

Rating Action: Moody's assigns Ba3 CFR to Bayan Resources; outlook stable

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Singapore, October 03, 2018 -- Moody's Investors Service has assigned a Ba3 corporate family rating (CFR) to Bayan Resources Tbk (P.T.).

The rating outlook is stable.

RATINGS RATIONALE

"Bayan's Ba3 rating reflects its growing thermal coal production levels following the ramp-up at its Tabang mine, long reserve life of around 30 years, as well as strong profitability, and very low leverage," says Maisam Hasnain, a Moody's Analyst and Lead Analyst for Bayan.

The Ba3 rating also takes into account Bayan's strong operating profile. The company has a globally competitive cost structure, supported by low labor costs, efficient open-cut mining operations with a low strip ratio and mine site integrated infrastructure. In 1H 2018, the company reported an average strip ratio of 4.1x, cash cost of around \$30 per ton and a reported EBITDA margin of 48%.

The Indonesian coal miner produced 14.8 million tons of coal in the first six months of 2018 (1H 2018) across its five operating mines, up 78% from the 8.3 million tons produced during the same period last year. Bayan is on track to meet its target of up to 28 million tons for the full year. Tabang is the company's largest producing asset and will contribute around 80% of total volumes in 2018.

The company plans to spend approximately \$255 million over the next three years to considerably increase the capacity at its Tabang mine to 50-60 million tons by 2021 from 25-35 million tons currently. The expansion will be funded primarily with internal cash generated from operations.

"As Bayan continues with the planned volume growth at Tabang, we expect it to maintain prudent financial policies, including maintaining low leverage and these expectations are built into the Ba3 rating," adds Hasnain. "Under our base case projections, Bayan's adjusted debt/EBITDA will stay below 1.0x through 2020."

At the same time, the Ba3 rating remains constrained by a lack of diversification, given Bayan's single commodity exposure to thermal coal and geographic concentration, because all its mines are located in Kalimantan.

Tabang has a relatively short track record having only started to materially increase production in 2015. Nonetheless, Moody's believes operational risk is mitigated by the stable production ramp-up since 2015 and the use of experienced and reputable contract miners at the mine site.

The stable outlook on the rating reflects Moody's expectations that Bayan will achieve its production volume growth, 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 limited scale and lack of diversification. Nonetheless, upward rating pressure could develop over the longer term, if Bayan increases production meaningfully, improves diversification in relation to geography and/or product, while maintaining a strong credit profile.

Downward pressure on the rating could emerge if: 1) Bayan experiences material disruption to 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 but not limited to, higher-than-expected capital spending, material 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 2x.

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

Listed on the Indonesian Stock Exchange in 2008, Bayan Resources Tbk (P.T.) 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 up to 28 million tons in 2018.

At 31 December 2017, the company had JORC-compliant resources of around 1.9 billion tons, of which, proven and probable reserves accounted for 792 million tons.

Bayan's founder Dato' Low Tuck Kwong is the largest shareholder with a 51.6% stake, Korea Electric Power Corporation (KEPCO, Aa2 stable) owns 20% through its subsidiaries and PT Sumber Suradaya Prima owns 10%. Bayan's management holds a 14.5% stake and the balance is publicly owned.

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