

Sarana Menara Nusantara Tbk (TOWR)

New Spirit Coming from the Fiber Optic Segment

In the first semester of 2023, TOWR posted an increase in revenue of 8.65% YoY and 1.64% QoQ to IDR 5.776T (1H22: IDR 5.316T & 1Q23: IDR 2.864T). In this period, EBITDA also increased by +7.51% YoY and +1.49% QoQ to IDR 4.914T (1H22: IDR 4.571T & 1Q23: IDR 2.439T). Net profit is still contracting due to interest expenses, which decreased to IDR 1.559T in H1 2023 (1H22: IDR 1.691T, -7.81% YoY and 1Q23: IDR 752.4 B, +7.22% QoQ).

Rental Income from the Tower Sector Remains Relatively Unchanged

- By segmentation, the tower rental revenue, which is TOWR's core business, increased by 3.47% QoQ and decreased by -2.03% YoY to IDR 4.194T (1H22: IDR 4.281T and 1Q23: IDR 2.865T).
- Referring to tenant operators, the revenue segment that grew in 1H23 was from ISAT after its merger, which was +9.26% YoY, and EXCL which grew +12.19%. It appears that revenue from ISAT has started to experience slight growth after Indosat's merger with Hutch. However, revenue from Tsel decreased by -7.89% YoY.
- 1H23 remains quite similar to the previous quarter, TOWR's Net Profit in 1H23 became quite eroded due to significantly higher financial expenses, particularly driven by higher bank interest expenses. Bank interest expense rose 27% YoY and fell 5.96% QoQ to IDR 1.152T in 1H23 (1H22: IDR 907.1B & 1Q23: IDR 593.7B). Bond interest expense rose +43.32% YoY and +53.5% QoQ to IDR 206.1B (1H22: IDR 143.8B & 1Q23: IDR 81.3B).

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

- Fiber To The Tower or Fiber Optics (FTTT) segment recorded an impressive increase in revenue growth during 1H23, which increased by +92.94% YoY and +3.42% QoQ to IDR 838.7 B (1H22: IDR 434.7B & 1Q23: IDR 412.3B). It is quite interesting to note that the proportion of FTTT segment from TOWR has started to show its role as a new growth driver and the result of business sector diversification from this issuer, in which as of 1H23 FTTT contributed to 14.5% of TOWR's total revenue (Contribution as of 1H22: 8.2%).
- The revenue increase from the fiber business is in line with the growth in the portfolio of fiber networks that generated revenue with a total of 172,593 km networks installed (1H22: 95,400 km YoY Growth: +80.92% & 1Q23: 162,399 km QoQ Growth: +6.28%). In addition to revenue from fiber segment growth, the connectivity segment grew +23.80% YoY and fell -9.92% QoQ to IDR 743.2 B in 1H23 (1H22: IDR 600.3B & 1Q23: IDR 391 B).

Buy Recommendation with TP at IDR 1,260 Level (+24.75% Upside)

- NHKS Research maintains a Buy rating for TOWR, with a target price of IDR 1,260 and an upside potential of +24.75% reflecting FY2023 12.2x 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 including the high interest rate and interest expense, fluctuating exchange rate, unfavorable macroeconomic situation, and intense competitors in the tower industry.

Sarana Menara Nusantara Tbk | Summary (IDR bn)

	2022/12A	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	14.6x	16.4x	5.8x	12.6x
P/BV	3.5x	3.9x	3.6x	3.5x
EV/EBITDA	9.8x	12.8x	12.2x	11.8x
DPS (IDR)	24	30	31	31
<i>Dividend yield</i>	2.4%	2.4%	2.3%	2.1%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer



Company Report | Aug.16, 2023

Buy

Target Price (IDR)	1,260
Consensus Price (IDR)	1,359
TP to Consensus Price	-7.28%
Potential Upside	+24.75%

Shares data

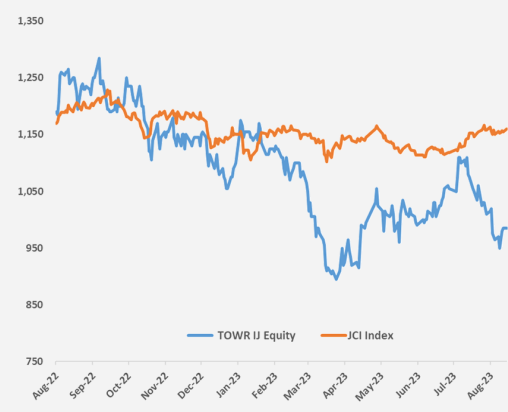
Last Price (IDR)	1,010
Price date as of	August. 18, 2023
52 wk range (Hi/Lo)	1,295 / 885
Free float (%)	37.5
Outstanding sh.(mn)	51,015
Market Cap (IDR bn)	51,779
Market Cap (USD mn)	3,374
Avg. Trd Vol - 3M (mn)	25.60
Avg. Trd Val - 3M (bn)	26.20
Foreign Ownership	25.82%

Infrastructure

Telecommunication Towers

Bloomberg	TOWR IJ
Reuters	TOWR.JK

Share Price Performance



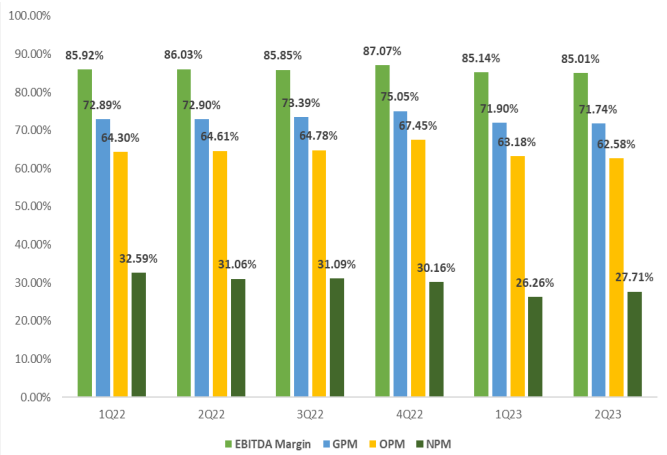
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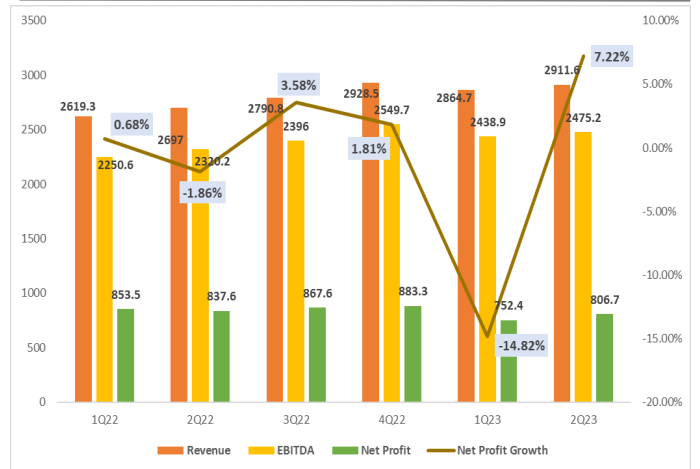
Performance Highlights

Financial Performance (IDR Billion)



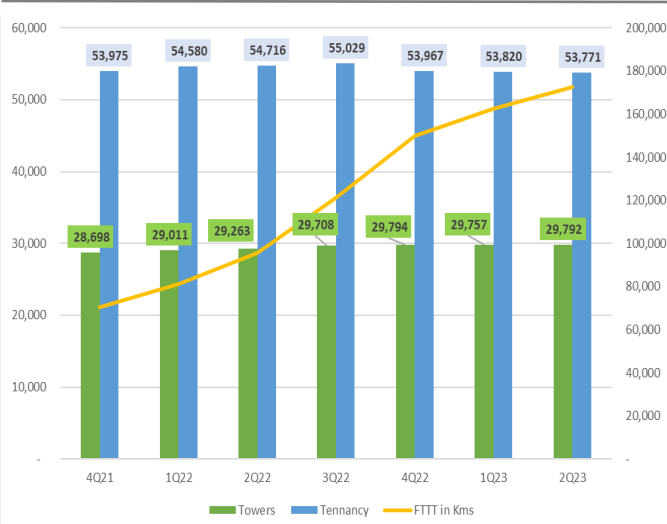
Source: Company, NHKSI Research

Margin Ratios (%)



Source: Company, NHKSI Research

TOWR Number of Towers, Tenancy and FTTC



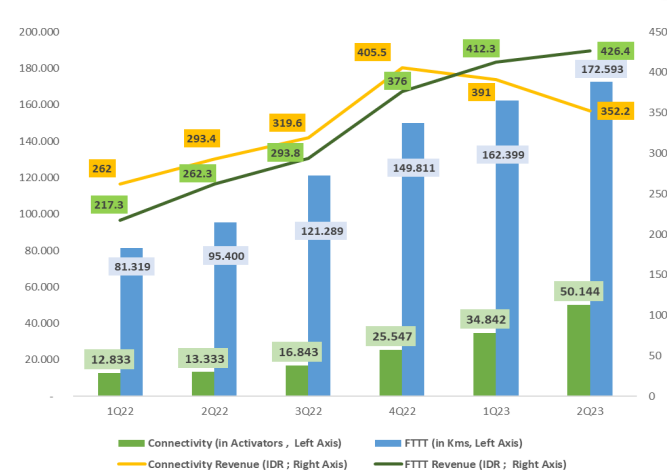
Source: Company, NHKSI Research

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%	2.4%	2.3%	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)	1,010	1,260	1,323	1,442
Market Cap (IDR tn)	51,525	64,278	67,501	73,547

VALUATION INDEX

	2022/12F	2023/12F	2024/12F	2025/12F
Price/Earnings	15.0x	17.7x	17.7x	17.7x
Price/Book Value	3.6x	3.9x	3.6x	3.5x
PE/EPS Growth	35.0x	3.3x	3.5x	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

Shareholders	%
PT Sapta Adhikari Investama	54.42
PT Dwimuria Investama Andalana	5.00
Vanguard Group Inc	1.30
Others	39.28
By Geography	%
Indonesia	74.18
United States	12.14
Luxembourg	0.77
Others	12.91

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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