Fitch Affirms Aneka Gas's Ratings at 'A-(idn)'; Outlook Stable

Jakarta - 27 February 2020:

Fitch Ratings Indonesia has affirmed PT Aneka Gas Industri Tbk's National Long-Term Rating at 'A-(idn)' with a Stable Outlook. At the same time, Fitch has affirmed Aneka Gas's Indonesian rupiah bonds and sukuk ijara National Ratings of 'A-(idn)'. A full list of rating actions is at the end of this commentary.

Aneka Gas's ratings reflect its entrenched market position, stable margins and diversified revenue base. The company's operating profile could support a higher rating; however, Aneka Gas's ratings are constrained by its leverage, which has remained high due to its expansionary capex.

'A' National Ratings denote expectations of low default risk relative to other issuers or obligations in the same country or monetary union. However, changes in circumstances or economic conditions may affect the capacity for timely repayment to a greater degree than is the case for financial commitments denoted by a higher-rated category.

KEY RATING DRIVERS

Entrenched Market Position: Fitch believes Aneka Gas's established distribution network, coupled with its integrated logistics, will continue to help the company secure its position in the growing Indonesian industrial gas market. Aneka Gas is the largest industrial gas manufacturer in Indonesia, accounting for around a third of Indonesia's consumption. Aneka Gas also holds a higher market share in sub-segments of the industrial gas market, such as cylinder and bulk gas, and has about a 85% share in the medical gas sector. Most of Aneka Gas's competitors are multinationals, which are stronger in the supply of onsite and pipeline gas within Java. Aneka Gas also holds a considerably stronger position outside Java.

Strong Distribution Network: Fitch thinks Aneka Gas's established and expanding distribution network remains a strong barrier for potential competition, helping maintain its market position. The company has 44 air separation plants and 104 filling stations spanning across 23 of the 34 provinces in Indonesia. According to Aneka Gas, the company's internal logistics is considerably higher than any of its competitors, which mainly operate in the pipeline gas segment within Java. Aneka Gas has been gradually building up its capacity outside Java, where utilisation rates have been relatively lower.

Increasing and Diversified Revenue: Aneka Gas's EBITDA has more than doubled over the past five years and Fitch expects this robust growth to continue. Historically, the company has grown at around 1.5x-2.0x faster than Indonesia's economy. Its revenue is well diversified, with no one sector accounting for over 30% of revenue and the top 20 customers accounting for only around 20%. Fitch estimates that volumes sold to the construction sector declined in 2019, due to the lower sector growth. That said, Fitch estimates that Aneka Gas's overall revenue increased against 2018, due to price increases and growth in other segments.

Stable Margins: Aneka Gas has been able to maintain healthy EBITDA margins of around 30%, owing to its market position and variety in its product mix. Around 70% of Aneka Gas's revenue is derived via long-term supply contracts that allow for adjustments when input costs change. Aneka Gas's input costs also remain broadly stable.

Capex Intensity and Leverage: The company completed its last major manufacturing capacity addition in 2016 and is expected to have adequate production capacity until around 2021. Aneka Gas's utilisation rates for its plants were around 63% in 2019, which should help lower the company's capex intensity in maintaining revenues growth. Fitch forecasts capex to be around 15%-20% of revenue until 2024, compared with around 15%-50% from 2015 to 2018.

Fitch expects Aneka Gas's capex to be around IDR400 billion-500 billion a year from 2020-2024 to expand both production and distribution capacity, and our expectations are considerably higher than management estimates. In the past Aneka Gas has recorded negative free cash flow due to its high expansionary capex. However Fitch expects Aneka Gas's free cash flow to be neutral to marginally negative by 2021. Fitch expects Aneka Gas's net debt/EBITDA leverage to remain at around 4.2x in 2019 (4.2x in 2018), but to improve to around 3.5x by 2021.

DERIVATION SUMMARY

We compare Aneka Gas with companies with similar credit risk profiles in light of the absence of rated Indonesian industrial gas peers. Aneka Gas's National Long-Term Rating is the same as PT Pan Brothers Tbk (PB, A-(idn)/Stable), Indonesia's largest publicly listed garment manufacturer, given the comparable business and financial risk profiles. Fitch believes PB's operating risk profile resembles Aneka Gas's because of PB's increasing wallet share with its large global customers, its cost pass-through ability and stable margins. Fitch also expects both PB and Aneka Gas to have comparable leverage levels over the next two years.

Aneka Gas's National Long-Term Rating is a notch lower than the Indonesian coal miner PT Golden Energy Mines Tbk (GEMS, A(idn)/Stable), as GEMS has considerably larger scale and lower leverage. GEMS's earnings are exposed to the volatility of sea-borne coal prices, but offset by its minimal capex commitments, substantially lower leverage and a larger scale of earnings.

KEY ASSUMPTIONS

- Annual Revenue growth of 6% in 2019, 7.7% in 2020 and 9% a year thereafter.

- EBITDA margin of around 31%-33% from 2019 to 2023.

- Capex of IDR400 billion-500 billion a year from 2020-2024 or 50% higher than management expectations.

- Dividend payout ratio of 20% in 2020 onwards.

- Working capital days improved in 2019 due to issues with receivables from the medical sector being resolved. We expect this to continue.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- A decrease in adjusted net debt/EBITDA to below 3.5x on a sustained basis

- EBITDA margin above 30% on a sustained basis

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- An increase in adjusted net debt/EBITDAR to above 4.5x on a sustained basis

- Unexpected significant capex overrun

LIQUIDITY AND DEBT STRUCTURE

Large Refinancing Requirements: Aneka Gas has a high dependence on short-term debt, with around IDR1.5 trillion of its IDR3.2 trillion of total debt as of 2019 due within a year. Around IDR700 million of this comprises short-term working capital loans, which the company has successfully rolled over. Aneka Gas has IDR494 billion of its Indonesian rupiah bonds due in 2020 and the company plans on issuing new bonds to refinance this.

We think the company has satisfactory access to funding. Aneka Gas has proven its ability to tap domestic capital markets, raising IDR964 billion in equity and IDR1,000 billion in capital market debt since 2016. Its bank funding is also diversified with no concentration to one funding source.

Source : Fitch Ratings