

# Sarana Menara Nusantara Tbk (TOWR)

Tenancy Ratio Rise, 1Q20 Net Profit Increases

Company Report | July 10, 2020

## Hold

<b>Dec 2020 TP (IDR)</b>	<b>1,140</b>
Consensus Price (IDR)	1,063
TP to Consensus Price	+7.3%
vs. Last Price	+6.5%

### Shares data

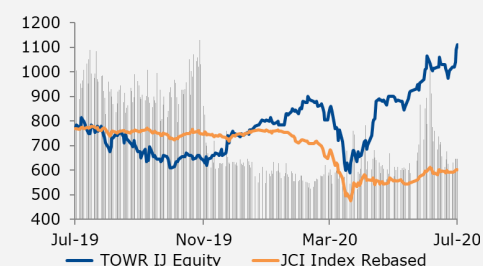
Last Price (IDR)	1,070
Price date as of	July 09, 2020
52 wk range (Hi/Lo)	1,115 / 575
Free float	47.7%
Outstanding sh.(mn)	51,015
Market Cap (IDR bn)	56,626
Market Cap (USD mn)	3,904
Avg. Trd Vol - 3M (mn)	103.6
Avg. Trd Val - 3M (bn)	95.9
Foreign Ownership	18.97%

### Infrastructure

#### Telecommunication Towers

Bloomberg	<b>TOWR IJ</b>
Reuters	<b>TOWR.JK</b>

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret	33.8%	5.4%	52.9%	38.1%
Rel. Ret	53.3%	5.1%	44.2%	59.0%

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**1Q20 TOWR booked positive performance, with increases in income and net profit by 22.8% YoY and 9.8% YoY. Tenancy Ratio rose to 1.8x vs 1.7x in FY19. With a low level of debts, TOWR still has a chance to increase its number of towers.**

**1Q20 Performance.** TOWR booked IDR1.8 trillion (22.8% YoY) income in 1Q20. This growth was supported by an increase in tower lease ratio of 1.8x vs 1.7x in FY19 to 36,778 lessee in the first quarter of 2020 (30.6% YoY, 10.3% QoQ). Lessees with the highest contributions are PT Hutchison 3 Indonesia; PT XL Axiata Tbk; PT Telekomunikasi Selular; and PT Indosat Tbk (36.5%, 33.5%, 18.7%, and 11.3%). Income growth and income tax benefits in the first quarter of 2020 were capable to boost the company's net profit to IDR0.5 trillion (9.8% YoY). We estimate that the company will grow by 28.1% YoY FY20.

**TOWR Opportunity to Add More Assets (Towers).** Currently, the Company has more than 20 thousand towers, increasing by 1,595 units since the end of 2019. Most of the assets came from the acquisition of towers owned by PT XL Axiata Tbk (EXCL) of 1,399 units (87.7% contribution from the addition of the Company's towers) through a subsidiary 'Protelindo'. Until the end of the year, the company has the opportunity to increase the number of telecommunications tower assets, considerin that TOWR still has a long-term contract value of IDR51 trillion until 2023.

In addition, high demand for telecommunications towers, both new towers and collocations can have a positive impact on the company's tenancy ratio. It is noted that every year there is always an increase of tenants with the last three years' average at 10.5%. The company has a low level of debt with a Net Debt / EBITDA value of 2.4x FY20e, which is one of the opportunities for the company to rely on external loans to be more flexible in its tower expansion.

**We are Signaling HOLD for TOWR.** Our estimation based on Discounted Cash Flow (DCF) valuation has a target price until the end of 2020 in the range of IDR1,140 per share, equivalent to the EV / EBITDA value at 13.2x. Therefore we recommend HOLD for TOWR shares with a potential upside of 6.5%.

### Sarana Menara Nusantara Tbk | Summary (IDR bn)

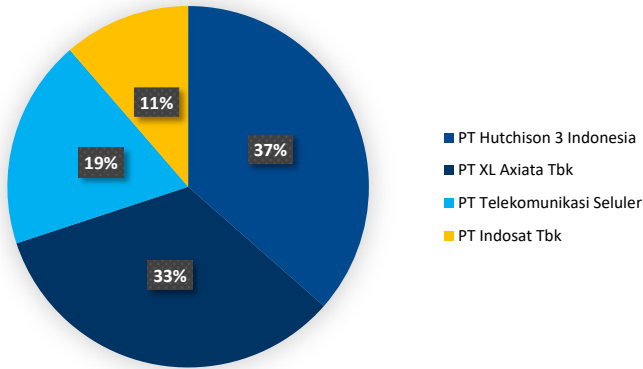
	2018	2019	2020 F	2021 F
Revenue	5,868	6,454	8,204	7,721
<i>Revenue growth</i>	9.9%	10.0%	27.1%	-5.9%
EBITDA	4,932	5,385	5,866	5,949
Net profit	2,200	2,342	3,278	2,735
EPS (IDR)	43	46	64	54
BVPS (IDR)	157	172	222	243
EBITDA margin	84.0%	83.4%	71.5%	77.0%
NPM	37.5%	36.3%	40.0%	35.4%
ROE	27.4%	26.7%	29.0%	22.0%
ROA	9.6%	8.5%	10.6%	8.3%
ROIC	12.4%	10.8%	12.9%	9.8%
P/E	16.0x	19.7x	19.5x	23.3x
P/BV	4.4x	5.3x	5.6x	5.1x
EV/EBITDA	9.3x	11.3x	13.2x	12.1x
DPS (IDR)	23	23	21	32
<i>Dividend yield</i>	3.4%	2.6%	1.7%	2.6%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

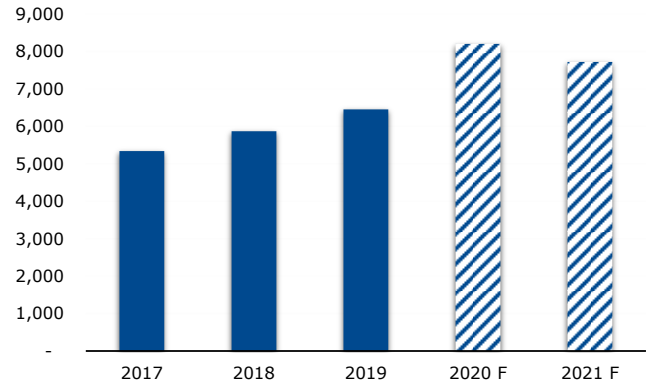
# Performance Highlights

## Revenue Composition 1Q20



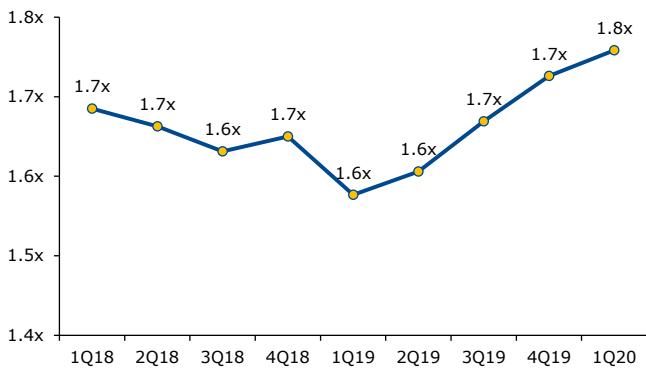
Source: Company, NHKSI Research

## Revenue Projection (Bn)



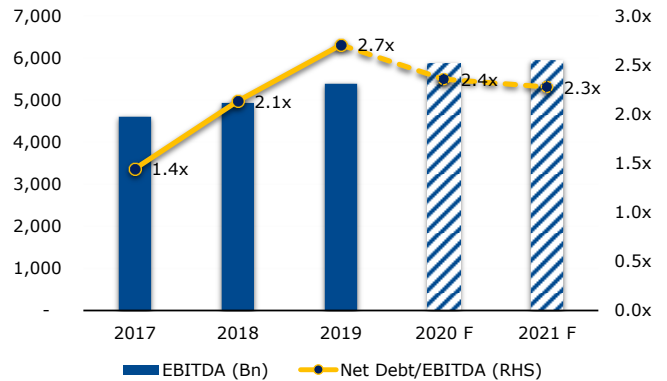
Source: Company, NHKSI Research

## Tenancy Ratio



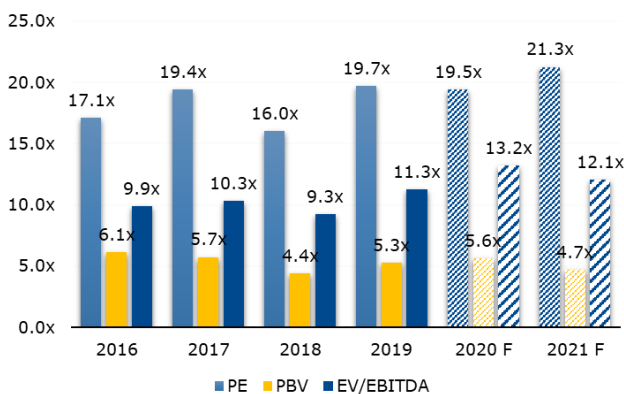
Source: Company, NHKSI Research

## Net Debt/EBITDA (Bn)



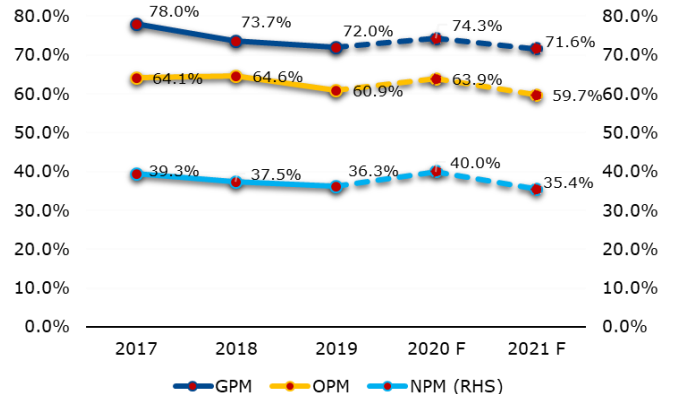
Source: Company, NHKSI Research

## Multiple Valuation



Source: Company, NHKSI Research

## TOWR Margins



Source: Bloomberg, Company, NHKSI Research

**PT Sarana Menara Nusantara Tbk. ("SMN")** was established in Kudus, Central Java in 2008. The sole focus of SMN investment is on companies that specialize in owning and operating tower site for lease to wireless communications companies. Since 2008, SMN's main investment is its ownership of 99.99% of the outstanding shares of PT Profesional Telekomunikasi Indonesia ("Protelindo").

Protelindo currently owns and operates 20,914 towers in Indonesia, with 36,778 rental locations, 3,693 VSAT and more than 35,000 Fiber Optic Cables throughout Indonesia.

Forward EV/EBITDA Trade in +2SD



Source: NHKSI Research

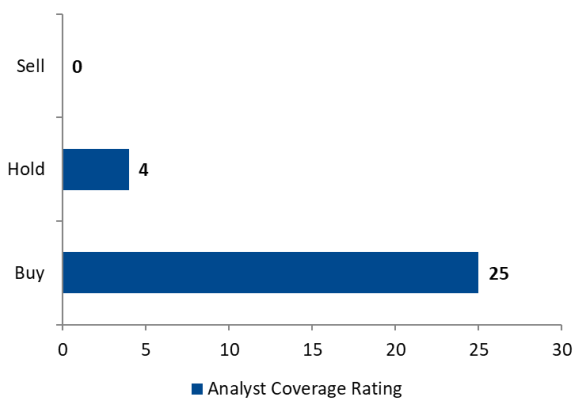
## Rating and Target Price Update

### Target Price

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
07/10/2020	Hold	1,140 (Dec 2020)	1,070	1,063	+6.5%	+7.3%

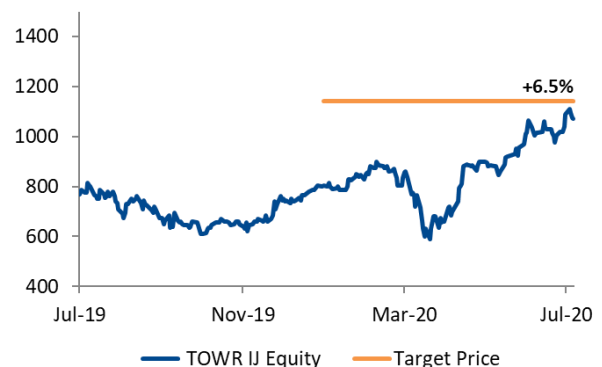
Source: NHKSI Research, Bloomberg

### Analyst Coverage Rating



Source: Bloomberg

### Closing and Target Price



Source: NHKSI Research

### NH Korindo Sekuritas Indonesia (NHKSI) stock ratings

1. Period: End of year target price
2. Rating system based on a stock's absolute return from the date of publication
  - Buy : Greater than +15%
  - Hold : -15% to +15%
  - Sell : Less than -15%

## Financial Summary

### INCOME STATEMENT

(IDR bn)	2018/12	2019/12	2020/12E	2021/12F
<b>Revenue</b>	<b>5,868</b>	<b>6,454</b>	<b>8,204</b>	<b>7,721</b>
<i>Growth</i>	9.9%	10.0%	27.1%	-5.9%
Cost of Revenue	(1,542)	(1,808)	(2,111)	(2,192)
<b>Gross Profit</b>	<b>4,326</b>	<b>4,646</b>	<b>6,092</b>	<b>5,529</b>
<i>Gross Margin</i>	73.7%	72.0%	74.3%	71.6%
Operating Expenses	(536)	(719)	(849)	(918)
<b>EBIT</b>	<b>3,790</b>	<b>3,928</b>	<b>5,243</b>	<b>4,611</b>
<i>EBIT Margin</i>	64.6%	60.9%	63.9%	59.7%
Depreciation	(1,114)	(1,350)	(1,389)	(1,490)
<b>EBITDA</b>	<b>4,932</b>	<b>5,385</b>	<b>5,866</b>	<b>5,949</b>
<i>EBITDA Margin</i>	84.0%	83.4%	71.5%	77.0%
Interest Expenses	872	958	1,066	1,144
<b>EBT</b>	<b>2,952</b>	<b>3,009</b>	<b>4,196</b>	<b>3,503</b>
Income Tax	(752)	(656)	(915)	(763)
Minority Interest	(0)	(11)	(4)	(4)
<b>Net Profit</b>	<b>2,200</b>	<b>2,342</b>	<b>3,278</b>	<b>2,735</b>
<i>Growth</i>	4.8%	6.4%	40.0%	-16.6%
<i>Net Profit Margin</i>	37.5%	36.3%	40.0%	35.4%

### BALANCE SHEET

(IDR bn)	2018/12	2019/12	2020/12E	2021/12F
Cash	963	600	1,861	2,764
Receivables	1,018	1,378	1,436	1,330
Inventories	-	-	-	-
<b>Total Current Assets</b>	<b>2,275</b>	<b>2,474</b>	<b>3,793</b>	<b>4,590</b>
Net Fixed Assets	15,980	19,648	21,342	21,975
Other Non Current Assets	4,704	5,543	5,934	6,376
<b>Total Assets</b>	<b>22,960</b>	<b>27,666</b>	<b>31,070</b>	<b>32,940</b>
Payables	704	641	880	913
Curr Maturities of LT Debt	1,733	1,945	2,011	2,090
LT Debt	8,343	11,230	11,612	12,069
<b>Total Liabilities</b>	<b>14,926</b>	<b>18,905</b>	<b>19,758</b>	<b>20,532</b>
Capital Stock	21	21	21	21
Retained Earnings	7,548	8,704	11,292	12,389
<b>Shareholders' Equity</b>	<b>8,033</b>	<b>8,761</b>	<b>11,312</b>	<b>12,408</b>

### CASH FLOW STATEMENT

(IDR bn)	2018/12	2019/12	2020/12E	2021/12F
Operating Cash Flow	3,021	2,587	4,178	3,663
Investing Cash Flow	(5,637)	(5,055)	(2,708)	(1,741)
Financing Cash Flow	1,232	2,105	(572)	(1,020)
<b>Net Changes in Cash</b>	<b>(1,385)</b>	<b>(363)</b>	<b>898</b>	<b>902</b>

Source: Company Data, NHKSI Research

### PROFITABILITY & STABILITY

	2018/12	2019/12	2020/12E	2021/12F
ROE	27.4%	26.7%	29.0%	22.0%
ROA	9.6%	8.5%	10.6%	8.3%
ROIC	12.4%	10.8%	12.9%	9.8%
Cash Dividend (IDR bn)	1,199	1,185	1,054	1,639
Dividend Yield	3.4%	2.6%	1.7%	2.6%
Payout Ratio	183.5%	197.7%	311.1%	166.9%
DER	1.4x	1.7x	1.4x	1.3x
Net Gearing	1.5x	1.7x	1.4x	1.3x
LT Debt to Equity	1.4x	1.7x	1.4x	1.3x
Capitalization Ratio	0.6x	0.6x	0.6x	0.6x
Equity Ratio	0.3x	0.3x	0.4x	0.4x
Debt Ratio	0.5x	0.5x	0.5x	0.5x
Financial Leverage	2.8x	3.0x	2.9x	2.7x
Current Ratio	0.5x	0.5x	0.8x	0.9x
Par Value (IDR)	50	50	50	50
Total Shares (mn)	51,015	51,015	51,015	51,015
Share Price (IDR)	690	905	1,250	1,250
Market Cap (IDR tn)	34,865	40,415	55,096	55,096

### VALUATION INDEX

	2018/12	2019/12	2020/12E	2021/12F
Price/Earnings	16.0x	19.7x	19.5x	23.3x
Price/Book Value	4.4x	5.3x	5.6x	5.1x
Price/Sales	6.0x	7.2x	7.8x	8.3x
PE/EPS Growth	3.4x	3.1x	0.5x	-1.4x
EV/EBITDA	9.3x	11.3x	13.2x	12.1x
EV/EBIT	12.1x	15.5x	14.8x	15.5x
EV (IDR bn)	45,721	60,736	77,592	71,695
Sales CAGR (3-Yr)	-8.7%	-7.8%	-13.3%	-8.7%
EPS CAGR (3-Yr)	10.4%	-3.0%	-13.8%	-7.0%
Basic EPS (IDR)	43	46	64	54
Diluted EPS (IDR)	43	46	64	54
BVPS (IDR)	157	172	222	243
Sales PS (IDR)	115	127	161	151
DPS (IDR)	23	23	21	32

### OWNERSHIP

By Geography	% Shareholders	%
Indonesia	81.0	PT Sapta Adhikari Inv. 51.5
United States	14.1	T Rowe Price Group I. 7.1
Hongkong	1.0	Harriss Associates LP 0.8
Luxembourg	0.9	Ario Wibisono 0.6

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