

# Telekomunikasi Indonesia (TLKM)

## Reinforcing grand strategy

12 Sept 2023



TLKM IJ	BUY
Sector	Telecom.
Price at 11 Sept 2023 (IDR)	3,700
Price target (IDR)	4,420
Upside/Downside (%)	19.5

### 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)	367,524
Shares outstanding (mn)	99,062
52-week range (IDR)	3,650-4,600
3M average daily vol. ('000)	415,732
3M average daily val. (IDR mn)	1,661,223

### Shareholders (%)

Government of Indonesia	52.0
Public	48.0

### Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(3.1)	(8.9)	(18.7)

TLKM kicked off an annual TGID '23 with emphasis on the company's focus for transformation strategy of 5 bold moves, aiming to strengthen B2B segments. With implementations of this grand strategy, it is focused on achieving leaner operational, synergies to achieve better competitive advantage and upscale its services. Maintain BUY with a target price of IDR4,420/share, implying 5.6x '23F EV/EBITDA, while currently is trading at 4.6x forward EV/EBITDA rather undemanding at below -1SD 5-year mean

### Roadmap for transformation

During TGID '23, management reemphasised its focus for ongoing progress of grand strategy of 5 bold moves that includes FMC, InfraCo-FiberCo, DC co, B2B Digital IT Service Co and DigiCo. On that part, TLKM is aiming to strengthen its B2B segments by transforming its business lines to be ready to tackle changing and more challenging landscape of telco industry that has been battered by stiff competition, high capex especially for upcoming 5G and costs and more demanding customer experience. With this transformation, TLKM is focused on achieving leaner operational, more synergies through expanding partnerships with global IT companies to achieve better competitive advantage and upscale its services.

On FMC, management is seeking for value creation through synergies, while striving to encourage healthier customers with high productivity especially for household by leveraging c. 30% of converged Indihome customers through upselling and cross selling.

### Capturing opportunities from growth of telco infra demands

On InfraCo-Fiber, TLKM is planning to establish an entity to consolidate its fiber assets and telco infrastructures including tower. Higher penetration of data use prompts growing demand in fiber which is projected to reach IDR10.8 tn in valuation by 2028. The company also should gain better opportunity through potential active sharing for 5G network deployment with potential market size of IDR2.3 tn. In addition, MTEL is to expand capacity and coverage across the country through both inorganic and organic expansions for fibre and towers.

### Data center becomes the core of B2B business expansion

Meanwhile, ongoing consolidation of data center has become central theme of its grand strategy of 5 bold moves, whose assets spread across Telin, NeutraDC and NeuCentrix for edge DCs. Under NeutraDC (TDE), the company's total DC capacity stands at 103.5MW across 30 Dcs (5 overseas, 25 domestic). With growing digital economy, robust social media users, and needs for low latency data and transformation in enterprise should lead to higher demand for data center. Data center demand in Indonesia is projected to reach 1,256MW by 2031E compared to 98MW in 2022 as demands for data center are expected to shift to emerging economies. Jakarta, in particular, is considered to be the fastest growing country in SEA with CAGR at 21.8% ahead those of Hanoi, Manila and KL with 14.5%; 14.2% and 12.9%.

TLKM through NeutraDC that currently controls 40% of market share will be able to leverage its value proposition as digital ecosystem, including HDCs and Edge Dcs as well thanks to its position as market leaders for mobile and fixed broadband that should generate substantial number of eyeballs and contents. The company targets to be a top data center player in the region with targeted capacity of 400 MW.

### Reiterate BUY on attractive valuation

Reiterate our BUY call with a target price of IDR4,420, implying 5.6x '23F EV/EBITDA, while currently is trading at 4.6x forward EV/EBITDA rather undemanding at below -1SD 5-year mean. We note several upside catalysts for TLKM, namely 1) improving market competition in mobile; 2) better costs efficiency and capex stemming from FMC initiative as well as 3) implementation of 5 bold moves enabling it to leverage from synergy and improve competitiveness.

### Exhibit 1: Key Statistics

Year end Dec	2021A	2022A	2023F	2024F	2025F
Revenue (IDR bn)	143,210	147,306	148,595	158,694	167,131
EBITDA (IDR bn)	75,723	78,992	78,290	85,033	90,742
Net profit (IDR bn)	24,760	20,753	25,879	28,169	30,151
Core profit (IDR bn)	21,182	26,996	25,319	27,445	29,046
Core EPS (IDR)	214	273	256	277	293
ROAE (%)	9.4	7.5	9.0	9.1	9.3
PER (x)	14.8	17.6	14.1	13.0	12.1
PBV (x)	2.5	2.4	2.2	2.1	2.0
EV/EBITDA (x)	5.2	5.0	4.8	4.4	4.2
Div Yield (%)	4.6	4.1	5.3	6.2	6.6

Source: Company, KBVS Research

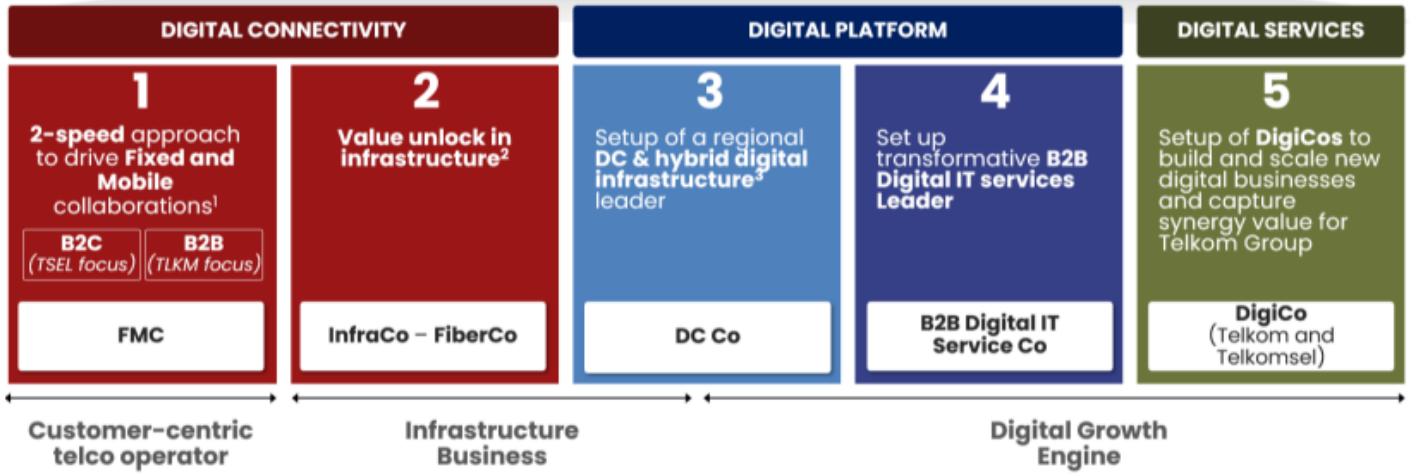
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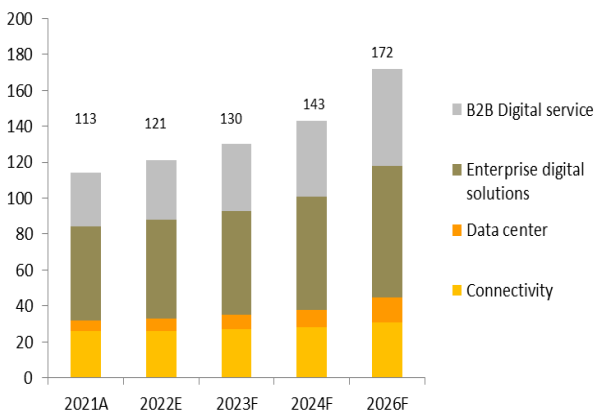
# Telekomunikasi Indonesia (TLKM)

Exhibit 2: 5 bold move strategy



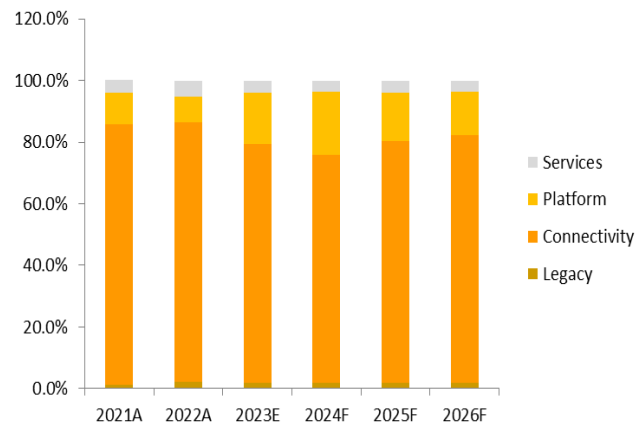
Source: Company

Exhibit 3: B2B Market size in Indonesia



Source: Company, KBVS Research

Exhibit 4: TLKM Group Capex proportion forecasts



Source: Company, KBVS Research

Exhibit 5: FMC roadmap and value creation during TGID '23 presentation

**Maximizing FMC business by ensuring both continuity and value creation**

**Business continuity and improvement on GTM**

- Identify top customer issues and plan for improvement – fulfillment process, billing and after sales issues
- Improve GTM – enhance SF productivity and using orbit to accelerate fulfillment SLA
- Leveraging partnership values – improve fulfillment journey and process, maximizing channels synergy (mobile – fixed = FMC)
- Initiative to drive to higher speed, better experience, and higher ARPU

**Maximizing synergy values**

~ 21 Mn estimate Total Household

- Q1 - Mobile & Mobile: ~5 Mn HH
- Q2 - Enterprise Only: ~3 Mn HH
- Q3 - Mobile Only: ~8 Mn HH
- Q4 - Home Broadband & Home Mobile: ~5 Mn HH

- Prioritizing cost optimization, Service integration, platform cost, no investment duplication
- Increase the portion of Telkomsel in household which has used IH and Telkomsel through convergent of household package product (Q1)
- Cross-selling mobile communication services to IH subscribers which haven't used Telkomsel (Q2)
- Cross-selling of household which have already used Telkomsel but haven't used IH services (Q3)
- Acquire new households which haven't used either IH or Tsel services (true field homes) (Q4)

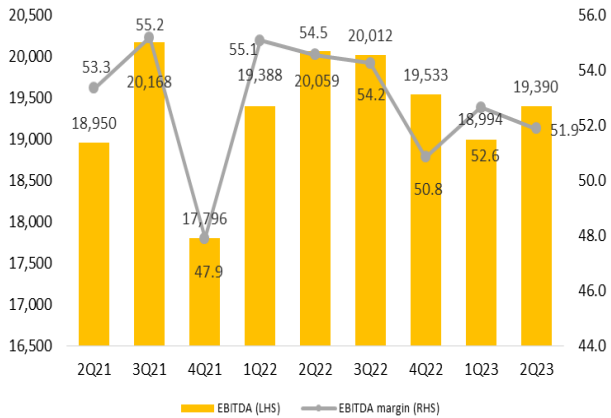
**New business growth in the future**

- Smart Home Solution**: Introduce smart home solution services.
- FTTR: Fiber to the Room**: FTTR delivers fiber connectivity to every room.
- High Availability WiFi**: Ensuring seamless connectivity with 4G/5G as a backup option.
- Introduce 5G FWA**: For the next reliable home internet option, on par with Fiber.

Source: Company

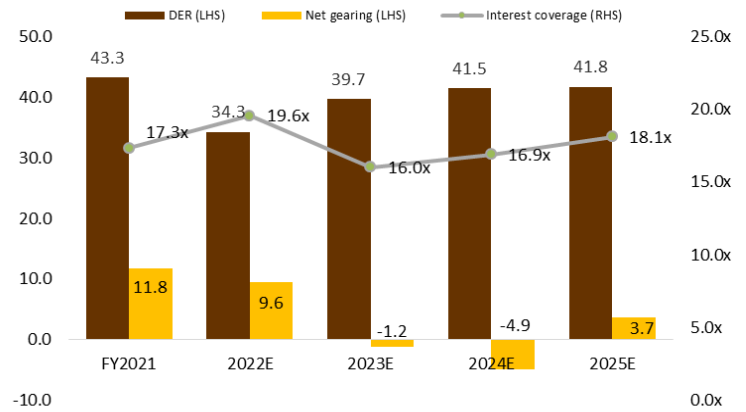
# Telekomunikasi Indonesia (TLKM)

**Exhibit 6: TLKM EBITDA margin (%)**



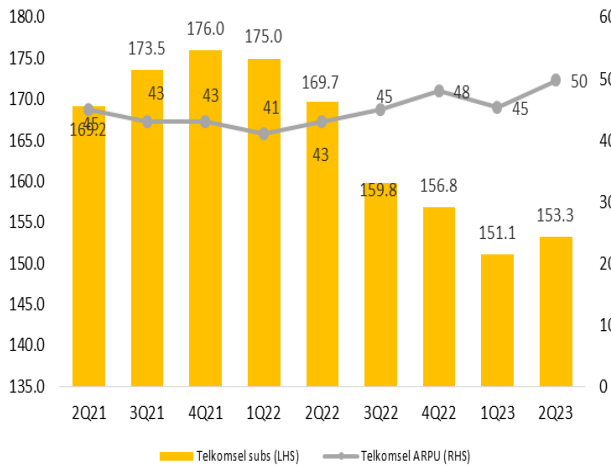
Source: Company, KBVS Research

**Exhibit 7: Leverage ratio remains manageable**



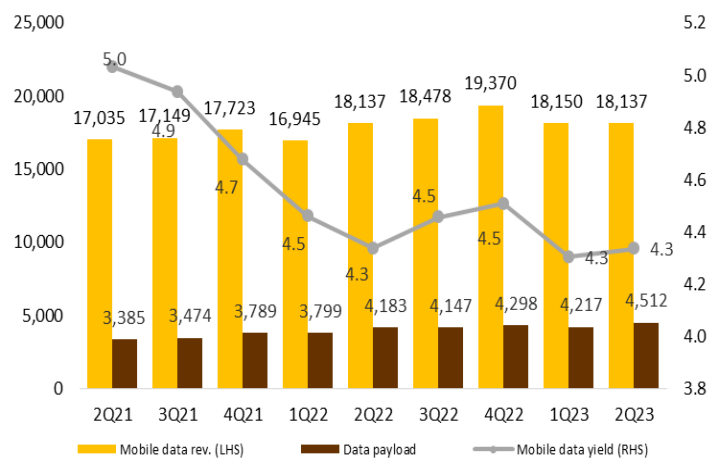
Source: Company, KBVS Research

**Exhibit 8: Telkomsel ARPU and subs growth**



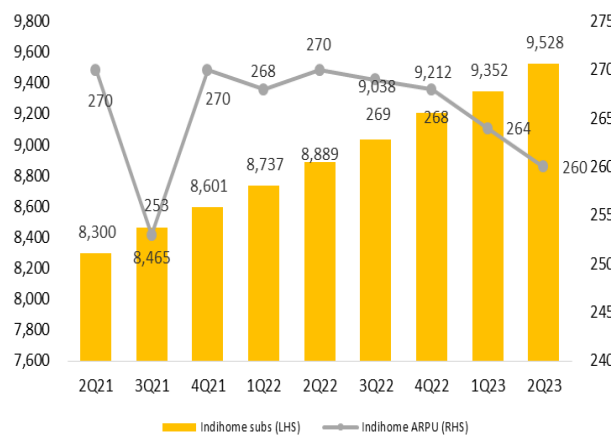
Source: Company, KBVS Research

**Exhibit 7: Data yields stabilize**



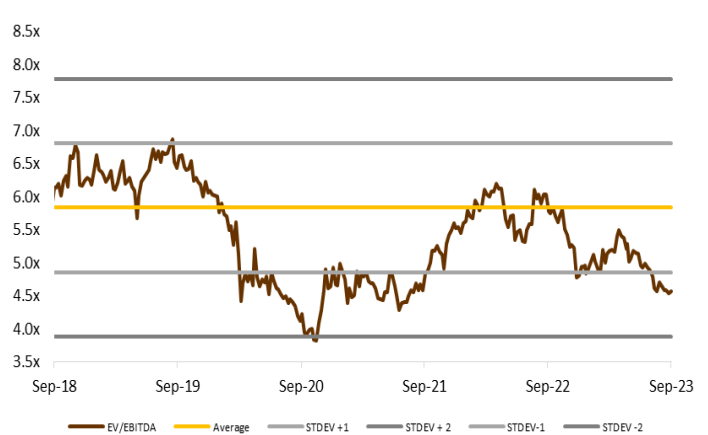
Source: Company, KBVS Research

**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

# Telekomunikasi Indonesia (TLKM)

## FINANCIAL TABLES

### Exhibit 7: Profit & loss summary

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
<b>Revenue</b>	<b>143,210</b>	<b>147,306</b>	<b>148,595</b>	<b>158,694</b>	<b>167,131</b>
Costs	(95,647)	(107,725)	(101,950)	(106,867)	(111,960)
<b>Operating profit</b>	<b>47,563</b>	<b>39,581</b>	<b>46,645</b>	<b>51,828</b>	<b>55,171</b>
<b>EBITDA</b>	<b>75,723</b>	<b>78,992</b>	<b>78,290</b>	<b>85,033</b>	<b>90,742</b>
Other income/expenses	(3,885)	(3,242)	(3,551)	(3,695)	(3,650)
<b>Profit before income tax</b>	<b>43,678</b>	<b>36,339</b>	<b>43,094</b>	<b>48,133</b>	<b>51,521</b>
Tax benefit (expenses)	(9,730)	(8,659)	(9,265)	(11,311)	(12,107)
<b>Profit after tax</b>	<b>33,948</b>	<b>27,680</b>	<b>33,828</b>	<b>36,822</b>	<b>39,414</b>
Minority interests	9,188	6,927	7,950	8,653	9,262
<b>Net profit</b>	<b>24,760</b>	<b>20,753</b>	<b>25,879</b>	<b>28,169</b>	<b>30,151</b>

Source: Company, KBVS Research

### Exhibit 8: Balance sheet

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
<b>Current assets</b>					
Cash and cash equivalents	38,311	31,947	43,073	48,056	44,463
Trade receivables	8,510	8,634	10,151	8,969	11,168
Other current assets	14,456	14,476	16,488	16,426	17,456
<b>Total current assets</b>	<b>61,277</b>	<b>55,057</b>	<b>69,712</b>	<b>73,450</b>	<b>73,087</b>
<b>Non-current assets</b>					
Fixed assets	165,026	173,329	182,364	192,012	202,174
Other non-current assets	50,881	46,806	48,632	51,872	53,671
<b>Total non-current assets</b>	<b>215,907</b>	<b>220,135</b>	<b>230,996</b>	<b>243,885</b>	<b>255,845</b>
<b>Total assets</b>	<b>277,184</b>	<b>275,192</b>	<b>300,707</b>	<b>317,335</b>	<b>328,932</b>
<b>Current liabilities</b>					
Trade payables	17,170	18,457	15,370	15,237	15,766
Taxes payables	3,923	5,372	5,563	5,841	5,958
Accrued expenses	15,885	15,445	13,717	15,282	15,339
Short term debts	22,333	21,974	20,735	20,978	20,793
Other current liabilities	9,820	9,140	26,666	27,276	27,726
<b>Total current liabilities</b>	<b>69,131</b>	<b>70,388</b>	<b>82,051</b>	<b>84,615</b>	<b>85,582</b>
<b>Non-current liabilities</b>					
Long-term debts	46,745	41,067	39,278	43,633	44,867
Other non-current liabilities	15,909	14,475	15,495	16,784	17,285
<b>Total non-current liabilities</b>	<b>62,654</b>	<b>55,542</b>	<b>54,773</b>	<b>60,416</b>	<b>62,151</b>
Minority interests	23,753	20,004	26,742	28,117	29,568
<b>Shareholders' equity</b>	<b>145,399</b>	<b>149,262</b>	<b>163,883</b>	<b>172,304</b>	<b>181,199</b>
<b>Total liabilities and equity</b>	<b>277,184</b>	<b>275,192</b>	<b>300,707</b>	<b>317,335</b>	<b>328,932</b>

Source: Company, KBVS Research

## Telekomunikasi Indonesia (TLKM)

## Exhibit 9: Cash flow

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Net profit	24,760	20,753	25,879	28,169	30,151
Depreciation & amortization	17,896	12,146	12,785	13,514	14,212
Changes in working capital	5,333	1,472	9,373	3,565	(2,077)
<b>CF from operating activities</b>	<b>47,989</b>	<b>34,371</b>	<b>48,037</b>	<b>45,248</b>	<b>42,287</b>
Investment in fixed assets	(19,797)	(22,629)	(24,095)	(25,500)	(26,851)
Others	(13,566)	6,255	449	(904)	679
<b>CF from investing activities</b>	<b>(33,363)</b>	<b>(16,374)</b>	<b>(23,646)</b>	<b>(26,403)</b>	<b>(26,172)</b>
Debts raised/(repaid)	(16,643)	(14,856)	(19,409)	(22,535)	(24,121)
Dividends paid	(2,142)	2,951	(2,200)	1,948	(409)
Others	21,881	(12,456)	8,343	6,726	4,823
<b>CF from financing activities</b>	<b>3,096</b>	<b>(24,361)</b>	<b>(13,266)</b>	<b>(13,861)</b>	<b>(19,707)</b>
<b>Change in cash flow</b>	<b>17,722</b>	<b>(6,364)</b>	<b>11,126</b>	<b>4,983</b>	<b>(3,593)</b>
<b>Cash and cash equivalents, beginning</b>	<b>20,589</b>	<b>38,311</b>	<b>31,947</b>	<b>43,073</b>	<b>48,056</b>
<b>Cash and cash equivalents, ending</b>	<b>38,311</b>	<b>31,947</b>	<b>43,073</b>	<b>48,056</b>	<b>44,463</b>

Source: Company, KBVS Research

## Exhibit 10: Ratio analysis

Year End Dec	2021A	2022A	2023F	2024F	2025F
Operating profit margin (%)	33.2	26.9	31.4	32.7	33.0
EBITDA margin (%)	52.9	53.6	52.7	53.6	54.3
Net profit margin (%)	17.3	14.1	17.4	17.8	18.0
Receivables turnover (x)	14.43	17.18	15.82	16.60	16.60
Inventory turnover (x)	108.6	112.0	90.1	108.0	108.0
Payable turnover (x)	5.6	6.0	6.0	7.0	7.2
ROAA (%)	9.4	7.5	9.0	9.1	9.3
ROAE (%)	18.6	14.1	16.5	16.8	17.1
ROIC (%)	16.9	12.9	16.8	17.5	17.4
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	0.8	0.7
Interest coverage (x)	17.3	19.6	17.2	17.5	18.7
BV/share (x)	1,228.0	1,304.8	1,384.4	1,455.6	1,530.7
Dividend Yield	4.6	4.1	5.3	6.2	6.6

Source: Company, KBVS Research

# Telekomunikasi Indonesia (TLKM)

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