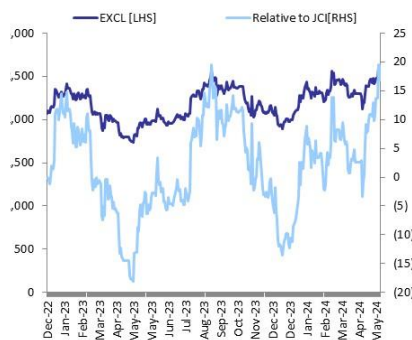


# Buy

(Maintained)

Last Price (Rp)	2,580
Target Price (Rp)	3,300
Previous Target Price (Rp)	3,300
Upside/Downside	+27.9%
No. of Shares (mn)	13,072
Mkt Cap (Rpbn/US\$mn)	33,726/2,104
Avg, Daily T/O (Rpbn/US\$mn)	56.3/3.5
Free Float (%)	33.2
Major Shareholder (%)	
Axiata Investments Indonesia Sdn. Bhd.	66.3
EPS Consensus (Rp)	
	2024F 2025F 2026F
BRIDS	160.8 187.1 205.7
Consensus	134.4 163.6 192.7
BRIDS/Cons (%)	19.6 14.4 6.7

## EXCL relative to JCI Index



Source: Bloomberg

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# XL Axiata (EXCL IJ)

**Merger plan to offer upside; reiterate Buy rating as we see deal risks to be manageable**

- We believe the planned MergeCo to generate better consumer experience and thus, expect value accretion potentials from the deal.
- We see upside to our current valuation (DCF-based TP of Rp3,300) from the combined spectrum allocations and tower sites optimization.
- Maintain Buy rating. We believe risks on the deals are manageable, as both parties appear committed and with IOH's merger as a precedent.

## Both shareholders to own controlling stake in MergeCo as per MoUs.

Disclosures from both Axiata and Sinar Mas suggest that both will own controlling stakes at the mergeCo exerting equitable influence. Axiata's MoU says Axiata & EXCL will offer scale and expertise in finance and telco, whilst Sinar Mas offers the local scale and market knowledge. **We assume EXCL to be the surviving entity in a share swap deal due to its strong branding, telco expertise and need for Axiata to maintain scale on regional basis.** The combined entities EBITDA suggests that Axiata and Sinar Mas may own ~75%/25% in the resulting MergeCo. Hence Sinar Mas may probably top-up via FREN's outstanding warrants to get more control.

## Capital gains for shareholders with mergeCo offering longer perspective.

We see incremental value for both EXCL/ FREN through the combined spectrum allocations and tower sites optimization. This should enable MergeCo to offer better consumer experience, as the MoUs emphasize. Hence, we believe the combined telco value should worth more than the total value of the two standalone entities, similar to the IOH merger synergies.

## Maintain Buy rating on upside from merger value accretion potentials

We reaffirm our view of value accretion potential from the merger, hence possible upside to our DCF-based TP Rp3,300 (implying 5x EV/EBITDA). We believe current 4.4x EV/ EBITDA (-1SD to 5-year mean) implies market concerns over the deal (i.e., deterioration in operation due to delay risks). We believe the precedent from IOH merger should offer better roadmap for the planned mergeCo to identify synergies. The MoUs released came shortly after the conclusion of FREN's Rp7tr capital raising (first prospectus released in Oct23), which suggests the deal was well planned since last year.

## Key Financials

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Revenue (Rpbn)	29,142	32,323	35,108	37,192	39,133
EBITDA (Rpbn)	14,235	15,885	17,567	18,338	19,358
EBITDA Growth (%)	7.1	11.6	10.6	4.4	5.6
Net Profit (Rpbn)	1,109	1,271	2,102	2,446	2,689
EPS (Rp)	84.9	97.2	160.8	187.1	205.7
EPS Growth (%)	(13.9)	14.6	65.3	16.4	9.9
BVPS (Rp)	1,961.7	2,016.6	2,119.0	2,209.7	2,284.4
DPS (Rp)	41.6	42.0	58.3	96.5	131.0
PER (x)	30.4	26.5	16.0	13.8	12.5
PBV (x)	1.3	1.3	1.2	1.2	1.1
Dividen yield (%)	1.6	1.6	2.3	3.7	5.1
EV/EBITDA	2.9	2.5	2.2	2.1	2.1

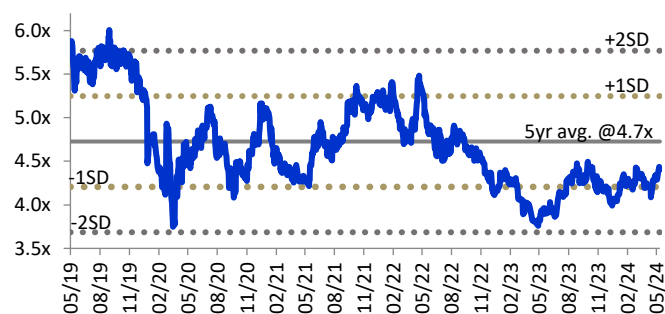
Source: EXCL, BRIDS Estimates

Exhibit 1. EXCL IJ DCF valuation

(Rp Bn)	2022	2023	2024F	2025F	2026F	2027F	2028F
<b>Total Revenues</b>	<b>29,142</b>	<b>32,323</b>	<b>35,108</b>	<b>37,192</b>	<b>39,133</b>	<b>40,678</b>	<b>42,592</b>
<i>Growth</i>	8.9%	10.9%	8.6%	5.9%	5.2%	3.9%	4.7%
<b>EBITDA</b>	<b>14,235</b>	<b>15,885</b>	<b>17,567</b>	<b>18,338</b>	<b>19,358</b>	<b>20,395</b>	<b>21,384</b>
<i>EBITDA Margin</i>	48.8%	49.1%	50.0%	49.3%	49.5%	50.1%	50.2%
<b>EBIT</b>	<b>3,658</b>	<b>4,380</b>	<b>5,513</b>	<b>6,081</b>	<b>6,854</b>	<b>7,609</b>	<b>8,326</b>
<b>Taxes</b>	<b>-232</b>	<b>-420</b>	<b>-1,213</b>	<b>-1,338</b>	<b>-1,508</b>	<b>-1,674</b>	<b>-1,832</b>
<b>Change in Working Capital</b>	<b>-381</b>	<b>-2,423</b>	<b>-250</b>	<b>-255</b>	<b>-253</b>	<b>-254</b>	<b>-253</b>
<b>Investment Expenditure (CapEx)</b>	<b>-9,063</b>	<b>-6,795</b>	<b>-8,000</b>	<b>-8,500</b>	<b>-9,000</b>	<b>-9,500</b>	<b>-11,000</b>
<i>(% of Revenue)</i>	-31%	-21%	-23%	-23%	-23%	-23%	-26%
<b>Free Cashflow</b>	<b>4,560</b>	<b>6,246</b>	<b>8,104</b>	<b>8,245</b>	<b>8,598</b>	<b>8,967</b>	<b>8,299</b>
<i>Growth</i>	0%	37%	30%	2%	4%	4%	-7%
<b>Terminal Value</b>	<b>56,744</b>						
<b>Terminal Growth Rate (%)</b>	<b>2.5%</b>						
<b>WACC (%)</b>	<b>11.1%</b>						
NPV of Cash Flow s	31,010						
NPV of Terminal Value	56,744						
<b>Total NPV</b>	<b>87,753</b>						
Net Cash/(Debt)	-44,897						
Implied Equity Value	42,857						
<b>Implied Per Share Value</b>	<b>3,300</b>						

Source: Company, BRIDS Estimates

Exhibit 2. EXCL IJ 5-yr forward 2024-25 EV/EBITDA band



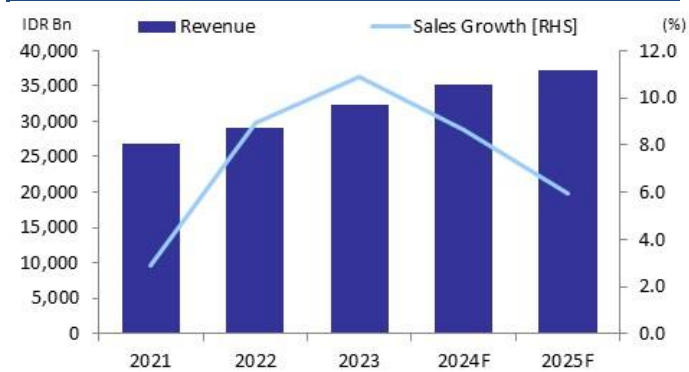
Source: Company, BRIDS Estimates

Exhibit 3. EXCL IJ 3-yr forward 2024-25 EV/EBITDA band



Source: Company, BRIDS Estimates

**Exhibit 4. Revenue and Growth**



Source: Company, BRIDS Estimates

**Exhibit 5. Net Profit and Growth**



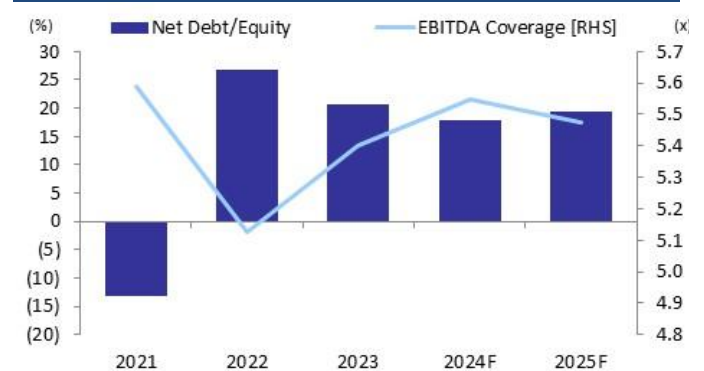
Source: Company, BRIDS Estimates

**Exhibit 6. Margins**



Source: Company, BRIDS Estimates

**Exhibit 7. Gearing Level**



Source: Company, BRIDS Estimates

**Exhibit 8. Income Statement**

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
<b>Revenue</b>	<b>29,142</b>	<b>32,323</b>	<b>35,108</b>	<b>37,192</b>	<b>39,133</b>
COGS	(21,188)	(23,673)	(25,461)	(26,768)	(27,732)
<b>Gross profit</b>	<b>7,954</b>	<b>8,650</b>	<b>9,647</b>	<b>10,424</b>	<b>11,400</b>
<b>EBITDA</b>	<b>14,235</b>	<b>15,885</b>	<b>17,567</b>	<b>18,338</b>	<b>19,358</b>
<b>Oper. profit</b>	<b>3,658</b>	<b>4,380</b>	<b>5,513</b>	<b>6,081</b>	<b>6,854</b>
Interest income	112	100	68	65	74
Interest expense	(2,777)	(2,940)	(3,168)	(3,350)	(3,536)
Forex Gain/(Loss)	(61)	13	0	0	0
Income From Assoc. Co's	4	(191)	(128)	(85)	(57)
Other Income (Expenses)	418	343	424	424	0
<b>Pre-tax profit</b>	<b>1,353</b>	<b>1,705</b>	<b>2,710</b>	<b>3,136</b>	<b>3,336</b>
Income tax	(232)	(420)	(595)	(676)	(634)
Minority interest	(12)	(13)	(13)	(13)	(13)
<b>Net profit</b>	<b>1,109</b>	<b>1,271</b>	<b>2,102</b>	<b>2,446</b>	<b>2,689</b>
<b>Core Net Profit</b>	<b>1,171</b>	<b>1,258</b>	<b>2,102</b>	<b>2,446</b>	<b>2,689</b>

**Exhibit 9. Balance Sheet**

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
Cash & cash equivalent	5,184	975	3,244	3,089	1,359
Receivables	852	1,435	1,158	1,218	1,271
Inventory	408	378	423	445	465
Other Curr. Asset	3,964	4,395	4,540	4,809	4,675
Fixed assets - Net	60,474	63,890	68,767	73,440	77,916
Other non-curr.asset	16,396	16,624	16,510	16,567	16,538
<b>Total asset</b>	<b>87,278</b>	<b>87,698</b>	<b>94,642</b>	<b>99,568</b>	<b>102,224</b>
ST Debt	5,622	854	2,159	2,878	1,964
Payables	11,337	9,383	11,253	12,397	12,769
Other Curr. Liabilities	9,391	9,906	10,480	11,102	11,681
Long Term Debt	6,488	5,609	6,048	5,829	5,939
Other LT. Liabilities	28,665	35,432	36,849	38,323	39,856
<b>Total Liabilities</b>	<b>61,504</b>	<b>61,183</b>	<b>66,789</b>	<b>70,530</b>	<b>72,209</b>
Shareholder's Funds	25,643	26,360	27,699	28,885	29,861
Minority interests	131	144	144	144	144
<b>Total Equity &amp; Liabilities</b>	<b>87,278</b>	<b>87,688</b>	<b>94,633</b>	<b>99,559</b>	<b>102,215</b>

**Exhibit 10. Cash Flow**

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
Net income	1,109	1,271	2,102	2,446	2,689
Depreciation and Amort.	10,577	11,505	12,054	12,257	12,504
Change in Working Capital	(381)	(2,423)	2,531	1,416	1,013
Other Oper. Cash Flow	1,090	649	2,907	3,091	3,268
<b>Operating Cash Flow</b>	<b>12,396</b>	<b>11,002</b>	<b>19,593</b>	<b>19,210</b>	<b>19,474</b>
Capex	(7,475)	(3,994)	(8,000)	(8,000)	(8,050)
Others Inv. Cash Flow	(3,176)	(128)	182	8	103
<b>Investing Cash Flow</b>	<b>(10,651)</b>	<b>(4,123)</b>	<b>(7,818)</b>	<b>(7,992)</b>	<b>(7,947)</b>
Net change in debt	9,065	1,120	3,161	1,974	728
New Capital	4,939	0	0	0	0
Dividend payment	(544)	(549)	(763)	(1,261)	(1,712)
Other Fin. Cash Flow	(12,734)	(11,663)	(11,904)	(12,086)	(12,272)
<b>Financing Cash Flow</b>	<b>725</b>	<b>(11,093)</b>	<b>(9,506)</b>	<b>(11,373)</b>	<b>(13,257)</b>
<b>Net Change in Cash</b>	<b>2,469</b>	<b>(4,214)</b>	<b>2,269</b>	<b>(156)</b>	<b>(1,730)</b>
Cash - begin of the year	2,663	5,184	975	3,244	3,089
Cash - end of the year	5,184	975	3,244	3,089	1,359

**Exhibit 2. Key Ratio**

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
<b>Growth (%)</b>					
Sales	8.9	10.9	8.6	5.9	5.2
EBITDA	7.1	11.6	10.6	4.4	5.6
Operating profit	9.8	19.7	25.9	10.3	12.7
Net profit	(13.9)	14.6	65.3	16.4	9.9
<b>Profitability (%)</b>					
Gross margin	27.3	26.8	27.5	28.0	29.1
EBITDA margin	48.8	49.1	50.0	49.3	49.5
Operating margin	12.6	13.6	15.7	16.4	17.5
Net margin	3.8	3.9	6.0	6.6	6.9
ROAA	1.4	1.5	2.3	2.5	2.7
ROAE	4.9	4.9	7.8	8.6	9.2
<b>Leverage</b>					
Net Gearing (x)	0.3	0.2	0.2	0.2	0.2
Interest Coverage (x)	1.3	1.5	1.7	1.8	1.9

Source: EXCL, BRIDS Estimates

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<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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