



No. 198/E00-E00/FIN/17

12 Desember 2017

Kepada Yth.
Kepala Eksekutif Pengawas Pasar Modal
Otoritas Jasa Keuangan ("OJK")
Gedung Soemitro Djohadikusumo
Jl. Lapangan Banteng Timur No. 2-4
Jakarta 10710

Hal : **Laporan dan Pengumuman Informasi atau Fakta Material**

Dengan hormat,

Dengan ini, kami untuk dan atas nama perusahaan menyampaikan Laporan dan Pengumuman Informasi atau Fakta Material sebagai berikut:

Nama Emiten atau Perusahaan Publik : PT Indosat Tbk.
Bidang Usaha : Telekomunikasi
Telepon : +6221 3000 3001
Faksimili : +6221 3000 3757
Alamat surat elektronik (*email*) : investor@indosatooredoo.com

1.	Tanggal Kejadian	8 Desember 2017
2.	Jenis Informasi atau Fakta Material	Pemeringkatan atas Korporasi
3.	Uraian Informasi atau Fakta Material	Untuk informasi lebih lanjut, silakan melihat laporan dari S&P Global Ratings terlampir
4.	Dampak kejadian, informasi atau fakta material tersebut terhadap kegiatan operasional, hukum, kondisi keuangan, atau kelangsungan usaha Emiten atau Perusahaan Publik	Untuk informasi lebih lanjut, silakan melihat laporan dari S&P Global Ratings terlampir
5.	Keterangan lain-lain	Untuk informasi lebih lanjut, silakan melihat laporan dari S&P Global Ratings terlampir

Demikian disampaikan. Atas perhatiannya kami ucapkan terima kasih.

Hormat kami,

Group Head Corporate Secretary


Hadi Susilo *At.*

Tembusan :

1. Yth. Deputi Komisiner Pengawas Pasar Modal II
2. Yth. Direksi PT Bursa Efek Indonesia
3. Yth. Indonesian Capital Market Electronic Library (CaMel)
4. Yth. PT Bank Rakyat Indonesia Tbk. (sebagai Wali Amanat)

RatingsDirect®

Research Update:

PT Indosat Tbk. Upgraded To 'BBB-' On Solid Cash Flow And Reducing Debt; Outlook Stable

Primary Credit Analyst:

Wei Kiat Ng, CFA, Singapore (65) 6239-6345; wei_kiat.ng@spglobal.com

Secondary Contact:

Annabelle C Teo, Singapore (65) 6239-6376; annabelle.teo@spglobal.com

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Research Update:

PT Indosat Tbk. Upgraded To 'BBB-' On Solid Cash Flow And Reducing Debt; Outlook Stable

Overview

- Indosat's results for the nine months ended Sept. 30, 2017, were better than we expected, with continuing debt reduction.
- We expect the Indonesia-based telecommunications operator to maintain its solid cash flow adequacy and reduce debt over the next 12-24 months.
- We are raising our long-term corporate credit rating on Indosat to 'BBB-' from 'BB+'.
- The stable outlook reflects our expectation that Indosat will maintain a prudent growth strategy and financial management to keep its FFO-to-debt above 40% through 2019. We also expect the company to remain a highly strategic subsidiary of Ooredoo Q.S.C.

Rating Action

On Dec. 8, 2017, S&P Global Ratings raised its long-term corporate credit rating on Indonesia-based telecommunications operator PT Indosat Tbk. (Indosat) to 'BBB-' from 'BB+'. The outlook is stable.

Rationale

The upgrade reflects our expectation that Indosat will maintain its solid cash flow adequacy and reduce debt over the next 12-24 months. The company's steady cash flows, moderate capital spending, and prudent financial policies should support the improvement. We anticipate that Indosat's ratio of funds from operations (FFO) to debt will remain above 40% until 2019.

Indosat's performance for the first nine months of 2017 was better than we expected, with resilient cash flows amid competitive market conditions in the Indonesian wireless industry. The company's EBITDA of Indonesian rupiah (IDR) 10 trillion for the period was about 80% of our full-year forecast and its operating cash flows of IDR7.7 trillion were about 76%.

In our view, Indosat will maintain prudent financial policies over the next 12-24 months at least. That includes calibrating investments and dividend distributions such that the ratio of FFO to debt stays above 40% even if operating conditions in end-markets deteriorate. Over the past two years, the company has strengthened its balance sheet by reducing debt. As of Sept. 30, 2017, Indosat's reported debt is IDR20.6 trillion, down from IDR26.9 trillion two years ago. In our base case, we expect the company to continue to generate positive discretionary cash flows for the next two years and repay debt, in

particular foreign-currency debt.

We believe that Indosat will continue to maintain its market position as the second-largest wireless provider in Indonesia. We expect that the company will maintain its subscriber market share of about 30% and revenue market share of about 20% over the next two years. In our view, Indosat's competitive position will be supported by the extra 2x5 megahertz (MHz) of 2100MHz spectrum it won at the auction in November 2017. The company should be able to start using the additional spectrum from the second quarter of 2018 and increase network investments in 4G.

We expect Indonesia's wireless industry revenue to grow at a steady clip of 5%-6% over the next 24 months. We expect some softness in revenue growth over the next six months from the government's mandatory prepaid registration exercise coupled with recent fiercer competition from wireless data price discounts. However, we continue to expect strong underlying growth driven by wireless data consumption from the continued proliferation of affordable smartphones. Over the longer term, we expect prepaid SIM card registration in Indonesia to reduce industry costs owing to lower churn of SIM cards and reduced dealer commissions.

Our base-case assumptions for 2018 and 2019 include:

- Indonesia's real GDP to grow 5.4% in 2018 and 5.6% in 2019.
- Growth in Indosat's subscriber base to slow to 5%-6% over the next two years (from 15% in 2017) as the government requires mandatory identity registration for subscribers by Feb. 28, 2018.
- Indosat's average revenue per user (ARPU) to decline by 5%-10% over the next two years due to competitive pressures and higher revenue contribution from the lower-margin data segment. Consequently, we expect Indosat's revenue to grow 1%-2% in 2018 and 2019, compared with 3%-4% in 2017.
- Its EBITDA margins to soften to 42%-43% as customers switch to low-margin data from higher-margin traditional businesses (voice, SMS).
- Its annual capital expenditure to be about IDR6.5 trillion in 2018 and 2019, including payment for the 2.1GHz spectrum and for continued 4G service rollout.
- Indosat's annual dividend payout to be about IDR650 billion annually.
- The company will adopt prudent financial policies, including no additional acquisitions.
- We adjust Indosat's debt by adding the net present value of spectrum payments and netting with all the company's surplus cash.

Based on these assumptions, we arrive at the following credit measures over the next two years:

- Ratio of debt to EBITDA of 1.5x-1.7x, compared with about 1.9x in 2017.
- Ratio of FFO to debt of 47%-54%, compared with about 42% in 2017.
- Annual positive discretionary cash flows of about IDR2 trillion in each 2018 and 2019.

Liquidity

We assess Indosat's liquidity to be adequate. We expect the company's liquidity sources to exceed its uses by 20% in the 12 months to Sept. 30, 2018, and cover uses even if EBITDA falls 15%. In addition, we view Indosat's sound banking relationships and satisfactory standing in the credit markets as supportive factors.

Principal liquidity sources include:

- Cash and cash equivalents of IDR1.7 trillion as of Sept. 30, 2017.
- Cash flow from operations that we estimate at IDR10 trillion-IDR11 trillion over the next 12 months.
- Undrawn committed loan facilities of about IDR3.3 trillion as of Sept. 30, 2017.

Principal liquidity uses include:

- Debt maturities of about IDR3.8 trillion as of Sept. 30, 2017.
- Capital expenditure that we expect to be no more than IDR5.5 trillion in a stressed liquidity situation.
- Payout to shareholders of around IDR650 billion, which we expect could be substantially less in a stressed liquidity situation.

Outlook

The stable outlook reflects our view that Indosat will maintain a prudent growth strategy and financial management such that its ratio of FFO to debt remains above 40% over the next two years. We also expect that Indosat will remain a highly strategic subsidiary of Ooredoo Q.S.C.

Downside scenario

We could lower the rating if:

- Indosat's debt-to-EBITDA ratio exceeds 2x and FFO-to-debt ratio falls below 40% for a prolonged period. This could materialize if: (1) Indosat's operating conditions are tougher than we expect such that the company's revenue growth slows or its operating margins declines materially; or (2) the company's spending or dividends are higher than we estimate and require the company to borrow more, eroding its financial standing.
- Indosat's relationship with Ooredoo does not change materially and we revise Ooredoo's stand-alone credit profile down to 'bb'.

Upside scenario

While unlikely, we could raise the rating if:

- Indosat further improves its leverage such that its FFO-to-debt ratio is sustainably higher than 60% while the company maintains its market share and meets its financial obligations even under sovereign stress; or
- Indosat's relationship with Ooredoo does not change materially and we revise Ooredoo's stand-alone credit profile up to 'bbb+'.

Ratings Score Snapshot

Corporate Credit Rating: BBB-/Stable/--

Business risk: Fair

- Country risk: High
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Modest

- Cash flow/Leverage: Modest

Anchor: bbb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb-

- Group credit profile: bbb- (SACP of Ooredoo Q.S.C.)
- Entity status within group: Highly strategic (no impact)

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- The Smartphone Dilemma For Southeast Asian Telcos: Invest More For Lower Returns Or Face Irrelevance, Aug. 14, 2017.

Ratings List

Upgraded

	To	From
PT Indosat Tbk. Corporate Credit Rating	BBB-/Stable/--	BB+/Positive/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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