

Telecom - ASEAN

Indo Telcos – key takeaways from TLKM at BofA ASEAN conference + 4Q23 preview

Price Objective Change

Indo - key takeaways from the BofA ASEAN Conference

We hosted PT Telkom at the BofA ASEAN Conference on 12 Jan 2024. TLKM sees positive signs from fixed mobile convergence – or bundling of mobile + broadband – with the spin-off of its broadband business Indihome from the group to the cellular subsidiary Telkomsel. On cellular front – Telkomsel is willing to give up some subscribers share if they can maintain their overall revenue market share largely stable. We stay Neutral on TLKM, as we see key near-term catalysts missing for the stock and find risk-reward balanced at these levels.

Competition: Stays rational with some aggression ex-Java

Telkomsel highlighted on the call that the overall competitive landscape in Indonesia has improved post consolidation and expects price rationality to prevail as telcos need to reserve cash for upcoming 5G spectrum auctions. However, they also alluded that when operators enter green field ex-Java market, they enter with aggressive/attractive pricing, and they're willing to give-up some market share here (from c.75-80%). We believe the entry of other telcos like XL Axiata into new markets in ex-Java with better value offerings would translate into some market share loss for TSEL, and accordingly expect revenue market share for TSEL to decline to 48.7% by 2025E from 50.6% in 2022.

Data Centers: Looking for strategic investors to grow biz

Telkom has two hyperscale data centers (DC) coming up – one in Batam, to capture the spillover demand from SG and another in Cikarang. All TLKM data centers have been merged under one roof – “Telkom Data Ekosistem”, and this entity is open for strategic investors to come in. Per TLKM, in Indonesia – the domestic DC demand is still low but the demand by 2030 is expected to grow to 1000MW – of this Telkom wants to capture 20-25% or have total 400MW capacity (additional 200-250MW). To unlock this opportunity – Telkom is looking to partner with strategic investors – and have already signed a financial advisor earlier this year to find the right strategic investor. They said they will not give a majority stake – but maybe in the range of c.30% stake.

4Q23 preview: expect positive impact of Nov price hikes

We expect 4Q to be a good quarter for Indo telcos, with seasonally strong data growth in festive quarter helping absorb the price hikes by telcos in November. For TLKM – we expect good quarter for Telkomsel with some benefits from Indihome integration but expect other group business (infra co/enterprise/DC) to be soft – as they're still in investment phase. We accordingly expect revenue/net income growth flat/-3% qoq for TLKM. With this note we slightly raise our DCF based PO for TLKM to IDR4,015 (from IDR4,000) as we see synergy capture from Indihome integration in later years.

17 January 2024

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ASEAN
Telecommunications

Sukriti Bansal >>
Research Analyst
Merrill Lynch (Singapore)
+65 6678 0454
sukriti.bansal@bofa.com

Sachin Salgaonkar >>
Research Analyst
BofAS India
+91 22 6632 8667
sachin.salgaonkar@bofa.com

Exhibit 1: Indo telcos key changes

We adjust our PO for TLKM

	Previous	Current	% change
PT Telkom			
Price Obj.	4,000	4,015	0.4%
EPS (Rp)			
FY23E	275.2	263.6	-4.2%
FY24E	277.4	276.9	-0.2%
FY25E	295.0	294.5	-0.2%

Source: BofA Global Research

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ARPU: Average revenue per user

TLKM: PT Telkom

TSEL: Telkomsel

XL: XL Axiata

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Indo Telcos 4Q preview

We expect 4Q to be a good quarter for Indo telcos with seasonally stronger data growth qoq - due to festive contribution driving higher data consumption in 4Q. This along with lower competition and residual positive impact seen from price hike at both XL and TSEL (TLKM) in November, is expected to further help the momentum for a good 4Q overall. This will be the second quarter for TLKM post Indihome integration into Telkomsel - TSEL numbers are thereby comparable qoq but not yoy (ex-Indihome).

TLKM: For TLKM we expect to see some seasonal strength at Telkomsel along with positive impact of November price hikes. We accordingly expect 3%/2% revenue/net income growth for Telkomsel in 4Q23E. However, we expect Telkomsel growth to be offset by weaker growth in other group business – infra co/enterprise/DC – as they're still in investment phase and accordingly forecast flat/-3% qoq revenue/net income growth at the group level.

4Q22 had a net income one-off for TLKM due to impact of unrealized loss on changes in fair value of investments of IDR3.4 trillion mainly to recognize unrealized loss from their investment in GoTo due to GoTo's stock price correction. Accordingly, reported net income is expected to grow 58% YoY, but decline 12% YoY adjusted for this impact, on higher interest costs.

Exhibit 2: TLKM consolidated financials (IDR bn)

TLKM is expected to see flat revenue yoy in 4Q23; reported net income declining slightly as they invest in new businesses

TLKM	4Q22	3Q23	4Q23E	YoY	QoQ
Revenue	38,432	37,760	37,810	-2%	0%
EBITDA	19,533	20,709	20,062	3%	-3%
EBITDA margin	50.8%	54.8%	53.1%	2.2 pps	-1.8 pps
Net Income (Reported)	4,172	6,773	6,579	58%	-3%

Source: BofA Global Research estimates

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Exhibit 3: TSEL financials (IDR bn)

The mobile arm TSEL is expected to see QoQ growth with impact from November price increases

TSEL	4Q22	3Q23	4Q23E	YoY	QoQ
Revenue	22,878	29,184	30,108	32%	3%
EBITDA	8,963	13,282	13,838	54%	4%
EBITDA margin	39.2%	45.5%	46.0%	6.8 pps	0.4 pps
Net Income (Reported)	1,578	5,493	5,600	255%	2%

Source: BofA Global Research estimates

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Estimate changes

With this note – we slightly change our earnings forecasts for PT TLKM to reflect our latest views. We expect net income to be impacted near term by slightly higher interest costs/D&A with revenue/EBITDA largely the same – as slightly higher Telkomsel growth is offset by slower growth at the group level with enterprise/Infra and DC businesses in investment phase. However, as these businesses turn around – we build in higher future growth and accordingly our DCF (10-year) based PO for TLKM increases IDR4,015 (from IDR4,000) as we see synergy capture from Indihome integration and new businesses growth in future.

Exhibit 4: PT TLKM – change of estimates – 2023E-25E

We cut our net income estimates by an avg. 1% lower than before

Year-ending Dec		FY23E	FY24E	FY25E
Revenue	New	149,048	152,810	158,526
	Previous	149,251	153,024	158,749
	% diff	-0.1%	-0.1%	-0.1%
EBITDA	New	79,155	81,535	85,013
	Previous	79,263	81,649	85,132
	% diff	-0.1%	-0.1%	-0.1%
EBIT	New	46,835	47,965	50,904
	Previous	46,899	48,035	50,983
	% diff	-0.1%	-0.1%	-0.2%
Net income	New	26,108	27,435	29,177
	Previous	27,266	27,476	29,225
	% diff	-4.2%	-0.1%	-0.2%

Source: BofA Global Research estimates

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Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker

TLK

TLKMF

Bloomberg ticker

TLK US

TLKM JJ

Company name

PT Telkom

PT Telkom

Price

US\$ 25.93

Rp 4010

Rating

B-2-7

A-2-7

Source: BofA Global Research

Price objective basis & risk**PT Telkom (TLKMF / TLK)**

Our sum of the parts (SOTP) based price objective of Rp4,015 (US\$26.98) is derived by IDR3,532 discounted cash flow (DCF) valuation of core TLKM business, driven by a 10.7% weighted-average cost of capital (WACC) and a 3.5% terminal growth rate and market value of tower co. Mitratel. We feed a 7.7% risk free rate and 0.8x beta to derive our WACC.

Downside risks are (1) higher-than-expected price competition, and (2) higher-than-expected market share losses to Indosat-Hutch and XL Axiata.

Upside risks are: (1) stronger-than-expected revenue growth, EBITDA margins and earnings and (2) retention of market share

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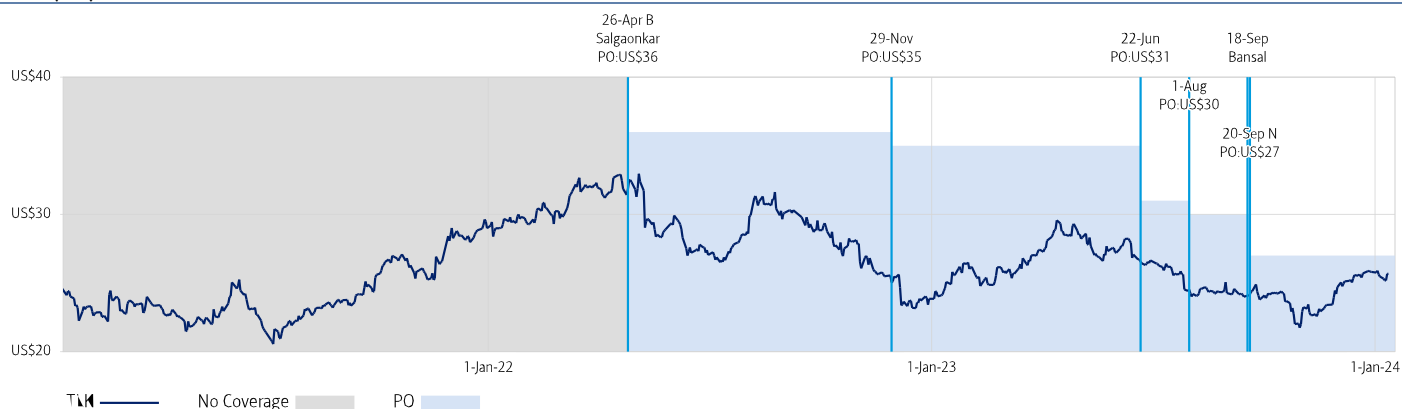
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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Advanced Info	AVIZF	ADVANC TB	Thititthep Nophaket
	CelcomDigi	DIGBF	CDB MK	Sukriti Bansal
	Converge ICT	XLERF	CNVRG PM	Jonathan Gabriel Madrid
	Digital Telecommunications Infra Fund	TTCFF	DIF TB	Thititthep Nophaket
	Far EasTone	FEOTF	4904 TT	Brooksley Kang
	GDS Holdings	GDS	GDS US	Daley Li, CFA
	GDS Holdings	XMJFF	9698 HK	Daley Li, CFA
	Indus Towers	XYYAF	INDUSTOW IN	Sachin Salgaonkar
	INTUCH	XHTF	INTUCH TB	Thititthep Nophaket
	KT	KTCNF	030200 KS	Sun Jung Lee
	KT	KT	KT US	Sun Jung Lee
	NextDC Limited	NXDCF	NXT AU	Ware Kuo
	PLDT	PHTCF	TEL PM	Jonathan Gabriel Madrid
	PLDT -A	PHI	PHI US	Jonathan Gabriel Madrid
	Singtel	SNGNF	ST SP	Sachin Salgaonkar
	SK Telecom	SKMTF	017670 KS	Sun Jung Lee
	SK Telecom	SKM	SKM US	Sun Jung Lee
	Taiwan Mobile	TWMBF	3045 TT	Brooksley Kang
	Telstra Group	TTRAF	TLS AU	Ware Kuo
	Telstra Group-A	TLGPY	TLGPY US	Ware Kuo
	TPG Telecom	TPGTF	TPG AU	Ware Kuo
	XL Axiata	PTXAF	EXCL IJ	Sukriti Bansal
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	Megaport Ltd	MGPPF	MP1 AU	Ware Kuo
	PT Telkom	TLKMF	TLKM IJ	Sukriti Bansal
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	Spark New Zealand Ltd	NZTCF	SPK NZ	Ware Kuo
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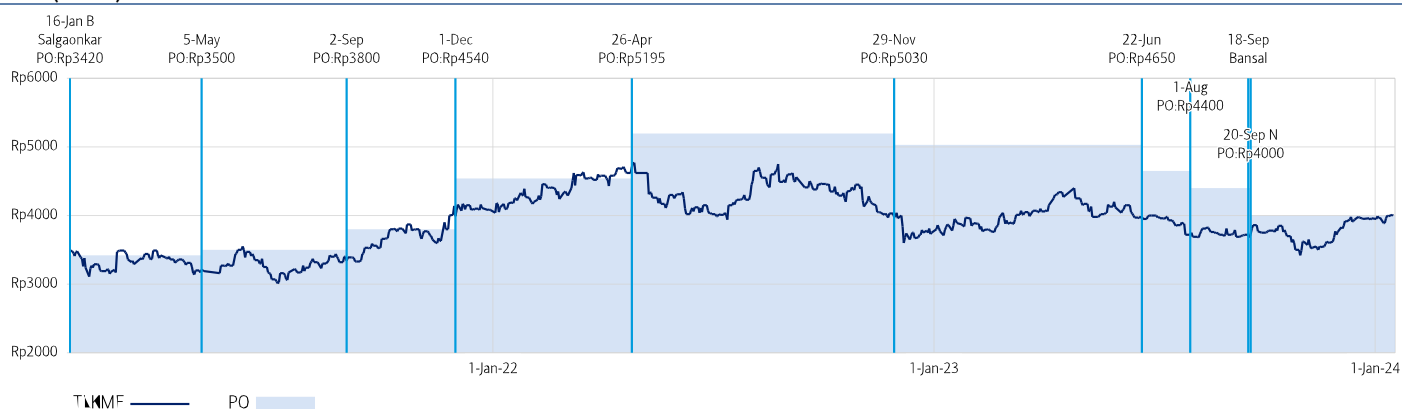
PT Telkom (TLK) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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PT Telkom (TLKMF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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