

Indosat Tbk (ISAT)

Tower Sales Expected to Improve Bottom Line

Throughout 2020, ISAT booked top line growth of 6.9% YoY. But, financial costs and changes from fair value of derivatives resulted in ISAT's bottom line to book another net loss in 2020. We see that the proposed sales of 4,000 towers will help ISAT's bottom line to recover in FY21/FY22.

High Financial Costs Pressures Bottom Line .

- ISAT recorded income growth of 6.9% YoY to IDR27.9 trillion vs IDR26.1 trillion in 2019. ISAT's revenues achievement was in line with our estimates .
- Financial costs were higher in 2020 at IDR3.0 trillion (+10.3% YoY) vs IDR2.8 trillion in 2019.
- Changes in the fair value of the derivatives also booked a loss in 2020 by 122.4% YoY to IDR87.4 billion vs IDR39.3 billion, which contributed by losses in 4Q20 of IDR123.1 billion.
- From the increase in financial costs and changes in fair value derivative, ISAT recorded a net loss of Rp716.7 billion. This was 149.2% higher than our estimate in FY20E net loss of IDR287.5 billion.

Cellular Segment Drives Revenue Growth.

- The cellular segment was the driver of revenue growth, increasing by 11.6% YoY throughout 2020 to IDR23.1 trillion. It was still the biggest contributor to ISAT's revenues at 82.7% .
- We assess that the sale of 4,000 towers has made a positive step to improve ISAT's bottom-line performance. ISAT has the potential to receive proceeds from selling towers amounting to IDR8 trillion. This will increase ISAT's EBITDA value to IDR 13.4 trillion/IDR15.9 trillion FY21/FY22.
- We revised the ISAT top line target of IDR29.9 trillion/IDR32.9 trillion and the bottom line to IDR527 billion/Rp1.1 trillion in FY21/FY22.

Maintain UNDERWEIGHT with Target Price of 5,150.

- We maintain our UNDERWEIGHT call for ISAT with a target price 5,150. Our TP implies an EV/EBITDA level at 3.0x.
- ISAT's current share price does not reflect its fair value, Currently ISAT is traded at the EV/EBITDA 4.7x; compared to its 5-year average at 4.2x.
- The merger plan with Hutchison 3 Indonesia has not yet been materialized. So far, ISAT and Tri are still reviewing the combination of the two business cooperation which is likely to be decided in April 2021.

Indosat Tbk | Summary (IDR bn)

	2019A	2020A	2021F	2022F
Revenue	26,118	27,926	29,898	32,924
growth	12.9%	14.5%	10.1%	6.1%
Net Profit	1,569	(717)	527	1,061
Growth	N/A	N/A	N/A	101.1%
EPS	289	(132)	97	195
P/E	10.1x	-38.3x	53.1x	26.4x
P/BV	1.2x	2.1x	2.1x	1.9x
EV/EBITDA	2.3x	3.4x	3.0x	2.6x
ROE	11.4%	-5.6%	3.9%	7.3%
DER	1.0x	1.2x	1.0x	1.1x
Dividend Yield	N/A	N/A	N/A	N/A

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

NH Korindo Sekuritas Indonesia

UNDERWEIGHT

Target Price (IDR)	5,150
Consensus Price (IDR)	5,620
TP to Consensus Price	-8.4%
vs. Last Price	-10.4%

Shares data

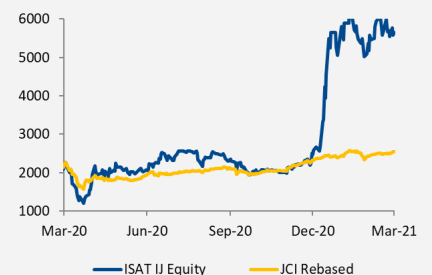
Last Price (IDR)	5,750
Price date as of	Mar. 04, 2021
52 wk range (Hi/Lo)	6,475 / 1,190
Free float	20.7%
Outstanding sh.(mn)	5,434
Market Cap (IDR bn)	30,701
Market Cap (USD mn)	2,150
Avg. Trd Vol - 3M (mn)	22.9
Avg. Trd Val - 3M (bn)	108.8
Foreign Ownership	82.4%

Infrastructure

Telecommunication

Bloomberg	ISAT IJ
Reuters	ISAT.IJK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret	-2.6%	9.2%	127.8%	161.6%
Rel. Ret	-7.0%	4.3%	118.3%	146.0%

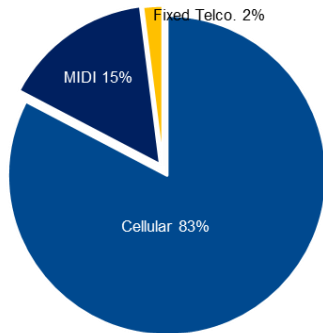
Restu Pamungkas

+62 21 5088 9133

restu.pamungkas@nhsec.co.id

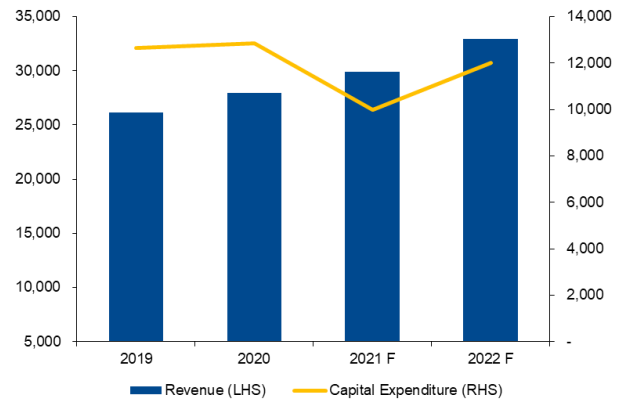
Performance Highlights

Revenue Contributions FY20



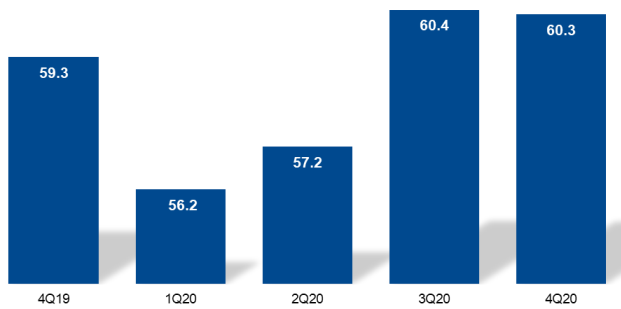
Source: Company, NHKSI Research

Revenue & Capex Forecast (mn)



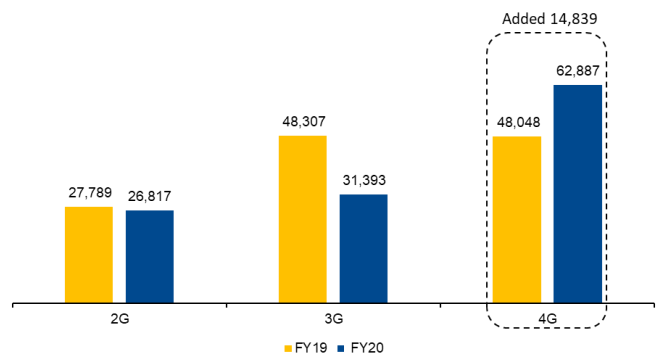
Source: Company, NHKSI Research

Subscribers (mn)



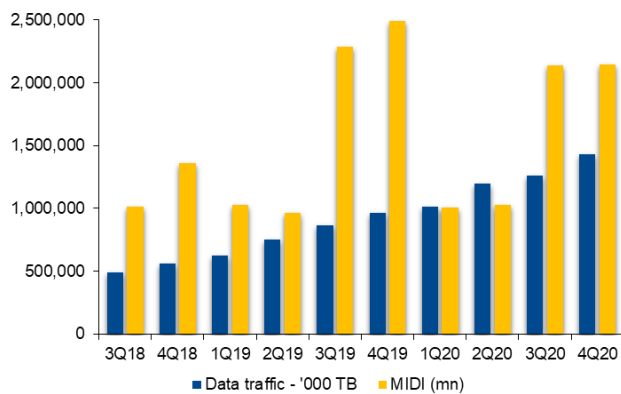
Source: Company, NHKSI Research

BTS Quantity



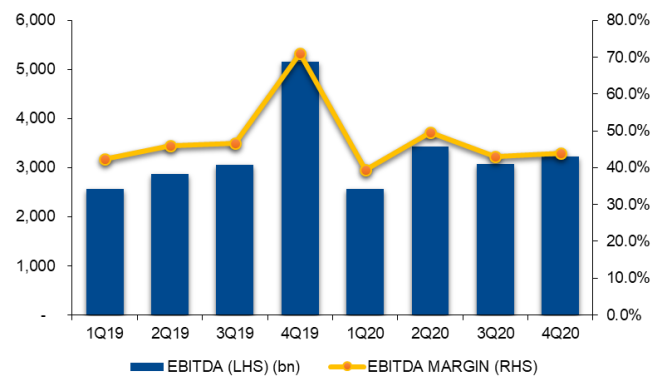
Source: Company, NHKSI Research

Data Traffic (PB) and Midi (mn)



Source: Company, NHKSI Research

EBITDA & EBITDA Margin



Source: Bloomberg, Company, NHKSI Research



PT Indosat Tbk (ISAT) was established on November 10, 1967 as a foreign investment company providing international telecommunications services in Indonesia. The corporate structure is 65% owned by Ooredoo Asia Pte, 14.29% owned by the Government of Indonesia and 20.71% owned by the public. Throughout 2020, ISAT had 121,097 BTS, consisting of 62,887 4G BTS (Growing + 30.9% YoY), 31,393 3G BTS and 26,817 2G BTS.

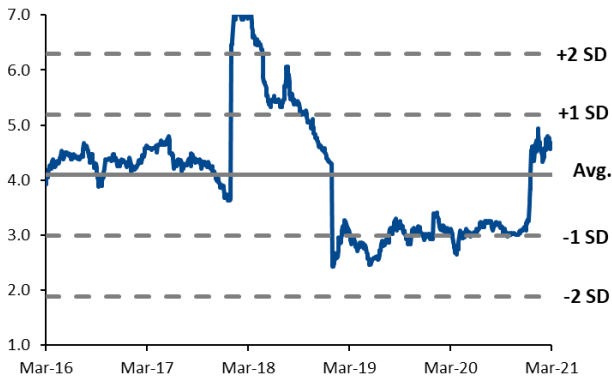
In the competition between ASEAN Telecommunication Operators, ISAT has a negative ROE track record of -5.8%, Net Profit Margin is still negative at -2.6%. Market Cap was recorded as still the lowest compared to other competitors at USD2,191 mn. In Indonesia, ISAT has the second high EV / EBITDA valuation after TLKM of 4.4x.

ASEAN Telecommunication Operators

Company	Market Cap (USD mn)	Asset (USD mn)	Revenue LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Profit Margin	ROE LTM	EV/ EBITDA LTM	P/BV
Indonesia									
ISAT	2,191	4,508	1,919	(49)	N/A	-2.6%	-5.8%	4.4x	2.6x
TLKM	23,338	15,975	9,182	1,305	-6.79%	14.2%	18.8%	4.6x	3.3x
EXCL	1,644	4,865	1,787	26	-47.85%	1.4%	1.9%	4.0x	1.2x
Singapore									
Singtel	28,889	34,378	11,354	1,206	13.54%	10.6%	6.13%	9.5x	1.4x
Malaysia									
Maxis	8,855	5,455	2,135	330	-8.82%	15.4%	19.62%	13.1x	5.1x
DiGi.Com	6,807	2,036	1,465	291	-14.79%	19.8%	192.91%	12.3x	45.6x
Axiata Group	7,688	16,904	5,763	87	-74.95%	1.5%	2.16%	6.3x	1.8x
Thailand									
Advanced Info Service	16,598	11,674	5,530	878	-12.04%	15.9%	37.88%	7.4x	6.7x
True Corp	3,624	17,610	4,471	45	-56.89%	1.0%	1.34%	8.2x	1.3x
Total Access Comm.	2,456	5,810	2,521	163	-0.44%	6.5%	20.73%	5.0x	3.1x
Phillipine									
PLDT	5,733	10,355	3,650	490	7.83%	13.4%	23.40%	5.4x	2.4x
Globe Telecom	5,489	7,077	3,237	375	-16.57%	11.6%	22.50%	6.2x	3.3x

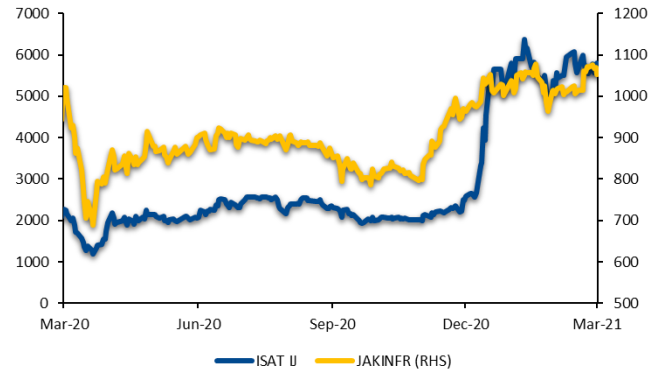
Source: Bloomberg

Forward EV/EBITDA Trade in 4.7x



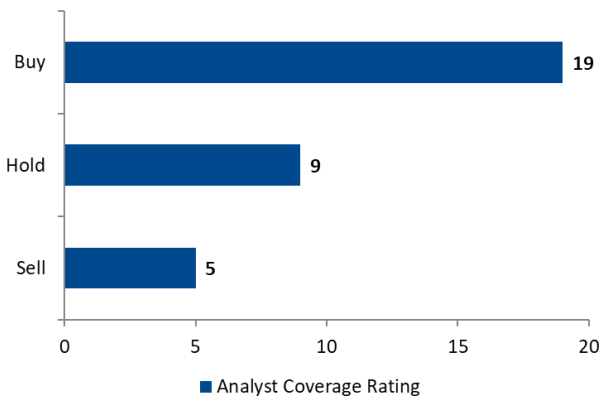
Source: Bloomberg, NHKSI Research

ISAT vs JAKINF



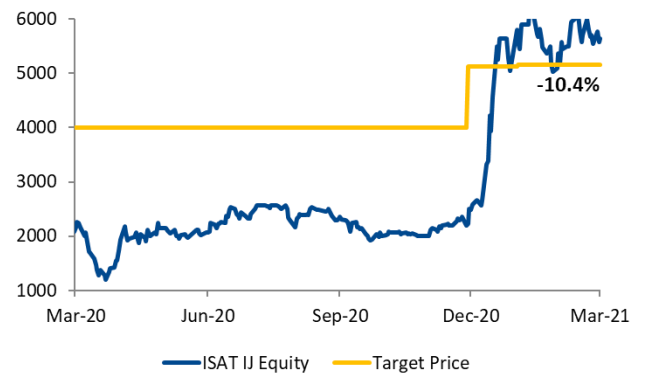
Source: Bloomberg, NHKSI Research

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: 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%
03/05/2021	Underweight	5,150 (12 Month)	5,750	5,620	-10.4%	-8.4%

Source: NHKSI Research, Bloomberg

Summary of Financials

INCOME STATEMENT

(IDR bn)	2019	2020	2021/12F	2022/12F
Revenue	26,118	27,926	29,898	32,924
Growth	12.9%	14.5%	10.1%	6.1%
COGS	-	-	-	-
Gross Profit	26,118	27,926	29,898	32,924
Gross Margin	-	-	-	-
Operating Expenses	(21,889)	(25,526)	(27,488)	(29,306)
Operating Profit	4,228	2,399	2,410	3,618
OP Margin	16.2%	8.6%	8.1%	11.0%
Financial Cost	(2,761)	(3,045)	(1,928)	(2,236)
Interest Income	81	258	68	108
EBIT	1,587	(600)	781	1,488
EBIT Margin	6.1%	-2.1%	2.6%	4.5%
Income Tax	43	(31)	(195)	(372)
EAT	1,630	(630)	586	1,116
Non Controlling Interest	(61)	(87)	(58)	(55)
Net Profit	1,569	(717)	527	1,061
Growth	N/A	N/A	N/A	101.1%
Net Profit Margin	6.0%	-2.6%	1.8%	3.2%

BALANCE SHEET

(IDR bn)	2019	2020	2021/12F	2022/12F
Cash	5,881	1,782	1,537	2,461
Receivables	2,994	2,557	3,333	3,622
Inventories	29	40	56	56
Total Current Assets	12,445	9,595	10,152	11,369
Net Fixed Assets	42,753	46,522	46,211	50,254
Other Non Current Assets	7,615	6,662	6,679	6,495
Total Non Current Assets	50,368	53,184	52,890	56,749
Total Assets	62,813	62,779	63,043	68,118
Trade Payables	5,422	9,073	9,980	10,978
Bond Payable - Current	4,111	1,613	1,397	1,621
Total Current Liabilities	22,129	22,658	23,897	25,700
Loan Payable - Non Current	4,174	3,557	3,080	3,573
Total Liabilities	49,106	49,865	49,602	53,616
Capital Stock	543	543	543	543
Retained Earnings	10,144	9,427	9,954	11,015
Shareholders' Equity	13,707	12,913	13,441	14,501

CASH FLOW STATEMENT

(IDR bn)	2019	2020	2021/12F	2022/12F
Operating Cash Flow	9,192	10,550	12,193	14,395
Investing Cash Flow	(11,841)	(11,927)	(10,723)	(16,136)
Financing Cash Flow	7,407	(2,721)	(1,716)	2,665
Net Changes in Cash	4,758	(4,099)	(246)	924

Source: Company Data, NHKSI Research

PROFITABILITY & STABILITY

	2019	2020	2021/12F	2022/12F
ROE	11.4%	-5.6%	3.9%	7.3%
ROA	2.5%	-1.1%	0.8%	1.6%
Inventory Turnover	888.2x	701.4x	486.8x	520.3x
Receivables Turnover	8.6x	10.8x	8.9x	9.0x
Payables Turnover	36.1x	38.8x	32.3x	32.9x
Dividend Yield	N/A	N/A	N/A	N/A
Payout Ratio	N/A	N/A	N/A	N/A
DER	1.0x	1.2x	1.0x	1.1x
Net Gearing	0.4x	0.4x	0.3x	0.3x
Equity Ratio	21.8%	20.6%	21.3%	21.3%
Debt Ratio	34.4%	25.5%	22.0%	23.6%
Financial Leverage	4.5x	4.7x	4.8x	4.7x
Current Ratio	0.6x	0.4x	0.4x	0.4x
Quick Ratio	0.6x	0.4x	0.4x	0.4x
Par Value (IDR)	100	100	100	100
Total Shares (mn)	5,434	5,434	5,434	5,434
Share Price (IDR)	2,910	5,050	5,150	5,150
Market Cap (IDR tn)	15,813	27,441	27,985	27,985

VALUATION INDEX

	2019	2020	2021/12F	2022/12F
Price/Earnings	10.1x	-38.3x	53.1x	26.4x
Price/Book Value	1.2x	2.1x	2.1x	1.9x
PE/EPS Growth	N/A	N/A	N/A	1.0x
EV/EBITDA	2.3x	3.4x	3.0x	2.6x
EV (IDR bn)	31,539	41,669	40,312	41,605
Revenue CAGR (3-Yr)	-3.6%	-2.3%	8.9%	8.0%
Net Income CAGR (3-Yr)	12.4%	-185.8%	-160.3%	-12.2%
Basic EPS (IDR)	289	(132)	97	195
BVPS (IDR)	2,523	2,376	2,473	2,669
DPS (IDR)	-	-	-	-

OWNERSHIP

Top Shareholders	%
Ooredoo Asia Pte Ltd	65.0
Republic of Indonesia	14.3
Norges Bank	0.7
Dimensional Fund	0.3
By Geography	%
Singapore	80.1
Indonesia	17.6
Norway	0.8
United States	0.8
Others	0.6

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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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