

Sarana Menara (TOWR IJ)

21 August 2017

Results Note

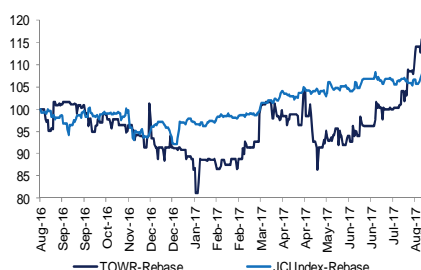
HOLD (Downgrade)

Stock Data

Target price (Rp)	Rp4,550
Prior TP (Rp)	Rp4,550
Shareprice (Rp)	Rp3,740
Upside/downside (%)	+21.7
Sharesoutstanding (m)	10,203
Marketcap. (US\$ m)	2,856
Free float (%)	44.1
Avg. 6m dailyT/O (US\$ m)	0.5

Price Performance

	3M	6M	12M
Absolute (%)	1.4	9.7	-2.6
Relative to JCI (%)	-1.2	-0.7	-10.7
52whigh/low (Rp)	4,580 - 3,200		



Major Shareholders

Sapta Adhikari Inv	32.7%
T Rowe Price Group	7.6%

Estimate Change; Vs. Consensus

	2017F	2018F
Latest EPS (Rp)	282	317
Vs. Prior EPS (%)	-	-
Vs. Consensus (%)	+7.6	+9.6

Source: Bloomberg

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Stable performance

- Net income below expectation from interest expense
- Operation numbers were inline
- Strong balance sheet
- Downgrade to Hold

Slightly below expectation. Sarana Menara Nusantara (Protelindo) booked net profit of Rp1.3tn in 1H17, which was slightly below our numbers from higher-than-expected interest cost and other income/expenses, but was inline with consensus. Overall the company posted stable result with stable EBITDA margins of 85.9% in 1H17. Total tower revenue was Rp2.5tn (+6.3% yoy) while strong growth resulted from VSAT and MWIFO revenue stream of Rp88bn (+68.0% yoy) and Rp40bn (+45.4% yoy), respectively. These revenue are generated under the newly acquired entity iForte. We expect that iForte business model to gain growth momentum, especially with the development of 4G network in large cities.

Operational numbers were inline. 1H17 numbers of revenue and EBITDA represented 48% and 47.2% of our forecast, mainly inline. Total number of towers was 14.6k (+0.7% yoy) with net add of 106 new towers in the past 4Q. Meanwhile total tenant was 24.4k in 1H17 (+0.9% yoy) with net add of 218 tenants. Tower colocation stood at 1.67x, relative unchanged in the past 4Q with rental cost flat at Rp17.1mn per month. It seems that tower industry remains competitive as rental cost has gradually slipped from Rp17.5mn to current level.

Well managed balance sheet. Post-acquisition of XL towers, Protelindo maintained a very healthy balance sheet. Net debt/LQA EBITDA remained low at 1.2x as of Jun17 with interest coverage ratio of 7.4x. Currently, net debt stands at Rp5.4tn with average interest cost of 6.5%. Having such a strong balance sheet will open up the possibility for further acquisition. The management will keep up its option to seek for further acquisition. Nevertheless the company has also improved its share liquidity though private placement. This will create potential share swap possible deals in acquisition. However, we have not hear about any acquisition near soon.

Downgrade to Hold. Protelindo has displayed a strong and steady performance. The share has moved enclosed to our target price. Based on the current result we do not see any earning surprises. Therefore, we downgrade our recommendation to HOLD with unchanged target price of Rp4,550. The company remains committed to maintain strong balance sheet with LQA EBITDA below 3.0x, while keeping options open for on-organic growth and progressive dividends.

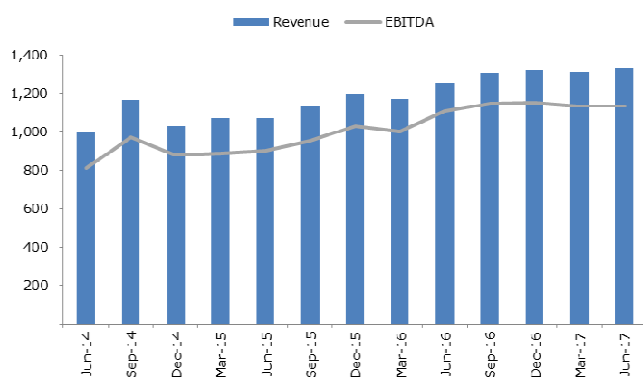
Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (RpBn)	4,470	5,053	5,508	5,968	6,404
EBITDA (RpBn)	3,776	4,408	4,810	5,205	5,566
EBITDA Growth (%)	10.5	16.7	9.1	8.2	6.9
Net Profit (RpBn)	2,965	2,670	2,873	3,236	3,557
EPS (Rp)	291	262	282	317	349
EPS Growth (%)	169.8	(9.9)	7.6	12.6	9.9
Net Gearing (%)	90.1	65.5	48.4	34.5	22.9
PER (x)	15.8	17.5	16.3	14.8	13.1
PBV (x)	6.1	4.4	3.7	3.1	2.7
Dividend Yield (%)	-	1.5	1.8	2.1	2.3
EV/EBITDA (x)	14.2	12.2	11.0	10.0	9.1

Source: TOWR, IndoPremier

Share Price Closing as of : 18-August-2017

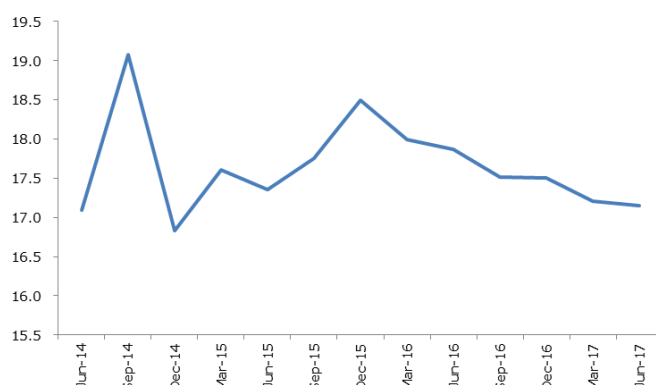
TOWR Results Note

Fig. 1: Quarterly revenue and EBITDA



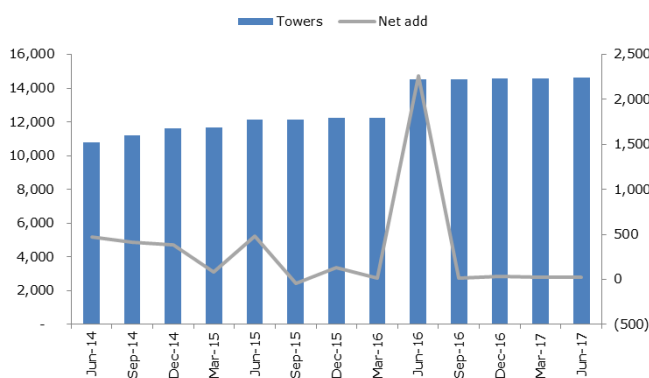
Source: TOWR

Fig. 2: Monthly Tower rental cost (Rp/mn)



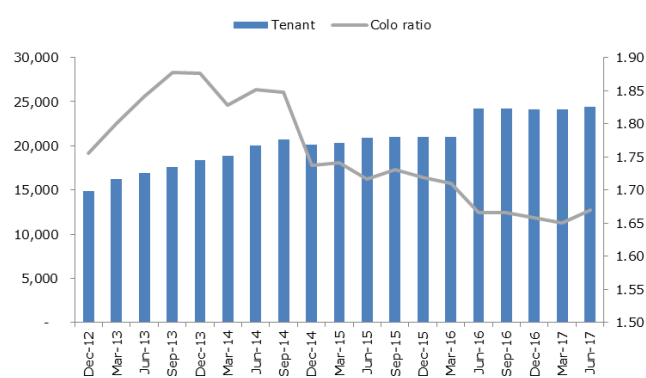
Source: TOWR

Fig. 3: Number of towers and net add



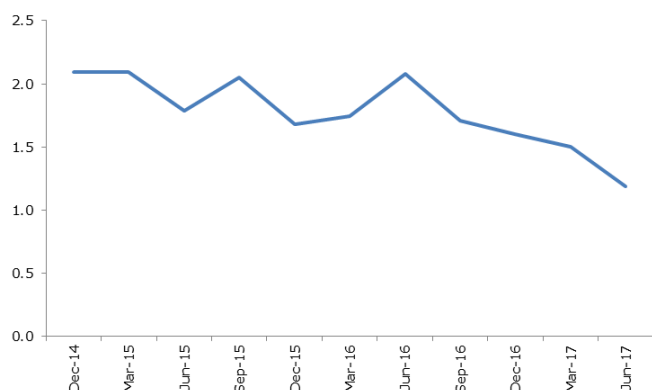
Source: TOWR

Fig. 4: Number of tenants and net add



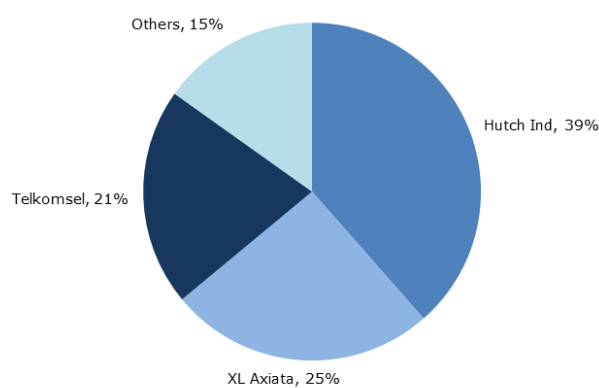
Source: TOWR

Fig. 5: Net debt/LQA-EBITDA



Source: TOWR

Fig. 6: Revenue breakdown by operator



Source: TOWR

TOWR Results Note

Fig. 7: Financial result 1H17 highlights

Rpbn	1H17	1H16	%	2Q17	1Q17	%	FY17	%
Turnover	2,643	2,423	9.1	1,330	1,313	1.3	5,508	48.0
EBITDA	2,270	2,109	7.6	1,136	1,134	0.2	4,810	47.2
Operating Profit	2,031	1,890	7.5	1,019	1,012	0.6	4,317	47.0
Net Int. & Invest. Inc.	(326)	(253)	28.6	(154)	(172)	-10.8	(566)	57.6
Forex gain (losses)	-	-	nm	-	-	nm		
Except. & Others	(10)	150	nm	(35)	26	nm	80	
Group Pretax	1,695	1,786	-5.1	830	866	-4.2	3,831	44.2
Taxation	(419)	(458)	-8.5	(203)	(216)	-6.2	(958)	
Minorities			nm	-		nm	na	
Net Profit	1,276	1,328	-3.9	627	649	-3.5	2,873	44.4
EBITDA margin	85.9%	87.0%		85.4%	86.3%		87.3%	

Source: TOWR

TOWR Results Note

Year To 31 Dec (RpBn)	2015A	2016A	2017F	2018F	2019F
Income Statement					
Net Revenue	4,470	5,053	5,508	5,968	6,404
Cost of Sales	(572)	(669)	(713)	(777)	(840)
Gross Profit	3,898	4,384	4,794	5,191	5,565
SG&A Expenses	(512)	(436)	(477)	(521)	(571)
Operating Profit	3,386	3,949	4,317	4,670	4,993
Net Interest	(550)	(613)	(566)	(439)	(339)
Forex Gain (Loss)	1,632	0	0	0	0
Others-Net	(510)	373	80	83	89
Pre-Tax Income	3,958	3,709	3,831	4,315	4,743
Income Tax	(993)	(1,039)	(958)	(1,079)	(1,186)
Minorities	0	0	0	0	0
Net Income	2,965	2,670	2,873	3,236	3,557
Balance Sheet					
Cash & Equivalent	2,987	2,905	2,785	1,624	814
Receivable	471	353	383	415	446
Inventory	11	0	0	0	0
Other Current Assets	64	336	340	343	346
Total Current Assets	3,533	3,595	3,507	2,382	1,606
Fixed Assets - Net	14,841	18,508	19,670	20,877	22,131
Goodwill	0	0	0	0	0
Non Current Assets	3,043	2,923	2,922	3,101	3,289
Total Assets	21,417	25,025	26,100	26,360	27,026
ST Loans	0	0	0	0	0
Payable	217	189	0	184	191
Other Payables	1,315	1,598	1,646	1,783	1,913
Current Portion of LT Loans	446	1,515	0	0	0
Total Current Liab.	1,978	3,303	1,823	1,967	2,104
Long Term Loans	9,456	8,403	8,942	6,787	4,821
Other LT Liab.	2,304	2,610	2,616	2,621	2,627
Total Liabilities	13,738	14,317	13,381	11,376	9,552
Equity	519	508	508	508	508
Retained Earnings	7,161	10,200	12,212	14,477	16,967
Minority Interest	(2)	1	0	0	0
Total SHE + Minority Int.	7,679	10,708	12,719	14,984	17,474
Total Liabilities & Equity	21,417	25,025	26,100	26,360	27,026

Source: TOWR, IndoPremier

TOWR Results Note

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
Cash Flow					
Net Income (Excl.Extraordinary&Min.Int)	2,965	2,670	2,873	3,236	3,557
Depr. & Amortization	0	0	0	0	0
Changes in Working Capital	55	132	21	79	75
Others	1,063	895	582	424	368
Cash Flow From Operating	4,082	3,696	3,476	3,738	4,000
Capital Expenditure	(3,244)	(3,547)	(1,162)	(1,385)	(1,442)
Others	12	56	57	44	24
Cash Flow From Investing	(3,231)	(3,491)	(1,105)	(1,341)	(1,418)
Loans	549	16	(977)	(2,155)	(1,966)
Equity	(2)	(12)	0	0	0
Dividends	0	(700)	(862)	(971)	(1,067)
Others	(407)	(649)	(618)	(478)	(359)
Cash Flow From Financing	140	(1,344)	(2,456)	(3,603)	(3,392)
Changes in Cash	990	(1,139)	(86)	(1,206)	(810)
Financial Ratios					
Gross Margin (%)	87.2	86.8	87.0	87.0	86.9
Operating Margin (%)	75.8	78.1	78.4	78.3	78.0
Pre-Tax Margin (%)	88.5	73.4	69.6	72.3	74.1
Net Margin (%)	66.3	52.8	52.2	54.2	55.5
ROA (%)	15.3	11.5	11.2	12.3	13.3
ROE (%)	47.8	29.0	24.5	23.4	21.9
ROIC (%)	18.8	14.3	13.9	15.1	16.3
Acct. Receivables TO (days)	42.6	29.7	24.4	24.4	24.5
Acct. Receivables - Other TO (days)	0.1	0.1	0.0	0.0	0.0
Inventory TO (days)	51.6	120.8	0.0	0.0	0.0
Payable TO (days)	219.8	110.8	93.7	84.8	81.6
Acct. Payables - Other TO (days)	19.1	11.3	11.2	11.0	11.3
Debt to Equity (%)	129.0	92.6	70.3	45.3	27.6
Interest Coverage Ratio (x)	0.2	0.2	0.1	0.1	0.1
Net Gearing (%)	90.1	65.5	48.4	34.5	22.9

Source: TOWR, IndoPremier

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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

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