

Thursday, 01 August 2019

BUY
Maintain

Last price (IDR) 3,300
Target Price (IDR) 4,100
Upside/Downside +24.2%
Previous Target Price (IDR) 4,100

Stock Statistics

Sector Telco
Bloomberg Ticker EXCL IJ
No of Shrs (mn) 10,688
Mkt. Cap (IDRbn/USDmn) 35,270/2,514
Avg. daily T/O (IDRbn/USDmn) 44.0/3.1

Major shareholders (%)

Axiata Investments Indonesia Sdn. Bhd. 66.4

Estimated free float 33.6

EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	39.2	66.2	152.0
Consensus	47.3	92.0	143.9
Danareksa/Cons	(17.2)	(28.0)	5.6

EXCL relative to JCI Index



Source : Bloomberg



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XL Axiata (EXCL IJ)

XLent 2Q performance & upward trajectory

XL recorded robust topline performance in 2Q accompanied by improving EBITDA margins and tailwinds in other income. This resulted in better-than-expected net profits (56% achievement.). Maintain BUY on EXCL with a higher TP of Rp4,100 as we roll over our forecast.

Robust 2Q19 performance, strong revenues growth. XL's 2Q19 figures were dominated by solid growth in data revenues (+7%QoQ) riding on the Lebaran period. The growth was supported by 1.5mn subscriber additions and increasing smartphone penetration to 86% of the base, which, in turn, increased the data traffic/sub and better monetized the base with a QoQ increase in ARPU. Thus, net revenues posted 5.4%QoQ growth in 2Q19 and superlative growth of 24% YoY.

The 2Q19 OPEX lines were stable despite the renewal of managed network services with Huawei (implied at a higher cost), reflecting the solid management of operations and better operating leverage. EBITDA effectively grew at a faster rate than revenues by 8.4%QoQ with 110bps margin gains (or +Rp170bn) and up significantly on a YoY basis by 63%YoY. There was a positive surprise from finance costs which declined by Rp97bn in 2Q19. Despite the higher tax expenses in 2Q19, net profits jumped by Rp167bn on a qoq basis to Rp225bn in 2Q19 (+294%QoQ), a solid step to maintain a positive bottom line.

1H19 results in line – all the right elements to maintain momentum. XL Axiata achieved 50% of our FY19F forecast revenues and 51% of our EBITDA estimate. The result was ahead of our FY19 earnings estimate thanks to lower finance costs. We maintain our FY19 estimates, given: a) the company remains competitive with its dual brand strategy defending the mid-low segments (AXIS launching new gaming packs) by tweaking its catalogue, b) capex spending for capacity that includes fiberizing towers to meet increasing data usage as more data users are now in the 4G band (65%). The management sees competition intensifying from contender peers but XL relies on its increasingly sizeable scale to achieve nationwide coverage to fend off the competition.

Serious commitment to ex-Java coverage expansion after seeing initial profits. We do not factor in changes in XL ownership, but we see capex synergies if Telenor (the potential owner of XL) gains control. Telenor has indicated it has a keen interest in the Indonesian market as it believes there is room for data growth. XL's management stated clearly that the growth was sourced from ex-Java areas in the high teens and that earlier ex-Java investments had started to bear fruit in EBIT terms. If the management sees room for more ex-Java expansion, it will not hesitate to raise the capex currently set at Rp7.5tn for FY19.

Maintain BUY with a higher TP. XL Axiata has posted solid 1H19 earnings in line with expectations and en-route to achieving a higher scale business. Maintain our BUY call on EXCL with a higher TP of Rp4,100, rolling over our valuation.

Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	22,876	22,939	24,664	26,068	28,084
EBITDA (IDRbn)	8,321	8,512	9,186	10,447	12,147
EBITDA Growth (%)	3.3	2.3	7.9	13.7	16.3
Net profit (IDRbn)	375	(3,297)	419	708	1,625
EPS (IDR)	35.1	(308.5)	39.2	66.2	152.0
EPS growth (%)	(0.1)	(978.6)	(112.7)	69.0	129.6
BVPS (IDR)	2,023.9	1,716.2	1,755.4	1,821.7	1,950.5
DPS (IDR)	0.0	0.0	0.0	0.0	23.2
PER (x)	83.2	n/m	74.5	44.1	19.2
PBV (x)	1.4	1.7	1.7	1.6	1.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.8
EV/EBITDA (x)	5.2	5.0	5.0	4.3	3.5

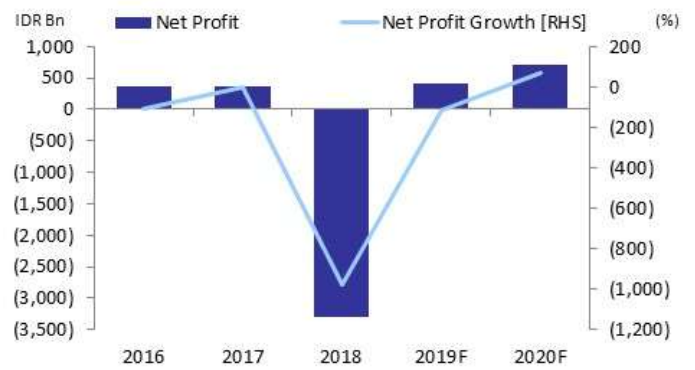
Source : EXCL, Danareksa Estimates

Exhibit 1. Revenues and Growth



Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth



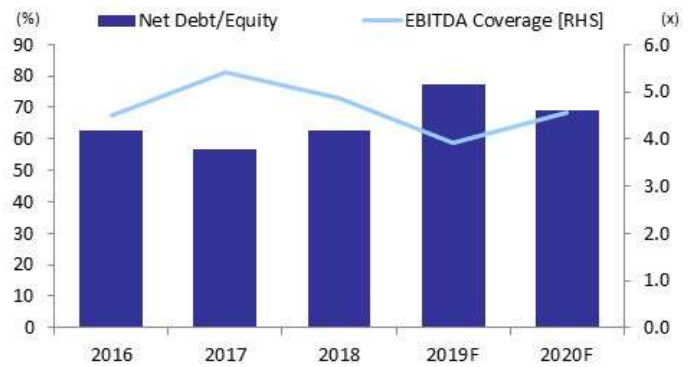
Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins



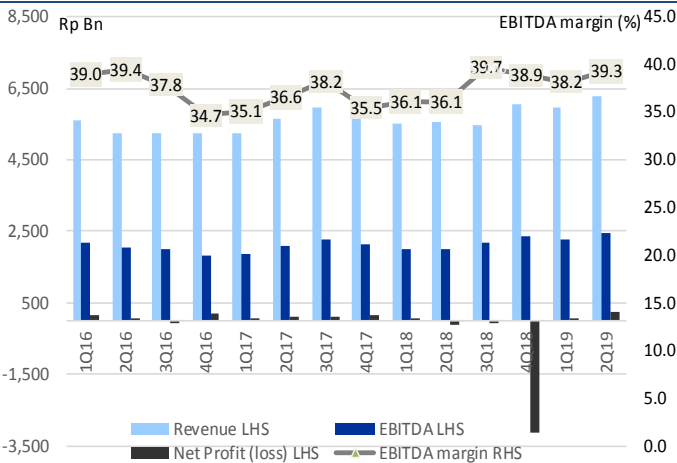
Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level



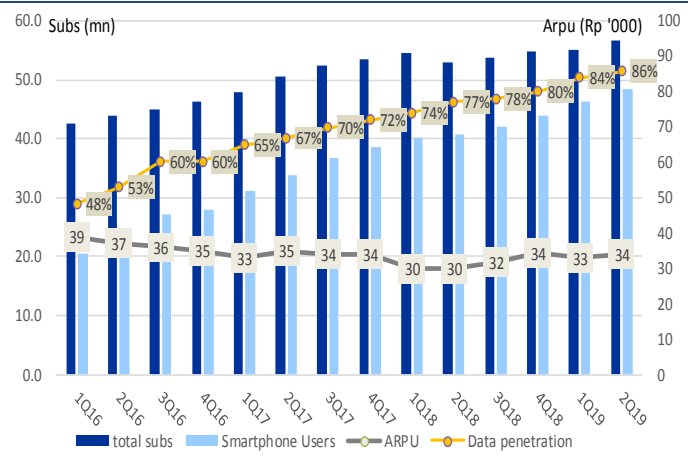
Source: Company, Danareksa Sekuritas estimates

Exhibit 5. Quarterly revenue & earnings

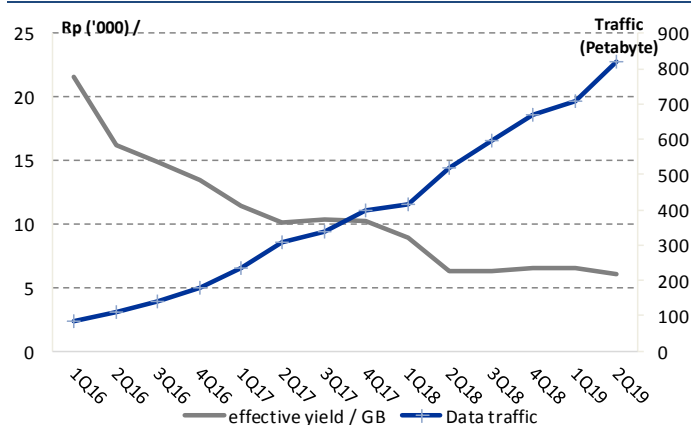


Source: Company, Danareksa Sekuritas estimates

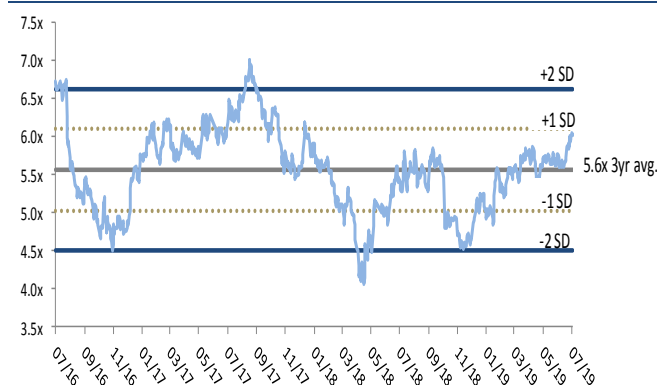
Exhibit 6. Data subscribers



Source: Company, Danareksa Sekuritas estimates

Exhibit 7. Actual yield / GB, data traffic relationship


Source: Company, Danareksa Sekuritas estimates

Exhibit 8. forward EV/EBITDA band


Source: Company, Danareksa Sekuritas estimates

Exhibit 9. XL Axiata 2Q19 P&L statement

Rp bn	2Q18	1Q19	2Q19	qoq, %	yoy, %	1H18	1H19	yoy, %	2019F	A/F, %
Net Revenues	5,063	5,967	6,289	5.4	24.2	11,046	12,256	11.0	24,323	50%
Service Revenues	4,301	5,387	5,678	5.4	32.0	9,593	11,065	15.3		
Data Revenues	3,277	4,636	4,997	7.0	52.5	7,471	9,633	28.9		
Non-data Revenues	1,024	751	681	(5.0)	(33.5)	2,122	1,432	(32.5)		
Other	532	371	371	(5.0)	(30.2)	900	742	(17.6)		
Other telco services	247	217	245	(7.9)	(0.8)	574	462	(19.5)		
Total expenses	(5,206)	(5,298)	(5,450)	2.9	1.4	(10,430)	(10,748)	99.6		
Infrastructure expenses	(1,984)	(2,316)	(2,353)	1.6	18.6	(4,068)	(4,670)	14.8		
Depreciation & amortization	(1,854)	(1,772)	(1,761)	(0.6)	(5.0)	(3,702)	(3,532)	(4.6)		
Personnel	(264)	(301)	(323)	7.5	22.3	(527)	(624)	18.4		
Interconnection expenses & Other	(613)	(446)	(516)	15.7	(15.9)	(1,098)	(961)	(12.5)		
Marketing and selling expenses	(574)	(457)	(490)	7.3	(14.6)	(1,147)	(947)	(17.4)		
General & Admin. Expenses	(111)	(169)	(136)	(19.3)	23.3	(220)	(305)	38.5		
Other	193	162	129	(20.4)	(33.2)	332	291	(12.4)		
Operating profit	(142)	669	839	25.3	(690.2)	616	1,509	144.8		
EBITDA	1,518	2,279	2,471	8.4	62.7	3,986	4,750	19.1	9,307	51%
Other inc. (exp.)	(423)	(586)	(508)	(13.2)	20.0	(771)	(1,094)	41.8		
Net finance inc. (exp.)	(208)	(586)	(508)	(13.2)	143.9	(483)	(1,094)	126.2		
Financing Forex gain (loss)	(215)	0	0	n/a	(100.0)	(288)	0	n/m		
Pre-tax profit	(565)	84	331	294.6	n/a	(155)	415	n/a		
Tax expense	(13)	(27)	(106)	298.7	713.4	73	(133)	(281.2)		
Net profit	(578)	57	225	292.7	n/a	(81)	282	n.a.	503	56%
OPEX/Revenue (%)	102.8	54.1	53.5	(0.5)	(49.3)	94.4	53.8	(40.6)		
Operating profit margin (%)	(2.8)	45.9	46.5	0.5	49.3	5.6	46.2	40.6		
EBITDA margin (%)	30.0	38.2	39.3	1.1	9.3	36.1	38.8	2.7		
Net margin %	(11.4)	1.0	3.6	2.6	15.0	(0.7)	36.2	36.9		

Source : XL Axiata & Danareksa Sekuritas

Exhibit 10. XL Axiata 2Q19 Operational KPIs

Operational Data	2Q18	1Q19	2Q19	qoq, %	yoy, %	1H18	1H19	qoq, %
No. of Subscriber (million unit)	52.9	55.1	56.6	2.7	1.1	52.9	56.6	7.0
Prepaid	52.0	54.0	55.5	2.8	0.6	52.0	55.5	6.8
Postpaid	0.9	1.0	1.1	0.3	30.3	0.9	1.1	18.0
Smartphone Users	40.8	46.3	48.6	4.9	14.7	40.8	48.6	19.0
Blended ARPU YTD (Rp. '000)	30	33	34	3.0	10.0	30	34	13.3
Data & Internet Segment								
Data Traffic (Petabytes)	518	710	821	15.5	70.2	935.3	1,531	63.7
Effective Data yield (Rp/GB)	7,260	6,526	6,088	(6.7)	(26.6)	7.3	6.3	(13.8)
Average monthly data usage (GB)	4.1	5.1	5.6	9.9	48.2	4.0	5.6	37.8
Network BTS (# '000)	112.0	122.2	127.3	4.2	15.5	112.0	127.3	5.8
2G	37.7	36.9	36.7	(0.7)	(2.2)	37.7	36.7	(0.1)
3G	49.4	52.1	53.3	2.1	9.0	49.4	53.3	3.2
4G	24.9	33.1	37.3	12.7	64.0	24.9	37.3	23.2

Source : XL Axiata & Danareksa Sekuritas

Exhibit 11. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Revenue	22,876	22,939	24,664	26,068	28,084
COGS	(17,987)	(22,496)	(18,330)	(18,714)	(19,226)
Gross profit	4,889	443	6,334	7,353	8,858
EBITDA	8,321	8,512	9,186	10,447	12,147
Oper. profit	1,370	(3,109)	2,454	3,254	4,476
Interest income	244	487	22	(22)	60
Interest expense	(1,539)	(1,746)	(2,340)	(2,288)	(2,370)
Forex Gain/(Loss)	(30)	(468)	0	0	0
Income From Assoc. Co's	(103)	0	0	0	0
Other Income (Expenses)	279	439	423	0	0
Pre-tax profit	221	(4,396)	559	944	2,167
Income tax	154	1,099	(140)	(236)	(542)
Minority interest	0	0	0	0	0
Net profit	375	(3,297)	419	708	1,625
Core Net Profit	405	(2,829)	419	708	1,625

Exhibit 12. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	2,455	1,047	108	504	3,267
Receivables	632	632	588	634	692
Inventory	143	189	178	192	210
Other Curr. Asset	3,950	5,191	5,112	5,143	5,650
Fixed assets - Net	34,934	36,760	39,723	38,729	37,418
Other non-curr.asset	14,207	13,796	14,001	13,899	13,950
Total asset	56,321	57,614	59,709	59,102	61,186
ST Debt	3,771	1,329	6,701	3,312	3,331
Payables	7,476	9,106	8,914	9,349	9,994
Other Curr. Liabilities	3,979	5,298	5,080	4,028	3,439
Long Term Debt	10,980	11,235	7,949	10,639	11,271
Other LT. Liabilities	8,484	12,303	12,303	12,303	12,303
Total Liabilities	34,691	39,271	40,947	39,632	40,339
Shareholder's Funds	21,631	18,343	18,762	19,470	20,847
Minority interests	0	0	0	0	0
Total Equity & Liabilities	56,321	57,614	59,709	59,102	61,186

Exhibit 13. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	375	(3,297)	419	708	1,625
Depreciation and Amort.	6,951	11,621	6,732	7,192	7,671
Change in Working Capital	1,305	1,663	(276)	(708)	(526)
Other Oper. Cash Flow	511	697	123	3,912	4,062
Operating Cash Flow	9,142	10,685	6,998	11,104	12,832
Capex	(7,918)	(12,885)	(7,500)	(7,800)	(8,112)
Others Inv. Cash Flow	944	899	(184)	80	9
Investing Cash Flow	(6,974)	(11,987)	(7,684)	(7,720)	(8,103)
Net change in debt	380	1,631	2,086	(699)	651
New Capital	18	(8)	0	0	0
Dividend payment	0	0	0	0	(248)
Other Fin. Cash Flow	(1,511)	(1,746)	(2,340)	(2,288)	(2,370)
Financing Cash Flow	(1,113)	(123)	(254)	(2,987)	(1,967)
Net Change in Cash	1,055	(1,425)	(940)	397	2,762
Cash - begin of the year	1,400	2,455	1,047	108	504
Cash - end of the year	2,455	1,047	108	504	3,267

Exhibit 14. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Growth (%)					
Sales	7.2	0.3	7.5	5.7	7.7
EBITDA	3.3	2.3	7.9	13.7	16.3
Operating profit	11,111.9	(326.9)	(178.9)	32.6	37.6
Net profit	(0.1)	(978.6)	(112.7)	69.0	129.6
Profitability (%)					
Gross margin	21.4	1.9	25.7	28.2	31.5
EBITDA margin	36.4	37.1	37.2	40.1	43.3
Operating margin	6.0	(13.6)	10.0	12.5	15.9
Net margin	1.6	(14.4)	1.7	2.7	5.8
ROAA	0.7	(5.8)	0.7	1.2	2.7
ROAE	1.8	(16.5)	2.3	3.7	8.1
Leverage					
Net Gearing (x)	0.6	0.6	0.8	0.7	0.5
Interest Coverage (x)	0.9	(1.8)	1.0	1.4	1.9

Source : EXCL, Danareksa Estimates

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