

## Indosat Ooredoo Hutchison (ISAT)

Pushing greater synergy

21 February 2023



<b>ISAT IJ</b>	<b>BUY</b>
Sector	Telecom.
Price at 20 Feb 2023 (Rp)	6,825
Price target (Rp)	8,550
Upside/Downside (%)	25.3

## Stock Information

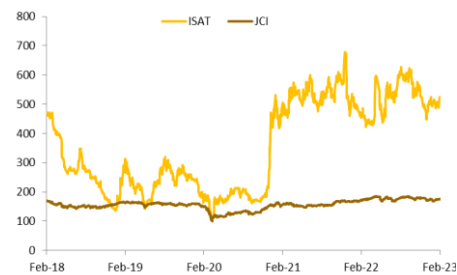
Indosat Ooredoo Hutchison is a telecommunication provider in Indonesia which is owned by Ooredoo Hutchison Asia, a joint venture between Ooredoo and Hutchison Asia Telecom Group since 2022.

Market cap (Rp bn)	49,985
Shares outstanding (mn)	8,062
52-week range (Rp)	5,200-7,525
3M average daily vol. ('000)	4,393
3M average daily val. (Rp mn)	26,306

## 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 (%)	2.9	(5.0)	13.2

We maintain our bullish view on ISAT for '23/'24F on hopes of improving network capabilities and synergy. Also, the company's initiative to divest tower assets should also lead to better operational costs. We adjust upwards our '23/'24 forecasts with moderate EBITDA lift by 1.9% and 4.8%, respectively. Reiterate BUY with higher TP of IDR8,550.

## Beating estimates

ISAT's 4Q22 EBITDA surged 9.6% qoq to IDR2.69 tn, which was attributable to lower cash expenses of 3.6% qoq on declined cost of service. Although, FY2022 EBITDA margin declined to 41.6% from 44.2% in FY2021, this translated into FY2022 EBITDA of IDR19.5 tn, representing 100.4%/101.3% of ours/ consensus. Furthermore, ISAT recorded a tepid growth in 4Q22 revenue by 1.8% qoq and brought FY22 revenue to IDR46.7 tn (+48.9% yoy), though still 1.7% ahead our estimate. Balance sheet wise, ISAT showed meaningful improvement with net gearing stood at 0.4x in FY2022.

## Data-driven growth

ISAT's 4Q22 top line was mostly propped up by data service growth of 2.6% qoq, which, in our view, was likely more on seasonal factor. The data traffic jumped higher +6.7% qoq, resulting in data yield to decline slightly to IDR2.8K/MB in 4Q22, which also may have indicated heightened competition during that period. Conversely, we highlight that ISAT posted the highest quarterly growth rate of new subscribers post-merger by 3.5 million (+3.5% qoq), owed to better network capability and competitive pricing. Nevertheless, ISAT's 4Q22 ARPU was slightly lower by 1.8% qoq.

## Reaping up more benefits from integration

ISAT has struck deals with Dayamitra Telekomunika (MTEL; non-rated) and DHOST in regards to sales of 997 towers and 633 indoor infrastructures valued at IDR2.12 tn for total transactions. The transactions are expected to help improve operational costs especially for maintenance cost, on top of one-off net gain. However, leaseback scheme may lead to higher finance charges in 1Q23. In addition, the operational improvement should also be achieved by ongoing network integration expected to complete by March '23. Meanwhile, we like ISAT's expansion strategy to penetrate high growth provinces such as Nusra, Kalimantan and Papua given higher penetration and intense competition in Java. The expansion will also be supported by stronger network capabilities, reflected by additions of 9,480 4G BTS in 4Q22, or the highest growth since merger.

## Reiterate BUY on improving cost efficiencies

In line with improvement, we reiterate our BUY call with upgraded target price to IDR8,550 (previously: IDR8,250), implying 3.8x '23F EV/EBITDA (-1SD 5Y historical mean). Our forecast revision is based on 1) expectation on improved efficiencies; 2) better leverage profile and 3) management's focus on better customer experience, coverage expansion and competitive pricing should bolster growth. However, we note several downside risks to our call, namely 1) tight competition and 2) higher capex spending for network expansion.

## Exhibit 1: Key Statistics

Year end Dec	2021A	2022A	2023F	2024F	2025F
Revenue (IDR bn)	31,388	46,752	49,498	52,550	55,278
EBITDA (IDR bn)	13,886	19,469	21,864	23,762	25,735
Net profit (IDR bn)	6,751	4,723	2,922	3,432	5,004
Normalized profit (IDR bn)	828	1,459	1,629	3,432	5,004
EPS (IDR)	837	586	362	426	620.7
EPS growth (%)	-1042	-30	-38	17	46
ROAA (%)	10.7	5.3	2.5	2.9	4.1
ROAE (%)	16.0	6.3	2.5	2.7	3.6
PER (x)	7.5	10.8	17.4	14.8	10.2
PBV (x)	6.7	5.0	1.6	1.5	1.4
EV/EBITDA (x)	4.6	3.2	3.0	2.7	3.8

Source: Company, KBVS Research

## Analyst

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## Indosat Ooredoo Hutchison (ISAT)

## Exhibit 2: Financial Summary

Income statement (IDR bn)	FY2022	FY2021	YoY (%)	4Q22	4Q21	YoY (%)	3Q22	QoQ (%)	2022F	% to '22F	Cons'	% of Cons'
<b>Revenue</b>	<b>46,752</b>	<b>31,388</b>	<b>48.9</b>	<b>12,221</b>	<b>8,333</b>	<b>46.7</b>	<b>12,004</b>	<b>1.8</b>	<b>45,986.0</b>	<b>101.7</b>	<b>46,543</b>	<b>100.4</b>
<b>Cellular &amp; Data</b>	<b>40,243</b>	<b>25,398</b>	<b>58.4</b>	<b>10,400</b>	<b>6,609</b>	<b>57.4</b>	<b>10,306</b>	<b>0.9</b>				
Data	27,261	22,946	18.8	9,739	6,005	62.2	9,497	2.6				
Voice & SMS	2,414	1,623	48.8	306	366	(16.2)	590	(48.1)				
Others	4,433	2,983	48.6	1,055	157	573.4	189.8	455.9				
Discount	-2,556	(2,153)	18.7	(701)	(499)	40.4	(667)	5.0				
MIDI	5,726	5,415	5.7	1,630	1,572	3.7	1,478	10.3				
Fixed telecom.	784	575	36.3	192	152	26.1	221	(13.1)				
<b>Expenses/Income</b>	<b>(36,162)</b>	<b>(21,034)</b>	<b>71.9</b>	<b>(9,531)</b>	<b>(3,723)</b>	<b>156.0</b>	<b>(10,202)</b>	<b>(6.6)</b>				
<b>EBIT</b>	<b>10,591</b>	<b>10,354</b>	<b>2.3</b>	<b>2,691</b>	<b>2,277</b>	<b>18.2</b>	<b>1,803</b>	<b>49.3</b>				
<b>EBITDA</b>	<b>19,469</b>	<b>13,886</b>	<b>40.2</b>	<b>5,382</b>	<b>3,497</b>	<b>53.9</b>	<b>4,909</b>	<b>9.6</b>	<b>19,388</b>	<b>100.4</b>	<b>19,219</b>	<b>101.3</b>
Other income (exp.)	(4,055)	(2,847)	42.4	(933)	(692)	34.8	(1,000)	(6.7)				
<b>Pre-tax income</b>	<b>6,536</b>	<b>7,507</b>	<b>(12.9)</b>	<b>1,758</b>	<b>994</b>	<b>76.8</b>	<b>802</b>	<b>119.1</b>				
Taxes	(1,166)	(647)	80.2	(429)	(591)	(27.3)	(327)	31.2				
<b>Reported net profit</b>	<b>4,723</b>	<b>6,751</b>	<b>(30.0)</b>	<b>1,036</b>	<b>951</b>	<b>9.0</b>	<b>427</b>	<b>142.4</b>	<b>4,591</b>	<b>102.9</b>	<b>4,313</b>	<b>109.5</b>
<b>Normalized profit</b>	<b>1,459</b>	<b>828</b>	<b>76.3</b>	<b>835</b>	<b>951</b>	<b>(12.2)</b>	<b>427</b>	<b>95.4</b>				
<b>Margins (%)</b>												
EBIT Margin	22.7	33.0		22.0	27.3		15.0					
EBITDA margin	41.6	44.2		44.0	42.0		40.9					
Net Margin	10.1	21.5		8.5	11.4		3.6					
<b>Operational metrics</b>												
# of subs	102,200	62,900	<b>62.5</b>	102,200	62,900	<b>62.5</b>	98,700	<b>3.5</b>				
Blended ARPU (IDR/sub)	33,846	34,330	<b>(1.4)</b>	33,893	34,800	<b>(2.6)</b>	34,510	<b>(1.8)</b>				
Data traffic (in PB)	12,862	6,708	<b>91.8</b>	3,460	1,872	<b>84.8</b>	3,242	<b>6.7</b>				
Avg. data usage/ sub	14.0	8.9	<b>57.4</b>	11.3	9.9	<b>13.8</b>	10.9	<b>3.1</b>				
Data yields (IDR/ MB)	2.9	3.4	<b>(15.9)</b>	2.8	3.2	<b>(12.2)</b>	2.9	<b>(3.9)</b>				

Source: Company, Bloomberg, KBVS Research

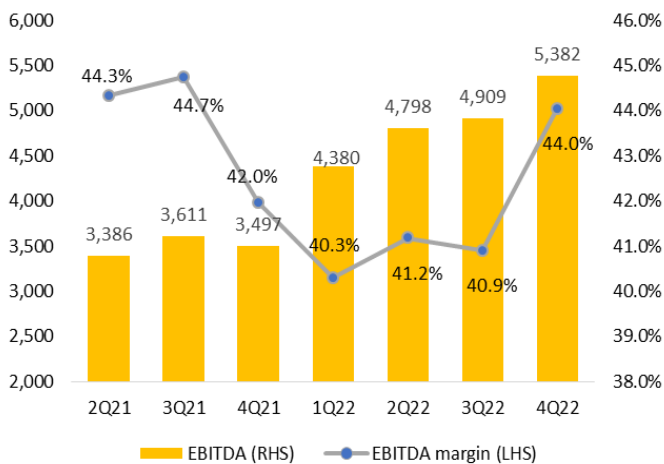
## Exhibit 3: Forecast revisions

	New		Old		Changes		Consensus		New VS consensus	
	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Revenue	49,498	52,550	49,129	52,031	0.8%	1.0%	49,949	52,812	-0.9%	-0.5%
EBIT	7,795	7,681	6,866	8,137	13.5%	-5.6%	6,946	7,983	12.2%	-3.8%
EBITDA	21,864	23,762	21,458	22,673	1.9%	4.8%	21,411	23,171	2.1%	2.6%
Net profit	2,922	3,432	2,270	3,061	28.7%	12.1%	2,372	3,599	23.2%	-4.7%

Source: Company, Bloomberg, KBVS Research

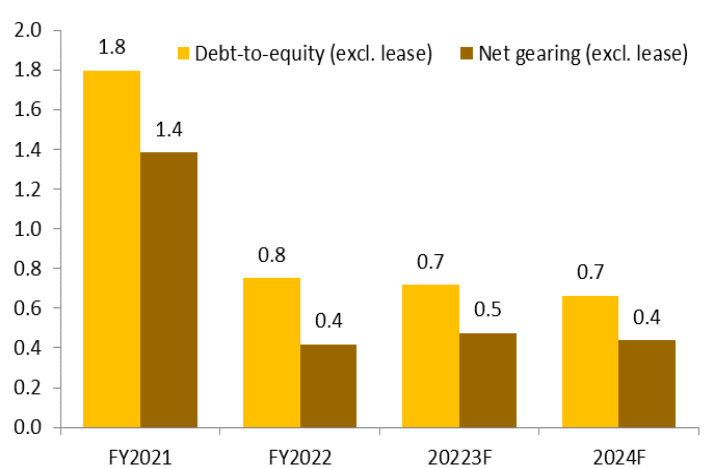
# Indosat Ooredoo Hutchison (ISAT)

**Exhibit 4: ISAT's EBITDA margin**



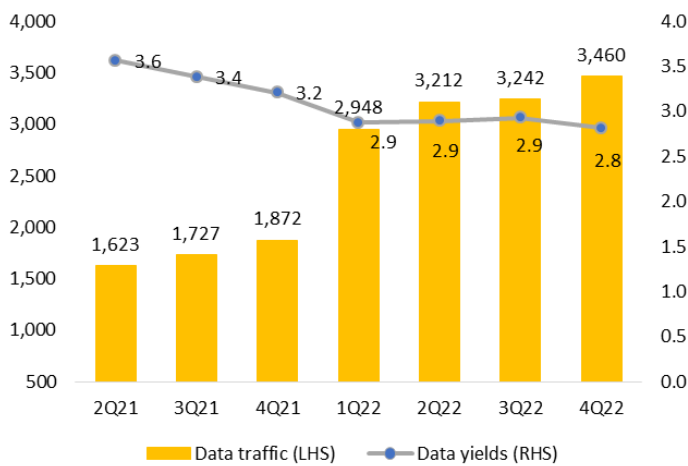
Source: Company, KBVS Research

**Exhibit 5: Leverage ratios**



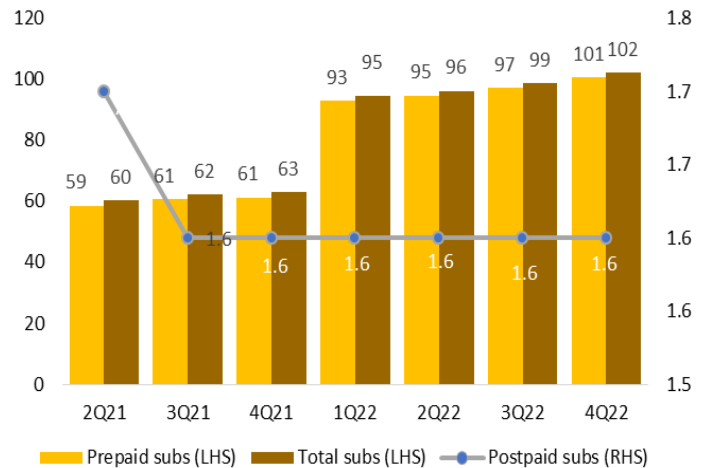
Source: Company, KBVS Research

**Exhibit 6: Data traffic and yields qoq**



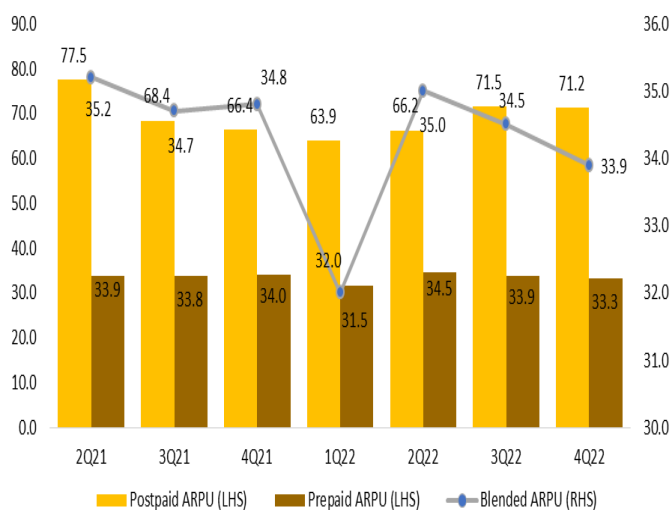
Source: Company, KBVS Research

**Exhibit 7: Number of prepaid, and postpaid subs**



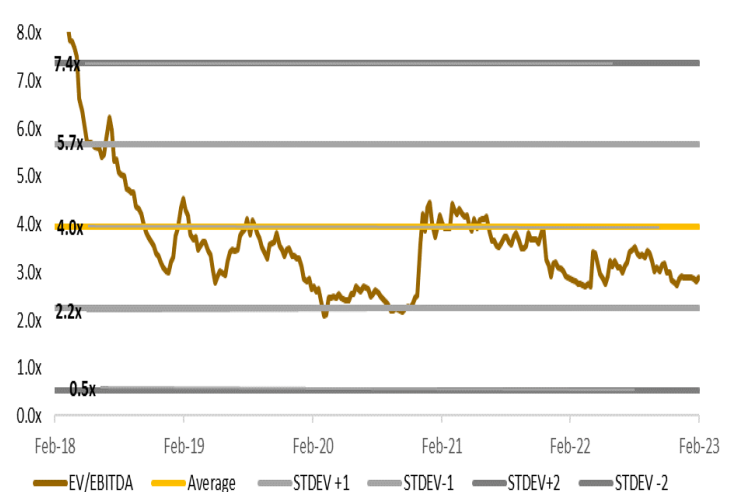
Source: Company, KBVS Research

**Exhibit 8: Postpaid, prepaid and blended ARPUs**



Source: Company

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



Source: Company, Bloomberg

## Indosat Ooredoo Hutchison (ISAT)

## FINANCIAL TABLES

## Exhibit 10: Profit &amp; Loss summary

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
<b>Revenue</b>	<b>31,388</b>	<b>46,752</b>	<b>49,498</b>	<b>52,550</b>	<b>55,278</b>
Costs	(21,034)	(36,162)	(41,702)	(44,870)	(45,513)
<b>Operating profit</b>	<b>10,354</b>	<b>10,591</b>	<b>7,795</b>	<b>7,681</b>	<b>9,765</b>
<b>EBITDA</b>	<b>13,886</b>	<b>19,469</b>	<b>21,864</b>	<b>23,762</b>	<b>25,735</b>
<b>EBITDA margin</b>	<b>44.2%</b>	<b>41.6%</b>	<b>44.2%</b>	<b>45.2%</b>	<b>46.6%</b>
Net finance income/ expenses	(2,850)	(4,227)	(3,746)	(3,031)	298
Other income/expenses	3	172	0	0	0
<b>Profit before income tax</b>	<b>7,507</b>	<b>6,536</b>	<b>4,049</b>	<b>4,650</b>	<b>6,850</b>
Tax benefit (expenses)	(647)	(1,166)	(729)	(837)	(1,233)
<b>Net profit</b>	<b>6,751</b>	<b>4,723</b>	<b>2,922</b>	<b>3,432</b>	<b>5,004</b>
<b>Normalized net profit</b>	<b>828</b>	<b>1,459</b>	<b>1,629</b>	<b>3,432</b>	<b>5,004</b>

Source: Company, KBVS Research

## Exhibit 11: Balance sheet

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
<b>Current assets</b>					
Cash and cash equivalents	3,789	9,508	7,277	7,585	11,041
Trade receivables	2,027	2,333	2,381	2,440	2,474
Other current assets	5,385	6,835	6,919	7,025	7,165
<b>Total current assets</b>	<b>11,499</b>	<b>18,683</b>	<b>16,585</b>	<b>17,061</b>	<b>20,691</b>
<b>Non-current assets</b>					
Fixed assets	45,515	69,070	73,632	75,623	78,239
Other non-current assets	6,383	26,127	26,639	26,967	27,293
<b>Total non-current assets</b>	<b>51,898</b>	<b>95,197</b>	<b>100,270</b>	<b>102,590</b>	<b>105,532</b>
<b>Total assets</b>	<b>63,397</b>	<b>113,880</b>	<b>116,856</b>	<b>119,651</b>	<b>126,223</b>
<b>Current liabilities</b>					
Trade payables	982	850	819	976	845
Accrued expenses	2,717	3,625	3,698	3,809	3,885
Short term debts	7,667	4,269	4,288	4,331	4,377
Other current liabilities	17,293	27,130	27,971	28,195	29,031
<b>Total current liabilities</b>	<b>28,658</b>	<b>35,874</b>	<b>36,777</b>	<b>37,311</b>	<b>38,137</b>
<b>Non-current liabilities</b>					
Long-term debts	8,824	17,025	17,096	17,126	17,431
Other non-current liabilities	15,613	29,366	29,866	29,352	30,788
<b>Total non-current liabilities</b>	<b>24,436</b>	<b>46,391</b>	<b>46,962</b>	<b>46,477</b>	<b>48,220</b>
<b>Shareholders' equity</b>	<b>10,303</b>	<b>31,615</b>	<b>33,117</b>	<b>35,863</b>	<b>39,866</b>
<b>Total liabilities and equity</b>	<b>63,397</b>	<b>113,880</b>	<b>116,856</b>	<b>119,651</b>	<b>126,223</b>

Source: Company, KBVS Research

## Indosat Ooredoo Hutchison (ISAT)

## Exhibit 12: Cash flow

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net profit	6,751	4,723	2,922	3,432	5,004
Depreciation & amortization	10,204	13,703	15,697	16,418	16,309
Changes in working capital	8	5,124	323	550	243
<b>CF from operating activities</b>	<b>16,963</b>	<b>23,551</b>	<b>18,942</b>	<b>20,400</b>	<b>21,556</b>
Investment in fixed assets	(9,197)	(37,258)	(20,258)	(18,410)	(18,925)
Others	279	(19,744)	(512)	(328)	(326)
<b>CF from investing activities</b>	<b>(8,918)</b>	<b>(57,003)</b>	<b>(20,771)</b>	<b>(18,738)</b>	<b>(19,251)</b>
Dividends paid	(9,500)	(2,000)	(1,023)	(686)	(1,001)
Debt raised/ repaid	1,331	8,828	517	(154)	716
Others	(7,369)	30,342	(920)	(1,200)	435
<b>CF from financing activities</b>	<b>(6,038)</b>	<b>39,170</b>	<b>(403)</b>	<b>(1,354)</b>	<b>1,152</b>
<b>Change in cash flows</b>	<b>2,007</b>	<b>5,719</b>	<b>(2,231)</b>	<b>308</b>	<b>3,457</b>
<b>Cash and cash equivalents, beginning</b>	<b>1,782</b>	<b>3,789</b>	<b>9,508</b>	<b>7,277</b>	<b>7,585</b>
<b>Cash and cash equivalents, ending</b>	<b>3,789</b>	<b>9,508</b>	<b>7,277</b>	<b>7,585</b>	<b>11,041</b>

Source: Company, KBVS Research

## Exhibit 13: Ratio analysis

Year End Dec	2021A	2022A	2023F	2024F	2025F
Operating profit margin (%)	33.0	22.7	15.7	14.6	17.7
EBITDA margin (%)	44.2	41.6	44.2	45.2	46.6
Net profit margin (%)	21.5	10.1	5.9	6.5	9.1
ROA (%)	10.7	5.3	2.5	2.9	4.1
ROE (%)	16.0	6.3	2.5	2.7	3.6
ROCE (%)	19.4	6.1	3.6	4.2	5.7
Debt/ Equity (%)	3.7	2.0	1.9	1.7	1.6
Net debt/Equity (x)	3.3	1.6	1.7	1.5	1.3
Net debt/ EBITDA (x)	2.2	2.4	2.3	2.1	1.8
Interest coverage (x)	4.6	4.5	5.5	7.3	8.0
EPS (IDR)	837.4	585.9	362.4	425.6	620.7
BV/Share (IDR)	1,277.9	3,921.5	4,107.8	4,448.4	4,944.9

Source: Company, KBVS Research



# Indosat Ooredoo Hutchison (ISAT)

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