

Sarana Menara Nusantara Tbk (TOWR)

Promising Long Term Contracts

TOWR booked continuous positive performance in Q3/2020. The company's income came from an increase in tower tenancy income by 23.5% YoY with PT Hutchison 3 Indonesia (TRI) still the biggest contributor. Meanwhile, tax expenses fell 36.5% YoY, boosting bottom line performance 19.5% YoY to IDR1.9 trillion.

5,269 More Tenants, Profit Jumps 19.5%. The company booked an income surge in Q3/2020 by 19.3% YoY to IDR5.5 trillion vs IDR4.6 trillion in 3Q19. Income from tower lease grew 23.5% to IDR5.2 trillion. PT Hutchison 3 Indonesia was still the biggest contributor of 34.3% with tenancy growth of 50.6% QoQ. On a YTD basis, tenant grew by 5,269 to 38,615. Meanwhile, tax expenses fell 36.5% YoY, boosting the company's net income to IDR1.9 trillion or grew 19.5% YoY.

The company also recorded tower growth until 9M20 by 2,054 YTD to 21,373, 17% YoY vs 18,233 in 9M20. Quarterly, the company has added 102 towers, higher than the previous year which only increased by 81 towers. We see that there is still room for more tower ownership as the need for data traffic is still high, and 5G technology will increase the demand for BTS towers. We project the company's tenancy ratio to be at level a level of 1.82x FY20 and 1.90 FY21. Currently, tenancy ratio is at 1.81x.

Long term contracts in 3Q20 grew 18.9% YoY to IDR53.6 trillion vs IDR45.1 trillion. On a quarterly basis, it grew 0.8% vs IDR53.1 trillion in 2Q20. Long term contract mostly come from telecommunication tower lease with term period of 10 years and are non-cancellable.

We Maintain BUY Rating with Target Price IDR1,310. We see the potential for income growth in the fourth quarter of 2020, where towers are still needed by the telecommunication sector. Hence, we maintain BUY for TOWR by reflecting EV/EBITDA at level 14.3x. Currently, TOWR is traded at EV/EBITDA level of 10.2x with the 10 year average of 11.4x.

Sarana Menara Nusantara Tbk | Summary (IDR bn)

	2018	2019	2020 F	2021 F
Revenue	5,868	6,454	7,481	8,351
<i>Revenue growth</i>	9.9%	10.0%	15.9%	11.6%
EBITDA	4,932	5,385	5,271	5,788
Net profit	2,200	2,342	2,786	3,016
EPS (IDR)	43	46	55	59
BVPS (IDR)	157	172	205	237
EBITDA margin	84.0%	83.4%	70.5%	69.3%
NPM	37.5%	36.3%	37.2%	36.1%
ROE	27.4%	26.7%	26.6%	25.0%
ROA	9.6%	8.5%	9.2%	9.0%
ROIC	12.4%	10.8%	11.1%	10.9%
P/E	16.0x	19.7x	24.0x	22.2x
P/BV	4.4x	5.3x	6.4x	5.5x
EV/EBITDA	9.3x	11.3x	15.5x	14.3x
DPS (IDR)	23	23	21	27
<i>Dividend yield</i>	3.4%	2.6%	1.6%	2.1%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

BUY

Target Price (IDR)	1,310
Consensus Price (IDR)	1,243
TP to Consensus Price	+5.4%
vs. Last Price	+31.0%

Shares data

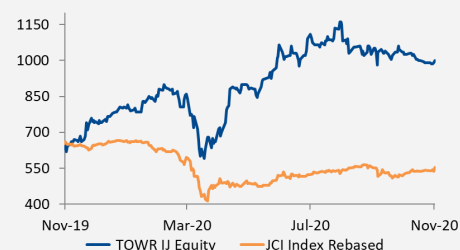
Last Price (IDR)	1,000
Price date as of	Nov. 06, 2020
52 wk range (Hi/Lo)	1,180 / 575
Free float	47.5%
Outstanding sh.(mn)	51,015
Market Cap (IDR bn)	53,055
Market Cap (USD mn)	3,765
Avg. Trd Vol - 3M (mn)	168.6
Avg. Trd Val - 3M (bn)	176.2
Foreign Ownership	17.6%

Infrastructure

Telecommunication Towers

Bloomberg	TOWR.IJ
Reuters	TOWR.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret	24.2%	-3.4%	-13.0%	52.7%
Rel. Ret	39.5%	-10.1%	-16.1%	66.9%

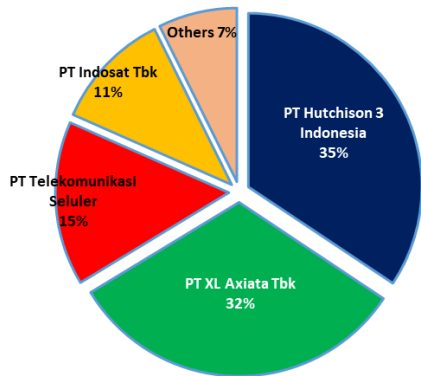
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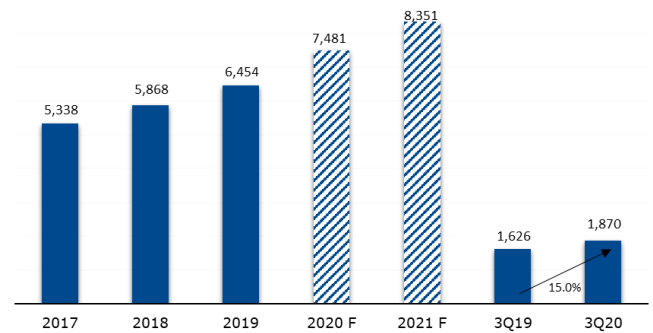
Performance Highlights

Revenue Breakdown 3Q20



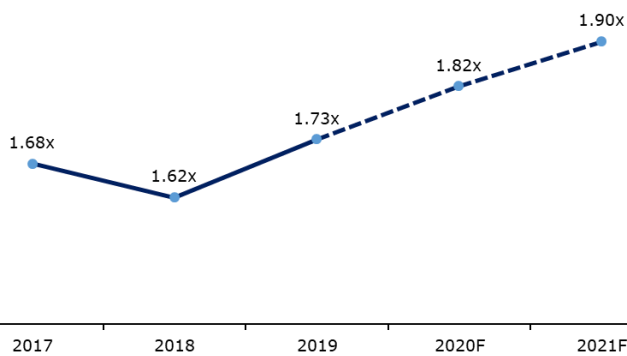
Source: Company, NHKSI Research

Revenue Projection (bn)



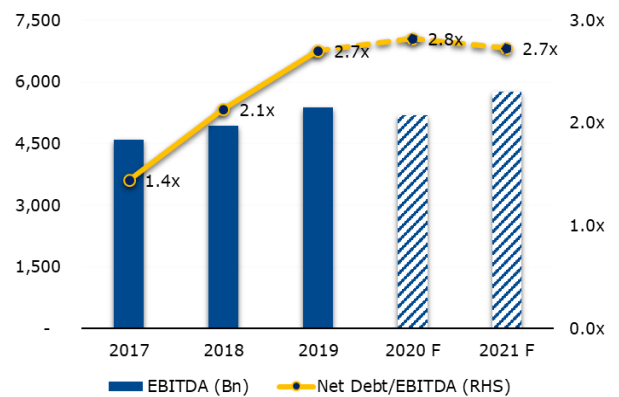
Source: Company, NHKSI Research

Tenancy Ratio



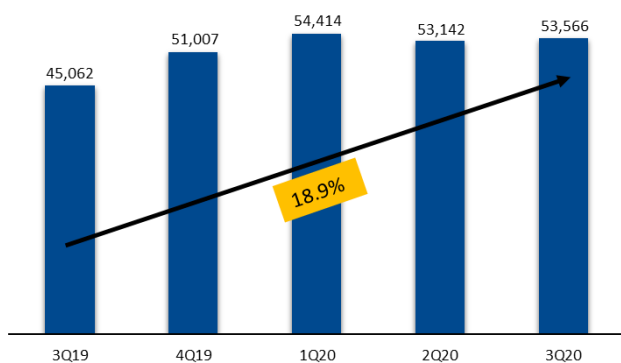
Source: Company, NHKSI Research

Net Debt/EBITDA (bn)



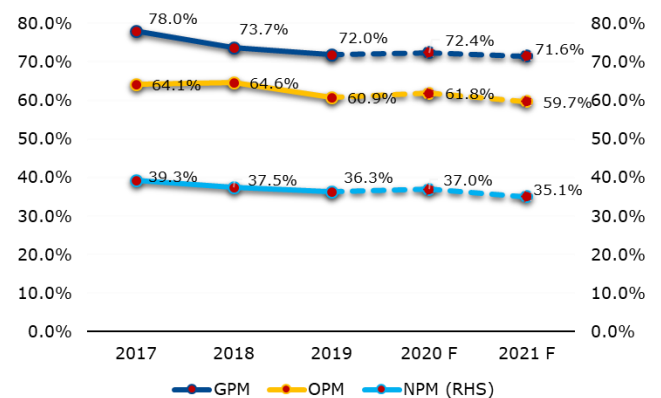
Source: Company, NHKSI Research

Long Term Contracts (bn)



Source: Company, NHKSI Research

TOWR Margins



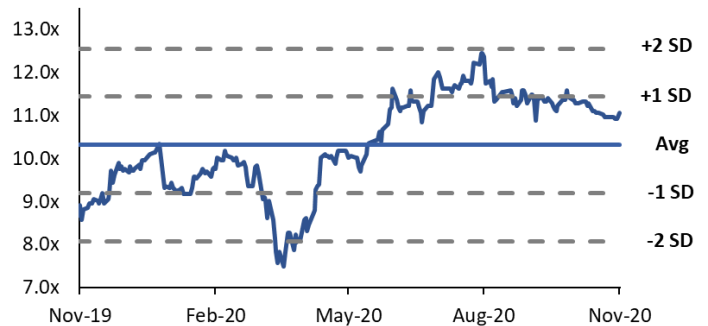
Source: Bloomberg, Company, NHKSI Research



PT Sarana Menara Nusantara Tbk. ("SMN") was founded in 2008 in Kudus, Central Java. SMN's main focus is investing in companies that specialize in owning and operating tower locations for lease to wireless telecommunications companies. Since 2008, SMN has owned 99.99% of the outstanding shares of PT Profesional Telekomunikasi Indonesia (Protelindo).

Protelindo currently owns and operates 21.373 towers in Indonesia, with 38.615 leased locations and more than 39,000 fiber optic cables throughout Indonesia.

Forward EV/EBITDA Trade in +1SD Area



Source: NHKSI Research

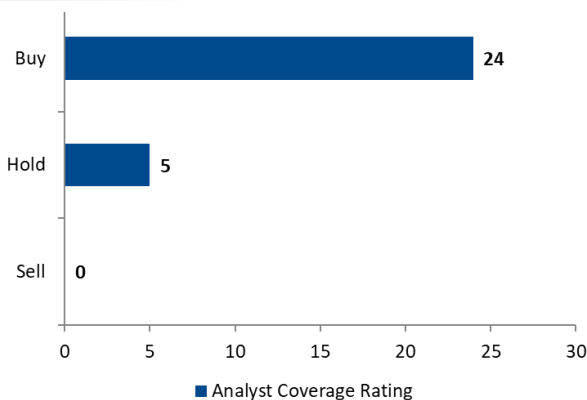
Rating and Target Price Update

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%
09/04/2020	Buy	1,310 (12 Month)	1,050	1,251	+24.8%	+4.7%
11/09/2020	Buy	1,310 (12 Month)	1,000	1,243	+31.0%	+5.4%

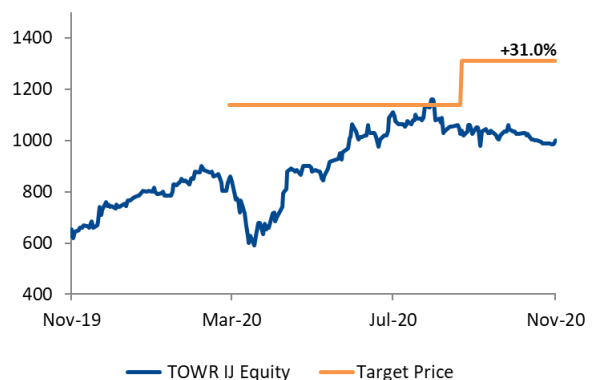
Source: NHKSI Research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKSI Research

NH Korindo Sekuritas Indonesia (NHKSI) stock ratings

- Period: Next 12-months
- Rating system based on a stock's potential upside from the date of publication
 - Buy : Greater than +15%
 - Overweight : +5% to 15%
 - Hold : -5% to +5%
 - Underweight : -5% to -15%
 - Sell : Less than -15%

Financial Summary

INCOME STATEMENT

(IDR bn)	2018/12	2019/12	2020/12E	2021/12F
Revenue	5,868	6,454	7,481	8,351
<i>Growth</i>	9.9%	10.0%	15.9%	11.6%
Cost of Revenue	(1,542)	(1,808)	(2,054)	(2,315)
Gross Profit	4,326	4,646	5,428	6,036
<i>Gross Margin</i>	73.7%	72.0%	72.5%	72.3%
Operating Expenses	(536)	(719)	(785)	(981)
EBIT	3,790	3,928	4,642	5,055
<i>EBIT Margin</i>	64.6%	60.9%	62.1%	60.5%
Depreciation	(1,114)	(1,350)	(1,395)	(1,556)
EBITDA	4,932	5,385	5,271	5,788
<i>EBITDA Margin</i>	84.0%	83.4%	70.5%	69.3%
Interest Expenses	872	958	1,067	1,205
EBT	2,952	3,009	3,595	3,868
Income Tax	(752)	(656)	(783)	(843)
Minority Interest	(0)	(11)	(25)	(9)
Net Profit	2,200	2,342	2,786	3,016
<i>Growth</i>	4.8%	6.4%	19.0%	8.2%
<i>Net Profit Margin</i>	37.5%	36.3%	37.2%	36.1%

BALANCE SHEET

(IDR bn)	2018/12	2019/12	2020/12E	2021/12F
Cash	963	600	959	1,371
Receivables	1,018	1,378	1,309	1,438
Inventories	-	-	-	-
Total Current Assets	2,275	2,474	2,765	3,306
Net Fixed Assets	15,980	19,648	21,507	23,853
Other Non Current Assets	4,704	5,543	5,934	6,376
Total Assets	22,960	27,666	30,206	33,535
Payables	704	641	856	965
Curr Maturities of LT Debt	1,733	1,945	2,013	2,202
LT Debt	8,343	11,230	11,623	12,715
Total Liabilities	14,926	18,905	19,749	21,456
Capital Stock	21	21	21	21
Retained Earnings	7,548	8,704	10,437	12,060
Shareholders' Equity	8,033	8,761	10,457	12,080

CASH FLOW STATEMENT

(IDR bn)	2018/12	2019/12	2020/12E	2021/12F
Operating Cash Flow	3,021	2,587	3,794	3,850
Investing Cash Flow	(5,637)	(5,055)	(2,878)	(3,521)
Financing Cash Flow	1,232	2,105	(557)	83
Net Changes in Cash	(1,385)	(363)	359	412

Source: Company Data, NHKSI Research

PROFITABILITY & STABILITY

	2018/12	2019/12	2020/12E	2021/12F
ROE	27.4%	26.7%	26.6%	25.0%
ROA	9.6%	8.5%	9.2%	9.0%
ROIC	12.4%	10.8%	11.1%	10.9%
Cash Dividend (IDR bn)	1,199	1,185	1,054	1,393
Dividend Yield	3.4%	2.6%	1.6%	2.1%
Payout Ratio	183.5%	197.7%	264.4%	216.5%
DER	1.4x	1.7x	1.5x	1.4x
Net Gearing	1.5x	1.7x	1.5x	1.4x
LT Debt to Equity	1.4x	1.7x	1.5x	1.4x
Capitalization Ratio	0.6x	0.6x	0.6x	0.6x
Equity Ratio	0.3x	0.3x	0.3x	0.4x
Debt Ratio	0.5x	0.5x	0.5x	0.5x
Financial Leverage	2.8x	3.0x	3.0x	2.8x
Current Ratio	0.5x	0.5x	0.6x	0.6x
Par Value (IDR)	50	50	50	50
Total Shares (mn)	51,015	51,015	51,015	51,015
Share Price (IDR)	690	905	1,310	1,310
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	24.0x	22.2x
Price/Book Value	4.4x	5.3x	6.4x	5.5x
Price/Sales	6.0x	7.2x	8.9x	8.0x
PE/EPS Growth	3.4x	3.1x	1.3x	2.7x
EV/EBITDA	9.3x	11.3x	15.5x	14.3x
EV/EBIT	12.1x	15.5x	17.6x	16.3x
EV (IDR bn)	45,721	60,736	81,570	82,632
Sales CAGR (3-Yr)	-8.7%	-7.8%	-10.6%	-11.1%
EPS CAGR (3-Yr)	10.4%	-3.0%	-9.0%	-10.0%
Basic EPS (IDR)	43	46	55	59
Diluted EPS (IDR)	43	46	55	59
BVPS (IDR)	157	172	205	237
Sales PS (IDR)	115	127	147	164
DPS (IDR)	23	23	21	27

OWNERSHIP

By Geography	% Shareholders	%
Indonesia	82.4	PT Sapta Adhikari Inv 51.7
United States	12.4	T Rowe Price Group I 6.1
Luxembourg	1.0	Ario Wibisono 0.6
Hongkong	0.9	Norges Bank 0.5

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