

# Telekomunikasi Indonesia

**BUY** (unchanged)

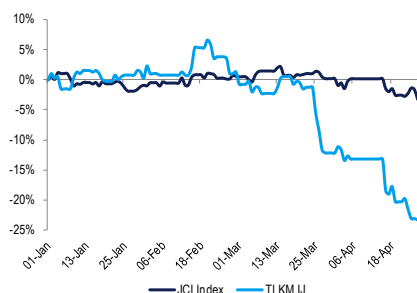
Company Update | Telecommunications | TLKM IJ | 26 April 2024

## Stock Data

Target price	Rp4,200
Prior TP	
Current price	Rp3,030
Upside/downside	+39%
Shares outstanding (mn)	99,062
Market cap (Rp bn)	300,159
Free float	48%
Avg. 6m daily T/O (Rp bn)	568

## Price Performance

	3M	6M	12M
Absolute	-23.9%	-12.9%	-29.9%
Relative to JCI	-21.9%	-17.7%	-31.2%
52w low/high (Rp)	3,030 – 4,320		



## Major Shareholders

Republic of Indonesia	52.1%
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## Attractive risk/reward profile post-severe share price deterioration

- TLKM's share price has declined by -28%, as concerns on competition and performance was exacerbated by the unfavorable macro backdrop.
- We believe that concerns on competition and TLKM/Tsel's performance are overblown. Of note, ARPU could potentially bottom-out in 1Q24.
- TLKM's risk/reward profile looks favorable, in our view; reaffirm Buy.

### TLKM's share price saw severe deterioration

Since our sector report at end-Mar24 (see our previous [note](#)), share prices of EXCL/ISAT have largely stabilized (+5%/flat), which we believe is attributable to a combination of upbeat expectations on 1Q24 results, potential corporate actions, and index inclusion. On the other hand, TLKM's share price continued to deteriorate further (another -12%, for a total of -28% since mid-Mar24) as concerns on competition and operational performance were exacerbated by the unfavorable macro backdrop. Notably, TLKM has the highest foreign holding among its peers, and thus, weaker US\$/Rp generated sizable outflow.

### Operational performance could potentially continue to improve supported by benign competition; outflow pressure may subside

First, we continue to believe that the competitive landscape seems likely to remain favorable, as: 1) Tsel Lite looks optically aggressive but is generally ARPU-accretive; and 2) we see limited incentives for telcos to resort to aggressive pricings in a bid to capture near-term market share (see our previous [note](#)). Second, against this backdrop, we expect Tsel (mobile-only) to see better revenue growth of +3% yoy this year (vs. flat yoy in FY23) supported by ARPU improvement. We believe that Tsel's ARPU seems likely to bottom-out in 1Q24 driven by price hikes and uptrading (see our previous [note](#)). We also penciled-in +3% topline and EBITDA growth for TLKM (vs. +1/-2% yoy in FY23). Third, outflow pressure could potentially start to ease, as TLKM's institutional investors holding is now at the lowest level since FY17 and higher 7-DRR rate should help to cap US\$/Rp downside risks (see our economists' [note](#)). Also, recall that TLKM actually fares better against the potential rate upcycles and stronger US\$ (see our previous [note](#)).

### Current valuation implies limited downside risk

Finally, considering: 1) TLKM's share price has dropped by -28% since mid-Mar24; and 2) consensus' EBITDA/earnings cut of 5/6% YTD along with FY24F EV/EBITDA of 4.3x (-2SD of its mean) – the level where its share price bottomed during the pandemic, and at 6.5% dividend yield (assuming 80% payout) – a 10-year high, we think that most of the concerns are likely already priced-in. Further, its valuation gap to EXCL/ISAT have narrowed (c.2% premium/13% discount vs. c.18% premium/43% premium historically). Thus, we believe that TLKM's risk/reward profile looks attractive now.

### Maintain Buy, with an unchanged TP of Rp4,200

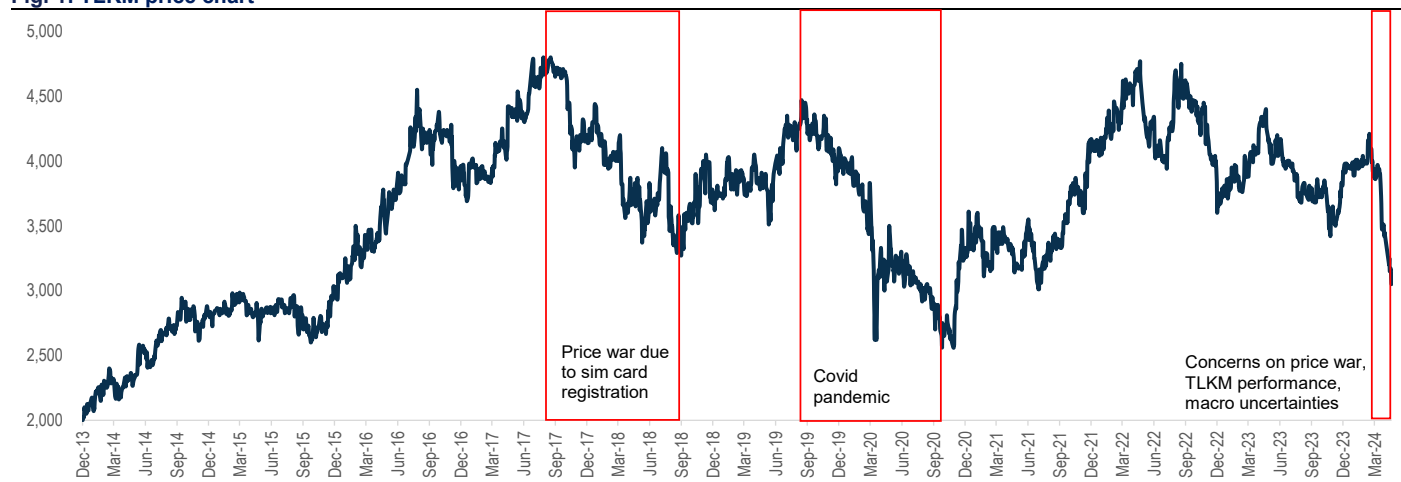
Although we continue to prefer ISAT and EXCL on better growth trajectories and re-rating potentials, we believe that TLKM's risk/reward profile looks favorable at current valuation (4.4x FY24F EV/EBITDA and 6.5% yield). As such, we maintain Buy on TLKM with a blended valuation-based (DCF and EV/EBITDA multiple) TP of Rp4,200. Downside risk is intensifying competition.

Financial Summary (Rp bn)	2022A	2023A	2024F	2025F	2026F
Revenue	147,306	149,216	154,039	159,135	164,422
EBITDA	78,992	77,579	79,894	82,302	84,772
EBITDA growth	4.3%	-1.8%	3.0%	3.0%	3.0%
Net profit	20,753	24,560	26,203	27,217	28,826
EPS (Rp)	209	248	265	275	291
EPS growth	-16.2%	18.3%	6.7%	3.9%	5.9%
ROE	13.9%	15.7%	16.0%	16.0%	16.3%
PER (x)	15.7	13.2	12.4	11.9	11.3
EV/EBITDA (x)	4.8	4.9	4.7	4.6	4.4
Dividend yield	4.6%	5.1%	6.0%	6.5%	6.7%
IPS vs. consensus			98%	96%	96%

Source: Company, Indo Premier

Share price closing as of: 26 April 2024

Fig. 1: TLKM price chart



Source: Company, Indo Premier

Fig. 2: TLKM EV/EBITDA band



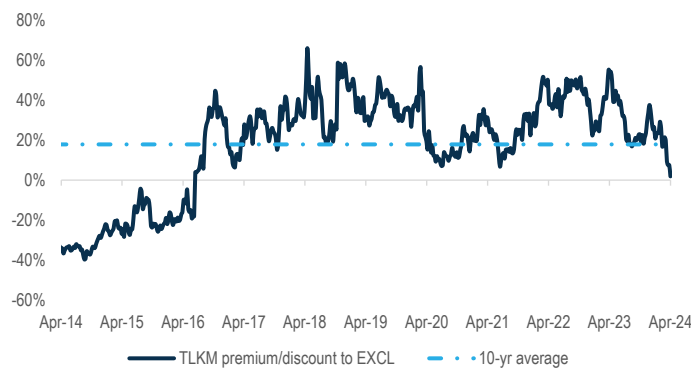
Source: Company, Indo Premier

Fig. 3: Telco comps table

	Market Cap US\$ Mn	P/E			EV/EBITDA			Div' Yield		
		24F	25F	26F	24F	25F	26F	24F	25F	26F
<b>Indonesia Average</b>	<b>26,052</b>	<b>14.9</b>	<b>13.6</b>	<b>12.3</b>	<b>4.6</b>	<b>4.4</b>	<b>4.2</b>	<b>5.2</b>	<b>5.5</b>	<b>5.9</b>
Telkom Indonesia Persero Tbk	18,561	11.5	11.1	10.4	4.4	4.3	4.2	6.5	7.0	7.2
XL Axiata Tbk	1,926	24.6	19.2	15.9	4.8	4.4	4.1	1.8	2.0	2.9
Indosat Tbk	5,566	22.9	20.0	17.0	5.3	4.8	4.4	2.0	1.7	2.5
<b>Asia Average</b>	<b>306,275</b>	<b>39.7</b>	<b>23.4</b>	<b>18.7</b>	<b>8.8</b>	<b>8.0</b>	<b>7.3</b>	<b>2.1</b>	<b>2.4</b>	<b>2.8</b>
China United Netw ork Communica	20,806	16.4	14.7	13.4	3.8	3.6	3.4	4.1	4.9	5.7
Shanghai AtHub Co Ltd	1,125	48.7	37.3	31.7	9.9	9.1	8.2	0.2	0.2	0.2
HKBN Ltd	503	11.8	8.6	6.2	5.9	5.4	5.3	13.8	15.4	16.2
China Telecom Corp Ltd	73,126	15.9	14.7	13.6	3.6	3.4	3.3	0.7	0.8	0.9
Vodafone Idea Ltd	11,096	n.a	n.a	n.a	19.5	16.8	14.8	0.0	0.0	0.0
Bharti Airtel Ltd	95,552	71.5	38.5	27.8	12.9	11.2	9.8	0.4	0.7	1.1
Tata Communications Ltd	5,966	31.7	21.7	18.4	11.4	9.6	8.5	1.1	1.3	1.8
SK Telecom Co Ltd	7,975	9.8	9.4	8.6	3.9	3.9	3.8	6.8	6.9	7.3
LG Uplus Corp	3,099	6.6	6.2	5.9	3.2	3.1	3.1	6.7	7.1	7.7
KT Corp	6,384	7.3	6.6	6.6	3.3	3.3	3.3	5.8	6.1	6.3
Axiata Group Bhd	5,229	38.2	27.2	21.5	6.2	5.9	5.7	3.5	3.7	4.0
Maxis Bhd	5,838	20.7	19.6	19.1	9.2	8.9	8.9	4.7	5.0	5.1
PLDT Inc	5,047	8.4	7.9	7.5	5.5	5.3	5.1	7.2	7.5	8.2
Singapore Telecommunications Ltd	29,360	17.1	15.1	13.2	13.0	12.3	11.8	5.1	5.5	6.1
StarHub Ltd	1,578	13.4	11.9	11.1	6.9	6.5	6.3	5.8	6.3	6.1
Omani Qatari Telecommunication	512	n.a	n.a	n.a	n.a	n.a	n.a	6.6	6.6	6.6
Telekom Malaysia Bhd	4,910	14.6	14.8	14.2	5.6	5.4	5.3	3.7	3.8	4.1
Advanced Info Service PCL	15,871	19.1	17.2	15.8	8.0	7.7	7.5	4.6	5.1	5.6
True Corp PCL	7,235	222.2	37.3	25.5	8.1	7.6	7.2	0.0	1.0	2.4
Jasmine International PCL	748	671.1	509.6	398.7	35.7	33.4	31.2	1.1	3.4	n.a
Globe Telecom Inc	4,318	12.6	11.7	10.4	6.9	6.7	6.3	5.7	6.1	6.7
<b>Europe Average</b>	<b>226,996</b>	<b>12.5</b>	<b>28.4</b>	<b>2.5</b>	<b>6.1</b>	<b>5.9</b>	<b>5.8</b>	<b>5.8</b>	<b>5.8</b>	<b>6.1</b>
Orange SA	29,892	9.9	8.9	8.0	5.5	5.4	5.3	7.1	7.3	7.7
Deutsche Telekom AG	115,783	12.3	28.7	0.7	6.2	5.9	5.8	4.0	4.4	4.8
Telefonica Deutschland Holding	7,015	23.1	71.5	10.2	4.0	4.3	4.7	3.8	4.3	5.1
Vodafone Group PLC	23,283	9.7	31.7	4.1	5.7	5.9	5.8	10.7	8.1	7.7
Telenor ASA	16,110	14.6	23.5	4.0	7.6	7.5	7.2	7.6	7.6	7.6
Telia Co AB	9,362	16.9	28.9	(2.0)	6.5	6.3	6.2	7.6	7.7	7.8
Telefonica SA	25,552	13.2	38.6	1.0	5.7	5.6	5.6	7.2	7.3	7.2
<b>North America Average</b>	<b>477,892</b>	<b>12.3</b>	<b>16.7</b>	<b>6.1</b>	<b>7.8</b>	<b>7.5</b>	<b>7.3</b>	<b>4.7</b>	<b>4.8</b>	<b>5.0</b>
T-Mobile US Inc	193,614	18.5	16.0	14.6	9.6	9.0	8.5	1.6	1.8	2.0
Verizon Communications Inc	165,192	8.6	17.3	1.1	7.0	6.8	6.7	6.8	7.0	7.1
AT&T Inc	119,087	7.4	16.9	(0.5)	6.3	6.2	6.1	6.7	6.8	6.8
<b>Global Average</b>		<b>45.3</b>	<b>36.3</b>	<b>23.6</b>	<b>7.9</b>	<b>7.4</b>	<b>7.1</b>	<b>4.7</b>	<b>5.0</b>	<b>5.4</b>

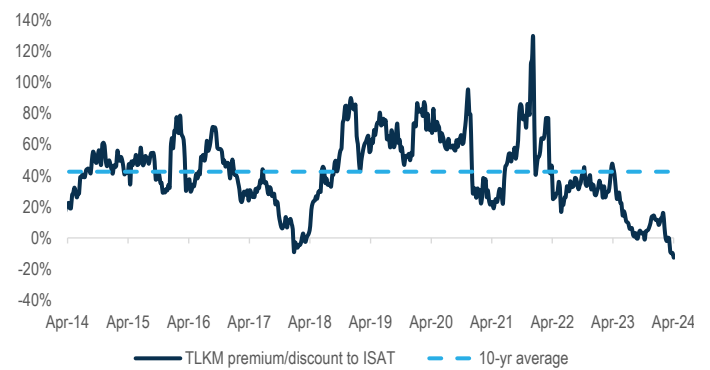
Source: Company, Indo Premier

**Fig. 4: TLKM premium to EXCL**



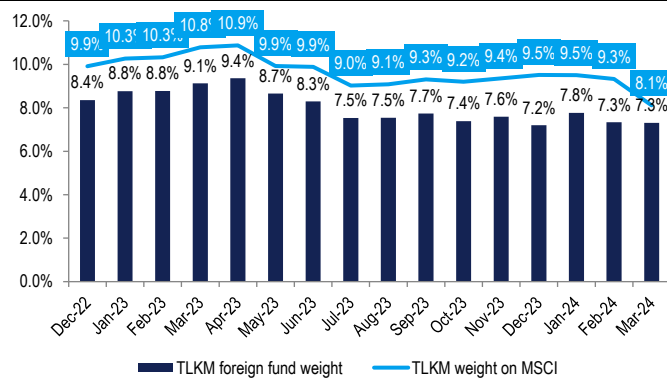
Source: Bloomberg, Company, Indo Premier

**Fig. 5: TLKM premium to ISAT**



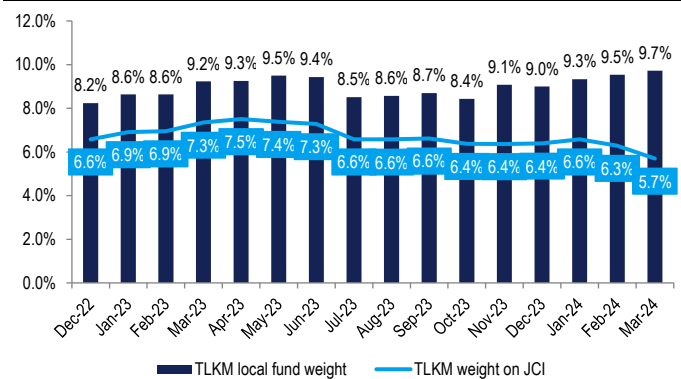
Source: Bloomberg, Company, Indo Premier

**Fig. 6: TLKM foreign fund weight**



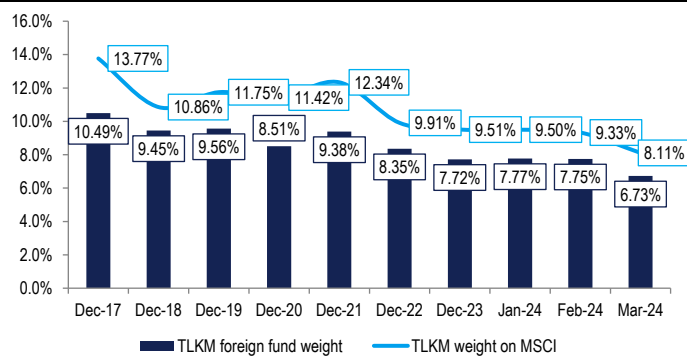
Source: Bloomberg, Company, Indo Premier

**Fig. 7: TLKM Local fund weight**



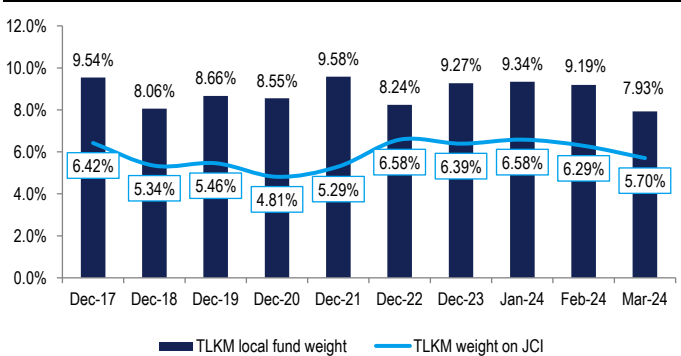
Source: Bloomberg, Company, Indo Premier

**Fig. 8: TLKM foreign fund weight**



Source: Bloomberg, Company, Indo Premier

**Fig. 9: TLKM Local fund weight**



Source: Bloomberg, Company, Indo Premier

Income Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net Revenue	147,306	149,216	154,039	159,135	164,422
Cost of Sales	-	-	-	-	-
<b>Gross Profit</b>	147,306	149,216	154,039	159,135	164,422
SG&A Expenses	(101,569)	(104,300)	(106,811)	(110,529)	(113,615)
<b>Operating Profit</b>	45,737	44,916	47,229	48,606	50,806
<b>EBITDA</b>	78,992	77,579	79,894	82,302	84,772
Net Interest	(3,155)	(3,591)	(3,901)	(4,217)	(4,062)
Forex Gain (Loss)	256	(36)	77	80	82
Others-Net	(6,499)	(495)	(293)	(302)	(312)
<b>Pre-Tax Income</b>	36,339	40,794	43,112	44,166	46,514
Income Tax	(8,659)	(8,586)	(9,054)	(8,833)	(9,303)
Minority interest	(6,927)	(7,648)	(7,856)	(8,116)	(8,386)
<b>Net Income</b>	20,753	24,560	26,203	27,217	28,826

Balance Sheet (Rp bn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalents	31,947	29,007	30,156	31,124	32,386
Receivables	8,879	10,667	10,129	10,464	10,811
Other current assets	14,231	15,939	17,607	20,113	22,982
<b>Total current assets</b>	55,057	55,613	57,891	61,701	66,180
Fixed assets	173,329	180,755	180,755	180,755	180,755
Other non-current assets	46,806	50,674	54,728	59,106	63,835
<b>Total non-current assets</b>	220,135	231,429	235,483	239,861	244,590
<b>Total assets</b>	275,192	287,042	293,374	301,562	310,769
Payable	24,292	23,574	24,581	25,437	26,147
Other Payables	17,827	15,645	14,393	13,674	12,990
Current Portion of LT Loans	28,269	32,349	12,413	12,904	13,456
<b>Total Current Liab.</b>	70,388	71,568	51,387	52,015	52,593
Long Term Loans	27,331	27,773	49,651	51,616	53,825
Other LT Liab.	28,211	31,139	29,011	28,141	27,297
<b>Total Liabilities</b>	125,930	130,480	130,049	131,772	133,715
Equity	17,361	17,303	17,303	17,303	17,303
Retained Earnings	111,897	118,441	124,996	131,251	138,303
Minority interest	20,004	20,818	21,026	21,236	21,449
<b>Total SHE + Minority Int.</b>	149,262	156,562	163,325	169,790	177,055
<b>Total Liabilities &amp; Equity</b>	275,192	287,042	293,374	301,562	310,769

Sources: Company, Indo Premier

Cash Flow Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net Income	20,753	24,560	26,203	27,217	28,826
Depr. & Amortization	35,728	33,973	33,034	32,879	32,713
Changes in Working Capital	1,972	(6,396)	(1,374)	(2,705)	(3,190)
Others	12,878	6,708	1,674	2,867	2,813
<b>Cash Flow From Operating</b>	<b>71,331</b>	<b>58,845</b>	<b>59,537</b>	<b>60,258</b>	<b>61,162</b>
Capital Expenditure	(41,558)	(40,089)	(32,976)	(32,821)	(32,655)
Others	(2,473)	(1,310)	(58)	(58)	(58)
<b>Cash Flow From Investing</b>	<b>(44,031)</b>	<b>(41,399)</b>	<b>(33,034)</b>	<b>(32,879)</b>	<b>(32,713)</b>
Loans	(9,847)	4,522	1,941	2,457	2,761
Equity	(10,374)	(6,892)	(7,648)	(7,906)	(8,173)
Dividends	(14,856)	(16,603)	(19,648)	(20,962)	(21,774)
Others	-	-	-	-	-
<b>Cash Flow From Financing</b>	<b>(35,077)</b>	<b>(18,973)</b>	<b>(25,354)</b>	<b>(26,411)</b>	<b>(27,186)</b>
<b>Changes in Cash</b>	<b>(6,364)</b>	<b>(2,940)</b>	<b>1,149</b>	<b>968</b>	<b>1,262</b>

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross margin	100.0%	100.0%	100.0%	100.0%	100.0%
EBITDA margin	53.6%	52.0%	51.9%	51.7%	51.6%
Pre-tax margin	24.7%	27.3%	28.0%	27.8%	28.3%
Net margin	14.1%	16.5%	17.0%	17.1%	17.5%
ROA	7.5%	8.6%	8.9%	9.0%	9.3%
ROE	13.9%	15.7%	16.0%	16.0%	16.3%
ROIC	12.0%	13.6%	13.7%	13.7%	13.9%

Acct. receivables TO (days)	22	24	24	24	24
Acct. payables - other TO (days)	83	84	84	84	84

Net debt/EBITDA (inc. leases) (x)	0.3	0.4	0.4	0.4	0.4
Net debt/EBITDA (ex. leases) (x)	0.1	0.2	0.2	0.3	0.3
Interest coverage (x)	11.3	9.7	10.1	10.0	10.8

Sources: Company, Indo Premier

## INVESTMENT RATINGS

BUY	: Expected total return of 10% or more within a 12-month period
HOLD	: Expected total return between -10% and 10% within a 12-month period
SELL	: Expected total return of -10% or worse within a 12-month period

## ANALYSTS CERTIFICATION

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