PEFINDO
CREDIT RATING AGENCY

Rating Rationale

PT MORA TELEMATIKA INDONESIA

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CREDIT PROFILE

Corporate Rating	*idA/Stable*
Rated Issues	
Proposed Bond Year 2017	*idA*

Rating Period
September 6, 2017 – September 1, 2018

Rating History

JUL 2017	*idA*

FINANCIAL HIGHLIGHTS

As of/for the year ended	**May-2017 (Audited)**	**Dec-2016 (Audited)**	**Dec-2015 (Audited)**	**Dec-2014 (Audited)**
Total adjusted assets [IDR bn]	2,576.1	2,071.9	1,349.9	1,211.9
Total adjusted debt [IDR bn]	858.1	698.0	460.6	188.9
Total adjusted equity [IDR bn]	1,227.1	823.5	574.5	545.5
Total sales [IDR bn]	515.7	1,128.4	685.8	547.0
EBITDA [IDR bn]	154.5	291.5	190.3	174.0
Net income after MI [IDR bn]	56.7	11.0	20.8	70.2
EBITDA margin [%]	30.0	25.8	27.8	31.8
Adjusted debt/EBITDA [X]	*2.3	2.4	2.4	1.1
Adjusted debt/adjusted equity [X]	0.7	0.8	0.8	0.3
FFO to adjusted debt [%]	*27.2	27.9	32.4	73.6
EBITDA/IFCCI [X]	4.1	4.7	5.8	6.6
USD exchange rate [IDR/USD]	13,321	13,436	13,795	12,440

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 assigns "$_{id}$A" rating to PT Mora Telematika Indonesia's proposed bond

PEFINDO has affirmed its **"$_{id}$A"** rating to PT Mora Telematika Indonesia (Moratel or MRTL). We also have assigned **"$_{id}$A"** rating to Moratel's proposed bond Year 2017 of IDR1.0 trillion that will be used to finance its capital expenditure (capex). The outlook for the corporate rating is **"stable"**.

An obligor rated $_{id}$A 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 ratings reflect Moratel's strong market position as a fiber optic backbone provider, potential cash flow from the Palapa Ring West and East packages, and diversified customers and services. However, the ratings are constrained by its increasing financial leverage due to sizeable capex, its weakening cash flow protection measures in the near term, and the execution risks of a new business.

The ratings could be raised if Moratel significantly improves its capital structure on a sustainable basis, its business expansions are executed well, and its cash flows exceed projections. In contrast, the ratings may be lowered if the Company's revenue and/or EBITDA falls significantly below target, or if it incurs debt beyond what is projected.

Moratel is a telecommunications infrastructure and service provider. It has international links connecting Jakarta and Singapore, and domestic submarine and inland backbones serving mainly telecommunications operators and wholesale customers. It expanded to the fiber to-the-home (FTTH) market to maximize the use of its network under the "Oxygen" brand. Its subsidiaries, PT Palapa Ring Barat and PT Palapa Timur Telematika, have been awarded by the government to construct and manage two national priority projects, the Palapa Ring West package in 2015 and the Palapa Ring East package in 2016. As of May 31, 2017, its shareholders were PT Candrakarya Multikreasi (57.5% stake), which belongs to PT Infrastruktur Bisnis Sejahtera; PT Gema Lintas Benua (27.6%); and PT Sumber Aneka Sukses (14.9%).

Supporting factors for the above ratings are:

- ***Strong market position as a fiber optic backbone provider.*** PEFINDO is of the view that Moratel has a strong market position as an independent fiber optic backbone provider. Its network is currently spread across Sumatra, Java, and Bali with fiber optic cables totaling 7,666 kilo-meters (km) as of March 31, 2017. We expect it to continue expanding its network and to operate the Palapa Ring west and east fiber optic backbone packages, with a projected total length of 25,000 km of fiber optic cables from the western to the eastern parts of Indonesia. Despite a declining average selling price, there is still room to grow from the increasing demand for broadband. We are of the view that Moratel is in a strong position to take advantage of Indonesia's growing internet demand, as reflected in the 11.7% five-year compound annual growth rate (CAGR) and 36.7% year-on-year (YoY) growth of its telecommunication operation revenue as of May 31, 2017.
- ***Potential cash flow from Palapa Ring West and East packages.*** PEFINDO projects that Moratel will obtain significant and long-term cash flows from the government for the operation of the Palapa Ring West fiber optic backbone package covering Riau and Riau Islands, and Palapa Ring East fiber optic backbone package covering East Nusa Tenggara, Maluku, Papua, and West Papua. The contracts for the two packages are estimated to be around IDR17.5 trillion, with concession periods of 15 years. The projects are guaranteed by PT Indonesia Infrastructure Guarantee Fund (Persero) within 12 years from the date of commercial operation.
- ***Diversified customers and services.*** PEFINDO is of the view that Moratel has diversified customers and services. Its top 10 customers contributed 69% to total revenue at the end of March 2017. Its customer portfolio includes telecommunications operators, wholesalers, and enterprises. Its telecommunication operations revenue, which consists of domestic and international links, as well as internet services, contributed 43% in the same period. It also has six data centers in the key cities of Medan, Batam, Palembang,

Jakarta, Surabaya, and Denpasar. In the FTTH segment, Moratel will aggressively penetrate the Greater Jakarta area by offering triple play products. It also serves dark core goods and services procurement projects for non-telecommunication operations. Diverse customers and services will allow it to generate a stable cash flow stream.

Constraining factors for the above ratings are:

- ***Increasing financial leverage due to sizeable capital expenditure.*** We expect Moratel's financial leverage to increase in the near to medium term along with its sizeable capital expenditure (capex), which projected at around IDR5.4 trillion for the next five years (2017-2022), mostly to finance additional fiber optic cables and its new FTTH business. This capex will be partly funded by external sources. The Palapa Ring projects' capex of around IDR6.0 trillion in 2017 and 2018 will be funded by state-owned banks, while its FTTH's capex will be funded by bond issuance. Thus, we anticipate the Company's capital structure to worsen, with projected debt to EBITDA and debt to equity ratios of an average of 11.7x and 3.6x in the next three years (2017-2019), respectively. This has taken into account a IDR1.6 trillion capital injection from shareholders in the near term to strengthen its equity. At the end of May 2017, its debt to EBITDA and debt to equity ratios were 2.3x and 0.7x, respectively.
- ***Weakening cash flow protection measures in the near term.*** Inline with its increasing financial leverage, we expect Moratel's ability to serve its principal and interest payments to weaken, with projected funds from operation (FFO) to debt ratio and EBITDA interest coverage of less than 5% and 1.1x, respectively, over the medium term. At the end of May 2017, its debt and interest coverage ratios were 27.2% and 4.2x, respectively. Its liquidity was also weak as the same period. Its cash of IDR121.8 billion and projected EBITDA of IDR285.2 billion are able to serve the current portion of its long-term investment loans of IDR147.9 billion, but it would have to rely on new financing sources from external parties to finance its capex.
- ***Execution risks of new business.*** We note that Moratel's expansion into the FTTH segment under the "Oxygen" brand will raise new business risks given the tight competition in this segment, especially in Greater Jakarta. It projects 800,000 homes passed and 125,000 subscribers by 2019, with a 150% three-year CAGR, an optimistic target compared to existing players such as PT Link Net Tbk's "First Media" brand, which reached 535,000 broadband subscribers at a 15.8% five-year CAGR (2012-2016). We also note that the current construction stages of its Palapa Ring projects pose some execution risks, such as delays in site acquisition and cost overruns. At the beginning of June 2017, the Palapa Ring West package had reached 70% construction progress and the Palapa Ring East package had just finished 10% of its milestones. Some of the risk in the construction period of Palapa Ring East package is mitigated by the insurance and it is in the process to finalize the insurance documents.