6 Apr 2022

CMBI Credit Commentary

INDYIJ – Solid FY2021 results; maintain Buy

Polly Ng 吴宝玲
(852) 3657 6234
pollyng@cmbi.com.hk

Glenn Ko, CFA 高志和
(852) 3657 6235
glennko@cmbi.com.hk

James Wen 温展俊
(852) 3757 6291
jameswen@cmbi.com.hk

We maintain BUY on INDYIJ 5.875% '24 at 99.9 (YTM~5.9%) and INDYIJ 8.25% '25 at 102.4 (YTM~7.4%), given Indika's low leverage as a beneficiary of high coal price, and its pragmatic diversification strategy. INDYIJs offer better relative value compared to MEDCIJ '25 at 101 (YTM~6.3%) and BSDEIJ '25 at 97.3 (YTM~7%)

Solid FY2021 results

Indika's revenue had a stellar growth of 48%yoy to USD 3,069mn, and EBITDA tripled to USD 870mn. This was on the back of strong industry coal price (Newcastle benchmark rose to USD137/ton, +126%yoy) and Indika's coal ASP rose to USD 61.4/ton, +62% yoy. The moderate increase of Indika's coal ASP, relative to benchmark, was due to Indika's compliance of DMO – where Indika supplied 30% coal volume domestically at below market rate. Operating cash flow (deducted finance cost) improved to USD 485mn, sufficiently covered its capex of USD 25mn and new investment of USD 83mn in 2021. Its gross and net Debt/EBITDA lowered to 1.7x and 0.7x, with cash balance of USD 867mn against total debt USD 1,453mn.

Potential headwind from regulatory change

Indonesia government is mulling some change in existing DMO policy, to ensure domestic coal supply. It is also mulling to raise royalty rates of coal to 20%-22%, from current 13.5%. Indika expects the rise in royalty rates to be effective in 2023 upon renewal of its Kideco's CCoW license, to be accompanied by a reduction in corporate income tax, from existing 45%, as an offset. We draw comfort from the fact that Indika has been fully compliant of DMO, supplying more than 25% coal volume domestically.

Concrete and prudent diversification strategy

We consider Indika's diversification strategy concrete and prudent. Indika's capex for 2022 is moderate (USD 113mn), including solar power, gold project and coal maintenance capex. This will be well-covered by its strong organic cash flow in 2022.

CMBI Fixed Income
fis@cmbi.com.hk

Indika has disposed 2 of its coal service subsidiaries (51% of MBSS in 2021 for USD 41mn; and 69.8% of Petrosea for USD 146.6mn to be received in May 2022). MBSS is a coal barging and transshipment company that has been loss-making for several years. While Petrosea, a mining contractor and E&C operator, generated a steady EBITDA of c. USD 110mn annually. However, it is capex-intensive with annual capex requirements of USD 80mn – USD 100mn over the next 2 years. Divesting Petrosea enables Indika to channel these cash proceeds to fund diversification and minimize its coal capex to keep its leverage in check.

On the other hand, we expect Awak Mas gold mine and solar power plant projects to be key contributors of non-coal revenue starting from in 2025. As we wrote in our initiation piece, we estimate Awak Mas Gold project will contribute to low-teens of Indika's gross profit by 2025, based on its probable reserves 1.46mn onz of gold, USD 875/oz all-in production cost and gold price assumption of USD 1,700/onz.

Furthermore, Indika targets to install 500MW solar power plants over the next 5 years, through its 51% owned EMITS JV with Indian solar developer – Fourth Partner Energy Limited. Currently, the JV has 40MW projects in pipeline, it is likely to benefit from the strong demand for installing off-grid captive hybrid solar power plant among corporates, given an industry push for ESG to lower diesel consumption. Management expects many of its solar project's scale at 3MW – 10MW, with each project cost in the range of USD 2mn – USD 7mn respectively, and an IRR of 12%-13%. Indika's partnership with an established Indian solar developer, and low capex on individual solar projects, can mitigate execution and financial risk.

CMB International Securities Limited

Fixed Income Department
Tel: 852 3761 8867/ 852 3657 6291
fis@cmbi.com.hk

Author Certification

The author who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the author covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that author in this report.

Besides, the author confirms that neither the author nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

Disclaimer

For recipients of this document in the United Kingdom

This report has been provided only to persons (I)falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time)("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.