

SELL

Target Price Rp 6,600

Upside (Downside) (22.3%)

TBIG.JK/TBIG.U

Last Price, Rp 8,500

No. of shares (bn) 4,796

Market Cap, IDR bn 40,766

(US\$ mn) 3,369

3M T/O, US\$mn 0.6

Tower Bersama**Value-accretive acquisition**

We raise our TP on Tower Bersama Infrastructure (TBIG) to IDR6,600 from IDR6,350 previously to factor in its acquisition of Mitratel via share swap. The acquisition will allow TBIG to grow faster given Mitratel's towers' low tenancy ratio and an increase in ability to assume more debt due to larger equity base. We expect EBITDA growth to accelerate to a CAGR of 34% in the next two years from our previous expectation of a CAGR of 25%. Nevertheless, there will be EPS-dilution from the increase in number of shares, minority interests, and interest expense from rising gearing level. That said, we cut our EPS estimate on TBIG by 17% in 2015 and 2016. We maintain SELL on the counter as the stock remain expensive compared to TOWER, trading at FY15F EV/EBITDA of 14.7x vis-à-vis TOWER's of 12.4x.

Share swap with conditional cash payment based on achievement of milestones

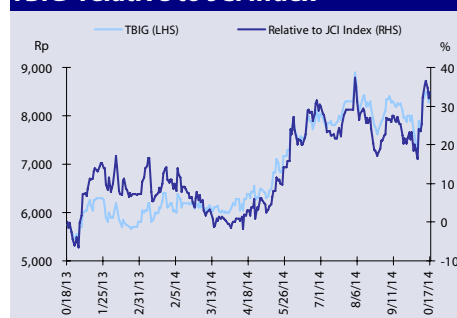
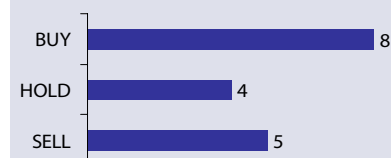
TBIG has entered an agreement with Telkom to buy 49% stake in Mitratel through a share swap with 290mn of new TBIG shares, giving Telkom 5.7% ownership in TBIG. Telkom also has option to further divest the remaining 51% ownership in Mitratel within two years in exchange for 472.5mn of new TBIG shares, which if exercised will give Telkom 13.7% ownership in TBIG. We gather that Telkom will likely swap unless unusual situation occurs dictating otherwise. On top of that, TBIG will pay Telkom earnout of up to IDR1,739bn if Mitratel achieves certain performance milestones. The additional earnout will not be in lump sum; rather, the payment will be in several stages, based on different tenancy ratio thresholds of Mitratel.

Valuation not excessive

According to release from Telkom, net debt of Mitratel as of June 2014 was IDR2.7tn while TBIG's net debt as of June 2014 was IDR14.2tn. Using these figures and TBIG shares' 30-days VWAP of IDR7,972, the transaction values 100% of Mitratel at a maximum level of IDR8.2tn. This implies that the value of the transaction was between USD85k to USD172k. Given Mitratel's tenancy ratio of 1.1x, we see the transaction as fair, as other tower transaction in Indonesia averages at EV/tower multiple of USD147k for tenancy of 1.4x-1.8x.

EBITDA accretive and EPS destructive in the short term, but overall positive for growth

Telkom said that Mitratel had revenue of IDR1.5tn and EBITDA of IDR875bn in 2013. The EBITDA will be immediately accretive to TBIG's performance, thus giving the company an increase in borrowing ability as lenders usually set the covenant based on last quarter annualized (LQA) or last twelve months (LTM) EBITDA. However, we see the acquisition to be EPS destructive in the short term due to several reasons: 1) TBIG will increase its net gearing by IDR2.7tn, and interests on the new debts are higher than that of TBIG's existing debt at JIBOR+1.4%-3% (9.7%-11.3%) vis-à-vis TBIG's current average of 5.8%, 2) increase in minority interests from Telkom's ownership in Mitratel, and 3) EPS dilution from issuance of new shares. But overall, we believe the acquisition will allow TBIG to grow faster in the foreseeable future.

TBIG relative to JCI Index**Market Recommendation****Danareksa vs Consensus**

	Our	Cons	% Diff
Target price, IDR	6,600	8,705	-24.2
EPS 2014F, IDR	312	296	5.4
PE 2014F, x	27.2	28.7	-5.2

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Danareksaresearch reports are also available at Reuters Multex and First Call Direct and Bloomberg.

	2012	2013	2014F	2015F	2016F
Revenue, IDRbn	1,715	2,691	3,560	4,870	5,466
EBITDA, IDRbn	1,398	2,205	2,906	3,918	4,369
EBITDA growth, %	83.1	57.7	31.8	34.8	11.5
Net profit, IDRbn	856	1,248	1,496	1,629	2,042
Core profit, IDRbn	679	1,269	1,496	1,629	2,042
EPS, IDR	181	260	312	320	367
EPS growth, %	73.7	43.9	19.9	2.7	14.7
Core EPS, IDR	143	264	312	320	367
Core EPS growth, %	68.2	84.5	17.9	2.7	14.7
Net gearing, %	193.7	299.8	208.9	117.6	97.8
PER, x	47.0	32.7	27.3	26.5	23.1
Core PER, x	59.3	32.1	27.3	26.5	23.1
Yield, %	0.0	0.7	1.3	1.1	1.2
EV/EBITDA, x	34.7	24.1	18.1	14.7	14.0

Exhibit 1. The scenarios suggest transaction value of USD85k-USD172k per tower

	No additional earnout		Max additional earnout	
	No	Yes	No	Yes
Further sale of 51% shares in Mitratel				
Current # of shares (bn)	4.80	4.80	4.80	4.80
New shares issued (bn)	0.29	0.76	0.29	0.76
Total shares (bn)	5.09	5.56	5.09	5.56
TBIG's price prior to announcement	7,972	7,972	7,972	7,972
Value of Telkom's TBIG shares (IDRbn)	2,312	6,079	2,312	6,079
EV of Telkom's TBIG shares (IDRbn)	1,349	3,765	1,349	3,765
Additional earnout (IDRbn)	0	0	1,739	1,739
Net debt at Mitratel (IDRbn)	2,707	2,707	2,707	2,707
Transaction EV (IDRbn)	5,019	8,786	6,758	10,525
Transaction EV incl TBIG's debt (IDRbn)	4,056	6,472	5,795	8,211
No of towers	3,928	3,928	3,928	3,928
EV/tower (IDRbn)	2.61	2.24	3.51	2.68
In USDk	214	184	288	220
EV/tower incl TBIG's debt (IDRbn)	1.03	1.65	1.48	2.09
In USDk	85	135	121	172

Source: Danareksa Sekuritas

Exhibit 2. Mitratel's site locations (including rooftops etc)

Source: Mitratel

Exhibit 3. Comparison between Mitratel, XL, and Indosat's tower transactions

	Mitratel	XL	Indosat
# of towers divested	3,928	3,500	2,500
Tenancy (x)	1.1	1.8	1.4
Value (USDmn)	192-507	467	406
Enterprise value (USDmn)	338-684	467	406
EV/tower (USDk)	86-174	133	162
Monthly lease (IDRmn)	15-17	10	15
Earnout (USDmn)	145	0	113

Source: Company, Danareksa

Exhibit 4. Change in forecasts

	New		Old	
	FY15F	FY16F	FY15F	FY16F
Revenue	4,870	5,466	4,342	5,197
EBITDA	3,918	4,369	3,533	4,208
Net profit	1,629	2,042	1,861	2,117
# of towers	15,794	17,294	12,866	14,866
Tenancy	1.58	1.61	1.73	1.78

Source: Danareksa Sekuritas

Exhibit 5. Profit and Loss (IDR bn)

	2012	2013	2014F	2015F	2016F
Revenue	1,715	2,691	3,560	4,870	5,466
Depreciation	(118)	(153)	(190)	(290)	(339)
Other operating expenses	(317)	(485)	(655)	(953)	(1,097)
Operating income	1,280	2,052	2,716	3,628	4,030
EBITDA	1,398	2,205	2,906	3,918	4,369
Others					
Net interest	(518)	(839)	(832)	(1,107)	(1,099)
Forex	(84)	(799)	0	0	0
Revaluation of investment properties	259	781	0	0	0
Others	(23)	(18)	(14)	(15)	(14)
Pre tax income	913	1,177	1,870	2,506	2,918
Income tax	(85)	(104)	(187)	(501)	(292)
Minorities	(85)	(104)	(187)	(501)	(292)
Net profit	856	1,248	1,496	1,629	2,042

Source: Company, Danareksa Sekuritas

Exhibit 6. Balance sheet (IDR bn)

	2012	2013	2014F	2015F	2016F
Cash and equivalent	507	647	653	936	1,755
Receivable	154	603	590	771	872
Inventory	229	328	392	511	547
Other current assets	1,411	1,020	1,102	1,416	1,486
Total current assets	2,301	2,599	2,736	3,635	4,659
Fixed assets - net	87	220	231	240	245
Investment properties	10,364	12,965	15,176	22,443	24,203
LT site rentals	619	908	1,142	1,484	1,582
Other LT assets	946	2,028	1,040	3,180	3,239
Total non current assets	12,016	16,121	17,589	27,347	29,270
TOTALASSETS	14,317	18,719	20,325	30,982	33,929
ST loans	0	0	0	0	0
Payables	253	126	325	463	424
Unearned revenue	209	446	547	709	802
Current portion of LT loans	858	2,331	2,328	2,518	2,328
Other current liabilities	862	1,028	1,374	2,087	2,317
Total current liabilities	2,182	3,931	4,574	5,776	5,872
LT loans	7,871	10,650	10,087	12,871	13,557
Other LT liabilities	19	24	32	44	49
Total non current liabilities	7,890	10,674	10,119	12,915	13,606
TOTALLIABILITIES	10,072	14,605	14,693	18,691	19,478

Source: Company, Danareksa Sekuritas

Exhibit 7. Cash flow (IDR bn)

	2012	2013	2014F	2015F	2016F
Pre tax income	913	1,177	1,870	2,506	2,918
Depreciation	118	153	190	290	339
Income tax	14	174	(187)	(376)	(584)
Others	232	81	196	(223)	(267)
Cash flow from operation	1,277	1,586	2,068	2,197	2,406
Capex	(5,867)	(1,848)	(2,412)	(7,565)	(2,103)
Disposal of fixed assets	0	0	0	0	0
Others	295	(743)	(68)	(2,352)	(99)
Cash flow from investing	(5,572)	(2,591)	(2,480)	(9,918)	(2,202)
Change in loans	4,391	1,245	(566)	2,974	496
Change in equity	757	(577)	0	2,312	3,767
Dividend	0	(288)	(512)	(469)	(551)
Others	(761)	502	1,495	3,186	(3,097)
Cash flow from financing	4,387	881	417	8,003	615
Change in cash	92	(124)	6	283	819

Source: Company, Danareksa Sekuritas

Exhibit 8. Ratios

	2012	2013	2014F	2015F	2016F
Profitability (%)					
Gross profit margin	84.6	85.3	85.1	83.1	82.4
Operating margin	74.6	76.3	76.3	74.5	73.7
EBITDA margin	81.5	82.0	81.6	80.4	79.9
Net profit margin	49.9	46.4	42.0	33.5	37.4
ROAA	8.1	7.6	7.7	6.4	6.3
ROAE	24.6	29.9	30.7	18.2	15.3
Liquidity					
Current ratio, x	1.1	0.7	0.6	0.6	0.8
Quick ratio, x	0.2	0.2	0.1	0.2	0.3
Activity					
Receivable turnover, days	32.3	51.4	61.2	51.0	54.9
Payable turnover, days	138.4	108.1	97.3	115.7	112.8
Working capital cycle, days	106.1	56.8	36.1	64.7	57.9
Leverage					
Net gearing, %	194	300	209	118	98
Interest coverage	2.7	2.6	3.5	3.5	4.0
Net debt to EBITDA	5.9	5.6	4.0	3.7	3.2

Source: Company, Danareksa Sekuritas

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