PEFINDO assigns “idBBB+” rating to PT Garuda Indonesia (Persero) Tbk

PEFINDO has assigned its “idBBB+” rating to PT Garuda Indonesia (Persero) Tbk (GIAA) and its outstanding bond I 2013 amounting to IDR2 trillion. The outlook for the Company’s corporate rating is “stable”.

An obligor rated idBBB has an adequate capacity to meet its long-term financial commitments relative to that of other Indonesian obligors. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

The Plus (+) sign indicates that the rating is relatively strong within the respective rating category.

The ratings reflect our view on the strong support provided by the government to the Company, GIAA’s strong business position in the domestic airline industry, and its comprehensive route network. However, the ratings were constrained by GIAA’s high financial leverage, intense competition which weakened its profitability, and its participation in the highly cyclical airline industry.

The rating could be raised if GIAA is able to improve its financial profile substantially, indicated by improvement in its profitability and increased debt repayment, resulting in its adjusted leverage ratios to reduce to less than 5.0x on a prolonged basis. However, we could lower the rating if we view that there is a reduction in government support, such as through material divestment of the government’s ownership. We could also lower the rating if GIAA’s financial profile deteriorates stemming from weaker pricing power, impaired demand environment, a significant and sustained loss of market share, and its inability to effectively hedge exposure related to rise in fuel prices. The rating could also be under pressure if it incurs larger-than-expected debt-funded capital expenditure (capex) without being compensated with stronger revenue.

Originally founded in 1949, GIAA is the national flag carrier of Indonesia, providing air passenger, air cargo, and airline related services, with its main hub at the Soekarno-Hatta International Airport, near Jakarta. GIAA operates a full-service carrier (FSC) through its main brand Garuda Indonesia, and low-cost carriers (LCC) through its wholly-owned subsidiary PT Citilink Indonesia. The maintenance, repair, and overhaul (MRO) of its aircrafts are also carried out by its subsidiary, PT Garuda Maintenance Facility Aero Asia (GMFAA). Ground services, reservations and ticketing, and in-flight catering services, are provided by GIAA also through its principal subsidiaries. As of September 30, 2016, the Government of Indonesia owned 60.5% of GIAA’s shares, followed by Trans Airways (24.6%), and public including key management of the Company (14.9%).
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