

Telekomunikasi Indonesia Tbk (TLKM)

Cost Control Manifests in 3Q19's Sound Performance

The data, internet, and IT service revenues posted a 12.8% YoY increase in sales as the operational expenses and telecommunication services segment accounted for a 7.1% YoY decrease in cost control. We estimate that FY19 revenues to reach IDR144.3 trillion and its FY20 P/E ratio of 17.1x with the low leverage provide Telkom with adequate funds for expansive network coverage. We on grounds of the facts hold BUY recommendation with the price target of IDR4,330.

Performance of 3Q19. Telkom recorded 3Q19 sales of IDR102.6 trillion rising by IDR 3.4 trillion or a 3.5% YoY increase. The rise was supported by an increase in interconnection revenues to Rp4.8 trillion or a 25.6% increase from 3Q18 revenues of Rp3.8 trillion and a 12.8% YoY increase to IDR66.1 trillion in sales of data, internet, and IT services segment. The efficiency at cost control was reflected in decreasing operational, maintenance, and telecommunication services by 7.1% YoY to IDR31.1 trillion and narrowing general costs by 5.4% YoY to IDR9.7 trillion. Additionally, the efficiency boosted the Company's OPM to reach 49.5% from 3Q18's OPM of 48.3%.

Reliance on Data Business. Telkom's 3Q19 revenues received the largest contribution of 64.5% from sales of the data, internet and IT services segment. Acknowledging the segment's largest contribution, Telkom constructs 20,000 4G base transceiver station (BTS) in Java Island and outside Java Island. Besides, the expansive BTS construction will strengthen Telkom network coverage.

Solid balance sheet for network expansion. Telkom has the strongest balance sheet among its peers' balance sheet as its net gearing of 0.4x was lower than 1-2x net gearing of its peers. The low leverage proves Telkom's more flexible network expansion than its peers' expansion. We estimate Telkom's FY20 CapEx to hover at around IDR30 trillion derived from internal cash.

Valuation. We are optimistic that Telkom's 2020 performance will better improve, proven by its dominance over the telecommunications sector as it is one of the Indonesian providers to have the largest number of subscribers in Indonesia. Of note, in 3Q19, Telkom accounted for a 1.9% growth in the subscriber number. We recommend BUY with the price target of IDR4,330 on the basis of Discounted Cash Flow (DCF) equal to FY20 forward P/E ratio of 17.1x as TLKM is currently traded at a 11.1x P/E and a 4.0x EV/EBITDA. We are sanguine about Telkom's outlook on grounds of its expansive infrastructure network coverage resulting in FY20'2 hiking subscriber number.

Telekomunikasi Indonesia Tbk | Summary (IDR bn)

	2018	2019 E	2020 F	2021 F
Sales	130,784	144,276	157,093	169,782
<i>Sales growth</i>	2.0%	10.3%	8.9%	8.1%
EBITDA	60,251	66,464	74,148	80,155
Net profit	18,032	25,293	25,030	27,611
EPS (IDR)	182	255	253	279
<i>EPS growth</i>	-17.1%	24.1%	14.4%	12.4%
BVPS (IDR)	1,184	1,289	1,395	1,508
EBITDA margin	46.1%	46.1%	47.2%	47.2%
NPM	13.8%	17.5%	15.9%	16.3%
ROE	15.4%	19.8%	18.1%	18.5%
ROA	8.7%	11.5%	10.4%	10.6%
ROIC	17.8%	21.6%	20.3%	20.1%
P/E	20.6x	15.0x	17.1x	15.5x
P/BV	3.2x	3.0x	3.1x	2.9x
EV/EBITDA	6.6x	6.1x	6.0x	5.5x
DPS (IDR)	168	167	164	186
<i>Dividend yield</i>	4.5%	4.4%	3.8%	4.3%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

Buy

Dec 2020 TP (IDR)	4,330
Consensus Price (IDR)	4,577
TP to Consensus Price	-5.4%
vs. Last Price	+54.1%

Shares data

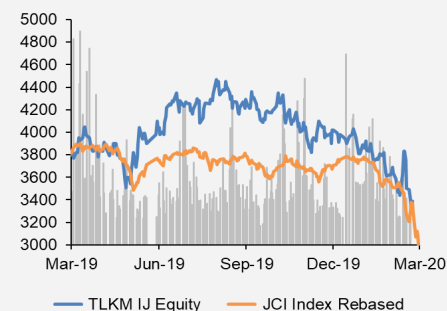
Last Price (IDR)	2,810
Price date as of	March 18, 2020
52 wk range (Hi/Lo)	4,500 / 2,620
Free float (%)	47.9
Outstanding sh.(mn)	99,062
Market Cap (IDR bn)	335,821
Market Cap (USD mn)	23,030
Avg. Trd Vol - 3M (mn)	82.4
Avg. Trd Val - 3M (bn)	311.1
Foreign Ownership	29.3%

Infrastructure

Telecommunication

Bloomberg	TLKM IJ
Reuters	TLKM.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret	-29.2%	-22.4%	-29.6%	-26.6%
Rel. Ret	2.0%	4.1%	1.5%	6.8%

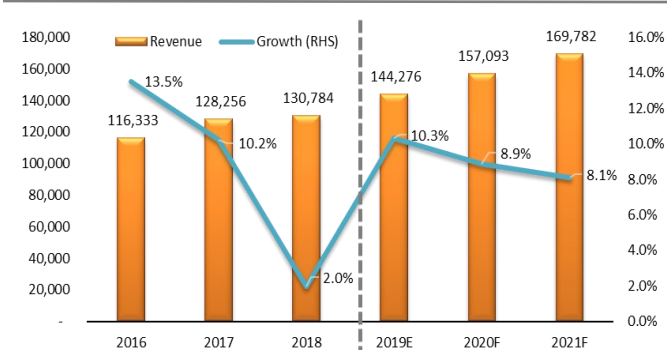
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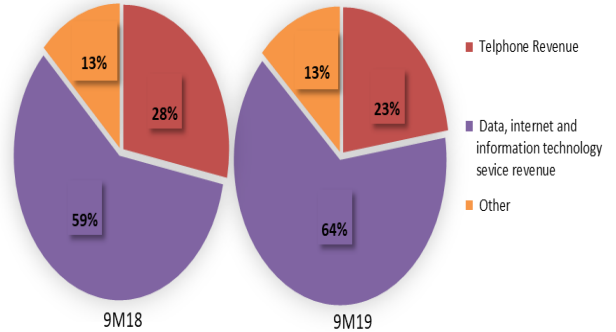
Performance Highlights

Revenue Projection | 2016 - 2021F



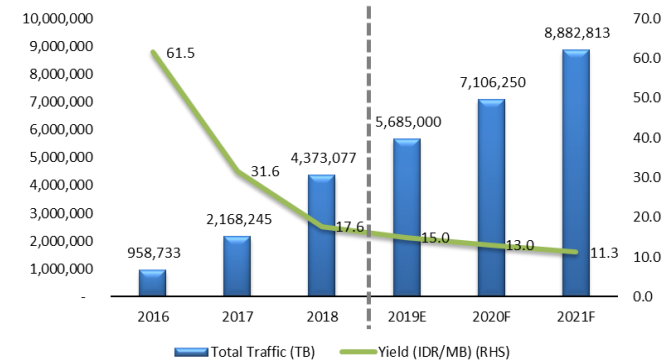
Source: Company, NHKSI Research

Revenue Contributions YoY | 9M18 - 9M19



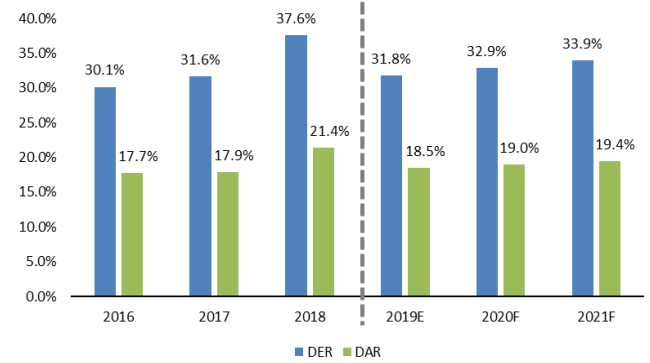
Source: Company, NHKSI Research

Traffic (TB) and Yield (IDR/MB) | 2016 - 2021F



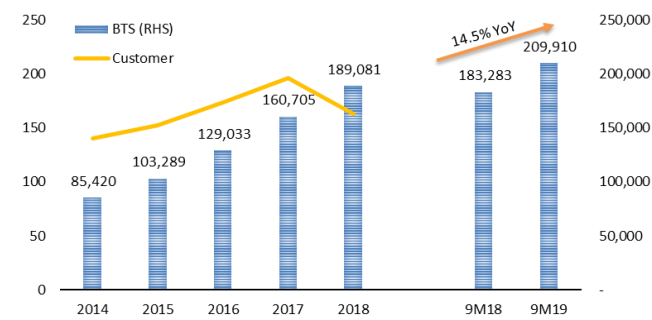
Source: Company, NHKSI Research

DER and DAR | 2016 - 2021F



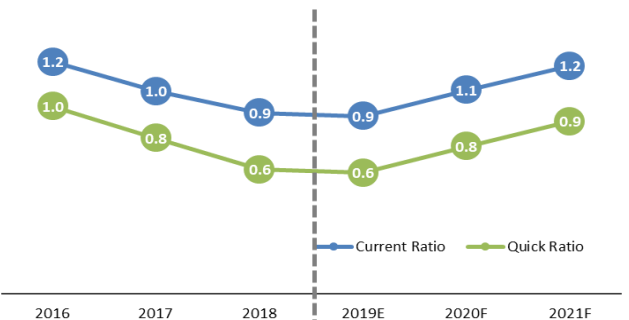
Source: Company, NHKSI Research

Infrastructure BTS and Customers | 2014 - 9M19



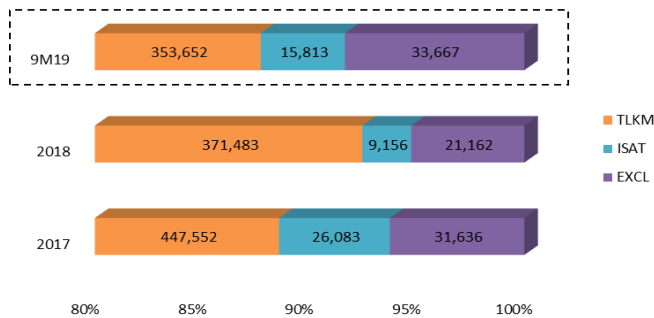
Source: Company, NHKSI Research

Current Ratio and Quick Ratio | 2016 - 2021F



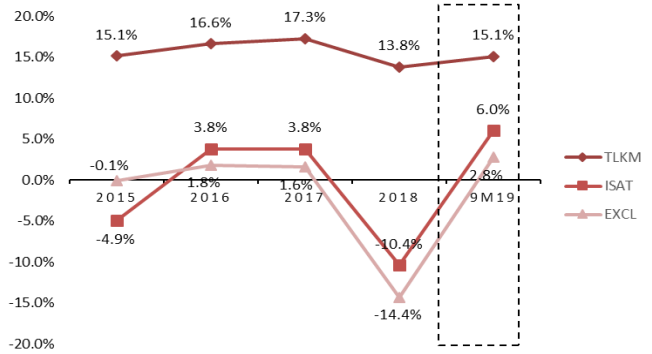
Source: Company, NHKSI Research

Market Cap. | 2017 - 9M19



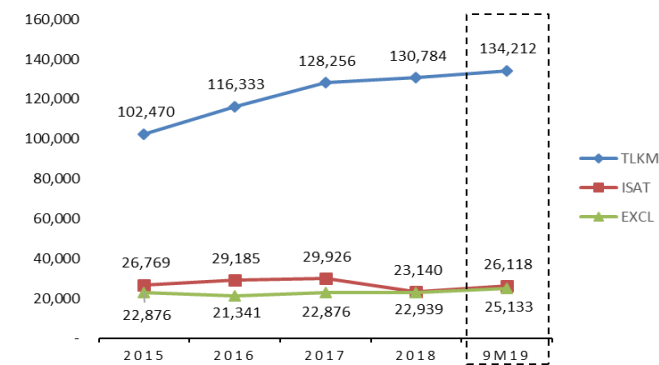
Source: Company, NHKSI Research

Net Profit Margin | 2015 - 9M19



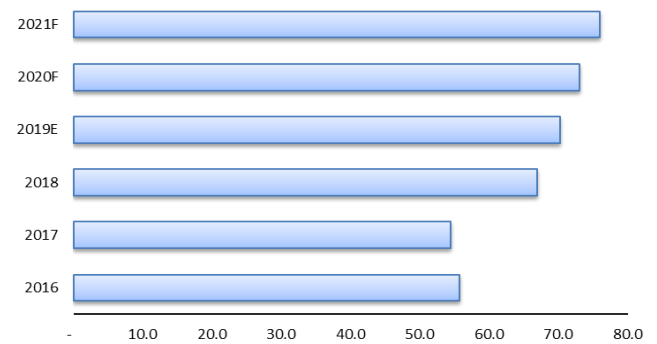
Source: Company, NHKSI Research

Revenue Growth | 2015 - 9M19



Source: Company, NHKSI Research

TLKM Blended ARPU '000/mth | 2016 - 2021F



Source: Company, NHKSI Research

3Q19 review (IDR bn)

	3Q18	4Q18	1Q19	2Q19	3Q19					4Q19E
					Actual	Estimate	y-y	q-q	surprise	
Sales	34,835	31,581	34,840	34,505	33,286	33,286	-4.4%	-3.5%	-1.6%	41,645
Gross Profit	34,835	31,581	34,840	34,505	33,286	33,286	-4.4%	-3.5%	-1.6%	41,645
EBIT	11,342	8,612	10,878	7,222	11,244	11,694	-0.9%	10.4%	-3.8%	15,600
EBIT Margin	32.6%	27.6%	33.6%	22.6%	33.8%	34.6%	3.7%	14.5%	-2.3%	37.5%
EBITDA	16,884	14,830	16,116	12,227	17,036	15,545	0.9%	6.4%	9.6%	15,751
EBITDA Margin	48.5%	47.5%	49.8%	38.2%	51.2%	46.0%	5.6%	10.3%	11.4%	37.8%
Net Profit	5,534	3,800	10,784	4,854	5,381	3,539	-2.8%	10.9%	52.0%	8,834
Net Margin	15.9%	14.4%	17.7%	9.3%	16.2%	10.5%	1.8%	14.9%	54.5%	21.2%

Source: Bloomberg, NHKSI research

TLKM at A Glance

PT Telkom Indonesia (Persero) Tbk (Telkom) is a state-owned information and communication technology enterprise and operates telecommunication network coverage in Indonesia. The Indonesian Government to own 52.9% of Telkom's stocks is the major stockholder, and the remaining stocks of 47.91% are owned by the public. Telkom's stocks listed as "TLKM" are traded on the Indonesia Stock Exchange (IDX), and its stocks listed as TLK are traded on the New York Stock Exchange (NYSE).

TelkomGroup endeavors to transform into a digital telecommunication company by means of implementing customers-oriented business and operational strategies. The transformation better improves its performance as it develops into leaner more agile organization so that fast adaptation to the rapid changes in the telecommunication industry is achievable. Its transformed organization is expected to efficiently and effectively provide quality customer experiences.

TelkomGroup categorizes its businesses into 3 Digital Business Domains as follows 1) Digital Connectivity (Fiber to the x (FTTx), 5G, Software Defined Networking (SDN)/ Network Function Virtualization (NFV)/ Satellite); 2) Digital Platform (Data Center, Cloud, Internet of Things (IoT), Big Data/ Artificial Intelligence (AI), Cybersecurity); and 3) Digital Services (Enterprise, Consumer). It, until September 2019, accounted for 170.9 million subscribers or a 1.9% YoY increase and 6.5 million subscribers of IndiHome or a 38.3% YoY surge

TLKM Competitiveness in Southeast Asia

Telkom is an Indonesian leading telecommunication provider having the second's largest market cap. in Southeast Asia after Singtel Singapore. TLKM's 16.2x P/E ratio and 21.3% ROE falls short in the average P/E ratio of 18.9x and ROE of 34.4% of ASEAN-based telecommunication industry. That is a credible proof of its performance which is as sound as its ASEAN peers performance, and Its double-digit net profit margin of 15.1%, indeed, is an achievement.

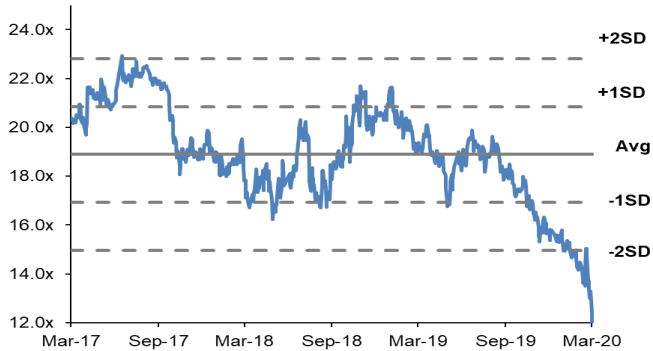
ASEAN Telecommunication Operators

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	22,539	14,292	9,372	1,415	9.8%	15.1%	21.3%	16.2x	3.3x
EXCL	1,370	4,530	1,777	50	NA	2.8%	3.8%	28.1x	1.0x
ISAT	641	4,536	1,847	111	NA	6.0%	13.1%	5.9x	0.7x
Singapore									
Singtel	31,928	36,094	12,452	933	-58.8%	7.5%	4.6%	35.1x	1.7x
Malaysia									
Maxis	9,628	5,241	2,248	367	-14.7%	16.3%	21.4%	27.1x	5.8x
DiGi.Com	7,676	1,992	1,520	346	-7.0%	22.8%	214.9%	22.8x	49.6x
Axiata Group	8,467	16,290	5,935	330	NA	5.6%	8.1%	26.4x	2.2x
Thailand									
Advanced Info Service	16,029	9,735	5,829	1,005	5.1%	17.2%	49.2%	16.2x	7.3x
True Corp	2,828	17,610	4,541	182	-19.9%	4.0%	4.4%	15.2x	0.7x
Total Access Comm.	2,246	5,624	2,615	175	NA	6.7%	23.1%	13.1x	2.8x
Phillipine									
PLDT	4,135	10,355	3,268	428	17.0%	13.1%	19.8%	9.6x	1.9x
Globe Telecom	4,524	6,002	3,219	430	21.8%	13.4%	28.8%	10.7x	2.9x

Source: Bloomberg

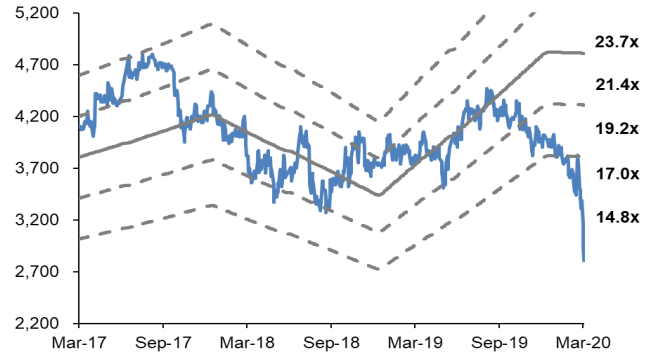
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKSI research

Dynamic Forward P/E band | Last 3 years



Source: NHKSI research

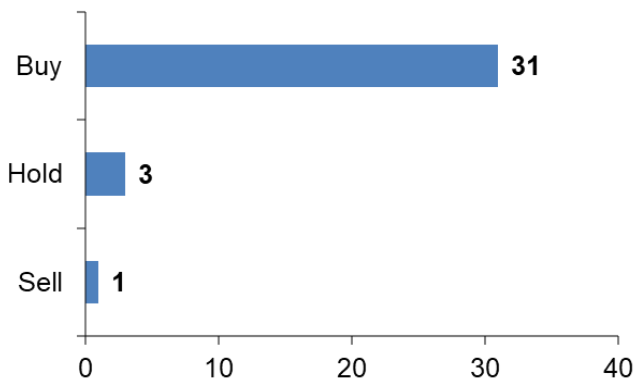
Rating and Target Price Update

Target Price

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
03/18/2020	Buy	4,330 (Dec 2020)	2,810	4,577	+54.1%	-5.4%

Source: NHKSI research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKSI research

NH Korindo Sekuritas Indonesia (NHKSI) stock ratings

1. Period: End of year target price
2. 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%

Financial Summary

INCOME STATEMENT				
(IDR bn)	2018/12A	2019/12E	2020/12F	2021/12F
Revenue	130,784	144,276	157,093	169,782
<i>Growth</i>	2.0%	10.3%	8.9%	8.1%
COGS	-	-	-	-
Gross Profit	130,784	144,276	157,093	169,782
<i>Gross Margin</i>	-	-	-	-
Operating Expenses	(91,939)	(95,222)	(106,823)	(115,452)
EBIT	38,845	49,054	50,270	54,330
<i>EBIT Margin</i>	29.7%	34.0%	32.0%	32.0%
Depreciation	21,406	17,410	23,878	25,825
EBITDA	60,251	66,464	74,148	80,155
<i>EBITDA Margin</i>	46.1%	46.1%	47.2%	47.2%
Interest Expenses	(2,440)	(2,024)	(2,713)	(2,348)
EBT	36,405	47,029	47,557	51,982
Income Tax	(9,426)	(12,177)	(12,313)	(13,459)
Minority Interest	(8,947)	(9,559)	(10,213)	(10,912)
Net Profit	18,032	25,293	25,030	27,611
<i>Growth</i>	-18.6%	40.3%	-1.0%	10.3%
<i>Net Profit Margin</i>	13.8%	17.5%	15.9%	16.3%

BALANCE SHEET				
(IDR bn)	2018/12A	2019/12E	2020/12F	2021/12F
Cash	18,267	16,599	26,081	36,557
Receivables	11,414	15,229	16,582	17,921
Inventories	717	769	817	880
Total Current Assets	43,268	46,795	58,939	72,066
Net Fixed Assets	143,248	150,838	156,960	163,135
Other Non Current Assets	19,680	21,710	23,639	25,548
Total Assets	206,196	219,343	239,537	260,749
Payables	29,163	33,912	37,099	40,448
ST Bank Loan	10,339	9,504	10,658	11,874
LT Debt	33,748	31,024	34,790	38,757
Total Liabilities	88,893	91,697	101,336	111,386
Capital Stock	7,408	7,408	7,408	7,408
Retained Earnings	90,995	99,697	108,465	117,681
Shareholders' Equity	117,303	127,646	138,201	149,363

CASH FLOW STATEMENT				
(IDR bn)	2018/12A	2019/12E	2020/12F	2021/12F
Operating Cash Flow	32,724	42,955	50,096	54,789
Investing Cash Flow	(33,411)	(27,030)	(31,929)	(33,909)
Financing Cash Flow	(15,701)	(17,593)	(8,685)	(10,404)
Net Changes in Cash	(16,388)	(1,668)	9,482	10,476

Source: Company Data, NHKSI Research

PROFITABILITY & STABILITY				
	2018/12A	2019/12E	2020/12F	2021/12F
ROE	15.4%	19.8%	18.1%	18.5%
ROA	8.7%	11.5%	10.4%	10.6%
ROIC	17.8%	21.6%	20.3%	20.1%
Cash Dividend (IDR bn)	16,609	16,591	16,262	18,395
Dividend Yield	4.5%	4.4%	3.8%	4.3%
Payout Ratio	92.1%	65.6%	65.0%	66.6%
DER	37.6%	31.8%	32.9%	33.9%
Net Gearing	0.4	0.4	0.4	0.4
LT Debt to Equity	28.8%	24.3%	25.2%	25.9%
Capitalization Ratio	27.3%	24.1%	24.7%	25.3%
Equity Ratio	56.9%	58.2%	57.7%	57.3%
Debt Ratio	21.4%	18.5%	19.0%	19.4%
Financial Leverage	176.4%	173.7%	172.6%	174.0%
Current Ratio	93.5%	92.0%	105.5%	118.0%
Par Value (IDR)	50	50	50	50
Total Shares (mn)	99,062	99,062	99,062	99,062
Share Price (IDR)	3,750	3,830	4,330	4,330
Market Cap (IDR tn)	371.5	379.4	428.9	428.9

VALUATION INDEX				
	2018/12A	2019/12E	2020/12F	2021/12F
Price/Earnings	20.6x	15.0x	17.1x	15.5x
Price/Book Value	3.2x	3.0x	3.1x	2.9x
Price/Sales	2.8x	2.6x	2.7x	2.5x
PE/EPS Growth	-1.1x	0.4x	-16.5x	1.5x
EV/EBITDA	6.6x	6.1x	6.0x	5.5x
EV/EBIT	10.2x	8.2x	8.9x	8.2x
EV (IDR bn)	397,303	403,337	448,306	443,013
Sales CAGR (3-Yr)	8.5%	7.4%	7.0%	9.1%
EPS CAGR (3-Yr)	5.2%	9.3%	4.2%	15.3%
Basic EPS (IDR)	182	255	253	279
Diluted EPS (IDR)	182	255	253	279
BVPS (IDR)	1,184	1,289	1,395	1,508
Sales PS (IDR)	1,320	1,456	1,586	1,714
DPS (IDR)	168	167	164	186

OWNERSHIP		
By Geography	% Shareholders	%
Indonesia	71.5 Rep. of Indonesia	52.1
United States	16.0 Bank of New York	4.9
Luxembourg	4.9 Blackrock	1.7
Ireland	1.3 Vanguard Group Inc	1.7

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