

FLASH NOTE: PT Jasa Marga to Issue Rights Amounting to Rp. 1.8 tn in 2016

In a company announcement on 27 August 2015, PT Jasa Marga (Persero) Tbk (JSMR) announced its plan to raise up to Rp 1.79 tn through a rights issue sometime in 2016. Of the total amount, Rp 1.25 tn will be raised through the government via a state-owned companies subsidy, while Rp 540 Bn will be available to the public. This amount is much less than the previously anticipated Rp 7 tn that the company was planning to raise. On this we share our thoughts and views.

- **The company still plans to spend Rp 5 tn annually as capital expenditures starting FY16, onwards.** The capex budget is planned to help the company complete construction of ten toll roads throughout the nation currently in their schedule, in particular the Solo-Kertosono toll roads which is planned to stretch a massive 177 km. This implies that JSMR will turn to debt to fund its capex in the foreseeable future.
- **Expect a significant impact on earnings in FY16E and FY17E.** In our forecasts, JSMR will have to take an additional Rp 3 tn and Rp 2 tn in debt in FY16E in FY 17E, respectively. This would translate into 23.3% and 9.6% YoY growth in interest expenses in FY16E and FY17E respectively, a revision from previous forecasts of 4.4% and -0.7% increase in financing costs in the respective years. Net income is expected to decrease 9.8% and 10.3%, to Rp 1.08tn and Rp 973.7Bn, in FY16E and FY17E as a result, also a revision from previous forecasts of 8.1% and 2.4% increases in net income in FY16E and FY17E, respectively.
- **Higher leverage effectively makes financing charges a major contributor to total costs.** With this, we project the company's gearing ratio to increase to 1.26x and 1.41x in FY16E and FY17E. Also, debt/assets is expected to increase from 0.44x in FY15E to 0.49x in FY17E, already taking into consideration new toll roads to be built. This makes the company's financial statements much more exposed to interest rate changes, and also effectively makes financing charges a significant portion of total costs. With this, we estimate financing charges to make up 28.2% and 28.5% of total costs in FY16E and FY17E, respectively.
- **Maintain HOLD with 52-week target price to remain at Rp 5,500.** Although the company faces medium term headwinds as a result of increased leverage, our model is built based on a longer term investment horizon. We are still largely optimistic on the longer run prospects of the company, with total distance of toll operated to increase 65% from current conditions to a total of 973.4 km. This company's top line is almost guaranteed to grow at a reasonable stable pace in accordance with the rate of inflation in the longer term.

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