

Evan Lie Hadiwidjaja

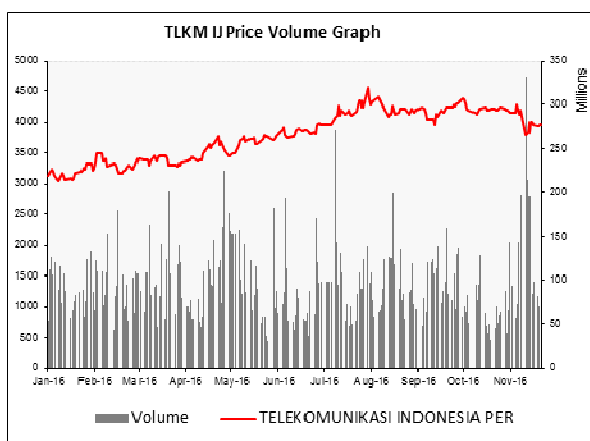
Senior Equity Analyst

evan.hadiwidjaja@sinarماسekuritas.co.id

(021) 392 5550 ext: 610



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 3,950
52-Week Target Price: IDR 4,785


Source: Bloomberg, Sinarmas Investment Research

Share Price Performance

Price (IDR)	3,950
52-Week High (08/01/16)	4,570
52-Week Low (11/23/15)	2,787
52-Week Beta	0.80
YTD Change/%	+859.1/+27.8%

Stock Information

Market Cap (IDR)	397,154.5 Bn
Shares Out/Float (Mn)	100,800.0/49,190.4

Company Update
PT Telekomunikasi Indonesia Tbk (TLKM)
Survival of the Fittest
BUY

We rollover our valuation to 2017 and rate PT Telekomunikasi Indonesia (Persero) Tbk (TLKM) as **BUY** with 52-week target price of **IDR 4,785, deriving via DCF valuation**. Our rollover TP represents FY17F EV/EBITDA of 6.96x, relatively parallel with the 2yr EV/EBITDA band. Despite the premium valuation compared to its peers, we view strong EBITDA growth will continue to make valuation attractive going forward. Meanwhile, aggressive BTS rollout and good management over its micro clusters will make Telkom's market share resilient from volatile churn rate and possible cut in interconnection rate.

In 9M16, Telkom has a little over 20K BTS rolled out year-to-date, which results in +37.2% YoY in Data, Internet, & IT Services revenue (90% of 9M16 BTS rollout is for 3G/4G). BTS rollout has been very aggressive this year, though we view the capex spent has paid off with the increase in data revenue and strong performance during Ramadhan. As a comparison, BTS rolled out in 9M16 has exceeded the 3-year average of 13.3K BTS rollout during the first nine months and even the 3-year average of 16.3K BTS rollout annually. We view data business will continue to deliver strong growth in the coming years, given the accelerating smartphone penetrations and growing low-cost smartphones in the market.

As for other segments, Cellular Voice and SMS have started to saturate, while IndiHome's subs are growing rapidly. 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, which minimizes chargeable MoU and SMS. Another driver for revenue would be IndiHome, which can be seen from the 124.8% increase in subscribers compared to last year. Contribution from IndiHome is still considerably small, though the company offers add-ons to increase IndiHome revenue.

Risks: Short term volatility may persist given the overhang in interconnection rate and the approval of PP 52/53 concerning network sharing (MOCN). Be that as it may, if the government decides to cut interconnection rate, Telkom's EBITDA will deteriorate, followed by rising competition in market share. As for PP 52/53, it will not directly impact Telkom, though it will help lowering competitors' capex going forward.

Highlights (IDR Bn)	2014	2015	2016E	2017F	2018F
Revenue	89,696	102,470	118,403	136,264	155,418
% growth		14.2%	15.5%	15.1%	14.1%
EBITDA	45,844	51,415	62,639	73,186	84,859
% growth		12.2%	21.8%	16.8%	15.9%
Net Profit	21,446	23,317	29,599	35,304	41,413
% growth		8.7%	26.9%	19.3%	17.3%
Return on Asset	10.9%	10.1%	10.0%	9.6%	10.1%
Return on Equity	22.8%	21.7%	22.3%	21.8%	22.9%
EV/EBITDA (X)	6.79	6.54	7.33	6.96	6.03

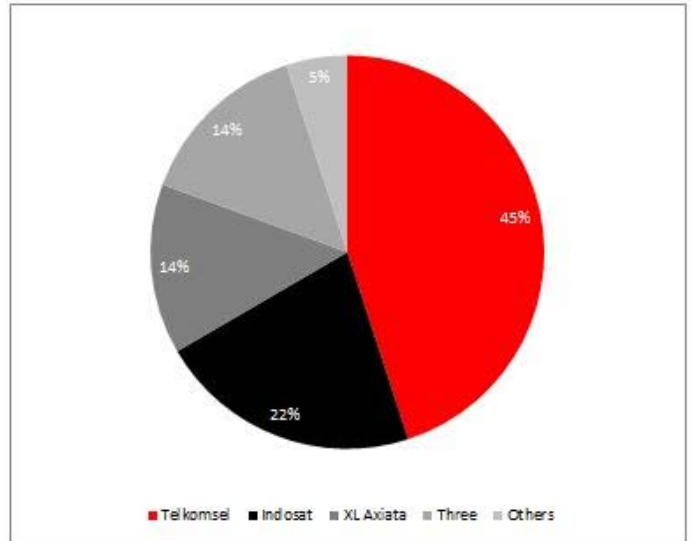
Source: Company Data, Sinarmas Investment Research

Growing EBITDA will continue to make Telkom's valuation looks attractive



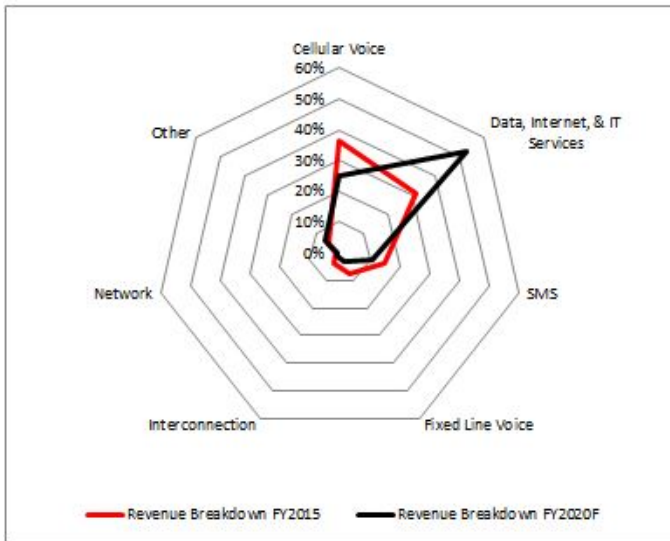
Source: Bloomberg, Sinarmas Investment Research

Resilient market share due to vast infrastructure and well-managed micro clusters



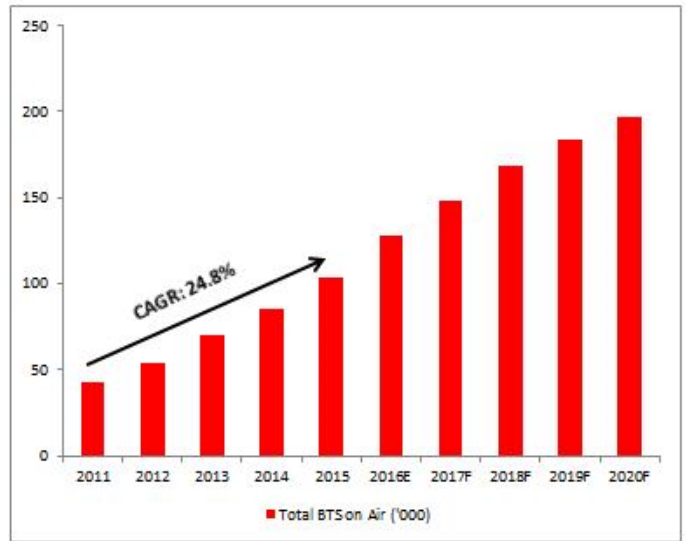
Source: Sinarmas Investment Research

Data, Internet, & IT Services will continue to drive company's earnings



Source: Company Data, Sinarmas Investment Research

Total BTS on air grew by 24.8% CAGR over the past five years



Source: Company Data, Sinarmas Investment Research

Valuations and Forecasts

Assumptions	2014	2015	2016E	2017F	2018F
Indonesia Population ('000000)	252.2	255.5	258.8	262.2	265.6
Telkom's Cellular Subs ('000000)	140.6	152.6	167.6	182.6	197.6
Telkom's Data Subs ('000000)	67.9	73.9	99.9	122.7	145.4
# of 3G/4G Capable Devices ('000000)	40.4	61.7	79.9	98.1	116.3
Telkom's Cellular Subs Penetration	56%	60%	65%	70%	74%
Telkom's Data Subs Penetration	27%	29%	39%	47%	55%
Total BTS on Air ('000)	85.4	103.3	128.3	148.3	168.3
Total BTS Rollout ('000)	15.6	17.9	25.0	20.0	20.0

Balance Sheet (IDR Bn)	2014	2015	2016E	2017F	2018F
Cash and Equivalents	17,672	28,117	38,053	43,717	51,342
Account Receivables	6,465	7,517	8,686	9,996	11,401
Inventories	474	528	555	596	648
Other Current Assets	9,151	11,750	11,750	11,750	11,750
Fixed Assets	94,809	103,700	116,407	131,030	147,710
Other Non-Current Assets	12,324	14,561	15,289	16,054	16,856
Total Assets	140,895	166,173	190,739	213,143	239,707
ST Borrowings	11,830	13,994	18,532	21,327	24,325
Account Payables	5,211	8,247	8,962	10,729	13,110
Other Current Liabilities	14,745	13,172	13,831	14,522	15,248
LT Borrowings	15,743	30,168	37,469	43,121	49,183
Other Non-Current Liabilities	7,241	7,164	7,164	7,164	7,164
Total Liabilities	54,770	72,745	85,957	96,864	109,030
Total Equity	86,125	93,428	104,782	116,279	130,677

Income Statement (IDR Bn)	2014	2015	2016E	2017F	2018F
Revenue	89,696	102,470	118,403	136,264	155,418
Operating Expense	22,288	28,116	31,518	36,431	41,345
Depreciation and Amortization	17,131	18,534	21,042	23,685	26,700
Operating Profit	28,713	32,881	41,597	49,501	58,159
EBITDA	45,844	51,415	62,639	73,186	84,859
Finance Income	1,238	1,407	1,194	1,567	1,645
Finance Cost	1,814	2,481	3,005	3,613	4,139
Income Before Tax Expenses	28,784	31,342	39,786	47,455	55,666
Net Income	21,446	23,317	29,599	35,304	41,413

Source: Company Data, Sinarmas Investment Research

Business Segment Contribution	2014	2015	2016E	2017F	2018F
Cellular Voice	38.2%	36.4%	32.7%	30.5%	28.4%
Data, Internet, & IT Services	26.3%	31.3%	38.5%	43.1%	47.0%
SMS	15.6%	14.8%	13.8%	12.9%	12.1%
Fixed Line Voice	9.4%	7.6%	6.4%	5.4%	4.4%
Interconnection	5.2%	4.2%	3.2%	2.7%	2.2%
Network	1.4%	1.2%	0.9%	0.8%	0.7%
Other	3.8%	4.5%	4.6%	4.7%	5.1%

Ratios	2014	2015	2016E	2017F	2018F
Profitability					
Return on Asset (%)	10.89	10.09	9.95	9.62	10.06
Return on Equity (%)	22.81	21.67	22.28	21.84	22.94
Operating Margin (%)	32.01	32.09	35.13	36.33	37.42
EBITDA Margin (%)	51.11	50.18	52.90	53.71	54.60
Net Margin (%)	23.91	22.75	25.00	25.91	26.65
Liquidity					
Current Ratio (X)	1.06	1.35	1.43	1.42	1.43
Quick Ratio (X)	1.05	1.34	1.42	1.41	1.41
Solvency					
Debt/Equity (X)	0.26	0.36	0.40	0.42	0.42
Debt/Assets (X)	0.16	0.20	0.22	0.23	0.23
Debt/EBITDA (X)	0.48	0.65	0.67	0.66	0.65
Valuations					
P/E (X)	13.47	13.42	14.69	13.66	11.65
P/BV (X)	4.26	4.17	5.16	5.16	4.59
EV/EBITDA (X)	6.79	6.54	7.33	6.96	6.03

Source: Company Data, Sinarmas Investment Research

DISCLAIMER

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Additional information is available upon request.

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.

©Sinarmas Sekuritas(2016). All rights reserved.