MOODY'S INVESTORS SERVICE

ISSUER COMMENT
4 August 2020

Rate this Research

Contacts

Maisam Hasnain, CFA +65.6398.8325
AVP-Analyst
maisam.hasnain@moodys.com

Cathy Lu +65.6398.8313
Associate Analyst
cathy.lu@moodys.com

Ian Lewis +65.6311.2676
Associate Managing Director
ian.lewis@moodys.com

Bayan Resources Tbk (P.T.)

Stronger sales and low production costs result in a better-than-expected second quarter, a credit positive

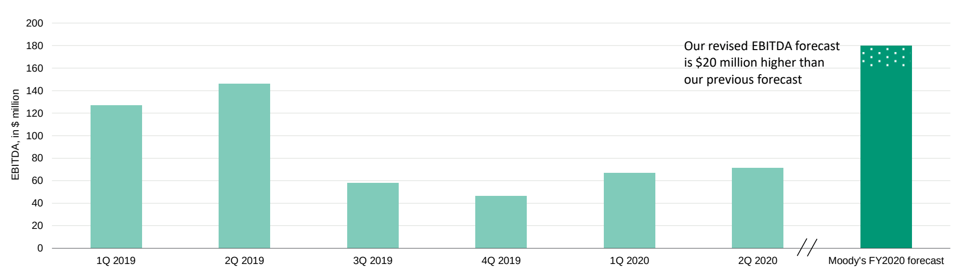
On 30 July, Indonesian thermal coal miner Bayan Resources Tbk (P.T.) (Ba3 stable) announced its financial results for the second quarter ended June 2020, which showed stronger-than-expected earnings. Bayan's reported EBITDA for the quarter was $71.3 million, considerably higher than its budgeted EBITDA of $25.5 million.

The strong second quarter results, which are credit positive, were achieved despite a challenging operating environment, which included low coal prices and came amid a six-week suspension of operations at its key operating mines because of safety concerns stemming from the coronavirus outbreak.

The better-than-expected earnings in the second quarter were a result of higher sales volumes and lower production costs. Average water levels at the river near its Tabang mines, which is used as the principle form of transport to ship coal out of Tabang, were better than in recent quarters. This allowed Bayan to sell more coal than it expected. The company sold 9.8 million tons of coal in second quarter 2020 compared with 8.25 million tons that were budgeted for the quarter. The higher sales volume helped to considerably reduce costs on a unit cost basis to $30.70 per ton against its budgeted cost of $34-$35 per ton.

Its strong second quarter results means that we have increased our 2020 EBITDA projections for Bayan by 12.5% to around $180 million from our previous estimate of around $160 million.

Exhibit 1
We expect Bayan to generate $180 million EBITDA in 2020



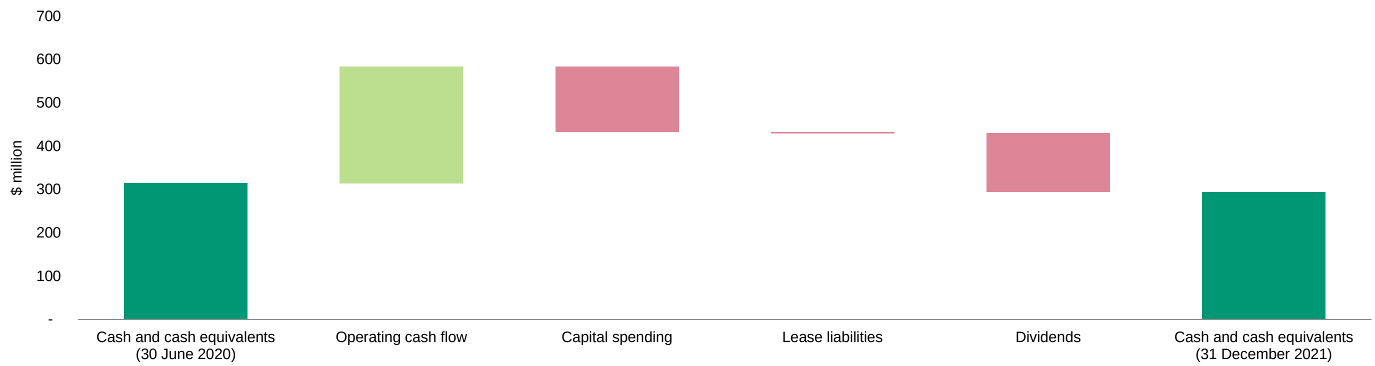
Sources: Company and Moody's Investors Service estimates

We expect Bayan to maintain its credit profile despite low coal prices, which have weakened to their lowest level since 2016. Around 68% of Bayan's 32.6 million tons of committed coal sales for 2020 have been contracted at an average fixed price of $38.80 per ton. This will help protect Bayan's earnings if coal prices continue to decline this year.

We expect Bayan to maintain leverage, as measured by adjusted debt/EBITDA, of 2.0x-2.2x over the next 12-18 months. This allows the company considerable capacity under its downward rating trigger of leverage approaching 3.5x.

We also expect Bayan to maintain very good liquidity. The company increased its cash balance by $42 million during the second quarter to $314 million as of 30 June 2020. Its cash, along with projected cash flow from operations, will be sufficient to meet the projected capital spending, dividends and scheduled debt maturities through 31 December 2021.

Exhibit 2
Bayan has sufficient cash sources to meet cash uses through December 2021



Source: Moody's Investors Service estimates

The company also has around $325 million of undrawn funds under committed working capital facilities with four banks that supplement its liquidity.

Our liquidity analysis does not account for any large cash outflow arising from an adverse court ruling on its ongoing legal dispute with former joint venture partners. Bayan has not taken any provision against this case as yet. According to the company, a final ruling on this case is likely toward the end of 2021. An adverse ruling that will result in significant cash outflow would weaken Bayan's credit quality.

REPORT NUMBER 1240401