

## XL Axiata (EXCL IJ)

22 February 2017

## Company Update

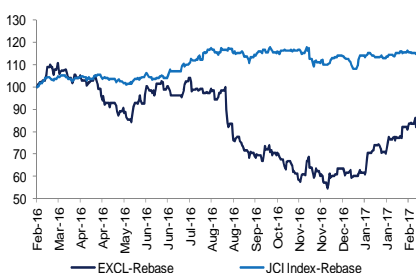
## BUY (Upgrade)

## Stock Data

Target price (Rp)	Rp3,510
Prior TP (Rp)	2,830
Shareprice (Rp)	Rp5,300
Upside/downside (%)	+14.3
Sharesoutstanding (m)	10,688
Marketcap. (US\$ m)	4,240
Free float (%)	33.1
Avg. 6m dailyT/O (US\$ m)	2.8

## Price Performance

	3M	6M	12M
Absolute (%)	147.7	69.3	37.8
Relative to JCI (%)	143.4	71.1	26.0
52whigh/low (Rp)	5,300 - 2,040		



## Major Shareholders

Axiata Group	66.5%
Rowe Price Group	2.0%

## Estimate Change; Vs. Consensus

	2017F	2018F
Latest EPS (Rp)	59	-53
Vs. Prior EPS (%)	-156	-172
Vs. Consensus (%)	+47.5	-

Source: Bloomberg

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## In better shape

- Positive development in operational matrix
- Healthier balance sheet
- Revenue growth to follow soon
- Upgrade to Buy, TP Rp3,630 (prev. Rp2,380)

**Subsequent growth in sub base.** XL Axiata was able to enjoy positive net add in the past 5 quarters with a total net add of 5.0mn subs. We think that XL's is on the right track for recovery. Nevertheless, we expect revenue generation to follow up in the next quarters given a consistent growth in subscriber's base. In order to support revenue generation, XL is investing in 3G on U900Mhz to enhance its reach of data service especially in sub-urban areas. Main cities will be serviced by using the 4G technology which is suitable for dense areas. XL was among the earlier adaptors of 4.5G technology to support seamless data experience.

**Balance sheet in good shape.** After the second call of right issue plus the tower sales, net gearing ratio significantly dropped to 0.6x in FY16 from previously 1.7x in FY15. This should improve the capacity for capex and reduce forex swings affecting net income. The management has guided the market to spent capex not exceeding Rp7.0tn in FY17. We expect no immediate decline in capex as XL will continuously invest in network capacity and coverage to maintain network quality and user experience. We think that network quality will be the key factor in winning wallet share from users, which will be a function on financial strength.

**Revenue expected to grow in coming quarters.** Total revenue was Rp5.3tn in 4Q16, relatively steady compared to the two previous quarters. Data revenue has grown significantly from Rp1.8tn in 1Q16 to Rp2.4tn in 4Q16 driven by higher data usage offered at competitive pricing. However, some of the significant growth was annulled by decline in revenue in voice and SMS from Rp2.7tn in 1Q16 to Rp2.2tn in 4Q16. We expect the declining rate of voice and SMS to slow down allowing fast growing data revenue to support total revenue growth.

**Earnings upgrade with recommendation upgrade to Buy.** We have upgraded our FY18 EBITDA by 9.9% with net profit of Rp81bn (vs. loss) to reflect better traction on revenue growth from data with slower substitution effect. Furthermore, the current tower sales resulted net gain of Rp3.6tn as of Dec16 which will be spread over the coming years. This benefit should support the bottom line to turn positive. Nevertheless, revenue growth remains the key variable for sustainable profitability. With our new earnings estimate, we have upgraded our DCF-valuation to Rp3,510.

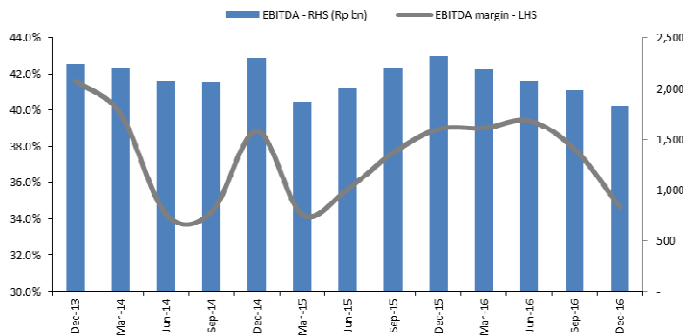
Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	23,460	22,876	21,341	21,879	23,296
EBITDA (RpBn)	8,623	8,393	8,058	8,387	8,687
EBITDA Growth (%)	-0.4	-2.7	-4.0	4.1	3.6
Net Profit (RpBn)	(804)	(25)	376	(563)	81
EPS (Rp)	(94)	(3)	35	(53)	8
EPS Growth (%)	-177.6	-96.8	n/m	n/m	n/m
Net Gearing (%)	209	203	97	98	91
PER (x)	n/m	n/m	87.4	n/m	403.6
PBV (x)	1.9	1.9	1.5	1.6	1.6
Dividend Yield (%)	2.1	0.0	0.0	0.0	0.0
EV/EBITDA (x)	6.4	6.5	6.6	6.4	6.0

Source: EXCL, IndoPremier

Share Price Closing as of : 21-February-2017

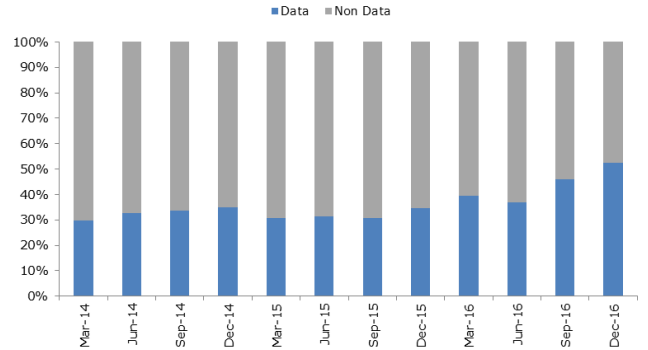
## EXCL Results Note

**Fig. 1: Quarterly EBITDA and EBITDA margin**



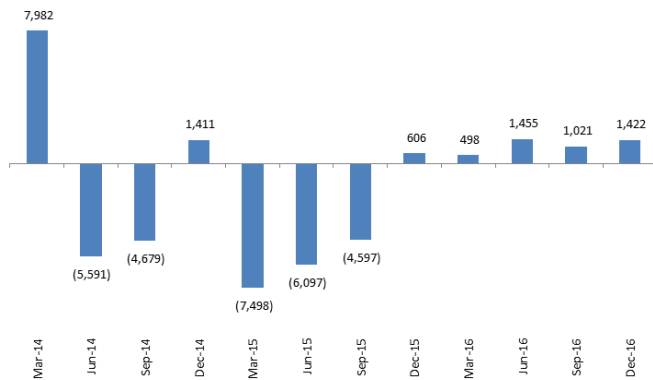
Source: EXCL

**Fig. 2: Revenue of data vs non data**



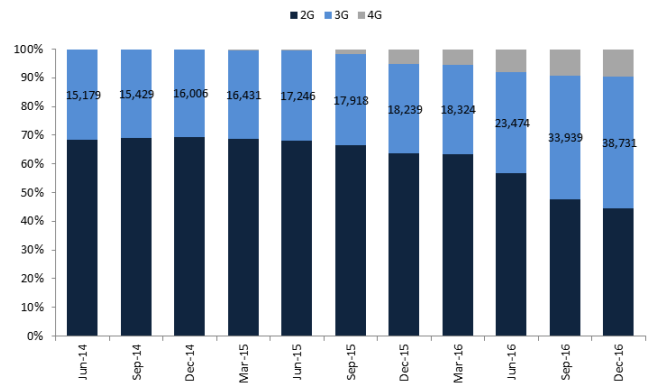
Source: EXCL

**Fig. 3: Quarterly net add ('000 subs)**



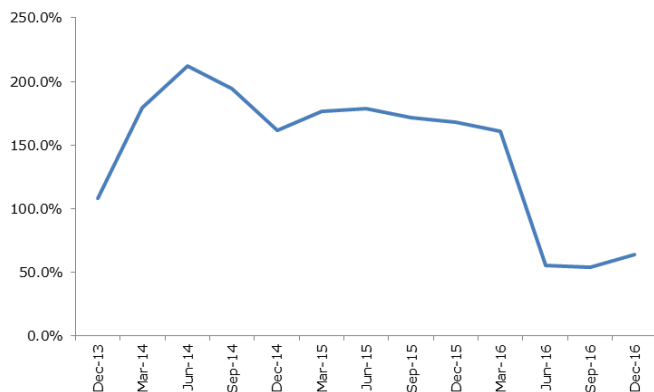
Source: EXCL

**Fig. 4: BTS breakdown 4G, 3G and 2G**



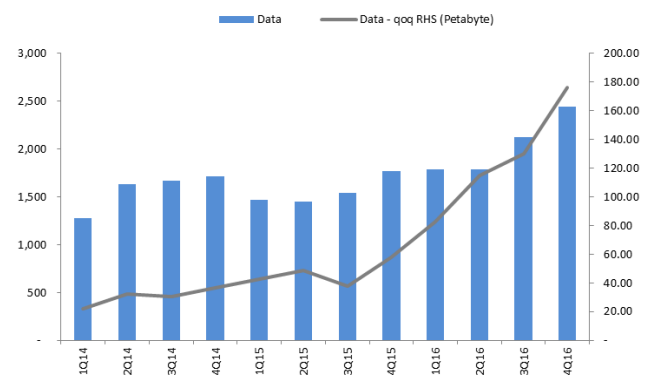
Source: EXCL

**Fig. 5: Net gearing significantly improved**



Source: EXCL

**Fig. 6: Data volume (Petabyte) and revenue (Rpbn)**



Source: EXCL

## EXCL Results Note

**Fig. 7: Earnings revision highlights**

Rpbn	FY17			FY18		
	previous	new	%	previous	new	%
Revenue	22,754	21,879	-3.8	22,988	23,296	1.3
EBITDA	8,387	8,387	0.0	7,906	8,687	9.9
Net Profit	(1,662)	(563)	-66.1	(1,837)	81	-104.4

Source: IndoPremier

**Fig. 8: DCF valuation**

	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
EBITDA	8,387	8,687	9,596	10,122	10,874	12,168	14,309	16,513	18,853	20,951
Tax on EBIT	(140)	(171)	(355)	(354)	(472)	(699)	(1,097)	(1,504)	(1,934)	(2,312)
Capital expenditure	(7,001)	(6,989)	(6,921)	(6,605)	(6,217)	(6,121)	(6,790)	(7,549)	(8,410)	(9,250)
Working capital changes	(927)	128	108	171	188	316	592	698	821	755
<b>FCFF</b>	319	1,655	2,429	3,334	4,374	5,664	7,014	8,159	9,330	10,145
<b>TV</b>	-	-	-	-	-	-	-	-	-	95,534
<b>Total FCFF &amp; TV</b>	319	1,655	2,429	3,334	4,374	5,664	7,014	8,159	9,330	105,679

**Enterprise value** 55,819

Net Debt (18,301)

Equity value 37,517

Equity per share 3,510

WACC 11.7%

Source: IndoPremier

## EXCL Results Note

Year To 31 Dec (RpBn)	2014A	2015A	2016F	2017F	2018F
<b>Income Statement</b>					
Net Revenue	23,460	22,876	21,341	21,879	23,296
Cost of Sales	0	0	0	0	0
Gross Profit	23,460	22,876	21,341	21,879	23,296
SG&A Expenses	(21,981)	(21,597)	(21,264)	(21,538)	(22,830)
Operating Profit	1,479	1,280	77	341	466
Net Interest	(1,496)	(1,080)	(1,533)	(2,150)	(1,638)
Forex Gain (Loss)	0	(2,543)	286	0	0
Others-Net	107	1,860	1,610	1,247	1,280
Pre-Tax Income	90	(484)	440	(563)	108
Income Tax	200	605	190	0	(27)
Minorities	0	0	0	0	0
Net Income	290	122	630	(563)	81
<b>Balance Sheet</b>					
Cash & Equivalent	6,951	3,312	1,400	3,691	5,205
Receivable	1,188	921	663	880	937
Inventory	77	79	161	75	80
Other Current Assets	5,094	5,840	4,583	4,807	5,129
Total Current Assets	13,310	10,152	6,807	9,454	11,351
Fixed Assets - Net	35,207	33,427	33,183	32,356	31,342
Goodwill	6,681	6,681	6,681	6,681	6,681
Non Current Assets	8,329	8,476	8,056	7,292	7,037
Total Assets	63,631	58,844	54,896	55,952	56,580
ST Loans	0	0	0	16,500	15,000
Payable	4,444	5,283	0	5,025	5,351
Other Payables	6,877	6,175	4,002	4,550	4,754
Current Portion of LT Loans	4,077	4,290	3,973	0	0
Total Current Liab.	15,398	15,748	14,477	26,076	25,105
Long Term Loans	27,628	25,054	14,394	5,492	8,277
Other LT Liab.	6,557	3,950	4,816	3,487	2,220
Total Liabilities	49,583	44,753	33,687	35,055	35,601
Equity	14,048	14,092	21,209	20,897	20,978
Retained Earnings	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total SHE + Minority Int.	14,048	14,092	21,209	20,897	20,978
Total Liabilities & Equity	63,631	58,844	54,896	55,952	56,580

Source: EXCL, IndoPremier

## EXCL Results Note

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
<b>Cash Flow</b>					
Net Income (Excl.Extraordinary&Min.Int)	290	122	630	(563)	81
Depr. & Amortization	4,279	5,678	7,064	7,828	8,003
Changes in Working Capital	1,018	480	1,178	(1,436)	128
Others	1,789	3,285	706	1,723	1,666
Cash Flow From Operating	7,377	9,565	9,578	7,553	9,878
Capital Expenditure	(20,269)	(4,044)	(6,401)	(6,237)	(6,733)
Others	303	723	201	178	311
Cash Flow From Investing	(19,966)	(3,322)	(6,200)	(6,059)	(6,422)
Loans	13,883	(2,360)	(10,978)	3,626	1,284
Equity	118	36	6,721	0	0
Dividends	(540)	0	0	0	0
Others	856	(3,816)	(353)	(3,982)	(3,148)
Cash Flow From Financing	14,317	(6,141)	(4,610)	(356)	(1,864)
Changes in Cash	1,728	102	(1,232)	1,138	1,593
<b>Financial Ratios</b>					
Gross Margin (%)	100.0	100.0	100.0	100.0	100.0
Operating Margin (%)	6.3	5.6	0.4	1.6	2.0
Pre-Tax Margin (%)	0.4	(2.1)	2.1	(2.6)	0.5
Net Margin (%)	1.2	0.5	3.0	(2.6)	0.3
ROA (%)	0.6	0.2	1.1	(1.0)	0.1
ROE (%)	2.0	0.9	3.6	(2.7)	0.4
ROIC (%)	1.2	1.9	2.1	(0.8)	0.9
Acct. Receivables TO (days)	19.0	16.2	13.1	12.5	13.9
Acct. Receivables - Other TO (days)	0.6	0.6	0.4	0.4	0.4
Inventory TO (days)	0.0	0.0	0.0	0.0	0.0
Payable TO (days)	0.0	0.0	0.0	0.0	0.0
Acct. Payables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Debt to Equity (%)	225.7	208.2	86.6	105.2	111.0
Interest Coverage Ratio (x)	1.1	1.4	23.2	6.8	4.2
Net Gearing (%)	176.2	184.7	80.0	87.6	86.1

Source: EXCL, IndoPremier

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**INVESTMENT RATINGS**

BUY : Expected total return of 10% or more within a 12-month period  
HOLD : Expected total return between -10% and 10% within a 12-month period  
SELL : Expected total return of -10% or worse within a 12-month period

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