

TLKM IJ · Telecommunication

Telkom Indonesia

1H24 Results update: Closing with disappointing results

(Maintain)

Buy

Target price

IDR3,800

Upside

31.9%

Current price (7/30/24)

IDR2,880

JCI Index	7,242	Market cap (IDRbn)	285,299	Shares outstanding (mn)	99,062	Free Float (%)	47.8
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Report summary

Closing 2Q24 with disappointing results

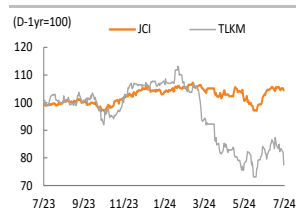
TLKM's 2Q24 revenue and bottom line was lower than our/street's projection. TLKM posted a revenue of IDR37.9tr (+1.3% YoY). Its bottom line was affected negatively by the huge increase of personnel exp. (+30.5% YoY) due to the early retirement program, which cost around IDR1.24tr. The most concerning aspect is that its IndiHome revenue is rapidly declining, even though the number of subscribers continues to grow. Overall, TLKM's 2Q24 results were disappointing, with revenue growth falling short of expectations and profit margins decreasing due to rising costs.

Lowering TP, while maintaining Buy recommendation

We continue to view TLKM positively in the long term; however, due to recent performance falling short of expectations, we have revised some of our forecasts and adjusted our target price to IDR 3,800. Despite this, the sharp decline in stock price due to the large-scale sell-off by foreign investors in the second quarter has left TLKM at a relatively attractive valuation level. Therefore, even with the adjusted target price, we maintain our Buy recommendation. Our TP implies 15.4/13.9 times its FY24/FY25 P/E ratio and also implies 2.3/2.2 times its FY24/FY25 P/B ratio.

Key data

Price performance



(%)	1M	6M	12M
Absolute	-8.0	-27.3	-22.6
Relative	-10.5	-27.7	-27.1

Earnings and valuation metrics

(FY Dec. 31)	2021	2022	2023	2024F	2025F
Revenue (IDRbn)	143,210	147,306	149,216	154,048	160,387
Operating Profit (IDRbn)	47,563	39,581	44,384	45,385	50,203
EBITDA (IDRbn)	79,379	72,836	77,047	78,768	85,561
Net Profit (IDRbn)	24,760	20,753	24,560	24,384	27,166
EPS (IDR)	249.9	209.5	247.9	246.1	274.2
EV/EBITDA (x)	3.8	4.1	3.9	3.8	3.4
P/B (x)	2.0	1.9	1.8	1.7	1.6
ROA (%)	13.0	10.0	11.5	11.0	11.5
ROE (%)	25.5	18.8	21.1	20.2	21.2

Note: Net profit is attributable to owners of the parent

Source: Company data, Mirae Asset Sekuritas Indonesia Research estimates

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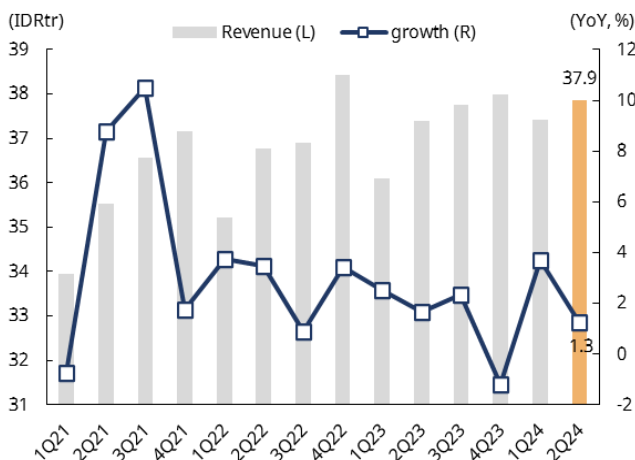
2Q24 Earnings Overview

Revenue was lower than expected from consensus

TLKM recorded 2Q24 revenue of IDR37.9tr (+1.3% YoY), and it was much lower than expected from most of the consensus, which anticipated growth in the mid-3% range. It posted Data, Internet & IT Services revenue of IDR23.3tr (+7.2% YoY), and this is partly due to the continuous increase in people's data usage, but it also reflects the changes as IndiHome's B2B revenue starts to be attributed to this area. Plus, interconnection revenue also slightly increased to IDR2.27tr (+1.2% YoY). In 2Q24, TLKM's data payload increased by 9.3% YoY to 4,929.9PB, and it is the result of the world trending more towards internet data usage. TLKM succeeded in attracting more cellular users by 4.3% YoY to 159.9mn in 2Q24, while its mobile ARPU slightly dropped from the last quarter to IDR45.0k. Furthermore, its Network and Other Services revenue also increased to IDR3.46tr (+26.6% YoY) primarily due to the reclassification of IndiHome B2B revenue. As such, these revenue streams have buoyed overall revenue growth and have successfully offset the greater-than-expected decline from other business units.

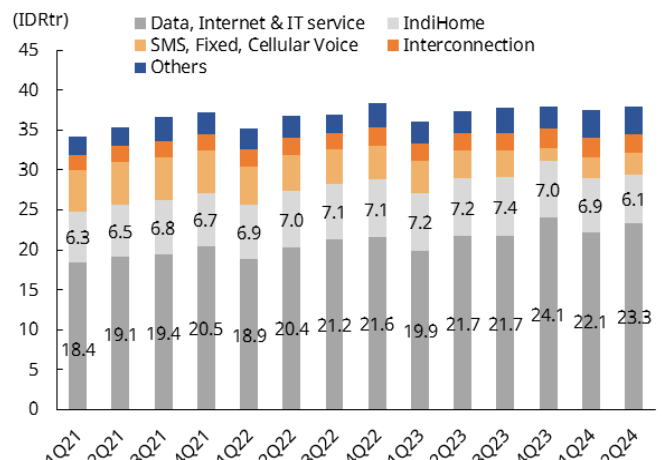
TLKM's 2Q24 revenue from IndiHome decreased by 15.1% YoY to IDR6.11tr, but it was mainly due to the new revenue reclassification policy from FY24, which factors out IndiHome B2B revenue. IndiHome enterprise business will record revenue from now on to its Data, Internet & IT Services revenue as well as Network and Other Services revenue. Nonetheless, TLKM's 2Q24 IndiHome performance was disappointing for investors who had high hopes for it as a future growth driver. The number of IndiHome subscribers is still in robust growth trajectory to 10.6mn (+2.5%QoQ, +10.9% YoY). Yet, its continuously decreasing IndiHome B2C ARPU is a concern. The ARPU decreased by 1.0% QoQ, and it is primarily due to TLKM's aggressive customer acquisition efforts, along with strong growth in the mid-to-low segments. To alleviate these concerns, the management has reassured investors that once the alignment under the FMC strategy is completed, these issues are expected to improve.

Figure 1. TLKM's quarterly revenue trajectory



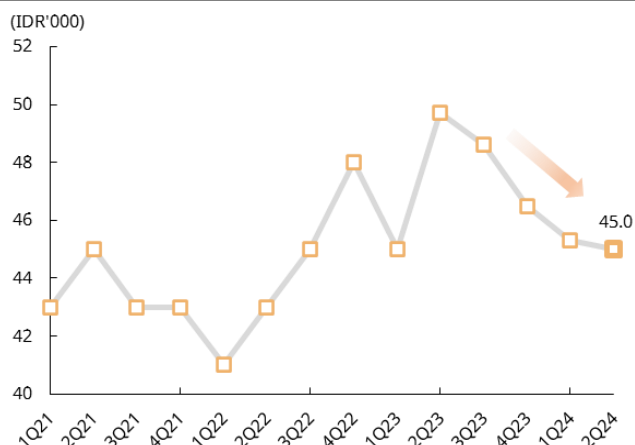
Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 2. TLKM's quarterly revenue breakdown



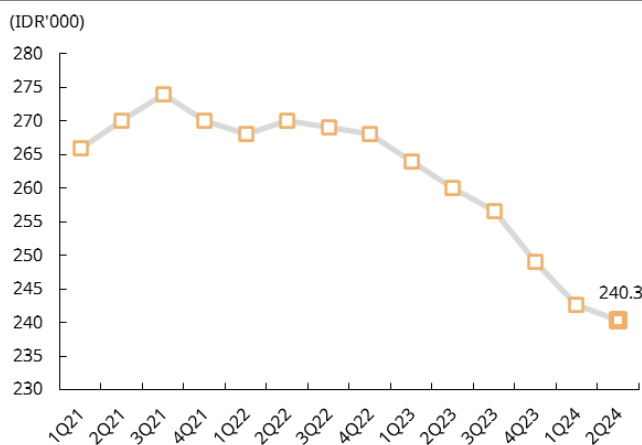
Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 3. TLKM's quarterly mobile ARPU trend



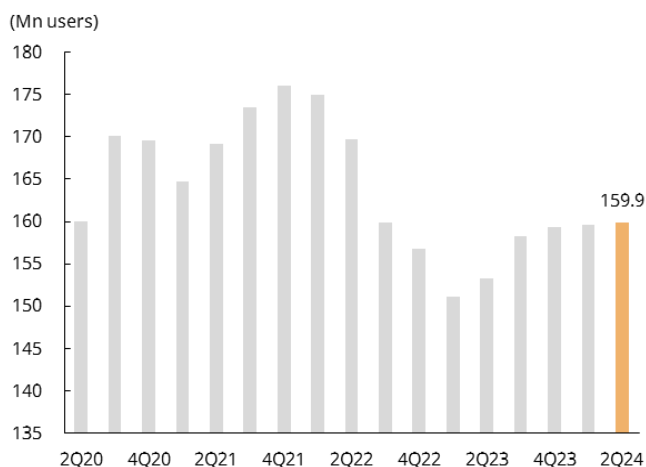
Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 4. TLKM's quarterly IndiHome ARPU trend



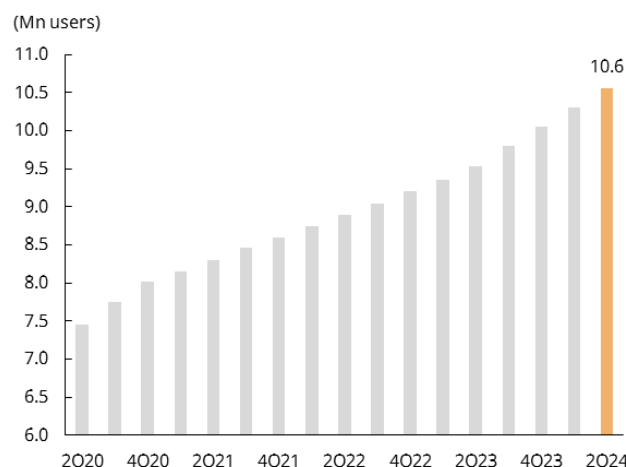
Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 5. TLKM's cellular mobile users trajectory



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 6. TLKM's IndiHome subscribers trajectory



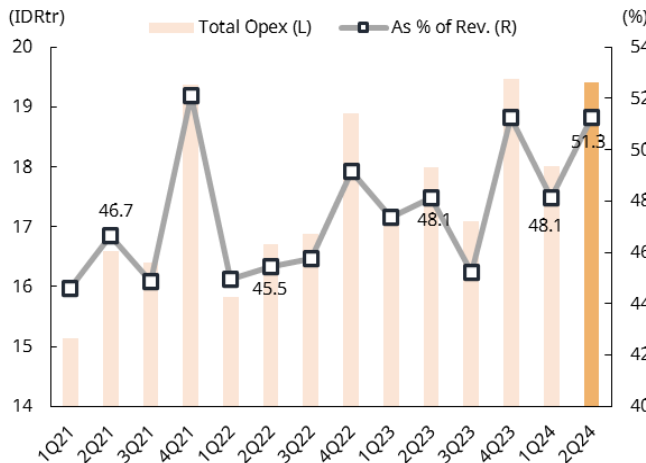
Source: Company data, Mirae Asset Sekuritas Indonesia Research

Expenses analysis

In 2Q24, TLKM posted total operating expenses of IDR19.4tr (+7.9% YoY), mainly due to the double digit increase in personnel expenses as well as the increase in G&A expenses. Its personnel exp. increased to IDR5.36tr (+30.5% YoY) due to the early retirement program, which cost around IDR1.24tr. With this program, TLKM is trying to reform its organization to be much leaner and to increase youth talent. And notably, G&A expenses saw a significant increase by 23.2% YoY, which was attributed to bonuses for the Board of Directors and management, as discussed in the earnings call. Therefore, most of the cost increase in 2Q24 can be interpreted as being due to personnel expenses.

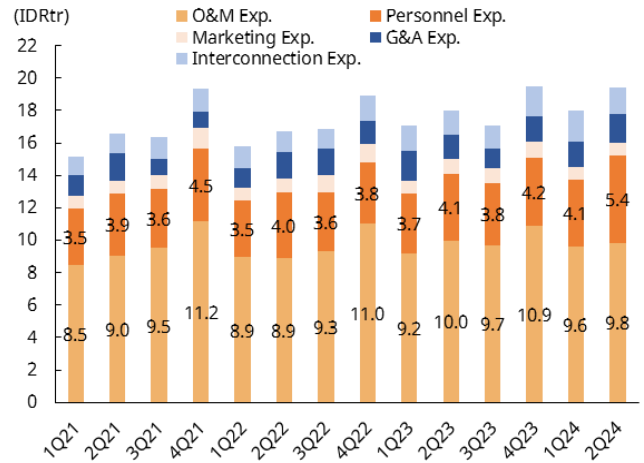
Indeed, the increase in G&A expenses is a temporary phenomenon due to bonuses, but the early retirement program marks the beginning of a long-term change for TLKM and is expected to continue for some time. The management urged during the earnings call not to view this merely as a cost but as a significant investment by the company to secure good talent in the future.

Figure 7. TLKM's quarterly Opex trend



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 8. TLKM's quarterly Opex breakdown



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Margin dropped followed by the increase in Opex

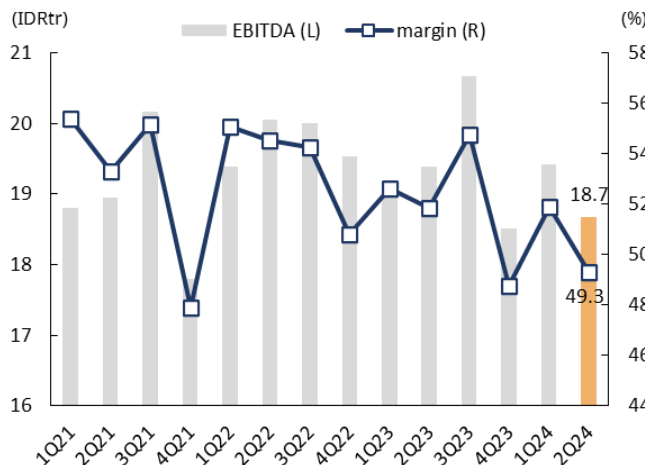
TLKM's operating profit decreased to IDR10.6tr (-8.3% YoY), and its net profit also dropped to IDR5.71tr (-9.9% YoY) in 2Q24. Operating margin dropped by 2.9pts to 28.1% and net profit margin also dropped by 1.9pts to 15.1%. Moreover, its EBITDA also decreased to IDR18.7tr (-5.0% YoY), with the margin deterioration by 3.3pts to 49.3%. The reason TLKM showed weak performance in terms of profit in 2Q24 is simple. Revenue growth was slower than expected, while costs significantly increased. Specifically, the sharp rise in personnel expenses, as mentioned earlier, led to overall weak profitability. While revenue grew by only 1.3% in 2Q24, personnel expenses and G&A expenses surged by 30.5% and 23.2% respectively, resulting in deterioration of profit margin.

Table 1. TLKM's Financial Performance

(IDRbn)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)
Revenue	37,388	37,429	37,863	1.2	1.3
Opex	(17,998)	(18,008)	(19,416)	7.8	7.9
D&A Expenses	(8,067)	(8,085)	(8,044)	-0.5	-0.3
Other Income (Exp.)	265	(328)	224	-168	-15.5
Operating Profit	11,588	11,008	10,627	-3.5	-8.3
Margin %	31.0%	29.4%	28.1%	-1.3pts	-2.9pts
Finance Costs	(883)	(864)	(850)	-1.6	-3.7
Other Income (Exp.)	0	(1)	3	-	-
Pretax Income	10,705	10,143	9,780	-3.6	-8.6
Margin %	28.6%	27.1%	25.8%	-1.3pts	-2.8pts
Net Income	8,373	7,820	7,604	-2.8	-9.2
Margin %	22.4%	20.9%	20.1%	-0.8pts	-2.3pts
Owners to the Parent	6,332	6,053	5,708	-5.7	-9.9
Non-Controlling Interest	2,041	1,767	1,896	7.3	-7.1
EBITDA	19,655	19,421	18,671	-3.9	-5.0
Margin %	52.6%	51.9%	49.3%	-2.6pts	-3.3pts

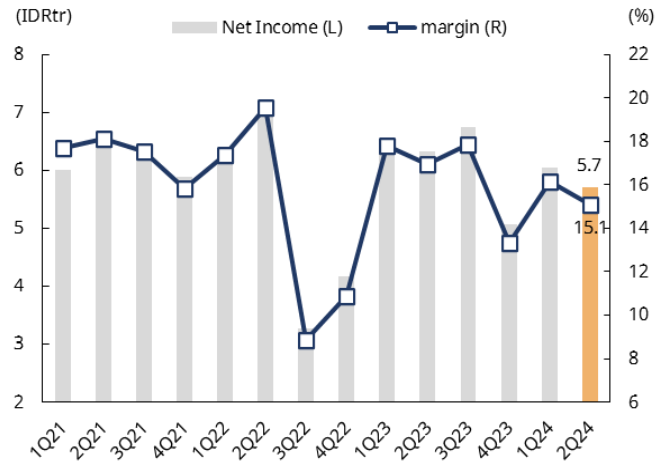
Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 9. TLKM's quarterly EBITDA trajectory



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 10. TLKM's quarterly net income trajectory



Source: Company data, Mirae Asset Sekuritas Indonesia Research

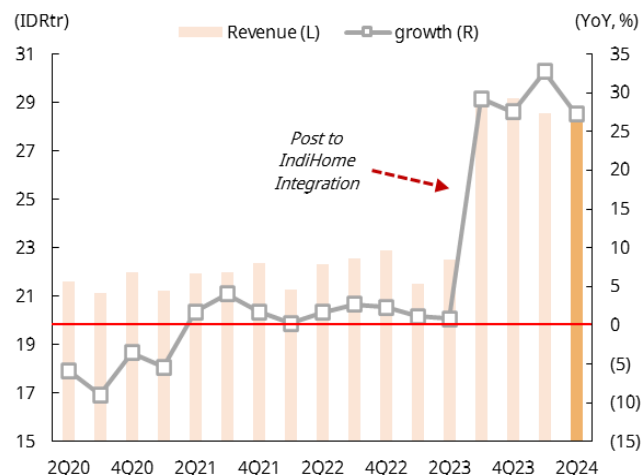
Table 2. Telkomsel's Operational Performance

(IDRbn)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)
Revenue	22,510	28,530	28,636	0.4	27.2
Legacy	2,967	2,220	2,198	-1.0	-25.9
Digital Business	19,543	19,714	19,822	0.5	1.4
IndiHome - B2C	-	6,596	6,615	0.3	-
Total Expenses	14,916	15,125	15,288	1.1	2.5
EBITDA	12,694	13,405	13,348	-0.4	5.2
Operating Net Income*	5,385	5,777	5,690	-1.5	5.7
Net Income	5,409	5,374	5,702	6.1	5.4
Margin (%)	2Q23	1Q24	2Q24	QoQ (pts)	YoY (pts)
EBITDA	56.4	47.0	46.6	-0.4	-9.8
Operating Net Income*	23.9	20.2	19.9	-0.4	-4.1
Net Income	24.0	18.8	19.9	1.1	-4.1

*Excludes inorganic initiatives with fair value of investment and one-off from unlocking assets

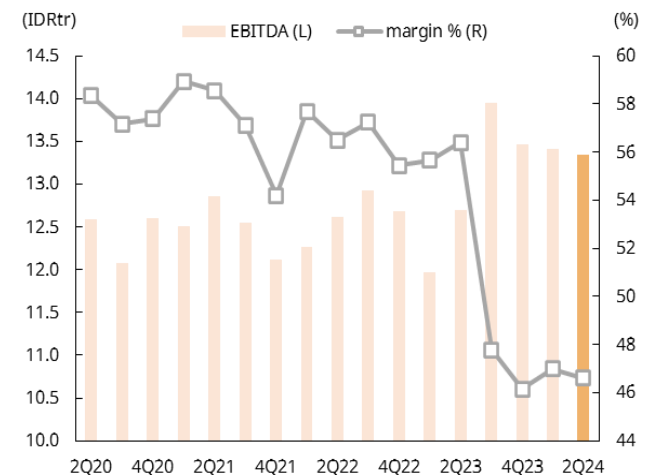
Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 11. Telkomsel's quarterly revenue trajectory



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 12. Telkomsel's quarterly EBITDA trajectory



Source: Company data, Mirae Asset Sekuritas Indonesia Research

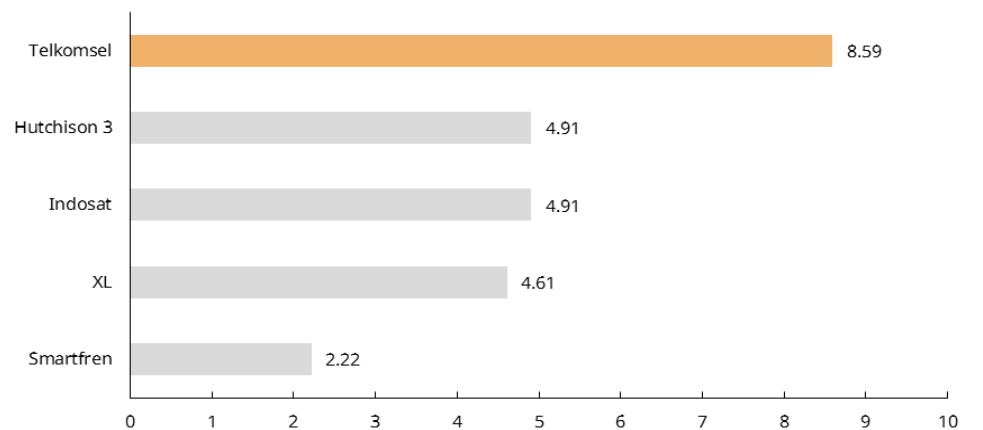
Investment Thesis

Top telecommunication operators in Indonesia

TLKM's service quality remains at the top in Indonesia. The area where TLKM outshines other companies is coverage. While other companies are actively seeking to expand into tier 2 and 3 regions, they still can't keep up with TLKM in many aspects. This makes it difficult for customers to switch to other providers easily. Although competition in the telecommunications industry is intensifying, TLKM is unlikely to lose its edge. The existing gap between TLKM and its competitors doesn't seem likely to close quickly.

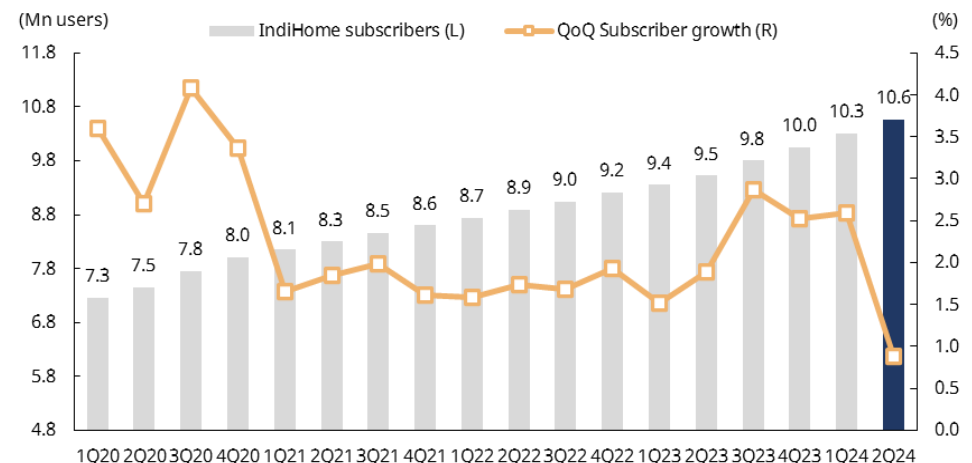
Additionally, TLKM maintains a dominant position in the fixed broadband market. TLKM's IndiHome is currently the largest home broadband brand in Indonesia, showing steady growth with increasing customer numbers every quarter. Although competition is expected to intensify with the recent official entry of SpaceX's Starlink into the Indonesian market, it does not seem to pose an immediate significant threat. Moreover, Indonesia's fixed broadband penetration rate is still notably low, indicating substantial room for growth.

Figure 13. Coverage experience (0-10) by MNOs in Indonesia



Source: Open Signal, Mirae Asset Sekuritas Indonesia Research

Figure 14. TLKM's fixed broadband operational performance trend



Source: Company data, Mirae Asset Sekuritas Indonesia Research

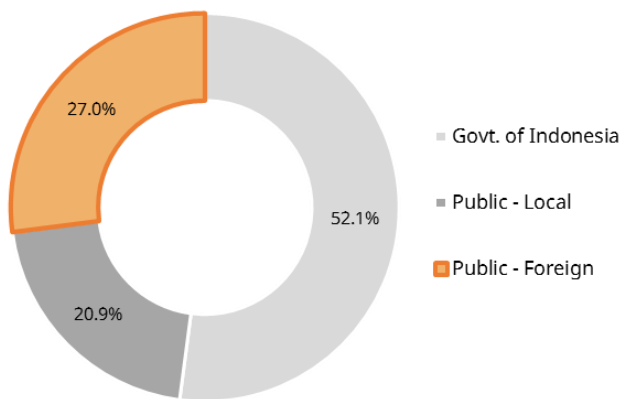
Foreigners are slowly coming back

In 2Q24, TLKM's share price experienced a significant decline, especially from mid-March to mid-June 2024, disappointing investors. While this drop can be attributed to TLKM's underwhelming performance, we believe other factors also played a role. Historically, TLKM's stock price has been heavily influenced by foreign investor fund flows. We think the substantial selling by foreign investors starting on March 22, 2024, has had a major impact on TLKM's recent stock performance.

However, foreign investors did not only sell TLKM; they were generally exiting the Indonesian market throughout the second quarter of 2024. During this time, with developed countries seeing tremendous growth in stocks led by AI, there was little interest in countries like Indonesia, where the old economy industries dominate. As a result, foreign investors naturally reduced their exposure to Indonesia, which severely impacted blue-chip stocks like TLKM.

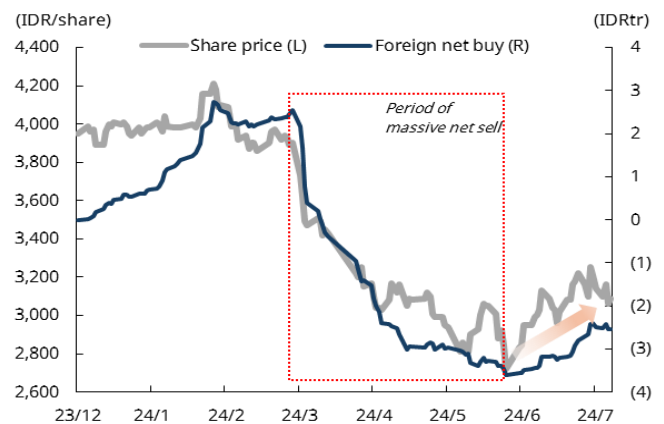
Looking at TLKM's shareholder composition, about 60% of the public shares are held by foreign investors, which makes TLKM's stock price particularly sensitive to foreign investor fund flows. Notably, between March 22 and June 14, 2024, foreign investors showed a strong selling trend, with net sales amounting to approximately IDR6.15tr. JP Morgan and Blackrock, in particular, significantly reduced their holdings as part of a broader move to decrease exposure to the Indonesian market. However, since the end of June, foreign investors have started to return, and TLKM's stock price has partially recovered as a result. We anticipate that if the U.S. begins lowering interest rates, foreign investors will return, and TLKM's stock price will likely show a positive trend.

Figure 15. TLKM's foreign ownership



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 16. TLKM vs. foreigners cumulative net buy/sell



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Table 3. TLKM's major foreign net sellers trend in FY24 YTD

(Mio shares)	Jan	Feb	Mar	Apr	May	June	July
BlackRock	1,524.4	1,554.1	1,593.2	1,466.1	1,453.4	1,428.2	1,432.2
JP Morgan	1,124.5	1,165.7	1,093.1	960.2	703.4	691.9	692.2
Fidelity	658.9	815.9	829.5	722.7	700.9	700.9	700.9
Schroders	571.2	571.6	426.9	398.6	397.1	397.1	397.1
Sum	3,879.1	4,107.3	3,942.7	3,547.6	3,254.8	3,218.1	3,222.4
% of total shares	3.9	4.1	4.0	3.6	3.3	3.2	3.3
Changes		228.3	-164.6	-395.1	-292.8	-36.7	4.3
MoM (%)		5.9	(4.0)	(10.0)	(8.3)	(1.1)	0.1

Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

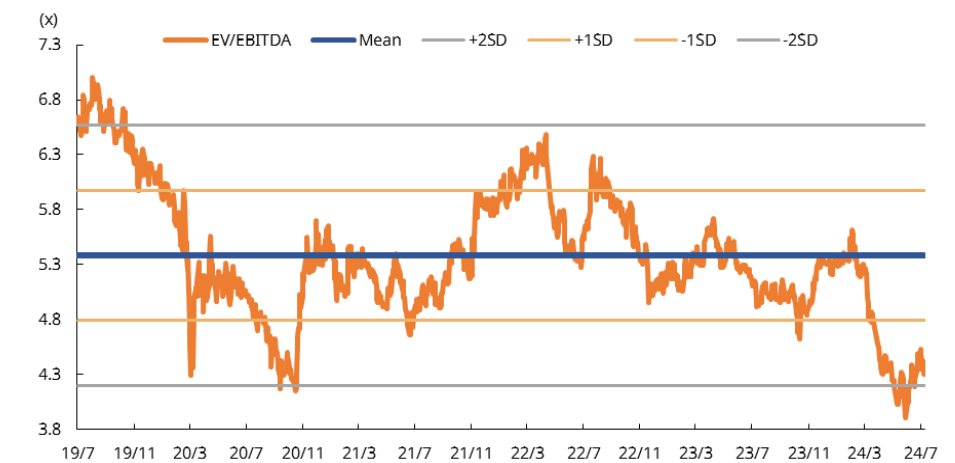
Outlook, Valuation, and Recommendations

Maintain to Buy with TP of IDR3,800

Our view on TLKM remains largely positive; however, due to its weaker-than-expected performance in 2024, we have decided to adjust our forecasts. While TLKM still holds a dominant position in the Indonesian telecommunications market and there is considerable room for growth in the sector, the intensification of competition in both cellular and fixed broadband businesses have led to weaker-than-anticipated revenue. Consequently, we have revised our FY24 revenue forecast from 4.2% to 3.2%. Given TLKM management's forecast of mid to low single-digit revenue growth for FY24, we have taken a slightly conservative stance. However, in 2Q24, TLKM's share price experienced a sharp decline due to a significant sell-off by foreign investors. Despite the company's performance falling short of expectations, we believe that the mechanical sell-off by foreign investors has left TLKM's valuation at a relatively attractive level. Therefore, while we are slightly lowering our target price to 3,800/share, we maintain our Buy recommendation.

Our target price is derived from applying FY24F EV/EBITDA multiple targets of 5.0x. We currently believe that TLKM is trading at a comparably undervalued valuation. In fact, we think that the Indonesian telecommunications sector as a whole is trading at much lower valuations compared to other Southeast Asian countries such as Malaysia and Singapore (with average EV/EBITDA of 7.7x and 9.8x respectively). Therefore, even though the current growth momentum for TLKM may be somewhat uncertain, we believe it deserves a higher valuation. Our TP implies 15.4/13.9 times its FY24/FY25 P/E ratio and also implies 2.3/2.2 times its FY24/FY25 P/B ratio.

Figure 17. TLKM's forward EV/EBITDA band (5yr)



Source: Mirae Asset Sekuritas Indonesia Research

Telkom Indonesia (TLKM IJ)

Income Statement (summarized)

(IDRbn)	12/22	12/23	12/24F	12/25F
Revenues	147,306	149,216	154,048	160,387
Total Expenses	(107,725)	(104,832)	(108,663)	(110,184)
Opex (Operating exp.)	(68,314)	(71,637)	(74,509)	(75,467)
Depreciation & Amortization	(33,255)	(32,663)	(33,383)	(35,358)
Other Operating Income (exp.)	(6,156)	(532)	(770)	642
Operating Profit	39,581	44,384	45,385	50,203
EBITDA	72,836	77,047	78,768	85,561
Finance Income	878	1,061	1,007	1,094
Finance Cost	(4,033)	(4,652)	(4,844)	(5,183)
Pretax Income (Loss)	36,339	40,794	41,548	46,114
Income Tax Exp.	(8,659)	(8,586)	(9,300)	(10,339)
Net Profit (Loss)	27,680	32,208	32,248	35,776
Owners to the Parent	20,753	24,560	24,384	27,166
Non-Controlling Interest	6,927	7,648	7,864	8,610

Cashflow Statement (summarized)

(IDRbn)	12/22	12/23	12/24F	12/25F
CF from Operating				
Net Profit (Loss)	20,753	24,560	24,384	27,166
D&A Expenses	(74,470)	(72,169)	(33,383)	(35,358)
Change in Working Capital	407	(4,123)	1,404	(159)
Others	(22,276)	(32,025)	(6,821)	(7,411)
Total CF from Operating	73,354	60,581	52,351	54,954
CF from Investing				
Capex	(38,397)	(36,418)	(35,431)	(35,782)
Others	(853)	(491)	737	(818)
Total CF from Investing	(39,250)	(36,909)	(34,694)	(36,600)
CF from Financing				
Increase (decr.) in share capital	-	-	-	-
Increase (decr.) in debt	(6,037)	5,083	6,219	6,872
Dividend Payments	(14,856)	(16,603)	(17,683)	(17,069)
Others	(19,944)	(15,047)	(14)	1,354
Total CF from Financing	(40,837)	(26,567)	(11,478)	(8,843)
Net Increase (decr.) in cash	(6,733)	(2,895)	6,178	9,511
Beginning Balance	38,311	31,947	29,007	35,185
Ending Balance	31,947	29,007	35,185	44,696

Balance Sheet (summarized)

(IDRbn)	12/22	12/23	12/24F	12/25F
Assets				
Cash & Cash Equivalents	31,947	29,007	35,185	44,696
Account Receivables	8,634	10,667	9,868	10,385
Inventories	1,144	997	1,021	1,127
Other Current Assets	13,332	14,942	15,098	15,371
Total Current Assets	55,057	55,613	61,172	71,579
Fixed Assets	173,329	180,755	188,889	196,445
Intangible Assets	8,302	8,731	9,080	9,443
Long-Term Investment	8,653	8,162	8,570	8,999
Total Non-Current Assets	220,135	231,429	239,542	248,605
Total Assets	275,192	287,042	300,714	320,184
Liabilities				
Account Payables	18,457	18,608	18,841	18,919
Short-Term Debt	21,974	25,501	26,079	28,234
Other Current Liabilities	29,957	27,459	28,292	29,509
Total Current Liabilities	70,388	71,568	73,212	76,663
Long-Term Debt	41,067	42,623	48,263	52,980
Other Non-Current Liabilities	14,475	16,289	15,713	16,678
Total Non-Current Liabilities	55,542	58,912	63,976	69,659
Total Liabilities	125,930	130,480	137,188	146,321
Equity				
Share Capital	4,953	4,953	4,953	4,953
Additional paid-in Capital	2,711	2,711	2,711	2,711
Retained Earnings	111,897	118,441	125,142	135,239
Other Equity	9,697	9,639	9,639	9,639
Shareholder's Equity	129,258	135,744	142,445	152,542
Non-controlling Interests	20,004	20,818	21,026	21,236
Total Equity	149,262	156,562	163,471	173,779

Source: Company data, Mirae Asset Sekuritas Indonesia Research estimates

Key Performance Indicators

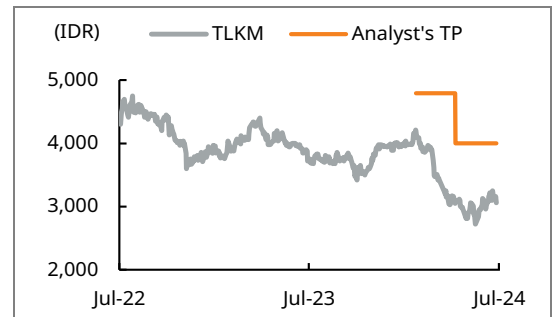
	12/22	12/23	12/24F	12/25F
Growth (% YoY)				
Revenue	2.9	1.3	3.2	4.1
Operating Profit	-16.8	12.1	2.3	10.6
EBITDA	-8.2	5.8	2.2	8.6
Net Profit (Loss)	-16.2	18.3	-0.7	11.4
Profitability (%)				
Operating Margin	26.9	29.7	29.5	31.3
EBITDA Margin	49.4	51.6	51.1	53.3
Net Profit Margin	14.1	16.5	15.8	16.9
ROE	18.8	21.1	20.2	21.2
ROA	10.0	11.5	11.0	11.5
Leverage				
Debt/Equity(x)	0.8	0.8	0.8	0.8
Interest Coverage Ratio(x)	9.8	9.5	9.4	9.7
Per Share data (IDR)				
EPS	209.5	247.9	246.1	274.2
BPS	1,507	1,580	1,650	1,754
Valuation (x)				
P/E	13.7	11.6	11.7	10.5
P/B	1.9	1.8	1.7	1.6
EV/EBITDA	4.1	3.9	3.8	3.4
Operating Metrics				
# Cellular Users (mn)	156.8	159.3	161.7	162.5
# IndiHome Users (mn)	9.2	10.0	10.6	11.0
Mobile ARPU (IDR'000)	44.0	47.5	45.5	46.6

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (IDR)
Telkom Indonesia (TLKM IJ)	7/31/2024	Buy	3,800
	5/7/2024	Buy	4,000
	4/22/2024	Trading Buy	4,790
	2/21/2024	Trading Buy	4,790
	11/6/2023	Trading Buy	4,200
	10/4/2023	Trading Buy	4,350
	8/3/2023	Trading Buy	4,350
	4/11/2023	Trading Buy	5,100
	3/29/2023	Trading Buy	4,600
	1/31/2023	Trading Buy	4,500



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the expected return of the stock over the next 12 months.

* Outside of the official ratings of PT Mirae Asset Sekuritas Indonesia, analysts may call trading opportunities should technical or short-term material developments arise.

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