

Sarana Menara Nusantara Tbk (TOWR)

Satisfactory Performance During PSBB

BUY

Target Price (IDR)	1,310
Consensus Price (IDR)	1,251
TP to Consensus Price	+4.7%
vs. Last Price	+24.8%

Shares data

Last Price (IDR)	1,050
Price date as of	Sept. 03, 2020
52 wk range (Hi/Lo)	1,115 / 575
Free float	47.5%
Outstanding sh.(mn)	51,015
Market Cap (IDR bn)	52,290
Market Cap (USD mn)	3,540
Avg. Trd Vol - 3M (mn)	180.8
Avg. Trd Val - 3M (bn)	195.6
Foreign Ownership	18.97%

Infrastructure

Telecommunication Towers

Bloomberg	TOWR IJ
Reuters	TOWR.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret	31.3%	-7.1%	4.0%	55.6%
Rel. Ret	53.3%	5.1%	44.2%	59.0%

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The PSBB period was a positive wind for the tower industry. It can be seen that TOWR's growing revenue was driven by the increase tower rental segment. This happened because the data traffic demand from telecommunication operators were very high during the PSBB. TOWR recorded tower rental revenue during 2Q20 of IDR 1.6 trillion (+ 8.2% QoQ).

Tower Leases Grow, Net Profit Soars 50.1% YoY. TOWR recorded revenue growth during the second quarter of 2020 of IDR1.9 trillion (20.6% YoY, 2.5% QoQ). We assess that the company's revenue grew as a result of the increasing demand for towers by several telecommunication operator companies during the PSBB period. It was noted that during 2Q20 there was an increase in revenue from tower leasing by 8.2% QoQ to IDR 1.6 trillion vs IDR 1.5 trillion 1Q20. PT Hutchison 3 Indonesia is still the largest contributor to the company's revenue at 38.4%, followed by PT XL Axiata Tbk (EXCL) at 34.7%. Reflecting on the growth in revenue during the second quarter, the company's net profit jumped 50.1% YoY, 50.7% QoQ to IDR782.3 billion.

Revised Revenue and Net Profits FY20E. We changed the company's estimated revenue and net profit to IDR 7.4 trillion (+ 14.4% YoY) and IDR 2.7 trillion (16.7% YoY) with the consideration that the company will continue to record positive performance until the end of 2020 in line with the data increasing requests from telecommunication operators. Thus we are optimistic that tower rental demand will also grow. Until now, the company owns 21,271 towers with 38,122 tower tenants spread throughout Indonesia. Tenancy Ratio is at the level of 1.79x vs 1.80x FY20E.

Realization of the Final Revised Income Tax on Land and Building Leases to 5% will Have a Positive Impact on the Company. In the near future, the government plans to revise the income tax rate (PPH) on lease of land and buildings. Initially, the tariff was 10%, where business owners suggested that it be reduced to 5%. If the revision is successfully realized, this will have a positive impact on the company where the company's tax burden can be lowered so that net income can increase.

We upgrade rating to BUY with a target price of IDR 1,310. We raised our rating to BUY considering the positive performance the company made in the first half of 2020 and will also record growth until the second semester of 2020 driven by the need for internet data, which is currently a primary need and will be an important factor in the post-Covid-19 economic recovery. In addition, the company has also locked in the irrevocable value of a long-term contract for the tower lease of IDR 53 trillion. Our target estimate is at IDR 1,310 (next 12 months) implying an EV / EBITDA of 14.3x. Currently, TOWR is traded at the EV / EBITDA level of 10.8x .

Sarana Menara Nusantara Tbk | Summary (IDR bn)

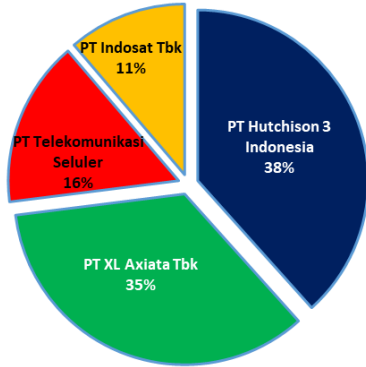
	2018	2019	2020 F	2021 F
Revenue	5,868	6,454	7,387	8,321
<i>Revenue growth</i>	9.9%	10.0%	14.4%	12.6%
EBITDA	4,932	5,385	5,193	5,763
Net profit	2,200	2,342	2,733	3,004
EPS (IDR)	43	46	54	59
BVPS (IDR)	157	172	204	236
EBITDA margin	84.0%	83.4%	70.3%	69.3%
NPM	37.5%	36.3%	37.0%	36.1%
ROE	27.4%	26.7%	26.3%	25.0%
ROA	9.6%	8.5%	9.1%	9.0%
ROIC	12.4%	10.8%	10.9%	10.9%
P/E	16.0x	19.7x	24.4x	22.2x
P/BV	4.4x	5.3x	6.4x	5.5x
EV/EBITDA	9.3x	11.3x	15.7x	14.3x
DPS (IDR)	23	23	21	27
<i>Dividend yield</i>	3.4%	2.6%	1.6%	2.0%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

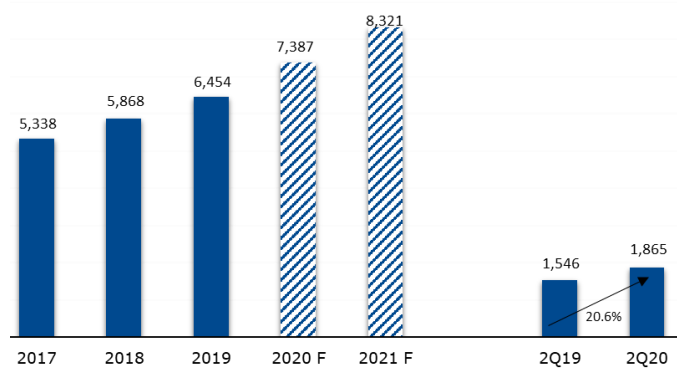
Performance Highlights

Revenue Breakdown 2Q20



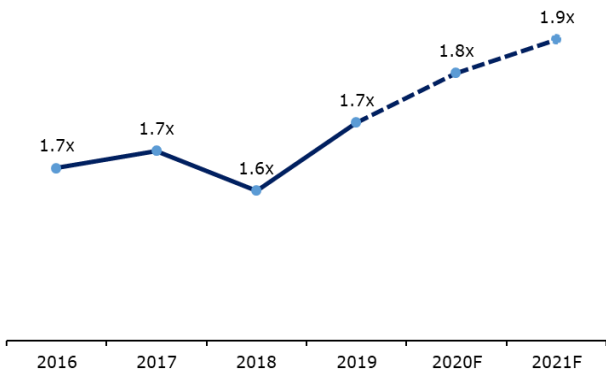
Source: Company, NHKSI Research

Revenue Projection (bn)



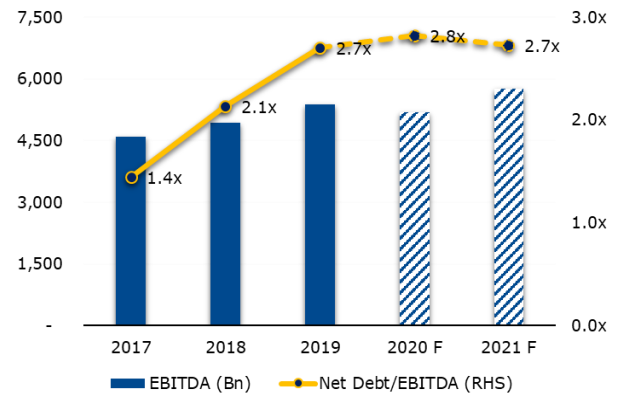
Source: Company, NHKSI Research

Tenancy Ratio



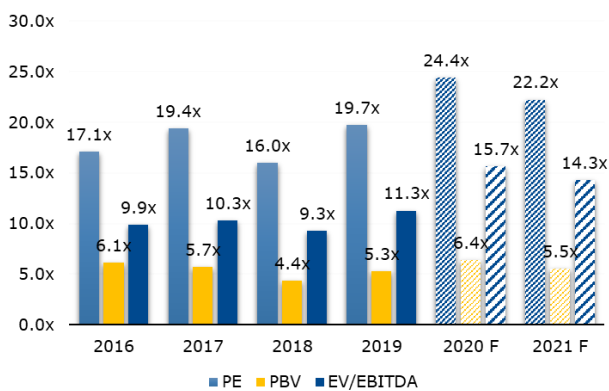
Source: Company, NHKSI Research

Net Debt/EBITDA (bn)



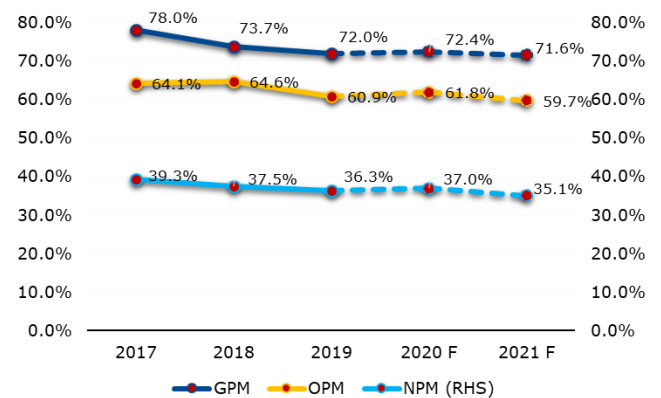
Source: Company, NHKSI Research

Multiple Valuation



Source: Company, NHKSI Research

TOWR Margins



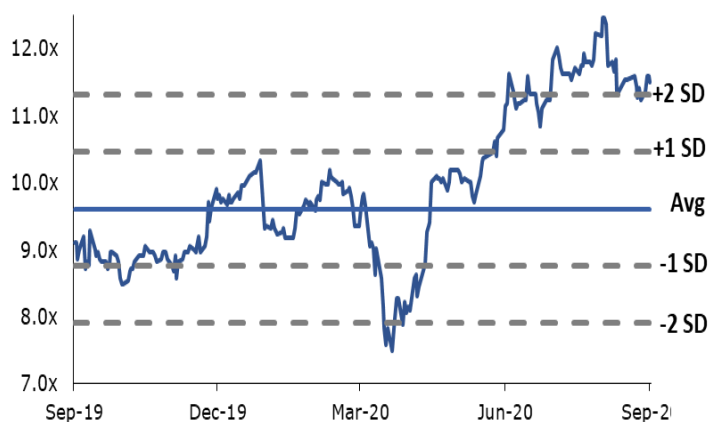
Source: Bloomberg, Company, NHKSI Research



PT Sarana Menara Nusantara Tbk. (SMN) was founded in 2008 in Kudus, Central Java. SMN's main focus is investing in companies that specialize in owning and operating tower locations for lease to wireless telecommunications companies. Since 2008, SMN has owned 99.99% of the outstanding shares of PT Profesional Telekomunikasi Indonesia (Protelindo).

Protelindo currently owns and operates 21,271 towers in Indonesia, with 38,122 leased locations and more than 35,000 fiber optic cables throughout Indonesia.

Forward EV/EBITDA Trade in +2SD



Source: NHKSI Research

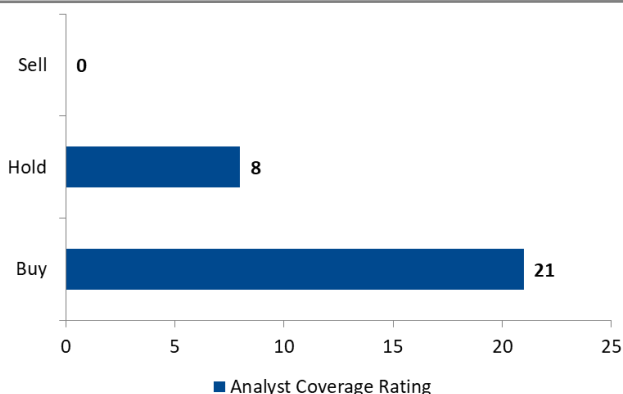
Rating and Target Price Update

Target Price

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
07/10/2020	Hold	1,140 (Dec 2020)	1,070	1,063	+6.5%	+7.3%
09/04/2020	Buy	1,310 (12 Month)	1,050	1,251	+24.8%	+4.7%

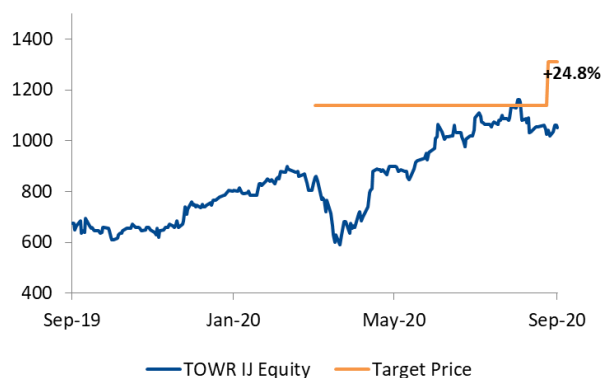
Source: NHKSI Research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKSI Research

NH Korindo Sekuritas Indonesia (NHKSI) stock ratings

1. Period: End of year target price
2. Rating system based on a stock's absolute return from the date of publication
 - Buy : Greater than +15%
 - Hold : -15% to +15%
 - Sell : Less than -15%

Financial Summary

INCOME STATEMENT

(IDR bn)	2018/12	2019/12	2020/12E	2021/12F
Revenue	5,868	6,454	7,387	8,321
Growth	9.9%	10.0%	14.4%	12.6%
Cost of Revenue	(1,542)	(1,808)	(2,041)	(2,308)
Gross Profit	4,326	4,646	5,346	6,013
Gross Margin	73.7%	72.0%	72.4%	72.3%
Operating Expenses	(536)	(719)	(777)	(978)
EBIT	3,790	3,928	4,568	5,034
EBIT Margin	64.6%	60.9%	61.8%	60.5%
Depreciation	(1,114)	(1,350)	(1,391)	(1,552)
EBITDA	4,932	5,385	5,193	5,763
EBITDA Margin	84.0%	83.4%	70.3%	69.3%
Interest Expenses	872	958	1,061	1,199
EBT	2,952	3,009	3,527	3,853
Income Tax	(752)	(656)	(769)	(840)
Minority Interest	(0)	(11)	(25)	(9)
Net Profit	2,200	2,342	2,733	3,004
Growth	4.8%	6.4%	16.7%	9.9%
Net Profit Margin	37.5%	36.3%	37.0%	36.1%

BALANCE SHEET

(IDR bn)	2018/12	2019/12	2020/12E	2021/12F
Cash	963	600	951	1,370
Receivables	1,018	1,378	1,293	1,433
Inventories	-	-	-	-
Total Current Assets	2,275	2,474	2,740	3,299
Net Fixed Assets	15,980	19,648	21,383	23,734
Other Non Current Assets	4,704	5,543	5,934	6,376
Total Assets	22,960	27,666	30,057	33,408
Payables	704	641	850	962
Curr Maturities of LT Debt	1,733	1,945	2,001	2,191
LT Debt	8,343	11,230	11,556	12,651
Total Liabilities	14,926	18,905	19,653	21,366
Capital Stock	21	21	21	21
Retained Earnings	7,548	8,704	10,385	12,022
Shareholders' Equity	8,033	8,761	10,404	12,042

CASH FLOW STATEMENT

(IDR bn)	2018/12	2019/12	2020/12E	2021/12F
Operating Cash Flow	3,021	2,587	3,748	3,825
Investing Cash Flow	(5,637)	(5,055)	(2,750)	(3,521)
Financing Cash Flow	1,232	2,105	(647)	114
Net Changes in Cash	(1,385)	(363)	351	418

Source: Company Data, NHKSI Research

PROFITABILITY & STABILITY

	2018/12	2019/12	2020/12E	2021/12F
ROE	27.4%	26.7%	26.3%	25.0%
ROA	9.6%	8.5%	9.1%	9.0%
ROIC	12.4%	10.8%	10.9%	10.9%
Cash Dividend (IDR bn)	1,199	1,185	1,054	1,367
Dividend Yield	3.4%	2.6%	1.6%	2.0%
Payout Ratio	183.5%	197.7%	259.4%	219.8%
DER	1.4x	1.7x	1.5x	1.4x
Net Gearing	1.5x	1.7x	1.5x	1.4x
LT Debt to Equity	1.4x	1.7x	1.5x	1.4x
Capitalization Ratio	0.6x	0.6x	0.6x	0.6x
Equity Ratio	0.3x	0.3x	0.3x	0.4x
Debt Ratio	0.5x	0.5x	0.5x	0.5x
Financial Leverage	2.8x	3.0x	3.0x	2.8x
Current Ratio	0.5x	0.5x	0.6x	0.6x
Par Value (IDR)	50	50	50	50
Total Shares (mn)	51,015	51,015	51,015	51,015
Share Price (IDR)	690	905	1,310	1,310
Market Cap (IDR tn)	34,865	40,415	55,096	55,096

VALUATION INDEX

	2018/12	2019/12	2020/12E	2021/12F
Price/Earnings	16.0x	19.7x	24.4x	22.2x
Price/Book Value	4.4x	5.3x	6.4x	5.5x
Price/Sales	6.0x	7.2x	9.0x	8.0x
PE/EPS Growth	3.4x	3.1x	1.5x	2.2x
EV/EBITDA	9.3x	11.3x	15.7x	14.3x
EV/EBIT	12.1x	15.5x	17.8x	16.4x
EV (IDR bn)	45,721	60,736	81,487	82,548
Sales CAGR (3-Yr)	-8.7%	-7.8%	-10.3%	-11.0%
EPS CAGR (3-Yr)	10.4%	-3.0%	-8.4%	-9.9%
Basic EPS (IDR)	43	46	54	59
Diluted EPS (IDR)	43	46	54	59
BVPS (IDR)	157	172	204	236
Sales PS (IDR)	115	127	145	163
DPS (IDR)	23	23	21	27

OWNERSHIP

By Geography	% Shareholders	%
Indonesia	81.0	PT Sapta Adhikari Inv 51.5
United States	14.1	T Rowe Price Group I 7.1
Hongkong	1.0	Harriss Associates LP 0.8
Luxembourg	0.9	Ario Wibisono 0.6

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