

Sarana Menara Nusantara Tbk (TOWR)

Preparing Fiber Optic as the New Growth Driver

Kicking off 1Q23, TOWR posted a decline in revenue, by 2.2% QoQ to IDR 2,864.7T, yet went upside by 9.4% YoY (1Q22: IDR 2,619.3T & 4Q22: IDR 2,864.7T). Meanwhile, EBITDA rose 8.4% YoY and decreased 4.3% QoQ to IDR 2,438.9T (1Q22: IDR 2,250.6T & 4Q22: IDR 2,549.7T). Net Profit moderately eroded both on a quarterly and annual basis to IDR 752.4B, which was caused by (1Q22: IDR 853.5T, -11.8% YoY and 4Q22: IDR 883.3T, -14.8% QoQ).

Non-Tower Business Segment Records an Attractive Growth (Especially Fiber)

- TOWR's diversification is an interesting step taken amidst the stagnant revenue from tower rental. As one of the new growth drivers of TOWR's non-tower business, the FTTT (Fiber to The Tower, Fiber Optics) segment recorded a drastic and significant increase in revenue, which increased by 89.7% YoY and 9.65% QoQ to IDR 412.3 T (1Q22: IDR 217.3B and 4Q22: IDR 376B).
- The increase in revenue from the fiber business is in line with the rise in the number of fiber networks that have been installed as far as 162,399 km (1Q22: 81,319 km Growth: +99.71% YoY & 4Q22: 149,811 km Growth: +8.4%QoQ). In addition to revenue from fiber segment growth, the connectivity segment grew by +49.2% YoY and decreased by -3.56% QoQ to IDR 391 B (1Q22: IDR 262B & 4Q22: IDR 405.5B).

Rental Income from Tower Sector Relatively Fixed & Depressed by Interest Expense

- In terms of revenue segmentation, the tower rental portion, which is TOWR's core business, decreased by 3.99% QoQ and 3.67% YoY to IDR 2,061.4T (1Q22: IDR 2,140 T and 4Q22: IDR 2,147 T). However, in terms of operational performance, it appears to be relatively stable and solid with EBITDA margin and GPM levels in 1Q23 at 85.14% and 71.9%, respectively.
- As for the operational asset data, the number of towers owned by TOWR was relatively stable, hovering around 29 thousand towers over the past year (1Q23: 29,757 tower units), and the number of Tenancy remained relatively at the level of 53-55 thousand (1Q23: 53,820 tenancy). The tenancy Ratio level in 1Q23 stood at 1.81 and has been stable in the range of 1.8-1.9x for the last three years.
- Regarding 1Q23, TOWR's Net Profit became quite eroded due to financial expenses that increased dramatically, primarily supported by the increase in bank interest expense. Bank interest expense rose 27.34% YoY and 12.05% QoQ to IDR 593.72B in 1Q23 (1Q22: IDR 466.25B & 4Q22: IDR 529.86B). Bond interest expense increased YoY +13% but decreased QoQ -4.31% to IDR 81.35B (1Q22: IDR 72B & 4Q22: IDR 81.35B). The increase in financial expenses (bank interest and bonds) is enough to make TOWR's NPM level in 1Q23 quite eroded, where currently, TOWR's NPM is at 26.26%. This situation, however, is unlikely to pressure TOWR for a long time, given the possibility of interest rate hikes starting to ease.

Buy Recommendation with a TP at IDR1,370 level (+35.6% Upside)

- NHKS Research keeps a Buy rating on TOWR, with a target price of IDR 1,370 and an upside potential of +35.6%, reflecting FY2023 12.8x Forward EV/EBITDA. TOWR's current valuation is quite attractive. The catalysts that support this call are TOWR's efficiency, reduced interest expense, and sustainable revenue growth from non-tower business. The risks of this call are the high-interest rate and interest expense, fluctuating exchange rate, and unfavorable macroeconomic situation.

Sarana Menara Nusantara Tbk | Summary (IDR bn)

	2022/12A	2023/12F	2024/12F	2025/12F
Revenue	11,036	11,700	12,384	13,032
Revenue growth	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
EPS growth	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	15.0x	16.4x	5.8x	12.6x
P/BV	3.6x	4.3x	3.9x	3.8x
EV/EBITDA	9.8x	12.8x	12.2x	11.8x
DPS (IDR)	24	30	31	31
Dividend yield	2.3%	2.2%	2.1%	2.0%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Buy

Target Price (IDR)	1,370
Consensus Price (IDR)	1,313
TP to Consensus Price	+4.3%
Potential Upside	+35.6%

Shares data

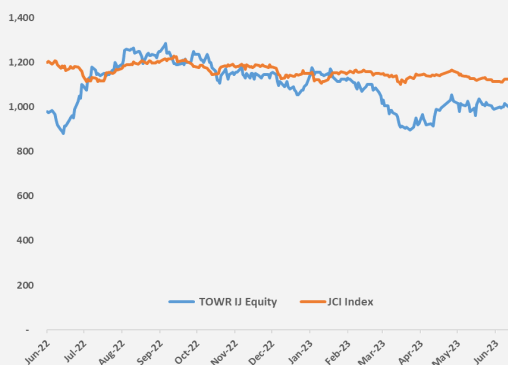
Last Price (IDR)	1,010
Price date as of	June. 12, 2023
52 wk range (Hi/Low)	1,295 / 870
Free float (%)	37.5
Outstanding sh.(mn)	51,015
Market Cap (IDR bn)	51,270
Market Cap (USD mn)	3,448
Avg. Trd Vol - 3M (mn)	27.45
Avg. Trd Val - 3M (bn)	26.55
Foreign Ownership	26.7%

Infrastructure

Telecommunication Towers

Bloomberg	TOWR IJ
Reuters	TOWR.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-12.2%	3.1%	5.8%	12.8%
Rel. Ret.	-10.3%	2.8%	4.5%	16.8%

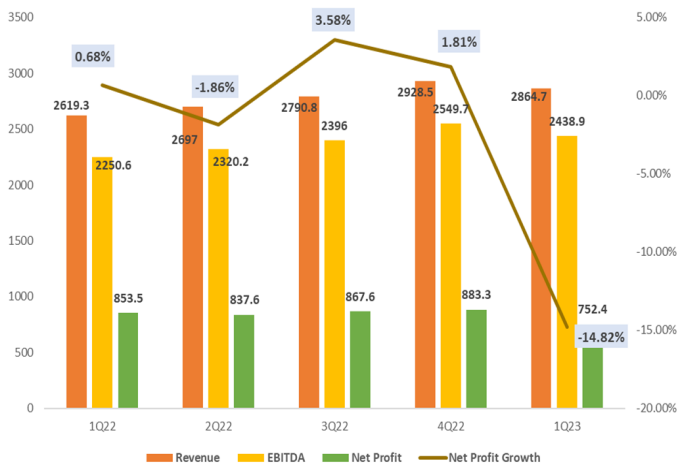
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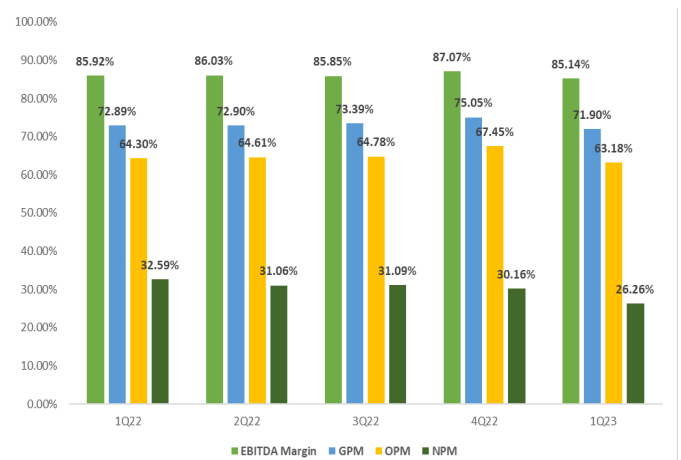
Performance Highlights

Financial Performance (IDR Billion)



Source: Company, NHKSI Research

Margin Ratios (%)



Source: Company, NHKSI Research

TOWR Number of Towers, Tenancy and FTTT



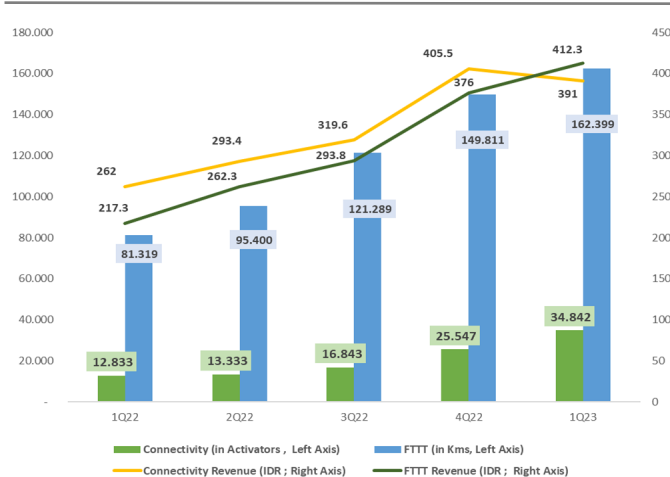
Source: Company, NHKSI Research

TOWR Tenancy Ratio (x)



Source: Company, NHKSI Research

Non TOWR Business Breakdown (By Segment)



Source: Company, NHKSI Research

F-EV/EBITDA



Source: Company, NHKSI Research

Summary of Financials

INCOME STATEMENT

(IDR bn)	2022/12F	2023/12F	2024/12F	2025/12F
Revenue	11,036	11,700	12,384	13,032
<i>Growth</i>	5.8%	5.2%	11.3%	11.2%
Cost of Revenue	(2,914)	(3,185)	(3,379)	(3,595)
Gross Profit	8,121	8,515	9,005	9,437
<i>Gross Margin</i>	73.6%	72.8%	72.7%	72.4%
Operating Expenses	(1,294)	(1,406)	(1,528)	(1,658)
EBIT	6,828	7,109	7,477	7,779
<i>EBIT Margin</i>	61.9%	60.8%	60.4%	59.7%
Depreciation	(2,307)	(2,541)	(2,697)	(2,878)
EBITDA	9,517	9,650	10,174	10,657
<i>EBITDA Margin</i>	86.2%	82.5%	82.2%	81.8%
Interest Expenses	2,392	2,456	2,579	2,553
EBT	4,459	4,672	4,927	5,342
Income Tax	(963)	(1,028)	(1,099)	(1,173)
Minority Interest	(55)	(15)	(17)	(16)
Net Profit	3,442	3,629	3,811	4,152
<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
Total Current Assets	3,651	3,990	8,726	7,410
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
Total Assets	65,625	70,635	78,665	81,616
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
Total Liabilities	51,193	54,193	59,979	60,344
Capital Stock + APIC	21	21	21	21
Retained Earnings	14,635	16,710	18,955	21,540
Shareholders' Equity	14,432	16,442	18,686	21,272

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)
Net Changes in Cash	(3,199)	1,220	4,621	(1,423)

Source: Company Data, Bloomberg, NHKSI Research

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	2.3%	2.2%	2.1%	1.9%
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)	1,010	1,400	1,470	1,602
Market Cap (IDR tn)	51,525	71,420	75,002	81,719

VALUATION INDEX

	2022/12F	2023/12F	2024/12F	2025/12F
Price/Earnings	15.0x	19.7x	19.7x	19.7x
Price/Book Value	3.6x	4.3x	4.0x	3.8x
PE/EPS Growth	35.0x	3.6x	3.9x	2.2x
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

Shareholders	%
PT Sapta Adhikari Investama	54.42
PT Dwimuria Investama Andalan	5.00
Vanguard Group Inc	1.52
Others	39.06
By Geography	%
Indonesia	73.29
United States	12.48
Luxembourg	0.97
Others	13.26

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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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