

1H24 net profit beats our estimates on lower finance costs

6 August 2024



Sector	Telecomm.
Price at 5 August 2024 (IDR)	10,200
Price target (IDR)	13,000
Upside/Downside (%)	27.5

Stock Information

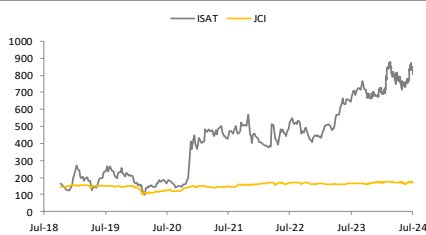
PT Indosat Tbk, trading as Indosat Ooredoo Hutchison, is a telecommunications provider in Indonesia which is owned by Ooredoo Hutchison Asia, a joint venture between Ooredoo and Hutchison Asia Telecom Group since 2022.

Market cap (IDR bn)	86,263
Shares outstanding (mn)	8,062
52-week range (IDR)	8,600-12,250
3M average daily vol. ('000)	4,021
3M average daily val. (IDR mn)	36,236

Shareholders (%)

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

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	6.22	1.83	23.68

Analyst

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ISAT's 1H24 net profit exceeded our expectations by 56.9%, driven by lower interest costs, while overall performance largely met our/consensus expectations, arriving within a range of 49.8% to 51.4%. EBITDA grew 17.8% yoy in 1H24 with improved margins, driven by subscriber growth leading to increased data usage, despite rising opex. Maintain our BUY call with a higher target price of IDR13,000 (from IDR12,000) due to a 13.3% upward revision in our FY24 earnings projections. This target price is based on a 4.3x 2024F EV/EBITDA (+0.2SD 7yrs-historical mean).

2Q24 revenue growth driven by data revenue increase

ISAT recorded revenue of IDR27.98 tn in 1H24, which aligned with ours/cons' at 51.4%/50.2%. This figure represents a 13.4% yoy increase, driven by an 11.2% yoy growth in data revenue, resulting in a yoy/qoq expanding ARPU of 10.5%/2.4%. On a qoq basis, revenue increased 2.2% to IDR14.14 tn in 2Q24, supported by a 2.4% qoq increase in data revenue. ISAT maintained its total subs base at 100.9mn (stable compared to 1Q24) while adding 0.9% yoy. Additionally, data traffic increased by 6.5% qoq/13.3% yoy in 2Q24/1H24.

Exceeds our profit expectations in 1H24

ISAT's EBITDA grew 6.0% qoq in 2Q24, leading to a 1H24 EBITDA of IDR13.41 tn (+17.8% yoy), aligned with ours and cons' at 51.4% and 49.8%. EBITDA margin improved from 47.0% in 1Q24 to 48.8% in 2Q24 (+176.6 bps). This enhancement was driven by a 1.2% qoq decline in cash costs, attributed to reduced S&M expenses (-12.9% qoq) and cost of services (-1.3% qoq) due to lower O&M costs (-1.8% qoq). In 2Q24/1H24, ISAT reported a net profit of IDR1.44 tn/IDR2.74 tn (+11.2% qoq/+43.3% yoy). While exceeding our expectations by 56.9%, it was largely in-line with cons' of 51.2%. The robust yoy net profit growth in 1H24 was driven by a decline in interest costs (-8.3% yoy).

Upgraded FY23 net profit forecast, maintaining revenue and EBITDA outlook

Following inline 1H24 revenue and EBITDA, we maintained our FY24 forecasts for both metrics. Due to lower-than-expected interest costs in 1H24, we reduced our FY24 interest cost estimate to IDR4.40 tn from the previous IDR4.57 tn. As a result, our FY24 net profit forecast has been revised upward to IDR5.45 tn (+13.3% from our previous estimate).

BUY reiterated, moderated finance costs

Maintain our BUY call with a higher target price of IDR13,000 (from IDR12,000) due to a 13.3% upward revision in our FY24 earnings projections. This target price is based on a 4.3x 2024F EV/EBITDA (+0.2SD 7yrs-historical mean), while currently trading at 3.0x EV/EBITDA, representing 19.4% disc. to its 7yrs mean. While we see upside potential from improved cost management, potential heightened competition in the FMC business poses risks to our outlook.

Exhibit 1 : Key Statistics

Year end Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Revenue (IDR bn)	46,752	51,229	54,797	57,913	61,144
EBITDA (IDR)	19,469	23,938	26,537	28,271	29,996
Net profit (IDR)	4,723	4,506	5,449	5,924	6,739
Normalized net profit (IDR)	1,459	3,561	5,449	5,924	6,739
EPS (IDR)	586	559	676	734.8	835.8
EPS growth	-30.0	-4.6	20.9	8.7	13.8
ROA	5.3	3.9	4.7	5.0	5.5
ROE	6.3	3.8	4.2	4.1	4.3
PER (x)	10.8	11.3	9.3	8.6	7.5
PBV (x)	3.1	2.9	2.6	2.4	2.2
EV/EBITDA (x)	4.5	3.6	3.2	2.9	2.8

Source: Company, KBVS Research

**Exhibit 2: Financial Summary**

ISAT's 1H24 results (IDR bn)	1H24	1H23	YoY (%)	2Q24	2Q23	YoY (%)	1Q24	QoQ (%)	2024F % to '24F	Cons'	% of Cons'	
<b>Revenue</b>	<b>27,976</b>	<b>24,675</b>	<b>13.4</b>	<b>14,141</b>	<b>12,730</b>	<b>11.1</b>	<b>13,835</b>	<b>2.2</b>	<b>54,797</b>	<b>51.1</b>	<b>55,702</b>	<b>50.2</b>
<b>Cellular &amp; Data</b>	<b>23,601</b>	<b>21,178</b>	<b>11.4</b>	<b>11,944</b>	<b>10,920</b>	<b>9.4</b>	<b>11,657</b>	<b>2.5</b>				
Data	22,106	19,875	11.2	11,182	10,287	8.7	10,924	2.4				
Voice & SMS	479	556	-13.8	241	281	(14.3)	239	0.9				
Others	2,533	2,439	3.9	1,278	1,215	5.3	1,254	1.9				
Discount	-1,517	-1,692	-10.3	-757	-863	(12.3)	-760	(0.4)				
MIDI	3,916	3,029	29.3	1,945	1,574	23.6	1,971	(1.3)				
Fixed telecom.	459	468	-1.9	252	236	6.8	207	21.5				
Expenses	-22,224	-19,909	11.6	-11,154	-10,323	8.1	-11,069	0.8				
<b>EBIT</b>	<b>5,753</b>	<b>4,766</b>	<b>20.7</b>	<b>2,987</b>	<b>2,407</b>	<b>24.1</b>	<b>2,766</b>	<b>8.0</b>	<b>11,355</b>	<b>50.7</b>	<b>11,529</b>	<b>49.9</b>
<b>EBITDA</b>	<b>13,412</b>	<b>11,383</b>	<b>17.8</b>	<b>6,903</b>	<b>6,054</b>	<b>14.0</b>	<b>6,509</b>	<b>6.0</b>	<b>26,537</b>	<b>50.5</b>	<b>26,955</b>	<b>49.8</b>
Other income (exp.)	-2,031	-2,345	-13.4	-1,034	-1,143	(9.6)	-997	3.7				
Pre-tax income	3,722	2,420	53.8	1,953	1,263	54.6	1,769	10.4				
Taxes	-797	-376	111.7	-420	-213	96.8	-377	11.2				
<b>Reported net profit</b>	<b>2,735</b>	<b>1,908</b>	<b>43.3</b>	<b>1,440</b>	<b>979</b>	<b>47.0</b>	<b>1,295</b>	<b>11.2</b>	<b>5,449</b>	<b>50.2</b>	<b>5,339</b>	<b>51.2</b>
Normalized net profit	2,735	1,273	114.7	1,440	979	47.0	1,262	14.1				
<b>Margins (%)</b>												
EBIT Margin	20.6	19.3		21.1	18.9		20.0					
EBITDA margin	47.9	46.1		48.8	47.6		47.0					
Net Margin	9.8	7.7		10.2	7.7		9.4					
<b>Operational metrics</b>												
# of subs	100,900	100,000	0.9	100,900	100,000	0.9	100,900	0.0				
Blended ARPU (IDR/subs)	37,900	34,300	10.5	38,400	34,300	12.0	37,500	2.4				
Data traffic (TB)	7,965,000	7,027,000	13.3	4,107,000	3,570,332	15.0	3,858,000	6.5				
Avg. data usage/subs	13.2	11.7	12.3	13.6	11.9	14.0	12.7	6.5				
Data yields (IDR/MB)	2.8	2.8	-1.9	2.7	2.9	(5.5)	2.8	-3.8				

Source: Company, Bloomberg, KBVS Research

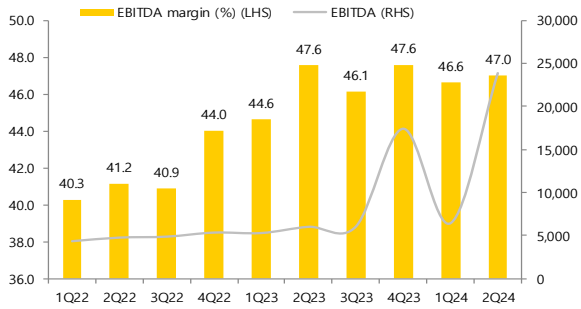
**Exhibit 3: Forecast revisions**

	New		Old		Changes		Consensus		New vs. consensus	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Revenue	54,797	57,913	54,451	57,532	0.6	0.7	55,702	58,484	-1.6	-1.0
EBITDA	26,537	28,271	26,069	28,085	1.8	0.7	26,955	28,708	-1.6	-1.5
Net profit	5,449	5,924	4,809	5,904	13.3	0.3	5,339	6,015	2.1	-1.5

Source: Company, Bloomberg, KBVS Research

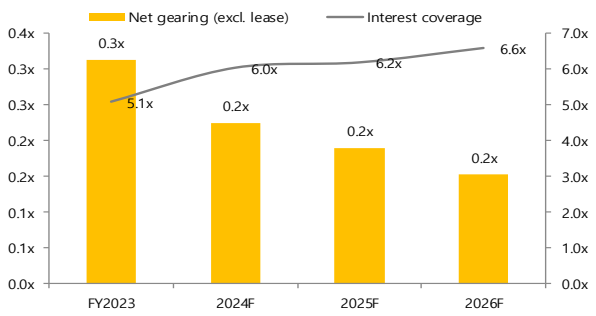
Indosat Ooredoo Hutchison (ISAT)

Exhibit 3: ISAT's EBITDA margin



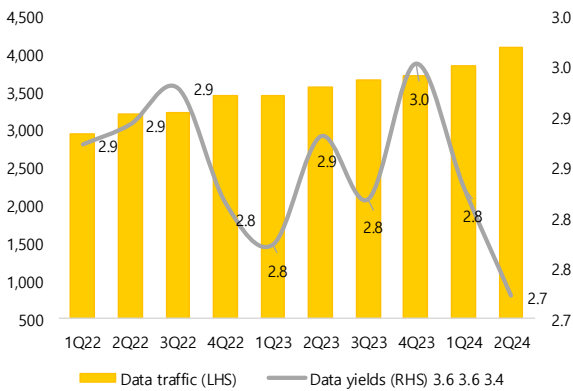
Source: Company, KBVS Research

Exhibit 4: Leverage metrics



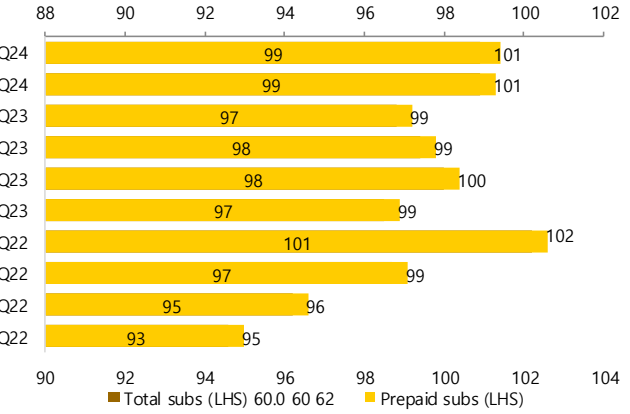
Source: Company, KBVS Research

Exhibit 5: Data traffic and yields qoq



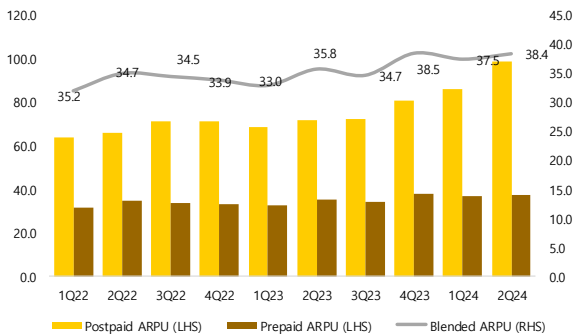
Source: Company, KBVS Research

Exhibit 6: Number of subscribers



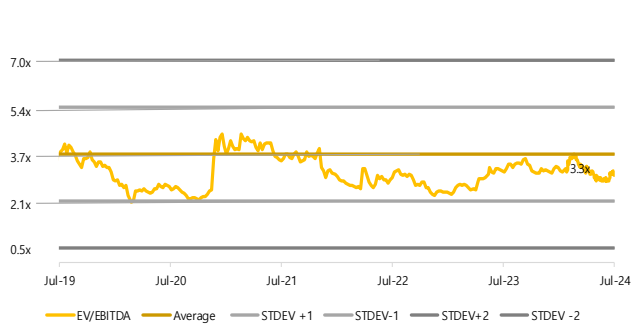
Source: Company, KBVS Research

Exhibit 7: Postpaid, prepaid and blended ARPUs



Source: Company, KBVS Research

Exhibit 8: Currently trading below 7-year mean



Source: Company, Bloomberg

FINANCIAL TABLES



**Exhibit 9: Profit & Loss summary**

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
<b>Revenue</b>	<b>46,752</b>	<b>51,229</b>	<b>54,797</b>	<b>57,913</b>	<b>61,144</b>
Costs	-36,162	-40,801	-43,443	-45,468	-47,618
<b>Operating profit</b>	<b>10,591</b>	<b>10,428</b>	<b>11,355</b>	<b>12,445</b>	<b>13,526</b>
<b>EBITDA</b>	<b>19,469</b>	<b>23,938</b>	<b>26,537</b>	<b>28,271</b>	<b>29,996</b>
Net finance income/ cost	(4,227)	(4,394)	(4,156)	313	183
Other income/ expenses	172	(103)	0	0	0
<b>Pretax profit</b>	<b>6,536</b>	<b>5,932</b>	<b>7,199</b>	<b>8,182</b>	<b>9,156</b>
Income tax	(1,166)	(1,156)	(1,542)	(1,636)	(1,831)
<b>Net profit</b>	<b>4,723</b>	<b>4,506</b>	<b>5,449</b>	<b>5,924</b>	<b>6,739</b>
<b>Normalized net profit</b>	<b>1,459</b>	<b>3,561</b>	<b>5,449</b>	<b>5,924</b>	<b>6,739</b>

Source: Company, KBVS Research

**Exhibit 10: Balance sheet**

Year End Dec (IDR bn)	2022A	2023A	2024F	2024F	2026F
<b>Current assets</b>					
Cash and cash equivalents	9,508	5,190	5,675	5,294	5,178
Trade receivables	2,333	3,139	2,481	2,667	4,127
Other current assets	6,835	7,133	7,213	7,403	7,475
<b>Total current assets</b>	<b>18,683</b>	<b>15,480</b>	<b>15,395</b>	<b>15,388</b>	<b>16,802</b>
<b>Non current assets</b>					
Fixed assets	69,182	72,861	75,255	79,148	82,314
Other non current assets	25,792	26,382	26,311	26,412	26,530
<b>Total non current assets</b>	<b>94,974</b>	<b>99,243</b>	<b>101,566</b>	<b>105,560</b>	<b>108,844</b>
<b>Total assets</b>	<b>113,657</b>	<b>114,722</b>	<b>116,961</b>	<b>120,949</b>	<b>125,646</b>
<b>Current liabilities</b>					
Trade payables	850	746	993	824	973
Accrued expenses	3,625	4,088	4,211	4,295	4,381
Short term debts	4,269	2,487	2,471	2,530	2,535
Other current liabilities	27,130	26,814	26,211	27,254	27,908
<b>Total current liabilities</b>	<b>35,874</b>	<b>34,134</b>	<b>33,885</b>	<b>34,903</b>	<b>35,798</b>
<b>Non current liabilities</b>					
Long term debts	17,025	12,295	10,840	9,889	8,953
Other non current liabilities	29,390	34,584	34,972	35,365	36,088
<b>Total non-current liabilities</b>	<b>46,415</b>	<b>46,879</b>	<b>45,812</b>	<b>45,254</b>	<b>45,041</b>
<b>Shareholder equity</b>	<b>31,369</b>	<b>33,709</b>	<b>37,264</b>	<b>40,791</b>	<b>44,807</b>
<b>Total liabilities and equity</b>	<b>113,657</b>	<b>114,722</b>	<b>116,961</b>	<b>120,949</b>	<b>125,646</b>

Source: Company, KBVS Research

**Exhibit 11: Cash flow**

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Net profit	4,723	4,506	5,449	5,924	6,739
Depreciation	13,703	14,621	15,182	15,826	16,469
Changes in working capital	5,124	(937)	1,382	(8)	(967)
<b>CF from operating activities</b>	<b>23,551</b>	<b>18,191</b>	<b>22,012</b>	<b>21,743</b>	<b>22,241</b>
Investment in fixed assets	(37,370)	(18,300)	(17,576)	(19,719)	(19,635)
Others	(19,410)	(590)	71	(102)	(118)
<b>CF from investing activities</b>	<b>(56,780)</b>	<b>(18,890)</b>	<b>(17,505)</b>	<b>(19,821)</b>	<b>(19,753)</b>
Dividends paid	(2,000)	(2,062)	(2,179)	(2,370)	(2,695)
Debt raised/ repaid	8,828	(6,648)	(2,516)	(300)	(604)
Others	30,119	3,028	(1,506)	(2,003)	(1,999)
<b>CF from financing activities</b>	<b>38,948</b>	<b>(3,620)</b>	<b>(4,022)</b>	<b>(2,303)</b>	<b>(2,604)</b>
<b>Change in cash flow</b>	<b>5,719</b>	<b>(4,318)</b>	<b>486</b>	<b>(381)</b>	<b>(116)</b>
<b>Cash and cash equivalent, beginning</b>	<b>3,789</b>	<b>9,508</b>	<b>5,190</b>	<b>5,675</b>	<b>5,294</b>
<b>Cash and cash equivalent, ending</b>	<b>9,508</b>	<b>5,190</b>	<b>5,675</b>	<b>5,294</b>	<b>5,178</b>

Source: Company, KBVS Research

**Exhibit 12: Ratio analysis**

Year End Dec	2022A	2023A	2024F	2025F	2026F
Operating profit margin	22.7	20.4	20.7	21.5	22.1
EBITDA margin	41.6	46.7	48.4	48.8	49.1
Net profit margin	10.1	8.8	9.9	10.2	11.0
ROA	5.3	3.9	4.7	5.0	5.5
ROE	6.3	3.8	4.2	4.1	4.3
ROCE	6.1	5.6	6.6	6.9	7.5
ROIC	14.2	13.1	14.2	14.8	15.4
Debt/Equity	2.0	1.8	1.5	1.4	1.2
Net debt/Equity	1.6	1.6	1.4	1.2	1.1
Net debt/EBITDA	2.4	2.0	1.7	1.6	1.6
Interest coverage (x)	4.5	5.1	6.0	6.2	6.6
EPS (Rp)	585.9	559.0	675.8	734.8	835.8
BV/Share (Rp)	3,890.9	4,181.2	4,622.1	5,059.7	5,557.9

Source: Company, KBVS Research

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