

Telekomunikasi Indonesia (TLKM)

Banking on burgeoning demand for digital infra

9 January 2023



TLKM IJ	BUY
Sector	Telecom.
Price at 06 Jan 2023 (IDR)	3,710
Price target (IDR)	5,200
Upside/Downside (%)	40.2

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)	367,520
Shares outstanding (mn)	99,062
52-week range (IDR)	3,650-4,680
3M average daily vol. ('000)	509,064
3M average daily val. (IDR mn)	2,062,429

Shareholders (%)

Government of Indonesia	52.0
Public	48.0

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(10.0)	(16.3)	(7.8)

TLKM has initiated a groundbreaking of 3x17MW NeutraDC Hyperscale Data Center (HDC) in Batam. The HDC construction, which is expected to complete in 2 years, lies on 8 ha land in Kabil Integrated Industrial Estate (KIIE), Batam, as management eyes to cater growing demand from Singapore estimated to have exceeded 500MW. Singtel and Medco Power will be joint shareholders of Batam HDC with the remaining 35% and 5% of stakes. At this point, we still maintain our figures, reiterating BUY with a TP of IDR5,200.

Data center at glance

TLKM has launched a five-bold-move strategy, outlining plans to consolidate its robust assets with data center (DC) business under DC co as management eyes to expand DCs to 400 MW by 2030. TLKM's data center business currently sits under Telkom Data Ekosistem (TDE), with Telin and TelkomSigma operates DCs in overseas and domestic, respectively. The company has so far owned 27 data centers, including 3 DCs operating in Hongkong, Singapore and Timor Leste. TLKM holds around 40% of data center market share with among largest players operating in Indonesia are Data Center Indonesia (DCII) and NTT.

Blessings from Singapore digital hub

The estimated capex for tier III and IV Batam HDC is to be c. USD500 million for two years, based on calculation of USD12 million/kWh. Management said that most of lease will be coming from long term contract on the pipeline, that is expected to start generating revenue by 2023. Batam HDC competitive edge lies on cheaper electricity costs that stands at USDc10/w or one-third compared to those in Singapore. According to management, PLN and Medco Power will be the power suppliers for the HDC.

Bearing fruit from continuous infra investment

Management projects CAGR growth of Batam multi-tenant DC to be 36.1% for 2023-2031, mostly driven by spillover demand from Singapore. Yet, with competitive electricity prices and Batam being nearby global tech hub, it also attracts competitors such as, GDS and DC First developing DCs in the area with capacity of 28MW and 30MW, respectively. A rise of social media, digital economy and the arrival of 5G will further push demand for DCs going forward with expected CAGR growth at c.28% for '21-'30. In addition, TLKM's strong backend, partnerships with global tech on workload and eyeball as well as superior customer base across segments puts TLKM to be on pole position for catering burgeoning demand. Moreover, security concern over data as a result of digitalization has come to the realization of so-called digital sovereignty, triggering demands for onshore DCs.

Reiterate BUY on better competition in mobile and consolidation initiatives

With the expansion of DC business, we reiterate our BUY call with a price target of IDR5,200, implying 6.2x 2023 EV/EBITDA while it is currently trading at undemanding valuation of 4.3x EV/EBITDA. Improving competition landscape in mobile will be the key driver for 2023 despite concerns over GOTO market price. We like its consolidation initiatives under five bold moves and bright future for DC market.

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	25,176	28,712	30,431
EPS (IDR)	210.0	249.9	254.2	289.8	307.2
ROAA (%)	8.9	9.4	9.1	9.9	10.0
ROAE (%)	17.5	18.6	16.8	18.0	18.0
PER (x)	18.2	15.3	15.0	13.2	12.4
PBV (x)	3.1	2.6	2.4	2.3	2.2
EV/EBITDA (x)	5.8	5.3	5.0	4.6	4.4
Div Yield (%)	4.0	4.4	4.7	5.3	6.0

Source: Company, KBVS Research

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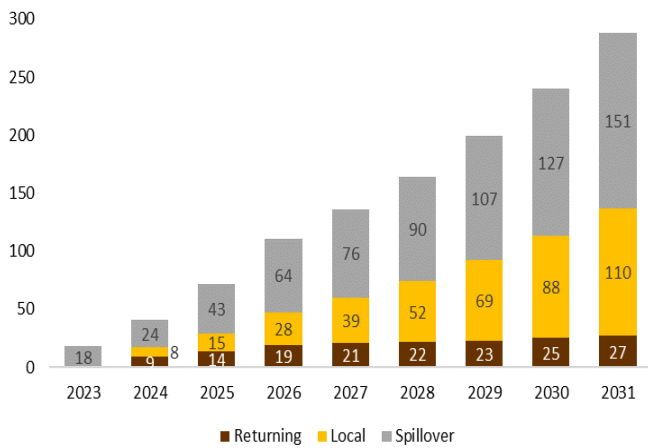
Telekomunikasi Indonesia (TLKM)

Exhibit 2: Groundbreaking ceremony at KIIE on December '22



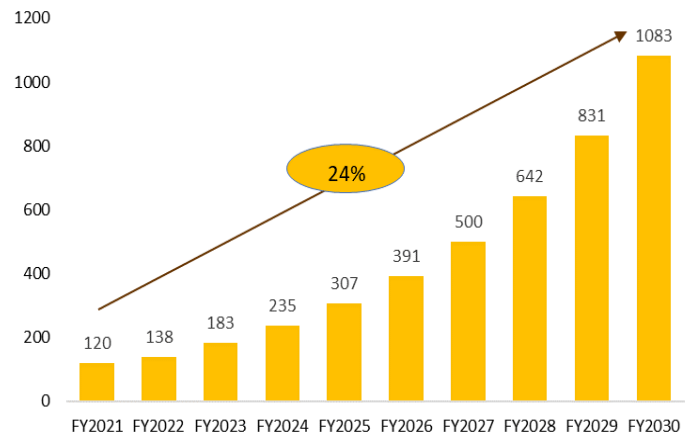
Source: KBVS Research

Exhibit 2: Batam total multitenant DC demand, by type



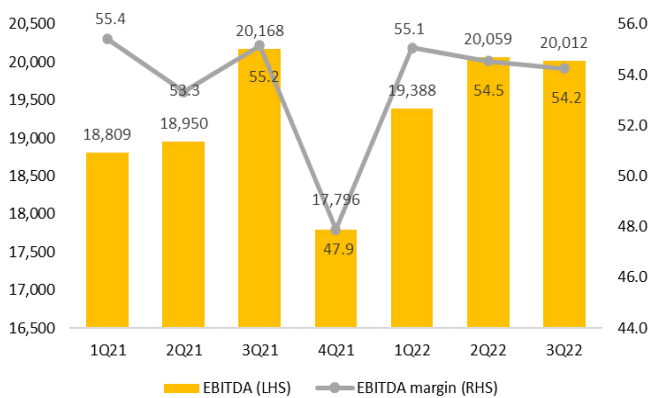
Source: Company

Exhibit 3: Total Indonesia DC open market demand – in MW



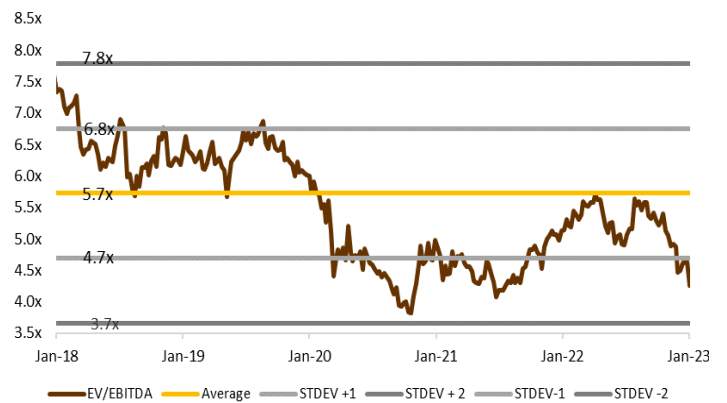
Source: Company

Exhibit 4: TLKM EBITDA and EBITDA margin



Source: Company, KBVS Research

Exhibit 6: TLKM is currently trading below -1SD 5-yr historical



Source: Company, KBVS Research

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FINANCIAL TABLES

Exhibit 7: 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 8: 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 9: 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 10: 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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