Media Release

RAM Ratings reaffirms Bintulu Port Holdings' AA_1 rating

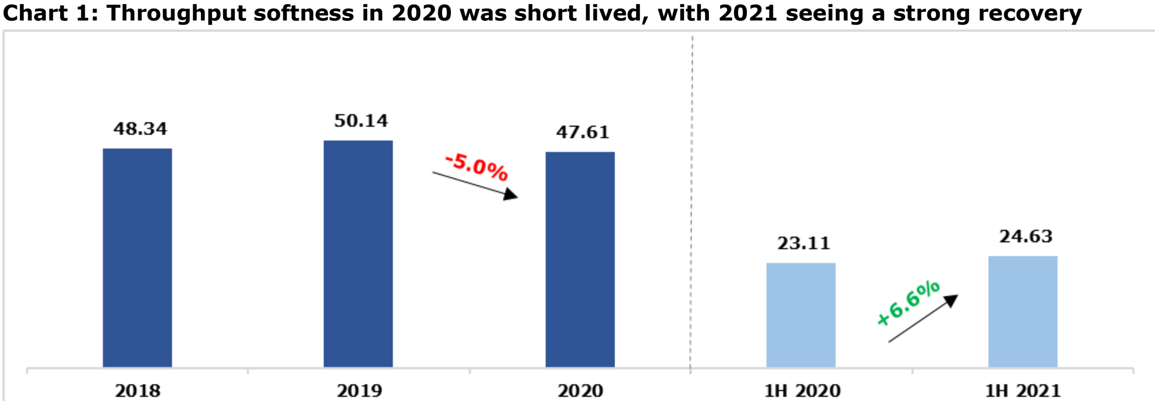
RAM Ratings has reaffirmed the AA_1/Stable/P1 corporate credit ratings of Bintulu Port Holdings Berhad (BPHB or the Group).

The reaffirmation is premised on BPHB's crucial role as the operator of Malaysia's only export terminal for liquefied natural gas (LNG) and a facilitator of the development of the Sarawak Corridor of Renewable Energy (SCORE). The Group's strong relationship with the Government of Malaysia reinforces the ratings. Based on RAM's rating methodology for government-linked entities, BPHB's rating benefits from a lift beyond its stand-alone credit strength as we believe that extraordinary government support will be forthcoming in the event of financial distress. This is on account of BPHB's crucial role and strong relationship with both the Sarawak and federal governments.

Bintulu Port Sdn Bhd (BPSB, a wholly owned subsidiary of BPHB) operates the LNG export terminal at Bintulu Port, which serves the LNG liquefaction plants of Petroliam Nasional Berhad (Petronas). Samalaju Port, which is operated by Samalaju Industrial Port Sdn Bhd (also 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 is part of the SCORE's agenda of developing and transforming Sarawak into a developed state by 2030.

Bintulu Port's overall cargo throughput contracted by 5.0% y-o-y to 47.61 mil tonnes in 2020 (2019: 50.14 mil tonnes), weighed down by demand softness and supply chain disruptions amid the COVID-19 pandemic. This reversed in 1H 2021 when the port handled 24.63 mil tonnes of throughput (1H 2020: 23.11 mil tonnes, +6.6 % y-o-y). Moving forward, we expect cargo throughput growth to mainly stem from the handling of bulk cargo at Samalaju Port, backed by expansions undertaken by the port's anchor customers and new investors in the near to medium term. Demand for LNG is envisaged to be supported by a global transition to lower-carbon energy systems.

Chart 1: Throughput softness in 2020 was short lived, with 2021 seeing a strong recovery



As at end-June 2021, BPHB registered respective adjusted gearing and adjusted funds from operations debt coverage (FFODC) ratios of 0.98 times and 0.30 times against a total adjusted debt load of RM1.36 bil. We expect these ratios to deteriorate in the coming years on the back of higher projected capital spending and a spike in BPHB's lease liabilities (to take effect in 2023 after the renewal of its new Privatisation Agreement (PA)). BPHB's liquidity however is considered superior. Its RM997.76 mil of cash and cash equivalents, which exceed the Group's RM950 mil of external debt, comfortably supported RM144.47 mil of short-term lease liabilities as at end-June 2021. The Group's next debt repayment of RM60 mil is due only in December 2023.

The PA for Bintulu Port between BPSB, the Bintulu Port Authority (BPA) and the federal government is co-terminous with the port's operating license, which expires on 31 December 2022. The PA gives BPSB the option to extend the tenure of Bintulu Port's operations for 30 years, at the discretion of the BPA. The risk of non-renewal of the license is minimal as the federal government has in principle approved its renewal. However, the PA's terms and conditions and commercial considerations are subject to negotiation, which moderates the ratings.

Further weighing on BPHB's rating is like other port operators, BPHB has to constantly incur capital expenditure to maintain its competitiveness and operating efficiency, at the expense of its financial metrics. The Group is exploring opportunities that may entail the construction of new handling wharfs although no major expansion plans had been finalised as yet. While heavy industries at Samalaju Industrial Park are vulnerable to global downturns and customer concentration risk, customers continue to invest significantly while revamping and expanding their facilities at the Park, given attractive investment incentives.

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