

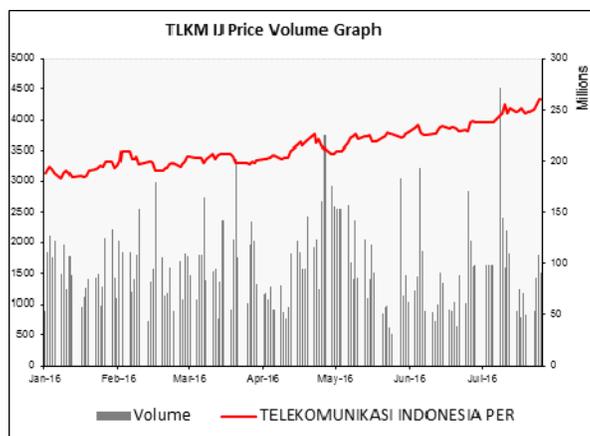
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**PT Telekomunikasi Indonesia (Persero) Tbk** is a telecommunication company that provides a variety of domestic telecommunication services such as telephone, telex, telegram, satellite, and leased line services. The company also offers electronic mail, mobile communication, and cellular phone services.

**Current Price: IDR 4,340**

**52-Week Target Price: IDR 4,315**



Source: Bloomberg, Sinarmas Investment Research

| Share Price Performance |               |
|-------------------------|---------------|
| Price (IDR)             | 4,340         |
| 52-Week High (07/28/16) | 4,380         |
| 52-Week Low (09/29/15)  | 2,474         |
| 52-Week Beta            | 0.82          |
| YTD Change/%            | +1,250/+40.4% |

| Stock Information     |                  |
|-----------------------|------------------|
| Market Cap (IDR)      | 437,472.0 Bn     |
| Shares Out/Float (Mn) | 100.8 Bn/49.2 Bn |

## Company Update

### PT Telekomunikasi Indonesia Tbk (TLKM)

#### 1H16 Earnings Review

**NEUTRAL**

We downgrade PT Telekomunikasi Indonesia Tbk (TLKM) to **NEUTRAL**, deriving via DCF valuation with 10.7% WACC and 3.0% terminal growth, as it has met our 52-week target price. Our 52-week target price represents FY16E EV/EBITDA of 7.52x and FY16E P/E of 15.7x. As of 1H16, Telkom booked IDR 56.5 Tn in revenue and IDR 14.7 Tn in net profit (up 15.6% YoY and 33.6% YoY respectively). Despite the premium valuation compared to its peers, we view TLKM's growing EBITDA will keep the company attractive going forward.

**Implantation of 7,223 BTS in 1Q16 (48% of FY16E) paid off, as data traffic during Ramadhan holiday doubled last year's traffic, in parallel with 48.6% YoY increase in revenue coming from Data, Internet, & IT Services.** Telkom had planted 7,223 BTS in 1Q16 in order to prepare the jump in data traffic during Ramadhan. Data traffic during the holiday increased by 78%-130% YoY, boosting the company's 2Q16 performances by 5.0% QoQ and 12.7% QoQ in revenue and net profit respectively. Another driver for 2Q16 Data, Internet, & IT Services was the increase in data pricing during Ramadhan holiday. Meanwhile, the company indicates that they will review data pricing for each of its 200 micro clusters in 3Q16, as adjustment made in 2Q16 pricing was just seasonality effect.

**As for other segments, Cellular Voice and SMS were rather mixed; up 1.3% YoY and dn 1.5% YoY respectively.** We view the cannibalization in between Telkomsel products will continue to linger as mobile voice OTT is becoming more common and subscribers are migrating to packages from previously "PAYU" (Pay as You Use), which minimizes the percentage of chargeable MoU and SMS.

**We view the outlook for Telkom will continue to be attractive, as the company plans to participate in the 2,100 Mhz (5+5 Mhz) and 2,300 Mhz (15+15 MHz) auctions.** Supported by its strong balance sheet, we view the company will continue to outperform its peers. Nevertheless, at current market price, we view the company is fully and fairly valued.

| Highlights (IDR Bn) | 1H15   | 1H16   | 2015    | 2016E   | % of FY16E |
|---------------------|--------|--------|---------|---------|------------|
| Revenue             | 48,840 | 56,454 | 102,470 | 121,592 | 46.4%      |
| % growth            |        | 15.6%  |         | 18.7%   |            |
| EBITDA              | 23,916 | 28,626 | 51,415  | 61,215  | 46.8%      |
| % growth            |        | 19.7%  |         | 19.1%   |            |
| Net Profit          | 10,979 | 14,663 | 23,317  | 27,908  | 52.5%      |
| % growth            |        | 33.6%  |         | 19.7%   |            |
| Return on Equity    | 22.8%  | 24.7%  | 21.7%   | 21.1%   |            |
| Return on Asset     | 10.2%  | 11.0%  | 10.1%   | 9.5%    |            |
| EV/EBITDA           | 6.66   | 7.69   | 6.54    | 7.52    |            |

Source: Company Data, Sinarmas Investment Research

**Valuations and Forecasts**

| <b>Balance Sheet (IDR Bn)</b> | <b>2014</b>    | <b>2015</b>    | <b>2016E</b>   | <b>2017F</b>   | <b>2018F</b>   |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash                          | 17,672         | 28,117         | 33,909         | 37,743         | 42,889         |
| Account Receivables           | 6,465          | 7,517          | 8,920          | 10,210         | 11,636         |
| Inventory                     | 474            | 528            | 569            | 609            | 662            |
| Other Current Assets          | 9,151          | 11,750         | 11,750         | 11,750         | 11,750         |
| Fixed Assets                  | 94,809         | 103,700        | 115,416        | 128,618        | 143,306        |
| Other Non-Current Assets      | 12,324         | 14,561         | 15,289         | 16,054         | 16,856         |
| <b>Total Assets</b>           | <b>140,895</b> | <b>166,173</b> | <b>185,854</b> | <b>204,985</b> | <b>227,100</b> |
| Short-Term Borrowings         | 11,830         | 13,994         | 17,087         | 19,254         | 21,421         |
| Account Payables              | 5,211          | 8,247          | 9,703          | 12,019         | 15,242         |
| Other Current Liabilities     | 14,745         | 13,172         | 13,831         | 14,522         | 15,248         |
| Long-Term Borrowings          | 15,743         | 30,168         | 34,549         | 38,929         | 43,310         |
| Other Non-Current Liabilities | 7,241          | 7,164          | 7,164          | 7,164          | 7,164          |
| <b>Total Liabilities</b>      | <b>54,770</b>  | <b>72,745</b>  | <b>82,334</b>  | <b>91,888</b>  | <b>102,384</b> |
| <b>Total Equity</b>           | <b>86,125</b>  | <b>93,428</b>  | <b>103,520</b> | <b>113,096</b> | <b>124,715</b> |

| <b>Income Statement (IDR Bn)</b> | <b>2014</b>   | <b>2015</b>    | <b>2016E</b>   | <b>2017F</b>   | <b>2018F</b>   |
|----------------------------------|---------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>                   | <b>89,696</b> | <b>102,470</b> | <b>121,592</b> | <b>139,186</b> | <b>158,626</b> |
| Operating Expense                | 43,852        | 51,055         | 60,377         | 70,659         | 82,034         |
| Depreciation and Amortization    | 17,131        | 18,534         | 22,022         | 24,541         | 27,343         |
| Operating Profit                 | 28,713        | 32,881         | 39,193         | 43,986         | 49,249         |
| <b>EBITDA</b>                    | <b>45,844</b> | <b>51,415</b>  | <b>61,215</b>  | <b>68,527</b>  | <b>76,592</b>  |
| Financing Income                 | 1,238         | 1,407          | 1,194          | 1,567          | 1,645          |
| Financing Expense                | 1,814         | 2,481          | 2,874          | 3,295          | 3,687          |
| Income Before Tax Expense        | 28,784        | 31,342         | 37,513         | 42,259         | 47,207         |
| Tax Expense                      | 7,338         | 8,025          | 9,605          | 10,820         | 12,087         |
| <b>Net Income</b>                | <b>21,446</b> | <b>23,317</b>  | <b>27,908</b>  | <b>31,439</b>  | <b>35,120</b>  |

| <b>Business Segment Contributions</b> | <b>2014</b> | <b>2015</b> | <b>2016E</b> | <b>2017F</b> | <b>2018F</b> |
|---------------------------------------|-------------|-------------|--------------|--------------|--------------|
| Cellular Voice                        | 38.2%       | 36.4%       | 32.7%        | 30.5%        | 28.6%        |
| Data, Internet, and IT services       | 26.3%       | 31.3%       | 39.2%        | 44.2%        | 48.3%        |
| SMS                                   | 15.6%       | 14.8%       | 13.3%        | 12.3%        | 11.5%        |
| Fixed Line Voice                      | 9.9%        | 8.3%        | 6.5%         | 5.2%         | 4.3%         |
| Interconnection                       | 5.2%        | 4.2%        | 3.7%         | 3.3%         | 2.8%         |
| Network                               | 1.4%        | 1.2%        | 1.0%         | 0.9%         | 0.8%         |
| Other                                 | 3.3%        | 3.8%        | 3.7%         | 3.6%         | 3.7%         |

| <b>Ratios</b> | <b>2014</b> | <b>2015</b> | <b>2016E</b> | <b>2017F</b> | <b>2018F</b> |
|---------------|-------------|-------------|--------------|--------------|--------------|
| ROE           | 22.8%       | 21.7%       | 21.1%        | 19.9%        | 20.2%        |
| ROA           | 10.9%       | 10.1%       | 9.5%         | 8.8%         | 8.9%         |
| EV/EBITDA     | 6.79        | 6.54        | 7.52         | 7.52         | 7.52         |

Source: Company Data, Sinarmas Investment Research

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