

Fitch Affirms Sarana Multi Infrastruktur at 'BBB-/AA+(idn)'; Outlook Stable

Fitch Ratings-Hong Kong/Jakarta/Singapore-12 October 2015: Fitch Ratings has affirmed Indonesia-based PT Sarana Multi Infrastruktur (Persero)'s (SMI) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'BBB-', Short-Term Foreign-Currency IDR at 'F3' and National Long-Term Rating at 'AA+(idn)'. The Outlooks on the long-term ratings are Stable.

'AA+(idn)' Long-Term National Ratings denote expectations of very low default risk relative to other issuers or obligations in the same country. The default risk inherently differs only slightly from that of the country's highest rated issuers or obligations.

'F3(idn)' Short-Term National Ratings indicate an adequate capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. However, such capacity is more susceptible to near-term adverse changes than for financial commitments in higher rated categories.

SMI's international ratings are equalised to those of the Indonesian sovereign (BBB-/F3/Stable) reflecting its status as a corporation wholly owned by the state. Fitch believes there is a high probability of extraordinary state support for SMI, if needed, which would offset downside risks from its operations. SMI provides financing to investors in public-private partnership (PPP) schemes. Fitch believes adequate investment in infrastructure is vital for the country to achieve its economic growth targets.

KEY RATING DRIVERS

SMI reports directly to Indonesia's Ministry of Finance and all four members on the company's board of commissioners are appointed by the ministry. Annual budgets, the board of directors' remuneration, long-term plans, and board composition are approved by the Ministry of Finance at annual general shareholder meetings. SMI is audited by an independent public accounting firm annually, and is subject to audit by the state auditor and the Financial Authority Service (OJK) once every three years.

SMI plays an important role in the development of infrastructure in Indonesia. SMI's role broadened in 2015 as it took over the government infrastructure investment fund that was previously managed by Pusat Investasi Pemerintah (PIP). SMI has received a total of IDR4trn in capital injections since its inception in February 2009 from the Ministry of Finance. SMI will in 2015 receive a further around IDR20trn of capital in the form of assets transferred from PIP (around IDR18trn) and cash from The Ministry of Finance (IDR2trn).

It will only be possible to assess the company's asset-quality record in the medium term, once its loan book has become more seasoned, and because the maturity on the bulk of SMI's loans has been extended. However, Fitch believes that downside risks in a difficult environment could be pronounced for SMI given its concentration on infrastructure loans.

SMI has focused on increasing its lending to infrastructure projects, with total loans granted rising to IDR6.6trn by end-2014, with further loan commitments of IDR1.3trn. The main source of revenue is interest income - both from loans and from the return on investment of its liquid assets. In the future, as the liquidity is used to fund loan growth, interest income will come mainly from lending activities. Operating margins at around 60% are sound and are expected to be over 50% in the foreseeable future.

SMI raised IDR1trn its first domestic bond issue in 2014. In addition, it has entered into a syndicated loan facility of USD150m, of which USD60m had been drawn by end-2014. SMI is regulated to limit leverage to 10x of its equity, although management has said it will limit future borrowings to 3x equity.

SMI has an outstanding subordinated loan of IDR2.4trn to PT Indonesia Infrastructure Finance (IIF). The loan has been provided to IIF via the government and SMI, from the Asian Development Bank and World Bank.

RATING SENSITIVITIES

Any upward or downward movements in the ratings of the Indonesia sovereign would be reflected in SMI's international ratings.

Furthermore, any negative changes to SMI's governance, leading to a dilution of its legal status or control by the sovereign, could trigger a rating downgrade. .

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Additional information is available on www.fitchratings.com

Applicable Criteria

Rating of Public-Sector Entities - Outside the United States (pub. 26 Feb 2015)

Tax-Supported Rating Criteria (pub. 14 Aug 2012)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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