

Indosat Tbk (ISAT)

Waiting for Merger Realization

Underweight

Target Price (IDR)	5,130
Consensus Price (IDR)	3,841
TP to Consensus Price	+33.6%
vs. Last Price	-5.9%

Shares data

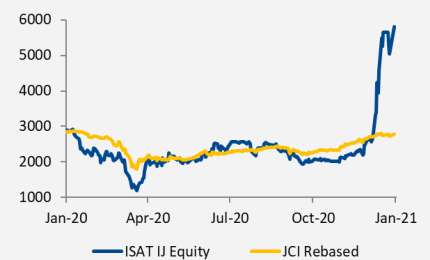
Last Price (IDR)	5,450
Price date as of	Jan. 06, 2021
52 wk range (Hi/Lo)	6,475 / 1,190
Free float	20.7%
Outstanding sh.(mn)	5,434
Market Cap (IDR bn)	31,381
Market Cap (USD mn)	2,252
Avg. Trd Vol - 3M (mn)	21.0
Avg. Trd Val - 3M (bn)	81.4
Foreign Ownership	82.3%

Infrastructure

Telecommunication

Bloomberg	ISAT IJ
Reuters	ISAT.IK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret	7.9%	144.4%	163.3%	91.2%
Rel. Ret	6.5%	138.4%	141.2%	94.3%

Restu Pamungkas

+62 21 5088 9133

restu.pamungkas@nhsec.co.id

The cellular segment was one of the segments that recorded growth, while intense competition making the company's revenue in other segments decrease. The company's total revenue continued to grow 9.2% YoY, 3.1% QoQ in 9M20. On the other hand, the high employee and financial burden caused the company's net loss to jump 60.8% YoY to IDR457.5 billion vs IDR284.6 billion in 9M19.

Employee and Financial Costs Rise, Bottom Line Drops in 9M20. ISAT recorded revenue growth of 9.2% YoY, 3.1% QoQ in 9M20 to IDR20.6 trillion. Revenue growth came from the cellular segment (+ 12.9% YoY) with a contribution of 82.7%. However, the growth in revenue has not been able to boost the company's bottom line performance, with net loss actually jumped 60.8% in 9M20 to IDR457.5 billion vs a net loss of IDR284.6 billion in 9M19. We saw the jump in the company's net loss as a result of an increase in employee expenses (+ 52.9% YoY) and financial expenses (+ 13.3% YoY).

Number of Subscribers will Increase, if Indosat and Hutchison 3 Merge Realized.

ISAT plans to merge with PT Hutchison 3 Indonesia, after Hutchinson 3 managed to secure a 5G block auction at the end of 2020. Preparing a capable 5G network will require a large amount of capital expenditure. However, the merger will have a positive impact on the two companies to be more efficient in terms of operations. Competition will also be healthier, as the companies can focus more on improving service quality. The potential for number of subscriber growth will also be possible. During 9M20 the number of ISAT subscribers grew 2.8% to 60.4 million subscribers. On the other hand, PT Hutchison 3 Indonesia during 9M20 had 38 million subscribers. We estimate that if the merger is realized, the number of subscribers will reach 100 million subscribers.

The Spirit of 4G Network Expansion Still On. ISAT 4G network expansion is still being carried out, where in 9M20 ISAT has 59,969 Base Transceiver Station (BTS), increased by 30,652. This addition is higher than of its competitors. We see that the expansion will continue, as until 9M20 the company has spent capex of IDR5.9 trillion with capex budget of IDR9 trillion/IDR10 trillion in FY20E/FY21F.

We Recommend Underweight with a Target Price of 5,130. We recommend Underweight for ISAT shares with a target price of IDR5,130 considering that the bottom line performance will still be negative at the end of 2020 and the stock valuation is relatively demanding. We also consider the risk of failure to reach a merger agreement. Our price target reflects an EV/EBITDA level of 4.2x. Currently, ISAT is traded at the EV/EBITDA level of 4.4x vs 3 and 5-year averages at 4.1x.

Indosat Tbk | Summary (IDR bn)

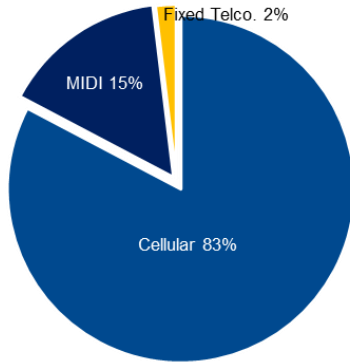
	2019	2020E	2021F	2022F
Revenue	26,118	27,149	29,362	31,452
<i>Revenue growth</i>	12.9%	4.0%	8.2%	7.1%
EBITDA	13,798	9,474	11,458	13,218
Net profit	1,569	(288)	119	237
EPS (IDR)	289	(53)	22	44
BVPS (IDR)	2,523	2,470	2,491	2,535
EBITDA margin	52.8%	34.9%	39.0%	42.0%
NPM	6.0%	-1.1%	0.4%	0.8%
ROE	11.4%	-2.1%	0.9%	1.7%
ROA	2.5%	-0.5%	0.2%	0.3%
P/BV	1.2x	1.6x	2.1x	2.0x
EV/EBITDA	2.3x	4.7x	4.2x	3.8x
Market Cap (IDR tn)	15,813	27,441	27,876	27,876
DPS	-	-	-	-
<i>Dividend yield</i>	0.0%	0.0%	0.0%	0.0%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

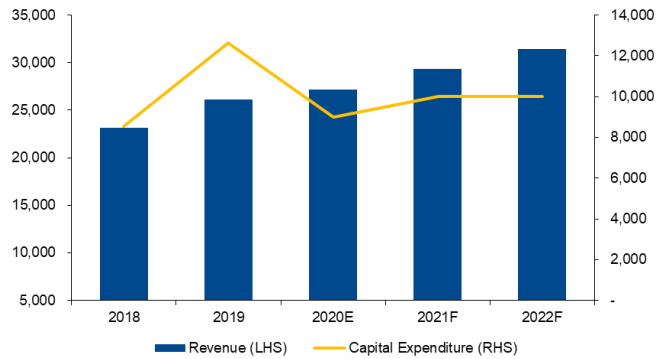
Performance Highlights

Revenue Contributions 9M20



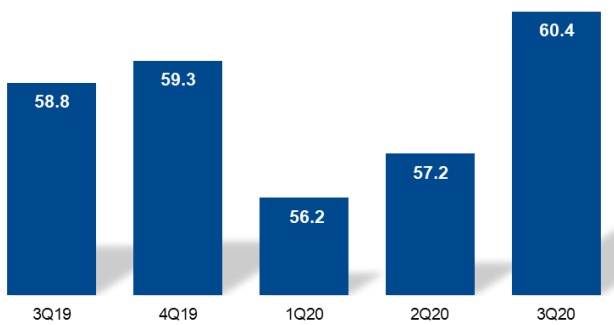
Source: Company, NHKSI Research

Revenue & Capex Forecast (mn)



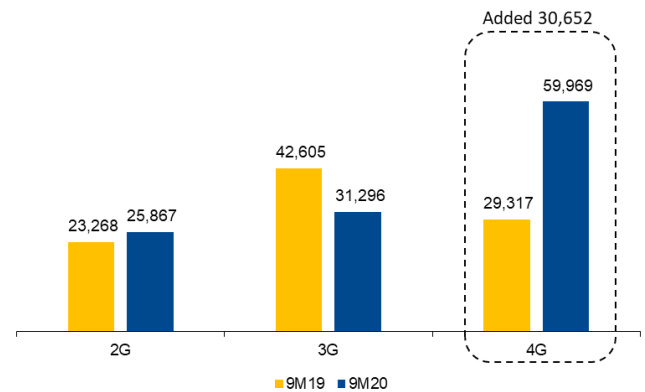
Source: Company, NHKSI Research

Subscribers (mn)



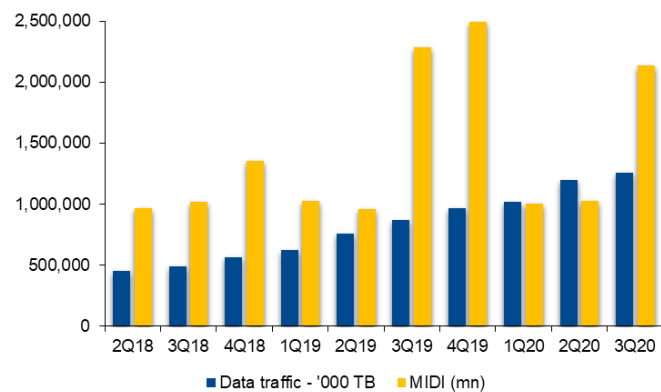
Source: Company, NHKSI Research

BTS Quantity



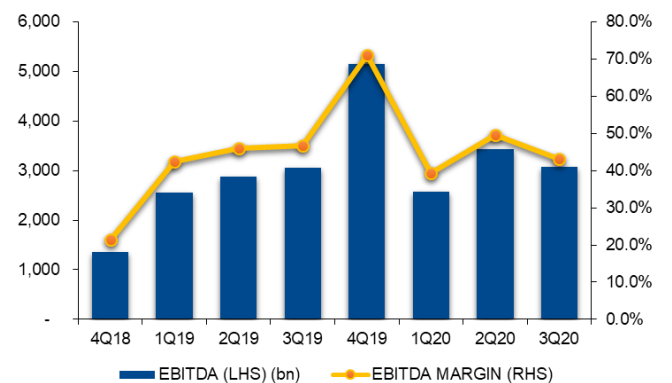
Source: Company, NHKSI Research

Data Traffic (PB) and Midi (mn)



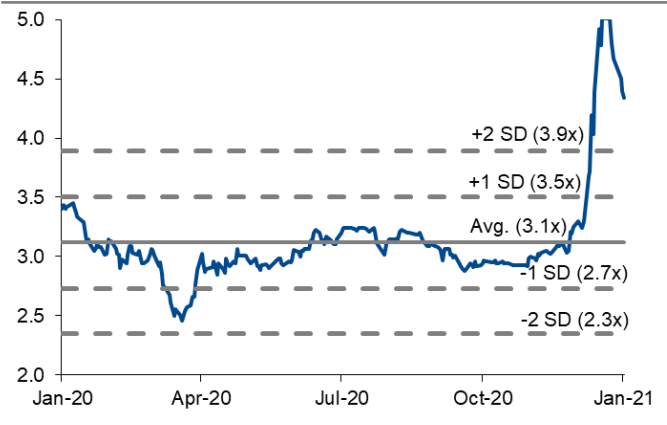
Source: Company, NHKSI Research

EBITDA & EBITDA Margin



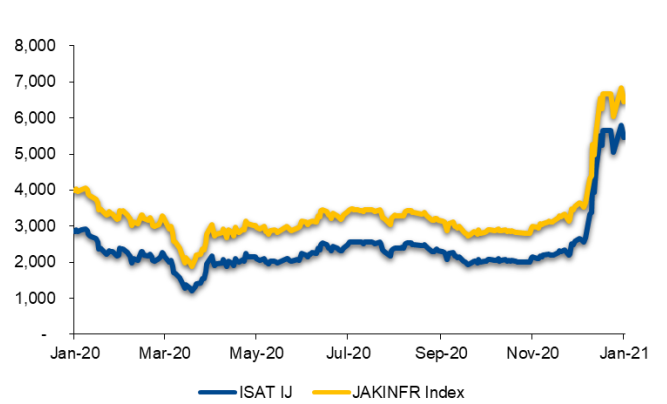
Source: Bloomberg, Company, NHKSI Research

Forward EV/EBITDA Trade in +2SD area



Source: Bloomberg, NHKSI Research

ISAT vs JAKINF



Source: Bloomberg, NHKSI Research

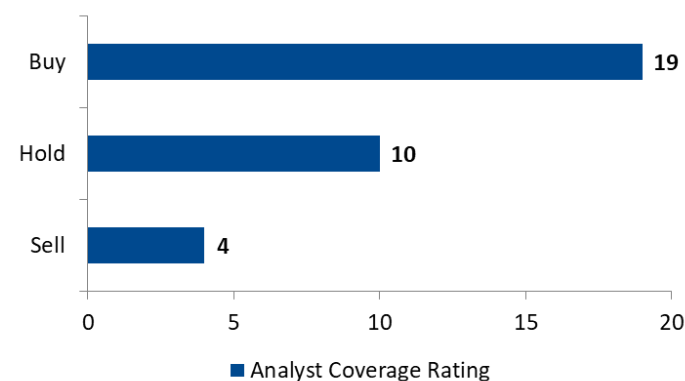
Rating and Target Price Update

Target Price

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
01/08/2021	Underweight	5,130 (12 Month)	5,450	3,841	-5.9%	+33.6%

Source: NHKSI Research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKSI Research

Summary of Financials

INCOME STATEMENT

(IDR bn)	2019/12	2020/12E	2021/12F	2022/12F
Revenue	26,118	27,149	29,362	31,452
Growth	12.9%	4.0%	8.2%	7.1%
COGS	-	-	-	-
Gross Profit	26,118	27,149	29,362	31,452
Operating Expenses	(21,889)	(25,200)	(26,479)	(27,860)
Operating Profit	4,228	1,950	2,883	3,593
OP Margin	16.2%	7.2%	9.8%	11.4%
Financial Cost	(2,761)	(2,559)	(2,835)	(3,337)
Interest Income	81	263	146	94
EBIT	1,587	(306)	232	386
EBIT Margin	6.1%	-1.1%	0.8%	1.2%
Income Tax	43	76	(58)	(96)
EAT	1,630	(229)	174	289
Non Controlling Interest	(61)	(58)	(55)	(53)
Net Profit	1,569	(288)	119	237
Growth	N/A	N/A	N/A	N/A
Net Profit Margin	6.0%	-1.1%	0.4%	0.8%

BALANCE SHEET

(IDR bn)	2019/12	2020/12E	2021/12F	2022/12F
Cash	5,881	3,251	2,111	3,923
Receivables	2,994	3,073	3,323	3,624
Inventories	29	28	30	31
Total Current Assets	12,445	9,894	9,009	11,128
Net Fixed Assets	42,753	44,902	49,928	53,903
Other Non Current Assets	7,615	7,572	7,361	7,225
Total Assets	62,813	62,368	66,298	72,256
Trade Payables	5,422	5,965	6,561	6,889
Bond Payable - Current	4,111	3,810	4,221	4,969
Loan Payable - Non Current	4,174	3,868	4,286	5,045
Total Liabilities	49,106	48,949	52,760	58,481
Capital Stock	543	543	543	543
Retained Earnings	10,144	9,856	9,975	10,212
Shareholders' Equity	13,707	13,420	13,538	13,775

CASH FLOW STATEMENT

(IDR bn)	2019/12	2020/12E	2021/12F	2022/12F
Operating Cash Flow	9,192	8,265	9,758	11,002
Investing Cash Flow	(11,841)	(9,630)	(13,389)	(13,465)
Financing Cash Flow	7,407	(1,265)	2,490	4,274
Net Changes in Cash	4,758	(2,630)	(1,140)	1,811

Source: Company Data, NHKSI Research

PROFITABILITY & STABILITY

	2019/12	2020/12E	2021/12F	2022/12F
ROE	11.4%	-2.1%	0.9%	1.7%
ROA	2.5%	-0.5%	0.2%	0.3%
Cash Dividend (IDR bn)	N/A	N/A	N/A	N/A
Dividend Yield	N/A	N/A	N/A	N/A
Payout Ratio	N/A	N/A	N/A	N/A
DAR	0.3x	0.3x	0.3x	0.4x
DER	1.5x	1.5x	1.6x	1.9x
Equity Ratio	21.8%	21.5%	20.4%	19.1%
Debt Ratio	34.4%	32.1%	33.5%	36.1%
Current Ratio	0.6x	0.4x	0.4x	0.4x
Quick Ratio	0.6x	0.4x	0.4x	0.4x
Cash Ratio	0.3x	0.1x	0.1x	0.1x
Par Value (IDR)	100	100	100	100
Total Shares (mn)	5,434	5,434	5,434	5,434
Share Price (IDR)	2,910	4,000	5,170	5,170
Market Cap (IDR tn)	15,813	27,441	28,093	28,093

VALUATION INDEX

	2019/12	2020/12E	2021/12F	2022/12F
Price/Earnings	10.1x	N/A	N/A	N/A
Price/Book Value	1.2x	1.6x	2.1x	2.0x
Price/Sales	0.6x	0.8x	1.0x	0.9x
PE/EPS Growth	N/A	N/A	N/A	N/A
EV/EBITDA	2.3x	4.7x	4.2x	3.8x
EV/Revenue	1.2x	1.6x	1.6x	1.6x
EV (IDR bn)	31,539	44,215	48,168	50,288
Revenue CAGR (3-Yr)	-3.6%	-3.2%	8.3%	6.4%
EPS CAGR (3-Yr)	12.4%	-163.3%	-136.7%	-46.8%
Basic EPS (IDR)	289	(53)	22	44
Diluted EPS (IDR)	289	(53)	22	44
BVPS (IDR)	2,523	2,470	2,491	2,535
Revenue PS (IDR)	4,806	4,996	5,403	5,788
DPS (IDR)	-	-	-	-

OWNERSHIP

Top By Geography	% Top Shareholders	%
Singapore	80.2	Ooredoo Asia Pte Ltd 65.0
Indonesia	17.7	Republic of Indonesia 14.3
Norway	0.8	Norges Bank 0.7
United States	0.7	Blackrock 0.2

NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. Rating system based on a stock's potential upside from the date of publication
 - Buy : Greater than +15%
 - Overweight : +5% to +15%
 - Hold : -5% to +5%
 - Underweight : -5% to -15%
 - Sell : Less than -15%

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