

Friday, 21 September 2018

HOLD
Maintain

Last price (IDR) 2,970
Target Price (IDR) 3,300
Upside/Downside +11.1%
Previous Target Price (IDR) 3,300

Stock Statistics

Sector Telco
Bloomberg Ticker ISAT IJ
No of Shrs (mn) 5,434
Mkt. Cap (IDRbn/USDmn) 16,139/1,085
Avg. daily T/O (IDRbn/USDmn) 3.7/0.2

Major shareholders (%)

Ooredoo Asia Pte. Ltd. 65.0
Government 14.3
Estimated free float 20.7

EPS Consensus (IDR)

	2018F	2019F	2020F
Danareksa	(66.2)	13.4	121.1
Consensus	(138.1)	(5.6)	77.7
Danareksa/Cons	(52.1)	(340.2)	56.0

ISAT relative to JCI Index



Source : Bloomberg



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Indosat Ooredoo (ISAT IJ)

Ex-Java plans become more concrete

After the successful launching in Lampung, ISAT added 4G capacity in South Kalimantan and South Sulawesi and now promotes data under the 4G Plus or 4.5G banner. Over 80% of the network is ready for the installation of 4G technology and the company is finally upgrading its 3G sites to 4G more aggressively. ISAT has to defend its market share while challenges on the operational and financial front may persist. In spite of the cheap valuation we prefer to remain conservative. Maintain HOLD with a TP of Rp3,300.

Late in the game but higher capex guidance begins to materialize. Company aims to increase capex intensity, which is part of its 3yr strategy to modernize its network starting with higher FY18 capex budget of Rp8 tn from ~Rp6 tn in previous years. ISAT believes is not late, as capex equipment prices are more reasonable, and that the timing is right as now the ex-Java population is more engaged now to video calling and watching content. ISAT goes a step further upgrading the 3G BTS to 4G for more speed and higher traffic volumes.

Dissappointing 1H18, challenging 2H18. ISAT has lagged considerably in 3G/4G BTS rollouts opting to streamline operations and maintain margins first, before embarking aggressively in data like EXCL did. The 1H18 revenue (-27% YoY) and net losses -Rp0.7 tn result in 1H18 were disappointing losing revenue share and EXCL's total revenue of Rp5.5 tn surpassed that of ISAT. We expect ISAT's revenue to post negative growth while net loss to persist.

ARPU pressures to continue in spite of potential price improvements. ISAT is obliged to follow Telkomsel/EXCL in ex-Java to defend market share. EXCL upped the capex allocation to 50% for Ex-Java (more than before) and ISAT follows suit with an analogous adjustment justifiably so. Still we think ISAT is later comer and destined to grab the less ARPU productive users. The lagging network rollouts are reflected in discounts in headline data prices which are heavy in bonuses.

Battle on multiple fronts. Maintain Hold. Market may have been disappointed with ISAT's operational and financial performance in the last one year and is probably waiting to see if its current execution of capex and marketing strategies could bring significant turnaround. This could take some time and until then we will prefer to stay conservative. We reiterate our Hold call with TP:Rp3300 implies EV/EBITDA-19 3.1x.

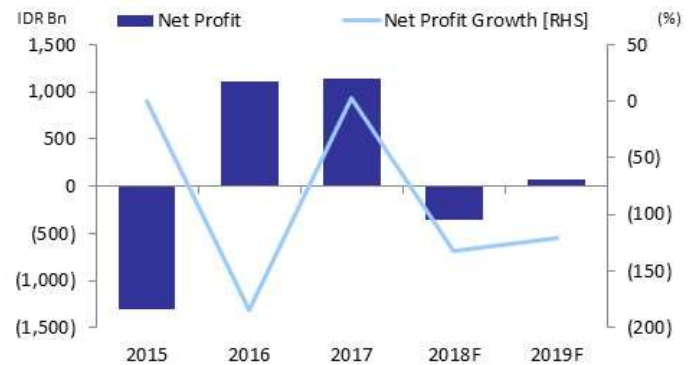
Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (IDRbn)	29,185	29,926	25,359	26,854	28,499
EBITDA (IDRbn)	12,864	12,763	9,662	10,872	11,643
EBITDA Growth (%)	12.1	(0.8)	(24.3)	12.5	7.1
Net profit (IDRbn)	1,105	1,136	(360)	73	658
EPS (IDR)	203.4	209.0	(66.2)	13.4	121.1
EPS growth (%)	(184.4)	2.8	(131.7)	(120.2)	805.1
BVPS (IDR)	2,456.8	2,575.8	2,402.6	2,416.0	2,530.4
DPS (IDR)	103.1	106.9	0.0	6.7	60.5
PER (x)	14.7	14.3	n/m	222.7	24.6
PBV (x)	1.2	1.2	1.2	1.2	1.2
Dividend yield (%)	3.5	3.6	0.0	0.2	2.0
EV/EBITDA (x)	2.7	2.7	3.4	2.8	2.5

Source : ISAT, Danareksa Estimates

Exhibit 1. Revenues and Growth

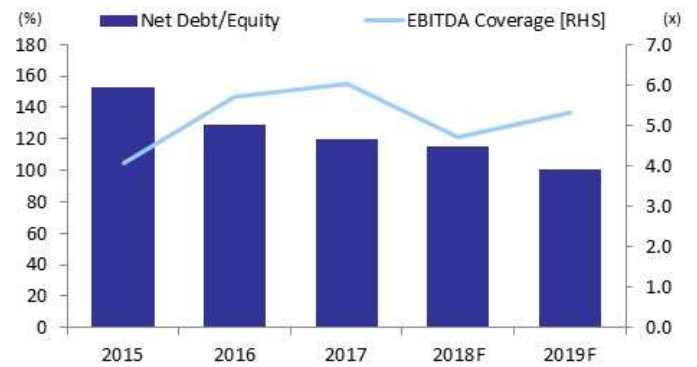

Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins


Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level


Source: Company, Danareksa Sekuritas estimates

Exhibit 5: 4G network map for ISAT



Source : Opensignal as of June 2018

Exhibit 6: 4G network map for EXCL



Source : Opensignal as of June 2018

Exhibit : Development in ISAT financials

Rp bn	FY16	FY17	1H18	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Operating revenue	29,185	29,926	11,066	6,813	7,129	7,582	7,660	7,290	7,823	7,453	7,360	5,692	5,373
Cellular	24,095	24,496	8,645	5,676	5,915	6,301	6,204	6,051	6,529	6,151	5,765	4,417	4,228
Multimedia, Data, Internet	4,130	4,517	2,010	908	989	1,043	1,190	998	1,060	1,085	1,375	1,043	967
Fixed telecommunications ¹	959	913	411	228	226	238	266	241	234	217	221	232	178
Total operating expense	(25,244)	(25,894)	(10,533)	(5,965)	(6,271)	(6,433)	(6,574)	(6,458)	(6,403)	(6,431)	(6,602)	(5,767)	(4,766)
Cost of services	(11,919)	(12,645)	(5,710)	(2,751)	(2,955)	(3,076)	(3,136)	(3,102)	(3,101)	(3,068)	(3,374)	(2,858)	(2,852)
Depreciation & amortization	(8,973)	(8,853)	(4,097)	(2,218)	(2,232)	(2,269)	(2,253)	(2,225)	(2,208)	(2,218)	(2,202)	(2,078)	(2,019)
Personnel	(2,115)	(2,022)	(1,162)	(530)	(520)	(514)	(550)	(597)	(565)	(568)	(292)	(588)	(574)
Marketing	(1,238)	(1,283)	(475)	(317)	(347)	(303)	(270)	(262)	(331)	(348)	(342)	(179)	(296)
G&A	(1,049)	(1,214)	(217)	(253)	(228)	(263)	(305)	(229)	(251)	(238)	(496)	(126)	(91)
Other opex	49	123	1,127	105	10	(7)	(59)	(43)	54	9	104	62	1,066
Operating Profit	3,941	4,032	533	848	858	1,149	1,086	832	1,420	1,023	758	(74)	607
EBITDA	12,864	12,763	3,503	2,961	3,080	3,425	3,398	3,100	3,574	3,232	2,856	1,942	1,560
<i>EBITDA margin (%)</i>	<i>44.1</i>	<i>42.6</i>	<i>31.7</i>	<i>43.5</i>	<i>43.2</i>	<i>45.2</i>	<i>44.4</i>	<i>42.5</i>	<i>45.7</i>	<i>43.4</i>	<i>38.8</i>	<i>34.1</i>	<i>29.0</i>
Total other income (expenses)	(2,145)	(2,092)	(1,104)	(477)	(508)	(530)	(631)	(523)	(515)	(524)	(531)	(513)	(591)
Net interest income	(2,145)	(2,057)	(1,019)	(565)	(519)	(545)	(516)	(528)	(513)	(496)	(519)	(495)	(524)
Forex gain (loss)	274	3	(114)	311	39	59	(135)	36	6	(30)	(10)	(33)	(81)
Other income (expenses)	(274)	(39)	29	(223)	(28)	(44)	20	(31)	(7)	2	(2)	15	15
Pre-tax profit / (loss)	1,795	1,940	(571)	370	350	619	455	309	905	499	227	(587)	16
Tax expense	(520)	(638)	135	(115)	(104)	(170)	(130)	(98)	(247)	(140)	(153)	121	14
Minority interest	(171)	(166)	(258)	(38)	(35)	(32)	(65)	(37)	(48)	(53)	(28)	(40)	(218)
Net profit / (loss)	1,105	1,136	(694)	217	211	417	260	174	610	306	46	(506)	(188)
<i>Net margin (%)</i>	<i>3.8</i>	<i>3.8</i>	<i>(6.3)</i>	<i>3.2</i>	<i>3.0</i>	<i>5.5</i>	<i>3.4</i>	<i>2.4</i>	<i>7.8</i>	<i>4.1</i>	<i>0.6</i>	<i>(8.9)</i>	<i>(3.5)</i>
Cash Capex	6,377	6,237	2,672	557	1,057	1,147	3,616	622	1,078	785	3,752	1,322	1,350
<i>Capex/sales (intensity) (%)</i>	<i>21.9</i>	<i>20.8</i>	<i>24.1</i>	<i>8.2</i>	<i>14.8</i>	<i>15.1</i>	<i>47.2</i>	<i>8.5</i>	<i>13.8</i>	<i>10.5</i>	<i>51.0</i>	<i>23.2</i>	<i>25.1</i>

Source : ISAT and Danareksa Sekuritas

Exhibit : Development in ISAT operating KPIs

Key Operating Data	FY16	FY17	1H18	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Customers - total (mn)	86	110	75	70	81	82	86	96	96	97	110	96	75
Customers - postpaid (mn)	1	1	2	1	1	1	1	1	1	1	1	1	2
Customers - prepaid (mn)	85	109	74	69	80	81	85	95	95	96	109	95	74
Data metrics													
Data users (mn) (calculated)	40.5	54.4	40	31.2	35.1	39.4	40.5	41.1	41.1	45.2	54.4	50.2	40.4
Smartphone users (mn)	44.6	73.0	54	-	-	-	-	-	56.9	60.6	73.0	67.3	54.2
Data traffic (Petabytes)	491.8	1,082.9	817.3	64.0	93.6	146.1	188.1	209.6	246.9	293.2	333.3	368.2	449.1
Effective Data Tariff (Rp '000/gb)	-	-	-	31.3	24.6	16.3	12.7	12.4	12.6	10.2	9.0	6.1	4.8
Average data usage (in gb)	-	-	-	0.2	0.2	0.3	0.4	0.8	0.5	0.6	0.6	0.6	0.8
Voice metrics													
MoU	68.4	47.4	32.2	69	71	66	68	57	53	47	37	29	36
ARPM	127	138	152	137	126	124	123	125	131	144	149	150	155
ARPU (blended) (Rp thousand)	25.2	20.3	14.3	26.4	25.5	24.2	24.5	21.7	22.5	20.6	17.6	12.4	15.9
ARPU (prepaid) (Rp thousand)	23.6	19.0	13.1	24.8	24.0	22.7	22.9	20.4	21.3	19.3	16.3	11.4	14.5
Network BTS (# '000)													
2G	24.0	24.0	24.4	23.7	23.8	23.9	24.0	24.2	24.2	24.2	24.0	24.3	24.4
3G	27.7	30.2	31.9	25.1	25.8	26.3	27.7	28.5	29.3	29.9	30.2	31.1	31.9
4G	4.7	7.2	10.1	3.5	3.7	4.1	4.7	5.4	5.5	6.1	7.2	9.0	10.1
Total BTS	56.5	61.4	66.4	52.3	53.3	54.2	56.5	58.2	59.0	60.2	61.4	64.4	66.4

Source : ISAT and Danareksa Sekuritas

Exhibit X. Income Statement

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Revenue	29,185	29,926	25,359	26,854	28,499
COGS	(22,666)	(23,186)	(22,163)	(22,701)	(23,316)
Gross profit	6,519	6,740	3,196	4,153	5,183
EBITDA	12,864	12,763	9,662	10,872	11,643
Oper. profit	3,941	4,032	1,423	2,240	2,900
Interest income	111	65	62	88	157
Interest expense	(2,256)	(2,121)	(2,053)	(2,040)	(1,968)
Forex Gain/(Loss)	274	3	2	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(274)	(39)	271	0	0
Pre-tax profit	1,795	1,940	(295)	289	1,088
Income tax	(520)	(638)	97	(87)	(326)
Minority interest	(171)	(166)	(162)	(129)	(104)
Net profit	1,105	1,136	(360)	73	658
Core Net Profit	831	1,133	(362)	73	658

Exhibit X. Balance Sheet

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Cash & cash equivalent	1,850	1,778	2,942	5,190	4,401
Receivables	2,750	3,989	3,490	3,615	3,853
Inventory	79	88	92	96	106
Other Curr. Asset	3,378	3,625	3,309	3,349	3,555
Fixed assets - Net	39,078	35,892	35,276	34,268	33,148
Other non-curr.asset	3,687	5,290	4,618	4,456	4,676
Total asset	50,823	50,661	49,727	50,974	49,738
ST Debt	7,812	4,602	4,261	4,672	4,495
Payables	5,227	5,105	4,774	4,980	5,019
Other Curr. Liabilities	6,048	6,493	6,531	7,193	6,981
Long Term Debt	12,349	14,899	14,899	14,884	13,342
Other LT. Liabilities	5,226	4,746	5,226	5,006	4,938
Total Liabilities	36,662	35,846	35,691	36,736	34,775
Shareholder's Funds	13,350	13,997	13,056	13,128	13,750
Minority interests	827	819	980	1,110	1,213
Total Equity & Liabilities	50,839	50,661	49,727	50,974	49,738

Exhibit X. Cash Flow

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Net income	1,105	1,136	(360)	73	658
Depreciation and Amort.	8,973	8,853	8,239	8,631	8,743
Change in Working Capital	64	(1,120)	56	(145)	(193)
Other Oper. Cash Flow	683	2,123	2,451	2,785	1,372
Operating Cash Flow	10,825	10,992	10,386	11,344	10,581
Capex	(5,122)	7,553	(7,500)	(7,500)	(7,500)
Others Inv. Cash Flow	(1,035)	(14,758)	611	127	(186)
Investing Cash Flow	(6,156)	(7,205)	(6,889)	(7,373)	(7,686)
Net change in debt	(4,195)	(1,039)	250	147	(1,736)
New Capital	(192)	63	162	129	104
Dividend payment	0	(560)	(581)	0	(36)
Other Fin. Cash Flow	(2,005)	(2,201)	(2,164)	(1,999)	(2,013)
Financing Cash Flow	(6,392)	(3,737)	(2,333)	(1,723)	(3,683)
Net Change in Cash	(1,724)	50	1,164	2,248	(788)
Cash - begin of the year	3,623	1,850	1,778	2,942	5,190
Cash - end of the year	1,850	1,778	2,942	5,190	4,401

Exhibit X. Key Ratios

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Growth (%)					
Sales	9.0	2.5	(15.3)	5.9	6.1
EBITDA	12.1	(0.8)	(24.3)	12.5	7.1
Operating profit	45.7	2.3	(64.7)	57.5	29.4
Net profit	(184.4)	2.8	(131.7)	(120.2)	805.1
Profitability (%)					
Gross margin	22.3	22.5	12.6	15.5	18.2
EBITDA margin	44.1	42.6	38.1	40.5	40.9
Operating margin	13.5	13.5	5.6	8.3	10.2
Net margin	3.8	3.8	(1.4)	0.3	2.3
ROAA	2.1	2.2	(0.7)	0.1	1.3
ROAE	8.6	8.3	(2.7)	0.6	4.9
Leverage					
Net Gearing (x)	1.3	1.2	1.2	1.0	0.9
Interest Coverage (x)	1.7	1.9	0.7	1.1	1.5

Source : ISAT, Danareksa Estimates

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