

# Sarana Menara Nusantara Tbk (TOWR)

## Opportunity for More Aggressive Expansion

In 1Q21, TOWR recorded revenue growth (+7.5% YoY) and net profit (52.1% YoY) on the back of tower rental income from telecommunication operators (+8.1% YoY). OPM also booked an increase of 63.2% due to efficiency of sales and marketing segment expenses (-27.0% YoY). Meanwhile, low Net Debt to EBITDA opens up the opportunity to expand more aggressively this year.

### Tower Rental Demand Increases, Boosting 1Q21 Performance.

- TOWR booked revenue growth of 7.5% YoY to IDR2.0 trillion vs IDR1.8 trillion in 1Q20.
- The largest contribution came from tower tenancy by PT XL Axiata Tbk (EXCL) at 33.8% with growth of 9.2% YoY.
- Strong efficiency in the sales and marketing segment expenses (-27.0% YoY) boosted Operating Profit Margin (OPM) to 63.2%.
- Thus, TOWR booked a net profit of IDR789.2 billion, or up 52.1% YoY vs 519.0 billion.

### Room for More Expansion in 2021.

- The low Net Debt to EBITDA ratio at 2.9x, which is low compared to its competitors, means the chance for expansion is still wide open. TOWR has received a loan of IDR1.0 trillion from PT Bank Danamon Tbk and IDR1.2 trillion from Bank HSBC Indonesia.
- We see that the loans will aid TOWR to be more aggressive in expanding this year. In Q1-21, TOWR had 21,424 towers (+2.4% YoY) and 39,794 tenants (+8.2% YoY).
- We estimate that TOWR's tower ownership will grow 20.0% YoY and tenancy up by 17.1% YoY this year, as data traffic demand will continue to grow.

### Recommends Overweight Rating with Target Price at IDR1,520.

- Recommends Overweight rating with a target price at IDR1,520. We are optimistic that TOWR will record solid performance growth in 2021. Upside potential is at 13.4% for the next 12 months.
- Our target price is equal to EV/EBITDA at 14.8x. Currently, TOWR is traded at EV/EBITDA 12.0x.

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

	2019A	2020A	2021F	2022F
Revenue	6,454	7,445	8,747	10,202
Growth	10.0%	15.4%	17.5%	16.6%
Net Profit	2,342	2,836	3,126	3,375
Growth	36.3%	38.1%	35.7%	33.1%
EPS (IDR)	46	56	61	66
P/E	17.5x	17.3x	24.8x	23.0x
P/BV	4.7x	4.8x	6.5x	5.6x
EV/EBITDA	11.3x	10.6x	16.4x	14.8x
ROE	26.7%	27.8%	26.0%	24.4%
DER	1.7x	2.0x	2.0x	2.1x
Dividend Yield	2.9%	2.4%	1.6%	2.0%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

## Overweight

<b>Target Price (IDR)</b>	<b>1,520</b>
Consensus Price (IDR)	1,555
TP to Consensus Price	-2.2%
vs. Last Price	+13.4%

### Shares data

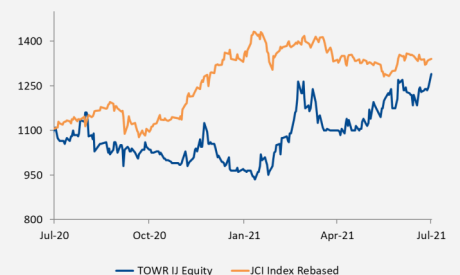
Last Price (IDR)	1,340
Price date as of	July 6, 2021
52 wk range (Hi/Lo)	1,340 / 920
Free float	47.1%
Outstanding sh.(mn)	51,015
Market Cap (IDR bn)	68,105
Market Cap (USD mn)	4,727
Avg. Trd Vol - 3M (mn)	56.4
Avg. Trd Val - 3M (bn)	66.5
Foreign Ownership	24.1%

### Infrastructure

#### Telecommunication Towers

Bloomberg	TOWR.IJ
Reuters	TOWR.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret	33.0%	1.6%	17.3%	16.2%
Rel. Ret	34.6%	2.6%	17.2%	-4.2%

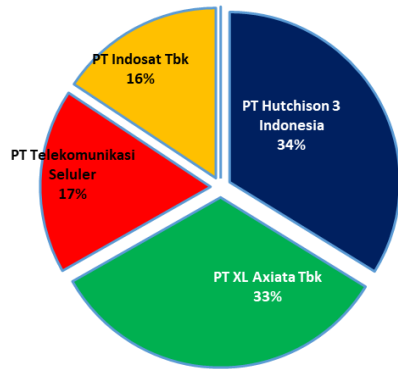
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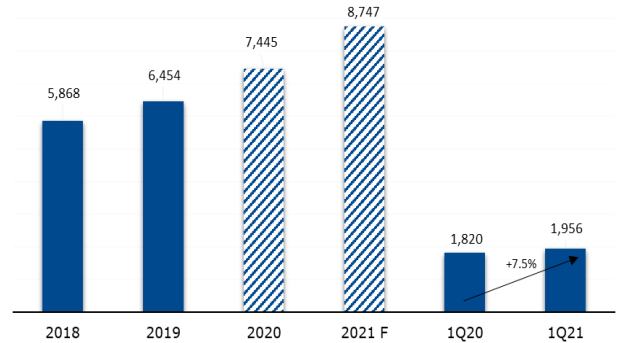
# Performance Highlights

## Revenue Breakdown 1Q21



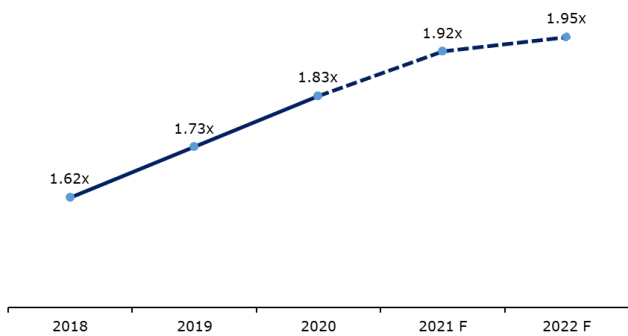
Source: Company, NHKSI Research

## Revenue Projection (bn)



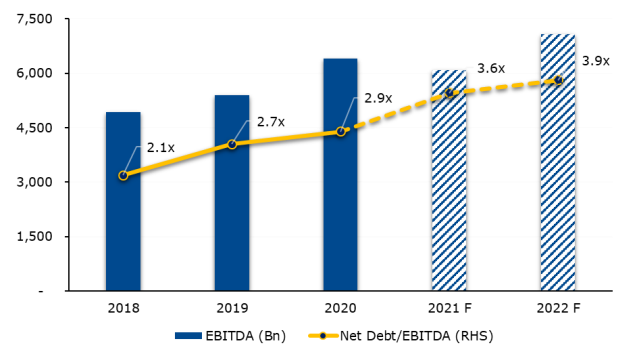
Source: Company, NHKSI Research

## Tenancy Ratio



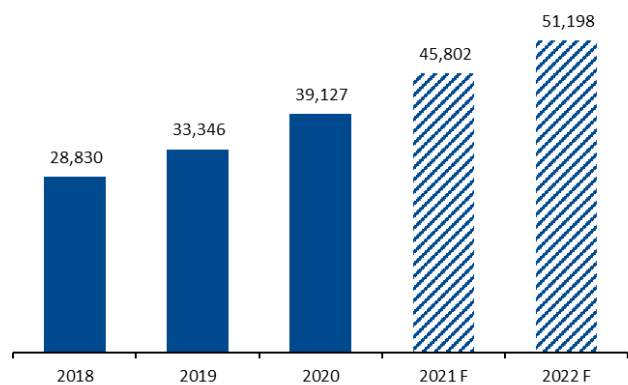
Source: Company, NHKSI Research

## Net Debt/EBITDA (bn)



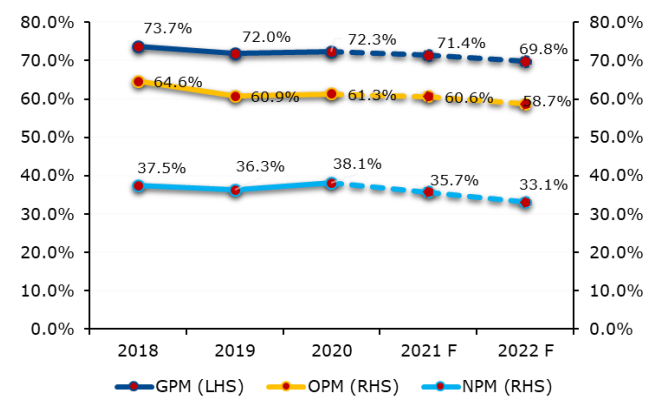
Source: Company, NHKSI Research

## Tenancy Projection



Source: Company, NHKSI Research

## TOWER Margins



Source: 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).

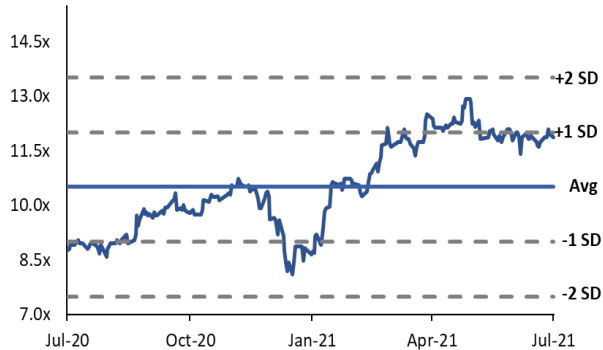
Protelindo currently owns and operates 21,424 towers in Indonesia, with 39,794 lokasi leased locations and more than 45,000 fiber optic cables throughout Indonesia

#### Asia Peers Comparison

Company	Market Cap (USD mn)	Asset (USD mn)	Revenue LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Profit Margin	ROE LTM	EV/ EBITDA LTM	P/BV
<b>Indonesia</b>									
TOWR	4,718	2,460	521	214	30.05%	41.0%	30.8%	12.0x	6.1x
TBIG	5,285	2,623	377	72	26.15%	19.1%	15.2%	15.1x	7.9x
CENT	581	548	80	(47)	N/A	-59.1%	-26.4%	N/A	3.6x
SUPR	628	865	135	50	130.34%	37.1%	20.8%	7.8x	2.4x
IBST	524	748	78	4	-49.37%	4.8%	0.9%	19.9x	1.2x
<b>China</b>									
China Tower Corp	24,021	51,688	11,766	933	23.09%	7.9%	3.49%	4.6x	0.8x
Xinjiang Comm	1,072	2,238	1,083	19	-27.86%	1.8%	5.39%	N/A	2.7x
Changshu Fengfan Power	728	727	380	34	N/A	8.9%	9.04%	N/A	1.8x
Hubei Kaile Science	1,271	1,926	1,248	69	-31.99%	5.5%	7.11%	N/A	1.2x
China Maachinery E.	1,934	7,816	2,771	172	-45.90%	6.2%	6.58%	N/A	0.7x

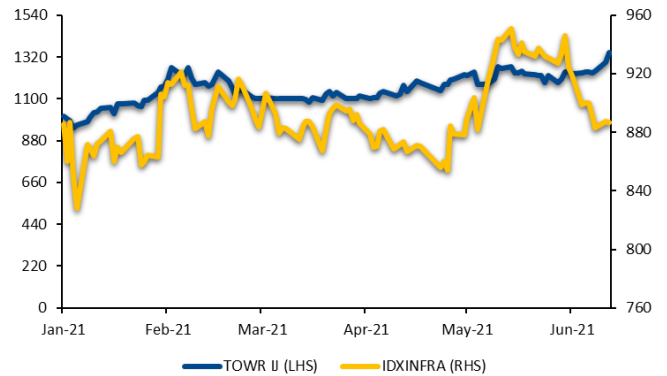
Source: Bloomberg, NHKSI Research

Forward EV/EBITDA Trade in +1SD Area



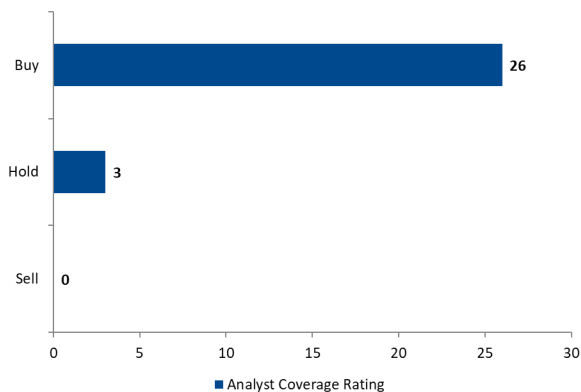
Source: NHKSI Research

TOWR IJ & IDXINFRA



Source: NHKSI Research

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



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%
05/27/2021	Buy	1,520 (12 month)	1,220	1,473	+24.6%	+3.2%
07/07/2021	Overweight	1,520 (12 Month)	1,340	1,555	+13.4%	-2.2%

Source: NHKSI Research, Bloomberg

## Financial Summary

### INCOME STATEMENT

(IDR bn)	2019/12	2020/12	2021/12E	2022/12F
<b>Revenue</b>	<b>6,454</b>	<b>7,445</b>	<b>8,747</b>	<b>10,202</b>
<i>Growth</i>	10.0%	15.4%	17.5%	16.6%
Cost of Revenue	(1,808)	(2,059)	(2,499)	(3,077)
<b>Gross Profit</b>	<b>4,646</b>	<b>5,386</b>	<b>6,248</b>	<b>7,125</b>
<i>Gross Margin</i>	72.0%	72.3%	71.4%	69.8%
Operating Expenses	(719)	(820)	(947)	(1,137)
<b>EBIT</b>	<b>3,928</b>	<b>4,567</b>	<b>5,301</b>	<b>5,988</b>
<i>EBIT Margin</i>	60.9%	61.3%	60.6%	58.7%
Depreciation	(1,350)	(1,644)	(1,922)	(2,401)
<b>EBITDA</b>	<b>5,385</b>	<b>6,405</b>	<b>6,092</b>	<b>7,083</b>
<i>EBITDA Margin</i>	83.4%	86.0%	69.6%	69.4%
Interest Expenses	958	1,201	1,580	1,989
<b>EBT</b>	<b>3,009</b>	<b>3,399</b>	<b>3,740</b>	<b>4,030</b>
Income Tax	(656)	(545)	(600)	(647)
Minority Interest	(11)	(18)	(14)	(9)
<b>Net Profit</b>	<b>2,342</b>	<b>2,836</b>	<b>3,126</b>	<b>3,375</b>
<i>Growth</i>	6.4%	21.1%	10.2%	8.0%
<i>Net Profit Margin</i>	36.3%	38.1%	35.7%	33.1%

### BALANCE SHEET

(IDR bn)	2019/12	2020/12	2021/12E	2022/12F
Cash	600	1,448	1,581	1,762
Receivables	1,378	1,276	1,531	1,757
Inventories	-	-	-	-
<b>Total Current Assets</b>	<b>2,474</b>	<b>3,002</b>	<b>3,390</b>	<b>3,798</b>
Net Fixed Assets	19,648	22,758	27,945	34,733
Other Non Current Assets	5,543	8,489	8,895	9,322
Total Non Current Assets	25,191	31,247	36,840	44,055
<b>Total Assets</b>	<b>27,666</b>	<b>34,250</b>	<b>40,230</b>	<b>47,853</b>
Payables	641	544	1,041	1,282
Curr Maturities of LT Debt	1,945	4,355	5,122	6,291
Total Current Liabilities	4,565	7,225	8,603	10,169
LT Debt	11,230	9,802	15,742	19,336
<b>Total Liabilities</b>	<b>18,905</b>	<b>24,066</b>	<b>28,228</b>	<b>34,039</b>
Capital Stock	21	21	21	21
Retained Earnings	8,704	10,365	12,214	14,026
<b>Shareholders' Equity</b>	<b>8,761</b>	<b>10,184</b>	<b>12,002</b>	<b>13,814</b>

### CASH FLOW STATEMENT

(IDR bn)	2019/12	2020/12	2021/12E	2022/12F
Operating Cash Flow	2,587	3,935	4,267	4,630
Investing Cash Flow	(5,055)	(6,622)	(6,384)	(8,310)
Financing Cash Flow	2,105	3,513	2,251	3,862
<b>Net Changes in Cash</b>	<b>(363)</b>	<b>826</b>	<b>134</b>	<b>181</b>

Source: Company Data, NHKSI Research

### PROFITABILITY & STABILITY

	2019/12	2020/12	2021/12E	2022/12F
ROE	26.7%	27.8%	26.0%	24.4%
ROA	8.5%	8.3%	7.8%	7.1%
Receivables Turnover	4.7x	5.8x	5.7x	5.8x
Payables Turnover	2.8x	3.8x	2.4x	2.4x
Dividend Yield	2.9%	2.4%	1.6%	2.0%
Payout Ratio	197.7%	237.0%	244.9%	215.9%
DER	1.7x	2.0x	2.0x	2.1x
Net Gearing	1.7x	1.9x	1.9x	2.1x
Equity Ratio	0.3x	0.3x	0.3x	0.3x
Debt Ratio	0.5x	0.6x	0.6x	0.6x
Financial Leverage	3.0x	3.3x	3.4x	3.4x
Current Ratio	0.5x	0.4x	0.4x	0.4x
Par Value (IDR)	50	50	50	50
Total Shares (mn)	51,015	51,015	51,015	51,015
Share Price (IDR)	805	960	1,520	1,520
Market Cap (IDR tn)	40,415	40,415	40,415	40,415

### VALUATION INDEX

	2019/12	2020/12	2021/12E	2022/12F
Price/Earnings	17.5x	17.3x	24.8x	23.0x
Price/Book Value	4.7x	4.8x	6.5x	5.6x
PE/EPS Growth	2.7x	0.8x	2.4x	2.9x
EV/EBITDA	11.3x	10.6x	16.4x	14.8x
EV (IDR bn)	60,736	67,723	99,714	104,956
Revenue CAGR (3-Yr)	-7.8%	-10.5%	-12.5%	-14.2%
Net Income CAGR (3-Yr)	-3.0%	-9.5%	-11.0%	-11.5%
Basic EPS (IDR)	46	56	61	66
BVPS (IDR)	172	200	235	271
DPS (IDR)	23	23	25	31

### OWNERSHIP

<b>Shareholders</b>	%
PT Sapta Adhikari Inv.	52.0
T Rowe Price Group I.	8.4
Vanguard Group	1.5
Norges Bank	0.6
<b>By Geography</b>	%
Indonesia	75.9
United States	18.4
Luxembourg	1.2
Norway	0.9
Others	3.7

**NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings**

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. 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%

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