

Driving fixed broadband growth

01 November 2023



ISAT IJ	BUY
Sector	Telecomm.
Price at 31 Oct 2023 (IDR)	9,450
Price target (IDR)	11,860
Upside/Downside (%)	25.5

Stock Information

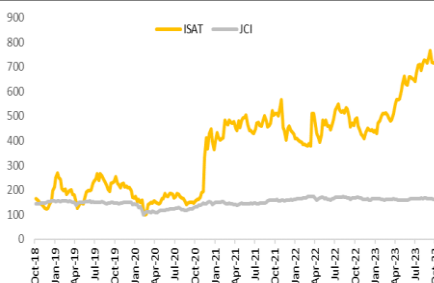
Indosat Ooredoo Hutchison is a telecommunication provider in Indonesia which is owned by Ooredoo Hutchison Asia, a joint venture between Ooredoo and Hutchison Asia Telecom Group since 2022.

Market cap (IDR bn)	76,186
Shares outstanding (mn)	8,062
52-week range (IDR)	5,275-10,850
3M average daily vol. ('000)	3,996,615
3M average daily val. (IDR mn)	38,893,326

Shareholders (%)

Ooredoo Asia Pte. Ltd	65.6
PPA	9.6
Public est.	16.2

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	(3.4)	12.0	47.0

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ISAT's 9M23 results were relatively in-line with EBITDA represented 77.4%/75.0% of ours/consensus despite flattish margin resulted from a jump in marketing costs as part of its Eastern Indonesia's expansion plan. With an improvement in 9M23 ARPU, ISAT is on its way to achieve targeted ARPU of IDR40K by 1Q-2Q24 as management expects. The company is in deal talks with MNC Play exploring asset acquisition as a means to accelerate fiber broadband expansion. Given better cost structure, we have slightly made tweak to our ISAT's EBITDA '23/'24 by 3.1-3.9%. Maintain BUY with upgraded TP of IDR11,860 as we rolled forward our EV/EBITDA '24 at 4.1x.

In-line despite deceleration

ISAT's 3Q23 EBITDA barely grew 0.5% qoq to IDR6.08 tn, bringing 9M23 EBITDA of IDR17.5 tn, which represented 77.4%/75.0% of ours/consensus estimates. This also resulted in quarterly flattish EBITDA margin at 47.6% in 3Q23 as cash cost escalated 0.4% qoq on the back of a jump in marketing expenses as ISAT is aspired to enhance its distribution and marketing channel as part of its expansion to Eastern Indonesia. Meanwhile, ISAT clocked in a flat revenue growth of 0.5% qoq in 3Q23 to IDR12.8 tn that brought 9M23 revenue of IDR37.5 tn or +8.5% yoy. This figure achieved 75.5%/73.9% of ours/consensus, driven mainly by data service on improvement in data yield despite lower volume. Balance-sheet wise, ISAT's 9M23 net gearing was improved to 1.6x.

On the path of achieving higher ARPU

Despite deceleration in 3Q23 that was attributable to seasonality following strong 2Q23, ISAT's key operational metric showed some encouraging signs, especially on ARPU that managed to creep up to IDR35.37K in 9M23 coupled with data yield +7.4% qoq. This is also in-line with management's aspiration to achieve an ARPU of IDR40K by 1Q-2Q24. Nevertheless, ISAT's total subscribers inched down by 0.6% qoq /+0.7% yoy to 99.4mn as ISAT has been shifting its focus on better customer's experience rather than new acquisition by increasing SIM card prices.

Further penetrate fixed broadband business

As part of its strategy to accelerate fixed broadband expansion through Indosat HiFi, management confirmed has been in a deal talks with MNC Play, exploring purchase of FTTH purchase as it expects to capture 10% of market share in three years by expanding its coverage to 1.5mn homepasses. Meanwhile, ISAT is on track to achieve higher-end of targeted value of synergy of USD400mn that is expected to achieve in 3 years or ahead of previously projected of 4 years.

We have made a slight tweak to our ISAT's EBITDA '23 and '24 forecasts by 3.1-3.9% higher than our previous forecasts as the company continues to better capitalize from synergy, thus better cost efficiency coupled with healthier market conduct.

Reiterate BUY on upside on ARPU

We maintain ur BUY call with upgraded target price to IDR11,860 (previously: IDR10,075) as we rolled forward our EV/EBITDA '24 at 4.1x. Note that our multiple target is still lower than its 3-year high multiple at 4.4x as we highlight a number of upside risks to our call including 1) better cost structure; 2) potential upside on ARPU with emphasis on improving customer experience especially coverage and competitive pricing relative to peers in the midst of ongoing market repair and 3) entry to FMC market. Nevertheless, risks to our call included competition in mobile.

Exhibit 1 : Key Statistics

Year end Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenue (IDR bn)	31,388	46,752	50,231	54,209	57,008
EBITDA (IDR bn)	13,886	19,469	23,457	25,558	27,315
Net profit (IDR bn)	6,751	4,723	3,505	4,751	5,754
Normalized profit (IDR bn)	828	1,459	2,790	4,751	5,754
EPS (IDR)	837	586	435	589	713.8
EPS growth (%)	-1,041.9	-30.0	-25.8	35.5	21.1
ROAA (%)	10.7	5.3	3.1	4.1	4.9
ROAE (%)	16.0	6.3	3.0	3.7	4.0
PER (x)	7.5	10.8	14.5	10.7	8.8
PBV (x)	8.4	2.7	2.6	2.3	2.1
EV/EBITDA (x)	6.4	4.5	3.8	3.3	3.1

Sources: Company, KBVS Research

Exhibit 2: Financial Summary

ISAT's 9M23 results (IDR bn)

	9M23	9M22	YoY (%)	3Q23	3Q22	YoY (%)	2Q23	QoQ (%)	2023F	% to '22F	Cons'	% of Cons'
Revenue	37,462	34,531	8.5	12,788	12,004	6.5	12,730	0.5	49,590	75.5	50,717	73.9
Cellular & Data	32,173	29,843	7.8	10,996	10,306	6.7	10,920	0.7				
Data	30,231	27,261	10.9	10,356	9,497	9.1	10,287	0.7				
Voice & SMS	813	1,059	-23.3	43	338	-87.4	281	-84.8				
Others	3,671	3,378	8.7	1,232	1,139	8.2	1,215	1.5				
Discount	-2,541	-1,856	37.0	-849	-667	27.3	-863	-1.6				
MIDI	4,538	4,096	10.8	1,509	1,478	2.1	1,574	-4.1				
Fixed telecom.	751	592	26.8	283	221	28.2	236	20.0				
Expenses	-30,396	-26,631	14.1	-10,487	-10,202	2.8	-10,323	1.6				
EBIT	7,067	7,900	-10.5	2,301	1,803	27.6	2,407	-4.4	7,928	89.1	8,454	83.6
EBITDA	17,467	14,087	24.0	6,084	4,909	23.9	6,054	0.5	22,581	77.4	23,287	75.0
Other income (exp.)	-3,465	-3,122	11.0	-1,119	-1,000	11.9	-1,143	-2.1				
Pre-tax income	3,602	4,778	-24.6	1,182	802	47.3	1,263	-6.4				
Taxes	-616	-736	-16.3	-240	-327	-26.7	-213	12.5				
Reported net profit	2,787	3,688	-24.4	879	802	9.5	979	-10.3	3,210	86.8	3,808	73.2
Normalized net profit	2,251	625	260.4	942	475	98.2	986	-4.5	2,575	87.4	3,808	59.1
Margins (%)												
EBIT Margin	18.9	22.9		18.0	15.0		18.9					
EBITDA margin	46.6	40.8		47.6	40.9		47.6					
Net Margin	7.4	10.7		6.9	6.7		7.7					
Operational metrics												
# of subs	99,400	98,700	0.7	99,400	98,700	1	100,000	-0.6				
Blended ARPU (IDR/sub)	35,377.7	33,849.5	4.5	34,714.9	34,509.5	0.6	34,379.2	1.0				
Data traffic (in PB)	10,701	9,402	13.8	3,505	3,242	8	7,196	-51.3				
Avg. data usage/ sub	11.8	10.6	11.1	11.8	10.9	6.9	12.5	-5.7				

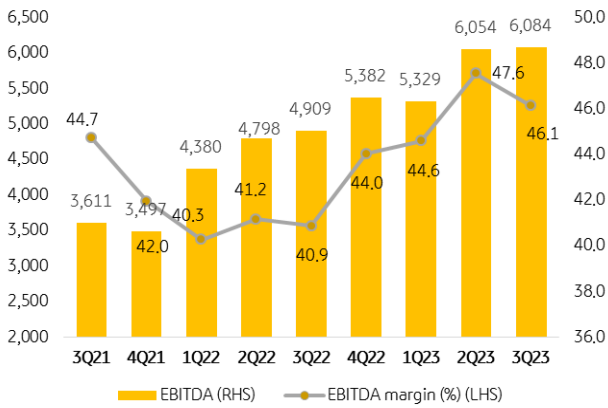
Source: Company, Bloomberg, KBVS Research

Exhibit 3: Forecast revisions

	New		Old		Changes		Consensus		New VS consensus	
	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Revenue	50,231	54,209	49,590	53,224	1.3	1.9	50,727	54,330	-1.0	-0.2
EBITDA	23,457	25,558	22,581	24,801	3.9	3.1	23,284	25,779	0.7	-0.9
Net profit	3,505	4,751	3,210	4,109	9.2	15.6	3,763	4,749	-6.9	0.0

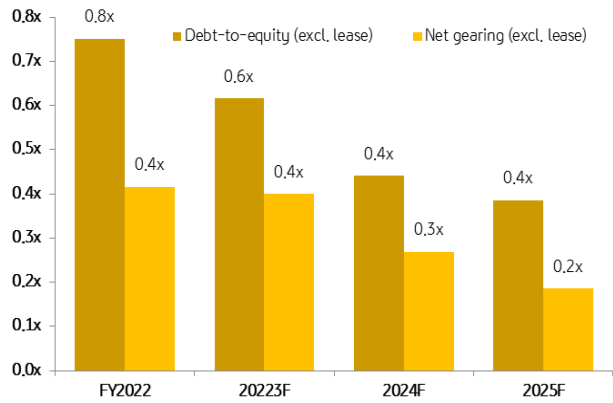
Source: Company, Bloomberg, KBVS Research

Exhibit 4: ISAT's EBITDA margin



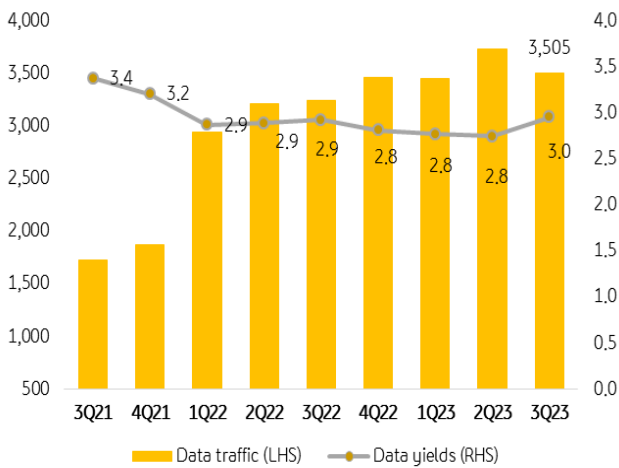
Source: Company, KBVS Research

Exhibit 5: Leverage ratio



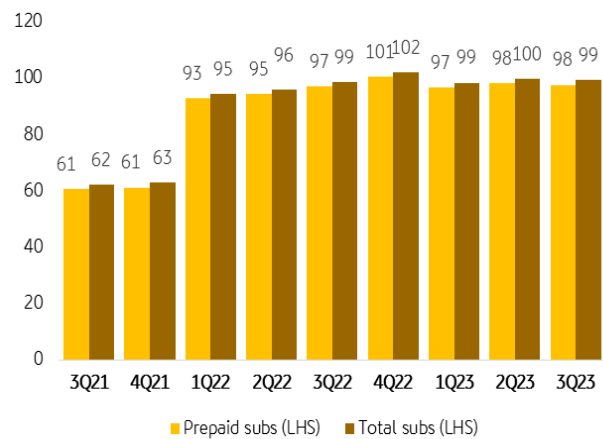
Source: Company, KBVS Research

Exhibit 6: Data traffic and yields qoq



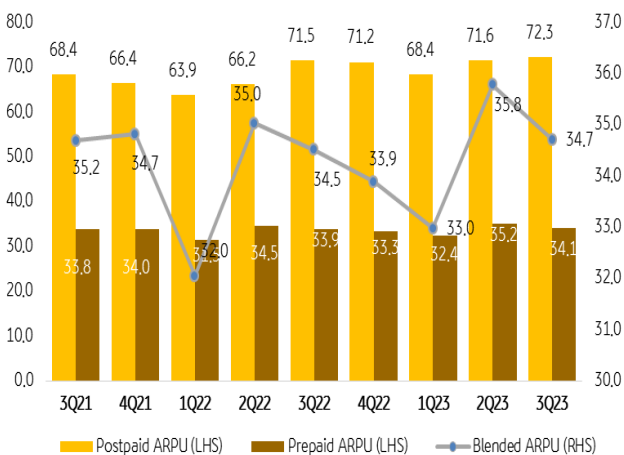
Source: Company, KBVS Research

Exhibit 7: Number of prepaid, and total subs



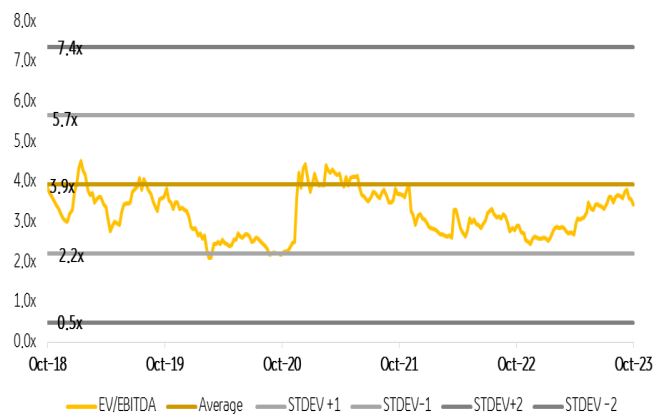
Source: Company, KBVS Research

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

FINANCIAL TABLES

Exhibit 10: Profit & Loss summary

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenue	31,388	46,752	50,231	54,209	57,008
Costs	(21,034)	(36,162)	(41,191)	(43,757)	(45,227)
Operating profit	10,354	10,591	9,040	10,452	11,781
EBITDA	13,886	19,469	23,457	25,558	27,315
Net finance income/expenses	(2,850)	(4,227)	(4,454)	(4,170)	308
Other income/expenses	3	172	0	0	0
Profit before income tax	7,507	6,536	4,585	6,283	7,653
Tax benefit (expenses)	(647)	(1,166)	(816)	(1,118)	(1,377)
Net profit	6,751	4,723	3,505	4,751	5,754
Normalized profit	828	1,459	2,790	4,751	5,754

Source: Company, KBVS Research

Exhibit 11: Balance sheet

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Current Assets					
Cash and cash equivalents	3,789	9,508	6,513	5,845	7,707
Trade receivables	2,027	2,333	3,350	1,623	3,444
Other current assets	5,385	6,835	5,878	5,309	6,087
Total Asset	11,499	18,683	15,757	12,799	17,258
Non-current assets					
Fixed assets	45,515	69,070	73,672	75,893	77,911
Other non-current assets	6,383	26,127	25,400	25,513	25,621
Total non-current assets	51,898	95,197	99,072	101,405	103,532
Total assets	63,397	113,880	114,829	114,205	120,790
Current liabilities					
Trade payables	982	850	1,158	618	1,164
Accrued expenses	2,717	3,625	3,463	3,566	3,638
Short term debts	7,667	4,269	4,313	4,376	4,445
Other current liabilities	17,293	27,130	27,343	26,600	27,712
Total current liabilities	28,658	35,874	36,276	35,161	36,959
Non-current liabilities					
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
Total non-current liabilities	24,436	46,391	45,056	41,746	41,930
Shareholders' equity	10,303	31,615	33,497	37,298	41,901
Total liabilities and equity	63,397	113,880	114,829	114,205	120,790

Source: Company, KBVS Research

Exhibit 9: Cash flow

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Net profit	6,751	4,723	3,505	4,751	5,754
Depreciation & amortization	10,204	13,703	14,417	15,106	15,534
Changes in working capital	8	5,124	(430)	2,285	(1,534)
CF from operating activities	16,963	23,551	17,492	22,142	19,755
Investment in fixed assets	(9,197)	(37,258)	(19,018)	(17,327)	(17,552)
Others	279	(19,744)	726	(112)	(108)
CF from investing activities	(8,918)	(57,003)	(18,292)	(17,439)	(17,661)
Dividends paid	(9,500)	(2,000)	(1,227)	(950)	(1,151)
Debt raised/ repaid	1,331	8,828	(1,968)	(4,769)	557
Others	(7,369)	30,342	(227)	(602)	(790)
CF from financing activities	(6,038)	39,170	(2,195)	(5,371)	(232)
Change in cash flow	2,007	5,719	(2,995)	(668)	1,862
Cash and cash equivalents, beginning	1,782	3,789	9,508	6,513	5,845
Cash and cash equivalents, ending	3,789	9,508	6,513	5,845	7,707

Source: Company, KBVS Research

Exhibit 10: Ratio analysis

Year End Dec	2021A	2022A	2023F	2024F	2025F
Operating profit margin (%)	33.0	22.7	18.0	19.3	20.7
EBITDA margin (%)	44.2	41.6	46.7	47.1	47.9
Net profit margin (%)	21.5	10.1	7.0	8.8	10.1
ROAA (%)	10.7	5.3	3.1	4.1	4.9
ROAE (%)	16.0	6.3	3.0	3.7	4.0
ROCE (%)	19.4	6.1	4.5	6.0	6.9
Debt/ Equity (x)	3.7	2.0	1.8	1.5	1.3
Net debt/Equity (x)	3.3	1.6	1.6	1.3	1.1
Net debt/ EBITDA (x)	2.2	2.4	2.1	1.7	1.6
Interest coverage (x)	4.6	4.5	4.9	5.8	6.2
EPS (IDR)	837.4	585.9	434.8	589.3	713.8
BV/Share (IDR)	1,277.9	3,921.5	4,154.9	4,626.3	5,197.3

Source: Company, KBVS Research

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