

Telekomunikasi Indonesia Tbk (TLKM)

Endeavors to Stabilize Performance

Facing Transitional Periods

TLKM's endeavors to stabilize its revenues after sluggish performance were quite challenging. In 2Q18, its revenues, EBITDA margin, and net income margin slid 3% y-y, 25.6% y-y, and 45.3% y-y, respectively.

The transition to a digital-based technology inevitably changed its revenues' structures. Within the last 4 quarters, the revenue contributed by the telephone segment consistently declined to 33.9%, 31.5%, 30%, and 28.1%. Meanwhile, **the revenues contributed by the data, internet, and IT service segments inclined to 46.5%, 41.3%, 49.5%, and 52.5%, respectively.**

Being aware that a digital-based is on the rise, **TLKM ploughs into infrastructure developments**, e.g. Merah Putih satellite, the Indonesia Global Gateway (a submarine cable communication system), and 14,978 based transmission towers (BTS) — an increment of 20% y-y in 1H18. It expects that the investment results in positive revenues. Another to infrastructure investments, it made a wit decision **to raising the price of data package by 4%-11%.**

Change of Expense Structures

The change in revenue contributions inevitably altered its expense composition; **in 1H18 operation, maintenance and telecommunication service expenses inched higher by 19% y-y equal to 34% of TLKM's overall revenues**, for example. Furthermore, the change was a logical takeaway for the trend in a downbeat EBITDA margin from 50% in FY17 into 47% in FY18E, estimated to persist in future years.

Target Price of IDR4,700

We forecast that TLKM is capable of flourishing if the growth in the digital-based business successfully cushions the downbeat revenues posted by the legacy (voices and SMS) business. We use an estimate of forward P/E of 17.3x to obtain the target price of December 2019. The target price implies a 2019E P/E of 19.1x. Now, TLKM is traded at a 2018E P/E of 16.7x.

Telekomunikasi Indonesia Tbk | Summary (IDR bn)

	2017	2018E	2019F	2020F
Sales	128,256	134,807	149,039	167,069
<i>Sales growth</i>	10.2%	5.1%	10.6%	12.1%
EBITDA	64,609	63,642	70,398	79,030
Net Profit	22,145	20,829	24,335	26,964
EPS (IDR)	220	210	246	272
<i>EPS growth</i>	14.4%	-5.9%	16.8%	10.8%
BVPS (IDR)	1,112	1,208	1,363	1,511
EBITDA margin	50.4%	47.2%	47.2%	47.3%
NPM	17.3%	15.5%	16.3%	16.1%
ROE	20.3%	18.0%	19.1%	18.9%
ROA	11.2%	11.7%	10.1%	10.8%
ROIC	22.8%	19.4%	19.9%	20.5%
P/E	20.2x	16.7x	14.3x	12.9x
P/BV	4.0x	2.9x	2.6x	2.3x
EV/EBITDA	7.4x	6.1x	5.5x	5.0x
DPS (IDR)	115	168	126	147
<i>Dividend yield</i>	2.6%	4.8%	3.6%	4.2%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Company Report | Oct 9, 2018

Buy

Dec 2019 TP (IDR)	4,700
Consensus Price (IDR)	4,123
TP to Consensus Price	+14.0%
vs. Last Price	+33.5%

Shares data

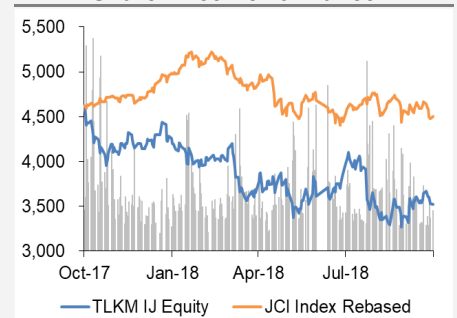
Last Price (IDR)	3,520
Price date as of	Oct 8, 2018
52 wk range (Hi/Lo)	4,660 / 3,270
Free float (%)	47.9
Outstanding sh.(mn)	99,062
Market Cap (IDR bn)	348,699
Market Cap (USD mn)	22,857
Avg. Trd Vol - 3M (mn)	104.86
Avg. Trd Val - 3M (bn)	376.40
Foreign Ownership	29.3%

Infrastructure

Telecommunication

Bloomberg	TLKM.IJ
Reuters	TLKM.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-20.7%	3.8%	-8.8%	-23.8%
Rel. Ret.	-18.4%	5.4%	-10.0%	-21.2%

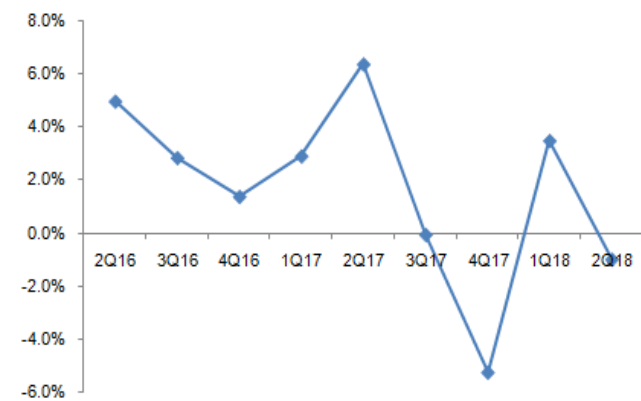
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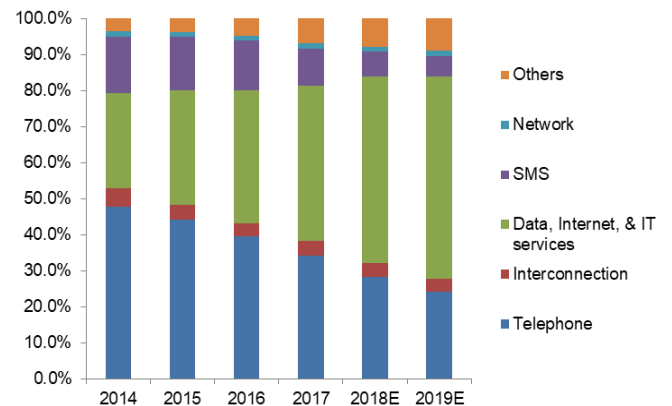
Performance Highlights

TLKM Sales Growth (q-q) | 2Q16 - 2Q18



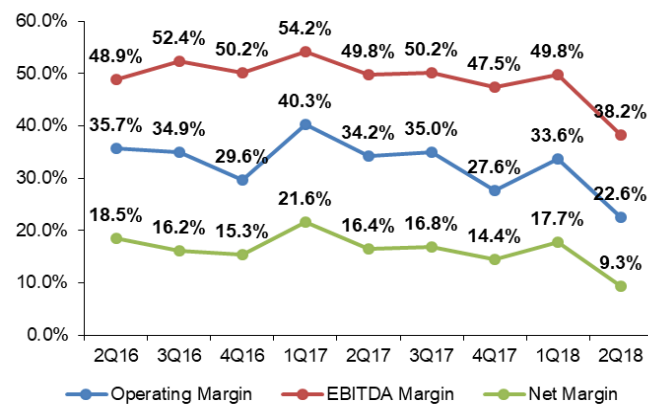
Source: Company, NHKS Research

Sales Breakdown | 2014—2019E



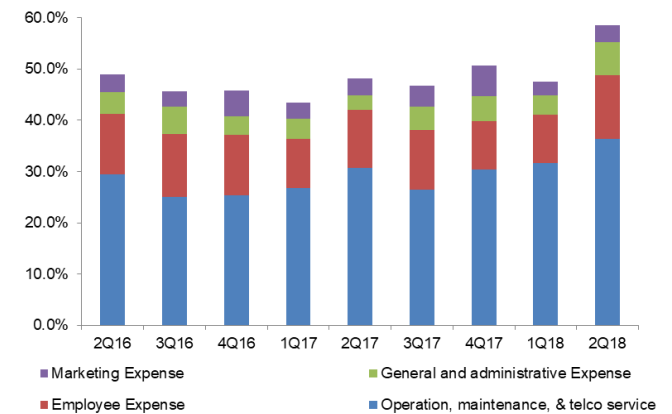
Source: Company, NHKS Research

Quarterly Margin Ratios | 2Q16 - 2Q18



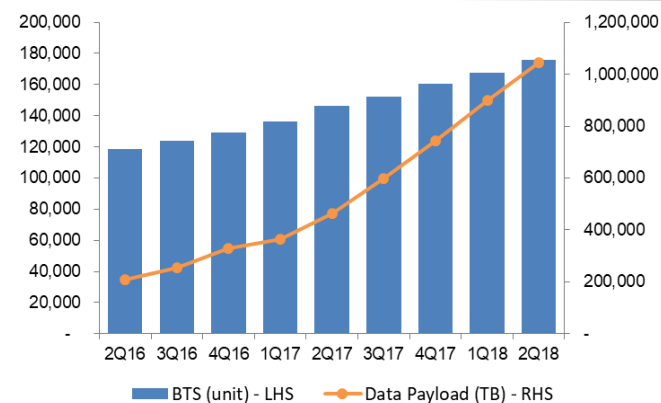
Source: Company, NHKS Research

Portion Expense to Revenue | 2Q16 - 2Q18



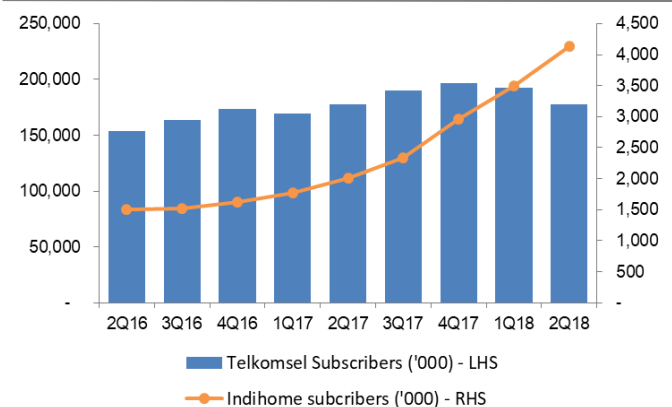
Source: Company, NHKS Research

Infrastructure BTS and Data Payload | 2Q16 - 2Q18



Source: Company, NHKS Research

Telkomsel and Indihome Subscribers | 2Q16 - 2Q18



Source: Company, NHKS Research

2Q18 review (IDR bn)

	2Q17	3Q17	4Q17	1Q18	2Q18			3Q18E
					Actual	y-y	q-q	
Sales	32,999	32,982	31,253	32,343	32,025	-3.0%	-1.0%	34,179
Gross Profit	22,206	23,275	21,188	21,271	19,359	-12.8%	-9.0%	23,111
<i>Gross Margin</i>	67.3%	70.6%	67.8%	65.8%	60.4%	-6.8%	-5.3%	67.6%
EBIT	11,295	11,535	8,612	10,878	7,222	-36.1%	-33.6%	11,694
<i>EBIT Margin</i>	34.2%	35.0%	27.6%	33.6%	22.6%	-11.7%	-11.1%	34.2%
EBITDA	16,426	16,544	14,830	16,116	12,227	-25.6%	-24.1%	17,020
<i>EBIT Margin</i>	49.8%	50.2%	47.5%	49.8%	38.2%	-11.6%	-11.6%	49.8%
Net Profit	5,416	5,548	4,493	5,734	2,964	-45.3%	-48.3%	5,867
<i>Net Margin</i>	16.4%	16.8%	14.4%	17.7%	9.3%	-7.2%	-8.5%	17.2%

Source: Bloomberg, NHKS research

Earnings revision (IDR bn)

		2018E	2019F	2020F
Sales	-Revised	134,807	149,039	167,069
	-Previous	137,732	148,627	165,889
	-Change	-2.1%	0.3%	0.7%
Gross Profit	-Revised	88,257	97,982	110,375
	-Previous	94,205	102,421	114,142
	-Change	-6.3%	-4.3%	-3.3%
Gross Margin	-Revised	65.5%	65.7%	66.1%
	-Previous	68.4%	68.9%	68.8%
EBIT	-Revised	42,141	46,878	53,606
	-Previous	44,929	49,358	55,383
	-Change	-6.2%	-5.0%	-3.2%
EBIT Margin	-Revised	31.3%	31.5%	32.1%
	-Previous	32.6%	33.2%	33.4%
EBITDA	-Revised	63,642	70,398	79,030
	-Previous	67,893	74,219	82,559
	-Change	-6.3%	-5.1%	-4.3%
EBITDA Margin	-Revised	47.2%	47.2%	47.3%
	-Previous	49.3%	49.9%	49.8%
Net Profit	-Revised	20,829	24,335	26,964
	-Previous	23,447	25,921	28,235
	-Change	-11.2%	-6.1%	-4.5%
Net Margin	-Revised	15.5%	16.3%	16.1%
	-Previous	17.0%	17.4%	17.0%

Source: NHKS research

TLKM at A Glance

PT Telkom Indonesia (Persero) Tbk (Telkom) is a state-owned enterprise (BUMN) running its businesses in information and communication technologies and telecommunication networks in Indonesia. It was established in 1965 and along with the rise in the cellular technology, then TLKM in 1995 incorporated its subsidiary, namely Telkomsel as well as launched its first postpaid phone credit: Kartu Halo.

TLKM manages six business portfolios such as mobile (mobile voice, SMS, mobile broadband); fixed (fixed voice and fixed broadband through IndiHome brand); wholesale & international (interconnection, network service, hubbing data center & content platform, data & internet, and solution); networking infrastructure (network service, satellite, and infrastructure & tower); enterprise digital (information & communication technology platform service, and smart enable platform service); and consumer digital (digital payment, e.g. TCASH, digital advertising & analytics, e-commerce: blanja.com).

Until June 2018, TLKM served 177,9 million subscribers whose 134.7 subscribers are data users, while its digital payment segment, TCASH, had registered subscribers of 27 million. It is committed to its vision of “the King of Digital in the Region”.

TLKM's Competitiveness in Southeast Asia

TLKM is the leading of telecommunication service providers in Indonesia and has the second biggest market cap. in Southeast Asia after Singtel Singapore. Among its peers, TLKM has average P/E and ROE, and it signs that TLKM reigns in a positive territory. In addition, it succeeds to maintain the double-digit net profit margin of 14.6% amid its sluggish business.

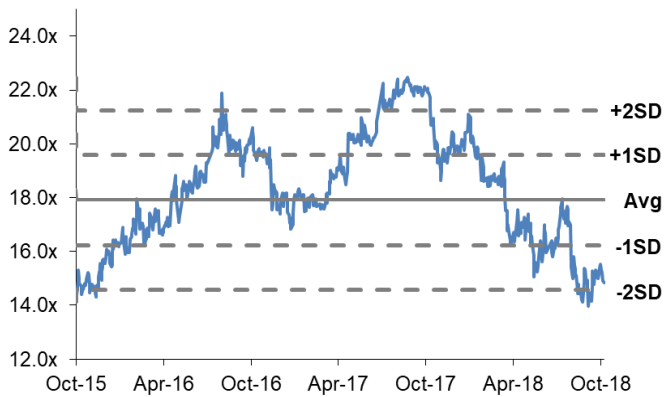
ASEAN Telecommunication Operators

Company	Market Cap. (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Margin	ROE LTM	P/E LTM	P/BV
Indonesia									
TLKM	23,614	14,607	9,457	1,378	-12.96%	14.6%	22.1%	19.0x	4.1x
EXCL	2,001	4,145	1,691	11	-48.83%	0.7%	0.7%	206.9x	1.4x
ISAT	1,014	3,728	1,903	(25)	N/A	-1.3%	-2.6%	N/A	1.2x
Singapore									
Singtel	38,624	36,821	12,994	4,018	41.94%	30.9%	18.19%	9.8x	1.7x
Malaysia									
Maxis	10,989	4,740	2,173	519	1.59%	23.9%	30.56%	21.5x	6.4x
DiGi.Com	8,977	1,436	1,588	372	-1.93%	23.4%	255.67%	24.5x	55.3x
Axiata Group	10,122	17,214	5,913	(796)	N/A	-13.5%	-14.17%	N/A	2.1x
Thailand									
Advanced Info Service	18,297	8,721	5,025	963	11.85%	19.2%	62.13%	19.0x	10.6x
True Corp	6,243	14,286	5,193	443	N/A	8.5%	10.61%	14.0x	1.4x
Total Access Comm.	3,423	3,515	2,372	81	58.78%	3.4%	9.05%	41.8x	3.7x
Phillipine									
PLDT	5,579	9,190	3,173	168	-64.20%	5.3%	7.42%	35.3x	2.7x
Globe Telecom	5,424	5,556	2,781	333	13.99%	12.0%	25.65%	17.8x	4.5x

Source: Bloomberg

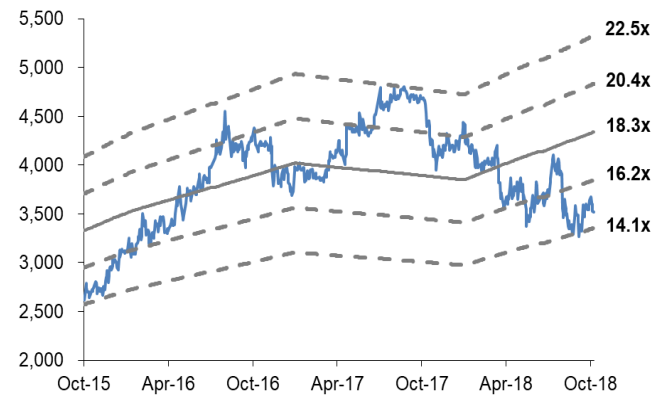
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



Source: NHKS research

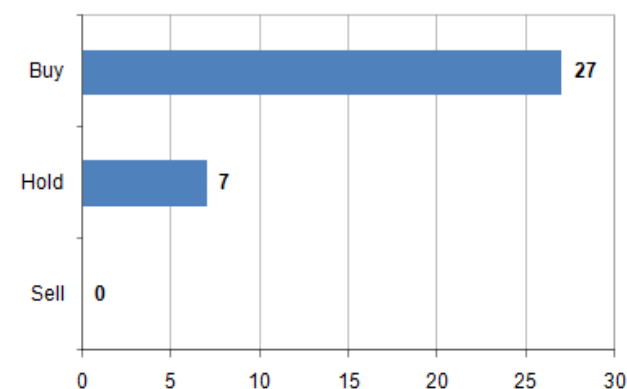
Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
03/28/2018	Buy	4,600 (Dec 2018)	3,560	4,591	29.2%	0.2%
10/08/2018	Buy	4,700 (Dec 2019)	3,520	4,123	+33.5%	+14%

Source: NHKS research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

- Period: End of year target price
- Rating system based on a stock's absolute return from the date of publication
 - Buy : Greater than +15%
 - Hold : -15% to +15%
 - Sell : Less than -15%

Summary of Financials

INCOME STATEMENT

(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E
Sales	128,256	134,807	149,039	167,069
<i>Growth</i>	10.2%	5.1%	10.6%	12.1%
COGS	(39,590)	(46,549)	(51,056)	(56,695)
Gross Profit	88,666	88,257	97,982	110,375
<i>Gross Margin</i>	69.1%	65.5%	65.7%	66.1%
Operating Expenses	(44,733)	(46,116)	(51,105)	(56,769)
EBIT	43,933	42,141	46,878	53,606
<i>EBIT Margin</i>	34.3%	31.3%	31.5%	32.1%
Depreciation	20,446	21,138	22,618	24,348
EBITDA	64,609	63,642	70,398	79,030
<i>EBITDA Margin</i>	50.4%	47.2%	47.2%	47.3%
Interest Expenses	(1,274)	(1,290)	(1,730)	(1,616)
EBT	42,659	40,852	45,148	51,990
Income Tax	(9,958)	(9,886)	(10,384)	(12,238)
Minority Interest	(10,556)	(10,136)	(10,429)	(12,788)
Net Profit	22,145	20,829	24,335	26,964
<i>Growth</i>	14.4%	-5.9%	16.8%	10.8%
<i>Net Profit Margin</i>	17.3%	15.5%	16.3%	16.1%

BALANCE SHEET

(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E
Cash	25,145	30,378	31,656	34,355
Receivables	9,222	8,701	10,683	11,166
Inventories	631	545	552	568
Total Current Assets	47,561	54,402	61,384	69,583
Net Fixed Assets	130,171	142,458	155,090	169,777
Other Non Current Asset	20,752	17,880	19,285	19,633
Total Assets	198,484	214,740	235,760	258,992
Payables	15,574	13,862	14,237	14,298
ST Bank Loan	2,289	6,165	2,858	3,656
LT Debt	33,183	38,411	43,075	46,134
Total Liabilities	86,354	95,074	100,722	109,281
Capital Stock	5,040	5,040	5,040	5,040
Retained Earnings	84,896	89,116	100,953	113,317
Shareholders' Equity	112,130	119,666	135,038	149,712

CASH FLOW STATEMENT

(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E
Operating Cash Flow	49,405	37,691	41,917	45,815
Investing Cash Flow	(33,007)	(28,269)	(33,034)	(34,682)
Financing Cash Flow	(21,052)	(4,190)	(7,605)	(8,434)
Net Changes in Cash	(4,654)	5,233	1,278	2,699

PROFITABILITY & STABILITY

	2017/12A	2018/12E	2019/12E	2020/12E
ROE	20.3%	18.0%	19.1%	18.9%
ROA	11.2%	11.7%	10.1%	10.8%
ROIC	22.8%	19.4%	19.9%	20.5%
Cash Dividend (IDR bn)	11,627	16,609	12,498	14,601
Dividend Yield	2.6%	4.8%	3.6%	4.2%
Payout Ratio	60.1%	60.0%	60.0%	60.0%
DER	31.6%	37.3%	34.0%	33.3%
Net Gearing	39.4%	47.3%	43.3%	42.1%
LT Debt to Equity	29.6%	32.1%	31.9%	30.8%
Capitalization Ratio	22.8%	24.3%	24.2%	23.6%
Equity Ratio	56.5%	55.7%	57.3%	57.8%
Debt Ratio	17.9%	20.8%	19.5%	19.2%
Financial Leverage	173.7%	178.3%	176.9%	173.8%
Current Ratio	104.8%	123.1%	139.1%	154.7%
Par Value (IDR)	50	50	50	50
Total Shares (mn)	100,800	99,062	99,062	99,062
Share Price (IDR)	4,440	3,520	3,520	3,520
Market Cap (IDR tn)	447.6	348.7	348.7	348.7

VALUATION INDEX

	2017/12A	2018/12E	2019/12E	2020/12E
Price /Earnings	20.2x	16.7x	14.3x	12.9x
Price /Book Value	4.0x	2.9x	2.6x	2.3x
Price/Sales	3.5x	2.6x	2.3x	2.1x
PE/EPS Growth	1.4x	-2.8x	0.9x	1.2x
EV/EBITDA	7.4x	6.1x	5.5x	5.0x
EV/EBIT	10.9x	9.2x	8.3x	7.3x
EV (IDR bn)	477,296	385,631	389,252	392,715
Sales CAGR (3-Yr)	12.7%	9.6%	8.6%	9.2%
EPS CAGR (3-Yr)	15.2%	11.0%	8.6%	7.4%
Basic EPS (IDR)	220	210	246	272
Diluted EPS (IDR)	220	210	246	272
BVPS (IDR)	1,112	1,208	1,363	1,511
Sales PS (IDR)	1,272	1,361	1,504	1,687
DPS (IDR)	115	168	126	147

OWNERSHIP

By Geography	% Shareholders	%
Indonesia	70.7	Rep. of Indonesia 52.1
United States	16.9	Bank of New York 5.5
Luxembourg	4.8	Blackrock 1.7
Ireland	1.3	Vanguard Group Inc 1.7

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