

Tuesday, 02 August 2022

**BUY**  
**Maintain**

# Indosat Ooredoo Hutchison (ISAT IJ)

## Traversed 2Q like a freight train

Last price (IDR)	6,750
Target Price (IDR)	8,500
Upside/Downside	+25.9%
Previous Target Price (IDR)	8,000

### Stock Statistics

Sector	Telco
Bloomberg Ticker	ISAT IJ
No of Shrs (mn)	8,063
Mkt. Cap (IDRbn/USDmn)	54,423/3,657
Avg. daily T/O (IDRbn/USDmn)	39.9/2.7

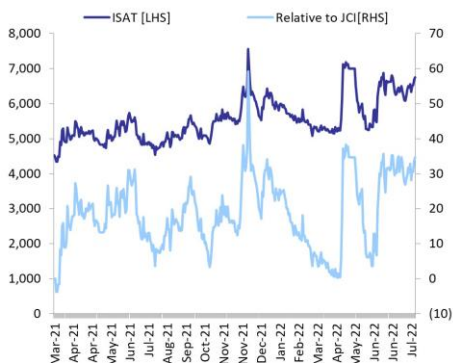
### Major shareholders (%)

Ooredoo Asia Pte. Ltd.	65.6
Government	9.6
Estimated free float	13.8

### EPS Consensus (IDR)

	2022F	2023F	2024F
Danareksa	448.8	150.7	373.7
Consensus	164.0	201.7	377.8
Danareksa/Cons	173.6	(25.3)	(1.1)

### ISAT relative to JCI Index



Source : Bloomberg



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**IOH traversed 2Q22 like a freight train, posting high quarterly growth with better operating metrics, EBITDA margins and sequential organic net profits growth. This provides a solid platform for IOH to implement its integration plans and is a bedrock for more gains. IOH's 1H22 revenues and earnings growth are a bit faster than FY22 FC. Our housekeeping exercise derives a new TP of Rp8,500 for ISAT.**

**Stellar 2Q22 IOH performance.** Net revenues reached Rp11.65tn (+7.2%qoq) on solid cellular revenues of Rp10.16tn (+8.3%qoq) by ticking all the right boxes: 9%qoq data traffic growth, +1.6mn net sub additions in 2Q22 and +1.6mn incremental 4G users, **leading to ARPU growth of +9.2%qoq with flat data yield.** IOH's 2Q22 EBITDA reached Rp4.80tn (+9.5%qoq) with a higher margin (+90bps) generating value, despite the jump in personnel costs due to one-offs. As we had expected, IOH's 2Q22 result includes Rp3.0tn of gains from a 75% sale stake of its subsidiary Starone. Thus, IOH delivered strong net profits in 2Q22 of Rp3.13tn, which adjusted on a normalized basis, lead to 2Q22 net profits of Rp105bn. Given this backdrop, IOH appears to have the structure currently to deliver more sustainable net profits in the quarters ahead (personnel costs) have room to normalize in 3Q and 4Q. Moreover, the sector has recently become more conducive for price improvements.

**Improved financial position.** IOH's leverage in 2Q22 is lower at 0.85x net debt/EBITDA post M&A. We assume Rp2.7tn of cash proceeds from the sale of 75% of Starone (carried DCs in its balance sheet) will be used to pay down debt.

**Leveraging IOH brands.** We often mentioned 3 market tailwinds concurrently influencing 2Q22: increased mobility post Covid-19 relaxations, Lebaran homecoming, and the conducive setting for price improvements. IOH performed strongly with those tailwinds leveraging on its strong brands we think. As gauged by NPS scores IM3 and 3 brands built up on the positive market reception placing them over other telco brands. We recall Indosat invested in this catalyst and IM3 brand momentum prior to IOH's legal merger during the company's turnaround, and 4G-focused network transformation driving 4G subs growth.

**Stellar performance offers a platform for synergies realization.** 20% of the consolidation initiatives were completed in 1Q22, and the same rate moved to 46% in 2Q22 in a 9 quarters span for integration plans to materialize with the management alluding that the integration is ahead of schedule. This reduces the time span for a possible IOH financial performance downturn resulting from work delays. IOH has several integration work schedules still ahead, including MOCN activation to allow access to each other's radio networks, site shut-downs and integration which, we think, provides the bedrock of USD300-400mn worth of synergies realization, a great deal to be reflected with EBITDA margins improvement towards 50% (40.7% in 1H22).

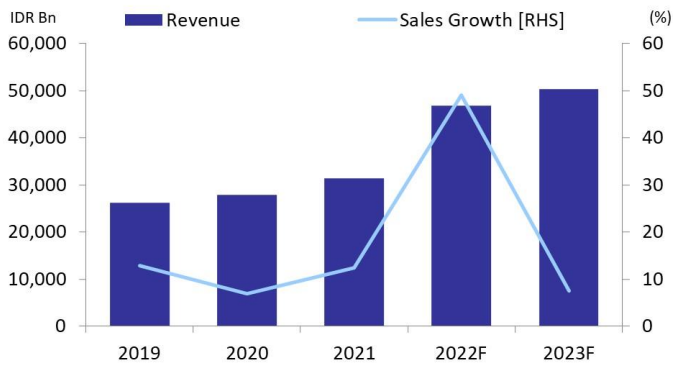
**Reiterate BUY with a higher TP.** IOH's 1H22 revenues fulfilled 50.2%/56.7% of our FY22 forecast/the consensus, trending ahead and given the sector's positive sentiment, we revise upwards our FY22F data revenues estimate. Our revisions and housekeeping exercise derives for us a higher TP:IDR8,500/sh.

### Key Financials

Year to 31 Dec	2020A	2021A	2022F	2023F	2024F
Revenue (IDRbn)	27,926	31,388	46,774	50,308	54,726
EBITDA (IDRbn)	11,433	13,886	19,214	20,578	23,460
EBITDA Growth (%)	16.0	21.4	38.4	7.1	14.0
Net profit (IDRbn)	(717)	6,751	3,619	1,215	3,013
EPS (IDR)	(88.9)	837.3	448.8	150.7	373.7
EPS growth (%)	(145.7)	(1,041.9)	(46.4)	(66.4)	148.0
BVPS (IDR)	1,472.3	1,138.6	3,573.9	3,680.7	3,945.2
DPS (IDR)	1,178.1	51.3	0.0	0.0	252.9
PER (x)	n/m	8.1	15.0	44.8	18.1
PBV (x)	4.6	5.9	1.9	1.8	1.7
Dividend yield (%)	17.5	0.8	0.0	0.0	3.7
EV/EBITDA (x)	7.1	7.2	5.2	4.9	4.3

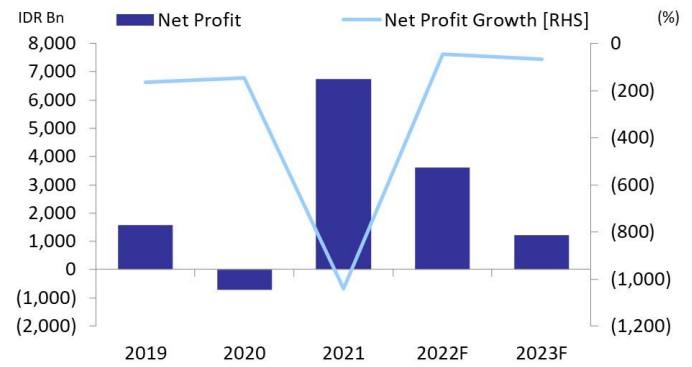
Source : ISAT, Danareksa Estimates

### Exhibit 1. Revenues and Growth



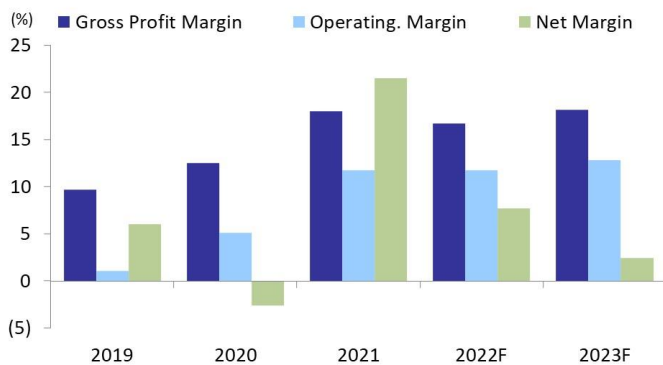
Source: Company, BRI Danareksa Sekuritas estimates

### Exhibit 2. Net Profits and Growth



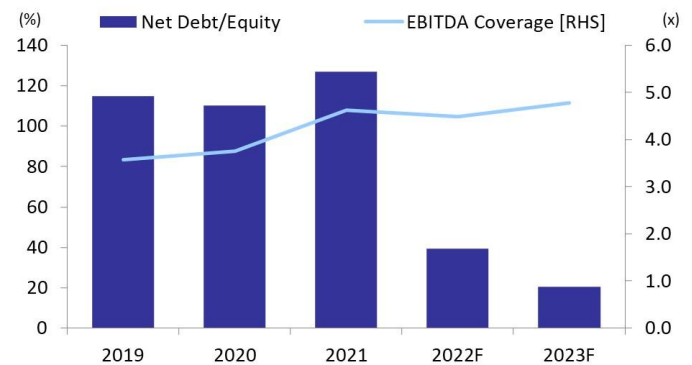
Source: Company, BRI Danareksa Sekuritas estimates

### Exhibit 3. Margins



Source: Company, BRI Danareksa Sekuritas estimates

### Exhibit 4. Gearing Level



Source: Company, BRI Danareksa Sekuritas estimates

**Exhibit 5. Indosat Ooredoo Hutchison IOH 2Q/1H22 financial results and selected B/S and CF items**

Rp bn	2Q21	1Q22	2Q22	QoQ, %	YoY, %	1H21	1H22	YoY, %	2022F	A/F, %	2022C	A/C, %
<b>Total revenue</b>	<b>7,638</b>	<b>10,873</b>	<b>11,654</b>	<b>7.2</b>	<b>52.6</b>	<b>14,984</b>	<b>22,527</b>	<b>50.3</b>	<b>44,902</b>	<b>50.2</b>	<b>39,759</b>	<b>56.7</b>
<b>Net Cellular revenue</b>	<b>6,358</b>	<b>9,378</b>	<b>10,159</b>	<b>8.3</b>	<b>59.8</b>	<b>12,403</b>	<b>19,537</b>	<b>57.5</b>				
<b>Multimedia, Data, Internet (MIDI)</b>	<b>1,130</b>	<b>1,308</b>	<b>1,310</b>	<b>0.2</b>	<b>15.9</b>	<b>2,297</b>	<b>2,618</b>	<b>14.0</b>				
<b>Fixed telecommunications</b>	<b>150</b>	<b>187</b>	<b>185</b>	<b>(0.8)</b>	<b>23.4</b>	<b>284</b>	<b>372</b>	<b>31.0</b>				
<b>Total operating expense</b>	<b>(1,494)</b>	<b>(9,657)</b>	<b>(6,773)</b>	<b>(29.9)</b>	<b>353.3</b>	<b>(7,910)</b>	<b>(16,429)</b>	<b>107.7</b>				
<b>Cash Costs</b>	<b>(4,252)</b>	<b>(6,492)</b>	<b>(6,856)</b>	<b>5.6</b>	<b>61.2</b>	<b>(8,206)</b>	<b>(13,349)</b>	<b>62.7</b>				
Cost of services	(3,226)	(5,286)	(5,294)	0.1	64.1	(6,342)	(10,580)	66.8				
Depreciation & amortization	(2,538)	(3,310)	(3,401)	2.7	34.0	(5,033)	(6,711)	33.3				
Personnel cost	(593)	(721)	(1,036)	43.6	74.7	(1,045)	(1,757)	68.2				
Marketing	(287)	(296)	(360)	21.4	25.2	(522)	(656)	25.5				
G&A	(146)	(189)	(167)	(11.4)	14.7	(297)	(356)	19.8				
Other income (expense)	5,296	146	3,485	2,285.2	(34.2)	5,329	3,631	(31.9)				
<b>EBITDA</b>	<b>3,386</b>	<b>4,380</b>	<b>4,798</b>	<b>9.5</b>	<b>41.7</b>	<b>6,778</b>	<b>9,178</b>	<b>35.4</b>	<b>18,307</b>	<b>50.1</b>	<b>17,508</b>	<b>52.4</b>
<i>EBITDA margin (%)</i>	<i>44.3</i>	<i>40.3</i>	<i>41.2</i>	<i>0.9</i>	<i>(3.2)</i>	<i>45.2</i>	<i>40.7</i>	<i>(4.5)</i>				
<b>Operating Profit</b>	<b>6,144</b>	<b>1,216</b>	<b>4,881</b>	<b>301.5</b>	<b>(20.6)</b>	<b>7,073</b>	<b>6,097</b>	<b>(13.8)</b>				
<i>OP margin (%)</i>	<i>80.4</i>	<i>11.2</i>	<i>41.9</i>	<i>30.7</i>	<i>(38.6)</i>	<i>47.2</i>	<i>27.1</i>	<i>(20.1)</i>				
<b>Total other income (expenses)</b>	<b>(777)</b>	<b>(1,053)</b>	<b>(1,068)</b>	<b>1.5</b>	<b>37.6</b>	<b>(1,406)</b>	<b>(2,121)</b>	<b>50.8</b>				
<b>Pre-tax profit / (loss)</b>	<b>5,367</b>	<b>163</b>	<b>3,813</b>	<i>n/a</i>	<b>(29.0)</b>	<b>5,667</b>	<b>3,976</b>	<b>(29.8)</b>				
Reported Net profit / (loss)	5,426	129	3,132	2,332.4	(42.3)	5,598	3,260	(41.8)				
<b>Normalized Net profit / (loss)</b>	<b>74</b>	<b>44</b>	<b>105</b>	<b>139.1</b>	<b>41.6</b>	<b>246</b>	<b>149</b>	<b>(39.6)</b>	<b>286</b>	<b>51.9</b>	<b>112</b>	<b>132.8</b>
<b>Book Capex</b>	<b>1,581</b>	<b>2,360</b>	<b>1,553</b>	<b>(34.2)</b>	<b>(1.7)</b>	<b>2,996</b>	<b>3,914</b>	<b>30.6</b>				
<i>Capex/sales (intensity) (%)</i>	<i>20.7</i>	<i>21.7</i>	<i>13.3</i>	<i>(8.4)</i>	<i>(7.4)</i>	<i>20</i>	<i>17</i>	<i>(2.6)</i>				
<i>CF from Operating activities</i>	<i>2,349</i>	<i>3,407</i>	<i>4,094</i>	<i>20.2</i>	<i>74</i>	<i>5,018</i>	<i>7,500</i>	<i>49.5</i>				
<i>CF from Investing activities</i>	<i>5,502</i>	<i>(2,282)</i>	<i>997</i>	<i>-143.7</i>	<i>-82</i>	<i>3,302</i>	<i>(1,285)</i>	<i>(138.9)</i>				
<b>FCF</b>	<b>7,851</b>	<b>1,124</b>	<b>5,091</b>	<b>352.8</b>	<b>(35.2)</b>	<b>8,320</b>	<b>6,215</b>	<b>(25.3)</b>				
<i>CF from Financing activities</i>	<i>1,173</i>	<i>(1,071)</i>	<i>(2,183)</i>	<i>103.8</i>	<i>-286</i>	<i>768</i>	<i>(3,255)</i>	<i>(523.9)</i>				
Total interest bearing debt	15,260	20,678	20,605	(0.4)	35.0	15,260	20,605	35.0				
<i>Net debt /LTM EBITDA (x)</i>	<i>0.34</i>	<i>1.13</i>	<i>0.85</i>	<i>(0.3)</i>	<i>0.5</i>	<i>0.34</i>	<i>0.85</i>	<i>0.5</i>				
<i>Net debt/equity (%)</i>	<i>0.24</i>	<i>0.63</i>	<i>0.46</i>	<i>(0.2)</i>	<i>0.2</i>	<i>0.2</i>	<i>0.46</i>	<i>0.2</i>				

**Exhibit 6. Indosat Ooredoo Hutchison IOH 2Q/1H22 operational KPIs**

Key Operating Data	2Q21	1Q22	2Q22	QoQ, %	YoY, %	1H21	1H22	YoY, %
<b>Customers - total (mn)</b>	<b>60.3</b>	<b>94.6</b>	<b>96.2</b>	<b>1.7</b>	<b>59.5</b>	<b>60.3</b>	<b>96.2</b>	<b>59.5</b>
Customers - postpaid (mn)	1.7	1.6	1.6	0.0	(5.9)	1.7	1.6	(5.9)
Customers - prepaid (mn)	58.6	93.0	94.6	1.7	61.4	58.6	94.6	61.4
Smartphone users (mn) (est)	52.9	71.9	73.1	1.7	38.2	52.9	73.1	38.2
<b>Data traffic (Petabytes)</b>	<b>1,623</b>	<b>2,948</b>	<b>3,212</b>	<b>9.0</b>	<b>97.9</b>	<b>3,109</b>	<b>6,160</b>	<b>98.2</b>
Effective Data Tariff (Rp '000/gb)	3.3	2.715	2.721	0.2	(16.4)			
Average data usage (in gb)*(est)	10.2	13.7	14.6	7.2	43.2			
<b>Legacy metrics</b>								
MoU	20.5	12.9	11.4	(11.6)	(44.4)	21.2	12.3	(42.0)
SMS total traffic	1.4	0.7	0.8	14.3	(42.9)	2.9	1.5	(48.3)
<b>ARPU (blended) (Rp thousand)</b>	<b>35.2</b>	<b>32.0</b>	<b>35.0</b>	<b>9.2</b>	<b>(0.6)</b>	<b>34.0</b>	<b>33.5</b>	<b>-1.5</b>
ARPU (prepaid) (Rp thousand)	33.9	31.5	34.5	9.5	1.8	32.6	33.0	1.2
<b>Network BTS (# '000)</b>								
2G	28.6	48.8	48.6	-0.5	69.9	28.6	48.6	69.9
3G	35.1	37.5	26.0	(30.7)	(25.8)	35.1	26.0	(25.8)
4G	68.8	120.1	123.9	3.2	80.2	68.8	123.9	80.2
5G	0.0	0.1	0.1	28.6	n/a	0.0	0.1	n/a
<i>Total BTS</i>	<i>132.4</i>	<i>206.5</i>	<i>198.6</i>	<i>(3.8)</i>	<i>49.9</i>	<i>132.4</i>	<i>198.6</i>	<i>49.9</i>

**Exhibit 7. Forecast changes**

Rp bn	2022F			2023F			2024F		
	Previous	New	% Δ	Previous	New	% Δ	Previous	New	% Δ
<b>Revenue</b>	<b>44,902</b>	<b>46,774</b>	<b>4.2</b>	<b>50,370</b>	<b>50,308</b>	<b>(0.1)</b>	<b>54,803</b>	<b>54,726</b>	<b>(0.1)</b>
<b>Operating Profit</b>	<b>4,573</b>	<b>5,480</b>	<b>19.8</b>	<b>6,458</b>	<b>6,446</b>	<b>(0.2)</b>	<b>8,482</b>	<b>8,498</b>	<b>0.2</b>
<i>OP margin (%)</i>	<i>10.2</i>	<i>11.7</i>	<i>1.5</i>	<i>12.8</i>	<i>12.8</i>	<i>(0.0)</i>	<i>15.5</i>	<i>15.5</i>	<i>0.1</i>
<b>EBITDA</b>	<b>18,307</b>	<b>19,214</b>	<b>5.0</b>	<b>20,606</b>	<b>20,578</b>	<b>(0.1)</b>	<b>23,497</b>	<b>23,460</b>	<b>(0.2)</b>
<i>EBITDA margin (%)</i>	<i>40.8</i>	<i>41.1</i>	<i>0.3</i>	<i>40.9</i>	<i>40.9</i>	<i>(0.0)</i>	<i>42.9</i>	<i>42.9</i>	<i>(0.0)</i>
<b>Normalized net Income</b>	<b>286</b>	<b>507</b>	<b>221.0</b>	<b>1,720</b>	<b>1,115</b>	<b>(605.1)</b>	<b>3,486</b>	<b>2,913</b>	<b>(572.7)</b>

### Exhibit 8. Income Statement

Year to 31 Dec (IDRbn)	2020A	2021A	2022F	2023F	2024F
<b>Revenue</b>	<b>27,926</b>	<b>31,388</b>	<b>46,774</b>	<b>50,308</b>	<b>54,726</b>
COGS	(24,431)	(25,730)	(38,942)	(41,185)	(43,419)
<b>Gross profit</b>	<b>3,494</b>	<b>5,658</b>	<b>7,832</b>	<b>9,124</b>	<b>11,307</b>
<b>EBITDA</b>	<b>11,433</b>	<b>13,886</b>	<b>19,214</b>	<b>20,578</b>	<b>23,460</b>
<b>Oper. profit</b>	<b>1,422</b>	<b>3,682</b>	<b>5,480</b>	<b>6,446</b>	<b>8,498</b>
Interest income	191	152	189	209	329
Interest expense	(3,045)	(3,002)	(4,281)	(4,311)	(4,177)
Forex Gain/(Loss)	(58)	(10)	(21)	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	890	6,685	3,724	0	0
<b>Pre-tax profit</b>	<b>(600)</b>	<b>7,507</b>	<b>5,091</b>	<b>2,344</b>	<b>4,649</b>
Income tax	(31)	(647)	(859)	(516)	(1,023)
Minority interest	(87)	(109)	(613)	(613)	(613)
<b>Net profit</b>	<b>(717)</b>	<b>6,751</b>	<b>3,619</b>	<b>1,215</b>	<b>3,013</b>
<b>Core Net Profit</b>	<b>(659)</b>	<b>6,761</b>	<b>3,640</b>	<b>1,215</b>	<b>3,013</b>

### Exhibit 9. Balance Sheet

Year to 31 Dec (IDRbn)	2020A	2021A	2022F	2023F	2024F
Cash & cash equivalent	1,782	3,789	7,862	11,350	17,094
Receivables	2,589	2,060	2,462	3,538	3,441
Inventory	40	18	75	65	63
Other Curr. Asset	5,183	5,632	7,081	8,783	9,139
Fixed assets - Net	46,522	45,515	65,353	62,138	59,035
Other non-curr.asset	6,662	6,383	23,004	24,674	25,662
<b>Total asset</b>	<b>62,779</b>	<b>63,397</b>	<b>105,836</b>	<b>110,548</b>	<b>114,434</b>
ST Debt	2,423	8,066	5,976	6,649	6,238
Payables	9,730	9,839	10,979	13,707	15,103
Other Curr. Liabilities	10,505	10,754	19,516	22,344	22,966
Long Term Debt	13,587	8,824	13,659	11,033	10,917
Other LT. Liabilities	13,620	15,613	25,733	25,864	25,999
<b>Total Liabilities</b>	<b>49,865</b>	<b>53,094</b>	<b>75,863</b>	<b>79,597</b>	<b>81,223</b>
Shareholder's Funds	11,870	9,180	28,815	29,677	31,809
Minority interests	1,043	1,122	1,158	1,275	1,403
<b>Total Equity &amp; Liabilities</b>	<b>62,779</b>	<b>63,397</b>	<b>105,836</b>	<b>110,548</b>	<b>114,434</b>

### Exhibit 10. Cash Flow

Year to 31 Dec (IDRbn)	2020A	2021A	2022F	2023F	2024F
Net income	(717)	6,751	3,619	1,215	3,013
Depreciation and Amort.	10,011	10,204	13,734	14,132	14,962
Change in Working Capital	477	876	260	(1,559)	166
Other Oper. Cash Flow	4,396	1,952	6,799	8,448	5,443
<b>Operating Cash Flow</b>	<b>14,167</b>	<b>19,783</b>	<b>24,412</b>	<b>22,236</b>	<b>23,585</b>
Capex	(12,857)	(5,858)	(33,412)	(10,756)	(11,700)
Others Inv. Cash Flow	222	(2,908)	(16,592)	(1,621)	(819)
<b>Investing Cash Flow</b>	<b>(12,635)</b>	<b>(8,766)</b>	<b>(50,004)</b>	<b>(12,377)</b>	<b>(12,519)</b>
Net change in debt	(2,288)	6,044	17,578	(1,953)	(527)
New Capital	59	167	16,465	117	128
Dividend payment	0	(9,499)	(414)	(253)	(780)
Other Fin. Cash Flow	(3,401)	(5,722)	(3,965)	(4,180)	(4,043)
<b>Financing Cash Flow</b>	<b>(5,630)</b>	<b>(9,010)</b>	<b>29,665</b>	<b>(6,270)</b>	<b>(5,222)</b>
<b>Net Change in Cash</b>	<b>(4,098)</b>	<b>2,007</b>	<b>4,073</b>	<b>3,589</b>	<b>5,844</b>
Cash - begin of the year	5,881	1,782	3,789	7,862	11,350
Cash - end of the year	1,782	3,789	7,862	11,350	17,094

### Exhibit 11. Key Ratios

Year to 31 Dec	2020A	2021A	2022F	2023F	2024F
<b>Growth (%)</b>					
Sales	6.9	12.4	49.0	7.6	8.8
EBITDA	16.0	21.4	38.4	7.1	14.0
Operating profit	396.7	158.9	48.9	17.6	31.8
Net profit	(145.7)	(1,041.9)	(46.4)	(66.4)	148.0
<b>Profitability (%)</b>					
Gross margin	12.5	18.0	16.7	18.1	20.7
EBITDA margin	40.9	44.2	41.1	40.9	42.9
Operating margin	5.1	11.7	11.7	12.8	15.5
Net margin	(2.6)	21.5	7.7	2.4	5.5
ROAA	(1.1)	10.7	4.3	1.1	2.7
ROAE	(5.8)	64.1	19.0	4.2	9.8
<b>Leverage</b>					
Net Gearing (x)	1.1	1.3	0.4	0.2	0.0
Interest Coverage (x)	0.5	1.2	1.3	1.5	2.0

Source : ISAT, Danareksa Estimates

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