MOODY'S
INVESTORS SERVICE

# Rating Action: Moody's upgrades Protelindo's rating to Baa3 from Ba1; outlook remains stable

**Global Credit Research - 05 Oct 2016**

Hong Kong, October 05, 2016 -- Moody's Investors Service today assigned an issuer rating of Baa3 to Profesional Telekomunikasi Indonesia ("Protelindo"). This is the first time Moody's has assigned an investment grade rating to Protelindo.

The outlook for the rating is stable.

At the same time, Moody's has withdrawn the company's Ba1 Corporate Family Rating (CFR).

RATINGS RATIONALE

"The upgrade into investment grade from the previous Ba1 rating reflects Protelindo's resilient and contractually based business model with stable free cash flow generation and relatively low leverage, " says Annalisa Di Chiara, a Moody's Vice President and Senior Credit Officer.

"Management's commitment to a strong balance sheet is also an integral part of its investment grade rating and provides comfort that any additional acquisitions or shareholder initiatives will not result in a material increase in leverage, nor a significant contraction in cash flows," adds Di Chiara

Moody's also understands that Protelindo has recently prepaid around IDR3.3 trillion of foreign currency-denominated debt from cash and cash from operations.

As a result, despite an increase in debt of IDR3 trillion for its IDR3.57 trillion acquisition of 2,500 towers from XL Axiata Tbk (P.T.) (Ba1 positive) in June 2016, Moody's expects Protelindo will return to pre-acquisition leverage levels -- or around 2.5x by end-2016 -- compared to its previous expectation of 3.0x-3.5x.

Management has guided towards a net leverage tolerance level of 2.0x-3.0x, based on last quarter annualized EBITDA, a level which can be accommodated in the Baa3 rating. This ratio was 2.2x as of June 2016. Furthermore, Moody's expects the company will continue to minimize refinancing risk, making debt repayments through cash flow from operations.

"The long-term and non-cancellable, contractual nature of Protelindo's revenue base provides a high degree of visibility for future cash flows. As of June 2016, the company had contracted revenues of IDR27.1 trillion, which is around 5.7 times its revenue for the last 12 months", adds Di Chiara.

In addition, limited contract renewal risk over the next three years and a stable tenancy profile further support high EBITDA margins and resilient cash flows, providing a cushion to initiate dividend payments - or make an tower assets acquisition similar in size to its recent purchase from XL - while maintaining a strong credit profile.

Protelindo's investment grade rating is also supported by its position as Indonesia's largest independent tower company in Indonesia by some margin, with about 14,515 towers and 24,178 tenants. By comparison, the second largest independent tower company, Tower Bersama Infrastructure Tbk (P.T.) (TBI, Ba3 stable) had 12,070 towers leased to 19,972 tenants as of June 2016.

Protelindo's tenancy mix will also benefit from its recent acquisition, as 2,432 towers will have XL as the anchor tenant. As a result, Moody's expects revenues from the Big 3 mobile operators -- Telekomunikasi Selular (P.T.) (Baa1 stable), Indosat Tbk. (P.T.) (Ba1 positive) and XL -- to increase to around 48% by end-2016 from 44% in 2015.

Finally, Protelindo continues to have excellent liquidity, demonstrated by strong access to bank funding, and a long-dated debt maturity profile. The company reported a IDR3.6 trillion cash on its balance sheet at June 2016, and around 75% of its debt facilities mature in 2019 and beyond.

The outlook on Protelindo's rating is stable, reflecting our expectation that the company will maintain a strong financial profile through steady growth and positive free cash flow generation. Leverage, as measured by adjusted gross debt/EBITDA, is also expected to remain around 2.5x.

What Could Change the Rating -- Up

Given the recent upgrade in Protelindo's rating, upward rating pressure is limited. However, upward pressure may build if over time if : (1) adjusted debt/EBITDA falls below 2.0x on a consistent basis and (2) interest coverage, as measured by adjusted (FFO + interest)/interest, rises above 5.5x-6.0x on a sustained basis.

What Could Change the Rating -- Down

Financial indicators that could lead to a downgrade include: (1) adjusted debt/EBITDA rises above 3.0x on a consistent basis, (2) interest coverage, as measured by adjusted (FFO + interest)/interest, falls below 4.5x-5.0x, and/or (3) the company turns free cash flow negative.

In addition, downward rating pressure would build if: 1) the company makes acquisitions substantially beyond our expectations in terms of size or price paid, 2) rental rates decline significantly due to increased competition, or 3) a deterioration in the financials of one of its major tenants which would cause Protelindo's metrics to weaken.

The principal methodology used in these ratings was Global Communications Infrastructure Rating Methodology published in June 2011. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Founded in 2003, Profesional Telekomunikasi Indonesia ("Protelindo") is one of two leading independent tower companies in Indonesia with 14,515 telecommunication towers serving 24,178 tenants as of 30 June 2016. It essentially leases space on its communications towers to cellular telecommunications operators on long-term contracts.

Protelindo is wholly owned by Sarana Menara Nusantara (SMN, unrated), which is listed on the Indonesian Stock Exchange. Currently, 32.7% of SMN is owned by the Hartono family, and Protelindo's management, sponsors and advisors hold a significant stake in the company.

Assignments:

..Issuer: Profesional Telekomunikasi Indonesia

.... Issuer Rating (Foreign Currency), Assigned Baa3

Outlook Actions:

..Issuer: Profesional Telekomunikasi Indonesia

....Outlook, Remains Stable

Withdrawals:

..Issuer: Profesional Telekomunikasi Indonesia

.... Corporate Family Rating (Local Currency & Foreign Currency), Withdrawn , previously rated Ba1

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