

Heading to right direction

12 February 2024



ISAT IJ	BUY
Sector	Telecomm.
Price at 12 Feb 2024 (IDR)	9,800
Price target (IDR)	11,950
Upside/Downside (%)	21.8

Stock Information

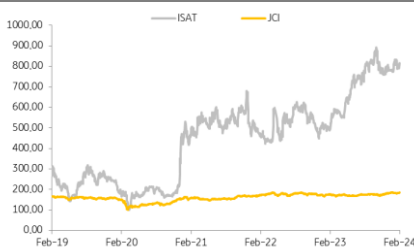
Indosat Ooredoo Hutchison is a telecommunication provider in Indonesia which is owned by Ooredoo Hutchison Asia, a joint venture between Ooredoo and Hutchison Asia Telecom Group since 2022.

Market cap (IDR bn)	78,540
Shares outstanding (mn)	8,062
52-week range (IDR)	6,500-10,525
3M average daily vol. ('000)	2,972,623
3M average daily val. (IDR mn)	28,257,357

Shareholders (%)

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

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	0.8	2.9	53.0

Analyst

Devi Harjoto

Devi.harjoto@kbvalbury.com

ISAT's FY23 results beat ours/consensus by 1.5%-29.3%, thanks to strong 4Q23 despite lower EBITDA margin at 47.0% (VS 47.6% in 3Q23) on the back of higher core costs on costs of service and marketing expenses. It is worth noting that ISAT's ARPU climbed to the highest in years at IDR38.5K/sub in 4Q23, on the track to achieve the targeted ARPU at IDR40K/sub, which was also coupled with stabilized data yield. **Maintain BUY with an upgraded blended TP of IDR11,950/ share as we lift our '24E/'25E earnings assumption by 0.4-2.6% implying 5-yr historical mean EV/EBITDA of 3.7x.**

FY23 earnings beating ours/consensus estimates

ISAT's 4Q23 EBITDA came in at IDR6.41tn (+6.4% qoq), bringing FY23 EBITDA at IDR23.94tn or increasing 23.0% yoy. This figure achieved 102.1%/101.9% of ours/consensus. Despite that, EBITDA margin was eroded from 47.6% in 3Q23 to 47.0% in 4Q23 as core costs up by 8.8% qoq on the back of higher costs of service as well as marketing expenses as part of ISAT's strategy to strengthen its presence in third-tier cities and rural areas. Meanwhile, FY23 revenue grew 9.6% yoy to IDR51.23tn, thanks to strong 4Q23 top line growth of 7.7% qoq to IDR13.77tn thanks to solid value-added service and data. ISAT's FY23 revenue was also above ours/consensus by 2.0%/1.5%, respectively. Balance-sheet wise, net gearing improved to 0.2x in FY23.

Walk the talk on ARPU target

The company's solid top-line growth was largely helped by a series of improvement in its operational metrics, especially ARPU that reached IDR38.5K per sub, or the highest in years, heading towards its aspired ARPU of IDR40K per sub targeted to achieve in 1Q-2Q24. In addition, data yield was also stabilized in 4Q23 to IDR3.0/MB, indicating healthier market conduct. On the other hand, ISAT's subs went down by 0.6% qoq/3.3% yoy to 98.8 million subs as management attributed to SIM card price repair.

Aims to strengthen its market position

Management guides '24 EBITDA margin to close to 50% in 2024 with revenue growth expected to be better than market, driven by improving ARPU. We also believe that a IDR40K targeted ARPU is achievable given its better network quality that should drive higher data consumption and its position being the most competitive data package among big three, which may lower the risk of subs shifting. Meanwhile, the company aims to secure 8-10% of HBB market share by 2026 through both organic and inorganic expansions with most recently, acquiring +300K of MNC Play subs, bringing total subs to stand at 336.9K subs in FY23.

We have revised up our 24E/25E topline figures by 0.4%/0.9% higher than our previous forecasts, in-line with improving data monetization and continued expansions. We also expect cost to stay in-check at despite a bump in marketing expenses in 4Q23 as part of its aspiration to enlarge distribution channels.

Reiterate BUY on significant ARPU improvement

We maintain our BUY call with higher target price of IDR11,950 (previously: IDR11,860) as we revise up our '24E/'25E earnings projections by +0.4-2.6%. In addition, we also tweak our WACC assumption to 10.5% on lower risk-free rate adjustment. Note that our target price implies EV/EBITDA '24E at 3.7x or in-line with 5 years average EV/EBITDA. 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)	2022A	2023A	2024F	2025F	2026F
Revenue (IDR bn)	46,752	51,229	54,451	57,532	60,731
EBITDA (IDR bn)	19,469	23,938	26,069	28,085	29,793
Net profit (IDR bn)	4,723	4,506	4,809	5,904	6,612
Normalized profit (IDR bn)	1,459	3,561	4,809	5,904	6,612
EPS (IDR)	586	559	597	732.3	820.1
EPS growth (%)	-30.0	-4.6	6.7	22.8	12.0
ROAA (%)	5.3	3.9	4.2	5.0	5.4
ROAE (%)	6.3	3.8	3.7	4.2	4.2
PER (x)	10.8	11.3	10.6	8.6	7.7
PBV (x)	3.1	2.9	2.6	2.4	2.2
EV/EBITDA (x)	4.5	3.6	3.2	3.0	2.8

Sources: Companu, KBVS Research

Exhibit 2: Financial Summary

ISAT's FY2023 results (IDR bn)

	FY2023	FY2022	YoY (%)	4Q23	4Q22	YoY (%)	3Q23	QoQ (%)	2023F	% to '23F	Cons'	% of Cons'
Revenue	51,229	46,752	9.6	13,766	12,221	12.6	12,788	7.7	50,231	102.0	50,489	101.5
Cellular & Data	43,750	40,243	8.7	11,576	10,400	11.3	10,996	5.3				
Data	41,207	37,001	11.4	10,976	9,739	12.7	10,356	6.0				
Voice & SMS	899	1,207	-25.5	204	268	-23.8	214	-4.5				
Others	4,782	4,591	4.1	992	1,093	-9.2	1,275	-22.2				
Discount	-3,138	-2,556	22.7	-596	-701	-14.9	-849	-29.8				
MIDI	6,473	5,726	13.0	1,935	1,630	18.7	1,509	28.2				
Fixed telecom.	1,006	784	28.4	255	192	33.3	283	-9.7				
Expenses	-40,801	-36,162	12.8	-10,405	-9,531	9.2	-10,487	-0.8				
EBIT	10,428	10,591	-1.5	3,361	2,691	24.9	2,301	46.1				
EBITDA	23,938	19,469	23.0	6,471	5,382	20.2	6,084	6.4	23,457	102.1	23,503	101.9
Other income (exp.)	-4,496	-4,055	10.9	-1,032	-933	10.5	-1,119	-7.8				
Pre-tax income	5,932	6,536	-9.2	2,329	1,758	32.5	1,182	97.1				
Taxes	-1,156	-1,166	-0.8	-540	-429	25.6	-240	125.1				
Reported net profit	4,506	4,723	-4.6	1,719	1,036	66.0	879	95.7	3,505	128.6	3,486	129.3
Normalized net profit	3,561	1,459	144.0	1,346	835	61.2	942	42.9	3,505	101.6	3,486	102.2
Margins (%)												
EBIT Margin	20.4	22.7		24.4	22.0		18.0					
EBITDA margin	46.7	41.6		47.0	44.0		47.6					
Net Margin	8.8	10.1		12.5	8.5		6.9					
Operational metrics												
# of subs	98,800	102,200	-3.3	98,800	102,200	-3.3	99,400	-0.6				
Blended ARPU (IDR/sub)	35,638.1	33,846.4	5.3	38,496.4	33,893.3	13.6	34,714.9	10.9				
Data traffic (in PB)	14,417	12,862	12.1	3,716	3,460	7.4	3,505	6.0				
Avg. data usage/ sub	12.2	10.5	15.9	12.5	11.3	11.1	11.8	6.7				

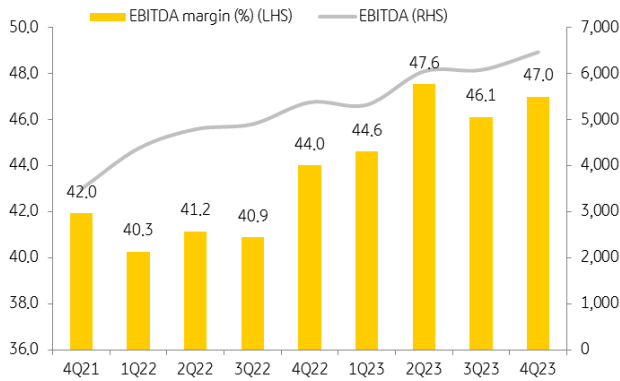
Source: Company, Bloomberg, KBVS Research

Exhibit 3: Forecast revisions

	New		Old		Changes		Consensus		New VS consensus	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Revenue	54,451	57,532	54,209	57,008	0.4	0.9	54,430	57,800	0.0	-0.5
EBITDA	26,069	28,085	25,558	27,315	2.0	2.8	26,243	28,288	-0.7	-0.7
Net profit	4,809	5,904	4,751	5,754	1.2	2.6	4,618	5,715	4.1	3.3

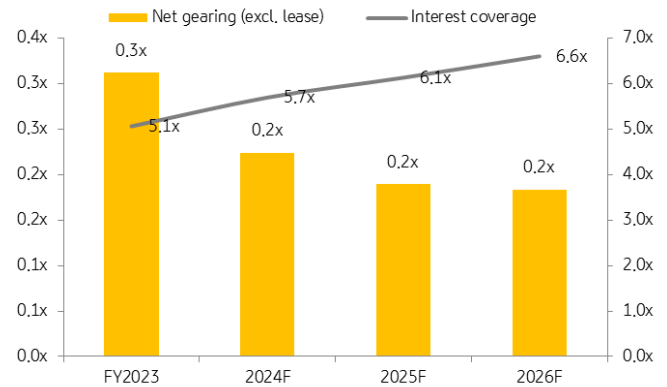
Source: Company, Bloomberg, KBVS Research

Exhibit 4: ISAT's EBITDA margin



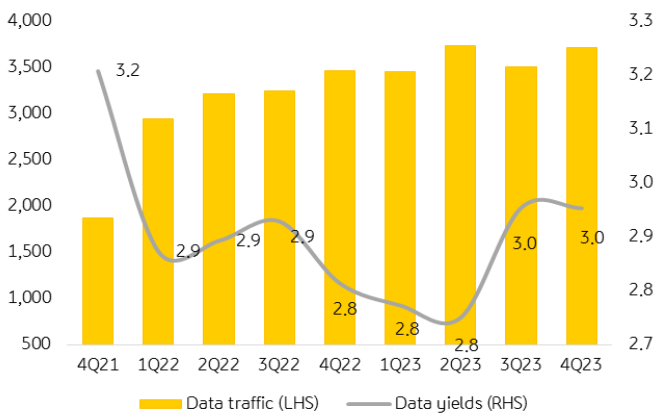
Source: Company, KBVS Research

Exhibit 5: Leverage metrics



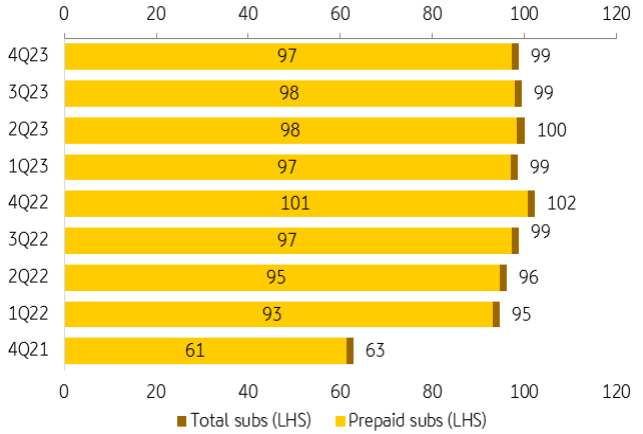
Source: Company, KBVS Research

Exhibit 6: Data traffic and yields qoq



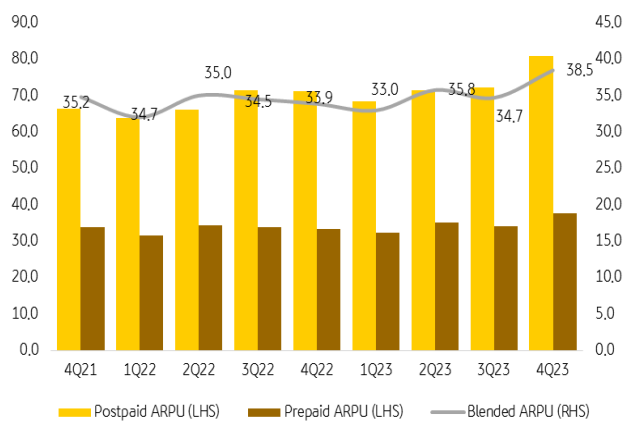
Source: Company, KBVS Research

Exhibit 7: Number of subscribers



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)	2022A	2023A	2024F	2025F	2026F
Revenue	46,752	51,229	54,451	57,532	60,731
Costs	(36,162)	(40,801)	(43,588)	(45,246)	(47,376)
Operating profit	10,591	10,428	10,863	12,286	13,355
EBITDA	19,469	23,938	26,069	28,085	29,793
Net finance income/expenses	(4,227)	(4,394)	(4,328)	311	182
Other income/expenses	172	(103)	0	0	0
Profit before income tax	6,536	5,932	6,534	8,021	8,983
Tax benefit (expenses)	(1,166)	(1,156)	(1,307)	(1,604)	(1,797)
Reported net profit	4,723	4,506	4,809	5,904	6,612
Normalized profit	1,459	3,561	4,809	5,904	6,612

Source: Company, KBVS Research

Exhibit 11: Balance sheet

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Current Assets					
Cash and cash equivalents	9,508	5,190	5,769	5,372	5,260
Trade receivables	2,333	3,139	2,445	2,669	4,079
Other current assets	6,835	7,133	7,216	7,397	7,478
Total Asset	18,683	15,480	15,457	15,462	16,840
Non-current assets					
Fixed assets	69,182	72,861	74,779	78,627	81,772
Other non-current assets	25,792	26,382	26,311	26,412	26,530
Total non-current assets	94,974	99,243	101,089	105,040	108,303
Total assets	113,657	114,722	116,546	120,502	125,142
Current liabilities					
Trade payables	850	746	998	810	978
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
Total current liabilities	35,874	34,134	33,891	34,889	35,802
Non-current liabilities					
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
Total non-current liabilities	46,415	46,879	45,812	45,254	45,041
Shareholders' equity	31,369	33,709	36,843	40,358	44,299
Total liabilities and equity	113,657	114,722	116,546	120,502	125,142

Source: Company, KBVS Research

Exhibit 9: Cash flow

Year End Dec (IDR bn)	2022A	2023A	2024F	2025F	2026F
Net profit	4,723	4,506	4,809	5,904	6,612
Depreciation & amortization	13,703	14,621	15,133	15,724	16,361
Changes in working capital	5,124	(937)	1,420	(55)	(908)
CF from operating activities	23,551	18,191	21,362	21,573	22,065
Investment in fixed assets	(37,370)	(18,300)	(17,051)	(19,573)	(19,506)
Others	(19,410)	(590)	71	(102)	(118)
CF from investing activities	(56,780)	(18,890)	(16,980)	(19,674)	(19,624)
Dividends paid	(2,000)	(2,062)	(1,924)	(2,361)	(2,645)
Debt raised/ repaid	8,828	(6,648)	(2,516)	(300)	(604)
Others	30,119	3,028	(1,287)	(1,995)	(1,949)
CF from financing activities	38,948	(3,620)	(3,803)	(2,295)	(2,553)
Change in cash flow	5,719	(4,318)	580	(397)	(112)
Cash and cash equivalents, beginning	3,789	9,508	5,190	5,769	5,372
Cash and cash equivalents, ending	9,508	5,190	5,769	5,372	5,260

Source: Company, KBVS Research

Exhibit 10: Ratio analysis

Year End Dec	2022A	2023A	2024F	2025F	2026F
Operating profit margin (%)	22.7	20.4	19.9	21.4	22.0
EBITDA margin (%)	41.6	46.7	47.9	48.8	49.1
Net profit margin (%)	10.1	8.8	8.8	10.3	10.9
ROAA (%)	5.3	3.9	4.2	5.0	5.4
ROAE (%)	6.3	3.8	3.7	4.2	4.2
ROCE (%)	6.1	5.6	5.8	6.9	7.4
Debt/ Equity (x)	2.0	1.8	1.5	1.4	1.3
Net debt/Equity (x)	1.6	1.6	1.4	1.2	1.1
Net debt/ EBITDA (x)	2.4	2.0	1.8	1.6	1.6
Interest coverage (x)	4.5	5.1	5.7	6.1	6.5
EPS (IDR)	585.9	559.0	596.5	732.3	820.1
BV/Share (IDR)	3,890.9	4,181.2	4,570.0	5,006.0	5,494.8

Source: Company, KBVS Research

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Head Office

Sahid Sudirman Center 41st Floor Unit A-C
 Jalan Jenderal Sudirman No. 86 Kelurahan Karet Tengsin,
 Kecamatan Tanah Abang, Jakarta Pusat 10220, Indonesia
 T. +62 21 – 250 98 300
 F. +62 21 – 255 33 778

Branch Office

Jakarta – Sudirman

Sahid Sudirman Center 41st Floor Unit A-C
 Jalan Jenderal Sudirman No. 86 Karet Tengsin,
 Tanah Abang, Jakarta Pusat 10220
 T. (021) 25098300/301

Jakarta - Kelapa Gading

Rukan Plaza Pasifik
 Jl. Raya Boulevard Barat Blok A1 No. 10
 Jakarta Utara 11620
 T. (021) 29451577

Jakarta - Puri Indah

Rukan Grand Aries Niaga Blok E1 No. IV
 Jl. Taman Aries, Kembangan
 Jakarta Barat 11620
 T. (021) 22542390

Jakarta – Pluit

Jl. Pluit Putra Raya No. 2
 Jakarta Utara 14450
 T. (021) 6692119

Bandung

Jl. HOS Cokroaminoto No. 82
 Bandung 40171
 T. (022) 87255800

Malang

Jl. Pahlawan Trip No. 7
 Malang 65112
 T. (0341) 585888

Banjarmasin

Jl. Gatot Subroto No. 33
 Banjarmasin 70235
 T. (0511) - 3265918

Pekanbaru

Jl. Tuanku Tambusai, Komplek CNN
 Blok A No. 3 Pekanbaru 28291
 T. (0761) 839393

Palembang

Komplek PTC Mall Blok I No. 7
 Jl. R. Sukanto
 Palembang 30114
 T. (0711) 5700281

Surabaya

Pakuwon Center Lt 21
 Jl. Embong Malang No.1
 Surabaya 60261
 T. (031) 2955788

Padang

Jl. Kampung Nias II No. 10,
 Padang 25211
 T. (0751) 8955747

Yogyakarta

Jl. Magelang KM 5.5 No. 75
 Yogyakarta 55000
 T. (0274) 623111

Semarang

Candi Plaza Building Lt. Dasar
 Jl. Sultan Agung No. 90-90A
 Semarang 50252
 T. (024) 8501122

Makassar

Komplek RUKO Citraland City Losari
 Business Park, Blok B2 No. 09
 Jl. Citraland Boulevard Makassar 90111
 T. (0241) 16000818

Medan

Komplek Jati Junction No. P5-5A
 Jl. Perintis Kemerdekaan
 Medan 20218
 T. (061) 88816222

Denpasar

Jl. Teuku Umar No. 177
 Komplek Ibis Styles Hotel
 Denpasar Bali 80114
 T. (0361) 225229

Investment Gallery

Jakarta

Citra Garden 6 Ruko Sixth Avenue
 Blok J.1 A/18, Cengkareng
 Jakarta Barat 11820
 T. (021) 522392181

Semarang

Jl. MT Haryono 637
 Semarang 50242
 T. (024) 8415195

Salatiga

Jl. Diponegoro No. 68
 Salatiga 50711
 T. (0298) 313007

Solo

Jl. Ronggowarsito No. 34
 Surakarta 57118
 T. (0271) 6726306