

Wednesday, 16 September 2020

BUY
Maintain

Last price (IDR) 2,170
Target Price (IDR) 3,500
Upside/Downside +61.3%
Previous Target Price (IDR) 3,500

Stock Statistics

Sector Telco
Bloomberg Ticker ISAT JJ
No of Shrs (mn) 5,434
Mkt. Cap (IDRbn/USDmn) 11,792/794
Avg. daily T/O (IDRbn/USDmn) 16.3/1.1

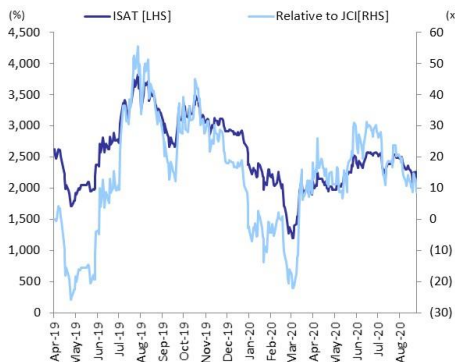
Major shareholders (%)

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)	(172.2)
Consensus	(181.9)	(134.6)	(74.8)
Danareksa/Cons	48.6	30.4	130.2

ISAT relative to JCI Index



Source : Bloomberg



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Indosat Ooredoo (ISAT JJ)

Creating sustainable network leverage; takeaways

Indosat is/will remain firm on its strategy to build a strong network. In the meantime, the company is also enigmatic on the 3Q20 forecasts and on any impact the Unlimited plans from TSEL and XL may have. It predicts, however, the outcome from Unlimited offerings to be uncertain at best and will abstain from this practice. Indosat has rather neutral stance on govt-led subsidies.

Indosat with more certainty maintains guidance. Contrary to other telcos, Indosat still offers FY20 guidance despite Covid19 headwinds. ISAT's topline is said to be in line with the industry growth (ISAT's 1H20 revenues reached Rp13.45tn (+9.4%yoy), while EBITDA margin guidance ranges in the high 30s for 2020F (1H20 stood at 40.4%). ISAT's 2020F capex (excl. RoU and any possible outflow for spectrum frequency) is maintained at Rp8.5-9.5tn.

Indosat resolute on abstaining from Unlimited offers. On Telkomsel's Unlimited offerings, Indosat's view is that these are defensive in nature and in response to an "Unlimited" battle between two peers. Indosat prefers not to engage; instead our price tracker shows that it has reduced a great deal the generous data offerings from the past. Indosat maintains a firm stance on avoiding Unlimited offerings that are believed not to be a sustainable strategy based on its own experience in 2017-19. It also needed circa 6 months to phase out Unlimited offerings. We also understand that network performance is a key Indosat pillar if not the most significant at this point. **The data volume growth (almost on par with XL volume growth and achieving +60%yoy growth) may be data-yield dilutive, but certainly not network-dilutive (Opensignal source) and not ARPU-dilutive either.** In fact Indosat's network KPIs have improved more than the other operators. Indosat also believes that further improvements will justify better pricing and monetization.

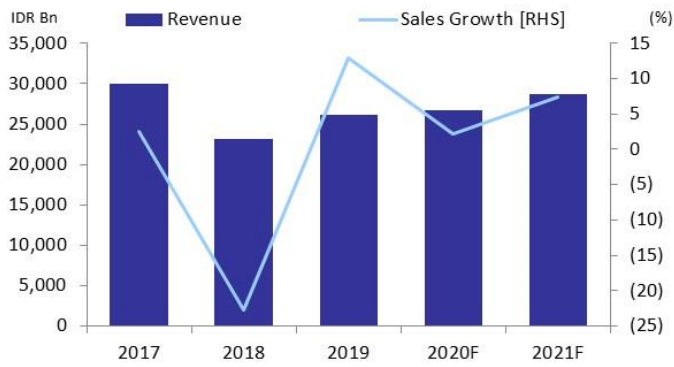
Indosat sees little impact from school subsidies. With regards to Social responsibility programs (CSR) and govt subsidies, Indosat has the same mindset. It suggests that the 3Q20 September govt led data offering to students will have similar content compared to March 1Q20's CSR, i.e. access to education sites, conference apps, govt. sites etc. and it noted that it will not include YouTube. Indosat suggests that this new potential traffic can be controllable and will not affect bandwidth use and network utilization. In addition, telcos have engaged in a rush (some with more intensity, some less) to offer their own CSR minded packages ranging from 10GBs to 55GBs to tap deeper the students segment as we have seen so far, all at symbolic prices of 1Rp to 10Rp per pack to complement the govt. led subsidized data packs. However, Indosat does not believe that the govt. subsidy offered at an implied yield of Rp1,000/GB will have a significant impact on its financial numbers. This is why we think that Indosat will not intensively promote its own complementary pack of 30GB that we have also seen advertised recently.

Maintain BUY. We remain positive on the mid and long term trajectory of the company, although there is uncertainty surrounding the results in 3Q/4Q20. Indosat is highly undervalued currently.

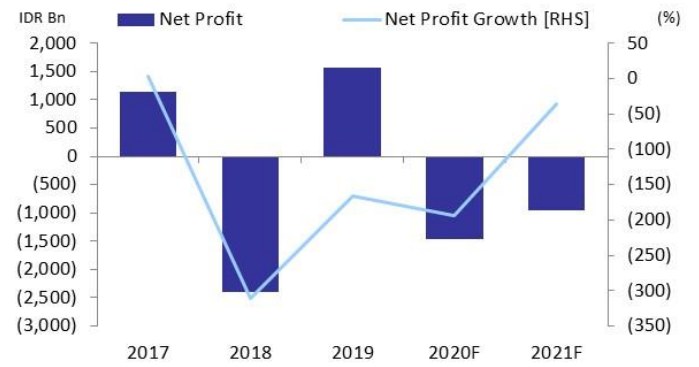
Key Financials

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	7.5	n/m	n/m	n/m
PBV (x)	1.1	0.9	1.0	1.1	1.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	4.7	2.6	2.5	2.3	1.9

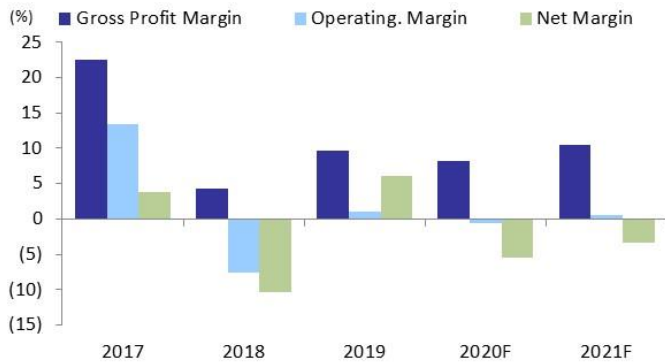
Source : ISAT, Danareksa Estimates

Exhibit 1. Revenues and Growth


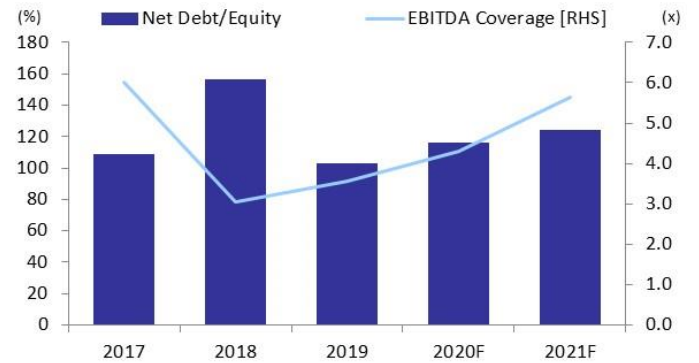
Source: Company, Danareksa Sekuritas estimates

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. Income Statement

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

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
Total asset	53,140	62,813	58,737	59,111	56,318
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
Total Liabilities	39,678	47,473	44,979	46,419	44,653
Shareholder's Funds	11,174	12,723	11,254	10,300	9,364
Minority interests	962	984	1,033	1,070	1,110
Total Equity & Liabilities	51,814	61,180	57,267	57,788	55,128

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
Operating Cash Flow	11,829	14,639	9,777	11,761	13,170
Capex	(8,534)	(16,544)	(9,000)	(8,800)	(8,024)
Others Inv. Cash Flow	(3,730)	(1,976)	1,618	(922)	274
Investing Cash Flow	(12,264)	(18,520)	(7,382)	(9,722)	(7,750)
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)
Financing Cash Flow	(200)	4,744	(3,993)	(915)	(4,443)
Net Change in Cash	(636)	862	(1,599)	1,124	977
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
Growth (%)					
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)
Profitability (%)					
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)
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	(0.1)

Source : ISAT, Danareksa Estimates

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