

## Indosat Ooredoo Hutchison (ISAT)

Mark the beginning of new era

16 September 2022



<b>ISAT IJ</b>	<b>BUY</b>
Sector	Telecom.
Price at 15 Sept 2022 (Rp)	7,125
Price target (Rp)	8,000
Upside/Downside (%)	11.5

**Stock Information**

Indosat Ooredoo Hutchison is a telecommunication provider in Indonesia which is owned by Ooredoo Hutchison Asia, a joint venture between Ooredoo and Hutchison Asia Telecom Group since 2022.

Market cap (Rp bn)	57,650
Shares outstanding (mn)	8,019
52-week range (Rp)	5,200-7,800
3M average daily vol. ('000)	6,294
3M average daily val. (Rp mn)	43,309

**Shareholders (%)**

Ooredoo Asia Pte. Ltd.	65.7
PPA	9.6
TTI	10.8
Public	14.0

**Stock Performance**

Source: Bloomberg

	<b>1M</b>	<b>3M</b>	<b>12M</b>
Performance (%)	(1.7)	7.5	2.9

- ISAT's 1H22 reported net profit tumbled 41.8% YoY to Rp3.3tn in 1H22
- We expect the company's revenue and EBITDA of Rp42.4tn and Rp18.5tn in 2022, respectively
- We re-initiate with "BUY" call with 12% upside potential on a 12-month view on better outlook post-merger, better pricing and hyperscale expansion.

**Stronger than expected**

ISAT's revenue grew 50.3% YoY in 1H22 to Rp22.53tn (+7.2% QoQ in 2Q22). The figure represents 53.1% of our FY forecast. Furthermore, the company also recorded a solid EBITDA of Rp9.2tn in 1H22 (9.5% QoQ in 2Q22) post merger. Nevertheless, EBITDA margin was down from 45.2% in 1H21 to 40.7% in 1H22 (41.2% in 2Q22) due to impacts of the merger. Meanwhile, ISAT's reported net profit of Rp3.26tn in 1H22, plunging 41.8% YoY. Yet, it skyrocketed QoQ from Rp128.75bn to Rp2.33tn in 2Q22. By taking out one-off gains, normalized profit was Rp149.3bn in 1H22 (Rp105.6bn in 2Q22). Balance-sheet wise, ISAT net gearing ratio was improved to 1.6x in 1H22.

**Improved KPIs**

ISAT's stellar top-line growth was driven by a jump in subscriber post-merger by 59.5% YoY in 1H22 to 96.2mn (1.7% QoQ in 2Q22). The higher subscribers also became primary driver for data service revenue bump +59.9% YoY to Rp17.8tn (+9.7% QoQ in 2Q22). Data service contribution to revenue was also up to 78.9% in 1H22 (74.1% in 2Q22) from 74.1% in 1H21, accompanied by higher 4G user proportion of 72.8% to total subs compared to 66.3% in previous year. Nevertheless, ARPU was relatively stabilized YoY to Rp33,500 in 1H22, yet higher by 9.4% QoQ in 2Q22 to Rp35,000. Meanwhile, data yield was flattened at Rp2,900 in 2Q22.

**Bringing better future**

We expect ISAT's 2022 revenue of Rp42.4tn, boosted by higher data revenue. Although, we opine that the competition remains intense for throughout 2022, the merger will re-shape industry for the better, providing room for providers to improve the prices going forward. Furthermore, ISAT reported a smooth infrastructure integration with around 12,000 sites have been integrated as of August, which is ahead of initial plan. By accelerating network integration, we expect it will be fully realized earlier than 2 years period. We are optimistic that the merger will bring improvement in the area of customer base, better quality networks, higher coverage, and better efficiencies. Meanwhile, ISAT through subsidiary BDx, along with Lintasarta have formed a JV to tap into hyperscale data center, gaining momentum from rapid demand of cloud and corporate digitalization.

**Reiterate BUY on the back synergies and hyperscale expansion**

We re-initiate our coverage with a BUY recommendation with a price target of Rp8,000/share, implying 2022 PER of 12.3x and EV/EBITDA of 6.4x. We are sanguine with ISAT's outlook buoyed by 1) stronger customer base; 2) hyperscale data center expansion through JV; 3) infrastructure integration and transformation post-merger that should result in better efficiencies; and 4) pricing improvement following improved purchasing power. However, we note several downside risks to our recommendation including 1) competitive market in mobile; 2) leverage risks; 3) high inflation that may weaken purchasing power and 4) interest rate hike.

**Key Statistics**

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (Rp bn)	27,926	31,388	42,429	45,532	47,564
EBITDA (Rp bn)	11,433	13,886	18,467	20,032	21,821
Net profit (Rp bn)	(717)	6,751	5,197	2,827	3,658
EPS (Rp)	(89)	842	648	353	456
EPS growth (%)	(145.7%)	(1041.9%)	(23.0%)	(45.6%)	29.4%
ROAA (%)	(1.5%)	16.0%	6.6%	2.2%	2.6%
ROAE (%)	(1.8%)	19.4%	7.4%	4.2%	5.5%
PER (x)	(89.5)	9.5	12.3	22.7	17.5
PBV (x)	4.9	6.2	2.0	1.8	1.7
BV/ Share (Rp)	1,610.3	1,284.8	3,967.2	4,319.7	4,775.9
EV/EBITDA (x)	10.3	8.5	6.4	5.9	5.4

**Analyst**

Devi Harjoto

# Indosat Ooredoo Hutchison (ISAT)

## ISAT's Financial Overview

Consolidated Statements of Profit or Loss (Rp bn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Revenue	14,984	22,527	50.3%	10,873	11,654	7.2%
Costs	(7,910)	(16,429)	107.7%	(9,657)	(6,773)	(29.9%)
Operating profit	7,073	6,097	(13.8%)	1,216	4,881	301.5%
Operating profit margin	47.2%	27.1%		11.2%	41.9%	
EBITDA	6,778	9,178	35.4%	4,380	4,798	9.5%
EBITDA margin	45.2%	40.7%		40.3%	41.2%	
Finance income/ expenses	(1,406)	(2,121)	50.8%	(1,053)	(1,068)	1.5%
Profit before income tax	5,667	3,567	(37.1%)	163	3,813	2240.8%
Tax benefit (expenses)	(26)	(409)	1484.7%	1	(410)	(30443.7%)
Net profit	5,598	3,260	(41.8%)	129	3,132	2332.4%
Net profit margin	37.4%	14.5%		1.2%	26.9%	
Normalized net profit	246	149	(39.3%)	44	106	141.3%

Source: Company, KB Valbury

## ISAT's performance overview

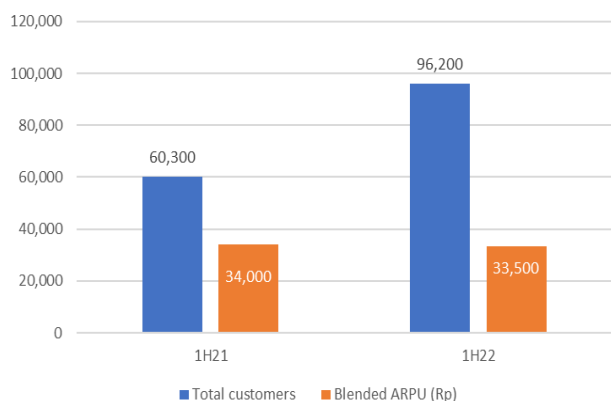


Exhibit 1. ISAT total customers and blended ARPU per user  
Source: Company, KB Valbury

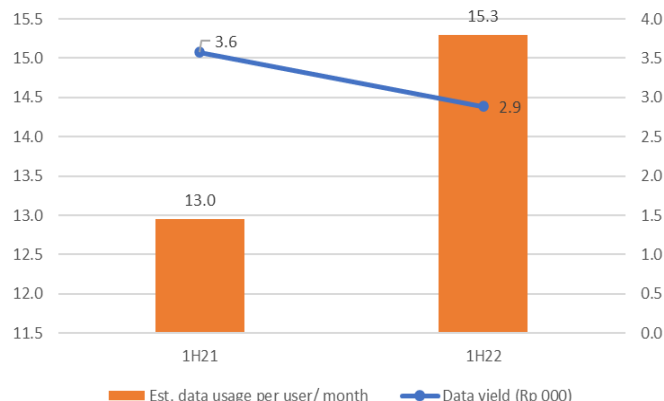


Exhibit 2. ISAT data yield and est. data usage  
Source: Company, KB Valbury

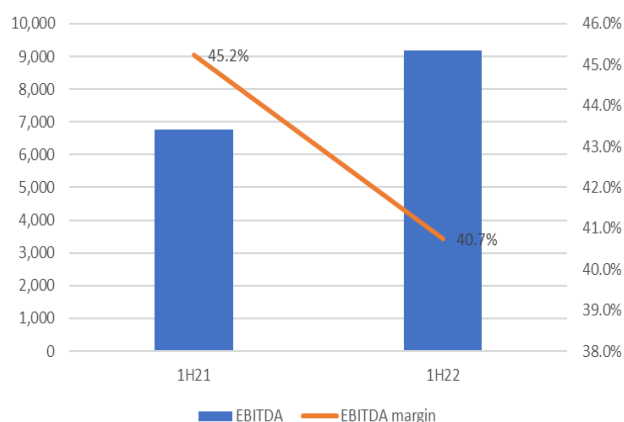


Exhibit 3. EBITDA and EBITDA margin  
Source: Company, KB Valbury

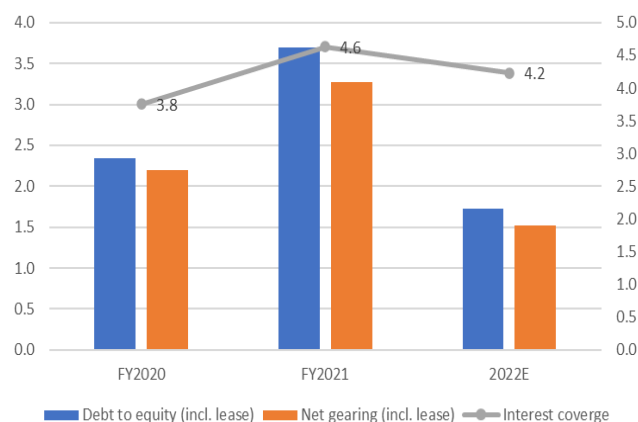


Exhibit 4. ISAT leverage ratio  
Source: Company, KB Valbury

## Indosat Ooredoo Hutchison (ISAT)

## FINANCIAL TABLES

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
<b>Revenue</b>	27,926	31,388	42,429	45,532	47,564
Costs	(25,526)	(21,034)	(31,461)	(38,045)	(39,189)
<b>Operating profit</b>	2,399	10,354	10,968	7,488	8,375
<b>EBITDA</b>	11,433	13,886	18,467	20,032	21,821
<b>EBITDA margin</b>	40.9%	44.2%	43.5%	44.0%	45.9%
Net finance income/ expenses	191	152	122	109	115
Share of loss/gain from JV	(600)	7,507	6,602	3,909	5,025
<b>Profit before income tax</b>	(31)	(647)	(792)	(469)	(754)
Tax benefit (expenses)	(717)	6,751	5,197	2,827	3,658
<b>Net profit</b>	-2.6%	21.5%	12.2%	6.2%	7.7%
<b>Net profit margin</b>	27,926	31,388	42,429	45,532	47,564

Source: Company, KB Valbury Sekuritas

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
<b>Current assets</b>					
Cash and cash equivalents	1,782	3,789	5,827	1,088	1,095
Trade receivables	2,557	2,027	2,439	2,620	2,665
Other current assets	5,251	5,385	7,588	6,368	6,527
<b>Total current assets</b>	<b>9,595</b>	<b>11,499,439</b>	<b>15,868,436</b>	<b>10,092,143</b>	<b>10,308,739</b>
<b>Non-current assets</b>					
Fixed assets	46,522	45,515	68,273	68,956	67,576
Other non-current assets	6,662	6,383	22,608	22,697	22,873
<b>Total non-current assets</b>	<b>53,184</b>	<b>51,898</b>	<b>90,881</b>	<b>91,652</b>	<b>90,450</b>
<b>Total assets</b>	<b>62,779</b>	<b>63,397</b>	<b>106,750</b>	<b>101,744</b>	<b>100,759</b>
<b>Current liabilities</b>					
Trade payables	657	982	1,666	1,545	1,761
Taxes payables	224	1,202	648	622	605
Accrued expenses	2,366	2,717	3,260	3,423	3,526
Short term debts	4,654	10,349	16,740	15,493	14,770
Other current liabilities	14,757	13,408	13,837	13,301	13,600
<b>Total current liabilities</b>	<b>22,658</b>	<b>28,658</b>	<b>36,151</b>	<b>34,385</b>	<b>34,262</b>
<b>Non-current liabilities</b>					
Long-term debts	23,167	23,116	36,829	30,783	26,174
Other non-current liabilities	4,041	1,320	1,957	1,937	2,024
<b>Total non-current liabilities</b>	<b>27,207</b>	<b>24,436</b>	<b>38,785</b>	<b>32,719</b>	<b>28,199</b>
<b>Shareholders' equity</b>	12,913	10,303	31,813	34,640	38,298
<b>Total liabilities and equity</b>	<b>62,779</b>	<b>63,397</b>	<b>106,750</b>	<b>101,744</b>	<b>100,759</b>

Source: Company, KB Valbury Sekuritas

## Indosat Ooredoo Hutchison (ISAT)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	(717)	6,751	5,197	2,827	3,658
Depreciation & amortization	10,011	10,204	12,630	15,232	15,155
Changes in working capital	2,155	8	(829)	518	390
<b>CF from operating activities</b>	<b>11,450</b>	<b>16,963</b>	<b>16,998</b>	<b>18,577</b>	<b>19,203</b>
Investment in fixed assets	(13,780)	(9,197)	(35,388)	(15,915)	(13,776)
Others	953	279	(16,226)	(88)	(177)
<b>CF from investing activities</b>	<b>(12,827)</b>	<b>(8,918)</b>	<b>(51,614)</b>	<b>(16,003)</b>	<b>(13,953)</b>
Dividends paid	-	(9,500)	-	-	-
Debt raised/ repaid	(5,220)	1,331	9,699	(2,433)	(1,444)
Others	2,499	(7,369)	26,955	(4,879)	(3,800)
<b>CF from financing activities</b>	<b>(2,721)</b>	<b>(6,038)</b>	<b>36,654</b>	<b>(7,312)</b>	<b>(5,244)</b>
<b>Change in cash flows</b>	<b>(4,099)</b>	<b>2,007</b>	<b>2,038</b>	<b>(4,738)</b>	<b>7</b>
<b>Cash and cash equivalents, beginning</b>	<b>5,881</b>	<b>1,782</b>	<b>3,789</b>	<b>5,827</b>	<b>1,088</b>
<b>Cash and cash equivalents, ending</b>	<b>1,782</b>	<b>3,789</b>	<b>5,827</b>	<b>1,088</b>	<b>1,095</b>

Source: Company, KB Valbury Sekuritas

## RATIO ANALYSIS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Operating profit margin (%)	8.6%	33.0%	25.9%	16.4%	17.6%
EBITDA margin (%)	40.9%	44.2%	43.5%	44.0%	45.9%
Net profit margin (%)	(2.6%)	21.5%	12.2%	6.2%	7.7%
ROA (%)	(1.1%)	10.7%	6.1%	2.7%	3.6%
ROE (%)	(1.5%)	16.0%	6.6%	2.2%	2.6%
ROCE (%)	(1.8%)	19.4%	7.4%	4.2%	5.5%
Debt/ Equity (%)	2.3	3.7	1.8	1.4	1.1
Net debt/Equity (x)	2.2	3.3	1.6	1.4	1.1
Net debt/ EBITDA (x)	2.3	2.2	2.6	2.3	1.8
Interest coverage (x)	3.8	4.6	4.1	5.4	6.3
EPS	(89.4)	841.9	648.0	352.5	456.2

Source: Company, KB Valbury Sekuritas

# Indosat Ooredoo Hutchison (ISAT)

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