

## Premier Insight

10 August 2017

## Indosat (ISAT IJ; Buy)

## Building up growth momentum

- Net income up +56.5% yoy, slightly below expectation
- Strong revenue growth with tight cost discipline
- Plateau data pricing
- Buy maintained

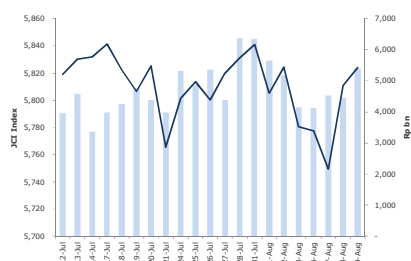
**Net income was slightly below expectation.** Net income of Indosat grew +56.5% yoy in 1H17 and +251.1% qoq in 2Q17, driven by strong operational result with relative steady cost. Despite that the 1H17 result was below expectation, we are quite confident that Indosat could pick up growth momentum in the coming quarters. EBITDA margin has expanded to 45.7% in 2Q17 vs 42.5% in 1Q17 and 43.3% in 1H16. With improved cash flow, the company was able to lower net debt to EBITDA ratio to 1.48x as of Jun17 vs 2.22x two years ago. The healthy cash flow will improve Indosat's flexibility to choose to accelerate capex if needed or to further repay debt to improve profitability before distributing any dividends.

**Revenue growth reflected in profitability.** While improving procurement, outsourcing and partnership model, on the cost side, Indosat was able to grow topline by +8.4% yoy in 1H17 and +7.3% qoq in 2Q17. Operating expenses ratio to sales dropped to 54.3% in 2Q17 from a region of 55-57% in the previous quarters. This shows that Indosat was able to enjoy good operating leverage. Cellular revenue account 83% of total revenue and grew +10.4% yoy and +7.9% qoq in 2Q17 driven strong growth in data of +39.5% yoy and +18.5% qoq. Meanwhile voice and sms continue to drop -3.6% yoy and -10.3% yoy due to substitution effect from OTT.

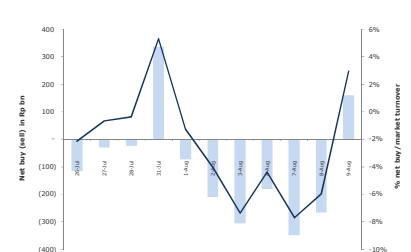
**Data pricing tend to stabilize.** Effective data pricing of Indosat was relative stable at Rp15/Mb in the three quarters. Other competitors displayed slight drop in data price. We think at the moment that operators are in equilibrium condition to monetize on data. However, this equilibrium could still be shaky as operators pushing capex forward to grab more market share. Nonetheless, no operator has signaled to do so in the coming quarters. With stable data price, data revenue growth is driven by volume which remains very attractive. Data volume grew +17.8% qoq and +163.6% yoy in 2Q17. If this growth momentum sustains, we could see data volume growth of 60% in FY17.

**Maintain Buy.** Indosat's financial result has proofed strong momentum growth from a combination of topline growth with strong cost discipline. With improved cash flow, Indosat was able to lower its debt level while maintaining capex to sustain growth momentum. We remain positive on the counter and maintain our Buy call on the company with unchanged TP Rp8,200.

## JCI Index



## Foreign net buy (sell)



## Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,824	0.2%	7.4%	10.0%
LQ45	969	0.2%	4.1%	9.6%
DJI	22,049	-0.2%	19.2%	11.6%
SET	1,572	-0.4%	1.5%	1.9%
HSI	27,757	-0.4%	23.4%	26.2%
NKY	19,739	-1.3%	17.9%	3.6%
FTSE	7,498	-0.6%	9.2%	5.0%
FSSTI	3,318	-0.1%	15.6%	15.2%
EIDO	27	0.2%	0.7%	11.0%

## Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	49.6	0.8%	15.9%
CPO/tonne	613.3	0.0%	6.7%
Soy/bushel	9.5	0.3%	-6.2%
Rubber/kg	1.9	1.0%	3.5%
Nickel/tonne	10,718	1.2%	-0.2%
Tins/tonne	20,295	0.1%	10.3%
Copper/tonne	6,427	-0.4%	34.8%
Gold/try.oz (Spot)	1,277	1.3%	-5.1%
Coal/tonne	95.2	1.2%	42.1%
Corn/bushel	3.5	0.6%	12.7%
Wheat/bushel*	146.5	5.8%	-7.0%

\*: 1 month change

Source : Bloomberg

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)	(1,451)	964	1,831	2,483	2,602
EPS (Rp)	(267)	177	337	457	479
EPS Growth (%)	(39.6)	(166.4)	89.9	35.7	4.8
Net Gearing (%)	180.5	153.2	107.6	72.0	44.3
PER (x)	n/m	32.7	18.3	13.8	13.2
PBV (x)	2.7	2.5	2.2	1.9	1.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	5.3	4.5	3.8	3.3	3.0

Source: ISAT, IndoPremier

Share Price Closing as of : 9-August-2017

Refer to Important disclosures in the last page of this report

## News & Analysis

### Corporates

**BBRI:** Bank Rakyat's (BBRI IJ; Rp15,025; Hold) long-term plan aims to achieve total assets of Rp1,700tn and net profit of Rp50tn by 2022 on the back of automating its micro-credit business, improving risk management on consumer lending and developing fee incomes from wholesale business. The bank plans to raise contribution of micro loans to 40% (from 34%) while reducing corporate loans to 20% (from 27%). The road map also include inorganic growth with contribution of subsidiaries expected to rise to 10% of assets (from 4%) and 2.5% of profit by 2022. (Investor Daily)

*Comment: BBRI's roadmap implies targets for asset and profit growth of 8.6% and 12.2% CAGR, respectively, in 2017-2022F. We believe this is a realistic target in light of its past 5-year growth of 16.4% and 11.7% CAGR, respectively, especially since this targets include acquisition plans (ie. securities brokerage, general insurance, venture capital), although we believe it may also depends on assumption of the government sustaining its current interest-rate subsidy on KUR loans. We retain our Hold rating.*

**ELSA:** Elnusa (ELSA IJ; Rp250; Not Rated) recently obtained new contract for seismic and drilling services worth Rp1tn, bringing YTD17 contracts to Rp4.5tn, exceeding company's target. ELSA's President Director, Tolingul Anwar stated that the new contract will improve ELSA performance in the 2H17. (Kontan)

*Comment: We believe the sentiment will be positive for ELSA.*

**RALS:** Ramayana Lestari (RALS IJ; Rp935; Hold) aims to spin off its supermarket business (SPAR). SPAR's gross margin stood at 11.9%/13.8%/12.5% in 1H17/FY16/FY15 and operating margin at -4.2%/-3.2%/-4.9% respectively. Its supermarket business contributed 9.6% to RALS gross profit in 1H17 (1H16: 13%). SPAR's operating loss dragged down RALS's operating profit by -11%/-19% in 1H17/1H16. Looking at HERO, COGS-to-sales stood at 74% in 1H17 vs. SPAR at 89%. We believe the spun off SPAR business should provide an upside for RALS. (Kontan)

**SMRA:** Summarecon Agung (SMRA IJ; Rp1,120; Buy) reported marketing sales of Rp1.4tn until July 2017 or 39% of revised FY17 target of Rp3.5tn. Marketing sales in July 2017 alone was weak at Rp93bn (vs. Rp352bn in June 2017) due to lack of launches. (Company)

*Comment: SMRA 7M17 marketing sales were the weakest compared to last five years. Even so, SMRA is trading at attractive 69% discount to our RNAV, maintain BUY at TP of Rp1,810.*

**SSIA:** Surya Semesta Internusa (SSIA IJ; Rp700; Not Rated) will have a consortium with Jasa Marga (JSMR IJ; Rp5,600; Buy) to initiate the development of toll road project toward Patimban Seaport. Company plans to involve more than two companies in the consortium, while taking the majority stake of 20-30%. (Investor)

*Comment: The development of this toll road should be positive to SSIA as the toll road will provide better access to the upcoming seaport (38km vs. 50km via Jl. Pantura), improve SSIA's Subang project attractiveness, and provide construction work for Nusa Raya Cipta (NRCA IJ; Rp428; Not Rated) .*

**WTON:** Wijaya Karya Beton (WTON IJ; Rp595; Not rated) targets to increase its factory capacity in South Lampung. The ramp up is expected to finish this November to support coastal embankment and other infrastructure projects. Company is also planning to optimize its Subang and Kerawang factory. (Bisnis Indonesia)

## Economic

**Government access:** We came to Priority Infrastructures Development Acceleration Committee (KPIIP) this morning to acquire updates on infrastructure development. Our perspective widens from the fact that so many efforts have been done from the government side to boost infrastructure development to see targets at times falling short due to challenges in financing, knowledge, time, and structures. We obtain the following intakes from the meeting:

- Project pipelines for 2015-19 include 245 national strategic projects and two national programs valued at around Rp4,920tn. As many as 37 priority projects in the figure are under the handling of KPIIP and are valued at Rp1,384tn. (To note, national strategic projects were previously only 225 projects; but 20 projects were already completed, 15 dropped due to unfeasibility and other 55 projects are added).
- KPIIP also addresses our concern, where infrastructure procurement faces limitation of budget. Govt budget capacity to finance these projects is only Rp2,030tn or 41.3% of total, where around Rp560tn falls under the local govt's authority. SOEs and private investment each to make up 22% and 36.5% of the gap.
- Progress in National Strategic Projects includes: (1) 5 projects already in completion, (2) 130 projects in construction phase, (3) 12 projects in transaction phase, and (4) 100 projects remain in preparation. Where the govt supports to catalyse private investment in infrastructure development is in the areas of fiscal, institutional, and regulatory. Some breakthroughs include introducing Viability Gap Funding (VGF) and availability payment of up to 49% as well as land revolving fund to speed up land acquisition.
- With KPIIP's support, a project is entitled to special facilities including financing and provision of panel consultants and incentive and disincentive based on project performance.
- We asked about the govt's strategy, in a case where President Jokowi does not proceed to second term and it seems the risk is mitigated by attempting to start the project at least until construction stage in 2018 for projects funded by the state and by latest in 2019 for PPP projects. Only 43% of the total 30 projects have been in construction phase by Jun17. However, political instability may reduce the attractiveness of projects toward private investors, in our view.
- Based on our calculation, during 2015 & 2016, private sector has contributed ~34% from the total US\$38.9bn of funding realisation, which was an excellent achievement (vs. 36.5% target rate contribution of funding requirement 2015-2019). By sustaining this rate of contribution from private sector, we believe all the PSN project could be realised as planned. The figure for SOEs is not as high, however, as their contribution was approximately 9% (vs 22% planned target).
- Overall, we think this is beneficial for all SOE contractors as they might be able to attract private investors through more attractive return on investment, although they might still need to spend significant capex for the project. Our top picks in construction is PTPP with TP of Rp4,600 (+54% upside) on the back of low gearing that will enable company to take on more projects.

**GDP calculation:** The govt through Communication and IT Minister Rudiantara and Central Statistics Agency Head Suhariyanto acknowledges that digital transaction has not been added to the consumption set of data in GDP. Had it been incorporated, BI Governor Agus Martowardojo believes that the target for 7% growth annually would have been supported. According to Statista, e-commerce users were 24.7mn persons in 2016 with average spending per user of Rp3mn per year. Within the last one year, Agus said, as much as Rp75tn was spent in e-commerce. To tackle this problem, BI is currently preparing for big data system where eight large e-commerce players are required to report their transaction; optimisation of this data will add around US\$150bn GDP by 2025 (or around 10%). (Kontan, Detik)

*Comment: According to databoks, e-commerce transaction grew almost five times since 2014 in terms of value to reach around Rp110tn in 2017. Largest amount of users is recorded to access Lazada, Tokopedia, and Elevenia, subsequently.*

**Head Office****PT INDO PREMIER SEKURITAS**

Wisma GKBI 7/F Suite 718

Jl. Jend. Sudirman No.28

Jakarta 10210 - Indonesia

p +62.21.5793.1168

f +62.21.5793.1167

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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.

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