

Sarana Menara Nusantara

BUY (unchanged)

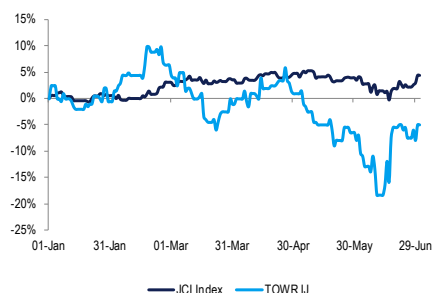
Company Update | Towers | TOWER IJ | 1 July 2024

Stock Data

Target price	Rp1,100
Prior TP	Rp1,100
Current price	Rp730
Upside/downside	+51%
Shares outstanding (mn)	51,015
Market cap (Rp bn)	37,241
Free float	38%
Avg. 6m daily T/O (Rp bn)	75

Price Performance

	3M	6M	12M
Absolute	-4.0%	-5.0%	-15.0%
Relative to JCI	-4.8%	-9.4%	-13.7%
52w low/high (Rp)	825 – 1,175		



Major Shareholders

Sapta Adhikari Investama	54.4%
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Completion of IBST transaction shall be LT positive; reiterate Buy

- TOWR has completed the acquisition of 90% stake in IBST for Rp3.4tr or Rp1.1bn/tower, a c.33% discount vs. historical transactions.
- Further consolidation is a positive for the tower sector, as it could help to ensure competition remains rational in the long run.
- Transaction valuation seems reasonable, while its EBITDA could also see an uplift of c.3-6% post-transaction. Reiterate Buy on TOWR.

TOWR has completed the acquisition of 90% stake in IBST

TOWR announced that it has completed the acquisition of 90.11% stake in IBST (through its wholly-owned subsidiary, iForte) for Rp3.4tr (or Rp2,813/share; c.49% discount to market price). This implies a transaction valuation of about Rp1.1bn/tower, a c.33% discount vs. industry's historical transactions of Rp1.65bn/tower. Given that IBST has an annual EBITDA of about Rp700bn, it also implies valuation of c.4.9x EV/EBITDA (or 8.4x including IBST's net debt) vs. industry's recent transaction valuation of c.9-17x. Due to the change of control in IBST, a mandatory tender offer will be conducted.

Positive for the tower sector and TOWR

For the sector, this transaction is a positive development, as consolidation should help to ensure healthy competition. We also view this acquisition as an important strategic move from TOWR, given that: 1) it solidifies TOWR's position as the second largest towerco in the country; 2) we see more-limited, sizable inorganic opportunities in the market going forward; and 3) transaction valuation seems reasonable and shall be EBITDA accretive.

TOWR's FY24-25F EBITDA could potentially see an uplift of c.3-6%

First, TOWR will have c.34.3k towers with 1.69x tenancy post-transaction (vs. 31.0k/1.74x previously) and >205k km of fiber (vs. 186.6k km previously). Second, besides Tsel (c.2-3k towers), only BALI currently owns sizable assets (c.3k towers). The remaining towercos are smaller family-owned towercos (typically <1k towers each). Third, this could translate to FY24-25F EBITDA uplift of c.3-6% for TOWR. Assuming a 70% debt-funding, all else being equal, the transaction could be c.1% earnings-dilutive, on our estimates. However, we have yet to take into account debt restructuring for IBST and the synergies that the transaction could introduce – both of which could support earnings accretion (see our previous [note](#)). Meanwhile, the pro-forma net debt/EBITDA ratio could decline from 4.3x to 4.2x on the enlarged EBITDA base.

Lease renewals and future commitment from FREN should help to ease concerns on potential churns

Although EXCL-FREN contribution to TOWR's revenue would increase from c.36% to c.39% post-transaction (as revenue from FREN reached c.71% of IBST's FY23 revenue), this transaction also entails lease renewals (10 years) with FREN for the existing tower and FTTT with IBST, and also a future commitment for additional tower and FTTT orders. This, in our view, should ease concerns on potential churns (given the EXCL-FREN potential merger).

Reiterate Buy, with an unchanged TP of Rp1,100

We continue to like TOWR's long-term growth story and this transaction is likely to be a net-positive for the company. Note that we have yet to adjust our model, pending further information disclosure. For now, reiterate Buy on TOWR with TP of Rp1,100. Risks: higher interest rates and further telco consolidation.

Financial Summary (Rp bn)	2022A	2023A	2024F	2025F	2026F
Revenue	11,036	11,740	12,768	13,973	15,178
EBITDA	9,517	9,980	10,811	11,827	12,836
EBITDA growth	28.0%	4.9%	8.3%	9.4%	8.5%
Net profit	3,442	3,253	3,523	4,124	4,457
EPS (Rp)	67	64	69	81	87
EPS growth	0.4%	-5.5%	8.3%	17.0%	8.1%
ROE	23.8%	19.7%	18.6%	19.4%	18.8%
PER (x)	10.8	11.4	10.6	9.0	8.4
EV/EBITDA (x)	8.5	8.1	7.5	6.9	6.3
Dividend yield	3.2%	3.2%	3.1%	4.7%	5.5%
Forecast changes			N/A	N/A	N/A
IPS vs. consensus			98%	108%	109%

Source: Company, Indo Premier

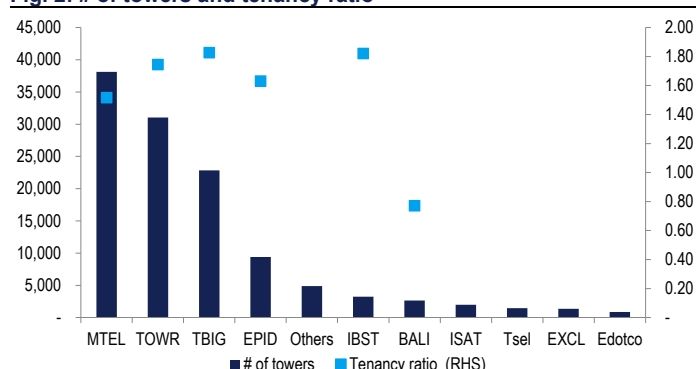
Share price closing as of: 05 June 2024

Fig. 1: IBST's shareholders

Shareholder	Shares	Ownership
PT Bakti Taruna Sejati	1,079,133,723	79.9%
PT Dian Sw astatika Sentosa Tbk	114,760,000	8.5%
PT Inovasi Mas Mobilitas	200	0.0%
Public	157,011,004	11.6%
Total	1,350,904,927	

Source: Company, Indo Premier

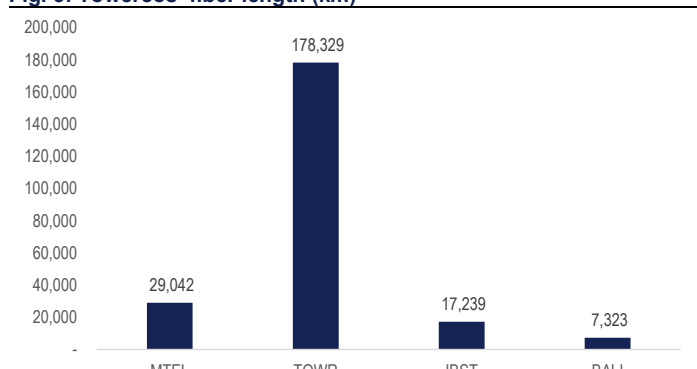
Fig. 2: # of towers and tenancy ratio



Sources: Company, Indo Premier

note: IBST number from FY23

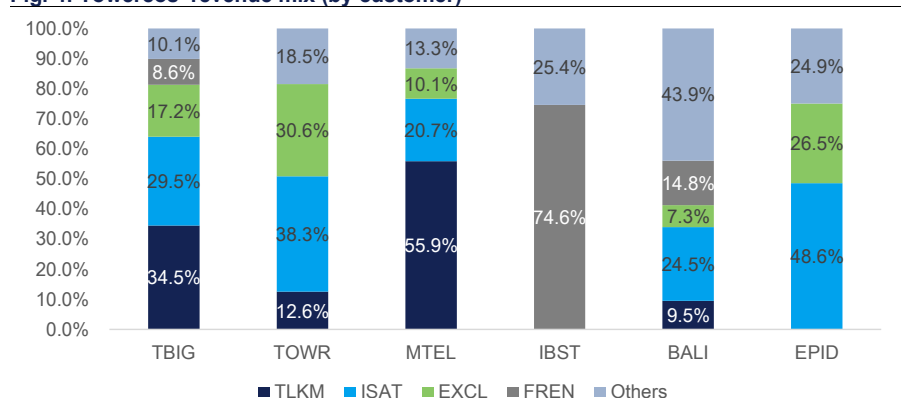
Fig. 3: Towercos' fiber length (km)



Sources: Company, Indo Premier

note: IBST number from FY23

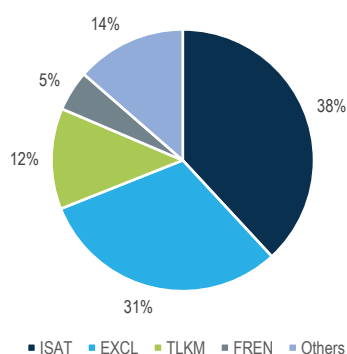
Fig. 4: Towercos' revenue mix (by customer)



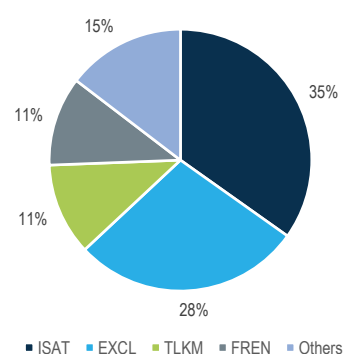
Source: Company, Indo Premier

Fig. 5: TOWR revenue by customer FY23

Fig. 6: TOWR + IBST proforma revenue by customer FY23



Sources: Company, Indo Premier



Sources: Company, Indo Premier

Fig. 7: Indonesia's precedent tower transaction

Acquirer	Target	Year	Total Price (Rp bn)	# of towers (#)	Average price per tower (Rp bn)	US\$m/n/ Tower	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	
Telcos' tower sales average						1.63	0.12
Total industry average						1.65	0.12

Source: Company, Bloomberg, Indo Premier

Fig. 8: Tower comparables (captive vs. independent)

	P/E			EV/EBITDA			Div' Yield		
	24F	25F	26F	24F	25F	26F	24F	25F	26F
Captive Weighted-Average	12.1	10.5	8.7	5.1	4.8	4.5	1.8	2.2	2.9
China Tower Corp Ltd	14.3	11.8	8.1	3.9	3.7	3.6	1.2	1.4	2.3
Dayamitra Telekomunikasi PT	23.0	21.4	19.8	9.1	8.6	8.1	2.5	2.5	5.1
Indus Towers Ltd	15.0	13.3	12.2	7.4	6.8	6.3	3.0	4.6	5.6
Infrastrutture Wireless Italia	24.7	22.0	20.0	14.2	13.3	12.4	5.2	5.6	6.1
Vantage Towers AG	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Independent Weighted-Average	26.2	26.0	24.8	18.0	17.9	17.1	3.5	3.7	4.2
American Tower Corp	28.9	29.0	27.1	19.8	19.8	18.9	3.4	3.6	3.8
Cellnex Telecom SA	na	na	na	13.3	12.7	11.6	0.2	0.6	2.8
Centratama Telekomunikasi Indo	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Crown Castle Inc	34.7	35.9	34.8	17.0	17.2	16.6	6.4	6.4	6.5
Helios Towers PLC	30.0	15.6	10.0	8.1	7.1	6.4	0.0	0.0	8.1
SBA Communications Corp	25.2	22.5	23.1	18.4	17.8	17.2	2.0	2.3	2.6
Sarana Menara Nusantara Tbk PT	10.4	10.0	9.6	7.9	7.5	7.2	2.3	4.6	4.6
PT Tower Bersama Infrastructur	25.0	23.5	21.9	12.0	11.6	11.1	2.8	2.8	2.8
Captive Average	19.3	17.1	15.0	8.7	8.1	7.6	3.0	3.6	4.8
Independent Average	25.7	22.7	21.1	13.8	13.4	12.7	2.4	2.9	4.5
Global Average	23.1	20.5	18.7	11.9	11.5	10.9	2.6	3.1	4.6

Source: Company, Bloomberg, Indo Premier

Fig. 9: Tower comparables (by region)

	P/E			EV/EBITDA			Div' Yield		
	24F	25F	26F	24F	25F	26F	24F	25F	26F
Indonesia Weighted-Average	19.9	18.7	17.5	9.6	9.1	8.7	2.5	3.2	4.2
Centratama Telekomunikasi Indo	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dayamitra Telekomunikasi PT	23.0	21.4	19.8	9.1	8.6	8.1	2.5	2.5	5.1
Sarana Menara Nusantara Tbk PT	10.4	10.0	9.6	7.9	7.5	7.2	2.3	4.6	4.6
PT Tower Bersama Infrastructur	25.0	23.5	21.9	12.0	11.6	11.1	2.8	2.8	2.8
Asia Weighted-Average	15.7	13.3	10.5	5.9	5.4	5.2	1.8	2.4	3.3
China Tower Corp Ltd	14.3	11.8	8.1	3.9	3.7	3.6	1.2	1.4	2.3
Indus Towers Ltd	15.0	13.3	12.2	7.4	6.8	6.3	3.0	4.6	5.6
GTL Infrastructure Ltd	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Railtel Corp of India Ltd	42.4	34.8	31.9	23.0	19.4	19.3	0.8	1.1	1.3
Europe Weighted-Average	5.6	4.7	4.2	8.4	7.9	7.3	1.2	1.4	2.6
Cellnex Telecom SA	na	na	na	13.3	12.7	11.6	0.2	0.6	2.8
Helios Towers PLC	30.0	15.6	10.0	8.1	7.1	6.4	0.0	0.0	8.1
Infrastrutture Wireless Italia	24.7	22.0	20.0	14.2	13.3	12.4	5.2	5.6	6.1
RAI Way SpA	15.0	15.3	15.2	7.4	7.3	7.0	6.8	6.6	6.6
Vantage Towers AG	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
North America Weighted-Average	31.2	29.9	27.8	18.6	18.4	17.7	3.9	4.1	4.3
American Tower Corp	28.9	29.0	27.1	19.8	19.8	18.9	3.4	3.6	3.8
Crown Castle Inc	34.7	35.9	34.8	17.0	17.2	16.6	6.4	6.4	6.5
DigitalBridge Group Inc	89.5	54.3	2.4	19.8	16.2	17.9	0.3	0.7	0.9
IHS Holding Ltd	(0.8)	7.2	5.5	5.3	5.0	4.7	0.0	0.0	0.0
SBA Communications Corp	25.2	22.5	23.1	18.4	17.8	17.2	2.0	2.3	2.6
Sitios Latinoamerica SAB de CV	10.8	8.5	7.7	6.2	5.6	4.9	n.a	n.a	n.a
Operadora De Sites Mexicanos S	68.8	18.3	17.4	10.7	8.7	8.4	3.4	3.4	4.9
Developed Markets' Average	32.7	22.9	16.3	12.7	11.9	11.5	2.8	2.9	4.2
Emerging Markets' Average	21.7	19.1	17.3	10.5	9.6	9.3	2.1	2.8	3.6
Global Average	28.6	21.5	16.7	12.0	11.1	10.7	2.5	2.9	4.0

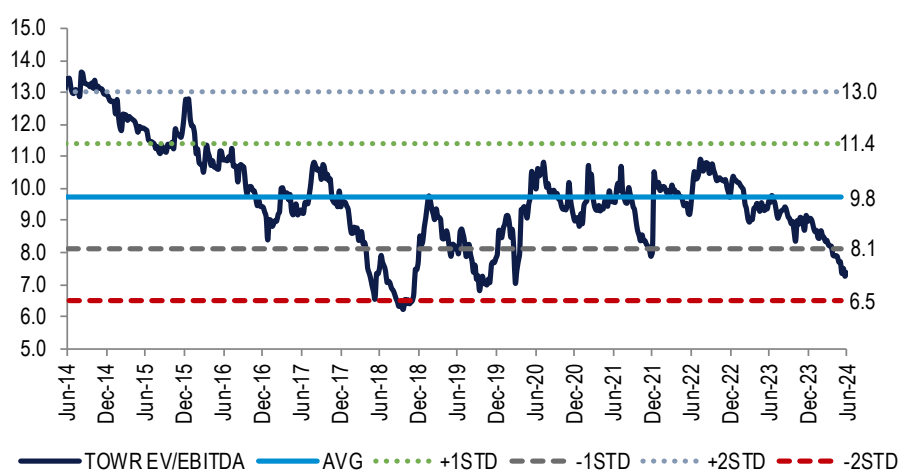
Source: Company, Bloomberg, Indo Premier

Fig. 10: MTEL EV/EBITDA band



Source: Company, Indo Premier

Fig. 11: TOWR EV/EBITDA band



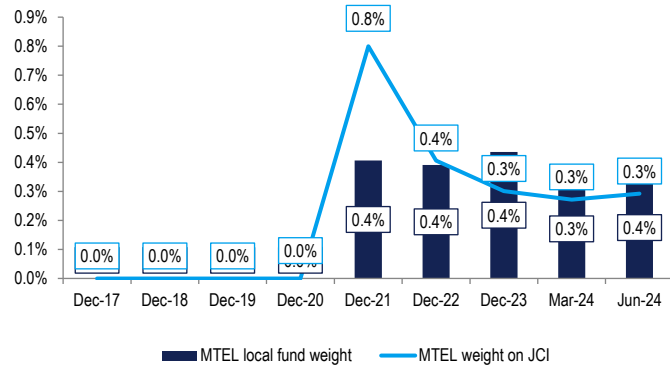
Source: Company, Indo Premier

Fig. 12: TBIG EV/EBITDA band



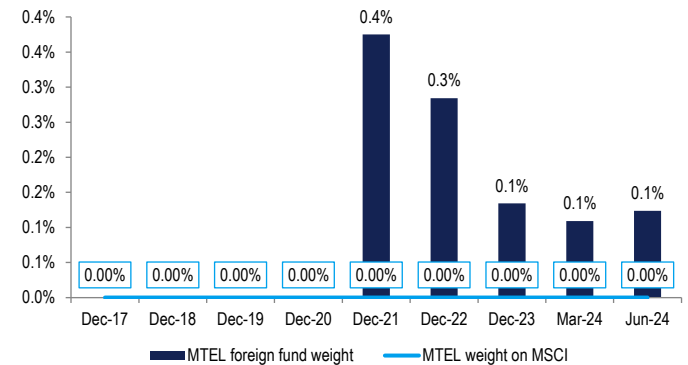
Source: Company, Indo Premier

Fig. 13: MTEL local funds positioning vs JCI



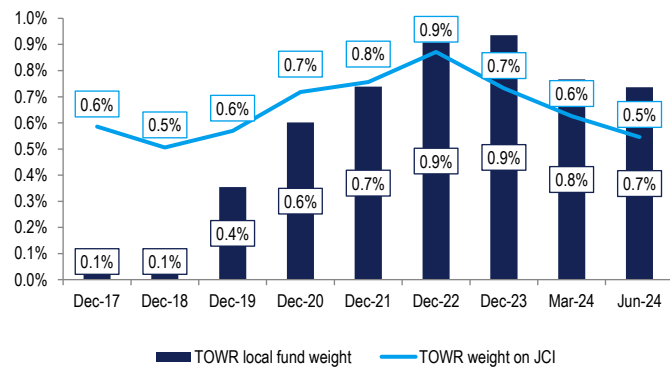
Sources: KSEI, IndoPremier

Fig. 14: MTEL foreign funds positioning vs MSCI



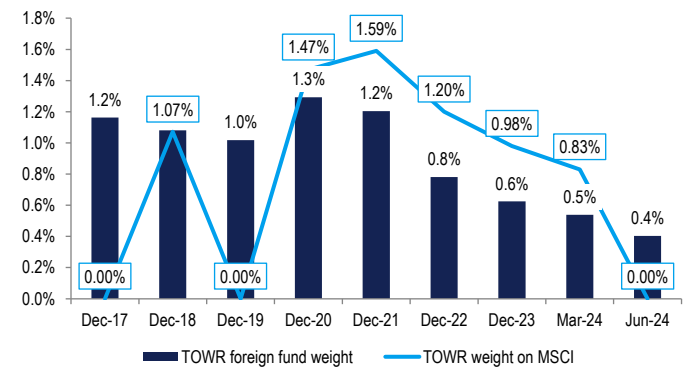
Sources: KSEI, IndoPremier

Fig. 15: TOWR local funds positioning vs JCI



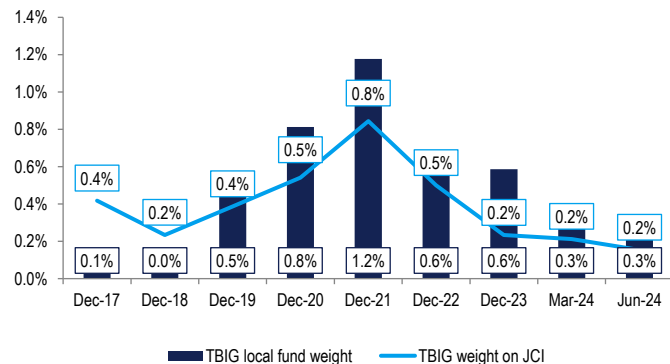
Sources: KSEI, IndoPremier

Fig. 16: TOWR foreign funds positioning vs MSCI



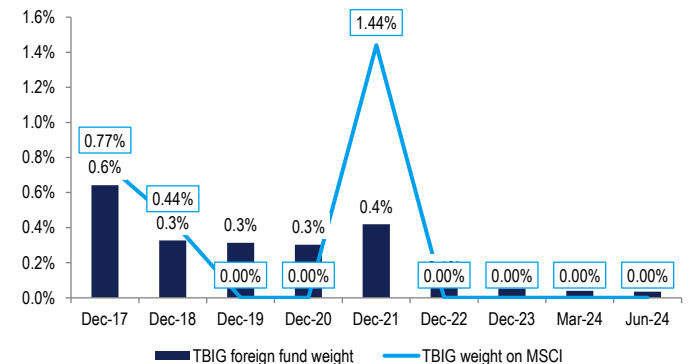
Sources: KSEI, IndoPremier

Fig. 17: TBIG local funds positioning vs JCI



Sources: KSEI, IndoPremier

Fig. 18: TBIG foreign funds positioning vs MSCI



Sources: KSEI, IndoPremier

Income Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net revenue	11,036	11,740	12,768	13,973	15,178
Cost of sales	(608)	(684)	(751)	(793)	(827)
Gross profit	10,428	11,056	12,017	13,179	14,351
SG&A Expenses	(3,218)	(3,920)	(3,932)	(4,010)	(4,171)
Operating profit	7,210	7,136	8,085	9,169	10,180
EBITDA	9,517	9,980	10,811	11,827	12,836
Net interest	(2,368)	(2,838)	(3,206)	(3,472)	(3,946)
Forex gain (loss)	-	-	-	-	-
Others	(382)	(195)	(209)	(223)	(239)
Pre-tax income	4,459	4,104	4,670	5,474	5,995
Income tax	(963)	(800)	(1,107)	(1,308)	(1,500)
Minority interest	(55)	(51)	(26)	(28)	(30)
Net income	3,442	3,253	3,538	4,139	4,465

Balance Sheet (Rp bn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalent	309	429	114	(29)	225
Receivable	2,616	3,145	2,973	3,254	3,535
Other current assets	727	853	1,109	1,441	1,729
Total current assets	3,651	4,427	4,196	4,666	5,489
	37,152	40,385	42,786	45,230	47,718
Fixed assets	24,822	23,607	28,328	33,994	40,793
Other non-current assets	61,974	63,992	71,115	79,224	88,511
Total non-current assets	65,625	68,419	75,311	83,891	94,000
Total assets					
	1,007	1,400	972	964	973
Payable	4,262	4,575	4,597	4,620	4,643
Other payables	9,177	18,324	14,807	16,663	18,964
Current portion of LT loans	14,446	24,299	20,376	22,247	24,581
Total current liab.	33,818	26,143	34,550	38,879	44,250
	2,929	1,465	1,474	1,484	1,493
Long term loans	51,193	51,907	56,400	62,610	70,324
Other LT liab.					
Total liabilities	(235)	(232)	(232)	(232)	(232)
	14,636	16,689	19,088	21,458	23,853
Equity	32	55	55	55	55
Retained earnings	14,432	16,512	18,911	21,280	23,676
Minority interest	65,625	68,419	75,311	83,891	94,000
Total SHE + minority int.	309	429	114	(29)	225
Total liabilities & equity	2,616	3,145	2,973	3,254	3,535

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net income	3,442	3,253	3,538	4,139	4,465
Depr. & amortization	4,239	4,805	4,552	4,357	4,236
Changes in working capital	(862)	49	(489)	(598)	(537)
Others	(247)	(198)	(4,687)	(5,628)	(6,759)
Cash flow from operating	6,572	7,910	2,914	2,269	1,405
Capital expenditure	(6,507)	(6,076)	(5,128)	(5,101)	(5,143)
Others	(1,933)	(1,962)	(1,826)	(1,699)	(1,581)
Cash flow from investing	(8,440)	(8,038)	(6,953)	(6,800)	(6,724)
Loans	(1,447)	1,473	4,889	6,185	7,673
Equity	74	(24)	(26)	(28)	(30)
Dividends	(1,200)	(1,200)	(1,139)	(1,769)	(2,069)
Others	-	-	-	-	-
Cash flow from financing	(2,574)	249	3,725	4,388	5,573
Changes in cash	(4,442)	120	(315)	(143)	254

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross margin	94.5%	94.2%	94.1%	94.3%	94.5%
EBITDA margin	86.2%	85.0%	84.7%	84.6%	84.6%
Pre-tax margin	40.4%	35.0%	36.6%	39.2%	39.5%
Net margin	31.2%	27.7%	27.7%	29.6%	29.4%
ROA	5.2%	4.8%	4.7%	4.9%	4.7%
ROE	23.8%	19.7%	18.7%	19.4%	18.9%
ROIC	13.2%	12.1%	12.6%	12.6%	12.5%

Acct. receivables TO (days)	73	73	73	73	73
Acct. payables - other TO (days)	105	105	105	105	105

Net debt/EBITDA (inc. leases)					
(x)	4.5	4.4	4.6	4.7	4.9
Net debt/EBITDA (ex. leases) (x)	4.5	4.4	4.6	4.7	4.9
Interest coverage (x)	3.0	2.5	2.5	2.6	2.6

Source: Company, Indo Premier

INVESTMENT 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

ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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