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Telekomunikasi Indonesia (TLKM)

Foreign investors selling spree makes for good buying opportunity

Recommendation: Buy

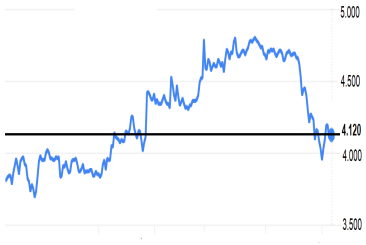
Opinion: TLKM stock, at its current price of Rp 4120 is a good place for a long term investment for the following reasons:

- Recent drop in price from foreign sales provides an attractive entry point
- TLKM has healthy sustainable earnings and a history of high dividend yield
- TLKM has relatively low P/E ratio and is fundamentally sound

Key figures and ratios

Market Cap (Rp):	415.29 T
Shares O/S:	100.8 Billion
EPS (Annualized):	237
P/E:	17.38
P/CF:	11
P/Book:	3.76
P/Sales (Annualized)	3.21
Dividend Yield:	3.32%
Dividend Payout Ratio:	56.9%
Debt Ratio	0.42
Current Ratio:	1.19
Quick Ratio:	0.57
Adjusted Net Margin:	26.85%

TLKM Nov 2016 - Nov 2017



Foreign Investor Unloads

Selling pressure from foreign investors over the past few weeks is a notable reason for the recent drop in TLKM share price. TLKM is one of the few liquid stocks with large market cap in the country, it is therefore a popular place for large foreign investors to put their money to get exposure to Indonesia as a country. Consequently when these foreign investors perceive Indonesia to be a relatively less attractive investment destination, TLKM stocks are often sold off as means to reduce country exposure. While the JCI has returned a respectable 14% YTD, it is still lower than most other global indices including the S&P 500 (15.59%), EURO STOXX (14.2%) both of which has much lower country risk. The JCI has also so far failed to beat other emerging markets such as Philippines (PSEi +22.4% YTD) and India (Sensex +26.5% YTD). That along with improving sentiments in other countries stemming from expectations of favorable changes to government policies in superpower countries help explain why foreign investors have been selling Indonesian equities.

Solid Fundamentals

The fundamentals of TLKM however, remains strong. In addition to relatively low P/E ratio, (see table 1) capital expenditure (CAPEX) as shown by purchase of fixed assets made by TLKM is also much higher than that of competitors (see table 2). The additional investments should better position TLKM to save cost in the future. Also, newly purchased spectrum from the recent government auction will also help them better cater to the growing demand for their 4G service.

Table 1:

Stock	P/E Ratio
TLKM (Telkomsel)	17.38
EXCL (XL Axiata)	117
ISAT (Indosat)	19.64

Being government controlled, TLKM has obvious advantages over competitors such as easier movements around regulations and better access to government funds. Even though managers selected by the notoriously inefficient Indonesian government might not be ideal managers, having strong government support as an economic moat should help maintain market share and margins in the foreseeable future.

Table 2:

Stock	2017 CAPEX (Annualized)
TLKM (Telkom)	Rp 26.74 Trillion
EXCL (XL Axiata)	Rp 7.01 Trillion
ISAT (Indosat)	Rp 5.4 Trillion

But Keep The Strategic Risks In Mind

Over the past few years, a significant portion of TLKM's growth comes inorganically from spending billions of dollars in acquisition to expand their digital business, and managers has stated they intend to continue so in the coming years. This raises the question as to whether or not managers of TLKM are able to effectively manage the acquired assets. Digital businesses are by its nature relatively high risk due to low barriers of entry and intense competition, and slight mismanagement could lead to billions in recent investment becoming much less valuable quickly.

The Indonesian government, being majority owner requires TLKM to payout most of its earnings out as dividends. It is likely that earnings reinvested back to the company is less than the optimal amount.

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