S&P Global Ratings

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Bulletin:

Bayan Can Maintain Creditworthiness Despite Temporary Mining Suspension

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SINGAPORE (S&P Global Ratings) April 9, 2020--S&P Global Ratings today said that PT Bayan Resources Tbk. (Bayan; B+/Stable/--) can maintain its earnings and creditworthiness despite the suspension of mining operations for five weeks.

We estimate the Indonesia-based company will face a production shortfall of about 2 million metric tons (MMT) when it suspends activities at three mines between March 25 and April 30. We assume Bayan will run down its 6MMT inventory, leaving sales volumes largely unchanged. If the suspension extends to more than three months, we project coal production would fall below 30MMT in 2020, compared with 32MMT in 2019.

India has been the biggest buyer of Bayan's coal, accounting for 25% of the company's sales volume as of Dec. 31, 2019. However, Indian demand for Indonesian coal has been dented by the closure of coal-consuming industries amid the COVID-19 outbreak. Demand in the Philippines, Thailand, and Vietnam has also remained lackluster due to the pandemic. Although Bayan has committed sales volume of 29.6MMT for 2020, the fulfilment of such contracts remains uncertain under current circumstances.

Based on average cash cost of US$32/metric ton (MT) for 2020, we expect EBITDA per ton to slide below US$7, compared with US$12.6 in 2019. This would translate into EBITDA of less than US$250 million, based on realized prices of US$39/MT for 2020 compared with the benchmark Newcastle price of US$65/MT.

Bayan has sufficient headroom for a 15% fall in sales volume in 2020 before its debt-to-EBITDA ratio hits our downgrade trigger of above 3x. We view such a scenario as unlikely--unless operations are suspended for more than four months.

In addition, prolonged social distancing measures and travel restrictions could further delay the completion of the Mahakam haul road, which is still pending land permit approvals.

Bayan's liquidity remains adequate and should withstand a dip in operating cash flows. The company issued bonds worth US$400 million earlier this year and had a cash balance of US$175 million as of end-2019. Having said that, Bayan's net debt will increase in 2020 compared with 2019. We believe the company could return to a net cash position in 2022. In our view, Bayan has the flexibility to reduce dividend payouts to shore up liquidity, if needed.

This report does not constitute a rating action.