

XL Axiata (EXCL)

Expecting another solid year

Heavy investments in recent years are now paying off

EXCL has been consistently working to improve network quality, as evidenced by high capex in recent years, which has begun to positively impact its performance since 2022 and onwards. According to Opensignal's latest report, XL came out as the top for most entertainment experiences (video, game, and voice app) and the fastest download speed operator in Indonesia. It was also reflected in EXCL's outperforming its peers in 3Q22 in terms of revenue and data traffic growth. Having superior network quality is critical now since current customers value a better experience above price. This, we believe, will reduce churn, ensure data traffic growth, and may even provide room for price increases. Management is eyeing a potential price hike by the end of 1Q23, as the festive season of Ramadhan and Idul Fitri approaches.

Convergence remains the focus, more synergy with Linknet ahead

EXCL has executed its FMC plan well, resulting in 32% convergence penetration of its FTTH base in 3Q22, and is expected to grow further this year. Management also sees positive outcomes from First media – XL bundling offerings, which are just released on Oct-22. In addition to FMC's focus, we view more synergy with Linknet in network and infrastructure may support EXCL's performance this year.

Completing 3G refarming by end 2022

EXCL is ahead of TLKM and ISAT in shutting down 3G network. As of 9M22, there were only 1,989 3G BTS remaining, which should be completed by 4Q22. During this effort, EXCL has incurred additional device bundling expenses when assisting its customers in migrating to the 4G network. This cost will still be incurred in 4Q22, albeit should be absent in 2023, resulting in margin expansion. We also anticipate higher data volume growth as its users switch to a 4G network. Further cost control will be visible from lower marketing expenses, due to: 1) digital initiatives (apps) that are already underway; and 2) easing competition. Consequently, we expect an EBITDA margin of 48.9%/50.5%/51.2% in FY22F/23F/24F.

Reiterate our BUY call on EXCL

We reiterate our BUY call on EXCL with a lower TP of IDR 3,600 (+52.5% upside) taking into account the rights issue completion. Alongside the conducive industry outlook, the aforementioned catalysts should result in another good year for EXCL. In 2023, we expect revenue growth of 6.9% YoY which should be better than industry's, and 50.5% EBITDA margin (+160bps from FY22F). Valuation remains attractive, it trades at 4.5x FY23F EV/EBITDA (-0.5SD of its 5-yr mean).

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	26,009	26,754	28,536	30,512	32,739
EBITDA (IDR bn)	13,060	13,287	13,964	15,412	16,752
OP (IDR bn)	605	3,331	3,512	4,034	4,483
NP (IDR bn)	372	1,288	1,327	1,693	2,146
Net debt/(cash) (IDR bn)	6,383	7,608	6,485	3,918	3,614
EBITDA margin (%)	50.2	49.7	48.9	50.5	51.2
OP margin (%)	2.3	12.4	12.3	13.2	13.7
ROE (%)	1.9	6.6	5.8	6.4	7.7
Dividend yield (%)	1.3	2.2	1.7	2.2	2.8
EPS (IDR)	28.3	98.1	101.1	128.9	163.5
chg. (% YoY)	(76.7)	450.3	5.4	14.9	11.1
BPS (IDR)	1,457.7	1,530.2	1,969.6	2,058.1	2,170.0
DPS (IDR)	31.6	51.5	40.4	51.6	65.4
PE (x)	67.7	19.5	19.0	18.3	14.4
PB (x)	1.3	1.3	1.2	1.1	1.1
EV/EBITDA (x)	4.7	4.8	4.6	4.0	3.7

12M rating **BUY (Maintain)**
12M TP **IDR 3,600** (Prev 3,900)
Upside **52.5%**

Stock Data

JCI (Jan 20)	6,875
Stock price (Jan 20, IDR)	2,360
Market cap (IDR bn)	30,983
Shares outstanding (mn)	13,128
52-week high/low (IDR)	3,380 / 2,010
6M avg. daily turnover (IDR bn)	42.2
Free float (%)	33.2

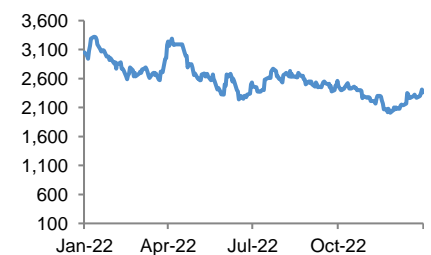
Major shareholders (%)

Axiata Investments (Indonesia) Sdn.Bhd.	66.3
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Performance

	1M	6M	12M
Absolute (%)	17.6	(3.6)	(19.6)
Relative to JCI (%p)	10.6	(6.7)	(25.7)

EXCL stock price (IDR)



Source: Bloomberg

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Fig 1. Forecast changes

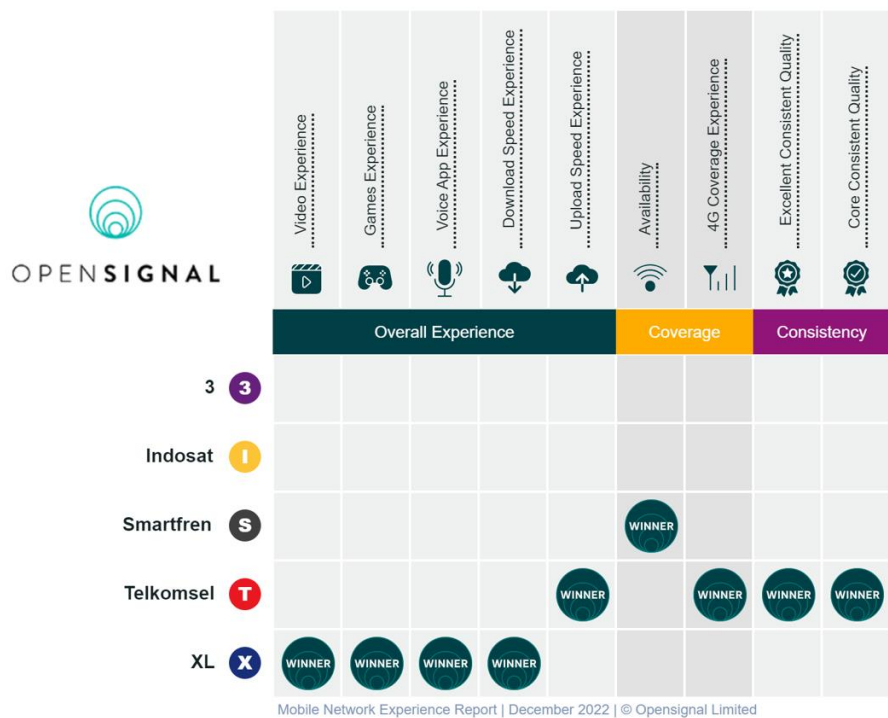
	New			Old			Change		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue (IDR bn)	28,536	30,512	32,739	28,193	30,178	32,620	1.2%	1.1%	0.4%
YoY growth	6.7%	6.9%	7.3%	5.4%	7.0%	8.1%			
EBITDA (IDR bn)	13,964	15,412	16,752	13,800	15,318	16,847	1.2%	0.6%	-0.6%
YoY growth	5.1%	10.4%	8.7%	3.9%	11.0%	10.0%			
Net profit (IDR bn)	1,327	1,693	2,146	1,251	1,456	1,856	6.0%	16.2%	15.6%
YoY growth	3.0%	27.6%	26.8%	-2.8%	16.4%	27.5%			
EBITDA margin	48.9%	50.5%	51.2%	48.9%	50.8%	51.6%			
NP margin	4.6%	5.5%	6.6%	4.4%	4.8%	5.7%			

Source: Company, KISI

Fig 2. EXCL network quality improvement

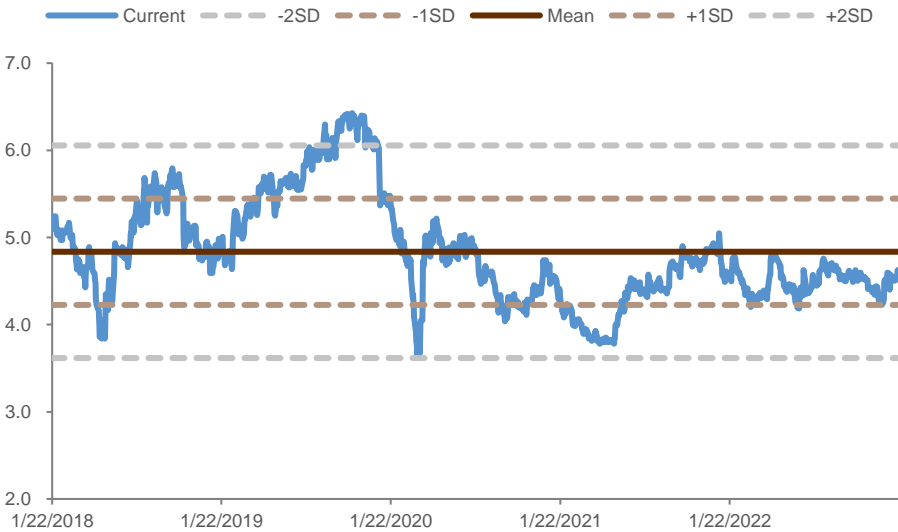
Mobile Experience Awards

DECEMBER 2022, INDONESIA REPORT



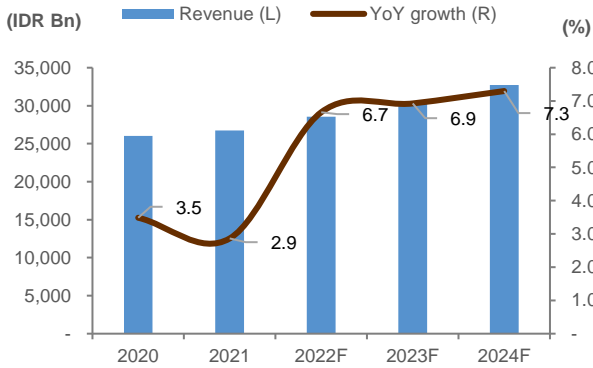
Source: Opensignal

Fig 3. EXCL EV/EBITDA band



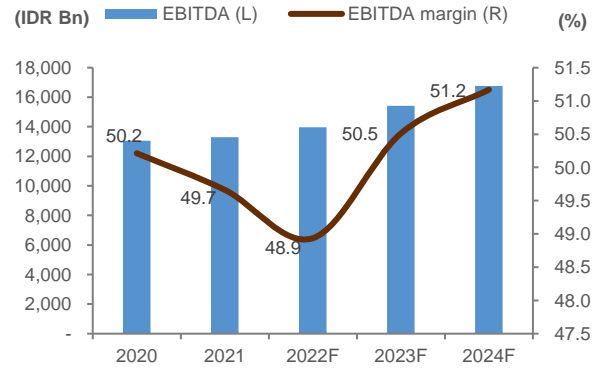
Source: Bloomberg, KISI

Fig 4. EXCL revenue



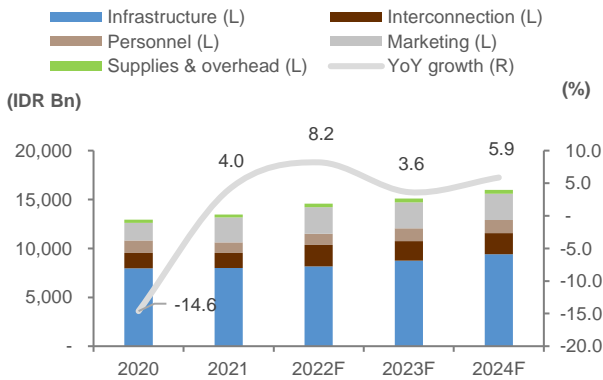
Source: Company, KISI

Fig 5. EXCL EBITDA



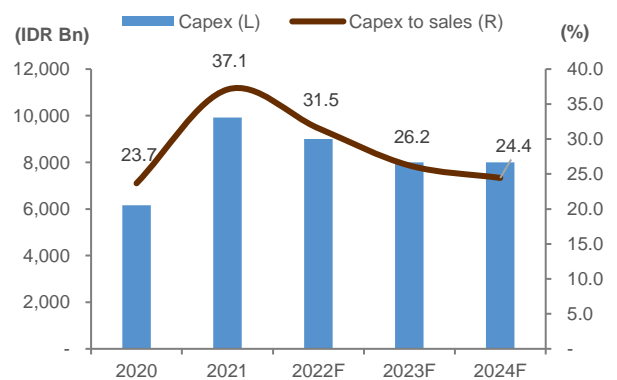
Source: Company, KISI

Fig 6. EXCL expenses



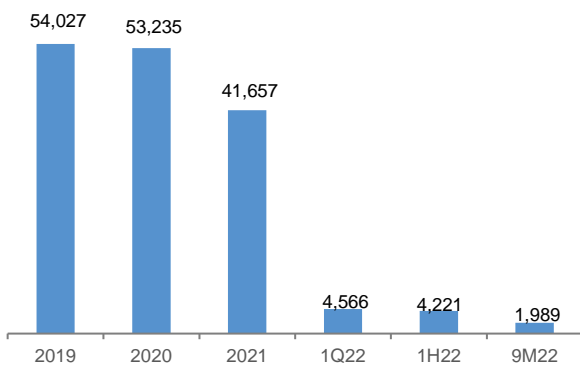
Source: Company, KISI

Fig 7. EXCL capex



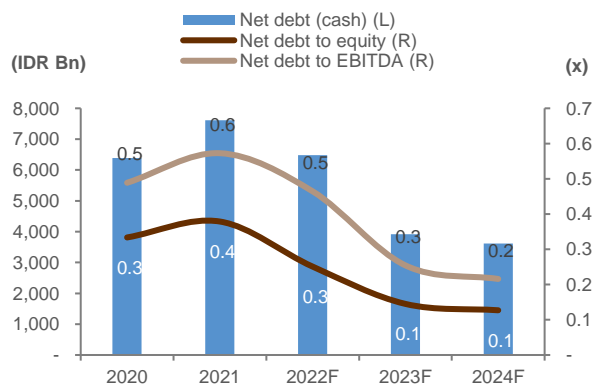
Source: Company, KISI

Fig 8. EXCL 3G BTS



Source: Company, KISI

Fig 9. EXCL debt position

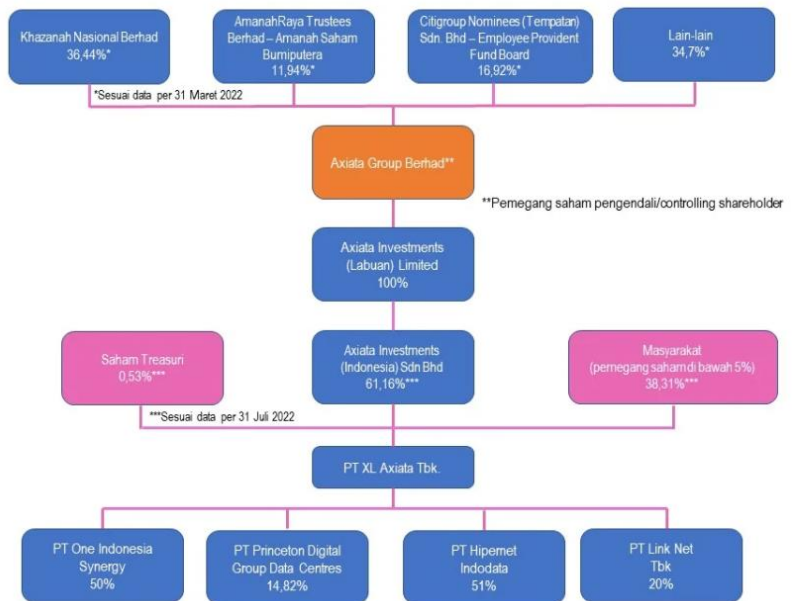


Source: Company, KISI

Company Overview

PT XL Axiata Tbk. (EXCL) was first established in 1989 under the name of PT Grahametropolitan Lestari, engaged in trade and general services. In 1996, the company received the license to operate telecommunication services. It was then listed as a public company in 2005. Its parent, Axiata Investments (Indonesia) Sdn. Bhd. owned 61.16% of the company, followed by treasury shares (0.53%) and public (38.31%). EXCL currently ranks third place out of four MNOs in Indonesia, with 57.2mn total subscribers as of 1H22. EXCL provides varieties of telco services to both retail and enterprise customers, including data, voice, SMS, VAS, and others.

Fig 10. EXCL shareholder structure



Source: Company

Fig 11. EXCL network coverage



Source: nperf.com

Fig 12. Peers comparison

Company	Bloomberg ticker	Mkt Cap (USD mn)	EV/EBITDA (x)		PE (x)		PB (x)		EPS growth (%)		EBITDA margin (%)		ROE (%)	
			FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Indonesia														
TELKOM INDONESIA PERSERO TBK	TLKM IJ	25,409	5.5	5.2	15.4	13.9	3.0	2.8	0.3	11.1	54.4	54.7	19.5	20.5
INDOSAT TBK PT	ISAT IJ	3,273	5.1	4.6	13.5	23.8	2.2	2.0	(63.4)	(43.3)	40.9	42.1	23.8	8.7
PT XL AXIATA TBK	EXCL IJ	2,053	4.9	4.6	20.1	15.1	12	12	(2.9)	33.2	48.9	50.5	6.3	7.5
Simple average			5.2	4.8	16.3	17.6	2.1	2.0	(22.0)	0.4	48.1	49.1	16.5	12.2
Weighted average			5.4	5.1	15.5	15.0	2.8	2.6	(6.7)	6.8	52.6	53.1	19.1	18.4
Malaysia														
MAXIS BHD	MAXIS MK	7,418	10.4	10.2	24.9	21.9	4.9	5.0	(2.4)	13.5	41.3	41.6	19.1	22.1
DIGI.COM BHD	DIGI MK	11,415	17.8	14.8	30.9	25.9	50.2	52.1	(9.4)	19.3	47.6	47.9	153.7	163.8
AXIATA GROUP BERHAD	AXIATA MK	6,531	5.6	5.7	23.1	18.5	16	1.5	48.3	25.0	44.5	44.6	6.9	7.6
Simple average			11.3	10.2	26.3	22.1	18.9	19.5	12.2	19.3	44.5	44.7	59.9	64.5
Weighted average			12.5	11.1	27.1	22.8	24.5	25.3	7.5	19.1	45.0	45.2	76.5	82.1
Singapore														
STARHUB LTD	STHSP	1,359	6.5	6.0	16.0	14.1	3.0	2.9	(20.7)	13.8	20.1	22.0	19.9	22.1
SINGAPORE TELECOMMUNICATION	ST SP	30,714	12.5	12.0	14.3	13.4	14	14	37.3	6.7	25.1	25.5	7.9	9.0
Simple average			9.5	9.0	15.1	13.7	2.2	2.1	8.3	10.3	22.6	23.8	13.9	15.6
Weighted average			12.3	11.8	14.3	13.4	1.5	1.5	34.9	7.0	24.9	25.4	8.4	9.6
Thailand														
TOTAL ACCESS COMMUNICATION	DTAC TB	3,524	6.4	6.2	41.3	34.5	6.1	6.0	(16.8)	19.8	35.9	36.4	13.9	17.7
ADVANCED INFO SERVICE PCL	ADVANC TB	18,251	8.1	7.6	22.9	20.6	7.0	6.6	(2.9)	10.8	50.2	50.6	31.1	32.5
TRUE CORP PCL	TRUE TB	4,951	9.2	8.6	NA	NA	2.1	2.2	(352.5)	53.0	40.8	41.6	(7.4)	(2.9)
Simple average			7.9	7.5	32.1	27.5	5.1	4.9	(124.1)	27.9	42.3	42.9	12.5	15.8
Weighted average			8.1	7.6	25.8	22.9	6.0	5.7	(69.5)	19.8	46.6	47.1	21.7	24.0
Phillipines														
GLOBE TELECOM INC	GLOPM	5,498	7.1	6.9	13.1	13.6	2.1	2.1	(8.8)	(4.1)	47.1	46.7	19.0	15.2
PLDT INC	TELPM	5,788	6.0	5.6	11.2	10.7	2.4	2.2	(6.4)	4.7	49.5	50.1	25.2	22.7
CONVERGE INFORMATION AND CC	CNVRG PM	2,512	8.1	7.0	16.9	14.9	3.5	2.8	17.4	13.5	57.6	58.5	22.1	20.4
Simple average			7.1	6.5	13.7	13.1	2.7	2.4	0.7	4.7	51.4	51.8	22.1	19.4
Weighted average			11.4	10.6	21.6	21.0	4.1	3.8	(5.1)	4.6	83.2	83.6	36.8	32.1
China														
CHINA TELECOM CORP LTD-H	728 HK	62,145	3.1	2.9	10.6	9.4	0.7	0.7	(16)	13.1	27.7	27.5	6.5	7.1
CHINA MOBILE LTD	941 HK	156,402	2.2	2.0	8.1	7.5	0.8	0.8	8.2	8.6	35.9	35.5	10.2	10.6
CHINA UNICOM HONG KONG LTD	762 HK	21,644	1.1	1.0	8.8	7.7	0.4	0.4	16.2	13.7	28.7	28.2	5.0	5.5
Simple average			2.1	2.0	9.2	8.2	0.6	0.6	7.6	11.8	30.8	30.4	7.3	7.7
Weighted average			3.1	2.9	11.9	10.8	1.0	1.0	8.6	13.8	44.7	44.2	11.9	12.4
Telco average			7.2	6.7	18.8	17.0	5.3	5.3	(19.6)	12.4	39.9	40.4	22.0	22.5

Source: Bloomberg, KISI

Balance sheet (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalent	2,966	2,664	6,747	4,310	4,614
Accounts & other receivables	560	610	711	704	773
Inventories	143	156	136	164	175
Others	3,902	4,302	4,737	4,850	5,301
Non-current assets					
Fixed assets	47,162	51,912	55,472	56,605	56,847
Goodwill	6,681	6,681	6,916	6,916	6,916
Intangible assets	5,716	5,713	5,988	5,988	5,988
Other non-current assets	614	714	2,854	1,528	1,929
Total assets	67,745	72,753	83,560	81,066	82,542
Current liabilities					
Accounts & other payables	7,417	10,705	9,620	10,398	11,764
ST debt & bond	1,576	1,745	3,804	-	-
Obligations under finance lease	4,667	4,531	4,897	4,897	4,897
Others	5,198	3,973	5,448	5,825	6,250
Non-current liabilities					
LT debt & bond	7,773	8,527	9,428	8,228	6,228
Obligations under finance lease	19,613	20,845	21,734	21,734	21,734
Other non-current liabilities	2,365	2,338	2,771	2,963	3,179
Total liabilities	48,607	52,665	57,702	54,046	54,053
Controlling interest					
Capital stock	1,071	1,072	1,072	1,072	1,072
Additional paid-in capital	12,232	12,216	17,216	17,216	17,216
Retained earnings	5,969	6,934	7,704	8,866	10,334
Treasury shares	(134)	(134)	(134)	(134)	(134)
Total equity	19,137	20,089	25,858	27,020	28,489

Cash flow (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operating	12,544	12,843	11,654	14,092	15,676
Net profit	372	1,288	1,327	1,693	2,146
Depreciation	12,455	9,956	10,453	11,377	12,269
Net incr. in W/C	(282)	1,599	(125)	1,022	1,261
Others	-	-	-	-	-
C/F from investing	(17,524)	(14,829)	(16,228)	(10,994)	(12,695)
CAPEX	(17,535)	(14,706)	(14,012)	(12,511)	(12,511)
Others	11	(123)	(2,216)	1,517	(184)
C/F from financing	6,342	1,684	8,657	(5,535)	(2,677)
Incr. in equity	32	(14)	5,000	-	-
Incr. in debts	6,699	2,021	4,214	(5,004)	(2,000)
Dividends	(213)	(338)	(552)	(531)	(677)
Others	(175)	16	(6)	-	-
Increase in cash	1,362	(301)	4,083	(2,437)	304

Income statement (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Net revenues	26,009	26,754	28,536	30,512	32,739
Expenses	(12,949)	(13,467)	(14,572)	(15,100)	(15,987)
EBITDA	13,060	13,287	13,964	15,412	16,752
Depreciation expenses	(12,455)	(9,956)	(10,453)	(11,377)	(12,269)
Operating profit	605	3,331	3,512	4,034	4,483
Financial income					
Interest income	183	88	147	172	139
Financial expense					
Interest expense	(2,668)	(2,378)	(2,454)	(2,482)	(2,307)
Other non-operating profit	2,027	659	455	445	437
Gains (Losses) in associates, subsidiaries and JV	(1)	9	-	-	-
Earnings before tax	146	1,708	1,659	2,170	2,751
Income taxes	225	(420)	(332)	(477)	(605)
Net profit	372	1,288	1,327	1,693	2,146
Non-controlling interest	-	-	-	-	-

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	28.3	98.1	101.1	128.9	163.5
BPS	1,457.7	1,530.2	1,969.6	2,058.1	2,170.0
DPS	31.6	51.5	40.4	51.6	65.4
Growth (%)					
Sales growth	3.5	2.9	6.7	6.9	7.3
EBITDA growth	31.0	1.7	5.1	10.4	8.7
OP growth	(76.7)	450.3	5.4	14.9	11.1
NP growth	(47.9)	246.6	3.0	27.6	26.8
Profitability (%)					
EBITDA margin	50.2	49.7	48.9	50.5	51.2
OP margin	2.3	12.4	12.3	13.2	13.7
NP margin	1.4	4.8	4.6	5.5	6.6
ROA	0.6	1.8	1.7	2.1	2.6
ROE	1.9	6.6	5.8	6.4	7.7
Dividend yield	1.3	2.2	1.7	2.2	2.8
Dividend payout ratio	91.0	42.9	40.0	40.0	40.0
Stability					
Net debt (IDR bn)	6,383	7,608	6,485	3,918	3,614
Int.-bearing debt/equity (%)	33.4	37.9	25.1	14.5	12.7
Valuation (X)					
PE	67.7	19.5	19.0	18.3	14.4
PB	1.3	1.3	1.2	1.1	1.1
EV/EBITDA	4.7	4.8	4.6	4.0	3.7

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