

Tuesday, 19 May 2020

BUY
Maintain

Last price (IDR) 890
Target Price (IDR) 1,020
Upside/Downside +14.6%
Previous Target Price (IDR) 920

Stock Statistics

Sector Towers
Bloomberg Ticker TOWR JJ
No of Shrs (mn) 50,205
Mkt. Cap (IDRbn/USDmn) 44,683/3,009
Avg. daily T/O (IDRbn/USDmn) 62.7/4.2

Major shareholders (%)

PT Sapta Adhikari Investama 50.1
Estimated free float 49.9

EPS Consensus (IDR)

	2020F	2021F	2022F
Danareksa	52.4	57.4	61.3
Consensus	50.1	54.6	60.0
Danareksa/Cons	4.6	5.1	2.1

TOWR relative to JCI Index



Source : Bloomberg



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Sarana Menara Nusantara(TOWR JJ)

Earnings beat – upward revision guidance

TOWR's earnings beat estimates in 1Q20 with solid towers' performance amid the Covid19 pandemic. Both tower and non-tower revenues should post growth in the next quarters organically from tenancies, and new revenues from towers bought from XL. We update our projections with higher revenues growth and derive a new valuation with a TP of Rp1,020. Maintain BUY on TOWR which remains our top pick in the sector.

Growth from core tower revenues. 1Q20 revenues of Rp1.82tn are up by 1.1%qoq and 22.8%yoy adding growth to the already strong 4Q19 topline, slightly ahead of our estimate. Tower revenues grew briskly by 5.2%/15.2% on a qoq/yoy basis. Incremental 1Q20 net tenancies (excluding the XL tenancies from tower acquisition) were 1,263 - of which 196 were in new towers - increasing substantially for Hutch3 and Indosat tenancies. 1Q20 incremental revenues were also the strongest for the two telcos, followed by Telkomsel. Non-tower revenues decreased in 1Q20 as satellite projects contributed less, as discussions with public sector counterparties were overhanging. Nonetheless, fiber leases remain upbeat with TOWR rolling out fiber also in 1Q20 (non-speculative rollout, secured with tenants, aiming to have 40,000km by YE2020, installed 30,500km as of 1Q20 (+10qoq)). EBITDA increased in 1Q20 and the margin expanded 170bps to 85.7%. 1Q20 adjusted OPEX remained qoq flat, and COGS were lower mainly due to PSAK 73 implementation. 1Q20 was affected by Rp347bn of forex losses, but TOWR collected its due dollar income in April to naturally hedge its debt liabilities and reverse the forex loss. 1Q20 normalized net profits reached Rp852bn beating our estimate/the consensus.

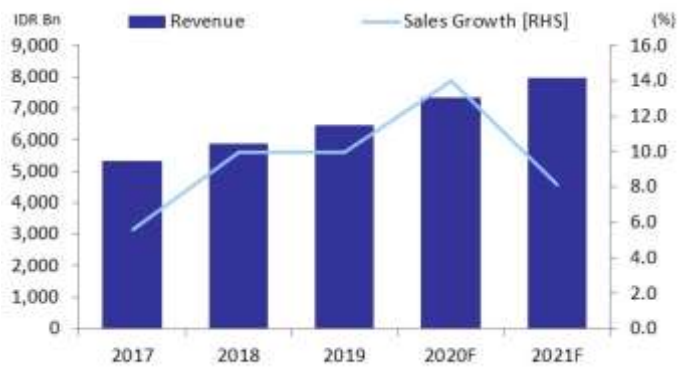
Tenancy installations on track, albeit some delays. Despite the Covid19 pandemic, we think 2020 tenancy demand shall be buoyant given: a) telcos rushed to make orders early to secure tenancies and avoid delays from lockdowns, b) data traffic jumped in March making new tenancies crucial to support data capacity – (Telkom explained it would expedite its scheduled capex given spikes in data consumption, c) telcos incl. Hutch3, Indosat, and XL have their own capex programs to gain from 4G. Tower cos and TOWR appear to have heavy duty, but we are confident TOWR can deliver on their orders with the support of the government during the lockdown.

TOWR 2020 guidance revised up. TOWR revised its guidance for 2020 revenues and EBITDA growth to 14%/15%yoy respectively. This growth should be attainable as both tower and non-tower revenues are potent, while newly acquired towers from XL will start booking revenues in 2Q20. We also think EBITDA will realize scale opportunities. Tenancies acquired by Indosat already clocked 90% in 1Q20.

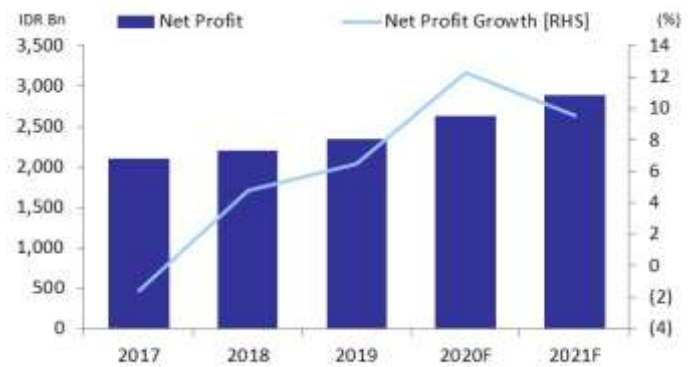
Maintain BUY with a higher TP of Rp1,020. The feedback from TOWR is positive for executing tenancy orders and so is the demand outlook for tower and fiber leases. We maintain our 1% Covid19 premium, given the seriousness of the situation, but adjust our earnings estimate based on revised guidance. Our new DCF based TP is Rp1,020 implying forward EV/EBITDA of 10.1x.

Key Financials

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue (IDRbn)	5,868	6,454	7,360	7,958	8,484
EBITDA (IDRbn)	4,932	5,385	6,194	6,707	7,157
EBITDA Growth (%)	7.1	9.2	15.0	8.3	6.7
Net profit (IDRbn)	2,200	2,342	2,628	2,880	3,075
EPS (IDR)	43.8	46.6	52.4	57.4	61.3
EPS growth (%)	4.8	6.4	12.2	9.6	6.8
BVPS (IDR)	160.0	173.8	202.3	223.0	241.2
DPS (IDR)	23.9	23.6	23.9	36.6	43.0
PER (x)	20.3	19.1	17.0	15.5	14.5
PBV (x)	5.6	5.1	4.4	4.0	3.7
Dividend yield (%)	2.7	2.7	2.7	4.1	4.8
EV/EBITDA (x)	11.2	11.0	9.5	8.8	8.2

Exhibit 1. Revenues and Growth


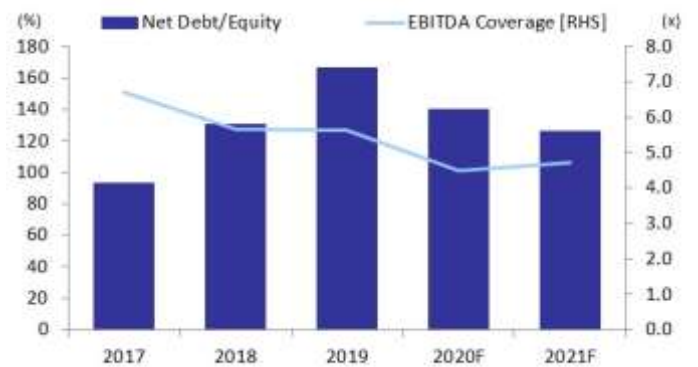
Source: Company, Danareksa Sekuritas estimates

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. 1Q2020 financial results Sarana Menara Nusantara (TOWER IJ)

Rp bn	1Q19	4Q19	1Q20	QoQ, Δ%	YoY, Δ%	2020F	ACHIEV.	2020C	ACHIEV.
Total Revenues	1,482	1,800	1,820	1.1	22.8	7,001	26.0	7,085	25.7
Tower revenue	1,341	1,468	1,545	5.2	15.2				
Non-tower revenue	141	331	275	(17.0)	95.2				
Of which key revenue from telcos:									
Hutchison 3	480	531	555	4.6	15.6				
XL Axiata	428	507	509	0.4	19.0				
Telkomsel	284	276	285	3.2	0.3				
Indosat	102	152	173	13.9	69.6				
Total	1,294	1,465	1,521	3.9	17.6				
COGS	(442)	(431)	(520)	20.6	17.9				
Other cost of sales	(113)	(127)	(88)	(30.2)	(21.7)				
Total D&A	(329)	(305)	(420)	37.8	27.8				
Gross Income	1,041	1,368	1,300	(5.0)	24.9				
Gross Income margin (%)	70.2	76.0	71.4	(4.6)	1.2				
Operating Expenses	(164)	(188)	(492)	161.5	200.0				
Selling & Marketing	(38)	(38)	(40)	5.7	3.6				
General & Admin.	(108)	(123)	(119)	(2.7)	10.2				
Other operating expenses net	(18)	(28)	(333)	1,086.8	1,803.7				
Operating Income	877	1,180	807	(31.6)	(7.9)				
Operating Income margin (%)	59.1	65.6	44.4	(21.2)	(14.8)				
EBITDA	1,223	1,513	1,561	3.2	27.6	5,790	27.0	5,919	26.4
EBITDA margin (%)	82.5	84.1	85.7	1.7	3.3	82.7		83.5	
Other income (expense)	(250)	(161)	(266)	65.1	6.5				
Finance income	6	12	4	(64.0)	(32.4)				
Finance cost	(256)	(231)	(270)	16.9	5.5				
Increase /decrease properties FV	-	58	-	(100.0)	n/a				
Pre-tax profit	626	1,019	541	(46.9)	(13.7)				
Tax	(154)	(263)	(15)	(94.3)	(90.2)				
Minority interest		(11)	(7)	(37.7)	n/a				
Discontinued operations									
Net profit	473	745	519	(30.3)	9.8	2,153	24.1	2,499	20.8
Net Profit margin (%)	31.9	41.4	28.5	(12.9)	(3.4)	30.8			
Core Net Profit	473	745	852	23.4	50	2,153	39.6	2,453	34.7
Net Debt	11,177	14,574	15,906	9.1	42.3				
Net debt/annual. EBITDA (x)	2.3	2.4	2.5	5.8	11.5				

Source: Company, Danareksa Sekuritas estimates, Bloomberg

Exhibit 6. 1Q20 operational KPIs Sarana Menara Nusantara (TOWER IJ)

#	1Q19	4Q19	1Q20	1Q20*	QoQ, Δ	YoY, Δ
Total Towers	17,856	19,319	20,914	19,515	196	1,659
Total tenancies	28,153	33,346	36,778	34,577	1,231	6,424
XL Axiata	10,094	10,625	12,198	10,799	174	2,104
Hutchison 3	8,571	9,650	10,826	10,464	814	2,255
Telkomsel	5,998	6,282	6,486	6,269	(13)	488
Indosat	1,849	3,965	4,168	4,029	64	2,319
Smartfren	1,269	2,238	2,493	2,410	172	1,224
First Media	0	0	0	0	0	0
Others	372	586	607	607	21	235
Tenancy Ratio (x)	1.58	1.73	1.76	1.77	-	-

*adjusted by excluding towers and tenancies bought from XL Axiata

Source: Company, Danareksa Sekuritas estimates

Exhibit 7. Reforecast for Sarana Menara Nusantara (TOWR II)

Rp bn	2020			2021			2022		
	Previous	New	% change	Previous	New	% change	Previous	New	% change
Revenue	7,001	7,360	5.1	7,588	7,958	4.9	8,104	8,484	4.7
EBITDA	5,790	6,194	7.0	6,277	6,707	6.8	6,711	7,157	6.6
EBITDA margin	82.7	84.2	1.5	82.7	84.3	1.6	82.8	84.4	1.5
Net Income	2,138	2,628	22.9	2,359	2,880	22.1	2,525	3,075	21.8
NI margin	30.5	35.7	5.2	31.1	36.2	5.1	31.2	36.2	5.1

Source: Danareksa Sekuritas estimates

Exhibit 8. 3yr Forward EV/EBITDA band


Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 9. Income Statement

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Revenue	5,868	6,454	7,360	7,958	8,484
COGS	(1,542)	(1,808)	(1,985)	(2,191)	(2,367)
Gross profit	4,326	4,646	5,374	5,767	6,117
EBITDA	4,932	5,385	6,194	6,707	7,157
Oper. profit	3,790	3,928	4,735	5,085	5,396
Interest income	34	39	40	41	41
Interest expense	(872)	(958)	(1,381)	(1,418)	(1,489)
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	2,952	3,009	3,394	3,707	3,949
Income tax	(752)	(656)	(765)	(828)	(874)
Minority interest	0	(11)	0	0	0
Net profit	2,200	2,342	2,628	2,880	3,075
Core Net Profit	2,200	2,342	2,628	2,880	3,075

Exhibit 10. Balance Sheet

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	964	594	717	1,471	2,509
Receivables	1,312	1,881	941	1,018	1,085
Inventory	0	0	0	0	0
Other Curr. Asset	0	0	0	0	0
Fixed assets - Net	15,980	19,648	21,452	22,636	23,734
Other non-curr.asset	4,704	5,543	5,440	5,363	5,130
Total asset	22,960	27,666	28,551	30,488	32,459
ST Debt	2,391	1,945	1,282	1,340	1,415
Payables	697	634	418	461	498
Other Curr. Liabilities	1,664	1,987	1,698	1,744	1,753
Long Term Debt	9,093	13,223	13,733	14,360	15,159
Other LT. Liabilities	1,081	1,117	1,228	1,351	1,486
Total Liabilities	14,926	18,905	18,359	19,257	20,312
Shareholder's Funds	8,033	8,725	10,155	11,195	12,110
Minority interests	0	36	36	36	36
Total Equity & Liabilities	22,960	27,666	28,550	30,488	32,458

Exhibit 11. Cash Flow

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Net income	2,200	2,342	2,628	2,880	3,075
Depreciation and Amort.	1,114	1,350	1,459	1,622	1,760
Change in Working Capital	154	(309)	435	13	(21)
Other Oper. Cash Flow	391	117	465	377	345
Operating Cash Flow	3,859	3,499	4,987	4,891	5,160
Capex	(3,903)	(4,536)	(2,725)	(1,824)	(1,654)
Others Inv. Cash Flow	(1,701)	(480)	482	137	172
Investing Cash Flow	(5,603)	(5,016)	(2,244)	(1,688)	(1,482)
Net change in debt	2,485	3,684	(153)	685	874
New Capital	(54)	(395)	112	123	135
Dividend payment	(1,199)	(1,185)	(1,198)	(1,840)	(2,160)
Other Fin. Cash Flow	(872)	(958)	(1,381)	(1,418)	(1,489)
Financing Cash Flow	360	1,147	(2,620)	(2,450)	(2,640)
Net Change in Cash	(1,384)	(369)	123	754	1,038
Cash - begin of the year	2,348	964	594	717	1,471
Cash - end of the year	964	594	717	1,471	2,509

Exhibit 12. Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Growth (%)					
Sales	9.9	10.0	14.0	8.1	6.6
EBITDA	7.1	9.2	15.0	8.3	6.7
Operating profit	10.8	3.6	20.6	7.4	6.1
Net profit	4.8	6.4	12.2	9.6	6.8
Profitability (%)					
Gross margin	73.7	72.0	73.0	72.5	72.1
EBITDA margin	84.0	83.4	84.2	84.3	84.4
Operating margin	64.6	60.9	64.3	63.9	63.6
Net margin	37.5	36.3	35.7	36.2	36.2
ROAA	10.5	9.3	9.4	9.8	9.8
ROAE	29.1	28.0	27.8	27.0	26.4
Leverage					
Net Gearing (x)	1.3	1.7	1.4	1.3	1.2
Interest Coverage (x)	4.3	4.1	3.4	3.6	3.6

Source : TOWR, Danareksa Estimates

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