

9M23 in-line, heading to another step forward

3 November 2023



TLKM IJ	BUY
Sector	Telecomm.
Price at 02 Nov 2023 (IDR)	3,620
Price target (IDR)	4,510
Upside/Downside (%)	24.6

Stock Information

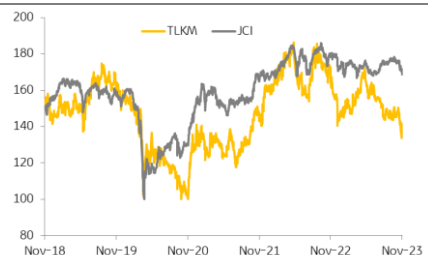
Telekomunikasi Indonesia is the largest telecommunication company in Indonesia, covering over 90% of Indonesian population. The company is largely owned by state and operates through various subsidiaries, ranging from telecommunication to property.

Market cap (IDR bn)	358,597
Shares outstanding (mn)	99,062
52-week range (IDR)	3,390-4,500
3M average daily vol. ('000)	88,663
3M average daily val. (IDR mn)	330,381

Shareholders (%)

Government of Indonesia	52.0
Public	48.0

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	(3.5)	(1.9)	(18.8)

TLKM's 9M23 results were generally in-line with ours at 74.9-77.0%, thanks to better cost efficiencies stemming from initiation of FMC. This resulted in strong EBITDA margin by +290bps qoq in 3Q23. Furthermore, 3Q23 revenue was flat as ARPU declined, yet it recorded a bump 3.3% qoq subs growth. Meanwhile, TLKM is set to complete an establishment of new entity for infra by 4Q23 and working on DC co as part of five bold moves strategy. Maintain BUY with a target price of IDR4,510.

In-line with KBVS estimate

TLKM's 9M23 top to bottom-line performance was generally in-line with our overall estimates, ranging 74.9%-77.0%. 3Q23 EBITDA grew strongly +6.6% qoq to IDR20.7 tn, representing 9M23 EBITDA of IDR59.06, achieving 75.4%/72.3% of ours/consensus. Strong EBITDA growth was largely attributable to lower core costs on G&A and personnel expenses, reflecting positive impact from FMC. This also boosted EBITDA margin by 290bps to 54.8% in 3Q23.

Meanwhile, TLKM's 3Q23 revenue was relatively flat +1.0% qoq to IDR37.8 tn, which was widely expected due to high-base effect in 2Q23. This, however, brought 9M23 revenue of IDR111.24 tn to attain 74.9%/72.7% of ours/consensus.

Traction from non-cellular business

Network and other telco services as well as Indihome were the main driver behind TLKM's quarterly revenue growth in 3Q23, thanks to tower lease business. On Indihome, TLKM managed to book strong Indihome subs qoq by 273K thanks to integration of B2C. Nevertheless, fixed broadband ARPU continued to be under pressure at IDR257K or -1.2% qoq in 3Q23 amidst intensifying competition. Meanwhile, Telkomsel's revenue ex-Indihome was also flattish in 3Q23 amidst a decline in ARPU 2.2% qoq and stable data yield. However, Telkomsel managed to add 5.03 mn of new subs in 3Q23.

Another step toward asset consolidation

Following a completion of Indihome integration to Telkomsel, TLKM is planning to set up a new entity on for consolidating infrastructure business especially fiber that is estimated to complete by 4Q23 as well as data center consolidation as part of five bold moves strategy. By doing so, management expects to be able to maximize monetization of assets. We expect data center business and infrastructure should become a new major backbone for TLKM going forward given vast market potential ahead. On data center, the business remains nascent in the country reflected by very low penetration, while internet penetration has reached above 70% of total population, indicating huge untapped potential market.

On mobile, we anticipate improving competition to continue as we do not pick-up aggressive move from competitors as they are now focused on increasing their ARPUs.

Reiterate BUY on attractive valuation

Reiterate our BUY call with an upgraded target price IDR4,510 (previously: IDR4,420) as we have rolled forward our DCF-based valuation to '24. Note that at our target price, it implies 5.8x EV/EBITDA, while it is currently trading at 4.3x forward EV/EBITDA or at below -1 SD 5 year-mean. We highlight that 1) continuous improvement in market competition; 2) better cost efficiencies stemming from FMC and deepening synergy across the company's assets should translate to strengthened competitiveness and cost structure.

Exhibit 1 : Key Statistics

Year end Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenue (IDR bn)	143,210	147,306	148,901	159,560	167,131
EBITDA (IDR bn)	75,723	78,992	78,806	86,394	91,350
Net profit (IDR bn)	24,760	20,753	26,037	28,795	30,693
Core profit	21,182	26,996	25,751	28,524	30,408
Core EPS (IDR)	214	273	260	288	307
ROAE (%)	9.4	7.5	9.0	9.3	9.5
PER (x)	14.5	17.3	13.8	12.5	11.7
PBV (x)	2.5	2.4	2.2	2.1	2.0
EV/EBITDA (x)	5.1	4.9	4.7	4.3	4.1
Div. yield (%)	4.6	4.1	5.4	6.4	6.8

Sources: Company, KBVS Research

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Exhibit 2: Financial overview

TLKM 9M23 results

(IDRbn)	9M23	9M22	YoY (%)	3Q23	3Q22	YoY (%)	2Q23	QoQ (%)	2023F	% to 23F	Cons	% of Cons'
Revenue	111,238	108,874	2.2	37,760	36,891	2.4	37,388	1.0	148,595	74.9	153,105	72.7
Costs	(76,256)	(77,301)	(1.4)	-25,797	-28,254	(8.7)	(25,800)	(0.0)				
EBIT	34,982	31,573	10.8	11,963	8,637	38.5	11,588	3.2	46,645	75.0	48,705	71.8
EBITDA	59,063	59,459	(0.7)	20,679	20,012	3.3	19,390	6.6	78,290	75.4	81,719	72.3
Other income (exp.)	(2,700)	(2,376)	13.6	-983	-869	13.1	(883)	11.3				
Pre-tax income	32,282	29,197	10.6	10,980	7,768	41.3	10,705	2.6				
Taxes	(6,893)	(6,381)	8.0	-2,412	-2,507	(3.8)	(2,332)	3.4				
Net Income	19,499	16,581	17.6	6,743	3,271	106.1	6,332	6.5	25,879	75.3	26,952	72.3
Core net income	19,495	19,443	0.3	7,324	6,613	10.8	6,067	20.7	25,319	77.0	26,952	72.3
Margins (%)												
EBIT margin	31.4	29.0		31.7	23.4		31.0					
EBITDA margin	53.1	54.6		54.8	54.2		51.9					
Net margin	17.5	15.2		17.9	8.9		16.9					
Operational KPI												
Telkomsel's number of subs	158,300	159,836	(1.0)	158,300	159,836	(1.0)	153,269	3.3				
Telkomsel's ARPU	47.8	43	11.2	48.6	45.0	8.0	49.7	(2.2)				
Telkomsel's data payload	13,254,485	12,128,796	9.3	4,525,550	4,147,341	9.1	4,511,530	0.3				
Data yields	4.3	4.4	(2.1)	4.34	4.46	(2.6)	4.33	0.1				
Indihome ARPU	257	269	(4.5)	257.0	269.0	(4.5)	260.0	(1.2)				
Indihome number of subs	9,801	9,038	8.4	9,801	9,038	8.4	9,528	2.9				

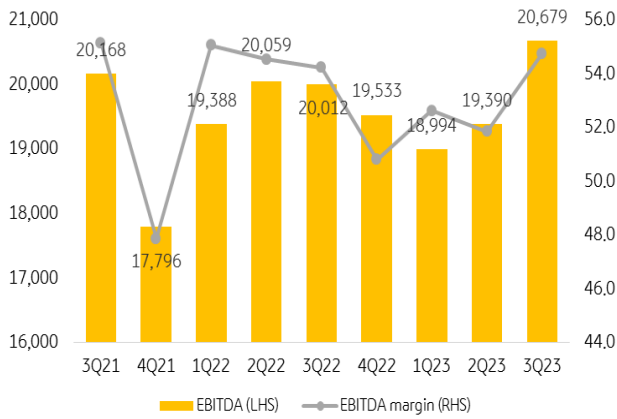
Source: Company, KBVS Research, Bloomberg

Exhibit 3: Forecast changes

	New		Old		Changes (%)		Bloomberg Cons'		New VS Bloomberg Cons' (%)	
	2023E	2024F	2023E	2024F	2023E	2024F	2023E	2024F	2023E	2024F
Revenue	148,901	159,560	148,595	158,694	0.2	0.5	152,290	159,578	-2.2	0.0
Opt. Profit	46,878	52,899	46,645	51,828	0.5	2.1	47,373	50,211	-1.0	5.4
EBITDA	78,806	86,394	78,290	85,033	0.7	1.6	80,615	84,935	-2.2	1.7
Net profit	26,037	28,795	25,879	28,169	0.6	2.2	25,958	27,803	0.3	3.6
Core Net profit	25,751	28,524	25,319	27,445	1.7	3.9	25,958	27,803	-0.8	2.6

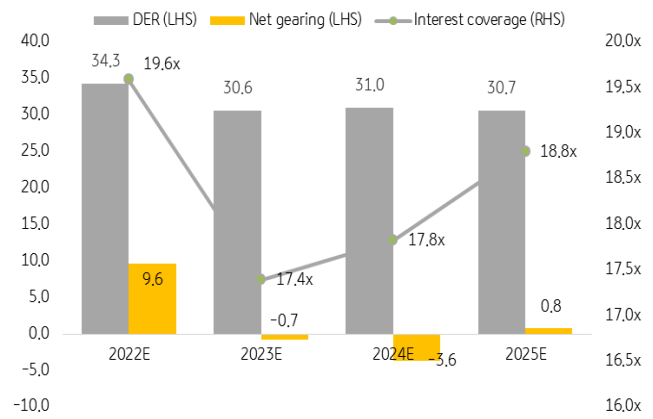
Source: KBVS Research, Bloomberg

Exhibit 4: TLKM EBITDA margin (%)



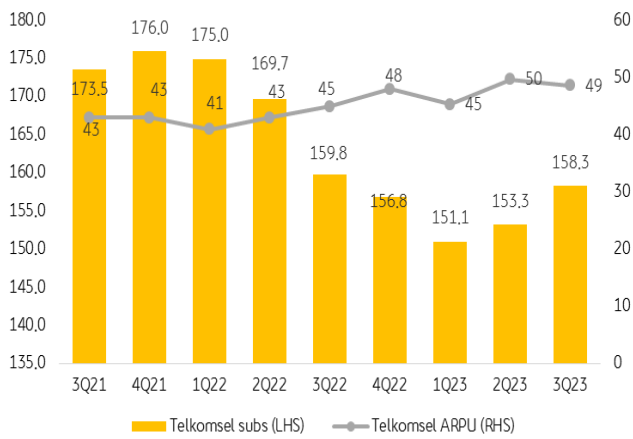
Source: Company, KBVS Research

Exhibit 5: Leverage ratio remains manageable



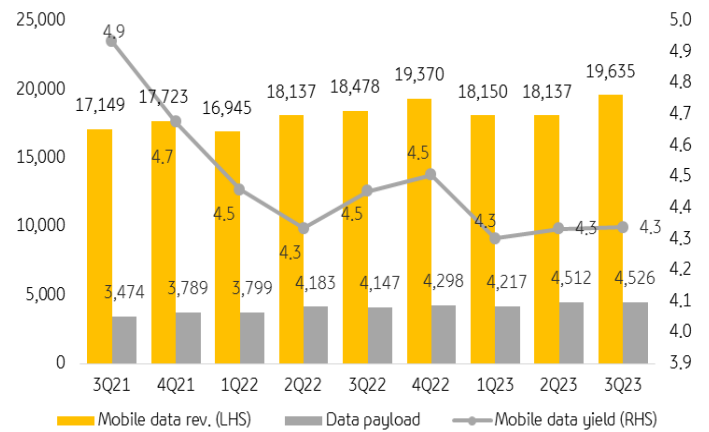
Source: Company, KBVS Research

Exhibit 6: Telkomsel ARPU and subs growth



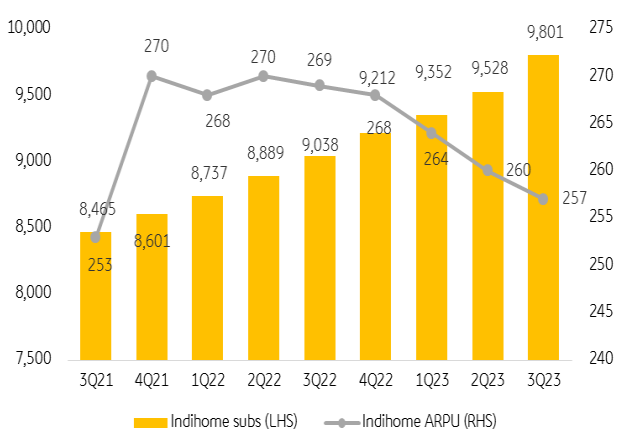
Source: Company, KBVS Research

Exhibit 7: Data yields stabilize



Source: Company, KBVS Research

Exhibit 8: Indihome subs grow while ARPU decreases



Source: Company, KBVS Research

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



Source: Company, KBVS Research

FINANCIAL TABLES
Exhibit 10: Profit & Loss summary

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenue	143,210	147,306	148,901	159,560	167,131
Costs	(95,647)	(107,725)	(102,023)	(106,661)	(111,035)
Operating profit	47,563	39,581	46,878	52,899	56,097
EBITDA	75,723	78,992	78,806	86,394	91,350
Other income/expenses	(3,885)	(3,242)	(3,521)	(3,695)	(3,650)
Profit before income tax	43,678	36,339	43,357	49,204	52,447
Tax benefit (expenses)	(9,730)	(8,659)	(9,322)	(11,563)	(12,325)
Profit after tax	33,948	27,680	34,035	37,641	40,122
Minority interests	9,188	6,927	7,998	8,846	9,429
Net profit	24,760	20,753	26,037	28,795	30,693

Source: Company, KBVS Research

Exhibit 11: Balance sheet

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Current Assets					
Cash	38,311	31,947	42,991	50,017	45,424
Current Account at BI	8,510	8,634	10,151	9,073	11,063
Interbank Loans	14,456	14,476	17,678	16,568	18,299
Total Asset	61,277	55,057	70,820	75,658	74,786
Non-current assets					
Fixed assets	165,026	173,329	181,303	189,847	199,850
Other non-current assets	50,881	46,806	48,632	52,109	53,806
Total non-current assets	215,907	220,135	229,935	241,956	253,656
Total assets	277,184	275,192	300,754	317,614	328,442
Current liabilities					
Trade payables	17,170	18,457	15,370	15,383	15,167
Taxes payables	3,923	5,372	5,563	5,841	5,958
Accrued expenses	15,885	15,445	13,717	15,253	15,212
Short term debts	22,333	21,974	20,735	20,978	20,793
Other current liabilities	9,820	9,140	26,666	27,314	27,726
Total current liabilities	69,131	70,388	82,051	84,769	84,856
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	16,712	17,194
Total non-current liabilities	62,654	55,542	54,773	60,345	62,061
Minority interests	23,753	20,004	26,750	28,149	29,621
Shareholders' equity	145,399	149,262	163,930	172,501	181,525
Total liabilities and equity	277,184	275,192	300,754	317,614	328,442

Source: Company, KBVS Research

Exhibit 9: Cash flow

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Net profit	24,760	20,753	26,037	28,795	30,693
Depreciation & amortization	17,896	12,146	12,740	13,374	14,021
Changes in working capital	5,333	1,472	8,183	4,662	(3,449)
CF from operating activities	47,989	34,371	46,960	46,831	41,265
Investment in fixed assets	(19,797)	(22,629)	(22,989)	(24,259)	(26,503)
Others	(13,566)	6,255	449	(1,136)	782
CF from investing activities	(33,363)	(16,374)	(22,540)	(25,395)	(25,721)
Debts raised/(repaid)	(16,643)	(14,856)	(19,528)	(23,036)	(24,554)
Dividends paid	(2,142)	2,951	(2,200)	1,948	(409)
Others	21,881	(12,456)	8,351	6,679	4,826
CF from financing activities	3,096	(24,361)	(13,376)	(14,410)	(20,138)
Change in cash flow	17,722	(6,364)	11,044	7,027	(4,593)
Cash and cash equivalents, beginning	20,589	38,311	31,947	42,991	50,017
Cash and cash equivalents, ending	38,311	31,947	42,991	50,017	45,424

Source: Company, KBVS Research

Exhibit 10: Ratio analysis

Year End Dec	2021A	2022A	2023F	2024F	2025F
Operating profit margin (%)	33.2	26.9	31.5	33.2	33.6
EBITDA margin (%)	52.9	53.6	52.9	54.1	54.7
Net profit margin (%)	17.3	14.1	17.5	18.0	18.4
Receivables turnover (x)	14.43	17.18	15.85	16.60	16.60
Inventory turnover (x)	108.6	112.0	77.9	108.0	108.0
Payable turnover (x)	5.6	6.0	6.0	7.0	7.2
ROAA (%)	9.4	7.5	9.0	9.3	9.5
ROAE (%)	18.6	14.1	16.6	17.1	17.3
ROIC (%)	16.9	12.9	16.9	18.1	17.8
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	0.7	0.7
Interest coverage (x)	17.3	19.6	17.4	17.8	18.8
BV/share (x)	1,228.0	1,304.8	1,384.8	1,457.2	1,533.5
Dividend Yield	4.6	4.1	5.4	6.4	6.8

Source: Company, KBVS Research

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