

Trying to dive deeper

11 September 2024



EXCL IJ
BUY

Sector	Telecomm.
Price at 10 Sep 2024 (IDR)	2,270
Price target (IDR)	2,600
Upside/Downside (%)	14.5

Stock Information

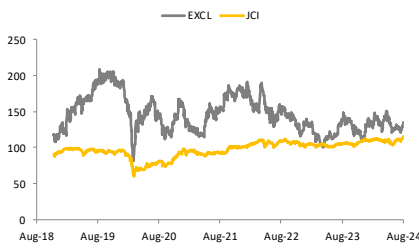
XL Axiata is a telecommunication company in Indonesia, covering around 95% of Indonesian population as of 2019. It is subsidiary of Malaysia-based Axiata Group, in which its business lines are focused on mobile communication, fixed broadband and IT business solution.

Market cap (IDR bn)	29,802
Shares outstanding (mn)	13,128
52-week range (IDR)	1,885-2,650
3M average daily vol. ('000)	19,610
3M average daily val. (IDR mn)	43,802

Shareholders (%)

Axiata Investments	66.2
Public	33.3

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	0.44	4.13	-4.62

Analyst

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The telecommunications industry is transitioning from price-based competition to a focus on customer satisfaction and operational efficiency. The proposed merger of EXCL and FREN aims to consolidate the market and reduce competition, leading to increased ARPU and stable data yields for MNOs. This merger is expected to benefit the entire sector by creating a more competitive environment and enhancing profitability. A source suggests a merger value of USD3.45 bn. Our DCF analysis indicates that the merged entity (MergeCo) could achieve an equity value of IDR52.4 tn (~USD3.4 bn), aligning closely with the market's estimated merger value and exceeding the combined standalone values of EXCL and FREN by 20.2%, reinforcing our optimism about the merger's potential benefits. Assuming EXCL is the surviving entity, the implied merger value for its shares would be IDR2,750.

The merger could make MergeCo worth 20% more

The proposed merger between EXCL and FREN is currently in progress, with their respective controlling shareholders, Axiata Group and Sinarmas Group, conducting due diligence to assess its potential benefits. Although neither party has disclosed information on the IDX, a source familiar with the matter revealed that both companies have appointed underwriters for the deal, as well as indicating a merger value of approximately USD3.45 bn. We believe this merger could unlock significant synergies and substantially increase the MergeCo value. Our five-year DCF analysis indicates that the MergeCo could achieve an enterprise value of IDR114.5 tn, with an equity value of IDR52.4 tn (~USD3.4 bn). This our valuation aligns closely with the aforementioned market's estimated merger value, and is 20.2% higher than the combined standalone values of EXCL and FREN. Assuming EXCL will be the surviving entity, and applying the post-merger outstanding shares based on a 68.9% EXCL and 31.1% FREN proportional market cap sizes (resulting in 19.0mn shares), the implied merger value for EXCL would be IDR2,750 per share, reflecting a 23.3% upside from its current price.

MergeCo's outlook: expected increases in ARPU and EBIT margin

Based on the Indosat-Hutchison (IOH) merger cases, we conducted a conservative analysis of the MergeCo's performance. In the first year post-merger, IOH achieved a 50bps yoy increase in EBIT margin, followed by 9.6% yoy revenue growth in the second year. Additionally, IOH's ARPU rose by 6.0% in the first year and by 13.6% in the second. For the MergeCo, our analysis assumes a gradual improvement in EBIT margin, starting with a 50.3bps increase in the first year and culminating in a 184.2bps increase in the fifth. We project annual revenue growth of 4.2% in the first year, 9.6% in the second, and 6.6% in the third. ARPU is expected to increase by 3.8% in the first year and 9.1% in the second. In 2Q24, FREN's ARPU is IDR25.4k/subs, 42.2% lower than EXCL's IDR44.0k/subs, allowing for future growth.

BUY reiterated, accelerated FBB growth

We maintain our BUY call with a target price of IDR2,600, based on 2.6x 2024F EV/EBITDA, which is at -1SD of 7yrs EV/EBITDA mean, as the merger's potential value has not yet been reflected. EXCL's improved digital sales channels and expanded fiber optic infrastructure drove FBB segment growth and operating profit in 1H24. However, intensifying FBB competition and the uncertain timeline for its merger with FREN, pose risks to our outlook.

Exhibit 1: Key Statistics (not MergeCo Proforma)

Year end Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Net Revenue (Rp)	29,142	32,323	34,694	37,201	39,088
EBITDA (Rp)	13,879	15,529	17,272	18,573	19,668
Operating profit	3,658	4,380	5,474	5,923	6,372
Net profit (Rp)	1,109	1,271	2,040	2,259	2,473
EPS (Rp)	85.8	98.3	157.7	174.7	191.2
ROA	1.4	1.5	2.3	2.5	2.6
ROE	4.9	4.9	7.7	8.1	8.5
PER (x)	24.2	21.2	13.2	11.9	10.9
PBV (x)	1.1	1.0	1.0	0.9	0.9
EV/EBITDA (x)	2.8	2.4	2.2	2.0	2.0

Source: Company, Bloomberg, KBVS Research

Exhibit 2: MergeCo Proforma

IDR mn	EXCL FY23	FREN FY23	MergeCo Proforma
Net revenue	32,322,651	11,655,708	43,978,359
D&A	(11,504,974)	(4,602,252)	(16,107,226)
Infrastructure & other direct expenses	(12,167,866)	(3,924,821)	(16,092,687)
S&M expenses	(2,454,775)	(1,480,839)	(3,935,614)
Salaries & employees expenses	(1,402,242)	(881,215)	(2,283,457)
G&A expenses	(413,040)	(222,879)	(635,919)
EBIT	4,379,754	543,702	4,923,456
EBIT margin	13.6%	4.7%	11.2%
EBITDA	15,528,589	4,330,900	19,859,489
EBITDA margin	48.0%	37.2%	45.2%
Other income/expenses	(2,675,237)	(458,563)	(3,133,800)
Pre-tax income	1,704,517	85,139	1,789,656
Taxes	(420,069)	(194,091)	(614,160)
Attributable profit	1,284,448	(108,926)	1,175,522
Net margin	4.0%	-0.9%	2.7%

Source: Company, Bloomberg, KBVS Research

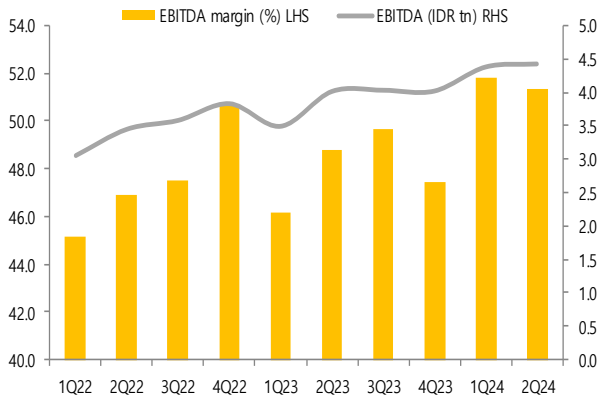
Exhibit 3: Estimation of Fair Value Based on MergeCo Proforma

Assumption	
WACC	8.8%
LT growth	2.5%

MergeCo (IDR mn)						
Year	Proforma	1	2	3	4	5
Revenue	43,978,359	45,839,916	50,241,023	53,562,794	57,540,664	62,013,221
growth		4.2%	9.6%	6.6%	7.4%	7.8%
EBIT	4,923,456	5,362,445	6,373,366	7,592,398	8,932,639	10,769,213
EBIT margin	11.2%	11.7%	12.7%	14.2%	15.5%	17.4%
EBITDA	19,859,489	21,973,761	24,317,986	26,193,606	28,142,145	30,569,464
EBITDA margin	45.2%	47.9%	48.4%	48.9%	48.9%	49.3%
Change in WC		3,640,672	1,405,717	80,950	378,647	531,387
Capex		(20,802,240)	(23,436,250)	(22,898,259)	(23,382,072)	(23,913,512)
Taxes		(687,245)	(659,056)	(919,399)	(1,214,001)	(1,628,649)
FCFF		4,124,947	1,628,397	2,456,899	3,924,720	5,558,690
NPV	13,529,078					
Terminal Value (PV)	101,000,486					
Total PV	114,529,564					
(Net debt)	62,163,199					
Equity value	52,366,365					

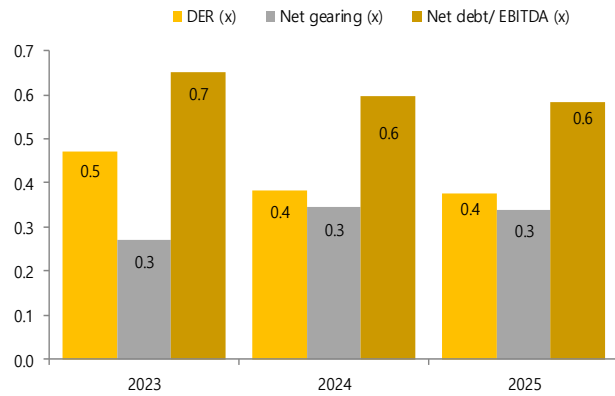
Source: Company, Bloomberg, KBVS Research

Exhibit 4: EXCL's EBITDA margin



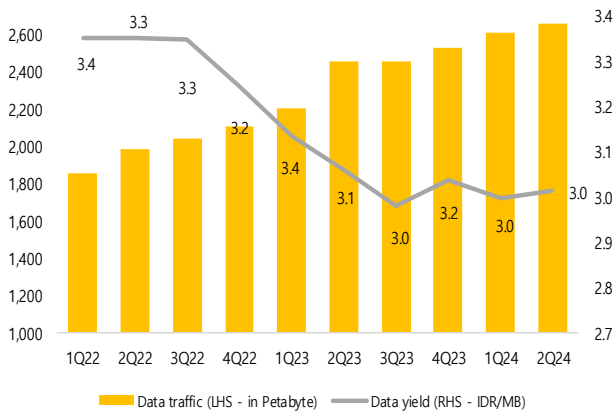
Source: Company, KBVS Research

Exhibit 5: Leverage profile



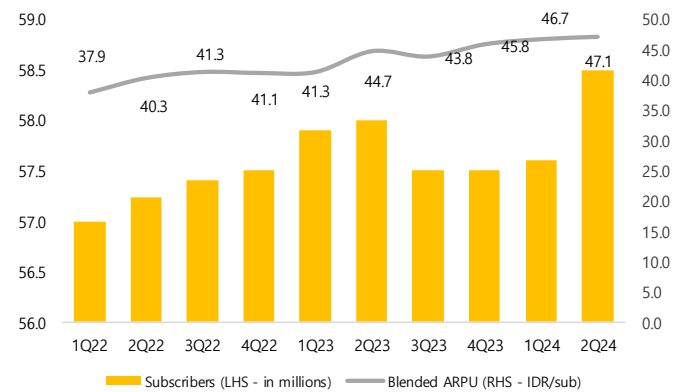
Source: Company, KBVS Research

Exhibit 6: Quarterly data yield and traffic



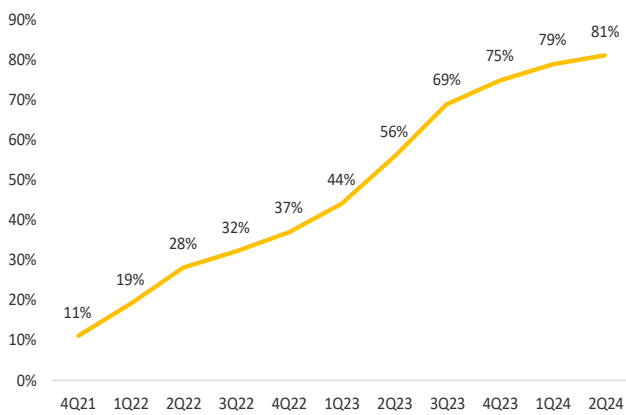
Source: Company, KBVS Research

Exhibit 7: EXCL's subscribers and ARPU



Source: Company, KBVS Research

Exhibit 8: Convergence penetration rate



Source: Company, KBVS Research

Exhibit 9: Currently trading below -1SD 7-year mean



Source: Company, Bloomberg

FINANCIAL TABLES

Exhibit 10: Profit & Loss summary

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Net Revenue	29,142	32,323	34,694	37,201	39,088
Costs	(25,127)	(27,587)	(28,815)	(30,842)	(32,259)
Operating profit	3,658	4,380	5,474	5,923	6,372
EBITDA	13,879	15,529	17,272	18,573	19,668
Net finance income/ cost	(2,666)	(2,840)	(2,948)	(3,146)	(3,321)
Other income/expenses	(2,305)	(2,675)	(2,725)	(2,879)	(3,039)
Pretax profit	1,353	1,705	2,749	3,044	3,333
Income tax	(232)	(420)	(687)	(761)	(833)
Net profit	1,109	1,271	2,040	2,259	2,473

Source: Company, KBVS Research

Exhibit 11: Balance sheet

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Current assets					
Cash and cash equivalents	5,184	966	996	1,011	1,505
Trade receivables	738	1,386	894	1,232	1,002
Other current assets	4,486	4,822	3,166	3,100	3,313
Total current assets	10,408	7,174	5,056	5,343	5,819
Non current assets					
Fixed assets	60,474	63,890	67,654	72,541	76,221
Other non current assets	16,396	16,624	17,215	17,140	17,137
Total non current assets	76,869	80,515	84,869	89,681	93,359
Total assets	87,278	87,688	89,925	95,024	99,178
Current liabilities					
Trade payables	11,337	9,383	10,027	10,396	10,538
Taxes payable	154	187	197	211	221
Accrued expenses	563	633	659	707	743
Short term debts	10,919	6,877	9,113	9,709	10,137
Other current liabilities	3,377	3,063	3,352	3,582	3,752
Total current liabilities	26,351	20,142	23,348	24,605	25,391
Non current liabilities					
Long term debts	33,041	39,041	36,429	38,875	40,782
Other non current liabilities	2,112	2,000	2,533	2,666	2,762
Total non-current liabilities	35,153	41,041	38,962	41,541	43,544
Shareholder equity	25,643	26,360	27,465	28,721	30,078
Total liabilities and equity	87,278	87,688	89,925	95,024	99,178

Source: Company, KBVS Research

Exhibit 12: Cash flow

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Net profit	1,109	1,271	2,040	2,259	2,473
Depreciation	10,577	11,505	12,204	13,085	13,754
Changes in working capital	599	(3,150)	3,118	389	375
CF from operating activities	12,285	9,626	17,362	15,734	16,602
Investment in fixed assets	(19,131)	(14,765)	(15,806)	(17,800)	(17,248)
Others	(3,295)	(386)	(753)	(98)	(183)
CF from investing activities	(22,427)	(15,150)	(16,558)	(17,898)	(17,431)
Dividends paid	(544)	(549)	(931)	(998)	(1,111)
Debt raised/ repaid	8,311	1,958	(376)	3,042	2,335
Others	4,894	(104)	534	135	99
CF from financing activities	12,661	1,306	(773)	2,179	1,322
Change in cash flow	2,520	(4,218)	30	15	494
Cash and cash equivalent, beginning	2,664	5,184	966	996	1,011
Cash and cash equivalent, ending	5,184	966	996	1,011	1,505

Source: Company, KBVS Research

Exhibit 13: Ratio analysis

Year End Dec	2022A	2023A	2024F	2025F	2026F
Operating profit margin	12.6	13.6	15.8	15.9	16.3
EBITDA margin	47.6	48.0	49.8	49.9	50.3
Net profit margin	3.8	4.0	5.9	6.1	6.4
Receivables turnover (x)	46.2	30.4	30.4	35.0	35.0
Payable turnover (x)	2.3	2.7	3.0	3.0	3.1
ROA	1.4	1.5	2.3	2.5	2.6
ROE	4.9	4.9	7.7	8.1	8.5
ROIC	2.9	2.9	4.6	4.8	5.1
Debt/Equity	1.7	1.7	1.7	1.7	1.7
Net debt/Equity	1.5	1.7	1.6	1.7	1.6
Net debt/EBITDA	2.8	2.9	2.6	2.6	2.5
Interest coverage (x)	5.0	5.3	5.7	5.8	5.9
EPS (Rp)	85.8	98.3	157.7	174.7	191.2
BV/Share (Rp)	1,961.8	2,016.7	2,101.2	2,197.3	2,301.2

Source: Company, KBVS Research

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