

Rating Action: Moody's upgrades Chandra Asri to B1; outlook stable

Global Credit Research - 08 Apr 2016

Singapore, April 08, 2016 -- Moody's Investors Service has upgraded the corporate family rating of Chandra Asri Petrochemical Tbk (P.T.) to B1 from B2.

The rating outlook is stable.

List of affected ratings:

Upgrades:

..Issuer: Chandra Asri Petrochemical Tbk (P.T.)

.... Corporate Family Rating, Upgraded to B1 from B2

RATINGS RATIONALE

"The upgrade of Chandra Asri to B1 follows the completion of its multiyear debt-funded capital spending program to expand its existing naphtha cracker and add a new Butadiene plant, providing the company with both increased production capacity and product diversification," says Brian Grieser, a Moody's Vice President and Senior Analyst.

"With the new capacity on-line and a significant reduction in capital spending expected over the next two years, we expect Chandra Asri to generate substantial cash flows and allocate it to debt reduction," adds Grieser, who is also the lead analyst for Chandra Asri.

Chandra Asri's increased its EBITDA by roughly 25% in 2015, driven largely by strong cash margins on its olefin and polyolefin products. The improvement came despite low utilization rates that accompanied the shutdown of the existing naphtha cracker for turnaround maintenance, and expansion tie-in work in the fourth quarter.

Moody's anticipates the company's cash margins will fall in coming years from the elevated levels achieved in 2015 given the cyclical nature of the petrochemical industry. However, the combination of solid margins and the roughly 43% increase in ethylene, propylene, py-gas and mixed C4 production capacity should support continued EBITDA and cash flow growth in 2016.

The B1 rating reflects Chandra Asri's leading position in the Indonesian petrochemicals market, its manageable debt levels and interest burden, good liquidity profile, and both operational and financial support from Siam Cement Group (unrated), who owns 30.57% of Chandra Asri.

The rating also captures the inherent cyclical nature of the petrochemicals industry and the geographic concentration of Chandra Asri's facilities.

Chandra Asri's position as the largest petrochemical company in Indonesia provides it with unique growth opportunities given the expected consumption growth of petrochemical products in the country. Further, Chandra Asri benefits from low transportation costs given its proximity to customers and the fact that it doesn't have to pay import duties. Indonesia remains highly dependent on imports of ethylene, polyethylene and polypropylene.

Chandra Asri's leverage -- as measured by adjusted debt to EBITDA -- of 3.6x at end-2015 is projected to fall to around 2.0x-2.5x in 2016, due to a combination of debt reduction and EBITDA growth.

The stable outlook reflects the expected improvement in Chandra Asri's operating performance and cash flow generation in 2016 following the completion of its naphtha cracker expansion and related tie-in works. With its investment cycle largely complete, Moody's expects capital spending to drop materially and cash flows to be allocated to debt reduction providing it with incremental balance sheet flexibility to weather the next cyclical downturn.

The company's rating could be upgraded if the recent capacity expansion is successful in stabilizing profit margins and operating cash flow generation through the cycle. Moody's would expect Chandra Asri to maintain debt/EBITDA below 2.0x with positive free cash flow generation on an ongoing basis to consider an upgrade given the cyclical nature of the petrochemicals business.

The company's rating could be downgraded, if (1) its credit metrics deteriorate such that leverage is likely to be maintained at 4.0x over an extended period; or (2) its liquidity deteriorates such that its cash balance falls below \$75 million; or (3) the company initiates large incremental debt-funded expansions.

The principal methodology used in this rating was Global Chemical Industry Rating Methodology published in December 2013. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

PT Chandra Asri Petrochemical Tbk is an integrated petrochemical company operating the only naphtha cracker in Indonesia. Chandra Asri has a production capacity of 860,000 tonnes per annum (tpa) for ethylene, 470,000 tpa for propylene, 400,000 tpa for py-gas, 315,000 tpa for mixed C4, two polyethylene plants with a combined production capacity of 336,000 tpa, and 480,000 tpa for polypropylene. Through its wholly owned subsidiary PT Styrimdo Mono Indonesia (SMI), CAP also has an annual styrene monomer production capacity of 340,000 tpa. CAP's PT Petrokimia Butadiene Indonesia (PBI), which commenced operations in Q4 2013, has the capacity to produce 100,000 tpa of Butadiene.

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Brian Grieser
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

Laura Acres
MD - Corporate Finance
Corporate Finance Group
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

Releasing Office:
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077



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