PEFINDO
CREDIT RATING AGENCY

Rating Rationale

PT IMPACK PRATAMA INDUSTRI Tbk

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CREDIT PROFILE

Corporate Rating *idA-/Stable*

Rated Issues
Bond I/2016 *idA-*

Rating Period
September 2, 2019 – September 1, 2020

Rating History

SEP 2018	*idA-/Negative*
SEP 2017	*idA-/Stable*
SEP 2016	*idA-/Stable*

FINANCIAL HIGHLIGHTS

As of/for the year ended	**Jun-2019** (Unaudited)	**Dec-2018** (Audited)	**Dec-2017** (Audited)	**Dec-2016** (Audited)
Total Adjusted Assets [IDR Bn]	2,225.0	2,216.0	2,156.2	2,163.1
Total Adjusted Debt [IDR Bn]	737.0	727.6	724.2	776.9
Total Adjusted Equity [IDR Bn]	1,176.0	1,218.0	1,150.5	1,112.7
Total Sales [IDR Bn]	676.2	1,395.3	1,193.1	1,135.3
EBITDA [IDR Bn]	116.7	216.4	212.9	266.9
Net Income after MI [IDR Bn]	32.5	86.4	87.3	102.5
EBITDA Margin [%]	17.3	15.5	17.8	23.5
Adjusted Debt/EBITDA [X]	*3.2	3.4	3.4	2.9
Adjusted Debt/Adjusted Equity [X]	0.6	0.6	0.6	0.7
FFO/Adjusted Debt [%]	*17.8	18.2	18.3	23.3
EBITDA/IFCCI [X]	3.3	3.0	2.8	5.9
USD Exchange Rate [IDR/USD]	14,141	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 **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 affirms "idA-" rating on IMPC, outlook revised to "stable"

PEFINDO has affirmed its "idA-" ratings for PT Impack Pratama Industry (IMPC) and its Bond I/2016. The outlook for the corporate rating is revised to "stable" from "negative", based on our expectation that the Company will improve its profitability in the near term along with expected stable raw material price. IMPC's profitability had recovered gradually for the past four quarters with EBITDA margin improved to 17.3% in the first half of 2019 (1H2019) from 13.1% in the first half of 2018 (1H2018) as a result of stable raw material supply and raw material price had already been back to normal condition. Improving EBITDA margin and a stable debt growth for the last four quarters led IMPC to reduce its leverage level, as reflected by debt to EBITDA ratio of 3.2x in 1H2019 from 4.6x in 1H2018. We expect the Company's leverage level will continue to improve in the near term with 3-year average debt to EBITDA ratio of 3x.

An obligor rated idA has a strong capacity to meet its long-term financial commitments relative to that of other Indonesian obligors. However, the obligor is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than higher-rated obligors.

The Minus (-) sign indicates that the rating is relatively weak within the respective rating category.

The corporate rating reflects IMPC's strong market position in the polycarbonate roofing products industry, its extensive distribution network, and favorable diversification profile. However, the rating is constrained by the Company's high dependency on the property sector, high real estate inventory, and exposure to commodity price and Rupiah depreciation.

The rating will be raised if IMPC could improve its business position on a sustained basis. The rating could also be raised if the Company could adequately reduce its exposure to depreciating Indonesian Rupiah, which can be done through successful natural hedge strategy, and improve performance from real estate business, and thus improving its income generation and profitability margin. The rating will be lowered if IMPC experiences a significant lower profitability margin caused by depreciation of Rupiah, increasing of raw material price, and/or price competition and thus causing its credit profile to weaken. The rating will also be under pressure if it incurs higher debt than expected, which is not accompanied by adequate income generation.

Starting commercial operations in 1982, IMPC manufactures and distributes plastic building materials in Indonesia and abroad. It provides various roofing products: polycarbonate, vinyl, and fiber reinforced polyester products; aluminum composite panels; sealants; packaging products comprising corrugated plastic boards; PVC Compound, and polymer resins. It also distributes roofing sheets of plastic, adhesives, carpets, and toilet cubicle and is involved in the development of properties. Its property projects include office tower (Altira Office Tower) and office park (Altira Office Park) which are located in North Jakarta area. IMPC performed an initial public offering in December 2014. As of June 30, 2019, its shareholders were PT Harimas Tunggal Perkasa (44.2%), PT Tunggal Jaya Investama (45.6%), Hariyanto Tjiptodihardjo (1.7%), and others including public (8.5%).

Supporting factors for the above rating are:

- ***Strong market position for polycarbonate roofing products.*** We are of the view that IMPC has a strong position in the polycarbonate roofing products market. Its long-standing experience and efforts to build brand awareness and high quality products have enabled it to dominate the domestic polycarbonate roofing market with a share of around 80%. Polycarbonate roofing is still its core product and contributes the majority of its revenue, although its production volume has decreased since 2017. However, IMPC showed its readiness to provide a new roofing product: unplasticized PVC (uPVC) roofing (Alderon). The Company now has around 50% market share in uPVC roofing (Alderon). Roofing products are expected to remain the main revenue contributors in the near to medium term. It contributed around 72% to total revenue in 1H2019 and 64% on average in the last five years (2014-2018).
- ***Extensive distribution network.*** We are of the view that IMPC's presence in the roofing market is supported by an extensive distribution network. Its main products are distributed mainly through Mulford Indonesia, which has 167 distributors or agents

throughout the country (Jawa, Bali, Nusa Tenggara, Sumatera, Sulawesi, Kalimantan, Maluku, and also Papua). It has also penetrated the overseas market through Impack International Ltd, Impack One Ltd, Impack Vietnam Ltd, OCI International Sdn Bhd, Alsynite One NZ Ltd, and Impack One Sdn Bhd. The revenue contribution of the overseas market grew significantly from just 7.6% in 2014 to 26.9% in 1H2019. This is still expected to increase as the Company plans to build factories and machinery in Kulai, Malaysia, and New Zealand.

- ***Favorable diversification profile.*** PEFINDO is of the view that IMPC has a favorable diversification profile, as supported by its wide range of products on offer. It has two business segments: core and real estate businesses. Its core business consists of roofing products, such as polycarbonate, PVC, uPVC, and Fiber Reinforced Polyester (FRP); Façade, which includes Aluminium Composite Panel (ACP) and Impraboard; material segment, which includes sealant and PVC compound products; and new interior products, such as toilet cubicle, carpet, and vinyl tiles. With such a wide range of products, IMPC has been able to successfully penetrate both the projects and retail markets, as its products are deemed to be suitable for both. In addition, it has been able to capture low to high-end customers by providing products with different qualities under different brand names. Its top 10 customers accounted for less than 25% of its total revenue in 1H2019.

Constraining factors for the above rating are:

- ***High dependence on the property sector.*** PEFINDO is of the view that IMPC's consolidated performance is highly related to the property sector. Its core business (roofing, façade, and material), which has accounted for more than 90% of its revenue and gross profit since 2017, offers products mostly used by the property sector. However, we are expecting a slight slowdown in this sector. In the near to medium term, this is expected to be offset by higher sales from project-based customers, such as LRT, MRT, factories, hospitals, and traditional markets. In addition, IMPC is directly exposed to the property market through its real estate segment, which is reflected by the rental and sales of its property units in the Altira Office Tower and Altira Office Park.
- ***High real estate inventory.*** We have taken into account IMPC's challenges in property sales, given the increase in vacancy rates in several office buildings in certain areas. The contribution of property sales to gross profit has been declining from around 50% in 2014 to below 5% in 1H2019. This due to the Company's conservative approach in choosing tenants and unwillingness to reduce its rates amid a challenging office property market. As of June 30, 2019, it had 82 available units in the Altira Office Tower and Office Park (around 30%), and we expect its real estate sales to further weaken in the near to medium term. Although the Company has zero debt in the property segment, we are of the view that the inability to achieve its marketing sales target will hamper its profitability, and eventually its credit metrics.
- ***Exposure to fluctuations of commodity price and rupiah depreciation.*** IMPC is exposed to the fluctuation of raw material prices, which is mostly linked to commodity prices and quoted in US dollars. The fluctuation of commodity prices and exchange rates can significantly affect its margin, as seen in 2018, as raw material purchases account for 75% of its total cost of goods sold. During weak purchasing power conditions, it could be difficult for IMPC to pass on the higher production costs to consumers.