

Telekomunikasi Indonesia Tbk (TLKM)

Slightly Depressed Due to Increase in Opex

In the first semester of 2023, TLKM's revenue grew 2.1% to IDR 73,478T YoY (1H22: IDR 71,983T), as well as Operating Profit increased by 0.4% YoY to IDR 23,019T (1H22: IDR 10,611T). EBITDA decreased by 2.7% YoY to IDR 38.384T (1H22: IDR 39.447T). TLKM's net profit decreased by -4.2% YoY to IDR 12.756T (1H22: IDR 13.310T). One of the causes and driving factors of the decline in EBITDA and Net Profit that eroded in the first semester of 2023 was a slight increase in Opex, which was dominated by the cost of additional spectrum frequency acquisitions.

Net Profit and EBITDA Slumped Due to Increased Opex in 1H23

- Revenue growth in 1H23 was mainly contributed by Data, Internet & IT Services segment which grew 6.1% YoY to IDR 41.63T (1H22: IDR 39.22T), with the Indihome segment still growing 4% YoY to IDR 14,389T (1H22: IDR 13,831T). The segment that experienced a drastic decline and downward trend was the SMS, Fixed & Cellular Voice segment which decreased 19.4% YoY to IDR 7.506T (1H22: IDR 9.317T) caused by cannibalization due to the changing trend towards Instant Messaging (OTT) applications.
- As of the first semester of 2023, Opex (Operating expenses) experienced a slight swelling at +7.9% YoY to IDR 35,094T (1H22: IDR 32,536T) which was enough to erode TLKM's net profit. This was mainly triggered by an increase in O&M (Operation and Maintenance) costs as the largest contributor to Opex. It increased by 7.4% YoY to IDR 19.170T (1H22: IDR 17.847T), which was used to upgrade and acquire new spectrum frequencies to maintain capacity & improve TLKM's network quality. In addition, another cost that contributed to the increase of TLKM's Opex in 1H23 was the Interconnection segment cost, +16.8% YoY to IDR 3.093T (1H22: IDR 2.647T). This was aimed to grow the wholesale voice segment on an international scale.

IndiHome and Tsel are Still the Growth Machine of TLKM

- Tsel's revenue in 1H23 grew 1% YoY and 4.7% QoQ to IDR 44.009T (1H22: IDR 43.586T & 1Q23: IDR 21.499T). This was supported by the growth of Digital Business segment which posted +7.4% YoY and +7.7% QoQ growth to offset the downward trend of Tsel's business in Legacy Segment (-25.7% YoY & -11.4% QoQ) due to behavioral changes as well as communication transition that is more inclined to Data & Instant Messaging (OTT) effect.
- Based on TSEL's operational performance related to the number of subscribers, the number of Telkomsel's subscribers decreased by 9.7% YoY but increased by 1.5% QoQ to 153,269 million (1H22: 169,667 million & 1Q23: 151,067 million) due to customer cleansing aimed at optimizing the number of more productive subscribers. The stabilized subscriber also supported the improvement of productivity and quality of subscribers as shown through solid ARPU numbers which increased by 13.1% YoY and 9.8% QoQ to 47.5k/User (1H22: 42k/User).
- Furthermore, the number of Indihome subscribers has increased by 7.2% YoY to 9,528 million (1H22: 8,889 million). As of July 1, 2023, IndiHome is officially under the management of Tsel. This condition has led to the beginning of TLKM's FMC business segment, which is expected to result in operational cost efficiency and CapEx from TLKM while strengthening Tsel's dominance in the B2C Telco Business segment. After the integration of Indihome into Tsel, Tsel launched a new product under the brand "Telkomsel One" on July 21, 2023, as the first step into FMC, where Telkomsel One is a broadband service with several added values such as bundling between mobile services (Tsel Prabayar & Halo) and IndiHome in one application and one bill.

Buy Recommendation with Target Price IDR 4,800 (+26.3%)

- NHKS Research remains to maintain a BUY rating for TLKM with a lower target, as the expected growth and performance are not yet in line with expectations. Our target price reflects FY23 F EV/EBITDA at 6.5x. This recommendation is supported by the improvement and efficiency of performance as well as execution of FMC business. The risk of this call is the risk of competition in the Telco industry, which is getting more intense.

Telekomunikasi Indonesia Tbk | Summary (IDR bn)

	2022/12A	2023/12F	2024/12F	2025/12F
Revenue	147,306	155,393	166,931	185,034
Sales growth	5.5%	7.4%	10.8%	12.9%
EBITDA	78,992	80,546	87,904	97,046
Net profit	20,753	26,366	28,381	31,912
EPS (IDR)	209	266	286	322
EPS growth	-16.2%	27.0%	7.6%	12.4%
BVPS (IDR)	1,507	1,579	1,663	1,764
EBITDA margin	53.6%	51.8%	52.7%	52.4%
NPM	14.1%	17.0%	17.0%	17.2%
ROE	13.9%	16.9%	17.2%	18.3%
ROA	7.5%	9.3%	9.5%	10.1%
ROIC	14.4%	16.2%	16.7%	17.8%
P/E	18.0x	18.0x	18.2x	17.1x
P/BV	2.5x	3.0x	3.1x	3.1x
EV/EBITDA	5.6x	6.4x	6.3x	5.8x
DPS (IDR)	168	212	221	243
Dividend yield	4.4%	4.4%	4.3%	4.4%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

BUY

Target Price (IDR)	4,800
Consensus Price (IDR)	4,733
TP to Consensus Price vs. Last Price	+1.4%
	+26.3%

Shares data

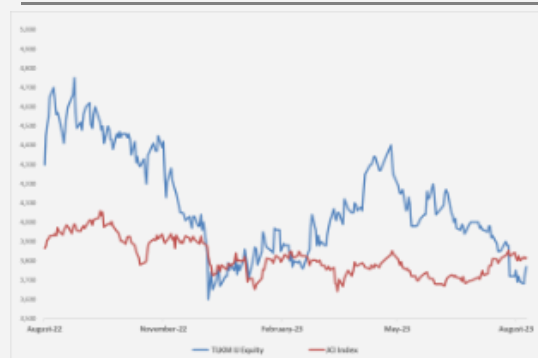
Last Price (IDR)	3,800
Price date as of	August 10, 2023
52 wk range (Hi/Lo)	4,770 / 3,570
Free float	47.86%
Outstanding Shares (mn)	99,062
Market Cap (IDR bn)	373,464
Market Cap (USD mn)	24,589
Avg. Trd Vol - 3M (mn)	102.967
Avg. Trd Val - 3M (bn)	408.142
Foreign Ownership	23.20%

Infrastructure

Telecommunication

Bloomberg	TLKM.IJ
Reuters	TLKM.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret	0.0%	-3.8%	-8.0%	-16.7%
Rel. Ret	-0.3%	-5.9%	-9.7%	-13.6%

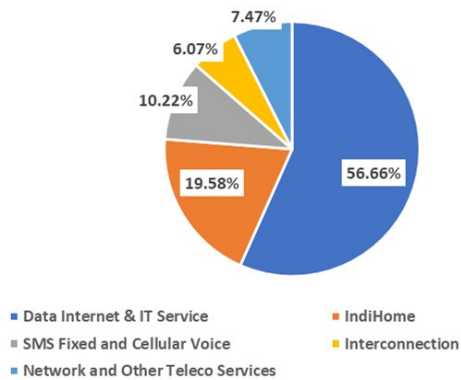
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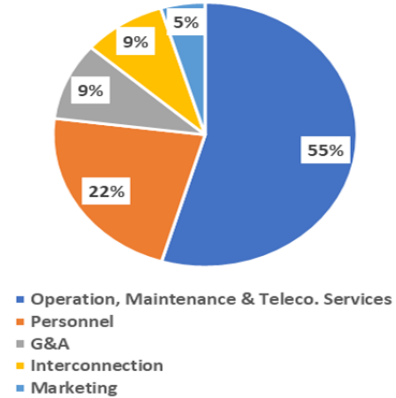
Performance Highlights

Revenue Breakdown 1H23



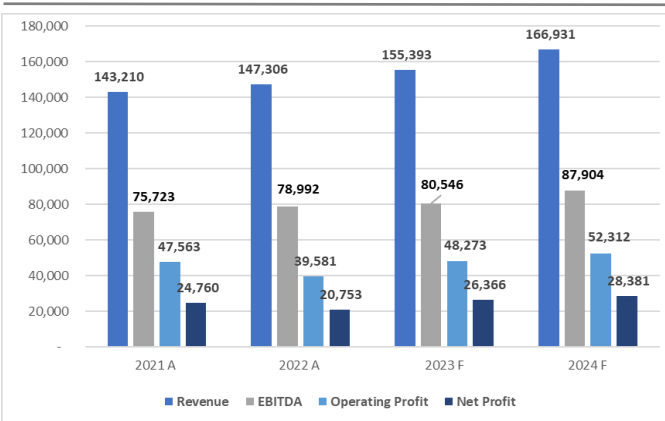
Source: Company, NHKSI Research

Operating Expenses Breakdown 1H23



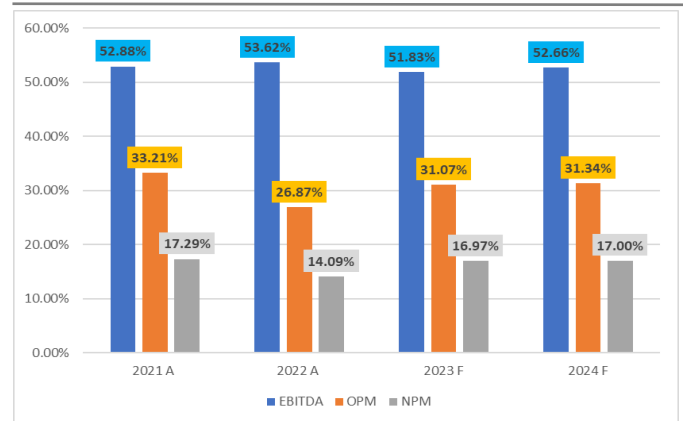
Source: Company, NHKSI Research

Revenue & Net Income (IDR Bn)



Source: Company, NHKSI Research

Profitability Margin (%)



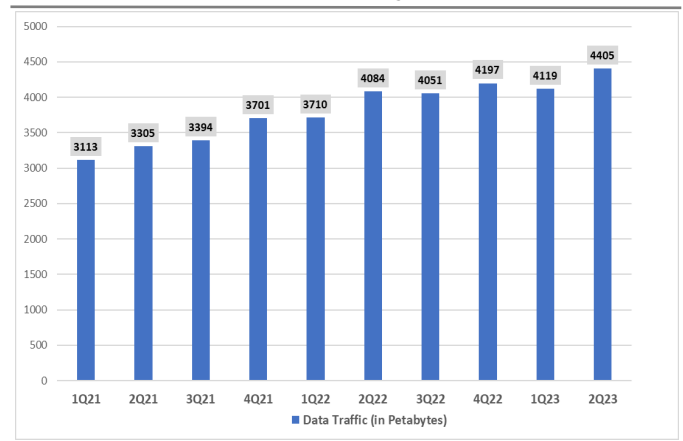
Source: Company, NHKSI Research

F-EV/EBITDA | Last 3-Years



Source: Company, NHKSI Research

Tsel Traffic Mobile Data (In Petabytes)



Source: Company, NHKSI Research

Summary of Financials

INCOME STATEMENT

(IDR Bn)	2022/12A	2023/12F	2024/12F	2025/12F
Revenue	147,306	155,393	166,931	185,034
<i>Growth</i>	5.5%	7.4%	10.8%	12.9%
Gross Profit	147,306	155,393	166,931	185,034
Operating Expenses	(107,725)	(107,120)	(114,618)	(127,047)
EBIT	39,581	48,273	52,312	57,986
<i>EBIT Margin</i>	26.9%	31.1%	31.3%	31.3%
Depreciation	33,255	32,273	35,592	39,060
EBITDA	78,992	80,546	87,904	97,046
<i>EBITDA Margin</i>	53.6%	51.8%	52.7%	52.4%
Interest Expenses	(3,242)	(3,942)	(4,672)	(5,001)
EBT	36,339	44,330	47,640	52,985
Income Tax	(8,659)	(10,563)	(11,352)	(12,626)
Minority Interest	(6,927)	(7,401)	(7,907)	(8,448)
Net Profit	20,753	26,366	28,381	31,912
<i>Growth</i>	-16.2%	27.0%	7.6%	12.4%
<i>Net Profit Margin</i>	14.1%	17.0%	17.0%	17.2%

PROFITABILITY & STABILITY

	2022/12A	2023/12F	2024/12F	2025/12F
ROE	13.9%	16.9%	17.2%	18.3%
ROA	7.5%	9.3%	9.5%	10.1%
ROIC	14.4%	16.2%	16.7%	17.8%
Cash Dividend (IDR bn)	16,602	21,025	21,930	24,040
Dividend Yield	4.4%	4.4%	4.3%	4.4%
Payout Ratio	80.0%	79.7%	77.3%	75.3%
DER	84.4%	81.5%	81.6%	80.9%
Net Gearing	0.61	0.71	0.72	0.66
LT Debt to Equity	27.6%	31.7%	31.3%	29.5%
Capitalization Ratio	28.9%	31.1%	30.9%	29.6%
Equity Ratio	54.2%	55.1%	55.1%	55.3%
Debt Ratio	22.0%	24.9%	24.6%	23.3%
Financial Leverage	182.2%	196.6%	196.8%	187.5%
Current Ratio	78.2%	89.6%	100.5%	117.3%
Par Value (IDR)	50	50	50	50
Total Shares (mn)	99,062	99,062	99,062	99,062
Share Price (IDR)	3,800	4,800	5,200	5,500
Market Cap (IDR tn)	376.4	475.5	515.1	544.8

BALANCE SHEET

(IDR Bn)	2022/12A	2023/12F	2024/12F	2025/12F
Cash	31,947	31,063	39,315	53,106
Receivables	12,685	14,676	16,229	18,503
Inventories	1,144	815	874	971
Total Current Assets	55,057	56,344	66,936	84,238
Net Fixed Assets	189,809	195,535	197,943	193,883
Other Non Current Assets	30,326	31,991	34,366	38,093
Total Assets	275,192	283,870	299,245	316,215
Payables	46,032	36,563	39,053	43,627
ST Bank Loan	19,431	21,098	21,989	22,002
LT Debt	41,218	49,516	51,607	51,637
Total Liabilities	125,930	127,483	134,463	141,444
Capital Stock	7,664	7,664	7,664	7,664
Retained Earnings	111,897	117,238	123,689	131,561
Shareholders' Equity	149,262	156,387	164,782	174,771

VALUATION INDEX

	2022/12A	2023/12F	2024/12F	2025/12F
Price/Earnings	18.1x	18.0x	18.2x	17.1x
Price/Book Value	2.5x	3.0x	3.1x	3.1x
Price/Sales	2.6x	3.1x	3.1x	2.9x
PE/EPS Growth	-1.1x	0.7x	2.4x	1.4x
EV/EBITDA	5.6x	6.4x	6.3x	5.8x
EV/EBIT	11.2x	10.7x	10.5x	9.8x
EV (IDR bn)	441,791	515,050	549,405	565,374
Sales CAGR (3-Yr)	2.8%	4.4%	5.2%	7.9%
EPS CAGR (3-Yr)	3.6%	8.2%	4.7%	15.4%
Basic EPS (IDR)	209	266	286	322
Diluted EPS (IDR)	209	266	286	322
BVPS (IDR)	1,507	1,579	1,663	1,764
Sales PS (IDR)	1,487	1,569	1,685	1,868
DPS (IDR)	168	212	221	243

CASH FLOW STATEMENT

(IDR bn)	2022/12A	2023/12F	2024/12F	2025/12F
Operating Cash Flow	54,478	47,269	64,509	72,639
Investing Cash Flow	(37,483)	(39,664)	(40,375)	(38,727)
Financing Cash Flow	(26,820)	(8,489)	(15,882)	(20,121)
Net Changes in Cash	(9,825)	(884)	8,252	13,791

OWNERSHIP

By Geography	% Shareholders	%
Indonesia	76.80	Rep. of Indonesia 52.09
United States	11.46	Bank of New York 3.92
Luxembourg	3.06	BlackRock Inc 1.73
Others	8.68	Others 42.26

Source: Company Data, NHKSI Research

NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. Rating system based on a stock's potential upside from the date of publication
 - Buy : Greater than +15%
 - Overweight : +5% to +15%
 - Hold : -5% to +5%
 - Underweight : -5% to -15%
 - Sell : Less than -15%

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