

# Sarana Menara Nusantara Tbk (TOWR)

## Fiber Segment as New Spearhead for Growth

As of 9M23, TOWR posted a 7.6% YoY and 1.1% QoQ increase in revenue to IDR 8.72T (9M22: IDR 8.11T, 2Q23: IDR 2.91T & 3Q23: IDR 2.94T). EBITDA increased +6.5% YoY and +1.1% QoQ to IDR 7.42T (9M22: IDR 6.97T, 2Q23: IDR 2.47T & 3Q23: IDR 2.50T). The Net profit in this period still contracted due to interest expenses, declining to IDR 2.42T in 9M23 (9M22: IDR 2.56T, -5.2% YoY and 2Q23: IDR 807B & 3Q23: IDR 866B, +7.4% QoQ). The interesting thing now to watch from TOWR is the transition of TOWR, which was initially dominantly focused on tower leasing, now TOWR is also focusing more on diversifying its business into the fiber optic business, both FTTH (Fiber to The Tower) and FTTH (Fiber to The Home).

### TOWR's Interest Expense Begins to Slope

- Segmentally, tower rental revenue, which is TOWR's core business, decreased -2.48% YoY and +3.47% QoQ to IDR 6,299T (9M22: IDR 6,459T, 2Q23: IDR 2,133T & 3Q23: IDR 2,105T). The high-interest rate era still causes high interest expenses and affected TOWR's Net Profit in 9M23 on an annualized basis, which was mainly driven by higher bank interest expenses. However, the good news is that Bank Interest Expense on a quarterly basis seems to be declining as the high interest rate drama becomes clearer.
- Bank interest expense rose +22.7% YoY and fell -11.6% QoQ to IDR 1.64T in 9M23 (9M22: IDR 1.34T & 1Q23: IDR 593.7B, 2Q23: IDR 558B & 3Q23: IDR 493B). For bond interest expense, it rose by +52.5% YoY and +7.2% QoQ to IDR 206.1B (9M22: IDR 223B, 2Q23: IDR 125B & 3Q23: 134B).

### FTTH and FTTH as TOWR's New Weapon to Pursue Growth

- Currently, TOWR has begun to show its identity as a tower company that is not merely a tower rental player. This is reflected in the revenue contribution from the FTTH segment as of 9M23, which has reached 14.9% of TOWR's total revenue (9M22: 9.5%, 6M23: 14.5%) and the tower rental segment as of 9M23 accounted for 72.2% of TOWR's revenue (9M22: 79.7%). Non-tower rental revenue also continued to grow. In 9M23, the connectivity segment grew +19.9% YoY to IDR 1.042T (9M22: IDR 869B).
- In 9M23, the FTTH segment recorded a strong increase in revenue growth, up +67.8% YoY and +3.4% QoQ to IDR 1.297T (9M22: IDR 773B, 2Q23: IDR 426.4B and 3Q23: IDR 458.3B). The increase in revenue from the fiber business is still in line with the increase in the portfolio of fiber networks that scored revenue and has been installed for 178,329 km (9M22: 121,289 km YoY Growth: +47% & 6M22: 172,593 km QoQ Growth: +3.31%).
- In addition to the FTTH segment that experienced exponential growth, TOWR began to show a separation of FTTH segment revenue from the connectivity segment. As of 9M2023, the FTTH segment posted a profit of IDR 82B (9M22: IDR 6B, YoY Growth: +1,280%). In addition, the number of homes that have been connected to the FTTH network has reached 559,800 home passes as of September 2023, with 77,682 home connects (13.9% Penetration Rate). Furthermore, the management's future target is to connect FTTH networks to 2 million home passes.

### Buy Recommendation with TP at IDR 1,310 (+37.9% Upside)

- NHKS Research maintains a Buy rating for TOWR but with a lower target price of IDR 1,310, and an upside potential of +37.9%, which reflects FY2023 12.5x Forward EV/EBITDA. TOWR's current valuation is quite attractive. The catalysts that support this call are TOWR's efficiency, interest expense that begins to soften, as well as sustainable growth and execution from non-tower business, especially FTTH and FTTH. Moreover, the risks of TOWR's call are the high interest rate and expense, fluctuating exchange rate, unfavorable macroeconomic situation, and tightening competition 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
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	14.1x	16.4x	5.8x	12.6x
P/BV	3.4x	4.1x	3.8x	3.6x
EV/EBITDA	9.8x	12.8x	12.2x	11.8x
DPS (IDR)	24	30	31	31
Dividend yield	2.5%	2.3%	2.2%	2.0%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

NH Korindo Sekuritas Indonesia

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Company Report | November 14, 2023

## Buy

Target Price (IDR)	1,310
Consensus Price (IDR)	1,335
TP to Consensus Price	-1.9%
Potential Upside	+37.9%

### Shares data

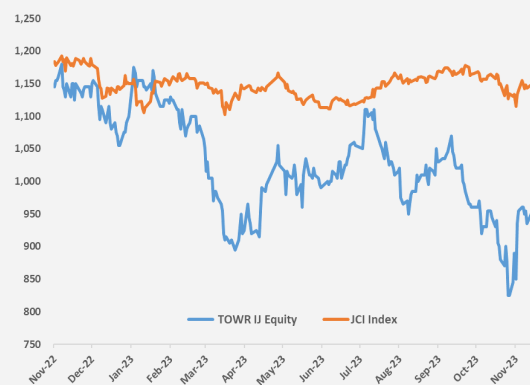
Last Price (IDR)	950
Price date as of	November. 13, 2023
52 wk range (Hi/Low)	1,180 / 820
Free float (%)	37.5
Outstanding sh.(mn)	51,015
Market Cap (IDR bn)	48,464
Market Cap (USD mn)	3,084
Avg. Trd Vol - 3M (mn)	25.01
Avg. Trd Val - 3M (bn)	24.08
Foreign Ownership	26.14%

### Infrastructure

#### Telecommunication Towers

Bloomberg	TOWR IJ
Reuters	TOWR.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-17.4%	0.5%	-3.6%	-15.9%
Rel. Ret.	-17.2%	1.8%	-2.8%	-13.3%

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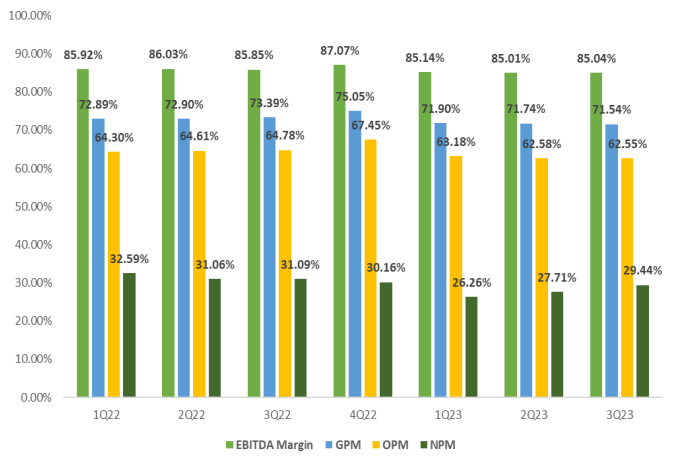
# Performance Highlights

## Financial Performance (IDR Billion)



Source: Company, NHKSI Research

## Margin Ratios (%)



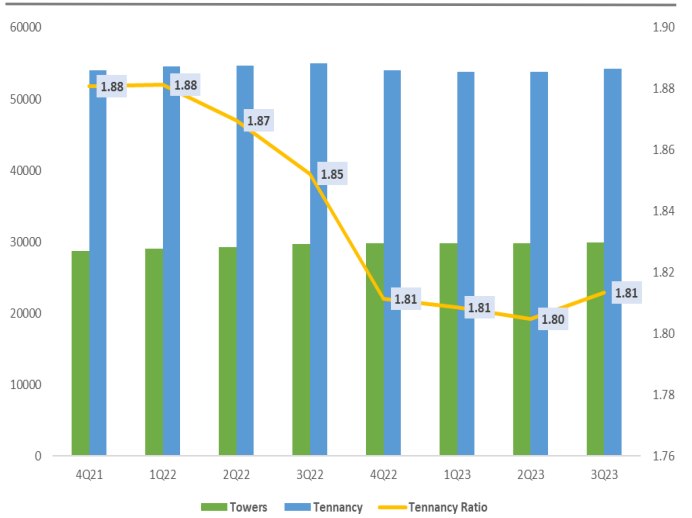
Source: Company, NHKSI Research

## TOWR Number of Towers, Tenancy and FTTT



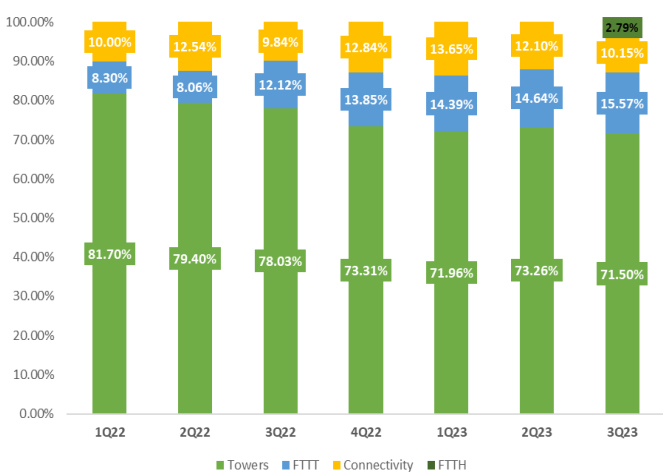
Source: Company, NHKSI Research

## TOWR Tenancy Ratio (x)



Source: Company, NHKSI Research

## TOWR Revenue Segmentation



Source: Company, NHKSI Research

## F-EV/EBITDA (3 Years)



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>

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	2.5%	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)	950	1,310	1,375	1,495
Market Cap (IDR tn)	48,464	66,829	70,145	76,267

VALUATION INDEX				
	2022/12F	2023/12F	2024/12F	2025/12F
Price/Earnings	14.1x	18.4x	18.4x	18.4x
Price/Book Value	3.4x	4.1x	3.8x	3.6x
PE/EPS Growth	32.9x	3.4x	3.7x	2.1x
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 Andalan	5.00
Vanguard Group Inc	1.51
Others	39.07
<b>By Geography</b>	%
Indonesia	73.86
United States	12.57
Ireland	0.82
Others	12.75

**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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