FitchRatings

RATING ACTION COMMENTARY

Fitch Takes Negative Rating Actions on Six Palm-Oil Producers in Indonesia and Malaysia

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Fitch Ratings - Jakarta/Singapore - 06 May 2020: Fitch Ratings has taken negative rating actions across our coverage of palm-oil producers in Indonesia and Malaysia after completing a portfolio review. The review resulted in one rating downgrade and two rating affirmations with Outlook revisions to Negative from Stable. Simultaneously, Fitch Ratings Indonesia has downgraded the ratings of four companies and revised the Outlook of one to Negative from Stable after affirming the rating. They are listed below and also discussed in the key rating driver section.

The portfolio review followed the revision in our Malaysian benchmark crude palm oil (CPO) price forecasts for 2020 and 2021, which have been trimmed by USD30/tonne and USD15/tonne to USD520/tonne and USD560/tonne, respectively. We have lowered our palm-oil demand expectations for 2020-2021 due to the sharp fall in CPO prices, which is likely to discourage biodiesel blending due to the wide palm oil-gas oil spreads, and reduced edible-oil demand as people cut their travel and outside-food consumption. Supply is also likely to rise due to better weather conditions and yields. We continue to assume a CPO price of USD600/tonne from 2022.

Fitch has downgraded PT Sawit Sumbermas Sarana Tbk's (SSMS) Long-Term Foreign-Currency Issuer Default Rating to 'CCC+' from 'B-', and the rating on the USD300 million 7.75% senior notes due 2023 issued by its subsidiary, SSMS Plantation Holdings Pte. Ltd., to 'CCC+' from 'B-', with a Recovery Rating of 'RR4'. Fitch Ratings Indonesia has also downgraded SSMS's National Long-Term Rating to 'BB-(idn)' from 'BBB-(idn)'. The Outlook is Stable.

SSMS's rating is based on the consolidated profile of its parent, PT Citra Borneo Indah (CBI), which owns 54% of the company. The downgrade reflects our estimate that CBI's net debt/EBITDA leverage for 2019 increased to above 10x and EBITDA/interest coverage was below 1x, implying high refinancing risk for its US dollar bonds despite adequate near-term liquidity. We expect leverage to decline to below 10x and coverage to improve to above 1x in 2020, driven by higher SSMS EBITDA due to better yields and CPO output. However, losses at other CBI businesses, large outflows from related-party transactions and acquisitions and an inability to control costs could hamper an improvement in CBI's financial metrics.

The Outlook for Malaysia-based palm-oil producer Sime Darby Plantation Berhad's (SDP) Long-Term Issuer Default Rating has been revised to Negative from Stable and all ratings have been affirmed at 'BBB'. The Negative Outlook reflects the risk that the coronavirus pandemic may further delay SDP's assets disposal plans. This, combined with the revised CPO price assumptions, will likely keep its leverage, measured as FFO net leverage, above the negative rating sensitivity of 3x for an extended period. Fitch previously expected SDP's leverage to fall closer to 3x by end-2021. However, Fitch now expects the company's deleveraging trajectory to be delayed by around one year.

PT Tunas Baru Lampung Tbk's (TBLA) Long-Term Issuer Default Rating has been affirmed by Fitch at 'B+' but the Outlook has been revised to Negative from Stable. The rating on the USD250 million 7% senior unsecured notes due 2023, issued by wholly owned subsidiary TBLA International Pte. Ltd. and guaranteed by TBLA and all its majority-owned operating subsidiaries, has also been affirmed at 'B+' with a Recovery Rating of 'RR4'. Fitch Ratings Indonesia has also revised the Outlook on the National Long-Term Rating to Negative from Stable and at the same time affirmed the rating at 'A(idn)'.

TBLA's net debt-to-EBITDA leverage stood at 3.6x in 2019 and we expect the ratio to increase in 2020. However, we also expect leverage to decline from 2021 based on our estimate of increasing EBITDA due to capacity expansion, higher product sales volumes and better average CPO prices. TBLA's rating benefits from its diversification into the sugar business as well as vertical integration as it has substantial downstream refining and processing capacity for palm oil and presence across the value chain from plantations to refining in the sugar industry. However, its working capital has been volatile and capex has often been higher than our expectations. These present risks to deleveraging, which are reflected in our Negative Outlook.

Fitch Ratings Indonesia has downgraded the National Long-Term Ratings of PT Sinar Mas Agro Resources and Technology Tbk (SMART), PT Ivo Mas Tunggal (IMT) and PT Sawit Mas Sejahtera (SMS) to 'A-(idn)' from 'A(idn)'. The Outlook is Stable. Simultaneously, Fitch Ratings Indonesia has chosen to withdraw the rating of SMART for commercial reasons.

The ratings for the three entities, which are based on the consolidated profile of Golden Agri-Resources Ltd. (GAR), have been downgraded based on Fitch's expectation that although GAR's net debt-to-EBITDA leverage will decline from the 2019 level of over 8x, the ratio will remain above our previous threshold for negative rating action of 5.5x over the next three years. Fitch's computation of GAR's leverage includes corporate guarantees but excludes any inventory-related benefits. GAR's large scale and vertical integration support its business and credit profile, although its leverage is significantly higher than that of similarly rated sector peers.

'A' National Ratings denote expectations of low default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions may affect the capacity for timely repayment to a greater degree than is the case for financial commitments denoted by a higher- rated category.

'BB' National Ratings denote an elevated default risk relative to other issuers or obligations in the same country or monetary union.

KEY RATING DRIVERS

SSMS

Leverage Outlier: We estimate that SSMS's yield of fresh fruit bunches (FFB) fell 9% in 2019, compounding the effect of weaker CPO prices on EBITDA. Another key factor behind our estimate of SSMS's weak EBITDA in 2019 is a sustained increase in FFB cash production costs, which rose to above USD55/tonne from USD49/tonne in 2017. Fertiliser and labour were the main cost components that increased over 2018-2019, in our view, and we expect these costs to continue to be a drag on earnings.

Free cash flow (FCF) is likely to remain negative, but we expect leverage to decline to below 10x and coverage to improve to above 1x in 2020. Nonetheless, CBI's consolidated leverage is an outlier and we expect it to remain high over the next two years. We estimate higher EBITDA from SSMS due to better yields and CPO output. However, losses at other CBI businesses, large outflows from related-party transactions and acquisitions, and an inability to control costs could hamper an improvement in CBI's financial metrics. Sustained weakness in the metrics could compound risks from a negative FCF profile, and cause SSMS's credit profile to deteriorate further.

Strong Operating Metrics, Higher Costs: SSMS's yield at around 24.5 tonnes per hectare of owned mature area in 2018 was above the representative industry average and we estimate its yield was also higher in 2019, despite a decline. This has supported SSMS's business profile and offset risks from the concentration of its planted acreage of around 70,000 hectares in a 60km radius in Central Kalimantan. We expect SSMS's yield to rebound from the 2019 level due to management's focus on boosting output through increased fertiliser use. The company says it has engaged in intensive fertiliser use since 2018 to improve yields over the long term, increased its labour force and paid higher wages in accordance with local regulations. We expect costs to continue to rise, mainly driven by wage inflation, unless the company takes effective steps to improve operational efficiency.

Losses at Other Businesses: We believe CBI's businesses outside of SSMS, which include a CPO refinery, industrial-park development and operations in shipping, forest products and timber, are generally loss-making. The refinery, which started operations in 2018, has struggled to ramp up utilisation rates due to issues such as insufficient tankage capacity. We expect CBI to address the issues and increase refinery throughput, but meaningful EBITDA generation could take a few years. The outlook for better earnings at the other businesses is unclear and continued losses at these entities are a key risk to CBI's deleveraging.

ESG - Group Structure: SSMS has an ESG Relevance Score of '4' for Group Structure. The parent's complex group structure and extensive related-party transactions have increased cash flow volatility and hurt SSMS's credit profile, in conjunction with other factors. A sharp increase in receivables from CBI's related parties contributed to the jump in leverage in 2018. We have assumed that such receivables, which were due to the advance reimbursement of related parties' operational expenses, fell in 2019 and will remain stable thereafter. However, we see significant risk of further outflows due to these transactions continuing in the absence of adequate disclosure and guidance.

Rating Based on Consolidated Profile: We have assessed that the parent, excluding SSMS, has a weaker consolidated credit profile as several of its subsidiaries, other than SSMS, are loss-making. We also deem legal and operational linkages between SSMS and CBI to be strong, as SSMS's US dollar notes have a cross-default clause covering CBI and its other subsidiaries. There is also some overlap between SSMS's board of commissioners and CBI's management, in addition to the majority stake in SSMS.

SDP

Delay in Asset Disposals: SDP only disposed of MYR194 million in non-core assets in 2019, significantly less than the company's expectation of MYR1 billion and Fitch's expectation of MYR700 million. SDP said the delay was due to administrative processes and pending government approvals. SDP expects to meet the MYR1 billion disposal target for the full year. However, Fitch is only assuming a minimal disposal in 2020 in our rating-case forecast due to the challenging market environment and the risk that the transactions may not be completed and proceeds not received as scheduled in light of the ongoing pandemic and social distancing measures.

Lower Yield Offsets Cost Efficiency: SDP's FFB yield dropped to 19.7 tonnes/hectare in 2019 from 20.8 tonnes/hectares in 2018. The drop was due to prolonged dry weather in Malaysia and Indonesia and higher seasonal rainfall in Papua New Guinea. Lower plantation productivity, coupled with the continued high operating costs in Papua New Guinea and a high proportion of old trees in Indonesia, offset the benefit from production-costs efficiency efforts in Malaysia.

Limited Capex Flexibility: Palm-oil cultivation is inherently capital intensive as companies must commit to regular upkeep and replanting to maintain a plantation's productivity and a balanced tree-age profile. Fitch therefore assumes total capex will be only slightly lower in 2020 at MYR1.3 billion compared with the historical average of around MYR1.6 billion.

Liberia Exit Supportive to Profile: SDP's disposal of its Liberian palm-oil project supports its credit profile as it allows the company to conserve cash in a challenging market environment. The project was at a very early stage and faced operational issues. The Liberian project accounted for less than 1% of consolidated CPO production in 2019 and reported net losses of around MYR180 million for the 12 months ended 30 June 2018. At the point of exit in January 2020 SDP received a cash consideration of USD1 plus an earn-out payment, which will be payable quarterly over eight years starting April 2023. The earn-out payment will be based on average future CPO prices and production in Liberia.

Largest Sustainable Oil Producer: SDP's rating reflects its position as the world's largest palm-oil producer, with more than 600,000 hectares of planted area and annual downstream capacity of 3.8 million tonnes. Fitch regards SDP's high proportion of certified-oil output as positive for its business profile, as it provides the company with access to developed markets, where it can earn higher downstream margins from more stable demand and customisation. SDP reported that more than 90% of its oil output was certified as sustainable; this is the highest certification ratio among its peers.

TBLA

Yield Falls, Rebound Likely: TBLA's FFB yield fell by around 20% in 2019 to 17.6 tonnes per mature hectare due to drier weather conditions. Its 2019 yield was also significantly lower than Fitch's estimate of a representative industry average. However, we expect yields to improve in 2020 due to better weather conditions, supported by the age profile of its plantations with almost 80% of the trees being young or mature. Nonetheless, we assume the yield will remain below the 2018 level of 21.7 tonnes per mature hectare as the benefit from higher rainfall is likely to accrue gradually.

Risk to Biodiesel Volumes: TBLA has secured a contract from PT Pertamina (Persero) (BBB/Stable) to supply 341,000 kilolitres of biodiesel for 2020, which we have largely reflected in our sales forecast. Our sales volume assumption for 2020 implies a 13% increase from the 2019 level, lower than Indonesia's target of a 45% jump in biodiesel consumption in 2020 to 9.6 million kilolitres. TBLA's biodiesel sales volumes almost doubled in 2019 and our estimates for 2020 factor in a likely miss in the government's biodiesel usage target due to a drop in fuel demand and low crude oil prices in 2020. We assume TBLA's volume growth will improve to 15% in 2021, but we see risks from a prolonged weakness in demand.

Sugar Prices Likely to Moderate: Indonesia relies on raw sugar imports as domestic output is significantly lower than demand. However, import quotas allotted by the government to refiners such as TBLA were sharply lower in 2019, which resulted in higher prices. Sugar prices have jumped further in 1Q20. TBLA received 90 kilo tonnes (kt) of quota in 1Q20, compared with 70kt for full-year 2019, and we expect further sugar import quotas in 2020 as the government take steps to control prices. The decline in international sugar prices should also result in lower domestic prices, and we forecast that the benefit to 2020 sugar revenue from a higher sales volume will be partly offset by a lower average price.

ESG - Management Strategy: TBLA has an ESG Relevance Score of '4' for Management Strategy. The company's working capital flows, especially inventories, have been volatile while capex has often been higher than our expectations. The company's working capital outflow in 2019 was sharply lower, but its capex was higher. TBLA's inventory is partly affected by the import of raw sugar, which depends on when the government issues quotas and international price trends. The company's spending on new planting and processing capacity addition has often been higher than our expectations.

We have assumed an increase in working capital days in 2020, accounting for higher sugar import quotas as well as potential pressure on trade receivables and payables from its buyers and suppliers who may be looking to preserve liquidity in this environment, and an improvement in 2021. We also assume sustained capex for refining and biodiesel capacity expansion, oil-palm and sugarcane planting, in addition to maintenance capex of IDR400 billion-500 billion for 2020 and 2021.

Share Buyback Planned: TBLA has planned a buyback of IDR300 billion in 2Q20 to support its share price, which is likely to contribute to an increase in leverage in 2020. However, the company has indicated it could re-evaluate its plan should its financial profile weaken materially.

GAR Subsidiaries

Ratings Based on Consolidated Profile: We rate the three palm oil producers, SMART, IMT and SMS, based on GAR's consolidated profile, due to strong legal, operational and strategic linkages. We assess each subsidiary to be weaker than the rest of the group (parent) as they focus on only specific segments of the total palm-oil value chain. The subsidiaries have their own credit facilities, but we believe financial access is driven by the parent. Several bank facilities at these subsidiaries benefit from guarantees from GAR. The three subsidiaries each contribute 20%-50% to consolidated EBITDA, before elimination, and are integral to GAR's palm-oil business as together they account for around 70% of the group's total CPO output.

Risks to Deleveraging: We estimate GAR's net debt/EBITDA leverage will decline from 8.3x in 2019 to 5.7x by 2022. Leverage improvement over 2020-2022 is due to higher CPO output and prices driving up EBITDA, as we expect average debt over 2020-2022 to remain largely flat compared with 2019. We expect significantly lower capex compared with around USD300 million spent in 2018 and 2019, in the absence of any significant expansion plans.

However, sustained discretionary investments and weaker-than-expected operating metrics are the key risks to our forecasts. GAR's leverage has been affected by USD292 million of net investment-related cash outflow since 2017. These investments have been made in plantations, technology and renewable-energy assets, according to the company. The company expects to start generating sufficient returns from these assets such that it will have neutral-to-positive cash flow from investments on a net basis from 2020.

Large Scale, Healthy Yields: GAR, which owned a planted area of around 393,000 hectares on a consolidated basis as of end-2019, is one of the largest palm-oil companies in the world in terms of acreage. Its plantations, all of which are in Indonesia, had a FFB yield of 21.5 tonnes per mature hectare in 2019, which was above Fitch's estimate of a representative industry average. However, 86% of its total planted acreage comprises prime and old trees of more than six years old, which we think implies there is limited potential for overall yield improvement from maturing of acreage and GAR is likely to need sustained replanting investment.

Benefits from Vertical Integration: GAR has a refining capacity of around 5 million tonnes per annum of CPO, much larger than its CPO output of 2.3 million tonnes in 2019. It also has biodiesel capacity of 600,000 tonnes per annum and oleo chemical capacity of 240,000 tonnes per annum. Its refined product portfolio includes olein and stearin, which can be further processed into oleo chemicals and biodiesel. The EBITDA margin from refining and other downstream operations is much more stable than from upstream CPO production, although significantly lower. In addition, weaker input prices of CPO usually boost downstream margins.

DERIVATION SUMMARY

SSMS is rated three notches lower than TBLA, whose business profile benefits from substantial downstream refining capacity for palm oil and diversification into the sugar business, in addition to oil-palm plantations. TBLA's leverage and coverage metrics are also significantly better than that of CBI, whose metrics are outliers. The rating differential between the two companies has continued to widen on account of the significant deterioration in CBI's financial profile over the last two years which, combined with lack of visibility around CBI's businesses outside of SSMS and significant related-party transactions, has raised refinancing risks for SSMS.

SSMS's national rating is also weaker than that of GAR's subsidiaries. GAR is much larger than SSMS in terms of planted area, with owned acreage of around 393,000 hectares. GAR also benefits from downstream diversification and its business profile is assessed to be significantly stronger than that of SSMS, even though leverage for both companies is relatively high. The notching differential remains wide, but we have taken similar negative rating action on the GAR subsidiaries, although this is reflective of GAR's increasing leverage.

The negative rating actions on GAR's subsidiaries on account of increasing leverage mean that TBLA's national rating is now higher than that of GAR's subsidiaries. TBLA's leverage is significantly lower, which drives the higher rating despite a much smaller scale in terms of plantation area and EBITDA. TBLA's diversification into sugar and its upstream cost position offset its smaller scale.

SDP is rated the highest in Fitch's rated palm-oil universe due to its position as the world's largest palm-oil producer by planted area, and largest sustainable-oil producer. SDP's rating also benefits from a sizeable land bank located near Malaysian urban areas, which the company can monetise at high valuations to support its liquidity.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for

SSMS

- CBI to earn consolidated revenue of IDR5.5 trillion in 2019, jumping to IDR6.1 trillion in 2020 and IDR7.2 trillion in 2021

- CBI's consolidated EBITDA margin of 8% in 2019, 13% in 2020 and 16% in 2021

- Annual group capex of around IDR750 billion

- IDR300 billion inflow in 2019 from lower related-party receivables

- No acquisition-related spending or inflows from divestments

The recovery analysis assumes that SSMS would be reorganised as a going-concern in bankruptcy rather than liquidated. We also assume a 10% administration claim.

Going-Concern Approach

- The USD300 million bonds are guaranteed by all of SSMS's key operating subsidiaries, except PT Mitra Mendawai Sejati, as well as by certain subsidiaries of CBI, which we estimate are loss-making. For recovery analysis, we consider EBITDA and debt at SSMS's consolidated level, as we believe debt at CBI's other subsidiaries is structurally subordinated and any losses at those entities will not affect the valuation for SSMS's business post-restructuring.

- SSMS's going-concern EBITDA assumption of IDR900 billion is lower than our earlier assumption of around IDR1 trillion. While we estimate SSMS's 2019 EBITDA to be significantly weaker than our going-concern assumption, we also expect 2020 EBITDA to improve, driven by better yields. If yields are maintained and management controls cash costs for FFB production at around USD50/tonne, we estimate SSMS should be able to generate around IDR900 billion of EBITDA on a sustained basis even if CPO prices remain at USD500/tonne. This should also allow the business to be free cash flow neutral and reflects Fitch's view of a sustainable, post-reorganisation EBITDA level upon which we base the enterprise valuation.

- An enterprise valuation multiple of 5.0x EBITDA is applied to the going-concern EBITDA to calculate a post-reorganisation enterprise value, which is unchanged from our previous analysis.

- We estimate SSMS had secured bank loans of IDR2.3 trillion as of end-2019 and this secured debt has priority over the USD300 million senior unsecured notes in our debt waterfall.

- The waterfall results in a recovery of around 40% for noteholders. Hence, we rate the senior unsecured notes at 'CCC+' with a Recovery Rating of 'RR4'. We note that there is limited headroom within the Recovery Rating and any downward revision of our estimate of SSMS's valuation or a further increase in its debt could lead to significant recoveries and result in a lower notching of the notes.

SDP

- Maintain flat plantation and overhead fixed costs in 2020, in line with company's cost-efficiency efforts

- Capex scaled back to MYR1.3 billion in 2020 and MYR1.7 billion thereafter

- Disposal planned for the rest 2020 is delayed, and will only resume in 2021

- Dividend rate at 60% of profit after tax

TBLA

- CPO output CAGR of 9% over 2020-2022

- Sugar sales volume CAGR of 4% over 2020-2022

- Average sugar price realisation of around IDR10,000/kg over 2020-2022

- Annual capex of around IDR1.15 trillion over 2020-2022

- Total dividend outflow of around IDR750 billion over 2020-2022

The recovery analysis assumes that TBLA would be considered a going-concern in bankruptcy and that the company would be reorganised rather than liquidated. We have assumed a 10% administrative claim.

Going-Concern Approach

- The going-concern EBITDA is assumed to be IDR1.9 trillion, at around 10% discount to TBLA's 2019 EBITDA. This going-concern EBITDA assumption factors in weak CPO prices and allows the business to be free cash flow neutral. It also reflects Fitch's view of a sustainable, post-reorganisation EBITDA level upon which we base the enterprise valuation.

- A multiple of 5.0x is applied to the going-concern EBITDA to calculate a post-reorganisation enterprise value. This multiple has also been used for other rated oil-palm companies and is unchanged from our previous analysis. However, we note that the multiple could be higher given TBLA's diversification into the sugar business.

- Fitch has assigned priority to IDR3 trillion of secured debt as of end-2019 over unsecured debt of IDR5 trillion to calculate recoveries. TBLA's unsecured debt includes the USD200 million senior bonds due in 2023.

- We have rated the senior unsecured bonds at 'B+'/'RR4', even though our analysis suggests a better Recovery Rating. This is because, under our Country-Specific Treatment of Recovery Ratings criteria, Indonesia is classified under the Group D of countries in terms of creditor friendliness, and the instrument ratings of issuers with assets located in this group of countries are subject to a soft cap at the issuer's Issuer Default Rating.

GAR

- CPO production of 2.35 million tonnes in 2020, increasing to 2.51 million tonnes by 2022

- Annual downstream EBITDA of around USD200 million on average over 2020-2022

- Average annual capex of around USD200 million over 2020-2022

- Average annual dividend of around USD70 million over 2020-2022

- No further investment-related cash outflow on a net basis from 2020

RATING SENSITIVITIES

SSMS

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Net debt/EBITDA below 5.5x for a sustained period

- EBITDA/interest coverage above 1.5x on a sustained basis

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Weakening liquidity or an increase in refinancing risk, potentially evidenced by sustained negative FCF and coverage remaining below 1x

SDP

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Outlook may revert to Stable if SDP is on track to reduce leverage closer to 3x by end-2021

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Not on-trackto reduce leverage closer to 3x by end-2021

- Inability to improve free cash flow to neutral or positive on a sustained basis

TBLA

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Net debt/EBITDA leverage not on track to reach around 3.5x or lower by 2021

- Coverage, measured in terms of EBITDA/interest paid, below 3.0x for a prolonged period (2019: 3.0x)

- A weakening of its liquidity position

- A material worsening of the regulatory regime for the sugar industry in Indonesia that results in weaker volumes or EBITDA margin for TBLA

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Fitch may revise the Outlook to Stable if performance is better than the sensitivities for negative rating action.

GAR's Subsidiaries

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Net debt/EBITDA is sustained below 5.5x

- EBITDA/interest paid above 3x on a sustained basis (2019: 2.6x)

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Net debt/EBITDA above 6.5x on a sustained basis

- EBITDA/interest paid below 3x on a sustained basis

- Weakening of its liquidity position

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

SSMS

Medium-Term Liquidity Risk: We estimate that CBI had readily available cash of IDR2.4 trillion as of end-2019, of which IDR2.2 trillion was at the SSMS (consolidated) level. We also estimate that debt maturing for CBI in 2020 is around IDR220 billion. CBI's considerable cash balance supports its near-term liquidity, although we see risk of liquidity weakening over the next three years due to negative FCF.

CBI could need refinancing in 2022 to address its bank loan maturities if cash depletes as per our expectations. Thereafter, the group faces a large repayment obligation of around IDR5 trillion in 2023, driven by the maturity of the USD300 million notes. We think sustained weakness in financial performance could impair the group's refinancing ability.

SDP

Good Access, Laddered Profile: SDP's liquidity is supported by good access to diversified funding sources, which benefits from its position as the world-largest certified palm-oil producer by planted acreage. SDP refinanced a MYR3.2 billion term loan due June 2020 in December 2019 through new term loans totalling MYR3.9 billion. SDP does not have any significant debt maturities in the next 24 months after the refinancing. SDP's liquidity is also supported by a portfolio of non-core assets totalling MYR1 billion, which the company plans to dispose in 2020, and undrawn uncommitted lines from lenders amounting to around MYR1.8 billion.

TBLA

Manageable Liquidity: TBLA reported a cash balance of around IDR520 billion (including cash in an interest reserve account for the US dollar bonds) and had undrawn credit facilities of IDR2.7 trillion at end-2019. It had short-term bank loans of IDR443 billion and a current portion of long-term debt of IDR1.1 trillion. TBLA has IDR411 billion in medium-term notes (MTN) due 4Q20 and IDR239 billion of MTN notes due 1Q21. A portion of the long-term debt due in 2020 is likely to be refinanced through the IDR500 billion notes issued in March 2020.

We expect negative FCF to weaken TBLA's liquidity position, but the company has some flexibility in reducing its growth capex and returns to shareholders, which would improve the availability of cash for debt repayment. Risks are also mitigated by TBLA's robust banking relationships and the likely roll over of the majority of the company's short-term bank loans as they are for working-capital needs.

GAR

Manageable Liquidity: GAR had total debt of around USD3.4 billion as of end-2019, of which around USD1.8 billion were short-term loans and trust receipts.

In comparison, it reported cash, cash equivalents and time deposits of around USD270 million.

The short-term loans and trust receipts are mainly for working-capital needs and generally rolled over every year. However, we expect GAR to rely on refinancing or a further drawdown of available working-capital facilities to address its long-term debt maturities of around USD300 million each year on average for the next three years given our estimate of negative FCF on average over the period. In addition to long-term bank loans, GAR has USD111 million in MTN notes due in 1Q21.

GAR has been able to refinance its debt in the last few years and we think refinancing risks are substantially mitigated due to its scale, business profile and diverse and long-standing banking relationships. SMART has announced an IDR3 trillion bond programme, under which the company issued IDR775 billion of notes in April 2020.

SUMMARY OF FINANCIAL ADJUSTMENTS

TBLA

- Unamortised transaction and issuance costs (2019: IDR75 billion) have been added back to debt,

- Cash amounts reported as restricted cash, mainly related to interest reserve account for the US dollar bond, have been treated as readily available (2019: IDR123 billion),

- Prepaid expenses, advances for purchases, biological assets (plant produce not yet harvested), accrued expenses and advances received from customers (including non-current portion) have been included in working capital.

GAR

- Convertible debt securities reported as short-term investments have been excluded from readily available cash, since they can be converted to equity (2019: USD450 million).

- Total outstanding corporate guarantees (2019: USD514 million) have been included as off-balance sheet debt.

- Trust receipts payable, which are due to banks and bear interest, have been included under debt and excluded from trade payables (2019: USD239 million).

- Rental income and income from sales of seedlings (2019: USD11 million) have been included in EBITDA, but changes in fair value of financial assets have been excluded (2019: USD234 million).

- Unamortised financing costs (2019: USD6 million) have been added back to debt.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

SSMS has an ESG Relevance Score of '4' for Group Structure due to the presence of significant related-party transactions and inadequate transparency, which have a negative impact on the credit profile and are relevant to the ratings in conjunction with other factors.

TBLA has an ESG Relevance Score of '4' for Management Strategy. The company's working-capital flows have been volatile while capex has often been higher than our expectations. These indicate some weakness in management control over operations and remain risks to TBLA's financial and overall credit profile in conjunction with other factors

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING	RECO

ENTITY/DEBT	RATING			RECO
PT Sawit Mas Sejahtera	Natl LT	A-(idn)	Downgrade	
SSMS Plantation Holdings Pte. Ltd.				
• senior unsecured	LT	CCC+	Downgrade	RR4
PT Ivo Mas Tunggal	Natl LT	A-(idn)	Downgrade	

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Ratings Criteria (pub. 18 Jul 2018)

Parent and Subsidiary Rating Linkage (pub. 27 Sep 2019)

Corporates Notching and Recovery Ratings Criteria (pub. 14 Oct 2019) (including rating assumption sensitivity)

Corporate Hybrids Treatment and Notching Criteria (pub. 11 Nov 2019)

Country-Specific Treatment of Recovery Ratings Rating Criteria (pub. 27 Feb 2020)

Corporate Rating Criteria (pub. 02 May 2020) (including rating assumption sensitivity)

Sector Navigators: Addendum to the Corporate Rating Criteria (pub. 02 May 2020)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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PT Sawit Mas Sejahtera	-
PT Sawit Sumbermas Sarana Tbk	EU Endorsed
PT Sinar Mas Agro Resources and Technology Tbk	-
PT Tunas Baru Lampung Tbk	EU Endorsed
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