

25 November 2024

Technology | Technology

Mastersystem Infotama (MSTI IJ)

Buy

Unlocking New Growth Opportunities; BUY

- **Initiating coverage with a BUY and IDR 2,000 TP, 28% upside and 9% yield.** Indonesia's information technology (IT) infrastructure revolution in the coming years will benefit IT solution companies like Mastersystem Infotama. Listed in Nov 2023, it was then included in the FTSE Global Index - Small Cap in June this year. The stock is currently trading at 7.2x 2025F P/E vs peers' 8.8x 2025F P/E despite delivering a high ROE (2024F: 29%) compared to peers (19%).
- **The implementation of Law No 27 of 2022 on Personal Data Protection (PDP Law) is expected to boost MSTI's prospects.** Following the enactment of the PDP Law on data privacy protection and the push for upgrading IT infrastructure, Indonesia's financial services sector is allocating a larger budget for IT spending. Bank Mandiri (BMRI IJ, BUY, TP: IDR8,100) has set a budget of IDR3trn (+20% YoY) to upgrade its digital infrastructure, while Bank Central Asia (BBCA IJ, BUY, TP: IDR12,060), allocated IDR8trn for IT innovation. This year, the collaboration with Lintasarta and Nvidia on the GPU Merdeka project becomes MSTI's new revenue stream which we believe will continue for years to come. We estimate MSTI's 2025 revenue to grow 12% YoY.
- **Adaptive security architecture and data centre (DC)/cloud infrastructure as key growth components.** MSTI maintained a strong burn rate of over 90% historically, with new contracts as of 9M24 growing 28% YoY to IDR 4.1trn. MSTI offers six IT solutions, of which DC services contributed 69% of total 9M24 revenue, while adaptive security architecture has 114% YoY revenue growth (16% to the total). Partnerships with prominent global IT companies like Cisco, HP, Symantec and recently Nvidia helped MSTI providing IT services in Indonesia. Its new partnership with Nvidia should propel MSTI's artificial intelligence (AI) development business, and we forecast 11% YoY revenue growth from the hardware and software segments in 2025.
- **2024F-2025F net income at +33% YoY and +13% YoY.** Utilising International Data Corporation's (IDC) forecast from 2024 to 2027, we expect Indonesia's IT spending at a CAGR of 6%. With a stable net margin of around 11%, net income could potentially grow to IDR597bn (+33% YoY) for 2024F and IDR676bn (13% YoY) in 2025F.
- **Attracting valuation.** At 7.1x 2025F P/E, MSTI's valuation is lower than the IT services sector average of 8.8x. We see a 24% upside potential from the current price to its TP of IDR1,900, which includes a 0% ESG premium/discount. MSTI has yet to calculate carbon emissions but is planning to use renewable energy going forward. We set an ESG score of 3.0 for now. This provides a 24% upside potential to our TP.
- **Key risks:** Prolonged ICT development timelines and project delays.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (IDRb)	3,510	4,201	5,062	5,655	6,343
Recurring net profit (IDRb)	399	448	597	676	762
Recurring net profit growth (%)	22.1	12.2	33.4	13.2	12.6
Recurring P/E (x)	12.27	10.94	8.20	7.24	6.43
P/B (x)	4.0	2.5	2.2	2.0	1.8
P/CF (x)	37.93	20.14	8.51	7.65	6.81
Dividend Yield (%)	3.4	7.1	6.4	8.5	9.6
EV/EBITDA (x)	7.74	6.38	4.77	4.09	3.46
Return on average equity (%)	35.6	28.1	28.6	28.7	28.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

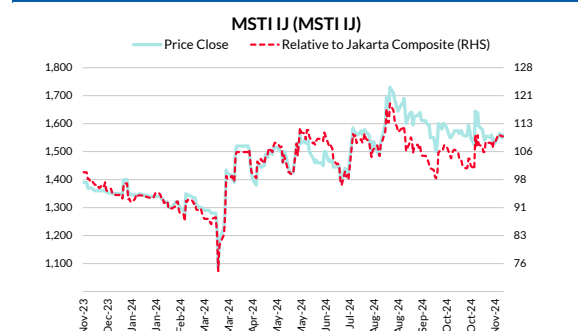
Target Price (Return):	IDR2,000 (+28%)
Price (Market Cap):	IDR1,560 (USD308m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (IDR/USD)	1,538m/0.10m

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.4	0.0	(5.8)	9.5	14.7
Relative	12.5	7.6	(1.9)	9.9	10.5
52-wk Price low/high (IDR)				1,085	1,730



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: GOOD

The company is committed to the aspects of safety and environmental sustainability on conducting its operational activities. MSTI consistently maintains compliance with applicable environmental laws and regulations.

S: GOOD

Multiple CSR activities are carried out by the company through a triple bottom line approach with these pillars: i) Improving the community's economy; ii) education; iii) social; iv) environment.

G: GOOD

To support the achievement of sustainable development through implementation of sustainability programmes planned by the company. MSTI actively provides competency development programmes for its sustainability governance organs.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

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Financial Exhibits

Asia	Financial summary (IDR)					
Indonesia		Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Technology						
Mastersystem Infotama						
MSTI IJ						
Buy						
Valuation basis						
Peer P/E						
Key drivers						
i. Increasing national awareness on cybersecurity and proper IT infrastructure, propels the solutions and consulting business segment;						
ii. Top Indonesia supplier for Cisco Systems and recently Nvidia, a leading AI developer.						
Key risks						
i. Longer-than-expected Indonesia ICT development;						
ii. Project delays.						
Company Profile						
Mastersystem Infotama was established in 1994 in Jakarta. The company has become an information and communications technology (ICT) infrastructure provider for various banking, oil and gas, and telecommunications industries. It provides data centre and cloud infrastructure, digital business management, big data and analytics, adaptive security architecture, among others.						
Valuation metrics						
Recurring P/E (x)		12.27	10.94	8.20	7.24	6.43
P/B (x)		4.0	2.5	2.2	2.0	1.8
FCF Yield (%)		1.3	4.3	10.5	11.5	12.9
Dividend Yield (%)		3.4	7.1	6.4	8.5	9.6
EV/EBITDA (x)		7.74	6.38	4.77	4.09	3.46
EV/EBIT (x)		8.46	7.03	5.18	4.44	3.77
Income statement (IDRb)						
Total turnover		3,510	4,201	5,062	5,655	6,343
Gross profit		772	872	1,068	1,193	1,336
EBITDA		589	641	815	917	1,037
Depreciation and amortisation		(50)	(59)	(65)	(74)	(85)
Operating profit		539	582	751	843	952
Net interest		(9)	(14)	9	13	14
Pre-tax profit		517	577	770	871	982
Taxation		(118)	(129)	(172)	(195)	(220)
Reported net profit		399	448	597	676	762
Recurring net profit		399	448	597	676	762
Cash flow (IDRb)						
Change in working capital		(297)	(292)	(87)	(110)	(128)
Cash flow from operations		129	243	575	640	719
Capex		(68)	(34)	(61)	(77)	(88)
Cash flow from investing activities		(31)	(21)	(61)	(77)	(88)
Dividends paid		(165)	(350)	(313)	(417)	(472)
Cash flow from financing activities		(310)	349	(445)	(452)	(465)
Cash at beginning of period		632	431	1,002	1,071	1,182
Net change in cash		(212)	572	69	111	166
Ending balance cash		431	1,002	1,071	1,182	1,348
Balance sheet (IDRb)						
Total cash and equivalents		431	1,002	1,071	1,182	1,348
Tangible fixed assets		198	181	178	181	183
Total investments		24	20	20	20	20
Total assets		2,332	3,083	3,378	3,698	4,107
Short-term debt		97	191	26	16	16
Total long-term debt		22	29	62	36	44
Total liabilities		1,095	1,138	1,148	1,209	1,328
Total equity		1,237	1,945	2,230	2,490	2,779
Total liabilities & equity		2,332	3,083	3,378	3,698	4,107
Key metrics						
Revenue growth (%)		12.7	19.7	20.5	11.7	12.2
Recurrent EPS growth (%)		22.1	12.2	33.4	13.2	12.6
Gross margin (%)		22.0	20.8	21.1	21.1	21.1
Operating EBITDA margin (%)		16.8	15.3	16.1	16.2	16.4
Net profit margin (%)		11.4	10.7	11.8	12.0	12.0
Dividend payout ratio (%)		41.3	78.2	52.3	61.7	62.0
Capex/sales (%)		1.9	0.8	1.2	1.4	1.4
Interest cover (x)		42.0	27.6	114.1	220.5	207.1

Source: Company data, RHB

Investment Thesis And Valuation

Valuation: Target 8.8x 2025F P/E – 12-month TP of IDR1,900

We initiate coverage with a BUY and TP of IDR 2,000, 28% upside. Our TP is based on the peer average 2025F P/E of 8.8x. MSTI's current valuation is hovering at 7.2x 2025F P/E. A combination of higher 2024F ROE (29% vs peers' 19%) and dividend yield (7% vs peers' 4%) should translate to a premium valuation for the company.

On its prospectus, the company stated that it intends to pay cash dividends at 70% of its net profit.

These indicators, along with promising prospects coming from its new partnership with Nvidia and implementation of the data protection regulation, should provide an attractive return on investment.

We set an ESG score 3.0 for now, as MSTI has yet to report greenhouse gas (GHG) emissions. The company produces emissions from the use of electricity and fuel oil (solar fuel) in daily activity, but has plans to invest in renewable energy. To preserve the environment, it implements recycling programmes (reduce, reuse & recycle).

Figure 1: Valuation

Valuation P/E	Unit	Value
Target 2025F P/E	x	8.8
EPS 2025F	IDR	215.5
Intrinsic valuation	IDR	1,901
ESG Premium/(discount)		0%
TP	IDR	2,000
Current price	IDR	1,560
Upside/(downside)		28.2%

Source: Company data, Bloomberg, RHB

Figure 2: Peer comparison

Name	BBG ticker	Mkt cap (USDm)	EV/EBITDA 2024F (x)	EV/EBITDA 2025F (x)	P/E 2024F (x)	P/E 2025F (x)	Dividend Yield (%)	ROE (x)
Mastersystem Infotama	MSTI IJ	322.2	5.9	5.2	8.0	7.2	6.5	28.6
SNS Network Technology	SNS MK	246.8	10.4	7.9	14.7	10.8	1.4	11.2
Infraset	INSET TB	59.7	14.6	12.3	19.8	14.3	1.5	6.1
CSE Global	CSE SP	233.7	8.7	6.5	13.6	9.3	6.3	11.5
Metrodata Electronics	MTDL IJ	494.2	na	na	na	na	3.3	19.2
Datamatics Global Services	DATA IN	443.0	13.1	10.7	17.9	14.9	1.0	15.9
Datasonic Group	DSO MK	309.8	8.5	8.8	13.3	12.9	6.8	28.1
Weighted average			7.5	6.3	10.7	8.8	3.9	19.1

Source: Company data, Bloomberg, RHB

Figure 3: RHB vs Street estimates

Income Statement (IDRbn)	RHB			Consensus			RHB/Cons (%)		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Net revenue	5,062	5,655	6,343	4,897	5,488	6,036	3.4	3.0	5.1
Gross profit	1,068	1,193	1,336	1,003	1,139	1,248	6.5	4.7	7.0
EBIT	751	843	952	678	769	827	10.7	9.6	15.1
Net income	597	676	762	515	583	626	16.1	16.0	21.7

Source: Company data, Bloomberg, RHB

Figure 4: Price movement and daily transactions (IDRm)



Source: Bloomberg, RHB

- ◆ MSTI's share price has appreciated 9.3% on a YTD basis. Despite MSTI having an adjusted beta of 0.46 (based on Bloomberg, since the IPO), its share price has declined in tandem with the JCI.
- ◆ Average daily transactions have been around IDR2.8bn since the IPO. The inclusion of MSTI in the FTSE Global Equity Index - Small Cap since May 2024 should provide more liquidity going forward.

Prominent suppliers backing up MSTI's IT services business. Currently, MSTI is the main partner for several principal partners such as Cisco (with a gold partner status), Hewlett Packard Enterprise (with a platinum partner status), and F5 Inc (with a Unity+ platinum partner status – the company is the first F5 Unity+ Platinum Partner in the ASEAN region). The solid relationship with principal partners has benefited it through: i) The commercial aspect such as more competitive prices, and ii) marketing support through activities conducted jointly with principal partners to provide technology updates and IT solution ideas for customers. In addition, the close relationship with suppliers provides it with a competitive edge against competitors, especially during the rapid IT development in Indonesia.

Recently MSTI has become an authorised partner of Nvidia in delivering the latest AI technology. As a partner, MSTI is ready to help clients utilise the power of AI from Nvidia, with solutions that include hardware and software for various industry sectors, enabling the optimal and innovative implementation of AI, especially in the healthcare, automotive, financial services and education and research sectors.

The second largest revenue among IT services in 9M24. According to Euromonitor, MSTI is the third largest company in the IT solutions services sector in Indonesia by revenue as of 2022. Of the listed companies, we identify Metrodata Electronics (MTDL IJ, NR), Multipolar Technology (MLPT IJ, NR) and Anabatic Technology (ATIC IJ, NR) as MSTI's peers. Comparatively, MSTI's 9M24 revenue of IDR3.5trn is the second largest after MTDL's at IDR4.1trn but ahead of MLPT's at IDR2.5trn, while ATIC has yet to published its 9M24 results. However, in terms of net margin, MSTI is superior at c.11% compared to MTDL and MLPT, both at 9%, and MLPT at 6%.

Long-term relationship with customers. As a pioneer of IT solutions, especially for big data and analytics for commercial banks based on business activities (BUKU) III and BUKU IV banks, we learnt that MSTI has a long-standing relationship with many companies in various sectors. This includes an over 20-year relationship with Bank CIMB Niaga (BNGA IJ, BUY, TP: IDR2,300), BBCA, BMRI, and Bank Indonesia (BI). In the telecommunications and oil and gas sectors, MSTI has served Telekom Indonesia (TLKM IJ, BUY, TP: IDR4,780) and Pertamina for more than 15 years. As such, we believe this provides business sustainability and greater prospects to increase its client base going forward, and further adding to the fact that companies are now required by law to enhance their IT infrastructure and ensure data protection.

Digitalisation trend to propel IT spending, estimated at 6% pa. According to Euromonitor, Indonesia's IT solutions market will experience strong growth between 2023 and 2027 at a CAGR of 18.0%, meanwhile, IDC estimates that Indonesia's IT spending will grow at 6% pa through to 2027, with IT services and software leading the growth at 13% pa and 12% pa, supported by the healthy development of the digital economy and digitalisation trend of Indonesian enterprises.

Business Overview

Mastersystem Infotama, a company in the technology sector focusing on providing system integration services, was established on 1 Jul 1994. As of 2023, the company is one of the leading ICT solutions providers and ranks as the third largest IT company in Indonesia by revenue, capturing a 6.9% market share with over 29 years of operational experience. On 8 Nov 2023, the company was listed on the Indonesian Stock Exchange.

The company follows the PDIO business model for its digital solutions services, which consists of four stages: planning, design, implementation, and optimisation. In the planning phase, the company meets with clients to understand their needs. In the design phase, solutions are crafted based on client requirements, mapping out strategies to help clients scale their businesses effectively. During the implementation phase, the focus is on hardware and software procurement, installation, system integration, and migration. This is followed by the optimisation phase, which includes after-sales service, maintenance, and system upgrades to ensure a continuous and effective performance.

Additionally, the company's business model includes system integration, service & maintenance, and managed services, providing clients with innovative ICT infrastructure solutions, comprehensive after-sales support, and subscription-based services on a monthly or periodic basis. This approach aims to ensure long-term efficiency and increase recurring revenue streams, supporting its future topline growth.

Figure 5: Business model



Source: Company data

MSTI offers a range of business solutions designed to address various ICT requirements, deliver innovative solutions, meet customer needs, and align with the strategic objectives of its clients. The company ensures its ability to provide tailored cloud infrastructure solutions and services in Indonesia by partnering with major cloud platforms such as Google Cloud Platform (GCP), Teradata, and Amazon Web Services (AWS), as well as leading ICT companies like Cloudera, VMware, and Cisco.

The company's business model operates through four stages ie PDIO. This structured approach allows it to deliver services to select clients across diverse industries, including financial services, telecommunications, oil & gas, consumer-related sectors, and more. Through these partnerships, MSTI provides its clients with creative, scalable, and innovative ICT solutions that help them achieve their growth and operational excellence goals.

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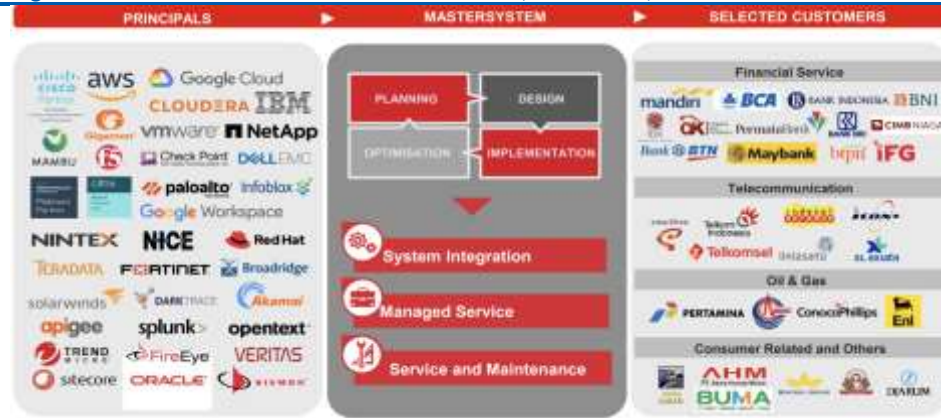
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Figure 6: List of customers



Source: Company data

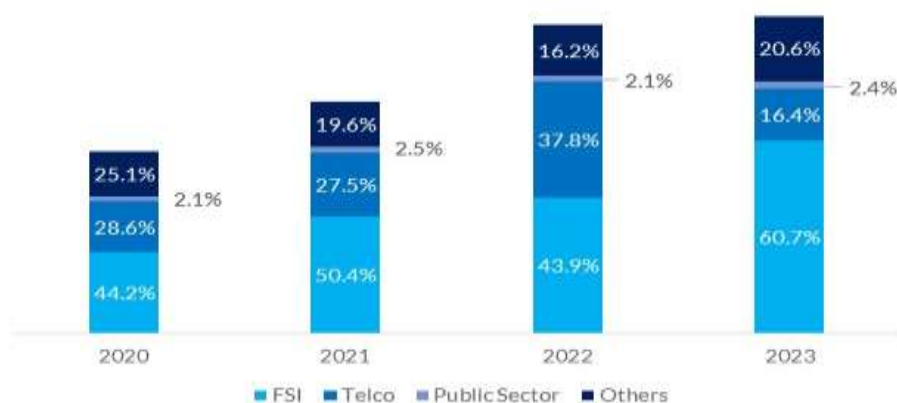
Figure 7: Revenue contribution based on sector (2020-2023)



Source: Company data

Since its establishment, MSTI has consistently expanded its customer base across various industries, including financial services, telecommunications, and others. The company has become a leading provider to top companies within each sector. In the financial services industry, the company serves approximately 80% of Indonesia's largest banks, including BMRI, BCCA, and Bank Negara Indonesia (BBNI IJ, BUY, TP: IDR6,710) among others. This sector accounted for the largest share of the company's FY23 revenue, contributing approximately 55%, followed by the telecommunications industry of around 25%, while the other sectors accounted for c.20%.

Figure 8: Revenue contribution based on sector (2020-2023)



Source: Company data, RHB

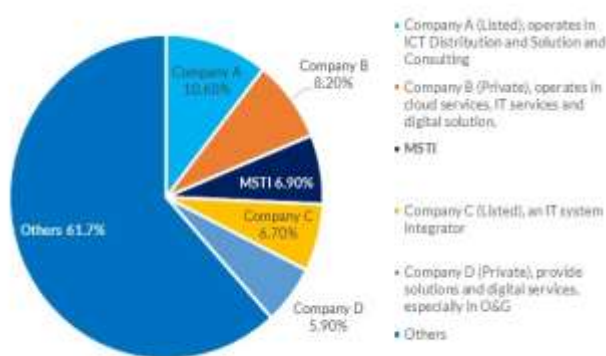
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In 2024, MSTI further expanded its customer base by collaborating with Lintasarta, a subsidiary of Indosat Ooredoo Hutchison (ISAT IJ, NEUTRAL, TP: IDR12,500), on an artificial intelligence-data centre (AI-DC) project, making the telecommunications sector MSTI's largest revenue contributor as of 9M24. However, during the earnings call, MSTI emphasised that the financial services and oil & gas sectors remain a key revenue driver for the company, which is expected to be reflected in the 4Q24 earnings.

In terms of market share, based on its prospectus, MSTI is positioned as the third largest IT services company in Indonesia, with a 6.9% market share as of 2023. However, in terms of products, MSTI is Indonesia's largest Cisco distributor, with a significant margin over the second-place distributor, according to channel checks. MSTI has consecutively won Cisco ASEAN Partner of the Year from 2020 to 2023 (four years in a row). Additionally, it was also awarded The Best Private Vendor by State-Owned Enterprises in 2022. We believe these awards and accolades reflect MSTI's strong work ethics, providing the best service to its clients.

Figure 9: Indonesia's IT service company market share



Source: Company data, RHB

Figure 10: Awards and accolades



Source: Company data, RHB

MSTI offers four IT products: MSInsight, MSXperience, MS-CDX, and MSSO.

- MSInsight.** An agile mobile app that provides real-time visibility, automation, and remediation while simultaneously increasing productivity and reducing risks;
- MSXperience:** This product helps customers measure the efficiency of their investment in collaboration systems, accelerates technology adoption, and provides enhanced experiences and value through a consolidated platform;
- MS-CDX:** It provides customer experience-oriented dashboards, a click-to-call feature, proactive suggestions on relevant topics, and sentiment analytics to evaluate customer interactions both on contact centre systems and social media platforms;
- MSSO:** The Mastersystem Sustainability Optimisation (MSSO) application improves service providers' sustainability in network operations by continuously monitoring network equipment utilisation, including power consumption, heat generation, port usage, and CPU & memory usage, while consistently optimising the equipment.

In terms of IT services, MSTI offers a wide range of services, including DC and cloud infrastructure, enterprise collaboration, digital business management, big data & analytics, adaptive security architecture, and telecom network solutions.

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Figure 11: IT products



Source: Company data

Figure 12: Range of services

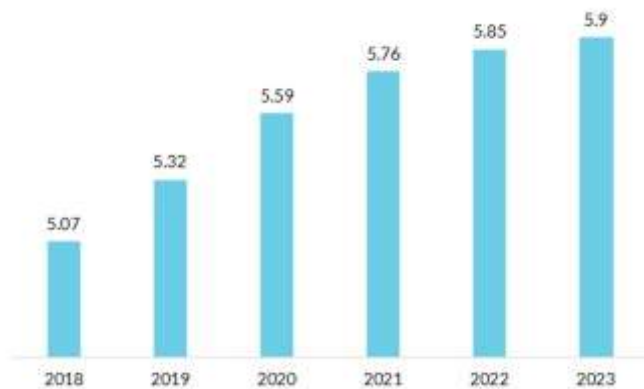


Source: Company data, RHB

Riding on the rising ICT development in Indonesia

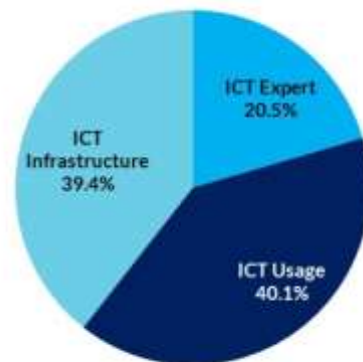
The ICT Development Index measures the standard of ICT development within a territory or region by evaluating its infrastructure, accessibility, and skills in adopting technology. Indonesia's ICT Development Index has shown a consistent upward trend since 2018, rising from 5.07 to 5.90 in 2023 on a scale of 10. This increase reflects Indonesia's growing adaptation to ICT advancements across various sectors, indicating the country's readiness for further digital transformation and growth.

Figure 13: Indonesia's ICT Development Index



Source: Statistics Indonesia (BPS), RHB

Figure 14: ICT sub-index

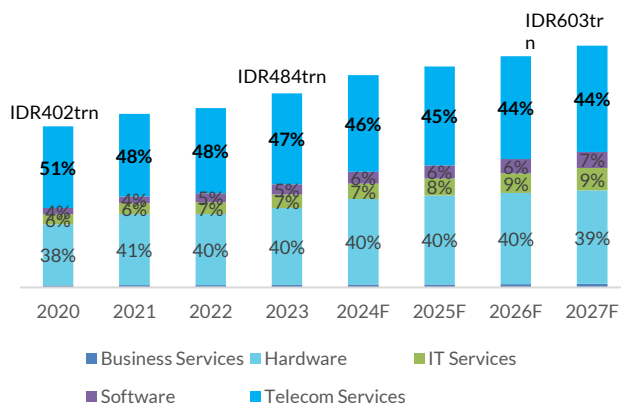


Source: BPS, RHB

Increasing ICT development directly translates to higher IT spending in Indonesia, which propels MSTI's revenue forecast. On average, Indonesia's IT spending grew at a 6% CAGR between 2020 and 2023, rising from IDR402trn in 2020 to IDR484trn in 2023. Software spending experienced the most accelerated growth, with an average CAGR of 18% per year during the same period, reaching IDR25trn in 2023. However, software spending only contributed 5% to total Indonesia IT spending.

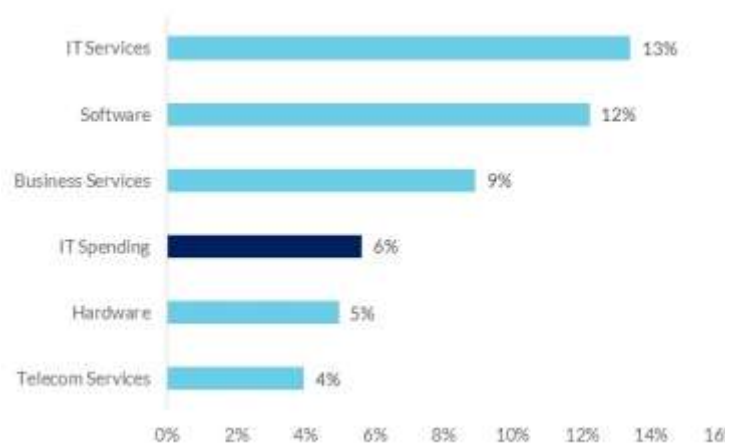
In 2023, the largest portion of IT spending went to the telecommunications sector, accounting for 47%, followed by hardware at 40%, IT services at 7%, and business services at 1%. IDC estimates that Indonesia's IT spending will grow at 6% pa through to 2027, with IT services and software leading the growth at 13% pa and 12% pa.

Figure 15: Indonesia's IT spending



Source: IDC, RHB

Figure 16: IT spending CAGR (2024F-2027F)



Source: IDC, RHB

The captivating growth of IT spending on hardware and software is reflected in MSTI's revenue generation from services. During the 2021-2023 period, DC and cloud infrastructure was MSTI's largest revenue contributor, accounting for about 62% of total revenue. Interestingly, with numerous cases of data leaks and the government enacting the PDP Law, which shares similarities with the EU's General Data Protection Regulation (GDPR), companies face a 2% penalty on annual revenue if non-compliant, effective 17 Oct 2024.

Meanwhile, MSTI's revenue from cybersecurity and adaptive security architecture surged 133% YoY in 2023, contributing 16% to total revenue. The regulation, enforced on 17 Oct, requires companies operating in Indonesia to localise data and secure the personal data and information of Indonesian citizens.

Figure 17: EU's General Data Protection Regulation vs Indonesia's PDP Law

Description	GDPR	PDP Law	Notes
Scope	EU residents globally	Indonesia residents	GDPR applies for wider applicability, covering any organisation targeting EU residents. Indonesia's version focuses on Indonesian citizens' data
Legal Basis	<ol style="list-style-type: none"> Consent Contractual necessity Legal obligation Vital interests Public interest Legitimate interest 	Primarily consent-based such as, age, health record, personal account, nationality, religion, etc	GDPR offers broader lawful bases for processing, while Indonesia focuses on private information of an individual
Breach Notification	72 hours to authority	72 hours to authority and subjects	Both laws require notification to law enforcement within 72 hours.
Penalties	Up to EUR20m or 4% of annual revenue	Possible 2% of annual revenue, administrative sanction, up to 6 years imprisonment	GDPR's fines are higher and have been actively enforced. Indonesia's law just came into force on 17 Oct 2024
Cross-Border Transfers	Requires personal data transferred outside the EU has adequate level of protection	Imposes data localisation requirements for certain types of data and requiring it to be stored in Indonesia	GDPR focuses on adequate protection through law enforcement, while Indonesia's law focuses on data localisation requirements, especially on sensitive data.
Enforcement Authority	Independent Data Protection Authorities (DPA) on each EU member and coordinated by the European Data Protection Board (EDPB) across the EU	Enforced by Ministry of Communications and Informatics, but going forward, Indonesia Government will establish a new Data Protection Supervisory Authority	GDPR has a more well-established law enforcement, equipped with independent authorities, while Indonesia's supervisory and authorities are still being established

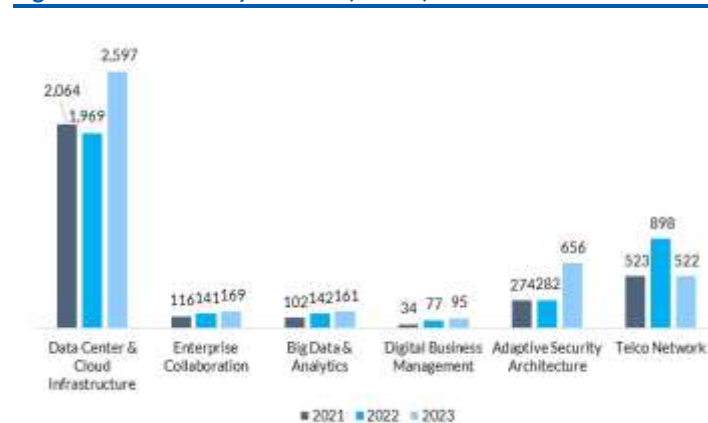
Source: Ministry of Communication and Digital, RHB

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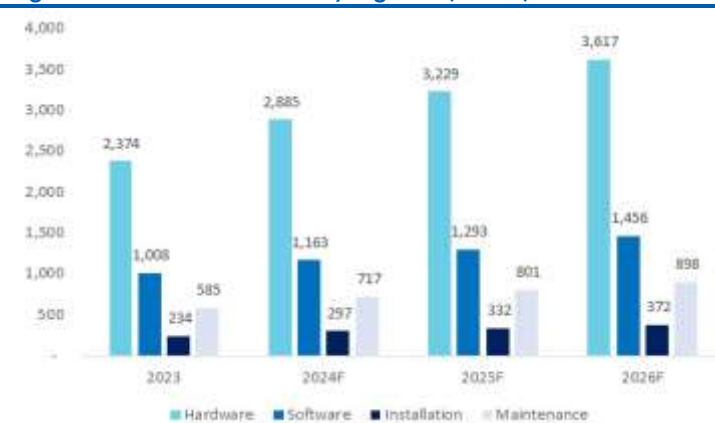
Management guided that DC and cloud infrastructure are categorised under the hardware segment, while adaptive security architecture falls under the software segment. Based on our analysis, particularly MSTI's JV with Lintasarta and Nvidia to develop an AI-DC worth USD200m, the company's hardware segment is expected to grow at 13% pa, reaching IDR3.4trn by 2026F. Meanwhile, the software segment, which includes cybersecurity and AI, could grow at 15% pa, reaching IDR1.5trn by 2026F.

Figure 18: Revenue by services (IDRbn)



Source: Company data, RHB

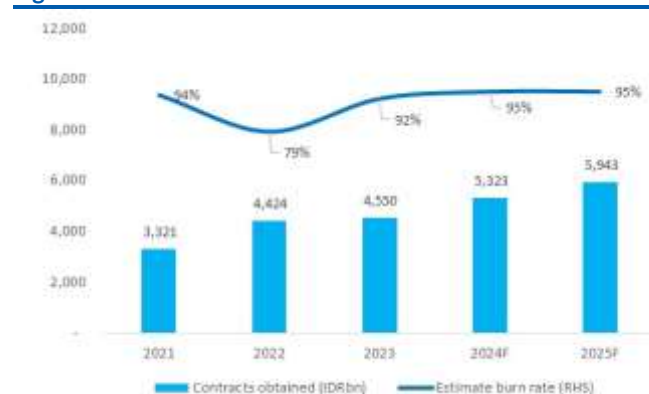
Figure 19: Revenue estimate by segment (IDRbn)



Source: Company data, RHB

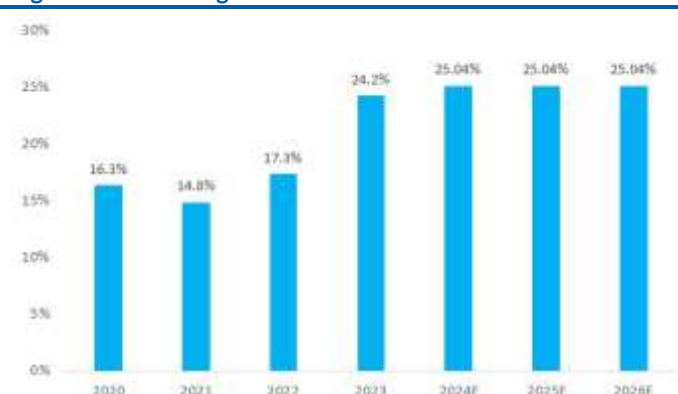
MSTI's new contracts have grown at a rate of 17% pa between 2021 and 2023, and this trend has continued into 2024, with 9M24 new contracts up 28% YoY to IDR4.1trn. The high burn rate, above 90%, reflects MSTI's commitment to delivering on schedule, as per client expectations. We estimate new contracts to grow by 17% YoY in 2024F and 12% in 2025F, driven by new clients, including SMEs and the public sector. Recurring revenue from new installations and equipment maintenance has been escalating over the past three years, particularly with new regulations on data privacy and IT equipment. Recurring revenue was only 15% of total revenue in 2021 but increased to 25% in 2023.

Figure 20: New contracts and estimated burn rate



Source: Company data, RHB

Figure 21: Recurring revenue to total revenue



Source: Company data, RHB

In 2023, MSTI's topline reached IDR4.2trn (+19.7% YoY), reflecting strong growth over the past four years (2020 to 2023). Historically, the company generates a higher proportion of its revenue in 3Q-4Q. On average, 1H accounted for about 35% of annual revenue over the past four years. This seasonality occurs because most of MSTI's revenue recognition from contracts is booked in 2H, while 1H is typically spent on implementation and/or contract tender preparation. This scheduling strategy is designed to align with client's timelines and project schedules, optimising resource usage and operational efficiency. The trend is likely to continue, as evidenced by its 3Q24 revenue, which was 32% of our full-year revenue estimate (compared to 21% in 3Q23). Worth noting, most of 3Q24 revenue came from Lintasarta.

Figure 22: Revenue seasonality

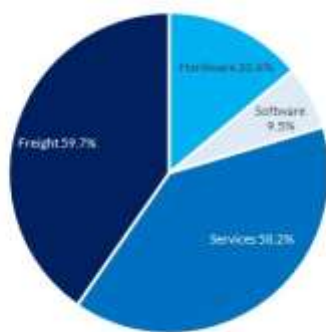


Source: Company data, RHB

MSTI's cost of sales has consistently increased over the past years at a CAGR of 7.6% from 2019 to 2023. The primary contributors to this increase were hardware, which accounted for around 57% of the total cost of sales, and software at 27.4%. Among the segments, the hardware segment had a gross margin of 20.6%, amounting to IDR490bn in 2023, and contributed 46% of total gross profit for the year. Operating expenses were 6-7% of total revenue between 2020 and 2023. Therefore, we estimate MSTI's EBIT could potentially grow 29% YoY in 2024, driven by new revenue streams from Nvidia and Lintasarta, before normalising to 12% YoY in 2025F.

On bottomline, with MSTI utilising IPO funds for debt repayment, interest expenses dropped significantly while interest income rose exponentially. In 9M24, MSTI booked net interest income of IDR7bn (compared to net interest expense of IDR10bn in 9M23), allowing net income to soar 63% YoY to IDR312bn. We forecast this trend to continue and estimate net income growth of 33% YoY in 2024 and 13% YoY in 2025.

Figure 23: Gross margin per segment (2023)



Source: Company data, RHB

Figure 24: Profitability (IDRbn) and margin



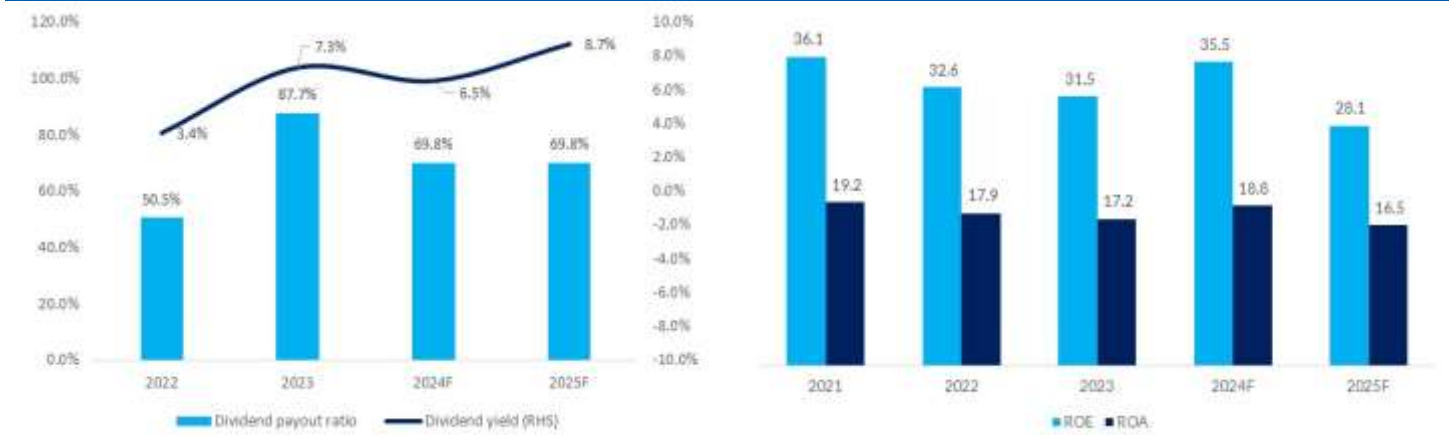
Source: Company data, RHB

MSTI has posted a ROE of above 25% over the past three years. Typically, a high-performing company is measured by its ability to generate a ROE within 15-20%, so MSTI's performance is considered strong. In 2023, the company's ROE slightly declined to 28.1% (-20.8% YoY). This reduction was primarily due to MSTI's aggressive expansion and strategic initiatives to acquire new customers.

Despite this decline, MSTI's ROE remains robust, demonstrating its ability to generate strong returns and sustain investor confidence through its growth and diversification strategies. Going forward, we believe MSTI will be able to maintain a high ROE and return on assets (ROA).

Figure 25: Dividend payout and dividend yield

Figure 26: ROE and ROA



Source: Company data, RHB

We expect MSTI to continue distributing 70% of its net income as dividend in 2024F-2025F. Therefore, we estimate DPS in 2024F to be IDR133, resulting in a dividend yield of 9%. For 2025F, DPS could grow to IDR151, or a 10% yield.

As MSTI operates on a project-based model, we believe that a substantial dividend payout will not harm the company's financial strength or its ability to generate earnings in the subsequent years. A strong cash position and retained earnings will support MSTI's operations moving forward. In 2024-2025, we forecast book value per share (BVPS) to be IDR711 and IDR793, while cash per share is expected to remain steady at IDR190-216.

High Inventory Level Due To Seasonality

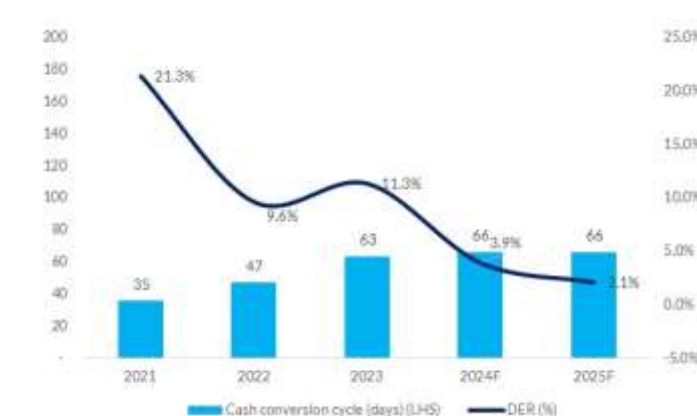
We believe MSTI's robust balance sheet and well-managed working capital should help the company generate earnings growth going forward. Currently, MSTI's key revenue driver is its project-based business, which occasionally results in high inventory levels and accounts receivable (AR) at the financial statement cut-off. In 2023, AR days stood at 73 days, with inventory and payable days at 66 and 75 days.

In 9M24, inventory days once again reached a high of 91 days, but AR days were slightly lower at 71 days. Management guided that this increase in days was due to a higher number of clients and projects, which require preparation and a transition process. As of 9M24, Lintasarta owed MSTI the most, representing 49% of total AR. Management assured that inventory days are unlikely to remain at this level next year, as MSTI does not hold stock unless they are for spare parts.

We use a 2-year average of inventory days to forecast 2024 and 2025. To be conservative, we maintain the cash conversion cycle at 66 days in the forecasted years, pricing in the expected influx of new customers following the implementation of the PDP Law.

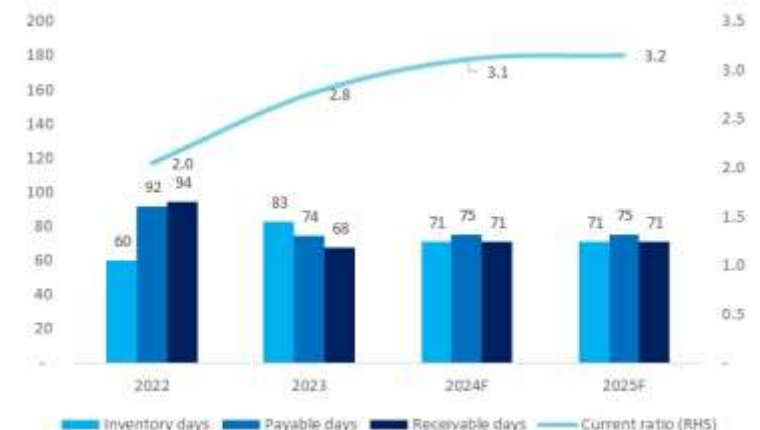
The low debt-to-equity ratio post-debt repayment using IPO funds provides MSTI the flexibility should it require a working capital loan in the future. The current ratio will likely stay above 1 moving forward.

Figure 27: Cash conversion cycle and D/E ratio



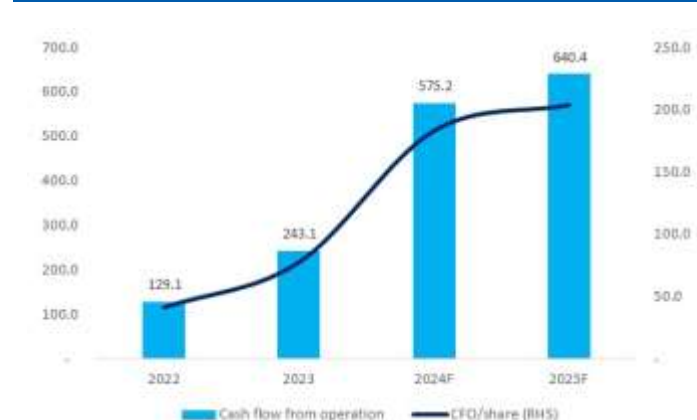
Source: Company data, RHB

Figure 28: Working capital days and current ratio



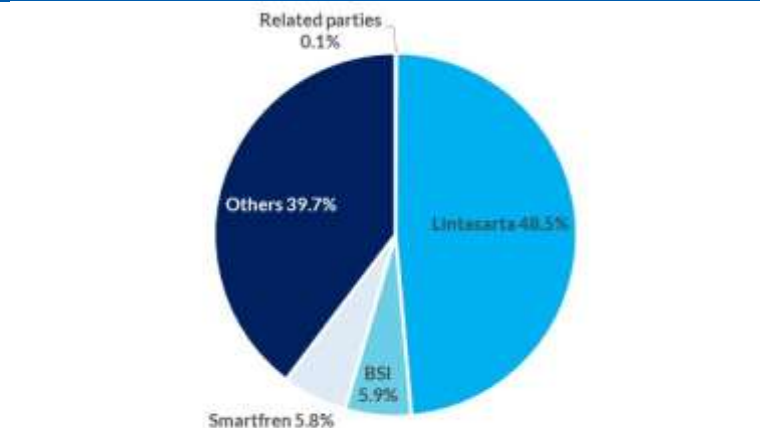
Source: Company data, RHB

Figure 29: Cash flow from operation and CFO/share



Source: Company data, RHB

Figure 30: 9M24 AR details



Source: Company data, RHB

9M24 financial performance: Significant net profit growth for MSTI

MSTI reported a 63% YoY surge in 9M24 earnings to IDR 312bn. 9M24 net income was 61% of the consensus estimates. However, historically, 2H contributes more than 60% of the full-year's total. 9M24 earnings were primarily driven by the following factors:

- A substantial increase in revenue, which jumped 52% YoY to IDR3.5trn;
- Other income of IDR29bn (+744% YoY);
- Deleveraging efforts that led to net interest income of IDR7bn in 9M24, compared to a net interest expense of IDR10bn in 9M23.

It is worth noting that, during the period, about 17% of MSTI's revenue came from Lintasarta. It is safe to assume that MSTI is currently working with Lintasarta on the graphic processing unit (GPU) Merdeka. The GPU-as-a-service will later be used for AI infrastructure in Indonesia. 9M24 revenue rose 51.65% YoY to IDR3.46trn, driven by strong growth in DC and cloud infrastructure, as well as adaptive security architecture. Hardware and software sales increased 57% YoY to IDR 2.82trn, while services grew 31% YoY to IDR 635bn.

For 3Q24, MSTI reported a net profit of IDR150bn, soaring 157% QoQ, in line with its seasonality trend, which typically performs better in 2H. Revenue rose 119% QoQ, and EBIT jumped 165% QoQ. Net margin remained steady at 8% in 3Q24.

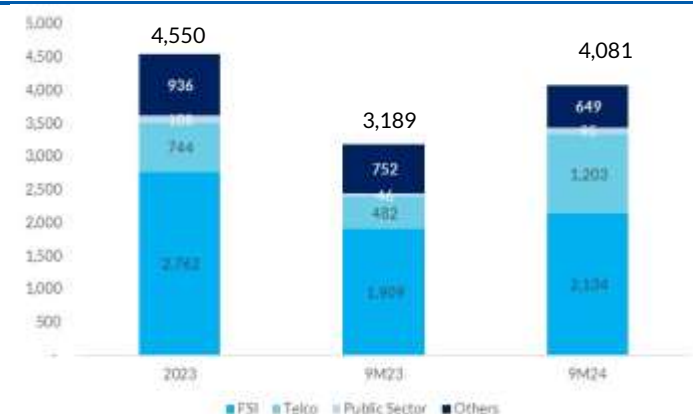
Figure 31: 9M24 actual vs consensus

IDRbn	3Q23	2Q24	3Q24	QoQ	YoY	9M23	9M24	YoY	9M24/Cons.
Revenue	878	733	1,606	119.1%	82.9%	2,281	3,459	51.7%	70.6%
Gross profit	184	140	254	81.6%	37.8%	452	606	34.2%	
margin	21%	19%	16%			20%	18%		
EBIT	118	67	176	164.8%	49.8%	249	369	48.0%	54.3%
margin	13%	9%	11%			11%	11%		
Net profit	83	58	150	156.9%	80.8%	192	312	62.8%	60.6%
margin	9%	8%	9%			8%	9%		

Source: Company data, Bloomberg, RHB

9M24 contracts obtained increased by 27.9% YoY to IDR4.1trn, driven by a significant rise in telecommunications contracts, which grew 150% YoY to IDR1.20trn, primarily from the Nvidia infrastructure project. The company has recognised 90% of the total IDR530bn project value, with the remaining amount expected to be booked in 4Q24. It also has a backlog of contracts worth IDR2.4trn, which will be realised in 4Q24.

Management guided for 4Q revenue to contribute 45% of FY24 revenue. This expectation is further supported by the contract backlog, which will be realised in 4Q and is worth around IDR800bn. Should this be realised, we should see 4Q24 revenue surge 49% QoQ.

Figure 32: Value of contracts obtained 9M24 (IDRbn)**Figure 33: GPU Merdeka**

Source: Company data, RHB



Source: Company data, RHB

Key Risks

Retaining competent human capital. Management and key employees play an important role in the company's operations, and in maintaining a relationship with customers to explore opportunities for upselling and cross-selling. The company also relies on its competent and certified employees in obtaining support from principal partners and acquiring work contracts from customers – as such, employee competence is highly regarded in the procurement process.

Dependency on IT development and innovation in Indonesia, especially in the telecommunications and financial services sectors. A slowdown or stagnation in IT services spending by the telecommunications and financial services sectors could have a material adverse effect on the company's business activities, financial condition and performance, as well as business prospects.




Principal partner's non-exclusive appointment policy for local partners. Maintaining a relationship with principal partners is a significant factor for the company in securing continuous work contracts with customers. Any disruption may have an adverse and material effect on MSTI's business activities, financial condition as well as performance and business prospects.

Fluctuation of financial performance due to the project-dependent nature of IT work procurement. MSTI is highly dependent on IT work procurement projects by customers to maintain its revenue. Moreover, new projects may have different specifications compared to previous projects the company had worked on, resulting in different margin levels.

Indonesia's IT system integration services industry extremely fragmented and with a low barrier to entry. Companies that are capable of providing the right solutions to address customer needs will have a competitive advantage in the market, further intensifying competition in this sector. MSTI recognises that the industry has a low barrier to entry, enabling investors with large capital to intensify the competition through investment in a new company or an existing peer. This may reduce the company's market share.




Key Management

Figure 34: Board of Commissioners

Name	Position	Description
Jupri Wijaya 	President Commissioner	Jupri Wijaya, 63, was appointed as President Commissioner on 27 Jul 2023 for a 5-year period. Jupri earned his bachelor's degree in Civil Engineering at Atma Jaya University Yogyakarta in 1987. He worked as a Manager at Baniandoni from 1987 to 1990, Accounts Manager at Multipolar Corporation from 1990 to 1992, and President Director of Cliquestar from 1992 to 1994. Through his extensive career and wide range of knowledge, he established Mastersystem Infotama in 1994, and continued his role of Director in the company from 1994 to 2020.
Ronald Waas 	Commissioner	Ronald Waas, 69, obtained his bachelor's degree in Civil Engineering from the Bandung Institute of Technology in 1980 and a master's degree in International Affairs from Columbia University in 1995. He has over 40 years of experience in various industries, particularly banking. Roland held several key positions at Bank Indonesia from 1980 to 2011, including Deputy Governor of Bank Indonesia from 2011 to 2016. Additionally, he also served as a Commissioner at Gojek Indonesia in 2017 to 2021 and Kliring Penjaminan Efek Indonesia from 2020 to 2023. Currently, he holds multiple commissioner roles in various companies such as in Centratama Telekomunikasi Indonesia since 2017, Advance Artificial Intelligence since 2017, Asuransi Bintang since 2018, Kliring Penjaminan Efek Indonesia since 2003, among others.
Tang Budi Santoso Sutanto 	Independent Commissioner	Tang Budi Santoso Sutanto, 57, was appointed as the company's Independent Commissioner on 27 Jul 2023 for a 5-year period. He earned his bachelor's degree from Sepuluh Nopember Institute of Technology (ITS) majoring in Electrical Engineering. After his education, he joined Cisco and held several key positions such as Indonesia Commercial Sales Lead from 2001 to 2007, ASEAN Commercial Sales Lead from 2007 to 2016, Indonesia Country Manager from 2016 to 2017, and ASEAN Partner Sales Lead from 2018 to 2023. He has more than 30 years of experience in the IT industry, with his extensive background in leadership and sales especially within the IT industry.

Source: Company data, RHB

Figure 35: Board of Directors

Name	Position	Description
Eddy Anthony 	President Director	Eddy Anthony first earned his master's degree from Trisakti University (2006), majoring in management, and proceeded with a doctorate from Trisakti University (2017) majoring in economics. Eddy, 65, began serving as President Director on 27 Jul 2023 for a 5-year period.
Joko Gunawan 	Vice President Director	Joko Gunawan, 59, earned his Diploma in Electrical Engineering from the Polytechnic of the University of Indonesia (1988). As of 2023, he began serving as the company's Vice President Director, appointed on 27 Jul 2003 for a 5-year period. In 1994, he founded Mastersystem Infotama, where he served as a Director from 1994 to 2020.
Jeo Halim 	Director	Jeo Halim, 49, earned a bachelor's degree in Accounting from Trisakti University in 1997. He brings over two decades of experience in the financial sector. He has held positions as Controller at GE Money Hong Kong until 2010, and subsequently served as General Manager of Accounting Finance at Mastersystem Infotama from 2010 to 2020.
Thio Eng Hok 	Director	Thio Eng Hok, 58, has over 30 years of experience in the IT industry. He earned his bachelor's degree in Mathematics from Bandung Institute of Technology in 1991. He then progressed through various positions at Microsoft Indonesia from 1997 to 2008 and Executive Sales Specialist at SAP Indonesia from 2008 to 2010. He then served as Senior VP Sales at Mastersystem Infotama from 2019 to 2020.
Moch Lintar Wahyu Wardana 	Director	Moch Lintar Wahyu Wardana, 47, was appointed to the company's Board of Directors on 27 Jul 2023 for a 5-year period. He began his tertiary education at the Indonesian Institute of Technology, majoring in Electrical Engineering and earned his bachelor's degree in 2000. With over 20 years of experience in the IT industry, he began his career as a Systems Engineer at Mastersystem Infotama from 2000 to 2003.
Raymon Budi Citra 	Director	Raymon Budi Citra, 48, has been serving in the company as a Director since Jul 2003. He obtained his bachelor degree in Electrical Engineering from Sam Ratulangi University in 1999. He began his career as a Systems Engineer from 2000 to 2003 and Senior Systems Engineer until 2005. He then moved to the role of Business Development Manager from 2005 to 2011, followed by General Manager from 2011 to 2020, and advanced to Senior General Manager at Mastersystem Infotama from 2020 to 2022.

Source: Company data, RHB

Emissions And ESG

Trend analysis
One of the drivers of global warming and climate change is greenhouse gas (GHG) emissions. The company produces emissions from the use of electricity and fuel oil (solar fuel) in daily activity. Hence, MSTI is committed to managing its emissions well. In the future, it plans to install a renewable energy project. In this report, the emissions reported are indirect GHG emissions (Scope 2) sourced from electricity use.

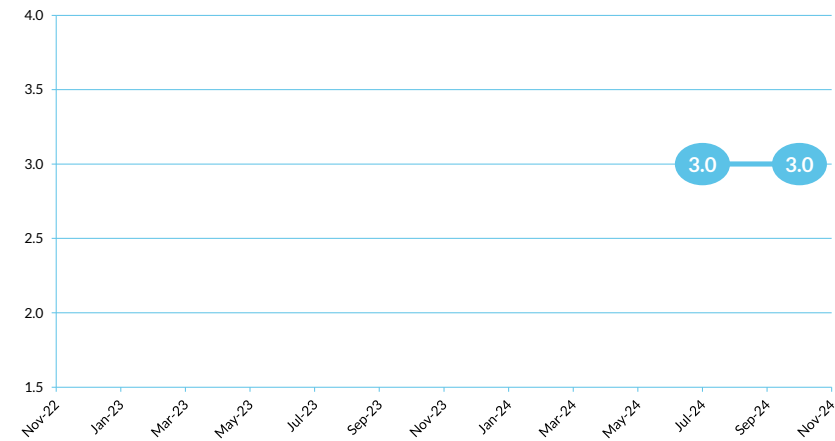
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	na	na	na
Scope 2	-	-	-
Scope 3	na	na	na
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

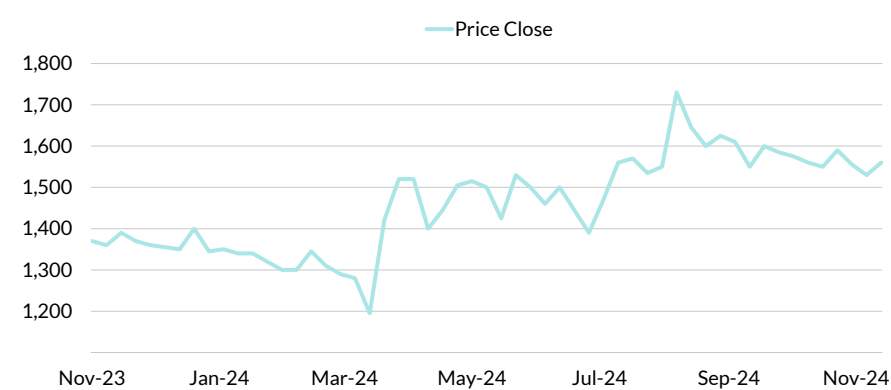
- The company sees a global increase in upgrading and adding security devices and servers to support the growth of existing network infrastructure amidst the increasing trend of cyber threats.
- In this regard, the company intends to embrace the great opportunity from the implementation of PDP Law in relation to Personal Data Protection which triggers the need for network security infrastructure for data privacy management and protecting the network from increasing cyber threats, including from ransomware.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-07-17	Not Rated	na	1,570

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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