

# Sarana Menara Nusantara Tbk (TOWR)

## Revenue Growth Suppressed by Interest Expense

For the year 2022 results, TOWR posted a 27.8% increase in revenue, which on a YoY basis rose to IDR 11.035 T. As for EBITDA grew by 28% YoY to IDR 9.516T (FY21: IDR 7.434 T). Unfortunately, financial expenses increased 80.4% YoY in 2022 to IDR 2.392 T (FY21: IDR 1.370 T). The contribution of financial expenses, namely interest expense, is quite significant, which causes net profit to be eroded. Moreover, FY 2022 Net Profit is quite flattish at IDR 3.442 T (FY21: IDR 3.427 T; +0.4%).

### Financial Expenses Increased, But Segmental Revenues Still Grew in All Divisions

- In terms of segmentation, the tower segment was the largest nominal contributor to the increase in revenue, amounting to IDR 8.606 T in FY22 (FY21: IDR 7.101 T, +21.2% YoY). As for the FTTT segment, it was the segment that scored the drastic growth to IDR 1.179 T in FY22 (FY21: IDR 620 B, +90.2 YoY). The connectivity business segment experienced a 36.8% YoY increase to IDR 1.251 T (FY21: IDR 914 B). Meanwhile, the operational performance is still stable and solid as the GPM level for the last three years remained steady at 72-73%, with FY22 EBITDA Margin at 86.2%, still relatively stable from 2020 (FY20 and FY21: 86.0%, 86.1%).
- As for the operational asset data, an increase was recorded, with the number of towers in FY21 was recorded at 28,698, then going upside by 3.5% to 29,794 units in FY22, and the number of Tenancy remained relatively flat. The tenancy ratio in 2022 is at 1.81 (FY21: 1.88, -3.72% YoY) but is still stable in the range of 1.81.9x for the last three years.
- Net Profit was eroded due to the drastic increase in financial expenses, where the high growth in interest expense and bonds supported the largest increase in financial costs. Bank interest expense rose 79.1% to IDR 1.871 in FY22 (FY21: IDR 1.045T). Bond interest expense rose to IDR 309 B (FY21: IDR 132 B). This caused the NPM level to drop considerably in 2022 to 31.2% (FY21: 39.7% - 8.5% YoY), a significant drop from the 5-year average due to significant interest expenses.

### FTTT Segment as Growth Driver for TOWR Other Than Towers

- FTTT (Fiber to the Tower, fiber optics) is a segment that greatly increases the value and utility of TOWR's network. The increase in data surges and 4G network usage is predicted to require more towers and fiber. As for the current position, the number of FTTT networks in operation increased by 112.6% to 149,811 kms in 2022 (FY2021: 70,465 kms).
- We assess that this segment can be one of the new growth drivers of TOWR, where the increase in installations is aligned with significant revenue growth as a year-on-year result almost doubled to IDR 1.179 T in 2022 (FY2021: IDR 620 B, +90.2% YoY). Besides, this segment has experienced an increasing proportion of contribution to TOWR's overall revenue every year (FY 2022: 10.7% of total income, FY 2020-2021: 4.5%, 7.2%).

### Buy Recommendation with TP at IDR 1,300 Level (+39.0% Upside)

- NHKS Research provides a Buy rating for TOWR, with a target price of IDR 1,300 and an upside potential of +39%, reflecting FY2023 12.8x Forward EV/EBITDA. TOWR's current valuation is quite attractive, as the company has traded below the average EV/EBITDA for the last three years. In addition, the valuation is considered attractive, given that TOWR by EV/EBITDA is also trading lower than its peers in Indonesia.
- Other things that support this call are efficiency and increased revenue growth from non-tower business. The risks of TOWR's call include the high-interest rate and expense, fluctuating exchange rate, and unfavorable macroeconomic situation, which hit TOWR in 2022.

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

	2022/12F	2023/12F	2024/12F	2025/12F
Revenue	11,036	11,700	12,384	13,032
<i>Revenue growth</i>	5.8%	5.2%	11.3%	11.2%
EBITDA	9,517	9,650	10,174	10,657
Net profit	3,442	3,629	3,811	4,152
EPS (IDR)	67	71	75	81
<i>EPS growth</i>	0.4%	5.4%	5.0%	9.0%
BVPS (IDR)	283	322	366	417
EBITDA margin	86.2%	82.5%	82.2%	81.8%
NPM	31.2%	31.0%	30.8%	31.9%
ROE	23.8%	22.1%	20.4%	19.5%
ROA	5.2%	5.1%	4.8%	5.1%
P/E	13.9x	16.4x	5.8x	12.6x
P/BV	3.3x	4.0x	3.7x	3.6x
EV/EBITDA	9.8x	12.8x	12.2x	11.8x
DPS (IDR)	24	30	31	31
<i>Dividend yield</i>	2.5%	2.3%	2.2%	2.1%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

## Buy

<b>Target Price (IDR)</b>	<b>1,300</b>
Consensus Price (IDR)	1,336
TP to Consensus Price	-2.7%
Potential Upside	+39.0%

### Shares data

Last Price (IDR)	935
Price date as of	Apr. 5, 2023
52 wk range (Hi/Lo)	1,295 / 870
Free float (%)	37.57
Outstanding sh.(mn)	51,015
Market Cap (IDR bn)	47,699
Market Cap (USD mn)	3,195
Avg. Trd Vol - 3M (mn)	28.911
Avg. Trd Val - 3M (bn)	30.177
Foreign Ownership	26.77%

### Infrastructure

#### Telecommunication Towers

Bloomberg	TOWR.IJ
Reuters	TOWR.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-18.7%	-7.0%	-18.3%	-10.5%
Rel. Ret.	-18.4%	-7.2%	-21.0%	-6.1%

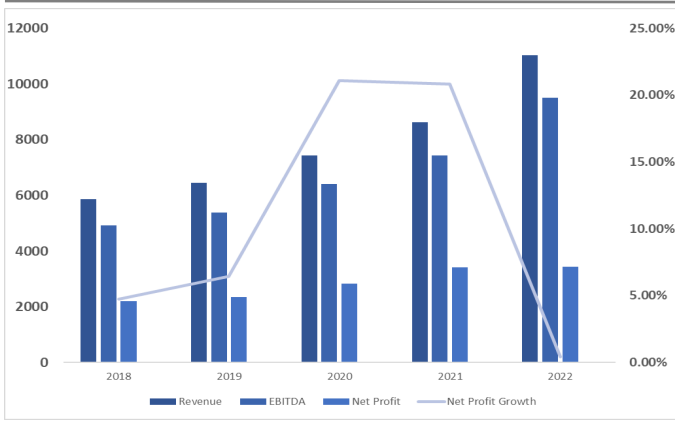
### Leonardo Lijuwardi

(021) 5088 9100 ext. 9127

Leonardo.lijuwardi@nhsec.co.id

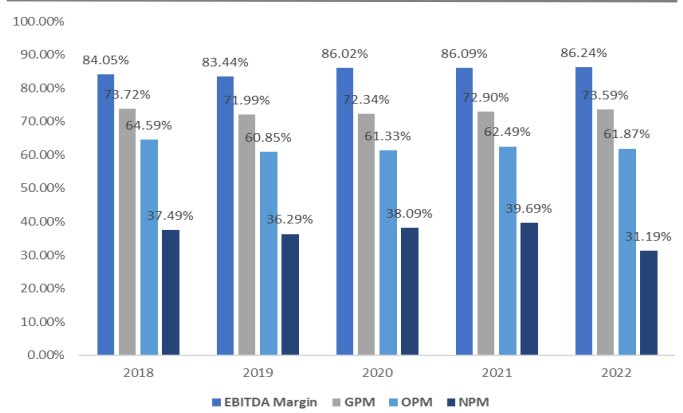
## Performance Highlights

### Financial Performance (IDR Billion)



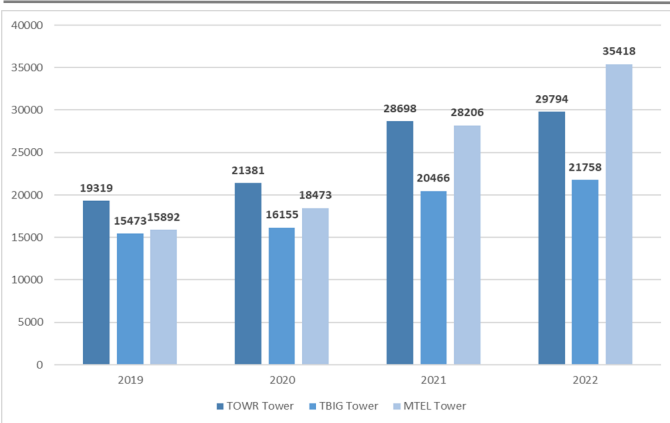
Source: Company, NHKSI Research

### Margin Ratios (%)



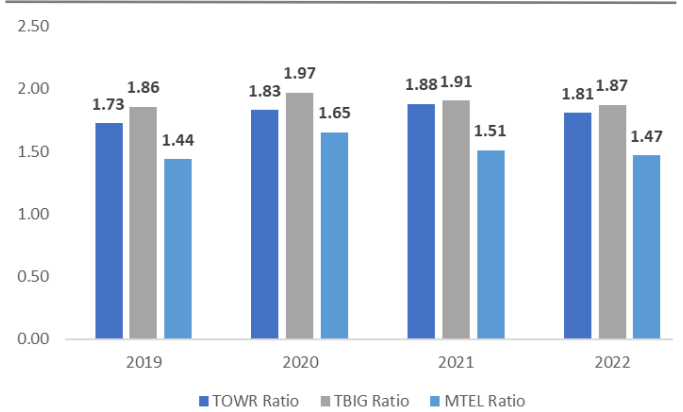
Source: Company, NHKSI Research

### TOWR and Indonesian Peers Number of Towers (Units)



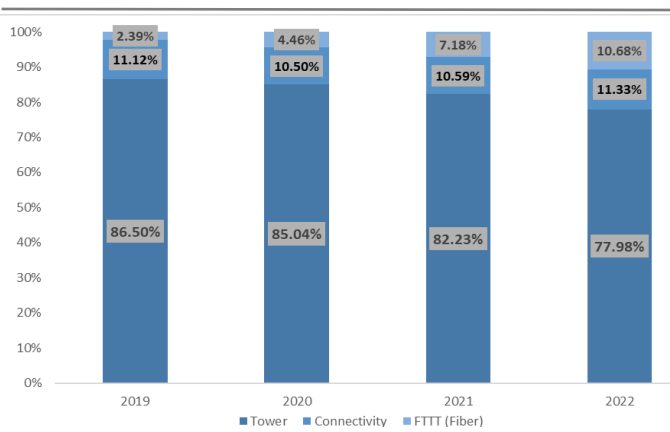
Source: Company, NHKSI Research

### TOWR and Indonesian Peers Tenancy Ratio (x)



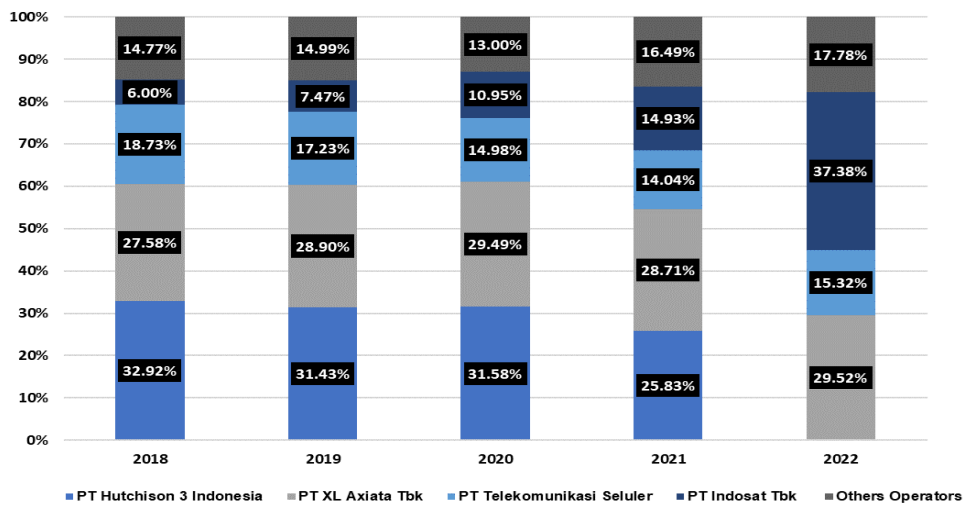
Source: Company, NHKSI Research

### Revenue TOWR Breakdown (By Segment)



Source: Company, NHKSI Research

Revenue Breakdown (By Operators)



Notes: In January 2022, Indosat and Hutchison 3 Ind. Officially merged.

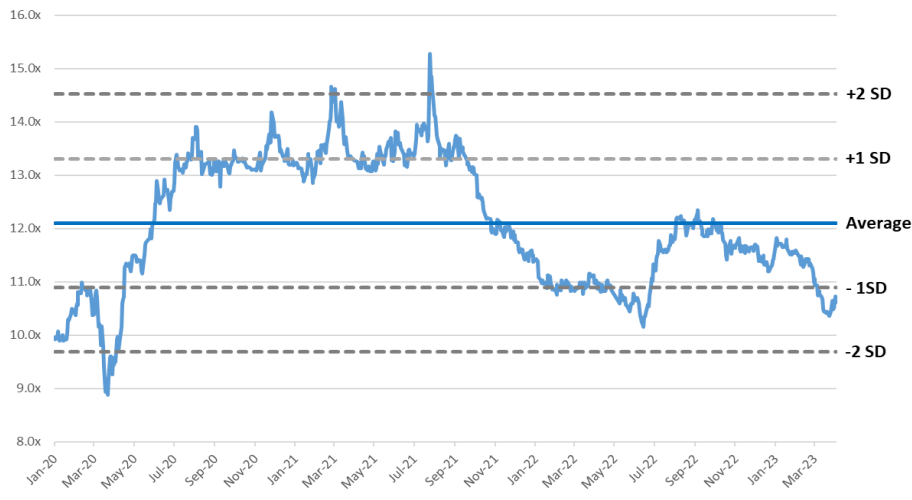
Source: Company, NHKSI Research

TOWR, TBIG and MTEL EV/EBITDA Comparison



Source: Company, NHKSI Research

TOWR F-EV/EBITDA



Source: Company, NHKSI Research

## Summary of Financials

### INCOME STATEMENT

(IDR bn)	2022/12F	2023/12F	2024/12F	2025/12F
<b>Revenue</b>	<b>11,036</b>	<b>11,700</b>	<b>12,384</b>	<b>13,032</b>
<i>Growth</i>	5.8%	5.2%	11.3%	11.2%
Cost of Revenue	(2,914)	(3,185)	(3,379)	(3,595)
<b>Gross Profit</b>	<b>8,121</b>	<b>8,515</b>	<b>9,005</b>	<b>9,437</b>
<i>Gross Margin</i>	73.6%	72.8%	72.7%	72.4%
Operating Expenses	(1,294)	(1,406)	(1,528)	(1,658)
<b>EBIT</b>	<b>6,828</b>	<b>7,109</b>	<b>7,477</b>	<b>7,779</b>
<i>EBIT Margin</i>	61.9%	60.8%	60.4%	59.7%
Depreciation	(2,307)	(2,541)	(2,697)	(2,878)
<b>EBITDA</b>	<b>9,517</b>	<b>9,650</b>	<b>10,174</b>	<b>10,657</b>
<i>EBITDA Margin</i>	86.2%	82.5%	82.2%	81.8%
Interest Expenses	2,392	2,456	2,579	2,553
<b>EBT</b>	<b>4,459</b>	<b>4,672</b>	<b>4,927</b>	<b>5,342</b>
Income Tax	(963)	(1,028)	(1,099)	(1,173)
Minority Interest	(55)	(15)	(17)	(16)
<b>Net Profit</b>	<b>3,442</b>	<b>3,629</b>	<b>3,811</b>	<b>4,152</b>
<i>Growth</i>	0.4%	5.4%	5.0%	9.0%
<i>Net Profit Margin</i>	31.2%	31.0%	30.8%	31.9%

### BALANCE SHEET

(IDR bn)	2022/12F	2023/12F	2024/12F	2025/12F
Cash	343	1,497	6,118	4,695
Receivables	2,616	2,048	2,133	2,244
<b>Total Current Assets</b>	<b>3,651</b>	<b>3,990</b>	<b>8,726</b>	<b>7,410</b>
Net Fixed Assets	37,152	40,207	41,430	43,151
Other Non Current Assets	5,543	8,489	25,479	24,822
Total Non Current Assets	61,974	66,645	69,939	74,206
<b>Total Assets</b>	<b>65,625</b>	<b>70,635</b>	<b>78,665</b>	<b>81,616</b>
Payables	862	1,327	1,408	1,498
Curr Maturities of LT Debt	8,450	8,873	9,888	9,879
Total Current Liabilities	14,446	15,668	17,198	17,602
LT Debt	26,866	31,442	35,038	35,004
<b>Total Liabilities</b>	<b>51,193</b>	<b>54,193</b>	<b>59,979</b>	<b>60,344</b>
Capital Stock + APIC	21	21	21	21
Retained Earnings	14,635	16,710	18,955	21,540
<b>Shareholders' Equity</b>	<b>14,432</b>	<b>16,442</b>	<b>18,686</b>	<b>21,272</b>

### CASH FLOW STATEMENT

(IDR bn)	2022/12F	2023/12F	2024/12F	2025/12F
Operating Cash Flow	4,884	6,409	5,388	5,883
Investing Cash Flow	(4,601)	(5,893)	(4,606)	(5,690)
Financing Cash Flow	(3,482)	704	3,838	(1,616)
<b>Net Changes in Cash</b>	<b>(3,199)</b>	<b>1,220</b>	<b>4,621</b>	<b>(1,423)</b>

### PROFITABILITY & STABILITY

	2022/12F	2023/12F	2024/12F	2025/12F
ROE	23.85%	22.07%	20.40%	19.52%
ROA	5.24%	5.14%	4.84%	5.09%
Receivables Turnover	4.2x	5.7x	5.8x	5.8x
Payables Turnover	3.4x	2.4x	2.4x	2.4x
Dividend Yield	2.5%	2.3%	2.2%	2.1%
Payout Ratio	34.9%	42.8%	41.1%	37.7%
DER	3.1x	2.9x	2.8x	2.5x
Net Gearing	3.1x	2.8x	2.8x	2.4x
Equity Ratio	0.2x	0.2x	0.2x	0.3x
Debt Ratio	0.7x	0.7x	0.7x	0.6x
Financial Leverage	4.0x	3.9x	4.7x	4.1x
Current Ratio	0.3x	0.3x	0.5x	0.4x
Par Value (IDR)	50	50	50	50
Total Shares (mn)	51,015	51,015	51,015	51,015
Share Price (IDR)	935	1,300	1,365	1,487
Market Cap (IDR tn)	47,699	66,319	69,644	75,882

### VALUATION INDEX

	2022/12F	2023/12F	2024/12F	2025/12F
Price/Earnings	13.9x	18.3x	18.3x	18.3x
Price/Book Value	3.3x	4.0x	3.7x	3.6x
PE/EPS Growth	32.4x	3.4x	3.6x	2.0x
EV/EBITDA	9.8x	12.8x	12.2x	11.8x
EV (IDR bn)	93,603	123,273	124,054	125,426
Revenue CAGR (3-Yr)	19.6%	16.3%	12.8%	5.7%
Net Income CAGR (3-Yr)	13.7%	8.6%	3.6%	6.5%
Basic EPS (IDR)	67	71	75	81
BVPS (IDR)	283	322	366	417
DPS (IDR)	24	30	31	31

### OWNERSHIP

	%
<b>Shareholders</b>	
PT Sapta Adhikari Investama	54.42
PT Dwimuria Investama Andalana	5.00
Vanguard Group Inc	1.55
Others	39.03
<b>By Geography</b>	
Indonesia	73.23
United States	12.30
Luxembourg	1.10
Others	13.37

Source: Company Data, Bloomberg, NHKSI Research

**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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