

Wednesday, 7 August 2019

**BUY**  
**Maintain**

Last price (IDR)	4,280
Target Price (IDR)	5,100
Upside/Downside	+19.2%
Previous Target Price (IDR)	5,100

#### Stock Statistics

Sector	Telco
Bloomberg Ticker	TLKM JJ
No of Shrs (mn)	100,800
Mkt. Cap (IDRbn/USDmn)	431,424/30,414
Avg. daily T/O (IDRbn/USDmn)	318.6/22.5

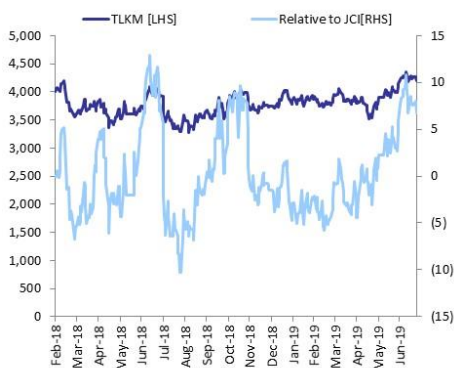
#### Major shareholders (%)

Indonesian Govt.	52.1
Bank of New York Mellon Corp.	5.5
Estimated free float	47.9

#### EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	218.6	241.9	261.0
Consensus	217.3	243.1	261.2
Danareksa/Cons	0.6	(0.5)	(0.1)

#### TLKM relative to JCI Index



Source : Bloomberg



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## Telkom Indonesia (TLKM JJ)

### Meeting takeaways - Upbeat on 2H19

The Telkom IR team is optimistic that the company can cater to the large number of 3G & 4G-ready users expected to convert to 4G which would drive volumes and ARPU. Enterprise revenues for 2H19 are set to reverse from -ve to +ve growth. Fiber investments, meanwhile, should ramp up in 2H19 to sustain network quality and provide better access for households and B2B users.

**TSEL to source growth from key pools of users.** Reiterating the 1H19 concall message, TSEL's strategy has shifted toward a focus on improving ARPU. The subscriber migration from 3G to 4G will result in higher usage and increasing ARPU. We understand that TSEL has a pool of 50mn users who may imminently convert to 4G (with a 2-3mn subs/month conversion ratio). Another pool of data users (~57mn) are still left to migrate from legacy services to data – the majority being in ex-Java areas. From this migration process, TSEL seeks to harness productive ARPU users and naturally consolidate its sim-card and subscriber base.

**The positive market outlook bodes well for sector profitability.** Unlimited usage offerings from its peers may persist, but their intensity and pressure on pricing is seen as being stable/unchanged, even if data yields decline in 2Q19. In this environment TSEL sees 3-4% FY19 growth and even above 5% growth if prices can improve. Also, sim-card consolidation keeps sales costs in check with TSEL achieving low-mid 50s EBITDA margins.

**Larger capex in 2H; the Group still has solid potential.** Cellular network utilization is well managed as heavy investments for backbone, tower fiberization and IT systems are due in 2H19 (22% capex/sales in 1H19 to intensify to 27% in FY19). Indihome will continue to benefit from fiber capex with the total number of subscribers expected to reach 7mn (6mn in 1H19). There are projects in the pipeline to help the enterprise segment achieve positive growth in FY19 of +6-9% YoY (-11%YoY in 1H19). This segment should also benefit from higher margin business (data centers, big data etc). All in all, the group is expected to achieve a 47% FY19 EBITDA margin.

**TSEL upbeat on digital services.** TSEL posted 1H19 digital services revenues of Rp28tn (+32%YoY), from which gaming/OTT/advertising constitutes 8.2% of that figure. TSEL is upbeat in gaming carrying exclusivity in titles, while it intends to become a game and content aggregator for its captive market. The margins are still thin but serve to drive data volume and ARPU. LinkAja is considered the latest major initiative for daily/recurring emoney use to drive migration to 4G. TSEL sees no impact from IMEI device control as it applies for new devices, although implementation may not take place before 2020.

**Maintain BUY.** We remain upbeat on TLKM as TSEL is expected to turn to positive growth, while non mobile segments will add to that trend. Maintain BUY on the stock with a TP of IDR5,100.

#### Key Financials

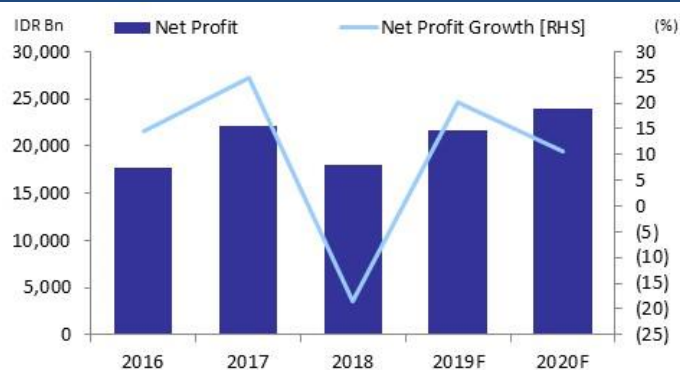
Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	128,256	130,784	142,602	155,915	167,533
EBITDA (IDRbn)	64,609	59,181	65,248	72,171	78,398
EBITDA Growth (%)	11.6	(8.4)	10.3	10.6	8.6
Net profit (IDRbn)	22,145	18,032	21,651	23,964	25,853
EPS (IDR)	223.5	182.0	218.6	241.9	261.0
EPS growth (%)	24.8	(18.6)	20.1	10.7	7.9
BVPS (IDR)	935.9	998.5	1,083.5	1,209.0	1,335.6
DPS (IDR)	136.7	167.7	163.8	163.9	181.4
PER (x)	19.0	23.3	19.4	17.5	16.2
PBV (x)	4.5	4.2	3.9	3.5	3.2
Dividend yield (%)	3.2	4.0	3.9	3.9	4.3
EV/EBITDA (x)	6.7	7.5	6.8	6.1	5.6

**Exhibit 1. Revenues and Growth**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. Net Profits and Growth**



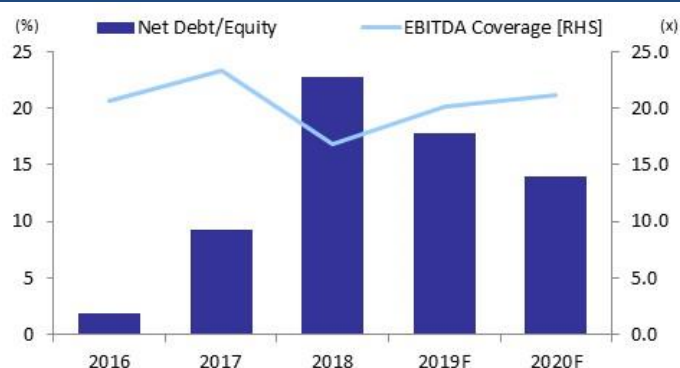
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. Margins**



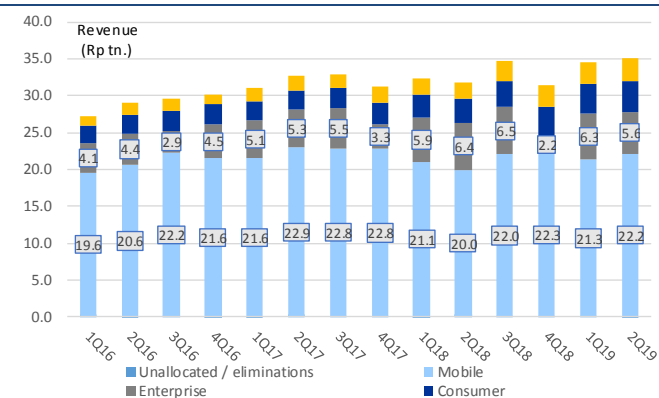
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. Gearing Level**



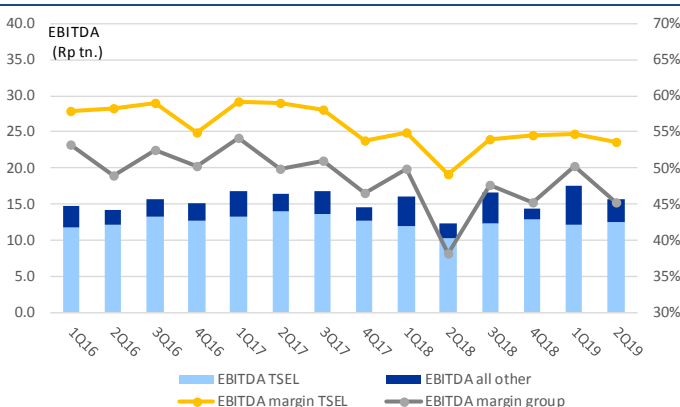
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. Quarterly Revenue breakdown by segment**

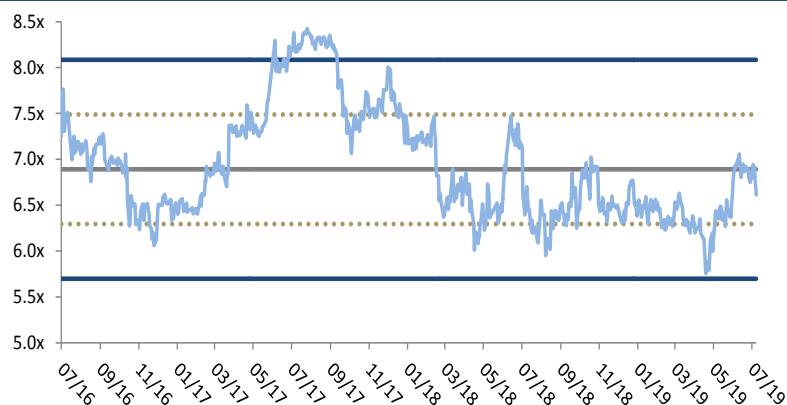


Source: Company, Danareksa Sekuritas estimates

**Exhibit 6. Quarterly EBITDA breakdown Mobile vs. non Mobile**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 7. TLKM Forward EV/EBITDA Band Chart**


Source: Bloomberg, Danareksa Sekuritas estimates

**Exhibit 8. Telkom Group P&L statement**

<i>Rp bn</i>	1Q19	2Q19	QoQ, %	YoY, %	1H18	1H19	YoY, %	2019F	Achiev, %
<b>Operating Revenue</b>	<b>34,840</b>	<b>34,505</b>	<b>(1.0)</b>	<b>7.7</b>	<b>64,368</b>	<b>69,345</b>	<b>7.7</b>	<b>142,602</b>	<b>49</b>
<b>Total Operating Expense</b>	<b>(22,631)</b>	<b>(24,504)</b>	<b>8.3</b>	<b>(1.2)</b>	<b>(46,268)</b>	<b>(47,135)</b>	<b>1.9</b>		
O&M	(10,709)	(11,081)	3.5	(4.8)	(21,883)	(21,790)	(0.4)		
D&A	(5,462)	(6,005)	9.9	21.1	(10,331)	(11,467)	11.0		
Personnel	(3,132)	(3,356)	7.2	(16.1)	(7,035)	(6,488)	(7.8)		
Marketing	(907)	(1,085)	19.6	(0.3)	(1,958)	(1,992)	1.7		
Others	(2,421)	(2,977)	23.0	(4.5)	(5,061)	(5,398)	6.7		
G&A	(1,294)	(1,920)	48.4	(6.1)	(3,294)	(3,214)	(2.4)		
Interconnection	(1,268)	(1,469)	15.9	43.0	(1,855)	(2,737)	47.5		
Other expense	(177)	(190)	7.3	(23.4)	(411)	(367)	(10.7)		
Other income	363	613	68.9	240.6	483	976	102.1		
Forex loss	(45)	(11)	(75.6)	(152.4)	16	(56)	n/a		
<b>Operating Profit</b>	<b>12,209</b>	<b>10,001</b>	<b>(18.1)</b>	<b>38.5</b>	<b>18,100</b>	<b>22,210</b>	<b>22.7</b>		
Operating margin (%)	35	29	(6.1)	6.4	28	32	3.9		
<b>EBITDA</b>	<b>17,530</b>	<b>15,594</b>	<b>(11.0)</b>	<b>27.5</b>	<b>28,343</b>	<b>33,124</b>	<b>16.9</b>	<b>65,248</b>	<b>51</b>
EBITDA margin (%)	50	45	(5.1)	7.0	44	48	3.7	45.8	
Total other income (expenses)	(700)	(672)	(4.0)	18.9	(911)	(1,372)	50.6		
Net interest income	(720)	(693)	(3.8)	19.5	(940)	(1,413)	50.3		
Other income	20	21	5.0	40.0	29	41	41.4		
<b>Pre-tax profit</b>	<b>11,509</b>	<b>9,329</b>	<b>(18.9)</b>	<b>40.1</b>	<b>17,189</b>	<b>20,838</b>	<b>21.2</b>		
Tax	(2,825)	(2,515)	(11.0)	37.6	(4,382)	(5,340)	21.9		
Minority interest	(2,280)	(2,140)	(6.1)	14.7	(4,109)	(4,420)	7.6		
<b>Net profit</b>	<b>6,404</b>	<b>4,674</b>	<b>(27.0)</b>	<b>57.7</b>	<b>8,698</b>	<b>11,078</b>	<b>27.4</b>	<b>21,651</b>	<b>51</b>
Net profit margin (%)	18	14	(4.8)	4.3	14	16	2.5	15.2	
Capex	7,261	7,866	-	-	14,100	15,127	-		
Capex intensity (%)	21	23	-	-	22	22	-		

Source : Telkom & Danareksa Sekuritas

**Exhibit 9. Telkom group Segment revenue breakdown**

<i>(Rp bn)</i>	1Q19	2Q19	QoQ, %	YoY, %	1H18	1H19	QoQ, %
<b>Operating Revenue</b>	<b>34,840</b>	<b>34,505</b>	<b>(1.0)</b>	<b>7.7</b>	<b>64,368</b>	<b>69,345</b>	<b>7.7</b>
Mobile	21,332	22,191	4.0	11.2	41,022	43,523	6.1
Consumer	4,079	4,280	4.9	29.3	6,415	8,359	30.3
Enterprise	6,321	5,621	(11.1)	(11.7)	12,317	11,942	(3.0)
Wholesale Int. Business (WIB)	2,918	3,065	5.0	45.3	4,348	5,983	37.6
Unallocated / eliminations	190	(652)	(443.2)	(330.4)	266	(462)	(273.7)

Source : Telkom & Danareksa Sekuritas

**Exhibit 10. Telkom group operational KPIs**
**Telkom operational data**

<i>Operational Data</i>	2Q18	1Q19	2Q19	QoQ, %	YoY, %	1H18	1H19	QoQ, %
<b>Mobile segment (mn)</b>								
Cellular Subscribers	177.9	168.6	167.8	(0.5)	(12.5)	178	168	(5.7)
Data users	134.7	111.1	111.2	0.1	2.2	135	111	(17.4)
<b>Data KPIs</b>								
Data Traffic (Petabytes)	1,044	1,409	1,623	15.2	56.6	1,944	3,032	56.0
Average data usage (In gb)	2.9	4.3	4.9	12.8	54.4	-	-	n/a
Data Yield Rp('000)	10.3	9.7	8.9	(7.8)	(17.3)	-	-	n/a
<b>Legacy KPIs</b>								
MoU (Total / Bn Minutes)	52.2	47.7	43.7	(8.4)	(7.7)	104	92	(11.9)
SMS (Total / Bn Units)	20.3	14.6	14.1	(3.4)	(37.1)	44	29	(34.0)
<b>ARPU Blended (Rp'000/month)</b>	<b>36</b>	<b>45</b>	<b>47</b>	<b>4.4</b>	<b>29.9</b>	<b>36</b>	<b>46</b>	<b>29.2</b>
<b>Network KPIs ('000)</b>								
4G BTS	43.1	65.1	71.8	10.3	85.3	43	72	66.4
3G BTS	82.2	82.1	82.1	(0.0)	(0.1)	82	82	(0.1)
2G BTS	50.3	50.3	50.3	0.0	(0.0)	50	50	(0.0)
3G/4G	125.4	147.2	153.9	4.6	25.4	125	154	22.8
Total BTS	175.7	197.5	204.2	3.4	17.8	176	204	16.2
<b>Fixed broadband segment</b>								
Fixed Broadband ('000)	6.3	7.5	8.0	5.8	31.1	6.3	8.0	26.1
of which Indihome (mn)	4.1	5.5	6.0	8.7	57.7	4.1	6.0	45.1
Indihome ARPU (Rp'000/month)	251	265	260	(1.9)	5.6	-	-	-

Source : Telkom &amp; Danareksa Sekuritas

### Exhibit 11. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
<b>Revenue</b>	<b>128,256</b>	<b>130,784</b>	<b>142,602</b>	<b>155,915</b>	<b>167,533</b>
COGS	(70,723)	(80,323)	(87,785)	(95,927)	(103,518)
<b>Gross profit</b>	<b>57,533</b>	<b>50,461</b>	<b>54,817</b>	<b>59,988</b>	<b>64,016</b>
<b>EBITDA</b>	<b>64,609</b>	<b>59,181</b>	<b>65,248</b>	<b>72,171</b>	<b>78,398</b>
<b>Oper. Profit</b>	<b>43,933</b>	<b>38,845</b>	<b>41,990</b>	<b>45,905</b>	<b>48,871</b>
Interest income	1,434	1,014	1,368	1,709	1,994
Interest expense	(2,769)	(3,507)	(3,233)	(3,406)	(3,454)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	61	53	56	58	61
Other Income (Expenses)	0	0	0	0	0
<b>Pre-tax profit</b>	<b>42,659</b>	<b>36,405</b>	<b>40,180</b>	<b>44,265</b>	<b>47,473</b>
Income tax	(9,958)	(9,426)	(10,045)	(11,066)	(11,868)
Minority interest	(10,556)	(8,947)	(8,484)	(9,235)	(9,751)
<b>Net profit</b>	<b>22,145</b>	<b>18,032</b>	<b>21,651</b>	<b>23,964</b>	<b>25,853</b>
<b>Core Net Profit</b>	<b>22,145</b>	<b>18,032</b>	<b>21,651</b>	<b>23,964</b>	<b>25,853</b>

### Exhibit 12. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	25,145	17,439	25,532	29,137	33,007
Receivables	9,222	11,414	11,250	12,301	13,217
Inventory	631	717	735	804	863
Other Curr. Asset	10,390	12,394	12,421	13,581	14,593
Fixed assets - Net	130,171	143,248	156,015	169,189	182,742
Other non-curr.asset	20,752	19,680	20,216	19,948	20,082
<b>Total asset</b>	<b>198,484</b>	<b>206,196</b>	<b>229,075</b>	<b>247,204</b>	<b>266,658</b>
ST Debt	7,498	10,339	14,044	14,255	14,370
Payables	15,574	14,766	16,541	18,085	19,433
Other Curr. Liabilities	22,304	21,156	23,831	25,980	27,957
Long Term Debt	27,974	33,748	34,254	34,768	35,290
Other LT. Liabilities	13,004	8,884	10,944	9,914	10,429
<b>Total Liabilities</b>	<b>86,354</b>	<b>88,893</b>	<b>99,614</b>	<b>103,002</b>	<b>107,477</b>
Shareholder's Funds	92,713	98,910	107,337	119,769	132,310
Minority interests	19,417	18,393	20,514	22,823	25,260
<b>Total Equity &amp; Liabilities</b>	<b>198,484</b>	<b>206,196</b>	<b>227,465</b>	<b>245,594</b>	<b>265,048</b>

### Exhibit 13. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	22,145	18,032	21,651	23,964	25,853
Depreciation and Amort.	20,446	21,406	24,260	27,268	30,529
Change in Working Capital	(934)	(5,369)	2,966	2,076	1,428
Other Oper. Cash Flow	(15,632)	2,493	1,866	1,697	1,459
<b>Operating Cash Flow</b>	<b>26,025</b>	<b>36,562</b>	<b>50,743</b>	<b>55,006</b>	<b>59,270</b>
Capex	(19,152)	(13,193)	(35,654)	(38,920)	(42,410)
Others Inv. Cash Flow	(1,906)	2,086	832	1,977	1,860
<b>Investing Cash Flow</b>	<b>(21,058)</b>	<b>(11,107)</b>	<b>(34,822)</b>	<b>(36,944)</b>	<b>(40,550)</b>
Net change in debt	8,739	4,495	6,271	(306)	1,151
New Capital	0	(2,563)	0	0	0
Dividend payment	(13,546)	(16,609)	(16,230)	(16,238)	(17,973)
Other Fin. Cash Flow	(4,782)	2,806	3,503	3,608	3,645
<b>Financing Cash Flow</b>	<b>(9,589)</b>	<b>(11,871)</b>	<b>(6,455)</b>	<b>(12,935)</b>	<b>(13,177)</b>
<b>Net Change in Cash</b>	<b>(4,622)</b>	<b>13,584</b>	<b>9,465</b>	<b>5,128</b>	<b>5,543</b>
Cash - begin of the year	29,767	25,145	17,439	25,532	29,137
Cash - end of the year	25,145	17,439	25,532	29,137	33,007

### Exhibit 14. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
<b>Growth (%)</b>					
Sales	11.8	2.0	9.0	9.3	7.5
EBITDA	11.6	(8.4)	10.3	10.6	8.6
Operating profit	16.9	(11.6)	8.1	9.3	6.5
Net profit	24.8	(18.6)	20.1	10.7	7.9
<b>Profitability (%)</b>					
Gross margin	44.9	38.6	38.4	38.5	38.2
EBITDA margin	50.4	45.3	45.8	46.3	46.8
Operating margin	34.3	29.7	29.4	29.4	29.2
Net margin	17.3	13.8	15.2	15.4	15.4
ROAA	11.7	8.9	9.9	10.1	10.1
ROAE	25.0	18.8	21.0	21.1	20.5
<b>Leverage</b>					
Net Gearing (x)	0.1	0.2	0.2	0.1	0.1
Interest Coverage (x)	15.9	11.1	13.0	13.5	14.1

Source : TLKM, Danareksa Estimates

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