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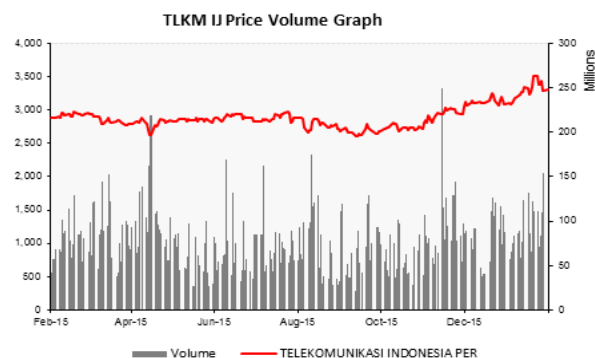


**PT Telekomunikasi Indonesia (Persero) Tbk** is a telecommunication company that provides a variety of domestic telecommunication services such as telephone, telex, telegram, satellite, and leased line services. The company also offers electronic mail, mobile communication, and cellular phone services.

#### TLKM IJ

**Current Price: IDR 3,300**

**52-Week Target Price: IDR 3,895**



Source: Bloomberg, Sinarmas Investment Research

Share Price Performance	
Price (IDR)	3,300
52-Week High (02/05/16)	3,510
52-Week Low (09/29/15)	2,485
52-Week Beta	0.82
YTD Change/%	195.00/6.7%

Stock Information	
Market Cap (IDR)	335,160 Bn
Shares Out/Float (IDR)	100.8 Bn/49.2 Bn
IPO	11/14/1995

Source: Bloomberg, Sinarmas Investment Research

#### Initiating Coverage

### PT Telekomunikasi Indonesia (Persero) Tbk

#### Master of All Trades in Indonesia Telco

**BUY**

We initiate coverage on **PT Telekomunikasi Indonesia (Persero) Tbk (TLKM)** as **BUY** with 52-week target price of **IDR 3,895**, deriving via DCF valuation with **10.7% WACC** and **3.0% terminal growth**, which represents **2016E EV/EBITDA of 7.62x**. The company is currently trading at 22.5x P/E and 7.07x EV/EBITDA. With resilient market share of 45% as of September 2015, Telkom will continue to enjoy strong earnings growth driven by 3G/4G modernization (development in 3G alone is not fully completed in some areas and still offers potential room for growth), and increasing data pricing as another booster to the top line.

**Accelerating smartphone penetrations will strengthen company's earnings.** Data, Internet, and IT Services, which contributes ~30% of total revenue, will continue to be the driving factor when it comes to growth as Cellular Voice starts to mature and other business lines have smaller contributions. According to research from IDC, worldwide shipment volume has shifted from premium brands to low costs, and will continue to for longer time, which will cause ASP to decline by 4.3% per year until 2019. Penetrations from low cost smartphones will strengthen Telkom's earnings, especially with Indonesian market more aware of gadgets and technology than ever before, consolidated data consumption will continue to rise.

**Strong balance sheet has made TLKM a darling stock to collect.** One of the biggest problems in Telco industry is that it requires high capex to maintain market share. In September 2015, TLKM's gearing ratio was as low as 0.26x, the lowest in ASEAN Telco. Comparing to its domestic peers, ISAT and EXCL have their gearing ratios at 1.87x and 1.98x respectively. All in all, given that 3G/4G modernization is inevitable and will continue to persist at least in the foreseeable future, Telkom has the advantage as other players are highly leveraged and face bottleneck in 3G/4G modernization.

**We rate TLKM as BUY with 52-week target price of IDR 3,895, which represents a potential upside of 18.0% and 2016E EV/EBITDA of 7.62x, slight re-rating from current EV/EBITDA of 7.07x.**

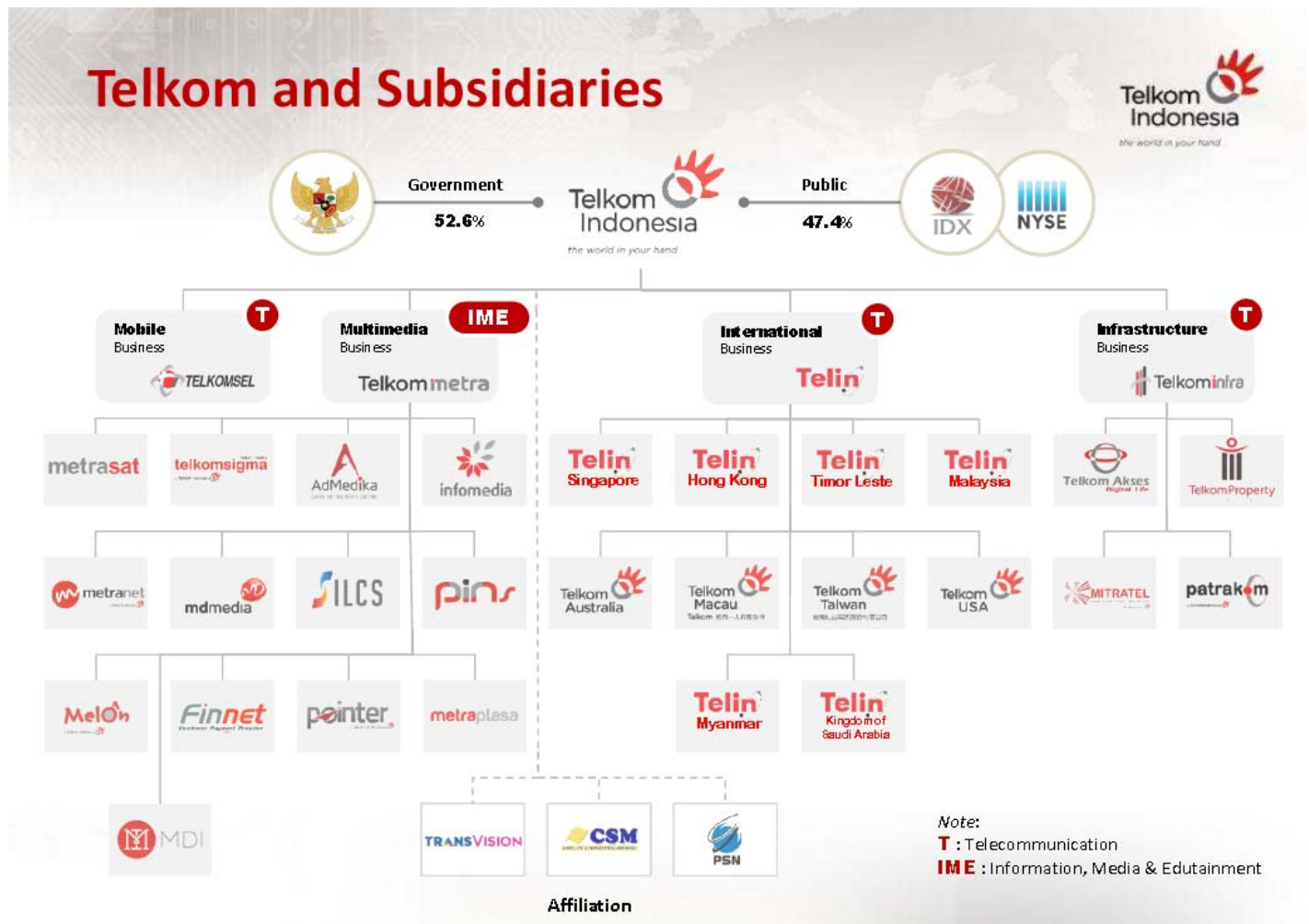
Highlights (IDR Bn)	2013	2014	2015E	2016F	2017F
Revenue	82,967	89,696	102,412	116,914	135,008
% growth		8.1%	14.2%	14.2%	15.5%
EBITDA	41,776	45,844	49,441	56,124	66,048
% growth		9.7%	7.8%	13.5%	17.7%
Net Profit	20,290	21,446	22,109	25,134	30,133
% growth		5.7%	3.1%	13.7%	19.9%
ROE	25.3%	22.8%	20.6%	20.3%	20.7%
ROA	11.9%	10.9%	9.7%	9.2%	9.1%
EV/EBITDA	5.68	6.79	7.00	7.62	7.62
P/E Ratio	14.6	19.1	20.8	24.3	23.7

Source: Company Data, Sinarmas Investment Research

## Company Background

PT Telekomunikasi Indonesia (Persero) Tbk (TLKM), which commonly abbreviated as Telkom, is one of the world's oldest telecommunication companies and is currently the largest telecommunication services company in Indonesia. In November 14, 1995, Telkom was listed in Indonesia Stock Exchange (Ticker: TLKM) with IPO price of IDR 2,050 per share (IPO price has not incorporated 1:2 and 1:5 stock splits that were done in September 2004 and August 2013). Another important note, the company is also listed in New York Stock Exchange with Ticker ID of TLK. Engaged in a broad range of businesses that consist of telecommunication, information, media, edutainment, and services, Telkom is the largest telecommunication services company by market capitalization and number of subscribers. Market capitalization has folded almost seventeen times to current ~IDR 333 Tn from when it was first publicly listed.

## Company & Shareholder Organization Structure



Source: Company Presentation

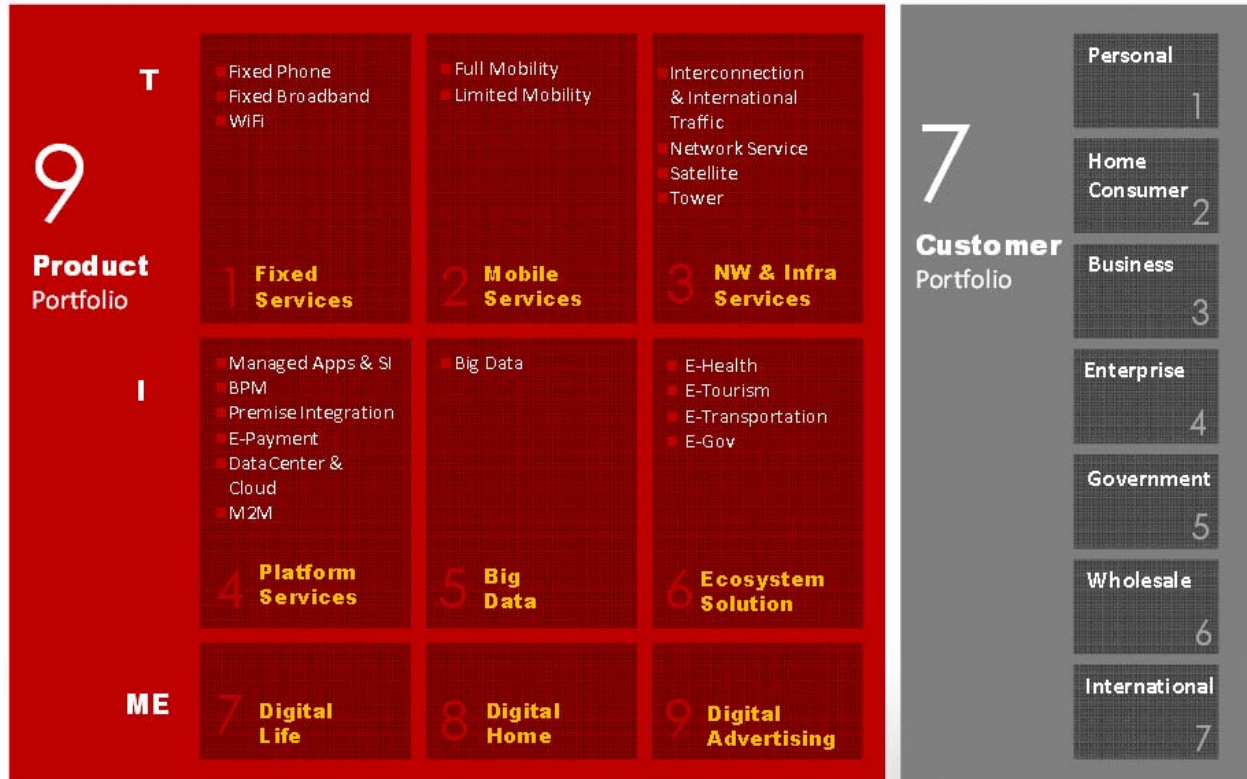
Company Business Structure

# Telkom Group Portfolios



Well diversified business portfolio:

**9 Product** Portfolios and **7 Customer** Portfolios



Source: Company Presentation

## Supportive Catalysts and Key Risks to Valuation

### Supportive Catalysts:

- **Increasing Data Pricing**—Indonesia's Telco is still behind if compared to other countries, thus room for ASP increase is still large and far from the saturation point. We view Data, Internet, and IT services will be the driving factor for the company's top line.
- **Superior Balance Sheet**—Strong cash position coupled with low gearing ratio gives TLKM a huge advantage compared to its competitors, as Telco industry requires high capex to maintain market share.
- **3G/4G Modernization**—Due to big capex in Telco industry, we view TLKM will advance better than its competitors when it comes to 3G/4G modernization. ISAT and EXCL have their gearing ratios at 1.87x and 1.98x respectively, while TLKM only at 0.26x.
- **Further Penetration From Low Cost Smartphones**—Growing low cost smartphones will continue to benefit Telco industry as it accelerates the number of smartphone users.
- **Biggest Market Share in Indonesia Telco Industry**—Thanks to the strong brand name of Telkomsel, TLKM has been able to secure its position as leading player in Indonesia Telco industry with a market share of 45% as of September 2015.

### Key Risks:

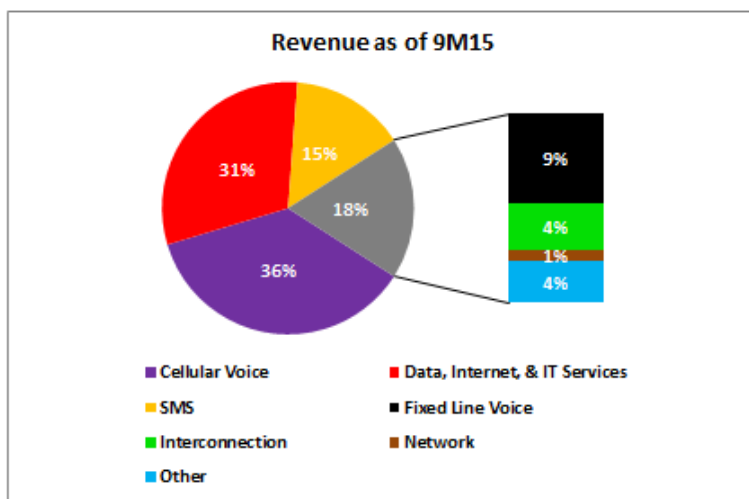
- **EV/EBITDA**—EV/EBITDA is still relatively cheap with current valuation due to continuing growth in EBITDA, which TLKM outperforms its peers. Although once it matures, we view there will be a re-rating in EV/EBITDA. Our 52-week target price represents slight EV/EBITDA re-rating from current 7.18x to 7.62x. Historically speaking, Telkom's EV/EBITDA has never been above 7.0x before.
- **The Trend of Declining ARPU in Voice and Fixed Line**—We view that ARPU in voice and fixed line will continue to decline as the industry matures. Meanwhile, the only driver left for Voice and Fixed Line is through increasing volume or number of subscribers.

**Investment Theses**

- **Increasing Data Pricing**—Indonesia’ Telco is still behind if compared to other countries, thus room for ASP increase is still large and far from the saturation point. We view Data, Internet, and IT services will be the driving factor when for the company’s top line.

Going further into the company’s segmentation revenue, there are three lines that have significant contribution to Telkom’s revenue; (i) Cellular Voice, (ii) Data, Internet, and IT services, and (iii) SMS. Those three segments contribute more than 80% of the company’s total revenue.

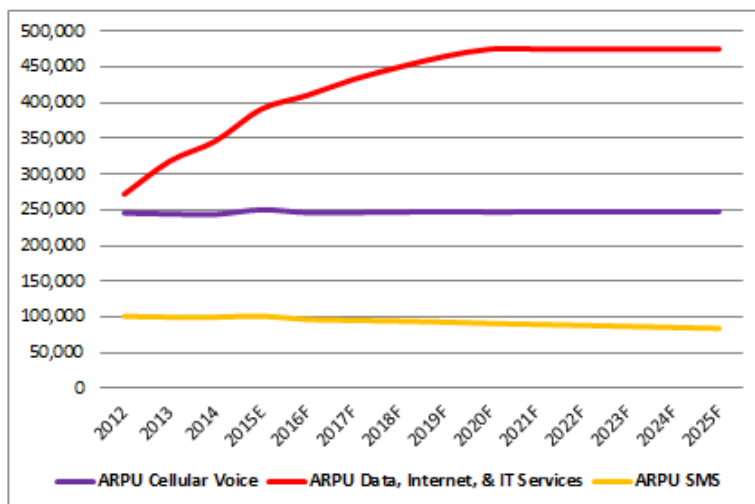
*There are three lines that have significant contribution to Telkom’s revenue with total contribution of more than 80%; (i) Cellular Voice, (ii) Data, Internet, and IT services, and (iii) SMS. As of 9M15, each of these segments grew by 9.5% YoY, 34.7% YoY, and 8.1% YoY respectively, while consolidated revenue grew by 15.0% YoY.*



Source: Company Data, Sinarmas Investment Research

While increase in subscribers will benefit Telkom’s three main business lines, growth in data pricing could provide a further upside to the company’s data business, which as of September 2015 contributes 31.0% of total revenue.

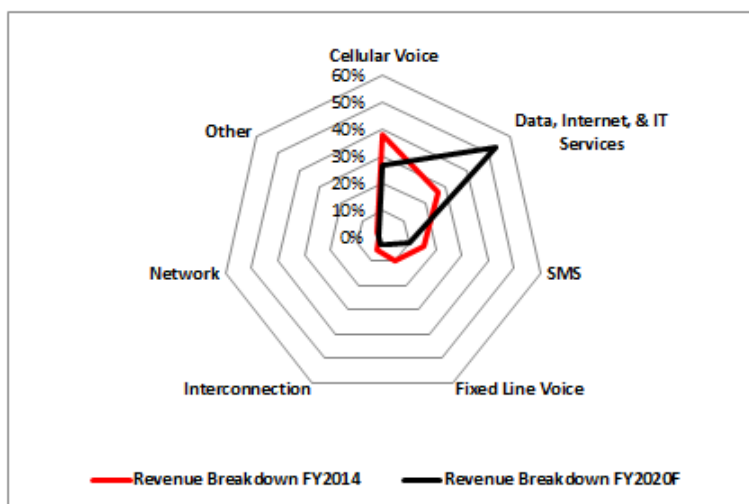
*As cellular voice and SMS already matured, ARPU will remain flattish. Nevertheless, data pricing will remain strong at least for the next five years, with diminishing growth over each year. This will be the biggest driver to TLKM’s revenue.*



Source: Company Data, Sinarmas Investment Research

On our valuation, we view data pricing will increase for the next five years but with diminishing growth over each year. By 2020, we forecast data pricing to be more steady and to remain flattish along with cellular voice and SMS. Taking subscriber growth and ARPU into account, we project revenue per segment will tilt with biggest contribution held by Data, Internet, and IT services.

*Given the increase in subscribers and data pricing, we view by 2020 the biggest revenue contribution will be held by Data, Internet, & IT services.*



Source: Company Data, Sinarmas Investment Research

- **Superior Balance Sheet**—Strong cash position coupled with low gearing ratio gives TLKM a huge advantage compared to its competitors, as Telco industry requires high capex to maintain market share.

As of 9M15, TLKM reported IDR 26.3 Tn in cash and equivalents, and D/E ratio at 0.26x. Meanwhile, with the cash flow that the company generates, Debt/EBITDA stood at 0.09x, the lowest in Telco industry.

Other than the ability to increase data pricing, we view TLKM's balance sheet as one of the strongest traits that makes the company deserves a higher valuation of 7.62x EV/EBITDA by year-end.

*Compared to both domestic and regional players, TLKM has a superior balance sheet with 9M15 D/E of 0.26x and 9M15 Debt/EBITDA of 0.09x. Meanwhile, with continuing growth in TLKM's EBITDA, EV/EBITDA will look relatively cheap for a company with that size.*

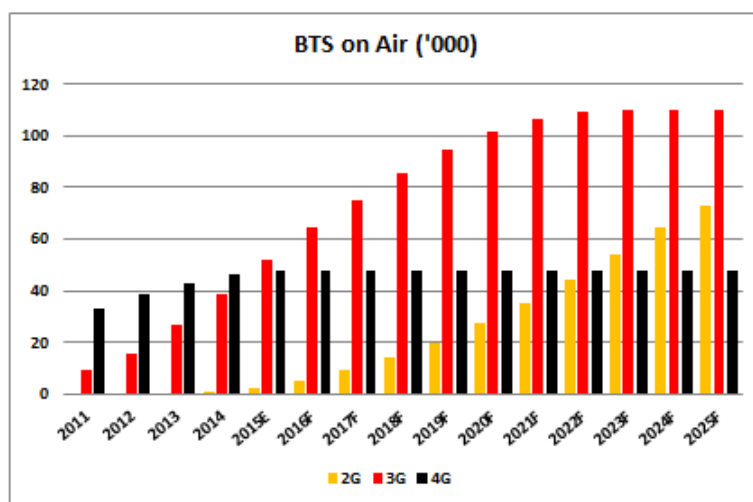
Ticker ID	EV/EBITDA	D/E (x)	Debt/EBITDA	Market Cap (IDR Bn)
<b>Indonesia</b>				
TLKM IJ EQUITY	7.07	0.26	0.09	335,160
EXCL IJ EQUITY	7.06	1.98	2.91	33,440
ISAT IJ EQUITY	3.95	1.87	1.26	29,207
<b>Malaysia</b>				
AXIATA MK EQUITY	7.68	0.62	1.17	162,494
MAXIS MK EQUITY	12.73	2.35	1.92	151,097
DIGI MK EQUITY	13.02	2.49	0.35	123,321
<b>Philippines</b>				
TEL PM EQUITY	7.77	0.97	1.52	133,574
GLO PM EQUITY	6.96	1.20	1.25	69,952
<b>Thailand</b>				
ADVANC TB EQUITY	7.82	1.35	0.78	188,730
TRUE TB EQUITY	8.59	0.63	2.14	57,478
DTAC TB EQUITY	4.09	1.76	1.36	28,545

Source: Company Data, Bloomberg, Sinarmas Investment Research

- 3G/4G Modernization**—Due to big capex in Telco industry, we view TLKM will advance better than its competitors when it comes to 3G/4G modernization. As shown in the table above, ISAT and EXCL have their gearing ratios at 1.87x and 1.98x respectively, while TLKM only at 0.26x.

Driven by 3G/4G modernization, Telkom still has an ability to gain market share due to other companies being highly leveraged. 3G/4G will require high capex as Telco company needs to add BTS to strengthen the coverage. Indonesian Telco still has a long way to go from being a sunset industry, given that development in 3G alone is not fully completed. Take Papua for example, Telco companies still have 2G in the area. Thus, the growth opportunity for Indonesian Telco is still huge given the circumstances.

*In terms of 3G/4G modernization, TLKM will continue to enjoy strong earnings growth and Indonesia Telco is still far from being called sunset industry, considering development in 3G alone is not fully completed.*



Source: Company Data, Sinarmas Investment Research

- Further Penetration From Low Cost Smartphones**—Growing Low Cost Smartphones will continue to benefit Telco industry as it accelerates the number of smartphone users.

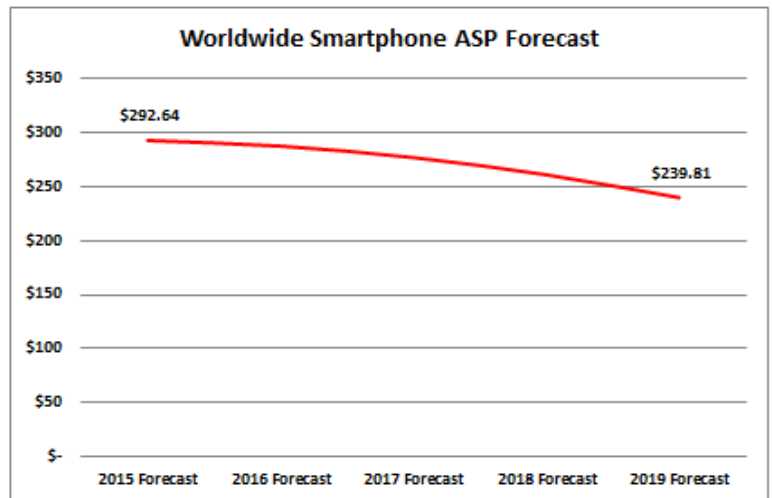
*While premium devices still control the biggest market share, low cost smartphones grew faster as demand for cheap smartphone surged.*

Top Five Smartphone Vendors, Shipments, Market Share, and YoY Growth, Q4 2015 Preliminary Data (Units in Millions)					
Vendor	4Q15 Shipment Volumes	4Q15 Market Share	4Q14 Shipment Volumes	4Q14 Market Share	YoY Growth
Samsung	85.6	21.4%	75.1	19.9%	14.0%
Apple	74.8	18.7%	74.5	19.7%	0.4%
Huawei	32.4	8.1%	23.6	6.3%	37.0%
Lenovo	20.2	5.1%	14.1	3.7%	43.6%
Xiaomi	18.2	4.6%	16.5	4.4%	10.0%
Others	168.3	42.1%	174.0	46.1%	-3.3%
<b>Total</b>	<b>399.5</b>	<b>100.0%</b>	<b>377.8</b>	<b>100.0%</b>	<b>5.7%</b>

Source: IDC Worldwide Quarterly Mobile Phone Tracker, January 27, 2016

IDC forecasts that ASP for smartphone will decline at a rate of 4.3% each year until 2019. The penetration from low cost smartphones will be another booster for Telkom as it will make smartphones more affordable and increase data subscribers. At the same time, subscribers could spend more on data consumption with smartphones being cheaper. On the table above, we can see that while there still a considerable desire for premium smartphones, low cost smartphones are the driving factor when it comes to growth. We view this thesis also applies to emerging market, including Indonesia.

*IDC forecasts that ASP for smartphone will decline at a rate of 4.3% each year until 2019.*

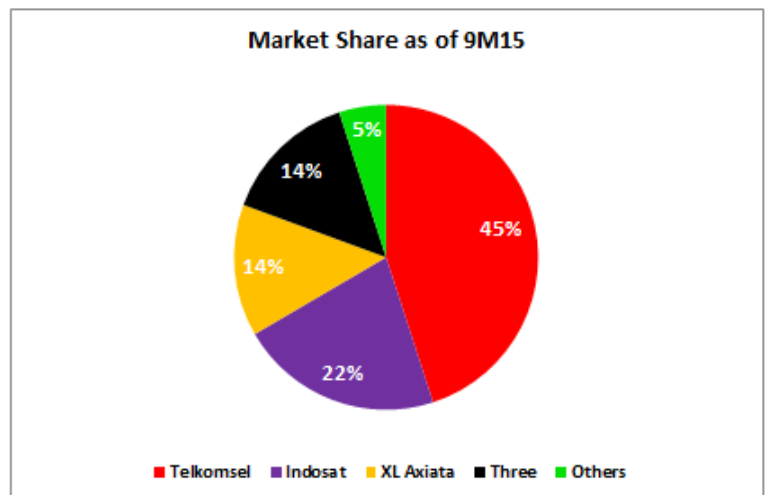


Source: IDC, Sinarmas Investment Research

- **Biggest Market Share in Indonesia Telco Industry**—Thanks to the strong brand name of Telkomsel, TLKM has been able to secure its position as leading player in Indonesia Telco industry with a market share of 45% as of September 2015.

We view consolidation in the industry is bound to happen in the future and would further benefit TLKM, ISAT, and EXCL As for now, ISAT and EXCL are at 22% and 14% of market share respectively.

*Thanks to the strong brand name of Telkomsel, TLKM has been able to secure its position as leading player in Indonesia Telco with a market share of 45%, while ISAT and EXCL have their market share at 22% and 14% respectively.*



Source: GSMA Intelligence, Sinarmas Investment Research



**Valuations and Forecasts**

<b>Balance Sheet (IDR Bn)</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016F</b>	<b>2017F</b>
Cash	14,696	17,672	19,801	22,393	25,872
Account Receivables	6,026	6,465	7,382	8,427	9,731
Inventory	509	474	452	451	462
Other Current Assets	11,844	9,151	9,151	9,151	9,151
Fixed Assets	86,761	94,809	106,111	119,070	133,686
Other Non-Current Assets	8,115	12,324	12,324	12,324	12,324
<b>Total Assets</b>	<b>127,951</b>	<b>140,895</b>	<b>155,221</b>	<b>171,816</b>	<b>191,227</b>
Short-Term Borrowings	11,600	11,830	13,695	15,703	17,712
Account Payables	5,264	5,211	6,062	6,341	6,834
Other Current Liabilities	11,573	14,745	18,786	23,935	30,496
Long-Term Borrowings	14,731	15,743	18,225	20,898	23,570
Other Non-Current Liabilities	7,359	7,241	7,241	7,241	7,241
<b>Total Liabilities</b>	<b>50,527</b>	<b>54,770</b>	<b>64,009</b>	<b>74,118</b>	<b>85,853</b>
<b>Total Equity</b>	<b>77,424</b>	<b>86,125</b>	<b>91,211</b>	<b>97,698</b>	<b>105,375</b>

<b>Income Statement (IDR Bn)</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016F</b>	<b>2017F</b>
<b>Revenue</b>	<b>82,967</b>	<b>89,696</b>	<b>102,412</b>	<b>116,914</b>	<b>135,008</b>
Operating Expense	41,191	43,852	52,971	60,790	68,960
Depreciation and Amortization	15,780	17,131	19,960	22,398	25,147
Operating Profit	25,996	28,713	29,481	33,726	40,901
<b>EBITDA</b>	<b>41,776</b>	<b>45,844</b>	<b>49,441</b>	<b>56,124</b>	<b>66,048</b>
Financing Income	836	1,238	1,479	1,417	1,232
Financing Expense	1,504	1,814	1,934	2,056	2,336
Income Before Tax Expense	27,149	28,784	29,673	33,734	40,444
Tax Expense	6,859	7,338	7,565	8,600	10,310
<b>Net Income</b>	<b>20,290</b>	<b>21,446</b>	<b>22,109</b>	<b>25,134</b>	<b>30,133</b>

<b>Business Segment Contributions</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016F</b>	<b>2017F</b>
Cellular Voice	38.7%	38.2%	36.7%	33.5%	30.8%
Data, Internet, and IT services	23.2%	26.3%	31.0%	38.0%	44.0%
SMS	15.8%	15.6%	14.8%	13.1%	11.9%
Fixed Line Voice	11.7%	9.9%	8.3%	6.7%	5.4%
Interconnection	5.8%	5.2%	4.4%	4.1%	3.7%
Network	1.5%	1.4%	1.8%	1.7%	1.6%
Other	3.2%	3.3%	3.1%	2.9%	2.7%

<b>Ratios</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016F</b>	<b>2017F</b>
ROE	25.3%	22.8%	20.6%	20.3%	20.7%
ROA	11.9%	10.9%	9.7%	9.2%	9.1%
EV/EBITDA	5.68	6.79	7.00	7.62	7.62

Source: Company Data, Sinarmas Investment Research

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