

RATING METHODOLOGY FOR DINFRA INDUSTRY

DINFRA rating methodology

This rating methodology provides information on how PEFINDO assesses the credit profile on Infrastructure Investment Funds under Collective Investment Contract (DINFRA). DINFRA is a collective investment contract established by investment manager and custodian bank to raise funds from potential investors (private or public) where majority of the funds will be invested in infrastructure assets. The purpose of this investment product is to provide funding alternatives for infrastructure development in Indonesia, and at the same time diversify investment products for the investors.

DINFRA is regulated through Indonesia Financial Services Authority (Otoritas Jasa Keuangan or OJK) Regulation Number 52/POJK.04/2017 (POJK 52/2017), which among others regulates DINFRA's management guidelines, disclosures, documentation, reporting and liquidation.

PEFINDO's rating for DINFRA reflects the capability of DINFRA in fulfilling its financial liabilities in full and timely manner, related to the debts obtained by the underlying asset of DINFRA, or if the rated DINFRA is allowed to raise additional debt indirectly through a special purpose company as regulated in POJK 52/2017 article 18. On the other words, DINFRA rating indicates the probability of default of the financial liabilities of DINFRA. PEFINDO's DINFRA rating does not reflect the potential capital gain from the DINFRA units based on the future equity valuation of the underlying asset, as well as dividend payment capability and timeliness of DINFRA to the investors. The rating also does not reflect the liquidity of DINFRA in the secondary market, including if there is a buyback option from other parties allowing investors in divesting its participation in DINFRA. Similar to other credit ratings assigned by PEFINDO, DINFRA rating focuses on the credit risk rather than market or liquidity risks. DINFRA rating also is not a recommendation for investors to buy, sell, or hold DINFRA products.

Underlying asset risk analysis

In determining the rating, PEFINDO will first assess the risk profile of the underlying asset of DINFRA. The underlying asset of DINFRA could be in the form of direct investment of tangible infrastructure asset and/or indirect investment of equity or debt instrument owned by infrastructure related entity. If the underlying assets are shares of an infrastructure-related entity, then the assessment will be focusing on the credit profile of the entity, utilizing PEFINDO's credit rating methodology for the relevant infrastructure sector. This also applies to direct investment of tangible infrastructure asset in which our analysis is based on the sector of the underlying infrastructure assets when assessing the business risk profile. Rating methodologies for the following infrastructure sectors are available in PEFINDO's website and will be applied to assess the DINFRA's underlying asset risk profile: airport, electricity power, power rental, railway transportation infrastructure, seaport, toll road, waste management, and water utilities. PEFINDO will analyse business risk profile based on key success factors of the specific industry, and combined with financial risk assessment to come up with the standalone credit profile. Lastly, PEFINDO will assess the impact of parent support to the entity, based on the parent's capability and willingness to provide financial aid to the subsidiary particularly during financial distress. This will conclude PEFINDO's credit risk profile of the entity with shares as the underlying asset of DINFRA. If DINFRA's underlying assets comprise of shares from different entities and different sectors, PEFINDO will assess the credit risk profile of the major contributors, without neglecting the potential credit risk arising from the minority contributors.

There is a possibility that substantial portion of funds in DINFRA is invested in non-infrastructure related assets, with the maximum portion allowed in the regulation of up to 49% of total managed funds. Types of other assets are limited to money market instruments, securities issued in domestic capital market or other types of financial instrument as regulated by POJK 52/2017 article 15.b. Portion of cash and cash

equivalents in DINFRA is limited up to 20% of DINFRA's total managed assets. If the structure of the rated DINFRA limits the possibility of DINFRA to substantially alter its investment portfolio to other assets type, then DINFRA's underlying asset risk profile will be most likely tied-up with the infrastructure assets during the origination. However, if the structure allows the investment manager to change asset composition significantly, then PEFINDO will need to periodically monitor the portfolio mix of DINFRA, and if there are substantial changes in the composition, then it may affect the underlying asset risk profile assessment. In assessing the risk profile of the other assets, PEFINDO will assess the risk profile of the other assets based on the most relevant rating methodology. For instance, if there is a substantial time deposit placement in a bank, then the bank's credit rating should reflect the time deposit placement risk profile. PEFINDO will combine all assets' risk profile to come up with the overall underlying asset risk profile.

Transaction structure risk analysis

In addition to the underlying asset risk analysis, PEFINDO will also review the structure of DINFRA, particularly focusing on the potential additional credit risk or on the contrary credit enhancement to overall DINFRA risk profile. Credit risk of DINFRA may weaken if the structure allows DINFRA to raise additional debt, and under this scenario PEFINDO will review the impact of the potential additional debt to DINFRA and its underlying asset repayment capabilities. If the assets have already issued debt and the financial leverage from the existing debt has already reached certain threshold, the rating of DINFRA that allows for additional debt may be lower than the credit profile of its underlying asset. PEFINDO will assess DINFRA's financial projection to determine DINFRA's debt repayment capabilities including additional potential debt issued by DINFRA. The financial projection may also be sensitized under a more-distressed scenario, such as a less favourable macroeconomic indicators, declining business volume, or additional expenses incurred by the underlying asset.

On the other side, DINFRA's overall credit profile may strengthen if there is a credit enhancement deemed substantial to improve DINFRA's prompt and timely repayment capabilities. This credit enhancement can be in the form of liquidity reserve account, full or partial guarantee from a third party covering DINFRA's financial liabilities. In the case that there is a third party providing a commitment to buyback DINFRA's unit from the investors at certain rate of return, PEFINDO is of the view that this acts more as the sweetener for the investors to invest in DINFRA, knowing that there is an exit clause if the buyback is being exercised. However, if there is no explicit commitment to secure DINFRA's debt repayment, this buyback clause may not necessarily provide significant enhancement to DINFRA's credit profile.

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PEFINDO Rating Criteria & Methodology

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