

FY17 results. In 4Q17, TLKM booked a revenue of IDR 31.25 tn (+3.7% YoY, -5.2% QoQ), bringing FY17 total revenue to IDR 128.26 tn (+10.2% YoY). Weak 4Q17 result was due to the decline in legacy revenue and fierce competition in data market. Revenue from legacy in 4Q17 (voice + SMS) went down by 16.7% YoY, 7.2% QoQ, while revenue from internet and data increased by 36.4% YoY, 11.3% QoQ. Despite the increase on internet and data revenue, data yield has declined by 39.9% YoY, 10.6% QoQ. On the cost side, operation and maintenance as well as marketing expense increased by 24.2% YoY and 23.1% YoY respectively. Overall, EBITDA and net margin in 4Q17 fell to 46.6% and 13.5% (vs 51.0% and 17.6% in 3Q17) due to higher cost coupled with additional one-off expense amounted to IDR ~1.8 tn, based on management information.

Competition remains tough. As anticipated, competition in data market remained tough throughout 4Q17, shown by lower data yield at IDR 14.58 per MB (-10.6% QoQ). We expect competition to remain tough in 1H18 resulting in lower data yield and higher marketing expense for TLKM. However, competition should ease and data pricing should become more rational entering 2H18 as SIM registration deadline has already passed.

FY18 expectation. Despite fierce competition in data market, the management keep on their optimistic view for FY18 outlook. The revenue growth for Telkom group is expected to stand at middle to high single digit, while EBITDA margin could fall as much as 1-2% due to the transformation toward digital business. Meanwhile, on the non cellular business, Indihome new subscriber is expected to grow by ~1.5 mn subs or around 50% YoY, which should give additional growth for TLKM. On another note, we also think volume traffic growth this year should be able to offset the decline in legacy revenue and lower data yield trend. Nevertheless, we might expect a weaker result in 1H18 due to high level of competition and a better result in the second half of the year.

Attractive valuation, reiterate BUY call on TLKM with FY18 target price at IDR 4,500 derived via EV/EBITDA multiples at 7.0x (3 years average). Currently, TLKM is trading at 6.2x forward FY18 EV/EBITDA, -1.4SD below 3 years average. We think that rising competition and data yield downfall has been priced in by the market. Looking ahead, we see easing competition in 2H18 and high data traffic growth on the back of rising consumption will become an attractive turnaround story for TLKM.

Highlights (IDR Tn)	2016	2017	2018F	2019F	2020F
Revenue	116.3	128.3	138.6	149.0	158.3
% growth	14%	10%	8%	7%	6%
Gross Profit	59.5	64.6	68.4	74.7	79.6
Net Profit	19.4	22.1	23.5	26.0	27.8
% growth	25%	14%	6%	11%	7%
Gross Margin (%)	51%	50%	49%	50%	50%
Net Margin (%)	17%	17%	17%	17%	18%
Return on Equity (%)	18%	20%	19%	19%	19%
Return on Assets (%)	11%	11%	11%	12%	12%
EPS	192.0	219.7	232.7	257.8	275.5

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## Stock Information

Sector	Telecommunication
Bloomberg Ticker	TLKM IJ
Market Cap. (IDR tn)	368.9
Share Out./Float (mn)	100,800/49,192
Current Price	IDR 3,660
52-week Target Price	IDR 4,500
Upside (%)	23.0%

## Share Price Performance

52W High (08/02/17)	4,840
52W Low (03/23/18)	3,520
52W Beta	1.11
YTD Change (%)	-17.6%

## Relative Valuations

Trailing P/E	16.3x
Forward P/E	15.7x
P/BV	3.9x
EV/EBITDA	6.1x

## Income Statement

(IDR Tn)	2016	2017	2018F	2019F	2020F
Revenue	116.3	128.3	138.6	149.0	158.3
% growth	14%	10%	8%	7%	6%
Operation exp	(31.3)	(36.6)	(41.6)	(44.8)	(47.3)
Dep & amo exp	(18.5)	(20.4)	(21.3)	(22.8)	(24.7)
Personnel exp	(13.6)	(13.5)	(14.4)	(15.7)	(17.0)
Interconnection exp	(3.2)	(3.0)	(2.4)	(2.1)	(1.8)
G&A exp	(4.6)	(5.3)	(5.7)	(6.1)	(6.6)
Marketing exp	(4.1)	(5.3)	(6.2)	(5.7)	(6.0)
Other exp	(0.5)	(1.8)	(0.2)	(0.7)	(0.7)
Operating Profit	39.2	43.9	46.4	51.2	54.1
Profit or loss from JV	0.1	0.1	0.1	0.1	0.1
EBIT	39.3	44.0	46.5	51.3	54.2
EBITDA	59.5	64.6	68.4	74.7	79.6
% growth	16%	9%	6%	9%	6%
Finance income/cost	(1.1)	(1.3)	(1.1)	(1.1)	(0.5)
EBT	38.2	42.7	45.3	50.2	53.7
Tax	(9.0)	(10.0)	(10.6)	(11.7)	(12.5)
NCI	(9.8)	(10.6)	(11.3)	(12.5)	(13.4)
Net Profit	19.4	22.1	23.5	26.0	27.8
% growth	25%	14%	6%	11%	7%

## Cash Flow

(IDR Tn)	2016	2017	2018F	2019F	2020F
Net Income	19.4	22.1	23.5	26.0	27.8
Depreciation	4.6	3.5	19.9	21.2	22.8
Amortization	1.1	1.0	1.4	1.6	1.9
Chg. in NWC	5.2	(0.9)	0.9	0.7	0.7
CF from Operating	30.3	25.7	45.6	49.4	53.2
Capital Expenditure	(15.4)	(19.2)	(22.2)	(22.4)	(23.8)
Chg. in LT Assets	(3.9)	(4.3)	0.6	(2.2)	(3.2)
Chg. In Intg. asset	0.8	5.1	(1.4)	0.9	1.0
Chg in LT Liabilities	(18.6)	(18.4)	(23.0)	(23.6)	(25.9)
CF from Investing	2.0	0.0	0.0	0.0	0.0
Chg. in Share & APIC	1.0	2.1	(5.4)	5.4	0.5
Chg. in ST Loans	(3.8)	1.6	0.0	(5.3)	(5.6)
Chg. in LT Loans	(13.2)	(13.3)	(14.1)	(15.6)	(16.7)
Dividends Paid	4.0	(1.7)	1.0	1.0	1.1
CF from Financing	(10.0)	(11.3)	(18.5)	(14.5)	(20.7)
Change in Cash	1.7	(4.0)	4.2	11.4	6.5
Beginning Cash	28.1	29.8	25.7	29.9	41.3
Ending Cash	29.8	25.7	29.9	41.3	47.8

## Balance Sheet

(IDR Tn)	2016	2017	2018F	2019F	2020F
Cash & equivalents	29.8	25.1	29.9	41.3	47.8
Trade receivables	7.9	9.6	10.3	11.1	11.8
Other CA	10.0	12.9	14.2	15.3	16.6
Total current assets	47.7	47.6	54.4	67.7	76.2
PPE	114.5	130.2	132.5	133.6	134.6
Other LT Assets	17.4	20.8	18.8	19.4	20.7
Total Assets	179.6	198.5	205.7	220.8	231.4
Trade payables	13.7	15.8	16.8	17.7	18.8
ST loans	5.4	7.5	2.1	7.5	8.0
Other CL	20.6	22.1	24.1	25.8	27.4
Total Current Liabilities	39.8	45.4	43.0	51.0	54.1
LT loans	26.4	28.0	28.0	22.7	17.1
Other	7.9	13.0	11.6	12.6	13.6
Total Liabilities	74.1	86.4	82.6	86.3	84.8
Share & APIC	10.0	10.0	10.0	10.0	10.0
Retained Earnings	76.6	84.9	94.9	105.3	116.4
NCI	21.2	19.4	20.4	21.4	22.5
Other	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)
Total Equity	105.5	112.1	123.1	134.5	146.7
Total Equity & Liabilities	179.6	198.5	205.7	220.8	231.4

## Ratio Analysis and Key Assumptions

	2016	2017	2018F	2019F	2020F
<b>Profitability</b>					
ROE	18%	20%	19%	19%	19%
ROA	11%	11%	11%	12%	12%
Operating Margin	34%	34%	33%	34%	34%
EBITDA Margin	51%	50%	49%	50%	50%
Net Profit Margin	17%	17%	17%	17%	18%
<b>Liquidity</b>					
Current Ratio	1.2	1.0	1.3	1.3	1.4
<b>Solvency</b>					
Debt to Equity	0.2	0.2	0.2	0.2	0.1
Debt to Assets	0.1	0.1	0.1	0.1	0.1
<b>Valuation</b>					
Price to Earning (PE)	23.7	20.7	19.5	17.6	16.5
Price to Book (PBV)	4.3	4.1	3.7	3.4	3.1
EV/EBITDA	7.1	6.2	5.9	5.4	5.1
<b>Key Assumptions</b>					
Cellular Subs (Mn)	173.9	196.3	211.2	222.0	233.4
Indihome Subs (Mn)	1.6	3.0	4.3	5.4	6.8
Data/Subs/month (GB)	1.0	1.7	2.7	3.6	4.1
Price/data (IDR/MB)	29.5	17.5	11.9	9.5	8.1

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