Press Release

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# PT TIGA PILAR SEJAHTERA FOOD Tbk

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## CREDIT PROFILE

**Corporate Rating** *$_{id}$BBB/C.W. Negative*

**Rated Issues**

| | |
|---|---|
| *Sukuk Ijarah II/2016* | *$_{id}$BBB$_{(sy)}$* |
| *Bond I/2013* | *$_{id}$BBB* |
| *Sukuk Ijarah I/2013* | *$_{id}$BBB$_{(sy)}$* |

**Rating Period**

November 28, 2017 – February 28, 2018

**Rating History**

| | |
|---|---|
| *NOV 2017* | *$_{id}$A/C.W Negative* |
| *JUL 2017* | *$_{id}$A/Stable* |
| *MAY 2017* | *$_{id}$A/Stable* |
| *MAY 2016* | *$_{id}$A/Stable* |
| *JAN 2016-2013* | *$_{id}$A-/Stable* |

## FINANCIAL HIGHLIGHTS

| As of / for the year ended | Sep-2017 (Unaudited) | Dec-2016 (Audited) | Dec-2015 (Audited) | Dec-2014 (Audited) |
|---|---|---|---|---|
| Total adjusted assets [IDR Bn] | 9,315.7 | 8,916.6 | 8,526.2 | 6,937.8 |
| Total adjusted debt [IDR Bn] | 4,580.6 | 4,344.2 | 4,112.7 | 3,083.9 |
| Total adjusted equity [IDR Bn] | 4,098.3 | 3,926.4 | 3,432.1 | 3,158.8 |
| Total sales [IDR Bn] | 4,109.0 | 6,545.7 | 6,010.9 | 5,140.0 |
| EBITDA [IDR Bn] | 647.9 | 1,148.2 | 877.9 | 764.8 |
| Net income after MI [IDR Bn] | 173.5 | 593.5 | 323.4 | 331.8 |
| EBITDA margin [%] | 15.8 | 17.5 | 14.6 | 14.9 |
| Adjusted debt to EBITDA [X] | *5.3 | 3.8 | 4.7 | 4.0 |
| Adjusted debt to adjusted equity [X] | 1.1 | 1.1 | 1.2 | 1.0 |
| FFO to adjusted debt [%] | *7.6 | 12.6 | 8.3 | 12.2 |
| EBITDA to IFCCI [X] | 1.9 | 2.7 | 2.1 | 2.7 |
| USD exchange rate [IDR/USD] | 13,492 | 13,436 | 13,795 | 12,440 |

*FFO= EBITDA – IFCCI + gross interest income – current tax expense*
*EBITDA = (operating profit + depreciation exp. + amortization exp.)*
*IFCCI = (gross interest expense + other financial charges + capitalized interest); FX loss not included*
*MI = minority interest* *annualized
*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 lowers PT Tiga Pilar Sejahtera Food Tbk's ratings to $_{id}$BBB and maintains "Credit Watch with Negative Implications"

PEFINDO has lowered the rating for PT Tiga Pilar Sejahtera Food Tbk (AISA) and its Bond I/2013 to **"$_{id}$BBB"** from **"$_{id}$A"**. PEFINDO has also lowered the ratings of AISA's Sukuk Ijarah I/2013 and Sukuk Ijarah II/2016 to **"$_{id}$BBB$_{(sy)}$"** from **"$_{id}$A$_{(sy)}$"**, respectively. The ratings downgrade reflects our view on substantial potential impacts from Company's plan to divest its rice division, its weakening financial profiles, and increased refinancing risk for its maturing Bond I/2013 and Sukuk Ijarah I/2013 on April 5, 2018.

We view rice divestment plan will potentially weaken Company's credit rating, as rice division contributes substantial cash flow to consolidated figures. Its rice sales contributed an average of 63% to total revenue in the last five years (2012-2016), gross profit contribution of 42% to consolidated gross profit, and 55% segment liabilities to consolidated segment liabilities figures. Although providing lower profitability margin compared to food division, its rice division expansive growth had contributed a strong EBITDA growth, with a four-year compound annual growth rate (CAGR 2013-2016) of 22.5%. Being focused in only food and beverage division will result to a less diversified business profile compared to previous business portfolio, which in our view, should weaken its credit rating.

PEFINDO is of the view that AISA's financial profile is weakening, as presented by a higher debt to annualized EBITDA ratio of 5.3x in the first nine months of 2017 (9M2017) compared to 3.8x in 2016, and annualized funds from operations (FFO) to debt ratio to 7.6% in 9M2017 from 12.6% in 2016. Weakening key ratios were due to declined performances of rice division. Its rice division recorded negative revenue growth of -25.8% year-on-year (YoY) in 9M2017, which was impacted from current legal case in rice subsidiaries and implementation of *Harga Eceran Tertinggi* (HET) that attacks its *Maknyuss* and *Ayam Jago* rice sales. Prolong HET implementation will worsen rice division's cash flow and AISA's consolidated figures if the rice division is not urgently being divested. We project its financial leverage will be aggressive in the near to medium term, with projected debt to EBITDA ratio of around 8x in 2017-2018. This has incorporated rice divestment, delayed cash collection from plantation and rice divestments, and refinancing of maturing debt.

Although the rice divestment will deleverage AISA's debt level by IDR1.3 trillion by the end of 2017, AISA is still facing liquidity pressure to pay maturing bond and sukuk. Its liquidity is weak, as its cash of IDR126.3 billion at end of September 2017 and the expected accumulated EBITDA amount may not sufficient to cover its maturing bond and sukuk of IDR900.0 billion in April 2018. Currently, the management is still in the process to manage several alternative of repayment sources.

The corporate rating is still placed at **"Credit Watch with Negative implication"**, to reflect our anticipation on further rating action to address refinancing risk. PEFINDO will closely monitor the Company's readiness to pay the maturing debt. The rating could be lowered further if the rice divestment process will take a longer time than anticipated, if it fails to mitigate its refinancing risk, if the Company's financial performance further deteriorates, and/or there is any mispayment of its financial obligations. We may revoke the Credit Watch status and affirm the ratings if the management could settle the debt repayment issue.

An obligor rated $_{id}$BBB has an adequate capacity to meet its long-term financial commitments relative to that of other Indonesian obligors. However, adverse economic conditions or changing circumstances are more likely to weaken its capacity to meet financial commitments.

The suffix (sy) means the rating mandates compliance with Islamic principles.

The current ratings reflect AISA's relatively diversified products and its strong position in the domestic food market. However, the ratings are constrained by the Company's aggressive capital structure post rice divestment, its weak cash flow protection and liquidity, its exposure to the fluctuation of raw material costs, and the tight competition in the industry.

Once the rice divestment materializes, AISA will only focus on food (basic and consumer food). Its food production facilities are in Java. As of September 30, 2017, its shareholders were PT Tiga Pilar Corpora (26.10%), JP Morgan Chase Bank Non-Treaty Clients (9.33%), Trophy 2014 Investors Limited (9.09%), Morgan Stanley & Co. LLC-Client Account (6.52%), Maybank Kim Eng Securities (5.48%), Primanex Pte. Limited (5.38%), and the public (38.09%).