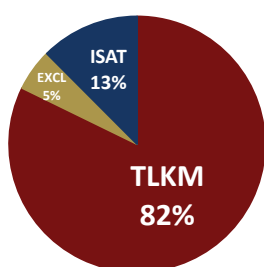


Overweight

Stock Recommendation

Ticker	Rating	Price (IDR)	TP (IDR)	Upside
TLKM	BUY	3.690	4.500	22,0%
ISAT	BUY	8.975	11.500	28,1%
EXCL	BUY	2.290	2.700	17,9%

Sector Market Cap Weighting



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Unwavering Momentum

2Q23 telco results. The three telco companies under our coverage posted combined revenue growth of +6.0% QoQ (+5.2% YoY) and net profit growth of +2,7% QoQ (-28.1% YoY) in 2Q23. Cellular business continued its positive growth, with combined revenue of IDR 37.3tn (+7.7% QoQ; +7.9% YoY) driven by higher data payload (due to seasonality effect in 2Q) and better ARPU (due to higher subs quality). Data payload was recorded at 11,870 pb (+14,0% QoQ; +22,0% YoY), while ARPU rose to IDR 41k (+7.2% YoY). Overall, all three companies' top lines were in line with our estimates and consensus (TLKM: SSI 48.8%, Cons: 47.9%; EXCL: SSI 50.5%, Cons 51.0%; ISAT: SSI 49.1%, Cons 48.9%). Regarding their bottom lines, ISAT managed to exceed expectations (SSI: 60.4%; Cons: 64.5%) thanks to better margins; its EBITDA margin came in at 47.6% in 2Q23 (1Q23: 44.6%; 2Q22: 41.2%), while EXCL came in line (SSI: 51.0%; Cons: 54.3%), and TLKM's core profit came in line with ours (SSI: 45.6%). After the release of 2Q23 results, we adjusted our NP for TLKM and ISAT by -4,4%/+22.0%, respectively, due to their soft results in 2Q (TLKM); its EBITDA margin saw a decline to 51.9% in 2Q23 (1Q23: 52.6%; 2Q22: 54.5%) due to higher network related cost. Meanwhile, ISAT managed to improve its EBITDA margin to ~47.6% in 2Q23 (1Q23: 44.6%; 2Q22: 41.2%), prompting us to adjust our TP accordingly.

Expect stronger results in 2H. We expect telco companies to book stronger results in 2H23, supported by: 1) trickle-down effect from the election period, which might increase data traffic (we noticed that data traffic in Malaysia, Thailand, China, and India went up by ~4-100% during their elections) 2) Positive trajectory in ARPU. We believe that competition dynamics are moving in a healthier direction since all the telco players are focusing more on raising their ARPU. Referring to our previous [report](#) of data update 6M23, as of July-23, the trend was still intact as we saw TSEL remove some of its bonus quota in its OMG package. The MNO players also stated that there was quite ample room to raise their headline prices further this year, considering the healthy traffic in data payload and positive trend in subs. As the competition in mobile market toned down, we expect the profitability for MNO players in Indonesia to continue its positive trajectory, to note, ISAT and TLKM current annualized ROIC vs. WACC saw a positive gap of ~7% (historical: -4.7%) and ~9% (historical: ~8.3%) respectively while EXCL ROIC still slightly lower than its WACC with a gap of -0.7% (historical: -4.7%). We expect the overall improvement in MNO's ARPU will benefit EXCL>ISAT> TLKM as our sensitivity analysis showed that every 5% hike in Data yield (IDR/MB) will uplift EXCL's by EBITDA ~6%,>ISAT ~4% > TLKM ~2,8%. As of 1H23, legacy revenue contribution to the total topline for EXCL and ISAT was recorded at < ~5%, and TSEL's was recorded at ~14%.

Overweight. We reiterate our Overweight call on the telco sector, as we believe that competition dynamics are heading toward a better trajectory, with all telco players focusing more on raising their customer base's ARPU. Our pecking order in the sector is ISAT (TP: IDR 11,500)> EXCL (TP: IDR 2,700) > TLKM (TP: IDR 4,500), considering the impact of loH's network integration in 1Q23, its subs quality, and its robust balance sheet that put loH in an excellent position to participate in the spectrum auction in 2H23. For EXCL, we believe its undemanding valuation makes EXCL quite attractive at the moment, (currently trading at 4.2x EV to EBITDA (Disc to ISAT: 7.2%; Disc to TLKM: 31.4%). Downside risks: Lower-than-expected traffic growth and ARPU.

Table 1. Telco sector under our coverage

Ticker	Rating	CP	TP	Upside	P/B (x)		EV/EBITDA (x)		NP (IDRbn)		EPSG (%)		ROE (%)	
		(IDR)	(IDR)	(%)	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
TLKM	BUY	3.690	4.500	22,0%	2,7	2,6	7,4	7,1	26.639	28.280	28,4	6,2	17,0	17,0
ISAT	BUY	8.975	11.500	28,1%	2,7	2,4	5,3	4,6	3.857	4.096	-18,3	6,2	11,7	11,3
EXCL	BUY	2.290	2.700	17,9%	0,9	0,9	4,6	4,3	1.276	1.423	13,8	11,5	4,5	4,4
Sector					2,6	2,5	6,9	6,6	21.970	23.327	20,8	6,4	15,6	15,5

Source: SSI Research

Table 2 Regional peers comparison

Company Name	Country	Company Ticker	Market Cap (IDR Tn)	PER (x)		EV/EBITDA (x)		PBV (x)		ROE (%)	
				2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
SINGAPORE TELECO	SG	ST SP	456.0	16.6	14.4	12.9	12.3	1.5	1.5	9.1	10.1
STARHUB LTD	SG	STH SP	20.3	16.0	13.2	6.3	5.7	3.2	3.0	19.4	23.6
AXIATA GROUP BER	MY	AXIATA MK	80.9	26.4	20.3	6.0	5.7	1.0	1.0	3.9	5.2
DIGI.COM BHD	MY	CDB MK	170.3	29.4	25.7	11.2	10.9	3.1	3.1	9.9	11.8
MAXIS BHD	MY	MAXIS MK	103.0	22.3	21.3	10.1	10.0	4.9	4.9	21.3	22.2
TELEKOM MALAYSIA	MY	T MK	64.3	14.6	13.9	5.0	4.9	2.2	2.0	15.5	14.6
PLDT INC	PH	TEL PM	77.6	9.2	8.8	5.4	5.1	2.4	2.2	26.0	24.1
GLOBE TELECOM	PH	GLO PM	74.9	14.2	13.8	6.9	6.6	1.7	1.7	13.4	12.0
ADVANCED INFO	TH	ADVANC TB	295.0	23.3	21.1	8.2	7.8	7.5	7.0	32.1	33.3
TOTAL ACCESS COM	TH	TRUE TB	108.9	n.a.	92.9	8.5	8.0	2.7	2.6	-4.3	1.9
TELKOM INDONESIA	ID	TLKM IJ	368.5	14.0	12.9	5.1	4.8	2.6	2.5	19.5	19.9
PT XL AXIATA TBK	ID	EXCL IJ	29.8	23.0	18.5	4.6	4.3	1.0	1.0	5.0	6.0
INDOSAT TBK PT	ID	ISAT IJ	73.0	22.2	17.5	5.4	4.9	2.4	2.2	10.1	12.4
Adjusted average				17.9	21.1	8.6	8.2	3.1	3.0	15.5	16.6

Source: Bloomberg, SSI Research

Table 3. Forecast changes (TLKM)

	Before			Revision			Percentage		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Revenue	153.105	158.498	163.994	153.105	158.498	163.994	0,0%	0,0%	0,0%
growth (%)	3,9%	3,5%	3,5%	3,9%	3,5%	3,5%			
EBITDA	81.731	84.875	88.253	80.120	83.184	86.488	-2,0%	-2,0%	-2,0%
growth (%)	3,5%	3,8%	4,0%	1,4%	3,8%	4,0%			
Net profit	27.866	29.597	30.577	26.639	28.280	29.199	-4,4%	-4,4%	-4,5%
growth (%)	34,3%	6,2%	3,3%	28,4%	6,2%	3,2%			

Source: SSI Research

Table 4. Forecast changes (ISAT)

	Before			Revision			Percentage		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Revenue	50.235	53.202	56.254	51.181	54.520	58.876	1,9%	2,5%	4,7%
growth (%)	-1,8%	5,9%	5,7%	9,4%	5,9%	7,6%			
EBITDA	22.559	24.966	26.728	25.271	27.368	29.794	12,0%	9,6%	11,5%
growth (%)	15,9%	10,7%	7,1%	29,8%	8,3%	8,9%			
Net profit	3.162	2.373	3.064	3.857	4.096	5.089	22,0%	72,6%	66,1%
growth (%)	-33,1%	-24,9%	29,1%	-18,3%	6,2%	24,2%			

Source: SSI Research

Table 5. Telco 2023F Revenue sensitivity analysis

Revenue 2023F				
Data Yield	ISAT	EXCL	TLKM	Average
+5%	3,79%	4,69%	2,46%	3,65%
+10%	7,58%	9,38%	4,92%	7,29%

Source: SSI Research

Table 6. Telco 2023F EBITDA sensitivity analysis

EBITDA 2023F				
Data Yield	ISAT	EXCL	TLKM	Average
+5%	4,02%	6,38%	2,74%	4,38%
+10%	8,04%	12,77%	5,47%	8,76%

Source: SSI Research

Table 7. Telco 2024F Revenue sensitivity analysis

Revenue 2024F				
Data Yield	ISAT	EXCL	TLKM	Average
+5%	3,81%	4,77%	2,50%	3,69%
+10%	7,61%	9,54%	5,01%	7,39%

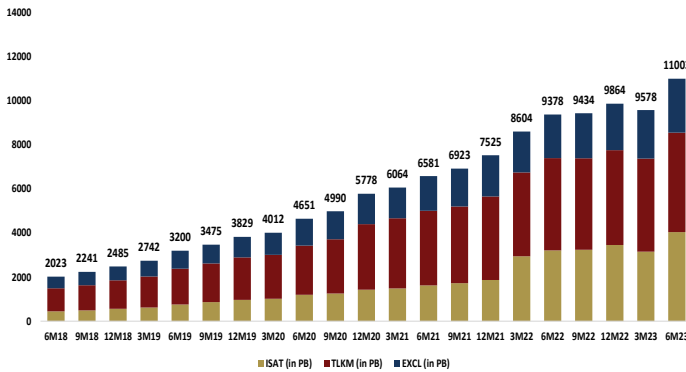
Source: SSI Research

Table 8. Telco 2024F EBITDA sensitivity analysis

EBITDA 2024F				
Data Yield	ISAT	EXCL	TLKM	Average
+5%	3,99%	6,46%	2,78%	4,41%
+10%	7,99%	12,92%	5,56%	8,82%

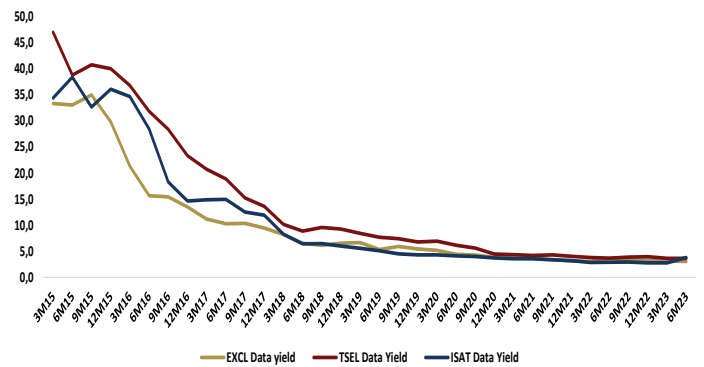
Source: SSI Research

Figure 1. Total data traffic of 3 telco companies (in PBs)



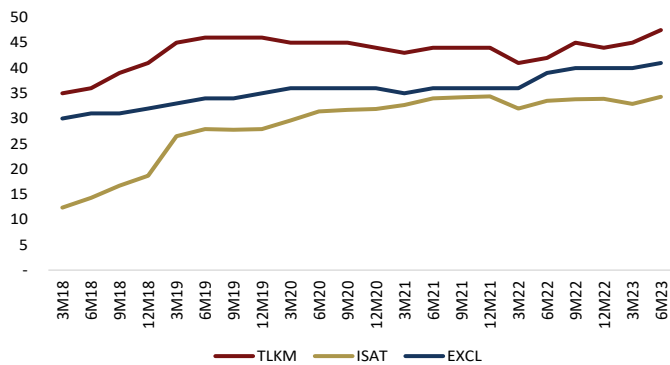
Source: Companies, SSI research

Figure 2. Total data yield of 3 telco companies (IDR/MB)



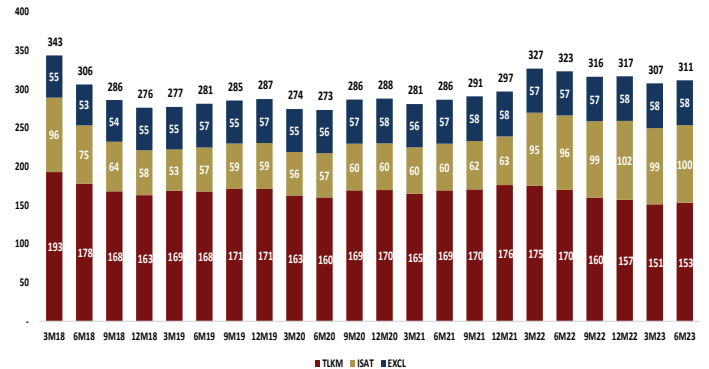
Source: Companies, SSI research

Figure 3. Blended ARPU trend (in IDR thousand)



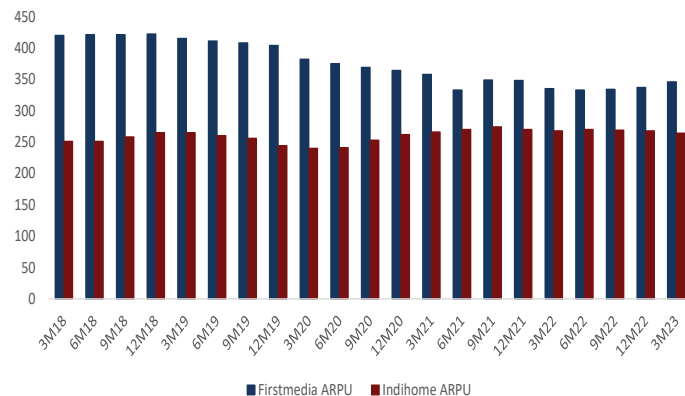
Source: Companies, SSI research

Figure 4. Total subscribers (in mns)



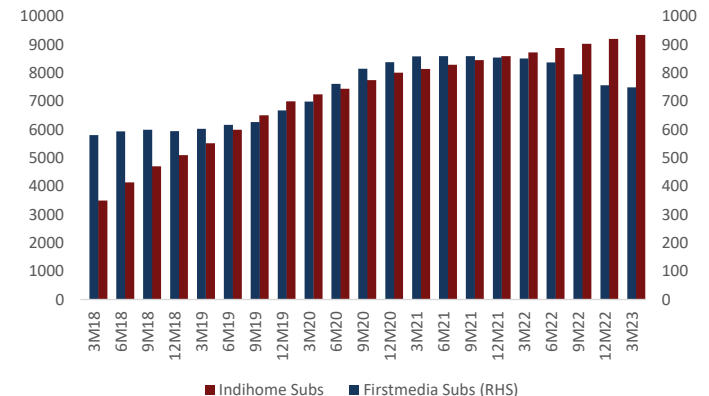
Source: Companies, SSI research

Figure 5. Indihome vs FirstMedia ARPU ('000)



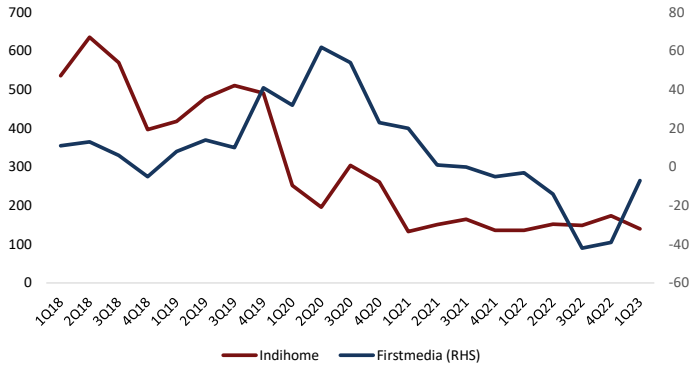
Source: Companies, SSI research

Figure 6. Indihome vs FirstMedia subscribers ('000)



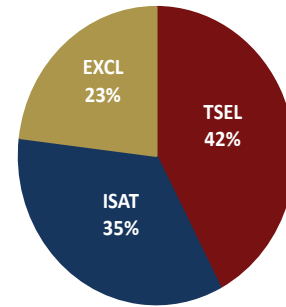
Source: Companies, SSI research

Figure 7. Firstmedia vs Indihome's additional subscribers ('000)



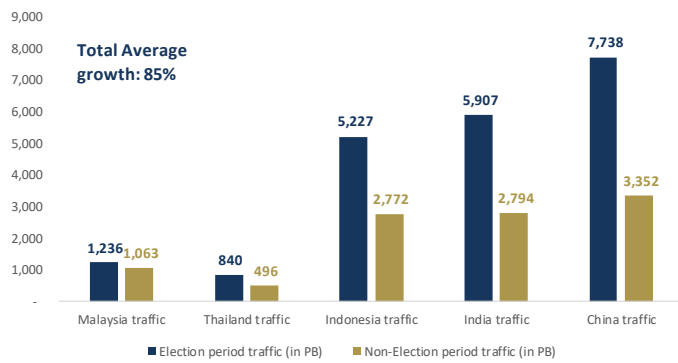
Source: Companies, SSI research

Figure 8. Paired spectrum share



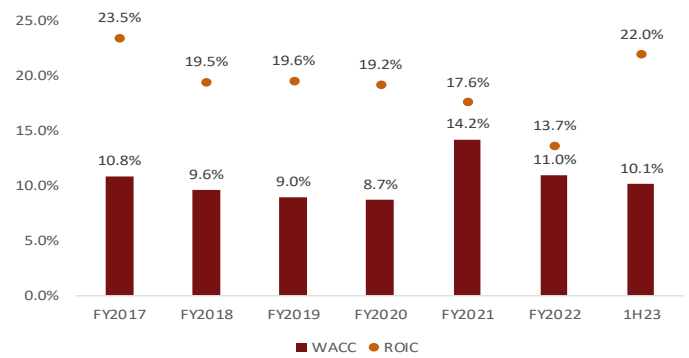
Source: Companies, SSI Research

Figure 9. Data traffic (in PBs)



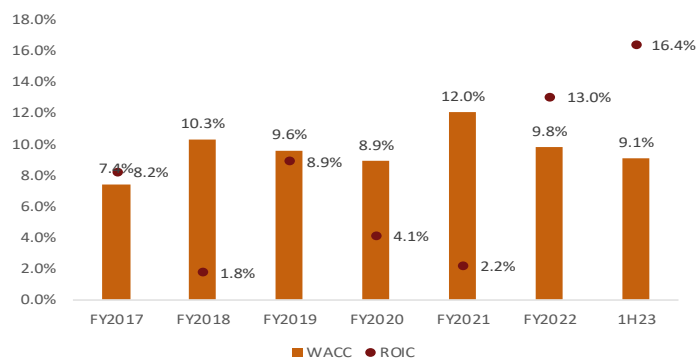
Source: Companies, SSI Research

Figure 10. TLKM ROIC & WACC



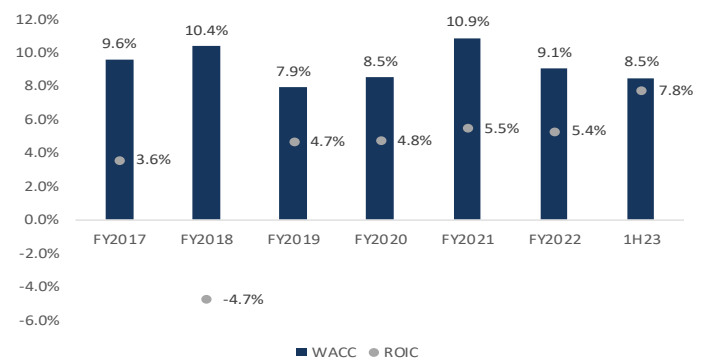
Source: Bloomberg, SSI Research

Figure 11. ISAT ROIC & WACC



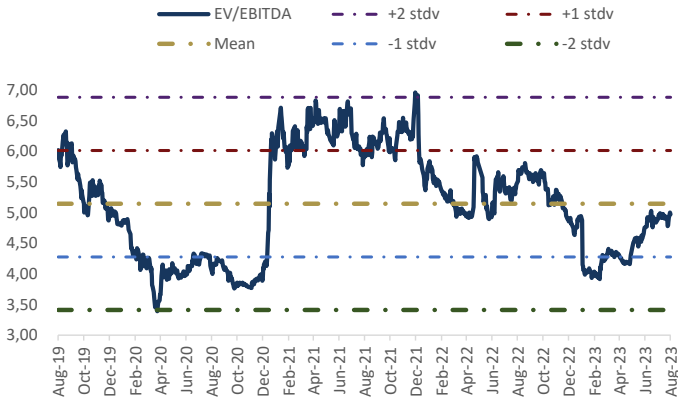
Source: Bloomberg, SSI Research

Figure 12. EXCL ROIC & WACC



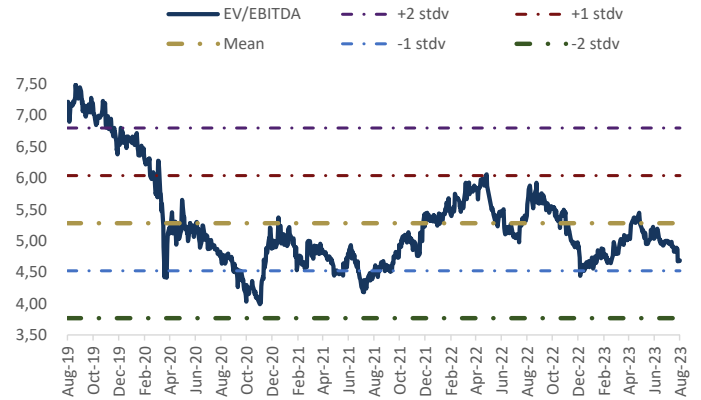
Source: Bloomberg, SSI Research

Figure 13. ISAT's EV/EBITDA



Source: Bloomberg, Company, SSI research

Figure 14. TLKM's EV/EBITDA



Source: Bloomberg, Company, SSI research

Figure 15. EXCL's EV/EBITDA



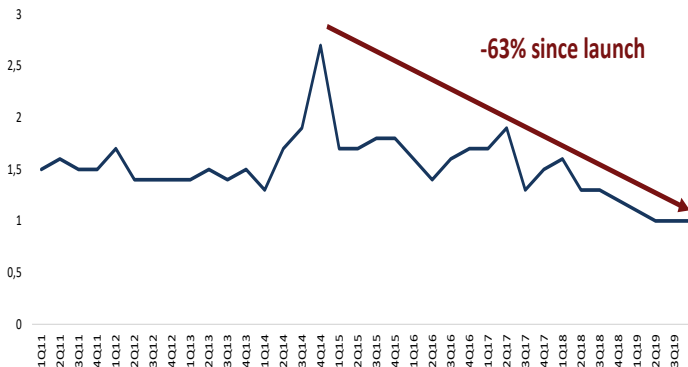
Source: Bloomberg, Company, SSI research

Figure 16. Telco sector's EV/EBITDA



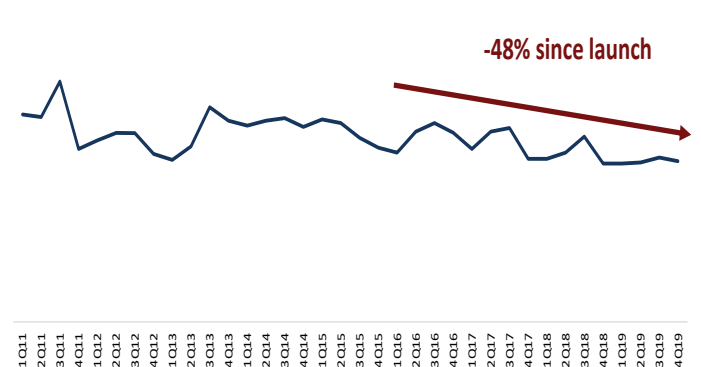
Source: Bloomberg, Company, SSI research

Figure 17. Deutsche Telekom's churn rate (%)



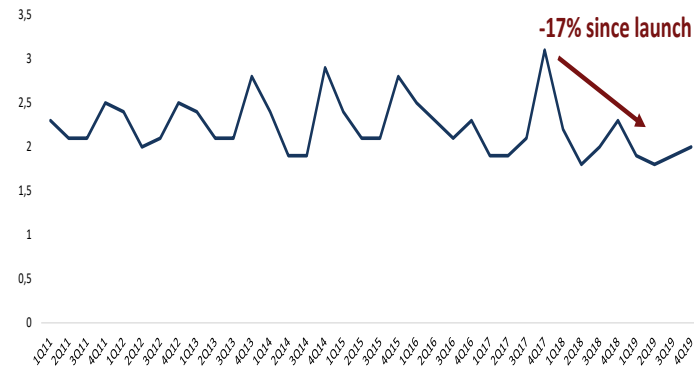
Source: Company, SSI research

Figure 18. Vodafone Germany's churn rate (%)



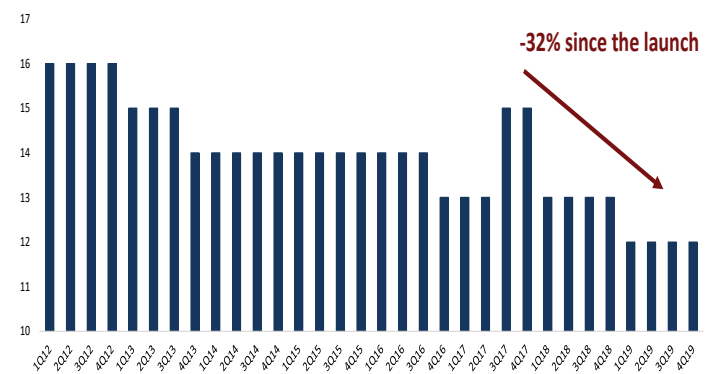
Source: Company, SSI research

Figure 19. Telefonica Germany's churn rate (%)



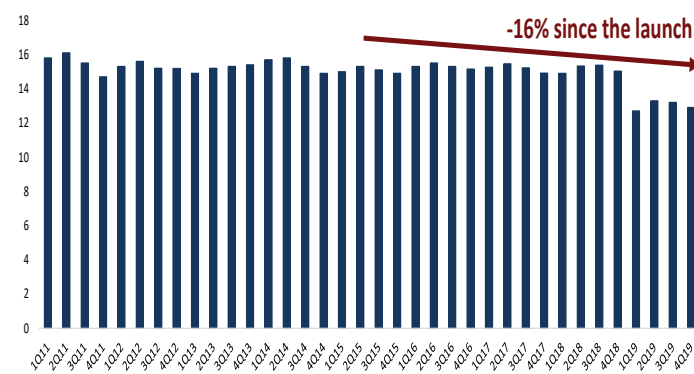
Source: Company, SSI research

Figure 20. Deutsche Telekom's Mobile ARPU (EUR)



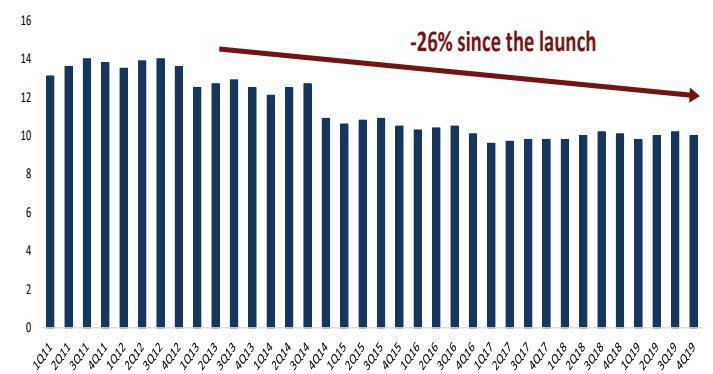
Source: Company, SSI research

Figure 21. Vodafone Germany's Mobile ARPU (EUR)



Source: Company, SSI research

Figure 22. Telefonica Germany's Mobile ARPU (EUR)



Source: Company, SSI research

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