INDOPREMIER

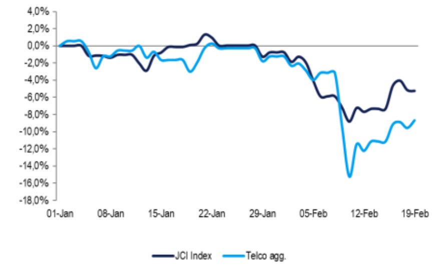
Telecommunications

NEUTRAL

Sector Initiation | 21 February 2025

Sector Index Performance

	3M	6M	12M
Absolute	-7.4%	-17.3%	-24.2%
Relative to JCI	-2.5%	-7.2%	-16.6%



Summary Valuation Metrics

Adjusted EV/EBITDA (x)	2024F	2025F	2026F
ISAT IJ	3.7	3.4	3.2
TLKM IJ	4.3	4.2	4.1
EXCL IJ	3.4	3.1	2.7

P/E (x)	2024F	2025F	2026F
ISAT IJ	9.4	8.1	7.3
TLKM IJ	11.3	11.2	10.5
EXCL IJ	15.8	14.1	12.4

P/B (x)	2024F	2025F	2026F
ISAT IJ	1.4	1.3	1.2
TLKM IJ	1.6	1.5	1.5
EXCL IJ	1.1	1.0	1.0

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Price competition risk could persist

- We expect mobile price competition likely to persist during the telco consolidation period, could be until mid FY27F.
- We expect sector's ARPU may grow by 3.0% CAGR in FY24-27F mainly supported by growing data usage while data yield is still declining.
- We reinitiate telco sector with Neutral call with ISAT as our top pick, primarily due to expectation of growth outperformance.

Mobile price competition could persist

Indonesia's telco sector is on the path to becoming a three-player industry, which we view as a long-term positive. However, we believe that during the consolidation period, or until the potential XLSmart (between XL Axiata and Smartfren) networks are fully integrated likely by mid-FY27, price competition is likely to persist. Our reasons are as following: 1) Indonesia's mobile cellular market is still predominantly prepaid, suggesting a less sticky customer base; 2) the merger of IOH (Indosat Ooredoo Hutchison) and potentially XLSmart will lead to gains in network capacity, quality, and service performance for both players; 3) the mergers will allow IOH and potentially XLSmart to expand outside Java, challenging Telkomsel as the dominant player in these regions; 4) both IOH and XLSmart prices remain discounted compared to TSEL while at the same time offering improvement in performance and quality.

Growing mobile ARPU while expecting data yield to still decline

In FY24-27F, we estimate the sector's aggregate ARPU could still grow at a 3.0% CAGR, though lower than the 5.3% CAGR in FY20-23. We expect ARPU growth to be supported by increasing data consumption, with an average incremental consumption of ~1 GB per user p.a., while data yield is expected to decline by a 1.9% CAGR, primarily due to persistent price competition and the likelihood of a challenging purchasing power outlook.

Moderate sector growth outlook with steady fundamental improvement

We estimate the sector's aggregate EBITDA/core NP could grow by 4.5%/6.7% CAGR in FY24-27F, respectively. We expect ISAT to achieve the highest growth in the sector, with EBITDA/core NP of 6.3%/16.9% CAGR (with potential upside risk from higher growth in the B2B segment), followed by EXCL with 3.6%16.8% CAGR (with potential upside risk to EBITDA and downside risk to core NP from the XLSmart merger), and TLKM with 4.3%/4% CAGR (with potential upside or downside risks from the mobile segment), respectively. We estimate the sector's FY25-27F balance sheet profiles to show steady improvements while the sector's capex-to-revenue ratio to gradually improve. We expect TLKM and EXCL to have stable FCFF trend outlook, while the FCFF outlook for ISAT could turn positive by FY25F.

We reinitiate with Neutral call for the sector amid competition; our top pick is ISAT

Despite the sector's discounted valuation compared to its historical mean and regional peers, we believe the risk of persistent price competition could challenge the sector's valuation from reverting to the mean. Hence, we re-initiate coverage of the sector with a Neutral rating by assigning 4x to 4.5x adjusted EV/EBITDA FY25F multiple to arrive at our target prices for companies under our coverage, which ranging at 0.5 to 1.5 s.d below LT mean. ISAT is our top pick due to its clearer growth outlook. Key potential risks include regulatory changes, more intense or prolonged price competition in the mobile segment than expected, and macroeconomic changes that could affect purchasing power and data consumption.

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Investment thesis

We view the on-going consolidation will benefit the sector's long-term outlook by fostering balanced competition, sustainable pricing, improved capital efficiency, and robust infrastructure investment. It enhances economies of scale, reduces operational redundancies, and strengthens financial stability, improving service quality, innovation, and long-term market resilience.

Before realizing the long-term benefits of a three-player market, we believe mobile price competition could persist for the next few years, potentially until XLSmart's network integration is fully implemented. This is because Indonesia's mobile cellular subscribers are predominantly prepaid, suggesting a less sticky customer profile.

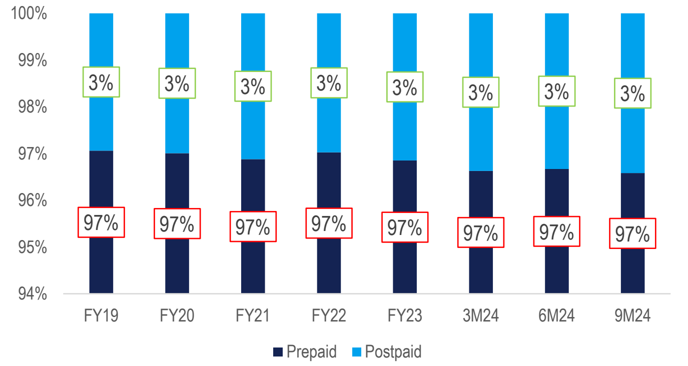
Meanwhile, post-merger, IOH and potentially XLSmart (assuming smooth and timely merger execution and network integration) gain in network capacity and quality, and service performance will be able to catch up with Telkomsel (TSEL). On the other hand, pricing for both IOH and XLSmart are remaining at a discount compared to TSEL. Additionally, given the bigger capacity from mergers, we believe IOH and potentially XLSmart will aim for more network expansions, especially outside Java, where TSEL currently holds the biggest market share. We believe this will put TSEL in a defensive mode, leading persistent price competition in the market.

On top of the price competition overhang due to consolidation impacts, we view that purchasing power may remain weak at least throughout FY25F, limiting operators' ability to aggressively raise prices. Another potential risk is if the fixed broadband market also faces price competition, driven by new pricing, offerings, and technologies. Due to the aforementioned reasons, we reinitiate coverage of the telco sector with a Neutral call. Other key risks include regulatory and macroeconomic changes.

Mobile: price competition likely to persist

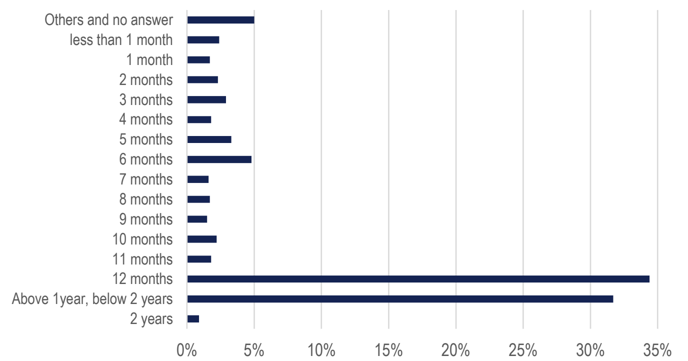
Indonesia's mobile cellular subscribers are still predominantly prepaid accounting for 97% as of 9M24 (Fig. 1). This results in a less sticky customer profile, as users are more likely to switch providers for better quality and pricing. According to the Association of Internet Service Providers (APJII) survey in 2020, over 65% of mobile subscribers in Indonesia stayed with one provider for 12 months or less (Fig. 2).

Fig. 1: Indonesia's mobile cellular subscribers are still predominantly prepaid



Source: Company report, Indo Premier

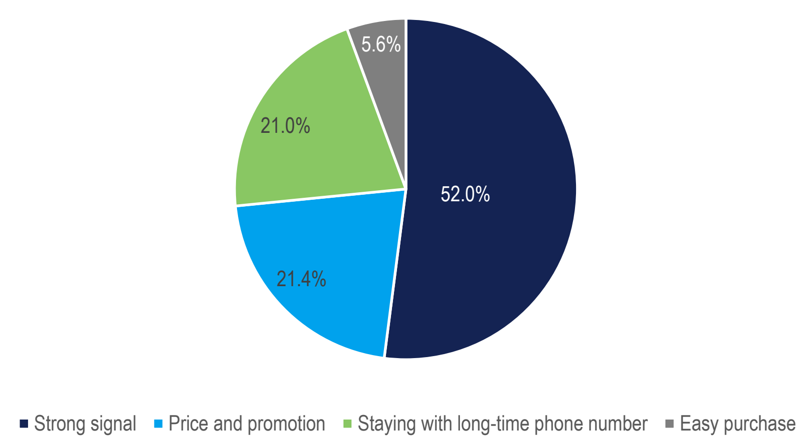
Fig. 2: APJII's 2020 survey results on customers' loyalty period to one provider



Source: APJII, Indo Premier
**Survey respondents: 7,000 people across 34 provinces in Indonesia, conducted from 2 to 25 June 2020*

Interestingly, the APJII 2024 survey shows that about half of respondents select providers based on signal strength, followed by nearly a quarter who prioritize price and promotions. Meanwhile, only a quarter of respondents retaining their long-time phone number.

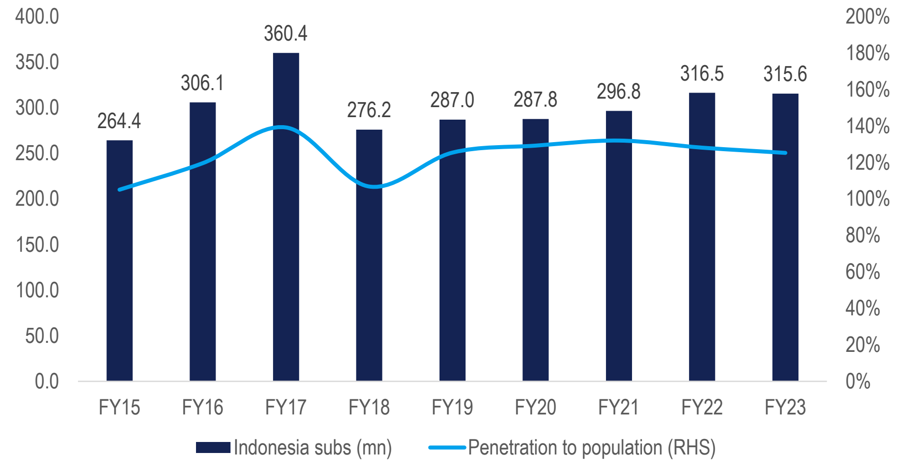
Fig. 3: APJII's 2024 survey results on consideration for provider choice



Source: APJII, Indo Premier
**Survey respondents: 8,720 people across 38 provinces in Indonesia, conducted from Dec23 to Jan24*

Indonesia's mobile subscriber base is predominantly prepaid, and the market is saturated, with a penetration rate of over 120% of the total population. This leaves limited room for subscriber growth. We believe that expansions, along with quality and performance improvements by IOH and potentially XLSmart, will lead Telkomsel to continue strategically defending its market share.

Fig. 4: Indonesia's mobile market is saturated, leaving limited room for subscriber growth

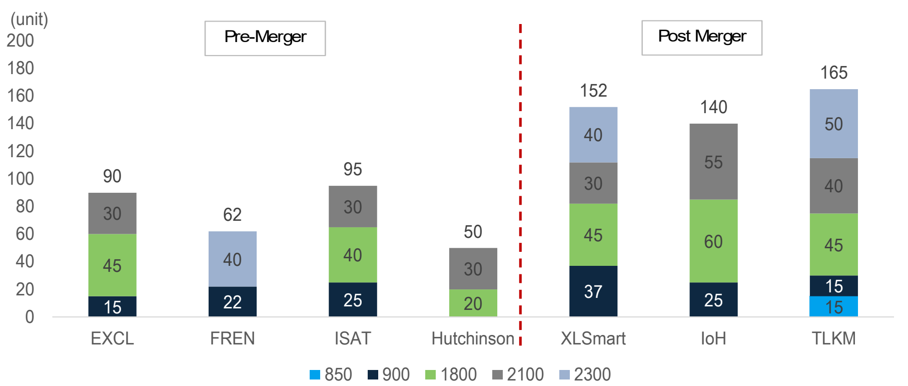


Source: Company report, BPS, Indo Premier

Gains in network capacity, quality, and service performance

Post-merger, IOH's total spectrum bandwidth reached 140MHz. Meanwhile, after the merger realization, XLSmart's spectrum bandwidth could potentially reach 152MHz, assuming no spectrum is returned to the government. If a return occurs, similar to IOH's 5MHz return, XLSmart's total spectrum bandwidth would be 152MHz. This is comparable to TSEL's current total spectrum bandwidth of 165MHz.

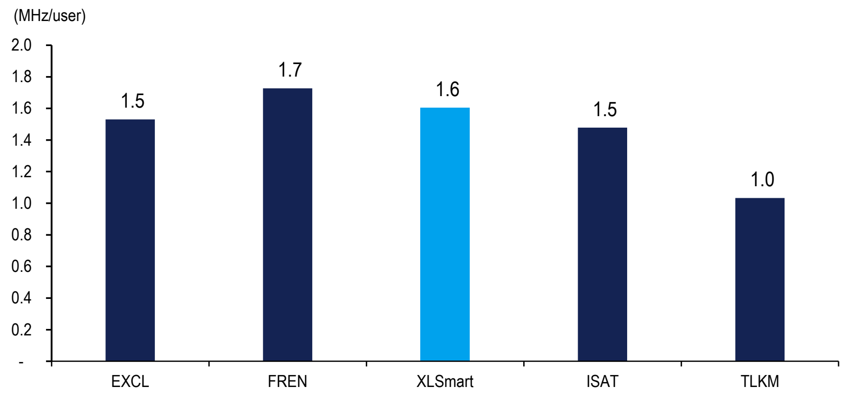
Fig. 5: Telco operators will have a more balanced spectrum portfolio landscape after full consolidation



Source: Company reports, Indo Premier

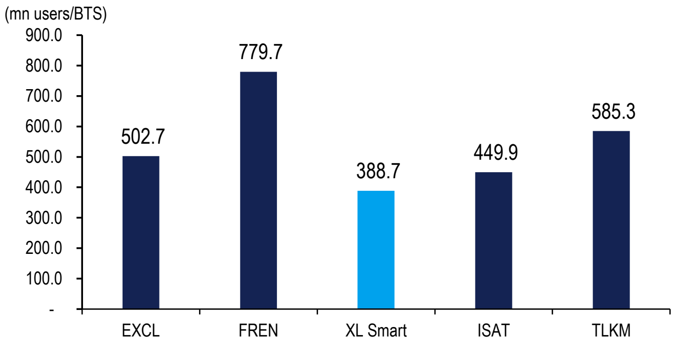
Though IOH and potentially XLSmart have lower total bandwidth capacity than TSEL, both players have fewer subscribers. This allows for greater available capacity for expansion while enhancing network quality and service performance.

Fig. 6: Comparison of spectrum bandwidth per user (higher value means more capacity per user and generally better service quality)



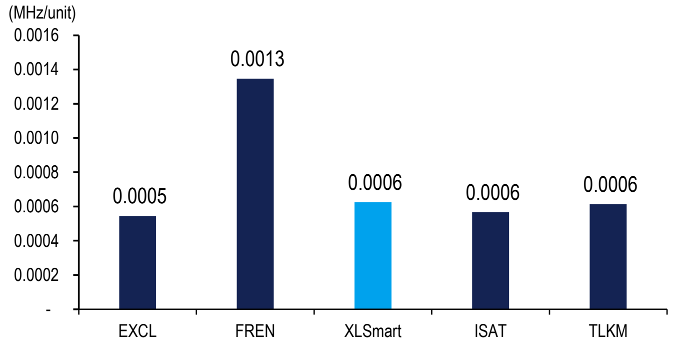
Source: Company, Indo Premier
Note: XL Smart assumption in FY27F, post-merger and expansion, based on our assumption

Fig. 7: Comparison of subscribers per BTS (higher value suggests higher load per BTS)



Source: Company, Indo Premier
Note: XLSmart assumption in FY27F, post-merger and expansion, based on our assumption

Fig. 8: Comparison of spectrum bandwidth per BTS (higher value indicates BTS congestion)



Source: Company, Indo Premier
Note: XL Smart assumption in FY27F, post-merger and expansion, based on our assumption

A more complete spectrum portfolio enhances network quality and service performance for both IOH and potentially XLSmart post-merger. Before merging, Hutchison 3 Indonesia (H3I) lacked access to the 900 MHz spectrum, which provides wider coverage and stronger indoor penetration, leading to weaker indoor performance. Post-merger, our checks indicate that H3I's indoor network performance has improved. Meanwhile, Indosat's acquisition of additional mid-band spectrum from H3I has enhanced speed and capacity.

A similar outcome could occur with XLSmart's network integration. FREN currently lacks mid-band spectrum with higher capacity, while XL's acquisition of FREN's spectrum will improve indoor penetration, capacity, and speed.

Fig. 9: Comparison of spectrum band coverage, capacity, and use case

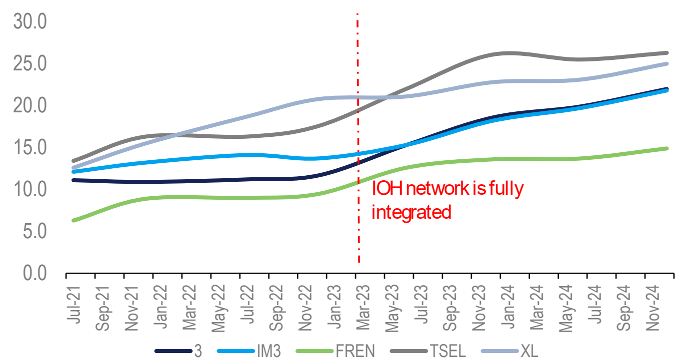
Frequency band	Range (coverage)	Capacity (speed/data)	Typical speed (Mbps)	Use case
850 MHz	Excellent range, strong indoor penetration	Lower capacity, slower speed compared to higher bands	~5-50 Mbps	Used for 2G/3G, CDMA, and LTE in rural areas; voice services in urban areas
900 MHz	Long-range, excellent indoor penetration	Lower capacity, slower speeds	~5-75 Mbps	Ideal for rural areas and basic connectivity (e.g., 2G/3G and some LTE
1800 MHz	Moderate range and penetration	Higher capacity than 900 MHz	~50-150 Mbps	Widely used for 4G LTE in urban and suburban areas; balances range and capacity
2100 MHz	Shorter range, weaker indoor penetration	Higher capacity than 1800 MHz	~100-200 Mbps	Common for 3G and 4G LTE in urban areas; focused on providing high-speed data services
2300 MHz	Shortest range, poor indoor penetration	Highest capacity of these bands	~150-300 Mbps	Primarily for high-speed 4G LTE or 5G in dense urban environments with high data demand

Source: Indo Premier

Our tracker of OpenSignal surveys for national mobile network experience shows significant improvements in IOH network performance, particularly for IM3 and 3, since their network integration. Both IM3 and 3 have seen substantial gains in download and upload speeds. Download speeds for IM3 and 3 increased to 22 Mbps and 21.8 Mbps in December 2024, up from 15.3 Mbps each in mid-2023, shortly after the networks were fully integrated. These speeds now approach XL/TSEL's speeds of 25/26.3 Mbps in December 2024. Notably, the upload speeds of IM3 and 3 exceeded those of TSEL and XL in the Dec24 survey.

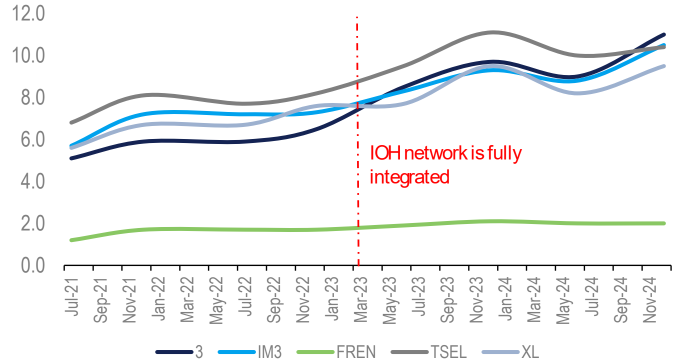
Our tracker also shows that overall experiences, including video, voice, and gaming, have significantly improved for IM3 and 3, even surpassing their peers in Dec24, according to the surveys.

Fig. 10: Survey results of download speed experience (in Mbps) – national



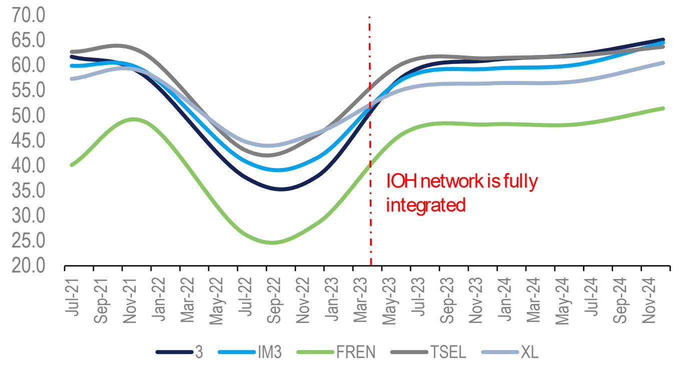
Source: Open Signal, Indo Premier

Fig. 11: Survey results of upload speed experience (in Mbps) – national



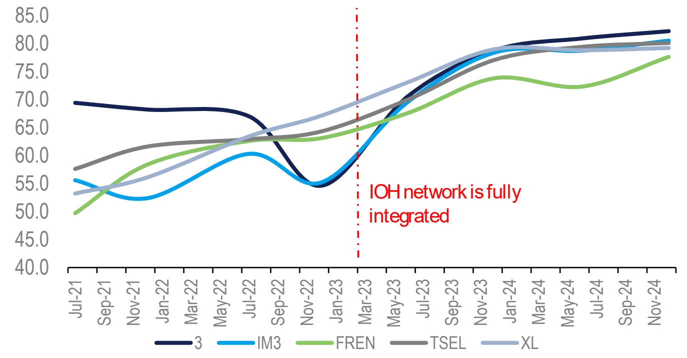
Source: Open Signal, Indo Premier

Fig. 12: Survey results of video experience (in pts: 0-100) – national



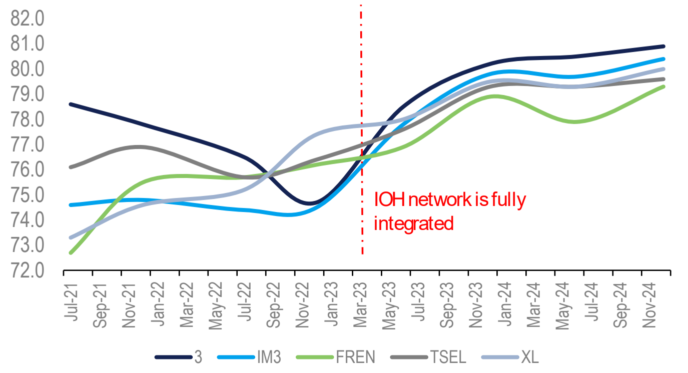
Source: Open Signal, Indo Premier

Fig. 13: Survey results of games experience (in pts: 0-100) – national



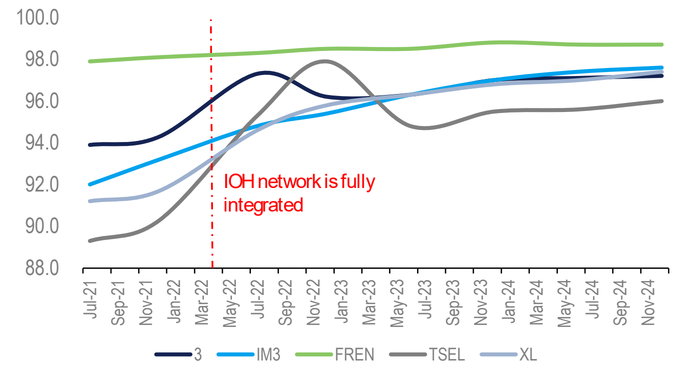
Source: Open Signal, Indo Premier

Fig. 14: Survey results of voice experience (in pts: 0-100) – national



Source: Open Signal, Indo Premier

Fig. 15: Survey results of network availability (as % time) – national

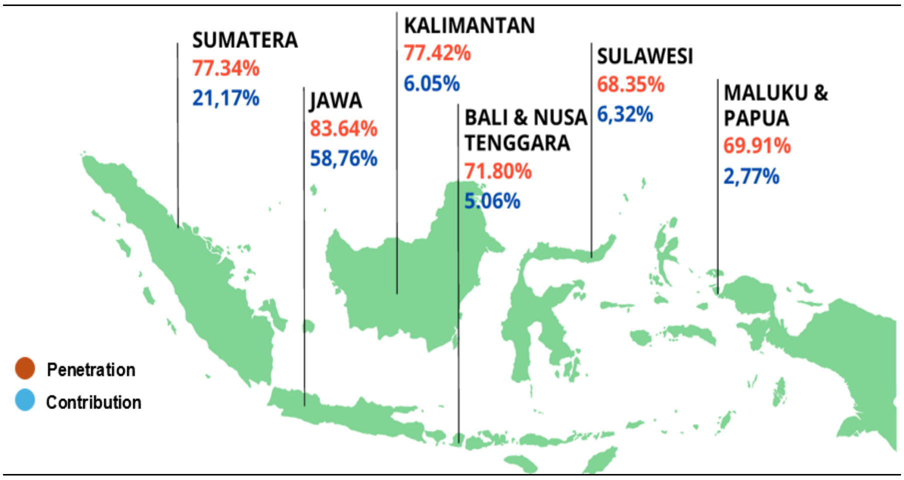


Source: Open Signal, Indo Premier

Further network expansion to outside Java areas

Based on APJII's 2024 survey, internet penetration outside Java remained below 80%, compared to 83.64% in Java. This presents opportunities for further network expansion outside Java.

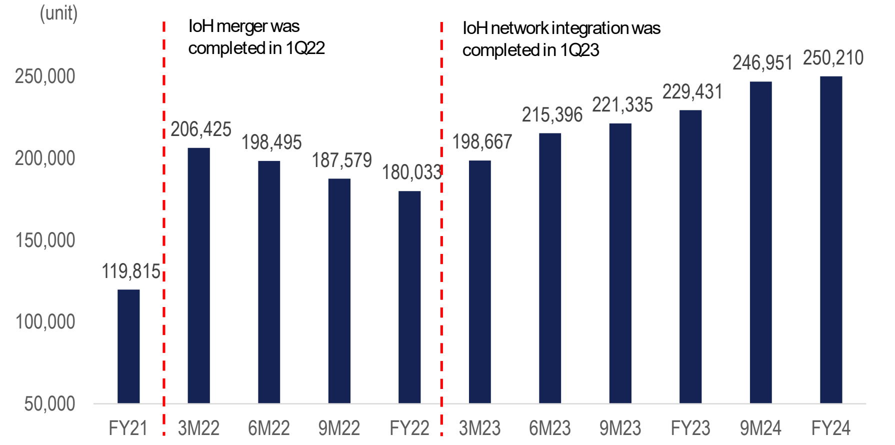
Fig. 16: APJII survey in 2024: Indonesia's internet penetration and contribution, based on areas



Source: APJII, Indo Premier
**Survey respondents: 8,720 people across 38 provinces in Indonesia, conducted from Dec23 to Jan24*

Following the full integration of Indosat Ooredoo Hutchison (IOH) networks in March 2023, the company successfully expanded network capacity and coverage. It added 51.6k BTS units from 3M23 to FY24. Additionally, it extended coverage to up to 10 new cities in Indonesia, mainly outside Java, based on our checks. Going forward, IOH plans to continue expanding its network, focusing on cities where it already has a presence, particularly the newly added ones.

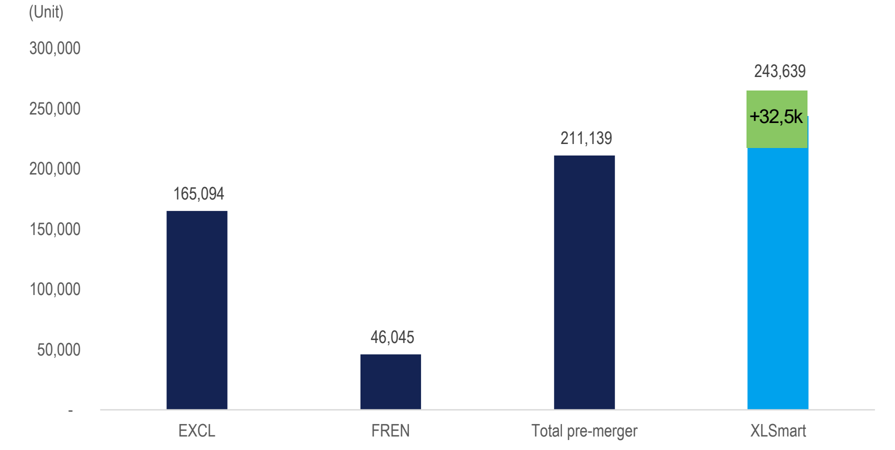
Fig. 17: IOH has significantly expanded since completing the network integration



Source: Company report, Indo Premier

Given the opportunities outside Java post-merger, we believe XLSmart will also pursue network expansion in these areas. Based on our sensitivity analysis, assuming XLSmart spends a higher Rp7tr in capex per annum during the second and third years after the merger, its BTS count could reach 243.6k by FY27F, catching up to IOH (250k BTS as of 9M24) and TSEL (269k BTS as of 9M24).

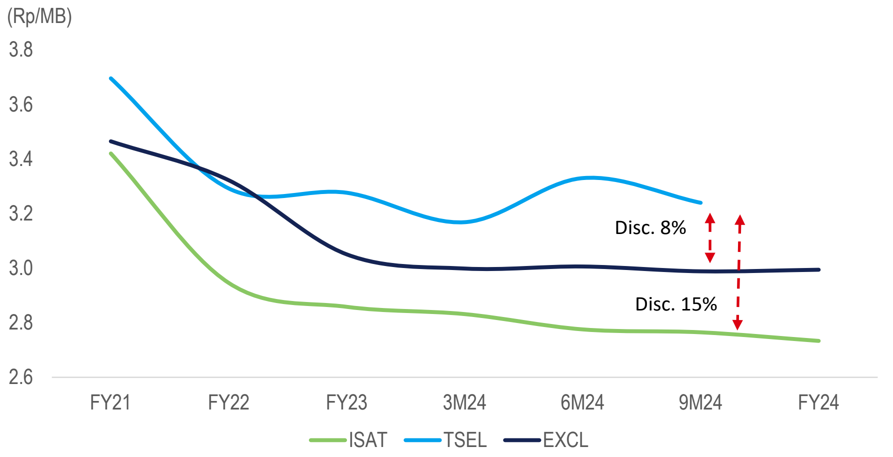
Fig. 18: XLSmart potential BTS outlook, post-merger, based on our estimates



Source: Company report, Indo Premier
Note: XLSmart assumption in FY27F, post-merger and expansion, based on our assumption

IOH and XL pricing remains lower compared to TSEL
In FY24, the average data yield of EXCL (blended between XL and Axis) and IOH was Rp3 and Rp2.7 per MB, respectively, representing a 8% and 15% discount compared to TSEL's average data yield of Rp3.2 per MB in 9M24. Using ARPU, given the lack of available data to calculate FREN's data yield, the blended ARPU of XLSmart in FY24 could be c.Rp36k, reflecting a c.20% discount to TSEL's ARPU of Rp44.5k while being on par with IOH's ARPU.

Fig. 19: Data yield price trend (discount to TSEL)



Source: Indo Premier

Purchasing power outlook could remain challenged
Our economists estimate Indonesia's GDP growth could accelerate to ~5.2% yoy in FY25F from 5% yoy in FY24F, driven by higher investment (gross fixed capital formation) at 4.7% yoy in FY25F vs. 4.1% yoy expected in FY24F. Meanwhile, household consumption growth is projected to stay flat at ~5% yoy, similar to FY24F. This is mainly due to sluggish household purchasing power, impacted by the rising number of informal workers, reaching ~80mn vs. 71mn pre-pandemic. As a result, real wage growth has slowed to ~1.7% p.a. since Covid, compared to 1.9% p.a. pre-pandemic.

Weaker purchasing power is likely to persist in the lower-to-middle class segment, as reflected in the widening savings gap with the high-income group. Additionally, the government's plan to reallocate gasoline subsidies toward more productive spending could further pressure household purchasing power (link to report).

Mobile: growing ARPU while expecting data yield could still decline

Expecting data consumption to continue growing

From 2020 to 9M24, Indonesia's monthly data usage has more than doubled to 12GB, based on data from the three largest MNOs. However, this remains below the 2023 ASEAN average of 13GB and India's 21GB as of 9M24. We see further opportunities for Indonesia's data usage to grow.

According to a GSMA report, ASEAN data usage could rise 4.5x to 59GB by 2030F from 13GB in 2023, driven by enhanced device capabilities, network improvements, and increasing data-intensive content. Additionally, 5G adoption is expected to accelerate data consumption, as seen in India, where 5G users have consumed 3.6x more mobile data than 4G users since 2022.

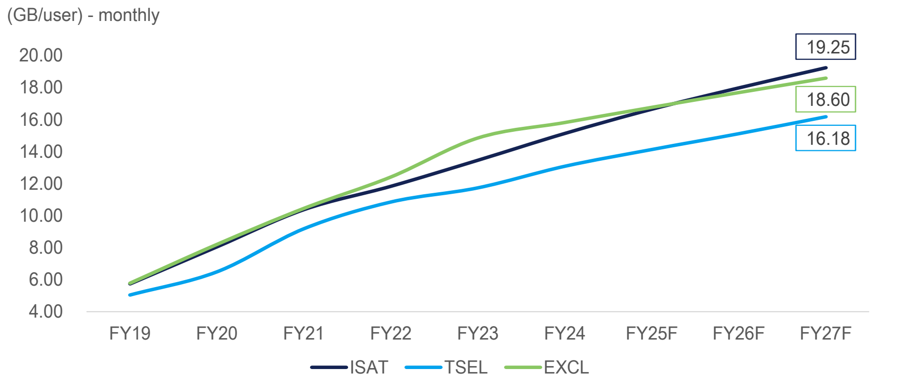
Fig. 20: GSMA expects ASEAN mobile data traffic per connection could increase 4x by 2030F

Region	Countries	2023	2030	Increase (x)
Japan and South Korea		18	87	4.83
Southeast Asia	Indonesia, Malaysia, Myanmar, Singapore, Thailand, and Vietnam	13	59	4.54
India		17	69	4.06
Oceana		13	50	3.85
Global		13	48	3.69
Rest of South Asia		4	12	3.00

Source: GSMA, Indo Premier

Assuming no growth in the mobile subscriptions, we assume Indonesia's monthly data consumption per user will grow at 7.5% CAGR in FY24-27F. This implies an annual average data usage increase of c.1GB per user, or 68% compared to the average annual incremental data consumption in 2018-23. Based on our projections, Indonesia's average data consumption per user could reach 19GB by FY27F, a target we believe is achievable. Potential upside risks to our assumptions include a faster-than-expected 5G rollout, which could further accelerate data consumption growth. Meanwhile, potential downside risks could be weaker-than-expected purchasing power.

Fig. 21: We estimate average data consumption per user could increase by 1GB p.a. in FY25-27F



Source: Indo Premier, Company reports

Expecting continuous decline in data yield

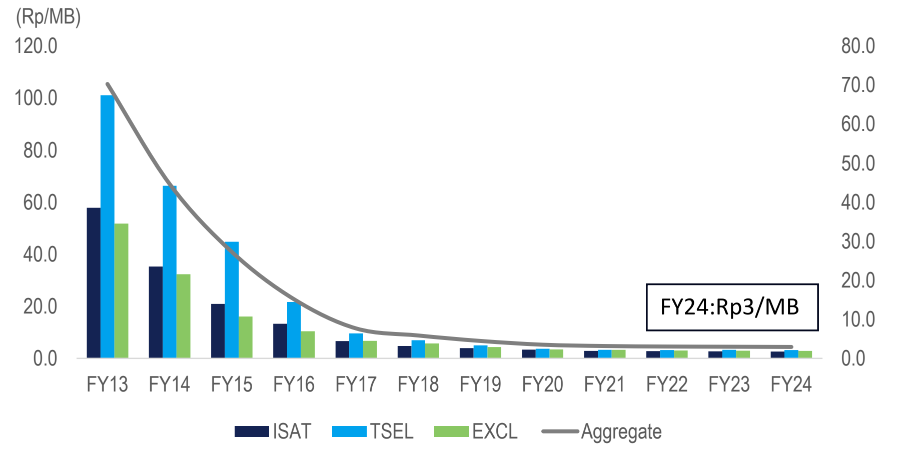
Mobile data yields for the three largest MNOs have been on a declining trend since FY13. We expect this trend to continue to at least until FY27F, or until XLSmart's network integration is fully completed and its impact materializes. This is driven by ongoing price competition during the consolidation period and continued pressure on consumer purchasing power, at least through FY25F. While MNOs have indicated plans to raise data prices, we believe any increase will be limited, with average full-year data yields still expected to decline.

Takeaways from EXCL and ISAT's FY24 earnings calls suggest that price competition remained intense in 4Q24, particularly in the acquisition (starter pack) market. For FY25F, EXCL's management acknowledged uncertainty around price increases but is exploring opportunities—whether across the board, locally, or on a package-by-package basis.

Meanwhile, ISAT's management remains more optimistic about industry growth in FY25F, expecting 4%-5% yoy vs. 2%-3% in FY24. However, they also showed limited conviction in a broad-based price increase, instead looking for selective opportunities. For example, in Jan24, ISAT shortened its monthly package duration from 30 days to 28 days as part of its pricing strategy.

In Feb25, TLKM held a group call in response to the recent significant decline in its share price, driven by concerns over By.U's cheap starter pack entering the traditional market in 2H24. We conclude the management's message was mixed—balancing hopes for market repair with efforts to defend market share. TLKM's management anticipates market repair in FY25F and expects ARPU to improve, at least in line with inflation, following a -7% decline in 9M24. Meanwhile, at the same time, we believe the company will continue defending its market share, particularly in customer acquisition, through Telkomsel Lite and By.U.

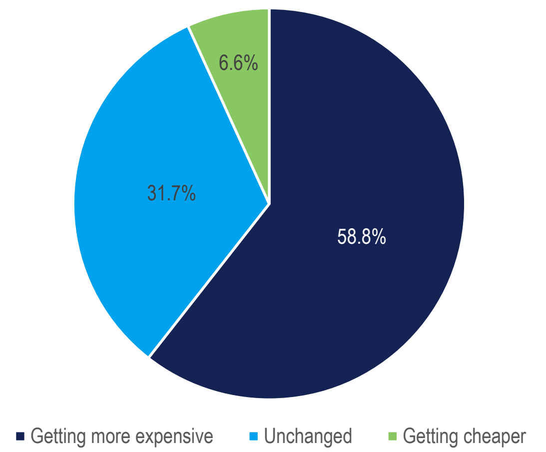
Fig. 22: Indonesia's MNO data yield has been declining



Source: Company report, Indo Premier

Interestingly, APJII's 2024 survey shows that over half of mobile internet users perceive mobile data prices as becoming more expensive, while fewer than 7% believe they have become cheaper. This contrasts with the fact that data prices have steadily declined in recent years. Hence, we believe any price increases should be implemented cautiously.

Fig. 23: APJII's 2024 survey results on perception for mobile data price

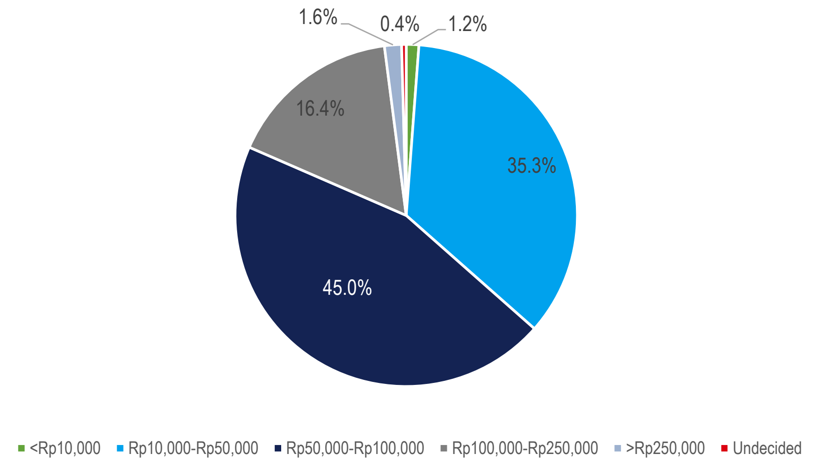


Source: APJII, Indo Premier
**Survey respondents: 8,720 people across 38 provinces in Indonesia, conducted from Dec23 to Jan24*

Room for growing ARPU; ISAT may lead the way as it currently has the lowest ARPU among operators

The blended average mobile ARPU for the three MNOs in 9M24 was Rp41.7k/month. Telkomsel recorded the highest blended ARPU at Rp44.5k/month, followed by XL Axiata at Rp43k/month and IOH at Rp37.7k/month. Meanwhile, APJII's 2024 survey shows that the largest share of mobile internet users (42.95%) are willing to spend Rp50k–Rp100k monthly, followed by 42.2% in the Rp10k–Rp50k range. Notably, this spending range is above the sector's current aggregate ARPU.

Fig. 24: APJII's 2024 survey on monthly spending for mobile data in Indonesia



Source: APJII, Indo Premier
**Survey respondents: 8,720 people across 38 provinces in Indonesia, conducted from Dec23 to Jan24*

The aggregate blended monthly mobile ARPU of the three largest MNOs has grown by 5.3% CAGR in FY20-23, driven by increasing data usage despite declining data yields. In FY24, ISAT and EXCL saw blended ARPU growth of 6.7% and 4.8% yoy, respectively. However, in 9M24, TSEL's blended ARPU declined by -6.9% yoy, mainly due to the launch of the more affordable Telkomsel Lite starter pack in Feb24. The Telkomsel Lite starter pack includes a data package with an implied data price starting from Rp1.5k/GB, offering a c.60% discount compared to regular Telkomsel pricing.

We expect the sector's aggregate blended monthly mobile ARPU to continue growing by c.3.0% yoy p.a. in FY25-27F, with ISAT's ARPU growing by 4.4-5.2% yoy p.a., EXCL's ARPU increasing by c.2.6-3.2% yoy p.a., and TSEL's ARPU rising by 0.4-2.5% yoy p.a.

Path to a three-player MNO industry

Since the early 2000s, Indonesia's mobile network operator (MNO) sector has undergone several consolidation waves, evolving from a highly fragmented industry to what is expected to be a three-player market by 1H25F. The CDMA players fully exited the market by 2017, leaving only GSM and 4G LTE providers. Major mergers in recent years include XL and Axis in 2014, Indosat and H3I in 2022, and the potential merger of XL and Smartfren, expected to be completed by 1H25F.

In the early 2000s, Indonesia's MNO sector was highly fragmented, with eight independent players. During this period, AMPS technology became outdated, leading to the acquisition of three players — Komselindo, Metrosel, and Telesera — which were rebranded as Mobile-8 (now Smartfren, owned by the Sinarmas Group). The remaining technologies in the market were GSM and CDMA. GSM dominated urban areas, while CDMA gained popularity for providing affordable voice services.

The GSM operators were:

- Telkomsel (owned by TLKM and SingTel, the market leader),
- Indosat (initially a state-owned enterprise, later privatized, and the second-largest operator),
- Excelcomindo (now XL Axiata, previously owned by the Rajawali Group, later acquired by Axiata),
- Natrindo Telepon Seluler (owned by Lippo Group, later became Axis, a smaller GSM operator).

The CDMA operators were:

- Bakrie Telecom (owned by Bakrie Group, with the Esia brand, a major CDMA operator in Java),
- Mobile-8 (another key CDMA player),
- TelkomFlexi (owned by Telkom Indonesia),
- Sampoerna Telekomunikasi Indonesia (Ceria, owned by Sampoerna Group, a niche CDMA450 provider for rural areas).

The first wave of consolidation took place between 2007 and 2010, reducing the industry to six players. In 2007, Telkom Indonesia (TLKM) gained full control of Telkomsel by acquiring SingTel's stake, reinforcing its dominance. During this period, H3I entered Indonesia as a 3G operator. In 2008, H3I introduced an aggressive pricing strategy that significantly lowered the cost of mobile data, positioning itself as a data-first operator. This move revolutionized the telecom market, making data services more accessible and driving the adoption of mobile internet in Indonesia.

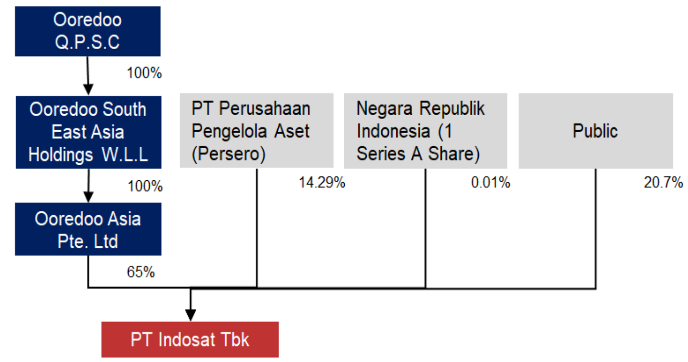
In 2008, Smart (owned by the Sinarmas Group) and Mobile-8 merged to form Smartfren, strengthening their position as a CDMA operator. Meanwhile, in 2009, Ceria rebranded as Net1 Indonesia and continued as a CDMA operator but faced challenges in the market.

The second wave of consolidation happened between 2013 and 2015, leaving the industry with five players. In 2014, XL Axiata officially acquired Axis, reducing the number of GSM operators and strengthening its position in the GSM market. During this time, CDMA technology declined, leading to the shutdown of Bakrie Telecom and the gradual exit of other CDMA players. In 2015, TelkomFlexi shut down, while Smartfren commenced its migration from CDMA to 4G LTE. By 2017, Smartfren became a full 4G LTE player.

Between 2017 and today, the third wave of consolidation began, leaving the industry with three players. In 2017, Net1 Indonesia switched from CDMA450 to LTE450 but later shut down in 2021 after losing its spectrum license. This marked the end of Sampoerna Group's presence in the industry. By 2022, Indosat and H3I completed their merger, becoming the second-largest player in the industry. In Dec 2024, XL Axiata and Smartfren announced their merger plans, expected to be realized by 1H25F, further consolidating the market.

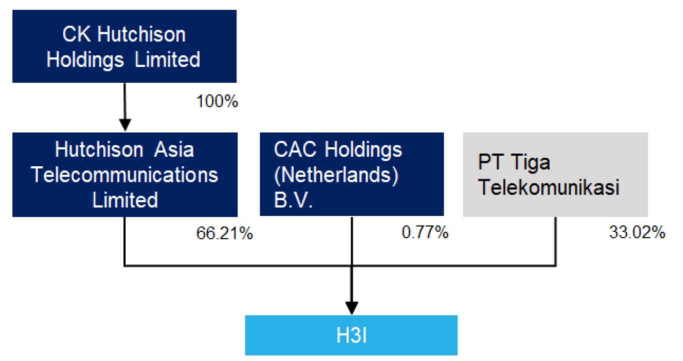
The Indosat Ooredoo Hutchison (IOH) merger materialized in 1Q22, or 6 months since the Ooredoo Group and CK Hutchison announced a conditional merger agreement between Indosat and H3I in Sep21. Based on the company's calculation, the anticipated pre-synergy enterprise value was projected to be US$6bn. By Mar 2023, IOH successfully completed full network integration using Multi-Operator Core Network (MOCN) technology across over 46,000 sites in Indonesia. This achievement, realized 12 months ahead of schedule or initially expected to be within nine quarters since the legal formation, was accomplished in collaboration with Ericsson, Nokia, and Huawei.

Fig. 25: ISAT shareholding structure before the merger



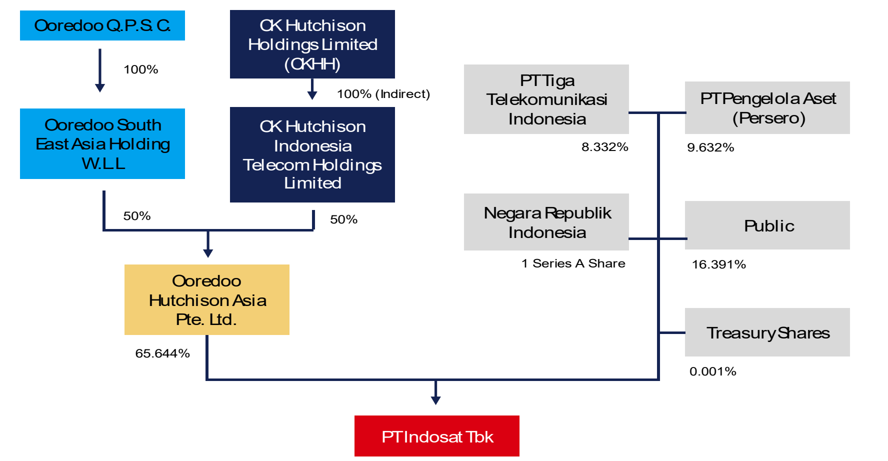
Source: Company report, Indo Premier

Fig. 26: H3I shareholding structure before the merger



Source: Company report, Indo Premier

Fig. 27: IOH shareholding structure as of 2022



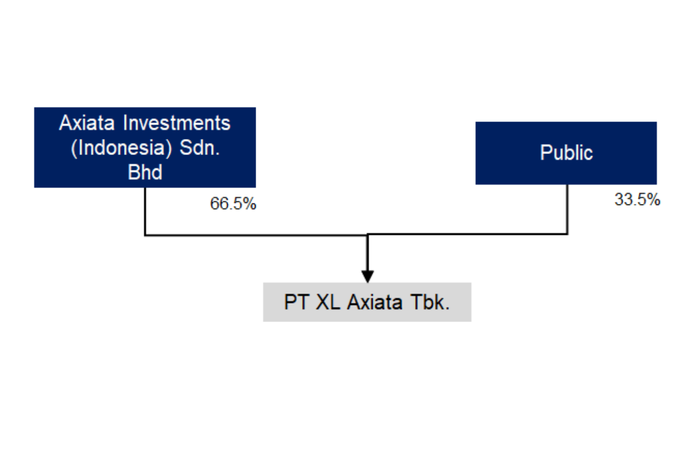
Source: Company report, Indo Premier

XL Axiata, Smartfren Telecom, and Smart Telcom announced a definitive agreement to merger in Dec 24, creating an entity named XLSmart. The merger has a potential pre-synergy value of US$6.5bn (Rp104tr), based on the company's projection.

XL Axiata will be the surviving entity, with Axiata and Sinarmas groups each eventually will hold 34.8% shares, jointly controlling the company. Sinarmaas will receive 21.7% stake in XLSmart and will acquire an additional 13.1% stake in XLSmart from Axiata at a cash consideration of US$475mn. The payment will be in two phases, including US$400mn at completion of proposed merger and US$75mn on the first anniversary of the proposed merger subject to satisfaction of certain conditions.

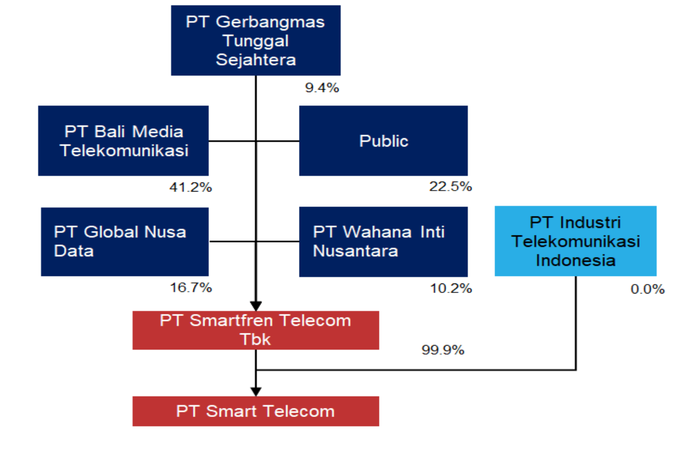
The merger is anticipated to be completed within 4.5-5 months from the definitive announcement, by Apr25 or May25. Currently, both companies are progressing with the approval process with OJK, which will be followed by approvals from Bursa Malaysia and EGMS from Axiata, XL Axiata, and Smartfren.

Fig. 28: EXCL shareholding structure before the merger



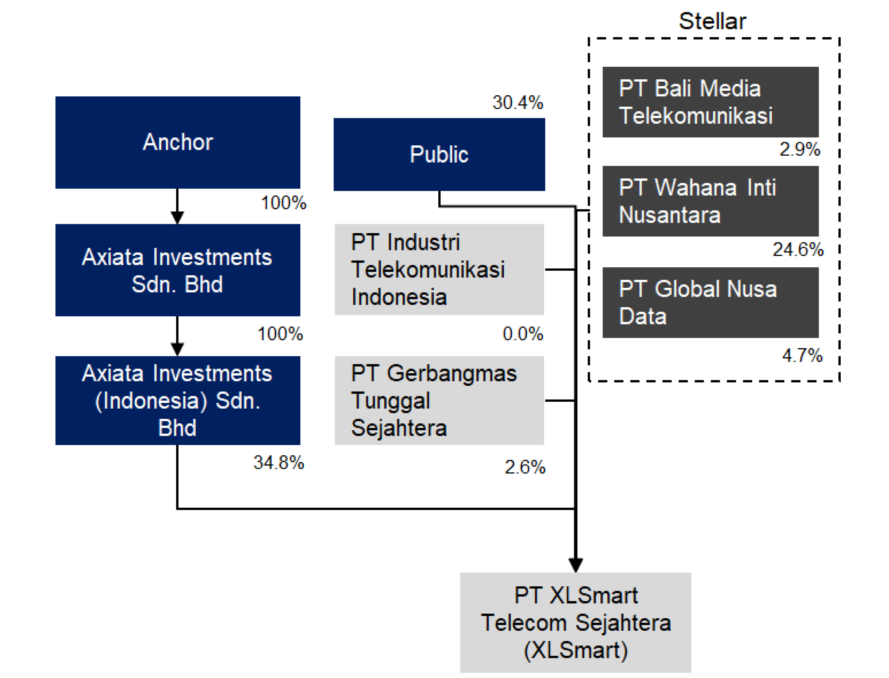
Source: Company report, Indo Premier

Fig. 29: FREN shareholding structure before the merger



Source: Company report, Indo Premier

Fig. 30: XLSmart potential shareholding structure, post-merger



Source: Company report, Indo Premier

Fig. 31: XLSmart's potential new management

Potential new Board of directors (BOD)			
Name	Position	From	Experience
Rajev Seethi*	President Director & CEO	XL Axiata	- CEO of Robi Axiata Bangladesh [2022 - now] - Head of Ooredoo Myanmar [2019]
Antony Susilo*	Director & CFO	Sinarmas	- Director of Finance at Smartfren [2011 - now] - Director of PT Smart Telecom [2025 - now]
Shurish Subbramaniam*	Director & CTO	Sinarmas	- Director of Technology & Network at Smartfren [2018 - now] - CTO at Webe Digital [2016 - 2018]
David A. Oses	Director & Chief Commercial Officer	XL Axiata	- Director & CCO at XL Axiata [2020 - now]
Merza Fachys*	Director & Chief Regulatory Officer	Sinarmas	- President Director at Smartfren [2015 - now] - Director of Technology & Network at Smartfren [2011 - 2015]
Yessie D. Yosetya	Director & Chief Information Officer	XL Axiata	- Director & Chief Enterprise Business & Corporate Affairs Officer [2023 - now]
Andrijanto Muljono*	Director & Chief Enterprise & Strategic Relationship	Sinarmas	- Commercial Director of Smartfren [2022 - now] - CFO at PT Dian Swastatika Sentosa [2020 - 2021]
Feiruz Ikhwan	Director & Chief Strategy and Home	XL Axiata	- Director & CFO at PT XL Axiata [2023 - now]
Jeremia Ratadhi*	Director & CHRO	-	- CHRO at Ooredo Myanmar [2019 - now]

Source: Company, Indo Premier

XLSmart: potential merger outcome analysis

Expecting a better XLSmart execution than XL-Axis

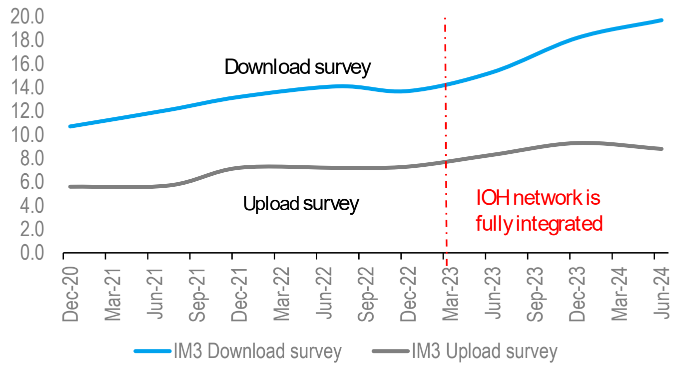
We expect the potential XLSmart integration could be smoother compared to the previous integration of XL-Axis. Previously, XL-Axis integration was more complex and took longer than expected, mainly due to network technology differences. Meanwhile, currently, both XL and FREN are already using compatible technology. However, the outcome would depend on the management's planning and execution for the integration.

Based on our discussion with both companies, the technology options for the integration include multi-operator core networks (MOCN) or national roaming. However, this has yet to be decided. Under the national roaming concept, FREN's subscribers could just use the EXCL network and be considered roaming users in the network. Meanwhile, MOCN technology allows both networks to function as one while retaining separate core networks.

Based on our discussion with EXCL, using national roaming to integrate the networks could be simpler and faster compared to MOCN. However, MOCN allows for bigger capacities.

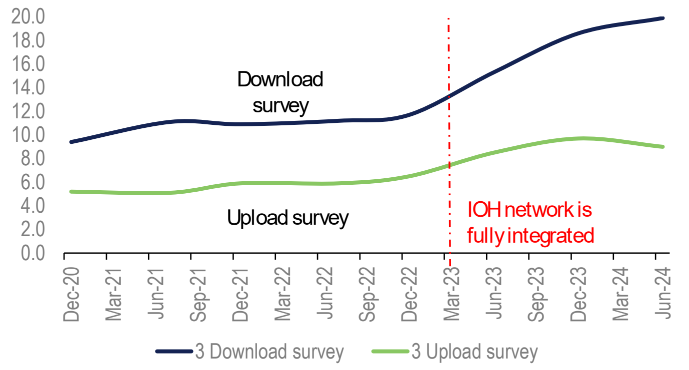
Previously, Indosat Ooredoo Hutchison or IOH (ISAT, BUY, TP Rp2,220) used MOCN for its network integration. Despite a more complex integration process, during the integration process, both IM3 and H3I maintained stable network speed performance (i.e., download and upload). (Figs. 32 and 33)

Fig. 32: IM3 performances remained stable during network integration period in 2022-23 (in Mbps)



Source: Open Signal, Indo Premier

Fig. 33: H3I network performances also remained stable during network integration period in 2022-23 (in Mbps)

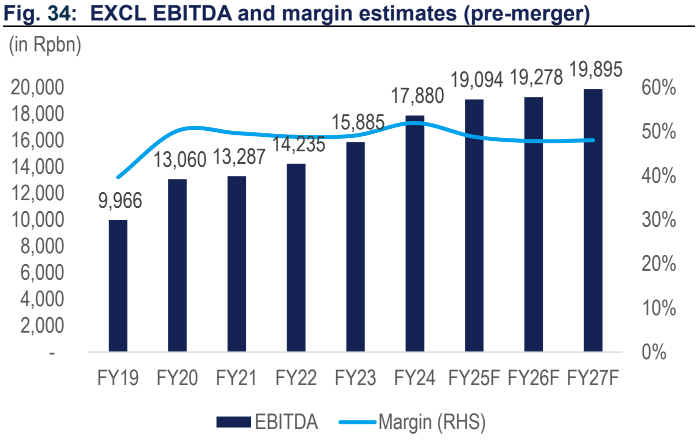


Source: Open Signal, Indo Premier

Strong execution poses upside risks to long-term profitability
In this report, we simulate the potential outcomes of XLSmart's financial performance. The results could differ depending on management's decisions regarding the merger and integration strategy, speed, and expansion magnitude.

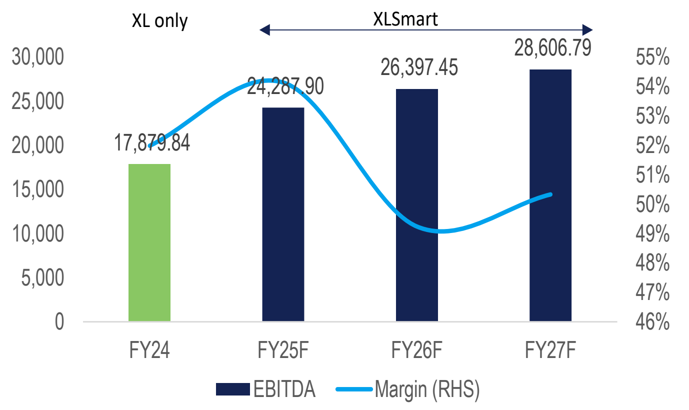
Our conclusions indicate that, post-merger, there could be potential upside risks of 3-17% to our current EXCL EBITDA estimates in FY25–27F, while there could be potential downside risks of 25-34% to our current EXCL core net profit estimates in FY25–26F. Our estimates suggest that XLSmart's core net profit may surpass our current EXCL estimates from FY27F onward. Based on our assumptions, we estimate that XLSmart could achieve a 17% EBITDA CAGR and a 10.9% core net profit CAGR in FY24–27F (using FY24's EXCL performance as the base), compared to our estimates of a 3.6% EBITDA CAGR and a 17% core net profit CAGR for EXCL in FY24–27F.

Fig. 34: EXCL EBITDA and margin estimates (pre-merger)



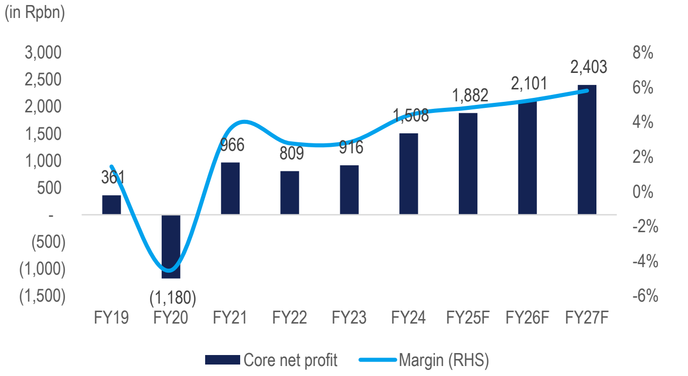
Source: Company report, Indo Premier

Fig. 35: We estimate XLSmart EBITDA could improve, post-merger



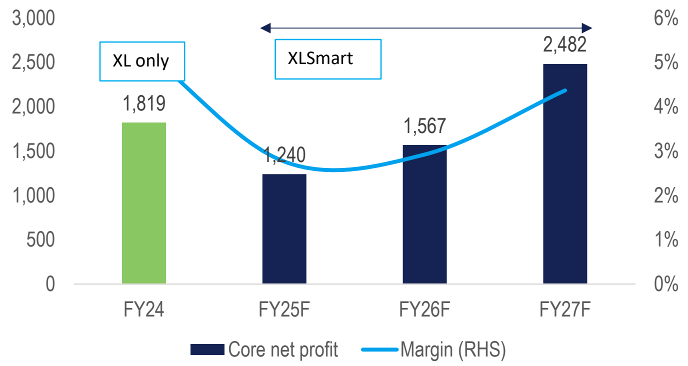
Source: Company report, Indo Premier

Fig. 36: EXCL core NP estimates (pre-merger)



Source: Company report, Indo Premier

Fig. 37: We estimate XLSmart core NP could outpace EXCL's by FY27F

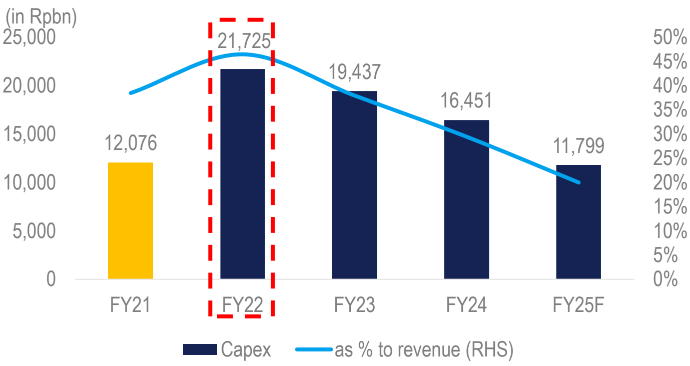


Source: Company report, Indo Premier

Our simulation is based on the following assumptions:

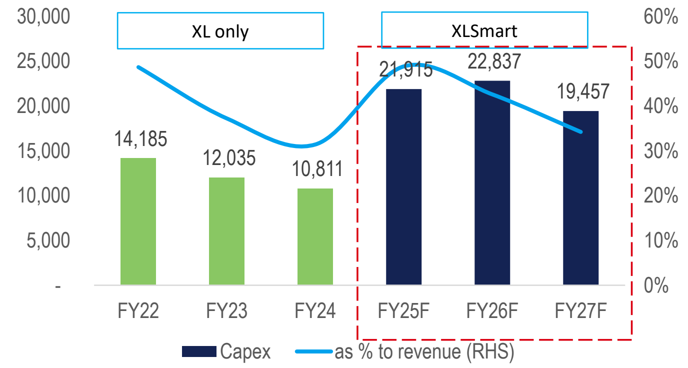
1) We expect total capex spending, including direct ownership assets, right of use, and intangible assets, to increase by over Rp7tr during the first two years after the merger. This is similar to IOH's incremental capex during the first two years after merger materialization, amounting to Rp7tr to nearly Rp10tr higher. Our assumptions imply a c.43% capex-to-revenue spending p.a. during the first two years after the merger, similar to IOH's total capex-to-revenue ratio during the first two years after the merger, ranging from 38%-46% p.a.

Fig. 38: IOH capex spending increased by up to ~Rp10tr during first two year since merger



Source: Company report, Indo Premier

Fig. 39: We assume XLSmart's capex acceleration to be much higher during second and third year since merger

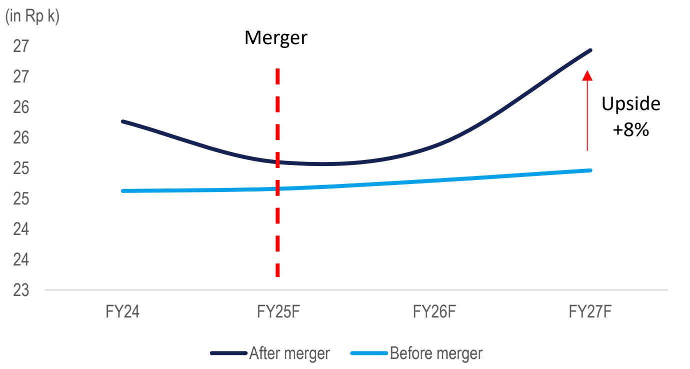


Source: Company report, Indo Premier

2) We estimate the combined XLSmart blended ARPU could decline in the first two years compared to EXCL's standalone ARPU, given FREN's lower ARPU. In FY25F, we estimate XLSmart ARPU could decline by 0.3% yoy, assuming a half-year consolidation impact. In FY26F, we expect ARPU could further decline by 4% yoy, attributed to a full-year consolidation impact. By FY27F, we expect ARPU to rebound by 6% yoy.

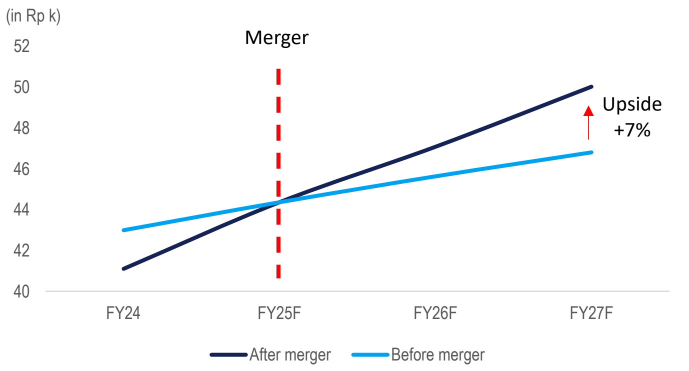
   Despite the decline in combined XLSmart blended ARPU, we expect separate XL and FREN ARPU to have a positive acceleration outlook post-merger. (Figs. 40 and 41) This is based on assumptions of higher data consumption per subscriber post-merger. For XL, without the merger, we expect the annual incremental data usage per user to be less than 1GB. However, assuming a smooth merger and integration, we expect the incremental data usage per user could accelerate to at least 1.5GB. This is similar to the incremental data usage/user for IOH post-merger.

Fig. 40: We estimate FREN's ARPU could improve by 2%-8% from the merger



Source: Company report, Indo Premier

Fig. 41: We estimate XL's ARPU could improve by 3%-7% higher from the merger in FY26-27F



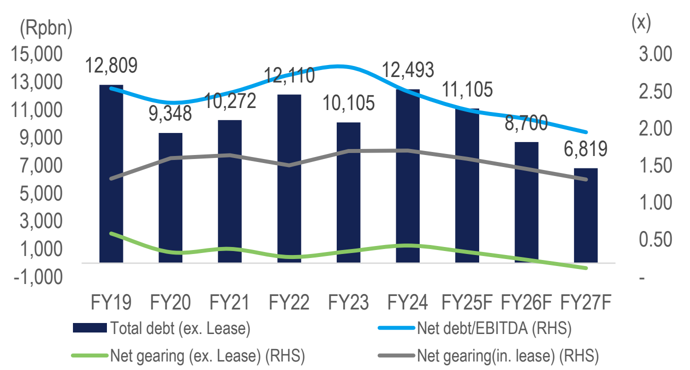
Source: Company report, Indo Premier

3) We estimate opex efficiency could be Rp500bn/Rp1.5tr/Rp2tr in FY25/26/27F, respectively. This is based on the company's guidance of a total US$300mn-US$400mn annual pre-tax efficiency, through operational, capital, and lease improvement. We assume the optimal opex efficiency could reach Rp2tr, similar to the implied opex efficiency of the IOH merger, based on our analysis. Higher or lower opex efficiencies could lead to changes on its profitability outlook.

   The company expects efficiencies will be achieved by optimizing the network footprint through the decommissioning of 20% to 30% of overlapping sites and reinvesting in key cities to enhance profitability. Additional benefits are expected from increased bargaining power with vendors and optimized acquisition expenditures.

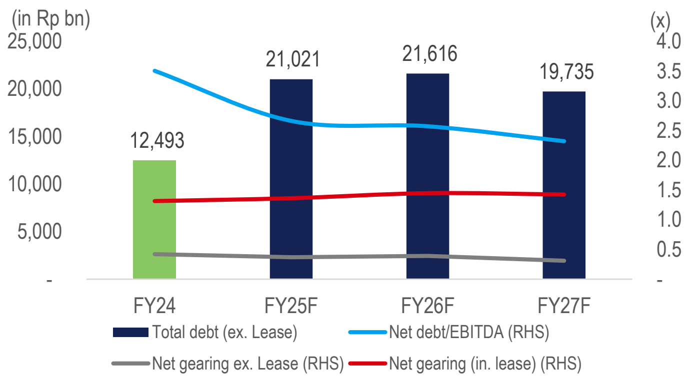
4) To finance its capex, we estimate XLSmart may need to add Rp3tr-Rp6tr in debt p.a. in FY25-27F, leading to total debt increasing to Rp20tr-Rp21tr for the respective years. However, we expect the balance sheet profile to remain manageable, and within EXCL's covenant requirements.

Fig. 42: EXCL's total debt and gearing outlook



Source: Company report, Indo Premier

Fig. 43: Despite a potential increase in XLSmart's total debt, we expect its balance sheet position to remain manageable



Source: Company report, Indo Premier

Smartfren overview

FREN, initially Mobile-8 Telecom, was established on 2 Dec 2002. In 2003, it acquired Komselindo, Metrosel, and Telesera. The Sinarmas Group, owned by the Widjaja family, acquired it from Global Mediacom in 2009 and merged it with Smartel in 2011, renaming it Smartfren Telecom. The Widjaja family holds a 69.3% stake in FREN through various entities. FREN transitioned from 1G to 2G in 2003, launched 3G (CDMA EV-DO) in 2006, and introduced 4G LTE advanced service in 2015 using FDD and TDD technologies. It was the first in Indonesia to launch VoLTE services in 2016. By 2017, FREN fully migrated to 4G LTE (GSM+), compatible with all 4G LTE smartphones, replacing CDMA technology.

Fig. 44: Financial snapshots of Smartfren (figures are presented in Rp bn)

Income Statement	FY20	FY21	FY22	FY23	FY24
Net revenue	9,408	10,457	11,203	11,656	11,420
Operating Expenses	(10,193)	(10,210)	(10,579)	(11,112)	(11,729)
Operating profit	**(785)**	**247**	**623**	**544**	**(309)**
EBITDA	**3,049**	**4,100**	**5,025**	**5,146**	**4,573**
Others	(813)	(813)	453	(459)	(977)
Pre-tax income	**(1,597)**	**(566)**	**1,076**	**85**	**(1,286)**
Income tax	74	131	(12)	(194)	(9)
Minority interest	(0)	0	(0)	0	0
Net income	**(1,524)**	**(435)**	**1,064**	**(109)**	**(1,295)**
Core net proft	**(1,549)**	**(416)**	**1,202**	**(533)**	**(1,320)**

Balance Sheet	FY20	FY21	FY22	FY23	FY24
Cash & equivalents	654	463	308	226	155
Receivables	270	156	240	282	254
Other current assets	1,722	1,703	1,816	3,829	3,948
Total current assets	2,646	2,322	2,365	4,336	4,358
Fixed assets	16,747	19,894	29,673	33,292	34,422
Other non-current assets	6,479	5,981	6,365	7,744	9,706
Total non-current assets	**23,226**	**25,876**	**36,038**	**41,035**	**44,128**
Total assets	**25,872**	**28,198**	**38,403**	**45,372**	**48,485**
Payables	2,003	2,600	1,973	1,310	1,551
Other current liab.	3,437	3,279	2,963	2,608	1,685
Lease liabilities	1,942	2,602	2,537	2,553	2,432
Current portion of LT loans	1,036	1,123	1,185	149	422
Total current liab.	**8,418**	**9,603**	**8,659**	**6,620**	**6,089**
Lease liabilities	6,544	10,031	10,176	9,329	8,754
Long term loans	9,885	9,668	9,809	12,087	6,499
Other LT liab.	1,471	1,402	2,089	1,336	394
Total liabilities	**17,900**	**21,101**	**22,074**	**22,752**	**15,647**
Equity	37,990	38,688	40,716	40,716	47,779
Retained earnings	(25,624)	(26,034)	(24,956)	(25,043)	(26,331)
Minority interest	0	0	0	0	0
Total SHE + minority int.	**12,366**	**12,653**	**15,760**	**15,673**	**21,448**
Total liabilities & equity	**30,266**	**33,755**	**37,833**	**38,425**	**37,095**

Source: Company, Indo Premier

Fig. 45: Key ratios of Smartfren

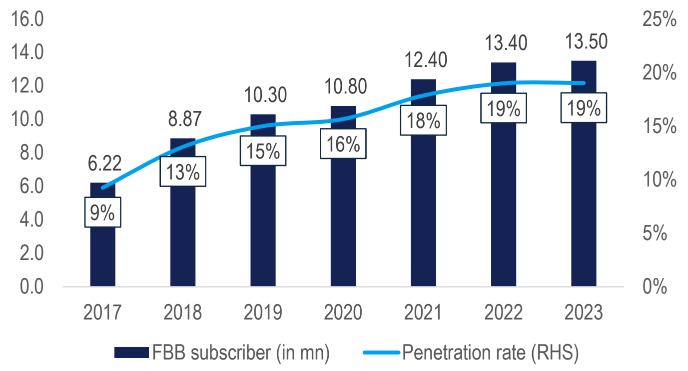
Key Ratios	FY20	FY21	FY22	FY23	FY24
EBITDA margin	32%	39%	45%	44%	40%
Pre-tax margin	-17%	-5%	10%	1%	-11%
Net margin	-16%	-4%	9%	-1%	-11%
ROA	-6%	-2%	3%	0%	-3%
ROE	-12%	-3%	7%	-1%	-6%
Net debt/EBITDA (ex. leases) (x)	4	3	2	2	2

Source: Company, Indo Premier

Fixed broadband: penetration opportunity amid price competition risk

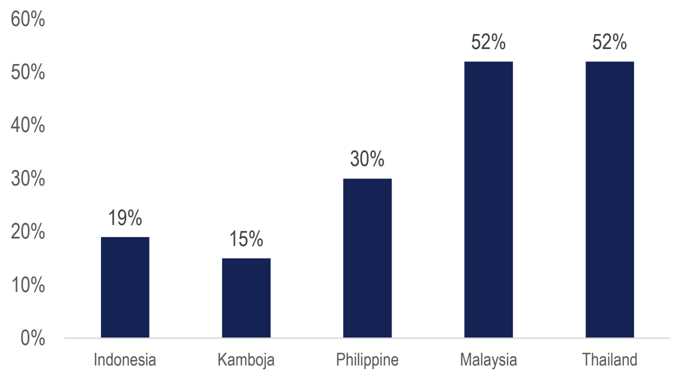
Demand for fixed broadband in Indonesia is growing for streaming services and remote work solutions. In 2017-23, Indonesia's fixed broadband customers increase by 13.8% CAGR. However, according to world bank, the penetration rate remains low at c.19% by 2023. This is notably lower than regional peers like Thailand and Malaysia, presenting both challenges and significant opportunities for fixed broadband players. We believe growing demand for reliable and high-speed internet, driven by urbanization, an expanding middle class, and increased consumption of digital services, presents an opportunity for the fixed broadband market. In Indonesia, there are >71mn households with a potential addressable market of c.40mn households.

Fig. 46: Fixed broadband penetration has been increasing in the past few years, but still lag behind other ASEAN peers



Source: Company report, Indo Premier

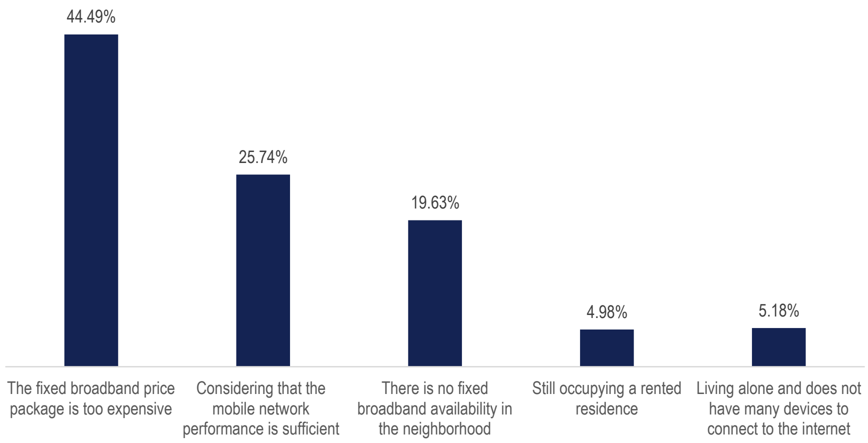
Fig. 47: Indonesia has one of the lowest fixed broadband penetration in the ASEAN market



Source: Company report, Indo Premier

We observe that affordability and limited-service coverage constraints critically challenge the low penetration of fixed broadband in Indonesia. APJII's survey results in 2024 suggest that the top three reasons for respondents not subscribing to fixed broadband are: 1) considering the fixed broadband price package as too expensive, 2) considering mobile network quality as already sufficient, and 3) having no fixed broadband availability in the neighborhood.

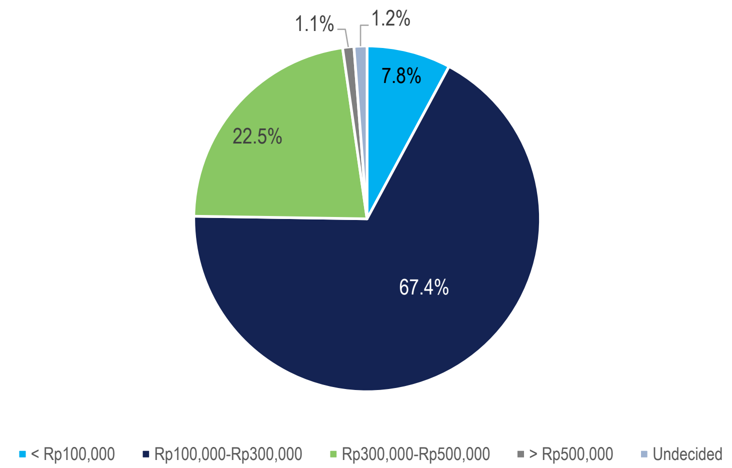
Fig. 48: APJII's 2024 survey results: reason to not subscribing for fixed broadband



Source: APJII, Indo Premier
**Survey respondents: 8,720 people across 38 provinces in Indonesia, conducted from Dec23 to Jan24*

Based on our discussion with TLKM, it suggests that based on its internal research, the affordability of fixed broadband is at Rp200k/household, or lower. This explains the relatively lower average revenue per user (ARPU) for fixed broadband in Indonesia at Rp150k-Rp180k (US$9.5-19.1), or below the regional average of US$25-30. This is also evident from APJII's survey results in 2024, which show the majority of respondents spent up to Rp300,000 monthly for fixed broadband, with the largest chunk in the range of above Rp100,000 to Rp300,000.

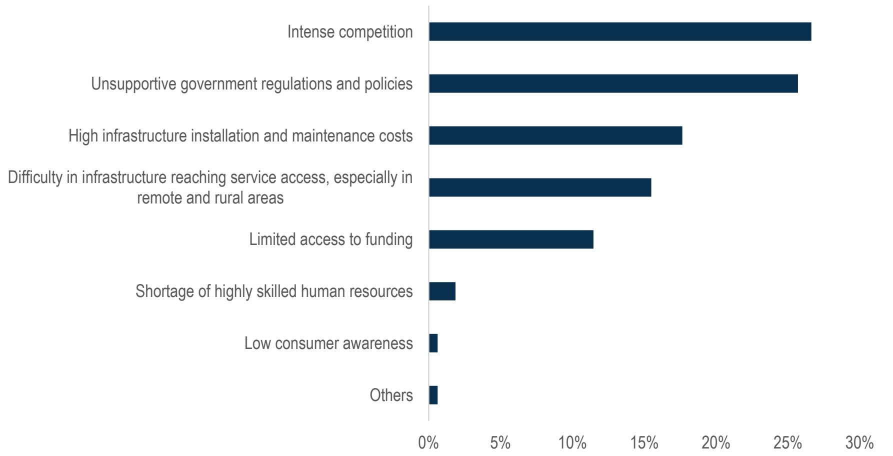
Fig. 49: APJII's 2024 survey on monthly spending on fixed broadband



Source: APJII, Indo Premier

The limited-service network coverage, especially in rural and remote regions, is mainly due to tight competition, unsupportive regulations, and high infrastructure costs, which challenge ISPs to expand. A study by the Center for Indonesian Policy Studies revealed that extending fixed broadband cable could be costly, or up to Rp200mn/km, presenting a significant infrastructure hurdle. APJII's survey results in 2024 with 323 ISP providers also suggest that high infrastructure and maintenance costs are key challenges for industry growth.

Fig. 50: APJII's 2024 survey results on ISP providers on key challenge for industry growth



Source: APJII, Indo Premier

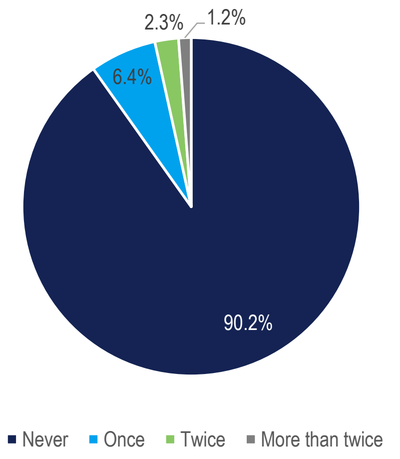
To address these challenges while seeing opportunities, telco operators under our coverage, decided to expand their exposure in the fixed broadband through acquisition. In Sep 2024, XL Axiata took over First Media customer assets, one of Indonesia's largest cable ISPs, previously owned by Link Net. This acquisition is part of XL's broader strategy to expand its fixed broadband footprint and enhance its convergence strategy, integrating broadband, mobile, and digital services. Similarly, IOH acquired MNC Play in a strategic move to strengthen its position in the growing fixed broadband segment. Post-acquisitions, IOH and EXCL groups increased their FTTH subscriber base to more than 300k and 1mn at the end of FY24, in comparison to c.20k and c.235k subscribers previously, before the acquisitions, respectively.

With the acquisitions, telco operators are not only expected to have bigger exposure in the fixed broadband but also to create value through fixed-mobile convergence (FMC) strategies. The FMC strategy creates value by bundling fixed broadband, mobile, and digital services into one comprehensive offering, thus expected to increase ARPU and improve customer retention. Increased ARPU is expected to come from higher overall usage for the entire household, despite the primary bundling package price could be lowered compared to separate purchases.

For example, the basic TSEL's FMC package is priced at Rp180k/month, which includes 10Mbps internet speed and a 30GB mobile data package that can be shared with three family members. However, the average TSEL mobile data usage is currently ~13GB monthly. Hence, the company expects this to present an opportunity for additional data usage by its FMC customers. Additionally, the company sees potential additional purchases coming from content subscriptions.

Fixed broadband customers have a high loyalty profile. Based on APJII's survey results in 2024, the majority of respondents, or ~90%, have never switched fixed broadband providers in the past one year. (Fig 51) Therefore, combining this with the mobile service should eventually lead to a decrease in mobile customer churn.

Fig. 51: APJII's 2024 survey results on frequency of changing fixed broadband provider in the past one year



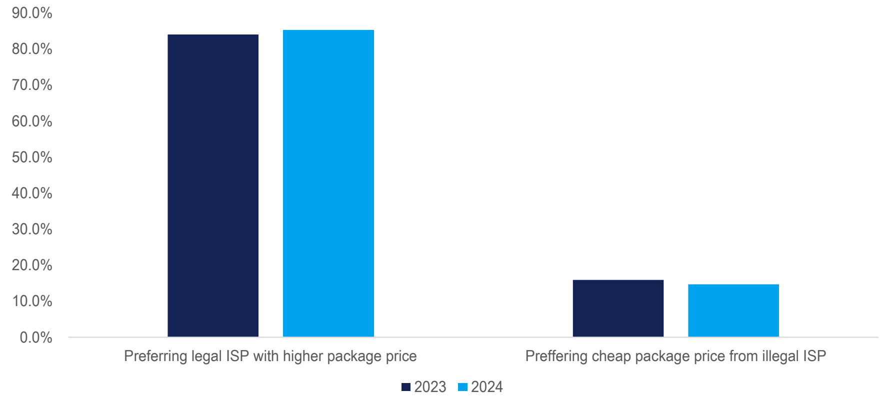
Source: APJII, Indo Premier

FMC also enables telco providers to better compete with OTT services and other challengers, offering a more seamless customer experience that integrates home broadband and mobile services. Additionally, the convergence strategy allows for more efficient resource utilization, as operators can consolidate marketing, sales, and customer service channels.

On top of the abovementioned challenges, the market is also experiencing a shift toward new pricing strategies and technologies, which could pose a risk for price competition, in our view. These include:

- In response to increasing competition and to address affordability challenge, some providers are rolling out more attractive pricing packages. For instance, TSEL has launched an affordable line, EzNet, by 2024, offering price packages starting from Rp150,000 with a lower speed of 10 Mbps compared to its IndiHome brand, which offers speeds of approximately 30 Mbps with higher package prices starting from Rp230,000.
- Additionally, Surge, a newer fixed broadband provider owned by Solusi Sinergi Digital (WIFI IJ, non-rated), has introduced a competitive offering with 100 Mbps speed for just Rp100k per month.
- RT/RW Net, a community-based broadband initiative, has been expanding rapidly, providing affordable internet access to households in residential communities. RT/RW Net pools the internet subscriptions of multiple households within a neighborhood, reducing per-household costs. These networks typically offer speeds ranging from 10 Mbps to 100 Mbps, catering to the growing demand for reliable internet at affordable prices. However, the shared bandwidth model can create challenges during peak usage times, impacting overall speed and service quality. Pricing for RT/RW Net services starts from Rp100,000 per month, making it a cost-effective option for many users. Though the size of RT/RW Net remains relatively small compared to legal ISPs, we believe a sizeable portion of respondents are interested in the offer, based on APJII's 2024 survey results. Additionally, operating an RT/RW Net is relatively easy, with necessary devices openly available in marketplaces. The equipment is priced from approximately Rp6mn to Rp7mn, providing coverage of up to 5–6km for at least 20 subscribers, depending on the terrain and equipment specifications.

Fig. 52: APJII's 2024 survey results: preference of ISP providers



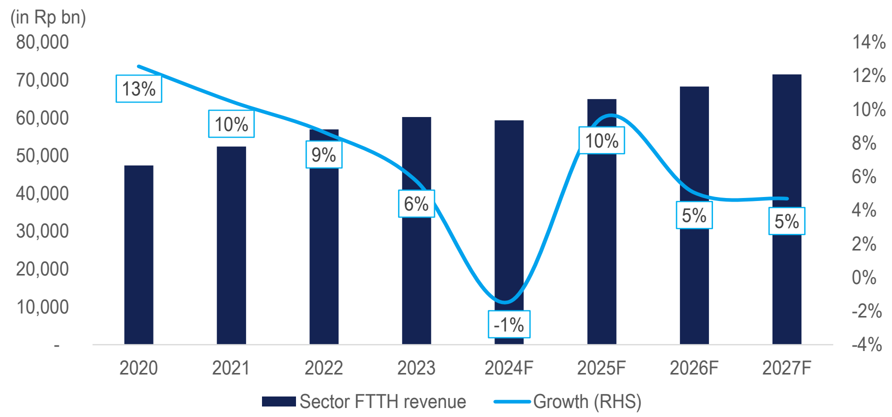
Source: APJII, Indo Premier

- Another significant development is the entry of Starlink, the satellite broadband provider owned by SpaceX, which began offering internet services in Indonesia in 2023. Starlink has the potential to disrupt the broadband market by providing high-speed internet access to remote and underserved areas. Its satellite-based network eliminates the need for extensive terrestrial infrastructure, which could be an advantage in regions where ground-based providers face logistical or regulatory hurdles. However, the higher cost of Starlink services and the requirement for specialized equipment may limit its appeal in urban areas, where more affordable alternatives are available.

We view that with the changing competitive landscape, while there is room for higher penetration, the ARPU outlook for telco operators under our coverage could be flattish or decline. However, the overall fixed broadband revenue outlook could still grow. We assume that the fixed broadband segment for telco players under our coverage could pose potential annual revenue growth of 5%–10% per annum in FY25–27F.

Our revenue growth assumptions are attributed to an increasing subscriber outlook. We estimate that TSEL's IndiHome net subscriber additions will be 850k annually in FY25-26F, in line with the company's guidance of 850k to 1mn net subscriber additions per annum. Additionally, we estimate a 5% per annum subscriber growth for IOH's and EXCL's FTTH arm in FY25-27F.

Fig. 53: We estimate the sector's aggregate FTTH revenue could grow by 5-10% p.a. in FY25F-27F



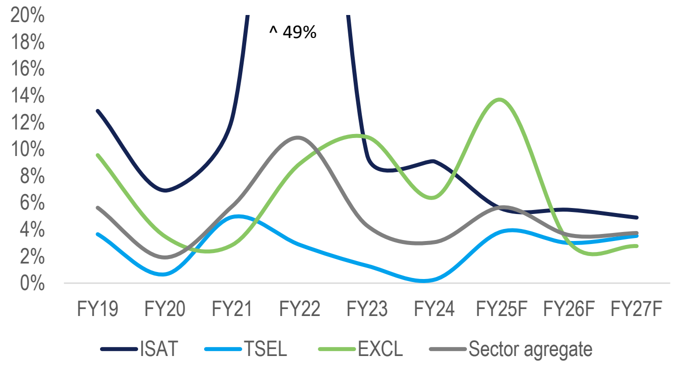
Source: Company report, Indo Premier

Financial outlook

Estimating for aggregate sector's core NP could grow by 6.7% in FY24-27F

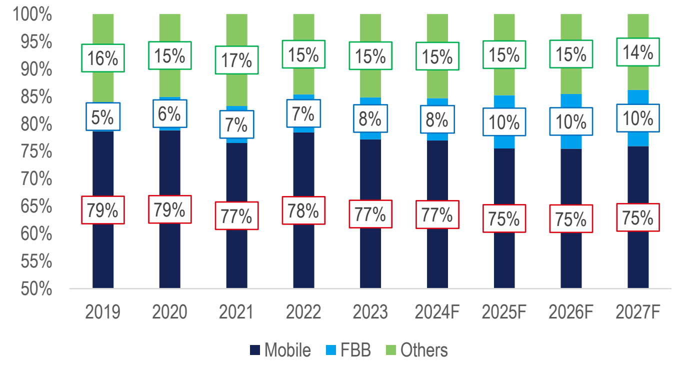
We estimate the sector's aggregate revenue could grow by 4.3% CAGR in FY24-27F with EXCL to have the highest growth of 6.4%, followed by ISAT of 5.3%, and TLKM by 3.5%. Revenue growth for the sector to remain driven by mobile revenue though rising attribution from other businesses, like fixed broadband and B2B segments. We estimate that EXCL's higher revenue growth is mainly due to the full-year consolidation impact of the First Media subscriber acquisition, which materialized in 4Q24.

Fig. 54: Telco sector revenue growth comparisons



Source: Company report, Indo Premier

Fig. 55: Telco sector revenue contributions



Source: Company report, Indo Premier

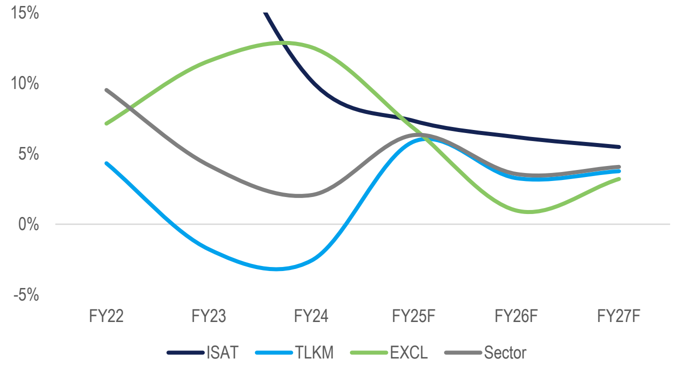
We estimate the sector's aggregate EBITDA/core NP could grow by 4.5%/6.7% CAGR, respectively. We expect ISAT's profitability growth could outpace EXCL's in FY24-27F, though slightly lower revenue growth. This is attributed from our expectation for margin expansion from normalising capex trend, leading to slower incremental of depreciation and amortization expense. We expect EXCL's lower EBITDA growth despite higher revenue growth compared to ISAT to be attributable to FTTH's lower margin, which management mentioned remains in the mid-twenties.

We estimate for ISAT could have EBITDA/core NP of 6.3%/16.9% CAGR in FY24-27F, with potential upside risk. In FY25F, we estimate ISAT's EBITDA growth to be 7.3% yoy, or still lower compared to the company's guidance of over 10% yoy EBITDA growth. We think our lower EBITDA growth is attributeable from our more conservative growth assumption for its other businesses, mainly in the B2B segment.

We estimate EXCL could have EBITDA/core NP of 3.6%/16.8% CAGR in FY24-27F. If merger plan realised, we think there could be potential upside risk for its EBITDA while potential downside risks to core NP.

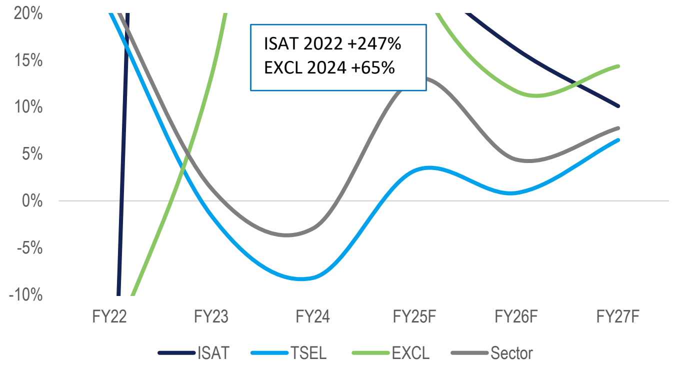
We estimate TLKM could achieve an EBITDA/core NP CAGR of 2%/-1.5% in FY23-26F and 4.3%/3.5% in FY24-27F. The more conservative growth outlook is attributed to our more cautious expectations for ARPU growth, given concerns over lower-priced starter packs.

Fig. 56: Telco sector EBITDA growth comparisons



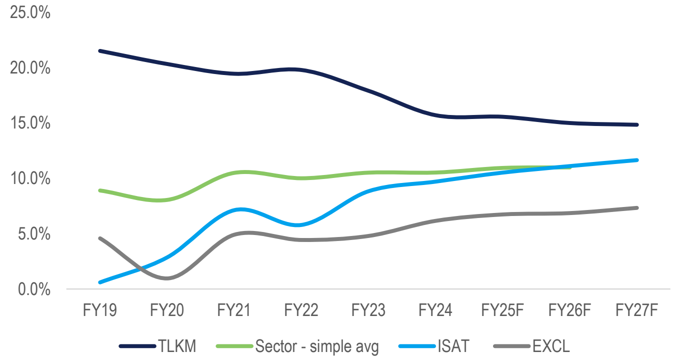
Source: Company report, Indo Premier

Fig. 57: Telco sector core NP growth comparisons



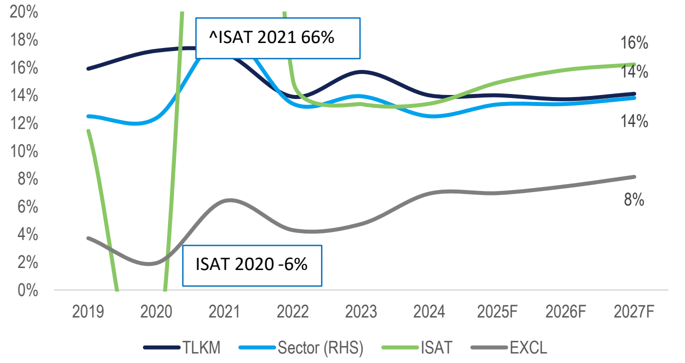
Source: Company report, Indo Premier

Fig. 58: Telco sector ROIC comparisons



Source: Company report, Indo Premier

Fig. 59: Telco sector ROE comparisons

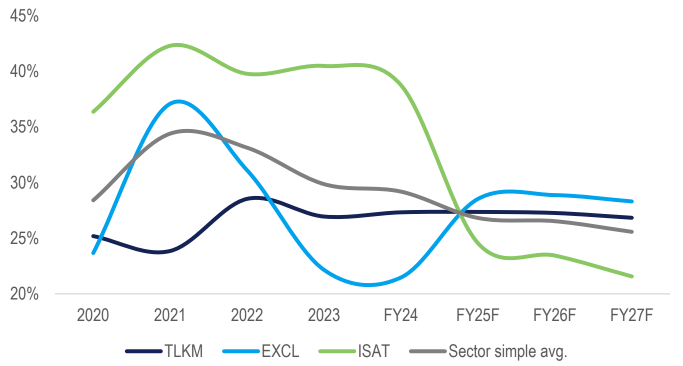


Source: Company report, Indo Premier

Steady improvement balance sheets profile, with gradual capex normalisation outlook

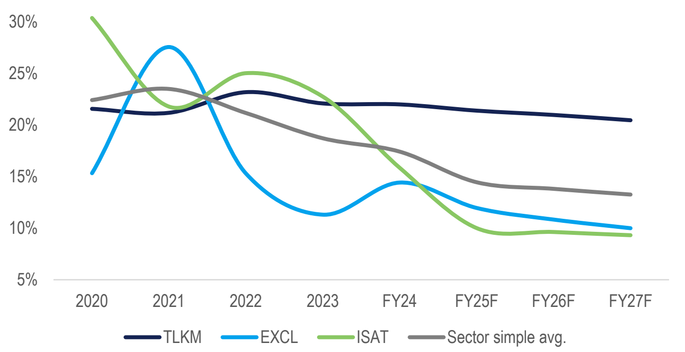
We estimate the sector's simple avg. capex to revenue in FY25-27F to be 19-20%. We expect ISAT's capex spending to normalise compared to the past three years since its merger. This leads to overall normalisation in sector's aggregate capex to revenue ratio outlook. The landscape of capex spending could change after the merger of XLSmart, depending on its network expansion outlook.

Fig. 60: Telco sector cash capex and lease payment to revenue outlook



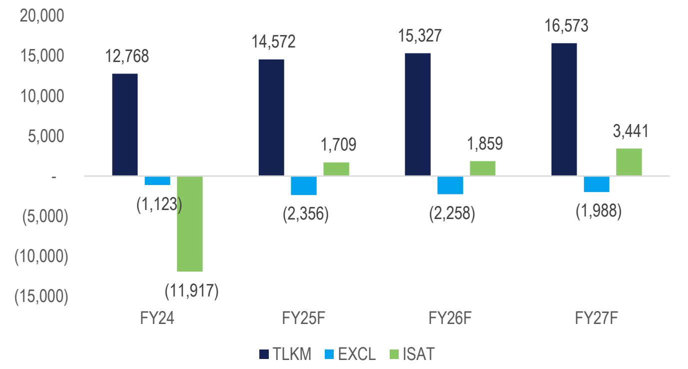
Source: Company report, Indo Premier

Fig. 61: Telco sector capex (fixed assets only) to revenue ratio outlook



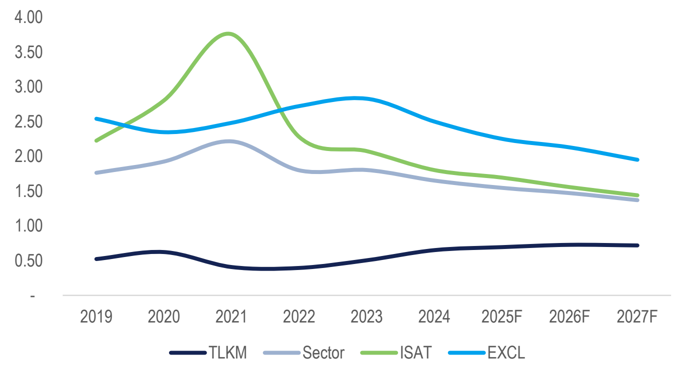
Source: Company report, Indo Premier

Fig. 62: Telco sector FCFF outlook



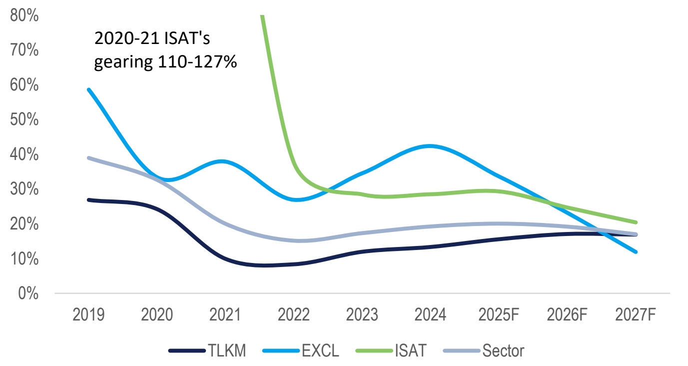
Source: Company report, Indo Premier

Fig. 63: Telco sector net debt/EBITDA (x) comparisons



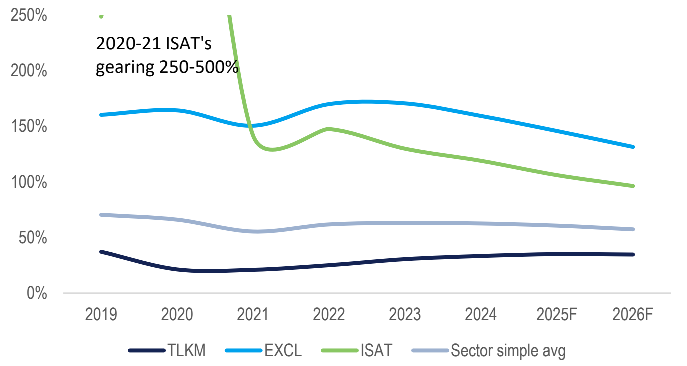
Source: Company report, Indo Premier

Fig. 64: Telco sector net gearing comparisons



Source: Company report, Indo Premier

Fig. 65: Telco sector net gearing including lease comparisons



Source: Company report, Indo Premier

FY24 results review and preview

TLKM: expecting FY24 results to be in line with the consensus estimates

- Our FY24F estimates for TLKM's revenue is Rp149tr (+0.3% yoy) with EBITDA of Rp75tr (-2.6% yoy) and core NP of Rp23.1 (-8.2% yoy). Our revenue/EBITDA/core NP estimates are in-line to the consensus estimates, at 98%/97%/96% to the consensus estimates, respectively.
- Implied 4Q24F revenue is Rp37.4tr (+1.3% qoq), with EBITDA of Rp18.9tr (+1.0% qoq), and core NP of Rp5tr (-12.8% qoq)
- Our estimates are based on improving data consumption to 13.1GB per user in FY24F vs. 12.9GB in 9M24, improving data yield to Rp3.3/MB vs. Rp3.2/MB, improving blended ARPU to Rp45k vs. Rp44.5k in 9M24, and stable subscribers. These are aligning with the company's indicative results guidance for ARPU improvement and stable subscribers base in 4Q24.

Fig. 66: TLKM: FY24 results review

(Rp bn)	FY24F	FY23	% YoY	4Q24F	4Q23	% YoY	3Q24	% QoQ
Revenue	**149,608**	**149,216**	**0.3%**	**37,389**	**37,978**	**-1.6%**	**36,927**	**1.3%**
Operating expenses	(107,210)	(104,300)	**2.8%**	(27,368)	(28,044)	-2.4%	(26,289)	4.1%
Operating profit	**42,398**	**44,916**	**-5.6%**	**10,021**	**9,934**	**0.9%**	**10,638**	**-5.8%**
EBITDA	**75,575**	**77,579**	**-2.6%**	**18,948**	**18,516**	**2.3%**	**18,759**	**1.0%**
Other income/(expense)	(4,232)	(4,122)	**2.7%**	(1,313)	(1,422)	-7.7%	(944)	39.1%
Pre-tax profit	**38,166**	**40,794**	**-6.4%**	**8,549**	**8,512**	**0.4%**	**9,694**	**-11.8%**
Taxes	(8,397)	(8,586)	**-2.2%**	(1,801)	(1,693)	6.4%	(2,097)	-14.1%
Net profit	**22,614**	**24,560**	**-7.9%**	**4,939**	**5,061**	**-2.4%**	**5,914**	**-16.5%**
Core profit	**23,109**	**25,172**	**-8.2%**	**5,043**	**5,499**	**-8.3%**	**5,784**	**-12.8%**
Margin (%)								
EBITDA margin	50.5%	52.0%	(147.6)	50.7%	48.8%	192.4	50.8%	(12.2)
Net margin	15.1%	16.5%	(134.4)	13.2%	13.3%	(11.6)	16.0%	(280.6)
Core net margin	15.4%	16.9%	(142.3)	13.5%	14.5%	(99.1)	15.7%	(217.5)
Operational data								
Subscriber (mn people)	160	159	0.3%	160	159	0.4%	159	0.8%
Blended ARPU (Rp k/month)	45	48	-5.4%	46	47	-0.6%	43	7.2%
Data traffic (PB)	20,159	17,901	12.6%	5,257	4,647	13.1%	5,149	2.1%
Data yield (Rp/MB)	3.3	3.3	0.7%	3.5	3.7	-5.5%	3.1	13.1%

Source: Indo Premier

EXCL: in line results

- In 4Q24, EXCL recorded total revenue of Rp9tr (+9% qoq), with FY24 revenue of Rp34.4tr (+6% yoy), in-line with consensus estimates.
- 4Q24 EBITDA was Rp4.6tr (+6% qoq), leading to FY24 EBITDA of Rp17.9tr (+13% yoy), in-line.
- 4Q24 core NP was Rp504bn (+76% qoq), leading to FY24 core NP of Rp1.7tr (+71% yoy), in-line.
- At end of FY24, total debts was Rp46tr, with of net debt/EBITDA of 2.5x and net gearing of 1.7x.

Fig. 67: EXCL: FY24 results review

EXCL 4Q24 results (in Rp bn)	12M24	12M23	% YoY	4Q24	4Q23	% YoY	3Q24	% QoQ
Revenue	**34,392**	**32,323**	**6%**	**9,030**	**8,455**	**7%**	**8,310**	**9%**
Operating expenses	(28,803)	(27,944)	3%	(7,500)	(7,305)	3%	(7,036)	7%
Operating profit	**5,589**	**4,378**	**28%**	**1,531**	**1,150**	**33%**	**1,274**	**20%**
EBITDA	**17,880**	**15,885**	**13%**	**4,583**	**4,130**	**11%**	**4,339**	**6%**
Other income/(expense)	(3,161)	(2,688)	18%	(857)	(699)	23%	(859)	0%
Pre-tax profit	**2,427**	**1,690**	**44%**	**673**	**450**	**49%**	**416**	**62%**
Taxes	(580)	(420)	38%	(161)	(188)	-15%	(118)	36%
Net profit	**1,819**	**1,257**	**45%**	**502**	**262**	**91%**	**292**	**72%**
Core net profit	**1,508**	**916**	**65%**	**445**	**169**	**163%**	**184**	**142%**
Margin (%)								
EBITDA margin	52.0%	49.1%	284	50.8%	48.8%	191	52.2%	(146)
Net margin	5.3%	3.9%	140	5.6%	3.1%	246	3.5%	205
Operational data								
Data and digital services	31,578	29,398	7%	8,201	7,677	7%	7,539	9%
Other revenue	2,814	2,924	-4%	829	778	7%	771	8%
Data traffic (PB)	10,547	9,638	9%	2,724	2,529	8%	2,554	7%
Data yield (Rp/MB)	3.0	3.1	-2%	3.0	3.0	-1%	3.0	2%
Blended ARPU (Rp k/month)	43	41	5%	41	43	-5%	41	0%
Subscribers (mn people)	58.8	57.5	2%	59.0	57.5	3%	58.7	1%

Source: Indo Premier

ISAT: operational in line, miss on bottom-line

- In 4Q24, ISAT recorded total revenue of Rp14.1tr (+1.7% qoq), with FY24 revenue of Rp55.9tr (+9.1% yoy), in line with consensus estimates.
- 4Q24 EBITDA was Rp6.4tr (-3.2% qoq), with FY24 EBITDA of Rp26.4tr (+10.2% yoy), in line with consensus estimates.
- 4Q24 core NP was Rp977bn (-18.6% qoq), with FY24 core NP of Rp4.9tr (+37.4% yoy), or below to the consensus estimates.
- At the end of FY24, total debts were Rp54.9tr, with a net debt/EBITDA of 1.9x and net gearing of 1.4x.

Fig. 68: ISAT: FY24 results review

(Rp bn)	12M24	12M23	% YoY	4Q24	4Q23	% YoY	3Q24	% QoQ
Revenue	**55,887**	**51,229**	**9.1%**	**14,075**	**13,766**	**2.2%**	**13,836**	**1.7%**
Operating expenses	(45,070)	(41,912)	7.5%	(11,645)	(10,985)	6.0%	(11,120)	4.7%
Operating profit	**10,817**	**9,317**	**16.1%**	**2,429**	**2,781**	**-12.6%**	**2,716**	**-10.5%**
EBITDA	**26,375**	**23,938**	**10.2%**	**6,375**	**6,471**	**-1.5%**	**6,588**	**-3.2%**
Other income/(expense)	(4,084)	(3,385)	20.6%	(995)	(452)	120.3%	(1,139)	-12.6%
Pre-tax profit	**6,733**	**5,932**	**13.5%**	**1,434**	**2,329**	**-38.4%**	**1,577**	**-9.0%**
Taxes	(1,460)	(1,156)	26.3%	(321)	(540)	-40.6%	(342)	-6.4%
Net profit	**4,911**	**4,506**	**9.0%**	**1,033**	**1,719**	**-39.9%**	**1,143**	**-9.7%**
Core net profit	**4,863**	**3,540**	**37.4%**	**977**	**1,236**	**-20.9%**	**1,201**	**-18.6%**
Margin (%)								
EBITDA margin	47.2%	46.7%	46.6	45.3%	47.0%	(171.5)	47.6%	(232.7)
Net margin	8.8%	8.8%	(1.0)	7.3%	12.5%	(515.2)	8.3%	(92.8)
Operational data								
Legacy revenue	899	1,089	-17.5%	199	276	-28.0%	221	-9.9%
Data revenue	44,196	41,207	7.3%	10,881	10,976	-0.9%	11,208	-2.9%
Data traffic (PB)	16,170	14,417	12.2%	4,120	3,716	10.9%	4,085	0.9%
Data yield (IDR/MB)	2.7	2.9	-4.4%	2.6	3.0	-10.6%	2.7	-3.7%
Blended ARPU (Rp k/month)	38.0	35.6	6.7%	38.9	38.5	1.0%	37.2	4.6%
Subscribers (mn people)	94.7	98.8	-4.1%	94.7	98.8	-4.1%	96.5	-1.9%

Source: Indo Premier

Valuations

Despite the sector's discounted valuation compared to its historical mean and regional peers, we believe the risk of persistent price competition could challenge the sector's valuation from reverting to the mean. Hence, we reinitiate coverage of the sector with a Neutral rating by assigning 4x to 4.5x adjusted EV/EBITDA FY25F multiple to arrive at our target prices for companies under our coverage, which ranging at 0.5 to 1.5 s.d below LT mean. ISAT is our top pick due to its clearer growth outlook. Key potential risks include regulatory changes, more intense or prolonged price competition in the mobile segment than expected and macroeconomic changes that could affect purchasing power and data consumption.

Key potential risks include regulatory changes, more intense or prolonged price competition in the mobile segment, and macroeconomic changes that could affect purchasing power and data consumption.

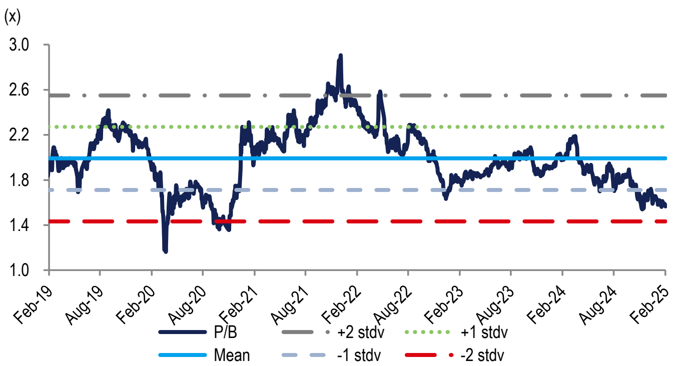
Fig. 69: Telco forward adjusted EV/EBITDA band

Source: Indo Premier, Bloomberg

Fig. 70: Telco forward EV/EBITDA band

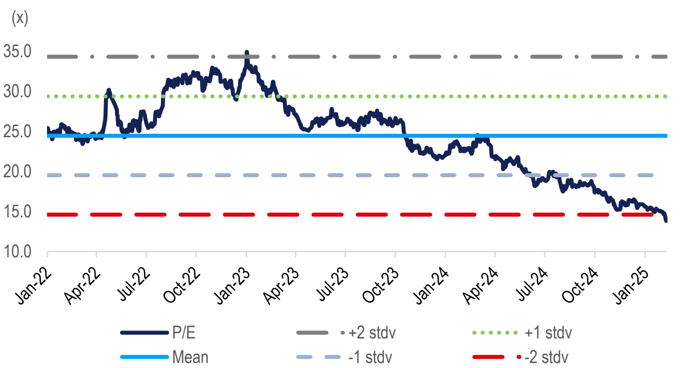
Source: Indo Premier, Bloomberg

Fig. 71: Telco forward P/B band



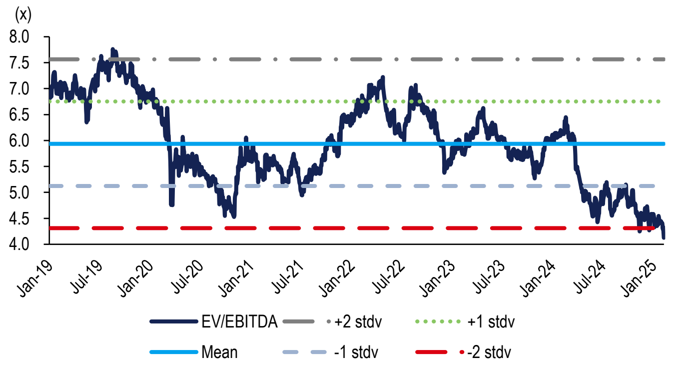
Source: Indo Premier, Bloomberg

Fig. 72: Telco forward P/E band



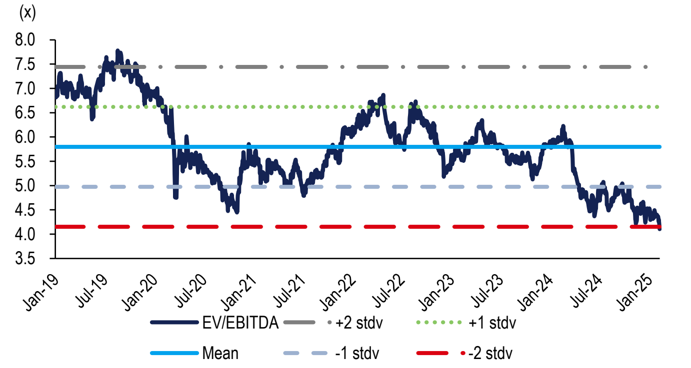
Source: Indo Premier, Bloomberg

Fig. 73: TLKM IJ forward adjusted EV/EBITDA



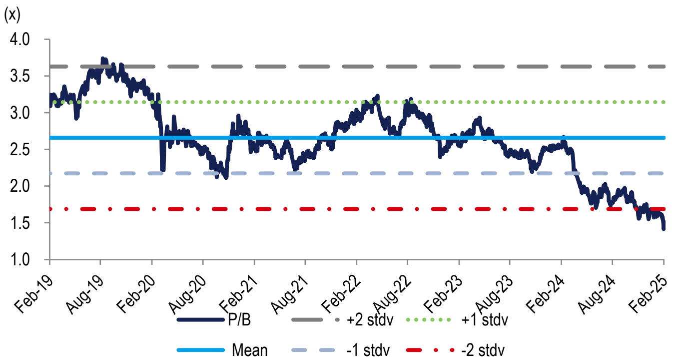
Source: Indo Premier, Bloomberg

Fig. 74: TLKM IJ forward EV/EBITDA



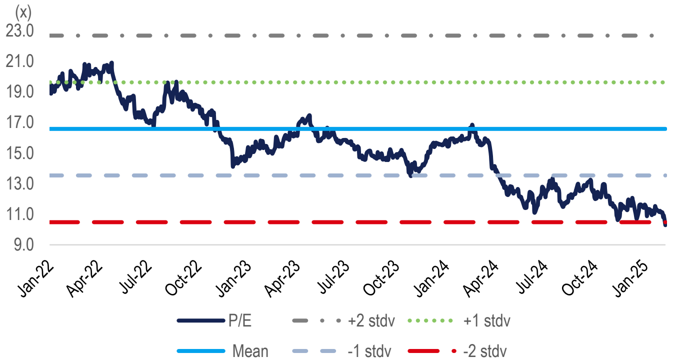
Source: Indo Premier, Bloomberg

Fig. 75: TLKM IJ forward P/B Band



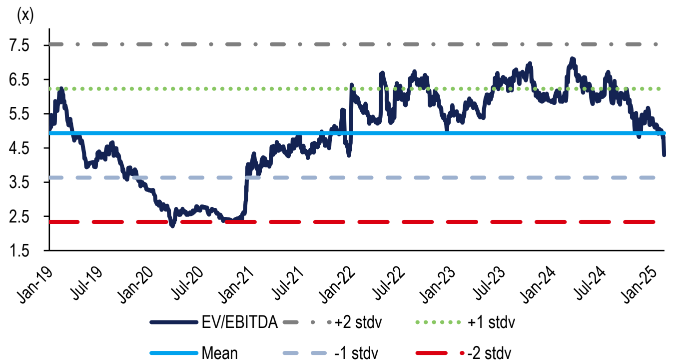
Source: Indo Premier, Bloomberg

Fig. 76: TLKM IJ forward P/E band



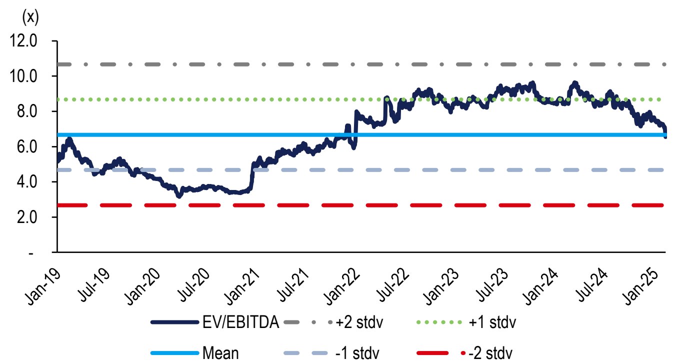
Source: Indo Premier, Bloomberg

Fig. 77: ISAT IJ forward Adjusted EV/EBITDA



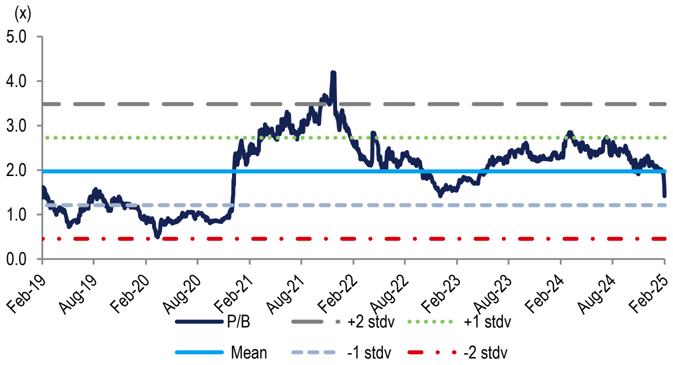
Source: Indo Premier, Bloomberg

Fig. 78: ISAT IJ forward EV/EBITDA



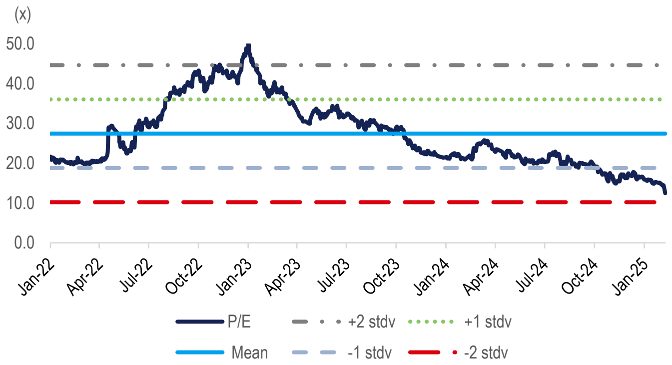
Source: Indo Premier, Bloomberg

Fig. 79: ISAT IJ forward P/B Band



Source: Indo Premier, Bloomberg

Fig. 80: ISAT IJ forward P/E band



Source: Indo Premier, Bloomberg

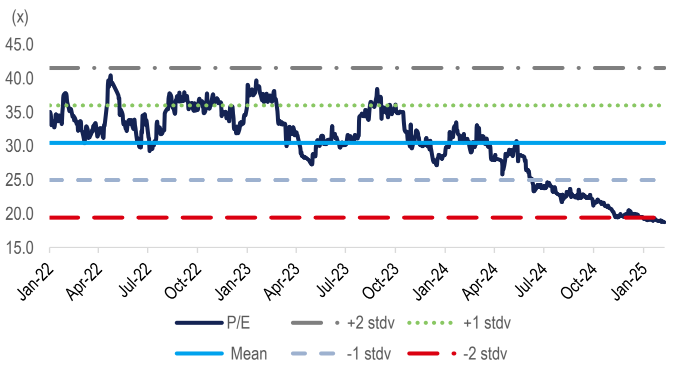
Fig. 81: EXCL IJ forward Adjusted EV/EBITDA

Source: Indo Premier, Bloomberg

Fig. 82: EXCL IJ forward EV/EBITDA

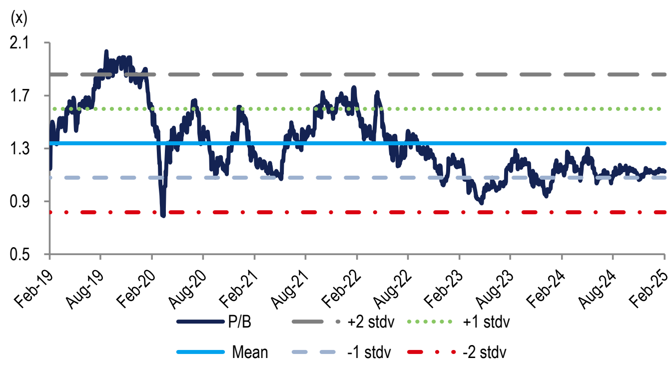
Source: Indo Premier, Bloomberg

Fig. 83: EXCL IJ forward P/E Band



Source: Indo Premier, Bloomberg

Fig. 84: EXCL IJ forward P/B band



Source: Indo Premier, Bloomberg

Fig. 85: Telco sector valuation comparisons – based on the 20 Feb 2025 closing prices

Company	Bloomberg Ticker	Market Cap (US$mn)	Last Price (local curr.)	Target Price	P/E (x)			P/B (x)			Adjusted EV/EBITDA (x)			EV/EBITDA (x)			Price to Cash Flow (x)			Net Gearing (x)			ROE (%)			Net Profit CAGR (%)
					2025F	2026F	2027F	2025F	2026F	2027F	2025F	2026F	2027F	2025F	2026F	2027F	2025F	2026F	2027F	2025F	2026F	2027F	2025F	2026F	2027F	2024-27F
Indonesia																										
Telkom Indonesia	TLKM IJ Equity	16,203	2,670	2,750	11.3	11.2	10.5	1.6	1.5	1.5	4.3	4.2	4.1	4.3	4.2	4.0	4.5	4.3	4.0	0.2	0.2	0.2	14.0	13.7	14.1	3.5
Indosat Ooredo Hutchison	ISAT IJ Equity	3,467	1,755	2,220	9.4	8.1	7.3	1.4	1.3	1.2	3.7	3.4	3.2	3.9	3.6	3.4	3.7	3.4	3.2	0.3	0.3	0.2	14.9	15.8	16.2	16.9
XL Axiata	EXCL IJ Equity	1,826	2,270	2,820	15.8	14.1	12.4	1.1	1.1	1.0	3.4	3.1	2.7	3.8	3.7	3.4	2.0	1.9	1.9	0.3	0.2	0.1	7.0	7.5	8.2	16.8
Total		**21,496**																								
Simple average					**12.2**	**11.1**	**10.1**	**1.4**	**1.3**	**1.2**	**3.8**	**3.6**	**3.3**	**4.0**	**3.8**	**3.6**	**3.4**	**3.2**	**3.0**	**0.3**	**0.2**	**0.2**	**12.0**	**12.3**	**12.8**	**12.4**
Median					**11.3**	**11.2**	**10.5**	**1.4**	**1.3**	**1.2**	**3.7**	**3.4**	**3.2**	**3.9**	**3.7**	**3.4**	**3.7**	**3.4**	**3.2**	**0.3**	**0.2**	**0.2**	**14.0**	**13.7**	**14.1**	**16.8**
Malaysia																										
Telekom Malaysia	T MK Equity	5,900	7	Not-rated	15.6	14.7	13.9	2.4	2.3	n.a				6.0	5.8	n.a	6.0	5.7	n.a	0.1	0.1	n.a	16.0	15.8	n.a	5.0
Axiata Group	AXIATA MK Equity	4,291	2	Not-rated	18.8	16.2	n.a	0.9	0.8	n.a				4.7	4.6	n.a	2.3	2.1	n.a	1.0	0.9	n.a	4.2	4.9	n.a	(6.4)
Celcomdigi Berhad	CDB MK Equity	8,899	3	Not-rated	19.0	18.0	14.0	2.4	2.4	n.a				8.4	8.3	8.5	7.7	7.5	n.a	0.7	0.6	0.6	12.5	12.8	14.8	5.8
Maxis Berhad	MAXIS MK Equity	6,066	3	Not-rated	17.3	16.5	15.6	4.3	4.3	n.a				8.4	8.3	8.0	7.8	8.0	n.a	1.2	0.9	1.0	25.2	25.1	24.0	4.8
Total		**25,156**																								
Simple average					**17.7**	**16.3**	**14.5**	**2.5**	**2.4**	n.a				**6.9**	**6.8**	**8.2**	**5.9**	**5.8**	**n.a**	**0.8**	**0.6**	**0.8**	**14.5**	**14.7**	**19.4**	**2.3**
Median					**18.1**	**16.3**	**14.0**	**2.4**	**2.3**	n.a				**7.2**	**7.1**	**8.2**	**6.8**	**6.6**	**n.a**	**0.8**	**0.8**	**0.8**	**14.3**	**14.3**	**19.4**	**4.9**
India																										
Bharti Airtel	BHARTI IN Equity	113,569	1,644	Not-rated	45.7	33.3	25.0	9.2	7.6	6.2				13.3	11.1	9.7	14.1	12.0	10.6	1.9	1.1	0.6	24.5	25.3	28.3	73.6
Vodafone Idea	IDEA IN Equity	6,815	8	Not-rated	n.a	n.a	n.a	n.a	n.a	n.a				16.1	13.8	11.3	12.8	28.5	15.8	(2.1)	(1.6)	(1.7)	26.0	18.1	15.9	(10.9)
Reliance Jio	RELIANCE IN Equi	192,596	1,233	Not-rated	23.6	19.5	17.1	1.9	1.6	1.6				11.7	10.1	9.1	12.1	11.2	10.3	0.3	0.2	0.2	8.5	9.2	9.7	11.2
Total		**312,980**																								
Simple average					**34.6**	**26.4**	**21.1**	**5.6**	**4.6**	**3.9**				**13.7**	**11.7**	**10.0**	**13.0**	**17.2**	**12.2**	**0.0**	**(0.1)**	**(0.3)**	**19.6**	**17.5**	**18.0**	**24.6**
Median					**34.6**	**26.4**	**21.1**	**5.6**	**4.6**	**3.9**				**13.3**	**11.1**	**9.7**	**12.8**	**12.0**	**10.6**	**0.3**	**0.2**	**0.2**	**24.5**	**18.1**	**15.9**	**11.2**
Thailand																										
Advanced Info Service	ADVANC TB Equity	25,022	283	Not-rated	22.0	20.1	18.7	8.3	7.9	7.7				8.9	8.6	8.5	8.0	7.8	7.6	1.7	1.4	1.4	39.0	39.6	40.9	8.6
True Corp.	TRUE TB Equity	13,148	13	Not-rated	31.1	23.7	14.1	4.6	4.1	n.a				8.2	7.8	7.3	5.6	5.1	n.a	3.6	3.5	n.a	12.2	16.6	n.a	42.2
Total		**38,170**																								
Simple average					**26.6**	**21.9**	**16.4**	**6.5**	**6.0**	**7.7**				**8.6**	**8.2**	**7.9**	**6.8**	**6.4**	**7.6**	**2.7**	**2.4**	**1.4**	**25.6**	**28.1**	**40.9**	**25.4**
Median					**26.6**	**21.9**	**16.4**	**6.5**	**6.0**	**7.7**				**8.6**	**8.2**	**7.9**	**6.8**	**6.4**	**7.6**	**2.7**	**2.4**	**1.4**	**25.6**	**28.1**	**40.9**	**25.4**

Source: Indo Premier, Bloomberg

Brief overview: evolution of Indonesia's telco technology and landscape

In the early 2000s, Indonesia's telecommunications landscape was still in its infancy, with mobile phones becoming increasingly common but largely confined to basic voice and SMS services. 2G GSM networks dominated the mobile market, offering limited data services. At this time, only a few urban areas had access to the internet, with dial-up connections being the predominant method for fixed broadband. These early fixed broadband services were slow, with speeds typically under 56 kbps.

Despite the limited internet infrastructure, mobile phones began to gain traction, and companies like Telkomsel and Indosat expanded their customer base. Fixed broadband was largely confined to major cities such as Jakarta and Surabaya, with DSL services available to a limited number of households.

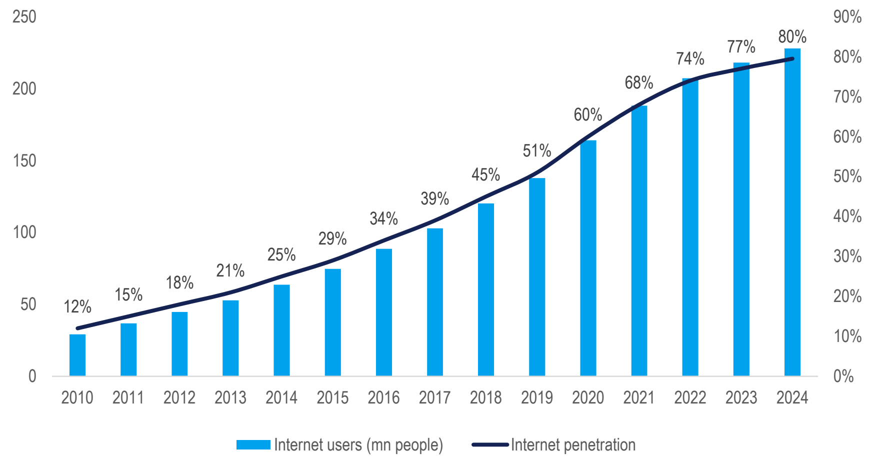
By the mid-2000s, mobile telecommunications in Indonesia evolved rapidly. **3G networks were introduced,** enabling faster mobile internet speeds, ranging from 384 kbps to 2 Mbps. The launch of 3G networks like Telkomsel's Flash and Indosat's IM3 made mobile internet more widely available and accessible. This enabled the growth of mobile data services, including basic browsing, mobile email, and even the early stages of video calling and mobile apps.

For fixed broadband, DSL and cable broadband services expanded into more urban areas, although they were still not available nationwide. Fiber-optic networks were in their nascent stages, with Telkom Indonesia beginning to roll out its IndiHome fiber broadband service in selected regions by the late 2000s. However, broadband access **remained** limited, especially in rural and remote areas, where mobile data continued to be the dominant form of internet access.

The 2010s marked a shift towards 4G LTE technology, which provided significant improvements in speed and capacity over 3G. By 2015, Telkomsel and Indosat Ooredoo had launched 4G LTE networks in select regions, allowing mobile users to access high-speed internet with speeds ranging from 10 Mbps to 100 Mbps, facilitating HD video streaming, mobile gaming, and more data-intensive applications. However, 4G coverage was initially limited to major cities such as Jakarta, Bandung, and Surabaya.

During this period, Indonesia saw a rapid rise in internet penetration, especially by 2014. The proliferation of affordable smartphones and expanding network coverage were central to this growth.

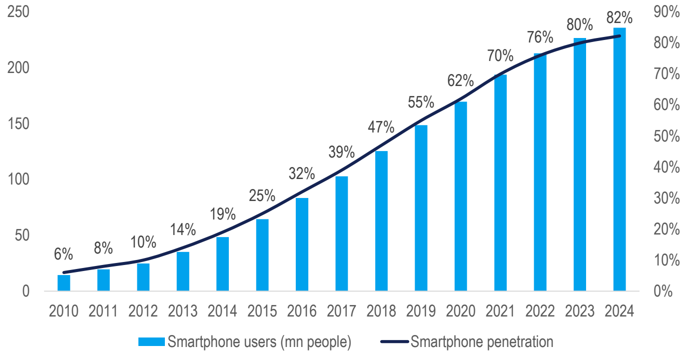
Fig. 86: Indonesia's internet penetration has been rising significantly in the past decade



Source: Statista, World Bank, BPS, Indo Premier

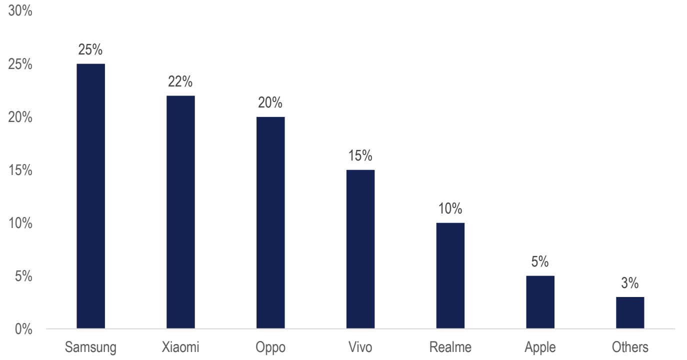
This shift coincided with the entry of Chinese smartphone brands such as Xiaomi, Oppo, and Vivo, which offered high-quality devices priced at around Rp1mn or less. These affordable options drastically reduced entry barriers for low- and middle-income consumers. Additionally, Samsung's expansion into the budget smartphone market further supported this trend.

Fig. 87: Smartphone penetration in Indonesia increased significantly by 2015



Source: Statista, Indo Premier

Fig. 88: Affordable smartphone brands dominate among Indonesia's users (2024)



Source: Statista, Counterpoint research, Indo Premier

On the fixed broadband side, fiber-optic technology began to gain traction. IndiHome (Telkom Indonesia) became a dominant player, aggressively expanding its FTTH (Fiber to the Home) network to serve more households across major urban areas. The government also started pushing for broadband infrastructure development through initiatives like 100 Smart Cities and rural broadband projects to increase internet penetration. During this period, cable broadband from players like First Media and MNC Play became more popular, offering better speeds than DSL. However, the broadband market remained fragmented, and service quality varied across different regions.

By the mid-2010s, mobile operators in Indonesia began focusing on Fixed-Mobile Convergence (FMC) strategies to integrate their mobile and fixed broadband services. Telkomsel (through IndiHome) and Indosat Ooredoo began offering bundled services, allowing customers to enjoy both mobile and home broadband at competitive prices. XL Axiata also pursued this strategy, acquiring First Media in 2024 as part of their broader push into fixed broadband. This period saw significant growth in fiber-optic broadband with FTTH networks expanding to more regions. While urban areas saw a faster rollout, operators still faced challenges in rural areas, where the affordability and availability of broadband services remained limited. RT/RW Net, a community-based broadband initiative, also gained popularity as an affordable solution for residential areas, allowing users to pool subscriptions within a neighborhood for reduced costs. Mobile data consumption skyrocketed during this period, fueled by the rise of smartphones, mobile applications, and digital content platforms. 4G LTE coverage expanded nationwide, and the focus shifted toward preparing for the rollout of 5G networks.

By 2020, the telco sector in Indonesia saw the initial rollout of 5G networks, with Telkomsel and Indosat Ooredoo among the first to trial 5G technology in urban areas. 5G promised faster speeds, lower latency, and higher capacity, paving the way for new applications such as smart cities, autonomous vehicles, and enhanced IoT devices. 5G speeds of 1 Gbps or higher are expected to become the norm in the coming years.On the fixed broadband front, fiber-optic networks continue to expand across Indonesia. IndiHome remains the leader in the sector, but XL Axiata and

Indosat Ooredoo are aggressively pursuing growth through acquisitions (such as First Media and MNC Play) and partnerships with local players. Starlink, the satellite broadband service from SpaceX, began offering services in Indonesia in 2023, providing a potential alternative to traditional broadband, especially in remote or underserved regions. The affordability of broadband has continued to be a critical challenge, especially in rural areas. Despite this, Indonesia's broadband market continues to grow rapidly, driven by the expanding middle class and the increasing demand for digital services like streaming, e-commerce, and online education.

Regulatory frameworks

Underlying Regulations, Ministry, and Agency
Indonesia's telecommunications (telco) industry is regulated by Law No. 36/1999 (which replaced Law No. 3/1989), with certain provisions renewed under the Omnibus Law (Law No. 11/2020). The implementing regulations include Government Regulation No. 52/2000 (on telco operations) and Government Regulation No. 53/2000 (on radio frequency spectrum and satellite orbit), with additional renewals provided under Government Regulation No. 46/2021 (implementing regulations of the Omnibus Law for post, telco, and broadcasting).

The Ministry of Communication and Digital Affairs (Komdigi) is the government agency responsible for communication and information technology in Indonesia. This name change, from the previous Ministry of Communication and Information Technology (Kominfo), reflects Indonesia's evolving digital priorities and was implemented in October 2024 under the current administration. Previously, the Indonesian Telecommunications Regulation Authority (BRTI), an agency under Komdigi, regulated and supervised the telco industry; however, in 2020, the government disbanded BRTI along with nine other agencies (including those in non-telco sectors) to improve efficiency.

Through Law No. 36/1999, the government enhanced competition in the telco industry by prohibiting monopolistic practices and unhealthy business competition among telco players. The Indonesian Business Competition Supervisory Commission (KPPU), established under Law No. 5/1999 (concerning the prohibition of monopoly practices and unfair competition), ensures healthy and fair competition in Indonesia, including within the telco sector. KPPU is an independent agency that reports periodically to the president and parliament.

Telco operations in Indonesia
According to applicable laws and regulations, Indonesia's telco operations encompass three main categories: telco networks, telco services, and special telco operations.

Telco networks in Indonesia are divided into fixed and mobile:

- Fixed networks include local, direct domestic long-distance, international, closed, and other fixed networks as determined by Komdigi.
- Mobile networks include terrestrial, cellular, satellite, and other networks as determined by Komdigi.

Telco services are classified into:

1. Basic telephony services – these are services based on circuit-switched technology that can utilize Internet protocol technology (e.g., telephone and fax). Providers include:
   - Fixed local network operators (circuit switches)
   - Fixed direct domestic long-distance network operators
   - Fixed international network operators
   - Mobile cellular network operators
   - Mobile satellite network operators
   - Mobile terrestrial network operators
   - Telco providers offering satellite-based telephony services with landing rights
2. Value-added telephony services – these include calling cards, premium calls, voice response, and radio calls for public use.
3. Multimedia services – these include VoIP, internet and intranet services, data communications, video conferencing, and entertainment video services.
4. Special telco operations – these are permitted for internal use as well as for national defense and security.

Licensing regulations

Telco networks and service providers can be state-owned enterprises (SOE), regionally owned enterprises (ROE), private entities, or cooperatives. Providers may commence operations after fulfilling the central government's business licensing requirements. Operational or commercial licenses are issued as contracts between the telco providers and Komdigi and are subject to evaluation every five years. Providers with these licenses must begin developing their networks or services within the first year of the initial five-year period. Additionally, telco providers are required to pay an operation rights fee for telecommunications (biaya hak penyelenggaraan telekomunikasi, or BHP telekomunikasi) equal to 0.5% of gross revenue annually, which is considered a part of the state's non-tax revenue.

Removal of foreign ownership restrictions

The government fully removed foreign ownership restrictions for telco networks, service providers, and telco towers through the issuance of Presidential Decree No. 10/2021 (regarding investment). Previously, the negative investment list in 2016 limited foreign ownership for telco network and service providers to 67% and mandated 100% domestic ownership for telco tower businesses. Under the latest 2021 priority investment list, these restrictions were eliminated.

Telco network and service tariffs

Under the Omnibus Law, the government simplified the tariff structure for fixed and mobile networks. Providers determine network and service tariffs based on a formula set by the central government, with the retail tariff comprising both the network and service tariffs plus a profit margin. The Omnibus Law allows for the setting of tariff limits (both ceiling and floor) to protect consumer interests and ensure fair competition.

Fig. 89: Telco network and service – tariff type and structures (based on latest regulations)

Types		Structures
Netw ork	netw ork rental fee interconnection fee	activation fee + usage fee
Service	basic telephony service fee value added service fee multimedia service fee	activation fee + monthly subscription fee + usage fee

Source: Indo Premier, Government of Indonesia

The Omnibus Law is now enabled to determine tariff limits (ceiling and floor) for telco networks and services by considering the interests of society and fair business competition. In our view, floor prices could help to ease price competition. However, we believe that setting the ceiling price below the commercial range could pose a risk to providers.

Interconnection

Telco service providers are required to provide interconnections in the form of contracts between providers. Telco services through two telco networks or more are subject to interconnection fees. Telco network operators are required to channel traffic through other telco network operators and to pay fees if there is no direct relationship with telco network operators in the destination areas, i.e., domestic and abroad, and there is insufficient direct line capacity.

Universal service obligations (USO)

Telco providers are required to contribute universal service obligations (USO) amounting to 1.25% of gross revenue annually. USO is considered a state non-tax revenue. Komdigi regulates USO contribution in conjunction with national digital transformation. The USO is intended to help provide telco networks and services in remote areas and/or areas where such networks and services are not yet developed.

The USO contribution could be in the form of:

1) provision of telco infra in the universal service area; and
2) funding to provide telco services in the universal service area.

Radio frequency spectrum regulations

The Komdigi regulates and issues licences for radio frequency spectrum (or spectrum) usage, including:

1) Radio frequency band licence (IPFR – izin pita frekuensi radio) – for the usage of spectrum in the form of radio frequency band, which is used by telco providers. The licence is valid for 10 years and eligible for a one-time extension (10 years) after a one-off evaluation.
2) Radio station licence (ISR – izin stasiun radio) – for the usage of spectrum in the form of radio frequency channel. The licence is valid for five years and is eligible for a one-time extension (5 years) after a one-off evaluation.

Class license—for the usage of spectrum attached to telco devices with certain technical standard requirements. IPFR license holders are required to pay an operation rights fee for spectrum usage (biaya hak penyelenggaraan untuk spektrum frekuensi radio, or BHP-SFR) to the government for spectrum usage, i.e., an upfront fee (for the initial permit) and an annual fee. This is considered non-tax state revenue. The government determines the BHP-SFR fee based on the type of spectrum, bandwidth, channel width, coverage, location, economic value of spectrum, market demand, and/or inflation. The government may adjust the BHP-SFR fee for spectrum optimization and burden sharing in the national interest. As the extension period ends, license holders can propose license renewals through an evaluation mechanism. Existing license holders have priority rights during license renewal if they meet certain requirements. During the license renewal proposal, the government could adjust the BHP fee according to the economic value of the frequency band.

The Omnibus Law now permits providers to collaborate on spectrum sharing usage, subject to Komdigi's approval. This could be in the form of using another provider’s frequency band and/or by merging several frequency bands for shared use, as well as other forms that are appropriate with technological improvements. The spectrum sharing is valid during the IPFR license period, which follows the fastest expiration license period among the respective providers in the cooperation. The government will supervise and control the sharing spectrum usage annually and may end the cooperation if it is not in accordance with regulations. Spectrum sharing is applicable for new technology implementation after the issuance of the Omnibus Law. The key aims include 1) optimization of spectrum usage, 2) cost efficiency, 3) wider network coverage, 4) increasing service quality, and 5) meeting affordability. This regulation may be positive for the implementation of 5G in Indonesia (i.e., optimizing spectrum usage and allocations), in our view.

In addition, the government, through the Omnibus Law, allows the transfer of spectrum rights with approval from Komdigi without any merger and/or acquisition. Previously, only merger and/or acquisition circumstances allowed the transfer of spectrum rights. We believe that this is positive for the sector as it increases telco providers’ agility in adapting to technological improvements.

The government can optimize spectrums for licenses granted. This includes migration, refarming (spectrum frequency allocation re-arrangement), license cancellation, and other forms as determined by Komdigi.

Radio frequency spectrum allocations

The government allocates spectrum frequency (band and channel plans) based on radio regulations issued by the International Telecommunications Union (ITU), which is renewed every four years. The government of Indonesia's latest frequency band allocations were issued through Komdigi Ministerial Decree No. 13/Year 2018, based on radio regulations from 2016. Currently, mobile cellular frequency spectrum allocations in Indonesia include 450 MHz (450-457.5 MHz paired with 467.5 MHz), 850 MHz, 900 MHz, 1.8 GHz, 2.1 GHz (1,920-1,980 MHz paired with 2,110-2,170 MHz), and 2.3 GHz (2,300-2,400 MHz).

Other than the abovementioned frequency spectrum, the government has prioritized the usage of some other spectrum for international mobile telecommunications (IMT) implementation. IMT is the generic term used by the ITU community to designate broadband mobile systems, i.e., IMT-2000, IMT-Advance, and IMT-2020 collectively.

Fig. 90: Frequency band allocations as of 2018 (for USO, IMT, mobile cellular, and wireless broadband)

Code	Freqency band (MHz)			Allocations
	Unpaired	Paired		
INS06	259–260			Universal service obligations (USO)
	343.1–345.1			
	357.1–359.1			
	389–390			
INS12		450-457.5	460-467.5	Prioritise for mobile cellular network
	450-470			Prioritise for implementation of IMT
INS13	694-806			Prioritise for implementation of IMT. There is no new allocation in this band for television broadcasting since 31 Dec 2014
INS14	790-960			Prioritise for implementation of IMT
INS15		824-835	869-880	Prioritise for mobile cellular network
		880-890	925-935	
		760-960		Prioritise for implementation of IMT
INS16		890-915	935-960	Prioritise for mobile cellular network
	790-960			Prioritise for implementation of IMT
INS17A	1,427-1,518			Prioritise for implementation of IMT
INS19		1,710-1,785	1,805-1,880	Prioritise for mobile cellular network, and implementation of IMT
INS21	1,880-1,920			Prioritise for mobile cellular network, to implement IMT with TDD
	2,010-2,025			
INS21A		1,920-1,980	2,110-2,170	Prioritise for mobile cellular network, and implementation of IMT
INS22	1,980-2,010			Allocated for mobile satellite service (MSS) that implement IMT
	2,170-2,200			
INS24	2,300-2,400			Prioritise for wireless broadband and/or mobile cellular network that implement IMT
INS23	2,053-2,083			Allocated for wireless broadband
INS26	2,500-2,520			Allocated for wireless broadband, and implementation of IMT
	2,670-2,690			
INS26A	2,520-2,670			Allocated for broadcasting satellite service until 31 Dec 2024. This band will be prioritised for IMT implementation by 1 Jan 2025.
INS27	3,300-3,400			Allocated for wireless broadband
INS33	10,154-10,294			Allocated for wireless broadband
	10,504-10,644			

*IMT - International mobile telecommunications

Source: Indo Premier, Government of Indonesia

Submarine fibre optic regulations

Komdigi issues licences for landing rights of sea communication cable systems (sistem komunikasi kabel laut or SKKL), including for:

1) Domestic SKKL
   This could be provided by a fixed closed network operator and fixed direct domestic long distance network operator.
2) International SKKL
   This could be provided by a fixed international operator and fixed closed network operator (after fulfilling at least 5 years of development commitments).

Foreign providers are required to be in cooperation with a fixed international network operator and/or fixed closed network operator in Indonesia.

Fig. 91: Submarine and terrestrial fiber optic networks in Indonesia

Provider	Length (km)	Length in ZEE (km)	Cable system
Indosat	15,049	8,209	SEAMEWE 3, JS, Jakabre, Jakasusi, Javali, Jasutra, JIBA, INDIGO
Jejaring Mitra Perdana	2,200	2,192	DAMAI, B3JS, Jayabaya, JBCS
LEN Telekomunikasi Indonesia (for center palapa ring)	1,798	1,798	Palapa ring tengah
Mora Telematika Indonesia	1,580	1,803	MIC-1, MBDC, Tandansuka, Extend PTT
NAP Info Lintas Nasa	1,046	1,035	MCS
Palapa Ring Barat (for west palapa ring)	1,719	1,719	Palapa ring barat
Palapa Ring Timur (for east palapa ring)	4,555	4,555	Palapa ring timur
PGAS Telekomunikasi Nusantara	284	261	SBWC, BRPP
Super Sistem Ultima	976	750	EWS, SEAX-1
Telkom Indonesia	22,706	22,706	SUB, Jasuka, Anyer-Kaliandra, SBCS, HPBB, TSCS, Jaka2salema, MKCS, LTCS, SMPCS, IGG, Matanusa, SLM, IKK
Telekomunikasi Indonesia International	55,139	5,459	TIS, DMCS, BSCS, AAG, SJC, SEAMEWE 5, SEA-US
XL Axiata	7,741	4,541	BALOK, ACS, BRCS, SJJK, LINK 1, LINK 2, LINK 3, LINK 4, LINK 5
Mega Akses Persada	41	41	Pasuli
Total	**114,834**	**55,069**	

Source: Indo Premier, Komdigi

Telco infrastructure regulations

The government has said that it will provide easy access and/or facilities for telco providers for infra development. The government could provide facilities for infrastructure development at appropriate and affordable prices, i.e., land, buildings, and/or passive telco infrastructure. Passive telco infra includes ducting, tower, pole, manhole, and/or others. Active telco infrastructure encompasses devices utilized for network operations, such as radio access networks. Business owners that own passive telco infra are required to allow open access for other telco providers. Meanwhile, business owners who own non-passive telco infrastructure may grant open access to telco providers and/or broadcasters for usage. These are to be in the form of cooperation among respective parties with contracts.

INDOPREMIER

Indosat Ooredoo Hutchison

BUY

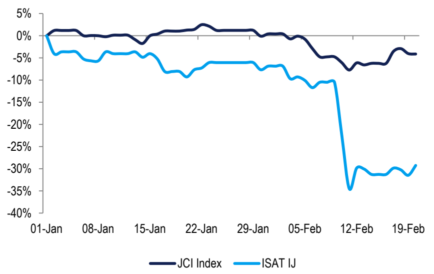
Company Initiation | Telecommunications | ISAT IJ | 21 February 2025

Stock Data

Target price	**Rp2,220**
Prior TP	*N/A*
Current price	1,755
Upside/downside	*+26.5%*
Shares outstanding (mn)	32,251
Market cap (Rp bn)	56,600
Free float	16%
Avg. 6m daily T/O (Rp bn)	46

Price Performance

	3M	6M	12M
Absolute	-26.3%	-37.3%	-27.3%
Relative to JCI	-20.8%	-27.4%	-19.6%
52w low/high (Rp)			1,625 – 3,013



Major Shareholders

Ooredoo Hutchison	65.6%
Perusahaan Pengelola Aset	9.6%
Tiga Telekomunikasi Indonesia	8.3%

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Sustaining growth momentum

- Post-merger, ISAT's significant network capacity expansions has led to improving network quality and performance, leading to solid growth.
- We estimate ISAT to deliver above-peers' growth with an improving balance sheet, FCFF, and return outlook.
- We reinitiate ISAT with a BUY call and a TP of Rp2,220/sh; a top pick in our sector.

Vast network expansions with enhanced quality and performance

Indosat Ooredoo materialized the merger with Hutchison 3 Indonesia in in 1Q22, becoming Indosat Ooredoo Hutchison and the second-largest telco provider in Indonesia. It completed the network integration by Mar23, 12 months ahead of schedule. Post-merger, it gained an improved spectrum portfolio and bigger bandwidth capacity, leading to improved network quality and performance. Furthermore, it has been expanding network coverage to up to 10 new cities in Indonesia while having a net add of 51.6k BTS within 3M22 to FY24, 26% higher BTS at the end of FY24 vs. in 3M22. Enhanced network performance encourages higher data consumption for its subscribers. Going forward, it will continue to roll out networks but at a slower pace, mainly focusing on existing cities.

Expecting growth outperformance and improving return outlook

In FY24-27F, we estimate 6.3% EBITDA/16.9% core NP CAGR for IOH, outperforming the sector's average of 4.5% EBITDA/6.7% core NP CAGR. This is primarily attributed to growing mobile cellular revenue, expected to grow by 4.8% CAGR in FY24-27F. We estimate MIDI segment revenue could grow higher by 8.4% CAGR in FY24-27F but still with a much smaller attribution to overall revenue. We estimate EBITDA margin shall gradually improve from 47.2% in FY24 to 48.6% by FY27F. This is due to growing mobile revenue along with normalizing capex, leading to slower incremental depreciation and amortization expenses. We expect its ROIC to gradually improve from 9.7% in FY24 to 11.6% in FY27F.

Reinitiate with a BUY call; our sector top pick

We estimate a stable improvement in its balance sheet. We expect its FCFF (including lease payments) to turn positive by FY25F. It guides for a higher dividend payout outlook (DPO) in the future, potentially reaching a 70% payout ratio by FY26F. We now assume a gradual DPO increase to 55%-70% in FY25-27F, providing 5-9% yield from the closing price as of 20 Feb 2025. Our TP is Rp2,220/sh, based on 4.5x adjusted EV/EBITDA FY25F (c.0.5 s.d. below mean), and similar to TLKM's current valuation. Potential key risks: worsening price competition dynamics.

Financial Summary (Rp bn)	2023A	2024A	2025F	2026F	2027F
Revenue	51,229	55,887	58,993	62,227	65,278
EBITDA	23,938	26,375	28,308	30,057	31,703
EBITDA growth	23.0%	10.2%	7.3%	6.2%	5.5%
Net profit	4,506	4,911	6,023	6,995	7,701
EPS	140	152	187	217	239
EPS growth	-4.6%	9.0%	22.6%	16.1%	10.1%
ROE	13.4%	13.4%	14.9%	15.8%	16.2%
PER (x)	12.6	11.5	9.4	8.1	7.3
Adjusted EV/EBITDA (x)	4.6	4.0	3.7	3.4	3.2
Dividend yield	3.6%	3.8%	4.8%	6.4%	8.7%

Source: Company, Indo Premier *Share price closing as of: 20 February 2025*

Operational and financial highlights

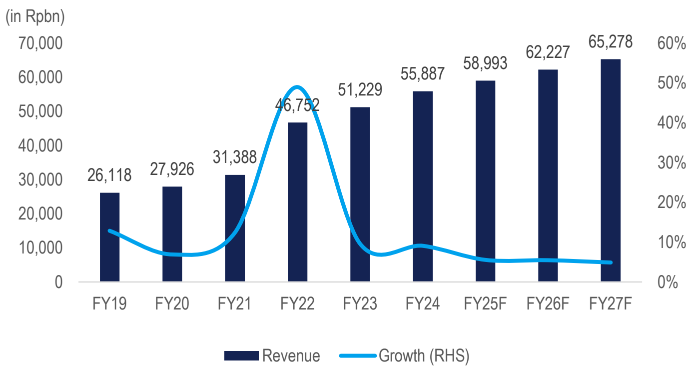
We estimate that ISAT could achieve an EBITDA CAGR of 6.3% and a core NP CAGR of 16.9% in FY24-27F. Our FY25-27F estimates are in line with consensus estimates. The potential upside risk to our estimate is a faster-than-expected acceleration on its B2B business growth. Our EBITDA growth estimate for FY25F is 7% yoy, which is below the company's guidance of more than 10% EBITDA growth for FY25F. We believe this is mainly due to our more conservative growth assumption for its B2B segment.

Fig. 92: Key operational assumptions

Assumption	2024	2025F	2026F	2027F
Mobile				
ARPU (Rp'000)/month	38.0	39.9	41.9	43.8
growth, yoy	6.7%	4.9%	5.1%	4.4%
Cellular subscriber (mn people)	94.7	94.9	94.9	94.9
growth, yoy	-4.1%	0.2%	0.0%	0.0%
Monthly data usage/subs (GB/mth)	15.1	16.7	18.0	19.3
growth, yoy	12.4%	10.0%	8.0%	7.0%
Data penetration	92.0%	92.0%	92.5%	92.5%
growth, yoy	2.2%	0.0%	0.5%	0.0%
Data yield (Rp/MB)	2.7	2.7	2.6	2.6
growth, yoy	-4.4%	-2.0%	-2.0%	-2.0%
Data traffic (PB)	16,170.0	17,455.4	18,954.3	20,281.1
growth, yoy	12.2%	7.9%	8.6%	7.0%
Capex + lease (Rpbn)	16,450.5	11,798.5	11,946.0	12,095.4
as % to revenue	32%	21%	20%	19%
Capex (Rpbn) - FA only	8,855.8	5,899.3	5,987.7	6,077.6
as % to revenue	16%	10%	10%	9%

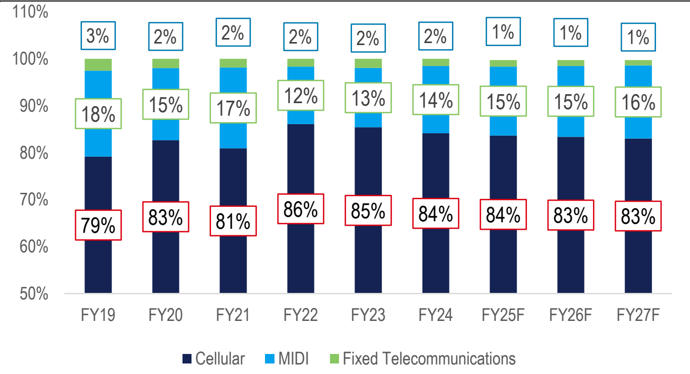
Source: Company report, Indo Premier

Fig. 93: We estimate revenue to grow by 5% CAGR in FY24-27F



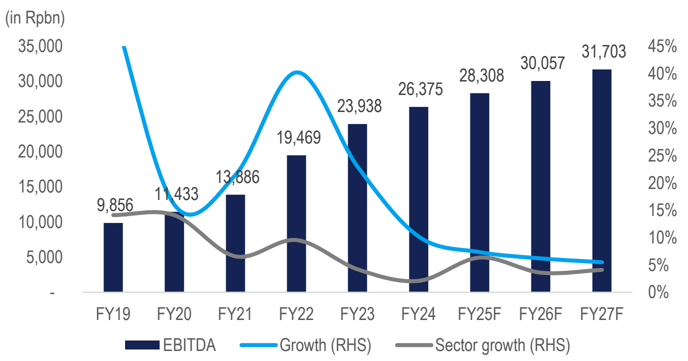
Source: Company report, Indo Premier

Fig. 94: ISAT's revenue remains predominantly attributed to the cellular business segment, despite the growing contribution from MIDI revenue



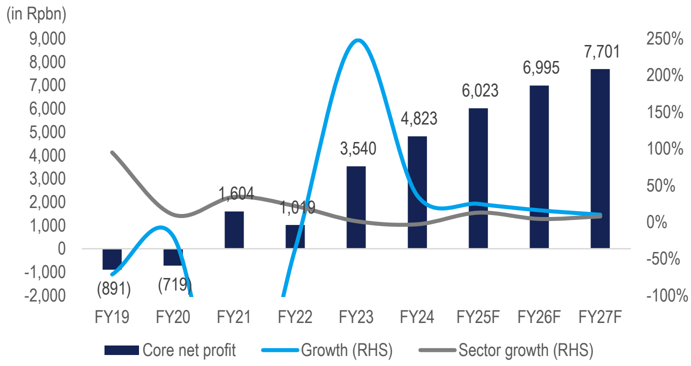
Source: Company report, Indo Premier

Fig. 95: We estimate that FY24-27F EBITDA could grow by 5-7%, exceeding the sector's growth of 3-6%



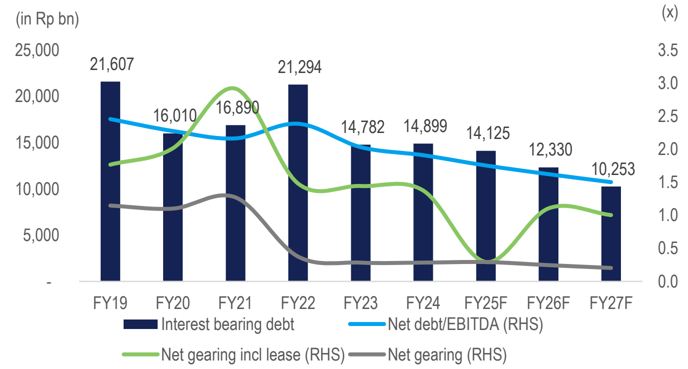
Source: Company report, Indo Premier

Fig. 96: We estimate that FY24-27F core NP could grow by 10-25%, exceeding the sector's growth of 4-8%



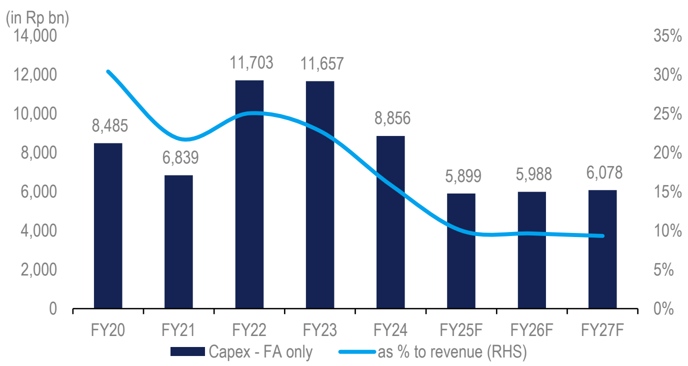
Source: Company report, Indo Premier

Fig. 97: We anticipate a stable improvement in balance sheets



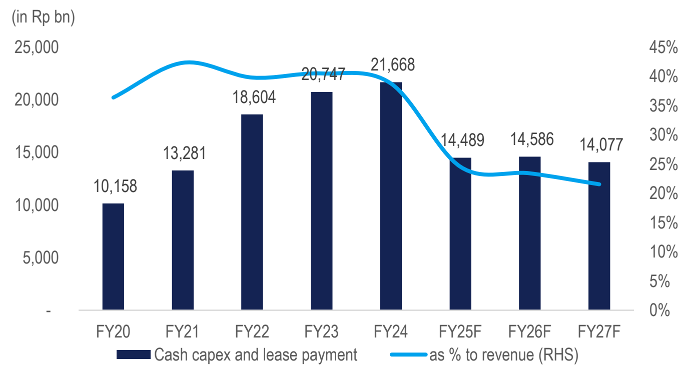
Source: Company report, Indo Premier

Fig. 98: We expect for capex normalization outlook. Our FY25F capex estimate is lower than the company's guidance of Rp13tn, mainly because we anticipate a normalization in network rollout



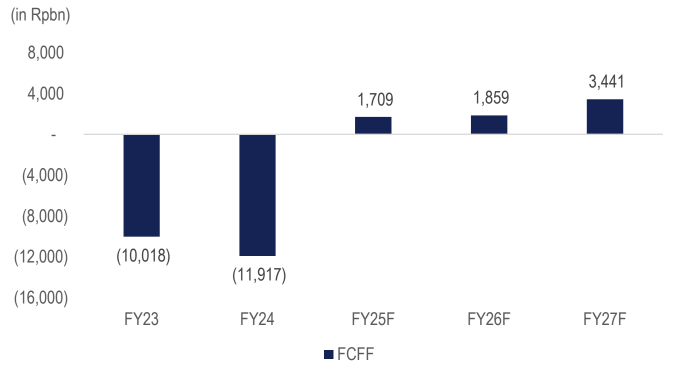
Source: Company report, Indo Premier

Fig. 99: We also expect combined cash capex and lease payments to normalize in FY25-27F



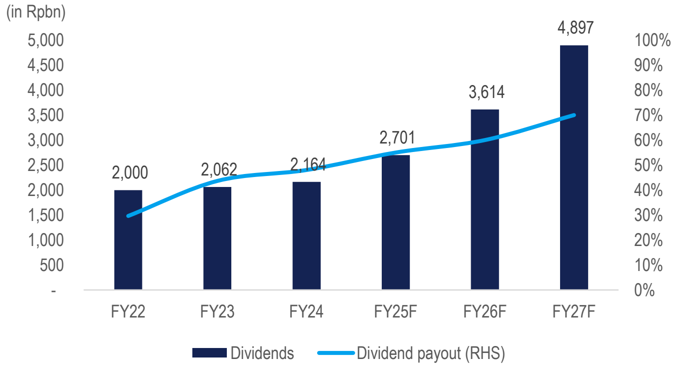
Source: Company report, Indo Premier

Fig. 100: We anticipate that ISAT will turn FCFF positive (after lease payments) by FY25F



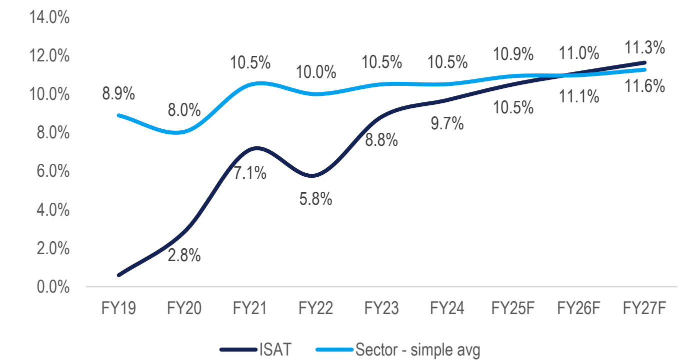
Source: Company report, Indo Premier

Fig. 101: Positive FCFF generation allows ISAT to payout higher dividend going forward



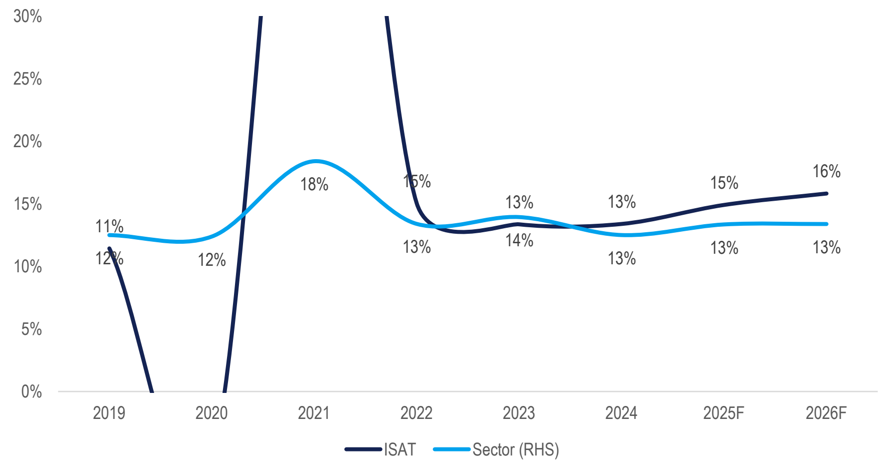
Source: Company report, Indo Premier

Fig. 102: We expect ROIC outlook to improve



Source: Company report, Indo Premier

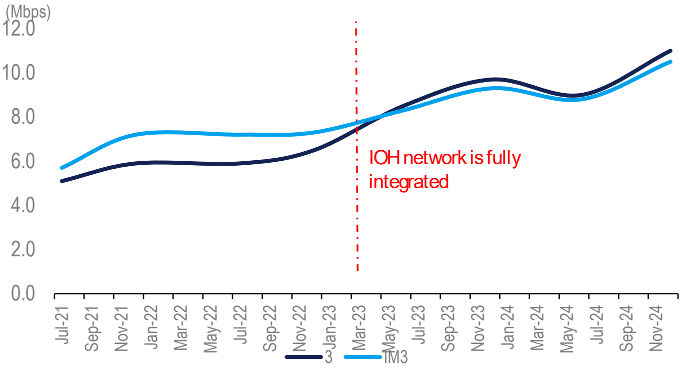
Fig. 103: As well as, improvement in the ROE outlook



Source: Open Signals, Indo Premier

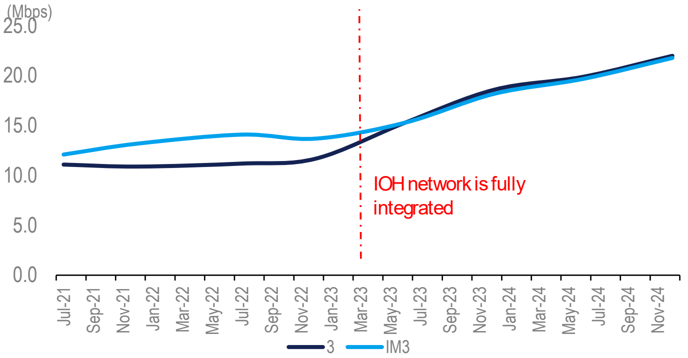
Notable enhancements in network performance

Fig. 104: As of Dec24, IM3/H3 upload speed improved to 10.5/11 Mbps, compared to 7.2/5.9 Mbps in Dec21



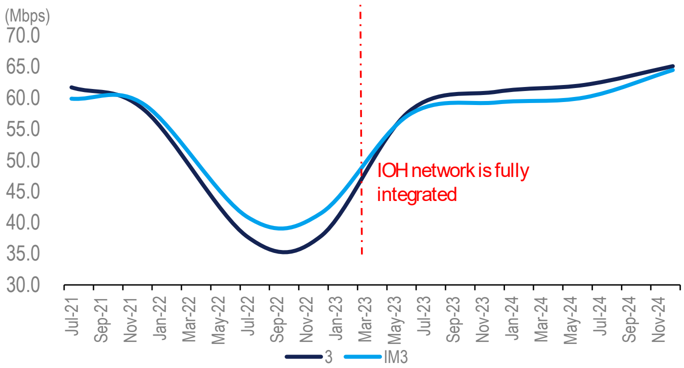
Source: Company report, Indo Premier

Fig. 105: As of Dec24, IM3/H3 download speed improved to 21.8/22Mbps, compared to 13.2/10.9Mbps in Dec21, respectively



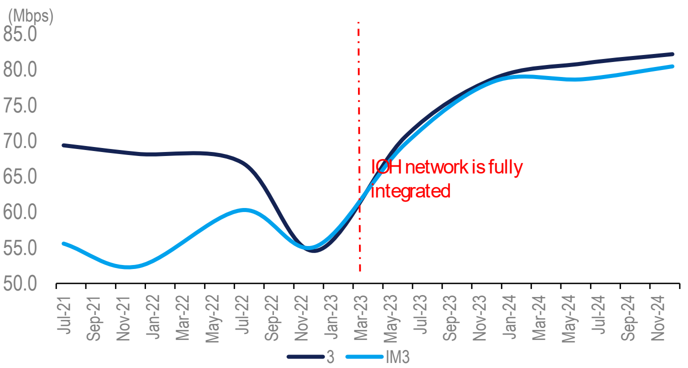
Source: Company report, Indo Premier

Fig. 106: As of Dec24, IM3/H3 video experience improved to 64.5/65.1 points, compared to 58.9/58, respectively. This outpaced TSEL's of 60.5 points in Dec21



Source: Company report, Indo Premier

Fig. 107: As of Dec24, IM3/H3 games experience improved to 80.5/82.2 points, compared to 55.6/69.4, respectively. This outpaced TSEL's of 57.6 points in Dec21



Source: Company report, Indo Premier

Championing in the ex-Jakarta and ex-Java areas

According to the Open Signals report, 3 and Indosat excelled in experience surveys across many ex-Jakarta areas. This indicates growth opportunities in ex-Jakarta and ex-Java regions for both brands. Lower user-to-capacity ratios further enhance experiences in these areas. Since the merger, IOH has expanded and improved services in more ex-Jakarta and ex-Java areas, suggesting lower penetration and significant growth potential.

Fig. 108: Regional analysis of mobile network experience – as of Dec 2024 (after network integration and expansion)

Region	Video Experience	Games Experience	Voice App Experience	Download Speed Experience	Upload Speed Experience
Banten	T	T	3, T	T	T
Jakarta Raya	T	T	3, I, T, X	T	T
West Java	T	3, T	3	T	3
Central Java	3	3, T	3	T	3
East Java	3, I	3	3	T	3
Kalimantan	3	3	3	T	3
Lesser Sunda Islands	3, I	3	3	3	T
Sulawesi	3	3	3	T	3
Sumatra	3	3	3	T	T
Yogyakarta	I, T	3, T	3	T	T

Source: Open Signals, Indo Premier
i.e. T (Telkomsel), 3 (Tri), X (XL Axiata), I (Indosat), S (Smartfren)

Fig. 109: Regional analysis of mobile network experience – as of Dec 2021 (pre-merger)

Region	Video Experience	Games Experience	Voice App Experience	Download Speed Experience	Upload Speed Experience	4G Availability
Banten	T	T, 3	T	T	T	S
Jakarta Raya	T	T	T	T	T	S
West Java	T	T	T	T	T	S
Central Java	T	3	3	T	T	S
East Java	T	S	S	X	T	S
Kalimantan	3	3	3	X	3, X	S
Lesser Sunda Islands	3	3	3	X	T	S
Sulawesi	T, 3	3	3, S	I, T	I, X	S
Sumatra	3	3	3	X	T	S
Yogyakarta	T	3	3, T, X	T	T	S

Source: Open Signals, Indo Premier
i.e. T (Telkomsel), 3 (Tri), X (XL Axiata), I (Indosat), S (Smartfren)

Reinitiate with a BUY call (TP Rp2,220/sh)

We assign a 4.5x adjusted EV/EBITDA multiple to FY25F EBITDA, which is close to 0.5 below its LT mean, to arrive at our TP, factoring in the likelihood of persistent price competition in the telco sector. Our TP is lower than its fair value based on the DCF-based TP, at Rp2,900/sh, which implies a 5.7x adjusted EV/EBITDA FY25F (above its LT historical mean). Our EV/EBITDA calculation is derived based on adjusted EBITDA, which excludes lease depreciation and including interest payment for lease, while using total debt (excluding lease liabilities).

Fig. 110: Our TP for ISAT is Rp2,220/sh (rounded from Rp2,218)

Adjusted EV/EBITDA valuation	
Debt (Rp bn)	14,125.00
Market cap (Rp bn)	71,544.46
Cash (Rp bn)	2,289.09
Minority interest (Rp bn)	3,551.11
Adj. EBITDA (Rp bn)	19,318.11
Implied EV (Rp bn)	86,931.48
Adjusted EV /EBITDA (x)	4.50
TP/sh (Rp)	2,218.38
Last px (Rp)	1,755
Potential upside/downside	26%

Source: Indo Premier

Fig. 111: Our DCF sanity check indicates a fair value of Rp2,900/sh for ISAT

Assumptions	
Risk free rate	6.89%
Market return	14.39%
Beta	1.2
Gross cost of debt	9.25%
Cost of equity	15.89%
Cost of debt	7.22%
% of equity	74.08%
% of debt	25.92%
WACC	**13.6%**

DCF-FCF	2025F	2026F	2027F	2028F	2029F	2030F
Adjusted EBITDA (1-T) (Rp bn)	**15,068.12**	**16,240.72**	**17,322.33**	**19,379.35**	**22,193.08**	**25,401.18**
Cash capex (excluding lease) (Rp bn)	(6,489.18)	(6,586.52)	(6,077.56)	(6,785.59)	(6,887.38)	(7,626.21)
Changes in working capital (Rp bn)	1,129.80	204.25	195.59	341.54	452.05	458.17
FCF (Rp bn)	9,708.75	9,858.46	11,440.36	12,935.30	15,757.75	18,233.14
Forecast years	-	1	2	3	4	5
Discount factors	1.000	0.880	0.774	0.681	0.600	0.528
Present value (Rp bn)	9,709	8,675	8,859	8,814	9,448	9,620
Terminal growth						2.5%
Terminal Value (Rp bn)						167,742
Present value of terminal value (Rp bn)						88,502.50
FCF NPV (Rp bn)						55,124.41
Debt (Rp bn)						(51,991.51)
Cash (Rp bn)						2,289.09
Net equity value (Rp bn)						93,924
Outstanding share (in bn share)						32
Target price/share (Rp)						2,912
Current price (20/02/2025) (Rp)						1,755
Upside(downside)						65.94%
Recommendation						**Buy**

Source: Indo Premier

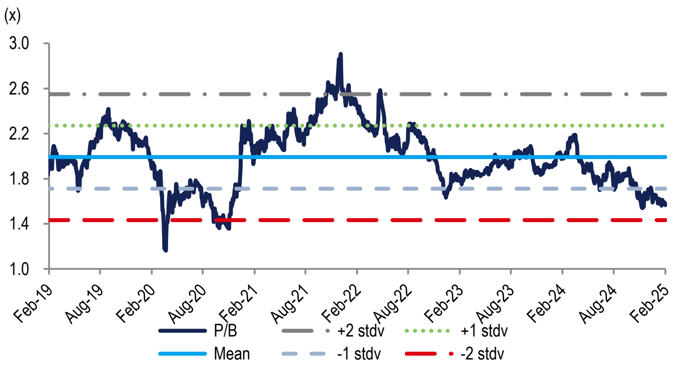
Fig. 112: Telco forward adjusted EV/EBITDA band

Source: Indo Premier, Bloomberg

Fig. 113: Telco forward EV/EBITDA band

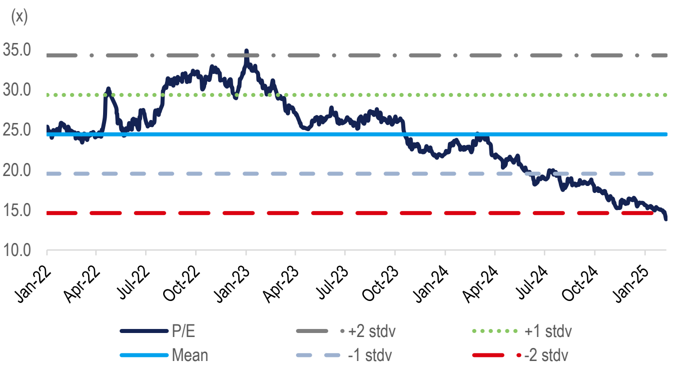
Source: Indo Premier, Bloomberg

Fig. 114: Telco forward P/B band



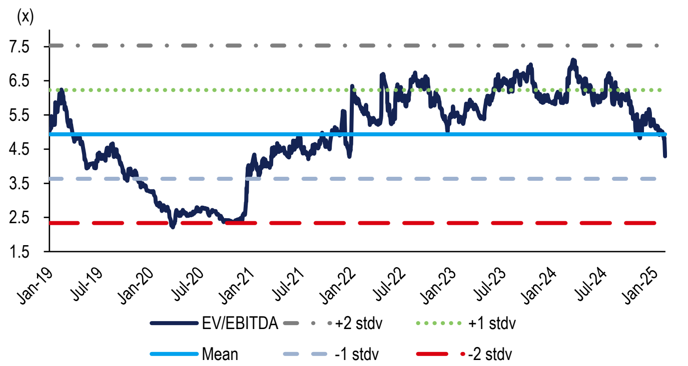
Source: Indo Premier, Bloomberg

Fig. 115: Telco forward P/E band



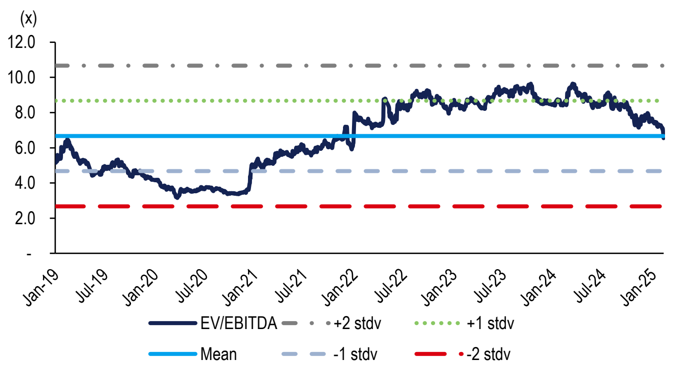
Source: Indo Premier, Bloomberg

Fig. 116: ISAT IJ forward adjusted EV/EBITDA



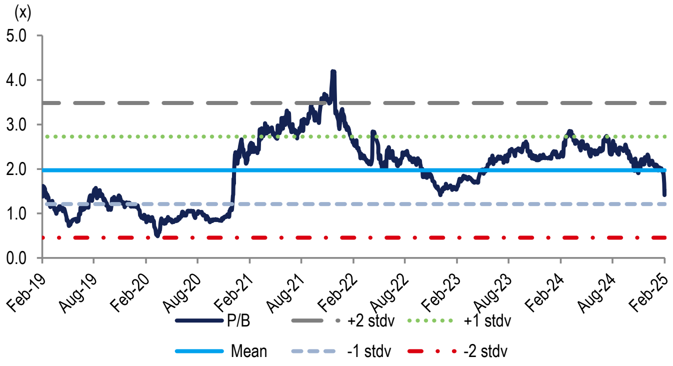
Source: Indo Premier, Bloomberg

Fig. 117: ISAT IJ forward EV/EBITDA



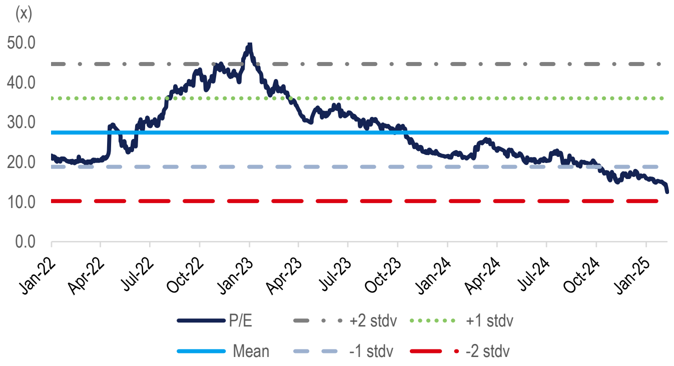
Source: Indo Premier, Bloomberg

Fig. 118: ISAT IJ forward P/B Band



Source: Indo Premier, Bloomberg

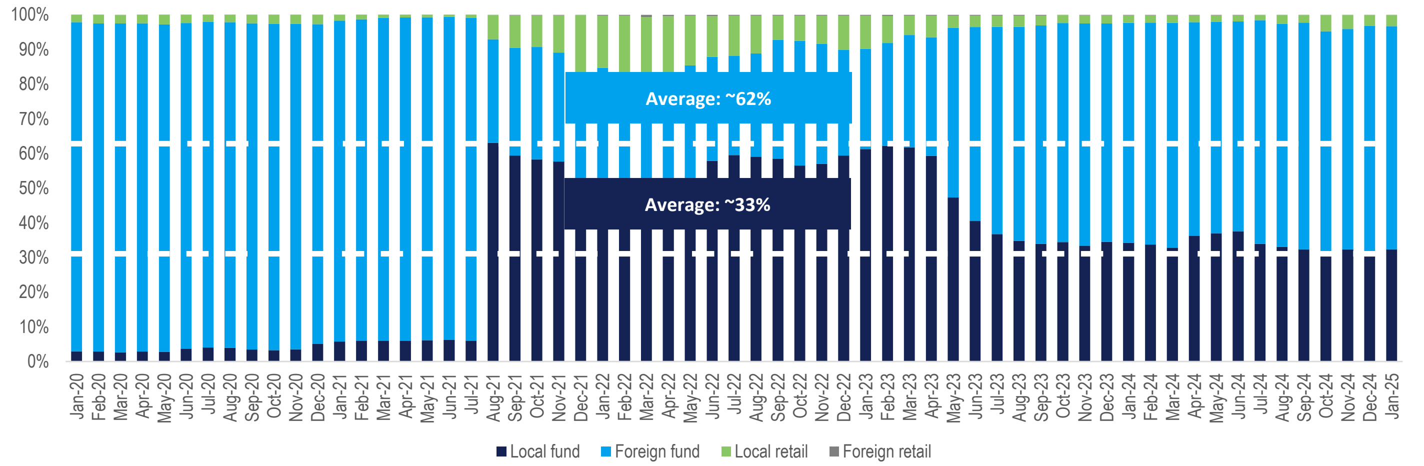
Fig. 119: ISAT IJ forward P/E band



Source: Indo Premier, Bloomberg

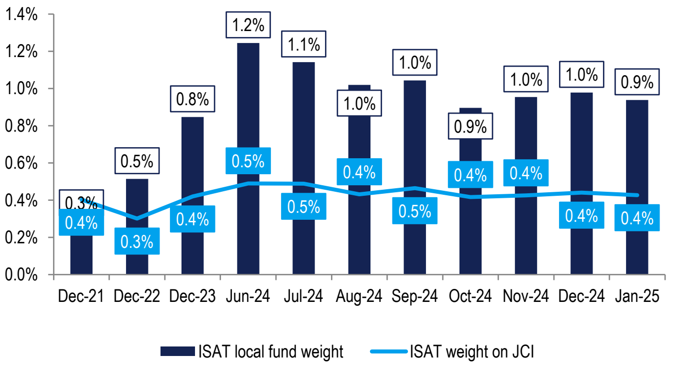
Share ownerships

Fig. 120: ISAT's historical share ownerships – Local fund ownership significantly increased by the end of 2021, which we believe was due to its merger plan to become IOH. By mid-2023, foreign fund ownership in the stock increased, resulting lowering domestic fund ownership.



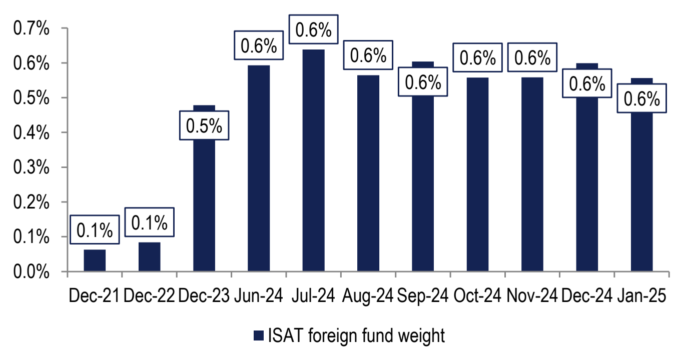
Source: KSEI, Bloomberg Indo Premier

Fig. 121: ISAT local fund weight



Source: KSEI, Bloomberg, Indo Premier

Fig. 122: ISAT foreign fund weight



Source: KSEI, Bloomberg, Indo Premier

Income Statement (Rp bn)	FY23	FY24	FY25F	FY26F	FY27F
Net revenue	51,229	55,887	58,993	62,227	65,278
Operating Expenses	(41,912)	(45,070)	(46,863)	(48,998)	(51,089)
Operating profit	**9,317**	**10,817**	**12,130**	**13,230**	**14,190**
EBITDA	**23,938**	**26,375**	**28,308**	**30,057**	**31,703**
Net interest	(4,394)	(4,115)	(3,816)	(3,618)	(3,618)
Forex gain (loss)	(104)	61	-	-	-
Others	1,271	(30)	(82)	(82)	(82)
Pre-tax income	**5,932**	**6,733**	**8,232**	**9,529**	**10,490**
Income tax	(1,156)	(1,460)	(1,811)	(2,096)	(2,308)
Minority interest	(269)	(362)	(398)	(438)	(481)
Net income	**4,506**	**4,911**	**6,023**	**6,995**	**7,701**
Core net profit	**3,540**	**4,823**	**6,023**	**6,995**	**7,701**

Balance Sheet (Rp bn)	FY23	FY24	FY25F	FY26F	FY27F
Cash & equivalents	5,190	4,454	2,289	1,425	568
Receivables	3,139	3,267	3,277	3,457	3,627
Other current assets	7,151	7,157	7,320	7,420	7,529
Total current assets	**15,480**	**14,878**	**12,886**	**12,302**	**11,723**
Fixed assets	72,861	74,143	78,112	81,094	83,854
Other non-current assets	26,382	25,366	24,947	24,517	24,078
Total non-current assets	**99,243**	**99,509**	**103,059**	**105,612**	**107,932**
Total assets	**114,722**	**114,387**	**115,945**	**117,914**	**119,656**
Payables	746	912	862	901	940
Other current liab.	23,932	19,719	20,482	20,329	20,764
Lease liabilities	6,970	6,509	6,509	6,509	6,509
Current portion of LT loans	2,487	3,869	3,574	2,886	2,305
Total current liab.	**34,134**	**31,009**	**31,428**	**30,624**	**30,518**
Lease liabilities	32,119	33,458	31,357	31,416	31,476
Long term loans	12,295	11,030	10,551	9,444	7,948
Other LT liab.	2,465	2,238	2,238	2,238	2,238
Total liabilities	**81,013**	**77,735**	**75,574**	**73,723**	**72,180**
Equity	18,875	18,880	18,880	18,880	18,880
Retained earnings	11,871	14,618	17,940	21,322	24,126
Minority interest	2,963	3,153	3,551	3,989	4,470
Total SHE + minority int.	**33,709**	**36,652**	**40,372**	**44,191**	**47,476**
Total liabilities & equity	**114,722**	**114,387**	**115,945**	**117,914**	**119,656**

Source: Company report, Indo Premier

Cash Flow Statement (Rp bn)	FY23	FY24	FY25F	FY26F	FY27F
Net income	4,506	4,911	6,023	6,995	7,701
Depr. & amortization	7,431	8,050	8,348	9,493	9,875
Changes in working capital	(1,399)	(3,911)	1,130	204	196
Others	7,142	10,046	-	-	-
Cash flow from operating	**17,680**	**19,096**	**15,501**	**16,693**	**17,772**
Capex (i.e. FA and RoU)	(11,905)	(8,945)	(11,899)	(12,046)	(12,195)
Others	1,133	(3,519)	(590)	(599)	-
Cash flow from investing	**(10,771)**	**(12,465)**	**(12,488)**	**(12,645)**	**(12,195)**
Loans	(6,513)	118	(774)	(1,795)	(2,077)
Lease liabilities	4,535	1,339	(2,100)	59	60
Equity	(105)	196	398	438	481
Dividends	(2,062)	(2,164)	(2,701)	(3,614)	(4,897)
Others	(6,832)	(6,408)	-	-	-
Cash flow from financing	**(11,111)**	**(7,380)**	**(5,178)**	**(4,912)**	**(6,433)**
Changes in cash	**(4,318)**	**(735)**	**(2,165)**	**(864)**	**(857)**

Key Ratios	FY23	FY24	FY25F	FY26F	FY27F
EBITDA margin	46.7%	47.2%	48.0%	48.3%	48.6%
Pre-tax margin	11.6%	12.0%	14.0%	15.3%	16.1%
Net margin	8.8%	8.8%	10.2%	11.2%	11.8%
ROA	3.9%	4.3%	5.2%	5.9%	6.4%
ROE	13.4%	13.4%	14.9%	15.8%	16.2%
ROIC (ex. leases)	16.8%	17.9%	18.1%	18.7%	19.4%
ROIC (inc. leases)	8.8%	9.7%	10.5%	11.1%	11.6%
Acct. receivables TO (days)	19	21	20	20	20
Acct. payables TO (days)	7	7	7	7	7
Net debt/EBITDA (inc. leases) (x)	2.0	1.9	1.8	1.6	1.5
Net debt/EBITDA (ex. leases) (x)	0.4	0.4	0.4	0.4	0.3
Interest coverage (x)	5.1	5.9	6.9	7.7	8.1

Source: Company report, Indo Premier

INDOPREMIER

Telekomunikasi Indonesia

HOLD

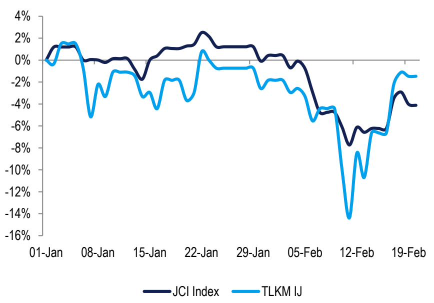
Company Initiation | Telecommunications | TLKM IJ | 21 February 2025

Stock Data

Target price	**Rp2,750**
Prior TP	*N/A*
Current price	2,670
Upside/downside	*3.0%*
Shares outstanding (mn)	99,062
Market cap (Rp bn)	264,496
Free float	48%
Avg. 6m daily T/O (Rp bn)	297

Price Performance

	3M	6M	12M
Absolute	-0.4%	-10.4%	-36.6%
Relative to JCI	5.1%	-0.5%	-28.9%
52w low/high (Rp)			2,320 – 4,180



Major Shareholders

Republic of Indonesia	52.1%

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A market share conundrum

- TSEL has been strategically defensive, and we believe this stance could persist, leading to muted growth expectations
- We view the repeated consumer behavior of purchasing cheap starter packs as a challenge to the ARPU improvement thesis
- We reinitiate TLKM with a HOLD call and a TP of Rp2,750/sh.

Telkomsel's strategic defense

In the past year, TSEL strategically introduced cheaper starter packs through a new brand, Telkomsel Lite, and launched the digital-based By.U starter pack in the traditional market, with pricing starting from Rp10k. These moves aim to address competitors' expansion outside Java and sluggish purchasing power. Despite such initiatives, TLKM's group aims for market repair in FY25F after mobile ARPU declined by -6.9% yoy in 9M24, with guidance for mobile ARPU to grow in line with the inflation rate. TSEL also introduced an affordable FTTH brand, EZnet, to address affordability constraints, with a starting price of Rp150k/package (10 Mbps speed). As a result, 9M24 FBB segment blended ARPU declined by -6.7% yoy.

Repeat purchases of cheap starter packs challenge the ARPU outlook

We understand the management plan to increase renewal data package prices for By.U and Telkomsel Lite to lift ARPU. However, our concern lies in consumer behavior regarding cheap starter packs. In several areas, we find that consumers commonly purchase monthly starter packs and repeat the same purchase the following month. Many prefer this practice due to the lower price while still allowing them to retain mobile applications, such as keeping their WhatsApp number despite changing SIM cards and requiring only a quick verification for mobile banking.

Staying growth conservative – reinitiate with a HOLD call

For now, we prefer to stay on the conservative side and expect FY25F blended mobile ARPU growth to remain flat. This is based on our view that price competition risk could persist, at least until mid-FY27F, along with expectations of a continued decline in the legacy business growth outlook. For the FTTH business, we expect TSEL to add a net of c.850k subs p.a. in FY25-26F, while ARPU is expected to have a flat growth outlook. Given these assumptions, we conservatively estimate TLKM's EBITDA and core net profit growth outlook to remain muted, with a CAGR of 2% and -1.5% in FY23-26F, respectively. Despite muted growth, we expect TLKM to remain having the best balance sheets and strong FCFF generations. Our 12M TP for TLKM is Rp2,750/sh, based on 4.4x adjusted EV/EBITDA FY25F (close to 1.5 s.d. below mean). Potential key risk: worsening price competition.

Financial Summary (Rpbn)	2022A	2023A	2024F	2025F	2026F
Revenue	147,306	149,216	149,608	155,376	160,045
EBITDA	78,992	77,579	75,575	80,009	82,618
EBITDA growth	4%	-2%	-3%	6%	3%
Net profit	20,753	24,560	22,614	23,356	23,558
EPS	209	248	228	236	238
EPS growth	-16%	18%	-8%	3%	1%
ROE	14%	16%	14%	14%	14%
PER (x)	12.7	10.8	11.7	11.3	11.2
Adjusted EV/EBITDA (x)	4.1	4.3	4.4	4.3	4.2
Dividend yield	6%	6%	7%	7%	7%

Source: Company, Indo Premier *Share price closing as of: 20 February 2025*

Operational and financial highlights

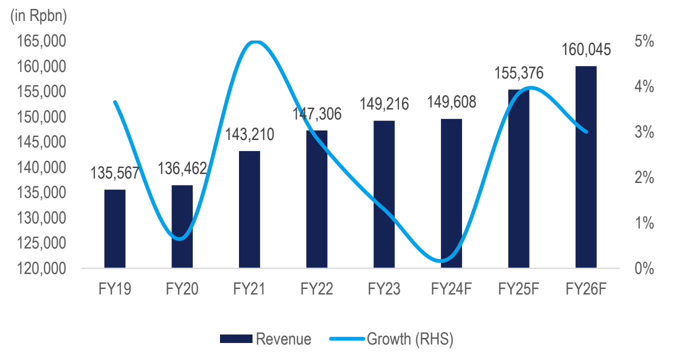
We estimate that TLKM could achieve an EBITDA CAGR of 2.1% and a core NP CAGR of -1.5% in FY23-26F. Our FY25-26F estimates are below to the consensus estimates. We think difference could be on our more conservative assumptions in cellular business segment.

Fig. 123: Key operational assumptions

Assumption	2024F	2025F	2026F	2027F
Mobile				
ARPU (Rp'000)/month	45.0	45.1	45.8	47.0
growth, yoy	-5.3%	0.2%	1.7%	2.5%
Cellular subscriber (mn people)	159.8	159.8	159.8	159.8
growth, yoy	0.3%	0.0%	0.0%	0.0%
Monthly data usage/subs (GB/mth)	13.1	14.1	15.1	16.2
growth, yoy	11.5%	8.0%	7.0%	7.0%
Data penetration	80.3%	80.3%	80.3%	80.3%
growth, yoy	0.7%	0.0%	0.0%	0.0%
Data yield (Rp/MB)	3.3	3.2	3.2	3.1
growth, yoy	0.7%	-2.0%	-2.0%	-2.0%
Data traffic (PB)	20,159.2	21,772.0	23,296.0	24,926.8
growth, yoy	12.6%	8.0%	7.0%	7.0%
Capex + lease (Rpbn)	46,378.4	46,774.9	47,175.0	47,578.7
as % to revenue	31%	30%	29%	29%
Capex (Rpbn) - FA only	32,913.7	33,242.9	33,575.3	33,911.1
as % to revenue	22%	21%	21%	20%
FTTH				
ARPU (Rp'000)/month	234.1	234.1	234.1	234.1
growth, yoy	-7.4%	0.0%	0.0%	0.0%
B2C Subs ('000 people)	10,262	11,112	11,962	12,812
growth, yoy	2.1%	8.3%	7.6%	7.1%

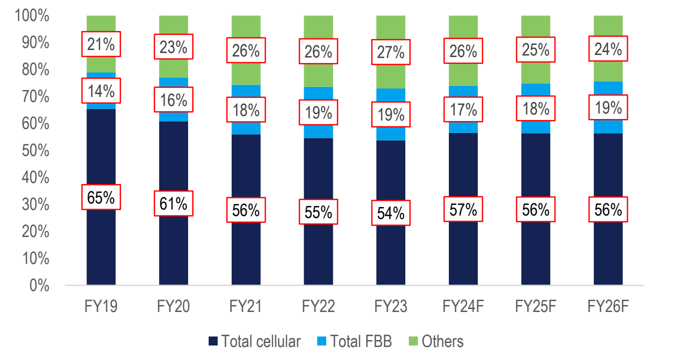
Source: Company report, Indo Premier

Fig. 124: We estimate revenue to grow by 2.4% CAGR in FY23-26F



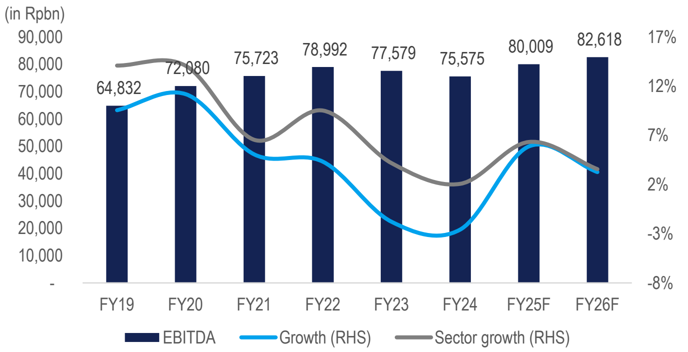
Source: Company report, Indo Premier

Fig. 125: TLKM's revenue contributions



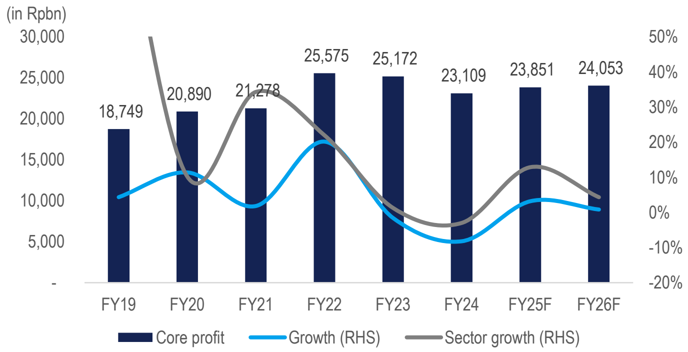
Source: Company report, Indo Premier

Fig. 126: We estimate EBITDA to grow by 2% CAGR in FY23-26F



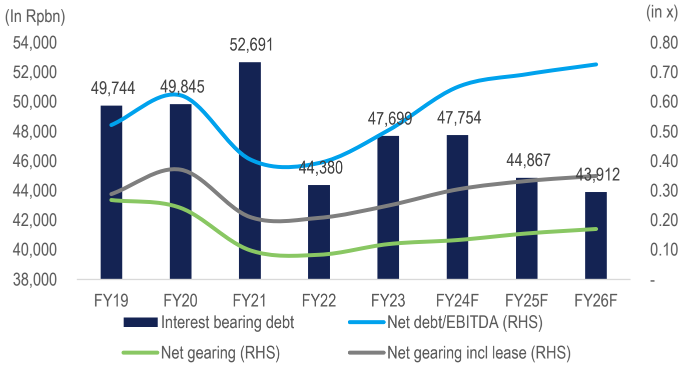
Source: Company report, Indo Premier

Fig. 127: We estimate core NP to grow by 3.5% CAGR in FY24-27F



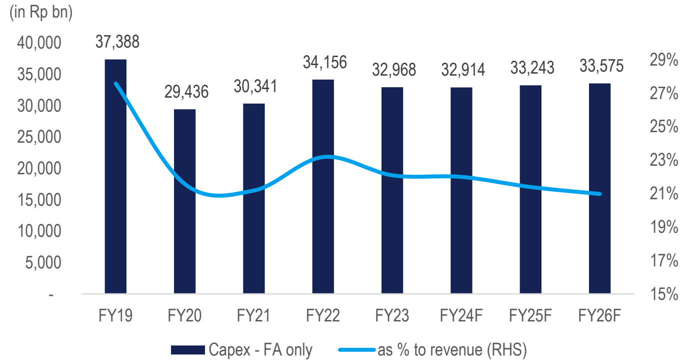
Source: Company report, Indo Premier

Fig. 128: TLKM's balance sheets to remain manageable



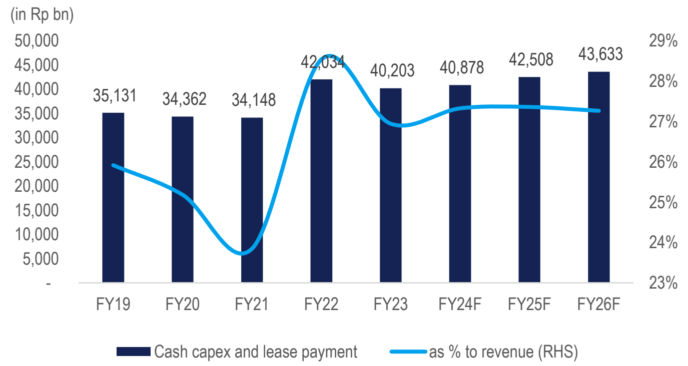
Source: Company report, Indo Premier

Fig. 129: TLKM's capex to revenue ratio to remain stable



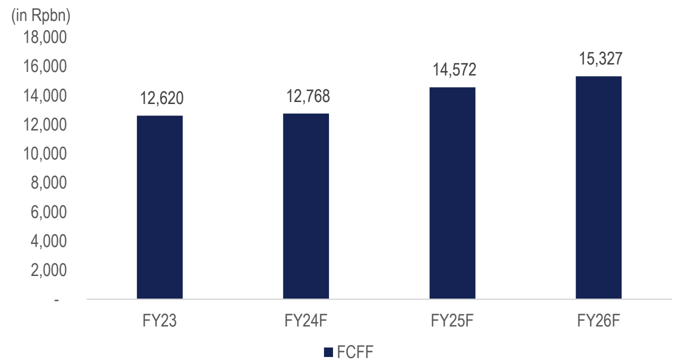
Source: Company report, Indo Premier

Fig. 130: We estimate cash capex and lease payment to revenue ratio to remain stable



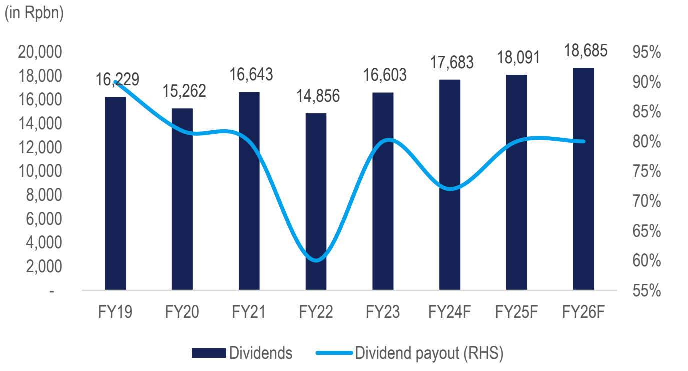
Source: Company report, Indo Premier

Fig. 131: We estimate TLKM to continue having a robust FCFF generation outlook



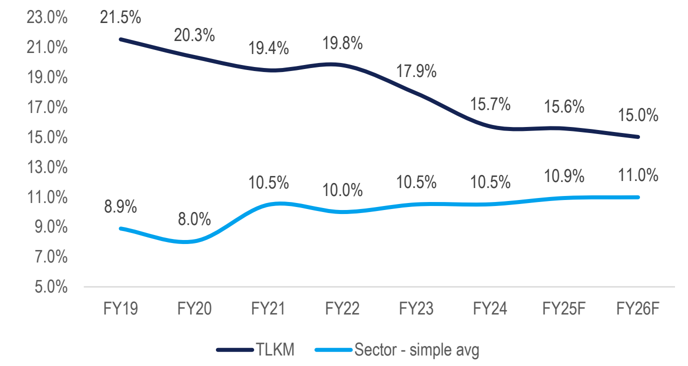
Source: Company report, Indo Premier

Fig. 132: We estimate dividend payout ratio in FY25-26F could return to 80% p.a



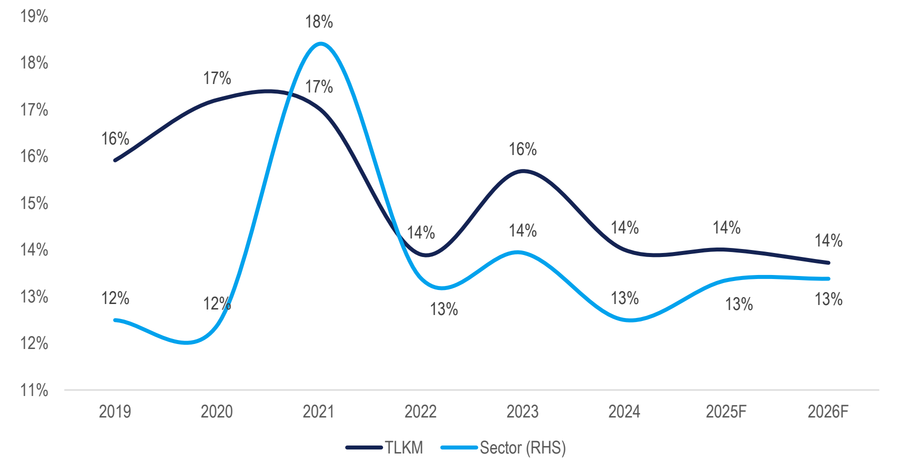
Source: Company report, Indo Premier

Fig. 133: We estimate TLKM's ROIC could decline though still above the sector's average



Source: Company report, Indo Premier

Fig. 134: We estimate TLKM's ROE could relatively stable, and still above the sector's average



Source: Company report, Indo Premier

Reinitiate with a HOLD call (TP Rp2,750/sh)

We assign a 4.4x adjusted EV/EBITDA multiple to FY25F EBITDA, which is approximately 1.5x below its LT mean, to arrive at our TP, factoring in the likelihood of persistent price competition in the telco sector. Our TP is higher than its fair value based on the DCF sanity check, at Rp2,470/sh, which implies a 4x adjusted EV/EBITDA for FY25F (more than 2 standard deviations below the LT historical mean). Our adjusted EV/EBITDA calculation is derived based on adjusted EBITDA, which excludes lease depreciation and including interest payment for lease, while using total debt (excluding lease liabilities).

Fig. 135: Our TP for TLKM is Rp2,750/sh (rounded from Rp2,739)

Adjusted EV/EBITDA valuation	
Debt (Rp bn)	47,754.00
Market cap (Rp bn)	271,405.58
Cash (Rp bn)	18,939.84
Minority interest (Rp bn)	20,818.00
Adj. EBITDA (Rp bn)	72,963.12
Implied EV (Rp bn)	321,037.74
Adjusted EV /EBITDA (x)	4.40
TP/sh (Rp)	2,739.75
Last px (Rp)	2,670
Potential upside/dow nside	3%

Source: Company report, Indo Premier

Fig. 136: Our DCF sanity check indicates a fair value of 2,470/sh for TLKM

Assumptions	
Risk free rate	6.9%
Market return	14.4%
Beta	115.0%
Gross cost of debt	8.0%
Cost of equity	15.5%
Cost of debt	6.2%
% of equity	78.8%
% of debt	21.2%
WACC	**13.5%**

DCF-FCF	2025F	2026F	2027F	2028F	2029F	2030F
Adjusted EBITDA (1-T) (Rp bn)	**56,911**	**58,593**	**60,719**	**63,538**	**67,175**	**71,055**
Cash capex (excluding lease) (Rp bn)	(33,908)	(34,247)	(34,589)	(34,935)	(35,285)	(35,637)
Changes in working capital (Rp bn)	169	367	316	369	418	462
FCF (Rp bn)	23,172	24,713	26,446	28,973	32,309	35,880
Forecast years	-	1	2	3	4	5
Discount factors	1	1	1	1	1	1
Present value (Rp bn)	23,172	21,764	20,512	19,790	19,435	19,008
Terminal growth						2.5%
Terminal Value (Rp bn)						332,866
Present value of terminal value (Rp bn)						176,344
FCF NPV (Rp bn)						123,681
Debt (Rp bn)						(74,456)
Cash (Rp bn)						18,940
Net equity value (Rp bn)						244,509
Outstanding share (in bn share)						99
Target price/share (Rp)						2,468
Current price (14/02/2025) (Rp)						2,670
Upside(downside)						-7.56%
Recommendation						**Hold**

Source: Indo Premier

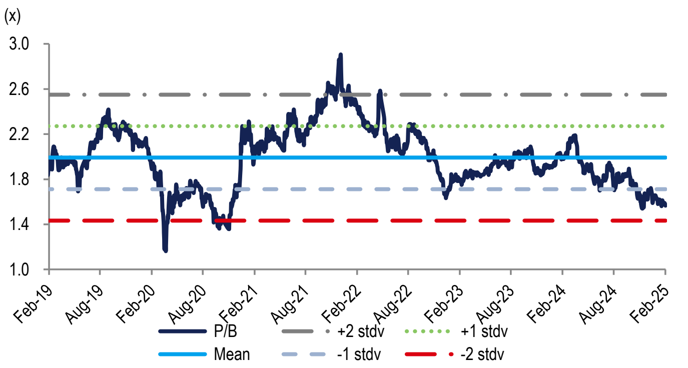
Fig. 137: Telco forward adjusted EV/EBITDA band

Source: Indo Premier, Bloomberg

Fig. 138: Telco forward EV/EBITDA band

Source: Indo Premier, Bloomberg

Fig. 139: Telco forward P/B band

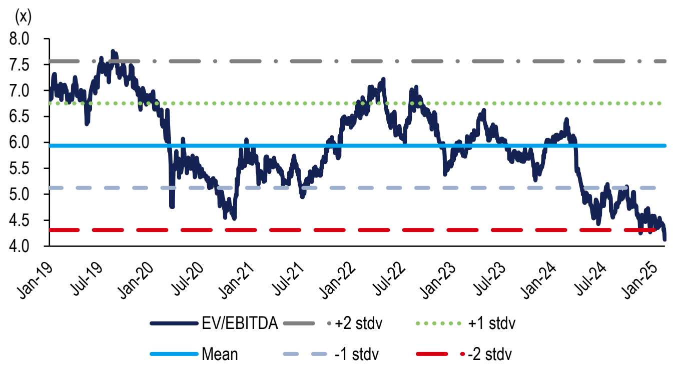


Source: Indo Premier, Bloomberg

Fig. 140: Telco forward P/E band

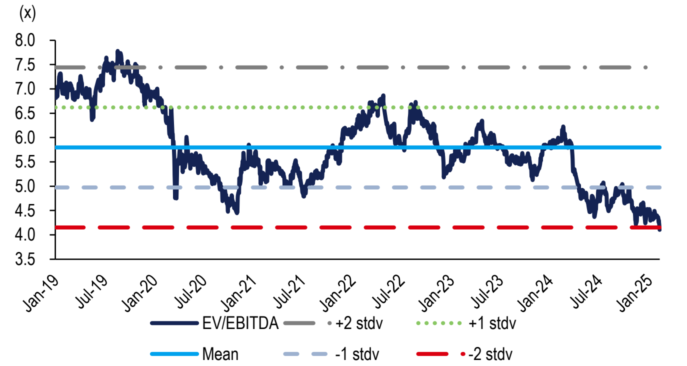
Source: Indo Premier, Bloomberg

Fig. 141: TLKM IJ forward adjusted EV/EBITDA



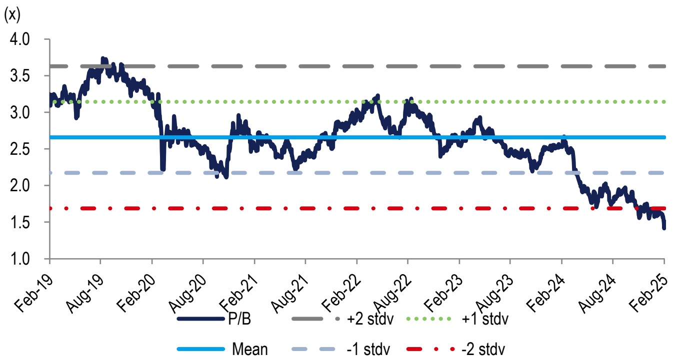
Source: Indo Premier, Bloomberg

Fig. 142: TLKM IJ forward EV/EBITDA



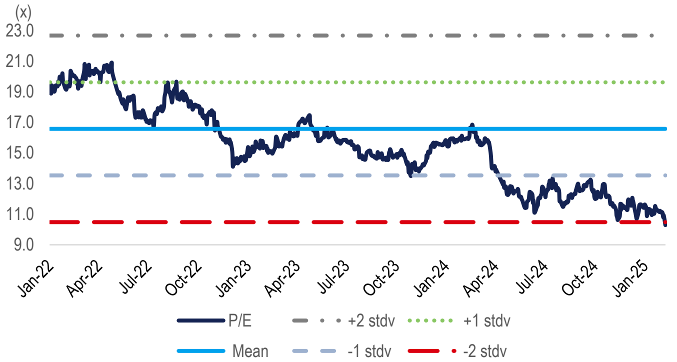
Source: Indo Premier, Bloomberg

Fig. 143: TLKM IJ forward P/B Band



Source: Indo Premier, Bloomberg

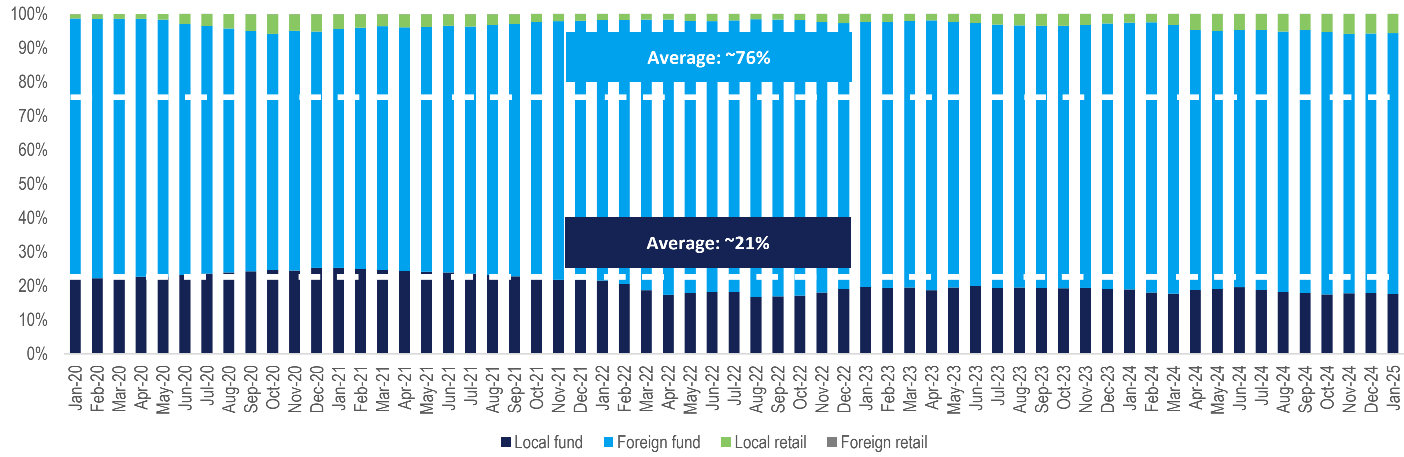
Fig. 144: TLKM IJ forward P/E band



Source: Indo Premier, Bloomberg

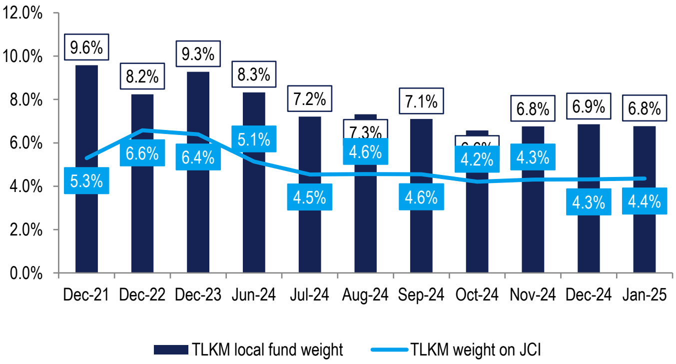
Share ownerships

Fig. 145: TLKM's historical share ownerships – Domestic retail investors have been increasing their holdings in TLKM over the past over the past year



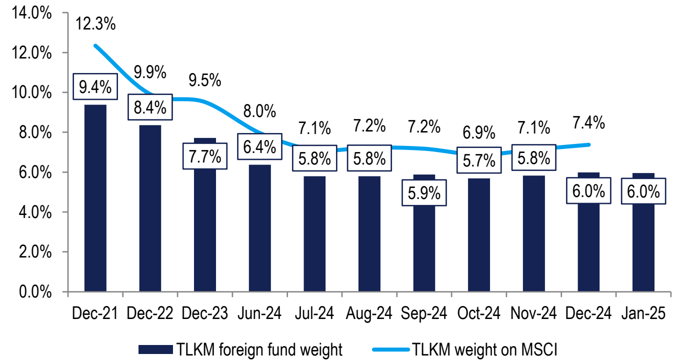
Source: KSEI, Bloomberg, Indo Premier

Fig. 146: TLKM local fund weight



Source: KSEI, Bloomberg, Indo Premier

Fig. 147: TLKM foreign fund weight



Source: KSEI, Bloomberg, Indo Premier

Income Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net revenue	147,306	149,216	149,608	155,376	160,045
Operating expenses	(101,569)	(104,300)	(107,210)	(111,042)	(115,503)
Operating profit	**45,737**	**44,916**	**42,398**	**44,334**	**44,542**
EBITDA	**78,992**	**77,579**	**75,575**	**80,009**	**82,618**
Net interest	(3,155)	(3,591)	(4,175)	(4,228)	(3,890)
Forex gain (loss)	256	(36)	-	-	-
Others	(6,499)	(495)	(57)	(635)	(635)
Pre-tax income	**36,339**	**40,794**	**38,166**	**39,471**	**40,016**
Income tax	(8,659)	(8,586)	(8,397)	(8,684)	(8,804)
Minority interest	(6,927)	(7,648)	(7,156)	(7,432)	(7,655)
Net income	**20,753**	**24,560**	**22,614**	**23,356**	**23,558**
Core net profit	**25,575**	**25,172**	**23,109**	**23,851**	**24,053**

Balance Sheet (Rp bn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalents	31,947	29,007	26,246	18,940	14,633
Receivables	8,634	10,667	12,467	12,948	13,337
Other current assets	14,476	15,939	15,984	16,022	16,065
Total current assets	**55,057**	**55,613**	**54,697**	**47,909**	**44,035**
Fixed assets	173,329	180,755	188,169	194,133	198,593
Other non-current assets	46,806	50,674	56,342	61,491	66,143
Total non-current assets	**220,135**	**231,429**	**244,512**	**255,624**	**264,736**
Total assets	**275,192**	**287,042**	**299,209**	**303,534**	**308,771**
Payables	18,457	18,608	19,208	19,895	20,694
Other current liab.	29,957	27,459	26,801	26,136	25,464
Lease liabilities	4,925	5,575	6,614	6,614	6,614
Current portion of LT loans	17,049	19,926	24,346	24,324	23,990
Total current liab.	**70,388**	**71,568**	**76,969**	**76,969**	**76,762**
Lease liabilities	13,736	14,850	21,050	22,975	24,167
Long term loans	27,331	27,773	23,408	20,543	19,922
Other LT liab.	14,475	16,289	16,289	16,289	16,289
Total liabilities	**125,930**	**130,480**	**137,716**	**136,776**	**137,140**
Equity	17,361	17,303	17,303	17,303	17,303
Retained earnings	111,897	118,441	123,372	128,637	133,510
Minority interest	20,004	20,818	20,818	20,818	20,818
Total SHE + minority int.	**149,262**	**156,562**	**161,493**	**166,758**	**171,631**
Total liabilities & equity	**275,192**	**287,042**	**299,209**	**303,534**	**308,771**

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net income	20,753	24,560	22,614	23,356	23,558
Depr. & amortization	21,627	15,892	22,283	35,662	38,063
Changes in working capital	876	(2,827)	(206)	169	367
Others	30,098	22,956	-	-	-
Cash flow from operating	**73,354**	**60,581**	**44,690**	**59,187**	**61,988**
Capex (i.e. FA and RoU)	(32,593)	(25,995)	(35,365)	(46,775)	(47,175)
Others	(6,657)	(10,914)	(658)	(665)	(672)
Cash flow from investing	**(39,250)**	**(36,909)**	**(36,024)**	**(47,440)**	**(47,846)**
Loans	(8,311)	3,319	55	(2,887)	(955)
Lease	3,310	1,114	6,200	1,925	1,191
Equity	(3,447)	756	-	-	-
Dividends	(14,856)	(16,603)	(17,683)	(18,091)	(18,685)
Others	(17,533)	(15,153)	-	-	-
Cash flow from financing	**(40,837)**	**(26,567)**	**(11,428)**	**(19,053)**	**(18,449)**
Changes in cash	**(6,733)**	**(2,895)**	**(2,761)**	**(7,306)**	**(4,307)**

Key Ratios	2022A	2023A	2024F	2025F	2026F
EBITDA margin	54%	52%	51%	51%	52%
Pre-tax margin	25%	27%	26%	25%	25%
Net margin	14%	16%	15%	15%	15%
ROA	8%	9%	8%	8%	8%
ROE	14%	16%	14%	14%	14%
ROIC	20%	18%	16%	16%	15%
Acct. receivables TO (days)	21	23	30	30	30
Acct. payables TO (days)	63	64	65	65	65
Net debt/EBITDA (inc. leases) (x)	0.4	0.5	0.7	0.7	0.7
Net debt/EBITDA (ex. leases) (x)	0.2	0.2	0.3	0.3	0.4
Interest coverage (x)	11	10	8	10	11

Source: Company report, Indo Premier

INDOPREMIER

XL Axiata

BUY

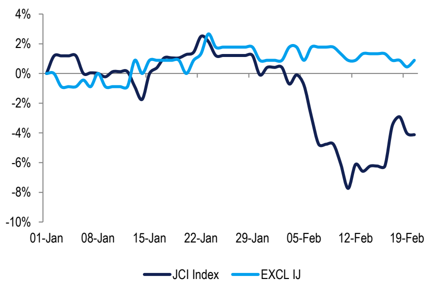
Company Initiation | Telecommunications | EXCL IJ | 21 February 2025

Stock Data

Target price	**Rp2,820**
Prior TP	*N/A*
Current price	2,270
Upside/downside	*+24.2%*
Shares outstanding (mn)	13,128
Market cap (Rp bn)	29,802
Free float	33%
Avg. 6m daily T/O (Rp bn)	53

Price Performance

	3M	6M	12M
Absolute	4.6%	-2.2%	2.7%
Relative to JCI	10.7%	7.8%	10.4%
52w low/high (Rp)		2,080 – 2,610	



Major Shareholders

Axiata Investments	66.3%

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PT Indo Premier Sekuritas

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Belva Monica

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Synergies aplenty ahead

- The merger between XL and Smartfren is on track for materialization by 1H25F, with the EGMS approval to be carried out in Mar25.
- We expect the potential XLSmart merger to be LT net positive, but the outcome depends on strategy, speed, and scale of execution.
- We reinitiate EXCL with a BUY call and a TP of Rp2,820/sh, based on 4.0x EV/EBITDA FY25F (0.5 s.d. below mean).

On the path to becoming XLSmart

In Dec24, XL Axiata (EXCL IJ) announced a definitive agreement to merge with Smartfren (FREN IJ, non-rated), with a potential pre-synergy value of US$6.5bn. The merger is on track for materialization by 1H25F, with the EGMS approval to be carried out in Mar25. The merger rationales include: expanding and enhancing commercially, creating synergies and operational efficiencies, and improving financial resilience and returns.

Strong merger execution poses upside risks to long-term profitability

We think the potential XLSmart network integration could be smoother than XL-Axis due to compatible technologies. Post-merger, we estimate XLSmart EBITDA in FY25-27F could pose 3-17% potential upside risks to our current estimates for EXCL, though core NP may face 25-34% downside risks in FY25-26F. We expect XLSmart core NP could outpace EXCL by FY27F and beyond. However, the outcomes depend on management's strategy, speed, and scale of execution. Our key assumptions: 1) Incremental capex spending (including lease) of ~Rp7tr p.a. in the first two years, similar to IOH's experience during integration – with total capex spending to revenue reaching up to 43% p.a.; 2) XL and FREN ARPU could accelerate 2-8% p.a. higher than our current estimates in the first three years, due to better network performance and expansion; and 3) Gradual opex efficiency of Rp500bn to Rp2tr p.a. in the first three years post-merger. We also estimate XLSmart could have higher gearing but remain manageable and still within the required covenants.

Reinitiate with a BUY call

Pre-merger, we estimate that EXCL could achieve a 3.6% EBITDA CAGR and a 16.8% core NP CAGR in FY24–27F. Our TP for EXCL is Rp2,820/sh, based on a 4x adjusted EV/EBITDA for FY25F (approximately 0.5 s.d. below the mean). At our TP, using our post-merger assumptions, XLSmart's implied valuation is 4.6x adjusted EV/EBITDA for FY25F. Potential key risks include merger materialization and execution, a better- or worse-than-expected price competition dynamic and weaker purchasing power.

Financial Summary (Rp bn)	2023A	2024A	2025F	2026F	2027F
Revenue	32,323	34,392	39,098	40,279	41,395
EBITDA	15,885	17,880	19,094	19,278	19,895
EBITDA growth	12%	13%	7%	1%	3%
Net profit	1,257	1,819	1,882	2,101	2,403
EPS	96	139	144	161	184
EPS growth	13%	45%	3%	12%	14%
ROE	5%	7%	7%	7%	8%
PER (x)	23.6	16.3	15.8	14.1	12.4
Adjusted EV/EBITDA (x)	4.4	3.9	3.4	3.1	2.7
Dividend yield	2%	2%	4%	3%	4%

Source: Company, Indo Premier *Share price closing as of: 20 February 2025*

Operational and financial highlights

We estimate EXCL could have 3.6% EBITDA/16.8% core NP CAGR in FY24-27F. Our revenue estimates are 2-5% higher than the consensus estimates, while our EBITDA estimates are 1-3% lower than the consensus estimates. Our EBITDA margin estimates are 48%-49% in FY25-27F, compared to the consensus estimates of 49%-51%.

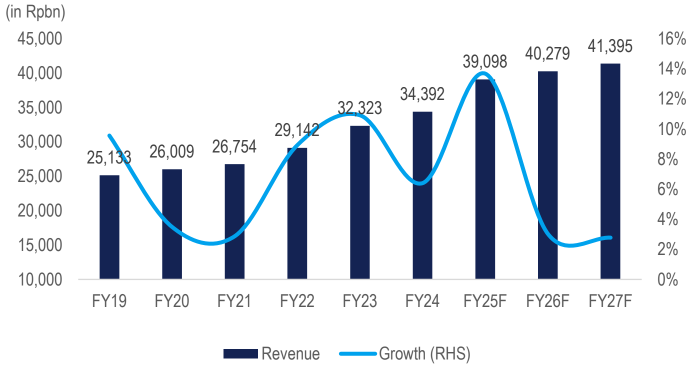
We think the key difference could be in the revenue and cost assumptions of the First Media business, as it was only consolidated by 4Q24. In our assumptions, we estimate fixed broadband revenue contribution could increase by 145% yoy to Rp3.6tr in FY25F. Meanwhile, we expect growth to normalize by 5% in FY26-27F. We expect additional Rp830bn to Rp1.1tr opex from First Media, mainly for infra leasing. We think these differences lead to our lower core NP estimates compared to the consensus in FY25-27F, or only at 79%-86% of the consensus estimates.

Fig. 148: Key operational assumptions

Assumption	2024	2025F	2026F	2027F
Mobile				
ARPU (Rp'000)/month	43.0	44.4	45.6	46.8
growth, yoy	4.9%	3.2%	2.9%	2.6%
Cellular subscriber (mn people)	58.8	58.8	58.8	58.8
growth, yoy	2.3%	0.0%	0.0%	0.0%
Monthly data usage/subs (GB/mth)	15.8	16.8	17.7	18.6
growth, yoy	6.5%	6.0%	5.5%	5.1%
Data penetration	94.6%	94.6%	94.6%	94.6%
growth, yoy	0.0%	0.0%	0.0%	0.0%
Data yield (Rp/MB)	3.0	2.9	2.9	2.8
growth, yoy	-1.8%	-1.8%	-1.8%	-1.8%
Data traffic (PB)	10,547.0	11,198.9	11,814.8	12,417.4
growth, yoy	9.4%	6.2%	5.5%	5.1%
Capex + lease(Rpbn)	10,811.3	11,153.1	11,628.5	11,715.3
as % to revenue	31%	29%	29%	28%
Capex FA (Rpbn)	4,096.5	3,298.1	4,663.9	4,115.5
as % to revenue	12%	8%	12%	10%
FTTH				
ARPU (Rp'000)/month	275,000.0	275,000.0	275,000.0	275,000.0
growth, yoy	10.0%	0.0%	0.0%	0.0%
Subscriber ('000 people)	992	1,059	1,112	1,167
growth, yoy	446.0%	6.7%	5.0%	5.0%

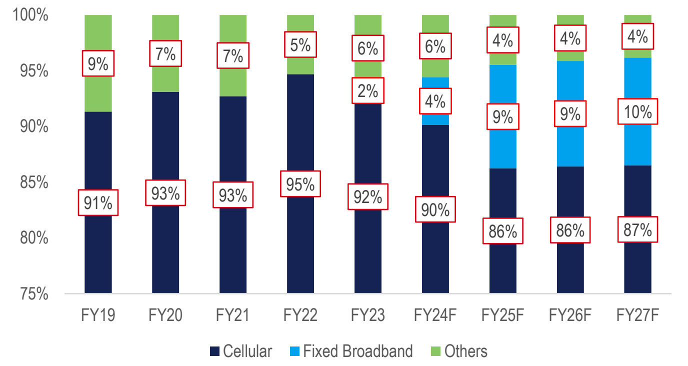
Source: Company report, Indo Premier

Fig. 149: We estimate revenue to grow by 6.4% CAGR in FY24-27F



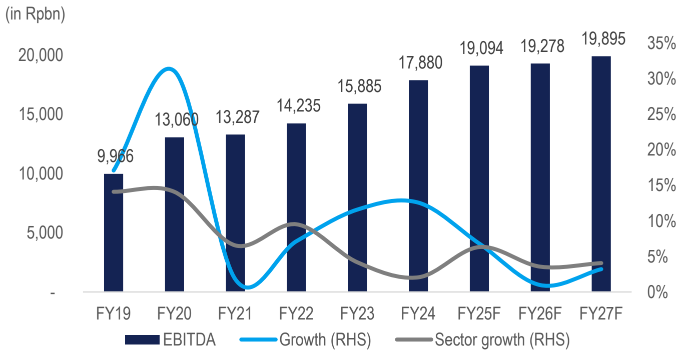
Source: Company report, Indo Premier

Fig. 150: We estimate that fixed broadband revenue contribution will increase significantly, but cellular revenue will remain predominant



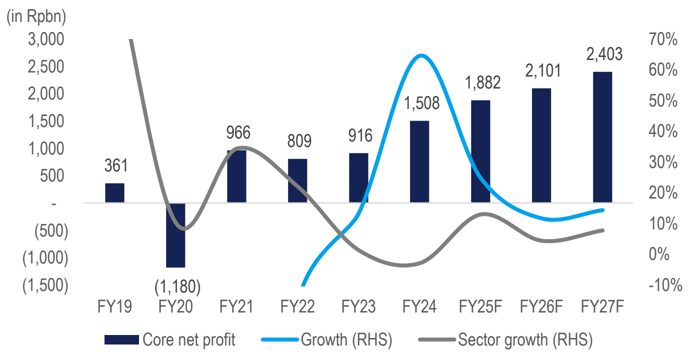
Source: Company report, Indo Premier

Fig. 151: We estimate that FY24-27F EBITDA could grow by 4% CAGR



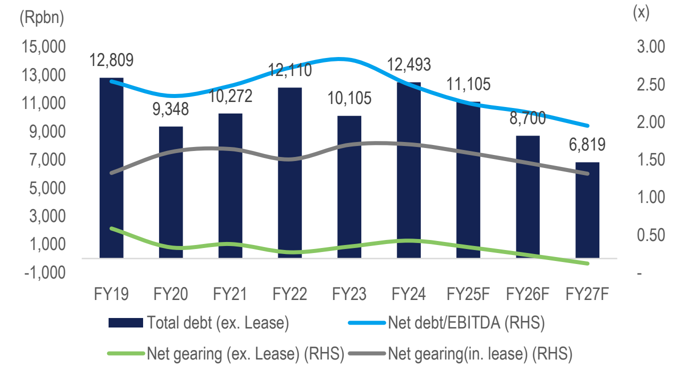
Source: Company report, Indo Premier

Fig. 152: We estimate that FY24-27F core NP could grow by 25%, exceeding the sector's growth of 8%



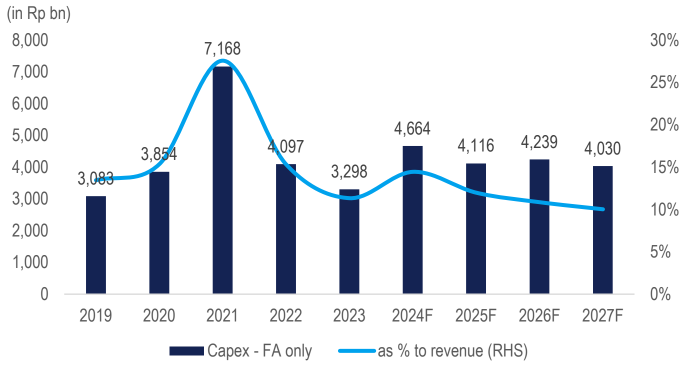
Source: Company report, Indo Premier

Fig. 153: We estimate for lowering gearing outlook for EXCL



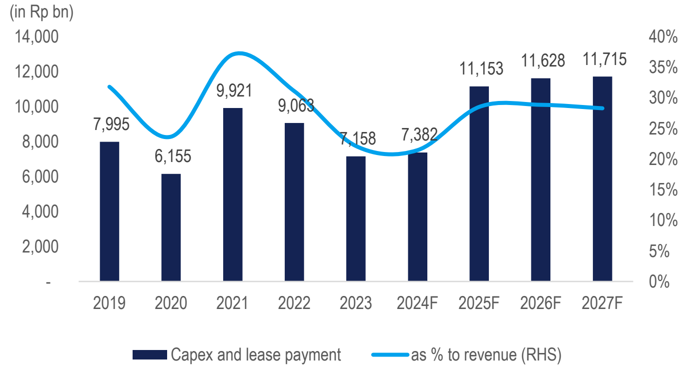
Source: Company report, Indo Premier

Fig. 154: We expect EXCL's capex spending to be ~Rp4tr p.a. with declining capex to revenue ratio in FY25-27F



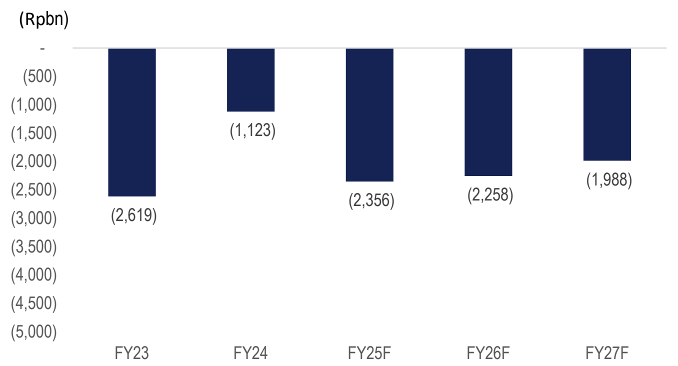
Source: Company report, Indo Premier

Fig. 155: EXCL's cash capex and lease payment outlook in FY25-27F



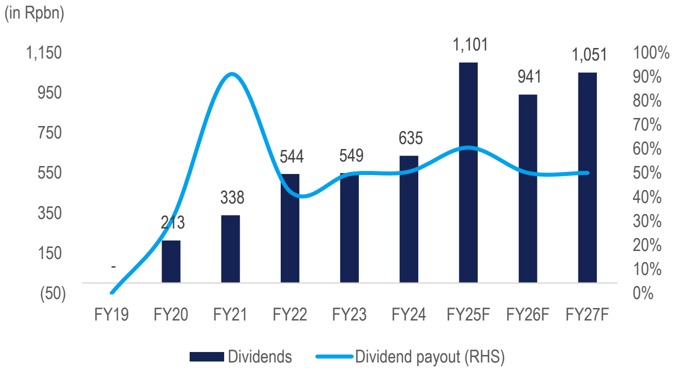
Source: Company report, Indo Premier

Fig. 156: We estimate EXCL's FCFF (including lease payment) could still be in negative territory



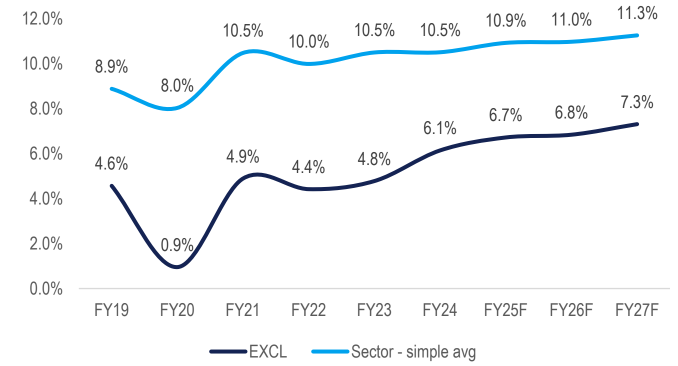
Source: Company report, Indo Premier

Fig. 157: We estimate for stable dividend payout ratio of 50% p.a. in FY25-26F



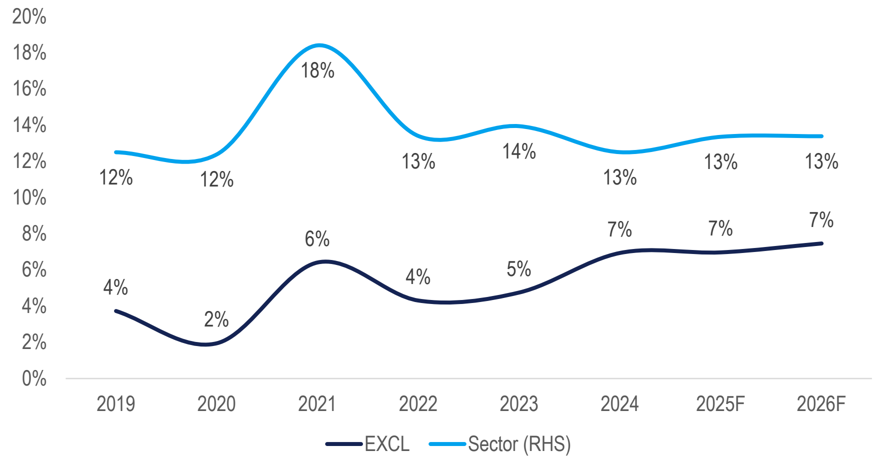
Source: Company report, Indo Premier

Fig. 158: We estimate EXCL's ROIC to improve though still below the sector's average



Source: Company report, Indo Premier

Fig. 159: We estimate EXCL's ROE to improve though still below the sector's average



Source: Company report, Indo Premier

Reinitiate with a BUY call (TP Rp2,820/sh)

We assign a 4x adjusted EV/EBITDA FY25F, which is close to 0.5 below its LT mean, to arrive at our TP, factoring-in the likelihood of persistent price competition in the telco sector. Our TP is lower than its fair value based on the DCF sanity check, at Rp2,920/sh, which implies a 4.5x adjusted EV/EBITDA FY25F. Our adjusted EV/EBITDA calculation is derived based on adjusted EBITDA, which excludes lease depreciation and including interest payment for lease, while using total debt (excluding lease liabilities).

Fig. 160: Our TP for EXCL is Rp2,820/sh (rounded from Rp2,837)

Adjusted EV/EBITDA valuation	
Debt (Rp bn)	11,105.09
Market cap (Rp bn)	36,905.33
Cash (Rp bn)	2,032.92
Minority interest (Rp bn)	161.98
Adj. EBITDA (Rp bn)	11,534.87
Implied EV (Rp bn)	46,139.47
EV/EBITDA (x)	4.00
TP/sh (Rp)	2,823.25
Current px (Rp)	2,270
Potential upside/dow nside	24%

Source: Indo Premier

Fig. 161: Our DCF sanity check indicates a fair value of Rp2,920/sh for EXCL

Assumptions	
Risk free rate	6.89%
Market return	14.39%
Beta	0.8
Debt	11,105
Shareholder equity	27,004
Gross cost of debt	8.25%
Cost of equity	12.89%
Cost of debt	6.44%
% of equity	70.86%
% of debt	29.14%
WACC	**11.0%**

DCF-FCF	2025F	2026F	2027F	2028F	2029F	2030F
Adjusted EBITDA (1-T) (Rp bn)	**8,997**	**9,095**	**9,477**	**10,112**	**11,219**	**12,235**
Cash capex (excluding lease) (Rp bn)	(4,434)	(4,846)	(4,811)	(4,584)	(4,699)	(4,821)
Changes in working capital (Rp bn)	4	212	129	201	307	325
FCF (Rp bn)	4,567	4,461	4,794	5,729	6,826	7,740
Forecast years	-	1	2	3	4	5
Discount factors	100%	90%	81%	73%	66%	59%
Present value (Rp bn)	4,567	4,018	3,891	4,188	4,495	4,591
Terminal growth						2.5%
Terminal Value (Rp bn)						93,237
Present value of terminal value (Rp bn)						55,309.34
FCF NPV (Rp bn)						25,750.90
Debt (Rp bn)						(45,018.38)
Cash (Rp bn)						2,032.92
Net equity value (Rp bn)						38,075
Outstanding share (in bn share)						13
Target price/share (Rp)						2,913
Current price (20/02/2025) (Rp)						2,270
Upside(downside)						28.31%
Recommendation						**Buy**

Source: Indo Premier

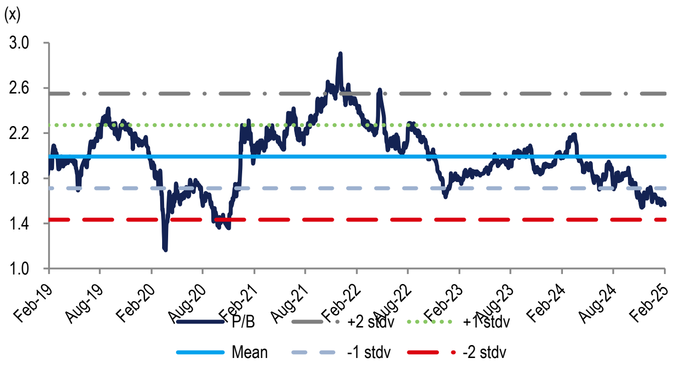
Fig. 162: Telco forward adjusted EV/EBITDA band

Source: Indo Premier, Bloomberg

Fig. 163: Telco forward EV/EBITDA band

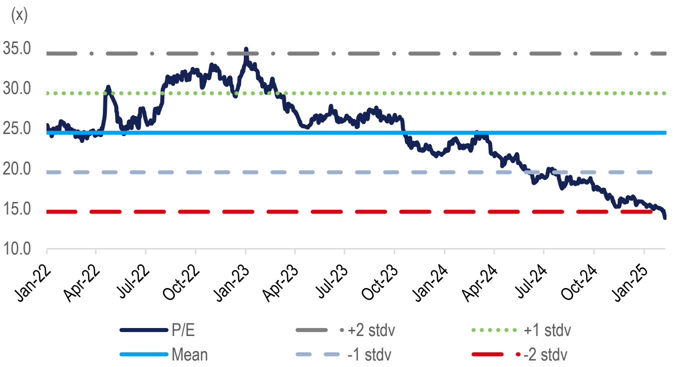
Source: Indo Premier, Bloomberg

Fig. 164: Telco forward P/B band



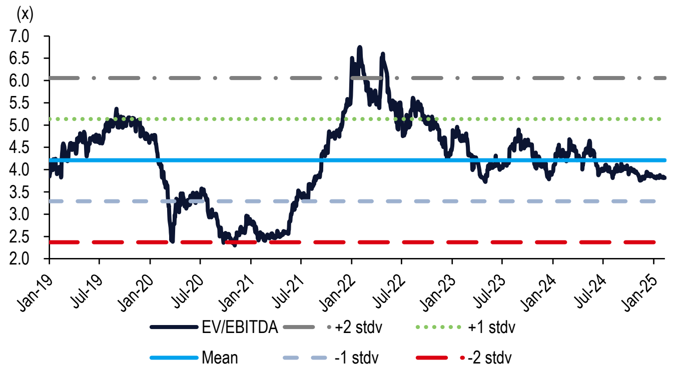
Source: Indo Premier, Bloomberg

Fig. 165: Telco forward P/E band



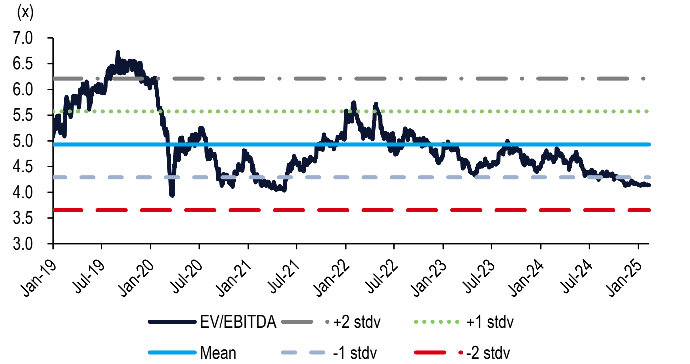
Source: Indo Premier, Bloomberg

Fig. 166: EXCL IJ forward adjusted EV/EBITDA band



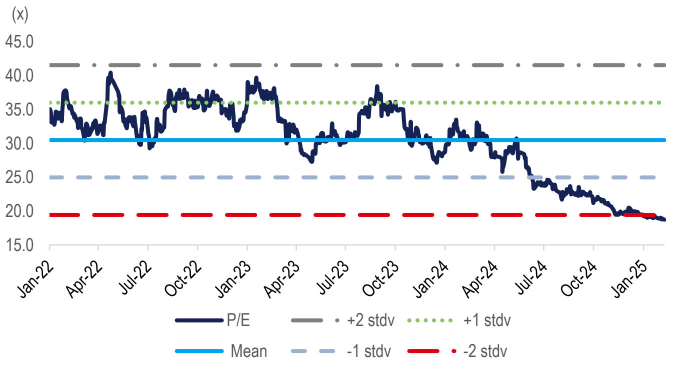
Source: Indo Premier, Bloomberg

Fig. 167: EXCL IJ forward EV/EBITDA band



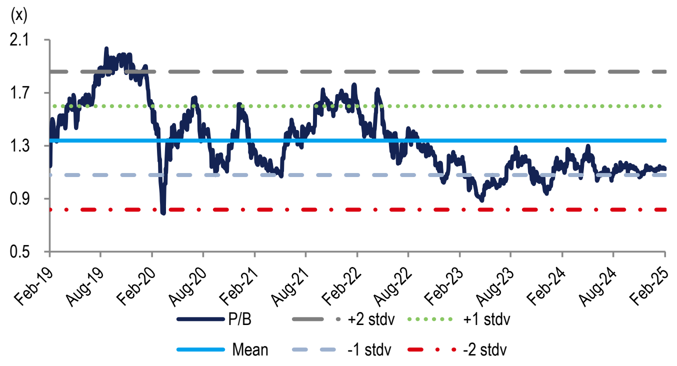
Source: Indo Premier, Bloomberg

Fig. 168: EXCL IJ forward P/E band



Source: Indo Premier, Bloomberg

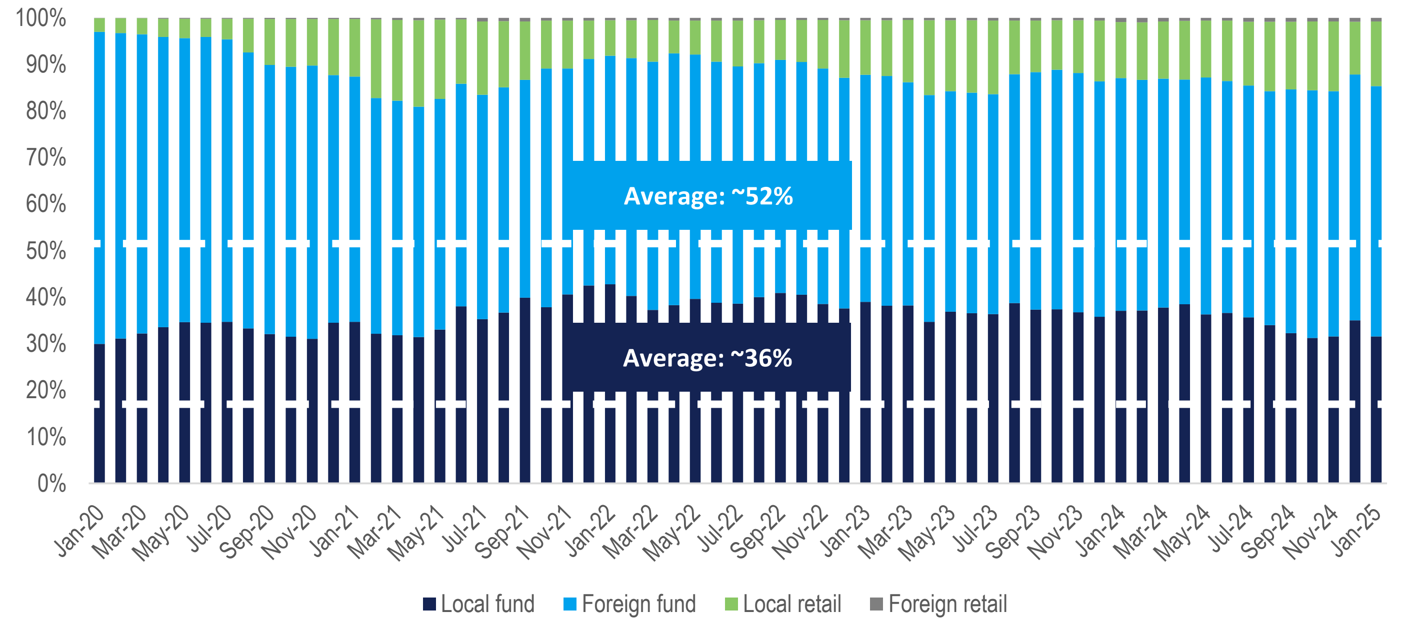
Fig. 169: EXCL IJ forward P/B band



Source: Indo Premier, Bloomberg

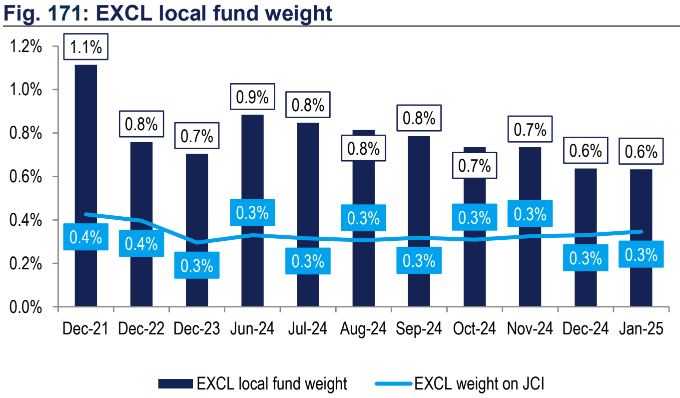
Share ownerships

Fig. 170: EXCL's historical share ownerships – retail investors have been increasing their holdings in the stock



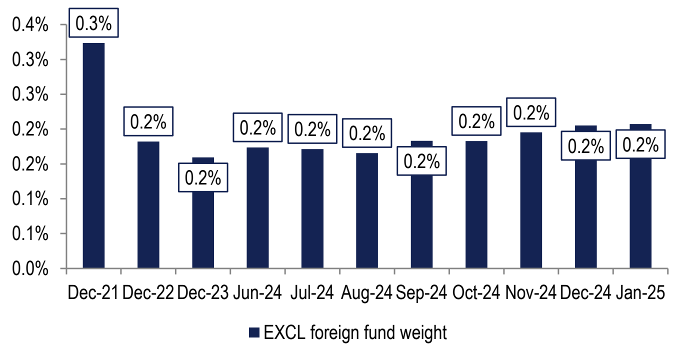
Source: KSEI, Bloomberg, Indo Premier

Fig. 171: EXCL local fund weight



Source: KSEI, Bloomberg Indo, Premier

Fig. 172: EXCL foreign fund weight



Source: KSEI, Bloomberg, Indo Premier

Income Statement	FY23	FY24	FY25F	FY26F	FY27F
Net revenue	32,323	34,392	39,098	40,279	41,395
SG&A Expenses	(27,944)	(28,803)	(33,064)	(34,206)	(34,987)
Operating profit	**4,378**	**5,589**	**6,033**	**6,073**	**6,408**
EBITDA	**15,885**	**17,880**	**19,094**	**19,278**	**19,895**
Net interest	(2,840)	(3,033)	(2,914)	(2,646)	(2,566)
Forex gain (loss)	13	(16)	-	-	-
Others	139	(112)	(600)	(619)	(636)
Pre-tax income	**1,690**	**2,427**	**2,519**	**2,809**	**3,207**
Income tax	(420)	(580)	(605)	(674)	(770)
Minority interest	(13)	(29)	(33)	(34)	(34)
Net income	**1,257**	**1,819**	**1,882**	**2,101**	**2,403**
Core net profit	**916**	**1,508**	**1,882**	**2,101**	**2,403**

Balance Sheet	FY23	FY24	FY25F	FY26F	FY27F
Cash & equivalents	966	1,387	2,033	2,186	3,321
Receivables	1,386	1,863	1,846	1,902	1,955
Other current assets	4,822	5,187	5,214	5,231	5,245
Total current assets	**7,174**	**8,436**	**9,093**	**9,319**	**10,520**
Fixed assets	63,897	61,034	59,592	58,581	57,476
Other non-current assets	16,624	16,708	17,221	17,653	18,003
Total non-current assets	**80,521**	**77,743**	**76,812**	**76,234**	**75,479**
Total assets	**87,695**	**86,179**	**85,905**	**85,553**	**85,999**
Payables	9,383	8,251	8,266	8,551	8,747
Other current liab.	3,914	3,675	3,675	3,675	3,675
Lease liabilities	6,023	5,369	5,369	5,369	5,369
Current portion of LT loans	854	3,721	3,154	2,405	1,892
Total current liab.	**20,173**	**21,017**	**20,465**	**20,000**	**19,683**
Lease liabilities	29,791	28,226	28,544	29,151	29,932
Long term loans	9,251	8,772	7,951	6,295	4,926
Other LT liab.	2,010	1,942	1,942	1,942	1,942
Total liabilities	**61,225**	**59,956**	**58,901**	**57,388**	**56,483**
Equity	18,058	16,593	16,593	16,593	16,593
Retained earnings	8,267	9,467	10,248	11,409	12,761
Minority interest	144	162	162	162	162
Total SHE + minority int.	**26,470**	**26,222**	**27,004**	**28,164**	**29,516**
Total liabilities & equity	**87,695**	**86,179**	**85,905**	**85,553**	**85,999**

Source: Company, Indo Premier

Cash Flow Statement	FY23	FY24	FY25F	FY26F	FY27F
Net income	1,257	1,819	1,882	2,101	2,403
Depr. & amortization	9,675	11,590	13,061	13,204	13,487
Changes in working capital	1,200	6,643	4	212	129
Others	-	-	-	-	-
Cash flow from operating	**12,131**	**20,052**	**14,947**	**15,517**	**16,018**
Capex (i.e. FA, RoU)	(13,555)	(9,259)	(12,131)	(12,625)	(12,732)
Others	3,179	(2,107)	-	-	-
Cash flow from investing	**(10,376)**	**(11,366)**	**(12,131)**	**(12,625)**	**(12,732)**
Loans	(2,005)	2,389	(1,388)	(2,405)	(1,881)
Leases	3,964	(2,219)	319	607	781
Equity	(21)	(1,447)	-	-	-
Dividends	(549)	(635)	(1,101)	(941)	(1,051)
Others	(7,359)	(6,361)	-	-	-
Cash flow from financing	**(5,971)**	**(8,273)**	**(2,170)**	**(2,739)**	**(2,151)**
Changes in cash	**(4,216)**	**414**	**646**	**153**	**1,135**

Key Ratios	FY23	FY24	FY25F	FY26F	FY27F
Gross margin	14%	16%	15%	15%	15%
EBITDA margin	49%	52%	49%	48%	48%
Pre-tax margin	5%	7%	6%	7%	8%
Net margin	4%	5%	5%	5%	6%
ROA	1%	2%	2%	2%	3%
ROE	5%	7%	7%	7%	8%
ROIC (inc. leases)	13%	17%	17%	17%	17%
Acct. receivables TO (days)	8	12	17	17	17
Acct. payables - other TO (days)	155	133	110	90	90
Net debt/EBITDA (inc. leases) (x)	2.8	2.5	2.3	2.1	2.0
Net debt/EBITDA (ex. leases) (x)	0.6	0.6	0.5	0.3	0.2
Interest coverage (x)	1.5	1.8	2.0	2.2	2.3

Source: Company, 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

ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.