

## XL Axiata (EXCL)

Underpinned by momentum of price repair

1 August 2023



EXCL IJ	BUY
Sector	Telecom.
Price at 31 July 2023 (Rp)	2,270
Price target (Rp)	2,920
Upside/Downside (%)	28.7

## Stock Information

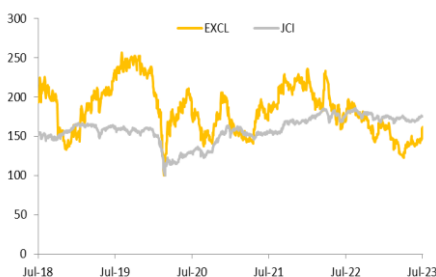
XL Axiata is a telecommunication company in Indonesia, covering around 95% of Indonesian population as of 2019. It is subsidiary of Malaysia-based Axiata Group, in which its business lines are focused on mobile communication, fixed broadband and IT business solution.

Market cap (Rp bn)	25,553
Shares outstanding (mn)	13,072
52-week range (Rp)	1,750-2,770
3M average daily vol. ('000)	23,162
3M average daily val. (Rp mn)	46,428

## Shareholders (%)

Axiata Investments	66.2
Public	33.3

## Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	16.6	30.3	(3.8)

EXCL's 2Q23 performance beats estimates, arriving at 51.1-55.5% of ours/consensus. The company has taken an advantage from market repair, resulting in strong operational performance, ARPU +8.3% qoq in 2Q23 and customer addition. We lift our revenue and EBITDA forecast by 1.9% and 3.0%, respectively. The company's is traded in attractive valuation, currently at 2.4x FY '23 EV/EBITDA. Maintain BUY

## 1H23 results outperform

EXCL's 2Q23 EBITDA surged strongly 15.0% qoq to IDR4.01 tn, bringing 1H23 EBITDA to IDR7.50 tn, ahead of our FY '23 estimate at 51.0%. This brought EBITDA margin to expand by 260bps qoq/190bps yoy in 2Q23 to 48.8%. Strong EBITDA performance was mainly supported by robust revenue growth +8.9% qoq in 2Q23 in line with continued momentum of better competition landscape. Additionally, EXCL also demonstrated improved cost discipline with cash cost to revenue ratio lowered to 50.5% in 2Q23. Leverage-wise, we noted EXCL's gross debt to EBITDA dropped by 20.7bps YTD to 0.7x in 1H23.

## Reaping benefits from better competition

Strong financial performance in 1H23 was underpinned by price rationalization throughout 1H23 thanks to strong consumer recovery that yielded higher ARPU +8.3% qoq to IDR44.7K/ subscriber. Amid higher ARPU, EXCL managed to add c. 100K new mobile users in 2Q23, while data/consumption per users kept growing, which have indicated a limited impact from ongoing price repair.

This was also propped up by competitors' eagerness to follow through as well as the company's strong value proposition through personalized apps and enhanced customer experience. On FMC product, XL Satu penetration has reached 56% in 1H23.

## Revise up earnings forecast

EXCL maintains its FY'23 guidance of high single digit growth with EBITDA margin at 49% (vs. KBVS' 23F of 48.1%) on expectation of 3G spectrum shutdown resulting in further cost efficiency. Given stronger than expected results, we make readjustment for our FY '23 figures, as we expect EXCL to continue capitalizing price repair momentum, while competitors are all seen eager for further price adjustment in 2H23. We revise up our EXCL's FY2023 revenue and EBITDA by 1.9% and 2.3% respectively. In addition, EXCL is planning to enhance mobile network coverage in greenfield areas, fixed broadband expansion by eyeing to add 400K of home connects at year-end and diversify its managed service offerings following Hipernet acquisition.

## Reiterate BUY on structural transformation

Maintain our BUY call with a target price of IDR2,920, implying 3.2x 2023F EV/EBITDA or above -1SD historical mean. Risks to our call included 1) competition in mobile; 2) lower-than-expected EBITDA margin on the back of costs pressure.

## Exhibit 1: Key Statistics

Year end Dec	2021A	2022A	2023F	2024F	2025F
Net revenue (IDR bn)	26,754	29,142	31,450	33,027	34,016
EBITDA (IDR bn)	12,628	13,879	15,126	16,050	16,505
Operating profit (IDR bn)	3,331	3,658	3,861	4,246	4,351
Net profit (IDR bn)	1,288	1,109	1,194	1,497	1,566
EPS (IDR)	98.5	85.8	92.3	115.8	121.1
ROAA (%)	1.8	1.4	1.4	1.8	1.8
ROAE (%)	6.6	4.9	4.6	5.7	5.8
PER (x)	22.8	26.2	24.4	19.4	18.6
PBV (x)	1.5	1.1	1.1	1.1	1.1
EV/EBITDA (x)	0.8	0.9	0.7	0.6	0.6

Source: Company, KBVS Research

## Analyst

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## XL Axiata (EXCL)

## Exhibit 2: Financial Summary

(IDR Bn)	1H23	1H22	YoY (%)	2Q23	2Q22	YoY (%)	1Q23	QoQ (%)	2023F	% 23F	% of Cons	% of Cons
<b>Net Revenue</b>	15,765	14,075	12.0	8,217	7,333	12.1	7,547	8.9	30,872	51.1	30,904	51.0
Data	14,410	12,867	12.0	7,501	6,643	12.9	6,909	8.6				
Legacy	534	531	0.5	275	273	0.9	258	6.6				
Interconnection service	592	664	-10.9	337	401	(15.9)	255	32.1				
Other telecommunication	2,471	2,391	3.3	1,323	1,355	(2.4)	1,148	15.2				
(-) Discount	-8	-12	-26.5	-5	(8)	(36.5)	(3)	69.5				
Expenses/Income	-13,520	-12,186	10.9	(6,913)	(6,187)	11.7	(6,607)	4.6				
<b>Operating profit</b>	2,084	1,638	27.2	1,242	1,025	21.2	841	47.7				
<b>EBITDA</b>	7,491	6,483	15.5	4,007	3,439	16.5	3,484	15.0	14,685	51.0	15,307	48.9
Other income/expenses	-1,280	-910	40.8	(677)	(469)	44.4	(604)	12.1				
<b>Pre-tax income</b>	803	728	10.3	566	556	1.7	238	137.9				
Taxes	-146	-111	31.3	(112)	(78)	44.0	(34)	233.9				
<b>Attributable profit</b>	651	615	5.8	450	478	(5.9)	201	123.9	1,185	54.9	1,199	54.3
<b>Normalized profit</b>	658	586	12.3	453	447	1.3	204	122.1	1,185	55.5	1,199	54.9
<b>Margins (%)</b>												
Operating margin	13.2	11.6	13.6	15.1	14.0		11.1					
EBITDA margin	47.5	46.1	3.2	48.8	46.9		46.2					
Net Margin	4.1	4.4	-5.5	5.5	6.5		2.7					
<b>Operational KPI</b>												
# of subs	58	57.23	1.3	58.0	57.2		57.9	0.2				
Blended ARPU	43	39	10.1	44.7	40.3		41.3	8.3				
Data traffic	4,656	3,840	21.3	2,452	1,983		2,204	11.3				
Data yields	3.1	3.4	-7.6	3.1	3.3		3.1	(2.4)				
Avg. data usage/ user/month	14.3	12.3	16.3	15.1	12.7		13.6	10.8				

Source: Company, Bloomberg, KBVS Research

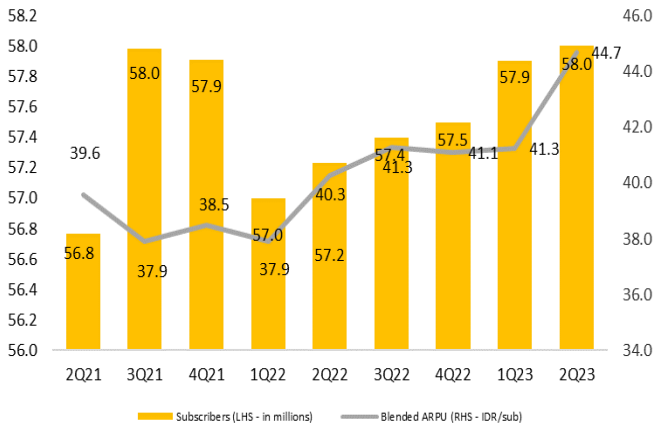
## Exhibit 3: Forecast revisions

	New		Old		Changes		BBG consensus		New VS BBG	
	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
Revenue	31,450	33,027	30,872	32,153	1.9	2.7	31016	32763	1.4	0.8
EBITDA	15,126	16,050	14,685	15,224	3.0	5.4	15355	16263	(1.5)	(1.3)
Net profit	1,194	1,497	1,185	1,671	0.8	(10.4)	1220	1540	(2.1)	(2.8)

Source: Company, Bloomberg, KBVS Research

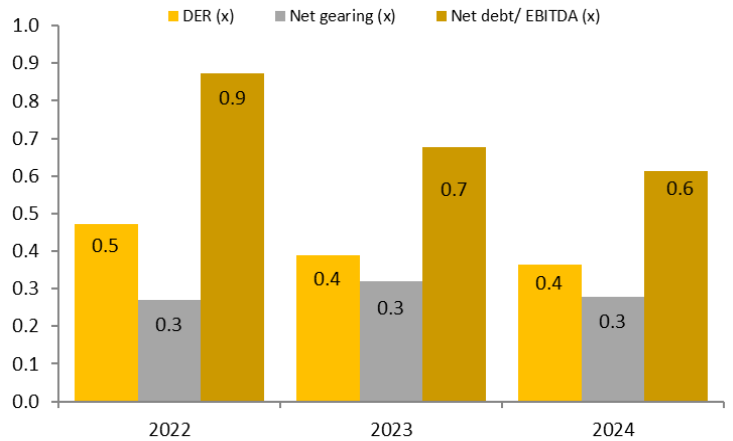
# XL Axiata (EXCL)

**Exhibit 4: EXCL's EBITDA margin**



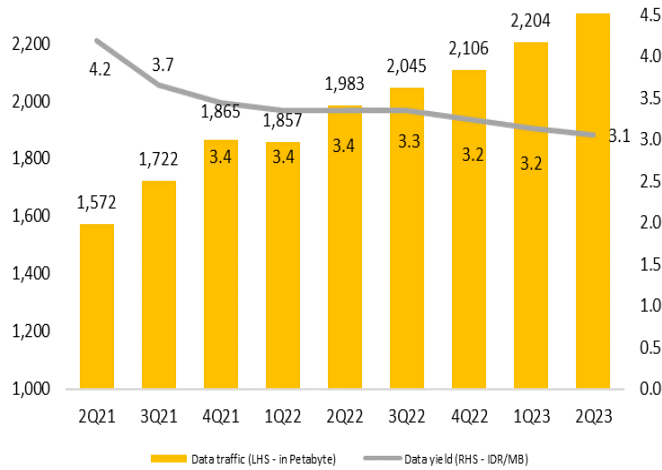
Source: Company, KBVS Research

**Exhibit 5: Leverage profile**



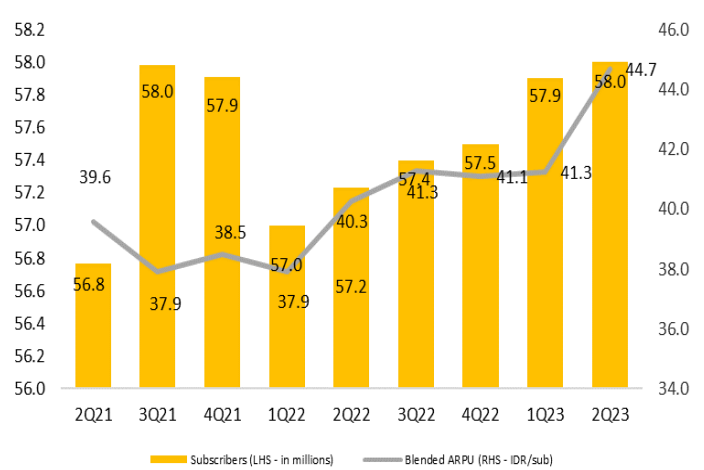
Source: Company, KBVS Research

**Exhibit 6: Quarterly data yield and traffic**



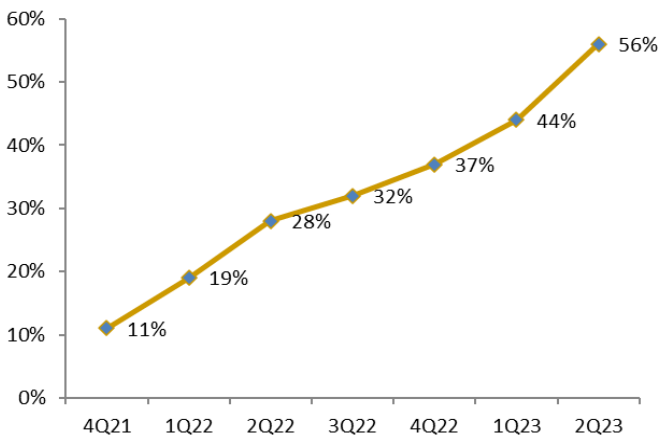
Source: Company, KBVS Research

**Exhibit 7: EXCL's subscribers and ARPU**



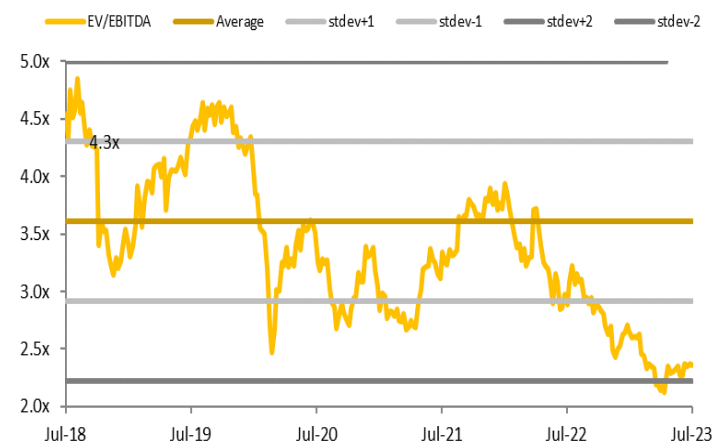
Source: Company, KBVS Research

**Exhibit 8: Convergence penetration**



Source: Company, KBVS Research

**Exhibit 9: Currently trading below -2SD 5-year mean**



Source: Company, Bloomberg

# XL Axiata (EXCL)

## FINANCIAL TABLES

### Exhibit 10: Consolidated Statement of Profit or Loss

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
<b>Net revenue</b>	<b>26,754</b>	<b>29,142</b>	<b>31,450</b>	<b>33,027</b>	<b>34,016</b>
Costs	(22,765)	(25,127)	(27,157)	(28,366)	(29,245)
<b>Operating profit</b>	<b>3,331</b>	<b>3,658</b>	<b>3,861</b>	<b>4,246</b>	<b>4,351</b>
<b>EBITDA</b>	<b>12,628</b>	<b>13,879</b>	<b>15,126</b>	<b>16,050</b>	<b>16,505</b>
Net finance income/ expenses	(2,290)	(2,666)	(2,821)	(2,770)	(2,805)
Other income/expenses	(1,623)	(2,305)	(2,389)	(2,355)	(2,385)
<b>Profit before income tax</b>	<b>1,708</b>	<b>1,353</b>	<b>1,472</b>	<b>1,891</b>	<b>1,966</b>
Tax benefit (expenses)	(420)	(232)	(265)	(378)	(383)
<b>Net profit</b>	<b>1,288</b>	<b>1,121</b>	<b>1,207</b>	<b>1,513</b>	<b>1,583</b>

Source: Company, KBVS Research

### Exhibit 11: Consolidated Statement of Financial Position

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
<b>Current assets</b>					
Cash and cash equivalents	2,664	5,184	1,827	2,298	1,267
Trade receivables	525	738	1,098	789	1,155
Other current assets	4,544	4,486	3,129	2,981	3,217
<b>Total current assets</b>	<b>7,733</b>	<b>10,408</b>	<b>6,054</b>	<b>6,067</b>	<b>5,639</b>
<b>Non-current assets</b>					
Fixed assets	51,912	60,474	61,614	63,852	64,630
Other non-current assets	13,108	16,396	16,826	16,720	16,605
<b>Total non-current assets</b>	<b>65,020</b>	<b>76,869</b>	<b>78,439</b>	<b>80,572</b>	<b>81,236</b>
<b>Total assets</b>	<b>72,753</b>	<b>87,278</b>	<b>84,494</b>	<b>86,639</b>	<b>86,875</b>
<b>Current liabilities</b>					
Trade payables	10,638	11,337	9,501	9,654	9,669
Taxes payables	67	154	191	187	193
Accrued expenses	593	563	605	628	646
Short term debts	6,276	10,919	9,648	8,675	8,878
Other current liabilities	3,380	3,377	3,020	3,200	3,287
<b>Total current liabilities</b>	<b>20,954</b>	<b>26,351</b>	<b>22,965</b>	<b>22,343</b>	<b>22,673</b>
<b>Non-current liabilities</b>					
Long-term debts	29,372	33,041	33,081	34,678	33,733
Other non-current liabilities	2,338	2,112	2,033	2,411	2,438
<b>Total non-current liabilities</b>	<b>31,711</b>	<b>35,153</b>	<b>35,113</b>	<b>37,089</b>	<b>36,170</b>
<b>Shareholders' equity</b>	<b>20,089</b>	<b>25,643</b>	<b>26,284</b>	<b>27,076</b>	<b>27,901</b>
<b>Total liabilities and equity</b>	<b>72,753</b>	<b>87,278</b>	<b>84,494</b>	<b>86,639</b>	<b>86,875</b>

Source: Company, KBVS Research

## XL Axiata (EXCL)

## Exhibit 12: Consolidated Statement of Cash Flow

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net profit	1,288	1,109	1,194	1,497	1,566
Depreciation & amortization	9,956	10,577	11,696	12,219	12,575
Changes in working capital	1,599	599	(1,117)	808	(476)
<b>CF from operating activities</b>	<b>12,843</b>	<b>12,285</b>	<b>11,773</b>	<b>14,525</b>	<b>13,664</b>
Investment in fixed assets	(14,706)	(19,131)	(12,738)	(14,345)	(13,241)
Others	(96)	(3,295)	(528)	(6)	3
<b>CF from investing activities</b>	<b>(14,803)</b>	<b>(22,427)</b>	<b>(13,266)</b>	<b>(14,351)</b>	<b>(13,239)</b>
Dividends paid	(338)	(544)	(603)	(757)	(791)
Debt raised/ repaid	2,021	8,311	(1,232)	625	(742)
Others	(25)	4,894	(29)	429	77
<b>CF from financing activities</b>	<b>1,658</b>	<b>12,661</b>	<b>(1,864)</b>	<b>297</b>	<b>(1,456)</b>
<b>Change in cash flows</b>	<b>(301)</b>	<b>2,520</b>	<b>(3,357)</b>	<b>471</b>	<b>(1,031)</b>
<b>Cash and cash equivalents, beginning</b>	<b>2,966</b>	<b>2,664</b>	<b>5,184</b>	<b>1,827</b>	<b>2,298</b>
<b>Cash and cash equivalents, ending</b>	<b>2,664</b>	<b>5,184</b>	<b>1,827</b>	<b>2,298</b>	<b>1,267</b>

Source: Company, KBVS Research

## Exhibit 13: Ratio analysis

Year End Dec	2021A	2022A	2023F	2024F	2025F
Operating margin (%)	12.4	12.6	12.3	12.9	12.8
EBITDA margin (%)	47.2	47.6	48.1	48.6	48.5
Net profit margin (%)	4.8	3.8	3.8	4.6	4.7
Receivable turnover (x)	40.0	40.0	41.0	35.0	35.0
Payable turnover (x)	2.5	2.3	2.6	3.0	3.0
ROA (%)	1.8	1.4	1.4	1.8	1.8
ROE (%)	6.6	4.9	4.6	5.7	5.8
ROIC (%)	3.9	2.9	3.0	3.7	3.8
Debt/equity (x)	1.8	1.7	1.6	1.6	1.5
Net debt to equity (x)	1.6	1.5	1.6	1.5	1.5
Net debt/ EBITDA (x)	2.6	2.8	2.7	2.6	2.5
Interest coverage (x)	5.3	5.0	5.2	5.7	5.8
EPS (IDR)	98.5	85.8	92.3	115.8	121.1
BV/ Share (IDR)	1,536.9	1,961.8	2,010.9	2,071.4	2,134.5

Source: Company, KBVS Research

# XL Axiata (EXCL)

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