

Telkom Indonesia (TLKM)

Recent drop offers attractive entry point

Transformation remains on track, expecting improved growth ahead

TLKM's management shared that the undergoing transformation to boost future growth remains on track. Those initiatives include fixed mobile convergence (FMC), infraco, data centers, B2B digital services, and digico. Consequently, the management guided revenue/EBITDA/NPAT to grow by mid-to-high single digits for FY23-25F as opposed to mid-to-low single digits in prior years. We currently forecast a 5.1%/5.4%/7.4% CAGR FY23-25F growth for TLKM's revenue, EBITDA, and core net profit, respectively.

Keeping its focus on productive subscribers

From the mobile segment, TSEL will maintain healthy conduct and concentrate on the high-value subs. Despite the quarterly loss of 10mn subs in 9M22, ARPU and data yield continued to trend positively (both +4.5% QoQ). To add, given that only one-third of them were acquired by the other MNOs, it might mostly come from the promo seekers or inactive subs. This decline in inactive subs would persist through the upcoming quarters with its mobile subs anticipated to be at 150mn (vs. 160mn as 9M22) by FY23F. Nonetheless, this should be compensated by rising data consumption and ARPU ahead.

GOTO investment and a potential FY23F dividend yield

One big concern on TLKM lately was the unrealized losses from GOTO investments and their prospective impact on the dividend policy. Management addressed this issue by planning to increase dividend payout to maintain dividend yield in-line with previous years. If GOTO closes at IDR 100/sh by the end of 2022, TLKM should incur unrealized losses of IDR 6.5tn, lowering its NPAT to IDR 19.3tn. With an assumed DPR of 80%-85% (vs 60% this year), DPS will be between IDR 156-165, implying to a still-attractive dividend yield of 4.3%-4.5%.

Upgrade to BUY – excessive sell-off provides attractive entry point

TLKM share price has fallen sharply by 17% since its 9M22 earnings announcement on several concerns: 1) a sizable drop in subs, and 2) a significant decline in GOTO. Additionally, pressure came from heavy foreign outflow of IDR 2.5tn during the past month. We believe the selloff is excessive, hence offering an attractive entry point for TLKM. Given the stable fundamentals and decent dividend yield, we raise our call to BUY with TP of IDR 4,900 (+34.2% upside). Valuation is still undemanding as TLKM now trades at 4.8x FY23F EV/EBITDA (-1SD of its 5-yr mean). Downside risks to our call include the return of price wars and lower-than-expected growth on weak purchasing power.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	136,462	143,210	147,556	155,094	164,391
EBITDA (IDR bn)	72,080	75,723	80,314	84,818	90,581
OP (IDR bn)	43,188	43,907	46,241	48,841	52,968
NP (IDR bn)	20,804	24,760	25,791	26,720	29,182
Net debt/(cash) (IDR bn)	29,256	14,380	12,100	114	(12,425)
EBITDA margin (%)	52.8	52.9	54.4	54.7	55.1
OP margin (%)	31.6	30.7	31.3	31.5	32.2
ROE (%)	20.6	22.1	20.5	20.0	20.7
Dividend yield (%)	4.2	4.6	4.1	4.5	5.0
EPS (IDR)	210.0	249.9	260.4	2697	294.6
chg. (% YoY)	3.7	1.7	5.3	5.6	8.4
BPS (IDR)	1,035.0	1,228.0	1,316.4	1,420.8	1,533.3
DPS (IDR)	154.1	168.0	150.0	165.3	182.1
PE (x)	17.4	14.6	14.0	13.5	12.4
PB (x)	3.5	3.0	2.8	2.6	2.4
EV/EBITDA (x)	5.9	5.5	5.2	4.8	4.4

12M rating **BUY (Upgrade)**

12M TP **IDR 4,900**

Upside **34.2%**

Stock Data

JCI (Sep 19)	6,715
Stock price (Sep 19, IDR)	3,650
Market cap (IDR bn)	361,577
Shares outstanding (mn)	99,062
52-week high/low (IDR)	4,850 / 3,570
6M avg. daily turnover (IDR bn)	503.2
Free float (%)	47.9

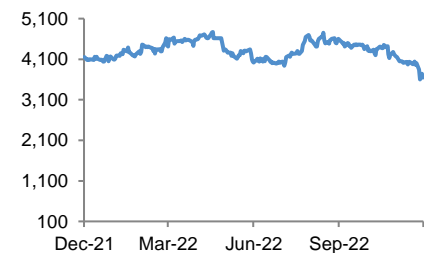
Major shareholders (%)

Republic of Indonesia	52.1
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Performance

	1M	6M	12M
Absolute (%)	(11.4)	(8.8)	(5.2)
Relative to JCI (%p)	(8.3)	(3.6)	(13.0)

TLKM stock price (IDR)



Source: Bloomberg

Wilbert Ham

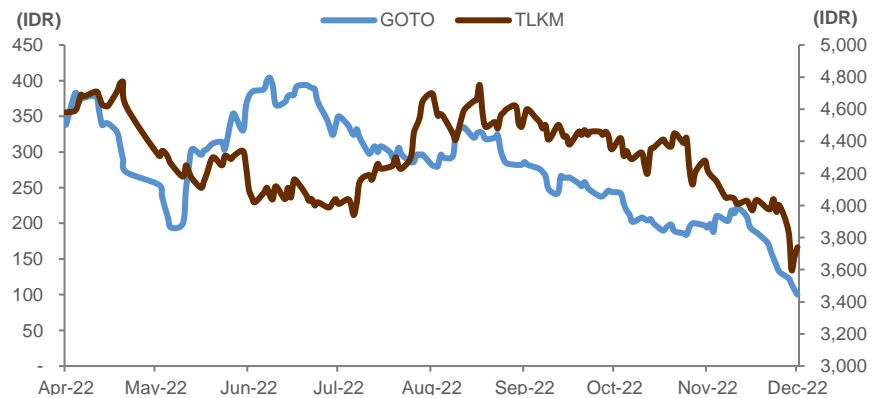
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Fig 1. GOTO share price impact to TLKM's unrealized gain/loss and potential FY23F dividend yield

(IDR bn)	Cost	FY21	1Q22	2Q22	3Q22	4Q22F				
Number of shares (Bn)	23.7									
GOTO Share price (IDR)	270	375	338	388	246	140	100	80	50	
Market value	6,405	8,896	8,018	9,204	5,836	3,321	2,372	1,898	1,186	
QoQ gain/loss			(878)	1,186	(3,369)	(2,515)	(3,463)	(3,938)	(4,650)	
FY22F gain/loss			(878)	308	(3,060)	(5,575)	(6,524)	(6,998)	(7,710)	
TLKM FY22F net core profit						25,791	25,791	25,791	25,791	
TLKM FY22F net profit - unrealized losses from GOTO						20,217	19,268	18,793	18,082	
FY23F DPS, assuming:										
80% DPR						163	156	152	146	
85% DPR						173	165	161	155	
FY23F dividend yield, assuming:										
80% DPR						4.4%	4.2%	4.1%	4.0%	
85% DPR						4.7%	4.5%	4.4%	4.2%	

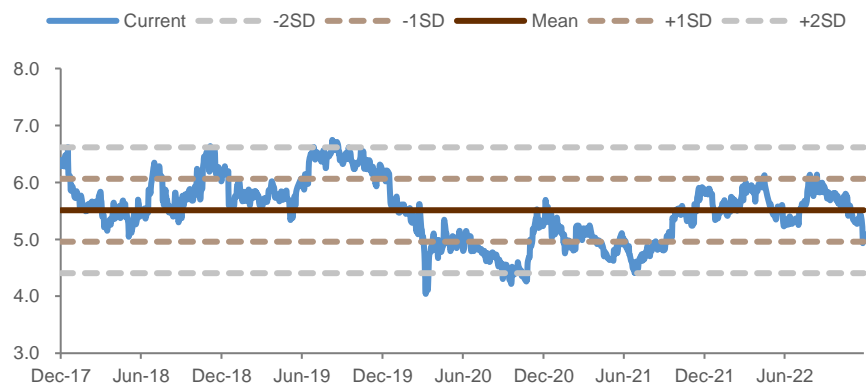
Source: Company, KISI

Fig 2. TLKM vs GOTO share price movement



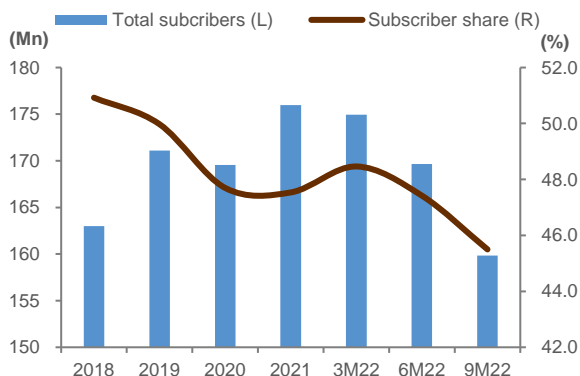
Source: Bloomberg, KISI

Fig 3. TLKM EV/EBITDA band



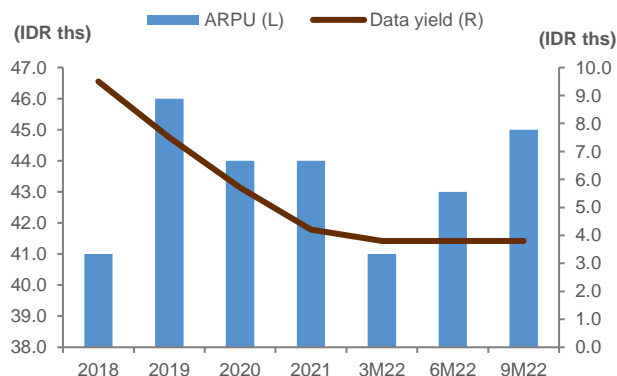
Source: Bloomberg, KISI

Fig 4. TLKM mobile subscribers



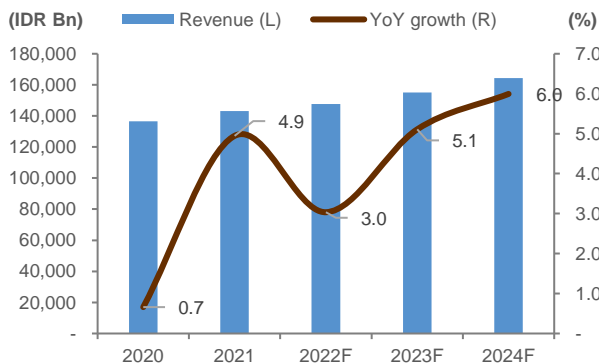
Source: Company, KISI

Fig 5. ARPU and data yield



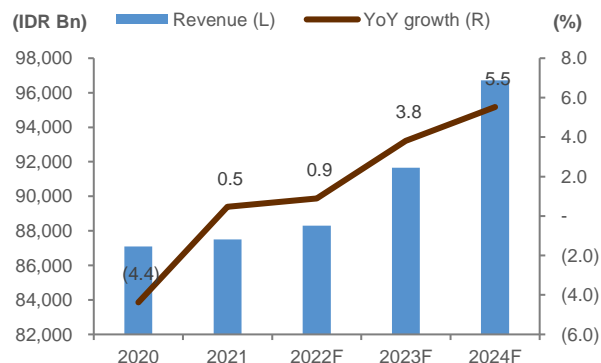
Source: Company, KISI

Fig 6. TLKM revenue



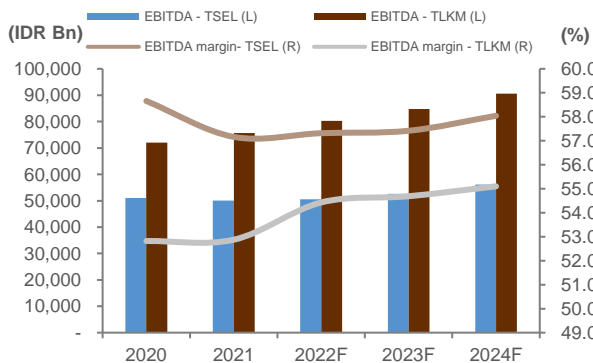
Source: Company, KISI

Fig 7. TSEL revenue



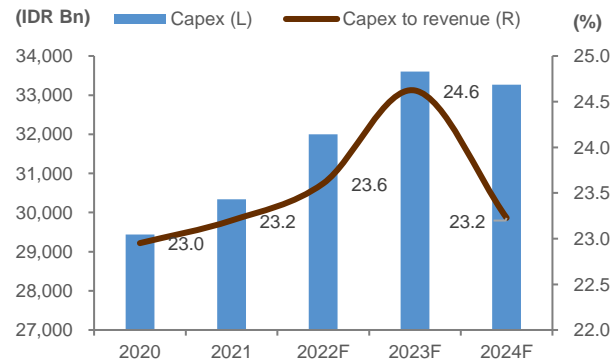
Source: Company, KISI

Fig 8. TLKM and TSEL EBITDA margin



Source: Company, KISI

Fig 9. TLKM group capex

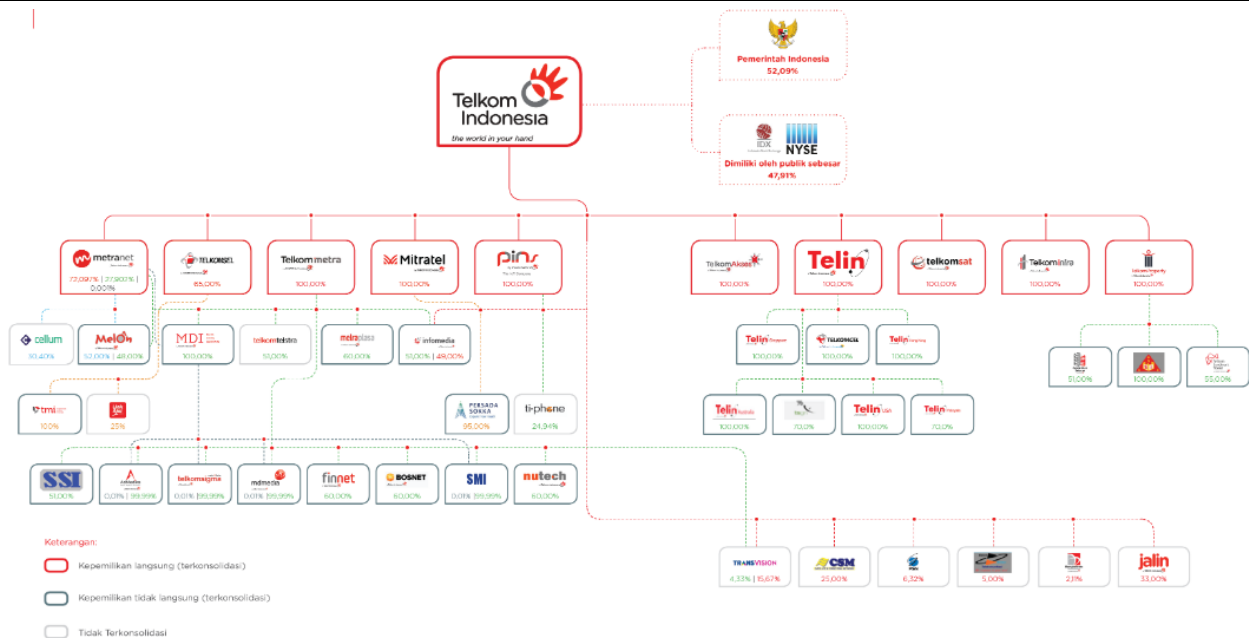


Source: Company, KISI

Company Overview

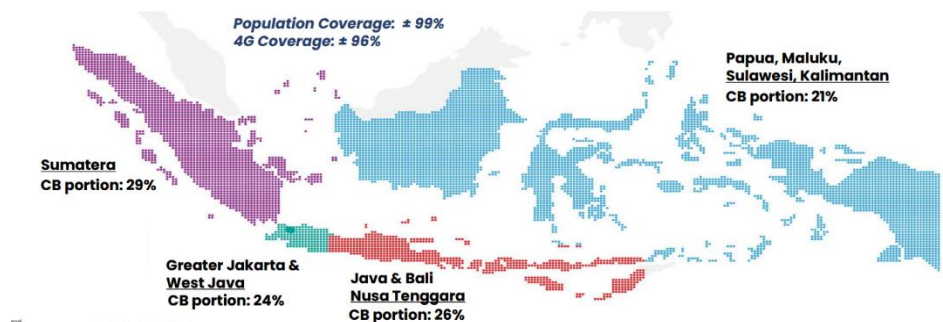
PT Telkom Indonesia (Persero) Tbk. (TLKM), officially established in 1965, is a state-owned enterprise that engages in information and communication technology (ICT) services in addition to operation telecommunication networks. TLKM held its IPO in 1995, with 52.1% ownership owned by the government on Indonesia while the remaining shares go to public. TLKM operates in four main segments, namely mobile, consumer, enterprise and WIB. Mobile segment offers legacy business (voice and SMS), data and value-added services (VAS). Consumer segment offers other telco services to residential consumers including fixed line, pay TV, and internet services in addition to IndiHome. Enterprise offers corporate and institutional customers end-to-end solutions. WIB offers interconnection services, leased lines, satellite, etc. to other telco operators and international clients.

Fig 10. TLKM group structure



Source: Company

Fig 11. TLKM network coverage



Source: Company

Fig 12. Peers comparison

Company	Bloomberg ticker	Market Cap (US\$m)	EV/EBITDA (x)		PE (x)		PB (x)		EPS growth (%)		EBITDA margin (%)		ROE (%)	
			FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Indonesia														
TELKOM INDONESIA PERSERO TBK	TLKM IJ	23,193	5.3	5.0	14.3	13.0	2.8	2.6	2.1	9.6	54.4	54.7	19.7	20.4
INDOSAT TBK PT	ISAT IJ	2,974	5.0	4.5	14.1	22.2	2.1	2.0	(67.2)	(36.5)	40.9	42.1	14.0	8.7
PT XL AXIATA TBK	EXCL IJ	1,424	4.3	4.0	17.4	13.4	1.1	1.0	(15)	29.9	48.9	50.8	6.5	7.8
Simple average			4.8	4.5	15.3	16.2	2.0	1.9	(22.2)	1.0	48.1	49.2	13.4	12.3
Weighted average			5.2	4.9	14.4	14.0	2.6	2.5	(5.5)	5.7	52.7	53.1	18.4	18.5
Malaysia														
MAXIS BHD	MAXISMK	6,895	10.0	9.8	23.8	20.9	4.7	4.7	(2.4)	14.1	41.3	41.6	19.2	22.2
DIGI.COM BHD	DIGIMK	10,464	16.9	15.1	29.3	25.2	47.9	45.7	(10.1)	16.4	47.6	47.9	163.0	175.8
AXIATA GROUP BERHAD	AXIATA MK	6,394	5.6	5.5	22.6	18.3	1.6	1.5	52.8	23.5	44.5	44.6	7.3	8.0
Simple average			10.9	10.1	25.2	21.4	18.1	17.3	13.4	18.0	44.5	44.7	63.2	68.6
Weighted average			11.9	11.0	25.9	22.1	22.9	21.9	9.1	17.7	44.9	45.2	79.3	86.0
Singapore														
STARHUB LTD	STHSP	1,329	6.5	6.0	16.0	14.1	3.0	2.9	(20.7)	13.8	20.1	22.0	19.9	22.1
SINGAPORE TELECOM MUNICATION	ST SP	32,227	13.3	12.8	15.3	14.3	1.5	1.5	37.3	6.7	25.1	25.5	7.9	9.0
Simple average			9.9	9.4	15.7	14.2	2.3	2.2	8.3	10.3	22.6	23.8	13.9	15.5
Weighted average			13.1	12.5	15.3	14.3	1.6	1.5	35.0	7.0	24.9	25.4	8.4	9.5
Thailand														
TOTAL ACCESS COMMUNICATION	DTAC TB	2,824	5.8	5.6	33.3	28.6	5.1	5.0	(12.3)	16.5	35.9	36.4	14.5	17.7
ADVANCED INFO SERVICE PCL	ADVANC TB	16,029	7.6	7.2	21.1	19.0	6.5	6.2	(19)	11.1	50.2	50.6	31.5	33.3
TRUE CORP PCL	TRUE TB	4,431	9.0	8.4	NA	NA	2.0	2.1	(312.5)	64.8	40.8	41.6	(6.6)	(2.6)
Simple average			7.5	7.1	27.2	23.8	4.6	4.4	(108.9)	30.8	42.3	42.9	13.1	16.1
Weighted average			7.6	7.2	22.9	20.5	5.5	5.2	(62.3)	22.0	46.7	47.2	22.2	24.6
Phillipines														
GLOBE TELECOM INC	GLO PM	5,588	7.3	7.0	13.4	14.5	2.2	2.2	(7.7)	(7.9)	47.1	46.7	17.1	15.5
PLDT INC	TEL PM	6,712	6.6	6.2	12.5	12.3	2.8	2.6	(0.9)	1.8	49.5	50.1	26.0	22.1
CONVERGE INFORMATION AND CC	CNVRG PM	2,088	7.0	5.9	14.0	11.9	2.9	2.3	20.6	17.8	57.6	58.5	22.6	21.2
Simple average			7.0	6.4	13.3	12.9	2.6	2.4	4.0	3.9	51.4	51.8	21.9	19.6
Weighted average			11.4	10.6	21.3	21.4	4.2	3.9	(0.6)	0.5	81.3	81.7	36.0	31.7
China														
CHINA TELECOM CORP LTD-H	728 HK	54,841	2.7	2.6	9.3	8.2	0.6	0.6	(0.6)	13.3	27.7	27.5	6.5	7.1
CHINA MOBILE LTD	941 HK	145,130	2.0	1.9	7.7	7.1	0.8	0.7	8.7	8.2	35.9	35.5	10.3	10.6
CHINA UNICOM HONG KONG LTD	762 HK	17,991	0.9	0.8	7.4	6.7	0.4	0.4	17.4	11.2	28.7	28.2	5.0	5.4
Simple average			1.9	1.8	8.1	7.3	0.6	0.6	8.5	10.9	30.8	30.4	7.3	7.7
Weighted average			2.8	2.6	10.8	9.8	0.9	0.9	9.5	13.0	44.4	43.9	11.9	12.4
Telco average			7.0	6.5	17.5	16.0	5.0	4.8	(16.1)	12.5	39.9	40.4	22.1	23.3

Source: Bloomberg, KISI

Balance sheet		(IDR bn)				
FY-ending Dec.	2020A	2021A	2022F	2023F	2024F	
Current assets						
Cash & cash equivalent	20,589	38,311	40,591	52,577	65,116	
Accounts & other receivables	11,553	8,705	11,540	11,562	11,701	
Inventories	983	779	834	946	942	
Others	13,378	13,482	13,373	14,620	15,290	
Non-current assets						
Fixed assets	179,489	183,495	188,425	193,004	195,577	
Intangible assets	6,846	7,506	7,506	7,506	7,506	
Investments	4,237	13,800	13,800	13,800	13,800	
Other non-current assets	9,868	11,106	12,379	12,085	13,117	
Total assets	246,943	277,184	288,448	306,101	323,050	
Current liabilities						
Accounts & other payables	17,577	17,779	17,646	19,260	20,161	
ST debt & bond	19,284	16,372	16,372	16,372	16,372	
Obligations under finance lease	5,396	5,961	5,961	5,961	5,961	
Others	26,836	29,019	29,002	30,804	32,758	
Non-current liabilities						
LT debt & bond	30,561	36,319	36,319	36,319	36,319	
Obligations under finance lease	10,221	10,426	10,426	10,426	10,426	
Other non-current liabilities	16,179	15,909	15,547	17,320	17,980	
Total liabilities	126,054	131,785	131,274	136,461	139,977	
Capital stock	4,953	4,953	4,953	4,953	4,953	
Additional paid-in capital	2,711	2,711	2,711	2,711	2,711	
Retained earnings	94,489	104,587	113,347	123,690	134,836	
Others	374	9,395	9,395	9,395	9,395	
Minority interest	18,362	23,753	26,768	28,891	31,178	
Total equity	120,889	145,399	157,174	169,639	183,073	

Cash flow		(IDR bn)				
FY-ending Dec. (IDR bn)	2020A	2021A	2022F	2023F	2024F	
C/F from operating						
Net profit	20,804	24,760	25,791	26,720	29,182	
Depreciation	28,892	31,816	34,073	35,977	37,613	
Net incr. in W/C	6,457	5,898	(2,930)	2,033	2,050	
Others	673	5,391	3,015	2,123	2,288	
C/F from investing	(36,742)	(47,348)	(40,639)	(38,488)	(40,557)	
CAPEX	(51,408)	(35,822)	(39,004)	(40,555)	(40,186)	
Others	14,666	(11,526)	(1,635)	2,067	(371)	
C/F from financing	(17,737)	(2,795)	(17,031)	(16,377)	(18,036)	
Incr. in equity	-	-	-	-	-	
Incr. in debts	101	2,846	-	-	-	
Dividends	(15,262)	(16,643)	(14,856)	(16,377)	(18,036)	
Others	(2,576)	11,002	(2,175)	-	-	
Increase in cash	2,347	17,722	2,280	11,986	12,539	

Income statement		(IDR bn)				
FY-ending Dec.	2020A	2021A	2022F	2023F	2024F	
Net revenues	136,462	143,210	147,556	155,094	164,391	
Expenses	(64,382)	(67,487)	(67,241)	(70,276)	(73,810)	
EBITDA	72,080	75,723	80,314	84,818	90,581	
Depreciation expenses	(28,892)	(31,816)	(34,073)	(35,977)	(37,613)	
Operating profit	43,188	43,907	46,241	48,841	52,968	
Financial income						
Interest income	799	558	747	883	1,115	
Financial expense						
Interest expense	(4,520)	(4,365)	(4,482)	(4,482)	(4,482)	
Other non-operating profit	188	224	-	-	-	
Gains (Losses) in associates, subsidiaries and JV	(880)	3,354	-	-	-	
Earnings before tax	38,775	43,678	42,506	45,242	49,601	
Income taxes	(9,212)	(9,730)	(8,243)	(9,953)	(10,912)	
Core Net profit	20,804	24,760	25,791	26,720	29,182	
Non-controlling interest	8,759	9,188	8,471	8,568	9,507	

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	210.0	249.9	260.4	269.7	294.6
BPS	1,035.0	1,228.0	1,316.4	1,420.8	1,533.3
DPS	154.1	168.0	150.0	165.3	182.1
Growth (%)					
Sales growth	0.7	4.9	3.0	5.1	6.0
EBITDA growth	11.2	5.1	6.1	5.6	6.8
OP growth	3.7	1.7	5.3	5.6	8.4
Core NP growth	11.5	19.0	4.2	3.6	9.2
Profitability (%)					
EBITDA margin	52.8	52.9	54.4	54.7	55.1
OP margin	31.6	30.7	31.3	31.5	32.2
Core NP margin	15.2	17.3	17.5	17.2	17.8
ROA	8.9	9.4	9.1	9.0	9.3
ROE	20.6	22.1	20.5	19.7	19.9
Dividend yield	4.2	4.6	4.1	4.5	5.0
Dividend payout ratio	81.8	80.0	60.0	63.5	67.5
Stability					
Net debt (IDR bn)	29,256	14,380	12,100	114	(12,425)
Int.-bearing debt/equity (%)	41.2	36.2	33.5	31.1	28.8
Valuation (X)					
PE	17.4	14.6	14.0	13.5	12.4
PB	3.5	3.0	2.8	2.6	2.4
EV/EBITDA	5.9	5.5	5.2	4.8	4.4

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