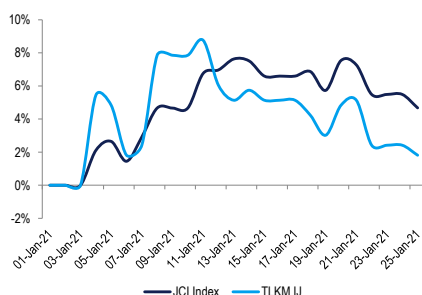


Stock Data

Target price	Rp4,500
Prior TP	Rp4,500
Current price	Rp3,370
Upside/downside	+34%
Shares outstanding (mn)	99,062
Market cap (Rp bn)	333,840
Free float	48%
Avg. 6m daily T/O (Rp bn)	546

Price Performance

	3M	6M	12M
Absolute	28.1%	11.6%	-14.0%
Relative to JCI	5.7%	-11.5%	-14.3%
52w low/high (Rp)	2,620 – 3,920		



Major Shareholders

Republic of Indonesia	52%
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Concall takeaway on 2021F outlook

- Management guidance for 2021F top-line will be mid-single digit growth for the group and in-line with ours (+7% yoy growth).
- We expect a qoq growth in 4Q20 topline but slight yoy drop in FY revenue – implies c.Rp33-34tr revenue for 4Q20 (in-line with ours).
- Decent top-line growth and attractive valuation (5x EV/EBITDA vs. its 10Y average of 6x) underpin our unchanged Buy rating.

Mid-single digit revenue growth target

Management guidance for 2021 include mid-single digit revenue growth for the group (we expect +7% growth in 2021F from flat in 2020F). Breakdown per segments are: 1) low-single digit revenue growth for Tsel, 2) low-teens revenue growth for IndiHome, 3) high-single to low-double digit revenue growth for enterprise segment, and 4) mid-high single digit revenue growth for wholesale segment. Margin is expected to remain stable (we expect 52% EBITDA margin in 2021F from 51.5% in 2020F) and so does capex (stable at 25% of revenue) with focus on mobile (towers, 4G and IT system), IndiHome’s last mile, and data center completion in 3Q21.

Expect qoq revenue recovery in 4Q20

Management expects qoq growth in 4Q20 topline but yoy decline in 2020F revenue growth. It implies revenue of c.Rp33-34tr (c.2% qoq) for 4Q20 which translates to -1% yoy decline in 2020F topline (in-line with our forecast of flat revenue in 2020F). The growth will come from better mobile (positive from study quota subsidy - MBJJ), IndiHome and enterprise segment. In terms of one-off cost, management expects possible one-off for TLKM from TELE write-off and enterprise segment. Meanwhile for Tsel, management expects one-off cost from investment in Jiwasraya (on-going assessment) and tower gain from sale to Mitratel (but neutral for consolidated numbers).

Manageable competition in both mobile and FTTH segment

Management saw slight competition on both mobile and FTTH segment as an attempt by smaller players to grab subscriber, though it remains comfortable on current pricing environment. Mobile network utilization is currently slightly above 60% in end of 4Q20 from 51-53% in 3Q20. In addition, smaller growth segment in Tsel such as Orbit (30k subs by end of 2020) and By.U (2% of subs) grew nicely in 2020, but contribution to the group remains small.

Maintain Buy

Pick-up in top-line and attractive valuation (5x EV/EBITDA vs. 10Y average of 6x) underpin our Buy rating with TP of Rp4,500 (WACC 11%). Risk is price war from smaller telcos to maintain the discount to Tsel’s data plan.

Financial Summary (Rp bn)	2018A	2019A	2020F	2021F	2022F
Revenue	130,784	135,567	135,838	145,408	159,115
EBITDA	60,251	65,572	69,831	75,777	83,387
EBITDA growth	-6.4%	8.8%	6.5%	8.5%	10.0%
Net profit	18,032	18,663	21,097	22,422	25,227
EPS (Rp)	182	189	213	226	255
EPS growth	-18.6%	3.5%	13.0%	6.3%	12.5%
ROE	15.7%	15.9%	17.6%	17.8%	19.1%
PER (x)	18.5	17.9	15.8	14.9	13.2
EV/EBITDA (x)	6.0	5.6	5.3	5.0	4.6
Dividend yield	4.9%	4.6%	4.4%	4.7%	5.3%
Forecast change			N/A	N/A	N/A
IPS vs. consensus			102%	101%	103%

Source: Company, Indo Premier

Share price closing as of: 25 January 2021

**Fig. 1: Telkomsel DCF valuation**

Telkomsel DCF Model	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Ebit	33,123	40,870	46,019	51,355	56,938	62,041	67,471	73,913	81,044	88,999	98,003
Less: Cash Tax	-8,203	-10,121	-11,396	-12,718	-14,101	-15,364	-16,709	-18,304	-20,070	-22,040	-24,270
NOPLAT	24,921	30,749	34,623	38,637	42,838	46,677	50,762	55,609	60,974	66,959	73,733
Add: Depreciation	16,356	16,456	17,028	17,978	19,250	20,806	22,629	24,469	26,361	28,332	30,206
Less: Working Capital	-213	-143	268	598	691	727	814	852	945	1,020	1,068
Less: Capex	-16,691	-18,361	-20,197	-22,216	-24,438	-26,882	-28,763	-30,777	-32,931	-34,578	-36,307
Free Cash Flow	24,371	28,701	31,722	34,998	38,341	41,328	45,442	50,153	55,349	61,734	68,700

DCF	Now	WACC assumptions	
Perpetual growth (%)	3.0%	Cost of equity	13.0
Terminal value	248,139	After tax cost of debt	5.3
NPV of DCF	234,963	Risk free rate	6.0
Net debt	13,636	Beta	1.0
Equity value	496,739	Equity risk premium	7.0
Singtel's portion	173,859	WACC	12.1%

Source: Company, Indo Premier

**Fig. 2: TLKM DCF valuation**

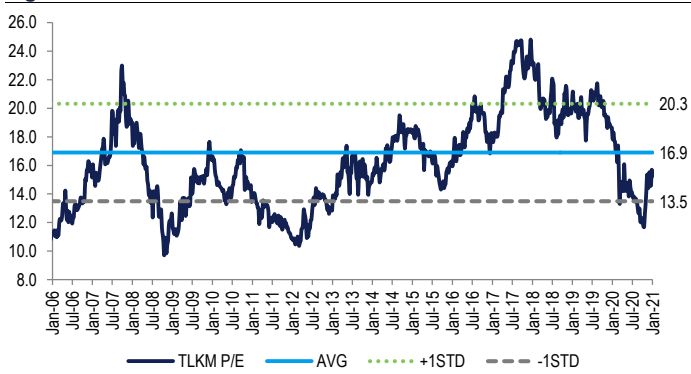
TLKM DCF Model	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Ebit	41,693	45,793	51,675	58,687	65,469	72,387	80,389	90,817	101,484	114,997	130,764
Less: Cash Tax	-9,391	-9,402	-10,443	-11,155	-12,182	-13,519	-14,920	-16,869	-19,041	-21,608	-24,719
NOPLAT	32,302	36,391	41,232	47,532	53,288	58,868	65,470	73,948	82,443	93,389	106,045
Add: Depreciation	28,138	29,985	31,712	33,820	36,255	38,989	42,009	45,072	48,217	51,477	54,681
Less: Working Capital	163	-57	-68	-25	105	72	307	-1,371	-424	-403	-143
Less: Capex	-38,755	-41,527	-44,521	-47,757	-51,256	-55,041	-58,330	-61,822	-65,529	-68,805	-72,245
Free Cash Flow	21,848	24,792	28,355	33,569	38,393	42,889	49,456	55,827	64,708	75,658	88,338

DCF	Now	WACC assumptions	
Perpetual growth (%)	3.0%	Cost of equity	13.7
Terminal value	398,838	After tax cost of debt	5.3
NPV of DCF	262,460	Risk free rate	6.0
Net debt	(44,480)	Beta	1.1
Equity value	616,818	Equity risk premium	7.0
Less: Singtel's portion	173,859	WACC	11.0%
Telkom's portion	442,960		
Target price	4,500		

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	135,838	145,408	159,115
Cost of sales	0	0	0	0	0
<b>Gross profit</b>	<b>130,784</b>	<b>135,567</b>	<b>135,838</b>	<b>145,408</b>	<b>159,115</b>
SG&A Expenses	-91,939	-93,173	-94,144	-99,615	-107,441
<b>Operating profit</b>	<b>38,845</b>	<b>42,394</b>	<b>41,693</b>	<b>45,793</b>	<b>51,675</b>
Net interest	-2,493	-3,148	-3,691	-3,895	-4,523
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>38,003</b>	<b>41,898</b>	<b>47,151</b>
Income tax	-9,426	-10,316	-8,931	-9,637	-10,845
Minority interest	<b>18,032</b>	<b>18,663</b>	<b>21,097</b>	<b>22,422</b>	<b>25,227</b>

Balance Sheet (Rp bn)	2018A	2019A	2020F	2021F	2022F
Cash & equivalent	17,439	18,242	16,321	15,423	16,548
Receivable	12,141	12,089	12,113	12,967	14,189
Inventory	13,688	11,391	11,608	11,870	12,154
Other current assets	<b>43,268</b>	<b>41,722</b>	<b>40,043</b>	<b>40,259</b>	<b>42,891</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	16,824	17,926	19,240
<b>Total non-current assets</b>	<b>162,928</b>	<b>179,486</b>	<b>190,860</b>	<b>203,504</b>	<b>217,627</b>
<b>Total assets</b>	<b>206,196</b>	<b>221,208</b>	<b>230,903</b>	<b>243,763</b>	<b>260,517</b>
Payable	15,214	14,346	14,534	15,372	16,585
Other payables	20,708	25,808	26,466	27,876	29,511
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>60,313</b>	<b>64,197</b>	<b>69,579</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>108,061</b>	<b>115,106</b>	<b>125,317</b>
Equity	7,915	8,072	8,072	8,072	8,072
Retained earnings	90,995	91,489	97,818	104,545	112,113
<b>Total SHE + minority int.</b>	<b>117,303</b>	<b>117,250</b>	<b>122,841</b>	<b>128,658</b>	<b>135,201</b>
<b>Total liabilities &amp; equity</b>	<b>206,196</b>	<b>221,208</b>	<b>230,903</b>	<b>243,763</b>	<b>260,517</b>

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2018A	2019A	2020F	2021F	2022F
Net income	18,032	18,663	21,097	22,422	25,227
Depr. & amortization	21,406	23,178	28,138	29,985	31,712
Changes in working capital	3,240	684	-163	57	68
Others	2,993	12,424	8,102	9,932	11,159
<b>Cash flow from operating</b>	<b>45,671</b>	<b>54,949</b>	<b>57,174</b>	<b>62,396</b>	<b>68,167</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	-23,481	-26,445	-29,764
Others	0	0	0	0	0
<b>Cash flow from financing</b>	<b>-18,458</b>	<b>-18,247</b>	<b>-20,340</b>	<b>-21,767</b>	<b>-22,520</b>
<b>Changes in cash</b>	<b>-7,877</b>	<b>911</b>	<b>-1,921</b>	<b>-899</b>	<b>1,125</b>

Key Ratios	2018A	2019A	2020F	2021F	2022F
Operating margin	29.70%	31.27%	30.69%	31.49%	32.48%
Pre-tax margin	27.84%	27.96%	27.98%	28.81%	29.63%
Net margin	13.79%	13.77%	15.53%	15.42%	15.85%
ROA	8.91%	8.73%	9.33%	9.45%	10.01%
ROE	15.72%	15.91%	17.57%	17.83%	19.12%
ROIC	12.61%	12.31%	13.09%	13.00%	13.47%
Acct. receivables TO (days)	34	33	33	33	33
Payable TO (days)	67	63	63	63	63
Debt to equity	37.58%	44.42%	44.96%	46.56%	49.66%
Interest coverage ratio (x)	11.1	10.0	8.9	9.6	9.6
Net gearing	22.72%	28.86%	31.67%	34.57%	37.42%

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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