Fitch Ratings

Fitch Affirms Chandra Asri at 'BB-'/'A+(idn)'; Withdraws National Rating

Fitch Ratings-Singapore-16 October 2019: Fitch Ratings has affirmed Indonesia-based PT Chandra Asri Petrochemical Tbk's (CAP) Long-Term Issuer Default Rating at 'BB-'. The Outlook is Stable. The agency has also affirmed the rating on the company's USD300 million senior unsecured notes at 'BB-'. At the same time, Fitch Ratings Indonesia has affirmed and withdrawn CAP's National Long-Term Rating of 'A+(idn)'.

'A' National Ratings denote expectations of a low level of default risk relative to other issuers or obligations in the same country or monetary union.

We assess CAP's linkage with its dominant 46% shareholder, PT Barito Pacific Tbk (B+/Stable), as moderate and consequently rate CAP based on the consolidated credit profile of Barito, based on our Parent and Subsidiary Rating Linkage criteria. Any weakening of Barito group's credit profile may affect CAP's rating. We continue to assess CAP's Standalone Credit Profile (SCP) at 'bb-', reflecting its leading market position, integrated operation, diverse product offering, strong financial profile and favourable long-term industry prospects. The SCP is constrained by CAP's asset-concentration risk and limited operating scale compared with global chemical peers. CAP's SCP also reflects the cyclical nature of the petrochemical industry.

CAP is expecting a final investment decision (FID) on a second petrochemical complex (CAP2) for a total investment of about USD5 billion by late 2020. We only factor in pre-FID capex in our analysis for CAP2, as ownership and funding details are yet to be finalised and the project timeline is uncertain. CAP's rating could face downward pressure if the company's share of capex is significant and debt-funded. We will assess the rating impact upon further clarity upon the FID.

Fitch is withdrawing the National Rating on CAP for commercial reasons.

KEY RATING DRIVERS

Leading Market Position; Integrated Operations: CAP's SCP benefits from its leading market position as Indonesia's largest petrochemical producer, accounting for about 35% of the country's olefin and polymer production capacity. Its market position is also aided by better-integrated operations than those of domestic peers as well as a diverse product offering and customer base. This, together with its plant being located close to key customers with pipeline connectivity to some, will continue to support higher realisations and profitability.

Product Spread to Moderate: Average product spreads in 2019 are lower than in 2018, resulting in

CAP's 1H19 EBITDA declining by around 42% to USD135 million from 1H18. Fitch expects spreads to remain low for most petrochemical products over the next two to three years, reflecting considerable global capacity additions. Margin pressure on CAP should, however, be lower than for domestic peers due to its operational flexibility in varying its product slate, diversified supplier base and long-term key- customer relationships. CAP's feedstock procurement also benefits from its association with SCG Chemicals Company Limited, which owns 31% of CAP.

Favourable, Albeit Cyclical, Growth: We expect CAP to benefit from stable demand growth for petrochemical products in Indonesia over the medium- to long-term and the country's position as a net importer of key petrochemical products. Indonesia's strong GDP growth, coupled with increasing urbanisation and consumption, is likely to drive demand for key polyolefins. However, CAP's SCP remains vulnerable to the commodity cycle, as its earnings and cash flow are affected by crude oil price movements and global demand-supply dynamics.

Moderate Linkages with Parent: We assess the linkage between CAP and its largest shareholder, Barito, as moderate and consequently rate CAP on the consolidated credit profile of Barito group. The group benefits from a diversified presence across the petrochemical and energy businesses, a leading market position, integrated petrochemical operations and a strong record in geothermal operations, with long-term contracts driving stable revenue.

Barito effectively owns about 35% to 40% of the operating assets of Star Energy Group Holdings Pte Ltd. Star Energy's established operation, together with its long-term contracts - which have residual terms of 20 years or more - with state power utility PT Perusahaan Listrik Negara (Persero) (BBB/Stable), results in stable revenue and cash flow, enhancing Barito's consolidated credit profile. Star Energy's operation benefits from high availability, inherently low operating costs and the long operating history of its assets.

Potentially Large Capex: CAP is investing about USD750 million in 2019 and 2020 to increasing its downstream operation capacity and cover the initial spending for CAP2. This should help it maintain its leading market position over the long term. We expect CAP2 to incur total investment costs of around USD5 billion, but have only factored in pre-FID capex - primarily land-acquisition costs - in our analysis for CAP2. This is because CAP expects the FID to be taken in late 2020 or early 2021 and the ownership and funding structure are yet to be finalised.

Barito also has a modest investment plan for its power business via a medium- to long-term expansion of Star Energy's geothermal operation. In addition, Barito plans to invest in a 2GW greenfield Indonesian coal-fired power project - PT Indo Raya Tenega - in which Barito has a 49% stake. Fitch only factors in the equity outflow from Barito in its cash flow forecast due to the probable non-recourse nature of the project-finance debt usually taken on such projects.

Moderate Consolidated Financial Profile: We expect Barito group's consolidated financial profile to weaken, but stay within our rating sensitivities, with consolidated FFO net leverage rising to around 4.2x in 2019 (2018: 2.7x) on weaker earnings from CAP. However, Barito's financial profile should gradually improve over the medium term, with a rising earnings contribution from CAP after its capacity additions kicking in from 2019 and 2020. We expect CAP's financial profile to remain strong, with FFO adjusted net leverage at below 1.5x (2018: -0.4x) over the next four to five years. However, leverage is likely to weaken to 1.1x in 2019, from a net cash position in 2018, on weaker product margins.

DERIVATION SUMMARY

CAP's ratings reflects Barito group's diversified business across the petrochemical and energy businesses, its leading market position as Indonesia's largest petrochemical producer, integrated operation and a strong record of geothermal operation with long-term contracts driving stable revenue. The ratings also reflect Barito group's moderate consolidated financial profile.

Ineos Group Holdings S.A. (BB+/Stable) is the world's largest commodity chemical producer, with diversified integrated production facilities, access to low-cost feedstock and feedstock flexibility. CAP's smaller scale and limited geographical diversification result in its SCP being lower by two notches, despite a stronger financial profile.

PJSC Kazanorgsintez (B+/Stable) is one of Russia's largest chemical companies and the country's largest polyethylene producer. We believe CAP's more diversified product profile, slightly larger size and marginally better cost structure justify the one-notch difference in the two entities' ratings, despite similar financial profiles.

The ratings on PT Japfa Comfeed Indonesia TBK (BB-/A+(Idn)/Stable) reflect its leading position in the poultry-feed and breeding industry in Indonesia. Its ratings are the same as that of CAP as it also has a strong market position, similar exposure to commodity cycles, and similar scale. The ratings on PT Golden Energy Mines Tbk (GEMS, B+/A(idn)/Positive) reflect its healthy financial profile and cost position. CAP is rated a notch higher due to its larger scale and stronger market position. The Positive Outlook on GEMS' ratings reflect its improving scale of operations.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Moderation in product margins (spreads) of key products over the near and medium term
- Marginal volume growth over the next two to threeyears. Proportion of higher value added products gradually increases over this period
- Capex of around USD850 million from 2019 to 2021
- Dividend payout ratio of between 30%-50%

RATING SENSITIVITIES

Developments that May, Individually or Collectively, Lead to Positive Rating Action:

Positive rating action is not probable in the near- to medium-term pending the FID and funding structure for CAP2. An upgrade in CAP's rating would only result from an improved SCP combined with a similar improvement in Barito group's credit profile. However, we do not expect this to occur in the near- to medium-term due to CAP's limited scale and diversification and potentially high uncommitted capex. CAP's SCP could be raised upon a significant improvement in its business profile, as seen by larger scale and vertical linkages that increase business diversification, while maintaining a strong financial profile, such that FFO net leverage does not exceed 1.5x on a sustained basis.

Developments that May, Individually or Collectively, Lead to Negative Rating Action
- Deterioration in Barito group's consolidated credit profile, with FFO net leverage exceeding 4.0x for a sustained period, which may arise from large, debt-funded capex on CAP2.
- For CAP's standalone credit profile, deterioration of Its financial profile resulting in FFO net leverage exceeding 3.0x for a sustained period.

LIQUIDITY

Strong Liquidity: CAP has strong liquidity, with a cash balance of USD649 million and undrawn committed credit facilities of about USD160 million at end-June 2019, against scheduled debt maturities of USD72 million in 2019. CAPS's debt maturity schedule is well spread out, with annual debt maturities not exceeding USD125 million until 2024, when its USD300 million notes are due. CAP also enjoys strong relationships with domestic banks and has access to some Thai banks due to its linkages with Siam Cement group, one of Thailand's largest conglomerates.

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Additional information is available on www.fitchratings.com
Applicable Criteria
Corporate Rating Criteria (pub. 19 Feb 2019)
Corporates Notching and Recovery Ratings Criteria (pub. 14 Oct 2019)
Country-Specific Treatment of Recovery Ratings Criteria (pub. 18 Jan 2019)
National Scale Ratings Criteria (pub. 18 Jul 2018)
Parent and Subsidiary Rating Linkage (pub. 27 Sep 2019)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
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