Infrastructure outlook in 2019

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PEFINDO is of the view that the outlook for Indonesia's infrastructure-related sector will remain stable, with several issues addressed. The focus will be related to continued investments, the capacity of state-owned enterprises (SOEs) to leverage, refinancing risk, and selective support from the government. SOEs are managing the largest share of infrastructure development projects, thus these companies are pushed by the government to be at the forefront of executing large infrastructure projects.

Continued investments lead to weakening capital structure and cash flow protection measures
PEFINDO is of the view that investments for infrastructure will continue in the near term to narrow the gap between infrastructure supply and demand. This can be seen from the increase in infrastructure budget to IDR420.5 trillion in 2019 from IDR256.1 trillion in 2015. We anticipate the capital expenditures (capex) of our 15 rated infrastructure-related SOEs to increase to around IDR186 trillion per year in 2018-2020 compared to IDR125 trillion per year in 2015-2017. Their capex in the near term will mostly be financed by external sources. We see that some SOEs have increased their funding sources, including by tapping the bond market. We note that around IDR63 trillion in bonds, medium-term notes (MTN), and securitization were issued by infrastructure-related SOEs from 2016 to 2018, or around 14% of total national debt instrument issuance. The proportion to the national debt instrument issuance increased to 17% in 2018 from 9% in 2016.

Although the presidential election in 2019 poses a transition risk, we are of the view that the list of national priority projects will not significantly change. We also see that some execution risks due to land acquisition, funding schemes, and construction delays have been addressed. We expect projects to be finished faster ahead of the election.

We should note that infrastructure development and investment return may take time, and the financial capacity to leverage has limitations. The massive infrastructure development over the past four years (2015 up to the first half of 2018/1H2018) have affected the financial profile of SOEs. Their capital structure rose to an aggressive level and their cash flow protection measures weakened, as seen in Table 1 below.

Table 1. Rated infrastructure related SOEs

No	Company	Final Rating	Outlook	[%] ST Debt per June 30, 2018	[x] Debt to EBITDA ratio				[%] FFO to Debt ratio			
					1H 2018	2017	2016	2015	1H 2018	2017	2016	2015
1	Electricity											
	PT Perusahaan Listrik Negara (Persero)	idAAA	Stable	7.3	5.8	5.8	5.1	5.2	10.0	10.2	12.0	8.1
2	Connectivity (port and toll road)											
	PT Angkasa Pura I (Persero)	idAAA	Stable	5.2	2.0	2.4	3.0	1.4	36.2	26.4	23.3	51.6
	PT Angkasa Pura II (Persero)	idAAA	Stable	2.9	1.8	1.7	1.6	0.5	47.7	45.5	45.2	163.6
	PT Kereta Api Indonesia (Persero)	idAAA	Stable	29.7	3.7	3.6	4.0	3.0	18.7	17.2	16.4	21.1
	PT Jasa Marga (Persero) Tbk	idAA	Stable	12.6	6.0	6.5	5.2	3.7	2.0	6.0	10.1	12.4
	PT Pelabuhan Indonesia I (Persero)	idAA	Stable	1.8	1.5	1.1	0.9	0.5	51.4	74.4	92.9	167.9
	PT Pelabuhan Indonesia IV (Persero)	idAA	Stable	13.4	1.5	1.6	1.4	1.2	49.7	51.2	66.6	62.4
	PT ASDP Indonesia Ferry (Persero)	idAA	Stable	10.4	0.1	0.2	0.3	0.3	923.9	718.0	356.3	408.7
	PT Industri Kereta Api (Persero)	idA-	Negative	64.4	24.9	12.4	5.4	7.5	(4.6)	3.0	7.6	5.1
3	Contractor											
	PT Pembangunan Perumahan (Persero) Tbk	idA+	Stable	32.0	4.4	2.8	3.0	2.1	13.8	22.8	19.1	25.3
	PT Hutama Karya (Persero)	idA	Stable	20.8	7.3	8.6	7.1	4.3	5.9	7.1	7.5	13.3
	PT Adhi Karya (Persero) Tbk	idA-	Stable	60.1	7.3	6.7	8.2	4.8	5.4	8.0	4.9	5.9
	PT Waskita Karya (Persero) Tbk	idA-	Positive	55.3	6.3	5.6	7.5	5.2	9.1	9.3	7.5	11.5
	PT Nindya Karya (Persero)	idBBB+	Stable	69.6	4.1	1.1	1.1	2.3	10.7	56.3	42.2	12.7
	PT Barata Indonesia (Persero)	idBBB	Stable	41.2	10.6	6.1	5.6	6.4	5.9	13.5	9.7	5.2

Source: Financial Statements, processed by PEFINDO

Infrastructure holding initiative
An upcoming initiative to create an infrastructure holding company is expected to provide some degree of value creation to the national economy. It will accelerate infrastructure development plans amid increasing macroeconomic challenges. Under this initiative, PT Hutama Karya (Persero) (PTHK, $_{id}$A/Stable) will be the holding company for toll road and construction SOEs, including PT Jasa Marga (Persero) Tbk (JSMR, $_{id}$AA/Stable), PT Adhi Karya (Persero) Tbk (ADHI, $_{id}$A-/Stable), and PT Waskita Karya (Persero) Tbk (WSKT, $_{id}$A-/Positive).

We note that the projected capex of PTHK, JSMR, ADHI, and WSKT in 2018-2020 will almost double from 2015-2017, and their funding capacities will be limited. Therefore, we conclude that one of the reasonable objectives to establish the infrastructure holding company is to leverage their financial capacities. The joint adjusted equity in 2017 from these four SOEs was around IDR53 trillion. This infrastructure holding initiative is expected to be realized in 2019, with a four-year transition period.

PEFINDO is concerned about the refinancing risk of ADHI and WSKT, as short-term loans comprise more than 50% of their total debts as of June 30, 2018, which is contrary to their long-term investments. They have also recorded negative operating cash flows since 2016. Some corporate actions, such as an initial public offering (IPO) and right issues, are expected in the near to medium term to support business expansion.

Selective support from the government
We expect that the government will selectively provide exceptional support in the near term to achieve its priority targets. Only a few infrastructure-related SOEs will receive capital injections in 2019. PTHK is expected to receive IDR10.5 trillion in 2019, while PT Perusahaan Listrik Negara (Persero) (PPLN, $_{id}$AAA/Stable) will receive IDR6.5 trillion. The rest are expected to resort to creative means of financing, such as asset-backed securities, project finance, or synergy with state-owned banks.

We note the stronger government support to PTHK regarding its assignment to construct and operate the Trans Sumatra toll road, particularly in the form of a capital injection, guaranteed bonds and bank loans, and acceleration of land acquisition. We view PPLN's role as critical to the government. Its major concern will be related to its high exposure to imported procurement for power plant construction amid the weak rupiah. Though PPLN has been experiencing net losses, we expect credit support from the government will be provided in a timely manner in all circumstances.