

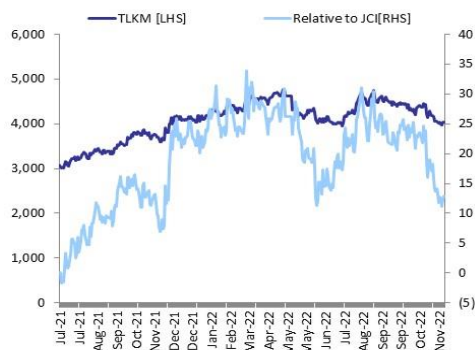
Monday, 28 November 2022

OVERWEIGHT
Maintain

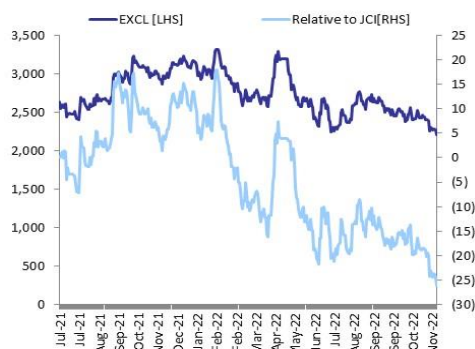
Telco

Resiliency and Productivity

TLKM relative to JCI Index



EXCL relative to JCI Index



Source : Bloomberg

We expect the telco sector to be resilient in 4Q22 and further into 2023 benefitting from sector consolidation, buoyant data usage and room for price improvements. We see telcos investing more on longer-term sustainable growth and on high ARPU subs that potentially are willing to take on a double play. We continue to like the sector trends which are handled by telcos in a way that add value to the bottom line. **Maintain OVERWEIGHT on the sector.**

Sector consolidation as the foundation for sector improvements. The market landscape is seen operating the entire 2022 with one less telco player and has been relatively stable with little changes in market shares. This has created conditions to realize significant price improvements and data plans optimization led by the incumbent, allowing telcos to realize better ARPUs and effective data yields.

Data unwavering link with the Internet Economy. We also discern two key qualities in data services, namely the strong entrenchment of data making it indispensable for voice/video communication and sosmed to ecommerce, entertainment, financial transactions underpinning the core daily activities (Internet economy - Google Temasek Bain & Co 2022). The digital ecosystem and startups dedicate their resources to improving the user experience, and meeting more consumer needs, increasing their dependency on mobile apps. Secondly, as data becomes an indivisible feature of those activities, it also becomes more price inelastic in nature.

Telcos taking a holistic view on networks and consumer experience. Telcos focus now more on quality – relatively higher ARPU generating subscribers. This trend took more shape in 2022 whereby the TSEL subscriber base is seen consolidating with 159.8mn subs in 3Q22 from 176mn at YE 2021. TSEL is making a conscious effort to get subs on quality criteria, and who are more investable in terms of new products/services and technology. A case in point is fixed broadband, and the current effort to standardize the 2 and 3-play offerings. We collected testimonies from Central Java suggesting there is significant low hanging fruit demand for 2-play in the suburbs and household willingness to expand their telco budget.

4Q22 seasonally a strong quarter. 4Q22 is expected to be seasonally strong and to be Covid mobility restrictions free. The FIFA World-Cup event could be a factor for higher data usage along with the school break, and YE festivities amid macro uncertainties. For 2023 we expect the mobile sector (TSEL, IOH, EXCL, FREN) to be resilient and grow by 5-6% yoy, operating on higher priced data plans yoy, with potentially minimum wage increases to support those higher prices.

Room for price improvements wide open and there is a reason for it. Our November regional mobile price tracker saw new improvements by XL and the 30 variations of its 7-day Xtra Combo Mini package suggesting a median nominal price increase of 30%. A few positive improvements were spotted too for Xtra Combo Regular and Live.On. Although TSEL and its peers data plans were unchanged, we believe the guidance for more price improvements by TSEL is still on the table. The approx. 112MHz spectrum in 700MHz prepared for auction is a significant quantity and commitment. The delay in the auction is positive in the sense that Telcos gain extra time to improve margins and accommodate new costs expecting the auction to take place within 1H23. By then, we expect TSEL and ISAT to decommission more 3G BTS sites, save tower space and potentially create more savings which could be realized in financial leases as alluded by the no.2 and no.3 telcos.

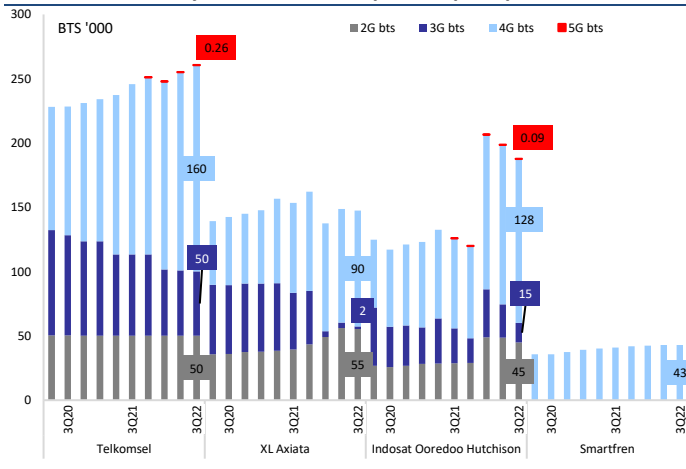
OVERWEIGHT. We identify several catalysts in use cases and the resiliency of data usage, while safeguarding data prices enabling growth in 4Q22 and 2023. The standardization of new products decommissioning old ones, will offer room for margins improvement and earnings. **OVERWEIGHT** with a preference on TLKM.



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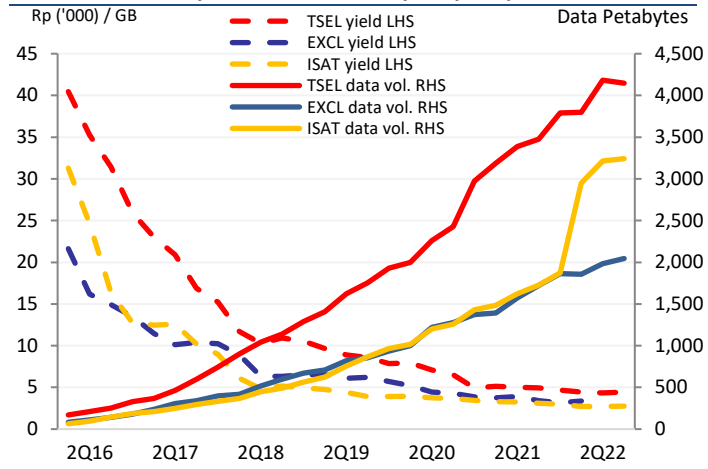
Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%)
					2022F	2023F	2022F	2023F	2023F
Telkom	TLKM IJ	BUY	5,100	399,220.7	15.5	14.6	3.1	2.8	20.0
XL Axiata	EXCL IJ	BUY	4,100	23,576.7	14.5	9.7	1.1	1.0	11.0
IOH	ISAT IJ	BUY	9,000	48,779.4	9.8	15.3	1.7	1.6	10.7

Exhibit 1. Quarterly BTS/sites developments per operator



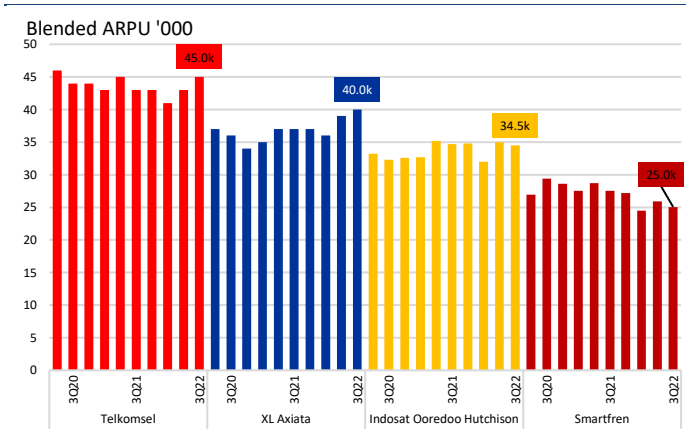
Source: Company, BRIDS

Exhibit 2. Quarterly data traffic & data yield per operator



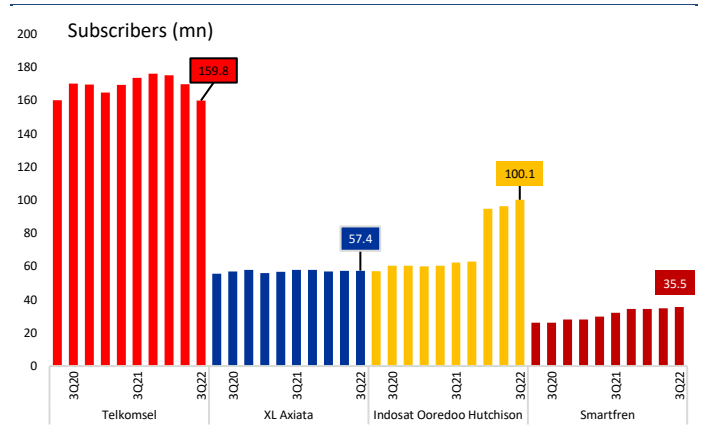
Source: Company, BRIDS

Exhibit 3. Quarterly blended ARPU development per operator



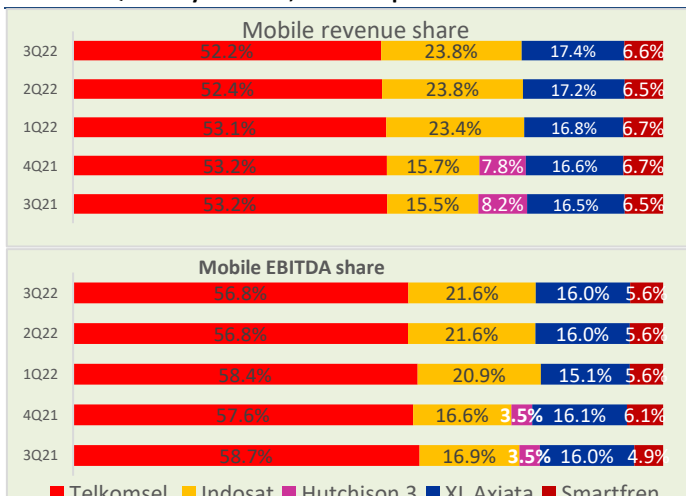
Source: Company, BRIDS

Exhibit 4. Subscribers per operator on a quarterly basis



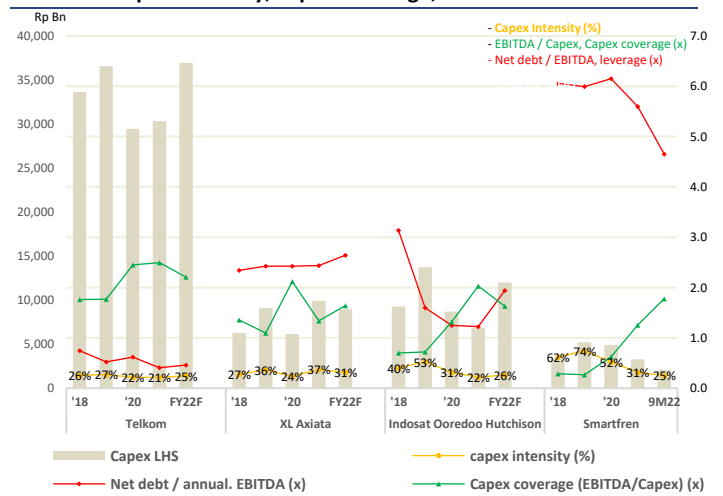
Source: Company, BRIDS

Exhibit 5. Quarterly revenue, EBITDA operators market shares



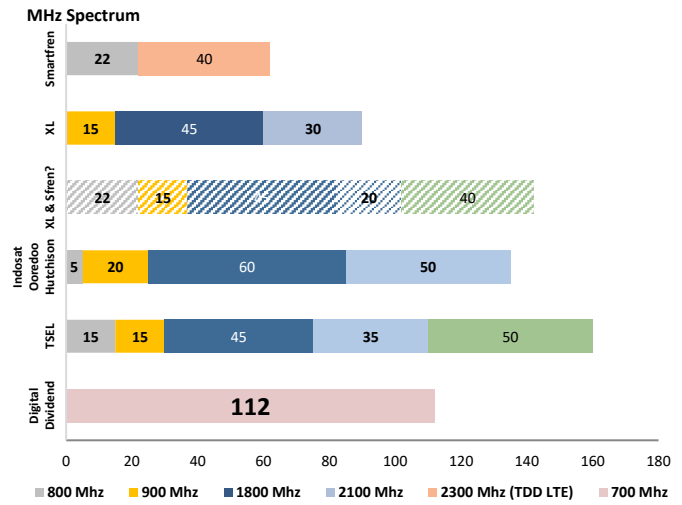
Source: Company, BRIDS

Exhibit 6. Capex Intensity, capex coverage, & Net debt



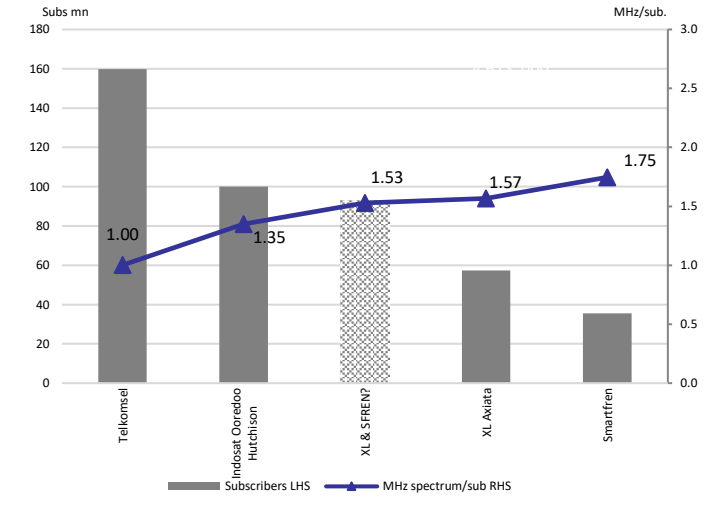
Source: Company, BRIDS

Exhibit 7. Spectrum allocations by operator



Source: Company, BRIDS

Exhibit 8. Spectrum allocation per sub per operator



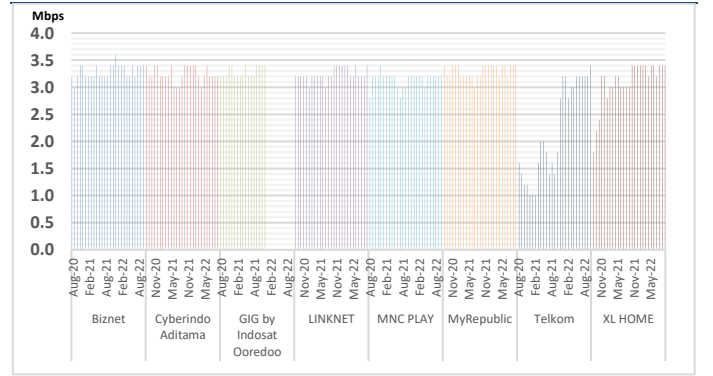
Source: Company, BRIDS

Exhibit 9. Ranking network performance (Source Opensignal)

RANKING (1-5) 1 being the worst, 5 being the best											
Period:	Download speed: Overall	Upload speed	Video Experience	Voice App. Experience	Gaming experience	Availability 4G (on demand)	4G Coverage	AVERAGE RANK May 2022	AVERAGE RANK Oct 21	Δ	
Network Performance	Indosat Ooredoo	3	4	3	1	1	2	3	2.4	2.9	-15.0%
	XL Axiata	5	3	5	2	4	1	4	3.4	2.7	26.3%
	Smartfren	1	1	1	3	2	5	2	2.1	2.3	-6.3%
	Telkomsel	4	5	4	3	3	3	5	3.9	4.1	-6.9%
Hutchison 3											
Hutchison 3											
Hutchison 3											
Network Improvement	Indosat Ooredoo	4	2	4	3	5	2	1	3.0	3.1	-4.5%
	XL Axiata	5	2	5	5	4	3	4	4.0	3.4	16.7%
	Smartfren	2	2	1	4	3	1	1	2.0	3.0	-33.3%
	Telkomsel	1	1	3	2	2	5	1	2.1	3.6	-40.0%
Hutchison 3											
Hutchison 3											
Hutchison 3											

Source: Opensignal, BRIDS

Exhibit 10. Netflix - recorded fixed broadband speed Mbps by ISP



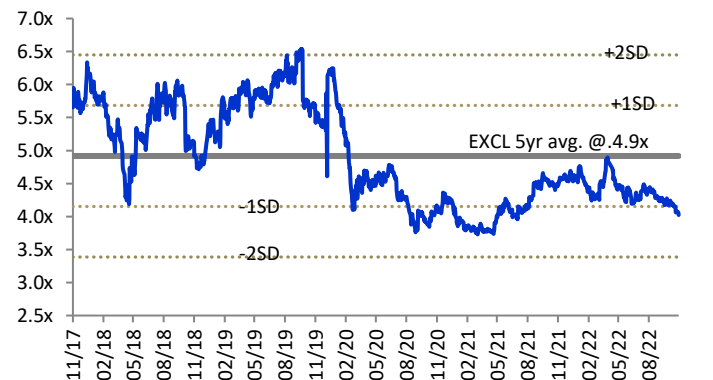
Source: Netflix, BRIDS

Exhibit 11. Indosat Ooredoo Hutchison (ISAT) forward EV/EBITDA 2022 (x)



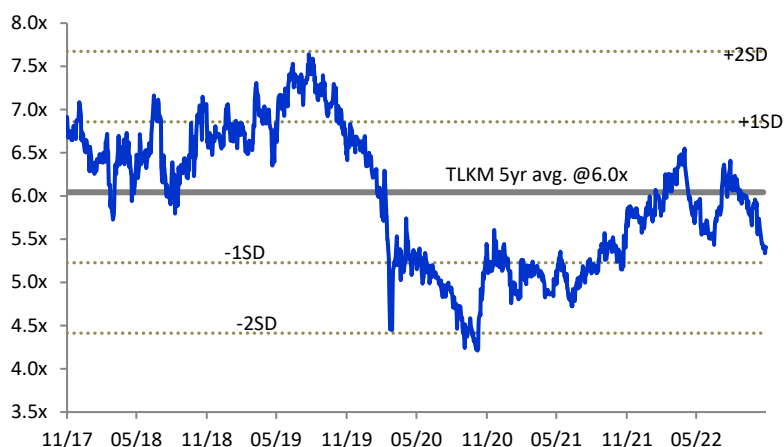
Source: BRIDS

Exhibit 12. XL Axiata (EXCL) forward EV/EBITDA 2022 (x)



Source: BRIDS

Exhibit 13. Telkom Indonesia (TLKM) forward EV/EBITDA band 2022 (x)



Source: Company, Danareksa Sekuritas estimates

Exhibit 14. Financial ratios 2022-23

Financial ratios	TLKM	TLKM	EXCL	EXCL	ISAT	ISAT
	2022	2023	2022	2023	2022	2023
Sales Growth	3.2%	5.2%	7.6%	8.0%	49.2%	8.1%
EBITDA Growth	7.0%	5.5%	11.3%	11.0%	40.6%	13.4%
Operating Profit Growth	-0.4%	3.9%	24.1%	26.8%	61.3%	34.3%
Net Profit Growth	4.3%	6.2%	26.6%	49.7%	-26.0%	-36.2%
Core Profit Growth	4.3%	6.2%	27.5%	49.7%	-27.7%	-34.8%
DPS Growth	-10.7%	4.3%	33.0%	62.7%	-69.6%	267.4%
Gross Profit Margin	39.8%	39.5%	29.3%	31.7%	17.8%	21.1%
EBITDA Margin	54.8%	55.0%	51.4%	52.8%	41.7%	43.7%
Oper. Margin	32.1%	31.7%	14.4%	16.9%	12.7%	15.8%
Pre-Tax Margin	30.0%	29.9%	7.7%	10.4%	13.8%	8.3%
Net Margin	17.5%	17.6%	5.7%	7.8%	10.7%	6.3%
ROAA	9.1%	9.2%	2.2%	3.2%	5.9%	3.0%
ROAE	20.5%	20.0%	7.9%	11.0%	26.4%	10.7%

Source: Company, Danareksa Sekuritas estimates

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