

Thursday, 25 Oktober 2021

**BUY**  
**Maintain**

Last price (IDR) 1,320  
Target Price (IDR) 2,000  
Upside/Downside +51.5%  
Previous Target Price (IDR) 1,900

**Stock Statistics**

Sector Towers  
Bloomberg Ticker TOWR IJ  
No of Shrs (mn) 49,938  
Mkt. Cap (IDRbn/USDmn) 65,918/4,578  
Avg. daily T/O (IDRbn/USDmn) 87.6/6.1

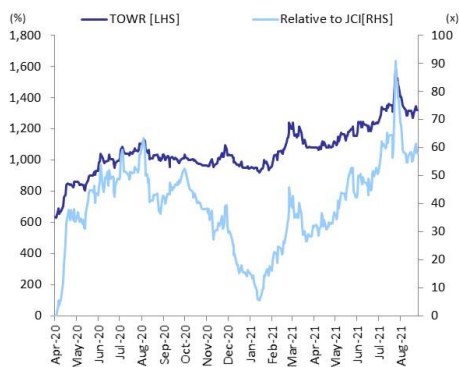
**Major shareholders (%)**

PT Sapta Adhikari Investama 53.1  
Estimated free float 46.4

**EPS Consensus (IDR)**

	2021F	2022F	2023F
Danareksa	73.6	87.9	95.5
Consensus	61.5	67.3	73.3
Danareksa/Cons	19.7	30.6	30.3

**TOWR relative to JCI Index**



Source : Bloomberg



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## Sarana Menara Nusantara(TOWR IJ)

### 3Q21 increments from the non-tower biz

**Non tower revenues were the sole contributor to 3Q21's incremental revenues supported by both tower fiberization and business connectivity. Despite the early life of the fiber biz, the EBITDA margin improved in 3Q21. Our projections now include the estimated impact from the STP acquisition with its financials, towers and fiber already accounted from 4Q21. Reiterate BUY with a TP of IDR2,000.**

**Fiber revenues have momentum.** TOWR's 3Q21 revenues came in at Rp2.1tn (+4.0%qoq) with incremental revenues driven by the non-tower business (tower fiberization (+17%qoq, +101%yoy) and business connectivity (+23%qoq, 41%yoy), increasing its revenues contribution to 21.1% (+2.9%qoq). This is evident in the rise in the revenues-generating fiber to approx. 60,000kms, or an additional 8,000kms compared to 2Q21 with fiber utilized by 2-3 tenants. We understand that Indosat may potentially become the 2<sup>nd</sup> key dark fiber tenant contributing to leases, after XL Axiata.

**Tower rental revenues muted in 3Q21, pullback from TSEL.** Tower rental revenues remained steady in 3Q21. TOWR recorded further incremental quarterly revenues from Indosat, followed by XL, while revenues from Hutch3 bottomed out in 3Q21 after some period of repricing its leases. Those increments helped counter the revenues pullback from Telkomsel in 3Q21.

**Margins gains justifying TOWR's diversification strategy.** TOWR's non-tower business contributed all the gross and OP margin gains in 3Q21. TOWR's 3Q21 EBITDA reached Rp1.8tn (+4.5%qoq, +12.3%yoy) with a margin of 86.3% expanding by 50bps.

**3Q21 net profits were dented on a qoq basis, still +29.6%yoy.** TOWR incurred higher interest expenses as it accumulated more debt. Moreover, tax expenses were normalized from a low point in 2Q, weighing on TOWR's profits. All in all, TOWR's 3Q21 core net profits were Rp861bn.

**Positive trajectories to meet annual forecasts.** TOWR's YTD topline was over Rp6tn in 9M21, and well in line with our FY21 estimate. Moreover, the YTD 9M21 EBITDA reached Rp5.2tn, or 73.1%/75.5% of our/cons FY21F estimates, as we expect gains from further collocations in towers and fiber. Furthermore, TOWR's 9M21 net profits of Rp2.5tn are borderline outperforming the consensus.

**Solid BUY.** We have adjusted our projections to include the impact of TOWR's recent acquisition of STP (SUPR IJ, non-rated). We are advised that STP's financials and about 6,800 towers and ~15,000kms of revenues generating fiber will be accounted from 4Q21, we reckon. STP's inclusion will support TOWR with a value accretive deal, with higher annualized revenues of Rp2.2tn and EBITDA of Rp1.9tn, while STP's cost of debt is adjusted to TOWR's credit profile. Our TP is also raised to Rp2,000, implying EV/EBITDA 22 of 13.8x. Maintain BUY.

**Key Financials**

Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
Revenue (IDRbn)	6,454	7,445	8,596	10,326	10,768
EBITDA (IDRbn)	5,385	6,452	7,436	8,908	9,304
EBITDA Growth (%)	9.2	19.8	15.3	19.8	4.4
Net profit (IDRbn)	2,342	2,883	3,677	4,389	4,771
EPS (IDR)	46.9	57.7	73.6	87.9	95.5
EPS growth (%)	6.4	23.1	27.5	19.4	8.7
BVPS (IDR)	174.7	203.3	249.0	307.5	367.8
DPS (IDR)	23.7	24.0	27.9	29.4	35.1
PER (x)	28.1	22.9	16.3	13.7	12.6
PBV (x)	7.6	6.5	4.8	3.9	3.2
Dividend yield (%)	1.8	1.8	2.3	2.4	2.9
EV/EBITDA (x)	14.9	12.8	12.4	10.0	9.3

Source : TOWR, Danareksa Estimates

**Exhibit 2: Sarana Menara Nusantara (TOWR IJ) 3Q/9M21 financial results**

Rp bn	3Q20	2Q21	3Q21	QoQ, Δ%	YoY, Δ%	9M20	9M21	YoY, Δ%	2021F	ACHIE V.	2021 Cons	ACHIE V.
<b>Total Revenues</b>	<b>1,870</b>	<b>2,015</b>	<b>2,095</b>	<b>4.0</b>	<b>12.0</b>	<b>5,555</b>	<b>6,067</b>	<b>9.2</b>	<b>8,205</b>	<b>73.9</b>	<b>8,088</b>	<b>75.0</b>
<b>Tower rental</b>	<b>1,593</b>	<b>1,649</b>	<b>1,652</b>	<b>0.2</b>	<b>3.7</b>	<b>4,719</b>	<b>4,929</b>	<b>4.4</b>				
<b>Non-tower revenue breakdown by</b>	<b>277</b>	<b>367</b>	<b>443</b>	<b>20.7</b>	<b>59.8</b>	<b>836</b>	<b>1,138</b>	<b>36.2</b>				
<i>Tower Fiber (dark fiber)</i>	85	147	172	16.7	101.4	233	433	86.2				
<i>Connectivity (VSAT &amp; fiber bandwidth)</i>	192	220	271	23.4	41.3	603	705	16.9				
<i>% tower revenue</i>	<i>85.2%</i>	<i>81.8%</i>	<i>78.9%</i>	<i>(2.9)</i>	<i>(5.9)</i>	<i>85.0%</i>	<i>81.2%</i>	<i>(3.7)</i>				
<i>% non-tower revenue</i>	<i>14.8%</i>	<i>18.2%</i>	<i>21.1%</i>	<i>2.9</i>	<i>5.9</i>	<i>15.0%</i>	<i>18.8%</i>	<i>3.7</i>				
<b>Of which revenue from telcos:</b>												
Hutchison 3	600	524	534	1.9	(11.0)	1,786	1,600	(10.4)				
XL Axiata	584	575	597	3.9	2.3	1,664	1,728	3.9				
Telkomsel	251	296	265	(10.5)	5.6	794	849	6.9				
Indosat	217	292	316	8.5	45.9	575	866	50.7				
<b>Total</b>	<b>1,651</b>	<b>1,686</b>	<b>1,712</b>	<b>1.5</b>	<b>3.7</b>	<b>4,819</b>	<b>5,043</b>	<b>4.7</b>				
Other parties	219	329	383	16.4	75.2	736	1,024	39.1				
<b>Total revenues</b>	<b>1,870</b>	<b>2,015</b>	<b>2,095</b>	<b>4.0</b>	<b>12.0</b>	<b>5,555</b>	<b>6,067</b>	<b>9.2</b>				
Contract value due												
<b>Cost of Sales</b>	<b>(581)</b>	<b>(546)</b>	<b>(549)</b>	<b>0.6</b>	<b>(5.5)</b>	<b>(1,666)</b>	<b>(1,631)</b>	<b>(2.1)</b>				
Total D&A	(479)	(432)	(436)	0.9	(9.0)	(1,362)	(1,296)	(4.8)				
Other cost of sales	(101)	(114)	(113)	(0.9)	11.3	(304)	(335)	10.1				
<b>Total Gross Income</b>	<b>1,289</b>	<b>1,469</b>	<b>1,546</b>	<b>5.2</b>	<b>19.9</b>	<b>3,889</b>	<b>4,436</b>	<b>14.1</b>				
GI Towers	1,170	1,280	1,281	0.1	9.5	3,510	3,821	8.9				
GI Non-towers	119	190	265	39.6	122.8	379	615	62.1				
<i>Gross Income margin (%)</i>	<i>68.9</i>	<i>72.9</i>	<i>73.8</i>	<i>0.9</i>	<i>4.9</i>	<i>70.0</i>	<i>73.1</i>	<i>3.1</i>				
<i>GI margin Towers (%)</i>	<i>73.5</i>	<i>77.6</i>	<i>77.5</i>	<i>(0.1)</i>	<i>4.1</i>	<i>74.4</i>	<i>77.5</i>	<i>3.2</i>				
<i>GI margin Non-towers (%)</i>	<i>42.9</i>	<i>51.7</i>	<i>59.8</i>	<i>8.1</i>	<i>16.9</i>	<i>45.4</i>	<i>54.0</i>	<i>8.6</i>				
<b>Operating Expenses</b>	<b>(227)</b>	<b>(165)</b>	<b>(177)</b>	<b>7.7</b>	<b>(21.9)</b>	<b>(714)</b>	<b>(526)</b>	<b>(26.3)</b>				
<b>EBITDA</b>	<b>1,611</b>	<b>1,730</b>	<b>1,809</b>	<b>4.5</b>	<b>12.3</b>	<b>4,775</b>	<b>5,218</b>	<b>9.3</b>	<b>7,140</b>	<b>73.1</b>	<b>6,908</b>	<b>75.5</b>
<i>EBITDA margin (%)</i>	<i>86.1</i>	<i>85.9</i>	<i>86.3</i>	<i>0.5</i>	<i>0.4</i>	<i>86.0</i>	<i>86.0</i>	<i>0.1</i>				
<b>Operating Income</b>	<b>1,062</b>	<b>1,305</b>	<b>1,369</b>	<b>4.9</b>	<b>28.9</b>	<b>3,176</b>	<b>3,910</b>	<b>23.1</b>				
OI Towers	989	1,162	1,155	(0.5)	16.9	2,937	3,439	17.1				
OI Non-towers	74	143	214	49.0	188.7	239	471	97.0				
<i>Operating Income margin (%)</i>	<i>56.8</i>	<i>64.7</i>	<i>65.3</i>	<i>0.6</i>	<i>8.5</i>	<i>57.2</i>	<i>64.4</i>	<i>7.3</i>				
<i>OI margin Towers (%)</i>	<i>62.1</i>	<i>70.5</i>	<i>69.9</i>	<i>(0.5)</i>	<i>7.9</i>	<i>62.2</i>	<i>69.8</i>	<i>7.5</i>				
<i>OI margin Non-Towers (%)</i>	<i>26.7</i>	<i>39.1</i>	<i>48.2</i>	<i>9.2</i>	<i>21.5</i>	<i>28.6</i>	<i>41.4</i>	<i>12.8</i>				
<b>Other income (expense)</b>	<b>(288)</b>	<b>(245)</b>	<b>(266)</b>	<b>8.6</b>	<b>(7.8)</b>	<b>(857)</b>	<b>(778)</b>	<b>(9.2)</b>				
<b>Pre-tax profit</b>	<b>774</b>	<b>1,060</b>	<b>1,103</b>	<b>4.1</b>	<b>42.5</b>	<b>2,319</b>	<b>3,131</b>	<b>35.1</b>				
<b>Net profit</b>	<b>607</b>	<b>901</b>	<b>890</b>	<b>(1.2)</b>	<b>46.5</b>	<b>1,908</b>	<b>2,580</b>	<b>35.2</b>				
<b>Core Net Profit margin%</b>	<b>665</b>	<b>890</b>	<b>861</b>	<b>(3.3)</b>	<b>29.6</b>	<b>2,139</b>	<b>2,545</b>	<b>18.9</b>	<b>3,293</b>	<b>77.3</b>	<b>3,219</b>	<b>79.0</b>
margin%	35.5	44.2	41.1	(3.1)	5.6	38.5	41.9	3.4				
Capex	534	561	540	(3.9)	1.1	3,057	1,530	(49.9)				
<b>TOTAL Debt</b>	<b>17,350</b>	<b>17,411</b>	<b>32,983</b>	<b>89.4</b>	<b>90.1</b>	<b>17,350</b>	<b>32,983</b>	<b>90.1</b>				
Net Debt	15,782	15,761	14,209	(9.9)	(10.0)	15,782	14,209	(10.0)				
<i>Net debt/annual. EBITDA (x)</i>	<i>2.4</i>	<i>2.3</i>	<i>2.1</i>	<i>(10.7)</i>	<i>(15.4)</i>	<i>2.4</i>	<i>2.1</i>	<i>(15.4)</i>				

### Exhibit 3: Sarana Menara Nusantara (TOWR IJ) 3Q/9M21 operational KPI

#	3Q20	2Q21	3Q21	QoQ, Δ%	YoY, Δ%
<b>Total Towers (#)</b>	<b>21,373</b>	<b>21,575</b>	<b>21,639</b>	<b>0.3</b>	<b>1.2</b>
<i>qoq net added towers</i>	<i>102</i>	<i>151</i>	<i>64</i>		
<i>yoy net added towers</i>	<i>3,140</i>	<i>304</i>	<i>266</i>		
<b>Implied Towers with one anchor tenant (#)</b> <i>(minimum value)</i>	<b>4,131</b>	<b>2,992</b>	<b>2,822</b>	<b>-5.7</b>	<b>(31.7)</b>
<i>% of total towers</i>	<b>19.3</b>	<b>13.9</b>	<b>13.0</b>		
<i>qoq net added core tenants</i>	<i>-289</i>	<i>-62</i>	<i>-170</i>		
<i>yoy net added core tenants</i>	<i>-1,905</i>	<i>-1,428</i>	<i>-1,309</i>		
<b>Total tenancies (#)</b>	<b>38,615</b>	<b>40,158</b>	<b>40,456</b>	<b>0.7</b>	<b>4.8</b>
<i>qoq net added tenancies</i>	<i>493</i>	<i>364</i>	<i>298</i>		
<i>yoy net added tenancies</i>	<i>8,185</i>	<i>2,036</i>	<i>1,841</i>		
<b>Collocations (#)</b>	<b>17,242</b>	<b>18,583</b>	<b>18,817</b>	<b>1.3</b>	<b>9.1</b>
<i>qoq net added collocations</i>	<i>391</i>	<i>213</i>	<i>234</i>		
<i>yoy net added collocations</i>	<i>5,045</i>	<i>1,732</i>	<i>1,575</i>		
<i>Tenancy Ratio (x)</i>	<i>1.81</i>	<i>1.86</i>	<i>1.87</i>		
<i>Effective month lease per tenancy (Rp mn)</i>	<i>13.8</i>	<i>13.7</i>	<i>13.7</i>		
<b>Revenue generating tower fiber (km)</b>	<b>32,661</b>	<b>52,000</b>	<b>59,593</b>	<b>14.6</b>	<b>82.5</b>
<b>Connectivity fiber (kms)</b>	<b>6000</b>	<b>7,000</b>	<b>7,000</b>		
<b>Total business activations (#)</b>	<b>6982</b>	<b>7,600</b>	<b>7,782</b>		

#### Exhibit 4. Income Statement

Year to 31 Dec (IDRbn)	2019A	2020A	2021F	2022F	2023F
<b>Revenue</b>	<b>6,454</b>	<b>7,445</b>	<b>8,596</b>	<b>10,326</b>	<b>10,768</b>
COGS	(1,808)	(2,012)	(2,213)	(2,569)	(2,648)
<b>Gross profit</b>	<b>4,646</b>	<b>5,434</b>	<b>6,383</b>	<b>7,758</b>	<b>8,121</b>
<b>EBITDA</b>	<b>5,385</b>	<b>6,452</b>	<b>7,436</b>	<b>8,908</b>	<b>9,304</b>
<b>Oper. profit</b>	<b>3,928</b>	<b>4,614</b>	<b>5,674</b>	<b>6,934</b>	<b>7,265</b>
Interest income	39	34	34	34	35
Interest expense	(958)	(1,201)	(1,386)	(1,804)	(1,722)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc.	0	0	0	0	0
Other Income	0	0	0	0	0
<b>Pre-tax profit</b>	<b>3,009</b>	<b>3,446</b>	<b>4,321</b>	<b>5,164</b>	<b>5,578</b>
Income tax	(656)	(545)	(644)	(774)	(807)
Minority interest	(11)	(18)	0	0	0
<b>Net profit</b>	<b>2,342</b>	<b>2,883</b>	<b>3,677</b>	<b>4,389</b>	<b>4,771</b>
<b>Core Net Profit</b>	<b>2,342</b>	<b>2,883</b>	<b>3,677</b>	<b>4,389</b>	<b>4,771</b>

#### Exhibit 5. Balance Sheet

Year to 31 Dec (IDRbn)	2019A	2020A	2021F	2022F	2023F
Cash & cash equivalent	594	1,443	1,497	1,442	1,417
Receivables	1,881	1,560	<b>1,443</b>	<b>1,320</b>	<b>1,377</b>
Inventory	0	0	0	0	0
Other Curr. Asset	0	0	0	0	0
Fixed assets - Net	19,648	22,758	35,966	36,658	37,353
Other non-curr.asset	5,543	8,489	12,426	12,598	12,655
<b>Total asset</b>	<b>27,666</b>	<b>34,250</b>	<b>51,333</b>	<b>52,020</b>	<b>52,803</b>
ST Debt	1,945	4,110	<b>3,642</b>	<b>3,642</b>	<b>3,069</b>
Payables	634	535	<b>466</b>	<b>541</b>	<b>557</b>
Other Curr. Liabilities	1,987	2,581	1,739	1,928	1,872
Long Term Debt	13,223	14,075	29,976	27,176	25,222
Other LT. Liabilities	1,117	2,765	3,041	3,346	3,680
<b>Total Liabilities</b>	<b>18,905</b>	<b>24,066</b>	<b>38,866</b>	<b>36,634</b>	<b>34,402</b>
Shareholder's Funds	8,725	10,154	<b>12,437</b>	<b>15,355</b>	<b>18,371</b>
Minority interests	36	30	30	30	30
<b>Total Equity &amp; Liabilities</b>	<b>27,666</b>	<b>34,250</b>	<b>51,333</b>	<b>52,020</b>	<b>52,803</b>

### Exhibit 6. Cash Flow

Year to 31 Dec (IDRbn)	2019A	2020A	2021F	2022F	2023F
Net income	2,342	2,883	3,677	4,389	4,771
Depreciation and Amort.	1,350	1,644	1,761	1,974	2,038
Change in Working Capital	(309)	816	(793)	385	(95)
Other Oper. Cash Flow	117	1,418	345	860	757
<b>Operating Cash Flow</b>	<b>3,499</b>	<b>6,762</b>	<b>4,991</b>	<b>7,611</b>	<b>7,472</b>
Capex	(4,536)	(6,109)	(10,029)	(1,756)	(1,805)
Others Inv. Cash Flow	(480)	(479)	(9,166)	(137)	(21)
<b>Investing Cash Flow</b>	<b>(5,016)</b>	<b>(6,588)</b>	<b>(19,196)</b>	<b>(1,894)</b>	<b>(1,826)</b>
Net change in debt	3,684	3,017	15,434	(2,799)	(2,527)
New Capital	(395)	1,386	276	(304)	(334)
Dividend payment	(1,185)	(1,198)	(1,394)	(1,470)	(1,755)
Other Fin. Cash Flow	(958)	(1,201)	(1,386)	(1,804)	1,722
<b>Financing Cash Flow</b>	<b>1,147</b>	<b>2,004</b>	<b>(12,929)</b>	<b>(5,771)</b>	<b>(5,670)</b>
<b>Net Change in Cash</b>	<b>(369)</b>	<b>849</b>	<b>54</b>	<b>(54)</b>	<b>(24)</b>
Cash - begin of the year	964	594	1,442	1,497	1,442
Cash - end of the year	594	1,443	1,497	1,442	1,417

### Exhibit 7. Key Ratios

Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
<b>Growth (%)</b>					
Sales	10.0	15.4	15.5	20.1	4.3
EBITDA	9.2	19.8	15.3	19.8	4.4
Operating profit	3.6	17.5	23.0	22.2	4.8
Net profit	6.4	23.1	27.5	19.4	8.7
<b>Profitability (%)</b>					
Gross margin	72.0	73.0	74.2	75.1	75.4
EBITDA margin	83.4	86.7	86.5	86.3	86.4
Operating margin	60.9	62.0	66.0	67.1	67.5
Net margin	36.3	38.7	42.8	42.5	44.3
ROAA	9.3	9.3	8.6	8.5	9.1
ROAE	28.0	30.5	32.6	31.6	28.3
<b>Leverage</b>					
Net Gearing (x)	1.7	1.6	2.6	1.9	1.5
Interest Coverage (x)	4.1	3.8	4.1	3.8	4.2

Source : TOWR, Danareksa Estimates

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