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CREDIT OPINION
25 January 2021

Update

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RATINGS

Bayan Resources Tbk (P.T.)

Domicile	Indonesia
Long Term Rating	Ba3
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Bayan Resources Tbk (P.T.)

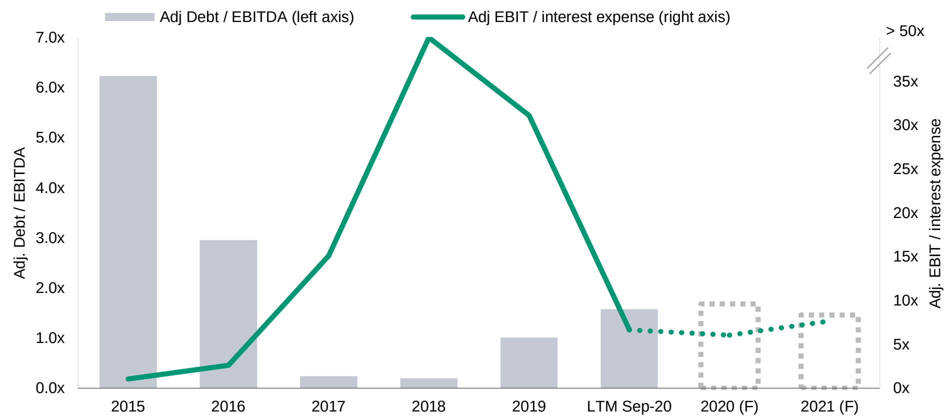
Update to credit analysis

Summary

Bayan Resources Tbk (P.T.)'s (Bayan) Ba3 corporate family rating (CFR) reflects its increasing thermal coal production following the ramp-up at its Tabang mines; the long reserve life of its mines; the company's profitability, supported by its low cost structure; and its recent record of debt reduction, which suggests its adherence to prudent financial policies.

At the same time, Bayan's Ba3 rating is constrained by a lack of diversification as a result of its single-commodity exposure to thermal coal and its geographic concentration, given that its mines are primarily in Kalimantan, Indonesia.

Exhibit 1
Bayan will maintain solid credit metrics through 2021



Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Credit strengths

» Rising coal production volume and long reserve life

» Profitability supported by its low cost structure and integrated infrastructure

» Strong financial metrics, despite weak coal prices and expansionary capital spending plans

Credit challenges

» Concentration risks arising from limited product and geographic diversification

» Exposure to thermal coal price volatility

» High environmental risks associated with the thermal coal sector

Rating outlook

The stable outlook on the rating reflects our expectation that Bayan will achieve its production volume growth while maintaining a financial profile appropriate for its Ba3 rating.

Factors that could lead to an upgrade

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 arise over time if Bayan increases production significantly or improves its geographic and product diversification while maintaining a strong credit profile.

Factors that could lead to a downgrade

Downward pressure on the rating could emerge if Bayan experiences a significant disruption in its operations; industry fundamentals deteriorate, leading to a decline in earnings; or there is a significant change in its underlying financial or operational strategy, including, but not limited to, higher-than-expected capital spending, significant debt-funded acquisitions or a more aggressive dividend payment policy.

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

Key indicators

Exhibit 2

Bayan Resources Tbk (P.T.)

	2016	2017	2018	2019	LTM Sep-20	2020 (F)	2021 (F)
Revenues ($ million)	555	1,067	1,677	1,392	1,253	1,340	1,326
EBIT Margin (EBIT / Revenue)	22%	42%	42%	23%	16%	15%	17%
EBIT / Interest Expense	2.6x	15.1x	130.3x	31.1x	6.7x	6.1x	7.7x
Debt / EBITDA	3.0x	0.2x	0.2x	1.0x	1.6x	1.7x	1.5x
Debt / Total Capital	68%	17%	17%	36%	39%	39%	36%
(CFO - Dividends) / Debt	20%	360%	280%	-68%	33%	34%	32%

All figures and ratios are calculated using our estimates and standard adjustments. Our Forecasts (F) or Projections (proj.) are our opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated. LTM = Last 12 months.
Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Profile

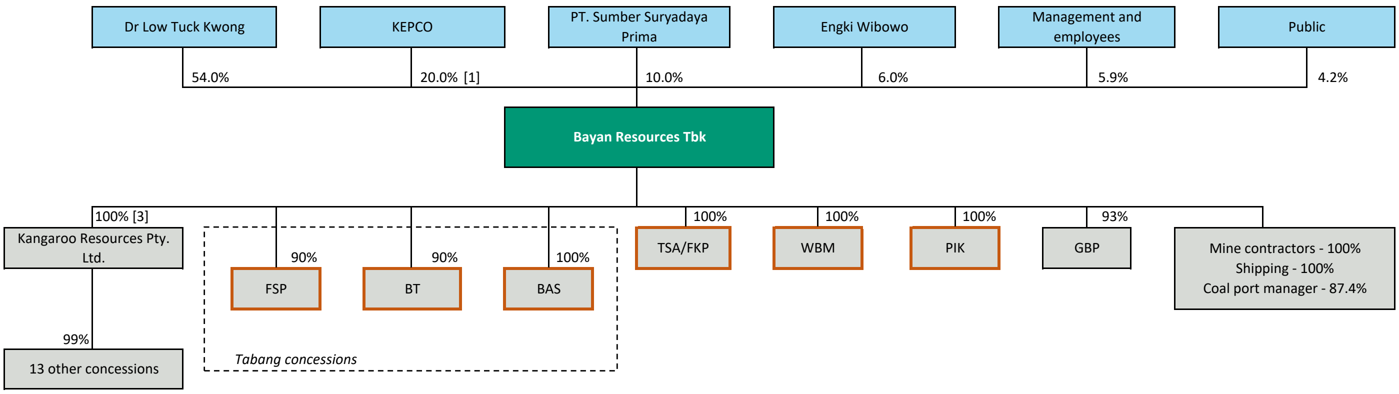
Bayan Resources Tbk (P.T.) (Bayan) was established in 2004 and listed on the Indonesian Stock Exchange in 2008. The company is engaged in open-cut coal mining, with mines in the Indonesian provinces of East Kalimantan and South Kalimantan.

The company owns and operates four key coal projects, the largest of which is through a 90% interest at its Tabang mining project, which contributed around 80% of its total production volume of 28.5 million tons (mt) for the 12 months that ended September 2020.

Bayan's founder, Dato' Low Tuck Kwong, is the largest shareholder with a 54.0% stake, Korea Electric Power Corporation (KEPCO, Aa2 stable) owns 20% through its subsidiaries and PT Sumber Suryadaya Prima owns 10% of the company. The balance is held between Bayan's management and other shareholders (see Exhibit 3).

Exhibit 3

Simplified corporate structure as of 30 September 2020



[1] KEPCO's stake is held through five of its subsidiaries, each of which holds a 4% stake; [2] Orange boxed entities show producing mines; and [3] Bayan completed its acquisition of the North and South Pakar concessions under Kangaroo Resources Pty. Ltd. (KRL) in December 2018; it expects to start production at its PT Tiwa Abadi mine at its North Pakar concession under KRL in 2021.

Source: Company data

Detailed credit considerations

Resilient financial metrics despite a difficult operating environment

Bayan's credit metrics have remained strong despite a difficult operating environment in 2020 because of the coronavirus pandemic, which resulted in coal price declines and a six-week operational closure at its mine sites.

For the 12 months ended September 2020, the company's adjusted leverage was 1.6x and adjusted interest coverage was 6.7x. Such metrics are strong for Bayan's Ba3 rating.

Based on the $65/ton mid-point of our medium-term price assumption of Newcastle thermal coal, we expect Bayan to maintain its credit metrics at similar levels over the next 12-18 months (see Exhibit 1). However, Bayan's metrics could be stronger than these levels if the recent rise in thermal coal price is sustained through 2021.

Exhibit 4

Thermal coal price has rebounded since December 2020

Our price sensitivity range for Newcastle thermal coal is $55/ton - $75/ton

Sources: Bloomberg and Moody's Investors Service estimates

If coal price declines considerably, Bayan maintains the flexibility to preserve cash by reducing capital spending and shareholder returns.

The company plans to ramp up capital spending to around $180 million in 2021, as it seeks to complete new hauling road and barge loading facilities over the next 18 months.

Nonetheless, Bayan can pull back its capital spending if the operating environment weakens. Amid weak coal prices last year, it spent $74 million against its initial budget of $90 million-$110 million.

Also, while Bayan has a dividend payout policy of up to 60% of the previous year's net income, we expect it to reduce the payout if coal prices decline considerably.

Indonesian coal producer with growing production and a long reserve life

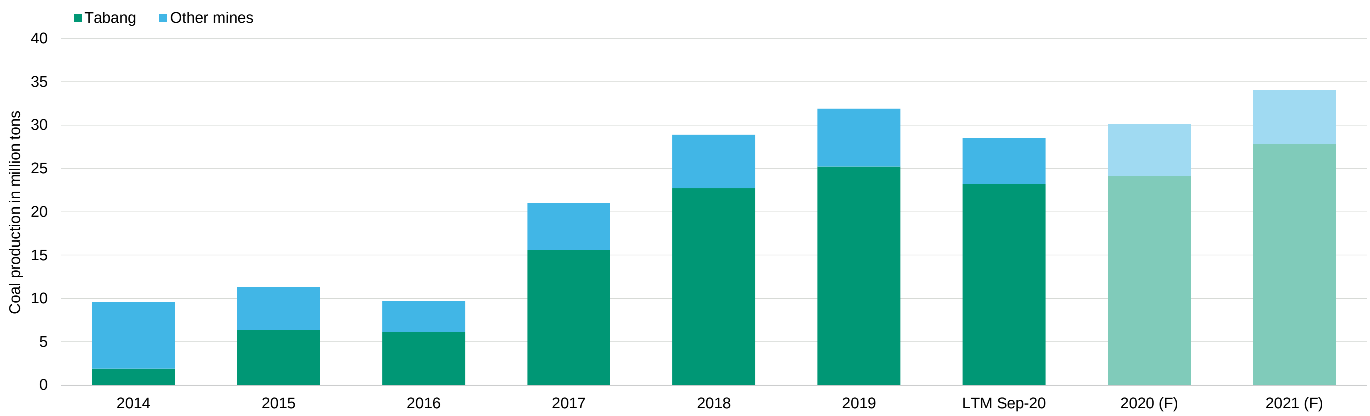
Bayan owns and operates four key open-cut mining projects: Tabang, Teguh Sinarabadi (TSA)/FirmanKetaun Perkasa (FKP), Wahana Baratama Mining (WBM), and Perkasa Inakakerta (PIK) in East and South Kalimantan.

The company temporarily suspended operations from 25 March 2020 to 14 May 2020 as a safety precaution against the coronavirus pandemic. As a result, coal production dipped slightly to around 30 mt in 2020 from 31.9 mt in 2019.

Nonetheless, we expect this decline to be temporary, and Bayan will increase production to 32-34 mt in 2021, assuming a gradual economic recovery (see Global Macro Outlook 2021-22: Nascent economic rebound takes hold globally but recovery will remain fragile, November 2020.

Exhibit 5

Production will rise, driven by higher volumes at the Tabang mines

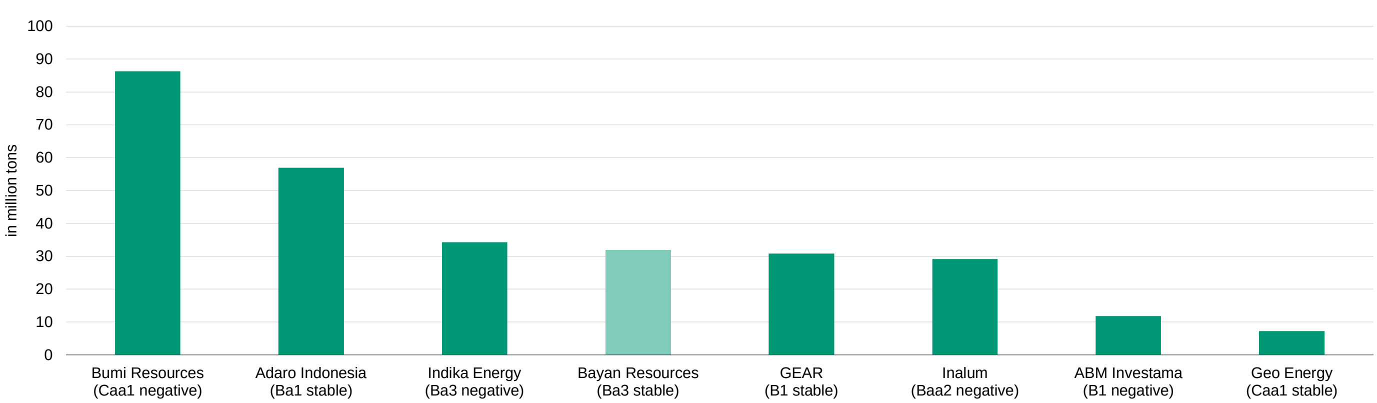


Sources: Company data and Moody's Investors Service estimates

In terms of production volumes, among the Indonesian thermal coal issuers that we rate, Bayan's production volume is similar to that of Indika Energy Tbk (P.T.) (Ba3 negative).

Exhibit 6

Bayan's coal production compared with that of the Indonesian thermal coal miners that we rate



Inalum's production volumes are based on its subsidiary Bukit Asam. Adaro Indonesia's production volumes are based on thermal coal production for Adaro Energy.
Source: Company information

Tabang, Bayan's largest producing asset, will continue to contribute around 80% of the company's total production volumes over the next 12-18 months. Tabang has been in its ramp-up phase and production has increased significantly since 2015.

The Tabang mines produce thermal coal with a calorific value of 4,000-4,250 kilocalories per kilogram and low levels of ash (4.4%) and sulfur (0.12%), which makes the coal very suitable for use in thermal power plants across Asia.

Tabang only started expanding significantly since 2015, but its operational risk has been mitigated by the stable production ramp-up since then and by the use of experienced on-site contract miners, including Petrosea Tbk (P.T.), a subsidiary of Indika Energy, and Bukit Makmur Mandiri Utama (P.T.) (Ba3 negative), through long-term contracts. Contract mining rates are typically fixed, with adjustments made depending on fuel prices, exchange rates and inflation rates.

Bayan has a large reserve base. As of 31 December 2019, the company reported coal resources of 2.5 billion tons, of which proved and probable reserves accounted for around 1.15 billion tons.

The company's main operating mines at Tabang — Bara Tabang and Fajar Sakti Prima (FSP) — had proved and probable reserves of around 362 mt as of December 2019, translating into a remaining reserve life of around 15 years based on 2020 production volumes.

The mine license at Bara Tabang expires in 2028, and can be extended twice for a period of 10 years each time. In December 2020, FSP's mine license was extended by 10 years to 2035, and the license can be extended by a further 10 years ahead of its expiry.

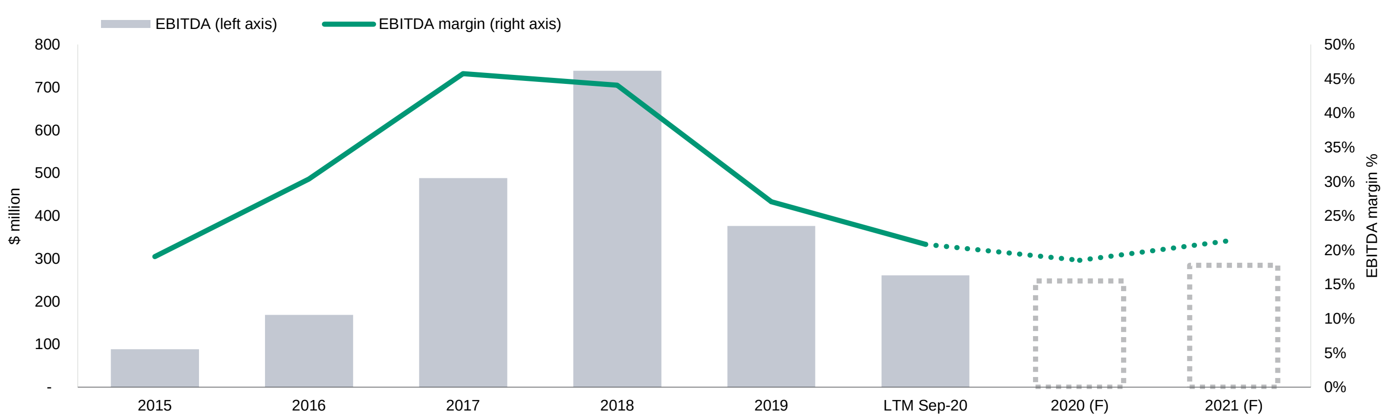
Profitability supported by a low cost structure and integrated infrastructure

The company has a competitive cost structure compared with coal producers globally, driven by low labor costs, open-cut mining, a low strip ratio, and integrated infrastructure and transportation. The company's weighted average strip ratio has improved significantly over the years, recording a ratio of 4.3x for the nine months that ended September 2020, compared with 10x in 2014.

As a result, although lower thermal coal prices in the last 18 months have reduced Bayan's earnings, the company's cost structure has allowed it to remain profitable and generate healthy EBITDA margins. We expect the company to generate an EBITDA margin of around 20% in 2021.

Exhibit 7

Earnings and profitability will decline over the next 12-18 months because of weak coal prices



Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Bayan's low-cost mining operations are supported by its integrated export infrastructure, which is mainly owned and operated by the company. Key infrastructure assets include:

» Balikpapan Coal Terminal: This coal terminal supports the Tabang and TSA/FKP mines and is one of the largest land-based coal terminals in Indonesia, with a handling throughput capacity of 25 mt per annum (mtpa). The terminal can fully load Panamax vessels and partially load Capesize vessels.

» Kalimantan Floating Transfer Stations: There are two of these floating transfer stations supporting the Tabang mines. They each have a capacity of around 10 mtpa. They can be moved to avoid bad weather and positioned to load Capesize vessels.

» Transportation infrastructure: Bayan owns and operates five jetties and the hauling roads leading to these jetties. The company is also constructing a new 100-kilometer coal haul road from the Tabang mines to the Mahakam River and a new barge-loading facility directly on the Mahakam River. The construction of the road and the barge-loading facility commenced in December 2019, and Bayan targets to complete construction by mid-2022.

Exposure to geographic concentration and the cyclical thermal coal sector

Bayan is also wholly exposed to the cyclical thermal coal industry because it is a single-commodity business. During the commodity price downturn of 2015-16, it had to suspend production at some mines because of low prices and was forced to terminate coal supply agreements with customers.

However, since the ramp-up of operations at the Tabang mines, which helped Bayan transform itself into a low-cost coal producer, the company is in a better position to weather industry downturns.

Bayan manages the risk of cyclical coal prices with long-term sales contracts, for which prices are determined yearly, quarterly or by an index-linked method. This allows it to take advantage of the cyclical rise in coal prices, but provides only a partial buffer against falling prices, which could create some uncertainty regarding future cash flow.

Bayan's operations are primarily in Kalimantan, which exposes the company to a degree of geographic concentration risk, and it is reliant on its Tabang mines, which contribute most of its production.

Bayan will also be exposed to weather-related risks, particularly over the next few years until it completes its haul road to the Mahakam River.

In March 2019, the company declared force majeure on some customer contracts. This was because low water levels at the Kedang Kepala River, which is currently the principal waterway to transport coal to transshipment points from Tabang, delayed its coal shipments. Bayan subsequently restarted shipments in April as water levels rose; thus, the financial impact was limited. However, prolonged weather disruptions could significantly weaken Bayan's earnings, particularly if it results in the loss of key customers under long-term contracts.

Uncertainty over eventual outcome around ongoing litigation

Bayan is in a legal dispute with former joint-venture partners, Binderless Coal Briquetting Company Pty Limited and BCBC Singapore Pte Ltd, to set up a coal briquette processing plant in Indonesia under PT Kaltim Supacoal.

Bayan has thus far not taken any provision against this case. According to the company, a final ruling on this case is likely toward the end of 2021; thus, near-term cash outflow is unlikely. Any adverse ruling that will result in significant cash outflow will lead to negative rating pressure.

ESG considerations

Globally, coal mining companies, along with unregulated utilities and power companies, have already experienced significant credit pressure as a result of environmental risks.[1]

In Asia, coal will remain a major power source because of the significant existing capacity and the continuing growth in power demand. However, policies favoring renewables, the declining costs of renewables and development of disruptive technologies will increase the long-term risk for coal-driven power companies, and subsequently for Indonesian thermal coal producers, such as Bayan, which are the largest exporters of coal in the region.[2]

Bayan is also exposed to social risks associated with the coal mining industry, including health and safety, responsible production and societal trends. However, Bayan engages in a number of social initiatives such as community development projects, including education funding, infrastructure development and economic support for the locals.

With respect to governance, Bayan has concentrated ownership, with Dato' Low owning around 54% of the company. However, the presence of large shareholders, such as the state-owned electric utility company KEPCO (20% stake) and the power generation company Sumber Suryadaya Prima (10% stake), could limit the ability for a single shareholder to take actions that may weaken the long-term value of the company.

In terms of independent oversight, Bayan's articles of association stipulate that at least 30% of the board must comprise independent commissioners. Currently, two out of five members on Bayan's board of commissioners is independent.

In 2019, Dato' Low sought the assistance of Bayan to help him and other interested shareholders sell around 10% of their stake in Bayan via a private placement. Eventually, the transaction did not proceed. Large divestments by key shareholders could be credit negative as Bayan's bank loans and bond contain a change of control provision that could be triggered if its key shareholders (including Dato' Low) cease to hold at least 35% of Bayan.

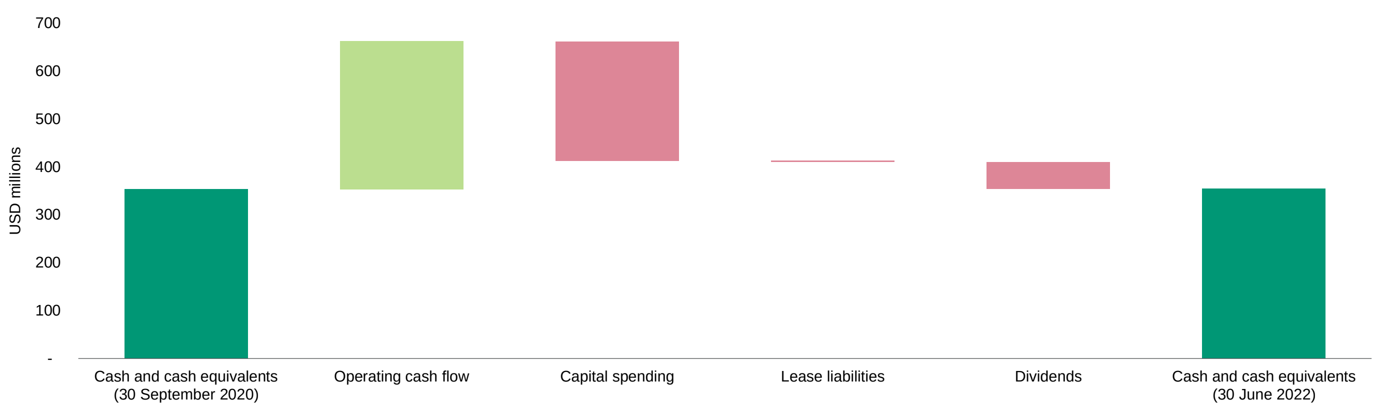
Liquidity analysis

Bayan possesses very good liquidity. We expect its cash balance, along with the projected cash flow from operations, to be sufficient to meet the projected capital spending, dividends and scheduled debt maturities through 30 June 2022.

Bayan has no significant maturities until its senior unsecured notes mature in January 2023. In addition, the company has the flexibility to scale back on capital spending or dividends to preserve liquidity, if required.

Exhibit 8

Bayan has sufficient cash sources to meet cash uses through June 2022



Sources: Company data and Moody's Investors Service estimates

The company also has around $311 million undrawn under committed working capital facilities with four banks that help supplement its liquidity. Under the terms of the working capital facilities, Bayan is required to maintain net leverage of 2.5x. As of 30 September 2020, the company had reported net leverage of 0.2x.

Exhibit 9

Bayan had $311 million undrawn under working capital facilities as of 30 September 2020

Bank	Amounts undrawn under facilities ($m)	Maturity date
SMBC	100	March 2021
QNB	50	December 2021
Mandiri	61	October 2022
Permata	100	December 2023

[1] Undrawn amount consists of cash portion available under these facilities and is net of amounts issued under bank guarantees. [2] In December 2020, Bayan announced a three-year extension on its loan facility with Permata to December 2023.
Source: Company information

Structural considerations

The $400 million notes due January 2023 are rated in line with Bayan's Ba3 CFR because the presence of upstream guarantees from major subsidiaries mitigates structural subordination risk for bondholders. The notes proceeds were used to repay all of Bayan's outstanding working capital facilities, thus mitigating legal subordination risk.

Methodology and scorecard

In accordance with our global rating methodology for mining companies (refer to Mining, published in September 2018), the scorecard-indicated outcome based on our 12-18-month forward-looking view is Ba3-Ba2, against its final rating of Ba3.

Exhibit 10

Rating factors

Bayan Resources Tbk (P.T.)

Mining Industry Scorecard [1][2]	Current LTM 9-30-2020		Moody's 12-18 Month Forward View [3]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenues (USD Billion)	$1.3	Caa	$1.3	Caa
Factor 2 : Business Profile (25%)				
a) Business Profile	B	B	B	B
Factor 3 : Profitability and Efficiency (10%)				
a) EBIT Margin (EBIT / Revenue)	16.0%	Baa	14.5% - 17.5%	Ba - Baa
Factor 4 : Leverage and Coverage (30%)				
a) EBIT / Interest Expense	6.7x	Baa	6.1x - 7.7x	Baa - A
b) Debt / EBITDA	1.6x	Baa	1.5x - 1.7x	Baa - A
c) Debt / Total Capital	39.0%	A	36% - 38%	A
d) (CFO - Dividends) / Debt	33.1%	Ba	32% - 34%	Ba
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		Ba3		Ba3 - Ba2
b) Actual Rating Assigned				Ba3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2020. [3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Ratings

Exhibit 11

Category	Moody's Rating
BAYAN RESOURCES TBK (P.T.)	
Outlook	Stable
Corporate Family Rating	Ba3
Senior Unsecured	Ba3

Source: Moody's Investors Service

Appendix

Exhibit 12
Peer comparison
Bayan Resources Tbk (P.T.)

	Bayan Resources Tbk (P.T.) Ba3 Stable			Adaro Indonesia (P.T.) based on consolidated financials of Adaro Energy Tbk Ba1 Stable			Indika Energy Tbk (P.T.) Ba3 Negative		
(in US millions)	FYE Dec-18	FYE Dec-19	LTM Sep-20	FYE Dec-18	FYE Dec-19	LTM Sep-20	FYE Dec-18	FYE Dec-19	LTM Sep-20
Revenue	$1,677	$1,392	$1,253	$3,620	$3,457	$2,758	$2,963	$2,783	$2,241
EBITDA	$739	$377	$261	$1,382	$1,158	$910	$728	$526	$332
Total Debt	$146	$382	$412	$1,860	$2,361	$2,021	$1,717	$1,849	$1,540
EBIT Margin	42%	23%	16%	29%	22%	17%	14%	7%	2%
EBIT/Avg. Tang. Assets	68%	26%	16%	16%	11%	7%	17%	7%	2%
EBIT / Int. Exp.	130.3x	31.1x	6.7x	15.1x	11.1x	5.6x	3.5x	1.6x	0.6x
Debt / EBITDA	0.2x	1.0x	1.6x	1.3x	2.0x	2.2x	2.4x	3.5x	4.6x
Total Debt/Capital	17%	36%	39%	28%	35%	33%	55%	59%	58%
(CFO - Dividends) / Debt	280%	-68%	33%	32%	30%	18%	17%	11%	4%

All figures and ratios are calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 13
Moody's-adjusted debt breakdown
Bayan Resources Tbk (P.T.)

(in US Millions)	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	LTM Sep-20
As Reported Debt	**539**	**481**	**99**	**129**	**364**	**401**
Pensions	6	7	9	9	10	10
Operating Leases	8	11	9	8	8	-
Moody's-Adjusted Debt	**553**	**499**	**117**	**146**	**382**	**412**

All figures are calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 14
Moody's-adjusted EBITDA breakdown
Bayan Resources Tbk (P.T.)

(in US Millions)	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	LTM Sep-20
As Reported EBITDA	**72**	**167**	**486**	**741**	**374**	**262**
Pensions	1	1	1	1	1	1
Operating Leases	1	2	2	2	2	0
Unusual	14	(1)	(0)	(4)	0	(2)
Moody's-Adjusted EBITDA	**89**	**169**	**488**	**739**	**377**	**261**

All figures are calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Endnotes

1 ESG – Global: Heat map: Sectors with $3.4 trillion in debt face heightened environmental credit risk, 14 December 2020.

2 Power - Asia: Asia's coal power producers face increasing risk of declining dispatch volume, 19 November 2020.

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