

RatingsDirect®

Research Update:

PT Chandra Asri Outlook Revised To Positive On Prospective Debt Reduction; 'B+' Rating Affirmed

Primary Credit Analyst:

Yuehao Wu, CFA, Singapore (65) 6239-6373; yuehao.wu@standardandpoors.com

Secondary Contact:

Xavier Jean, Singapore (65) 6239-6346; xavier.jean@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

PT Chandra Asri Outlook Revised To Positive On Prospective Debt Reduction; 'B+' Rating Affirmed

Overview

- Chandra Asri completed the expansion of its naphtha cracker in December 2015.
- We expect the company to use operating cash flows to gradually reduce its debt through 2017.
- We are revising the rating outlook on Chandra Asri to positive to reflect the prospect of strengthening cash flows and improved operating resilience to fluctuations in product spreads.
- We are affirming our 'B+' long-term corporate credit rating and 'axBB' long-term ASEAN regional scale rating on the Indonesia-based petrochemical company.

Rating Action

On April 22, 2016, Standard & Poor's Ratings Services revised the rating outlook on PT Chandra Asri Petrochemical Tbk. (Chandra Asri) to positive from stable. At the same time, we affirmed our 'B+' long-term corporate credit rating and 'axBB' long-term ASEAN regional scale rating on the company.

Rationale

The outlook revision reflects our expectation that Chandra Asri's cash flow and balance sheet will strengthen over the next 12 months as the company starts repaying debts following the completion of its cracker expansion.

Chandra Asri completed a multi-year, debt-financed expansion of its naphtha cracker in December 2015 on time and on budget. The expansion adds about 260 kilotons of ethylene, 150 kilotons of propylene, 120 kilotons of pygas, and about 100 kilotons of mixed C4 a year, and production is currently ramping up. The company's additional capacity is coinciding with a cyclical high for product spreads for a number of olefin and polyolefin products, most notably ethylene, thanks to low feedstock prices and relatively resilient selling prices. As a result, we expect the company's EBITDA to exceed US\$220 million in 2016. That is a marked improvement compared with an EBITDA of about US\$145 million in 2015 and about US\$110 million in 2014.

Stronger operating cash flows, along with a sharp decline in capital spending and moderate dividend payments in 2016 and 2017, will translate into substantially positive discretionary cash flows that exceed US\$100 million over the period in our base case. We anticipate the company will use the

excess cash, along with available cash balance, to repay an aggregate of about US\$150 million of amortizing debt, including short-term working capital loans, in 2016 and 2017. That corresponds to about 30% of the current reported debt of about US\$550 million.

We project Chandra Asri's cash flow adequacy ratios to strengthen through 2017, following strengthening cash flows and reduced debt levels. In our base case, Chandra Asri's debt-to-EBITDA ratio improves toward 2.0x in 2016. That compares with about 4.0x in 2015 and about 4.6x in 2014. EBITDA interest coverage also exceeds 7.0x over the next two years in our projections.

We recognize that spreads among Chandra Asri's product slate are inherently volatile and can rapidly change from quarter to quarter. Certain product spreads, most notably ethylene over naphtha, are at multi-year highs. Still, we believe the additional capacity will moderately improve economies of scale and enhance the company's vertical integration. As a result, we expect Chandra Asri's financial performance will be more resilient to periods of weaker product spreads. We project EBITDA of about US\$120 million and a debt-to-EBITDA ratio of about 3.5x under mid-cycle spread conditions and after the company has paid down debt. We estimate Chandra Asri's EBITDA would still exceed US\$70 million, assuming stressed spread levels similar to the ones exhibited in 2012. This would translate into a debt-to-EBITDA ratio of 5.0x-6.0x (assuming the company deleverages as we anticipate) while EBITDA interest coverage stays above 3.0x.

Our base case assumes the following:

- Indonesia's GDP growth at 5.0% in 2016 and 5.2% in 2017, and sustained domestic demand for petrochemical products over the period.
- Still-low naphtha prices under our base-case prices for Brent crude oil of US\$40 and US\$45 per barrel in 2016 and 2017.
- Still-solid product spreads for ethylene and polyethylene over naphtha in 2016, reducing in 2017.
- Annual sales volume of about 2 million tons, about 20% higher than historical levels, following the naphtha cracker expansion project completion.
- Gross profit (before depreciation and amortization) of US\$140-US\$150/ton in 2016-2017, representing cyclical high spreads for major products. We expect mid-cycle gross profit per ton to be closer to US\$100.
- A maximum capital spending of about US\$70 million in 2016 and US\$80 million in 2017, mostly maintenance spending. No major capital expenditure outlay or acquisitions during the period.
- A maximum payout of net income in dividends of 30% in 2016 and 2017.
- Chandra Asri will repay more than US\$150 million in maturing debts in 2016 and 2017 with positive discretionary cash flows.

Based on these assumptions, we arrive at the following credit metrics for 2016 and 2017:

- A debt-to-EBITDA ratio of 2.0x-2.5x;
- Ratio of funds from operations (FFO) to debt of about 35%;
- EBITDA interest coverage of 7.0x-8.0x; and

- Positive free operating cash flows.

Chandra Asri and PT Barito Pacific Tbk., its majority shareholder, have similar credit profiles, in our view. This is because we expect Chandra Asri to represent more than 90% of its parent's assets, revenues, and EBITDA post cracker expansion. The parent has moderate leverage, and Chandra Asri's operations are independent. The 30.5% sizable minority stake by Thai-based conglomerate Siam Cement Group (SCG) in Chandra Asri is currently credit neutral, even though we note that SCG provided operational support to Chandra Asri in the past. This includes extending payables to help manage operating cash flows and technical assistance during the cracker expansion.

We affirmed the ratings because Chandra Asri's small scale, high operating leverage, thin and volatile profitability, and single-site risks constrain its business strength. Such weaknesses are partly offset by the company's market position as the largest petrochemical producer in Indonesia and its good project execution record.

Liquidity

We assess Chandra Asri's liquidity as adequate. Given the cyclical nature of the company's business, its cash flows are volatile. Nevertheless, we expect Chandra Asri's sources of liquidity to exceed its uses by about 1.2x or more in the next 12 months.

Principal liquidity sources:

- US\$96.8 million in cash and cash equivalents as of Dec. 31, 2015.
- Cash FFO that we forecast at US\$160 million-US\$180 million in 2016.

Principal liquidity needs:

- Current debt maturity of about US\$122 million, including US\$51 million of short-term debt.
- Capital spending of US\$70 million that consists of maintenance spending largely in 2016.
- Working capital inflows of about US\$10 million in 2016.

Outlook

The positive outlook on Chandra Asri reflects our view that the company will use its solid operating cash flows to reduce debt over the next 12 months. The outlook also factors in our assumption that Chandra Asri will incur no major capital spending following the completion of the naphtha cracker expansion project in 2015.

Upside scenario

We may raise the rating on Chandra Asri if the company applies excess cash flows and cash balance to debt repayment such that its reported debt falls toward US\$400 million within the next 12-18 months and its debt-to-EBITDA ratio improves toward 2.0x under the current spread assumption. The rating

upgrade also hinges upon: (1) our assessment of the company's resilience to fluctuation in product spreads improving markedly; (2) the consolidated financial profile of parent Barito Pacific remaining similar to that of Chandra Asri; and (3) Chandra Asri maintaining ample cash balances and manageable short-term debt maturities.

Downside scenario

We could revise the outlook to stable if the deleveraging trend stalls. This could materialize if: (1) product spreads weaken much more abruptly than we currently expect because of weaker demand or higher feedstock costs; (2) capital spending is higher than we anticipated; or (3) the company's financial debt fails to decline substantially. A debt-to-EBITDA ratio staying above 3.0x under our current spread assumptions would be indicative of a stalling trend, in our view.

We may also revise the outlook to stable if: (1) Chandra Asri's liquidity weakens because of sharp changes in working capital or much lower cash flows stemming from lower-than-anticipated product spreads; or (2) we assess the group credit profile to have weakened because of higher consolidated debt or increased debt at the parent company.

Ratings Score Snapshot

Corporate Credit Rating: B+/Positive/--

Business Risk: Weak

- Country Risk: High
- Industry Risk: Moderately high
- Competitive Position: Weak

Financial Risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: b+

Modifiers:

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone Credit Profile: b+

- Group Credit Profile: b+
- Group Status: Core (no impact)

Related Criteria And Research

Related Criteria

- Use Of CreditWatch And Outlooks, Sept. 14, 2009.
- Standard & Poor's National And Regional Scale Mapping Tables, Jan. 19, 2016
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Industrials: Key Credit Factors For The Commodity Chemicals Industry, Dec. 31, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- National And Regional Scale Credit Ratings, Sept. 22, 2014

Ratings List

Ratings Affirmed; Outlook Action

	To	From
PT Chandra Asri Petrochemical Tbk. Corporate Credit Rating	B+/Positive/--	B+/Stable/--

Ratings Affirmed

PT Chandra Asri Petrochemical Tbk. Corporate Credit Rating ASEAN Regional Scale	axBB/--/--
---	------------

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2016 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.