ICRA Indonesia

PT Golden Energy Mines Tbk

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

PT ICRA Indonesia (ICRA Indonesia) has affirmed the [Idr]A- (pronounced A minus) rating with a stable outlook of PT Golden Energy Mines Tbk (GEMS). 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 GEMS's considerable amount of proven and probable coal reserves that would be sufficient to fuel its medium- to long-term growth, healthy capital structure and debt protection metrics that lend significant financial flexibility, and the benefits of support from its parent's group of companies and affiliates. These strengths are somewhat constrained by subdued coal mining industry outlook, the susceptibility of GEMS's operating performance to the volatility in the coal prices and its small operational scale that results in relatively low profitability.

GEMS's ratings could move up if the company is able to scale up its operations that translate into the corresponding and sustainable improvement in its operating performance and profitability on account of the expected economies of scale. Conversely, the rating could be under pressure if there is a significant deterioration in the operating performance or stability, or if GEMS assumes substantially higher than expected debt, thereby weakening the debt protection metrics.

The principal methodology used in rating GEMS is ICRA Indonesia's rating methodology for coal mining companies. Please refer www.icraindonesia.com for detailed information on the methodology along with other methodologies.

GEMS's rating is supported by the considerable quantity of its proven and probable reserves. GEMS is presently operating 3 mining blocks in South Kalimantan (under PT Borneo Indobara or BIB, calorific value 3,900-6,600), Central Kalimantan (PT Trisula Kencana Sakti or TKS, calorific value 5,100-5,300) as well as in Jambi (PT Kuansing Inti Makmur or KIM, calorific value 4,700-4,900) with a total mining area of approximately 38,165 hectares. As per latest available study, it has proven reserves of 500.9 million tons (MT), which are more than sufficient for its planned scale-up of at least in the next 8-10 years. Further, it has probable reserves of 107.1 MT while total mining resources have been estimated at 2,105.4 MT. These resources are also available to be explored over the medium to long term and will support GEMS's expansion plan. GEMS has planned to gradually increase its annual production to 22.8 MT in 2018 from 6.6 MT currently.

GEMS's strategy of following conservative approach during the current slump in the coal industry has led it to maintain a healthy capital structure, satisfactory debt protection indicators and ample liquidity. On account of volatility in coal prices and weak global demand sentiment, the company attempted to control its working capital and reduce the debtors and inventory levels, thereby limiting the use of debt and supporting its financial flexibility. As on December 31, 2014, GEMS's gearing as defined by the ratio of total debt to total tangible net worth stood low at 0.02x, despite an increase in the consolidated turnover by about 17.1% to Rp 5.2 trillion. Further, its interest cover and debt/OPBDITA were adequately healthy at 6.5x and 0.1x. This year, the company is expected to borrow about USD 50 million to fund its growth. Despite this borrowing, GEMS' gearing, interest cover as well as debt/OPBDITA are expected to remain at adequate levels and consistent with its rating.

Further, GEMS has enjoyed substantial benefits from its parent's group of companies and affiliates. As an indirect subsidiary of PT Dian Swastatika Sentosa Tbk (DSS) and a part of Sinar Mas, its key customers include fellow companies such as Asia Pulp and Paper (APP) group. APP group at present consumes more than 10 MT coal per annum and may require higher quantities in the future which would be another market potential for GEMS going forward. In addition, GEMS has a 25 year coal offtake agreement with one of the shareholders, GMR group, as represented by GMR Coal Resources Pte Ltd, to sell coal up to 10 MT per annum. Thus, while GEMS is planning to scale-up its operations over the medium term, a large part of this production would be supported by its own captive market. In 2014, sales to related parties amounted to around 43% of total.

The above strengths are somewhat countered by the subdued coal mining sector outlook. The international coal prices have corrected by more than 35% during 2014 itself and have been declining for more than 3 years now. Demand from China and US, main customers for coal, has remained subdued on account of slower economic recovery which impacted the overall demand sentiment. Continuous correction in prices has reduced per ton realization of coal companies including GEMS. The cost of production however is little sticky and corrects itself with a lag effect. As a result, the revenues and margins of coal mining companies remain exposed to the weak coal prices. Several producers in fact are struggling to generate positive cash flows against a backdrop of low global prices and a sentiment that the price recovery may not be fast.

In addition, GEMS's operating performance over the last few years is reflective of its susceptibility to the volatility in coal prices. This impact is seen in operating performance, whereby its OPBDITA margins in particular have ranged 0.1-15.7% during 2009-2013 and recently at 8.7% as on December 31, 2014. Volatile prices also cause a significant inventory risk. On this accord, GEMS has consciously managed a lower inventory during last few years and attempted to shield itself, to an extent also protecting its profitability from inventory write-offs. Nevertheless, the constraints on operating performance will continue to exist and ICRA Indonesia expects GEMS to remain exposed to a significant risk of coal price volatility going forward.

Further, the company's operating costs and hence profitability are affected on account of smaller scale of operations, in comparison with a majority of players within the industry. The larger players, taking into account their scale of operations, have experienced economies of scale. This in turn contributes to their favorable margins and profitability. As for GEMS, in addition to the volatility, margins and profitability such as represented by OPBDITA margin of 8.7% and return on net worth (RONW) of 4.4% as on December 2014 were lower than majority of its larger peers. However, partially alleviating this, the company has gradually increased its production to 6.6 MT in 2014 from 1.8 MT in 2010. As the company further expands its operations, the economies of scale would set in and improvements in margins and profitability will be witnessed over the longer term.

Company Profile

PT Golden Energy Mines Tbk (GEMS), founded on May 13, 1997, is the holding company of 13 subsidiaries, 11 of which currently engaged in thermal coal mining and trading, with coal calorific value ranges between 3,900 and 6,600 (gross as received). The territory under GEMS for mining is spread in Jambi, South Kalimantan and Central Kalimantan, totaling 38,165 hectares. The Company is a subsidiary of Golden Energy and Resources Ltd (GEAR), a Singapore-based entity principally engaged in the exploration, mining and marketing of coal and owner of several forestry concession rights in South Kalimantan. GEAR is in turn majority owned by PT Dian Swastatika Sentosa Tbk (DSS), the flagship company of Sinar Mas for the power sector. The shareholding pattern of GEMS constitutes 67% with GEAR, 30% with GMR group of India and the remaining with general public.

For the year ended 2014, GEMS posted net profit of Rp 133.8 billion on net sales of Rp 5.2 trillion.

May 2015

KEY FINANCIALS: PT Golden Energy Mines Tbk

		2014	2013	2012
Operating Income	*Rp Billion*	5,195.9	4,427.6	3,966.3
OPBDITA	*Rp Billion*	454.2	271.2	158.4
Depreciation	*Rp Billion*	268.9	149.0	98.4
Interest and Finance charges	*Rp Billion*	70.0	11.8	5.9
Profit After Tax (PAT)	*Rp Billion*	133.8	228.5	132.3
Net Cash Accruals	*Rp Billion*	402.7	192.2	93.9
Total Debt	*Rp Billion*	62.4	58.1	Nil
Tangible Net worth	*Rp Billion*	3,072.1	2,933.8	2,817.7
OPBDITA/Operating Income	*%*	8.7	6.1	4.0
RONW	*%*	4.4	7.9	4.7
Total debt/Net worth	*(x)*	0.02	0.02	Nil
OPBDITA/Interest	*(x)*	6.5	23.0	26.7
Total Debt/OPBDITA	*(x)*	0.1	0.2	0.0

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

ICRA Indonesia

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