INDOPREMIER

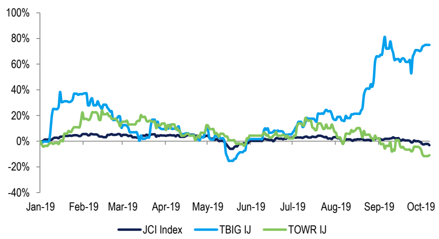
Towers

Overweight

Sector Initiation | 10 October 2019

Sector Index Performance (JAKINFR)

	3M	6M	12M
Absolute	-3.7%	3.7%	16.7%
Relative to JCI	1.2%	9.7%	11.9%



Summary Valuation Metrics

P/E (x)	Dec-19F	Dec-20F	Dec-21F
TBIG IJ	31.8	25.0	21.5
TOWR IJ	14.3	13.0	11.9

EV/EBITDA (x)	Dec-19F	Dec-20F	Dec-21F
TBIG IJ	12.6	11.7	10.9
TOWR IJ	8.1	7.6	7.2

Div. Yield	Dec-19F	Dec-20F	Dec-21F
TBIG IJ	2.1%	2.0%	2.6%
TOWR IJ	4.2%	5.0%	5.9%

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The conundrum between consolidation and expansion

- The current 4G capacity expansion secures sizable in-hand contracts for independent tower companies to monetize.
- Upside for tower companies shall primarily come from 5G rollout and potentially higher co-location, not inorganic.
- Overweight tower sector, with TBIG as our top pick.

Expanding coverage and capacity

Telco operators will continue to grow its data network capacity due to high data network consumption that so far has outpaced network expansion. Data consumption per data BTS continues to rise (at 10TB/BTS, lower than peers i.e. China 15TB/BTS and India 13TB/BTS), thus resulting in network capacity constraint. TBIG and TOWR's committed revenue already stood at Rp23tn and Rp30tn for the next 10 years from 4G capacity expansion alone.

Upcoming 5G expansion is a boon

Our base case assumes the same amount of 4G BTS needed to have c.85% population 5G coverage, which would translate to over Rp135tn worth of contracts for the tower industry. This is conservative in our view, as higher spectrum frequency used by 5G network will require more BTS compared to 4G in order to obtain the same amount of coverage. We ran a scenario where TBIG will add 1,000 MCPs for 10 years and expand its MCP portfolio to 10,000 units. TBIG's value per share will rise by an additional of Rp2,100/sh.

A view on consolidation in telco and tower space

In hindsight, purchasing towers at lower multiple than the company's own valuation might be accretive. However, in the long run, higher interest cost may dilute the profit, which happened after TOWR's XL and KIN tower acquisition. A merger between XL and Hutch would also pose a risk on TOWR as there would be an estimate of c.7,200 co-location at risk, which is valued at almost 20% of 19F revenue and Ebitda.

Overweight towers with our top pick TBIG

Currently tower sector has outperformed the index by 37% YTD, now trading at 10.2x EV/EBITDA (vs. 5Y avg of 11.9x) primarily due to rally in TBIG stock price. We think there is still some upside for the sector and stock as it will be the prime beneficiary of 5G rollout and lower interest rate environment (amid its high leverage).

Fig. 1: 5G potential compared to previous generation

	3G	3.5G		4G	4.5G	5G
Peak rate: downlink	384 kbps	14 Mbps	84 Mbps	300 Mbps	1+ Gbps	20 Gbps
Peak rate: uplink	128 kbps	6 Mbps	22 Mbps	75 Mbps	500 Mbps	10 Gbps
Latency	150 ms	100 ms	50 ms	10 ms	5 ms	1 ms
Battery life			Less than 10 years			More than 10 years
Global roll-out	2003-04	2005-06	2008-09	2010	2013	2020

Sources: Company, IndoPremier, A.T. Kearney

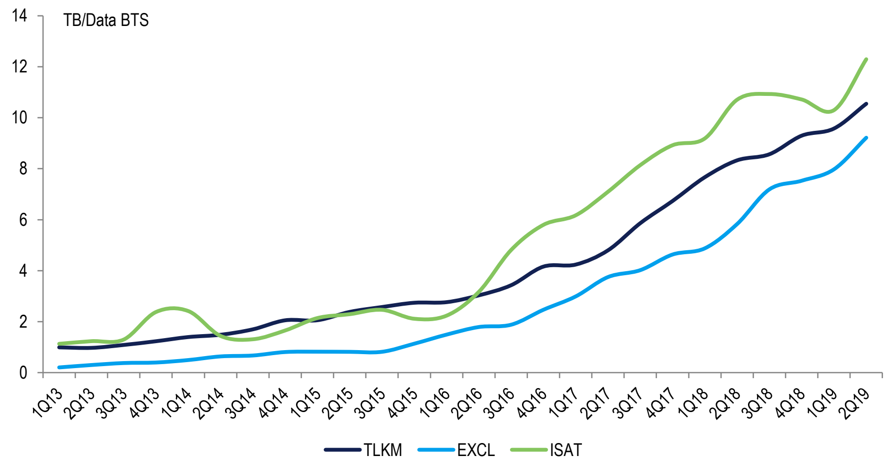
Expanding coverage and capacity

We expect telco operators will continue to grow its data network capacity due to high data network consumption that so far has outpaced network expansion. Data consumption per data BTS continues to rise (at 10TB/BTS, lower than peers i.e. China 15TB/BTS and India 13TB/BTS), thus resulting in a constraint in the current network capacity.

With the current condition of the telecommunication industry, Indonesia tower industry is prone to experience high demand of its business coming from the telecommunication providers. With the increase in data consumption and the ease for people to obtain communication devices such as smartphones, demand for tower contracts will continue to rise.

We view that Indonesian telco operators will continue to grow its data network capacity due to high data network consumption that so far has outpaced network expansion. Data consumption per data BTS continues to rise, thus resulting in a constraint in the current network capacity.

Fig. 2: Data consumption per BTS



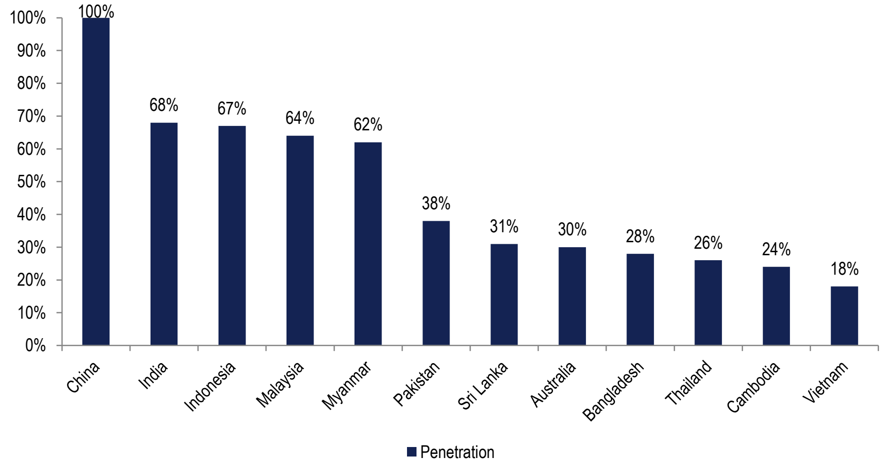
Sources: Company, IndoPremier

We can expect mobile data consumption per user to increase as Indonesia usage has only reached 4GB/user/month, far lower than its peers China 6GB/user/month and India 10 GB/user/month. In time, Indonesia's data usage per user would catch up with India's to around 10GB/user/month. However, with the amount of BTS that we currently have, data processed per BTS would jump to 25TB/BTS.

To avoid the capacity constraint, Indonesia's 4G BTS would have to grow by around 70,000 more units to be on par with China's current utilization of 15TB/BTS. Those new build can potentially generate around Rp110tn worth of revenue for the independent tower companies to grab.

In addition, the Indonesian market remains quite underpenetrated. Tower company penetration in Indonesia is still below China and India. Although this provides room for tower companies to grow, risk comes from price pressure on renewals and new leases.

Fig. 3: Tower co penetration in Asia



Sources: Company, IndoPremier, TowerXchange

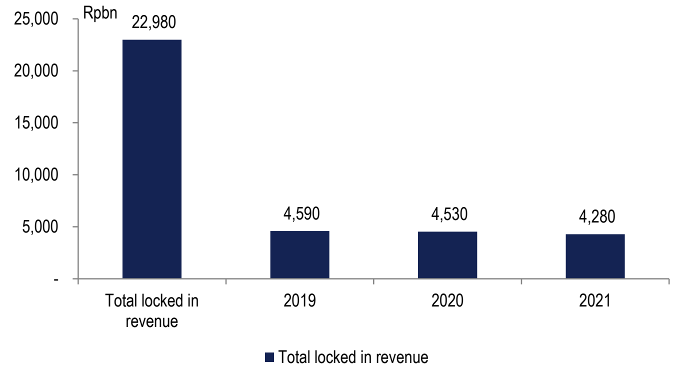
How does the tower industry work?

TBIG has around 5.2 years remaining life of customer agreements. The strategy of constructing new sites is to have a tenant secured before having a tower built, which is why high visible recurring revenue stream for long-term lease agreements is always present.

In addition, telcos have a high chance on lease renewals in order to secure network stability in the area and to reduce cost from relocating equipment to new areas. Relocation would consume time and also involve telcos to reconfigure their networks.

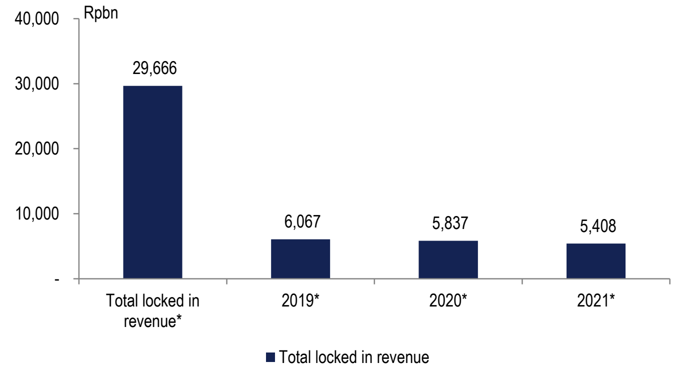
We estimate TOWR having about Rp29.67tn in committed revenue for the next 10 years. Meanwhile, TBIG has around Rp22.98tn of committed revenue, which assumes no new builds, no new tenants added, and no renewal upon expiry of the current terms.

Fig. 4: TBIG revenue on hand



Sources: Company, IndoPremier

Fig. 5: TOWR revenue on hand



*Sources: Company, *IndoPremier estimate*

Indonesia's tower space provides a unique opportunity for investors. The key thing to note is the amount of capex needed to be spent is one of the lowest in the world. If we compare how tower companies operate around the world, Indonesia tower companies enjoy a wide margin premium compared to the rest of the world, which translate directly to profit though operating leverage.

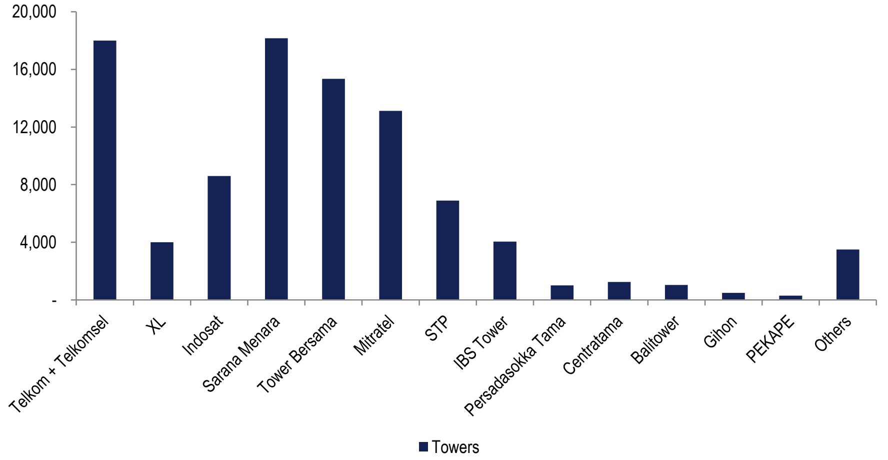
Fig. 6: Tower business model comparison

	Indonesia	USA	Western Europe	India	China
Predominant Tower business model	Independent	Independent	Independent	Non Independent / Captive	Non Independent / Captive
Average lease rate per tenant per month	800-1,000	2,500-3,000	1,400-2,600	600-800	400-600
Multi-tenancy discounts / rebate	No discount	No discount	No discount	Range from 5%-20%	Range from 30%-45%
Average EBITDA margins (%)	80%-85%	55%-70%	40%-50%	40%-45%	55%-60%
Tower + Power	No	No	No	Yes	Yes
New Tower Capex (USD '000 per tower)	35-50	200-250	75-90	35-50	35-50

Sources: Company, IndoPremier, Sarana Menara

Currently, the leader in terms of size within the independent tower space is TOWR with 18,152 total sites and 29,153 total tenants resulting in 1.61x tenancy ratio. Meanwhile, TBIG has 15,344 total sites and 26,713 total tenants resulting in 1.74x tenancy ratio, making it the leader in the co-location space.

Fig. 7: Number of towers in Indonesia

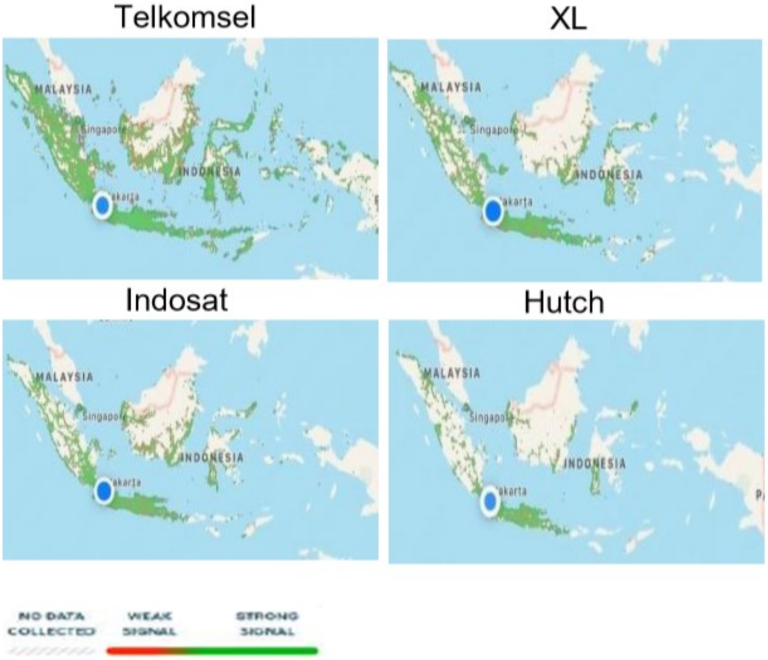


Sources: Company, IndoPremier, TowerXchange

In regards to the development of telecommunication technology, especially the field of mobile phones and gadgets, companies that move as telecommunication operators continue to compete to develop and increase profit by providing best service for their customers.

One of the efforts that telecommunication operators do is to present an increase in the range and quality of the network. To achieve this effort, operators need additional facilities in the form of quality telecommunication towers. Although Telkom continues to expand capacity to provide reliability, smaller telcos continue to expand coverage and capacity in ex-Java.

Fig. 8: Network coverage in Indonesia



Sources: Company, IndoPremier, OpenSignal

The inevitable 5G expansion

Historically, telcos will have two stages in distributing its network, which are coverage and capacity. We are currently in the 4G capacity rollout where the telcos have almost finished their coverage expansion in big cities and have now shifted to invest in capacity to meet demand as subscriber adoption happens.

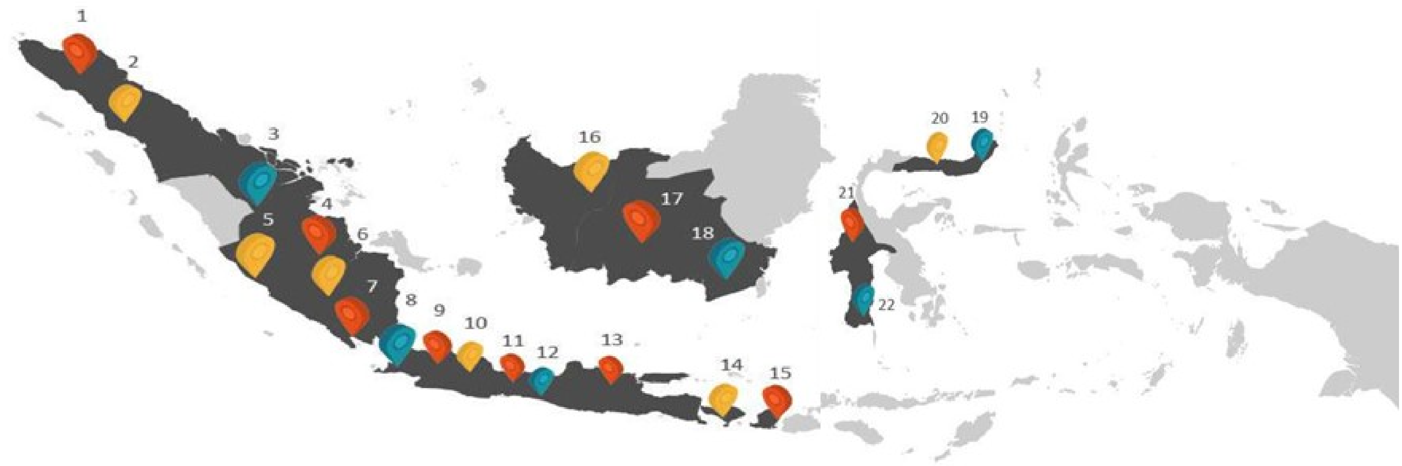
Currently, there are numerous on-going researches on 5G technology. In general, research has found that in order to increase data speed, 5G technology will have to be emitted through millimeter wave frequencies. However, there are some drawbacks for this technology, because of the short distance of communication, milimeter wave results in way shorter range of coverage. In addition, this new technology is expected to be suitable for densely-populated areas.

In order to tackle this problem, tower providers will have to have access to numerous areas in close proximity. The tower companies will deploy macro sites accompanied with many small cells. We believe in order for 5G to expand, tower companies will deploy numerous micro cellular pole (MCP) to attain wide coverage. While waiting for the 5G equipment, the current strategy for tower companies is to secure the MCPs' location in densely populated areas.

We view TBIG's purchase on 51% stake of Visi Telekomunikasi Infrastruktur back in December 2018 positively as the company through its subsidiary Permata Karya Perdana, offers a unique and attractive proposition to operators that requires network in relatively high population density. The company cooperates with a company that manages Alfamart outlets, Sumber Alfaria Trijaya. Besides Alfamart, the Alfa Group also manages AlfaMidi, Dan+Dan, and Lawson, with over than 13,000 stores in operation.

With this cooperation, the company will be able to improve its network by utilizing those outlets' potential to build telecommunication towers, which is a good step to tackle the upcoming 5G cycle in Java and ex. Java. As a whole, TBIG has about 1,200 micro cellular towers at the moment, which accounts for less than 10% of its tower portfolio.

Fig. 9: Alfamart store coverage in 2018



Sources: Company, IndoPremier

If we take a look at TOWR, its potential on 5G will come from its subsidiary iForte Solusi Infotek that it purchased from Saratoga group back in 2015. iForte provides micro cell pole infrastructure leasing and has the license to build in Jakarta, Semarang, Bekasi and Malang. TOWR can also grow its MCP business through BCA branches, which is under the Djarum Family. As a whole, TOWR currently has around 900 MCPs in operation.

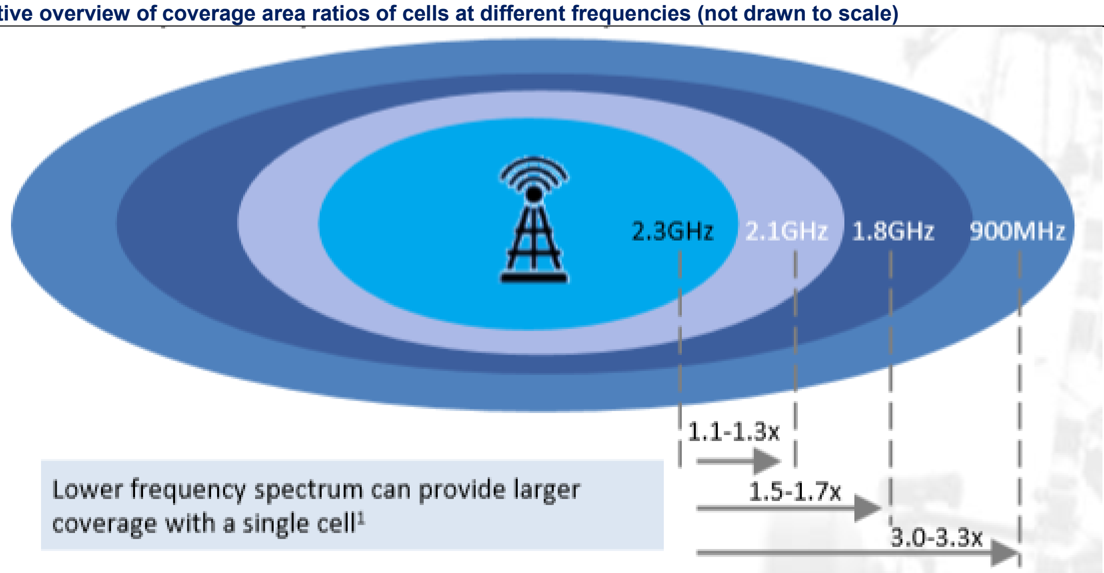
Other big tower company such as Mitratel has about 2,600 MCP across Indonesia. We believe through Telkom's strong balance sheet, Telkom would be the first operator to rollout 5G in Indonesia. A good long standing relationship between TBIG and Telkom Group could also prove beneficial for TBIG when the next generation network rollout begins.

How big is the upside from 5G?

For now, the Indonesian government latest plan is to set the 3.5GHz spectrum to be used as the 5G network frequency. We believe 5G rollout may happen starting 2021, assuming the 3.5GHz spectrum allocation is tendered in 2020.

Due to the nature of 5G having shorter wave frequencies, there would be more micro cellular tower construction happening in densely populated area. In the illustration below, the 3.5GHz would have a lower coverage with a single cell thus would require more towers to expand coverage.

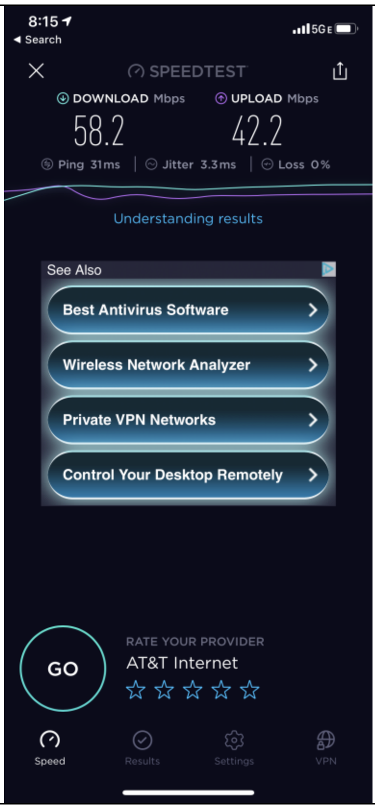
Fig. 10: Illustrative overview of coverage area ratios of cells at different frequencies (not drawn to scale)



Sources: Sarana Menara, IndoPremier

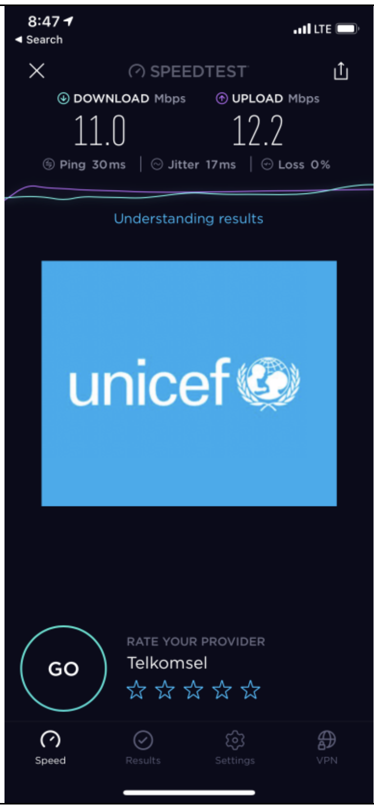
Research is saying 5G will provide faster download and upload speed, as well as lower latency. The goal is to have 5G support Internet of Things development going forward and replace the existing 4G network and FTTH. Nonetheless, it may take a few years before 5G can fully replace 4G, which happen similar to 4G replacing 3G. Our experience with 5G in the US was not disappointing. Download and upload speed was substantially faster compared to Telkom's 4G usage during a similar time.

Fig. 11: 5G experience in US



Sources: Company, IndoPremier

Fig. 12: 4G experience in Indonesia



Sources: Company, IndoPremier

Like macro towers, MCPs have a range of rental leases that depend on location. The typical MCP has a pay-back similar to the macro tower. The differences are MCP capex is largely land lease (approximately 40-50% of total capex vs macro tower with 20% of total capex), which is paid about 10 years in advance. However, MCP can only take up to two tenants whereas macro towers can take a minimal of three tenancies. On the bright side, the average tenancy ratio of the two biggest tower company in Indonesia is around 1.65x, which maximum of two tenancies would be sufficient to stimulate growth for the tower companies.

In the illustration below we would like to show the payback period on these new upcoming MCPs. Although a MCP can only take up to 2 tenants, it shouldn't be hard to maximize the tenancy ratio as these upcoming MCPs will be located in prime densely populated areas. Another point to highlight is the MCP would still provide spread over cost of capital even through the anchor tenant with no co-location.

We assume a MCP to generate Rp7mn/month/lease revenue, cost to build MCP at Rp500mn, and 30 years depreciation. Our findings were tower companies will benefit through the rollout of MCPs as there is spread over cost of capital used to deploy the network.

Fig. 13: MCP return estimate

One Lease (Rpmn)		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Tower construction cost	-500										
Tower rental fee		84	84	84	84	84	84	84	84	84	84
Final tax 10%		(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
D&A of tower over 30 years		(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)
EBIT		59	59	59	59	59	59	59	59	59	59
ROIC		12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Estimated cost of capital		8%	8%	8%	8%	8%	8%	8%	8%	8%	8%
Spread-over cost of capital		4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Payback Period	8 years										

Two Leases (Rpmn)		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Tower construction cost	-500										
Cost of added co-location	-50										
Total investment	-550										
Tower rental fee #1		84	84	84	84	84	84	84	84	84	84
Tower rental fee #2		84	84	84	84	84	84	84	84	84	84
Total rental income		**168**	**168**	**168**	**168**	**168**	**168**	**168**	**168**	**168**	**168**
Final tax 10%		(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)
D&A of tower over 30 years		(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)
EBIT		135	135	135	135	135	135	135	135	135	135
ROIC		24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
Estimated cost of capital		8%	8%	8%	8%	8%	8%	8%	8%	8%	8%
Spread-over cost of capital		16%	16%	16%	16%	16%	16%	16%	16%	16%	16%
Payback Period	4 years										

Sources: Company, IndoPremier

Fig. 14: MCP in US

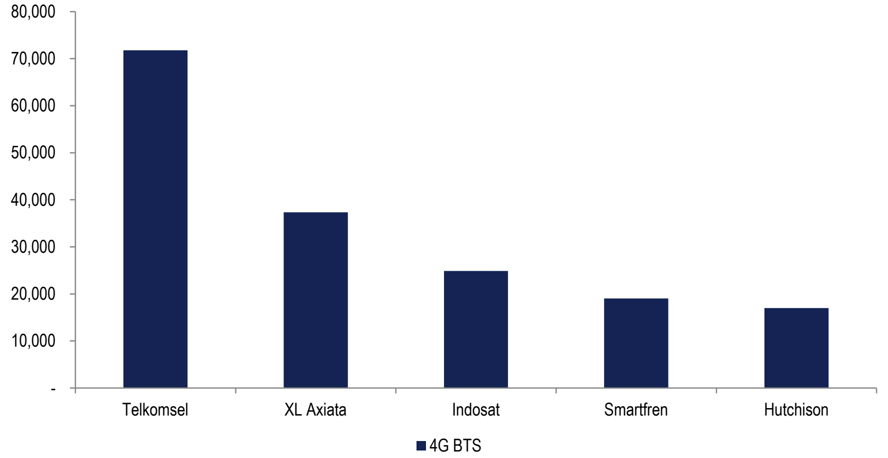
Sources: Company, IndoPremier

Fig. 15: MCP in Indonesia

Sources: Company, IndoPremier

There are currently over 160,000 4G BTS across Indonesia, which covers around c.85% of Indonesia population. Our base case assumes the same amount of 4G BTS needed to have c.85% population 5G coverage, which would translate to over Rp135tn worth of contracts for the tower industry. In theory, given the higher spectrum frequency used by 5G network, it would take more BTS compared to 4G in order to obtain the same amount of coverage and capacity.

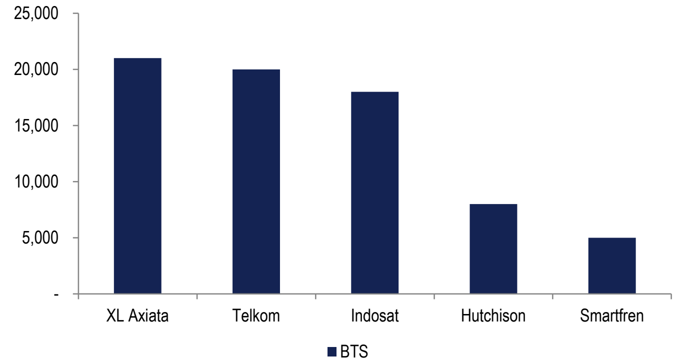
Fig. 16: 4G BTS in Indonesia



Sources: Company, IndoPremier

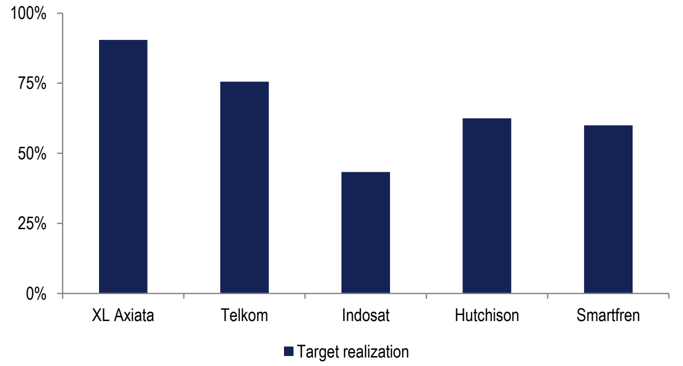
If we take a look at how fast network rollout can happen, it can be quite shocking. This year alone, the five biggest Indonesia telcos plans to add 72,000 BTS, in order to expand its network coverage and capacity, which is equivalent to almost half of the existing 4G BTS of the five telcos combined.

Fig. 17: Telcos BTS target



Sources: Company, IndoPremier

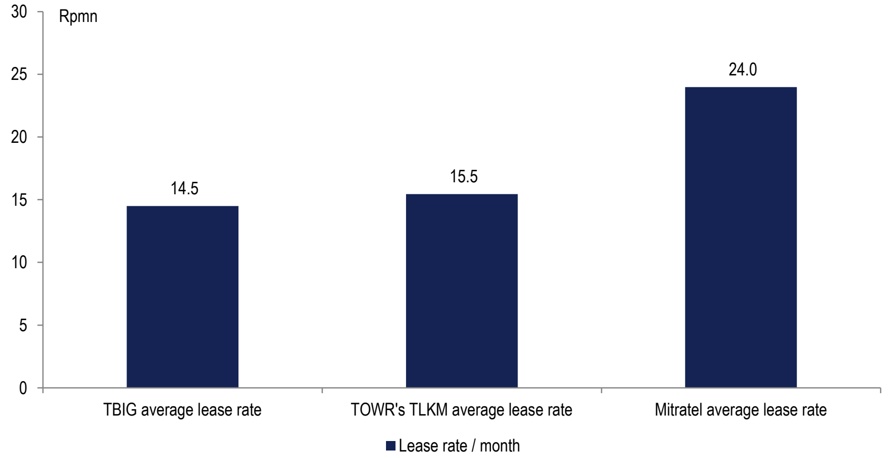
Fig. 18: Target % of realization



Sources: Company, IndoPremier

With the belief of Telkom being the first telco to rollout 5G, we believe TBIG's long standing relationship with Telkom will prove to benefit. Telkom will most likely order more tower orders through TBIG as it is currently the tower provider that offers the lowest lease rate in the market with sizeable tower portfolio size. In addition, Alfa Group has about 13,000 outlets that can provide future potential for new MCP locations.

Fig. 19: Lease rate comparison



Sources: Company, IndoPremier

We ran a scenario to see an illustration of 5G's upside on TBIG's share price. Our assumption is TBIG will be able to add 1,000 MCPs each year for the next 10 years, and stopping its portfolio expansion on the 10th year. The assumptions used are the same as the MCP return calculation assumptions written above and TBIG's DCF assumptions. Capex will be fully funded through internal cash. What we found was TBIG's value per share to increase by Rp2,100/share in addition to our recommended target price when 5G rollout do comes.

Fig. 20: TBIG additional valuation through 5G scenario

Year	1	2	3	4	5	6	7	8	9	10
MCPs	1,000	2,000	3,000	4,000	5,000	6,000	7,000	8,000	9,000	10,000
EBIT (Rpbn)	59	118	177	236	295	354	413	472	531	590
Depreciation (Rpbn)	17	34	51	68	85	102	119	136	153	170
Tax	(8)	(17)	(25)	(34)	(42)	(50)	(59)	(67)	(76)	(84)
Capex	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)
Free Cash Flow	(432)	(365)	(297)	(230)	(162)	(94)	(27)	41	108	176
Discount Factor	1	2	3	4	5	6	7	8	9	10
Discount factor at WACC	1.11	1.24	1.38	1.54	1.72	1.91	2.13	2.38	2.65	2.95

DCF	Now
Perpetual growth (%)	3%
Terminal value	8,253
NPV of DCF	785
Equity value	9,038
Number of shares	4,326
Additional value per share (Rp)	**2,100**

WACC Assumptions	
Cost of equity =	14.2%
After-tax cost of debt =	7.3%
Risk free rate =	6.5%
Beta =	1.1
Equity risk premium =	7.0%
Req equity market return =	13.5%
Debt/capital =	40.0%
WACC =	11.4%

Sources: Company, IndoPremier

A view on consolidation in telco and tower space

There are currently numerous talks on consolidation in both telco and tower space. In hindsight, purchasing towers at lower multiple than the company's own valuation might be accretive. However, in the long run, higher interest cost will suppress net profit growth, which happened after TOWR's XL and KIN tower acquisition. A merger between XL and Hutch would also pose a risk on TOWR as there would be an estimate of c.7,200 co-location at risk, which is valued for almost 20% of 2019F revenue and Ebitda.

Tower sale doesn't benefit buyers in the long run

In order for smaller telcos to fund its network expansion plan, Indosat plans to divest c.3,100 towers while XL Axiata plans to divest c.4,500 towers. The likelihood of the Indosat deal is for it to close by end of 2019, while XL Axiata's deal should close by around mid-2020. At the right valuation and in the short-term, tower companies will be able to increase its own valuation if the new towers prove to be accretive. After the sale, tower companies will have the ability to lease back the towers to the operators and have leaseback contracts secured for around 10 years.

We calculated scenarios on which tower company should purchase tower on sale. In our scenario, the company will enjoy a payback period of 10 years with one tenant in each tower, five years with two tenants in each tower, and three years with three tenants in each tower.

Our scenario of a tower sale assumes price to be set at Rp1bn/tower, a cost to add a co-location will be set at Rp150mn, with a rental fee of Rp12mn per month. In addition, the towers will be fully depreciated within 30 years. We assume the tower purchase will be fully funded through debt instead of equity raise.

We found that TBIG would not benefit in the purchase of a tower with these assumption. In hindsight, purchasing towers at lower multiple than the company's own valuation might be accretive. However, in a DCF scenario, the result may come-up otherwise.

In addition, we believe that TBIG should not participate in huge tower bidding but focus more on deleveraging its outstanding debt. Since the new final tax was implemented, having high debt to produce tax shield proves to be inefficient. By reducing its debt level, the company's equity valuation will rise, thus reducing its EV/Ebitda valuation naturally.

If TBIG participates, a risk will come if the new tower's location proves to be unattractive and only offers a single tenant within a tower. Our calculation shows that the spread-over cost of capital results in no value accretion for TBIG.

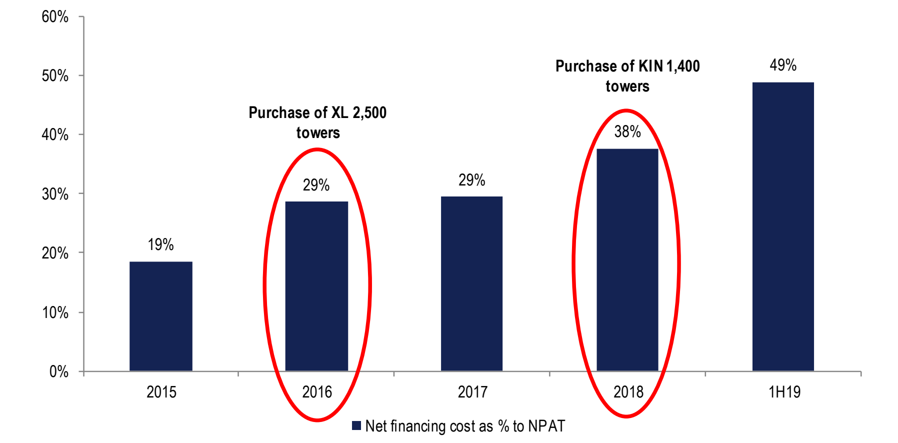
Fig. 21: TBIG inorganic acquisition scenario

One Lease (Rpmn)		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Tower construction cost	-1,000										
Tower rental fee		144	144	144	144	144	144	144	144	144	144
Final tax 10%		(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)
D&A of tower over 30 years		(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
EBIT		96	96	96	96	96	96	96	96	96	96
ROIC		10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Estimated TBIG cost of capital		10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Spread-over cost of capital		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Payback Period	10 years										
Two Leases (Rpmn)		**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Tower construction cost	-1,000										
Cost of added co-location	-150										
Total investment	-1,150										
Tower rental fee #1		144	144	144	144	144	144	144	144	144	144
Tower rental fee #2		144	144	144	144	144	144	144	144	144	144
Total rental income		**288**	**288**	**288**	**288**	**288**	**288**	**288**	**288**	**288**	**288**
Final tax 10%		(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)
D&A of tower over 30 years		(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
EBIT		226	226	226	226	226	226	226	226	226	226
ROIC		20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Estimated TBIG cost of capital		10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Spread-over cost of capital		10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Payback Period	5 years										
Three Leases (Rpmn)		**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Tower construction cost	-1,000										
Cost of added 2 co-locations	-300										
Total investment	-1,300										
Tower rental fee #1		144	144	144	144	144	144	144	144	144	144
Tower rental fee #2		144	144	144	144	144	144	144	144	144	144
Tower rental fee #3		144	144	144	144	144	144	144	144	144	144
Total rental income		**432**	**432**	**432**	**432**	**432**	**432**	**432**	**432**	**432**	**432**
Final tax 10%		(43)	(43)	(43)	(43)	(43)	(43)	(43)	(43)	(43)	(43)
D&A of tower over 30 years		(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
EBIT		355	355	355	355	355	355	355	355	355	355
ROIC		27%	27%	27%	27%	27%	27%	27%	27%	27%	27%
Estimated TBIG cost of capital		10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Spread-over cost of capital		18%	18%	18%	18%	18%	18%	18%	18%	18%	18%
Payback Period	3 years										

Sources: Company, IndoPremier

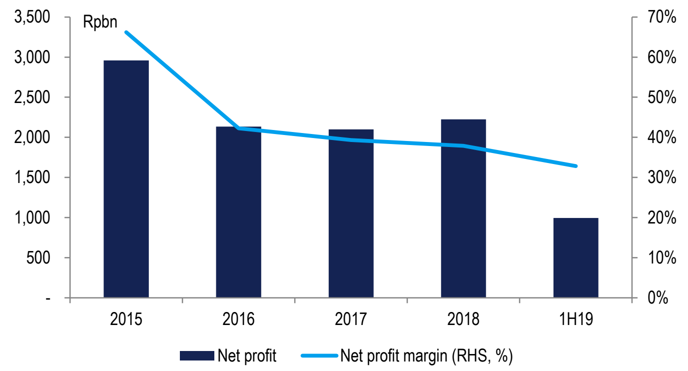
On the other hand, due to its lower cost of capital, TOWR would have the ability to obtain spread-over its cost of capital in the short-term. However, in the long-run, with higher debt, TOWR's cost of debt would increase thus diluting the potential of net profit growth. The illustration below shows how TOWR's net financing rate compared to net profit continues to increase due to inorganic growth, thus pressuring the ability of net profit growth.

Fig. 22: TOWR's net financing cost as % to NPAT



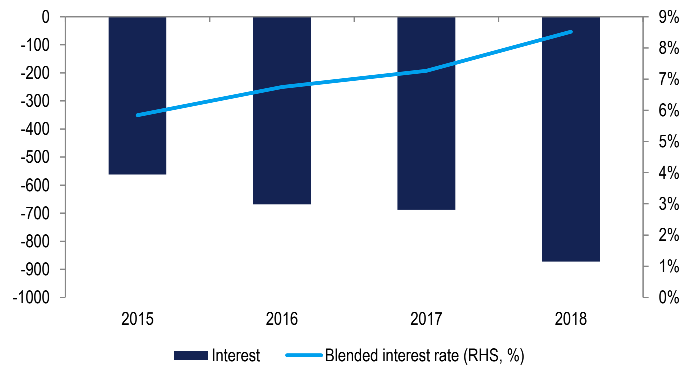
Sources: Company, IndoPremier

Fig. 23: TOWR NPAT and margin



Sources: Company, IndoPremier

Fig. 24: TOWR interest and blended interest rate



Sources: Company, IndoPremier

Fig. 25: TOWR inorganic acquisition scenario

One Lease (Rpmn)		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Tower construction cost	**-1,000**										
Tower rental fee		144	144	144	144	144	144	144	144	144	144
Final tax 10%		(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)
D&A of tower over 30 years		(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
EBIT		96	96	96	96	96	96	96	96	96	96
ROIC		10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Estimated TOWR cost of capital		8%	8%	8%	8%	8%	8%	8%	8%	8%	8%
Spread-over cost of capital		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Payback Period	10 years										
Two Leases (Rpmn)		**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Tower construction cost	**-1,000**										
Cost of added co-location	**-150**										
Total investment	**-1,150**										
Tower rental fee #1		144	144	144	144	144	144	144	144	144	144
Tower rental fee #2		144	144	144	144	144	144	144	144	144	144
Total rental income		**288**	**288**	**288**	**288**	**288**	**288**	**288**	**288**	**288**	**288**
Final tax 10%		(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)
D&A of tower over 30 years		(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
EBIT		226	226	226	226	226	226	226	226	226	226
ROIC		20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Estimated TOWR cost of capital		8%	8%	8%	8%	8%	8%	8%	8%	8%	8%
Spread-over cost of capital		12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Payback Period	5 years										
Three Leases (Rpmn)		**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Tower construction cost	**-1,000**										
Cost of added 2 co-locations	**-300**										
Total investment	**-1,300**										
Tower rental fee #1		144	144	144	144	144	144	144	144	144	144
Tower rental fee #2		144	144	144	144	144	144	144	144	144	144
Tower rental fee #3		144	144	144	144	144	144	144	144	144	144
Total rental income		**432**	**432**	**432**	**432**	**432**	**432**	**432**	**432**	**432**	**432**
Final tax 10%		(43)	(43)	(43)	(43)	(43)	(43)	(43)	(43)	(43)	(43)
D&A of tower over 30 years		(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
EBIT		355	355	355	355	355	355	355	355	355	355
ROIC		27%	27%	27%	27%	27%	27%	27%	27%	27%	27%
Estimated TOWR cost of capital		8%	8%	8%	8%	8%	8%	8%	8%	8%	8%
Spread-over cost of capital		19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Payback Period	3 years										

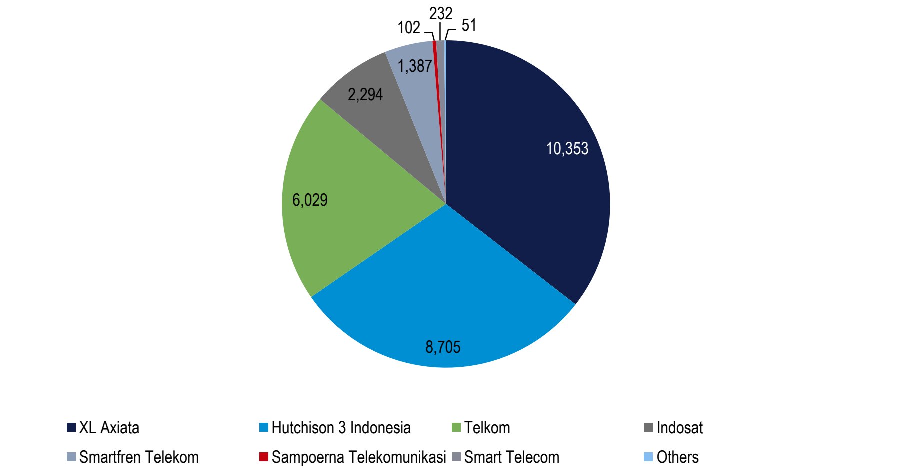
Sources: Company, IndoPremier

Smaller telco consolidation offers risk on overlapping co-location

Currently, there are talks on the possibility of XL Axiata to merge with Hutchison Tri Indonesia. We view the consolidation between telco operator to be positive for both the telco and tower industry. In a whole, with lesser operators available, the likely hood of a price war to grab market share should diminish. By avoiding a price war, telcos will be able to monetize its data plans thus providing healthier cash flow and gain the ability to order more contracts to tower providers.

However, it does come at a risk when most of your revenue comes from the consolidating party. Biggest risk goes to TOWR, which has around 18,152 towers as of 1H19. The current total of XL Axiata and Hutchison lease stands at 19,058 leases. If we assume TOWR's existing co-location of 1.61x, the number of leases at risk reaches c.7,200 leases. While the impact might not be immediate, by removing those overlapping leases, the potential risk to revenue and Ebitda is valued at almost 20% of 19F expectation. Although Hutchison 6,000 lease renewal from 2020-2022 have been secured and will be extended for 10 years, a consolidation between XL and Hutchison in the medium term could potentially impact future orders and future renewals.

Fig. 26: Lease breakdown on TOWR



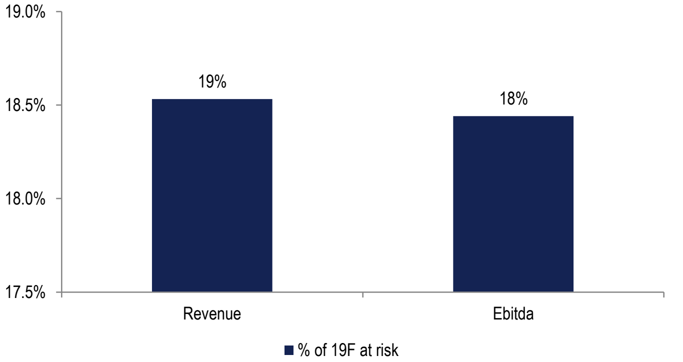
Sources: Company, IndoPremier

Fig. 27: Risk with XL and Hutch merger

Scenario	Description
Total XL & Hutch lease (1H19)	19,058
Tenancy ratio	1.61
Total lease with 1x tenancy ratio	11,837
Lease at risk	7,221
Annual revenue at risk per annum (Rpbn, Rp13.5mn/month)	1,170
Annual Ebitda at risk per annum (Rpbn, 83% margin)	971

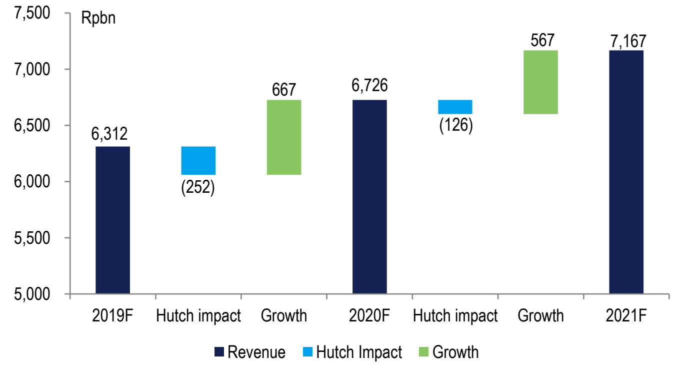
Sources: Company, IndoPremier

Fig. 28: Revenue and Ebitda value at risk as % to 19F



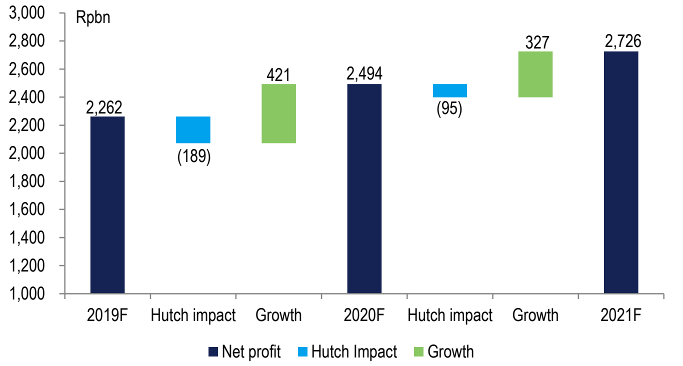
Sources: Company, IndoPremier

Fig. 29: Hutch renewal estimate impact to TOWR revenue



Sources: Company, IndoPremier

Fig. 30: Hutch renewal impact estimate to TOWR profit



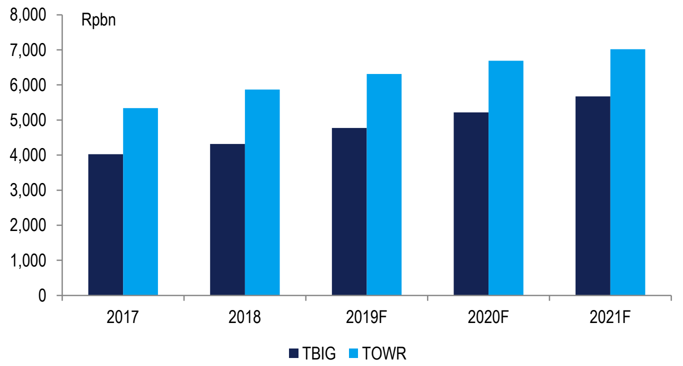
Sources: Company, IndoPremier

What do TBIG and TOWR currently have for investors?

As telcos are continuing to expand its 4G capacity across Indonesia, we do believe both tower companies will stand to benefit. More orders for network expansion will be given to independent tower providers in order to have maximal capacity in parallel with minimal capital expenditure.

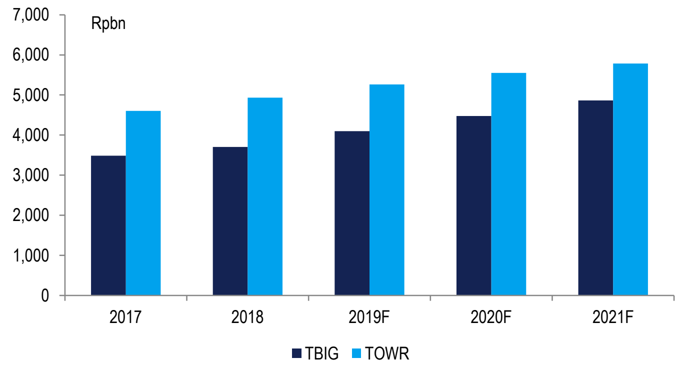
With that in mind, we expect TBIG's revenue to grow by 9% CAGR for the next three years. Meanwhile, TOWR's revenue will grow by 6% CAGR for the next three years. TOWR's growth is diluted by Hutchison contract renewal through 2020 – 2022, which impacts growth by c.2% per annum.

Fig. 31: Revenue comparison



Sources: Company, IndoPremier

Fig. 32: Ebitda comparison

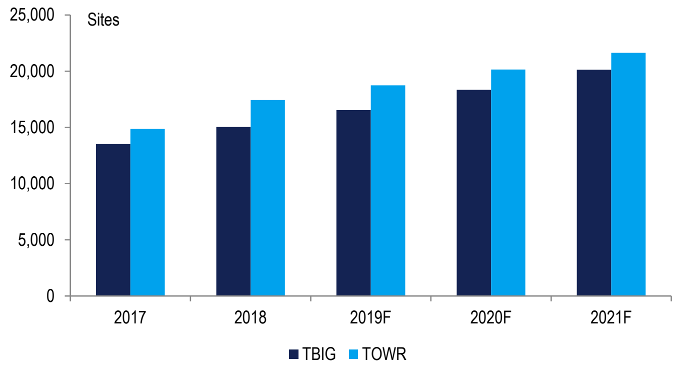


Sources: Company, IndoPremier

Given that telcos will have to continue to expand their coverage and capacity rapidly in populated area, we do see co-location in prime located towers to continue. By doing so, the telcos will have the opportunity to get the highest ROIC on the capex spent for those towers.

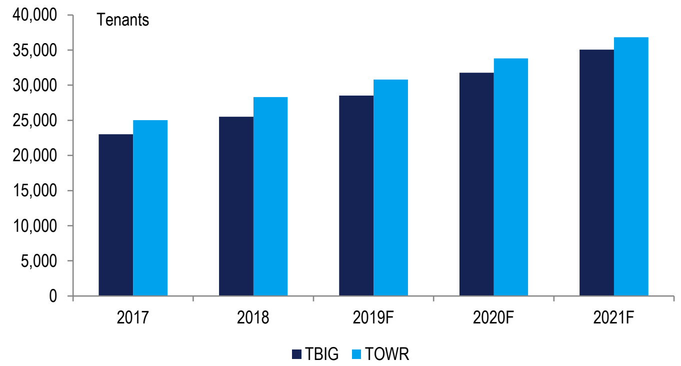
We assume TBIG to be able to achieve 3,000 net addition on tenants by end of 2019, while TOWR will add 2,500 net additions on tenants by end of 2019, which already accounts for c.1,000 tenancy lost from Internux.

Fig. 33: Sites trend



Sources: Company, IndoPremier

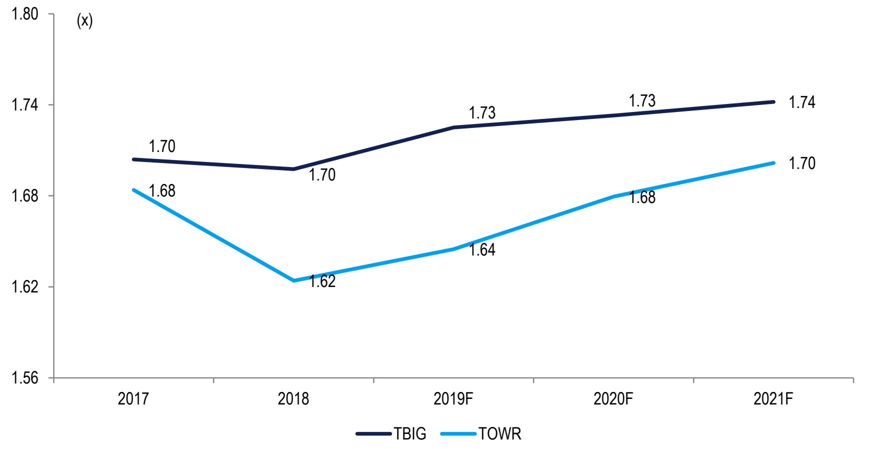
Fig. 34: Tenancy trend



Sources: Company, IndoPremier

In terms of tenancy ratio, we can expect the number of co-location to improve given space for new tower construction in prime location to be limited. Hence, telcos would be willing to occupy existing towers located in those prime areas, thus increasing the tenancy ratio through co-location. We expect TBIG tenancy ratio to improve to 1.74x while TOWR tenancy ratio to improve to 1.70x by 2021.

Fig. 35: Tenancy ratio comparison



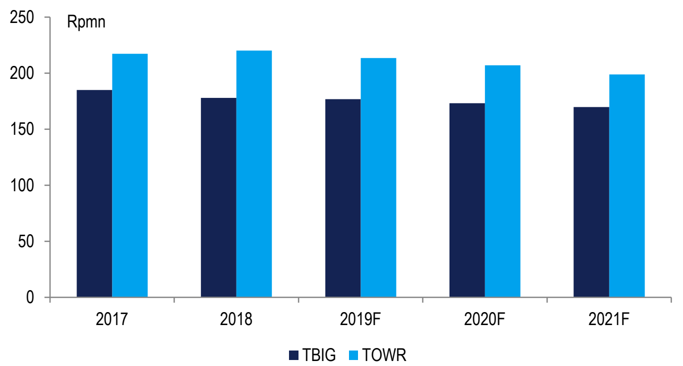
Sources: Company, IndoPremier

We view less downside risk on TBIG's lease renewals because of the higher revenue mix coming from Telkom group. TBIG's average lease rate is expected to reach Rp14mn/month/tenant by end of 2021, from slightly lower than Rp15mn/month/tenant in 2018.

TOWR has a higher renewal risk as the company will have to renew Hutchison's leases at a far lower rate. On a blended basis, we assume TOWR's average lease per tenant to drop by 3% CAGR until 2021 reaching Rp17mn/month/tenant.

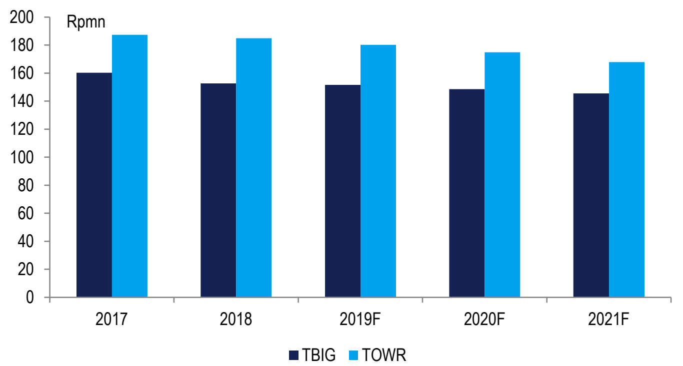
A gap between the two companies' average lease rate comes from fiberization service that is offered by TOWR to its tenants. The typical fiberization option would add c.Rp3mn/month on the lease rate.

Fig. 36: Revenue per tenant comparison



Sources: Company, IndoPremier

Fig. 37: Ebitda per tenant comparison

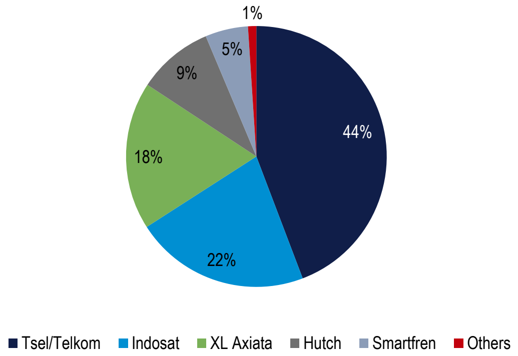


Sources: Company, IndoPremier

In terms of revenue mix, almost 45% of TBIG's revenue came from Telkom group, second largest contribution at 22% from Indosat, followed by XL Axiata at 18%, as of 1H19. We view that the revenue mix which comes from Telkom Group reduces the renewal risk that other smaller operator has.

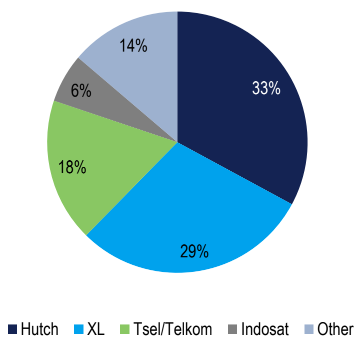
On the other hand, TOWR's revenue mix largely comes from Hutchison and XL Axiata (33% and 29%). Since Hutchison has expressed its willingness to merge, we do see the renewal risk on overlapping co-locations, if the two or more smaller operators merge.

Fig. 38: TBIG revenue mix



Sources: Company, IndoPremier

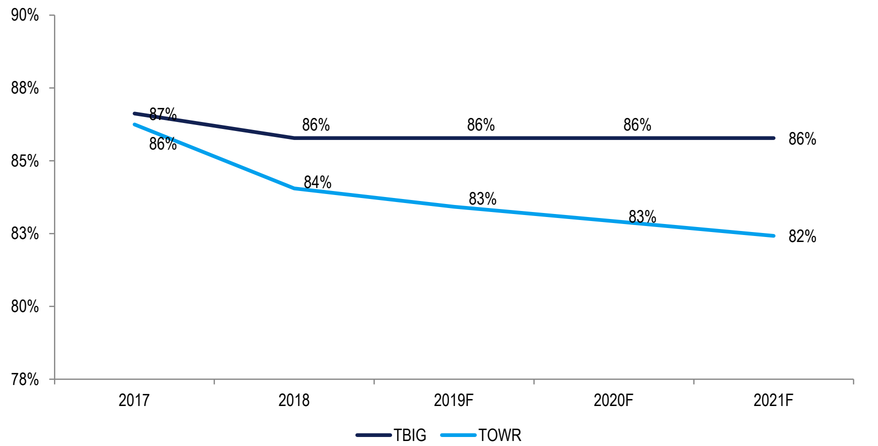
Fig. 39: TOWR revenue mix



Sources: Company, IndoPremier

As a sweetener, tower companies have impressive Ebitda margins due to significant operating leverage. Tower companies are able to enhance margins is through co-locations, which revenue on a single tower can double while cost increase marginally. Through higher co-location, we can expect the tower companies to experience Ebitda margin of above 80% for the next three years. However, TOWR's fiberization has a much lower margin than the current blending rate, which will pressure margins slightly going forward.

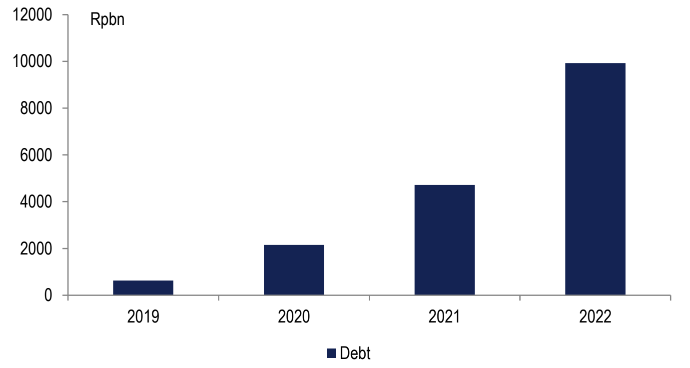
Fig. 40: Ebitda margin



Sources: Company, IndoPremier

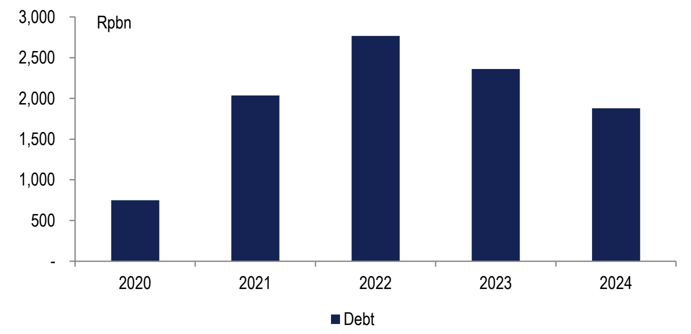
Tower companies act as cash cow as their business models would come in the form of long-term contracts. A typical tower site lease agreement range is generally 10 years while a DAS network license agreement is around five years. Three ways a typical tower company would manage its cash are inorganic growth, deleveraging, or distribution of dividends. We do expect the tower companies to use its upcoming cash flow to deleverage.

Fig. 41: TBIG upcoming debt due



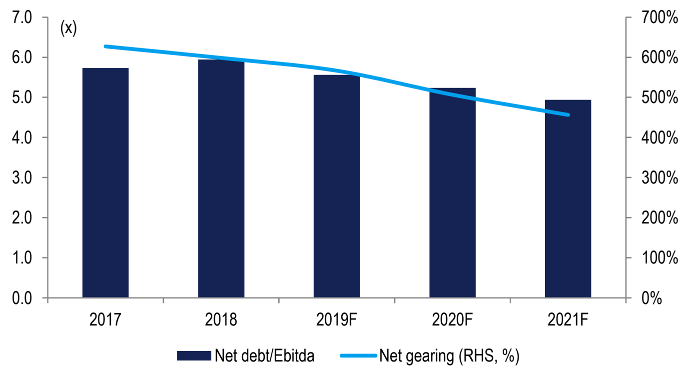
Sources: Company, IndoPremier

Fig. 42: TOWR upcoming debt due



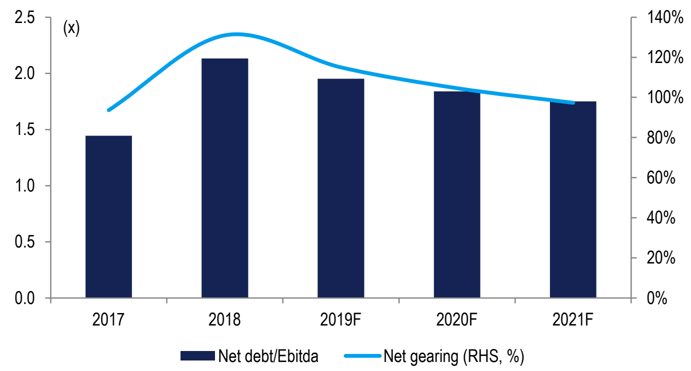
Sources: Company, IndoPremier

Fig. 43: TBIG net debt/Ebitda and net gearing



Sources: Company, IndoPremier

Fig. 44: TOWR net debt/Ebitda and net gearing



Sources: Company, IndoPremier

Valuation

We view Indonesia's tower sector as a very attractive sector, where revenues are locked in and cost remains low, thus providing a very high Ebitda margin of over 80%. Revenues can be locked in for the next 10 years while cost, which is largely land lease fee, is paid 10 years in advance. Customer revenues are also paid in advance which can range from a month to a year.

Valuation wise, we value TBIG through DCF with starting year of 2020F. Our key assumptions are 6.5% risk free rate, 7% equity risk premium, 3% terminal growth, and 1.1x beta due to the stable nature of the business. In addition, the implied WACC is 11.4%. TBIG value per share comes at Rp8,300/share, implying 13.3x 2020F EV/Ebitda and 30% upside. The risk that comes from the business are telco pressuring lease prices, lower co-location on towers which results in lower ROIC, and higher lending rate.

Through our conservative MCP scenario, TBIG's value per share can also increase by Rp2,100/share in addition to our recommended target price when 5G rollout do comes.

Fig. 45: TBIG value per share

Tower Bersama DCF Model	2019F	2020F	2021F	2022F	2023F	2024F	2025F
EBIT	3,486	3,811	4,141	4,458	4,762	5,051	5,327
Depreciation and Amortization	610	667	724	780	833	883	932
Tax	-346	-422	-496	-557	-628	-703	-779
Change in Working Capital	-16	-15	-15	-15	-14	-14	-13
Capital Expenditure	-1,699	-1,916	-1,927	-1,830	-1,739	-1,652	-1,569
Free Cash Flows	**2,035**	**2,124**	**2,427**	**2,836**	**3,214**	**3,567**	**3,898**

DCF	Now
Perpetual growth (%)	3.0%
Terminal value	47,584
NPV of DCF	11,827
Net debt	23,439
Equity value	35,972
Number of shares	4,326
Value per share (Rp)	**8,300**

WACC Assumptions	
Cost of equity =	14.2%
After-tax cost of debt =	7.3%
Risk free rate =	6.5%
Beta =	1.1
Equity risk premium =	7.0%
Req equity market return =	13.5%
WACC =	11.4%

Sources: Company, IndoPremier

Fig. 46: TBIG additional valuation through 5G scenario

Year	1	2	3	4	5	6	7	8	9	10
MCPs	1,000	2,000	3,000	4,000	5,000	6,000	7,000	8,000	9,000	10,000
EBIT (Rpbn)	59	118	177	236	295	354	413	472	531	590
Depreciation (Rpbn)	17	34	51	68	85	102	119	136	153	170
Tax	(8)	(17)	(25)	(34)	(42)	(50)	(59)	(67)	(76)	(84)
Capex	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)
Free Cash Flow	(432)	(365)	(297)	(230)	(162)	(94)	(27)	41	108	176
Discount Factor	1	2	3	4	5	6	7	8	9	10
Discount factor at WACC	1.11	1.24	1.38	1.54	1.72	1.91	2.13	2.38	2.65	2.95

DCF	Now
Perpetual growth (%)	3%
Terminal value	8,253
NPV of DCF	785
Equity value	9,038
Number of shares	4,326
Additional value per share (Rp)	**2,100**

WACC Assumptions	
Cost of equity =	14.2%
After-tax cost of debt =	7.3%
Risk free rate =	6.5%
Beta =	1.1
Equity risk premium =	7.0%
Req equity market return =	13.5%
Debt/capital =	40.0%
WACC =	11.4%

Sources: Company, IndoPremier

Meanwhile, we value TOWR through DCF with starting year of 2020F. Our key assumptions are 6.5% risk free rate, 7% equity risk premium, 3% terminal growth, and 1.1x beta due to the stable nature of the business. In addition, the implied WACC is 11.7%. TOWR value per share comes at Rp680/share, implying 7.8x 2020F EV/Ebitda and 7% upside. The risk that comes from the business are telco pressuring lease prices, lower co-location on towers which results in lower ROIC, and higher lending rate. The DCF applies a 10% merger risk discount until the merger overhang passes.

Fig. 47: TOWR value per share

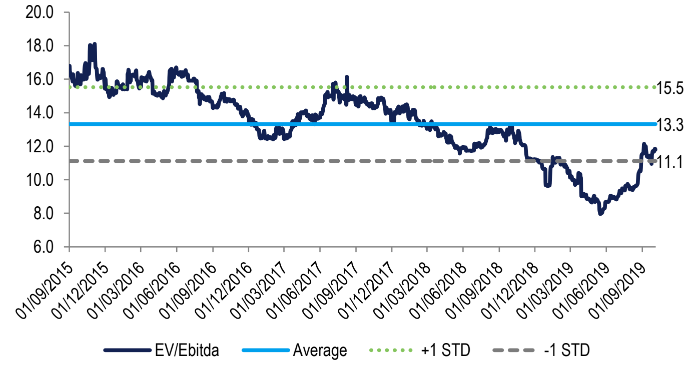
Sarana Menara DCF Model	2019F	2020F	2021F	2022F	2023F	2024F	2025F
EBIT	3,921	4,140	4,369	4,566	4,705	4,828	4,935
Depreciation and Amortization	1,345	1,438	1,538	1,641	1,745	1,849	1,952
Tax	-679	-660	-658	-665	-679	-679	-695
Change in Working Capital	55	9	11	7	12	14	15
Capital Expenditure	-2,060	-2,306	-2,449	-2,408	-2,519	-2,637	-2,760
Free Cash Flows	**2,581**	**2,621**	**2,811**	**3,142**	**3,264**	**3,374**	**3,448**

DCF	Now
Perpetual growth (%)	3.0%
Terminal value	40,630
NPV of DCF	7,445
Net debt	10,261
Equity value	37,814
Number of shares	50,401
Value per share (Rp)	750
Merger risk discount	10%
Target price (Rp)	**680**

WACC Assumptions	
Cost of equity =	14.2%
After-tax cost of debt =	6.0%
Risk free rate =	6.5%
Beta =	1.1
Equity risk premium =	7.0%
Req equity market return =	13.5%
WACC =	11.7%

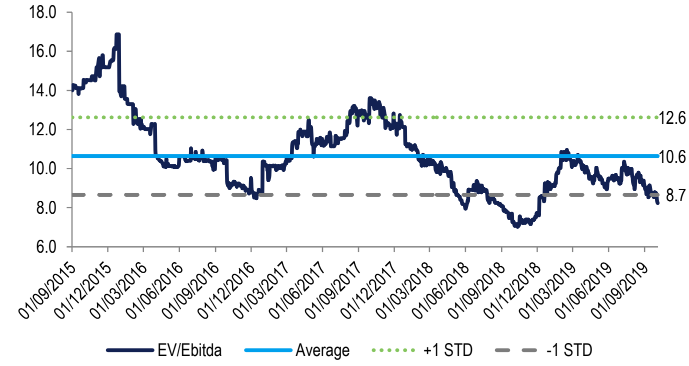
Sources: Company, IndoPremier

Fig. 48: TBIG EV/Ebitda band



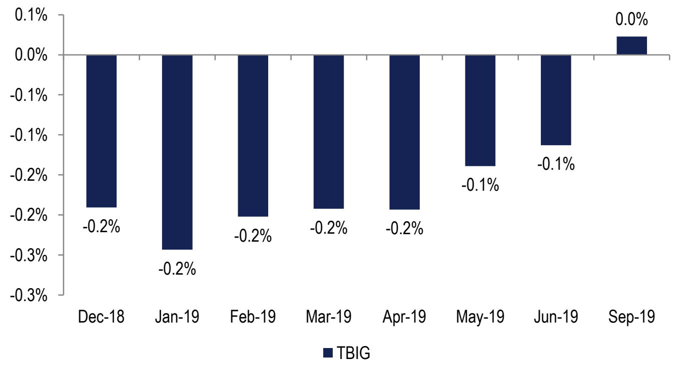
Sources: Company, IndoPremier

Fig. 49: TOWR EV/Ebitda band



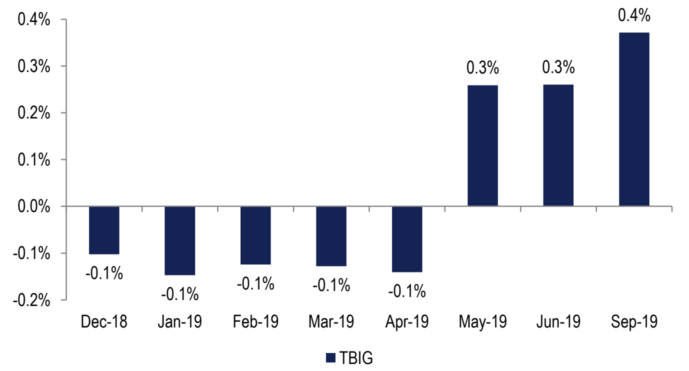
Sources: Company, IndoPremier

Fig. 50: TBIG local funds positioning vs JCI



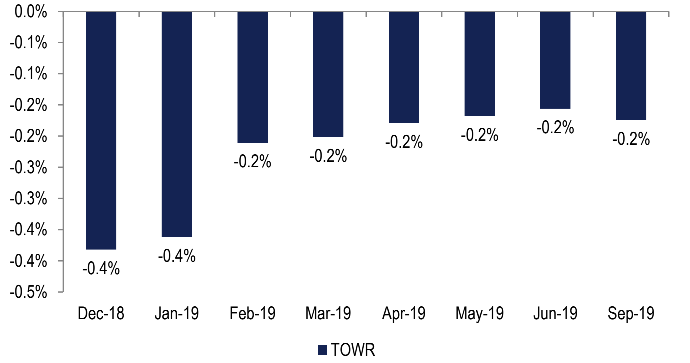
Sources: Company, IndoPremier, Bloomberg

Fig. 51: TBIG foreign funds positioning vs MSCI*



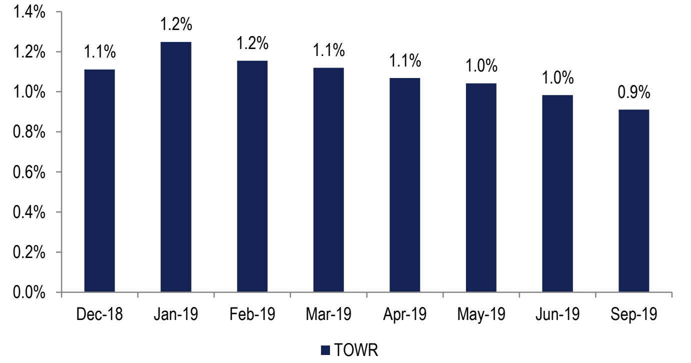
Sources: Company, IndoPremier, Bloomberg,
**TBIG was excluded from MSCI in May19*

Fig. 52: TOWR local funds positioning vs JCI



Sources: Company, IndoPremier, Bloomberg

Fig. 53: TOWR foreign funds positioning vs MSCI*



Sources: Company, IndoPremier,
**TOWR is not in MSCI*

INDOPREMIER

Tower Bersama

BUY

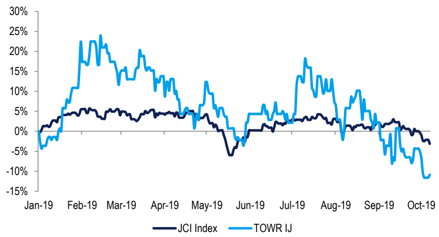
Initiation | Towers | TBIG IJ | 10 October 2019

Stock Data

Target price	**Rp8,300**
Prior TP	*N/A*
Current price	Rp6,400
Upside/downside	*+30%*
Sharesoutstanding (mn)	4,531
Market cap (Rp bn)	29,001
Free float	45%
Avg. 6m dailyT/O (Rp bn)	37.4

Price Performance

	3M	6M	12M
Absolute	58.1%	58.5%	23.4%
Relative to JCI	63.0%	64.5%	18.6%
52w low/high (Rp)			3,050 - 6,525



Major Shareholders

Wahana Anugerah Sejahtera	29.2%
Provident Capital Indonesia	25.5%

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At the sweet spot

- TBIG shall be able to maintain its margin amid its high co-location ratio. Improvement in co-location shall translate to higher margin.
- Purchase of GOLD was a great tactical move in the anticipation of the inevitable 5G rollout that requires more micro cellular poles.
- Deleveraging remains one of the top priorities. Initiate with Buy with Rp8,300 TP and implies 13.3x EV/Ebitda.

Upside for margin from higher co-location

TBIG co-location stood at 1.74x in 2Q19 (1.64x in 2016), we conservatively expect its co-location to be around 1.74x in FY19-21 still higher compared to 1.6x TOWR and 1.25x Mitratel. As such, we expect Ebitda margin to be stable at 86% through 2019F-2021F though upside for margin remains ample from higher co-location (0.1x increase in co-location shall translate to c.+75bp margin expansion).

Less renewal risk

Currently, telcos continue to negotiate down its leases upon renewal. We view that due to TBIG's current average lease rate standing at around Rp14.5mn/month, renewal risk going forward should be minimal as pricing on its lease for its anchor (Telkom), remains lower than its competitor (TOWR at Rp15.5/month and Mitratel at Rp24mn/month).

Deleverage debt is needed when tax shield is not present

The risk that TBIG faces comes from its higher debt level, which may be impacted during economic uncertainties. We expect going forward, that net gearing to go down to c.500% from c.600% while net debt/Ebitda to go down to 5.2x from 5.9x by 2020, way below its covenant of 6.25x. It can repay its debt through Ebitda generation of Rp4.1tn-Rp4.9tn in 2019-21F and/or selling treasury shares, which are in-the-money, after the buyback program ends.

Well positioned for 5G. Initiate with BUY

Key for 5G technology will come from expansion of tower companies building MCPs. TBIG through GOLD is able to build MCPs through Alfamart group (>13,000 outlets). Although we do not imbedded 5G rollout in our forecast yet, awaiting the tender of the 3.5GHz spectrum, we believe the premium valuation is well deserved due to Alfamart outlets' premium locations in densely populated areas. As such, we initiate with a Buy rating and Rp8,300 TP, which was derived through DCF and implies 13.3x 2020F EV/Ebitda.

Financial Summary	2017A	2018A	2019F	2020F	2021F
Revenue (Rp bn)	4,023	4,318	4,775	5,220	5,672
EBITDA (Rp bn)	3,485	3,704	4,096	4,478	4,865
EBITDA growth	8.3%	6.3%	10.6%	9.3%	8.6%
Net profit (Rp bn)	2,316	681	913	1,162	1,349
EPS (Rp)	511	150	201	256	298
EPS growth	138.4%	-70.6%	34.1%	27.3%	16.1%
ROE	96.3%	19.8%	23.7%	26.9%	27.3%
PER (x)	12.5	42.6	31.8	25.0	21.5
EV/EBITDA (x)	14.1	13.8	12.6	11.7	10.9
Dividend yield	2.3%	2.6%	2.1%	2.0%	2.6%
Forecast change			N/A	N/A	N/A
IPS vs. consensus			97%	107%	105%

Sources: Company, IndoPremier *Share price closing as of: 09 October 2019*

Income Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net Revenue	4,023	4,318	4,775	5,220	5,672
Cost of Sales	(668)	(784)	(867)	(948)	(1,030)
Gross Profit	**3,355**	**3,534**	**3,908**	**4,272**	**4,642**
SG&A Expenses	(343)	(381)	(422)	(461)	(501)
Operating Profit	**3,012**	**3,153**	**3,486**	**3,811**	**4,141**
Net Interest	(1,957)	(2,063)	(2,198)	(2,190)	(2,252)
Forex Gain (Loss)	14	2	0	0	0
Others-Net	(161)	(57)	0	0	0
Pre-Tax Income	**908**	**1,034**	**1,288**	**1,621**	**1,889**
Income Tax	1,431	(332)	(346)	(422)	(496)
Minorities	(23)	(22)	(30)	(38)	(44)
Net Income	**2,316**	**681**	**913**	**1,162**	**1,349**

Balance Sheet (Rp bn)	2017A	2018A	2019F	2020F	2021F
Cash & Equivalent	407	221	325	242	356
Receivable	358	461	510	557	605
Inventory	20	23	25	27	30
Other Current Assets	1,186	1,323	1,323	1,323	1,323
Total Current Assets	**1,972**	**2,027**	**2,183**	**2,150**	**2,315**
Fixed Assets - Net	19,967	22,060	23,150	24,400	25,602
Goodwill	413	429	429	429	429
Non Current Assets	**3,244**	**4,597**	**4,597**	**4,597**	**4,597**
Total Assets	**25,596**	**29,114**	**30,359**	**31,576**	**32,943**
Payable	213	336	371	406	441
Other Payables	1,772	2,819	2,819	2,819	2,819
Current Portion of LT Loans	4	3,270	3,398	3,483	3,585
Total Current Liab.	**1,988**	**6,425**	**6,588**	**6,707**	**6,845**
Long Term Loans	20,376	18,967	19,706	20,198	20,791
Other LT Liab.	46	43	43	43	43
Total Liabilities	**22,411**	**25,434**	**26,337**	**26,948**	**27,678**
Equity	933	249	249	249	249
Retained Earnings	2,155	3,122	3,434	4,003	4,596
Minority Interest	97	309	338	376	420
Total SHE + Minority Int.	**3,185**	**3,680**	**4,021**	**4,627**	**5,265**
Total Liabilities & Equity	**25,596**	**29,114**	**30,359**	**31,576**	**32,943**

Sources: Company, IndoPremier

Cash Flow Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net Income	2,339	703	942	1,199	1,392
Depr. & Amortization	21	49	610	667	724
Changes in Working Capital	513	1,056	(16)	(15)	(15)
Others	2,267	1,755	2,031	2,153	2,208
Cash Flow From Operating	**5,140**	**3,562**	**3,568**	**4,003**	**4,310**
Capital Expenditure	(1,985)	(3,511)	(1,699)	(1,916)	(1,927)
Others	7	8	6	9	6
Cash Flow From Investing	**(1,979)**	**(3,502)**	**(1,693)**	**(1,908)**	**(1,920)**
Loans	1,472	1,857	867	576	695
Equity	0	(190)	0	0	0
Dividends	(665)	(750)	(600)	(593)	(755)
Others	(1,410)	(2,357)	(2,174)	(2,161)	(2,215)
Cash Flow From Financing	**(603)**	**(1,440)**	**(1,907)**	**(2,178)**	**(2,275)**
Changes in Cash	**2,558**	**(1,381)**	**(33)**	**(83)**	**114**

Key Ratios	2017A	2018A	2019F	2020F	2021F
Gross Margin	83.4%	81.8%	81.8%	81.8%	81.8%
Operating Margin	74.9%	73.0%	73.0%	73.0%	73.0%
Pre-Tax Margin	22.6%	24.0%	27.0%	31.1%	33.3%
Net Margin	57.6%	15.8%	19.1%	22.3%	23.8%
ROA	9.4%	2.5%	3.1%	3.8%	4.2%
ROE	96.3%	19.8%	23.7%	26.9%	27.3%
ROIC	13.9%	12.9%	13.3%	13.9%	14.4%
Acct. Receivables TO (days)	38.3	34.6	37.1	37.3	37.4
Inventory TO (days)	5.6	36.5	36.2	36.0	35.9
Payable TO (days)	113.8	127.7	148.8	149.6	150.1
Debt to Equity	639.9%	604.3%	574.5%	511.7%	463.0%
Interest Coverage Ratio (x)	0.7	0.7	0.6	0.6	0.5
Net Gearing	627.1%	598.3%	566.5%	506.5%	456.2%

Sources: Company, IndoPremier

INDOPREMIER

Sarana Menara

HOLD

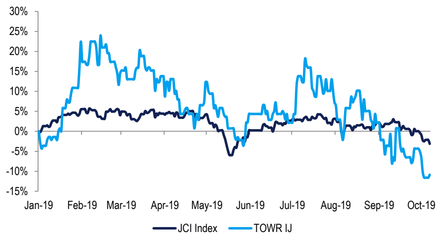
Initiation | Towers | TOWR IJ | 10 October 2019

Stock Data

Target price	**Rp680**
Prior TP	*N/A*
Current price	Rp635
Upside/downside	*+7%*
Sharesoutstanding (mn)	51,015
Market cap (Rp bn)	32,394
Free float	50%
Avg. 6m dailyT/O (Rp bn)	16.3

Price Performance

	3M	6M	12M
Absolute	-18.7%	-16.6%	32.4%
Relative to JCI	-13.8%	-10.5%	27.5%
52w low/high (Rp)			466 - 855



Major Shareholders

Sapta Adhikari Investama	50%

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Inorganic may not be the best path

- Fiberization order from telco operators will translate to higher revenue but dilutive to margin. Inorganic growth also dilutive based on our calculation.
- There is risk that new contracts to be renewed at lower lease rate, especially those who came from Hutch.
- Initiate with Hold as the lack of catalysts have been offset by lower valuation (40% discount from TBIG).

Inorganic growth doesn't benefit in the long-run

TOWR's healthy balance sheet allows the company to grow inorganically through issuance of debt. For TOWR, an anchor tenant is able to provide spread of return without co-location in the short-term. However, in the long-run, purchasing more towers inorganically through debt will increase finance cost and blended interest rate cost, thus supressing profit growth potential. After XL and KIN tower acquisition blended interest rate rose from 5% to 8%, thus dragging down 2019F potential profit by about 5%.

Continuous fiberization order from smaller telcos

Smaller telcos such as XL Axiata and Indosat are ordering fiberization for their towers in order to increase their connection capacity. This may prove beneficial for TOWR's revenue but dilutive towards margin (less than 50% Ebitda margin, which is much lower than its current blended rate of 84%).

Lower blended lease rate coming from Hutchison lease renewal

TOWR has managed to secure the renewal and extension of more than 9,000 tower leases (c.31% total lease) coming due over the next four years that was signed under an umbrella agreement between two telco operators (Hutch and XL). However, the risk comes from lower rental leases, whereas the old Hutchison lease was done around Rp20mn/month/tenant, which is much higher than the current market price. The Hutch renewal impact (35% lower) should affect around 2% of revenue growth for the next couple of years and 7.5% of 2020F NPAT.

Overhang on merger between XL and Hutch

A merger between XL and Hutch would pose a risk on TOWR in the medium-term as there would be an estimate of c.7,200 co-location at risk, valued at almost 20% of 2019F revenue and Ebitda. Despite lacking catalysts, we initiate with Hold rating and Rp680/share TP (implies 7.8x 2020F EV/Ebitda) amid discount valuation (40% discount over TBIG). Catalysts going forward are cancellation on merger and higher organic growth.

Financial Summary	2017A	2018A	2019F	2020F	2021F
Revenue (Rp bn)	5,338	5,868	6,312	6,726	7,167
EBITDA (Rp bn)	4,604	4,932	5,265	5,577	5,907
EBITDA growth	4.4%	7.1%	6.8%	5.9%	5.9%
Net profit (Rp bn)	2,100	2,224	2,262	2,494	2,726
EPS (Rp)	47	44	44	49	53
EPS growth	-1.6%	-6.8%	1.7%	10.3%	9.3%
ROE	32.2%	29.4%	26.7%	26.6%	26.7%
PER (x)	15.5	14.6	14.3	13.0	11.9
EV/EBITDA (x)	8.5	8.7	8.1	7.6	7.2
Dividend yield	3.7%	3.7%	4.2%	5.0%	5.9%
Forecast change			N/A	N/A	N/A
IPS vs. consensus			98%	101%	101%

Sources: Company, IndoPremier *Share price closing as of: 09 October 2019*

Income Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net Revenue	5,338	5,868	6,312	6,726	7,167
Cost of Sales	(1,172)	(1,542)	(1,844)	(2,004)	(2,177)
Gross Profit	**4,166**	**4,326**	**4,468**	**4,723**	**4,990**
SG&A Expenses	(457)	(509)	(547)	(583)	(621)
Operating Profit	**3,709**	**3,817**	**3,921**	**4,140**	**4,369**
Net Interest	(619)	(838)	(980)	(986)	(985)
Forex Gain (Loss)	(2)	(37)	0	0	0
Others-Net	(284)	10	0	0	0
Pre-Tax Income	**2,803**	**2,952**	**2,941**	**3,154**	**3,384**
Income Tax	(703)	(728)	(679)	(660)	(658)
Net Income	**2,100**	**2,224**	**2,262**	**2,494**	**2,726**

Balance Sheet (Rp bn)	2017A	2018A	2019F	2020F	2021F
Cash & Equivalent	2,348	963	1,708	1,723	1,641
Receivable	624	821	883	941	1,003
Other Current Assets	77	491	491	491	491
Total Current Assets	**3,050**	**2,275**	**3,082**	**3,155**	**3,135**
Fixed Assets - Net	12,601	15,980	17,407	19,033	20,752
Goodwill	590	832	832	832	832
Non Current Assets	**2,524**	**3,872**	**3,160**	**2,402**	**1,594**
Total Assets	**18,763**	**22,960**	**24,481**	**25,422**	**26,313**
Payable	281	704	821	888	961
Other Payables	1,316	1,657	1,657	1,657	1,657
Current Portion of LT Loans	634	2,391	2,391	2,391	2,391
Total Current Liab.	**2,230**	**4,752**	**4,869**	**4,936**	**5,008**
Long Term Loans	8,365	9,093	9,593	9,593	9,593
Other LT Liab.	1,066	1,081	1,081	1,081	1,081
Total Liabilities	**11,662**	**14,926**	**15,543**	**15,610**	**15,683**
Equity	555	485	485	485	485
Retained Earnings	6,546	7,548	8,452	9,325	10,143
Total SHE + Minority Int.	**7,102**	**8,033**	**8,938**	**9,811**	**10,629**
Total Liabilities & Equity	**18,763**	**22,960**	**24,481**	**25,421**	**26,311**

Sources: Company, IndoPremier

Cash Flow Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net Income	2,100	2,224	2,262	2,494	2,726
Depr. & Amortization	410	667	633	680	731
Changes in Working Capital	(202)	226	55	9	11
Others	93	1,080	927	986	985
Cash Flow From Operating	**2,401**	**4,197**	**3,876**	**4,169**	**4,453**
Capital Expenditure	(932)	(5,637)	(1,348)	(1,548)	(1,642)
Others	68	34	20	35	35
Cash Flow From Investing	**(864)**	**(5,603)**	**(1,328)**	**(1,513)**	**(1,607)**
Loans	(920)	2,485	500	0	0
Equity	0	0	0	0	0
Dividends	(1,197)	(1,201)	(1,357)	(1,621)	(1,908)
Others	(694)	(927)	(999)	(1,021)	(1,021)
Cash Flow From Financing	**(2,811)**	**357**	**(1,856)**	**(2,642)**	**(2,929)**
Changes in Cash	**(1,274)**	**(1,049)**	**692**	**14**	**(83)**

Key Ratios	2017A	2018A	2019F	2020F	2021F
Gross Margin	78.0%	73.7%	70.8%	70.2%	69.6%
Operating Margin	69.5%	65.1%	62.1%	61.5%	61.0%
Pre-Tax Margin	52.5%	50.3%	46.6%	46.9%	47.2%
Net Margin	39.3%	37.9%	35.8%	37.1%	38.0%
ROA	11.2%	10.7%	9.5%	10.0%	10.5%
ROE	32.2%	29.4%	26.7%	26.6%	26.7%
ROIC	27.8%	23.6%	20.8%	21.1%	21.3%
Acct. Receivables TO (days)	33.4	44.9	49.3	49.5	49.5
Payable TO (days)	76.5	116.5	150.9	155.6	155.0
Debt to Equity	126.7%	143.0%	134.1%	122.1%	112.8%
Interest Coverage Ratio (x)	0.2	0.2	0.3	0.2	0.2
Net Gearing	93.6%	131.0%	115.0%	104.6%	97.3%

Sources: Company, IndoPremier

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

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.