

XL Axiata (EXCL)

Banking on transformation

12 May 2023



EXCL IJ	BUY
Sector	Telecom.
Price at 11 May 2023 (Rp)	1,955
Price target (Rp)	2,800
Upside/Downside (%)	43.2

Stock Information

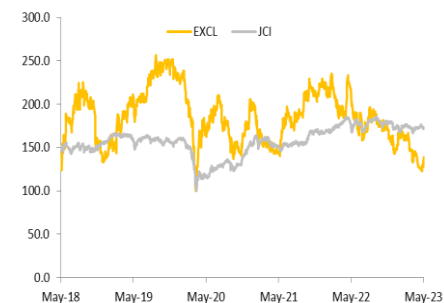
XL Axiata is a telecommunication company in Indonesia, covering around 95% of Indonesian population as of 2019. It is subsidiary of Malaysia-based Axiata Group, in which its business lines are focused on mobile communication, fixed broadband and IT business solution.

Market cap (Rp bn)	25,553
Shares outstanding (mn)	13,072
52-week range (Rp)	1,750-2,770
3M average daily vol. ('000)	25,300
3M average daily val. (Rp mn)	49,633

Shareholders (%)

Axiata Investments	66.2
Public	33.3

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	7.4	(13.1)	(34.6)

Analyst

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EXCL's 1Q23 EBITDA and revenue were largely in line with ours/consensus', arriving at 23-24%. Early debt repayment has resulted in 140bps lower costs of finance to 6.6%, bringing 1Q23 net profit jumped +56.7% qoq/+44.4% yoy, yet still lag estimates. In order to focus on FMC penetration, EXCL is to forge strong ties with Link Net, aiming to accelerate targeted roll out of 8 mn home passes in the next 5 years. Reiterate BUY.

1Q23 results relatively in-line

EXCL's 1Q23 EBITDA was relatively in line with ours/consensus at 23.0%/23.1%, despite declining by 7.1% qoq to IDR3.8 tn. The decline in 1Q23 EBITDA was caused by a surge of 40.8% qoq in infrastructure expenses as it frontloaded network costs on top of renegotiation of contracts, resulting in EBITDA margin contraction to 47.5% from 51.1% in 4Q22. Meanwhile, EXCL's early debt repayment of IDR5 tn from rights issue proceeds has resulted in finance costs reduction by IDR210 bn qoq in 1Q23. This also brought its annualized CoF lowered from 8.0% in 4Q22 to 6.6% in 1Q23 and led to higher net profit +56.7% qoq /44.4% yoy, which lag ours/estimate. Additionally, EXCL's gearing ratio improved as net debt/EBITDA down to 0.6x in 1Q23.

Leveraging on better network

1Q23 revenue was flat at IDR7.55 tn or +11.9% yoy, arriving at 24.3%/24.4% of ours/estimates amid an uptick of 1.1% qoq of data revenue. This was boosted by higher data traffic and additions of subs base +0.7% qoq to 57.9 mn, which outperforms its peers (ISAT -3.6% qoq; TSEL -3.7% qoq). In addition, monthly data consumption increased strongly by 3.9% qoq/+12.8% yoy in 1Q23, signifying its better network capability and value proposition. On the flip side, however, data yield continued to slide -3.4% qoq as we assume was part of EXCL's strategy on data package upscale, yet it also yielded escalating blended ARPU to IDR41.3/sub in 1Q23.

Eyes on structural transformation

EXCL has rolled out plans to take partnership with Link Net to higher level. With this structural transformation, EXCL will become a Serve Co, focusing on converged mobile, fixed and content products, while LinkNet will be aimed to expand fiber infrastructure as Fiber Co. The partnership is aimed to accelerate penetration with targeted 8mn home passes in 5 years to come. As part of transformation, EXCL will have access to LINK's fiber footprint by being an anchor tenant that we believe allowing it to have potential flexibility of pricing and in return, LINK will transfer its users as well as receive EXCL's fixed broadband asset. Management expects to conclude the tranformation at year-end. However, management remains mum on the mechanism of the transfer.

Reiterate BUY on structural transformation

We maintain our BUY call with lower target price of IDR2,800 (previously: IDR3,300), implying 3.2x 2023F EV/EBITDA or above -1SD historical mean. Structural transformation will allow EXCL to sharpen its focus on expanding fixed broadband and accelerating scalability in combining its cellular service, while also minimizing risks on its balance sheet.

Exhibit 1: Key Statistics

Year end Dec	2021A	2022A	2023F	2024F	2025F
Net revenue (IDR bn)	26,754	29,142	30,872	32,153	34,209
EBITDA (IDR bn)	12,628	13,879	14,685	15,224	16,291
Operating profit (IDR bn)	3,331	3,658	3,808	4,008	4,632
Net profit (IDR bn)	1,288	1,109	1,185	1,671	2,012
EPS (IDR)	98.5	85.8	91.6	129.2	155.6
ROAA (%)	1.8	1.4	1.4	1.9	2.3
ROAE (%)	6.6	4.9	4.6	6.3	7.3
PER (x)	22.8	26.2	24.6	17.4	14.5
PBV (x)	1.5	1.1	1.1	1.1	1.0
EV/EBITDA (x)	0.8	0.9	0.7	0.7	0.7

Source: Company, KBVS Research

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Exhibit 2: Financial Summary

EXCL IJ 1Q23 results

(IDR Bn)	1Q23	1Q22	YoY (%)	4Q22	QoQ (%)	2023F	% 23F	% of Cons	% of Cons
Net Revenue	7,547	6,742	11.9	7,547	0.0	31,020	24.3	30,927	24.4
Data	6,909	6,643	4.0	6,836	1.1				
Legacy	258	258	0.2	256	0.7				
Interconnection service	255	263	(3.1)	359	(28.8)				
Other telecommunication	128	-		212	(39.6)				
(-) Discount	-3	(3)	0.1	(9)	(63.4)				
Expenses/Income	(6,607)	(5,999)	10.1	(6,549)	0.9				
Operating profit	841	613	37.2	962	(12.5)				
EBITDA	3,583	3,174	12.9	3,858	(7.1)	15,563	23.0	15,508	23.1
Other income/expenses	(604)	(441)	36.9	(802)	(24.8)				
Pre-tax income	238	172	38.1	160	49.0				
Taxes	(34)	(33)	1.4	(27)	23.6				
Attributable profit	201	139	44.4	128	56.7	1,412	14.2	1,457	13.8
Margins (%)									
Operating margin	11.1	9.1		12.7					
EBITDA margin	47.5	47.1		51.1					
Net Margin	2.7	2.1		1.7					
Operational KPI									
# of subs	57.9	57.0	1.6	57.5	0.7				
Blended ARPU	41.3	40.5	1.8	41.1	0.4				
Data traffic	2,204	1,857	18.7	2,106	4.7				
Data yields	3.1	3.4	(6.5)	3.2	(3.4)				
Avg. data usage/ user/month	13.6	12.1	12.5	13.1	3.6				

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	30,872	32,153	31,020	33,486	(0.5)	(4.0)	30,921	32,697	(0.2)	(1.7)
EBITDA	14,685	15,224	15,563	16,875	(5.6)	(9.8)	15,493	16,287	(5.2)	(6.5)
Net profit	1,185	1,671	1,412	1,863	(16.1)	(10.3)	1,448	1,793	(18.2)	(6.8)

Source: Company, Bloomberg, KBVS Research

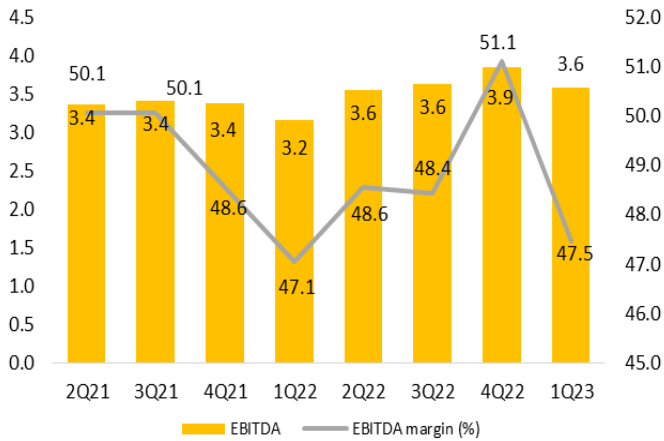
Exhibit 4: Key assumptions

	2023E	2024E	2025E
Subscription base	59.6	60.6	61.3
Data user (%)	93.3	93.5	93.6
Avg. data consumption/month in GB	13.6	14.3	15.1
Data yield (IDR/ MB)	3.15	3.10	3.12

Source: KBVS Research

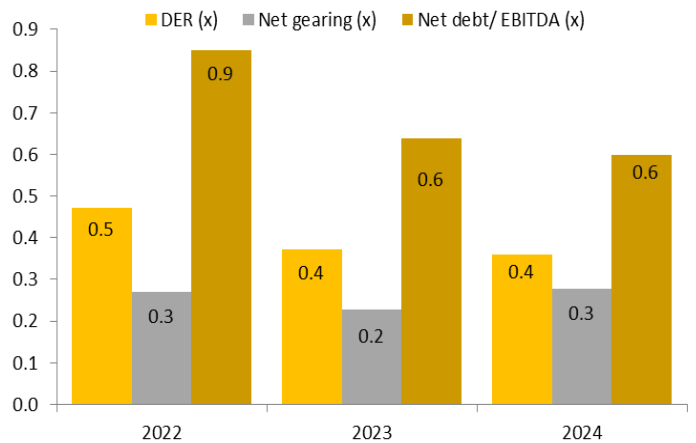
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Exhibit 5: EXCL's EBITDA margin



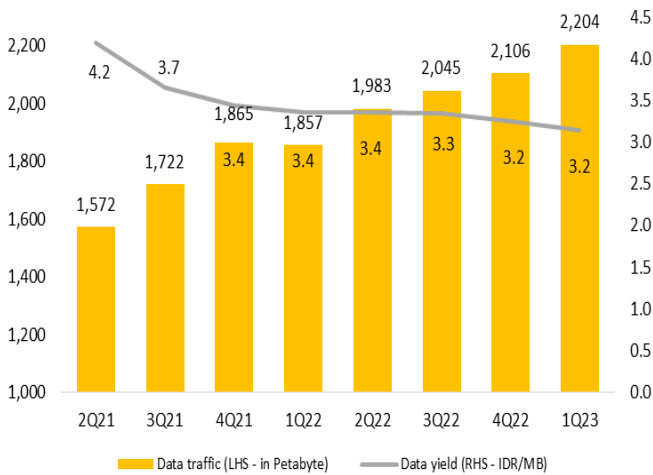
Source: Company, KBVS Research

Exhibit 6: Leverage profile



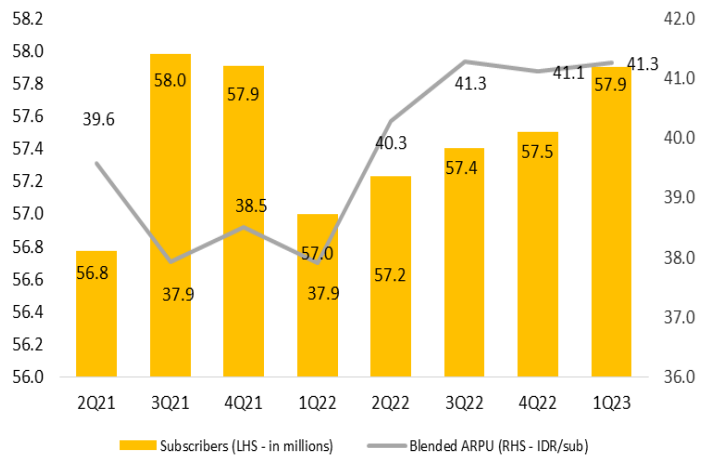
Source: Company, KBVS Research

Exhibit 7: Quarterly data yield and traffic



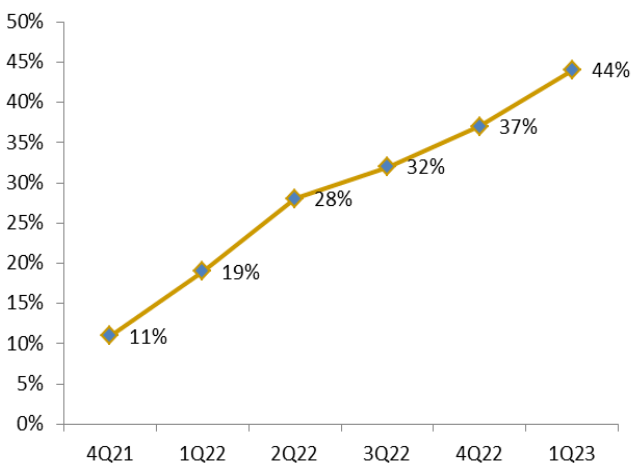
Source: Company, KBVS Research

Exhibit 8: EXCL's subscribers and ARPU



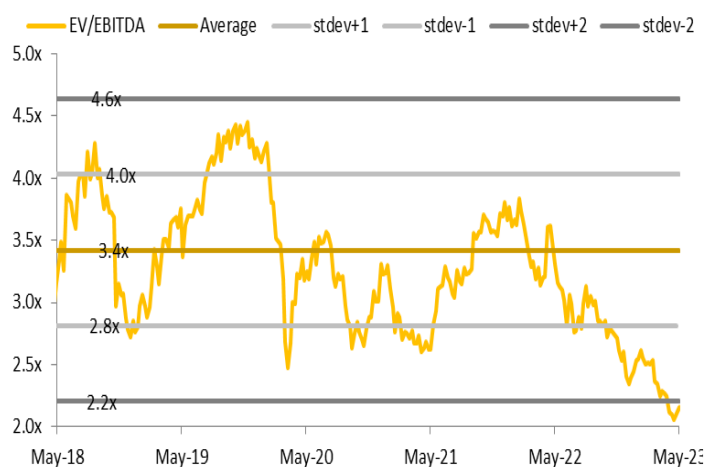
Source: Company, KBVS Research

Exhibit 9: Convergence penetration



Source: Company, KBVS Research

Exhibit 10: Currently trading below -2SD 5-year mean



Source: Company, Bloomberg

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FINANCIAL TABLES

Exhibit 11: Consolidated Statement of Profit or Loss

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net revenue	26,754	29,142	30,872	32,153	34,209
Costs	(22,765)	(25,127)	(26,633)	(27,631)	(29,050)
Operating profit	3,331	3,658	3,808	4,008	4,632
EBITDA	12,628	13,879	14,685	15,224	16,291
Net finance income/ expenses	(2,290)	(2,666)	(2,742)	(2,412)	(2,617)
Other income/expenses	(1,623)	(2,305)	(2,311)	(1,897)	(2,090)
Profit before income tax	1,708	1,353	1,497	2,111	2,542
Tax benefit (expenses)	(420)	(232)	(299)	(422)	(508)
Net profit	1,288	1,121	1,198	1,689	2,033

Source: Company, KBVS Research

Exhibit 12: Consolidated Statement of Financial Position

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
Current assets					
Cash and cash equivalents	2,664	5,184	2,505	2,871	2,019
Trade receivables	525	738	768	832	870
Other current assets	4,544	4,486	4,142	4,219	4,651
Total current assets	7,733	10,408	7,415	7,922	7,540
Non-current assets					
Fixed assets	51,912	60,474	61,614	64,348	65,791
Other non-current assets	13,108	16,396	16,739	17,031	17,334
Total non-current assets	65,020	76,869	78,353	81,379	83,126
Total assets	72,753	87,278	85,767	89,301	90,666
Current liabilities					
Trade payables	10,638	11,337	10,697	13,949	11,650
Taxes payables	67	154	251	273	265
Accrued expenses	593	563	686	741	800
Short term debts	6,276	10,919	11,554	11,519	11,335
Other current liabilities	3,380	3,377	3,360	3,530	3,703
Total current liabilities	20,954	26,351	26,549	30,012	27,754
Non-current liabilities					
Long-term debts	29,372	33,041	30,714	29,843	32,382
Other non-current liabilities	2,338	2,112	2,093	2,158	2,196
Total non-current liabilities	31,711	35,153	32,807	32,001	34,578
Shareholders' equity	20,089	25,643	26,280	27,157	28,203
Total liabilities and equity	72,753	87,278	85,767	89,301	90,666

Source: Company, KBVS Research

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Exhibit 13: Consolidated Statement of Cash Flow

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net profit	1,288	1,109	1,185	1,671	2,012
Depreciation & amortization	9,956	10,577	11,309	11,731	12,185
Changes in working capital	1,599	599	(123)	3,357	(2,544)
CF from operating activities	12,843	12,285	12,371	16,759	11,653
Investment in fixed assets	(14,706)	(19,131)	(12,433)	(14,449)	(13,612)
Others	(96)	(3,295)	(359)	(309)	(320)
CF from investing activities	(14,803)	(22,427)	(12,792)	(14,757)	(13,932)
Dividends paid	(338)	(544)	(599)	(844)	(1,017)
Debt raised/ repaid	2,021	8,311	(1,691)	(906)	2,354
Others	(25)	4,894	32	115	89
CF from financing activities	1,658	12,661	(2,258)	(1,635)	1,426
Change in cash flows	(301)	2,520	(2,679)	367	(852)
Cash and cash equivalents, beginning	2,966	2,664	5,184	2,505	2,871
Cash and cash equivalents, ending	2,664	5,184	2,505	2,871	2,019

Source: Company, KBVS Research

Exhibit 14: Ratio analysis

Year End Dec	2021A	2022A	2023F	2024F	2025F
Operating margin (%)	12.4	12.6	12.3	12.5	13.5
EBITDA margin (%)	47.2	47.6	47.6	47.3	47.6
Net profit margin (%)	4.8	3.8	3.9	5.3	5.9
Receivable turnover (x)	40.0	40.0	41.0	40.2	40.2
Payable turnover (x)	2.5	2.3	2.4	2.3	2.3
ROA (%)	1.8	1.4	1.4	1.9	2.3
ROE (%)	6.6	4.9	4.6	6.3	7.3
ROIC (%)	3.9	2.9	3.0	4.4	4.9
Debt/equity (x)	1.8	1.7	1.6	1.5	1.6
Net debt to equity (x)	1.6	1.5	1.5	1.4	1.5
Net debt/ EBITDA (x)	2.6	2.8	2.7	2.5	2.6
Interest coverage (x)	5.3	5.0	5.2	6.1	6.1
EPS (IDR)	98.5	85.8	91.6	129.2	155.6
BV/ Share (IDR)	1,536.9	1,961.8	2,010.5	2,077.6	2,157.7

Source: Company, KBVS Research

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