Impact of The Implementation of Tin Export Ban On The Industry

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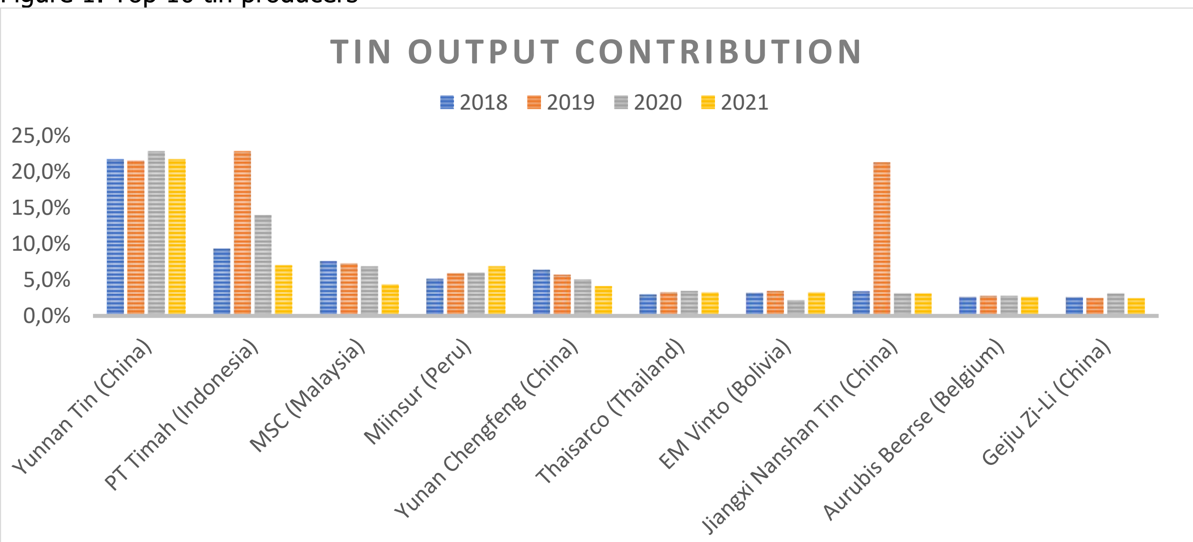
In May 2022, the Government submitted a plan to prohibit tin export at the end of the year to secure national reserves and create value-added through investing in downstream facilities, considering the low contribution of downstream tin products in the domestic market at around 15%. The ban will generate positive results in the longer term after successfully integrating the industry ecosystem from upstream to downstream.

The tin export has its characteristics as the policy cannot be equalized with other mining products. After experiencing an export ban on ore in 2015, the tin industry is already exporting more value-added products by exporting ingot with a high-purity level above 90%, compared to nickel industry before 2020, which still allowed the export of ore. The players in the industry are also highly dependent on the export market. More than 80% of domestic ingots are absorbed by the electronics industries that conduct business activities in Asia countries such as China, South Korea, and Japan. The upcoming ingot export ban may severely reduce the industry's cash inflow in the near to medium term, hence triggering an oversupply in the domestic market due to Indonesia's minimum ingot consumption at less than 10%.

Supply

Indonesia plays a pivotal role in serving tin's global supplies, representing approximately 10% of global reserves. Around 90% of national tin reserves are concentrated in Bangka Belitung, with PT Timah (persero) Tbk (TINS) commanding around 90% of the total tin mining area in the country. Regarding the output, TINS is the second largest tin producer in the world, behind Yunnan Tin from China. However, TINS productions have declined over the past two years, contracting by 60% between 2019-2021 due to the pandemic that disrupted operational activities and decreased alluvial deposits in onshore mines. Although alluvial deposits can be found in shallow offshore, it requires additional supporting facilities such as dredgers and suction vessels to increase its output. Indonesia's output can be higher in the medium term following the mobility and business activities recoveries, also the completion of the TINS's newest furnace project, which has more advanced technology, enable it to process the lower grade of tin ores, which are currently piled up in the stockpile. It ensures the national supply availability to cover the demand, yet the realization of the export ban may significantly reduce the supplies in the global market originating from Indonesia.

Figure 1. Top 10 tin producers



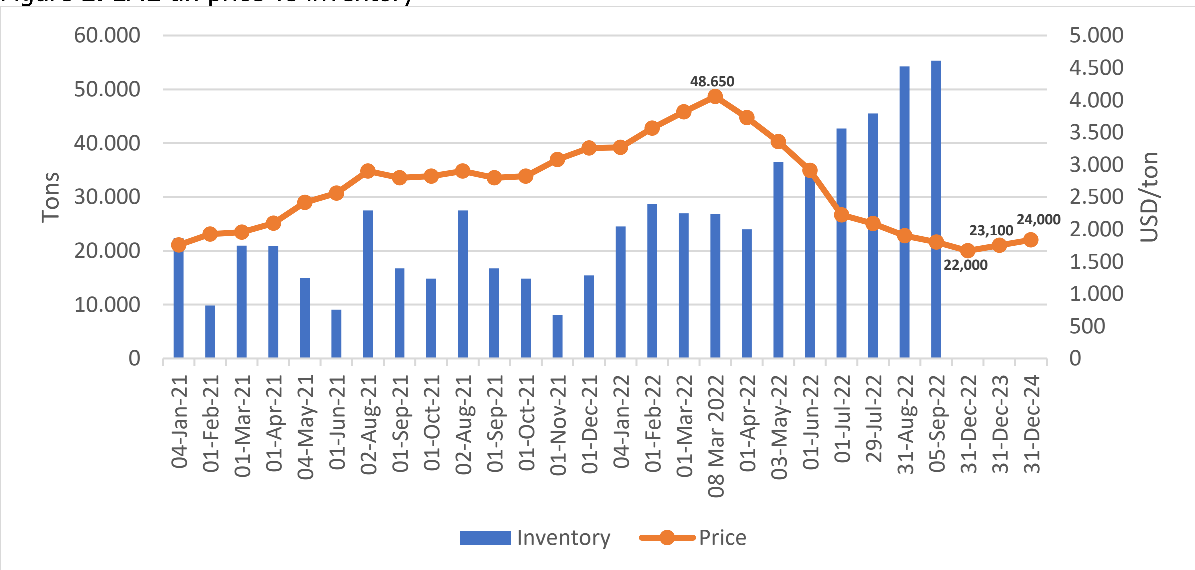
Source: PT Timah report, International Tin Association, processed by Pefindo

Demand & Tin's London Metal Exchange (LME) forecast
More than 50% of tin produced worldwide is used for soldering materials, especially electronic goods. Due to high dependency, any significant operational disturbance in electronic industries, particularly in East Asia countries, may simultaneously translate to lower demand for tin. Other uses include tin chemicals, among others, for PVC stabilizers, fire retardants, teeth cavity fillers, and tin plates for tin cans and bottle caps.

In the domestic market, we expect the demand will remain limited in the medium term, regarding the small portion of ingot consumption in the domestic market, as the number of domestic electronic producers are still relatively minimal compared to other countries. Consequently, the industry required greater investment in downstream facilities to integrate a whole tin industry supply chain from upstream to final downstream products, including optimizing the absorption of ingot in the domestic market if the export ban is realized. The positive impact of the ban could be felt in the next three years or even more if all goes well.

Tin prices reached the highest levels over a decade in early March 2022 at USD48,650 per ton, benefiting from improving global macroeconomic conditions, which led to surging demand for consumer electronics and household appliances. However, the high price has come to end, and on November 2022, the price has corrected to USD21,700 per ton. We expect the global tin price will be around USD22,000 per ton by the end of 2022. It is driven by impairing demand from China due to the lockdown since the second quarter of 2022, as China is the largest tin consumer in the global. The weakened demand since May 2022 led to increasing global inventory until September 2022.

Figure 2. LME tin price vs inventory



Source: Bloomberg, processed by Pefindo

In 2023-2024, we expect the tin price to stabilize at around USD22,000-USD24,000 per ton, stemming from accelerating demand for electric vehicles, semiconductors, electronic components, and renewable energies. However, the tin price may increase higher than expected if the supply reduction from Indonesia triggers a severe shortage and is insufficient to cover the multiplying demand. Nevertheless, the benefit from soaring tin prices will have a limited impact on tin companies in Indonesia that face sales volume degrading due to the ban.

Implication to rating
PT Timah Tbk (TINS) rated idA/stable, is one of the tin companies rated by PEFINDO. We put the stable outlook for TINS following its strong market position and robust cash flow, driven by skyrocketing commodity prices in 2021-2022. We have not incorporated the export ban in TINS's credit assessment,

as we need to review further the impact of the prohibition on the Company's performance as well as the industry's readiness to face the ban. The rating may be revised down if the ban adversely impairs TINS revenue and EBITDA, weakening the financial profile to be more aggressive. Furthermore, TINS may require increasing its capital expenditure spending in the downstream facilities to support its business sustainability, which may erode its current strong liquidity.

TINS's working capital and operational management improvement over the past three years, followed by soaring commodity prices in early 2022, has driven its EBITDA to grow two folded after the pandemic, thus generating a robust cash flow and helping it to reduce its debt of IDR3.5 trillion from 2020 until September 2022 (9M2022). The intensive deleveraging from the past two years is reflected in its capital structure and cash flow protection as measured by debt to EBITDA and fund from operation (FFO) to debt ratios of 1.0x and 82.3% in 9M2022, better than 2020 at 6.0x and 7.2%. During 2022, TINS has repaid three maturing debt instruments, Shelf-Registered Bond I Phase I Series B, Phase II Series A, and Shelf-Registered Sukuk Phase I Series B, with total amount of IDR1.05 trillion. It was financed by using internal cash and its new MTN I issuance of IDR626.0 billion.

Figure 3. PT Timah's financial highlight

As of/for the year ended	**Sep-2022**	**Dec-2021**	**Dec-2020**	**Dec-2019**
Consolidated Figure	(Unaudited)	(Audited)	(Audited)	(Audited)
Total adjusted assets [IDR bn]	13,254.8	14,691.0	14,517.7	20,361.3
Total adjusted debt [IDR bn]	2,696.5	4,089.5	6,251.7	11,113.3
Total adjusted equity [IDR bn]	7,125.7	6,308.4	4,940.1	5,258.4
Total sales [IDR bn]	10,181.7	14,607.0	15,216.0	19,341.6
EBITDA [IDR bn]	2,061.9	3,074.2	1,047.4	769.2
Net income after MI [IDR bn]	1,146.1	1,302.8	(340.6)	(611.3)
EBITDA margin [%]	20.3	21.0	6.9	4.0
Adjusted debt/EBITDA [X]	*1.0	1.3	6.0	14.4
Adjusted debt/adjusted equity [X]	0.4	0.6	1.3	2.1
FFO/adjusted debt [%]	*82.3	56.2	7.2	0.0
EBITDA/IFCCI [X]	13.8	9.0	1.7	1.0
USD exchange rate [IDR/USD]	15,247	14,269	14,105	13,901

FFO = EBITDA – IFCCI + Interest Income – Current Tax Expense, EBITDA = Operating Profit + Depreciation Expense + Amortization Expense
IFCCI = Gross Interest Expense + Other Financial Charges + Capitalized Interest; (FX Loss not included), MI= Minority Interest
**Annualized*
Source: TINS's financial statements, processed by Pefindo