

Indosat Ooredoo Hutchison

BUY (unchanged)

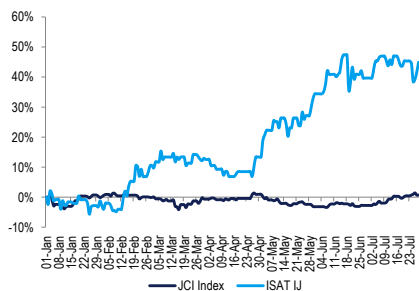
Company Update | Telecommunications | ISAT IJ | 30 October 2023

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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3Q23 results: core profit beat; in-line EBITDA and topline deliveries

- 9M23 EBITDA of Rp17.5tr (+24% yoy) met ours/consensus (at 74/75%).
- Revenue reached Rp37.5tr (+9% yoy) in 9M23, also in-line.
- ARPU declined qoq to Rp35.4k on seasonal factors, but management remains optimistic on reaching its 1H24 target of Rp40k. Reiterate Buy.

Core profit beat, but in-line EBITDA

ISAT posted 9M23 net profit of Rp2.8tr (-24% yoy), while core profit reached Rp2.2tr (+255% yoy), forming 82% of our FY estimates – a beat. 3Q23 core profit came in at Rp942bn (+98% yoy/-5% qoq). Meanwhile, 9M23 EBITDA rose to Rp17.5tr (+24% yoy) – in-line with our/cons estimates (74/75% of our/cons estimates). 9M23 EBITDA margin expanded to 46.6% (+583bps yoy) on cost synergies and solid topline. 3Q23 EBITDA reached Rp6.1tr (+24% yoy/+1% qoq), which translates to EBITDA margin of 47.6% (+668bps yoy/+2bps qoq). Notably, cash cost declined by -6% yoy, driven by lower personnel and O&M expenses (-24%/-5% yoy). Marketing cost, however, grew by +48% yoy, as the company is ramping up its presence in rural areas.

Solid revenue delivery, supported by price hikes

Revenue came in at Rp37.5tr (+9% yoy) in 9M23 – in-line at 73% of our/cons FY estimates, supported by price hikes. 3Q23 revenue grew to Rp12.8tr (+7% yoy/+1% qoq). Cellular revenue rose by +8% yoy/+1% qoq mainly driven by higher data revenue (+9% yoy/+1% qoq), as legacy revenue continued to decline (-24% yoy/-9% qoq). Meanwhile, MIDI and fixed telecom revenue rose by +6% yoy, but marginally declined by -1% qoq.

Subs and ARPU declined qoq on seasonality, but data yield improved

ISAT's subs declined sequentially to 99.4mn in 3Q23 (vs. 100mn in 2Q23) on seasonal factors (Eid al-Fitr). ARPU also decreased marginally qoq to Rp35.4k (vs. Rp34.5k/Rp35.8k in 3Q22/2Q23) due to seasonality but partly being offset by a combination of uptrading and price hikes. Notably, data yield (Rp3.0/MB; +1% yoy/+7% qoq) rose sequentially for the first time since 3Q18. Recall that ISAT increased the prices of Freedom by c.10-20% and c.1-29% in Apr and Aug23 and Tri's products by c.5-10% and c.3-36% in Jun and Jul23. We expect IOH to continue its monetization in the coming months amid benign competition and management's target of >Rp40k ARPU by 1H24.

Maintain BUY, with an unchanged TP of Rp10,400

Overall results came within our expectations. Maintain BUY with an unchanged blended valuation-based (DCF and EV/EBITDA multiple) TP of Rp10,400. Risks are sluggish synergy realization and competition.

Financial Summary (Rp bn)	2021A	2022A	2023F	2024F	2025F
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)	11.3	16.2	28.4	19.0	13.9
EV/EBITDA (x)	9.1	6.5	5.3	4.8	4.5
Dividend yield	12.4%	2.6%	0.0%	1.1%	2.1%
Forecast change			N/A	N/A	N/A
IPS vs. consensus			71%	86%	97%

Source: Company, Indo Premier

Share price closing as of: 30 October 2023

Fig. 1: ISAT 3Q23 results

(Rp bn)	3Q23	3Q22	% YoY	2Q23	% QoQ	9M23	9M22	% YoY	IP FY23F	% of IP	% of Cons
Revenue	12,788	12,004	6.5%	12,730	0.5%	37,462	34,531	8.5%	51,334	73.0%	73.9%
Operating expenses	(10,394)	(10,401)	-0.1%	(10,213)	1.8%	(30,927)	(30,461)	1.5%			
Operating profit	2,394	1,604	49.3%	2,517	-4.9%	6,536	4,070	60.6%			
EBITDA	6,084	4,909	23.9%	6,054	0.5%	17,467	14,087	24.0%	23,657	73.8%	75.0%
Other income/(expense)	(1,212)	(801)	51.2%	(1,253)	-3.3%	(2,933)	708	-514.3%			
Pre-tax profit	1,182	802	47.3%	1,263	-6.4%	3,602	4,778	-24.6%			
Taxes	(240)	(327)	-26.7%	(213)	12.5%	(616)	(736)	-16.3%			
Net profit	879	427	105.6%	979	-10.3%	2,787	3,688	-24.4%			73.2%
Core profit	942	475	98.3%	986	-4.5%	2,215	624	255.0%	2,700	82.0%	
Margin (%)											
EBITDA margin	47.6%	40.9%		47.6%		46.6%	40.8%				
Net margin	6.9%	3.6%		7.7%		7.4%	10.7%				
Operational data											
Legacy revenue	257	338		281		813	1,059				
Data revenue	10,356	9,497		10,287		30,231	27,261				
Data traffic (PB)	3,505	3,242		3,739		10,701	9,402				
Data yield (IDR/MB)	3.0	2.9		2.8		2.8	2.9				
Blended ARPU (Rp k/month)	35.4	34.5		35.8		34.3	33.5				
Subscribers (mn people)	99.4	98.7		100.0		99.4	98.7				

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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