

The Jakarta Post Axis Capital Group PT Telecom Indonesia



[XL's Axis acquisition to change telcom landscape in Indonesia](#)

The recent acquisition of [PT Axis Telekom Indonesia by PT XL Axiata](#) (EXCL) will likely change business competition in the mobile telecommunications industry, with close rival PT Indosat (ISAT) particularly feeling the heat, according to analysts.

Indonesia ICT Institute founder and researcher Heru Sutadi said the takeover would reduce the number of competitors in the industry.

“The industry is crowded with too many operators fighting over a limited market and resources. Some operators have ended up suffering losses,” he said.

“A solution to this is to have those suffering losses merge, streamlining the number of players competing,” he added.

There are five global [system for mobile communication](#) (GSM) operators in the country: PT Telekomunikasi Selular (Telkomsel), PT XL Axiata (EXCL), PT Indosat (ISAT), PT Hutchison 3 Indonesia (Tri) and PT Axis Telekom Indonesia.

Certain operators are in the red.

The profits of XL, for example, slumped 54 percent year-on-year to Rp 670 billion (US\$58.29 million) in the first quarter of 2013 although gross revenue moved up by 1 percent to Rp 10.3 trillion.

Trust Securities analyst Reza Priambada said operators would be “competing more intensely” now that XL and Axis merged their businesses.

“Operators will have to enhance their range of services to maintain their market positions. XL, for example, will take steps to hold on to Axis’ subscribers,” he pointed out.

As of the end of the first half of the year, XL had 54.2 million subscriptions or 18 percent more than the same period last year.

MNC Securities analyst Edwin Sebayang added Indosat would be the most affected by the merger of XL and Axis.

“Indosat will feel the most heat as it is closest to XL in terms of market size, and especially considering that XL has usurped the second market position,” he noted.

Indosat and XL finished neck and neck in the first half of the year. Although Indosat closed the first half with more subscriptions at 56.5 million, and revenue at Rp 11.7 trillion, the operator booked a loss of Rp 231.2 billion.

XL was also operating baser transceiver stations (BTS) at 41,293 units, than Indosat with 22,449 units, at the end of the first half of the year.

Analysts, however, said the takeover would internally affect XL as well.

Reza noted one critical issue in the acquisition was XL had to produce a lot of money to acquire Axis.

Axis is valued at \$865 million on a cash- and debt-free basis.

XL has signed a conditional sales purchase agreement with Axis’ shareholder, Saudi Telecom Company (STC) and subsidiary, Teleglobal Investment BV, to purchase 95 percent of Axis’ shares under Teleglobal.

“Another critical point is that Axis must be financially sound by having limited debts, for example, to avoid burdening XL down the line,” he said.

He added that XL and Axis had to prevent “clashes” between their human resources as they consolidated.

Edwin said once Axis was fully acquired, XL must ensure it had the necessary funds to cover additional capital expenses from Axis.

“Mobile operators already have high capital expenses, especially when it comes to expanding data networks, which has become a prerogative for operators,” he said.

“In addition, XL must still allocate the budget to expand its own networks outside Java,” he added.

XL has prepared roughly Rp 9 trillion for capital expenses this year, around 60 percent of which was allocated to their telecommunication networks.

Hendra pointed out the acquisition of Axis by XL could prompt other acquisitions.

“Telkomsel or Indosat could consolidate with Tri, or all the code division multiple access [CDMA] players could merge into one, given their lackluster performances,” he said.