

### Pinning hopes on convergence services

29 August 2022



<b>TLKM IJ</b>	<b>BUY</b>
Sector	Telecom.
Price at 26 Aug 2022 (Rp)	2,700
Price target (Rp)	3,500
Upside/Downside (%)	29.6

#### Stock Information

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

Market cap (Rp bn)	25,739
Shares outstanding (mn)	10,670
52-week range (Rp)	2,300-3,290
3M average daily vol. ('000)	26,127
3M average daily val. (Rp mn)	65,882

#### Shareholders (%)

Axiata Investments	64.4
Public	38.3

#### Stock Performance



Source: Bloomberg

	<b>1M</b>	<b>3M</b>	<b>12M</b>
Performance (%)	13.4	5.1	1.5

- EXCL's 1H22 normalized profit increased 15.1% YoY to Rp648bn, or 178.8% QoQ
- We expect net revenue growth of c.4% YoY, EBITDA margin of c. 50% in 2022
- We reiterate our "BUY" call with 30% upside potential on a 12-month view on improved pricing and fixed broadband expansion

#### Better than expected result

EXCL's normalized net profit grew 15.1% YoY to Rp648bn in 1H22 (+180.7% QoQ), accounting for 52.4% of our FY estimate. The higher net profit was attributable to better-than-expected revenue growth of 8.5% YoY to Rp14.01tn in 1H22 (+8.8% QoQ in 2Q22) or 50.6% of our 2022F. Nevertheless, EBITDA margin declined from 50.0% in 1H21 to 47.8% in 1H22, mostly due to higher interconnection and other direct expenses, although it increased in QoQ basis from 47.1% in 1Q22 to 48.6% in 2Q22 emphasizing better efficiency. Furthermore, the company's finance costs was relatively stabilized at Rp1.19tn despite higher debt. Meanwhile, EXCL's net gearing ratio stood at 1.9x in 1H22.

#### Helped by strong data performance

EXCL's higher net revenue was largely driven by data and digital services by 9.0% YoY to Rp12.9tn in 1H22 (8.8% QoQ in 2Q22). Due to high concentration in smartphone subs, we note that EXCL was able to reduce the impact of persistent decline in legacy revenue. Nevertheless, we highlight that the company's data yield was stabilized at Rp3,300/GB in 2Q22 as total traffic was up QoQ to 1,983 PB. Meanwhile, EXCL also booked a higher average monthly usage by 28.7% YoY (+5.1% QoQ). In the midst of stiff competition in mobile, EXCL managed to improve its blended ARPU by 5.6% YoY in 1H22 (8.3% QoQ in 2Q22) to Rp39,000/user (Rp38,000/user in 2Q22), signifying stronger purchasing power thanks to eased mobility restrictions and Eid festivities. This was also followed by a growth of subscribers by 0.4% QoQ and 0.8% YoY to 57.2 million.

#### Bringing more value

We expect EXCL's revenue growth of 4% YoY in 2022, bolstered by data and digital services. Despite better purchasing power, we believe that competition in mobile will remain intense. On the other hand, we view positively the company's efforts to carry out 3G shutdown expected to conclude by year-end, while optimizing 4G and 5G networks will bring better efficiencies in the forms of spectrum, license fees, equipment and field maintenance costs. On the other hand, the company will launch promotion such as device bundling to retain remaining customers on 3G, yet we think that may impact insignificantly to cost thanks to high concentration of 4G customers. Therefore, we expect EBITDA of c.50% in 2022. Furthermore, we are bullish on Link Net acquisition that will enable it to strengthen fixed broadband segments through XL Home, as well as for convergence, content, and infrastructure synergies as well as minimize capex spending going forward. To strengthen capital structure and leverage, EXCL plans to undergo rights issue with issuing 2.74bn shares.

#### Reiterate BUY on the back of ARPU improvement and Link Net acquisition

We maintain our BUY call with a DCF-based price target of Rp3,500/share. The stock is currently traded at a 2022F PER of 30.1x and EV/EBITDA of 4.6x. We are optimistic with EXCL's outlook buoyed by 1) improving mobility and purchasing power; 2) expansions to ex-Java and strengthened fixed broadband business; 3) 3G network shut down, leading to better efficiency; and 4) higher concentration of 4G customers, may reduce impact of legacy revenue decline. However, we note several downside risks to our recommendation including 1) competitive market in mobile; 2) leverage risk; 3) high inflation that may weakens purchasing power and 4) interest rate hike.

#### Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (Rp bn)	26,009	26,754	27,829	29,518	31,221
EBITDA (Rp bn)	13,060	13,287	13,801	14,853	15,808
Net profit (Rp bn)	372	1,288	1,236	1,600	1,702
Normalized net profit (Rp bn)	679	1,104	1,236	1,600	1,702
EPS (Rp)	34.8	120.5	115.7	149.7	159.3
EPS growth (%)	(47.9%)	246.6%	(4.0%)	29.4%	6.4%
ROAA (%)	0.6%	1.8%	1.6%	2.0%	2.2%
ROAE (%)	1.9%	6.6%	6.0%	6.9%	9.4%
PER (x)	100.2	28.9	30.1	23.3	21.9
PBV (x)	0.3	0.3	0.3	0.3	0.3
EV/EBITDA (x)	4.5	4.6	4.6	4.3	4.2

#### Analyst

Devi Harjoto

**EXCL's Financial Overview**

Consolidated Statements of Profit or Loss (Rp bn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
<b>Net revenue</b>	<b>12,974</b>	<b>14,075</b>	<b>8.5%</b>	<b>6,742</b>	<b>7,333</b>	<b>8.8%</b>
Costs	(11,005)	(12,186)	10.7%	(5,999)	(6,187)	3.1%
<b>Operating profit</b>	<b>1,969</b>	<b>1,889</b>	<b>(4.1%)</b>	<b>743</b>	<b>1,146</b>	<b>54.1%</b>
<b>Operating profit margin</b>	<b>15.2%</b>	<b>13.4%</b>		<b>11.0%</b>	<b>15.6%</b>	
D&A, and others	(4,518)	(4,845)	7.2%	(2,431)	(2,415)	(0.7%)
<b>EBITDA</b>	<b>6,488</b>	<b>6,734</b>	<b>3.8%</b>	<b>3,174</b>	<b>3,560</b>	<b>12.2%</b>
<b>EBITDA margin</b>	<b>50.0%</b>	<b>47.8%</b>		<b>47.1%</b>	<b>48.6%</b>	
Finance income/ expenses	(1,136)	(1,163)	2.4%	(573)	(590)	3.1%
Share of gain/loss from JV	9	2	(77.4%)	2	393	25205.9%
<b>Profit before income tax</b>	<b>842</b>	<b>728</b>	<b>(13.6%)</b>	<b>172</b>	<b>556</b>	<b>222.8%</b>
Tax benefit (expenses)	(126)	(111)	(12.1%)	(33)	(78)	135.3%
<b>Net profit</b>	<b>716</b>	<b>617</b>	<b>(13.8%)</b>	<b>139</b>	<b>478</b>	<b>243.6%</b>
<b>Net profit margin</b>	<b>5.5%</b>	<b>4.4%</b>		<b>2.1%</b>	<b>6.5%</b>	
<b>Normalized net profit</b>	<b>563</b>	<b>648</b>	<b>15.1%</b>	<b>171</b>	<b>478</b>	<b>178.8%</b>

**EXCL's ARPU shows sign of improvement**

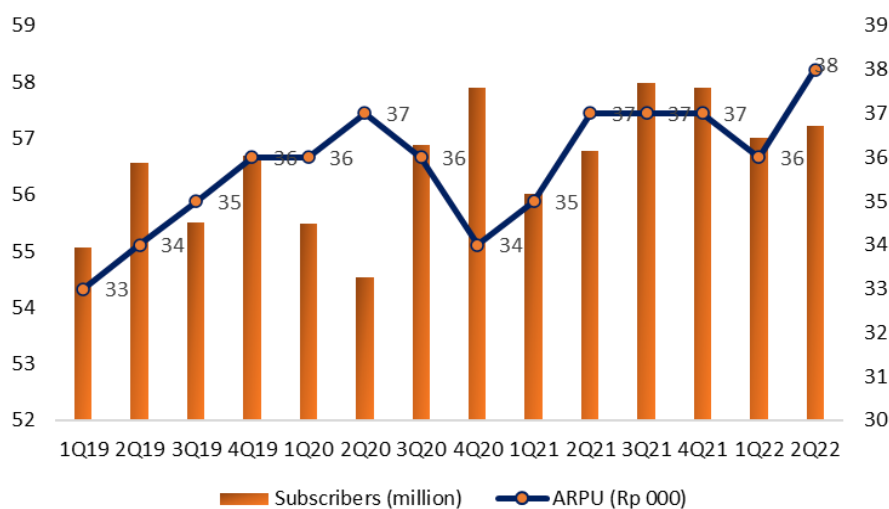


Exhibit 1. EXCL's BTS count 4G & 2G (sources: Companies, KB Valbury)

**Data yield plateaus, while average monthly data usage keeps going up**

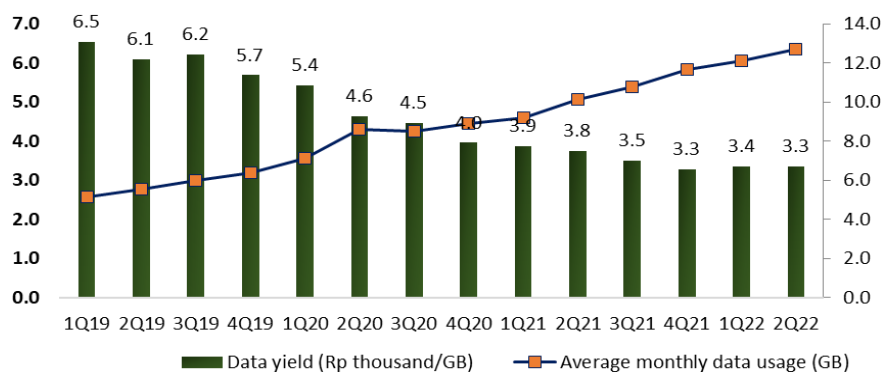


Exhibit 2. Data yield and average monthly data usage (sources: Companies, KB Valbury Sekuritas)

## FINANCIAL TABLES

### CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
<b>Net revenue</b>	26,009	26,754	27,829	29,518	31,221
Costs	(23,377)	(22,765)	(23,601)	(24,917)	(26,387)
<b>Operating profit</b>	2,632	3,989	4,229	4,601	4,833
<b>EBITDA</b>	13,060	13,287	13,801	14,853	15,808
<b>EBITDA margin</b>	50.2%	49.7%	49.6%	50.3%	50.6%
Net finance income/ expenses	(2,485)	(2,290)	(2,330)	(2,471)	(2,568)
Share of loss/gain from JV	(1)	9	4	4	4
<b>Profit before income tax</b>	146	1,708	1,902	2,133	2,270
Tax benefit (expenses)	225	(420)	(666)	(533)	(567)
<b>Net profit</b>	372	1,288	1,236	1,600	1,702
<b>Net profit margin</b>	1.4%	4.8%	4.4%	5.4%	5.5%
<b>Normalized net profit</b>	364	1,278	1,236	1,600	1,702

Source: Company, KB Valbury Sekuritas

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
<b>Current assets</b>					
Cash and cash equivalents	2,966	2,664	4,121	2,577	3,586
Trade receivables	450	569	663	450	525
Other current assets	4,155	4,544	3,931	4,239	4,554
<b>Total current assets</b>	<b>7,571</b>	<b>7,733</b>	<b>8,954</b>	<b>7,309</b>	<b>9,257</b>
<b>Non-current assets</b>					
Fixed assets	47,162	51,912	54,508	57,778	48,823
Other non-current assets	13,011	13,108	15,545	15,816	16,096
<b>Total non-current assets</b>	<b>60,174</b>	<b>65,020</b>	<b>70,053</b>	<b>73,594</b>	<b>64,919</b>
<b>Total assets</b>	<b>67,745</b>	<b>72,753</b>	<b>79,007</b>	<b>80,903</b>	<b>74,176</b>
<b>Current liabilities</b>					
Trade payables	7,379	9,106	8,042	7,379	10,638
Taxes payables	38	53	152	38	67
Accrued expenses	602	872	987	602	593
Short term debts	6,242	6,276	8,811	7,964	8,205
Other current liabilities	5,198	3,973	3,765	3,967	4,185
<b>Total current liabilities</b>	<b>18,857</b>	<b>20,954</b>	<b>23,829</b>	<b>21,217</b>	<b>24,881</b>
<b>Non-current liabilities</b>					
Long-term debts	27,386	29,372	31,348	31,384	34,112
Other non-current liabilities	2,365	2,338	2,220	2,285	2,352
<b>Total non-current liabilities</b>	<b>29,750</b>	<b>31,711</b>	<b>33,568</b>	<b>33,668</b>	<b>36,465</b>
<b>Shareholders' equity</b>	19,137	20,089	21,609	26,017	12,830
<b>Total liabilities and equity</b>	<b>67,745</b>	<b>72,753</b>	<b>79,007</b>	<b>80,903</b>	<b>74,176</b>

Source: Company, KB Valbury Sekuritas

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	372	1,288	1,958	2,298	2,353
Depreciation & amortization	12,455	9,956	10,056	10,760	11,513
Changes in working capital	(282)	1,599	576	(1,663)	2,484
<b>CF from operating activities</b>	<b>12,544</b>	<b>12,843</b>	<b>12,590</b>	<b>11,395</b>	<b>16,350</b>
Investment in fixed assets	(17,513)	(14,706)	(12,651)	(14,030)	(2,557)
Others	465	(96)	(2,437)	(271)	(281)
<b>CF from investing activities</b>	<b>(17,049)</b>	<b>(14,803)</b>	<b>(15,088)</b>	<b>(14,301)</b>	<b>(2,838)</b>
Dividends paid	(213)	(338)	(587)	(689)	(706)
Debt raised/ repaid	6,699	2,021	4,511	(812)	2,970
Others	(471)	(25)	(103)	2,864	(14,767)
<b>CF from financing activities</b>	<b>5,867</b>	<b>1,658</b>	<b>3,955</b>	<b>1,362</b>	<b>(12,503)</b>
<b>Change in cash flows</b>	<b>1,362</b>	<b>(301)</b>	<b>1,457</b>	<b>(1,544)</b>	<b>1,009</b>
<b>Cash and cash equivalents, beginning</b>	<b>1,603</b>	<b>2,966</b>	<b>2,664</b>	<b>4,121</b>	<b>2,577</b>
<b>Cash and cash equivalents, ending</b>	<b>2,966</b>	<b>2,664</b>	<b>4,121</b>	<b>2,577</b>	<b>3,586</b>

Source: Company, KB Valbury Sekuritas

**RATIO ANALYSIS**

Year End Dec	2020A	2021A	2022F	2023F	2024F
Operating profit margin (%)	10.1%	14.9%	15.2%	15.6%	15.5%
EBITDA margin (%)	50.2%	49.7%	49.6%	50.3%	50.6%
Net profit margin (%)	1.4%	4.8%	4.4%	5.4%	5.5%
Receivables turnover (x)	40.2	40.0	40.0	44.0	40.2
Inventory turnover (x)	190.0	170.0	160.4	169.2	169.9
Payable turnover (x)	3.0	2.5	2.2	2.5	2.5
ROA (%)	0.6%	1.8%	1.6%	2.0%	2.2%
ROE (%)	1.9%	6.6%	6.0%	6.9%	9.4%
ROIC (%)	1.2%	3.9%	3.6%	4.5%	4.4%
Debt/ Equity (%)	1.8	1.8	1.9	1.6	3.7
Net debt/Equity (x)	1.6	1.6	1.6	1.4	3.4
Net debt/ EBITDA (x)	2.3	2.5	2.5	2.4	2.4
Interest coverage (x)	4.9	5.6	5.8	5.9	6.0
EPS	34.8	120.5	115.7	149.7	159.3
BV/share (x)	1,790.6	1,879.6	1,974.6	2,341.3	1,064.8

Source: Company, KB Valbury Sekuritas

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## KB Valbury Sekuritas

### Headquarters

Menara Karya, 9th Floor  
 Jl. H.R. Rasuna Said Blok X-5 Kav 1-2  
 Jakarta 12950, Indonesia  
 T +62 21 255 33 600  
 F +62 21 255 33 778

### Branch Office

**Jakarta - Kelapa Gading**  
 Rukan Plaza Pasifik  
 Jl. Raya Boulevard Barat Blok A1 No. 10  
 Jakarta 11620  
 T +62 21 - 29451577

**Jakarta - Puri Indah**  
 Rukan Grand Aries Niaga  
 Blok E.1 No. 1 V Jl. Taman Aries, Kembangan,  
 Jakarta 14450  
 T +62 21 - 22542390  
 F +62 21 - 29264310

**Jakarta - Pluit**  
 Jl. Pluit Putra Raya No. 2  
 Jakarta 14240  
 T +62 21 - 29264300  
 F +62 21 - 22542391

**Bandung**  
 Jl. HOS Cokroaminoto No. 82  
 Bandung 40171  
 T +62 22 - 87255888  
 T +62 22 - 87255800  
 F +62 22 - 87255811

**Semarang**  
 Candi Plaza Building Lt. Dasar  
 Jl. Sultan Agung No. 90-90A  
 Semarang 50252  
 T +62 24 - 3521888  
 T +62 24 - 8501122  
 F +62 24 - 8507450

**Yogyakarta**  
 Jl. Magelang KM 5.5 no. 75  
 Yogyakarta 55284  
 T +62 274 - 4469500  
 T +62 274 - 6231111  
 F +62 274 - 6232222

### Galeri Investasi

**Padang**  
 Jl. Kampung Nias II no. 10,  
 Kel. Belakang Pondok,  
 Kec. Padang Selatan  
 T +62 751 8955747

**Manado**  
 Kawasan Megamas, Ruko Megaprofit  
 Blok IF2 No. 38 Manado. 95254  
 T +62 431 7917 836  
 F +62 431 880 2129

**Surabaya**  
 Pakuwon Center Tunjungan Plaza Lantai 21  
 Jl. Embong Malang No.1  
 Surabaya 60261  
 T +62 31 - 29557777  
 T +62 31 - 29557888  
 F +62 31 - 2955716

**Denpasar**  
 Komplek Ibis Styles Hotel  
 Jl. Teuku Umar No. 177  
 Denpasar Bali 80114  
 T +62 361 - 2558888  
 T +62 361 - 225229  
 F +62 361 - 225339

**Banjarmasin**  
 Jl. Gatot Subroto No.33 Kel. Kebun Bunga  
 Kec. Banjarmasin Timur  
 Kalimantan Selatan 70235  
 T +62 511 - 3265918  
 F +62 511 - 3253432

**Solo**  
 Jl. Ronggo Warsito no. 34  
 Solo 57118  
 T +62 271 632888  
 F +62 271 656988

**Makassar**  
 Ratulangi Points Lt. 3  
 Jl. Dr Sam Ratulangi No. 2 Kunjungmae, Mariso  
 Makassar, Sulawesi Selatan 90125  
 T +62 411 8955999

**Malang**  
 Jl. Pahlawan Trip no. 7  
 Malang 65112  
 T +62 341 - 585888  
 F +62 341 - 560056

**Solo**  
 Jl. Ronggowarsito No. 34  
 Surakarta 57118  
 T +62 271 - 632888

**Palembang**  
 Komp. PTC Mall Blok I No. 7 J. R. Sukanto Kel. 8 Ilir  
 Kec. Ilir Timur II Palembang 30114  
 T 07115700281

**Medan**  
 Komplek Jati Junction No. PS-5A  
 Jl. Perintis Kemerdekaan  
 Medan 20218  
 T +62 61 - 88816222  
 F 62 61 - 88816333

**Pekanbaru**  
 Jl. Tuanku Tambusai  
 Komplek CNN Blok A No.3 Pekanbaru 28291  
 T +62 761 - 839393  
 Galeri Investasi

**Padang**  
 Jl. Kampung Nias II no. 10,  
 Kel. Belakang Pondok,  
 Kec. Padang Selatan  
 T +62 751 8955747

**Manado**  
 Kawasan Megamas, Ruko Megaprofit  
 Blok IF2 No. 38 Manado. 95254  
 T +62 431 7917 836  
 F +62 431 880 2129

**Solo**  
 Jl. Ronggowarsito No. 34  
 Surakarta 57118  
 T +62 271 - 632888

**Palembang**  
 Komp. PTC Mall Blok I No. 7 J. R. Sukanto Kel. 8 Ilir  
 Kec. Ilir Timur II Palembang 30114  
 T 07115700281

### Galeri Investasi BEI - KBVS

Yogyakarta  
 Universitas Kristen Duta Wacana  
 T +62 274 - 544032

Manado  
 Universitas Prisma Manado  
 T 0431 8800850

Jakarta  
 Universitas Gunadarma  
 T +62 21 - 8727541