

CMBI Credit Commentary - SAKAEI

SAKAEI – Saka Energi Coverage Initiation

Initiate coverage on SAKAEI'24 (97.5, YTM 5.6%) with an OW recommendation

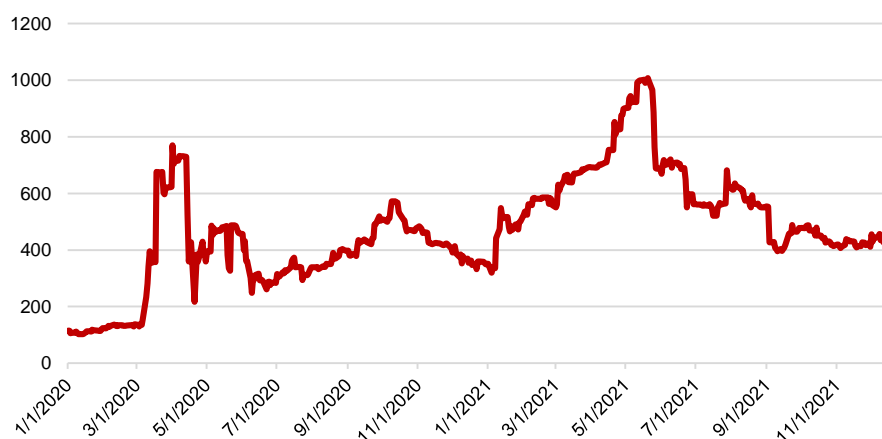
We initiate the coverage on Saka Energi with OW recommendation on SAKAEI'24 (B2/B+ Stable/Negative by Moody's/Fitch). We deem SAKAEI'24 an attractive yield pick-up play over PGASIJ'24 given the c420bp spread differential. Despite spread differential has narrowed notably since May'21, we still see room for spread compression of 150-200bps after shareholder's loans extended and oil price was back to pre-COVID level. Recalled that the spread differential was hovering below 150bps before the COVID-19 outbreak.

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SAKAEI'24 and PGASIJ'24 Spread Differential



Close relationship with PGN and Indonesian government continues....

In Sep'21, PGN extended the maturities of shareholder loans to Saka Energi. Out of the total shareholders' loans of 360.6mn, USD283mn of these will mature after the due date of SAKAEI'24 on 5 May'24. The shareholder's loans and USD bonds accounted for 37% and 63% of Saka Energi's total debts as of Sep'21.

| | Size (USD mn) | Funding cost | Maturity | Starting from | Original funding cost |
|-----------|---------------|--------------|----------|---------------|-----------------------|
| Tranche A | 77.6 | 3.70% | Jan'23 | Jan'22 | 6.40% |
| Tranche B | 141.5 | 5.09% | Dec'24 | Jan'22 | LIBOR+2% |
| | 141.5 | 5.09% | Dec'25 | Jan'22 | LIBOR+2% |

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As a 100% owned upstream oil and gas producer of PGN, Saka Energi accounted for 28.9% and 25.1% of PGN's consolidated 9M21 EBITDA and total assets at Sep'21. We believe that Saka Energi is a "material subsidiary" of PGN, and the default of Saka Energi, if any, will trigger the cross default of PGN. Hence, PGN will continue to have a strong incentive to support Saka Energi if needed.

.... despite talks of introduction of strategic investors and further SOE reform

In 2018, Pertamina acquired 57% shares of PGN and PGN acquired 51% shares of Pertamina from Pertamina. As per our conversations with Saka Energi, Pertamina could explore options to introduce strategic investors for Saka Energi and coordinate resources sharing among all the upstream operations. However, we believe that the downside risk of ownership change of Saka Energi, if any, is limited as Indonesia government is incentivized to maintain control of Saka Energi and other strategically importance assets.

We take additional comfort that Saka Energi's stand-alone credit profile improved notably on the back of oil and gas price rally. Saka Energi reported revenue/EBITDA yoy growth of 64.6%/145.5% in 9M21, thanks to higher ASP. Net debt to LTM EBITDA also lowered to 3.6x in 1H21 from 8.1x in FY20.

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