

The government finally has decided the financing scheme on LRT Jabodetabek project where the proposed JV plan was cancelled. The structure of this project is revert back to the initial plan in accordance to Presidential Decree No. 49/2017 which regulates the role of each party between Transportation Ministry, PT KAI, and ADHI. However, there is some efficiency on job roles initially performed by PT KAI was transferred to ADHI, bringing the lower investment value to IDR 29.9tn from the previous of IDR 31tn. As a result, ADHI's investment in this project will be bigger and this will reduce the investment value made by PT KAI. Initially, ADHI only needs to invest of IDR 1.4tn derived from state capital injection conducted in 2015 for the construction of Depo and Transit Oriented Development (TOD). Nonetheless, it will be expanded to IDR 4.2tn where another IDR 2.8tn will be obtained by ADHI through bank loans. The bank loans itself will not be given in conjunction with financial closure for PT KAI as it will be conducted separately with the potential lender, BMRI. Financial closure of IDR 18.1tn for PT KAI is targeted to take place at 21-22 Dec 2017 with 8.2% interest rate. Therefore, it will secure the payment to ADHI for this year. Worth to note, ADHI has spent about IDR 5tn for the construction of LRT Jabodetabek.

	Initial	Proposed
State capital injection to PT KAI	IDR 7.6tn	IDR 7.6tn
ADHI's investment	IDR 1.4tn	IDR 4.2tn
Bank loans to PT KAI	IDR 20.9tn	IDR 18.1tn
Total	IDR 29.9tn	IDR 29.9tn

	9M17	After Additional Loans
ADHI's equity	IDR 5.5tn	IDR 5.5tn
ADHI's total loans	IDR 7.9tn	IDR 10.7tn*
DER	1.41x	1.92x

*additional IDR 2.8tn bank loans

Pertaining to higher investment portion performed by ADHI on LRT Jabodetabek project bringing some concerns. ADHI's DER position in 9M17 stood at 1.41x. Taking into account another IDR 2.8tn bank loans, ADHI's DER position will jump to 1.92x, almost meets its maximum debt covenant of 2.5x. It leaves only a small room for ADHI to leverage as ADHI targeted new contract of IDR 21.6tn exclude LRT project. Hence, we believe ADHI's cash flow is also stretch due to the significant increase on debt. Accordingly, we downgrade our call to NEUTRAL due to these reasons with TP FY18F of IDR 1,890 implies a FY18F P/E of 9.0x.

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