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20 April 2023

Update

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RATINGS

Pelabuhan Indonesia (Persero) (P.T.)

Domicile	Indonesia
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Pelabuhan Indonesia (Persero) (P.T.)

Update following rating upgrade to Baa2 and outlook change to stable

Summary

Pelabuhan Indonesia (Persero) (P.T.)'s (Pelindo) Baa2 ratings reflect the company's Baseline Credit Assessment (BCA) of Baa3 and a one-notch uplift from the Government of Indonesia (Baa2 stable).

Pelindo's BCA is underpinned by its position as a dominant port operator in Indonesia and strong financial metrics.

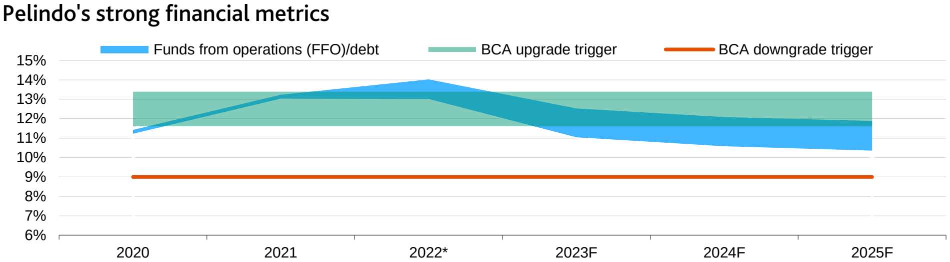
The recent ratings upgrade were driven by a one-notch upgrade of the BCA to baa3 from ba1. The positive momentum on the BCA is underpinned by the company's continued solid operating performance, driven by throughput growth and the commissioning of new port assets. The ratings action also reflects our expectation that Pelindo will continue to capture synergies from revenue enhancement and cost efficiency initiatives following its merger in late 2021, which is helpful to offset additional business integration costs and contribute to a stable profit margin over fiscal year (FY) 2023-2025.

These credit strengths are counterbalanced by the execution and ramp-up risk associated with Pelindo's sizable capital spending plans.

Pelindo's Baa2 ratings benefit from a one-notch uplift based on our assessment of a strong likelihood that it will receive extraordinary support from the Government of Indonesia when needed. Under our Joint Default Analysis (JDA) approach for government-related issuers (GRIs), we also assess that Pelindo has a high default dependence with the sovereign.

We expect Pelindo's funds from operations (FFO)/debt to be 10%-12% over FY2023-2025, which is commensurate with the revised BCA of baa3, despite trending down. Pelindo's FFO/debt remained above the previous upgrade trigger of 10% over the last 2-3 years.

Exhibit 1
Pelindo's strong financial metrics



(*) Based on unaudited figures
Sources: Moody's Financial Metrics and Moody's Investors Service

Credit strengths

» Strong financial metrics

» Dominant port operator in Indonesia, supported by favorable long-term industry fundamentals

» Strong likelihood of support from the Indonesian government

Credit challenges

» Sizable capital spending program

» Risks arising from macroeconomic uncertainties

Rating outlook

The stable outlook on the ratings reflects our expectation that Pelindo's financial metrics will trend down toward levels appropriate for the current rating level over the next 12-18 months. Additionally, we expect Pelindo to maintain its strategically important position as the country's dominant port operator, and its role in implementing the Indonesian government's policy decisions.

Factors that could lead to an upgrade

Upward pressure on the BCA could develop if the company's FFO/debt and retained cash flow (RCF)/debt exceed 12%-13% and 10%-11%, respectively, on a sustained basis; and business mix and financial policies support a stronger standalone credit profile. Additionally, we could upgrade Pelindo's ratings if Indonesia's sovereign rating is upgraded.

Factors that could lead to a downgrade

Downward pressure on the ratings could develop if Pelindo's standalone credit quality weakens, with its FFO/debt remaining below 9%, because of weaker earnings from slower-than-expected throughput growth or higher-than-expected business integration costs, or higher debt because of more aggressive capital spending or increased shareholder returns. We could downgrade Pelindo's ratings if the likelihood of government support for the company decreases.

Key indicators

Exhibit 2

Pelabuhan Indonesia (Persero) (P.T.)

	2020	2021	2022*	Next 12-18 months
Cash interest coverage	3.3x	3.7x	3.8x	2.7x - 3.0x
FFO / debt	11%	13%	13%	10% - 12%
RCF / debt	9%	12%	11%	8% - 10%

(*) Based on unaudited figures

Sources: Moody's Financial Metrics and Moody's Investors Service

Profile

Pelabuhan Indonesia (Persero) (P.T.)'s (Pelindo, Baa2 stable) is a dominant port operator in Indonesia, with more than 100 ports across the country, including the country's largest and busiest container port, Tanjung Priok, in Jakarta, and other main hub ports of Indonesia such as Belawan, Tanjung Perak, Makassar, Bitung and Sorong.

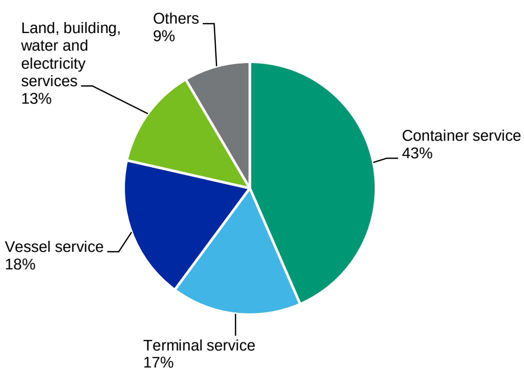
The company's revenue was around IDR28.8 trillion (USD2 billion) in 2021, excluding construction revenue, where container services accounted for around 43% of revenue, followed by vessel and terminal services at 18% and 17%, respectively. Around 80% of the container throughput was from Regional II and III, where Tanjung Priok and Tanjung Perak — the main hub ports for Indonesia — are located.

Pelindo is wholly owned by the Ministry of State-Owned Enterprises and regulated by the Ministry of Transportation of Indonesia. Pelindo, previously known as Pelabuhan Indonesia II (Persero) (P.T.), is the surviving entity merged with Pelabuhan Indonesia I (Persero) (P.T.), Pelabuhan Indonesia III (Persero) (P.T.) and Pelabuhan Indonesia IV (Persero) (P.T.) on 1 October 2021.

Exhibit 3
Pelindo's nationwide operations

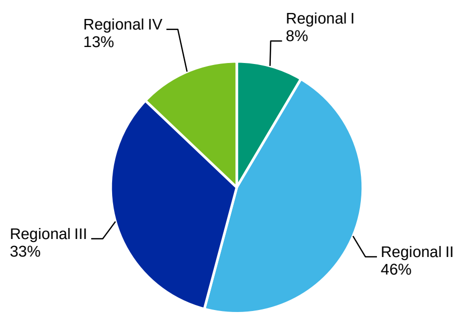
Sources: Moody's Investors Service and Company

Exhibit 4
Revenue breakdown (2021)



Source: Company

Exhibit 5
Container throughput (Twenty-foot equivalent unit [TEU]) by Regional (2021)



Source: Company

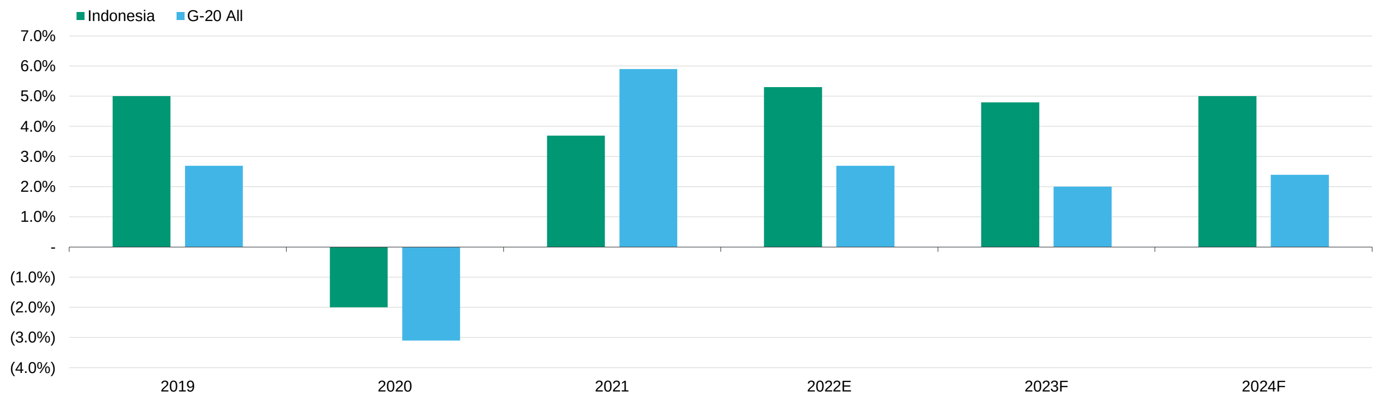
Detailed credit considerations

Strong financial metrics

We expect Pelindo's funds from operations (FFO)/debt to be 10%-12% over FY2023-2025, which is commensurate with the revised BCA of baa3, despite trending down. Pelindo's FFO/debt remained above the previous upgrade trigger of 10% over the last 2-3 years. Pelindo's financial metrics will be supported by the country's robust economic growth.

According to the Global Macro Outlook 2023-24 (February 2023 Update), we expect Indonesia's GDP growth to be around 4.8% in 2023 and 5.0% in 2024, exceeding that of G-20 countries, supported by the strengthening of domestic demand. The country's economy has benefited from a reopening rebound because of the easing of pandemic-induced restrictions and high commodity prices, achieving an expected growth of 5.3% in 2022. Economic growth will slow in 2023 for most G-20 countries and then increase in 2024.

Exhibit 6
Indonesia's GDP growth forecast



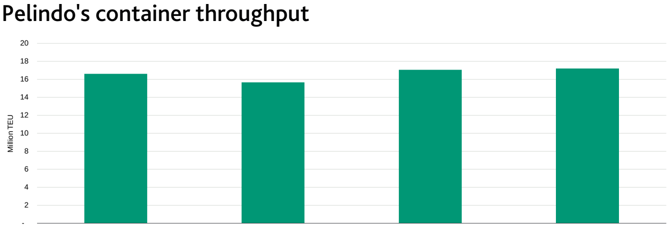
Source: Moody's Investors Service - Global Macro Outlook 2023-24 (February 2023 Update)

In the next few years, we expect Pelindo to continue to leverage its dominant container market share of 95% and capitalize on the robust economic growth and increased flow of goods in Indonesia to drive the growth of its container business. As for the non-container business segment, Pelindo has plan to realize domestic market opportunities stemming from the growing demand for crude palm oil and agricultural commodities.

The strong financial metrics will also be supported by the increasing capacity from the commissioning of new port assets, which will propel the growth of throughput and revenue. In 2022, Pelindo commissioned several new projects, including national strategic ports — Kijing Internasional Terminal, Labuan Bajo Multipurpose Terminal and Bitung International Hub Port. Pelindo expects to complete four additional national strategic projects, among other development initiatives, by end of 2024.

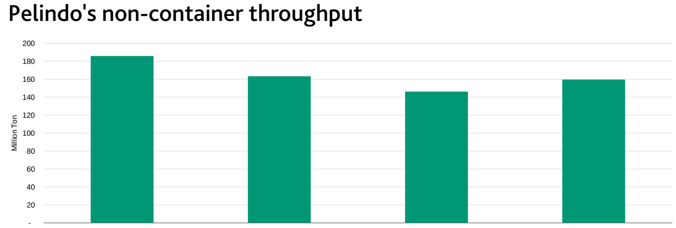
Pelindo's container throughput has shown a solid recovery from the pandemic, underpinned by a growth of 1% and 9% in FY2022 and FY2021, respectively, followed by 6% drop in FY2020. At the same time, non-container throughput also rebounded by 9% in FY2022, followed by 10% and 12% decrease in FY2021 and FY2020, although revenue and earnings contribution from non container business is less than those from container business.

Exhibit 7
Pelindo's container throughput



(*) Based on unaudited figures
Source: Moody's Investors Service and Company

Exhibit 8
Pelindo's non-container throughput



(*) Based on unaudited figures
Source: Moody's Investors Service and Company

In addition, Pelindo's strategic initiatives to capture synergies will support the company's strong financial metrics through revenue enhancement and better cost efficiency, which is helpful to offset additional business integration costs. Such initiatives includes financing cost optimization, centralized procurement, asset optimization, operation standardization, and cooperation with state-owned enterprises (SOEs) and private sectors. Pelindo expects business-as-usual (BAU) related synergies to be generated gradually as the business integrates, mainly driven by the optimization of capacity and tariffs and the improvement in service quality on a wider scale. As for non-BAU related synergies, Pelindo aims to derive from the consolidation of its non-core businesses and optimization of financing costs.

As of year-end 2022, Pelindo realized more than IDR1.3 trillion synergy gains from both the BAU and non-BAU segments. These realized synergies are helpful to absorb the additional operating expenses that are required to achieve operational and commercial integration after the merger. As a result, Pelindo's profit margins are likely to remain stable or moderately improve over FY2023-2025.

Dominant port operator in Indonesia, supported by favorable long-term industry fundamentals

We expect Pelindo to maintain its dominant market position in Indonesia's port industry at least over the next couple of years. Indonesia's port industry has high entry barriers because of the high capital spending requirements and the sheltered deep-water locations that have good trade routes and economically strong hinterlands. These conditions are difficult to replicate in new locations.

Pelindo operates most of the strategically important ports, including the country's flagship port, Tanjung Priok, which handles most of Indonesia's international container throughput, and Tanjung Perak, which is strategically located along major domestic trading routes and connected to some major ports in the region. Pelindo handled around 95% of the container throughput in Indonesia in 2022.

Pelindo could face competition from new container ports being developed by the private sector. However, we expect Pelindo to be well positioned to compete with the new ports at least over the next three years because of the already-established road connection to the ports and business relationships with existing customers. In addition, a more efficient and aligned coordination among individual Pelindos, while removing internal competition that existed before the merger, will also make it more difficult for private companies to compete against Pelindo. In such competitive landscape, private players will likely more collaborate with Pelindo than bringing meaningful direct competitions at least over the next 1-2 years.

According to the company, most of Pelindo's port terminals are on land held in perpetuity or have a long concession life. For example, strategic projects such as New Priok Container Terminal 1, Teluk Lamong Port, Makassar New Port and Kuala Tanjung Port have around 70 years of concession. As a result, Pelindo has nearly full ownership of and unlimited access to most of its assets.

Maritime transportation is an important component of Indonesia's growth strategy as an archipelago. The Indonesian government aims to improve the connectivity and standardization of port services to support the reduction of national logistics costs and encourage growth of the national economy, which is one of the rationales for Pelindo's merger. We expect the following factors to provide fundamental support to Pelindo's throughput volumes:

» The Indonesian archipelago's reliance on maritime transport

» The country's long-term growth prospects, which support the continued increase in trade and consumption

» The government's commitment to boost infrastructure investments in Indonesia

Strong likelihood of support from the Indonesian government

Pelindo has strong strategic importance to Indonesia because the company holds 95% market share in container throughput and plays a major role in implementing the government's agenda to develop strategic port projects. We expect this level of strategic importance to continue in the future.

By virtue of Pelindo's dominant position in the country's port sector and the key role it plays in facilitating international trade, we expect the company to play an important role in the development of Indonesia's maritime sector. This is reflected in the government's involvement in its operations. Pelindo's strategic importance is further supported by the government's complete ownership of the company.

Pelindo is the only port operator in Indonesia that is appointed to implement the government's agenda in developing the national strategic port projects that are included in the Coordinating Ministry for Economic Affairs Regulation No 9/2022. These projects are capital-intensive and are regarded strategic in the sense that they will help encourage national economic growth and regional development.

The Indonesian government has become increasingly selective in supporting SOEs in recent years. The criteria of granting support prioritize the SOEs that are engaged in government-assigned projects, restructuring or certain business development programs. We have maintained our assessment of strong support for Pelindo under our JDA for GRIs, resulting in the current one-notch uplift.

The strong support assumption balances the position of ports as key infrastructure assets with the company's comparatively limited policy role and the smaller size of its asset base than that of other SOEs.

Sizable capital spending plan

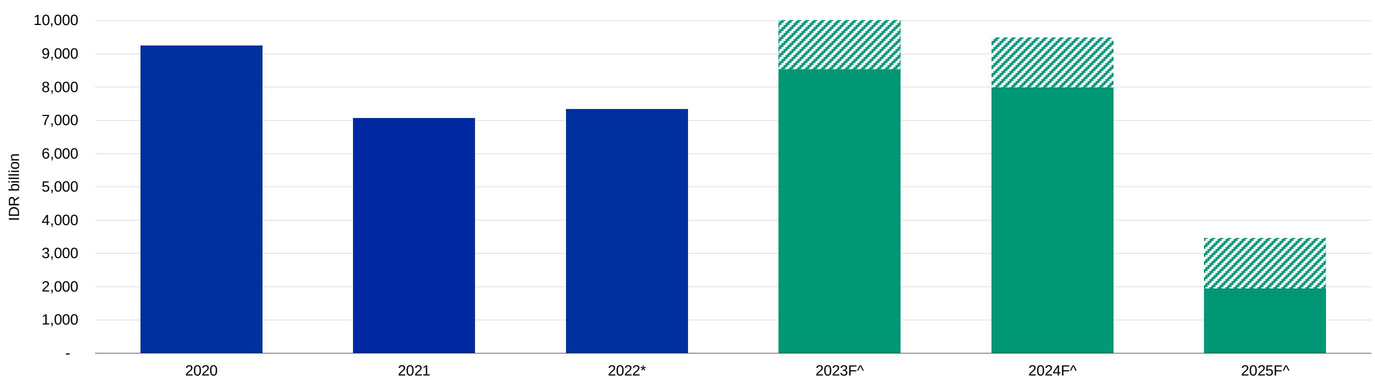
Pelindo's sizable capital spending is projected to be in the range of IDR9-10 trillion over FY2023-2024 on average. Its capital spending plans cater to both expansionary projects, such as national strategic projects, and maintenance capital spending. Pelindo is therefore exposed to execution and ramp-up risk, and the increased demand for debt funding.

Expansionary capital spending at the holdco level accounts for the largest share in Pelindo's FY2023-2024 capital spending plan. These projects cater to the expansion of Pelindo's port/terminal network and the improvement of supply-chain efficiency. Around half of the holdco's expansionary capital spending is allocated to the national strategic projects. Sizable capital spending exposes Pelindo to execution and ramp-up risk, and may strain its financial metrics if capital spending exceeds the budget and leads to the need for additional debt.

We will monitor Pelindo's business mix to assess if it will change significantly as a result of the planned and additional capital spending, which may entail investment in adjacent business segments, such as logistics.

Exhibit 9

Pelindo's capital spending plan



*Based on unaudited figures
^The area above the shaded region denotes a possible range of forecasts.
Sources: Moody's Investors Service and Company

Risks arising from macroeconomic uncertainties

Despite our anticipation of Pelindo's throughput increasing with Indonesia's economic growth, Pelindo as a port operator is exposed to risks that result from macroeconomic uncertainties.

While there is a better balance between global demand and supply in 2023, leading to disinflationary pressures on energy, food and goods price, the increase in the cost of living over the last two years continues to weigh on purchasing power of households worldwide. Though China's economy is expected to experience a consumption rebound following the lifting of COVID-related restrictions, the impact on other economies may be restricted as non-traded services is taking the lead as the main driver of demand, with the exception of tourism. Additionally, major economies are experiencing a drag on economic activities and employment due to cumulative monetary policy tightening. These macro uncertainties could potentially impact global trade volume and Pelindo's throughput growth trajectory.

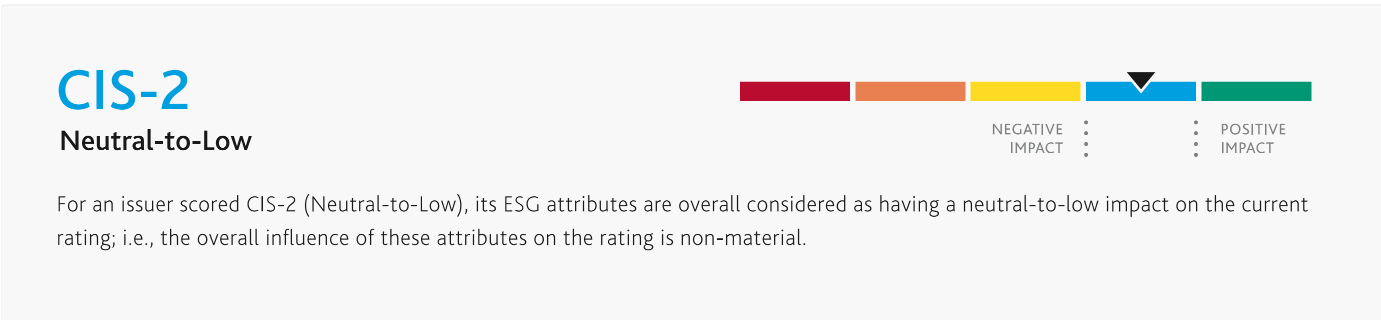
Pelindo will also face pressures from the depreciation of Indonesian Rupiah against US dollar because of its high exposure to USD bonds in its debt structure. Pelindo's USD bonds totaled $2.6 billion, accounting for around 75% of the company's total debt as of

December 2022. We expect Pelindo's currency exposure to be manageable, given its USD-linked revenue, which accounts for around one third of Pelindo's revenue, and its supportive financial metrics for the current rating level. Appreciation of US dollar has been reflected in Pelindo's balance sheet with the higher debt amount in its reporting currency, Indonesian Rupiah.

ESG considerations

Pelabuhan Indonesia (Persero) (P.T.)'s ESG Credit Impact Score is Neutral to Low CIS-2

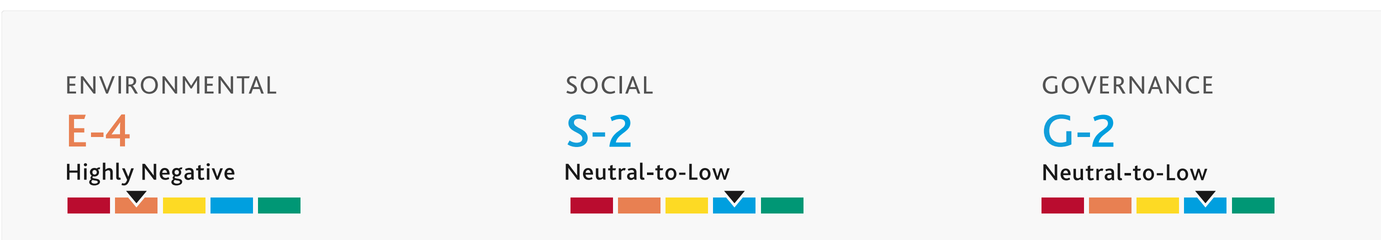
Exhibit 10
ESG Credit Impact Score



Source: Moody's Investors Service

Pelindo's ESG Credit Impact Score is neutral to low (**CIS-2**). Pelindo is exposed to high environmental risk, neutral to low social risk and neutral to low governance, but impact of these considerations on the rating is limited because Pelindo is at the same rating level as the sovereign. In addition, we expect that the Government of Indonesia would support the company if this were to become necessary.

Exhibit 11
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Pelindo's high environmental risk (**E-4** issuer profile score) reflects its high physical climate risk arising from rising sea level and land subsidence in Indonesia, despite the mitigant from its some geographical diversity in its operations. Seal level rise together with the land subsidence could make the company incur additional costs to increase the elevation of facilities and invest in asset hardening, which may require existing facilities to be redesigned. Pelindo has neutral-to-low risk exposure to carbon transition, water management, natural capital, and waste and pollution.

Social

Pelindo's neutral to low social risk (**S-2** issuer profile score) reflects its status as a dominant port operator in Indonesia where trading volume will likely increase on the back of Indonesia's strong economic growth potential.

Governance

Pelindo's neutral to low governance risk (**G-2** issuer profile score) reflects its prudent financial management, which offsets the risk from its concentrated ownership structure.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Pelindo has excellent liquidity. As of September 2022, Pelindo had cash holdings of IDR14 trillion, coupled with an annual FFO of IDR6-8 trillion, which are sufficient to meet its expected capital spending, dividend payouts and debt servicing requirements over the next 12-18 months. Pelindo has USD500 million in bonds maturing in May 2023. However, the refinancing risk is manageable because of its strong access to the funding markets, underpinned by already-secured bank facilities for the refinance.

We expect the dividend payout ratio to be maintained at 30%-40% over the next one to two years.

Methodology and scorecard

The application of our Privately Managed Ports methodology, published in April 2023, yields a Baa2 scorecard-indicated outcome, based on the projected financial metrics. The difference between the scorecard-indicated outcome and the BCA reflects risks arising from macro uncertainties and our expectation of financial metrics that will trend down.

Exhibit 12
Rating factors
Pelabuhan Indonesia (Persero) (P.T.)

Privately Managed Ports Methodology [1]	2021		Moody's 12-18 Month Forward View [2] [3]	
Factor 1: Market Position (30%)	**Measure**	**Score**	**Measure**	**Score**
a) Diversity and Size		A		A
b) Competitive Position and Service Area		A		A
Factor 2: Business Profile (30%)				
a) Ownership and Control of Assets		A		A
b) Revenue Stabilit		Baa		Baa
c) Capital Expenditure Requirements		B		Ba
Factor 3: Leverage and Coverage (40%)				
a) Cash Interest Coverage	3.7x	Baa	2.7x - 3.7x	Ba-Baa
b) FFO / Debt	13%	Baa	10% - 12%	Baa
c) RCF / Debt	12%	A	8% - 10%	Baa
d) Moody's Debt Service Coverage Ratio	3.3x	Baa	2.5x - 3.5x	Ba-Baa
Factor 4: Financial Policy (10%)				
a) Financial Policy		Baa		Baa
Rating:				
a) Scorecard-indicated outcome		Baa2		Baa2
b) Actual BCA Assigned				baa3

Government-Related Issuer	**Factor**
a) Baseline Credit Assessment	baa3
b) Government Local Currency Rating	Baa2
c) Default Dependence	High
d) Support	Strong
e) Final Rating Outcome	Baa2

[1] All ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations.
[2] This represents our forward view, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
[3] As of April 2023.
Sources: Moody's Financial Metrics and Moody's Investors Service

Appendix

Exhibit 13

Peer comparison

	Pelabuhan Indonesia (Persero) (P.T.) Baa2 Stable		Hutchison Port Holdings Trust Baa1 Stable			China Merchants Port Holdings Company Limited Baa1 Stable			Adani Ports and Special Economic Zone Limited Baa3 Stable			JSW Infrastructure Limited Ba2 Positive		
(in US millions)	FYE Dec-20	FYE Dec-21	FYE Dec-20	FYE Dec-21	LTM Jun-22	FYE Dec-20	FYE Dec-21	LTM Jun-22	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-21	FYE Mar-22	LTM Sep-22
Revenue	$2,103	$2,240	$1,380	$1,704	$1,758	$1,153	$1,525	$1,627	$1,614	$1,691	$2,139	$213	$302	$346
Operating Profits	427,564	458,689	452,131	692,091	675,027	317,168	500,992	483,200	771,052	791,817	941,524	74,112	98,961	126,696
EBITDA	$665	$694	$845	$1,089	$1,070	$1,217	$1,814	$1,966	$1,270	$1,322	$1,627	$119	$155	$188
Total Debt	$3,912	$3,669	$3,804	$3,727	$3,472	$5,179	$4,837	$4,601	$4,104	$5,049	$6,679	$574	$626	$572
Cash & Cash Equivalents	$827	$907	$1,002	$1,417	$1,457	$1,456	$1,280	$1,128	$951	$574	$1,135	$28	$72	$132
FFO Interest Coverage	3.3x	3.7x	7.3x	11.4x	11.3x	3.9x	6.3x	5.2x	23.7x	18.6x	13.8x	3.4x	2.8x	2.1x
FFO / Debt	11.3%	13.1%	16.4%	22.1%	23.1%	10.9%	19.9%	18.1%	20.6%	17.7%	17.1%	13.5%	15.4%	16.5%

All figures and ratios are calculated using Moody's estimates and standard adjustments. FYE = Financial year end. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 14

Moody's-adjusted debt breakdown

(in RP Millions)	FYE Dec-20	FYE Dec-21
As Reported Debt	**53,928,700.4**	**51,661,053.1**
Pensions	1,036,144.8	635,994.7
Moody's-Adjusted Debt	**54,964,845.2**	**52,297,047.8**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 15

Moody's-adjusted EBITDA breakdown

(in RP Millions)	FYE Dec-20	FYE Dec-21
As Reported EBITDA	**9,193,519.1**	**9,900,437.1**
Pensions	40,228.6	34,940.3
Unusual	414,592.3	-19,120.5
Non-Standard Adjustments	39,998.7	-255,107.6
Equity-accounted Income (A.T.)	-39,998.7	255,107.6
Moody's-Adjusted EBITDA	**9,648,340.0**	**9,916,256.9**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Ratings

Exhibit 16

Category	Moody's Rating
PELABUHAN INDONESIA (PERSERO) (P.T.)	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2

Source: Moody's Investors Service

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