

Telekomunikasi Indonesia (TLKM)

An attractive entry point

3 August 2023



TLKM IJ	BUY
Sector	Telecom.
Price at 2 Aug 2023 (IDR)	3,690
Price target (IDR)	4,420
Upside/Downside (%)	19.8

Stock Information

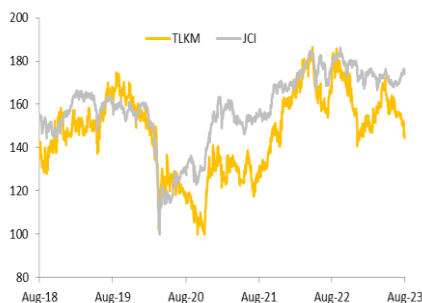
Telekomunikasi Indonesia is the largest telecommunication company in Indonesia, covering over 90% of Indonesian population. The company is largely owned by state and operates through various subsidiaries, ranging from telecommunication to property.

Market cap (IDR bn)	367,524
Shares outstanding (mn)	99,062
52-week range (IDR)	3,650-4,600
3M average daily vol. ('000)	415,732
3M average daily val. (IDR mn)	1,661,223

Shareholders (%)

Government of Indonesia	52.0
Public	48.0

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(7.8)	(11.9)	(17.1)

Analyst

Devi Harjoto

devi.harjoto@kbvalbury.com

TLKM's 1H23 results were generally below ours/consensus by 1.2%-4.8% despite strong Telkom's digital service and improving operational metrics (ARPU +9.7% qoq; subs +1.5% qoq). Nevertheless, TLKM's O&M surged 11.5% qoq in 2Q23 on the back of higher spectrum fees as well as personnel costs. Given that, we re-adjust our forecasts by -0.7% to -5.8% for FY '23 and maintain our BUY call with lower TP of IDR4,420, implying 5.6x FY '23 EV/EBITDA

2Q23 result misses estimates

TLKM's 2Q23 EBITDA grew slightly 2.1% qoq, making up 1H23 EBITDA to decline 2.7% yoy to IDR38.4 tn, or missed ours/consensus at 47.6%/47.0%. Soft EBITDA was weighed down by operations and maintenance costs that surged 11.6% qoq/ 9.2% yoy on the back of continued efforts for network optimization following spectrum acquisition. It was higher than revenue growth of +3.6% qoq/ +2.1% yoy to IDR37.4 tn/ IDR73.5 tn. This figure also missed FY '23 ours/consensus by 1.2%/2.0% respectively. As a result, EBITDA margin contracted from 52.6% in 1Q23 to 51.9% in 2Q23 as evidenced by higher cash costs ratio by 77bps qoq to 48.1% in 2Q23. Despite that, TLKM managed to maintain its balance sheet at manageable level with net gearing at 0.6x in 1H23.

Intensifying competition in fixed broadband

TLKM's flat top-line growth was dragged by Telkom's significant legacy decline and flat Indihome qoq. Telkom's 2Q23 revenue grew 0.9% qoq in 2Q23 to IDR22.5tn, below peers that recorded a 7-8% growth qoq. Despite that, Telkom added 2.2mn subs qoq to 153.3mn subs. This was also followed by improving ARPU to 49.7K/sub or 9.7% qoq in 2Q23 thanks to better competition landscape as well as data yields +0.7% qoq. Meanwhile, we noted that tightening competition in fixed broadband market has put Indihome's ARPU to continue declining to IDR260K as well as more customers prefer more affordable 1P.

Forecast readjustment on Indihome and higher costs

We have made some tweaks for our FY '23 figures by -1.2% to -5.8% from our previous forecasts on the back of higher costs especially on O&M side and personnel. In addition, we also expect Indihome to continue to face mounting pressure from competition as other players are ramping up their fixed broadband presence which results in our more conservative ARPU projection.

However we note that with low penetration of fixed broadband and Indihome's dominant position in several areas, this should be able to improve monetization going forward. On mobile, we expect TLKM will continue to leverage momentum of improvement in 2H23 by maximizing its CVM for more personalized offerings to maintain its market share.

Reiterate BUY on attractive valuation

Reiterate our BUY call with lower target price of IDR4,420 (previously: IDR5,000), implying at 5.6x '23F EV/EBITDA, while currently is trading at 4.6x forward EV/EBITDA rather undemanding at below -1SD 5-year mean. We note several upside catalysts for TLKM, namely 1) improving market competition in mobile; 2) better costs efficiency and capex stemming from FMC initiatives. However, risks to our call included 1) intensifying competition in mobile and fixed broadband; 2) cost pressure especially for the initial stage of convergence roll-out.

Exhibit 1: Key Statistics

Year end Dec	2021A	2022A	2023F	2024F	2025F
Revenue (IDR bn)	143,210	147,306	148,595	158,694	167,131
EBITDA (IDR bn)	75,723	78,992	78,290	85,033	90,742
Net profit (IDR bn)	24,760	20,753	25,879	28,169	30,151
Core profit (IDR bn)	21,182	26,996	25,319	27,445	29,046
Core EPS (IDR)	214	273	256	277	293
ROAE (%)	9.4	7.5	9.0	9.1	9.3
PER (x)	14.8	17.6	14.1	13.0	12.1
PBV (x)	2.5	2.4	2.2	2.1	2.0
EV/EBITDA (x)	5.2	5.0	4.8	4.4	4.2
Div Yield (%)	4.6	4.1	5.3	6.2	6.6

Source: Company, KBVS Research

Telekomunikasi Indonesia (TLKM)

Exhibit 2: Financial Summary

(IDRbn)	1H23	1H22	YoY (%)	2Q23	2Q22	YoY (%)	1Q23	QoQ (%)	2023F	% to 23F	Cons'	% of Cons'
Revenue	73,478	71,983	2.1	37,388	36,775	1.7	36,090	3.6	150,431	48.8	153,105	48.0
Costs	(50,459)	(49,047)	2.9	(25,800)	(24,450)	5.5	(24,659)	4.6				
EBIT	23,019	22,936	0.4	11,588	12,325	(6.0)	11,431	1.4	46,964	49.0	48,705	47.3
EBITDA	38,384	39,447	(2.7)	19,390	20,059	(3.3)	18,994	2.1	80,683	47.6	81,719	47.0
Other income (exp.)	(1,717)	(1,507)	13.9	(883)	(758)	16.5	(834)	5.9				
Pre-tax income	21,302	21,429	(0.6)	10,705	11,567	(7.5)	10,597	1.0				
Taxes	(4,481)	(3,874)	15.7	(2,332)	(1,868)	24.8	(2,149)	8.5				
Net Income	12,756	13,310	(4.2)	6,332	7,192	(12.0)	6,424	(1.4)	27,184	46.9	26,952	47.3
Core net income	12,171	12,830	(5.1)	6,067	5,295	14.6	6,613	(8.3)	26,883	45.3	26,952	45.2
Margins (%)												
EBIT margin	31.3	31.9		31.0	33.5		31.7					
EBITDA margin	52.2	54.8		51.9	54.5		52.6					
Net margin	17.4	18.5		16.9	19.6		17.8					
Operational KPI												
Telkomsel's number of subs	153,269	169,667	(9.7)	153,269	169,667	(9.7)	151,067	1.5				
Telkomsel's ARPU	47.5	42	13.1	49.7	43.0	15.6	45.3	9.7				
Telkomsel's data payload	8,729	7,981	9.4	4,512	4,183	7.9	4,217	7.0				
Data yields	4.3	4.4	(1.8)	4.3	4.3	(0.0)	4.3	0.7				
Indihome ARPU	47.5	42.0	13.1	260.0	270.0	(3.7)	264.0	(1.5)				
Indihome number of subs	9,528	8,889	7.2	9,528	8,889	7.2	9,352	1.9				

Source: Company, Bloomberg, KBVS Research

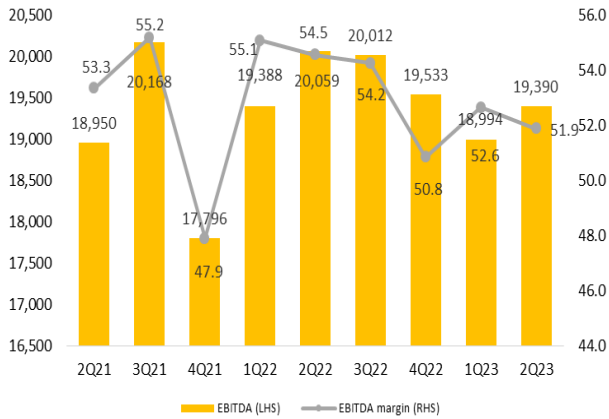
Exhibit 3: Forecast Changes

	New		Old		Changes (%)		Bloomberg Cons'		New VS Bloomberg Cons' (%)	
	2023E	2024F	2023E	2024F	2023E	2024F	2023E	2024F	2023E	2024F
Revenue	148,595	158,694	150,431	159,224	-1.2	-0.3	152,944	160,863	-2.8	-1.3
Opt. Profit	46,645	51,828	46,964	49,949	-0.7	3.8	48,400	51,789	-3.6	0.1
EBITDA	78,290	85,033	80,683	85,751	-3.0	-0.8	81,236	86,277	-3.6	-1.4
Net profit	25,879	28,169	27,184	29,466	-4.8	-4.4	26,686	28,904	-3.0	-2.5
Core Net profit	25,319	27,445	26,883	28,988	-5.8	-5.3	26,686	28,904	-5.1	-5.0

Source: Company, Bloomberg, KBVS Research

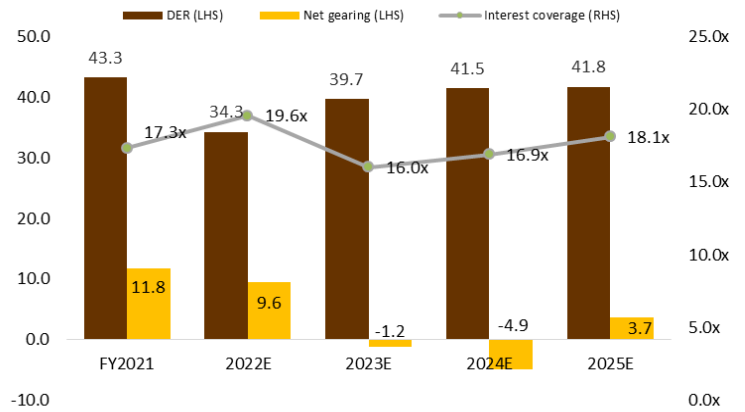
Telekomunikasi Indonesia (TLKM)

Exhibit 4: TLKM EBITDA margin (%)



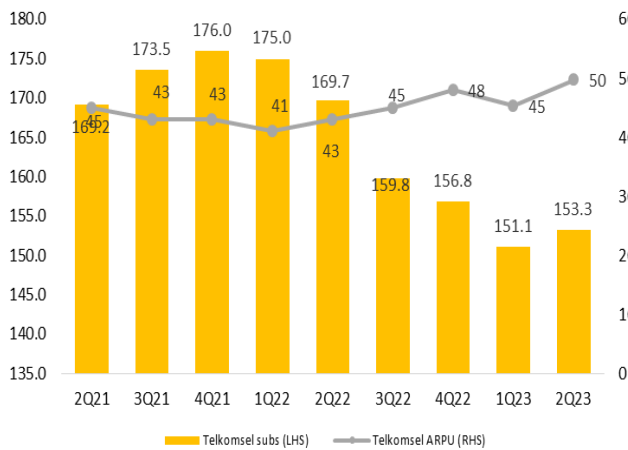
Source: Company

Exhibit 5: Leverage ratio remains manageable



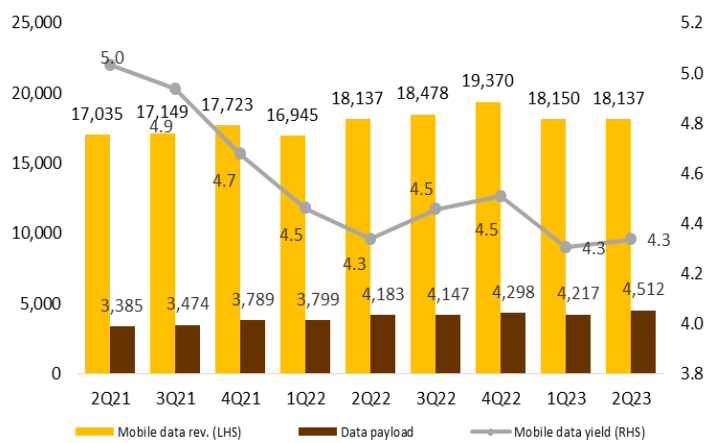
Source: Company, KBVS Research

Exhibit 6: Telkomsel ARPU and subs growth



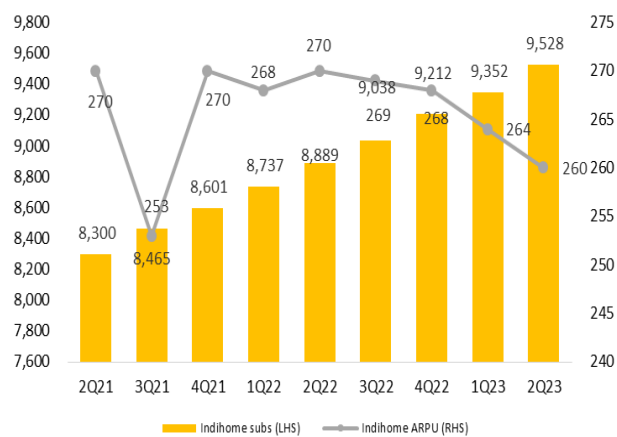
Source: Company

Exhibit 7: Data yields stabilize in 2Q23



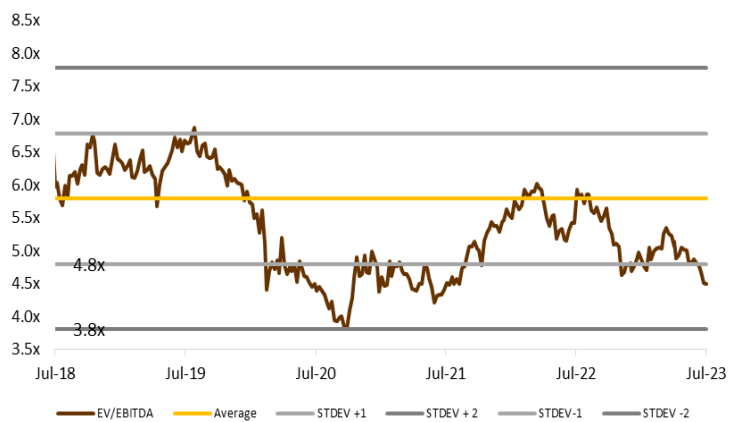
Source: Company

Exhibit 8: Indihome subs grow while ARPU decreases



Source: Company

Exhibit 9: EV/EBITDA currently trades above 5Y -1SD



Source: Company, KBVS Research

Telekomunikasi Indonesia (TLKM)

FINANCIAL TABLES

Exhibit 7: Profit & loss summary

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenue	143,210	147,306	148,595	158,694	167,131
Costs	(95,647)	(107,725)	(101,950)	(106,867)	(111,960)
Operating profit	47,563	39,581	46,645	51,828	55,171
EBITDA	75,723	78,992	78,290	85,033	90,742
Other income/expenses	(3,885)	(3,242)	(3,551)	(3,695)	(3,650)
Profit before income tax	43,678	36,339	43,094	48,133	51,521
Tax benefit (expenses)	(9,730)	(8,659)	(9,265)	(11,311)	(12,107)
Profit after tax	33,948	27,680	33,828	36,822	39,414
Minority interests	9,188	6,927	7,950	8,653	9,262
Net profit	24,760	20,753	25,879	28,169	30,151

Source: Company, KBVS Research

Exhibit 8: Balance sheet

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Current assets					
Cash and cash equivalents	38,311	31,947	43,073	48,056	44,463
Trade receivables	8,510	8,634	10,151	8,969	11,168
Other current assets	14,456	14,476	16,488	16,426	17,456
Total current assets	61,277	55,057	69,712	73,450	73,087
Non-current assets					
Fixed assets	165,026	173,329	182,364	192,012	202,174
Other non-current assets	50,881	46,806	48,632	51,872	53,671
Total non-current assets	215,907	220,135	230,996	243,885	255,845
Total assets	277,184	275,192	300,707	317,335	328,932
Current liabilities					
Trade payables	17,170	18,457	15,370	15,237	15,766
Taxes payables	3,923	5,372	5,563	5,841	5,958
Accrued expenses	15,885	15,445	13,717	15,282	15,339
Short term debts	22,333	21,974	20,735	20,978	20,793
Other current liabilities	9,820	9,140	26,666	27,276	27,726
Total current liabilities	69,131	70,388	82,051	84,615	85,582
Non-current liabilities					
Long-term debts	46,745	41,067	39,278	43,633	44,867
Other non-current liabilities	15,909	14,475	15,495	16,784	17,285
Total non-current liabilities	62,654	55,542	54,773	60,416	62,151
Minority interests	23,753	20,004	26,742	28,117	29,568
Shareholders' equity	145,399	149,262	163,883	172,304	181,199
Total liabilities and equity	277,184	275,192	300,707	317,335	328,932

Source: Company, KBVS Research

Telekomunikasi Indonesia (TLKM)

Exhibit 9: Cash flow

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Net profit	24,760	20,753	25,879	28,169	30,151
Depreciation & amortization	17,896	12,146	12,785	13,514	14,212
Changes in working capital	5,333	1,472	9,373	3,565	(2,077)
CF from operating activities	47,989	34,371	48,037	45,248	42,287
Investment in fixed assets	(19,797)	(22,629)	(24,095)	(25,500)	(26,851)
Others	(13,566)	6,255	449	(904)	679
CF from investing activities	(33,363)	(16,374)	(23,646)	(26,403)	(26,172)
Debts raised/(repaid)	(16,643)	(14,856)	(19,409)	(22,535)	(24,121)
Dividends paid	(2,142)	2,951	(2,200)	1,948	(409)
Others	21,881	(12,456)	8,343	6,726	4,823
CF from financing activities	3,096	(24,361)	(13,266)	(13,861)	(19,707)
Change in cash flow	17,722	(6,364)	11,126	4,983	(3,593)
Cash and cash equivalents, beginning	20,589	38,311	31,947	43,073	48,056
Cash and cash equivalents, ending	38,311	31,947	43,073	48,056	44,463

Source: Company, KBVS Research

Exhibit 10: Ratio analysis

Year End Dec	2021A	2022A	2023F	2024F	2025F
Operating profit margin (%)	33.2	26.9	31.4	32.7	33.0
EBITDA margin (%)	52.9	53.6	52.7	53.6	54.3
Net profit margin (%)	17.3	14.1	17.4	17.8	18.0
Receivables turnover (x)	14.43	17.18	15.82	16.60	16.60
Inventory turnover (x)	108.6	112.0	90.1	108.0	108.0
Payable turnover (x)	5.6	6.0	6.0	7.0	7.2
ROAA (%)	9.4	7.5	9.0	9.1	9.3
ROAE (%)	18.6	14.1	16.5	16.8	17.1
ROIC (%)	16.9	12.9	16.8	17.5	17.4
Debt/ Equity (x)	0.6	0.5	0.4	0.4	0.4
Net debt/Equity (x)	0.3	0.2	0.1	0.1	0.1
Net debt/ EBITDA (x)	0.9	0.8	0.8	0.8	0.7
Interest coverage (x)	17.3	19.6	17.2	17.5	18.7
BV/share (x)	1,228.0	1,304.8	1,384.4	1,455.6	1,530.7
Dividend Yield	4.6	4.1	5.3	6.2	6.6

Source: Company, KBVS Research

Telekomunikasi Indonesia (TLKM)

Disclaimer

This report is prepared by PT KB Valbury Sekuritas, a member of the Indonesia Stock Exchange, or its subsidiaries or its affiliates ("KBVS"). All the material presented in this report is under copyright to KBVS. None of the parts of this material, nor its contents, may be copied, photocopied, or duplicated in any form or by any means or altered in any way, or transmitted to, or distributed to any other party without the prior written consent of KBVS.

The research presented in this report is based on the information obtained by KBVS from sources believed to be reliable, however KBVS do not make representations as to their accuracy, completeness or correctness. KBVS accepts no liability for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from the use of the material presented in this report and further communication given or relied in relation to this document. The material in this report is not to be construed as an offer or a solicitation of an offer to buy or sell any securities or financial products. This report is not to be relied upon in substitution for the exercise of independent judgement. Past performance and no representation or warranty, express or implied, is made regarding future performance. Information, valuations, opinions, forecasts and estimates contained in this report reflects a judgement at its original date of publication by KBVS and are subject to change without notice, its accuracy is not guaranteed or it may be incomplete.

The Research Analyst(s) primarily responsible for the content of this research report, in part or as a whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The Analyst also certifies that no part of his/her compensation was, is or will related to specific recommendation views expressed in this report. It also certifies that the views and recommendations expressed in this report do not and will not take into account client circumstances, objectives, needs and no intentions involved as a use for recommendations for sale or buy any securities or financial instruments.

Telekomunikasi Indonesia (TLKM)

KB Valbury Sekuritas

Headquarters

Sahid Sudirman Center Lantai 41 Unit AC
 Jl. Jenderal Sudirman No. 86
 Kelurahan Karet Tengsin, Kecamatan Tanah Abang
 Jakarta Pusat 10220, Indonesia
 T +62 21 250 98 300
 F +62 21 255 33 778

Branch Office

Jakarta - Kelapa Gading

Rukan Plaza Pasifik
 Jl. Raya Boulevard Barat Blok A1 No. 10
 Jakarta 11620
 T +62 21 - 29451577

Jakarta - Puri Indah

Rukan Grand Aries Niaga
 Blok E.1 No. 1 V Jl. Taman Aries, Kembangan,
 Jakarta 14450
 T +62 21 - 22542390
 F +62 21 - 29264310

Jakarta - Pluit

Jl. Pluit Putra Raya No. 2
 Jakarta 14240
 T +62 21 - 29264300
 F +62 21 - 22542391

Bandung

Jl. HOS Cokroaminoto No. 82
 Bandung 40171
 T +62 22 - 87255888
 T +62 22 - 87255800
 F +62 22 - 87255811

Semarang

Candi Plaza Building Lt. Dasar
 Jl. Sultan Agung No. 90-90A
 Semarang 50252
 T +62 24 - 3521888
 T +62 24 - 8501122
 F +62 24 - 8507450

Yogyakarta

Jl. Magelang KM 5.5 no. 75
 Yogyakarta 55284
 T +62 274 - 4469500
 T +62 274 - 6231111
 F +62 274 - 623222

Galeri Investasi

Jakarta

Citra Garden 6 Ruko Sixth Avenue
 Blok J.1 A/18 Cengkareng,
 Jakarta Barat 11820
 T +62 21 52392181

Semarang

Jl. MT Haryono 637 Semarang
 T +62 24 8415195

Solo

Jl. Ronggowarsito No. 34
 Surakarta 57118

Surabaya

Pakuwon Center Tunjungan Plaza Lantai 21
 Jl. Embong Malang No.1
 Surabaya 60261
 T +62 31 - 2955777
 T +62 31 - 2955788
 F +62 31 - 2955716

Solo

Jl. Ronggo Warsito no. 34
 Solo 57118
 T +62 271 632888
 F +62 271 656988

Malang

Jl. Pahlawan Trip no. 7
 Malang 65112
 T +62 341 - 585888
 F +62 341 - 560056

Denpasar

Komplek Ibis Styles Hotel
 Jl. Teuku Umar No. 177
 Denpasar Bali 80114
 T +62 361 - 255888
 T +62 361 - 225229
 F +62 361 - 225339

Banjarmasin

Jl. Gatot Subroto No.33 Kel. Kebun Bunga
 Kec. Banjarmasin Timur
 Kalimantan Selatan 70235
 T +62 511 - 3265918
 F +62 511 - 3253432

Manado

Kawasan Megamas, Ruko Megaprofit
 Blok IF2 No. 38 Manado. 95254
 T +62 431 7917 836
 F +62 431 880 2129

Padang

Jl. Kampung Nias II no. 10,
 Kel. Belakang Pondok,
 Kec. Padang Selatan
 T +62 751 8955747

Salatiga

Jl. Diponegoro No. 68, Rt. 007 Rw. 011,
 Kel. Salatiga, Kec. Sidorejo 50711
 T +62 298 313007

Medan

Komplek Jati Junction No. P5-5A
 Jl. Perintis Kemerdekaan
 Medan 20218
 T +62 61 - 88816222
 F 62 61 - 88816333

Pekanbaru

Komplek CNN Blok A no. 3
 Pekanbaru 28291
 T +62 761 - 839393
 F +62 761 - 839313

Padang

Jl. Kampung Nias II no. 10,
 Kel. Belakang Pondok,
 Kec. Padang Selatan
 T +62 751 8955747

Palembang

Komp. PTC Mall Blok I No. 7 Jl. R. Sukanto
 Kel. 8 Ilir Kec. Ilir Timur II
 Palembang 30114
 T 07115700281

Makassar

Kompleks RUKO Citraland City Losari Makassar,
 Business Park, Blok B2 No. 09
 Jl. Citraland Boulevard
 Kel. Maccini Sombala, Kec. Tamalate
 Makassar, Sulawesi Selatan 90111
 T +62 411 6000818

Galeri Investasi BEI - KBVS

Yogyakarta
 Universitas Kristen Duta Wacana
 T +62 274 - 544032

Manado
 Universitas Prisma Manado
 T 0431 8800850

Jakarta
 Universitas Gunadarma
 T +62 21 - 8727541