

Telecommunication Industry Outlook for 2022

Analyst: Martin Pandiangan

PEFINDO is of the view Indonesia's telecommunication industry outlook as stable in the near to medium term, with broadband internet and digital transformation as the key growth drivers. The industry's risk profile is considered as intermediate due to the barrier to entry as high, with medium risk for the substitute products, services, and technologies. We also view the industry's cyclicalities for more than a decade as low, even during the economic recession following the pandemic, starting in 2020. The industry has utility-like demand characteristics, growing by 10.6% in 2020 and 7.8% in the first half of 2021 (1H2021), well above that of electricity of 4.9% in 1H2021 after a contraction of 1.0% in 2020. This sustained growth proves the neutral impact of the pandemic on the telecommunication industry. However, we do not dismiss the likelihood that a deeper economic downturn will induce a decline in consumer spending on telecom services.

Growth and stability

PEFINDO expects the telecommunication industry's growth will be sustained in Indonesia in the near term. We also expect the surge in broadband data traffic will continue next year, given the rising 3G/4G subscribers, affordable data tariff and mobile handsets, players' investments in capacity networks, and the trend of shifting from offline to online activities. We project the data traffic will be dominated by mobile broadband as the penetration rate for mobile broadband significantly exceeds the fixed broadband. We expect the data traffic from the top three listed telecommunication operators — Perusahaan Perseroan (Persero) PT Telekomunikasi Indonesia Tbk (TLKM, *idAAA/Stable*), PT Indosat Tbk (ISAT, *idAAA/Creditwatch* with Negative Implication), and PT XL Axiata Tbk (EXCL) — will reach at a minimum of 30 million tera bytes (TB) in 2022. They recorded exponential growth to 19.4 million TB in 2020 from 0.9 TB in 2015, stemming from the network and technology evolutions, enabling faster internet access.

We consider an affordable data tariff contributes to high data consumption, as telecommunication has become one of the people's basic needs nowadays. The mobile broadband pricing in Indonesia, at USD4.24/1.5 gigabytes (GB)¹ in 2020, was twice lower than that in Malaysia, and among the lowest in the world. In contrast, fixed broadband pricing is relatively high at USD34.81/5 GB¹, compared to Indonesian households' average monthly expenditure per capita of USD82.8². However, we foresee that fixed broadband penetration will increase gradually in the near to medium term as fixed broadband is essential for data-intensive transactions.

Another factor contributing to the growth is the digital transformation in the country, accelerated by the mobility and direct interaction measures amid the pandemic. In 2025, Indonesia is projected to be the largest digital economy in Southeast Asia, with a transaction value of USD130 billion. Electronic commerce (e-commerce) transactions in Indonesia amounted to IDR429 trillion (equivalent to USD29.6 billion) in 2020, a hike of 62% year-on-year (YoY). As one of the world's most active digital denizens and growing online small-medium enterprises (SMEs), we see a sizable room for the telecommunication industry to capture these potentials.

PEFINDO notes the distribution of internet users in Indonesia has yet been evenly distributed. We view internet users in Java island will obtain the benefits of telecommunication operators' focus in investing its capital expenditures (capex). Referring to research by The Association of Internet Service Providers in Indonesia (APJII)³, internet users have remained concentrated in the Java island, accounting for 41.7% portion in 2019, followed by Sumatra (16.2%), Sulawesi (5.1%), Kalimantan (4.6%), Bali and Nusa Tenggara (3.9%), and Maluku and Papua (2.2%). We project expansions outside Java, especially in the Central and Eastern parts of Indonesia, will gradually increase in the medium term, depending on the optimum investment results in existing high-demand locations. The low participation of internet service providers (ISP) in the Central and Eastern parts of Indonesia is reflected in the utilization rate of fiber optic in the Central and East Palapa Ring, prevailing at just around 20% as of February 2021.

Players and competition

We expect the competition in mobile network operators, especially customer acquisition, to remain intense, as Indonesia's prepaid subscribers dominate the market. Tariff wars in cellular and data will ease once regulation regarding tariff setting under the Omnibus Law on Job Creation No. 11/2020 (Omnibus Law) aimed to create a healthy business competition to be implemented in the near term, will improve operators' profit margins. This is positive for players as currently the surge in data traffic did not optimally compensate for their heavy capex. We do not see any significant changes in the competition map among mobile network operators unless the sharing of active networks is revised under the current Telecom Law, Government Regulation No. 52 Year 2000 and No. 53 Year 2000. Active network sharing may create competition in the rural areas, currently most served by one provider.

Unlike mobile broadband, we view the fixed broadband market as concentrated, with Indihome commanding 87% subscribers' market shares⁴, while the others, such as First Media, Biznet, My Republic, Oxygen, Icon+ had a limited portion each. Availability and affordability are two main challenges in fixed broadband rolled out, leading to the low penetration of the fixed broadband, at only 3.9% of the population⁴, accounting for 16% of the households⁴. We anticipate the tariff war among small players as they compete in locations with high density, while the dominant players offer improved service quality. PT Mora Telematika Indonesia (MORA, *idA/Stable*) and PT PLN (Persero) (PPLN, *idAAA/Stable*) are actively leveraging their existing backbones by providing internet service using their own brands.

PEFINDO views strategic corporate actions such as consolidation, merger, and acquisition among players as inevitable in response the fast digitization. We expect such actions will expand the business scale with better quality of services, resulting in a stronger business position in the entities' standalone credit profile. Given the sizeable debt-funded capex for advanced networks amid the intensifying competition, we see these strategic corporate actions should ease the competitive pressure to some extent. Financially, they will generate cost savings from the combined resources synergies; thereby, improving the players' cash flows and liquidity position.

Table 1. Strategic corporate action in 2021

No	Strategic corporate actions in 2021
1	EXCL and Axiata Group Berhad's plan to acquire PT Link Net Tbk expected in 2021
2	Merger plan between ISAT and PT Hutchison 3 Indonesia expected in December 2021
3	PT Smartfren Tbk through its subsidiary, PT Smart Telecom acquired 20.5% stake in MORA in May 2021.
4	Initial Public Offering (IPO) plan of PT Dayamitra Telekomunikasi (Mitratel), a subsidiary of TLKM in November 2021

Source: IDX and various news

Capex to remain high for network investment

We project the capex for maintaining the quality of services, expansions into a new area and/or advanced network, such as 5G technology, which will weigh on the players' cash flows amid the lower data yield trend. As 5G technology development is relatively in the early stage in Indonesia, we consider the players' development cost will remain high in the medium term. We project the majority of capex to be funded by external loans. We anticipate the capex policy of telecommunication operators will be moderate or underinvested at between 20% and 35% of total revenue, relatively the same portions for the last five years. The co-building and co-sharing of passive infrastructures (such as tower, fiber optic, and ducting) will be an alternative for cost-saving, since the Omnibus Law enables the players to implement passive network sharing. We also view that the sale and lease-back of towers owned by operators to independent telecommunications towers will continue in 2022.

Rating outlook

In the next 12 months, we view most of the ratings of our rated telecommunication players as steady. As of October 22, 2021, we rated seven companies in this sector, namely operators, tower providers, fiber optic providers, ISPs, and telecommunications product distributors (mobile phone vouchers, starter packs, and cellular phones).

We identified a lower risk in operators relative to other players due to the high barrier to entry and stable revenue growth profile. We consider the mobile network operators have capital-intensive characteristics as they require substantial investment with a long return period. We had placed the outlook for ISAT's rating at CreditWatch with Negative Implication in September 2021 to anticipate a lower likelihood of extraordinary support from the shareholders following its merger plan, which may adversely affect ISAT's overall credit profile. The final credit rating will be subject to the merger results, including the strategic plans' assessment following the merger.

We evaluated a higher risk profile in backbone providers (tower and fiber optic), ISPs, and distributors due to the relatively more players in each segment and high financial leverage for capex and working capital needs, as reflected in their final credit ratings.

We assess the rated entities' liquidity at the end of June 2021 as adequate to service their short-term debt (including current portion of long-term debt). Around IDR8.3 trillion bond from PEFINDO's rated entities in the telecommunications industry will mature in 2022. We view the rated entities as having moderate to solid financial flexibility to raise funding, either from right issue, issue debt instruments, or loans from banks considering their strong business position and favorable industry prospect.

Table 2. Credit ratings publication of several companies in telecommunication sector

Company	Perusahaan Perseroan (Persero) PT Telekomunikasi Indonesia Tbk	PT Indosat Tbk	PT Erajaya Swasembada Tbk	PT Mora Telematika Indonesia	PT Ketrosden Triasmitra
Ticker name	TLKM	ISAT	ERAA	MORA	KETR
Period	June 30, 2021	June 30, 2021	June 30, 2021	June 30, 2021	June 30, 2021
Corporate rating	^{id} AAA/Stable	^{id} AAA/CW. Neg.	^{id} A/Stable	^{id} A/Stable	**
[IDR Bn] Revenue	69,480.0	14,983.5	21,353.9	2,071.4	208.6
[IDR Bn] EBITDA	37,759.0	6,777.8	1,026.4	1,059.4	98.7
[IDR Bn] FFO	31,209.0	5,273.8	718.3	592.2	69.8
[IDR Bn] Adjusted Debt	88,960.0	41,729.1	2,946.0	8,210.0	585.1
[IDR Bn] Adjusted Equity	102,889.0	16,879.9	5,223.5	3,917.7	613.3
[x] Debt to EBITDA	*1.2	*3.1	*1.4	*3.9	*3.0
[x] Debt to Equity	0.9	2.5	0.6	2.1	1.0
[%] FFO to Debt	*70.2	*25.3	*48.8	*14.4	*23.8
[x] EBITDA to IFCCI	17.5	4.6	10.5	2.7	3.6

Source: Companies' Financial Statements, processed by PEFINDO

Note: *annualized; **corporate rating is not published, while KETR's instrument rating is ^{id}AAA_(CG), fully guaranteed by Credit Guarantee and Investment Facility (CGIF, ^{id}AAA/Stable)

FFO = Funds from Operation (calculation of EBITDA – IFCCI + Interest Income – Current Tax Expense)

IFCCI = Gross Interest Expense + Other Financial Charges + Capitalized Interest; (FX Loss not included)

References:

- ¹International Telecommunication Union, "Measuring Digital Development – ICT Price Trends 2020"
- ²Statistics Indonesia, "Average Monthly Per Capita Expenditure by Commodity Group (Rupiah), 2013-2019"
- ³The Association of Internet Service Providers in Indonesia, "Laporan Survei Internet APJII 2019-2020 (Q2)"
- ⁴World Bank, "Beyond Unicorns: Harnessing Digital Technologies for Inclusion in Indonesia - 2021"

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