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Research Center

# Morning KISI/

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■ Macro Calendar

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# Telecommunication

## Out of the woods

### Indonesian telco industry landscape

Following the completion of IOH consolidation, Indonesian telco industry consists of only four MNOs, which is viewed as a sustainable number. TLKM led the industry with a 50.5% mobile revenue share in 1H22, followed by ISAT/EXCL/FREN. TLKM being the most dominant operator commands a huge customer base of ~170mn subscribers, leaving the other operators with a huge gap. This, in our opinion, is a result of TLKM's integrated business model and wide-ranging infrastructure and networks.

### Healthier environment post-IOH consolidation

One of the most noticeable effects of post-consolidation is a healthier environment, as seen by more reasonable data pricing. The market has been intensely competitive since a decade ago, with MNOs participating in price wars by either decreasing prices or over-promoting in an effort to increase their subscriber base. As a result, MNOs have seen years of diminishing profitability, and many have had trouble turning a profit. The sector is now moving in the right direction, as most MNOs, have begun to raise data prices and agree that the current condition is sustainable.

### Positive data consumption trajectory to continue

We keep our upbeat outlook that Indonesia's data consumption will continue its positive upward trajectory. Mobile and digital adoption are expected to continue expanding fast in the following years. Not to mention how crucial and pervasive digital connectivity has become in many facets of daily life since the Covid-19 epidemic. Additionally, we think that MNOs will continue to find it appealing to enter the outside Java market which seems to be still underpenetrated.

### Re-initiate telco sector with OVERWEIGHT call

We anticipate that a combination of a more favorable pricing environment, and the ongoing rise in data consumption will support MNOs' future top and bottom-line earnings. **Our top picks in the sector are EXCL and ISAT, as we expect them to book future solid top-line growth, on the back of data and ARPU growth.** In addition, they should be more benefitted from recent price hikes due to lower profitability, leading to higher potential EBITDA margin expansion. Although we are positive on TLKM's plan to unlock its other than mobile businesses, it may need some time to drive substantial top-line growth. Hence, we currently recommend HOLD for TLKM.

### Telcos valuation

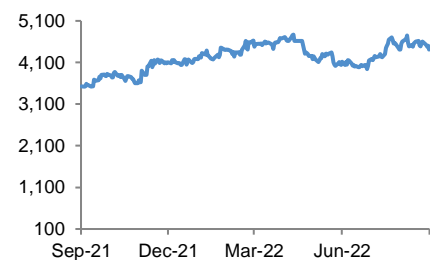
Ticker	Mkt Cap (IDR tn)	EV/EBITDA (x)		P/B (x)		EPS growth (%)		ROE (%)	
		FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
TLKM	436.9	6.1	5.7	3.4	3.2	5.3	5.6	20.5	20.0
ISAT	56.8	5.8	5.3	2.0	2.0	-63.5	-77.5	17.8	2.7
EXCL	26.8	4.7	4.3	1.3	1.2	0.5	16.5	6.1	6.8

Source: KISI

## Overweight (Re-Initiate)

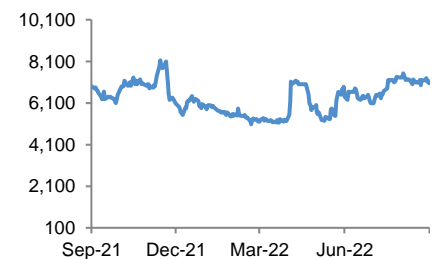
Company	Rating	TP (IDR)
TLKM	HOLD	4,900
ISAT	BUY	8,300
EXCL	BUY	3,900

### TLKM Stock Price



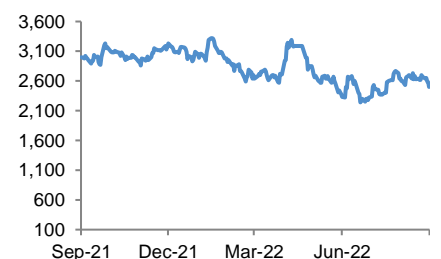
Source: Bloomberg

### ISAT Stock Price



Source: Bloomberg

### EXCL Stock Price



Source: Bloomberg

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## Market Commentary

### Market Commentary

- JCI ended 27 pts higher after oscillated between gains and losses on Monday as investors read global cues for direction. Regional markets declined ahead of a slew of rate decisions, US futures also fell.
- Broad-based gain in blue-chip shares fueled the gain, with BBCA IJ, TLKM IJ, and ASII IJ all gaining more than 2%. On the other hand, small-mid cap and commodity shares tumbled led by retail favourite BUMI IJ which hit limit down.
- Tech shares fell, led by GOTO IJ -2.42% as lock-up period is due to expire soon in the upcoming months. BUKA IJ +0.00%.
- Commodity shares tanked, with BUMI IJ fell to limit down as traders seen to cash in recent strengths ahead of Fed's rates decision. MDKA IJ -1.18%, ADRO IJ -0.51%.
- Top Gainers : BBCA (+2.37%), TLKM (+2.04%), ASII (+3.26%)
- Top Losers: GOTO (-2.42%), BUMI (-6.67%), BRMS (-6.80%)

## News

### Macroeconomic, Sector and Corporate News

- Nickel – Indonesia Battery Corporation (IBC) explores overseas lithium mine acquisition. (Kontan)
- WIKA – To divest its 15% stake in container business operations to Pelindo. (bbg)
- ASII – PT Sedaya Multi Investama (SMI) or Astra Financial has completed the acquisition of 49.5% stakes in PT Bank Jasa Jakarta, targets to launch digital bank in 2023. (Kontan)
- MEDC – PT Amman Minerals Nusa Tenggara signed contracts with Jurong Engineering Limited (JEL) and PT Jurong Engineering Lestari (PT JEL) for combined cycle power plant expansion project Batu Hijau-1. (Investor Daily)
- LEAD – Participates in USD 5mn contract tender for PT Pertamina Hulu Mahakam (PHM) and PT Pertamina Hulu Energi Offshore Southeast Sumatra (PHE OSES) projects. (Kontan)
- WSKT – Targets to complete the construction of Ciawi-Sukabumi Section 2 and Cimanggis-Cibitung Section 2A toll roads by end 2022. (Investor Daily)
- VICI – Collaborates with PT Kimia Farma Apotek (KFA), subsidiary of KAEP IJ to sell Victoria Care products on more than 600 Kimia Farma outlets. (Bisnis)
- WIRG – Signed MoU with PT Jababeka Morotai, subsidiary of KJIA IJ to develop metaverse project for the Morotai Special Economic Zone (SEZ), North Maluku. (Bisnis)
- SMGR – Allocates IDR1.3tn capex to realize the commitment for decarbonization until 2030. (Investor daily)

## Outliers

### Outlier Stocks

- Sharp Movers (Up) : LEAD (+29.9%), POLA (+26.1%), ARII (+24.9%)
- Sharp Movers (Down) : SATU (-7%), BBHI (-7%), PICO (-6.9%)

Mon	Tue	Wed	Thu	Fri
			1	2
			Korea> 2Q22 GDP (P) August exports and imports US> New jobless claims August ISM manufacturing PMI China> August Caixin manufacturing PMI	Korea> August CPI US> August non-farm payrolls August jobless rate July durable goods orders (F)
5	6	7	8	9
US> <b>Market closed (Labor day)</b> China> August Caixin services PMI	US> August ISM services PMI	US> <b>Fed Beige Book release</b> MBA mortgage applications July trade balance Europe> 2Q22 GDP (F) China> August exports and imports August trade balance August FX reserves	US> New jobless claims Europe> <b>ECB MPC meeting</b> Japan> 2Q22 GDP (F)	Korea> <b>Market closed (Chuseok)</b> China> August PPI August CPI
12	13	14	15	16
OECD leading economic index Korea> <b>Market closed (Chuseok)</b> China> <b>Market closed (Mid-autumn festival)</b>	<b>The OPEC Monthly Oil Market Report</b> US> August CPI	US> MBA mortgage applications August PPI Japan> July mining and manufacturing production (F)	US> New jobless claims September manufacturing index (New York) August retail sales August mining and manufacturing production August facility utilization	Korea> August unemployment rate US> September Michigan Consumer Confidence (P) Europe> August CPI (F) China> August mining and manufacturing production August fixed asset investment August retail sales
19	20	21	22	23
Japan> <b>Market closed (Respect for the Aged Day)</b>	US> August housing starts Japan> August CPI	US> <b>FOMC meeting</b> MBA mortgage applications August existing home sales	US> New jobless claims	Japan> <b>Market closed (Autumnal Equinox Day)</b>
26	27	28	29	30
	US> August durable goods orders (P) September Conference Board Consumer Expectations Index August new home sales	US> MBA mortgage applications	US> New jobless claims 2Q22 GDP	Korea> August mining and manufacturing production US> September Michigan Consumer Confidence (F) August PCE Europe> September CPI (P) China> September manufacturing PMI September services PMI Japan> August mining and manufacturing production (P)

Note: 1) Figures in parentheses represent the latest reported figures, Bloomberg estimates and previous reported figures in that order. For example: Data (actual reported figures, Bloomberg estimate, previous reported figures). Bloomberg estimates are subject to change 2) Earnings release date is from Bloomberg or company announcement