

Monday, 23 March 2020

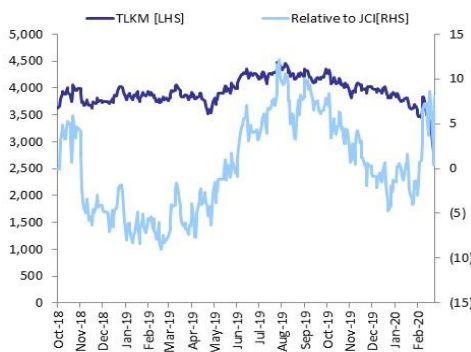
OVERWEIGHT

Maintain

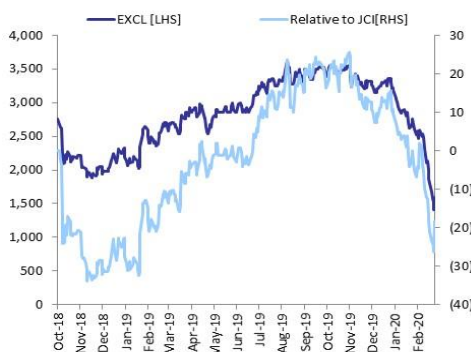
Telco

Expecting resilience in an uncertain environment

TLKM relative to JCI Index



EXCL relative to JCI Index



Source : Bloomberg



Niko Margaronis

(62-21) 5091 4100 ext. 3512

niko.margaronis@danareksa.co.id

We expect resilience from telcos as we witness economic slowdown due to Covid-19, data usage should pick up, and telcos should continue spending on their networks. The key risks are capex delays and lower upsides from the enterprise segment. Maintain overweight.

Replace physical connectivity with data. An opportunity arises where telcos may enjoy inelastic demand and discipline the price offerings. To that extent, Telcos may make quick gains in March. Hutch's active users consume an avg. 10GB/month/user, ahead of the 10-11GB usage projected by CISCO for Indonesia. Stopping international sport events and concerts may bring hiccups in usage (sports events, concerts, etc). However, a plethora of **Content and gaming** may overcompensate we think. TSEL and XL's user average consumption is ~6GB/month showing there is plenty upside to be captured. Despite apparent data vol potential upside, we expect business activity will slow down affecting the enterprise and SMEs segments of TLKM and ISAT.

Telcos bullish on capex; potential delays looming. Maps outside Java show significant deficits in network and/or underinvestment vs. Java. **Capex intensity** is largest right now for Indosat and we believe this frontloading gave the edge to Indosat to post the highest revenues growth in 4Q19 among listed telcos. To capture the upside in traffic, telcos will continue spending and telcos are relatively better capitalized. There could be some disruptions in the telco value chain: delays in Capex supplies may bring the largest potential downside in 2020 as factories are not 100% operational. We are still positive on 4G generating more scale for telcos. However, costs may go up/or planned cost efficiency measures may not be as effective as expected due to disruptions.

During 1Q2020 we expect a pick-up in TSEL from By.U and Indosat continuing the good crescendo from its capex cycle jumping straight to 4G, and expecting Hutch to make an impact. EXCL holds a good grip on its subs base and will continue to nurture it, with the new pack Xtra Unlimited Turbo.

Marketing wise and Unlimited: the life of the unlimited wave may be cut short as we get closer to Ramadan and the Lebaran season. We got several indications, from Hutch, Fren, Isat and even XL Axiata. TSEL appears relatively more aggressive; however, it acts as a force to discourage aggressive pricing. FREN is going undercover with new brand Switch a more differentiated product, a clear departure from FREN's low price identity.

Valuations. We add an extra premium on the telco valuations (1-2%) in the cost of equity as they operate in a more uncertain environment, while reduced user mobility may feed more traffic in fixed broadband networks. We add the premium as weaker consumer confidence may hamper telco spending. Dividends are one of the main solid returns investors can receive in bad times and Telkom is a good pick for this reason as we approach the AGMS potentially at a ~6% div. yield.

Regulation: We read all the good intentions from the Govt. omnibus law but we don't see it materializing quickly while any Consolidation plans are further postponed awaiting laws to materialize. The complete set of regulations needs to be successfully implemented and probably look beyond 2020 for enactment/implementation of the Omnibus Law. We also see FREN and Hutch not hastily chasing consolidation as the outlook for them is favorable while the EXCL and ISAT parent companies are looking for synergies through consolidation.

Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%)	
					2019F	2020F	2020F	2021F	2021F	2021F
Telkom	TLKM IJ	BUY	4,000	285,299.2	14.5	13.4	2.7	2.4	19.2	
XL Axiata	EXCL IJ	BUY	2,600	31,208.8	40.9	26.4	1.6	1.5	5.8	
Indosat Ooredoo	ISAT IJ	BUY	2,400	7,471.7	n/m	n/m	0.7	0.7	(8.9)	

