

Mixed 1H24 results; Impressive tenants expansion

2 October 2024



TOWR IJ	BUY
Sector	TowerCo
Price at 1 Oct 2024 (IDR)	870
Price target (IDR)	1,000
Upside/Downside (%)	14.9

Stock Information

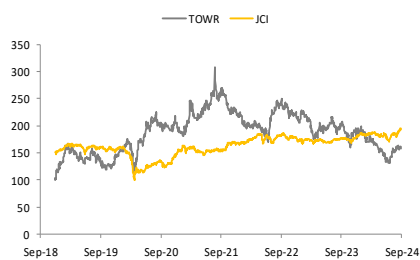
Sarana Menara Nusantara was established in 2008 with the prime focus of its business is to invest in the operating companies who own and operate tower telecommunication sites and lease them to wireless communication companies.

Market cap (IDR bn)	44,383
Shares outstanding (mn)	51,015
52-week range (IDR)	660-1,030
3M average daily vol. ('000)	69,472
3M average daily val. (IDR mn)	53,624

Shareholders (%)

Sapta Adhikari Investama	54.4
Public	42.5

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	6.75	16.78	-8.42

Analyst

Steven Gunawan  
Steven.gunawan@kbvalbury.com

TOWR's 1H24 performance delivered mixed results compared to our/consensus expectations. Total revenue and EBITDA were largely inline, arriving within a range of 48.5% to 50.3%. However, higher finance costs, which increased by 3.9% qoq to IDR737.7 bn, contributed to modest net profit growth in 2Q24, up just 1.3% qoq to IDR807.7 bn. Cumulative 1H24 net profit reached IDR1.6 tn, far below both ours and cons', which were 43.4% and 45.7%. Maintain our BUY call with a target price of IDR1,000, based on 8.9x 2024F EV/EBITDA (-0.5SD 7yrs-historical mean). TOWR is currently trading at 7.7x EV/EBITDA, representing a 20.3% discount to its 7-year mean of 9.6x.

2Q24 EBITDA grows despite rising costs

TOWR reported an EBITDA of IDR2.6 tn in 2Q24, bringing its total EBITDA for 1H24 to IDR5.1 tn, met 48.5% of ours & 49.0% of cons'. EBITDA grew modestly by 2.3% qoq in 2Q24, despite a 4.7% increase in cash costs to IDR489.1 bn due to higher tower site maintenance expenses (+10.9% qoq) & opex (+2.3%). As a result, EBITDA margin contracted from 83.5% in 1Q24 to 83.3% in 2Q24 (-16.4 bps). Despite the margin compression, TOWR's ability to maintain EBITDA growth qoq and yoy in the face of rising costs is a positive sign.

Tenant base expands despite tower-leasing revenue dip

Tower-leasing revenue fell 1.0% qoq/0.9% yoy in 2Q24/1H24 to IDR2.1 tn/IDR4.1 tn. This decline was primarily due to a 1.2% and 2.5% decrease in the avg. monthly lease rate per tower tenant during the same periods, reaching IDR12.6 mn and IDR12.7 mn, respectively. Although tenancy ratio slipped slightly from 1.74x in 1Q24 to 1.72x in 2Q24, we note that TOWR added a significant 156 net new tenants in 2Q24, driven by non-ISAT tenant leases. This marked a significant improvement from the net loss of 114 tenants in 1Q24 and was far superior to the 35 tenant additions in 4Q23. On an annual basis, TOWR impressively added 555 tenants in 1H24, a remarkable turnaround from 1H23 when it lost 945 tenants. Additionally, TOWR expanded its tower portfolio by 453 sites in 2Q24, bringing the total number of towers to 31,502.

Revising down FY24 bottom-line forecasts, maintaining revenue outlook

Due to unexpectedly high CoR in 1H24, primarily from tower site maintenance expenses, we increased our FY24 CoR estimate to IDR3.67 tn from IDR3.37 tn. This revision led to a downward adjustment in our FY24 net profit forecast to IDR3.29 tn (-10.9% from our previous estimate) and a reduction in EBITDA from IDR10.58 to IDR10.28 tn.

BUY reiterated, impressive tenant additions

Maintain our BUY call with a target price of IDR1,000, based on 8.9x 2024F EV/EBITDA (-0.5SD 7yrs-historical mean). TOWR is currently trading at 7.7x EV/EBITDA, representing a 20.3% discount to its 7-year mean of 9.6x. TOWR has gradually diversified its business from tower-leasing revenue to FTTT and FTTH, in a strategic shift aimed at strengthening its long-term performance. Anticipated continued BI-rate cuts until the end of the year are expected to further boost its bottom-line growth.

Exhibit 1 : Key Statistics

Year end Dec (IDR bn)	2022A	2023A	2024E	2025E	2026E
Revenue (Rp)	11,036	11,740	12,301	12,977	14,018
EBITDA (Rp)	9,899	10,175	10,275	10,834	11,792
Net profit (Rp)	3,442	3,253	3,293	3,698	4,376
EPS (Rp)	69.1	65.3	66.1	74.3	87.9
EPS growth	0.4	-5.5	1.2	12.3	18.3
ROA	5.2	4.9	4.7	5.2	6.0
ROE	26.0	21.1	18.7	18.4	19.1
PER (x)	13.7	14.5	14.3	12.7	10.8
PBV (x)	3.9	3.3	2.9	2.5	2.2
Interest coverage (x)	4.1	3.6	3.4	3.7	4.2
EV/EBITDA (x)	9.1	9.0	8.7	8.1	7.3

Source: Company, KBVS Research

## Exhibit 2: Financial Summary

TOWR's 1H24 Results (IDR bn)	1H24	1H23	YoY (%)	2Q24	2Q23	YoY (%)	1Q24	QoQ (%)	2024F	% to '24F	Cons'	% of Cons'
<b>Revenue</b>	<b>6,154</b>	<b>5,776</b>	<b>6.5</b>	<b>3,114</b>	<b>2,912</b>	<b>7.0</b>	<b>3,039</b>	<b>2.5</b>	12,301	<b>50.0</b>	12,402	<b>49.6</b>
Cost of service	(1,858)	(1,628)	<b>14.2</b>	(934)	(823)	<b>13.4</b>	(925)	<b>0.9</b>				
<b>Gross profit</b>	<b>4,295</b>	<b>4,148</b>	<b>3.5</b>	<b>2,181</b>	<b>2,089</b>	<b>4.4</b>	<b>2,115</b>	<b>3.1</b>				
<b>Operating expenses</b>	<b>(620)</b>	<b>(516)</b>	<b>20.1</b>	<b>(314)</b>	<b>(267)</b>	<b>17.6</b>	<b>(307)</b>	<b>2.3</b>				
<b>EBIT</b>	<b>3,675</b>	<b>3,632</b>	<b>1.2</b>	<b>1,867</b>	<b>1,822</b>	<b>2.5</b>	<b>1,808</b>	<b>3.3</b>				
<b>EBITDA</b>	<b>5,133</b>	<b>4,914</b>	<b>4.5</b>	<b>2,595</b>	<b>2,475</b>	<b>4.9</b>	<b>2,538</b>	<b>2.3</b>	10,275	<b>50.0</b>	10,483	<b>49.0</b>
Other income/expenses	(172)	(162)	<b>6.2</b>	(66)	(91)	<b>(26.9)</b>	(105)	<b>(36.8)</b>				
Net finance costs/income	(1,424)	(1,473)	<b>(3.3)</b>	(720)	(739)	<b>(2.6)</b>	(704)	<b>2.4</b>				
<b>Pre-tax income</b>	<b>2,079</b>	<b>1,997</b>	<b>4.1</b>	<b>1,080</b>	<b>992</b>	<b>8.9</b>	<b>999</b>	<b>8.2</b>				
Taxes	(457)	(398)	<b>14.9</b>	(254)	(176)	<b>43.9</b>	(204)	<b>24.7</b>				
<b>Attributable net profit</b>	<b>1,605</b>	<b>1,559</b>	<b>2.9</b>	<b>808</b>	<b>807</b>	<b>0.1</b>	<b>797</b>	<b>1.3</b>	3,293	<b>48.7</b>	3,504	<b>45.8</b>
<b>Margins (%)</b>												
EBIT Margin	59.7	62.9		60.0	62.6		59.5					
EBITDA margin	83.4	85.1		83.3	85.0		83.5	<b>0.2</b>				
Net Margin	26.1	27.0		25.9	27.7		26.2					
<b>Operational metrics</b>												
Tower	31,502	29,792	<b>5.7</b>	31,502	29,792	<b>5.7</b>	31,049	<b>1.5</b>				
Tenant	54,326	53,771	<b>1.0</b>	54,326	53,771	<b>1.0</b>	54,170	<b>0.3</b>				
Tenancy ratio (x)	1.72	1.80	<b>(4.5)</b>	1.72	1.80	<b>(4.5)</b>	1.74	<b>(1.2)</b>				

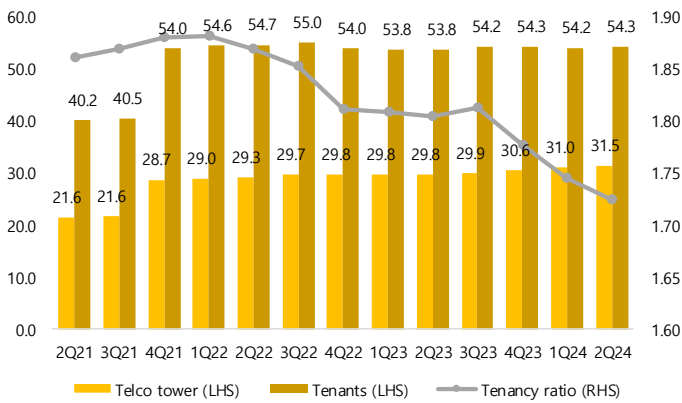
Source: Company, KBVS Research

## Exhibit 3: Forecast revisions

	New		Old		Changes		Consensus		New vs consensus	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Revenue	12,301	12,977	12,227	12,794	0.6%	1.4%	12,402	13,078	-0.8%	-0.8%
EBITDA	10,275	10,834	10,579	11,065	-2.9%	-2.1%	10,483	11,010	-2.0%	-1.6%
Net profit	3,293	3,698	3,695	4,082	-10.9%	-9.4%	3,504	3,706	-6.0%	-0.2%

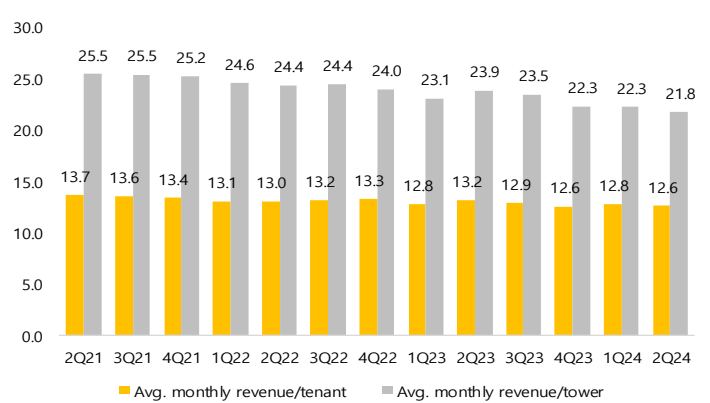
Source: Company, KBVS Research

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



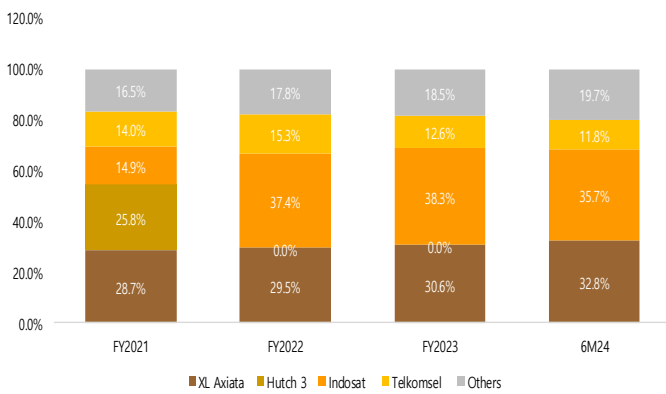
Source: Company, KBVS Research

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



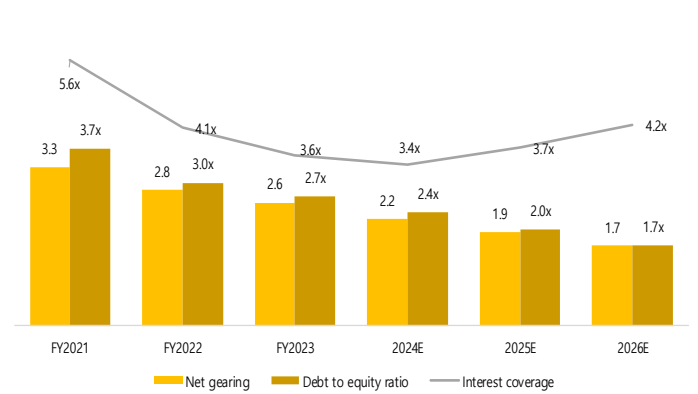
Source: Company, KBVS Research

Exhibit 6: Source of revenue by carrier



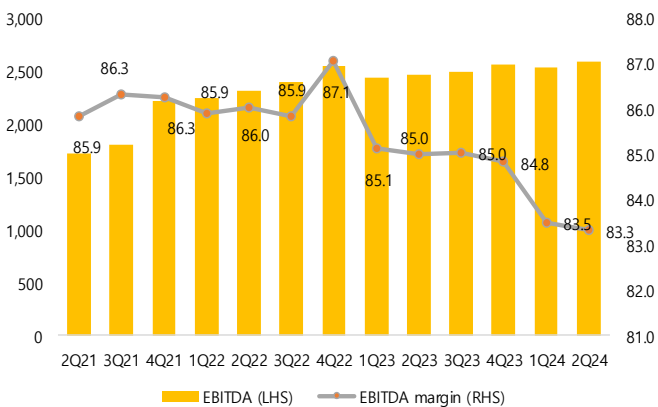
Source: Company, KBVS Research

Exhibit 7: TOWR's leverage metrics



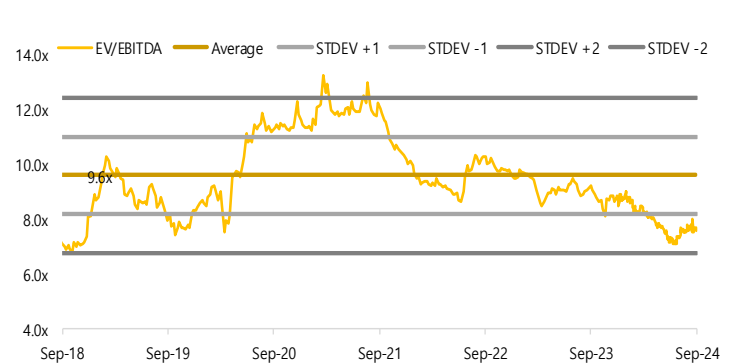
Source: Company, KBVS Research

Exhibit 8: EBITDA & EBITDA margin



Source: Company, KBVS Research

Exhibit 9: Currently trading below 7-years average mean



Source: Company, Bloomberg, KBVS Research

**FINANCIAL TABLES**

**Exhibit 10: Profit & Loss summary**

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Revenue	11,036	11,740	12,301	12,977	14,018
Cost of revenue	(2,914)	(3,528)	(3,672)	(3,747)	(3,893)
Gross profit	8,121	8,213	8,629	9,231	10,125
EBITDA	9,899	10,175	10,275	10,834	11,792
Operating expenses	(911)	(1,076)	(1,235)	(1,311)	(1,377)
Operating profit	7,210	7,136	7,394	7,919	8,749
Net finance income/ cost	(2,368)	(2,838)	(3,023)	(2,887)	(2,793)
Pretax profit	4,459	4,104	4,359	5,016	5,936
Income tax	(963)	(800)	(1,016)	(1,204)	(1,425)
Net profit	3,442	3,253	3,293	3,698	4,376

Source: Company, KBVS Research

**Exhibit 11: Balance sheet**

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
<b>Current assets</b>					
Cash and cash equivalents	309	429	2,552	2,635	2,338
Trade receivables	2,558	3,086	2,635	3,007	2,834
Other current assets	751	876	911	946	946
<b>Total current assets</b>	<b>3,651</b>	<b>4,427</b>	<b>6,098</b>	<b>6,588</b>	<b>6,117</b>
<b>Non current assets</b>					
Fixed assets	37,152	40,385	41,124	42,287	43,266
Other non current assets	23,724	22,463	22,421	22,560	22,648
<b>Total non current assets</b>	<b>61,974</b>	<b>63,992</b>	<b>64,667</b>	<b>66,024</b>	<b>67,162</b>
<b>Total assets</b>	<b>65,625</b>	<b>68,419</b>	<b>70,765</b>	<b>72,612</b>	<b>73,279</b>
<b>Current liabilities</b>					
Tower construction and other payables	839	1,101	1,134	1,156	1,180
Accruals	1,541	1,463	1,346	1,279	1,240
Short term debts	9,564	18,590	17,270	15,429	14,214
Other current liabilities	2,502	3,146	3,378	3,586	3,736
<b>Total current liabilities</b>	<b>14,446</b>	<b>24,299</b>	<b>23,128</b>	<b>21,450</b>	<b>20,370</b>
<b>Non current liabilities</b>					
Long term debts	35,409	26,323	27,573	28,272	27,151
Other non current liabilities	1,338	1,285	1,247	1,301	1,325
<b>Total non-current liabilities</b>	<b>36,747</b>	<b>27,608</b>	<b>28,820</b>	<b>29,573</b>	<b>28,475</b>
<b>Shareholder equity</b>	14,432	16,512	18,816	21,589	24,434
<b>Total liabilities and equity</b>	<b>65,625</b>	<b>68,419</b>	<b>70,765</b>	<b>72,612</b>	<b>73,279</b>

Source: Company, KBVS Research

**Exhibit 12: Cash flow**

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Net profit	3,442	3,253	3,293	3,698	4,376
D&A	2,307	2,843	2,869	2,899	3,024
Changes in working capital	(897)	171	602	(245)	309
CF from operating activities	4,852	6,267	6,763	6,351	7,710
Investment in fixed assets	(6,507)	(6,076)	(3,608)	(4,061)	(4,004)
Others	657	1,215	64	(195)	(159)
CF from investing activities	(5,850)	(4,861)	(3,544)	(4,256)	(4,162)
Dividends paid	(1,200)	(1,200)	(905)	(925)	(1,532)
Debt raised/ repaid	(2,013)	(59)	(70)	(1,142)	(2,336)
Others	(229)	(27)	(121)	54	23
CF from financing activities	(3,441)	(1,286)	(1,096)	(2,013)	(3,844)
Change in cash flow	(4,440)	120	2,124	83	(297)
Cash and cash equivalent, beginning	4,748	309	429	2,552	2,635
Cash and cash equivalent, ending	309	429	2,552	2,635	2,338

Source: Company, KBVS Research

**Exhibit 13: Ratio analysis**

Year End Dec	2022A	2023A	2024F	2025F	2026F
Gross profit margin	73.6	70.0	70.1	<b>71.1</b>	<b>72.2</b>
Operating profit margin	65.3	60.8	60.1	61.0	62.4
EBITDA margin	89.7	86.7	83.5	83.5	84.1
Net profit margin	31.2	27.7	26.8	28.5	31.2
Receivables turnover (x)	5.3	4.3	4.3	4.6	4.8
ROA	5.2	4.9	4.7	5.2	6.0
ROE	26.0	21.1	18.7	18.4	19.1
ROCE	23.8	19.7	17.5	17.1	17.9
ROIC	5.8	5.3	5.4	5.9	6.9
Debt/Equity	3.1	2.7	2.4	2.0	1.7
Net debt/Equity	3.1	2.7	2.2	1.9	1.6
Net debt/EBITDA	4.5	4.4	4.1	3.8	3.3
Sales/Assets turnover (x)	0.2	0.2	0.2	0.2	0.2
Interest coverage (x)	4.1	3.6	3.4	3.7	4.2
BV/Share (Rp)	289.8	331.6	377.8	433.5	490.7
Dividend yield	2.55%	2.55%	1.92%	1.96%	3.25%

Source: Company, KBVS Research

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### KB Valbury Sekuritas Head Office

Sahid Sudirman Center 41<sup>st</sup> Floor Unit A-C  
Jalan 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 – Sudirman

Sahid Sudirman Center 41<sup>st</sup> Floor Unit A-C  
Jalan Jenderal Sudirman No. 86 Karet Tengsin,  
Tanah Abang, Jakarta Pusat 10220  
T. (021) 25098300/301

#### Jakarta - Kelapa Gading

Rukan Plaza Pasifik  
Jl. Raya Boulevard Barat Blok A1 No. 10  
Jakarta Utara 11620  
T. (021) 29451577

#### Jakarta - Puri Indah

Rukan Grand Aries Niaga Blok E1 No. IV  
Jl. Taman Aries, Kembangan  
Jakarta Barat 11620  
T. (021) 22542390

#### Jakarta – Pluit

Jl. Pluit Putra Raya No. 2  
Jakarta Utara 14450  
T. (021) 6692119

#### Bandung

Jl. HOS Cokroaminoto No. 82  
Bandung 40171  
T. (022) 87255800

#### Malang

Jl. Pahlawan Trip No. 7  
Malang 65112  
T. (0341) 585888

#### Banjarmasin

Jl. Gatot Subroto No. 33  
Banjarmasin 70235  
T. (0511) - 3265918

#### Pekanbaru

Jl. Tuanku Tambusai, Komplek CNN  
Blok A No. 3 Pekanbaru 28291  
T. (0761) 839393

#### Palembang

Komplek PTC Mall Blok I No. 7  
Jl. R. Sukanto  
Palembang 30114  
T. (0711) 5700281

#### Surabaya

Pakuwon Center Lt 21  
Jl. Embong Malang No.1  
Surabaya 60261  
T. (031) 2955788

#### Padang

Jl. Kampung Nias II No. 10,  
Padang 25211  
T. (0751) 8955747

#### Yogyakarta

Jl. Magelang KM 5.5 No. 75  
Yogyakarta 55000  
T. (0274) 623111

#### Semarang

Candi Plaza Building Lt. Dasar  
Jl. Sultan Agung No. 90- 90A  
Semarang 50252  
T. (024) 8501122

#### Makassar

Komplek RUKO Citraland City Losari  
Business Park, Blok B2 No. 09  
Jl. Citraland Boulevard Makassar 90111  
T. (0241) 16000818

#### Medan

Komplek Jati Junction No. P5-5A  
Jl. Perintis Kemerdekaan  
Medan 20218  
T. (061) 88816222

#### Denpasar

Jl. Teuku Umar No. 177  
Komplek Ibis Styles Hotel  
Denpasar Bali 80114  
T. (0361) 225229

### Investment Gallery

#### Jakarta

Citra Garden 6 Ruko Sixth Avenue  
Blok J.1 A/18, Cengkareng  
Jakarta Barat 11820  
T. (021) 522392181

#### Semarang

Jl. MT Haryono 637  
Semarang 50242  
T. (024) 8415195

#### Salatiga

Jl. Diponegoro No. 68  
Salatiga 50711  
T. (0298) 313007

#### Solo

Jl. Ronggowarsito No. 34  
Surakarta 57118  
T. (0271) 6726306