

Cost-optimization unlocks profit potential

23 July 2024



Sector	Telecomm.
Price at 22 July 2024 (IDR)	3,100
Price target (IDR)	4,000
Upside/Downside (%)	29.0

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)	302,140
Shares outstanding (mn)	99,062
52-week range (IDR)	2,960-4,240
3M average daily vol. ('000)	179,263
3M average daily val. (IDR mn)	625,378

Shareholders (%)

Government of Indonesia	52.0
Public	48.0

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	-11.1	-23.4	-25.1

Analyst

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TLKM's Five Bold Moves strategy is advancing with the establishment of PT Infrastruktur Telekomunikasi Indonesia in Dec-23 for network optimization and PT Telkom Data Ekosistem in 1Q24 for data center consolidation. These initiatives are designed to enhance profitability by reducing costs and improving operational efficiency. By FY24F, we forecast operating profit to grow 6.5% yoy to IDR47.29 tn, with an improved margin of 30.5% compared to 29.7% in FY23. FMC's cost-saving measure, strengthened subsidiary collaboration, and the management's agile response to market competition reinforce our positive outlook for TLKM. Maintain our BUY call with a target price of IDR4,000, based on 4.9x 2024F EV/EBITDA (-1SD 7yrs-historical mean), while currently trading at an attractive 4.1x EV/EBITDA, representing 29.3% disc. to its 7yrs mean.

Telkomsel-IndiHome integration yields cost-savings, Boosting FY24 outlook

After implementing a new wholesale agreement to facilitate Telkomsel-IndiHome integration, TLKM's 1Q24 financial results show a 7.1% yoy increase in total expenses to IDR26.42 tn. However, these expenses normalized on a qoq basis, declining by 7.5% compared to the previous quarter, indicating successful management and optimization during the integration process. Opex followed a similar trend, while it grew 5.3% yoy to IDR18.01 tn, this increase also normalized qoq, with a decrease of 7.5%. Management views this agreement favorably as it provides IndiHome with privileged access to TLKM's extensive and nationwide infrastructure, enabling cost savings, expanded digital reach, and potential subs growth through improved overall digital connectivity. Due to cost optimization efforts, we project total expenses to grow by only 2.7% yoy to IDR107.66 tn in FY24, compared to a 12.6% yoy increase in FY22. Similarly, opex are expected to rise by 3.5% yoy to IDR74.18 tn, lower than 4.9% yoy growth in FY23.

Maintained FY24 revenue forecast

TLKM's 1Q24 performances largely met our/consensus expectations, arriving within a range of 23.1% to 25.1%. Therefore, we maintained our FY24 revenue forecast at IDR154.94 tn, reflecting 3.8% yoy growth. Meanwhile EBITDA is projected at IDR80.76 tn, translating to a 4.1% yoy growth from IDR77.58 tn in FY23. On bottom line, our FY24F net profit estimates increase by 4.2% yoy to IDR25.60 tn, with a stable net margin at 16.5%.

BUY reiterated, impressive FMC cost savings and increased subsidiary collaboration

Maintain our BUY call with a target price of IDR4,000, based on 4.9x 2024F EV/EBITDA, which is at -1.0SD of 7yrs EV/EBITDA mean. Currently, TLKM is trading at 4.1x EV/EBITDA, representing 29.3% disc. to its 7yrs mean. FMC's cost-reduction initiatives, combined with improved collaboration among subsidiaries, and the management's agile response to market competition reinforce our positive outlook for TLKM.

Exhibit 1 : Key Statistics

Year end Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Revenue (Rp)	147,306	149,216	154,943	161,544	167,311
EBITDA (Rp)	78,988	77,579	80,762	84,623	87,662
Net profit (Rp)	20,749	24,560	25,598	26,577	28,081
Core profit	26,992	25,091	25,393	26,361	27,852
Core EPS	272	253	256	266	281
ROA (%)	7.5	8.7	8.6	8.5	8.6
PER (x)	17.3	14.6	14.0	13.5	12.8
PBV (x)	2.4	2.2	2.0	2.0	1.9
EV/EBITDA (x)	4.9	5.0	4.8	4.6	4.5
Div. yield (%)	4.1	4.6	5.1	5.9	6.3

Source: Company, KBVS Research

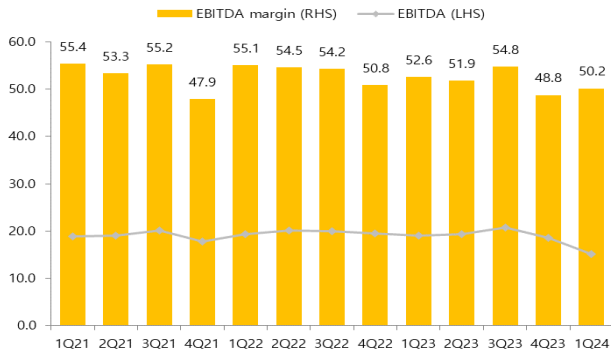
Exhibit 2: Financial Summary

TLKM IJ 1Q24 results

(IDRbn)	1Q24	1Q23	YoY (%)	4Q23	QoQ (%)	2024F	% to '24F	Cons'	% of Cons'
Revenue	37,429	36,090	3.7	37,978	(1.4)	154,943	23.3	154,587	24.2
Costs	(26,421)	(24,659)	7.1	(28,576)	(7.5)				
EBIT	11,008	11,431	(3.7)	9,402	17.1				
EBITDA	19,421	18,994	2.2	18,516	4.9	80,762	23.5	80,797	24.0
Other income (exp.)	(865)	(834)	3.7	(890)	(2.8)				
Pre-tax income	10,143	10,597	(4.3)	8,512	19.2				
Taxes	(2,323)	(2,149)	8.1	(1,693)	37.2				
Net Income	6,053	6,424	(5.8)	5,061	19.6	25,598	25.1	26,183	23.1
Core profit	6,382	6,104	4.6	5,596	14.0				
Margins (%)									
EBIT margin	29.4	31.7		24.8					
EBITDA margin	51.9	52.6		48.8					
Net margin	16.2	17.8		13.3					
Operational KPI									
Telkomsel's number of subs	159,668	151,067	5.7	159,340	0.2				
Telkomsel's ARPU	45	45.3	-	46.5	(2.6)				
Telkomsel's data payload	4,823,809	4,217,405	14.4	4,646,549	3.8				
Data yields	4.09	4.30	(5.0)	4.6	(10.2)				
Indihome ARPU	242.7	264.0	(8.1)	252.7	(4.0)				
Indihome number of subs	8,916	9,352	(4.7)	8,694	2.6				

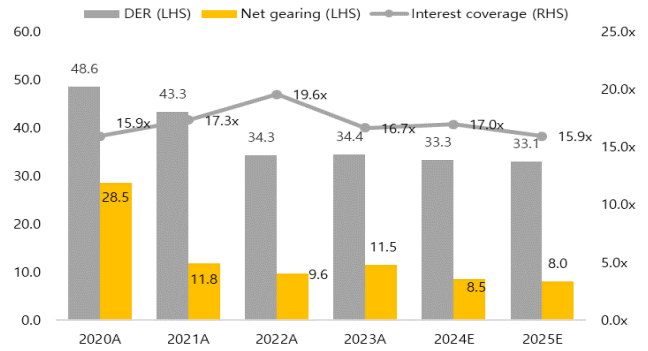
Source: Company, Bloomberg, KBVS Research

Exhibit 3: TLKM's EBITDA margin



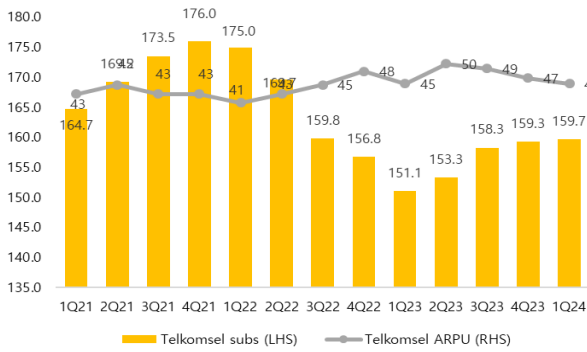
Source: Company, KBVS Research

Exhibit 4: Leverage ratio remains manageable



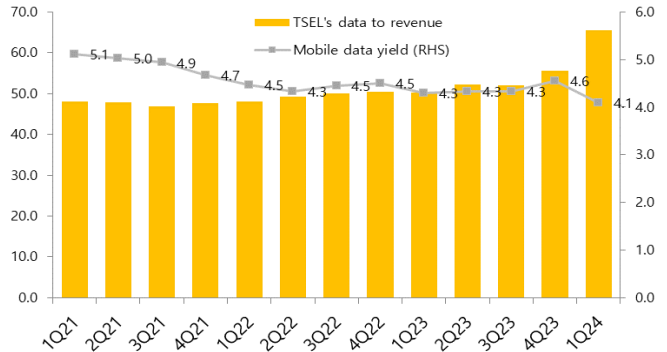
Source: Company, KBVS Research

Exhibit 5: Telkomsel ARPU and subs growth



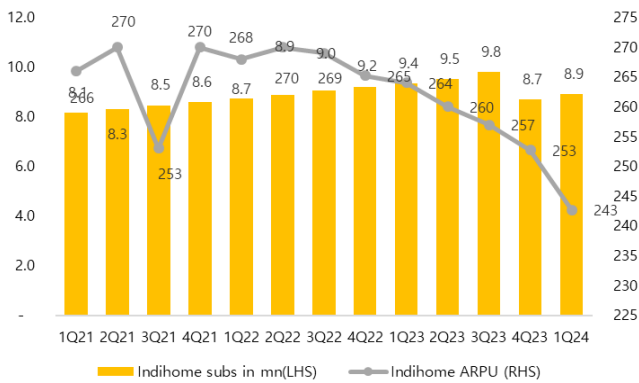
Source: Company, KBVS Research

Exhibit 6: Data yield was relatively stable since 2Q22



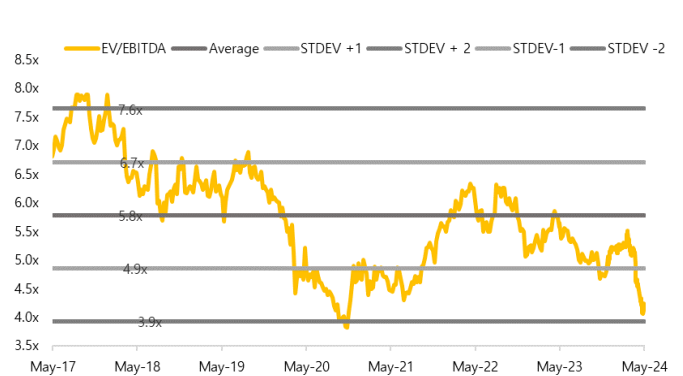
Source: Company, KBVS Research

Exhibit 7: Indihome subs grow while ARPU decreases



Source: Company, KBVS Research

Exhibit 8: EV/EBITDA currently trades at -2.0sd 7yrs



Source: Company, Bloomberg

FINANCIAL TABLES

Exhibit 9: Profit & Loss summary

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Revenue	147,306	149,216	154,943	161,544	167,311
Costs	(107,729)	(104,832)	(107,657)	(112,095)	(116,570)
Operating profit	39,577	44,384	47,286	49,449	50,741
EBITDA	78,988	77,579	80,762	84,623	87,662
Other income/net	(3,242)	(3,590)	(3,546)	(4,035)	(3,069)
Pretax profit	36,335	40,794	43,740	45,414	47,672
Income tax	(8,659)	(8,586)	(10,279)	(10,672)	(10,965)
After tax profit	27,676	32,208	33,461	34,742	36,707
Non-controlling shareholders	6,927	7,648	7,863	8,164	8,626
Net profit	20,749	24,560	25,598	26,577	28,081

Source: Company, KBVS Research

Exhibit 10: Balance sheet

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Current assets					
Cash and cash equivalents	31,943	31,742	36,496	38,495	36,656
Trade receivables	8,634	10,667	8,001	11,462	8,696
Other current assets	14,476	16,026	16,913	17,649	18,442
Total current assets	55,053	58,435	61,410	67,606	63,793
Non current assets					
Fixed assets	173,329	180,755	189,052	198,721	208,734
Other non current assets	46,806	50,674	53,970	55,528	57,092
Total non current assets	220,135	231,429	243,022	254,249	265,826
Total assets	275,188	289,864	304,432	321,855	329,619
Current liabilities					
Trade payables	18,457	18,608	12,151	18,963	12,122
Taxes payable	5,372	4,525	4,751	4,846	6,276
Accrued expenses	15,445	13,079	15,395	15,357	15,970
Short term debts	21,974	25,501	25,708	25,799	26,983
Other current liabilities	9,140	9,855	9,709	10,033	10,322
Total current liabilities	70,388	71,568	67,715	74,999	71,673
Non current liabilities					
Long term debts	41,067	42,623	44,237	45,902	47,885
Other non current liabilities	14,475	16,289	16,641	17,074	17,781
Total non-current liabilities	55,542	58,912	60,878	62,976	65,666
Minority interests	20,004	20,818	28,694	30,006	31,376
Shareholder equity	149,258	159,384	175,840	183,880	192,280
Total liabilities and equity	275,188	289,864	304,432	321,855	329,619

Source: Company, KBVS Research

Exhibit 11: Cash flow

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Net profit	20,749	24,560	25,598	26,577	28,081
Depreciation	12,146	12,643	13,203	13,865	14,598
Changes in working capital	1,472	(5,930)	(2,281)	2,996	(2,537)
CF from operating activities	34,367	31,273	36,520	43,438	40,143
Investment in fixed assets	(22,629)	(22,418)	(23,955)	(26,087)	(27,265)
Others	6,255	(1,519)	(842)	996	1,090
CF from investing activities	(16,374)	(23,937)	(24,797)	(25,091)	(26,175)
Dividends paid	(14,856)	(16,603)	(18,430)	(21,262)	(22,465)
Debt raised/ repaid	2,951	4,641	710	312	1,652
Others	(12,456)	4,425	10,752	4,602	5,007
CF from financing activities	(24,361)	(7,537)	(6,969)	(16,348)	(15,806)
Change in cash flow	(6,368)	(201)	4,754	1,999	(1,839)
Cash and cash equivalent, beginning	38,311	31,943	31,742	36,496	38,495
Cash and cash equivalent, ending	31,943	31,742	36,496	38,495	36,656

Source: Company, KBVS Research

Exhibit 12: Ratio analysis

Year End Dec	2022A	2023A	2024F	2025F	2026F
Operating profit margin	26.9	29.7	30.5	30.6	30.3
EBITDA margin	53.6	52.0	52.1	52.4	52.4
Net profit margin	14.1	16.5	16.5	16.5	16.8
Receivables turnover (x)	17.18	15.46	16.60	16.60	16.60
Inventory turnover (x)	112.0	97.9	108.0	108.0	108.0
Payable turnover (x)	6.0	5.7	7.0	7.2	7.5
ROA	7.5	8.7	8.6	8.5	8.6
ROE	14.1	15.9	15.3	14.8	14.9
ROIC	12.9	14.0	14.2	14.2	14.1
Debt/Equity	0.5	0.5	0.5	0.5	0.5
Net debt/Equity	0.2	0.3	0.2	0.2	0.2
Net debt/EBITDA	0.8	0.9	0.9	0.8	0.9
Interest coverage (x)	19.6	16.7	17.0	15.9	19.5
BV/Share (Rp)	1,304.8	1,398.8	1,485.4	1,553.3	1,624.3
Dividend yield	4.1	4.6	5.1	5.9	6.3

Source: Company, KBVS Research

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