

TELECOMMUNICATION SECTOR UPDATES

MNO Consolidation to Win the Scale Deals

2,300 Mhz Auction: TLKM potentially win the race

- The Ministry of Communication and Informatics (KemKominfo) has relaunched the selection of 2.3 GHz mobile spectrum, especially in the 2,360–2,390MHz range, having canceled the outcome of the previous tender in Jan-2021.
- We estimate that TLKM has the potential to win the auction supported by: 1) Strong cash flow (IDR17.42 tn in 9M20) with a capex allocation of around IDR35.9 tn in FY21E (25% of total revenue); 2) TLKM already has a 30Mhz frequency in the 2,300Mhz spectrum; 3) Management committed to fulfilling the obligations set by the KemKominfo in utilizing these frequencies for 5G technology.
- We believe that TLKM might become a single winner, considering that TLKM previously has 30Mhz on 2.3 GHz, followed by a higher subscriber market share (170.1 mn subscriber in 9M20). Besides, to get additional spectrum allocation, operators must have a sufficiently large budget: three times of the value offered for upfront fee and spectrum fee. Thus, we consider that only TLKM is capable of getting funds through internal cash, considering that TLKM's net income is in the position of IDR16.68tn in 9M20.

Upscaling the Business through M&A while waiting for Regulatory Approval

- Ooredoo Group has entered into an exclusive and non-legally binding MoU with CK Hutchison Holdings Ltd in Dec-2020, seeking a possible transaction to combine their Indonesian telecom subsidiaries, ISAT and H3I.
- We observed if the consolidation happened, ISAT-H3I would become the 2nd-largest MNO in terms of subscriber (100.4 mn subs); standing above EXCL (57.9 mn subs) and tailing the market leader, TLKM (170.1 mn subs). If MNO allows retaining the spectrum holding post-merger, ISAT-H3I potentially owned 34.4% spectrum market share (145Mhz), and become the largest spectrum ownership, exceeding TLKM (135Mhz). Hence, we estimate EV would be increased by +28.72% to IDR59.69 tn (EBITDA: IDR15.91 tn), translating into target price of IDR8,100 for ISAT, which implies 3.75x EV/EBITDA.
- However, several downside risks might be coming from: 1) unfavorable government regulation on M&A; 2) potential return of overlap spectrum; 3) subscriber's elimination post-merger; 4) increased in post-merger integration cost.

Lines up Tower Sale to cover Capex hike

- We expects the average capex to revenue for the big 3 MNO's to remain high at around 25% in FY21E, driven by network coverage and fiber-optic expansion. TLKM to set capex of IDR35.9 tn for FY21E. EXCL sets IDR7 tn in FY21E capex, slightly higher from IDR6.2 tn spent in FY20 and sourced from internal cash and debt refinancing.
- Meanwhile, ISAT is allocating IDR8 tn capex in FY21E to improve 4G and video-grade network. To meet the capex needed and lowering costs, ISAT has agreed to sell and lease-back of 4,247 towers (USD750 mn/IDR10.8 tn) to PT EPID Menara AssetCo, owned by Digital Colony, a global digital infrastructure company. Digital Colony also reportedly is in exclusive talks with Northstar Advisors Pte regarding the plan to acquire CENT IJ.

OVERWEIGHT Recommendation with Top Picks: TLKM and EXCL

We maintain our **OVERWEIGHT** recommendation for Indonesia's telco sector as we believe data traffic to continue to grow and data yield seems likely to normalized. Meanwhile, market will focused on the 2,300MHz spectrum auction and MNO consolidation story this year. Our top picks are: **1) TLKM IJ (BUY; TP:IDR4,000)**, thus TLKM being the market leader with the best network coverage and potentially win the auction; **2) EXCL IJ (BUY; TP:IDR2,700)**, given an undemanding valuation with strong 4G customer growth; while **3) ISAT IJ (HOLD; TP:IDR5,650)**, we did not taking into account of the completed consolidation with H3I. Risk to our call: 1) any capex delay; 2) unfavorable regulation, and 3) lower-than-expected pick up in data yield.

Ticker	Market Cap (IDR tn)	EV/EBITDA (x)		PER (x)		Rec.	Target Price (IDR)
		FY21E	FY22F	FY21E	FY22F		
TLKM	330.87	5.19	4.71	15.74	14.03	BUY	4,000
EXCL	21.99	3.38	3.34	38.92	22.36	BUY	2,700
ISAT	35.46	3.75	3.27	NA	NA	HOLD	5,650

Sources: Bloomberg, MNCS (as of Apr 15, 2021)



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2,300 Mhz Auction: TLKM potentially win the race

The Ministry of Communication and Informatics (KemKominfo) has relaunched the selection of 2.3 GHz mobile spectrum, especially in the 2,360 – 2,390 MHz range, having canceled the outcome of the previous tender in Jan-2021. The tender comprises three blocks of spectrum, each with bandwidth of 10MHz. However, there is no disclosure in terms of the auction time. Most MNO are willing to take part in the auction and have the opportunity to buy up entire blocks (3×10MH) – i.e. there is no restriction on the upper limit; participants also need to be evaluated whether the frequency is excessive or not according to the subscribers.

We estimate that TLKM has the potential to win the auction supported by: 1) Strong cash flow (IDR17.42 tn in 9M20) with a capex allocation of around IDR35.9tn in FY21E (25% of total revenue); 2) TLKM already has a 30Mhz frequency in the 2,300Mhz spectrum; 3) Management committed to fulfilling the obligations set by the KemKominfo in utilizing these frequencies for 5G technology. We believe that TLKM might become a single winner, considering that TLKM previously has 30Mhz on 2.3 GHz, followed by a higher subscriber market share of ~48% (170.1 mn subscriber in 9M20). Referring to the 2017 auction, Tsel managed to get 30MHz with a total budget of IDR3.02 tn. Besides, to get additional spectrum allocation, operators must have a sufficiently large budget: 3 times of the value offered for upfront fee and spectrum fee. Thus, we consider that only TLKM is capable of getting funds through internal cash, considering that TLKM's net income is in the position of IDR16.68tn in 9M20.

We also observed that the MNO consolidation process could disrupt market share in terms of TLKM spectrum ownership if TLKM did not win the auction. In addition, small operators will be quite concerned about this sizeable investment value, given that investment in 4G technology has not yet returned and it will take 5-7 years to maximize their ROI.

Exhibit 01. Indonesia's Spectrum Holding

Spectrum	TSEL	ISAT	EXCL	FREN	H3I	Total
800 MHz	-	-	-	11.0	-	-
850/900 MHz	15.0	12.5	7.5	-	-	-
1,800 MHz	22.5	20.0	22.5	-	10.0	-
2,100 MHz	15.0	15.0	15.0	-	15.0	-
2,300 Mhz (unpaired)	30.0	-	-	30.0	-	-
Total (unpaired)	82.5	47.5	45.0	41.0	25.0	
Total (paired)	135.0	95.0	90.0	52.0	50.0	422.0
Spectrum Market Share	31.99%	22.51%	21.33%	12.32%	11.85%	

Source: Companies

Ooredoo Group has entered into an exclusive and non-legally binding MoU with CK Hutchison Holdings Ltd in Dec-2020, seeking a possible transaction to combine their Indonesian telecom subsidiaries, ISAT and H3I. The exclusivity for the MoU is valid until 30 April 2021.

We observed if the consolidation happened, ISAT-H3I would become the 2nd-largest MNO in terms of subscriber (100.4 mn subs); standing above EXCL (57.9 mn subs) and close to the market leader, TLKM (170.1 mn subs). If MNO allows retaining the spectrum holding post-merger, ISAT-H3I potentially owned 34.4% spectrum market share (145Mhz), and become the largest spectrum ownership, exceeding TLKM (135Mhz). Hence, we estimate EV would be increased by +28.72% to IDR59.69 tn (EBITDA: IDR15.91 tn), translating into target price of IDR8,100 for ISAT, which implies 3.75x EV/EBITDA. The deal would strengthen the entity's position and provides a greater scale to develop 5G rollout. However, several downside risks might be coming from: 1) unfavorable government regulation on M&A; 2) potential return of overlap spectrum; 3) subscriber's elimination post-merger; 4) increased in post-merger integration cost.

Upscaling the Business through M&A while waiting for Regulatory Approval

Exhibit 02. ISAT & H3I Scenario

ISAT + H3I Consolidation	Pre	Post
EV/EBITDA FY21E est.	3.75	3.75
EBITDA (IDR bn)	12,365	15,917
EV (IDR bn)	46,371	59,688
Market Cap (IDR bn)	30,698	44,015
Outstanding Shares (bn)	5.43	5.43
Target Price (IDR)	5,650	8,100
Last Price	6,625	6,625
Upside/Downside Potential	-14.72%	22.26%

(IDR bn)	ISAT		H3I		Consolidation FS	
	FY20	FY21E	FY20E	FY21E	FY20E	FY21E
Revenues	27,925.70	30,159.76	14,377.38	14,952.47	42,303.08	45,112.23
Revenues Growth	6.9%	8.0%	3.2%	4.0%	5.6%	6.6%
EBITDA	11,433.20	12,365.50	3,270.56	3,551.20	14,703.76	15,916.70
EBITDA Growth	16.0%	8.2%	-29.0%	8.6%	1.6%	8.3%
EBITDA Margin	40.9%	41.0%	22.7%	23.7%	34.8%	35.3%
EBIT	2,399.30	2,593.74	1,564.34	2,277.22	3,963.64	4,870.96
EBIT Growth	738.9%	8.1%	-51.3%	45.6%	13.3%	22.9%
EBIT Margin	8.6%	8.6%	10.9%	15.2%	9.4%	10.8%

Source: Companies, MNCS estimates

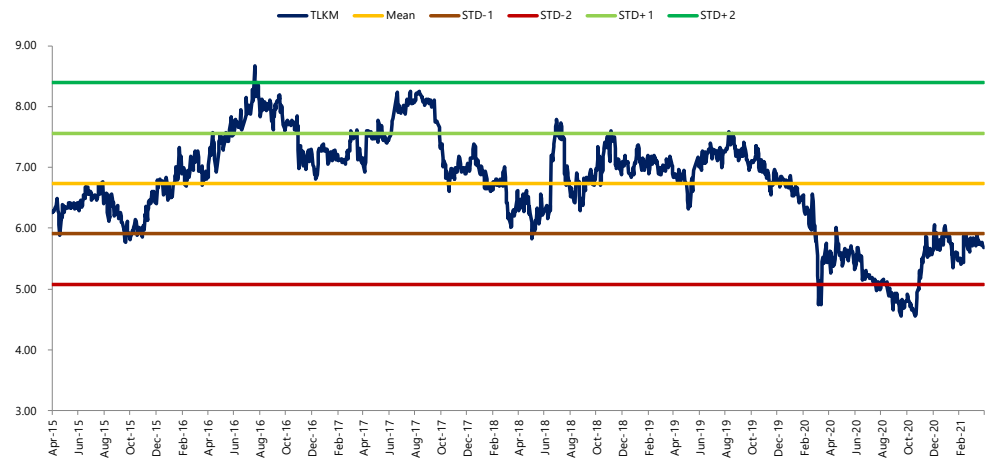
We expect the average capex to revenue for the big 3 MNO's to remain high at around 25% in FY21E, driven by network coverage and fiber-optic expansion. We believe capex fund rising should come from internal cash, bond raising, finance leases, and tower sales. TLKM to set capex of IDR35 tn for FY21E. EXCL sets IDR7 tn in FY21E capex, slightly higher from IDR6.2 tn spent in FY20 and sourced from internal cash and debt refinancing. Meanwhile, ISAT is allocating IDR8 tn capex in FY21E to improve 4G and video-grade network. To meet the capex needed and lowering costs, ISAT has agreed to sell and lease-back of 4,247 towers (USD750 mn/IDR10.8 tn) to PT EPID Menara AssetCo, owned by Digital Colony, a global digital infrastructure company. Digital Colony also reportedly is in exclusive talks with Northstar Advisors Pte regarding the plan to acquire CENT IJ.

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Lines up Tower Sale to cover Capex hike

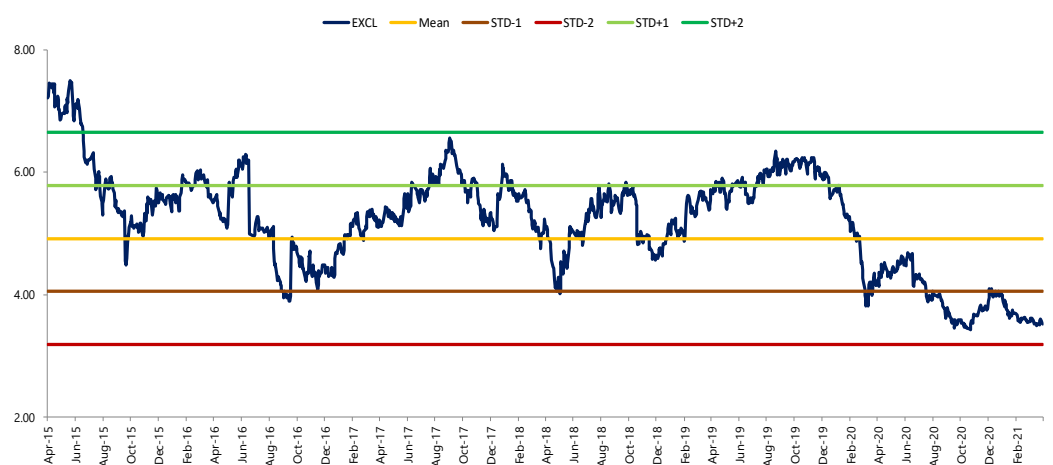
Overweight Recommendation with Top Picks: TLKM and EXCL

Exhibit 03. TLKM IJ is currently trading close to -1STD EV/EBITDA (5 years historical mean)



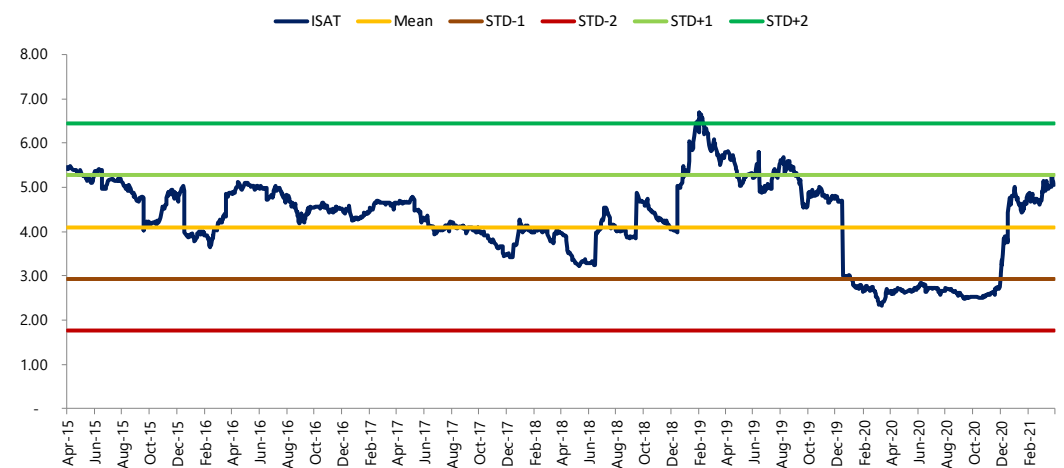
Source: Bloomberg as of Apr 14, 2021

Exhibit 04. EXCL IJ is currently trading at -1.5STD EV/EBITDA (5 years historical mean)



Source: Bloomberg as of Apr 14, 2021

Exhibit 05. ISAT IJ is currently trading at +1STD EV/EBITDA (5 years historical mean)



Source: Bloomberg as of Apr 14, 2021

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Not Rated : Stock is not within regular research coverage

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