Fitch Upgrades Indonesia's Fajar to 'B+'; Outlook Stable

Fitch Ratings-Jakarta/Singapore-25 January 2011: Fitch Ratings has today upgraded Indonesia-based PT Fajar Surya Wisesa Tbk's (Fajar) Long-term foreign currency and local currency Issuer Default Ratings (IDRs) to 'B+' from 'B'. At the same time, Fitch has upgraded Fajar's National Long-term rating to 'A(idn)' from 'A-(idn)'. The Outlooks on these Ratings are Stable. The senior unsecured rating of Fajar's USD100m senior notes due in 2011 has also been upgraded to 'B+' from 'B'; the recovery rating remains at 'RR4'.

The upgrade reflects Fitch's expectation of a continued improvement in Fajar's credit metrics from FY11 onwards, following the on schedule completion of its paper machine 5 (PM-5) expansion supported by healthy domestic demand for containerboard and boxboard. PM-5 increased Fajar's production capacity by 40% to 1m metric tonnes per annum in December 2010. However, given the robust demand for Fajar's products, plant utilisation levels are not expected to weaken much over the short- to medium-term; the company has been operating at full capacity in the past few years. The company's ratings are also supported by its position as one of the largest non-integrated producers of industrial paper in Indonesia, its long standing relationships with its main customers and its low cost production base.

The recovery in domestic demand and international paper prices since mid 2009 has allowed Fajar to increase its average selling prices by about 20% compared to FY09. This has consequently enabled it to increase its EBITDA to IDR520bn in the nine months to September 2010 (FY09: IDR570bn), an annualized improvement of 22%. Fajar's financial leverage as measured by net adjusted net debt to EBITDAR increased to 2.6x at September 2010 (FYE09: 2.3x), due to the IDR564bn of capex that was mostly spent on the PM-5 expansion in this period. However, Fitch expects Fajar's leverage to decline starting FY11, with higher EBITDA generation supported by the new capacity and as its capital expenditure requirements fall over the medium-term.

Fajar's liquidity remains adequate. It had undrawn credit facilities of about IDR1,800bn which is sufficient to cover its short term debt maturities of IDR260bn up to September 2011 and the USD notes due in October 2011. In addition, it had cash reserves of IDR89bn at September 2010.

The Stable Outlook reflect Fitch's expectation that Fajar's net adjusted debt to EBITDAR would remain below 2.5x and EBITDA to gross interest expense would remain above 3.0x from FY11 onwards. However, a sustained increase in Fajar's leverage above 3.5x or EBITDA to interest weakening below 3.0x can result in a negative rating action. A positive rating action on its National Long-term rating can be taken if the company maintains its leverage below 2.0x, along with positive free cash flow generation. Further positive rating actions on Fajar's IDRs are not anticipated in the short- to medium-term, given its limited scale and its position as a price taker for both end products and raw materials.

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Note to Editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(idn)' for National ratings in Indonesia. Specific letter grades are not therefore internationally comparable.

Additional information is available at www.fitchratings.com

Applicable Criteria and Related Research:
Corporate Rating Methodology