



# PRESS RELEASE

## PT ANTAM Tbk

For Immediate Release

### **ANTAM'S OPERATING PERFORMANCE GROWTH IMPROVES COMPANY'S OUTLOOK CREDIT RATING IN 2018**

**Jakarta, July 16, 2018** - PT Aneka Tambang Tbk (ANTAM; IDX: ANTM; ASX: ATM) is pleased to announce the improvement of the Company's S&P Global corporate credit rating in 2018 from "B-/outlook stable" to "B-/outlook positive". This improvement is based on the assessment of Company's operational positives growth performance outlook for 12 month period ahead as well as the completion of business restructuring scheme in PT Indonesia Chemical Alumina (PT ICA), the Company's joint venture entity who manage the operations of Chemical Grade Alumina (CGA) Plant in Tayan, West Kalimantan.

**ANTAM's President Director Arie Prabowo Ariotedjo said:**

**"In 2018, We are targeting the significant operational and financial performance growth. In the first quarter of 2018 (1Q18), ANTAM's profitability rocketed by 3,603% from the Rp6.63 billion net profit for the first quarter of 2017 (1Q17). The solid increase of profitability was also reflected from ANTAM's Earning Before Interest, Taxes, Depreciation, and Amortization (EBITDA) in 1Q18 which amounted to Rp750.38 billion, an increased of 95% from Rp385.68 billion for the same period in 2017. In 1Q18 ANTAM's net sales reached Rp5.73 trillion, grew 247% from Rp1.65 trillion in 1Q17. The Higher of ANTAM's profitability in 1Q18 was due to production and net sales increased as well as efficiency improvements which led to stable cash costs level.**

**In line with the implementation of Company's strategic plan in development of mineral downstream business, ANTAM's has a solid commitment to optimize the operations of Tayan Chemical Grade Alumina (CGA) plant. ANTAM is confident that through feasible business model, the operation of Tayan CGA Plant will generate positive economic value for the Company and its shareholders."**

In 2018, ANTAM targets significant operational performance growth on the Company's main commodities production and sales in ferronickel, gold, nickel ore and bauxite commodity through the optimization of mining production and plant utilization as well as expanding ANTAM's commodity marketing channel at both domestic and export markets in a row with the renewal mineral export license of low grade nickel ore and washed bauxite which was obtained by the Company in 2018.

As an implementation of Company's business expansion strategy through mineral downstream processing project, ANTAM currently conducts the construction phase of East Halmahera Ferronickel Plant Development Project (P3FH), remained on the track with construction progress reached 55% at the end of 1Q18. P3FH will have annual ferronickel production capacity of 13,500 TNi (line 1) whereby construction is estimated to be completed by the end of 2018. After completion of P3FH, ANTAM's ferronickel annual production capacity will increase to 40,500 TNi from the existing production capacity of 27,000 TNi (increase by 50%). For bauxite, ANTAM is currently focusing on the development of Smelter Grade Alumina Refinery (SGAR) plant with PT INALUM (Persero) with an estimated total production capacity of up to 1 million ton SGA per annum (Stage 1). The finalization phase of Bankable Feasibility Study (BFS) are being conducted by related parties.

ANTAM has a commitment to seek and evaluate existing and potential future opportunities in line with the effort of Company's sustainable growth and commitment to maximize shareholders and stakeholders value.

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For further information please contact:

Aprilandi H. Setia  
Corporate Secretary  
Tel: (6221) 789 1234 | Fax (6221) 789 1224  
Email: corsec@antam.com  
www.antam.com

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## Research Update:

# PT ANTAM Tbk. Outlook Revised To Positive From Stable On Improving Leverage, 'B-' Rating Affirmed

### Primary Credit Analyst:

Eric C Nietsch, CFA, Singapore + 65 6216 1089; eric.nietsch@spglobal.com

### Secondary Contact:

Bertrand P Jabouley, CFA, Singapore (65) 6239-6303; bertrand.jabouley@spglobal.com

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## Research Update:

# PT ANTAM Tbk. Outlook Revised To Positive From Stable On Improving Leverage, 'B-' Rating Affirmed

## Overview

- We expect ANTAM to continue to expand its operations and execute its downstream projects, thereby reducing leverage.
- We are revising our outlook on the Indonesia-based metals and mining company to positive from stable.
- At the same time, we are affirming our 'B-' long-term issuer credit rating on ANTAM.
- The positive outlook over the next 12 months reflects our view that ANTAM will continue to increase domestic and export ore sales, ferronickel capacity, and resolve the capital structure of its subsidiary PT ICA.

## Rating Action

On July 10, 2018, S&P Global Ratings revised its rating outlook on PT ANTAM (Persero) Tbk. (ANTAM) to positive from stable. At the same time, we affirmed our 'B-' long-term issuer credit rating on the Indonesia-based metals and mining company.

## Rationale

The outlook revision reflects our view that ANTAM will continue to expand its operations and execute its downstream projects, thereby reducing leverage.

We believe progressing toward completion of a new ferronickel plant, renewing or obtaining additional export quotas, and managing the ownership and operations of its subsidiary PT Indonesia Chemical Alumina (PT ICA) are important milestones for enhancement of the company's credit profile. We expect ANTAM will maintain sufficient liquidity while focusing on these projects, which will sustainably improve earnings.

We affirmed the 'B-' rating because we still expect ANTAM's debt levels to remain elevated, which we view as a continuing risk; lower leverage will be driven by stronger earnings, in our view. We expect debt to EBITDA ratios to range from 4.0x-4.5x in 2018 and 2019, which is high considering the volatility inherent in ANTAM's business. Still, this continues a marked reduction in leverage over 2016 (when it was 14x) and 2017 (6.6x).

We anticipate that ANTAM will continue to de-risk its major projects as it progresses in its investments. The company completed the expansion of its nickel plant in Pomalaa in 2017, bringing the maximum capacity to 27,000-30,000 tons per year, from 18,000-20,000 tons previously. Additionally, the 13,500 ton first phase of the Halmahera ferronickel plant is proceeding as planned, and was 55% complete at the end of the first quarter of 2018. The plant is likely to begin operations in 2019.

ANTAM's cost position is likely to improve along with the increase in volumes. ANTAM completed a coal-fired 2x30 megawatt power plant in late 2016 to support the Pomalaa ferronickel plant. The Pomalaa facility's power plant was then retrofitted with an option to use gas, which should help lower input costs. Additionally, the company has shifted from diesel to marine fuel where possible. Finally, although we expect the reorganization of ANTAM's ownership, with PT Indonesia Asahan Aluminium (Inalum) taking a 65% stake, to be neutral overall, it could allow for better pricing on fuel purchases.

Obtaining additional export quotas will be important for a sustainable improvement of ANTAM's earnings profile, in our view. The company's nickel ore export quota has increased to 3.9 million tons in 2018 from 2.7 million tons in 2017 as the downstream projects have progressed. We expect the government to renew these quotas. ANTAM may also look to obtain more export quotas. Additionally, we understand that management may increase domestic ore sales, which would also support volumes. The company's gold-trading capacity has also increased and supports gold refining volumes.

We anticipate discussions around the ownership of PT ICA will conclude later this year. The subsidiary is a joint venture between ANTAM (80%) and Showa Denko K.K. (20%). The PT ICA plant is not yet profitable, and Showa Denko has decided to terminate the partnership and sell its shares to ANTAM. We do not expect ANTAM to assume more debt than the existing Japanese yen-denominated loans it guarantees on behalf of PT ICA. ANTAM expects the PT ICA plant to resume operations and generate enough cash flow to cover its costs.

We expect ANTAM's EBITDA interest coverage to remain above 4x and do not expect the company's liquidity to constrain operational improvements over the next 12 months. The company had a sizable cash balance of about Indonesian rupiah (IDR) 6 trillion at the end of the first quarter. We expect that about IDR2 trillion of this is from a rights issuance and is reserved for capital spending to develop downstream capacity.

Our base-case assumptions for the coming one to two years include the following:

- Asia-Pacific GDP growth to be 5.6% in 2018 and 2019. Indonesia's GDP will grow about 5.2% in 2018, 5.5% in 2019, and 5.7% in 2020, with ANTAM's revenues rising faster due to capacity expansion.

- Nickel prices to be US\$13,000/ton in 2018, US\$13,500/ton in 2019, and US\$14,000/ton in 2020.
- Gold and silver prices to be flat at US\$1,250/ounce and US\$18/ounce, respectively, over the next three years.
- ANTAM's ferronickel sales to be 25,000 tons-28,000 tons, gold production to be 2,000kg-2,300kg, and nickel ore export sales to be 3.8 million-4 million metric tons (mt) in 2018 and 5 million-6 million mt in 2019.
- The company's cash costs of ferronickel production to be US\$3.5-US\$4.0 per pound in 2018 and US\$4.0-US\$4.5 per pound in 2019.
- Reported EBITDA margin of 12.5%-14.0% through 2019, compared with 11.3% in 2017.
- Annual dividends received to be IDR50 billion-IDR150 billion from PT Nusa Halmahera Minerals (PT NHM), which we add to EBITDA, with no dividends from PT ICA.
- Annual capital spending to escalate to IDR3 trillion-IDR3.5 trillion in 2018 and 2019 to complete the Halmahera project.
- No dividend to be paid.

Based on these assumptions, we arrive at the following credit measures:

- Ratio of debt to EBITDA of approaching 4.5x in 2018, and 4.0x in 2019, compared with 6.6x in 2017.
- EBITDA interest coverage ratio exceeding 4.0x in 2018 and 2019, compared with 2.3x in 2017.
- Negative free operating cash flows through 2019 due to elevated capital expenditure.

We continue to regard ANTAM as a government-related entity, given that Inalum, which is wholly owned by the Indonesian government, owns 65% of the company. Government ownership is credit neutral for the company, in our view. The company does not provide essential infrastructure, goods, or services to the economy, in our view. About 80% of ANTAM's sales are export-oriented, supporting our view that its products, mainly ferronickel and gold, are not central to the political and economic objectives of the government. Despite effective control of the board by the government, ANTAM's operations are largely run independently.

In our view, the government's cash injections in many state-owned firms, including ANTAM, were intended to help these companies to fund additional capacity rather than repair their leveraged balance sheets. We do not view these injections as a form of exceptional government support.

### Liquidity

We assess that ANTAM has less than adequate liquidity because we expect the company to have difficulty in absorbing low-probability high-impact events

such as a renewed ban on ore exports or a significant disruption to the Halmahera plant. We expect the ratio of liquidity sources to liquidity uses will be about 1.15x over the next 12 months.

In our view, ANTAM's banking group will remain supportive and continue to extend short-term working capital facilities to the company. Nevertheless, given the short-term nature of these facilities, we do not include them in our liquidity sources.

Principal liquidity sources include:

- Cash balance of about IDR6.1 trillion as of March 31, 2018, with approximately IDR2 trillion reserved for downstream capital spending and IDR4 trillion available for liquidity needs.
- Annual cash flows from operations, before changes in working capital, which we estimate at IDR1.7 trillion-IDR2.0 trillion.

Principal liquidity uses include:

- Debt maturities of IDR4.3 trillion in the 12 months ending March 31, 2019, including short-term working capital loans.
- Working capital outflows of IDR250 billion to support capacity expansion.
- Stressed capital expenditure that we estimate at IDR500 billion-IDR1 trillion, net of the cash on the balance sheet reserved for downstream capital expenditure.

## Outlook

The positive outlook reflects our view that ANTAM has good prospects to improve its credit ratios while maintaining a sound liquidity position over the next 12 months. We anticipate the company will execute its investments and expand the scale of its operations. We also expect ANTAM to maintain a substantial cash balance, good headroom under its financial covenants, and continued access to domestic banks over the period.

### Downside scenario

We could revise the outlook to stable if: (1) ANTAM does not continue on its path to permanently improve cash flows and operations, leading to leverage well above 5.0x; or (2) the company's liquidity deteriorates.

A reduction or a loss of nickel ore export quotas, or a disruption at the Pomalaa plant could seriously undermine earnings. Additionally, significant new investments beyond our base case of IDR3 trillion on average over 2018-2019 or impaired access to banks and capital markets would pressure liquidity.

## Upside scenario

We could upgrade ANTAM if the company continues to sustainably improve earnings. This could be achieved if ANTAM obtains higher nickel ore export quotas, increases domestic nickel ore sales, resolves the capital structure at PT ICA, and continues to execute the development of the Halmahera nickel plant. We would also expect the company to maintain sources of liquidity that cover uses, with cash balances sufficient to repay short-term liabilities without refinancing.

Additionally, we could raise the rating if we assess that the likelihood of extraordinary government support to the company has increased. This would entail our belief that the government is likely to financially support ANTAM to preserve its credit standing instead of focusing only on its operational continuity.

## Ratings Score Snapshot

Issuer Credit Rating: B-/Positive/--

Business risk: Vulnerable

- Country risk: High
- Industry risk: Moderately high
- Competitive position: Vulnerable

Financial risk: Highly leveraged

- Cash flow/Leverage: Highly leveraged

Anchor: b-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Less than adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: b-

## Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Metals And Mining Upstream Industry, Dec. 20, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Metals And Mining Downstream Industry, Dec. 20, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - Industrials: Methodology For Standard & Poor's Metals And Mining Price Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

Ratings Affirmed; Outlook Action

	To	From
PT ANTAM (Persero) Tbk. Issuer Credit Rating	B-/Positive/--	B-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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