

Indosat Ooredoo Hutchison

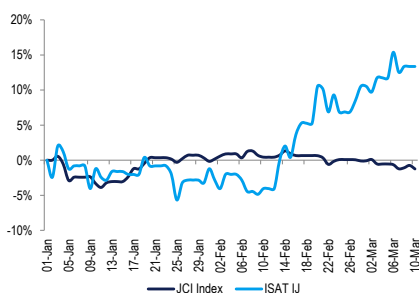
BUY (unchanged)

Company Update | Telecommunications | ISAT IJ | 13 March 2023
Stock Data

Target price	Rp9,200
Prior TP	Rp7,000
Current price	Rp7,000
Upside/downside	+31%
Shares outstanding (mn)	8,063
Market cap (Rp bn)	56,439
Free float	16%
Avg. 6m daily T/O (Rp bn)	35

Price Performance

	3M	6M	12M
Absolute	20.7%	-2.8%	30.8%
Relative to JCI	21.3%	3.7%	33.1%
52w low/high (Rp)	5,150 – 7,525		


Major Shareholders

Ooredoo Asia	65.6%
Perusahaan Pengelola Aset	9.6%
Tiga Telekomunikasi Indonesia	8.3%

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Higher top-line growth and faster synergies to drive valuation rerating

- IOH is likely to see above-industry top-line growth of c.7% in FY23-24F (vs. industry's c.5%), driven by network expansion and price hikes.
- US\$400mn in synergies to be realized 2-yr ahead of the initial guidance.
- We continue to like IOH's ability to grow its top-line and its scaled-up fixed cost base post-merger. Reiterate Buy with a higher TP of Rp9,200.

Network expansion and price hikes to drive top-line; a behavioral shift towards reload packages opens up opportunities for further price hikes

We expect IOH to see above-industry revenue growth of c.7% in FY23-24F on coverage expansion and price hikes. First, with 30% spectrum share (vs. Tsel's 37%) and modest network utilization, we expect IOH to continue to expand into areas where its network is under-utilized, which should support its market share growth. Second, given minimal impact on churn rates and a behavioral shift towards reload packages post-starter packs price hikes in Jan23, we see a solid momentum for further hikes ahead of the Eid al-Fitr, especially considering its improved network quality and a healthy competitive landscape. We expect 7% yoy ARPU growth in FY23F (vs. -2% yoy in FY22).

Integration progress is tracking ahead of expectations

IOH is on-track to shutdown c.17k duplicate sites by end-1Q23. Management now guides for US\$400mn in synergies (top-end of its initial guidance) by 2025, which is two years faster-than-expected. As such, we now expect EBITDA margin to improve to 45% this year (vs. 42% in FY22).

Valuation to re-rate on better earnings visibility

IOH seems unlikely to book another substantial one-off cost items this year, while interest burden should also remain in check post-tower sales (Rp2.1tr proceeds), especially considering that net debt/EBITDA has fallen to 2.4x (vs. 2.8x post-merger). Given better earnings visibility, its share price has jumped +13% YTD. Still, we believe that at 4.6x FY23F EV/EBITDA currently (only slightly above its 10-yr mean, and vs. global avg of 6.2x) valuation is still undemanding, in view of its solid top-line growth trajectory (3-yr CAGR of 7% vs. ASEAN average of 5%) and EBITDA margin expansion (+326bps yoy).

Maintain BUY, with a higher TP of Rp9,200

We raise our FY23-24F EBITDA/net profit by 6-7%/14-31%, as we factor-in FY22 data point, as well as higher mobile revenue and cost synergies. We reaffirm BUY on ISAT with a higher blended valuation-based (DCF and EV/EBITDA multiple) 12-month TP of Rp9,200 (from Rp7,000 previously). Risks are slower-than-expected synergy realization and competition.

Financial Summary (Rp bn)	2021A	2022A	2023F	2024F	2025F
Revenue	31,388	46,752	50,235	53,513	56,719
EBITDA	13,886	19,469	22,558	24,627	26,566
EBITDA growth	21.4%	40.2%	15.9%	9.2%	7.9%
Net profit	6,751	4,723	2,425	3,741	5,621
EPS (Rp)	837	586	301	464	697
EPS growth	N/M	-30.0%	-48.7%	54.3%	50.2%
ROE	65.5%	14.9%	7.1%	10.2%	14.0%
PER (x)	8.4	11.9	23.3	15.1	10.0
EV/EBITDA (x)	6.2	5.3	4.5	3.9	3.4
Dividend yield	0.0%	0.0%	0.0%	2.0%	4.0%
Forecast change			31%	14%	N/A
IPS vs. consensus			91%	104%	117%

Source: Company, Indo Premier

Share price closing as of: 10 March 2023

Fig.1: Summary of forecast changes

ISAT (Rp bn)	Previous			Current			Changes (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	49,513	52,373	N/A	50,235	53,513	56,719	1%	2%	N/A
EBITDA	21,077	23,164	N/A	22,558	24,627	26,566	7%	6%	N/A
Net profit	1,844	3,277	N/A	2,425	3,741	5,621	31%	14%	N/A

Source: Company, Indo Premier

Income Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net revenue	31,388	46,752	50,235	53,513	56,719
Cost of sales	-	-	-	-	-
Gross profit	31,388	46,752	50,235	53,513	56,719
SG&A Expenses	(27,707)	(40,987)	(42,298)	(44,053)	(45,283)
Operating profit	3,682	5,766	7,937	9,460	11,436
EBITDA	13,886	19,469	22,558	24,627	26,566
Net interest	(2,850)	(4,227)	(4,178)	(4,008)	(3,587)
Forex gain (loss)	(10)	167	50	54	57
Others	6,685	4,831	100	107	113
Pre-tax income	7,507	6,536	3,910	5,613	8,019
Income tax	(647)	(1,166)	(782)	(1,123)	(1,604)
Minority interest	(109)	(647)	(703)	(749)	(794)
Net income	6,751	4,723	2,425	3,741	5,621

Balance Sheet (Rp bn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	3,789	9,508	8,568	8,998	9,128
Receivable	2,060	2,374	2,340	2,492	2,642
Other current assets	5,650	6,801	6,853	6,923	6,993
Total current assets	11,499	18,683	17,760	18,413	18,763
Fixed assets	45,515	69,070	67,589	63,804	60,696
Other non-current assets	6,383	26,127	27,433	28,805	30,245
Total non-current assets	51,898	95,197	95,022	92,608	90,941
Total assets	63,397	113,880	112,782	111,022	109,704
Payable	11,041	12,661	12,284	11,466	11,786
Other payables	6,869	11,838	11,897	11,956	12,016
Current portion of LT loans	10,748	11,375	15,828	14,737	13,210
Total current liab.	28,658	35,874	40,009	38,159	37,013
Long term loans	23,116	44,609	36,933	34,386	30,824
Other LT liab.	1,320	1,782	1,800	1,818	1,836
Total liabilities	53,094	82,265	78,742	74,363	69,673
Equity	2,477	18,916	18,916	18,916	18,916
Retained earnings	6,703	9,427	11,851	14,470	17,843
Minority interest	1,122	3,272	3,272	3,272	3,272
Total SHE + minority int.	10,303	31,615	34,040	36,659	40,031
Total liabilities & equity	63,397	113,880	112,782	111,022	109,704

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net income	6,751	4,723	2,425	3,741	5,621
Depr. & amortization	10,204	13,703	14,621	14,667	14,630
Changes in working capital	8	5,124	(336)	(981)	160
Others	(2,332)	(18,635)	(585)	(604)	(628)
Cash flow from operating	14,631	4,916	16,125	16,822	19,783
Capital expenditure	(9,051)	(37,080)	(12,961)	(10,703)	(11,344)
Others	(146)	(179)	(179)	(179)	(179)
Cash flow from investing	(9,197)	(37,258)	(13,140)	(10,882)	(11,523)
Loans	6,044	22,120	(3,222)	(3,639)	(5,088)
Equity	4	17,942	(703)	(749)	(794)
Dividends	-	-	-	(1,122)	(2,248)
Others	0	(0)	(0)	-	-
Cash flow from financing	6,048	40,062	(3,926)	(5,511)	(8,131)
Changes in cash	2,007	5,719	(940)	430	130

Key Ratios	2021A	2022A	2023F	2024F	2025F
Gross margin	100.0%	100.0%	100.0%	100.0%	100.0%
EBITDA margin	44.2%	41.6%	44.9%	46.0%	46.8%
Pre-tax margin	23.9%	14.0%	7.8%	10.5%	14.1%
Net margin	21.5%	10.1%	4.8%	7.0%	9.9%
ROA	10.6%	4.1%	2.1%	3.4%	5.1%
ROE	65.5%	14.9%	7.1%	10.2%	14.0%
ROIC	9.3%	9.7%	10.2%	12.2%	15.1%

Acct. receivables TO (days)	27	17	17	17	17
Acct. payables - other TO (days)	138	138	138	138	138

Net debt/EBITDA (inc. leases) (x)	2.2	2.4	2.0	1.6	1.3
Net debt/EBITDA (ex. leases) (x)	0.9	0.8	0.6	0.4	0.1
Interest coverage (x)	1.2	1.3	1.9	2.3	3.1

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

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