

March 2, 2023



Research Center

Morning KISI/

■ Company Update

Indosat, Tbk (ISAT): Larger scale lead to enhanced grow

■ Market Commentary

■ Macro Calendar

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Indosat (ISAT)

Larger scale lead to enhanced growth

Time to advance...

Following the completion of network integration, ISAT will be able to shift its focus to future expansion. This, we believe, will be done by ISAT's expanding coverage & capacity and pushing for network quality improvement, all in the name of providing a better customer experience, a critical factor to retain subscribers now. For this matter, ISAT has allocated IDR 13tn capex, which is 8% higher than 2022's realization. ISAT announced that the integration process has been delivered well ahead of schedule, to be fully completed by Mar-23. After that, we expect ISAT would move forward to carry out its growth strategy.

... with a much larger scale

By the end of 2022, ISAT had 102.2mn subscribers (~8-9mn additional subscribers from FY21), leaving EXCL in third place with a huge gap. By having this scalability, ISAT will be capable of executing more maneuvers in order to accelerate its future growth, whether in the mobile, fixed, enterprise, or other business areas. As a result, we now forecast ISAT's revenue to increase by 7.7% CAGR FY23F-25F, which should be higher than the industry growth.

Significant EBITDA margin expansion is achievable

In light of its potential USD 400mn cost synergies over a three-to-four-year period, ISAT's EBITDA margin expansion ought to stand out among the other three telco players. The management targets mid-40s level, which we believe is feasible. The pre-merger EBITDA margin for ISAT was 44.2% in FY21 before falling to 41.6% last year, which we feel was dragged down by Tri's much lower EBITDA margin. Nonetheless, both brands have started raising prices as the industry condition improved since last year, which will support both brands' EBITDA margins in the future. To note, ISAT raised the minimum price of Tri starter pack to IDR 25k on Jan-23 (from IDR 15k previously). As a result of rising ARPU and cost efficiencies, we increase our FY23/24F EBITDA by 9.6%, resulting in a 44.5%/45.6% EBITDA margin.

Reiterate our BUY call on ISAT

We reiterate our BUY call on ISAT with a higher TP of IDR 8,600 (+26% upside), baking in a higher EBITDA margin onwards. Valuation remains attractive, trading at 4.7x FY23F EV/EBITDA. Coupled with favorable industry conditions, solid top-line growth, and considerable EBITDA margin expansion, we believe ISAT will have the potential to re-rate in the future.

	2021A	2022A	2023F	2024F	2025F
Sales (IDR bn)	31,388	46,752	50,161	54,103	58,209
EBITDA (IDR bn)	13,886	19,469	22,304	24,697	27,091
OP (IDR bn)	3,682	5,766	7,796	9,427	11,018
NP (IDR bn)	6,751	4,723	2,190	3,572	4,739
Net debt/(cash) (IDR bn)	12,403	11,779	10,943	12,653	8,471
EBITDA margin (%)	44.2	41.6	44.5	45.6	46.5
OP margin (%)	11.7	12.3	15.5	17.4	18.9
ROE (%)	58.2	22.5	6.7	10.1	12.2
Dividend yield (%)	17.2	1.7	1.2	2.0	2.6
EPS (IDR)	1,242.4	589.0	271.6	443.0	587.8
chg. (% YoY)	NA	(52.6)	(53.9)	63.1	32.7
BPS (IDR)	1,689.5	3,534.4	3,742.0	4,103.5	4,558.4
DPS (IDR)	1,168.2	117.2	81.5	132.9	176.3
PE (x)	5.5	11.5	25.0	15.3	11.6
PB (x)	4.0	1.9	1.8	1.7	1.5
EV/EBITDA (x)	6.1	5.4	4.7	4.3	3.8

Company

Update

Telecommunication

Mar 2, 2023

12M rating **BUY (Maintain)**
12M TP **IDR 8,600** (Prev 8,300)
Upside **26.0%**

Stock Data

JCI (Mar 1)	6,845
Stock price (Mar 1, IDR)	6,825
Market cap (IDR bn)	55,028
Shares outstanding (mn)	8,063
52-week high/low (IDR)	5,000 / 7,675
6M avg. daily turnover (IDR bn)	33.7
Free float (%)	16.2

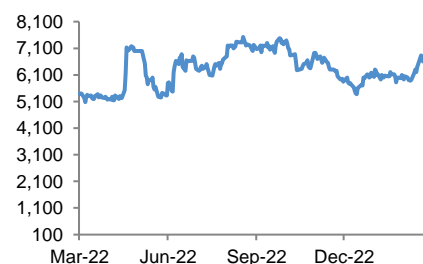
Major shareholders (%)

Ooredoo Hutchison Asia Pte. Ltd (P)	65.6
PT Perusahaan Pengelola Aset (Persero)	9.6
PT Tiga Telekomunikasi Indonesia	8.3

Performance

	1M	6M	12M
Absolute (%)	11.9	(4.9)	29.1
Relative to JCI (%p)	14.0	0.1	24.9

ISAT stock price (IDR)



Source: Bloomberg

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Market Commentary

Market Commentary

- JCI finished near flat on Wednesday, trimmed early gains in the opening as nervousness remains in the market amid the prospects of higher US Fed rates.
- While the index remains trapped in their range-bound amid a lack of a strong catalyst, while sectors and stocks were driven on short-lived trading.
- Regional indices advanced led by Hong Kong shares following data showing that China's economy is rebounding strongly after Covid restrictions were lifted.
- Financial and Tech stocks keep the index afloat, while 9 sectors closed in the red with Consumer and Transportation stocks being today's worst performers.
- RUPIAH -0.10% at 15,235 against USD.
- SOE banks were mostly higher at the closing and contributed most to index gains. BBRI IJ +1.07%, BMRI IJ +1.00%, BMRI IJ +1.99%.
- Tech and digital banking stocks were today's outperformers led by GOTO IJ +3.39% and ARTO IJ +7.17%.
- ARTO IJ +7.17% jumping the most after recent steep drops as the stock was deleted from MSCI Index, while foreign selling eased.
- Consumer and Transportation stocks were mostly lower at the close, amid sectoral rotation as traders booked the recent gains. GGRM IJ -4.40%, INDF IJ -3.09%, ICBP IJ -2.22%, MYOR IJ -1.50%, LEAD IJ -5.36% and TMAS IJ -2.99%.
- Top value were: BBKA IJ -1.71%, BBRI IJ +1.07% IJ, GOTO IJ +3.39%
- Top Gainers : GOTO (+3.39%), BBRI (+1.07%), TLKM (+1.29%)
- Top Losers: BBKA (-1.71%), BYAN (-2.34%), BRPT (-6.95%)

News

Macroeconomic, Sector and Corporate News

- AGRO – Recorded FY22 net profit of IDR11.4bn (vs. IDR3tn loss in FY21). (Investor daily)
- JPFA – Recorded FY22 net profit of IDR1.4tn, down 30% YoY. (Investor daily)
- EXCL - Signed MoU with Cisco for collaboration to develop 5G networks, cloud computing solutions & IoT. (Investor daily)
- GOOD – Recorded FY22 net profit of IDR425.2bn, flat YoY. (Investor daily)
- PTBA – Recorded FY22 net profit of IDR12.6tn (+58.9% YoY). (Bisnis)
- ELSA - Recorded FY22 net profit of IDR 378bn, +248% YoY. (Kontan)
- STTP - Allocates FY23 capex of IDR 430bn to increase production capacity by 20%. (Kontan)
- ITMG - Targets FY23 coal production of 16.6-17 mn tonnes (vs. 16.6mn in FY22). (Kontan)
- AVIA – Recorded FY22 net profit of IDR1.4tn, fell 2.4% YoY. (Bisnis)
- ROTI – Recorded FY22 net profit of IDR432.2bn, +52.4% YoY. (Bisnis)
- DRMA – Recorded FY22 net profit of IDR394.2bn (+30.9% YoY). (Bisnis)

Outliers

Outlier Stocks

- Sharp Movers (Up) : FUTR (+34.7%), AMAN (+24.6%), VAST (+13.6%)
 - Sharp Movers (Down) : EURO (-7.3%), BRPT (-6.9%), CBRE (-6.7%)
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Macro Calendar

March 2, 2023

Mon	Tue	Wed	Thu	Fri
		1	2	3
		Korea> January exports and imports US> FOMC meeting January ISM manufacturing PMI January ADP employment chg. MBA mortgage applications China> January Caixin manufacturing PMI Europe> December jobless rate January CPI (P)	Korea> January CPI US> December manufacturing orders December durable goods orders (F) Initial jobless claims Europe> ECB MPC meeting	Korea> January FX reserves US> January ISM services PMI January non-farm payrolls January jobless rate January avg. hourly wages China> January Caixin services PMI
6	7	8	9	10
OECD leading economic index	China> January FX reserves	US> MBA mortgage applications	US> Initial jobless claims China> January M2 money supply (-15 Feb)	US> February U. of Michigan Consumer Confidence (P) China> January CPI January PPI
13	14	15	16	17
China> PBoC MLF release (-16 Feb)	OPEC Monthly Oil Market Report US> January CPI Europe> 4Q22 GDP (P) Japan> 4Q22 GDP (P) December mining and manufacturing production (F)	Korea> January jobless rate US> February manufacturing index (New York) January retail sales MBA mortgage applications	US> January housing starts January PPI Initial jobless claims Japan> December core machinery orders January exports and imports	
20	21	22	23	24
US> Market closed (Presidents' Day) China> PBoC LPR release	US> January existing home sales	US> FOMC minutes release MBA mortgage applications	Korea> BoK MPC meeting US> 4Q22 GDP (S) Initial jobless claims Europe> January CPI (F) Japan> Market closed (emperor's birthday)	US> January personal income January personal consumption expenditure January new home sales February U. of Michigan Consumer Confidence (F) Japan> January CPI
27	28			
US> January durable goods orders (P)	Japan> January mining and manufacturing production (P) January retail sales			

Note: 1) Figures in parentheses represent the latest reported figures, Bloomberg estimates and previous reported figures in that order. For example: Data (actual reported figures, Bloomberg estimate, previous reported figures). Bloomberg estimates are subject to change 2) Earnings release date is from Bloomberg or company announcement