

Remain overweight with "BUY" recommendation for XL Axiata (EXCL) and end-of FY19 target price of IDR 3,200, derived via EV/EBITDA multiples valuation at 5.0x, equivalent to -0.5 STD to its 3 years historical average. As of 9M18, EXCL reported revenue of IDR 16.9tn (-0.07% YoY) with net loss of IDR 144.8bn mainly due to slower than expected recovery on EXCL's operational performance, combined with high financing cost and forex loss. Loss from foreign exchange emerged from EXCL's USD denominated loan amounting to USD 300mn (as of September 2018). EXCL's 9M18 EBITDA was IDR 6.2tn (-0.65% YoY) with EBITDA margin of 36.48% (vs 36.69% in 9M17). Across business segment, data grew by 15.2% YoY, supported by 78% growth in data traffic, while legacy declined sharply by 30.1% YoY. In 3Q18 alone, EXCL recorded modest revenue growth of 5.4% QoQ with an improvement in EBITDA margin (37.2% in 3Q18 vs 36.1% in 2Q18). Furthermore, EXCL's data yield declined from IDR 6.95/MB to IDR 5.94/MB (-42.8% YoY, -14.5% QoQ) while ARPU slightly increased to IDR 31.2k from IDR 30.5k in 2Q18.

Monetizing Java market, maintaining aggressive stance in ex-Java. Following the completion of the prepaid SIM registration process which was completed on 1 May 2018, the pricing environment has started to become more rational with telco players gradually raising their data pricing. Based on the latest conference call, EXCL has increased its data pricing for various packages in the market after SIM-registration process, with the price increase coming primarily from Java market. Meanwhile, they were maintaining their aggressive pricing to grab market share in some areas especially ex-Java, where it is mostly dominated by Telekomunikasi Indonesia (TLKM). In terms of growth rate, ex-Java posted stronger revenue growth rate than Java market as a result of EXCL's continuous network investment (50%:50% Java vs ex-Java network investment in 2018), which translated to better coverage and network quality in ex-Java market. Currently Java contributes roughly around 85% to EXCL's revenue, while the remaining 15% coming from ex-Java market.

Utilizing momentum to gain market share. We believe due to EXCL's ex-Java expansion plan and pricing strategy, in 3Q18 alone, the company successfully added 0.9 mn new subscribers with total subscriber amounting to 53.8 mn subscribers, while most of its peers posted subscribers loss post SIM-registration process. At the end of 9M18, EXCL's subscribers share among big three telco players (TLKM, ISAT, & EXCL) was amounted to 18.8%. Risk to our call: continuous deterioration of data yield due to EXCL's aggressive pricing.

Highlights (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	21,341	22,876	22,853	24,613	26,181
% growth	-6.7%	7.2%	-0.1%	7.7%	6.4%
EBITDA	8,058	8,321	8,322	9,158	9,783
Net Profit	376	375	(43)	336	693
% growth	N/A	-0.1%	N/A	N/A	106.6%
EBITDA Margin (%)	37.8%	36.4%	36.4%	37.2%	37.4%
Net Margin (%)	1.8%	1.6%	-0.2%	1.4%	2.6%
Return on Equity (%)	1.8%	1.7%	-0.2%	1.5%	3.1%
Return on Assets (%)	0.7%	0.7%	-0.1%	0.6%	1.2%
EPS (IDR)	35	35	(4)	31	65

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## Stock Information

Sector	Telecommunication
Bloomberg Ticker	EXCL IJ
Market Cap. (IDR tn)	23.6
Share Out./Float (mn)	10,688/3,595
Current Price	IDR 2,210
52-week Target Price	IDR 3,200
Upside (%)	44.8%

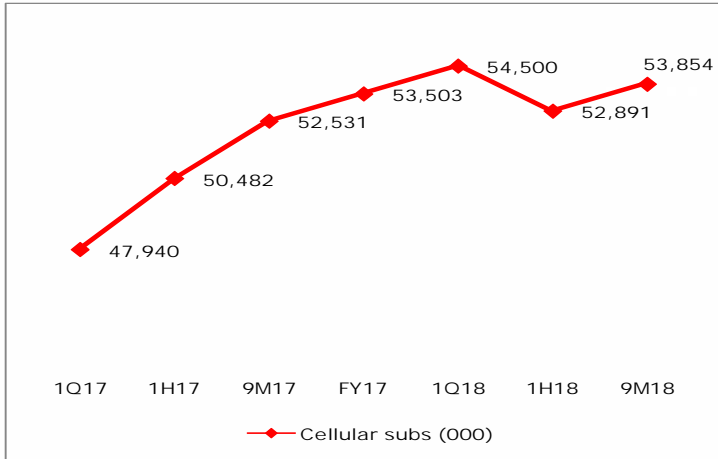
## Share Price Performance

52W High (01/09/18)	3,380
52W Low (05/15/18)	1,710
52W Beta	1.0
YTD Change (%)	-25.3%

## Relative Valuations

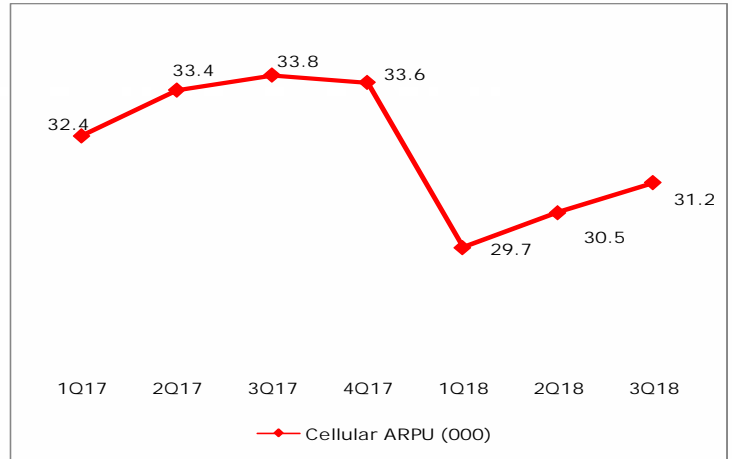
Trailing P/E	N/A
Forward P/E	70.4x
P/BV	1.1x
EV/EBITDA	5.0x

### Cellular Subs (000)



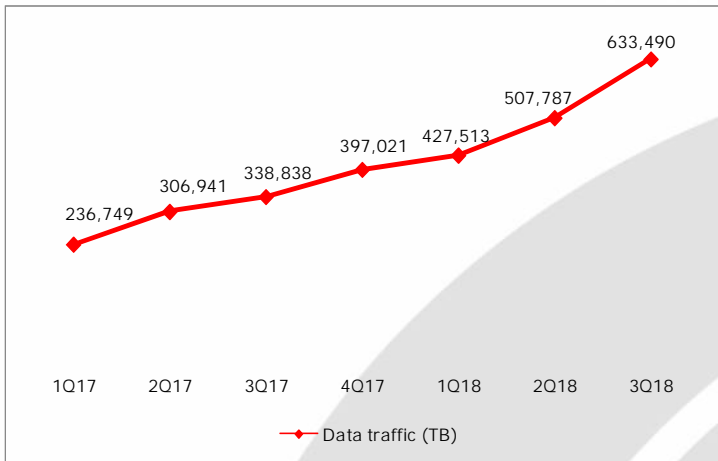
Source: Sinarmas Investment Research

### Cellular ARPU (000)



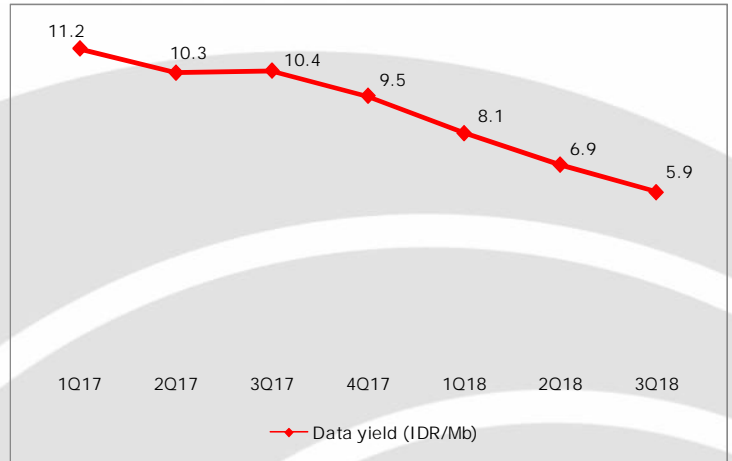
Source: Sinarmas Investment Research

### Data Traffic (TB)



Source: Sinarmas Investment Research

### Data Yield (IDR/MB)



Source: Sinarmas Investment Research

Income Statement (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	21,341	22,876	22,853	24,613	26,181
Infrastructure exp	(8,269)	(8,576)	(8,565)	(9,409)	(10,255)
Depreciation exp	(7,828)	(6,757)	(7,368)	(7,686)	(8,005)
Interconnection exp	(1,926)	(2,459)	(2,393)	(2,121)	(1,948)
Salaries exp	(1,156)	(1,351)	(1,041)	(1,150)	(1,271)
Marketing exp	(1,433)	(1,616)	(2,080)	(2,215)	(2,330)
G&A exp	(498)	(552)	(452)	(559)	(595)
Amortization exp	(218)	(194)	(148)	(33)	(22)
Operating Profit	12	1,370	807	1,439	1,756
Other income/exp	1,706	146	171	148	157
EBIT	1,718	1,516	977	1,587	1,913
EBITDA	8,058	8,321	8,322	9,158	9,783
Finance income(exp)	(1,533)	(1,295)	(1,148)	(1,139)	(989)
EBT	186	221	(171)	448	925
Tax	190	154	128	(112)	(231)
Net profit	376	375	(43)	336	693
Earnings per share (Rp.)	35	35	(4)	31	65

Balance Sheet (IDR Bn)	2016	2017	2018E	2019F	2020F
Cash & equivalents	1,400	2,455	1,633	1,182	1,004
Trade receivables	663	632	607	693	712
Other CA	4,744	4,094	5,328	5,474	5,678
Total Current Assets	6,807	7,181	7,568	7,349	7,394
PPE	33,183	34,934	34,879	35,069	35,442
Other LT assets	14,907	14,207	14,712	14,666	14,732
Total Assets	54,896	56,321	57,160	57,084	57,568
Payables	6,674	7,688	8,069	8,346	8,827
Short-term loans	3,645	3,771	5,071	3,008	2,164
Other current liabilities	4,158	3,767	4,206	4,395	4,443
Total Current Liabilities	14,477	15,227	17,346	15,750	15,434
Long term-loans	11,026	10,980	9,609	10,101	9,637
Other	8,184	8,484	8,617	9,309	9,879
Total Liabilities	33,687	34,691	35,572	35,160	34,951
Share & APIC	13,208	13,226	13,226	13,226	13,226
Retained earnings	8,002	8,405	8,362	8,698	9,392
Total Equity	21,209	21,631	21,588	21,924	22,617
Total Equity & Liabilities	54,896	56,321	57,160	57,084	57,568

Cash Flow (IDR Bn)	2016	2017	2018F	2019F	2020F
Net Income	376	375	(43)	336	693
Depreciation & amortization	7,282	6,361	7,515	7,719	8,027
Chg. in NWC	(53)	2,602	(1,687)	959	(419)
CF from Operating	7,605	9,338	5,786	9,014	8,301
Capital Expenditure	(6,821)	(7,918)	(7,313)	(7,876)	(8,378)
Chg. in LT Assets	141	506	(653)	14	(88)
Chg in LT Liabilities	2,212	1,181	133	(33)	570
CF from Investing	(4,467)	(6,231)	(7,834)	(7,895)	(7,896)
Chg. in Share & APIC	6,721	18	-	-	-
Chg. in Bank Loans	(11,792)	(2,098)	1,226	(1,571)	(583)
Dividends Paid	21	28	(0)	-	-
CF from Financing	(5,050)	(2,052)	1,226	(1,571)	(583)
Change in Cash	(1,912)	1,055	(822)	(452)	(178)
Beginning Cash	3,312	1,400	2,455	1,633	1,182
Ending Cash	1,400	2,455	1,633	1,182	1,004

Financial Ratio	2016	2017	2018F	2019F	2020F
Profitability					
ROE	1.8%	1.7%	-0.2%	1.5%	3.1%
ROA	0.7%	0.7%	-0.1%	0.6%	1.2%
EBITDA Margin	37.8%	36.4%	36.4%	37.2%	37.4%
Net profit margin	1.8%	1.6%	-0.2%	1.4%	2.6%
Liquidity & Solvency					
Current Ratio	0.5	0.5	0.4	0.5	0.5
Debt to Equity	0.7	0.7	0.7	0.6	0.5
Debt to Assets	0.3	0.3	0.3	0.2	0.2
Valuation					
Price to Earning (PE)	91.2	91.2	N/A	102.0	49.4
Price to Book (PBV)	1.6	1.6	1.6	1.6	1.5
EV/EBITDA	5.9	5.6	5.7	5.0	4.6

Key Assumptions	2016	2017	2018F	2019F	2020F
Indonesia Population (Mn)	258.7	261.9	265.0	268.1	271.1
Cellular Subs (Mn)	46.5	53.5	54.3	55.9	57.6
Data Subs (Mn)	30.2	38.3	43.7	45.9	47.8
Data/Subs/Month (GB)	1.4	2.8	4.1	4.6	5.0
Price/Data (IDR/MB)	15.8	10.2	6.9	7.1	7.1
BTS on air (Thousand)	84.5	101.1	117.3	132.5	145.8

**BUY:** Share price may rise by more than 15% over the next 12 months.

**ADD:** Share price may range between 10% to 15% over the next 12 months.

**NEUTRAL:** Share price may range between -10% to +10% over the next 12 months.

**REDUCE:** Share price may range between -10% to -15% over the next 12 months.

**SELL:** Share price may fall by more than 15% over the next 12 months.

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