

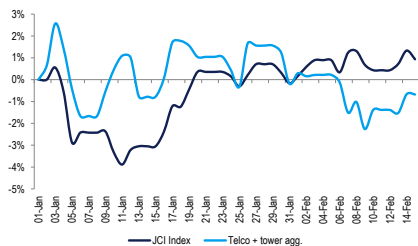
Telecommunications

Overweight (unchanged)

Sector Update | Telecommunications | 16 February 2023

Sector Index Performance (JAKFIN)

	3M	6M	12M
Absolute	-4.8%	-14.2%	-11.0%
Relative to JCI	-3.1%	-11.1%	-12.5%



Summary Valuation Metrics

EV/EBITDA (x)	Dec-22F	Dec-23F	Dec-24F
ISAT IJ	5.8	5.2	4.6
TLKM IJ	6.5	6.1	5.9
EXCL IJ	5.2	4.6	4.3
MTEL IJ	12.0	10.7	9.6
TBIG IJ	15.6	14.6	13.4
TOWR IJ	12.6	11.4	10.3

P/BV (x)	Dec-22F	Dec-23F	Dec-24F
ISAT IJ	1.5	1.5	1.4
TLKM IJ	2.3	2.3	2.2
EXCL IJ	1.1	1.1	1.1
MTEL IJ	1.8	1.7	1.7
TBIG IJ	38.7	36.3	33.9
TOWR IJ	4.8	4.0	3.5

Div. Yield	Dec-19F	Dec-20F	Dec-21F
ISAT IJ	0.0%	0.0%	1.5%
TLKM IJ	3.1%	3.8%	4.5%
EXCL IJ	1.9%	2.6%	3.2%
MTEL IJ	1.7%	2.0%	2.5%
TBIG IJ	1.3%	1.6%	1.9%
TOWR IJ	1.9%	2.1%	2.9%

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Last batch of IOH tower sale

- ISAT sold 997 macro towers to MTEL for Rp1.7tr (Rp1.65bn/tower), this was in-line with past transactions, though lower than 1Q22 sale by ISAT.
- It also offloaded 633 DAS to PT Dhost for Rp480bn (Rp758mn/DAS).
- The impact from this transaction is generally positive for both ISAT and MTEL. Maintain Overweight on the telco/tower sector.

ISAT's last batch of towers fetches Rp1.7tr

Indosat Ooredoo Hutchison (ISAT/IOH) announced the signing of a CSPA with Dayamitra Telekomunikasi (MTEL) for the sale of 997 macro towers for Rp1.65tr. This implies a price of about Rp1.65bn/tower, c.32% discount vs. ISAT's previous tower sales in 1Q21 (Rp2.42bn/tower), but in-line with industry's historical transactions (Rp1.65bn/tower). The agreement also entails a leaseback for 983 towers (10 years), with inflation-linked lease rates of Rp11.8mn/month (vs. the typical Rp10mn/month lease rates for sale-and-leaseback). Given that these towers have blended tenancy ratio of 1.1x, assuming: 1) lease rates of IDR11.8mn/month (same as the leaseback); and 2) EBITDA margin of 70-80%; we estimate transaction valuation of around 16-18x EV/EBITDA, slightly higher than previous transactions in 2020-22 (c.13-17x EV/EBITDA) and at premium to ISAT's previous transaction with DigitalBridge (c.13x). The transaction is expected to close at end-1Q23.

It also offloaded 633 DAS to PT Dhost for Rp480bn

ISAT also sold 633 indoor infrastructures (likely indoor Distributed Antenna Systems/DAS) to PT Dhost Telekomunikasi Indonesia (a Neutral Hosting Service Provider) for Rp480bn, which implies valuation of Rp758mn/DAS. The company will also leaseback 544 DAS from PT Dhost for 10 years, with inflation-linked lease rates of Rp19.2mn/month.

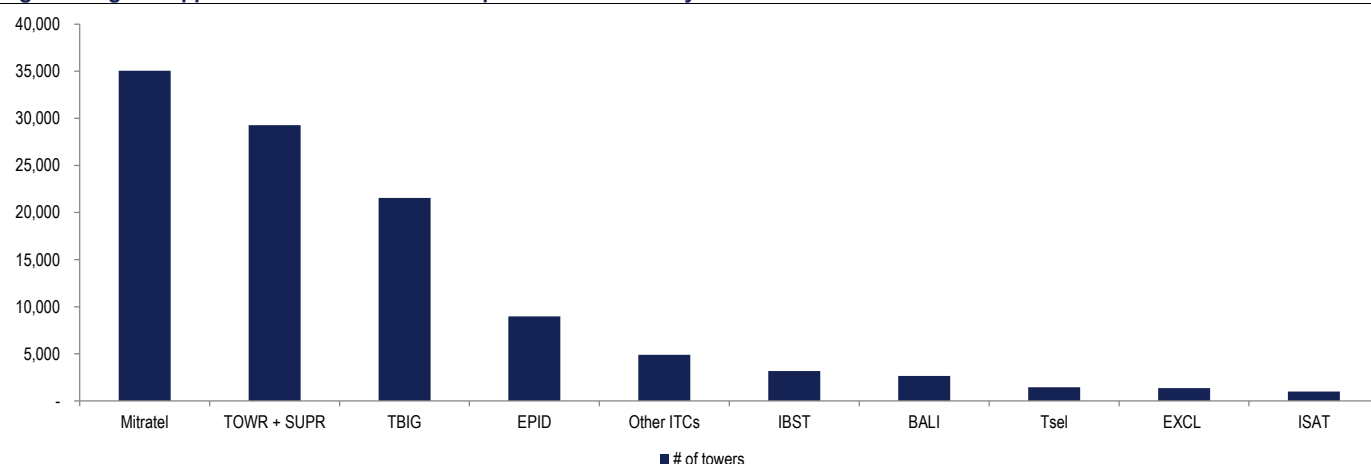
Generally positive for MTEL...

From EV/EBITDA perspective, the valuation seems to be on the higher side. Nonetheless, we believe that the premium is somewhat justified due to the low tenancy ratio of 1.1x (which implies high potential for colocation), strategic location (52%/48% Java/ex-Java), and scarcity (this is likely to be the last batch of sizable tower sales from the non-incumbent telcos). This transaction (funded by 30%/70% cash/debt composition) strengthens MTEL's position as the largest towerco in the country, now with 36.0k tower sites and 51.5k tenants, implying tenancy ratio of 1.43x (vs. 1.44x in 3Q22).

... and ISAT; limited implications for large Indonesian towercos

With total proceeds of Rp2.13tr, these transactions should allow the company to focus more on its core businesses, provide a one-off earnings boost/a potential special dividend, and strengthen its balance sheet, which in turn could support its capex rollout. Separately, we see a relatively limited impact on other large towercos, as this transaction was already widely expected, given MTEL's ample balance sheet capacity (vs. peers). With only c.6k towers remaining in the market (owned by sub-scale towercos), we see a more-limited sizable inorganic opportunities in the tower space. We maintain our OW call in the telco/tower sector with EXCL/ISAT and TBIG/TOWR as our preferred picks.

Fig. 1: Inorganic opportunities within the tower space is now relatively more-limited



Source: Company, Indo Premier

Fig. 2: Precedent tower transactions in Indonesia (non-exhaustive)

Acquirer	Target	Year	Total Price (Rp bn)	# of towers (#)	Average price per tower (Rp bn)	US\$m/To wer	EV/EBITDA
Sarana Menara Nusantara	Central Investindo & Mitra Karya Propertindo	2012	376	200	1.88	0.20	
Tow er Bersama	Indosat	2012	3,857	2,500	1.54	0.16	
Nusantara Infrastructure	Tara Cell Intrabuana	2014	598	436	1.37	0.12	
Komet Infra Nusantara	Corona Telecommunications	2014	284	162	1.75	0.15	
Solusi Tunas Pratama	XL Axiata	2014	5,600	3,500	1.60	0.13	
Sarana Menara Nusantara	XL Axiata	2016	3,560	2,500	1.42	0.11	
Sarana Menara Nusantara	Komet Infra Nusantara	2018	1,461	1,369	1.07	0.07	
Tow er Bersama	Gihon Telekomunikasi	2018	675	529	1.28	0.09	
Tow er Bersama	Visi Telekomunikasi Asia	2018	293	305	0.96	0.07	
Sarana Menara Nusantara	Indosat	2019	1,950	1,000	1.95	0.14	
Mitratel	Indosat	2019	4,443	2,100	2.12	0.15	
Sarana Menara Nusantara	XL Axiata	2020	2,248	1,646	1.37	0.09	
Centratama	XL Axiata	2020	1,537	1,054	1.46	0.10	9.5x
Mitratel	Telkomsel	2020	10,300	6,050	1.70	0.12	13x
Tow er Bersama	Inti Bangun Sejahtera	2020	3,975	3,000	1.33	0.09	
EPID Menara Assetco	Indosat	2021	10,285	4,247	2.42	0.17	13x
Mitratel	Telkom Indonesia	2021	811	798	1.02	0.07	
Mitratel	Telkomsel	2021	6,188	4,000	1.55	0.11	
Sarana Menara Nusantara	Solusi Tunas Pratama	2021	16,730	6,780	2.47	0.17	14x
Edotco Infrastruktur Indonesia	XL Axiata	2022	750	859	0.87	0.06	9x
Mitratel	Telkomsel	2022	9,591	6,000	1.60	0.10	17x
Centratama	Lasmana Sw asti Prahida; Techindo Global Fortace	2022	632	289	2.19	0.14	
Centratama	Anugerah Communication	2022	1,175	397	2.96	0.19	
Mitratel	Indosat	2023	1,648	997	1.65	1.10	
Telcos' tower sales average					1.63	0.20	
Total industry average					1.65	0.16	

Source: Company, Indo Premier

SECTOR RATINGS

- OVERWEIGHT** : An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
- NEUTRAL** : A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
- UNDERWEIGHT** : An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

COMPANY RATINGS

- BUY** : Expected total return of 10% or more within a 12-month period
- HOLD** : Expected total return between -10% and 10% within a 12-month period
- SELL** : Expected total return of -10% or worse within a 12-month period

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