

Unlocking continuous network improvements

4 July 2024



ISAT's 1Q24 performances largely met our/consensus expectations, arriving within a range of 24.4% to 26.9%. 1Q24 strong EBITDA performance (+22.1% yoy; stable margin) was driven by subscriber growth, which led to increased data usage despite a rise cost of services. Lower marketing and G&A expenses helped offset this increase. ARPU recorded at IDR37.5k/subs in 1Q24, on track to achieve the targeted ARPU of IDR40k/subs, which was also coupled with stabilized data yield. Maintain BUY rating with TP at IDR12,000/ share, implying +0.2sd 7-yrs historical EV/EBITDA of 4.0x.

ISAT IJ
BUY

Sector	Telecomm.
Price at 03 July 2024 (IDR)	10,475
Price target (IDR)	12,000
Upside/Downside (%)	14.6

1Q24 EBITDA in-line with forecasts, margin steady at 47.0%

ISAT's 1Q24 EBITDA was IDR6.51 tn, marking a 22.1% yoy/0.6% qoq increase. This was supported by 0.8% qoq lower total opex at IDR11.10 tn driven by the company's cost-optimization and normalization costs following the completion of IOH network integration. A 3.4% qoq increase in the cost of services was largely offset by a 16.8% and 14.9% decrease in marketing and G&A expenses, respectively, resulting in a stable EBITDA margin of 47.0%. 1Q24 core net profit slipped by 6.3% qoq, but still soared by 339.5% yoy to IDR1.26 tn, also largely in-line with ours and consensus' at ~24%. ISAT's solid revenue growth is driven by several key operational improvements. Notably, ARPU has reached IDR37.5 k per subs and is on track to meet their target of IDR40k at this year. Additionally, data yield has stabilized at IDR2.8/MB in 1Q24, indicating a more sustainable market approach. It is worth noting that ISAT's subs increased by 2.1% qoq/2.4% yoy to 100.9 mn subs, following the continued network expansion as well as network quality improvement post-merger.

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.

Network upgrades & targeted subs acquisition drive ARPU, Aiming for 8-10% HBB market shares

Compared to regional neighbors like Malaysia and Thailand, Indonesia has a lower ARPU and data usage, sitting at USD2.70/subs, significantly lower than Malaysia's USD16.20 and Thailand's USD6.10. Meanwhile, Indonesia's data consumption for mobile data per month averages 11.8GB, far behind Malaysia's 26.6GB and Thailand's 24.0GB. This suggests significant growth potential for Indonesia's telco market. ISAT projects its EBITDA margin to approach 50% for FY24, with revenue growth anticipated to surpass the markets, driven by ARPU increase. Its target ARPU of IDR40k is achievable due to network improvements and competitive data packages among the big three, potentially reducing subs churn. Through network upgrades and subs acquisition strategies, ISAT aims to capture 8-10% share in HBB markets by 2026, from its current 3%. Its recent acquisition of 327.5k MNC Play subs boosts its Indosat HiFi subs base to 339.4k. Following Telkom's lead, ISAT is also targeting B2B customers by offering AI-powered cloud solutions, through partnerships with Nvidia and Google. This expands ISAT's revenue stream by catering to businesses' growing need for AI integration. Furthermore, ISAT is expanding its FTTH network, offering standalone or bundled home internet, TV cable, and mobile packages. To strengthen FTTH, ISAT partnered with Asianet's extensive fiber networks. This strategic action is expected to drive subs growth, increase FTTH revenue, and improve cost efficiency. We estimate ISAT's FY24 ARPU to reach IDR39.2k (up from FY22's IDR36.9k). Additionally, EBITDA margin is expected to rise to 47.9% (up from 46.7% in FY23).

Market cap (IDR bn)	84,449
Shares outstanding (mn)	8,062
52-week range (IDR)	8,350-12,250
3M average daily vol. ('000)	3,802
3M average daily val. (IDR mn)	41,191

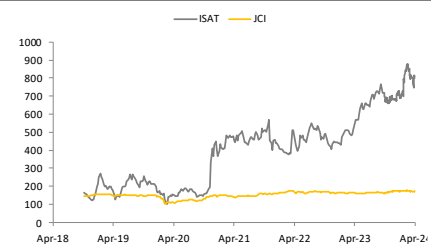
Shareholders (%)

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

Maintained FY24 revenue forecast

Following inline 1Q24 results that met our/consensus expectations, we maintained our FY24 revenue forecast at IDR54.45 tn, reflecting 6.3% yoy growth. Meanwhile EBITDA is projected at IDR26.07 tn, translating to an 8.9% YoY growth from IDR 23.94 trillion in FY23. On bottom line, our FY24F net profit estimates increase by 6.7% YoY to IDR4.81 tn with a stable net margin at 8.8%.

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	1.2	-4.8	15.6

BUY reiterated, subs growth impresses

Maintain our BUY call with a target price of IDR12,000, based on 4.0x 2024F EV/EBITDA, which is at +0.2SD of 7yrs EV/EBITDA mean. We highlight a number of upside risks to our call including 1) better cost structure and 2) entry to FMC market. Nevertheless, risks to our call included higher intensity of competition in the cellular business.

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)	19,469	23,938	26,069	28,085	29,793
Net profit (IDR)	4,723	4,506	4,809	5,904	6,612
Normalized net profit (IDR)	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
ROA	5.3	3.9	4.2	5.0	5.4
ROE	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

Source: Company, KBVS Research

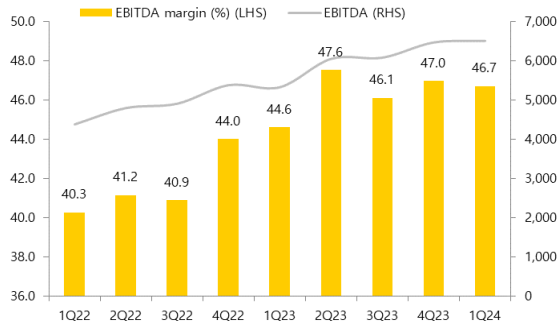
Exhibit 2: Financial Summary

ISAT's 1Q24 results (IDR bn)

	1Q24	1Q23	YoY (%)	4Q23	QoQ (%)	2024F	% to '24F	Cons'	% of Cons'
Revenue	13,835	11,945	15.8	13,766	0.5	54,451	25.4	55,025	25.1
Cellular & Data	11,657	10,258	13.6	11,576	0.7				
Data	10,924	9,588	13.9	10,976	(0.5)				
Voice & SMS	239	275	(13.3)	276	(13.7)				
Others	1	1	2.5	920	(99.9)				
Discount	(760)	(829)	(8.3)	(596)	27.5				
MIDI	1,971	1,455	35.5	1,935	1.9				
Fixed telecom.	207	232	(10.7)	255	(18.9)				
Expenses/Income	(11,069)	(9,586)	15.5	(10,405)	6.4				
EBIT	2,766	2,359	17.2	3,361	(17.7)				
EBITDA	6,509	5,329	22.1	6,471	0.6	26,069	25.0	26,680	24.4
Other income (exp.)	(997)	(1,202)	(17.0)	(1,032)	(3.3)				
Pre-tax income	1,769	1,157	52.9	1,790	(1.2)				
Taxes	(377)	(163)	131.0	(540)	(30.1)				
Reported net profit	1,295	929	39.4	1,719	(24.7)	4,809	26.9	5,059	25.6
Normalized net profit	1,262	287	339.5	1,346	(6.3)				
Margins (%)									
EBIT Margin	20.0	19.8		24.4					
EBITDA margin	47.0	44.6		47.0					
Net Margin	9.4	7.8		12.5					
Operational metrics									
# of subs	100,900	98,500	2.4	98,800	2.1				
Blended ARPU (IDR/sub)	37,500	32,900	14.0	38,500	(2.6)				
Data traffic (in PB)	3,858,000	3,456,668	11.6	3,716,000	3.8				
Avg. data usage/ sub	12.7	11.7	9.0	12.5	1.7				
Data yields (IDR/ MB)	2.8	2.8	2.1	3.0	(4.1)				

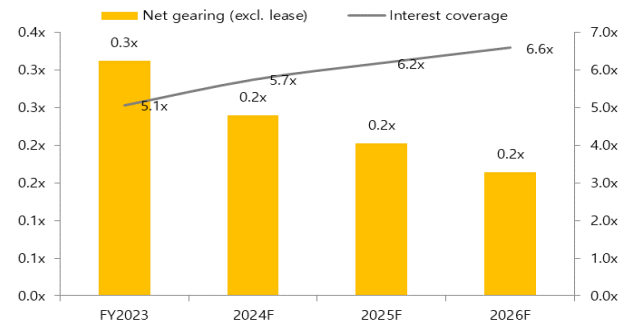
Source: Company, Bloomberg, KBVS Research

Exhibit 3: ISAT's EBITDA margin



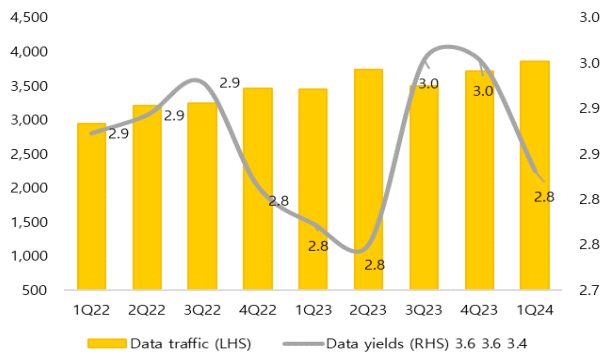
Source: Company, KBVS Research

Exhibit 4: Leverage metrics



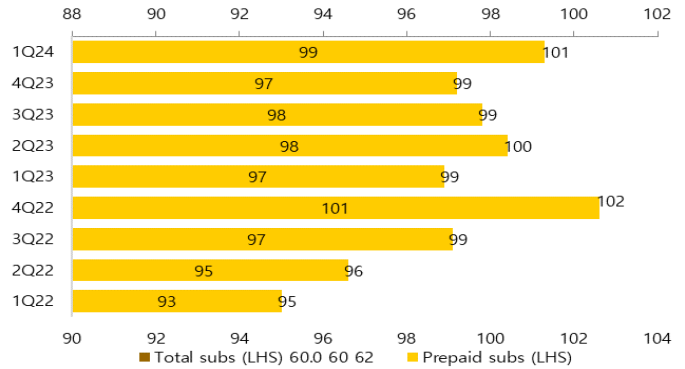
Source: Company, KBVS Research

Exhibit 5: Data traffic and yields qoq



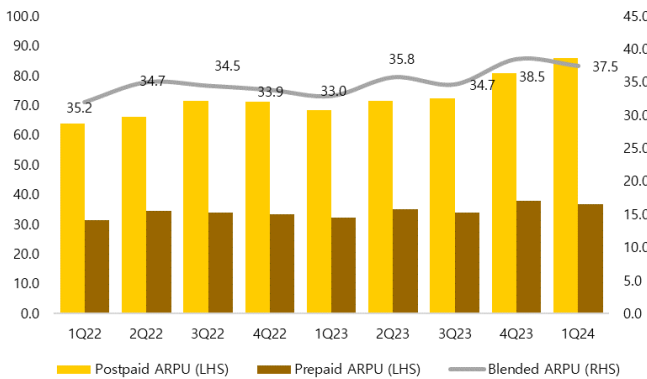
Source: Company, KBVS Research

Exhibit 6: Number of subscribers



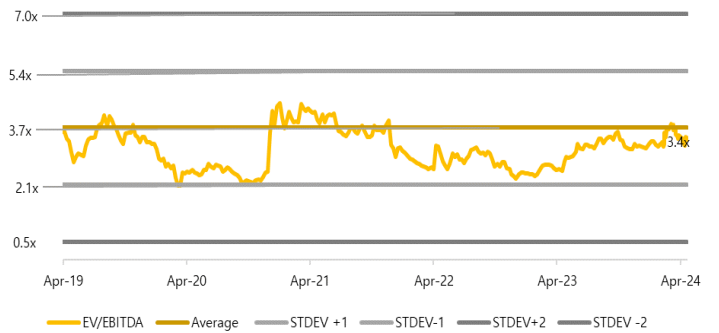
Source: Company, KBVS Research

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	2024F	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/ cost	(4,227)	(4,394)	(4,328)	311	182
Other income/ expenses	172	(103)	0	0	0
Pretax profit	6,536	5,932	6,534	8,021	8,983
Income tax	(1,166)	(1,156)	(1,307)	(1,604)	(1,797)
Net profit	4,723	4,506	4,809	5,904	6,612
Normalized net profit	1,459	3,561	4,809	5,904	6,612

Source: Company, KBVS Research

Exhibit 10: Balance sheet

Year End Dec (IDR bn)	2022A	2023A	2024F	2024F	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 current assets	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
Shareholder 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 11: Cash flow

Year End Dec (IDR bn)	2022A	2023A	2024F	2024F	2026F
Net profit	4,723	4,506	4,809	5,904	6,612
Depreciation	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 equivalent, beginning	3,789	9,508	5,190	5,769	5,372
Cash and cash equivalent, ending	9,508	5,190	5,769	5,372	5,260

Source: Company, KBVS Research

Exhibit 12: Ratio analysis

Year End Dec	2022A	2023A	2024F	2024F	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
ROA	5.3	3.9	4.2	5.0	5.4
ROE	6.3	3.8	3.7	4.2	4.2
ROCE	6.1	5.6	5.8	6.9	7.4
ROIC	14.2%	13.1%	13.7%	14.7%	
Debt/Equity	2.0	1.8	1.5	1.4	1.3
Net debt/Equity	1.6	1.6	1.4	1.2	1.1
Net debt/EBITDA	2.4	2.0	1.8	1.6	1.6
Interest coverage (x)	4.5	5.1	5.7	6.1	6.5
EPS (Rp)	585.9	559.0	596.5	732.3	820.1
BV/Share (Rp)	3,890.9	4,181.2	4,570.0	5,006.0	5,494.8

Source: Company, KBVS Research

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