



BUY

Target Price : IDR1,100

Stock Data

Current Price : 915
 52wk Range H-L : 1,625 - 875
 Share Outstanding : 51.015 Bn
 Free Float : 44.86%
 Mkt Capitalization : IDR46.68 tn

Major Shareholders

PT Sapta Adhikari Investama : 54.36%
 Public : 42.47%
 Ario Wibisono : 0.64%



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PT Sarana Menara Nusantara (TOWR IJ)

Tower Sector

Enduring Interest Rate Shock

Strong Revenue Growth Amidst Erratic Market Condition

In the 1Q22 FS, TOWR IJ recorded an improved revenue of IDR2.62 tn (+33.9% YoY; +2.0% QoQ), in-line with our estimates (26.29%/24.76% of our/cons FY22E estimates). Tower rental contributes 81.7%, valued at IDR IDR2.14 tn (+31.5% YoY), which was driven by the addition of the towers. The number of towers stood at 29,011 units in 1Q22 (+35.4% YoY), making TOWR the greatest independent telco tower in Indonesia. This huge achievement was from TOWR's acquisition of SUPR where the latter had a total number of towers of 6,949 units in 4Q21. Meanwhile, total tenants stood at 54,580 units (+37.2% YoY) thus making the tenancy ratio to be 1.88x (vs 1.86x in 1Q21). Moreover, tower fiber service recorded a huge yearly increase where TOWR recorded an increase to IDR217.3 bn (+90.1% YoY). This upsurge movement was driven by the addition of its tower fibers to 81,319 km (+99.9% YoY) as there was an uptrend in the data demand in Indonesia where there was an increase in data traffic by around 50% YoY.

EBITDA Margin Slightly Higher

TOWR also recorded an increase in its EBITDA to IDR2.25 tn (+34.0% YoY; +1.6% QoQ), which implies an EBITDA margin of 85.9%. This is in line with the MNCS and Bloomberg Consensus estimates (24.18%/23.40% of our/cons FY22E estimates). Depreciation and amortization were recorded to grow to IDR566.55 bn (32.4% YoY), as well as G&A expenses to IDR186.37 bn (+33.0% YoY) and selling and market expenses to IDR38.77 bn (+33.6% YoY). Furthermore, COGS rose to IDR143.58 bn (+32.8% YoY), driven by the increased site maintenance cost by 48.0% YoY due to the additional towers from the SUPR acquisition.

Net Profit Remained Stable

Net profit rose to IDR853.53 bn (+8.15% YoY), in line with our and consensus estimates (26.32%/23.40% of our/cons FY22E estimates), implying a net margin of 32.6% (vs 40.3% in 1Q21). This decrease in the net profit was mainly caused by the increase in finance costs, particularly in the bank and bond interest expenses where the company recorded increases to IDR466.25 bn (+137.5% YoY) and IDR 72.26 bn (+127.4% YoY), respectively. Tax expense increased to IDR119.72 bn (+66.3% YoY) while the corporate income tax expense fell to IDR22.82 bn (-77.6% YoY).

Low-Interest Debt for Expansion

As of 1Q22, TOWR recorded net debt of IDR44.75 tn, thus making its debt/equity ratio to be 3.47x, slightly above its peers (vs TBIG: 2.79x). Despite that, TOWR recorded an increase of its assets by 72.9% YoY to IDR63.49 tn with its cash and cash equivalents worth IDR1.77 tn (+39.1% YoY). This improvement was supported by TOWR's acquisition of SUPR on Oct-21 where the company acquired 6,949 towers. However, the relatively big debt is necessary for sustaining its cash flow and expansion as TOWR became the biggest tower company in Indonesia currently by acquiring SUPR with 100% debt. The management remained optimistic as the company got a lower fixed rate of 6.2% for its 5-year tenor, compared to the sovereign's treasury yield of 6.4%, as well as fixed 45% of its debt and had a current interest rate at 5.2% for the entire company's debts.

Valuation and Recommendation: BUY at Target Price IDR1,100

We transfer our coverage on telco sector, especially TOWR from Victoria Venny to Andrew Sebastian Susilo. We recommend **BUY** with target price of **IDR1,100 (+20.2% upside)**, implying **FY22E EV/EBITDA of 6.32x**. Our target price is based on DCF valuation with 8.2% of WACC and 3.5% perpetual growth. We see that TOWR is able to record a positive performance in FY22E after its acquisition of SUPR on Oct-21. Despite having a slightly bigger debt/equity ratio compared to its peers, TOWR is benefitted from having a lower fixed rate for its 5-year tenor, as well as having a 5.2% interest rate for all of its debts.

Key Financial Highlight

Billion IDR	FY19	FY20	FY21	FY22E	FY23F
Revenue	6,454	7,445	8,635	10,301	11,067
Net Income	2,342	2,836	3,427	3,462	4,206
EPS (IDR)	45.91	55.59	67.18	67.86	82.44
PE (x)	19.93	16.46	13.62	13.48	11.10
BVS (IDR)	171.73	199.63	236.44	270.37	311.60
PBV (x)	5.33	4.58	3.87	3.38	2.94
ROA (%)	8.47%	8.28%	5.21%	4.80%	5.48%
ROE (%)	26.73%	27.85%	28.41%	25.10%	26.46%
DER (x)	1.69	2.02	3.91	3.70	3.35

Sources: Bloomberg, MNCS

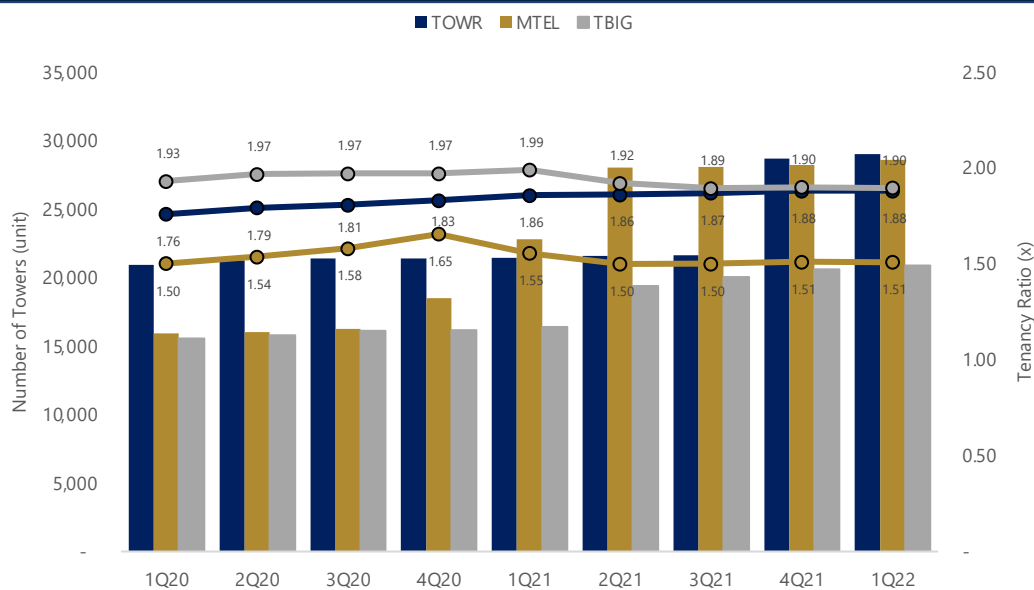
Overall, TOWR's Financial Performance was in-line with our and consensus FY22E estimates

Exhibit 01. TOWR 1Q22 Financial Highlights

IDR (bn)	1Q21	4Q21	1Q22	QoQ	YoY	FY22E Consensus	FY22E MNCS	% Consensus	% MNCS
Revenues	1,956	2,568	2,619	1.99%	33.88%	10,579	9,962	24.76%	26.29%
Operating Expense	253	447	417	-6.76%	64.75%				
EBIT	1,596	1,976	2,059	4.22%	29.06%	8,800	8,516	23.40%	24.18%
EBIT Margin	81.55%	76.93%	78.62%						
EBITDA	1,167	1,412	1,493	5.68%	27.85%	6,769	6,337	22.05%	23.56%
EBITDA Margin	59.67%	54.99%	56.99%						
PBT	896	819	886	8.24%	-1.12%	4,397	3,828	20.16%	23.15%
Net Profit - reported	789	848	854	0.69%	8.15%	3,648	3,243	23.40%	26.32%
Net Margin	40.34%	33.01%	32.59%						

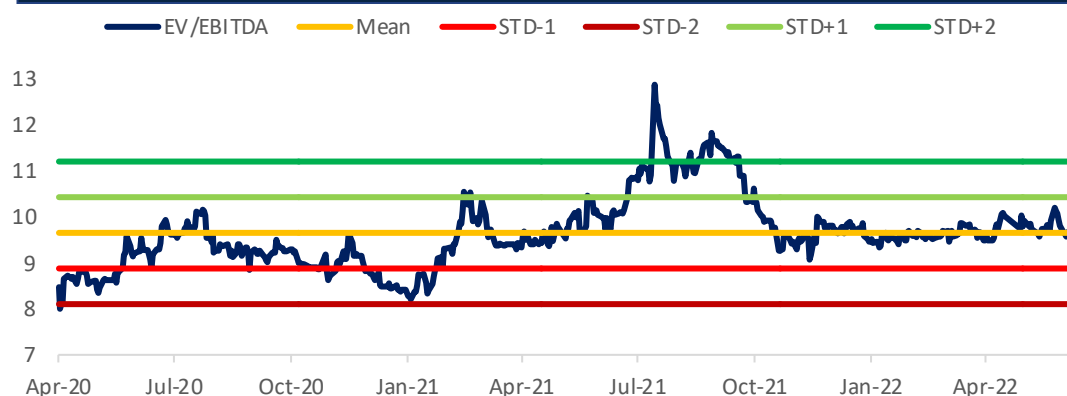
Source : Company, Bloomberg

Exhibit 02. Comparison of Towers and Tenancy Ratio of TOWR and Its Peers



Source : Company

Exhibit 03. TOWR EV/EBITDA band



Source : Bloomberg, MNCS

TOWR is currently trading at the mean of EV/EBITDA.

Exhibit 04. Financial Projections

Income Statement						Balance Sheet					
IDR Billion	FY19	FY20	FY21	FY22E	FY23F	IDR Billion	FY19	FY20	FY21	FY22E	FY23F
Revenues	6,454	7,445	8,635	10,301	11,067	Current Assets	2,474	3,002	7,398	7,072	7,580
Lease	5,854	6,969	8,017	9,564	10,275	Cash and Cash Equivalents	600	1,448	4,750	3,913	4,186
Non-Lease	601	476	618	737	792	Account Receivable	1,348	1,240	2,171	2,590	2,783
Operating Expense	719	820	899	987	1,058	Inventories	-	-	-	-	-
Selling Expenses	84	113	149	161	169	Others current Assets	527	315	476	568	611
General and Administrative	500	504	563	619	669	Non-Current Assets	25,191	31,247	58,431	65,106	69,158
Infrastructure Expense	135	203	187	206	221	Fix Asset - net	19,648	22,758	32,951	34,712	36,504
Operating Profit	3,928	4,567	5,397	6,555	7,215	Other Non-Current Assets	5,543	8,489	25,479	30,394	32,655
EBITDA	5,277	6,405	7,434	8,808	9,473	TOTAL ASSETS	27,666	34,250	65,829	72,178	76,738
Interest Expense	857	1,084	1,285	2,554	2,497	Current Liabilities	4,565	7,225	21,880	25,592	27,292
Interest Income	39	34	25	46	50	Account Payable	641	544	1,587	1,871	1,894
Other	(101)	(117)	(85)	-	-	Short Term Debt	1,505	4,695	16,881	20,138	21,635
Profit Before Tax	3,009	3,399	4,051	4,047	4,768	Other current liabilities	2,419	1,986	3,413	3,583	3,762
Tax Expense (Benefit)	656	545	603	565	541	Non-Current Liabilities	14,340	16,840	31,886	32,793	33,550
Minority Interest	(11)	(18)	(21)	(21)	(21)	Long-term Liabilities - Net	13,297	15,889	30,329	30,936	31,554
Net Income	2,342	2,836	3,427	3,462	4,206	Other Non-Current Liabilities	1,043	951	1,557	1,858	1,996
EPS (full amount)	45.91	55.59	67.18	67.86	82.44	TOTAL EQUITY	8,761	10,184	12,062	13,793	15,896
						TOTAL LIABILITIES & EQUITY	27,666	34,250	65,829	72,178	76,738

Cash Flow						Ratios					
IDR Billion	FY19	FY20	FY21	FY22E	FY23F	IDR Billion	FY19	FY20	FY21	FY22E	FY23F
CFO Total	3,468	3,840	4,287	4,903	5,652	Revenue Growth (%)	9.99	15.36	15.98	19.29	7.44
Net Income	2,200	2,353	2,854	3,163	3,627	EBITDA Growth (%)	7.60	21.37	16.07	18.48	7.54
Depreciation	1,114	1,350	1,644	1,782	2,269	Net Profit Growth (%)	6.45	21.10	20.85	1.01	21.49
Change in Working Capital	330	(1,029)	10	(102)	(244)	Current Ratio (%)	54.20	41.55	33.81	27.63	27.77
Change in others	(82)	323	166	467	155	Quick Ratio (%)	42.67	37.20	31.63	25.41	25.54
CFI Total	(6,085)	(5,857)	(7,700)	(19,058)	(7,575)	Receivable Days	76.21	60.79	91.78	91.78	91.78
Change in ST Investment	-	-	-	-	-	Inventory Days	-	-	-	-	-
Change in LT Investment	-	-	-	-	-	Payable Days	325.55	242.16	644.42	691.96	653.21
Capex	(4,494)	(5,017)	(4,754)	(17,015)	(4,483)	Debt to Equity (x)	2.16	2.36	4.46	4.23	3.83
Change in Others	(1,591)	(839)	(2,946)	(2,042)	(3,092)	Net Debt to EBITDA (x)	2.80	3.21	6.35	5.80	5.62
CFF Total	1,294	1,581	4,285	15,529	1,427	EBITDA Margin (%)	81.76	86.03	86.09	85.51	85.59
Net Change in Debt	2,485	3,318	5,782	17,048	3,140	Net Profit Margin (%)	36.29	38.09	39.69	33.61	38.00
Equity financing	-	(511)	(231)	212	-	ROA (%)	8.47	8.28	5.21	4.80	5.48
Dividend payment	(1,206)	(1,187)	(1,174)	(1,740)	(1,995)	ROE (%)	26.73	27.85	28.41	25.10	26.46
Others	15	(39)	(92)	10	282						
Net Cash Increase	(1,385)	(436)	872	1,374	(495)						
Closing Balance	963	600	1,448	2,822	2,326						

Sources : Company, MNCS

MNC Research Industry Ratings Guidance

OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

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