

Telekomunikasi Indonesia Tbk (TLKM)

Rosier Performance

Company Report | Nov 09, 2018

Buy

Dec 2019 TP (IDR)	4,700
Consensus Price (IDR)	4,231
TP to Consensus Price	+11.1%
vs. Last Price	+17.5%

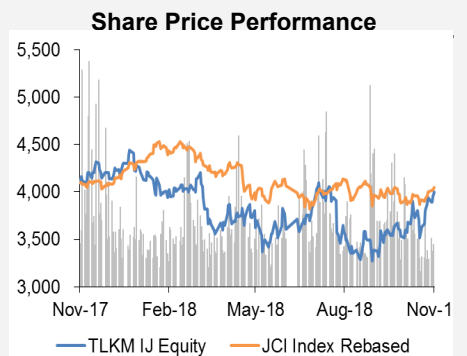
Shares data

Last Price (IDR)	4,000
Price date as of	Nov 8, 2018
52 wk range (Hi/Lo)	4,419 / 3,250
Free float (%)	47.9
Outstanding sh.(mn)	99,062
Market Cap (IDR bn)	394,268
Market Cap (USD mn)	27,228
Avg. Trd Vol - 3M (mn)	97.90
Avg. Trd Val - 3M (bn)	348.07
Foreign Ownership	29.3%

Infrastructure

Telecommunication

Bloomberg	TLKM.IJ
Reuters	TLKM.JK



	YTD	1M	3M	12M
Abs. Ret.	-9.9%	13.6%	12.7%	-2.4%
Rel. Ret.	-3.9%	9.9%	14.6%	-1.2%

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Better Performance Reaping Fruitful Outcome

TLKM's performance comes about our estimate of 3Q18 rosier performance. **The revenue buoyed by 8.8%** q-q to IDR34.8 trillion thanks to all segments' rosier performance but lackluster fixed line voice segment posting the decline of 3.9%. Another to bullish revenues, effective cost controls proved to be fruitful, e.g. narrowing personnel expenses of 18% q-q to IDR3.26 trillion and sliding general and administrative expenses of 41% q-q to IDR1.21 trillion.

Qualities Wining Subscribers' Preference

Upward data prices in July 2018 are unlikely to cause TLKM's subscribers to limit data spending, shown in the hike of 116.3% y-y in data traffic. It proves a boon for TLKM because the data, internet and IT services segments are the biggest revenue contributor of 54% of the total revenues. Besides, TLKM also charges its 700,000 Indihome's subscribers for upward prices of 4%-5% from August to September 2018. However, **the number of Indihome subscribers remains to grow to 4.7 million subscribers** (+101.2% y-y) until the end of September 2018.

Profitable Paradox

Telkomsel's subscribers shrank to 167.8 million at the end of September 2018 (vs. 177.9 million at the end of June 2018) due to impacts of the mandatory on SIM card registration. Nevertheless, **it was still capable of posting the growth of 10.1% q-q** in the revenue thanks to improving subscribers' loyalty and qualities, e.g. subscribers with the more-than-12-month length of stay consistently increase.

Target Price of IDR4,700

The target price is obtained with the estimate of forward P/E of 2019 of 18.3x. (0.5 SD below the 3-year average) and implies a 2019E P/E of 20.5x. Now, TLKM is traded at a 2018E P/E of 19.7x.

Telekomunikasi Indonesia Tbk | Summary (IDR bn)

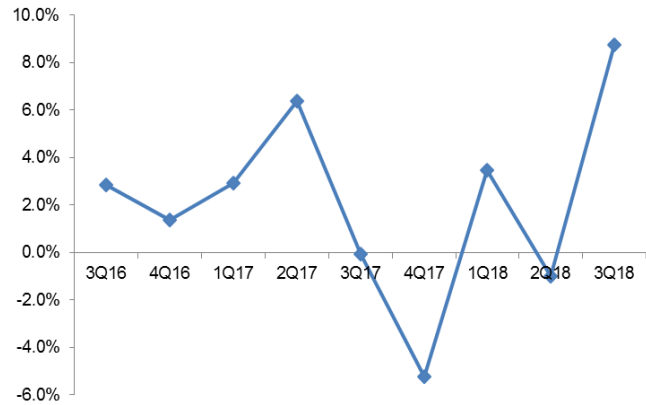
	2017	2018E	2019F	2020F
Sales	128,256	134,284	148,149	164,194
<i>Sales growth</i>	10.2%	4.7%	10.3%	10.8%
EBITDA	64,609	61,556	68,092	75,927
Net Profit	22,145	19,864	22,720	25,663
EPS (IDR)	220	201	229	259
<i>EPS growth</i>	14.4%	-10.3%	14.4%	13.0%
BVPS (IDR)	1,112	1,203	1,299	1,407
EBITDA margin	50.4%	45.8%	46.0%	46.2%
NPM	17.3%	14.8%	15.3%	15.6%
ROE	20.3%	17.2%	18.3%	19.2%
ROA	11.7%	9.6%	10.2%	10.7%
ROIC	22.8%	18.3%	19.3%	19.9%
P/E	20.2x	19.7x	17.2x	15.2x
P/BV	4.0x	3.3x	3.0x	2.8x
EV/EBITDA	7.4x	7.0x	6.4x	5.8x
DPS (IDR)	115	120	138	155
<i>Dividend yield</i>	2.6%	3.0%	3.5%	3.9%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

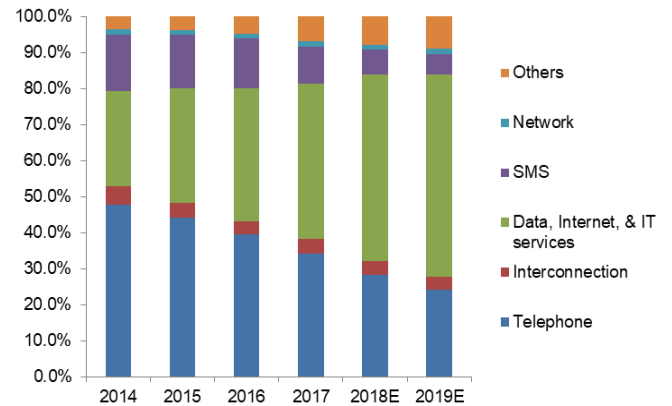
Performance Highlights

TLKM Sales Growth (q-q) | 3Q16 - 3Q18



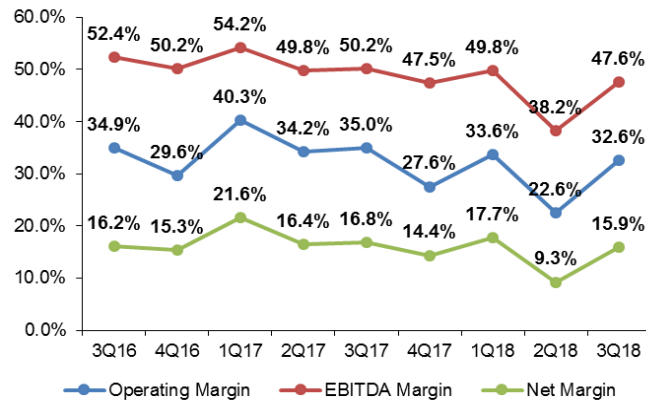
Source: Company, NHKS Research

Sales Breakdown | 2014—2019E



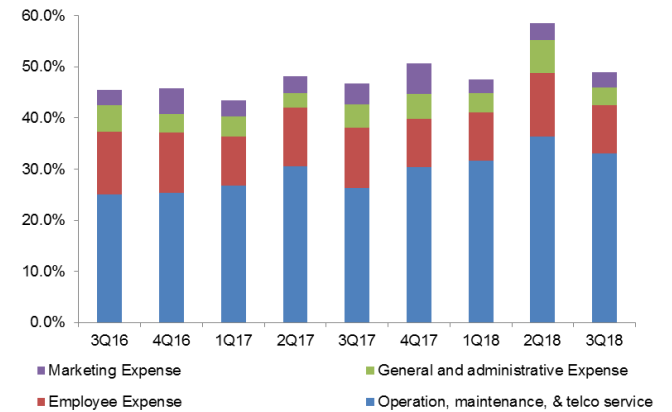
Source: Company, NHKS Research

Quarterly Margin Ratios | 3Q16 - 3Q18



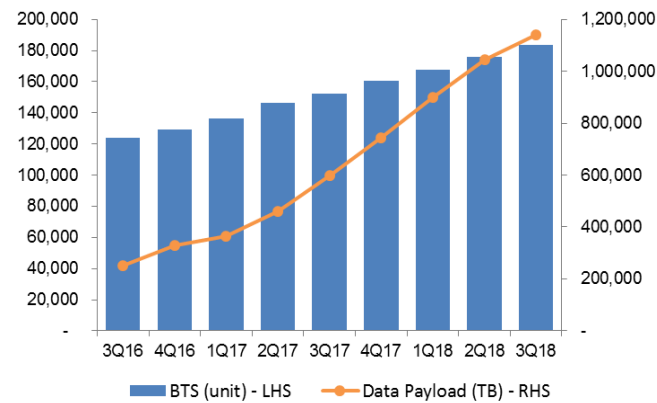
Source: Company, NHKS Research

Portion Expense to Revenue | 3Q16 - 3Q18



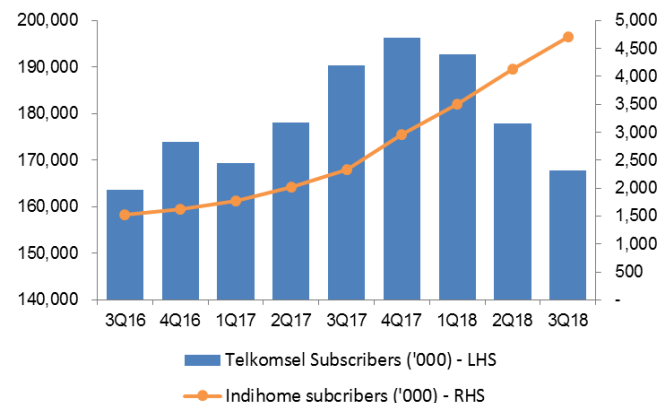
Source: Company, NHKS Research

Infrastructure BTS and Data Payload | 3Q16 - 3Q18



Source: Company, NHKS Research

Telkomsel and Indihome Subscribers | 3Q16 - 3Q18



Source: Company, NHKS Research

3Q18 review (IDR bn)

	3Q17	4Q17	1Q18	2Q18	3Q18					4Q18E
					Actual	Estimate	y-y	q-q	surprise	
Sales	32,982	31,253	32,343	32,025	34,835	34,179	5.6%	7.7%	1.9%	35,081
Gross Profit	23,275	21,188	21,271	19,359	22,067	23,111	-5.2%	3.7%	-4.5%	22,222
<i>Gross Margin</i>	70.6%	67.8%	65.8%	60.4%	63.3%	67.6%	-10.2%	-2.4%	-4.3%	63.3%
EBIT	11,535	8,612	10,878	7,222	11,342	11,694	-1.7%	4.3%	-3.0%	11,069
<i>EBIT Margin</i>	35.0%	27.6%	33.6%	22.6%	32.6%	34.2%	-6.9%	-1.1%	-1.7%	31.6%
EBITDA	16,544	14,830	16,116	12,227	16,569	16,774	0.2%	2.8%	-1.2%	16,644
<i>EBIT Margin</i>	50.2%	47.5%	49.8%	38.2%	47.6%	49.1%	-5.2%	-2.3%	-1.5%	47.4%
Net Profit	5,548	4,493	5,734	2,964	5,534	5,867	-0.3%	-3.5%	-5.7%	5,632
<i>Net Margin</i>	16.8%	14.4%	17.7%	9.3%	15.9%	17.2%	-5.6%	-1.8%	-1.3%	16.1%

Source: Bloomberg, NHKS research

Earnings revision (IDR bn)

		2018E	2019F	2020F
Sales	-Revised	134,284	148,149	164,194
	-Previous	134,807	149,039	167,069
	-Change	-0.4%	-0.6%	-1.7%
Gross Profit	-Revised	84,919	94,346	105,092
	-Previous	88,257	97,982	110,375
	-Change	-3.8%	-3.7%	-4.8%
Gross Margin	-Revised	63.2%	63.7%	64.0%
	-Previous	65.5%	65.7%	66.1%
EBIT	-Revised	40,511	44,520	50,271
	-Previous	42,141	46,878	53,606
	-Change	-3.9%	-5.0%	-6.2%
EBIT Margin	-Revised	30.2%	30.1%	30.6%
	-Previous	31.3%	31.5%	32.1%
EBITDA	-Revised	61,556	68,092	75,927
	-Previous	63,642	70,398	79,030
	-Change	-3.3%	-3.3%	-3.9%
EBITDA Margin	-Revised	45.8%	46.0%	46.2%
	-Previous	47.2%	47.2%	47.3%
Net Profit	-Revised	19,864	22,720	25,663
	-Previous	20,829	24,335	26,964
	-Change	-4.6%	-6.6%	-4.8%
Net Margin	-Revised	14.8%	15.3%	15.6%
	-Previous	15.5%	16.3%	16.1%

Source: NHKS research

TLKM at A Glance

PT Telkom Indonesia (Persero) Tbk (Telkom) is a state-owned enterprise (BUMN) running its businesses in information and communication technologies and telecommunication networks in Indonesia. It was established in 1965 and along with the rise in the cellular technology, then TLKM in 1995 incorporated its subsidiary, namely Telkomsel as well as launched its first postpaid phone credit: Kartu Halo.

TLKM manages six business portfolios such as mobile (mobile voice, SMS, mobile broadband); fixed (fixed voice and fixed broadband through IndiHome brand); wholesale & international (interconnection, network service, hubbing data center & content platform, data & internet, and solution); networking infrastructure (network service, satellite, and infrastructure & tower); enterprise digital (information & communication technology platform service, and smart enable platform service); and consumer digital (digital payment, e.g. TCASH, digital advertising & analytics, e-commerce: blanja.com). Until September 2018, TLKM served 177.9 million subscribers whose 167.8 million subscribers and 4.7 million Indihome subscribers.

TLKM's Competitiveness in Southeast Asia

TLKM is the leading of telecommunication service providers in Indonesia and has the second biggest market cap. in Southeast Asia after Singtel Singapore. Among its peers, TLKM has average P/E and ROE and it signs that TLKM reigns in a positive territory. In addition, it succeeds to maintain the double-digit net profit margin of 14.1% amid its sluggish business.

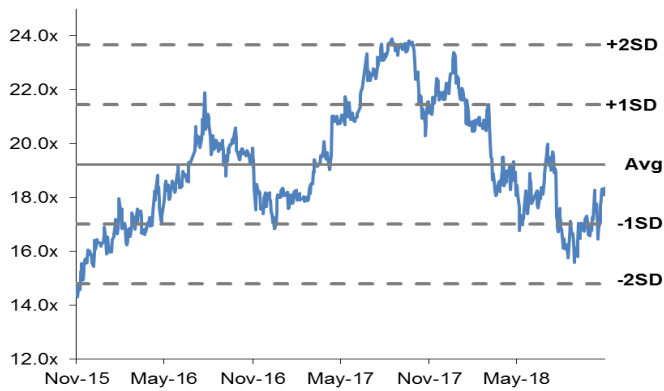
ASEAN Telecommunication Operators

Company	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Margin	ROE LTM	P/E LTM	P/BV
Indonesia									
TLKM	27,228	14,607	9,379	1,327	-18.13%	14.1%	20.4%	21.4x	4.4x
EXCL	1,646	4,145	1,644	(1)	N/A	0.0%	0.0%	N/A	1.1x
ISAT	871	3,728	1,903	(25)	N/A	-1.3%	-2.6%	N/A	1.0x
Singapore									
Singtel	36,695	36,821	12,903	2,359	-44.20%	18.3%	10.77%	15.9x	1.7x
Malaysia									
Maxis	10,257	4,740	2,207	514	-3.22%	23.3%	29.33%	20.5x	5.9x
DiGi.Com	8,315	1,436	1,612	378	2.13%	23.4%	248.92%	22.7x	50.6x
Axiata Group	7,761	17,214	5,913	(796)	N/A	-13.5%	-14.17%	N/A	1.6x
Thailand									
Advanced Info Service	16,483	8,721	5,149	945	5.89%	18.3%	66.07%	17.7x	10.7x
True Corp	6,099	14,286	5,193	443	N/A	8.5%	10.61%	13.9x	1.4x
Total Access Comm.	3,408	3,515	2,352	34	-30.44%	1.5%	4.01%	98.6x	4.2x
Phillipine									
PLDT	5,286	9,190	3,173	168	-64.20%	5.3%	7.42%	32.4x	2.5x
Globe Telecom	4,642	5,556	2,815	331	0.80%	11.8%	25.65%	14.6x	3.7x

Source: Bloomberg

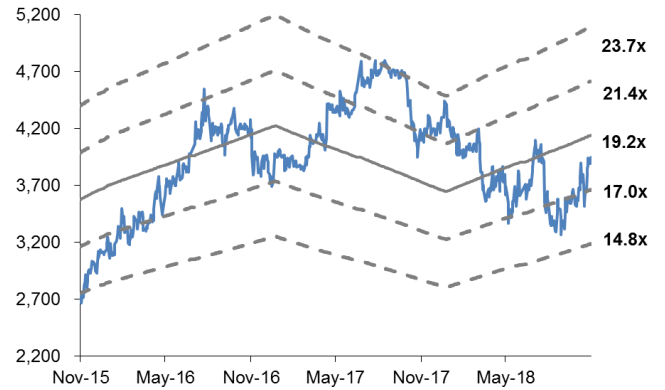
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



Source: NHKS research

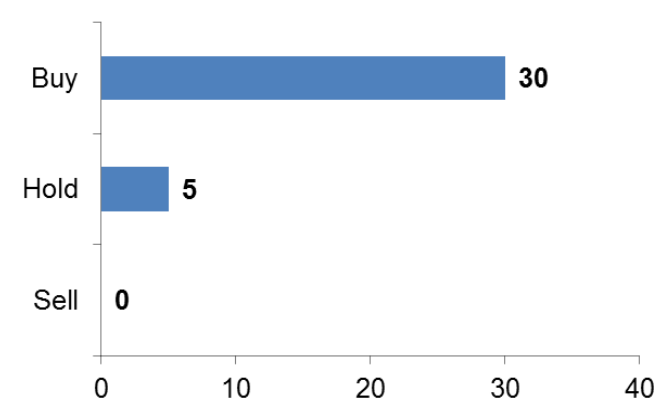
Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
10/08/2018	Buy	4,700 (Dec 2019)	3,520	4,123	+33.5%	+14%
11/08/2018	Buy	4,700 (Dec 2019)	3,950	4,231	+19.0%	+11.1%

Source: NHKS research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. Rating system based on a stock's absolute return from the date of publication
 - Buy : Greater than +15%
 - Hold : -15% to +15%
 - Sell : Less than -15%

Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E		2017/12A	2018/12E	2019/12E	2020/12E
Sales	128,256	134,284	148,149	164,194	ROE	20.3%	17.2%	18.3%	19.2%
<i>Growth</i>	10.2%	4.7%	10.3%	10.8%	ROA	11.7%	9.6%	10.2%	10.7%
COGS	(39,590)	(49,365)	(53,803)	(59,101)	ROIC	22.8%	18.3%	19.3%	19.9%
Gross Profit	88,666	84,919	94,346	105,092	Cash Dividend (IDR bn)	11,627	11,918	13,632	15,398
<i>Gross Margin</i>	69.1%	63.2%	63.7%	64.0%	Dividend Yield	2.6%	3.0%	3.5%	3.9%
Operating Expenses	(44,733)	(44,408)	(49,826)	(54,821)	Payout Ratio	52.5%	60.0%	60.0%	60.0%
EBIT	43,933	40,511	44,520	50,271	DER	31.6%	39.2%	38.1%	38.0%
<i>EBIT Margin</i>	34.3%	30.2%	30.1%	30.6%	Net Gearing	39.4%	47.7%	45.8%	45.2%
Depreciation	20,446	21,583	23,496	25,379	LT Debt to Equity	29.6%	35.5%	34.4%	34.4%
EBITDA	64,609	61,556	68,092	75,927	Capitalization Ratio	22.8%	26.2%	25.6%	25.6%
<i>EBITDA Margin</i>	50.4%	45.8%	46.0%	46.2%	Equity Ratio	56.5%	55.3%	55.8%	56.1%
Interest Expenses	(1,274)	(2,218)	(2,369)	(2,193)	Debt Ratio	17.9%	21.7%	21.3%	21.3%
EBT	42,659	38,293	42,151	48,078	Financial Leverage	173.7%	178.9%	179.9%	178.7%
Income Tax	(9,958)	(9,587)	(9,695)	(11,418)	Current Ratio	104.8%	107.4%	108.5%	110.0%
Minority Interest	(10,556)	(8,842)	(9,737)	(10,998)	Par Value (IDR)	50	50	50	50
Net Profit	22,145	19,864	22,720	25,663	Total Shares (mn)	100,800	99,062	99,062	99,062
<i>Growth</i>	14.4%	-10.3%	14.4%	13.0%	Share Price (IDR)	4,440	3,950	3,950	3,950
<i>Net Profit Margin</i>	17.3%	14.8%	15.3%	15.6%	Market Cap (IDR tn)	447.6	391.3	391.3	391.3

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E		2017/12A	2018/12E	2019/12E	2020/12E
Cash	25,145	26,902	22,906	19,571	Price /Earnings	20.2x	19.7x	17.2x	15.2x
Receivables	9,222	8,632	10,636	10,836	Price /Book Value	4.0x	3.3x	3.0x	2.8x
Inventories	631	545	552	568	Price/Sales	3.5x	2.9x	2.6x	2.4x
Total Current Assets	47,561	50,857	52,589	54,469	PE/EPS Growth	1.4x	-1.9x	1.2x	1.2x
Net Fixed Assets	130,171	143,431	156,937	172,587	EV/EBITDA	7.4x	7.0x	6.4x	5.8x
Other Non Current Asset	20,752	21,113	20,953	21,278	EV/EBIT	10.9x	10.6x	9.8x	8.8x
Total Assets	198,484	215,401	230,479	248,334	EV (IDR bn)	477,296	429,571	436,323	443,994
Payables	15,574	13,862	14,237	14,298	Sales CAGR (3-Yr)	12.7%	9.4%	8.4%	8.6%
ST Bank Loan	2,289	4,397	4,755	5,030	EPS CAGR (3-Yr)	15.2%	9.3%	6.1%	5.6%
LT Debt	33,183	42,278	44,270	47,916	Basic EPS (IDR)	220	201	229	259
Total Liabilities	86,354	96,242	101,833	109,003	Diluted EPS (IDR)	220	201	229	259
Capital Stock	5,040	5,040	5,040	5,040	BVPS (IDR)	1,112	1,203	1,299	1,407
Retained Earnings	84,896	92,841	101,929	112,194	Sales PS (IDR)	1,272	1,356	1,496	1,657
Shareholders' Equity	112,130	119,159	128,646	139,331	DPS (IDR)	115	120	138	155

CASH FLOW STATEMENT					OWNERSHIP			
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E	By Geography	% Shareholders	%	
Operating Cash Flow	49,405	37,761	41,225	45,919	Indonesia	71.5	Rep. of Indonesia	52.1
Investing Cash Flow	(33,007)	(34,372)	(34,339)	(38,198)	United States	16.0	Bank of New York	4.9
Financing Cash Flow	(21,052)	(1,632)	(10,882)	(11,057)	Luxembourg	4.9	Blackrock	1.7
Net Changes in Cash	(4,654)	1,757	(3,996)	(3,336)	Ireland	1.3	Vanguard Group Inc	1.7

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