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CMBI Credit Commentary - TBLAIJ

TBLAIJ – Maintain Buy on TBLAIJ'23 despite a questionable rating downgrade

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Maintain Buy on TBLAIJ'23

Moody's downgraded TBLA's rating by 1 notch to B2 and put TBLA's rating outlook as negative. The rating action, in our view, is questionable and a surprise. Nonetheless, the par-pull of TBLAIJ'23 continues as the refinancing risk of TBLAIJ'23 was largely removed after the conclusion of syndicated loans of USD236mn late Jan'22. The bonds moved 1.5 pts higher over the past 2 months. Offered at 99.8 (YTM 7.2%), we maintain our Buy recommendation on TBLAIJ'23, and continue to see the bonds offer a good risk and reward profile and is a good short-dated, lower-beta and diversification play away from Chinese HYs.

Loan conclusion largely removed near-term refinancing risk

As we wrote on 25 Jan'22, TBLA concluded the syndicated loans of USD236mn from 7 banks including state-owned banks such as Bank Mandiri, BRI and Indonesia Eximbank. The conclusion has largely removed the refinancing risk of TBLA's only USD issue (TBLAIJ'23 with an o/s amount of USD168mn due Jan'23) and notably lengthened TBLA's debt maturity profile. Indeed, the size of the syndicated loans is larger than our expectation of USD170-200mn while funding costs are in line with its existing loans. The additional amount could be used to early redeem up to 79% of its o/s IDR bonds of cUSD84mn due Mar'23. The syndicated loans are comprised of 2 tranches: USD170mn Tranche A for the refinancing of TBLAIJ'23 and IDR900bn (cUSD66mn) Tranche B for refinancing of other debts. The funding costs are 3M LIBOR+5.65 p.a. (Tranche A) and 3M JIBOR+9% p.a. (Tranche B), the margin will increase 25bps p.a. for both tranches and Tranche B margin will be capped after 75bps increase. The tenor of loans is 5-year and extendable for another 2 years.

Questionable rationale on rating downgrade

As mentioned, the negative rating action is a surprise to us. We found some of Moody's rationale for the rating action questionable. For example, the rating agency is concerned of TBLA's uninterrupted access to bank funding and the negative impact on its financial flexibility resulting from the scheduled loan amortization of the syndicated loans. However, TBLA just demonstrated once again its ability to access loan market with the participations of state-owned banks in Indonesia. We also found the argument of the loan amortization can strain its financial flexibility strange as a major part of amortization will be beyond the original maturity of TBLAIJ'23 in Jan'23. Furthermore, As we discussed in our imitation piece that the more volatile working capital cycle was mainly due to the timing of sugar import quota announcement. Moody's appears not giving any benefits from the diversification, higher-margin and cash flow contributed by its sugar operations. In 1H21, these contributed c30% of TBLA's revenue. Please read our initiation piece for more detailed discussions.

DMO and DPO will have limited impact in the near-term

Indonesian imposed export restrictions on CPO products in the forms of Domestic Market Obligation and Domestic Price Obligation. We believe that near-term impact on TBLA should be limited as it generates c90% of its revenue from domestic market. Additionally, the price cap of IDR11,500-14,000/kg on cooking oil is largely in line with its ASP of IDR12,978/kg in 9M21. As per our discussions with TBLA, the export restrictions are somewhat beneficial for TBLA as these guarantee the availability of CPO feedstock at a lower price. Furthermore, the price cap regulation has temporarily created distortion in the market, led to a large supply deficit in the near-term.

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