

The Era of Data Boom Monetization

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What Are The Catalysts:

- **Data boom continue to deliver better profitability**

Indonesia telco industry has been facing a big major structural change in terms of revenue contribution. The contribution trend has been gradually leaving cellular and SMS into a more data stream (Internet & IT Service) basis. The cut-throat competition to fight for market share has been surrounding the industry for the past 2 to 3 years. Therefore, price war is inevitable among the major players in the industry named Telkomsel, XL, Indosat and Hutch. However, the 3Q15 results shows the price war era has come to an end, which initiated by the market leader Telkomsel. Telkomsel's revenue per MB increased from Rp 37.0/MB in 2Q15 to Rp 40.7/MB in 3Q15 (+10% qoq). This translates into a significant top line growth for Telkomsel (not listed) +18.5% yoy. From a consolidated point of view, TLKM blended ARPU was still able to rise by 12.0% yoy into 3Q15.

- **Focus on the core subscribers leads to better margin particularly for EXCL**

EXCL management has been shifting focus from market share focus to margin focus. Their average no of subscribers continued to decline by 27.8% yoy from 60.5k in 3Q14 to 43.7k in 3Q15. Basically, the current management focus is no longer chasing after the minority of customers who are so price sensitive where they can easily churn from one operator to another only for a discounted starter packs. However, the increase in blended tariff was more than offset the decrease in no of subs, which actually increased EXCL's ARPU by 47.4% yoy. For EXCL's data pricing has also finally stabilized +1.7% qoq per MB. However, we do aware that EXCL carry a weaker balance sheet compare to TLKM due to its heavy network expansion in 2011-2012 and AXIS (not listed) acquisition.

The Risk still persists:

- IDR Depreciation.
- Pricing power is benign for a longer period of time.

Our Top Picks are:

- **EXCL**

We like EXCL for the current management's focus of better debt control which could provide a turn around story from balance sheet improvement in the coming future. We are aware that EXCL management is still undergoing a process of heavy deleveraging by planning to sell approx. another 3k of its BTS to the tower player.

- **TLKM**

We just cannot ignore TLKM for a better structural story in the Indonesian Telco Industry going forward. A Superior balance sheet to support further expansion and a persistence strong presence in terms of gaining new subscribers are another strong reasons to remain overweight the stock.

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