

EXCL IJ • Telecommunication

XL Axiata

1H24 Results: Successful management streamlining continues

(Maintain)

Buy

Target price
IDR3,100Upside
33.6%Current price (8/20/24)
IDR2,320

JCI Index	7,534	Market cap (IDRbn)	30,458	Shares outstanding (mn)	13,128	Free Float (%)	33.2
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Report summary

Robust growth continues with margin improvement

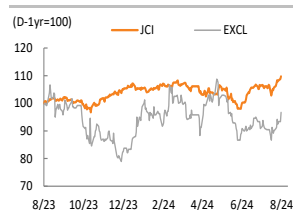
EXCL's 1H24 revenue was mostly in-line with our/street's projection with IDR17.1tr (+8.2% YoY). Plus, its EBITDA increased to IDR9.12tr (+16.8% YoY) with margin improvement of 3.9pts to 53.5%. Its strong growth was primarily driven by the robust growth of its data traffic to 5,269Pb (+13.2% YoY), coupled with the improvement of ARPU from IDR41.6k in 2Q23 to IDR44.3k (+6.5% YoY) in 2Q24. Additionally, through various cost-saving measures and management efficiency strategies, EXCL managed to reduce its Opex by 0.2% YoY.

Maintain to "Buy" recommendation with TP of IDR3,100/share

We maintain a very positive view of EXCL's 2024 performance as well as its long-term prospects. EXCL is clearly showing tangible results in its monetization strategy, outperforming its competitors, and is improving profitability through efficient management strategies. Therefore, we uphold our Buy recommendation for EXCL, with a target price of IDR 3,100 per share. Our target price is derived from applying FY24F EV/EBITDA multiple targets of 4.6x. Our TP implies 19.6/14.4 times its FY24/FY25 P/E ratio and also implies 1/4/1.4 times its FY24/FY25 P/B ratio.

Key data

Price performance



(%)	1M	6M	12M
Absolute	6.4	4.0	-3.3
Relative	3.1	1.5	-13.1

Earnings and valuation metrics

(FY Dec. 31)	2021	2022	2023	2024F	2025F
Revenue (IDRbn)	26,754	29,142	32,323	34,969	37,758
Operating Profit (IDRbn)	3,331	3,658	4,380	5,175	6,254
EBITDA (IDRbn)	13,946	14,592	16,241	18,359	20,332
Net Profit (IDRbn)	1,288	1,121	1,284	2,093	2,850
EPS (IDR)	120	85	97	158	214
P/E (x)	19.3	27.5	24.0	14.7	10.8
P/B (x)	1.2	1.2	1.1	1.1	1.0
ROA (%)	1.8	1.3	1.5	2.3	3.0
ROE (%)	6.6	4.9	4.9	7.5	9.5

Note: Net profit is attributable to owners of the parent

Source: Company data, Mirae Asset Sekuritas Indonesia Research estimates

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1H24 Earnings Overview

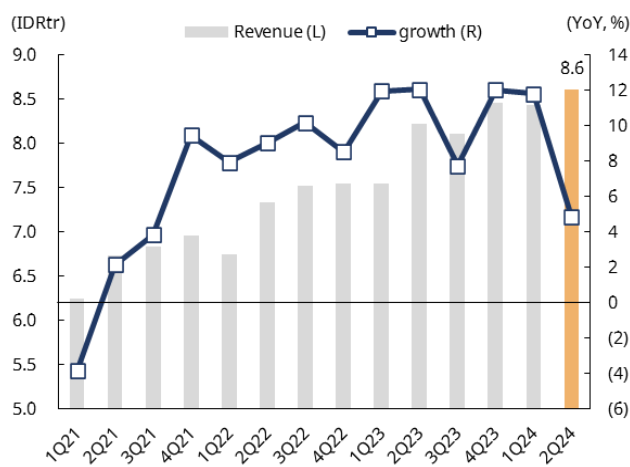
Closing 1H24 with strong results

EXCL delivered strong performance in 1H24, achieving revenue of IDR17.1tr (+8.2% YoY), and the result aligns with the previously forecasted single-high digit growth expectation. Its revenue growth was primarily driven by the robust growth of its data traffic to 5,269Pb (+13.2% YoY), coupled with the improvement of ARPU from IDR41.6k in 2Q23 to IDR44.3k (+6.5% YoY) in 2Q24. The increase in data traffic usage is significant, but the ongoing strategic monetization efforts have also had a substantial impact. During the earnings call, the management emphasized that they are aiming to maximize revenue through efforts such as reducing customer benefits.

In 2Q24, EXCL's number of subscribers slightly increased to 58.5mn (+0.9M QoQ), and its ARPU has been increasing quarter by quarter to IDR44.3k (+1.6% QoQ). This is attributed to EXCL's aggressive pricing strategies. EXCL's ARPU has been steadily increasing, and at the same time, its user base continues to grow. In 2Q24 alone, EXCL added approximately 0.9 million users. This sustained growth in operations is a very positive sign. Furthermore, what's even more encouraging is that EXCL's performance was not driven by increased costs; instead, they managed to enhance their results while maintaining cost efficiency.

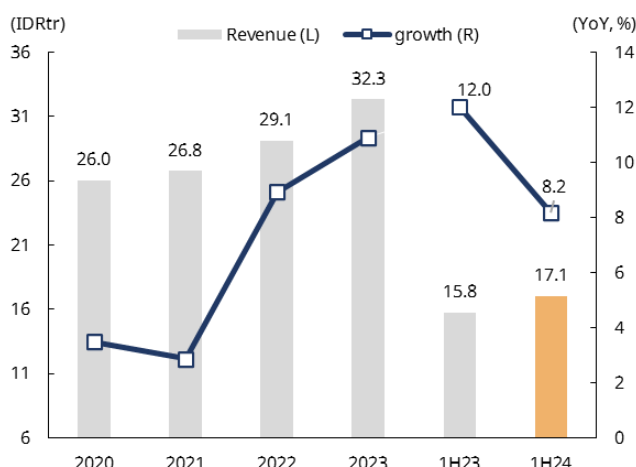
Moreover, the anticipated price war in the telecom industry, seemingly triggered by the launch of Telkomsel Lite, has not yet had a significant impact on the sector. This is particularly evident in EXCL's performance, which shows that the launch of Telkomsel Lite has not adversely affected the industry as a whole. EXCL's ARPU continues to rise, along with an increasing user base. During the earnings call, the management also did not express any concern regarding the issue.

Figure 1. EXCL's quarterly revenue trajectory



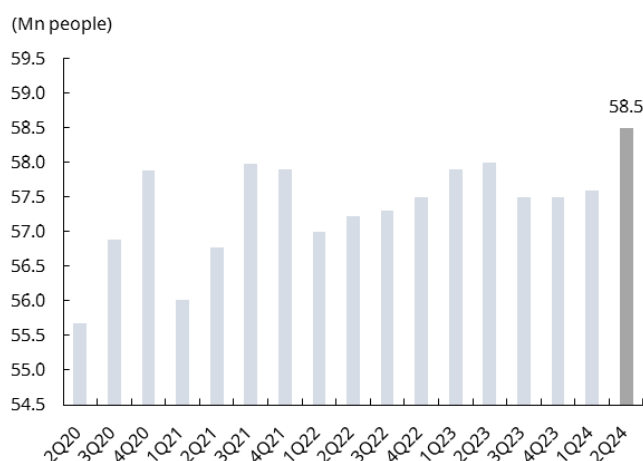
Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 2. EXCL's yearly revenue trajectory



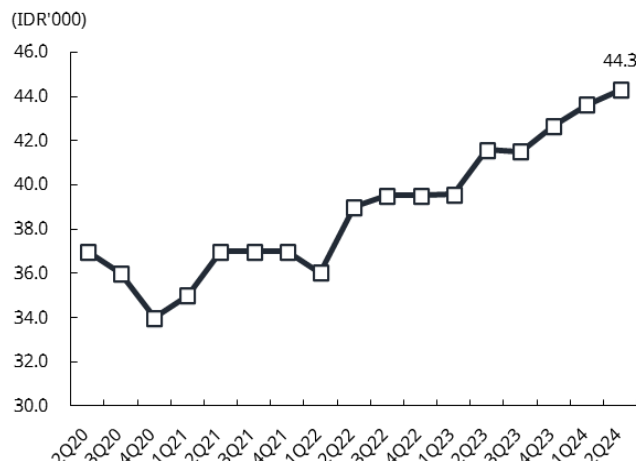
Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 3. EXCL's quarterly mobile users trend



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 4. EXCL's quarterly mobile ARPU trend



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Table 1. EXCL's Operational Performance

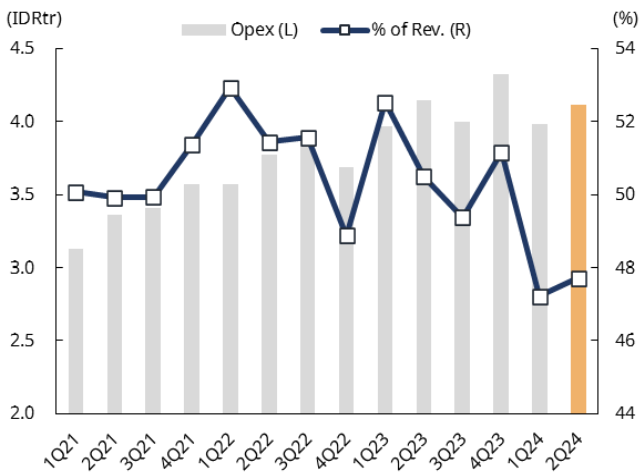
(IDRbn, #)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)
Mobile Customer	58.0	57.6	58.5	1.6	0.9
Blended ARPU (IDR'000)	41.6	43.6	44.3	1.6	6.5
Data Traffic (PB)	2,452	2,609	2,660	2.0	8.5

Source: Company data, Mirae Asset Sekuritas Indonesia Research

Expenses analysis

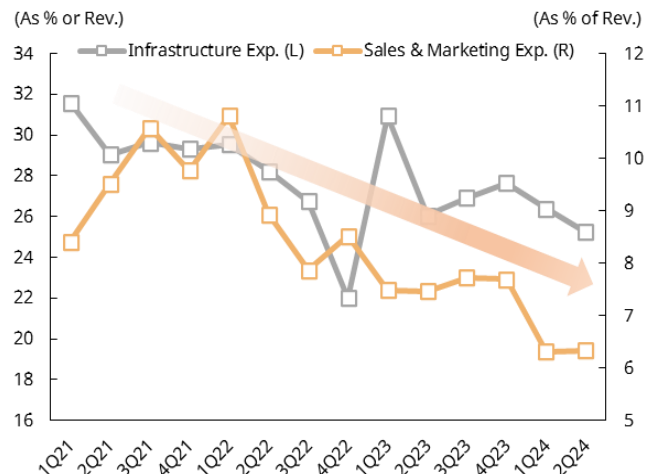
The most noteworthy aspect of EXCL's 1H24 performance is the reduction in operating expenses. In 1H24, EXCL recorded operating expenses of approximately IDR8.1tr, which represents a 0.2% decrease compared to the same period last year. While this may not seem like a significant reduction at first glance, it is particularly impressive when considering the 8.2% revenue growth achieved during the same period. The decrease in Opex was primarily driven by a reduction in sales and marketing expenses, which saw an 8.4% decline year-over-year. EXCL was able to achieve it by channel cost improvement and optimized channel mix. However, EXCL's D&A expenses increased to IDR6.17tr, reflecting a 10.9% rise compared to the same period last year. As a result, the ratio of D&A expenses to total revenue has been on a slight upward trend since the end of last year.

Figure 5. EXCL's quarterly Opex trend



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 6. EXCL's infra and marketing expenses trend

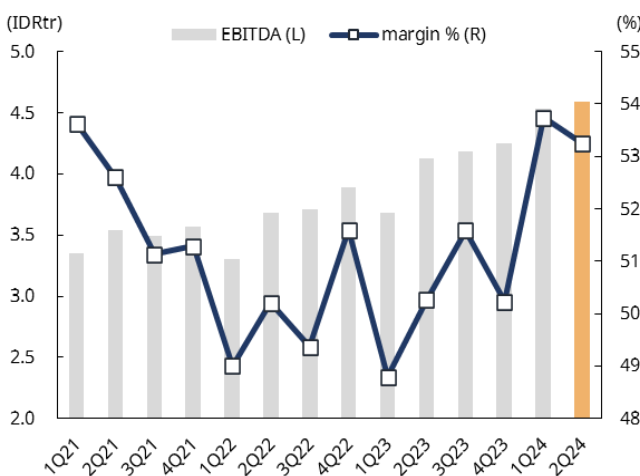


Source: Company data, Mirae Asset Sekuritas Indonesia Research

Cost efficiency drives margin improvement

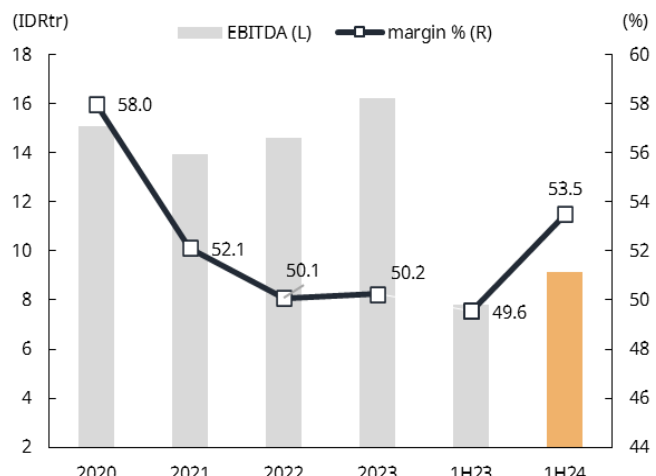
As a result, EXCL's operating profit increased to IDR2.95tr (+31.4% YoY), with a margin improvement of 3.1pts from 14.2% in 1H23 to 17.3% in 1H24. It also showed strong numbers of EBITDA of IDR9.12tr (+16.8% YoY), with a margin improvement of 3.9pts from 49.6% in 1H23 to 53.5% in 1H24. Lastly, EXCL exhibited substantial growth especially in net profit of IDR1.04tr (+57.7% YoY), with a margin improvement of 1.9pts from 4.2% in 1H23 to 6.1% in 1H24. In fact, EXCL's profit margins had been declining steadily since 2020. However, starting in 2024, the management team has been fully committed to cost reduction and revenue maximization efforts. As a result, we are now seeing a significant improvement in profit margins this year.

Figure 7. EXCL's quarterly EBITDA trend



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 8. EXCL's yearly EBITDA trend



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Table 2. EXCL's Financial Performance					
(IDRbn)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)
Revenue	8,217	8,438	8,613	2.1	4.8
Opex	(4,148)	(3,984)	(4,110)	3.2	-0.9
D&A Expenses	(2,826)	(3,064)	(3,109)	1.5	10.0
Other Income (Exp.)	62	80	84	4.1	35.4
Operating Profit	1,304	1,473	1,478	0.3	13.3
Margin %	15.9%	17.5%	17.2%	-0.3pts	1.3pts
Finance Costs	(709)	(742)	(765)	3.1	7.9
Other Income (Exp.)	(30)	(51)	(51)	1.1	73.7
Pretax Income	566	677	661	-2.4	16.9
Margin %	6.9%	8.0%	7.7%	-0.3pts	0.8pts
Net Income	453	547	490	-10.5	8.0
Margin %	5.5%	6.5%	5.7%	-0.8pts	0.2pts
Owners to the Parent	450	539	486	-9.9	8.0
Non-Controlling Interest	4	8	4	-53.5	9.2
EBITDA	4,131	4,537	4,587	1.1	11.1
Margin %	50.3%	53.8%	53.3%	-0.5pts	3.0pts

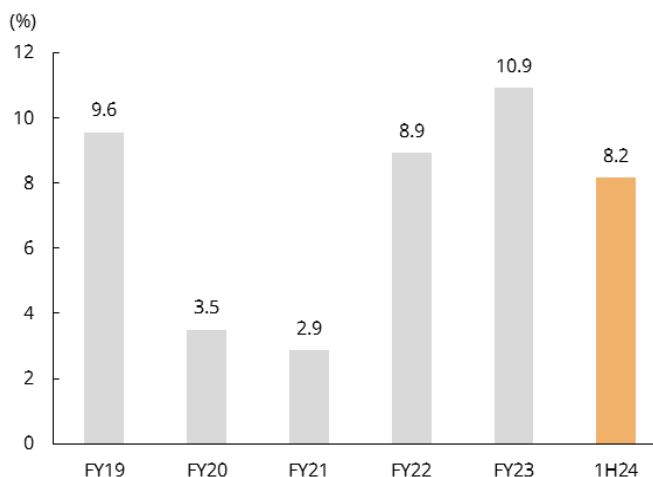
Source: Company data, Mirae Asset Sekuritas Indonesia Research

Investment Thesis

Strong growth momentum alongside margin improvement

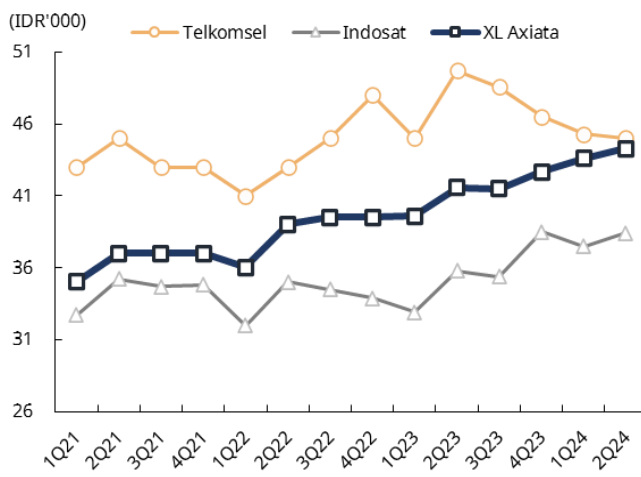
Despite being the third-largest player in Indonesia's telecommunications industry, EXCL has consistently recorded robust growth. The company's continuous efforts to improve its telecom and network quality are reflected in its performance, as it maintains an upward trend in ARPU while simultaneously expanding its user base. EXCL's 8.2% revenue growth in 1H24 slightly lags behind ISAT, but it still outpaces TLKM by a significant margin. This strong growth trajectory is expected to continue. Data demand across Southeast Asia, including Indonesia, is booming, and the fixed broadband business, which is emerging as a new growth driver, is also poised to contribute to future expansion. This growth is likely to accelerate further once the deal with Link Net is finalized.

Figure 9. EXCL's revenue growth trajectory



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 10. Industry ARPU trend



Source: Company data, Mirae Asset Sekuritas Indonesia Research

In 2024, EXCL is experiencing a highly positive year, largely due to the effective cost-cutting and operational efficiency initiatives implemented by its management. The company has successfully grown its revenue while simultaneously reducing expenses in various ways. Notably, the proportion of sales and marketing expenses relative to revenue has been steadily decreasing, suggesting that margin improvements are likely to continue. If this trend persists, it could have a very favorable impact on EXCL's future valuation.

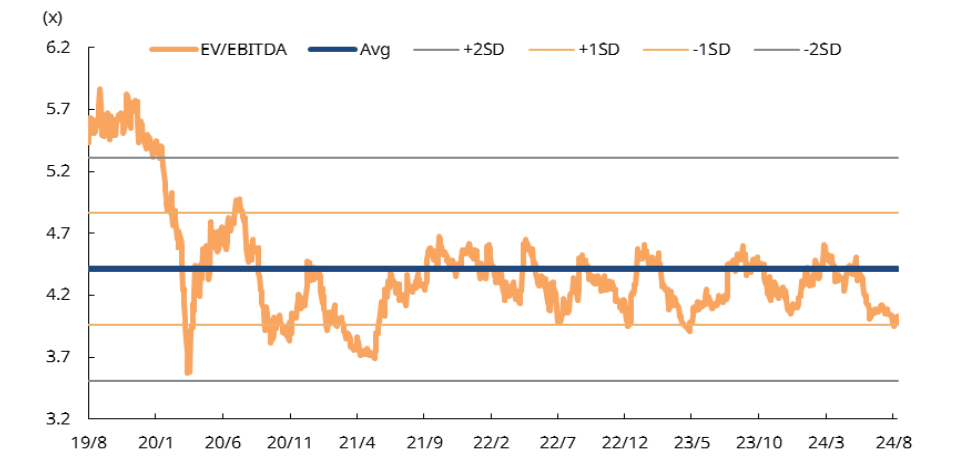
In conclusion, EXCL continues to make significant progress by achieving its projected high single-digit revenue growth while also improving margins through effective cost-saving measures. On the operational side, EXCL's ARPU has nearly reached the level of Telkomsel, and the growth in user numbers remains robust. For these reasons, we maintain a positive outlook on EXCL.

Outlook, Valuation, and Recommendations

Maintain “Buy” recommendation with TP of IDR3,100

We maintain a very positive view of EXCL's 2024 performance as well as its long-term prospects. EXCL is clearly showing tangible results in its monetization strategy, outperforming its competitors, and is improving profitability through efficient management strategies. Notably, the fact that ARPU has reached the level of Telkomsel, despite being the third-largest player, indicates that EXCL remains competitive and continues to grow. Therefore, we uphold our Buy recommendation for EXCL, with a target price of IDR 3,100 per share. Our target price is derived from applying FY24F EV/EBITDA multiple targets of 4.6x. Our TP implies 19.6/14.4 times its FY24/FY25 P/E ratio and also implies 1/4/1.4 times its FY24/FY25 P/B ratio.

Figure 11. EXCL's forward EV/EBITDA band (5yr)



Source: Company data, Mirae Asset Sekuritas Indonesia Research

XL Axiata (EXCL IJ)

Income Statement (summarized)

(IDRbn)	12/22	12/23	12/24F	12/25F
Revenue	29,142	32,323	34,969	37,758
Total Expenses	(25,127)	(27,587)	(29,339)	(31,032)
Total OPEX	(14,907)	(16,438)	(17,065)	(17,897)
Infrastructure Expenses	(7,734)	(8,996)	(9,372)	(9,817)
Personnel Expenses	(1,326)	(1,402)	(1,748)	(1,812)
Sales & Marketing Expenses	(2,618)	(2,455)	(2,273)	(2,416)
G&A Expenses	(353)	(413)	(420)	(453)
Interconnection & Direct Expenses	(2,876)	(3,172)	(3,252)	(3,398)
Depreciation & Amortization	(10,577)	(11,505)	(12,729)	(13,606)
Other Operating Income (exp.)	357	356	455	471
Operating Profit	3,658	4,380	5,175	6,254
EBITDA	4,015	4,736	5,630	6,726
EBIT	14,592	16,241	18,359	20,332
Finance Income (exp.)	(2,666)	(2,840)	(2,953)	(3,072)
Pretax Income (Loss)	1,353	1,705	2,676	3,654
Income Tax Expenses	(232)	(420)	(583)	(804)
Net Profit (Loss)	1,121	1,284	2,093	2,850

Balance Sheet (summarized)

(IDRbn)	12/22	12/23	12/24F	12/25F
Assets				
Cash & Cash Equivalents	5,184	966	2,450	2,521
Account Receivables	852	1,435	1,044	1,128
Inventories	408	378	447	506
Other Current Assets	3,964	4,395	4,596	4,809
Total Current Assets	10,408	7,174	8,538	8,964
Fixed Assets	60,474	63,890	66,714	69,303
Goodwill & Intangible Assets	12,904	13,369	13,692	14,031
Other Non-Current Assets	3,492	3,255	1,748	1,699
Total Non-Current Assets	76,869	80,515	82,155	85,033
Total Assets	87,278	87,688	90,693	93,997
Liabilities				
Account Payables	11,337	9,383	10,376	10,862
Short-Term Debt	10,919	6,877	6,533	6,206
Other Current Liabilities	4,094	3,883	4,167	4,354
Total Current Liabilities	26,351	20,142	21,075	21,422
Long-Term Debt	33,041	39,041	39,822	40,619
Other Non-Current Liabilities	2,112	2,000	1,792	1,695
Total Non-Current Liabilities	35,153	41,041	41,614	42,314
Total Liabilities	61,504	61,183	62,689	63,735
Equity				
Share Capital	1,313	1,313	1,313	1,313
Additional paid-in Capital	16,914	16,914	16,914	16,914
Retained Earnings	7,550	8,267	9,719	11,684
Other Equity	(134)	(134)	(134)	(134)
Shareholder's Equity	25,643	26,360	27,812	29,777
Non-controlling Interests	131	144	165	208
Total Equity	25,774	26,505	27,977	29,985

Source: Company data, Mirae Asset Sekuritas Indonesia Research estimates

Cashflow Statement (summarized)

(IDRbn)	12/22	12/23	12/24F	12/25F
CF from Operating				
Received from Customers	28,960	31,477	34,112	37,041
Cash Paid to Suppliers & Others	(13,417)	(13,812)	(15,037)	(16,236)
Payment to Employees	(1,318)	(1,422)	(1,748)	(1,812)
Others	(119)	(148)	2,359	(905)
Total CF from Operating	14,104	16,096	19,687	18,088
CF from Investing				
Capex	(8,831)	(10,425)	(11,052)	(11,695)
Others	(2,664)	48	500	500
Total CF from Investing	(11,495)	(10,377)	(10,552)	(11,195)
CF from Financing				
Increase (decr.) in share capital	5,000	-	-	-
Increase (decr.) in debt	(1,939)	(6,268)	(4,388)	(3,187)
Dividend Payments	(544)	(549)	(622)	(842)
Others	(2,608)	(3,118)	(2,640)	(2,793)
Total CF from Financing	(91)	(9,935)	(7,650)	(6,822)
Net increase (decr.) in cash	2,518	(4,216)	1,484	71
Beginning Balance	2,664	5,184	966	2,450
Ending Balance	5,184	966	2,450	2,521

Key Performance Indicators

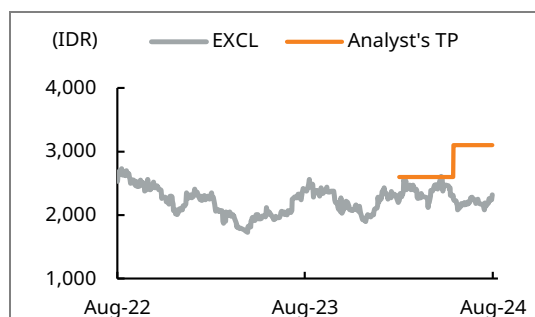
	12/22	12/23	12/24F	12/25F
Growth (% YoY)				
Revenue	8.9	10.9	8.2	8.0
Operating Profit	9.8	19.7	18.2	20.8
EBIT	0.6	18.0	18.9	19.5
EBITDA	4.6	11.3	13.0	10.7
Net Profit (Loss)	(12.9)	14.6	62.9	36.2
Profitability (%)				
Operating Margin	12.6	13.6	14.8	16.6
EBITDA Margin	50.1	50.2	52.5	53.8
Net Margin	3.8	4.0	6.0	7.5
ROE	4.9	4.9	7.5	9.5
ROA	1.3	1.5	2.3	3.0
Leverage				
Debt/Equity (x)	2.4	2.3	2.2	2.1
Per Share Data (IDR)				
EPS	85	97	158	214
BPS	1,963	2,019	2,131	2,284
Valuation (x)				
P/E	27.5	24.0	14.7	10.8
P/B	1.2	1.1	1.1	1.0
EV/EBITDA	4.7	4.6	4.1	3.7
Operating Metrics				
# of Cellular Users (mn)	57.9	57.9	57.5	58.5
ARPU (IDR)	36.0	39.0	41.0	44.3

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (IDR)
XL Axiata (EXCL IJ)	8/21/2024	Buy	3,100
	6/6/2024	Buy	3,100
	4/30/2024	Trading Buy	2,600
	2/21/2024	Trading Buy	2,600
	11/23/2023	Trading Buy	2,450
	8/3/2023	Trading Buy	2,700
	3/29/2023	Trading Buy	2,300
	2/10/2023	Trading Buy	2,600



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the expected return of the stock over the next 12 months.

* Outside of the official ratings of PT Mirae Asset Sekuritas Indonesia, analysts may call trading opportunities should technical or short-term material developments arise.

* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

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