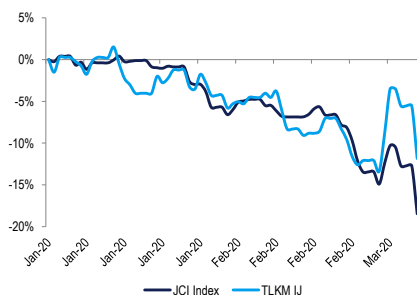


Stock Data

Target price	Rp4,000
Prior TP	Rp4,400
Current price	Rp3,500
Upside/downside	+14%
Shares outstanding (mn)	99,062
Market cap (Rp bn)	346,718
Free float	48%
Avg. 6m daily T/O (Rp bn)	328

Price Performance

	3M	6M	12M
Absolute	-14.6%	-16.9%	-6.4%
Relative to JCI	2.3%	1.7%	13.1%
52w low/high (Rp)	3,440 – 4,470		



Major Shareholders

Republic of Indonesia	52%
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Monetization of IndiHome and recent sell-off underpin our upgrade

- TLKM introduced a cheaper dual play package in late Feb20 (IndiHome Lite) with targets of 1.3mn new subs (from 7mn).
- Additional subs shall translate to better operating leverage - additional 1mn subs = +1.7% TLKM's EBITDA. Capex shall also relatively minimal.
- This and recent sell-off (-12% YTD) prompted us to upgrade our rating to Buy. It currently trades at 5.2x 21F EV/EBITDA vs. 10Y avg of 6.4x.

New IndiHome package "IndiHome Lite" shall translate to better operating leverage

TLKM released a new dual-play plan called IndiHome Lite for Rp199k/month. The package is priced higher at Rp19.9k/Mbps vs. its existing of Rp9.8k-19.3k/Mbps. For this package, TLKM expect additional 1.3mn subs for IndiHome (+19% from current 7mn subs and in-line with 1.4mn subs average addition p.a.), which we view shall translate to better operating leverage as it will incur minimal capex going forward. Note that IndiHome has reached break-even with 3mn subs (in 2017). With additional 1mn subs, shall translate to higher EBITDA/net profit of 1.7/4.7% and +c.70bp in EBITDA margin.

Benign competition in the FTTH is a boon

We expect IndiHome Lite to gain some traction amid more benign competition in the FTTH segment, after ICON+'s Stroomnet discount was removed. IndiHome Lite is competitively priced against its peers (peers' pricing at Rp285k-400k/month). Although ARPU is lower, TLKM may able to generate c.2% more revenue amidst the same capacity utilization primarily through lower speed (10Mbps vs. regular package at 20Mbps-100Mbps).

IndiHome is the much needed driver after Telkomsel

We think the growing IndiHome shall be the much needed growth driver for TLKM outside Telkomsel – Telkomsel's contributed 73% EBITDA in 9M19 and bear higher margin of 54% vs. ex-Telkomsel's margin of 39%. With better operating leverage, we expect IndiHome EBITDA to contribute 11-13% in 20-21F for TLKM, up from 6-8% in 2018-9M19 and also margin expansion – IndiHome's EBITDA is expected to expand to 34-35% in 20-21F from 32%.

Upgrade to BUY amid recent sell-off

Better outlook for IndiHome and massive sell-off (-12% YTD, now trading at 5.2x 21F EV/EBITDA vs. 10Y avg of 6.4x) prompted us to upgrade our rating to BUY with lower TP of Rp4,000 (based on 5.8x FY21 EV/EBITA – at -0.5 STD). Other catalysts are data monetization and margin expansion through elimination of non-profitable enterprise business. Risks are further price war, consolidation between smaller operators, and infrastructure sharing.

Financial Summary (Rp bn)	2017A	2018A	2019F	2020F	2021F
Revenue	128,256	130,784	137,104	148,308	158,751
EBITDA	64,379	60,251	64,828	69,971	75,416
EBITDA growth	11.5%	-6.4%	7.6%	7.9%	7.8%
Net profit	22,145	18,032	20,438	22,523	24,386
EPS (Rp)	224	182	206	228	246
EPS growth	16.5%	-18.6%	13.3%	10.2%	8.3%
ROE	20.3%	15.7%	17.1%	18.1%	18.6%
PER (x)	15.6	19.2	17.0	15.4	14.2
EV/EBITDA (x)	5.5	6.2	5.9	5.5	5.2
Dividend yield	4.8%	4.7%	4.7%	4.6%	4.6%
Forecast change			-2.6%	-5.0%	-4.6%
IPS vs. consensus			99%	97%	97%

Source: Company, Indo Premier

Share price closing as of: 09 March 2020

New IndiHome package “IndiHome Lite” shall translate to better operating leverage

IndiHome Lite offers 10Mbps dual-play package for Rp199k/month

TLKM released a new IndiHome plan in end of Feb20 called IndiHome Lite for Rp199k/month, which includes both internet and TV. However, the lite package comes with a bandwidth speed throttle of max 10Mbps (with FUP 150GB), compared to the regular package of 20Mbps-100Mbps.

Fig. 1: IndiHome coverage



Source: Company, Indo Premier

Price per Mbps comes cheaper at Rp19.9k/Mbps (+3%-103% more) compared to the regular price of Rp9.8k/Mbps-Rp19.3k/Mbps. We view this move to be beneficial for TLKM as it will provide economic of scale for the long-run. As TLKM has guided less IndiHome expansion going forward, we should expect TLKM to experience some operating leverage coming from new subscribers as long as cost and capacity utilization remains manageable. For every 1mn new IndiHome subscribers, TLKM's EBITDA margin would expand by +c.70bps.

Fig. 2: IndiHome Lite (new cheaper dual-play)



Source: Company, Indo Premier

Fig. 3: IndiHome Streamix (dual-play)



Source: Company, Indo Premier



Benign competition in the FTTH is a boon

IndiHome can gain more subscribers with less competition

We do expect IndiHome Lite to gain some traction amid more benign competition in the FTTH segment after ICON+'s Stroomnet 12% overall discount was removed in end of 2019. IndiHome Lite is competitively priced against its peers (peers' pricing at Rp285k-400k/month).

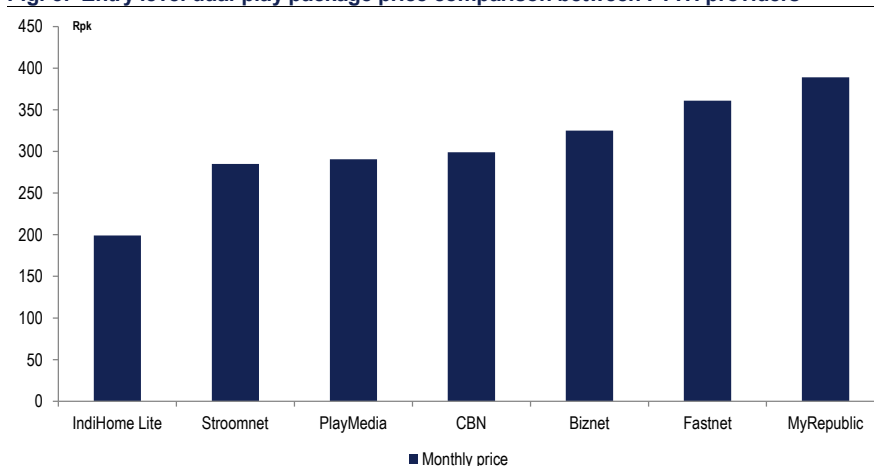
Although ARPU might be lower, the lower speed will allow the company to generate c.2% more revenue for TLKM with the same capacity utilization. For this package, TLKM expect additional 1.3mn subs for IndiHome (+19% from current 7mn subs and in-line with 1.4mn subs average addition p.a.)

Fig. 4: Stroomnet initial aggressive 12% discount before removal

Tambah Daya +  stroomnet			
Stroomnet 5	Stroomnet 20	Stroomnet 50	Stroomnet 100
<ul style="list-style-type: none"> Full Fiber To The Home Up to 5 Mbps Download/Upload Unlimited Quota Rp. 101.000 (per Bulan) Rp. 89.000 (per Bulan) 	<ul style="list-style-type: none"> Full Fiber To The Home Up to 20 Mbps Download/Upload Unlimited Quota Rp. 104.000 (per Bulan) Rp. 162.000 (per Bulan) 	<ul style="list-style-type: none"> Full Fiber To The Home Up to 50 Mbps Download/Upload Unlimited Quota Rp. 350.000 (per Bulan) Rp. 308.000 (per Bulan) 	<ul style="list-style-type: none"> Full Fiber To The Home Up to 100 Mbps Download/Upload Unlimited Quota Rp. 627.000 (per Bulan) Rp. 552.000 (per Bulan)
Tambah Daya +  stroomnet+tv			
Stroomnet TV 5	Stroomnet TV 20	Stroomnet TV 50	Stroomnet TV 100
<ul style="list-style-type: none"> Full Fiber To The Home Up to 5 Mbps Download/Upload Unlimited Quota 75 Channel IP TV Rp. 205.000 (per Bulan) Rp. 273.000 (per Bulan) 	<ul style="list-style-type: none"> Full Fiber To The Home Up to 20 Mbps Download/Upload Unlimited Quota 75 Channel IP TV Rp. 360.000 (per Bulan) Rp. 346.000 (per Bulan) 	<ul style="list-style-type: none"> Full Fiber To The Home Up to 50 Mbps Download/Upload Unlimited Quota 75 Channel IP TV Rp. 534.000 (per Bulan) Rp. 492.000 (per Bulan) 	<ul style="list-style-type: none"> Full Fiber To The Home Up to 100 Mbps Download/Upload Unlimited Quota 75 Channel IP TV Rp. 811.000 (per Bulan) Rp. 736.000 (per Bulan)

Source: Company, Indo Premier

Fig. 5: Entry level dual-play package price comparison between FTTH providers



Source: Company, Indo Premier

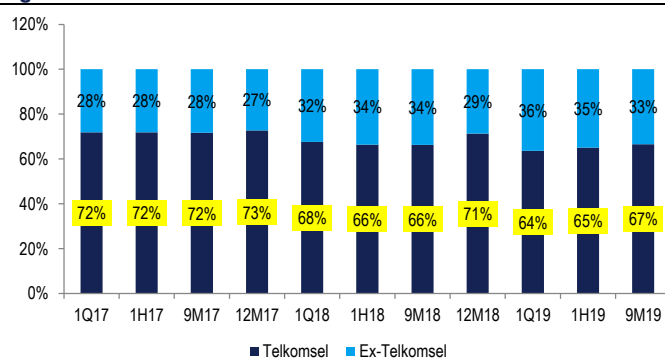
IndiHome is the much needed driver after Telkomsel

IndiHome to contribute 11-13% of TLKM's EBITDA in 2020-2021F

We think the growing IndiHome shall be the much needed growth driver for TLKM outside Telkomsel – Telkomsel's contributed 73% EBITDA in 9M19 and bear higher margin of 54% vs. ex-Telkomsel's margin of 39%. With better operating leverage, we expect IndiHome EBITDA to contribute 11-13% in 20-21F for TLKM, up from 6-8% in 2018-9M19 and also margin expansion – IndiHome's EBITDA is expected to expand to 34-35% in 20-21F from 32%

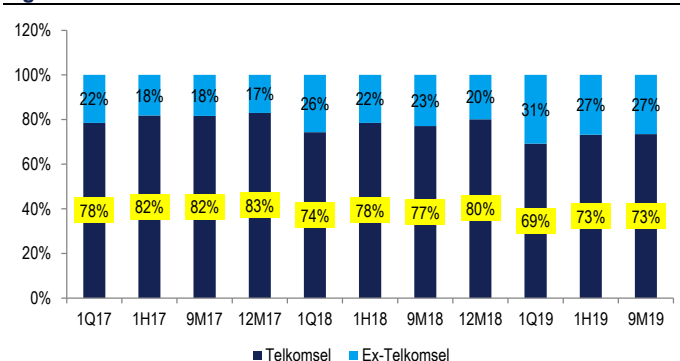
So far, TLKM's biggest revenue and profit generator is Telkomsel (67% and 76% of total). Telkomsel's margins are also higher compared to ex-Telkomsel segment 54% vs. 39% EBITDA margin and 28% vs. 12% net profit margin. However, as the ex-Telkomsel businesses gain scale, we should see more improvements in margins going forward.

Fig. 6: Telkomsel vs. Ex-Telkomsel revenue contribution



Source: Company, Indo Premier

Fig. 7: Telkomsel vs. Ex-Telkomsel EBITDA contribution

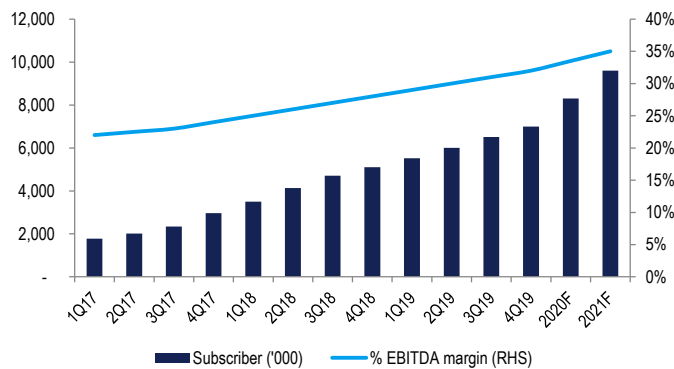


Source: Company, Indo Premier

IndiHome, one of the fastest growing ex-Telkomsel segment, generates 32% EBITDA margin in 2019 from 28% in 2018. TLKM expects IndiHome's EBITDA margin to further improve to 33-34% in 2020 and 35% in 2021 through scale.

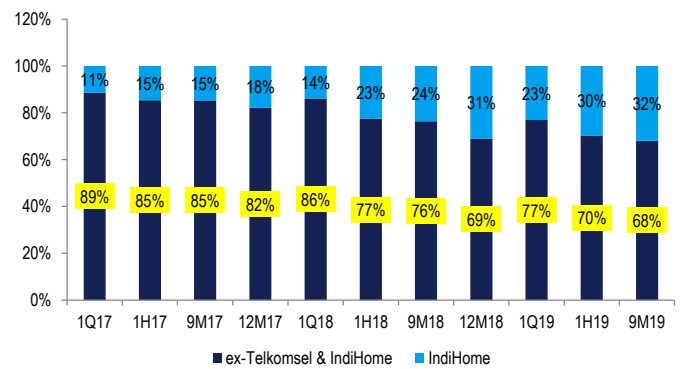
IndiHome's EBITDA contribution towards the ex-Telkomsel segment continues to grow from an estimate of 18% in 2017 to 32% in 9M19. With the continuous growth in its ex-Telkomsel business, we should expect contribution and margins to improve through scale for the TLKM group.

Fig. 8: IndiHome subscriber and EBITDA margin



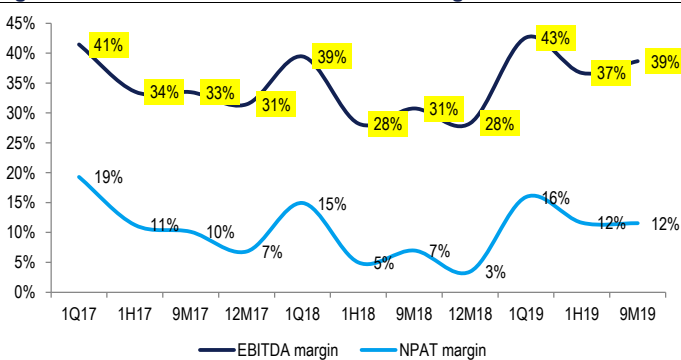
Source: Company, Indo Premier

Fig. 9: IndiHome profit contribution to ex-Telkomsel segment



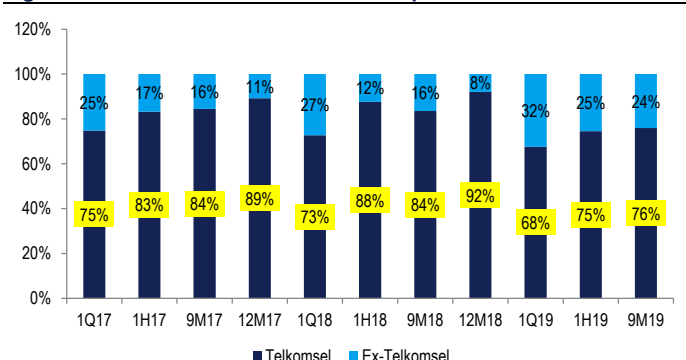
Source: Company, Indo Premier

Fig. 10: Ex-Telkomsel EBITDA and NPAT margin



Source: Company, Indo Premier

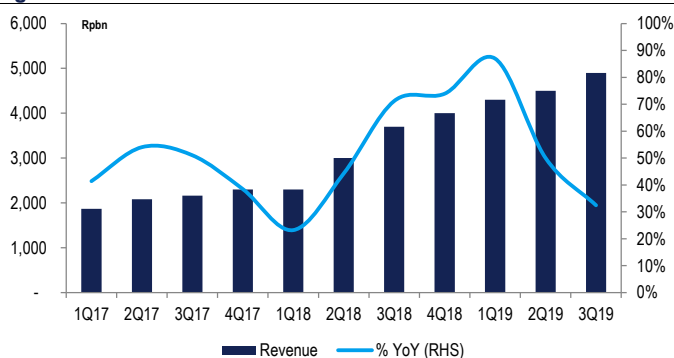
Fig. 11: Telkomsel vs. Ex-Telkomsel net profit contribution



Source: Company, Indo Premier

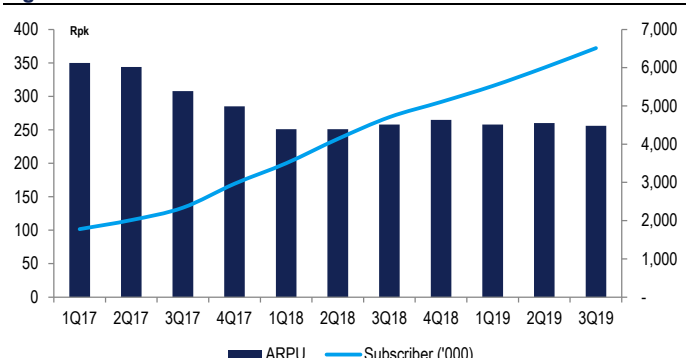
Since its inception in 2015, they have been adding on average, 1.4mn subscribers per year. TLKM plans to add 1.3mn new IndiHome subscriber in 2020 amid maintaining minimal capex. The scale of the business would generate +c.70 bps EBITDA margin accretion for TLKM.

Fig. 12: IndiHome revenue trend



Source: Company, Indo Premier

Fig. 13: IndiHome ARPU vs. subscriber trend



Source: Company, Indo Premier

We ran two scenarios, where TLKM would gain 1.3mn new subscribers with the IndiHome Lite ARPU of Rp199k/month and the latest blended ARPU of Rp256k/month. As TLKM has indicated they will tone down its IndiHome expansion, we can expect cost, including depreciation, to be manageable.

Through operating leverage, the new subscribers would contribute 2.7%/2%/4.7% revenue/EBITDA/net profit in 2020F. Despite the current scale remains small, we can expect the contribution to grow and be more meaningful amid FTTH penetration is still very low at c.4%. If all the new subscribers gained subscribes to the Rp199k plan, the overall blended ARPU would drop by 3.5% to Rp247k.

Fig. 14: IndiHome operating scale in 2020

Operating leverage from not expanding IndiHome but gaining subscriber		
New subs (mn)	1.3	1.3
ARPU (RpK)	199	256
Revenue	3,104	3,994
EBITDA margin	35%	35%
EBITDA	1,087	1,398
Tax 25%	(272)	(349)
Profit	815	1,048
As % to 2020F TLKM profit	3.6%	4.7%

Source: Company, Indo Premier

Upgrade to BUY amid recent sell-off

Valuation has prompt us to upgrade despite soft Telkomsel result

Better outlook for IndiHome and massive sell-off (-12% YTD, now trading at 5.2x 21F EV/EBITDA vs. 10Y avg of 6.4x) prompted us to upgrade our rating to BUY with lower TP of Rp4,000 (based on 5.8x FY21 EV/EBITDA – at -0.5 STD). Other catalysts are data monetization and margin expansion through elimination of non-profitable enterprise business. Risks are further price war, consolidation between smaller operators, and infrastructure sharing.

Some pressure on the share price in mid-Feb was due to Telkomsel registering declines in operating revenue and EBITDA due to lower voice and SMS revenue coupled with slowing data growth on increased competition in outside Java. Both operating revenue and EBITDA declined 3% yoy each on lower voice and SMS revenues, which were all indicated in Singtel's result.

The declines were partially offset by a moderated increase of 10% in data revenue amid intense competition in the region outside Java. Mobile subscribers rose to 171mn by end of 2019. However, net profit declined 8% after including higher depreciation mainly from right-of-use assets and increased start-up losses of its fintech associate (LinkAja).

Fig. 15: Telkomsel 4Q19 indicative result preview from Singtel

IPS Telkomsel preview based on Singtel result (Rpbn)	4Q18	3Q19	4Q19	% YoY	% QoQ	12M18	12M19	% YoY
Revenue	23,524	23,201	22,818	-3%	-2%	93,217	91,126	-2%
EBITDA	12,822	12,530	12,437	-3%	-1%	47,439	49,198	4%
Data revenue	11,969	13,024	13,166	10%	1%	41,339	50,586	22%
Net profit	7,237	6,516	6,658	-8%	2%	25,536	25,879	1%
Subscriber ('000)	162,987	170,928	171,105	5%	0%	171,105	171,105	0%

Source: Company, Indo Premier, Singtel

We upgrade to Buy and trim our DCF-based (WACC: 11.5%) TP to Rp4,000/share after adjusting our number to weaker than expected Telkomsel number (lower legacy revenue and higher competition in ex-Java). Catalyst would be monetization of packages and margin expansion through elimination of some non-profitable enterprise business as well as operating scale from IndiHome. The risks that TLKM faces are price war between operators, consolidation of the smaller competitor, and infrastructure sharing.

Fig. 16: Summary of earnings change

	2019F	Previous 2020F	2021F	2019F	Current 2020F	2021F	2019F	Changes 2020F	2021F
Sales (Rpbn)	139,616	152,004	162,386	137,104	148,308	158,751	-1.8%	-2.4%	-2.2%
EBITDA (Rpbn)	65,736	72,190	77,599	64,828	69,971	75,416	-1.4%	-3.1%	-2.8%
EBIT (Rpbn)	43,017	47,756	51,537	42,109	45,537	49,354	-2.1%	-4.6%	-4.2%
Net profit (Rpbn)	20,990	23,710	25,559	20,438	22,523	24,386	-2.6%	-5.0%	-4.6%
Margins %									
EBITDA margin	47.1%	47.5%	47.8%	47.3%	47.2%	47.5%			
EBIT margin	30.8%	31.4%	31.7%	30.7%	30.7%	31.1%			
Net profit margin	15.0%	15.6%	15.7%	14.9%	15.2%	15.4%			

Source: Company, Indo Premier

Fig. 17: Telkomsel DCF valuation

Telkomsel DCF Model	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Ebit	35,123	37,686	40,391	44,551	48,808	53,120	57,132	62,649	71,983	81,823	93,214
Less: Cash Tax	(8,698)	(9,333)	(10,003)	(11,033)	(12,087)	(13,155)	(14,149)	(15,515)	(17,826)	(20,263)	(13,090)
NOPLAT	26,425	28,353	30,388	33,518	36,721	39,965	42,984	47,134	54,157	61,560	80,124
Add: Depreciation	13,438	14,175	14,829	15,747	16,904	18,285	19,885	21,704	23,540	25,421	27,374
Less: Working Capital	197	249	445	(136)	594	724	755	939	1,051	1,296	1,442
Less: Capex	(14,205)	(16,691)	(18,361)	(20,197)	(22,216)	(24,438)	(26,882)	(28,763)	(30,777)	(32,931)	(34,578)
Free Cash Flow	25,855	26,085	27,302	28,933	32,003	34,536	36,742	41,014	47,970	55,346	74,362

DCF	Now
Perpetual growth (%)	3.0%
Terminal value	143,249
NPV of DCF	202,125
Net debt	12,767
Equity value	358,140
Singtel's portion	125,349

WACC assumptions	
Cost of equity	13.5
After tax cost of debt	5.6
Risk free rate	6.5
Beta	1.0
Equity risk premium	7.0
WACC	12.6%

Sources: Company, IndoPremier

Fig. 18: TLKM DCF valuation

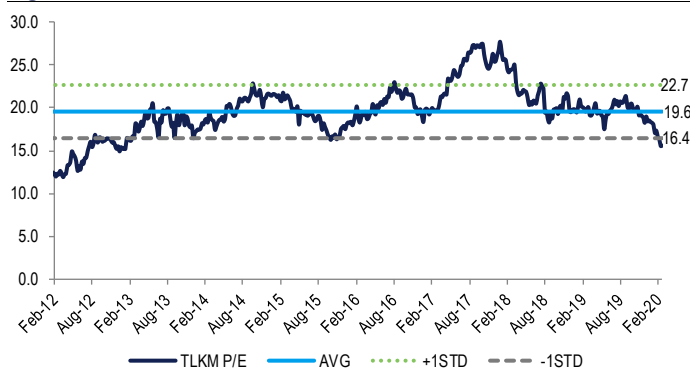
TLKM DCF Model	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Ebit	42,109	45,537	49,354	54,097	59,373	64,902	70,276	80,483	96,046	113,778	135,144
Less: Cash Tax	(9,760)	(10,441)	(11,265)	(12,254)	(13,516)	(14,792)	(16,138)	(18,355)	(22,122)	(26,492)	(31,762)
NOPLAT	32,349	35,096	38,089	41,843	45,857	50,110	54,138	62,128	73,924	87,287	103,382
Add: Depreciation	22,718	24,434	26,062	27,955	30,092	32,465	35,071	37,916	40,801	43,760	46,822
Less: Working Capital	(195)	198	67	(195)	86	147	207	427	(1,082)	(490)	(290)
Less: Capex	(32,920)	(36,342)	(38,993)	(41,861)	(44,964)	(48,323)	(51,961)	(55,097)	(58,427)	(61,964)	(65,062)
Free Cash Flow	21,953	23,386	25,225	27,742	31,071	34,398	37,454	45,375	55,216	68,592	84,851

DCF	Now
Perpetual growth (%)	3.0%
Terminal value	347,917
NPV of DCF	221,218
Net debt	(39,017)
Equity value	530,117
Less: Singtel's portion	125,349
Telkom's portion	404,768
Target price	4,000

WACC assumptions	
Cost of equity	14.2
After tax cost of debt	5.6
Risk free rate	6.5
Beta	1.1
Equity risk premium	7.0
WACC	11.5%

Source: Company, Indo Premier

Fig. 19: TLKM P/E band



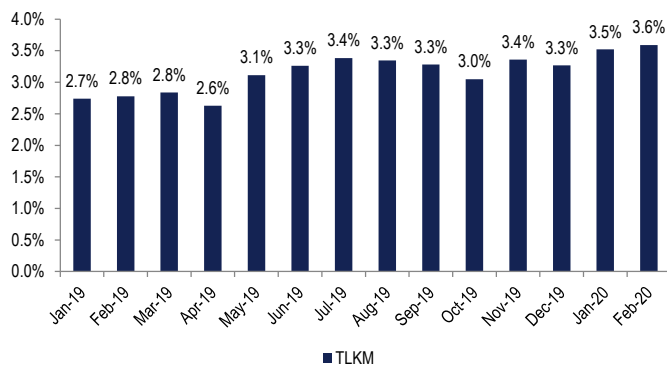
Source: Bloomberg, Company, Indo Premier

Fig. 20: TLKM EV/EBITDA band



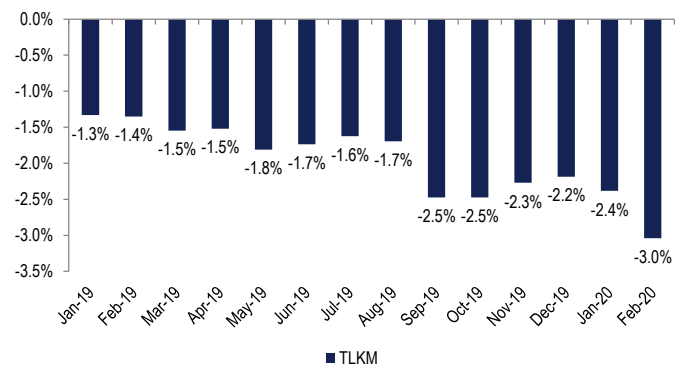
Source: Bloomberg, Company, Indo Premier

Fig. 21: Local fund vs. JCI



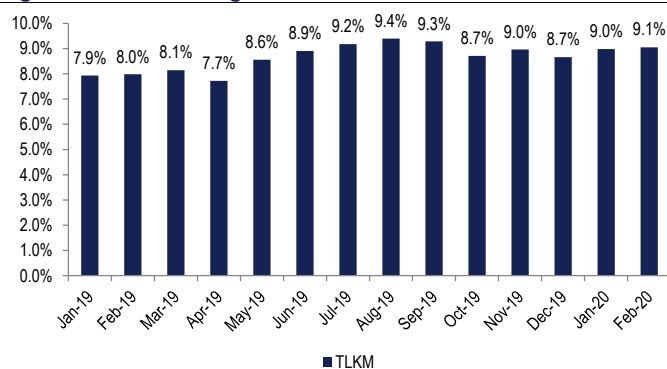
Source: Bloomberg, KSEI, Indo Premier

Fig. 22: Foreign fund vs. MSCI



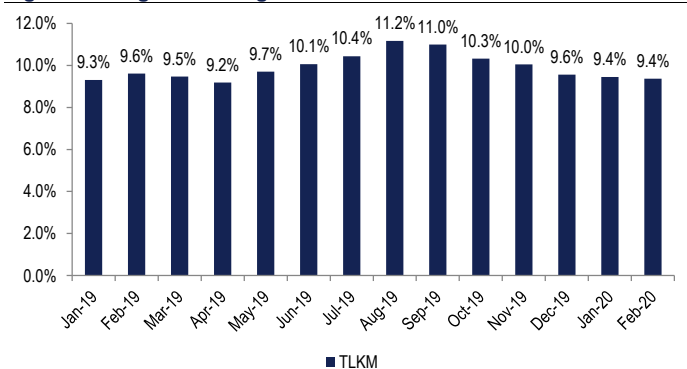
Source: Bloomberg, KSEI, MSCI, Indo Premier

Fig. 23: Local fund weight



Source: Bloomberg, KSEI, Indo Premier

Fig. 24: Foreign fund weight



Source: Bloomberg, KSEI, Indo Premier

Income Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net revenue	128,256	130,784	137,104	148,308	158,751
Cost of sales	0	0	0	0	0
Gross profit	128,256	130,784	137,104	148,308	158,751
SG&A Expenses	(84,323)	(91,939)	(94,995)	(102,771)	(109,397)
Operating profit	43,933	38,845	42,109	45,537	49,354
Net interest	(1,335)	(2,493)	(2,879)	(3,409)	(3,874)
Forex gain (loss)	0	0	0	0	0
Others	61	53	0	0	0
Pre-tax income	42,659	36,405	39,230	42,128	45,481
Income tax	(9,958)	(9,426)	(9,807)	(10,532)	(11,370)
Net income	22,145	18,032	20,438	22,523	24,386

Balance Sheet (Rp bn)	2017A	2018A	2019F	2020F	2021F
Cash & equivalent	25,145	17,439	15,353	14,454	14,386
Receivable	9,564	12,141	12,728	13,768	14,737
Other current assets	12,852	13,688	13,982	14,308	14,635
Total current assets	47,561	43,268	42,063	42,530	43,759
Fixed Assets - Net	130,171	143,248	153,450	165,357	178,289
Goodwill	3,530	5,032	5,032	5,032	5,032
Other non-current assets	17,222	14,648	15,190	16,456	17,517
Total non-current assets	150,923	162,928	173,672	186,845	200,838
Total assets	198,484	206,196	215,735	229,376	244,596
Payable	15,791	15,214	15,640	16,939	18,033
Other payables	22,087	20,708	21,732	22,848	24,029
Current portion of LT loans	7,498	10,339	11,316	12,540	13,764
Total current liab.	45,376	46,261	48,688	52,327	55,827
Long term loans	27,974	33,748	36,937	40,932	44,927
Other LT liab.	13,004	8,884	8,973	9,063	9,153
Total liabilities	86,354	88,893	94,598	102,322	109,907
Equity	7,817	7,915	7,915	7,915	7,915
Retained earnings	84,896	90,995	95,083	101,839	110,375
Total SHE + minority int.	112,130	98,910	102,998	109,754	118,290
Total liabilities & equity	198,484	187,803	197,596	212,076	228,196

Sources: Company, IndoPremier

Cash Flow Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net income	22,145	18,032	20,438	22,523	24,386
Depr. & amortization	20,446	21,406	22,718	24,434	26,062
Changes in working capital	(390)	3,240	195	(198)	(67)
Others	7,204	2,993	8,905	9,143	9,800
Cash flow from operating	49,405	45,671	52,257	55,903	60,181
Capital expenditure	(32,294)	(31,562)	(32,920)	(36,342)	(38,993)
Others	(713)	(3,528)	0	0	0
Cash flow from investing	(33,007)	(35,090)	(32,920)	(36,342)	(38,993)
Loans	2,930	8,285	4,166	5,219	5,219
Equity	0	0	0	0	0
Dividends	(23,982)	(26,743)	(25,589)	(25,678)	(26,475)
Others	0	0	0	0	0
Cash flow from financing	(21,052)	(18,458)	(21,423)	(20,460)	(21,256)
Changes in cash	(4,654)	(7,877)	(2,086)	(899)	(68)

Key Ratios	2017A	2018A	2019F	2020F	2021F
Gross margin	N/A	N/A	N/A	N/A	N/A
Operating margin	34.25%	29.70%	30.71%	30.70%	31.09%
Pre-tax margin	33.26%	27.84%	28.61%	28.41%	28.65%
Net margin	17.27%	13.79%	14.91%	15.19%	15.36%
ROA	11.71%	8.91%	9.69%	10.12%	10.29%
ROE	20.35%	15.72%	17.14%	18.15%	18.63%
ROIC	17.28%	12.61%	13.51%	13.80%	13.78%
Acct. receivables TO (days)	27	34	34	34	34
Payable TO (days)	78	67	67	67	67
Debt to equity	31.63%	37.58%	39.83%	42.09%	43.57%
Interest coverage ratio (x)	15.9	11.1	11.0	10.7	10.6
Net gearing	9.21%	22.72%	27.16%	30.71%	32.89%

Source: 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

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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