PEFINDO affirms "aAA-" ratings for PT Chandra Asri Petrochemical Tbk and its bonds

PEFINDO has affirmed its "aAA-" ratings for PT Chandra Asri Petrochemical Tbk (TPIA), Bond I/2016, Shelf Registered Bond I/2017-2018, and Shelf Registered Bond II/2018-2019. The outlook for the corporate rating is "stable". Regarding its Bond I/2016 Serie A of IDR361.4 billion that will mature on December 22, 2019, it plans to repay using its cash on hand. As of June 30, 2019, it had a cash balance of USD49 million.

An obligor rated aAA differs from the highest rated obligors only to a small degree and has a very strong capacity to meet its long-term financial commitments relative to that of other Indonesian obligors.

The minus (-) sign in a particular rating indicates that it is relatively weak within the respective rating category.

The corporate rating reflects our view of the Company’s leading position in the domestic petrochemical industry that is supported by synergies with its strategic partners, vertically integrated operations with satisfactory supporting facilities, and conservative capital structure and strong cash flow protection measures. However, its sensitivity to industry cyclicality and exposure to the volatility of spread between feedstock costs and product prices, as well as risks related to the expansion of petrochemical facilities constrain its rating, in our view.

The rating may be raised if we view that TPIA’s business profile significantly strengthens and provides better product and market diversification that could mitigate the margins volatility, while maintaining its conservative capital structure. The rating could be lowered if we view that there is a persistent deterioration in its financial profile due to weaker than expected profitability margins as a result of rising feedstock prices and/or declining product prices. This could be resulted from a weaker than anticipated demand for chemical products, especially in the domestic market where it focuses on, and/or an acceleration of the capacity expansion by the players in the industry, and/or higher than expected price of oil. The rating could also be under pressure if TPIA undertakes higher than projected debt-funded expansion, resulting in moderate financial profile. We also would like to note that in the rating scenario, we have not taken into account the additional debt-funded capital expenditure (capex) for the construction of its second naphtha cracker as its final investment decision is not disclosed yet.

TPIA is an integrated petrochemical producer, providing olefins, polyolefin, styrene monomer, and butadiene. It owns the only naphtha cracker, styrene monomer and butadiene plants in the country. Its production facilities include naphtha cracker with a total production capacity of 2,045 kilo tons per annum (KTA), polyethylene plant with 336 KTA capacity, styrene monomer plant with 340 KTA capacity, polypropylene plant with 480 KTA capacity, and butadiene plant with 137 KTA capacity. As of June 30, 2019, it was owned by PT Banjir Pacific Tbk (41.5%), SCG Chemicals Co. Ltd. (30.6%), Pradego Pangestu (14.8%), Marigold Resources Pte. Ltd. (4.8%), and the public (8.3%).
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