

Wednesday, 13 January 2021

BUY
Maintain

Last price (IDR) 3,510
Target Price (IDR) 4,600
Upside/Downside +31.1%
Previous Target Price (IDR) 3,800

Stock Statistics

Sector Telco
Bloomberg Ticker TLKM IJ
No of Shrs (mn) 100,800
Mkt. Cap (IDRbn/USDmn) 353,808/25,039
Avg. daily T/O (IDRbn/USDmn) 535.0/37.9

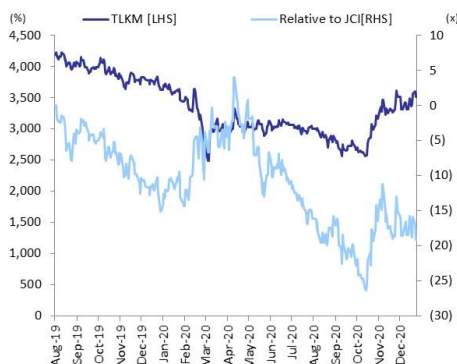
Major shareholders (%)

Indonesian Govt. 52.1
Estimated free float 47.9

EPS Consensus (IDR)

	2020F	2021F	2022F
Danareksa	208.5	247.4	266.5
Consensus	207.9	221.2	243.1
Danareksa/Cons	0.3	11.8	9.6

TLKM relative to JCI Index



Source : Bloomberg



Niko Margaronis

(62-21) 5091 4100 ext. 3512

niko.margaronis@danareksa.co.id

Telkom Indonesia(TLKM IJ)

Sustainable layers of growth – Call takeaways

Telkom offered a positive preview of its 4Q20 performance. Tsel improved in 4Q seizing upon the data opportunities. While Indihome and the Consumer segment followed a sustainable growth path, recovery is due in the Enterprise segment. The group will experience cost hiccups in 4Q20 affecting FY20 margins, but this will not change our view. Strong BUY maintained.

Controlling the mobile traffic, achieving a turnaround in 4Q20. At this juncture, volume growth is the only way to achieve mobile growth in the short-medium term. 4Q20 offered volume opportunities from the school subsidies and year-end festivities, which Tsel apparently exploited to the fullest extent, driving its 4Q20 quarterly revenues growth. The school subsidies generated extraordinary data volumes which pushed wholesale data traffic higher, implying that the telco peers resorted to bandwidth leases from Telkom to address a surge in volumes. Nonetheless, we were assured that Tsel was able to capture majority of the volumes generated from school subsidies. Moreover, the latest marketing efforts with Unlimited in combination with good cluster and channel management execution led to satisfactory monetization in the current climate. Third party measurements suggest that Tsel experienced relatively heavier network utilization but still maintaining a lead over its peers' networks. We expect Singtel to make offerings adopting a more casual approach into gaming with "Storms" as a game publisher with a gaming super-app expected to be launched in Indonesia in coming months via Tsel. This is in-line with our thesis that telco products will becoming increasingly attractive.

Enterprises and towers upbeat. The Enterprise recovery in 3Q20 is sustainable with a **view to grow by high single digit yoy in 2021.** The growth from solutions services including security, cloud and data centers is potent replacing the older revenues enterprise model that relied on merchandise sales. Telkom is upbeat on Mitratel's prospects following towers acquisition from Tsel. Moreover, Telkom is very keen to conduct an IPO for Mitratel either in 4Q21 or early 2022, to unlock a valuation multiple higher than what Telkom currently is priced with.

Consumer business. The consumer business is upbeat with a sustainable outlook as Telkom looks to penetrate further an identified 20-25mn households addressable market. The latest target for 8mn subscribers YE 2020 is likely to be reached, and Telkom provided guidance for an additional 1.5-1.6mn new subscribers in 2021. Moreover, a key use case that is expected to gain importance in 5G tech is fixed wireless access to complement fixed broadband access. Tsel's Orbit is in its early stage of gaining subs, but we expect it to complement the Indihome deployment. Orbit commands a higher ARPU than Tsel's blended ARPU albeit lower than Indihome's ARPU, bridging the gap and addressing all relevant segments.

A strong BUY. We expect OPEX to climb in 4Q20 due to one-off item(s) adjusting down our 2020 earnings forecast. This should not affect our recommendation. Dividends will still be in-line with past year payouts. Strong BUY maintained.

Key Financials

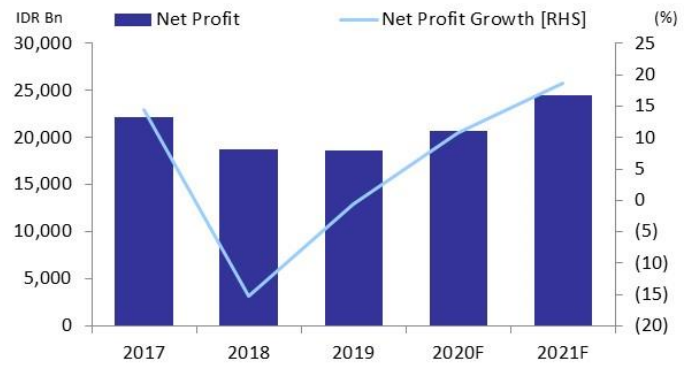
Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue (IDRbn)	130,784	135,567	134,926	142,540	150,253
EBITDA (IDRbn)	59,181	64,832	69,526	75,390	79,381
EBITDA Growth (%)	(8.4)	9.5	7.2	8.4	5.3
Net profit (IDRbn)	18,782	18,664	20,659	24,510	26,395
EPS (IDR)	189.6	188.4	208.5	247.4	266.5
EPS growth (%)	(15.2)	(0.6)	10.7	18.6	7.7
BVPS (IDR)	998.5	1,005.0	1,025.8	1,065.3	1,089.8
DPS (IDR)	167.7	163.8	169.6	187.7	222.7
PER (x)	18.5	18.6	16.8	14.2	13.2
PBV (x)	3.5	3.5	3.4	3.3	3.2
Dividend yield (%)	4.8	4.7	4.8	5.3	6.3
EV/EBITDA (x)	6.3	5.9	5.6	5.2	4.9

Exhibit 1. Revenues and Growth



Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth



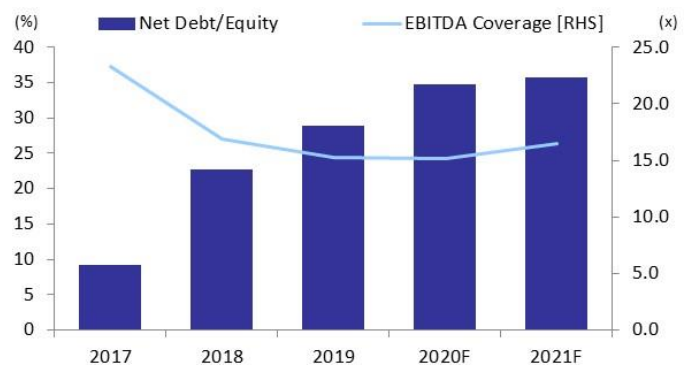
Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins



Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level



Source: Company, Danareksa Sekuritas estimates

Exhibit 5. Storms key business characteristics

1.

Experts in navigating the Southeast Asia gaming landscape

Be part of the explosive growth in SEA or get left behind.

2.

Unique ability to leverage the largest telco network in Asia to promote games and content

Access the 730 million subscribers of Singtel, SK Telecom, AIS, Telkomsel, Globe Telecoms and Airtel through us.

3.

Focus on hypercasual and HTML5 games

Enable free-to-play and non-downloadable games to reach more players.

4.

Passion to fuel growth of indie and mid-size gaming studios

Get your team in the fast-lane with mentorship, consultancy, and funding from our team of experts.

5.

Hyperlocal and global gaming news aggregator

Access gaming news, rewards and communities all on a single platform.

Exhibit 6. Singtel partners for Storms



Google Indie Games Accelerator



Singtel



AIS



SK Telecom



Telkomsel



Airtel



Globe



Optus

Exhibit 7. Storms published titles



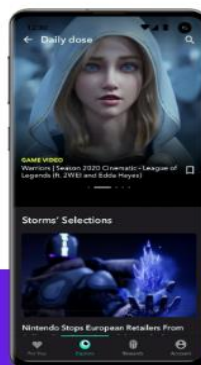
Umbral:
Amulet of Light



Zombeast:
Survival Zombie Shooter

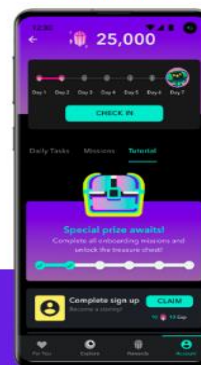
Exhibit 8. Storms gaming super-app

Stay in the know.



Filled with the hottest gaming stories made for you. Explore the latest news about your favourite games, content creators, and events all in one place.

Complete missions. Get rewarded.



Start your Storms adventure as you read, watch, quest and more! Complete our specially crafted missions to unlock rewards and unique customisations.

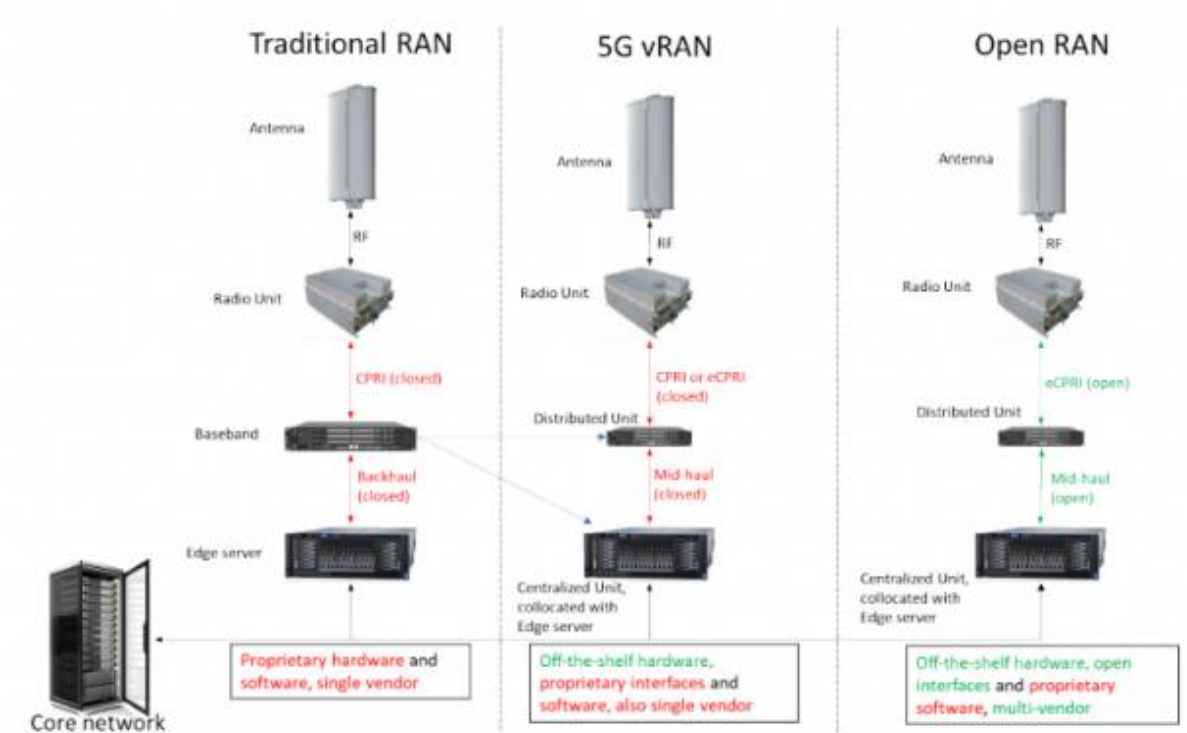
Bringing gamers together.



Let us be your mobile gaming community hub – discover talented content creators, uncover new communities and collaborate with others just like you.

Source: Storms website

Exhibit 9. Telkomsel entertains the Open RAN concept to deploy 5G; Unbundling Radio Access Network



Source: [What is the difference between vRAN and Open RAN? - Moniem-Tech \(moniem-tech.com\)](https://www.moniem-tech.com)

Exhibit 10: Telkom (TLKM IJ) EV/EBITDA band

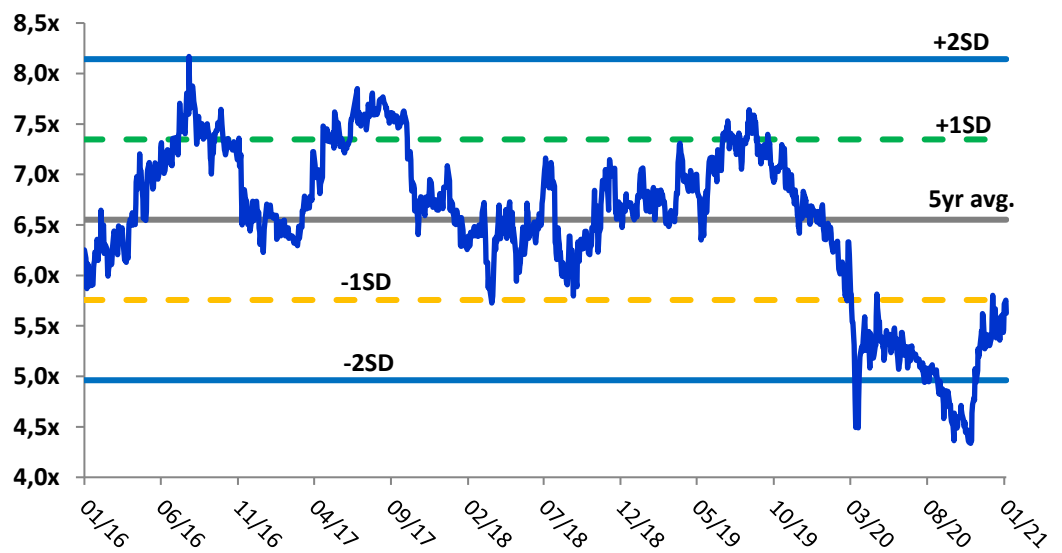


Exhibit 11. Income Statement

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Revenue	130,784	135,567	134,926	142,540	150,253
COGS	(80,323)	(81,144)	(80,016)	(85,555)	(90,116)
Gross profit	50,461	54,423	54,911	56,985	60,136
EBITDA	59,181	64,832	69,526	75,390	79,381
Oper. profit	39,595	42,394	41,280	45,255	47,604
Interest income	1,014	1,092	859	871	750
Interest expense	(3,507)	(4,240)	(4,599)	(4,577)	(4,645)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	53	(1,338)	(136)	0	0
Other Income (Expenses)	0	0	(308)	0	0
Pre-tax profit	37,155	37,908	37,095	41,549	43,708
Income tax	(9,426)	(10,316)	(8,418)	(8,725)	(8,742)
Minority interest	(8,947)	(8,928)	(8,018)	(8,313)	(8,571)
Net profit	18,782	18,664	20,659	24,510	26,395
Core Net Profit	18,782	18,664	20,659	24,510	26,395

Exhibit 12. Balance Sheet

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	17,439	18,242	20,821	19,427	22,166
Receivables	11,414	11,797	12,721	13,697	14,438
Inventory	717	585	1,026	744	785
Other Curr. Asset	12,394	10,544	13,922	11,878	15,944
Fixed assets - Net	143,248	156,973	163,224	166,890	169,887
Other non-curr.asset	19,680	22,513	21,018	25,074	23,046
Total asset	206,196	221,208	233,115	238,933	247,289
ST Debt	10,339	18,215	21,724	22,376	21,785
Payables	14,766	13,897	14,584	11,878	15,944
Other Curr. Liabilities	21,156	26,257	27,178	28,508	27,595
Long Term Debt	33,748	33,869	40,044	41,245	41,864
Other LT. Liabilities	8,884	11,720	11,800	11,106	11,453
Total Liabilities	88,893	103,958	115,330	115,113	118,641
Shareholder's Funds	98,910	99,561	101,613	105,534	107,958
Minority interests	18,393	17,689	16,172	18,286	20,690
Total Equity & Liabilities	206,196	221,208	233,115	238,933	247,289

Exhibit 13. Cash Flow

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Net income	18,782	18,664	20,659	24,510	26,395
Depreciation and Amort.	21,406	23,178	28,709	30,135	31,777
Change in Working Capital	(5,369)	6,581	(2,964)	(866)	(1,495)
Other Oper. Cash Flow	2,493	3,148	3,740	3,706	3,895
Operating Cash Flow	37,312	51,571	50,144	57,486	60,573
Capex	(13,193)	(28,558)	(34,570)	(32,382)	(33,497)
Others Inv. Cash Flow	2,086	(1,741)	2,353	(3,184)	2,778
Investing Cash Flow	(11,107)	(30,299)	(32,216)	(35,567)	(30,719)
Net change in debt	4,495	10,833	9,764	1,159	376
New Capital	(2,563)	256	0	0	0
Dividend payment	(16,609)	(16,230)	(16,799)	(18,593)	(22,059)
Other Fin. Cash Flow	2,806	(6,983)	(7,923)	(4,460)	(4,152)
Financing Cash Flow	(11,871)	(12,124)	(14,958)	(21,894)	(25,836)
Net Change in Cash	14,334	9,148	2,969	25	4,017
Cash - begin of the year	25,145	17,439	18,242	20,821	19,427
Cash - end of the year	17,439	18,242	20,821	19,427	22,166

Exhibit 14. Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Growth (%)					
Sales	2.0	3.7	(0.5)	5.6	5.4
EBITDA	(8.4)	9.5	7.2	8.4	5.3
Operating profit	(9.9)	7.1	(2.6)	9.6	5.2
Net profit	(15.2)	(0.6)	10.7	18.6	7.7
Profitability (%)					
Gross margin	38.6	40.1	40.7	40.0	40.0
EBITDA margin	45.3	47.8	51.5	52.9	52.8
Operating margin	30.3	31.3	30.6	31.7	31.7
Net margin	14.4	13.8	15.3	17.2	17.6
ROAA	9.3	8.7	9.1	10.4	10.9
ROAE	19.6	18.8	20.5	23.7	24.7
Leverage					
Net Gearing (x)	0.2	0.3	0.3	0.4	0.3
Interest Coverage (x)	11.3	10.0	9.0	9.9	10.2

Source : TLKM, Danareksa Estimates

DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regards to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.