

Telekomunikasi Indonesia (TLKM)

More upside expected

4 May 2023



TLKM IJ	BUY
Sector	Telecom.
Price at 3 May 2023 (IDR)	4,150
Price target (IDR)	5,000
Upside/Downside (%)	20.5

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)	415,071
Shares outstanding (mn)	99,062
52-week range (IDR)	3,650-4,650
3M average daily vol. ('000)	82,623
3M average daily val. (IDR mn)	335,553

Shareholders (%)

Government of Indonesia	52.0
Public	48.0

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	0.5	5.7	(4.9)

TLKM's 1Q23 EBITDA decreased 2.8% qoq/2.0% yoy to IDR19.0 tn, slightly below ours/consensus, despite an improvement in margin on lower O&M and marketing. However, 1Q23 revenue dropped 6.1% qoq to IDR36.1tn, or also slightly below estimates at 23.2%. Despite the slowdown, management has not changed revenue guidance of mid-single digit growth, expecting more acceleration in 2H23 following FMC service as well as Eid impact. Maintain BUY call with target price of IDR5,000.

1Q23 result misses estimates

TLKM's 1Q23 net profit jumped 54.0% yoy to IDR6.4 tn, supported mainly by adjustment in investment value in GOTO. Excluding non-core items, net profit came in at IDR6.10 tn or -19.2% qoq/11.8% yoy in 1Q23, arriving at 22.1% of ours/consensus. Furthermore, EBITDA decreased 2.8% qoq/2.0% yoy to IDR19.0 tn, accounting for 22.7%/22.6% of ours/consensus, although margin expanded to 52.6% in 1Q23 from 50.8% in 4Q22 thanks to better cost efficiency, reflected by lower cash cost 9.5% qoq given reduced O&M and marketing expenses. However, lower cost was in-line with soft revenue growth -6.1% qoq/2.5% yoy, dragged by TSEL's digital -6.3% qoq and legacy -4.5% qoq combined with decelerating Indihome +0.9% qoq/+5.0% yoy.

Intensifying competition in fixed broadband

Soft TSEL's performance was demonstrated by contraction in ARPU by 6.3% qoq to IDR45K/sub coupled with falling data yield to IDR4.30/MB in 1Q23 which in our view also clouded by very competitive market. Furthermore, data traffic also dropped by 1.8% qoq as subs continuously dropped to 151.1 mn in 1Q23 that management said to be part of less productive subs cleansing. Meanwhile, Indihome's ARPU subsided qoq to IDR264K/sub in 1Q23 on the back of intensifying competition in top tier cities and post pandemic impact that encouraged subscribers to downgrade to more affordable package esp. 1P. Despite this, it is worth noting that fixed broadband subs growth by 1.5% qoq/7.0% yoy which we deem to be solid, signifying its appeal in the market.

Expecting more upside from integration

Management still retains guidance of mid-single growth in 2023 with enterprise and wholesale segments becoming trajectory. Although showing signs of softness in 1Q23, improvement in mobile is expected in upcoming quarters on Indihome-TSEL integration slated to be completed in 2H23 and factoring in Eid festive season in 2Q23. Management is hopeful that integration of Indihome-TSEL could allow it to better sharpen and maintain its dominance in both mobile and fixed broadband segments through more cutting edge product thanks to infrastructure synergy. Additionally, management also expects further opex on maintenance and marketing as well as capex savings in coming years with IDR5 tn of additional EBITDA by 2027.

Reiterate BUY on FMC service roll-out

We reiterate our BUY call with target price of IDR5,000, implying 6.3x '23F EV/EBITDA, while it is currently trading at 5.4 EV/EBITDA, or rather attractive. Integration of Indihome under TSEL should become a strong catalyst for growth especially in consumer segment beside its wholesale segment. Nevertheless, we note several risks to our call included 1) intensifying competition in mobile and fixed broadband; and 2) persistent decline in legacy service.

Exhibit 1: Key Statistics

Year end Dec	2021A	2022A	2023F	2024F	2025F
Revenue (IDR bn)	143,210	147,306	150,431	159,224	167,210
EBITDA (IDR bn)	75,723	78,992	80,683	85,751	91,508
Net profit (IDR bn)	24,760	20,753	27,184	29,466	32,104
Core profit (IDR bn)	21,182	26,996	26,883	28,988	31,257
Core EPS (IDR)	214	273	271	293	316
ROAE (%)	9.4	7.5	9.7	9.9	10.3
PER (x)	15.3	18.2	13.9	12.8	11.8
PBV (x)	2.6	2.5	2.3	2.2	2.1
EV/EBITDA (x)	5.3	5.1	5.1	4.7	4.6
Div Yield (%)	4.4	3.9	5.4	6.2	6.8

Source: Company, KBVS Research

Analyst

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Exhibit 2: Financial Summary

(IDRbn)	1Q23	1Q22	YoY (%)	4Q22	QoQ (%)	2023F	% to '23F	Cons'	% of Cons'
Revenue	36,090	35,208	2.5	38,432	(6.1)	155,499	23.21	155,338	23.23
Costs	(24,659)	(24,597)	0.3	(30,424)	(18.9)				
EBIT	11,431	10,611	7.7	8,008	42.7				
EBITDA	18,994	19,388	(2.0)	19,533	(2.8)	83,804	22.66	84,076	22.59
Other income (exp.)	(834)	(749)	11.3	(866)	(3.7)				
Pre-tax income	10,597	9,862	7.5	7,142	48.4				
Taxes	(2,149)	(2,006)	7.1	(2,278)	(5.7)				
Net Income	6,424	6,118	5.0	4,172	54.0	27,581	23.29	27,731	23.17
Core profit	6,104	6,923	(11.8)	7,553	(19.2)	27,581	22.13	27,731	22.01
Margins (%)									
EBIT margin	31.7	30.1		20.8					
EBITDA margin	52.6	55.1		50.8					
Net margin	17.8	17.4		10.9					

Operational KPI

Telkomsel's number of subs	151,067	174,956	(13.7)	156812	-3.7
Telkomsel's ARPU	45	41	9.8	48	-6.3
Telkomsel's data payload	4,217,405	3,798,866	11.0	4,298,057	-1.9
Data yields	4.30	4.5	(3.5)	4.5	-4.5
Indihome ARPU	264.0	264.0	-	268.0	-1.5
Indihome number of subs	9,352	8,737	7.0	9,212	1.5

Source: Company, Bloomberg, KBVS Research

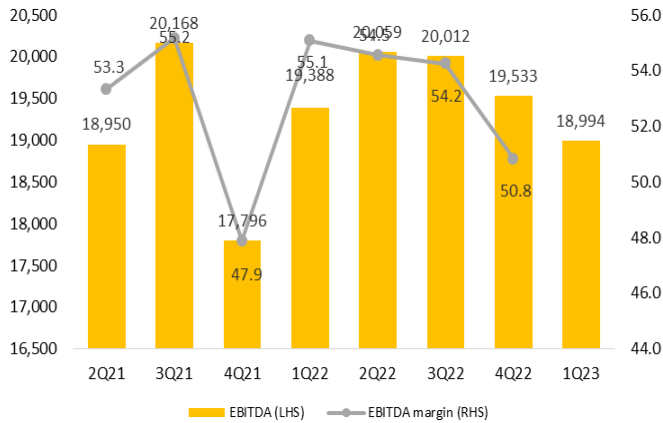
Exhibit 3: Forecast Changes

	New		Old		Changes (%)		Bloomberg Cons'		New VS Bloomberg Cons' (%)	
	2023E	2024F	2023E	2024F	2023E	2024F	2023E	2024F	2023E	2024F
Revenue	150,431	159,224	155,499	163,270	-3.3	-2.5	154,339	162,705	-2.5	-2.1
Opt. Profit	46,964	49,949	50,734	53,219	-7.4	-6.1	48,788	51,243	-3.7	-2.5
EBITDA	80,683	85,751	83,804	88,902	-3.7	-3.5	83,198	88,065	-3.0	-2.6
Net profit	27,184	29,466	27,581	29,117	-1.4	1.2	27,790	29,729	-2.2	-0.9
Core Net profit	26,883	28,988	27,369	28,730	-1.8	0.9	27,790	29,729	-3.3	-2.5

Source: Company, Bloomberg, KBVS Research

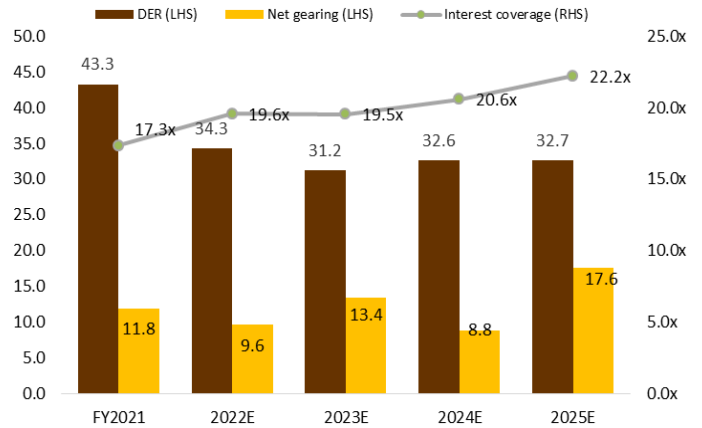
Telekomunikasi Indonesia (TLKM)

Exhibit 4: TLKM EBITDA margin (%)



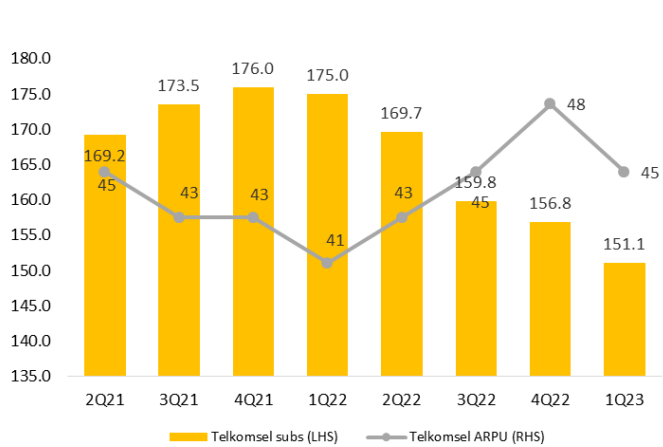
Source: Company

Exhibit 5: Leverage ratio remains manageable



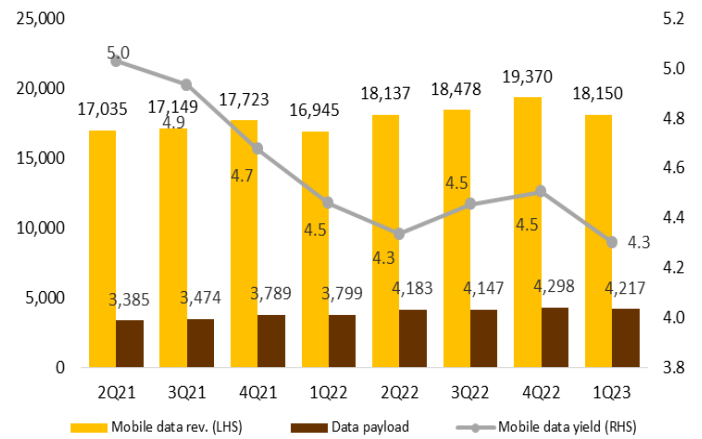
Source: Company, KBVS Research

Exhibit 6: Telkomsel ARPU and subs growth



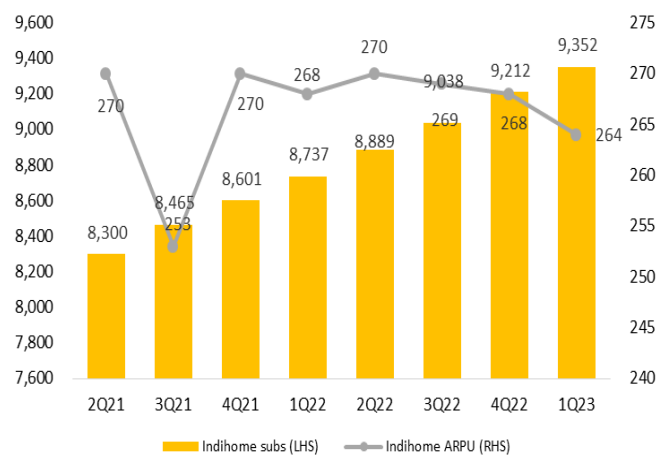
Source: Company

Exhibit 7: Data yields drops in 1Q23



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

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FINANCIAL TABLES

Exhibit 7: Profit & loss summary

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenue	143,210	147,306	150,431	159,224	167,210
Costs	(95,647)	(107,725)	(103,467)	(109,274)	(113,162)
Operating profit	47,563	39,581	46,964	49,949	54,048
EBITDA	75,723	78,992	80,683	85,751	91,508
Other income/expenses	(3,885)	(3,242)	(3,119)	(3,010)	(2,907)
Profit before income tax	43,678	36,339	43,846	46,939	51,141
Tax benefit (expenses)	(9,730)	(8,659)	(9,865)	(10,561)	(11,507)
Profit after tax	33,948	27,680	33,980	36,378	39,634
Minority interests	9,188	6,927	6,796	6,912	7,531
Net profit	24,760	20,753	27,184	29,466	32,104

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	24,523	34,547	23,046
Trade receivables	8,510	8,634	9,382	9,802	10,344
Other current assets	14,456	14,476	16,124	16,427	17,646
Total current assets	61,277	55,057	50,029	60,776	51,036
Non-current assets					
Fixed assets	165,026	173,329	186,203	198,639	209,792
Other non-current assets	50,881	46,806	48,872	50,347	52,126
Total non-current assets	215,907	220,135	235,075	248,986	261,918
Total assets	277,184	275,192	285,104	309,762	312,954
Current liabilities					
Trade payables	17,170	18,457	14,290	22,110	11,013
Taxes payables	3,923	5,372	5,554	5,832	7,552
Accrued expenses	15,885	15,445	15,749	15,626	15,503
Short term debts	22,333	21,974	20,240	21,376	22,608
Other current liabilities	9,820	9,140	9,505	10,472	10,864
Total current liabilities	69,131	70,388	65,338	75,416	67,540
Non-current liabilities					
Long-term debts	46,745	41,067	40,469	44,673	45,977
Other non-current liabilities	15,909	14,475	15,024	16,669	17,072
Total non-current liabilities	62,654	55,542	55,493	61,342	63,048
Minority interests	23,753	20,004	26,806	28,231	29,758
Shareholders' equity	145,399	149,262	164,273	173,004	182,365
Total liabilities and equity	277,184	275,192	285,104	309,762	312,954

Source: Company, KBVS Research

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Exhibit 9: Cash flow

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Net profit	24,760	20,753	27,184	29,466	32,104
Depreciation & amortization	17,896	12,146	12,948	13,968	14,841
Changes in working capital	5,333	1,472	(5,712)	8,219	(10,870)
CF from operating activities	47,989	34,371	34,420	51,654	36,075
Investment in fixed assets	(19,797)	(22,629)	(28,096)	(28,730)	(28,446)
Others	(13,566)	6,255	209	851	673
CF from investing activities	(33,363)	(16,374)	(27,888)	(27,879)	(27,773)
Debts raised/(repaid)	(16,643)	(14,856)	(20,388)	(23,573)	(25,683)
Dividends paid	(2,142)	2,951	(2,695)	2,570	1,013
Others	21,881	(12,456)	9,127	7,252	4,866
CF from financing activities	3,096	(24,361)	(13,956)	(13,751)	(19,803)
Change in cash flow	17,722	(6,364)	(7,424)	10,024	(11,501)
Cash and cash equivalents, beginning	20,589	38,311	31,947	24,523	34,547
Cash and cash equivalents, ending	38,311	31,947	24,523	34,547	23,046

Source: Company, KBVS Research

Exhibit 10: Ratio analysis

Year End Dec	2021A	2022A	2023F	2024F	2025F
Operating profit margin (%)	33.2	26.9	31.2	31.4	32.3
EBITDA margin (%)	52.9	53.6	53.6	53.9	54.7
Net profit margin (%)	17.3	14.1	18.1	18.5	19.2
Receivables turnover (x)	14.43	17.18	16.70	16.60	16.60
Inventory turnover (x)	108.6	112.0	86.5	108.0	108.0
Payable turnover (x)	5.6	6.0	6.3	6.0	6.8
ROAA (%)	9.4	7.5	9.7	9.9	10.3
ROAE (%)	18.6	14.1	17.3	17.5	18.1
ROIC (%)	16.9	12.9	15.7	16.7	16.2
Debt/ Equity (x)	0.6	0.5	0.4	0.5	0.4
Net debt/Equity (x)	0.3	0.2	0.3	0.2	0.3
Net debt/ EBITDA (x)	0.9	0.8	0.8	0.8	0.7
Interest coverage (x)	17.3	19.6	19.5	20.6	22.2
BV/share (x)	1,228.0	1,304.8	1,387.7	1,461.5	1,540.6
Dividend Yield	4.4	3.9	5.4	6.2	6.8

Source: Company, KBVS Research

Telekomunikasi Indonesia (TLKM)

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