

Wednesday, 31 July 2019

BUY
Maintain

Last price (IDR) 760
Target Price (IDR) 960
Upside/Downside +26.3%
Previous Target Price (IDR) 960

Stock Statistics

Sector Towers
Bloomberg Ticker TOWR IJ
No of Shrs (mn) 51,015
Mkt. Cap (IDRbn/USDmn) 38,771/2,764
Avg. daily T/O (IDRbn/USDmn) 13.6/1.0

Major shareholders (%)

PT Sapta Adhikari Investama 50.1
Estimated free float 49.9

EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	48.5	54.1	59.3
Consensus	47.6	51.9	56.8
Danareksa/Cons	1.9	4.2	4.4

TOWR relative to JCI Index



Source : Bloomberg



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Sarana Menara Nusantara(TOWR IJ)

Bottom line missed but very bright outlook

TOWR's 2Q19 revenues were up by 4.4%YoY supported by an additional 1,000 tenancies in the period mostly from contender operators while 2Q19 EBITDA and net profits followed the growth with relatively flattish margins. 1H19 revenues and EBITDA were 47% of FY19F but net profits were only 40% of our forecast due to significant financial costs. The orders trajectory and new recurring revenues promise a bright outlook and EBITDA gains. Maintain BUY.

New tenancies kicking in from multiple sources. Revenues of Rp1.5 tn were higher by 4.4% QoQ on the back of strong additions of 1,000 tenancies, of which 445 came from Indosat alone, 259 from XL Axiata showing stable additions, 134 from Hutch3 and 118 from Smartfren. This is a strong indication that substantial orders are kicking in, received now from more telcos than in the recent past, while the effective revenues/tenancy remained stable. The 2Q OPEX and depreciation came in higher in 2Q suppressing the upside from the topline. Nonetheless, EBITDA Rp1.3tn came in +4.9% QoQ with slightly higher margins (+40bps) and net profits reached Rp521 bn (+10.3% QoQ) from lower tax.

TOWR 1H19 missed the bottom line, but investing for the near term. The company's 1H19 revenues reached Rp3.0tn (+8.0% YoY) with a 2Q strong boost and forming 47% of our forecast. 2Q was positive and may signal similar tenancy rollouts in coming quarters. 1H19 EBITDA of Rp2.5 tn (+5.0% YoY) formed 47% of our forecast with little improvement in margins. Net profits of Rp994 bn (-8.0% YoY) missed expectations due to high financial costs from higher net debt. However, effective costs came down in 2Q19 which should alleviate expenses going forward. Moreover, recent positive remarks from rating agencies and an expected declining interest rate environment will help secure capex for more orders outside the pipeline and grow new revenue streams with the fiberization of towers. S&P draws comfort given that TOWR holds the largest tower portfolio generating sizeable 2Q19 EBITDA keeping net debt/EBITDA low at 2.1x while, at the same time, TOWR is quickly building fiber cable of 31,000 km based on orders from XL & Indosat (already built 14,500km).

Bright outlook with 1,060 orders in the log so far. Operators are evidently looking for network coverage via tower collocations boosting tenancies in 2Q19. Hutch is back with new tenancies following the recent jumbo renewal of leases and Indosat is getting warmed up leading the tower adds in 2Q19. We are informed there are 1,060 orders waiting in the pipeline to be effective within 2019 of which 60-70% are originated from Indosat. The EV/EBITDA ratio is stable at 2.1x, and thus TOWR is the most potent consolidator and buyer of Indosat towers, while paving the way for new revenue streams.

Maintain BUY. Despite the net profits miss, TOWR started to warm up in 2Q, with tenancies coming from all contenders. We believe the numbers are well within FY19 estimates. Maintain BUY with TP Rp960, implies 10.9x EV/EBITDA.

Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	5,338	5,868	6,450	7,064	7,715
EBITDA (IDRbn)	4,604	4,932	5,289	5,801	6,344
EBITDA Growth (%)	4.4	7.1	7.2	9.7	9.4
Net profit (IDRbn)	2,100	2,161	2,477	2,760	3,023
EPS (IDR)	41.2	42.4	48.5	54.1	59.3
EPS growth (%)	(1.6)	2.9	14.6	11.4	9.5
BVPS (IDR)	139.2	157.5	182.5	205.0	229.1
DPS (IDR)	19.7	23.5	23.5	31.6	35.2
PER (x)	18.7	18.2	15.9	14.2	13.0
PBV (x)	5.5	4.9	4.2	3.8	3.4
Dividend yield (%)	2.6	3.1	3.1	4.1	4.6
EV/EBITDA (x)	10.0	10.1	9.3	8.5	7.8

Exhibit 1. Revenues and Growth



Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth



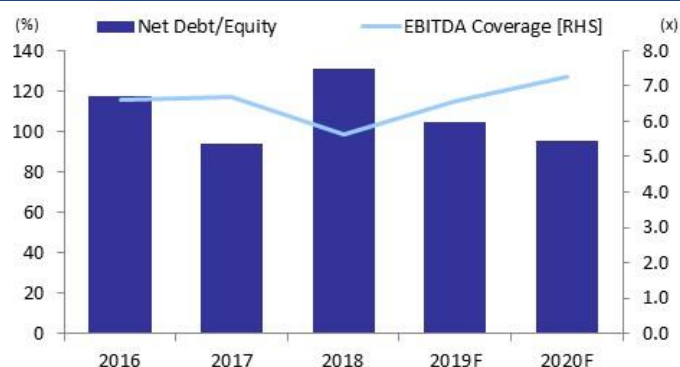
Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins



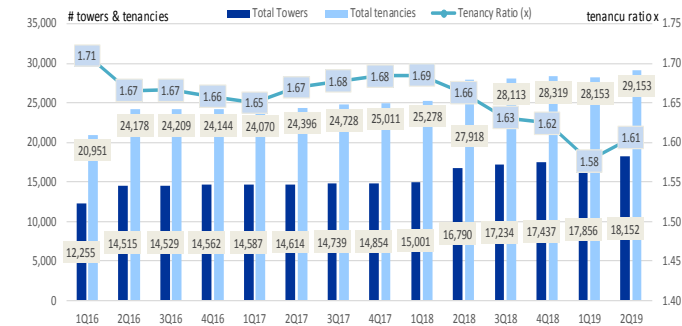
Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level



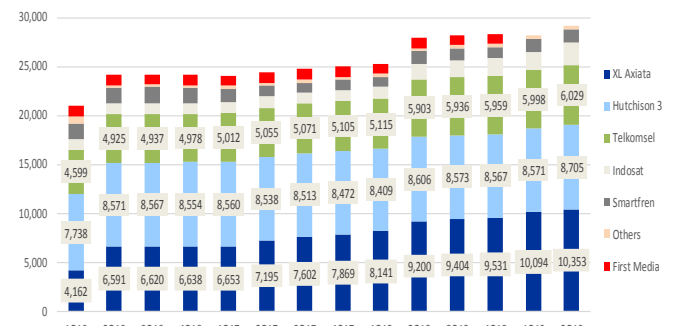
Source: Company, Danareksa Sekuritas estimates

Exhibit 5. Total towers, Tenancies & Tenancy ratio



Source: Company, Danareksa Sekuritas estimates

Exhibit 6. Tenancy breakdown by operator



Source: Company, Danareksa Sekuritas estimates

Exhibit: 7 Sarana Menara Nusantara P&L statement & Balance sheet KPIs

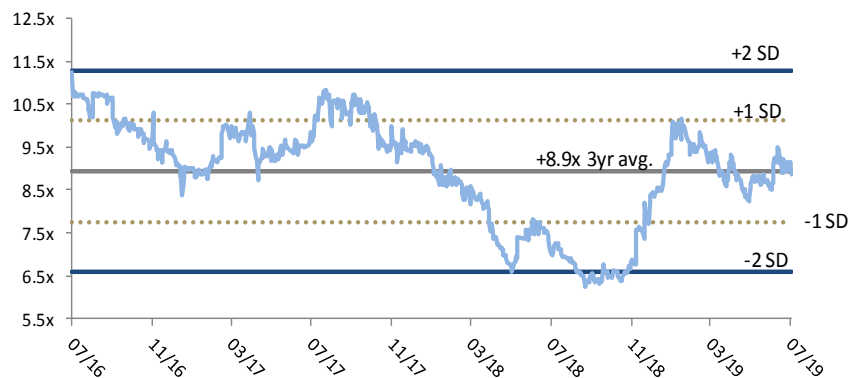
Rp bn	2Q18	1Q19	2Q19	QoQ, Δ%	YoY, Δ%	1H18	1H19	YoY, Δ%	2019F	A/F %	Cons.	A/Cons %
Total Revenues	1,443	1,482	1,546	4.4	7.2	2,805	3,028	8.0	6,450	46.9	6,512	46.5
COGS	(359)	(442)	(454)	2.9	26.7	(669)	(896)	33.9				
Other cost of sales	(102)	(113)	(106)	(17.0)	4.2	(180)	(219)	27.8				
Total D&A	(257)	(329)	(348)	6.0	35.6	(489)	(677)	38.4				
Gross Income	1,084	1,040	1,092	5.0	0.7	2,136	2,133	(0.2)				
Gross Income margin (%)	75.1	70.2	70.6	0.4	(4.5)	76.2	70.4	(5.7)				
Operating Expenses	(155)	(164)	(212)	29.0	36.3	(349)	(376)	7.7				
Operating Income	929	876	881	0.5	(5.2)	1,787	1,757	(1.7)				
Operating Income margin (%)	64.4	59.1	56.9	(2.2)	(7.4)	63.7	58.0	(5.7)				
EBITDA	1,217	1,222	1,282	4.9	5.3	2,385	2,504	5.0	5,289	47.3	5,489	45.6
EBITDA margin (%)	84.4	82.5	82.9	0.4	(1.5)	85.0	82.7	(2.3)	82.0			
Other income (expense)	(184)	(250)	(265)	6.0	43.9	(342)	(515)	50.6				
Pre-tax profit	745	626	615	(1.7)	(17.4)	1,445	1,242	(14.1)				
Net profit	561	472	521	10.3	(7.1)	1,080	994	(8.0)	2,477	40.1	2,361	42.1
Net Profit margin (%)	38.9	31.9	33.7	1.8	(5.2)	38.5	32.8	(5.7)				
Cash Capex	626	1,005	1,758	-	-	803	2,763	-				
Net Debt	9,075	11,177	10,930	(2.2)	20.4	9,075	10,930	20.4				
Net debt/annual. EBITDA (x)	1.9	2.3	2.1	-	-	1.9	2.1	-				

Source : TOWR & Danareksa Sekuritas

Exhibit:8 Sarana Menara Nusantara total towers & tenancies

#	2Q18	1Q19	2Q19	QoQ, Δ	QoQ, Δ%	YoY, Δ	YoY, Δ%	FY18	1H19	Ytd, Δ	Ytd, Δ%
Total Towers	16,790	17,856	18,152	296	1.7	1,362	8.1	17,437	18,152	715	4.1
Total tenancies	27,918	28,153	29,153	1,000	3.6	1,235	4.4	28,319	29,153	834	2.9
XL Axiata	9,200	10,094	10,353	259	2.6	1,153	12.5	9,531	10,353	822	8.6
Hutchison 3	8,606	8,571	8,705	134	1.6	99	1.2	8,567	8,705	138	1.6
Telkomsel	5,903	5,998	6,029	31	0.5	126	2.1	5,959	6,029	70	1.2
Indosat	1,594	1,849	2,294	445	24.1	700	43.9	1,832	2,294	462	25.2
Smartfren	1,282	1,269	1,387	118	9.3	105	8.2	1,102	1,387	285	25.9
First Media	1,064	0	0	0	n/a	(1,064)	n/a	964	0	(964)	(100.0)
Others	269	372	385	13	3.5	116	43.1	364	385	21	5.8
Tenancy Ratio (x)	1.66	1.58	1.61	-	1.9	-	(3.4)	1.62	1.61	-	(1.1)
Revenue per tenancy (Rp mn) (approx.)	16.7	15.8	15.9	-	0.6	-	(4.4)	16.7	15.1	-	(9.2)

Source : TOWR & Danareksa Sekuritas

Exhibit 9. Forward EV/EBITDA Band Chart


Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 10. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Revenue	5,338	5,868	6,450	7,064	7,715
COGS	(1,172)	(1,641)	(1,817)	(2,019)	(2,222)
Gross profit	4,166	4,227	4,633	5,044	5,493
EBITDA	4,604	4,932	5,289	5,801	6,344
Oper. profit	3,422	3,728	4,083	4,450	4,853
Interest income	68	30	30	31	31
Interest expense	(687)	(875)	(808)	(798)	(850)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	0	0	0	0	0
Pre-tax profit	2,803	2,884	3,305	3,684	4,034
Income tax	(703)	(723)	(829)	(924)	(1,012)
Minority interest	0	0	0	0	0
Net profit	2,100	2,161	2,477	2,760	3,023
Core Net Profit	2,100	2,161	2,477	2,760	3,023

Exhibit 11. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	2,348	963	1,391	1,207	1,814
Receivables	701	1,312	825	903	987
Inventory	0	0	0	0	0
Other Curr. Asset	0	0	0	0	0
Fixed assets - Net	12,601	15,980	17,246	18,674	20,096
Other non-curr.asset	3,113	4,704	4,230	4,332	4,366
Total asset	18,763	22,960	23,692	25,116	27,263
ST Debt	634	2,391	2,304	1,400	1,448
Payables	276	697	383	425	468
Other Curr. Liabilities	1,320	1,664	1,656	1,730	1,786
Long Term Debt	8,365	9,093	8,845	9,788	10,428
Other LT. Liabilities	1,066	1,081	1,190	1,309	1,439
Total Liabilities	11,662	14,926	14,377	14,651	15,570
Shareholder's Funds	7,102	8,033	9,310	10,460	11,689
Minority interests	0	0	0	0	0
Total Equity & Liabilities	18,763	22,960	23,687	25,112	27,259

Exhibit 12. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	2,100	2,161	2,477	2,760	3,023
Depreciation and Amort.	895	1,214	1,207	1,350	1,491
Change in Working Capital	(203)	198	165	38	16
Other Oper. Cash Flow	135	298	186	88	58
Operating Cash Flow	2,927	3,870	4,034	4,237	4,587
Capex	(871)	(3,903)	(2,915)	(2,175)	(2,171)
Others Inv. Cash Flow	7	(1,705)	1,539	4	16
Investing Cash Flow	(864)	(5,607)	(1,376)	(2,172)	(2,155)
Net change in debt	(920)	2,485	(335)	39	689
New Capital	(6)	(54)	108	119	131
Dividend payment	(1,006)	(1,200)	(1,200)	(1,610)	(1,794)
Other Fin. Cash Flow	(687)	(875)	(808)	(798)	(850)
Financing Cash Flow	(2,620)	356	(2,234)	(2,250)	(1,825)
Net Change in Cash	(557)	(1,381)	424	(185)	607
Cash - begin of the year	2,905	2,348	963	1,391	1,207
Cash - end of the year	2,348	963	1,391	1,207	1,814

Exhibit 13. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Growth (%)					
Sales	5.6	9.9	9.9	9.5	9.2
EBITDA	4.4	7.1	7.2	9.7	9.4
Operating profit	10.0	9.0	9.5	9.0	9.0
Net profit	(1.6)	2.9	14.6	11.4	9.5
Profitability (%)					
Gross margin	78.0	72.0	71.8	71.4	71.2
EBITDA margin	86.2	84.0	82.0	82.1	82.2
Operating margin	64.1	63.5	63.3	63.0	62.9
Net margin	39.3	36.8	38.4	39.1	39.2
ROAA	11.2	10.4	10.6	11.3	11.5
ROAE	32.2	28.6	28.6	27.9	27.3
Leverage					
Net Gearing (x)	0.9	1.3	1.0	1.0	0.9
Interest Coverage (x)	5.0	4.3	5.1	5.6	5.7

Source : TOWR, Danareksa Estimates

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