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CREDIT OPINION
17 October 2022

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RATINGS

Pelabuhan Indonesia (Persero) (P.T.)

Domicile	Indonesia
Long Term Rating	Baa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Positive

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 to credit analysis

Summary

Pelabuhan Indonesia (Persero) (P.T.)'s (Pelindo) — formerly known as PT Pelabuhan Indonesia II (Persero) (P.T.) — Baa3 ratings reflect its ba1 Baseline Credit Assessment (BCA) and a one-notch uplift from our assessment of a strong likelihood that Pelindo will receive extraordinary support from the Government of Indonesia (Baa2 stable) in times of need. The support assessment takes into consideration the government's 100% ownership of Pelindo and the port operator's pivotal role in Indonesia's maritime transportation sector.

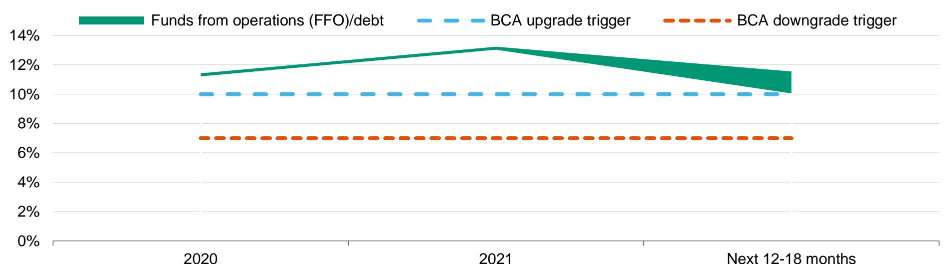
The company's business profile and strategic importance to the country have strengthened following the merger, with a larger scale of business and stronger competitive market position as a dominant port operator in Indonesia, which are reflected in its current positive outlook. In October 2021, four government-owned port operators merged into one entity, Pelindo.

Pelindo's standalone credit profile is supported by its dominant market position and favorable long-term industry fundamentals. In addition, operational integration and stronger funding market access following the merger will help Pelindo improve its credit profile in the next couple of years, although cost pressure will exist for the integration at least over the next 12 months.

These credit strengths are counterbalanced by the execution risk associated with Pelindo's sizable capital spending plans; the implementation risk associated with the integration; and the risks arising from the difficult global macro environment.

Despite moderation in Pelindo's financial metrics over the next 12-18 months, we expect the company's funds from operations (FFO) to debt to support a potential upgrade.

Exhibit 1
Pelindo's strong financial metrics



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

Credit strengths

» Dominant port operator in Indonesia and in an industry that has high barriers to entry

» Favorable long-term industry fundamentals

» Strong financial metrics

» Strong likelihood of support from the Indonesian government

Credit challenges

» Ambitious capital spending program

» Business integration risks

» Risks arising from the difficult global macro environment

Rating outlook

The positive rating outlook reflects a stronger standalone credit quality, which can be sustained if there is clarity on the financial policy and capital spending plan after successful integration. The positive outlook also reflects a higher strategic importance of the merged entity, given the size and scale relative to the Indonesian port sector.

Factors that could lead to an upgrade

Over the next 12-18 months, we could upgrade Pelindo's ratings if there is an indication of a significant increase in the likelihood of government support or its BCA is raised. Additionally, we could upgrade Pelindo's ratings if Indonesia's sovereign rating is upgraded.

We could raise Pelindo's BCA if the company's funds from operations (FFO)/debt continues to exceed 10% on a sustained basis, and its business mix and financial policies remain supportive of a stronger credit profile.

Factors that could lead to a downgrade

We could change the rating outlook to stable if Pelindo's standalone credit quality weakens, such that its FFO/debt remains below 10% as a result of weaker earnings because of a slower-than-expected recovery from the pandemic or higher-than-expected costs of business integration, or its debt levels rise because of more aggressive capital spending or an increased shareholder return. In addition, we could change the outlook to stable if Indonesia's sovereign rating is downgraded.

Although unlikely, given the positive outlook, 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	Next 12-18 months
Cash Interest Coverage	3.3x	3.7x	3x - 3.5x
FFO / Debt	11%	13%	10% - 12%
RCF / Debt	9%	12%	8% - 10%

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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Profile

Pelabuhan Indonesia (Persero) (P.T.) (Pelindo) is a dominant port operator in Indonesia, with 110 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 and Makassar.

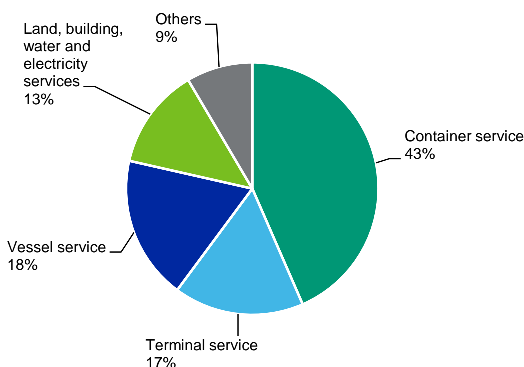
The company's revenue was IDR28.8 trillion ($2 billion) in 2021, excluding construction revenue, where container services accounted for around 43% of revenue, followed by vessel and terminal services at 18% and 17%, respectively. Around 80% of the container throughput was from Regional II and III, where Tanjung Priok and Tanjung Perak – 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. On the basis of the Government Regulation Number 101 of 2021, Pelabuhan Indonesia II (Persero) (P.T.) — now Pelindo — as a 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

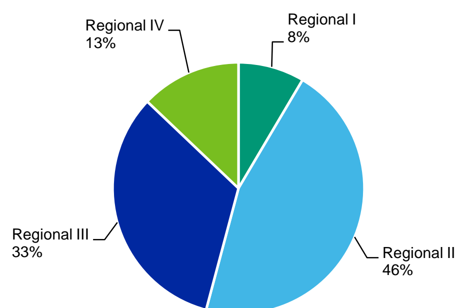
Sources: Company and Moody's Investors Service

Exhibit 4
Revenue breakdown (2021)



Source: Audit report

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



Source: Pelindo

Detailed credit considerations

Dominant port operator in Indonesia and in an industry that has high barriers to entry

We expect Pelindo to maintain its dominant market position in Indonesia's port industry at least over the next couple of years, which 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 2021.

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.

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.

Favorable industry fundamentals for long-term growth

Maritime transportation is an important component of Indonesia's growth strategy as an archipelago. The government has placed significant emphasis on enhancing maritime connectivity and commerce to support Indonesia's economic growth.

At the same time, 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:

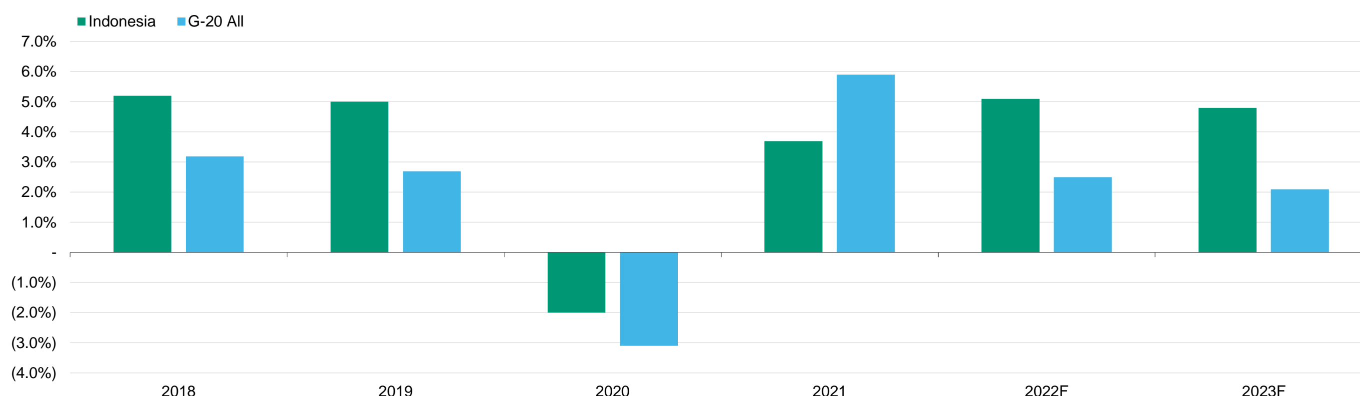
» The Indonesian archipelago's reliance on maritime transport

» 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

According to the latest Global Macro Outlook 2022-23 (August 2022 Update), we expect Indonesia's GDP growth to exceed that of G-20 countries, supported by the strengthening of domestic demand. The country's economy has benefited from a reopening rebound as the pandemic-induced restrictions eased and high commodity prices, achieving a GDP growth of 5.4% year over year in the second quarter of 2022. Such positive momentum will likely be sustained through H2 2022 and 2023.

Exhibit 6
Indonesia's GDP growth forecast



Source: Moody's Investors Service - Global Macro Outlook 2022-23 (August 2022 Update)

Risks arising from the difficult global macro environment

Although we expect Pelindo's port traffic to grow steadily on the back of Indonesia's economic growth, the uncertainty around near-term growth remains because of challenging global macro conditions.

High inflation and rising interest rates could weaken goods demand by lowering households' purchasing power and reducing disposable income, thereby softening global trade in general. The Russia-Ukraine military conflict also weighs on the global macro operating environment by exacerbating global energy and food inflation, and China's strict COVID-19 lockdown policies have strained global economic activities. China is the largest trade counterparty for Pelindo as well as Indonesia.

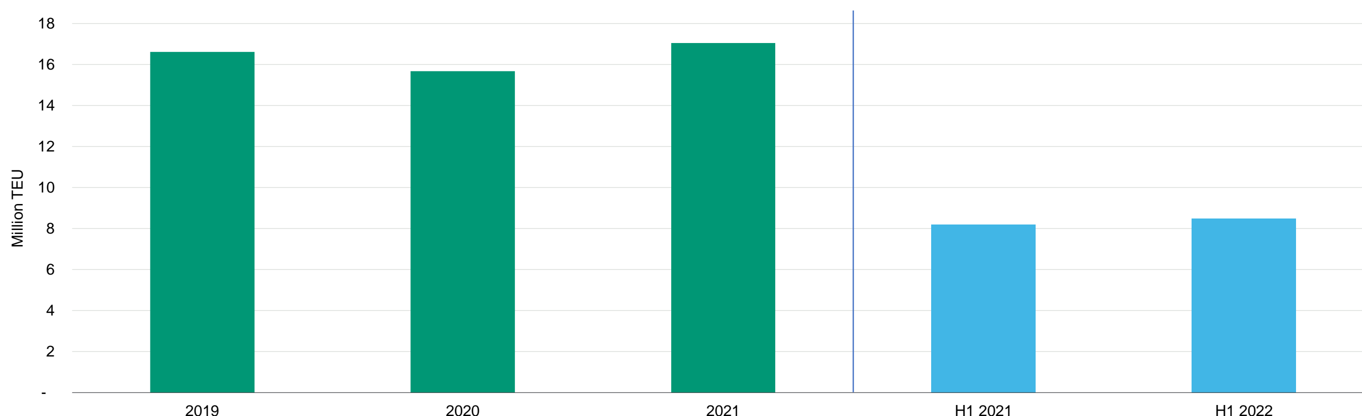
Pelindo will also face pressures from the depreciation of Indonesian Rupiah against US dollar because of its high exposure to USD bonds in its debt structure. Pelindo's USD bonds totaled $2.6 billion, accounting for around 70%-75% of the company's total debt as of June 2022. We expect Pelindo's currency exposure to be manageable, given its USD-linked revenue to some extent 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.

In terms of the pandemic impact, the risks still remain, despite the rebound of container throughput in 2021, especially because of relatively lower vaccination rates in Indonesia and the possibility of the emergence of new variants.

According to Our World in Data,[1] 63% of Indonesia's population was fully vaccinated and 12% was partly vaccinated as of 28 August 2022.

Pelindo's container throughput rebounded by 9% in 2021, following a 6% decrease in 2020 because of the pandemic impact. In H1 2022, the company's container volume was 4% higher than that in the year-earlier period on the back of the continued recovery of economic activity from the pandemic.

Exhibit 7
Pelindo's container throughput



Source: Pelindo

Execution risks associated with merger integration and ambitious capital spending plan

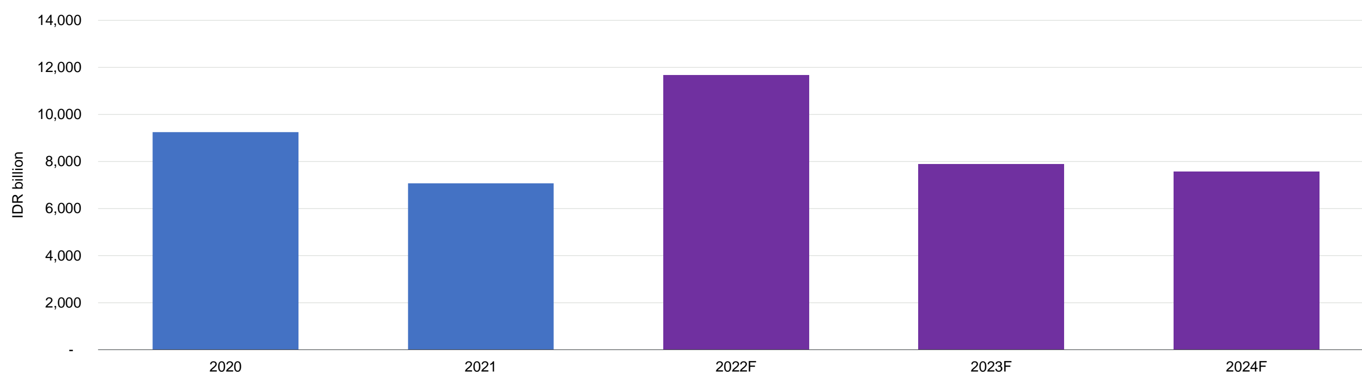
Pelindo currently focuses on standardization and operational and commercial integration after the merger. Although such integration will help Pelindo improve its operational and financial efficiency in the next couple of years, we expect the integration to take some time and involve complexities in implementing, given the larger scale of operations following the merger and hitherto separate operations of four entities before the merger.

We expect the company's margin to decrease because of the higher operating expenses at least over the next 12 months before it realizes the integration synergies.

In addition, Pelindo has a sizable capital spending program over the next two to three years, which entails execution risks. The company's capital spending will amount to IDR8 trillion-IDR12 trillion in 2022-24, which includes not only spending on strategic projects, such as new terminals, but also maintenance capital spending.

We will monitor to assess if Pelindo's business mix 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 8
Pelindo's capital spending plan



(*) Figures in 2022-2024F includes investments on top of acquisition of fixed assets and intangible assets.
Sources: Moody's Financial Metrics and Pelindo

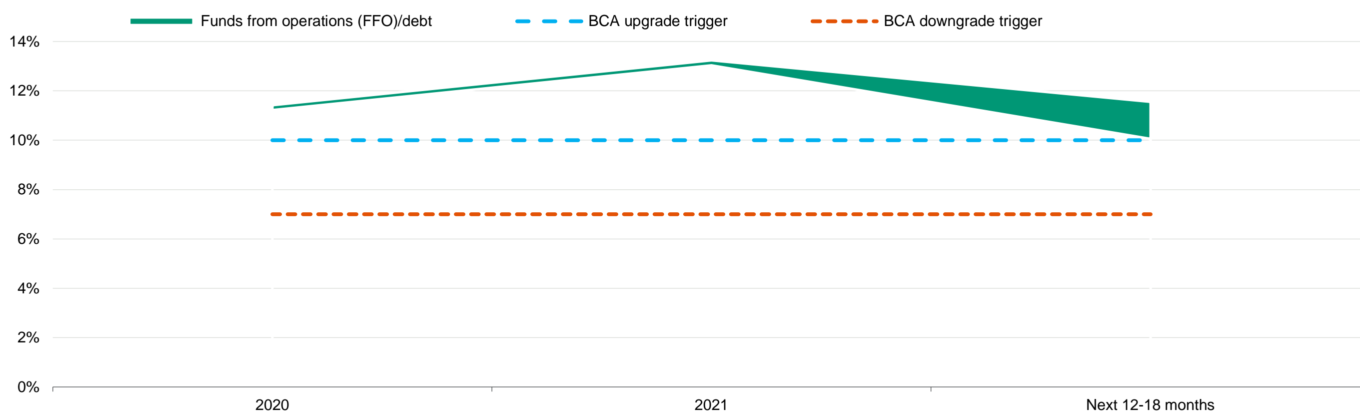
Strong financial metrics

Although we expect Pelindo's FFO/debt to decrease to 10%-12% over the next 12-18 months from 13% in 2021, such a level of FFO/debt is still above the upgrade trigger for the ba1 BCA. Over the next 2-3 quarters, we will monitor and analyze whether the merged Pelindo can maintain such strong financial metrics on a sustained basis.

The moderation in metrics is mainly because of higher operating expenses and sizable capital spending, despite a gradual growth in port throughput. Pelindo's reported operating expenses in H1 2022 increased by 9.2%, compared with the same period a year earlier, which exceeded the revenue growth of 5.5%, mainly because of higher employee allowances after the merger and fuel expenses.

Exhibit 9

Projected FFO/debt for Pelindo



Projected metrics are calculated as if the merger happened at the beginning of 2021.
Sources: Moody's Financial Metrics and Moody's Investors Service

Our forecast does not assume a significant increase in debt because Pelindo's capital spending plan can be mostly funded with its operating cash flow and cash holdings. However, if the company pursues more aggressive capital spending or an increased shareholder return, resulting in higher debt, it will likely have an implication for the company's credit quality.

Strong likelihood of support from the Indonesian government

The merger has enhanced Pelindo's strategic importance to the country and the government, and such increased strategic importance will be one of the key analysis points during our review process to resolve the current positive outlook.

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. These considerations underpin our expectation of support from the government.

The Indonesian government has become increasingly selective in terms of supporting state-owned enterprises (SOEs). The government prioritizes the completion of government-assigned projects, fund restructuring and execution of its business development program. For now, we have maintained our assessment of strong support for Pelindo under our Joint Default Analysis for government-related issuers, 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 small size of its asset base compared with that of other SOEs with a higher rating. However, Pelindo's strategic importance has increased after the merger.

ESG considerations

In terms of environmental, social and governance (ESG) considerations, we consider Pelindo's exposure to physical climate risk arising from rising sea level and land subsidence in Indonesia. Pelindo's exposure to social risks is manageable, given its status as a dominant

port operator in the country on the back of Indonesia's strong economic growth potential. For governance, we factor the company's prudent financial management, which offsets the risk arising from the concentrated ownership.

Our approach for assessing ESG risks can be found in the cross-sector methodology, General Principles for Assessing Environmental, Social and Governance Risks.

Liquidity analysis

Pelindo has good liquidity. The company's cash holdings of IDR11.6 trillion as of June 2022 and its annual operating cash flow of IDR6.5 trillion-IDR7.5 trillion will be sufficient to cover its planned capital spending, dividend payments and maturing debt of IDR0.5 trillion over the next 12 months. In addition, the merged entity will have stronger funding market access, which will also support the company's liquidity.

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 May 2021, yields a Baa2-Baa3 scorecard-indicated outcome, based on the projected financial metrics.

The difference between the scorecard-indicated outcome and Pelindo's BCA is explained by the stronger projected standalone credit quality, which is reflected in the positive rating outlook.

Exhibit 10
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		B
Factor 3: Leverage and Coverage (40%)				
a) Cash Interest Coverage	3.7x	Baa	3x - 3.5x	Ba
b) FFO / Debt	13%	Baa	10% - 12%	Ba - Baa
c) RCF / Debt	12%	A	8% - 10%	Baa-A
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		Baa3 - Baa2
b) Actual BCA Assigned				ba1

Government-Related Issuer	**Factor**
a) Baseline Credit Assessment	ba1
b) Government Local Currency Rating	Baa2
c) Default Dependence	High
d) Support	Strong
e) Final Rating Outcome	Baa3

[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 October 2022.
Sources: Moody's Financial Metrics and Moody's Investors Service

Ratings

Exhibit 11

Category	Moody's Rating
PELABUHAN INDONESIA (PERSERO) (P.T.)	
Outlook	Positive
Issuer Rating	Baa3
Senior Unsecured	Baa3

Source: Moody's Investors Service

Endnotes

1 Our World in Data is produced as a collaborative effort between researchers at the University of Oxford, who are the scientific contributors of the website content; and the non-profit organization Global Change Data Lab, which owns, publishes and maintains the website and the data tools.

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