

# MOODY'S INVESTORS SERVICE

## Rating Action: Moody's affirms Indika's B1 rating; outlook remains negative

Global Credit Research - 23 Mar 2015

Singapore, March 23, 2015 -- Moody's Investors Service has today affirmed Indika Energy Tbk (P.T.)'s (Indika) corporate family rating at B1.

At the same time, Moody's also affirmed the B1 ratings on the \$300 million notes due 2018 and \$500 million notes due 2023, issued by Indo Energy Finance B.V. and Indo Energy Finance II B.V., respectively. The entities are wholly owned subsidiaries of Indika. The notes are unconditionally guaranteed by Indika.

The outlook on all ratings remains negative.

### RATINGS RATIONALE

"The ratings affirmation reflects our view that Indika's commitment to a conservative liquidity profile and capital structure supports the B1 rating despite weakening credit metrics. We expect depressed coal prices to weigh heavily on its coal related businesses in 2015, which will result in weaker margins and higher leverage" says Brian Grieser, a Moody's Vice President and Senior Analyst. "Indika is weakly-positioned at its B1 rating and therefore has limited headroom to accommodate a deterioration in liquidity during 2015," adds Grieser.

Despite the challenges stemming from weak coal prices, Indika's commitment to a strong balance sheet and ongoing cost savings initiatives provides a buffer to its weakening credit metrics. The company maintains large cash balances, has an extended debt maturity profile and has substantial visibility to cash flows provided by its key investment in Kideco (unrated), Indonesia's third largest coal producer.

Moody's expects Indika to continue with its capital protection measures as it carefully manages production growth and price pressures over the next two years, such that it maintains around \$200 million of cash at its holding company level and generates flat to marginally positive free cash flows through 2016.

"While we expect minimal cash flows from its Petrosea and Tripatra subsidiaries in 2015 and 2016, Indika will comfortably cover its debt service, administrative overhead and capital spending requirements over the next two years using its cash balances at the holding company level and dividend distributions from Kideco," adds Grieser, who is also Lead Analyst for Indika.

The negative outlook reflects Moody's expectation that Indika's credit profile will likely deteriorate in 2015-16 as cash dividends from its coal producer Kideco and earnings from its other coal-related businesses decline.

Moody's expects Indika's adjusted debt-to-EBITDA ratio to remain around 5.0x-5.5x in 2015-16 based on our Newcastle thermal coal average price assumption of \$65 to \$75 per ton in 2015.

Moody's expects Kideco's average selling price to be between \$45 to 50 per ton over the next two years which we estimate will reduce Indika's share of dividends from Kideco to \$55 to \$60 million in 2015 and \$45 to \$50 million in 2016 from \$88 million in 2014.

Further, we expect Indika's contract mining subsidiary Petrosea (unrated) to face both volume and price headwinds in 2015. Petrosea has a concentrated customer base which we expect to focus on reducing their overburden removal volumes and contractor costs given the outlook for coal prices which will directly impact Petrosea's operating performance. In addition, the absence of meaningful new contract wins will likely see cash flow generation slide at Indika's wholly-owned EPC contractor, Tripatra (unrated). The combination of these two factors will likely offset any benefit seen across its operations from lower fuel costs in 2015.

A ratings downgrade could occur if 1) Coal prices fail to stabilize and thus fall short of our \$65-75 per ton target in the next twelve months ; 2) Tripatra, Petrosea, and MBSS fail to win contracts such that cash flow turn meaningfully negative; 3) the relationship between Samtan and Indika deteriorates; 4) Indika undertakes any large debt-funded acquisitions; or 5) its liquidity profile deteriorates such that cash balances at the Holding company fall below \$200 million.

Sustained indicators Moody's would look for include total debt/EBITDA (including dividends from associates)

exceeding 5.0x, net debt/EBITDA over 4.0x and EBIT/interest below 2.0x.

Upward ratings pressure is limited in the near-to medium-term given the negative outlook and our view that deleveraging is highly unlikely in the current environment for coal prices.

However, the rating outlook could stabilize if Indika improves its financial leverage, such that its total debt/EBITDA (including dividends from associates) falls below 4.0x and EBIT/interest improves to over 2.5x. Any positive action would require Indika to maintain the current strength of its liquidity profile in concert with an improvement in realizable coal prices for Kideco.

The principal methodology used in these ratings was Business and Consumer Service Industry published in December 2014. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Indika is an Indonesian integrated energy group listed on Indonesia's Stock Exchange. Through a number of acquisitions, Indika has positioned itself as an integrated energy group with a focus on energy resources (primarily through 46% interest in Kedeco), energy services (primarily through wholly owned Tripatra and 69.8% stake in Petrosea) and energy infrastructure (primarily through its 51% stake in MBSS).

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