

## Telekomunikasi Indonesia (TLKM)

Seeking holy grail of telco industry

25 July 2022



<b>TLKM IJ</b>	<b>BUY</b>
Sector	Telecom.
Price at 22 July 2022 (Rp)	4,230
Price target (Rp)	4,850
Upside/Downside (%)	14.7

- TLKM's 1Q22 net profit increased 1.7% YoY to Rp6.1tn, representing 22.1% of our FY forecast
- We expect revenue growth of 6% YoY, EBITDA margin of 53.6% in 2022
- We reiterate our "BUY" call with 15% upside potential on a 12-month view on strong digital infrastructure and mobile leadership well as solid B/S

**Slower net profit growth, yet margin stabilized**

TLKM's net profit grew slightly 1.7% YoY to Rp6.12tn in 1Q22 (+3.9% QoQ), accounting for 22.1% of our FY estimate. This slower net profit growth than expected was due to unrealized loss of GOTO investment totaling Rp893bn in 1Q22. TLKM's normalized net profit grew 11.3% YoY in 1Q22. Meanwhile, TLKM's revenue increased 3.7% YoY in 1Q22 to Rp35.2tn (-5.3% QoQ) or 23.2% of KBV FY2022E, boosted by data, internet and IT services, followed by Indihome. The company's operating margin contracted from 34.5% in 1Q21 to 30.1% in 1Q22 on the back of higher costs. Nevertheless, TLKM's EBITDA margin was relatively stabilized at 55.1% in 1Q22, compared to FY2022 estimate of 53.6%. Furthermore, TLKM's finance cost dropped 3.8% YoY to Rp945bn in 1Q22. Balance-sheet wise, TLKM's net gearing was improved to 0.5x in 1Q22.

**Eroded by persistent cannibalization impacts**

Telkomsel's net profit declined 31.8% YoY to Rp4.6tn (-31.9% QoQ). Meanwhile, revenues were flattish +0.2% YoY/-4.9% QoQ to Rp21.3tn as we suspect, due to intense competition, persistent impact from covid-19 combined with continued cannibalization. Nevertheless, unrealized loss of GOTO investment also drove operating margin to decline from 41.0% in 1Q21 to 29.8% in 1Q22. Furthermore, EBITDA margin contracted from 58.9% in 1Q21 to 57.7% in 1Q22. Amid higher customer additions by 3.2% YoY to 175 million, Telkomsel ARPU shrunk 4.7% YoY (-4.7% QoQ). In addition, Indihome continued to be growth driver whose revenue escalated 7.9% YoY, resulting in higher contribution to TLKM from 18.7% in 1Q21 to 19.5% in 1Q22. This was followed by 136,000 additions of new customer to 8.7 million, growing 5.3% YoY or 1.6% QoQ in 1Q22. The additions were considered slower than expected on the back of Islamic festivities during 1Q22.

**Aims to unlock value**

We expect TLKM's revenue growth of 6% YoY in 2022, boosted by data, internet and IT services, and Indihome. Nevertheless, we anticipate competition in mobile segment to remain stiff this year, despite recent consolidation of ISAT-Hutch. To encounter stiff competition in mobile and decelerate legacy services decline, Telkomsel opts to stay relevant, provide personalized offers to its higher valued customers. For Indihome, we expect 10% growth subscribers in 2022 given better consumer spending and persistent trend of remote activities. Furthermore, TLKM strives to seek new sources of growth through local startup investments, tapping into higher-valued data center and cloud infrastructure. In particular, TLKM is in process to consolidate its data center entity under Telkom DC Co, starting with Hyperscale Data Center that is slated to compete in 2-3 years. The company has also set up strategic partnership with Microsoft that is able strengthen its digital portfolio by utilizing Hyperscale data center, targeting B2B and B2G clients.

**Reiterate BUY on the back of mobile and fixed broadband leadership**

We maintain our BUY call with a higher DCF-based price target of Rp4,850/share. The stock is currently traded at a 2022F PER of 17.7x and EV/EBITDA of 6.6x. We are sanguine with TLKM's outlook buoyed by 1) leadership in mobile data and fixed broadband; 2) network and data infrastructure advantage; 3) enterprise and WIB segments thanks to growing digitalization, tower and other digital infrastructure; 4) collaboration with startups and other techno giant to expand digital ecosystem, and source of new growth; 5) solid balance sheet; 6) attractive valuation relative to its peers and 7) improved consumers spending. However, we note several downside risks to our recommendation including 1) competitive market; 2) lower-than-anticipated consumer power due to uncertainty surrounding covid-19 situation; 3) interest rate hikes and 4) regulation changes.

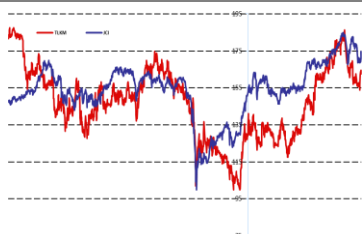
**Stock Information**

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 ranges from telecommunication to property.

Market cap (Rp bn)	416,061
Shares outstanding (mn)	99,062
52-week range (Rp)	3,240-4,680
3M average daily vol. ('000)	128,703
3M average daily val. (Rp mn)	543,771

**Shareholders (%)**

Government of Indonesia	52.0
Public	48.0

**Stock Performance**

Source: Bloomberg

	<b>1M</b>	<b>3M</b>	<b>12M</b>
Performance (%)	3.70	(9.29)	30.8

**Key Statistics**

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (Rp bn)	136,462	143,210	151,595	160,382	170,197
EBITDA (Rp bn)	72,080	75,723	81,295	87,522	93,695
Net profit (Rp bn)	20,804	24,760	27,065	30,298	33,404
EPS (Rp)	210.01	249.94	273.21	305.85	337.20
EPS growth (%)	11.47%	19.02%	9.31%	11.95%	10.25%
ROAA (%)	8.89%	9.45%	9.52%	10.09%	10.09%
ROAE (%)	17.47%	18.60%	18.14%	19.28%	20.15%
PER (x)	23.05	19.36	17.71	15.82	14.35
PBV (x)	3.97	3.30	3.13	2.97	2.82
EV/EBITDA (x)	7.20	6.66	6.26	5.72	5.46
Div Yield (%)	3.18%	3.47%	4.52%	5.06%	5.57%

**Analyst**

Devi Harjoto

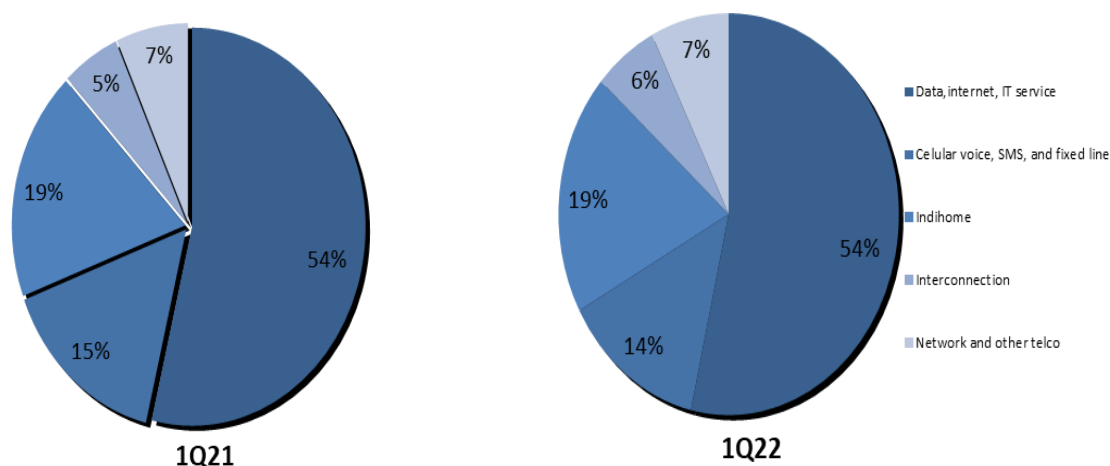
# Telekomunikasi Indonesia (TLKM)

## TLKM's Financial Overview

Consolidated Statements of Profit or Loss (Rp bn)	1Q21	1Q22	YoY Change	4Q21	1Q22	QoQ Change
<b>Revenue</b>	<b>33,945</b>	<b>35,208</b>	<b>3.7%</b>	<b>37,167</b>	<b>35,208</b>	<b>(5.3%)</b>
Costs	(22,246)	(24,597)	10.6%	(25,905)	(24,597)	(5.0%)
<b>Operating profit</b>	<b>11,699</b>	<b>36,301</b>	<b>210.3%</b>	<b>11,262</b>	<b>10,611</b>	<b>(5.8%)</b>
<i>Operating profit margin</i>	<b>34.5%</b>	<b>30.1%</b>		<b>30.3%</b>	<b>30.1%</b>	
Depreciation, amortization	(7,110)	(8,824)	24.1%	(9,966)	(8,824)	(11.5%)
<b>EBITDA</b>	<b>18,809</b>	<b>19,388</b>	<b>3.1%</b>	<b>21,228</b>	<b>19,388</b>	<b>(8.7%)</b>
<i>EBITDA margin</i>	55.4%	55.1%		57.1%	55.1%	
Finance income/ expenses	(829)	(745)	(10.1%)	(870)	(745)	(14.4%)
Profit from associates	(54)	(4)	(92.6%)	62	(4)	(106.5%)
<b>Profit before income tax</b>	<b>10,816</b>	<b>9,862</b>	<b>(8.8%)</b>	<b>10,454</b>	<b>9,862</b>	<b>(5.7%)</b>
Tax benefit (expenses)	(2,429)	(2,006)	(17.4%)	(2,133)	(2,006)	(6.0%)
<b>Profit after tax</b>	<b>8,387</b>	<b>7,856</b>	<b>(6.3%)</b>	<b>8,321</b>	<b>7,856</b>	<b>(5.6%)</b>
Minority interests	2,373	1,708	(28.0%)	2,433	1,708	(29.8%)
<b>Net profit</b>	<b>6,014</b>	<b>6,118</b>	<b>1.7%</b>	<b>5,888</b>	<b>6,118</b>	<b>3.9%</b>
<i>Net profit margin</i>	17.7%	17.4%		15.8%	17.5%	

Source: Company, KB Valbury Sekuritas

## TLKM revenue breakdown



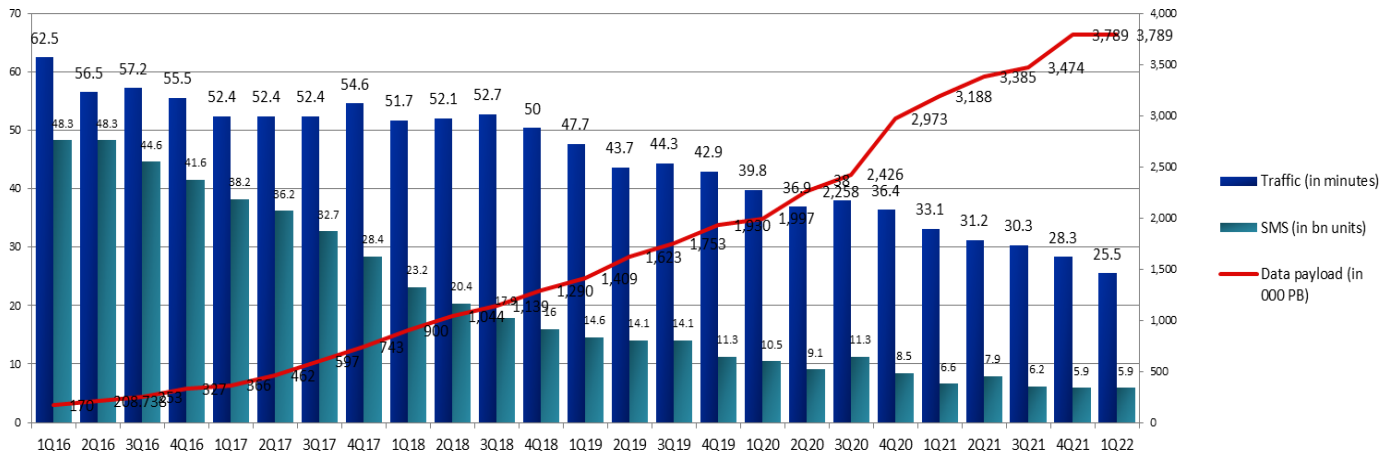
Data, Internet and IT service segment revenue to total revenue stood at 54% in 1Q22

Sources: Companies, KB Valbury Sekuritas

# Telekomunikasi Indonesia (TLKM)

## Telkomsel Legacy Performance Compared to Data

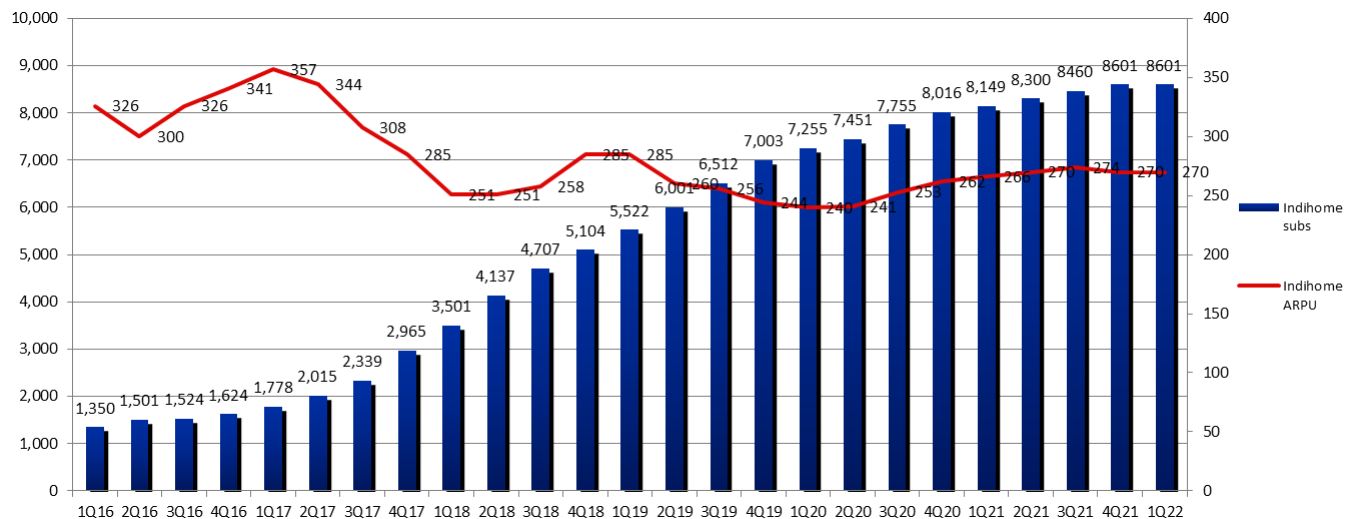
**SMS and voice traffic consistently declined QoQ as data payload jumped**



Sources: Companies, KB Valbury Sekuritas

## Indihome Operational Performance

**Indihome subscribers steadily grew, while ARPU stabilized QoQ thanks to additions for add-on**



Sources: Companies, KB Valbury Sekuritas

# Telekomunikasi Indonesia (TLKM)

## FINANCIAL TABLES

### CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
<b>Revenue</b>	136,462	143,210	151,595	160,382	170,197
Costs	0.66%	4.94%	5.86%	5.80%	6.12%
<b>Operating profit</b>	92,957	95,647	99,807	(103,451)	(108,750)
<i>Operating profit margin</i>	43,505	47,563	51,788	56,931	61,447
Depreciation, amortization	2.62%	9.33%	8.88%	9.93%	7.93%
<b>EBITDA</b>	72,080	75,723	81,295	87,522	93,695
<i>EBITDA margin</i>	11.18%	5.05%	7.36%	7.66%	7.05%
Finance income/ expenses	(3,721)	(3,807)	(3,602)	(3,704)	(4,128)
Profit from associates	(246)	(78)	(70)	(72)	(72)
<b>Profit before income tax</b>	38,775	43,678	48,116	53,155	57,247
Tax benefit (expenses)	(9,212)	(9,730)	(12,029)	(13,289)	(14,312)
<b>Profit after tax</b>	29,563	33,948	36,087	39,866	42,935
Minority interests	8,759	9,188	9,022	9,568	9,532
<b>Net profit</b>	20,804	24,760	27,065	30,298	33,404
<i>Net profit margin</i>	11.47%	19.02%	9.31%	11.95%	10.25%

Source: Company, KB Valbury Sekuritas

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
<b>Current assets</b>					
Cash and cash equivalents	20,589	38,311	38,352	51,047	49,362
Trade receivables	11,553	8,705	13,636	10,493	17,700
Other current assets	14,361	14,261	14,384	14,804	15,630
<b>Total current assets</b>	<b>46,503</b>	<b>61,277</b>	<b>66,372</b>	<b>76,345</b>	<b>82,691</b>
<b>Non-current assets</b>					
Fixed assets	160,923	165,026	171,627	176,776	189,150
Other non-current assets	39,517	50,881	53,517	55,656	58,960
<b>Total non-current assets</b>	<b>200,440</b>	<b>215,907</b>	<b>225,144</b>	<b>232,432</b>	<b>248,110</b>
<b>Total assets</b>	<b>246,943</b>	<b>277,184</b>	<b>291,517</b>	<b>308,777</b>	<b>330,801</b>
<b>Current liabilities</b>					
Trade payables	16,999	17,170	17,205	19,129	19,242
Taxes payables	2,713	3,923	5,080	6,579	8,520
Accrued expenses	14,265	15,885	16,203	16,527	16,857
Short term debts	19,284	16,372	18,203	19,404	24,494
Other current liabilities	15,832	15,781	15,793	15,837	15,891
<b>Total current liabilities</b>	<b>69,093</b>	<b>69,131</b>	<b>72,485</b>	<b>77,475</b>	<b>85,005</b>
<b>Non-current liabilities</b>					
Long-term debts	30,561	36,319	38,498	41,193	45,312
Other non-current liabilities	26,400	26,335	27,503	28,797	30,269
<b>Total non-current liabilities</b>	<b>56,961</b>	<b>62,654</b>	<b>66,001</b>	<b>69,990</b>	<b>75,581</b>
Minority interests	18,362	23,753	23,991	24,230	24,473
<b>Shareholders' equity</b>	<b>120,889</b>	<b>145,399</b>	<b>153,031</b>	<b>161,311</b>	<b>170,215</b>
<b>Total liabilities and equity</b>	<b>246,943</b>	<b>277,184</b>	<b>291,517</b>	<b>308,777</b>	<b>330,801</b>

Source: Company, KB Valbury Sekuritas

# Telekomunikasi Indonesia (TLKM)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	20,804	24,760	27,065	30,298	33,404
Depreciation & amortization	9,490	17,896	18,593	19,301	20,336
Changes in working capital	1,825	5,333	(3,770)	6,327	(5,721)
<b>CF from operating activities</b>	<b>32,119</b>	<b>47,989</b>	<b>41,888</b>	<b>55,927</b>	<b>48,018</b>
Investment in fixed assets	(11,710)	(19,797)	(22,810)	(21,924)	(29,993)
Others	(18,734)	(13,566)	(5,020)	(4,665)	(6,021)
<b>CF from investing activities</b>	<b>(30,444)</b>	<b>(33,363)</b>	<b>(27,830)</b>	<b>(26,589)</b>	<b>(36,014)</b>
Debts raised/(repaid)	(15,262)	(16,643)	(21,652)	(24,239)	(26,723)
Dividends paid	14,382	3,895	4,808	4,476	9,830
Others	1,552	6,849	2,827	3,121	3,202
<b>CF from financing activities</b>	<b>672</b>	<b>3,096</b>	<b>(14,017)</b>	<b>(16,642)</b>	<b>(13,690)</b>
<b>Free cash flows</b>	<b>2,347</b>	<b>17,722</b>	<b>41</b>	<b>12,695</b>	<b>(1,686)</b>
<b>Net cash flows</b>	<b>18,242</b>	<b>20,589</b>	<b>38,311</b>	<b>38,352</b>	<b>51,047</b>
<b>Cash and cash equivalents, beginning</b>	<b>20,589</b>	<b>38,311</b>	<b>38,352</b>	<b>51,047</b>	<b>49,362</b>
<b>Cash and cash equivalents, ending</b>	<b>20,804</b>	<b>24,760</b>	<b>27,065</b>	<b>30,298</b>	<b>33,404</b>

Source: Company, KB Valbury Sekuritas

## RATIO ANALYSIS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Operating profit margin (%)	31.88%	33.21%	34.16%	35.50%	36.10%
EBITDA margin (%)	52.82%	52.88%	53.63%	54.57%	55.05%
Net profit margin (%)	15.25%	17.29%	17.85%	18.89%	19.63%
Receivables turnover (x)	11.80	14.43	13.80	13.50	12.25
Inventory turnover (x)	118.6	108.6	119.0	122.0	124.0
Payable turnover (x)	6.0	5.6	5.8	5.7	5.7
ROA (%)	8.89%	9.45%	9.52%	10.09%	10.45%
ROE (%)	17.47%	18.60%	18.14%	19.28%	20.15%
ROIC (%)	14.65%	16.91%	17.09%	19.19%	18.78%
Debt/ Equity (%)	48.6%	43.3%	43.9%	44.2%	47.9%
Net debt/Equity (x)	38.5%	20.4%	22.7%	15.2%	22.1%
Net debt/ EBITDA (x)	83.3%	83.4%	83.2%	82.1%	87.0%
Interest coverage (x)	15.9	17.3	18.91	19.57	19.05
BV/share (x)	1,034.98	1,227.98	1,302.62	1,383.78	1,471.22
Dividend Yield (%)	3.18%	3.47%	4.52%	5.06%	5.57%

Source: Company, KB Valbury Sekuritas