

# Indosat Ooredoo Hutchison

BUY (unchanged)

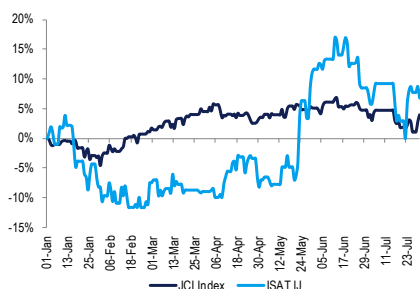
Company Update | Telecommunications | ISAT IJ | 30 July 2024

## Stock Data

Target price	Rp14,000
Prior TP	Rp14,000
Current price	11,400
Upside/downside	23%
Shares outstanding (mn)	8,063
Market cap (Rp bn)	93,124
Free float	16%
Avg. 6m daily T/O (Rp bn)	36

## Price Performance

	3M	6M	12M
Absolute	14.3%	14.6%	49.7%
Relative to JCI	13.2%	7.2%	44.3%
52w low/high (Rp)	7,350 – 12,050		



## Major Shareholders

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

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## 2Q24 results: in-line EBITDA; ARPU improved but fell short of guidance

- 1H24 EBITDA of Rp13.4tr (+18% yoy) met ours/consensus estimates at 49/50% of FY24F.
- Revenue reached Rp28.0tr (+13% yoy) in 1H24, also in-line.
- ARPU improved qoq to Rp38.4k supported by seasonal factors, but fell short of management's Rp40k ARPU target. Reiterate Buy.

### Another core profit beat; in-line 1H24 EBITDA

ISAT posted 1H24 net profit of Rp2.7tr (+43% yoy). Core profit came at Rp2.7tr (+112% yoy) beating our FY estimates (at 53%). Meanwhile, EBITDA rose to Rp13.4tr (+18% yoy) in 1H24, in-line at 49/50% of our/consensus on cost synergies and solid topline delivery. EBITDA margin grew to 47.9% (+181bps yoy) as cash cost was only up by +10% yoy (vs. revenue growth of +13% yoy), supported by benign O&M and personnel expenses partly offset by higher marketing cost (+68% yoy) given its rural expansion since 2H23. We expect marketing cost to remain elevated in FY24F. Revenue rose to Rp28tr (+13% yoy), which also met our/consensus expectations at 49/50%.

### Solid revenue growth in 2Q24 supported by seasonal factors

2Q24 net profit came at Rp1.4tr (+47% yoy/+11% qoq). Core profit was also at Rp1.4tr (+46% yoy/+14% qoq). EBITDA rose to Rp6.9tr (+14% yoy/+6% qoq), implying EBITDA margin of 48.8% (+126bps yoy/+177bps qoq). Cash opex only grew by +8% yoy (vs. revenue growth of +11% yoy) on manageable O&M and personnel expenses, offset by higher marketing costs. Revenue was Rp14.1tr (+11% yoy/+2% qoq) in 2Q24. Notably, cellular revenue rose by +8% yoy/+2% qoq. MIDI revenue grew by +24% yoy, but declined by -1% qoq, while fixed telecom up by +22% yoy/+7% qoq.

### Flattish subs qoq; ARPU improved further but fell short of guidance

Subs was flattish sequentially at 100.9mn in 2Q24 (vs. 100.8mn in 1Q24), likely attributable to the shift of Eid al-Fitr timing. Further, even though ARPU improved to Rp38.4k (vs. Rp35.8/37.5k in 2Q23/1Q24) despite the absence of price hikes (likely supported by the Eid al-Fitr holidays), it is still short of management's target of Rp40k ARPU. According to management, this was partly due to additional subs from the low-ARPU segment, given ISAT's expansion into rural areas. On a more positive note, management reiterated its plan to increase prices in 2H24. Data yield was flattish at Rp2.7/MB.

### Maintain Buy, with an unchanged TP of Rp14,000

2Q24 ARPU was below management's guidance, but overall results came within our expectations. We expect to see further monetization in the coming months amid benign competition and maintain Buy on ISAT with an unchanged blended valuation-based (DCF and EV/EBITDA multiple) TP of Rp14,000. Risks are sluggish synergy realization and competition.

Financial Summary (Rp bn)	2022A	2023A	2024F	2025F	2026F
Revenue	46,752	51,229	57,057	61,098	64,747
EBITDA	19,469	23,938	27,328	30,010	32,263
EBITDA growth	40.2%	23.0%	14.2%	9.8%	7.5%
Net profit	4,723	4,506	5,075	5,702	6,495
EPS (Rp)	586	559	629	707	806
EPS growth	-30.0%	-4.6%	12.6%	12.4%	13.9%
ROE	14.9%	13.4%	13.7%	14.0%	14.7%
PER (x)	18.8	19.7	17.5	15.6	13.7
EV/EBITDA (x)	7.2	5.9	5.1	4.7	4.3
Dividend yield	2.3%	2.3%	2.0%	2.3%	3.2%
IPS vs. consensus			N/A	N/A	N/A

Sources: Company, Indo Premier

Share price closing as of: 30 July 2024

Fig. 1: ISAT 2Q24 results

(Rp bn)	2Q24	2Q23	% YoY	1Q24	% QoQ	1H24	1H23	% YoY	IP FY24F	% of IP	% of Cons
<b>Revenue</b>	<b>14,141</b>	<b>12,730</b>	<b>11.1%</b>	<b>13,835</b>	<b>2.2%</b>	<b>27,976</b>	<b>24,675</b>	<b>13.4%</b>	<b>57,057</b>	<b>49.0%</b>	<b>50.2%</b>
Operating expenses	(11,247)	(10,213)	10.1%	(11,058)	1.7%	(22,305)	(20,533)	8.6%			
<b>Operating profit</b>	<b>2,894</b>	<b>2,517</b>	<b>15.0%</b>	<b>2,778</b>	<b>4.2%</b>	<b>5,671</b>	<b>4,142</b>	<b>36.9%</b>			
<b>EBITDA</b>	<b>6,903</b>	<b>6,054</b>	<b>14.0%</b>	<b>6,509</b>	<b>6.0%</b>	<b>13,412</b>	<b>11,383</b>	<b>17.8%</b>	<b>27,328</b>	<b>49.1%</b>	<b>49.8%</b>
Other income/(expense)	(941)	(1,253)	-24.9%	(1,009)	-6.7%	(1,950)	(1,722)	13.2%			
<b>Pre-tax profit</b>	<b>1,953</b>	<b>1,263</b>	<b>54.6%</b>	<b>1,769</b>	<b>10.4%</b>	<b>3,722</b>	<b>2,420</b>	<b>53.8%</b>			
Taxes	(420)	(213)	96.8%	(377)	11.2%	(797)	(376)	111.7%			
<b>Net profit</b>	<b>1,440</b>	<b>979</b>	<b>47.0%</b>	<b>1,295</b>	<b>11.2%</b>	<b>2,735</b>	<b>1,908</b>	<b>43.3%</b>			<b>50.8%</b>
<b>Core profit</b>	<b>1,440</b>	<b>986</b>	<b>46.0%</b>	<b>1,262</b>	<b>14.1%</b>	<b>2,702</b>	<b>1,273</b>	<b>112.3%</b>	<b>5,075</b>	<b>53.2%</b>	
<b>Margin (%)</b>											
EBITDA margin	48.8%	47.6%		47.0%		47.9%	46.1%				
Net margin	10.2%	7.7%		9.4%		9.8%	7.7%				
<b>Operational data</b>											
Legacy revenue	241	281	-14.3%	239	0.9%	479	556	-13.8%			
Data revenue	11,182	10,287	8.7%	10,924	2.4%	22,106	19,875	11.2%			
Data traffic (PB)	4,107	3,739	9.8%	3,858	6.5%	7,965	7,196	10.7%			
Data yield (IDR/MB)	2.7	2.8	-1.0%	2.8	-3.8%	2.8	2.8	0.5%			
Blended ARPU (Rp k/month)	38.4	35.8	7.3%	37.5	2.4%	37.9	34.3	10.5%			
Subscribers (mn people)	100.9	100.0	0.9%	100.8	0.1%	100.9	100.0	0.9%			

Source: Company, Indo Premier

Income Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net revenue	46,752	51,229	57,057	61,098	64,747
Cost of sales	-	-	-	-	-
<b>Gross profit</b>	46,752	51,229	57,057	61,098	64,747
SG&A Expenses	(40,987)	(41,912)	(45,043)	(48,019)	(50,521)
<b>Operating profit</b>	5,766	9,317	12,014	13,079	14,225
<b>EBITDA</b>	19,469	23,938	27,328	30,010	32,263
Net interest	(4,227)	(4,394)	(5,044)	(5,294)	(5,424)
Forex gain (loss)	167	(104)	(114)	(122)	(129)
Others	4,831	1,112	(320)	(336)	(356)
<b>Pre-tax income</b>	6,536	5,932	6,536	7,326	8,316
Income tax	(1,166)	(1,156)	(1,177)	(1,319)	(1,497)
Minority interest	(647)	(269)	(285)	(305)	(324)
<b>Net income</b>	4,723	4,506	5,075	5,702	6,495

Balance Sheet (Rp bn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalent	9,508	5,190	5,698	7,466	8,306
Receivable	2,374	3,144	3,126	3,348	3,548
Other current assets	6,801	7,146	9,243	11,958	12,556
<b>Total current assets</b>	18,683	15,480	18,067	22,772	24,410
Fixed assets	69,070	72,861	70,431	68,573	66,463
Other non-current assets	26,127	26,382	31,658	36,407	41,868
<b>Total non-current assets</b>	95,197	99,243	102,089	104,980	108,331
<b>Total assets</b>	113,880	114,722	120,157	127,751	132,741
Payable	12,661	12,974	11,724	12,498	13,149
Other payables	11,838	11,704	10,533	9,480	8,532
Current portion of LT loans	11,375	9,457	17,529	18,782	19,269
<b>Total current liab.</b>	35,874	34,134	39,786	40,760	40,950
Long term loans	44,609	44,414	40,901	43,824	44,962
Other LT liab.	1,782	2,465	2,490	2,515	2,532
<b>Total liabilities</b>	82,265	81,013	83,176	87,098	88,444
Equity	18,916	18,875	18,875	18,875	18,875
Retained earnings	9,427	11,871	15,143	18,816	22,460
Minority interest	3,272	2,963	2,963	2,963	2,963
<b>Total SHE + minority int.</b>	31,615	33,709	36,981	40,653	44,297
<b>Total liabilities &amp; equity</b>	113,880	114,722	120,157	127,751	132,741

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net income	4,723	4,506	5,075	5,702	6,495
Depr. & amortization	13,703	14,621	15,314	15,631	16,038
Changes in working capital	5,124	(937)	(4,500)	(3,215)	(1,095)
Others	(18,635)	697	(4,966)	(4,418)	(5,120)
<b>Cash flow from operating</b>	<b>4,916</b>	<b>18,887</b>	<b>10,922</b>	<b>13,700</b>	<b>16,318</b>
Capital expenditure	(37,080)	(18,080)	(12,553)	(13,442)	(13,597)
Others	(179)	(331)	(331)	(331)	(331)
<b>Cash flow from investing</b>	<b>(37,258)</b>	<b>(18,411)</b>	<b>(12,884)</b>	<b>(13,773)</b>	<b>(13,928)</b>
Loans	22,120	(2,113)	4,559	4,176	1,625
Equity	17,942	(620)	(285)	(305)	(324)
Dividends	(2,000)	(2,062)	(1,803)	(2,030)	(2,851)
Others	(0)	-	-	-	-
<b>Cash flow from financing</b>	<b>38,062</b>	<b>(4,795)</b>	<b>2,471</b>	<b>1,841</b>	<b>(1,550)</b>
<b>Changes in cash</b>	<b>5,719</b>	<b>(4,318)</b>	<b>509</b>	<b>1,768</b>	<b>840</b>

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross margin	100.0%	100.0%	100.0%	100.0%	100.0%
EBITDA margin	41.6%	46.7%	47.9%	49.1%	49.8%
Pre-tax margin	14.0%	11.6%	11.5%	12.0%	12.8%
Net margin	10.1%	8.8%	8.9%	9.3%	10.0%
ROA	4.1%	3.9%	4.2%	4.5%	4.9%
ROE	14.9%	13.4%	13.7%	14.0%	14.7%
ROIC	9.7%	11.6%	14.0%	14.1%	14.5%

Acct. receivables TO (days)	17	20	20	20	20
Acct. payables - other TO (days)	138	138	138	138	138

Net debt/EBITDA (inc. leases)					
(x)	2.4	2.0	1.9	1.8	1.7
Net debt/EBITDA (ex. leases) (x)	0.8	0.7	0.8	0.8	0.7
Interest coverage (x)	1.3	2.0	2.3	2.4	2.6

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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