

June 27th, 2023

Company Update

Christofer Kojongian

Analyst

(62 21) 8067 3000

christofer.kojongian@sucorsekuritas.com

SARANA MENARA NUSANTARA

BUY

Fiber as new avenue for growth

Estimated (Dec)	2022A	2023E	2024F	2025F
Revenue (Rp bn)	11,036	11,599	12,457	13,418
Net Income (Rp bn)	3,442	3,620	3,999	4,418
EPS (Rp)	67	71	78	87
EPS Change (YoY)	0.4	5.2	10.5	10.5
P/E (x)	15.3	14.6	13.2	12.0
EV/EBITDA (x)	10.2	9.9	9.2	8.7
P/BV (x)	3.7	3.2	2.9	2.5
ROE (%)	23.8	22.3	21.7	21.1
ROIC (%)	5.8	5.9	6.2	6.4
Dividend Yield (%)	2.3	3.3	3.4	3.8
Net gearing (%)	3.1	2.8	2.5	2.3

Stock data

Bloomberg Ticker:	TOWR IJ
Last Price:	Rp1,055
52-Week Range:	Rp895-Rp1,285
Market Capitalization (Rp tn):	51.01
Shares Outstanding (bn):	8.06
6M Avg Trading Value:	Rp68.32bn

All figures are in local currency (Indonesian Rupiah) except where otherwise stated.

Historical 5-Yr Key Performance (2017–2022):

Revenue growth	88.1%	ROE	26.64%
Earnings	56.5%	ROIC	10.59%
FCF Growth	21.1%	Div. Yield	2.28%
5-Yr PE	19.0	Operating Margin	62.17%
5-Yr EV/EBITDA	12.3	Net gearing	2.44

TOWR Share Price Performance



Technical Review:

TREND	: MIXED - HIGHER
Support	: 1,040 – 1,035
Resistance	: 1,100 – 1,105

Reaping rewards from growing FMC among telco operators

TOWR is ahead in the non-tower segment compared to peers by owning fiber optic (fiber to the tower or FTTH, and fiber to the home, or FTTH) and connectivity business (miscellaneous service for enterprises). The company is advancing the FTTH business outside Java, utilizing its massive 180,000km fiber infrastructure. TOWR's strong fiber infrastructure is poised to benefit from the growing fixed mobile convergence (FMC) among telco operators.

We expect revenue from tower fiber to grow by 30% in 2023F and 20% in 2024F, while connectivity revenue up by 20% in 2023F and 15% in 2024F, thus increasing the portion of non-tower business from 22% in 2022 to 26% in 2023F and 29% by 2024F.

Softer growth on the tower segment

We expect softer revenue growth and tenancy ratio among the tower infra providers (including TOWR) following ISAT-Hutch merger. We forecast revenue growth from the tower segment to remain subdued at -0.5% and +3.8% yoy in 2023–24F, respectively.

Improving leverage profile

Net gearing ratio has declined to 2.8x in 1Q23, down from its peak of 3.5x in 2021 (post-acquisition of SUPR). The company seeks to maintain its net leverage profile below 3.0x. Similarly, net debt-to-EBITDA has also declined to 4.5x in 1Q23, from peak of 5.3x in 2021. Note that TOWR has solid funding structure with low funding costs of 6.3%. The company is also exploring several options to further reduce its cost of fund.

Attractive valuation – Reiterate BUY, TP: Rp1,600

TOWR delivers the highest ROE and ROIC in the industry, reaching 22.3x and 5.9x in 2023F. The company is also set to benefit from the consolidation of telco industry and the growing FMC. We conservatively project earnings to grow 5.2% and 10.5% in 2023–24F, supported by growing revenue from non-tower segment.

Our DCF-based TP of Rp1,600 assumes a WACC of 8.6%, with a risk-free rate of 4.9%, Beta 1.75, and cost of debt after tax of 4.9%. Our TP implies 12.8x 2023F–24F EV/EBITDA (+1.4SD of its 10-Yr mean).

Summary Financials

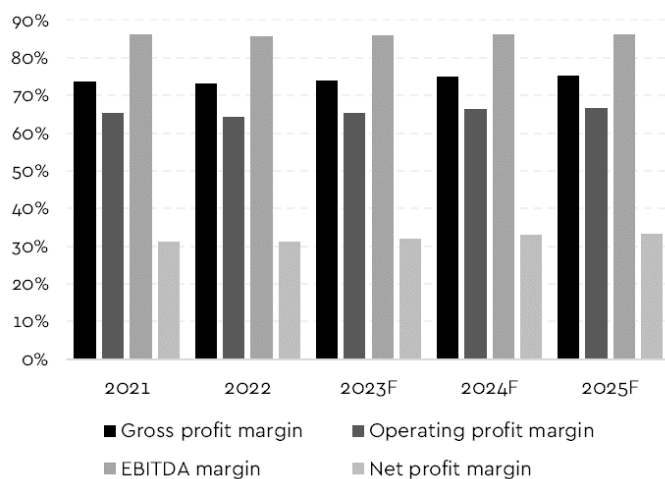
Chart 1: TOWR Key Financial Highlights

Profit & Loss (IDR bn)	2021	2022	2023F	2024F	2025F	Balance Sheet (IDR bn)	2021	2022	2023F	2024F	2025F
Revenue	8,635	11,036	11,599	12,457	13,418	Cash and equivalents	4,748	309	666	687	752
Cost of revenue	(2,340)	(2,914)	(3,121)	(3,230)	(3,355)	Trade receivables	2,171	2,558	2,485	2,669	2,875
Gross profit	6,295	8,121	8,478	9,227	10,063	Net- Fixed assets	39,628	43,265	46,024	49,268	53,190
Salary expenses	(471)	(681)	(716)	(765)	(821)	Other assets	19,281	19,493	19,726	19,917	20,077
Other operating expenses	(250)	(230)	(309)	(318)	(326)	Total Assets	65,829	65,625	68,902	72,541	76,893
Operating profit	5,575	7,210	7,454	8,144	8,915	Trade payables	522	839	867	897	932
EBITDA	7,434	9,517	9,930	10,708	11,575	Short-term debt + CMLTD	16,794	9,564	11,238	11,515	9,581
Other op. income/exp	(178)	(382)	(147)	(169)	(200)	Long-term debt	30,191	35,409	34,640	35,413	38,827
Finance income	25	23	5	10	10	Other liabilities	6,260	5,381	5,891	6,251	6,660
Finance expense	(1,370)	(2,392)	(2,621)	(2,805)	(3,002)	Total Liabilities	53,767	51,193	52,636	54,077	56,000
Pre-tax profit	4,051	4,459	4,690	5,180	5,723	Minority interest	31	32	33	36	39
Tax expense	(603)	(963)	(1,013)	(1,118)	(1,236)	Paid capital	(401)	(401)	(401)	(401)	(401)
Minority interest	(21)	(55)	(57)	(63)	(70)	Retained earnings	12,394	14,636	16,535	18,724	21,142
Net profit	3,427	3,442	3,620	3,999	4,418	Other equities	38	165	98	105	113
EPS	67	67	71	78	87	Total Equity	12,062	14,432	16,266	18,464	20,893

Cash Flow (IDR bn)	2021	2022	2023F	2024F	2025F	Key Ratios (%)	2021	2022	2023F	2024F	2025F
Net income	3,427	3,442	3,620	3,999	4,418	Revenue growth	16.0	27.8	5.1	7.4	7.7
Depreciation & amortization	3,704	1,379	1,189	1,318	1,429	EBIT growth	17.1	29.3	3.4	9.3	9.5
Change in working capital	976	(1,742)	614	(88)	(4)	EBITDA growth	16.1	28.0	4.3	7.8	8.1
Cash flow from operations	8,107	3,080	5,423	5,228	5,842	Net profit growth	20.9	0.4	5.2	10.5	10.5
Capex	(13,630)	(5,258)	(4,009)	(4,496)	(5,172)	Gross margin	72.9	73.6	73.1	74.1	75.0
Others	(16,995)	378	71	(55)	(201)	EBIT margin	64.6	65.3	64.3	65.4	66.4
Cash flow from investments	(30,625)	(4,880)	(3,938)	(4,551)	(5,373)	EBITDA margin	86.1	86.2	85.6	86.0	86.3
Changes in debt	26,788	(2,013)	906	1,050	1,480	Net margin	39.7	31.2	31.2	32.1	32.9
Changes in equity	-	-	-	-	-	ROA	5.2	5.2	5.3	5.5	5.7
Dividends paid	(1,399)	(1,200)	(1,721)	(1,810)	(1,999)	ROE	28.4	23.8	22.3	21.7	21.1
Others	434	573	(313)	103	115	Net gearing (x)	3.5	3.1	2.8	2.5	2.3
Cash flow from financing	25,823	(2,640)	(1,128)	(657)	(404)	Net debt/EBITDA (x)	5.3	4.7	4.6	4.3	4.1
Net Cash Flow	3,306	(4,440)	357	21	65	Interest coverage ratio (x)	3.4	2.0	2.0	2.0	2.1

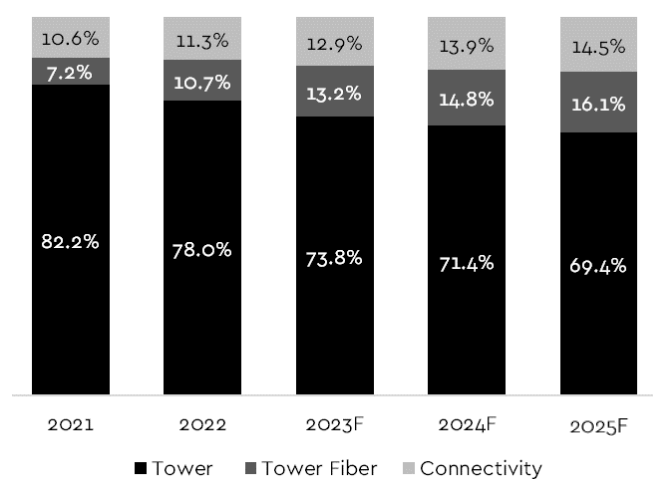
Source: Sucor Sekuritas

Chart 2: TOWR profitability margin



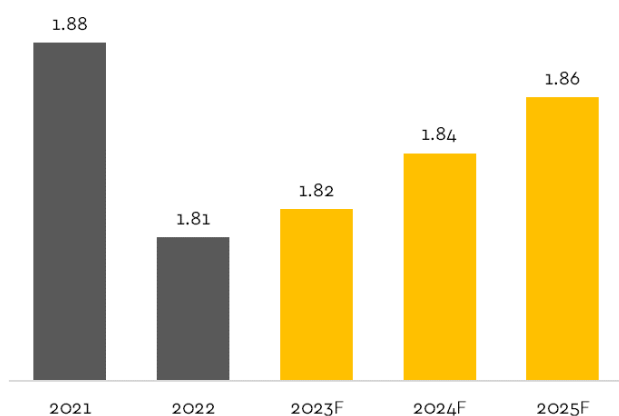
Source: Company, Sucor Research

Chart 3: TOWR revenue contribution by segment



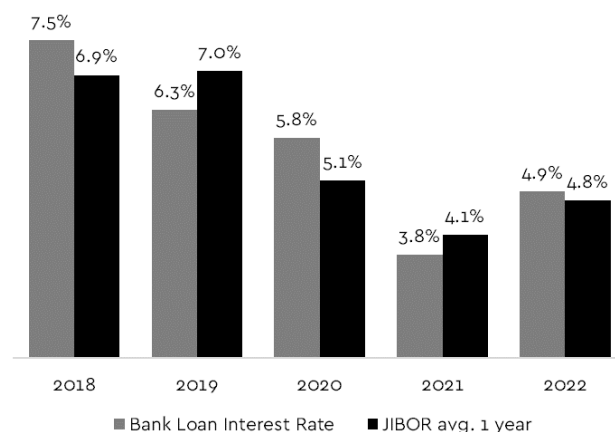
Source: Company, Sucor Research

Chart 4: TOWR tenancy ratio



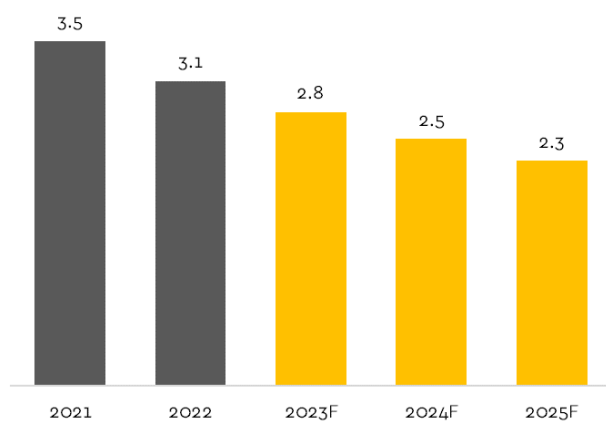
Source: Company, Sucor Research

Chart 5: TOWR bank loan interest rate vs JIBOR in the past 5 years



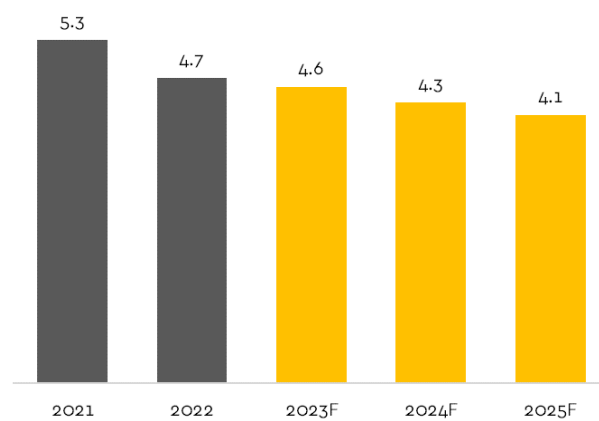
Source: Company, Sucor Research

Chart 6: TOWR net gearing ratio (x)



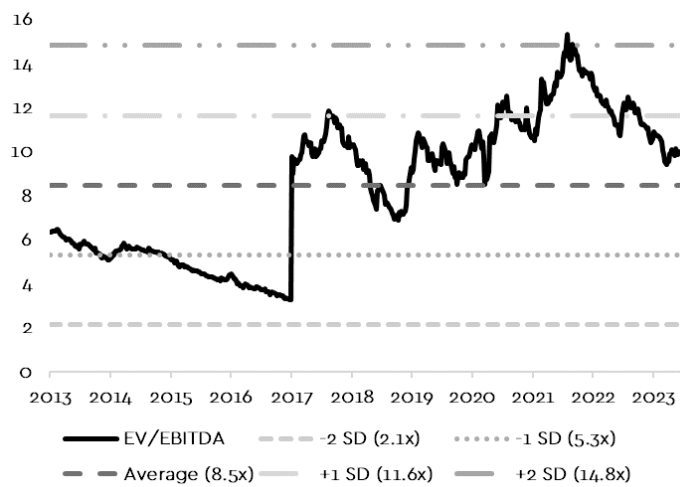
Source: Company, Sucor Research

Chart 7: TOWR net debt to EBITDA



Source: Company, Sucor Research

Chart 8: TOWR 10yr EBITDA band



Source: Sucor Research

Chart 9: 10yr EV/EBITDA peers valuation



Source: Sucor Research

**Sucor Sekuritas
rating definition,
analysts certification,
and important disclosure**

Ratings for Sectors

Overweight	: We expect the industry to perform better than the primary market index (JCI) over the next 12 months.
Neutral	: We expect the industry to perform in line with the primary market index (JCI) over the next 12 months.
Underweight	: We expect the industry to underperform the primary market index (JCI) over the next 12 months

Ratings for Stocks

Buy	: We expect this stock to give return (excluding dividend) of above 10% over the next 12 months.
Hold	: We expect this stock to give return of between -10% and 10% over the next 12 months.
Sell	: We expect this stock to give return of -10% or lower over the next 12 months

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Research Team



EDWARD LOWIS
Head of Research
*Strategy, Banking,
Automotive, Plantation*



AHMAD MIKAIL ZAINI
Chief Economist
Macroeconomy



PAULUS JIMMY
Deputy Head of
Research
*Technology, Media,
On China*



BENYAMIN MIKAEL
Senior Analyst
*Industrials, Real Estate,
Retailers, Poultry*



**ANDREAS YORDAN
TARIGAN**
Analyst
Energy, Mining



**CHRISTOFER
KOJONGIAN**
Analyst
*Telco, Telco Towers,
Automotive*



CLARA NATHANIA
Analyst
Cement, Consumer



ERIZA PUTRI
Analyst
*Infrastructure,
Healthcare*



**ANMOL GOBIND
SADHWANI**
Research Associate



KAREN MIRANTI
Research Associate



ORNELLA ONGKO
Research Associate



STANY PANDUNATA
Research Associate



YOGA AHMAD GIFARI
Research Associate



**MOHAMMAD FARID
GUMILAR**
Associate Economist

Sales Office & Research

PT. Sucor Sekuritas

HEAD OFFICE

PT. Sucor Sekuritas
Sahid Sudirman Center, 12th Floor
Jl.Jend Sudirman Kav.86
Jakarta 10220, Indonesia
Ph: (+621) 8067 3000
Fax: (+621) 2788 9288

JAKARTA

Ruko Inkopal Block A No. 23A
Jl.Boulevard Barat Raya
Jakarta Utara 14240
Ph: (+621) 4585 9114
Fax: (+621) 4585 9227

Kantor Cabang Pantai Indah Kapuk

Jl. Camar Indah 1 De No.8
RT 005/006 Kapuk Muara, Penjaringan Jakarta Utara 14460
Ph: (+621) 588 6010

GALERI INVESTASI

Universitas Tarumanegara
Fakultas Ekonomi
Lab. Pasar Modal Ged. A Lt.7
Jl. Tanjung Duren Raya No.1 Jakarta Barat 11470
Ph: (+621) 565 550 814
Fax: (+621) 565 5508

Altira (War Room@Cafe Rahasia Saham)

Altira Business Park, Pordium 3
Jl. Yos Sudarso Kav 85 No.15, Sunter, Jakarta Utara

GADING SERPONG

Ruko Pisa Grande Blok A No.2
Jl. Paramount Boulevard, Curug Sangereng Kecamatan Kelapa Dua
Tangerang, Banten 15810
Ph: (+621) 542 10990

GALERI INVESTASI

Swiss German University
EduTown BSD City
Fakultas Business Administration&Humanity
Tangerang 15339

PONTIANAK

Jl Teuku Umar
Pontianak Mall c23-24 Lt 2
PhL (+62561) 760001

SEMARANG

Jl. D.I Panjaitan 90 B
Kel. Jagalan
Kec. Semarang Tengah, Semarang 50135
Ph: (024) 86042220

GALERI INVESTASI

Universitas Pelita Harapan Fakultas Ekonomi
Jl. M.H Thamrin Boulevard 1100 Lippo Village Tangerang 15811
Ph: (+621) 547 0901

BANDUNG

Ruko Paskal Hyper Square Blok B No. 66
Jl. Hegarmanah No. 57 Bandung 40141
Ph: (+622) 203 3065
Fax: (+622) 203 2809

JAMBI

GALERI INVESTASI
Universitas Adiwangsa Jambi
Jl. Sersan Muslim No. 24, Thehok, Kec Jambi Selatan, Kota Jambi

SURABAYA

Gd. Spazio Lt 2 Unit 208
Jl. Mayjen Yono Soewoyo Kav.3 Graha Famili
Surabaya 60226
Ph: (+631) 600 39701

Surabaya 2

SCG Surabaya
Jl. Slamet No.37
Surabaya 60272
Ph: (+631) 547 9252
Fax: (+631) 547 0598

Surabaya 3

Ruko Pakuwon Town Square AA 2-50
Jl. Kejawen Putih Mutiara
Surabaya 60112
Ph: (+631) 5825 3448
Fax: (+631) 5825 3449

GALERI INVESTASI

Universitas Negeri Surabaya Gedung Bisnis Centre Fakultas
Ekonomi, Kampus Ketintang
Jl. Ketintang Surabaya 60231
Ph: (+631) 8297123

GALERI INVESTASI

Universitas Katolik Widya Mandala Fak. Bisnis
Jl. Dinoyo 42-44 Surabaya 60265
Ph: (+631) 567 8478