

Wednesday, 28 November 2018

BUY
Maintain

Last price (IDR) 2,030
Target Price (IDR) 3,100
Upside/Downside +52.7%
Previous Target Price (IDR) 3,100

Stock Statistics

Sector Telco
Bloomberg Ticker ISAT IJ
No of Shrs (mn) 5,434
Mkt. Cap (IDRbn/USDmn) 11,031/762
Avg. daily T/O (IDRbn/USDmn) 3.5/0.2

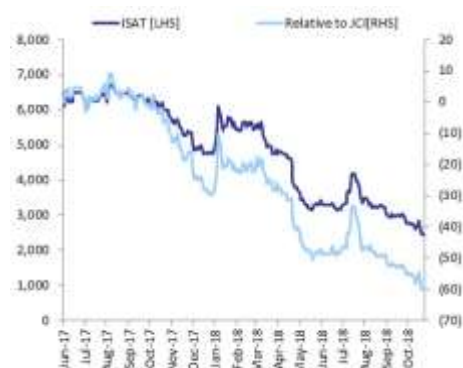
Major shareholders (%)

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

EPS Consensus (IDR)

	2018F	2019F	2020F
Danareksa	(416.0)	(275.1)	(181.4)
Consensus	(220.3)	(88.7)	(20.2)
Danareksa/Cons	88.9	210.2	798.9

ISAT relative to JCI Index



Source : Bloomberg



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Indosat Ooredoo (ISAT IJ)

Takeaways from the 3Q18 con call; Ex-Java fever

The main takeaway from our conference call with ISAT is that Ex-Java areas are seen as a land of opportunity for contender telcos given the investment appetite in other islands. Our view is that the incumbent's presence has paved the way for data services which should allow contenders to enter more quickly and ride on that footprint.

Ex-Java is a land of opportunity. ISAT's CEO provided reassurances that ex-Java expansion is on track through strengthening of the company's presence in South Kalimantan and South Sulawesi which showed 26% and 14% growth respectively after being launched in September. The company had already established a presence in Lampung in earlier quarters. ISAT targets 80% 4G population coverage by end-18 (56% in June, 71% currently), while ex-Java 4G coverage is targeted at 60% (vs. 27% at the beginning of 2018) by expanding further into adjacent areas of those ex-Java cities. Additionally, user download speed has improved by 50%yoy. The management says the growth is continuing in 4Q18, relying on ex-Java coverage expansion.

Positive pricing sentiment maintained. The management sees that data prices have increased overall in the industry including theirs, referencing the growth in its 3Q18 ARPU to Rp21.6k (+35.8%qoq, +5.1%yoy). We think ISAT's rhetoric has been consistent so far in terms of pricing improvements post sim-reregistration, while we also notice that data yields in 3Q have stabilized.

US\$2 bn of capex planned. The company is still devising its financing plan for its US\$2 bn capex (~Rp29 tn) for the 2019-21 period while its internal budget sets the FY19 target at Rp10.3 tn. The company has net debt / EBITDA of 2.5x in 3Q18 and its key debt covenant is 4x. The company indicated that the ratio will remain elevated as more financing for capex will only partly be compensated from EBITDA growth.

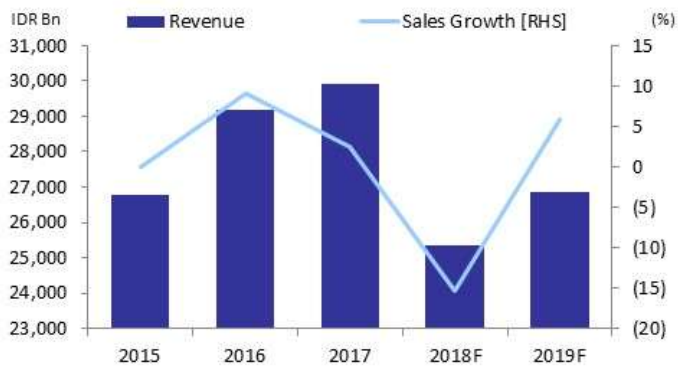
Management guidance explained. The management has changed the FY18 EBITDA margin guidance to the mid-30s from the high-30s given the challenging 1H18. Part of its digital transformation will be to attain more efficiencies in OPEX and CAPEX. Capex guidance is maintained at Rp8 tn, having spent about Rp4.86 tn in 9M18, while the personnel costs came down in 3Q18 due to fewer employees, while G&A expenses increased due to one-off bad debt provisions. ISAT has provided guidance for FY18 revenues to grow below the industry level. The drivers going forward will be a combination of an increasing subscriber base by improving: a) its overall customer experience and b) network coverage and better rationalization of data prices.

BUY maintained. The above reaffirms our view of a turnaround in the company's fortunes, following an improvement in the 3Q revenues. We await: a) updates on the company's funding (tower disposals may be on the cards) and b) how KPIs will develop given 3Q 4G BTS additions of 1,570 vs. EXCL's 3,160. BUY maintained with a TP of Rp3,100, with limited downside risk.

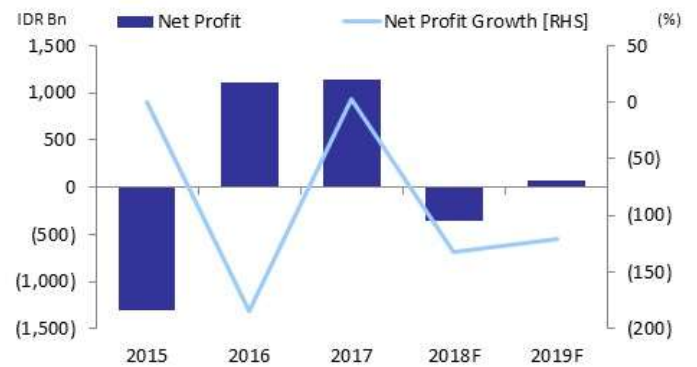
Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (IDRbn)	29,185	29,926	22,628	23,911	25,764
EBITDA (IDRbn)	12,864	12,763	6,973	8,631	9,768
EBITDA Growth (%)	12.1	(0.8)	(45.4)	23.8	13.2
Net profit (IDRbn)	1,105	1,136	(2,261)	(1,495)	(986)
EPS (IDR)	203.4	209.0	(416.0)	(275.1)	(181.4)
EPS growth (%)	(184.4)	2.8	(299.0)	(33.9)	(34.1)
BVPS (IDR)	2,456.8	2,575.8	2,159.8	3,724.9	4,647.7
DPS (IDR)	103.1	0.0	0.0	0.0	0.0
PER (x)	16.0	15.6	n/m	n/m	n/m
PBV (x)	1.3	1.3	1.5	0.9	0.7
Dividend yield (%)	3.2	0.0	0.0	0.0	0.0
EV/EBITDA (x)	2.8	2.8	5.0	3.4	2.8

Source : ISAT, Danareksa Estimates

Exhibit 1. Revenues and Growth


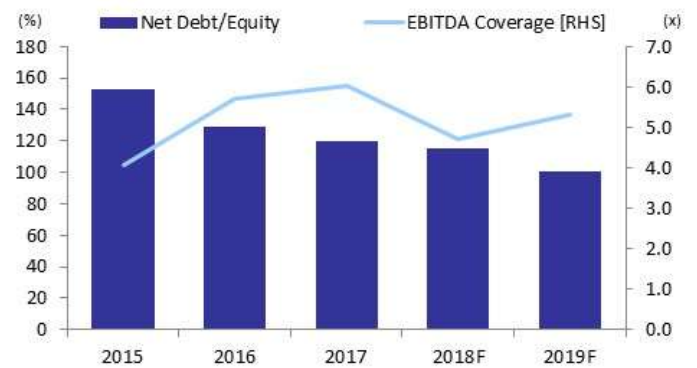
Source: Company, Danareksa Sekuritas estimates

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. Indosat Key Performance Indicators 3Q18

Key Operating Data	3Q17	2Q18	3Q18	QoQ, %	YoY, %	9M17	9M18	YoY, %
Customers - total (mn)	97.0	75.3	64.1	-14.9	-33.9	97.0	64.1	-33.9
Customers - postpaid (mn)	1.2	1.5	1.5	0.0	25.0	1.2	1.5	25.0
Customers - prepaid (mn)	95.8	73.8	62.6	-15.2	-34.7	95.8	62.6	-34.7
Data metrics								
Smartphone users (mn)	60.6	54.2	45.5	-16.1	-24.9	60.6	45.5	-24.9
Data traffic (Petabytes)	293.2	449.1	490.5	9.2	67.3	749.7	1,307.8	74.4
Effective Data Tariff (Rp '000/gb)	10.2	4.8	5.2	7.4	-49.2	-	-	-
Average data usage (in gb)	0.6	0.8	1.1	33.1	94.1	-	-	-
Voice metrics								
MoU	47	36	40	13.5	-13.3	51	35	-31.4
ARPM	144	155	162	4.2	12.3	135	155	14.8
ARPU (blended) (Rp thousand)	20.6	15.9	21.6	35.8	4.9	21.2	16.8	-20.8
ARPU (prepaid) (Rp thousand)	19.3	15.9	19.9	25.2	3.1	19.9	15.4	-22.6
Network BTS (# '000)								
2G	24.2	24.4	22.1	-9.4	-8.7	24.2	22.1	-8.7
3G	29.9	31.9	33.2	4.3	11.1	29.9	33.2	11.1
4G	6.1	10.1	11.6	15.6	90.4	6.1	11.6	90.4
<i>Total BTS</i>	<i>60.2</i>	<i>66.4</i>	<i>67.0</i>	<i>0.9</i>	<i>11.2</i>	<i>60.2</i>	<i>67.0</i>	<i>11.2</i>

Source: Company, Danareksa Sekuritas estimates

Exhibit 6. Indosat financial results 3Q18

Rp bn	3Q17	2Q18	3Q18	QoQ, %	YoY, %	9M17	9M18	YoY, %
Operating revenue	7,453	5,373	5,704	6.2	-23.5	22,566	16,770	-25.7
Cellular	6,151	4,228	4,530	7.1	-26.4	18,731	13,176	-29.7
Multimedia, Data, Internet (MIDI)	1,085	967	1,016	5.04	-6.4	3,143	3,025	-3.7
Fixed telecommunications ¹	217	178	158	-11.4	-27.2	692	569	-17.9
Total operating expense	(6,431)	(4,766)	(6,054)	27.0	-5.9	(19,291)	(16,587)	-14.0
Cost of services	(3,068)	(2,852)	(2,984)	4.6	-2.7	(9,271)	(8,694)	-6.2
Depreciation & amortization	(2,218)	(2,019)	(2,042)	1.1	-8.0	(6,651)	(6,139)	-7.7
Personnel	(568)	(574)	(516)	-10.1	-9.1	(1,730)	(1,678)	-3.0
Marketing	(348)	(296)	(246)	-16.8	-29.1	(941)	(721)	-23.4
G&A	(238)	(91)	(315)	245.6	32.7	(718)	(532)	-25.8
Other opex	9	1,066	50	-95.3	n/a	19	1,178	6,111.1
Operating Profit	1,023	607	(350)	-157.6	-134.2	3,274	183	-94.4
EBITDA	3,232	1,560	1,642	5.2	-49.2	9,906	5,145	-48.1
Total other income (expenses)	(524)	(591)	(570)	-3.7	8.7	(1,561)	(1,674)	7.2
Net interest income (expenses)	(496)	(524)	(507)	-3.2	2.4	(1,538)	(1,527)	-0.7
Forex gain (loss)	(30)	(81)	(74)	-9.2	148.1	13	(188)	n/a
Other income (expenses)	2	15	12	-18.1	550.7	(36)	41	n/a
Pre-tax profit / (loss)	499	16	(919)	n/a	n/a	1,713	(1,490)	n/a
Tax expense	(140)	14	102	n/a	n/a	(485)	237	n/a
Minority interest	(53)	(218)	(28)	n/a	n/a	(138)	(286)	107.3
Net profit / (loss)	306	(188)	(845)	349.8	-376.2	1,090	(1,539)	-241.2
<i>OP margin (%)</i>	<i>13.7</i>	<i>11.3</i>	<i>-6.1</i>	<i>(17.4)</i>	<i>(19.9)</i>	<i>14.5</i>	<i>1.1</i>	<i>(13.4)</i>
<i>EBITDA margin (%)</i>	<i>43.4</i>	<i>29.0</i>	<i>28.8</i>	<i>(0.3)</i>	<i>(14.6)</i>	<i>43.9</i>	<i>30.7</i>	<i>(13.2)</i>
<i>Net margin (%)</i>	<i>4.1</i>	<i>(3.5)</i>	<i>(14.8)</i>	<i>(11.3)</i>	<i>(18.9)</i>	<i>4.8</i>	<i>(9.2)</i>	<i>(14.0)</i>
Capex	785	1,350	2,183	61.7	178.1	2,486	4,855	95.3
Capex/sales (intensity) (%)	10.5	25.1	38.3	13.2	27.7	11.0	29.0	17.9

Source: Company, Danareksa Sekuritas estimates

Exhibit 7. Income Statement

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Revenue	29,185	29,926	22,628	23,911	25,764
COGS	(22,666)	(23,186)	(21,993)	(22,052)	(23,313)
Gross profit	6,519	6,740	634	1,859	2,451
EBITDA	12,864	12,763	6,973	8,631	9,768
Oper. profit	3,941	4,032	(1,316)	(276)	52
Interest income	111	65	62	88	157
Interest expense	(2,256)	(2,121)	(2,096)	(1,764)	(1,469)
Forex Gain/(Loss)	274	3	(188)	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(274)	(39)	1,268	0	0
Pre-tax profit	1,795	1,940	(2,270)	(1,951)	(1,260)
Income tax	(520)	(638)	324	585	378
Minority interest	(171)	(166)	(314)	(129)	(104)
Net profit	1,105	1,136	(2,261)	(1,495)	(986)
Core Net Profit	831	1,133	(2,072)	(1,495)	(986)

Exhibit 8. Balance Sheet

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Cash & cash equivalent	1,850	1,778	887	2,594	3,086
Receivables	2,750	3,989	3,114	3,219	3,483
Inventory	79	88	87	85	93
Other Curr. Asset	3,378	3,625	3,246	3,164	3,342
Fixed assets - Net	39,078	35,892	35,603	38,820	41,227
Other non-curr.asset	3,687	5,290	4,279	4,116	4,345
Total asset	50,823	50,661	47,217	51,998	55,575
ST Debt	7,812	4,602	4,981	3,616	3,038
Payables	5,227	5,105	4,761	4,762	4,763
Other Curr. Liabilities	6,048	6,493	6,505	7,074	6,724
Long Term Debt	12,349	14,899	13,033	10,282	9,750
Other LT. Liabilities	5,226	4,746	5,221	4,913	4,832
Total Liabilities	36,662	35,846	34,500	30,647	29,107
Shareholder's Funds	13,350	13,997	11,736	20,241	25,255
Minority interests	827	819	980	1,110	1,213
Total Equity & Liabilities	50,839	50,661	47,217	51,998	55,575

Exhibit 9. Cash Flow

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Net income	1,105	1,136	(2,261)	(1,495)	(986)
Depreciation and Amort.	8,973	8,853	8,289	8,906	9,716
Change in Working Capital	64	(1,120)	423	(139)	(221)
Other Oper. Cash Flow	683	2,123	2,531	2,352	729
Operating Cash Flow	10,825	10,992	8,983	9,625	9,238
Capex	(5,122)	7,553	(8,000)	(12,000)	(12,000)
Others Inv. Cash Flow	(1,035)	(14,758)	1,073	129	(196)
Investing Cash Flow	(6,156)	(7,205)	(6,927)	(11,871)	(12,196)
Net change in debt	(4,195)	(1,039)	(895)	(4,365)	(1,128)
New Capital	(192)	63	162	10,129	6,104
Dividend payment	0	(560)	0	0	0
Other Fin. Cash Flow	(2,005)	(2,201)	(2,213)	(1,811)	(1,527)
Financing Cash Flow	(6,392)	(3,737)	(2,946)	3,954	3,449
Net Change in Cash	(1,724)	50	(891)	1,707	492
Cash - begin of the year	3,623	1,850	1,778	887	2,594
Cash - end of the year	1,850	1,778	887	2,594	3,086

Exhibit 10. Key Ratios

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Growth (%)					
Sales	9.0	2.5	(24.4)	5.7	7.7
EBITDA	12.1	(0.8)	(45.4)	23.8	13.2
Operating profit	45.7	2.3	(132.6)	(79.1)	(118.9)
Net profit	(184.4)	2.8	(299.0)	(33.9)	(34.1)
Profitability (%)					
Gross margin	22.3	22.5	2.8	7.8	9.5
EBITDA margin	44.1	42.6	30.8	36.1	37.9
Operating margin	13.5	13.5	(5.8)	(1.2)	0.2
Net margin	3.8	3.8	(10.0)	(6.3)	(3.8)
ROAA	2.1	2.2	(4.6)	(3.0)	(1.8)
ROAE	8.6	8.3	(17.6)	(9.4)	(4.3)
Leverage					
Net Gearing (x)	1.3	1.2	1.3	0.5	0.4
Interest Coverage (x)	1.7	1.9	(0.6)	(0.2)	0.0

Source : ISAT, Danareksa Estimates

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