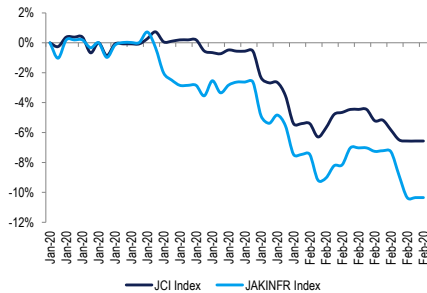


Sector Index Performance (JAKINFR)

	3M	6M	12M
Absolute	-11.3%	-16.2%	-14.7%
Relative to JCI	-7.1%	-9.5%	-6.5%



Summary Valuation Metrics

EV/EBITDA (x)	2019F	2020F	2021F
TLKM IJ	6.0	5.5	5.2
EXCL IJ	5.4*	4.7	4.2
ISAT IJ	4.3	4.1	3.9

P/BV (x)	2019F	2020F	2021F
TLKM IJ	3.0	2.8	2.7
EXCL IJ	1.5*	1.4	1.3
ISAT IJ	1.1	1.3	2.1

Div. Yield	2019F	2020F	2021F
TLKM IJ	4.7%	4.6%	4.6%
EXCL IJ	0.0%	0.0%	0.0%
ISAT IJ	0.0%	0.0%	0.0%

*Actual data

Potentially game changing law

- The latest Omnibus law draft had key points which may benefit the overall telco industry (floor pricing may benefit TLKM while spectrum transfer may benefit smaller telco operators).
- Article 28 establishes the Government's role to regulate upper and lower limit pricing for the industry, though the formula hasn't been finalized.
- Article 33 & 34B allows spectrum sharing and/or transfer, as well as infrastructure sharing amongst telcos, through Government's approval.

Lack of clarity in terms of the upper and lower limit pricing

We expect in the near term, the government to issue a follow up regulation on the upper and lower pricing formula. Recall that the previous telecommunication minister has issued this upper and lower limit pricing back in Feb19 but no update thus far, we think it's imperative for government to issue technical and implementation guidelines for the regulation. This shall benefits operators with efficient network cost as the floor price is linked to average variable cost, which in this case will be TLKM.

Spectrum sharing and/or transfer may allow consolidation

Article 33 & 34B shows the government's interest to spread the network utilization, which may be done through spectrum and infrastructure (i.e. duct, tower, and pole) sharing. However, with network sharing, telco operators will be less incentivise to expand their network as it would be cheaper to share instead of expand. This may lead toward consolidation within the industry (i.e. merger between the smaller telcos, adversely impact TLKM).

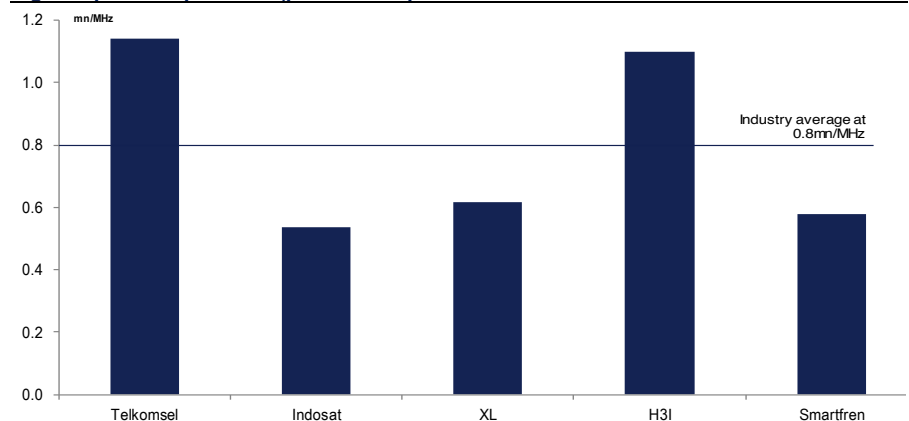
Network sharing may result in more level playing field

By having network sharing, a more level playing field within the telco industry may be formed. Spectrum sharing shall benefit Telkomsel and Tri as their subscriber base per spectrum is above the current industry level (0.8mn subs/MHz). Concurrently, data BTS utilization may benefit ISAT the most as their network utilization is 13% higher than industry.

More positive impact on EXCL and ISAT, neutral for TLKM

We view article 33 & 34B may benefit the smaller operators more (i.e. EXCL and ISAT), while article 28 may benefit TLKM, though more clarity on pricing formula is needed. In addition, infrastructure sharing is also seen to have a negative short-term impact towards the tower providers as expansion will be prioritized to using the existing operators' tower.

Fig. 1: Spectrum per subs (perfect competition)



Sources: Company, IndoPremier

Hans Tantio

PT Indo Premier Sekuritas

hans.tantio@ipc.co.id

+62 21 5088 7168 ext. 719

Fig. 2: Key Omnibus law provisions

Omnibus Law towards Telcos. Some provisions in UU no. 36/1999 regarding Telecommunications changed:

Article 28

- (1) The magnitude of the tariff for the operation of the telecommunications network and / or telecommunications services is determined by telecommunications network operators and / or services telecommunications based on a formula which is stipulated by the Central Government.
- (2) **The Central Government can set upper limit rates and / or lower operating tariffs telecommunications with regard to interests community and fair business competition.**

Article 33

- (4) In the case of the use of a radio frequency spectrum is not optimal and / or for the public interest, the Central Government can revoke Business Permit or approval for use radio frequency spectrum.
- (6) **Licensing Holders Trying to use radio frequency spectrum as referred for telecommunications operations may include: Cooperation in the use of radio frequency spectrum; and / or transferring the use of radio frequency spectrum, with other telecommunications providers.**
- (7) **Collaborative use and / or diversion the use of radio frequency spectrum as is referred to in paragraph (6) must first get approval from the Central Government.**

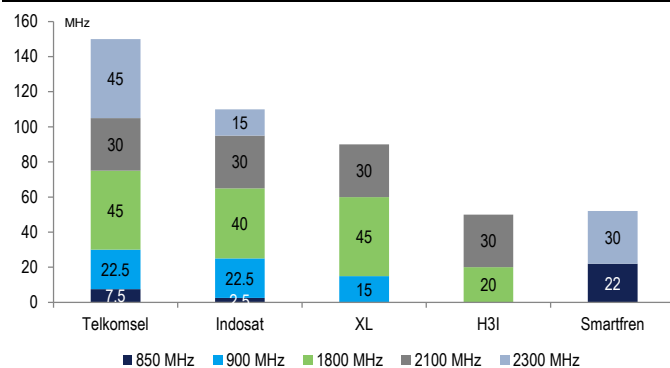
Article 34B

- (1) **Business actors who have infrastructure that can be used for telecommunications purposes must open access to passive infrastructure to be utilized by telecommunication operators.**
- (3) Utilization of infrastructure as intended in paragraph (1) and paragraph (2) is based on cooperation between the two parties fairly, fairly, and non-discriminatory.

What is meant by "Telecommunications infrastructure" are duct, tower, and the pole that can be used for deploying telecommunications network.

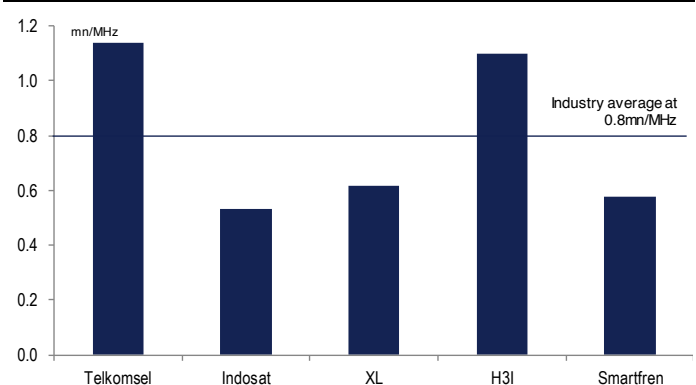
Sources: Company, IndoPremier

Fig. 3: Spectrum allocation



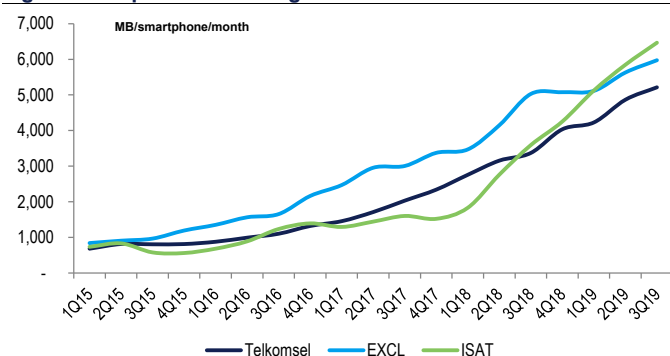
Sources: Company, IndoPremier

Fig. 4: Spectrum per subs



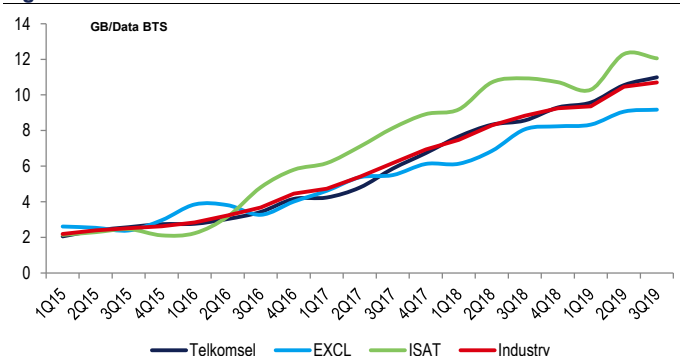
Sources: Company, IndoPremier

Fig. 5: Smartphone data usage



Sources: Company, IndoPremier

Fig. 6: Data BTS utilization



Sources: Company, IndoPremier

Fig. 7: TLKM P/E band



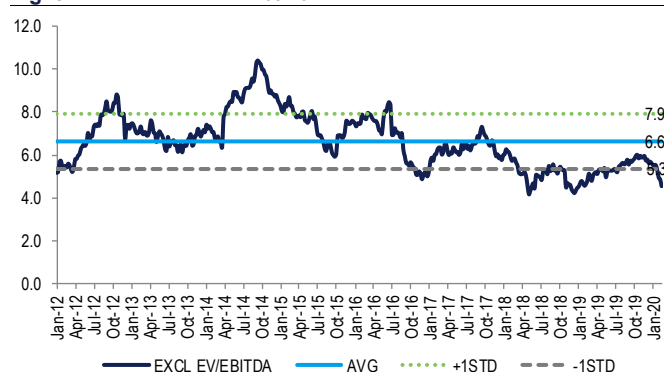
Sources: Company, IndoPremier, Bloomberg

Fig. 8: TLKM EV/EBITDA band



Sources: Company, IndoPremier, Bloomberg

Fig. 9: EXCL EV/EBITDA band



Sources: Company, IndoPremier, Bloomberg

Fig. 10: ISAT EV/EBITDA band



Sources: Company, IndoPremier, Bloomberg

Fig. 11: Peers' valuation

Ticker	Closing Price	Target Price	Implied EV/EBITDA (x)	Upside	Recommendation	EV/EBITDA (x)		Div. yield (%)	
						2020F	2021F	2020F	2021F
TLKM	3,640	4,400	5.5	21%	Hold	6.0	5.5	4.7	4.6
EXCL	2,620	3,800	4.7	45%	Buy	5.4	4.7	0.0	0.0
ISAT	2,100	3,300	4.0	57%	Hold	4.3	4.1	0.0	0.0

Sources: Company, IndoPremier

SECTOR RATINGS

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

COMPANY RATINGS

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

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