

XL Axiata (EXCL IJ) (Buy) - Soft 9M24 operating results

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XL Axiata released soft 3Q24 operating results, with 3Q24 profit at IDR292bn (-40% q-q, -21% y-y). Still, despite the soft 3Q24, EXCL's 9M24 net profit was ahead of
our expectation (96.1% of our FY24F projection), growing 30.3% y-y to IDR1.32tn.

We attribute the declining profitability on a q-q basis to 1) weaker purchasing power, 2) a still intense competitive landscape (e.g., granularity whereby 3Q is the slowest quarter typically), and 4) possibly the increasing presence of illegal ISPs that compete with cellular companies' data services. Despite that, we maintain our Buy rating on EXCL, as we anticipate 4Q24F to be better than 3Q24, albeit against the backdrop of weak purchasing power, particularly in the pay-TV and fixed segments, which typically are associated with low ARPUs.

3Q24 result summary

3Q24 revenue reached IDR8.3tn (-3.5% q-q, +2.4% y-y) bringing 9M24 revenue to IDR25.4tn (+6.2% y-y). Cellular was the main driver of growth, with 3Q24 revenue hitting IDR7.7tn (-6.2% q-q, +2.5% y-y), implying 9M24 revenue of IDR24.1tn (+7% y-y). While headline ARPU declined to IDR41,000 (-6.8% q-q; flat y-y), the overall 3Q24 subscriber base reached 58.6mn users (+0.2% q-q, +1.9% y-y). We argue that the lower ARPU can be largely attributed to soft purchasing power and still intense competition

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3Q24 EBITDA was at IDR4.3tn (-3.7% q-q, +5.5% y-y), bringing 9M24 EBITDA to IDR13.3tn (+13.1% y-y). Implied EBITDA margin reached 52.4% in 9M24 (+320bp y-y). This represents 79.4% of our 2024F EBITDA forecast.

3Q24 net profit was at IDR292bn (-40% q-q / -21% y-y). This translated into 9M24 net profit of IDR1.32tn (+30.3% y-y). EXCL's 3Q24 q-q bottom-line decline was more significant compared to its peers (ISAT -20% q-q, TLKM +3.6% q-q), suggesting larger impact from illegal ISPs (EXCL has a strong fixed broadband business relative to ISAT).

Valuation and risks

Our unchanged TP of IDR2,600 is based on DCF valuation, using a risk-free rate of 6.2%, an equity risk premium of 7.4%, a terminal growth rate of 2.5%, a net debt-to-equity ratio of 114%, and a WACC of 9.4% (all metrics unchanged). We maintain our Buy call. At our TP, the stock would trade at 2024F EV/EBITDA of 4.4x (vs 3.5x at current levels). Downside risks include adverse macro conditions and lower customer spending.

Fig. 1: EXCL quarterly results

EXCL QoQ IDRbn	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	Q-Q	Y-Y	YTD 2024	YTD 2023	YoY	2024F	YTD/F
Gross rev	7,550	8,214	8,116	8,457	8,440	8,612	8,310	(3.5)	2.4	25,361	23,880	6.2	34,028	
Cellular rev	7,168	7,776	7,557	7,905	8,063	8,258	7,749	(6.2)	2.5	24,069	22,501	7.0	32,198	
- Data/VAS	6,909	7,501	7,311	7,680	7,823	8,016	7,539	(5.9)	3.1	23,377	21,722	7.6	31,311	
- Non-Data	258	275	246	226	240	242	210	(13.2)	(14.5)	692	779	(11.2)	886	
- Voice	190	203	181	166	177	178	155	(13.2)	(14.5)	510	574	(11.2)	603	
- SMS	68	72	65	59	63	64	55	(13.2)	(14.5)	182	205	(11.2)	283	
- IC services	255	337	429	409	211	162	(58)	(135.9)	(113.6)	315	1,021	(69.1)	1,330	
* Others	128	109	121	143	166	192	(97)	(150.3)	(179.5)	261	358	(27.1)		
Op. inc	841	1,234	1,154	1,150	1,390	1,394	1,274	(8.6)	10.4	4,058	3,230	25.6	4,819	
Margin %	11.1%	15.0%	14.2%	13.6%	16.5%	16.2%	15.3%			16.0%	13.5%		14.2%	
Margin (net)	11.1%	15.0%	14.2%	13.6%	16.5%	16.2%	15.3%			16.3%	13.2%		14.2%	
EBITDA	3,583	4,060	4,111	4,130	4,454	4,503	4,339	(3.7)	5.5	13,297	11,755	13.1	16,755	
Margin %	47.5%	49.4%	50.7%	48.8%	52.8%	52.3%	52.2%			52.4%	49.2%		49.2%	
Margin (net)	47.5%	49.5%	50.7%	48.8%	52.8%	52.3%	52.2%			52.5%	48.5%		0.0%	
NP	201	441	368	261	539.1	485.9	291.8	(39.9)	(20.8)	1,317	1,011	30.3	1,371	
Margin	2.7%	5.4%	4.5%	3.1%	6.4%	5.6%	3.5%			5.2%	4.2%		4.0%	
Core profit	145	409	324	323	505	490	416	(15.2)	28.4	1,411	878		1,371	
Core margin	1.9	5.0	4.0	3.8	6.0	5.7	5.0			5.6%	3.7%		4.0%	
EXCL Operational data	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	Q-Q	Y-Y	YTD 2024	YTD 2023	YoY	2024F	YTD/F
Total subs (‘000)	57,900	58,000	57,500	57,500	57,600	58,500	58,600	0.2	1.9					
- Pre-paid	56,400	56,500	55,900	55,900	56,000	56,900	56,900	0.0	1.8					
- Post paid	1,500	1,500	1,600	1,600	1,600	1,600	1,700	6.3	6.3					
ARPU IDR	40,000	41,000	41,000	43,000	44,000	44,000	41,000	(6.8)	0.0					
Data traffic (PB)	2,204	2,452	2,453	2,529	2,609	2,660	2,554	(4.0)	4.1	7,823	7,109	10.0	11,084	
Data yield IDR/MB	3.1	3.1	3.0	3.0	3.0	3.0	3.0							
Data ARPU IDR	38,559	39,536	39,580	41,579	42,690	42,700	39,821	(6.7)	0.6					
HomeConnect (‘000)	132	154	206	207	252	267	206	(22.8)	0.0					
Data (ex VAS)	6,909	14,410	21,722	29,401	7,823	15,838	23,377	47.6	7.6					
Data as % of rev (RHS)	91.5	91.4	91.0	90.9	92.7	92.9	92.2	(0.8)	1.3					
Core	1,448	4,501	5,545	10,405	9,857	14,445	8,885	(21.2)	(22.2)					

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