PT Profesional Telekomunikasi Indonesia Upgraded To 'BBB-' On Strengthened Financial Position; Outlook Stable

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We expect Protelindo can sustain its significantly strengthened cash flows and financial position over the next 12-24 months, without a material impact from its recently announced acquisition.

We are raising our long-term corporate credit rating on Protelindo to 'BBB-' from 'BB+' and the long-term issue rating on the senior unsecured bank loan that the Indonesia-based independent tower company guarantees to 'BBB-' from 'BB+'.

The stable outlook reflects our expectation that Protelindo will maintain its operating efficiency, cash flows, and stable leverage over the next two years even if it acquires another large tower portfolio or implements a dividend policy.

SINGAPORE (Standard & Poor's) April 1, 2016--Standard & Poor's Ratings Services said today that it had raised its long-term corporate credit rating on PT Profesional Telekomunikasi Indonesia (Protelindo) to 'BBB-' from 'BB+'. The outlook is stable. At the same time, we raised the long-term issue rating on the existing senior unsecured bank loan that the Indonesia-based independent tower company guarantees to 'BBB-' from 'BB+'. We also raised the long-term ASEAN regional scale rating on Protelindo to 'axA-' from 'axBBB+'.

"We raised the rating because we expect Protelindo to sustain its significantly strengthened financial position over the next 12-24 months," said Standard & Poor's credit analyst Annabelle Teo. "In our view, the company's financial position has substantially improved over the past few years, such that its announced purchase of a new tower portfolio will not have a material impact on its financial strength."

On March 29, 2016, Protelindo announced that it will acquire 2,500 towers from PT XL Axiata Tbk. (XL) for Indonesian rupiah (IDR) 3.57 trillion. Protelindo will fund the acquisition through IDR3 trillion of debt and IDR568 billion of cash. XL will lease back the towers at IDR10 million per month per tower for 10 years.

We expect that the new portfolio will add about IDR420 billion per year to Protelindo's EBITDA, representing about 12% of full-year growth. On a full-year proforma basis, we estimate that the purchase will not cause the debt-to-EBITDA ratio to increase beyond 2.5x, given the company's strong contractual cash flows from long-term tower leases. Furthermore, we forecast EBTIDA interest coverage will remain more than 5x.

In our view, Protelindo will maintain its acquisition appetite along with pressure to initiate dividends, given its strong balance sheet. However, our expectation that management will maintain a moderate balance sheet supports our view of the company's financial position. Protelindo's debt-to-EBITDA ratio has been steadily improving over the past five years from about 5.9x at the end of 2009. The ratio is about 2.2x as of Dec. 31, 2015, which is within the company's articulated financial policy target range of 2x-3x. This improvement in leverage has been achieved despite Protelindo's sizable tower acquisition from PT Hutchison CP Telecommunications (HCPT) in 2012. We believe that if Protelindo makes another large tower purchase that may require it to increase its leverage beyond its stated leverage target range, it would raise equity to maintain the target leverage.

A sluggish tower market in the past 12 months has resulted in greatly reduced organic growth for the tower companies. Hence, with Protelindo's resilient financial flexibility, we view the proposed acquisition as positive for maintaining the company's market position and scale, and reinforcing its position as Indonesia's largest independent tower company, with almost 15,000 towers.

"The stable outlook on Protelindo reflects our expectation that the company will continue to generate steady cash flows and maintain its high EBITDA margins of around 85%," said Ms. Teo. It also reflects our view that any future tower acquisitions or dividend payouts will not raise the company's debt-to-EBITDA ratio beyond 3x.

We could lower the rating if Protelindo makes large debt-financed tower acquisitions or embarks on dividend policies that are greater than we expect. In particular, the debt-to-EBITDA ratio increasing substantially beyond 3.0x may trigger a downgrade. Downward rating pressure could also emerge if Protelindo's market position significantly deteriorates because key client HCPT winds up its operations or sells them to a weaker telecom operator.

An upgrade is unlikely in the next 12-24 months. However, we could raise the rating if Protelindo's client concentration to HCPT reduces to less than 20% of total revenue and the ratio of debt to EBITDA remains below 3x. An upgrade would hinge on us raising the 'BBB-' transfer and convertibility assessment on Indonesia.

RELATED CRITERIA AND RESEARCH

Related Criteria
Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
Methodology: Industry Risk, Nov. 19, 2013
Group Rating Methodology, Nov. 19, 2013
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Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
2008 Corporate Criteria: Rating Each Issue, April 15, 2008
Standard & Poor's National And Regional Scale Mapping Tables, Jan. 19, 2016
Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
National And Regional Scale Credit Ratings, Sept. 22, 2014

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed

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