

PT Ketrosden Triasmitra (KETR)

IPO Summary

November 10, 2022

Accelerate in connection with the strong growth of the Telecommunication industry

Background. PT Ketrosden Triasmitra (KETR) is a leading submarine and terrestrial network infrastructure provider in Indonesia that is engaged in fiber optic cable system development, construction, and also maintenance. Up until 1H22, KETR has successfully completed the network cable of 10,013 km. KETR also managed to develop submarine fiber optics for Jakarta-Bangka-Batam-Bintan-Singapore (B3JS), Jakarta-Surabaya (Jayabaya), and Medan-Dumai (Damai). The company's growth is in line with the development of the telecommunication industry in Indonesia which is supported by: (i) low internet penetration with the 4th largest total population in the world, (ii) characteristics of Indonesia with the contours of an archipelago, (iii) the growth of mobile internet and the increasing use of social media, (iv) digital business transformation that grows along with the adoption of e-commerce business.

Managed services revenue as the buffer amid economic turmoil. The company's earnings performance was weighed down by the decline of revenue from the developer and contractor segment by -46.2% YoY to IDR 69bn, which brings the total revenue in 1H22 to IDR 162bn, or fell by -22.5% YoY. The correction was attributable to KETR's objective to focus on completing existing projects and not prioritize taking new projects as developer and contractor projects are still experiencing restrictions and tightening due to the impact of the Covid-19 pandemic. On the other hand, the managed service segment became the bulk of revenue with a contribution of 57.3% of total revenue in 1H22 as able to increase by +15.3% YoY to IDR 93bn. Along with that, the company's cost of revenue also decreased by -22.4% YoY, resulting in a gross profit of IDR 95bn (-22.5% YoY) with the gross profit margin flat at 58.8%. As a result, the company's net profit contracted by -45.5% YoY to IDR 28bn in 1H22, with a lower margin of 17.4% (vs. 24.7% in 1H21).

Encourage the developer and contractor business along with the outsourcing trend of telco operators for network infrastructure.

Proceeds from the IPO will be allocated for the working capital of the company and its subsidiary. In detail, approximately 10% will be used to finance the operational activities of projects from each business segment. Meanwhile, 90% will be allocated as additional capital for its subsidiary, which 10% will be used as working capital for PT Triasmitra Multiniaga Internasional (TMI) engaged in the managed service business, and the remaining 80% will be allocated for PT Jejaring Mitra Persada (JMP) that running the contractor business which will be boosted by the outsourcing trend of telco operator for network infrastructure in order to reduce their expenses.

Business risk. In developing fiber optic cable systems, the company conducts the construction as well as sells the network. The development and construction activities require a large investment for marine surveys, purchases of cable, and ship operations. Generally, before starting the development activities, the company pre-selling approximately 30% of the target. The remaining will only be sold after the network is built. This become a major risk as the company used around 20%-30% of its internal cash to build the network in the early stage and use bank loans or other debt instruments to finance the rest of the project. However, if there isn't any demand for the network that has been built by the company, then it will have an impact on decreasing revenue and pose a risk to the sustainability of the company's business.

IPO Structure

The number of shares offered	426,200,000
Nominal Value	IDR 100
Offering Price	IDR 300
Size IPO (IDR)	127.86 billion
Market Cap (IDR)	852.38 billion

Management

President Commissioner	Petrus Sartono
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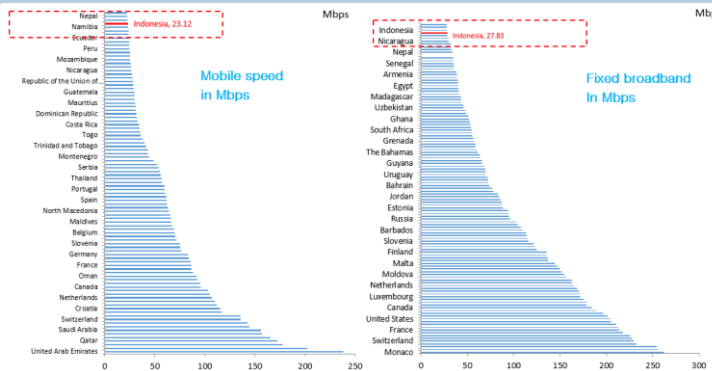
Industry Overview

Indonesia's rapid internet growth. The growth of internet usage in Indonesia is expected to accelerate as seen in the internet penetration rate which is estimated to reach 82.5% in 2026 from the current position of 72.8% according to the data from Statista. This is an opportunity for KETR to develop its fiber optic network business in line with the rapid growth of internet users. Internet growth in Indonesia is also supported by the large demographic position, even for the Asia Pacific region, while the number of internet users reached 202.6 million or ranking in the 3rd position after China and India. In addition, in terms of intensity, the daily internet usage rate in Indonesia reaches 8.5 hours per day, which is above the global average of 6.5 hours per day. This illustrates the need for a fairly strong and fast internet network.

Growing smartphone users and high spending time on the internet. The length of daily internet use in Indonesia is stood at 8.5 hours per day, consisting of 3.1 hours or 36.8% is used for social media activities, followed by watching activities (video on demand, broadcast, streaming) for 2.5 hours, while 1.3 hours are used to listen to music (stream music). All of these activities require adequate quality, speed, and network stability. This also illustrates that the need for high-speed fiber optics will continue to grow. The demand for data speed and quality will also increase in line with the penetration rate of mobile smartphones in Indonesia, which is estimated to reach 82.4% by 2016 from the current rate of only 67%. Along with the number of smartphone users that continues to grow to become the 4th largest in the world with 160 million users, the demand for high-speed telecommunications infrastructure will grow as well and become the supporting factor for KETR business prospects.

Internet speed in Indonesia is lagging, providing the opportunity for KETR to grow further. Although the level of internet users and its intensity continues to grow, in terms of access speed, Indonesia is still lagging behind other countries in terms of mobile and fixed broadband speeds. This is related to the telecommunications infrastructure in Indonesia with the contours of an archipelago that make connectivity infrastructure to be more challenging. The demand for speed quality is projected to grow and this will ultimately drive KETR's business growth going forward as the company is able to provide submarine and terrestrial fiber optic cable systems.

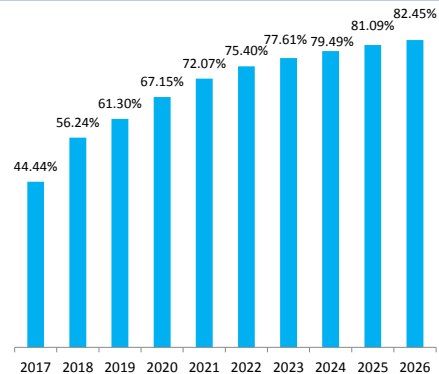
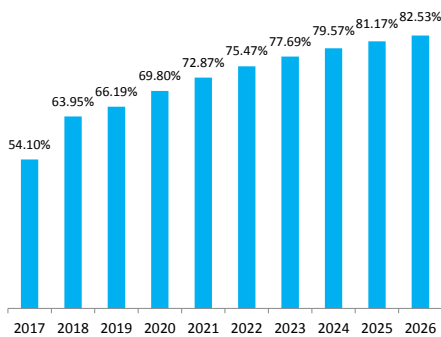
Internet speed in Indonesia is still lagging



Source: Speedtest, Shinhan Sekuritas Indonesia

Internet penetration rate in Indonesia

Smartphone penetration rate in Indonesia



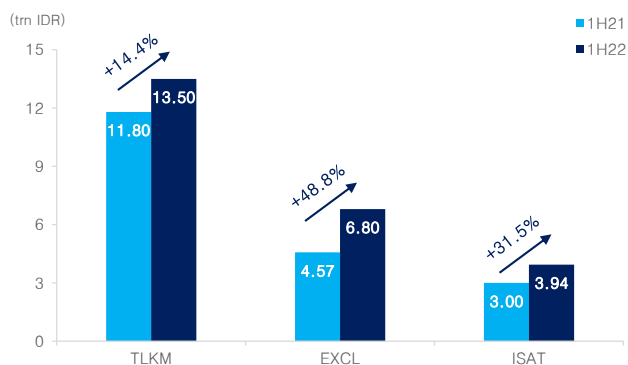
Source: Statista, Shinhan Sekuritas Indonesia

Source: Statista, Shinhan Sekuritas Indonesia

Positive outlook in line with the expansion by telecommunication operator. The clients of KETR’s telecommunications network (developer business) and users of the company’s services (contractor and managed services) are mainly the key telecommunication operators and large NAPs (Network Access Providers), ISP (Internet Service Providers), or Data Center in Indonesia. Up until 1H22, 57% of the total revenue came from the managed services business which was contributed by prominent telecommunications operators in Indonesia including PT Telekomunikasi Indonesia (TLKM), PT Indosat (ISAT), PT Link Net (LINK), etc. Currently, the telecommunication industry is adapting to the flattening of mobile revenue growth by focusing on reducing expenses. The outsourcing of the telecommunication infrastructure will allow telco operators to reduce expenses, limit operating expenses, and focus on differentiated services. Therefore, we suggest that telco operators will expand their capacity and technology by using KETR’s fiber optic cable system. The expansion trend is reflected in higher capex realization in 1H22 from TLKM of IDR 13.50trn (+14.4% YoY), EXCL of IDR 6.80trn (+48.8% YoY), and ISAT of IDR 3.94trn (+31.5% YoY).

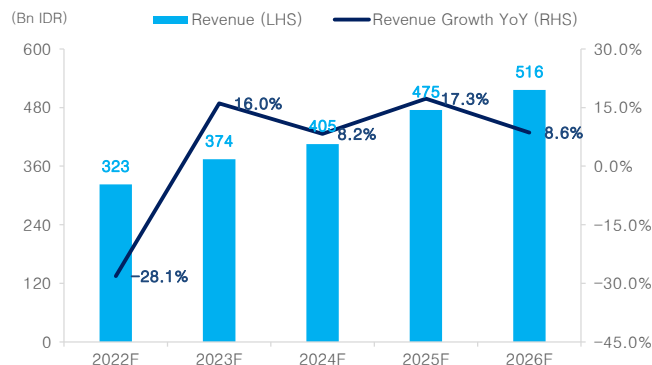
Valuation. We are of the view that KETR has a bright prospect going forward as the company has secured long-term contracts with its clients, especially for the managed service business from the developer portfolio in the average of 15 years contract. Besides that, the company’s projects are also located in strategic locations with high growth rates such as the Ultimate Java Backbone (UJB) project, Jayabaya (Jakarta-Surabaya) cable system project, and the B3JS cable system project. Moreover, the company’s business in the developer and managed service business has relatively high profitability. EBITDA margin has continued to improve over the last several years and reached 42.3% in 2021 and 41.4% in 1H22. The company’s strong position in the industry enables KETR to maintain a fairly high profitability margin. We estimated the IPO price of IDR 300 representing 11.6x EV/EBITDA in FY22. KETR is the only company that builds SKKL in one package (survey, procurement, construction, and deployment) in Indonesia which then provides a unique position to maintain its profitability and ROE level which stood at an average of 16.4% in the last 3 years.

Telecommunication operator capital expenditure



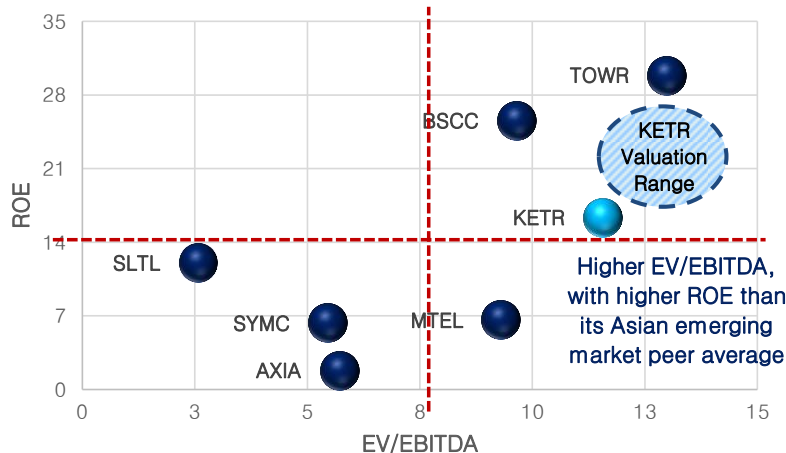
Source: Company, Shinhan Sekuritas Indonesia

Total revenue and growth projection



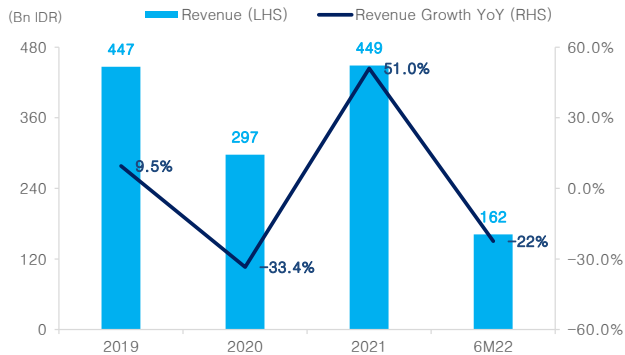
Source: Company, Shinhan Sekuritas Indonesia Estimates

KETR peer comparison and valuation matrix



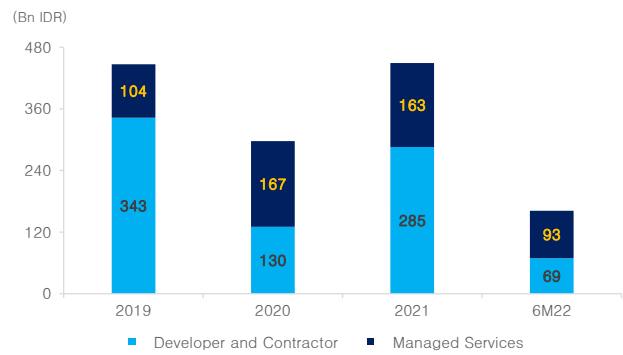
Source: Company, Shinhan Sekuritas Indonesia

Revenue historical trend



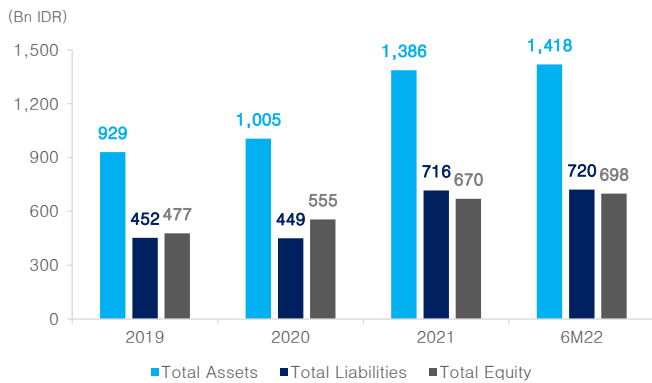
Source: Company, Shinhan Sekuritas Indonesia

Revenue breakdown by segment



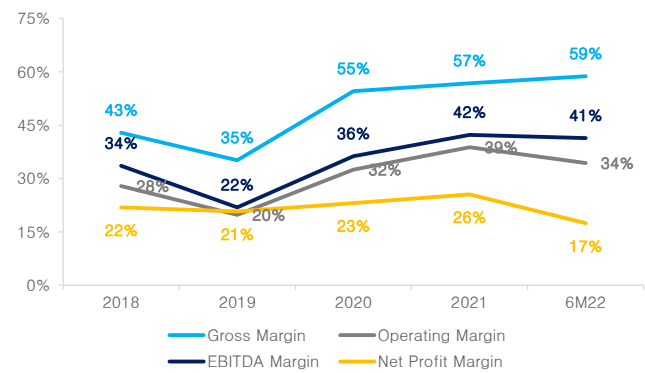
Source: Company, Shinhan Sekuritas Indonesia

Capital structure



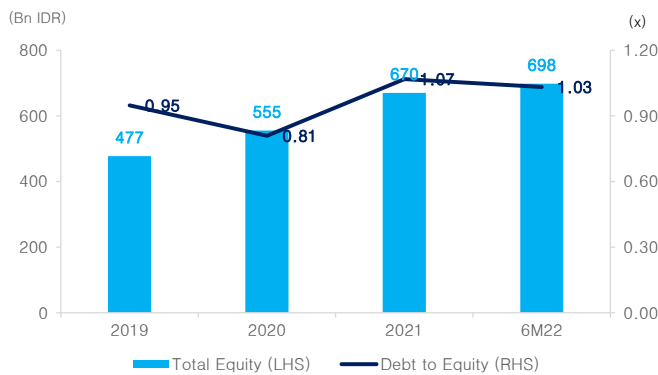
Source: Company, Shinhan Sekuritas Indonesia

Profitability margin



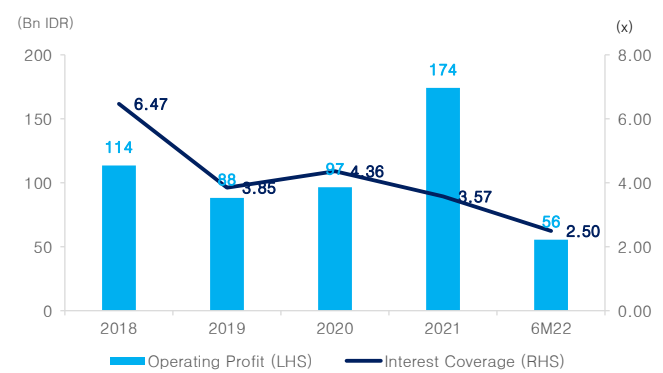
Source: Company, Shinhan Sekuritas Indonesia

Debt to equity



Source: Company, Shinhan Sekuritas Indonesia

Interest coverage



Source: Company, Shinhan Sekuritas Indonesia

Income Statement

(Bn IDR)	2018	2019	2020	2021	6M22
Revenue	408	447	297	449	162
Direct Costs	-233	-290	-135	-194	-67
Gross Profit	175	157	162	255	95
EBITDA	137	98	108	190	67
Operating Expense	-61	-69	-66	-81	-40
Operating Profit	114	88	97	174	56
Pre-Tax Profit	90	93	69	115	34
Tax Expense (Benefit)	-1	0	0	0	-6
Net Profit	89	93	69	115	28
EPS (IDR)	N/A	46	34	57	12

Source: Company, Shinhan Sekuritas Indonesia

Balance Sheet

(Bn IDR)	2018	2019	2020	2021	6M22
Assets					
Cash and Equivalent	N/A	8	19	66	25
Receivables	N/A	51	151	223	248
Inventories	N/A	584	593	504	545
Others	N/A	47	27	279	199
Total Current Assets	N/A	690	791	1,072	1,017
Net Fixed Assets	N/A	71	64	166	252
Other Assets	N/A	169	150	149	149
Total Assets	N/A	929	1,005	1,386	1,418
Liabilities and Equities					
Payables	N/A	118	105	82	80
Other Short-Term Liabilities	N/A	48	68	45	49
Total Current Liabilities	N/A	166	173	128	129
LT. Debt	N/A	281	269	581	584
Other Long Term Liabilities	N/A	5	7	7	7
Total Long-Term Liabilities	N/A	286	276	588	591
Total Liabilities	N/A	452	449	716	720
Shareholders' Equity	N/A	477	555	670	698
BVPS (IDR)	N/A	237	277	334	289

Source: Company, Shinhan Sekuritas Indonesia

Cash Flow

(Bn IDR)	2018	2019	2020	2021	6M22
CFs from Operation					
Net Profit	N/A	93	69	115	28
Change in Working Capital	N/A	-75	-32	-5	-45
CFs from Operation	N/A	18	36	110	-17
CFs from Investments	N/A	-66	-5	-346	-40
CFs from Financing	N/A	24	-20	285	16
Net Inc./((Dec.) in Cash	N/A	-24	11	46	-41
Cash at End Period	N/A	8	19	66	25

Source: Company, Shinhan Sekuritas Indonesia

Key Ratio

	2018	2019	2020	2021	6M22
Profitability					
Gross Margin	42.9%	35.1%	54.6%	56.8%	58.8%
Operating Margin	27.9%	19.8%	32.5%	38.8%	34.3%
EBITDA Margin	33.6%	21.9%	36.3%	42.3%	41.4%
Net Income Margin	21.9%	20.7%	23.1%	25.5%	17.4%
ROAA	9.1%	10.0%	6.8%	8.3%	4.0%
ROAE	23.3%	19.5%	12.4%	17.2%	8.1%
Growth					
Revenue	N/A	9.5%	-33.4%	51.0%	-22.5%
Operating Profit	N/A	-10.2%	3.4%	57.1%	-22.5%
EBITDA	N/A	-22.3%	9.4%	80.3%	-38.4%
Net Income	N/A	-28.7%	10.5%	76.0%	-32.2%
Solvability					
Current Ratio (x)	N/A	4.15	4.58	8.40	7.86
Quick Ratio (x)	N/A	0.35	0.99	2.91	2.75
Total Borrowing to EBITDA (x)	1.6	0.9	0.8	1.1	1.0
Interest Coverage (x)	6.5	3.8	4.4	3.6	2.5

Source: Company, Shinhan Sekuritas Indonesia



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