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CREDIT OPINION
7 October 2021

Update

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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 following outlook change to positive

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 in times of need. The assessment of uplift takes into consideration the government's 100% ownership in Pelindo and the port operator's pivotal role in Indonesia's maritime transportation sector.

We have changed Pelindo's outlook to positive from stable following the merger, given Pelindo's strengthened business profile and increasing strategic importance, with a larger scale of business and stronger competitive market position as a dominant port operator in Indonesia (Baa2 stable).

Pelindo's standalone credit profile is supported by its stronger market position following the merger; favorable long-term industry fundamentals; and its strong financial metrics for the current ba1 BCA level. In addition, operational integration and optimal capital allocation following the merger will help Pelindo create values over the next few years.

These credit strengths are counterbalanced by the execution risk associated with Pelindo's sizable capital spending plans and the implementation risk associated with the integration over the next two to three years.

On the basis of Government Regulation Number 101 of 2021, Pelabuhan Indonesia II (Persero) (P.T.) (Pelindo II) as a surviving entity merged with Pelabuhan Indonesia I (Persero) (P.T.) (Pelindo I), Pelabuhan Indonesia III (Persero) (P.T.) (Pelindo III) and Pelabuhan Indonesia IV (Persero) (P.T.) (Pelindo IV) on 1 October 2021.

As a result of the merger, we withdrew Pelindo III's Baa3 issuer rating, ba1 BCA and stable outlook. Pelindo III's senior unsecured bonds have been assumed by Pelindo pursuant to an executed Supplemental Indenture dated as of 1 October 2021. The merger does not trigger a change of control because the ultimate shareholder remains the Indonesian government.

Credit strengths

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

» Favorable long-term industry fundamentals

» Supportive financial metrics

» Strong likelihood of support from the Indonesian government

Credit challenges

» Near-term uncertainty around port traffic recovery because of the coronavirus pandemic

» Ambitious capital spending program

» Business integration risks

Rating outlook

The positive outlook reflects a stronger standalone credit quality, which can be sustained if there is clarity of financial policy and capital spending plan post successful integration. The positive outlook also reflects a higher strategic importance for 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 material increase in likelihood of government support or an upgrade of the company's BCA. Additionally we could upgrade Pelindo’s ratings if Indonesia’s sovereign rating is upgraded.

We could raise Pelindo's BCA if the company’s FFO/debt exceeds 10% on a sustained basis, and its business mix and financial policies are supportive of a stronger credit profile.

Factors that could lead to a downgrade

We could return the ratings 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 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 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 1
Pelabuhan Indonesia (Persero) (P.T.)

	Moody's forward-looking view (over the next 12-18 months)
Cash Interest Coverage	2.6x - 2.8x
FFO / Debt	9% - 11%
RCF / Debt	8.5% - 10%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Investors Service

Profile

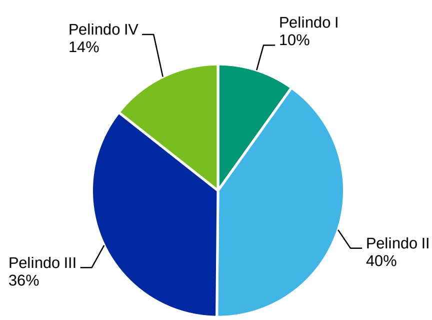
Following the merger, Pelindo has become a dominant port operator in Indonesia, with 69 ports across the country, including the country's largest and busiest container port, Tanjung Priok in Jakarta, and other main hub ports of Indonesia such as Belawan, Tanjung Perak and Makassar.

The combined reported revenue (excluding construction revenue) of Pelindo I, II, III and IV was around IDR24 trillion ($1.7 billion) in 2020. Pelindo II and III accounted for around 75% of the revenue in 2020. Pelindo will continue to be owned by the Ministry of State-Owned Enterprises and regulated by the Ministry of Transportation.

Exhibit 2
Pelindo's nationwide operations

Source: Company

Exhibit 3
Pelindo's revenue breakdown by entity before the merger (2020)



Excluding construction revenue.
Sources: Company

Detailed credit considerations

Dominant port operator in Indonesia and in a sector that has high barriers to entry

We expect Pelindo to maintain its dominant market position in Indonesia's port industry following the merger. The port's business is a natural monopoly with 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 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 one to three years because of the already-established road connection to the ports and business relationships with existing customers. In addition, more efficient and aligned coordination among individual Pelindos, while removing internal competition, which was there 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.

Assets owned or held in perpetuity are the highest quality of ownership, as such assets allow the port to impose changes on every activity that takes place within its boundaries or for related navigation.

Favorable industry fundamentals for long-term growth

Maritime transportation is an important component of Indonesia's growth strategy. The government has placed significant emphasis on enhancing maritime connectivity and commerce, especially because of the increase in domestic demand and growing international trade ties.

At the same time, the Government of Indonesia aims to improve connectivity and standardization of port services to support the reduction of national logistics costs and encourage growth of national economy, which is one of the rationale for Pelindo's merger.

We expect the following factors to provide fundamental support to a recovery in throughput volumes after the coronavirus pandemic is contained:

» The Indonesian archipelago's reliance on maritime transport

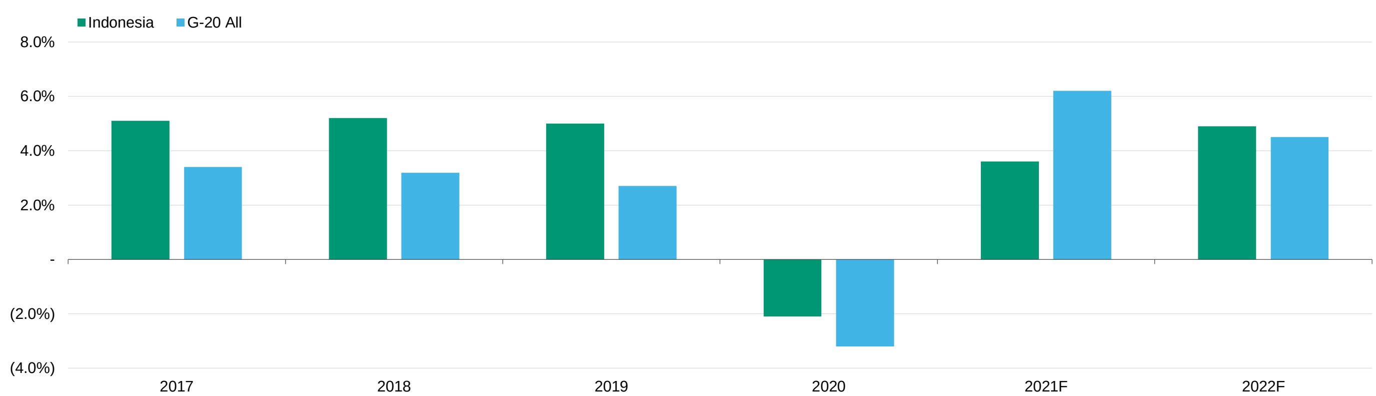
» The country's long-term growth prospects, which supports the continued increase in trade and consumption

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

Although Indonesia's GDP growth forecast in 2021F is lower than G-20 countries, the country had achieved higher GDP growth in terms of percentage over the last 3-4 years and its growth will exceed the overall growth of all G-20 countries in 2022F, according to the latest Global Macro Outlook 2021-22 (August 2021 Update).

Exhibit 4

Indonesia's GDP growth



Source: Moody's Investors Service

Uncertain recovery amid the pandemic

At least in the near term, Pelindo will continue to face uncertainties around port traffic recovery because of the pandemic. In 2020, container volume for Pelindo II and III, which contributes to Pelindo more than Pelindo I and IV, decreased by 10% and 6%, respectively, as a result of sluggish economic activities and movement restrictions imposed amid the pandemic.

We expect container throughput to recover and grow over the next 12-18 months on the back of a higher vaccination rate and increasing economic activities in Indonesia and across the globe, underpinned by Pelindo II's and III's volume rebound by 11% and 8%, respectively, in H1 2021, compared with the same period in 2020.

However, the uncertainties still remain because of the evolving situation, especially with the relatively lower vaccination rates in Indonesia.

According to Our World in Data[1], only 18% of Indonesia's population was fully vaccinated and 14% was partly vaccinated as of 27 September 2021, while the number of cases has now stabilized, with around 1,000-1,500 daily new cases in early October 2021 from a peak of around 55,000 in mid-July.

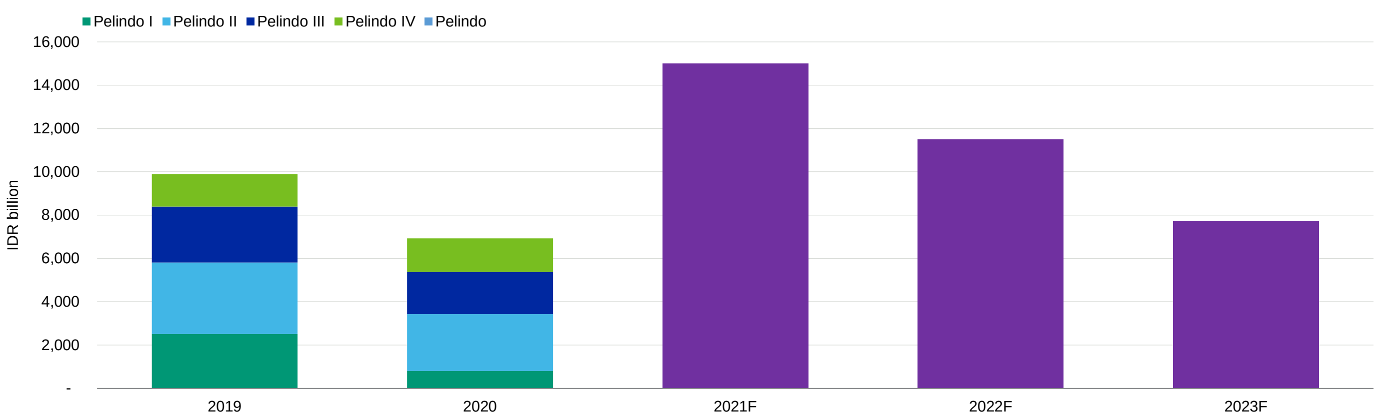
Execution risks around merger integration and ambitious capital spending plan

Following the merger, the merged entity, Pelindo, will have a functional unit structure (for example, container, non-container, logistics and others) rather than a regional unit structure (Pelindo I, II, III and IV) to improve its operational efficiency and to optimize capital allocation.

We will monitor the business integration process, which can bring operational synergies. However, the integration will take some time and involves more complexities, given the larger scale of operations and the hitherto geographical split amongst the state-owned port operators.

In addition, Pelindo has a sizeable capital spending program over the next 2-3 years, which entails execution and implementation risks. The company's capital spending will amount to IDR12 trillion-IDR15 trillion in 2021-22F, which includes not only strategic projects such as new terminals but also maintenance capital spending. We will be monitoring if the business mix of Pelindo will change materially as a result of the planned and additional capital spendings, which may entail investment in adjacent business segments such as logistics.

Exhibit 5
Pelindo's capital spending plan



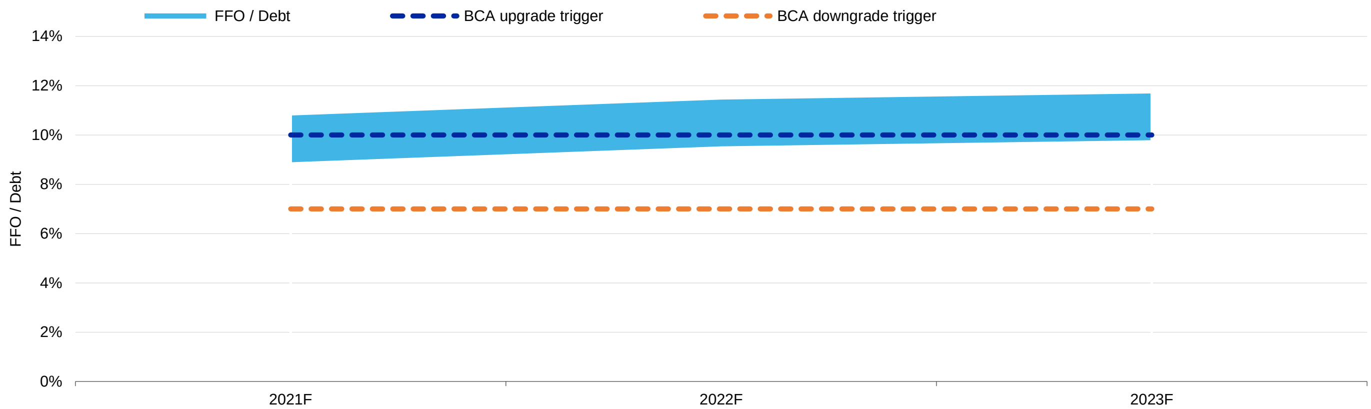
Pelindo's 2021F capital spending includes the acquisition of Tanjong Priok toll-road project.
Sources: Company and Moody's Investors Service

Supportive financial metrics

We expect Pelindo's FFO/debt to be 9%-11% over the next 12-18 months, assuming that trade volumes will recover gradually following a decline in 2020, positioning the company strongly in the ba1 BCA category.

Exhibit 6

Projected FFO/debt for Pelindo



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

Out forecast does not assume a meaningful increase in debt. However, if the company pursues more aggressive capital spending or increased shareholder return, resulting in a higher debt level, it will likely have an implication for the company's credit quality.

Strong likelihood of support from the Indonesian government

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 is becoming increasingly selective in terms of supporting sovereign-owned-enterprises (SOEs) because of its current limited fiscal headroom. For now, we has maintained its 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 other SOEs with a higher rating. However, Pelindo's strategic importance has increased post-merger.

ESG considerations

Consistent with our view of the port industry, Pelindo has moderate exposure to environmental risks, with the key risks being the risks associated with dredging works and the coastal locations of the ports. This will expose the assets to potentially severe weather conditions and natural disasters, as well as sea level rise over the long term. We expect Pelindo's exposure to environmental risks to be broadly manageable because of its experience in the operation of ports and undertaking major capital projects.

We regard the pandemic a social risk under our ESG framework because of the substantial implications for public health and safety.

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 IDR15.3 trillion as of August 2021 and its operating cash flow will be sufficient to cover its planned capital spending, dividend payments and maturing debt 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%-50% over the next one to two years.

Methodology and scorecard

The application of the Privately Managed Ports Methodology, published in May 2021, yields a Baa3 scorecard-indicated outcome, based on the projected financial metrics.

The difference between the Baa3 scorecard-indicated outcome and Pelindo's ba1 BCA can be explained by a stronger projected standalone credit quality, which is reflected in the positive outlook, pending clarity on financial policy and capital spending.

Exhibit 7
Rating factors
Pelabuhan Indonesia (Persero) (P.T.)

Privately Managed Ports Methodology [1]	Moody's 12-18 Month Forward View [2] [3]	
Factor 1: Market Position (30%)	**Measure**	**Score**
a) Diversity and Size		A
b) Competitive Position and Service Area		A
Factor 2: Business Profile (30%)		
a) Ownership and Control of Assets		A
b) Revenue Stabilit		Baa
c) Capital Expenditure Requirements		B
Factor 3: Leverage and Coverage (40%)		
a) Cash Interest Coverage	2.6x - 2.8x	Ba
b) FFO / Debt	9% - 11%	Ba - Baa
c) RCF / Debt	8.5% - 10%	Baa
d) Moody's Debt Service Coverage Ratio	2.5x - 2.7x	Ba
Factor 4: Financial Policy (10%)		
a) Financial Policy		Baa
Rating:		
a) Scorecard-indicated outcome		Baa3
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 Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] This represents Moody's forward view, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
[3] As of October 2021.
Source: Moody's Investors Service

Ratings

Exhibit 8

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, who owns, publishes and maintains the website and the data tools

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