MOODY'S
RATINGS

Rating Action: Moody's assigns first-time Baa2 issuer rating and (P)Baa2 EMTN programme rating to Sarana Multi Infrastruktur; outlook stable

05 Apr 2024

Singapore, April 05, 2024 -- Moody's Ratings (Moody's) has today assigned a first-time Baa2 long-term foreign currency (FC) issuer rating to PT Sarana Multi Infrastruktur (Persero) (SMI), an Indonesia-based government-owned infrastructure finance company. Moody's has also assigned a provisional (P)Baa2 FC senior unsecured rating to SMI's $2 billion EMTN programme and a Baa2 FC senior unsecured rating to its outstanding $300 million drawdown under the programme.

The outlook is stable.

RATINGS RATIONALE

The Baa2 ratings assigned to SMI reflect Moody's expectation that the company will receive very high support from the Government of Indonesia (Baa2 stable) in case of need. The ratings are also underpinned by SMI's standalone assessment of ba2 based on its high capital buffer and good profitability, and modest asset quality, cash flow and liquidity.

Moody's government support assumption for SMI is driven by the fact that the company is fully owned by the Indonesian government through the Ministry of Finance, the firm's policy role in financing the infrastructure sector, and a history of regular capital and funding support from the government. Moody's support assumption results in a three-notch ratings uplift, above the ba2 standalone assessment.

SMI is highly capitalized with a 36% tangible common equity to tangible managed assets ratio as of 31 December 2023, and Moody's expects this ratio to remain above 30% in the medium term. The company's borrowings include a covenant limiting its debt-to-equity ratio at 3x (with debt amount excluding financing from the government). The company is also very profitable and has been posting a return on assets in the 1.7%-1.9% range in the last four years. Profitability will come under mild negative pressure amid lower policy rates expected by Moody's later in 2024, and higher funding costs.

SMI's asset quality is modest. While the reported non-performing loans ratio (Stage 3) stood at a low 0.8% as of 31 December 2023, the company also had around 2% of loans in the restructured category outside of Stage 3, and a significant exposure to a few weak state-owned enterprises. Moreover, the loan book has a fairly high single-name concentration.

These credit risks are partially balanced by a good level of credit reserves, SMI's selective credit underwriting, and the fact that a large share of its loans is granted to local governments with some credit enhancement from the central government.

Cash flow and liquidity have some weaknesses. While SMI has a good buffer of cash and liquid assets against short-term debt, its funds from operations are low relative to debt, while its ability to pledge its infrastructure-related loans against secured borrowings is limited. These risks are partially mitigated by the fact that 40% of debt was sourced from the government as of 31 December 2023.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

The assigned ratings incorporate SMI's environmental, social and governance (ESG) considerations, as per Moody's General Principles for Assessing Environmental, Social and Governance Risks methodology. Moody's assessment of SMI's exposure to governance risks is low, reflected in a Governance Issuer Profile Score (IPS) of G-2, supported by a conservative financial strategy and risk management, experienced management, a simple organizational structure, and oversight by the Ministry of Finance and the OJK. While the company is fully owned by the government, it has a track record of stable strategy and the majority of its commissioners (directors) are independent which mitigates governance risks. Overall, SMI's Credit Impact Score of CIS-2 indicates that ESG considerations have no material impact on the ratings.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given Moody's assessment of very high government support for SMI, an upgrade of the sovereign rating could lead to an upgrade of SMI's ratings. The company's standalone assessment cold be upgraded in case of substantial improvements in asset risk, and funding and liquidity.

Downgrade factors include a weakening of strategic ties between SMI and the government, increase in problem loans and other problematic exposures, a material decrease in the capital ratio, and a substantial decrease in the liquid assets buffer.

The principal methodology used in these ratings was Finance Companies Methodology published in November 2019 and available at https://ratings.moodys.com/rmc-documents/65543 . Alternatively, please see the

Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

PT Sarana Multi Infrastruktur (Persero) is headquartered in Jakarta and reported total assets of IDR115.8 trillion (US$7.5 billion) as of 31 December 2023.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824 .

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