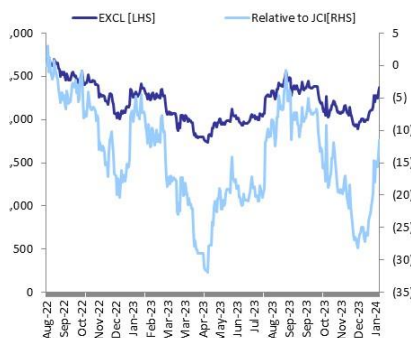


# BUY

(Maintained)

Last Price (Rp)	2,370
Target Price (Rp)	3,000
Previous Target Price (Rp)	3,400
Upside/Downside	+26.6%
No. of Shares (mn)	13,072
Mkt Cap (Rpbn/US\$mn)	30.981/1.984
Avg, Daily T/O (Rpbn/US\$mn)	47.4/3.0
Free Float (%)	33.2
Major Shareholder (%)	
Axiata Investments Indonesia Sdn Bhd	66.3
EPS Consensus (Rp)	
	2023F 2024F 2025F
BRIDS	100.9 116.3 160.6
Consensus	99.5 132.6 158.8
BRIDS/Cons (%)	1.5 (12.3) 1.1

## EXCL relative to JCI Index



Source: Bloomberg

## XL Axiata (EXCL IJ)

### Potential FMC strategy acceleration and value unlocking from the merger scenario

- XL may accelerate its FMC by acquiring the subs of LINK and rolling out 3m new homepasses upon obtaining funding at the associated co. level.
- We see a merger scenario to potentially unlock XL's unique value propositions.
- We reiterate our Buy rating with an unchanged TP of Rp3,000 (based on our DCF, implying 4.9x 2024 EV/EBITDA).

#### XL's FMC catalyst to be triggered by funding plans at Linknet.

Linknet (20%-owned by EXCL) is targeting to raise US\$450-500mn from third party investors to fiberize its coverage and build new homepasses (HPs). If this materializes, we believe the funding will allow LINK to: a) decisively change course into becoming an Infra Co by executing its FTTH HPs rollout plan (pls see exh 2) and b) turn its ~750k First Media (FM) subscribers over to ServeCo XL Axiata. Based on this scenario, we may see a jump in XL's fixed BB revenue (estimated at ~Rp3tr), which combined with associated HP financial leases, should add to the bottomline (initially ~10% margin, we estimate).

#### Broadening XL's portfolio into new products and segments.

XL recently added new business classifications in its Articles of Association to build a services portfolio primarily in IPTV, AI, and Blockchain to grow its FMC and B2B segment. This should add to XL's growth opportunities in the post 4G cycle, becoming an enticing vehicle for new ICT investments.

#### Unique value propositions to be potentially unlocked with a merger.

XL's position in the current landscape makes it an attractive vehicle for merger. The arguments supporting this view are: a) a sturdy 58mn subs base with ~50% EBITDA margin, b) complimenting spectrum bands with FREN, c) FMC solid positioning and d) large ex-Java market to invest. In Dec23's Axiata Analyst Day, Axiata responded positively when asked about merger talks with FREN. We project a non-cash deal will see XL and FREN shareholders owning ~70%/30% stakes in the merged Co (pls see exh.6). We see the possibility for FREN to balance the stakes by proposing to buy a stake in XL or making an injection into the merged Co.

#### Reiterate Buy rating on potential valuation upside.

We reiterate our Buy rating on EXCL with an unchanged TP of Rp3,000 (based on our latest DCF). We see potential upside from the acquisition of LINK subs and the merger scenario which shall drive EXCL's re-rating to north of 5.5x to meet the midpoint in the valuation multiple gap between EXCL & FREN. Key risks include derailing merger negotiations, and lack of investor interest at the LINK level.

#### Key Financials

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Revenue (Rpbn)	26,754	29,142	32,089	33,853	36,212
EBITDA (Rpbn)	13,287	14,235	15,822	16,693	17,947
EBITDA Growth (%)	1.7	7.1	11.1	5.5	7.5
Net Profit (Rpbn)	1,288	1,109	1,320	1,520	2,099
EPS (Rp)	98.5	84.9	100.9	116.3	160.6
EPS Growth (%)	246.6	(13.9)	18.9	15.2	38.0
BVPS (Rp)	1,536.8	1,961.7	2,020.2	2,075.9	2,166.7
DPS (Rp)	25.9	41.6	42.4	60.6	69.8
PER (x)	23.5	27.3	23.0	19.9	14.4
PBV (x)	1.5	1.2	1.1	1.1	1.1
Dividen yield (%)	1.1	1.8	1.8	2.6	3.0
EV/EBITDA	2.9	2.6	2.3	2.2	1.9

Source: EXCL, BRIDS Estimates

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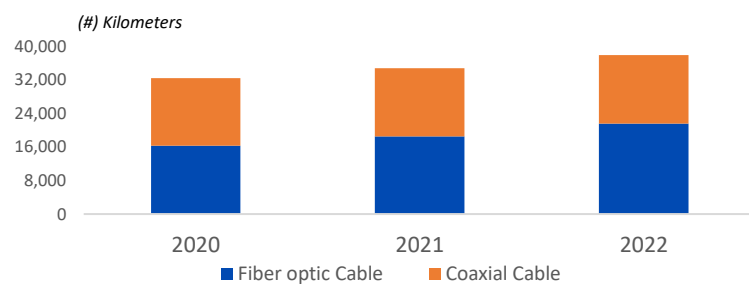
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### XL's FMC catalyst to be triggered by funding plans at the associated Co.

According to a Bloomberg article, XL's associate company Linknet (LINK IJ) is reported to be looking for fundraising from 3<sup>rd</sup> party investors of US\$450-500mn to fiberize its existing coverage and build new homepasses.

LINK's network coverage has relied on a combination of fiber and coaxial cables, with the network backbone majority supported by fiber, while the last mile & homepasses consist of fiber & coaxial cables. The aim is to gradually fiberize the last mile based on demand, while building new coverage.

#### **Exhibit 1. Linknet cable infrastructure**



Source: Linknet

During Axiata's analyst day on 6 Dec 2023, the acting CEO of Linknet and CFO unveiled the deal to rollout 2mn new homepasses to be built by Linknet (in addition to the 1mn homepasses agreed to be built as per last June 2023). **We believe that if LINK raises the funding (partial or whole) it will unlock the runway to build (1+2mn) additional homepasses for EXCL.**

We believe the fundraising prospects for LINK will be meaningful given: a) the potential growth runway implied from low fixed BB penetration in the country, and b) the demanding EV/EBITDA valuation multiples of 20-22x prevailing in various markets. By aiming to raise Rp7tr (US\$500mn) implied EV/EBITDA may reach 7.1x. According to Axiata group, high EV/EBITDA multiples are justified for passive infra in FTTH due to market supply gaps.

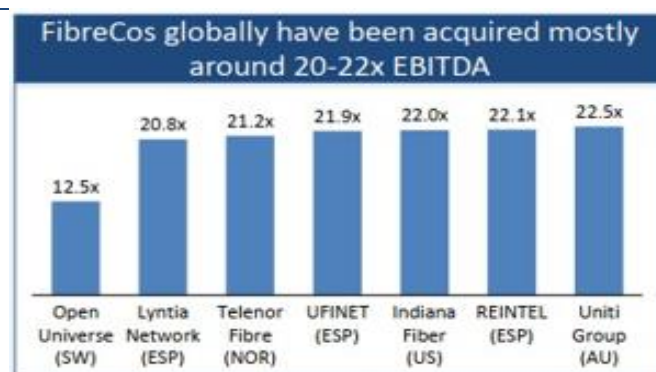
**Exhibit 1. Axiata Analyst Day: Linknet FTTH homepass rollout plan**

ServeCo - Converged Provider XL AXIATA		FiberCo LINKNET	
Subscribers	#	Homepasses (HP)	#
LINK Subscribers	750,000	Linknet HPs	3,400,000
XL Subs organic	250,000	To build 1mn for XL by 2024 as per previous agreement in progress.	1,000,000
<b>Total subs under XL now</b>	<b>1,000,000</b>	Binding agreement to build for XL	2,000,000
		<b>Potentially total HPs under LINK</b>	<b>6,400,000</b>
		<b>Target by 2026</b>	<b>8,000,000</b>

**Key messages from Axiata Analyst Day:**

- Overlaying and overbuilding the HFC network with FTTH
- Linknet to migrate customers from HFC to FTTH in partnership with XL
- Linknet ambition to reach 8mn homepasses by 2026.
- Building a world-leading FiberCo organization in Linknet. Leverage off learnings from Axiata Group
- FiberCo Linknet currently seeking funds for the next phase of growth.
- Fiber Co EV/EBITDA multiple as high as 20-22x due to gap in supply.
- XL and LINK agreed upon transfer of LINK's residential subs to XL.
- Drive on convergence in those 1mn subs.
- Funnel growth for both XL and Linknet through the rollout of 2mn HPs.

Source: Axiata, BRIDS

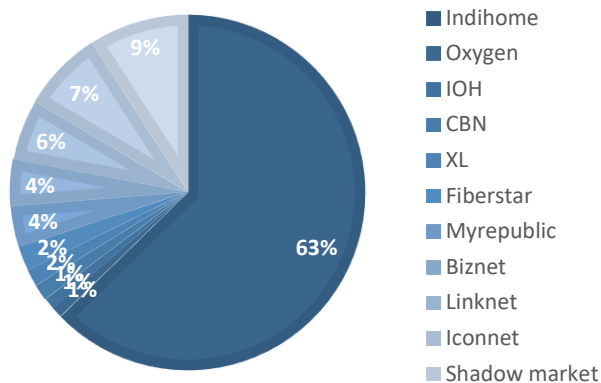
**Exhibit 3: Axiata Analyst Day: Market valuation multiples in FiberCo / Infraco companies**


Source: Axiata Analyst Day

The funding will allow LINK to decisively change course into becoming an InfraCo focused on executing its rollout FTTH homepasses plan (HPs) and to essentially become a passive telco infra provider. Linknet will then be able to drive its P&L and new revenue through fiber HP leases generated from XL and potentially other telcos.

Additional funding for LINK will also allow the company to turn its ~750k First Media (FM) subscribers over to ServeCo XL Axiata. We should then expect XL to record a large jump in its fixed BB revenue post the transfer of the FM subs, with minimum upside of approx. 80% of LINK's annual revenue. We also think that XL can achieve EBITDA margins similar to a consumer fixed BB company (~50% level). XL can potentially achieve ~10% margin if we also account for the HP leases to LINK.

Exhibit 4. Fragmented fixed broadband market



Source: Company

Exhibit 5. Analysis of the current fixed BB penetration

(# millions)	TSEL	IOH	EXCL	Rest	total
<b>mobile subs</b>	<b>158.30</b>	<b>99.40</b>	<b>57.50</b>	<b>36.00</b>	<b>351.20</b>
Population					278.50
Penetration	57%	36%	21%	13%	126%
<b>Fixed BB subs</b>	<b>8.47</b>	<b>0.35</b>	<b>0.95</b>	<b>3.74</b>	<b>13.51</b>
low & middle class people					93.00
Minimum addressable HHs					24.47
Penetration to addressable market	35%	1%	4%	15%	55%
Aspiring middle class					115.00
Minimum addressable HHs					30.26
Penetration to addressable market	28%	1%	3%	12%	45%
Total PLN residential customers 2022					78.33
Penetration to addressable market	11%	0%	1%	5%	17%

Source: Company

We maintain a positive view on FMC because: a) despite its low penetration we expect it to become a basic utility next to electricity, water, LPG household needs, and b) telcos and XL have the means to embed the service from bundling and careful ARPU management. Several ongoing rollouts in the market suggest companies are expecting big take-ups. Moreover, the market is significantly fragmented. Telcos have an edge on competition in selling to consumers when fixed BB is bundled with mobile (FMC).

#### XL's unique value propositions to be potentially unlocked with a merger.

XL's position in the current market landscape makes it an attractive vehicle for a merger with FREN and to consequently attract new funds either at XL or the LINK level. The arguments in support of a merger are: a) sturdy 58mn subs base for XL with ~50% EBITDA margin, b) complimenting spectrum bands with FREN, (possibly more in total than IOH at the merged Co level), c) XL's solid positioning in FMC and d) the large ex-Java market to invest. In Dec23's Axiata Analyst Day, Axiata responded positively when asked about merger talks with FREN. We project a non-cash deal that will see XL and FREN shareholders owning ~70%/30% stakes in the merged Co.

We see the possibility for FREN to balance the stakes by proposing to buy a stake in XL or making an injection in the merged Co.

**Exhibit 6. Merger scenarios between XL Axiata and Smartfren**

Company	Rec	Target Price (Rp)	Share price (Rp)	Market Cap. (RpBn)	Net debt	EV	EV/EBITDA (x)				EBITDA			
							2022A	2023F	2024F	2025F	2022	2023F	2024F	2025F
Telkom Indonesia	BUY	4,600	3,950	391,296	43,094	434,390	5.5	5.4	5.2	4.9	78,992	79,938	83,950	89,103
Indosat Ooredoo Hutchison	BUY	11,100	9,850	79,418	46,629	126,047	6.5	5.3	4.8	4.4	19,469	23,659	26,330	28,652
XL Axiata	BUY	3,000	2,430	31,765	42,324	74,089	5.2	4.7	<b>4.4</b>	4.1	14,235	15,822	16,693	17,947
Smartfren	Non-rated	n/a	50	16,769	24,361	41,130	8.2	8.1	7.3	6.6	5,025	5,109	5,659	6,244

**1st scenario: making equivalent EV/EBITDA multiples**

Mid point in EV/EBITDA				<b>64,151</b>	<b>66,685</b>	<b>130,836</b>	<b>6.8</b>	<b>6.3</b>	<b>5.9</b>	<b>5.4</b>	<b>19,260</b>	<b>20,931</b>	<b>22,352</b>	<b>24,191</b>
XL Axiata				55,390	42,324	97,714	6.9	6.2	5.9	5.4	14,235	15,822	16,693	17,947
Smartfren				8,761	24,361	33,122	6.6	6.5	5.9	5.3	5,025	5,109	5,659	6,244

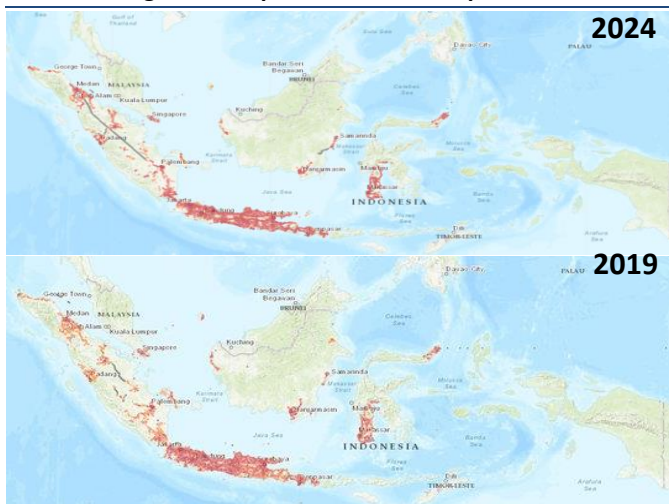
MergedCo EV		<b>130,836</b>
Sinarmas Group	31%	33,122
Axiata Group	69%	97,714

**2nd scenario FREN maintains current EV/EBITDA assuming potentially more EBITDA support from Sinarmas group subsidiaries**

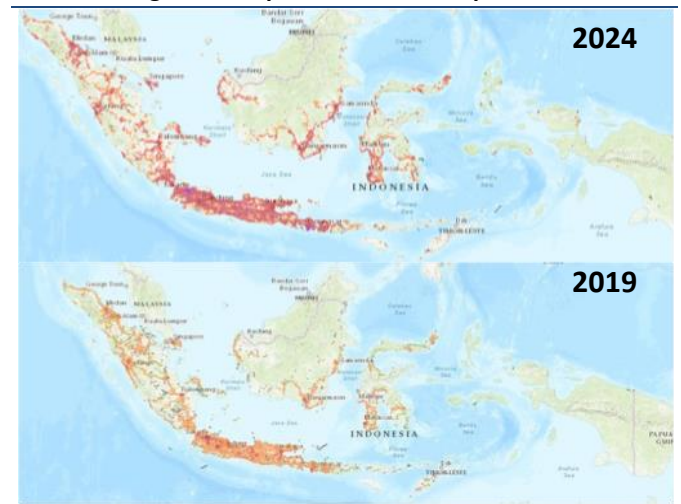
Company	Market Cap. (RpBn)	Net debt	EV	EV/EBITDA (x)				EBITDA		
				2022A	2023F	2024F	2025F	2022	2023F	2024F
XL Axiata	55,390	42,324	97,714	6.9	6.2	5.9	5.4	14,235	15,822	16,693
Smartfren	16,769	24,361	41,130	8.2	8.1	7.3	6.6	5,025	5,109	5,659

MergedCo	EV	<b>138,844</b>
Sinarmas Group	30%	41,130
Axiata Group	70%	97,714

Source: Company, BRIDS Estimates

**Exhibit 7a. Smartfren network map comparison 2024 vs. 2019. A merger would provide scale to expand in ex-Java.**


Source: NPerf

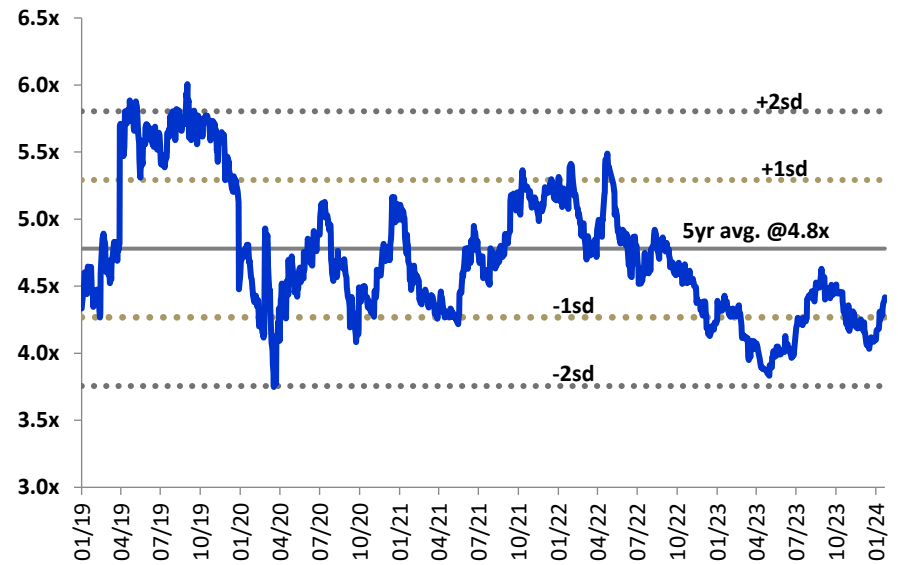
**Exhibit 7b. XL Axiata network map comparison 2024 vs. 2019. A merger would provide scale to expand in ex-Java.**


Source: NPerf

### Significant value upside should drive XL's valuation higher

We reiterate our Buy rating on EXCL with an unchanged TP of Rp3,000 (based on our latest DCF). We see potential upside from the acquisition of LINK subs and the merger scenario which shall drive EXCL's re-rating to north of 5.5x to meet the midpoint in the valuation multiple gap between EXCL & FREN. Key risks include derailing merger negotiations and a lack of investor interest at the LINK level.

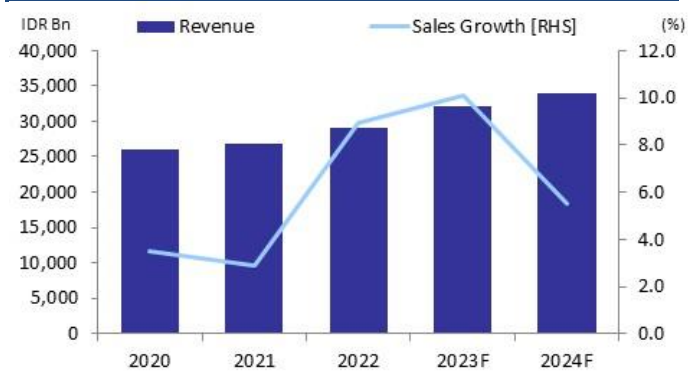
**Exhibit 8. XL Axiata forward EV/EBITDA 2024-25 band**



Source: Bloomberg

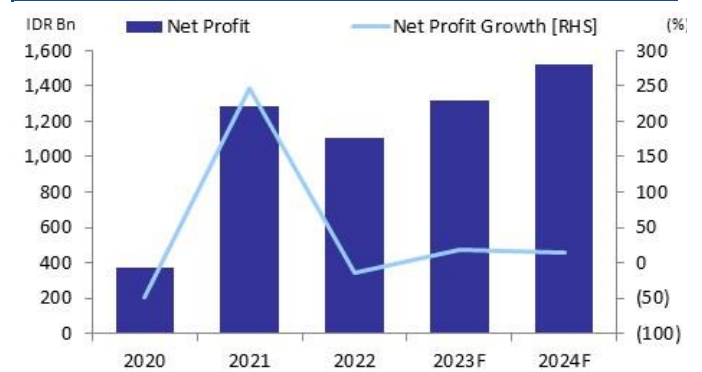


**Exhibit 9. XL Axiata Revenue and Growth**



Source: Company, BRIDS Estimates

**Exhibit 10. XL Axiata Net Profit and Growth**



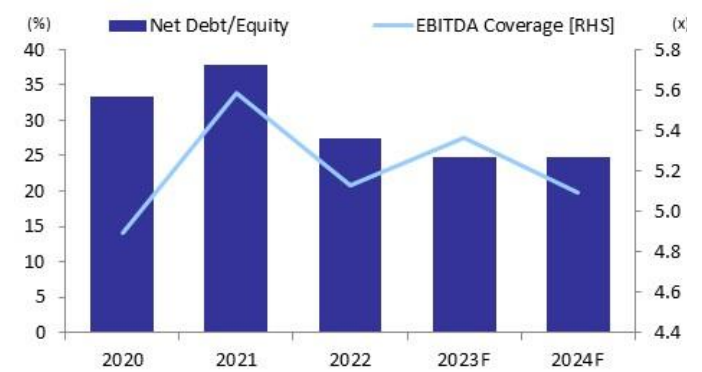
Source: Company, BRIDS Estimates

**Exhibit 11. XL Axiata Margins**



Source: Company, BRIDS Estimates

**Exhibit 12. XL Axiata Gearing Level**



Source: Company, BRIDS Estimates

**Exhibit 13. Income Statement**

Year to 31 Dec (Rpbn)	2021A	2022A	2023F	2024F	2025F
<b>Revenue</b>	<b>26,754</b>	<b>29,142</b>	<b>32,089</b>	<b>33,853</b>	<b>36,212</b>
COGS	(19,482)	(21,188)	(23,507)	(24,795)	(26,065)
<b>Gross profit</b>	<b>7,272</b>	<b>7,954</b>	<b>8,582</b>	<b>9,058</b>	<b>10,147</b>
<b>EBITDA</b>	<b>13,287</b>	<b>14,235</b>	<b>15,822</b>	<b>16,693</b>	<b>17,947</b>
<b>Oper. profit</b>	<b>3,331</b>	<b>3,658</b>	<b>4,394</b>	<b>4,868</b>	<b>5,737</b>
Interest income	88	112	94	68	66
Interest expense	(2,378)	(2,777)	(2,950)	(3,276)	(3,462)
Forex Gain/(Loss)	10	(61)	6	0	0
Income From Assoc. Co's	9	4	(144)	(96)	(64)
Other Income (Expenses)	649	418	340	425	425
<b>Pre-tax profit</b>	<b>1,708</b>	<b>1,353</b>	<b>1,740</b>	<b>1,990</b>	<b>2,703</b>
Income tax	(420)	(232)	(411)	(459)	(594)
Minority interest	0	(12)	(9)	(10)	(10)
<b>Net profit</b>	<b>1,288</b>	<b>1,109</b>	<b>1,320</b>	<b>1,520</b>	<b>2,099</b>
<b>Core Net Profit</b>	<b>1,278</b>	<b>1,171</b>	<b>1,314</b>	<b>1,520</b>	<b>2,099</b>

**Exhibit 14. Balance Sheet**

Year to 31 Dec (Rpbn)	2021A	2022A	2023F	2024F	2025F
Cash & cash equivalent	2,666	5,092	5,632	4,654	7,951
Receivables	610	852	1,132	1,504	1,626
Inventory	156	408	408	330	356
Other Curr. Asset	4,302	3,964	2,687	4,232	4,526
Fixed assets - Net	51,912	60,474	62,251	63,631	64,627
Other non-curr.asset	13,108	16,396	16,724	17,058	17,399
<b>Total asset</b>	<b>72,755</b>	<b>87,186</b>	<b>88,834</b>	<b>91,409</b>	<b>96,486</b>
ST Debt	1,745	5,622	5,341	4,236	5,066
Payables	10,638	11,337	10,696	11,284	12,071
Other Curr. Liabilities	8,571	9,465	9,438	9,957	10,650
Long Term Debt	8,527	6,488	6,812	7,153	7,153
Other LT. Liabilities	23,185	28,631	30,139	31,642	33,223
<b>Total Liabilities</b>	<b>52,666</b>	<b>61,543</b>	<b>62,426</b>	<b>64,272</b>	<b>68,163</b>
Shareholder's Funds	20,089	25,643	26,408	27,137	28,323
Minority interests	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>72,755</b>	<b>87,186</b>	<b>88,834</b>	<b>91,409</b>	<b>96,486</b>



**Exhibit 15. Cash Flow**

Year to 31 Dec (Rpbn)	2021A	2022A	2023F	2024F	2025F
Net income	1,288	1,109	1,320	1,520	2,099
Depreciation and Amort.	9,956	10,577	11,428	11,826	12,210
Change in Working Capital	1,464	1,364	403	(732)	1,037
Other Oper. Cash Flow	1,346	1,090	2,662	3,014	3,202
<b>Operating Cash Flow</b>	<b>14,054</b>	<b>14,141</b>	<b>15,813</b>	<b>15,628</b>	<b>18,548</b>
Capex	(9,249)	(7,475)	(8,000)	(8,000)	(8,000)
Others Inv. Cash Flow	(9)	(3,176)	(234)	(266)	(275)
<b>Investing Cash Flow</b>	<b>(9,258)</b>	<b>(10,651)</b>	<b>(8,234)</b>	<b>(8,266)</b>	<b>(8,275)</b>
Net change in debt	2,130	7,320	1,477	741	2,411
New Capital	(14)	4,939	0	0	0
Dividend payment	(338)	(544)	(555)	(792)	(912)
Other Fin. Cash Flow	(6,890)	(12,734)	(7,962)	(8,288)	(8,474)
<b>Financing Cash Flow</b>	<b>(5,113)</b>	<b>(1,020)</b>	<b>(7,040)</b>	<b>(8,339)</b>	<b>(6,975)</b>
<b>Net Change in Cash</b>	<b>(317)</b>	<b>2,469</b>	<b>539</b>	<b>(977)</b>	<b>3,297</b>
Cash - begin of the year	2,966	2,666	5,092	5,632	4,654
Cash - end of the year	2,666	5,092	5,632	4,654	7,951

**Exhibit 16. Key Ratio**

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
<b>Growth (%)</b>					
Sales	2.9	8.9	10.1	5.5	7.0
EBITDA	1.7	7.1	11.1	5.5	7.5
Operating profit	450.2	9.8	20.1	10.8	17.9
Net profit	246.6	(13.9)	18.9	15.2	38.0
<b>Profitability (%)</b>					
Gross margin	27.2	27.3	26.7	26.8	28.0
EBITDA margin	49.7	48.8	49.3	49.3	49.6
Operating margin	12.4	12.6	13.7	14.4	15.8
Net margin	4.8	3.8	4.1	4.5	5.8
ROAA	1.8	1.4	1.5	1.7	2.2
ROAE	6.6	4.9	5.1	5.7	7.6
<b>Leverage</b>					
Net Gearing (x)	0.4	0.3	0.2	0.2	0.2
Interest Coverage (x)	1.4	1.3	1.5	1.5	1.7

Source : EXCL, BRIDS Estimates

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## INVESTMENT RATING

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

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