PT Sumberdaya Sewatama

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CREDIT PROFILE

Corporate Rating *$_{id}$B+/Negative*

Rated Issues

Bond I/2012	*$_{id}$B+*
Sukuk Ijarah I/2012	*$_{id}$B+$_{(sy)}$*

Rating Period

May 24, 2019 – September 1, 2019

Rating History

SEP 2018	*$_{id}$BB/Stable*
SEP 2017	*$_{id}$BB+/Stable*
MAY 2017	*$_{id}$BB+/Stable*
APR 2017	*$_{id}$BB+/CW Neg*
FEB 2017	*$_{id}$BBB-/CW Neg*
SEP 2016	*$_{id}$A/Negative*
JUNE 2016	*$_{id}$A/Negative*
2012-2015	*$_{id}$A/Stable*

FINANCIAL HIGHLIGHTS

As of/for the year ended	Mar-2019 (Unaudited)	Dec-2018 (Audited)	Dec-2017 (Audited)	Dec-2016 (Audited)
Total Adjusted Assets [IDR Bn]	2,907.5	3,045.6	3,151.9	3,299.9
Total Adjusted Debt [IDR Bn]	2,759.3	2,771.2	2,767.7	1,805.7
Total Adjusted Equity [IDR Bn]	(217.7)	(156.6)	(67.9)	120.0
Total Sales [IDR Bn]	138.5	757.8	996.4	1,265.3
EBITDA [IDR Bn]	36.8	174.3	366.2	452.4
Net Income after MI [IDR Bn]	(60.6)	(289.7)	(182.6)	(315.2)
EBITDA Margin [%]	26.6	23.0	36.8	35.8
Adjusted Debt/EBITDA [X]	*18.7	15.9	7.6	4.0
Adjusted Debt/Adjusted Equity [X]	NR	NR	NR	15.0
FFO/Adjusted Debt [%]	*0.5	1.5	8.0	14.7
EBITDA/IFCCI [X]	1.0	1.3	2.4	2.2
USD Exchange Rate [IDR/USD]	14,244	14,481	13,548	13,436

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 NR = Not Relevant *Annualized*

The above ratios have been computed based on information from the company and published accounts. Where applicable, some items have been reclassified according to PEFINDO's definitions.

PEFINDO downgrades the ratings of PT Sumberdaya Sewatama and its Bond to "$_{id}$B+", Sukuk to "$_{id}$B+$_{(sy)}$", revises outlook to "Negative"

PEFINDO has lowered the ratings for PT Sumberdaya Sewatama (SSMM) and its Bond I Year 2012 to **"$_{id}$B+"** from **"$_{id}$BB"**, and SSMM's Sukuk Ijarah I Year 2012 to **"$_{id}$B+$_{(sy)}$"** from **"$_{id}$BB$_{(sy)}$"**. The rating downgrade reflects our anticipation of the high likelihood that SSMM will face liquidity pressure in the near term due to the continued deterioration of its business and financial performances from the expected lower demand for power rental. Despite a capital injection of IDR200.0 billion from its new shareholder in December 2018, we are of the view that the Company will only record weak operating cash flows going forward, as the utilization of its fleet dropped to below 40% in 2018 from 45% in 2017. We anticipate that its fleet utilization will continue to decline to less than 30% in 2019 following the focus of PT Perusahaan Listrik Negara (PPLN) on accelerating the phasing out of diesel power rental in 2019. Its lower business prospects are also reflected by its negative revenue growth of -25.7% year-on-year (YoY) as of March 31, 2019. The rating downgrade is also triggered by SSMM's failure to meet its financial covenant to maintain its debt to EBITDA ratio at a maximum of 5.0x and EBITDA to net interest expense ratio at a minimum of 2.0x as of March 31, 2019. Based on SSMM's calculation, its debt to EBITDA ratio was 14.3x and its EBITDA to net interest expense ratio was 0.9x at the end of March 2019. The outlook for the corporate rating has also been revised to **"negative"** from **"stable"** to anticipate continuing pressures on its liquidity due to its weakening business performance and the prolonged negotiation on its financial covenant breach with its lenders.

An obligor rated $_{id}$B has a weak capacity to meet its long-term financial commitments relative to that of other Indonesian obligors. Adverse business, financial or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

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

The suffix (sy) means the rating mandates compliance with Islamic principles.

The corporate rating reflects SSMM's high dependence on a single buyer, the uncertain growth of the temporary power rental business, and its weak financial profile and liquidity. However, the rating is offset by the Company's position as the largest private power rental provider in Indonesia and its business synergy with its group.

The rating could be further lowered if liquidity pressure increases as a result of the Company's failure to significantly reduce its reliance on PLN in the near term, if it fails to achieve its revenue and/or EBITDA margin targets, and if it incurs higher debt than projected, which could further weaken its cash flow protection measures and capital structure. The rating could also be under pressure if there is any mispayment of interest and/or principal for its restructured debt. The outlook could be revised to stable if the Company improves its cash flow measures and capital structure supported by a significant improvement in business performance.

SSMM's business is classified into: temporary power rental, operations and maintenance, and energy efficiency (pillar) services. It terminated its Independent Power Producer (IPP) business in 2017. At the end of March 2019, PT ABM Investama Tbk held a 0.99% Series A stake in the Company, while a new shareholder, PT Godra Investama Mandiri, owned 99.01% Series B stake.

The above rating reflects the Company's:

- ***High dependence on a single buyer.*** In the last five years, more than 70% of SSMM's revenue came from PLN. Despite their long-term relationship, PLN has been reducing its power rentals from SSMM, negatively affecting the latter's revenue. The current utilization rate of the Company's generators is below 40%, down from around 73% in the previous years. There are key competitors in the industry, including some global players, who are also after PLN's procurement tenders. In addition, PLN aims to increase its

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electrification rate and reduce the use of costly diesel-fired power generators in favor of cheaper sources of energy, such as coal, gas, and other renewable resources. PLN's additional capacities, including those generated by other IPPs, could decrease the need for temporary power rentals, which is more costly in terms of both rental fees and fuel costs.

- ***Uncertain growth of temporary power rental business.*** PEFINDO views SSMM's growth in the temporary power rental business to be uncertain in the long run. In addition to tight competition, this business growth is highly dependent on the government's policies and budget for increasing the country's electrification ratio. The Company's total revenue dropped by 23.9% YoY to IDR757.8 billion in 2018, mainly due to a contraction of its temporary power rental revenue. Its total revenue continued to deteriorate in the first quarter of 2019 (1Q2019) by 25.7% YoY. We are of the view that the slowdown was due to intensified competition and PLN's increased efforts to reduce reliance on electricity generated by costly rented generators.
- ***Weak financial profile and liquidity.*** PEFINDO is of the view that SSMM's financial profile will remain weak in the near to medium term, with a debt to EBITDA ratio projected at more than 7x and funds from operation (FFO) to debt ratio at a minimum of 0.3%. It has booked net losses since 2015 and negative retained earnings since 2016. Assuming no significant improvement in its business portfolio, we anticipate that the refinancing risk for its restructured debt will increase, especially when the principal bank loan and bonds become due in 2022 and 2024, respectively. Its liquidity was adequate at the end of March 2019, with cash of IDR276.3 billion to cover the current portion of its long-term debt of IDR23.3 billion. We are of the view that the Company will face a cash deficiency at the end of 2019 due to the continued decline of its revenue stream.

The rating is offset by the following factors:

- ***Largest private power rental provider in Indonesia***. SSMM is one of the largest players in the domestic temporary power rental industry, with a total capacity at the end of 1H2018 of 979 megawatts (MW) from 933 diesel generator sets (gensets). Its temporary power rental business is mostly secured by contracts. Although most contracts are only for one year, some have been extended several times, resulting in a relatively stable revenue stream. Its revenue growth depends highly on the growth of electricity demand, which cannot be fully met by PLN. It is estimated that SSMM accounts for 20% of the total electricity procured by PLN from genset rentals.
- ***Business synergy with its group***. SSMM receives a number of benefits by being a part of the Trakindo Group, particularly in terms of equipment procurement and wide service coverage. It is prioritized when it comes to genset and spare parts purchases, and enjoys faster delivery and after-sales support from the Group. As much as 90% of its equipment is of the Caterpillar brand, which is distributed by Trakindo. It is also given lenient credit terms of two to three months. In addition to its own nine branches and five depots, it receives strong operational support from the Group's more than 70 branches nationwide. This vast coverage is vital to providing fast response and excellent maintenance support to its clients, one of its competitive advantages over other players. Account payables to Trakindo have also been restructured and are due on March 31, 2024. The group also injected capital of IDR200.0 billion in December 2018 through a new shareholder, PT Godra Investama Mandiri, to support the Company's operation.