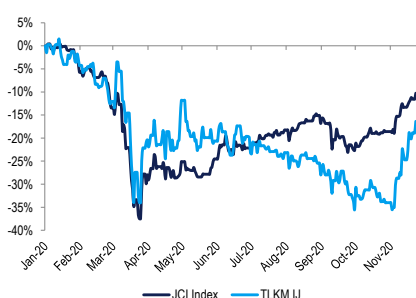


Stock Data

|                           |         |
|---------------------------|---------|
| Target price              | Rp3,600 |
| Prior TP                  | Rp3,600 |
| Current price             | Rp3,320 |
| Upside/downside           | +8%     |
| Shares outstanding (mn)   | 99,062  |
| Market cap (Rp bn)        | 328,887 |
| Free float                | 48%     |
| Avg. 6m daily T/O (Rp bn) | 464     |

Price Performance

|                   | 3M            | 6M     | 12M    |
|-------------------|---------------|--------|--------|
| Absolute          | 10.7%         | 4.4%   | -18.0% |
| Relative to JCI   | 3.5%          | -19.9% | -10.7% |
| 52w low/high (Rp) | 2,560 – 4,100 |        |        |



Major Shareholders

|                       |     |
|-----------------------|-----|
| Republic of Indonesia | 52% |
|-----------------------|-----|

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## Better IndiHome growth and faster unlimited package roll-out

- We hosted a call with management and found that the Unlimited package has been roll-out on 67 new cities vs. c.185 in Aug.
- Investment in Gojek is expected to boost growth for Tsel through big data. Effectively, TLKM currently owns c.1% of Gojek through Tsel.
- It expects IndiHome growth to be robust in 2021F (+19% yoy subscriber growth), which may offset weakness in mobile segment. Maintain Buy.

### Tsel started to rollout its unlimited plan to 67 additional cities in Nov20

Tsel rolled out its unlimited plan which is available for new subscribers to another 67 new cities bringing to total of c.250 cities (initially 65 cities only for new subscribers and c.120 cities only for existing subscribers) at a higher denomination/starter plan (starting at 70k vs. previously at 20k). With the latest roll-out, TLKM's unlimited package is available in almost half of Indonesia. Network utilization is currently at 51-53% from previously 48% in 2Q20. Before potentially monetizing its subscribers when purchasing power recovers, TLKM will continue to monitor its revenue base, network payload, and subscriber base against the industry.

### Investment in Gojek is expected to boost growth through big data

Investment in Gojek is expected to drive value for Tsel. Our channel checks suggest that TLKM's initial US\$150mn investment through convertible bond translates to 1.5% Gojek ownership, which is equivalent to Gojek's latest valuation based on its series-F funding. The investment has an option for higher ownership i.e.3-3.5% for US\$300-350mn, if Tsel's revenue grew by minimum of US\$500-600mn in 2021F (high single digit growth). The growth is expected to be generated through a JV between Tsel and Gojek in mid-2021F to create a super-app which it expects to generate AdSense revenue.

### Stronger growth for IndiHome in 2021F

Looking forward to 2021F, management expect to gain +1.5mn new IndiHome subscribers (+19% yoy from 8mn in 2020F). This target has taken into consideration of WFH policy being lifted. However, the growth in subscribers will be slightly offset by drop in ARPU (was Rp253k in 3Q20). IndiHome's growth may slightly boost TLKM's performance as it has contributed c.16% of TLKM's revenue as of 3Q20.

### Maintain Buy

Higher IndiHome subscriber for 2021F may support TLKM's mobile performance from weaker purchasing power. We maintain Buy with our DCF-based TP to Rp3,600 (WACC 11%). TLKM is currently trading at 5x 21F EV/EBITDA vs. its 10-Y average of 6x. Risk is price war from smaller telcos to maintain the discount to Tsel's new data plan.

| Financial Summary (Rp bn) | 2018A   | 2019A   | 2020F   | 2021F   | 2022F   |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue                   | 130,784 | 135,567 | 136,711 | 145,023 | 156,418 |
| EBITDA                    | 60,251  | 65,572  | 70,676  | 75,320  | 81,417  |
| EBITDA growth             | -6.4%   | 8.8%    | 7.8%    | 6.6%    | 8.1%    |
| Net profit                | 18,032  | 18,663  | 21,461  | 22,280  | 24,267  |
| EPS (Rp)                  | 182     | 189     | 217     | 225     | 245     |
| EPS growth                | -18.6%  | 3.5%    | 15.0%   | 3.8%    | 8.9%    |
| ROE                       | 15.7%   | 15.9%   | 17.9%   | 17.7%   | 18.4%   |
| PER (x)                   | 18.2    | 17.6    | 15.7    | 15.8    | 14.6    |
| EV/EBITDA (x)             | 5.9     | 5.5     | 5.3     | 5.1     | 4.8     |
| Dividend yield            | 4.9%    | 4.6%    | 4.5%    | 4.4%    | 4.8%    |
| IPS vs. consensus         |         |         | 104%    | 101%    | 100%    |

Source: Company, Indo Premier

Share price closing as of: 23 November 2020

**Fig. 1: Telkomsel DCF valuation**

| Telkomsel DCF Model   | 2020F   | 2021F   | 2022F   | 2023F   | 2024F   | 2025F   | 2026F   | 2027F   | 2028F   | 2029F   |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Ebit                  | 34,297  | 39,994  | 43,718  | 48,859  | 54,235  | 59,145  | 65,449  | 74,495  | 85,051  | 97,189  |
| Less: Cash Tax        | -8,494  | -9,904  | -10,826 | -12,100 | -13,431 | -14,647 | -16,208 | -18,448 | -21,063 | -13,539 |
| NOPLAT                | 25,804  | 30,090  | 32,891  | 36,760  | 40,804  | 44,498  | 49,241  | 56,047  | 63,989  | 83,650  |
| Add: Depreciation     | 16,356  | 16,456  | 17,028  | 17,978  | 19,250  | 20,806  | 22,629  | 24,469  | 26,361  | 28,332  |
| Less: Working Capital | -109    | -31     | 189     | 614     | 709     | 746     | 914     | 1,193   | 1,252   | 1,389   |
| 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        | 25,359  | 28,155  | 29,911  | 33,136  | 36,325  | 39,168  | 44,020  | 50,932  | 58,671  | 78,793  |

| DCF                  | Now     | WACC assumptions       |       |
|----------------------|---------|------------------------|-------|
| Perpetual growth (%) | 3.0%    | Cost of equity         | 13.0  |
| Terminal value       | 165,106 | After tax cost of debt | 5.3   |
| NPV of DCF           | 215,892 | Risk free rate         | 6.0   |
| Net debt             | 13,754  | Beta                   | 1.0   |
| Equity value         | 394,752 | Equity risk premium    | 7.0   |
| Singtel's portion    | 138,163 | WACC                   | 12.1% |

Source: Company, Indo Premier

**Fig. 2: TLKM DCF valuation**

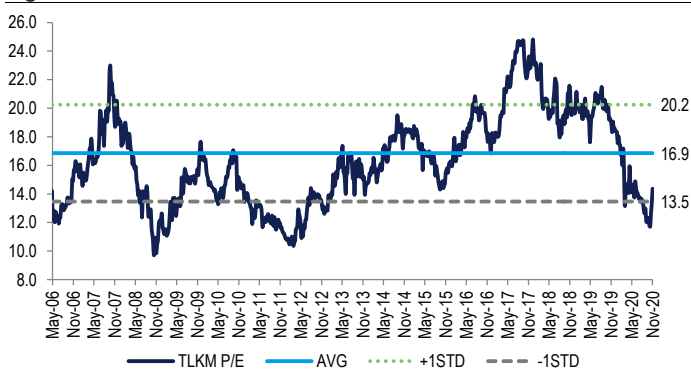
| TLKM DCF Model        | 2020F   | 2021F   | 2022F   | 2023F   | 2024F   | 2025F   | 2026F   | 2027F   | 2028F   | 2029F   |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Ebit                  | 42,539  | 45,335  | 49,705  | 56,591  | 63,251  | 70,050  | 79,121  | 92,559  | 107,117 | 125,358 |
| Less: Cash Tax        | -9,524  | -9,398  | -10,106 | -10,710 | -11,721 | -13,030 | -14,569 | -17,013 | -19,941 | -23,449 |
| NOPLAT                | 33,015  | 35,938  | 39,599  | 45,881  | 51,529  | 57,020  | 64,552  | 75,546  | 87,176  | 101,909 |
| Add: Depreciation     | 24,199  | 25,787  | 27,273  | 29,085  | 31,179  | 33,531  | 36,128  | 38,762  | 41,467  | 44,270  |
| Less: Working Capital | 64      | 43      | 22      | -17     | 113     | 80      | 240     | -1,542  | -719    | -769    |
| 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        | 18,522  | 20,241  | 22,373  | 27,192  | 31,566  | 35,590  | 42,589  | 50,944  | 62,396  | 76,606  |

| DCF                     | Now      | WACC assumptions       |       |
|-------------------------|----------|------------------------|-------|
| Perpetual growth (%)    | 3.0%     | Cost of equity         | 13.7  |
| Terminal value          | 348,895  | After tax cost of debt | 5.3   |
| NPV of DCF              | 200,664  | Risk free rate         | 6.0   |
| Net debt                | (44,424) | Beta                   | 1.1   |
| Equity value            | 505,135  | Equity risk premium    | 7.0   |
| Less: Singtel's portion | 138,163  | WACC                   | 11.0% |
| Telkom's portion        | 366,972  |                        |       |
| Target price            | 3,600    |                        |       |

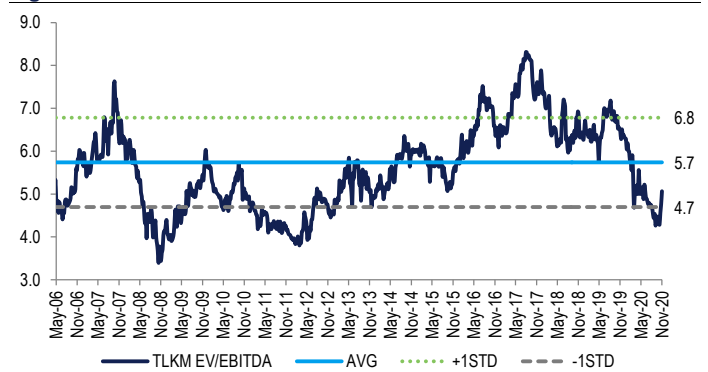
Source: Company, Indo Premier

**Fig. 3: TLKM P/E band**



Source: Bloomberg, Company, Indo Premier

**Fig. 4: TLKM EV/EBITDA band**



Source: Bloomberg, Company, Indo Premier

| Income Statement (Rp bn) | 2018A          | 2019A          | 2020F          | 2021F          | 2022F          |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| Net revenue              | 130,784        | 135,567        | 136,711        | 145,023        | 156,418        |
| Cost of sales            | 0              | 0              | 0              | 0              | 0              |
| <b>Gross profit</b>      | <b>130,784</b> | <b>135,567</b> | <b>136,711</b> | <b>145,023</b> | <b>156,418</b> |
| SG&A Expenses            | -91,939        | -93,173        | -94,172        | -99,687        | -106,713       |
| <b>Operating profit</b>  | <b>38,845</b>  | <b>42,394</b>  | <b>42,539</b>  | <b>45,335</b>  | <b>49,705</b>  |
| Net interest             | -2,493         | -3,148         | -3,691         | -3,895         | -4,520         |
| Forex gain (loss)        | 0              | 0              | 0              | 0              | 0              |
| Others                   | 53             | -1,338         | 0              | 0              | 0              |
| <b>Pre-tax income</b>    | <b>36,405</b>  | <b>37,908</b>  | <b>38,848</b>  | <b>41,440</b>  | <b>45,185</b>  |
| Income tax               | -9,426         | -10,316        | -9,129         | -9,531         | -10,392        |
| Minority interest        | <b>18,032</b>  | <b>18,663</b>  | <b>21,461</b>  | <b>22,280</b>  | <b>24,267</b>  |

| Balance Sheet (Rp bn)                 | 2018A          | 2019A          | 2020F          | 2021F          | 2022F          |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash & equivalent                     | 17,439         | 18,242         | 16,316         | 15,478         | 16,439         |
| Receivable                            | 12,141         | 12,089         | 12,191         | 12,932         | 13,948         |
| Inventory                             | 13,688         | 11,391         | 11,612         | 11,868         | 12,142         |
| Other current assets                  | <b>43,268</b>  | <b>41,722</b>  | <b>40,119</b>  | <b>40,278</b>  | <b>42,530</b>  |
| <b>Total current assets</b>           | <b>143,248</b> | <b>156,973</b> | <b>167,590</b> | <b>179,132</b> | <b>191,941</b> |
| Fixed assets                          | 5,032          | 6,446          | 6,446          | 6,446          | 6,446          |
| Goodwill                              | 14,648         | 16,067         | 16,880         | 17,896         | 19,113         |
| <b>Total non-current assets</b>       | <b>162,928</b> | <b>179,486</b> | <b>190,916</b> | <b>203,474</b> | <b>217,499</b> |
| <b>Total assets</b>                   | <b>206,196</b> | <b>221,208</b> | <b>231,035</b> | <b>243,753</b> | <b>260,030</b> |
| Payable                               | 15,214         | 14,346         | 14,517         | 15,337         | 16,425         |
| Other payables                        | 20,708         | 25,808         | 26,532         | 27,841         | 29,361         |
| Current portion of LT loans           | 10,339         | 18,215         | 19,313         | 20,949         | 23,482         |
| <b>Total current liab.</b>            | <b>46,261</b>  | <b>58,369</b>  | <b>60,362</b>  | <b>64,127</b>  | <b>69,268</b>  |
| Long term loans                       | 33,748         | 33,869         | 35,911         | 38,953         | 43,663         |
| 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>108,110</b> | <b>115,035</b> | <b>125,006</b> |
| Equity                                | 7,915          | 8,072          | 8,072          | 8,072          | 8,072          |
| Retained earnings                     | 90,995         | 91,489         | 97,758         | 104,461        | 111,787        |
| Minority interest                     | 18,393         | 17,689         | 16,925         | 16,034         | 15,060         |
| <b>Total SHE + minority int.</b>      | <b>117,303</b> | <b>117,250</b> | <b>122,924</b> | <b>128,718</b> | <b>135,024</b> |
| <b>Total liabilities &amp; equity</b> | <b>206,196</b> | <b>221,208</b> | <b>231,035</b> | <b>243,753</b> | <b>260,030</b> |

Source: Company, Indo Premier

| Cash Flow Statement (Rp bn)     | 2018A          | 2019A          | 2020F          | 2021F          | 2022F          |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net income                      | 18,032         | 18,663         | 21,461         | 22,280         | 24,267         |
| Depr. & amortization            | 21,406         | 23,178         | 28,138         | 29,985         | 31,712         |
| Changes in working capital      | 3,240          | 684            | -64            | -43            | -22            |
| Others                          | 2,993          | 12,424         | 8,197          | 9,905          | 10,769         |
| <b>Cash flow from operating</b> | <b>45,671</b>  | <b>54,949</b>  | <b>57,732</b>  | <b>62,127</b>  | <b>66,726</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          | 3,140          | 4,678          | 7,243          |
| Equity                          | 0              | 0              | 0              | 0              | 0              |
| Dividends                       | -26,743        | -25,847        | -24,044        | -26,116        | -28,486        |
| Others                          | 0              | 0              | 0              | 0              | 0              |
| <b>Cash flow from financing</b> | <b>-18,458</b> | <b>-18,247</b> | <b>-20,904</b> | <b>-21,438</b> | <b>-21,243</b> |
| <b>Changes in cash</b>          | <b>-7,877</b>  | <b>911</b>     | <b>-1,926</b>  | <b>-838</b>    | <b>961</b>     |

| Key Ratios                  | 2018A  | 2019A  | 2020F  | 2021F  | 2022F  |
|-----------------------------|--------|--------|--------|--------|--------|
| Operating margin            | 29.70% | 31.27% | 31.12% | 31.26% | 31.78% |
| Pre-tax margin              | 27.84% | 27.96% | 28.42% | 28.58% | 28.89% |
| Net margin                  | 13.79% | 13.77% | 15.70% | 15.36% | 15.51% |
| ROA                         | 8.91%  | 8.73%  | 9.49%  | 9.39%  | 9.63%  |
| ROE                         | 15.72% | 15.91% | 17.87% | 17.71% | 18.40% |
| ROIC                        | 12.61% | 12.31% | 13.31% | 12.91% | 12.97% |
| Acct. receivables TO (days) | 34     | 33     | 33     | 33     | 33     |
| Payable TO (days)           | 67     | 63     | 63     | 63     | 63     |
| Debt to equity              | 37.58% | 44.42% | 44.93% | 46.54% | 49.73% |
| Interest coverage ratio (x) | 11.1   | 10.0   | 9.1    | 9.5    | 9.3    |
| Net gearing                 | 22.72% | 28.86% | 31.65% | 34.51% | 37.55% |

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     |

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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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