

### PEFINDO lowered ratings for PT Perkebunan Nusantara II, its MTN V/2014, MTN Ijarah II/2014 to “**idBBB-**” and “**idBBB-(sy)**”; assigned “**idA+(cg)**” for MTN VI/2015 with corporate guarantee

PEFINDO has lowered the ratings of PT Perkebunan Nusantara II (PTPD), its Medium-Term Notes (MTN) V/2014, and MTN Ijarah II/2014 to “**idBBB-**” and “**idBBB-(sy)**” from “**idBBB**”. The downgrade reflects the Company’s increasing leverage position and weaker cash flow protection given its plan to incur new debts to finance its business activities. At the same time, PEFINDO has assigned its “**idA+(cg)**” rating for PTPD’s MTN VI/2015 of IDR175 billion as it has a corporate guarantee from its parent, PT Perkebunan Nusantara III (Persero) or PTPN (“**idA+**”/Stable outlook). The MTN proceeds will be used to finance its business activities, particularly to purchase fertilizer for its plantation. However, PEFINDO has revised the outlook for PTPD’s corporate rating to “**stable**” from “**negative**” to incorporate potential cash inflow in the near term given its progress to execute some of its asset divestment programs, particularly the divestment of 528 hectares (ha) unproductive area occupied by the public. The ratings reflect potential growth from its self-owned yielding area in the medium term and potential revenue from its non-core business. However, the ratings are constrained by the Company’s weak cash flow protection, aggressive capital structure, and exposure to unfavorable weather and the fluctuation of global commodity prices.

PTPD, which is a subsidiary of a state-owned plantation holding company (PTPN), manages oil palm, sugarcane, rubber, and tobacco plantations with operations mostly in North Sumatra. As of June 30, 2015, its total concession area was 96,467 ha (excluding the Rayon Tengah estate operated by PT Langkat Nusantara Kepong of 23,403 ha), consisting of 55,745 ha plantation acreage and 40,722 ha of other areas. PTPD operates five palm oil mills, two rubber processing factories, and one sugar mill.

Rating Period: August 20, 2015 – August 1, 2016  
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