

BUY | TP : IDR1,050
TOWR Stock Price Data

Last Price	:	IDR745
52wk High	:	IDR1,130
52wk Low	:	IDR660
Share Out	:	49.8bn
Market Cap	:	IDR37.1tn

TOWR Stock Price Performance

1-Day	:	0.00%
1-Week	:	+4.20%
1-Month	:	+4.20%
3-Month	:	-13.87%
Year-to-Date	:	-24.75%

Shareholders

PT Sapta Adhikari Investama	:	54.42%
PT Dwimuria Investama Andalan	:	5.00%
Public (<5%)	:	40.58%

PT Sarana Menara Nusantara Tbk (TOWR IJ)
Unpacking TOWR's Performance Metrics and Strategic Acquisition
The Non-Tower Segment as Revenue Brace Amid Flattening Tower Performance

- In 1Q24, TOWR booked a revenue of IDR3.05trillion (+0.85% QoQ/+6.35% YoY), representing each 24.67%/24.69% of our target and consensus. This was influenced by the flat performance in the tower segment (-1.05% QoQ/+0.97% YoY) due to decreasing number of tenants (-0.21% QoQ) which resulted into lower tenancy ratio at 1.74x from 1.78x in FY23. On the other hand, the non-tower business improved well (+5.23% QoQ/+20.17% YoY), mainly flourished by the growth in the sections of the FTTT (+3.25% QoQ/+15.53% YoY) and the FTTH (+31.11% QoQ/972.73% YoY). Following this, we estimate the non-tower line to continue as a growth driver to the company, favoured by aggressive fiber optics rollouts, with our projection of this segment revenue to expand by +19.64%/+22.75% YoY in FY24E/FY25F. Meanwhile, we anticipate a flattish presentation in the tower performance (-0.54%/-0.42% YoY in FY24E/FY25F) with lower tenancy ratio of 1.74x/1.72x. Our estimations for both segments are projected into +5.20%/+7.07% YoY total revenue growth in FY24E/FY25F.
- From earnings standpoints, TOWR recorded IDR2.44trillion EBITDA (-5.63% QoQ/+3.02% YoY), reflecting 23.59%/23.43% of our estimation/consensus. This brought into a tapering EBITDA margin of 80.08% (vs 82.67%/85.58% in 1Q23/4Q23). Meanwhile, the net profit stood at IDR797.39billion (-3.64% QoQ/+5.98% YoY) with a relatively stable NPM of 26.17% (vs 26.27%/27.39% in 1Q23/4Q23). This bottom-line reflected 22.97%/22.94% of our estimation/consensus. The earnings were impacted by higher cost of revenue (-12.92% QoQ/+14.87% YoY) and operating expenses (+51.12% QoQ/+28.53% YoY). We expect TOWR's EBITDA to improve by +5.69%/+7.31% YoY with a margin of 83.73%/83.92% in FY24E/FY25F and its net profit to increase by +6.72%/10.74% YoY with NPM of 28.11%/29.07% in FY24E/FY25F.

Painting a Fuller Picture of the IBST Acquisition

Upon the completion of IBST acquisition, TOWR owns 90.11% of the shares through its indirect subsidiary, iForte. This deal was closed at IDR2,813/share, amounting to IDR3.42trillion in total. We view this investment as a sweet deal, as it was acquired at a significantly discounted price with an 11.76x EV/EBITDA and 0.61x PBV. This acquisition will strategize TOWR's position in the industry, resulting to an estimated ownership of 34,283 towers, 60,055 tenants, and 238,214 km optical fiber. Additionally, we expect IBST to complement relatively positive towards TOWR's performance, should the financial statements console in FY24E, where we project the revenue to grow at 13.15% YoY in FY24E (from +5.20% YoY without IBST) and an additional of IDR672.68billion EBITDA. Meanwhile, we consider the potential burden of debt towards the company's performance as one dilutive factor resulted from this deal, with an estimated of IDR217.10billion additional financial expense (~6.34% interest cost).

Maintaining a BUY rating, with a TP of IDR1,050/share

We maintain a BUY recommendation for TOWR with a TP of IDR1,050/share (+40.94% upside), implying 8.33x of FY24E EV/EBITDA. Our projections and valuation have not factored in the IBST acquisition yet. Reflecting from its 5-year EV/EBITDA, TOWR is currently trading near STD-2. The downside risks to our call include: 1) the weakening of IDR exchange rate; 2) higher interest on debt.

Key Financial Highlight (IDR bn)	FY21	FY22	FY23	FY24E	FY25F
Revenue	8,635.35	11,035.65	11,740.35	12,350.64	13,223.65
Net Income	3,427.38	3,442.03	3,253.10	3,471.77	3,844.63
EPS (IDR)	68.82	69.12	65.32	69.72	77.20
PE (x)	10.82	10.78	11.40	10.69	9.65
BVS (IDR)	242.21	289.81	331.57	377.18	429.37
PBV (x)	3.08	2.57	2.25	1.98	1.74
EV/EBITDA (x)	11.04	8.98	8.38	8.16	7.74
ROA (%)	5.21	5.24	4.75	4.77	4.99
ROE (%)	28.41	23.85	19.70	18.48	17.98

Sources : Bloomberg, MNCS Research


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Painting a Fuller Picture of the IBST Acquisition

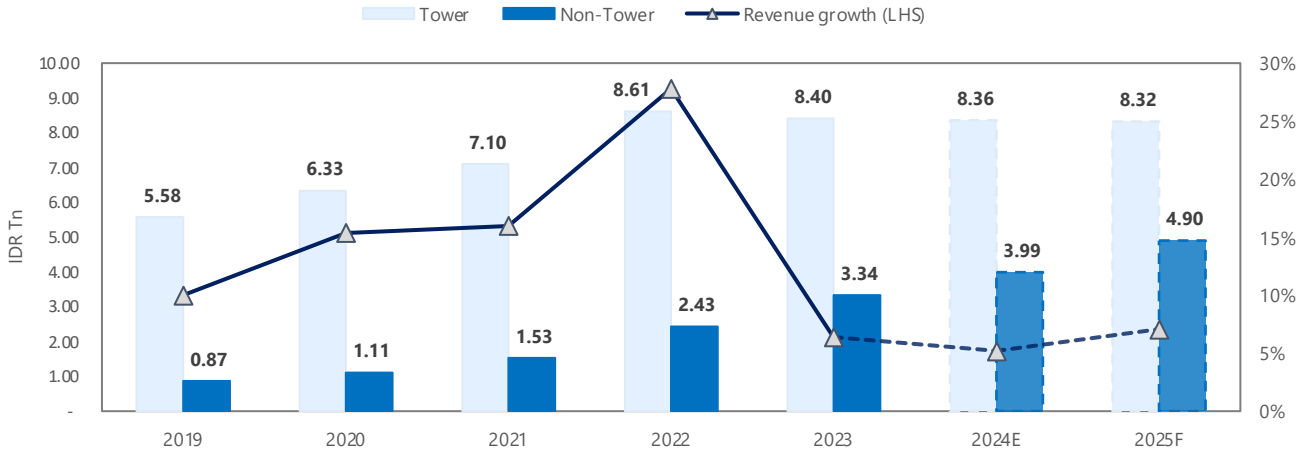
- On July 1st, 2024, TOWR completed the acquisition of PT Inti Bangun Sejahtera Tbk (IBST IJ) through its indirect subsidiary, iForte, with 90.11% ownership. This deal was transacted at IDR2,813/share, amounting to IDR3.42trillion in total. We view this investment as a sweet deal, as it was acquired at a significantly discounted price with an 11.76x EV/EBITDA and 0.61x PBV, compared to the IBST market trading price of 16.54x EV/EBITDA and 1.19x PBV. This is also favourable compared to the previous acquisition of SUPR, which was transacted at 17.75x EV/EBITDA and 8.97x PBV. Following the completion of this transaction, iForte will conduct a mandatory tender offer.
- As of FY23, IBST owns a portfolio consisting of 3,234 towers, 5,885 tenants, and 17,239km fiber optic. Hence, this acquisition will strengthen TOWR's position in the industry, resulting to an estimated ownership of 34,283 towers, 60,055 tenants, and 238,214 km optical fiber (as of TOWR's portfolio in 1Q24) to enhance its FTTT, connectivity, and FTTH business segments. Following this, IBST shall compliment positively to a slight improvement of TOWR's tenancy ratio at 1.75x from 1.74x. Additionally, we estimate the tower market share of TOWR to increase by ~3%.
- We expect IBST to contribute relatively positive towards TOWR's performance after consolidation. Should the financial statements console in FY24E, our estimation on TOWR's revenue is to grow at 13.15% YoY in FY24E (from +5.20% YoY without IBST). Additionally, we estimate an additional of IDR672.68billion EBITDA to be generated from this acquisition. However, we anticipate that the EBITDA margin may fall slightly to 82.91% (from 83.73% before IBST), as well as the NPM from 28.11% to 26.30%.
- Considering that IBST's customers portfolio is mainly dominated by FREN, 74.62% as of FY23 or 65.72% as of 1Q24, we anticipate that TOWR's revenue from FREN to increase to >5% contribution from <5% currently.
- Our concern on this deal is its potential burden of debt towards the company's performance. Considering that TOWR's cash and equivalents stood at IDR1.13trillion as of 1Q24, we assume that this deal was fully facilitated by debt. Hence, we estimate an additional IDR217.10billion financial cost may be resulted from this transaction (with ~6.34% interest cost).

Exhibit 01. We estimate the acquisition of IBST to bode relatively well towards TOWR's performance in the future

Performance (IDR Billion)	IBST		TOWR		IBST+TOWR
	FY23	1Q24	FY24E	FY24E	FY24E
Revenue	1,109.76	222.11	933.19	12,350.64	13,283.84
Gross Profit	592.87	64.65	485.14	8,745.18	9,230.33
GPM (%)	53.42%	29.11%	51.99%	70.81%	69.49%
Operating Profit	417.95	(17.11)	325.67	7,431.65	7,757.32
OPM (%)	37.66%	-7.70%	34.90%	60.17%	58.40%
EBITDA	813.91	108.60	672.68	10,341.35	11,014.03
EBITDA Margin (%)	73.34%	48.89%	73.02%	83.73%	82.91%
Net Profit	38.30	(933.49)	21.82	3,471.77	3,493.59
NPM (%)	3.45%	-420.28%	2.34%	28.11%	26.30%

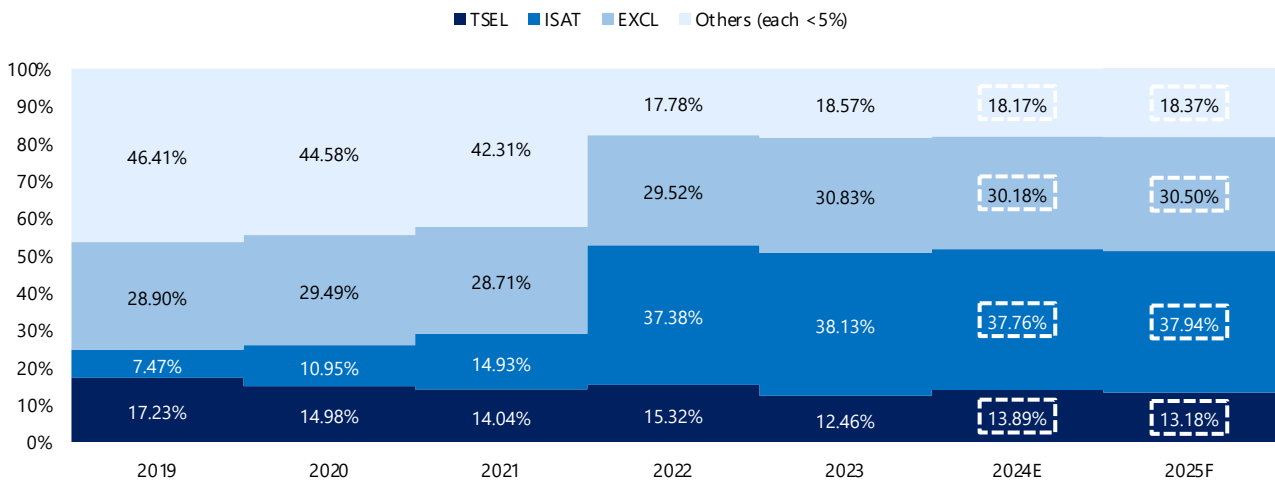
Sources: Company, MNCS

Exhibit 02. TOWER' segment contribution profile and projection



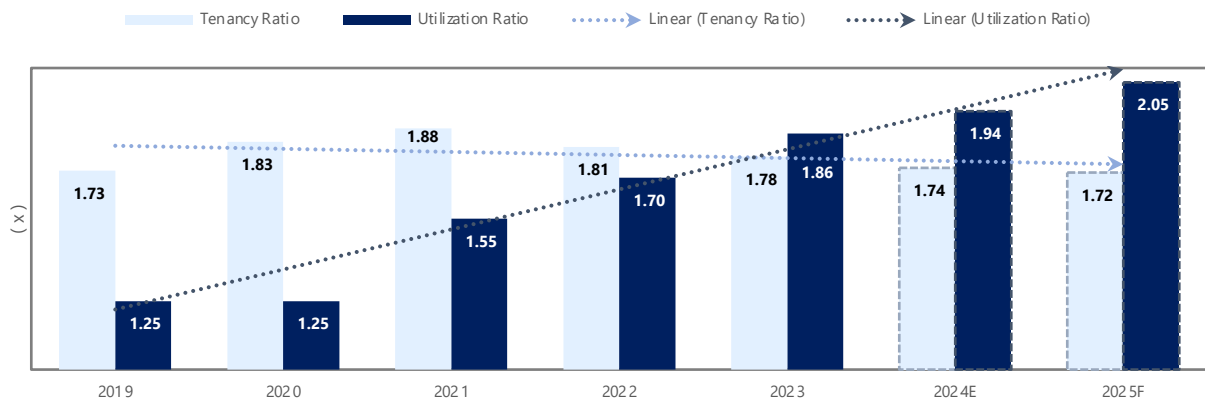
Sources: Company, MNCS

Exhibit 03. TOWER's customer profiles towards its revenue, with contribution from FREN is currently <5%, but expected to increase to >5% through IBST acquisition



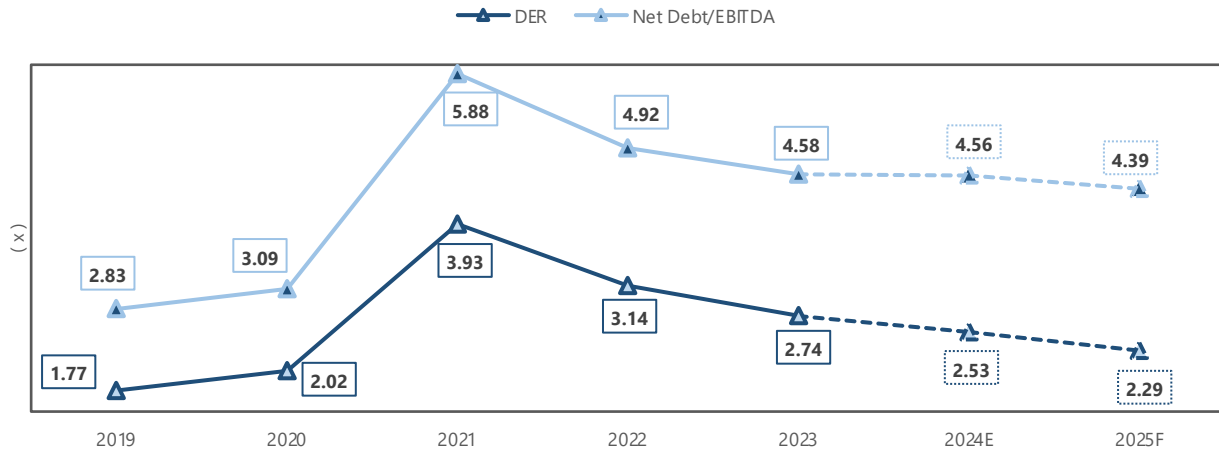
Sources: Company, MNCS

Exhibit 04. The downtrend of TOWER's tenancy ratio is coupled with the uptrend of the utilization ratio, indicating the non-tower segment to become the growth engine in the future



Sources: Company, MNCS

Exhibit 05. TOWR's debt ratios towards the years



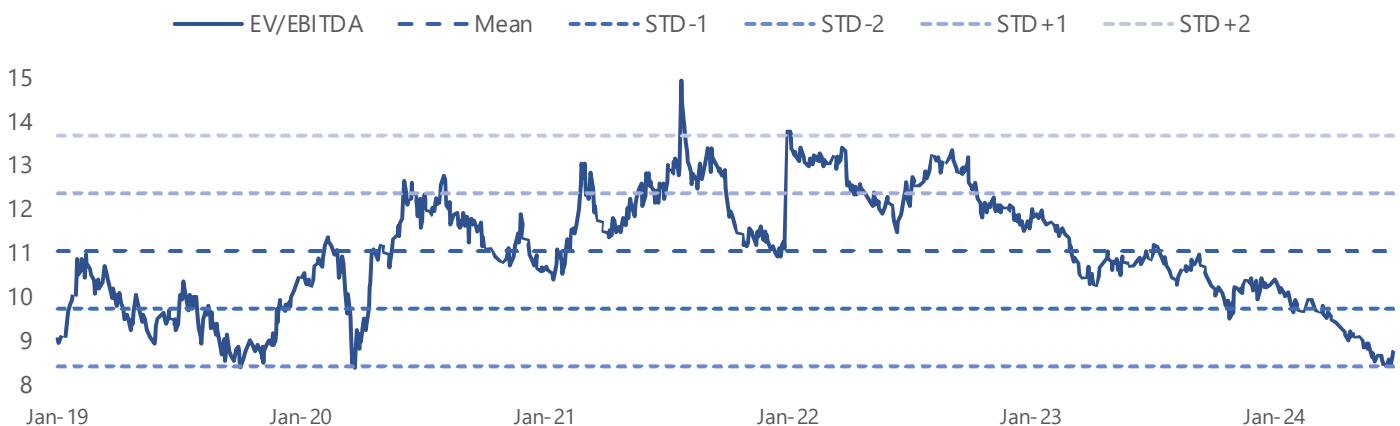
Sources: Company, MNCS

Exhibit 06. The performance of TOWR in 1Q24 compared to consensus and our projections

IDR billion	1Q23	4Q23	1Q24	QoQ	YoY	FY24E Consensus	FY24E MNCS	% Consensus	% MNCS
Revenue	2,864.67	3,020.97	3,046.55	0.85%	6.35%	12,338.74	12,350.64	24.69%	24.67%
COGS	805.11	1,062.05	924.85	-12.92%	14.87%	3,199.52	3,605.46	28.91%	25.65%
Gross Profit	2,059.56	1,958.91	2,121.70	8.31%	3.02%	9,139.22	8,745.18	23.22%	24.26%
Gross Profit Margin	71.90%	64.84%	69.64%			74.07%	70.81%		
Operating Profit	1,739.02	1,686.29	1,709.72	1.39%	-1.69%	7,474.48	7,431.65	22.87%	23.01%
Operating Profit Margin	60.71%	55.82%	56.12%			60.58%	60.17%		
EBITDA	2,368.13	2,585.37	2,439.75	-5.63%	3.02%	10,410.96	10,341.35	23.43%	23.59%
EBITDA Margin	82.67%	85.58%	80.08%			84.38%	83.73%		
Profit Before Tax	871.26	859.17	857.03	-0.25%	-1.63%	4,267.99	3,886.54	20.08%	22.05%
Net Profit	752.43	827.52	797.39	-3.64%	5.98%	3,475.40	3,471.77	22.94%	22.97%
Net Profit Margin	26.27%	27.39%	26.17%			28.17%	28.11%		

Sources: Company, MNCS

Exhibit 07. TOWR is currently trading near STD-2 of its 5-Year EV/EBITDA



Sources: Bloomberg, MNCS

Exhibit 08. Financial Projections

Income Statement						Balance Sheet					
IDR Billion	2021	2022	2023	2024E	2025F	IDR Billion	2021	2022	2023	2024E	2025F
Revenues	8,635.35	11,035.65	11,740.35	12,350.64	13,223.65	Total Current Assets	7,398.14	3,651.13	4,426.88	4,008.40	4,143.64
COGS	(2,340.17)	(2,914.45)	(3,527.75)	(3,605.46)	(3,874.85)	Cash and Cash Equivalents	4,748.36	308.64	428.68	366.11	252.02
Gross Profit	6,295.17	8,121.20	8,212.59	8,745.18	9,348.79	Trade Receivables	2,171.30	2,557.80	3,086.33	2,738.57	2,981.37
Operating Expense	(898.62)	(1,293.56)	(1,271.29)	(1,313.53)	(1,378.46)	Other Current Assets	478.48	784.69	911.87	903.72	910.25
Operating Profit	5,396.55	6,827.64	6,941.30	7,431.65	7,970.34	Total Non-Current Assets	58,430.53	61,974.00	63,992.06	68,727.94	72,892.30
EBITDA	7,256.37	9,134.32	9,784.57	10,341.35	11,097.13	Fixed Assets - net	32,951.48	37,152.09	40,385.07	44,719.74	49,003.90
Interest Expense	(1,345.58)	(2,368.39)	(2,837.51)	(3,006.79)	(3,073.06)	Other Non-Current Assets	25,479.05	24,821.91	23,606.99	24,008.21	23,888.40
Other income (expense)	(334.89)	(511.22)	(557.92)	(538.32)	(604.92)	Total Assets	65,828.67	65,625.14	68,418.95	72,736.35	77,035.94
Profit Before Tax	3,716.08	3,948.03	3,545.88	3,886.54	4,292.36	Total Current Liabilities	21,880.26	14,446.08	24,298.95	23,543.75	23,986.62
Tax Expense	(268.21)	(451.50)	(242.23)	(363.18)	(395.07)	Trade Payables	521.68	839.30	1,206.94	990.51	1,082.56
Net Income Before MI	3,447.88	3,496.54	3,303.64	3,523.36	3,897.30	Short-term Debt	16,793.66	9,563.55	18,589.67	18,087.21	18,153.45
Minority Interest	(20.50)	(54.51)	(50.55)	(51.60)	(52.67)	Other Current Liabilities	4,564.92	4,043.24	4,502.34	4,466.03	4,750.61
Net Income	3,427.38	3,442.03	3,253.10	3,471.77	3,844.63	Total Long-Term Liabilities	31,886.39	36,746.72	27,608.33	30,409.32	31,667.09
EPS (full amount)	68.82	69.12	65.32	69.72	77.20	Long-Term Debt	30,668.61	35,681.86	26,637.45	29,465.79	30,812.24
						Other Long-Term Liabilities	1,217.78	1,064.86	970.88	943.52	854.85
						Total Equity	12,062.02	14,432.33	16,511.66	18,783.28	21,382.23
						Total Liabilities & Equity	65,828.67	65,625.14	68,418.95	72,736.35	77,035.94

Cash Flow						Ratios					
IDR Billion	2021	2022	2023	2024E	2025F	2021	2022	2023	2024E	2025F	
CFO	8,026.43	3,602.30	4,518.17	4,963.47	5,468.92	Revenue Growth (%)	15.98	27.80	6.39	5.20	7.07
Net Income	3,427.38	3,442.03	3,253.10	3,471.77	3,844.63	EBITDA Growth (%)	16.84	25.88	7.12	5.69	7.31
Depreciation	737.13	1,019.76	1,389.52	1,388.53	1,497.00	Net Income Growth (%)	20.85	0.43	(5.49)	6.72	10.74
Change in Working Capital	(944.42)	(68.89)	(175.46)	145.90	(150.75)	Current Ratio (x)	0.34	0.25	0.18	0.17	0.17
Change in Others	4,806.33	(790.60)	51.01	(42.73)	278.05	Quick Ratio (x)	0.34	0.25	0.18	0.17	0.17
CFI	(30,619.92)	(4,600.54)	(3,112.10)	(6,124.41)	(5,661.35)	Receivables Days	72.10	78.21	87.74	80.93	82.29
Capex	(13,769.87)	(5,692.30)	(4,824.99)	(5,723.19)	(5,781.16)	Payable Days	82.40	85.22	105.86	100.27	101.97
Change in Others	(16,850.05)	1,091.76	1,712.89	(401.22)	119.81	Debt to Equity (x)	3.93	3.14	2.74	2.53	2.29
CFF	25,899.23	(3,441.49)	(1,286.04)	1,098.38	78.33	Net Debt to EBITDA (x)	5.88	4.92	4.58	4.56	4.39
Change in Debt	26,842.28	(2,216.86)	(18.30)	2,325.89	1,412.68	Gross Profit Margin (%)	72.90	73.59	69.95	70.81	70.70
Change in Equity	-	-	(2.95)	-	-	Operating Margin (%)	62.49	61.87	59.12	60.17	60.27
Dividend	(1,399.00)	(1,200.15)	(1,200.16)	(1,200.16)	(1,245.68)	EBITDA Margin (%)	84.03	82.77	83.34	83.73	83.92
Other	455.95	(24.48)	(64.63)	(27.36)	(88.67)	Net Profit Margin (%)	39.69	31.19	27.71	28.11	29.07
Change in Cash	3,305.74	(4,439.73)	120.04	(62.56)	(114.10)	ROA (%)	5.21	5.24	4.75	4.77	4.99
Closing Balance	4,748.36	308.64	428.68	366.11	252.02	ROE (%)	28.41	23.85	19.70	18.48	17.98

Sources : Company, MNCS Research

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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