

BUY | TP : IDR1,200
TOWR Stock Price Data

Last Price	:	IDR1,010
52wk High	:	IDR1,295
52wk Low	:	IDR870
Share Out	:	51.01 bn
Market Cap	:	IDR51.52 tn

TOWR Stock Price Performance

1-Day	:	+2.48%
1-Week	:	-1.46%
1-Month	:	+2.54%
3-Month	:	-8.18%
Year-to-Date	:	-8.18%

Shareholders

PT Sabda Adhikari Investama	:	54.42%
PT Dwimuria Investama Andalan	:	5.00%
Treasury	:	2.38%
Public (<5%)	:	38.20%


Research Analyst

 Andrew Sebastian Susilo
 andrew.susilo@mncgroup.com

PT Sarana Menara Nusantara Tbk (TOWR IJ)
Balancing Growth through FTTT
1Q23 Revenue Grew Single Digit

In 1Q23, TOWR reported IDR2.9 tn in revenue (+9.4% YoY), in line with our predictions (25.0%/24.6% of MNCS/cons). The single digit growth was mainly driven from its tower segment which experienced a minor decline of 3.7% YoY, totaling IDR2.06 tn due to decreased number of tenants to 53,820 (vs 53,967 in 4Q22) amidst IOH merger. Meanwhile, the Fiber-to-the-Tower (FTTT) and connectivity segments reported revenues of IDR412.3 bn (+89.7% YoY) and IDR391.0 bn (+49.2% YoY), respectively. EBITDA was at IDR2.4 tn (+8.4% YoY), in line with our projections (24.9%/24.5% of MNCS/cons), with an EBITDA margin of 85.1% (vs 85.9% in 1Q22). In the meantime, financing costs rose by +21.5% YoY and tax expenses rose by +55.6% YoY, resulting in the net income to decline by -11.8% YoY to IDR752.4 bn, slight below our estimates (21.0%/20.4% of MNCS/cons). This led to a net margin of 26.3%, which was lower than the 32.6% of 1Q22.

Accommodating National Network Demand

With the 4G technology used by more than 90% of users in Indonesia, the need for dependable, high-speed internet boosts FTTT demands nationwide. TOWR's purchase of PT Alita Praya Mitra in 3Q22, adding 10,800 km of fiber, or ~10% to the total amount of fiber owned by the company shows a significant 214.0% FY18-FY22 CAGR in FTTT revenue. For FY23E, a capex of IDR5-6 tn and a sizable 50-55% allocated for non-tower segments, including FTTT helps TOWR to achieve a 10-20% of fiber network expansion. The 60% stake acquisition of PT Varnion Technology Semesta in Apr-2023 helped the company in reaching its aim, potentially increasing its contribution to 18.6% by FY25F (vs 10.7% in FY22). Looking ahead, potential interest rates cut by central banks and the resilient domestic bonds could be supportive factors for TOWR amidst the potential loss of tenancies from IOH merger.

Expect Modest Growth amidst Tenancy Churns

Despite remaining hopeful for the FTTT prospect, we expect the loss of tenancies from IOH consolidation could disrupt the company's top-line growth, as seen from the declining number of tenancy in 1Q23, which results in lower tenancy ratio to 1.8x (vs 1.9x/1.8x in 1Q22/4Q22). Moreover, the management expects for 500 tenant churns in both FY23E and FY24F, thus potentially halting the company's growth trajectory. Thus, in FY23E, we anticipate a slight revenue increase to IDR11.5 tn (+4.1% YoY) along with the company's target of adding 700-800 towers and 30,000-40,000 km of fiber in FY23E. Additionally, we project for EBITDA to be at IDR9.8 tn (+3.0% YoY), yet its margin contracted at 85.3% (vs 86.2% in FY22). Concurrently, net profit is expected to reach IDR3.6 tn (+4.3% YoY) with a net profit margin of 31.3% (vs 31.2% in FY22).

Recommendation: BUY with TP IDR1,200/share

We recommend BUY for TOWR with TP: IDR1,200/share (+18.8% upside), implying FY23E EV/EBITDA of 6.2x. The FY23E expansion plans are highlighted by the high network demand in Indonesia, although the growth might be limited due to IOH consolidation. Downside risks: 1) Rupiah devaluation; 2) High interest rate; 3) disturbed earnings growth amid IOH merger.

Key Financial Highlight (IDR bn)	FY20	FY21	FY22	FY23E	FY24F
Revenue	7,445	8,635	11,036	11,486	12,178
Net Income	2,836	3,427	3,442	3,591	4,002
EPS (IDR)	56	67	67	70	78
P/E (x)	18.2	15.0	15.0	14.3	12.9
BVS (IDR)	200	236	283	318	357
P/B (x)	5.1	4.3	3.6	3.2	2.8
EV/EBITDA (x)	9.4	8.1	6.3	6.2	5.8
ROA (%)	8.3	5.2	5.2	5.5	5.8
ROE (%)	27.8	28.4	23.8	22.1	22.0

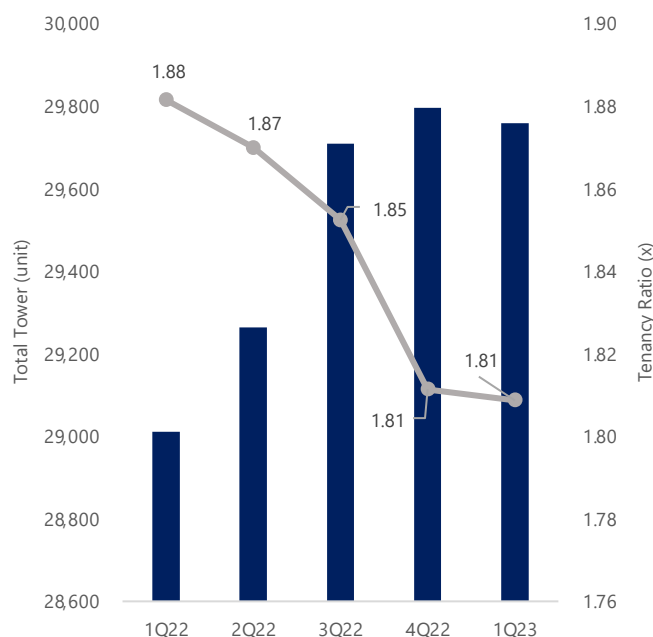
Sources : Bloomberg, MNCS

Exhibit 01. TOWR Realized 1Q23 vs MNCS vs Consensus

IDR bn	1Q22	4Q22	1Q23	QoQ	YoY	Cons.	MNCS	% Cons.	% MNCS
Revenue	2,619	2,929	2,865	-2.18%	9.37%	11,645	11,486	24.60%	24.94%
Operating Expense	225	223	250	12.27%	10.97%				
EBITDA	2,251	2,550	2,439	-4.35%	8.37%	9,972	9,801	24.46%	24.88%
<i>EBITDA Margin</i>	<i>85.92%</i>	<i>87.07%</i>	<i>85.14%</i>			<i>85.63%</i>	<i>85.33%</i>		
EBIT	1,684	1,975	1,810	-8.38%	7.46%	7,478	7,090	24.20%	25.53%
<i>EBIT Margin</i>	<i>64.29%</i>	<i>67.45%</i>	<i>63.18%</i>			<i>64.22%</i>	<i>61.73%</i>		
Net Profit	853.3	883	752.4	-14.82%	-11.82%	3,692	3,591	20.38%	20.95%
<i>Net Margin</i>	<i>32.58%</i>	<i>30.16%</i>	<i>26.27%</i>			<i>31.70%</i>	<i>31.27%</i>		

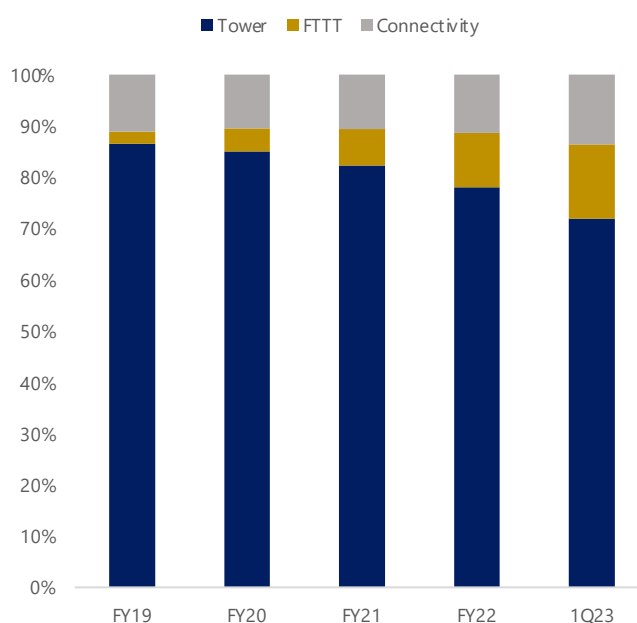
Sources : Company, Bloomberg, MNCS

Exhibit 02. TOWR's tenancy ratio declined slightly at 1Q23



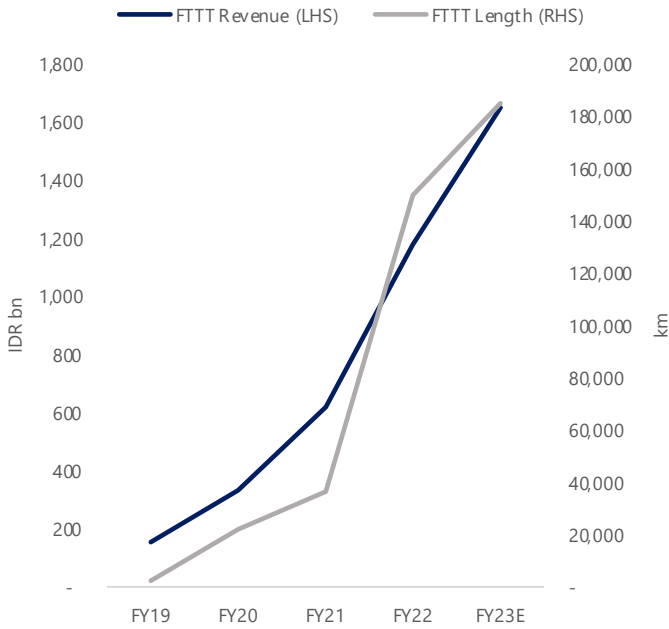
Sources : Company, MNCS

Exhibit 03. FTTT increased contribution to overall revenue



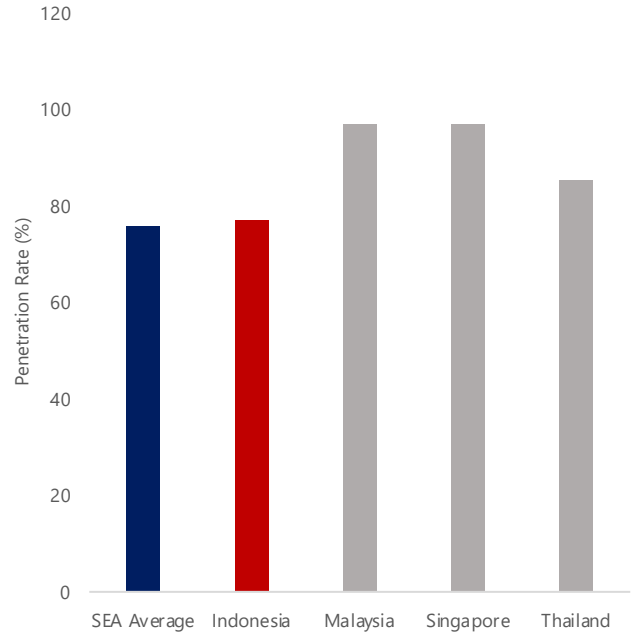
Sources : Company, MNCS

Exhibit 04. FTTT Segment potentially grew +40% YoY in FY23E



Sources : Company, MNCS

Exhibit 05. Indonesia's internet penetration rate is slightly above SEA average



Sources : We Are Social, MNCS

Exhibit 06. TOWR is currently traded near STD-0.5 of 5-year EV/EBITDA



Sources : Bloomberg, MNCS

Exhibit 07. Financial Projections

Income Statement						Balance Sheet					
IDR bn	2020	2021	2022	2023E	2024F	IDR bn	2020	2021	2022	2023E	2024F
Revenues	7,445	8,635	11,036	11,486	12,178	Current Assets	3,002	7,398	3,651	4,243	4,735
COGS	2,059	2,340	2,914	2,944	3,193	Cash & Cash Equivalents	1,448	4,750	309	805	1,089
Gross Profit	5,386	6,295	8,121	8,541	8,985	Account Receivable	1,240	2,171	2,558	2,662	2,823
Operating Expense	820	899	1,294	1,451	1,486	Others current Assets	315	476	785	776	823
EBIT	4,567	5,397	6,828	7,090	7,499	Non-Current Assets	31,247	58,431	61,974	60,641	63,768
EBITDA	6,405	7,434	9,517	9,801	10,466	Fixed Asset-net	22,758	32,951	37,152	38,941	40,759
Interest Expense	1,084	1,285	2,310	2,413	2,359	Other Non-Current Assets	8,489	25,479	24,822	21,701	23,009
Interest Income	33.6	24.7	23.4	22.0	22.6	TOTAL ASSETS	34,250	65,829	65,625	64,884	68,503
Other	(116.9)	(85.0)	(82.2)	(83.1)	(83.9)	Current Liabilities	7,225	21,880	14,446	15,042	15,931
Profit Before Tax	3,399	4,051	4,459	4,615	5,078	Account Payable	544	1,587	862	871	945
Tax Expense (Benefit)	545	603	963	970	1,022	ST Debt	4,695	16,881	9,990	10,398	11,025
Net Income Before MI	2,854	3,448	3,497	3,646	4,057	Other current liabilities	1,986	3,413	3,593	3,773	3,962
Minority Interest	(18)	(21)	(55)	(55)	(55)	Non-Current Liabilities	16,840	31,886	36,747	33,615	34,343
Net Profit	2,836	3,427	3,442	3,591	4,002	LT Debt	15,889	30,191	35,409	32,222	32,866
EPS (full amount)	56	67	67	70	78	Other Non-Current Liabilities	951	1,695	1,338	1,393	1,477
						TOTAL EQUITY	10,184	12,062	14,432	16,228	18,229
						TOTAL LIABILITIES & EQUITY	34,250	65,829	65,625	64,884	68,503
Cash Flow						Ratios					
IDR bn	2020	2021	2022	2023E	2024F	IDR bn	2020	2021	2022	2023E	2024F
CFO Total	4,464	6,841	4,893	6,395	7,024	Revenue Growth (%)	15.36	15.98	27.80	4.08	6.03
Net Income	2,836	3,427	3,442	3,591	4,002	EBIT Growth (%)	21.37	16.07	28.01	2.99	6.78
Depr.	1,838	2,037	2,689	2,711	2,967	Net Profit Growth (%)	21.10	20.85	0.43	4.34	11.44
Change in Working Capital	10	112	(1,111)	(95)	(87)	Current Ratio (%)	41.55	33.81	25.27	28.21	29.72
Change in Others	166	467	155	485	(50)	Quick Ratio (%)	37.20	31.63	19.84	23.05	24.56
CFI Total	(7,894)	(29,221)	(6,232)	(1,379)	(6,094)	Receivable Days	60.79	91.78	84.60	84.60	84.60
Capex	(4,948)	(12,231)	(6,890)	(4,500)	(4,785)	Payable Days	242.16	644.42	243.36	219.09	232.07
Change in Others	(2,946)	(16,990)	657	3,121	(1,308)	Net gearing (x)	2.36	4.46	3.55	3.00	2.76
CFF Total	4,285	25,676	(3,624)	(4,520)	(646)	Debt to EBITDA (x)	3.21	6.33	4.77	4.35	4.19
Net Change in Debt	5,782	26,488	(1,673)	(2,779)	1,271	Gross Margin (%)	72.34	72.90	73.59	74.37	73.78
Equity financing	(231)	(151)	128	-	-	Operating Margin (%)	61.33	62.49	61.87	61.73	61.58
Dividend payment	(1,174)	(1,405)	(1,721)	(1,796)	(2,001)	EBITDA Margin (%)	86.03	86.09	86.24	85.33	85.94
Others	(92)	744	(357)	55	84	Net Margin (%)	38.09	39.69	31.19	31.27	32.86
Net Cash Increase	855	3,296	(4,963)	496	284	ROA (%)	8.28	5.21	5.24	5.53	5.84
Closing Balance	1,448	4,750	309	805	1,089	ROE (%)	27.85	28.41	23.85	22.13	21.95

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

PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16
Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340
Telp : (021) 2980 3111
Fax : (021) 3983 6899
Call Center : 1500 899

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