

Monday, 01 August 2022

**BUY**  
**Maintain**

Last price (IDR)	4,230
Target Price (IDR)	5,100
Upside/Downside	+20.6%
Previous Target Price (IDR)	4,900

**Stock Statistics**

Sector	Telco
Bloomberg Ticker	TLKM IJ
No of Shrs (mn)	100,800
Mkt. Cap (IDRbn/USDmn)	426,384/28,746
Avg. daily T/O (IDRbn/USDmn)	543.5/36.6

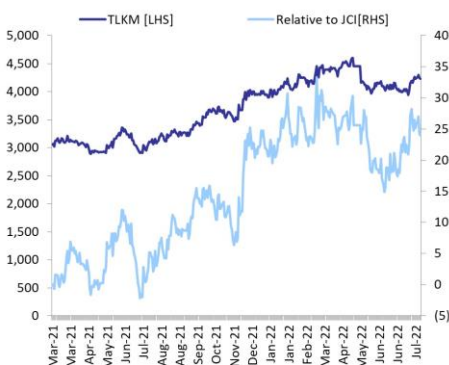
**Major shareholders (%)**

Indonesian Govt.	52.1
Estimated free float	47.9

**EPS Consensus (IDR)**

	2022F	2023F	2024F
Danareksa	265.8	282.9	303.3
Consensus	263.8	287.0	311.2
Danareksa/Cons	0.7	(1.4)	(2.5)

**TLKM relative to JCI Index**



Source : Bloomberg



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# Telkom Indonesia(TLKM IJ)

## 2Q22 result well inline with positive trends

Telkom saw solid 2Q22 revenues growth in mobile riding tailwinds post Covid restrictions and the Lebaran homecoming. Concurrently, mobile ARPU improved on the back of YTD price hikes. Positive trends are seen in the enterprises and WIB segments. A key highlight is the spirited EBITDA margin sitting high at 54.8%. The 1H22 Telkom net profits are well inline.

**Strong 2Q22 performance in ¾ segments.** Telkom group revenues rose in 2Q22 to Rp36.8tn (+4.5%qoq) on the back of strong performance in the mobile Rp21.4tn (+5.1%qoq) and enterprise Rp4.5tn (+8.2%qoq) segments, while small incremental revenues were generated by WIB and the consumer segments on a qoq basis. The mobile segment was up driven by data despite a continuous decline in Telkomsel's (TSEL) legacy services. Mobile ARPU increased in 2Q22 to Rp43k (+6.3%qoq) on the back of data traffic growth, despite the lower data yield and decline in the number of mobile subscribers by 5.3mn.

**Solid 2Q22 EBITDA margin and network scale economies.** Telkom group's 2Q22 EBITDA was Rp20.1tn (+3.5%qoq) with a slightly lower EBITDA margin at 54.5%, but still significantly higher by +120bps on a yoy basis. This mainly reflects lower Operating & Maintenance costs on a qoq and yoy basis despite the revenue increases, realizing scale economies in Telkom's network.

**Normalized 2Q22 net profits 2-digit growth.** Telkom group's 2Q22 net profits reached Rp7.2tn (+17.6%qoq, +11.7%yoy). This is a strong outcome, even after we normalize Rp1.18tn for unrealized gains in GOTO and Rp1.06tn accelerated depreciation expenses in MSAN's network.

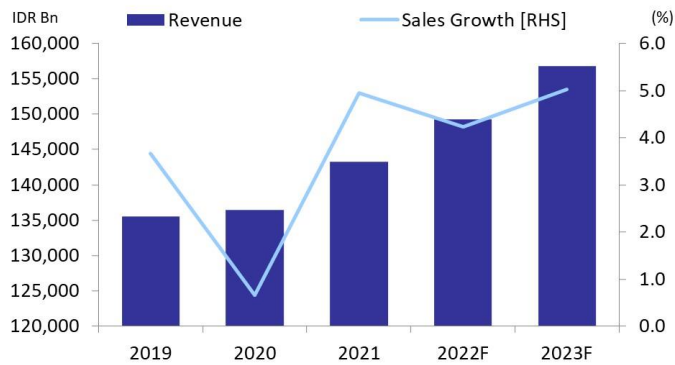
**YTD Telkom net profits at the high end of our FY22E.** Telkom's 1H22 revenues reached Rp72.0tn (+3.6%yoy) in line with our estimate (48.6%) and the consensus (47.8%). Telkom's 1H22 EBITDA reached Rp78.4tn (+4.5%yoy) and margins were maintained at a high level of 54.8%, and thus trending well YTD vs. our FY22 estimate (50.3%) and the consensus (48.9%). We leave our forecast unchanged to ascertain whether this is sustainable. 1H22 net profits are Rp13.3tn (+6.9%yoy) and if normalized by Rp1.49tn for accelerated depreciation expenses and Rp305bn of unrealized gains in GOTO, they are 55.5% of our FY forecast.

**Positive trends in ¾ of Telkom's segments.** The mobile segment was the main protagonist for Telkom in 2Q22, riding the tailwinds of increased mobility post covid restrictions relaxation and the Lebaran homecoming. This occurred concurrently with price hikes across categories of data packages in TSEL which contributed to the ARPU increase along with data traffic growth. As per the info memo, there are 31mn MAU in the MyTelkomsel app, enhancing greatly the potential result from data analytics and move to customized digital services. Aside from mobile, there was positive traction in the WIB and enterprise segments. Telkom is currently laying the foundations for two more submarine cables connecting with Europe and Intra Asia expecting to boost WIB.

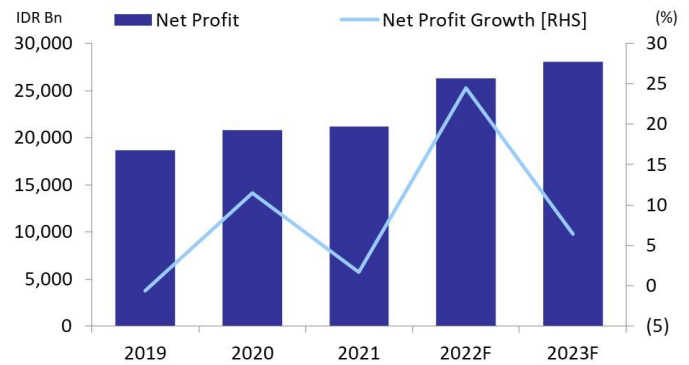
**Confident BUY.** We adjust our valuation parameters and bump the target price up to Rp5,100 for TLKM. We will check in the earnings call if the mobile price hike tactics and high EBITDA margin are sustainable.

**Key Financials**

Year to 31 Dec	2020A	2021A	2022F	2023F	2024F
Revenue (IDRbn)	136,462	143,210	149,272	156,778	164,080
EBITDA (IDRbn)	72,080	75,723	81,637	85,862	91,305
EBITDA Growth (%)	11.2	5.1	7.8	5.2	6.3
Net profit (IDRbn)	20,804	21,154	26,333	28,029	30,043
EPS (IDR)	210.0	213.5	265.8	282.9	303.3
EPS growth (%)	11.5	1.7	24.5	6.4	7.2
BVPS (IDR)	1,035.0	1,228.0	1,320.5	1,466.6	1,588.7
DPS (IDR)	157.1	168.0	150.0	159.5	169.8
PER (x)	20.1	19.8	15.9	15.0	13.9
PBV (x)	4.1	3.4	3.2	2.9	2.7
Dividend yield (%)	3.7	4.0	3.5	3.8	4.0
EV/EBITDA (x)	6.2	5.7	5.4	5.0	4.6

**Exhibit 1. Revenues and Growth**


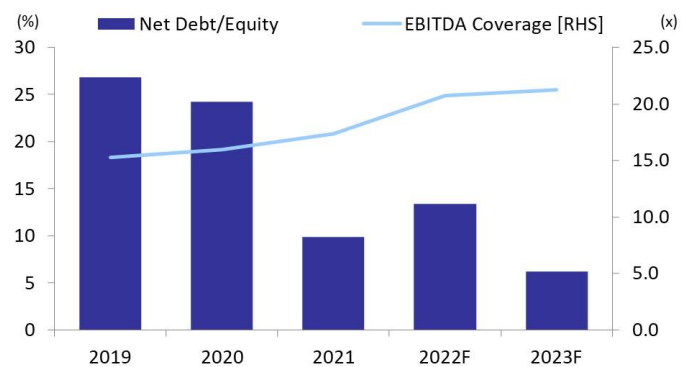
Source: Company, BRI Danareksa Sekuritas estimates

**Exhibit 2. Net Profits and Growth**


Source: Company, BRI Danareksa Sekuritas estimates

**Exhibit 3. Margins**


Source: Company, BRI Danareksa Sekuritas estimates

**Exhibit 4. Gearing Level**


Source: Company, BRI Danareksa Sekuritas estimates

**Exhibit 5. Telkom Group Service Revenue breakdown**

(Rp bn)	2Q21	1Q22	2Q22	QoQ, %	YoY, %	1H21	1H22	YoY, %	YoY, %
<b>Operating Revenue</b>	<b>35,535</b>	<b>35,208</b>	<b>36,775</b>	<b>4.5</b>	<b>3.5</b>	<b>69,480</b>	<b>71,983</b>	<b>3.6</b>	<b>4.9</b>
Legacy business (voice, SMS)	5,301	4,747	4,570	(3.7)	(13.8)	10,554	9,317	(11.7)	(19.7)
Interconnection	2,018	2,133	2,089	(2.1)	3.5	3,844	4,222	9.8	1.3
Data, Internet & IT	19,327	18,856	20,366	8.0	5.4	37,572	39,222	4.4	9.1
Indihome	6,532	6,851	6,980	1.9	6.9	12,879	13,831	7.4	18.5
Network	442	537	560	4.3	26.7	798	1,097	37.5	11.3
Other	1,309	1,443	1,328	(8.0)	1.5	2,627	2,771	5.5	18.3
Revenue from lease transactions (Mitratel external)	606	641	882	37.6	45.5	1,206	1,523	26.3	5.9

**Exhibit 6. Telkom Group revenue breakdown by segment**

(Rp bn)	2Q21	1Q22	2Q22	QoQ,%	YoY,%	1H21	1H22	YoY,%	YoY,%
<b>Group Revenue</b>	<b>35,535</b>	<b>35,208</b>	<b>36,775</b>	<b>4.5</b>	<b>3.5</b>	<b>69,480</b>	<b>71,983</b>	<b>3.6</b>	<b>4.9</b>
Mobile revenue - external only	21,066	20,390	21,429	5.1	1.7	41,448	41,819	0.9	0.7
Consumer revenue - external	6,135	6,508	6,567	0.9	7.0	12,108	13,075	8.0	19.0
Enterprise revenue - external	4,572	4,179	4,522	8.2	(1.1)	8,674	8,701	0.3	8.0
Wholesale Int. (WIB) revenue -	3,550	3,883	4,018	3.5	13.2	6,897	7,901	14.6	5.6
Other/eliminations revenue	212	248	239	(3.6)	12.7	353	487	38.0	11.2

**Exhibit 7. Telkomsel P&L**

(Rp bn)	2Q21	1Q22	2Q22	QoQ,%	YoY,%	1H21	1H22	YoY,%	YoY,%
<b>Revenues (Rp bn)</b>	<b>21,958</b>	<b>21,263</b>	<b>22,324</b>	<b>5.0</b>	<b>1.7</b>	<b>43,173</b>	<b>43,586</b>	<b>1.0</b>	<b>0.5</b>
Legacy business	4,923	4,317	4,187	(3.0)	(15.0)	9,814	8,504	(13.3)	(22.2)
Digital business	17,035	16,945	18,137	7.0	6.5	33,359	35,082	5.2	9.5
<b>Expenses</b>	<b>(13,743)</b>	<b>(14,923)</b>	<b>(13,763)</b>	<b>(7.8)</b>	<b>0.1</b>	<b>(26,251)</b>	<b>(28,686)</b>	<b>9.3</b>	<b>(2.7)</b>
<b>EBITDA</b>	<b>12,854</b>	<b>12,268</b>	<b>12,614</b>	<b>2.8</b>	<b>(1.9)</b>	<b>25,356</b>	<b>24,882</b>	<b>(1.9)</b>	<b>(2.1)</b>
EBITDA margin (%)	58.5	57.7	56.5	(1.2)	0.0	58.7	57.1	(1.6)	(1.5)
<b>Net income</b>	<b>6,025</b>	<b>4,584</b>	<b>6,817</b>	<b>48.7</b>	<b>13.1</b>	<b>12,749</b>	<b>11,401</b>	<b>(10.6)</b>	<b>4.4</b>
Net income margin (%)	27.4	21.6	30.5	9.0	0.0	29.5	26.2	(3.4)	1.1

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

Rp bn	2Q21	1Q22	2Q22	QoQ,%	YoY,%	1H21	1H22	YoY,%	YoY,%	2022F	Achiev, %	2022 Cons	Achiev, %
<b>Operating Revenue</b>	<b>35,535</b>	<b>35,208</b>	<b>36,775</b>	<b>4.5</b>	<b>3.5</b>	<b>69,480</b>	<b>71,983</b>	<b>3.6</b>	<b>4.9</b>	<b>148,162</b>	48.6%	<b>150,712</b>	47.8%
<b>Total Cash OPEX</b>	<b>(16,585)</b>	<b>(15,820)</b>	<b>(16,716)</b>	<b>5.7</b>	<b>0.8</b>	<b>(31,721)</b>	<b>(32,536)</b>	<b>2.6</b>	<b>4.8</b>				
<b>Total Operating Expense</b>	<b>(23,619)</b>	<b>(24,597)</b>	<b>(24,450)</b>	<b>(0.6)</b>	<b>3.5</b>	<b>(45,865)</b>	<b>(49,047)</b>	<b>6.9</b>	<b>2.9</b>				
<b>Operating Profit</b>	<b>11,916</b>	<b>10,611</b>	<b>12,325</b>	<b>16.2</b>	<b>3.4</b>	<b>23,615</b>	<b>22,936</b>	<b>(2.9)</b>	<b>9.3</b>				
Operating margin (%)	33.5	30.1	33.5	3.4	(0.0)	34.0	31.9	(2.1)	1.3				
<b>EBITDA</b>	<b>18,950</b>	<b>19,388</b>	<b>20,059</b>	<b>3.5</b>	<b>5.9</b>	<b>37,759</b>	<b>39,447</b>	<b>4.5</b>	<b>5.1</b>	<b>78,378</b>	50.3%	<b>80,678</b>	48.9%
EBITDA margin (%)	53.3	55.1	54.5	(0.5)	1.2	54.3	54.8	0.5	0.1				
Total other income (expenses)	(938)	(749)	(758)	1.2	(19.2)	(1,821)	(1,507)	(17.2)	(17.9)				
<b>Pre-tax profit</b>	<b>10,978</b>	<b>9,862</b>	<b>11,567</b>	<b>17.3</b>	<b>5.4</b>	<b>21,794</b>	<b>21,429</b>	<b>(1.7)</b>	<b>12.6</b>				
Tax	(2,445)	(2,006)	(1,868)	(6.9)	(23.6)	(4,874)	(3,874)	(20.5)	5.6				
Minority interest	(2,096)	(1,738)	(2,507)	44.2	19.6	(4,469)	(4,245)	(5.0)	4.9				
<b>Net profit</b>	<b>6,437</b>	<b>6,118</b>	<b>7,192</b>	<b>17.6</b>	<b>11.7</b>	<b>12,451</b>	<b>13,310</b>	<b>6.9</b>	<b>19.0</b>	<b>25,928</b>	51.3%	<b>26,143</b>	50.9%
Net profit margin (%)	18.1	17.4	17.4	(1.7)	(0.7)	17.9	18.5	0.5	2.0				
Total debt	78,983	63,127	74,170	(8.6)	(7.2)	78,983	74,170		25.7				
Net debt	42,370	21,498	34,010	(30.1)	(40.7)	42,370	34,010		32.6				
Net debt/EBITDA (x)	0.6	0.3	0.4	-	-	0.6	0.4		-				
Capex	6,084	5,735	7,760	-	-	11,817	13,495	-	-				
Capex intensity (%)	17.1	16.3	21.1	-	-	17.0	18.7	-	-				

## Exhibit 9. Telkom group operational KPIs

	2Q21	1Q22	2Q22	QoQ, %	YoY, %	1H21	1H22	YoY, %	YoY, %
<b>Mobile segment (mn)</b>									
Cellular Subscribers (mn)	169.2	175.0	169.7	(3.0)	0.3	169.2	169.7	0.3	3.8
3G/4G capable devices	118.7	131.0	129.6	(1.1)	9.2	118.7	129.6	9.2	3.8
Data users	117.7	119.8	119.3	(0.4)	1.3	117.7	119.3	1.3	4.0
<b>Data KPIs</b>									
Data Traffic (Petabytes)	3,385	3,799	4,183	10.1	23.6	6,573	7,981	21.4	43.3
Average data usage (in gb)	9.7	10.5	11.7	10.7	20.2	9.4	11.1	18.3	-
Data Yield Rp('000)	5.0	4.5	4.3	(2.8)	(13.8)	5.1	4.4	(13.4)	-
<b>Legacy KPIs</b>									
MoU (Total / Bn Minutes)	31.2	25.5	23.6	(7.5)	(24.4)	64.3	49.1	(23.6)	(18.7)
SMS (Total / Bn Units)	7.9	3.8	2.8	(26.3)	(64.6)	14.5	6.5	(55.2)	(32.5)
<b>ARPU Blended (Rp'000/month)</b>	<b>45</b>	<b>41</b>	<b>43</b>	<b>6.3</b>	<b>(4.4)</b>	<b>44</b>	<b>42</b>	<b>(4.5)</b>	<b>0.0</b>
<b>Network KPIs ('000)</b>									
3G, 4G, 5G BTS	187.0	197.7	204.9	3.6	9.5	187.0	204.9	9.5	11.0
5G BTS		0.1	0.2	61.0	n/a	0.0	0.2	n/a	n/a
4G BTS	123.9	146.2	154.0	5.4	24.3	123.9	154.0	24.3	27.4
3G BTS	63.2	51.4	50.7	(1.4)	(19.7)	63.2	50.7	(19.7)	(13.1)
2G BTS	50.3	50.2	50.2	(0.0)	(0.1)	50.3	50.2	(0.1)	(0.1)
<i>Total BTS</i>	<i>237.3</i>	<i>247.9</i>	<i>255.1</i>	<i>2.9</i>	<i>7.5</i>	<i>237.3</i>	<i>255.1</i>	<i>7.5</i>	<i>8.6</i>
<b>Fixed broadband segment</b>									
Indihome subs (mn)	8.3	8.7	8.9	1.9	7.2	8.3	8.9	7.2	7.3
Indihome ARPU (Rp'000/month)	270	268	270	0.7	0.0	263	263	0.1	8.4

### Exhibit 10. Income Statement

Year to 31 Dec (IDRbn)	2020A	2021A	2022F	2023F	2024F
<b>Revenue</b>	<b>136,462</b>	<b>143,210</b>	<b>149,272</b>	<b>156,778</b>	<b>164,080</b>
COGS	(80,405)	(88,070)	(89,468)	(94,402)	(98,213)
<b>Gross profit</b>	<b>56,057</b>	<b>55,140</b>	<b>59,805</b>	<b>62,377</b>	<b>65,867</b>
<b>EBITDA</b>	<b>72,080</b>	<b>75,723</b>	<b>81,637</b>	<b>85,862</b>	<b>91,305</b>
<b>Oper. profit</b>	<b>43,505</b>	<b>43,957</b>	<b>48,222</b>	<b>50,097</b>	<b>52,967</b>
Interest income	799	558	934	1,228	1,382
Interest expense	(4,520)	(4,365)	(3,935)	(4,044)	(4,095)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	(246)	(78)	0	0	0
Other Income (Expenses)	(763)	0	0	0	0
<b>Pre-tax profit</b>	<b>38,775</b>	<b>40,072</b>	<b>45,220</b>	<b>47,282</b>	<b>50,254</b>
Income tax	(9,212)	(9,730)	(9,948)	(10,402)	(11,056)
Minority interest	(8,759)	(9,188)	(8,939)	(8,851)	(9,155)
<b>Net profit</b>	<b>20,804</b>	<b>21,154</b>	<b>26,333</b>	<b>28,029</b>	<b>30,043</b>
<b>Core Net Profit</b>	<b>20,804</b>	<b>21,154</b>	<b>26,333</b>	<b>28,029</b>	<b>30,043</b>

### Exhibit 11. Balance Sheet

Year to 31 Dec (IDRbn)	2020A	2021A	2022F	2023F	2024F
Cash & cash equivalent	20,589	38,311	33,529	44,415	50,365
Receivables	11,339	8,510	12,654	10,865	13,909
Inventory	983	779	918	964	1,009
Other Curr. Asset	12,289	13,184	17,808	18,703	19,574
Fixed assets - Net	186,335	191,001	204,129	212,298	221,114
Other non-curr.asset	14,105	24,906	19,506	22,206	20,856
<b>Total asset</b>	<b>246,943</b>	<b>277,184</b>	<b>289,590</b>	<b>310,445</b>	<b>327,674</b>
ST Debt	19,284	16,372	17,630	17,837	17,918
Payables	16,999	17,170	17,808	18,703	19,574
Other Curr. Liabilities	32,810	35,589	34,123	36,622	37,913
Long Term Debt	30,561	36,319	36,864	37,417	37,978
Other LT. Liabilities	26,400	26,335	26,368	26,351	26,359
<b>Total Liabilities</b>	<b>126,054</b>	<b>131,785</b>	<b>132,792</b>	<b>136,930</b>	<b>139,742</b>
Shareholder's Funds	102,527	121,646	130,809	145,290	157,383
Minority interests	18,362	23,753	25,989	28,226	30,548
<b>Total Equity &amp; Liabilities</b>	<b>246,943</b>	<b>277,184</b>	<b>289,590</b>	<b>310,445</b>	<b>327,674</b>

### Exhibit 12. Cash Flow

Year to 31 Dec (IDRbn)	2020A	2021A	2022F	2023F	2024F
Net income	20,804	21,154	26,333	28,029	30,043
Depreciation and Amort.	28,892	31,816	33,416	35,765	38,338
Change in Working Capital	6,457	5,898	(10,289)	4,295	(1,650)
Other Oper. Cash Flow	3,721	3,807	3,001	2,816	2,713
<b>Operating Cash Flow</b>	<b>59,874</b>	<b>62,675</b>	<b>52,461</b>	<b>70,905</b>	<b>69,444</b>
Capex	(52,409)	(26,535)	(38,211)	(38,829)	(42,048)
Others Inv. Cash Flow	9,207	(10,243)	6,334	(1,472)	2,732
<b>Investing Cash Flow</b>	<b>(43,202)</b>	<b>(36,778)</b>	<b>(31,877)</b>	<b>(40,301)</b>	<b>(39,316)</b>
Net change in debt	13,205	2,781	1,835	743	650
New Capital	0	0	0	0	0
Dividend payment	(15,562)	(16,643)	(14,860)	(15,804)	(16,822)
Other Fin. Cash Flow	(6,123)	12,028	(4,009)	449	(2,900)
<b>Financing Cash Flow</b>	<b>(8,480)</b>	<b>(1,834)</b>	<b>(17,033)</b>	<b>(14,612)</b>	<b>(19,072)</b>
<b>Net Change in Cash</b>	<b>8,192</b>	<b>24,063</b>	<b>3,550</b>	<b>15,991</b>	<b>11,056</b>
Cash - begin of the year	18,242	20,589	38,311	33,529	44,415
Cash - end of the year	20,589	38,311	33,529	44,415	50,365

### Exhibit 13. Key Ratios

Year to 31 Dec	2020A	2021A	2022F	2023F	2024F
<b>Growth (%)</b>					
Sales	0.7	4.9	4.2	5.0	4.7
EBITDA	11.2	5.1	7.8	5.2	6.3
Operating profit	2.6	1.0	9.7	3.9	5.7
Net profit	11.5	1.7	24.5	6.4	7.2
<b>Profitability (%)</b>					
Gross margin	41.1	38.5	40.1	39.8	40.1
EBITDA margin	52.8	52.9	54.7	54.8	55.6
Operating margin	31.9	30.7	32.3	32.0	32.3
Net margin	15.2	14.8	17.6	17.9	18.3
ROAA	8.9	8.1	9.3	9.3	9.4
ROAE	20.6	18.9	20.9	20.3	19.9
<b>Leverage</b>					
Net Gearing (x)	0.2	0.1	0.1	0.1	0.0
Interest Coverage (x)	9.6	10.1	12.3	12.4	12.9

Source : TLKM, Danareksa Estimates

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