Electricity Power Industry - Key Success Factors

BUSINESS RISK ASSESSMENT

Regulation
As power sector is highly regulated, the analysis emphasizes on the company's ability to comply with the regulation. Included in this analysis is contract assessment signed between the company and its buyer. Player must have flexibility to cope with the possible inconsistency on regulation implementation. Anticipation of regulation changes is also crucial given the higher role of regional government and green environment issue.

Market Position
The analysis covers player market position in the business, which is measured by comparing its installed capacity with peers and contribution to total national power generation. Small capacity does not imply to weak position as long the company's presence is vital to a particular region. Strong market position favors player that captures the growing demand, creates recognition and increases bargaining power to supplier and regulator.

Diversification
To maintain the sustainability of revenue in any cases, a company needs to diversify its customer segment, type of generation plants as well as plant locations. Contribution from corporate segment would compensate the risk from retail segment which believed to be price sensitive. In terms of price and availability, player who operates coal fired generation plants currently has better advantage compared to oil or gas fired power plants. Player with single power plant and location is exposed to high business interruption risks. A number of suppliers are important to secure raw material supply especially fuel.

Operating Management
The analysis covers the company's human resources, plants and turbine specification including technology used, maintenance program, productivity and cost structure. A good operating track-record will support player to manage cost because tariff is not flexible and fuel cost is unpredictable. The analysis on operating margins (EBIT and EBITDA) is also assessed by comparing the company's ratios with other players in the same industry or other industry with similar characteristic, which is important in analyzing the company's competitiveness. The analysis is helpful to measure operating efficiency. Assessment on credit and payment terms as well as collectivity period will be useful to estimate the company's cash flow.

FINANCIAL RISK ASSESSMENT

Financial Policy
The analysis includes a review of management's philosophy, strategy and policies toward financial risk (historical, current and future). It also includes examination of management's financial targets (growth, leverage, debt structure and dividend policy), hedging and other policies in an effort to reduce the company's overall financial risk (historical vs. future). The company's track record on fulfilling its previous financial obligations is also examined to determine the degree of its commitments and willingness and consistency to pay obligations on a timely basis.

Capital Structure
The analysis covers careful examination of the company's historical, current and projected leverage (total and net debt in relation to equity and EBITDA), debt structures and composition (rupiah vs. foreign currencies, short-term debt vs. long-term debt, fixed rate vs. floating rate). Management of its liabilities is also thoroughly reviewed.
Cash Flow Protection And Liquidity
The analysis covers thorough reviews of the company’s cash flow generation and capability to meet its short-term and long-term financial obligations. The degree of its debt servicing capability level is measured by the company’s interest and debt coverage ratio. The degree of its liquidity in fulfilling its short-term liabilities relative to its sources of cash is also thoroughly assessed. The sources of cash are assessed, which include cash balance, estimated cash from operations, unused credit facilities, and other sources of cash. The uses of cash other than short-term liabilities, such as capital expenditure, are also assessed.

Financial Flexibility
The analysis covers combined evaluations of all the financial measures above to arrive at an overall view of the company’s financial health. Analysis of other related factors or figures that are not specifically examined above, such as insurance coverage, restrictive covenants in loan/bond agreements or parental linkage and support, are also covered. Other analytical tasks covered are the evaluation of the company’s options under stress, including contingency plans and other capabilities and flexibility to deal with various adverse scenarios. Shareholder support and commitment are also greatly considered.

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