

Sector Index Performance

	3M	6M	12M
Absolute	-2.6%	4.0%	-8.7%
Relative to JCI	-8.3%	0.6%	-5.4%



Summary Valuation Metrics

EV/EBITDA (x)	2023F	2024F	2025F
ISAT IJ	5.4	4.9	4.5
TLKM IJ	5.0	4.7	4.5
EXCL IJ	4.3	4.0	3.7

P/E (x)	2023F	2024F	2025F
ISAT IJ	29.1	19.5	14.3
TLKM IJ	15.0	13.7	13.2
EXCL IJ	19.0	12.7	10.3

Div. Yield	2023F	2024F	2025F
ISAT IJ	0.0%	1.0%	2.0%
TLKM IJ	3.9%	5.3%	5.9%
EXCL IJ	5.1%	7.2%	8.4%

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Assessing the possibility of XL-FREN MnA

- Axiata-Sinar Mas are weighing a potential transaction for EXCL-FREN.
- Due to limited balance sheet capacity, we believe that a non-cash transaction (i.e. share-swap) or network sharing is likely preferred.
- Potential cost synergies should bode well for EXCL, while consolidation should translate to better industry pricing discipline. Telcos > towercos.

EXCL and FREN are reportedly in talks over a potential MnA scenario

Based on a Bloomberg News report, Axiata and Sinar Mas Group are weighing a potential transaction for EXCL-FREN with both merger and network sharing is reportedly in the cards. Both options, in our view, offer attractive cost saving benefits, given the economies of scale they introduce. We also believe that the timing seems ideal, as the upcoming 5G cycle provides a strong case for consolidation/network sharing. A technology reset offers a good window, as synergies do not stem only from cost optimization, but also from avoiding future capex redundancy.

Higher possibility of non-cash transaction...

Considering that both companies are highly levered (EXCL/FREN 2Q23 net debt/EBITDA: 2.7/5.0x), we believe that a non-cash transaction (i.e. share-swap) or network sharing agreement, instead of an outright acquisition by one party, seems more likely. The merged entity could generate FY23F pro forma revenue/EBITDA of Rp43/21tr (vs. IOH's Rp51/24tr), on our estimates. However, as FREN has sizable interest burden and has been booking negative core profit since FY08, the merged entity could potentially see lower core profit in the early years (FY23F pro forma core profit of Rp0.8tr vs. standalone EXCL of Rp1.3tr) as synergies and debt restructuring will only materialize gradually. Spectrum holding could increase to 152MHz, second only to Tsel (160MHz), though it is still subject to government's approval. Recall that IOH returned 2x5MHz of its 2,100MHz spectrum band.

... or MOCN with an asset-light JV/agreement-only is likely preferred

Given that spectrum sharing is now allowed, we believe that MOCN (active network sharing with spectrum sharing) is likely to be preferred, potentially with asset-light JV/agreement-only configuration. Although the overall benefit should be lower than a de facto consolidation, opex/capex savings from MOCN could still reach c.20-40%, while based on our regional observation, the cost saving benefits could be c.10-30%. However, the details of the agreement could eventually determine the amount of savings. This, in our view, is because the benefits that can be realized are highly dependent on the sharing scheme, the shared spectrum, network coverage/capacity of the telcos, valuation, agreements between the telcos, and other external factors.

We continue to favor telcos over towercos

Potential cost synergies is positive for EXCL, while further consolidation could potentially allow for an even better industry pricing discipline. On the other hand, having fewer telcos could pose some risks for towercos i.e.: 1) more concentrated customer base; and 2) merging telcos likely rationalizing their sites. Accordingly, we continue to prefer telcos over towercos. Note that in 1H23, EXCL-FREN made up for about 10/24/30% of MTEL/TBIG/TOWR's revenue. Risks: higher interest rates and competition.

Fig. 1: EXCL-FREN FY23F pro forma

(Rp bn)	Pro forma FY23F
EXCL standalone revenue	32,148
FREN standalone revenue	11,124
Pro forma combined revenue	43,272
EXCL standalone EBITDA	15,760
FREN standalone EBITDA	4,908
Synergies	-
Pro forma combined EBITDA	20,667
Depreciation and amortization	(15,639)
Pro forma combined operating profit	5,029
EXCL standalone net interest expense	(2,829)
FREN standalone net interest expense	(1,172)
Other non-operating items	-
Earnings before taxes	1,028
Income tax expense	20% (206)
Non-controlling interests	-
Pro forma combined core profit	822
EXCL standalone core profit	1,342

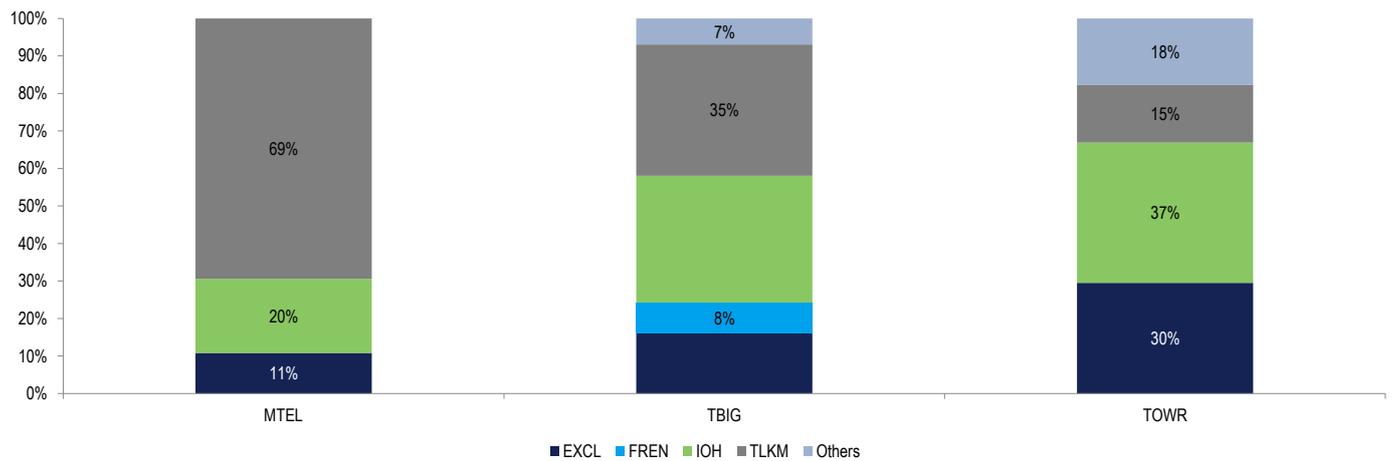
Source: Company, Indo Premier

Fig. 2: EXCL-FREN pro forma operational data

(Rp bn)	EXCL	FREN	Pro forma
Subs (mn people)	58.0	35.5	93.5
Implied ARPU (Rp k)	43.9	26.1	37.1
Reported ARPU (Rp k)	41.0	26.0	
Spectrum (MHz)	90	62	152
Spectrum share (%)	19.9%	13.7%	33.6%
BTS (k)	151.5	43.0	194.5

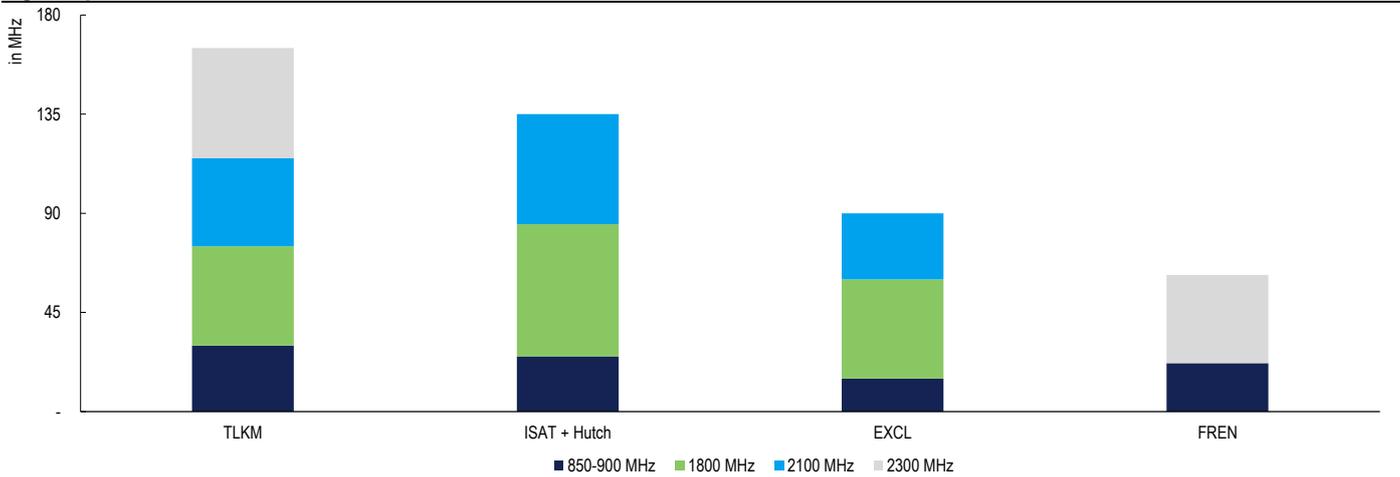
Source: Company, Indo Premier

Fig. 3: Towercos revenue breakdown



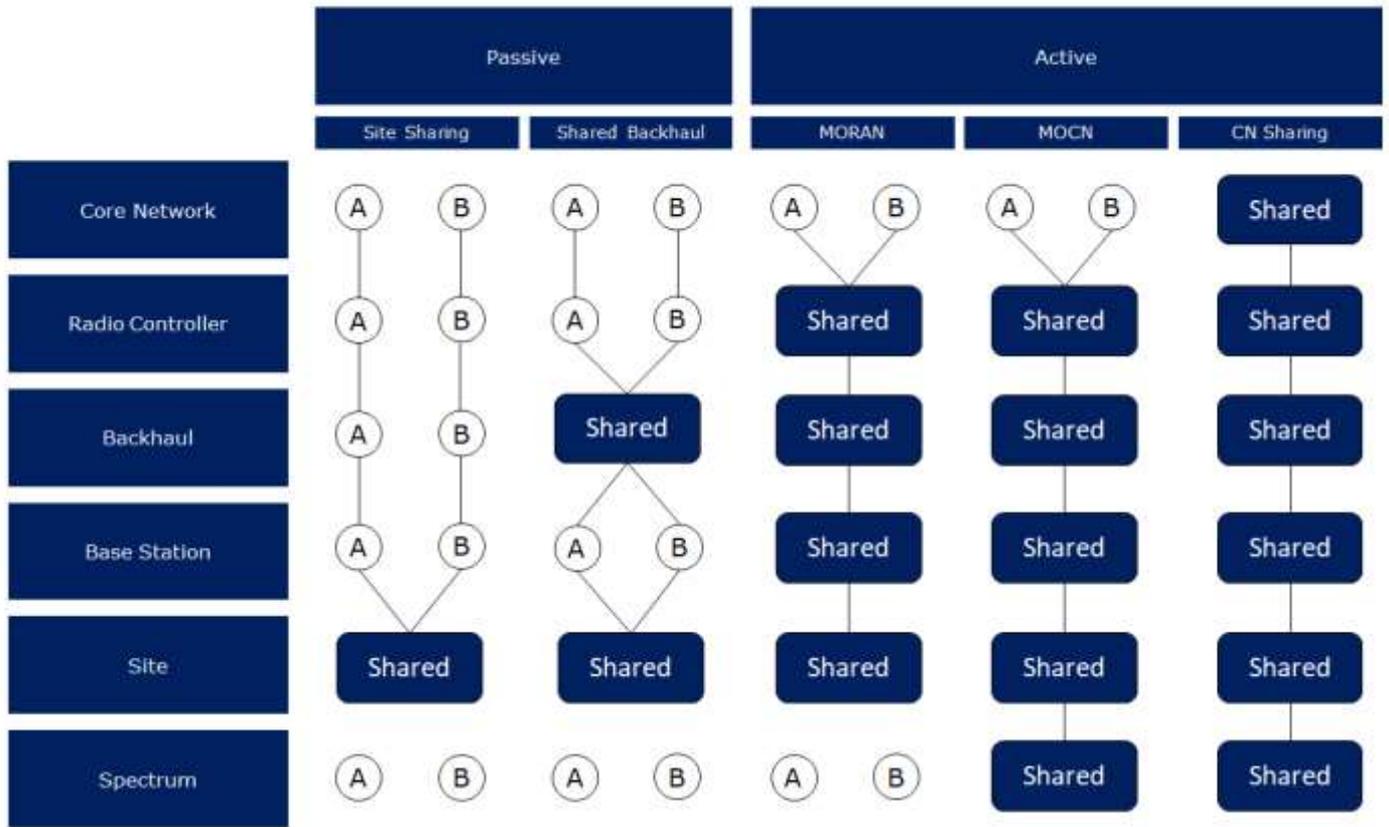
Source: Company, Indo Premier

Fig. 4: Spectrum bands of Indonesian telcos



Source: Company, Indo Premier

Fig. 5: Types of infrastructure sharing



Source: GSMA, Indo Premier

Fig. 6: Cost savings from MOCN

Sources	Capex	Opex
BEREC	33-45%	30-33%
ITU		30-40%
McKinsey	40%	
PWC	30-40%	35-40%
Ericsson	20%	23%
Booz & Co		30-40%
Coleago	20-25%	20-25%
Analysys Mason	35-40%	
NEC Lab	25-40%	20-30%
AT Kearney		30-40%
Omnitele		34%

Source: Various sources, Indo Premier

Fig. 7: Cost savings from infrastructure sharing

Country	Companies involved	Year	Sharing	Notes
Sw eden	Telenor	2001	MOCN	NA
Sw eden	Telenor	2001	MOCN	NA
Sw eden	TeliaSonera	2002	MOCN	NA
Germany	T Mobile	2003	MORAN	NA
Australia	Optus	2004	MORAN	Reduce capex by 23% over 3 years and opex by A US\$10mn (US\$7.3mn) annually
Spain	Vodafone	2006	MORAN	NA
UK	T-Mobile	2007	MORAN	Cost savings of EUR2bn (US\$2.7bn) over 10 years
Canada	Bell Mobility	2008	MORAN	NA
Sw eden	Tele2	2009	MOCN	Save 10% of EBITDA
Czech Republic	O2	2011	MORAN	Cut 24% in netw ork costs
Poland	T-Mobile	2011	MORAN	Annual savings of PLN200mn (US\$71.5mn)
Denmark	TeliaSonera	2012	MOCN	Capex savings of 20% and opex savings of 10%
UK	Vodafone	2012	MORAN	NA
Greece	Vodafone	2013	MORAN	NA
Iceland	Vodafone	2013	MOCN	25% cut in investment cost
France	SFR	2014	MORAN	Annual joint cost savings of EUR300mn (US\$405mn)
Finland	TeliaSonera	2014	MOCN	NA
Russia	Vimplecom	2014	MORAN	Reduce the costs of construction and joint netw ork usage by 10-15%
UK	EE	2014	MORAN	NA
Russia	Vimplecom	2015	MOCN	NA
Hungary	Magyar Telekom	2015	MOCN	NA
Tanzania	Airtel, Tigo and Vodacom	2016	MORAN	NA
Singapore	M1	2017	MORAN	Optimise infrastructure and spectrum costs
Korea	SK Telecom, KT, LG Uplus and SK Broadband	2018	MORAN	Save an estimated KRW1tn (US\$938mn) over the next ten years
Romania	Vodafone	2019	MORAN	Cumulative opex and capex savings to Vodafone of at least EUR600mn (US\$685.2mn) over the next ten years.
Italy	TIM	2019	MORAN	NA
Myanmar	Bite	2019	MOCN	NA
Lithuania	Tele2	2019	MOCN	NA
Belgium	Orange	2020	MORAN	Cumulative opex and capex savings of EUR300mn (US\$342.6mn) over 10 years
China	China Telecom	2020	MOCN	Save CNY80bn (US\$11.6bn) in capex and CNY8bn (US\$1.2bn) in opex.
Singapore	M1	2021	MOCN	The combined savings in capex could be as high as 20-30% and opex savings of 25-30%
UK	EE, Vodafone, O2 and Three	2021	MORAN	NA

Source: Company, Indo Premier

Fig. 8: Types of infrastructure sharing governance model



Source: Company, Indo Premier

Fig. 9: Regional spectrum sharing cases

Year	Country	Companies	Scheme	Details
2009	Sweden	Telenor & Tele2	Asset-heavy JV (Net4Mobility)	<ul style="list-style-type: none"> - 50-50 joint venture between Telenor and Tele2 - Initial rationale for the JV is to build, own and operate a joint 4G network, which is extended to 5G - Certain spectrum bands from Telenor and Tele2 is pooled into the JV. In addition, PTS has awarded a band in the 5G NR auction
2011	Poland	T-mobile and Orange	Asset-light JV (NetWorkS)	<ul style="list-style-type: none"> - 50-50 joint venture between Orange and T-Mobile, in which initial shared sites amount to c.13k sites - The JV manages their tower portfolio however, the assets remain on the balance sheet of their parent companies. - Infrastructure sharing to cover 3G, extended to 4G networks, continued to 5G. Spectrum is also shared between the two - Estimated to reduce expenditure for the telcos by around 29% in the first three years, by lowering the capital needed for network development and decreasing operational costs. - Orange expects the agreement to make yearly savings of around PLN200 million (USD71.5 million) from 2015 onwards.
2012	Denmark	Telenor & Telia	Asset-heavy JV (TTN)	<ul style="list-style-type: none"> - 50-50 joint venture between Telenor & Telia, sharing of more than c.4.3k sites - To establish a common infrastructure involving sharing in the 2G, 3G and 4G networks. - The partnership is continued for 5G RAN as 3G will be phased out - In the new roll-out, the modernisation will focus initially on Denmark's four largest cities before expanding to cover most Danish customers during 2022.
2012	UK	Vodafone & O2	Asset-heavy JV (Cornerstone)	<ul style="list-style-type: none"> - 50-50 joint venture between Vodafone and O2, followed by a project named Beacon to share active equipment - Initial goal was to phase out legacy 2G and 3G systems to make way for 2G/3G/4G RANs. The partnership is continued to 5G as both operators share sites across UK - According to Ovum, the deal could lead to savings of over GBP100mn (USD129mn) annually. - Coming into 5G, each party has agreed to greater 5G autonomy for 2,700 sites in larger cities
2014	Finland	Telenor (DNA) & Telia	Asset-heavy JV (Finnish Shared Network)	<ul style="list-style-type: none"> - 49-51 joint venture owned by DNA and Telia in order to build and deploy a shared 4G LTE, continued to 5G - Joint build out of the network. The operational area of the shared network which today covers 50 percent of the area and 13.5% of the population will be expanded to cover 62.5% of the area and 28.5% of the population - The two operators have also combined the frequencies granted to them in the Finnish Shared Network's operating area to enable higher speeds and better service standards. - (For 5G: Telia 25.9-26.7 GHz and DNA 26.7-27.5 GHz)
2019	Belgium	Proximus & Orange	Asset-heavy JV (Mw ingz)	<ul style="list-style-type: none"> - 50-50 owned joint venture between Proximus and Orange - The rationale behind forming of the JV was to plan, build and operate the common network. - The partnership covers 2G, 3G and 4G networks while planning out a comprehensive 5G roll-out - Cumulative opex and capex savings of EUR300mn (USD342.6mn) over ten years.
2019	Latvia & Lithuania	Bite & Tele2	Asset-heavy JV (Centuria)	<ul style="list-style-type: none"> - 50-50 joint venture between Bite and Tele2 where both operators' network will be merged into a single joint shared network in each country. - Both operators have agreed to share active and passive network infrastructure for 2G, 3G, and 4G systems while planning to roll-out 5G - The overall network is scheduled to be phased in from 2021 onwards, with the works to be completed by 31 December 2023.
2019	Malaysia	Celcom & Maxis	Trial Phase	<ul style="list-style-type: none"> - Followed by signing of MoU to explore Malaysia's first active 5G infrastructure sharing - Will pursue more trials using a 5G standalone network
2020	China	China Unicom & China Telecom	Contract Agreement	<ul style="list-style-type: none"> - China Unicom will build 60% of 5G BTS in certain cities while China Telecom will build 40%. Ratios will be reversed for different cities - In the 5 Northern cities—Beijing, Tianjin, Zhengzhou, Qingdao and Shijiazhuang— China Unicom will be constructing 60% of the network. In the 10 Southern cities—Shanghai, Chongqing, Guangzhou, Shenzhen, Hangzhou, Nanjing, Suzhou, Changsha, Wuhan and Chengdu—China Telecom would be constructing 60%. - Will also share 5G resources including spectrum (3.5 GHz for 5G and 2.1 GHz for 4G networks) - Network roaming where competing operators agree to host one another's customers on their network in certain areas - The decision to jointly deploy 5G infrastructure across the country has helped save CNY80bn (USD11.6bn) in capex and CNY8bn (USD1.2bn) in opex.
2020	Singapore	M1 & Starhub	Asset-heavy JV (Antina)	<ul style="list-style-type: none"> - 50-50 joint venture between M1 & Starhub - Secured licenses to build nationwide 5G SA network in Singapore - Full joint network build-out on 5G while keeping separate corporate entities. - 5G network capacities from this 5G network will be equally shared between the two operators - Network sharing could reduce site requirements by 30-40%. For network sharing that encompasses new coverage, additional capacity and network modernisation, the combined savings in capex could be as high as 20-30%. - Opex savings of 25-30%

Source: Company, Indo Premier

Fig. 10: Caveats of 5G network sharing in other countries

Country	Details
China	No prior regulation on network sharing. First network sharing between China Unicom and China Telecom
France	<ul style="list-style-type: none"> - The four appointed operators who received the 5G spectrum in the auction have roaming and infrastructure sharing obligations - The operators must provide at least one full-MVNO offer, and allow MVNOs to benefit from active infrastructure sharing agreements with other operators, if they exist. - The operators must implement at the very least passive infrastructure sharing agreements, or active sharing infrastructure agreements if passive sharing is not sufficient to ensure adequate coverage of these areas. - Obligated to share these agreements with ARCEP.
India	<ul style="list-style-type: none"> - Mandated site and mast sharing (Delhi and Mumbai) - Spectrum sharing will be permitted after one year from the date the spectrum is assigned and in accordance with DoT guidelines. - Spectrum sharing is allowed only for access service providers holding CMTS, UASL or UL with authorisation of Access Service in a service area, where both licensees hold spectrum in the same band. - Spectrum sharing is permitted between two TSPs using spectrum in the same band, but not permitted when both licensees hold spectrum in different bands. Leasing of spectrum is not permitted. - For the purpose of charging spectrum usage charges (SUC), it will be assumed that the licensees are sharing their entire spectrum holding in that specific band across the entire service area. - A non-refundable processing fee, as prescribed from time to time, is payable individually by each licensee for each service area at the time of intimation of sharing to the DoT's Wireless Planning and Coordination Wing.
Italy	<ul style="list-style-type: none"> - To guarantee broad territorial 5G coverage, the tender rules ask licensees to cooperate. For instance, the 700MHz spectrum holders are jointly bound to reach 99.4% of the national population, within 54 months of receipt and on terms agreed among the assignees, else risk losing the licences. - The tender rules identify certain extra-urban areas in which each assignee must provide roaming services, frequency pooling, technical characteristics and locations to the others based on reciprocity principles, in order to guarantee a seamless service. These areas include crucial national networks for road, rail and maritime transport.
Korea	<ul style="list-style-type: none"> - The government has introduced various support measures, including tax credits for 5G investments and encouraging network sharing in suburban rural areas, to facilitate the fast rollout of the 5G network with nationwide network deployment by 2022. - MSIT launched the Rural 5G Roaming Task Force Team to review network sharing options in rural and sparsely populated areas.
Singapore	- Spectrum sharing for the purpose of operating a station and/or network may be allowed with the prior written approval of IMDA and subject to such conditions as IMDA may impose and the obtaining of the applicable station (spectrum) licence or network (spectrum) licence.
Spain	- Under the General Telecommunications Law (Draft GTL 2020), MAETD is granted the power to impose operators the obligation to share the use of active and passive infrastructure (only when justified and when the possibility has been expressly allowed in the spectrum use authorisation).
Switzerland	- Spectrum sharing between mobile telecom providers is specifically regulated in Art. 11 TCA (interconnection right to use another TSP's network at reasonable prices). This article is, however, only invoked if the parties cannot find a private agreement at reasonable terms within three months .
United States	- The FCC generally requires wireless carriers to provide roaming service to competing facilities-based carriers that operate compatible services

Source: CMS Law, Indo Premier

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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