

25 October 2021

Communications | Telecommunications Infrastructure

Bali Towerindo Sentra (BALI IJ)

Buy

Hidden Gem; Initiate BUY

Target Price (Return): IDR1,300 (68.8%)
Price (Market Cap): IDR770 (USD215m)
ESG score: 3.30 (out of 4)
Avg Daily Turnover (IDR/USD) 1,304m/0.09m

- **Initiate BUY with IDR1,300 TP, 69% upside.** Indonesia's only independent listed towerco has two main pillars (60% tower revenue and 40% network). Bali Towerindo Sentra has the sector's highest revenue and EBITDA/tenant (given its Badung-Bali exclusivity) and the lowest capex/tower. Valued at a c.69% SOP discount (FY22F EBITDA: 10.8x (cellular), 6x (non-cellular)), it operates 3,712 towers and c.7,000km of fibre optics. BALI is set to book 18% FY21F-24F revenue CAGR from operators' network densification and strong growth in data traffic and public-private partnership (PPP) projects.
- **60% and 40% revenue contributions from tower and network leases, with tenant growth for the tower segment.** BALI pioneered the leasing of fibre optic bandwidths in bundles with towers. It focuses on building towers in densely populated cities, not as a built-to-suit tower provider. This way it is able to create scale for its fibre optic network while still having the sector's lowest capex/tower – due to low land-lease costs, given its collaborations with local governments. Consequently, BALI has 60% and 40% revenue contributions from tower and network leases. This provides relief from the risk of lower tower renewal rates faced by the other tower providers. BALI also enjoys continuing topline contribution growth from network leases – driven by exponential growth in data traffic from cellular operators, especially with even higher 4G users and potential 5G rollouts.
- **Fibre to the x (FTTx) growth from government projects and retail penetration.** BALI's fibre optic network was initially rolled out to fibre-ise its towers, given the expected strong data traffic growth. With minimal additional capex, expansion into the FTTx segment provides additional growth support – currently contributes 45% to revenue. Government-related revenue accounted for 40% of the non-cellular segment's 3Q21 topline, of which the Special Capital District of Jakarta's (DKI Jakarta) wireless internet subsidy since the pandemic – JakWifi – contributed c.83%. Going forward, BALI plans to participate in government PPP projects, which can contribute 16-20% in revenue growth. Growing active subs (55k currently) in the retail user segment should also further support non-cellular EBITDA margins (65% currently), as the company has over 200k home-passed.
- **Outlook and valuation: 69% SOP discount with 18% FY21F-24F CAGR revenue growth.** We derive our IDR1,300 TP based on an SOP valuation of BALI's cellular (IDR4.9trn) and non-cellular (IDR2.2trn) pillars. We value the cellular wing at 10.8x FY22F EV/EBITDA, on par with the valuation of SUPR acquisition with 20% liquidity discount. For the non-cellular business, we use 6x FY22F EV/EBITDA, still some discount to Link Net's (LINK IJ, NR) indicative acquisition valuation, with an additional 20% discount. FY21-24 revenue CAGR is forecasted at 18%, driven by government projects (10%) and FTTx subs penetration growth (50%). BALI should enjoy higher tenancy ratio, driven by continued strong data traffic from operators demanding for network densification.
- **Our TP has a 6% ESG premium based on our in-house methodology.**

Analysts

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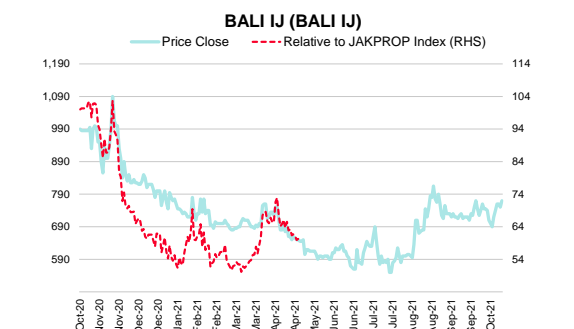


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.8)	6.9	31.6	16.7	(17.2)
Relative	7.6	6.9	31.6	15.3	(29.8)
52-wk Price low/high (IDR)				550 – 1,090	



Source: Bloomberg

Overall ESG Score: 3.30 (out of 4)

E: EXCELLENT

The company always provides coordination with the surrounding people before starting to build the tower and runs the process as well as obtains the required licenses, including Building Permit (IMB). To ensure the safety of surrounding people, the Company also conducts periodic examination towards the telecommunication towers.

S: EXCELLENT

The company continuously helps the Local Government in providing a contribution in the form of output monitoring through CCTV procurement for the implementation of micro cellular pole ("MCP") construction project in DKI Jakarta and other big cities in Java Island.

G: EXCELLENT

BALI implements five basic principles on maintaining good corporate governance by being transparent, accountable, responsible, independent, and equal. The company also delivers high earnings quality, along with putting into practise transparent business ethics.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (IDRb)	618	779	960	1,148	1,347
Recurring net profit (IDRb)	47	88	268	318	443
Recurring net profit growth (%)	(9.8)	87.4	203.5	18.9	39.1
Recurring P/E (x)	64.34	34.34	11.31	9.52	6.84
P/B (x)	1.6	1.4	1.3	1.2	1.1
P/CF (x)	16.00	15.26	8.59	6.10	4.84
Dividend Yield (%)	na	3.9	5.6	6.2	7.7
EV/EBITDA (x)	11.69	9.30	7.57	6.53	5.67
Return on average equity (%)	2.6	4.1	11.6	12.8	16.4
Net debt to equity (%)	94.7	88.9	89.1	90.8	86.7

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (IDR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Indonesia	Recurring EPS	11.97	22.42	68.05	80.92	112.52
Communications	DPS	-	30.00	43.12	47.42	58.94
BALI TOWERINDO SENTRA TBK	BVPS	482.48	554.03	597.32	640.44	711.57
BALI IJ	Return on average equity (%)	2.6	4.1	11.6	12.8	16.4
Buy						
Valuation basis	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
SOTP	Recurring P/E (x)	64.34	34.34	11.31	9.52	6.84
	P/B (x)	1.6	1.4	1.3	1.2	1.1
	FCF Yield (%)	(17.7)	(11.1)	(1.5)	(0.8)	1.7
	Dividend Yield (%)	-	3.9	5.6	6.2	7.7
	EV/EBITDA (x)	11.69	9.30	7.57	6.53	5.67
	EV/EBIT (x)	17.37	13.74	9.95	8.32	7.04
Key drivers	Income statement (IDRb)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
i. Higher contribution from Government projects	Total turnover	618	779	960	1,148	1,347
ii. Development of Jakarta Smart City project	Gross profit	337	423	585	718	866
iii. Potentially to be acquired as it is the only small listed tower company in the market.	EBITDA	413	534	677	814	963
	Depreciation and amortisation	(135)	(173)	(162)	(175)	(188)
	Operating profit	278	362	515	639	775
	Net interest	(206)	(226)	(160)	(220)	(200)
	Pre-tax profit	70	130	350	412	566
	Taxation	(24)	(46)	(86)	(99)	(130)
	Reported net profit	46	84	264	312	436
	Recurring net profit	47	88	268	318	443
Key risks	Cash flow (IDRb)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
i. Losing contracts on being involved in Jakarta Smart City project;	Change in working capital	52	13	(27)	19	(12)
ii. Lower tower lease rate.	Cash flow from operations	189	199	353	496	626
	Capex	(726)	(534)	(399)	(519)	(575)
	Cash flow from investing activities	(669)	(341)	(397)	(519)	(575)
	Dividends paid	0	(0)	(118)	(170)	(187)
	Cash flow from financing activities	482	227	1	(3)	(50)
	Cash at beginning of period	18	21	105	62	36
	Net change in cash	3	84	(43)	(26)	0
	Ending balance cash	21	105	62	36	36
Company Profile	Balance sheet (IDRb)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Bali Towerindo Sentra operates in the tower leasing industry, FTTx and data center. The company leases antenna space on self-owned multi-tenant Base Transceiver Station (BTS) towers primarily to mobile cellular operators.	Total cash and equivalents	21	105	62	36	36
	Tangible fixed assets	3,615	4,153	4,396	4,746	5,140
	Total assets	4,148	4,652	4,902	5,296	5,744
	Short-term debt	731	304	374	461	648
	Total long-term debt	1,088	1,739	1,783	1,862	1,816
	Total liabilities	2,249	2,472	2,552	2,776	2,945
	Total equity	1,898	2,180	2,350	2,520	2,800
	Total liabilities & equity	4,148	4,652	4,902	5,296	5,744
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	33.1	26.1	23.2	19.7	17.3
	Recurrent EPS growth (%)	(9.8)	87.4	203.5	18.9	39.1
	Gross margin (%)	54.5	54.3	61.0	62.6	64.2
	Operating EBITDA margin (%)	66.9	68.6	70.6	70.9	71.5
	Net profit margin (%)	7.5	10.8	27.5	27.2	32.4
	Dividend payout ratio (%)	0.0	139.9	64.4	59.7	53.2
	Capex/sales (%)	117.5	68.6	41.6	45.2	42.7
	Interest cover (x)	1.35	1.60	3.23	2.91	3.87

Source: Company data, RHB

Key Investment Highlights

BALI is a pioneer in tower+network bundled lease agreements, with 60% and 40% revenue contributions split for its tower and network businesses. Unlike other tower operators, the company always leases towers in bundles with fibre optic bandwidth – charging based on capacity on a usual 10-year contract. This enables BALI to enjoy higher lease revenues from the continuously growing cellular data traffic demand incurred by the lessees, especially with even higher 4G users and future 5G rollouts.

BALI is focused on building towers in densely populated cities, not as a built-to-suit tower provider. This way, the company is able to create fibre optic network scale while still having the lowest capex per tower in the sector – the latter is attributed to its low land-lease costs, as it collaborates with local governments. Network leases provide a relief to BALI from the risk of lower tower renewal rates, as all towers contribute two revenue streams: i) Space and ii) capacity leases.

Figure 1: Network revenue comprises 40% of total cellular contributions in 3Q21

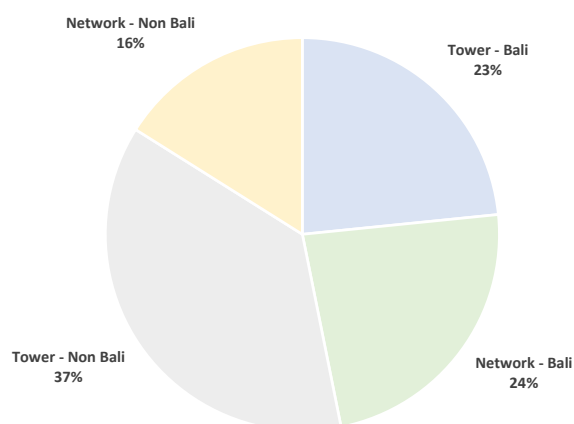
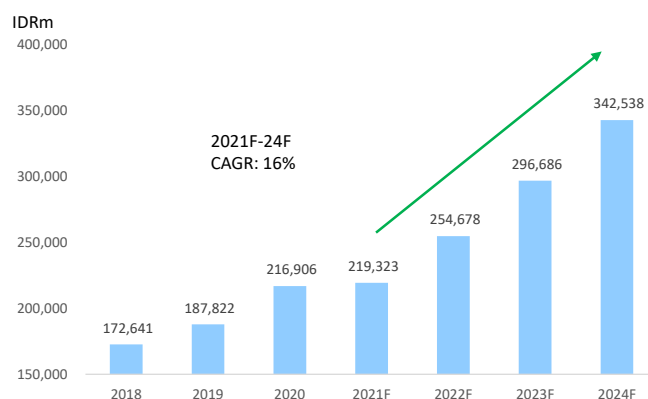


Figure 2: Network revenue trend

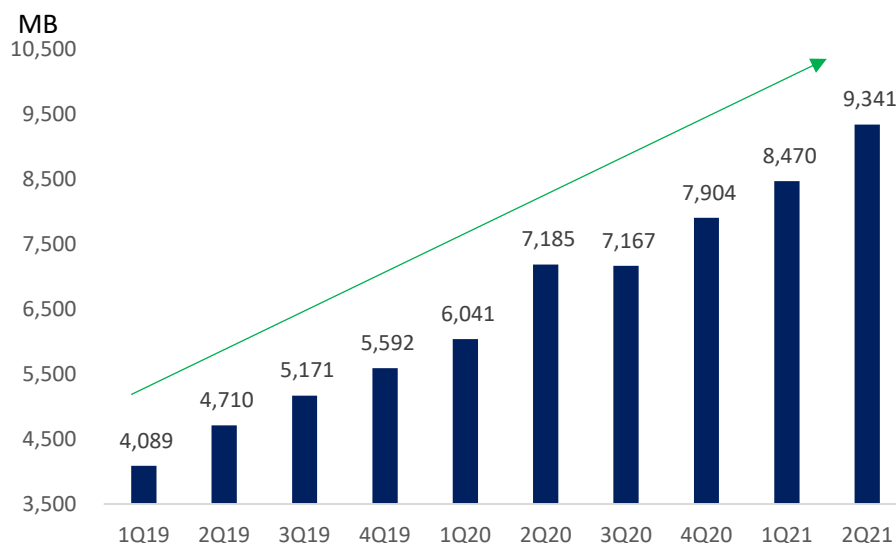


Source: Company data, RHB

Source: Company data, RHB

16% 2021F-2024F CAGR network (only) revenue growth is supported by continued growing data traffic. Greater 4G coverage and subs have enabled the three largest telco operators to record 30% YoY growth as of 2Q21, in terms of average data traffic per user. We expect 5G implementation to further boost data traffic ahead.

Figure 3: Top 3 Indonesian operators' average mobile data usage per sub

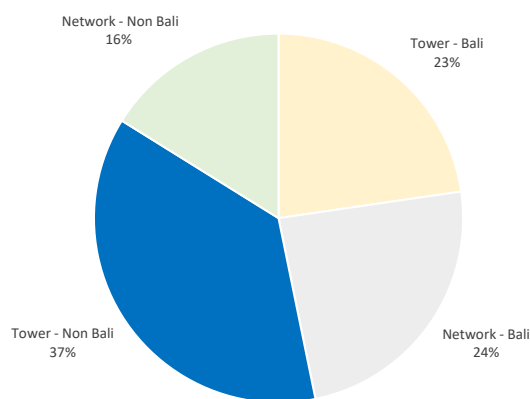


Note: The average mobile data usage was gathered from XL Axiata, Indosat, and Telkom Indonesia only
Source: Company data, RHB

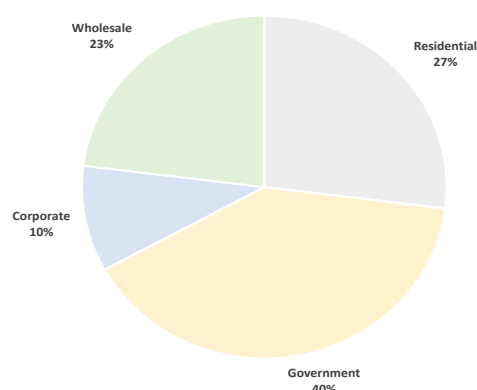
FTTx growth: Government projects to improve efficiencies

BALI currently has 6,926km of fibre optics in its network, of which 79% are in Greater Jakarta. Note that all of its towers have been fibre-ised, while 40% of revenue from telecommunication operators comes from the network (fibre optic backbone lease by bandwidth). In the residential FTTx segment, BALI currently has more than 200k FTTx homes passed, which comes up to 20% of homes connected, with ARPU of IDR195k per month as of 9M21. Jakarta's administration has become one of the largest tenants of FTTx, with revenue contributing 40% of the non-cellular segment.

Given the limited additional investments (only fishbone networks to uncovered areas, if any), the government project has helped BALI to improve its EBITDA margin. Aside from the Government, there are currently 50k active residential subs – and this is expected to grow by 69% YoY in 2022 as BALI offers 20-40% discounts to incumbents.

Figure 4: Revenue contributions in 3Q21 (cellular segment)

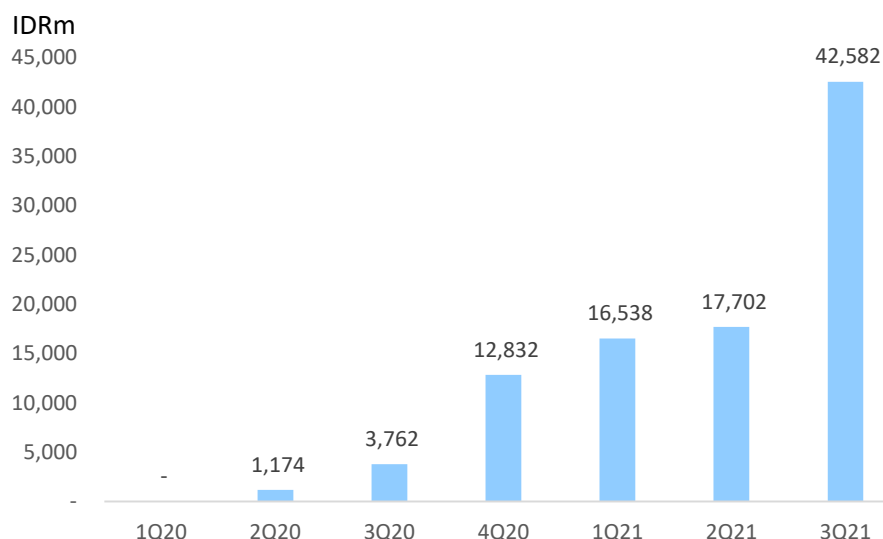
Source: Company data, RHB

Figure 5: Revenue contributions in 3Q21 (non-cellular segments)

Source: Company data, RHB

For the Jakarta Smart City project, JakWifi is just the start

JakWifi currently contributes about 53% of BALI's revenue from governments, which was equal to IDR4.25bn in monthly revenue in 2Q21. JakWifi is the Jakarta local government's project to provide free Wifi internet access in underprivileged areas – which will help low-income households stay connected during the lockdown. We believe that the JakWifi contract should be extended, even after the pandemic ends. In addition, BALI plans to provide FTTx to some 300-400 government institutions in Jakarta from 2022 onwards, which could generate additional revenue growth of 16-17% over the next two years.

Figure 6: BALI's revenue from the Jakarta Smart City project

Source: Company data, RHB

Other revenue streams from Jakarta's district administration

This would involve closed-circuit televisions (CCTV) that were provided by BALI in 2015 as part of its corporate social responsibility (CSR) programme, in return for 4,000 new micropole (MCP) sites in the city, under a lease of over 10 years. However, Jakarta's administration is still required to lease the bandwidth network for the CCTVs to help monitor traffic, crime, or flooding. BALI is also the single qualified tender participant in the Electronic Road Pricing (ERP) programme for this administration. The project not only requires a bandwidth contract to BALI, but also commercial collaboration for the apps related to the ERP, the payment system and potential digital advertising revenues. Note that most of the projects in Jakarta are utilising the existing backbone network, with minimal additional network investments. Additional investments for the fishbone network for last-mile connection only account for 15-20% of additional capex on top of the total that has been spent.

Figure 7: BALI's MCP in Jakarta



Source: Tribun News

Figure 8: Output CCTV monitoring system in Jakarta

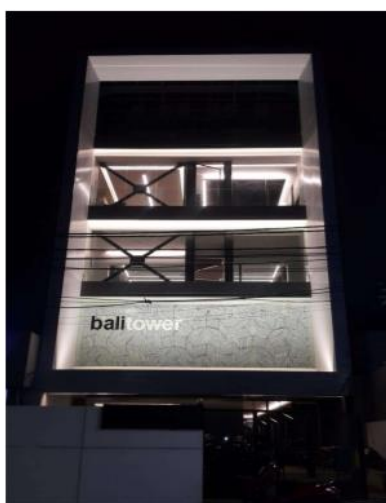


Source: Company data

Potential expansion of its data centre business

BALI has 60 racks on its data centre located in the heart of Jakarta, with a 85% occupancy rate – mostly used for cellular and internal purposes. Management plans to expand to a new data centre site, leveraging on existing customers (telco operators) that work closely with content providers and other hyperscale customers. Indonesia's data protection laws require private information to be held onshore – which should enable the domestic data centre industry to grow exponentially ahead due to the country's large population.

Figure 9: BALI's data centre building



Source: Company data

Is BALI a target for acquisition?

Soon after the Indonesian Government allowed foreigners to invest in the tower sector, there were six acquisition deals, with two of them being majority stake takeovers, Centratama Telekomunikasi Indonesia (CENT IJ, NR) at 10x EV/EBITDA and the last acquisition went down for 13.5x EV/EBITDA for Solusi Tunas Pratama (STP) (SUPR IJ, NR), 35% re-rating in valuations. Inti Bangun Sejahtera (IBST IJ, NR) sold most of its towers to Tower Bersama Infrastructure (TBIG IJ, NR) in 2020. BALI is the only remaining listed tower company that has not had a majority stake that was acquired. Also, the valuations of acquired tower companies have significantly increased in the past year, after the foreigners were able to invest in the sector. In 2021, CENT purchased Indosat's (ISAT IJ, NEUTRAL, TP: IDR7,000) towers for IDR1.4bn per tenant. Sarana Menara Nusantara (TOWR IJ, NR) acquired SUPR for IDR2bn per tenant, at a 50-60% premium over past acquisitions prior to the Omnibus law. Currently BALI's towers are valued at IDR1.1bn in EV/tenant, with 2,829 tenants. This is in view of the high liquidity in the global financial market with US Treasury bills' 10-year yield at just c.1.5% and the low average EV/EBITDA of Indonesia's tower sector (at 13.5x 22F vs the regional average of 26x for tower companies in developed markets), creating large opportunities for Indonesian tower companies to be acquired.

Figure 10: Post the Omnibus Law, valuations for tower acquisition re-rated 50-60%

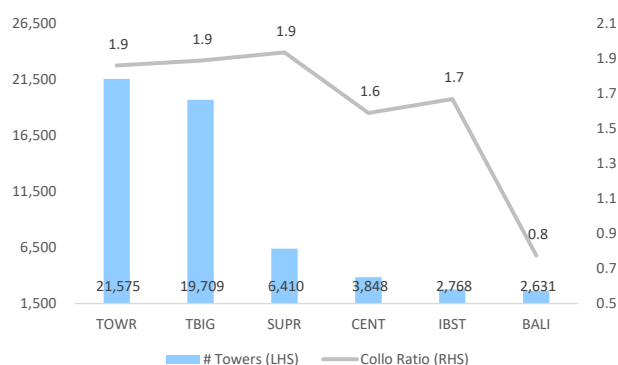
Year	Seller	Buyer	# towers	# tenants	Tenancy ratio(x)	Value/Tenant (IDRbn)	Purchase Price (IDRbn)	Value/tower (IDRbn)
Before Omnibus Law								
2012	ISAT	TBIG	2,500	3,900	1.6	1.2	4,700	1.9
2014	EXCL	STP	3,500	5,800	1.7	1.0	5,600	1.6
2016	EXCL	TOWR	2,500	3,759	1.5	1.0	3,600	1.4
2017	STI Sampoerna	IBST	371	n/a	n/a	n/a	415	1.1
2018	KIN Komet	TOWR	1,459	2,015	1	0.7	1,400	1.0
2019	ISAT	Mitratel	2,100	3,990	1.9	1.1	4,329	2.1
2019	ISAT	TOWR	1,000	1,900	1.9	1.1	2,061	2.1
2020	EXCL	TOWR	1,728	2,600	1.5	0.9	2,430	1.4
2020	EXCL	CENT	1,054	1,581	1.5	1.0	1,620	1.5
2020	TLKM	Mitratel	6,050	8,470	1.4	1.2	10,300	1.7
2020	IBST	TBIG	3,000	4,200	1.4	0.9	3,970	1.3
2021	CENT (42% stake)	Digital Colony	3,848	6,118	1.6	1.0	6,173	1.6
2021	CENT (33% stake)	Digital Colony	3,848	6,118	1.6	1.0	6,173	1.6
Average					1.6	1.0		1.5
After Omnibus Law								
2021	ISAT	Digital Colony	4,247	7,645	1.8	1.4	10,472	2.5
2021	SUPR	TOWR	6,422	12,138	1.9	2.0	24,000	3.7
Average					1.8	1.7		3.1

Source: Various sources, RHB

Consolidating tower providers, higher sector valuation

Post the transactions discussed in the paragraph earlier, either foreign investors or large tower companies (TOWR and TBIG) have acquired smaller tower operators. Mitratel, Telekomunikasi Indonesia's (TLKM) subsidiary, recently added another 4,000 towers from Telkomsel, which took its total to 28,000 towers – the IPO of this tower company is scheduled for November.

This is followed by TOWR and TBIG, which own 28,000 and 20,000 towers. CENT owns close to 10,000 towers after acquiring ISAT's towers in 1Q21 (and was subsequently acquired by Digital Colony). SUPR with 6,422 towers has been acquired by TOWR, while most of IBST's towers have been sold to TBIG. BALI is the remaining independent listed tower company in Indonesia.

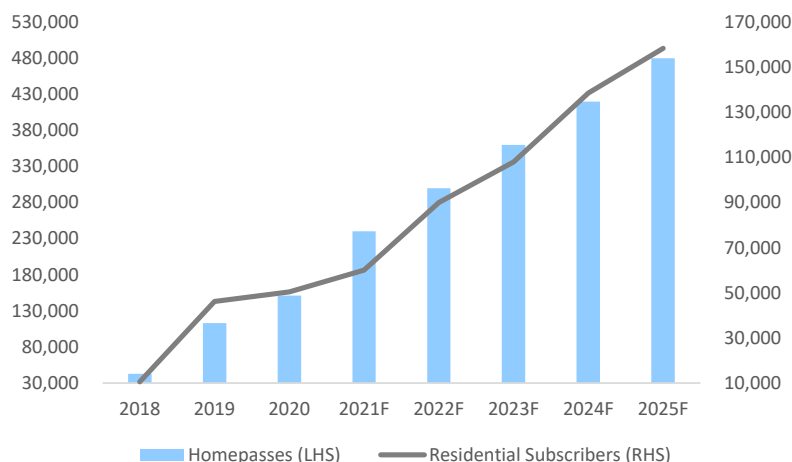
Figure 11: Number of towers in Indonesia by owner, as of 6M21

♦ BALI is the largest listed tower operator that has not been acquired. Note that Digital Colony acquired CENT at 13.9x 12M forward EV/EBITDA in 2020

Source: Various sources, RHB

Other growth catalysts:

- FTTx to see 20-30% growth from new subscribers;
- High tower tenancy ratios with network densification in Jakarta, Surabaya and Bali – pointing to higher data traffic, 5G network working with three layers of spectrum, ie switching from 4G to 5G;
- Higher tower lease rates.

Figure 12: BALI's projected revenue from different governments in Indonesia

Source: Company data

Valuation

EV/tenant and EV/EBITDA are more accurate metrics than EV/tower

On the back of the limited supply of tower assets available for sale left in the market and favourable new regulations that allow foreigners to own tower companies, there has been a rise in the valuations of recent tower sale transactions (Figure 10). Given that the tower sector is capital-intensive, many analysts have used EV/tower to compare this against the replacement cost. However, cash flow is generated through contracts, and the sectors should be valued for the long-term agreements inked. Variation in collocation ratios between tower assets create discrepancies against the EV/tower valuation metric. Hence, we believe EV/tenant and, ultimately, EV/EBITDA are the most accurate metrics to be used for valuing tower companies. In terms of EV/tenant, BALI currently trades at IDR1.1bn per tenant, which is still at a 50% discount to the recent 2021F average transaction value of IDR1.65bn.

69% SOP discount segmenting valuations between tower and FTTx

With numerous past acquisitions having made, either at the company or asset (ie tower)-only level, we believe that the tower industry – after the Government allowed foreign investments to pour into this sector – is due for a significant re-rating 40-90% (figure 10). We have conservatively valued BALI at just an average of the two biggest tower players (TBIG and TOWR), at 13.5x 2022F EV/EBITDA for its cellular/tower related segments, and only at 7x 2022F EV/EBITDA for its FTTx, which equal to that of LINK's indicative acquisition valuation.

Figure 13: BALI's valuation

Business Line	2022F EBITDA (IDRbn)	Target EV/EBITDA (x)	Liquidity Discount (x)	Justification	Market Cap (IDRbn)	Stake	Effective Equity Value (IDRbn)
FTTx	361	7.5	6.0	7.5x at par with the expected valuation of LINK acquisition, and at par with the regional peers fixed broadband operator	2,168	100%	2,168
Towers	451	13.5	10.8	13.5x at par with the valuation of SUPR acquisition, some premium to TOWR justified with BALI's growth premium.	4,869	100%	4,869
Total Equity Value (IDRbn)							7,037
O/S Shares (bn)							3.93
Debt (IDRbn)							2,323
Cash (IDRbn)							36
Implied Share price (IDR)							1,207
ESG premium (6%)							1,280
Rounded Share price							1,300
Current Share Price							770
Discount SOTP at current price							68.8%

Note: We apply 20% liquidity discount to this stock due to its thin trading liquidity
Source: RHB

BALI's cellular/tower business is only valued at 7.5x 22F EV/EBITDA

Using the assumption of 6x 22F EV/EBITDA for BALI's FTTx business, the segment is valued at IDR2.2trn in enterprise value. The implied EV of the cellular segment is IDR4.9trn. With 2022F EBITDA growth estimates of 20% YoY, we have arrived at an EV/EBITDA of just 8x for FY22F, or 9.7x EV/EBITDA for FY21F. These still reflect wide discounts to the valuation of Digital Colony acquiring CENT, which was close to 10x EV/EBITDA. Given the limited number of towers that are available for sale, as well as the acquisition demand from large tower companies – especially with Mitratel set to undergo an IPO – we should see an accretive re-rating valuation for BALI.

Industry Outlook

Tower industry in Indonesia: Economies of scale and low funding costs

Rapid cellular technological development in the past eight years, moving from 2G to 3G and then to 4G have required telco operators to deploy heavy capex, in order to stay competitive. 4G data migration has put a further burden on operators, as subscribers are shifting away from high-margin legacy calls and short message service (SMS). As a result, the independent tower industry has started to grow as operators lighten their financial burden by outsourcing their tower assets. In 2013, 51.3% of the towers in Indonesia were owned by telco operators (compared with 15.2% currently, and these are mostly strategic towers held by the operators. This has fuelled the tower industry's growth inorganically, as they are acquired from operators then leased back.

Strong growth in data traffic due to 4G and potentially more in 5G technology. The requirement for towers to be fibre-ised has naturally created economies of scale for large tower operators, triggering an industry consolidation. The trend is further supported by the Government's new regulation that allows foreigners to wholly own tower companies – it was previously capped at a 67% maximum. Much stronger balance sheets from foreign investments could improve Indonesia's telecommunication infrastructure.

After the announcement of the Omnibus Law, there were several key highlights of this law that benefited tower companies:

- i. **Spectrum sharing and transfer:** This allows frequency holders to collaborate on spectrum sharing in implementing new technologies and assigning spectrum use to other telco operators;
- ii. **Infrastructure sharing:** Passive infrastructure sharing is mandatory for telco operators. Active infrastructure sharing is permitted based on mutual agreements between all parties;
- iii. **Tax exempt:** Foreign investors may be exempted from dividend taxes, if the dividend is invested domestically for a certain period;
- iv. **Negative investment list:** The number of negative investment lists decreased from 20 to six, which excludes foreign direct investments in towers.

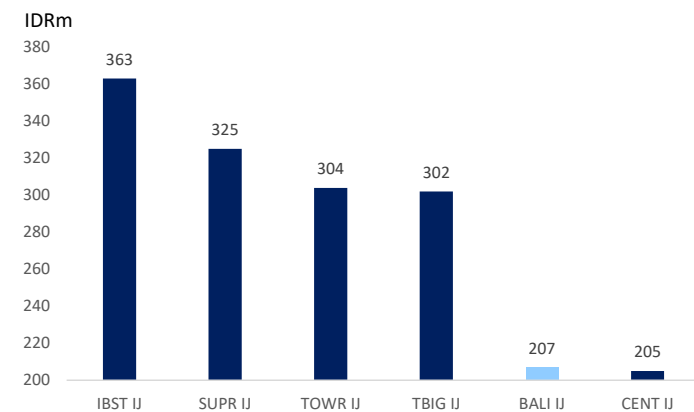
When compared with tower companies in developed countries, Indonesia's are still trading at 13.5x 22F EV/EBITDA on average or a 48% discount to such markets. This justifies there still being room for such firms to be re-rated, as the valuation is still much cheaper while delivering similar performances.

Figure 14: 6M21 operational comparison of tower companies

BBG ticker	Revenue (IDRbn)	EBITDA (IDRbn)	EBITDA margin (%)	Number of towers	Number of tenants	Per tower (IDRm)		Per tenant (IDRm)		Capex per tower (IDRm)	ROE (%)*
						Revenue	EBITDA	Revenue	EBITDA		
BALI IJ	272	206	75.7	2,631	2,035	207	156	267	202	719	6.26
TOWR IJ	3,276	2,802	85.5	21,575	40,158	304	260	163	140	1,237	32.57
TBIG IJ	2,971	2,593	87.3	19,709	37,232	302	263	160	139	1,304	16.1
SUPR IJ	1,043	880	84.3	6,410	12,417	325	274	168	142	1,547	22.29
IBST IJ	502	357	71.2	2,768	4,621	363	258	217	155	903	1.52
CENT IJ	394	195	49.5	3,848	6,118	205	102	129	64	1,096	-29.9

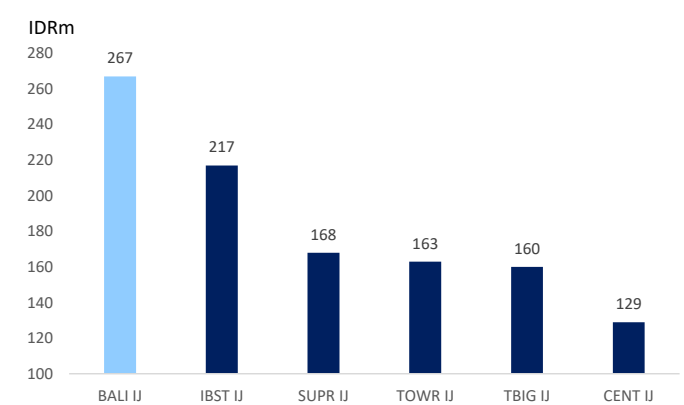
Note: *ROE was trailing 6M21
Source: Various sources, RHB

Figure 15: Indonesia tower companies revenue/tower



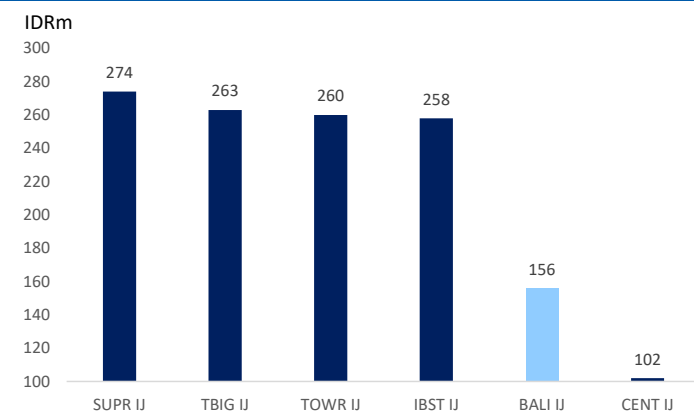
Source: Various sources, RHB

Figure 16: Indonesia tower companies revenue/tenant



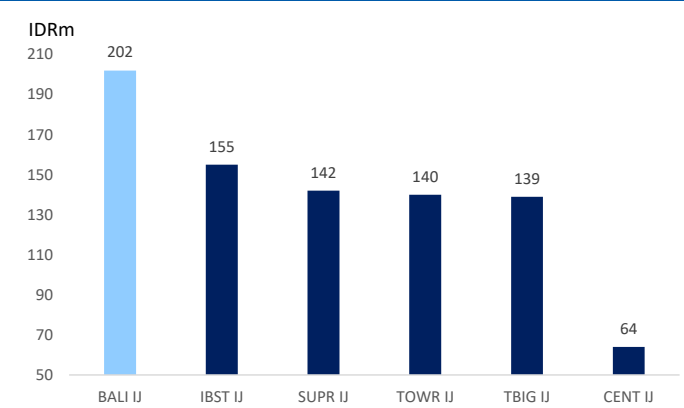
Source: Various sources, RHB

Figure 17: Indonesia tower companies EBITDA/tower



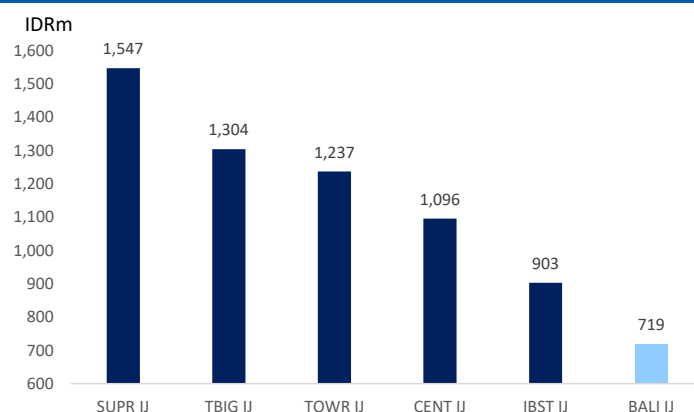
Source: Various sources, RHB

Figure 18: Indonesia tower companies EBITDA/tenant



Source: Various sources, RHB

Figure 19: Indonesia tower companies capex/tower



Source: Various sources, RHB

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Figure 20: Valuation comparison on tower companies

BBG Ticker	Company Name	Last Price (LCY)	Rating	Upside/Downside	Market Cap (USDm)	3M AVG daily turnover (USDm)	EBITDA Margin (%)		ROE (%)		EV/EBITDA (x)	
							2022F	2023F	2022F	2023F	2022F	2023F
BALI IJ Equity	Bali Towerindo	770	BUY	68.8%	213	0.10	70.9	71.5	12.7	16.0	5.5	4.6
TOWR IJ EQUITY	Sarana Menara Nusantara	1,185	NR	N/A	4,256	8.3	85.8	84.4	27.5	26.5	10.5	9.7
TBIG IJ EQUITY	Tower Bersama Infrastructure	2,940	NR	N/A	4,690	10.4	86.7	86.8	18.2	18.7	16.1	15.1
Weighted Average					9,159		85.9	85.3	22.4	22.3	13.2	12.3
AMT US EQUITY	American Tower	284.5	NR	N/A	129,465	404.4	63.4	63.9	44.2	77.0	25.7	24.2
CCI US EQUITY	Crown Castle International	179.1	NR	N/A	77,415	294.5	60.3	61.0	18.5	21.6	24.4	23.6
SBAC US EQUITY	SBA Communication	345.6	NR	N/A	37,864	175.0	70.6	71.3	-8.1	-9.4	29.6	28.0
Weighted Average					244,744		63.5	64.1	28.0	46.1	25.9	24.6

Source: Bloomberg, RHB

Figure 21: Indonesia listed tower companies

BBG Ticker	Description
BALI IJ	Bali Towerindo Sentra operates in the tower leasing industry. The company leases antenna space on self-owned multi-tenant Base Transceiver Station towers primarily to mobile cellular operators.
TOWR IJ	Sarana Menara Nusantara, through a subsidiary, builds telecommunications towers. The company constructs, operates, and rents the towers to mobile telecommunications services providers.
TBIG IJ	Tower Bersama Infrastructure provides telecommunication infrastructure services to Indonesian wireless carriers. The company develops and operates telecommunication supporting infrastructure including tower and in-building systems across Indonesia.
SUPR IJ	Solusi Tunas Pratama develops and constructs telecommunication towers for the wireless communications industry.
IBST IJ	Inti Bangun Sejahtera is an independent tower company. The company engages in leasing space and other broadcast equipment for wireless signal transmission at tower sites under long-term lease agreement with mobile operators and wireless cable television providers.
CENT IJ	Centratama Telekomunikasi Indonesia operates as a telecommunication infrastructure company. The Company leases and manages telecommunication towers and in-building DAS (distributed antenna system) sites, as well as provides triple-play fiber-optic broadband services such as internet, telephony, and cable TV. Centratama Telekomunikasi Indonesia serves clients in Indonesia.
AMT US	American Tower Corporation is a real estate investment trust that owns, operates, and develops wireless communications and broadcast towers in the United States. The company leases antennae sites on multi-tenant towers for a diverse range of wireless communications industries, including personal communications services, paging, and cellular.
CCI US	Crown Castle International Corp. operates as a real estate investment trust. The company owns, operates, and leases towers and other infrastructure for wireless communications. Crown Castle manages and offers wireless communication coverage and infrastructure sites in the United States and Australia.
SBAC US	SBA Communications Corporation owns and operates wireless communications infrastructure in the United States. The company offers site leasing and development, construction, and consulting services. SBA Communications leases antenna space on its multi-tenant towers to a variety of wireless service providers under long-term lease contracts.

Source: Bloomberg, RHB

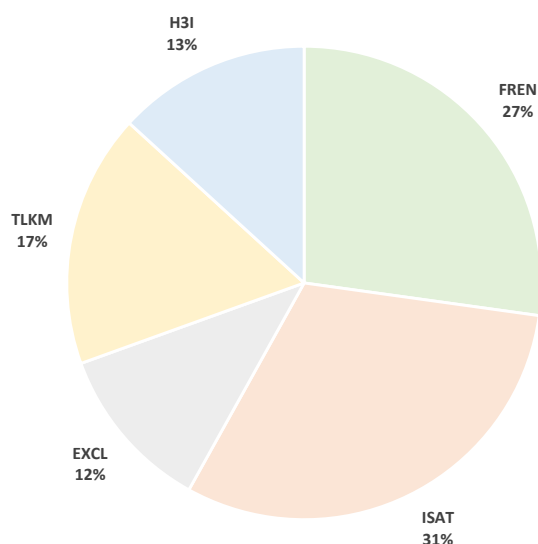
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Good and bad of tenant consolidations

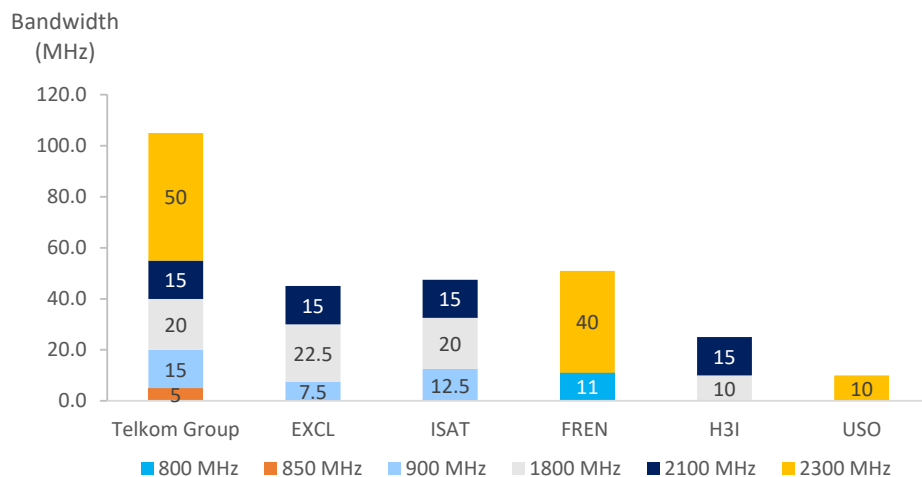
The recent ISAT and Hutchison 3 Indonesia (H3I) merger, as well as plans concerning the XL Axiata (EXCL IJ, BUY, TP: IDR3,400) and Smartfren Telecom (FREN IJ, NR) deal, have sparked conflicting arguments about the tower sector's industry outlook. The main goal of a merger or consolidation is to increase efficiencies for operators, which would mainly come from reductions in network equipment costs and leases. On the surface, this means lower growth potential, as the number of tenants declines. However, the silver lining is that merged operators will ask for tower relocations for existing overlapping contracts to other existing sites owned by the tower firms. Most importantly, these contracts will have to be renewed for another 10 years.

Taking an example from the ISAT and H3I merger. BALI is likely to benefit from the merger, as 44% of its total revenue generated came from both operators. ISAT and H3I have tower lease agreements for network equipment in the 2x47.5Mhz and 2x25Mhz bandwidth spectrums. Any relocation of overlapped towers will require additional rental rates, as merged operators would want to rent larger tower space for equipment able to broadcast in the 2x72.5Mhz spectrum bandwidth with a renewed 10-year lease agreement.

Figure 22: BALI's cellular revenue stream from operators as of 9M21

◆ Biggest contributors to cellular revenue are ISAT, followed by FREN, TLKM, H3I and EXCL

Source: Company data, RHB

Figure 23: Telco operators spectrum

◆ TLKM group has the largest spectrum allocation, compared to all other operators despite the merger of ISAT and H3I

◆ BALI is likely to benefit from the merger of ISAT and H3I, as the new entity will require larger tower space for equipment

Source: Various sources, RHB

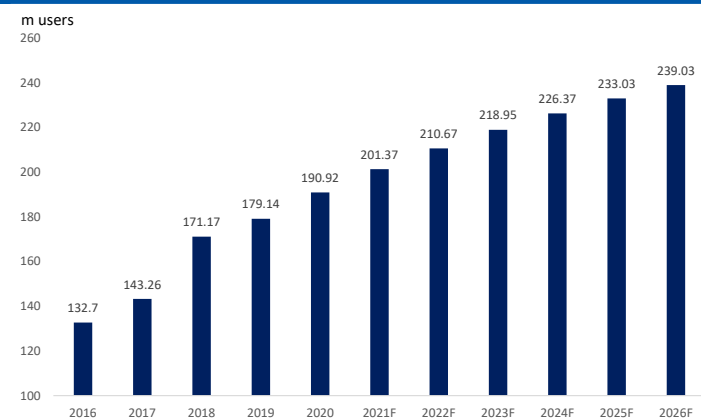
Internet industry in Indonesia

Despite being an archipelago nation with a population of 275m, Indonesia's fixed broadband (FBB) penetration is only at 12-14%. As such, we believe that data internet access through cellular services still dominates the industry – at least, it is expected to be so for the next three years. Although 57% of the population lives in urban areas, IndiHome, the country's dominant FBB operator, started to record slowing subs growth in recent quarters. Better high-speed 4G coverage and its users will continue to support data traffic growth ahead.

In addition, the 5G rollout, which provides low latency and high capacity, can offer subs much faster internet access – this should translate to higher data traffic, in our view. Consequently, we believe this will continue to lead to increased tower densification – not only in rural areas to improve coverage but also in urban centres, as congested data traffic issues can be better addressed with more towers.

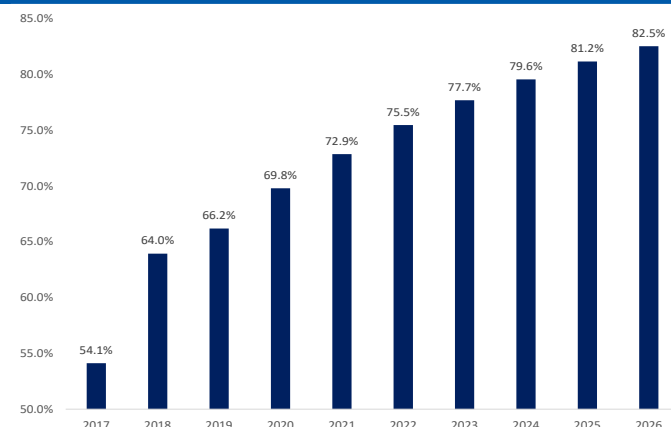
As of January, there are 202.6m internet users in Indonesia – a 27m YoY growth – primarily due to the COVID-19 pandemic, which required people to engage in virtual or remote activities. In terms of mobile connection in Indonesia, there were 345.3m smartphones being used in Jan 2021 – an increase of 4m between Jan 2020 and Jan 2021. The number of mobile connections in Indonesia in Jan 2021 was equivalent to 125.6% of the total population. This implies that each person has one or more smartphones connected to the internet, and subscribes to a mobile data package. However, social media users in Indonesia reached 170m users as of Jan 2021 – indicating that 61.8% of the total population has a social media presence.

Figure 24: Indonesia's internet users



Source: Hootsuite, RHB

Figure 25: Internet penetration in Indonesia



Source: Hootsuite, RHB

Throughout 2020, the pandemic raised the average number of hours spent online in Indonesia, from 3.6 hours to 4.7 hours. Post the lockdowns, the number stayed at 4.3 hours, which is still 20% higher than pre-pandemic levels. Online media, which consists of advertising, gaming, video on demand, and music on demand, has seen an increase in the number of users, as well with the average percentage for Indonesia, by c.45% in subscriptions for video on demand and 40% for subscriptions for music on demand. So far, over half of the users (ie six out of 10) intend to continue their video and music subscriptions indefinitely. Having said that, users have also indicated that there is a likelihood of unsubscribing once the trial period ends.

In Indonesia, the interest in video streaming is among the highest among ASEAN countries, as seen from searches for video subscription services by country, whereby Indonesia ranks third – 11x higher than its 2016 searches. The highest searches were from Thailand, at 18x higher than its 2016 level, followed by Vietnam (12x higher).

Financial Outlook

18% 2021-2024F CAGR topline growth is supported by:

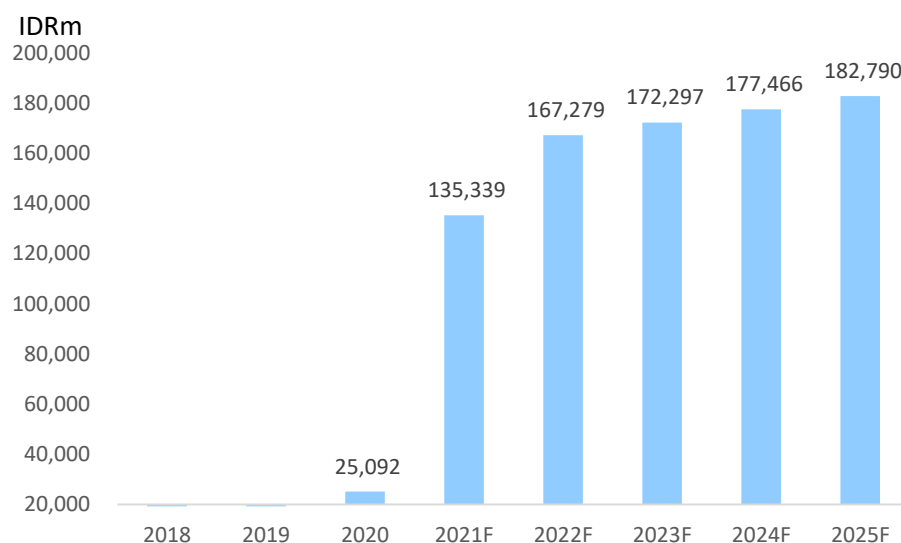
- i. 10% 2021-2024F CAGR in government revenue, six institutions for FTTx broadband leases in Jakarta;
- ii. 32% 2021-2024F CAGR in FTTx subs;
- iii. 16% 2021-2024F CAGR in tower tenants with network densification.

Driven by government-related revenue growth

We estimate a 10% CAGR revenue growth in 2021-2024F, contributed mainly from the Jakarta regional government. Similar to corporate clients, BALI targets six government offices to subscribe to the Bali FTTx broadband service for IDR387m per month on average in 2022. We also conservatively estimate that there will be no additional offices that subscribe to BALI's offerings from 2023 onwards.

It is worth noting that the company recently secured this project and this segment will be a new revenue stream for BALI. As a part of the Jakarta Smart City project, the local government is providing free wireless internet services in public areas and the city's slums to provide the low-income demographic with free access to the Internet. BALI is the internet provider for the JakWifi project, which generates IDR5.9bn in monthly revenue. CCTVs that are donated by BALI to the Jakarta local administration also require bandwidth chargeable to the latter, at IDR2.9bn per month.

Figure 26: Government revenue projection



◆ We conservatively project that there will be no additional offices that subscribe to BALI's services from 2023 onwards

Source: Company data

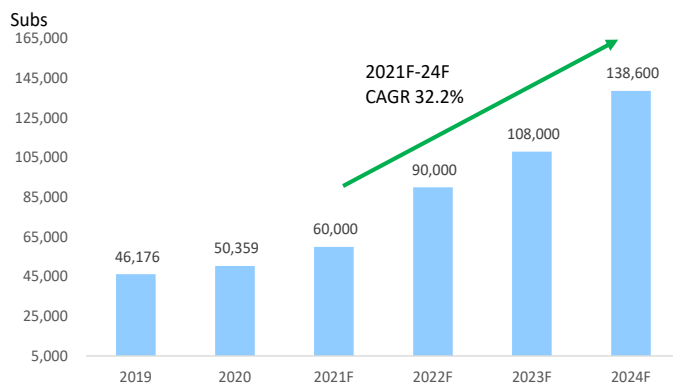
FTTx subs drivers

We estimate BALI's revenue CAGR for 2021-2024F at 37% for retail FTTx, one of the company's long-term growth drivers. This is based on a subs addition of 30,000 in 2022 and 18,000 from 2023 onwards.

BALI currently has 198,000 homepasses, of which 24% are active subs. Given that the company initially provides backbone network leases for telecommunication towers – which already require the highest broadband service level quality – a high quality of service is being offered for corporate and retail FTTx clients. We believe this factor will enable it to attract new customers successfully.

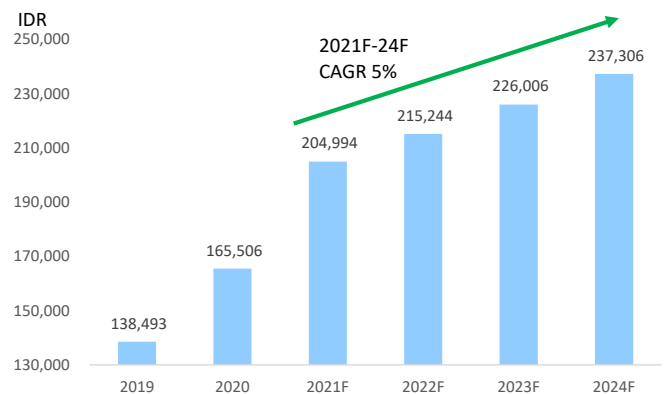
Low FBB penetration in Indonesia – estimated to be only 10-12% of total households – also provides a structural long-term growth driver. In addition, our ground checks suggest BALI provides a 13-42% discount in terms of the internet packages to legacy broadband providers – eg IndiHome or First Media – with some free cable TV programmes to acquire new customers.

Figure 27: BALI number of residential subs



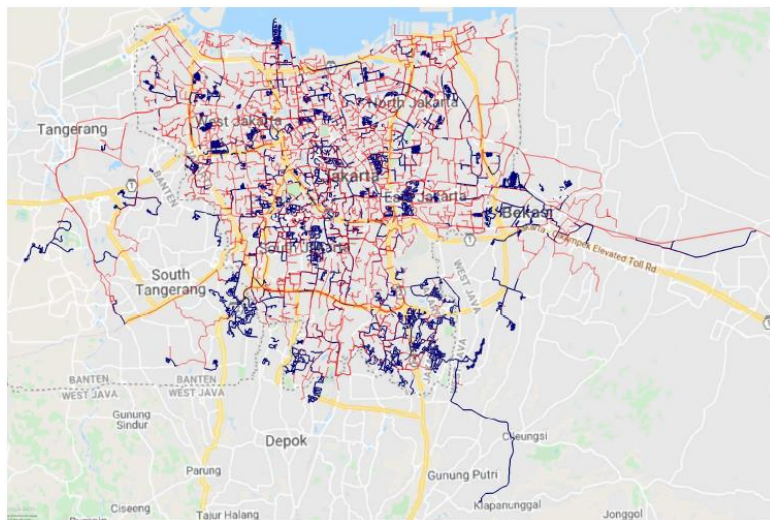
Source: Company data, RHB

Figure 28: BALI's ARPU on FTTx



Source: Company data, RHB

Figure 29: FTTx coverage in Jakarta



Source: Company data

- ◆ The company currently covers 180,000 homepasses in Jakarta with the number of subs at 45,000
- ◆ Penetration rate in Jakarta is still at 20%

Figure 30: FTTx coverage in Bali



Source: Company data

- ◆ It currently covers 18,000 homepasses in Bali, with the number of subs at 3,500
- ◆ BALI's penetration rate in Bali area is still at 19%

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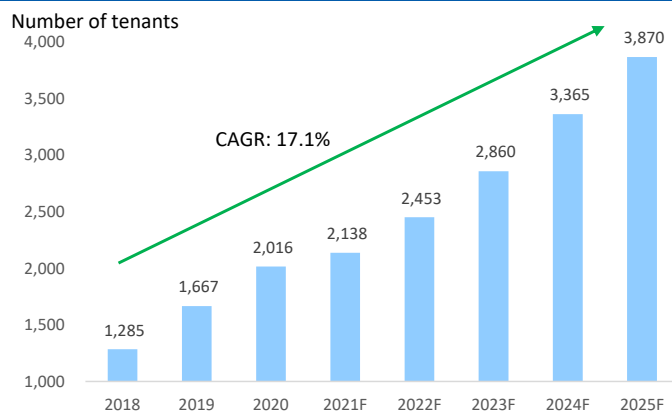
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Tower tenant drivers

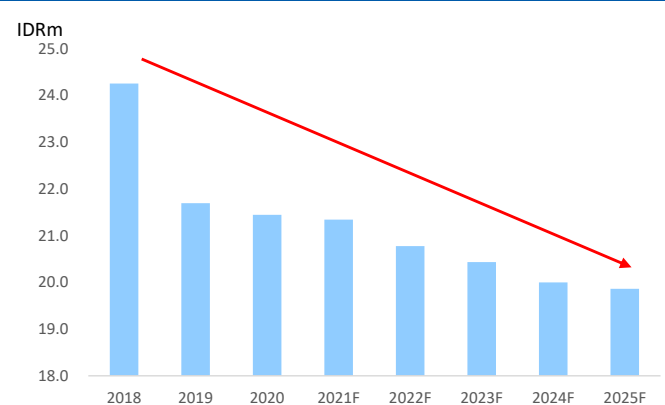
We estimate a cellular revenue growth CAGR of 14% in 2021-2024F, driven by exponential growth in data traffic – which requires operators to lease higher bandwidth for the backbone network – and 15% increases in tenants.

Note that BALI has one of the lowest tenancy ratios, due to the company's different expansion strategy vis-à-vis other tower providers. While most large tower firms have built-to-suit business strategies, BALI has opted to roll out fibre optic networks with tower sites in urban areas that are densely populated, without having standby tenants. The company also collaborates with local governments, allowing it to benefit from low-cost site rentals.

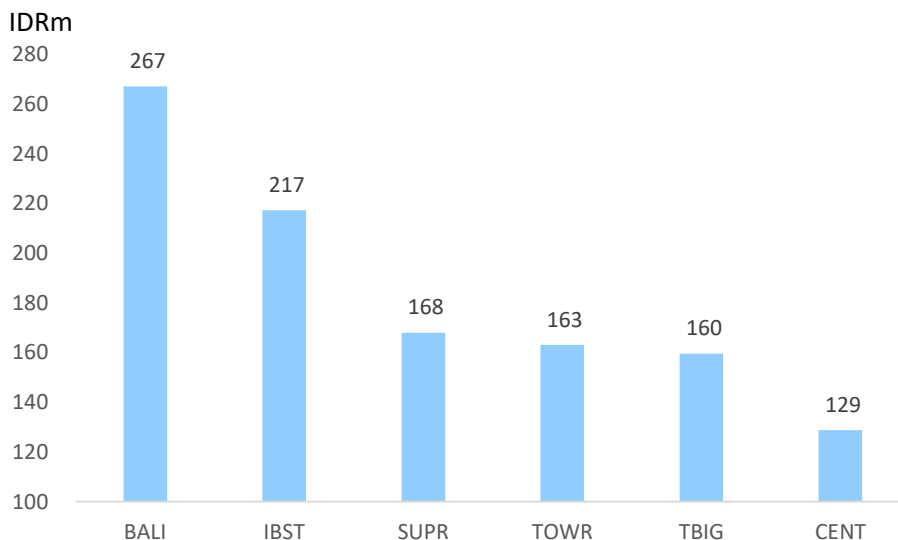
While other tower providers are still worrying about much-lower tower lease renewals impacting their revenue growth ahead, BALI has 60% and 40% contributions for tower and network leases to total revenue. Lower tower lease renewals can easily be offset by higher network lease expenses, in our view.

Figure 31: BALI's number of tenants

Source: Company data, RHB

Figure 32: BALI's monthly revenue per tenant

Source: Company data, RHB

Figure 33: Indonesia tower companies' revenue per tenant

Source: Company data, RHB

◆ When compared with its peers, BALI has the highest revenue per tenant – this is because all its tenants are required to sign up for bundled network rental leases

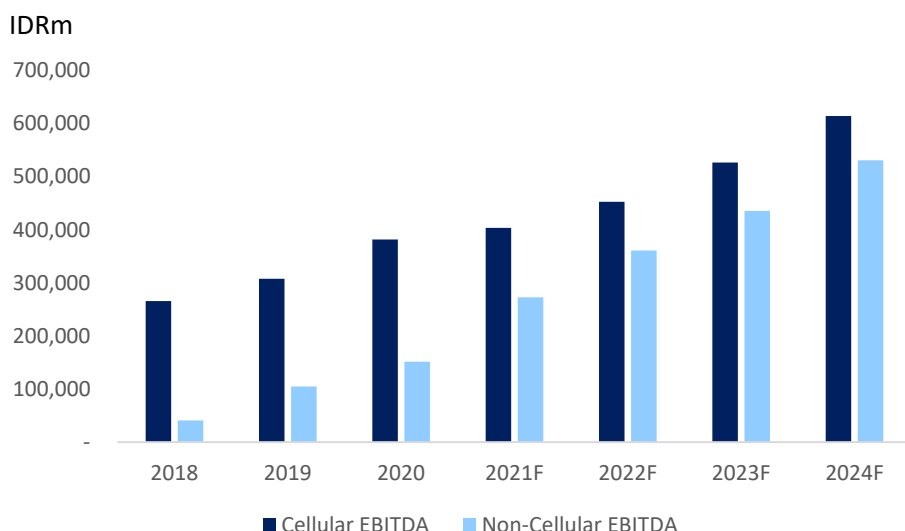
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Healthy EBITDA growth

With all the key drivers that BALI will have, we believe the company's EBITDA for 2021-2024F should be at 19%, as most of its costs are fixed. It also has more revenue streams from government project. As of 9M21, the company has booked IDR494bn or 73% from our estimates as all the Government revenue stream will be booked in 2H21.

We expect its EBITDA margin to expand to 70.6% (2ppts YoY) this year due to the additional revenue streams.

Figure 34: BALI's EBITDA trend

♦ The EBITDA growth will be primarily driven by its non-cellular segment due to the JakWifi project and more revenue streams from the Government

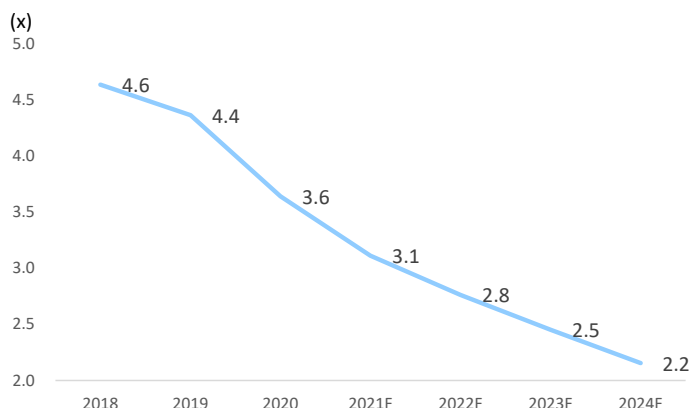
Source: Company data, RHB

Strong balance sheet

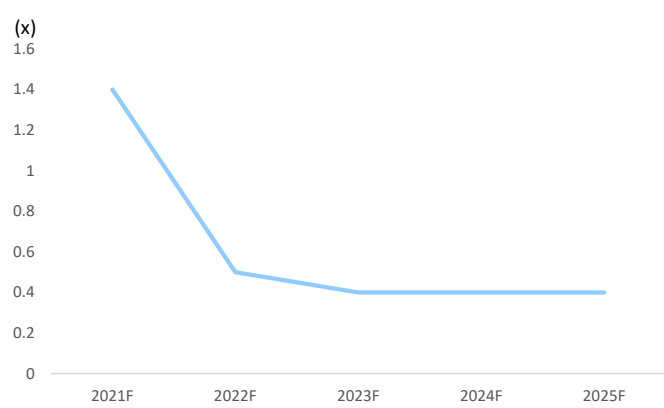
After the government project that BALI had secured last year, we believe its gearing position will improve. Even though it only won the public sector project last year, the company's net debt to EBITDA was at 3.4x as of 9M21 – slightly above TOWR's 3.1x but well below TBIG's 5.2x. We are projecting for BALI to reduce its debt position going forward, as we believe the company will generate more revenue streams from the Government from this year onwards.

On dividends, the company has started to pay dividends in 2021, and we expect this to continue, to chart a yield of almost c.4% pa. We believe that this was due to it increasing cash flow due to government projects, which would also free up more cash to pay dividends.

Hence, we estimate BALI's dividend payout ratio at around 40% pa. Note that it has been paying dividends since 2014.

Figure 35: BALI's net debt-to-EBITDA trend

Source: Company data, RHB

Figure 36: BALI's dividend payout ratio trend

Source: Company data, RHB

Company Background

Bali Towerindo Sentra was established on 6 Jul 2006, and was initially engaged in telecommunication towers infrastructure. It is a leading service provider in Bali and a pioneer in tower facilities equipment, with transmission facilities integrated with high-speed fibre/wireless optic. Note that, BALI has the largest presence in Bali vs other tower companies, as it is the only played with a license to operate in the Badung and Tabanan regencies.

All telco operators in Indonesia that are expanding their presence in the island of Bali will be its tenant, as the Tabanan and Badung regencies are the second and third most crowded areas in Bali island. Unlike other tower companies, BALI always coupled its tower offerings with network (fibre optic-bandwidth). It is worth noting that BALI is the pioneer of the offerings, which also implies that it is the biggest revenue-per-tower earner in the sector. With the 60/40 contributions of tower and network offerings, we believe that it has limited downside risks to the lower tower lease renewal rate.

As of 1H21, the company has 562 tenants in Bali island and 1,473 tenants in the ex-Bali island areas. However, with smaller number of tenants in Bali, the company had managed to book topline similar to that of its peers – because the margin in Bali was much higher compared to non-Bali island areas, due to its exclusive position in the former. In terms of revenue, BALI booked IDR113m/tenant in Bali island vs IDR49m/tenant in non-Bali island areas. Despite having the lowest number of tenants compared to other tower companies, its recurring revenue should be secured, as the remaining tenant lease is at a 7-year average, with 40% of it is for 5-8 years and 39% for >8 years. Moreover, its land lease contract mostly at 10-years (85% of contracts). Revenue from its cellular businesses should be stable, underpinned by stable COGS ahead. Despite the trend of tower renewals, Management indicated that its strategy will be more skewed toward bundling, with increasing tenant capacity to maintain topline growth.



In 2010, the company won a fixed network license and started bundling it with its cellular business. BALI is the only company that bundle its tower rental with backbone, which makes it the highest revenue generator-per-tenant vs peers in Indonesia. With the fixed network license, it then expanded its business to FTTx (Internet and pay-TV services) under the BaliFiber brand. The company strategy was to expand market coverage and the quality of coverage, in a dense area in Indonesia such as DKI Jakarta, Bekasi, Tangerang, Depok, Karawang, Surabaya and Bali. When COVID-19 infections broke out in Indonesia, the sector was strongly buoyed by Indonesians becoming more dependent on fibre networks. We believe this will be the next growth driver for BALI, as its network penetration in Jakarta is only at 22% (vs 19% in Bali). Moreover, the company also just secured a government project to help revamp Jakarta into a smart city and expanding the JakWifi project across Jakarta.

Figure 37: BALI's milestones

Year	Milestone
2006	Established as a telecommunications tower company.
2007	Obtained a license to build telecommunication towers in Badung Regency for 20 years.
2008	Obtained a license to build telecommunication towers in Tabanan Regency for 20 years.
2009	Started to expand to other regions in Bali
2010	Received a fixed closed network license and started moving on the transmission network.
2012	Operated 119 towers.
2013	Obtained a license to be an internet service provider. It also went public this year.
2014	Officially listed its shares on the Indonesia Stock Exchange on 13 Mar 2014.
2015	Started expanding outside Bali Province, by building and operating a MCP, which was installed in DKI Jakarta Province and other major cities in Java.
2016	Expanded its business activities in building GPON FTTH infrastructure and increasing the development and operation of MCPs in Java and Bali.
2017	Obtained a license to operate internet protocol television (IPTV) services.
2018	The brand BaliFiber was introduced to the non-cellular market ie corporate and residential. It also entered the data centre business to complement services to corporate and enterprise customers.





Source: Company data, RHB

Figure 38: BALI's Board of Commissioners

Name	Position	Description
Anni Suwardi		
	Commissioner	<p>Anni Suwardi, 45, is an Indonesian. She graduated with a Bachelor's degree in Accounting from Tarumanegara University in 1995.</p> <p>She has served as Commissioner since May 2018. In accordance with the resolution of BALI's AGM on 18 May 2018, she was appointed as Commissioner for the period 2018-2022.</p>
Erry Firmansyah, SE		
	Independent Commissioner	<p>Erry Firmansyah, 61, is an Indonesian. He earned a Bachelor's degree in Accounting from the University of Indonesia in 1981.</p> <p>He has served as Independent Commissioner of the company since Sep 2013. At the 16 Jun 2017 AGM, he was reappointed as Independent Commissioner for the period of 2017-2022.</p>

Source: Company data, RHB

Figure 39: BALI's Board of Directors

Name	Position	Description
Jap Owen Ronadhi		
	President Director	Jap Owen Ronadhi has served as President Director of BALI since 2007. In accordance with the resolution of the 16 Jun 2017 AGM, he was reappointed as President Director for 2017-2022.
Lily Hidayat		
	Vice President Director	Lily Hidayat has served as Deputy President Director since May 2018. In accordance with 18 May 2018 AGM resolutions, she was appointed as Deputy President Director for 2018-2022.
Robby Hermanto		
	Director	Robby Hermanto served as President Director of the company in 2006, and as Director since 2007. In accordance with the resolution of the AGM on 16 Jun 2017, he was reappointed as Director for 2017-2022.
Tjhang Teddy Gunawan		
	Unaffiliated Director	Tjhang Teddy Gunaman has served as Unaffiliated Director of the company based on the resolution of its EGM on 30 Sep 2013. At BALI's 16 Jun 2017 AGM, he was appointed as Unaffiliated Director for the period 2017-2022

Source: Company data, RHB

Recommendation Chart



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
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
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