

## Indosat Ooredoo Hutchison (ISAT)

Riding the recovery momentum

24 November 2022



ISAT IJ	BUY
Sector	Telecom.
Price at 24 Nov 2022 (Rp)	6,250
Price target (Rp)	8,250
Upside/Downside (%)	32.0

## 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)	57,650
Shares outstanding (mn)	8,062
52-week range (Rp)	5,200-7,800
3M average daily vol. ('000)	4,880
3M average daily val. (Rp mn)	33,923

## Shareholders (%)

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

## Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(3.1)	(9.4)	20.1

We maintain our sanguine view on ISAT for '22F/'23F as better pricing environment is expected to continue, while we believe that data yield downtrend seems to have receded. In addition, the company's efforts to integrate Indosat-Tri networks has come to fruition as over 20,000 sites out of total c.43,000 have been fully integrated with full spectrum potential, which is ahead estimate. Amid operational improvement and accelerated integration, we raise our '22F/'23F EBITDA and revenue forecasts by 5.0%/7.1% and 8.4%/7.9%, respectively. Maintain BUY, with a higher price target of IDR8,250, implying 3.6x 2023F EV/EBITDA, while it is trading at 2.7x or above -1SD 5-year historical mean.

## Financial performance recovery post-merger remains intact

ISAT's 3Q22 revenue increased 3.0% qoq to IDR12.0 tn, bringing 9M22 to be at IDR34.53 tn, +49.8% or accounting 75.8%/75.0% of ours/consensus. The higher revenue mostly came from data in line improving pricing environment during 1H22 and fixed connectivity amid higher demand from corporate clients. Meanwhile, 9M22 EBITDA jumped 35.6% yoy to IDR14.1 tn, translating into 76.3%/73.6% of our/consensus estimates. In qoq basis, EBITDA grew 2.3% in 3Q22 to IDR4.91 tn despite higher expenses, especially cost of service and personnel. However, EBITDA margin contracted from 41.2% in 2Q22 to 40.9% in 3Q22. ISAT's 9M22 net gearing lowered to 1.8x largely pertaining to post-merger impact.

## Better pricing environment

The company's 3Q22 operational performance was mostly boosted by improving data yields of +1.2% qoq, demonstrating data pricing downtrend has bottomed out since 4Q21. We highlight data yields rebound is in line with the industry. Amid improving pricing, ISAT also managed to add +2.5% qoq subscriber in 3Q22, which could indicate its price competitiveness and suspected subscribers shift from incumbent or downtrading amid high inflation and economic uncertainty. However, 3Q22 blended ARPU decreased 1.4% qoq to IDR34.5K, largely due to impact of strong seasonality in 2Q22 amid festive season.

## Tailwind from network integration

With better-than-expected performance in 9M22, we uplift our '22F revenue and EBITDA forecasts by +8.4% and 5% as we expect price adjustment to continue in 4Q22. For 2023, we expect competition to improve further, thus providing potential data pricing upside. As part of integration efforts, ISAT has shut down c.8,000 sites and is targeting to reach 10,000 by-year end which could be translated into more cost savings especially in the form of tower leases and other operational costs.

## Reiterate BUY on acceleration of network initiatives

In line with our uplift revision, we reiterate BUY call with upgraded price target of IDR8,250 (previously: IDR8,000), implying 3.6x 2023F EV/EBITDA or slightly below 5 year- historical mean. Our recommendation is based on 1) accelerated progress on network integration; 2) pricing improvement; and 3) better leverage metrics. Nevertheless, we note several downside risks, including 1) intense competition; 2) high capex and 3) interest rate.

## Exhibit 1: Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (IDR bn)	27,926	31,388	45,986	49,129	52,031
EBITDA (IDR bn)	11,433	13,886	19,388	21,458	22,673
Net profit (IDR bn)	(717)	6,751	4,591	2,270	3,061
Normalized profit (IDR bn)	(717)	828	1,527	2,270	3,061
EPS (IDR)	(89)	837	570	282	380
EPS growth (%)	(146)	(1042)	(32)	(51)	35
ROAA (%)	(1.5)	16.0	6.2	2.0	2.5
ROAE (%)	(1.8)	19.4	6.7	3.3	4.3
PER (x)	N/A	7.5	11.1	22.4	16.6
PBV (x)	5.6	7.0	2.5	2.3	2.1
EV/EBITDA (x)	5.7	4.6	3.3	2.8	2.6

Source: Company, KBVS Research

## Analyst

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## Indosat Ooredoo Hutchison (ISAT)

## Exhibit 2: Financial Summary

Income statement (IDR bn)	9M22	9M21	YoY (%)	3Q22	3Q21	YoY (%)	2Q22	QoQ (%)	% to '22F	% of Cons'
<b>Revenue</b>	34,531	<b>23,055</b>	<b>49.8</b>	12,004	8,072	<b>48.7</b>	<b>11,654</b>	<b>3.0</b>	<b>75.8</b>	<b>75.0</b>
<b>Cellular &amp; Data</b>	29,843	<b>18,789</b>	<b>58.8</b>	10,306	<b>6,132</b>	<b>68.1</b>	<b>10,159</b>	<b>1.4</b>		
Data	27,261	<b>16,941</b>	<b>60.9</b>	9,497	<b>5,834</b>	<b>62.8</b>	<b>9,295</b>	<b>2.2</b>		
Voice & SMS	1,059	<b>1,257</b>	<b>(15.7)</b>	338	<b>395</b>	<b>(14.5)</b>	<b>360</b>	<b>(6.3)</b>		
Others	3,378	2,245	<b>50.5</b>	1,139	455	<b>150.4</b>	<b>202.4</b>	<b>462.7</b>		
Discount	-1,856	<b>(1,654)</b>	<b>12.2</b>	(667)	<b>(552)</b>	<b>21.0</b>	<b>(642)</b>	<b>4.0</b>		
<b>MIDI</b>	4,096	<b>3,843</b>	<b>6.6</b>	1,478	<b>6,823</b>	<b>(78.3)</b>	<b>1,310</b>	<b>12.8</b>		
<b>Fixed telecom.</b>	592	<b>423</b>	<b>40.0</b>	221	<b>139</b>	<b>58.3</b>	<b>185</b>	<b>19.2</b>		
<b>Expenses/Income</b>	<b>(26,631)</b>	<b>(14,978)</b>	<b>77.8</b>	(10,202)	<b>(7,068)</b>	<b>44.3</b>	<b>(6,773)</b>	<b>50.6</b>		
<b>EBIT</b>	<b>7,900</b>	<b>8,077</b>	<b>(2.2)</b>	1,803	<b>1,003</b>	<b>79.7</b>	<b>4,881</b>	<b>(63.1)</b>		
<b>EBITDA</b>	<b>14,087</b>	<b>10,389</b>	<b>35.6</b>	4,909	<b>3,611</b>	<b>35.9</b>	<b>4,798</b>	<b>2.3</b>	<b>76.3</b>	<b>73.6</b>
Other income (exp.)	(3,122)	(2,155)	<b>44.9</b>	(1,000)	<b>(748)</b>	<b>33.7</b>	<b>(1,068)</b>	<b>(6.4)</b>		
<b>Pre-tax income</b>	<b>4,778</b>	<b>5,922</b>	<b>(19.3)</b>	802	<b>255</b>	<b>214.6</b>	<b>3,813</b>	<b>(79.0)</b>		
Taxes	(736)	(56)	<b>1,217.8</b>	(327)	<b>29</b>	<b>(1,210.9)</b>	<b>(410)</b>	<b>(20.2)</b>		
<b>Reported net profit</b>	<b>3,688</b>	<b>5,800</b>	<b>(36.4)</b>	427	<b>202</b>	<b>111.3</b>	<b>3,132</b>	<b>(86.4)</b>	<b>81.3</b>	<b>122.1</b>
<b>Normalized profit</b>	<b>624</b>	<b>568</b>	<b>9.8</b>	475	<b>322</b>	<b>47.5</b>	<b>105</b>	<b>354.6</b>		
<b>Margins (%)</b>										
EBIT Margin	22.9	35.0	<b>(12.2)</b>	15.0	12.4	<b>2.6</b>	41.9	<b>(26.9)</b>		
EBITDA margin	40.8	45.1	<b>(4.3)</b>	40.9	44.7	<b>(3.8)</b>	41.2	<b>(0.3)</b>		
Net Margin	10.7	25.2	<b>(14.5)</b>	3.6	2.5	<b>1.1</b>	26.9	<b>(23.3)</b>		
<b>Operational metrics</b>										
# of subs	98,700	62,300	<b>58.4</b>	98,700	62,300	<b>58.4</b>	96,200	<b>2.6</b>		
Blended ARPU (IDR/sub)	33,800	34,200	<b>(1.2)</b>	34,500	34,700	<b>(0.6)</b>	35,000	<b>(1.4)</b>		
Data traffic (in PB)	9,402	4,836	<b>94.4</b>	3,242	1,727	<b>87.7</b>	3,212	<b>0.9</b>		
Monthly data usage/ sub	10.6	8.6	<b>22.7</b>	10.9	9.2	<b>18.5</b>	11.1	<b>(1.6)</b>		
Data yields (IDR/ MB)	2.9	3.5	<b>(17.2)</b>	2.9	3.4	<b>(13.3)</b>	2.9	<b>1.2</b>		

Source: Company

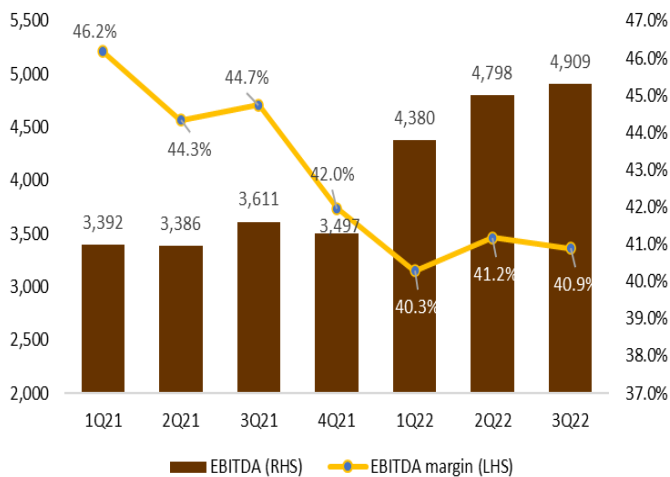
## Exhibit 3: Forecast revision

	New		Old		Changes		Consensus		New VS consensus	
	2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F
Revenue	45,986	49,129	42,429	45,532	8.4%	7.9%	46,060	49,395	-0.2%	-0.5%
EBITDA	19,388	21,458	18,467	20,032	5.0%	7.1%	19,130	20,946	1.3%	2.4%
Net profit	5,039	2,270	4,536	2,980	11.1%	-23.8%	3,019	2,004	66.9%	13.3%

Source: Company, Bloomberg, KBVS Research

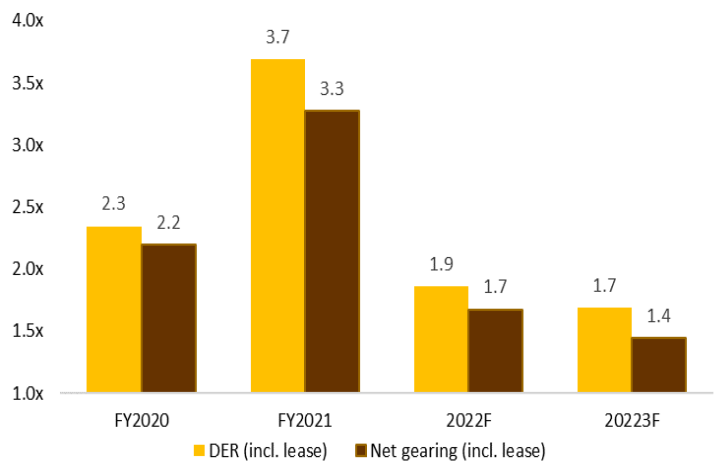
# Indosat Ooredoo Hutchison (ISAT)

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



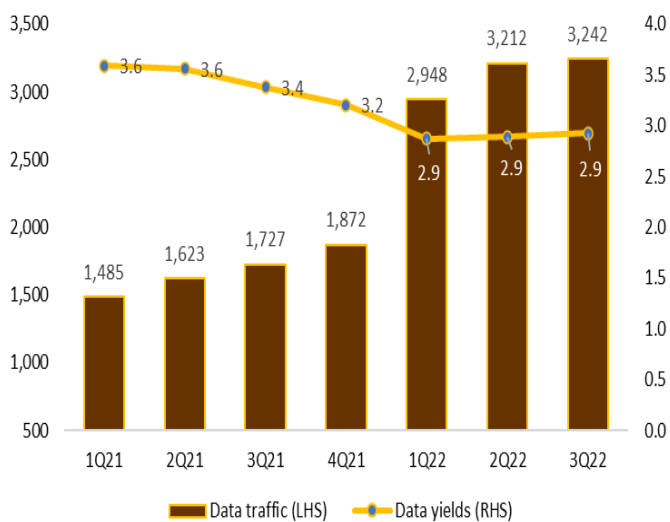
Source: Company

**Exhibit 5: Leverage ratios**



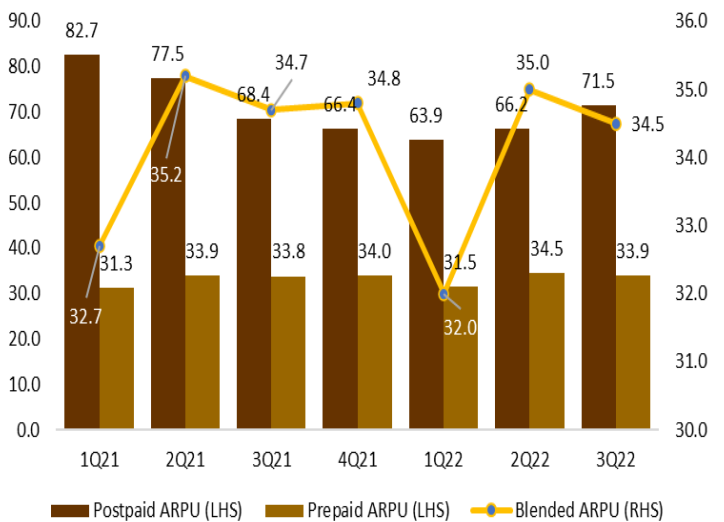
Source: Company, KBVS Research

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



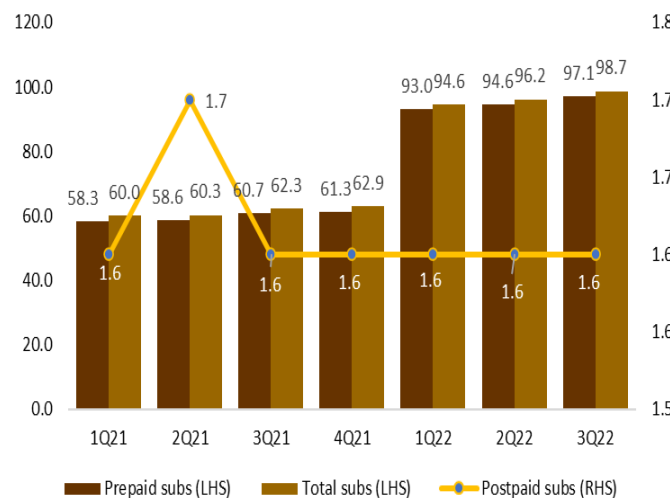
Source: Company

**Exhibit 7: Prepaid, postpaid and blended ARPUs**



Source: Company

**Exhibit 8: Prepaid, postpaid and total subscribers**



Source: Company

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



Source: Company, Bloomberg

# Indosat Ooredoo Hutchison (ISAT)

## FINANCIAL TABLES

### Exhibit 10: Profit & Loss summary

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
<b>Revenue</b>	<b>27,926</b>	<b>31,388</b>	<b>45,986</b>	<b>49,129</b>	<b>52,031</b>
Costs	(25,526)	(21,034)	(35,346)	(42,263)	(43,893)
<b>Operating profit</b>	<b>2,399</b>	<b>10,354</b>	<b>10,640</b>	<b>6,866</b>	<b>8,137</b>
<b>EBITDA</b>	<b>11,433</b>	<b>13,886</b>	<b>19,388</b>	<b>21,458</b>	<b>22,673</b>
<b>EBITDA margin</b>	<b>40.9%</b>	<b>44.2%</b>	<b>42.2%</b>	<b>43.7%</b>	<b>43.6%</b>
Net finance income/ expenses	(2,854)	(2,850)	(4,295)	(3,674)	(3,832)
Other income/expenses	(145)	3	115	1	1
<b>Profit before income tax</b>	<b>(600)</b>	<b>7,507</b>	<b>6,460</b>	<b>3,193</b>	<b>4,306</b>
Tax benefit (expenses)	(31)	(647)	(1,421)	(703)	(947)
<b>Net profit</b>	<b>(717)</b>	<b>6,751</b>	<b>4,591</b>	<b>2,270</b>	<b>3,061</b>
<b>Normalized net profit</b>	<b>(717)</b>	<b>828</b>	<b>1,527</b>	<b>2,270</b>	<b>3,061</b>

Source: Company, KBVS Research

### Exhibit 11: Balance sheet

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
<b>Current assets</b>					
Cash and cash equivalents	1,782	3,789	5,094	7,143	8,957
Trade receivables	2,557	2,027	2,571	2,341	2,614
Other current assets	5,251	5,385	5,421	4,614	4,677
<b>Total current assets</b>	<b>9,595</b>	<b>11,499</b>	<b>13,094</b>	<b>14,107</b>	<b>16,258</b>
<b>Non-current assets</b>					
Fixed assets	46,522	45,515	68,273	66,907	67,576
Other non-current assets	6,662	6,383	22,581	22,804	22,792
<b>Total non-current assets</b>	<b>53,184</b>	<b>51,898</b>	<b>90,854</b>	<b>89,711</b>	<b>90,369</b>
<b>Total assets</b>	<b>62,779</b>	<b>63,397</b>	<b>103,948</b>	<b>103,818</b>	<b>106,627</b>
<b>Current liabilities</b>					
Trade payables	657	982	1,563	1,606	1,656
Accrued expenses	2,366	2,717	3,451	3,623	3,913
Short term debts	2,423	7,667	7,519	6,791	6,513
Other current liabilities	17,211	17,293	23,358	22,271	22,834
<b>Total current liabilities</b>	<b>22,658</b>	<b>28,658</b>	<b>35,891</b>	<b>34,292</b>	<b>34,916</b>
<b>Non-current liabilities</b>					
Long-term debts	13,587	8,824	10,224	10,326	10,376
Other non-current liabilities	13,620	15,613	28,578	28,050	27,628
<b>Total non-current liabilities</b>	<b>27,207</b>	<b>24,436</b>	<b>38,802</b>	<b>38,376</b>	<b>38,005</b>
<b>Shareholders' equity</b>	<b>12,913</b>	<b>10,303</b>	<b>29,255</b>	<b>31,151</b>	<b>33,706</b>
<b>Total liabilities and equity</b>	<b>62,779</b>	<b>63,397</b>	<b>103,948</b>	<b>103,818</b>	<b>106,627</b>

Source: Company, KBVS Research

## Indosat Ooredoo Hutchison (ISAT)

## Exhibit 12: Cash flow

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	(717)	6,751	4,591	2,270	3,061
Depreciation & amortization	10,011	10,204	12,630	15,005	14,955
Changes in working capital	2,155	8	2,715	538	919
<b>CF from operating activities</b>	<b>11,450</b>	<b>16,963</b>	<b>19,937</b>	<b>17,813</b>	<b>18,934</b>
Investment in fixed assets	(13,780)	(9,197)	(35,388)	(13,640)	(15,624)
Others	953	279	(16,199)	(223)	12
<b>CF from investing activities</b>	<b>(12,827)</b>	<b>(8,918)</b>	<b>(51,587)</b>	<b>(13,862)</b>	<b>(15,612)</b>
Dividends paid	-	(9,500)	(2,000)	(375)	(505)
Debt raised/ repaid	(5,220)	1,331	5,628	(999)	(582)
Others	2,499	(7,369)	27,327	(903)	(926)
<b>CF from financing activities</b>	<b>(2,721)</b>	<b>(6,038)</b>	<b>32,955</b>	<b>(1,902)</b>	<b>(1,509)</b>
<b>Change in cash flows</b>	<b>(4,099)</b>	<b>2,007</b>	<b>1,305</b>	<b>2,049</b>	<b>1,813</b>
<b>Cash and cash equivalents, beginning</b>	<b>5,881</b>	<b>1,782</b>	<b>3,789</b>	<b>5,094</b>	<b>7,143</b>
<b>Cash and cash equivalents, ending</b>	<b>1,782</b>	<b>3,789</b>	<b>5,094</b>	<b>7,143</b>	<b>8,957</b>

Source: Company, KBVS Research

## Exhibit 13: Ratio analysis

Year End Dec	2020A	2021A	2022F	2023F	2024F
Operating profit margin (%)	8.6	33.0	23.1	14.0	15.6
EBITDA margin (%)	40.9	44.2	42.2	43.7	43.6
Net profit margin (%)	(2.6)	21.5	10.0	4.6	5.9
ROA (%)	(1.1)	10.7	5.5	2.2	2.9
ROE (%)	(1.5)	16.0	6.2	2.0	2.5
ROCE (%)	(1.8)	19.4	6.7	3.3	4.3
Debt/ Equity (%)	2.3	3.7	1.9	1.7	1.5
Net debt/Equity (x)	2.2	3.3	1.7	1.4	1.2
Net debt/ EBITDA (x)	2.3	2.2	2.4	2.0	1.8
Interest coverage (x)	3.8	4.6	4.4	5.7	5.8
EPS (IDR)	(88.9)	837.4	569.5	281.5	379.6

Source: Company, KBVS Research

# Indosat Ooredoo Hutchison (ISAT)

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