

Telekomunikasi Indonesia (TLKM)

Peeking into the future

4 August 2022



TLKM IJ	BUY
Sector	Telecom.
Price at 03 Aug 2022 (Rp)	4,470
Price target (Rp)	5,200
Upside/Downside (%)	16.3

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 (Rp bn)	416,061
Shares outstanding (mn)	99,062
52-week range (Rp)	3,300-4,680
3M average daily vol. ('000)	128,413
3M average daily val. (Rp mn)	485,314

Shareholders (%)

Government of Indonesia	52.0
Public	48.0

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	12.3	(6.1)	34.2

- TLKM's 1H22 net profit increased 6.9% YoY to Rp13.3tn, representing 49.2% of our FY forecast
- We expect revenue growth of 6% YoY, EBITDA margin of 53.6% in 2022
- We reiterate our "BUY" call with 16% upside potential on a 12-month view on strong digital infrastructure and mobile leadership well as solid B/S

Relatively in line with estimate

TLKM's net profit grew 6.9% YoY to Rp13.31tn (+17.6% QoQ to Rp7.2tn), accounting for 49.2% of our FY estimate. The improvement of bottom-line performance in 1H22 was mainly driven by data, internet and IT service that increased by 4.4% YoY/7.5% QoQ in line with normalized mobility. Nevertheless, legacy services continue to drop 11.7% YoY/-3.7% QoQ in 1H22, which contributed 12.9% of TLKM's revenue. Furthermore, EBITDA margin also improved from 54.3% in 1H21 to 54.8% in 1H22, on the back of controllable costs, in particular operations, maintenance and telco services. TLKM also booked lower finance costs by 5.4% YoY to Rp1.95tn in 1H22. The company's balance sheet remained solid in 1H22 with net gearing of 0.3x.

Improvement in Telkomsel ARPU

Telkomsel's net income tumbled 10.6% YoY to Rp11.4tn in 1H22 (+48.7% QoQ to Rp6.8tn). This was followed by soft growth in revenue by 1% YoY to Rp43.6tn (+5.0% QoQ to Rp22.3tn) in the midst of continued shifting from legacy services to data. In contrast, digital business revenue grew 5.2% YoY/7.0% QoQ in 1H22. Furthermore, EBITDA margin also declined from 58.7% in 1H21 to 57.1% in 1H22. The number of customers declined 3.0% QoQ to 169.7 million in 2Q22 as ARPU improved, growing 6.8% QoQ to Rp41K. On the other hand, revenue of Indihome went up 7.4% YoY to Rp13.8tn (+1.9% QoQ to Rp6.98tn). Indihome added 288,000 of new customers in 1H22 to 8.9 million or growing 7.2% YoY, yet still lower than our expectation. However, Indihome ARPU remained stable YoY in 1H22 at Rp270K.

Reaching beyond telecommunication business

We maintain TLKM's revenue growth estimate of 6% YoY in 2022, boosted by improvement in mobile segment and Indihome. Amid intense competition in mobile segment, Telkomsel strives to maintain its market share while aiming for healthier growth by leveraging network superiority, and providing offering for its high valued customers. For Indihome, we expect lower customers additions this year amid normalized mobility, yet ARPU to be relatively stable YoY following efforts to enrich its bundling offerings and push to upgrade. As part of its transformation plans, TLKM-Singtel have inked partnership to develop data center business especially a Hyperscale data center located in Batam and expand fixed-mobile convergence through future hybrid products. To capture long term growth, Telkomsel seeks to develop digital ecosystem through INDICO that will be focused on health tech (Kuncie), gaming (Majamojo) and edutech (Fita).

Reiterate BUY on the back of mobile and fixed broadband leadership

We maintain our BUY call with a higher DCF-based price target of Rp5,200/share. The stock is currently traded at a 2022F PER of 19.1x and EV/EBITDA of 6.7x. 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) manageable leverage ratio; 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; 3) interest rate hikes and 4) regulation changes.

Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (Rp bn)	136,462	143,210	151,423	160,597	171,173
EBITDA (Rp bn)	72,080	75,723	81,123	86,020	91,967
Net profit (Rp bn)	20,804	24,760	27,045	28,223	29,351
EPS (Rp)	210.01	249.94	273.01	284.90	296.28
ROAA (%)	8.89%	9.45%	9.47%	9.26%	9.10%
ROAE (%)	17.5%	18.6%	18.0%	17.5%	17.1%
PER (x)	24.8	20.8	19.1	18.3	17.6
PBV (x)	4.3	3.5	3.3	3.1	2.9
EV/EBITDA (x)	7.7	7.1	6.7	6.3	5.9
Div Yield (%)	3.0%	3.2%	3.7%	3.8%	4.3%

Analyst

Devi Harjoto

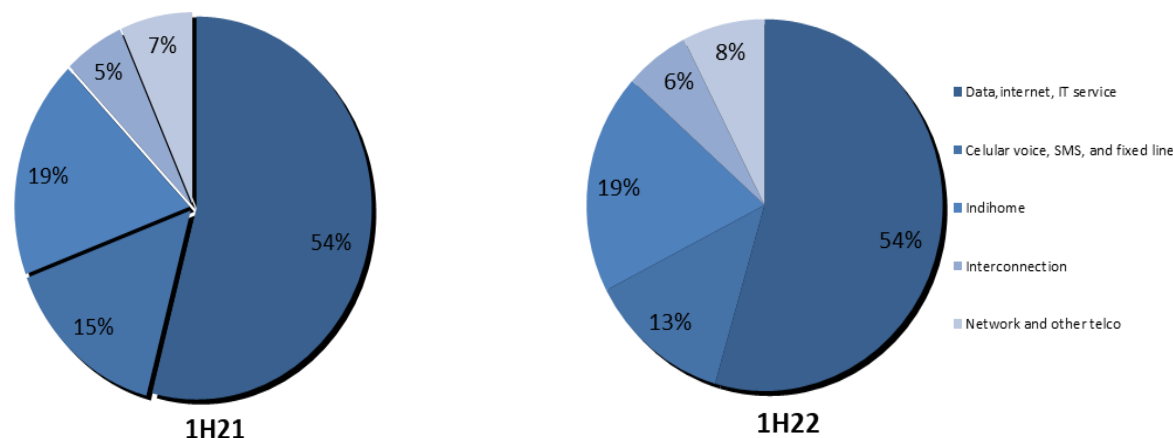
Telekomunikasi Indonesia (TLKM)

TLKM's Financial Overview

Consolidated Statements of Profit or Loss (Rp bn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Revenue	69,480	71,983	3.6%	35,208	36,775	4.5%
Costs	(45,865)	(49,047)	6.9%	(24,597)	(24,450)	(0.6%)
Operating profit	23,615	22,936	(2.9%)	10,611	12,325	16.2%
<i>Operating profit margin</i>	<i>34.0%</i>	<i>31.9%</i>		<i>30.1%</i>	<i>33.5%</i>	
Depreciation, amortization	(14,144)	(16,805)	18.8%	(8,824)	(7,981)	(9.6%)
EBITDA	37,759	39,447	4.5%	19,388	20,059	3.5%
<i>EBITDA margin</i>	<i>54.3%</i>	<i>54.8%</i>		<i>55.1%</i>	<i>54.5%</i>	
Finance income/ expenses	(1,728)	(1,512)	(12.5%)	(745)	(767)	3.0%
Profit from associates	(93)	5	(105.4%)	(4)	9	(325.0%)
Profit before income tax	21,794	21,429	(1.7%)	9,862	11,567	17.3%
Tax benefit (expenses)	(4,874)	(3,874)	(20.5%)	(2,006)	(1,868)	(6.9%)
Profit after tax	16,920	17,555	3.8%	7,856	9,699	23.5%
Minority interests	4,469	(4,245)	(195.0%)	(1,738)	(2,507)	44.2%
Net profit	12,451	13,310	6.9%	6,118	7,192	17.6%
<i>Net profit margin</i>	<i>17.9%</i>	<i>18.5%</i>		<i>17.4%</i>	<i>19.6%</i>	

Source: Company, KB Valbury Sekuritas

TLKM revenue breakdown



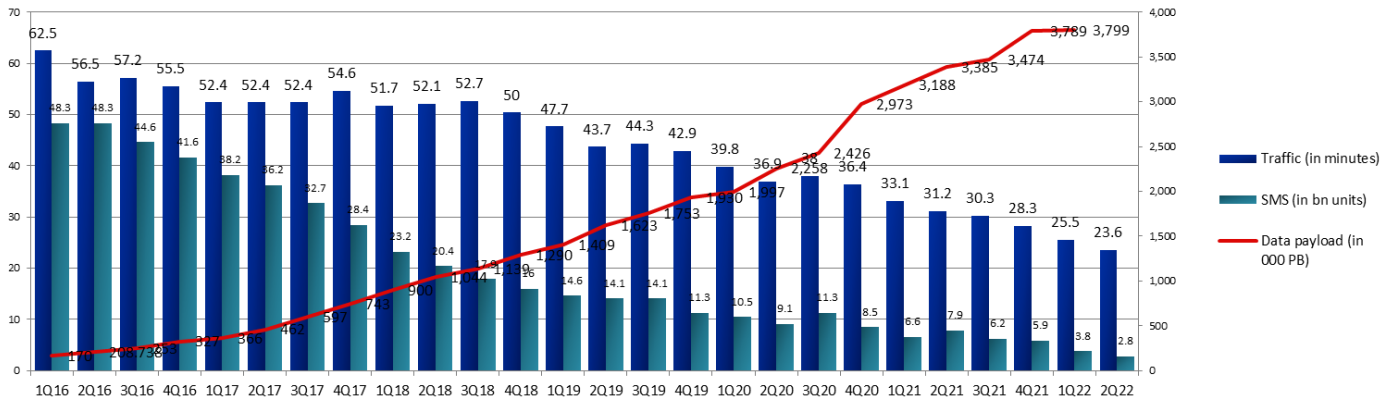
Data, Internet and IT service segment revenue to total remained at 54% in 1H22

Sources: Companies, KB Valbury Sekuritas

Telekomunikasi Indonesia (TLKM)

Telkomsel Legacy Performance Compared to Data

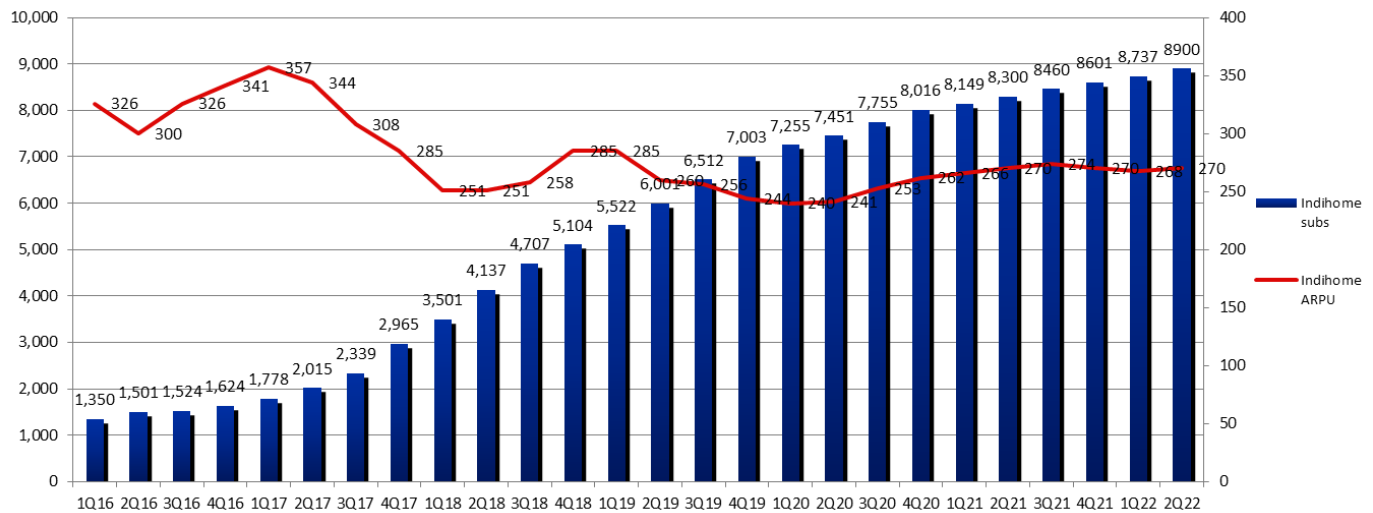
SMS and voice traffic consistently declined QoQ as data payload increased



Sources: Companies, KB Valbury Sekuritas

Indihome Operational Performance

Indihome subscribers steadily grew, while ARPU slightly increased QoQ thanks to additions for add-ons



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
Revenue	136,462	143,210	151,423	160,597	171,173
Costs	(92,957)	(95,647)	(99,670)	(107,229)	(114,957)
Operating profit	43,505	47,563	51,753	53,368	56,216
<i>Operating profit margin</i>	31.9%	33.2%	34.2%	33.2%	32.8%
EBITDA	72,080	75,723	81,123	86,020	91,967
<i>EBITDA margin</i>	52.8%	52.9%	53.6%	53.6%	53.7%
Finance income/ expenses	(3,721)	(3,807)	(3,602)	(3,782)	(3,964)
Profit from associates	(246)	(78)	(70)	(72)	(73)
Profit before income tax	38,775	43,678	48,081	49,514	52,179
Tax benefit (expenses)	(9,212)	(9,730)	(12,020)	(12,379)	(13,045)
Profit after tax	29,563	33,948	36,060	37,136	39,134
Minority interests	8,759	9,188	9,015	8,913	9,784
Net profit	20,804	24,760	27,045	28,223	29,351
<i>Net profit margin</i>	15.2%	17.3%	17.9%	17.6%	17.1%

Source: Company, KB Valbury Sekuritas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash and cash equivalents	20,589	38,311	41,034	46,427	46,869
Trade receivables	11,553	8,705	13,611	10,550	16,812
Other current assets	14,361	14,261	14,382	15,099	15,923
Total current assets	46,503	61,277	69,026	72,076	79,604
Non-current assets					
Fixed assets	160,923	165,026	171,627	185,357	189,064
Other non-current assets	39,517	50,881	53,517	57,811	61,289
Total non-current assets	200,440	215,907	225,144	243,168	250,353
Total assets	246,943	277,184	294,171	315,245	329,957
Current liabilities					
Trade payables	16,999	17,170	17,159	19,829	19,761
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	19,848	21,263
Other current liabilities	15,832	15,781	15,793	15,834	15,886
Total current liabilities	69,093	69,131	72,438	78,616	82,288
Non-current liabilities					
Long-term debts	30,561	36,319	38,498	41,193	41,193
Other non-current liabilities	26,400	26,335	27,503	29,016	30,497
Total non-current liabilities	56,961	62,654	66,001	70,209	71,690
Minority interests	18,362	23,753	23,991	24,230	24,473
Shareholders' equity	120,889	145,399	155,731	166,419	175,980
Total liabilities and equity	246,943	277,184	294,171	315,245	329,957

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	27,045	28,223	29,351
Depreciation & amortization	9,490	17,896	18,593	19,764	20,848
Changes in working capital	1,825	5,333	(3,789)	6,691	(4,957)
CF from operating activities	32,119	47,989	41,849	54,677	45,242
Investment in fixed assets	(11,710)	(19,797)	(22,810)	(30,918)	(21,735)
Others	(18,734)	(13,566)	(5,020)	(6,869)	(6,299)
CF from investing activities	(30,444)	(33,363)	(27,830)	(37,788)	(28,034)
Debts raised/(repaid)	(15,262)	(16,643)	(18,932)	(19,756)	(22,013)
Dividends paid	14,382	3,895	4,808	5,139	2,044
Others	1,552	6,849	2,827	3,121	3,202
CF from financing activities	672	3,096	(11,296)	(11,496)	(16,766)
Free cash flows	2,347	17,722	2,723	5,394	442
Net cash flows	18,242	20,589	38,311	41,034	46,427
Cash and cash equivalents, beginning	20,589	38,311	41,034	46,427	46,869
Cash and cash equivalents, ending	20,804	24,760	27,045	28,223	29,351

Source: Company, KB Valbury Sekuritas

RATIO ANALYSIS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Operating profit margin	31.9%	33.2%	34.2%	33.2%	32.8%
EBITDA margin	52.8%	52.9%	53.6%	53.6%	53.7%
Net profit margin	15.2%	17.3%	17.9%	17.6%	17.1%
Receivables turnover (x)	11.8	14.4	13.8	13.5	12.7
Inventory turnover (x)	118.6	108.6	119.0	122.0	123.0
Payable turnover (x)	6.0	5.6	5.8	5.8	5.8
ROAA	8.9%	9.4%	9.5%	9.3%	9.1%
ROAE	17.5%	18.6%	18.0%	17.5%	17.1%
ROIC	14.7%	16.9%	16.4%	16.2%	15.8%
Debt/ Equity	63.8%	56.8%	56.1%	55.5%	53.4%
Net debt/Equity	43.8%	25.3%	24.9%	22.9%	22.5%
Net debt/ EBITDA	90.8%	91.2%	91.0%	91.7%	88.0%
Interest coverage (x)	15.9	17.3	18.87	19.05	19.40
BV/share (x)	1,035.0	1,228.0	1,329.9	1,435.3	1,529.4
Dividend Yield	3.0%	3.2%	3.7%	3.8%	4.3%

Source: Company, KB Valbury Sekuritas

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