

## Electricity Sector: Outlook Remains Positive

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PEFINDO views that electricity sector still has positive outlook due to its importance to a country's economic growth, including Indonesia. Refer to Electricity Power Supply Implementation Plan (RPUTL) for 2017-2026 released by Perusahaan Listrik Negara (PLN), electricity power sales growth is projected to reach 8.3% per year for the next 10 years. This means a multiplier factor of 1.3x based on economic growth consumption of around 6.2% per year in the same period.

For the past 10 years, Indonesia economic growth has reached approximately 5.7% per year, with electricity power sales growth of around 8.1% per year indicating a multiplier factor of around 1.4x. The positive outlook for the sector is also related to the national electrification ratio, which only reached about 91%. In certain areas, the ratios were even lower, which could indicate the demand to remain high in the medium to long term. Positive potential growth of electricity sector in Indonesia is also supported by the fact that electricity consumption in Indonesia is still far below those by some neighboring countries. If we compare the electricity consumption per capita, Indonesia is only 0.9 MWh/capita, below Singapore (8.7), Malaysia (4.9), and Thailand (2.7). In terms of electrification ratio, the three countries have also reached 100%.

Electricity Power Supply Implementation Plan (RPUTL) 2017-2026

		Indonesia	Sumatera	Jawa-Bali	Indonesia Timur
<b>Description</b>	<b>Unit</b>				
Economic growth	%	6.2	5.7	6.1	6.6
Electricity Sales Growth	%	8.3	11.2	7.2	10.9
Electrification Ratio	%	100.0	100.0	100.0	100.0
Generator	MW	77,873.0	21,013.0	39,135.0	17,726.0
Transmission	kms	67,465.0	23,077.0	18,494.0	25,894.0
Substation	MVA	165,231.0	45,620.0	98,339.0	21,272.0
Additional customer	million	18.9	4.4	9.0	5.5

Source: RPUTL P2017-2026 PLN

### Risk profile of players in the electricity sector

The electricity supply industry can be divided into three parts, the generating segment, the transmission segment, and the distribution segment. Based on regulation, currently there is only one player in the transmission and distribution segments, which is PLN. The generating segment, on the other hand, has already been opened to private players. At end of 2016, PLN's market share in terms of installed capacity was about 79%, while the rest was owned by around 56 independent power producers.

In terms of business risk, we are of the view that PLN's market position is superior in the generating segment and its status as a sole player in the transmission and distribution segments. We also view that the regulation side of the electricity sector is very supportive to this industry in general and PLN in particular. However, in terms of financial risk, we view it below its business risk profile, due to several things, such as the need for external funding that will remain high as the Company's high capital expenditure cannot be fully funded by internal cash. Moreover, the price of electricity, which is still lower than its cost of production, requires PLN to keep receiving subsidies from the government, the payment mechanism of which can sometimes put pressure on the Company's cash flows.

### Continuous decline in electricity subsidies

The share of subsidy revenue to PLN's total revenue tends to decrease each year to 21.3% in 2016 of IDR60.0 trillion from 43.6% in 2012 of IDR103.0 trillion. The decline in subsidized portion is in line with the government's desire to minimize the possibility of misallocation of subsidies to non-eligible parties.

Currently, subsidy is only eligible for customers in the household category, which use 900 VA and 450 VA power. In the long term, there is also a plan to provide direct subsidies to eligible consumers to further reduce the possibility of misallocation of subsidy. PEFINDO views subsidies from several aspects. In terms of government support, subsidies are one of the strongest forms of government support to the Company, considering that only a handful of State-Owned Enterprises (SOEs) that get to receive subsidies. From a business perspective, the continuous decline of the subsidy value can be seen as PLN's improving ability to sell electricity in accordance to its economic price, which will certainly improve its operational cash flow. What is more important to see is the strength of the government commitment to support PLN in the future, regardless of the amount of subsidy and the form of subsidy to be given.

#### The Value of The Subsidy Compared to PLN's Total Revenues

(IDR Tn)	Dec-2016	Dec-2015	Dec-2014	Dec-2013	Dec-2012
Total Revenue including subsidies	283.3	273.9	292.7	261.8	237.1
Subsidy	60.4	56.6	99.3	101.2	103.3
Subsidy portion (%)	21.30	20.60	33.90	38.70	43.60

Source: Audited FS PPLN

#### Government support remains strong to PLN

As a rating agency, PEFINDO gives special attention to SOEs in terms of how significant the role of SOEs is in implementing government assignments. We view the role of PLN as critically important for the government, given that electricity infrastructure is very important for the stability and economic growth of a country. The importance of PLN's role for the government can be seen from various forms of support provided by the government to PLN, such as electricity subsidy, Government Capital Injection (PMN), Loans Guarantee related to the Fast Track Program (FTP) 1 and the 35,000 MW program and business feasibility guarantee in FTP II program. Regulations issued by the government through the Ministry of Energy and Mineral Resources are also quite supportive for PLN's business continuity in particular, and the development of the electricity industry in general. The above points give PEFINDO a confidence that the government support for PLN will remain strong in the medium to long term.

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