

# XL Axiata Tbk (EXCL)

## Riding the Opportune Momentum

Company Report | Jan 23, 2018

### Swiftest Growth Pace

In 3Q17, EXCL persistently seized the opportune industry growth momentum, and **successful to post the highest growth in the telecommunication industry**. Its data traffic soared 136.5% y-y into 325.745 TB coupled with the surging revenue of 65.7% into IDR3.5 trillion. The buoyant revenue was propped up **by uptrend smartphone users of 36.7 million (+36% y-y)** or accompanied with the penetration figures of 70% (vs Telkomsel 51%; ISA 47%).

The well controlled cost management is takeaways key to the likely stable margin EBITDA of 35.9%. It carries on a number of margin-boosting initiatives such as **renegotiation with vendors and improved procurement**. The initiatives are projected to cushion its year ahead Opex and Capex.

Besides, **the leverage downtrend** was evidenced by IDR3 trillion banking debt repayment in 9M17, debt to equity running close at 80%, bit lower than 2017 debt to equity of 90.3%, debt to EBITDA lowering into 2.0X from 2.4x in 3Q16.

### Opportune Data Traffic Growth

Relatively stable data yield and ARPU respectively settled at IDR10/MB and IDR34,000. In contrast, Telkomsel's data yield whittling down dramatically into IDR14/MB likely brings about a **paradigm shift in ahead-of-competition map**. Given this outlook, EXCL is committed to data monetization and propping up quality service by the construction plan of 16,000 BTS.

Although Telkomsel as the market leader just won the spectrum auction, **EXCL spectrum utilization adequately responds to** the mounting data traffic. As note, the current spectrum utilization for 2G remains below 20%, while 3G/4G are around 50%.

### XL Axiata, Tbk | Summary (IDR bn)

|                       | 2016/12A | 2017/12E | 2018/12E | 2019/12E |
|-----------------------|----------|----------|----------|----------|
| Revenue               | 21,341   | 23,271   | 25,401   | 27,768   |
| <i>Revenue growth</i> | -6.7%    | 9.0%     | 9.2%     | 9.3%     |
| EBITDA                | 7,947    | 8,433    | 9,919    | 11,181   |
| Net profit            | 376      | 283      | 713      | 979      |
| EPS (IDR)             | 35       | 26       | 67       | 92       |
| <i>EPS growth</i>     | N/A      | -24.7%   | 152.1%   | 37.3%    |
| BVPS (IDR)            | 1,984    | 2,016    | 2,082    | 2,174    |
| EBITDA margin         | 37.2%    | 36.2%    | 39.0%    | 40.3%    |
| Net Profit Margin     | 1.8%     | 1.2%     | 2.8%     | 3.5%     |
| ROE                   | 2.1%     | 1.3%     | 3.3%     | 4.3%     |
| ROA                   | 0.7%     | 0.5%     | 1.3%     | 1.7%     |
| ROIC                  | -0.5%    | 2.9%     | 2.3%     | 3.2%     |
| P/E                   | 6.2x     | 11.4x    | 4.5x     | 3.3x     |
| P/BV                  | 1.2x     | 1.6x     | 1.5x     | 1.5x     |
| EV/EBITDA             | 5.2x     | 6.1x     | 5.0x     | 4.3x     |
| DPS (IDR)             | -        | -        | -        | -        |
| <i>Dividend yield</i> | 0.0%     | 0.0%     | 0.0%     | 0.0%     |

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

## Buy

|                          |              |
|--------------------------|--------------|
| <b>Dec 2018 TP (IDR)</b> | <b>4,400</b> |
| Consensus Price (IDR)    | 4,011        |
| TP to Consensus Price    | +9.7%        |
| vs. Last Price           | +36.6%       |

### Shares data

|                        |               |
|------------------------|---------------|
| Last Price (IDR)       | 3,220         |
| Price date as of       | Jan 17, 2018  |
| 52 wk range (Hi/Lo)    | 4,060 / 2,610 |
| Free float             | 33.6%         |
| Outstanding sh.(mn)    | 10,688        |
| Market Cap (IDR bn)    | 34,201        |
| Market Cap (USD mn)    | 2,562         |
| Avg. Trd Vol - 3M (mn) | 6.13          |
| Avg. Trd Val - 3M (bn) | 19,587        |
| Foreign Ownership      | 99.97%        |

### Infrastructure

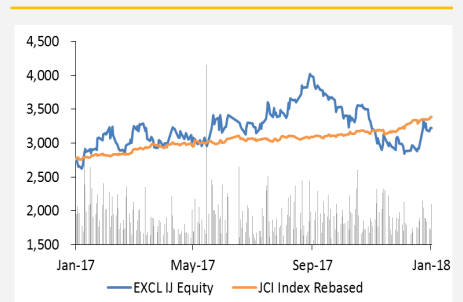
#### Telecommunication

|           |         |
|-----------|---------|
| Bloomberg | EXCL.IJ |
| Reuters   | EXCL.JK |

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### Share Price Performance



|           | YTD  | 1M   | 3M     | 12M   |
|-----------|------|------|--------|-------|
| Abs. Ret. | 8.8% | 7.7% | -8.8%  | 16.2% |
| Rel. Ret. | 7.4% | 2.6% | -17.1% | -6.1% |

### Business Expansion Outside Java

In next couple of years, given the outlook of TLKM's domination in outside-Java Island market share, EXCL is committed to improving its Ex-Java service. Although **Ex-Java service allures a more substantial growth**, it considers Java Island as its revenue basis and will continuously expand business in Java Island.

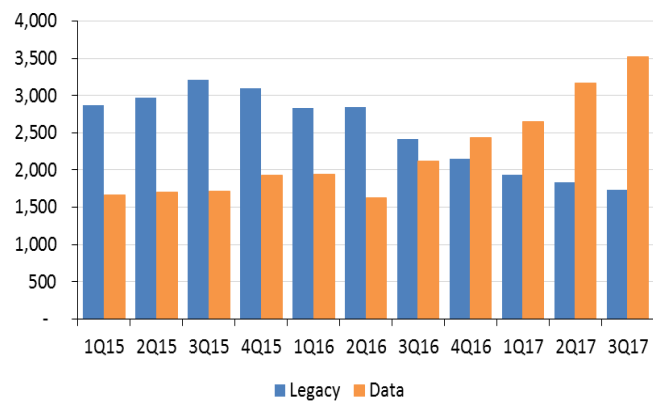
EXCL has committed to allocating 50% from the total capex for **business expansion outside Java**. The capex is higher than the prior capex of 20%. Meanwhile, 60% of BTS construction will be allocated to Ex-Java.

### Target Price of IDR4,400

Target price is obtained from an estimate of forward EV/EBITDA of 5.6x (the one year average SD). The target price implies a 2018E EBITDA of 6.3x. Now, EXCL is traded at an EV/EBITDA of 6.1x.

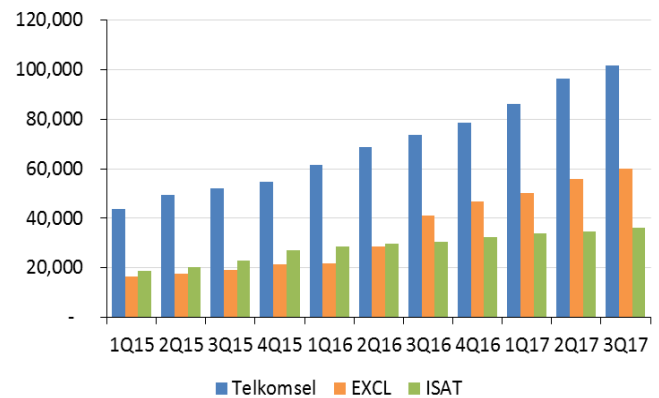
## Operational Performance

Revenue Proportion | 1Q15 - 3Q17



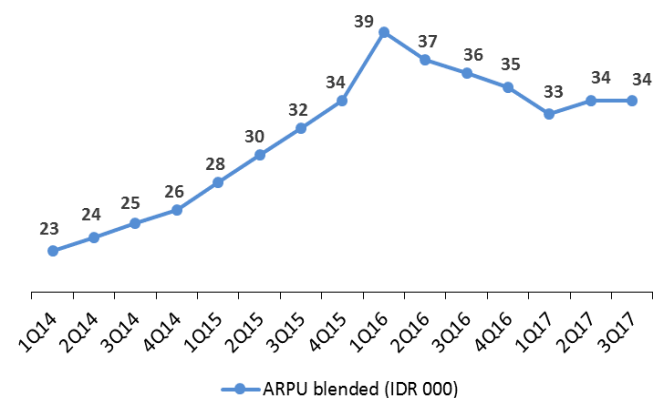
Source: Company

3G/4G BTS | 1Q15 - 3Q17



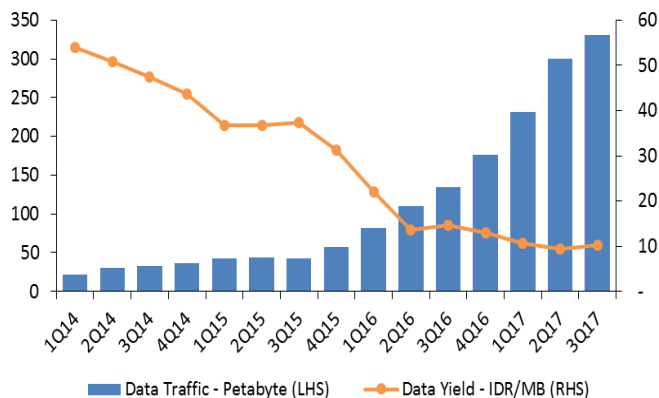
Source: Company, NHKS research

ARPU Blended | 1Q14 - 3Q17



Source: Company

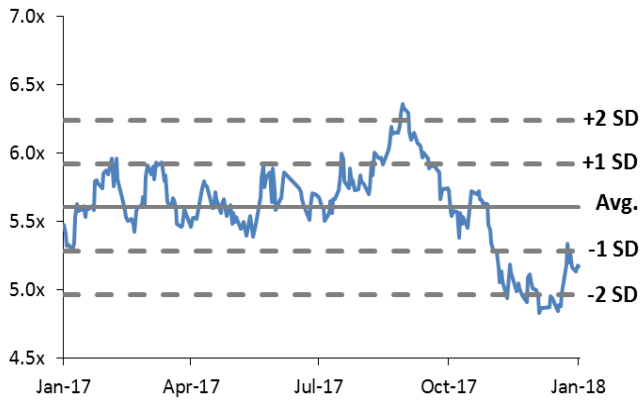
Data Traffic & Data Yield | 1Q14 - 3Q17



Source: Company

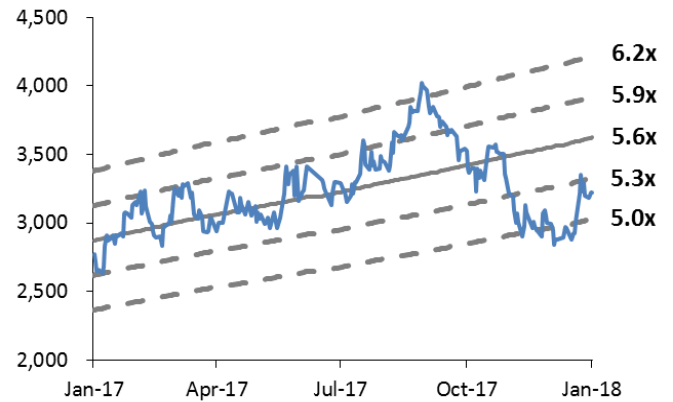
## Multiple Valuation

Forward EV/EBITDA band | Last 1 year



Source: NHKS research

Dynamic Forward EV/EBITDA band | Last 1 year



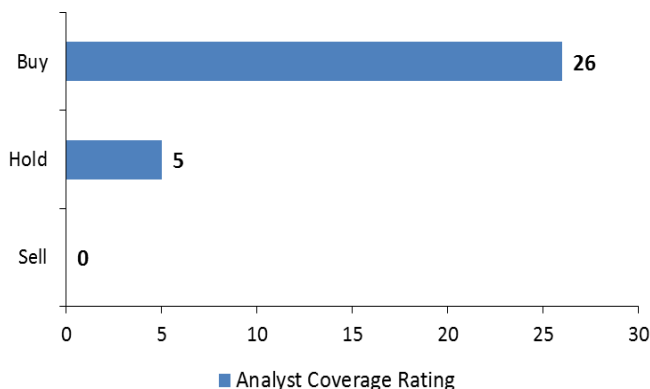
Source: NHKS research

## Rating and target price

| Date      | Rating | Target Price | Last Price | Consensus | vs Last Price | vs Consensus |
|-----------|--------|--------------|------------|-----------|---------------|--------------|
| 2/23/2017 | Hold   | 3,080        | 3,070      | 3,293     | 0.3%          | -6.5%        |
| 7/4/2017  | Hold   | 3,080        | 3,310      | 3,592     | -6.9%         | -14.3%       |
| 9/29/2017 | Buy    | 4,400        | 3,700      | 3,896     | 18.9%         | 12.9%        |
| 1/23/2018 | Buy    | 4,400        | 3,220      | 4,011     | 36.6%         | 9.7%         |

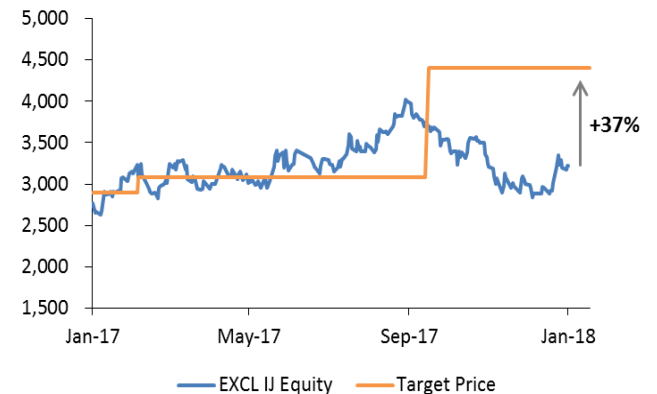
Source: NHKS research

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

### NH Korindo Sekuritas Indonesia (NHKS) stock ratings

- Period: End of year target price
- Rating system based on a stock's absolute return from the date of publication
  - Buy : Greater than +15%
  - Hold : -15% to +15%
  - Sell : Less than -15%

## Summary of Financials

| EXCL Summary                |                  |       |
|-----------------------------|------------------|-------|
| Last Price (IDR)            | January 17, 2018 | 3,220 |
| Target Price (IDR)          | Dec 2018         | 4,400 |
| Analyst: Arnold Sampeliling | Rating:          | Buy   |

### INCOME STATEMENT

| In IDR bn          | 2016/12A | 2017/12E | 2018/12E | 2019/12E |
|--------------------|----------|----------|----------|----------|
| <b>Net Revenue</b> | 21,341   | 23,271   | 25,401   | 27,768   |
| Growth (% y/y)     | -6.7%    | 9.0%     | 9.2%     | 9.3%     |
| Operating Expenses | (21,441) | (22,081) | (24,181) | (26,034) |
| <b>EBIT</b>        | (99)     | 1,190    | 1,220    | 1,734    |
| EBIT Margin        | -0.5%    | 5.1%     | 4.8%     | 6.2%     |
| D & A              | 8,046    | 7,243    | 8,699    | 9,447    |
| <b>EBITDA</b>      | 7,947    | 8,433    | 9,919    | 11,181   |
| EBITDA Margin      | 37.2%    | 36.2%    | 39.0%    | 40.3%    |
| Interest expenses  | (1,794)  | (1,530)  | (1,282)  | (1,385)  |
| <b>EBT</b>         | 186      | 271      | 950      | 1,305    |
| Income Tax         | 190      | 12       | (238)    | (326)    |
| Minority Interest  | -        | -        | -        | -        |
| <b>Net Profit</b>  | 376      | 283      | 713      | 979      |
| Growth (% y/y)     | N/A      | -24.7%   | 152.1%   | 37.3%    |
| Net Profit Margin  | 1.8%     | 1.2%     | 2.8%     | 3.5%     |

### BALANCE SHEET

| In IDR bn                   | 2016/12A | 2017/12E | 2018/12E | 2019/12E |
|-----------------------------|----------|----------|----------|----------|
| Cash                        | 1,400    | 410      | 2,667    | 3,584    |
| Receivables                 | 637      | 1,080    | 904      | 1,167    |
| Inventories                 | 161      | 102      | 114      | 126      |
| <b>Total Current Assets</b> | 6,807    | 6,025    | 8,184    | 9,471    |
| Net Fixed Assets            | 33,183   | 33,711   | 33,232   | 32,434   |
| Intangible Assets           | 6,108    | 5,915    | 5,709    | 5,509    |
| Other Non Current Assets    | 8,798    | 8,774    | 8,771    | 8,773    |
| <b>Total Assets</b>         | 54,896   | 54,424   | 55,896   | 56,187   |
| Payables                    | 6,503    | 6,608    | 6,555    | 6,582    |
| Curr Maturities of LT Debt  | 3,973    | 4,708    | 3,317    | 3,285    |
| Other Current Liab.         | 4,002    | 3,920    | 4,567    | 4,283    |
| LT Debt                     | 14,394   | 13,047   | 14,487   | 14,140   |
| Other Non Current Liab.     | 4,816    | 4,599    | 4,716    | 4,664    |
| <b>Total Liabilities</b>    | 33,687   | 32,883   | 33,642   | 32,954   |
| <b>Shareholders' Equity</b> | 21,209   | 21,542   | 22,255   | 23,233   |

### CASH FLOW STATEMENT

| In IDR bn                  | 2016/12A | 2017/12E | 2018/12E | 2019/12E |
|----------------------------|----------|----------|----------|----------|
| Net Income                 | 376      | 283      | 713      | 979      |
| Deprec & Amortization      | 8,046    | 7,243    | 8,699    | 9,447    |
| Chg. In Working Capital    | (1,110)  | (184)    | 692      | (628)    |
| <b>CFO</b>                 | 7,312    | 7,342    | 10,104   | 9,798    |
| Capex                      | (8,109)  | (7,669)  | (8,014)  | (8,449)  |
| <b>CFI</b>                 | (3,849)  | (7,862)  | (7,894)  | (8,502)  |
| Dividends Paid             | -        | -        | -        | -        |
| Net Borrowing              | (10,978) | (611)    | 48       | (379)    |
| <b>CCF</b>                 | (5,369)  | (589)    | 48       | (379)    |
| <b>Net Changes in Cash</b> | (1,906)  | (1,109)  | 2,257    | 917      |

### OWNERSHIP

| By Geography  | % Shareholders | %                          |
|---------------|----------------|----------------------------|
| Malaysia      | 85.4           | Axiata Investment Ltd 66.4 |
| United States | 8.0            | Sun Life Financial Inc 1.5 |
| Luxembourg    | 2.1            | Brandes Investment 1.5     |
| Britain       | 1.0            | Vanguard Group 1.2         |

### PROFITABILITY & STABILITY

|                        | 2016/12A | 2017/12E | 2018/12E | 2019/12E |
|------------------------|----------|----------|----------|----------|
| ROE                    | 2.1%     | 1.3%     | 3.3%     | 4.3%     |
| ROA                    | 0.7%     | 0.5%     | 1.3%     | 1.7%     |
| ROIC                   | -0.5%    | 2.9%     | 2.3%     | 3.2%     |
| EBITDA/Equity          | 45.0%    | 39.5%    | 45.3%    | 49.2%    |
| EBITDA/Assets          | 14.0%    | 15.4%    | 18.0%    | 20.0%    |
| Cash Dividend (IDR bn) | -        | -        | -        | -        |
| Dividend Yield (%)     | -        | -        | -        | -        |
| Payout Ratio (%)       | -        | -        | -        | -        |
| DER                    | 87%      | 82%      | 80%      | 75%      |
| Net Gearing            | 202%     | 189%     | 176%     | 157%     |
| LT Debt to Equity      | 87%      | 82%      | 80%      | 75%      |
| Capitalization Ratio   | 46%      | 45%      | 44%      | 43%      |
| Equity Ratio           | 39%      | 40%      | 40%      | 41%      |
| Debt Ratio             | 33%      | 33%      | 32%      | 31%      |
| Financial Leverage     | 322%     | 256%     | 252%     | 246%     |
| Current Ratio          | 47%      | 40%      | 57%      | 67%      |
| Quick Ratio            | 14%      | 10%      | 25%      | 34%      |
| Cash Ratio             | 10%      | 3%       | 18%      | 25%      |
| Par Value (IDR)        | 100      | 100      | 100      | 100      |
| Total Shares (mn)      | 10,688   | 10,688   | 10,688   | 10,688   |
| Share Price (IDR)      | 2,310    | 3,220    | 3,220    | 3,220    |
| Market Cap (IDR tn)    | 24.7     | 34.4     | 34.4     | 34.4     |

### VALUATION INDEX

|                     | 2016/12A | 2017/12E | 2018/12E | 2019/12E |
|---------------------|----------|----------|----------|----------|
| Price /Earnings     | 6.2x     | 11.4x    | 4.5x     | 3.3x     |
| Price /Book Value   | 1.2x     | 1.6x     | 1.5x     | 1.5x     |
| Price/Revenue       | 1.2x     | 1.5x     | 1.4x     | 1.2x     |
| PE/EPS Growth       | N/A      | -0.5x    | 0.0x     | 0.1x     |
| EV/EBITDA           | 5.2x     | 6.1x     | 5.0x     | 4.3x     |
| EV/EBIT             | -420.3x  | 43.5x    | 40.6x    | 27.8x    |
| EV (IDR bn)         | 41,656   | 51,761   | 49,551   | 48,256   |
| Revenue CAGR (3-Yr) | 0.1%     | -0.3%    | 3.6%     | 9.2%     |
| EPS CAGR (3-Yr)     | -34%     | -165%    | -382%    | 38%      |
| Basic EPS (IDR)     | 35       | 26       | 67       | 92       |
| Diluted EPS (IDR)   | 35       | 26       | 67       | 92       |
| BVPS (IDR)          | 1,984    | 2,016    | 2,082    | 2,174    |
| Revenue PS (IDR)    | 1,997    | 2,177    | 2,377    | 2,598    |
| DPS (IDR)           | -        | -        | -        | -        |

### DCF, RIM & EVA

|                                | 2016/12A | 2017/12E | 2018/12E | 2019/12E |
|--------------------------------|----------|----------|----------|----------|
| <b>DCF (IDR bn)</b>            |          |          |          |          |
| NOPAT                          | (201)    | 1,139    | 915      | 1,301    |
| +Depr./Amor.                   | 8,046    | 7,243    | 8,699    | 9,447    |
| -CAPEX                         | (8,109)  | (7,669)  | (8,014)  | (8,449)  |
| -Incr. (Decr.) in Working Cap. | (1,110)  | (184)    | 692      | (628)    |
| (Unlevered) FCFF               | (1,373)  | 529      | 2,292    | 1,671    |
| <b>WACC</b>                    |          |          |          |          |
| Cost of Debt (Tax Adj.)        | 21.6%    | 8.0%     | 7.6%     | 7.0%     |
| Cost of Equity (COE)           | 10.0%    | 12.7%    | 12.0%    | 12.4%    |
| WACC (%)                       | 15.0%    | 11.1%    | 10.5%    | 10.6%    |
| <b>RIM</b>                     |          |          |          |          |
| Spread (FROE-COE) (%)          | -7.3%    | -11.4%   | -8.7%    | -8.0%    |
| Residual Income (IDR)          | (1,032)  | (2,415)  | (1,868)  | (1,783)  |
| Equity Charge                  | 1,407    | 2,698    | 2,580    | 2,762    |
| <b>EVA</b>                     |          |          |          |          |
| Invested Capital (IDR bn)      | 43,436   | 39,576   | 39,297   | 40,058   |
| ROIC-WACC (%)                  | -15.4%   | -8.2%    | -8.2%    | -7.3%    |
| EVA (IDR bn)                   | (6,695)  | (3,262)  | (3,206)  | (2,938)  |

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