

Wednesday, 06 November 2019

**BUY**  
**Maintain**

Last price (IDR)	3,320
Target Price (IDR)	4,400
Upside/Downside	+32.5%
Previous Target Price (IDR)	4,400

#### Stock Statistics

Sector	Telco
Bloomberg Ticker	ISAT IJ
No of Shrs (mn)	5,434
Mkt. Cap (IDR bn/USDmn)	18,041/1,285
Avg. daily T/O (IDR bn/USDmn)	27.3/1.9

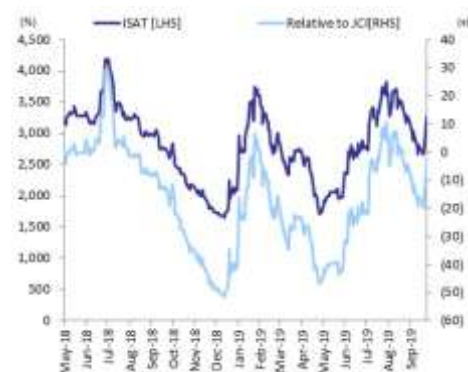
#### Major shareholders (%)

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

#### EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	(302.9)	(304.0)	(245.3)
Consensus	(321.8)	(284.6)	(186.1)
Danareksa/Cons	(5.9)	6.8	31.8

#### ISAT relative to JCI Index



Source : Bloomberg

## Indosat Ooredoo (ISAT IJ)

### Unanticipated yet decent earnings

Indosat's 3Q19 topline offered mixed messages with the cellular business relatively underperforming in comparison to its peers, only saved by MIDI business segment. Tight cost optimization and more tailwinds in other items led to margin gains, as well as 3Q net profits. The outlook is promising given significant capex rollouts. **Maintain BUY.**

**3Q19: a bag of mixed surprises at the top.** Indosat's 3Q19 revenues reached Rp6.56tn (+5.1%QoQ) with the MIDI business driving the growth in 3Q. The 3Q cellular revenues surprised us, being flat on a QoQ basis (reaching Rp5.12tn) mainly due to anemic growth in cellular data of Rp3.9tn before discounts (+1.7%QoQ). The legacy business lost significant ground in 3Q which added to the soft tone in data. Meanwhile, the 3Q discounts, which continued to slide down in relation to gross revenues, indicate better income quality. Positively, the MIDI business was surprisingly strong in 3Q19 with revenues of Rp1.26tn (+31%QoQ), and particularly the IT services and electronic payment revenues.

**Income from operations were positive; 3Q net profits.** The 3Q19 OPEX performance (only +2.7%QoQ) suggests a massive improvement across the entire cost structure, helping Indosat to deliver 3Q19 EBITDA of Rp2.80tn (+23.2%QoQ) and 630bps margins expansion to 43%. The cost of services came in higher with network expansion underway, while cost optimization was very tight with personnel, marketing and G&A costs (we will check with the company on their sustainability). Indosat reported other non-cash income of Rp247bn in 3Q19 helping the operating profits to expand further in 3Q19 to Rp724bn (+29.5%QoQ). Although Indosat booked higher finance cost with more debt in 3Q, net profits reached Rp47bn mainly due to presence of non-core items.

**Rapid YTD improvements in the topline & OP – capex frontloading to fuel more growth.** Indosat reported a 9M19 topline of Rp18.85tn (+12.4%YoY) in line with our forecast/consensus estimates (77%/75%) with data as the main driver, while the YTD EBITDA of Rp7.24tn was driven by +730bps EBITDA margins expansion, ahead of our estimates (consensus: in-line). The 9M bottom line of Rp285bn losses beat estimates mainly due to tailwinds from spectrum refarming gains, and other non-cash income. If excluded, the company would realize 87%/84% of our forecast and consensus estimates.

Capex intensity was high in 3Q19 (capex/sales ratio at 49% in 3Q, 45% in 9M) suggesting significant frontloading to support data growth. Debt/EBITDA went up to 2.7x as the company increased leverage while capex payables and tower lease liabilities were elevated. We expect the leveraging and intense capex rollouts to translate into higher cellular growth in the following quarters.

**Maintain BUY.** Indosat posted 3Q net profits - much sooner than anticipated – on the back of soft 3Q topline growth, very tight OPEX and supported by non-core items. We also note Indosat's capacity to deliver positive operating income on a sustainable basis. Expected to book a seasonally high 4Q and possibly gains from tower sales, Indosat is close to posting net profits based on ID GAAP. **Maintain BUY** with a TP of Rp4,400.

#### Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	29,926	23,140	24,616	26,448	28,505
EBITDA (IDRbn)	12,763	6,500	8,330	9,044	10,234
EBITDA Growth (%)	(0.8)	(49.1)	28.2	8.6	13.2
Net profit (IDRbn)	1,136	(2,404)	(1,646)	(1,652)	(1,333)
EPS (IDR)	209.0	(442.4)	(302.9)	(304.0)	(245.3)
EPS growth (%)	2.8	(311.6)	(31.5)	0.3	(19.3)
BVPS (IDR)	2,575.8	2,056.4	1,753.4	1,449.4	1,204.1
DPS (IDR)	80.3	0.0	0.0	0.0	0.0
PER (x)	15.6	n/m	n/m	n/m	n/m
PBV (x)	1.3	1.6	1.9	2.2	2.7
Dividend yield (%)	2.5	0.0	0.0	0.0	0.0
EV/EBITDA (x)	2.8	5.8	4.4	4.6	4.1

Source : ISAT, Danareksa Estimates

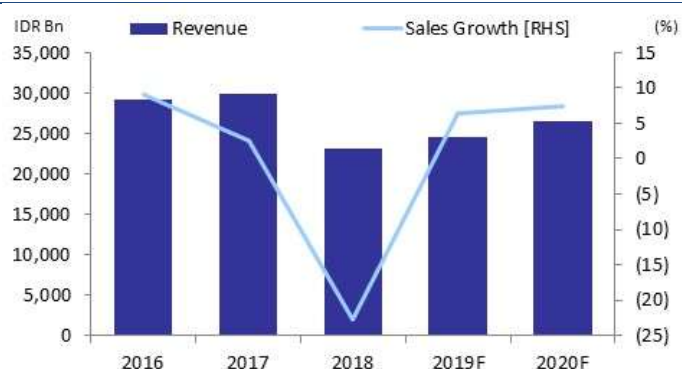


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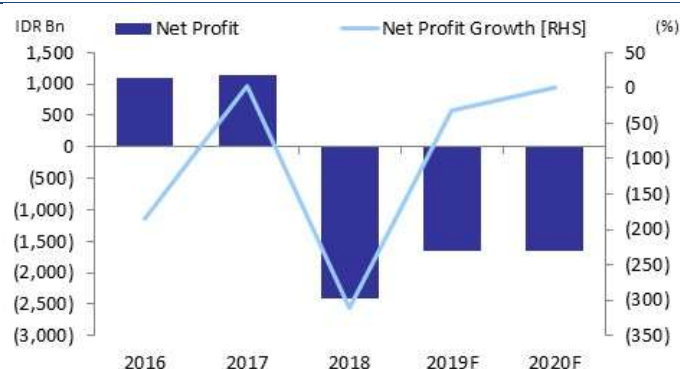
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**Exhibit 1. REVENUES AND GROWTH**



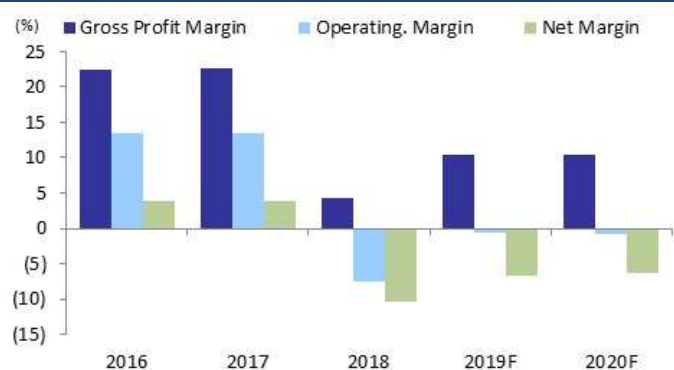
Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. NET PROFITS AND GROWTH**



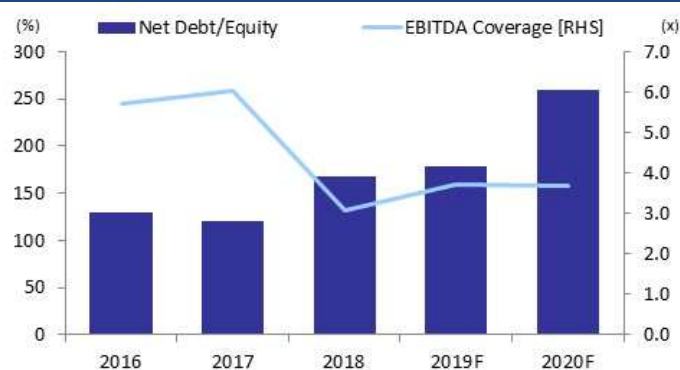
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. MARGINS**



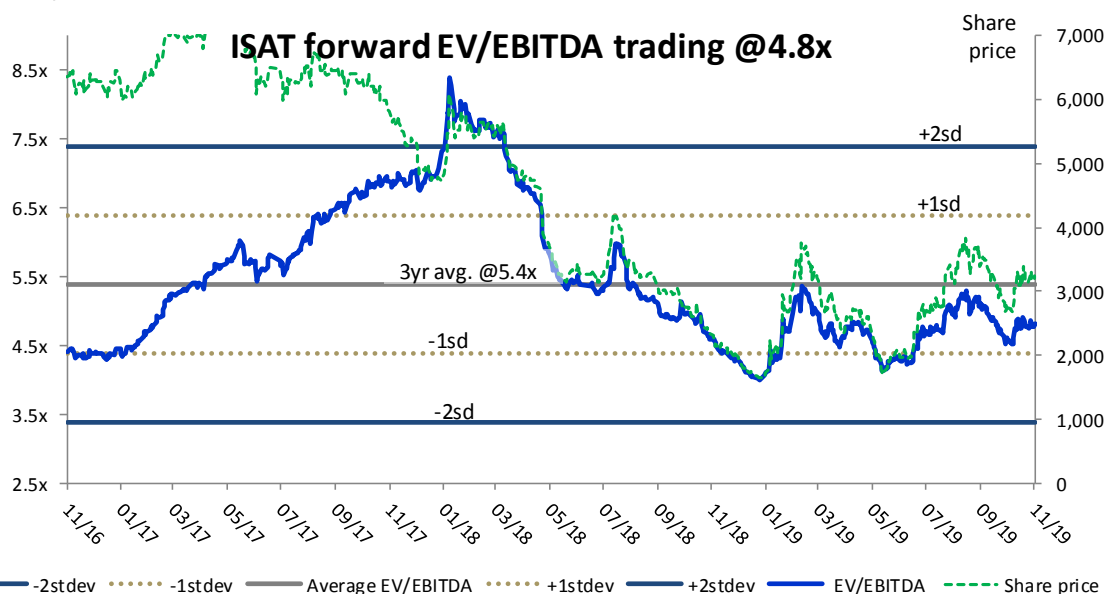
Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. GEARING LEVEL**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. 3yr forward EV/EBITDA band**



Source: Bloomberg, Danareksa

**Exhibit 6. Indosat Ooredoo 3Q, 9M 2019 earnings**

Rp bn	3Q18	2Q19	3Q19	QoQ, %	YoY, %	9M18	9M19	YoY, %	2019F	A/F, %	2019Cons	A/F, %
<b>Total revenue</b>	<b>5,704</b>	<b>6,245</b>	<b>6,562</b>	<b>5.1</b>	<b>15.0</b>	<b>16,770</b>	<b>18,853</b>	<b>12.4</b>	<b>24,616</b>	<b>77%</b>	<b>25,049</b>	<b>75%</b>
<b>Net Cellular revenue</b>	<b>4,530</b>	<b>5,103</b>	<b>5,123</b>	<b>0.4</b>	<b>13.1</b>	<b>13,176</b>	<b>15,085</b>	<b>14.5</b>				
Gross cellular revenue	5,685	5,899	5,827	(1.2)	2.5	17,357	17,393	0.2				
Data	3,188	3,846	3,909	1.7	22.6	9,139	11,218	22.8				
Voice	1,126	726	677	(6.8)	(39.9)	3,561	2,157	(39.4)				
SMS	337	185	154	(16.6)	(54.3)	1,273	540	(57.6)				
Interconnection	378	323	264	(18.1)	(30.0)	1,160	899	(22.5)				
VAS	238	327	335	2.5	40.7	808	954	18.0				
Tower Leasing	217	236	243	3.2	12.2	670	714	6.6				
Others	202	257	244	(5.2)	20.9	746	912	22.2				
Discounts	(1,155)	(795)	(704)	(11.5)	(39.1)	(4,181)	(2,309)	(44.8)				
<b>Multimedia, Data, Internet (MIDI)</b>	<b>1,016</b>	<b>962</b>	<b>1,260</b>	<b>31.0</b>	<b>24.1</b>	<b>3,025</b>	<b>3,248</b>	<b>7.4</b>				
Fixed connectivity	619	632	479	(24.2)	(22.6)	1,889	1,774	(6.1)				
IT services & electronic payment	139	77	478	519.6	244.1	442	649	46.8				
Fixed Internet	258	253	303	20.0	17.5	694	825	18.9				
<b>Fixed telecommunications'</b>	<b>158</b>	<b>180</b>	<b>179</b>	<b>(0.9)</b>	<b>13.0</b>	<b>569</b>	<b>520</b>	<b>(8.5)</b>				
International calls	127	151	150	(0.9)	18.1	460	433	(6.0)				
Fixed line	31	29	29	(1.1)	(7.3)	108	88	(19.1)				
<b>Total operating expense</b>	<b>(6,030)</b>	<b>(5,686)</b>	<b>(5,837)</b>	<b>2.7</b>	<b>(3.2)</b>	<b>(16,587)</b>	<b>(17,332)</b>	<b>4.5</b>				
Cost of services	(2,961)	(2,848)	(3,073)	7.9	3.8	(8,694)	(8,927)	2.7				
Depreciation & amortization	(2,042)	(2,338)	(2,378)	1.7	16.5	(6,139)	(7,089)	15.5				
Personnel	(516)	(631)	(285)	(54.9)	(44.8)	(1,678)	(1,286)	(23.4)				
Marketing	(246)	(261)	(213)	(18.6)	(13.7)	(721)	(770)	6.9				
G&A	(315)	(229)	(186)	(18.9)	(41.1)	(532)	(632)	18.8				
Amortization of deferred gain on	35	35	35	(0.0)	0.0	106	106	0.0				
Gain from divestment/assets	-	222	16	(93.0)	(76.0)	925	535	(42.2)				
Other	15	364	247	(32.0)	1,560.3	147	732	398.9				
<b>Operating Profit</b>	<b>(326)</b>	<b>559</b>	<b>724</b>	<b>29.5</b>	<b>n/a</b>	<b>183</b>	<b>1,521</b>	<b>730.2</b>				
<b>EBITDA</b>	<b>1,665</b>	<b>2,276</b>	<b>2,805</b>	<b>23.2</b>	<b>68.4</b>	<b>5,145</b>	<b>7,238</b>	<b>40.7</b>	<b>8,330</b>	<b>87%</b>	<b>8,565</b>	<b>76%</b>
<b>Total other income (expenses)</b>	<b>(590)</b>	<b>(649)</b>	<b>(668)</b>	<b>2.9</b>	<b>13.1</b>	<b>(1,674)</b>	<b>(1,943)</b>	<b>16.1</b>				
Finance cost	(537)	(661)	(696)	5.4	29.6	(1,556)	(2,005)	28.8				
Interest income	9	17	26	49.0	180.2	30	60					
Forex gain (loss)	(74)	2	3	66.3	(103.8)	(188)	21	n/a				
Other income (expenses)	12	(8)	(0)	(96.9)	(102.0)	41	(18)	n/a				
<b>Pre-tax profit / (loss)</b>	<b>(916)</b>	<b>(90)</b>	<b>57</b>	<b>n/a</b>	<b>n/a</b>	<b>(1,490)</b>	<b>(421)</b>	<b>(71.7)</b>				
Tax benefit (expense)	102	49	9	(82.5)	(91.6)	237	165	(30.5)				
Minority interest	(28)	1	(18)	(1,414.5)	(36.9)	(286)	(28)	(90.1)				
<b>Net profit / (loss)</b>	<b>(842)</b>	<b>(39)</b>	<b>47</b>	<b>n/a</b>	<b>n/a</b>	<b>(1,539)</b>	<b>(285)</b>	<b>(81.5)</b>	<b>(1,646)</b>	<b>17%</b>	<b>(1,699)</b>	<b>17%</b>
Book Capex	2,183	3,164	3,190	0.8	46.1	4,855	8,543	76.0				
Capex/sales (intensity) (%)	38	51	49	(2.0)	10.3	29.0	45.3	16.4				
OP margin (%)	(5.7)	9.0	11.0	2.1	16.8	1.1	8.1	7.0				
EBITDA margin (%)	29.2	36.4	42.7	6.3	13.5	30.7	38.0	7.3				
Net margin (%)	(14.8)	(0.6)	0.7	1.4	15.5	(9.2)	(1.5)	7.7				
Net debt /LTM EBITDA (x)	2.5	2.8	2.7	-	-	2.5	2.7	-				
Net debt/equity (%)	1.5	1.8	2.0	-	-	1.5	2.0	-				

Source: Indosat Ooredoo, Danareksa

### Exhibit 7. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
<b>Revenue</b>	<b>29,926</b>	<b>23,140</b>	<b>24,616</b>	<b>26,448</b>	<b>28,505</b>
COGS	(23,186)	(22,164)	(22,057)	(23,670)	(24,852)
<b>Gross profit</b>	<b>6,740</b>	<b>975</b>	<b>2,559</b>	<b>2,778</b>	<b>3,652</b>
<b>EBITDA</b>	<b>12,763</b>	<b>6,500</b>	<b>8,330</b>	<b>9,044</b>	<b>10,234</b>
<b>Oper. profit</b>	<b>4,032</b>	<b>(1,749)</b>	<b>(135)</b>	<b>(231)</b>	<b>419</b>
Interest income	65	36	88	157	176
Interest expense	(2,121)	(2,125)	(2,237)	(2,467)	(2,719)
Forex Gain/(Loss)	3	(124)	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(39)	1,299	188	330	330
<b>Pre-tax profit</b>	<b>1,940</b>	<b>(2,664)</b>	<b>(2,095)</b>	<b>(2,212)</b>	<b>(1,794)</b>
Income tax	(638)	578	629	664	538
Minority interest	(166)	(319)	(129)	(104)	(78)
<b>Net profit</b>	<b>1,136</b>	<b>(2,404)</b>	<b>(1,646)</b>	<b>(1,652)</b>	<b>(1,333)</b>
<b>Core Net Profit</b>	<b>1,133</b>	<b>(2,280)</b>	<b>(1,596)</b>	<b>(1,652)</b>	<b>(1,333)</b>

### Exhibit 8. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	1,778	1,142	3,070	2,259	2,624
Receivables	3,989	2,962	3,060	3,400	3,619
Inventory	88	48	75	78	73
Other Curr. Asset	3,625	3,755	3,469	3,763	4,039
Fixed assets - Net	35,892	36,899	32,766	35,614	33,922
Other non-curr.asset	5,290	8,334	8,254	7,827	8,916
<b>Total asset</b>	<b>50,661</b>	<b>53,140</b>	<b>50,693</b>	<b>52,940</b>	<b>53,193</b>
ST Debt	4,602	6,355	3,668	3,117	3,287
Payables	5,160	7,042	5,463	5,804	6,185
Other Curr. Liabilities	6,438	7,644	8,002	7,201	7,516
Long Term Debt	14,899	15,075	18,323	22,698	23,528
Other LT. Liabilities	4,746	4,888	4,599	5,031	4,844
<b>Total Liabilities</b>	<b>35,846</b>	<b>41,003</b>	<b>40,056</b>	<b>43,851</b>	<b>45,360</b>
Shareholder's Funds	13,997	11,174	9,528	7,876	6,543
Minority interests	819	962	1,110	1,213	1,291
<b>Total Equity &amp; Liabilities</b>	<b>50,661</b>	<b>53,140</b>	<b>50,693</b>	<b>52,940</b>	<b>53,193</b>

### Exhibit 9. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	1,136	(2,404)	(1,646)	(1,652)	(1,333)
Depreciation and Amort.	8,853	8,249	8,465	9,275	9,815
Change in Working Capital	(1,065)	410	(81)	(270)	(286)
Other Oper. Cash Flow	2,068	5,574	1,221	1,444	3,040
<b>Operating Cash Flow</b>	<b>10,992</b>	<b>11,829</b>	<b>7,960</b>	<b>8,798</b>	<b>11,236</b>
Capex	7,553	(8,534)	(10,300)	(12,000)	(8,000)
Others Inv. Cash Flow	(14,758)	(3,730)	768	460	(1,037)
<b>Investing Cash Flow</b>	<b>(7,205)</b>	<b>(12,264)</b>	<b>(9,532)</b>	<b>(11,540)</b>	<b>(9,037)</b>
Net change in debt	(1,039)	2,310	476	3,802	1,046
New Capital	63	161	148	104	78
Dividend payment	(560)	(437)	0	0	0
Other Fin. Cash Flow	(2,201)	(2,235)	(2,492)	(1,974)	(2,958)
<b>Financing Cash Flow</b>	<b>(3,737)</b>	<b>(200)</b>	<b>(1,868)</b>	<b>1,931</b>	<b>(1,835)</b>
<b>Net Change in Cash</b>	<b>50</b>	<b>(636)</b>	<b>(3,441)</b>	<b>(811)</b>	<b>365</b>
Cash - begin of the year	1,850	1,778	1,142	3,070	2,259
Cash - end of the year	1,778	1,142	3,070	2,259	2,624

### Exhibit 10. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
<b>Growth (%)</b>					
Sales	2.5	(22.7)	6.4	7.4	7.8
EBITDA	(0.8)	(49.1)	28.2	8.6	13.2
Operating profit	2.3	(143.4)	(92.3)	71.6	(281.3)
Net profit	2.8	(311.6)	(31.5)	0.3	(19.3)
<b>Profitability (%)</b>					
Gross margin	22.5	4.2	10.4	10.5	12.8
EBITDA margin	42.6	28.1	33.8	34.2	35.9
Operating margin	13.5	(7.6)	(0.5)	(0.9)	1.5
Net margin	3.8	(10.4)	(6.7)	(6.2)	(4.7)
ROAA	2.2	(4.6)	(3.2)	(3.2)	(2.5)
ROAE	8.3	(19.1)	(15.9)	(19.0)	(18.5)
<b>Leverage</b>					
Net Gearing (x)	1.2	1.7	1.8	2.6	3.1
Interest Coverage (x)	1.9	(0.8)	(0.1)	(0.1)	0.2

Source : ISAT, Danareksa Estimates

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