

Banking on convergence

24 November 2023



EXCL IJ	BUY
Sector	Telecomm.
Price at 23 Nov 2023 (IDR)	2,090
Price target (IDR)	2,950
Upside/Downside (%)	41.4

Stock Information

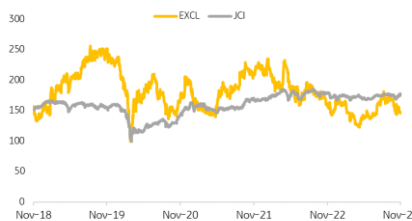
XL Axiata is a telecommunication company in Indonesia, covering around 95% of Indonesian population as of 2019. It is subsidiary of Malaysia-based Axiata Group, in which its business lines are focused on mobile communication, fixed broadband and IT business solution.

Market cap (IDR bn)	27,059
Shares outstanding (mn)	13,072
52-week range (IDR)	1,695-2,560
3M average daily vol. ('000)	16,080
3M average daily val. (IDR mn)	37,111

Shareholders (%)

Axiata Investments	66.2
Public	33.3

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	(5.1)	(13.8)	(9.2)

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EXCL's 9M23 performance beat ours, arriving at 75.9-84.6% despite flattish operational metrics in 3Q23 due to seasonality. The company's data service was down slightly qoq by 1.4% in 3Q23 on the back of flat traffic, and lower data yield, in our view though blended ARPU managed to maintain at c. 43K, indicating consistent market repair. Meanwhile, EXCL's convergence penetration accelerated to 69% of subs amid stronger presence and home connects. The company's is traded in attractive valuation, currently at 2.3x forward EV/EBITDA or below -1SD 5-year historical mean. **Maintain BUY**

9M23 EBITDA beat ours on manageable costs

EXCL's 3Q23 EBITDA grew slightly +0.4% qoq to IDR4.024tn, bringing 9M23 EBITDA at IDR11.52T tn, which beat our estimate at 76.1%, yet it was relatively in-line with consensus at 74.7%. The higher EBITDA was mostly derived from manageable core costs in 3Q23 as sales and marketing expenses dropped 72.4% qoq as it frontloaded the expenses in the previous quarter amid festivities season as well as efforts to push more use in the apps. This also helped provide a 90bps bump in EBITDA margin.

Soft 3Q23 operational metrics due to seasonality

Nevertheless, EXCL's 3Q23 net revenue edged down 1.4% qoq to IDR8.10 tn, hampered by lower data services on the back of lower data yield while data traffic was relatively flat due to seasonality, as well as reduced managed IT services. However, EXCL managed to maintain its subs base at c. 57.5mn in 9M23 with slightly lower blended ARPU qoq, in our view. Despite that, 9M23 net revenue increased 10.5% yoy to IDR23.9 tn, topping ours/consensus estimates at 75.9%/75.7%.

Meanwhile, EXCL recorded a jump in XL Home subs +33.8% qoq in 3Q23 to 206 mn subs, making up convergence penetration at 69%, compared to 2Q23 at 56%. This was attributable to growing presence of XL Satu Fiber in 12 new cities and home connects +52K qoq in 3Q23.

Heading toward improving direction

EXCL's 9M23 results generally topped ours by 0.9-9.6% on the back of improved cost management. Therefore, we revise up our EXCL's '23 and '24 net profit by 8.3% and 1.8%, respectively with EBITDA margin maintained at 48.1% or lower than management's guidance at 49% as we consider a risk of higher cost in 4Q23. Furthermore, we expect price repair momentum to continue in 4Q23 as management stated price adjustment has taken place in November '23. We are sanguine that such adjustment will be followed by competitors as we capture the same aspiration from industry. On structural transformation, LINK is committed to deliver 8mn home passes within 5 years in a deal that is expected to be concluded by year-end.

Reiterate BUY on continued market repair

Maintain our BUY call with a target price of IDR2,950, 3.0x 2024F EV/EBITDA or above -1SD 5-year historical mean. Risks to our call included 1) competition in mobile; 2) lower-than-expected EBITDA margin on the back of core cost pressure; 3) leverage risks. On the other hand, we identify potential upside risks stemming from 1) continued price repair and 2) improving leverage profile.

Exhibit 1 : Key Statistics

Year end Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenue (IDR bn)	26,754	29,142	31,450	33,443	35,266
EBITDA (IDR bn)	12,628	13,879	15,126	16,223	17,269
Operating profit (IDR bn)	3,331	3,658	3,983	4,345	4,817
Net profit (IDR bn)	1,288	1,109	1,293	1,524	1,849
EPS (IDR)	98.5	85.8	100.0	117.8	142.9
ROAA (%)	1.8	1.4	1.5	1.8	2.1
ROAE (%)	6.6	4.9	5.0	5.8	6.8
PER (x)	21.1	24.2	20.8	17.7	14.6
PBV (x)	1.4	1.1	1.0	1.0	1.0
EV/EBITDA (x)	3.0	2.8	2.5	2.3	2.2

Sources: Company, KBVS Research

Exhibit 2: Financial Summary

EXCL 9M23 results

(IDR Bn)	9M23	9M22	YoY (%)	3Q23	3Q22	YoY (%)	2Q23	QoQ (%)	2023F	% 23F	Cons	% of Cons
Net Revenue	23,868	21,595	10.5	8,103	7,521	7.7	8,217	(1.4)	31,450	75.9	31,509	75.7
Data	21,722	19,711	10.2	7,311	6,844	6.8	7,501	(2.5)				
Legacy	779	793	-1.7	246	262	(6.3)	275	(10.8)				
Interconnection service	1,021	1,006	1.4	429	342	25.3	337	27.2				
Other telecommunication	358	-		121	(24)	(598.1)	109	11.4				
on-off hipernet	-	107	-100.0	-	107	(100.0)	-					
(-) Discount	-12	-22	-45.2	(4)	(11)	(65.1)	(5)	(29.1)				
Expenses/Income	(20,399)	(18,578)	9.8	(6,879)	(6,392)	7.6	(6,913)	(0.5)				
Operating profit	3,230	2,696	19.8	1,146	1,058	8.3	1,242	(7.8)				
EBITDA	11,516	10,056	14.5	4,025	3,573	12.7	4,007	0.4	15,126	76.1	15,405	74.8
Other income/expenses	(1,979)	(1,503)	31.7	(699)	(593)	17.8	(677)	3.2				
Pre-tax income	1,251	1,193	4.8	447	465	(3.9)	566	(20.9)				
Taxes	(232)	(205)	13.3	(86)	(94)	(7.9)	(112)	(23.2)				
Attributable profit	1,011	981	3.0	360	366	(1.7)	453	(20.6)	1,194	84.6	1,303	77.6
Recurring profit	1,135	650	74.6	401	289	38.9	482	(16.9)	1,194		1,303	
Margins (%)												
Operating margin	13.5	12.5		14.1	14.1		15.1					
EBITDA margin	48.2	46.6		49.7	47.5		48.8					
Net Margin	4.2	4.5		4.4	4.9		5.5					
Operational KPI												
# of subs	57.5	57.4	0.2	57.5	57.4	0.2	58.0	(0.9)				
Blended ARPU	43,480	39,691	9.5	43,807.9	41,268.6	6.2	44,691.7	(2.0)				
Data traffic	7,109	5,885	20.8	2,453	2,045	20.0	2,452	0.0				
Data yields	3,055.5	3,349.4	-8.8	2,980.5	3,350.8	(11.1)	3059.2	(2.6)				
Avg. data usage/ user/month	14.4	12.4	16.8	14.9	12.9	16.0	15.1	(0.9)				

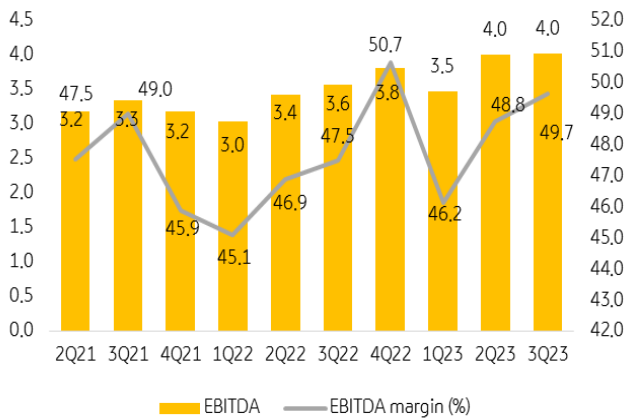
Source: Company, Bloomberg, KBVS Research

Exhibit 3: Forecast revisions

	New		Old		Changes		BBG consensus		New VS BBG	
	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
Revenue	31,450	33,443	31,450	33,027	(0.0)	1.3	31509	33651	(0.2)	(0.6)
EBITDA	15,126	16,223	15,126	16,050	(0.0)	1.1	15405	16438	(1.8)	(1.3)
Net profit	1,293	1,524	1,194	1,497	8.3	1.8	1303	1565	(0.7)	(2.6)

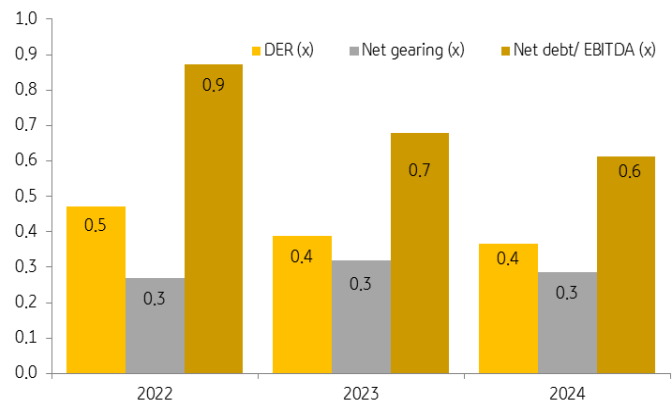
Source: Company, Bloomberg, KBVS Research

Exhibit 4: EXCL's EBITDA margin



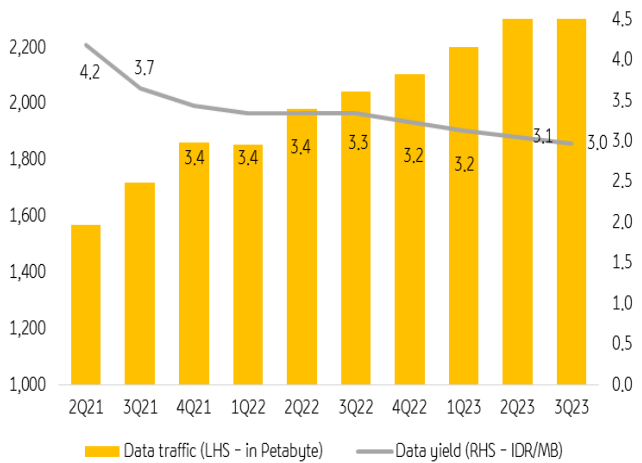
Source: Company, KBVS Research

Exhibit 5: Leverage profile



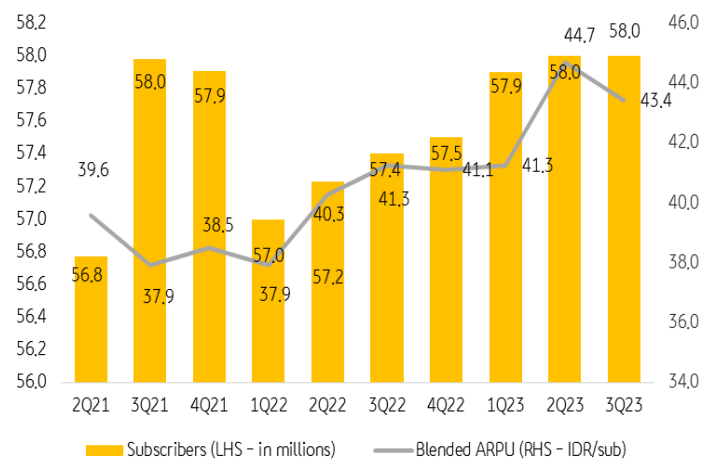
Source: Company, KBVS Research

Exhibit 6: Quarterly data yield and traffic



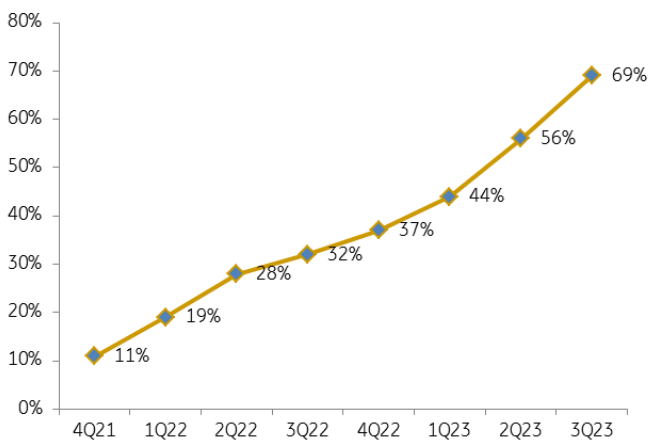
Source: Company, KBVS Research

Exhibit 7: EXCL's subscribers and ARPU



Source: Company, KBVS Research

Exhibit 8: Convergence penetration



Source: Company, KBVS Research

Exhibit 9: Currently trading below -2SD 5-year mean



Source: Company, Bloomberg

FINANCIAL TABLES



Exhibit 10: Profit & Loss summary

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Net Revenue	26,754	29,142	31,450	33,443	35,266
Costs	(22,765)	(25,127)	(27,035)	(28,678)	(30,013)
Operating profit	3,331	3,658	3,983	4,345	4,817
EBITDA	12,628	13,879	15,126	16,223	17,269
Net finance income/expenses	(2,290)	(2,666)	(2,821)	(2,841)	(2,932)
Other income/expenses	(1,623)	(2,305)	(2,389)	(2,420)	(2,496)
Profit before income tax	1,708	1,353	1,594	1,925	2,321
Tax benefit (expenses)	(420)	(232)	(287)	(385)	(453)
Net profit	1,288	1,109	1,293	1,524	1,849

Source: Company, KBVS Research

Exhibit 11: Balance sheet

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Current Assets					
Cash and cash equivalents	2,664	5,184	1,876	2,197	692
Trade receivables	525	738	1,098	813	1,203
Other current assets	4,544	4,486	3,129	3,023	3,328
Total Asset	7,733	10,408	6,103	6,033	5,223
Non-current assets					
Fixed assets	51,912	60,474	61,614	64,657	67,005
Other non-current assets	13,108	16,396	16,826	16,843	16,961
Total non-current assets	65,020	76,869	78,439	81,501	83,966
Total assets	72,753	87,278	84,543	87,533	89,189
Current liabilities					
Trade payables	10,638	11,337	9,501	9,859	9,976
Taxes payables	67	154	191	190	200
Accrued expenses	593	563	605	635	670
Short term debts	6,276	10,919	9,648	8,784	9,204
Other current liabilities	3,380	3,377	3,020	3,240	3,405
Total current liabilities	20,954	26,351	22,965	22,707	23,456
Non-current liabilities					
Long-term debts	29,372	33,041	33,081	35,115	34,972
Other non-current liabilities	2,338	2,112	2,033	2,441	2,527
Total non-current liabilities	31,711	35,153	35,113	37,557	37,499
Shareholders' equity	20,089	25,643	26,333	27,138	28,103
Total liabilities and equity	72,753	87,278	84,543	87,533	89,189

Source: Company, KBVS Research

Exhibit 9: Cash flow

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Net profit	1,288	1,109	1,293	1,524	1,849
Depreciation	9,956	10,577	11,574	12,298	12,887
Changes in working capital	1,599	599	(1,117)	997	(367)
CF from operating activities	12,843	12,285	11,750	14,819	14,369
Investment in fixed assets	(14,706)	(19,131)	(12,616)	(15,229)	(15,119)
Others	(96)	(3,295)	(528)	(131)	(233)
CF from investing activities	(14,803)	(22,427)	(13,144)	(15,360)	(15,353)
Dividends paid	(338)	(544)	(654)	(770)	(934)
Debt raised/ repaid	2,021	8,311	(1,232)	1,172	276
Others	(25)	4,894	(29)	459	137
CF from financing activities	1,658	12,661	(1,914)	861	(521)
Change in cash flow	(301)	2,520	(3,308)	321	(1,505)
Cash and cash equivalents, beginning	2,966	2,664	5,184	1,876	2,197
Cash and cash equivalents, ending	2,664	5,184	1,876	2,197	692

Source: Company, KBVS Research

Exhibit 10: Ratio analysis

Year End Dec	2021A	2022A	2023F	2024F	2025F
Operating profit margin (%)	12.4	12.6	12.7	13.0	13.7
EBITDA margin (%)	47.2	47.6	48.1	48.5	49.0
Net profit margin (%)	4.8	3.8	4.2	4.6	5.3
Receivable turnover (x)	40.0	40.0	41.0	35.0	35.0
Payable turnover (x)	2.5	2.3	2.6	3.0	3.0
ROAA (%)	1.8	1.4	1.5	1.8	2.1
ROAE (%)	6.6	4.9	5.0	5.8	6.8
ROIC (%)	3.9	2.9	3.2	3.7	4.3
Debt/ Equity (x)	1.8	1.7	1.6	1.6	1.6
Net debt/Equity (x)	1.6	1.5	1.6	1.5	1.5
Net debt/ EBITDA (x)	2.6	2.8	2.7	2.6	2.5
Interest coverage (x)	5.3	5.0	5.2	5.6	5.8
EPS (IDR)	98.5	85.8	100.0	117.8	142.9
BV/Share (IDR)	1,536.9	1,961.8	2,014.6	2,076.2	2,150.0

Source: Company, KBVS Research

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