

Turns away from price wars; Maintain OW

13 September 2024

**OVERWEIGHT**  
**(Maintain)**

TOP PICK

MNOs are increasingly prioritizing profitable customers and operational efficiency to drive sustainable growth and profitability. This strategic shift away from price-based competition is likely to intensify with the upcoming merger of EXCL and FREN, reducing market rivalry. Potential BI rate cuts until year-end are expected to further boost bottom-line growth. We maintain an Overweight rating for the telecommunications sector, with TLKM and ISAT as top picks due to anticipated strong performance. EXCL also holds promising prospects, as its proposed merger with FREN is projected to enhance cost synergies and accelerate industry consolidation.

We maintain a positive outlook on the telecommunications sector, driven by broader internet access, improved network quality, and strong data demand. While MNOs anticipate mid-single digit growth this year, data consumption remains the industry's primary driver. TLKM led standalone mobile data revenue growth (+7.3% qoq) in 2Q24, followed by EXCL (2.5%) and ISAT (2.4%). Subscriber growth aligns with increased data usage, as evidenced by TLKM and EXCL, which saw respective 2.2% and 2.0% qoq rise in data payloads, attributable to 0.1% and 1.6% subs base growth. ISAT's 6.5% qoq data payload growth was fueled by consistent network quality, despite an unchanged subs base. MNOs consistently increased its ARPU over the past 5yrs, with TLKM leading at IDR45.0k, followed by EXCL (IDR44.0k) and ISAT (IDR38.4k). Data usage expanded significantly since FY21, averaging 31.5% yoy, and reached 12.7% yoy in 1H24.

Competition among MNOs is expected to moderate, as they prioritize high-value customers and operational efficiency. Rather than pursuing aggressive price cuts, MNOs are concentrating on increasing ARPU and maintaining stable data yields. Telkomsel Lite's launch in Mar-23 with its industry-low price of IDR1,500/GB, has not triggered a significant price war. This suggests that MNOs are prioritizing sustainable business growth and profitability over short-term market share gains.

Our analysis indicated that quarterly mobile data price cuts significantly declined since the IOH merger. Prior to the merger, the big-3 MNOs experienced more aggressive pricing cuts, averaging IDR53/GB qoq from 1Q19 to 4Q21. TLKM faced the largest cuts at IDR1,195/GB, while ISAT and EXCL reduced prices by IDR231/GB. However, after the merger, the rate of price cuts significantly fell, averaging only IDR52/GB qoq. TLKM continued to lead with the largest cuts at IDR66/GB, followed by ISAT and EXCL at IDR46/GB. In 2Q24, TLKM and ISAT's prices declined by an average of 1.6% and 3.8%, respectively, resulting in prices of IDR4,021/GB and IDR2,723/GB, while EXCL's prices increased slightly by 0.5% qoq to IDR3,013/GB. These data points suggest a potential easing of the tariff war.

The upcoming EXCL-FREN merger could further reshape the industry towards a more profitable landscape, aligned with cost synergy efficiency goals. On the other hand, as the government prepares to auction 5G spectrum later this year, we expect increased capex by MNOs next year. With higher capex for 5G and continued expansion outside Java, primarily for smaller MNOs, better monetization and efficiency will be crucial for industry success.

Maintain Overweight, with TLKM and ISAT as our top picks. Given the moderate competition and attractive valuations, we maintain our overweight rating for the telecommunications sector. We favor TLKM due to its successful integration of the IndiHome B2C segment into Telkomsel, which effectively managed costs through synergies between the two entities. Post-merger, from 3Q23 to 2Q24, the quarterly average increase in O&M costs remained stable, contrasting with the pre-merger average increase of 3.8% qoq from 3Q21 to 2Q23. Additionally, S&M expenses declined by 3.1% qoq post-merger, significantly outperforming the pre-merger increase of 5.5%. As a result, total expenses increased by only 1.6% on average, lower than the 2.2% qoq increase observed before the merger. FMC's cost-savings, combined with strengthened subsidiary collaboration and agile management, solidify our positive outlook for TLKM.

Meanwhile, ISAT HiFi's subscribers base increased to 346k after successfully migrating ~330k MNC Play subs. This growth was further fueled by ISAT's extended FTTH network deployment to new locations, reaching 1.5mn homes-passed. Its competitive data packages, with an average price of IDR2,723/GB (compared to TLKM's IDR4,021/GB and EXCL's IDR3,013/GB), notably reduced subscribers churn. Reliable network performance, as recognized by Opensignal, contributed to a stable subs base of 100.9mn in 2Q24. Additionally, lower-than-expected interest costs in 1H24 pose a positive catalyst for the bottom-line figure for FY24. However, the potential return of intense competitive pressures, coupled with increased rivalry in the FBB market, higher opex due to spectrum acquisition, and challenges related to delayed network rollout & expansion pose risks to our industry outlook.

Analyst(s)

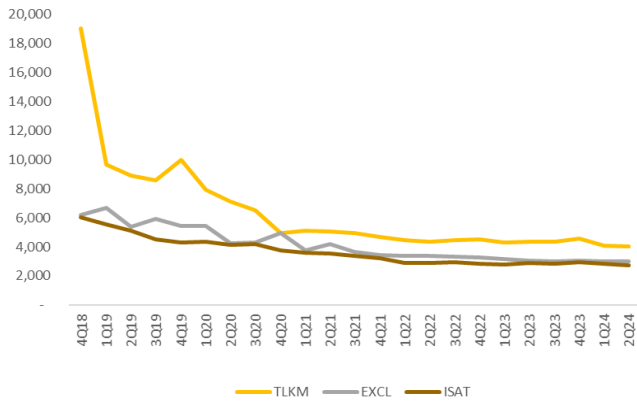
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Exhibit 1. Telecommunications companies under our coverage

Ticker	Price as of 12-Sep-24	Rating	Market cap (IDR tn)	Target Price (IDR)	Upside potential (%)	EBITDA EV/EBITDA		P/E		ROE		Div. yield (%)		
						24F	25F	24F	25F	24F	25F	24F	25F	
Telkom Indonesia - TLKM U	3,050	BUY	302.1	4,000	31.1	52.1	4.8	4.6	14.0	13.5	15.3	14.8	5.1	5.9
Indosat Ooredoo Hutchison - ISAT U	10,875	BUY	87.7	13,000	19.5	48.4	3.2	2.9	9.3	8.6	4.2	4.1	2.3	2.5
XL Axiata - EXCL U	2,290	BUY	29.9	2,600	13.5	49.8	2.2	2.0	13.2	11.9	7.7	8.1	0.0	0.0

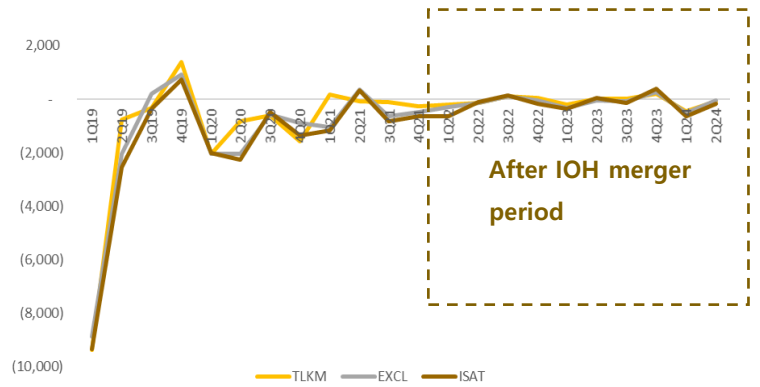
Source: Companies, KBVS Research

Exhibit 2: Average mobile data price on a qoq basis (IDR/GB)



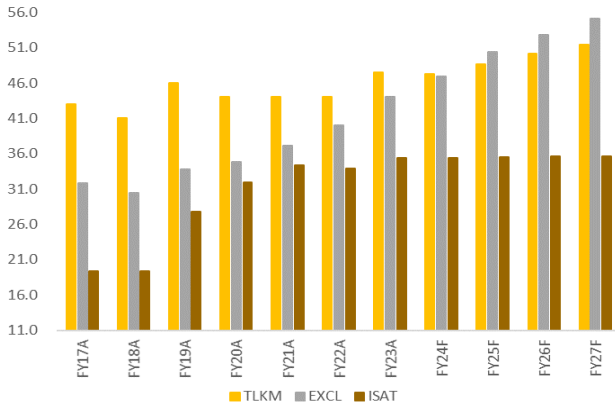
Source: Company, KBVS Research

Exhibit 3: The average qoq price cuts after IOH merger is smaller than the previous price cuts



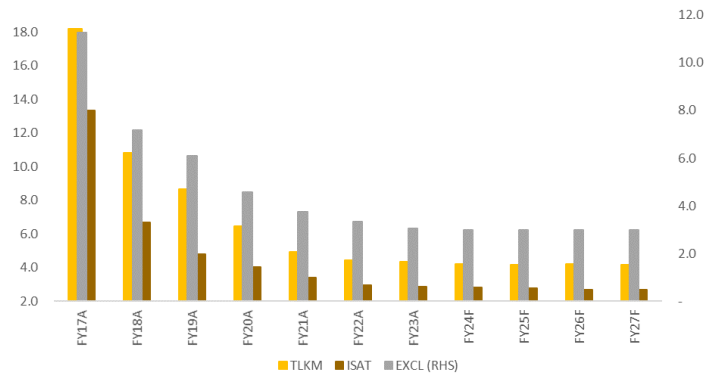
Source: Company, KBVS Research

Exhibit 4: Historical and projected ARPU data (IDR '000)



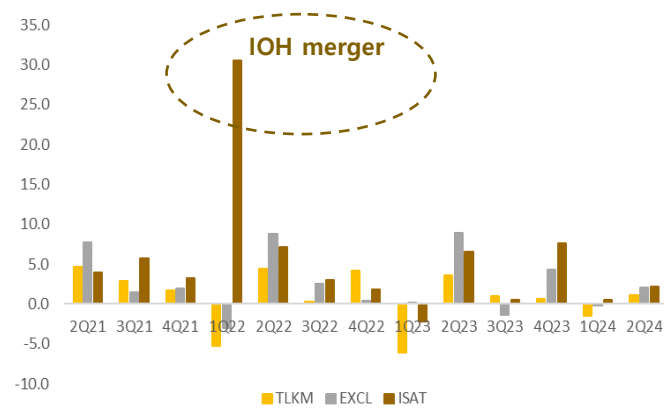
Source: Company, KBVS Research

Exhibit 5: Historical and projected data yield (IDR/MB)



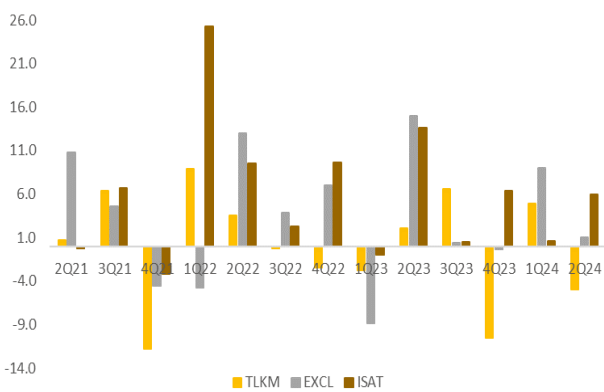
Source: Company, KBVS Research

Exhibit 6: Revenue growth historical data (%)



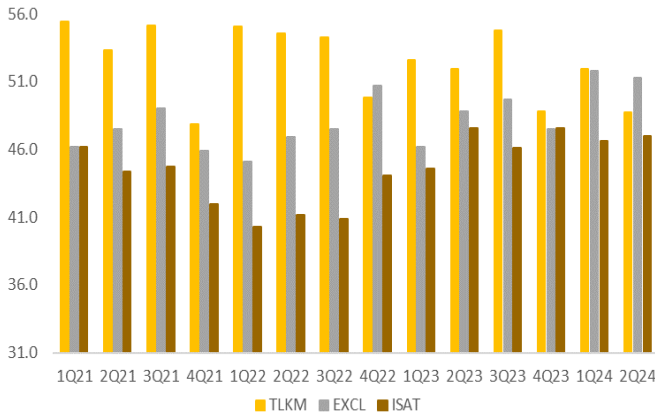
Source: Company, KBVS Research

Exhibit 7: EBITDA growth historical data (%)



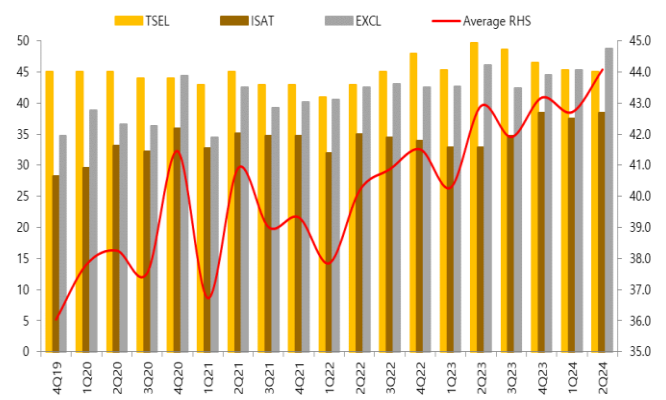
Source: Company, KBVS Research

Exhibit 8: EBITDA margin historical data (%)



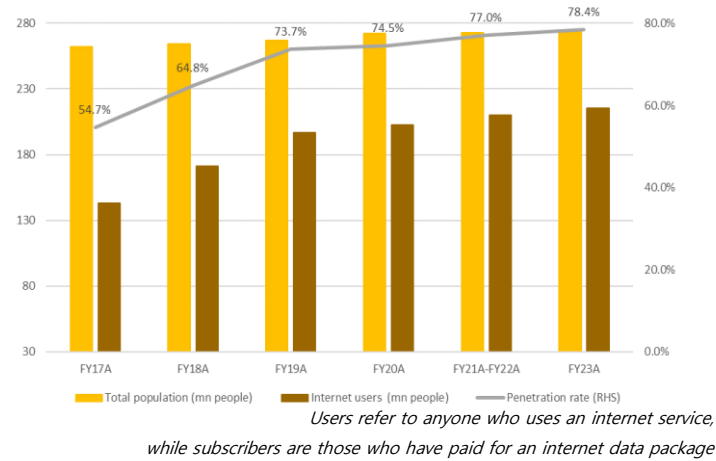
Source: Company, KBVS Research

Exhibit 9: ARPU historical data (IDR '000/subs)



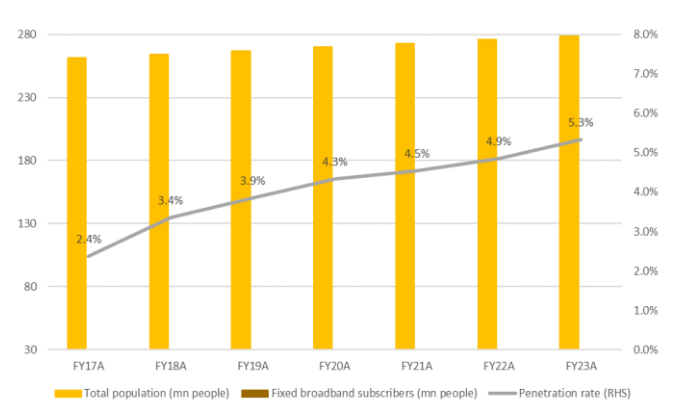
Source: Company, KBVS Research

Exhibit 10: Internet users in Indonesia



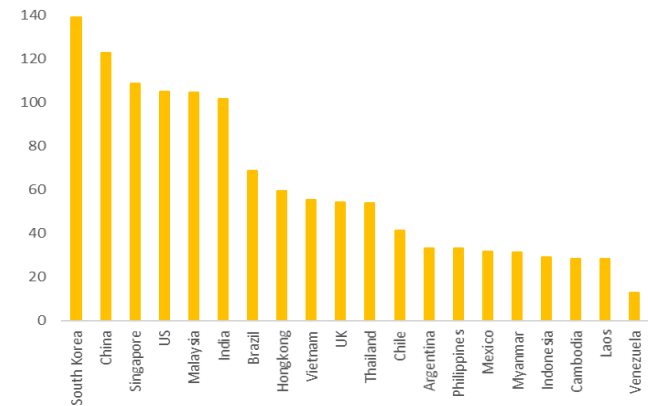
Source: APJII, KBVS Research

Exhibit 11: Fixed broadband subscribers in Indonesia



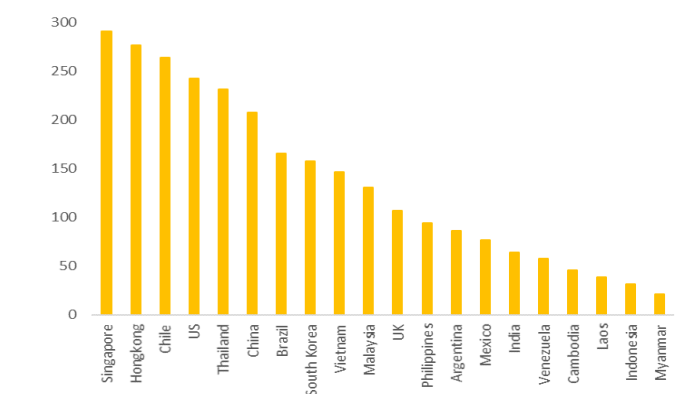
Source: World Bank, KBVS Research

Exhibit 12: Mobile broadband internet speed (Mbps)



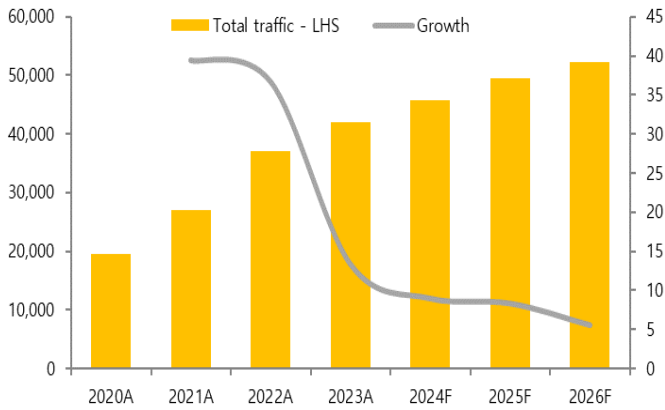
Source: Speedtest, KBVS Research

Exhibit 13: Fixed broadband internet speed (Mbps)



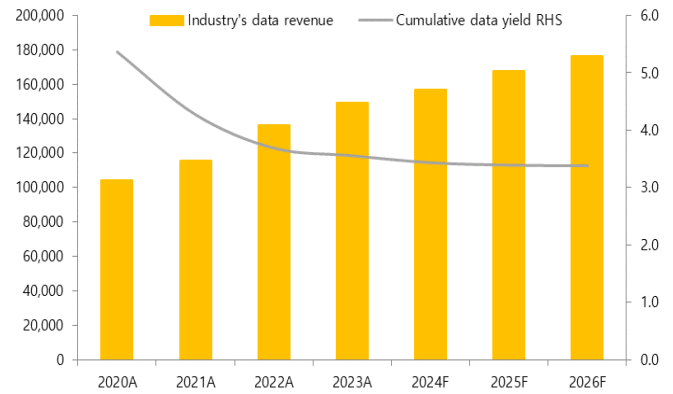
Source: Speedtest, KBVS Research

Exhibit 14: Aggregate mobile data traffic (Petabyte)



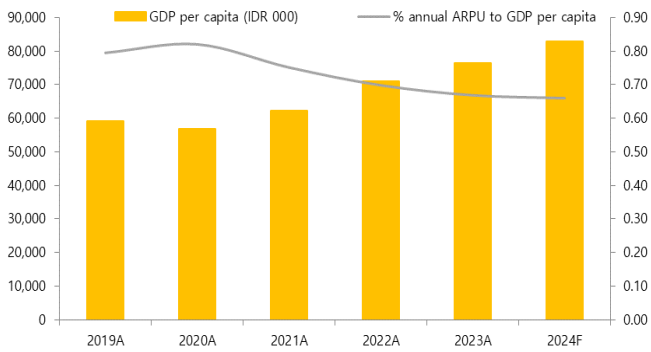
Source: Company, KBVS Research

Exhibit 15: Aggregate MNOs' data yield (IDR/MB)



Source: Company, KBVS Research

Exhibit 16: ARPU to income per capita (%)



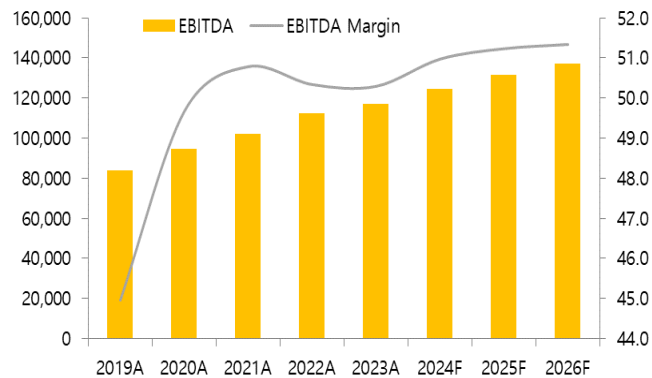
Source: Company, KBVS Research

Exhibit 17: MNOs' revenue to GDP (%)



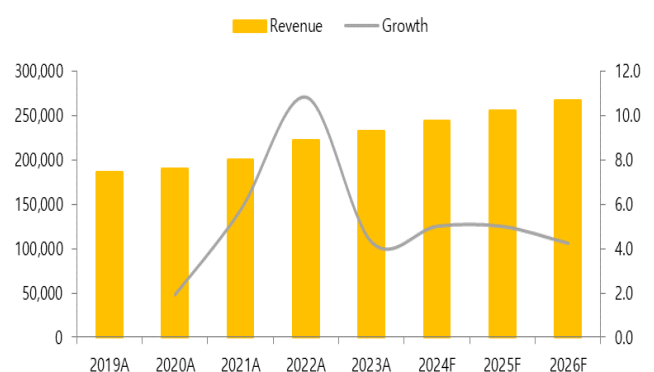
Source: Company, KBVS Research

Exhibit 18: Big 3 MNOs' EBITDA



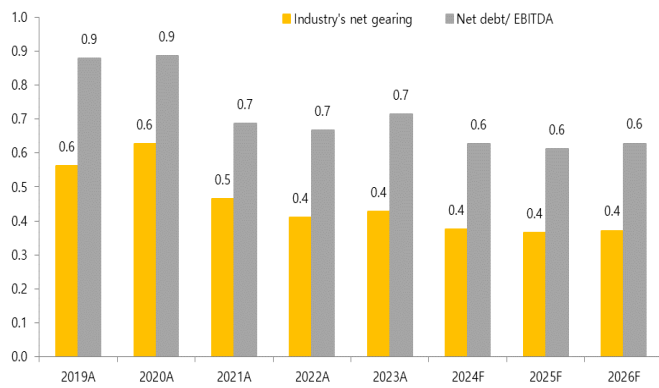
Source: Company, KBVS Research

Exhibit 19: Big 3 MNOs' revenue



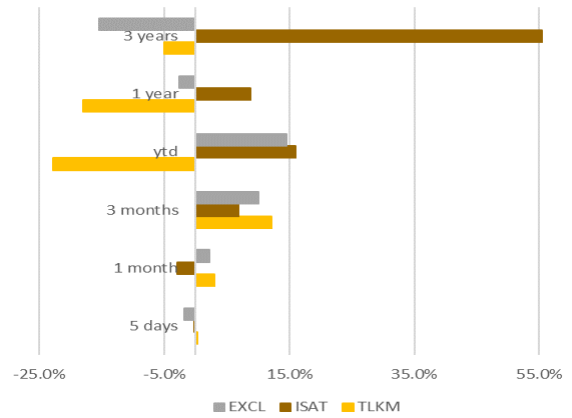
Source: Company, KBVS Research

Exhibit 20: Big 3 MNOs' leverage profile



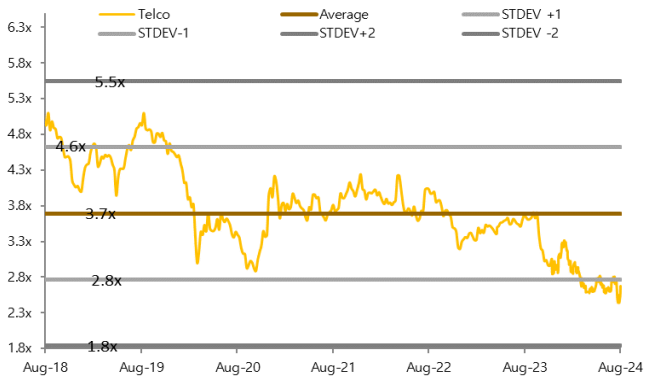
Source: Company, KBVS Research

Exhibit 21: Big 3 MNOs' stock price return



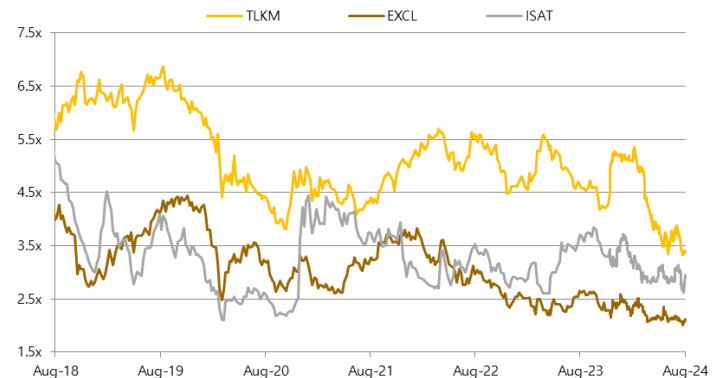
Source: Company, KBVS Research

Exhibit 22: Industry EV/EBITDA valuation band



Source: Company, KBVS Research

Exhibit 23: Big 3 MNOs' EV/EBITDA valuation band



Source: Company, KBVS Research

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