

May 19<sup>th</sup>, 2016

### **FLASH NOTE: Off-net Interconnection Tariffs Cut**

The government had recently stated to cut off-net interconnection tariffs by up to 20%. We see the impact will be minimum, especially for telco company under our coverage, PT Telekomunikasi Indonesia (Persero) Tbk (TLKM). The decision to cut off-net interconnection tariffs was on the back of huge spread between on-net and off-net that causes club-effect in the industry. While 20% cut may sound worrying, the impact for TLKM will be limited as interconnection contributes merely 3.9% to total revenue (as of 1Q16). On another note, 90% of TLKM's interconnection traffic is on-net, and only 10% from the traffic is off-net. Margin wise, operating margin of interconnection stood at 27.5% as of 1Q16, thus we see 20% rate cut off the 10% interconnection will not affect TLKM much. As for the club-effect, we view it will continue to persist despite the rate cut, considering TLKM's huge market share (~45%) and ability to offer the largest spectrum in Indonesian telco (67.5 MHz vs ISAT at 60.0 MHz and EXCL at 45.0 MHz). **Hence, we maintain our BUY recommendation and leave our 52-week target price unchanged at IDR 4,315.**

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