



PT DAHANA (PERSERO)

	Amount Outstanding as in February 2015	Maturity Date	Rating Outstanding	Previous Ratings
Issuer Rating	-	-	[Idr]A-/Stable	-

PT ICRA Indonesia (ICRA Indonesia) has assigned a rating of [Idr]A- (pronounced single A minus) with a stable outlook to PT Dahana (Persero). The rating indicates adequate credit quality and the rated entity carries average credit risk. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any particular instrument.

The rating is driven by Dahana's long track record in explosive material industry, integrated lines of business/services with diversified user industries and potential support from the government of Indonesia, the sole owner of the company. The above factors are however partially offset by Dahana's exposure to the volatility of raw material prices and a high degree of rivalry within the industry.

Dahana's ratings could move up if the company is able to execute its business plan which includes alleviating its margin volatility and improving its scale of business. Additional support from the government such as capital infusion to fund its major capital expenditure plan could also enhance Dahana's rating. On the other hand, prolonged margin volatility and/or aggressive debt-funded expansion strategy may put the rating under downward pressures.

The principal methodology used in rating Dahana is ICRA Indonesia's Rating Methodology for Chemical Companies. Please refer www.icraindonesia.com for detailed information on the methodology along with other methodologies.

Dahana has a long track record in the explosive material industry whose history had started in 1966 before it changed the status to a state-owned (public) enterprise in 1973. This has enabled Dahana to offer not only various explosive products such as cartridge emulsion, shaped charges, bulk explosives, detonator and booster, but also explosive services including drilling & blasting and related services applicable for various conditions and customers' needs. Its established track record also is reflected in the registered 6 product patents and 13 process patents, ahead of its competitors. Further, Dahana has successfully developed its Energetic Material Center (EMC or investment) in Subang, West Java in 2012, to support innovative technology applications. Dahana's on site plants (OSP) set up in customer's locations as support facilities have further marked its leadership in the industry. Currently, the company is estimated to control 70% market shares in domestic oil & gas sector, and 60% in quarry and construction.

As the pioneer in the industry, Dahana offers integrated services from manufacturing of explosive materials (19.2% revenue contribution as of 31 December 2014) to drilling & blasting (41.4%) and explosive-related services (39.4%). On the back of this, Dahana has been able to serve various industries namely general mining (54.3% of revenue in 2014), quarry & construction (27.5%), and oil & gas (18.2%). The company's diversified user industries profile can minimize concentration risk, in particular related to the weak commodity prices currently. As a result, Dahana has been able to consistently grow its revenue by 22.4% on average per annum since 2010 without any single year of booked revenue declining. Further, its expansion to construction sector could enhance revenue generation looking ahead amidst the higher government spending in infrastructure projects.



ICRA Indonesia also incorporates the potential government's support to Dahana when assigning its rating. Currently, the key support is in the form of non-payment of dividend during 2012-2016. This is related to its investment where Dahana has spent significant capital expenditures in the absence of financial support from the government. More general, the support can also be seen in the regulatory framework. The government has issued several regulations to optimize the use of domestic products/supplies for procurement of goods and services especially for government-related projects. Additionally, the regulation of Minister of Energy and Mineral Resources No.15 Year 2013 on the use of domestic products for oil & gas upstream activities as well as Indonesian Special Task Force for Upstream Oil and Gas' (SKK Migas) Working Procedure Guidelines (PTK) No. 007/2013 has benefited domestic companies like Dahana. As a result, Dahana's market shares in such regulated sectors are generally strong, including in oil and gas.

Dahana's rating is however constrained by its exposure to the volatility of Ammonium Nitrate (AN) prices, the key raw material for its products. Despite its integrated services offering, Dahana has no internal facilities and is fully dependent on external parties for raw material sourcing. In the absence of pricing power for Dahana, this has resulted in the volatility of its margins during the last 5 years despite the consistent revenue growth. The margin fluctuation was notably seen in 2012 when the combination of raw material price escalation and the commencement of its investment activities have added input costs to Dahana. In that year, OPBDITA margin dropped to 4.4%, far below 11.4% in 2011. Accordingly, overall financial performance during the year was weak, as evident in net profit margin as low as 2.8%, Debt/OPBDITA ratio reaching almost 9.0x and OBDITA/Interest coverage of only 1.1x. Given its high external dependency for raw material sourcing, ICRA Indonesia expects Dahana to remain exposed to margins volatility going forward.

ICRA Indonesia also factors the high competition in the industry into Dahana's rating. Despite several other domestic players, however, the high rivalry within the explosive material industry mainly comes from more established foreign players with much bigger operational scales as against Dahana. Global players such as African Explosive Limited (AEL), Dyno Nobel (DNX), and Orica have cooperated with local partners to obtain projects from multinational companies in Indonesia, most particularly in mining sectors. As these competitors can offer more competitive pricing due to better economies of scales, Dahana will remain exposed to the tight competition going forward, although its integrated services offering may reduce the pressures to some extent as it can add value to its customers.

Company Profile

PT Dahana (Persero) is a state-owned company in the field of strategic industry offering integrated explosive services for oil & gas, general mining, and quarry & construction. Established in 1973, Dahana produces a variety of explosive materials such as cartridge emulsion, sharpened charges, bulk explosives, detonator and booster. Apart from its research & development facility Energetic Material Center (EMC) in Subang, Dahana also has production facilities located at Turen, Malang and Tasikmalaya, West Java. Further, it also develops On Site Plants (OSP) at customers' location in response to their needs.

As of 31 December 2014, the company reported a profit after tax (PAT) of Rp77.2 billion on net sales of Rp1,095.5 billion, contributed by explosive manufacturing (19.2%), drilling & blasting (41.4%) and related services (39.4%).

March 2015



Financial Snapshot of PT Dahana (Persero)

		FY2014	FY2013	FY2012	FY2011	FY2010
Operating income	<i>Rp Billion</i>	1,095.5	947.8	810.1	635.5	490.3
OPBDITA	<i>Rp Billion</i>	163.8	103.3	36.0	72.7	46.6
Profit After Tax	<i>Rp Billion</i>	77.2	51.5	22.4	47.4	37.9
Total Assets	<i>Rp Billion</i>	1,109.4	1,115.2	1,003.1	873.7	425.0
Tangible Net Worth	<i>Rp Billion</i>	524.4	447.2	395.8	373.8	279.5
Total Debt	<i>Rp Billion</i>	300.9	344.1	323.3	311.1	61.2
OPBDITA / Operating Income	%	15.0%	10.9%	4.4%	11.4%	9.5%
APAT / Operating Income	%	7.0%	5.4%	2.8%	7.5%	7.7%
ROCE	%	17.1%	12.8%	7.0%	13.8%	17.7%
Total Debt/TNW	x	0.6	0.8	0.8	0.8	0.2
Total Debt/OPBDITA	x	1.8	3.3	9.0	4.3	1.3
OPBDITA/Interest & Finance Charges	x	4.9	2.8	1.1	5.8	13.4
NWC/OI	x	0.2	0.2	0.2	0.3	0.3
Current Ratio	x	1.1	1.0	1.1	1.3	2.4
Days Receivables		81.4	64.4	83.9	54.0	66.7
Days Payables		99.9	121.0	123.0	114.0	48.3
Days Inventory		69.9	82.3	76.0	104.0	76.0

Note: Amounts in Rp Billion. Some numbers have been adjusted to ICRA Indonesia's standard for adjustment



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- (iii) Analysis of public and non-public-information, acquired during discussions between ICRA Indonesia and the party being rated.