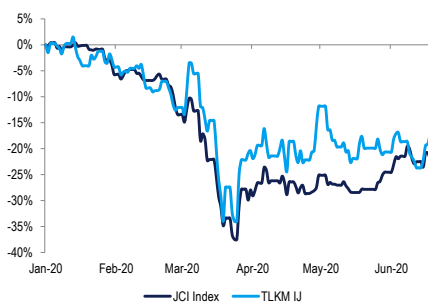


Stock Data

Target price	Rp3,700
Prior TP	Rp3,700
Current price	Rp3,280
Upside/downside	+13%
Shares outstanding (mn)	99,062
Market cap (Rp bn)	324,924
Free float	48%
Avg. 6m daily T/O (Rp bn)	377

Price Performance

	3M	6M	12M
Absolute	25.2%	-15.9%	-18.8%
Relative to JCI	4.8%	5.0%	3.2%
52w low/high (Rp)	2,620 – 4,470		



Major Shareholders

Republic of Indonesia	52%
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## The next growth driver

- TLKM started its wireless broadband brand “Orbit”, which uses 4G spectrum. It will be available in several big cities during the soft launch.
- Pricing of the product is on the competitive side (50% discount during soft launch) and is priced slightly cheaper than its main competitor (FREN).
- Wireless broadband may require minimal additional capex. This shall be the next growth driver for TLKM. Maintain Buy.

### Tapping into the wireless broadband market

Tsel launched its own wireless broadband brand “Orbit”, which currently in its soft launch period and available in big cities (i.e. Jakarta and Medan). The wireless broadband operates in TLKM’s 4G spectrum which shall allow them to expand with minimal capex. It will use TLKM’s 900MHz, 1,800MHz, and 2,300MHz spectrum (vs. FREN’s 2,300MHz spectrum), which shall be able to provide wider network. This segment has been dominated by FREN ever since BOLT’s bankruptcy in end of 2018. Tsel plans to do more testing this year and mildly target less than 30,000 households by end of 2020.

### Cheaper than FREN but MiFi device pricing is higher

Pricing of the product is on the competitive side (50% discount during soft launch) and is priced slightly cheaper (c.10%) than its main competitor FREN. More upside will come when Tsel can bundle it with a cheaper MiFi device (Tsel’s MiFi device priced at Rp729k higher than FREN’s at Rp339k). We believe FREN alone has over 10mn wireless broadband subscribers which are mostly located in Java, while BOLT had 3mn subscribers before it went bankrupt. Tsel shall have a bigger potential as it will be able to cater Java and ex-Java subscribers’ by utilizing existing spectrum and BTS.

### AGM result – many changes in the BoD with expected dividend

During TLKM’s AGM, we saw some changes in the BoD. Heri Supriadi (previously Tsel CFO) will replace Harry M Zen as CFO. Meanwhile, Dian Rachmawan will return as Wholesale Director and Fajrin Rasyid will join TLKM group as Digital Business Director. In addition, TLKM announced its dividend of Rp154/share, implying 82% payout and 4.7% div yield (TLKM maintained its absolute dividend of around Rp160/share for the past 2-years).

### Orbit performance may improve through scale in 2021F-23F

Once Tsel finds a cheaper MiFi device to penetrate the market, we believe this product may become the next growth especially with plateauing IndiHome growth (took 4-5 years to mature). We maintain our Buy rating (Rp3,700 DCF-based TP – WACC:11.5%). TLKM is trading at 5.1x FY21F EV/EBITDA vs. its 10Y avg of 6x. Catalyst will be subscriber base recovery in 2H post its aggressive promotion, post subscriber drop in 1Q20 (-5% qoq). Risk is price war from smaller operators.

Financial Summary (Rp bn)	2018A	2019A	2020F	2021F	2022F
Revenue	130,784	135,567	141,578	151,578	161,265
EBITDA	60,251	65,572	67,605	72,805	79,827
Net profit	18,032	18,663	21,405	22,943	25,071
EPS (Rp)	182	189	216	232	253
ROE	15.7%	15.9%	17.8%	18.2%	18.6%
PER (x)	18.0	17.4	15.2	14.2	13.0
EV/EBITDA (x)	5.8	5.5	5.4	5.1	4.8
Dividend yield	5.0%	5.2%	4.6%	4.6%	4.6%
Forecast change			N/A	N/A	N/A
IPS vs. consensus			100%	100%	102%

Source: Company, Indo Premier

Share price closing as of: 19 June 2020

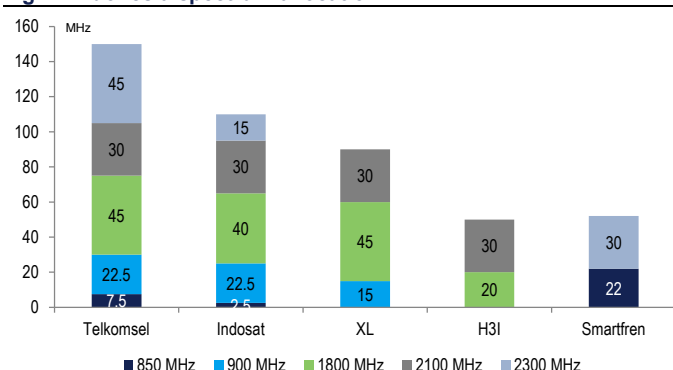
## Tapping into the wireless broadband market

### Orbit uses a Simpati SIM card and operates in the 4G spectrum

Tsel launched its own wireless broadband brand “Orbit”, which currently in its soft launch period and available in big cities (i.e. Jakarta and Medan). The wireless broadband operates in TLKM’s 4G spectrum which shall allow them to expand with minimal capex.

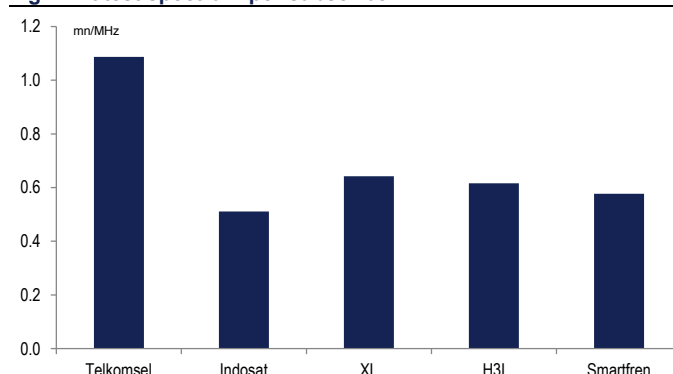
It will use TLKM’s 900MHz, 1,800MHz, and 2,300MHz spectrum (vs. FREN’s 2,300MHz spectrum), which shall be able to provide wider network. This segment has been dominated by FREN ever since BOLT’s bankruptcy in end of 2018. Tsel plans to do more testing this year and mildly target less than 30,000 households by end of 2020.

**Fig. 1: Indonesia spectrum allocation**



Source: Company, Indo Premier

**Fig. 2: Latest spectrum per subscriber**



Source: Company, Indo Premier

## Cheaper than FREN but MiFi device pricing is higher

### Grabbing FREN’s market share would be possible if the MiFi device becomes cheaper

Pricing of the product is on the competitive side (50% discount during soft launch) and is priced slightly cheaper (c.10%) than its main competitor FREN. More upside will come when Tsel can bundle it with a cheaper MiFi device (Tsel’s MiFi device priced at Rp729k higher than FREN’s at Rp339k).

We believe FREN alone has over 10mn wireless broadband subscribers which are mostly located in Java, while BOLT had 3mn subscribers before it went bankrupt. Tsel shall have a bigger potential as it will be able to cater Java and ex-Java subscribers’ by utilizing existing spectrum and BTS.

Fig. 3: Orbit Star – entry modem price



**Orbit Star**

Modem menjadi milik Anda dan sudah termasuk tambahan kuota 50 GB untuk bulan pertama pemakaian

**Rp729.000** ~~Rp999.000~~

Gratis ongkir hingga Rp20.000

① Cek jangkauan sebelum membeli produk ini

**Cek Jangkauan**

Gratis Ongkir Pemasangan Mudah 7 hari garansi pengembalian

Source: Company, Indo Premier

Fig. 4: Orbit Max – high end modem price



**Orbit Max**

Modem menjadi milik Anda dan sudah termasuk tambahan kuota 150 GB untuk bulan pertama pemakaian

**Rp2.399.000** ~~Rp2.599.000~~

Gratis ongkir hingga Rp20.000

① Cek jangkauan sebelum membeli produk ini

**Cek Jangkauan**

Gratis Ongkir Pemasangan Mudah 7 hari garansi pengembalian

Source: Company, Indo Premier

Fig. 5: Smartfren Connex Evo price list

Smartfren Connex Evo	Days	Data (GB)	Price (Rp)	Price/GB
2.5GB	1	2.5	5,000	2,000
4GB	7	4	10,000	2,500
6GB	30	6	20,000	3,333
10GB	30	10	30,000	3,000
16GB	30	16	40,000	2,500
30GB	30	30	60,000	2,000
60GB	30	60	100,000	1,667
90GB	30	90	150,000	1,667
120GB	30	120	200,000	1,667
100GB	90	100	300,000	3,000
200GB	180	200	500,000	2,500
420GB	365	420	1,000,000	2,381

Source: Company, Indo Premier

Fig. 6: Telkomsel's Orbit price list

Orbit	Days	Data (GB)	Discount Price (Rp)	Price/GB	Normal Price (Rp)
30GB	30	30	65,000	2,167	130,000
50GB	30	50	80,000	1,600	165,000
100GB	30	100	130,000	1,300	260,000

Source: Company, Indo Premier

## AGM result – many changes in the BoD with expected dividend

**Some changes in management while dividend announced was 4.7% yield**

During TLKM's AGM, we saw some changes in the BoD. Heri Supriadi (previously Tsel CFO) will replace Harry M Zen as CFO. Meanwhile, Dian Rachmawan will return as Wholesale Director and Fajrin Rasyid will join TLKM group as Digital Business Director.

In addition, TLKM announced its dividend of Rp154/share, implying 82% payout and 4.7% div yield (TLKM maintained its absolute dividend of around Rp160/share for the past 2-years).

## Orbit performance may improve through scale in 2021F-23F

### It took IndiHome 4-5 years for operating scale to kick-in

Once Tsel finds a cheaper MiFi device to penetrate the market, we believe this product may become the next growth especially with plateauing IndiHome growth (took 4-5 years to mature).

We maintain our Buy rating (Rp3,700 DCF-based TP – WACC:11.5%). TLKM is trading at 5.1x FY21F EV/EBITDA vs. its 10Y avg of 6x. Catalyst will be subscriber base recovery in 2H post its aggressive promotion, post subscriber drop in 1Q20 (-5% qoq). Risk is price war from smaller operators.

Fig. 7: Telkomsel DCF valuation

Telkomsel DCF Model	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Ebit	37,708	39,825	43,783	47,794	51,798	55,526	60,764	69,041	78,447	89,362
Less: Cash Tax	(9,338)	(9,862)	(10,843)	(11,836)	(12,827)	(13,751)	(15,048)	(17,098)	(19,427)	(22,555)
NOPLAT	28,370	29,962	32,940	35,958	38,970	41,775	45,716	51,944	59,020	66,807
Add: Depreciation	13,630	14,395	15,386	16,589	17,996	19,606	21,425	23,260	25,139	27,087
Less: Working Capital	22	384	(128)	575	693	723	902	1,129	1,259	1,401
Less: Capex	(16,691)	(18,361)	(20,197)	(22,216)	(24,438)	(26,882)	(28,763)	(30,777)	(32,931)	(34,578)
Free Cash Flow	25,330	26,381	28,002	30,906	33,221	35,223	39,279	45,555	52,486	60,717

DCF	Now
Perpetual growth (%)	3.0%
Terminal value	137,189
NPV of DCF	194,056
Net debt	11,968
Equity value	343,213
Singtel's portion	120,125

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%

Source: Company, Indo Premier

Fig. 8: TLKM DCF valuation

TLKM DCF Model	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Ebit	42,825	46,072	50,924	56,487	62,267	67,773	76,527	89,179	103,807	121,022
Less: Cash Tax	(9,169)	(8,983)	(9,755)	(10,155)	(10,908)	(11,998)	(13,401)	(15,650)	(18,454)	(21,731)
NOPLAT	33,655	37,089	41,169	46,331	51,359	55,775	63,126	73,529	85,353	99,291
Add: Depreciation	24,780	26,733	28,903	31,282	33,869	36,671	39,697	42,761	45,897	49,133
Less: Working Capital	269	108	(152)	104	158	199	221	(1,482)	(785)	(671)
Less: Capex	(38,755)	(41,527)	(44,521)	(47,757)	(51,256)	(55,041)	(58,330)	(61,822)	(65,529)	(68,805)
Free Cash Flow	19,950	22,403	25,399	29,960	34,131	37,605	44,715	52,986	64,936	78,948

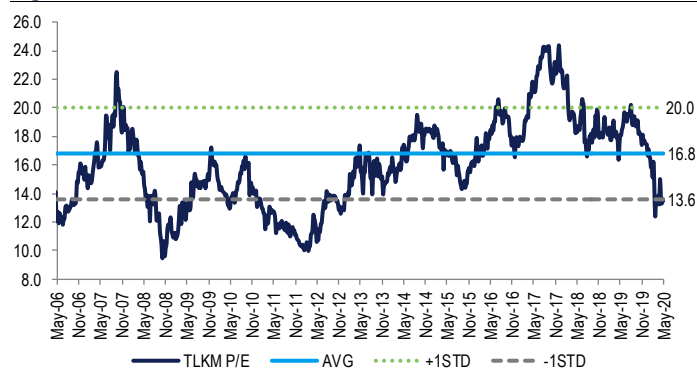
DCF	Now
Perpetual growth (%)	3.0%
Terminal value	323,712
NPV of DCF	208,676
Net debt	(42,181)
Equity value	490,207
Less: Singtel's portion	120,125
Telkom's portion	370,082
Target price	3,700

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. 9: TLKM P/E band**



Source: Bloomberg, Company, Indo Premier

**Fig. 10: TLKM EV/EBITDA band**



Source: Bloomberg, Company, Indo Premier

Income Statement (RpBn)	2018A	2019A	2020F	2021F	2022F
Net Revenue	130,784	135,567	141,578	151,578	161,265
Cost of Sales	0	0	0	0	0
<b>Gross Profit</b>	<b>130,784</b>	<b>135,567</b>	<b>141,578</b>	<b>151,578</b>	<b>161,265</b>
SG&A Expenses	(91,939)	(93,173)	(98,753)	(105,506)	(110,341)
<b>Operating Profit</b>	<b>38,845</b>	<b>42,394</b>	<b>42,825</b>	<b>46,072</b>	<b>50,924</b>
Net Interest	(2,493)	(3,148)	(3,743)	(4,365)	(5,268)
Forex Gain (Loss)	0	0	0	0	0
Others-Net	53	(1,338)	0	0	0
<b>Pre-Tax Income</b>	<b>36,405</b>	<b>37,908</b>	<b>39,082</b>	<b>41,706</b>	<b>45,657</b>
Income Tax	(9,426)	(10,316)	(8,598)	(9,175)	(10,044)
<b>Net Income</b>	<b>18,032</b>	<b>18,663</b>	<b>21,405</b>	<b>22,943</b>	<b>25,071</b>

Balance Sheet (RpBn)	2018A	2019A	2020F	2021F	2022F
Cash & Equivalent	17,439	18,242	16,119	14,991	18,792
Receivable	12,141	12,089	12,625	13,517	14,381
Other Current Assets	13,688	11,391	11,633	11,897	12,163
<b>Total Current Assets</b>	<b>43,268</b>	<b>41,722</b>	<b>40,377</b>	<b>40,405</b>	<b>45,336</b>
Fixed Assets - Net	143,248	156,973	170,947	185,741	201,359
Goodwill	5,032	6,446	6,446	6,446	6,446
Other non-Current Assets	14,648	16,067	16,731	17,796	19,015
<b>Total non-current assets</b>	<b>162,928</b>	<b>179,486</b>	<b>194,125</b>	<b>209,984</b>	<b>226,820</b>
<b>Total Assets</b>	<b>206,196</b>	<b>221,208</b>	<b>234,501</b>	<b>250,388</b>	<b>272,156</b>
Payable	15,214	14,346	15,177	16,220	16,974
Other Payables	20,708	25,808	26,355	27,722	29,245
Current Portion of LT Loans	10,339	18,215	20,389	22,563	26,171
<b>Total Current Liab.</b>	<b>46,261</b>	<b>58,369</b>	<b>61,921</b>	<b>66,505</b>	<b>72,390</b>
Long Term Loans	33,748	33,869	37,911	41,953	48,663
Other LT Liab.	8,884	11,720	11,837	11,956	12,075
<b>Total Liabilities</b>	<b>88,893</b>	<b>103,958</b>	<b>111,670</b>	<b>120,414</b>	<b>133,128</b>
Equity	7,915	8,072	8,072	8,072	8,072
Retained Earnings	90,995	91,489	97,911	105,941	115,969
<b>Total SHE + Minority Int.</b>	<b>98,910</b>	<b>99,561</b>	<b>105,983</b>	<b>114,013</b>	<b>124,041</b>
<b>Total Liabilities &amp; Equity</b>	<b>187,803</b>	<b>203,519</b>	<b>217,652</b>	<b>234,427</b>	<b>257,170</b>

Sources: Company, IndoPremier

Cash Flow Statement (RpBn)	2018A	2019A	2020F	2021F	2022F
Net Income	18,032	18,663	21,405	22,943	25,071
Depr. & Amortization	21,406	23,178	24,780	26,733	28,903
Changes in Working Capital	3,240	684	(269)	(108)	152
Others	2,993	12,424	9,401	10,004	10,436
<b>Cash Flow From Operating</b>	<b>45,671</b>	<b>54,949</b>	<b>55,318</b>	<b>59,572</b>	<b>64,562</b>
Capital Expenditure	-31,562	-35,218	-38,755	-41,527	-44,521
Others	(3,528)	-573	0	0	0
<b>Cash Flow From Investing</b>	<b>-35,090</b>	<b>-35,791</b>	<b>-38,755</b>	<b>-41,527</b>	<b>-44,521</b>
Loans	8,285	7,600	6,216	6,216	10,319
Equity	0	0	0	0	0
Dividends	-26,743	-25,847	-24,902	-25,388	-26,559
Others	0	0	0	0	0
<b>Cash Flow From Financing</b>	<b>-18,458</b>	<b>-18,247</b>	<b>-18,686</b>	<b>-19,172</b>	<b>-16,240</b>
<b>Changes in Cash</b>	<b>-7,877</b>	<b>911</b>	<b>-2,123</b>	<b>-1,127</b>	<b>3,801</b>

Key Ratios	2018A	2019A	2020F	2021F	2022F
Gross Margin	N/A	N/A	N/A	N/A	N/A
Operating Margin	29.70%	31.27%	30.25%	30.39%	31.58%
Pre-Tax Margin	27.84%	27.96%	27.60%	27.51%	28.31%
Net Margin	13.79%	13.77%	15.12%	15.14%	15.55%
ROA	8.91%	8.73%	9.39%	9.46%	9.60%
ROE	15.72%	15.91%	17.83%	18.15%	18.64%
ROIC	12.61%	12.31%	13.03%	12.85%	12.61%
Acct. Receivables TO (days)	34	33	33	33	33
Payable TO (days)	67	63	63	63	63
Debt to Equity	37.58%	44.42%	47.46%	49.64%	53.83%
Interest Coverage Ratio (x)	11.1	10.0	9.0	8.8	8.4
Net Gearing	22.72%	28.86%	34.34%	38.10%	40.31%

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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