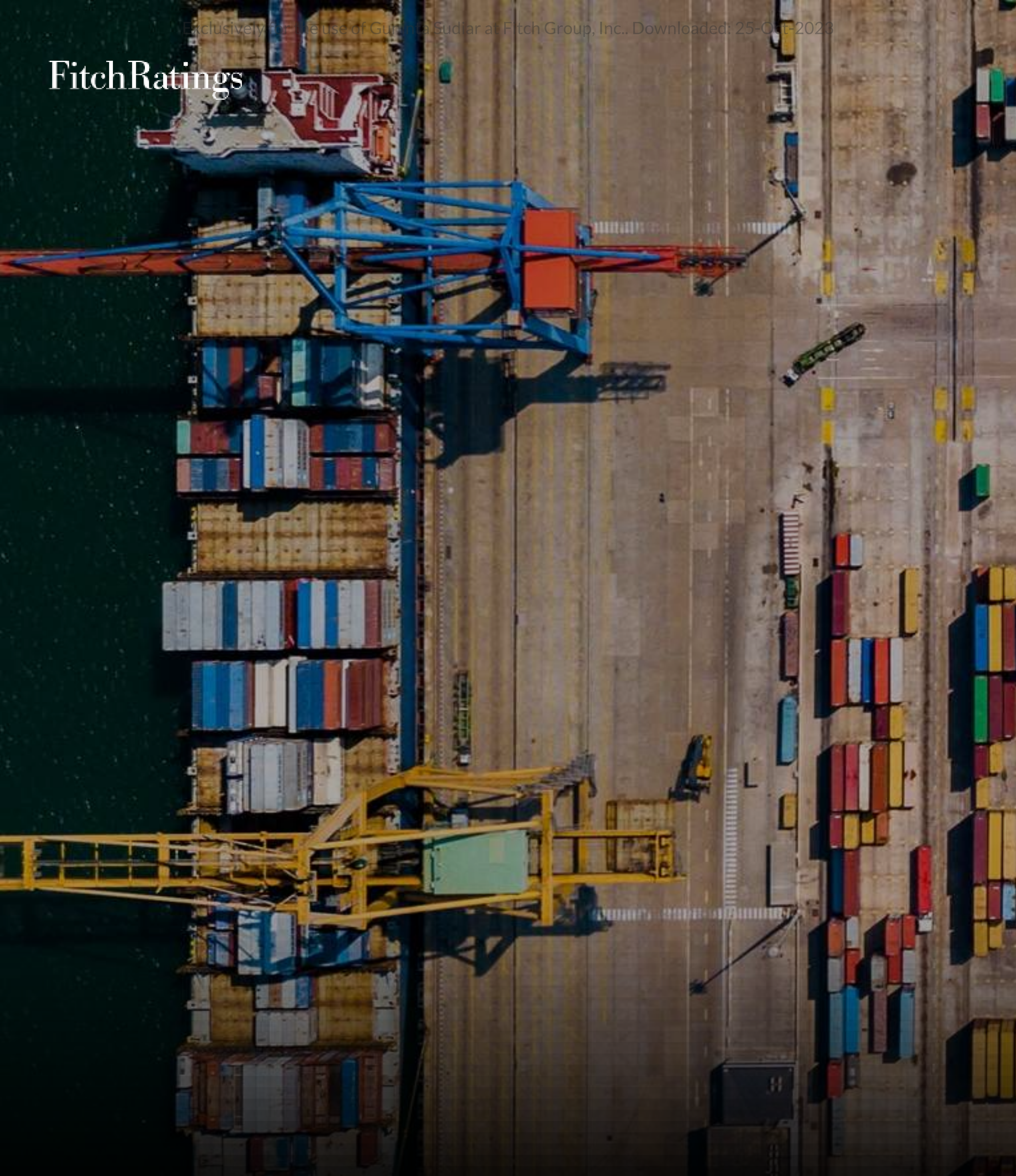
FitchRatings



Spotlight: PT Pelabuhan Indonesia (Persero)

State Ownership, Merger Widen Market Position, Boost Earnings

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State Ownership, Merger Widen Market Position, Boost Earnings

> "Pelindo's business profile is underpinned by a near-monopoly in the market, with potential growth in recurring income that mitigates volatility during economic downturns. Risks are also limited for its capex plan."
>
> Guninta Surplusya, Associate Director

Fitch Ratings believes PT Pelabuhan Indonesia (Persero) (BBB/Stable), formed from the merger of four port companies in 2021, will gain in scale and become increasingly important in the development of the nation's logistics as it expands capacity and builds new ports.

Its business profile, as the country's sole state-owned port operator, will continue strengthening due to its market dominance, limited competition given its near-monopoly market position for container handling and greater portfolio diversification.

High barriers to entry in the form of port regulations and Pelindo's well-entrenched and geographically spread markets as well as its nationwide presence and sizeable port assets also contribute to the limited competition. Most of the other ports in Indonesia are privately owned to accommodate private business activity.

Pelindo operates Indonesia's four flagship ports, which are major contributors to its container throughput volume, EBITDA and revenue.

Pelindo's stronger business profile after the merger is reflected in the 'High Stronger' revenue risk (volume) assessment under Fitch's *Transportation Infrastructure Rating Criteria*, while its importance to the nation's logistics leads to a 'Strong' socio-political implications of default assessment under Fitch's *Government-Related Entities (GRE) Criteria*.

Rising Recurring Income Contribution

Revenue risk (price) is still assessed at 'Midrange' under our criteria due to moderate pricing flexibility. Pelindo is able to propose tariff increases by negotiating with port, shipping and logistics associations, but requires approval from the Ministry of Transportation. The price risk is partly mitigated by the increasing contribution of the joint-venture (JV) partnership business model.

Under the model, Pelindo acts as a landlord and is entitled to receive a contracted rental fee that protects the company from a demand or economic downturn, easing volume volatility. We expect increasing revenue and EBITDA contribution from the landlord business model as Pelindo plans to implement a similar business model in other ports.

Pelindo has a detailed capex expansion plan to add capacity and relieve high utilisation in some of its flagship ports. Pelindo also plans to develop new ports, including a port in Bali, to support the government's tourism campaign.

We believe capex risk is limited due to Pelindo's experience in port development and adequate funding access. Pelindo has a sound record in the debt market, both domestic and international, as well as good relationships with domestic banks. Pelindo also maintains a high cash balance of more than IDR10 trillion to fund its capex.

Related Research

Asia-Pacific Seaports - Peer Review 2023 (March 2023)
Fitch Affirms Pelindo at 'BBB'; Outlook Stable (June 2023)

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Merger Expands Coverage

Pelindo was renamed after PT Pelabuhan Indonesia II (Persero), the surviving entity, was merged with PT Pelabuhan Indonesia I, III and IV in October 2021. Before the merger, each company ran and developed the ports in their own operational region with a near-monopoly. However, some of their operations were limited by their catchment areas. Pelindo IV, for instance, catered to eastern Indonesia, where most of the provinces' regional GDP is lower than that of Java and Sumatera islands.

Pelindo's Flagship Ports

Port	Location	Regional GDP Ranking (out of 34)
Tanjung Priok	Jakarta, DKI Jakarta	1
Tanjung Perak	Surabaya, East Java	2
Belawan	Medan, North Sumatera	6
Makassar	Makassar, South Sulawesi	9

Source: Fitch Ratings, Pelindo

The merger was initiated by Indonesia's Ministry of State-Owned Enterprise with the aim of raising efficiency, promoting connectivity across regions and integrating logistics services to boost economic growth and reduce logistical costs in the country. According to the Ministry of Finance, logistical costs in Indonesia were 23.5% of Indonesia's GDP in 1Q21, high relative to that of other ASEAN countries. Pelindo's business operations are split across four regions, replacing the previous entities. It has four subsidiaries representing its operating business segments.

Pelindo's Subsidiaries

Subsidiaries	Business
PT Pelindo Terminal Petikemas	Container terminal services
PT Pelindo Multi Terminal	Non-container terminal services
PT Pelindo Jasa Maritim	Marine, equipment and port services
PT Pelindo Solusi Logistik	Logistics and hinterland services

Source: Fitch Ratings, Pelindo

The merger, which will lead to larger scale and overall efficiency, is being implemented gradually according to the corporate roadmap.

Pelindo's Strategy

Roadmap	Timeline	Initiatives
Business alignment and integration	2021-2022	Standardisation, operational and commercial integration, company organisation realignment
Business expansion and partnerships	2023-2024	Strategic partnerships, collaboration with shipping and logistics players
World-class port ecosystem integrator	2025	Expansion, increasing use of digital technology, collaboration with industrial estates

Source: Fitch Ratings, Pelindo

Stronger Market Position

Wider Presence

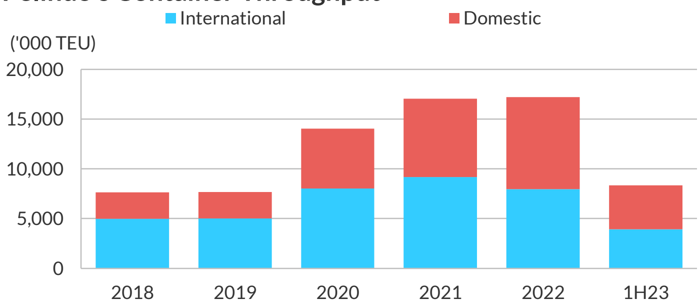
Pelindo currently operates around 125 port terminals throughout Indonesia, a mere 4% of the more than 3,000 ports in Indonesia. However, most of the ports that are not owned by Pelindo are smaller, specialised ports and private-interest terminals, such as a privately owned terminal that facilitates crude palm oil processing. Other ports are operated by the Ministry of Transportation under its Technical Implementation Unit, some of which only cater to passenger movement.

Pelindo is the largest port owner for public interests with limited competition across Indonesia's vast hinterland due to its sizeable and well-spread asset portfolio, relatively high barriers of entry to the Indonesian port industry and its status as the sole state-owned port operator. Historically, the state delegated port operations throughout Indonesia to Pelindo I-IV with minimal participation from the private sector. This resulted in Pelindo's dominant market position with about 95% container market share in Indonesia at end-2022.

Pelindo plays an important role in the nation's trading activity as its flagship Tanjung Priok and Tanjung Perak ports are the main export and import gateways in Indonesia. Both were included in Lloyd's top-100 ports in 2022 at 26 and 47, respectively, by their 2021 throughput volume.

Pelindo also has a significant role in goods movement within the country. Transporting goods via sea is the most economical way to move goods in Indonesia, an archipelago with more than 17,000 islands. Domestic container throughput contributed 53.7% of Pelindo's total container throughput volume as of end-2022.

Pelindo's Container Throughput



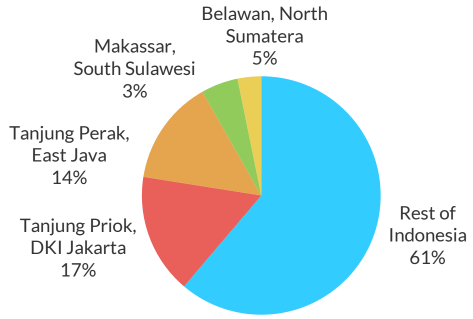
Notes: 2018-2019 throughput are pre-merger numbers
Source: Fitch Ratings, Pelindo

Solid Reference Markets

The merger gave Pelindo a presence in almost all Indonesian provinces. The combined regional GDP of Jakarta and East Java, the respective locations of Tanjung Priok and Tanjung Perak ports, made up 31% of Indonesia's total GDP at end-2022, as the two provinces have the highest regional GDP in Indonesia.

Pelindo's reference markets, or catchment areas, are further strengthened by its Belawan and Makassar ports in North Sumatera and South Sulawesi, respectively, which have the sixth- and ninth-highest regional GDP in Indonesia. These flagship ports also serve as hubs for the wider hinterland in neighbouring provinces, supported by their strategic locations.

Regional GDP of Flagship Ports' Reference Market
% of Indonesian GDP, end-2022

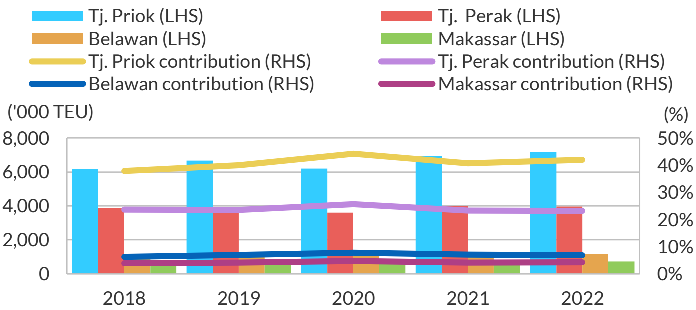


Source: Fitch Ratings, BPS Indonesia

Geographical Diversification

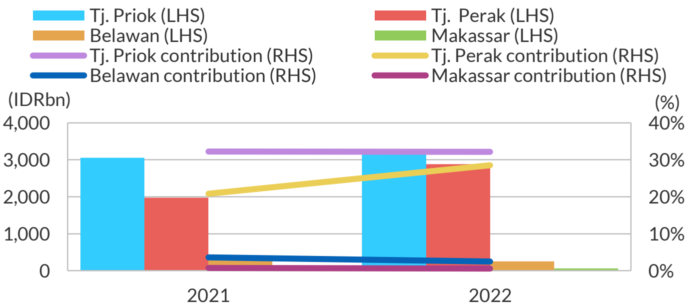
Pelindo's more than 120 ports are spread across all 34 Indonesian provinces. However, throughput volume, EBITDA and revenue are concentrated in the four flagship ports as they contributed 76%, 64% and 28% of volume, EBITDA and revenue, respectively, as of end-2022. This is aligned with the catchment area of these flagship ports and their status as the main port hubs. These ports, along with Pelindo's other smaller multiple regional ports, position the company to play a significant role in logistics throughout Indonesia.

Flagship Port Throughput and Contribution



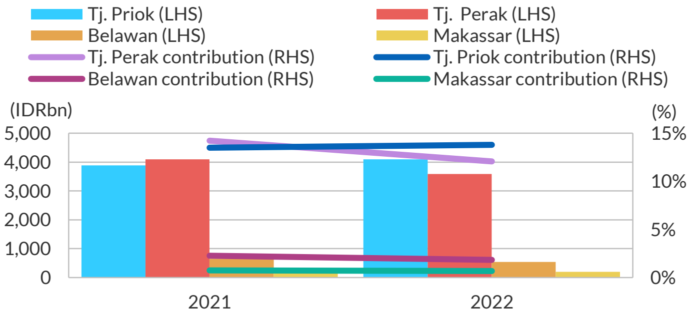
Source: Fitch Ratings, Pelindo

Flagship Port EBITDA and Contribution



Source: Fitch Ratings, Pelindo

Flagship Port Revenue and Contribution



Source: Fitch Ratings, Pelindo

Tanjung Priok has the highest container throughput contribution among all Pelindo ports at around 40%, aligned with its role as the Indonesian capital's main gateway port. Tanjung Perak has been consistently in second place with container throughput contribution of around 20%, in line with the port's reference market of East Java, which has the second-highest regional GDP among Indonesia's 34 provinces.

Both ports also contribute the highest revenue to Pelindo at around 12%-14% each. However, Tanjung Priok's EBITDA contribution is higher, at around 40%, than Tanjung Perak's around 20%, as the former is supported by rental income from its JV partnerships. Rental income incurs minimal operating expense, yielding higher EBITDA.

We also believe there is limited dependency on shipping companies since Pelindo has a wide customer base due to its geographical diversification and the large number of ports in its portfolio. Pelindo's market dominance in Indonesia also limits customer concentration risk.

Business Model Limits Price Risk

Some Flexibility in Tariff Setting

The determination of Pelindo's tariff increase is through negotiations with port, shipping and logistics associations. Final approval from the Ministry of Transportation may limit the company's price-setting ability despite its dominant market position.

Tanjung Priok's international container handling tariff has been flat since at least 2018, but the domestic container tariff has been increasing, which shows moderate pricing flexibility. Pelindo is currently in the process of increasing the tariff for international containers in Tanjung Priok.

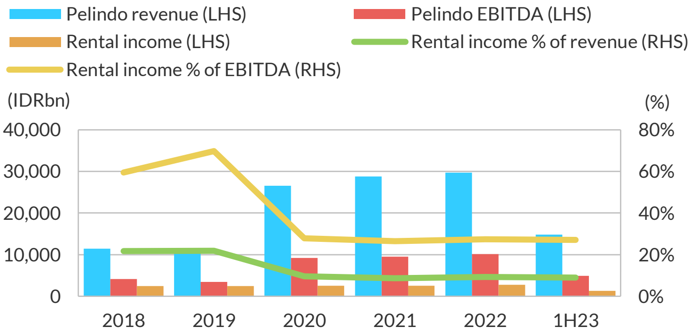
Growing Landlord Business Portfolio

Pelindo has JV partnerships with global port operators - PT Jakarta International Container Terminal, Kerjasama Operasi Terminal Petikemas Koja and PT New Priok Container Terminal One.

The partnerships give Pelindo a fixed and contracted quarterly rental fee from its JVs, which provides Pelindo a degree of insulation from volatility in throughput volumes during an economic downturn. Pelindo will benefit from more stable EBITDA and cash flow as the landlord business contribution grows. As of end-2022, the landlord business model contributed around 9.3% and 27.4% of Pelindo's revenue and EBITDA, respectively.

We expect the contribution to increase in the medium term as the company plans to operate New Priok Container Terminal Two and Belawan New Container Terminal together with global port operators under a similar business model. Growing the JV partnership business is also aligned with Pelindo's vision and strategic initiatives for 2023-2024. The company's expertise in implementing JV partnerships will support the growth.

Rental Income Against Revenue and EBITDA



Note: 2018-2019 figures are pre-merger figures, i.e. Pelindo II only
Source: Fitch Ratings, Pelindo

High Utilisation, Manageable Expansion

Planned Capacity Expansion

Pelindo's container throughput has been high at around 90% of total container capacity for its four flagship ports in 2018-2022. The exception was in 2020 when throughput was adversely affected by the Covid-19 pandemic.

High utilisation supports Pelindo's planned capex to boost strategic capacity across its flagship ports. In 2022, Pelindo completed the initial phase of the development of Kijing Port in West Kalimantan to improve the connectivity and logistics in the Kalimantan region. In the next phase, the company plans to develop Kalibaru Terminal (Phase 1B) and Makassar New Port (Phase 1B and 1C).

Kalibaru Terminal is an extension of Tanjung Priok, Indonesia's busiest port. The Makassar New Port plan will add container capacity to the existing Makassar port, the gateway to Indonesia's eastern region. Pelindo also promotes integration between port and hinterland to reduce logistics cost, evident by Cibitung-Cilincing toll road in Jakarta to improve connectivity from industrial area Cibitung-Cikarang to Tanjung Priok and Java Integrated Industrial and Ports Estate (JIIPE) in Gresik.

Pelindo's Strategic Expansion Capex

Port/Terminal	Planned Aditional Capacity/Year
Kijing Terminal (Initial Phase)	500,000 twenty-foot equivalent units (TEUs, container) 500,000 tonnes (multipurpose)
Kalibaru Terminal (Stage 1B)	1.5 million TEUs
Makassar New Port	2.5 million TEUs

Source: Fitch Ratings

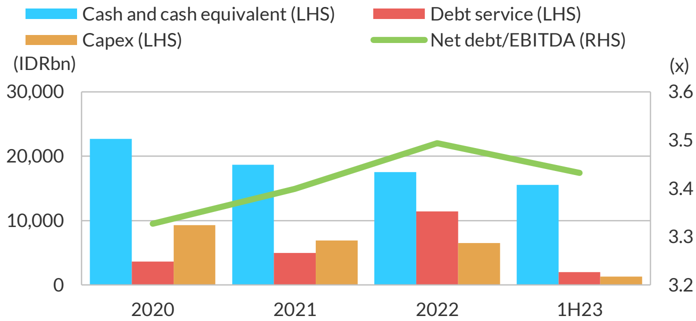
In addition to the Indonesian government's drive to increase connectivity and growth in cargo or container-focused ports, Pelindo is also seeking to support the government's effort in tourism by developing the Bali Maritime Tourism Hub in Benoa. The project will include the development of a cruise ship terminal, a yacht club, sport facilities and other tourism facilities. Pelindo received a IDR1.2 trillion capital injection as part of its government mandate for the project.

Manageable Execution Risks

We believe the capex execution risks are limited due to Pelindo's vast experience in port development. Access to capex funding is also manageable, underpinned by its relatively low leverage at around 3.5x, solid banking relationships and access to domestic and international debt markets. Pelindo is regarded as one of Indonesia's biggest state-owned enterprises, especially enhanced after the merger, with an unrivalled market position in the port industry, which results in good support from local banks.

In addition, Pelindo's liquidity is underpinned by the high cash amount held. Its cash and cash equivalent balance amounted to IDR15.5 trillion at end-1H23 against annual capex of around IDR6 trillion-7 trillion in 2021-2022.

Pelindo's Liquidity Position



Source: Fitch Ratings, Pelindo

Liquidity

- Cash and cash equivalent balance include short-term investments, which are mainly time deposits.
- Debt service includes current portion of long-term liabilities and interest expense.
- Net debt/EBITDA at end-1H23 is based on annualised 1H23 EBITDA.