Rating Rationale

PT PELABUHAN INDONESIA III (PERSERO)

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CREDIT PROFILE

Corporate Rating — *idAA+/Stable*

Rated Issues
n/a

Rating Period
April 3, 2017 – April 1, 2018

Rating History
MAR 2013 — *idAA+/Stable*

FINANCIAL HIGHLIGHTS

As of/for the year ended	Dec-2016 (Audited)	Dec-2015 (Audited)	Dec-2014 (Audited)	Dec-2013 (Audited)
Total adjusted assets [IDR bn]	22,180.4	18,969.5	16,620.4	10,150.6
Total adjusted debt [IDR bn]	9,820.7	8,487.7	7,249.4	2,035.9
Total adjusted equity [IDR bn]	9,644.3	7,704.2	7,135.2	6,012.8
Total sales [IDR bn]	8,785.0	8,265.2	7,975.1	5,120.9
EBITDA [IDR bn]	2,617.9	2,619.4	2,570.6	2,297.0
Net income after MI [IDR bn]	1,037.3	702.5	1,192.0	1,189.6
EBITDA margin [%]	29.8	31.7	32.2	44.9
Adjusted debt/EBITDA [X]	3.8	3.2	2.8	0.9
Adjusted debt/adjusted equity [X]	1.0	1.1	1.0	0.3
FFO to adjusted debt [%]	15.8	19.2	24.9	79.3
EBITDA/IFCCI [X]	3.4	3.8	7.1	11.4
USD exchange rate [IDR/USD]	13,436	13,795	12,440	12,189

FFO = EBITDA – IFCCI + interest income – current tax expense
EBITDA = operating profit + depreciation expense + amortization expense
IFCCI = gross interest expense + other financial charges + capitalized interest; (FX loss not included)
MI = minority interest
The above ratios have been computed based on information from the company and published accounts. Where applicable, some items have been reclassified according to PEFINDO's definitions.

PEFINDO assigns "$_{id}$AA+" ratings for PT Pelabuhan Indonesia III (Persero)

PEFINDO has assigned its **"$_{id}$AA+"** ratings to PT Pelabuhan Indonesia III (Persero) (PND3). The outlook for the corporate rating is **"stable"**.

An obligor rated $_{id}$AA differs from the highest rated obligors only to a small degree, and has a very strong capacity to meet its long-term financial commitments relative to that of other Indonesian obligors.

The plus (+) sign in a particular rating indicates that it is relatively strong within the respective rating category.

The ratings reflect the strong government support to PT Pelabuhan Indonesia III (Persero) due to the strategic importance of seaports, its strong competitive position as one of the nation's premier seaports, and its stable profitability margin. However, the ratings are constrained by its high financial leverage to support business expansion and the nature of the seaport industry, which is highly vulnerable to economic and regulatory conditions.

The rating could be raised if there is a significant improvement in PND3's financial leverage and business position within its service areas, and if it realizes its expected returns from new investments, particularly from the expansion of the port of Teluk Lamong. The rating, however, could be lowered if we see a reduction in government support, such as through a material divestment of the government's ownership. The rating could also be under pressure if it incurs substantially larger debt than projected and/or its new investments are not well executed, and if there are material decreases in container and cargo volume movements that result in a weaker financial profile, particularly if its debt to EBITDA ratio exceeds 4.5x on a sustainable basis.

PT Pelabuhan Indonesia III (Persero) is a government-owned port operator providing seaport service facilities through 43 ports. It has 16 branch offices located across seven provinces: East Java, Central Java, South Kalimantan, Central Kalimantan, Bali, West Nusa Tenggara, and East Nusa Tenggara. Supported by six subsidiaries and four affiliates, it provides cargo, ship, and passenger port services. Its flagship ports are Tanjung Perak, Terminal Petikemas Surabaya, Tanjung Emas, and Terminal Petikemas Semarang.

Supporting factors for the above ratings are:

- ***Strong government support due to strategic importance of seaports.*** PEFINDO is of the view that the Indonesian government will provide strong support for PT Pelabuhan Indonesia III (Persero) considering its status as a key player in providing maritime infrastructure. It manages economically strategic ports and helps streamline the national logistics system. Direct financial support is not expected, but the government has increased its equity in PND3 by transferring the assets of government projects. The government maintains a 100% ownership in PT Pelabuhan Indonesia III (Persero). We are also of the view that it has strong financial flexibility as a strategic state-owned enterprise (SOE) with easy access to credit facilities from state-owned banks.
- ***Strong competitive position as one of nation's premier seaports.*** PEFINDO expects PND3's business position in the Indonesian port industry to remain strong in the near to medium term as it is the second largest seaport operator in Indonesia in terms of the number of twenty-foot equivalent units (TEUs) handled per year, handling 33% of Indonesia's container throughput in 2015. PND3 is a gateway for the eastern Indonesia economic area, which showed a fast growing hinterland and strong economic growth during the past few years. Tanjung Perak port in Surabaya is the largest container port in central and eastern Indonesia and the second largest in Indonesia in terms of TEUs handled per year. Serving the country's growth areas, it recorded strong revenue growth with a five-year (2012-2016) compound annual growth rate (CAGR) of 14.8%.
- ***Stable profitability margins.*** PEFINDO expects PND3's profitability margin to remain stable in the near to medium term given its strong container market share in its service areas, which is more profitable than general cargo, as well as its efforts to increase the productivity of its port equipment. Container terminals accounted for 90% of operating profit in 2016, with an average margin of 59% during 2012-2016. In addition, its ability to adjust tariff once every two years should also support margin stability going

forward. Despite a lower EBITDA margin in 2016 due to higher third-party outsourcing costs, labor, and overheads, PND3 saw a stable EBITDA margin averaging 41.5% in 2012-2016 (excluding construction revenue and expense).

Constraining factors for the above ratings are:

- ***High financial leverage to support business expansion.*** We expect PND3's financial leverage level to remain high in the near to medium term, given its sizeable capital expenditure (capex) of IDR16.4 trillion in 2017-2019, most of which will be financed by debt. Most of the capex will be used for expanding its port and improving its facilities, particularly in Teluk Lamong (phase 2), Tanjung Perak, and Tanjung Emas. It plans to issue a bond of a maximum of IDR5.5 trillion in 2017 with long-term maturity period, and its debt will gradually increase in 2018 and 2019 along with its high capex program. EBITDA is projected to lag behind its multi-year investments, raising some degree of execution risk. Thus, we anticipate its debt to EBITDA and debt to equity ratios to rise to a maximum of 4.4x and 1.7x, respectively, in the next three years if the capex is fully materialized. Its outstanding debt at the end of 2016 was IDR9.8 trillion, most of which was senior notes issued in 2014 (USD500.0 million or equivalent to IDR6.6 trillion) and syndicated bank loans from state-owned banks (IDR1.5 trillion). We also anticipate its funds from operations (FFO) to debt ratio and interest coverage to weaken to less than 20% and 3.0x, respectively, over the medium term.
- ***High vulnerability to economic and regulatory conditions.*** The nature of the port business makes it highly exposed to both the domestic and global economy, as well as trade patterns. During a softer economy, trade volumes could decline, which may dampen cargo and container movement and other related port activities. The port business is also subject to certain regulatory risks. The 2008 Shipping Law separated the functions of port operators and regulators and removed the PELINDO companies' legislated monopoly of commercial ports. The regulation also required PELINDO companies to obtain a concession for new port developments. Regulatory changes may also pressure profitability, as proven by the implementation of Perpres No. 11/2015 and the Transportation Ministry Regulation No. 15/2015. These regulations eliminated the anchoring and mooring services in special ports to be booked by PELINDO companies. They also increased the rate to be paid as non-tax state revenues for pilotage and tug services to 5% from 1.75%. PELINDO companies are now required to pay a concession fee of 2.5% of revenue from their existing ports.