



**HOLD**

Target Price : IDR4,900

### Stock Data

Current Price : 4,600  
 52wk Range H-L : 4,850 – 3,300  
 Share Outstanding : 99.06 bn  
 Free Float : 47.91%  
 Mkt Capitalization : 455.69 (IDR tn)

### Major Shareholders

Government : 52.09%  
 Public : 43.35%  
 The Bank of New York Mellon Corporation : 4.56%



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## PT Telkom Indonesia Tbk (TLKM IJ)

Telco Sector

### Fixed Mobile Convergence is the Future

#### An Effort to Acquire IndiHome

According to reports, Telkomsel planned to do an M&A with TLKM's fixed broadband company, IndiHome, continuing TLKM's pathway towards Fixed Mobile Convergence (FMC). The management believes that this action will potentially increase its customer's connectivity as Telkomsel will now have access to the largest fixed broadband network in Indonesia. As of 1H22, IndiHome led the fixed broadband market in Indonesia comprising ~80% of market share with 8.89 mn subscribers. Currently, TLKM pursued its FMC vision by forming Orbit, a home internet service under Telkomsel's network, which had reached 464,000 users as of 1H22, and Smoaa, a platform to buy Telkomsel internet quota under single billing system exclusively for IndiHome users. In the meantime, 35% of Telkomsel's total stakes is owned by Singtel, while the rest 65% is owned by TLKM. However, TLKM's management informed that the acquisition of IndiHome does not necessarily mean that Singtel will own 35% of IndiHome, as TLKM was only planning to sell IndiHome as business assets to Telkomsel. This results in the dilution of Singtel's existing shares on Telkomsel, urging Singtel to increase its investment on Telkomsel. However, there are no further disclosures regarding the M&A of Telkomsel and IndiHome from company.

#### Fixed Broadband Performed Better than Mobile Network

In 2Q22, IndiHome booked a revenue of IDR6.98 tn (+1.9% QoQ/+6.9% YoY), making up 19.0% of TLKM's total revenue. This was driven from the increase of its total subscribers to 8.89 mn (+7.1% YoY), covering 97.1% of cities/districts throughout Indonesia (vs 97.0% in 1Q22) alongside the economic recovery. Meanwhile, ARPU rose slightly to IDR270,000 (vs IDR268,000 in 1Q22), driven from the increase in add-on revenue by 14% YoY, contributing 16.1% of IndiHome revenue (vs 15.9% contribution in 1Q22). Furthermore, the company booked EBITDA margin of ~50%, implying EBITDA of IDR3.49 tn (+1.8% QoQ/+7.0% YoY). In addition, breaking down its consumer segment, 90.1% of its revenue came from the residential segment (vs 95.0% in 1Q22), while 9.9% was from the enterprise segment (vs 5.0% in 1Q22). The increasing enterprise revenue shows that there is economic recovery, as well as less restrictions of mobility restriction happening in the country.

On the other hand, Telkomsel booked a revenue of IDR22.32 tn in 2Q22 (+5.0% QoQ/ +1.7% YoY), which made up 60.7% of TLKM's total revenue. This increase was driven by the increase in its digital segment where it was recorded a growth of 6.5% YoY in 2Q22, making up 81.2% of the total revenue (vs 77.6% in 2Q21). Despite the impressive performance, quarterly, Telkomsel experienced a loss in its total subscribers by -2.8% QoQ, thus reducing its legacy (mobile) revenue to IDR4.32 tn (-3.0% QoQ/-15.0% YoY). This shows that Telkomsel is committing on its digital ecosystem, and can further be seen from the establishment of PT Telkomsel Ekosistem Digital (INDICO) for the development of digital solutions. On the other hand, Telkomsel booked a fall in its EBITDA to IDR12.61 tn (+2.8% QoQ/-1.9% YoY), implying a margin of 56.5% (vs 58.5% in 2Q21). This was mainly driven from an increase in the operating & maintenance expense, as the company expanded its 4G LTE services and developed 5G network during the time period.

#### Maintain HOLD with TP of IDR4,900

We maintain our **HOLD** rating on **TLKM IJ** with a **TP of IDR4,900** which implied **5.60x FY22E EV/EBITDA (close to its 5-years EV/EBITDA mean)**. Regarding the potential merger between Telkomsel and IndiHome, TLKM has not disclosed any more information. However, this potential M&A will expand Telkomsel business, the MNO market leader, towards the fixed broadband industry, as done by its peers, such as EXCL. The downside risk include: 1) Rising USD currency; 2) Interest rate hike.

#### Key Financial Highlight

Billion IDR	FY19	FY20	FY21	FY22E	FY23F
Revenue	135,567	136,462	143,210	150,623	158,627
Net Income	18,663	20,804	24,760	26,468	27,718
EPS (IDR)	188.40	210.01	249.94	267.19	279.80
PE (x)	23.62	21.19	17.80	16.66	15.90
BVS (IDR)	1,005.04	1,034.98	1,227.98	1,296.33	1,355.62
PBV (x)	4.43	4.30	3.62	3.43	3.28
EV/EBITDA (x)	7.17	6.56	6.09	5.60	5.08
ROA (%)	8.73	8.89	9.45	9.25	9.12
ROE (%)	18.81	20.59	22.09	21.17	21.10

Sources: Bloomberg, MNCS

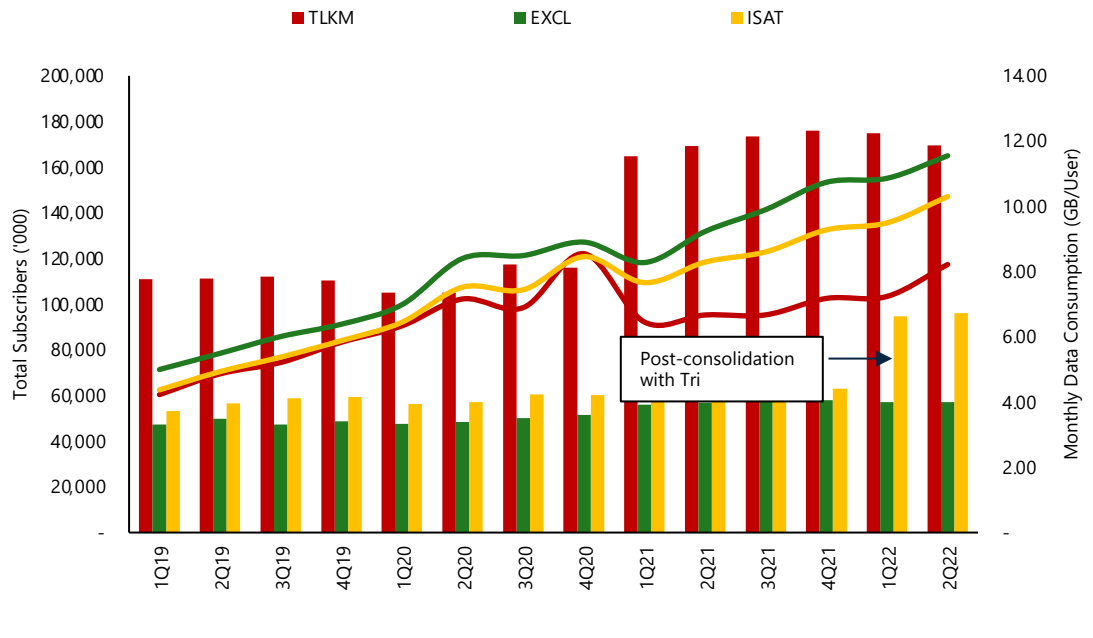
Exhibit 01. IndiHome Coverage as of FY21



Source : Company

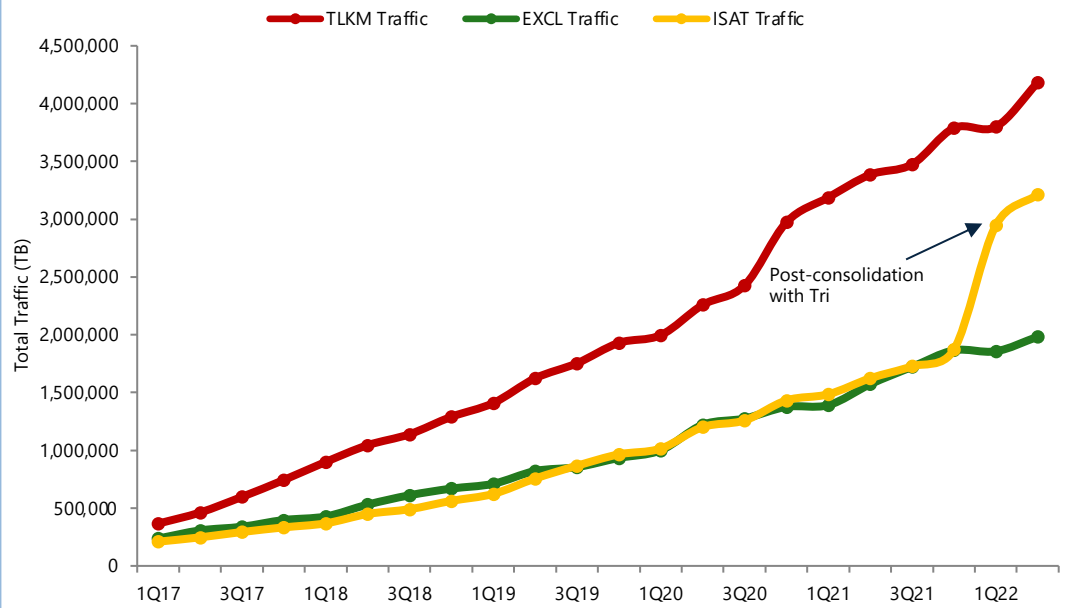
Exhibit 02. MNO Total Subscribers vs Monthly Data Consumption

**Telkomsel is still the leading market share of MNO in Indonesia, yet having the lowest monthly data consumption between its subscribers**



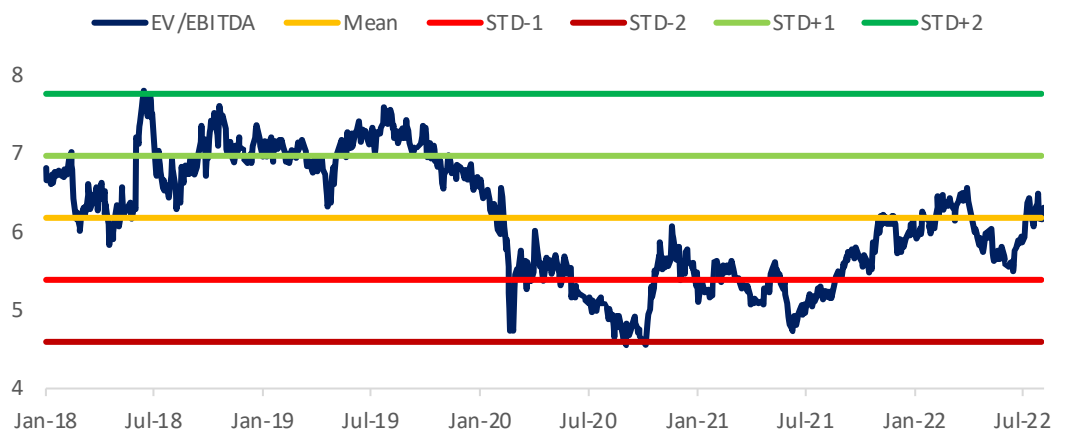
Source : Company, MNCS

Exhibit 03. MNO Total Subscribers vs Monthly Data Consumption



Source : Company, MNCS

Exhibit 04. TLKM is currently traded around its 5-year mean of EV/EBITDA



Source : Bloomberg, MNCS

Exhibit 05. Financial Projections

Income Statement						Balance Sheet					
IDR Billion	2019	2020	2021	2022E	2023F	IDR Billion	2019	2020	2021	2022E	2023F
<b>Revenues</b>	<b>135,567</b>	<b>136,462</b>	<b>143,210</b>	<b>150,623</b>	<b>158,627</b>	Cash and cash equivalents	18,242	20,589	38,311	48,844	68,507
Data	91,113	98,030	108,549	115,307	124,703	Trade Receivables	12,089	11,553	8,705	12,813	9,067
Non-data	44,454	38,432	34,661	35,316	33,923	Inventory	585	983	779	593	821
<b>Operating Expense</b>	<b>(69,909)</b>	<b>(63,979)</b>	<b>(67,487)</b>	<b>(68,616)</b>	<b>(70,715)</b>	Other Current Assets	10,806	13,378	13,482	14,345	14,552
Operational & Maintenance Expense	(63,794)	(59,831)	(65,289)	(64,211)	(65,831)	<b>Total Current Assets</b>	<b>41,722</b>	<b>46,503</b>	<b>61,277</b>	<b>76,595</b>	<b>92,946</b>
Selling & GA Expense	(9,637)	(9,964)	(10,419)	(10,421)	(11,068)	Fixed Assets-net	156,973	160,923	165,026	171,825	176,957
<b>EBIT</b>	<b>42,480</b>	<b>43,505</b>	<b>47,563</b>	<b>50,007</b>	<b>53,140</b>	Other Non-Current Assets	22,513	39,517	50,881	46,695	42,534
<b>EBITDA</b>	<b>65,658</b>	<b>72,483</b>	<b>75,723</b>	<b>82,006</b>	<b>87,912</b>	<b>Total Non-Current Assets</b>	<b>179,486</b>	<b>200,440</b>	<b>215,907</b>	<b>218,520</b>	<b>219,491</b>
Interest Expense	(4,240)	(4,520)	(4,365)	(4,836)	(5,437)	<b>TOTAL ASSETS</b>	<b>221,208</b>	<b>246,943</b>	<b>277,184</b>	<b>295,115</b>	<b>312,437</b>
Interest Income	1,092	799	558	1,582	1,583	Trade Payables	13,897	16,999	17,170	12,028	13,227
Other	(166)	(1,009)	(78)	-	-	Short-term Debt	8,705	9,934	6,682	6,682	6,682
<b>Profit Before Tax</b>	<b>37,908</b>	<b>38,775</b>	<b>43,678</b>	<b>46,753</b>	<b>49,287</b>	Other current liabilities	35,767	42,160	45,279	46,071	44,036
Tax Expense (Benefit)	(10,316)	(9,212)	(9,730)	(10,480)	(11,246)	<b>Total Current Liabilities</b>	<b>58,369</b>	<b>69,093</b>	<b>69,131</b>	<b>64,782</b>	<b>63,944</b>
Net Income Before MI	27,592	29,563	33,948	36,273	38,041	Long-term Debt	29,686	30,561	36,319	45,208	51,977
Minority Interest	(8,929)	(8,759)	(9,188)	(9,805)	(10,324)	Other Long-term liabilities	15,903	26,400	26,335	31,974	36,459
<b>Net Income</b>	<b>18,663</b>	<b>20,804</b>	<b>24,760</b>	<b>26,468</b>	<b>27,718</b>	<b>Total Long-term Liabilities</b>	<b>45,589</b>	<b>56,961</b>	<b>62,654</b>	<b>77,182</b>	<b>88,436</b>
EPS (full amount)	188.40	210.01	249.94	267.19	279.80	<b>Total Equity</b>	<b>99,561</b>	<b>102,527</b>	<b>121,646</b>	<b>128,418</b>	<b>134,291</b>
						<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>221,208</b>	<b>246,943</b>	<b>277,184</b>	<b>295,115</b>	<b>312,437</b>
Cash Flow						Ratios					
IDR Billion	2019	2020	2021	2022E	2023F	IDR Billion	2019	2020	2021	2022E	2023F
<b>CFO Total</b>	<b>54,949</b>	<b>65,317</b>	<b>68,353</b>	<b>59,706</b>	<b>75,287</b>	Revenue Growth (%)	3.66%	0.66%	4.94%	5.18%	5.31%
EBIT	42,480	43,505	47,563	50,007	53,140	EBITDA Growth (%)	9.10%	10.39%	4.47%	8.30%	7.20%
Depreciation	23,178	28,892	31,816	31,999	34,772	Net Profit Growth (%)	3.50%	11.47%	19.02%	6.90%	4.72%
Change in Working Capital	4,330	2,543	4,123	(8,566)	2,474	Current Ratio (%)	0.71	0.67	0.89	1.18	1.45
Change in others	(15,039)	(9,623)	(15,149)	(13,734)	(15,099)	Quick Ratio (%)	0.52	0.47	0.68	0.95	1.21
<b>CFI Total</b>	<b>(35,791)</b>	<b>(35,256)</b>	<b>(37,703)</b>	<b>(30,125)</b>	<b>(31,725)</b>	Receivable Days	27.04	27.65	27.04	26.07	25.17
Change in Intangibles	(2,008)	(2,538)	(2,845)	-	-	Inventory Days	3.51	3.65	3.65	3.65	3.65
Change in Investment	(732)	(2,809)	(6,400)	-	-	Payable Days	73.00	81.11	73.00	73.00	91.25
Capex	(35,218)	(29,436)	(30,341)	(30,125)	(31,725)	Debt to Equity (x)	0.48	0.54	0.48	0.53	0.55
Change in other	2,167	(473)	1,883	-	-	Net Debt to EBITDA (x)	(0.45)	(0.48)	(0.27)	(0.23)	(0.07)
<b>CFF Total</b>	<b>(25,788)</b>	<b>(89)</b>	<b>(2,872)</b>	<b>(27,937)</b>	<b>(30,669)</b>	EBIT Margin (%)	31.34%	31.88%	33.21%	33.20%	33.50%
Debt Proceeds (Repayment)	-	-	-	-	-	EBITDA Margin (%)	48.43%	53.12%	52.88%	54.44%	55.42%
Dividend to MI	(9,618)	(7,778)	(13,242)	(8,240)	(8,824)	Net Profit Margin (%)	13.77%	15.25%	17.29%	17.57%	17.47%
Dividend	(16,229)	(15,262)	(16,643)	(19,696)	(21,845)	ROA (%)	8.73%	8.89%	9.45%	9.25%	9.12%
Other	59	22,951	27,013	-	-	ROE (%)	18.81%	20.59%	22.09%	21.17%	21.10%
<b>Net Cash Increase</b>	<b>911</b>	<b>2,308</b>	<b>17,664</b>	<b>10,533</b>	<b>19,662</b>						
<b>Closing Balance</b>	<b>18,242</b>	<b>20,589</b>	<b>38,311</b>	<b>48,844</b>	<b>68,507</b>						

Sources : Company, MNCS

### MNC Research Industry Ratings Guidance

**OVERWEIGHT:** Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

**NEUTRAL:** Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

**UNDERWEIGHT:** Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

### MNC Research Investment Ratings Guidance

**BUY :** Share price may exceed 10% over the next 12 months

**HOLD :** Share price may fall within the range of +/- 10% of the next 12 months

**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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