

31 July 2023

Communications | Telecommunications

Indosat Ooredoo Hutchison (ISAT IJ)

2Q23 EBITDA Margin Expanded; D/G To NEUTRAL

Neutral (from Buy)

Target Price (Return): IDR9,580 (+7%)
Price (Market Cap): IDR8,950 (USD4,777m)
ESG score: 2.9 (out of 4)
Avg Daily Turnover (IDR/USD) 67,589m/4.55m

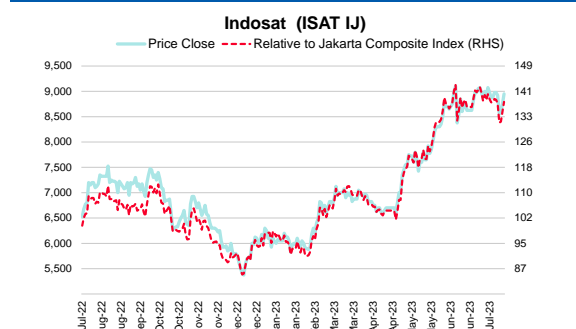
Analyst

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- **Downgrade to NEUTRAL from Buy, with new IDR9,580 TP from IDR7,580, 7% upside.** We raise FY23F-24F EBITDA by 5.4% and 1.7% on 2Q23 EBITDA margin improvement to 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. On valuation, XL Axiata (EXCL IJ, BUY, TP: IDR3,140) trades at a better multiple than Indosat Ooredoo Hutchison.
- **2Q23 EBITDA margin expanded to 47.6%.** While ISAT recorded 2Q23 revenue of IDR12.7tn (6.6% QoQ, 7.5% YoY), its EBITDA margin expanded to 47.6%, allowing EBITDA to reach IDR6tn (13.6% QoQ, 26.2% YoY) which outpaced its topline growth. This indicates that the network integration has positively impacted its operational efficiency. As such, we revise up our EBITDA margin to 44.6% and 44.9% in 2023F-2024F, which is in line with the company expectations at the mid-40s level.
- **ARPU increased by 5.7% QoQ and 6.5% YoY.** With the price revision in 2Q23, ISAT booked ARPU of IDR34k. Management sees ARPU growth in line with its expectations and target it to reach IDR40k in 1Q24 without meaningful churn rate. We estimate ARPU to reach IDR36k in 2024F considering tightening competition that limits price increment. Therefore, we revise down our topline estimate by 3.8% in 2024F.
- **Potential EBITDA margin contraction in 2H23F on higher opex.** Due to distribution footprint expansion, the company expects 2H23 opex to be higher, which will result in EBITDA margin contraction. However, opex spend should benefit ISAT as it would improve user experience, thereby retaining and attracting new subscribers. We expect 3Q23F EBITDA margin to adjust lower from 2Q23 of 47.6%.
- **Strong operational performance well reflected in share price.** Post-merger, ISAT delivered strong improvement in its cost efficiency, leading to margin improvement. As a result, its share price has risen 48.5% YTD. We believe the current share price has almost fully taken into account the operational performance improvement.
- **ESG.** Our TP also includes a 2% ESG discount applied to ISAT's intrinsic value since the company's ESG score is below the country median.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	44.9	3.8	27.9	49.2	37.2
Relative	44.2	0.2	28.1	49.2	38.0
52-wk Price low/high (IDR)				5,375 – 9,100	



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (IDRb)	31,388	46,752	50,728	55,402	60,550
Recurring net profit (IDRb)	703	640	2,269	3,779	5,116
Recurring net profit growth (%)	-	(9.0)	254.4	66.6	35.4
Recurring P/E (x)	69.14	94.35	31.81	19.09	14.11
P/B (x)	5.5	2.6	2.4	2.2	2.0
P/CF (x)	2.86	2.56	4.17	3.53	3.27
Dividend Yield (%)	19.5	2.8	1.9	1.2	1.6
EV/EBITDA (x)	5.70	5.23	5.53	5.04	4.70
Return on average equity (%)	66.5	25.7	10.4	12.6	15.2
Net debt to equity (%)	289.0	147.0	148.3	135.0	123.5

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.

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Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Indonesia	Recurring EPS	129.45	94.86	281.40	468.72	634.50
Communications	DPS	1,748.28	248.06	173.56	110.41	144.12
Indosat Ooredoo Hutchison	BVPS	1,618.19	3,466.10	3,668.34	4,047.54	4,558.90
ISAT IJ	Return on average equity (%)	66.5	25.7	10.4	12.6	15.2
Neutral						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring P/E (x)	69.14	94.35	31.81	19.09	14.11
	P/B (x)	5.5	2.6	2.4	2.2	2.0
	FCF Yield (%)	19.4	6.7	(2.8)	1.8	0.6
	Dividend Yield (%)	19.5	2.8	1.9	1.2	1.6
	EV/EBITDA (x)	5.70	5.23	5.53	5.04	4.70
	EV/EBIT (x)	21.50	17.65	16.17	12.72	10.71
	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	31,388	46,752	50,728	55,402	60,550
	Gross profit	7,604	11,900	14,087	16,456	18,824
	EBITDA	13,886	19,469	22,620	24,897	27,045
	Depreciation and amortisation	(10,204)	(13,703)	(14,883)	(15,029)	(15,182)
	Operating profit	3,682	5,766	7,737	9,868	11,862
	Net interest	(2,850)	(4,227)	(4,475)	(4,615)	(4,760)
	Pre-tax profit	7,507	6,536	4,158	5,427	7,278
	Taxation	(647)	(1,166)	(741)	(968)	(1,298)
	Reported net profit	6,751	4,723	3,005	3,922	5,260
	Recurring net profit	703	640	2,269	3,779	5,116
	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(677)	4,930	(94)	1,340	1,437
	Cash flow from operations	16,988	23,551	17,314	20,454	22,078
	Capex	(7,529)	(19,528)	(19,336)	(19,125)	(21,611)
	Cash flow from investing activities	(8,918)	(57,003)	(20,206)	(20,122)	(22,709)
	Dividends paid	(9,500)	(2,000)	(1,399)	(890)	(1,162)
	Cash flow from financing activities	(6,063)	77,720	(741)	(420)	1,084
	Cash at beginning of period	1,782	3,789	9,508	4,378	4,259
	Net change in cash	2,007	44,268	(3,633)	(88)	453
	Ending balance cash	3,789	48,057	5,875	4,289	4,712
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	4,087	9,516	4,385	4,266	4,675
	Tangible fixed assets	45,515	69,070	73,985	78,549	85,453
	Total investments	379	313	339	371	405
	Total assets	63,397	113,880	116,294	122,276	131,364
	Short-term debt	10,748	11,375	11,027	11,011	11,341
	Total long-term debt	23,116	44,609	43,091	43,070	44,439
	Total liabilities	53,094	82,265	82,770	85,368	89,972
	Total equity	10,303	31,615	33,524	36,908	41,392
	Total liabilities & equity	63,397	113,880	116,294	122,276	131,364
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	12.4	48.9	8.5	9.2	9.3
	Recurrent EPS growth (%)	0.0	(26.7)	196.6	66.6	35.4
	Gross margin (%)	24.2	25.5	27.8	29.7	31.1
	Operating EBITDA margin (%)	44.2	41.6	44.6	44.9	44.7
	Net profit margin (%)	21.5	10.1	5.9	7.1	8.7
	Dividend payout ratio (%)	140.7	42.3	46.6	22.7	22.1
	Capex/sales (%)	24.0	41.8	38.1	34.5	35.7
	Interest cover (x)	1.23	1.33	1.59	2.03	2.37

Source: Company data, RHB

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Figure 1: 2Q23 results summary

									FY23	FY23
IDRbn	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	6M22	6M23	YoY (%)	RHB	Cons
Operating metrics										
No. of subscribers ('000)	96,200	98,500	100,000	1.5	4.0	96,200	100,000	4.0		
No. of BTS	198,567	198,757	215,486	8.4	8.5	198,567	215,486	8.5		
Data traffic volume (TB)	3,212,497	3,456,668	3,739,211	8.2	16.4	6,160,270	7,195,879	16.8		
Monthly data usage (GB/subs)	11.2	11.5	12.6	9.4	11.9	10.8	12.1	12.3		
Data yield (IDR/GB)	2,893	2,774	2,751	(0.8)	(4.9)	2,884	2,762	(4.2)		
Blended ARPU (IDR)	35,200	34,714	36,397	4.8	3.4	33,848	35,295	4.3		
Data ARPU (IDR)	32,207	32,445	34,288	5.7	6.5	31,036	33,374	7.5		
Income statement (IDRbn)										
Gross revenue	12,296	12,774	13,592	6.4	10.5	23,715	26,366	11.2		
Cellular revenue	10,801	11,087	11,782	6.3	9.1	20,725	22,869	10.3		
Data revenue	9,295	9,588	10,286	7.3	10.7	17,765	19,874	11.9		
% of cellular revenue	86.1%	86.5%	87.3%			85.7%	86.9%			
Others	1,495	1,687	1,810	7.3	21.1	2,989	3,497	17.0		
Discount	(642)	(829)	(863)	4.1	34.4	(1,188)	(1,692)	42.4		
Net revenue	11,654	11,945	12,729	6.6	9.2	22,526	24,674	9.5	48.6	48.9
EBITDA	4,797	5,329	6,053	13.6	26.2	9,178	11,382	24.0	50.3	51.0
% EBITDA margin	41.2%	44.6%	47.6%			40.7%	46.1%			
PBT	3,813	1,157	1,262	9.1	(66.9)	3,976	2,420	(39.1)		
Net profit (or loss)	3,131	929	979	5.3	(68.7)	3,260	1,908	(41.5)	63.5	64.5
% Net profit margin	26.9%	7.8%	7.7%			14.5%	7.7%			

Source: Company data, RHB

Figure 2: ISAT DCF

IDRbn	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
EBIT	7,737	9,868	11,862	11,765	13,031	15,559	17,373	18,967	20,789	22,186	22,846
EBIT (1-t)	6,357	8,108	9,747	9,667	10,707	12,784	14,275	15,584	17,082	18,230	18,772
Depreciation & amortisation	14,883	15,029	15,182	16,961	18,945	20,147	22,466	24,894	26,873	28,945	31,314
Change in working capital	0.2	1,450	1,559	1,727	1,886	2,085	2,303	2,180	2,077	4,192	(440)
Capex	(19,336)	(19,125)	(21,611)	(24,462)	(27,735)	(31,503)	(34,112)	(26,228)	(30,896)	(36,481)	(36,419)
Net free cash flow to firm	1,905	5,462	4,877	3,893	3,803	3,513	4,931	16,429	15,135	14,886	13,227
Terminal value											136,589
PV	5,462	4,376	3,133	2,746	2,276	2,866	8,568	7,081	6,248	4,981	49,939
WACC	11.5%										
Total discounted firm value	97,677										
Less: Debt	15,300										
Less: Minority interest	3,550										
Equity value	78,827										

Source: RHB

Figure 3: Changes to estimates

	New			Old			New/ Old (%)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Income statement (IDRbn)									
Total turnover	50,728	55,402	60,550	52,729	57,571	62,908	(3.8)	(3.8)	(3.7)
EBITDA	22,620	24,897	27,045	22,227	24,772	26,757	1.8	0.5	1.1
EBIT	7,737	9,868	11,862	7,344	9,700	11,483	5.4	1.7	3.3
Net profit	3,005	3,922	5,260	2,103	3,722	4,886	42.9	5.4	7.6
Key Metrics									
Revenue growth (%)	8.5	9.2	9.3	12.8	9.2	9.3			
EBITDA margin (%)	44.6	44.9	44.7	42.2	43.0	42.5			
EBIT margin (%)	15.3	17.8	19.6	13.9	16.8	18.3			
Net profit margin (%)	5.9	7.1	8.7	4.0	6.5	7.8			

Source: Company data, RHB

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Recommendation Chart

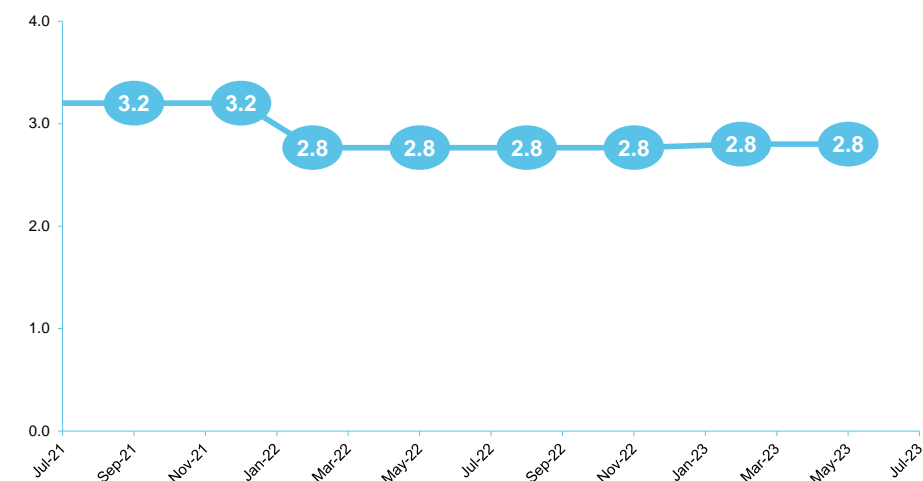


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-10-16	Buy	4,000	3,310
2019-09-10	Buy	4,000	3,500

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Not Rated:	Stock is not within regular research coverage

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