

Rating Action: Moody's assigns Ba3 to Bayan Resources' proposed notes

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Singapore, January 08, 2020 -- Moody's Investors Service ("Moody's") has assigned a Ba3 senior unsecured rating to the proposed senior notes to be issued by Bayan Resources Tbk (P.T.) ("Bayan", Ba3 stable).

The outlook is stable.

Bayan plans to use the proceeds to refinance its working capital facilities and for general corporate purposes.

RATINGS RATIONALE

The Ba3 rating on the proposed notes is in line with Bayan's Ba3 corporate family rating, as the presence of upstream guarantees from major subsidiaries mitigates structural subordination risk for bondholders. In addition, the planned notes proceeds will be used to repay all of Bayan's existing working capital facilities.

"The proposed bond issuance will support Bayan's liquidity and lengthen its debt maturity profile," says Maisam Hasnain, a Moody's Assistant Vice President and Analyst.

Despite a modest increase in total debt following the notes issuance, Bayan's credit metrics will remain strong over the next 12-18 months, with adjusted leverage -- as measured by adjusted debt/EBITDA -- to remain 1.0x - 1.5x.

"Bayan's Ba3 rating reflects its strong profitability, supported by its low-cost structure and growing thermal coal production following the ramp-up at its Tabang mines, which have a long reserve life," adds Hasnain, also Moody's Lead Analyst for Bayan.

At the same time, Bayan's Ba3 rating is constrained by its single-commodity exposure to thermal coal and the geographic concentration of its mines in Kalimantan, Indonesia.

The rating also considers Bayan's exposure to environmental, social and governance (ESG) risks as follows.

Bayan faces elevated environmental risks associated with the coal mining industry, including carbon transition risks as countries seek to reduce their reliance on coal power. However, this risk is somewhat mitigated as Bayan's customers are primarily located in Asia, a region with growing energy needs.

Bayan will also remain exposed to weather-related risks, and in particular to the risk of dry weather that can lead to low water levels in the Kedang Kepala River and Belayan River, which are currently the company's principal waterways for the transport of coal to transshipment points from its Tabang mine.

Bayan is also exposed to social risks associated with the coal mining industry, including health and safety, responsible production and societal trends.

With respect to governance, Bayan's ownership is concentrated in Dato' Low Tuck Kwong, who holds an approximate 54% stake in the company. However, this risk is somewhat balanced by Bayan's listed status, the presence of other large shareholders including Korea Electric Power Corporation (KEPCO, Aa2 stable) which owns a 20% stake, and Bayan's considerable debt reduction in recent years, which suggests adherence to prudent financial policies.

The stable outlook on the rating reflects Moody's expectations that Bayan will continue to grow its production volumes while maintaining a financial profile appropriate for its Ba3 rating.

An upgrade of the rating is unlikely over the next 12-18 months, given Bayan's current scale and lack of diversification. Nonetheless, upward rating pressure could develop over the longer term if Bayan increases production meaningfully, or improves diversification in relation to geography or product while maintaining a strong credit profile.

Moody's could downgrade the rating if (1) Bayan experiences a material disruption in its operations; (2)

industry fundamentals deteriorate, leading to a decline in earnings; or (3) there is a material change in its underlying financial or operational strategy, including higher-than-expected capital spending, material debt-funded acquisitions, or a more aggressive dividend payment policy.

Specific financial indicators for a downgrade include adjusted debt/EBITDA approaching 3.5x or adjusted EBIT/interest expense trending down to 2.0x.

The principal methodology used in this rating was Mining published in September 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Listed on the Indonesian Stock Exchange in 2008, Bayan is engaged in surface open cut mining of coal mines primarily located in East and South Kalimantan. It has a 90% interest in its largest producing asset at Tabang, which will contribute around 80% of its total production volume of around 32 million tons in 2019.

Bayan's founder Dato' Low Tuck Kwong is the largest shareholder with a 53.9% stake, Korea Electric Power Corporation owns 20% through its subsidiaries, and PT Sumber Suradaya Prima owns 10%. Bayan's management and founders hold an 11.8% stake, and the balance is publicly owned.

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