

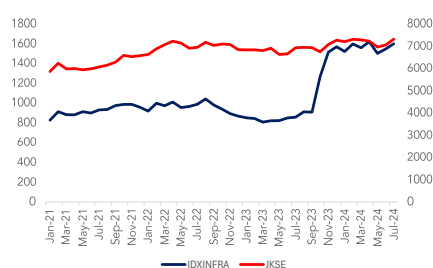


Overweight

Index (Jul, 18 th 2024)	1,601.43
Number of companies	67
Market Cap	2,157 T
52w Lo/Hi	840.15/1,660.03
Month to Date (MTD)	3.01%
Year to Date (YTD)	-1.35%

Source : IDX | Phintas Research
| as of Jul 18th, 2024

IHSG vs IDX Infrastructure



Source : IDX

Top 3 Market Cap in

Wireless

Tn IDR

Telecommunication Services

Dayamitra Telekomunikasi Tbk (MTEL)	58.48
Tower Bersama Infrastructure Tbk (TBIG)	45.08
Sarana Menara Nusantara Tbk (TOWR)	40.55

Source :IDX | as of Jul 18th, 2024

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Infrastructure : Telco Infrastructure

Tower Infrastructure is Evolving to Support Next-Generation Connectivity

Looking forward to the realization of interest rate cuts this year.

The tower sector is susceptible to interest rate movements as it has a relatively significant composition of interest-bearing debt. From the second semester of 2022 to date, the Fed and Bank Indonesia have raised interest rates to 5.50% and 6.25%, respectively, causing an increase in interest expense for most tower issuers, which began to occur in 2022 ([Figure 2](#)). In the future, there is an expectation of a rate cut by the Fed at the September 2024 FOMC. Quoting CMEFedWatchtool, economists' confidence that a cut will be implemented in September is 85.70%. If the Fed realizes it, it may be followed by Bank Indonesia. Thus, this is good news because it can reduce the company's burden.

TOWR benefited slightly more than MTEL.

High interest rate hikes by the Fed and Bank Indonesia led to higher interest expenses and pressured the company's profitability. MTEL was impacted by interest-bearing debt/total liabilities in FY23 at 78% (vs. 79% FY22). Meanwhile, TOWR faced a moderate increase in interest rates; despite the rise in interest rates, TOWR's interest-bearing debt/total liabilities stood at 51% in FY23 (vs 69% FY22). This year's expected interest rate cut will reduce interest expenses and widen the company's profit margin.

Indonesia's Digital Transformation Journey 2030.

The government has a vision to become the fifth-largest economy in the world by 2045. Several key development pillars have been set out in the [Indonesia 2030 Digital Economy Development Handbook](#) to achieve this target. One of the key pillars is infrastructure, which emphasizes the development and expansion of digital infrastructure. The improvement of the infrastructure pillar aims to improve the quality of telecommunication services for smooth internet access, especially in remote areas, and ensure the security and reliability of digital infrastructure ([Figure 6](#)).

Expansion to eastern Indonesia.

Telecommunications companies have been expanding into eastern Indonesia due to the large potential and low penetration compared to Java and Bali ([Figure 8](#)). Sulawesi and Papua have below-average contributions, opening up opportunities for the tower sector to develop infrastructure. Government support in developing backbone networks and towers is expected to improve access and connectivity in the 3T (Outermost, Frontier, and Farthest) regions. Statista estimates internet penetration will reach 88.45% with 267 million internet users by 2029F ([Figure 9](#)).

Fixed Mobile Convergence adoption drives high fixed internet usage.

The Indonesian Internet Service Providers Association (APJII) survey shows an increase in fixed internet usage from 25.66% to 27.40% by 2024 ([Figure 10](#)). The increase in fixed internet users is in line with the shift in telecommunication companies that have begun to adopt Fixed Mobile Convergence (FMC) technology. FMC technology offers a one-stop service that integrates cellular and WiFi networks. The main reason users choose a fixed internet operator is connection quality ([Figure 9](#)), so many tower companies are expanding to fiber segmentation because fiber networks have lower latency. We expect FMC adoption to continue to increase, driving more massive fiber demand and opening up new potential revenue segments for tower companies.

Tower Sector Overweight Recommendation.

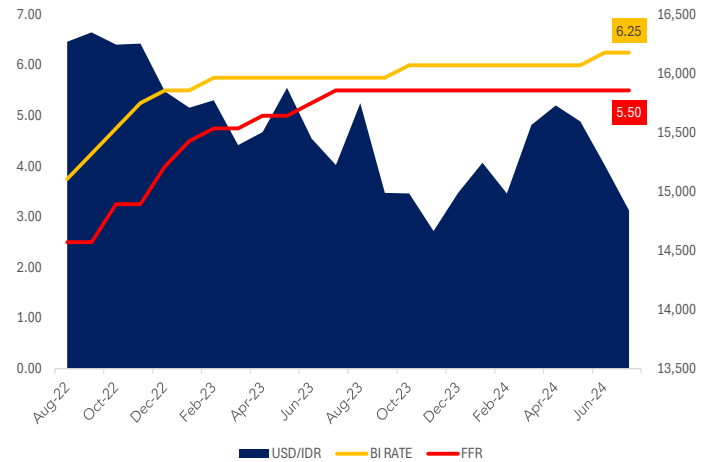
We recommend overweighting the tower sector due to continued demand growth, driven by the government's focus on infrastructure for Indonesia Emas 2045 ([Figure 7](#)). Our Top Picks are TOWR with a target price of IDR850, which reflects 2024 EV/EBITDA ([please see report](#)). In addition, we recommend BUY for MTEL with a target price of IDR720, reflecting 2024F EV/EBITDA ([please see report](#)). Upside risk : (1) continued growth in demand for towers and fiber networks, and (2) realization of interest rate cuts this year.

Sectoral Review and Economic Outlook

Awaiting the realization of interest rate cut by the FED in 2H24

The tower sector is one of the sectors that is very sensitive to interest rate movements, given that the capital structure of tower companies is still supported by debt rather than capital. Since 2H22, the Fed has aggressively raised interest rates to 5.50%, followed by Bank Indonesia, which raised interest rates to 6.25% (Figure 1). The high interest rate hike that has been sustained for an extended period has put a burden on companies. This is reflected in TOWR's financial condition, which has faced increasing interest expense costs since 2022 (Figure 2). In the future, there is an expectation that there will be an interest rate cut by the Fed this year, which Bank Indonesia may follow. We expect this to be a positive catalyst as it will reduce the company's expenses

Figure 1. The Fed, USD/IDR dan BI Rate

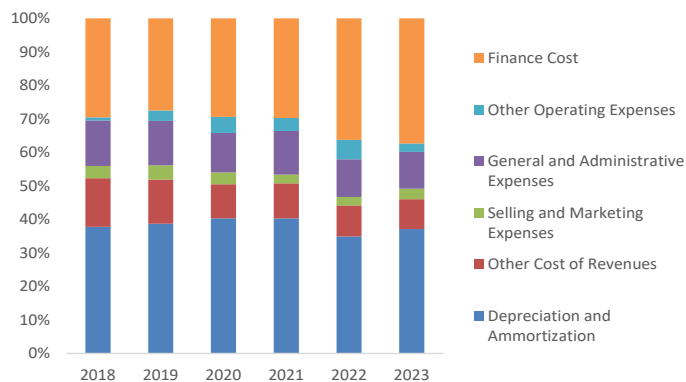


Source : TradingEconomics, Phintas Research

TOWR benefits slightly from MTEL.

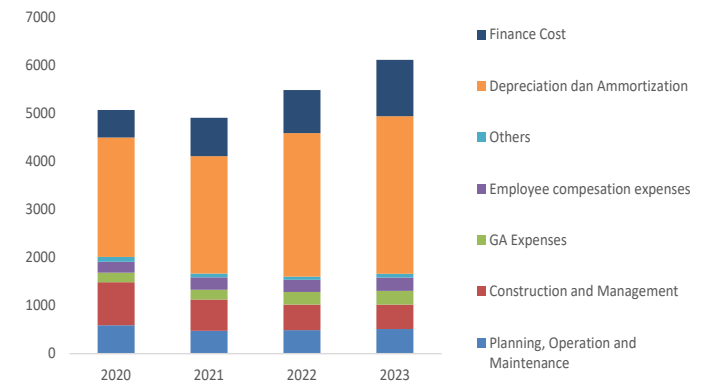
High interest rates have significantly led to ever-increasing interest expenses since the Fed aggressively raised interest rates, followed by Bank Indonesia. This has put pressure on tower sector companies as their profit margins narrow due to rising interest costs. One affected company is MTEL, with interest-bearing debt/total liabilities in FY23 of 78% (vs. 79% in FY22). TOWR is relatively moderate in dealing with rising interest rates; despite the increase in interest expenses, TOWR's interest-bearing debt/total liabilities stood at 51% in FY23 (vs 69% FY22). The expectation of interest rate cuts this year will lower the company's cost burden and thus widen its profit margin.

Figure 2. TOWR Debt Composition



Source : TOWR, Phintas Research

Figure 3. MTEL Debt Composition

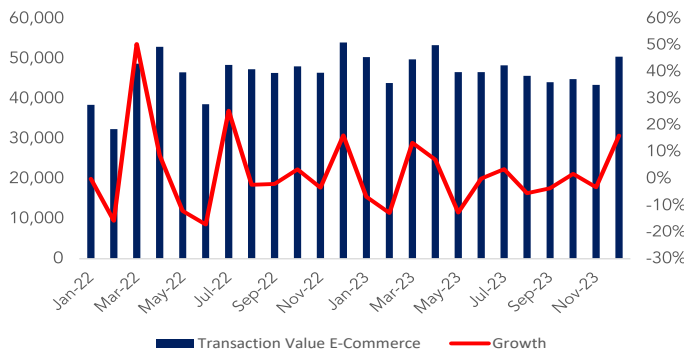


Source : MTEL, Phintas Research

The digital economy is expected to drive demand for towers.

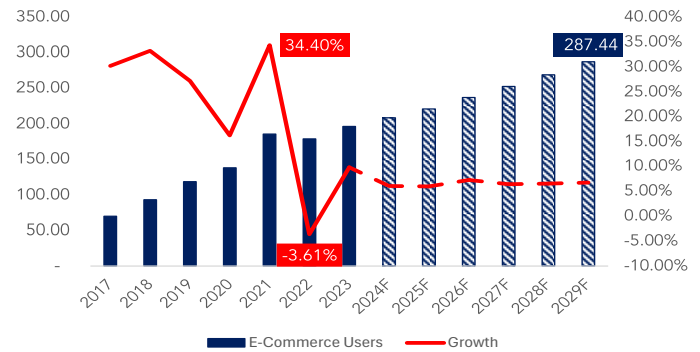
The digital economy in Indonesia has experienced rapid growth thanks to widespread internet penetration and changing consumer behavior towards digital platforms. This opens up enormous opportunities for sectors such as e-commerce, telecommunications service providers, and telecommunications infrastructure providers to continue to grow. Data shows that by 2022, Indonesia will have 150 million active e-commerce users, with a projected increase to 287 million users by 2029F (Figure 5). The value of e-commerce transactions from month to month has also increased, and the most significant spike is usually during Religious holidays. We believe that in the future, there is still room for demand for towers; this is due to the growing use of internet data and the digital economy as well as government support in conducting internet equalization, specifically in the 3T (Frontier, Outermost, and Farthest) areas (Figure 9).

Figure 4. E-Commerce Transaction Value in Indonesia



Source : Bank Indonesia, Phintas Research

Figure 5. Number of E-Commerce Users in Indonesia

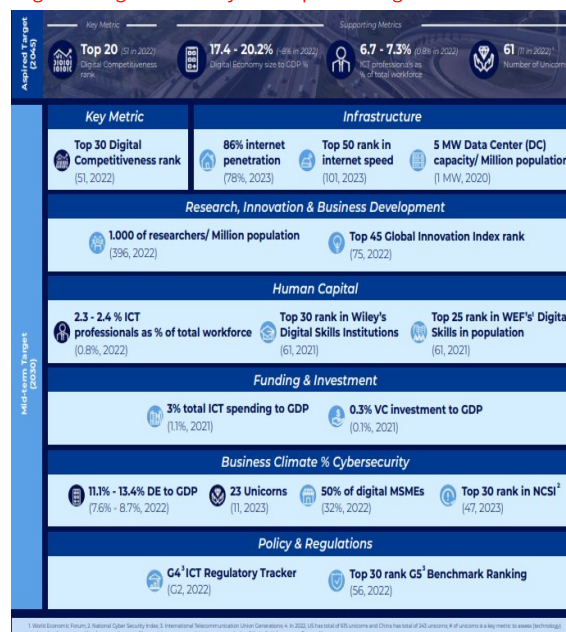


Source : Statista, Phintas Research

The infrastructure pillar is a crucial pillar in the development of Indonesia's digital economy.

The government has a vision to make Indonesia the world's 5th largest economy by 2045. To achieve this, the Indonesian economy must be above the average of 6%. So, several main pillars of development are set out in the Indonesian Digital Economy Development Handbook 2030. The Infrastructure pillar is one of the pillars emphasized, with the main achievement being the building and expansion of digital infrastructure (Figure 6). The purpose of improving the infrastructure pillar is to improve the quality of telecommunications services for smooth internet access, especially in remote areas, and to ensure the security and reliability of digital infrastructure (Figure 7).

Figure 6. Digital Economy Development Target 2030



Source : Kemenkominfo

Figure 7. Infrastructure Pillar Roadmap 2030

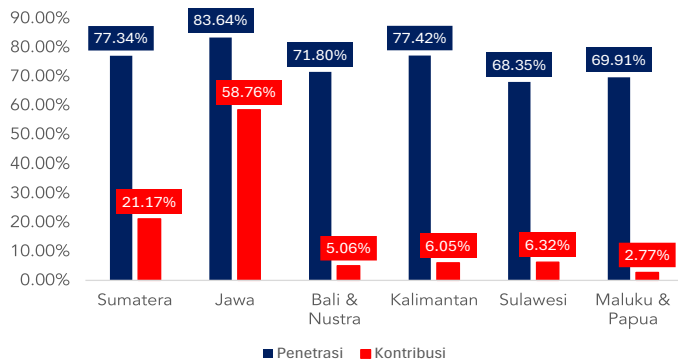
Imperative 1A: Building inclusive high-speed internet access through advanced		
Initiative 1.A.1: Increase fiber optic and 5G coverage in productive areas		
Description	Potential Impact	Target Time
I. Building 5G networks in <i>tier 1</i> and <i>tier 2</i> cities to expand 5G coverage II. Connecting households and businesses with FTTx (Fiber) coverage III. Connecting the entire Special Economic Zone (SEZ) with a <i>fibre</i> broadband network	Increase high-speed broadband internet coverage (>25 Mbps) across productive areas	<ul style="list-style-type: none"> 2025: 5G coverage in 15 <i>tier 1</i> cities and 20% <i>fixed broadband penetration</i> 2027: 5G coverage in 38 <i>tier 2</i> cities and 26% <i>fixed broadband penetration</i> 2030: 5G coverage in 76 <i>tier 2</i> cities and 34% fixed broadband penetration
Initiative 1.A.2: Connecting rural areas with high-speed internet		
Description	Potential Impact	Target Time
I. Build a 4G BTS tower covering all areas in the city in <i>tier 3</i> and <i>tier 4</i> II. Enabling satellite connectivity (including <i>low earth orbit</i> or LEO). To cover the 3T areas (Disadvantaged, Frontier and Outer-most)	Enable inclusive internet access in all regions in Indonesia by covering 100% of the population connected to the 4G network	<ul style="list-style-type: none"> 2025: 56% of villages with strong 4G signals 2027: 74% of villages with strong 4G signals. <i>Low Earth Orbit</i> (LEO) Satellite Launched 2027 : 100% of villages with strong 4G signals including through LEO satellites
Initiative 1.A.3: Provide additional radio frequency spectrum for broadband services to keep up with technological developments		
Description	Potential Impact	Target Time
Increasing the availability of adequate radio frequency spectrum for telecommunication network operators, by paying attention to technological developments.	Availability of radio frequency spectrum that is more suitable for the implementation of new wireless technologies	<ul style="list-style-type: none"> 2025: 3.5 MHz per million population. 2027: 6.0 MHz per million population. 2030: 9.0 MHz per million population.
Initiative 1.A.4: Establishing a Center of Excellence for Future Internet Technologies		
Description	Potential Impact	Target Time
Building a center of excellence Future Internet Technologies national (including small cell 5G, 5G Open RAN, 6G, 6G Open RAN, National Web3 platform) with Objectives to facilitate cooperation between various stakeholders Interests include government, industry, academia, NGOs, and others, in order to Innovating in the field of technology next generation.	Use <i>case</i> can show Benefits/Impact from having technology Connectivity advanced for business.	<ul style="list-style-type: none"> 2025: Developed a 5G Small Cells Pilot. 2027: Developed a 5G Open RAN pilot. 2030: Developed a 6G Open RAN Pilot.

Source : Kemenkominfo

Expansion in the eastern region of Indonesia

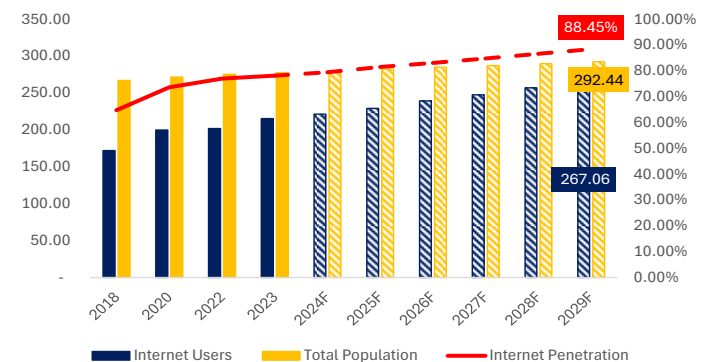
In recent years, telecommunications companies have been aggressively expanding into Eastern Indonesia. This is driven by low internet penetration compared to Java and Bali (Figure 8). Sulawesi and Papua provinces have contributions that are still below the average of other provinces, thus opening up opportunities for tower sector issuers to develop infrastructure and services in this region, with the support provided by the government in building backbone networks and towers to achieve the government's target of increasing access and connectivity in the 3T (Frontier, Outermost and Farthest) areas (Figure 7), but also encouraging the development of the digital economy. Statista estimates internet penetration will reach 88.45% with 267 million internet users by 2029F (Figure 9).

Figure 8. Map of Internet Penetration and Contribution in Indonesia



Source : APJII, Phintas Research

Figure 9. Internet Penetration in Indonesia

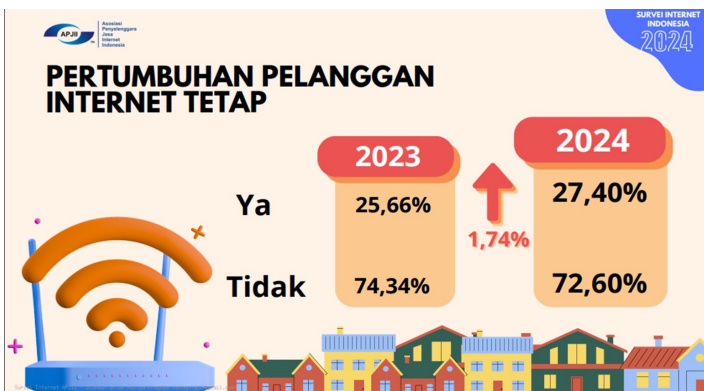


Source : APJII, Phintas Research

Fixed Mobile Convergence adoption drives high fixed internet usage.

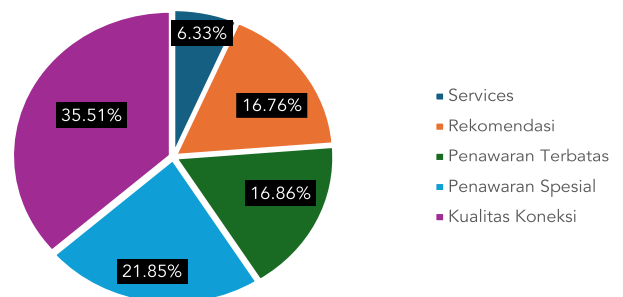
A survey conducted by the Association of Indonesian Internet Service Providers (APJII) shows an increase in fixed internet usage from 25.66% to 27.40% in 2024 (Figure 10); the increase in fixed internet users is in line with the shift in telecommunications companies that have begun to adopt Fixed Mobile Convergence (FMC) technology. FMC is a technology that integrates cellular and WiFi networks. FMC provides a one-stop service that combines convenience and efficiency. In the APJII survey, the main reason users choose a fixed internet operator is connection quality (Figure 11), so many tower companies are expanding to fiber networks because fiber networks offer lower latency. With the increasing adoption of FMC technology, the demand for fiber segmentation is expected to continue to increase. Tower companies, which previously relied on tower rentals, now have revenue potential in the fiber segment. Going forward, the increasing demand for fiber-based fixed internet services is expected to continue along with the increasing adoption of FMC technology and the need for high-quality internet connections.

Figure 10. APJII Survey on the Increase of Fixed Internet Subscribers



Source : APJII

Figure 11. APJII Survey on Reasons for Choosing Internet Users



Source : APJII, Phintas Research

Overweight Recommendation for Tower Sector

We recommend overweighting the tower sector as tower demand growth is expected to continue. This is driven by the government's attention to realizing Indonesia Emas 2045 by prioritizing the infrastructure pillar (Figure 7). We give Top Picks on TOWR, and our target price for TOWR is still the same as our previous Report, which is IDR850, suggesting an EV/EBITDA of 8.03x by 2024 (please see Report). In addition, we also recommend BUY for MTEL with a target price of IDR720, suggesting EV/EBITDA of 10.96x by 2024F (please see Report). Upside risks include (1) growing demand for towers and fiber networks and (2) realization of interest rate cut this year.

Profitability Ratios

Company	Revenue Growth (%)			EBITDA Margin (%)			Net Income Growth (%)		
	2022	2023	1Q24	2022	2023	1Q24	2022	2023	1Q24
BALI	3.35%	-2.36%	6.51%	49.56%	45.85%	45.99%	12.49%	-29.04%	-15.56%
MTEL	12.51%	11.20%	7.33%	79.47%	80.53%	83.46%	29.25%	12.62%	3.98%
TBIG	5.50%	1.79%	5.40%	86.25%	86.77%	86.00%	5.72%	-4.76%	5.40%
TOWR	27.78%	6.40%	6.35%	84.03%	82.77%	80.08%	0.40%	-5.50%	5.98%

Solvability Ratios

Company	DER (x)			Net Debt / EBITDA (x)			Interest Coverage Ratio (x)		
	2022	2023	1Q24	2022	2023	1Q24	2022	2023	1Q24
BALI	0.89	1.03	0.18	4.02	5.59	2.59	1.28	0.87	0.87
MTEL	0.26	0.44	0.35	1.5	2.2	1.7	3.51	3.1	3.57
TBIG	2.87	2.51	2.51	6.69	6.77	20.39	1.42	1.4	1.31
TOWR	3.91	3.12	3.01	4.89	4.55	4.3	2.85	2.43	3.8

Valuation Ratios

Company	PE (x)			PBV (x)			EV/EBITDA (x)		
	2022	2023	Current	2022	2023	Current	2022	2023	Current
BALI	15.68	21.57	24.12	1.29	1.67	1.16	8.36	11.06	9.39
MTEL	37.45	29.3	27.46	1.98	1.73	1.49	9.18	12.7	9.11
TBIG	30.91	27.35	32.22	4.63	3.45	3.76	14.44	13.34	8.54
TOWR	16.3	15.53	12.64	3.9	3.07	2.34	11.04	9.71	7.09

Operational Data

Company	Tenancy Ratio (x)			Menara (Units)			Fiber (km)		
	2022	2023	1Q24	2022	2023	1Q24	2022	2023	1Q24
BALI	0.77	0.78	N/A	2,649	2,686	N/A	7,323	7,733	N/A
MTEL	1.47	1.51	1.52	35,418	38,014	38,135	16,641	32,521	36,527
TBIG	1.87	1.84	1.85	21,758*	22,357*	22,955*	N/A	N/A	N/A
TOWR	1.81	1.78	1.74	29,794	30,558	31,049	149,811	182,256	186,571

*Include Fiber



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Rating for Sectors :

Overweight : The sector is expected to do better than the market.

Equal Weight : The sector is expected to do an average performance compared to the market.

Underweight : The sector is expected to do worse than the market.

PHINTRACO SEKURITAS

Kantor Cabang & Mitra GI BEI



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