

Betting on improvement

15 November 2022



EXCL IJ	BUY
Sector	Telecom.
Price at 14 Nov 2022 (Rp)	2,400
Price target (Rp)	3,650
Upside/Downside (%)	52.1

Stock Information

XL Axiata is a telecommunication company in Indonesia, covering around 95% of Indonesian population as of 2019. It is subsidiary of Malaysia-based Axiata Group, in which its business lines are focused on mobile communication, fixed broadband and IT business solution.

Market cap (IDR bn)	25,739
Shares outstanding (mn)	10,765
52-week range (IDR)	2,300-3,290
3M average daily vol. ('000)	14,289
3M average daily val. (IDR mn)	36,668

Shareholders (%)

Axiata Investments	64.4
Public	38.3

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(6.4)	(14.5)	(21.7)

EXCL's 9M22 top line performance beat ours/consensus estimate at 76.2%-77.6% of 2022F. Despite 3Q22 earnings decline, operational performance showed meaningful improvement with ARPU reached its highest in 5Y at IDR40K/sub in 3Q22. This also brought 9M22 EBITDA to grow 2.3% yoy to IDR10.4 tn, representing 75.2%/72.8% of our/consensus forecasts. As a result, we raise our '22F EBITDA by 1.7%, while adjusting revenue estimate by 2.2%. We highlight that early 3G shutdown and convergence products of EXCL-LinkNet as its growth trajectories going forward. Maintain BUY, with a price target of IDR3,650, implying 3.5x 2023F EV/EBITDA, while it is currently trading at 2.6x, slightly above its -1SD 5-year historical mean.

Beat estimates

EXCL's 9M22 net profit decreased 3.5% yoy/23.0% qoq to IDR981.2 bn/IDR366.3 bn, accounting for 79.4%/74.3% of our/ consensus estimates. 3Q22 EBITDA slightly grew +2.3% qoq despite higher expenses +3.3% qoq on the back of interconnection costs. This also translates into 9M22 EBITDA of IDR10.4tn (75.2%/72.8% of ours/consensus estimates). As a result, EBITDA margin was relatively flattish at 48.4% in 3Q22 compared to 48.6% in 2Q22. Meanwhile, revenue came in at IDR7.52 tn in 3Q22, translating into 9M22 revenue of IDR21.6 tn, representing 77.6%/76.2% of ours/consensus forecast. EXCL's net gearing stood at 1.8x in 9M22.

Enjoys healthy ARPU rebound

The company's data and digital services grew 8.9% yoy to IDR18.09 tn in 9M22, boosted by gradual tariff hikes in 1H22. EXCL has enjoyed a healthy increase in ARPU by 8.1% yoy/2.6% qoq in 3Q22 to IDR40K/sub, or highest in 5 years as data yields were flattish +0.1% qoq, indicating that the downtrend has showed signs of abating since 1Q22. This was followed by growing data traffic 3.1% qoq in 3Q22, signifying subscribers' shift to higher data package and improving data service.

Focuses on value unlocking

We expect EXCL likely to retain its positive performance in 4Q22 in line with seasonality ahead of year-end holiday coupled with industry's move to adjust rates, prompting higher ARPU. This will translate into our upgraded 2022F revenue growth estimate to c.6% yoy. We are sanguine that industry consolidation has started to bear fruit, thus we expect 2023 revenue to grow 6% yoy on expectation of improving ARPU and data yields. Nevertheless, we are positive with EXCL's 3G shutdown will improve efficiency for the long run particularly in the form of maintenance costs and frequency license fees. In addition, we believe that the incorporation of LinkNet in Axiata Group should push more FMC synergies especially on the form of convergence products and infrastructure sharing going forward.

Reiterate BUY on the back of LinkNet synergies

Given our forecast revision, we upgrade our price target of IDR3,650, implying 3.5x 2023F EV/EBITDA (+1SD historical mean). We reiterate BUY call on 1) improvement in ARPU; 2) efficiency efforts and lean operational; and 3) healthier balance sheet post-rights issue. However, we note several downside risks to our recommendation, including 1) intense competition in mobile; 2) high capex, prompting leverage and c/f risks.

Exhibit 1: Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (IDR bn)	26,009	26,754	28,451	30,261	31,608
EBITDA (IDR bn)	13,060	13,287	14,039	15,174	15,952
Net profit (IDR bn)	372	1,288	1,306	1,617	1,702
Normalized net profit (IDR bn)	679	1,104	1,306	1,617	1,702
EPS (IDR)	34.8	120.5	122.0	150.8	158.7
ROAA (%)	0.6	1.8	1.7	1.9	2.0
ROAE (%)	1.9	6.6	6.4	7.5	7.5
PER (x)	68.2	19.7	19.4	15.7	14.9
PBV (x)	1.3	1.3	1.2	1.1	1.1
EV/EBITDA (x)	2.4	2.5	2.5	2.3	2.3

Analyst

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Exhibit 2: Financial Summary

(IDR Bn)	9M22	9M21	YoY (%)	3Q22	3Q21	YoY (%)	2Q22	QoQ (%)	% to '22F	% of Cons'
Revenue	21,595	19,800	9.1	7,521	6,826	10.2	7,333	2.6	77.6	76.2
Expenses/Income	(18,578)	(16,841)	10.3	(6,392)	(5,836)	9.5	(6,187)	3.3		
EBIT	3,018	2,960	2.0	1,129	990	14.0	1,146	(1.5)		
EBITDA	10,377	9,906	4.8	3,643	3,418	6.6	3,560	2.3	75.2	72.8
Other income (exp.)	(1,824)	(1,703)	7.1	(663)	(576)	15.1	(590)	12.4		
Pre-tax income	1,193	1,256	(5.0)	465	414	12.5	556	(16.3)		
Taxes	(205)	(240)	(14.6)	(94)	(113)	(17.4)	(78)	20.1		
Attributable profit	981	1,016	(3.5)	366	300	21.9	476	(23.0)	79.4	74.3
Normalized profit	976	834	16.9	327	271	20.6	477	(31.4)		
Margins (%)										
EBIT Margin	14.0	14.9	(1.0)	15.0	14.5	0.5	15.6	(0.6)		
EBITDA margin	48.1	50.0	(2.0)	48.4	50.1	(1.6)	48.6	(0.1)		
Net Margin	4.5	5.1	(0.6)	4.9	4.4	0.5	6.5	(1.6)		
Operational KPI										
# of subs	57.4	58.0	(1.0)	57.4	58.0	(1.0)	57.2	0.3		
Blended ARPU	38.0	36.0	5.6	40.0	37.0	8.1	39.0	2.6		
Data traffic	5885.0	4,685.0	25.6	2,045.0	1,722.0	18.8	1,983.0	3.1		
Data yields	3.3	3.7	(9.3)	3.3	3.5	(4.1)	3.3	(0.1)		

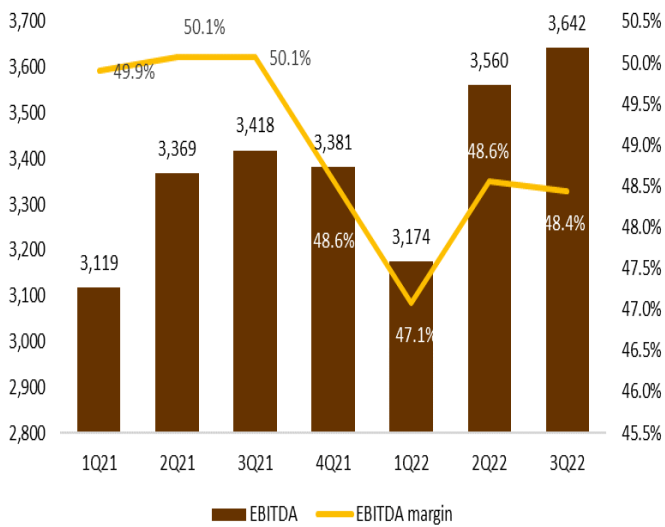
Source: Company

Exhibit 3: Forecast changes

	New		Old		Changes	
	2022F	2023F	2022F	2023F	2022F	2023F
Revenue	28,451	30,261	27,829	29,518	2.2	2.5
EBIT	3,721	4,162	4,229	4,601	-12.0	-9.5
EBITDA	14,039	15,174	13,801	14,853	1.7	2.2
Net profit	1,306	1,617	1,236	1,600	5.7	1.1

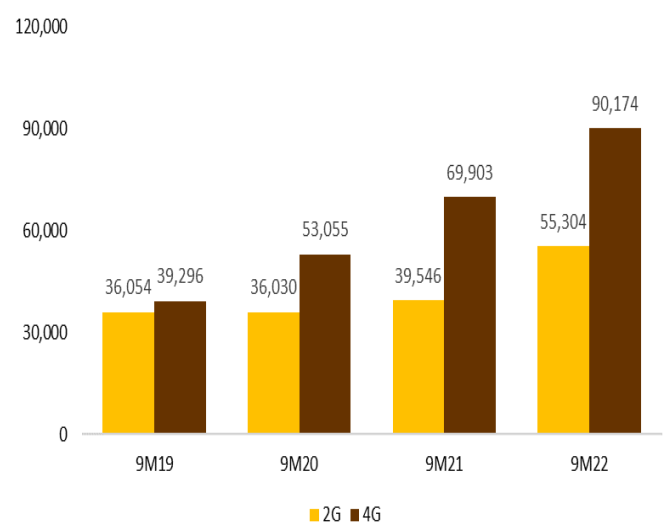
Source: Company, KBVS Research

Exhibit 4: EXCL's EBITDA margin flattish in 3Q22



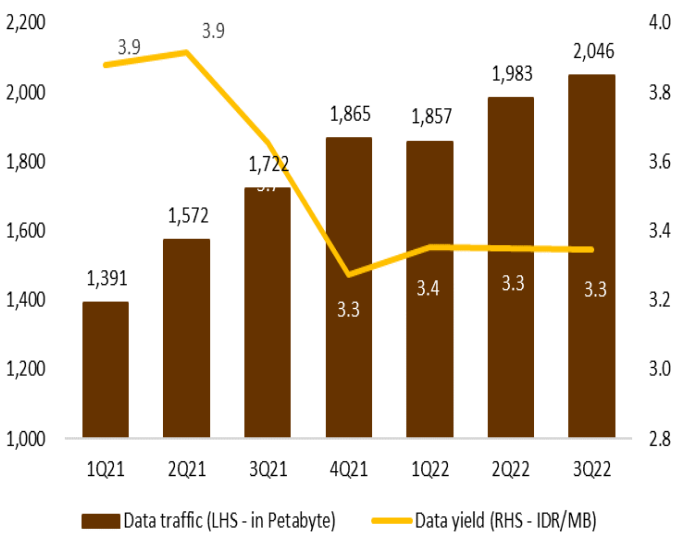
Source: Company

Exhibit 5: 4G networks grows significantly



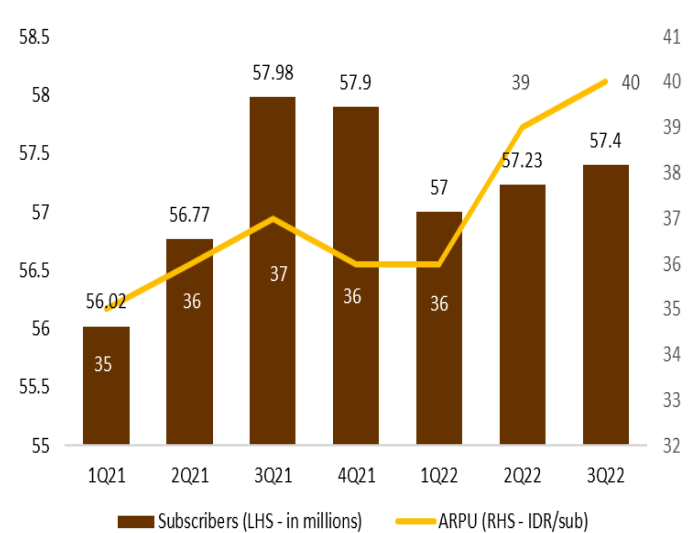
Source: Company

Exhibit 6: Data yield flat while traffic edges up



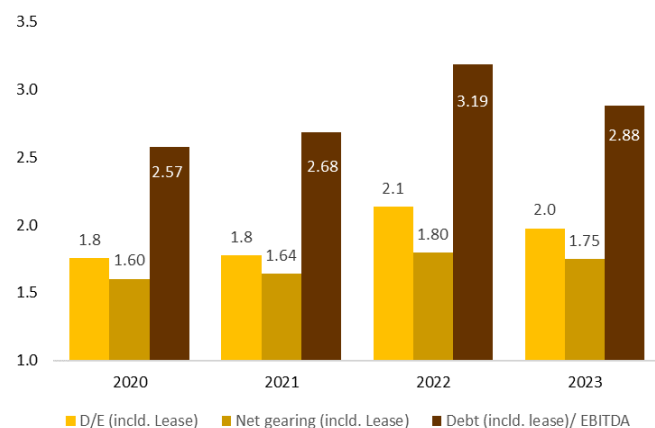
Source: Company

Exhibit 7: ARPU reaches its highest with IDR40K/sub



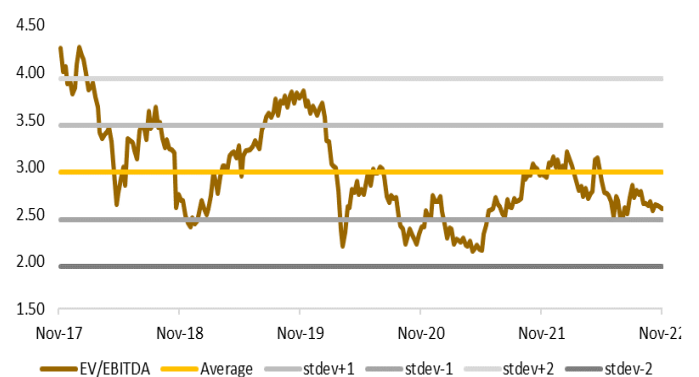
Source: Company

Exhibit 8: EXCL's gearing ratio



Source: Company, KBVS Research

Exhibit 9: Currently trading slightly above -1SD 5-year mean



Source: Company, Bloomberg

FINANCIAL TABLES

Exhibit 10: Profit & Loss summary

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net revenue	26,009	26,754	28,451	30,261	31,608
Costs	(23,377)	(22,765)	(24,730)	(26,098)	(27,210)
Operating profit	2,632	3,989	3,721	4,162	4,398
EBITDA	13,060	13,287	14,039	15,174	15,952
EBITDA margin	50.2%	49.7%	49.3%	50.1%	50.5%
Net finance income/ expenses	(2,486)	(2,282)	(2,046)	(2,089)	(2,215)
Profit before income tax	146	1,708	1,675	2,073	2,183
Tax benefit (expenses)	225	(420)	(368)	(456)	(480)
Net profit	372	1,288	1,306	1,617	1,702
Net profit margin	1.4%	4.8%	4.6%	5.3%	5.4%
Normalized net profit	679	1,104	1,306	1,617	1,702

Source: Company, KBVS Research

Exhibit 11: Balance sheet

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash and cash equivalents	2,966	2,664	7,083	5,067	3,952
Trade receivables	450	525	769	607	966
Other current assets	4,155	4,544	2,546	2,675	2,950
Total current assets	7,571	7,733	10,397	8,348	7,868
Non-current assets					
Fixed assets	47,162	51,912	56,325	59,704	62,988
Other non-current assets	13,011	13,108	16,369	16,646	16,933
Total non-current assets	60,174	65,020	72,694	76,350	79,921
Total assets	67,745	72,753	83,091	84,698	87,789
Current liabilities					
Trade payables	7,379	10,638	11,275	12,503	12,166
Taxes payables	38	67	219	239	261
Accrued expenses	602	593	474	512	553
Short term debts	6,242	6,276	10,593	8,783	9,061
Other current liabilities	4,595	3,380	3,067	3,219	3,382
Total current liabilities	18,857	20,954	25,629	25,257	25,423
Non-current liabilities					
Long-term debts	27,386	29,372	34,199	34,967	36,617
Other non-current liabilities	2,365	2,338	2,135	2,199	2,265
Total non-current liabilities	29,750	31,711	36,334	37,166	38,883
Shareholders' equity	19,137	20,089	21,001	22,149	23,356
Total liabilities and equity	67,745	72,753	83,091	84,698	87,789

Source: Company, KBVS Research

Exhibit 12: Cash Flow

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	372	1,288	1,306	1,617	1,702
Depreciation & amortization	12,455	9,956	10,857	11,609	12,184
Changes in working capital	(282)	1,599	2,113	1,471	(745)
CF from operating activities	12,544	12,843	14,276	14,697	13,141
Investment in fixed assets	(17,513)	(14,706)	(15,263)	(14,982)	(15,461)
Others	465	(96)	(3,267)	(283)	(293)
CF from investing activities	(17,049)	(14,803)	(18,530)	(15,265)	(15,754)
Dividends paid	(213)	(338)	(544)	(485)	(511)
Debt raised/ repaid	6,699	2,021	9,143	(1,042)	1,928
Others	(619)	(25)	74	79	82
CF from financing activities	5,867	1,658	8,673	(1,448)	1,499
Change in cash flows	1,362	(301)	4,418	(2,016)	(1,115)
Cash and cash equivalents, beginning	1,603	2,966	2,664	7,083	5,067
Cash and cash equivalents, ending	2,966	2,664	7,083	5,067	3,952

Source: Company, KBVS Research

Exhibit 13: Ratio Analysis

Year End Dec	2020A	2021A	2022F	2023F	2024F
Operating profit margin (%)	10.1	14.9	13.1	13.8	13.9
EBITDA margin (%)	50.2	49.7	49.3	50.1	50.5
Net profit margin (%)	1.4	4.8	4.6	5.3	5.4
Receivables turnover (x)	40.2	40.0	44.0	44.0	40.2
Payable turnover (x)	3.0	2.5	2.3	2.2	2.2
ROA (%)	0.6	1.8	1.7	1.9	2.0
ROE (%)	1.9	6.6	6.4	7.5	7.5
ROIC (%)	1.2	3.9	3.5	4.2	4.1
Debt/ Equity incl. lease (%)	1.8	1.8	2.1	2.0	2.0
Net debt/Equity incl. lease (x)	1.6	1.6	1.8	1.7	1.8
Net debt/ EBITDA incl. lease (x)	2.3	2.5	2.7	2.5	2.6
Interest coverage (x)	4.9	5.6	6.6	6.9	7.0
EPS (IDR)	34.8	120.5	122.0	150.8	158.7
BV/share (IDR)	1,790.5	1,879.6	1,961.5	2,065.2	2,177.7

Source: Company, KBVS Research

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