

Indosat Ooredoo Hutchison

BUY (unchanged)

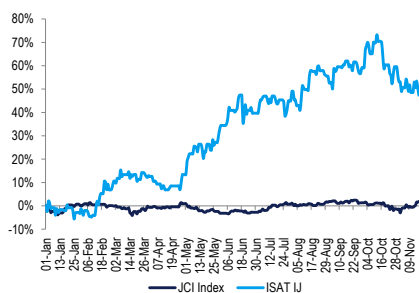
Company Update | Telecommunications | ISAT IJ | 17 November 2023

Stock Data

Target price	Rp10,400
Prior TP	Rp10,400
Current price	Rp9,100
Upside/downside	+14%
Shares outstanding (mn)	8,063
Market cap (Rp bn)	73,371
Free float	16%
Avg. 6m daily T/O (Rp bn)	36

Price Performance

	3M	6M	12M
Absolute	-6.7%	19.7%	44.4%
Relative to JCI	-7.8%	15.0%	45.4%
52w low/high (Rp)	5,375 – 10,700		



Major Shareholders

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

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Subscriber acquisition from MNC play is net accretive

- ISAT acquired 325k subs from MNC Play for Rp877bn, which implies transaction valuation of Rp2.7mn/sub.
- Asianet also concurrently acquired MNC Play's fiber assets for Rp2.4tr. A wholesale service agreement will likely be established.
- The impact from this transaction is generally positive for ISAT and the industry. We await further details on the transaction. Reiterate Buy.

ISAT acquired 325k FTTH subs from MNC Play

ISAT announced the signing of an agreement with PT MNC Kabel Mediacom (MNC Play) for the acquisition of MNC Play's B2C FTTH business for Rp877bn. As of 3Q22, MNC Play had 325k subscribers (4th largest in the country), which implies transaction valuation of Rp2.7mn/sub vs. Tsel-IndiHome at Rp6.1mn/sub. If we assume: 1) revenue of Rp1.1tr (3Q23 annualized revenue); and 2) EBITDA margin of 35% (vs. EBITDA margin of global fiberco: 30-40%; and IndiHome pre-carve out: 50%); we estimate transaction valuation of around 2.3x EV/EBITDA, lower than the implied EV/EBITDA valuation of IndiHome pre-carve out at 4.2x. MNC Play's implied ARPU is about Rp280k/month, on our estimates, which is broadly in-line with the industry (around Rp250-300k).

Asianet concurrently acquired MNC Play's fiber assets

As part of the joint-agreement, Asianet also acquired MNC Play's fiber assets for Rp2.4tr. A wholesale service agreement will likely be established, whereby ISAT will pay Asianet for the network infrastructure needed to support the acquired subs from MNC Play, as well as its other infrastructure needs. We await further details regarding the transaction details, including the wholesale agreement. Of note, Asianet is a fiber-based carrier-neutral platform with c.288k homes-passed in Indonesia, which was incubated by I Squared Capital (who also owns Big Data Exchange/BDx that has a data center JV with ISAT) in early FY20.

Generally positive for ISAT; about 2% FY24-25F EBITDA accretion

This transaction should bode well for ISAT, in our view, as: 1) the asset-light structure means ISAT can continue to rollout homes-passed with limited capex burden; and 2) an instant access to about 1.5mn homes-passed and 325k homes-connected should help ISAT to jump-start its FTTH business (i.e. Indosat HiFi; c.3% market share post-transaction, on our estimates) and unlock FMC synergies. Recall that ISAT aims to reach c.10% market share in the next three years. We estimate revenue/EBITDA accretion of 2.2-2.3%/1.6% in FY24-25F. Given that it is an all-cash transaction, we also believe that this transaction could potentially be earnings accretive.

Reaffirm Buy on ISAT, with unchanged TP of Rp10,400

We continue to view that ISAT's fundamentals are intact, and this transaction should bode well for the company. Indosat HiFi-MNC Play consolidation, in our view, should also help to support a healthier FTTH/FMC competition in the long-run. While we await more details on the transaction, we maintain BUY with an unchanged blended valuation-based (DCF and EV/EBITDA multiple) TP of Rp10,400. Risks: poor 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)	10.9	15.5	27.2	18.2	13.4
EV/EBITDA (x)	8.9	6.3	5.2	4.7	4.4
Dividend yield	12.9%	2.7%	0.0%	1.1%	2.2%
Forecast change			N/A	N/A	N/A
IPS vs. consensus			72%	85%	95%

Source: Company, Indo Premier

Share price closing as of: 17 Nov 2023

Fig. 1: Home passed and # of subscribers

In k users	Homes passed	Subscribers
IndiHome	30,000	9,801
FirstMedia	3,000	757
MNC Play	1,500	325
MyRepublic	1,740	304
Biznet	2,200	500
XL Home	1,200	154
Indosat Hifi	400	25
Market share	Homes passed	Subscribers
IndiHome	75%	83%
FirstMedia	7%	6%
MNC Play	4%	3%
MyRepublic	4%	3%
Biznet	5%	4%
XL Home	3%	1%
Indosat Hifi	1%	0%

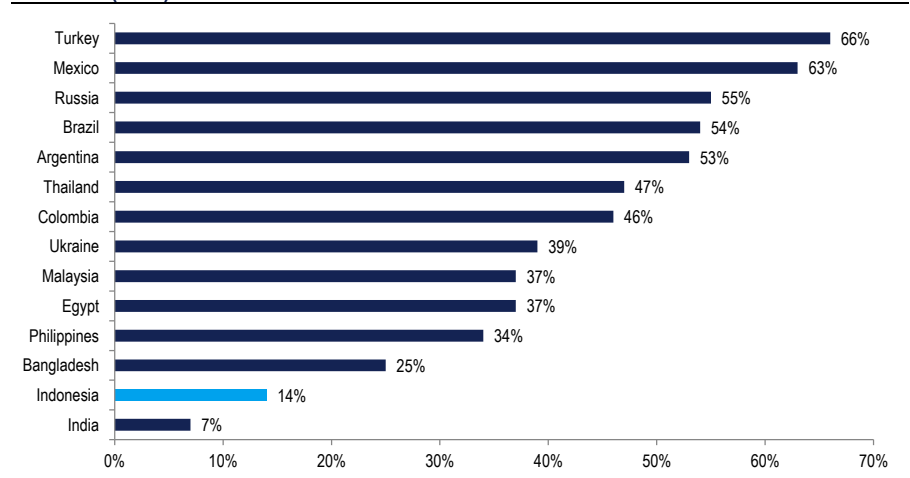
Source: Various news, Company, Indo Premier

Fig. 2: EXCL and LINK have limited coverage in Ex-Java

Home-passed locations		
	Provinces	Cities
XL Home	Bali, Central Java, East Java, Jabodetabek, Kalimantan, Sulawesi, West Java	63 cities
Link Net	Bali, Central Java, East Java, Jabodetabek, Sumatra, West Java	Bali, Bandung, Batam, Cikampek, Cilegon, Cirebon, Gresik, Jabodetabek, Jogja, Kediri, Malang, Medan, Purwokarta, Semarang, Serang, Sidoarjo, Solo, Surabaya, Tegal
IndiHome	34 provinces	496 cities
MNC Play	Jabodetabek, West Java, Central Java, East Java, Sumatra	Jakarta, Bandung, Semarang, Surabaya, Malang, Medan and others

Source: Various news, Company, Indo Premier

Fig. 3: Indonesia has one of the lowest fixed broadband penetration rates among ASEAN countries (2021)



Source: McKinsey Analysis, Oxford Economics, Analysis Mason, Indo Premier

Fig. 4: ISAT-IPTV pro forma

(Rp bn)	3Q23 annualized	Projection period		Assumptions
		FY24F	FY25F	
ISAT standalone revenue		55,065	58,371	
MNC Play standalone revenue	1,092	1,201	1,321	10% growth p.a.
Pro forma combined revenue		56,266	59,692	
ISAT standalone EBITDA		26,179	28,217	
MNC Play standalone EBITDA	382	420	462	35% EBITDA margin
Pro forma combined EBITDA		26,599	28,680	

Source: Company, Indo Premier estimates

Fig. 5: IPTV 3Q23 results

Rp bn	9M23	9M22	%YoY	3Q23	3Q22	%YoY	2Q23	%QoQ
Revenue	1,809,299	2,110,790	-14%	538,756	649,828	-17%	632,933	-15%
Cost of revenue	(1,576,650)	(1,718,814)	-8%	(506,305)	(618,842)	-18%	(548,462)	-8%
Gross profit	232,649	391,976	-41%	32,451	30,986	5%	84,471	-62%
Selling & marketing expenses	(1,390)	(1,957)	-29%	(198)	(1,140)	-83%	(624)	-68%
G&A expenses	(222,399)	(184,990)	20%	(105,586)	(64,623)	63%	(57,813)	83%
Gain (loss) on forex - net	3,502	(41,437)	-108%	(29,436)	12,356	-338%	(26,454)	11%
Other loss - net	(59,834)	(31,383)	91%	(47,334)	(14,511)	226%	14,910	-417%
Operating profit	(47,472)	132,209	N/A	(150,103)	(36,932)	306%	14,490	N/A
D&A	(575,492)	(571,455)	1%	(192,894)	(154,768)	25%	(191,177)	1%
EBITDA	528,020	703,664	-25%	42,791	117,836	-64%	205,667	-79%
Finance cost	(117,792)	(107,865)	9%	(38,769)	(33,192)	17%	(49,739)	-22%
PBT	(165,264)	24,344	N/A	(188,872)	(70,124)	169%	(35,249)	436%
Income tax benefit (expense)	31,400	4,625	579%	26,915	(13,324)	-302%	15,668	72%
Profit for the year	(133,864)	28,969	N/A	(161,957)	(83,448)	94%	(19,581)	727%
Non-controlling interests	(21,291)	10,586	N/A	(11,824)	4,446	N/A	(5,732)	106%
Net profit	(155,155)	39,555	N/A	(173,781)	(79,002)	120%	(25,313)	587%
Revenues	1,809,299	2,110,790	-14%	538,756	649,828	-17%	632,933	-15%
Satellite services	957,094	1,224,692	-22%	246,834	319,461	-23%	342,673	-28%
Digital, IPTV, broadband services	773,885	758,494	2%	272,954	290,201	-6%	256,071	7%
Others	78,320	127,604	-39%	18,968	40,166	-53%	34,189	-45%

Source: Company, Indo Premier

Fig. 6: Fixed broadband package comparisons

Packages	Link Net	IndiHome	MNC Play	MyRepublic	Biznet	XL Home e
Price for 20-30 Mbps equivalent product	N/A	Rp370k (30 Mbps) 77 channels, Indihome TV, HBO GO	Rp339k (30 Mbps) 73 Channels, Vision+	Rp16k (30 Mbps) 73 Channels, Vidio Platinum, WeTV VIP	N/A	Rp259k
		Rp340k (30 Mbps) 77 channels, Indihome TV,				
		Rp455k (30 Mbps) 77 channels, Indihome TV, Catchplay+, Vidio, Disney+, WeTV				
Price for 30-40 Mbps equivalent product	N/A	Rp485k (40 Mbps) 77 channels, Indihome TV, Catchplay+, Vidio, Disney+, WeTV, HBO GO	N/A	N/A	N/A	N/A
Price for 40-50 Mbps equivalent product	Rp295k (50 Mbps) 94 TV Channels, 1 Streamtainment	Rp505k (50 Mbps) 77 channels, Indihome TV, Catchplay+, Vidio, Disney+, WeTV, HBO GO	Rp459k (50 Mbps) 73 Channels, Vidio+	Rp400k (50 Mbps) 75 Channels, Vidio Platinum, WeTV VIP	N/A	Rp334k
Price for 50-100 Mbps equivalent product	N/A	N/A	Rp709k (100 Mbps) 73 Channels, Vision+	Rp483k (100 Mbps) 75 Channels, Vidio Platinum, WeTV VIP	Rp575k (100 Mbps) 56 channels IPTV	Rp399k

Source: Company, Indo Premier

Fig. 7: Telcos with significant fixed broadband business comps

	P/E			EV/EBITDA			Div' Yield		
	23F	24F	25F	23F	24F	25F	23F	24F	25F
Asia Average	17.1	16.1	15.4	7.1	6.8	6.5	5.0	3.7	4.1
Converge Information and Communactions	7.1	6.5	6.0	4.1	3.7	3.4	0.0	2.7	4.1
China Telecom Corp Ltd	14.2	12.8	11.6	3.2	3.0	2.9	0.7	0.8	0.9
TIME dotCom Bhd	21.0	18.6	17.5	10.3	9.3	8.5	14.1	4.5	4.7
Telekom Malaysia Bhd	13.2	13.2	13.6	5.2	5.2	5.0	3.8	3.8	4.0
NETLINK NBN TRUST	29.8	29.4	28.2	12.9	12.8	12.5	6.4	6.8	6.8
Middle East Average	15.0	14.5	13.2	7.0	6.7	6.5	2.3	2.5	2.9
Saudi Telecom Co	15.0	14.5	13.2	7.9	7.6	7.3	4.3	4.3	4.9
Telecom Italia SpA/Milano	n.a	n.a	n.a	6.1	5.9	5.7	0.3	0.8	1.0
Europe Average	6.4	11.7	3.1	4.6	4.3	4.1	4.8	5.2	5.5
BT Group PLC	6.5	17.7	1.0	4.1	4.0	3.9	6.4	6.1	6.2
Telecom Egypt Co	6.3	5.7	5.2	5.0	4.6	4.2	3.1	4.3	4.9
Global Average	14.1	14.8	12.0	6.5	6.2	5.9	4.3	3.8	4.2

Source: Bloomberg, Indo Premier

Fig. 8: Fixed broadband comps

	P/E			EV/EBITDA			Div' Yield		
	23F	24F	25F	23F	24F	25F	23F	24F	25F
Indonesia Average									
Link Net Tbk PT	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Asia Pacific Average	12.1	11.4	15.9	6.5	6.1	5.7	4.8	4.0	4.7
Converge Information and Commu	7.1	6.5	6.0	4.1	3.7	3.4	0.0	2.7	4.1
Globe Telecom Inc	12.6	12.5	11.8	6.9	6.6	6.4	5.8	5.7	5.7
GTPL Hathway Ltd	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Information & Communication Netw orks PCL	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Nippon Telegraph & Telephone Corp	12.3	12.2	11.7	7.6	7.3	7.0	2.8	3.0	3.2
SKY Network Television Ltd	7.6	7.1	6.6	2.4	2.3	2.2	6.0	7.3	9.3
TIME dotCom Bhd	21.0	18.6	17.5	10.3	9.3	8.5	14.1	4.5	4.7
True Corp PCL	n.a	n.a	42.1	7.8	7.3	6.7	0.0	0.6	1.2
Europe Average	7.4	7.0	7.5	5.9	5.8	5.8	4.6	4.6	4.6
Euskaltel SA	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Telenet Group Holding NV	7.4	7.0	7.5	5.9	5.8	5.8	4.6	4.6	4.6
Europe Average	21.3	20.6	7.5	6.9	6.7	6.5	1.6	1.6	1.8
Cable One Inc	13.9	22.5	0.8	7.2	7.1	6.8	2.1	2.3	2.5
Charter Communications Inc	13.6	12.4	11.9	7.7	7.4	7.2	0.0	0.0	0.0
Cogeco Communications Inc	6.1	6.0	6.8	5.3	5.2	5.3	4.3	4.6	5.2
Comcast Corp	10.7	10.4	10.3	7.0	6.7	6.6	2.7	2.9	3.1
Liberty Global PLC	(6.2)	n.a	n.a	8.3	8.0	7.9	0.0	0.0	0.0
Liberty Latin America Ltd	89.8	51.4	7.9	6.1	5.7	5.5	0.4	0.0	0.0
Global Average	16.3	15.1	11.7	6.7	6.4	6.1	3.3	2.9	3.3

Source: Bloomberg, Indo Premier

Fig. 9: Telco comps

	P/E			EV/EBITDA			Div' Yield		
	23F	24F	25F	23F	24F	25F	23F	24F	25F
Indonesia Average	20.6	14.2	11.4	4.8	4.5	4.2	2.1	3.0	4.4
Telkom Indonesia Persero Tbk	14.6	13.3	12.8	4.9	4.6	4.4	4.1	5.5	6.0
XL Axiata Tbk	19.9	11.2	8.0	4.4	4.0	3.8	2.1	2.5	4.9
Indosat Tbk	27.2	18.2	13.4	5.2	4.7	4.4	0.0	1.1	2.2
Asia Average	32.9	17.1	15.7	7.5	6.9	6.5	4.0	4.2	4.8
China United Network Communica	17.2	15.1	13.4	3.6	3.4	3.3	2.7	4.5	5.3
Shanghai AtHub Co Ltd	65.2	51.2	41.1	11.8	10.7	9.5	0.1	0.2	0.2
HKBN Ltd	18.5	9.4	6.6	6.0	5.5	5.2	11.9	14.2	16.0
China Telecom Corp Ltd	14.2	12.8	11.6	3.2	3.0	2.9	0.7	0.8	0.9
Vodafone Idea Ltd	n.a	n.a	n.a	17.3	15.0	14.3	0.0	0.0	0.0
Bharti Airtel Ltd	47.4	26.9	20.5	9.7	8.5	7.6	0.5	0.8	1.4
Tata Communications Ltd	36.0	27.2	19.8	13.1	11.0	9.6	1.2	1.3	1.3
SK Telecom Co Ltd	10.5	10.0	9.3	3.8	3.8	3.7	6.4	6.7	6.8
LG Uplus Corp	6.7	6.5	6.1	3.1	3.1	3.0	6.3	6.6	7.1
KT Corp	7.3	6.6	6.2	3.1	3.0	2.9	6.0	6.3	6.5
Axiata Group Bhd	40.0	25.4	18.0	5.9	5.7	5.4	3.9	4.1	4.4
Maxis Bhd	24.1	22.7	21.4	10.3	10.1	9.8	4.2	4.4	4.5
PLDT Inc	8.4	8.1	8.0	5.6	5.3	5.1	8.0	7.6	7.9
Singapore Telecommunications Ltd	16.1	14.1	12.4	12.8	12.1	11.5	5.4	5.8	6.3
StarHub Ltd	14.3	12.5	11.4	6.4	6.0	5.7	5.1	5.8	6.4
Omani Qatari Telecommunication	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Telekom Malaysia Bhd	13.2	13.2	13.6	5.2	5.2	5.0	3.8	3.8	4.0
Advanced Info Service PCL	22.6	20.6	18.9	8.3	7.9	7.6	3.7	4.1	4.5
True Corp PCL	n.a	n.a	42.1	7.8	7.3	6.7	0.0	0.6	1.2
Jasmine International PCL	218.5	12.8	6.8	5.8	5.6	5.5	n.a	1.7	5.1
Globe Telecom Inc	12.6	12.5	11.8	6.9	6.6	6.4	5.8	5.7	5.7
Europe Average	15.5	27.0	2.6	5.9	5.7	5.5	7.3	7.2	7.2
Orange SA	10.3	9.8	9.1	5.5	5.3	5.2	6.5	6.7	7.0
Deutsche Telekom AG	13.0	29.7	0.8	6.7	6.2	5.9	3.5	4.2	4.7
Telefonica Deutschland Holding	32.2	32.5	0.9	4.4	4.3	4.5	7.6	6.1	5.8
Vodafone Group PLC	11.5	29.2	3.9	5.7	5.7	5.5	9.5	8.7	8.7
Telenor ASA	9.7	24.7	4.3	7.5	7.1	6.9	8.5	8.4	8.4
Telia Co AB	19.5	29.8	(2.1)	6.4	6.1	6.0	7.8	7.9	8.1
Telefonica SA	11.9	33.2	1.0	4.9	4.9	4.9	8.0	8.1	8.1
North America Average	11.5	15.8	4.7	7.6	7.3	7.0	4.9	5.3	5.6
T-Mobile US Inc	20.1	15.3	13.6	9.5	8.9	8.3	0.4	1.4	2.0
Verizon Communications Inc	7.8	16.6	1.1	6.7	6.6	6.5	7.3	7.4	7.5
AT&T Inc	6.5	15.6	(0.5)	6.5	6.3	6.2	7.0	7.0	7.1
Global Average	25.7	18.9	11.4	6.9	6.5	6.2	4.6	4.8	5.3

Source: Bloomberg, 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

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.

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