



TELECOMMUNICATION SECTOR UPDATES

Presenting an Attractive Entry Point

Managed to Strengthen the Roots

Most of our telco operator (the big 3) shows a positive growth of revenue and strong EBITDA with an average of 8.63%/26.09% YoY respectively in FY19, mainly driven by strong data consumption and efficiencies. We note that continued strong data traffic growth should support ARPU, as the decline in data yield has normalized (see exhibit 01). Moreover, EXCL IJ and ISAT IJ have released its 1Q20 result, which show a significant growth of data traffic (+40.77%/+63.01% YoY) amidst challenges from increased competition. Hence, we believe data traffic to continue growing above 50%-55% level in FY20E on the back of: 1) potential increase in data traffic as the public continues to follow physical distancing measures amid the COVID-19 outbreak; 2) strong data consumption especially by millennials (taking ~35% of Indonesia's productive population); 3) continued ex-Java network expansion.

Getting the Spotlight in Facilitating this 'New Normal'...

As the global economy continues to adapt the lasting impact of COVID-19 outbreak, we see that remote working, video conferencing, electronic payments and streaming services, putting the telco sector in the spotlight today. According to companies, overall data traffic has jumped by 24.93% during Ramadhan season amid large-scale social restrictions (PSBB) and a ban on 'mudik' tradition to curb the COVID-19 outbreak. ISAT IJ led the traffic growth with an increase of 27% compared to normal days, followed by EXCL IJ (25%) and TLKM IJ (23%). We also note that infrastructure readiness play such an important role, along with Indonesia's upgrade Video Experience rating from Fair to Good with a stable 4G download speed at 10-11Mbps, according to OpenSignal Report 2020 (see exhibit 02).

...while being Cautious in Prolonged Impact: Customer Wallet Potentially Affected

During the COVID-19 outbreak, the telco operator might have enjoyed a short term benefit of rising demand. Meanwhile, we see the potential down risks are haunted due to: 1) a prolonged PSBB situation will impact customer spending; 2) slightly lower in new subscriber base; 3) lack of availability on handset due to global disruption in supply chain; 4) slowdown in B2B business especially in highly impacted sector; 5) delay in 5G rollout. Nevertheless, telco operators have already set several strategies to face those challenge by setting a product mix (e.g. daily or weekly package) and pricing strategies. In addition, we believe that telco operator may not change their FY20E capex plan as well as its network equipment has already set and distributed in late FY19. A long-term impact of pandemic situation bringing the less competitive market and opening up the consolidation opportunity, in our view.

Sale and Lease Back Scheme Creates a Healthier Performance

Furthermore, the tower sale and lease back scheme become one of the operators' strategy amidst its tight of funding constraints. In 1Q20, EXCL IJ has agreed to sell its 2,782 units to Protelindo (TOWR IJ) and PT Centratama Menara Indonesia (CENT IJ) with a transaction value of IDR4.05 trillion and will lease back for 10 years. We believe that relatively lower rental rates are one of the strategies in maintaining profitability, creating a stronger balance sheet and capital structure. Meanwhile, TOWR IJ has enlarge its position as largest tower player with more than 21,000 towers as of February 2020. Based on management's information, TOWR IJ has the potential to earn recurring revenues up to IDR340 billion p.a. Therefore, we believe that the tower sector will be more attractive along FY20E is supported by: 1) The entry of some tower player such as TOWR IJ and TBIG IJ into LQ45 Index; 2) The elimination of a negative list of investments in 8 telco sectors to make it easier for investors to invest in Indonesia.

Overweight Recommendation with Selected Top Picks: TLKM and EXCL

Based on some positive catalysts and the potential risks, we upgrade our recommendation from **Neutral to Overweight** for Indonesia's telco sector. Our top picks on telco operator are: 1) TLKM IJ (BUY; TP: IDR 3,600), thus TLKM being the market leader with the best network coverage, especially in the ex-Java region; 2) EXCL IJ (BUY; TP: IDR2,700) in line with strong 4G customer growth in the last two years and an increase in the portion of massive data services (91% of total sales in 1Q20). While, we reiterate HOLD for TOWR IJ as its currently trading close to +2STD EV/EBITDA (3 years historical mean).



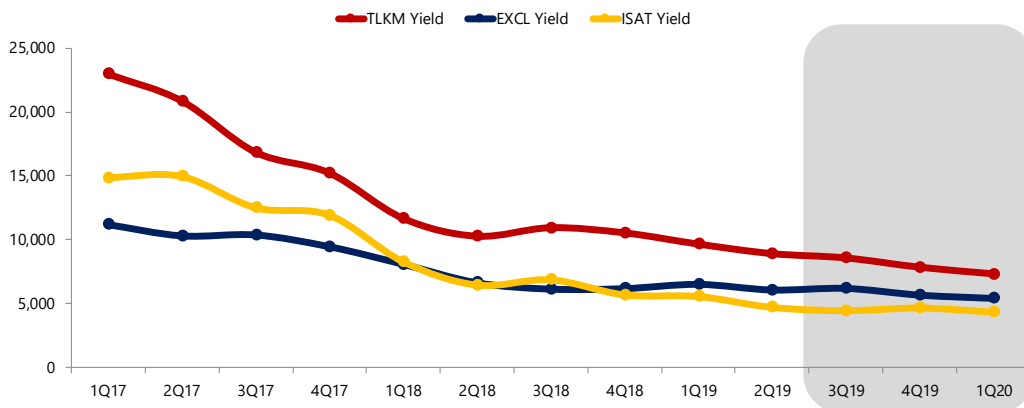
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Ticker	Market Cap (IDR bn)	EV/EBITDA (x)		PER (x)		Rec.	Target Price (IDR)
		FY20E	FY21F	FY20E	FY21F		
TLKM	312,046	4.61	3.90	14.43	12.70	BUY	3,600
EXCL	27,729	4.69	4.28	31.76	30.13	BUY	2,700
TOWR	48,719	10.75	9.97	18.88	17.35	HOLD	950

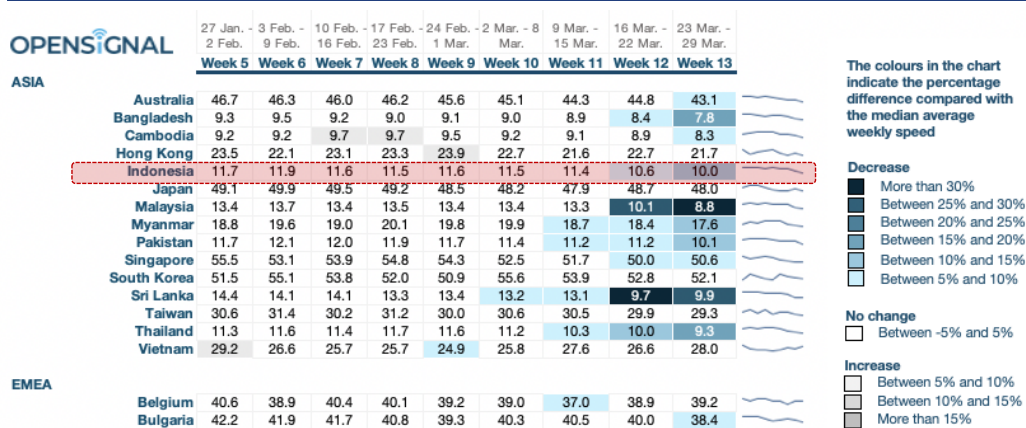
Sources: Bloomberg, MNCS (as of June 02, 2020)

Exhibit 01. Data yield began to normalized in last 3 quarters (IDR/GB)



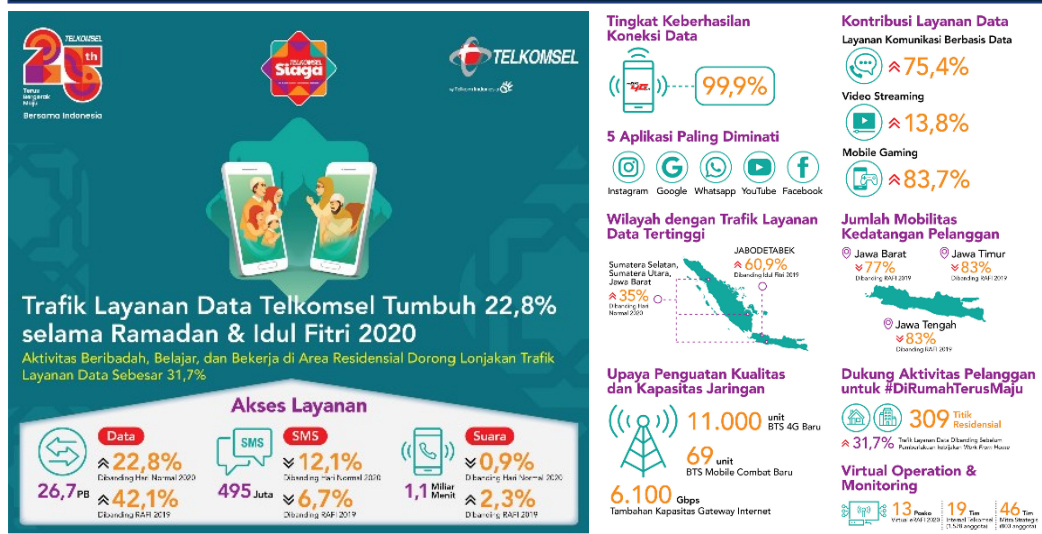
Sources: Companies, MNCS Estimate

Exhibit 02. Mobile Experience during Covid-19 Outbreak: 4G Download Speed (Mbps)



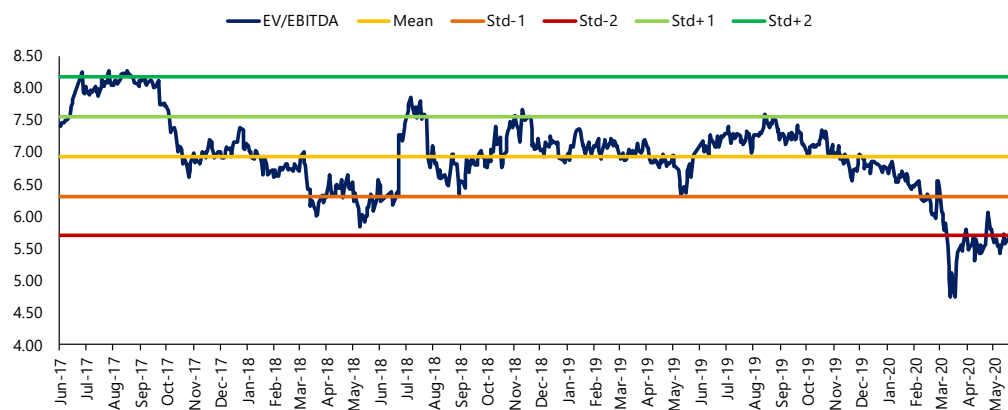
Source: OpenSignal 2020

Exhibit 03. TLKM enjoyed an increase in data traffic during Ramadhan 2020



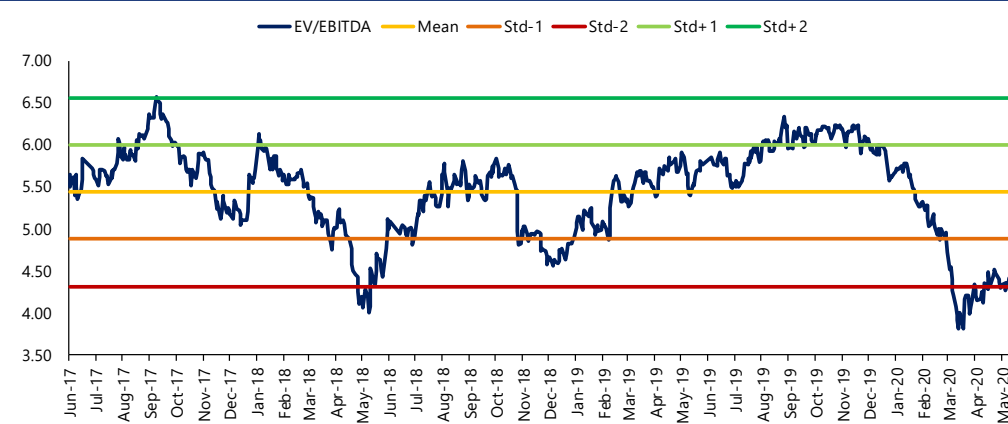
Source: TLKM

Exhibit 04. TLKM is currently trading at -2STD EV/EBITDA (3 years historical mean)



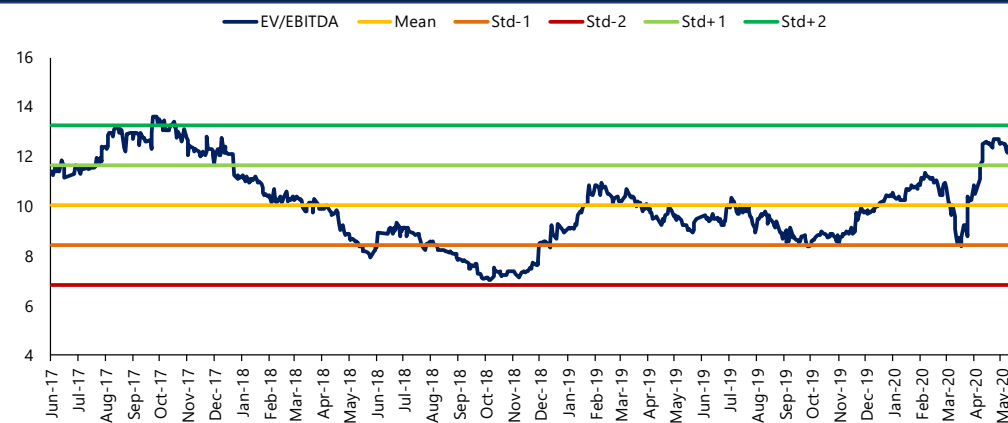
Source: Bloomberg

Exhibit 05. EXCL is currently trading at -1.5STD EV/EBITDA (3 years historical mean)



Source: Bloomberg

Exhibit 06. TOWR is currently trading close to $+2\text{STD}$ EV/EBITDA (3 years historical mean)



Source: Bloomberg

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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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