

CORPORATE SECTOR (NON FINANCIAL INSTITUTION ENTITY)

PEFINDO's rating methodology for CORPORATE sector or corporate entities that are not financial institutions (Non-Financial Institutions) in general, includes three major risk assessment, **Industry Risk**, **Business Risk**, and **Financial Risk**. PEFINDO also applies **the parent support methodology** in assigning the rating. The parent support methodology will be applied for private companies while for companies owned by the central or regional government, PEFINDO will apply the **Government Related Entities (GRE) rating methodology**.

INDUSTRY RISK ASSESSMENT

Assessment of risk for each type of industry is based on a thorough analysis of the five major risk factors as follows:

Growth and stability of the industry which is related to supply and demand conditions, prospects, market opportunities (domestic vs. export), industrial stages (initial-phase, developing, maturing, or saturated), and the type of products (products that are complementary vs. replacement product, specific vs. general, and commodities vs. differentiation).

Revenue and cost structure of the industry which includes examination of the composition of the stream of income (Rupiah vs foreign currency), the ability to generate an operating profit (EBITDA and EBIT), the ability to raise prices (the ability to easily pass on cost increases to customer / end-users), labor and raw materials, cost structure and composition (Rupiah vs foreign currency), the composition of fixed costs and variable costs, procurement of raw materials industry (domestic and imported).

Barriers to entry and competition in the industry, includes an assessment of the characteristics of the industry (capital-intensive, labor-intensive, fragmented, diffused, tightly regulated, and so on) to determine the level of difficulty of entry for new players. Assessment also includes an analysis of the number of players in the industry (domestic vs. global), its closest competitor (domestic vs. global), the potential for price wars (domestic vs. global), and others to determine the level of existing competition and to come.

Regulation of the Industry, limiting the number of players, license, tax policies (export, import, quotas, tariffs, customs, excise, etc.), government pricing policies (regulations of Indonesian government to set prices in some sectors such as electricity, highways, and telephones) and environmental requirements (particularly for the mining sector) and others.

Financial profile of the industry is generally assessed by the analysis of several financial benchmarks taken from several large companies in the industry most of which can represent their respective industries. Analysis of the financial performance of the industry including analysis of leverage and cash flow protection.

BUSINESS RISK ASSESSMENT

The business risk assessment of a company is slightly different from one company to another, depending on the Key Success Factors of the industry in which the company is classified.

FINANCIAL RISK ASSESSMENT

Risk assessment of the company's financial profile is based on a thorough and detailed analysis on four key areas as follows: Financial Policy, Capital Structure, Cash Flow Protection And Liquidity, Financial Flexibility. Also important to note that all of the analysis will include a comparative analysis against similar competitors in the respective industry and the industry itself among other industries.

DISCLAIMER

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