INDOPREMIER

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# Premier Insight

17 March 2017

## Indosat (ISAT IJ; Buy)

### Having the right momentum

- **Continuing growth momentum**
- **Finding the right mix in data pricing**
- **Dividend might be in sight**
- **Maintain Buy, new TP Rp8,200 (prev Rp8,150)**

**Strong turnaround.** Indosat posted a good set of result in FY16, putting evidence of a sustainable turnaround with net income of Rp1.1tn vs a net loss in the previous year. This recovery was set to success as the management has invested in its network quality from coverage to capacity while aligning offering and pricing. This strategy has been paying off with solid revenue from data (+46.7% yoy) accompanied with minimal substitution in voice (+1.1% yoy) and SMS (-0.4% yoy). Subscriber base continue to grow to 85.7mn subs with a net add of 15.9mn in FY16. The fruitful result was reflected in growing EBITDA of 12.1% with expanding margin to 44.1% vs 42.9% the year earlier.

**Data pricing remains competitive**. Despite tremendous growth in data consumption to almost an average of 500Mb/user/month in FY16 from only 250Mb, was not accompanied by data price increase. On contrary, data price declined from Rp36 per MB in FY15 to only Rp15 in FY16 due to stiff competition from smaller players such as Hutch 3 (non-listed), Smartfren (FREN IJ; Rp51; Not Rated) and XL Axiata (EXCL IJ; Rp3,010; Buy). According to Indosat, effective data pricing will be determined by headline price, bonuses and distribution incentive. The management tries to find the right mix to balance between capacity and profitability. Nevertheless any major change in offering will take into effect after 2-3 months. The major operators have addressed intention to increase data pricing.

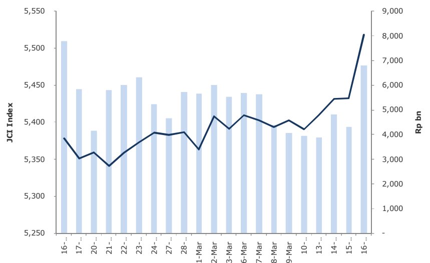
**Improving cash flows might lead to dividend**. Having improved cash flows together with less movement from exchange losses, might allow Indosat to distribute dividend in the near future. The company guidance set capex at around Rp7-8tn, while we estimate that EBITDA could reach Rp14.1tn in FY17. This will leave ample of free cash flow either for debt repayment or dividend distribution. We think that Indosat might prioritize debt reduction before distributing any dividend. Nevertheless, the company is on the right track to for sustainable cash generation for stakeholders. The management has indicated that dividend distribution to happen soon. Currently net gearing stands at 162.8% as of Dec16.

**Reiterate our Buy call**. Post modernization of its network, we think that Indosat has reached sustainable operation. The company starts to enjoy higher financial freedom for investing and debt repayment. Moreover, growth opportunities are well exploited by Indosat creating healthy operational cash flow. We maintain our BUY call on the counter with new TP of Rp8,200.

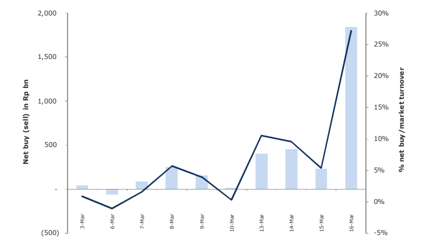
| Year To 31 Dec | 2015A | 2016A | 2017F | 2018F | 2019F |
|---|---|---|---|---|---|
| Revenue (RpBn) | 26,769 | 29,185 | 31,653 | 34,332 | 35,439 |
| EBITDA (RpBn) | 11,297 | 12,778 | 14,165 | 15,310 | 15,380 |
| EBITDA Growth (%) | 12.3 | 13.1 | 10.9 | 8.1 | 0.5 |
| Net Profit (RpBn) | (1,310) | 1,105 | 1,972 | 2,624 | 2,743 |
| EPS (Rp) | (241) | 203 | 363 | 483 | 505 |
| EPS Growth (%) | (39.6) | n/m | 78.4 | 33.1 | 4.5 |
| Net Gearing (%) | 194.1 | 162.8 | 117.4 | 78.3 | 48.1 |
| PER (x) | n/m | 34.2 | 19.2 | 14.4 | 13.8 |
| PBV (x) | 2.8 | 3.0 | 2.8 | 2.5 | 2.1 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EV/EBITDA (x) | 5.4 | 4.6 | 3.9 | 3.4 | 3.1 |

*Source: ISAT, IndoPremier* *Share Price Closing as of : 16 March 2017*

**JCI Index**



**Foreign net buy (sell)**



**Key Indexes**

| Index | Closing | 1 day | 1 year | YTD |
|---|---|---|---|---|
| JCI | 5,518 | 1.6% | 12.9% | 4.2% |
| LQ45 | 918 | 2.2% | 7.5% | 3.8% |
| DJI | 20,935 | -0.1% | 19.8% | 5.9% |
| SET | 1,557 | 1.1% | 12.8% | 0.9% |
| HSI | 24,288 | 2.1% | 18.5% | 10.4% |
| NKY | 19,590 | 0.1% | 15.7% | 2.0% |
| FTSE | 7,416 | 0.6% | 19.6% | 3.8% |
| FSSTI | 3,164 | 0.8% | 9.8% | 9.8% |
| EIDO | 26 | 1.1% | 5.0% | 5.7% |

**Commodity price**

| Commodities | Last price | Ret 1 day | Ret 1 year |
|---|---|---|---|
| *(in USD)* | | | |
| Oil/barrel (WTI) | 48.8 | -0.2% | 26.8% |
| CPO/tonne | 629.9 | 2.0% | 7.1% |
| Soy/bushel | 9.8 | 0.6% | 10.7% |
| Rubber/kg | 2.4 | -0.2% | 68.2% |
| Nickel/tonne | 10,162 | 0.2% | 18.7% |
| Tins/tonne | 20,212 | 1.4% | 20.7% |
| Copper/tonne | 5,890 | 0.8% | 19.0% |
| Gold/try.oz (Spot) | 1,226 | 0.6% | -2.5% |
| Coal/tonne | 81.1 | -0.7% | 57.2% |
| Corn/bushel | 3.5 | 0.7% | -3.5% |
| Wheat/bushel* | 137.1 | 11.6% | -16.7% |

** : 1 month change*

Source : Bloomberg

# News & Analysis

## Corporates

**INTP:** Indocement (INTP IJ; Rp16,000; Hold) has released its FY16 result which was slightly below our and consensus numbers driven by weaker than expected profit margins and higher than expected tax payments. The result highlights are:

- Net income dropped -11.2% yoy due to weak operational performance with sales volume falling by -4.8% yoy and ASP lower by -8.6% yoy.
- Total revenue dropped -13.7% yoy with EBITDA declined by -22.8% yoy leading lower EBITDA margin to 30.0% in FY16 vs 33.6% in FY15. We expect pressure on margin to continue in FY17 as EBITDA margin was 27.3% in 4Q16.
- We maintain our Hold call on Indocement as the company remains cash rich allowing the company to face competition with a healthy balance sheet. (Company).

| | 9M16 | 9M15 | % | 4Q16 | 3Q16 | % | FY16 | % |
|---|---|---|---|---|---|---|---|---|
| Turnover | 15,362 | 17,798 | (13.7) | 4,015 | 3,605 | 11.4 | 15,783 | 97.3 |
| Gross Profit | 6,331 | 7,909 | (19.9) | 1,605 | 1,492 | 7.6 | 6,635 | 95.4 |
| Operating Profit | 3,618 | 5,029 | (28.1) | 832 | 835 | (0.4) | 3,757 | 96.3 |
| EBITDA | 4,611 | 5,975 | (22.8) | 1,095 | 1,078 | 1.6 | 4,944 | 93.3 |
| Net interest | 485 | 563 | (13.9) | 111 | 107 | 3.5 | 515 | 94.1 |
| Forex | - | - | nm | - | - | nm | - | nm |
| Others | 43 | 53 | (17.7) | 24 | (10.0) | (348.4) | 25 | nm |
| Pretax | 4,146 | 5,645 | (26.6) | 967 | 932 | 3.7 | 4,303 | 96.3 |
| Taxation | (275.0) | (1,288.0) | (78.6) | (244.0) | 99.0 | (346.3) | (134.0) | 206.2 |
| Net Profit | 3,870 | 4,357 | (11.2) | 723 | 1,031 | (29.9) | 4,170 | 92.8 |
| *EBITDA margin* | 30.00% | 33.60% | | 27.30% | 29.90% | | 31.30% | |

*Source: Company*

**PRDA:** Prodia Widyahusada (PRDA IJ; Rp4,700; Buy) booked strong FY16 earnings at Rp88.1bn (+ 46% yoy, +165% qoq). Net margin expanded tp 6.5% in FY16 from 5.0% in FY15 supported by solid top line growth of 13% yoy and EBIT of 32% yoy which resulted in better gross and EBIT margin of 58.4% and 9.5% (vs 57.4% and 8.2% in FY15). (Bisnis Indonesia).

*Comment: the strong earnings is 13% and 8% above our estimate and consensus, caused by EBIT margin expansion. Revenue and gross profit are mostly inline with our estimate. We will review our earnings estimate for PRDA based on this set of results.*

**PTPP:** Pembangunan Perumahan (PTPPIJ; Rp3,400; Buy) prepared Rp4tn, which will be used by PP Peralatan and PP Energi. The acquisition plans is scheduled to be completed before the IPO of both PP Peralatan and PP Energi.On separate new, PTPP also plans to issue a perpetual bond worth Rp1-2tn with 9.25% interest to fund 2017 capex of Rp21tn. PTPP already acquired new contract of Rp5.1tn in 1Q17 which is 12.5% from their FY17 target of 41tn. (Kontan, Investor Daily)

## Markets & Sector

**Pharma Sector:** Indonesian Pharmaceutical Association (GP Farmasi) predicts pharma industry to grow 7-10% yoy in 2017 driven by growth of 10% yoy in generic drugs. State owned pharmaceutical company such as KAEF is now preparing for capacity expansion in which will be able to produce 14bn tablets/year at the time of completion (from previously 3.5bn tablets/year). (Kontan).

*Comment: we see this to have more impact to state-owned pharma comps such as Kimia Farma (KAEF IJ; Rp1,825; Not Rated) and limited impact to Kalbe Farma (KLBF; Rp1,495; Buy) given its limited contribution for supplying to National Healthcare Program. However, we think the less contribution the better considering governments' attempt to keep pushing down the price of the drugs that are supplied for the program due to budget deficit.*

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**INVESTMENT RATINGS**

BUY : Expected total return of 10% or more within a 12-month period
HOLD : Expected total return between -10% and 10% within a 12-month period
SELL : Expected total return of -10% or worse within a 12-month period

**ANALYSTS CERTIFICATION.**

The views expressed in this research report accurately reflect the analyst;s personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.