INDONESIA
Telecommunication

Sucor Sekuritas

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Company Update

TELKOM INDONESIA

BUY

Banking on data center potential

Estimated (Dec)	2022	2023F	2024F	2025F
Revenue (Rp bn)	147,306	154,494	162,454	171,011
EBITDA (Rp bn)	78,992	82,775	88,891	94,254
Net Income (Rp bn)	20,753	25,093	27,111	28,816
EPS (Rp)	209	253	274	291
EPS Change (YoY)	-16%	21%	8%	6%
ROE	14%	16%	16%	16%
ROIC	16%	16%	17%	17%
P/E (x)	19.0	15.7	14.5	13.7
EV/EBITDA	5.4	5.1	4.8	4.5
Dividend Yield	4.2%	5.1%	5.5%	5.8%
Net gearing	0.4	0.4	0.4	0.3

Stock data

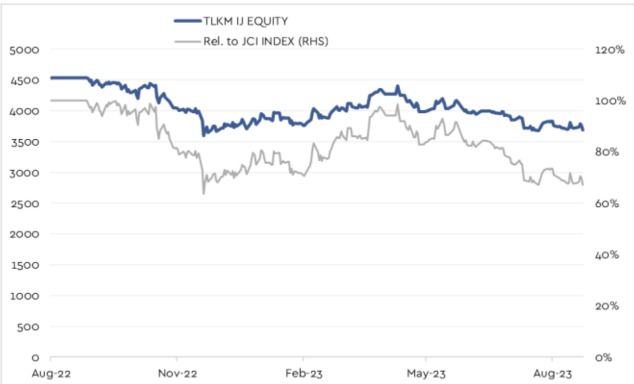
Bloomberg Ticker:	TLKM IJ EQUITY
Last Price:	3,750
Target Price (Upside):	5,200 (+39%)
52-Week Range:	Rp3,600–Rp4,540
Market Capitalization:	Rp366.50tn
Shares Outstanding (mn):	99.06
6M Avg Trading Value:	Rp414.06bn

All figures are in local currency (Indonesian Rupiah) except where otherwise stated.

Historical 5-Yr Key Performance (2017–2022):

Revenue growth	12.6%	ROE	15.9%
Earnings	15.1%	ROIC	16.9%
FCF Growth	176.7%	Div. Yield	4.1%
5-Yr PE	18.8	Operating Margin	30.6%
5-Yr EV/EBITDA	6.0	Net gearing	0.25

TLKM Share Price Performance



EPS consensus (Rp)

	2023F	2024F	2025F
Sucor estimates	253	274	291
Consensus	271	291	313
Sucor/Consensus	93%	94%	93%

Vast data center potential

Tekom Indonesia's data center segment booked a total revenue of Rp837bn (+7% yoy) in 1H23, with >Rp248bn coming from NeutraDC. Overall, TLKM's DC cumulative IT load will reach 46MW by end of this year while another 20MW expansion is in plan for 2024, coming mainly from hyperscale DC. The company expects data center business to be completely unlocked by 2025F, and by 2030F, it is projected to reach a total of 409MW capacity and grab 40% national market share.

All-round commitment on digital services

In addition to data center, TLKM reiterated commitment to pursue growth on B2B digital IT services and enterprise digital solutions through both organic and inorganic expansion. While the strategy is not unique to TLKM (as MNOs like Telefonica, Singtel, and Telus employ similar step), TLKM is presented with adequate growth room in B2B ICT business, given enterprise ICT spending in Indonesia still lags behind its peers, especially from cloud business (Fig. 1).

Our opex concern for TLKM

Based on 1H23 results, TLKM booked slight 2% yoy top-line growth, but this little upside is not translated into operating profit or EBITDA on the back of higher opex, which the company attributes to strategic spending for FMC deployment during the period. In our view, TLKM should keep operating costs on balance as it ventures into multiple new verticals.

Remains attractively valued

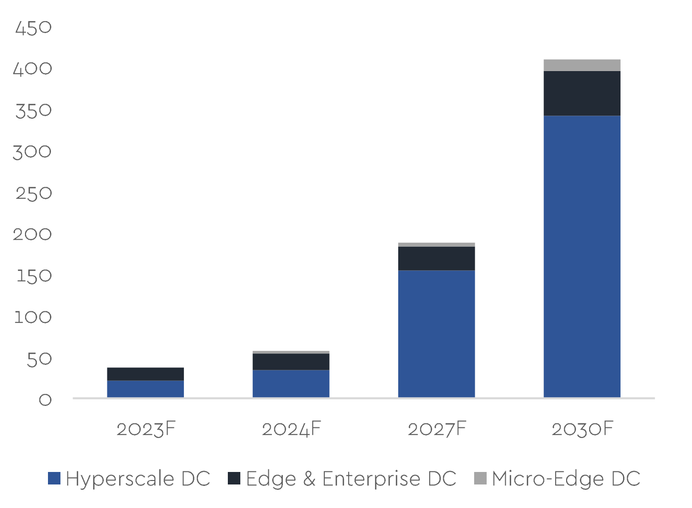
We reiterate our BUY call with unchanged TP of Rp5,200/sh for TLKM, deriving our valuation using a three-stage DCF model. While TLKM's growth may plateauing in the short term, potential value unlocking on infrastructure and data center, MNO's industry-wide price recovery, and successful implementation of FMC may serve as potential upsides. Risks to our call include 1) intensifying competition in FBB business leading to more price pressure, 2) larger-than-anticipated mobile data user churn rate during ARPU hike, 3) slower rollout and adoption of TLKM's FMC products, and 4) spiralling opex which undermines all of its new initiatives efforts.

NeutraDC and its place on Indonesia's data center industry
Demand for data center in Indonesia is projected to grow at 33% CAGR over the next nine years, from 98MW in 2022 to 1,256MW by the end of 2031F. It is mainly driven by 1) data traffic expected to grow at 39% CAGR over the next five years, 2) Indonesia projected to contribute ~40% of SEA's digital economy by 2025, and 3) Supportive government regulation especially in data localization and protection.

Given the promising growth trajectory, TLKM aims to capture the opportunity on data center industry as its new verticals, consolidating all of its data center business under NeutraDC (previously under Telkom Sigma). TLKM said it had finished the consolidation of its existing 3S Data Center, Cikarang, and neuCentrIX, and is currently in the process of consolidating Telin Singapore Data Center. The company's cumulative DC capacity will reach 46MW by end of 2023F, with another 20MW expansion in plan for 2024, coming mainly from hyperscale DCs.

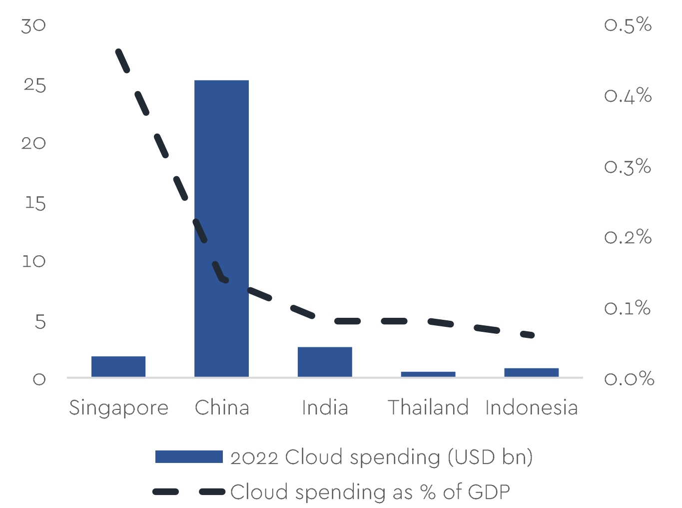
Question of NeutraDC's lower EBITDA
Tekom Indonesia's data center segment booked a total revenue of Rp837bn (+7% yoy) in 1H23, with over IDR248bn coming from NeutraDC. However, EBITDA from NeutraDC was only seen at Rp59bn, implying ~24% EBITDA margin, far lower from industry's average of 55%. The company attributed the lower margin to ongoing consolidation of its data center business which is expected to be completed by the end of this year and is expected to improve margins starting from next year. For future growth, NeutraDC expects capex of US$10mn to US$11mn for each MW with payback period of 11-12 years.

Chart 1: NeutraDC cumulative load capacity and its footprints plan, in MW



Source: Company, Sucor Research

Chart 2: Cloud spending among some asian countries



Source: Company, Sucor Research, McKinsey

Chart 3: Data Center Comparison in Indonesia and China

Data as of 1H23	NeutraDC	DCII	EDGE	Shanghai Athub	GDS US
Revenue (IDR bn)	248	633	459	1,622	10,611
EBITDA (IDR bn)	59	424	182	1,127	4,594
EBITDA Margin (%)	24%	67%	40%	69%	43%
EV (IDR bn)	-	80,915	6,838	27,336	117,472
EV/EBITDA (x)	-	98.4	18.5	12.1	13.4

Notes: EV/EBITDA as of Current/LTM, NeutraDC still on consolidation

Chart 4: TLKM 1H23 Results Table

Profit & Loss (IDR bn)	2Q23	2Q22	% yoy	1H23	1H22	% yoy	1Q23	% qoq
Mobile Data	20,131	17,200	17%	37,022	33,196	12%	16,891	19%
Indihome	7,197	6,980	3%	14,389	13,831	4%	7,192	0%
Others	10,060	12,595	-20%	22,067	24,956	-12%	12,007	-16%
Total Revenue	37,388	36,775	2%	73,478	71,983	2%	36,090	4%
Operating expense	(26,065)	(25,726)	1%	(51,042)	(49,522)	3%	(24,977)	4%
Operating profit	11,323	11,049	2%	22,436	22,461	0%	11,113	2%
EBITDA	19,390	20,059	-3%	38,384	39,447	-3%	18,994	2%
Other op. income/exp	(618)	518		(1,134)	(1,032)		(516)	
Finance expense - net	(883)	(767)		(1,719)	(1,512)		(836)	
Pre-tax profit	10,705	11,567	-7%	21,302	21,429	-1%	10,597	1%
Tax expense	(2,332)	(1,868)		(4,481)	(3,874)		(2,149)	
Minority interest	(2,041)	(2,507)		(4,065)	(4,245)		(2,024)	
Net profit	6,332	7,192	-12%	12,756	13,310	-4%	6,424	-1%
EPS (IDR)	64	73	-12%	129	134	-4%	65	-1%
Margins (%)								
EBITDA Margin	51.9%	54.5%		52.2%	54.8%		52.6%	
EBIT Margin	30.3%	30.0%		30.5%	31.2%		30.8%	
Net Profit Margin	16.9%	19.6%		17.4%	18.5%		17.8%	
Total Subscribers (mn)	153.3	169.7	-10%	153.3	169.7	-10%	151.1	1%
Data Traffic (PB)	4,512	4,183		8,729	7,981		4,217	
ARPU ('000 Rp)	49.7	43.0	16%	47.5	42.0	13%	45.3	10%
Indihome Subscribers (mn)	9.5	8.9		9.5	8.9		9.4	
Indihome ARPU	260	270		260	269		264	

Chart 5: TLKM Key Financial Highlights

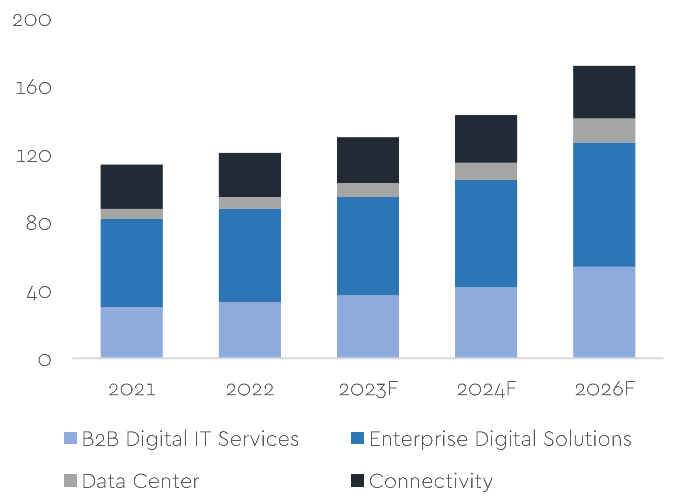
Profit & Loss (IDR bn)	2021	2022	2023F	2024F	2025F
Revenue	**143,210**	**147,306**	**154,494**	**162,454**	**171,011**
Cost of revenue	-	-	-	-	-
Gross profit	**143,210**	**147,306**	**154,494**	**162,454**	**171,011**
Operating expenses	(99,303)	(101,569)	(107,025)	(111,980)	(117,830)
Operating profit	**43,907**	**45,737**	**47,469**	**50,474**	**53,182**
EBITDA	**75,723**	**78,992**	**82,775**	**88,891**	**94,254**
Other op. income/exp	3,606	(6,412)	100	100	100
Finance income	558	878	832	832	832
Finance expense	(4,365)	(4,033)	(4,413)	(3,882)	(3,605)
Inc/loss from assoc.	(78)	(87)	(83)	(85)	(84)
Pre-tax profit	**43,678**	**36,339**	**43,939**	**47,473**	**50,458**
Tax expense	(9,730)	(8,659)	(10,470)	(11,312)	(12,023)
Minority interest	(9,188)	(6,927)	(8,376)	(9,049)	(9,618)
Net profit	**24,760**	**20,753**	**25,093**	**27,111**	**28,816**
EPS (IDR)	250	209	253	274	291

Balance Sheet (IDR bn)	2021	2022	2023F	2024F	2025F
Cash and equivalents	38,311	31,947	33,096	30,550	32,538
Trade receivables	8,510	8,634	9,076	9,532	10,029
Inventories	779	1,144	1,040	1,074	1,197
Net-Fixed assets	165,026	173,329	180,661	186,117	191,293
Other assets	108,145	96,003	97,781	96,831	99,768
Total assets	**277,184**	**275,192**	**286,256**	**290,835**	**299,238**
Trade payables	17,170	18,457	18,854	19,800	20,832
Short-term debt + CLMTD	16,372	17,049	14,657	13,739	13,483
Long-term debt	36,319	27,331	32,313	29,506	30,028
Other liabilities	61,924	63,093	61,744	60,887	59,673
Total Liabilities	**131,785**	**125,930**	**127,567**	**123,932**	**124,016**
Minority interest	23,753	20,004	21,425	22,602	23,794
Paid capital	2,711	2,711	2,711	2,711	2,711
Retained earnings	104,587	111,897	120,388	127,425	134,552
Other equities	9,395	9,697	9,212	9,212	9,212
Total Equity	**145,399**	**149,262**	**158,689**	**166,903**	**175,222**

Cash Flow (IDR bn)	2021	2022	2023F	2024F	2025F
Net income	24,760	20,753	25,093	27,111	28,816
Depreciation & amortization	23,092	21,627	22,726	27,823	30,061
Change in working capital	5,333	1,472	(347)	(85)	(226)
Cash flow from operations	**53,185**	**43,852**	**47,472**	**54,849**	**58,652**
Capex	(30,341)	(34,156)	(35,823)	(36,856)	(37,942)
Others	(8,218)	8,301	2,962	2,786	2,227
Cash flow from investments	**(38,559)**	**(25,855)**	**(32,861)**	**(34,070)**	**(35,716)**
Changes in debt	3,895	(5,759)	1,657	(4,611)	(577)
Changes in equity	9,021	302	(485)	-	-
Dividends paid	(16,643)	(14,856)	(16,602)	(20,075)	(21,689)
Others	6,823	(4,048)	1,968	1,361	1,317
Cash flow from financing	**3,096**	**(24,361)**	**(13,462)**	**(23,325)**	**(20,948)**
Net Cash Flow	**17,722**	**(6,364)**	**1,149**	**(2,546)**	**1,988**

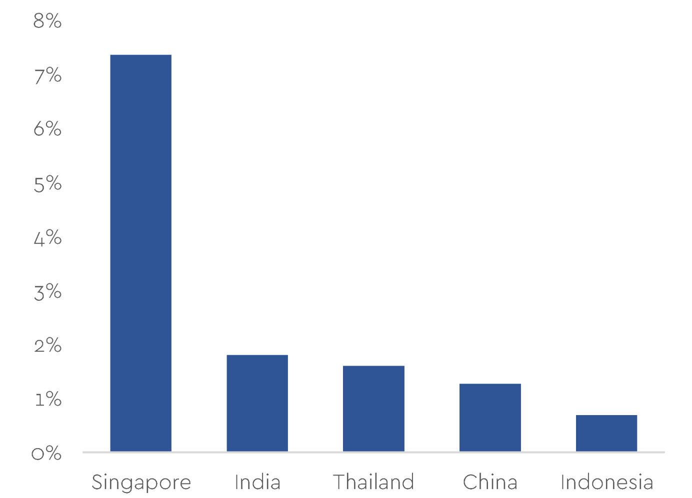
Key Ratios (%)	2021	2022	2023F	2024F	2025F
Revenue growth	4.9	2.9	4.9	5.2	5.3
EBIT growth	1.7	4.2	3.8	6.3	5.4
EBITDA growth	5.1	4.3	4.8	7.4	6.0
Net profit growth	19.0	(16.2)	20.9	8.0	6.3
Gross margin	100.0	100.0	100.0	100.0	100.0
EBIT margin	30.7	31.0	30.7	31.1	31.1
EBITDA margin	52.9	53.6	53.6	54.7	55.1
Net margin	17.3	14.1	16.2	16.7	16.9
ROA	8.9	7.5	8.8	9.3	9.6
ROE	17.0	13.9	15.8	16.2	16.4
Net gearing (x)	0.5	0.4	0.4	0.4	0.3
Net debt/EBITDA (x)	0.4	0.4	0.4	0.4	0.4
Interest coverage ratio (x)	10.1	11.3	10.8	13.0	14.8

Chart 6: B2B Services market size in Indonesia (telco value chain related)



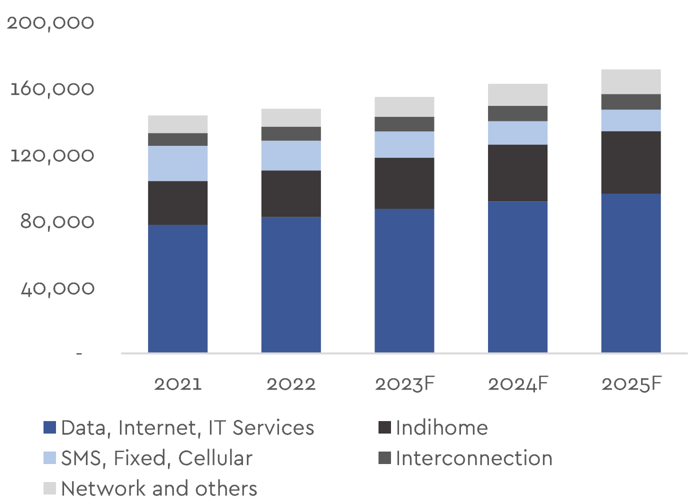
Source: Company, Sucor Research

Chart 7: B2B tech spend as % of GDP among some asian countries



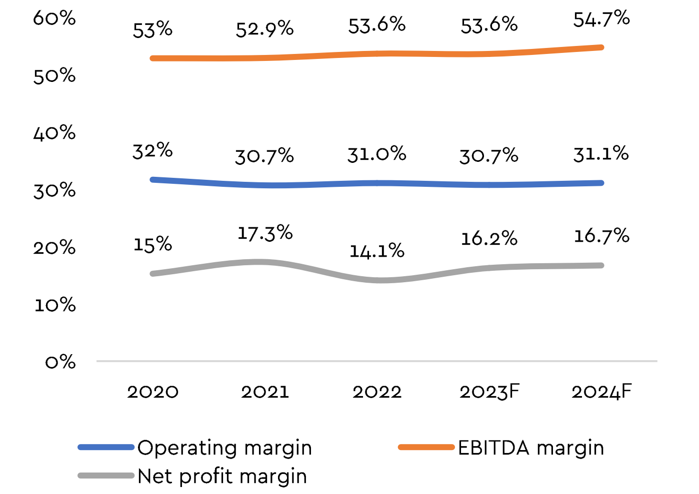
Source: Sucor Research, Mckinsey

Chart 8: TLKM Top-line breakdown by segment (in IDR bn)



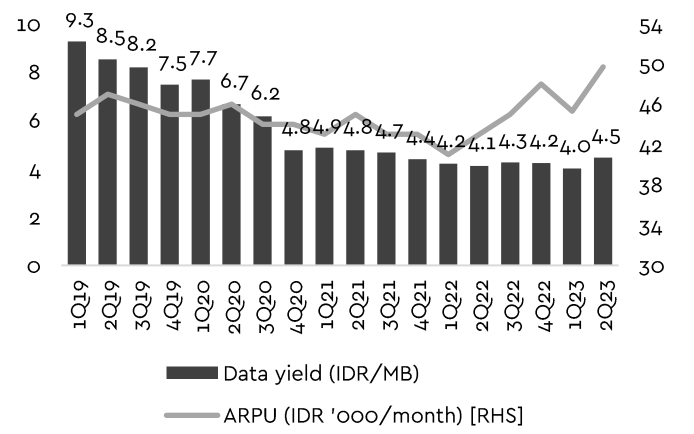
Source: Sucor Research

Chart 9: TLKM profitability over the years



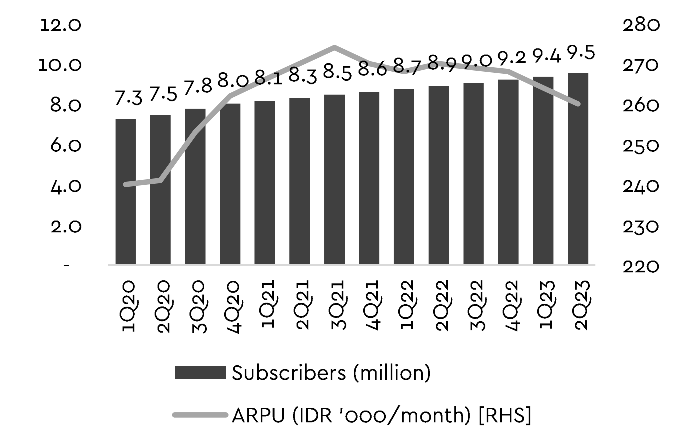
Source: Sucor Research

Chart 10: Telkomsel mobile data ARPU trend



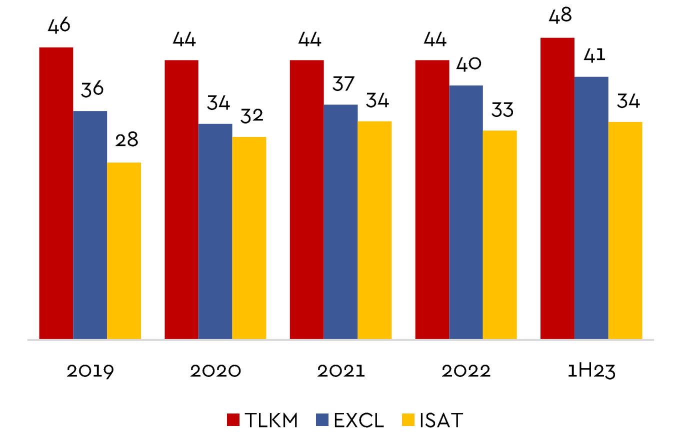
Source: Company, Sucor Research

Chart 11: Indihome FFB total subscribers and ARPU trend



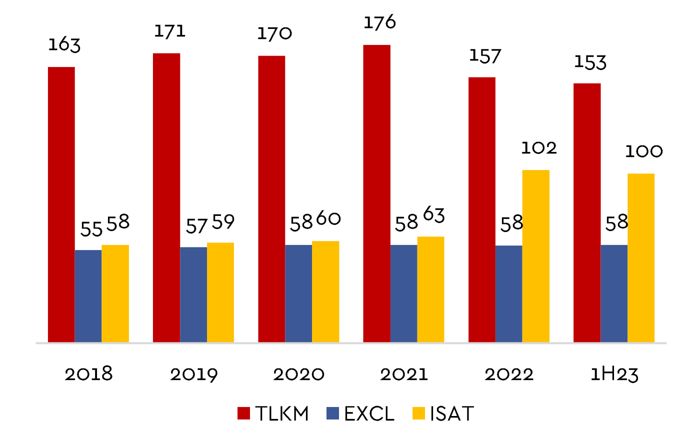
Source: Company, Sucor Research

Chart 12: Telco players blended ARPU comparison



Source: Company, Sucor Research

Chart 13: Telco players total subscribers



Source: Company, Sucor Research

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Overweight : We expect the industry to perform better than the primary market index (JCI) over the next 12 months.

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Sell : We expect this stock to give return of -10% or lower over the next 12 months

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