

Tuesday, 03 December 2019

OVERWEIGHT

Telco

Takeaways, Kemkominfo says take action

TLKM relative to JCI Index



EXCL relative to JCI Index



Source : Bloomberg

The key takeaway from the Cellular ID conference was on the urgency to take action. Kemkominfo's Director General, Pak Ismail, highlighted the need for multi-layer broadband including 5G in Indonesia. The 2020 outlook is seen as being blue ocean given the market arena is not just local anymore but involves competing on a global level.

More of a calling for telcos to get their act together. The roadmap includes the creation of digital telcos since new applications and platforms will dictate the behavior of consumers and businesses. The government's mandate is to extend broadband availability and improve its reliability across the nation as it is a key national lever to improve education and human resources that will help spark better productivity for SMEs. Pak Ismail acknowledges the challenges on ARPU and affordability but sees that telcos need to transform from being traditional telco companies to become digital with more digital applications.

4G bridge for 5G. Pak Ismail sees that Indonesia's industry should be in-line with GSMA to serve the connectivity part of digital telcos. Seemingly, Indonesia will have the 4th largest smartphone population by 2025. The government also believes that by 2025 5G needs to be available in Indonesia with 18% utilization vs. previous G-techs. 4G tech will continue to dominate with 59% utilization and it will be offered as the basis for the non-standalone version of 5G. Up until Oct. 2019, 33 operators have launched commercial 5G with another 77 planning launches in the near term. The government will support local industry by launching 5G spectrum auctions with rational license fees although the details have not been revealed. **Our view is that the winners of the 5G spectrum will determine the consolidated number of telco players the future.**

IoT solutions and digital. Telcos can go through this transformation by investing in fiber and networks and serve connectivity as well as IoT. M2M will multiply data connections and SIM cards (AT-Kearney attests), and data vols consequently. IoT solutions are not seen as experimental but considered to be a new source of revenues growth. So far, start-ups have only served consumers. The government is urging telcos to explore more use cases and come up with custom-made solutions, applicable for local agriculture and fisheries industries.

More investments in fiber not only backbone but also backhaul. As per GSMA, SE Asia and Indonesia has relied on Microwave link to transfer data from towers (backhaul) and they lack fiber investments which is the reason why advertised 4G technologies are not performing on par with their specifications. Pak Ismail is urging operators to invest in fiber backhaul not only in Java but across the islands.

The response from telco & digital players: We see that contender telcos' resources are limited to serve network capacity and coverage only. As such, telcos seek the creation of a network infrastructure company to jointly build networks among operators especially in the case of ex-Java networks. **GDP ventures suggests that many industries are not yet tapped including agriculture, fisheries, logistics & warehousing.** However, the incentives for more unicorns are sparse with limited funds while red tape is still prevalent.

All BUYs. In this space, Telkom has multidimensional growth in connectivity including data center services as portrayed by TelkomSigma (Telkom's CFO mentions 5-6% growth in 2020 with the ability to expand margins). We like EXCL as it exhibits margins expansion ability but so far in a single dimension. Indosat has a strong 4G+ network as per nPerf www.nperf.com.



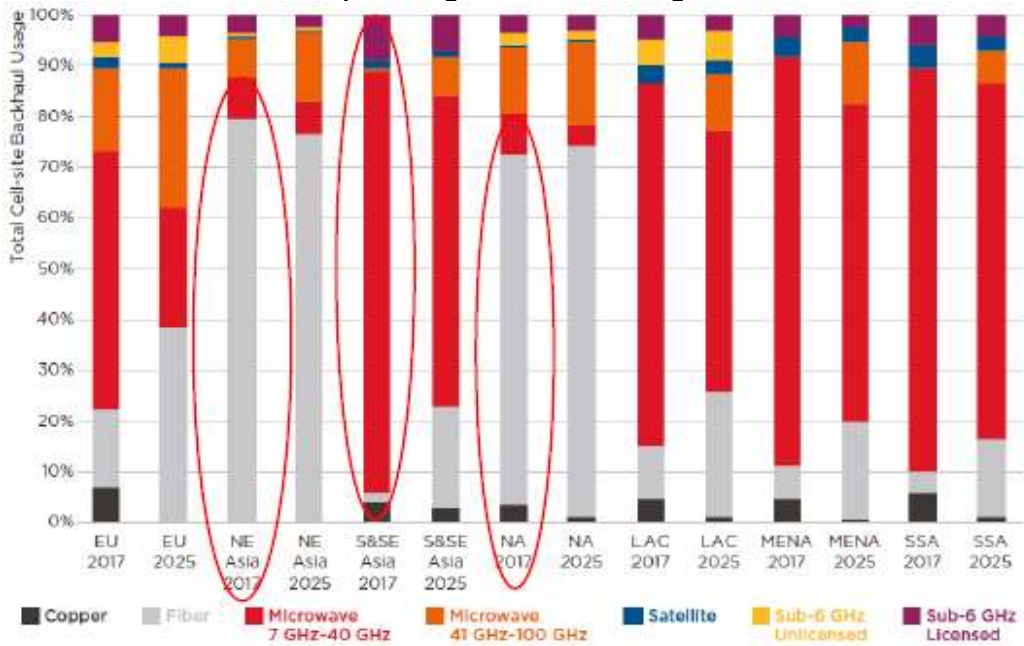
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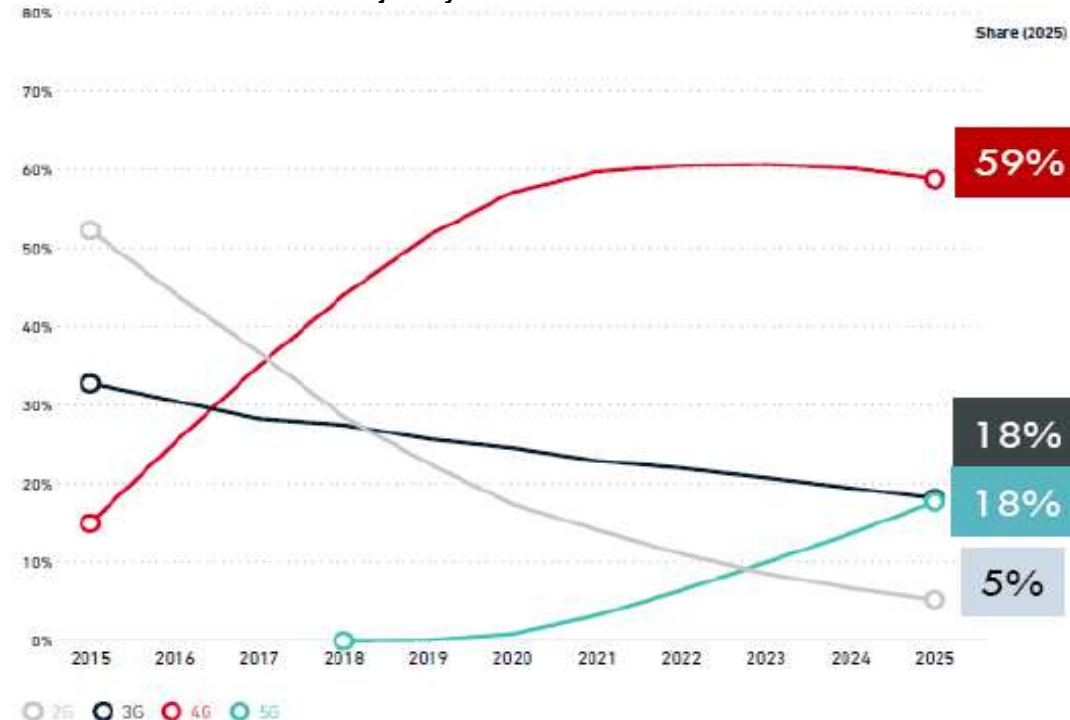
Company	Ticker	Rec	Target	Market	P/E (x)		P/BV (x)		ROE (%)
			(Rp)	Cap. (RpBn)	2019F	2020F	2019F	2020F	2020F
Telkom	TLKM IJ	BUY	5,100	420,023.8	19.4	17.5	3.9	3.5	21.1
XL Axiata	EXCL IJ	BUY	4,100	31,208.8	61.3	44.1	1.7	1.6	3.7
Indosat Ooredoo	ISAT IJ	BUY	4,400	17,714.6	n/m	n/m	1.9	2.2	(19.0)

Exhibit 1. Infrastructure development regional benchmarking



Source : GSMA, Kemkominfo

Exhibit 2. 4G & 5G utilization trajectory



Source : GSMA, Kemkominfo

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