

Maintain BUY. We reiterate our BUY recommendation for TLKM with a lower TP of IDR 3,950, derived from DCF-based valuation, which implies 6.3x EV/EBITDA. Overall, we are still positive on TLKM outlook despite the current challenging situation. We believe TLKM will remain resilient, supported by uptrend data consumption and strong growth in IndiHome's revenue.

1Q20 results: accelerated legacy downturn and weak enterprise segment offset by data and IndiHome revenue. TLKM posted revenue of IDR 34.2tn (-1.9% YoY, +3.8% QoQ), achieved 25.0%/24.3% of our/consensus estimate. The decrease in legacy revenues (SMS, fixed, and mobile voice) of 21.4% YoY has dragged down TLKM's revenue. As of 1Q20, ARPU decreased by 1.6% QoQ to IDR 45k. Moreover, the enterprise segment fell by 31.6% YoY as management is refocusing on high-margin business. Differently, TLKM's future revenue engine is still continuing its growth momentum. Cellular data revenue grew by 15.9% YoY, supported by increasing data consumption (+41.7% YoY), while IndiHome revenue grew 19.7% YoY to IDR 5.1tn on the back of increasing subscriber to 7.26mn (+31.4% YoY).

The impact of PSAK 73 implementation. EBITDA grew by 7.0% YoY to IDR 18.8tn, expanded by the PSAK 73 (Leases) implementation. Tower and network lease expenses which recorded under operation and maintenance expense account, dropped 22.9% YoY in 1Q20, while depreciation and amortization expenses rose by 21.4% YoY as lease assets are being recorded. On the other hand, finance cost increased by 19.8% YoY as lease liabilities are recognized. Net profit was posted at IDR 5.9tn (-5.8% YoY, +166% QoQ), reached 31.3%/27.9% of our/consensus estimate.

Competition and consolidation possibility. Competition within the telco continues to linger in 1Q20. On the latest earnings call, the management said that competition is intense outside the Java region. As of 1Q20, TLKM has lost 8.5mn subscribers year-to-date to 162.6mn (-5% YTD). Telkomsel is adjusting the price to maintain relevancy in the current condition, focusing on its high-value customer to maintain ARPU, and having packages to help the decline in legacy revenue. On the other note, recent news on potential consolidation in the industry has caused concerns on TLKM's outlook as competitors might have stronger capital to compete with. However, we are of the view that consolidation will benefit the sector in the longer term. Rational pricing and less predatory competition should benefit the operators' profitability onwards.

Highlights (IDR Tn)	2018	2019	2020E	2021F	2022F
Revenue	130.8	135.6	136.5	147.6	158.0
% growth	2.0%	3.7%	0.7%	8.1%	7.0%
EBITDA	59.2	64.8	69.5	77.6	85.0
% growth	-8.4%	9.5%	7.2%	11.7%	9.5%
Net Profit	18.0	18.7	18.7	21.8	24.4
% growth	-18.6%	3.5%	0.4%	16.3%	12.0%
EBITDA Margin	45.3%	47.8%	50.9%	52.6%	53.8%
Net Margin	13.8%	13.8%	13.7%	14.8%	15.5%
EPS (IDR)	182	188	189	220	247
EV/EBITDA (x)	7.3	6.7	6.3	5.6	5.1

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Sector	Telecommunication
Bloomberg Ticker	TLKM IJ
Market Cap. (IDR tn)	302.1
Share Out./Float (mn)	99,062/47,458
Current Price	IDR 3,050
52-week Target Price	IDR 3,950
Upside (%)	29.5%

Share Price Performance

52W High (08/21/19)	4,500
52W Low (03/20/20)	2,450
52W Beta	1.0
YTD Change (%)	-22.1%

Relative Valuations

Trailing P/E	16.5x
Forward P/E	20.9x
P/BV	2.8x

TLKM 1Q20 Earnings Summary

IDR bn	1Q19	4Q19	1Q20	QoQ	YoY	3M19	3M20	YoY	% DH	% Cons
Revenue	34,840	32,936	34,194	3.8%	-1.9%	34,840	34,194	-1.9%	25.0%	24.3%
EBITDA	17,530	14,802	18,759	26.7%	7.0%	17,530	18,759	7.0%	27.0%	27.0%
Net profit	6,224	2,204	5,862	166.0%	-5.8%	6,224	5,862	-5.8%	31.3%	27.9%
EBITDA margin	50.3%	44.9%	54.9%			50.3%	54.9%			
Net profit margin	17.9%	6.7%	17.1%			17.9%	17.1%			

Source: Company data, Sinarmas Investment Research

Resetting expectations. We lowered our expectations on TLKM earnings as we adjusted the COVID-19 impact. We adjusted our revenue/EBITDA/NPAT FY20E estimate by -9.2%/+8.1%/-19.9% respectively. For FY21F, we remain positive for earnings to rebound supported by improving economic conditions.

TLKM Earnings Revision

IDR bn	Old		New		Change	
	2020E	2021F	2020E	2021F	2020E	2021F
Revenue	150.4	162.3	136.5	147.6	-9.2%	-9.1%
EBITDA	64.3	73.4	69.5	77.6	8.1%	5.8%
EBITDA margin	42.8%	45.2%	50.9%	52.6%		
Net profit	23.4	26.3	18.7	21.8	-19.9%	-17.1%
NPM	15.6%	16.2%	13.7%	14.8%		

Source: Company data, Sinarmas Investment Research

Income Statement (IDR Tn)	2018	2019	2020E	2021F	2022F
Revenue	130.8	135.6	136.5	147.6	158.0
% growth	2.0%	3.7%	0.7%	8.1%	7.0%
Operation exp	(43.8)	(42.2)	(36.2)	(38.9)	(40.9)
Dep & Amo. exp	(21.4)	(23.2)	(30.3)	(32.1)	(34.1)
Personal exp	(13.2)	(13.0)	(13.2)	(13.6)	(14.0)
Interconnection exp	(4.3)	(5.1)	(5.9)	(5.2)	(4.8)
G&A exp	(6.1)	(6.7)	(7.2)	(7.4)	(8.1)
Marketing exp	(4.2)	(3.7)	(4.5)	(4.9)	(5.2)
Operating Profit	37.8	41.7	39.1	45.6	50.9
EBITDA	59.2	64.8	69.5	77.6	85.0
% growth	-8.4%	9.5%	7.2%	11.7%	9.5%
Finance income(exp)	(2.5)	(3.1)	(3.8)	(4.0)	(4.5)
Other income(exp)	1.1	(0.4)	0.2	0.0	0.0
EBT	36.4	37.9	35.5	41.5	46.4
Tax	(9.4)	(10.3)	(8.3)	(9.1)	(10.2)
Minority interest	(8.9)	(8.9)	(8.4)	(10.6)	(11.8)
Attributable Net profit	18.0	18.7	18.7	21.8	24.4
% growth	-18.6%	3.5%	0.4%	16.3%	12.0%
EPS (IDR)	182.0	188.4	189.2	220.1	246.5

Balance Sheet (IDR Tn)	2018	2019	2020E	2021F	2022F
Cash & equivalents	17.4	18.2	14.4	10.5	12.8
Trade receivables	11.4	11.8	10.5	11.3	12.2
Other CA	14.4	11.7	11.6	12.6	13.1
Total Current Assets	43.3	41.7	36.5	34.4	38.1
PPE	143.2	157.0	166.1	175.5	186.9
Other LT assets	19.7	22.5	19.0	24.8	25.3
Total Assets	206.2	221.2	221.6	234.7	250.3
Payables	16.4	17.8	15.0	16.0	16.9
Short-term loans	10.3	18.2	18.0	15.9	15.8
Other current liabilities	19.5	22.4	19.2	20.6	22.4
Total Current Liabilities	46.3	58.4	52.2	52.5	55.1
Long term-loans	33.7	33.9	39.5	44.3	49.3
Other	8.9	11.7	13.2	13.6	13.8
Total Liabilities	88.9	104.0	105.0	110.4	118.1
Share & APIC	7.4	7.7	7.4	7.4	7.4
Retained earnings	91.0	91.5	95.3	102.1	109.1
Non controlling interest	18.4	17.7	13.5	14.3	15.3
Total Equity	117.3	117.3	116.6	124.3	132.2
Total Equity & Liabilities	206.2	221.2	221.6	234.7	250.3

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Tn)	2018	2019	2020E	2021F	2022F
Net Income	18.0	18.7	18.7	21.8	24.4
Depreciation & amortization	1.4	16.5	14.0	14.9	16.1
Chg. in NWC	-5.4	6.6	-4.6	0.6	1.2
CF from Operating	14.0	41.7	28.2	37.4	41.8
Capital Expenditure	-13.2	-28.6	-21.1	-22.2	-24.9
Chg. in LT Assets	2.6	-1.4	4.1	-5.5	-0.2
Chg in LT Liabilities	-4.1	2.8	1.5	0.3	0.2
CF from Investing	-17.5	-30.2	-18.0	-29.9	-27.7
Chg. in Share & APIC	-2.6	0.3	-0.2	0.0	0.0
Chg. in Bank Loans	8.6	8.0	5.5	2.7	4.8
Dividends Paid	-16.9	-16.9	-14.9	-15.0	-17.4
Others	6.6	-2.1	-4.3	0.9	0.9
CF from Financing	-4.2	-10.7	-13.9	-11.4	-11.7
Change in Cash	-7.7	0.8	-3.8	-3.9	2.3
Beginning Cash	25.1	17.4	18.2	14.4	10.5
Ending Cash	17.4	18.2	14.4	10.5	12.8

Financial Ratio	2018	2019	2020E	2021F	2022F
Profitability					
EBITDA Margin	45.3%	47.8%	50.9%	52.6%	53.8%
Net profit margin	13.8%	13.8%	13.7%	14.8%	15.5%
ROE	15.4%	15.9%	16.1%	17.5%	18.5%
ROA	8.7%	8.4%	8.5%	9.3%	9.8%
Liquidity & Solvency					
Current Ratio	0.9	0.7	0.7	0.7	0.7
Debt to Equity	0.4	0.4	0.5	0.5	0.5
Valuation					
Price to Earning (PE)	21.7	21.0	20.9	18.0	16.0
Price to Book (PBV)	4.0	3.9	3.8	3.6	3.3
EV/EBITDA	7.3	6.7	6.3	5.6	5.1

Key Assumptions	2018	2019	2020E	2021F	2022F
Cellular Subs (Mn)	163.0	171.1	167.7	173.4	182.6
Cellular ARPU (000)	39.6	43.4	47.2	49.8	50.0
Data Subs (Mn)	106.6	113.0	112.4	117.0	124.2
Data Yield (IDR 000/Gb)	10.3	8.3	7.2	6.6	6.2

Source: Company data, Sinarmas Investment Research

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SELL: Share price may fall by more than 15% over the next 12 months.

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