

Leads in capitalizing on MNOs' shift during tower consolidation

12 July 2024



by Telkom Indonesia

MTEL IJ	BUY
Sector	TowerCo
Price at 11 July 2024 (IDR)	665
Price target (IDR)	800
Upside/Downside (%)	20.3

Stock Information

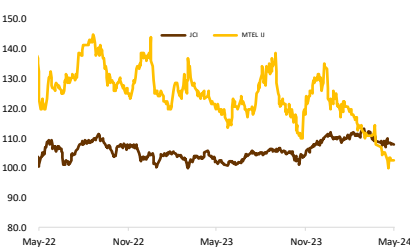
Dayamitra Telekomunikasi is one of the SEA's largest tower telecommunication companies by assets and Indonesia's largest market share of telco tower provider. The company offers an array of telco-related infrastructure service including fiber and power-to-the-tower.

Market cap (IDR bn)	55,563
Shares outstanding (mn)	83,553
52-week range (IDR)	550-770
3M average daily vol. ('000)	34,055
3M average daily val. (IDR mn)	22,105

Shareholders (%)

Telkom Indonesia	71.8
Maleo Investasi Indonesia	6.0
Public	22.2

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	9.92	5.56	0.00

Analyst

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MTEL is well-positioned to meet the needs of MNOs expanding their coverage outside Java, thanks to its extensive network of towers in the region. Robust balance sheet mitigates MTEL's exposure to currency and interest rate risks while providing room and advantage for any in-organic opportunity ahead. Maintain our BUY call with a target price of IDR800, based on 9.5x 2024F EV/EBITDA (~2SD 3yrs-historical mean), while currently trading at an attractive 7.8x EV/EBITDA, representing 28.8% disc. to its 3yrs mean.

Dominates ex-Java co-location market

MTEL boasts a superior number of towers, with ~60% located outside of Java, exceeding TOWR (~48%) and TBIG (~43%). As MNOs look to expand beyond Java, co-location becomes an attractive choice due to its cost-effectiveness and speed compared to B2S. This strong presence outside Java could place MTEL favorably against TOWR and TBIG. ISAT uses MTEL towers for 50% of its co-location needs, exceeding the usage of co-location services from two other TowerCos (29% and 21%). EXCL shows a similar pattern, with 41% co-location on MTEL towers, surpassing the 25% and 19% usage of the other providers. Telkomsel follows suit, with 45% of its co-location needs met by MTEL towers.

Benefited from MNOs' strategic moves during telco-tower consolidation periods

MNOs are transforming towards light-asset companies by divesting non-core assets, such as towers, power and distributed antenna systems. This is likely to be followed by a transition in management of fiber and active equipment within towers, including BTS, to a managed services business model. In our opinion, TowerCo can act as a consolidator of these managed service models, generating new revenue streams to combat potential reductions in tower tenant numbers caused by the EXCL-FREN merger, which will identify tenants with duplicate coverages for consolidation. Additionally, TowerCo must be prepared to capitalize on new service demands required by MNOs, such as micro-cell pole, IoT, and multiaccess edge computing. We are of the view that robust balance sheet aside, MTEL's initiative into tower fiberization and Power as a Service (PaaS) services strengthens its position by offering the aforementioned integrated services, making it a positive catalyst for the company. MTEL's D/E ratio of only 0.39x is much lower than its peers (TOWR: 2.58x and TBIG: 2.30x); while MTEL's net debt/EBITDA is 2.48x, below TOWR at 5.39x and TBIG at 5.99x.

Margin expansion on moderated CoR growth in FY24

We project a moderation in the rate of increase for MTEL's Cost of Revenue (CoR) in FY24. The high rate of MNO co-location deployments (42% in 1Q24) is a contributing factor. This co-location sharing is likely to limit MTEL's CoR growth to just 6.8% yoy, compared to 11.6% in FY22 and 7.5% in FY23. These will generate 8.4% yoy growth in FY24 operating profit to IDR3.96 tn, with a higher margin of 42.9% (FY23: 42.5%). We estimate FY24 EBITDA at IDR7.51 tn, reflecting an 8.6% yoy growth, with a higher margin of 81.5% (FY23: 80.5%). Conservatively, we forecast FY24 net profit at IDR2.09 trillion, 2.5% lower than consensus estimates.

BUY reiterated, impressive co-location

Maintain our BUY call with a target price of IDR800, based on 9.5x 2024F EV/EBITDA, which is at -2.0SD of 3yrs EV/EBITDA mean. Currently, MTEL is trading at 7.8x EV/EBITDA, representing 28.8% disc. to its 3yrs mean. We emphasize MTEL's focus on fiber expansion, potential collaboration with TLKM, and strong colocation opportunities solidify their lead against TowerCo competitors.

Exhibit 1 : Key Statistics

Year end Dec (IDR bn)	2022A	2023A	2024E	2025E	2026E
Revenue (Rp)	7,729	8,595	9,222	9,725	10,298
EBITDA (Rp)	6,142	6,922	7,515	7,995	8,466
Operating profit (Rp)	3,137	3,651	3,957	4,394	4,758
Net profit (Rp)	1,785	2,010	2,086	2,369	2,573
EPS	21.4	24.1	25.0	28.4	30.8
ROA (%)	3.1	3.6	3.5	3.7	3.9
ROAE (%)	5.3	5.9	6.1	6.8	7.2
PER (x)	29.2	26.0	25.0	22.0	20.3
PBV (x)	1.5	1.5	1.5	1.5	1.4
EV/EBITDA (x)	10.3	10.1	9.4	9.1	8.6
Div. yield (%)	1.9	3.4	2.8	3.2	3.5

Source: Company, KBVS Research

Exhibit 2: Performance overview

MTEL 1Q24

(IDRbn)	1Q24	1Q23	YoY (%)	4Q23	QoQ (%)	2024F	% to '24F	Cons'	% of Cons'
Revenue	2,206	2,055	7.3	2,321	-5.0	9,222	23.9%	9,256	23.8%
Cost of revenue	-1,046	-976	7.2	-1,176	-11.0				
Gross profit	1,159	1,079	7.4	1,145	1.2				
Operating expenses	-146	-129	13.7	-155	-5.6				
EBIT	1,013	950	6.6	990	2.3	3,957	25.6%	4,144	24.4%
EBITDA	1,841	1,676	9.9	1,868	-1.4	7,515	24.5%	7,483	24.6%
Other income/expenses	31	6	443.1	-173	-118.1				
Net finance cost/income	-315	-255	23.6	-322	-2.1				
Pre-tax income	725	699	3.7	485	49.4				
Taxes	-204	-198	3.0	-195	4.8				
Attributable net profit	521	501	4.0	291	79.3	2,086	25.0%	2,139	24.4%
Margins (%)									
EBIT Margin	45.9	46.2		42.6		42.9		44.8	
EBITDA margin	83.5	81.5		80.5		81.5		80.8	
Net Margin	23.6	24.4		12.5		22.6		23.1	
Operational metrics									
Tow er	38,135	36,439	4.7	38,014	0.3	40,114			
Tenant	57,808	53,317	8.4	57,409	0.7	62,177			
Tenancy ratio (x)	1.52	1.46		1.51		1.55			

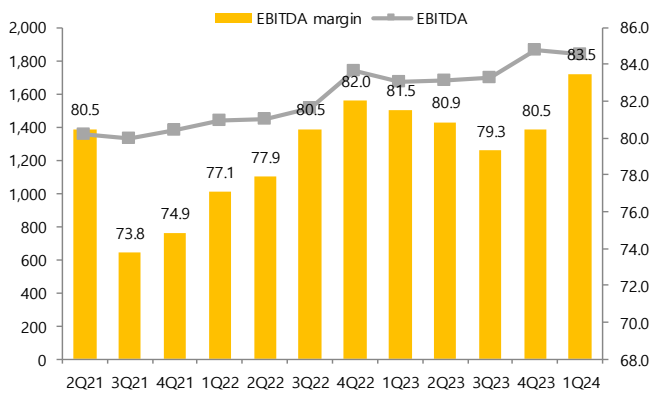
Source: Company, KBVS Research, Bloomberg

Exhibit 3: Forecast changes

	New		Old		Changes		BBG consensus		% BBG	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	9,222	9,725	9,399	10,179	(1.9)	(4.5)	9,256	9,768	-0.4	4.2
EBITDA	7,515	7,995	7,692	8,400	(2.3)	(4.8)	7,483	7,977	0.4	5.3
Net profit	2,086	2,369	2,326	2,693	(10.3)	(12.0)	2,139	2,343	-2.5	14.9

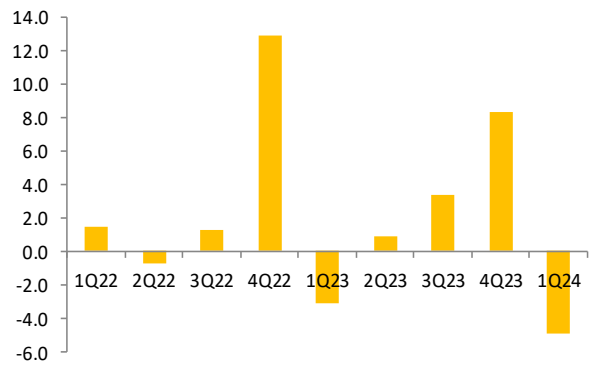
Source: Company, KBVS Research, Bloomberg

Exhibit 4: MTEL EBITDA margin (%)



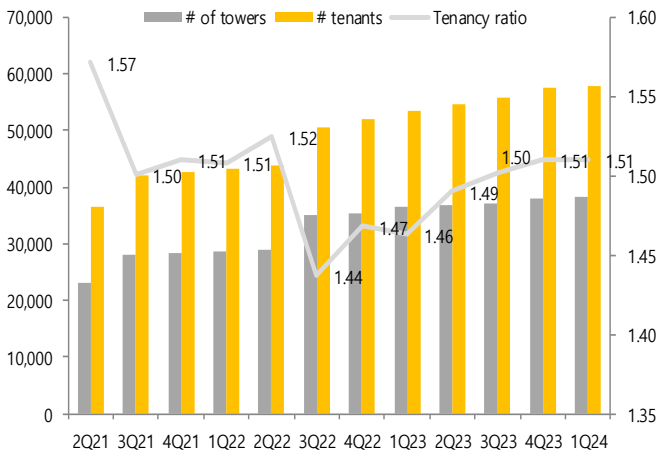
Source: Company, KBVS Research

Exhibit 5: MTEL revenue growth (%)



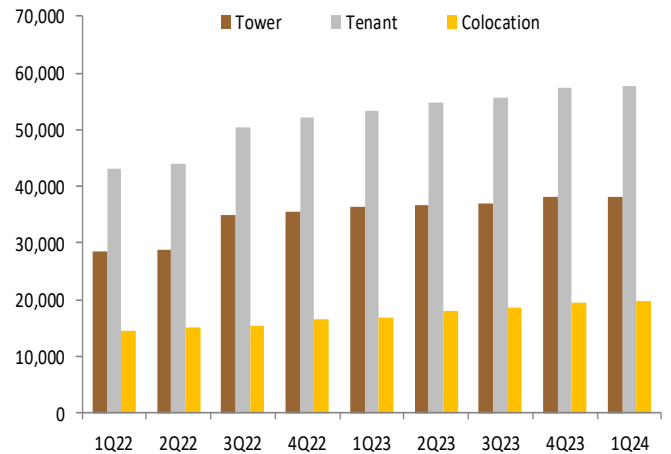
Source: Company, KBVS Research

Exhibit 6: Tenancy ratio



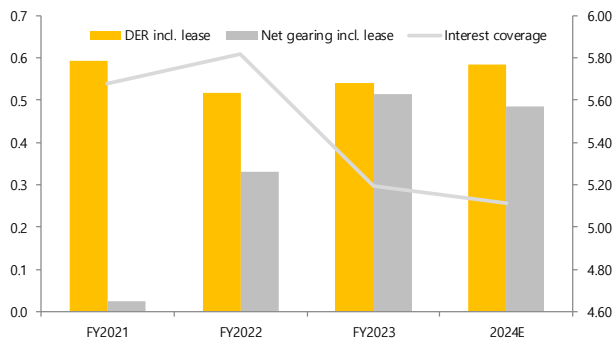
Source: Company, KBVS Research

Exhibit 7: Tower, tenant and colocation



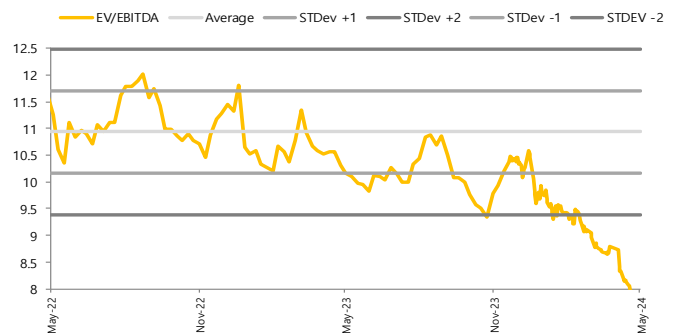
Source: Company, KBVS Research

Exhibit 8: MTEL leverage metrics (%)



Source: Company, KBVS Research

Exhibit 9: EV/EBITDA valuation



Source: Company, Bloomberg, KBVS Research

FINANCIAL TABLES

Exhibit 10: Profit & Loss summary

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Revenue	7,729	8,595	9,222	9,725	10,298
Cost of revenue	(4,075)	(4,379)	(4,675)	(4,728)	(4,903)
Gross profit	3,654	4,216	4,547	4,997	5,395
Operating expenses	(501)	(577)	(602)	(616)	(650)
Operating profit	3,137	3,651	3,957	4,394	4,758
EBITDA	6,142	6,922	7,515	7,995	8,466
Other income/net	6	278	203	214	193
Finance income/costs net	(725)	(1,190)	(1,286)	(1,345)	(1,404)
Pretax profit	2,417	2,739	2,874	3,264	3,546
Income tax	(632)	(729)	(788)	(895)	(973)
After tax profit	1,785	2,010	2,086	2,369	2,573

Source: Company, KBVS Research

Exhibit 11: Balance sheet

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Current assets					
Cash and cash equivalents	6,339	879	1,681	1,848	1,689
Trade receivables	1,050	1,607	1,368	1,411	1,012
Other current assets	497	933	1,002	1,056	1,167
Total current assets	7,886	3,420	4,050	4,315	3,868
Non current assets					
Fixed assets	39,328	43,772	47,898	50,548	52,881
Other non current assets (*)	8,857	9,818	10,675	10,796	10,246
Total non current assets	48,185	53,590	58,573	61,344	63,126
Total assets	56,072	57,010	62,623	65,659	66,994
Current liabilities					
Trade payables	1,892	2,079	1,434	1,450	1,504
Taxes payable	74	73	236	224	486
Accrued expenses	1,053	1,101	1,543	1,497	1,553
Short term debts	5,908	6,732	8,312	9,025	8,668
Other current liabilities	1,274	1,086	2,628	2,771	3,002
Total current liabilities	10,201	11,071	14,153	14,966	15,212
Non current liabilities					
Long term debts	11,603	11,660	13,679	14,912	15,035
Other non current liabilities (*)	461	241	146	444	655
Total non-current liabilities	12,064	11,901	13,825	15,355	15,690
Shareholder equity	33,807	34,038	34,645	35,338	36,092
Total liabilities and equity	56,072	57,010	62,623	65,659	66,994

Source: Company, KBVS Research

Exhibit 12: Cash flow

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Net profit	1,785	2,010	2,086	2,369	2,573
Depreciation	2,989	3,282	3,570	3,614	3,722
Changes in working capital	1,267	(947)	1,674	2	891
CF from operating activities	6,041	4,346	7,330	5,984	7,187
Investment in fixed assets	(11,345)	(6,118)	(5,949)	(4,573)	(4,395)
Others	(3,404)	(2,569)	(2,605)	(1,812)	(1,109)
CF from investing activities	(14,749)	(8,687)	(8,553)	(6,385)	(5,504)
Dividends paid	(966)	(1,767)	(1,460)	(1,658)	(1,801)
Debt raised/ repaid	(2,448)	882	3,598	1,946	(233)
Others	(672)	(233)	(113)	280	193
CF from financing activities	(4,087)	(1,118)	2,025	568	(1,841)
Change in cash flow	(12,794)	(5,460)	802	167	(159)
Cash and cash equivalent, beginning	19,133	6,339	879	1,681	1,848
Cash and cash equivalent, ending	6,339	879	1,681	1,848	1,689

Source: Company, KBVS Research

Exhibit 13: Ratio analysis

Year End Dec	2022A	2023A	2024F	2025F	2026F
Gross profit	47.3	49.1	49.3	51.4	52.4
Operating profit margin	40.6	42.5	42.9	45.2	46.2
EBITDA margin	79.5	80.5	81.5	82.2	82.2
Net profit margin	23.1	23.4	22.6	24.4	25.0
Receivables turnover (x)	7.13	6.47	6.20	7.00	8.50
Sales/Assets turnover (x)	0.14	0.15	0.15	0.15	0.15
Payable turnover (x)	13.9	14.2	9.2	9.2	9.2
ROA	3.1	3.6	3.5	3.7	3.9
ROE	5.3	5.9	6.1	6.8	7.2
ROIC	4.0	3.9	3.8	4.1	4.4
Debt/Equity	0.5	0.5	0.6	0.6	0.6
Net debt/Equity	0.3	0.5	0.5	0.6	0.6
Net debt/EBITDA	1.8	2.5	2.5	2.5	2.4
Interest coverage (x)	5.8	5.2	5.1	5.2	5.5
BV/Share (Rp)	404.8	407.6	414.8	423.1	432.2
Dividend yield	1.9	3.4	2.8	3.2	3.5

Source: Company, KBVS Research

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