NEUTRAL

Return (%)	-1D	-1W	-1M
JCI	0,6	5,2	11,6
LQ45	0,3	6,4	12,6
EXCL IJ	0,0	2,3	1,9
TLKM IJ	-1,4	6,9	9,0
MTEL IJ	0,0	9,9	16, 7
TOWR IJ	0,0	0,0	12,2

EPS Growth (%)	FY25E	FY26F
EXCL IJ	46.7	30.8
TLKM IJ	3.7	11.5
MTEL IJ	12.0	13.5
TOWR IJ	10.7	8.8

Repositioning Indonesia's Telco for Long-Term Growth

1Q25 Results: Signs of Margin Shifts Amid Slowing ARPU

In 1Q25, EXCL and ISAT outperformed TLKM on a YoY basis, with stronger topline and EBITDA, driven by network integration and marketing synergies. TLKM's revenue declined 2.1% YoY to IDR36.7tn, while ISAT fell 1.9% YoY to IDR13.6tn, and EXCL grew 1.9% YoY to IDR8.6tn. EBITDA margins for EXCL, ISAT and TSEL stood at 50%/47%/45%. Data traffic growth slowed to ~11% in 1Q25, down sharply from ~31% in FY22, signaling a shift toward more rational pricing and cost discipline. The weak top-line and earnings performance was largely attributed to declining ARPU. TSEL/EXCL ARPU dropped by 6%/9% YoY, while ISAT ARPU rose 5% YoY, supported by an AI-based personalization model. Network deployment and ARPU recovery will be critical indicators for market share and margin resilience going forward.

ARPU remains soft, subscriber growth slows

As of 1Q25, mobile penetration exceeds 110%, while subscriber growth declined -1.6% YoY/+0.1% QoQ. Blended ARPU hovers at IDR35k–45k/month (USD2.3–3.0), below regional peers. Despite a triopoly (Telkomsel ~50%, Indosat ~30%, XL Axiata ~19%), operators rely heavily on bonus-based pricing. Product complexity and fragmented zone-based pricing further distort value capture.

Regulatory costs rising, reaching 11–12% of revenue

FY25E projections show regulatory costs increasing 50–100bps, reaching 11%–12% of total revenue. Telcos face USO levy (1.25%), BHP (0.5–1%), spectrum costs, and local government retribution fees. Licensing complexity and dual-layer (central-local) policy frameworks contribute to high overheads and rollout delays. We believe meaningful regulatory reform is essential to accelerate infrastructure rollout and expand service access. Priorities include revising high spectrum fees to align with global benchmarks, streamlining licensing to reduce deployment delays, and offering investment incentives such as tax incentives.

Lessons from India and China highlight the gap

India's operators pay ~8% of gross revenue, with more predictable spectrum and licensing frameworks. Despite low ARPU (USD2.2/month), Jio's 470mn users and efficient all-IP network enable margin sustainability. China's telecom sector, by contrast, benefits from a policy-driven model with minimal commercial licensing fees and low or zero-cost spectrum allocation, particularly for its SOE operators. While exact cost ratios are not disclosed, filings from China Telecom and GSMA reports confirm the absence of typical operator charges such as license fees and auction-based spectrum costs. This regulatory structure enables aggressive infrastructure investment, including nationwide 5G rollout, cloud services, and industrial IoT, without placing commercial pressure on margins.

TLKM AGMS: Higher Dividend, Leadership Refresh, Foreign Interest Builds

TLKM is set to hold its AGMS at the end of May 2025, with key agendas likely to include a higher dividend payout and management restructuring. The dividend ratio is expected to rise to 80%–85% (vs. historical 60%–75%), offering an appealing yield of 7%–8% — well above peers such as EXCL (3%) and ISAT (3.5%). The potential leadership changes could bring fresh strategic direction, improving TLKM's agility in a challenging industry. As the company joins the BPI Danantara program, stronger scrutiny on governance and performance is anticipated. Notably, foreign investors posted a net buy of IDR297 bn in Apr-25.

Neutral Recommendation for the Sector

We maintain our **Neutral** recommendation as ARPU and subscriber growth continue to slow, impacted by uncertain macroeconomic conditions and rising projected regulatory costs. However, we expect the company to implement effective cost control measures to stay competitive with market pricing. Our top picks in this sector are 1) EXCL IJ (BUY; TP: IDR 2,850); 2) TLKM IJ (BUY; TP: IDR 3,120).

Ticker	Mkt Cap (IDR tn)	P/E (x)		PBV (x)		Rec	TP (IDR/sh)
		FY25E	FY26F	FY25E	FY26F		
EXCL IJ	40.0	11.1	8.9	1.1	1.0	BUY	2,850
TLKM IJ	274.4	10.7	9.6	1.7	1.6	BUY	3,120
MTEL IJ	55.6	20.4	18.4	1.5	1.5	BUY	820
TOWR IJ	30.3	11.3	10.4	2.0	1.8	HOLD	1,050

Sources : IDX, MNCS Research

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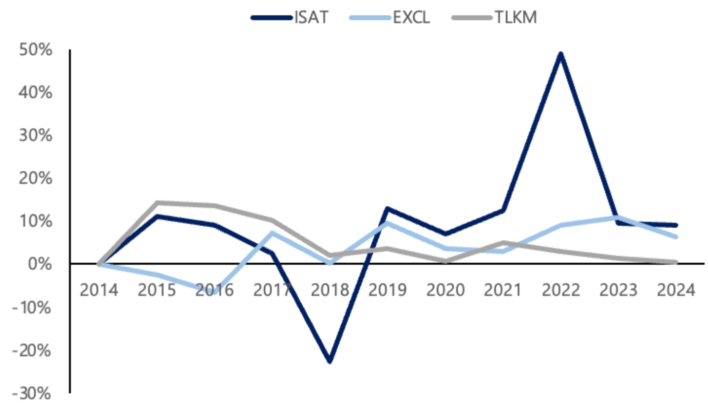
Indonesia's telecom sector has been stagnant over the past decade, delivering only 5% CAGR revenue growth (2015–2024) with stagnant earnings across the board. Despite sector consolidation, the industry continues to face headwinds including subpar earnings growth, unproductive capital deployments, and a heavy regulatory burden — factors that have diminished its appeal to foreign investors. Without meaningful improvement in profitability metrics, we believe it will be increasingly difficult for operators to sustainably enhance the quality of fixed broadband or mobile internet services. In our view, structural market reforms in the Indonesian cellular industry are increasingly urgent.

Exhibit 01. Modest revenue growth over decade ~5% CAGR



Sources : Company, Bloomberg, MNCS Research

1Q25 Results: Margin Shifts Amid Soft ARPU and Slowing Data Growth

In 1Q25, EXCL and ISAT outperformed TLKM on a YoY basis, with stronger topline and EBITDA, driven by network integration and marketing synergies. TLKM's revenue declined 2.1% YoY to IDR36.7tn, while ISAT fell 1.9% YoY to IDR13.6tn, and EXCL grew 1.9% YoY to IDR8.6tn. EBITDA margins for EXCL, ISAT, TLKM stood at 50%/47%/45%. Data traffic growth slowed to ~11% in 1Q25, down sharply from ~31% in FY22, signaling a shift toward more rational pricing and cost discipline. The weak top-line and earnings performance was largely attributed to declining ARPU. TSEL/EXCL ARPU dropped 6%/9% YoY, while ISAT ARPU rose 5% YoY, supported by an AI-based personalization model. Network deployment and ARPU recovery will be critical indicators for market share and margin resilience going forward.

Exhibit 02. 1Q25 company performance

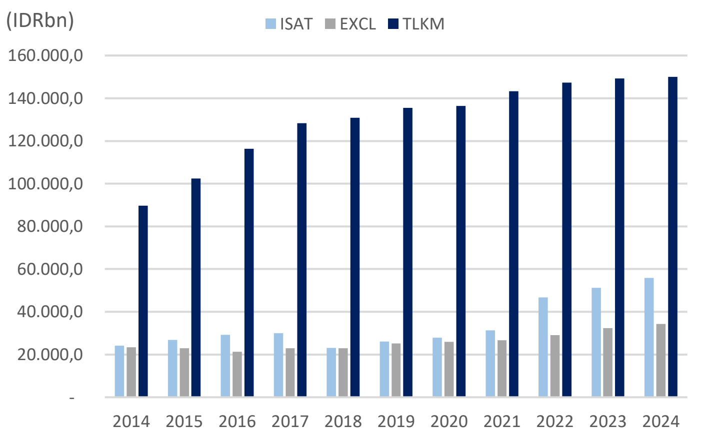
(IDR bn)	Revenue				
	1Q24	4Q24	1Q25	QoQ	YoY
TLKM	37.429	37.748	36.639	-2,9%	-2,1%
EXCL	8440	9.030	8.601	-4,8%	1,9%
ISAT	13.835	14.075	13.578	-3,5%	-1,9%

(IDR bn)	EBITDA				
	1Q24	4Q24	1Q25	QoQ	YoY
TLKM	19.421	18.402	18.232	-1%	-6%
EXCL	6.509	6.375	6.415	1%	-1%
ISAT	4.454	4.583	4.321	-6%	-3%

(IDR bn)	Net Profit				
	1Q24	4Q24	1Q25	QoQ	YoY
TLKM	6.307	5.331	5.508	3%	-13%
EXCL	466	445	361	-19%	-23%
ISAT	1.292	977	1.312	34%	2%

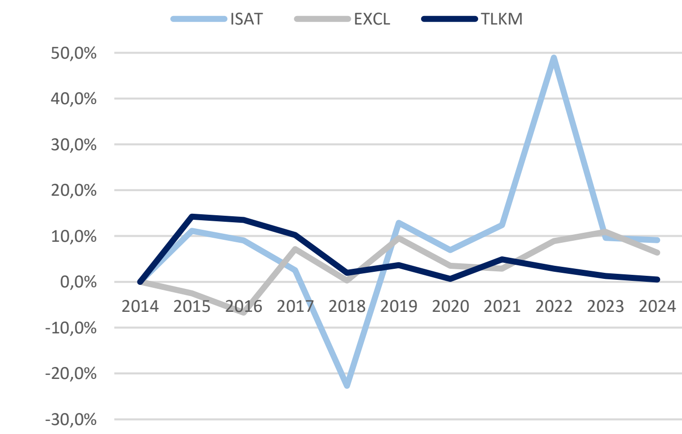
Sources : Company, MNCS Research

Exhibit 03. Revenue performance



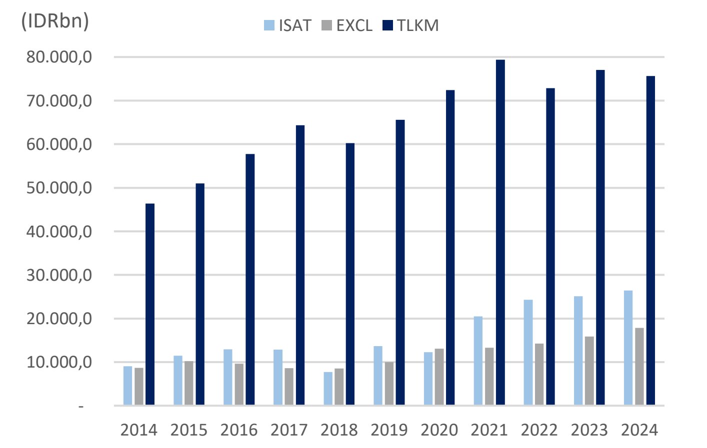
Sources : Company, Bloomberg, MNCS Research

Exhibit 04. Revenue growth



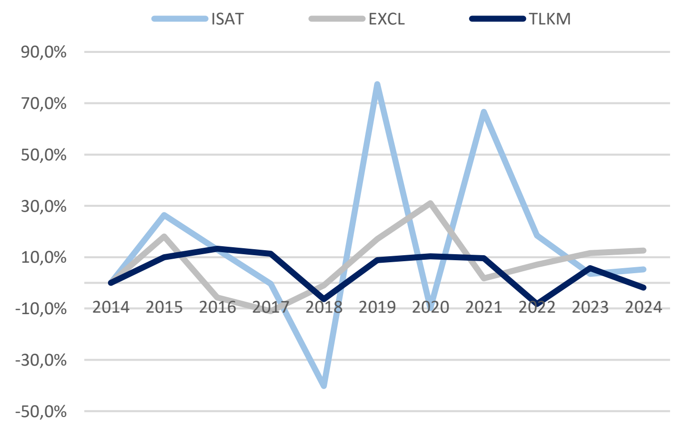
Sources : Company, Bloomberg, MNCS Research

Exhibit 05. EBITDA performance



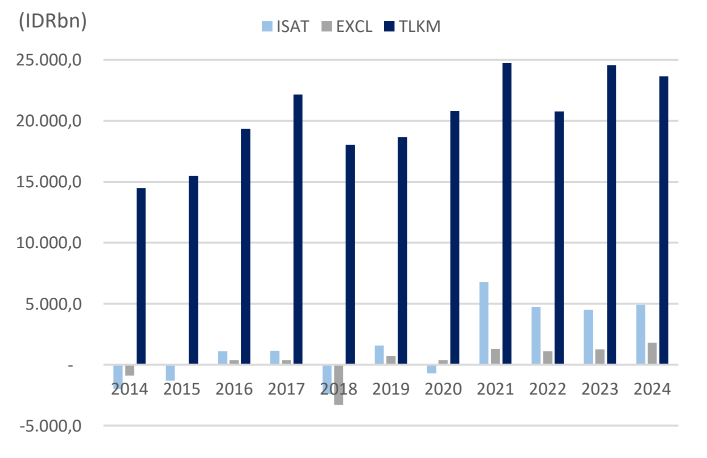
Sources : Company, Bloomberg, MNCS Research

Exhibit 06. EBITDA growth



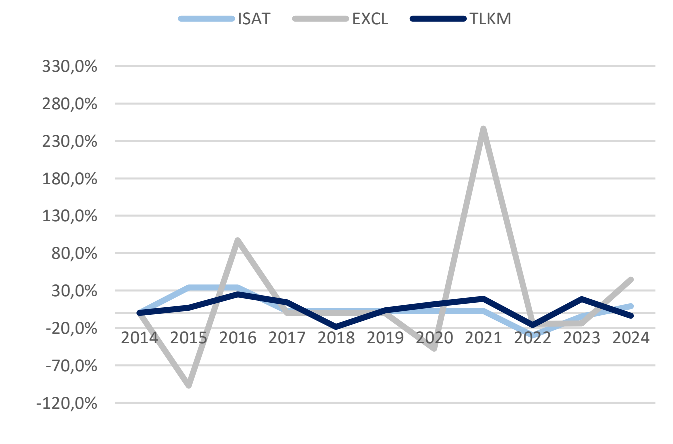
Sources : Company, Bloomberg, MNCS Research

Exhibit 07. Net Profit performance



Sources : Company, Bloomberg, MNCS Research

Exhibit 08. Net Profit Growth

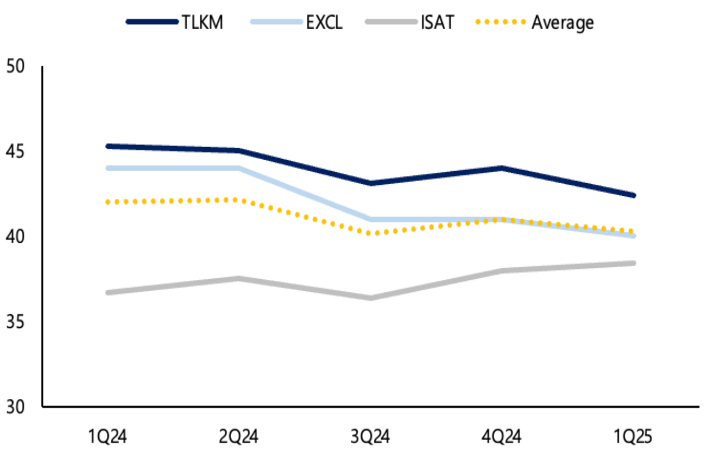


Sources : Company, Bloomberg, MNCS Research

Challenge #1: ARPU Compression & Market Saturation
With mobile penetration >110%, subscriber growth has flattened (-1.6% YoY/+0.1% QoQ in 1Q25). This leaves operators increasingly reliant on ARPU uplift, yet blended ARPU remains soft at IDR35k–45k/month (~USD2.3–3.0). A legacy of price wars, especially pre-2020, has kept data yield depressed (~IDR2,000/GB). Although the Indosat–Hutch merger (2022) consolidated the market into a triopoly — Telkomsel (~50% share), Indosat Ooredoo Hutchison (~30%), and XL Axiata (~19%) — operators still rely heavily on promotional and bonus-driven data packages, further eroding margins. Competition has gradually shifted from pricing to value-added services, including digital bundling (Netflix, Viu, Disney+, Gojek) and early 5G rollout. While this transition is positive, monetization remains limited due to weak user purchasing power and price sensitivity.

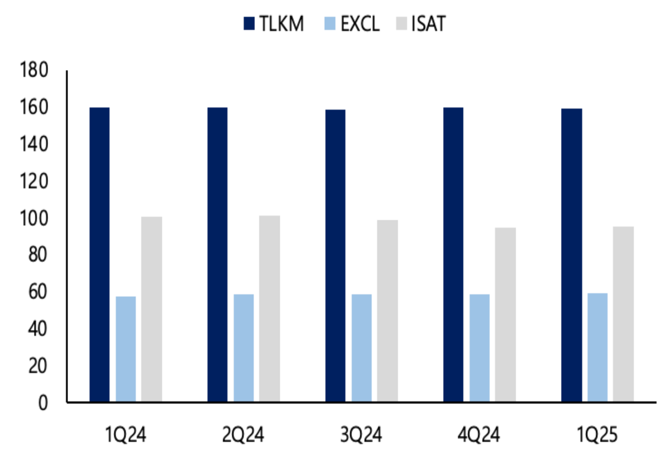
Strategic Response: Monetize Premium Segments, Rationalize Offerings
The most efficient lever to restore profitability is through ARPU enhancement. Telcos are beginning to implement tactical pricing reforms and bundling to protect margins and reduce churn. Tsel, for instance, restructured its by.U starter pack pricing in early 2025 from IDR10k (2024) to IDR35k for 3GB/30 days, aligning with industry peers. Indosat's Freedom Starter and XL Axiata's starter packs are now priced similarly, signaling industry coordination. Operators are also deploying segment-specific offers targeting premium users, including tiered data plans, content bundles, and quota-on-demand products, all of which have contributed to lower churn rates and stickier ARPU among high-value subscribers. We also see that too many package variants and regional price zones have led to a fragmented, overly complex market structure. This complexity has made it harder to maintain rational competition and has contributed to unsustainable pricing behaviors across operators. We believe a healthier benchmark would involve a reasonable premium that allows Tsel to maintain pricing power even with a reduced market share in those regions.

Exhibit 09. Declining ARPU Remains a Key Concern (IDR '000)



Sources : Company, Bloomberg, MNCS Research

Exhibit 10. Subscriber growth is slowing as high mobile penetration limits further expansion



Sources : Company, Bloomberg, MNCS Research

Exhibit 11. Dividend projections

	Payout Ratio		Div. Yield	
Stock	2024	2025	2024	2025
TLKM	72%	*80% - 85%*	6,6%	*7,1% - 7,5%*
EXCL	50%	62%	1,8%	3,2%
ISAT	48%	*50% - 52%*	3,2%	*3,6% - 3,7%*

Sources : MNCS Research
**Tlkm & Isat 2025 are our projections, while Excl 2025 has already been determined.*

Challenge #2: Higher regulatory costs are expected to rise by 50–100bps in FY25E
Regulatory costs continue to weigh heavily on Indonesian telecom operators and remain a structural headwind for sector profitability. Regulatory costs for telecom operators in Indonesia are expected to rise by 50–100 basis points in FY25E, bringing the total burden to around 11%–12% of revenue. Based on management interviews, operators cite burdensome costs such as spectrum usage fees, upfront fee, licensing charges, and administrative fees. In addition, telcos are required to pay a Universal Service Obligation (USO) levy of 1.25% of gross revenue, aimed at financing connectivity in remote areas, and a separate Network Operation Fee ranging from 0.5%-1% of gross revenue. Beyond national-level fees, operators also face complex and overlapping regional regulations. Local governments impose tower retribution fees—which increase rollout costs and complicate nationwide infrastructure expansion. These charges represent some of the highest regulatory burdens in S.E.A, significantly reducing operators' ability to reinvest in network upgrades, service innovation, or rural expansion.

While Indonesia has commercially launched 5G, uptake remains minimal with ~8% of the subscriber base currently connected. This limited adoption is partly due to affordability issues and unclear monetization strategies. Meanwhile, operators continue to invest aggressively in expanding 4G and fiber networks, but the corresponding revenue has not scaled proportionally. Compounding the challenge, Indonesian telcos largely function as infrastructure providers, while much of the value from data usage and digital engagement is captured by over-the-top (OTT) players like YouTube and TikTok. The lack of deep integration with OTT platforms or fintech ecosystems means telcos have yet to tap into meaningful new revenue streams outside of basic connectivity.

Exhibit 12. Rising regulatory costs are weighing on margins

	FY24 Revenue	FY24 Regulatory Cost	Cost as % of Revenue	1Q25 Revenue Annualized	1Q25 Regulatory Cost Annualized	Cost as % of Revenue
TLKM	149.967	10.620	7,1%	146.556	10.540	7,2%
EXCL	34.392	4.079	11,9%	34.405	4.324	12,6%
ISAT	55.887	7.684	13,7%	54.311	7.730	14,2%
Average			**10,9%**			**11,3%**

Sources : MNCS Research

Urgent Need to Streamline Regulatory Costs
We believe the industry requires meaningful regulatory reforms to to accelerate infrastructure development and broaden service accessibility. Key priorities include: 1) Spectrum Fee Revisions-as current costs remain a major barrier to network expansion, particularly in underserved regions. Aligning fee structures with global benchmarks would support more sustainable 5G rollout and improved service quality; 2) Simplifying licensing procedures, as excessive bureaucracy continues to slow infrastructure deployment. Streamlined processes would ease entry and reduce delays, especially in remote areas; and 3) Introducing investment incentives, including tax relief and public-private partnerships, to attract both domestic and foreign capital into digital infrastructure. These reforms are critical to closing the digital divide and advancing inclusive economic growth through better nationwide connectivity.

Insights from International Benchmarks
Telecom regulatory costs vary significantly across major markets, shaping investment behavior and profitability. In Indonesia, operators face one of the highest regulatory burdens in ASEAN, with total costs projected to rise to 11–12% of gross revenue in FY25E. These include upfront spectrum fees, an annual 1.25% USO levy, and 0.5–1% BHP fees, alongside local tower retribution taxes. Compounding this is a fragmented regulatory environment, where central and regional licensing overlaps create additional friction and cost uncertainty.

By contrast, India's regulatory costs, while also heavy, are more consolidated: operators pay ~8% of Adjusted Gross Revenue (AGR), covering license and spectrum usage fees, plus a 5% USO levy. Despite high costs, India's centralized licensing regime, spectrum roadmap clarity, and large-scale market help operators maintain profitability, especially for scaled players like Jio.

Meanwhile, China's telecom sector benefits from ultra-low regulatory costs due to its state-owned model. Spectrum is often directly allocated or heavily subsidized, and there are no USO levies or regional taxes (not publicly disclosed). Infrastructure rollout is planned and funded by the central government as part of national digital strategy. As a result, regulatory costs likely account for <3% of revenue, enabling aggressive investment in 5G, industrial IoT, and AI cloud infrastructure with minimal margin compression.

Learning from Jio

A valuable case study can be found in the significant transformation driven by Jio in India. Despite a low ARPU of around USD2.2/month (vs Indonesia USD2.3-3.0) in FY24, Jio offsets this through its massive scale, serving a subscriber base of approximately 470mn user—the largest in India. This volume enables strong aggregate revenue even with modest per-user returns. On the cost side, Jio benefits from high operational efficiency through a purpose-built, all-IP, 4G-only network, avoiding legacy 2G/3G systems. Its in-house infrastructure, extensive automation, and software-defined networking help significantly reduce operating expenses. Additionally, while India's spectrum and USO charges remain relatively high, they have become more structured and transparent, giving operators greater clarity in long-term planning.

Exhibit 13. Telco players

Company Name	Market Cap	Revenue (USDbn)			EBIT (USDbn)			Net Profit (USDbn)			EBITDAM			PER (x)			PBV (x)			EV/EBITDA (x)		
	(USDbn)	2023	2024	2025E	2023	2024	2025E	2023	2024	2025E	2023	2024	2025E	2023	2024	2025E	2023	2024	2025E	2023	2024	2025E
Indonesia																						
Telkom Indonesia Persero Tbk PT	16.969,7	9.460,2	9.460,2	9.250,0	2.703,4	2.703,4	2.641,1	1.491,8	1.491,8	1.455,3	50,3%	50,3%	49,2%	11,4	11,4	11,7	1,9	1,9	1,9	4,3	4,3	4,4
XLSMART Telecom Sejahtera Tbk PT	2.443,3	2.169,5	2.169,5	2.283,8	364,2	364,2	352,6	114,7	114,7	126,3	53,0%	53,0%	52,7%	21,3	21,3	19,3	1,2	1,2	1,0	4,4	4,4	4,4
Indosat Tbk PT	4.114,1	3.525,5	3.525,5	3.560,0	685,6	685,6	727,3	309,8	309,8	340,4	47,3%	47,3%	48,3%	13,3	13,3	12,1	2,0	2,0	1,8	4,4	4,4	4,3
Malaysia																						
Axiata Group Bhd	4.452,7	4.872,5	4.872,5	5.408,9	827,6	827,6	750,4	207,4	207,4	193,9	49,1%	49,1%	50,8%	21,5	21,5	23,0	0,9	0,9	0,9	5,4	5,4	5,2
Maxis Bhd	6.718,1	2.307,8	2.307,8	2.501,7	509,0	509,0	560,9	305,8	305,8	344,3	39,0%	39,0%	42,2%	22,0	22,0	19,5	5,1	5,1	4,8	9,7	9,7	9,0
Telekom Malaysia Bhd	6.135,7	2.565,4	2.565,4	2.876,3	506,5	506,5	558,4	441,8	441,8	398,8	38,1%	38,1%	43,4%	13,9	13,9	15,4	2,7	2,7	2,4	6,8	6,8	6,0
CELCOMDIGI BHD	10.663,0	2.777,2	2.777,2	3.025,2	506,1	506,1	690,1	301,8	301,8	435,7	44,0%	44,0%	50,7%	35,3	35,3	24,5	3,0	3,0	2,8	11,2	11,2	9,7
Singapore																						
Singapore Telecommunications Ltd	48.312,1	10.505,2	10.505,2	11.049,9	(71,8)	(71,8)	1.053,1	591,2	591,2	1.976,8	16,6%	16,6%	28,3%	81,7	81,7	24,4	2,6	2,6	2,5	32,1	32,1	18,8
StarHub Ltd	1.529,6	1.771,8	1.771,8	1.849,0	168,6	168,6	170,6	120,2	120,2	120,0	19,5%	19,5%	20,0%	12,7	12,7	12,7	5,1	5,1	3,1	6,8	6,8	6,7
Thailand																						
Advanced Info Service PCL	26.439,0	6.060,6	6.060,6	6.607,5	1.429,8	1.429,8	1.699,2	995,4	995,4	1.201,3	52,3%	52,3%	58,1%	26,6	26,6	22,0	9,9	9,9	8,6	10,0	10,0	9,0
True Corp PCL	12.954,6	5.846,4	5.846,4	6.111,9	344,0	344,0	1.131,8	(311,2)	(311,2)	491,1	40,8%	40,8%	54,2%	(41,6)	(41,6)	26,4	6,0	6,0	5,4	10,6	10,6	8,0
India																						
Bharti Airtel Ltd	127.553,4	20.465,2	20.465,2	20.325,5	5.630,1	5.630,1	5.703,1	3.969,9	3.969,9	3.028,2	53,9%	53,9%	53,7%	32,1	32,1	42,1	9,8	9,8	9,8	14,1	14,1	14,1
China																						
China Mobile Ltd	243.391,6	144.556,9	144.556,9	149.249,0	19.805,2	19.805,2	22.411,5	19.219,5	19.219,5	20.114,6	32,1%	32,1%	33,8%	12,7	12,7	12,1	1,2	1,2	1,2	4,6	4,6	4,3
China Telecom Corp Ltd	93.755,7	73.533,7	73.533,7	75.846,7	5.528,5	5.528,5	6.296,6	4.585,2	4.585,2	4.971,1	26,6%	26,6%	27,6%	20,4	20,4	18,9	1,1	1,1	1,0	4,5	4,5	4,4

Sources : Bloomberg, MNCS Research

MNC Research Industry Ratings Guidance

- **OVERWEIGHT :** Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months
- **NEUTRAL :** Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months
- **UNDERWEIGHT :** Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

- **BUY** : Share price may exceed 10% over the next 12 months
- **HOLD** : Share price may fall within the range of +/- 10% of the next 12 months
- **SELL** : Share price may fall by more than 10% over the next 12 months
- **Not Rated** : Stock is not within regular research coverage

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