

Sector Update | 08 January 2020

Sector Index Performance (JAKINFR)

	3M	6M	12M
Absolute	-5.0%	-8.3%	4.2%
Relative to JCI	-9.7%	-7.2%	4.3%



Summary Valuation Metrics

EV/EBITDA (x)	2019F	2020F	2021F
TLKM IJ	6.5	6.0	5.6
EXCL IJ	5.8	5.2	4.6
ISAT IJ	4.8	4.5	4.3
P/BV (x)	2019F	2020F	2021F
TLKM IJ	3.2	3.1	2.9
EXCL IJ	1.8	1.7	1.6
ISAT IJ	1.4	1.7	2.1
Div. Yield	2019F	2020F	2021F
TLKM IJ	4.3%	4.2%	4.2%
EXCL IJ	0.0%	0.0%	0.0%
ISAT IJ	0.0%	0.0%	0.0%

Competition in the youth segment

- Tighter competition is happening within the youth segment after Telkomsel launched a youth sub-brand called “by.U” in Oct19.
- Retaliation was seen coming from Axis (gaming quota), Smartfren (Unlimited Lite), and Hutch (KeepOn package with Amazon Prime Video).
- Competition in youth segment may not necessarily bad for big operators.

Youth segment pricing pressure from Telkomsel’s “by.U”

Telkomsel kept price steady after rolling out its “Internet OMG!” and its sub-brand for millennial “by.U” back in Oct19. The sub-brand offers very cheap data quota (10GB for Rp50k), which threatens Axis and Tri market segment.

Axis tries to defend by providing daily data for gaming

EXCL through Axis brand launched “Axis Forever Play” campaign, where users can subscribe to a free 1GB/day data quota usable for games, a move done to defend its 55mn subscriber count. Previously, Axis’ gaming plan was done through OWSEM plan, which offers unlimited gaming quota.

Smartfren and Tri also retaliated in order to defend its market share

Smartfren launched a cheaper unlimited plan called “4G Unlimited Lite” which cost Rp50k/28 days. Meanwhile, Tri launched KeepOn package that offers Amazon Prime Video subscription and 5GB data for Rp75k/month. Both operators are offering plans outside of gaming, a different approach to Axis.

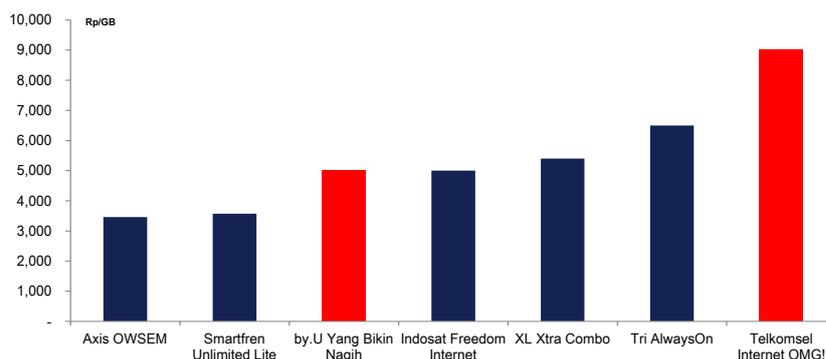
TLKM is venturing into the more crowded segment

TLKM’s is venturing to tap into the more crowded demographic, which are the Generation Z (c.82% internet penetration vs. average industry’s penetration of c.72%, this segment also has 70mn market potential). Previously, we view that this market is evenly split between Axis, Tri, and Smartfren. However, network quality will be the key to secure subscriber as mobile gaming and video streaming requires low latency and reliability, which may favour TLKM.

Competition in crowded segment may not be necessarily bad for ARPU

We think this may benefit TLKM as it may tap the previously untapped customer base and may not necessarily bad for ARPU (Rp50k package vs. TLKM’s blended ARPU of Rp46k). However, we maintain our top pick with EXCL as the company has the lowest data utilization in its BTS, which shall allow them to maintain reliable network with the Axis promotion. ARPU growth potential will be driven by higher data consumption coming from mobile gaming and streaming. Risk is retaliation from smaller operators.

Fig. 1: Price/GB comparison between flagship plans



Sources: Company, IndoPremier

Hans Tantio

PT Indo Premier Sekuritas

hans.tantio@ipc.co.id

+62 21 5088 7168 ext. 719

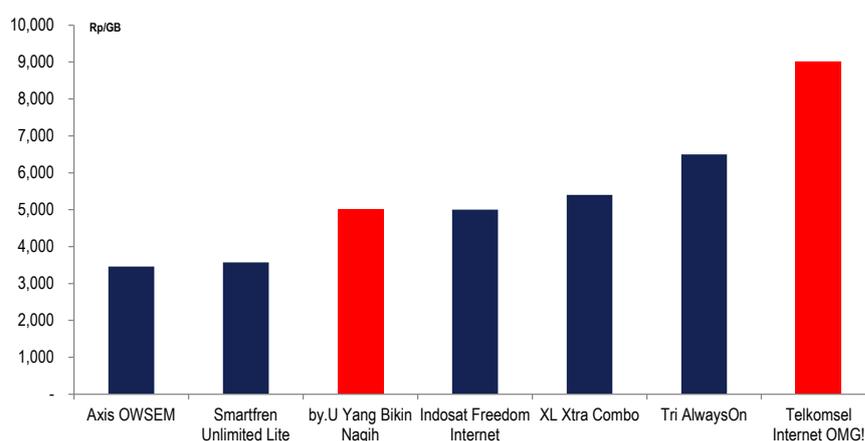
Youth segment pricing pressure from Telkomsel’s “by.U”

The sub-brand offers very cheap data quota (10GB for Rp50k)

We saw tighter competition happening within the youth segment after Telkomsel launched a youth sub-brand called “by.U”, which smaller telcos then retaliated by offering more promotions and launching new plans. The sub-brand offers very cheap data quota (10GB for Rp50k, Rp5/MB yield), which threatens Axis and Hutch market segment. Retaliation was seen coming from Axis (additional daily gaming quota), Smartfren (launching Rp50k Unlimited Lite), and Hutch (launching KeepOn package with Amazon Prime Video).

However, we saw subtle competition within the middle-up segment. Telkomsel kept price steady after rolling out its “Internet OMG!” as well as rolling out its sub-brand for young millennial “by.U” back in Oct19. In addition, XL and Indosat prices remain unchanged as competition in the middle-up segment remains subtle.

Fig. 2: Price/GB comparison between flagship plans



Sources: Company, IndoPremier

Fig. 3: Telkomsel data packages - unchanged

Telkomsel	Days	Data (GB)	Price (Rp)	Price/GB
Combo OMG! 6.5GB	30	6.5	63,000	9,692
Combo OMG! 19GB	30	19	115,000	6,053
Combo OMG! 30GB	30	30	149,000	4,967
Internet OMG! 4GB	30	4	39,000	9,750
Internet OMG! 7GB	30	7	63,000	9,000
Internet OMG! 14GB	30	14	102,000	7,286
Internet OMG! 27GB	30	27	152,000	5,630
Internet OMG! 52GB	30	52	191,000	3,673

Sources: Company, IndoPremier

Fig. 4: XL data packages - unchanged

XL	Days	Data (GB)	Price (Rp)	Price/GB
Xtra Combo 5GB + 5GB	30	10	54,000	5,400
Xtra Combo 10GB + 10GB	30	20	81,000	4,050
Xtra Combo 15GB + 15GB	30	30	114,000	3,800
Xtra Combo 20GB + 20GB	30	40	159,000	3,975
Xtra Combo 35GB + 35GB	30	70	212,000	3,029
Xtra Combo VIP 5GB + 5GB	30	10	62,000	6,200
Xtra Combo VIP 10GB + 10GB	30	20	89,000	4,450
Xtra Combo VIP 15GB + 15GB	30	30	120,000	4,000
Xtra Combo VIP 20GB + 20GB	30	40	164,000	4,100
Xtra Combo VIP 35GB + 35GB	30	70	216,000	3,086

Sources: Company, IndoPremier

Fig. 5: Indosat data packages - unchanged

Indosat	Days	Data (GB)	Price (Rp)	Price/GB
Freedom Internet 2GB	15	2	15,000	7,500
Freedom Internet 3GB	30	3	25,000	8,333
Freedom Internet 10GB	30	10	50,000	5,000
Freedom Internet 18GB	30	18	75,000	4,167
Freedom Internet 25GB	30	25	100,000	4,000
Freedom Combo 4GB	30	4	25,000	6,250
Freedom Combo 8GB	30	8	35,000	4,375
Freedom Combo 14GB	30	14	50,000	3,571
Freedom Combo 20GB	30	20	70,000	3,500
Freedom Combo 30GB	30	30	100,000	3,333
Freedom Combo 50GB	30	50	150,000	3,000
Freedom Combo 50GB	30	50	200,000	4,000
Unlimited 500MB+1GB	2	1.5	5,000	3,333
Unlimited 1GB+2GB	7	3	15,000	5,000
Unlimited 1GB+4.5GB	30	5.5	25,000	4,545
Unlimited 2GB+7.5GB	30	9.5	40,000	4,211
Unlimited 3GB+15GB	30	18	60,000	3,333
Unlimited 7GB+20GB	30	27	80,000	2,963
Unlimited 10GB+25GB	30	35	100,000	2,857
Unlimited 38GB	30	38	150,000	3,947

Sources: Company, IndoPremier

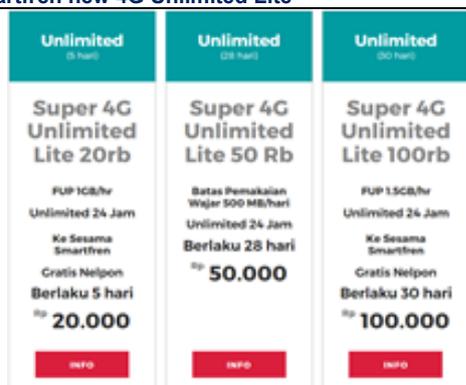
Rising competition in the youth segment to maintain existing market share

Retaliation was seen coming from Axis (gaming quota), Smartfren (Unlimited Lite), and Hutch (KeepOn package with Amazon Prime Video)

In the effort to defend the youth segment market share from by.U, we saw Axis trying to defend its customer base by providing daily data for gaming. XL Axiata through Axis brand launched “Axis Forever Play” campaign, where users can subscribe to a free 1GB/day data quota usable for games through the Axisnet app. Previously, Axis’ gaming package is offered by OWSEM package, which offers unlimited gaming quota. The campaign is done to increase attractiveness for its BRONET and OBOR plans which do not provide gaming quota.

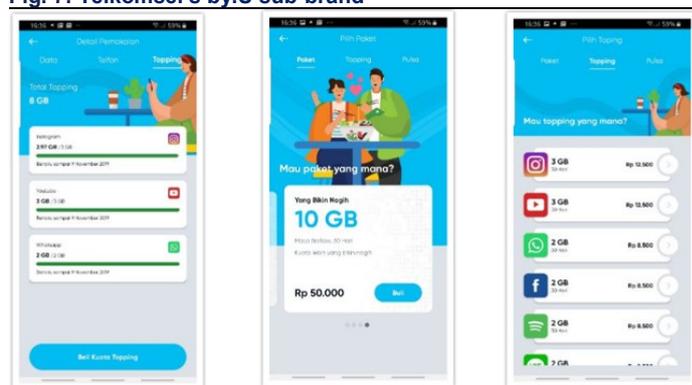
Meanwhile, Smartfren became aggressive but indirectly raise price/GB price. Smartfren launched a cheaper unlimited plan called “Smartfren 4G Unlimited Lite” which cost Rp50k/28 days with a fair usage policy (FUP) of 500MB/day. If the FUP is fully utilized, the user can use 14GB in a month with optimal speed (vs by.U’s 10GB). The new plan’s entry point is c.30% cheaper than the “4G Unlimited” plan, which has FUP of 1GB/day. However, the new plan indirectly increased price/GB through speed limitation. In order to consume the same amount of data with optimum speed, the user will have to spend Rp100k vs Rp75k, previously.

Fig. 6: Smartfren new 4G Unlimited Lite



Sources: Company, IndoPremier

Fig. 7: Telkomsel’s by.U sub-brand



Sources: Company, IndoPremier

On the other hand, Tri tries to defend market share through its OTT partnership. Hutchison 3 Indonesia launched KeepOn package that offers Amazon Prime Video. KeepOn package cost Rp75k/month and comes with Amazon Prime Video subscription, 5GB internet, 100 SMS, 100 mins to other Tri users. This is a temporary promotion to defend market share as the Rp75k/month price will be available until 18Mar2020 and will be adjusted to Rp85k/month going forward.

Fig. 8: Tri's KeepOn with Amazon Prime OTT



Sources: Company, IndoPremier

Fig. 9: Free daily gaming quota from Axis



Sources: Company, IndoPremier

Fig. 10: Telkomsel's by.U packages - unchanged

By.U	Days	Data (GB)	Price (Rpk)	Price/GB
Yang Bikin Nyaman	3	2	9,000	4,500
Yang Bikin Deket	1	10	10,000	1,000
Yang Bikin Nempel	14	3	15,000	5,000
Yang Bikin Nagih	30	10	50,000	5,000

Sources: Company, IndoPremier

Fig. 11: Hutchison 3 packages – new KeepOn packages with Amazon Prime

Tri	Days	Data (GB)	Price (Rp)	Price/GB
Always On 3GB	30	3	28,000	9,333
Always On 6GB	30	6	39,000	6,500
Always On Unlimited + 6GB	30	6	55,000	9,167
Always On Unlimited + 10GB	30	10	80,000	8,000
KeepOn	30	3	19,000	6,333
KeepOn Amazon Prime 1GB	30	1	58,000	58,000
KeepOn Amazon Prime 5GB	30	5	75,000	15,000
KeepOn Amazon Prime 8GB	30	8	108,000	13,500

Sources: Company, IndoPremier

Fig. 12: Axis packages – Free daily quota for gaming (Mobile Legends, AOV, Free Fire, etc)

Axis	Days	Data (GB)	Price (Rp)	Price/GB
BRONET 1GB	30	1	16,900	16,900
BRONET 2GB	30	2	24,900	12,450
BRONET 3GB	30	3	30,900	10,300
BRONET 5GB	30	5	46,900	9,380
BRONET 8GB	30	8	62,900	7,863
BRONET 10GB	30	10	74,900	7,490
BRONET 12GB	30	12	83,900	6,992
BRONET 16GB	30	16	97,900	6,119
OWSEM 16GB + Unli Games	30	16	39,900	2,494
OWSEM 24GB + Unli Games	30	24	51,900	2,163
OWSEM 32GB + Unli Games	30	32	59,900	1,872
OWSEM 48GB + Unli Games	30	48	74,900	1,560
OWSEM 80GB + Unli Games	30	80	94,900	1,186
OBOR Kuota 5GB	30	5	19,900	3,980
OBOR Kuota 10GB	30	10	39,900	3,990
OBOR Kuota 15GB	30	15	54,900	3,660

Sources: Company, IndoPremier

Fig. 13: Smartfren packages – new 4G Unlimited Lite

Smartfren		Days	Data (GB)	Price (Rp)	Price/GB
4G Unlimited Lite	NEW PLAN	28	14	50,000	3,571
4G Unlimited		28	28	75,000	2,679
4G Unlimited		30	45	100,000	2,222
Internet 6GB		30	6	20,000	3,333
Internet 10GB		30	10	30,000	3,000
Internet 30GB		30	30	60,000	2,000
Internet 60GB		30	60	100,000	1,667
Internet 70GB		30	70	150,000	2,143
Internet 120GB		30	120	200,000	1,667

Sources: Company, IndoPremier

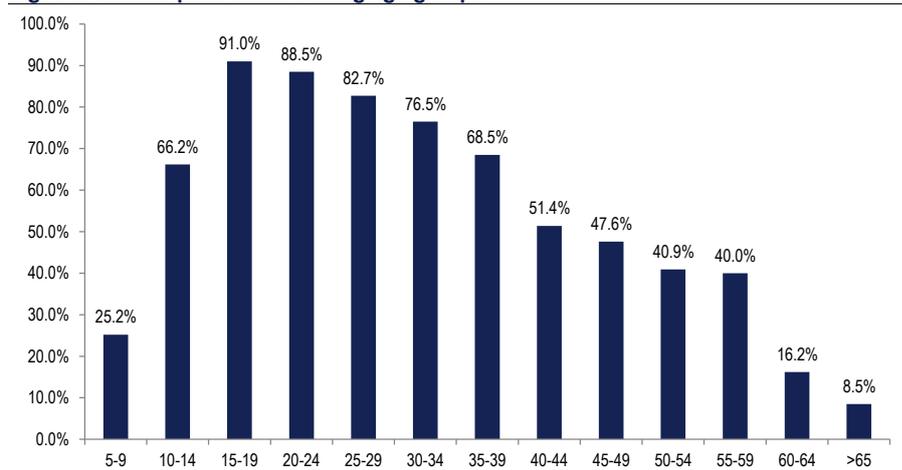
TLKM is venturing into the more crowded segment

Network quality will be the key to secure subscriber as mobile gaming and video streaming requires low latency and reliability

TLKM's is venturing to tap into the more crowded demographic, which are the Generation Z (c.82% internet penetration vs. average industry's penetration of c.72%, this segment also has 70mn market potential). Previously, we view that this market is evenly split between Axis, Tri, and Smartfren. However, network quality will be the key to secure subscriber as mobile gaming and video streaming requires low latency and reliability, which may favour TLKM.

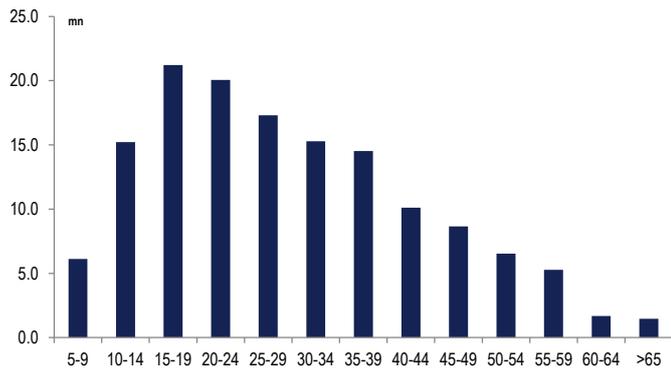
The move follows our thesis of price war risk coming from telcos, if the telcos do not meet their internal growth target. TLKM's latest performance showed mobile service revenue slowing 1.1% QoQ, 1.8% YoY in 3Q19. Growth was driven by data and digital service revenue that was up 3.9% QoQ and 20.6% YoY, and moderate decline in data yields to Rp7.4/MB (-3.7% QoQ, -22.6% YoY). Despite having some growth in subscriber +1.9% QoQ, ARPU declined by -2.1% QoQ, which normalized Telkomsel's revenue growth.

Fig. 14: Internet penetration among age groups



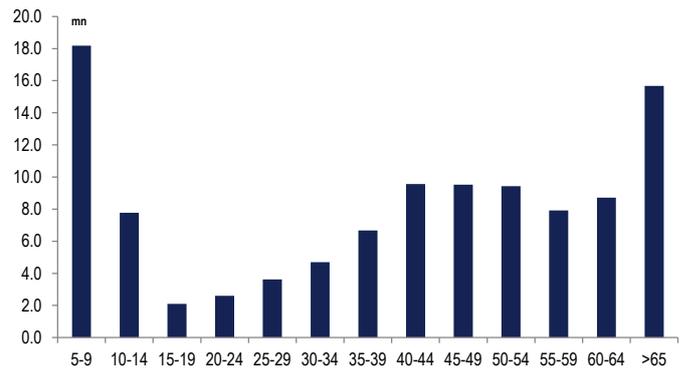
Sources: Company, IndoPremier, APJ

Fig. 15: Internet users among age group



Sources: Company, IndoPremier, APJII, Worldometers

Fig. 16: Non-internet users among age group



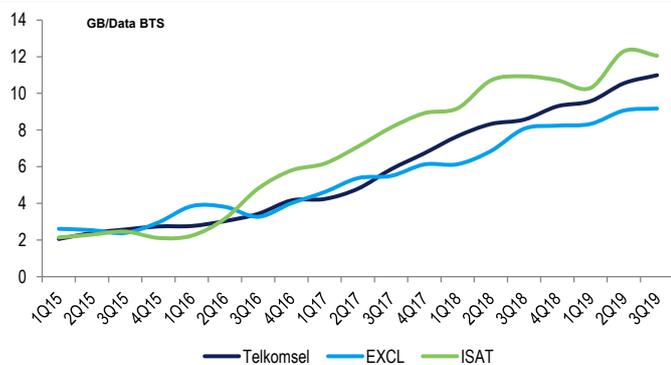
Sources: Company, IndoPremier, APJII, Worldometers

Competition in crowded segment may not be necessarily bad for ARPU

EXCL's lower BTS utilization will allow it to maintain reliable network with Axis' promotions

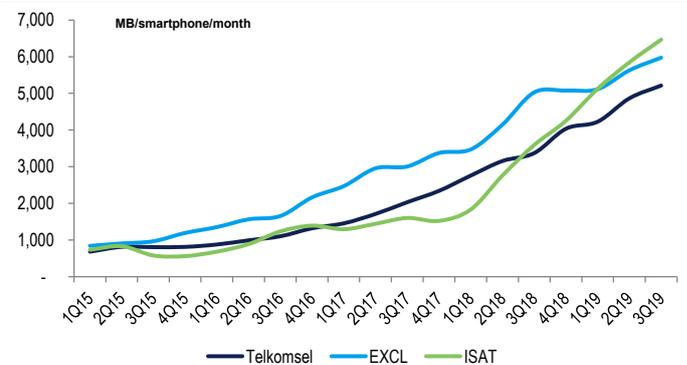
We think this may benefit TLKM as it may tap the previously untapped customer base and may not necessarily be bad for ARPU (Rp50k package vs. TLKM's blended ARPU of Rp46k). However, we maintain our top pick with EXCL as the company has the lowest data utilization in its BTS, which shall allow them to maintain reliable network with the Axis promotion. ARPU growth potential will be driven by higher data consumption coming from mobile gaming and streaming. Risk is retaliation from smaller operators.

Fig. 17: Data BTS utilization



Sources: Company, IndoPremier

Fig. 18: Smartphone usage data usage per month



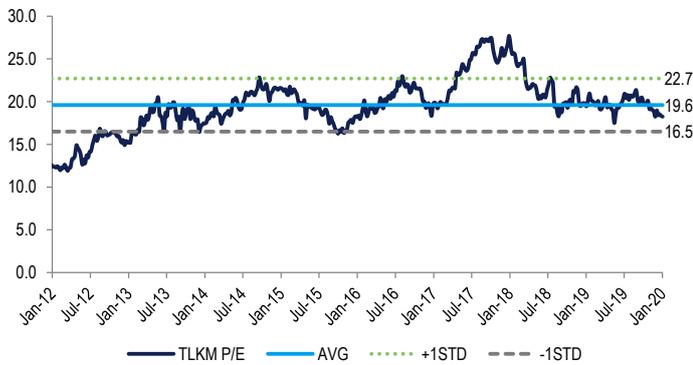
Sources: Company, IndoPremier

We choose EXCL as our top pick, for the following reasons: 1) highest data revenue contribution; 2) lower cost of service from 2G asset depreciation kitchen sink in 2018. Other supporting catalysts for the industry are consolidation of telco operators as well as monetization of packages. However, the risk comes from price war if the telcos do not meet their internal growth target.

The latest price competition in the youth segment indicates retaliation from the smaller operators. The competition is well expected following capex pick-up done by smaller telcos. We continue to see price steadiness among the middle-up segment, with ARPU growth potential driven by higher data consumption coming from mobile gaming, video streaming, and other app-based data usage. Our growth expectation comes from volume increase

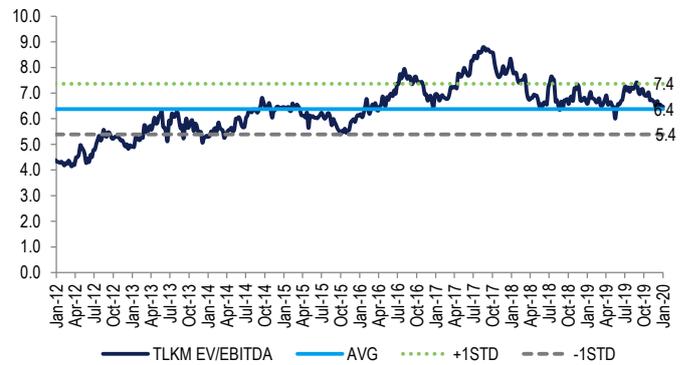
instead of yield. Risk comes from smaller operators wanting to create a discount to Telkomsel's new sub-brand "by.U".

Fig. 19: TLKM P/E band



Sources: Company, IndoPremier

Fig. 20: TLKM EV/EBITDA band



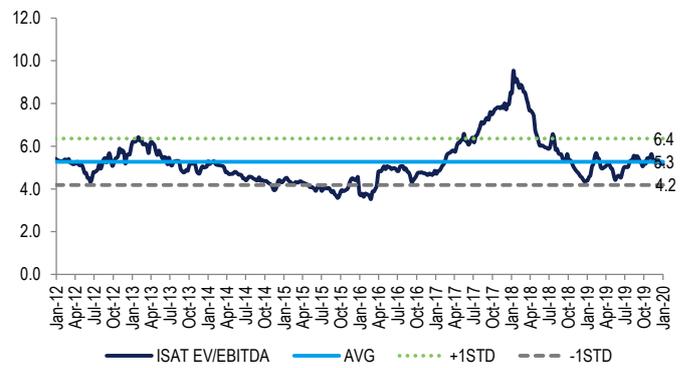
Sources: Company, IndoPremier

Fig. 21: EXCL EV/EBITDA band



Sources: Company, IndoPremier

Fig. 22: ISAT EV/EBITDA band



Sources: Company, IndoPremier

Fig. 23: Peers' valuation

Ticker	Closing Price (Rp/share)	TP (Rp/share)	Implied EV/Ebitda (x)	Upside	Recommendation	EV/Ebitda (x)		Div yield (%)	
						2019F	2020F	2019F	2020F
TLKM	3,940	4,400	6.3	12%	HOLD	6.5	6.0	4.3	4.2
EXCL	3,250	4,200	4.9	29%	BUY	5.8	5.2	0.0	0.0
ISAT	2,900	3,300	4.8	14%	HOLD	4.8	4.5	0.0	0.0

Sources: Company, IndoPremier

SECTOR RATINGS

- OVERWEIGHT** : An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
- NEUTRAL** : A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
- UNDERWEIGHT** : An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

COMPANY RATINGS

- BUY** : Expected total return of 10% or more within a 12-month period
- HOLD** : Expected total return between -10% and 10% within a 12-month period
- SELL** : Expected total return of -10% or worse within a 12-month period

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