

# Telekomunikasi Indonesia Tbk (TLKM)

## Leap in Fixed Line Contribution

Company Report | Dec 22, 2017

### Buy

<b>Dec 2018 TP (IDR)</b>	<b>5,450</b>
Consensus Price (IDR)	4,777
TP to Consensus Price	+14.1%
vs. Last Price	+30.1%

#### Shares data

Last Price (IDR)	4,190
Price date as of	Dec 19, 2017
52 wk range (Hi/Lo)	4,840 / 3,654
Free float	48.8%
Outstanding sh.(mn)	100,800
Market Cap (IDR bn)	422,352
Market Cap (USD mn)	31,099
Avg. Trd Vol - 3M (mn)	118.92
Avg. Trd Val - 3M (bn)	511.26
Foreign Ownership	30.7%

#### Infrastructure

#### Telecommunication

Bloomberg	TLKM.IJ
Reuters	TLKM.JK

#### Arnold Sampeliling

+62 21 797 6202, ext:170  
arnold@nhsec.co.id

#### Par Excellence Performance

In 3Q17, TLKM posted the respective growth of 10.9%, 6.2%, and 15.4% in revenue, EBITDA, and net profit. **The data, internet and IT service divisions** posting the revenue amounting to IDR15.3 trillion (+55.1% y-y) **experienced the elevation of revenue contribution** from 43% in 2Q17 into 46.5% in 3Q17. Telkomsel's par excellence performance succeeding to post the data revenue amounting to IDR9 trillion (+27% y-y) was the potent driver for the elevation.

TLKM's commitment to infrastructure development and intensive promotion activity augmented 3Q17's operational and marketing costs respectively by IDR8.7 trillion (+16.9% y-y) and IDR1.3 trillion (+52.4% y-y). Nonetheless, **the surge in revenue offset the upbeat cost**; accordingly, EBITDA margin and net margin in 3Q17 were maintainable at 50.2% and 16.8% better than 2Q17's EBITDA margin and net margin.

The surge in 3Q17's marketing cost also resulted in **the surge in the customer base** of 16.3% y-y (vs 1Q17 10% y-y; 2Q17 13,1 y-y). In the coming years, TLKM estimated that **the shifting focus into a digital and infrastructure development investment company** will likely suppress EBITDA and net margin.

#### Price Rationalization and Improving Quality

In 3Q17, TLKM's data yield declining into IDR14.5 per MB intensely competed with EXCL's data yield of IDR10.3 and ISAT's data yield of IDR11.9. **The decline in price is estimated to be limited** as EXCL posting the data yield of IDR9/MB in 2Q17 starts to perform monetization. It is estimated that the regulation of SIM card registration in Indonesia will boost a more rational price even though it will reduce the customer base.

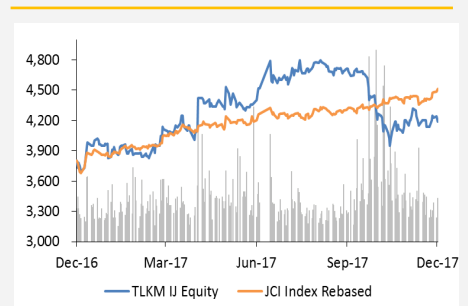
#### Telekomunikasi Indonesia, Tbk | Summary (IDR bn)

	2016/12A	2017/12E	2018/12E	2019/12E
Revenue	116,333	128,531	143,025	156,375
<i>Revenue growth</i>	13.5%	10.5%	11.3%	9.3%
EBITDA	59,498	65,037	73,333	80,029
Net profit	19,352	22,036	26,054	28,772
EPS (IDR)	192	219	258	285
<i>EPS growth</i>	24.9%	13.9%	18.2%	10.4%
BVPS (IDR)	1,047	1,183	1,338	1,506
EBITDA margin	51.1%	50.6%	51.3%	51.2%
NPM	16.6%	17.1%	18.2%	18.4%
ROE	19.5%	19.6%	20.5%	20.1%
ROA	11.2%	11.6%	12.3%	12.3%
ROIC	22.6%	22.5%	22.6%	23.7%
P/E	20.7x	19.2x	16.2x	14.7x
P/BV	3.8x	3.5x	3.1x	2.8x
EV/EBITDA	7.1x	6.9x	6.0x	5.6x
DPS (IDR)	92	115	131	155
<i>Dividend yield</i>	2.3%	2.8%	3.1%	3.7%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

#### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	5.3%	1.0%	-11.0%	10.3%
Rel. Ret.	-11.2%	-0.9%	-15.6%	-8.5%

The win of 2.3 Ghz spectrum auction by Telkomsel will boost the increment in capacity and network quality. We project that better service speed will spur data consumption. Until 3Q17, **the growth room still opened** due to the use of TLKM's 3G/4G device persisting at 51% and 4G traffic hitting 50% from the total data traffic.

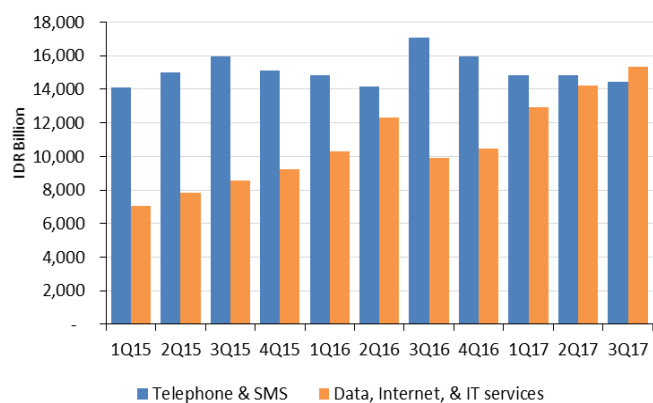
**Indihome: Significant New Revenue Resource**

From the fixed line business, the Indihome product, namely Dual Play is **the potent booster for the increment in customers number** even though the risk of downward ARPU lurks. 3Q17 Indihome's ARPU was IDR308,000 (vs 2Q17 Rp344,000). Nonetheless, TLKM oversaw the shifting trend from 2P customers into 3P consumers triggered by the features it offers. In 9M17, **Indihome consumers hit 2.34 million (53.5% y-y)** coupled with the revenue amounting to IDR5.9 trillion (+49.7% y-y)

**Target Price of IDR5,450**

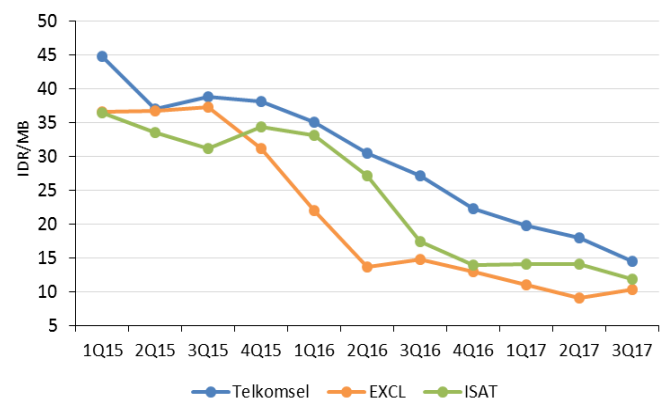
We use an estimate a forward P/E of 19.2x (+1SD from the 3 years average) to obtain the target price of December 2018. The target price implies a 2018/E P/E of 21.1x. Now, TLKM is traded at a 2017/E P/E of 19.2x.

**TLKM Revenue Trend | 1Q15 - 3Q17**



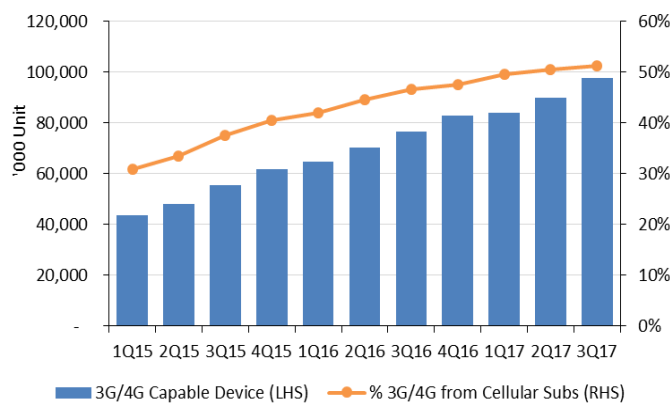
Source: Company, NHKS research

**Data Yield | 1Q15 - 3Q17**



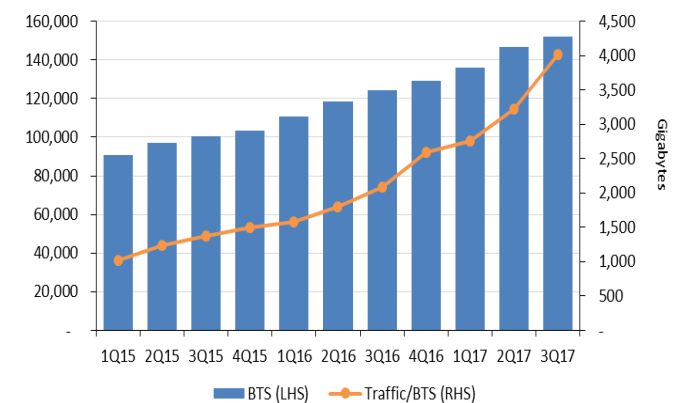
Source: Company, NHKS research

**3G/4G Capable Device | 1Q15 - 3Q17**



Source: Company, NHKS research

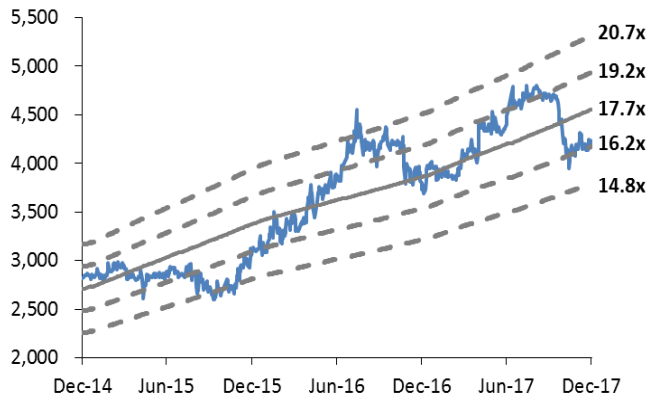
**Coverage | 1Q15 - 3Q17**



Source: Company, NHKS research

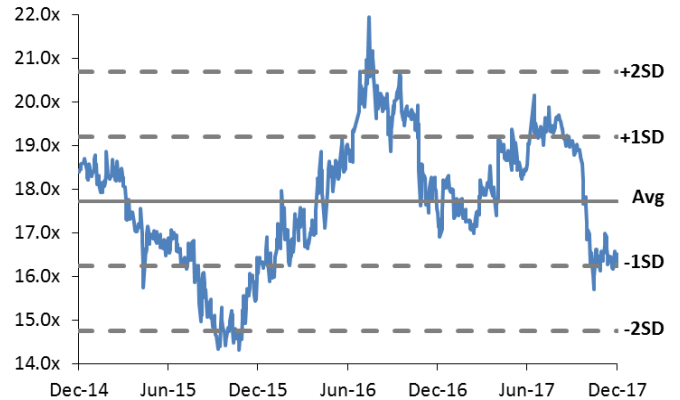
## Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



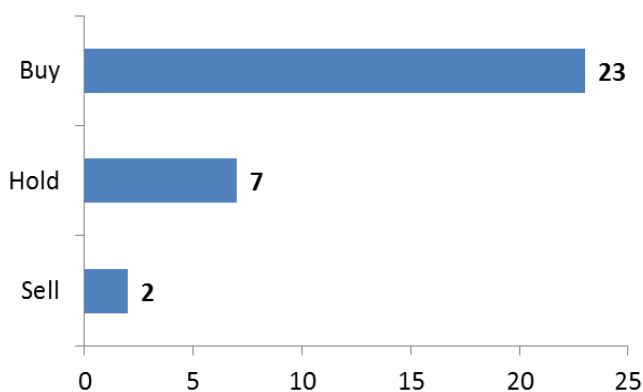
Source: NHKS research

## Rating and target price

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
3/16/2017	Buy	4,750 (Dec 2017)	4,050	4,646	17.3%	2.2%
5/16/2017	Buy	5,000 (Dec 2017)	4,340	4,783	15.2%	4.5%
9/8/2017	Buy	5,450 (Dec 2018)	4,720	5,113	15.5%	-2.2%
12/22/2017	Buy	5,450 (Dec 2018)	4,190	4,777	30.1%	14.1%

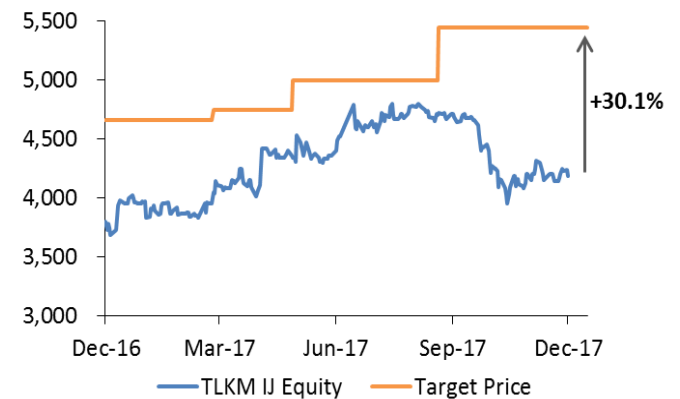
Source: Bloomberg, NHKS research

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

TLKM Summary		
Last Price (IDR)	December 22, 2017	4,190
Target Price (IDR)	Dec 2018	5,450
Analyst: Arnold Sampeling	Rating:	Buy

### INCOME STATEMENT

In IDR bn	2016/12A	2017/12E	2018/12E	2019/12E
Revenue	116,333	128,531	143,025	156,375
Growth (% y/y)	13.5%	10.5%	11.3%	9.3%
Operating Expenses	(77,138)	(84,043)	(92,939)	(101,594)
EBIT	39,195	44,488	50,086	54,781
EBIT Margin	33.7%	34.6%	35.0%	35.0%
Depreciation	18,532	20,440	22,775	24,314
EBITDA	59,498	65,037	73,333	80,029
EBITDA Margin	51.1%	50.6%	51.3%	51.2%
Interest - net	(1,006)	(1,235)	(1,169)	(1,402)
EBT	38,189	43,253	48,917	53,380
Income Tax	(9,017)	(10,801)	(11,697)	(12,277)
Minority Interest	(9,820)	(10,416)	(11,166)	(12,331)
Net Profit	19,352	22,036	26,054	28,772
Growth (% y/y)	24.9%	13.9%	18.2%	10.4%
Net Profit Margin	16.6%	17.1%	18.2%	18.4%

### BALANCE SHEET

In IDR bn	2016/12A	2017/12E	2018/12E	2019/12E
Cash	29,767	37,722	48,981	58,156
Receivables	7,363	10,766	8,810	12,344
Inventories	584	556	530	534
Total Current Assets	47,701	60,397	69,834	83,392
Net Fixed Assets	114,498	126,425	135,065	145,953
Other Non Current Assets	17,412	15,075	16,036	16,829
Total Assets	179,611	201,897	220,935	246,174
Payables	13,518	12,645	13,130	13,322
ST Bank Loan	911	1,561	968	1,144
Curr Maturities of LT Debt	4,521	5,266	6,056	7,559
Other Current Liab.	20,812	22,195	21,435	21,802
LT Debt	26,367	33,037	36,087	41,590
Other Non Current Liab.	7,938	7,906	8,399	9,001
Total Liabilities	74,067	82,612	86,074	94,418
Shareholders' Equity	105,544	119,286	134,860	151,756

### CASH FLOW STATEMENT

In IDR bn	2016/12A	2017/12E	2018/12E	2019/12E
Net Income	19,352	22,036	26,054	28,772
Deprec & Amortization	18,532	20,440	22,775	24,314
Chg. In Working Capital	9,347	4,078	1,546	(3,825)
CFO	47,231	46,553	50,376	49,261
Capex	(30,160)	(29,551)	(31,816)	(35,367)
CFI	(27,557)	(32,630)	(31,884)	(35,392)
Dividends Paid	(9,293)	(11,626)	(13,221)	(15,633)
Net Borrowing (PMT)	(2,813)	8,066	3,246	7,182
CFF	(17,905)	(9,017)	(7,234)	(7,234)
Net Changes in Cash	1,769	4,906	11,258	9,175

### OWNERSHIP

By Geography	% Shareholders	%
Indonesia	69.4	Rep. of Indonesia
United States	18.8	Bank of New York
Luxembourg	4.1	Vanguard Group
Norway	1.3	Blackrock

### PROFITABILITY & STABILITY

	2016/12A	2017/12E	2018/12E	2019/12E
ROE	19.5%	19.6%	20.5%	20.1%
ROA	11.2%	11.6%	12.3%	12.3%
ROIC	22.6%	22.5%	22.6%	23.7%
EBITDA/Equity	58.0%	57.8%	57.3%	55.2%
EBITDA/Assets	33.4%	34.0%	34.5%	33.9%
Cash Dividend (IDR bn)	9,293	11,626	13,221	15,633
Dividend Yield (%)	2.3%	2.8%	3.1%	3.7%
Payout Ratio (%)	60.0%	60.1%	60.0%	60.0%
DER	30%	33%	32%	33%
Net Gearing	39%	43%	41%	43%
LT Debt to Equity	29%	32%	31%	32%
Capitalization Ratio	23%	24%	24%	24%
Equity Ratio	59%	59%	61%	62%
Debt Ratio	18%	20%	20%	20%
Financial Leverage	174%	170%	166%	163%
Current Ratio	120%	145%	168%	190%
Quick Ratio	118%	144%	167%	189%
Cash Ratio	75%	91%	118%	133%
Par Value (IDR)	50	50	50	50
Total Shares (mn)	100,800	100,800	100,800	100,800
Share Price (IDR)	3,980	4,190	4,190	4,190
Market Cap (IDR tn)	401.2	422.4	422.4	422.4

### VALUATION INDEX

	2016/12A	2017/12E	2018/12E	2019/12E
Price /Earnings	20.7x	19.2x	16.2x	14.7x
Price /Book Value	3.8x	3.5x	3.1x	2.8x
Price/Revenue	3.4x	3.3x	3.0x	2.7x
PE/EPS Growth	0.8x	1.4x	0.9x	1.4x
EV/EBITDA	7.1x	6.9x	6.0x	5.6x
EV/EBIT	10.8x	11.4x	11.3x	10.0x
EV (IDR bn)	424,376	448,706	443,422	445,195
Revenue CAGR (3-Yr)	12%	13%	12%	10%
EPS CAGR (3-Yr)	11%	15%	19%	14%
Basic EPS (IDR)	192	219	258	285
Diluted EPS (IDR)	192	219	258	285
BVPS (IDR)	1,047	1,183	1,338	1,506
Revenue PS (IDR)	1,154	1,275	1,419	1,551
DPS (IDR)	92	115	131	155

### DCF, RIM & EVA

	2016/12A	2017/12E	2018/12E	2019/12E
<b>DCF (IDR bn)</b>				
NOPAT	29,940	33,378	38,110	42,182
+Depr./Amor.	18,532	20,440	22,775	24,314
-CAPEX	(30,160)	(29,551)	(31,816)	(35,367)
-Incr. (Decr.) in Working Cap.	9,347	4,078	1,546	(3,825)
(Unlevered) FCFF	27,659	28,344	30,615	27,304
<b>WACC</b>				
Cost of Debt (Tax Adj.)	8.2%	7.4%	7.7%	7.1%
Cost of Equity (COE)	9.7%	9.0%	9.1%	8.6%
WACC (%)	9.6%	8.9%	9.0%	8.4%
<b>RIM</b>				
Spread (FROE-COE) (%)	11.0%	11.9%	12.7%	12.8%
Residual Income (IDR)	10,312	12,541	15,145	17,234
Equity Charge	9,040	9,494	10,909	11,538
<b>EVA</b>				
Invested Capital (IDR bn)	128,040	137,343	159,150	177,971
ROIC-WACC (%)	13.8%	15.4%	14.9%	15.3%
EVA (IDR bn)	17,700	21,180	23,757	27,194

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