

Thursday, 14 May 2020

**BUY**  
**Maintain**

Last price (IDR) 1,995  
Target Price (IDR) 2,900  
Upside/Downside +45.4%  
Previous Target Price (IDR) 2,900

#### Stock Statistics

Sector Telco  
Bloomberg Ticker ISAT JJ  
No of Shrs (mn) 5,434  
Mkt. Cap (IDRbn/USDmn) 10,841/729  
Avg. daily T/O (IDRbn/USDmn) 13.3/0.9

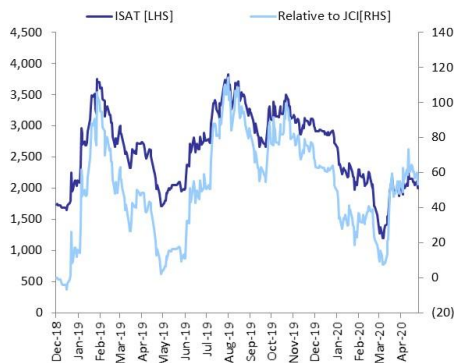
#### Major shareholders (%)

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)	(172.2)
Consensus	(265.0)	(150.1)	(128.6)
Danareksa/Cons	2.0	17.0	33.9

#### ISAT relative to JCI Index



Source : Bloomberg



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## Indosat Ooredoo (ISAT JJ)

### Aiming at data troughs in 2Q20

The telco challenge is to address the data needs amid Covid19 when the peak occurs during Lebaran. Indosat is firm on carrying out its capex plans, on securing physical inventory, and on shifting to better ARPU products. ISAT relies on its data analytics to hit the right data troughs in 2Q and maintain its turnaround momentum.

**Ready for Covid19-prompted data demand.** ISAT is upbeat on meeting higher demand during the Covid19 pandemic from the strong network it has built. The challenges lie in: a) reading the new traffic patterns caused by Covid19, tackled with success in 1Q20, and b) benefiting from ISAT's Lebaran campaign. ISAT sees much different Lebaran trends this year, with less traffic migration to other islands, and more demand in Java. ISAT's COO sees ISAT as the beneficiary in this case as it has a stronger network in Java. The Covid19 downside, however, is the economic impact at the lower end. ISAT seeks to facilitate day wage earners by offering them longer time validities.

**Securing its sales channels; the digital ones driving costs down.** Indosat is present in over 150 online platforms and has experienced a leap in digital channels with 15-20% growth. Effectively, this has driven discounts lower (distributors' commissions). Indosat also makes sure there is enough stock of reloads/starterpacks available in its network coverage.

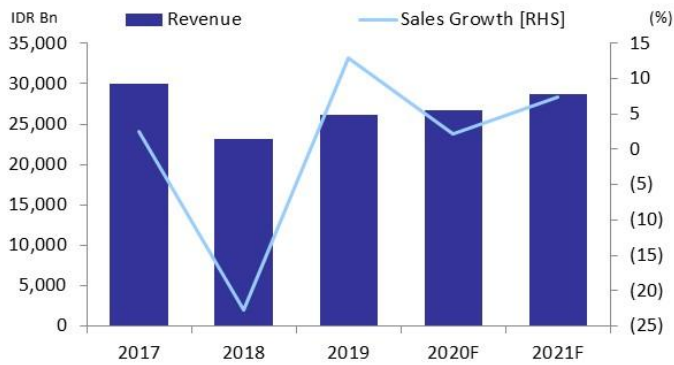
**Shifting to a higher quality product strategy.** Indosat argues Unlimited offers are value-dilutive - suggesting this is a last resort for operators to employ. This is where Indosat was 2 years ago, but these offers are being phased out and that explains the fall in subscribers in 1Q20. Indosat's Lebaran campaigns feature local celeb singers with 'stay at home' themes, and its videos have already hit +50mn views. Indosat also announced a partnership with content platform Viu to enrich its offerings. The relatively new pack "Harian" resembles Smartfren's Unlimited. The difference is that Indosat does not claim its Harian is an unlimited one, part of its marketing strategy of offering transparent services.

**No stone unturned in looking for opportunities.** Despite the slow 1Q20 capex, Indosat is firm on meeting its annual capex guidance. The COO stated that there were logistical issues on fiber and options for microwave solutions due to delays in fiber permits. Having said that, Indosat reiterated its goal to achieve 40-50% fiberization during its transformation. Indosat is +137%yoy in new 4G BTS but 2G/3G BTS grew an average 37%yoy using little incremental costs. The rationale is that 2G tech will outlive 3G, while 3G usage will eventually migrate to 4G.

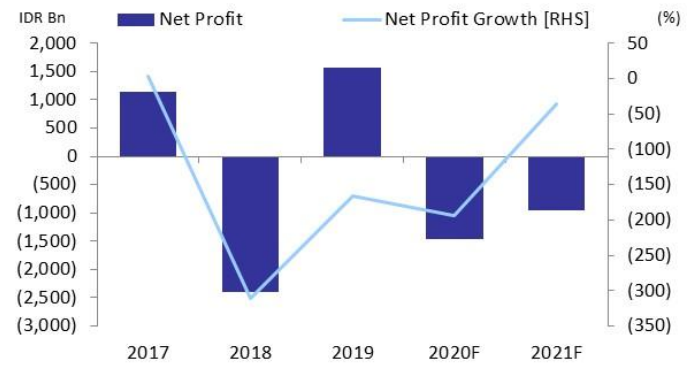
**Maintain BUY.** ISAT sees that low-mid digit mobile market growth is still within reach. Considering the enterprise/SMEs setback, and even if the market and ISAT's cashflow falls short mainly due to large capex, ISAT's liquidity position is safer with committed credit facilities available. Maintain BUY.

#### Key Financials

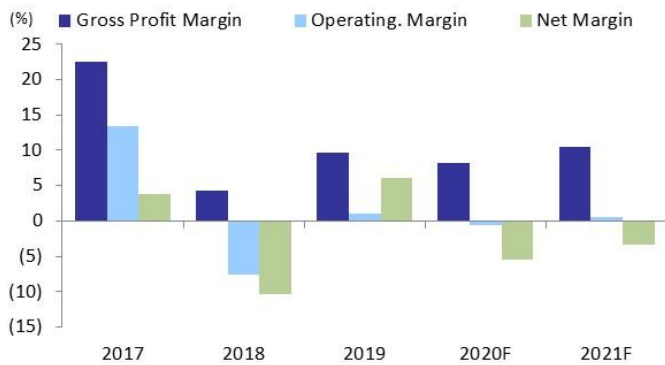
Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue (IDRbn)	23,140	26,118	26,679	28,658	29,113
EBITDA (IDRbn)	6,500	9,856	10,318	11,265	11,611
EBITDA Growth (%)	(49.1)	51.6	4.7	9.2	3.1
Net profit (IDRbn)	(2,404)	1,569	(1,469)	(954)	(935)
EPS (IDR)	(442.4)	288.7	(270.3)	(175.6)	(172.2)
EPS growth (%)	(311.6)	(165.3)	(193.6)	(35.0)	(2.0)
BVPS (IDR)	2,056.4	2,341.4	2,071.1	1,895.5	1,723.3
DPS (IDR)	0.0	0.0	0.0	0.0	0.0
PER (x)	n/m	6.9	n/m	n/m	n/m
PBV (x)	1.0	0.9	1.0	1.1	1.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	4.6	2.5	2.4	2.2	1.9

**Exhibit 1. Revenues and Growth**


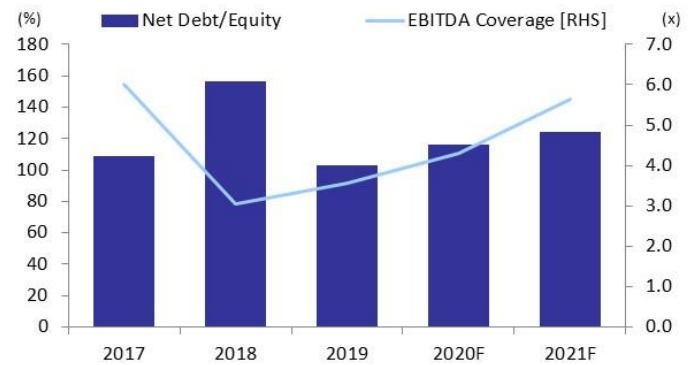
Source: Company, Danareksa Sekuritas estimates

**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. Income Statement

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>23,140</b>	<b>26,118</b>	<b>26,679</b>	<b>28,658</b>	<b>29,113</b>
COGS	(22,164)	(23,579)	(24,512)	(25,656)	(26,310)
<b>Gross profit</b>	<b>975</b>	<b>2,539</b>	<b>2,167</b>	<b>3,002</b>	<b>2,803</b>
<b>EBITDA</b>	<b>6,500</b>	<b>9,856</b>	<b>10,318</b>	<b>11,265</b>	<b>11,611</b>
<b>Oper. profit</b>	<b>(1,749)</b>	<b>286</b>	<b>(145)</b>	<b>151</b>	<b>(97)</b>
Interest income	36	81	157	176	209
Interest expense	(2,125)	(2,761)	(2,401)	(1,999)	(1,752)
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
<b>Pre-tax profit</b>	<b>(2,664)</b>	<b>1,587</b>	<b>(2,028)</b>	<b>(1,310)</b>	<b>(1,279)</b>
Income tax	578	43	608	393	384
Minority interest	(319)	(61)	(49)	(37)	(40)
<b>Net profit</b>	<b>(2,404)</b>	<b>1,569</b>	<b>(1,469)</b>	<b>(954)</b>	<b>(935)</b>
<b>Core Net Profit</b>	<b>(2,280)</b>	<b>1,491</b>	<b>(1,469)</b>	<b>(954)</b>	<b>(935)</b>

### Exhibit 6. Balance Sheet

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,142	5,881	4,282	5,406	6,384
Receivables	2,962	3,038	3,358	3,536	3,548
Inventory	48	29	62	52	51
Other Curr. Asset	3,755	3,496	3,591	3,890	3,858
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	7,661
<b>Total asset</b>	<b>53,140</b>	<b>62,813</b>	<b>58,737</b>	<b>59,111</b>	<b>56,318</b>
ST Debt	6,355	5,675	4,271	5,044	4,078
Payables	7,042	6,030	5,800	6,321	6,673
Other Curr. Liabilities	7,644	10,424	9,638	9,361	9,843
Long Term Debt	13,750	14,298	14,265	14,453	12,982
Other LT. Liabilities	4,888	11,045	11,005	11,239	11,078
<b>Total Liabilities</b>	<b>39,678</b>	<b>47,473</b>	<b>44,979</b>	<b>46,419</b>	<b>44,653</b>
Shareholder's Funds	11,174	12,723	11,254	10,300	9,364
Minority interests	962	984	1,033	1,070	1,110
<b>Total Equity &amp; Liabilities</b>	<b>51,814</b>	<b>61,180</b>	<b>57,267</b>	<b>57,788</b>	<b>55,128</b>

### Exhibit 7. Cash Flow

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Net income	(2,404)	1,569	(1,469)	(954)	(935)
Depreciation and Amort.	8,249	9,570	10,463	11,115	11,708
Change in Working Capital	410	181	(252)	(175)	(19)
Other Oper. Cash Flow	5,574	3,319	1,034	1,775	2,417
<b>Operating Cash Flow</b>	<b>11,829</b>	<b>14,639</b>	<b>9,777</b>	<b>11,761</b>	<b>13,170</b>
Capex	(8,534)	(16,544)	(9,000)	(8,800)	(8,024)
Others Inv. Cash Flow	(3,730)	(1,976)	1,618	(922)	274
<b>Investing Cash Flow</b>	<b>(12,264)</b>	<b>(18,520)</b>	<b>(7,382)</b>	<b>(9,722)</b>	<b>(7,750)</b>
Net change in debt	2,310	5,163	(1,402)	1,020	(2,773)
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)	(1,710)
<b>Financing Cash Flow</b>	<b>(200)</b>	<b>4,744</b>	<b>(3,993)</b>	<b>(915)</b>	<b>(4,443)</b>
<b>Net Change in Cash</b>	<b>(636)</b>	<b>862</b>	<b>(1,599)</b>	<b>1,124</b>	<b>977</b>
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	6,384

### Exhibit 8. Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
<b>Growth (%)</b>					
Sales	(22.7)	12.9	2.1	7.4	1.6
EBITDA	(49.1)	51.6	4.7	9.2	3.1
Operating profit	(143.4)	(116.4)	(150.8)	(203.6)	(164.6)
Net profit	(311.6)	(165.3)	(193.6)	(35.0)	(2.0)
<b>Profitability (%)</b>					
Gross margin	4.2	9.7	8.1	10.5	9.6
EBITDA margin	28.1	37.7	38.7	39.3	39.9
Operating margin	(7.6)	1.1	(0.5)	0.5	(0.3)
Net margin	(10.4)	6.0	(5.5)	(3.3)	(3.2)
ROAA	(4.6)	2.7	(2.4)	(1.6)	(1.6)
ROAE	(19.1)	13.1	(12.3)	(8.9)	(9.5)
<b>Leverage</b>					
Net Gearing (x)	1.6	1.0	1.2	1.2	1.0
Interest Coverage (x)	(0.8)	0.1	(0.1)	0.1	(0.1)

Source : ISAT, Danareksa Estimates

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