

## Indosat Ooredoo Hutchison (ISAT)

Reaping low hanging fruit from synergy

02 August 2023



ISAT IJ	BUY
Sector	Telecom.
Price at 01 Aug 2023 (Rp)	9,200
Price target (Rp)	10,075
Upside/Downside (%)	9.5

## Stock Information

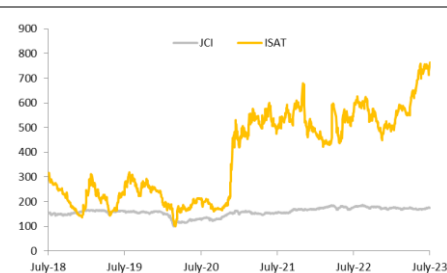
Indosat Ooredoo Hutchison is a telecommunication provider in Indonesia which is owned by Ooredoo Hutchison Asia, a joint venture between Ooredoo and Hutchison Asia Telecom Group since 2022.

Market cap (Rp bn)	74,780
Shares outstanding (mn)	8,062
52-week range (Rp)	5,600-9,300
3M average daily vol. ('000)	59,068
3M average daily val. (Rp mn)	503,351

## Shareholders (%)

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

## Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	5.1	26.2	36.4

ISAT's 1H23 results came in line with EBITDA achieving 50.7%/51.0% of ours/consensus. The company's strong performance was underpinned by better cost efficiencies and data quality improvement stemming from intensified synergy following MOCN integration, in addition to better market competition. As a result, we raised '23F revenue and EBITDA forecast by 0.5% and 2.1%, respectively. Maintain BUY with a higher TP of IDR10,075 based on 4.1x '23F EV/EBITDA, still lower than 3-years high at 4.4x. Maintain BUY

## Outstanding 2Q23 results

ISAT's 2Q23 EBITDA beats ours/consensus at 51.5%/51.0% as it rose 14.0% qoq to IDR6.1 tn. As a result, EBITDA margin expanded strongly 310bps qoq in 2Q23 to 47.7% from 44.6% in previous quarter. Furthermore, 2Q23 revenue grew 6.6% qoq to IDR12.7 tn, bringing 1H23 revenue to IDR24.7 tn, exactly in-line with ours. Solid revenue figure was underpinned by strong cellular and data segment that surged 6.5% qoq/8.4% yoy in 2Q23/1H23. The company also managed to demonstrate better efficiency from synergy as cash cost was mostly flat in 2Q23 or stayed at 52%. In addition, the company's leverage was manageable in 1H23 with net gearing at 0.3x.

## Banking on market improvement

The company's strong top-line was boosted an improvement of its key operational metrics, especially on mobile where ISAT took advantage of more rationalized market. ISAT's ARPU increased 8.5% qoq to IDR35.8K, which was followed by healthy subs addition by 1.5mn, growing 1.5% qoq/4.0% yoy in 2Q23/1H23. Meanwhile, data traffic jumped 16.8% yoy, signifying better network capacity and maximized utilization of spectrum post-merger.

## Aims to fully realize synergy

In-line with better-than-estimate performance, ISAT maintains its revenue growth estimate to mid-high single digit with over c. 40% EBITDA margin. Meanwhile, we slightly revise up our ISAT's FY '23 revenue and EBITDA by 0.5% and 2.1%, respectively with higher margin of 73.4bps compared to our previous forecasts, as we expect healthier market conduct to continue in 2H23.

The company is also eyeing to increase capability through data analytics of its own app to improve customer quality by personalized offerings. This will also be supported by ISAT's network capability as MOCN integration is now available across ISAT's network. In addition, the company is on track to realize core integration in ex-Java and Java area by 2024, allowing it to fully maximize synergy potential.

## Reiterate BUY on better cost efficiencies

We maintain our BUY call with upgraded target price to IDR10,075 (previously: IDR9,350) as we adjust our EV/EBITDA '23F to 4.1x, yet it is lower than its 3-year high multiple at 4.4x. We highlight several upside risks to our call including 1) improving cost structure; 2) better leverage profile and; 3) 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 continued market repair. Yet, risks to our call included 1) mobile competition; 2) delayed fixed broadband roll-out.

## Exhibit 1: Key Statistics

Year end Dec	2021A	2022A	2023F	2024F	2025F
Revenue (IDR bn)	31,388	46,752	49,590	53,224	56,253
EBITDA (IDR bn)	13,886	19,469	22,581	24,801	26,955
Net profit (IDR bn)	6,751	4,723	3,210	4,109	5,507
Normalized profit (IDR bn)	828	1,459	2,575	4,109	5,507
EPS (IDR)	837	586	398	510	683.1
EPS growth (%)	-1,041.9	-30.0	-32.1	28.0	34.0
ROAA (%)	10.7	5.3	2.8	3.6	4.7
ROAE (%)	16.0	6.3	2.7	3.2	3.9
PER (x)	7.5	10.8	15.8	12.4	9.2
PBV (x)	6.7	7.5	2.4	2.3	2.1
EV/EBITDA (x)	6.3	4.5	3.8	3.4	3.0

Source: Company, KBVS Research

## Analyst

Devi Harjoto

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## Indosat Ooredoo Hutchison (ISAT)

## Exhibit 2: Financial Summary

	1H23	1H22	YoY (%)	2Q23	2Q22	YoY (%)	1Q23	QoQ (%)	2023F	% to '22F	Cons'	% of Cons'
<b>Revenue</b>	24,675	22,527	9.5	12,730	11,654	9.2	11,945	6.6	49,590	49.8	50,430	48.9
<b>Cellular &amp; Data</b>	21,178	19,537	8.4	10,920	10,159	7.5	10,258	6.5				
Data	19,875	17,765	11.9	10,287	8,470	21.5	9,588	7.3				
Voice & SMS	556	722	-22.9	281	360	(22.0)	275	2.0				
Others	2,439	2,239	8.9	1,215	1,971	(38.4)	1,224	(0.8)				
Discount	-1,692	-1,188	42.4	(863)	(642)	34.4	(829)	4.1				
MIDI	3,029	2,618	15.7	1,574	1,310	20.2	1,455	8.2				
Fixed telecom.	468	372	25.9	236	185	27.4	232	1.5				
<b>Expenses</b>	-19,909	-16,429	21.2	(10,323)	(6,773)	52.4	(9,586)	7.7				
<b>EBIT</b>	4,766	6,097	-21.8	2,407	4,881	(50.7)	2,359	2.0	8,657	55.1	7,667	62.2
<b>EBITDA</b>	11,383	9,178	24.0	6,054	4,798	26.2	5,329	13.6	22,467	50.7	22,337	51.0
Other income (exp.)	-2,345	-2,121	10.6	(1,143)	(1,068)	7.0	(1,202)	(4.9)				
<b>Pre-tax income</b>	2,420	3,567	-32.1	1,263	3,813	(66.9)	1,157	9.1				
Taxes	-376	-409	-7.9	(213)	(410)	(48.0)	(163)	30.5				
<b>Reported net profit</b>	1,908	3,260	-41.5	979	3,132	(68.7)	929	5.4	3,997	47.7	2,960	64.5
<b>Normalized net profit</b>	1,273	149	752.9	986	106	834.4	287	243.6	3,996.8	31.9	2,960.0	43.0
<b>Margins (%)</b>												
EBIT Margin	19.3	27.1		18.9	41.9		19.8					
EBITDA margin	46.1	40.7		47.6	41.2		44.6					
Net Margin	7.7	14.5		7.7	26.9		7.8					
<b>Operational metrics</b>												
# of subs	100,000	96,200	4.0	100,000	96,200	4.0	98,500	1.5				
Blended ARPU (IDR/sub)	34.4	33.5	2.5	35.8	35.0	2.2	33.0	8.5				
Data traffic (in PB)	7,196	6,160	16.8	3,739	3,212.5	16.4	3,457	8.2				
Avg. data usage/ sub	12.0	10.7	12.4	12.5	11.1	12.0	11.7	6.6				

Source: Company, Bloomberg, KBVS Research

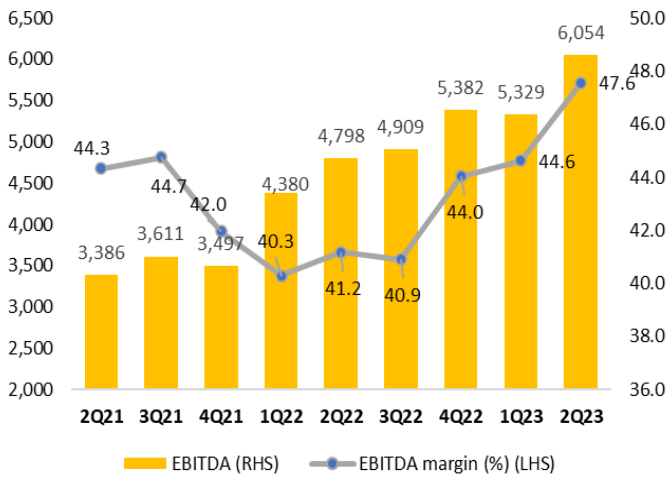
## Exhibit 3: Forecast revisions

	New		Old		Changes		Consensus		New VS consensus	
	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Revenue	49,590	53,224	49,359	53,179	0.5	0.1	50,474	53,881	-1.8	-1.2
Operating profit	7,928	9,270	7,889	8,944	0.5	3.6	7,887	9,672	0.5	-4.2
EBITDA	22,581	24,801	22,110	24,142	2.1	2.7	22,518	24,797	0.3	0.0
Net profit	3,210	4,109	3,203	4,105	0.2	0.1	2,985	4,014	7.5	2.4
Normalized net profit	2,575	4,109	1,838	4,105	40.1	0.1	2,985	4,014	-13.8	2.4

Source: Company, Bloomberg, KBVS Research

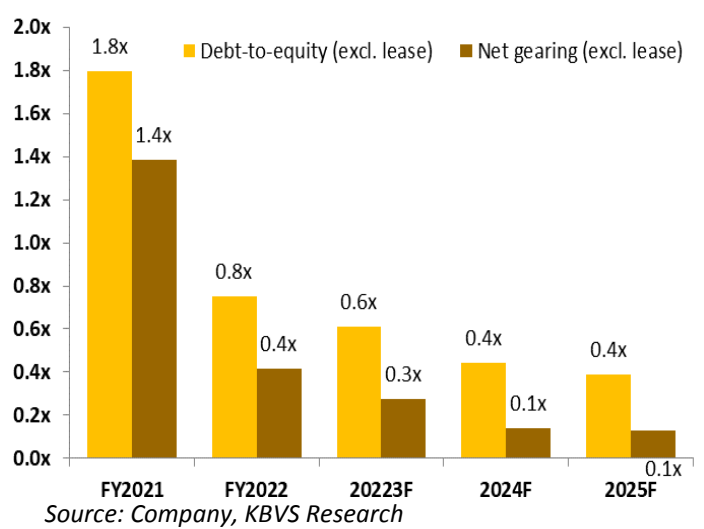
# Indosat Ooredoo Hutchison (ISAT)

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



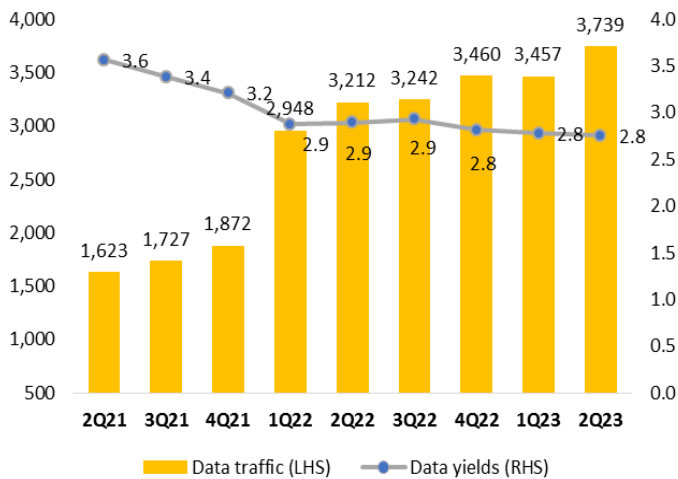
Source: Company, KBVS Research

**Exhibit 5: Leverage ratios**



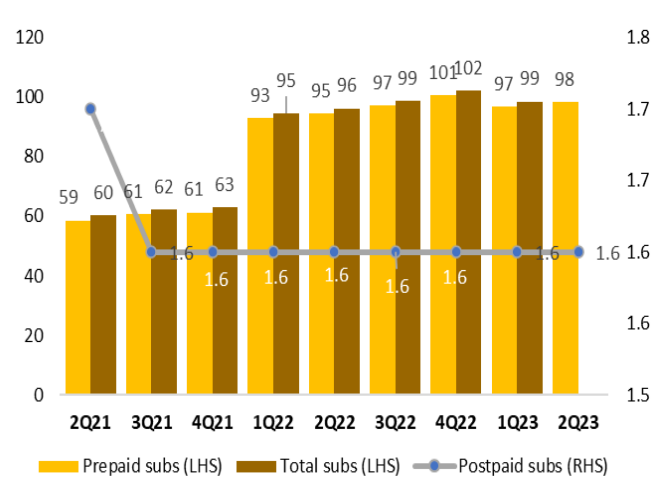
Source: Company, KBVS Research

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



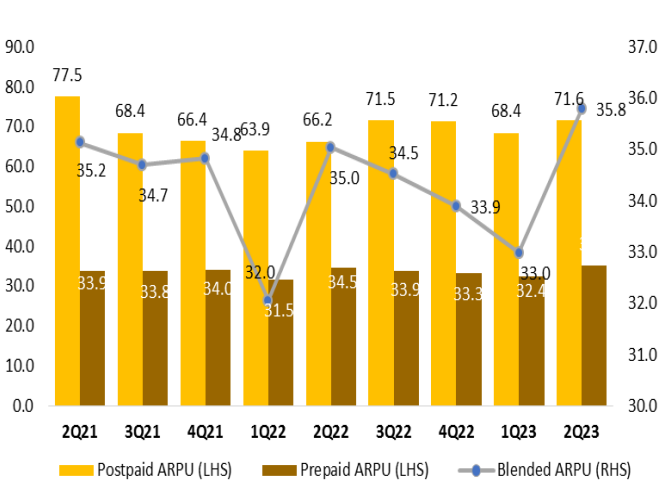
Source: Company, KBVS Research

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



Source: Company, KBVS Research

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



Source: Company, KBVS Research

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



Source: Company, Bloomberg, KBVS Research

# Indosat Ooredoo Hutchison (ISAT)

## FINANCIAL TABLES

### Exhibit 10: Consolidated Statement of Profit or Loss

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
<b>Revenue</b>	<b>31,388</b>	<b>46,752</b>	<b>49,590</b>	<b>53,224</b>	<b>56,253</b>
Costs	(21,034)	(36,162)	(41,663)	(43,954)	(45,345)
<b>Operating profit</b>	<b>10,354</b>	<b>10,591</b>	<b>7,928</b>	<b>9,270</b>	<b>10,908</b>
<b>EBITDA</b>	<b>13,886</b>	<b>19,469</b>	<b>22,581</b>	<b>24,801</b>	<b>26,955</b>
Net finance income/ expenses	(2,850)	(4,227)	(3,667)	(3,723)	304
Other income/expenses	3	172	(100)	(125)	(125)
<b>Profit before income tax</b>	<b>7,507</b>	<b>6,536</b>	<b>4,161</b>	<b>5,422</b>	<b>7,140</b>
Tax benefit (expenses)	(647)	(1,166)	(728)	(1,003)	(1,249)
<b>Net profit</b>	<b>6,751</b>	<b>4,723</b>	<b>3,210</b>	<b>4,109</b>	<b>5,507</b>
<b>Normalized net profit</b>	<b>828</b>	<b>1,459</b>	<b>2,575</b>	<b>4,109</b>	<b>5,507</b>

Source: Company, KBVS Research

### Exhibit 11: Consolidated Statement of Financial Position

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
<b>Current assets</b>					
Cash and cash equivalents	3,789	9,508	7,260	6,595	7,786
Trade receivables	2,027	2,333	3,350	1,533	3,468
Other current assets	5,385	6,835	5,878	5,307	6,087
<b>Total current assets</b>	<b>11,499</b>	<b>18,683</b>	<b>16,504</b>	<b>13,457</b>	<b>17,360</b>
<b>Non-current assets</b>					
Fixed assets	45,515	69,070	72,733	74,514	76,879
Other non-current assets	6,383	26,127	25,400	25,513	25,621
<b>Total non-current assets</b>	<b>51,898</b>	<b>95,197</b>	<b>98,133</b>	<b>100,026</b>	<b>102,499</b>
<b>Total assets</b>	<b>63,397</b>	<b>113,880</b>	<b>114,637</b>	<b>113,483</b>	<b>119,860</b>
<b>Current liabilities</b>					
Trade payables	982	850	1,158	626	1,161
Accrued expenses	2,717	3,625	3,463	3,566	3,638
Short term debts	7,667	4,269	4,313	4,353	4,421
Other current liabilities	17,293	27,130	27,343	26,600	27,712
<b>Total current liabilities</b>	<b>28,658</b>	<b>35,874</b>	<b>36,276</b>	<b>35,146</b>	<b>36,932</b>
<b>Non-current liabilities</b>					
Long-term debts	8,824	17,025	14,293	10,635	10,458
Other non-current liabilities	15,613	29,366	30,763	31,111	31,472
<b>Total non-current liabilities</b>	<b>24,436</b>	<b>46,391</b>	<b>45,056</b>	<b>41,746</b>	<b>41,930</b>
<b>Shareholders' equity</b>	<b>10,303</b>	<b>31,615</b>	<b>33,304</b>	<b>36,592</b>	<b>40,998</b>
<b>Total liabilities and equity</b>	<b>63,397</b>	<b>113,880</b>	<b>114,637</b>	<b>113,483</b>	<b>119,860</b>

Source: Company, KBVS Research

## Indosat Ooredoo Hutchison (ISAT)

## Exhibit 12: Consolidated Statement of Cash Flow

Year End Dec (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net profit	6,751	4,723	3,210	4,109	5,507
Depreciation & amortization	10,204	13,703	15,457	15,682	16,199
Changes in working capital	8	5,124	(430)	2,385	(1,660)
<b>CF from operating activities</b>	<b>16,963</b>	<b>23,551</b>	<b>18,236</b>	<b>22,176</b>	<b>20,046</b>
Investment in fixed assets	(9,197)	(37,258)	(19,119)	(17,463)	(18,564)
Others	279	(19,744)	726	(112)	(108)
<b>CF from investing activities</b>	<b>(8,918)</b>	<b>(57,003)</b>	<b>(18,393)</b>	<b>(17,575)</b>	<b>(18,672)</b>
Dividends paid	(9,500)	(2,000)	(1,123)	(822)	(1,101)
Debt raised/ repaid	1,331	8,828	(1,968)	(4,792)	557
Others	(7,369)	30,342	(123)	(474)	(740)
<b>CF from financing activities</b>	<b>(6,038)</b>	<b>39,170</b>	<b>(2,091)</b>	<b>(5,266)</b>	<b>(183)</b>
<b>Change in cash flows</b>	<b>2,007</b>	<b>5,719</b>	<b>(2,248)</b>	<b>(665)</b>	<b>1,191</b>
<b>Cash and cash equivalents, beginning</b>	<b>1,782</b>	<b>3,789</b>	<b>9,508</b>	<b>7,260</b>	<b>6,595</b>
<b>Cash and cash equivalents, ending</b>	<b>3,789</b>	<b>9,508</b>	<b>7,260</b>	<b>6,595</b>	<b>7,786</b>

Source: Company, KBVS Research

## Exhibit 13: Ratio analysis

Year End Dec	2021A	2022A	2023F	2024F	2025F
Operating margin (%)	33.0	22.7	16.0	17.4	19.4
EBITDA margin (%)	44.2	41.6	45.5	46.6	47.9
Net profit margin (%)	21.5	10.1	6.5	7.7	9.8
ROA (%)	10.7	5.3	2.8	3.6	4.7
ROE (%)	16.0	6.3	2.7	3.2	3.9
ROCE (%)	19.4	6.1	4.1	5.2	6.6
Debt/ Equity (%)	3.7	2.0	1.8	1.5	1.4
Net debt/Equity (x)	3.3	1.6	1.6	1.3	1.2
Net debt/ EBITDA (x)	2.2	2.4	2.1	1.8	1.6
Interest coverage (x)	4.6	4.5	5.3	6.3	6.8
EPS (IDR)	837.4	585.9	398.1	509.7	683.1
BV/Share (IDR)	1,277.9	3,921.5	4,131.0	4,538.8	5,085.3

Source: Company, KBVS Research

# Indosat Ooredoo Hutchison (ISAT)

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