PEFINDO
CREDIT RATING AGENCY

**Rating Rationale**

# PT Surya Artha Nusantara Finance

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## CREDIT PROFILE

| | |
|---|---|
| **Corporate Rating** | *idAA-/Stable* |
| **Rated Issues** | |
| Shelf Reg. Bond II | *idAA-* |

**Rating Period**
*February 7, 2019 – February 1, 2020*

**Rating History**

| | |
|---|---|
| FEB 2018 | *idAA-/Stable* |
| FEB 2017 | *idAA-/Stable* |
| FEB 2016 | *idAA-/Stable* |
| 2015 | *idAA-/Stable* |
| OCT 2014 | *idAA-/Stable* |

## FINANCIAL HIGHLIGHTS

| **As of/for the year ended** | **Dec-2018 (unaudited)** | **Dec-2017 (audited)** | **Dec-2016 (audited)** | **Dec-2015 (audited)** |
|---|---|---|---|---|
| Total assets [IDR Bn] | 4,346.6 | 5,680.4 | 6,791.8 | 6,693.0 |
| Net receivables [IDR Bn] | 3,102.5 | 5,125.9 | 5,336.5 | 5,259.9 |
| Net service assets [IDR Bn] | 3,204.1 | 5,370.9 | 5,604.1 | 5,653.3 |
| Total equity [IDR Bn] | 702.8 | 1,450.4 | 1,444.1 | 1,408.1 |
| Net interest revenue [IDR Bn] | 151.1 | 173.8 | 173.8 | 255.1 |
| Net income [IDR Bn] | 42.1 | 37.1 | 80.9 | 110.5 |
| Cost to income [%] | 43.1 | 36.1 | 34.9 | 22.1 |
| Operating profit margin [%] | 13.1 | 11.1 | 17.6 | 19.7 |
| ROAA [%] | 0.8 | 0.6 | 1.2 | 1.6 |
| NPR-balance/NSA [%] | 1.0 | 8.0 | 6.8 | 11.9 |
| Reserves/NSA [%] | 2.8 | 4.2 | 4.2 | 5.3 |
| Equity/NSA [%] | 21.9 | 27.0 | 25.8 | 24.9 |
| Total debt/equity [x] | 4.8 | 2.7 | 3.5 | 3.5 |
| Short-term liquidity ratio [%] | 163.7 | 186.7 | 209.5 | 302.8 |
| USD exchange rate [IDR/USD] | 14,481 | 13,548 | 13,436 | 13,795 |

*ROAA=return on average assets. NPR=non-performing receivables >30 days. NSA=net service assets.*
*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 affirms its "idAA-" rating for PT Surya Artha Nusantara Finance

PEFINDO has affirmed its **"idAA-"** ratings for PT Surya Artha Nusantara Finance (SANF) and its outstanding Shelf Registered Bond II. The outlook for the corporate credit rating is **"stable"**.

An obligor rated idAA 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 minus (-) sign in a particular rating indicates that it is relatively weak within its rating category.

The rating reflects SANF's strong support from PT Astra International Tbk (ASII or Astra Group, rated BBB/stable by Standard & Poor's), its strong market position in the heavy equipment leasing business, supported by synergy with affiliated companies, and sound capitalization. However, the rating is constrained by its moderate asset quality, inherent risks of exposure to coal price fluctuations, and pressure on profitability profile.

The rating may be raised if the Company is able to strengthen its market position while consistently maintaining a sound financial profile. The rating may be lowered if there is a material shift in the support of its shareholders, particularly a significant decline in the ownership level of and/or business integration with the Astra Group. In addition, the rating may be lowered if there is a material deterioration in its market position, asset quality or profitability.

SANF is one of the largest heavy equipment finance companies in Indonesia. It is jointly owned by Astra Group through its subsidiary PT Sedaya Multi Investama (60%) and Marubeni Corporation (Marubeni), directly (35%) and through its subsidiary PT Marubeni Indonesia (5%). ASII is one of the largest business conglomerates in Indonesia, engaged in a number of business lines, including automotive, financial services, heavy equipment, and agribusiness. Marubeni is one of the largest business groups in Japan with a wide variety of trading and industrial activities.

**The rating reflects the Company's:**

- ***Strong support from ASII.*** PEFINDO considers SANF a strategic subsidiary of the Astra Group. It is part of the Group's financial services division and of the value chain supporting its heavy equipment division. The heavy equipment division is a strong contributor to the Group, accounting for 35.0% of IDR174.9 trillion total revenues and 43.8% of ASII's net income as of September 30, 2018 (9M2018). Therefore, SANF will continue to play an important role in the Group's long-term strategy. The group has also provided a series of capital injections in the past to support SANF's business expansion. PEFINDO is of the view that ASII has a strong willingness and capacity to support its business expansion and also during difficult times. As of 9M2018 ASII's total assets, total equity, and net income were IDR333.3 trillion, IDR167.9 trillion, and IDR21.5 trillion, respectively.
- ***Strong market position in heavy equipment leasing business, supported by synergy with affiliated companies.*** SANF's market position in the heavy equipment leasing services industry will remain strong in the near to medium term, having a competitive advantage as a preferred leasing company for Komatsu, the leading heavy equipment brand in Indonesia solely distributed by SANF's sister company, PT United Tractors Tbk (UNTR). In FY2015-FY2018, Komatsu held a market share of 32%-36% in terms of new heavy equipment units sold, the highest among other heavy equipment brands. SANF has been a sizable contributor to Komatsu's product sales, with market share of UNTR's credit sales of 20.5% in FY2018 in terms of units. The synergy between SANF and UNTR is likely to remain strong in the near to medium term, as SANF will maintain its UNTR market share at

around 20%, and expand in the working capital facility and non-mining sectors. It expects additional heavy equipment financing in the forestry sector, which it acquired through partnership with Marubeni. Marubeni also provides strong control in terms of risk management practices, and supports it in securing necessary funding lines with creditors. SANF also benefits from the extensive business network of the Astra Group and Marubeni Corporation across the archipelago.

- ***Sound capitalization.*** We project SANF to maintain its sound capitalization profile in the near to medium term, supported by accumulated profit and no plan for a dividend payout to shareholders. We expect its debt to equity ratio (DER) will be maintained at 4.0x-5.0x in the near to medium term. With such leverage, PEFINDO expects it to have a sound capacity to absorb potential business risks and support its moderate growth projection in the medium term. The figure should also be well below the banks' covenant and regulatory requirement of 8x and 10x, respectively. Its high dividend in FY2018 of IDR792.0 billion is considered a one-off, related to the divestment of its newly established subsidiary PT Surya Cakra Anugerah Nusantara (SCAN) to PT Sedaya Multi Investama, also an Astra Group company. This high dividend resulted in a lower equity base to IDR702.8 billion as of FY2018 from IDR1,450.4 billion as of FY2017, and increased its DER to 4.8x as of FY2018 from 2.7x as of FY2017.

**The above rating is constrained by:**

- ***Moderate asset quality.*** PEFINDO expects SANF's asset quality to remain at a moderate level, with an NPR ratio (more than 30 days overdue) and NPR ratio (more than 60 days overdue) above 2.0% in the near to medium term. Although its NPR ratio 30-days and NPR ratio 60-days improved to 1.0% and 0.3%, respectively as of FY2018 from 8.0% and 3.7%, respectively as of FY2017, this was mostly attributable to its delinquent receivables sales as part of the SCAN divestment. Prior to that, its NPR ratio was high at 8.0% and 6.8% as of FY2017 and FY2016, respectively, while its NPR 60-days ratios were 3.7% and 2.7% during the same period. Given its business nature, it will remain substantially exposed to the volatility of commodity prices, affecting customer repayment capabilities. As of FY2018, the mining and agribusiness sectors contributed significantly to its receivables at around 76.6%, and this is expected to remain high at above 55% in the medium term. Its asset quality profile may also be affected by its high debt concentration risk, with its 50 largest debtors representing more than 35% of its total receivables. Should a few large debtors experience financial difficulties and fail to repay their installments to the Company, this may severely affect its asset quality indicators.
- ***Inherent risks of exposure to coal mining sector.*** PEFINDO is of the view that SANF's financing performance is affected by the coal sector which dominates its financing activities. Coal is a large contributor to its receivables at 39%-56% in FY2015-FY2018. We are of the view that the coal mining industry will remain challenging in the near to medium term due to external risks beyond SANF's control, particularly supply-demand dynamics affecting coal prices. As the coal mining sector is expected to continue as its largest business contributor in the near to medium term, a severe and prolonged coal price decline would translate to softer demand for heavy equipment financing that could subsequently adversely affect its new financing growth.
- ***Pressure on profitability profile.*** SANF's profitability profile is expected to remain under pressure, particularly due to its low margin business model combined with provision expenses which are projected to remain high in the medium term. As SANF targets high quality borrowers in the industry who are price-sensitive, it needs to maintain an attractive lending rate. The high level of competition in the segment will continue to limit the Company's ability to substantially increase its lending rate going forward. As a result, we expect its net interest margin (net interest revenue to average net service assets or NIM) to remain low at around 3.0%-5.0% in the near to medium term. Its NIM was 3.5% in FY2018, and 3.2% in FY2017, gradually falling from 4.5% in FY2015, affected by its strategy to shift some of its portfolio to non-mining related leasing, which offers better risk profiles but relatively thin margins compared to the mining sector. With low margins, its bottom line may be more sensitive to external factors including foreign exchange volatility and increasing provision from bad debts or other operational risks. Its cost to income ratio increased to 43.1% in FY2018, up from 36.1% in FY2017, and it booked provisions related to operational risks of IDR25 billion in FY2018. This was attributed to a low return on average assets (ROAA) of 0.8% and 0.6% in FY2018 and FY2017, respectively.