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KEY HIGHLIGHTS

Sector

Telecommunications

Data traffic to grow 18% yoy in 2024. Maintain OVERWEIGHT.

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TRADERS' CORNER

Page 4

Jasa Marga (JSMR IJ): Technical BUY

Unilever Indonesia (UNVR IJ): Technical BUY

REGIONAL MARKET

| Market | Close | + / - | Chg (%) |
|--------------------|----------|---------|---------|
| MSCI Indonesia | 7,141.7 | 71.9 | 1.0 |
| MSCI Asia-Ex Japan | 585.9 | 1.5 | 0.3 |
| KLCI | 1,435.7 | (2.5) | (0.2) |
| FSSTI | 3,083.9 | 30.5 | 1.0 |
| SET | 1,391.0 | (8.3) | (0.6) |
| Hang Seng | 16,991.5 | (180.6) | (1.1) |
| Nikkei | 31,062.4 | 62.8 | 0.2 |
| Shanghai Comp | 2,962.2 | 23.0 | 0.8 |
| Dow Jones | 33,141.4 | 205.0 | 0.6 |

Source: Bloomberg

INDONESIA STOCK EXCHANGE

| | Level | + / - | Chg (%) |
|---------------|---------|--------|---------|
| Index | 6,806.8 | 64.8 | 1.0 |
| LQ-45 | 909.0 | 10.0 | 1.1 |
| Value (US\$m) | 516.4 | (30.2) | (5.5) |

FOREIGN TRADE IN IDX

| Net (US\$m) | Buy | Sell | Total (%) |
|-------------|-------|-------|-----------|
| (21.8) | 179.6 | 201.3 | 36.9 |

TOP TRADING TURNOVER

| Company | Price (Rp) | Chg (%) | 5-day ADT (Rpb) |
|-----------------------|------------|---------|-----------------|
| Bank Rakyat Indonesia | 5,100 | 2.0 | 768.1 |
| Bank Central Asia | 8,775 | (0.8) | 652.7 |
| Bank Mandiri | 5,750 | 1.3 | 572.7 |
| Astra International | 5,800 | 3.6 | 481.8 |
| Amman Mineral | 6,425 | (2.3) | 309.0 |

TOP GAINERS

| Company | Price (Rp) | Chg (%) | 5-day ADT (Rpb) |
|--------------------|------------|---------|-----------------|
| Bank KB Bukopin | 81 | 6.6 | 5.8 |
| Pakuwon Jati | 418 | 5.0 | 19.9 |
| Medikaloka Hermina | 1,520 | 4.8 | 21.6 |
| Bumi Serpong Damai | 1,010 | 4.1 | 27.2 |
| Tower Bersama | 2,050 | 4.1 | 15.1 |

TOP LOSERS

| Company | Price (Rp) | Chg (%) | 5-day ADT (Rpb) |
|-----------------------|------------|---------|-----------------|
| Multistrada | 2,280 | (10.6) | 0.2 |
| Metropolitan Kentjana | 28,000 | (4.4) | 17.6 |
| MD Pictures | 2,790 | (3.1) | 28.9 |
| Amman Mineral | 6,425 | (2.3) | 309.0 |
| Medco Energi | 1,470 | (2.0) | 231.4 |

*ADT: Average daily turnover

COMMODITY TREND

| | 24 Oct 23 Closing | Chg (%) | 1-day | 1-mth |
|----------------------------|-------------------|---------|-------|-------|
| Forex (Rp/US\$) | 15,849 | (0.5) | 3.1 | |
| Crude Oil NYMEX (US\$/bbl) | 83.74 | (2.0) | (7.0) | |
| Coal Fut Newc (US\$/tonne) | 136.50 | (1.3) | n.a. | |
| Nickel 3M LME | 18,274 | 0.5 | (5.9) | |
| Tin 3M LME | 25,091 | 0.8 | (4.4) | |
| Gold SPOT (US\$/oz) | 1,962 | (0.8) | 1.9 | |
| CPO Fut Msia (MYR/tonne) | 3,606 | (2.3) | (1.1) | |

Source: Bloomberg, UOB Kay Hian

SECTOR UPDATE

Telecommunications – Indonesia

Data Traffic To Grow 18% yoy In 2024; Maintain OVERWEIGHT

We expect data revenue to rise 10%/9% yoy in 2023/24, mainly due to data traffic growth. The upcoming Election Day in Feb 24 may also help increase data traffic by at least 7% vs a normal day. We also believe fixed broadband revenue could accelerate slightly by 10% yoy in 2024 (2023: 9% yoy). For tower companies, fibre-to-the-tower could become an additional growth driver. We expect TOWER's revenue from FTTT and connectivity services to grow 29%/24% yoy in 2023/24 respectively. Maintain OVERWEIGHT.

WHAT'S NEW

- **Data traffic may increase by 7-24% on Election Day compared with a normal day.** We expect the increase in data traffic from the upcoming Election Day in 1Q24 (14 Feb 24) to be similar or slightly lower than that seen during the previous Election Day in 2Q19 (17 Apr 19). This takes in consideration that telcos' performance in 1Q is usually not as strong as 2Q (Eid al-Fitr). During the 2019 Election Day, telcos saw the following increases in data traffic: XL Axiata 24% (highest between 16-18 April), Telkomsel 16% (17 April), and Indosat 7% (17 April), based on news report from Liputan 6.
- **Fixed broadband revenue for 2023/24 to rise 9%/10% yoy (vs mobile broadband: 11%/9% yoy).** We expect fixed broadband revenue, including fixed mobile convergence (FMC) to grow faster than mobile broadband. This is partly because Indonesia's fibre penetration rate (8%) is still below the average of Southeast Asian countries (23%) based on the report by Arthur D. Little, GlobalData, and FTTH Council Asia-Pacific.
- **Attractive growth in FTTT and connectivity revenue for TOWER (29%/24% yoy in 2023/24).** We expect Indonesian telcos to continue to fiberise their sites and strengthen their network to effectively manage the surging data traffic growth in the country. For the top three telcos (Telkomsel, Indosat and XL Axiata), we forecast the combined data traffic growth to reach 21% yoy in 2023 and 18% yoy in 2024. We expect Sarana Menara Nusantara (TOWER) to be able to grow its non-tower segment (fibre-to-the-tower (FTTT) and connectivity services) by 29%/24% yoy in 2023/24, contributing 27%/32% of its total revenue.
- **Potential industry consolidation might help to sustain healthy data pricing.** We see the possibility of another M&A in the telco industry between XL Axiata and Smartfren based on Bloomberg news on 5 September, which quoted anonymous source (details in our previous report dated 10 October). On 17 Oct 23, FREN also announced its plan to conduct a pre-emptive rights issue for a maximum of 234b shares. If the right price is Rp50 (6% discount to FREN's closing price on 16 October) with additional shares at its maximum limit, the estimated total proceeds would reach Rp11.7t. Assuming 70% of the estimated proceeds is realized, with all else remaining the same, we estimate the current price of EXCL and FREN would imply a post-merger valuation of 4.4x EV/EBITDA in 2024 (excluding potential synergies), lower than Indosat's valuation (4.8x)

ACTION

- **Maintain OVERWEIGHT.** We continue to like the telco sector given its strong data traffic growth, healthier pricing environment, and additional growth driver from expansion in fixed broadband.

PEER COMPARISON

| Company | Ticker | Rec | Price 24 Oct 23 (Rp) | Target Price (Rp) | Potential Upside (%) | Market Cap (US\$m) | 3M Avg Turnover (US\$m) | PE 2023F (x) | 2024F (x) | EV/EBITDA 2023F (x) | 2024F (x) | ROE 2023F (%) | 2024F (%) | Net Gearing (%) |
|-------------------------|--------|------|----------------------------|-------------------------|----------------------------|--------------------------|-------------------------------|--------------------|--------------|---------------------------|--------------|---------------------|--------------|-----------------------|
| Telkom Indonesia* | TLKM | BUY | 3,650 | 4,700 | 28.8 | 22,814 | 21.9 | 14.3 | 13.9 | 6.3 | 6.1 | 18.9 | 18.5 | 15.6 |
| XL Axiata | EXCL | HOLD | 2,190 | 2,500 | 14.2 | 1,814 | 3.2 | 35.3 | 39.5 | 4.0 | 3.8 | 4.0 | 4.2 | 9.6 |
| Indosat | ISAT | BUY | 9,625 | 11,100 | 15.3 | 4,896 | 2.5 | 77.9 | 33.6 | 5.2 | 4.8 | 6.2 | 5.2 | 28.4 |
| Sarana Menara Nusantara | TOWR | BUY | 900 | 1,200 | 33.3 | 2,897 | 1.5 | 12.1 | 13.0 | 9.2 | 8.7 | 20.8 | 19.2 | 273.2 |

Source: Bloomberg, UOB Kay Hian

*) EV/EBITDA is adjusted to ownership in Telkomsel.

OVERWEIGHT

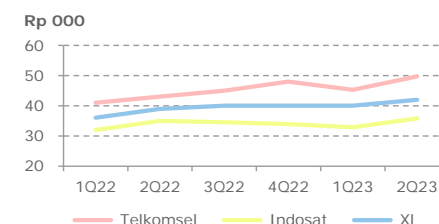
(Maintained)

SECTOR PICKS

| Ticker | Ticker | Rec | Price 24-Oct-23 (Rp) | Target Price (Rp) |
|---------|---------|-----|----------------------------|-------------------------|
| Indosat | ISAT IJ | BUY | 9,625 | 11,100 |

Source: UOB Kay Hian

CELLULAR: BLENDED ARPU



Source: Respective Companies, UOB Kay Hian

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- **Our top pick: Indosat (ISAT IJ/BUY/Target: Rp11,100).** We upgrade ISAT to BUY from HOLD as its share price has already declined 5% since our last report. Our recommendation considers: a) a gradual increase of ISAT's ARPU (2024: 7% yoy), implying possible continuation of data monetisation, b) its strong core earnings growth of 27% yoy in 2024, and c) good balance sheet quality (2Q23 net debt/EBITDA of 0.45x). ISAT trades at EV/EBITDA of 5.2x for 2023 and 4.8x for 2024 (8% discount to +1SD).

ESSENTIALS

- **FREN's rights issue plan.** On 17 Oct 23, FREN announced its plan to conduct a pre-emptive rights issue for a maximum of 234b shares. This plan is subject to EGM's approval scheduled on 24 Nov 23. Below are several details in the announcement:
 - The rights issue's execution could be done in form of cash using rupiah or the equivalent in foreign currency, and/or compensation on "claim right" (hak tagih) to FREN in the form of shares deposit.
 - FREN aims to use the proceeds for debt repayment and/or working capital of the company and/or its subsidiaries.
 - FREN also intends to seek approval in the EGM for an increase in authorised capital to Rp107t (vs Rp63t previously) and the issued and paid-up capital to Rp59t (vs Rp39t previously).

If we assume a rights price of Rp50 (6% discount to FREN's closing price on 16 October) with additional shares at its maximum limit, the estimated total proceeds would reach Rp11.7t. We will monitor the EGM and any further announcements from the company regarding standby buyer and final right's price.

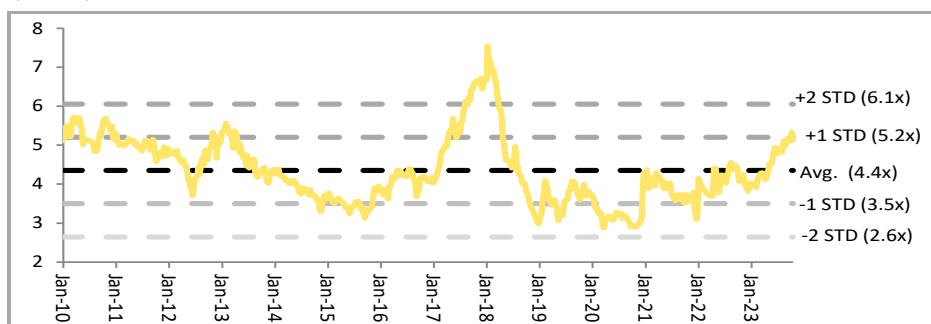
RISK

- **Downside risks include:** a) intensifying competition from existing and/or new players, b) worse-than-expected macroeconomic conditions, c) additional costs, and d) unfavourable changes in regulation.

VALUATION

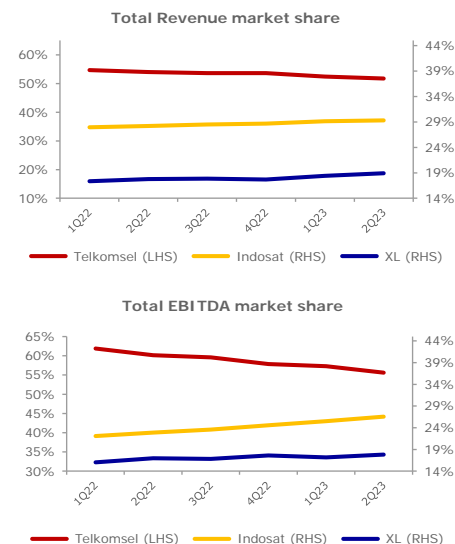
- **Indosat (ISAT IJ/BUY/Target: Rp11,100).** Our target price is based on 5.4x EV/EBITDA applied to average 2023 and 2024 EBITDA, implying 4% premium to ISAT's historical +1SD EV/EBITDA.
- **Telkom Indonesia (TLKM IJ/BUY/Target: Rp4,700).** We base our target price on 7.8x EV/EBITDA applied to TLKM's 2023 EBITDA (adjusted for ownership in Telkomsel).
- **XL Axiata (EXCL IJ/HOLD/Target: Rp2,500).** Our target price is derived by applying EV/EBITDA of 4x, lower than ISAT's (5x), to EXCL's 2023-24 average EBITDA. We will monitor 3Q23 results and company updates on its fixed broadband business and synergy with Linknet (LINK).
- **Sarana Menara Nusantara (TOWR IJ/BUY/Target: Rp1,200).** Our target price is based on 10.5x EV/EBITDA (slightly higher than TOWR's historical average; below Tower Bersama's valuation), applied to 2023-24 average EBITDA.

ISAT: EV/EBITDA BAND



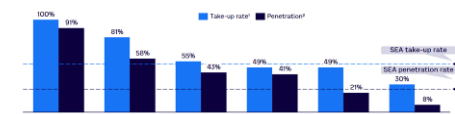
* Including financial lease.
Source: ISAT, Bloomberg, UOB Kay Hian

BIG 3 TELCOS MARKET SHARE BY QUARTERLY REVENUE AND EBITDA



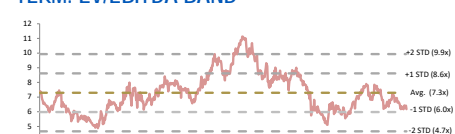
Source: Respective companies, UOB Kay Hian

FIBRE'S TAKE-UP AND PENETRATION RATE IN SOUTHEAST ASIAN COUNTRIES (2022)



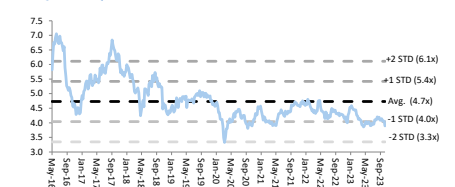
Source: Arthur D. Little, GlobalData, FTTH Council Asia-Pacific.

TLKM: EV/EBITDA BAND



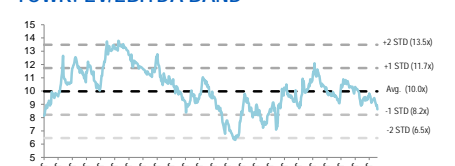
* Adjusted to ownership in Telkomsel
Source: TLKM, Bloomberg, UOB Kay Hian

EXCL: EV/EBITDA BAND



* Including financial lease.
Source: EXCL, Bloomberg, UOB Kay Hian

TOWR: EV/EBITDA BAND



* Including financial lease.
Source: TOWR, Bloomberg, UOB Kay Hian

TRADERS' CORNER



Source: Amibroker

Jasa Marga (JSMR IJ)

Technical BUY with 5% potential return

Resistance: Rp4,330, Rp4,540

Support: Rp4,160, Rp3,980

Stop-loss: Rp4,150

Share price closed higher and formed a bullish candlestick. As price has rebounded, we see potential for more bullish pressure to take place and price could challenge the resistance level at Rp4,330 and Rp4,540. Technical indicator RSI is sloping upwards and approaching its centre line, while the MACD is on a bearish crossover. Buy at Rp4,290 and take profit at Rp4,500.

Approximate timeframe: 2-4 weeks.

Our institutional research has a fundamental BUY and target price of Rp5,300.



Source: Amibroker

Unilever Indonesia (UNVR IJ)

Technical BUY with 5.5% potential return

Resistance: Rp4,050, Rp4,210

Support: Rp3,730, Rp3,610

Stop-loss: Rp3,720

Share price closed with strong gains and formed a long-body bullish candlestick. Price broke above its resistance level with higher trading volume, which implies more bullishness ahead. That said, we expect more upside pressure to take place and price could challenge the resistance level at Rp4,050 and Rp4,210. Technical indicator RSI is sloping upwards and approaching its overbought zone, while the MACD is on a bullish crossover. Buy at Rp3,980 and take profit at Rp4,200.

Approximate timeframe: 2-4 weeks.

Our institutional research has a fundamental BUY and target price of Rp5,700.

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