MOODY'S
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Rating Action: Moody's upgrades Chandra Asri to Ba3; outlook stable

Global Credit Research - 03 Aug 2017

Singapore, August 03, 2017 -- Moody's Investors Service has upgraded the corporate family rating (CFR) of Chandra Asri Petrochemical Tbk (P.T.) to Ba3 from B1.

The outlook on the ratings is stable.

RATINGS RATIONALE

"The upgrade of Chandra Asri's CFR to Ba3 reflects the large and sustainable improvement in its margins, cash flow generation, financial leverage and liquidity profile since the completion of its cracker expansion project in late 2015," says Brian Grieser, a Moody's Vice President and Senior Credit Officer.

The cracker expansion project added significant ethylene and propylene capacity in 2016. Moody's expects the improved operating leverage from this capacity and other ongoing projects to result in more resilient margins and cash flow generation during downturns in the petrochemical cycle.

Moody's says that product spreads should tighten over the next two years, given the likely growth in global petrochemical capacity. Nevertheless, the spread between Chandra Asri's key olefin and polyolefin products and its naphtha feedstock should remain at levels such that the company can maintain EBITDA margins of around 20% over the next 12-24 months, down from 28% for the 12-month period ended 31 March 2017.

"The Ba3 rating reflects the improvement in Chandra Asri's balance sheet, particularly its increased cash balances and lower debt levels, which when combined with substantially improved EBITDA generation, have lowered leverage to below 1.0x," added Grieser.

Chandra Asri has announced several large capital expenditure projects — including a butadiene plant expansion, a polypropylene plant debottlenecking, a naphtha cracker furnace revamp, a new polyethelene plant, a new MTBE and Butene-1 plant and a feasibility study into constructing a second naphtha cracker -- which could result in capital spending of roughly $1 billion over the next three years.

A second naphtha cracker would aim to add 1,000,000 tons of ethylene capacity and various downstream derivatives products. While still in the planning stages, this plan could cost between $4 and $5 billion and add significant execution risk over the next five years. The key terms and ownership structure of this potential project have yet to be determined.

Moody's expects any financial investment decision made on this project by Chandra Asri to be prudently financed and include strong joint venture partners to reduce its exposure.

Moody's also expects that Chandra Asri will maintain a strong liquidity profile and conservative financial policies, despite its heavy capital spending plans.

The company's cash balance of $278 million at 31 March 2017, the proceeds from its recently announced rights offering and cash flow from operations should fully fund its capital spending plans and dividends over the next three years.

The stable rating outlook reflects Moody's expectation that Chandra Asri's operating performance and cash flow generation will stay strong over the next 12-18 months. Capital spending will likely ramp up over the next two years, as the company executes its expansion projects, which will be largely funded by cash and cash flow from operations.

The company's rating could be upgraded if its planned capacity expansion is executed on time and within budget, and free cash flow generation remains positive through the cycle. Chandra Asri will have to maintain a debt/EBITDA below 2.0x, with EBITDA margins of around 25%-30% on an ongoing basis for Moody's to consider upgrading its rating, given the inherent cyclicality of the petrochemical industry.

The company's rating could be downgraded, if: (1) its credit metrics deteriorate such that leverage is likely to be maintained at 3.0x over an extended period; or (2) its liquidity deteriorates, such that its cash balance falls below $100 million; or (3) the company initiates large incremental debt-funded expansion projects.

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

Chandra Asri Petrochemical Tbk (P.T.) is an integrated petrochemical company operating the only naphtha cracker in Indonesia. The company has a production capacity of 860 thousand tonnes per annum (ktpa) for ethylene, 470 ktpa for propylene, 400 ktpa for py-gas, 315 ktpa for mixed C4, 336 ktpa, and 480 ktpa for polypropylene. Chandra Asri also has an annual styrene monomer production capacity of 340 ktpa and the capacity to produce 100 ktpa of butadiene.

CAP was established in January 2011 through the merger of PT Chandra Asri and PT Tri Polyta Indonesia Tbk. CAP is owned by PT Barito Pacific Tbk (65.2%), the Siam Cement Group, through its subsidiary, SCG Chemicals Co., Ltd. (one of the largest integrated petrochemical companies in Thailand) (30.57%) and the remaining shares are held by public investors (4.22%). CAP is listed on the Jakarta Stock Exchange.

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