 60% as of June 2023. In terms of business segments, MTEL's main business MTEL telecommunication's business segments comprise of three categories namely site rental; resellers and other tower-related segments.

Thanks to its unique portfolio and position as a market leader, MTEL is well-positioned to capitalize on increased site demand, additional tenants especially colocations supported by strong demands for mobile data in 4G networks and potential growth in ex-Java areas.

Indonesia's telco market is believed to be one of the most attractive markets compared to other ASEAN economies, owing to relatively low internet penetration compared to SEA peers, growing middle income segment, young population and large base of social media users. With attractive market, Indonesia's telco tower players are poised to have better operational and financial performances, allowing them to yield higher returns in invested capital compared to peers in other markets.

Exhibit 8: Company's structure



Source: Company, KBVS Research

The very core of MTEL's strategy is to expand and develop a set of portfolio of services, enabling it to maintain its solid position as the leading telco tower company, as well as to enhance and strengthen the country's digital infrastructure.

MTEL strives to offer an array of telecommunication related services such as fiber-to-the-tower solutions, indoor and outdoor coverage such as the use of small cells, tower space, and land for connected services as well as providing infrastructure solutions for Multi-access Edge Computing (MEC) providers. MTEL has designed a phased approach to achieve growth through various drivers to expand its business.

Exhibit 9: MTEL management structure

Source: Company

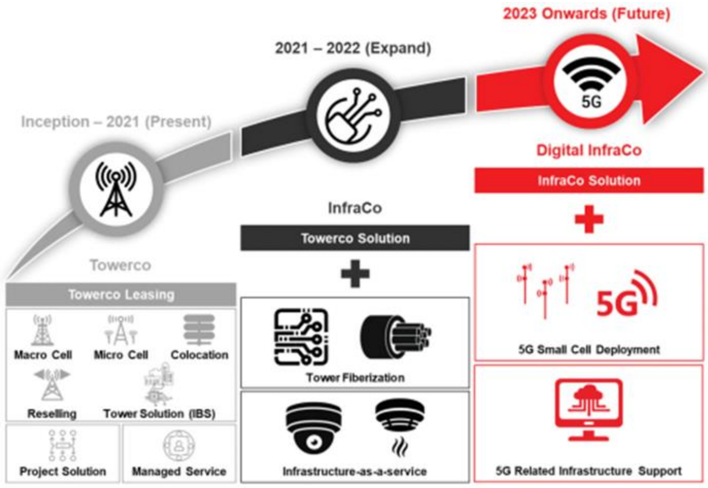
Additionally, high barrier to entry in the industry has shielded MTEL against more intense competition. The high barrier to entry includes legal restrictions, significant amount of initial capital, high finance cost, diversified tower locations, high switching costs for MNOs, and availability of strategic location and local expertise.

MTEL has been spending significant amount of capital to diversify its tower site locations, strengthening its footprint especially in outside Java areas and some part of Java where potential demands are arising. The company's diversified tower site locations have become MTEL's primary competitive advantage, setting its aside from its competitors whose main focus is on Java area. Also, MTEL's strengths lie on its ability to identify and implement both inorganic and organic growth opportunities for built-to-suit (B2S) telecommunication tower and shared leasing.

Business strategy and opportunities

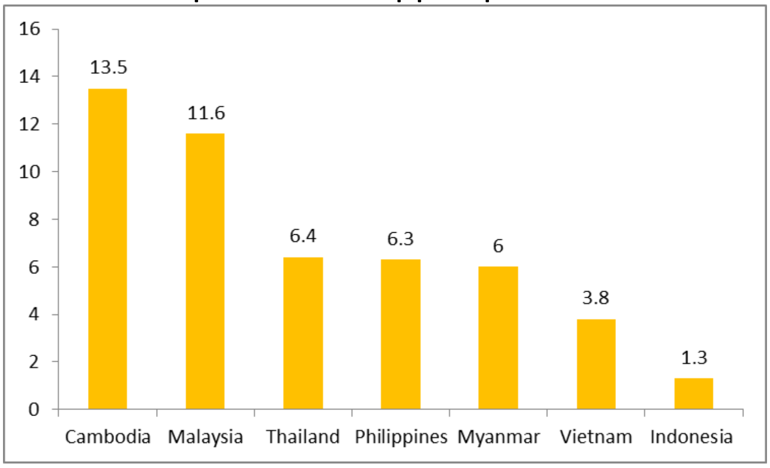
The company intends to maintain its position as a leader in the telecommunication tower business by continuing to capture demands, bolstered by network coverage expansion and needs to improve network density.

Exhibit 10: MTEL business strategy blueprint



As an independent telecommunication tower, MTEL will continue to leverage good relations with MNOs to capitalize on demand for rental space using its quality portfolio and substantial collocation potential, especially with non-Telkomsel customers.

Exhibit 11: Spectrum ownership per capita in ASEAN countries



Source: KBVS Research, Company, Analysys Mason

In addition to coverage expansion, wireless operators are also focused on increasing network coverage density throughout Indonesia to accommodate increasingly high data usage. As a result, mobile data usage per customer has increased 11 times in the last five years, according to Anlysys Mason. Despite this, data usage in Indonesia is still lower than developing countries in Asia, such as China, India, Thailand, and Malaysia. This indicates room for further growth in the future. Meanwhile, strong data traffic growth, coupled with telecom operators' limited spectrum holdings, is expected to create higher demand for tower capacity, as operators need to split sites to increase network capacity.

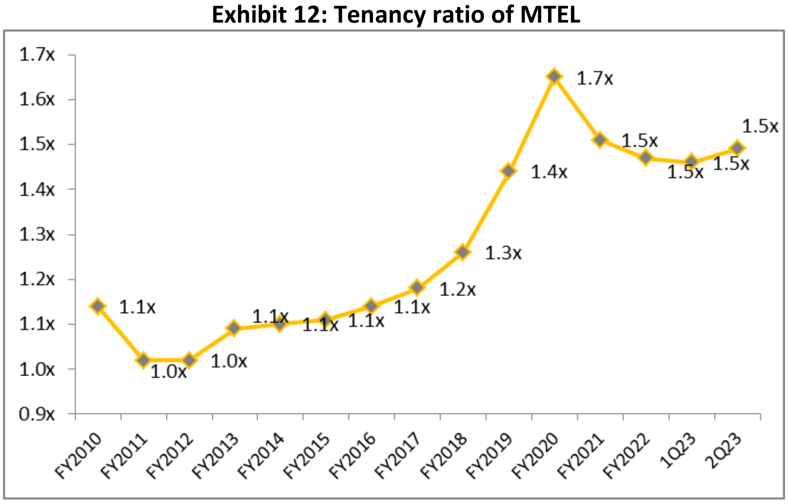
On a per-operator basis, Indonesia's telecommunications operators' spectrum ownership is still low compared to telecommunications operators in neighboring countries.

Spectrum is fragmented among many players in Indonesia, leading to a lack of access to large spectrum blocks for spectrum below 1GHz. Most B2S launches on the 2,100MHz and 1,800/2,300MHz spectrum. With this limited supply of spectrum, operators will need more sites to reach the same area by ramping up their investment in their infrastructure to meet rising data demand.

Limited spectrum coupled with Indonesia's relatively lower telecommunication tower density compared to other countries signifies the need for continuous investment in telecommunication tower infrastructure to improve cellular coverage.

Given its proven track record of high-quality execution, MTEL is well-positioned to capture new B2S telecommunication tower orders as well as shared leases or colocation arising from increased coverage and capacity. B2S business model enables it to build towers based on customer's orders.

Exhibit 12: Tenancy ratio of MTEL

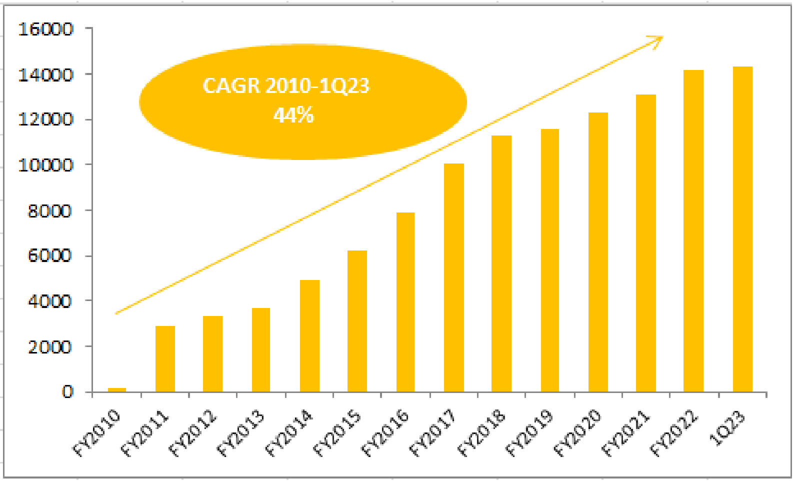


Source: Company, KBVS Research

The tenancy ratio of MTEL's in 2010, 2011, and 2012, respectively, reached 1.92x, 1.72x, and 1.59x. Despite seemingly decreasing tenancy ratio over those years, it is worth noting that it was mainly driven by aggressive inorganic expansion, especially acquisitions of single tenants. However, tenancy ratio will gradually go up along with growing demands for colocations, that is relatively considered to be more capex efficient yet swift to build.

.

Exhibit 13: MTEL's track record of inorganic expansion



Source: KBVS Research, Company

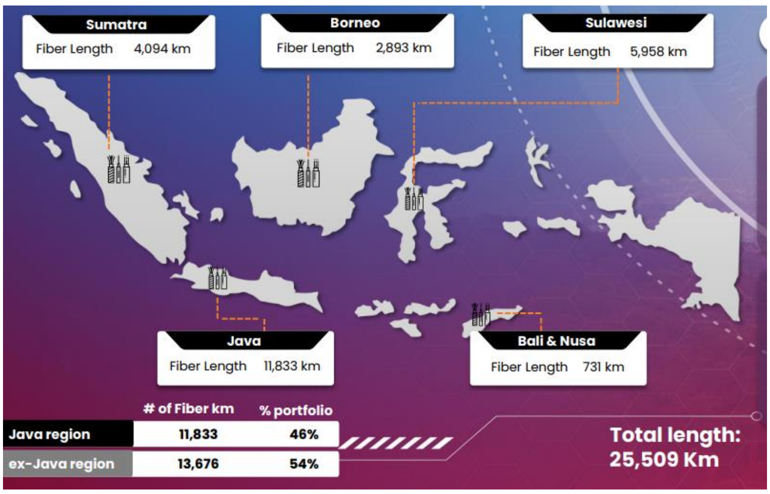
MTEL strives to achieve a tenancy ratio of around 1.8x in 2025 with the company has displayed a strong track record of increasing colocation growth over the years**.** MTEL's inorganic expansion from 2010-1Q23 is reaching 44% CAGR growth.

Furthermore, as data usage have become more increasingly important to users in line with swelling social media use in all ages, MNOs are required to deploy more fiber-based infrastructure to ensure data service quality, improve customers loyalty and customer additions. Moreover, the emergence of 5G technology is expected to spur demands for fiber to ensure low latency.

To MNOs, leasing fiber infrastructure, especially FTTT (fiber-to-the-tower) is seen to be primary option for expansion due to needs to be more capex efficient amid tightening competition. Furthermore, MNOs have started to use fixed mobile convergence (FMC) preposition by rolling out bundled mobile and fixed broadband offerings to strengthen its market position and drive customer loyalty, while pursuing for cost efficiency in some cases.

To capture enormous potential left by relatively lower fixed broadband penetration, MTEL has kicked start rapid expansion of fiber portfolio in 1Q23, in which the latest move was acquisition of 6,012km of fiber from TIS (Trans Indonesia Super Koridor) and Sumber Cemerlang Kencana Permai (SCKP) that is worth IDR603 bn in December '22.

Exhibit 14: Fiber assets as of Mar '23



Source: Company

In addition, MTEL is also bestowed by an excess of its parent company, TLKM's excess of fiber network capacity to strengthen its portfolio, especially for dark fiber with 51% of its towers are fiberized.

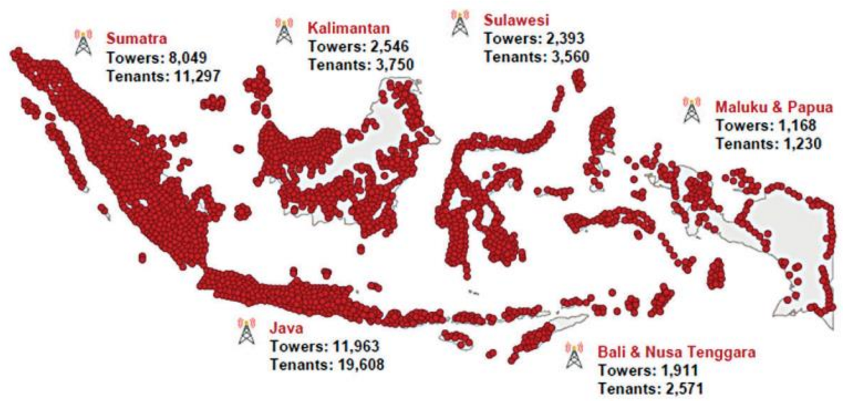
We believe that the key of growth lies on its ability to forge long-term partnership as well as inorganic expansions. As of 1Q23, MTEL's fiber asset stood at 25,509 km.

Business segment

Tower rental

MTEL's strong standing in telecommunication industry, stemming from its affiliation with the country's largest telecommunication company, TLKM has supported the company in capturing opportunities in telecommunication infrastructure. MTEL's main business revolves around tower leasing and other infrastructure as well as supporting service.

Exhibit 15: MTEL's tower and tenancies portfolio



Source: Company

• Lease: MTEL's primary business revolves around tower site lease, comprising of land as well as other services such as power, cabinet and other complementary, categorized into two segments, namely built-to-suit tower (B2S) and colocation.

• Maintenance services: This includes supervision and manpower for telecommunication equipment operations, routine inspections, property maintenance, damage handling and other problems related to equipment operation.

1) Build-to-Suit (B2S)

Under built-to-suit scheme, MTEL receives orders to build new telecommunication towers based on pre-negotiated agreement. Following completion of tower constructions, MTEL leases space and other supporting infrastructures to MNO partners or tenants. MTEL also has the right to add other tenants in the telecommunication tower through a collocation scheme.

MTEL designs, builds (with the assistance of contractors), owns, and operates the telecommunication towers. Since the company provides total infrastructure system with end-to-end design, construction, and operation expertise, it provides customers a flexibility to choose turnkey network infrastructure, or one of the value-added component services included in it. The entire process to build a B2S site ranges from 120 to 180 days, depending on the type and location of telecommunication towers. MTEL's B2S are offered in two schemes, namely B2S Macro and Micro.

• Macro B2S involves leasing telecommunication tower space with a height equal to or more than 30 m, in accordance to the location and specifications desired by the customer or the main tenant.

• Micro B2S comprises of leasing telecommunication tower space with a height of less than 30 m for indoor.

2) Colocation
For colocation, MTEL leverages its telco tower space available to let to other tenant. In telco tower industry, colocation has been one of the most important indicators for future revenue, cash flow and thus, profitability. For MTEL, the company's lower tenancy ratio relative to peers should bring more advantage, coupled with domination in ex-Java regions. This is line with MNOs' strategy to be more expansive in ex-Java. Meanwhile, demands for colocation is determined by numerous factors including MNOs expansion footprint, network coverage, and plans to increase capacity in specified areas, as well as applicable regulations.

Reseller

Aside from its core tower lease, MTEL also offers reseller service for towers owned by the third parties. However, the company noted a declining trend for reseller service demand as MNOs has been adopting asset light strategy to improve their leverage position. This has impacted MTEL's strategy to focus on its core business. Consequently, revenue contribution from this segment is expected to decline due to the consolidation of telecommunication towers.

Other telco-related services

MTEL's other telecommunication service comprises of project solutions and digital services, managed services and fiber optics. For project solution and digital service, the company offers a one-stop solution for launch and recovery, and equipment relocation. Meanwhile, MTEL also develops a new portfolio to meet customer needs for digital service including alarms, sensors and IOT-based service at tower sites. Furthermore, MTEL’s mid-air leasing services are similar to colocation leasing that utilized through telecommunication tower space between various telecom tower sites.

The company’s managed services business provides operation and maintenance support to telecommunication sites to support the quality of services to Telkom Group, including fiber and radio antenna maintenance as well as construction engineering and other maintenance. Since July 2021, all of the MTEL’s managed services have been served by its subsidiaries.

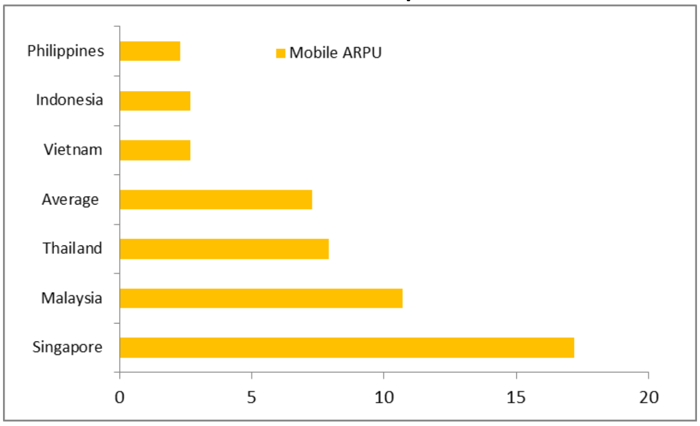
On fiber optics, the company offers fiber to the tower for MNOs. Fiber optics is renowned for its more efficient backhaul compared to traditional micro transmission. For this offering, the company uses excess capacity of Telkom Group (TLKM), long-term partnership with other fiber provider and acquisition on other providers.

Industry Overview

While consolidation in telecommunication tower has been going on for years, the industry is expected to remain lucrative, which is mainly driven by continued expansions of MNOs. With ARPU has been quite flattish for years, MNOs are now shifting to seek a breakthrough to improve revenue per users.

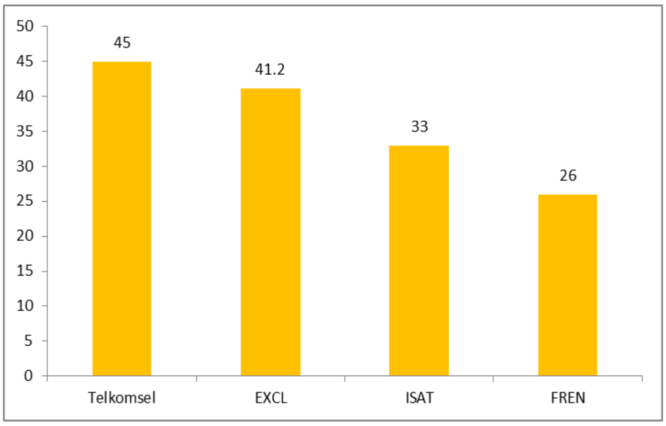
As price-based competition has shown signs of abating especially in 4Q22, we believe that the competition could shift to quality of service and offerings, to jack up customers' data use and eventually, ARPU.

Exhibit 16: Mobile ARPU comparison



Source: Analysys Mason, KBVS Research

Exhibit 17: ARPU of Indonesia's mobile carriers

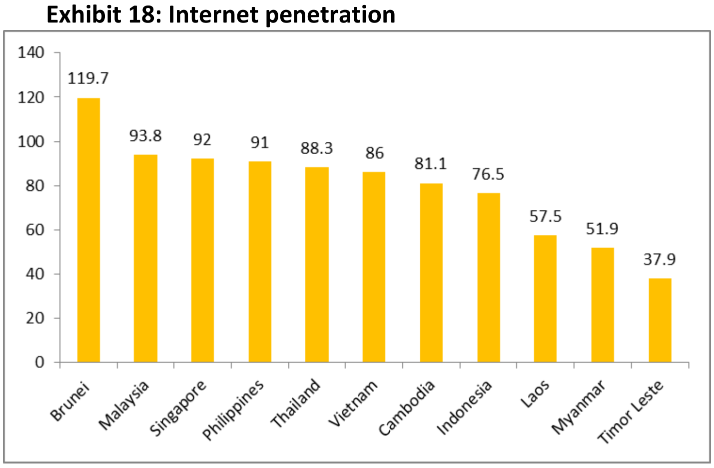


Source: Companies, KBVS Research

In addition, we also see an upward trend of expansion outside Java areas, especially from non-incumbent carriers. The expansion into ex-Java areas are supported by lower penetration of internet connection in those areas and relatively eased competition compared to Java market. Economic growth in ex-Java areas is mostly more accelerated compare to respective provinces.

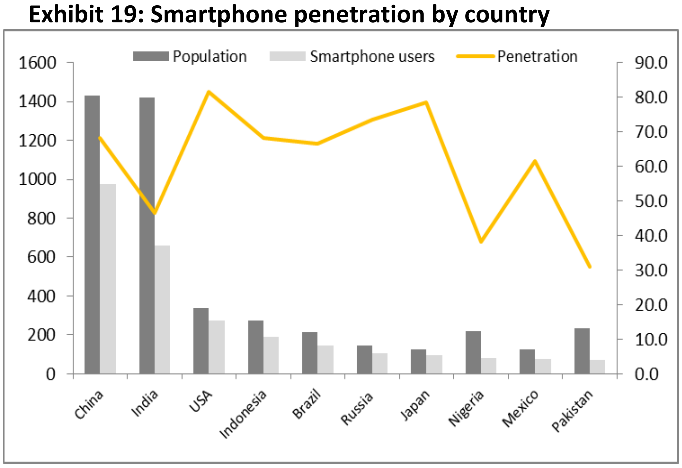
Meanwhile, Indonesia's internet penetration in overall is relatively low even if being compared with other ASEAN countries. On the other hand, this may reflect digital divide in the country as infrastructure infrastructure are still lacking. We expect lower penetration of internet access should provide an ample room for growth for MNOs and especially, tower telecommunication demand over the long run.

Exhibit 18: Internet penetration



Source: Statista, KBVS Research

Exhibit 19: Smartphone penetration by country

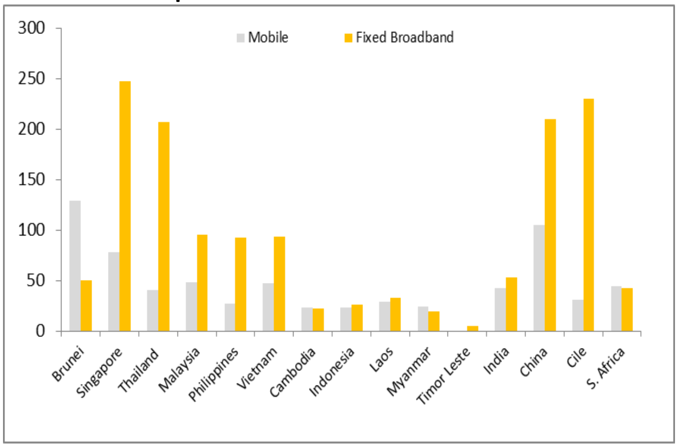


Source: Newzoo's global mobile market report, KBVS Reports

Furthermore, lower internet penetration in the country is also reflected by slower-than-average internet connection either through fixed broadband or mobile that therefore hamper intensification of internet use in the country. Furthermore, it is also impeded by limited spectrum owned by MNOs, especially below 1GhZ, while most of B2S towers are launched for 2,100 MhZ and 1,800/2,300MhZ.

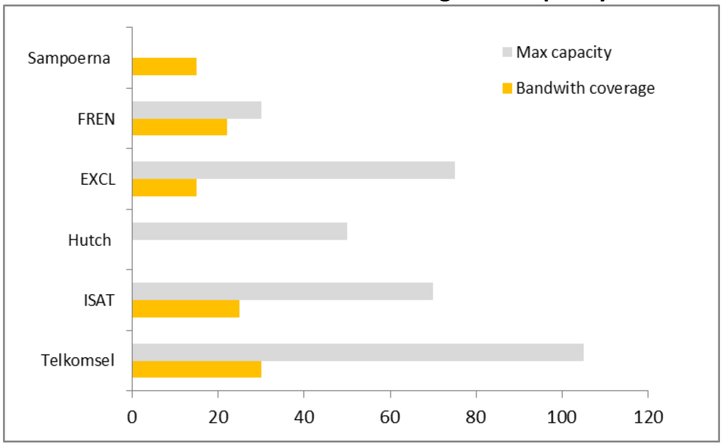
The limited spectrum coupled with lower penetration of tower in Indonesia implies higher needs of significant supports from tower infrastructure in order to relay good quality and cater growing traffic.

Exhibit 20: Speed of mobile and fixed broadband



Source: Ookla, KBVS Research

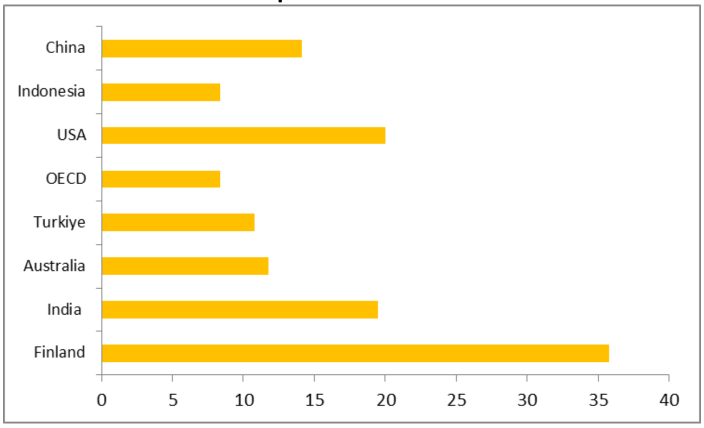
Exhibit 21: MNOs bandwidth coverage and capacity



Source: Katadata, KBVS Research

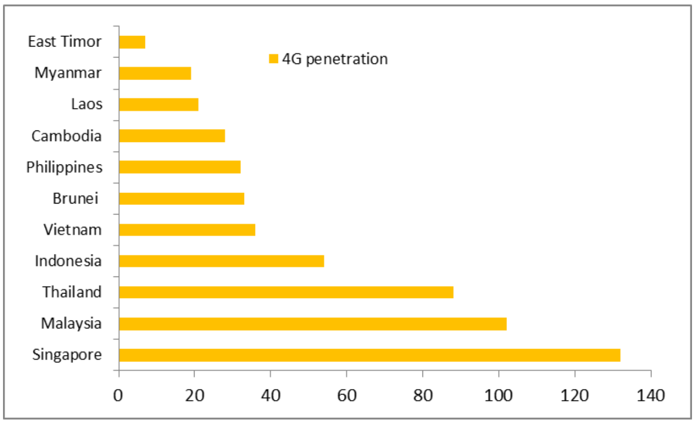
Growing digitalization across the country in both corporate and retail, as well as governments push to incentivize digital economy and partly liberalized foreign direct investment (FDI) since the enactment of omnibus law in job creation should lead to higher demand for data consumption. While, Indonesia recorded a vast growth in data consumption for the past five years, yet it is still behind most of OECD countries, yet on par with average countries of OECD.

Exhibit 22: Data consumption across OECB members



Source: OECD, KBVS Research

Exhibit 23: 4G penetration by countries



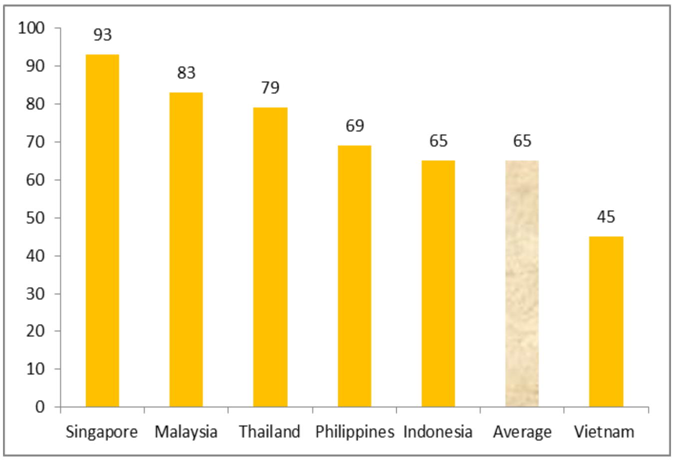
Source: World Bank, KBVS Research

The country's size and geographic contour pose challenges to internet acces equality, especially for 4G infrastructure in outside Java areas. Improving access to digital economy stemming from massive social media use and penetration of e-commerce have pushed greater demands for more advanced mobile data networks.

Meanwhile, poor speed of interconnection has hampered users to fully take advantage benefits of internet availability. This highlights an importance to improve availability of more advanced 4G and 5G that currently stands at 65% according to Analysys Mason, trailing behind other comparable countries such as Malaysia, Thailand and Philippines.

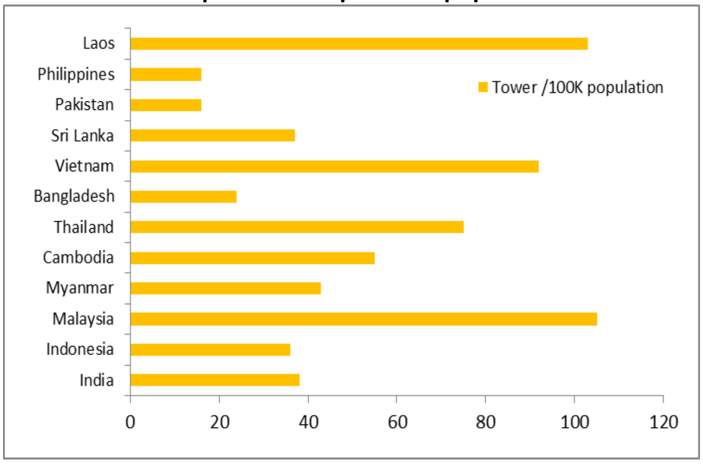
On the other hand, McKinsey Co's statistics noted that Indonesia is among the highest countries where online purchases are made via mobile.

Exhibit 24: Share of 4G/5G proportion of mobile connection



Source: Analysys Moson, KBVS Research

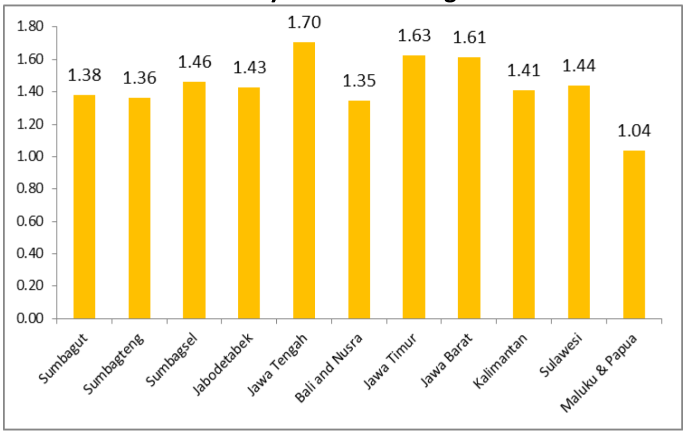
Exhibit 25: Tower penetration per 100K population



Source: Edotco Roland Berger, KBVS Research

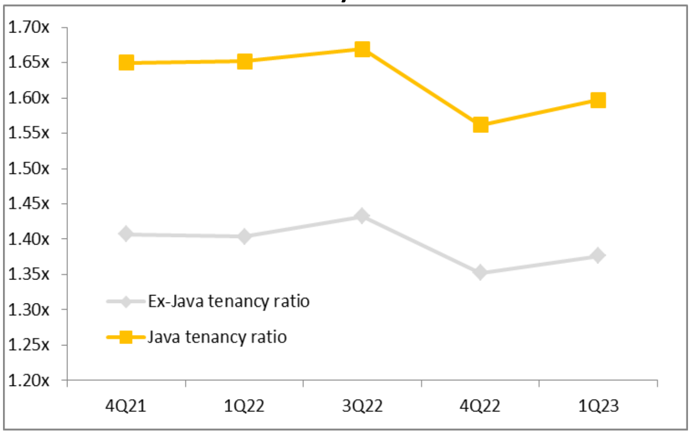
The lack of advanced mobile network connectivity is also evidenced in relatively low tower penetration per 100K population, based on Edotco Roland Berger's studies, indicating the needs for network expansion rolls out as Indonesia's internet users are set to boom.

Exhibit 26: MTEL tenancy ratio across regions



Source: Company, KBVS Research

Exhibit 27: Ex-Java tenancy ratio



Source: Company, KBVS Research

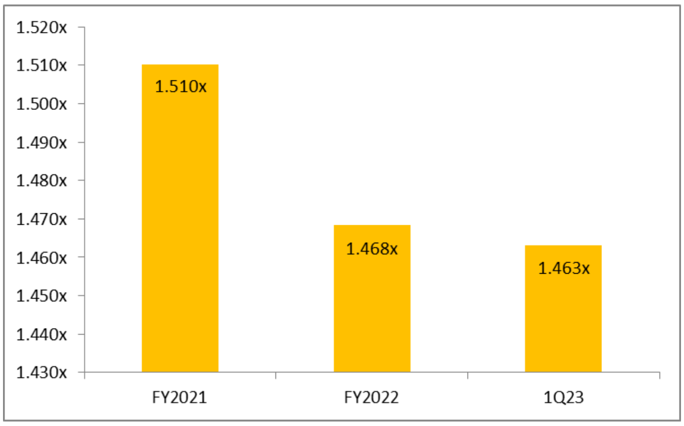
MTEL is at advantaged with its affiliation with Telkomsel, with c. 2,500 towers are estimated to be remaining under its belt, the highest among MNOs. Meanwhile, the tower ownership by MNOs and private companies are estimated to be at currently 4,500 in total, declining from estimated over 20,000 of towers in 2020. The declined number of tower ownership of MNOs and other private companies signifies limited inorganic expansions potential in the future.

However, thanks to its affiliations with Telkom Group (TLKM), this should still enable the company to carry out inorganic expansions hereupon especially on Telkomsel tower.

The company currently owns and operates 36,439 units as of 1Q23, increasing 27.5% yoy, with Central Java and West Java recording highest growth in both tower and tenancies. Meanwhile, we noted that MTEL's ex-Java tenancy ratio remains ample at 1.37x as of 1Q23, declining from 1.41x in 1Q22. An ample tenancy ratio in ex-Java is mainly driven by continued expansion in the regions that contribute 58.1% of MTEL total tower compared to 57.5% in 1Q22, whereas contribution of ex-Java tenancies is around 54.6% in 1Q23 to total tenancies.

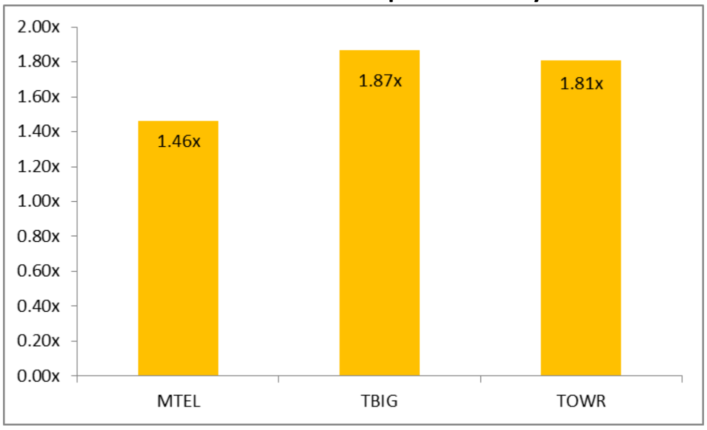
In Java areas, MTEL's tenancy ratio stands at 1.59x in 1Q23, decreasing from 1.65x in 1Q22 in line with MTEL's move to carry out both inorganic and organic expansions especially in Jabodetabek, East Java and West Java areas.

Exhibit 28: MTEL tenancy ratio



Source: Companies, KBVS Research

Exhibit 29: MTEL and peers tenancy ratio

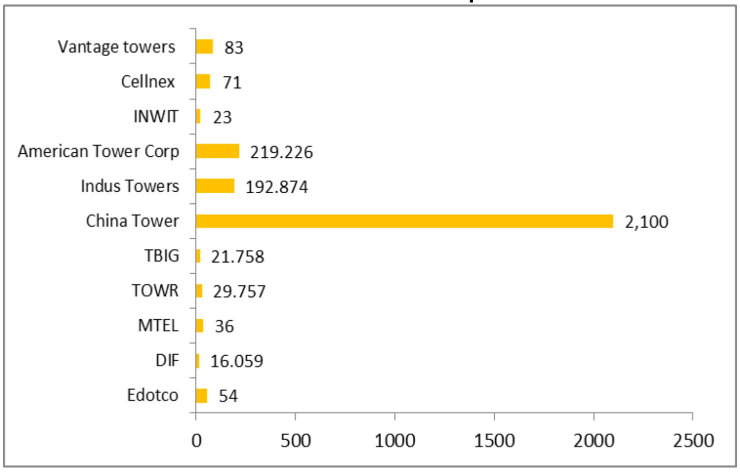


Source: Companies, KBVS Research

With aggressive expansions for the past few years, MTEL is now controlling c. 37% of Indonesia's tower market share and one of the largest players in Asia. MTEL's strong dominance in domestic tower is propped up by inorganic expansions, acquiring c. 22,000 assets since 2019. Trailing behind MTEL is Sarana Menara Nusantara (TOWR) and Tower Bersama Infrastruktur (TBIG) with 29,757 towers and 21,758 towers, respectively.

In addition, MTEL's tower portfolio that scattered in ex-Java is also very attractive for MNOs that should provide it an upper hand in competition landscape and in-line with MNOs aspiration to further tap into ex-Java area.

Exhibit 30: TowerCos porfolio

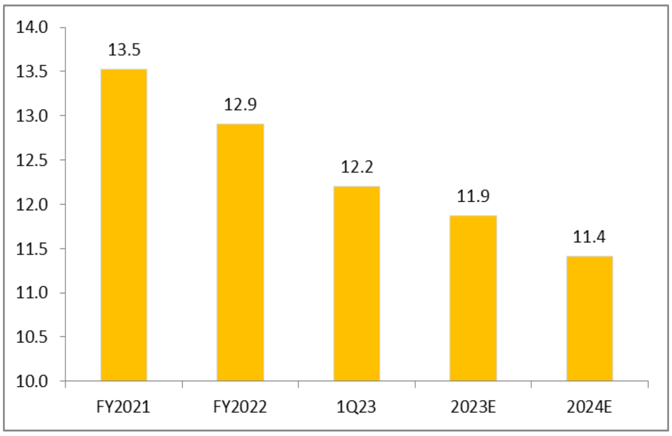


Sources: Companies, KBVS Research

On the other hand, we note that telecommunication tower industry has been shifted as a result of years of industry's consolidation and Indosat-Hutch merger in 4Q21, leading to fewer tenancy additions as MNOs are looking to improve efficiency through spectrum maximization and post-merger site use.

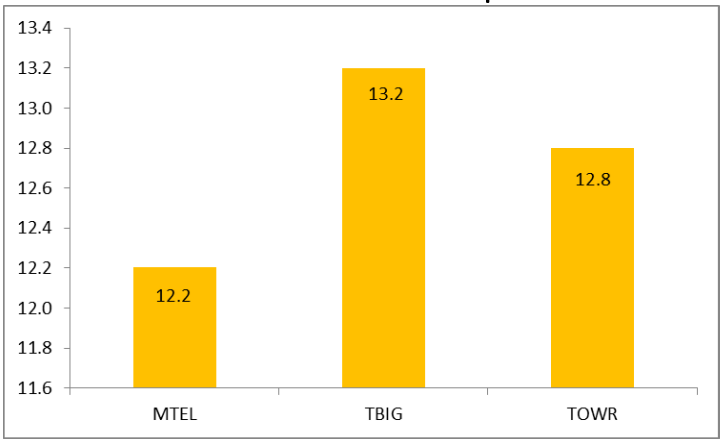
We observe that this has led to a declining trend in lease fee across the industry. Despite this, we believe that diversification of MTEL offerings such as power-to-the-tower and growing fiber asset should compensate a decreased trend in rate for tower leasing.

Exhibit 31: MTEL avg. revenue rate per tenant



Source: Company, KBVS Research

Exhibit 32: MTEL lease rate VS peers

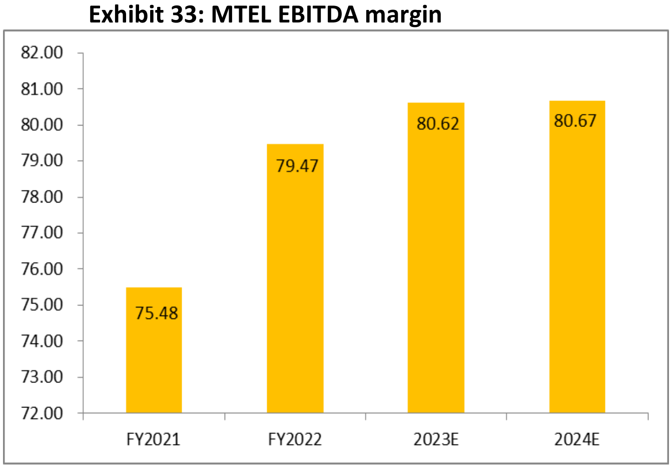


Source: Company, KBVS Research

In addition, due to tight competition in MNOs, greater demands for improving service and adapting to new 5G technology as well as increase capital efficiency, it leads to MNO to adapt asset light strategy with sale and lease-back scheme, resulting in lease price to be under pressure. While we are witnessing lower lease rate, our observations indicates that MTEL has the lowest lease rate among telco tower providers. With its dominant position in telco tower market, we expect competitors' rate would eventually follow, before it may start to be stable in two or three years to come, supported by improvement in MNOs competition.

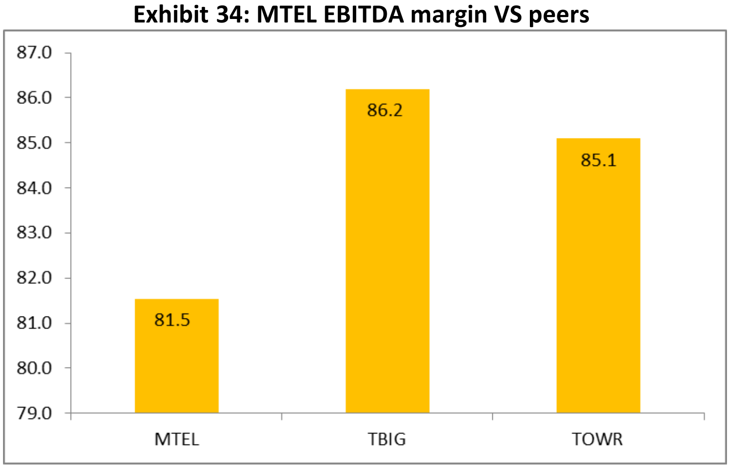
As a result of its aggressive expansion strategy, MTEL's EBITDA margin is relatively lower compared to peers on the back of higher cash costs, although we note the company has managed to improve EBITDA margin as it starts to increase monetization.

Exhibit 33: MTEL EBITDA margin



Source: Companies, KBVS Research

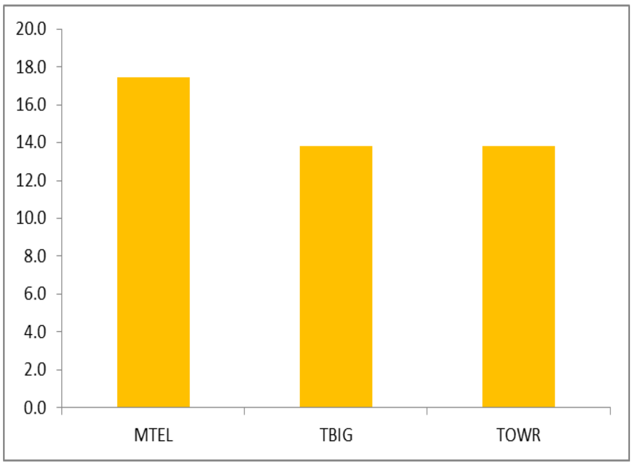
Exhibit 34: MTEL EBITDA margin VS peers



Source: Companies, KBVS Research

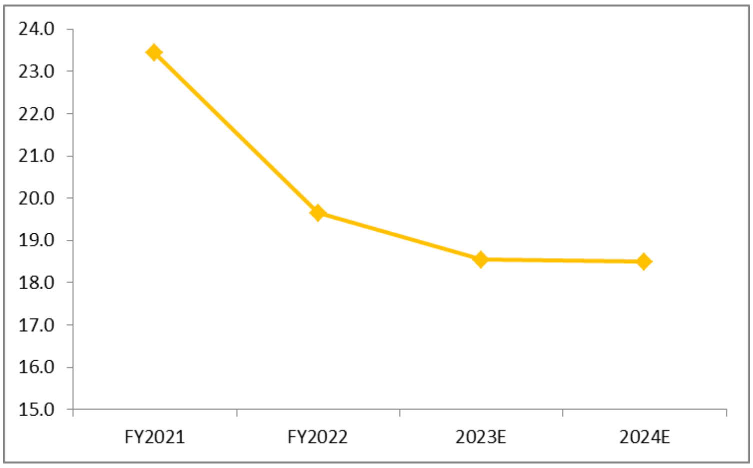
In addition, MTEL's cash cost revenue stands at 17.4% to total revenue as of 1Q23, or higher compared to peers (TBIG and TOWR at 13.8% to revenue each), especially weighed by construction and project management, which we deem to be reasonable given its expansionary strategy. Yet, we expect MTEL will be able to reduce its cash cost once it starts to reach expansion peak.

Exhibit 35: Cash cost to revenue (%) VS peers



Source: Companies, KBVS Research

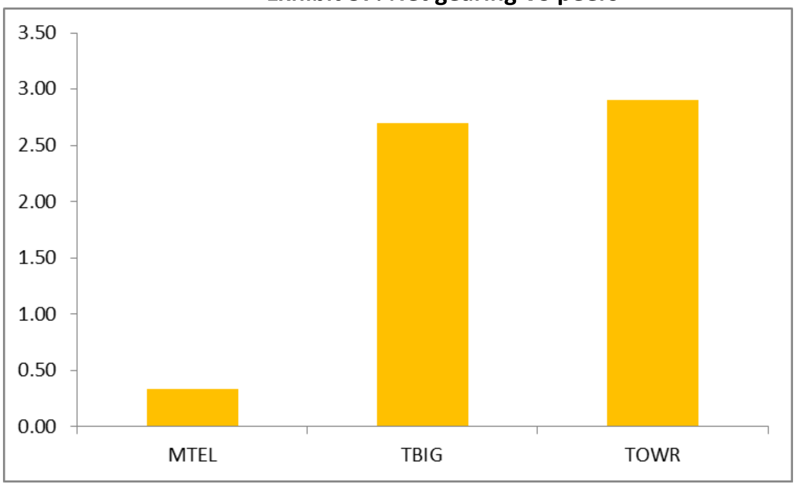
Exhibit 36: MTEL cash costs



Source: Company, KBVS Research

Therefore, we estimate MTEL's cash cost to decrease to 18.5% and 18.1% in 2023 and 2024, respectively. Despite that, we believe MTEL to be able on pole position, thanks to its strong balance sheet with net gearing of 0.3x as of 1Q23, compared to peers (TBIG at 2.7x and TOWR at 2.9x), enabling it to capture investment opportunities with lower leverage risks.

Exhibit 37: Net gearing VS peers



Source: Companies, KBVS Research

Thanks to its robust balance sheet that provides an advantage amid high-interest environment and larger sum of cash (at IDR 3.8 tn) compared to peers should become a significant advantage for MTEL to capture investment opportunities. All in all, MTEL is considered to be the most favorable tower companies with lower risks of leverage and forex.

Valuation Overview

MTEL is bestowed by its strong affiliation as a member of Telkom Group (TLKM) as one of the largest telecommunication company in ASEAN region. This should enable MTEL to further unearth synergy value within the group. Furthermore, as an independent tower company, MTEL should also benefit from its unique tower portfolio locations that centered in ex-Java areas (58% vs. 42% in Java), which is aligned with MNOs expansion strategy, especially non-incumbent players to enhance their presence outside Java areas.

Aside from that, MTEL's robust balance sheet that enables it to capture investment opportunities should put it ahead of competition, protecting MTEL against headwinds, including amid high interest environment and strong USD.

In terms of method of valuation stand point, we employ a combination of both DCF-based and relative-based valuations. For DCF valuation, we derive our WACC assumption of 9.7%, based on current risk-free rate of 6.3%, and cost of equity of 9.8%, with long-term growth rate of 1%. In addition to DCF, we also run EV/EBITDA multiple, based on our benchmarking of telco tower peers and historical.

Exhibit 38: Valuation benchmark

PEERS COMPARISON							
Companies	**Market**	**COO**	**Market cap (in respective currency)**	**EV**	**EBITDA '23**	**EV/EBITDA**	**P/BV**
Domestic							
Sarana Menara (TOWR)	JCI	Indonesia	55.86	100.25	9.8	10.3	3.68
Tower Bersama Infra (TBIG)	JCI	Indonesia	45.54	71.81	5.6	12.9	3.88
Dayamitra Telekomunikasi (MTEL)	JCI	Indonesia	55.96	67.71	6.7	10.1	1.63
Bali Towerindo (BALI)	JCI	Indonesia	3.15	5.403	0.6	8.6	1.26
Gihon Telekomunikasi (GHON)	JCI	Indonesia	1.05	1.2	0.2	7.9	1.32
Weighted average			161.6	245.2	22.8	10.8	*2.5*
Median					*6.1*	*10.2*	*2.7*
US							
Crown Castle	NYSE	US	50.3	72.40	4.4	16.4	1.81
American Tower	NYSE	N. America, Global	91.7	129.24	7.1	18.3	0.57
Weighted average			233.78	330.874	*1.4*	17.6	2.95
Median					*5.7*	*17.4*	*1.2*
Europe							
Vantage tower	DAX Germany	Europe	17.167	21.20	0.9	23.3	3.1
Cellnex telecom	BME Spain	Europe	26.52	46.45	2.5	18.3	1.7
infrastrutture wireless italiane	MTA Italy	Italy	11.67	15.68	0.9	18.3	2.6
Weighted average			105.217	161.1365	1.5	19.4	14.3
Median					*0.9*	*18.3*	*2.6*
Asia							
Indus Tower	NSE India	India	438.76	629.52	97.7	6.4	2.1
China tower	HSE Hong Kong	China	154.89	233.96	62.8	3.7	0.8
Weighted average			*748.54*	*1097.4*	*160.5*	*6.8*	*3.7*
Median					*80.3*	*5.1*	*1.4*

Source: Companies, KBVS Research

We put together several tower companies, representing various markets both in developed and developing countries, namely US, Europe and Asia as well as domestic counterparts.

As per comparison, towercos in developed economies such as Europe and US tend to have higher EV/EBITDA compared to those in Asia, ranging between 16.4x and 23.3x. Meanwhile, Asia's towercos EV/EBITDA stand between 3.7x and 12.9x. On domestic peers, weighted average EV/EBITDA stands at 10.8x, which we use as our base for MTEL's target valuation.

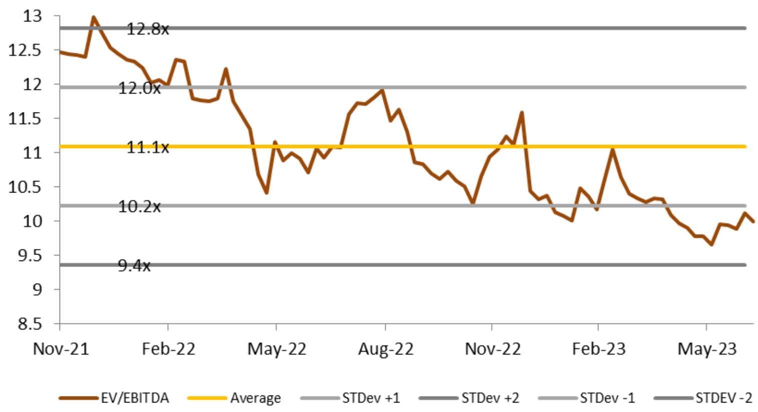
Exhibit 39: MTEL performance forecast

	FY2022	2023E	2024E	2025E
Revenue	7,729	8,415	9,138	9,772
EBITDA	6,142	6,923	7,501	7,942
EBITDA Margin (%)	79.5	82.3	82.1	81.3
Operating profit	3,137	3,757	4,156	4,566
Net profit	1,785	2,015	2,302	2,624

Source: Company, KBVS Research

We expect MTEL's revenue to grow c. 9% in ‘23E and ‘24E, before gradually slow down to 7% respectively in ‘24E, yet still higher than counterparts within our coverage. Moreover, we estimate MTEL's EBITDA margin to be at 82.3-82.1% in 2023E-2024E as EBITDA to grow 12.7% and 8.4% in '23F and '24F (CAGR '20-'25F ~ 11.3%).

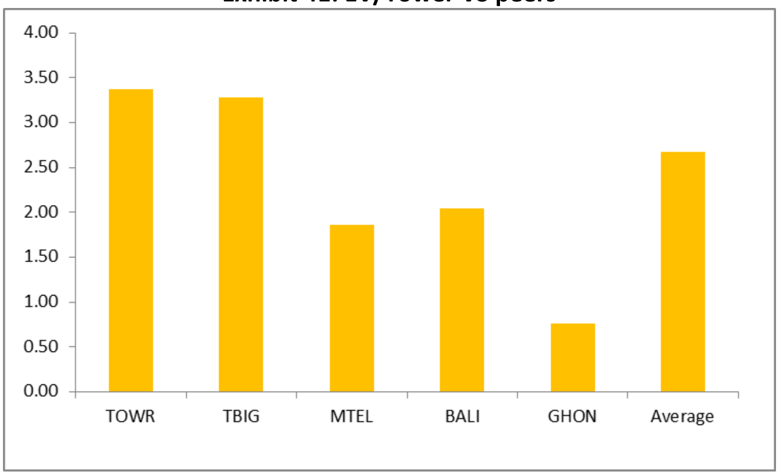
Exhibit 40: Valuation benchmark



Source: Company, Bloomberg, KBVS Research

Combining our DCF-based and EV/EBITDA based valuation, we come up with MTEL’s share price at IDR870, reflecting '23 EV/EBITDA of 10.5x or within its average 5-year historical mean.

Exhibit 41: EV/Tower VS peers



Source: Company, KBVS Research

On the other hand, MTEL’s EV/tower is 1.9x, or significantly lower domestic average at 2.7x and comparable peers, especially TOWR and TBIG that stand at 3.4x and 3.3x, respectively.

FINANCIAL TABLES

Exhibit 59: Profit & loss summary

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenue	**6,870**	**7,729**	**8,415**	**9,138**	**9,772**
Cost of revenue	(3,651)	(4,075)	(4,140)	(4,415)	(4,604)
Gross profit	**3,218**	**3,654**	**4,276**	**4,723**	**5,169**
Operating profit	2,757	3,137	3,757	4,156	4,566
EBITDA	**5,185**	**6,142**	**6,923**	**7,501**	**7,942**
Other income/expenses	0	6	45	49	62
Finance income/ costs net	**(838)**	**(725)**	**(1,075)**	**(1,099)**	**(1,096)**
Pretax profit	**1,920**	**2,417**	**2,727**	**3,106**	**3,532**
Income tax/ benefit	(538)	(632)	(712)	(805)	(908)
After tax profit	**1,381**	**1,785**	**2,015**	**2,302**	**2,624**

Source: Company, KBVS Research

Exhibit 60: Balance sheet

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Current assets					
Cash and cash equivalents	19,133	6,339	6,576	4,616	3,291
Trade receivables	1,118	1,050	1,425	980	1,626
Other current assets	1,052	497	1,044	1,088	1,163
Total current assets	**21,303**	**7,886**	**9,045**	**6,684**	**6,081**
Non-current assets					
Fixed assets	29,568	39,328	42,770	47,062	50,878
Other non-current assets	6,857	8,857	9,168	9,733	10,273
Total non-current assets	**36,426**	**48,185**	**51,938**	**56,795**	**61,151**
Total assets	**57,728**	**56,072**	**60,983**	**63,478**	**67,232**
Current liabilities					
Trade payables	1,273	1,892	1,933	1,354	1,412
Taxes payables	91	74	384	241	272
Accruals	1,036	1,053	1,401	1,457	1,458
Short term debts	2,828	5,908	6,402	8,277	9,049
Other current liabilities	1,248	1,274	2,677	2,603	2,782
Total current liabilities	**6,476**	**10,201**	**12,797**	**13,933**	**14,974**
Non-current liabilities					
Long-term debts	17,131	11,603	13,039	13,555	14,984
Other non-current liabilities	476	461	478	331	503
Total non-current liabilities	**17,607**	**12,064**	**13,517**	**13,887**	**15,487**
Shareholders' equity	**33,646**	**33,807**	**34,669**	**35,659**	**36,771**
Total liabilities and equity	**57,728**	**56,072**	**60,983**	**63,478**	**67,232**

Source: Company, KBVS Research

Dayamitra Telekomunikasi (MTEL)

Exhibit 61: Cash flow

Year End Dec (IDR bn)	**2021A**	**2022A**	**2023F**	**2024F**	**2025F**
Net profit	1,381	1,785	2,015	2,302	2,624
Depreciation & amortization	2,445	2,989	3,149	3,327	3,356
Changes in working capital	495	1,267	1,181	(338)	(453)
CF from operating activities	**4,321**	**6,041**	**6,345**	**5,291**	**5,528**
Investment in fixed assets	(13,281)	(11,345)	(5,067)	(5,939)	(5,546)
Others	(3,198)	(3,404)	(1,835)	(2,245)	(2,167)
CF from investing activities	**(16,479)**	**(14,749)**	**(6,902)**	**(8,183)**	**(7,713)**
Dividends paid	(2,181)	(966)	(1,088)	(1,243)	(1,443)
Net change in debt	6,526	(2,448)	1,930	2,392	2,201
Others	26,430	(672)	(48)	(216)	103
CF from financing activities	**30,776**	**(4,087)**	**794**	**933**	**860**
Change in cash flow	**18,617**	**(12,794)**	**237**	**(1,960)**	**(1,325)**
Cash and cash equivalents, beginning	**516**	**19,133**	**6,339**	**6,576**	**4,616**
Cash and cash equivalents, ending	**19,133**	**6,339**	**6,576**	**4,616**	**3,291**

Source: Company, KBVS Research

Exhibit 62: Ratio analysis

Year End Dec	**2021A**	**2022A**	**2023F**	**2024F**	**2025F**
Gross profit (%)	46.9	47.3	50.8	51.7	52.9
Operating profit margin (%)	40.1	40.6	44.6	45.5	46.7
EBITDA margin (%)	75.5	79.5	82.3	82.1	81.3
Net profit margin (%)	20.1	23.1	23.9	25.2	26.9
Receivables turnover (x)	5.31	7.13	6.80	7.60	7.50
Sales/Asset turnover (x)	0.12	0.14	0.14	0.14	0.15
Inventory turnover (x)	10.5	13.9	14.0	9.2	9.2
Payable turnover (x)	3.3	3.1	3.4	3.7	4.0
ROAA (%)	6.6	5.3	5.9	6.5	7.2
ROAE (%)	4.0	4.0	4.2	4.4	4.6
Debt/ Equity (x)	0.6	0.5	0.5	0.6	0.6
Net debt/Equity (x)	0.0	0.3	0.3	0.4	0.5
Net debt/ EBITDA (x)	0.2	1.8	1.6	2.1	2.4
Interest coverage (x)	5.7	5.8	5.5	5.9	6.2
BV/Share (IDR)	402.9	404.8	415.1	427.0	440.3
Dividend yield	3.7	1.6	1.8	2.1	2.5

Source: Company, KBVS Research

Disclaimer

This report is prepared by PT KB Valbury Sekuritas, a member of the Indonesia Stock Exchange, or its subsidiaries or its affiliates ("KBVS"). All the material presented in this report is under copyright to KBVS. None of the parts of this material, nor its contents, may be copied, photocopied, or duplicated in any form or by any means or altered in any way, or transmitted to, or distributed to any other party without the prior written consent of KBVS.

The research presented in this report is based on the information obtained by KBVS from sources believed to be reliable, however KBVS do not make representations as to their accuracy, completeness or correctness. KBVS accepts no liability for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from the use of the material presented in this report and further communication given or relied in relation to this document. The material in this report is not to be construed as an offer or a solicitation of an offer to buy or sell any securities or financial products. This report is not to be relied upon in substitution for the exercise of independent judgement. Past performance and no representation or warranty, express or implied, is made regarding future performance. Information, valuations, opinions, forecasts and estimates contained in this report reflects a judgement at its original date of publication by KBVS and are subject to change without notice, its accuracy is not guaranteed ot it may be incomplete.

The Research Analyst(s) primarily responsible for the content of this research report, in part or as a whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The Analyst also certifies that no part of his/her compensation was, is or will related to specific recommendation views expressed in this report. It also certifies that the views and recommendations expressed in this report do not and will not take into account client circumstances, objectives, needs and no intentions involved as a use for recommendations for sale or buy any securities or financial instruments.

Dayamitra Telekomunikasi (MTEL)

KB Valbury Sekuritas

Headquarters
Sahid Sudirman Center Lantai 41 Unit AC
Jl. Jenderal Sudirman No. 86
Kelurahan Karet Tengsin, Kecamatan Tanah Abang
Jakarta Pusat 10220, Indonesia
T +62 21 250 98 300
F +62 21 255 33 778

Branch Office

Jakarta - Kelapa Gading
Rukan Plaza Pasifik
Jl. Raya Boulevard Barat Blok A1 No. 10
Jakarta 11620
T +62 21 - 29451577

Jakarta - Puri Indah
Rukan Grand Aries Niaga
Blok E.1 No. 1 V Jl. Taman Aries, Kembangan,
Jakarta 14450
T +62 21 - 22542390
F +62 21 - 29264310

Jakarta - Pluit
Jl. Pluit Putra Raya No. 2
Jakarta 14240
T +62 21 - 29264300
F +62 21 - 22542391

Bandung
Jl. HOS Cokroaminoto No. 82
Bandung 40171
T +62 22 - 87255888
T +62 22 - 87255800
F +62 22 - 87255811

Semarang
Candi Plaza Building Lt. Dasar
Jl. Sultan Agung No. 90-90A
Semarang 50252
T +62 24 - 3521888
T +62 24 - 8501122
F +62 24 - 8507450

Yogyakarta
Jl. Magelang KM 5.5 no. 75
Yogyakarta 55284
T +62 274 - 4469500
T +62 274 - 623111
F +62 274 - 623222

Surabaya
Pakuwon Center Tunjungan Plaza Lantai 21
Jl. Embong Malang No.1
Surabaya 60261
T +62 31 - 2955777
T +62 31 - 2955788
F +62 31 - 2955716

Solo
Jl. Ronggo Warsito no. 34
Solo 57118
T +62 271 632888
F +62 271 656988

Malang
Jl. Pahlawan Trip no. 7
Malang 65112
T +62 341 - 585888
F +62 341 - 560056

Denpasar
Komplek Ibis Styles Hotel
Jl. Teuku Umar No. 177
Denpasar Bali 80114
T +62 361 - 255888
T +62 361 - 225229
F +62 361 - 225339

Banjarmasin
Jl.Gatot Subroto No.33 Kel. Kebun Bunga
Kec. Banjarmasin Timur
Kalimantan Selatan 70235
T +62 511 - 3265918
F +62 511 - 3253432

Manado
Kawasan Megamas, Ruko Megaprofit
Blok IF2 No. 38 Manado. 95254
T +62 431 7917 836
F +62 431 880 2129

Medan
Komplek Jati Junction No. P5-5A
Jl. Perintis Kemerdekaan
Medan 20218
T +62 61 - 88816222
F 62 61 - 88816333

Pekanbaru
Komplek CNN Blok A no. 3
Pekanbaru 28291
T +62 761 - 839393
F +62 761 - 839313

Padang
Jl. Kampung Nias II no. 10,
Kel. Belakang Pondok,
Kec. Padang Selatan
T +62 751 8955747

Palembang
Komp. PTC Mall Blok I No. 7 Jl. R. Sukamto
Kel. 8 Ilir Kec. Ilir Timur II
Palembang 30114
T 07115700281

Makasar
Kompleks RUKO Citraland City Losari Makassar,
Business Park, Blok B2 No. 09
Jl. Citraland Boulevard
Kel. Maccini Sombala, Kec. Tamalate
Makassar, Sulawesi Selatan 90111
T +62 411 6000818

Galeri Investasi

Jakarta
Citra Garden 6 Ruko Sixth Avenue
Blok J.1 A/18 Cengkareng,
Jakarta Barat 11820
T +62 21 52392181

Semarang
Jl. MT Haryono 637 Semarang
T +62 24 8415195

Solo
Jl. Ronggowarsito No. 34
Surakarta 57118

Padang
Jl. Kampung Nias II no. 10,
Kel. Belakang Pondok,
Kec. Padang Selatan
T +62 751 8955747

Salatiga
Jl. Diponegoro No. 68, Rt. 007 Rw. 011,
Kel. Salatiga, Kec. Sidorejo 50711
T +62 298 313007

Galeri Investasi BEI - KBVS

Yogyakarta
Universitas Kristen Duta Wacana
T +62 274 - 544032

Manado
Universitas Prisma Manado
T 0431 8800850

Jakarta
Universitas Gunadarma
T +62 21 - 8727541