RATIONAL

PTFINDO has affirmed the ratings for PT Pembangunan Perumahan (Persero) Tbk (PTPP or the Company) and its Shelf Registered Bond I PP 2013 at “idA”. PTFINDO has also assigned “idA” rating for the Company’s Medium Term Note (MTN) XXI/2014. The outlook for the corporate rating is “stable”. The ratings reflect its strong presence in the national construction business, stable business opportunities from government-related projects, and above average cash flow protection. However, the ratings are constrained by its moderate refinancing risk, a relatively volatile business environment, and risks from expansion into the property business.

Established in 1953, PTPP is one of the largest construction companies in Indonesia, and is currently expanding into property, realty and the precast business, as well as in heavy equipment rental and infrastructure investment. As of September 30, 2014, its shareholders were the Indonesian government (51.0%), the Employees Cooperative (Kopkar) with 6.2%, and the public (42.8%).

Supporting factors for the ratings are:

- **Strong presence in the national construction business.** A strong presence with a proven track record in the construction business has enabled PTPP to maintain its position as one of the largest construction companies in Indonesia. Its favorable position in the market helps it tap into large scale project segments that, in our view, are less competitive compared to small scale segments. It achieved 66% of its new project target of IDR21.5 trillion, and total work in hand amounted to IDR34.4 trillion as of the end of September 2014.

- **Stable business opportunities from government-related projects.** PTFINDO believes that construction business from government and government-related projects have a lower credit risk relative to those from the private sector, as funding has most likely been allocated in the government’s budget. In addition, the government is expected to increase its spending on construction projects and expedite spending on infrastructure to stimulate economic growth. Supported by its good reputation and position as a government-related entity, PTPP has high potential to be short-listed for government-related projects.

- **Above average cash flow protection.** PTPP’s cash flow protection level has gradually improved since 2009, supported by improved profitability and an adequate level of debt management. This can be seen from its EBITDA/total adjusted debt ratio which averaged at around 0.4x for 2009-2013, and an EBITDA/IFCCI ratio which averaged at around 3.3x in the same period. We expect the ratios of EBITDA/total adjusted debt and EBITDA/IFCCI to remain above average at around 0.4x and 3.4x, respectively, in the near to medium term.

The ratings are constrained by:

- **Moderate refinancing risk.** As the terms of payment from government projects are usually longer, the Company has larger working capital requirements compared to construction firms with private sector clients. To fulfill its maturing short term debt of IDR3.0 trillion, PTPP will heavily rely on timely collection of its receivables, as its cash and short-term investment balance at the end of September 2014 was IDR1.3 trillion, and its projected annual EBITDA was IDR1.4 trillion. Delayed payment from the government, higher working capital needs, and/or its inability to roll over its maturing debts will expose it to the risk of refinancing.

- **Relatively volatile business environment.** Construction and property businesses are inherently volatile as demand is highly correlated with economic conditions. Rising inflation and interest rates could dampen demand for property, which in turn weakens demand for construction. Demand for construction is further at risk due to the possibility of project delays, especially those developed by the private sector.

- **Risks from expansion into the property business.** The Company has expanded into property through apartments, malls, offices, and hotels. PTFINDO believes this business segment carries a relatively high risk profile as PTPP will be exposed to the risk of unsold and/or low occupancy rates of those properties after the completion of construction.
A “stable” outlook is assigned to PTPP’s corporate rating. The rating could be raised further if the Company is able to improve its financial leverage and profitability measures on a sustainable basis. This also has to be accompanied by successful expansion into property business, providing a significant contribution to its cash flow. However, the rating could be lowered if its expansion into property negatively affects its financial profile, and/or it incurs new debts significantly larger than projected.

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