

Thursday, 09 November 2023

Non-rated

Solusi Energi Digital (WIFI IJ)

Strategically-positioned with potentially big contracts

Last price (IDR) 155

Stock Statistics

Sector Technology
Bloomberg Ticker WIFI IJ
No of Shrs (mn) 1,180,184
Mkt. Cap (IDRbn/USDmn) 106,217/6,904
Avg. daily T/O (IDRbn/USDmn) 380.0/24.7

Major shareholders (%)

PT Investasi Sukses Makmur 51.5
Estimated free float 48.5

We believe Surge is strategically positioned to capitalize on the current ICT trends through enabling connectivity and backhaul capacity to large business customers. Surge enjoys significant competitive advantages from its potential to offer access to low hanging fruit end-users with fast network deployment. Surge projects its revenues to potentially reach ~Rp1+ trillion in 2024 with steady margins, which we see as plausible.

Competitive edge with Kereta Api: a) fast rollouts. Surge's competitive edge lies in its revenues sharing deal with PT Kereta Api Indonesia (KAI). Through the deal, Surge is able to offer attractive locations to both big MNOs and small ISPs with 5,764kms of fiber surrounding Java laid on the tracks of KAI and the highways of Jasa Marga. With cables deployed Surge minimizes site acquisition and construction costs. Surge's assets are also highly scalable making it an attractive partner for MNOs, Hyperscale DCs and ISPs seeking cost-effective infra solutions with room to grow in the long term. **b) proximity to low hanging fruit.** The close proximity to a large number of households (11.4 million within a 1km radius and 20.0 million within a 5km radius) provides a substantial market opportunity for network expansion, especially for MNOs and ISPs.

At the right time in the right market. Surge can generate revenues by leasing out network core through 3 different routes (railway-highway-roadside fiber), providing affordable bandwidth for ISPs, colocation & CDN services through its Edge Data Centers (currently present in 55 locations), interconnection for HDC big customers, provide BTS poles to MNOs for fixed wireless services and cellular services, as well as FTTH. Thus, we believe Surge is likely to secure more long-term contracts with MNOs and ISPs to propel Surge to Rp1+ trillion annual revenues in the near-term.

Fundraising and Growth Potential. Surge plans to issue new shares (4 new / for 5 existing shares, at Rp270) to support bandwidth expansion and geographical growth. The commitment of the principal owner and ongoing negotiations with potential strategic investors indicate strong confidence in Surge. Moreover, despite the rights issue with potential proceeds of ~Rp490bn, from our back of the envelope proforma, Surge's ROIC can increase to the 2-digit level in 2024 if sales rise closer to Rp1 trillion. The management is also confident that EPS may reach the previous level of Rp28 in 2022.

Key Financials

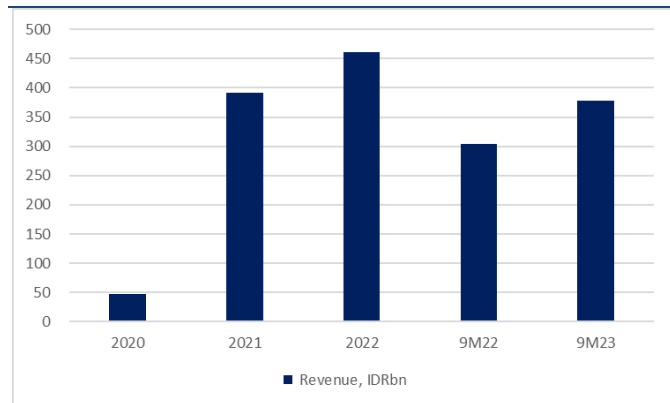
Year To 31 Dec	2020	2021	2022	9M22	9M23
Revenue, IDRbn	48	391	461	305	378
EBITDA, IDRbn	40	68	184	87	85
EBITDA growth, %	62.7	72.5	169.4	45.5	(0.02)
Net profit, IDRbn	2	26	58	13	24
EPS, IDR	0	13	28	6	10
EPS growth, %	0.0	2.696	115.3	94.3	69.3
BVPS, IDR	212	251	271	256	281
DPS	0.0	0.0	0.0	0.0	0.0
PER, x	344.7	12.3	5.7	19.7	11.6
PBV, x	0.763	0.647	0.599	0.632	0.577
Yield, %	0.0	0.0	0.0	0.0	0.0
EV/EBITDA, x	25.4	14.7	5.5	8.6	8.9



Niko Margaronis

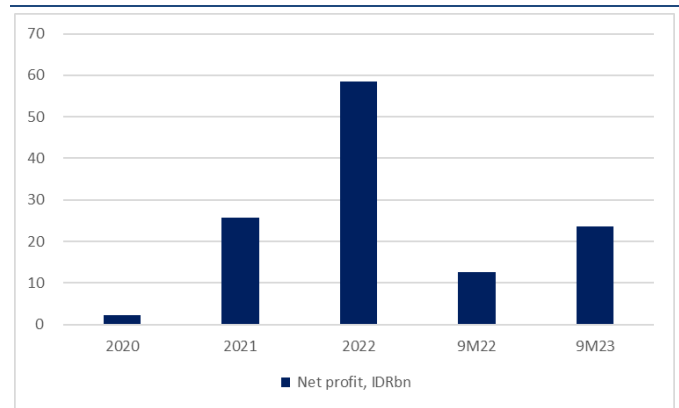
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Exhibit 1. Revenues



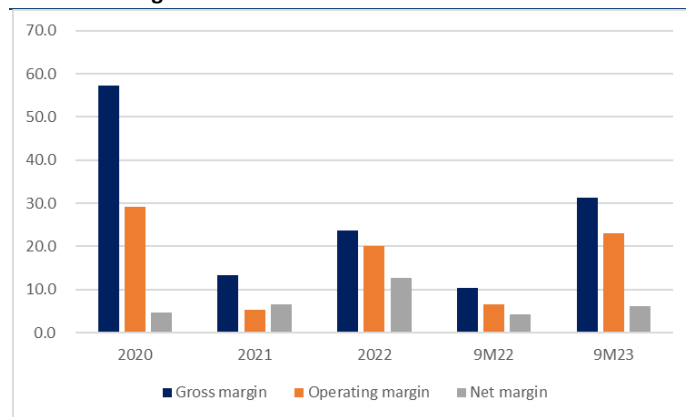
Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 2. Net Profits



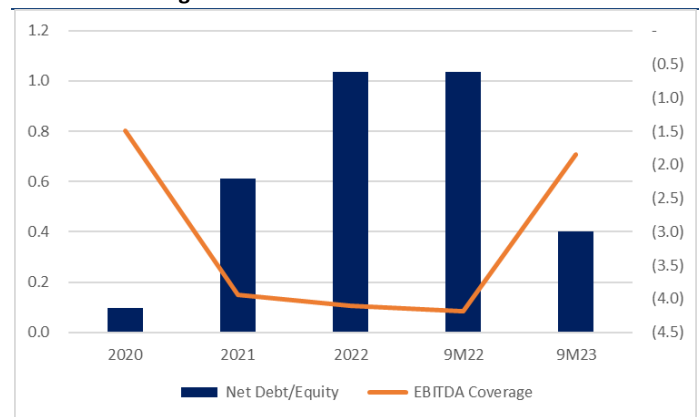
Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 3. Margins



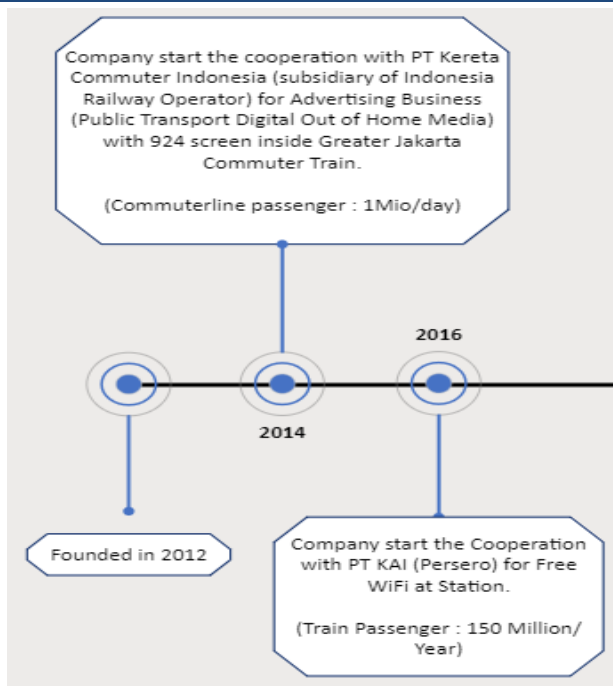
Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 4. Gearing Level



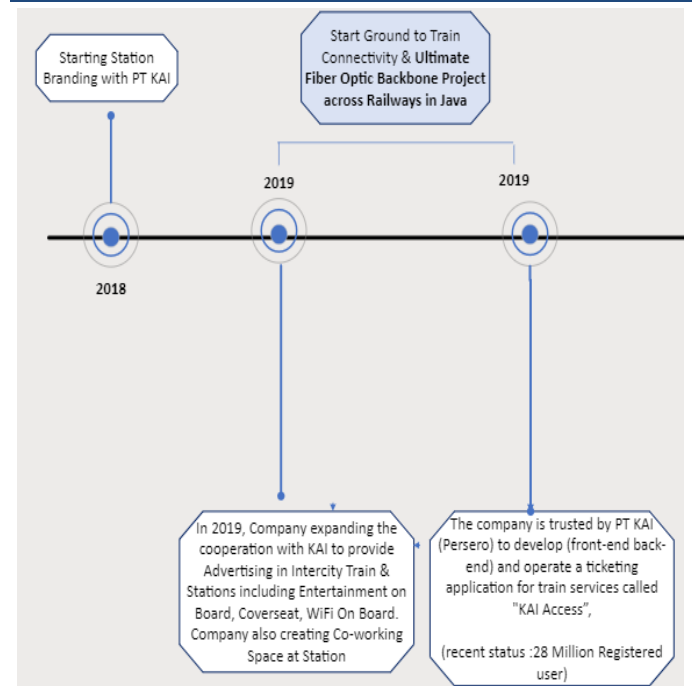
Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 5a. Surge key history milestones



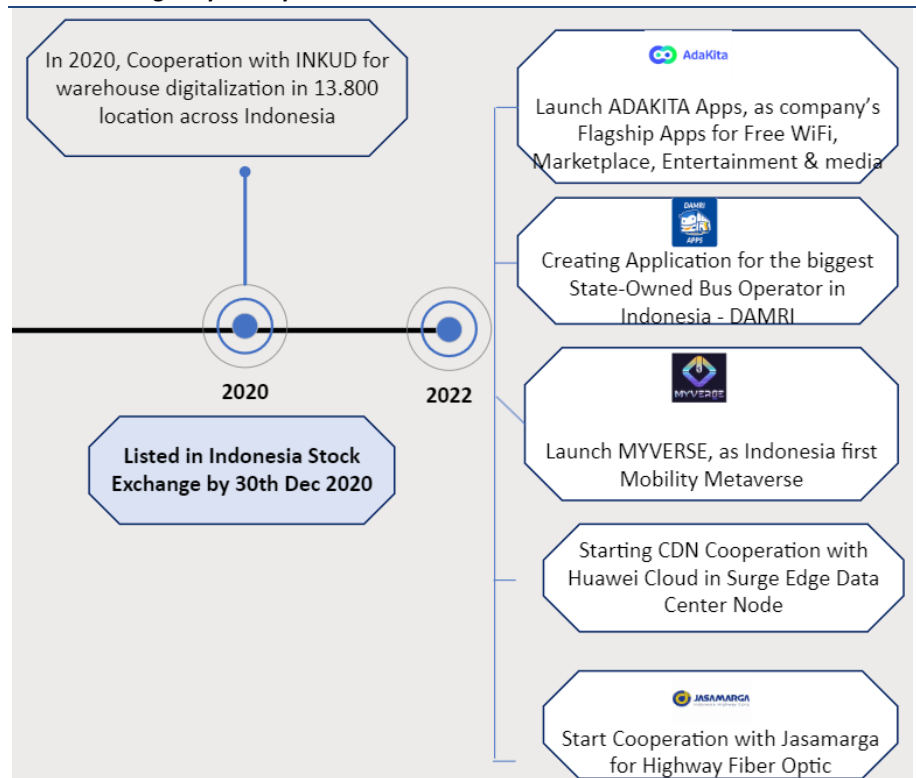
Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 5b. Surge key history milestones



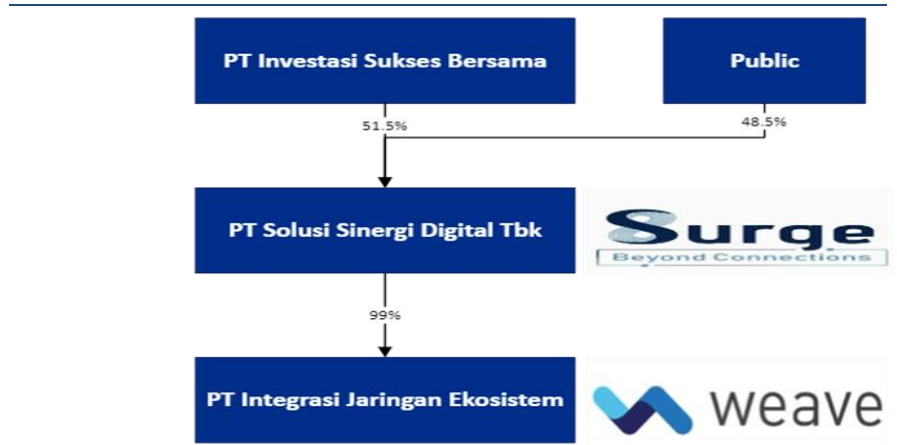
Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 5c. Surge key history milestones



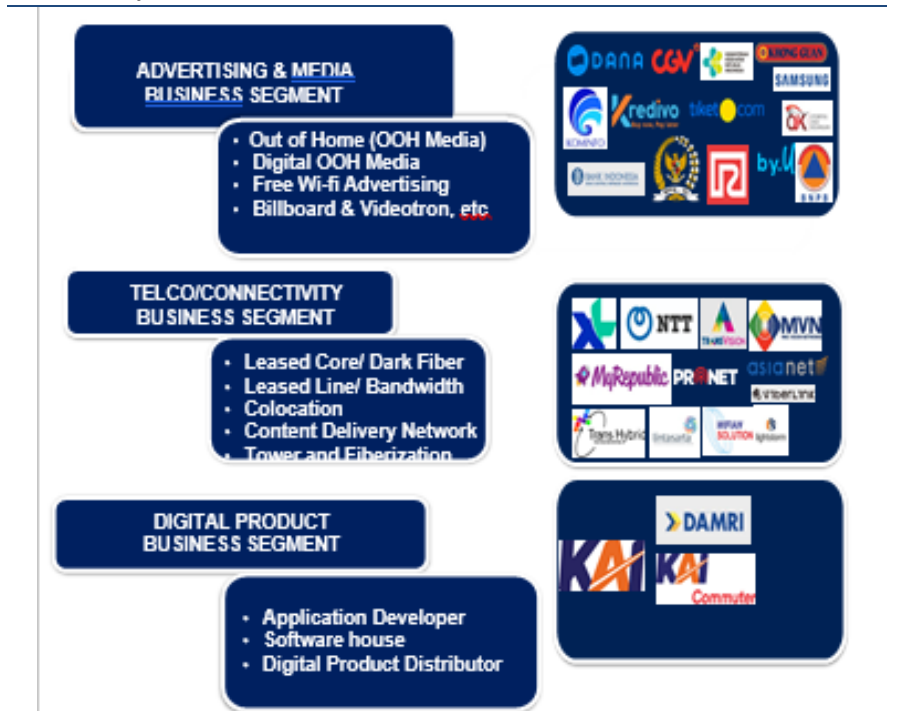
Source: Company

Exhibit 6. Ownership Structure



Source: Company

Exhibit 7. Key businesses and clientele



Source: Company

Exhibit 8A. Revenues Breakdown by business segment

	2020	2021	2022	9M22	9M23
Advertising					
Revenue	46,555	99,685	189,213	79,228	252,662
COGS	(20,134)	(47,529)	(89,996)	(71,557)	(176,735)
Gross Profit	26,421	52,156	99,217	7,672	75,927
GPM	57%	52%	52%	10%	30%
Telecommunication					
Revenue		1,075	37,573	5,239	56,085
COGS		(5,456)	(29,291)	(19,246)	(43,043)
Gross Profit		(4,381)	8,282	(14,007)	13,042
GPM		-407%	22%	-267%	23%
Digital Product					
Revenue		290,197	234,466	220,131	69,335
COGS		(286,293)	(233,202)	(182,226)	(40,609)
Gross Profit		3,904	1,264	37,905	28,726
GPM		1%	1%	17%	41%
Total					
Revenue	47,505	390,957	461,253	304,598	378,082
COGS	(20,266)	(339,278)	(352,489)	(273,028)	(260,388)
Gross Profit	27,239	51,679	108,764	31,570	117,694
GPM	57%	13%	24%	10%	31%

Source: Company, BRI Danareksa Sekuritas estimates

Exhibit 8b. Revenues Breakdown contribution

	2020	2021	2022	9M22	9M23
Advertising					
	98.0%	25.5%	41.0%	26.0%	66.8%
Telecommunication					
		0.3%	8.1%	1.7%	14.8%
Digital Product					
		74.2%	50.8%	72.3%	18.3%

Source: Company, BRI Danareksa Sekuritas estimates

Geographic advantages. The railway network's passage through Java's most densely populated areas provides Weave with the potential for extensive market reach without the need for significant investment in new right-of-way negotiations. The assets amount to 5,764kms of fiber that surround Java, of which 4,000kms traverse the railways of PT Kereta Api Indonesia (KAI) across Java. The other 1,700km includes highway and roadside fiber as backup from Jakarta to Surabaya.

Revenues Sharing Model: Surge – Weave is able to roll out cables across KAI's railway network in Java based on a revenues sharing contract with KAI with 30% of the Weave revenues to be apportioned to KAI. The contract lasts 10 years, with renewal options offering long-term stability for Weave, allowing for significant planning and return on investment. The railway routes in Java cross through densely populated areas.

Exhibit 10a. Laying fiber cables alongside Kereta Api corridors



Source: Company

Exhibit 10b. Laying fiber cables alongside Kereta Api corridors

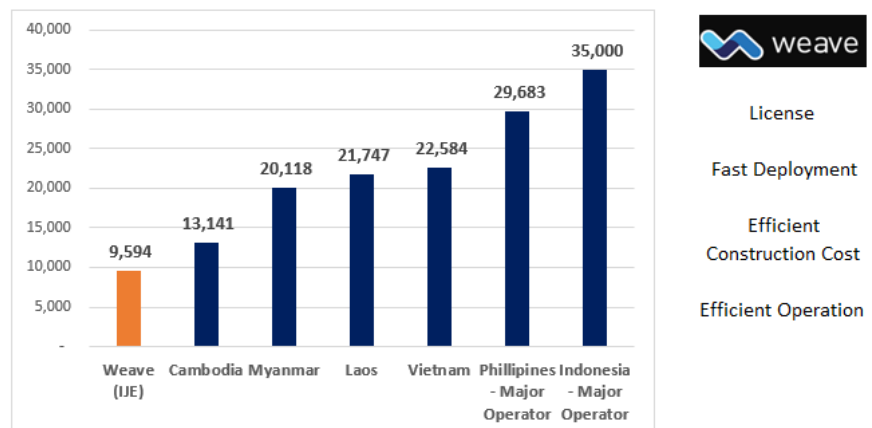


Source: Company

Market Potential: The proximity to a large number of households (11.4 million within a 1km radius and 20.0 million within a 5km radius) provides a substantial market opportunity for network expansion, especially for mobile network operators (MNOs) and Internet service providers (ISPs). It could dramatically lower the infrastructure deployment costs and provide a competitive edge in terms of speed of rollout and market penetration. The railway corridors could be used for laying fiber-optic cables, crucial for both backhaul connectivity for mobile networks and direct fixed-line broadband services.

Exhibit 11. Low cost for incremental fiber capex – comparison

Backbone Underground Outside Plant Capex (USD per km)



Source: Company

Cost Efficient Infrastructure

Capacity Upscaling with DWDM: Initially, with their DWDM technology, Surge – Weave's infrastructure can handle 64 Tbps (5.6 Tbps already on service), which is enough to potentially serve approximately 11.2 million households, based on the assumption that each household uses an average of 25 Mbps. This can be a strong selling point for attracting service providers looking for extensive coverage capabilities.

Potential for Expansion: With further capital expenditure focused on upgrading the DWDM systems, the capacity could be expanded up to 64 Tbps. This indicates substantial headroom for growth and the ability to keep up with increasing bandwidth demand as internet usage and the number of connected devices continues to climb.

Strategic Cable Placement: By deploying cables along existing railway lines and major highways, the company can avoid the significant costs and delays associated with site acquisition and new construction. This strategic placement also facilitates easier maintenance and potential expansion.

Operational Cost Savings: The passive nature of fiber infrastructure, combined with strategic placement that reduces sitting costs and expedites deployment contributes to keeping capital expenditures (CapEx) and operational expenditures (OpEx) lower. This efficiency can make Surge – Weave a more attractive partner for mobile network operators (MNOs) and internet service providers (ISPs) looking for cost-effective infrastructure solutions.

R&D contributor in 5G. Qualcomm Technologies, Inc is working to develop 5G connectivity to reduce complexity and lower costs. Surge has been chosen to be one of the partners along with big telcos around Asia Pacific. Collaborating with partners such as Surge Qualcomm may help bridge the gap between high-end, full-feature 5G applications and entry-level, budget-conscious segments of the market, expanding the overall reach of 5G technology.

Exhibit 12. Partnering with Qualcomm Tech. to develop devices powered by Snapdragon X35.



Source: Company

Currently in equity fundraising mode (RI). The planned rights issue is for 2,003,014,080 new shares, by offering 4 new shares for every 5 existing shares. The price for every new share is set at Rp270. Essentially, the total proceeds can reach as much as Rp540bn to support increases in Weave's bandwidth and geographical expansion.

Surge first announced its intention to fundraise back on 26 June 2023 as per IDX records with a larger amount of new shares of 4,961,706,833 and a closing share price @Rp230 on that day (average closing share price in June @Rp237). We understand that the implied high dilution of existing shareholders contributed to the decline in Surge's share price since then. Surge adjusted the RI terms, and announced the last RI offering on 28 August with a new prospectus.

The management indicated that the principal owner is fully committed to support with ~50% of the proceeds with potential strategic investors to provide the rest. Based on the schedule, the rights issue should be in process but OJK appears to be experiencing a backlog (we present here a likely scenario of the shareholders' structure post the RI.)

Despite the rights issue with potential proceeds of ~Rp490bn, our back of the envelope proforma suggests that Surge's ROIC can increase to the 2-digit level in 2024 if sales rise closer to Rp1 trillion. The management is also confident that EPS may reach the previous level of Rp28 in 2022.

Exhibit 13. Potential Ownership Structure before and after rights issue

	no. of shares before RI	Nominal value		no. of shares after RI	Nominal value		Total new shares
Share capital	6,030,000,000	603,000,000,000		10,000,000,000	1,000,000,000,000		
PT Investasi Makmur Bersama	1,129,916,700	112,991,670,000	50%	2,033,850,060	112,991,670,000	50%	903,933,360
PT Investasi Maju Makmur / or other investor	0	0	0%	903,933,360	90,393,336,000	22%	903,933,360
Tinawati	6,750,000	675,000,000	0%	12,150,000	1,215,000,000	0%	5,400,000
Public less than 5%	1,118,684,688	111,868,468,800	50%	1,118,684,688	111,868,468,800	27%	0
Total share capital issued and paid	2,255,351,388	225,535,138,800	100%	4,068,618,108	316,468,474,800	100%	1,813,266,720
Shares in the portfolio	3,774,648,612	377,464,861,200		5,931,381,892	683,531,525,200		2,156,733,280

Price (Rp) for new share:	Total Proceeds (Rp):
270	489,582,014,400

Source: Company

Exhibit 14. Income Statement

	2020	2021	2022	9M22	9M23
Revenues	48	391	461	305	378
COGS	(20)	(339)	(352)	(273)	(260)
Gross profit	27	52	109	32	118
EBITDA	40	68	184	87	85
Oper. profit	14	21	93	20	87
Interest income	16	13	6	6	0
Interest expense	(26)	(17)	(45)	(21)	(46)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(0)	7	(0)	8	1
Pre-tax profit	3	24	54	14	41
Income tax	(2)	0	4	0	(17)
Minority interest	1	1	0	(1)	(0)
Net profit	2	26	58	13	24
Core Net Profit	2	26	58	(10)	39

Exhibit 15. Balance Sheet

	2020	2021	2022	9M22	9M23
Cash & cash equivalent	26	11	21	13	18
Receivables	21	26	103	135	112
Inventory	4	4	0	4	0
Other Curr. Asset	66	57	95	93	315
Fixed assets - Net	105	532	1,047	808	1,059
Other non-curr.asset	288	268	142	95	25
Total asset	511	896	1,408	1,148	1,529
ST Debt	40	60	86	69	20
Payables	9	27	34	90	132
Other Curr. Liabilities	1	0	10	3	101
Long Term Debt	26	266	570	453	227
Other LT. Liabilities	21	27	94	3	413
Total Liabilities	97	380	795	618	893
Shareholder's Funds	414	514	610	525	634
Minority interests	(0.37)	2.32	2.41	5.00	2.00
Total Equity & Liabilities	511	896	1,408	1,148	1,529

Exhibit 16. Cash Flow

	2020	2021	2022	9M22	9M23
Net Income	2	26	58	13	24
Depreciation and Amort.	26	47	91	67	7
Non-Cash Items	n.m	n.m	n.m	n.m	n.m
Cash flow from operation	(18)	79	55	(45)	(36)
Capex	(36)	(298)	(498)	(328)	(98)
Other Inv. CF	10	33	157	172	120
Investing Cash Flow	(26)	(264)	(329)	(125)	22
Net change in debt	(1)	89	251	197	6
New Capital	83	19	17	0	0
Dividend payment	0	0	0	0	0
Other Fin. Cash Flow	(18)	63	16	(25)	3
Financing Cash Flow	64	170	284	172	9
Net Change in Cash	20	(16)	10	3	(3)
Cash - begin of the year	6	26	11	11	21
Cash - end of the year	26	11	21	13	18

Exhibit 17. Key Ratios

	2020	2021	2022	9M22	9M23
Growth (%)					
Sales	29.7	723.0	18.0	4.0	24.1
EBITDA	62.7	72.5	169.4	45.5	(0.60)
Operating profit	20.1	52.3	340.9	58.2	(0.1)
Net profit	(20.7)	1,068.6	126.5	50.8	86.2
Profitability (%)					
Gross margin	57.3	13.2	23.6	10.4	31.2
EBITDA margin	83.2	17.4	39.8	28.6	22.5
Operating margin	29.1	5.4	20.1	6.6	23.0
Net margin	4.7	6.6	12.7	4.1	6.2
ROAA	0.5	3.7	5.1	1.6	2.1
ROAE	1.0	5.6	10.4	0.0	0.0
Leverage					
Net Gearing (x)	0.1	0.6	1.0	1.0	0.4
Interest Coverage (x)	0.5	1.2	2.1	1.0	1.9

Source: Bloomberg

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