

Telekomunikasi Indonesia Tbk (TLKM)

Indihome Grows During Pandemic



Company Report | August 19, 2020

Buy

| | |
|---------------------------|--------------|
| Target Price (IDR) | 3,800 |
| Consensus Price (IDR) | 3,926 |
| TP to Consensus Price | -3.2% |
| vs. Last Price | +24.6% |

Shares data

| | |
|------------------------|-----------------|
| Last Price (IDR) | 3,050 |
| Price date as of | August 18, 2020 |
| 52 wk range (Hi/Lo) | 4,440 / 2,417 |
| Free float | 47.9% |
| Outstanding sh.(mn) | 99,062 |
| Market Cap (IDR bn) | 302,140 |
| Market Cap (USD mn) | 20,442 |
| Avg. Trd Vol - 3M (mn) | 146.0 |
| Avg. Trd Val - 3M (bn) | 456.1 |
| Foreign Ownership | 28.2% |

Infrastructure

Telecommunication

| | |
|-----------|---------|
| Bloomberg | TLKM IJ |
| Reuters | TLKM.JK |

On YoY basis in 1H20, income of the Internet Data and Indihome segments booked positive growth of 6.8% and 19.1% respectively during the Covid-19 pandemic period. However, the cannibalization by OTT and tight competition with mobile operators made the company's income from the SMS, Cellular Phone segment down by 27.5%. This caused the net profit of the company to be pressured in the first quarter of 2020.

Net Profit Slightly Lower 0.8%. The company recorded income decrease of 3.6% YoY and 5.3% QoQ to IDR66.9 trillion in 1H20, and IDR32.7 trillion in 2Q20. Cannibalization by instant messaging (OTT) application, and the tighter competition between mobile operators made the income from SMS, Call, and Cellular Phone sunk by 27.5% to IDR13 trillion. On the other hand, growth of the Internet Data segment is still in line with our expectations that during the transition PSBB period, TLKM will continue to book growth until 2H20. It was recorded that the Internet Data and Indihome segment grew 6.8% and 19.1% YoY respectively in 1H20.

Decrease of income made the company's net profit in 1H20 slightly lower by 0.8% YoY. However, on a quarterly basis (2Q20), TLKM still booked growth of net income by 5.6% YoY to IDR5.1 trillion. Thus we are still optimistic that in 2H20 the company will still book an income of IDR71.8 trillion (towards 51.8% of FY20E income).

Tight Competition Decreased TLKM Subscriber. The company booked a decrease of subscriber number until the first quarter of 2020 by 6.4% YTD to 160 million subscribers compared to 171 million in FY19. The decline in subscriber numbers moved TLKM through its subsidiary (Telkomsel) to release new Unlimited (UL) Max in 65 cities on July 24, 2020 with the lowest price starting from IDR18,000 for 3GB up to IDR120,000 for 55GB. With the PSBB transition period still ongoing, TLKM plans to continue increasing new products to maintain subscriber number. The company is still maintaining premium price above its competitors while still considering its superior network quality and quantity.

We maintain BUY rating with Target Price IDR3,800. We maintain BUY recommendation for TLKM with the same target price of IDR3,800 considering data traffic which will continue to soar during PSBB transition period. This will increase the contribution of internet data segment towards company income until 2H20. Our estimation is for internet data segment to grow 17.9% with 58% contribution in 2H20E.

Telekomunikasi Indonesia Tbk | Summary (IDR bn)

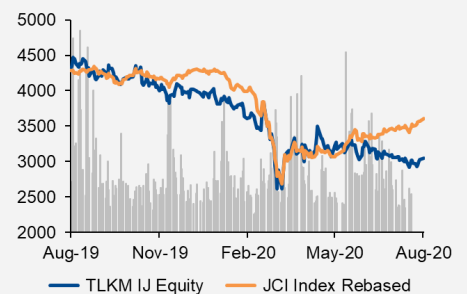
| | 2018 | 2019 | 2020 F | 2021 F |
|-----------------------|---------|---------|---------|---------|
| Sales | 130,784 | 135,567 | 138,685 | 148,592 |
| <i>Sales growth</i> | 2.0% | 3.7% | 2.3% | 7.1% |
| EBITDA | 60,251 | 63,991 | 69,660 | 75,480 |
| Net profit | 18,032 | 18,663 | 19,550 | 21,062 |
| EPS (IDR) | 182 | 188 | 197 | 213 |
| <i>EPS growth</i> | -17.1% | 24.1% | 14.4% | 12.4% |
| BVPS (IDR) | 1,184 | 1,184 | 1,260 | 1,338 |
| EBITDA margin | 46.1% | 47.2% | 50.2% | 50.8% |
| NPM | 13.8% | 13.8% | 14.1% | 14.2% |
| ROE | 15.4% | 15.9% | 15.7% | 15.9% |
| ROA | 8.7% | 8.4% | 8.4% | 8.4% |
| ROIC | 17.8% | 18.3% | 17.9% | 17.8% |
| P/E | 20.6x | 20.3x | 19.3x | 17.9x |
| P/BV | 3.2x | 3.2x | 3.0x | 2.8x |
| EV/EBITDA | 6.6x | 6.5x | 5.6x | 5.2x |
| DPS (IDR) | 168 | 164 | 137 | 153 |
| <i>Dividend yield</i> | 4.5% | 4.3% | 3.6% | 4.0% |

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

NH Korindo Sekuritas Indonesia

Share Price Performance



| | YTD | 1M | 3M | 12M |
|----------|--------|-------|--------|--------|
| Abs. Ret | -23.2% | -0.3% | -5.3% | -28.7% |
| Rel. Ret | -7.2% | -4.6% | -22.7% | -13.0% |

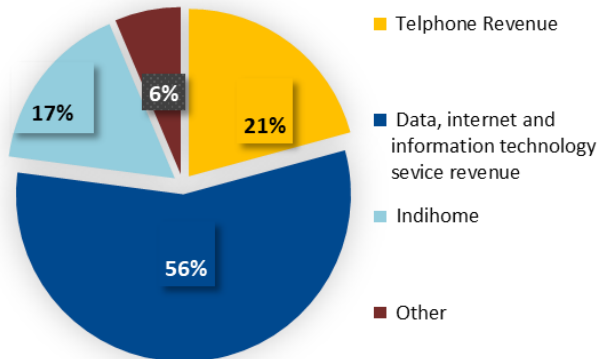
Restu Pamungkas

+62 21 5088 9133

restu.pamungkas@nhsec.co.id

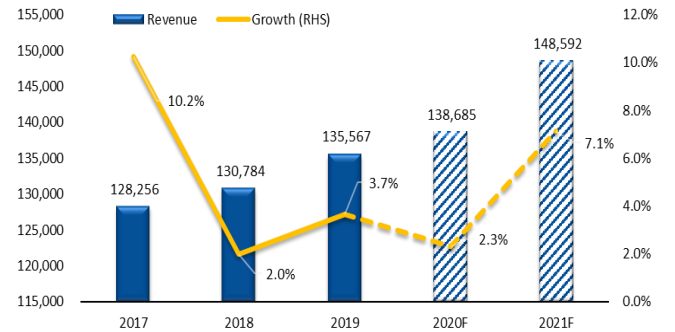
Performance Highlights

Revenue Contribution 1H20



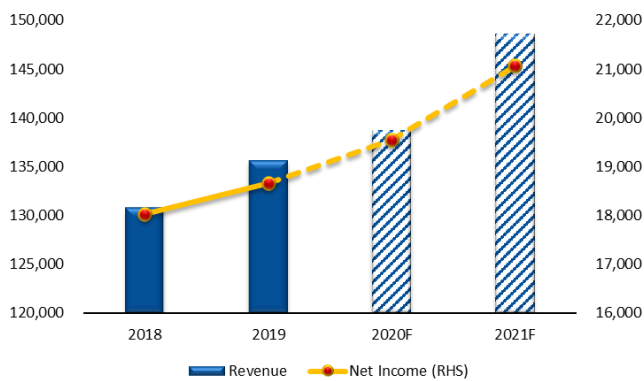
Source: Company, NHKSI Research

Revenue Projections (bn)



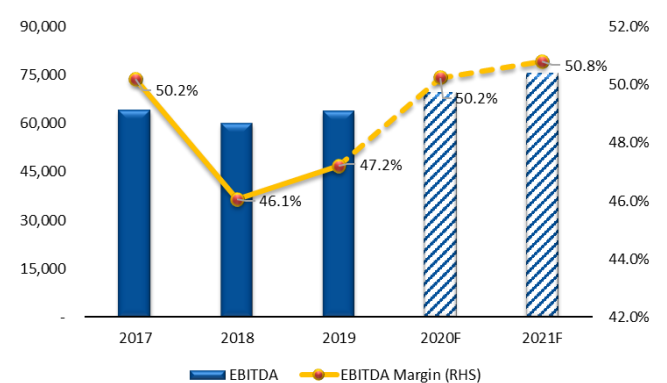
Source: Company, NHKSI Research

Revenue & Net Income (bn)



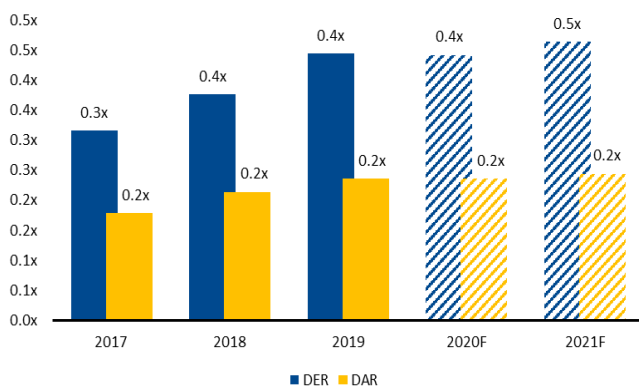
Source: Company, NHKSI Research

EBITDA & EBITDA Margin (bn)



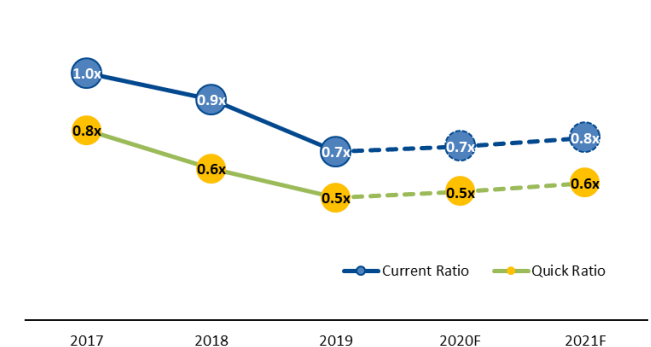
Source: Company, NHKSI Research

DER and DAR



Source: Company, NHKSI Research

Current Ratio and Quick Ratio



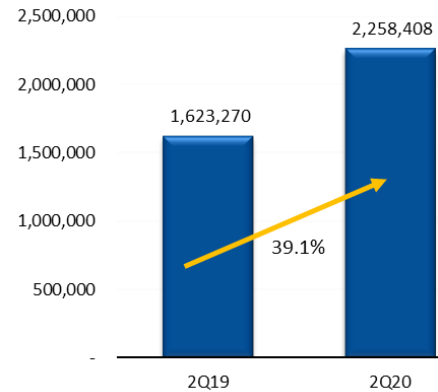
Source: Company, NHKSI Research



PT Telekomunikasi Indonesia (Persero) Tbk (Telkom) is a State Owned Enterprise (BUMN) whose business line is on telecommunication services in Indonesia. The majority of stock is owned by Government of Indonesia at 52.1%, while 47.9% is owned by the public. Telkom is listed in two countries, in the Indonesia Stock Exchange it is traded under “TLKM” and in the New York Stock Exchange under “TLK”.

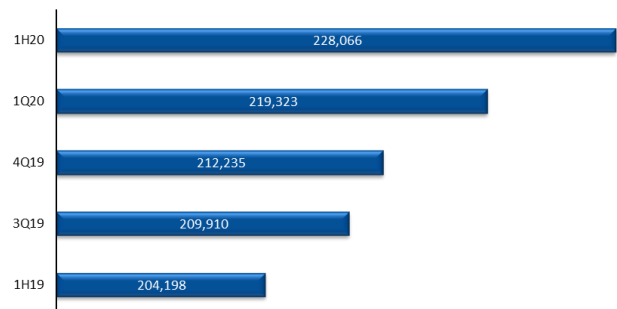
Telkom is currently dividing its business to 3 Digital Business Domain: Digital Connectivity (Fiber to the x (FTTx), 5G, Software Defined Networking (SDN)/ Network Function Virtualization (NFV)/ Satellite); Digital Platform (Data Center, Cloud, Internet of Things (IoT), Big Data/ Artificial Intelligence (AI), Cybersecurity), and Digital Services (Enterprise, Consumer). Telkom until June 2020 has served 160 million subscribers.

Traffic Data (TB)



Source: Company, NHKSI Research

Base Transceiver Station (BTS)



Source: Company, NHKSI Research

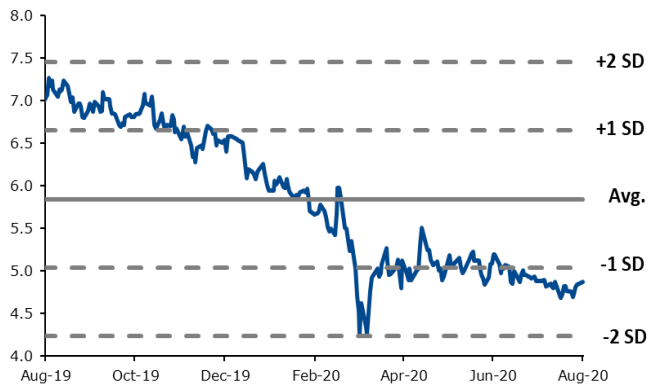
2Q20 Review (IDR bn)

| | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | | | | |
|----------------------|--------|--------|--------|--------|--------|----------|-------|--------|----------|
| | | | | | Actual | Estimate | y-y | q-q | surprise |
| Revenue | 34,505 | 33,286 | 32,936 | 34,194 | 32,662 | | -5.3% | -4.5% | |
| Gross Profit | 34,505 | 33,286 | 20,609 | 34,840 | 32,662 | | -5.3% | -4.5% | |
| EBIT | 10,181 | 11,244 | 8,940 | 11,929 | 10,324 | | 1.4% | -13.5% | |
| <i>EBIT Margin</i> | 22.6% | 33.8% | 27.1% | 34.9% | 31.6% | | | | |
| EBITDA | 12,227 | 17,036 | 14,859 | 18,778 | 17,402 | | 8.7% | -7.3% | |
| <i>EBITDA Margin</i> | 38.2% | 51.2% | 45.1% | 54.9% | 53.3% | | | | |
| Net Profit | 4,854 | 5,381 | 2,204 | 5,862 | 5,127 | | 5.6% | -12.5% | |
| <i>Net Margin</i> | 9.3% | 16.2% | 6.7% | 17.1% | 15.7% | | | | |

Source: Bloomberg, NHKSI Research

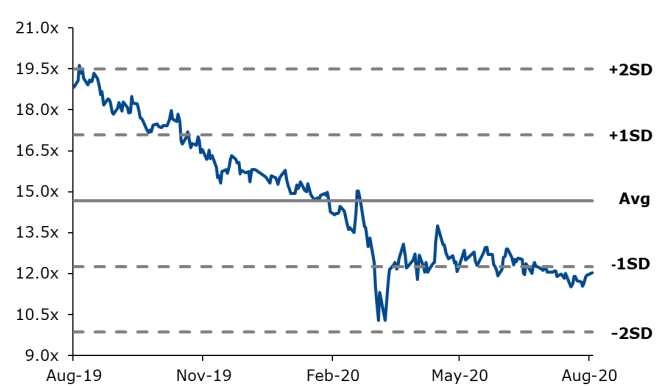
Multiple Valuation

TLKM is trade at area -1SD Forward EV/EBITDA band



Source: NHKSI Research

TLKM is trade at area -1SD Forward P/E band



Source: NHKSI Research

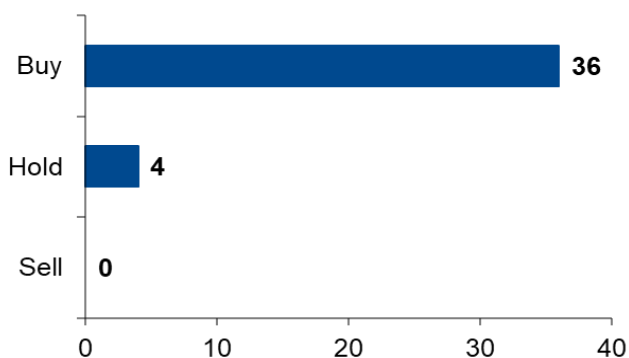
Rating and Target Price Update

Target Price

| Date | Rating | Target Price | Last Price | Consensus | vs Last Price | vs Consensus |
|------------|--------|------------------|------------|-----------|---------------|--------------|
| 03/18/2020 | Buy | 4,330 (Dec 2020) | 2,810 | 4,577 | +54.1% | -5.4% |
| 06/03/2020 | Buy | 3,800 (Dec 2020) | 3,250 | 4,179 | +16.9% | -9.1% |
| 07/22/2020 | Buy | 3,800 (12 Month) | 3,070 | 3,983 | +23.8% | -4.6% |
| 08/19/2020 | Buy | 3,800 (12 Month) | 3,050 | 3,926 | +24.6% | -3.2% |

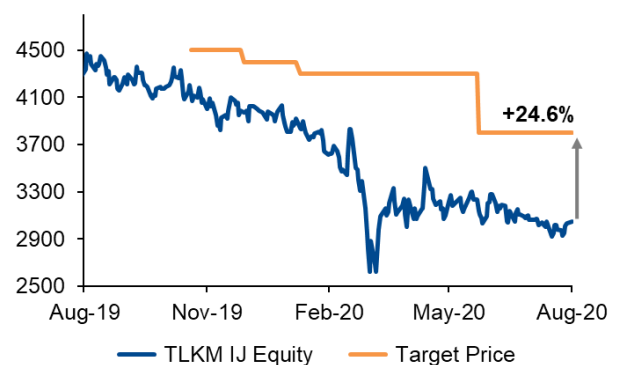
Source: NHKSI Research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKSI Research

NH Korindo Sekuritas Indonesia (NHKSI) 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%

Financial Summary

INCOME STATEMENT

| (IDR bn) | 2018/12 | 2019/12 | 2020/12E | 2021/12F |
|--------------------------|----------------|----------------|----------------|----------------|
| Revenue | 130,784 | 135,567 | 138,685 | 148,592 |
| <i>Growth</i> | 2.0% | 3.7% | 2.3% | 7.1% |
| COGS | - | - | - | - |
| Gross Profit | 130,784 | 135,567 | 138,685 | 148,592 |
| <i>Gross Margin</i> | - | - | - | - |
| Operating Expenses | (91,939) | (93,087) | (94,306) | (101,043) |
| EBIT | 38,845 | 42,480 | 44,379 | 47,550 |
| <i>EBIT Margin</i> | 29.7% | 31.3% | 32.0% | 32.0% |
| Depreciation | 21,406 | 21,511 | 25,281 | 27,931 |
| EBITDA | 60,251 | 63,991 | 69,660 | 75,480 |
| <i>EBITDA Margin</i> | 46.1% | 47.2% | 50.2% | 50.8% |
| Interest Expenses | (2,440) | (4,572) | (4,414) | (4,610) |
| EBT | 36,405 | 37,908 | 39,965 | 42,940 |
| Income Tax | (9,426) | (10,316) | (10,876) | (11,685) |
| Minority Interest | (8,947) | (8,929) | (9,540) | (10,192) |
| Net Profit | 18,032 | 18,663 | 19,550 | 21,062 |
| <i>Growth</i> | -18.6% | 1.7% | 4.8% | 7.7% |
| <i>Net Profit Margin</i> | 13.8% | 13.8% | 14.1% | 14.2% |

BALANCE SHEET

| (IDR bn) | 2018/12 | 2019/12 | 2020/12E | 2021/12F |
|-----------------------------|----------------|----------------|----------------|----------------|
| Cash | 18,267 | 18,513 | 18,450 | 22,947 |
| Receivables | 11,414 | 11,797 | 14,639 | 15,685 |
| Inventories | 717 | 585 | 721 | 770 |
| Total Current Assets | 43,268 | 41,722 | 44,885 | 51,269 |
| Net Fixed Assets | 143,248 | 156,973 | 165,692 | 175,761 |
| Other Non Current Assets | 19,680 | 22,513 | 23,031 | 24,676 |
| Total Assets | 206,196 | 221,208 | 233,608 | 251,706 |
| Payables | 29,163 | 31,513 | 32,751 | 35,400 |
| ST Bank Loan | 10,339 | 18,215 | 19,300 | 21,501 |
| LT Debt | 33,748 | 33,869 | 35,887 | 39,979 |
| Total Liabilities | 88,893 | 103,958 | 108,767 | 119,197 |
| Capital Stock | 7,408 | 7,664 | 7,664 | 7,664 |
| Retained Earnings | 90,995 | 91,489 | 97,502 | 103,451 |
| Shareholders' Equity | 117,303 | 117,250 | 124,841 | 132,509 |

CASH FLOW STATEMENT

| (IDR bn) | 2018/12 | 2019/12 | 2020/12E | 2021/12F |
|----------------------------|-----------------|--------------|-------------|--------------|
| Operating Cash Flow | 32,724 | 46,198 | 43,041 | 50,387 |
| Investing Cash Flow | (33,411) | (38,069) | (34,518) | (39,645) |
| Financing Cash Flow | (15,701) | (5,844) | (8,587) | (6,244) |
| Net Changes in Cash | (16,388) | 2,285 | (63) | 4,498 |

Source: Company Data, NHKSI Research

PROFITABILITY & STABILITY

| | 2018/12 | 2019/12 | 2020/12E | 2021/12F |
|------------------------|---------|---------|----------|----------|
| ROE | 15.4% | 15.9% | 15.7% | 15.9% |
| ROA | 8.7% | 8.4% | 8.4% | 8.4% |
| ROIC | 17.8% | 18.3% | 17.9% | 17.8% |
| Cash Dividend (IDR bn) | 16,609 | 16,229 | 13,537 | 15,112 |
| Dividend Yield | 4.5% | 4.3% | 3.6% | 4.0% |
| Payout Ratio | 92.1% | 87.0% | 69.2% | 71.8% |
| DER | 37.6% | 44.4% | 44.2% | 46.4% |
| Net Gearing | 0.4 | 0.5 | 0.5 | 0.6 |
| LT Debt to Equity | 28.8% | 28.9% | 28.7% | 30.2% |
| Capitalization Ratio | 27.3% | 30.8% | 30.7% | 31.7% |
| Equity Ratio | 56.9% | 53.0% | 53.4% | 52.6% |
| Debt Ratio | 21.4% | 23.5% | 23.6% | 24.4% |
| Financial Leverage | 176.4% | 182.2% | 187.9% | 188.6% |
| Current Ratio | 93.5% | 71.5% | 73.7% | 77.2% |
| Par Value (IDR) | 50 | 50 | 50 | 50 |
| Total Shares (mn) | 99,062 | 99,062 | 99,062 | 99,062 |
| Share Price (IDR) | 3,750 | 3,830 | 3,800 | 3,800 |
| Market Cap (IDR tn) | 371.5 | 379.4 | 376.4 | 376.4 |

VALUATION INDEX

| | 2018/12 | 2019/12 | 2020/12E | 2021/12F |
|-------------------|---------|---------|----------|----------|
| Price/Earnings | 20.6x | 20.3x | 19.3x | 17.9x |
| Price/Book Value | 3.2x | 3.2x | 3.0x | 2.8x |
| Price/Sales | 2.8x | 2.8x | 2.7x | 2.5x |
| PE/EPS Growth | -1.1x | 12.3x | 4.1x | 2.3x |
| EV/EBITDA | 6.6x | 6.5x | 5.6x | 5.2x |
| EV/EBIT | 10.2x | 9.7x | 8.8x | 8.2x |
| EV (IDR bn) | 397,303 | 412,979 | 390,389 | 392,185 |
| Sales CAGR (3-Yr) | 8.5% | 5.2% | 2.6% | 4.3% |
| EPS CAGR (3-Yr) | 5.2% | -1.2% | -4.1% | 5.3% |
| Basic EPS (IDR) | 182 | 188 | 197 | 213 |
| Diluted EPS (IDR) | 182 | 188 | 197 | 213 |
| BVPS (IDR) | 1,184 | 1,184 | 1,260 | 1,338 |
| Sales PS (IDR) | 1,320 | 1,369 | 1,400 | 1,500 |
| DPS (IDR) | 168 | 164 | 137 | 153 |

OWNERSHIP

| By Geography | % Shareholders | % |
|---------------|----------------|------------------------|
| Indonesia | 71.8 | Rep. of Indonesia 52.1 |
| United States | 14.3 | Bank of New York 4.5 |
| Luxembourg | 4.9 | Vanguard Group Inc 1.7 |
| Ireland | 2.2 | Blackrock 1.2 |

DISCLAIMER

This report and any electronic access hereto are restricted and intended only for the clients and related entity of PT NH Korindo Sekuritas Indonesia. This report is only for information and recipient use. It is not reproduced, copied, or made available for others. Under no circumstances is it considered as a selling offer or solicitation of securities buying. Any recommendation contained herein may not be suitable for all investors. Although the information here is obtained from reliable sources, its accuracy and completeness cannot be guaranteed. PT NH Korindo Sekuritas Indonesia, its affiliated companies, respective employees, and agents disclaim any responsibility and liability for claims, proceedings, action, losses, expenses, damages, or costs filed against or suffered by any person as a result of acting pursuant to the contents hereof. Neither is PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, nor agents liable for errors, omissions, misstatements, negligence, inaccuracy arising herefrom.

All rights reserved by PT NH Korindo Securities Indonesia