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Media Release

RAM Ratings reaffirms Bintulu Port Holdings' AA_1 rating

RAM Ratings has reaffirmed the AA_1/Stable/P1 corporate credit ratings of Bintulu Port Holdings Berhad (BPHB or the Group).

The reaffirmation is premised on BPHB's strategic function as the operator of Malaysia's only export terminal for liquefied natural gas (LNG), serving the LNG liquefaction plants of Petroliam Nasional Berhad (Petronas). It also facilitates the development of the Sarawak Corridor of Renewable Energy (SCORE). Samalaju Port, which is operated by Samalaju Industrial Port Sdn Bhd (a wholly owned subsidiary of BPHB), functions as a logistical hub for the import of raw materials and export of finished products from heavy and energy-intensive industries based at Samalaju Industrial Park (the Park). The Park is part of the state's SCORE initiative.

The Group's strong relationship with both the Sarawak state government and the federal government reinforces the ratings. Based on RAM's rating methodology for government-linked entities, BPHB's ratings incorporate an expectation of extraordinary government support, if needed.

BPHB's overall cargo throughput contracted marginally in 2021 before improving in 1H 2022. The continued softness of LNG exports is expected to be netted off against strong throughput growth at Samalaju Port. As at end-June 2022, BPHB's leverage and debt coverage ratios both came in above expectations. Gearing and adjusted funds from operations debt coverage (FFODC) were 0.76 times and 0.30 times, respectively, against a total debt load of RM1.28 bil.

For 2023-2026, we project gearing to peak at 0.93 times and FFODC to deteriorate to a minimum 0.14 times. Nonetheless, the deferral of capital expenditure, subject to the Group's outlook and lower lease obligations from the inking of a new privatisation agreement (PA), could lead to an improvement in the ratios. In the near-term BPHB's RM1.08 bil of cash and cash equivalent as at end-June 2022 should sufficiently cover external borrowing (RM950 mil) and short-term lease liabilities (RM106.72 mil). The Group's next debt repayment of RM60 mil is due in December 2023.

From a credit perspective, ongoing negotiations relating to: (1) the PA renewal as the existing agreement expires on 31 December 2022; and (2) the revised lease and capital expenditure (capex) risk in line with the next 30-year PA extension will be critical to the Group's credit health preservation. Our current financial analysis imputes the most recent assumptions shared by management with no detriment to debt-coverage and leverage ratios after incorporating RAM-related analytical adjustments to the Group's financial statements. These assumptions are under negotiation and may vary in the final PA.

We view the risk of non-renewal of its licence as low, given that the federal government has approved its renewal in principle. An Interim Agreement (pending signing of new PA) will allow BPSB to remain in operations in accordance with the contractual terms of the existing PA.

Also weighing on BPHB's ratings is the need to constantly incur capital expenditure to maintain competitiveness and operating efficiency, an obligation of all port operators. It is also exposed to the cyclicality and vagaries of the industries and customers to which it caters, in addition to the risk of termination of the PA. To date, management has where possible been circumspect in managing these risks to ensure the Group's operations and financial position are not compromised.

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