Fitch Ratings

Fitch Upgrades Protelindo to 'BBB-'/'AAA(idn)'; Outlook Stable

Fitch Ratings-Singapore/Jakarta-12 May 2016: Fitch Ratings has upgraded PT Profesional Telekomunikasi Indonesia's (Protelindo) Long-Term Foreign-Currency Issuer Default Rating to 'BBB-' from 'BB+'. Simultaneously, Fitch Ratings Indonesia has also upgraded Protelindo's National Long-Term Rating, national senior unsecured rating, and rating on its IDR1trn senior unsecured bond to 'AAA(idn)' from 'AA+(idn)'. The Outlook on the ratings is Stable.

A full list of rating actions is at the end of this rating action commentary.

'AAA' National Ratings denote the highest rating assigned by Fitch on its national rating scale for that country. This rating is assigned to issuers or obligations with the lowest expectation of default risk relative to all other issuers or obligations in the same country.

The rating upgrades reflect the strong recurring cash flows and moderate net leverage of Protelindo, Indonesia's largest independent telecom tower company. These were underpinned by its consistent financial policy of aiming for net debt-to-EBITDA of under 3.0x (2015: 1.8x). Fitch believes that the company's current scale and financial strength can comfortably support a combination of organic and inorganic growth, and progressive dividends, without a material impairment to its credit profile.

KEY RATING DRIVERS

Large Rating Headroom: Fitch expects Protelindo's funds flow from operations (FFO)-adjusted net leverage for 2016 to increase to 2.8x (2015: 2.1x) after it agreed to acquire IDR3.6trn of towers from Indonesia's third-largest mobile operator, PT XL Axiata Tbk (XL, BBB/Stable). However, the additional cash flow from the sale-and-leaseback deal is likely to improve net leverage to 2.4x-2.6x in 2017 and 2018. The transaction will be mainly debt-funded, and is scheduled to conclude by mid-2016.

Reassessment of Business Profile: Fitch has revised the guideline for negative rating action for Protelindo's FFO-adjusted net leverage to 4.0x from 3.5x, following updated peer comparison analysis with international telecommunications infrastructure businesses. We believe the moderate leverage, strong predictable cash flows and high EBITDA margins (2015: 84.2%) support a rating upgrade. Protelindo had locked-in revenue of IDR26trn at the end of 2015, supported by an average long-dated contract period of 6.2 years.

Tower Deal to Fuel Growth: Our forecast assumes high single-digit revenue growth in 2016 and 2017, mainly fuelled by the pending tower purchase. The tower acquisition will expand the company's portfolio to 14,700 towers (2015: 12,237), which will strengthen its lead against PT Tower Bersama Infrastructure Tbk (TBI, BB/Stable) and PT Solusi Tunas Pratama Tbk (STP, BB-/Stable). Fitch forecasts steady organic growth in towers in 2017 and 2018 in light of the progressive long-term evolution (LTE) rollout in major cities.

Stable Tenancy Mix: Telcos with investment-grade international ratings are likely to account for around 50% of Protelindo's revenue in 2016, up from 48% in 2015, following the tower acquisition. This compares with TBI's 83% and STP's 65%. However, Protelindo's relatively low leverage will help mitigate its counterparty risks from weaker telcos. PT Hutchinson 3 Indonesia (Hutch) and PT Smartfren Telecom Tbk (CCC(idn)) accounted for 38% and 7%, respectively, of the company's revenue in 2015.

Natural Hedge, Staggered-Debt Maturities: Protelindo's exposure to depreciation in the rupiah is mitigated by long-term non-cancellable tower rental agreements, of which agreements denominated in US dollars accounted for around 35% of revenue in 2015 and those in euros accounted for 3%. As of end-2015, 64% of its debt was US dollar-denominated and 8% in euros. Protelindo also has well-staggered maturities, with its US dollar and euro-denominated debt falling due after 2018.

LIQUIDITY
Strong Liquidity: Protelindo's unrestricted cash balance of IDR3.0trn as of end-2015 is sufficient to meet short-term maturities of IDR446bn over the next 12 months. Fitch expects liquidity to remain strong, supported by contracted revenue, positive free cash flows and reasonable refinancing ability with access to capital markets and local banks.

KEY ASSUMPTIONS
Fitch's key assumptions within the rating case for the issuer include:
- Tower construction to slow to 500-800 towers a year in 2016-2018
- Addition of 600-1,000 co-location leases per year in 2016-2018
- Debt-funded acquisition of XL's 2,500 towers to complete by mid-2016
- Capex-to-revenue ratio of 21%-26% in 2016-2018 (2015: 21.8%)
- 90% of the pre-dividend free cash flows to be distributed to shareholders from 2017

RATING SENSITIVITIES
Positive: Future developments that may, individually or collectively, lead to positive rating action include:
- Sustained FFO-adjusted net leverage of below 3.0x;
- Improvement in tenancy mix so that investment-grade telcos account for more than 75% of revenue; and
- Positive FCF.

Negative: Future developments that may, individually or collectively, lead to negative rating action include:
- FFO-adjusted net leverage rising above 4.0x on a sustained basis, and/or a material decline in market share.

The revisions in the leverage guidelines reflect our reassessment of Protelindo's business risk, following updated peer comparison with international telecoms infrastructure businesses.

FULL LIST OF RATING ACTIONS

PT Profesional Telekomunikasi Indonesia
- Long-Term Foreign-Currency IDR upgraded to 'BBB-' from 'BB+', Outlook Stable
- National Long-Term Rating upgraded to 'AAA(idn)' from 'AA+(idn)', Outlook Stable
- National senior unsecured rating upgraded to 'AAA(idn)' from 'AA+(idn)'
- IDR1trn senior unsecured bond upgraded to 'AAA(idn)' from 'AA+(idn)'

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Note to editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(idn)' for National ratings in Indonesia. Specific letter grades are not therefore internationally comparable.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362)
National Scale Ratings Criteria (pub. 30 Oct 2013)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720082)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
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