

Monday, 23 March 2020

BUY
Maintain

Last price (IDR) 1,375
Target Price (IDR) 2,400
Upside/Downside +74.5%
Previous Target Price (IDR) 2,400

Stock Statistics

Sector Telco
Bloomberg Ticker ISAT IJ
No of Shrs (mn) 5,434
Mkt. Cap (IDRbn/USDmn) 7,472/468
Avg. daily T/O (IDRbn/USDmn) 17.6/1.1

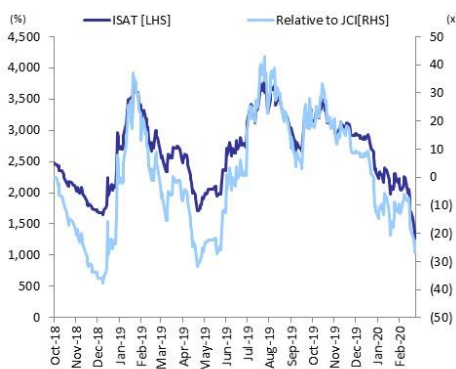
Major shareholders (%)

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

EPS Consensus (IDR)

	2020F	2021F	2022F
Danareksa	(270.3)	(175.6)	(113.5)
Consensus	(269.3)	(182.8)	(90.2)
Danareksa/Cons	0.4	(3.9)	25.8

ISAT relative to JCI Index



Source : Bloomberg

x



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Indosat Ooredoo (ISAT IJ)

High Capex is the best medicine for Covid-19

Indosat still generates low ARPU, has 2020 borderline EBIT at best, carries high debt, and this results in net losses. However, we still like Indosat for its high capex intensity in 2019-20 in a market that appears to be underinvested and which can help boost its ARPU. 4Q19 performance was testament of its capex efforts with potential revenues momentum build-up. Nonetheless, we add to the risk premium amid the Covid-19 pandemic to arrive at a lower DCF valuation with TP of Rp2,400. Maintain BUY.

Indosat weakest in our coverage, as it generates the lowest ARPU from a base of 55mn subs. Nonetheless, Indosat's 4Q19 took the market by surprise with revenues growth of +14.0%qoq - better than expected. In 4Q19, it did not take on a lot more subs as in the past, it increased its ARPU, and it says it discontinued the sale of unlimited data plans, which we believe to be happening. Seeing these trends, Indosat is moving in the right direction and will continue to do so even during Covid-19 because Indosat is high on the capex "drug". Indosat is pushing forward seeing underinvested markets, and is able to turn around its financially weak position riding possibly momentum in the making with 4G. We may see a bit of a pause in its ICT revenue, but we figure the mobile segment (new offers such as ruangan guru for distance learning) may compensate for the time being.

Cashflow position will continue to be challenging. We expect 2020 EBITDA to be in the vicinity of Rp11.2tn and a capex program of Rp9tn. Indosat's total debt amounts to Rp21.6tn and in relation to its FY19 EBITDA position, ISAT's leverage has improved significantly. There is approx. Rp5.7tn coming due, expecting to be refinanced at improved rates or even deleverage. ISAT's cash in FY19 was Rp5.9tn which ballooned from tower divestments, which translates to FY19 net debt/EBITDA of 1.6x. Potentially borderline ISAT EBIT won't cut it for the finance costs - includes financial leases, (interest coverage of 0.8x) but its cash position should handle it in 2020.

Downside in capex deliveries looming. Looking ahead, Indosat advises there may be capex delays. ISAT's capex is significant and equivalent to a high capex/revenues ratio of 38.8%, and we think EBITDA upside much hinges on network improvements. Manufacturers may also see costs rising, an additional challenge down the road. However, given that 4G capex has become mainstream, (5G rollouts is key driver in foreign markets) we believe the sector and ISAT may leverage its supply chain from a number of equipment makers.

Maintain BUY. Indosat prospects have improved, becoming quite investible as it can realize much upside based on our valuation. As we do not know how business and consumer sentiment are developing during Covid-19, we add to the risk premium in our DCF valuation. We maintain our BUY recommendation but with a lower TP of Rp2,400. As consumer sentiment gets weaker, users may opt for relatively more affordable options which Indosat still continues to offer.

Key Financials

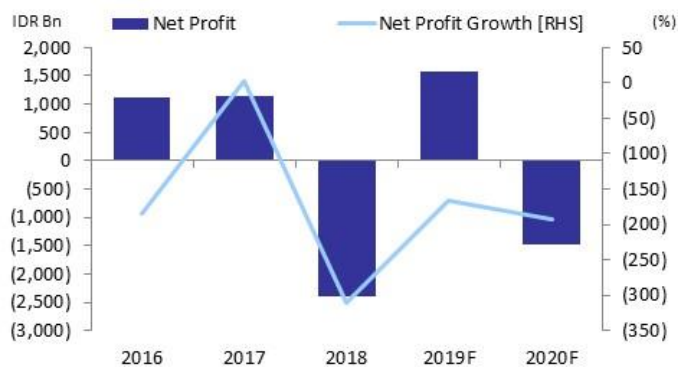
Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue (IDRbn)	23,140	26,118	26,679	28,658	30,066
EBITDA (IDRbn)	6,500	9,856	10,318	11,265	12,067
EBITDA Growth (%)	(49.1)	51.6	4.7	9.2	7.1
Net profit (IDRbn)	(2,404)	1,569	(1,469)	(954)	(617)
EPS (IDR)	(442.4)	288.7	(270.3)	(175.6)	(113.5)
EPS growth (%)	(311.6)	(165.3)	(193.6)	(35.0)	(35.4)
BVPS (IDR)	2,056.4	2,341.4	2,071.1	1,895.5	1,782.0
DPS (IDR)	0.0	0.0	0.0	0.0	0.0
PER (x)	n/m	4.8	n/m	n/m	n/m
PBV (x)	0.7	0.6	0.7	0.7	0.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	4.1	2.2	2.1	1.9	1.5

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. Forward EV/EBITDA (ISAT IJ) Indosat Ooredoo



Exhibit X. Income Statement

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Revenue	23,140	26,118	26,679	28,658	30,066
COGS	(22,164)	(23,579)	(24,512)	(25,656)	(26,720)
Gross profit	975	2,539	2,167	3,002	3,346
EBITDA	6,500	9,856	10,318	11,265	12,067
Oper. profit	(1,749)	286	(145)	151	359
Interest income	36	81	157	176	209
Interest expense	(2,125)	(2,761)	(2,401)	(1,999)	(1,753)
Forex Gain/(Loss)	(124)	78	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	1,299	3,903	362	362	362
Pre-tax profit	(2,664)	1,587	(2,028)	(1,310)	(824)
Income tax	578	43	608	393	247
Minority interest	(319)	(61)	(49)	(37)	(40)
Net profit	(2,404)	1,569	(1,469)	(954)	(617)
Core Net Profit	(2,280)	1,491	(1,469)	(954)	(617)

Exhibit X. Balance Sheet

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,142	5,881	4,282	5,406	6,727
Receivables	2,962	3,038	3,358	3,536	3,664
Inventory	48	29	62	52	53
Other Curr. Asset	3,755	3,496	3,591	3,890	3,972
Fixed assets - Net	36,899	42,753	40,652	38,419	34,816
Other non-curr.asset	8,334	7,615	6,791	7,808	7,865
Total asset	53,140	62,813	58,737	59,111	57,096
ST Debt	6,355	5,675	4,271	5,044	4,101
Payables	7,042	6,030	5,800	6,321	6,862
Other Curr. Liabilities	7,644	10,424	9,638	9,361	10,082
Long Term Debt	13,750	14,298	14,265	14,453	12,982
Other LT. Liabilities	4,888	11,045	11,005	11,239	11,086
Total Liabilities	39,678	47,473	44,979	46,419	45,113
Shareholder's Funds	11,174	12,723	11,254	10,300	9,683
Minority interests	962	984	1,033	1,070	1,110
Total Equity & Liabilities	51,814	61,180	57,267	57,788	55,906

Exhibit X. Cash Flow

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Net income	(2,404)	1,569	(1,469)	(954)	(617)
Depreciation and Amort.	8,249	9,570	10,463	11,115	11,708
Change in Working Capital	410	181	(252)	(175)	(116)
Other Oper. Cash Flow	5,574	3,319	1,034	1,775	2,711
Operating Cash Flow	11,829	14,639	9,777	11,761	13,687
Capex	(8,534)	(16,544)	(9,000)	(8,800)	(8,024)
Others Inv. Cash Flow	(3,730)	(1,976)	1,618	(922)	70
Investing Cash Flow	(12,264)	(18,520)	(7,382)	(9,722)	(7,955)
Net change in debt	2,310	5,163	(1,402)	1,020	(2,750)
New Capital	161	22	49	37	40
Dividend payment	(437)	0	0	0	0
Other Fin. Cash Flow	(2,235)	(441)	(2,640)	(1,971)	(1,702)
Financing Cash Flow	(200)	4,744	(3,993)	(915)	(4,412)
Net Change in Cash	(636)	862	(1,599)	1,124	1,320
Cash - begin of the year	1,778	1,142	5,881	4,282	5,406
Cash - end of the year	1,142	5,881	4,282	5,406	6,727

Exhibit X. Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Growth (%)					
Sales	(22.7)	12.9	2.1	7.4	4.9
EBITDA	(49.1)	51.6	4.7	9.2	7.1
Operating profit	(143.4)	(116.4)	(150.8)	(203.6)	138.3
Net profit	(311.6)	(165.3)	(193.6)	(35.0)	(35.4)
Profitability (%)					
Gross margin	4.2	9.7	8.1	10.5	11.1
EBITDA margin	28.1	37.7	38.7	39.3	40.1
Operating margin	(7.6)	1.1	(0.5)	0.5	1.2
Net margin	(10.4)	6.0	(5.5)	(3.3)	(2.1)
ROAA	(4.6)	2.7	(2.4)	(1.6)	(1.1)
ROAE	(19.1)	13.1	(12.3)	(8.9)	(6.2)
Leverage					
Net Gearing (x)	1.6	1.0	1.2	1.2	1.0
Interest Coverage (x)	(0.8)	0.1	(0.1)	0.1	0.2

Source : ISAT, Danareksa Estimates

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