

XL Axiata (EXCL)

Focused on enhancing infrastructure capabilities

24 February 2022



EXCL IJ	BUY
Sector	Telecom.
Price at 24 Feb 2023 (Rp)	2,280
Price target (Rp)	3,300
Upside/Downside (%)	44.7

Stock Information

XL Axiata is a telecommunication company in Indonesia, covering around 95% of Indonesian population as of 2019. It is subsidiary of Malaysia-based Axiata Group, in which its business lines are focused on mobile communication, fixed broadband and IT business solution.

Market cap (IDR bn)	24,323
Shares outstanding (mn)	13,072
52-week range (IDR)	2,010-3,190
3M average daily vol. ('000)	16,535
3M average daily val. (IDR mn)	36,886

Shareholders (%)

Axiata Investments	66.2
Public	33.3

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(3.4)	0.0	(20.3)

EXCL's FY22 EBITDA came in-line with ours/consensus', as it grew 5.9% qoq in 4Q22. Nevertheless, lower net profit by 64.3% qoq in 4Q22 translated into FY22 net profit of IDR1.12 tn, or missed ours/consensus by 14.2%/13.0% given higher interconnection expenses, depreciation and finance costs. EXCL strives to push adoption of own apps to bolster growth, while further developing convergence through XL Satu. Maintain BUY, with a price target of IDR3,300, implying 3.4x 2023F EV/EBITDA, while it is currently trading at 2.5x, or slightly above -2SD 5-year historical mean.

4Q22 earnings dragged by higher finance costs

EXCL booked an EBITDA of IDR3.86 tn in 4Q22, growing 5.9% qoq thanks to 4.9% qoq lower cash cost given to adjustment relating to tower rent negotiation. This brought 4Q22 EBITDA margin at 51.1% and translated into FY22 EBITDA of IDR14.2 tn, achieving 101.4%/100.4% of ours/consensus. The renegotiation, however, has also resulted in higher depreciation and finance costs by 12.1% and 27.6% qoq in 4Q22, respectively, pushing net profit down to IDR132 bn in 4Q22 or FY22 net profit to IDR1.12 tn which was 14.2%/13.0% below ours/consensus.

Maintains stable ARPU despite tight competition

Despite relatively flattish revenue growth of 0.4% qoq in 4Q22 to IDR29.14 tn, the figure represented 102.4%/101% of ours/consensus, as data revenue went down slightly. On the other hand, data traffic increased 3.0% qoq in 4Q22 in the midst of lower data yield to IDR3.2/MB, which indicated tightening competition during the quarter, on top of higher contribution from ex-Java. Despite the competition, EXCL managed to add c. 200K subs in 4Q22, while maintaining ARPU at IDR40K/sub, which, in our view, related to its customized product offerings.

Betting on digital transformation

With plans to exercise price hikes in coming weeks, management expects that revenue growth to be in line or better than industry. EXCL has been pushing adoption of AI-driven apps for myXL and Axisnet that so far managed to book a 62% yoy increase in MAU throughout 2022. The adoption of own apps allow subs to purchase personalized package including distinctive sharing features, which in our view, should be able to improve customer stickiness while optimizing ARPU. To improve infrastructure capabilities, EXCL strives to reach 60% of fiberized 4G BTS that is currently standing at 54%. The highly fiberized BTS are needed to enhance 4G service, incoming 5G and further develop convergence products whose penetration now stands at 37% through XL Satu. On fixed broadband, EXCL plans to exercise asset light strategy that enables it to be more capex efficient by synergies and backbone sharing.

Reiterate BUY on hopes of improved competition landscape

We maintain our BUY call with lower target price of IDR3,300 (previously: IDR3,650), implying 3.4 x 2023F EV/EBITDA within 5Y historical mean. We note several performance catalysts, namely 1) re-pricing potential amid improving competition; 2) EXCL's efforts to speed up convergence preposition and 3) digital transformation. Meanwhile, the downside risks include 1) stiff competition; and 2) higher finance costs.

Exhibit 1: Key Statistics

Year end Dec	2021A	2022F	2023F	2024F	2025F
Revenue (IDR bn)	26,754	29,142	31,020	33,486	35,755
EBITDA (IDR bn)	13,287	14,235	15,563	16,875	18,062
Operating profit (IDR bn)	3,989	4,015	4,555	5,263	5,542
Net profit (IDR bn)	1,288	1,121	1,412	1,863	2,155
EPS (IDR)	98.5	85.8	108.0	142.6	164.9
ROAA (%)	1.8	1.4	1.6	2.0	2.2
ROAE (%)	6.6	4.9	5.4	6.8	7.5
PER (x)	22.8	26.2	20.8	15.8	13.6
PBV (x)	1.5	1.1	1.1	1.1	1.0
EV/EBITDA (x)	2.4	0.8	0.9	0.6	0.6

Source: Company, KBVS Research

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Exhibit 2: Financial Summary

(IDR Bn)	FY2022	FY2021	YoY (%)	4Q22	4Q21	YoY (%)	3Q22	QoQ (%)	2022F	% to '22F	Cons'	% of Cons
Revenue	29,142	26,754	8.9	7,547	6,954	8.5	7,520	0.4	28,451	102.4%	28,836	101.1%
Expenses/Income	(25,127)	(22,765)	10.4	(25,127)	(5,924)	324.2	(6,392)	293.1				
Operating profit	4,015	3,989	0.6	997	1,030	(3.2)	1,128	(11.6)	3,721	107.9%	3,736	107.5%
EBITDA	14,235	13,287	7.1	3,858	3,381	14.1	3,642	5.9	14,039	101.4%	14,174	100.4%
Other income (exp.)	(2,662)	(2,282)	16.7	(838)	(578)	44.8	(663)	26.3				
Pre-tax income	1,353	1,708	(20.8)	160	451	(64.6)	465	(65.7)				
Taxes	(232)	(420)	(44.8)	(27)	(180)	(84.9)	(94)	(71.0)				
Attributable profit	1,121	1,288	(12.9)	132	271	(51.2)	371	(64.3)	1,306	85.8%	1,288	87.0%
Margins (%)												
Operating margin	13.8	14.9		13.2	14.8		15.0					
EBITDA margin	48.8	49.7		51.1	48.6		48.4					
Net Margin	3.8	4.8		1.8	3.9		4.9					
Operational KPI												
# of subs	57.5	57.9	(0.7)	57.5	57.9	(0.7)	57.4	0.2				
Blended ARPU	40.0	36.0	11.1	40.0	36.0	11.1	40.0	-				
Data traffic	7,991	6,549	22.0	2,106	1,864	13.0	2,045	3.0				
Data yields	3.3	3.6	(7.1)	3.2	3.3	(1.1)	3.3	(3.0)				

Source: Company, Bloomberg, KBVS Research

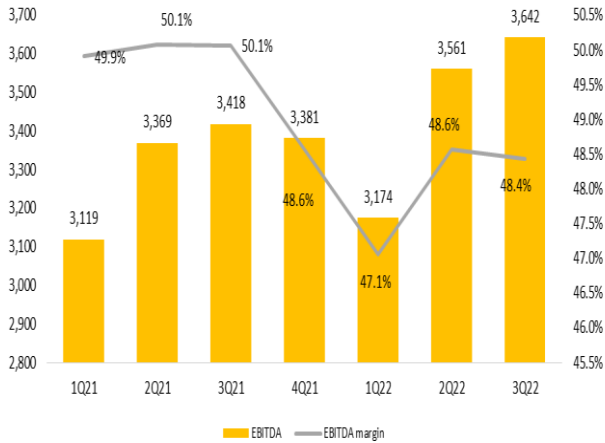
Exhibit 3: Forecast changes

	New		Old		Changes		Bloomberg Cons'		New VS Bloomberg Cons'	
	2023E	2024F	2023E	2024F	2023E	2024F	2023E	2024F	2023E	2024F
Revenue	31,020	33,486	30,261	31,608	2.5	5.9	30,677	32,277	1.1	3.7
EBIT	4,555	5,263	4,162	4,398	9.4	19.7	4,255	4,654	7.1	13.1
EBITDA	15,563	16,875	15,174	15,952	2.6	5.8	15,220	16,095	2.3	4.8
Net profit	1,412	1,863	1,617	1,702	-12.7	9.5	1,785	2,143	-20.9	-13.0

Source: Company, Bloomberg, KBVS Research

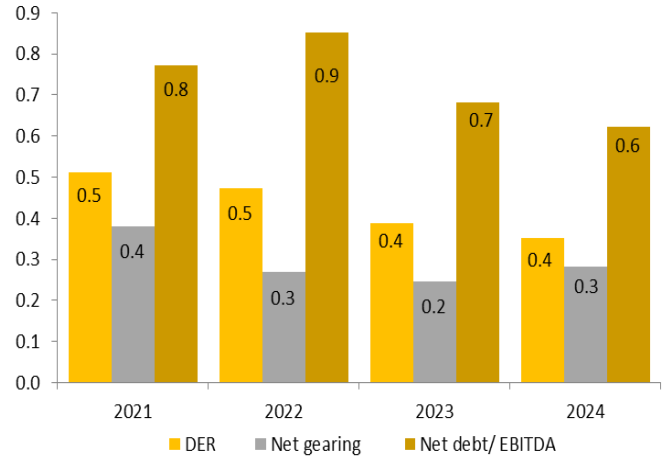
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Exhibit 4: EXCL's EBITDA margin flattish in 3Q22



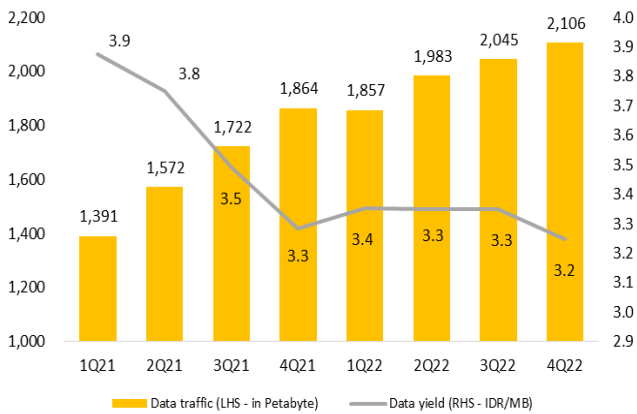
Source: Company

Exhibit 5: Leverage ratio



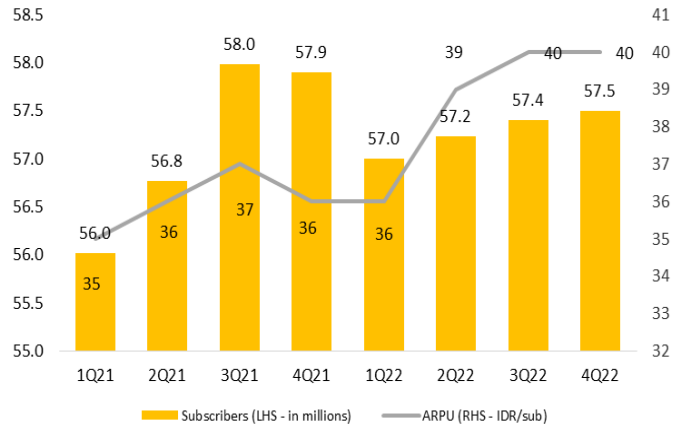
Source: Company

Exhibit 6: Quarterly data yield and traffic



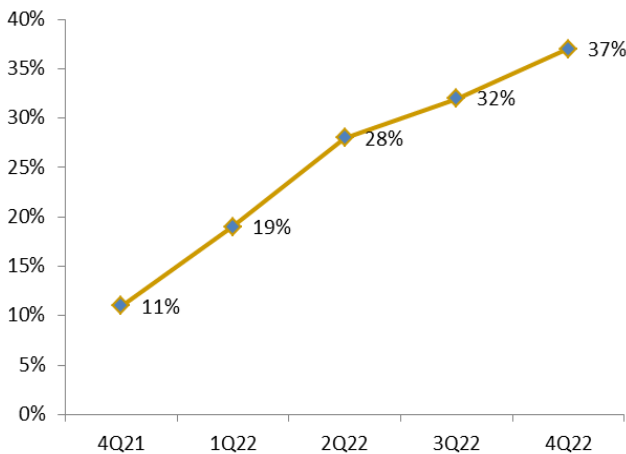
Source: Company

Exhibit 7: EXCL's subscribers and ARPU



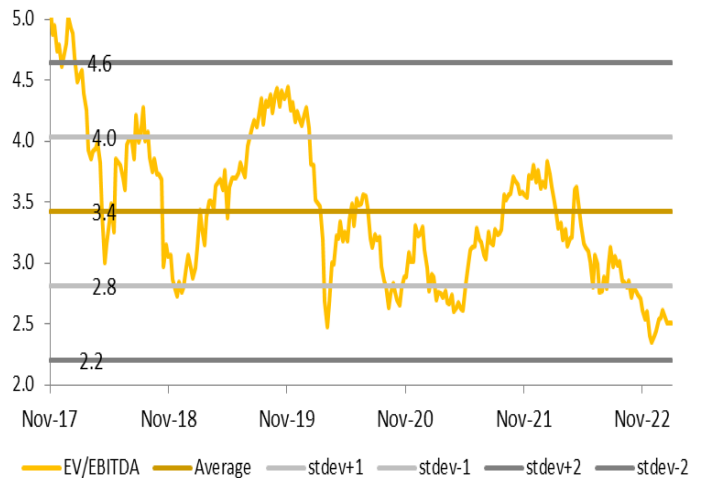
Source: Company

Exhibit 8: Convergence penetration



Source: Company, KBVS Research

Exhibit 9: Currently trading slightly above -2SD 5-year mean



Source: Company, Bloomberg

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FINANCIAL TABLES

Exhibit 10: Profit & Loss summary

Year End Dec (Rp bn)	2021A	2022F	2023F	2024F	2025F
Net revenue	26,754	29,142	31,020	33,486	35,755
Costs	(22,765)	(25,127)	(26,465)	(28,222)	(30,213)
Operating profit	3,989	4,015	4,555	5,263	5,542
EBITDA	13,287	14,235	15,563	16,875	18,062
EBITDA margin	49.7%	48.8%	50.2%	50.4%	50.5%
Net finance income/ expenses	(2,282)	(2,662)	(2,790)	(2,934)	(2,848)
Profit before income tax	1,708	1,353	1,765	2,329	2,694
Tax benefit (expenses)	(420)	(232)	(353)	(466)	(539)
Net profit	1,288	1,121	1,412	1,863	2,155
Net profit margin	4.8%	3.8%	4.6%	5.6%	6.0%

Source: Company, KBVS Research

Exhibit 11: Balance sheet

Year End Dec (Rp bn)	2021A	2022F	2023F	2024F	2025F
Current assets					
Cash and cash equivalents	2,664	5,184	3,867	2,328	2,484
Trade receivables	525	738	775	891	888
Other current assets	4,544	4,486	3,918	4,421	4,434
Total current assets	7,733	10,408	8,560	7,639	7,806
Non-current assets					
Fixed assets	51,912	60,474	63,251	68,877	74,379
Other non-current assets	13,108	16,396	16,673	16,960	17,258
Total non-current assets	65,020	76,869	79,925	85,838	91,637
Total assets	72,753	87,278	88,485	93,477	99,443
Current liabilities					
Trade payables	10,638	11,337	12,337	12,458	14,540
Taxes payables	67	154	168	183	177
Accrued expenses	593	563	608	657	710
Short term debts	6,276	10,919	9,582	9,442	13,146
Other current liabilities	3,380	3,377	3,544	3,722	3,905
Total current liabilities	20,954	26,351	26,238	26,462	32,478
Non-current liabilities					
Long-term debts	29,372	33,041	33,272	36,639	35,012
Other non-current liabilities	2,338	2,112	2,176	2,243	2,284
Total non-current liabilities	31,711	35,153	35,448	38,882	37,295
Shareholders' equity	20,089	25,643	26,667	28,003	29,539
Total liabilities and equity	72,753	87,278	88,485	93,477	99,443

Source: Company, KBVS Research

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Exhibit 12: Cash Flow

Year End Dec (Rp bn)	2021A	2022F	2023F	2024F	2025F
Net profit	1,288	1,109	1,397	1,844	2,132
Depreciation & amortization	9,956	10,577	11,451	12,162	13,115
Changes in working capital	1,599	599	1,755	(255)	2,302
CF from operating activities	12,843	12,285	14,603	13,752	17,549
Investment in fixed assets	(14,706)	(19,131)	(14,222)	(17,782)	(18,610)
Others	(96)	(3,295)	(284)	(294)	(305)
CF from investing activities	(14,803)	(22,427)	(14,506)	(18,076)	(18,914)
Dividends paid	(338)	(544)	(424)	(559)	(647)
Debt raised/ repaid	2,021	8,311	(1,106)	3,227	2,077
Others	(25)	4,894	114	118	91
CF from financing activities	1,658	12,661	(1,415)	2,785	1,521
Change in cash flows	(301)	2,520	(1,317)	(1,539)	156
Cash and cash equivalents, beginning	2,966	2,664	5,184	3,867	2,328
Cash and cash equivalents, ending	2,664	5,184	3,867	2,328	2,484

Source: Company, KBVS Research

Exhibit 13: Ratio Analysis

Year End Dec	2021A	2022F	2023F	2024F	2025F
Operating profit margin (%)	14.9	13.8	14.7	15.7	15.5
EBITDA margin (%)	49.7	48.8	50.2	50.4	50.5
Net profit margin (%)	4.8	3.8	4.6	5.6	6.0
Receivables turnover (x)	40.0	40.0	41.0	40.2	40.2
Payable turnover (x)	2.5	2.3	2.3	2.3	2.3
ROA (%)	1.8	1.4	1.6	2.0	2.2
ROE (%)	6.6	4.9	5.4	6.8	7.5
ROIC (%)	3.9	2.9	3.6	4.3	4.7
Debt/ Equity incl. lease (%)	1.8	1.7	1.6	1.6	1.6
Net debt/Equity incl. lease (x)	1.6	1.5	1.5	1.6	1.5
Net debt/ EBITDA incl. lease (x)	2.5	2.7	2.5	2.6	2.5
Interest coverage (x)	5.6	5.1	5.4	5.6	6.3
EPS (IDR)	98.5	85.8	108.0	142.6	164.9
BV/share (IDR)	1,536.9	1,961.8	2,040.2	2,142.4	2,259.9

Source: Company, KBVS Research

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