

Telkom Indonesia Tbk. (TLKM)

3Q24: Profit & Margin Contracted Due to Increase in Operating Costs

As of 9M24, TLKM's revenue grew by +0.9% YoY to IDR 112.2 T (9M23: IDR 111.2 T; QoQ growth: -2.5% QoQ, 2Q24: IDR 37.7 T & 3Q24: IDR 36.9 T). The increase in operating expenses (Opex) was quite high, as it increased +6.5% YoY to IDR 55.6 T in 9M24 (9M23: IDR 52.2 T). This was due to the increase in operational and maintenance (O&M) costs as well as the increase in personnel costs, one of which was triggered by the ERP (Early Retirement Program). This increase in opex also eroded TLKM's Operating Profit Margin (OPM), as well as the net profit which was recorded at IDR 17.7 T in 9M24, a decrease of -9.4% YoY (9M23: IDR 19.5 T). However, by excluding several components such as GOTO investment losses and ERP, the net operating profit stood at IDR 18.6 T, with a decrease of -5.1% YoY (9M23: IDR 19.6T). Another thing to watch out for is the downward trend in ARPU from mobile operators in Indonesia that took place in 3Q24, be it from TLKM, ISAT, and EXCL.

A Slump in Performance and Margin Due to Increased Operating Costs

- TLKM's relatively flat revenue growth was contributed by growth from data & Internet segment, increasing by +7.2% YoY to IDR 67.9T as of 9M24 (9M23: IDR 63.4T) and Network and other telecommunication services segment (Tower, etc) by +14.7% YoY to IDR 9.9T as of 9M24 (9M23: IDR 8.6T). SMS, fixed & cellular voice revenue segment decreased by -27% YoY to IDR 7.89T as of 9M24 (9M23: IDR 10.8T) due to transition to instant messaging applications (OTT) and transition to data. In addition, IndiHome segment decreased -9.9% YoY to IDR 19.6T as of 9M24 (9M23: IDR 21.8T) due to reclassification of IndiHome Enterprise (B2B) into data & Internet segment revenue starting 1Q24.
- Operating expenses as of 9M24 increased +6.5% YoY to IDR 55.6T (9M23: IDR 52.2T), in which the Operation and Maintenance (O&M) cost contributed significantly, rising +3.9% YoY to IDR 29.9T as of 9M24 (9M23: IDR 28.9T) due to network maintenance and repair activities as well as improved connectivity. In addition, employee costs also increased on an annual basis by +12.7% YoY to IDR 13.2T in 9M24 (9M23: IDR 11.7T) due to early retirement program (ERP) which reached IDR 1.18T that has been disbursed as of 3Q24. The ERP is expected to improve productivity and efficiency going forward. The increase in operating costs was enough to erode TLKM's OPM to 28.9% as of 9M24 (9M23: 31.4%), while the NPM of TLKM as of 9M24 contracted to 15.8% (9M23: 17.5%). Excluding the loss on GOTO investment and ERP program, the net profit operating margin stood at 16.6% as of 9M24 (9M23: 17.7%). We revised our FY24 revenue estimate to IDR 151.6T (Initial estimate: IDR 156.6T), while the increase in operating costs caused TLKM's net profit to contract to IDR 23.2T for FY24 (Initial estimate: IDR 26.9T).

Telkomsel's Operational Performance: Stable Profitability but Declining ARPU Trend in Mobile Operator Industry

- Based on Telkomsel's operational performance related to the number of subscribers, Telkomsel's number of subscribers increased by +0.1% YoY and -0.9% QoQ to 158,416 thousand in 9M24 (9M23: 158,300 thousand & 2Q24: 159,882 thousand). As for the FMC (Fixed Mobile Convergence) integration and IndiHome B2C integration, it is expected to increase margin and added value from customers after TLKM took action to clean up the customer database. In addition, the quality of customers also showed better as data payload and customer consumption experienced better growth (+12.4% YoY & +4.4% QoQ).
- Apart from operational performance and efficiency, Telkomsel's synergy is still good and quite stable, but what needs to be watched out for is the decline in Average Revenue per User (ARPU) from the cellular industry sector in Indonesia. It is important to note that Telkomsel has experienced a downward trend in ARPU in the past year, which is probably because Telkomsel seems to be trying to maintain its customer database and maintain its market share. The current ARPU as of 3Q24 is at IDR 43K (3Q23: IDR 49K & 2Q24: IDR 45K). In addition, if we look at the other two major operators such as EXCL and ISAT since 3Q23 their ARPU trends have increased until 2Q24, but as of 3Q24 the three operators have experienced a significant decline. As of 2Q24, Telkomsel's ARPU is almost close to EXCL.

Buy Recommendation with Target Price at IDR 3,150 (+17.1% Upside Potential)

- After revising the estimate for FY24 performance forecast, NHKSI Research still gives a Buy rating to TLKM with a lower target price level of IDR 3,150. Our target price reflects FY25 Forward EV/EBITDA value at 5.0x (Average last 3 Years). The catalyst for TLKM going forward is the improvement of ARPU growth, while unlocking the value of the Data Center business as a future growth engine and performance efficiency that leads to more expansive margin profitability. The risks include the weakening ARPU trend in the cellular operator industry, intense and tight competition in the cellular business and TLKM's operating costs which have increased quite high.

Telekomunikasi Indonesia Tbk. | Summary (IDR Billions)

	2023/12A	2024/12E	2025/12F	2026/12F
Revenue	149,216	151,613	154,630	158,279
Revenue growth	1.3%	1.6%	2.0%	2.4%
EBITDA	77,579	77,455	82,835	88,779
Net profit	24,560	23,129	23,790	24,968
EPS (IDR)	248	233	240	252
EPS growth	18.3%	-5.8%	2.9%	5.0%
BVPS (IDR)	1,580	1,646	1,720	1,803
EBITDA margin	52.0%	51.1%	53.6%	56.1%
NPM	16.5%	15.3%	15.4%	15.8%
ROE	15.7%	14.2%	14.0%	14.0%
ROA	8.6%	7.9%	7.9%	8.0%
ROIC	15.7%	14.6%	14.7%	15.1%
P/E	10.9x	13.5x	14.4x	15.0x
P/BV	1.7x	1.9x	2.0x	2.1x
EV/EBITDA	5.8x	6.7x	6.6x	6.4x
DPS (IDR)	198	186	187	192
Dividend yield	7.4%	5.9%	5.4%	5.1%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

NH Korindo Sekuritas Indonesia



Company Report | 12 November 2024

Buy

Target Price (IDR)	3,150
Consensus Price (IDR)	3,720
TP to Consensus Price	-15.3%
vs. Last Price	+14.1%

Shares data

Last Price (IDR)	2,690
Price date as of	11 November 2024
52 wk range (Hi/Lo)	4,240 / 2,650
Free float	47.86%
Outstanding Shares (mn)	99,062
Market Cap (IDR bn)	266,477
Market Cap (USD mn)	16,973
Avg. Trd Vol - 3M (mn)	98.42
Avg. Trd Val - 3M (bn)	294.04
Foreign Ownership	27.87%

Infrastructure

Telecommunication

Bloomberg	TLKM IJ
Reuters	TLKM.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret	-32.6%	-8.5%	-6.3%	-24.2%
Rel. Ret	-31.8%	-5.1%	-5.8%	-30.9%

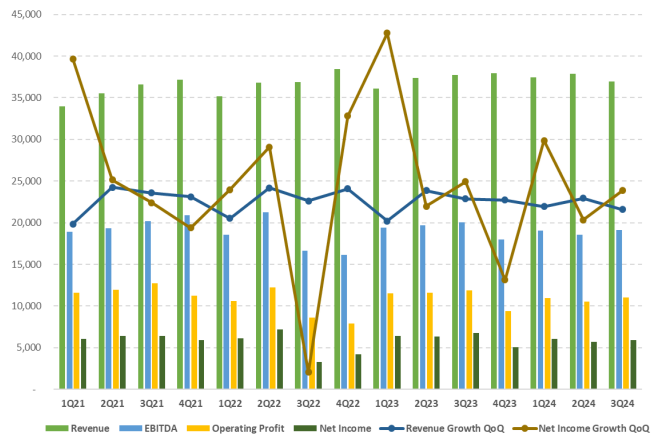
Leonardo Lijuwardi

+62 21 5088 9127

Leonardo.lijuwardi@nhsec.co.id

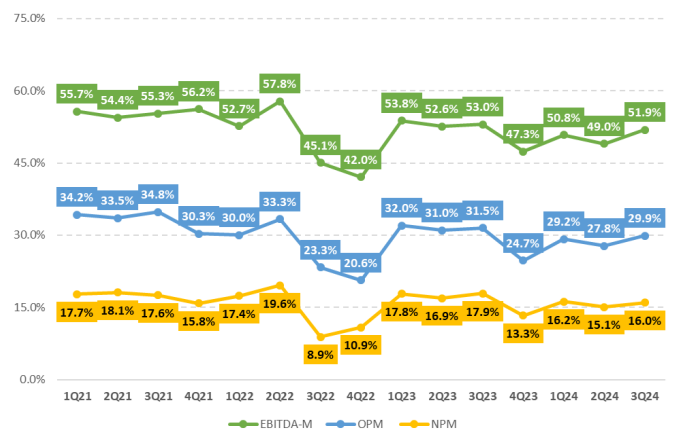
TLKM Performance Highlights

Fig 1. Quarterly Financial Performance (In IDR Billion)



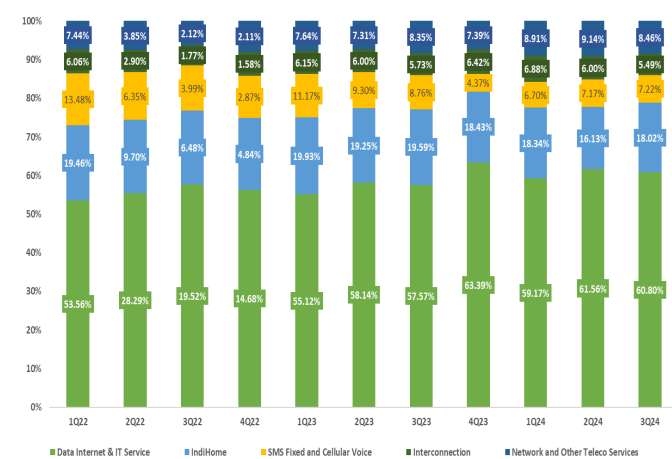
Source: Company, NHKSI Research

Fig 2. Quarterly Profitability Margin (In %)



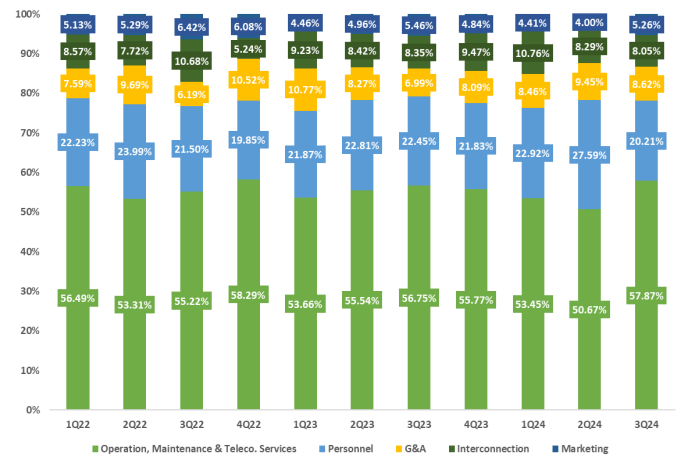
Source: Company, NHKSI Research

Fig 3. TLKM Revenue Segmentation Breakdown



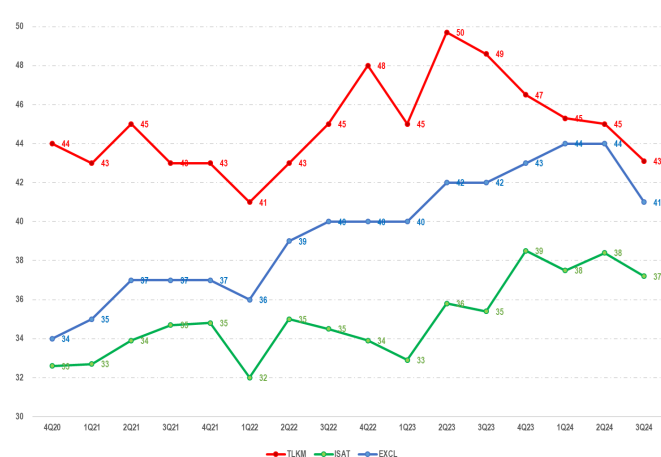
Source: Company, NHKSI Research

Fig 4. TLKM Operating Expense Breakdown



Source: Company, NHKSI Research

Fig 5. TLKM vs ISAT vs EXCL ARPU (In IDR Thousand / user)



Source: Companies, NHKSI Research

Fig 6. Forward EV/EBITDA TLKM | Last 3 Years



Source: Company, NHKSI Research

Summary of Financials

INCOME STATEMENT

(IDR Bn)	2023/12A	2024/12E	2025/12F	2026/12F
Revenue	149,216	151,613	154,630	158,279
Growth	1.3%	1.6%	2.0%	2.4%
Gross Profit	149,216	151,613	154,630	158,279
Operating Expenses	(104,832)	(108,025)	(109,014)	(110,193)
EBIT	44,384	43,589	45,616	48,086
Growth	12.1%	-1.8%	4.7%	5.4%
EBIT Margin	29.7%	28.8%	29.5%	30.4%
Depreciation	32,663	33,866	37,219	40,693
EBITDA	77,579	77,455	82,835	88,779
Growth	-1.8%	-0.2%	6.9%	7.2%
EBITDA Margin	52.0%	51.1%	53.6%	56.1%
Interest Expenses	(3,590)	(3,945)	(4,426)	(4,648)
EBT	40,794	39,644	41,190	43,438
Income Tax	(8,586)	(8,344)	(8,669)	(9,143)
Minority Interest	(7,648)	(8,171)	(8,730)	(9,327)
Net Profit	24,560	23,129	23,790	24,968
Growth	18.3%	-5.8%	2.9%	5.0%
Net Profit Margin	16.5%	15.3%	15.4%	15.8%

PROFITABILITY & STABILITY

	2023/12A	2024/12E	2025/12F	2026/12F
ROE	15.7%	14.2%	14.0%	14.0%
ROA	8.6%	7.9%	7.9%	8.0%
ROIC	15.7%	14.6%	14.7%	15.1%
Cash Dividend (IDR bn)	19,648	18,453	18,493	19,025
Dividend Yield	7.4%	5.9%	5.4%	5.1%
Payout Ratio	80.0%	79.8%	77.7%	76.2%
DER	83.3%	79.8%	77.6%	74.4%
Net Gearing	0.53	0.56	0.55	0.52
LT Debt to Equity	28.0%	31.5%	30.7%	28.9%
Capitalization Ratio	29.7%	31.0%	30.4%	29.2%
Equity Ratio	54.5%	55.6%	56.3%	57.3%
Debt Ratio	23.1%	25.0%	24.6%	23.6%
Financial Leverage	183.8%	181.5%	178.6%	175.9%
Current Ratio	77.7%	90.2%	101.3%	120.8%
Par Value (IDR)	50	50	50	50
Total Shares (mn)	99,062	99,062	99,062	99,062
Share Price (IDR)	2,690	3,150	3,450	3,775
Market Cap (IDR tn)	266.5	312.0	341.8	374.0

BALANCE SHEET

(IDR Bn)	2023/12A	2024/12E	2025/12F	2026/12F
Cash	29,007	31,883	38,927	51,557
Receivables	15,685	14,319	15,034	15,828
Inventories	997	795	810	831
Total Current Assets	55,613	57,080	65,055	78,742
Net Fixed Assets	198,974	203,108	203,889	198,196
Other Non Current Assets	32,455	32,976	33,633	34,426
Total Assets	287,042	293,165	302,576	311,364
Payables	43,501	35,673	36,205	37,312
ST Bank Loan	22,492	21,915	22,256	21,966
LT Debt	43,772	51,434	52,233	51,552
Total Liabilities	130,480	130,070	132,161	132,803
Capital Stock	7,664	7,664	7,664	7,664
Retained Earnings	118,441	123,116	128,414	134,358
Shareholders' Equity	156,562	163,094	170,414	178,561

VALUATION INDEX

	2023/12A	2024/12E	2025/12F	2026/12F
Price/Earnings	10.9x	13.5x	14.4x	15.0x
Price/Book Value	1.7x	1.9x	2.0x	2.1x
Price/Sales	1.8x	2.1x	2.2x	2.4x
PE/EPS Growth	0.6x	-2.3x	5.0x	3.0x
EV/EBITDA	5.8x	6.7x	6.6x	6.4x
EV/EBIT	10.1x	11.9x	12.1x	11.8x
EV (IDR bn)	450,346	516,965	550,686	566,803
Sales CAGR (3-Yr)	3.0%	1.9%	1.6%	2.0%
EPS CAGR (3-Yr)	5.7%	-2.2%	4.7%	0.6%
Basic EPS (IDR)	248	233	240	252
Diluted EPS (IDR)	248	233	240	252
BVPS (IDR)	1,580	1,646	1,720	1,803
Sales PS (IDR)	1,506.29	1,530	1,561	1,598
DPS (IDR)	198	186	187	192

CASH FLOW STATEMENT

(IDR Bn)	2023/12A	2024/12E	2025/12F	2026/12F
Operating Cash Flow	51,846	50,665	60,724	65,846
Investing Cash Flow	(43,957)	(38,521)	(38,656)	(35,794)
Financing Cash Flow	(12,403)	(9,268)	(15,023)	(17,423)
Net Changes in Cash	(4,514)	2,876	7,044	12,630

OWNERSHIP

By Geography	% Shareholders	%
Indonesia	72.13 Rep. of Indonesia	52.09
United States	17.11 Bank of New York	4.10
Luxembourg	2.43 Vanguard Group Inc.	1.94
Others	8.33 Others	41.87

Source: Bloomberg, 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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