

HOLD | TP : IDR1,050
TOWR Stock Price Data

Last Price	:	IDR990
52wk High	:	IDR1,295
52wk Low	:	IDR885
Share Out	:	51.0 bn
Market Cap	:	IDR50.5 tn

TOWR Stock Price Performance

1-Day	:	+0.5%
1-Week	:	+2.1%
1-Month	:	-8.8%
3-Month	:	+0.5%
Year-to-Date	:	-10.5%

Shareholders

PT Sabda Adhikari Investama	:	54.4%
PT Dwimuria Investama Andalan	:	5.0%
Public (<5%)	:	40.6%

PT Sarana Menara Nusantara Tbk (TOWR IJ)
Grasping the Momentum of Fiberization
1H23 Results: Revenue Grew Single Digit

TOWR's net profit in 1H23 decreased by -7.8% YoY, reaching IDR1.6 tn (vs IDR1.7 tn in 1H22), falling slightly lower than our estimates (46.5%/44.4% of MNCS/cons). This decrease was due to increasing interest expense by +23.0% YoY. Accordingly, we also notice the company recorded a slower growth of earnings in 1H23 from rise in expenses. This was evidenced from the contracted EBITDA margin which fell to 60.1% (vs 60.7% in 1H22) as its selling & marketing and G&A expenses rose each by +45.8% YoY and +6.0% YoY. Yet, TOWR managed to report a higher revenue growth by +8.7% YoY, primarily driven by its FTTT (Fiber-To-The-Tower) segment (+92.9% YoY) amidst increase in the total fiber length to 173.0k km (vs 149.8k km in FY22). Furthermore, we also notice TOWR's total towers were higher at 29,792 units (vs 29,263 in 1H22), yet its tenancy ratio fell to 1.8x (vs 1.9x in 1H22) as a result of consolidation of IOH merger in 1Q22.

Benefitted from Increasing Fiber Demand

Assuming 2.7k population/tower ratio, TOWR's number of towers is estimated to grow at a modest 2.2% CAGR (FY22-FY25F), where the location to be mostly focused on ex-Java as in 2Q23, only 47% of the tower is still located in the region (vs MTEL: 58%). Therefore, we foresee TOWR's market share to reach at least 30.5% by FY25F (vs 29.3% in FY22), just below MTEL's expected market share of 40% in terms of total tower. Additionally, we project an addition of ~1.5k tenants in FY23E, following the consolidation with ISAT based on the assumption that the tenancy ratio will remain steady at 1.8x. We also identified promising potential in the FTTT segment as a significant future earnings driver, along with Fiber-To-The-Home (FTTH). This potential is underscored by its growing contribution to overall revenue. In 1H23, FTTT was responsible for 14.5% of the revenue (vs 8.2% in 1H22), demonstrating a remarkable 97.0% CAGR from FY19 to FY22. This growth coincides with the rising demand for fiber, spurred by the Fixed Mobile Convergence (FMC) trend among operators. Several operators (TLKM and EXCL) have successfully introduced FMC to the public. Based on [our 1H23 EXCL report](#), there was a notable increase in monthly data consumption associated with FMC (e.g. EXCL saw a 22.0% YoY increase in traffic per user in 2Q23). Consequently, we anticipate that higher data consumption will boost the demand for FTTT, thus by FY25F, we project FTTT will contribute 16.7% to the overall revenue, with a CAGR of 23.3% (FY22-FY25F), considering each km of fiber could produce IDR6.5-7.0 mn in revenue.

Yet, Leverage May Serve as a Problem

As of 1H23, the company has a DER of 3.4x, above the TowerCo average of 2.3x, indicating a significant capital requirement for expansion in the industry. Moreover, the interest expense in 1H23 was 25.7% of the revenue (vs 22.7% in 1H22), pressuring on the net profit. While potential interest rate cuts might favor the 46% of TOWR's floating-rate debt, it is worth noting that ~12.8% total debt is denominated in foreign currency (60% USD, 40% SGD), exposing the company to currency risk. On a positive note, TOWR reported a free cash flow (FCF) of IDR553.7 bn in FY22. For FY23E-FY27F, we project its FCF to range between IDR2.0-4.8 tn. This demonstrates the company's resilience in handling high leverage, and the FCF can be channeled towards debt repayment and expansion, both organically and inorganically. Thus, in FY23E, we project for ~1k additional towers assuming stable tenancy ratio of 1.8x, while the fiber segment gains >75k km additional length.

Recommendation: HOLD with TP IDR1,050/share

We recommend HOLD with TP: IDR1,050/share (+6.1% upside), implying FY23E EV/EBITDA 9.9x. Despite its high leverage ratio, the FTTT segment is projected to be the driver of TOWR's earnings amidst increasing fiber demand. Moreover, TOWR is currently traded at 10.4x EV/EBITDA, below the TowerCo average of 12.1x, showing undemanding valuation. Downside risks: 1) USD/IDR currency; 2) high leverage; 3) consolidation of IOH.

Key Financial Highlight (IDR bn)	FY20	FY21	FY22	FY23E	FY24F
Revenue	7,445.4	8,635.3	11,035.7	11,665.4	12,406.3
Net Income	2,836.0	3,427.4	3,442.0	3,352.6	3,690.6
EPS (IDR)	55.6	67.2	67.5	65.7	72.3
P/E (x)	17.6	14.6	14.5	14.9	13.5
BVS (IDR)	199.6	236.4	282.9	315.8	351.9
P/B (x)	4.9	4.1	3.5	3.1	2.8
EV/EBITDA (x)	10.7	12.4	9.9	9.9	9.3
ROA (%)	8.3	5.2	5.2	4.7	4.9
ROE (%)	27.8	28.4	23.8	20.8	20.6

Sources : Bloomberg, MNCS

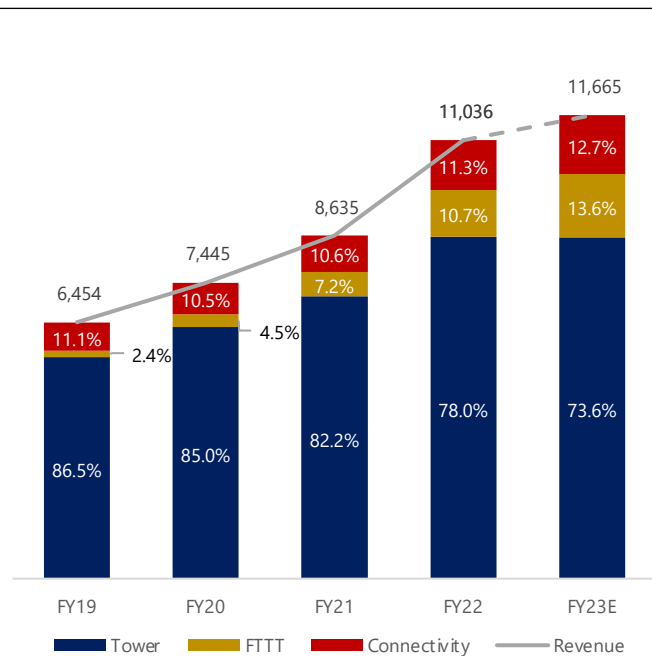

Research Analyst

 Andrew Sebastian Susilo
 andrew.susilo@mncgroup.com

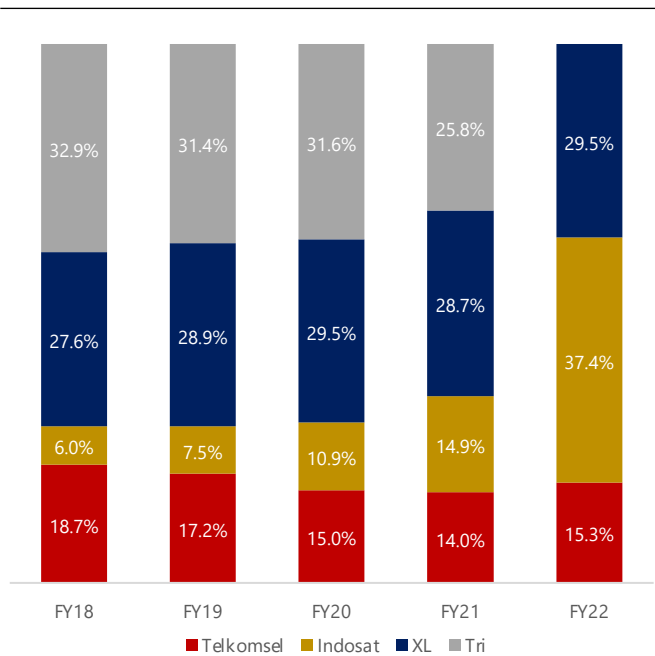
Exhibit 01. TOWR Realized 1H23 vs MNCS vs Consensus

IDR bn	2Q22	1Q23	2Q23	% QoQ	% YoY	1H22	1H23	% YoY	Cons	MNCS	% Cons	% MNCS
Revenues	2,697	2,865	2,912	1.6%	8.0%	5,316	5,776	8.7%	11,611	11,665	49.7%	49.5%
Tower	2,141	2,061	2,113	2.5%	-1.3%	4,281	4,174	-2.5%				
FTTT	217	412	426	3.4%	96.1%	435	839	92.9%				
Connectivity	338	391	352	-9.9%	4.1%	600	743	23.8%				
COGS	731	805	823	2.2%	12.6%	1,441	1,628	13.0%				
Gross Profit	1,966	2,060	2,089	1.4%	6.2%	3,875	4,148	7.0%	8,488	8,577	48.9%	48.4%
GPM	72.9%	71.9%	71.7%			72.9%	71.8%		73.1%	73.5%		
Opex	345	321	358	11.6%	3.7%	647	678	4.7%				
Operating Profit	2,320	2,439	2,475	1.5%	6.7%	4,571	4,914	7.5%	9,922	9,858	49.5%	49.8%
Operating margin	86.0%	85.1%	85.0%			86.0%	85.1%		85.5%	84.5%		
EBITDA	1,621	1,739	1,731	-0.5%	6.8%	3,228	3,470	7.5%	7,414	7,049	46.8%	49.2%
EBITDA margin	60.1%	60.7%	59.5%			60.7%	60.1%		63.9%	60.4%		
PBT	1,028	1,006	992	-1.4%	-3.5%	2,034	1,997	-1.8%	4,388	4,130	45.5%	48.4%
Net Profit	838	752.4	806.7	7.2%	-3.7%	1,691	1,559	-7.8%	3,509	3,353	44.4%	46.5%
Net margin	31.1%	26.3%	27.7%			31.8%	27.0%		30.2%	28.7%		

Sources : Company, Bloomberg, MNCS

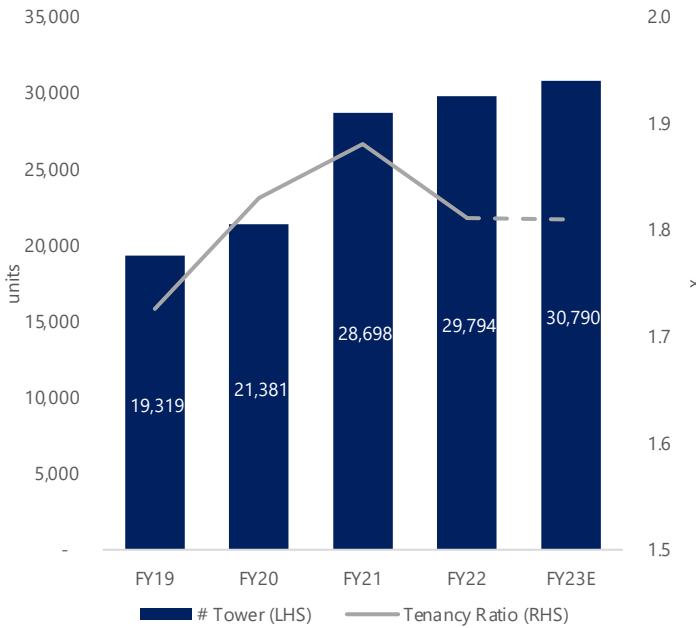
Exhibit 02. Revenue Contributor (IDR bn)


Sources : Company, MNCS

Exhibit 03. TOWR's Customer Composition


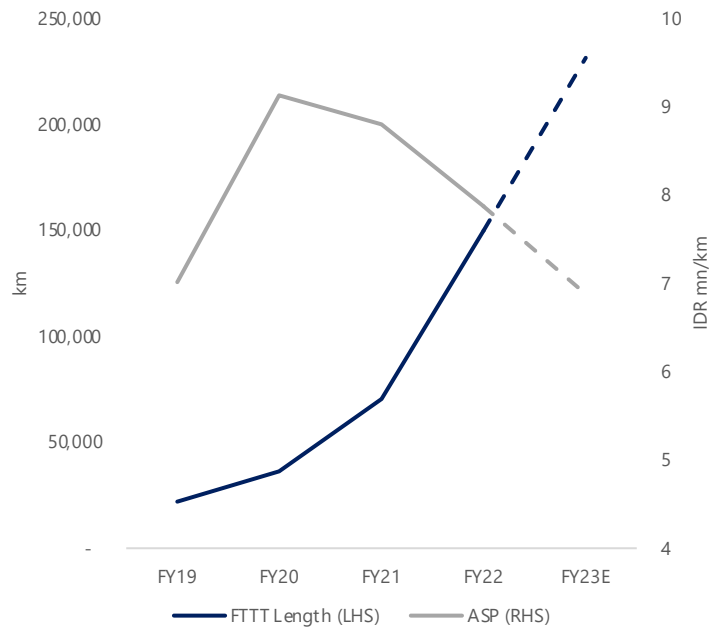
Sources : Company, MNCS

Exhibit 04. Total Tower vs Tenancy Ratio



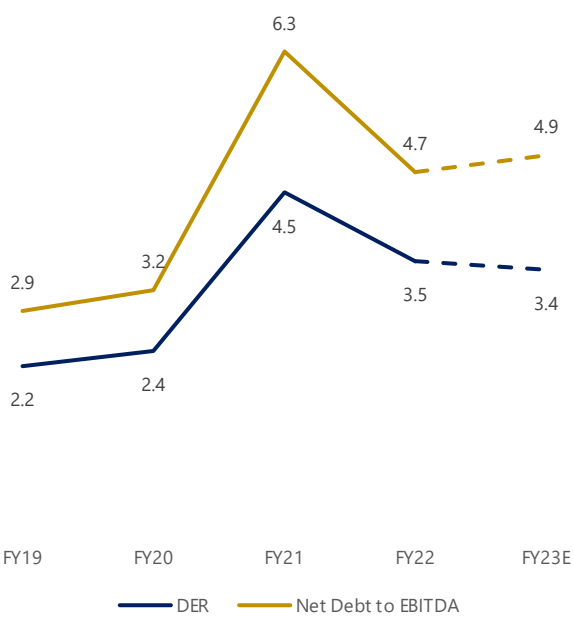
Sources : Company, MNCS

Exhibit 05. FTTT Revenue Generating Length vs ASP



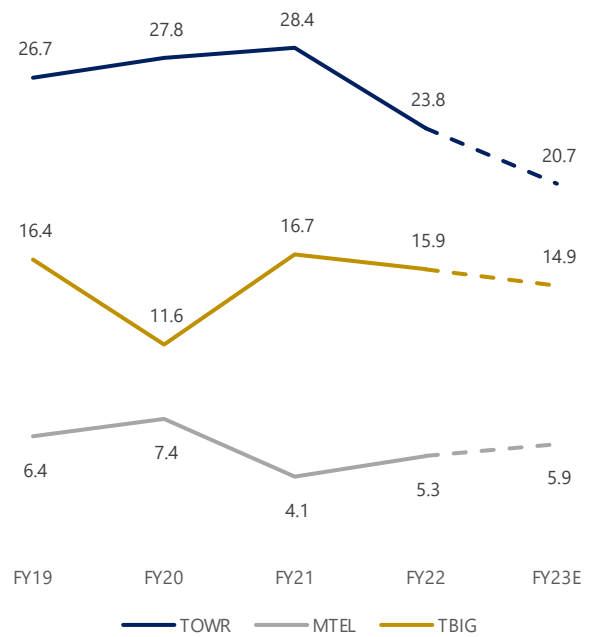
Sources : Company, MNCS

Exhibit 06. DER (x) vs Net Debt to EBITDA (x)



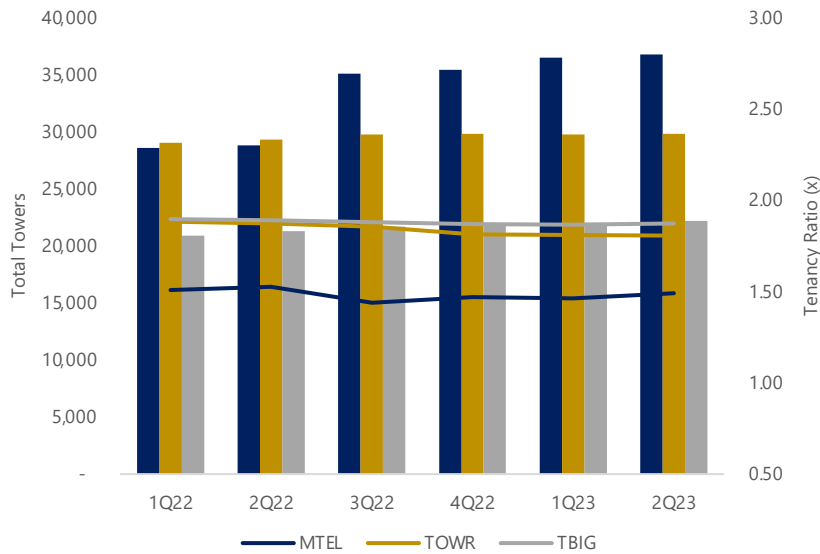
Source : MNCS

Exhibit 07. TowerCo ROE (%)



Source: MNCS

Exhibit 08. Total Tower vs Tenancy Ratio



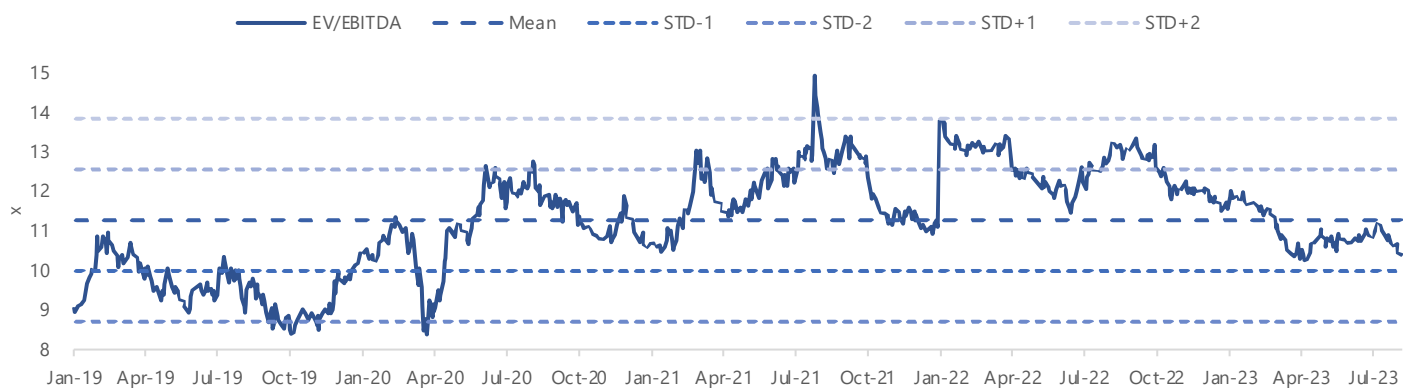
Sources : Company, MNCS

Exhibit 09. Valuation and Profitability Ratio of TowerCo

IDR bn	MTEL	TOWR	TBIG	Industry
Price (IDR)	695	970	1,995	
Outstanding Shares (mn)	83,515	51,015	22,631	
Market Cap	58,043	49,485	43,154	
Total Debt	15,591	44,576	27,512	
Cash & Cash Equivalent	3,812	486	909	
Enterprise Value	69,822	93,574	69,757	
FY23E EBITDA	6,836	9,858	5,861	
EV/EBITDA (x)	10.2	9.5	11.9	10.3
EPS Growth (%)	15.9	(3.1)	3.1	
DER (x)	0.7	3.4	2.2	1.5
OPM (%)	42.8	60.4	65.4	56.2
EBITDA Margin (%)	80.7	84.5	87.2	84.1
NPM (%)	24.4	28.6	25.2	26.1
ROA (%)	3.5	4.7	3.9	4.0
ROE (%)	5.9	20.7	14.9	13.9

Sources: Company, MNCS

Exhibit 10. TOWR is currently traded near STD-0.5 of 5-year EV/EBITDA



Sources : Bloomberg, MNCS

Exhibit 11. Financial Projections

Income Statement						Balance Sheet					
IDR bn	2020	2021	2022	2023E	2024F	IDR bn	2020	2021	2022	2023E	2024F
Revenues	7,445.4	8,635.3	11,035.7	11,665.4	12,406.3	Current Assets	3,002.3	7,398.1	3,651.1	3,829.9	4,439.5
COGS	2,059.3	2,340.2	2,914.5	3,088.3	3,280.9	Cash & Cash Equivalents	1,447.6	4,750.3	308.7	608.5	1,013.6
Gross Profit	5,386.2	6,295.2	8,121.2	8,577.1	9,125.4	Account Receivable	1,240.1	2,171.3	2,557.8	2,433.4	2,587.9
Operating Expense	819.5	898.6	1,293.6	1,528.5	1,568.2	Others current Assets	314.7	476.5	784.7	788.0	838.0
EBIT	4,566.6	5,396.5	6,827.6	7,048.6	7,557.2	Non-Current Assets	31,247.2	58,430.5	61,974.0	67,037.1	70,653.7
EBITDA	6,405.0	7,434.0	9,516.6	9,858.4	10,666.2	Fixed Asset-net	22,757.8	32,951.5	37,152.1	41,061.0	43,028.0
Interest Expense	1,084.4	1,285.3	2,309.6	2,943.5	2,965.9	Other Non-Current Assets	8,489.4	25,479.1	24,821.9	25,976.0	27,625.7
Interest Income	33.6	24.7	23.4	25.1	26.2	TOTAL ASSETS	34,249.6	65,828.7	65,625.1	70,867.0	75,093.2
Other	(116.9)	(85.0)	(82.2)	0.0	0.0	Current Liabilities	7,225.2	21,880.3	14,446.1	14,748.5	14,723.9
Profit Before Tax	3,398.9	4,051.0	4,459.3	4,130.2	4,617.5	Account Payable	543.7	1,586.6	862.5	868.2	922.3
Tax Expense (Benefit)	545.3	603.1	962.7	723.1	872.4	ST Debt	4,391.1	16,793.7	9,563.6	9,659.2	9,369.4
Net Income Before MI	2,853.6	3,447.9	3,496.5	3,407.1	3,745.1	Other current liabilities	2,290.4	3,500.1	4,020.1	4,221.1	4,432.1
Minority Interest	(17.6)	(20.5)	(54.5)	(54.5)	(54.5)	Non-Current Liabilities	16,840.3	31,886.4	36,746.7	40,009.9	42,415.4
Net Profit	2,836.0	3,427.4	3,442.0	3,352.6	3,690.6	LT Debt	15,889.4	30,191.1	35,408.6	38,595.4	40,911.1
EPS (full amount)	55.6	67.2	67.5	65.7	72.3	Other Non-Current Liabilities	950.9	1,695.3	1,338.1	1,414.5	1,504.3
						TOTAL EQUITY	10,184.0	12,062.0	14,432.3	16,108.7	17,953.9
						TOTAL LIABILITIES & EQUITY	34,249.6	65,828.7	65,625.1	70,867.0	75,093.2
Cash Flow						Ratios					
IDR bn	2020	2021	2022	2023E	2024F	IDR bn	2020	2021	2022	2023E	2024F
CFO Total	5,207.4	6,624.3	5,232.2	6,490.3	6,860.2	Revenue Growth (%)	15.4	16.0	27.8	5.7	6.4
Net Income	2,836.0	3,427.4	3,442.0	3,352.6	3,690.6	EBIT Growth (%)	21.4	16.1	28.0	3.6	8.2
Depr.	1,838.4	2,037.5	2,689.0	2,809.8	3,109.0	Net Profit Growth (%)	21.1	20.9	0.4	(2.6)	10.1
Change in Working Capital	10.2	111.6	(1,110.6)	130.2	(100.4)	Current Ratio (%)	41.6	33.8	25.3	26.0	30.2
Change in Others	166.0	466.9	154.7	485.4	(49.7)	Quick Ratio (%)	37.2	31.6	19.8	20.6	24.5
CFI Total	(7,894.3)	(29,220.8)	(6,232.4)	(7,872.9)	(6,725.6)	Receivable Days	60.8	91.8	84.6	76.1	76.1
Capex	(4,948.2)	(12,231.1)	(6,889.6)	(6,718.8)	(5,076.0)	Payable Days	242.2	644.4	243.4	207.3	214.7
Change in Others	(2,946.1)	(16,989.7)	657.1	(1,154.1)	(1,649.7)	Net gearing (x)	2.4	4.5	3.5	3.4	3.2
CFF Total	3,541.6	25,892.7	(3,963.1)	1,682.5	270.5	Debt to EBITDA (x)	2.9	5.7	4.7	4.8	4.6
Net Change in Debt	5,038.5	26,704.2	(2,012.6)	3,282.4	2,025.9	Gross Margin (%)	72.3	72.9	73.6	73.5	73.6
Equity financing	(231.0)	(151.4)	127.7	-	-	Operating Margin (%)	61.3	62.5	61.9	60.4	60.9
Dividend payment	(1,174.0)	(1,404.6)	(1,721.0)	(1,676.3)	(1,845.3)	EBITDA Margin (%)	86.0	86.1	86.2	84.5	86.0
Others	(91.8)	744.4	(357.2)	76.4	89.8	Net Margin (%)	38.1	39.7	31.2	28.7	29.7
Net Cash Increase	854.7	3,296.2	(4,963.3)	299.9	405.1	ROA (%)	8.3	5.2	5.2	4.7	4.9
Closing Balance	1,447.6	4,750.3	308.7	608.5	1,013.6	ROE (%)	27.8	28.4	23.8	20.8	20.6

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

Disclaimer

This research report has been issued by PT MNC Sekuritas, It may not be reproduced or further distributed or published, in whole or in part, for any purpose. PT MNC Sekuritas has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; PT MNC Sekuritas makes no guarantee, representation or warranty and accepts no responsibility to liability as to its accuracy or completeness. Expression of opinion herein are those of the research department only and are subject to change without notice. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment. PT MNC Sekuritas and its affiliates and/or their offices, director and employees may own or have positions in any investment mentioned herein or any investment related thereto and may from time to time add to or dispose of any such investment. PT MNC Sekuritas and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discusses herein (or investment related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.