

Indonesia Infrastructure

EQUITY: ENGINEERING & CONSTRUCTION

Infra credit watch: Restructuring seems inevitable

2021 debt maturity and relaxation proposal

IDR11tn senior debt to mature in 2021; JSMR and ADHI are the safer ones

A total of IDR11tn of senior debt (medium-term notes [MTN] and bonds) is due to mature in 2021, including 6% of the infra-SOEs total debt, concentrated mainly in Wijaya Karya (WIKA IJ, Buy), Waskita Karya (WSKT IJ, Buy), and PP Persero (PTPP IJ, Buy), whilst Jasa Marga (JSMR IJ, Buy) and Adhi Karya (ADHI IJ, Buy) are safe for the year. The amount is similar to that for 2020, although including the bank loans due to mature this year, the debt maturity should surge five-fold to IDR50tn.

Given the ongoing COVID-19 pandemic, we think it would be unfeasible for the infra-SOEs to pay down all their debt; hence, we believe the companies will likely continue to focus on paying down the senior debt first and extend bank loan tenures. To add, debt covenants have also been breached in some cases, as a result of interest-coverage ratios being hit by the COVID-19 pandemic, leading some companies like WSKT and ADHI to request proposals for relaxation. Lastly, WSKT, with its biggest debt level, is prone to Indonesia's record-debt restructuring agenda. Overall, the debt maturity profile this year is not much different from 2020 and remains challenging for infra-SOEs, albeit we see low credit default risk as the government might offer a helping hand in these cases.

Cash in need: WIKA, WSKT, and PTPP

For this year, we believe the senior debt (MTN and bonds) schedule payment will likely be busier in 1Q21 and 3Q21, and should be concentrated in WIKA (IDR6tn), WSKT (IDR3tn) and PTPP (IDR2tn), with JSMR and ADHI being safer with no bonds maturing in 2021F. WIKA's Komodo global bond is the biggest one (IDR5.4tn), which the company has paid through new bond issuance and internal cash thanks to its strong balance sheet and the current lower interest rate. WSKT, in our view, may need to borrow bridging financing again from the SOE banks especially for the IDR1.5tn MTN and bond maturing in Feb 2021, as cash continues to deplete to <IDR1tn. While for PTPP, most of the matured loans are derived from its property subsidiary (PPRO: IDR1.4tn), we believe PTPP will need to issue another MTN/bond in 2Q21F and then inject shareholder loan to PPRO IJ (Not Rated) given the subsidiary's stretched balance sheet and mounting inventory level.

WSKT and ADHI request for debt covenant relaxation

There are three main debt covenants asked by the bondholders: (1) gearing level; (2) interest coverage/ICR; and (3) liquidity ratio. Given the pandemic situation which has lowered new contracts and slowed down project progression, the companies are having difficulties meeting the interest coverage ratio (ICR) level, as operating profit halved in 2020. From infra-SOEs, WSKT and ADHI, according to management, will propose covenant relaxation at their next bondholder general meetings (WSKT, 9 Feb; ADHI, 25 Feb). In our view, it will be simply approved to ensure no default risk, albeit may come at extra interest cost for the companies.

WSKT is too big to fail: record-breaking restructuring coming up

WSKT held the biggest debt position of IDR69tn as of Sep 2020, contributing one-third of infra-SOEs loans. With limited cash on hand (IDR1tn as of Sep 2020) and long-due receivables (Sep 2020: 379days), WSKT will need extra time to pay down the loan. Thus, the government and the company are currently preparing for the biggest debt restructuring in Indonesia, surpassing the last record of USD2bn by KRAS in Jan 2020 (see Fig. 8), while waiting and hoping for the divestment plan execution. The restructuring may include: (1) covenant waiver; (2) delayed principal payment; (3) minimum interest payment; (4) operational cash priority; and/or (5) guaranteed extra loan facility. At this point, we continue to see WSKT as the 'too big to fail' case in Indonesia, and hence credit

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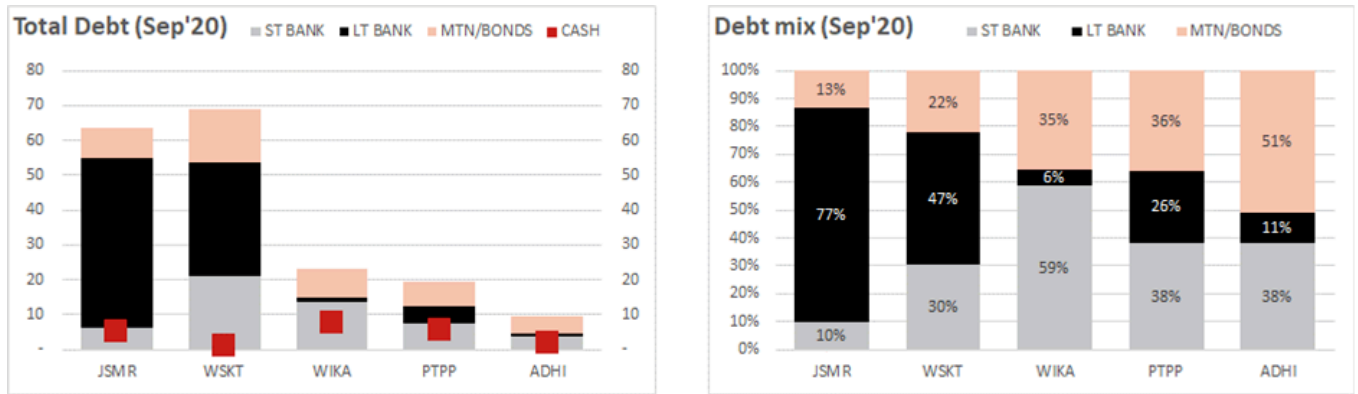
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default does not seem like an option.

SOE banks will have to wait for another year to receive payments

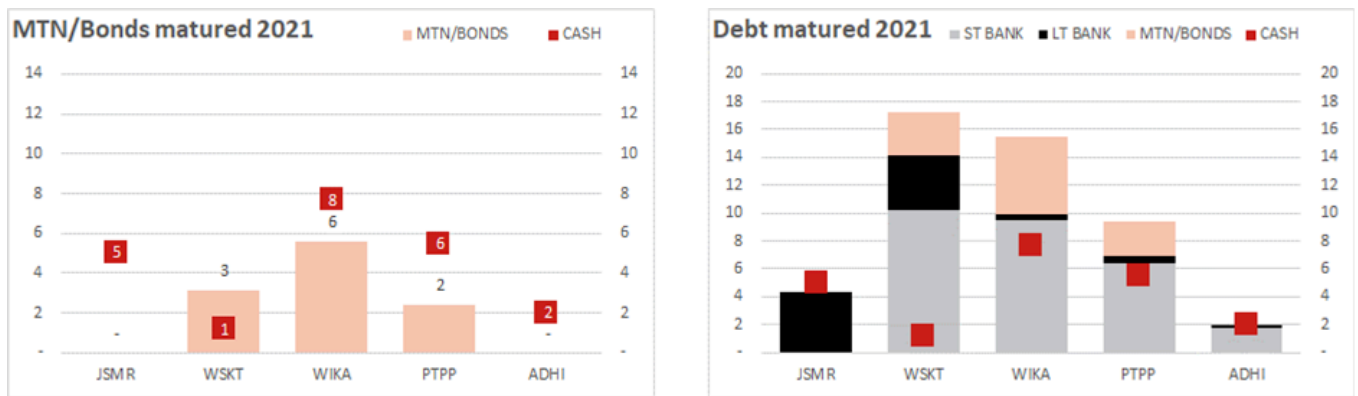
SOE-banks' exposure to infra-loans reached IDR63tn (Sep 2020), accounting for one-third of the total infra-SOE loans, well-spread over three banks (BRI, BNI, Mandiri) and skewed to fund JSMR and WSKT projects and working capital. Given its junior debt role, contractors' limited cash balance, and the COVID-19 pandemic which has hit companies' operations, we believe the contractors will likely continue to ask for relaxation from tenure extension to minimum interest payment for the debt – similar to 2020. In our view, this is positive in the short term for contractors to manage their cash flow and focus on churning new contracts in 2021.

Fig. 1: IDR184tn debt in infra-SOEs, with JSMR and WSKT owning 72% of the debt mix



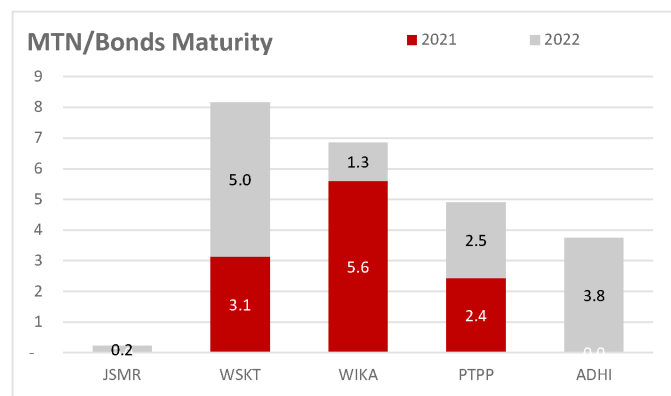
Source: Company data

Fig. 2: IDR11tn senior debt to mature in 2021; five-fold surge to IDR50tn, including bank loans



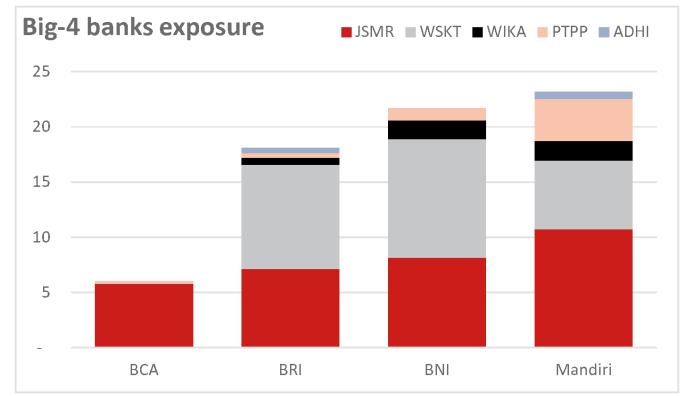
Source: Company data

Fig. 3: WSKT still owes the biggest debt to mature in 2021-22F



Source: Company data

Fig. 4: SOE banks cover half of the infra loans



Source: Company data

Fig. 5: Debt maturity timeline in 2021 – JSMR and ADHI are safe for this year



Source: Company data

Fig. 6: JSMR and ADHI have no bonds maturing in 2021F

DEBT MATURITY 2021	Tenure (yr)	Size	Rate	Due
JSMR		-		
WSKT		3,136		
Waskita Realty MTN	3	300	10.0%	Feb-21
WSKT Shelf Registration Bond III Phase II 2018 Tranche A	3	1,175	7.8%	Feb-21
WSKT Shelf Registration Bond III Phase III 2018 Tranche A	3	761	9.0%	Sep-21
WSKT Shelf Registration Bond II Phase II 2016 Tranche A		900	8.5%	Sep-21
WIKA		5,605		
WIKA Komodo Bond	3	5,400	7.7%	Jan-21
WIKA Realty MTN VII 2018		205	11.5%	Feb-21
PTPP		2,443		
PPRO MTN Phase XII 2018		150	9.3%	May-21
PPRO MTN Phase XI 2018		100	9.8%	May-21
PPRO MTN Phase XII 2018 Series A		70	9.3%	May-21
PPRO MTN Phase XII 2018 Series C		80	9.3%	Jun-21
PTPP Bond Phase I 2018 Series A	3	1,040	8.3%	Jul-21
PPRO Bond Phase I 2018 Series A	3	523	9.0%	Jul-21
PPRO Bond Phase I 2016 Series B	5	400	9.9%	Jul-21
PPRO MTN Phase XIII 2018		80	9.5%	Sep-21
ADHI		-		
TOTAL		11,184		

Source: Company data

Fig. 7: WSKT and ADHI to breach debt covenants, asking for bondholders' relaxation in the next bondholders' meeting

	JSMR		WIKA		PTPP		WSKT		ADHI	
	Covenant	Sep-20	Covenant	Sep-20	Covenant	Sep-20	Covenant	Sep-20	Covenant	Sep-20
Debt/Equity, x (max)	5.00	2.48	2.50	1.40	3.00	1.36	4.00	2.90	3.50	1.70
Interest Coverage, x (min)	1.25	1.63	1.50	1.82	1.50	2.40	1.50	0.22	3.00	1.64
Current ratio, x (min)	-	-	1.00	1.01	1.00	1.14	1.00	0.94	1.00	1.14

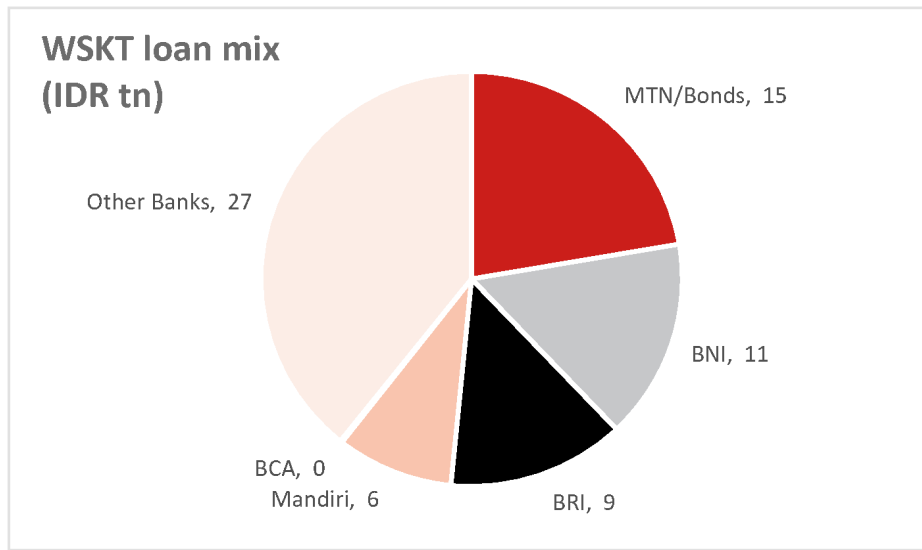
Source: Company data

Fig. 8: KRAS USD2bn restructuring in Jan 2020 – the biggest in Indonesia

KRAS restructuring	Amount, USD mn	% of total	Tranche Payment	Tenure, years	Amount, USD mn
Bank Mandiri	618	31%	A	9	220
Bank BNI	426	21%	B	3	735
Bank BRI	337	17%	C1	9	789
Bank CIMB Niaga	238	12%	C2	9	262
Bank OCBC NISP	139	7%	TOTAL		2,006
LPEI	80	4%			
Bank BCA	49	2%			
Bank DBS Indonesia	49	2%			
Bank ICBC Indonesia	44	2%			
Standard Chartered Bank	26	1%			
TOTAL	2,006				

Source: Company data

Fig. 9: WSKT loan mix as of Sep 2020



Source: Company data

Appendix A-1

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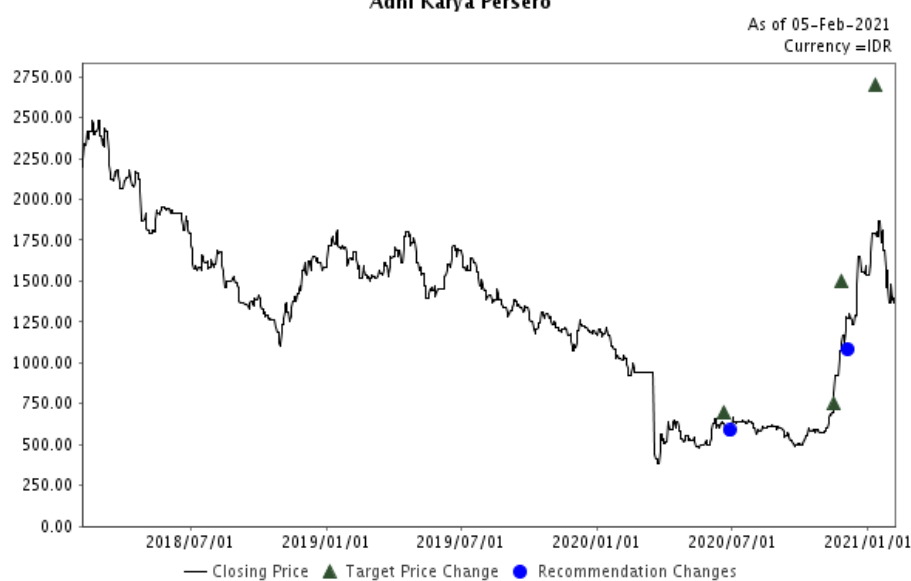
Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Adhi Karya Persero	ADHI IJ	IDR 1,370	04-Feb-2021	Buy	N/A	
Jasa Marga Persero	JSMR IJ	IDR 4,540	04-Feb-2021	Buy	N/A	
PP Persero	PTPP IJ	IDR 1,655	04-Feb-2021	Buy	N/A	
Wijaya Karya Persero	WIKA IJ	IDR 1,895	04-Feb-2021	Buy	N/A	
Waskita Karya Persero	WSKT IJ	IDR 1,405	04-Feb-2021	Buy	N/A	

Adhi Karya Persero (ADHI IJ)

IDR 1,370 (04-Feb-2021) Buy (Sector rating: N/A)

Rating and target price chart (three year history)

Adhi Karya Persero



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of IDR2,700 is based on 2022F target P/BV of 1.5x which is 30% discount to sector mean during infra bull cycle. The benchmark index of the stock is JCI Index.

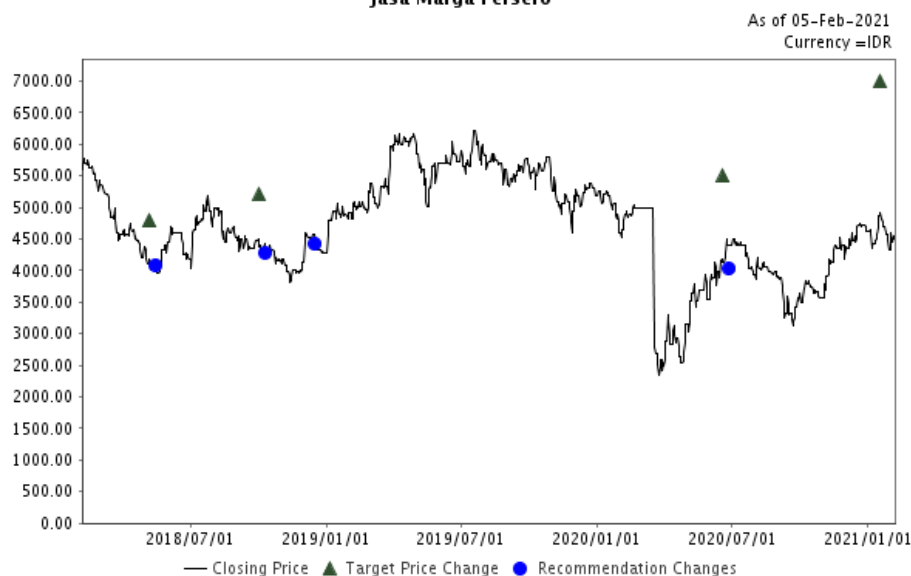
Risks that may impede the achievement of the target price Downside risks to our call include prolonged COVID-19 condition, LRT project and payment delay, and property business risk.

Jasa Marga Persero (JSMR IJ)

IDR 4,540 (04-Feb-2021) Buy (Sector rating: N/A)

Rating and target price chart (three year history)

Jasa Marga Persero



Date	Rating	Target price	Closing price
17-Jan-21		7,000.00	4,860.00
19-Jun-20	Buy		4,130.00
19-Jun-20		5,500.00	4,130.00
08-Dec-18	Not Rated		4,520.00
02-Oct-18	Buy		4,380.00
02-Oct-18		5,200.00	4,380.00
07-May-18	Neutral		4,180.00
07-May-18		4,800.00	4,180.00

Source: ThomsonReuters, Nomura research

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of IDR7,000 is based on a target P/BV of 2.1x on 2022F, in line with the historical mean. The benchmark index for the stock is the JCI index.

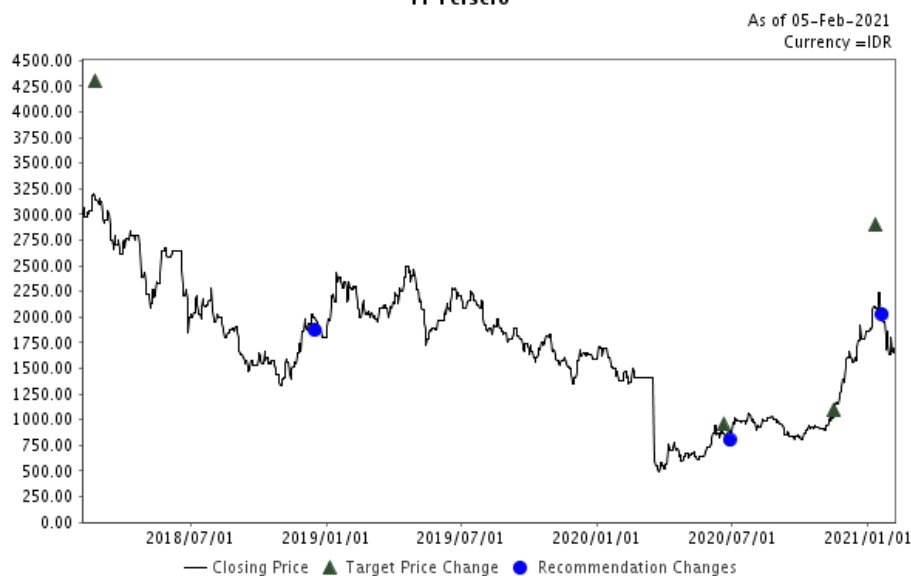
Risks that may impede the achievement of the target price Risks to our call include prolonged COVID-19 condition, delay in new toll tariff and its bi-annual increase, and higher interest rate risk.

PP Persero (PTPP IJ)

IDR 1,655 (04-Feb-2021) Buy (Sector rating: N/A)

Rating and target price chart (three year history)

PP Persero



Date	Rating	Target price	Closing price
11-Jan-21	Buy		2,090.00
11-Jan-21		2,900.00	2,090.00
16-Nov-20		1,100.00	1,100.00
20-Jun-20	Neutral		860.00
20-Jun-20		950.00	860.00
08-Dec-18	Not Rated		1,935.00
22-Feb-18		4,300.00	3,170.00

Source: ThomsonReuters, Nomura research

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of IDR2,900 is based on 2022F target P/BV of 1.5x which is based on 30% discount to sector historical mean during infra bull cycle. The benchmark index of the stock is JCI Index.

Risks that may impede the achievement of the target price Downside risks to our call include prolonged COVID-19 condition, delay in project tender offerings, and property business risk.

Wijaya Karya Persero (WIKI IJ)

IDR 1,895 (04-Feb-2021) Buy (Sector rating: N/A)

Rating and target price chart (three year history)

Date	Rating	Target price	Closing price
11-Jan-21	Buy		2,170.00
11-Jan-21		2,900.00	2,170.00
16-Nov-20		1,600.00	1,470.00
20-Jun-20	Neutral		1,265.00
20-Jun-20		1,500.00	1,265.00
08-Dec-18	Not Rated		1,590.00
21-Mar-18		2,300.00	1,750.00
22-Feb-18		2,550.00	1,940.00

For explanation of ratings refer to the stock rating keys located after chart(s)

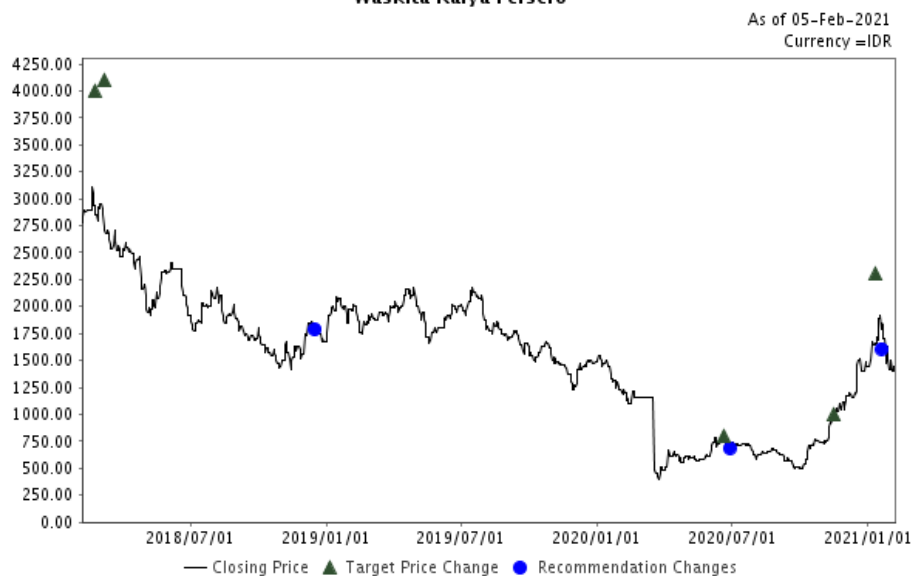
Valuation Methodology Our target price of IDR2,900 is based on 2022F target P/BV of 1.9x which is a 10% discount to sector historical mean during infra bull cycle. The benchmark index of the stock is JCI Index.

Risks that may impede the achievement of the target price Downside risks to our call include prolonged COVID-19 condition, delay in project tender offerings.

Waskita Karya Persero (WSKT IJ)

IDR 1,405 (04-Feb-2021) Buy (Sector rating: N/A)

Rating and target price chart (three year history)

Waskita Karya Persero

Date	Rating	Target price	Closing price
11-Jan-21	Buy		1,665.00
11-Jan-21		2,300.00	1,665.00
16-Nov-20		1,000.00	1,020.00
20-Jun-20	Neutral		745.00
20-Jun-20		800.00	745.00
08-Dec-18	Not Rated		1,845.00
07-Mar-18		4,100.00	2,740.00
22-Feb-18		4,000.00	2,940.00

As of 05-Feb-2021
Currency = IDR

Source: ThomsonReuters, Nomura research

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of IDR2,300 is based on 2022F target P/BV of 2.1x which is in line with sector historical mean during infra bull cycle. The benchmark index of the stock is JCI Index.

Risks that may impede the achievement of the target price Downside risks to our call include prolonged COVID-19 condition, and delay in divestments.

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