



## Rating Action: Moody's upgrades Pelindo's ratings to Baa2; changes outlook to stable

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Singapore, April 12, 2023 -- Moody's Investors Service has upgraded Pelabuhan Indonesia (Persero) (P.T.)'s (Pelindo) issuer and senior unsecured bond ratings to Baa2 from Baa3 and changed the outlook to stable from positive.

At the same time, Moody's has upgraded Pelindo's Baseline Credit Assessment (BCA) to baa3 from ba1.

### RATINGS RATIONALE

The upgrade of Pelindo's issuer and senior unsecured bond ratings and BCA reflects the company's continued solid operating performance, driven by throughput growth and commissioning of new port assets. Moody's forecasts Pelindo's revenue will continue growing at a pace that is broadly in line with Indonesia's robust economic growth, while maintaining its adjusted funds from operations (FFO)/debt above the previous upgrade trigger of 10% for fiscal year ending 31 December 2022. From fiscal year 2023 to 2025, Moody's expects Pelindo's FFO/debt to be in the region of 10%-12%, which is commensurate with the revised BCA of baa3. Pelindo's FFO/debt reached 11.3% and 13.1% in fiscal year 2020 and 2021, respectively.

"The rating action also reflects our expectation that Pelindo will continue to capture synergies and create value through revenue enhancement and cost efficiency initiatives from the merger undertaken in late 2021, which should help offset additional business integration costs. As a result, we expect the company's profit margin to remain stable or moderately improve from fiscal year 2023 to 2025," says Erman Zhang, a Moody's Analyst.

Pelindo's Baa2 ratings benefit from one-notch uplift based on Moody's assessment of a strong likelihood that it will receive extraordinary support from the Government of Indonesia (Baa2 stable) when needed. Under Moody's Joint Default Analysis (JDA) approach for Government-Related Issuers (GRIs), Moody's also assesses Pelindo to have a high default dependence with the sovereign.

Moody's expects Pelindo's strategic importance to Indonesia will remain strong in the future. Pelindo is 100% owned by the Indonesian government, and is the dominant port operator in the country. Post-merger, the company held around 95% of the container market share in 2022. It operates the country's flagship ports and plays a major role in implementing the government's agenda to develop strategic port projects.

The Baa2 ratings also factor in Pelindo's sizable capital spending plans that average IDR7-10 trillion over fiscal year 2023-2025. These capital spending plans cater to expansionary projects, such as national strategic projects, and maintenance capital spending. Pelindo is therefore exposed to execution and ramp-up risks and incremental demand for debt funding.

The Baa2 ratings are also supported by Pelindo's excellent liquidity position. As of September 2022, Pelindo has cash holdings of IDR14 trillion, coupled with an annual FFO of IDR6-8 trillion, which are sufficient to meet its anticipated capital spending, dividend payouts and debt servicing requirements over the next 12-18 months. Notably, Pelindo has USD500 million worth of bonds maturing in May 2023, but the refinancing risk is manageable given its strong access to the funding markets.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The stable outlook on the ratings reflects Moody's expectation that Pelindo's financial metrics will trend down towards levels appropriate for the current rating level over the next 12-18 months. Additionally, Moody's expects 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.

Upward pressure on the BCA could occur if the company's (1) FFO/debt and retained cash flow (RCF)/debt exceed 12-13% and 10-11% respectively on a sustained basis, and (2) business mix and financial policies support a stronger standalone credit profile. Additionally, Moody's could upgrade Pelindo's ratings if Indonesia's sovereign rating is upgraded.

Downward pressure on the ratings could develop if Pelindo's standalone credit quality weakens, with its FFO/debt remaining below 9%, because of (1) weaker earnings from slower-than-expected throughput growth or higher-than-expected business integration costs, or (2) higher debt level due to more aggressive capital spending or increased shareholder returns. Moody's could downgrade Pelindo's ratings if the likelihood of government support for the company decreases.

The methodologies used in these ratings were Privately Managed Ports published in April 2023 and available at <https://ratings.moodys.com/api/rmc-documents/401274>, and Government-Related Issuers Methodology published in February 2020 and available at <https://ratings.moodys.com/api/rmc-documents/64864>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

Pelabuhan Indonesia (Persero) (P.T.) (Pelindo) is a dominant port operator in Indonesia. It operates more than 100 ports, including the country's largest and busiest container port, Tanjung Priok in Jakarta, and other main hub ports such as Belawan, Tanjung Perak and Makassar. The company is wholly owned by the Ministry of State Owned Enterprises and regulated by the Ministry of Transportation.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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