

OVERWEIGHT

Return (%)	-1D	-1W	-1M
JCI	-1.0	-0.1	+2.0
LQ45	-0.9	+0.8	+3.5
TLKM IJ	-0.3	+1.5	+9.7
EXCL IJ	+0.0	-1.8	-8.5

EPS Growth (%)	FY23E	FY24F
TLKM IJ	+24.2	+6.7
EXCL IJ	+34.1	+16.7

**Telecommunication
Strategic Corporate Actions Boom**
Analog Switch Off (ASO) Leading to Another Milestone for 5G

As of Jun-23, the Analog Switch Off (ASO) program has been successfully implemented across a total of 137 broadcasting zones in Indonesia. Notably, urban areas like Medan city in North Sumatra and Makassar in South Sulawesi are also expected to be the upcoming target areas of this program. The completion of this transition has freed up the 700 MHz frequency spectrum (low band), rendering it available for the deployment of 5G technology. The Ministry of Communication and Informatics (Kominfo) has affirmed that both this spectrum and the 26 GHz (mid band) or millimetre-wave spectrum are now poised for auction. Industry experts project these auctions to transpire in FY24, presenting a significant opportunity for stakeholders to expedite the expansion of 5G networks. As of Nov-23, 5G network services can only be accessed in by only 15% of the population. Thus, this strategic move aims to cover more areas across the nation and meet the escalating market demand for faster, more dependable internet connectivity, all while maintaining competitive pricing structures. While Telkom has not affirmed their enthusiasm, XL Axiata has been preparing to win the auction with undisclosed strategy.

Unlocking Value of Telkom's NeutraDC

Market demand of data centre services seems to be accelerating from 98 MW in FY22 to 1,256 MW in FY31F at 33% CAGR along with Indonesia digital economy ecosystem. Conceive to be 40% contributor to digital economy of Southeast Asia (SEA) by FY25F, Indonesia currently has the fastest growing e-commerce market with internet users 76.28% of population which become the growth driver of data centre market. SEA digital economy is forecasted to reach \$365bn by FY25F at 20% CAGR. Telkom Group will not let this enticing prospect slides away. Through its subsidiary, NeutraDC, Telkom has been the pioneer in data centre business in Indonesia and currently owns 30 facilities with 69 MW capacity and then targeting 400 MW in FY30. To approach this target, Telkom Group strategically plans to establish a Hyperscale Data Centre (HDC) in Batam, increasing their initial capacity from 17 to 51 MW IT load in FY25. This HDC will be additional to their current hyper facilities in Cikarang and Singapore (Telin-3). Telkom management has then exposed the potential to raise NeutraDC's capital with possibilities of IPO or private placement in FY24, preparing it to be one of the group's growth drivers in the future. With robust profitability of IDR248bn revenue and IDR59bn EBITDA (24% EBITDA margin) in the first half of FY23, NeutraDC is aiming to hit IDR505bn revenue (+166% YoY) and IDR61bn EBITDA (+221% YoY) by the end of this year.

XL x Smartfren, Paving a Way for Trifecta

Been the ongoing narrative since FY21, the news of a merger between XL Axiata (EXCL) and Smartfren (FREN) are getting more grounded recently, as management from both parties have engaged in discussions regarding the merging potential. As of now, Indonesia's telecommunications landscape features four major cellular operators: Telkomsel, Indosat Ooredoo Hutchison (a result of the merger between Indosat Ooredoo and Tri Hutchison), XL Axiata, and Smartfren. The proposal is in line with the strategic objective set by the Minister of Communication and Informatics (Menkominfo) to cultivate a more advantageous competitive environment in the telecommunications industry by deliberately uniting and reducing the major players to three. The envisioned merger holds heaps of mutual competitive benefits for both XL Axiata and Smartfren. Referring to the performance of 9M23, total subscribers of this collaboration will add up to 93.7mn, allowing it to have comparable competition with Indosat Ooredoo Hutchison (99.4mn) and Telkomsel (158.3mn subscribers). In addition, a combination will become an alternative solution for both companies to hold a total of 34% spectrum market share compared to 37% by Telkomsel and 30% by Indosat Ooredoo Hutchison.

Visualizing the Industry Players

- **TLKM IJ:** With +11.4% growth of ARPU mobile 9M23 YoY and the focus of market penetration of Telkomsel's convergent services, we estimate TLKM's revenue in FY23E will increase +4.4% and continue to grow +5.6% in FY24F with 5.4x EV/EBITDA.
- **EXCL IJ:** Since the start of FY23, EXCL has significantly converge their subscribers and increased their ARPU to IDR42k. This leads to estimated growth +13.9% of EBITDA for FY23E. Additionally, with the prospect of upcoming merger plan, EXCL seems to have escalating business growth. Hence, we project EXCL with revenue of +8.9% and 4.8x EV/EBITDA and for the next year.

OVERWEIGHT Recommendation for the Telecommunication Sector

We maintain our **Overweight** rating on the telecommunication sector as it still holds large opportunity to create substantial development in Indonesia. We expect the industry players to succeed the convergence service market penetration next year and followed by 5G rollouts going forward. Our top picks are: 1) **TLKM IJ (BUY; TP: IDR4,650)**; 2) **EXCL IJ (BUY; TP: IDR2,700)**. Downside risks include: 1) competition for price between telecommunication operators; 2) changes in regulatory which allows international companies to serve BTC.

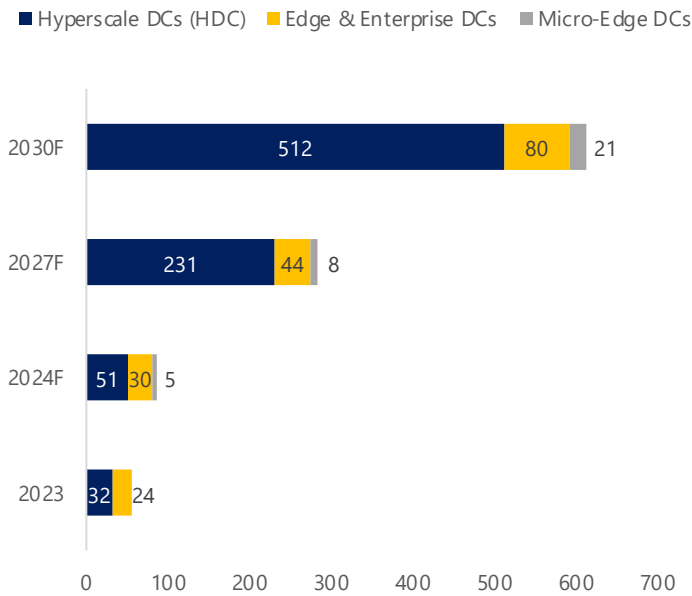

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Ticker	Mkt Cap (IDR tn)	P/E (x)		P/B (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
TLKM IJ	393.28	15.26	14.30	3.06	2.72	BUY	4,650
EXCL IJ	24.88	16.69	14.53	0.94	0.91	BUY	2,700

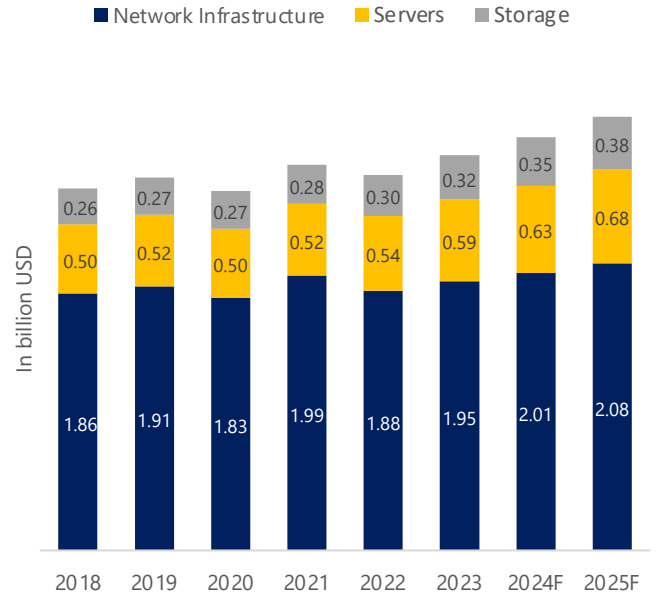
Sources : Bloomberg, MNCS Research

Exhibit 01. NeutraDC's Cumulative IT Load Capacity Plan (in MW)



Sources : NeutraDC's Investor Day, MNCS Research

Exhibit 02. Data Centre Market Revenue in Indonesia by Segment



Sources : Statista, MNCS Research

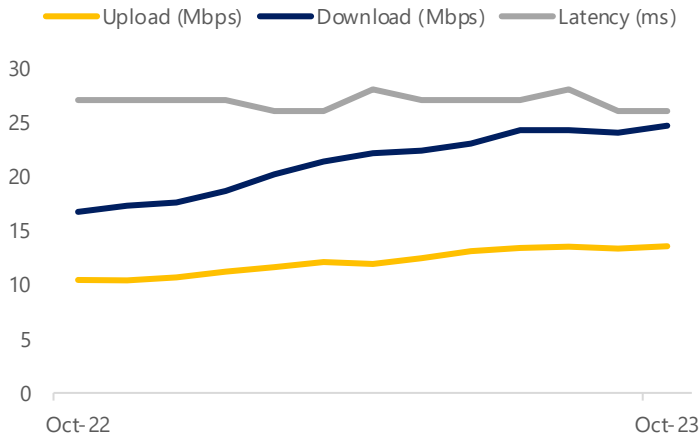
Exhibit 03. 5G Rollouts Map in Indonesia



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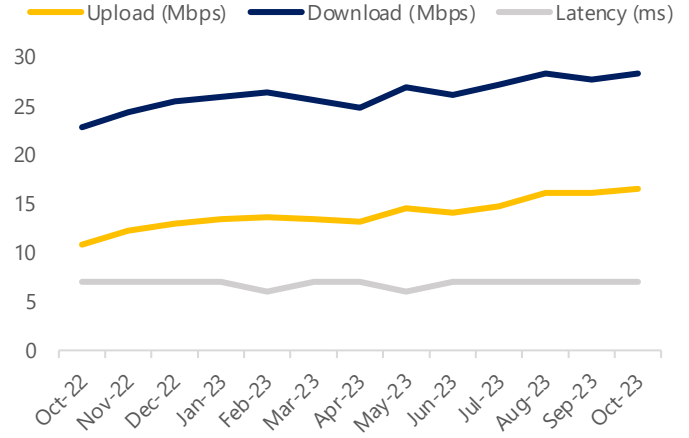
Sources : Ookla, MNCS Research

Exhibit 04. Indonesia Median Country Speeds- Mobile Broadband, ranked 95th globally as of October 2023



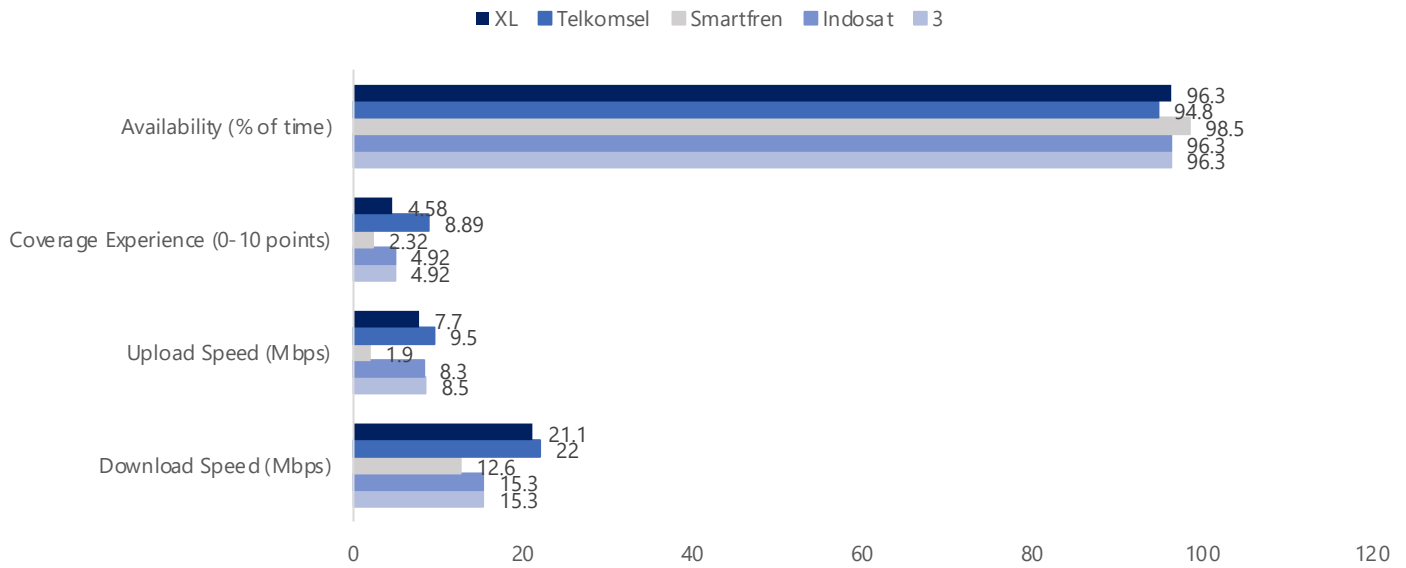
Sources : Speedtest, MNCS Research

Exhibit 05. Indonesia Median Country Speeds- Fixed Broadband, ranked 124th globally as of October 2023



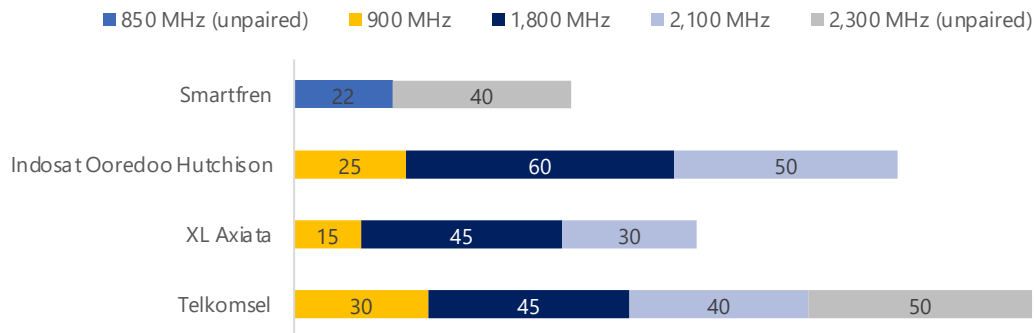
Sources : Speedtest, MNCS Research

Exhibit 06. Mobile Network Experience Report June 2023



Sources : Opensignal Limited, MNCS Research

Exhibit 07. Broadband Spectrum Holding as per 2023 (MHz)



Sources : Companies, 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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