

14 August 2020

Communications | Telecommunications

Telekomunikasi Indonesia (TLKM IJ)

Buy (Maintained)

2Q20 KTA: Unlimited = ARPU-Accretive

Target Price (Return): IDR4,000 (+33%)
 Price: IDR3,010
 Market Cap: USD20,202m
 Avg Daily Turnover (IDR/USD) 417,354m/29.0m

• **BUY this Top Pick, TP of IDR4,000, 33% upside with c.5% FY20F yield.**

At Telekomunikasi Indonesia's 2Q20 results briefing, management said it regarded unlimited plans as ARPU boosters, targeted towards high-value customers and offered only in selected areas. Operational cost efficiencies will remain in 2H20, with the company staying cautious on marketing expenditures. The drop in subscriber (subs) numbers was partly due to the reduction in overtime multi-SIM card usage. TLKM will focus more on ARPU growth ahead, instead of concentrating just on its subs base.

• **Expecting a stronger market share in 3Q20F...** To capture market share, TLKM recently launched the unlimited plan, *Combo Sakti*, and *Unlimited Max*, the new SIM card for unlimited packages. These are targeted towards subs who are more price-sensitive but require a large data package. Subs growth has improved by double digits, while ARPU has increased. We note that TLKM encourages its existing subs to upgrade their plans when moving to the *Combo Sakti* package. In contrast, *Unlimited Max* is only for subs acquisition packages, and these plans are valid for six months.

• **... with the new unlimited plans.** These new plans are only valid in 65 cities that are low revenue contributors to TLKM. The three main criteria for the company to launch the unlimited plans in an area are: underutilised capacity, intense competition, and the customer's affordability to take on the unlimited plan. Despite the cheaper data prices from these new plans, TLKM is still holding on to its premium pricing points – higher by 15% and 30% when compared to plans from XL Axiata (EXCL IJ, BUY, TP: IDR3,850) and Indosat Ooredoo (ISAT IJ, BUY, TP: IDR4,000)

• **Margin growth ahead, more efficiencies.** 1H20 EBITDA margin rose 6.2ppt YoY to 54%, driven by efficiencies on marketing expenses (-26.9% YoY) and operational and maintenance costs (-25.5% YoY). During this COVID-19 pandemic, TLKM has been prioritising digital marketing over promotional events – which has pared down its costs. As such, operational costs declined as the cellular market covers 95% of Indonesia's population. It expects margins to be maintained at over 50%, going forward. Indihome's margin is also most likely to improve – from better economies of scale, increased sites, and the decline in marketing costs.

• **Streams to offset the decline in legacy revenue.** TLKM hopes that the affordable data access implemented by the Government will only be valid for educational sites/sources, and not cannibalise its existing data usage. Its internal target is for legacy revenue contributions to reach 20-25% (2Q20: 24.3%). Non-cellular businesses are to continue to support growth: Indihome (through a higher subs count), increased revenue from wholesale international voice, and increased capacity in data centres.

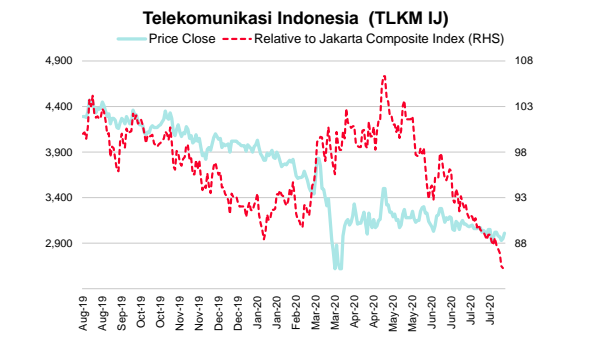
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(24.2)	(2.6)	(4.8)	(19.3)	(29.2)
Relative	(7.3)	(5.9)	(19.7)	(8.4)	(13.5)
52-wk Price low/high (IDR)	2,620 – 4,470				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (IDRb)	130,784	135,567	145,512	163,405	176,338
Recurring net profit (IDRb)	17,289	18,915	21,160	24,748	27,659
Recurring net profit growth (%)	(22.7)	9.4	11.9	17.0	11.8
Recurring P/E (x)	17.25	15.76	14.09	12.05	10.78
P/B (x)	3.0	3.0	2.8	2.6	2.4
P/CF (x)	38.28	7.07	6.09	5.27	4.91
Dividend Yield (%)	5.6	5.4	4.7	5.2	6.1
EV/EBITDA (x)	5.74	5.36	4.91	4.31	3.92
Return on average equity (%)	18.8	18.8	20.2	21.9	22.6
Net debt to equity (%)	21.6	28.4	28.5	26.5	23.7

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (IDR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Indonesia	Recurring EPS	174.53	190.94	213.60	249.82	279.21
Communications	DPS	167.66	163.83	141.30	157.51	183.40
Telekomunikasi Indonesia	BVPS	998.46	1,005.04	1,073.54	1,160.36	1,249.71
TLKM IJ	Return on average equity (%)	18.8	18.8	20.2	21.9	22.6
BUY						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	17.25	15.76	14.09	12.05	10.78
We have a SOP valuation for Telkomsel and its fixed-line business segment. For Telkomsel, we employ a 10-year DCF valuation, implying 16x 2020F P/E. For its fixed line business, we have applied 23x 2020F P/E to value this segment.	P/B (x)	3.0	3.0	2.8	2.6	2.4
	FCF Yield (%)	(1.8)	4.6	4.1	6.1	7.3
	Dividend Yield (%)	5.6	5.4	4.7	5.2	6.1
	EV/EBITDA (x)	5.74	5.36	4.91	4.31	3.92
	EV/EBIT (x)	8.99	8.34	7.82	6.70	6.05
Key drivers	Income statement (IDRb)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Faster-than-expected asset monetisation;	Total turnover	130,784	135,567	145,512	163,405	176,338
ii. Strong growth from fixed broadband business;	Gross profit	86,993	93,341	101,045	112,735	121,842
iii. Strong balance sheet to pursue inorganic growth.	EBITDA	59,181	64,832	71,342	81,147	88,737
	Depreciation and amortisation	(21,406)	(23,178)	(26,504)	(28,898)	(31,169)
	Operating profit	37,775	41,654	44,838	52,249	57,568
	Net interest	(2,493)	(3,148)	(3,476)	(3,532)	(3,366)
	Pre-tax profit	36,405	37,908	40,713	47,835	53,180
	Taxation	(9,426)	(10,316)	(10,178)	(11,959)	(13,295)
	Reported net profit	18,032	18,663	20,804	24,223	27,036
	Recurring net profit	17,289	18,915	21,160	24,748	27,659
Key risks	Cash flow (IDRb)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Tighter competition outside Java might pressure TLKM's dominant market share;	Change in working capital	(4,628)	3,580	967	1,493	1,107
ii. Faster-than-expected slowdown in legacy revenues;	Cash flow from operations	7,790	42,163	48,968	56,589	60,767
iii. Unfavourable spectrum regulation which supports M&A of other telco players	Capex	(13,193)	(28,558)	(36,795)	(38,341)	(38,953)
	Cash flow from investing activities	(11,252)	(30,641)	(38,324)	(40,829)	(40,871)
	Dividends paid	(16,609)	(16,229)	(13,997)	(15,603)	(18,168)
	Cash flow from financing activities	(4,244)	(10,719)	(13,007)	(15,622)	(24,055)
	Cash at beginning of period	25,145	17,439	18,242	15,879	16,017
	Net change in cash	(7,706)	803	(2,363)	138	(4,160)
	Ending balance cash	17,439	18,242	15,879	16,017	11,857
Company Profile	Balance sheet (IDRb)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Telekomunikasi Indonesia is a telecommunications 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.	Total cash and equivalents	18,743	18,796	16,461	16,628	12,499
	Tangible fixed assets	143,248	156,973	167,264	176,707	184,491
	Total investments	2,472	1,944	2,087	2,343	2,529
	Total assets	206,196	221,208	232,372	247,503	255,237
	Short-term debt	10,339	18,215	18,215	18,215	18,215
	Total long-term debt	33,748	33,869	33,869	33,869	28,000
	Total liabilities	88,893	103,958	107,325	113,855	112,738
	Total equity	117,303	117,250	125,047	133,648	142,498
	Total liabilities & equity	206,196	221,208	232,372	247,503	255,237
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	2.0	3.7	7.3	12.3	7.9
	Recurrent EPS growth (%)	(22.7)	9.4	11.9	17.0	11.8
	Gross margin (%)	66.5	68.9	69.4	69.0	69.1
	Operating EBITDA margin (%)	45.3	47.8	49.0	49.7	50.3
	Net profit margin (%)	13.8	13.8	14.3	14.8	15.3
	Dividend payout ratio (%)	92.1	87.0	67.3	64.4	67.2
	Capex/sales (%)	10.1	21.1	25.3	23.5	22.1
	Interest cover (x)	10.8	9.8	9.8	12.5	13.8

Source: Company data, RHB

Figure 1: Telkomsel's 2Q20 results review

(IDRbn)	2Q19	1Q20	2Q20	QoQ (%)	YoY (%)	6M19	6M20	%YoY	RHB	Cons
Operating metrics										
Telkomsel subscribers ('000)	167,792	162,567	160,072	(1.5)	(4.6)	167,792	160,072	(4.6)		
Telkomsel data user ('000)	111,218	105,064	105,137	0.1	(5.5)	111,218	105,137	(5.5)		
IndiHome subscribers ('000)	6,001	7,255	7,451	2.7	24.2	6,001	7,451	24.2		
No. of BTS	204,198	219,323	228,066	4.0	11.7	204,198	228,066	11.7		
Data traffic volume (TB)	1,622,270	1,996,842	2,258,408	13.1	39.2	3,032,142	4,255,250	40.3		
Monthly data usage (MB/subs)	4,862	6,335	7,160	13.0	47.3	4,544	6,746	48.5		
Data yield (IDR/MB)	7.7	6.9	6.2	(11.0)	(19.9)	8.0	6.5	(18.7)		
Cellular ARPU (IDR)	40,751	40,982	40,011	(2.4)	(1.8)	40,141	40,816	1.7		
Data ARPU (IDR)	24,866	28,427	29,066	2.2	16.9	24,232	28,968	19.5		
IndiHome ARPU (IDR)	260,000	240,000	241,000	0.4	(7.3)					
Telkomsel income statement (IDRbn)										
Gross revenue	22,926	22,424	21,585	(3.7)	(5.8)	45,106	44,009	(2.4)	45%	
Cellular revenue	20,513	19,987	19,214	(3.9)	(6.3)	40,412	39,201	(3.0)		
Legacy revenue	7,996	6,123	5,256	(14.2)	(34.3)	16,016	11,379	(29.0)		
Data revenue	12,517	13,864	13,958	0.7	11.5	24,396	27,822	14.0		
% of cellular revenue	61.0	69.4	72.6	3.3	11.6	60.4	71.0	10.60		
EBITDA	12,101	13,964	12,545	(10.2)	3.7	24,237	26,509	9.4	50%	
% EBITDA margin	52.8	62.3	58.1	(4.2)	5.3	53.7	60.2	6.50		
EBIT	8,512	9,291	7,535	(18.9)	(11.5)	17,154	16,826	(1.9)	44%	
% EBIT margin	37.1	41.4	34.9	(6.5)	(2.2)	38.0	38.2	0.20		
PBT	8,429	8,879	7,245	(18.4)	(14.0)	17,063	16,124	(5.5)		
Net profit (or loss)	6,232	7,056	5,654	(19.9)	(9.3)	12,705	12,710	0.0	45%	
% Net profit margin	27.2	31.5	26.2	(5.3)	(1.0)	28.2	28.9	0.7		
TLKM income statement (IDRbn)										
Revenue	34,505	34,194	32,662	(4.5)	(5.3)	69,345	66,856	(3.6)	46%	47%
Indihome Revenue	4,558	5,077	5,292	4.2	16.1	8,800	10,369	17.8		
EBITDA	15,594	18,759	17,318	(7.7)	11.1	33,124	36,077	8.9	51%	53%
% EBITDA margin	45.2	54.9	53.0	(1.8)	7.8	47.8	54.0	6.20		
EBIT	9,628	11,910	10,240	(14.0)	6.4	21,657	22,150	2.3	49%	51%
% EBIT margin	27.9	34.8	31.4	(3.5)	3.4	65.4	61.4	(4.0)		
PBT	9,509	10,924	9,091	(16.8)	(4.4)	20,838	20,015	(3.9)		
Net profit (or loss)	4,854	5,862	5,127	(12.5)	5.6	11,078	10,989	(0.8)	53%	51%
% Net profit margin	14.1	17.1	15.7	(1.4)	1.6	16.0	16.4	0.5		

Source: Company data, RHB

Figure 2: TLKM's 5-year EV/EBITDA band; the stock is trading at -2SD from the mean

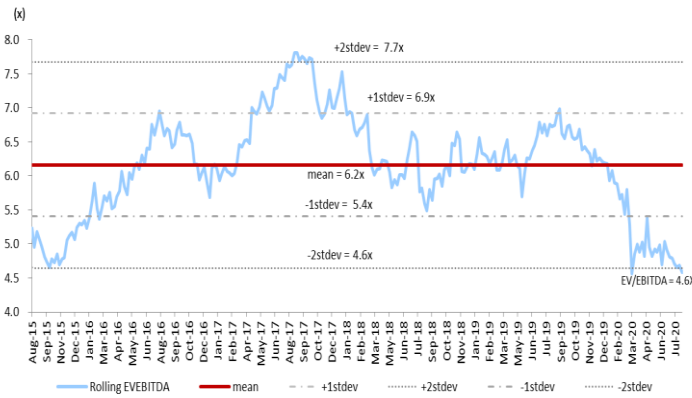
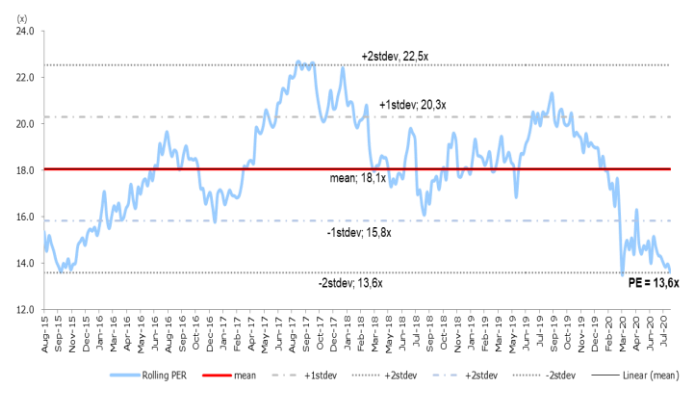


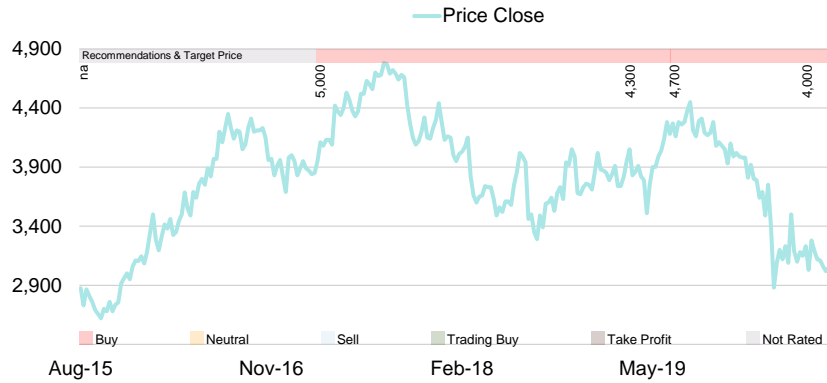
Figure 3: TLKM's 5-year P/E band; the stock is trading at -2SD from the mean



Source: Bloomberg, RHB

Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-01	Buy	4,000	3,040
2019-11-06	Buy	4,700	4,120
2019-03-27	Buy	4,300	3,820
2017-03-08	Buy	5,000	3,880

Source: RHB, Bloomberg

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