

Indosat Ooredoo Hutchison

BUY (unchanged)

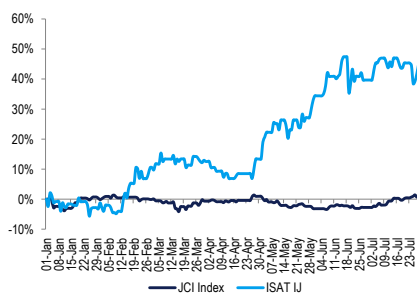
Company Update | Telecommunications | ISAT IJ | 28 July 2023

Stock Data

Target price	Rp10,400
Prior TP	Rp9,200
Current price	Rp8,975
Upside/downside	+16%
Shares outstanding (mn)	8,063
Market cap (Rp bn)	72,161
Free float	16%
Avg. 6m daily T/O (Rp bn)	76

Price Performance

	3M	6M	12M
Absolute	31.6%	49.8%	37.2%
Relative to JCI	32.3%	49.3%	38.0%
52w low/high (Rp)	5,375 – 9,100		



Major Shareholders

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

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2Q23 results: core profit/EBITDA beat on cost synergies and solid topline

- 1H23 EBITDA is ahead of our/cons estimates at Rp11.4tr (+24% yoy).
- Revenue reached Rp24.7tr (+10% yoy) in 1H23 and broadly in-line.
- ARPU improved to Rp36k, well on-track to reach its 1Q23 target of Rp40k, as we see scope for further monetization ahead. Reiterate Buy.

Core profit and EBITDA came in ahead of expectations

ISAT posted 1H23 net profit of Rp1.9tr (-42% yoy), while core profit reached Rp1.3tr (+754% yoy), forming 53% of our FY estimates – a beat. 2Q23 core profit came in at Rp986bn (+839% yoy/+244% qoq). Meanwhile, 1H23 EBITDA rose to Rp11.4tr (+24% yoy) – ahead of our/cons estimates (51% of our/cons estimates). EBITDA margin expanded to 46.1% (+539bps yoy) on cost synergies and solid topline. 2Q23 EBITDA reached Rp6.1tr (+26% yoy/+14% qoq) which translates to EBITDA margin of 47.6% (+639bps yoy/+294bps qoq). Notably, cash cost declined by -3% yoy, largely driven by lower personnel, marketing, and O&M expenses (-7%/-23%/-1% yoy).

Broadly in-line revenue, supported by higher ARPU and subs add

Revenue came in at Rp24.7tr (+10% yoy) in 1H23 – broadly in-line at 49% of our/cons. 2Q23 revenue grew to Rp12.7tr (+9% yoy/+7% qoq), supported by higher ARPU and subs add. Cellular revenue rose by +10% yoy/+7% qoq in the quarter, mainly driven by higher data revenue (+11% yoy/+7% qoq), as legacy revenue continued to decline (-22% yoy/+2% qoq). Meanwhile, MIDF and fixed telecom revenue rose by +21% yoy/+7% qoq.

Higher ARPU on the back of uptrading and price hikes

ISAT's subs increased sequentially to 100mn in 2Q23 (vs. 98.5mn in 1Q23), partly supported by seasonality factors (Eid al-Fitr). ARPU also improved to Rp36k (vs. Rp35k/Rp33k in 2Q22/1Q23), likely driven by uptrading and price hikes. Data yield remained flat qoq at 2.8/MB (though still -5% yoy). Recall that ISAT increased its reload pack prices (Freedom Internet by 10-20% and Tri's Happy and AlwaysON by 5-10% through revamped offerings) at end-Apr23 and Jun23. The full impact from these hikes is likely to be more visible in 3Q23 onwards. We expect IOH to continue its monetization efforts in 2H23 amid benign competition and management's target of >Rp40k ARPU by 1Q24.

Maintain BUY, with higher TP of Rp10,400

We fine-tune our FY23-24F EBITDA by 5-6%, as we factor-in higher prices and subs growth, as well as lower cost base. Maintain BUY on ISAT with a higher blended valuation-based (DCF and EV/EBITDA multiple) TP of Rp10,400 (from Rp9,200 previously). Risks are sluggish synergy realization and competition.

Financial Summary (Rp bn)	2021A	2022A	2023F	2024F	2025F
Revenue	31,388	46,752	51,334	55,065	58,371
EBITDA	13,886	19,469	23,657	26,179	28,217
EBITDA growth	21.4%	40.2%	21.5%	10.7%	7.8%
Net profit	6,751	4,723	2,700	4,025	5,491
EPS (Rp)	837	586	335	499	681
EPS growth	-1041.9%	-30.0%	-42.8%	49.1%	36.4%
ROE	65.5%	14.9%	7.9%	10.7%	13.3%
PER (x)	10.7	15.3	26.7	17.9	13.1
EV/EBITDA (x)	8.8	6.3	5.2	4.7	4.3
Dividend yield	13.1%	2.8%	0.0%	1.1%	2.2%
Forecast change			11.3%	8.4%	-3.2%
IPS vs. consensus			91%	105%	111%

Source: Company, Indo Premier

Share price closing as of: 28 July 2023

Fig. 1: ISAT 2Q23 results

(Rp bn)	2Q23	2Q22	% YoY	1Q23	% QoQ	6M23	6M22	% YoY	IP FY23F	% of IP	% of Cons
Revenue	12,730	11,654	9.2%	11,945	6.6%	24,675	22,527	9.5%	50,235	49.1%	48.9%
Operating expenses	(10,213)	(10,257)	-0.4%	(10,320)	-1.0%	(20,533)	(20,060)	2.4%			
Operating profit	2,517	1,397	80.2%	1,625	54.8%	4,142	2,466	67.9%			
EBITDA	6,054	4,798	26.2%	5,329	13.6%	11,383	9,178	24.0%	22,558	50.5%	51.0%
Other income/(expense)	(1,253)	2,416	-151.9%	(468)	167.7%	(1,722)	1,509	-214.1%			
Pre-tax profit	1,263	3,813	-66.9%	1,157	9.1%	2,420	3,976	-39.1%			
Taxes	(213)	(410)	-48.0%	(163)	30.5%	(376)	(409)	-7.9%			
Net profit	979	3,132	-68.7%	929	5.4%	1,908	3,260	-41.5%	3,147	60.6%	64.5%
Core profit	986	105	839.0%	287	243.6%	1,273	149	754.4%	2,425	52.5%	
Margin (%)											
EBITDA margin	47.6%	41.2%	639	44.6%	294	46.1%	40.7%	539			
Net margin	7.7%	26.9%	(1,918)	7.8%	(8)	7.7%	14.5%	(674)			
Operational data											
Legacy revenue	281	360	-22.0%	275	2.0%	556	722	-22.9%			
Data revenue	10,287	9,295	10.7%	9,588	7.3%	19,875	17,765	11.9%			
Data traffic (PB)	3,109	3,212	-3.2%	3,457	-10.1%	6,565	6,160	6.6%			
Data yield (IDR/MB)	2.8	2.9	-5.0%	2.8	19.3%	3.0	2.9	5.0%			
Blended ARPU (Rp k/month)	35.8	35.0	2.3%	32.9	8.8%	34.3	33.5	2.4%			
Subscribers (mn people)	60.3	96.2	-37.3%	98.5	-38.8%	60.3	96.2	-37.3%			

Source: Company, Indo Premier

Fig. 2: Summary of forecast changes

ISAT (Rp bn)	Previous			Current			Changes (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	50,235	53,513	56,719	51,334	55,065	58,371	2.2	2.9	2.9
EBITDA	22,558	24,627	26,566	23,657	26,179	28,217	4.9	6.3	6.2
Net profit	2,425	3,712	5,673	2,700	4,025	5,491	11.3	8.4	-3.2

Source: Company, Indo Premier

Income Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net revenue	31,388	46,752	51,334	55,065	58,371
Cost of sales	-	-	-	-	-
Gross profit	31,388	46,752	51,334	55,065	58,371
SG&A Expenses	(27,707)	(40,987)	(42,312)	(44,597)	(46,359)
Operating profit	3,682	5,766	9,022	10,468	12,012
EBITDA	13,886	19,469	23,657	26,179	28,217
Net interest	(2,850)	(4,227)	(4,468)	(4,206)	(3,881)
Forex gain (loss)	(10)	167	(205)	(220)	(233)
Others	6,685	4,831	(180)	(193)	(204)
Pre-tax income	7,507	6,536	4,169	5,849	7,693
Income tax	(647)	(1,166)	(750)	(1,053)	(1,385)
Minority interest	(109)	(647)	(719)	(771)	(817)
Net income	6,751	4,723	2,700	4,025	5,491

Balance Sheet (Rp bn)	2021A	2022A	2023F	2024F	2025F
Cash & equivalent	3,789	9,508	8,564	10,358	12,184
Receivable	2,060	2,374	2,813	3,017	3,198
Other current assets	5,650	6,801	7,296	7,662	8,042
Total current assets	11,499	18,683	18,672	21,037	23,424
Fixed assets	45,515	69,070	67,858	64,340	61,487
Goodwill	6,383	26,127	27,433	28,805	30,245
Total non-current assets	51,898	95,197	95,291	93,144	91,732
Total assets	63,397	113,880	113,964	114,181	115,156
Payable	11,041	12,661	11,013	11,607	12,066
Other payables	6,869	11,838	11,246	10,684	10,149
Current portion of LT loans	10,748	11,375	16,677	15,763	14,908
Total current liab.	28,658	35,874	38,936	38,054	37,123
Long term loans	23,116	44,609	38,913	36,779	34,785
Other LT liab.	1,320	1,782	1,800	1,818	1,836
Total liabilities	53,094	82,265	79,649	76,651	73,745
Equity	2,477	18,916	18,916	18,916	18,916
Retained earnings	6,703	9,427	12,126	15,342	19,222
Minority interest	1,122	3,272	3,272	3,272	3,272
Total SHE + minority int.	10,303	31,615	34,315	37,530	41,411
Total liabilities & equity	63,397	113,880	113,964	114,181	115,156

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2021A	2022A	2023F	2024F	2025F
Net income	6,751	4,723	2,700	4,025	5,491
Depr. & amortization	10,204	13,703	14,635	14,711	14,706
Changes in working capital	8	5,124	(3,174)	(538)	(637)
Others	(2,332)	(18,635)	(570)	(583)	(605)
Cash flow from operating	14,631	4,916	13,591	17,615	18,955
Capital expenditure	(9,051)	(37,080)	(13,244)	(11,013)	(11,674)
Others	(146)	(179)	(179)	(179)	(179)
Cash flow from investing	(9,197)	(37,258)	(13,423)	(11,192)	(11,853)
Loans	6,044	22,120	(394)	(3,048)	(2,849)
Equity	4	17,942	(719)	(771)	(817)
Dividends	(9,475)	(2,000)	-	(810)	(1,610)
Others	-	(0)	0	-	-
Cash flow from financing	(3,427)	38,062	(1,112)	(4,629)	(5,276)
Changes in cash	2,007	5,719	(944)	1,794	1,826

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%	46.1%	47.5%	48.3%
Pre-tax margin	23.9%	14.0%	8.1%	10.6%	13.2%
Net margin	21.5%	10.1%	5.3%	7.3%	9.4%
ROA	10.6%	4.1%	2.4%	3.5%	4.8%
ROE	65.5%	14.9%	7.9%	10.7%	13.3%
ROIC	9.3%	9.7%	11.3%	13.0%	15.1%
Acct. receivables TO (days)	27	17	20	20	20
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	0.7	0.4	0.2
Interest coverage (x)	1.2	1.3	1.9	2.4	2.9

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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