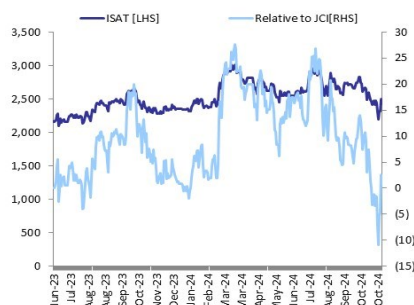


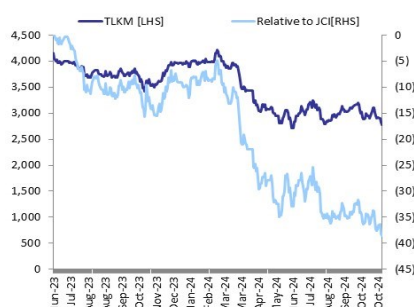
# Overweight

(Maintained)

## ISAT relative to JCI Index



## TLKM relative to JCI Index



Source: Bloomberg

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# Telco

## FY25 Outlook: FMC Strategy and Telco consolidation support a resilient FY25 Growth

- We forecast 6.3%/7.0% revenue/net profit CAGR in FY24-26F, driven by fixed BB focus, mobile monetization and ICT.
- ISAT is our top pick (Buy, TP Rp3,800), with robust operating leverage; TLKM offers potentially the best FMC play in the long term.
- Reiterate sector OW rating as Telcos are incentivized for healthier conduct amid transformations with tailwind from EXCL's merger.

### Projected 6-7% yoy sector rev. growth driven by focus on fixed BB

We expect over 6% yoy sector revenue growth in FY25F, driven by higher focus on Fixed Broadband (BB). We believe this strategy will yield sector benefits as a) telcos leverage their captive market and existing infra to secure existing traffic and generate additional revenue, b) it opens access to incremental household spending, and c) it potentially reduces competition.

### Foreseeing better monetization and a more subdued mobile competition

We see better momentum prospects in mobile as telcos indicate stabilizing consumer spending since 3Q24, backed by favorable seasonality, which facilitates price increases. This momentum is likely to translate into better mobile ARPU, allowing fixed BB to leverage more attractive fixed ARPU offerings. The anticipated EXCL-FREN merger creates conditions for an oligopoly setting, supporting a more favorable mobile ARPU outlook.

### AI should trigger transformational ripple effects in ICT spending

We anticipate that AI will significantly influence ICT spending, creating a chain reaction as client awareness of SaaS productivity grows from FY24 to FY25. We expect SOE and SMEs to accelerate their ICT investments, aiming to enhance their infrastructure and support AI applications. ISAT is positioning itself ahead of the curve by establishing a leadership role in AI branding while committing US\$2-3bn in capex with partner BDx. This strategic move sets the stage for stronger ICT revenue growth.

### Telkom potentially the best LT FMC play; EXCL's merger offers great upsides

ISAT and EXCL are outsourcing the capex burden for fixed BB, enabling them to focus on the B2C market. This strategy may lead to higher op. leases, but the incremental EBITDA is expected to flow directly to EBT. In contrast, TLKM retains control of the last-mile network on its balance sheet and hence the opportunity to enhance earnings in B2C and B2B markets. If XL and FREN merge, the resulting revenue and cost synergies will be substantial. A key sector risk remains the proliferation of illegal internet. However, we believe this is a symptom of the current weak macro and that users are likely to prefer more premium services under better macro conditions.

### Maintain sector Overweight on attractive growth and new opportunities.

We expect increased mobile monetization, along with growth in fixed BB to drive a 6.3%/ 7.0% revenue net profit CAGR in FY24-26F. We prefer ISAT (Buy, TP Rp3,800) as our top pick amid strong growth potential with significant operating leverage in the upcoming quarters. Additionally, a potential merger in the sector could further elevate the overall outlook. Key risks include the proliferation of online gambling and prolonged weak purchasing power.

Company	Ticker	Rec	Target Price	Market Cap.	P/E (x)		P/BV (x)		ROE (%)
			(Rp)	(RpBn)	2024F	2025F	2024F	2025F	2025F
Indosat Ooredoo Hutchison	ISAT IJ	BUY	3,800	78,369.5	14.8	12.2	2.6	2.3	19.8
Telkom Indonesia	TLKM IJ	BUY	4,250	275,393.0	11.8	10.7	1.9	1.9	17.8
XL Axiata	EXCL IJ	BUY	3,500	30,065.5	14.5	11.4	1.1	1.1	9.8

## Topline boost from fixed broadband; mobile competition should gradually stabilize

### Projected 6-7% yoy sector rev. growth driven by focus on fixed BB

We anticipate a growth of 6-7% yoy in the telecommunications sector for FY25, driven by an increased emphasis on Fixed Broadband (BB). This strategy is poised to benefit the sector in several ways: a) telcos can leverage their captive markets and existing network infrastructure to secure and generate more data traffic; b) it opens opportunities for tapping into household spending; and c) it is likely to reduce the intensity of competition in the mobile segment. In contrast to its peers, who primarily focus on the B2C market, Telkom retains control of the last mile on its balance sheet, allowing it to monetize opportunities in both the B2C and B2B markets.

### The necessity to improve growth

The 700MHz spectrum auction has been widely anticipated, but it has been postponed due to presidential elections. We believe the potential incremental annual cost for spectrum fees should accelerate momentum for pricing improvements to cover the new costs.

### A double play offering with no match in the retail market

Furthermore, we recognize that the fixed broadband market in Indonesia is highly fragmented with major and local players. We estimate that the shadow market (including small local ISPs and illegal providers) is potentially sizable. This fragmentation presents an opportunity for telecom companies to expand into adjacent products without incurring significant acquisition costs as they address their mobile captive markets.

We see the FMC as a logical market extension for telcos, enabling them to move into a 2-play service and acquire incremental share of the household wallet. We believe the smaller local players will not be able to compete the scale a) the 2-play offering and product diversification b) the network bandwidth capacity c) the customer support of the major players.

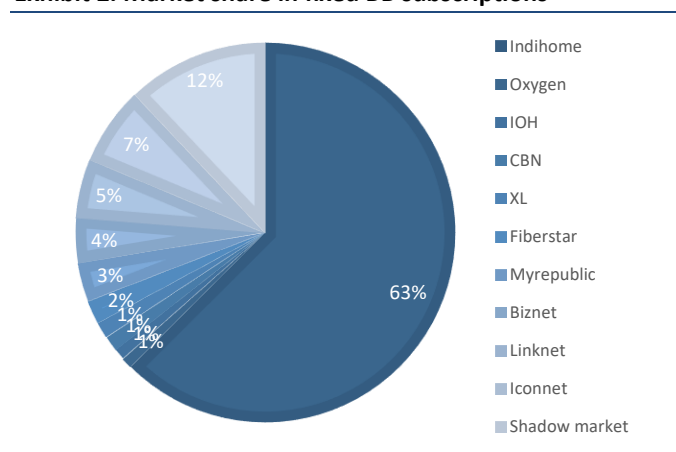
A key risk is the proliferation of illegal internet. However, we believe this is a symptom of the current weak macro conditions. Opensignal suggests significant performance differences between major and local operators, and we think that users are likely to prefer more premium services under better economic conditions.

Exhibit 1. Mobile service revenue market share 9M24

(# millions)	total
mobile subscribers	352
Population	278
middle class & above	48
Aspiring middle class	138
Vulnerable class	68
Poor class	25
Mobile Penetration	126%
Reported Fixed BB connections	13
No. of total subscriptions, major providers & shadow*	15
No. of people per Indonesian household	3.8
Total households	73
Penetration rate to total Households	20%
Addressable households	67
Penetration rate to TAM	23%
Total PLN residential connections 2023	82
Penetration rate to PLN residential connections	18%

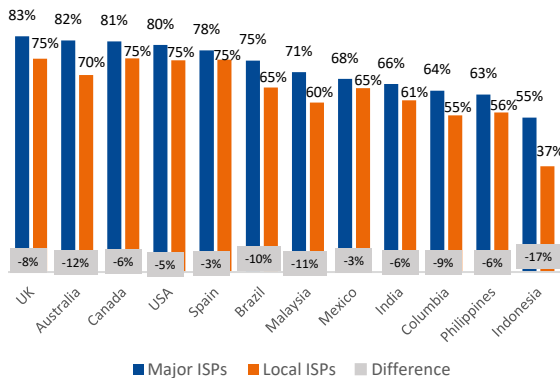
Source: Company, BRIDS Estimates

Exhibit 2. Market share in fixed BB subscriptions



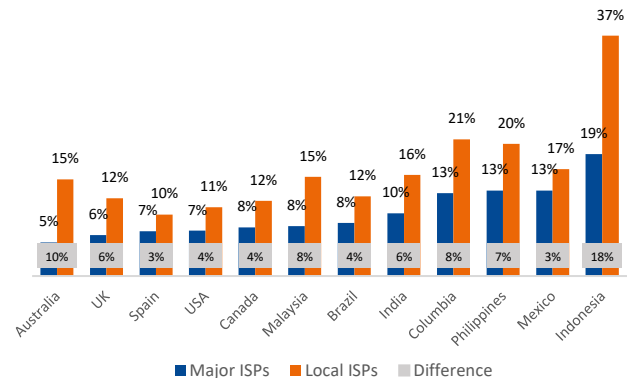
Source: Company, BRIDS Estimates

**Exhibit 3. Consumers with local ISPs have a less consistent BB experience than those on major ones in Indonesia**



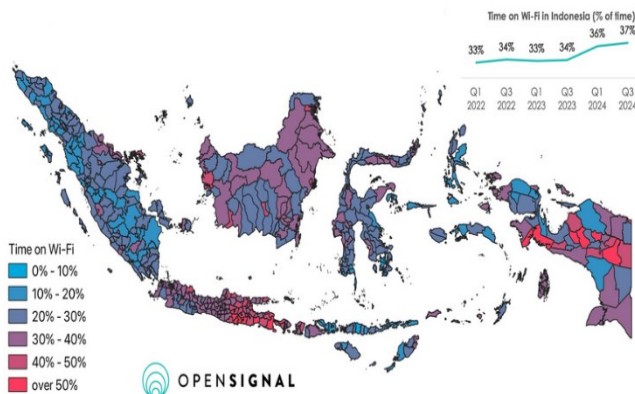
Source: Opensignal: Data collection: Jul. 1 – Sep. 28 2024

**Exhibit 4. Indonesia's Local ISPs do not exceed 5mbps download throughput for 37.1% of the tests**



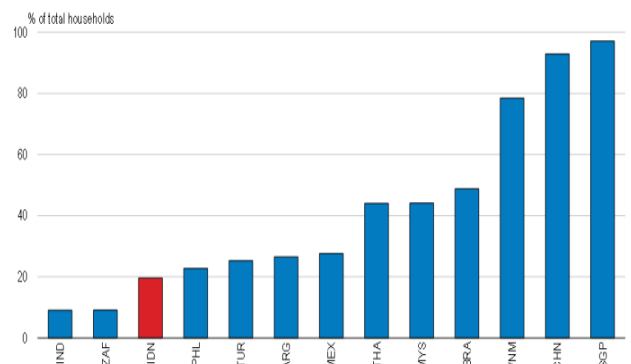
Source: Opensignal: Data collection: Jul. 1 – Sep. 28 2024

**Exhibit 5. Indonesians spend more and more time on Wi-Fi, some kebutatens even more than on mobile**



Source: Opensignal: Data collection: Jul. 1 – Sep. 28 2024

**Exhibit 6. Fixed broadband penetration rates in neighboring markets**



Note: The fibre penetration rate is the share of the number of subscribers for Fibre to the Home (FTTH) and Fibre to the Building (FTTB) in the total households

Source: OECD

**Exhibit 7. Fixed Broadband affordability as % GNI per cap (2023)**



Source: ITU, From 2018, based on the cheapest plan providing at least 5GB of monthly high-speed data (256Kbit/s or higher) from the operator with the largest market share in each economy.

### Foreseeing better monetization and subdued mobile competition

We expect the mobile sector will remain dynamic in FY25 due to differences in a) regional market shares and b) network scale economics remaining relevant (see network OPEX graph). Nonetheless, we see better momentum prospects in mobile as: a) telcos indicate stabilizing consumer spending since 3Q24, b) EXCL and ISAT delivered price increases in Sep24, followed by TSEL in Nov24, which also guides for more near-term price adjustments, and c) favorable seasonality and price elasticity amid elections and holidays to culminate with Lebaran in 1H25. This momentum should reflect into better mobile ARPU, necessary to balance with the expansion in fixed BB and to make its ARPU attractive to new segments.

**Exhibit 8. Tracking Telkomsel Super Seru data plans – Nov. 2024**

Telkomsel (key offerings)	total GB Oct'24	total GB Nov'24	Prices Oct- 24	Prices Nov-24	Δ % Oct- Nov'24	yield/gb Oct'24	yield/gb Nov'24
<b>Paket Super Seru</b>							
Super seru 10GB, 28day	10.0	10.0	25,000	25,000	0%	2,500	2,500
Super seru 18GB, 28day	20.0	20.0		40,000	n/a	-	2,000
Super seru 25GB, 28day	25.0	25.0	50,000	50,000	0%	2,000	2,000
Super seru 50GB, 28day	30.0	30.0	75,000	75,000	0%	2,500	2,500
Super seru 80GB, 28day	80.0	80.0	100,000	100,000	0%	1,250	1,250
Super seru 80GB +viu+weTV+prime , 28day	80.0	80.0	110,000	110,000	0%	1,375	1,375
Super seru 125GB, 28day	125.0	125.0	150,000	150,000	0%	1,200	1,200
Super seru 125GB +viu+weTV+prime , 28day	125.0	125.0	160,000	160,000	0%	1,280	1,280
Super seru 150GB, 28day	150.0	150.0	180,000	180,000	0%	1,200	1,200
Super seru 170GB, 28day	170.0	170.0	200,000	200,000	0%	1,176	1,176
Super seru 170GB +viu+weTV+prime , 28day	170.0	170.0	210,000	250,000	19%	1,235	1,471
Super seru 100GB, 28day	100.0	100.0	120,000	120,000	0%	1,200	1,200
Super seru 210GB +viu+weTV+prime , 28day	210.0	210.0	260,000	300,000	15%	1,238	1,429

Source: Company

**Exhibit 9. Tracking Telkomsel Hot Promo data plans – Nov. 2024**

Telkomsel (key offerings)	total GB Oct'24	total GB Nov'24	Prices Oct- 24	Prices Nov-24	Δ % Oct- Nov'24	yield/gb Oct'24	yield/gb Nov'24
<b>Hot Promos in Telkomsel Lite starter packs.</b>							
Hot Promo Bulanan 6GB 30day	6.0	6.0	21,900	21,900	0%	3,650	3,650
Hot Promo Bulanan 7GB 30day	10.0	10.0	25,000	25,000	0%	2,500	2,500
Hot Promo Bulanan 10GB 30day	10.0	10.0	26,000	26,000	0%	2,600	2,600
Hot Promo Bulanan (& Prime Video) 11GB 30d:	11.0	11.0	35,000	35,000	0%	3,182	3,182
Hot Promo Bulanan 15GB 30day	15.0	15.0	31,000	31,000	0%	2,067	2,067
Hot Promo Bulanan 24GB 30day	24.0	24.0	43,000	43,000	0%	1,792	1,792
Hot Promo Bulanan 40GB 30day	40.0	40.0	68,000	68,000	0%	1,700	1,700
Hot Promo Bulanan 60GB 30day	60.0	60.0	86,000	86,000	0%	1,433	1,433
Hot Promo Mingguan 2GB 7day	2.0	2.0	10,000	11,000	10%	5,000	5,500
Hot Promo Mingguan 5GB 7day	5.0	5.0	17,000	19,000	12%	3,400	3,800
Hot Promo Mingguan 13GB 7day	13.0	13.0	32,000	35,500	11%	2,462	2,731
Hot Promo Mingguan 20GB 7day	20.0	20.0	42,000	46,500	11%	2,100	2,325
Hot Promo Mingguan 27GB 7day	27.0	27.0	52,000	57,500	11%	1,926	2,130
Hot Promo 3Harian 1.5GB 3day	1.5	1.5	8,000	n/a	n/a	5,333	n/a
Hot Promo 3Harian 2.5GB 3day	2.5	2.5	10,000	11,000	10%	4,000	4,400
Hot Promo 3Harian 6.5GB 3day	6.5	6.5	17,000	19,000	12%	2,615	2,923
Hot Promo 3Harian 9GB 3day	9.0	9.0	22,000	24,500	11%	2,444	2,722
Hot Promo 3Harian 12GB 3day	12.0	12.0	27,000	30,000	11%	2,250	2,500

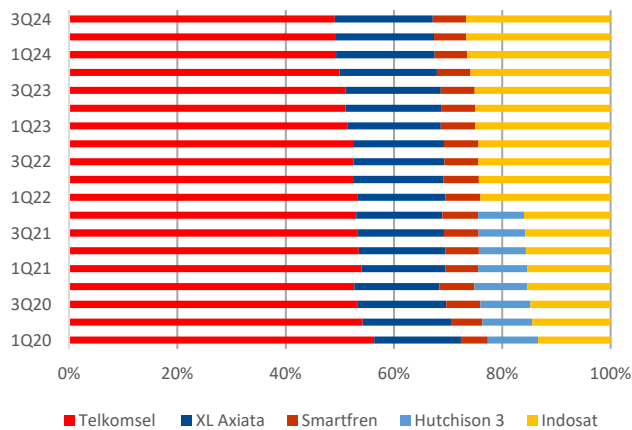
Source: Company

**Exhibit 10. Tracking Telkomsel Ketengan data plans – Nov. 2024**

Telkomsel Ketengan packages (selected)	Total GBs, Jun'24	Total GBs, Jul'24	Total GBs, Oct'24	Total GBs, Nov'24	Oct-24	Nov-24	Δ % Oct-Nov24	yield/GB Oct'24	yield/GB Nov'24
<b>Kuota Utama Ketengan</b>									
Ketengan 0.5GB 0.7GB 1day	0.7	0.7	0.7	0.7	4,000	4,500	12.5%	5,714	6,429
Ketengan 5GB 6GB 1day	6.0	6.0	6.0	6.0	17,000	18,000	5.9%	2,833	3,000
Ketengan 0.5GB 0.7GB 3day	0.7	0.7	0.7	0.7	12,500	13,500	8.0%	17,857	19,286
Ketengan 20GB 22GB 3day	23.0	23.0	23.0	23.0	55,000	59,000	7.3%	2,391	2,565
Ketengan 0.5GB 7day	1.0	1.0	1.0	1.0	22,000	24,000	9.1%	22,000	24,000
Harian Sepuasnya 1GB 1day	1.0	1.0	1.0	1.0	6,500	7,500	15.4%	6,500	7,500
Ketengan 35GB 40.5GB 1day	4.0	4.0	4.0	4.0	12,500	13,500	8.0%	3,125	3,375
Ketengan 35GB 40.5GB 7day	40.5	40.5	40.5	40.5	77,500	82,500	6.5%	1,914	2,037
<b>Kuota Ketengan (YTB/IG/FB/Tktk/TW/WA)</b>									
Ketengan Sosmed 1GB 1day	1.0	1.0	1.0	1.0					
Ketengan Sosmed 1GB 3day	1.0	1.0	1.0	1.0	5,800	6,800	17.2%	5,800	6,800
Ketengan Sosmed 2GB 2.5GB 3day	2.5	2.5	2.5	2.5	8,000	9,000	12.5%	3,200	3,600
Ketengan Sosmed 1GB 7day	1.0	1.0	1.0	1.0	9,500	10,500	10.5%	9,500	10,500
Ketengan Sosmed 2GB 2.5GB 7day	2.5	2.5	2.5	2.5	11,800	13,800	16.9%	4,720	5,520
Ketengan Sosmed 3GB 3.5GB 7day	3.5	3.5	3.5	3.5	13,500	15,500	14.8%	3,857	4,429
Ketengan Sosmed 5GB 5.5GB 30day	5.5	5.5	5.5	5.5	34,000	36,000	5.9%	6,182	6,545
Ketengan Sosmed 11GB 30day	11.0	11.0	11.0	11.0	54,000	58,000	7.4%	4,909	5,273
<b>Kuota Ketengan Education Ilmupedia atau Ruangguru</b>									
<b>: Quipper, Zenius, Cakap, Bahaso, Sekolah.mu, 202 universities e-learning and institutions</b>									
Ketengan Ilmu / Rgru 1day 1GB	1.0	1.0	1.0	1.0	1,100	1,500	36.4%	1,100	1,500
Ketengan Ilmu / Rgru 10GB 1day	10.0	10.0	10.0	10.0	3,300	3,500	6.1%	330	350
Ketengan Ilmu / Rgru 5GB 3day	5.0	5.0	5.0	5.0	3,300	3,500	6.1%	660	700
Ketengan Ilmu / Rgru 10GB 11GB 3day	11.0	11.0	11.0	11.0	5,500	6,500	18.2%	500	591
Ketengan Ilmu / Rgru 15GB 17GB 3day	17.0	17.0	17.0	17.0	7,700	8,000	3.9%	453	471
Ketengan Ilmu / Rgru 10GB 11GB 7day	11.0	11.0	11.0	11.0	9,300	9,500	2.2%	845	864
Ketengan Ilmu / Rgru 15GB 17GB 7day	17.0	17.0	17.0	17.0	11,500	12,500	8.7%	676	735
Ketengan Ilmu / Rgru 25GB 28GB 7day	28.0	28.0	28.0	28.0	13,100	13,500	3.1%	468	482

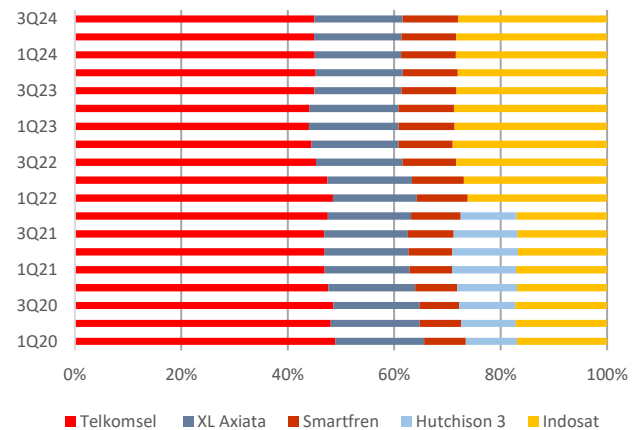
Source: Company

**Exhibit 11. Telco mobile revenue market share trends**



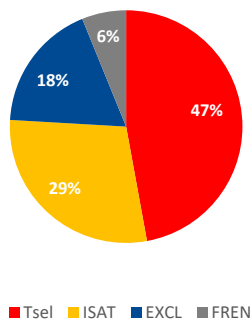
Source: Company, BRIDS Estimates

**Exhibit 12. Telco mobile subscribers market share trends**



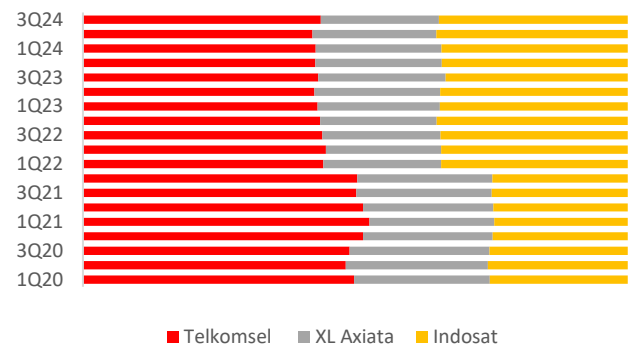
Source: Company, BRIDS Estimates

**Exhibit 13. Mobile service revenue market share 9M24**



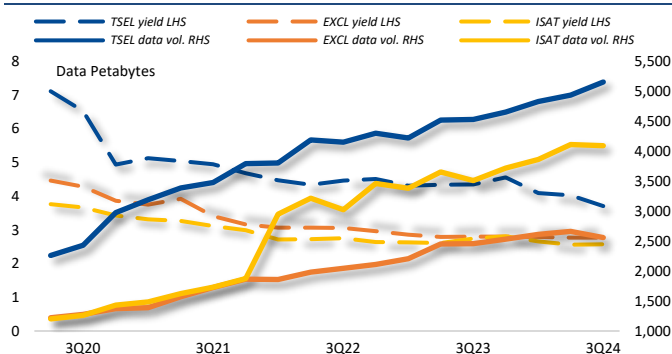
Source: Company, BRIDS Estimates

**Exhibit 14. Data Payload market share trends**



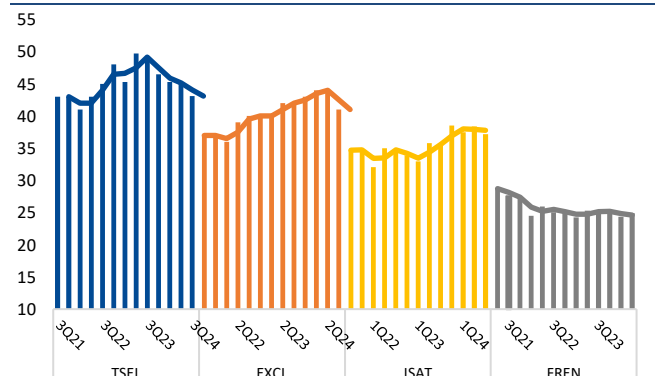
Source: Company, BRIDS Estimates

**Exhibit 15. Data volumes and yield trends**



Source: Company, BRIDS Estimates

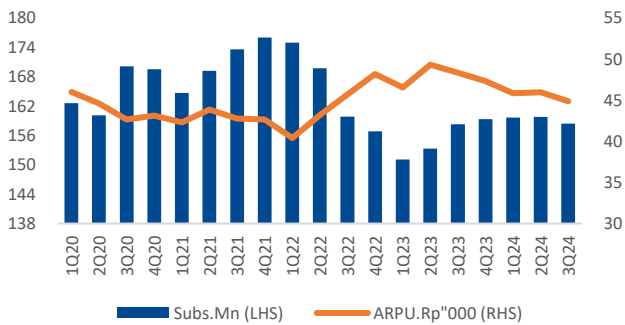
**Exhibit 16. Blended ARPU trends**



Source: Company, BRIDS Estimates

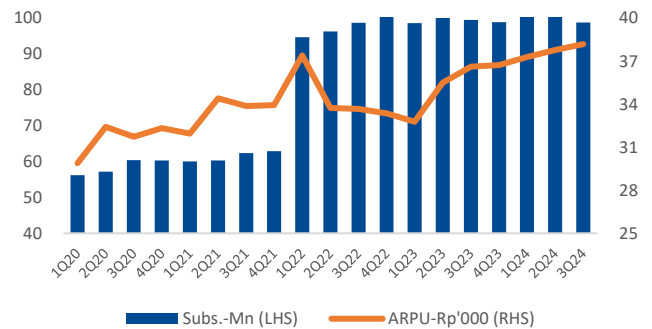


**Exhibit 17. Telkomsel ARPU & subscribers**



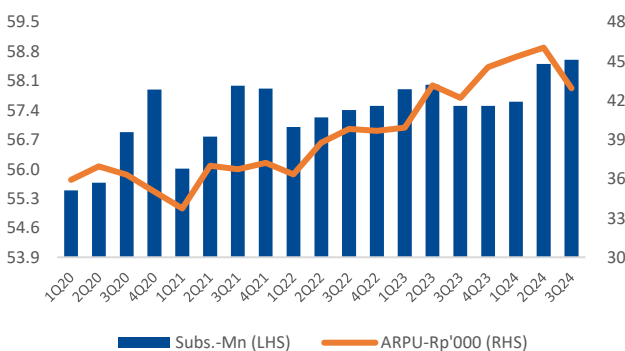
Source: Company, BRIDS Estimates

**Exhibit 18. ISAT ARPU & subscribers**



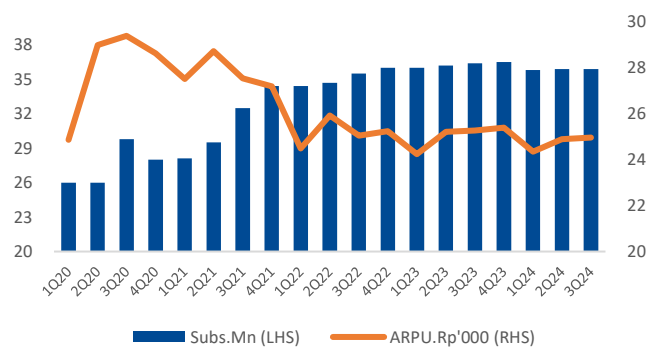
Source: Company, BRIDS Estimates

**Exhibit 19. EXCL ARPU & subscribers**



Source: Company, BRIDS Estimates

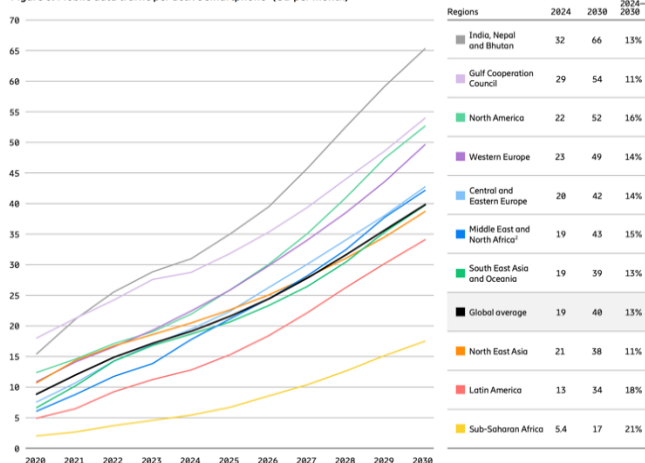
**Exhibit 20. Smartfren ARPU & subscribers**



Source: Company, BRIDS Estimates

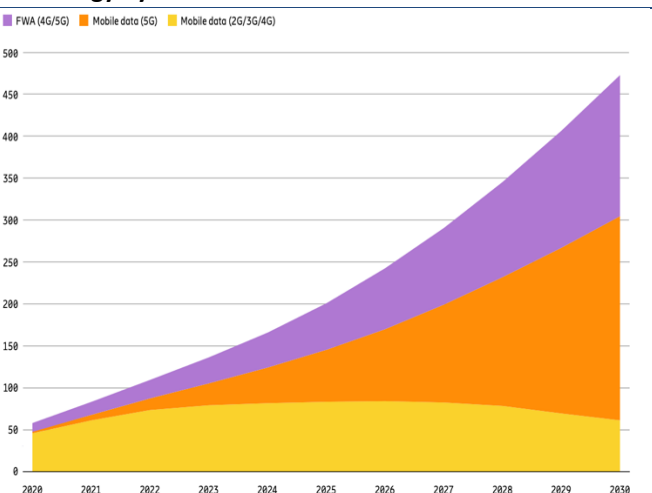
**Exhibit 21. Ericsson predicts 2024-30 cagr 13% for future payloads in Indonesia's region**

Figure 6: Mobile data traffic per active smartphone\* (GB per month)



Source: Ericsson November 2024 edition

**Exhibit 22. Ericsson predicts 5G to be the dominating technology by 2030**



Source: Ericsson November 2024 edition

**Exhibit 23. Social media to generate more engagement with AI**

Platform	AI Feature	Description
Whatsapp	Virtual assistant chatbot	Responds to user queries, provides recommendations, and assists with scheduling tasks or reminders.
	Business AI	Handles customer inquiries about business hours, products, pricing, and inventory.
Instagram	AI-Generated Story Stickers	Creates custom stickers based on written prompts for brand and content goals.
	Auto-Generated Alt Text	Uses object recognition to generate descriptions for images, improving accessibility and SEO.
	AI-Powered Automatic Reels	Automatically compiles images/videos into reels, streamlining content creation.
	AI Instagram Filters	Enhances images/videos or generates alternative backgrounds.
Facebook	AI Messenger	Enables users to ask questions or generate images directly through the chat feature.
	Dance generation	Creates dancing videos by combining personal photos with pre-made video clips.
	Universal Music Translation	Transforms music compositions into different genres or cultural styles.
Youtube	Vevo	Generates realistic video backgrounds for YouTube Shorts.
	Inspiration	Suggests content ideas, titles, and thumbnails in YouTube Studio, tailored to user preferences.
Tiktok	AI-Generated Content	Uses AI to create or modify images, videos, or audio in artistic or realistic styles.

Source: Various websites, Media articles



### Defining period for Sector Profitability: striving for margins upside amid Fixed BB expansion

#### **Telkom potentially to be the best organic FMC play in the long-run**

ISAT and EXCL are outsourcing the capex burden for fixed broadband, allowing them to focus on the B2C market. However, this strategy may result in higher opex, potentially driving EBITDA margins below the 50% level. While the synergies between fixed and mobile services and the scale that telcos can achieve remain unquantified, they represent an upside to our forecast amid the adoption of AI practices. Additionally, we anticipate most of the incremental EBITDA to be reflected at the EBT line due to the absence of fixed asset investments.

In contrast, TLKM maintains control of the last-mile network on its balance sheet, enabling it to enhance earnings across both the B2C and B2B markets. Telkom is currently undergoing a transformation through its 5 Bold Moves strategy. However, opex volatility remains a downside risk to our outlook.

#### **Proven merger benefits from IOH case; the EXCL–FREN merger should exhibit similar effects in the short to medium term**

Following the IOH merger, the allocation of two spectrum bands in an MOCN setup between ISAT and Hutch3 has significantly enhanced speed and voice/video experiences, according to Opensignal.

ISAT is positioned to further capitalize on this improvement into 4Q24 and FY25 by expanding its market reach with the rollout of more network sites and the setup of 5,000 new distribution points in ex-Java. IOH maintains solid fundamentals currently, and we expect them to generate operating leverage during this expansion, improving scale with EBITDA margin hitting the 50% mark in 4Q24. We conservatively assume ISAT will trend below 50% in 2025–26F as fixed BB effects become larger, but ISAT's margins have potential to stay elevated amid parallel growth in ICT and SaaS services.

#### **We expect similar positive merger effects with the EXCL–FREN merger**

The merger will result in a 152MHz spectrum allocation for the MergeCo (before any returns to Komdigi, expected to be capped at 10MHz). This expanded spectrum will enable the MergeCo to rejuvenate Smartfren's 36.9mn subs, whose ARPU currently stands at Rp24.9k, to make them more productive. The MergeCo could potentially target a revenue market share of 24–26%, as indicated by Axiata (XL's parent) in its earnings call.

ISAT achieved a 733bps improvement in EBITDA margin during the period from 4Q21 to 3Q24 following its merger. We expect the MergeCo to experience similar economies of scale benefits, driven by cost synergies from tower site leases and efficiencies in both operational and capital expenditures.

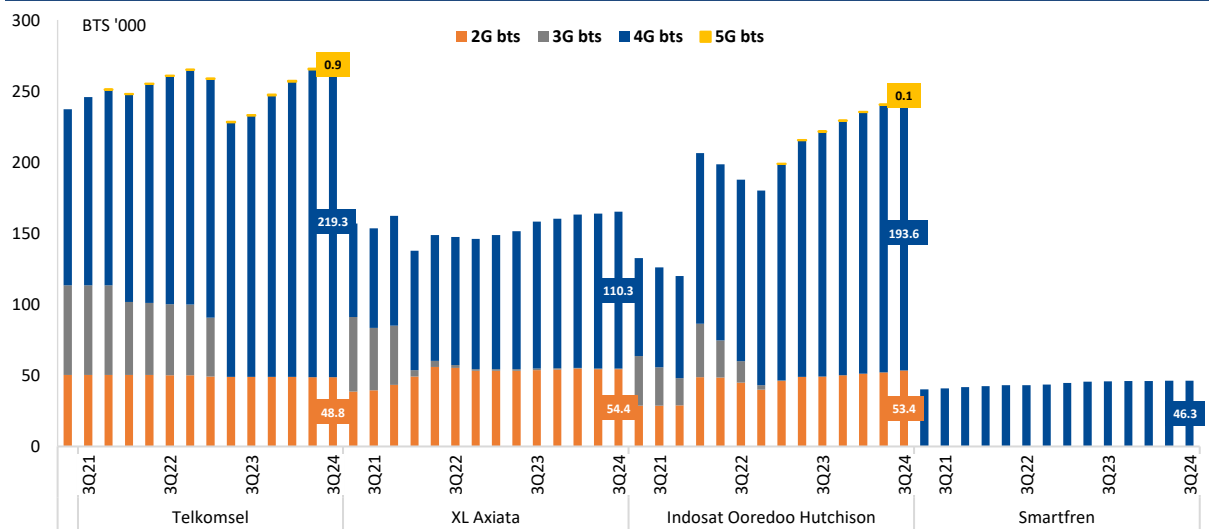
#### **Manageable Downside Risk from New Frequency Spectrums**

In FY25, OPEX is expected to rise due to new spectrum auctions. However, Komdigi, along with telcos, is exploring strategies to create more efficient fee structures, aiming to better align costs with revenue generation. This could potentially limit the downside risk associated with new spectrum costs. On the upside, the industry will likely be incentivized to reduce competition and enhance mobile monetization to offset these new expenses.

### Limited downside risks from government interventions

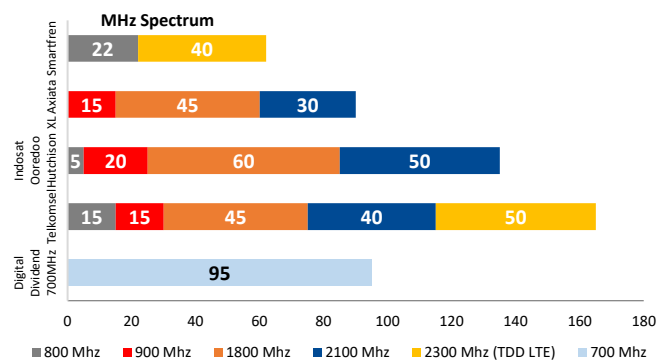
The government may leverage telecommunications companies in its social policies by requesting cheaper or free internet access, requiring infrastructure development in underdeveloped areas, or seeking higher dividends. However, imposing excessive burdens on telcos could stifle essential investments in fixed broadband and 5G infrastructure. Furthermore, the sector needs government support to rationalize fees for 5G and legacy spectrum, as well as to effectively combat illegal internet activities. Therefore, we foresee limited potential for negative government intervention in the telecommunications market.

**Exhibit 24. Trends in telco networks and technologies**



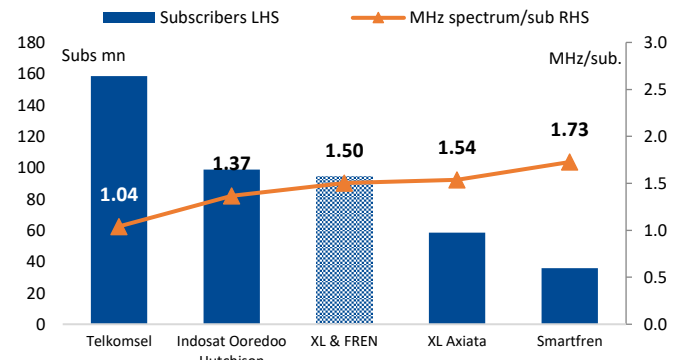
Source: Company, BRIDS Estimates

**Exhibit 25. Existing spectrum allocations to telcos**



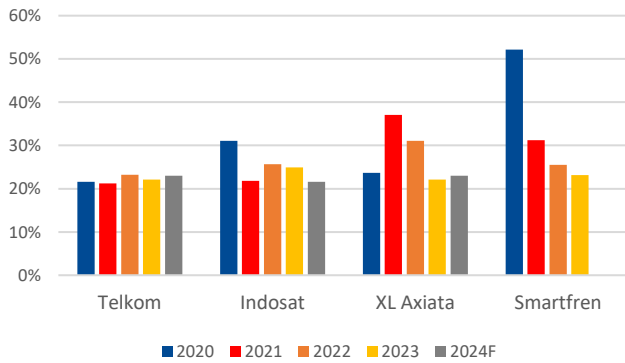
Source: Company, BRIDS Estimates

**Exhibit 26. Spectrum allocation per subscriber per telco**



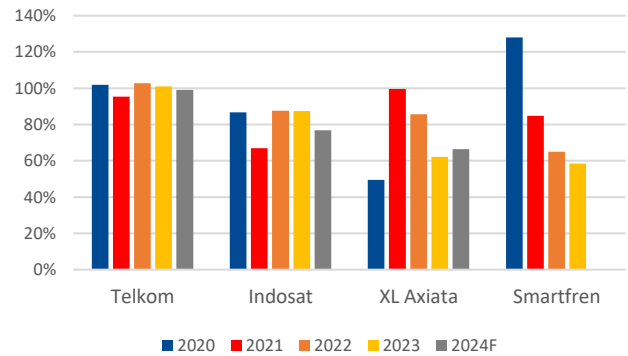
Source: Company, BRIDS Estimates

**Exhibit 27. Capex to total sales (%) trends**



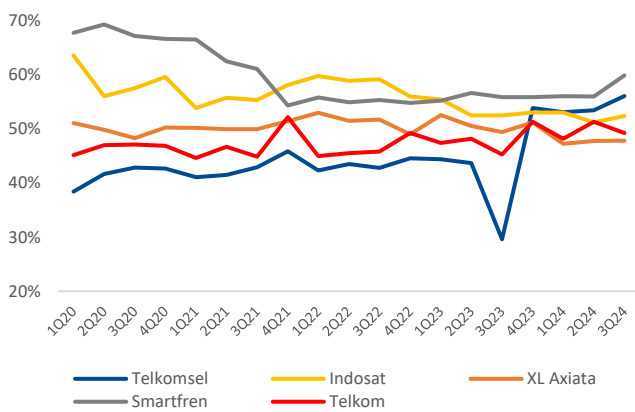
Source: Company, BRIDS Estimates

**Exhibit 28. Capex to depreciation & amortization (%) trends**



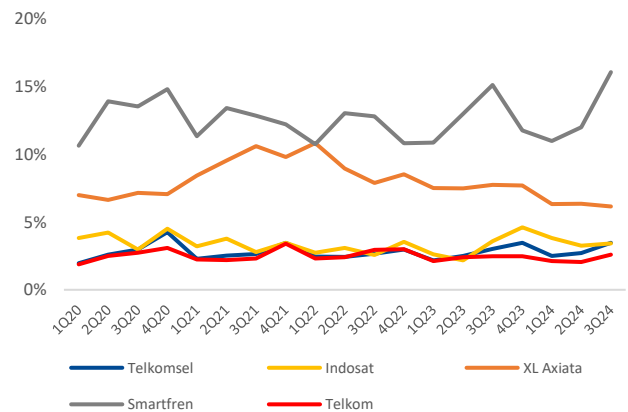
Source: Company, BRIDS Estimates

**Exhibit 29. Cash opex % of revenues**



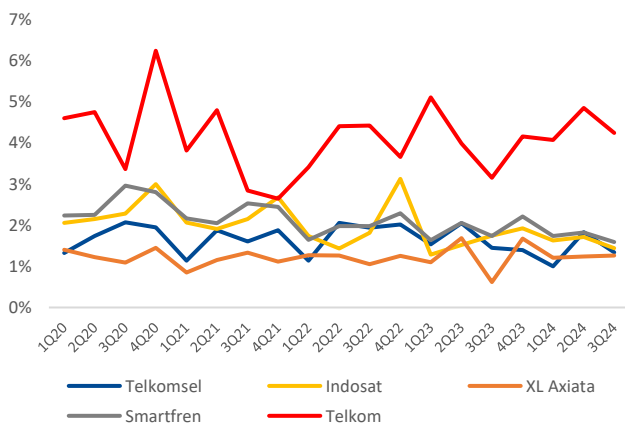
Source: Company

**Exhibit 30. Marketing cost % of revenues**



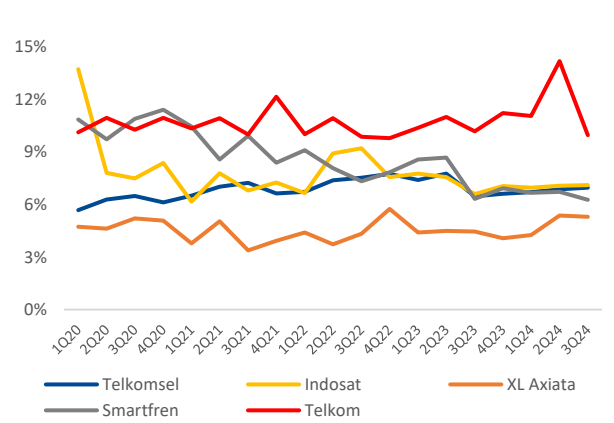
Source: Company

**Exhibit 31. G&A cost % of revenues**



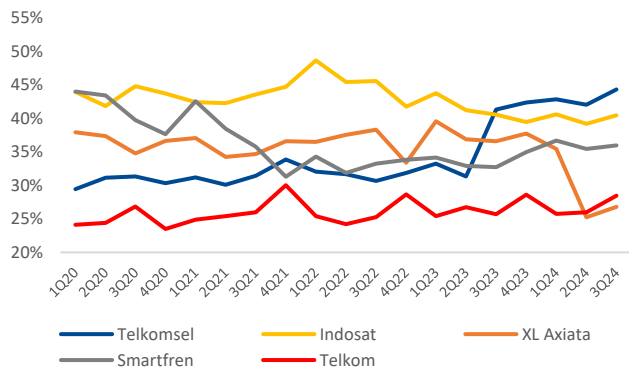
Source: Company

**Exhibit 32. Personnel cost % of revenues**



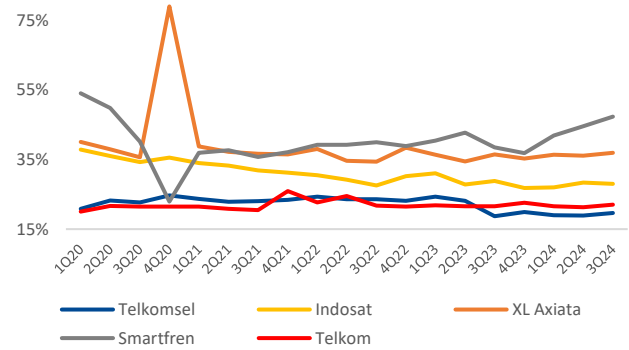
Source: Company

Exhibit 33. Network cost % of revenues



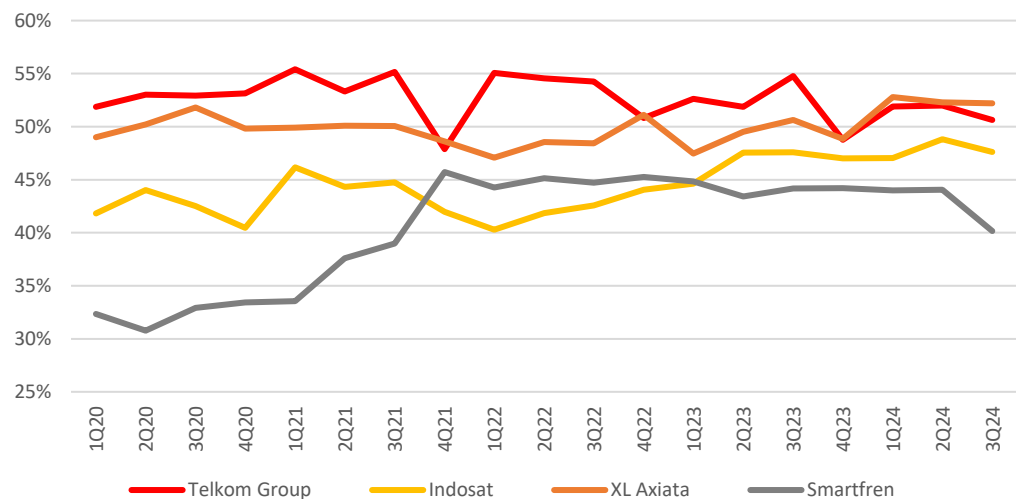
Source: Company

Exhibit 34. D&A cost % of revenues



Source: Company

Exhibit 35. Telco EBITDA margin trends



Source: Company

Exhibit 36a. BRIDS telco forecasts 2023-25F

BRIDS (Rp bn)	FY23	FY24F	FY25F	FY26F
EXCL Revenue	32,323	34,385	38,413	40,204
ISAT Revenue	51,229	55,576	60,813	66,434
TLKM Revenue	149,216	152,214	159,268	167,169
<b>Telco sector Revenue</b>	<b>232,767</b>	<b>242,176</b>	<b>258,494</b>	<b>273,807</b>
EXCL EBITDA	15,885	17,654	18,555	19,422
ISAT EBITDA	23,938	27,101	29,900	32,641
TLKM EBITDA	77,579	77,050	82,858	87,165
<b>Sector EBITDA</b>	<b>117,402</b>	<b>121,806</b>	<b>131,312</b>	<b>139,228</b>
EXCL EBITDA margin	49.1%	51.3%	48.3%	48.3%
ISAT EBITDA margin	46.7%	48.8%	49.2%	49.1%
TLKM EBITDA margin	52.0%	50.6%	52.0%	52.1%
<b>Sector EBITDA margin</b>	<b>50.4%</b>	<b>50.3%</b>	<b>50.8%</b>	<b>50.8%</b>
EXCL Net profit	1,271	2,071	2,647	3,163
ISAT Net profit	4,507	5,306	6,284	7,136
TLKM Net profit	24,560	23,383	25,825	26,862
<b>Sector Net Profit</b>	<b>30,338</b>	<b>30,760</b>	<b>34,756</b>	<b>37,161</b>
EXCL Adj. Net profit	1,271	2,071	2,647	3,163
ISAT Adj. Net profit	3,561	5,306	6,284	7,136
TLKM Adj. Net profit	25,150	25,100	25,825	26,862
<b>Sector Adj. Net profit</b>	<b>29,982</b>	<b>32,477</b>	<b>34,756</b>	<b>37,161</b>

Source: Company, BRIDS Estimates

Exhibit 36b. BRIDS telco growth projections 2023-25F

FY24F/ FY23E Δ	FY25F/ FY24F Δ	FY26F/ FY25F Δ	CAGR 24-26F
6.4%	11.7%	4.7%	<b>8.1%</b>
8.5%	9.4%	9.2%	<b>9.3%</b>
2.0%	4.6%	5.0%	<b>4.8%</b>
<b>4.0%</b>	<b>6.7%</b>	<b>5.9%</b>	<b>6.3%</b>
11.1%	5.1%	4.7%	<b>4.9%</b>
13.2%	10.3%	9.2%	<b>9.7%</b>
-0.7%	7.5%	5.2%	<b>6.4%</b>
<b>3.8%</b>	<b>7.8%</b>	<b>6.0%</b>	<b>6.9%</b>
2.2%	-3.0%	0.0%	
2.0%	0.4%	0.0%	
-1.4%	1.4%	0.1%	
<b>-0.1%</b>	<b>0.5%</b>	<b>0.0%</b>	
63.0%	27.8%	19.5%	<b>23.6%</b>
17.7%	18.4%	13.6%	<b>16.0%</b>
-4.8%	10.4%	4.0%	<b>7.2%</b>
<b>1.4%</b>	<b>13.0%</b>	<b>6.9%</b>	<b>9.9%</b>
63.0%	27.8%	19.5%	<b>23.6%</b>
49.0%	18.4%	13.6%	<b>16.0%</b>
-0.2%	2.9%	4.0%	<b>3.5%</b>
<b>8.3%</b>	<b>7.0%</b>	<b>6.9%</b>	<b>7.0%</b>

Source: Company, BRIDS Estimates

### ICT to boost Enterprise and Wholesale revenue

#### **Developing traction for ICT infra spending in preparation for AI**

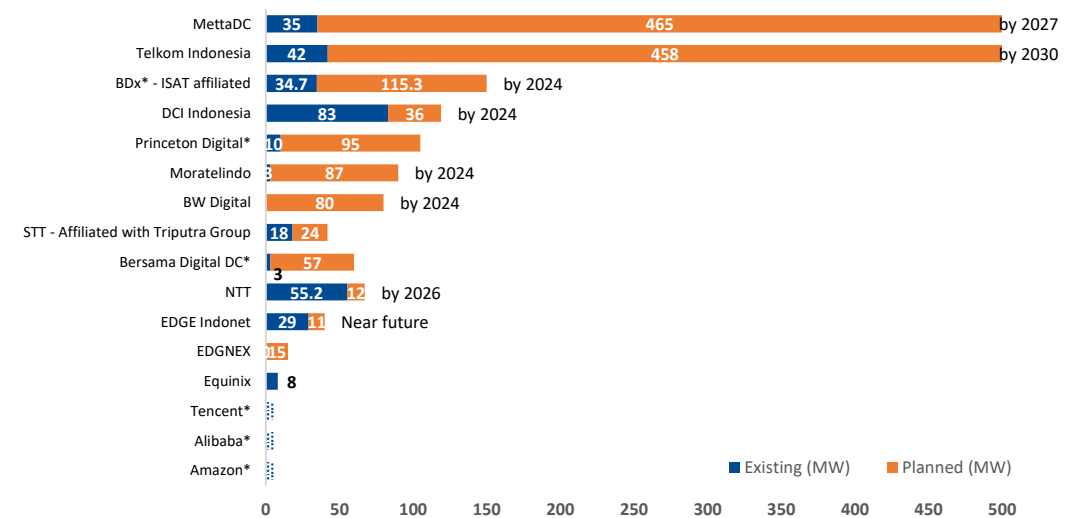
A significant upside for FY25 will be the growing awareness of SaaS productivity among clients. Telkom and ISAT are strategically positioned in software development and AI, prompting SOEs and SMEs to prioritize the rollout of business plans and increase spending early on to strengthen their ICT infrastructure. As a result, we expect this spending to rise as these organizations prepare for AI applications in the near future. ISAT has committed to investing US\$ 2-3bn in capex over the next 3-4 years for its digitalization and cloud infrastructure development, with a focus on growth opportunities in Cybersecurity and AI as a Service (AI-aas).

We believe that by securing 5,000 GPU units over the next five years, IOH and its subsidiary Lintasarta will have the opportunity to build expertise and transition into a technology company ("TechCo."). This strategic move aims to establish AI brand leadership advantages early on, positioning them favorably in the competitive landscape.

**Monetization through Local AI Development:** Indonesian telcos have the potential to develop and train large language models (LLMs) domestically, tailored to the linguistic and cultural nuances of the region. This approach not only fosters local innovation but also enhances data sovereignty and security. An example is Sahabat-AI, a locally developed LLM in the Indonesian language, created through a collaboration between ISAT, GOTO, and Nvidia. This model will soon be available for inference by the broader public. Additionally, Sahabat-AI is open-source, allowing students and the academic community to actively engage in enhancing and refining the code.

#### **Telkom Strategic Positioning**

Telkom currently operates 32 data centers (incl. presence in Singapore and HK) with two hyperscale facilities offering 45MW IT load as of 1Q24. In its recent earnings call, Telkom outlined its plan to scale up its IT load capacity to 400MW by 2026, with capex/MW ranging from US\$9-\$13mn. The company is actively seeking a strategic investor to support this expansion, aiming to strengthen its presence both in Indonesia and across Southeast Asia. Telkom anticipates that this partnership, (likely with a cloud hyperscaler we think), will facilitate semiconductor collaborations to equip its data centers with GPU accelerators for AI services. These advancements are intended to serve approx. 360,000 enterprise subscribers.

**Exhibit 37. Existing and Planned Data Center IT load Capacity in Indonesia (MW)**


Source: Company, Various websites, Media articles

**Exhibit 38. Data center classifications**

DC Type	Features	Good for
Edge	<ul style="list-style-type: none"> <li>• Small scale, located near to user</li> <li>• Low latency</li> <li>• Customizable, compact, situated within entity premises</li> </ul>	IoT, AV, VR, AR, edge computing
Enterprise	<ul style="list-style-type: none"> <li>• Owned and operate by user</li> <li>• Can be on-premises or off-site</li> <li>• Declining share of market</li> </ul>	Privacy and security, companies with unique network requirements
Colocation ('colos')	<ul style="list-style-type: none"> <li>• Large facilities</li> <li>• Multiple customers lease space in one location</li> <li>• Flexible and scalable</li> </ul>	Companies without resources to own bespoke DC, companies wanting multiple hardware locations
Hyperscale	<ul style="list-style-type: none"> <li>• Massive, scalable facilities, housing thousands or millions of servers</li> <li>• Owned and operated by user</li> </ul>	Large multi-national corporations and big tech, e.g. Amazon

Source: Gartner



## Sector Valuation and Rating

### Maintain sector Overweight on attractive growth and new opportunities

We expect increased mobile monetization, along with growth in fixed BB to drive a 6.3%/9.3% revenue/net profit CAGR in FY24-26. We prefer ISAT (Buy, TP Rp3,800) as our top pick amid strong growth potential with significant operating leverage in the upcoming quarters. Additionally, a potential merger in the sector could further elevate the overall outlook. Key risks include the proliferation of illegal gambling and prolonged weak purchasing power.

Exhibit 39. Telco valuation table

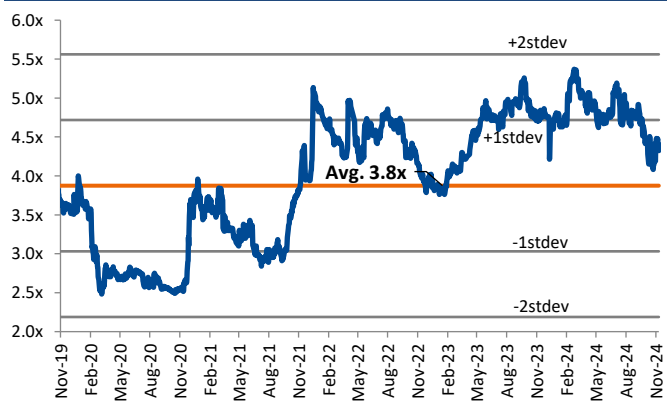
Company	Market Cap. (RpBn)	ND / EBITDA (x)	ND / equity (x)	P/E (x)		EV/ EBITDA (x)		P/BV (x)		PEG (x)		ROAE %		NPM (%)		Asset Turnover (x)		Equity Multiplier (x)		ROAA %		Dividend yield %	
				'24F	'25F	'24F	'25F	'24F	'25F	'24F	'25F	'24F	'25F	'24F	'25F	'24F	'25F	'24F	'25F	'24F	'25F	'24F	'25F
EXCL	28,497	2.7	0.4	13.8	10.8	4.2	4.0	1.1	1.0	0.2	0.4	7.9	9.8	6.0	6.9	0.4	0.4	3.3	3.4	2.4	2.9	2.3	3.6
ISAT	78,692	0.4	0.3	14.8	12.5	4.7	4.3	2.3	2.1	1.2	0.7	16.3	17.4	9.5	10.3	0.5	0.5	3.6	3.4	4.6	5.1	3.4	5.6
TLKM	272,421	0.6	0.3	12.2	11.3	4.3	4.0	1.9	1.9	-1.3	1.3	16.1	16.9	14.6	15.2	0.5	0.5	2.1	2.1	7.7	8.1	6.5	6.8

Source: Company BRIDS Estimates

<b>TLKM</b> <b>(BUY - TP Rp4,250)</b>	<b>Becoming the best long-term play for FMC</b> <ul style="list-style-type: none"> <li>TSEL's FMC strategy presents the greatest upside due to its substantial captive market. Recent marketing initiatives have contributed to an increase in mobile traffic market share in 3Q24, and we expect similar success in the fixed broadband segment, bolstered by strong cross-selling opportunities through FMC offerings. The upcoming launch of a unified FMC billing system in 4Q24/1Q25 is anticipated to be a key catalyst for this growth.</li> <li>TLKM retains its fiber assets within the group, which will be managed under Infracore, positioning the company for monetization in FY25-26. We expect the EBITDA margin to remain above 51%, supported by an unleveraged balance sheet.</li> <li>The company is actively seeking a strategic investor for its data centers to unlock significant growth potential in data center infrastructure and SaaS/AI services.</li> <li>Currently, Telkom trades at 4x EV/EBITDA (-2 SD from its 5-year and 7-year mean). We consider this valuation significantly undervalued, particularly in light of TSEL's recent transformation and Telkom's strategic investments in data centers, fiber, and towers, positioning the company for enhanced monetization opportunities. However, the proliferation of illegal internet services remains a key risk.</li> </ul>
<b>ISAT</b> <b>(BUY - TP Rp3,800)</b>	<b>Expansion based on strong company fundamentals</b> <ul style="list-style-type: none"> <li>IOH rolled out 3,000 new sites in 9M24 (total ~52,000), expanding its network coverage. In parallel expansion in distribution is underway reporting the rollout of 2,500 service points, with aim to reach 5,000 in total.</li> <li>IOH has maintained a stable subscriber base of 98.7 million as of 3Q24, focusing on identifying and nurturing productive Average Revenue Per User (ARPU) subscribers. The company currently boasts 41.2 million monthly active users (MAU) across its apps, reflecting a year-over-year increase of 4.8 million. This growth is expected to contribute positively to their ARPU in the coming periods.</li> <li>IOH aims to accelerate the acquisition of fixed broadband subscribers to catalyze organic growth and achieve a premium ARPU. Amid plan for the majority stake sale of its extensive 92,000 km fiber network, reports indicate that IOH intends to award the buyer a new contract for an additional ~50,000 km of fiber, facilitating the deployment of more Fiber-to-the-Home (FTTH) and Fiber-to-the-Tower (FTTT) solutions</li> </ul>

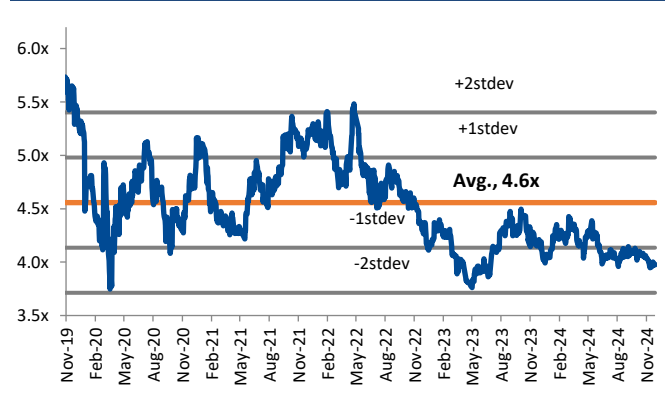
	<ul style="list-style-type: none"> <li>With the anticipated asset sale proceeds, ISAT will have liquidity to distribute special dividend as well as partially finance its capex commitment for US\$2-3bn in ICT and SaaS with its partner BDx</li> <li>We maintain our Buy rating, as IOH's mobile, fixed, and B2B (cybersecurity &amp; GPU-aaS) expansions along with better margins prospect. Risks stem from competition intensity.</li> </ul>
<b>EXCL (BUY - TP Rp3,500)</b>	<p><b>EXCL economizes resources to focus on FMC; waiting for its merger with FREN</b></p> <ul style="list-style-type: none"> <li>EXCL has been focused on economizing its direct costs and sales and marketing expenses while refraining from aggressive competition, resulting in a robust EBITDA margin of 52.4% for 9M24. The company is prioritizing the integration of approximately 750,000 subscribers from LINK, which was acquired in September 2024, to leverage cross-selling opportunities for both fixed and mobile service</li> <li>The new FY24F guidance implies topline growth of ~+8.3% qoq in 4Q24, spurred by the ~750k LINK subs acquisition on 27<sup>th</sup> Sep24, (~1mn in total). XL maintains a positive outlook with potential to deliver ~30% penetration in the 6mn available homepasses in ~3yrs.</li> <li>XL remains a digital market leader with 55% subs penetration in its own apps and maintains positive ARPU and S&amp;M cost outlook.</li> <li>Mgmt cut FY24 capex to &lt;Rp8tr, suggesting less expansion plans. EXCL and FREN may potentially release their merger plan before YE-24.</li> <li>We maintain our Buy rating with TP of Rp3,500 based on our DCF valuation which incorporates the financial effects from the LINK subs. EXCL currently trades at 4.2x EV/EBITDA (under -1SD vs. 5-year mean).</li> </ul>

Exhibit 40. IOH (ISAT IJ) forward 5-yr EV/EBITDA band



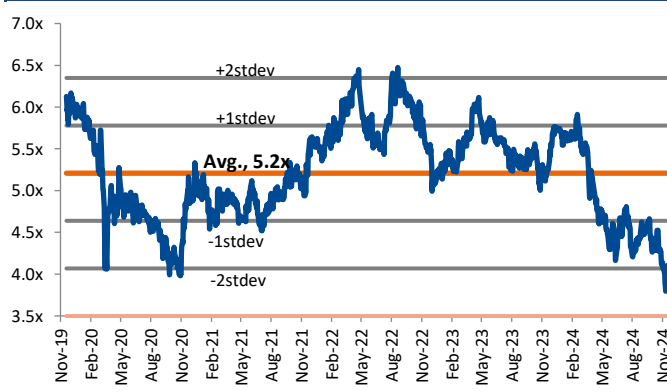
Source: Company, BRIDS Estimates

Exhibit 41. XL Axiata (EXCL IJ) forward 5-yr EV/EBITDA band



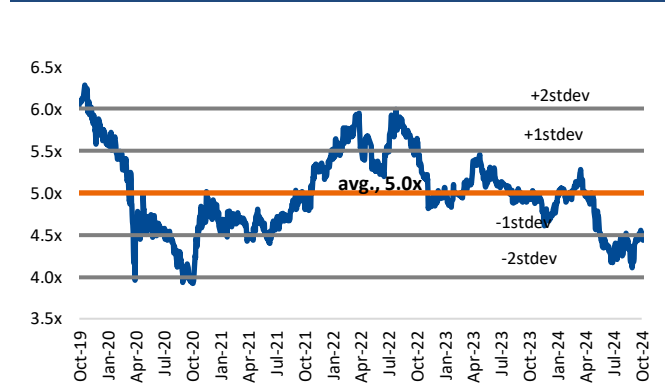
Source: Company, BRIDS Estimates

Exhibit 42. Telkom (TLKM IJ) forward 5-yr EV/EBITDA band



Source: Company, BRIDS Estimates

Exhibit 43. Telco Sector forward 5-yr EV/EBITDA band



Source: Company, 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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