

Indosat Ooredoo Hutchison (ISAT)

Ready to take off

9 May 2023



ISAT II	BUY
Sector	Telecom.
Price at 9 May 2023 (Rp)	7,725
Price target (Rp)	9,350
Upside/Downside (%)	21.0

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)	60,868
Shares outstanding (mn)	8,062
52-week range (Rp)	5,425-7,525
3M average daily vol. ('000)	80,614
3M average daily val. (Rp mn)	429,706

Shareholders (%)

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

Stock Performance

Source: Bloomberg

	1M	3M	12M
Performance (%)	9.2	23.1	14.2

ISAT reported in-line performance in 1Q23 with flattish data traffic and yield despite a continued decline in ARPU qoq. Given that, the company is maintaining FY23 growth guidance of 5-6% yoy on better network quality and coverage expansion following the completion of MOCN integration. With improved cost efficiency on synergy, ISAT aims to achieve c.50% EBITDA margin in the future. Maintain BUY with upgraded TP of IDR9,350.

1Q23 result relatively in-line

ISAT's 1Q23 EBITDA slightly dropped 1.0% qoq, yet grew 21.7% yoy to IDR21.7 tn or relatively in-line with ours/consensus at 24.4%/23.8%. Better cost optimization drove EBITDA margin +60bps qoq to 44.6% in 1Q23 on the back of lower cash cost, reflected by decreased maintenance cost on radio frequency fee as well as marketing cost due to seasonality. Finance costs escalated 13.1% qoq on lease, impacted by leaseback schemes of tower. Additionally, G&A plunged 59% qoq in 1Q23 on training, provision of receivable and professional fees. Nevertheless, revenue also decreased 2.3% qoq/+9.9% yoy to IDR11.95 tn in 1Q23, achieving 24.1%/23.7% of ours/consensus. Balance-sheet wise, ISAT's net gearing improved to 0.2x in 1Q23, thanks to a higher cash position following tower sales.

Pinning hopes on industry betterment

ISAT recorded a 3.6% qoq decline subs base to 98.5 mn in 1Q23 that management said to be part of efforts on healthier market conduct. This led to flattish data traffic in 1Q23 despite higher data usage to 11.3 GB/user or +12.6% yoy, which was also signifying benefit from improving network capability that have been completed in March '23. Nevertheless, we highlight dropping blended ARPU of -2.9% qoq and data yield by -1.5% qoq could have been indication of intensifying competition. However, we highlight increasing blended ARPU +2.8% yoy in 1Q23 may have been sign that industry is moving into good direction.

Banking on core integration

ISAT managed to complete network integration in March '23, or in 5 quarters, faster than expected which involved over 46K sites. With this completion, it is expected to improve customer experience thanks to wider coverage and lower latency that we believe will provide more upside especially customer growth and ARPU. Furthermore, better efficiency can also be achieved on top of further synergy expected to save USD400 mn in next 3 years post-merger. Furthermore, ISAT is aiming to expand fixed broadband segment, eyeing 10% of market share by 2026, banking on country's low fixed internet penetration with management planning on using light asset model, enabling it to be more capex efficient.

Reiterate BUY on improving cost efficiencies

We maintain our BUY call with upgraded target price to IDR9,350 (previously: IDR8,550), implying 3.8x '23F EV/EBITDA (-1SD 5Y historical mean). We highlight several upside risks to our call including 1) expectation on improving cost structure; 2) better leverage profile and 3) management's focus on better customer experience, coverage enhancement and competitive pricing relative to peers that should provide an ample room for more upside going forward especially in the event of market repair.

Exhibit 1: Key Statistics

Year end Dec	2021A	2022A	2023F	2024F	2025F
Revenue (IDR bn)	31,388	46,752	49,359	53,179	56,249
EBITDA (IDR bn)	13,886	19,469	22,110	24,142	25,997
Net profit (IDR bn)	6,751	4,723	3,203	4,105	5,381
Normalized profit (IDR bn)	828	1,459	1,838	4,105	5,381
EPS (IDR)	837	586	397	509	667.4
EPS growth (%)	-1,041.9	-30.0	-32.2	28.2	31.1
ROAA (%)	10.7	5.3	2.8	3.5	4.4
ROAE (%)	16.0	6.3	2.7	3.2	3.8
PER (x)	7.5	10.8	15.9	12.4	9.4
PBV (x)	6.7	7.7	2.5	2.4	2.2
EV/EBITDA (x)	4.6	3.2	2.6	2.3	3.3

Source: Company, KBVS Research

Analyst

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Indosat Ooredoo Hutchison (ISAT)

Exhibit 2: Financial Summary

	1Q23	1Q22	YoY (%)	4Q22	QoQ (%)	2023F	% to '22F	Cons'	% of Cons'
Revenue	11,945	10,873	9.9	12,221	(2.3)	49,498	24.1	50,385	23.7
Cellular & Data	10,258	9,378	9.4	10,400	(1.4)				
Data	9,588	8,470	13.2	9,739	(1.6)				
Voice & SMS	275	362	(23.9)	306	(10.2)				
Others	1	1,093	(99.9)	1,055	(99.9)				
Discount	(829)	(546)	51.7	(701)	18.3				
MIDI	1,455	1,308	11.2	1,630	(10.7)				
Fixed telecom.	232	187	24.4	192	21.2				
Expenses/Income	(9,586)	(9,657)	(0.7)	(9,531)	0.6				
EBIT	2,359	1,216	94.0	2,691	(12.3)	7,795	30.3	7,893	29.9
EBITDA	5,329	4,380	21.7	5,382	(1.0)	21,864	24.4	22,366	23.8
Other income (exp.)	(1,202)	(1,053)	14.1	(933)	28.8				
Pre-tax income	1,157	163	610.5	1,328	(12.9)				
Taxes	(163)	1	(12,181.2)	(429)	(62.0)				
Reported net profit	929	129	621.6	1,036	(10.3)	2,922	31.8	3,211	28.9
Normalized net profit	287	44	556.2	835	(65.6)		9.8	8.9	
Margins (%)									
EBIT Margin	19.8	11.2		22.0					
EBITDA margin	44.6	40.3		44.0					
Net Margin	7.8	1.2		8.5					
Operational metrics									
# of subs	98,500	94,600	4.1	102,200	(3.6)				
Blended ARPU (IDR/sub)	32,900	32,000	2.8	33,900	(2.9)				
Data traffic (in PB)	3,456,668	2,947,773	17.3	3,460,183	(0.1)				
Avg. data usage/ sub	11.7	10.4	12.6	11.3	3.7				
Data yields (IDR/ MB)	2.8	2.9	(3.5)	2.8	(1.5)				

Source: Company, Bloomberg, KBVS Research

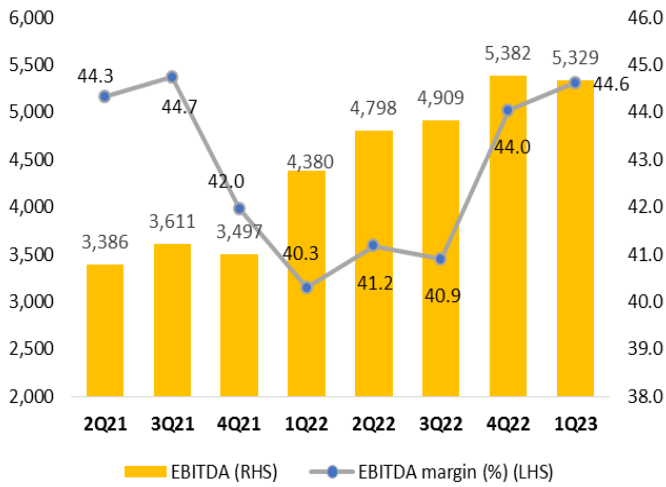
Exhibit 3: Forecast revisions

	New		Old		Changes		Consensus		New VS consensus	
	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Revenue	49,359	53,179	49,498	52,550	-0.3	1.2	50,286	53,235	-1.8	-0.1
Operating profit	7,889	8,944	7,795	7,681	1.2	16.4	7,887	9,130	0.0	-2.0
EBITDA	22,110	24,142	21,864	23,762	1.1	1.6	22,357	24,304	-1.1	-0.7
Net profit	3,203	4,105	2,922	3,432	9.6	19.6	3,202	4,176	0.0	-1.7

Source: Company, Bloomberg, KBVS Research

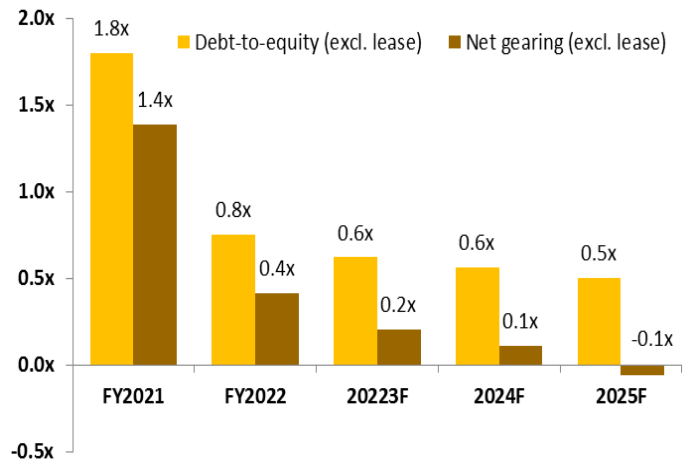
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Exhibit 4: ISAT's EBITDA margin



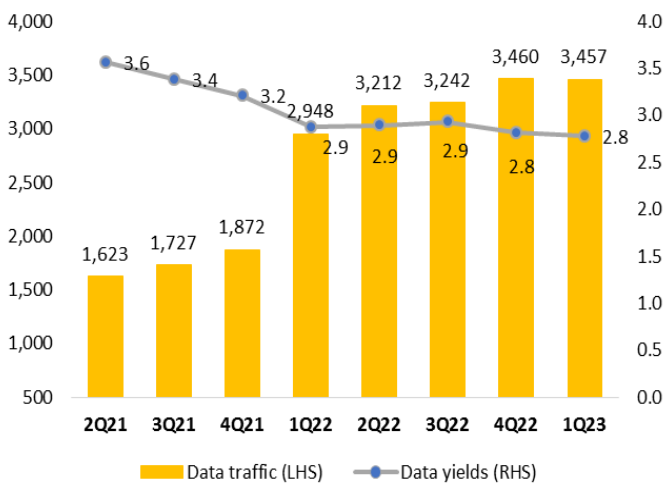
Source: Company, KBVS Research

Exhibit 5: Leverage ratios



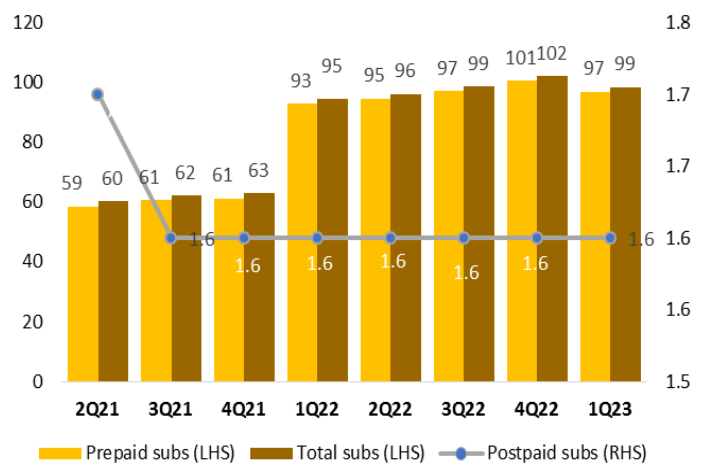
Source: Company, KBVS Research

Exhibit 6: Data traffic and yields qoq



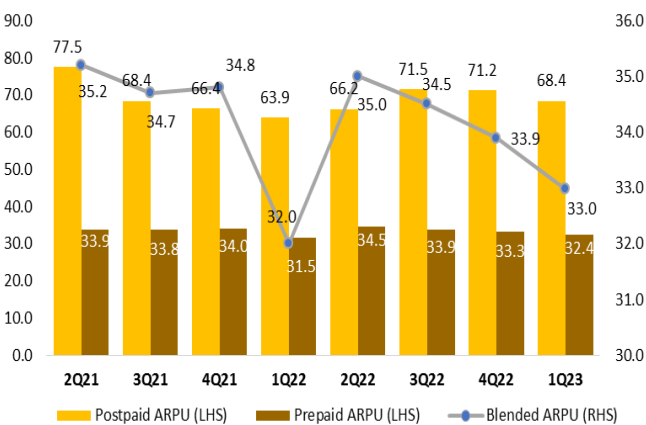
Source: Company, KBVS Research

Exhibit 7: Number of prepaid, and postpaid subs



Source: Company, KBVS Research

Exhibit 8: Postpaid, prepaid and blended ARPUs



Source: Company, KBVS Research

Exhibit 9: Currently trading above -1SD 5-year mean



Source: Company, Bloomberg, KBVS Research

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FINANCIAL TABLES

Exhibit 10: Consolidated Statement of Profit or Loss

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
Revenue	31,388	46,752	49,359	53,179	56,249
Costs	(21,034)	(36,162)	(41,470)	(44,235)	(45,537)
Operating profit	10,354	10,591	7,889	8,944	10,712
EBITDA	13,886	19,469	22,110	24,142	25,997
Net finance income/ expenses	(2,850)	(4,227)	(3,681)	(3,556)	304
Other income/expenses	3	172	0	0	0
Profit before income tax	7,507	6,536	4,208	5,387	7,018
Tax benefit (expenses)	(647)	(1,166)	(783)	(997)	(1,263)
Net profit	6,751	4,723	3,203	4,105	5,381
Normalized net profit	828	1,459	1,838	4,105	5,381

Source: Company, KBVS Research

Exhibit 11: Consolidated Statement of Financial Position

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
Current assets					
Cash and cash equivalents	3,789	9,508	12,558	15,095	20,991
Trade receivables	2,027	2,333	2,740	2,139	2,861
Other current assets	5,385	6,835	6,030	5,403	6,239
Total current assets	11,499	18,683	21,344	22,658	30,111
Non-current assets					
Fixed assets	45,515	69,070	68,717	69,599	69,513
Other non-current assets	6,383	26,127	25,600	25,909	26,216
Total non-current assets	51,898	95,197	94,317	95,508	95,730
Total assets	63,397	113,880	115,661	118,166	125,840
Current liabilities					
Trade payables	982	850	1,245	553	1,240
Accrued expenses	2,717	3,625	4,124	4,248	4,333
Short term debts	7,667	4,269	4,313	4,359	4,408
Other current liabilities	17,293	27,130	27,657	27,855	28,687
Total current liabilities	28,658	35,874	37,339	37,015	38,667
Non-current liabilities					
Long-term debts	8,824	17,025	14,293	14,347	14,598
Other non-current liabilities	15,613	29,366	30,729	30,220	31,687
Total non-current liabilities	24,436	46,391	45,022	44,567	46,285
Shareholders' equity	10,303	31,615	33,300	36,584	40,889
Total liabilities and equity	63,397	113,880	115,661	118,166	125,840

Source: Company, KBVS Research

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Exhibit 12: Consolidated Statement of Cash Flow

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net profit	6,751	4,723	3,203	4,105	5,381
Depreciation & amortization	10,204	13,703	15,294	15,353	15,441
Changes in working capital	8	5,124	1,090	1,087	(333)
CF from operating activities	16,963	23,551	19,587	20,546	20,490
Investment in fixed assets	(9,197)	(37,258)	(14,941)	(16,235)	(15,356)
Others	279	(19,744)	527	(309)	(308)
CF from investing activities	(8,918)	(57,003)	(14,414)	(16,544)	(15,664)
Dividends paid	(9,500)	(2,000)	(1,121)	(821)	(1,076)
Debt raised/ repaid	1,331	8,828	(1,968)	(135)	679
Others	(7,369)	30,342	(155)	(1,330)	391
CF from financing activities	(6,038)	39,170	(2,123)	(1,466)	1,070
Change in cash flows	2,007	5,719	3,050	2,537	5,896
Cash and cash equivalents, beginning	1,782	3,789	9,508	12,558	15,095
Cash and cash equivalents, ending	3,789	9,508	12,558	15,095	20,991

Source: Company, KBVS Research

Exhibit 13: Ratio analysis

Year End Dec	2021A	2022A	2023F	2024F	2025F
Operating margin (%)	33.0	22.7	16.0	16.8	19.0
EBITDA margin (%)	44.2	41.6	44.8	45.4	46.2
Net profit margin (%)	21.5	10.1	6.5	7.7	9.6
ROA (%)	10.7	5.3	2.8	3.5	4.4
ROE (%)	16.0	6.3	2.7	3.2	3.8
ROCE (%)	19.4	6.1	4.1	5.1	6.2
Debt/ Equity (%)	3.7	2.0	1.8	1.6	1.5
Net debt/Equity (x)	3.3	1.6	1.4	1.2	0.9
Net debt/ EBITDA (x)	2.2	2.4	1.9	1.6	1.4
Interest coverage (x)	4.6	4.5	5.3	6.4	6.5
EPS (IDR)	837.4	585.9	397.2	509.2	667.4
BV/Share (IDR)	1,277.9	3,921.5	4,130.5	4,537.8	5,071.8

Source: Company, KBVS Research

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