

Announcement: Moody's: Weak coal price weighs on Indika's FY2013 earnings

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Singapore, April 02, 2014 -- Moody's Investors Service commented that PT Indika Energy Tbk's (Indika) full-year 2013 earnings decline was driven by a weak coal pricing environment, but remains broadly in line with expectations. There is no immediate impact on the company's B1 corporate family rating due in large part to Indika's commitment to prudent balance sheet and liquidity management.

"The decline in Indika's operating performance in 2013 was primarily driven by the weakness in global coal prices amidst a continued global oversupply in the market and high fuel costs. Growth at its Tripatra and MBSS subsidiaries was outpaced by declines at its Kideco and Petrosea investments due to their close ties to coal prices," says Brian Grieser, a Moody's Vice President and Senior Analyst.

Indika's 2013 performance has resulted in leverage of around 4.0x, on a Moody's adjusted basis, which we view as high for the rating and likely to increase over the next twelve months. Indika was able to generate meaningful free cash flow in 2013 by substantially reducing its capital spending, lowering its stripping ratio by almost 5% and implementing a human capital rationalization plan. In addition, the company refinanced expensive debt while significantly extending its maturity profile.

"We anticipate that cost cutting initiatives and the balance sheet management exercise undertaken by Indika in 2013 position it with the financial flexibility to withstand what will likely be a challenging operating environment in 2014. We will continue to focus on Indika's liquidity over the next 12-18 months given that its credit metrics are expected to be weak for the rating category during this period," added Grieser, who is also lead analyst for Indika.

At December 31, 2013, Indika maintained consolidated cash balance of \$406 million. We expect that Indika will generate positive free cash flow in 2014 despite a meaningful drop in the dividend from Kideco, to under \$100 million, as we expect capex to be prudently managed and the cash effect of a lower interest burden to be realized in 2014 relative to 2013.

Negative ratings pressure could emerge if 1) Indika receives less dividend income from Kideco than anticipated; 2) Tripatra, Petrosea, and MBSS fail to win tenders and contracts as forecast; 3) the relationship between Samtan and Indika deteriorates; 4) there is evidence of a cash leakage; 5) Indika undertakes any large debt-funded acquisitions; and 6) weakening of its liquidity profile such that cash balances fall below \$150 million.

Specific indicators Moody's would look for include total debt/EBITDA (including dividends from associates) remaining above 4.0x and EBIT/interest falling below 2.0x-2.5x.

Upward ratings pressure is limited in the near-to medium-term as deleveraging will be challenging in the current environment for coal prices. However, upward pressure could develop over time if 1) Indika increases its stake in

Kideco to more than 50%; or 2) Indika improves its financial leverage, such that its total debt/EBITDA (including dividends from associates) falls below 2.5x, and EBIT/interest exceeds 3.5x.

The principal methodology used in this rating was the Global Mining Industry published in May 2009. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

PT Indika Energy Tbk (Indika) is an Indonesian integrated energy group listed on Indonesia's Stock Exchange. Its principal investment for its energy resources group is a 46% stake in PT Kideco Jaya Agung (Kideco, unrated), Indonesia's third-largest domestic coal producer and one of the world's lowest-cost producers and exporters of coal. It also owns a 60% stake in PT Mitra Energi Agung (MEA), a greenfield coal project, and 85% of PT Multi Tambang Jaya Utama (MTU), a domestic thermal and coking coal producer.

In the energy services space, Indika is involved through 1) its wholly owned subsidiary, Tripatra (unrated) in the engineering, procurement, and construction (EPC) and operations and maintenance (O&M) businesses; and 2) its 69.8% stake in PT Petrosea Tbk (unrated), Indonesia's sixth-largest mining services contractor.

In energy infrastructure, Indika has a 51% stake in PT Mitrabahtera Segara Sejati Tbk (MBSS, unrated), an

integrated coal transport and logistics services company.

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