

29 March 2023

Communications | Telecommunications

Telkom Indonesia (TLKM IJ)

Buy (Maintained)

Strong Core Profit In 4Q22; Keep BUY

- **Maintain BUY, with new IDR5,030 TP from IDR5,100, 24% upside and c.4% yield.** FY22's topline fell slightly below our, but was in line with consensus estimates. We expect 1Q23 data ARPU to grow relatively flat as our ground checks suggest Telkomsel has not increase most of its data prices hence data yield is relatively flat. However, with the data demand hike during *Ramadan* in 2Q23, we should see better data yield, translating to higher data ARPU and topline.
- **Cellular data revenue remained resilient despite the drop in subscribers (subs).** Despite the drop of subs (-1.9% QoQ, -10.9% YoY), Telkom Indonesia deliver resilient cellular data revenue, which grew 3.1% QoQ and 9.2% YoY in 4Q22, driven mainly by growing data payload (+3.6% QoQ, 13.4% YoY) and data ARPU (+5.5% QoQ, 9.9% YoY). On an annual basis, legacy revenue declined 16.6% YoY in FY22 but was supported by cellular data revenue which grew 7% YoY. Despite that, the total mobile segment still grew 1.5% YoY. We believe Telkomsel's strategy has successfully improved productivity, as well as the quality of its customers, evidenced by its cellular data revenue growth.
- **IndiHome – steady growth.** As the second largest revenue contributor to TLKM, IndiHome (19% of total TLKM revenue) showed solid growth in 4Q22 by +1% QoQ and +6.6% YoY, supported by growing subscribers that reached 9.2m (+1.9% QoQ, 7.1% YoY) and maintained ARPU. As of FY22, IndiHome revenue was IDR28tn (+6.4% YoY), with EBITDA of c.50% and coverage has reached 501 cities.
- **4Q22 core net profit of IDR27tn (+14.2 QoQ, +173.4% YoY).** 4Q22 net profit improved by 27.5% YoY due to significantly lower minority interest but was down by 29.1% YoY due to an unrealised loss, mainly from its investment in Goto Gojek Tokopedia (GOTO IJ, NR). However, 4Q22 net core profit grew by +14.2% QoQ and +173.4% YoY, supported by operating costs efficiency, bringing the FY22 number to IDR27tn (+27.4% YoY) – slightly above our and Street estimates at 103.6% and 110.6%.
- **Expecting mid-single digit growth in 2023F.** We tweak our estimates for 2023F and 2024F on the back of a lower number of subscribers and expect data yield to grow by a mid-single digit. Going forward, TLKM revenue is estimated to grow by 4.3% YoY (vs management's mid- to high-single digit), supported by its mobile segment's low single digit growth of 2.2% YoY due to declining legacy and its growing IndiHome segment. Capex-wise, the company is expected to spend 20-25% of revenue, with 35% to mobile, 35% to broadband and the remainder to data centre and cable.
- **We apply a 3% ESG premium to our TP,** based on our in-house methodology, to derive our new IDR5,030 TP. Maintain BUY.

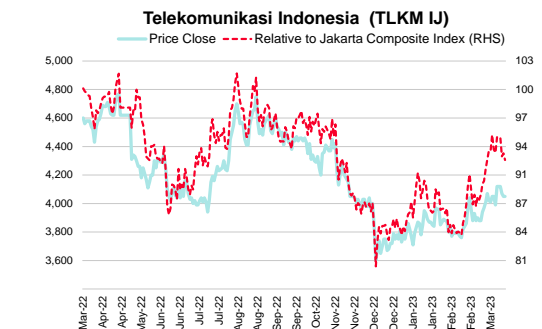
Target Price (Return): IDR5,030 (+24%)
Price (Market Cap): IDR4,050 (USD26,596m)
ESG score: 3.20 (out of 4)
Avg Daily Turnover (IDR/USD) 285,980m/18.8m

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.0	4.4	8.6	(9.4)	(12.0)
Relative	9.3	5.6	9.9	(4.9)	(7.9)
52-wk Price low/high (IDR)				3,600 – 4,770	



Source: Bloomberg

Overall ESG Score: 3.20 (out of 4)

E: GOOD

Aside from keeping equipment up to date and utilising greener equipment, TLKM has provided digital services to clients to cut energy costs through digital platforms (eg INTANK, an Internet of Things (IoT) system developed by Telkomsel, that is able to track and monitor liquid inventories).

S: GOOD

CSR initiatives that include giving free data packages to students during the pandemic. TLKM has provided free online access to educational platforms, extra bandwidth capacity for universities to accommodate online lecturing, and distributed subsidised data packages to teachers and students. The initiatives were started in late 2020, by the Ministry of Education.

G: EXCELLENT

TLKM is a state-owned enterprise, most board members are professionals that were brought in without a conflict of interest. Corporate decision-making rules/authority in the board charter and the company's articles of association. Most companies follow the general guidelines for proper and timely disclosure.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (IDRb)	143,210	147,306	153,686	166,386	175,693
Recurring net profit (IDRb)	21,957	25,637	27,583	31,891	34,707
Recurring net profit growth (%)	4.2	16.8	7.6	15.6	8.8
Recurring P/E (x)	18.27	15.65	14.55	12.58	11.56
P/B (x)	3.3	3.1	2.9	2.6	2.4
P/CF (x)	6.35	7.23	6.31	5.73	5.41
Dividend Yield (%)	4.1	3.7	4.4	4.6	5.1
EV/EBITDA (x)	5.49	5.25	5.03	4.55	4.24
Return on average equity (%)	22.1	16.5	20.5	21.8	21.7
Net debt to equity (%)	2.9	1.5	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Indonesia	Recurring EPS	221.65	258.80	278.44	321.93	350.36
Communications	DPS	168.01	149.97	177.92	185.13	207.61
Telkom Indonesia	BVPS	1,227.98	1,304.82	1,405.33	1,542.13	1,684.88
TLKM IJ	Return on average equity (%)	22.1	16.5	20.5	21.8	21.7
Buy						
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
SOP	Recurring P/E (x)	18.27	15.65	14.55	12.58	11.56
	P/B (x)	3.3	3.1	2.9	2.6	2.4
	FCF Yield (%)	8.2	7.0	8.7	8.4	8.9
	Dividend Yield (%)	4.1	3.7	4.4	4.6	5.1
Key drivers	EV/EBITDA (x)	5.49	5.25	5.03	4.55	4.24
i. Faster-than-expected asset monetisation;	EV/EBIT (x)	9.46	9.07	8.53	7.49	7.00
ii. Strong growth from fixed broadband business;						
iii. Strong balance sheet to pursue inorganic growth.						
Key risks	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Tighter competition outside Java might pressure TLKM's dominant market share;	Total turnover	143,210	147,306	153,686	166,386	175,693
ii. Faster-than-expected slowdown in legacy revenues;	Gross profit	105,077	109,122	113,857	123,237	130,070
iii. Unfavourable spectrum regulation which supports M&A of other telco players.	EBITDA	75,723	78,992	80,697	87,946	92,854
	Depreciation and amortisation	(31,816)	(33,255)	(33,106)	(34,578)	(36,575)
	Operating profit	43,907	45,737	47,590	53,368	56,279
	Net interest	(3,807)	(3,155)	(3,023)	(3,242)	(3,620)
	Pre-tax profit	43,678	36,339	44,568	50,126	52,659
	Taxation	(9,730)	(8,659)	(10,620)	(11,944)	(12,548)
	Reported net profit	24,760	20,753	27,583	31,891	34,707
	Recurring net profit	21,957	25,637	27,583	31,891	34,707
Company Profile	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Telkom Indonesia is a telecommunication company that provides a variety of domestic telecommunications services such as telephone, telex, telegram, satellite, and leased lines services. The company also offers electronic mail, mobile communication, and cellular phone services.	Change in working capital	4,218	(989)	1,380	2,657	2,663
	Cash flow from operations	63,150	55,483	63,608	69,982	74,176
	Capex	(30,341)	(27,286)	(28,512)	(36,189)	(38,359)
	Cash flow from investing activities	(46,473)	(38,339)	(38,416)	(49,239)	(51,645)
	Dividends paid	(16,643)	(14,856)	(17,625)	(18,340)	(20,566)
	Cash flow from financing activities	1,045	(23,508)	(16,268)	(3,697)	(15,386)
	Cash at beginning of period	20,589	38,311	31,947	40,870	57,916
	Net change in cash	17,722	(6,364)	8,923	17,046	7,145
	Ending balance cash	38,311	31,947	40,870	57,916	65,061
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	38,804	33,296	42,287	59,403	66,622
	Tangible fixed assets	183,495	193,665	197,297	209,591	222,687
	Total investments	13,800	8,653	9,028	9,774	10,320
	Total assets	277,184	275,192	290,440	324,059	347,583
	Short-term debt	6,682	8,191	8,559	10,864	11,515
	Total long-term debt	36,319	27,331	28,559	36,249	38,422
	Total liabilities	131,785	125,930	132,248	150,609	161,022
	Total equity	145,399	149,262	158,192	173,450	186,561
	Total liabilities & equity	277,184	275,192	290,440	324,059	347,583
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	4.9	2.9	4.3	8.3	5.6
	Recurrent EPS growth (%)	4.2	16.8	7.6	15.6	8.8
	Gross margin (%)	73.4	74.1	74.1	74.1	74.0
	Operating EBITDA margin (%)	52.9	53.6	52.5	52.9	52.9
	Net profit margin (%)	17.3	14.1	17.9	19.2	19.8
	Dividend payout ratio (%)	67.2	71.6	63.9	57.5	59.3
	Capex/sales (%)	21.2	18.5	18.6	21.7	21.8
	Interest cover (x)	10.1	11.3	12.1	11.9	10.9

Source: Company data, RHB

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Figure 1: TLKM's 4Q22 results

TLKM IDRbn	4Q21	3Q22	4Q22	QoQ (%)	YoY (%)	12M21	12M22	YoY (%)	RHB	Cons
Total revenues	37,167	36,891	38,432	4.2%	3.4%	143,210	147,306	2.9%	96.5%	99.4%
Mobile	21,559	21,585	21,902	1.5%	1.6%	83,892	85,171	1.5%		
Cellular data	16,640	17,635	18,175	3.1%	9.2%	64,500	69,006	7.0%		
Legacy	4,919	3,950	3,727	-5.6%	-24.2%	19,392	16,165	-16.6%		
Interconnection	2,039	1,926	2,324	20.7%	14.0%	7,787	8,472	8.8%		
Indihome	6,687	7,058	7,131	1.0%	6.6%	26,325	28,020	6.4%		
Enterprise	4,641	4,288	4,748	10.7%	2.3%	16,528	16,361	-1.0%		
Wholesale	1,788	1,551	1,892	22.0%	5.8%	6,832	7,257	6.2%		
Others	453	483	435	-9.9%	-4.0%	1,846	2,025	9.7%		
Total Operating expenses	(29,004)	(24,911)	(27,136)	8.9%	-6.4%	(99,303)	(101,569)	2.3%		
Operation & Maintenance	(11,155)	(9,320)	(11,017)	18.2%	-1.2%	(38,133)	(38,184)	0.1%		
Depreciation	(9,633)	(8,032)	(8,237)	2.6%	-14.5%	(31,816)	(33,255)	4.5%		
Personnel	(4,506)	(3,629)	(3,752)	3.4%	-16.7%	(15,524)	(14,907)	-4.0%		
Interconnection	(1,466)	(1,218)	(1,575)	29.3%	7.4%	(5,181)	(5,440)	5.0%		
G & A	(982)	(1,629)	(1,405)	-13.8%	43.1%	(5,016)	(5,854)	16.7%		
Marketing	(1,262)	(1,083)	(1,150)	6.2%	-8.9%	(3,633)	(3,929)	8.1%		
EBIT	8,163	11,980	11,296	-5.7%	38.4%	43,907	45,737	4.2%	98.2%	99.6%
<i>EBIT margin (%)</i>	<i>22.0%</i>	<i>32.5%</i>	<i>29.4%</i>			<i>30.7%</i>	<i>31.0%</i>			
EBITDA	17,796	20,012	19,533	-2.4%	9.8%	75,723	78,992	4.3%	99.5%	99.6%
<i>EBITDA margin (%)</i>	<i>47.9%</i>	<i>54.2%</i>	<i>50.8%</i>			<i>52.9%</i>	<i>53.6%</i>			
Net others	3,125	(3,342)	(3,381)	1.2%	208.2%	3,578	(6,243)	-274%		
Interest income (expense)-net	(870)	(870)	(773)	-11.1%	-11.1%	(3,807)	(3,155)	-17%		
PBT	10,418	7,768	7,142			43,678	36,339			
Net profit (or loss)	5,888	3,271	4,172	27.5%	-29.1%	24,760	20,753	-16.2%	79.7%	85.0%
<i>% Net profit margin</i>	<i>15.8%</i>	<i>8.9%</i>	<i>10.9%</i>			<i>17.3%</i>	<i>14.1%</i>			
Core net profit	2,763	6,613	7,553	14.2%	173.4%	21,182	26,996	27.4%	103.6%	110.6%
<i>% Net core profit margin</i>	<i>7.4%</i>	<i>17.9%</i>	<i>19.7%</i>			<i>14.8%</i>	<i>18.3%</i>			

Source: Company data, RHB

Figure 2: TLKM's operational highlights

TLKM IDRbn	4Q21	3Q22	4Q22	QoQ	YoY	12M21	12M22	YoY (%)
<u>Subscribers ('000)</u>								
Cellular	175,977	159,836	156,813	-1.9%	-10.9%	175,977	156,813	-10.9%
Mobile data user	120,516	120,609	120,907	0.2%	0.3%	120,516	120,907	0.3%
Indihome	8,601	9,038	9,212	1.9%	7.1%	8,601	9,212	7.1%
<u>ARPU (IDR)</u>								
Cellular	37,941	42,045	43,555.06	3.6%	14.8%	36,850	42,014	14.0%
Data	42,582	44,397	46,818	5.5%	9.9%	40,479	43,389	7.2%
IndiHome	259,156	260,308	258,033	-0.9%	-0.4%	255,058	253,474	-0.6%
No. of BTS	251,116	260,815	265,194	1.7%	5.6%	251,116	265,194	5.6%
Data traffic volume (TB)	3,789,223	4,147,341	4,298,057	3.6%	13.4%	13,837,050	16,426,853	18.7%
Monthly data usage (MB/subs)	10,481	11,462	11,849	3.4%	13.1%	9,568	11,322	18.3%
Data yield (IDR/GB)	4,391	4,252	4,229	-0.6%	-3.7%	4,661	4,201	-9.9%

Source: Company data, RHB

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Figure 3: Telkomsel's 4Q22 results

Telkomsel IDRbn	4Q21	3Q22	4Q22	QoQ (%)	YoY (%)	12M21	12M22	YoY (%)
Total revenues	22,358	22,575	22,878	1.3%	2.3%	87,506	89,039	1.8%
Data	15,396	16,064	16,982	5.7%	10.3%	58,541	62,952	7.5%
Digital services	2,328	2,414	2,388	-1.1%	2.6%	9,690	9,978	3.0%
Legacy	4,635	4,097	3,508	-14.4%	-24.3%	19,275	16,109	-16.4%
EBIT	6,886	7,605	7,406	-2.6%	7.6%	29,688	29,464	-0.8%
<i>EBIT margin (%)</i>	<i>30.8%</i>	<i>33.7%</i>	<i>32.4%</i>			<i>33.9%</i>	<i>33.1%</i>	
EBITDA	12,117	12,921	12,686	-1.8%	4.7%	50,021	50,488	0.9%
<i>EBITDA margin (%)</i>	<i>54.2%</i>	<i>57.2%</i>	<i>55.5%</i>			<i>57.2%</i>	<i>56.7%</i>	
PBT	8,710	7,021	3,137			33,137	24,122	
Net profit (loss)	6,737	5,389	1,577	-70.7%	-76.6%	26,160	18,367	-29.8%
<i>% Net profit margin</i>	<i>30.1%</i>	<i>23.9%</i>	<i>6.9%</i>			<i>29.9%</i>	<i>20.6%</i>	
Core net profit	4,386	5,367	5,300	-1.2%	20.9%	20,866	21,619	3.6%
<i>% Net core profit margin</i>	<i>19.6%</i>	<i>23.8%</i>	<i>23.2%</i>			<i>23.8%</i>	<i>24.3%</i>	

Source: Company data, RHB

Figure 4: Telkomsel's DCF

IDRbn	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
EBIT	29,831	36,251	36,388	36,949	37,447	37,865	41,548	41,986	50,101	48,746	47,147
EBIT (1-t)	23,550	28,619	28,727	29,169	29,563	29,892	32,800	33,146	39,553	38,483	37,220
Depreciation & amortisation	21,815	19,780	20,966	22,203	23,598	25,170	23,575	25,324	19,496	21,084	22,874
Change in working capital	409	1,112	456	485	514	544	575	608	641	214	222
Capex	(8,554)	(14,813)	(15,465)	(17,435)	(19,656)	(22,159)	(24,981)	(28,163)	(31,750)	(35,794)	(40,353)
Net free cash flow to firm	37,220	34,698	34,683	34,422	34,019	33,447	31,969	30,914	27,940	23,986	19,962
Terminal value											202,852
PV	37,220	30,669	27,097	23,770	20,764	18,045	15,245	13,030	10,409	7,899	64,853
WACC	13.1%										
Total discounted firm value	269,001										
Less: Debt	(989)										
Less: Minority interest	-										
Equity value	268,012										

Source: RHB

Figure 5: TLKM's SOP valuation

Subsidiaries	2023F EBITDA	Methodology	2023F (EBITDA x)	Equity value	TLKM's Stake	Effective equity value
Telkomsel	51,646	10-year DCF	5.2	268,012	65.0%	174,208
Mitratel	6,920	Current market valuation	10.4	71,720	71.9%	51,545
Indihome	17,235	11x EV/EBITDA, at par with regional peers	11.0	189,586	100.0%	189,586
Data center	2,738	17x EV/EBITDA, at par with peers	17.0	46,542	100.0%	46,542
Enterprise & others	2,158	10x EV/EBITDA, 20% premium	10.0	21,578	100.0%	21,578
						483,459
Total equity value						
Total outstanding no. of shares (bn)						99,062
Implied price per share (IDR)						4,880
ESG Premium						3%
TP (IDR)						5,027

Source: RHB

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Figure 6: Changes to estimates

	New				Old		Changes (%)		
	2022	2023F	2024F		2022	2023F	2024F	2022	2023F
<u>Income statement (IDRbn)</u>									
Total turnover		153,686	166,386		161,772	175,049		(5.0)	(4.9)
EBITDA		80,697	87,946		83,578	90,825		(3.4)	(3.2)
EBIT		47,590	53,368		49,596	55,439		(4.0)	(3.7)
Net profit		27,583	31,891		28,680	33,510		(3.8)	(4.8)
<u>Key Metrics</u>									
EPS (IDR)		278	322		290	338			
Revenue growth (%)		4.3	8.3		9.8	8.2			
EBITDA margin (%)		52.5	52.9		51.7	50.6			
EBIT margin (%)		31.0	32.1		30.7	31.7			
Net profit margin (%)		22.1	22.9		17.7	19.1			
ROAE (%)		17.9	19.2		20.7	21.9			

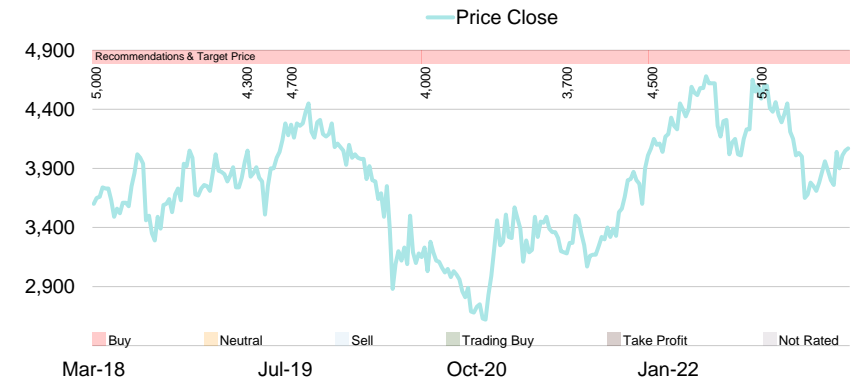
Source: Company data, RHB

Figure 7: Peer comparison for 2023F

Company	Mcap (USD)	Price	EBITDA Margin (%)	EV/ EBITDA (%)	P/BV (x)	Div. Yield (%)	ROAE (%)
TLKM	26,596	4,050	52.5%	5.2	3.1	4.4%	17.9%
ISAT	3,715	6,950	42.2%	4.5	2.0	2.5%	7.4%
EXCL	1,784	2,050	48.8%	4.3	1.0	1.7%	1.7%
Weighted average				5.1	2.9		

Source: Company data, RHB

Recommendation Chart

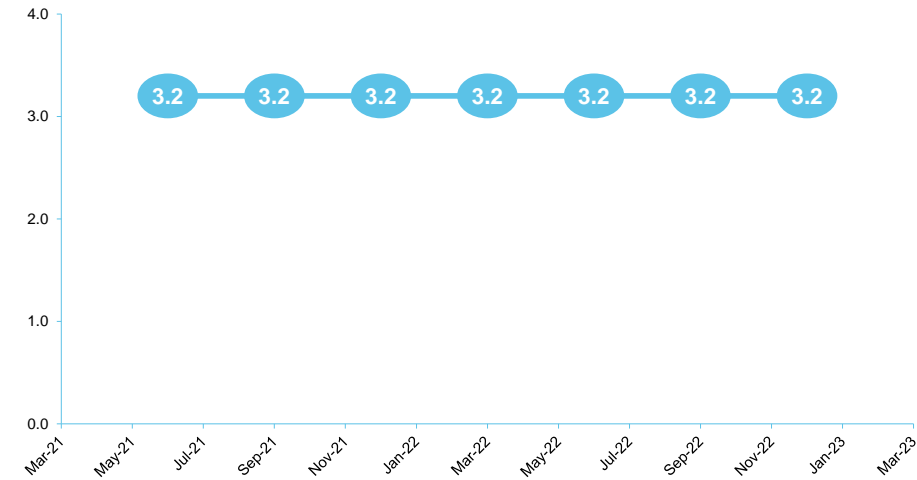


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-22	Buy	5,100	4,650
2022-08-16	Buy	5,100	4,410
2021-11-25	Buy	4,500	4,000
2021-05-03	Buy	3,700	3,170
2020-07-01	Buy	4,000	3,040
2020-05-28	Buy	4,000	3,130
2019-11-06	Buy	4,700	4,120
2019-11-01	Buy	4,700	4,080
2019-10-31	Buy	4,700	4,110
2019-08-01	Buy	4,700	4,280
2019-07-12	Buy	4,700	4,180
2019-03-27	Buy	4,300	3,820
2017-03-08	Buy	5,000	3,880

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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