

Equity Research

Company Update

Barito Pacific Tbk

Closer to the Stars

Rights Issue to Add 5.6Bn Shares for approximately USD 1Bn, to Acquire Star Energy

Barito Pacific Tbk (Barito; BRPT IJ) officially released its prospectus with regards to the rights issue, which states that the company shall offer a maximum of 5.6Bn shares at an exercise price ranging from IDR 2,300/share to 3,300/share, implying 17.14x to 24.60x 2018F PER. Each holder of 5 shares as of May 31, 2018 at 16:00 shall be entitled to 2 Preemptive Rights, where every 1 Preemptive Right shall provide the holder the right to subscribe 1 new share. The estimated total proceeds to be received by the company are between IDR 12.88 Tn to 18.48 Tn (or approximately USD 936 Mn to 1.43 Bn).

Simultaneously, Barito shall issue a maximum of 1.4Bn Series I Warrants, which represents 10% of the total issued and paid up capital. Every 4 rights shares shall be accompanied by 1 Series I Warrant for the Preemptive Right holders exercising their rights. Each holder of 1 Series I Warrant shall be entitled to purchase 1 share of the company.

Star Energy to Generate an EBITDA and Net Profit of around USD 378 Mn and USD 100 Mn, respectively

Going forward, in an effort to become a diversified resource-based conglomerate, Barito will have its own cash cow through Star Energy, in which the acquisition is estimated to be completed by the end of 2Q18. Star Energy would provide Barito with a fresh outlook and the opportunity to smoothen Barito's earnings. The government's support towards renewable energy in Indonesia serves as a positive catalyst to Barito, especially during downturns in the petrochemical business. We expect Star Energy to book an estimated stable EBITDA of approximately USD 400 Mn per annum (based on our revenue assumptions combined with geothermal-peers margin), and a net profit of approximately USD 100 Mn (based on Star Energy's 9M17 results).

Maintain HOLD (higher TP due to Star Energy) Until Completion of Acquisition

We add our Star Energy assumptions to our SOTP-based valuation that now includes 1) Chandra Asri Petrochemical (CAP), 2) Star Energy, 3) Barito's Other Business Segments, 4) Barito's Net Debt, and 5) Barito's Overhead Costs. Based on this, our theoretical target price becomes IDR 2,700/share (maintaining our holding company discount of 30%). This implies a 2018F/2019F PER of 14.28x/13.42x and a 2018F/2019F EV/EBITDA of 2.95x/2.87x.

Upside risks include: lower Brent oil price to support CAP earnings, potential tariff increase for geothermal plants, and higher utilization rates. Downside risks include: higher commodity price and delay in capex could adversely affect CAP earnings, and delay in Star Energy acquisition.

For more information on Barito, click [here](#) for our initiation report.

FINANCIAL HIGHLIGHTS

(USD millions)	2015	2016	2017	2018F	2019F
Sales Revenue	1,406	1,961	2,453	2,667	2,735
EBITDA	138	501	540	609	635
Net Profit	(5)	132	118	136	151
EPS (USD)	(0.0004)	0.0094	0.0085	0.0097	0.0108
EPS Growth (%)	-36.9%	n.m.	-10.3%	14.9%	11.1%
PER (x)	N/A	5.7	18.5	21.0	18.9
PBV (x)	0.1	0.9	2.2	0.9	0.8
EV/EBITDA (x)	7.4	3.2	6.1	4.0	3.8
Net-DER (%)	41.7%	15.9%	5.0%	-3.6%	-6.4%
ROE (%)	-0.7%	15.6%	11.0%	6.2%	6.4%

Source: Barito, Sucor Sekuritas (Share price as of April 13th 2018)

Note: Financial highlights excluding Star Energy

Sucor Sekuritas

HOLD

Current Price **IDR 2,540**
Price Target **IDR 2,740**
Upside/Downside **+8%**

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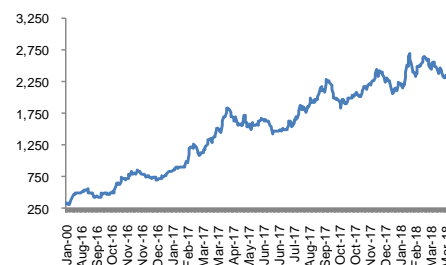
INDONESIA

ENERGY - RESOURCES

Stock Data

Bloomberg Ticker	BRPT IJ Equity
Outs. Share (Mn)	13,959.76
Mkt Cap (IDR Bn)	35,178.7
52Week Range (IDR)	1375-2720
6M Avg. Val (IDR Bn)	65.50
YTD Returns (%)	11.5
Beta (x)	0.29
Free Float (%)	29.14%

Share Price Performance (IDR/Share)



Share Performance (%)

Month	Absolute	Relative
3M	20.4	14.3
6M	30.6	21.1
12M	41.1	24.8

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Rights Issue

About the Rights Issue

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Simultaneously, Barito shall issue a maximum of 1.4Bn Series I Warrants, which represents 10% of the total issued and paid up capital. Every 4 rights shares shall be accompanied by 1 Series I Warrant for the Preemptive Right holders exercising their rights. Each holder of 1 Series I Warrant shall be entitled to purchase 1 share of the company. Specifically, each Series I Warrant may be exercised in accordance with the following conditions:

- a. The Exercise Window I shall commence from July 1, 2019, until June 30, 2020, with the Exercise Price for the Warrant Exercise Window I ranging from IDR 1,840/share to 2,640/share
- b. The Exercise Window II shall commence from July 1, 2020, until June 30, 2021, with the Exercise Price for the Warrant Exercise Window II ranging from IDR 2,300/share to 3,300/share

Estimated Use of Proceeds

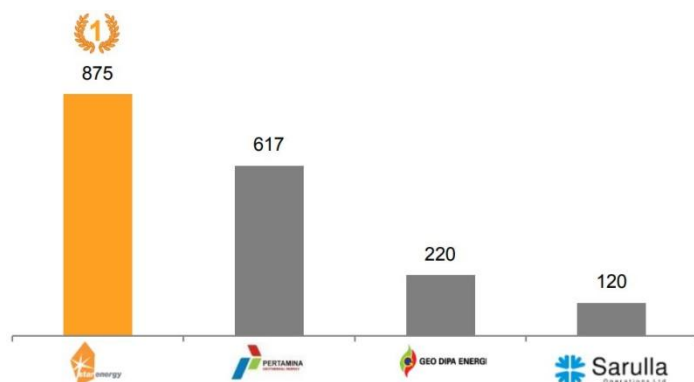
Firstly, approximately 52% of the proceeds shall be used to complete the purchase of Star Energy Group Holdings Pte. Ltd. (Star Energy; SEGHPL), which amounts to USD 520.69 Mn (note that the company has already paid a deposit of USD 234.4 Mn). This would be done through the issuance of the company's shares that shall be subscribed by Prajogo Pangestu through the delivery of his remaining interest in Star Energy shares (non-cash capital). Secondly, any remaining proceeds available should be used to finance Barito's (and/or its subsidiaries') working capital, which would be either in the form of loans or investment in shares of the respective subsidiaries. Thirdly, the proceeds from the exercise of Series I Warrants, net of share issuance costs, shall be used to finance Barito's (and/or its subsidiaries') working capital.

Potential Dilution

As stated in the prospectus, the percentage of share ownership of existing shareholders who do not exercise their rights to purchase the new shares offered in the rights issue shall be subject to a maximum dilution of 28.63%. We also calculate potential dilution to EPS, which could drop by 17% and 29% in 2018F and 2019F, respectively.

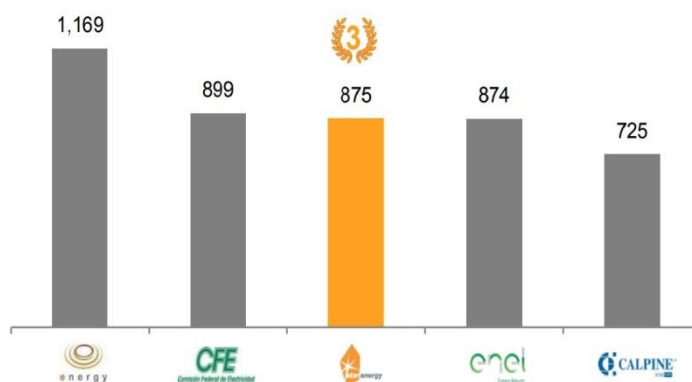
Impact of Star Energy to Barito Pacific

Fig 1 Largest in Indonesia



Source: World Energy Council Publication: World Energy Resources 2016, Barito, Sucor Research

Fig 2 3rd Largest in the World



Source: World Energy Council Publication: World Energy Resources 2016, Barito, Sucor Research

Fig 3 Barito Income Statement Before and After Star Energy (9M17)

	Barito	Star Energy	Total	Proforma Adjustment	Consolidated After Transaction
Net Revenue	1,823	294	2,117	(0.62)	2,116
COGS	(1,402)	(87)	(1,489)	(0.62)	1,488
Gross Profit	421	207	628	-	628
Operating Expenses	(73)	-	(73)	-	(73)
EBIT	348	207	555	-	555
Other Operating Expenses	(45)	(67)	(112)	-	(112)
Profit Before Tax	303	140	443	-	443
Income Tax Expense	(83)	(79)	(162)	-	(162)
Profit for the Year	220	61	281	-	281
Non-Controlling Interest	125	27	152	-	152
Profit To Owners	95	34	129	(11)	118

Source: Barito
Note: Values in USD Mn

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Fig 4 Barito Balance Sheet Before and After Star Energy (9M17)

	Barito	Star Energy	Total	Proforma Adjustment	Consolidated After Transaction
Cash	667	27	695	-	695
Receivables	223	106	329	429	758
Inventories	211	26	237	-	237
Others	96	159	255	-	255
Current Assets	1,197	318	1,515	429	1,944
Fixed Assets	1,631	319	1,951	-	1,951
Industrial Timber Plantations	8	-	8	-	8
Plantation Assets	41	-	41	-	41
Investment Properties	10	-	10	-	10
Rental Property Operations	-	325	325	-	325
Oil & Gas Operations	-	110	110	-	110
Investment in Associates and JVs	40	-	40	-	40
Intangible Assets	-	1,683	1,683	-	1,683
Others	338	493	831	(236)	595
Non Current Assets	2,068	2,930	4,998	(236)	4,762
Bank Loans	-	-	-	-	-
Payables	422	2	424	-	424
Current Maturities of LT Loans	213	131	344	-	344
Others	36	73	109	(0)	108
Current Liabilities	671	206	877	(0)	876
Long Term Liabilities	435	1,640	2,075	-	2,075
Others	179	776	955	-	955
Non Current Liabilities	614	2,416	3,031	-	3,031
Capital Stock	812	840	1,652	(632)	1,019
Additional Paid in Capital	162	-	162	186	348
Other Equity Component	179	(608)	(429)	609	179
Other Comprehensive Income	(206)	-	(206)	-	(206)
Retained Earnings	104	67	171	(67)	104
Total	1,051	298	1,349	96	1,445
Less Cost of Treasury Stock	(4)	-	(4)	-	(4)
Total Equity to Owners	1,047	298	1,345	96	1,440
Non-Controlling Interests	933	327	1,261	98	1,358
Total Equity	1,980	626	2,606	193	2,799

Source: Barito
 Note: Values in USD Mn

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The 9M17 results above show that the net revenue, EBIT, and net profit to owners increased by 16%, 60% and 24%, respectively. Additionally, gross margins increased from 23% to 30% and EBIT margins increased from 19% to 26% after the inclusion of Star Energy.

With this in mind, Star Energy reported an EBITDA of USD 250Mn in 9M17 (including depreciation of approximately USD 43Mn for this period). Thus, due to its stable nature and its ability to earn recurring income, we believe that Star Energy could generate an EBITDA of USD270-400Mn.

Based on our calculation, we derive Star Energy’s annual revenue and EBITDA through the following:

Fig 5 Star Energy Key Assumptions

Asset	Capacity (MW)	Barito Effective Stake (MW)	Tariff (USc/kWh)	Star Energy Revenue/Day (USD)	Barito Revenue/Day (USD)	COD	Expiry
Wayang Windu							
Unit 1	110	44	9.6	240,768	96,307	June 2000	2052
Unit 2	117	47	9.6	256,089	102,436	March 2009	
Total	227	40.00%		496,857	198,743		
Salak							
Unit 1,2,3	180	62	6.2	254,448	88,039	1994 (Unit 1,2); 1997 (Unit 3)	2040
Unit 4,5,6	197	68	7.2	323,395	111,895	1997	
Total	377	34.60%		577,843	199,934		
Darajat							
Unit 1	55	19	5.1	63,954	22,128	1994	2047
Unit 2	95	33	6.7	145,122	52,212	2000	
Unit 3	121	42	7.1	195,875	67,773	2007	
Total	271	34.60%		404,951	140,112		

	Capacity (MW)	Revenue Per Year (USD Mn)
Star Energy	875	540.07
Net to Barito	315	196.66

	EBITDA (USD Mn)	EV (USD Mn)
Star Energy 1	270.04	2,696.51
Star Energy 2	378.05	3,391.12
Net to Barito 1	98.33	-
Net to Barito 2	137.66	-

Source: BCPG, Barito, Sucor Estimates

Note: EBITDA 1 is based on future peer EBITDA Margins; EBITDA 2 is based on management guidance

EV 1 and 2 are based on future peer EV/EBITDA Multiples

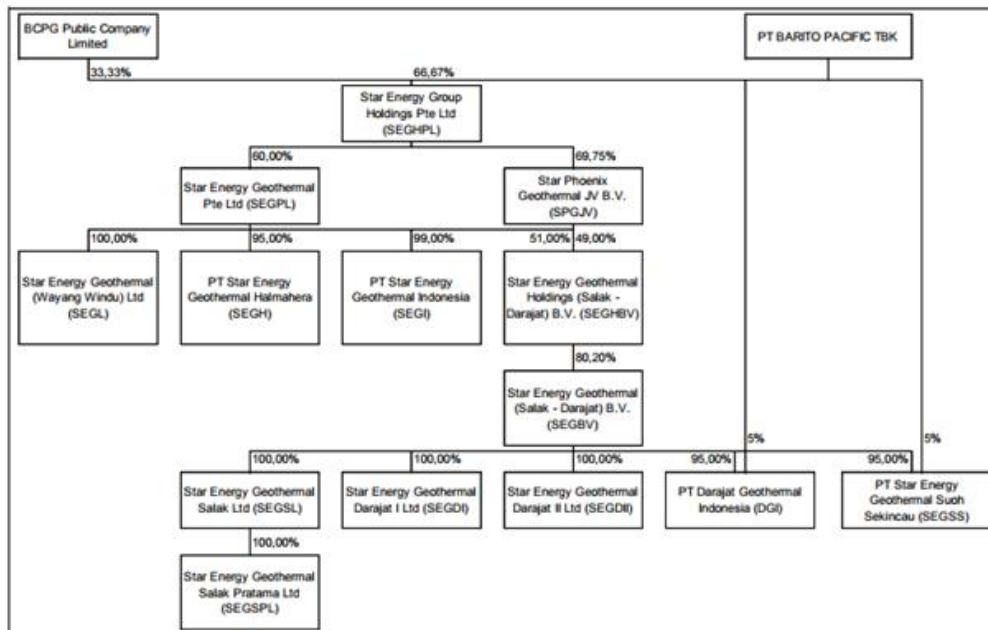
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Fig 6 Structure Before SEGHPL Transaction



Source: Barito, Sucor Research

Fig 7 Structure After SEGHPL Transaction



Source: Barito, Sucor Research

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Valuation

Fig 8 Barito Geothermal Peers

Company	Market Cap (USD Mn)	2017 P/E	2018F P/E	2019F P/E	2017 ROE (%)	2018F ROE (%)	2019F ROE (%)	2017 EV/EBITDA	2018F EV/EBITDA	2019F EV/EBITDA
Barito Pacific	2,555	18.48	14.28	13.42	11.03	10.56	10.52	6.11	2.95	2.87
Calpine Corporation *	5,388	N/A	15.01	15.54	1.89	9.73	9.49	9.29	8.60	8.46
Ormat Technologies	2,796	28.12	23.38	20.52	9.75	9.50	9.75	12.04	10.54	9.47
Energy Development Corporation	1,948	11.48	9.85	9.19	17.16	17.85	17.26	8.28	N/A	6.89
First Gen Corporation	1,174	8.59	7.78	7.93	8.01	7.42	7.55	5.50	4.58	4.58
Polaris Infrastructure	244	92.89	17.42	11.22	N/A	N/A	N/A	7.00	6.43	5.56
Weighted Average		12.83	15.26	14.56	7.69	10.60	10.48	8.76	6.40	7.06
Simple Average		31.91	14.62	12.97	9.57	11.01	10.91	8.04	6.62	6.31

Source: Bloomberg, Sucor Estimates

* Calpine Corporation acquired by multiple acquirers

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Fig 9 Theoretical SOTP-Based Valuation

CAP		Star Energy		Other Segments		Holding Company Net Debt		Holding Company Overhead	
Equity Value	7,505	Estimated Yearly EBITDA	378	Gross Profit	2.10	Barito Net (Debt) Cash	418	Barito Operating Expenses	(101)
Ownership	50.20%	Peer EV/EBITDA	8.97	Discount Rate (WACC)	10%	CAP Net (Debt) Cash	71	CAP Operating Expenses	(94)
		Net (Debt) Cash	2,360					Discount Rate (WACC)	10%
		Ownership	66.67%						
Net to Barito	3,767	Net to Barito	687	Net to Barito	21	Net to Barito	347	Net to Barito	(70)

Source: Sucor Estimates

Note: Values in USD Mn except for per share items

Our theoretical TP of IDR 2,740 per share implies 2018F P/E of 14.28x and EV/EBITDA of 2.95x

Fig 10 Theoretical SOTP-Based Valuation (Continued)

NAV of Barito	4,753
Holding Company Discount	30%
Target Equity Value	3,327
Weighted Average Shares Outstanding	16,795.79
TP (USD/Share)	0.20
TP (IDR/Share)	2,740

Source: Sucor Estimates

Note: Values in USD Mn except for per share items

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Ratings for Sectors

Overweight : We expect the industry to perform better than the primary market index (JCI) over the next 12 months.
 Neutral : We expect the industry to perform in line with the primary market index (JCI) over the next 12 months.
 Underweight : We expect the industry to underperform the primary market index (JCI) over the next 12 months

Ratings for Stocks

Buy : We expect this stock to give return (excluding dividend) of above 10% over the next 12 months.
 Hold : We expect this stock to give return of between -10% and 10% over the next 12 months.
 Sell : We expect this stock to give return of -10% or lower over the next 12 months

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