MOODY'S
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Rating Action: Moody's upgrades Bayan Resources to Ba2; outlook stable

29 Sep 2021

Singapore, September 29, 2021 -- Moody's Investors Service has upgraded Bayan Resources Tbk (P.T.)'s corporate family rating (CFR) to Ba2 from Ba3. Moody's has also upgraded Bayan's senior unsecured notes rating to Ba2 from Ba3.

At the same time, Moody's has revised the outlook to stable from positive.

"The upgrade to Ba2 reflects our expectation that Bayan will maintain very strong credit metrics over the next 12-18 months, with very good liquidity and effectively no debt following the early repayment of its outstanding US dollar notes with cash next month," says Maisam Hasnain, a Moody's Vice President and Senior Analyst.

RATINGS RATIONALE

"Bayan's Ba2 ratings are supported by its rising thermal coal volumes following higher production at its Tabang mines in recent years; the long reserve life of its mines; the company's solid profitability; and minimal reliance on incremental debt," adds Hasnain, also Moody's Lead Analyst for Bayan.

Amid stronger operating cash flows due to high coal prices, Bayan has continued to proactively repay debt ahead of scheduled maturity. On 20 September 2021, the company announced that it would redeem the $149 million remaining of its US dollar notes in October 2021, well ahead of its scheduled maturity of January 2023. Bayan had redeemed $251 million of its outstanding notes with cash in May 2021.

Following Bayan's notes repayment, Moody's expects the company to operate with a net cash position and minimal reliance on incremental debt funding over the next few years. The company plans to fund the expansion of its production capacity and infrastructure with internal cash flow.

Bayan's construction of a 100-kilometer haul road connecting its Tabang mines to the Mahakam River along with a new barge loading facility, scheduled for completion in 2022, will help increase Tabang's production capacity to around 60 million tons in the next 3-4 years from around 32 million tons currently, and reduce the risk of weather-related operational disruptions. Mahakam is a larger river that is less exposed to water-level fluctuations than Bayan's current principal waterways to transport coal.

While Bayan's credit profile is constrained by its single-commodity exposure to thermal coal in Indonesia, its low-cost mining operations provide a considerable buffer against coal price downturns. This, in part, reflects the company's Tabang mines, which contribute around 85% of its coal production, and are among the lowest-cost energy-adjusted global coal mines with a very low stripping ratio of around 2.5x.

Despite meeting all its domestic contractual sales obligations, Bayan has only sold 10%-20% of its coal volume domestically in recent years, below the 25% level mandated under Indonesia's Domestic Market Obligation (DMO) regulation for coal miners. The company will seek to address its domestic sales volume shortfall of around 3.8 million tons this year by paying a penalty of $1 to $1.5 per ton of coal, based on penalty rates communicated by Indonesia's mining ministry in 2020. An unforeseen large increase in penalties from the mining mininstry that substantially weaken Bayan's liquidity could pressure its Ba2 ratings.

Moody's expects Bayan's liquidity to remain very good over the next 12-18 months, with cash on hand and projected operating cash flow sufficient to fund its proposed capital spending, debt repayments and dividends. As of 31 July 2021, Moody's estimates that the company also had around $274 million undrawn under multi-year committed working capital facilities with four banks.

The ability to draw down on these working capital facilities provides Bayan flexibility in the event of unforeseen cash needs, such as an adverse court ruling regarding its ongoing litigation with a former joint venture partner, which had claimed $153 million plus interest and costs. That said, Bayan has yet to record any provisions against this case. According to the company, a final ruling on this case is likely in 2022 or 2023.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Bayan's ESG Credit Impact Score is highly negative (CIS-4), reflecting its very high exposure to environmental risks and high exposure to social risks stemming from thermal coal mining. Bayan's low-cost mining operations, and adherence to operating within publicly articulated financial policies, including low leverage levels, help offset some of its ESG risks.

The company's exposure to environmental risk is very highly negative (E-5 issuer profile score), driven by very high carbon transition risks for thermal coal, and very high physical climate risks associated with periodic low water levels at the rivers Bayan relies on to barge coal from its key Tabang mines to its customers. Physical climate risk will decline by 2022 once Bayan completes its haul road to the Mahakam River, a larger river that is less exposed to water-level fluctuations.

Bayan's exposure to social risk is highly negative (S-4 issuer profile score), driven primarily by coal mining's high exposure to human capital, health and safety, responsible production, and demographic and societal trends. Bayan engages in several social initiatives including community development projects, such as, education funding, infrastructure development and economic support for the locals.

Bayan's exposure to governance risk is moderately negative (G-3 issuer profile score). The score reflects Bayan's concentrated ownership and uncertainty around its key shareholder's (Dato' Low who owns around 55% of Bayan) long term ownership plans. The presence of Korean state-owned electric utility KEPCO, which owns 20% stake through its subsidiaries, helps partially temper ownership concentration risks. Also, since its debt restructuring in 2015, Bayan has consistently prepaid debt and operated with very low leverage.

OUTLOOK

The stable outlook reflects Moody's expectation that Bayan will generate strong earnings and cash flow, with a minimal reliance on incremental debt while maintaining very good liquidity over the next 12-18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

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.

Moody's could downgrade the rating if (1) Bayan experiences a material disruption in its operations; (2) industry fundamentals deteriorate, leading to a decline in earnings; or (3) the company's underlying financial or operational strategy changes materially, including higher-than-expected capital spending, material debt-funded acquisitions or aggressive shareholder returns.

Specific financial indicators for a downgrade include adjusted debt/EBITDA approaching 3.0x or adjusted EBIT/interest expense trending down to 3.0x.

The principal methodology used in these ratings was Mining published in September 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1089739 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Bayan listed on the Indonesian Stock Exchange in 2008 and is engaged in surface open-cut mining of coal mines primarily in East and South Kalimantan.

Bayan's founder, Dato' Low Tuck Kwong, is the largest shareholder with a 55% stake. Korea Electric Power Corporation owns 20% through its subsidiaries, PT Sumber Suradaya Prima owns 10%, Bayan's management and founders hold an 11.8% stake, and the balance is publicly owned.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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