

SMALL/MID CAP HIGHLIGHTS

Communication Cable Systems Indonesia (CCSI IJ)

Becoming A Fully-integrated Submarine Network Developer

CCSI is a terrestrial and submarine fibre optic cable manufacturer and contractor, and is expanding to become a fully-integrated submarine network developer and operator. CCSI established VCS, a JV company that develops high-capacity submarine communication cable systems. CCSI also made a 4.99% equity investment in KETR IPO to explore collaboration in submarine fibre optic network development. At the current share price, CCSI is trading at 15.6x 2022F PE.

WHAT'S NEW

- Rapidly-growing digital economy drives massive digital infrastructure development.** According to Minister of Coordinating Ministry for Economic Affairs (Kemenko), Indonesia has the largest digital economy in Southeast Asia, with its economic value in 2021 being recorded at around US\$70b and estimated to reach US\$146b by 2025. Companies such as telco infrastructure and internet service providers are pouring out capex to build digital infrastructures powered by fibre optic from the backbone, middle mile, and last mile layers.
- Local company with world-class SOP standards.** Communication Cable Systems Indonesia (CCSI) is a fibre optic cable manufacturer and contractor; with market share for all of its products at around 15% in the domestic market, making it among the top five players in Indonesia. CCSI is well-known in the market for its premium quality products, with the company using the world's best fibre optics from Corning (global-leading in glass, ceramics and advanced optics). CCSI has installed production capacity of 57,200 km of optical cables (equivalent to 2.08m optical fibres km per year). The high standard operating procedure (SOP) and manufacturing standards, including excellent management discipline, have been instilled by previous shareholders Siemens and Corning, and continue to this day.
- Competitive advantage in submarine fibre optic cables.** CCSI was the first company in Indonesia capable of producing submarine optical cables (since 1998). Its submarine cables have been exported to Spark New Zealand, then installed and stretched in Cook Strait, New Zealand. Domestically, CCSI also supplied for the East Palapa Ring project. It has a submarine fibre optic cable production capacity of 3,500 km/year (factory located in Krakatau Bandar Samudera). Currently, the company is building a new factory that will double production capacity to 7,000 km/year. The new factory is expected to be completed and commence operation in 3Q23. Supported by its competitive advantage, CCSI is expanding its business as a submarine network developer and operator.
- Future recurring income on submarine network leases.** In Feb 22, CCSI and Matrix NAP Info (MNI) formed a JV Varuna Cahaya Santosa (VCS) to develop a high-capacity submarine fibre optic cable network that will connect Java, Bali, Lombok, Sumbawa, Labuan Bajo, Sulawesi, Kalimantan, Bawean, Madura island and back to Java in a one loop network with a total optical cable length of more than 4,000 km. CCSI and MNI are also in discussions with Mitsui & Co which is interested in equity participation in VCS. CCSI will be involved in the engineering, procurement and construction (EPC) of the Varuna Project as well.

KEY FINANCIALS

Year to 31 Dec (Rpb)	2018	2019	2020	2021	2022
Net turnover	445	382	282	423	615
EBITDA	55	83	47	65	84
Operating profit	72	76	36	53	78
Net profit (rep./act.)	34.9	56	29	39	50
Net profit (adj.)	34.9	56	29	39	50
EPS (Rp)	n.a	61.2	28.5	37.3	41.8
PE (x)	n.a	10.6	22.8	17.4	15.6
P/B (x)	n.a	1.8	1.9	1.9	1.8
EV/EBITDA (x)	n.a	6.7	13.0	11.0	11.3
Dividend yield (%)	n.a	1.15	1.15	1.38	n.a
Net margin (%)	7.8	14.6	10.1	9.2	8.1
Net debt/(cash) to equity (%)	-2.0	-12.1	-12.3	11.0	39.9
Interest cover (x)	14.4	29.4	10.8	21.7	11.8
ROE (%)	15.7	17.0	8.4	10.6	11.5
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: CCSI, Bloomberg, UOB Kay Hian

NOT RATED

Share Price Rp650
Target Price n.a

COMPANY DESCRIPTION

CCSI is a premium quality fibre optic cable manufacturer and contractor, with a proven track record of 27 years. CCSI became a listed company in 2019.

STOCK DATA

GICS sector Manufacture
Bloomberg ticker: CCSI IJ
Shares issued (m): 1,199
Market cap (Rpb): 780.0
Market cap (US\$m): 50.6
3-mth avg daily t'over (US\$m): 0.1

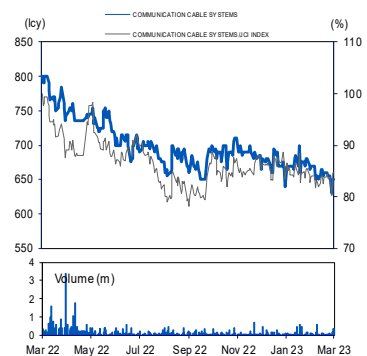
Price Performance (%)

52-week high/low Rp915/Rp620
1mth 3mth 6mth 1yr YTD
(2.3) (5.1) (3.0) (17.7) (6.5)

Major Shareholders

Grahatama Kreasibaru 39.2
FY22 NAV/Share (Rp) 364
FY22 Net Debt/Share (Rp) 145

PRICE CHART



Source: Bloomberg

ANALYST(S)

Selvi Ocktaviani
+6221 2993 3876
selviocoktaviani@uobkayhian.com

- Equity investment in KETR strengthening CCSI's position in fibre optic cable industry.** CCSI subscribed for shares of Ketrosden Triasmitra (KETR) during the IPO of 141.8m shares (4.99%) with a price of Rp300/share, equivalent to an Rp42.5b investment. KETR is engaged in the development, sales, and maintenance of fibre optic cable with 28 years of experience. The company has deployed more than 10,000 km of submarine and inland cables so far. Currently, the construction of underwater cable infrastructure still cannot be carried out on a large scale due to the limited number of cable-laying vessels. In 2022, KETR purchased Norwegian flagship Skandi Sotra, to be converted into a cable-laying ship named Bentang Bahari.

2022 RESULTS

Year to 31 Dec (Rpb)	4Q22	3Q22	qoq %	4Q21	yoy %	2022	2021	yoy %
Revenue	147	161	-8.9%	114	28.7%	615	423	45.5%
Gross Profit	31.7	29.0	9.3%	20.9	51.5%	125	98	26.9%
Operating Profit	16.8	21.7	-22.7%	3.3	411.3%	78.0	52.7	48.1%
Net Profit	9.9	13.2	-25.3%	0.3	3115.4%	50.1	38.7	29.4%
Margins (%)	4Q22	3Q22	qoq (bp)	4Q21	yoy (bp)	2022	2021	yoy (bp)
Gross	21.6%	18.0%	+360 bp	18.4%	+330 bp	20.2%	23.2%	-300 bp
Operating	11.4%	13.5%	-210 bp	2.9%	+850 bp	12.7%	12.5%	+20 bp
Net	6.7%	8.2%	-150 bp	0.3%	+640 bp	8.1%	9.2%	-110 bp

Source: CCSI

STOCK IMPACT

- Solid 2022 results...** CCSI's revenue surged 45.5% yoy to Rp615b in 2022. Net profit increased by 29.4% yoy to Rp50b. The increase in main material prices pressured CCSI's gross margin as the company tried to keep the selling price competitive. However, the excellent cost management let the company maintain its operational margin (+20bp yoy). Net margin was down mainly due to depreciation of rupiah and higher finance costs.
- ...surpassing targets.** CCSI delivered strong results that surpassed management's targets. The revenue, pre-tax profit, and net profit accounted for 105%, 107% and 108% of management projections respectively.
- Management's 2023 target and forward-looking outlook.** In the relatively high interest rate environment, companies in the telco industry in general will slow down the pace of their capex deployment. In addition, Indonesia is entering a political year in 2023, with uncertainties causing investors to adopt wait-and-see stance. Therefore, management has set a conservative target of 4% yoy revenue growth in 2023. With the scale that the company has reached Rp615b revenue in 2022, CCSI provided a net revenue CAGR of 19% for the past five years, and brought with it positive returns to its shareholders. Given the future competitive landscape for land fibre optic cable, management will prioritise sustainable profitability.
- Management forecasts relatively high inflation to persist in 2023, and tighter competitive landscape for land cable.** It also expects a temporary earnings downturn, with projection of a 13.3% yoy drop in gross profit and a 38.2% yoy drop in net profit in 2023. However, management will keep focusing on revenue optimisation and expand its capability to a fibre optic-base submarine cable network developer. The completion of the submarine plant (expected in mid-23), and good progress in VCS are expected to strengthen CCSI's position to serve customers' need for land and submarine fibre optic cable including a dark fibre cable network.
- Risk of foreign exchange.** CCSI imported key materials with foreign currency (US\$); therefore, the weakening in the exchange rate of the rupiah against the US dollar will impact the company's net earnings. In 2022, the rupiah depreciated by 9.2% against the US dollar, causing CCSI to book a loss on forex of Rp6.6b (vs Rp0.05b gain in 2021). To mitigate the risk of high fluctuation of US dollars to rupiah, the company enforces discipline risk management and also diversifies its procurement currency from US dollar to other more stable currency.

SHARE PRICE CATALYST

- According to Kemenko, the information and telecommunications sector is projected to grow by 7.5% in 2023.** It is expected to maintain demand for network infrastructure.

2022 RESULTS VS TARGET

Year to 31 Dec (Rpb)	Actual	Target	% growth
Revenue	615.3	642.0	4.3%
Gross Profit	124.5	108.0	-13.3%
Pre-tax Profit	64.7	40.0	-38.2%
Net Profit	50.1	31.0	-38.1%

Source: CCSI, UOB Kay Hian

2022 RESULTS VS 2023 TARGET

Year to 31 Dec (Rpb)	2022 Actual	2023 Target	% growth
Revenue	615.3	642.0	4.3%
Gross Profit	124.5	108.0	-13.3%
Pre-tax Profit	64.7	40.0	-38.2%
Net Profit	50.1	31.0	-38.1%

Source: CCSI

PROFIT & LOSS

Year to 31 Dec (Rpb)	2019	2020	2021	2022
Net turnover	382	282	423	615
EBITDA	83	47	65	84
Deprec. & amort.	6	8	11	14
EBIT	77	39	54	71
Total other non-operating income	1	3	2	(7)
Associate contributions	-	-	-	-
Net interest income/(expense)	(3)	(4)	(3)	(6)
Pre-tax profit	74	35	52	65
Tax	(19)	(7)	(13)	(15)
Minorities	-	-	-	-
Net profit	56	29	39	50
Net profit (adj.)	56	29	39	50

BALANCE SHEET

Year to 31 Dec (Rpb)	2019	2020	2021	2022
Fixed assets	171	192	206	257
Other LT assets	22	22	3	43
Cash/ST investment	80	100	20	14
Other current assets	180	187	294	481
Total assets	452	501	523	795
ST debt	9	31	49	145
Other current liabilities	73	87	84	159
LT debt	31	27	11	43
Other LT liabilities	12	16	15	11
Shareholders' equity	327	339	364	437
Minority interest	-	-	-	-
Total liabilities & equity	452	501	523	795

CASH FLOW

Year to 31 Dec (Rpb)	2019	2020	2021	2022
Operating	29	44	(40)	(29)
Pre-tax profit	74	35	52	65
Tax	(19)	(7)	(13)	(15)
Deprec. & amort.	6	8	11	14
Working capital changes	(15)	28	(92)	(16)
Other operating cashflows	(18)	(20)	2	(78)
Investing	(36)	(31)	(31)	(90)
Capex (growth)	(39)	(34)	(31)	(45)
Investments	2	3	(0)	(44)
Financing	61	7	(9)	113
Dividend payments	-	(8)	(8)	(9)
Proceeds from borrowings	18	15	(11)	109
Others/interest paid	43	(0)	10	13
Net cash inflow (outflow)	53	20	(81)	(6)
Beginning cash & cash equivalent	27	80	100	20
Changes due to forex impact	-	-	-	-
Ending cash & cash equivalent	80	100	20	14

KEY METRICS

Year to 31 Dec (%)	2019	2020	2021	2022
Profitability				
EBITDA margin	21.7	16.6	15.4	13.7
Pre-tax margin	19.5	12.5	12.3	10.5
Net margin	14.6	10.1	9.2	8.1
ROA	12.3	5.7	7.4	6.3
ROE	17.0	8.4	10.6	11.5
Growth				
Turnover	-14.3	-26.1	50.0	45.5
EBITDA	49.3	-43.6	39.3	29.8
Pre-tax profit	58.2	-52.7	47.5	24.6
Net profit	58.9	-48.6	35.8	29.4
Net profit (adj.)	58.9	-48.6	35.8	29.4
EPS	n.a	-53.4	30.7	12.0
Leverage				
Debt to total capital	11.0	14.7	14.1	30.1
Debt to equity	12.4	17.3	16.4	43.1
Net debt/(cash) to equity	-12.1	-12.3	11.0	39.9
Interest cover (x)	29.4	10.8	21.7	11.8

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