

12 February 2024

Communications | Telecommunications

Indosat Ooredoo Hutchison (ISAT IJ)

Buy (from Neutral)

Stronger ARPU To Support EBITDA Rise; U/G To BUY

Target Price (Return):	IDR10,575 (+11%)
Price (Market Cap):	IDR9,500 (USD4,899m)
ESG score:	2.9 (out of 4)
Avg Daily Turnover (IDR/USD)	26,279m/1.69m

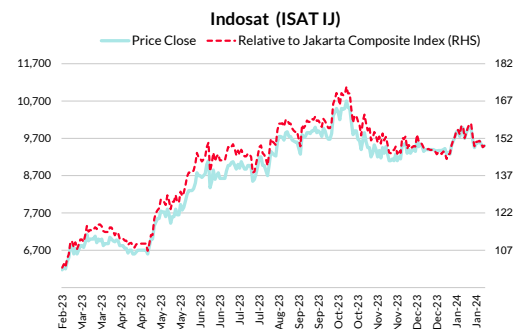
- **Upgrade to BUY from Neutral, with new IDR10,575 TP from IDR9,385, 11% upside and c.3% yield.** We raise FY24F-25F EBITDA by 5.4% and 6% on resilient EBITDA margin improvement from 2Q23-4Q23 at 47-47.6% from 44.6% in 1Q23. Consequently, we also increase our DCF-derived TP, implying a 4.0x FY24F EV/EBITDA. We believe post-merger operational cost will be minimised by the growing ARPU, allowing for further EBITDA margin expansion. Also, the acquisition of multi-national corp (MNC) play should contribute to the additional revenue.
- **4Q23 EBITDA slightly above our expectations.** 4Q23 EBITDA margin contracted to 47% vs 3Q23: 47.6% due to revenue mix where multimedia, Internet, and data communication or MIDI grew 28.2% QoQ and 18.7% YoY. Note that home broadband has lower EBITDA margin of c.24-25%. Also, marketing expense rose significantly by 38.8% QoQ on additional new retail stores in rural areas for branding and manpower set up to cater those areas. However, Indosat Ooredoo Hutchison will maintain marketing cost at 2.5-3% going forward. Overall, the robust 4Q23 performance brought its FY23 EBITDA to IDR23.9trn, or 5.8% and 1.9% above ours and Street's estimates.
- **FY24F topline growth above market at 7.5% YoY on the back of higher ARPU and additional home broadband customers.** Higher data traffic during the election period, ie additional c.300k home broadband customers, and the cooling down price war would enable ISAT to book higher-than-market growth of 7.5% YoY in FY24F. Additionally, as the company has successfully controlled the rotational churn by increasing SIM card prices vs cheaper top-up prices, we expect a contraction in the number of subscribers as it should stabilise going forward.
- **Lebaran season to support IDR40k ARPU target in 2Q24.** As of 4Q23, ISAT's blended ARPU reached IDR39k - partly supported by higher Value Added Service (VAS) revenue. We expect it to achieve its target of IDR40k ARPU in 2Q24 on the back of higher data traffic during the Lebaran season in April. However, some contraction in 3Q24 is likely to happen, and further support from higher VAS revenue would deliver another IDR40k ARPU in 4Q24. Therefore, we conservatively estimate FY24 ARPU at IDR38k.
- **Higher ARPU should enable ISAT to achieve 47.5% EBITDA margin in 24FY.** As we take into account potentially lower ARPU in 1Q24 and 3Q24, and revenue mix from higher MIDI revenue contribution with lower margin, we estimate ISAT's FY24F EBITDA margin to be at 47.5%.
- **ESG.** Our TP also includes a 2% ESG discount applied to ISAT's intrinsic value as the company's ESG score is below the country median.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.3	2.4	1.1	9.2	61.0
Relative	1.8	4.0	(4.6)	4.1	56.7
52-wk Price low/high (IDR)	5,875 - 10,700				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (IDRb)	46,752	51,229	55,283	60,221	65,807
Recurring net profit (IDRb)	640	3,637	4,506	5,205	6,242
Recurring net profit growth (%)	(9.0)	468.1	23.9	15.5	19.9
Recurring P/E (x)	100.15	21.06	17.00	14.72	12.27
P/B (x)	2.7	2.5	2.3	2.1	1.9
P/CF (x)	2.72	4.20	3.39	3.19	2.89
Dividend Yield (%)	2.6	2.7	2.6	2.5	2.9
EV/EBITDA (x)	5.41	5.34	4.73	4.33	3.98
Return on average equity (%)	25.7	15.4	14.0	14.8	16.2
Net debt to equity (%)	148.1	144.4	122.6	111.6	102.0

Source: Company data, RHB

Overall ESG Score: 2.9 (out of 4)

E: EXCELLENT

ISAT has implemented alternative energy, BTS, which uses wind, solar and biofuel power, and can reduce electricity consumption by 80% and CO2 emissions by 2.4 tonnes. The company uses a highly efficient cooling system for its data centres, which resulted in a reduction of energy consumption by 1 GWh in 2020.

S: GOOD

ISAT launched Digital Camp (IDCamp), a digital education programme for young Indonesians, including for youths with disabilities. The programme serves to build digital skills among the youth and assist the Government in its mission to make Indonesia a digital powerhouse.

G: GOOD

ISAT assesses itself periodically with reference to the ASEAN Corporate Governance (CG) Scorecard. The results of the most recent evaluation showed that ISAT scored 83.58 in 2019, from 83.28 in 2018. In comparison, the average score for the 100 largest listed companies in Indonesia was 63.02 in 2019, compared with 72.57 in 2018.

Financial Exhibits

Asia	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	Recurring EPS	94.86	451.03	558.92	645.51	774.19
Communications	DPS	248.06	255.67	243.92	239.54	277.38
Indosat Ooredoo Hutchison	BVPS	3,466.10	3,772.48	4,080.56	4,479.71	4,969.81
ISAT IJ	Return on average equity (%)	25.7	15.4	14.0	14.8	16.2
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	100.15	21.06	17.00	14.72	12.27
Our 12-month TP of IDR10,575 is based on DCF approach with WACC of 11%.	P/B (x)	2.7	2.5	2.3	2.1	1.9
	FCF Yield (%)	6.3	9.4	10.6	4.6	4.3
	Dividend Yield (%)	2.6	2.7	2.6	2.5	2.9
Key drivers	EV/EBITDA (x)	5.41	5.34	4.73	4.33	3.98
i. Strong data growth momentum;	EV/EBIT (x)	18.26	13.71	12.29	11.01	9.74
ii. Fast network deployment;						
iii. Divestment of tower ownership.						
	Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	46,752	51,229	55,283	60,221	65,807
i. Price wars;	Gross profit	11,900	15,523	16,775	18,606	20,890
ii. Unfavourable regulations;	EBITDA	19,469	23,937	26,240	28,675	31,461
iii. Slow network deployment and expansion;	Depreciation and amortisation	(13,703)	(14,621)	(16,146)	(17,395)	(18,616)
iv. Stretched balance sheet.	Operating profit	5,766	9,317	10,095	11,280	12,846
	Net interest	(4,227)	(4,394)	(4,169)	(4,435)	(4,635)
Company Profile	Pre-tax profit	6,536	5,932	5,825	6,745	8,112
Indosat Ooredoo Hutchison provides telecommunication services. It also offers data communication, broadband, messaging, voice calling, roaming, and networking services.	Taxation	(1,166)	(1,156)	(1,135)	(1,314)	(1,581)
	Reported net profit	4,723	4,506	4,425	5,124	6,163
	Recurring net profit	640	3,637	4,506	5,205	6,242
	Cash flow (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	4,930	(1,335)	2,222	1,385	1,542
	Cash flow from operations	23,551	18,216	22,612	24,047	26,478
	Capex	(19,528)	(11,052)	(14,519)	(20,509)	(23,158)
	Cash flow from investing activities	(56,780)	(18,890)	(17,072)	(22,514)	(25,384)
	Dividends paid	(2,000)	(2,061)	(1,967)	(1,931)	(2,236)
	Cash flow from financing activities	38,948	(3,645)	(5,108)	2,867	2,748
	Cash at beginning of period	3,789	9,508	5,190	5,621	10,022
	Net change in cash	5,719	(4,318)	431	4,401	3,842
	Ending balance cash	9,508	5,190	5,621	10,022	13,863
	Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	9,516	5,207	5,639	10,039	13,881
	Tangible fixed assets	69,182	72,861	71,713	75,332	80,406
	Total investments	313	493	370	403	440
	Total assets	113,657	114,722	118,310	128,905	140,760
	Short-term debt	11,375	9,457	8,855	9,548	10,355
	Total long-term debt	44,609	44,414	41,459	45,043	48,631
	Total liabilities	82,289	81,013	81,883	88,974	96,555
	Total equity	31,369	33,709	36,427	39,931	44,206
	Total liabilities & equity	113,657	114,722	118,310	128,905	140,760
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	48.9	9.6	7.9	8.9	9.3
	Recurrent EPS growth (%)	(26.7)	375.5	23.9	15.5	19.9
	Gross margin (%)	25.5	30.3	30.3	30.9	31.7
	Operating EBITDA margin (%)	41.6	46.7	47.5	47.6	47.8
	Net profit margin (%)	10.1	8.8	8.0	8.5	9.4
	Dividend payout ratio (%)	42.3	45.7	44.4	37.7	36.3
	Capex/sales (%)	41.8	21.6	26.3	34.1	35.2
	Interest cover (x)	1.33	1.97	2.29	2.36	2.48

Source: Company data, RHB

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Figure 1: 4Q23 results summary

IDRbn	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	12M22	12M23	YoY (%)	FY23 RHB	FY23 Cons
Operating metrics										
No. of subscribers ('000)	102,200	99,400	98,800	(0.6)	(3.3)	102,200	98,800	(3.3)		
No. of BTS	180,123	221,425	229,521	3.7	27.4	180,123	229,521	27.4		
Data traffic volume (TB)	3,460,183	3,761,945	3,805,184	1.1	10.0	12,862,448	14,763,008	14.8		
Monthly data usage (GB/subs)	11.5	12.6	12.8	1.8	11.5	10.7	12.4	16.3		
Data yield (IDR/GB)	2,815	2,753	2,884	4.8	2.5	2,877	2,791	(3.0)		
Blended ARPU (IDR)	33,920	36,876	39,057	5.9	15.1	32,814	36,901	12.5		
Data ARPU (IDR)	31,765	34,731	37,031	6.6	16.6	30,696	34,651	12.9		
Income statement (IDRbn)										
Gross revenue	12,922	13,638	14,363	5.3	11.1	49,309	54,366	10.3		
Cellular revenue	11,101	11,846	12,173	2.8	9.7	42,799	46,887	9.6		
Data revenue	9,739	10,357	10,976	6.0	12.7	37,001	41,207	11.4		
% of cellular revenue	87.7%	87.4%	90.2%			86.5%	87.9%	1.7		
Discount	(701)	(849)	(596)	(29.8)	(14.9)	(2,556)	(3,138)	22.7		
Net cellular revenue	10,400	10,996	11,576	5.3	11.3	40,243	43,750	8.7		
Others	1,822	1,792	2,190	22.2	20.2	6,510	7,479	14.9		
Net revenue	12,221	12,788	13,766	7.6	12.6	46,752	51,229	9.6	101.0	101.5
EBITDA	5,382	6,085	6,471	6.4	20.2	19,469	23,938	23.0	105.8	101.9
% EBITDA margin	44.0%	47.6%	47.0%			41.6%	46.7%	12.2		
PBT	1,758	1,183	2,329	97.0	32.5	6,536	5,932	(9.2)		
Net profit (or loss)	1,036	879	1,719	95.5	66.0	4,723	4,506	(4.6)	150.0	129.3
% Net profit margin	8.5%	6.9%	12.5%			10.1%	8.8%			

Source: Company data, RHB

Figure 2: ISAT's DCF valuation

IDRbn	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
EBIT	10,095	11,280	12,846	13,466	13,902	14,446	15,385	17,381	19,765	21,250	24,315
EBIT (1-t)	8,128	9,082	10,342	10,842	11,193	11,631	12,387	13,994	15,913	17,109	19,577
Depreciation & amortisation	16,146	17,395	18,616	20,930	23,509	26,375	29,318	31,771	34,521	37,727	41,489
Change in working capital	2,016	1,502	1,674	1,926	1,900	2,224	2,538	2,896	5,741	1,567	223
Capex	(14,519)	(20,509)	(23,158)	(26,225)	(29,659)	(31,177)	(27,671)	(33,205)	(40,087)	(48,664)	(52,320)
Net free cash flow to firm	11,770	7,471	7,474	7,474	6,944	9,054	16,573	15,456	16,089	7,739	8,969
Terminal value											105,057
PV	11,770	6,682	5,980	5,349	4,445	5,185	8,490	7,082	6,595	2,837	37,397
WACC	11.8%										
Total discounted firm value	101,814										
Less: Debt	11,615										
Less: Minority interest	3,197										
Equity value	87,002										

Source: RHB

Figure 3: Changes to estimates

	New			Old			New/ Old (%)		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Income statement (IDRbn)									
Total turnover	55,283	60,221	65,807	55,402	60,550	new	(0.2)	(0.5)	n.m.
EBITDA	26,240	28,675	31,461	24,897	27,045	new	5.4	6.0	n.m.
EBIT	10,095	11,280	12,846	9,868	11,862	new	2.3	(4.9)	n.m.
Net profit	4,425	5,124	6,163	3,922	5,260	new	12.8	(2.6)	n.m.
Key Metrics									
Revenue growth (%)	7.9	8.9	9.3	8.1	9.3	new			
EBITDA margin (%)	47.5	47.6	47.8	44.9	44.7	new			
EBIT margin (%)	18.3	18.7	19.5	17.8	19.6	new			
Net profit margin (%)	8.0	8.5	9.4	7.1	8.7	new			

Source: Company data, RHB

Figure 4: RHB vs Street's estimates

Income Statement (IDRbn)	RHB			Cons			New/ Old (%)		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Total turnover	55,283	60,221	65,807	54,430	57,800	61,049	1.6	4.2	7.8
EBITDA	26,240	28,675	31,461	26,243	28,288	30,060	(0.0)	1.4	4.7
EBIT	10,095	11,280	12,846	10,982	12,373	14,469	(8.1)	(8.8)	(11.2)
Net profit	4,425	5,124	6,163	4,624	5,667	7,414	(4.3)	(9.6)	(16.9)

Source: Company data, RHB

Emissions And ESG

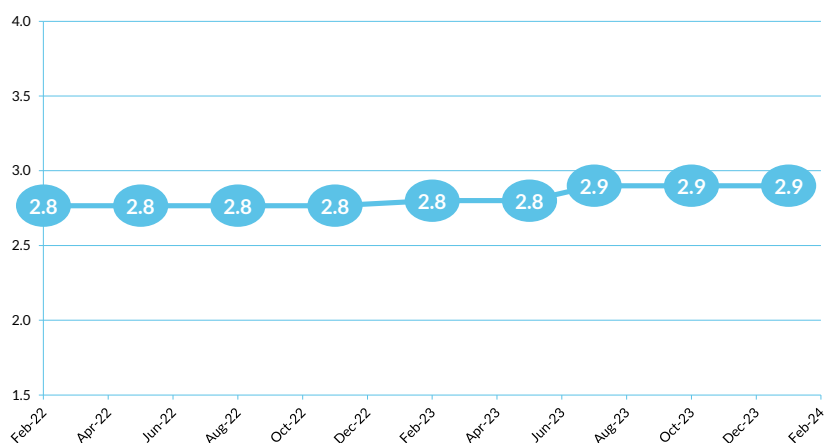
Trend analysis	Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
	Scope 1	na	na	na
	Scope 2	na	na	na
	Scope 3	na	na	na
	Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

- Reducing the use of generator set (genset) for base transceiver station (BTS) not connected to the electricity grid by working closely with PLN, hence ISAT is able to keep reducing fuel consumption for the genset. It also introduced IDCamp, a programme designed to boost digital skills and knowledge among young people, with 71,080 participants, exceeding its target by 30.5%.
- In 2022, ISAT held SheHacks, a digital initiative empowering woman, with 7,052 participants, 28.2% above the target.
- ISAT initiated “Sampah Jadi Pulsa” with 6,844 plastic bottles collected and distributed to its SME community partners to be used as handicraft material. Additionally, it has partnered with PlasticPay to encourage people to convert plastic waste into valuable resources.
- In 2022, ISAT, in collaboration with the Ministry of Marine Affairs and Fisheries, World Wildlife Fund, and local environmental community participation, held a Marine & Fisheries Conservation programme, which focuses on marine habitat restoration, coastal plastic waste management, sea turtle conservation, and support of coastal community livelihoods.
- 2022: ISAT’s philanthropic initiatives included providing 7,918 people with free communication assistance through the Disaster Emergency Response programme, Ramadan donation, Indonesian Virtual Basketball League (IVBL) 2022, as well as the *gotong royong* (providing internet access to people living in rural areas to help them develop and grow) & Kreasi Gapura.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-10-30	Neutral	9,385	9,600
2023-07-31	Neutral	9,385	9,200
2023-02-14	Buy	7,580	6,300
2022-11-02	Buy	8,200	6,925
2022-08-10	Buy	8,200	7,125
2022-05-10	Buy	7,000	6,075
2022-02-23	Buy	7,000	5,575
2021-07-29	Neutral	7,000	6,000
2021-06-09	Neutral	7,000	6,800
2021-03-31	Buy	7,000	6,275
2021-02-22	Buy	7,000	6,000
2021-01-08	Buy	7,000	5,900
2020-09-01	Buy	4,000	2,300
2020-04-30	Buy	4,000	2,150
2019-11-06	Buy	4,000	3,400

Source: RHB, Bloomberg

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