

Thursday, 21 February 2019

**BUY**  
**Maintain**

Last price (IDR)	825
Target Price (IDR)	U/R
Upside/Downside	n/a
Previous Target Price (IDR)	810

#### Stock Statistics

Sector	Towers
Bloomberg Ticker	TOWR JJ
No of Shrs (mn)	51,015
Mkt. Cap (IDRbn/USDmn)	42,087/2,997
Avg. daily T/O (IDRbn/USDmn)	14.1/1.0

#### Major shareholders (%)

PT Sapta Adhikari Investama	50.1
Estimated free float	49.9

#### EPS Consensus (IDR)

	2018F	2019F	2020F
Danareksa	44.7	51.1	55.1
Consensus	46.7	53.0	57.3
Danareksa/Cons	(4.2)	(3.6)	(3.8)

#### TOWR relative to JCI Index



Source : Bloomberg



**Niko Margaronis**

(62-21) 2955 5888 ext. 3512

niko.margaronis@danareksa.co.id

## Sarana Menara Nusantara(TOWR JJ)

### 4Q18 Preview - still upbeat

Based on TOWR's partial disclosure, the headline numbers came in slightly short on a qoq basis with growth in tenancies on a net basis using build-to-suit (bts) towers. TOWR reported progress in installing new fiber adding another 2.2km for fiberization of towers in 4Q18. Our TP has been achieved and it is currently under review to incorporate the new contracts which recently came to light.

**Organic and inorganic growth for TOWR in FY18.** TOWR's FY18 revenues and EBITDA were in line with our estimate and the consensus. TOWR's revenues rose 9.9%yoy to Rp5.87tn boosted by: a) the acquisition of KIN Komet in late 2Q18 which helped TOWR end the year with 2,044 new tenancies (1,972 in 2Q18) from 1,455 towers (1,369 in 2Q18), b) organic growth with the addition of 1,264 tenancies on a net basis from 1,128 BTS towers and c) additional equipment leases on existing tenancies. The FY18 performance resulted in Rp4.93tn of EBITDA translating into an 84% margin. By end-FY18, leverage was higher with the net debt / EBITDA ratio increasing to 2.1x from 1.8x given higher capex for towers as the majority of the increase in organic tenancies came from the construction of BTS towers. FY18's capex was also marked by aggressive rollout to fiberize towers (ytd 4,400km) with a view to install and serve ~18,000km of fiber in the next 1-2yrs. TOWR also used some of its funds to pay interim dividends in Nov.

**4Q18 revenues fell slightly.** The revenues edged down 1.1%qoq to Rp1.52tn in 4Q18 although, at the same time, tenancies increased (+206) mainly through BTS towers which require new tower installations (+203). We have limited information on the results but we think that the drop in the margin by ~5pp yoy to 82% is either due to churn on a lower tenancy ratio (1.62x) and/or lower pricing of tenancies. Nonetheless, the quarterly revenues rose on a yearly basis (+12%yoy in 4Q18) as a result of upside in previous quarters given the contract nature of the business.

**Despite shortcomings in 4Q18, the outlook for new orders is rosy.** TOWR's tenancy ratio is 1.62x – the lowest in recent years, indicating room for tenancy growth through collocation. TOWR plans to add 3,000 gross organic tenancies in 2019, with ~1,600 due for delivery from 2018's standing orders and the remaining from new orders expected in the year. With a strong commitment to invest in 4G and the network rollout currently underway for all 5 large operators, the trend is for tenancies to grow given a greater need for coverage in ex-Java areas and network densification. As such, we are confident TOWR can reach its FY19 tenancy target. We are currently reviewing our projections to incorporate Rp5.8tn of new master lease agreements that encompass leases for tower space, fiber and satellite capacity. We remain upbeat on TOWR with room for the valuation multiples to rerate given strong CF which will ultimately reduce leverage. As news resurfaced that Indosat contemplates the sale of its towers, TOWR remains the strongest potential buyer for infrastructure assets.

#### Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (IDRbn)	5,053	5,338	5,793	6,230	6,595
EBITDA (IDRbn)	4,408	4,604	4,904	5,365	5,754
EBITDA Growth (%)	(10.0)	4.4	6.5	9.4	7.2
Net profit (IDRbn)	2,134	2,100	2,280	2,606	2,812
EPS (IDR)	41.8	41.2	44.7	51.1	55.1
EPS growth (%)	(27.9)	(1.6)	8.6	14.3	7.9
BVPS (IDR)	116.8	139.2	160.4	184.6	206.6
DPS (IDR)	0.0	19.7	23.5	26.8	33.2
PER (x)	16.0	16.3	15.0	13.1	12.2
PBV (x)	5.7	4.8	4.2	3.6	3.2
Dividend yield (%)	0.0	2.9	3.5	4.0	5.0
EV/EBITDA (x)	9.3	8.9	8.4	7.7	7.2

Source : TOWR, Danareksa Estimates

**Exhibit 1. Revenues and Growth**

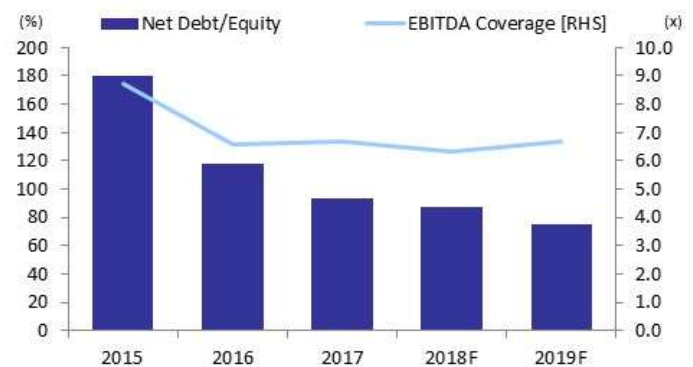

Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. Net Profits and Growth**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. Margins**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. Gearing Level**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. TOWR financial results – preliminary disclosure**

Rp bn	4Q17	3Q18	4Q18	QoQ, Δ	YoY, Δ	FY17	FY18	YoY	2018F	A/F %
<b>Total Revenues</b>	1,360	1,540	1,523	-1.1%	12.0%	5,338	5,868	9.9%	5,793	101
<b>EBITDA</b>	1,185	1,295	1,252	-3.3%	5.7%	4,604	4,932	7.1%	4,904	101
<b>EBITDA margin</b>	87.2	84.0	82.2	-1.8	-4.9	86.2%	84.0%	-2.2	84.7%	
#	4Q17	3Q18	4Q18	QoQ, Δ	YoY, Δ	FY17	FY18	YoY		
<b>Total Towers</b>	14,854	17,234	17,437	1.2%	17.4%	14,854	17,437	17.4%		
<b>Total tenancies</b>	25,011	28,113	28,319	0.7%	13.2%	25,011	28,319	13.2%		
<i>Tenancy Ratio (x)</i>	1.68	1.63	1.62	-0.4%	-3.5%	1.68	1.62	-3.5%		
<i>Revenue per tenancy (Rp mn) (approx.)</i>	16.9	16.7	16.4	-1.8%	-2.8%	16.7	15.8	-5.2%		
<b>Towers change (QoQ, YoY)</b>	115	444	203	-	-	292	2,583	-		
<b>Tenancies change (QoQ, YoY)</b>	283	195	206	-	-	867	3,308	-		

Source: Company, Danareksa Sekuritas estimates

### Exhibit 6. Income Statement

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
<b>Revenue</b>	<b>5,053</b>	<b>5,338</b>	<b>5,793</b>	<b>6,230</b>	<b>6,595</b>
COGS	(1,394)	(1,172)	(1,523)	(1,457)	(1,512)
<b>Gross profit</b>	<b>3,659</b>	<b>4,166</b>	<b>4,270</b>	<b>4,773</b>	<b>5,082</b>
<b>EBITDA</b>	<b>4,408</b>	<b>4,604</b>	<b>4,904</b>	<b>5,365</b>	<b>5,754</b>
<b>Oper. profit</b>	<b>3,110</b>	<b>3,422</b>	<b>3,789</b>	<b>4,250</b>	<b>4,531</b>
Interest income	56	68	30	30	31
Interest expense	(669)	(687)	(777)	(803)	(809)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	373	0	0	0	0
<b>Pre-tax profit</b>	<b>2,870</b>	<b>2,803</b>	<b>3,043</b>	<b>3,478</b>	<b>3,753</b>
Income tax	(733)	(703)	(763)	(872)	(941)
Minority interest	(3)	0	0	0	0
<b>Net profit</b>	<b>2,134</b>	<b>2,100</b>	<b>2,280</b>	<b>2,606</b>	<b>2,812</b>
<b>Core Net Profit</b>	<b>2,134</b>	<b>2,100</b>	<b>2,280</b>	<b>2,606</b>	<b>2,812</b>

### Exhibit 7. Balance Sheet

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Cash & cash equivalent	2,905	2,348	3,285	1,891	3,474
Receivables	689	701	741	797	844
Inventory	0	0	0	0	0
Other Curr. Asset	0	0	0	0	0
Fixed assets - Net	12,269	12,601	14,079	15,336	16,805
Other non-curr.asset	2,923	3,113	3,500	3,441	3,343
<b>Total asset</b>	<b>18,787</b>	<b>18,763</b>	<b>21,605</b>	<b>21,464</b>	<b>24,466</b>
ST Debt	1,515	634	845	747	752
Payables	189	276	321	307	319
Other Curr. Liabilities	1,598	1,320	1,530	1,512	1,510
Long Term Debt	8,403	8,365	9,555	8,190	9,928
Other LT. Liabilities	1,121	1,066	1,173	1,290	1,419
<b>Total Liabilities</b>	<b>12,827</b>	<b>11,662</b>	<b>13,424</b>	<b>12,045</b>	<b>13,928</b>
Shareholder's Funds	5,960	7,102	8,182	9,419	10,538
Minority interests	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>18,787</b>	<b>18,763</b>	<b>21,605</b>	<b>21,464</b>	<b>24,466</b>

### Exhibit 8. Cash Flow

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Net income	2,134	2,100	2,280	2,606	2,812
Depreciation and Amort.	1,185	895	1,125	1,115	1,223
Change in Working Capital	113	(203)	214	(88)	(37)
Other Oper. Cash Flow	114	135	192	218	172
<b>Operating Cash Flow</b>	<b>3,546</b>	<b>2,927</b>	<b>3,812</b>	<b>3,850</b>	<b>4,169</b>
Capex	(3,182)	(871)	(2,502)	(1,735)	(1,981)
Others Inv. Cash Flow	217	7	95	8	24
<b>Investing Cash Flow</b>	<b>(2,965)</b>	<b>(864)</b>	<b>(2,406)</b>	<b>(1,727)</b>	<b>(1,957)</b>
Net change in debt	16	(920)	1,402	(1,464)	1,744
New Capital	(10)	(6)	107	117	129
Dividend payment	0	(1,006)	(1,200)	(1,368)	(1,694)
Other Fin. Cash Flow	(669)	(687)	(777)	(803)	(809)
<b>Financing Cash Flow</b>	<b>(663)</b>	<b>(2,620)</b>	<b>(468)</b>	<b>(3,518)</b>	<b>(629)</b>
<b>Net Change in Cash</b>	<b>(82)</b>	<b>(557)</b>	<b>937</b>	<b>(1,394)</b>	<b>1,583</b>
Cash - begin of the year	2,987	2,905	2,348	3,285	1,891
Cash - end of the year	2,905	2,348	3,285	1,891	3,474

### Exhibit 9. Key Ratios

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
<b>Growth (%)</b>					
Sales	13.1	5.6	8.5	7.6	5.9
EBITDA	(10.0)	4.4	6.5	9.4	7.2
Operating profit	(31.0)	10.0	10.7	12.2	6.6
Net profit	(27.9)	(1.6)	8.6	14.3	7.9
<b>Profitability (%)</b>					
Gross margin	72.4	78.0	73.7	76.6	77.1
EBITDA margin	87.2	86.2	84.7	86.1	87.2
Operating margin	61.6	64.1	65.4	68.2	68.7
Net margin	42.2	39.3	39.4	41.8	42.6
ROAA	12.1	11.2	11.3	12.1	12.2
ROAE	43.6	32.2	29.8	29.6	28.2
<b>Leverage</b>					
Net Gearing (x)	1.2	0.9	0.9	0.7	0.7
Interest Coverage (x)	4.7	5.0	4.9	5.3	5.6

Source : TOWR, Danareksa Estimates

#### DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.