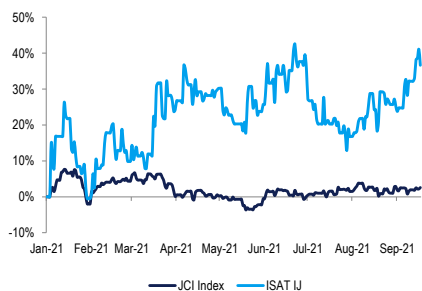


Stock Data

Target price	Rp8,100
Prior TP	Rp8,100
Current price	Rp6,900
Upside/downside	+17%
Shares outstanding (mn)	5,434
Market cap (Rp bn)	37,494
Free float	21%
Avg. 6m daily T/O (Rp bn)	27

Price Performance

	3M	6M	12M
Absolute	5.3.%	4.5%	22.39%
Relative to JCI	4.3%	7.9%	202.2%
52w low/high (Rp)	1,930 – 7,200		



Major Shareholders

Ooredoo Asia	65.0%
Republic of Indonesia	14.3%

Hans Tantio

PT Indo Premier Sekuritas
hans.tantio@ipc.do.id
+62 21 5088 7168 ext. 719

Our takeaways on the merger between ISAT and Hutch

- Ooredoo and CK Hutchison have agreed to merge its Indonesian subsidiaries i.e. Indosat and Hutchison Tri Indonesia.
- Buyback shall be offered at Rp5.25k/share while maximum TO price (if any due to any change in regulation) will be at c.Rp6.2k, in our opinion.
- Maintain Buy on the back of potential synergy (substantial costs/capex savings) and market positioning. Special dividend is another catalyst.

Merger is expected to be completed by the end of this year

The proposed merger between ISAT and Hutch is expected to be completed by end of FY21, pending government and EGMS approval. Hutchison Tri Indonesia (H3I) will be dissolved and ISAT shall be the surviving entity under the new name of Indosat Ooredoo Hutchison. The merged entity will be the second largest operator in Indonesia with annual revenue of c.US\$3bn (c.Rp43.2tr) and c.US\$1.3bn EBITDA (c.Rp18.8tr) i.e. 43.5% EBITDA margin. Based on our analysis, the pro-forma of merged entity shall result in 41/35% additional revenue/EBITDA from our standalone ISAT FY21F estimates. In addition, it also expects costs and capex savings at c.US\$300-400mn to be realized over 3-5 years.

Buyback price at Rp5.25k while max TO price (if any) is at c.Rp6.2k

Under the OJK regulation, Ooredoo Hutchison Asia shall conduct the buyback for eligible dissenting ISAT shareholders at Rp5,247/share (IFA price). The merger based on our discussion shall not trigger MTO, but if MTO is necessary (in the case of change in regulations), CK Hutchison estimate the possible funding required shall not exceed Rp6.2tr (for CK Hutchison portion) and with the assumption of previous H3I minority shareholder will not participate in the tender offer; this implies the max MTO price is capped at Rp13k/share. However, based on the share swap and cash transaction done to increase CK Hutchison's ownership in ISAT. We believe this transaction implies CK Hutchison paying US\$387mn in cash for additional 11% ownership in ISAT translating to Rp6.2k/share (USD/IDR:Rp14.2k) valuation, which we believe shall be the max MTO price as it reflects the exit price of Ooredoo.

Maintain Buy amid future synergy and special dividend

We maintain our forecast and TP of Rp8,100 (WACC: 12.9%) for now. Special dividend i.e. Rp1,100/share or 16% yield is another catalyst. Main risk will be lower than expected dividend and unexpected merger cancellation.

Financial Summary (Rp bn)	2019A	2020A	2021F	2022F	2023F
Revenue	26,118	27,926	30,712	33,710	35,256
EBITDA	9,856	11,433	13,974	15,170	16,218
EBITDA growth	51.6%	16.0%	22.2%	8.6%	6.9%
Net profit	1,569	-717	4,848	828	1,466
EPS growth	-165.3%	-145.7%	-776.4%	-82.9%	77.1%
ROE	13.1%	-5.8%	33.9%	4.8%	8.0%
PER (x)	23.7	-51.9	7.7	45.0	25.4
EV/EBITDA (x)	6.2	5.5	4.0	3.4	3.0
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Forecast change			N/A	N/A	N/A
IPS vs. consensus			203%	94%	127%

Source: Company, Indo Premier

Share price closing as of: 17 September 2021

Details on the transaction

Ooredoo Group currently has 65% ownership in ISAT through Ooredoo Asia. The merger between ISAT and H3I will be done through rights issue i.e. issuance of 2.6bn new shares with 32.6% dilution (CK Hutchison receiving 21.8% ownership and Tiga Telekomunikasi Indonesia (TTI) receiving 10.8% ownership in ISAT). Concurrent with the merger, CK Hutchison will acquire 50% ownership in Ooredoo Hutchison Asia (renamed from Ooredoo Asia) by exchanging its 21.8% ownership in ISAT for 33.3% in Ooredoo Hutchison Asia and acquire 16.7% additional stake for US\$387mn cash consideration. In term of ISAT ownership post-merger: Ooredoo Hutchison Asia shall be the controlling entity with 65.6% ownership, followed by TTI/government/public with 10.8/9.6/14% respectively. Vikram Sinha will appointed as CEO (previously COO of ISAT) and Nicky Lee as CFO (previously CFO of H3I).

Fig. 1: Implied merged company share price

Ownership now - Indosat	
Ooredoo Asia	65%
Indonesia Government	14.29%
Public	20.71%
Total	100%

Ownership After Merger - Indosat Ooredoo Hutchison	
Ooredoo Asia	43.8%
Indonesia Government	9.6%
Public	14.0%
CK Hutchison (a)	21.8%
PT Tiga Telekomunikasi Indonesia	10.8%
Total	100%

Ownership After Share Swap and Cash Purchase - Indosat Ooredoo Hutchison	
Ooredoo Hutchison Asia (b)	65.6%
Indonesia Government	9.6%
PT Tiga Telekomunikasi Indonesia	10.8%
Public	14.0%
Total	100.0%

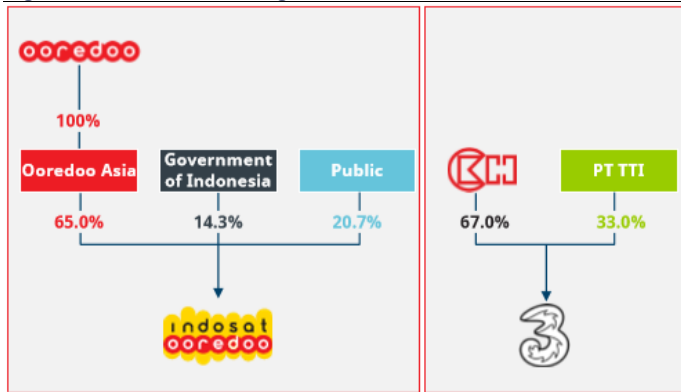
To increase CK Hutchison ownership in Indosat Ooredoo Hutchison	
Swap (a) for 33.3% of (b)	No cash
Purchase 16.7% of (b) for US\$387mn	Cash

This transaction implies CK Hutchison paying US\$387mn in cash for additional 11% ownership in Indosat Ooredoo Hutchison amid its ownership in Indosat Ooredoo Hutchison shall increase from 21.8% to 32.8%.

Based on this scenario calculation	
Shares outstanding (bn) - pre-merger	5.43
Shares outstanding (bn) - post-merger	8.06
USD/IDR	14,227
Cash transaction value (US\$m)	387
Implied 11% ownership valuation (Rp/share)	6,208

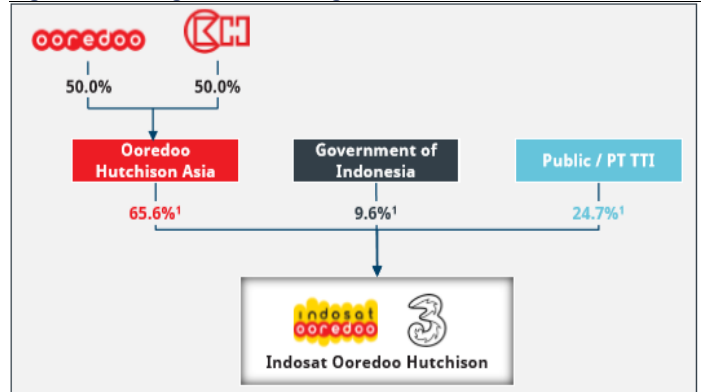
Source: Company, Indo Premier

Fig. 2: Current shareholding structure



Source: Company, Indo Premier

Fig. 3: Post-merger shareholding structure



Source: Company, Indo Premier

Fig. 4: DCF valuation

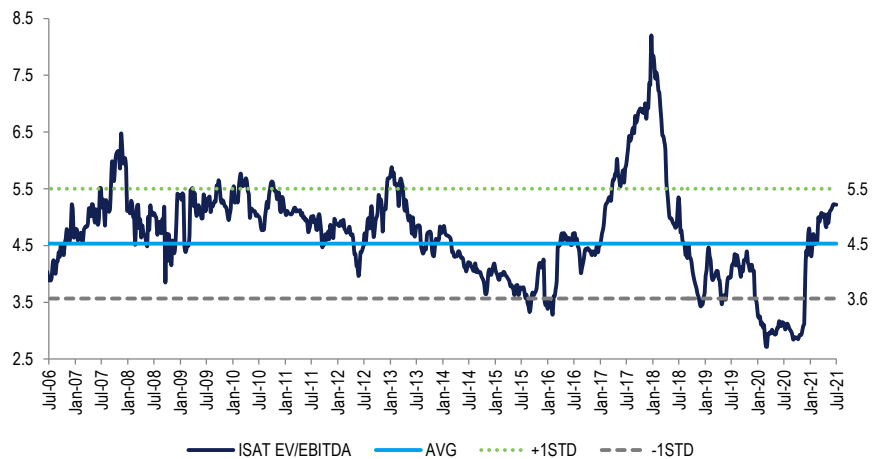
Indosat DCF Model	2020A	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Ebit	1,422	2,879	3,623	4,375	5,183	5,922	7,210	7,968	9,285	9,758	10,036
Less: Cash Tax	-31	-1,397	-236	-397	-616	-840	-1,279	-1,601	-2,099	-2,403	-2,673
NOPLAT	1,391	1,482	3,387	3,978	4,567	5,081	5,931	6,368	7,186	7,355	7,362
Add: Depreciation	10,011	11,095	11,547	11,843	12,490	13,189	13,957	14,803	14,609	15,560	16,605
Less: Working Capital	347	-202	-186	-98	-199	-196	-243	-217	-142	-131	-127
Less: Capex	-12,881	-7,986	-8,385	-8,805	-9,245	-9,984	-10,983	-12,081	-13,289	-14,618	-16,080
Free Cash Flow	-1,131	4,389	6,362	6,918	7,613	8,090	8,663	8,873	8,365	8,165	7,761

DCF	Now
Perpetual growth (%)	3.0%
Terminal value	23,861
NPV of DCF	38,924
Net debt	(18,557)
Equity value	44,228
Target price	8,100

WACC assumptions	
Cost of equity	14.4
After tax cost of debt	7.1
Risk free rate	6.0
Beta	1.2
Equity risk premium	7.0
WACC	12.9%

Source: Company, Indo Premier

Fig. 5: EV/EBITDA band



Source: Company, Indo Premier, Bloomberg

Income Statement (Rp bn)	2019A	2020A	2021F	2022F	2023F
Net revenue	26,118	27,926	30,712	33,710	35,256
Cost of sales	0	0	0	0	0
Gross profit	26,118	27,926	30,712	33,710	35,256
SG&A Expenses	(25,831)	(26,504)	(27,834)	(30,088)	(30,881)
Operating profit	286	1,422	2,879	3,623	4,375
Net interest	(2,679)	(2,854)	(2,749)	(2,586)	(2,390)
Forex gain (loss)	75	(50)	0	0	0
Others	3,905	882	6,221	141	0
Pre-tax income	1,587	(600)	6,351	1,178	1,986
Income tax	43	(31)	(1,397)	(236)	(397)
Minority interest	(61)	(87)	(106)	(115)	(123)
Net income	1,569	(717)	4,848	828	1,466

Balance Sheet (Rp bn)	2019A	2020A	2021F	2022F	2023F
Cash & equivalent	5,811	1,782	7,610	11,172	14,467
Receivable	3,038	2,589	2,848	3,126	3,269
Other current assets	3,596	5,223	5,279	5,336	5,391
Total current assets	12,445	9,595	15,737	19,633	23,127
Fixed assets	42,753	46,522	43,413	40,251	37,213
Goodwill	1,667	1,720	1,703	1,686	1,669
Total non-current assets	5,948	4,942	4,978	5,014	5,051
Total assets	62,813	62,779	65,830	66,584	67,060
Payable	607	657	689	756	774
Other payables	13,993	17,347	16,985	16,648	16,333
Current portion of LT loans	7,529	4,654	1,000	900	800
Total current liab.	22,129	22,658	18,674	18,304	17,907
Long term loans	22,580	23,167	25,167	25,267	24,467
Other LT liab.	4,397	4,041	4,121	4,204	4,288
Total liabilities	49,106	49,865	47,962	47,774	46,661
Equity	2,580	2,443	2,443	2,443	2,443
Retained earnings	10,144	9,427	14,275	15,103	16,569
Total SHE + minority int.	13,707	12,913	17,867	18,810	20,398
Total liabilities & equity	62,813	62,779	65,830	66,584	67,060

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2019A	2020A	2021F	2022F	2023F
Net income	1,569	(717)	4,848	828	1,466
Depr. & amortization	9,570	10,011	11,095	11,547	11,843
Changes in working capital	253	(488)	231	215	127
Others	(804)	2,241	(253)	(211)	(26)
Cash flow from operating	10,588	11,048	15,921	12,378	13,409
Capital expenditure	(12,560)	(12,881)	(7,986)	(8,385)	(8,805)
Others	3,677	5,918	0	0	0
Cash flow from investing	(8,883)	(6,963)	(7,986)	(8,385)	(8,805)
Loans	3,144	(8,177)	(2,107)	(431)	(1,309)
Equity	0	0	0	0	0
Dividends	0	0	0	0	0
Others	0	0	0	0	0
Cash flow from financing	3,144	(8,177)	(2,107)	(431)	(1,309)
Changes in cash	4,849	(4,092)	5,827	3,562	3,295

Key Ratios	2019A	2020A	2021F	2022F	2023F
Operating margin	1.10%	5.09%	9.37%	10.75%	12.41%
Pre-tax margin	6.08%	-2.15%	20.68%	3.49%	5.63%
Net margin	6.01%	-2.57%	15.79%	2.46%	4.16%
ROA	2.6%	-1.0%	7.5%	1.4%	2.4%
ROE	13.1%	-5.8%	33.9%	4.8%	8.0%
ROIC	0.8%	3.8%	7.9%	10.7%	14.0%
Acct. receivables TO (days)	42	34	34	34	34
Payable TO (days)	18	20	20	20	21
Debt to equity	236.6%	234.4%	156.5%	149.1%	132.9%
Interest coverage ratio (x)	0.1	0.5	1.0	1.3	1.6
Net gearing	191.0%	219.4%	111.0%	85.5%	56.8%

Source: Company, Indo Premier

INVESTMENT RATINGS

BUY	: Expected total return of 10% or more within a 12-month period
HOLD	: Expected total return between -10% and 10% within a 12-month period
SELL	: Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

DISCLAIMERS

This research is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendations contained in this document do not have any regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities. PT Indo Premier Sekuritas or its affiliates may seek or will seek investment banking or other business relationships with the companies in this report.