

Telekomunikasi Indonesia (TLKM)

Dawn of the new convergence era

7 November 2022



TLKM IJ	BUY
Sector	Telecom.
Price at 04 Nov 2022 (IDR)	4,210
Price target (IDR)	5,200
Upside/Downside (%)	23.5

Stock Information

Telekomunikasi Indonesia is the largest telecommunication company in Indonesia, covering over 90% of Indonesian population as of 2019. The company is largely owned by state and operates through various subsidiaries. The company's business lines ranging from telecommunication to property.

Market cap (IDR bn)	416,061
Shares outstanding (mn)	99,062
52-week range (IDR)	3,600-4,680
3M average daily vol. ('000)	14,288
3M average daily val. (IDR mn)	36,667

Shareholders (%)

Government of Indonesia	52.0
Public	48.0

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(6.8)	(9.0)	9.8

Analyst

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TLKM's 9M22 revenue and EBITDA came in-line with ours and consensus' expectation at 72%-74% of 2022F, however 3Q earnings declined 54.5% to IDR3.27 tn, mainly dragged by other items, bringing 9M22 earnings of IDR16.6 tn or only represents 61.3%/63.6% of ours/consensus. Given that, we cut our '22F earnings by 6% while slightly revising our revenue and EBITDA forecasts by around 1%. FMC will further drive TLKM's competitive edge thanks to solid infrastructures. Maintain BUY, with a DCF-derived target price of IDR5,200, implying 6.3x 2023F EV/EBITDA, while it is currently trading at 5.1x 2023F EV/EBITDA, above -1SD 5-year historical mean.

Earnings below expectations

TLKM's 3Q22 net profit plunged 54.5% qoq to IDR3.27 tn, translating into 9M22 net profit of IDR16.6 tn (-12.1% yoy). The figure represents 61.3%/63.6% of our/consensus estimates. Plunging net profit in 3Q22 was mostly due to unrealized loss in GOTO investment. Furthermore, EBITDA lowered 0.2% qoq to IDR20.01 tn in 3Q22 with EBITDA margin of 54.2%/54.6% in 9M22. Meanwhile, revenue slightly grew 0.3% qoq to IDR36.9 tn or 2.7% YoY in 9M22 to IDR106.04 tn, accounting for 71.9%/72.4% of our/consensus forecasts that was driven by data, internet, and IT service by +4.3% qoq/+6.1% combined with flattish Indihome revenue +1.1% qoq/+6.4% yoy in 3Q22/9M22. The company's B/S remains manageable with net gearing of 0.28x in 9M22.

Stiff competition remains persistent

Telkomsel's 3Q22 net profit slid 20.9% qoq to IDR5.4 tn, while EBITDA grew +2.4% qoq to IDR12.9 tn. The 3Q22 revenue was flattish at IDR22.6 tn as it saw persistently declined legacy services -2.1% qoq, while it booked a tepid 1.9% qoq growth in data services in the midst of market competition. Telkomsel's data yields managed to expand 2.7% qoq in 3Q22 in line with higher ARPU +3.8% qoq. Nevertheless, Telkomsel's number of subs decreased 5.8% qoq to 159.6 mn in 3Q22. On fixed broadband, Indihome's ARPU declined 0.4% qoq/1.8% yoy in 3Q22/9M22, while subs growth was slowing down +1.6% qoq/6.8% yoy in 3Q22/9M22 that was due to eased mobile restrictions, in our view.

Convergence is the new thing

We cut our 2022F net profit by 6% to IDR25.5tn amid higher non-operational item expenses. However, we expect higher 4Q22 seasonality especially for data traffic could boost data yields qoq. For fixed broadband, we view increased outdoor activities may prompt Indihome sign up to slow down, thus we expect subscribers to register 7% growth this year. Meanwhile, we welcome Telkomsel-Indihome merger as a part of Fixed-Mobile Convergence (FMC) slated to complete in 1Q23 and InfraCo initiatives, in our view, will maximize benefits of synergy, result in more efficient capex and operational costs, leverage competitive edge and monetize assets.

Reiterate BUY on mobile and fixed broadband leadership

We maintain our BUY call, with a DCF-derived target price of IDR5,200, implying 6.3x 2023F EV/EBITDA, boosted by 1) leadership in mobile and fixed broadband; 2) strong advantage in infrastructure; and 3) manageable leverage ratio. Nevertheless, several downside risks to our recommendation, including 1) intense competition in mobile; and 2) high capex.

Exhibit 1: Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (IDR bn)	136,462	143,210	150,355	159,256	167,881
EBITDA (IDR bn)	72,080	75,723	80,094	85,592	91,338
Net profit (IDR bn)	20,804	24,760	25,445	28,447	30,453
EPS (IDR)	210.0	249.9	256.9	287.2	307.4
ROAA (%)	8.3	9.4	9.2	9.8	10.0
ROAE (%)	17.5	18.6	17.0	17.8	18.0
PER (x)	24.8	20.8	20.2	18.1	16.9
PBV (x)	4.3	3.5	3.3	3.1	3.0
EV/EBITDA (x)	6.7	6.2	5.8	5.5	5.1
Div Yield (%)	3.0	3.2	3.5	3.9	4.4

Source: Company, KBVS Research

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Exhibit 2: Financial Summary

(IDRbn)	9M22	9M21	YoY (%)	3Q22	3Q21	YoY (%)	2Q22	QoQ (%)	2022F	% to '22F	Cons'	% of Cons'
Revenue	108,874	106,043	2.7	36,891	36,563	0.9	36,775	0.3	151,423	71.9	150,372	72.4
Costs	(77,301)	(69,742)	10.8	(28,254)	(23,877)	18.3	(24,450)	15.6	(99,670)			
EBIT	31,573	36,301	(13.0)	8,637	12,686	(31.9)	12,325	(29.9)	51,753			
EBITDA	59,459	57,927	2.6	20,012	20,168	(0.8)	20,059	(0.2)	81,123	73.3	80,216	74.1
Other income (exp.)	(2,376)	(3,041)	(21.9)	(869)	(1,220)	(28.8)	(758)	14.6	(3,672)			
Pre-tax income	29,197	33,260	(12.2)	7,768	11,466	(32.3)	11,567	(32.8)	48,081			
Taxes	(6,381)	(7,597)	(16.0)	(1,507)	(2,723)	(44.7)	(1,868)	(19.3)	(12,020)			
Net Income	16,581	18,872	(12.1)	3,271	6,421	(49.1)	7,192	(54.5)	27,045	61.3	26,066	63.6
Margins (%)												
EBIT margin	29.0	34.2		23.4	34.7		33.5					
EBITDA margin	54.6	54.6		54.2	55.2		54.5					
Net margin	15.2	17.8		8.9	17.6		19.6					
Operational KPI												
Telkomsel's number of subs	160	174	(7.9)	160	174	(7.9)	170	(5.8)				
Telkomsel's ARPU	43	44	(2.3)	45	43	4.7	43	3.8				
Telkomsel's data payload	12,129	10,048	20.7	4,147	3,474	19.4	4,183	(0.8)				
Data yields	4.4	5.0	(12.2)	4.5	4.9	(9.7)	4.3	2.7				
Indihome number of subs	9,038	8,465	6.8	9,038	8,465	6.8	8,889	1.7				

Source: Company

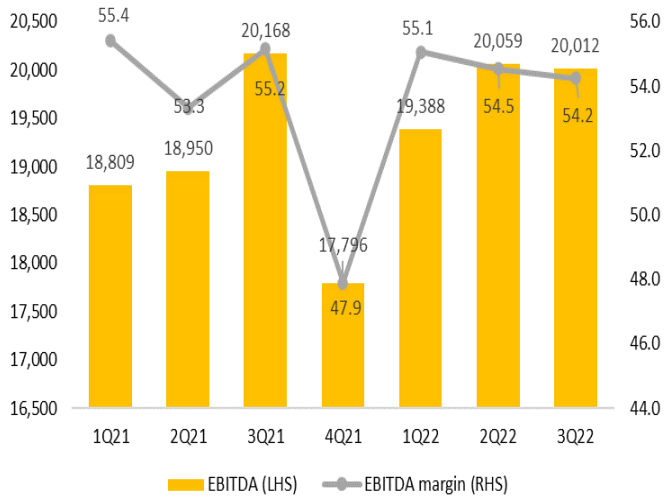
Exhibit 3: Forecast changes

	New		Old		Changes	
	2022F	2023F	2022F	2023F	2022F	2023F
Revenue	150,355	159,256	151,423	160,597	-0.7	-0.8
EBIT	47,167	51,841	51,753	53,368	-8.9	-2.9
EBITDA	80,094	85,592	81,123	86,020	-1.3	-0.5
Net profit	25,445	28,447	27,045	28,223	-5.9	0.8

Source: Company, KBVS Research

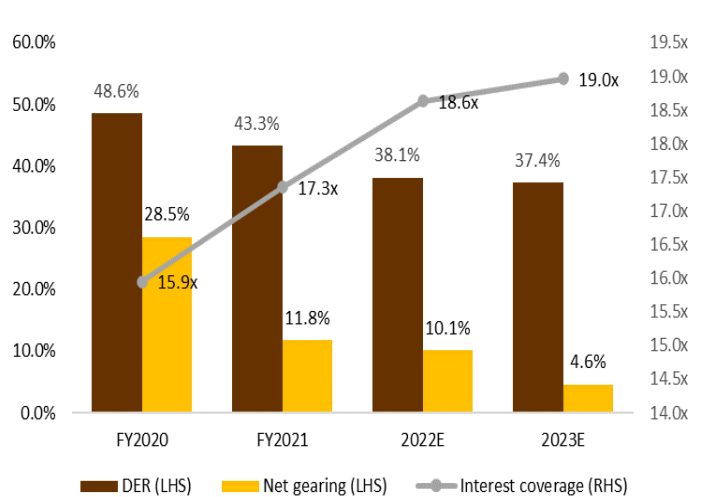
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Exhibit 4: TLKM's EBITDA margin slightly down



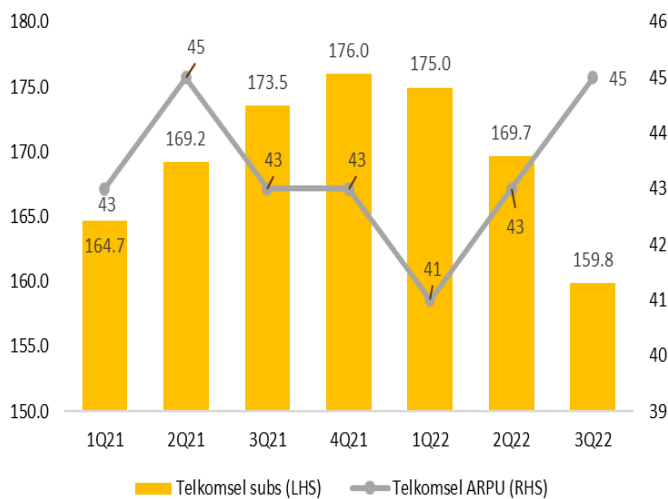
Source: Company

Exhibit 5: Leverage ratio remains in check



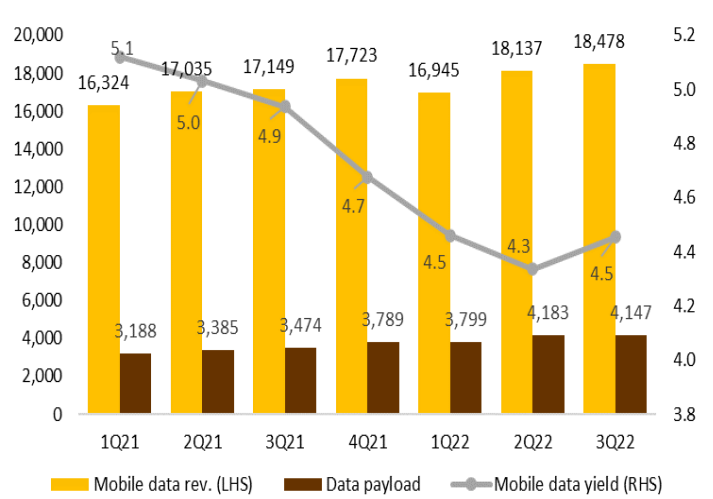
Source: Company, KBVS research

Exhibit 6: Telkomsel ARPU improves



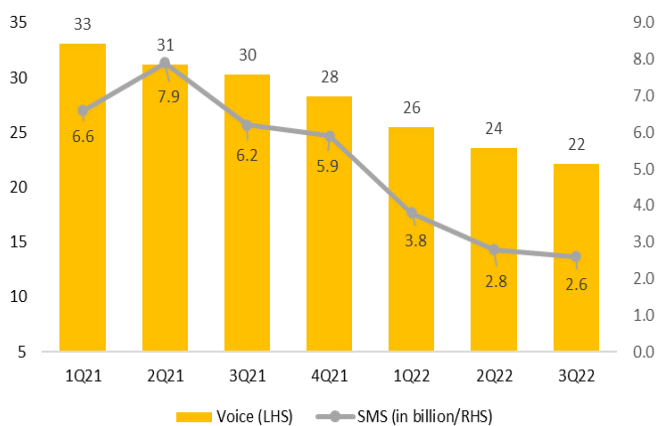
Source: Company

Exhibit 7: Data yields downtrend recedes



Source: Company

Exhibit 8: Legacy services steadily decline



Source: Company, KBVS Research

Exhibit 9: Currently trading above -1SD historical mean



Source: Company, Bloomberg

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FINANCIAL TABLES

Exhibit 10: Profit & loss summary

Year End Dec (IDR bn)	2020A	2021A	2022F	2023F	2024F
Revenue	136,462	143,210	150,355	159,256	167,881
Costs	(93,086)	(95,647)	(103,188)	(107,415)	(111,831)
Operating profit	43,376	47,563	47,167	51,841	56,050
<i>Operating profit margin</i>	31.6%	30.7%	33.1%	32.5%	33.3%
EBITDA	72,080	75,723	80,094	85,592	91,338
<i>EBITDA margin</i>	52.8%	52.9%	53.3%	53.7%	54.4%
Other income/expenses	(4,730)	(3,885)	(3,672)	(3,854)	(3,993)
Profit before income tax	38,646	43,678	43,495	47,987	52,057
Tax benefit (expenses)	(9,212)	(9,730)	(9,569)	(10,557)	(11,453)
Profit after tax	29,434	33,948	33,926	37,430	40,605
Minority interests	8,630	9,188	8,482	8,983	10,151
Net profit	20,804	24,760	25,445	28,447	30,453
<i>Net profit margin</i>	15.2%	17.3%	16.9%	17.9%	18.1%

Source: Company, KBVS Research

Exhibit 11: Balance sheet

Year End Dec (IDR bn)	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash and cash equivalents	20,589	38,311	38,175	40,320	41,049
Trade receivables	11,339	8,510	9,605	9,582	10,644
Other current assets	14,575	14,456	12,506	12,979	14,084
Total current assets	46,503	61,277	60,285	62,881	65,778
Non-current assets					
Fixed assets	160,923	165,026	166,676	180,010	183,611
Other non-current assets	39,517	50,881	51,853	56,023	59,359
Total non-current assets	200,440	215,907	218,529	236,033	242,970
Total assets	246,943	277,184	278,814	298,914	308,748
Current liabilities					
Trade payables	16,999	17,170	13,076	18,598	14,189
Taxes payables	2,713	3,923	4,335	5,614	7,270
Accrued expenses	14,265	15,885	14,138	14,279	14,422
Short term debts	24,680	22,333	23,381	24,231	25,314
Other current liabilities	10,436	9,820	9,690	9,647	9,664
Total current liabilities	69,093	69,131	64,619	72,368	70,858
Non-current liabilities					
Long-term debts	40,782	46,745	42,969	44,732	46,577
Other non-current liabilities	16,179	15,909	16,498	16,886	17,288
Total non-current liabilities	56,961	62,654	59,466	61,619	63,865
Minority interests	18,362	23,753	25,249	26,913	28,397
Shareholders' equity	120,889	145,399	154,729	164,927	174,025
Total liabilities and equity	246,943	277,184	278,814	298,914	308,748

Source: Company, KBVS Research

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Exhibit 12: Cash flow

Year End Dec (IDR bn)	2020A	2021A	2022F	2023F	2024F
Net profit	20,804	24,760	25,445	28,447	30,453
Depreciation & amortization	9,490	17,896	18,274	19,100	20,144
Changes in working capital	(29,054)	5,333	(4,705)	6,449	(4,761)
CF from operating activities	1,240	47,989	39,014	53,995	45,837
Investment in fixed assets	(11,710)	(19,797)	(17,621)	(30,027)	(21,108)
Others	(18,734)	(13,566)	(3,275)	(6,577)	(5,973)
CF from investing activities	(30,444)	(33,363)	(20,897)	(36,604)	(27,081)
Debts raised/(repaid)	(15,262)	(16,643)	(17,811)	(19,913)	(22,840)
Dividends paid	15,110	(2,142)	3,446	1,107	1,344
Others	1,547	21,881	(3,889)	3,560	3,469
CF from financing activities	1,395	3,096	(18,254)	(15,246)	(18,027)
Change in cash flow	(27,809)	17,722	(136)	2,145	730
Cash and cash equivalents, beginning	48,398	20,589	38,311	38,175	40,320
Cash and cash equivalents, ending	20,589	38,311	38,175	40,320	41,049

Source: Company, KBVS Research

Exhibit 13: Ratio analysis

Year End Dec	2020A	2021A	2022F	2023F	2024F
Operating profit margin (%)	31.8	33.2	31.4	32.6	33.4
EBITDA margin (%)	52.8	52.9	53.3	53.7	54.4
Net profit margin (%)	15.2	17.3	16.9	17.9	18.1
Receivables turnover (x)	11.80	14.43	16.60	16.60	16.60
Inventory turnover (x)	118.7	108.6	108.0	108.0	108.0
Payable turnover (x)	6.0	5.6	6.8	6.8	6.8
ROAA (%)	8.3	9.4	9.2	9.8	10.0
ROAE (%)	17.5	18.6	17.0	17.8	18.0
ROIC (%)	14.7	16.9	16.1	17.1	17.3
Debt/ Equity (x)	0.6	0.6	0.5	0.5	0.5
Net debt/Equity (x)	0.4	0.3	0.2	0.2	0.2
Net debt/ EBITDA (x)	0.9	0.9	0.8	0.8	0.8
Interest coverage (x)	15.9	17.3	18.6	19.0	19.3
BV/share (x)	1,035.0	1,228.0	1,307.1	1,393.2	1,470.1
Dividend Yield	3.0	3.2	3.5	3.9	4.4

Source: Company, KBVS Research

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