

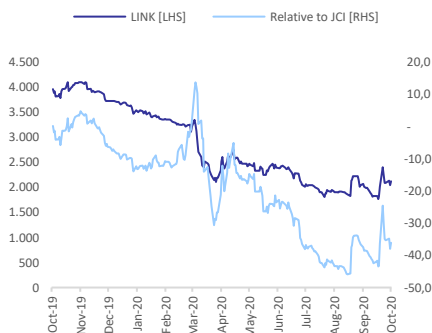
Wednesday, 14 October 2020  
**Not Rated**

Last price (IDR)	2,120
<b>Stock Statistics</b>	
Sector	Telco
Bloomberg Ticker	LINK
No of Shrs (mn)	2,751
Mkt. Cap (IDRbn/USDmn)	5.84/389
Avg. daily T/O (IDRbn/USDmn)	5.95/0.41

**Major shareholders (%)**

Asia Link Dewa Pte Ltd	36.99
PT First Media Tbk	29.04
Estimated free float	33.97

**LINK relative to JCI Index**



Source : Bloomberg



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# Link Net (LINK)

## Share price recovery due

From our virtual meeting with LINK’s CEO and its management we noted the company’s determination to drive subscriber & ARPU growth by further strengthening the quality of its network & customer service. We expect to see decelerating homepass additions as the company focuses solely on network migration off PLN poles. Addressing key risks, we see share price recovery is due.

**LINK’s new “Big Sister” called Sally.** LINK delivered sequential qtr subscriber growth of +7.1%qoq, still adding 54k net subs at a higher level. LINK stands tall facing its main competitor Indihome, boasting strong customer service e.g. 3-4hrs response time to network issues, a 24hr call center and dedicated lines. A pick-up in the 1Q20 churn rate to 2.6-2.7% has normalized back to guided churn of 2.4% in 2Q20 & 3Q20 balanced by strong gross adds in these last 2 quarters. Sally, LINK’s revamped CRM program, encompasses LINK’s already strong customer-oriented approach and significantly higher effort from sales workforce of #2,276 (+28% from a year ago), showing solid results in subscriber pick-up and churn rate.

LINK claims to have done well despite the pandemic with +50% growth in traffic (cagr @34% 2010-20), handling pressures from OTT consumption and W/SFH. The company operates at +60% capacity utilization, and welcomes more OTT providers streaming through First Media. Cord-cutting trends have not affected LINK’s pay-TV sales, as bundling sales with the Fixed BB are as high as ever at a 96.6% rate.

**Turning in more revenues with Sally.** LINK added more homepasses (HP) in 3Q20 (+30,700 to reach 2,651,761 total HP). While the new 54k subs came in from penetrating existing and new HPs driving HP penetration to 30.8%. LINK thus far has added 183k new homepasses ytd in 9M20 increasing its new coverage in Central Java. LINK is further optimizing its already aggressive CRM model with Sally, employing new tactics and data analytics pooled by on-the-ground teams. This latest expansion weighed on LINK’s ARPU which trended down to Rp369k but we are confident that it will recover to ~Rp400k as the latest subscriber adds mature.

**LINK’s share price recovery is due with a focus on network migration.** After a period of accelerated expansion in home passes, we now expect a significant slowdown in HP adds as LINK now focuses on network migration. In the last months of 2019 LINK was plagued with uncertainty over whether it could negotiate network pole sharing contract renewal with PLN (50% of LINK’s network relies on these poles), and its share price suffered +100% devaluation since then. Now, however, LINK has reversed the trend having a new 2yr PLN contract in place till 2022 (although 2x more expensive). We understand there are 2 checkpoints in the agreement timeline until 2022 in which the migration progress will be evaluated.

**Growth and no imminent risks.** LINK aims to be network self-reliant as the pole sharing agreement is expensive and there is the underlying risk of not getting it extended. LINK will need to spend Rp3tn in capex in this process till 2022 incurring debt, expecting, however, a comfortable leverage position based on LINK’s profits. As we expect more subs and ARPU growth in the coming quarters, and having addressed the potential risks, we see no reason why LINK’s valuation cannot recover to at least halfway to 2019’s levels.

**Key Financials**

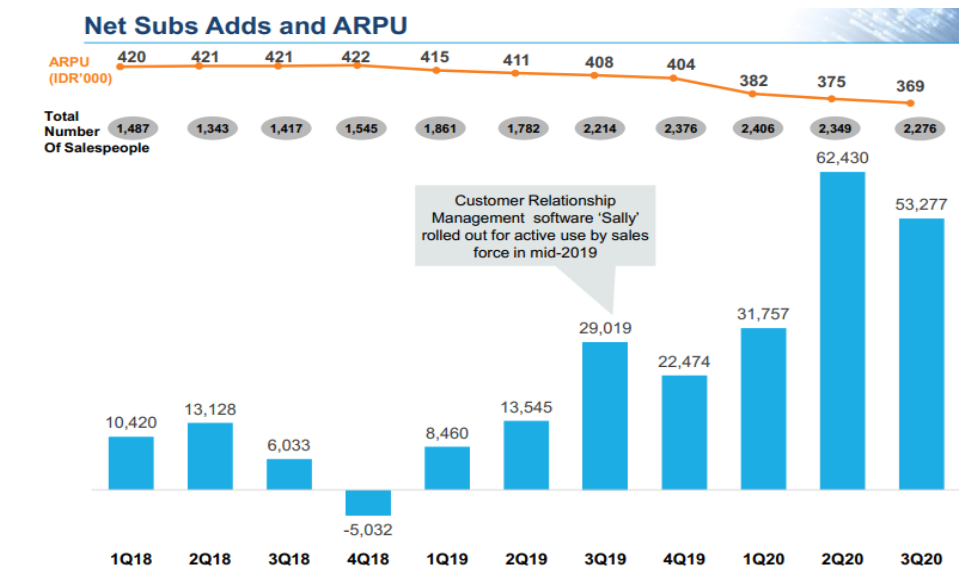
Year to 31 Dec (IDRbn)	2017	2018	2019	1H19	1H20
Revenue (IDRbn)	3,399	3,728	3,755	1,806	1,930
EBITDA (IDRbn)	2,001	1,863	2,166	1,080	1,059
EBITDA Growth (%)	16	(7)	16	(1)	(2)
Net profit (IDRbn)	1,007	895	895	527	456
EPS (IDR)	366	287	325	192	166
EPS growth (%)	23	(22)	13	(33)	(13)
BVPS (IDR)	1,644.2	1,726.7	1,692.3	1,629.0	1,568.4
DPS (IDR)	104	183	245	245	-
PER (x)	5.8	7.4	6.5	5.5	6.4
PBV (x)	0.6	0.6	0.6	0.7	0.7
Dividend yield (%)	4.9	8.6	11.6	11.6	-
EV/EBITDA (x)	3.2	3.5	3.0	3.0	3.0

### Exhibit 2. Link Net (LINK IJ) 3Q20 operational KPIs

	3Q19	2Q20	3Q20	Δ% qoq	Δ% yoy
<b>Operating KPIs ('000)</b>					
BB Internet subscribers	646	762	816	7.1	26.3
Net Subs adds	29	62	54	(13.0)	84.4
Subscriber Churn rate (%)	2.50	2.40	2.42	0.0	(0.1)
ARPU (IDR'000)	408	375	369	(1.6)	(9.6)
Home passes (HPs)	2,397	2,621	2,652	1.2	10.6
Net HP adds	85	79	31	(61.1)	(63.7)
HomePass Penetration (%)	27.0	29.1	30.8	1.7	3.8

Source : Linknet

### Exhibit 3. Link Net (LINK IJ) Subscribers additions & ARPU development



Source : Linknet

#### Exhibit 4. Income Statement

Year to 31 Dec (IDRbn)	2017	2018	2019	1H19	1H20
<b>Revenue</b>	<b>3,399</b>	<b>3,728</b>	<b>3,755</b>	<b>1,806</b>	<b>1,930</b>
COGS	(707)	(775)	(748)	(334)	(404)
<b>Gross profit</b>	<b>2,693</b>	<b>2,954</b>	<b>3,008</b>	<b>1,472</b>	<b>1,527</b>
<b>EBITDA</b>	<b>2,001</b>	<b>1,863</b>	<b>2,166</b>	<b>1,080</b>	<b>1,059</b>
<b>Oper. profit</b>	<b>1,357</b>	<b>1,144</b>	<b>1,281</b>	<b>702</b>	<b>635</b>
Interest income	25	36	19	13	7
Interest expense	(43)	(60)	(59)	(15)	(58)
Forex Gain/(Loss)	-	-	-	(0)	-
Income From Assoc. Co's	-	-	-	-	-
Other Income (Expenses)	-	-	-	1	-
<b>Pre-tax profit</b>	<b>1,339</b>	<b>1,120</b>	<b>1,240</b>	<b>700</b>	<b>584</b>
Income tax	(332)	(332)	(346)	(173)	(128)
Minority interest	0	-	-	-	-
<b>Net profit</b>	<b>1,007</b>	<b>789</b>	<b>895</b>	<b>527</b>	<b>456</b>
<b>Core Net Profit</b>	<b>1,007</b>	<b>789</b>	<b>1005</b>	<b>527</b>	<b>456</b>

#### Exhibit 5. Balance Sheet

Year to 31 Dec (IDRbn)	2017	2018	2019	1H19	1H20
Cash & cash equivalent	766	600	298	296	695
Receivables	399	408	513	487	532
Inventory	0	0	0	0	0
Other Curr. Asset	69	70	87	93	151
Fixed assets - Net	4,117	4,568	4,994	4,715	5,287
Other non-curr.asset	415	378	760	511	893
<b>Total asset</b>	<b>5,766</b>	<b>6,024</b>	<b>6,653</b>	<b>6,102</b>	<b>7,558</b>
ST Debt	37	43	471	247	552
Payables	887	1,002	886	477	1,361
Other Curr. Liabilities	45	42	56	392	403
Long Term Debt	94	58	420	381	755
Other LT. Liabilities	179	128	164	124	172
<b>Total Liabilities</b>	<b>1,242</b>	<b>1,273</b>	<b>1,997</b>	<b>1,620</b>	<b>3,243</b>
Shareholder's Funds	4,524	4,751	4,656	4,482	4,316
Minority interests	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>5,766</b>	<b>6,024</b>	<b>6,653</b>	<b>6,102</b>	<b>7,558</b>

### Exhibit 6. Cash Flow

Year to 31 Dec (IDRbn)	2017	2018	2019	1H19	1H20
Net income	1,007	789	895	527	456
Depreciation and Amort.	644	719	775	378	426
Change in Working Capital	-111	214	88	-252	172
Other Oper. Cash Flow	0	0	0	0	0
<b>Operating Cash Flow</b>	<b>1,540</b>	<b>1,722</b>	<b>1,758</b>	<b>654</b>	<b>1,055</b>
Capex	-971	-1,116	-1,724	-684	-726
Others Inv. Cash Flow	0	0	-70	0	0
<b>Investing Cash Flow</b>	<b>-971</b>	<b>-1,116</b>	<b>-1,794</b>	<b>-684</b>	<b>-726</b>
Net change in debt	-49	-39	753	529	413
New Capital	-15	-224	-310	-122	-305
Dividend payment	-286	-503	-674	-674	0
Other Fin. Cash Flow	0	-6	-35	-7	-40
<b>Financing Cash Flow</b>	<b>-351</b>	<b>-772</b>	<b>-265</b>	<b>-274</b>	<b>68</b>
<b>Net Change in Cash</b>	<b>219</b>	<b>-166</b>	<b>-302</b>	<b>-304</b>	<b>397</b>
Cash - begin of the year	547	766	600	600	298
Cash - end of the year	766	600	298	296	695

### Exhibit 7. Key Ratios

Year to 31 Dec (IDRbn)	2017	2018	2019	1H19	1H20
<b>Growth (%)</b>					
Sales	15.1	9.7	0.7	(2.1)	6.9
EBITDA	15.9	(6.9)	16.3	(0.9)	(1.9)
Operating profit	21.0	-15.7	11.9	(4.8)	(9.5)
Net profit	23.1	-21.7	13.4	(3.6)	(13.5)
<b>Profitability (%)</b>					
Gross margin	79.2	79.2	80.1	81.5	79.1
EBITDA margin	58.9	50.0	57.7	59.8	54.9
Operating margin	0.0	0.0	34.1	38.9	32.9
Net margin	0.0	0.0	23.8	29.2	23.6
ROAA	18.6	13.4	14.1	16.5	12.8
ROAE	23.7	17.0	19.0	23.1	20.3
<b>Leverage</b>					
Net Gearing (x)	(0.1)	(0.1)	0.1	0.1	0.1
Interest Coverage (x)	31.6	19.2	21.6	46.6	10.9

Source : Linknet

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