INDONESIA A&M DISTRESS ALERT:
INDONESIAN COMPANIES REMAIN UNDER STRESS DESPITE POST-COVID RECOVERY

January 2024

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

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FOREWORD

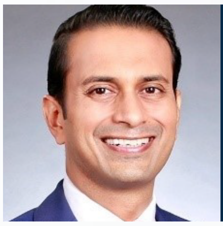
It is with great pleasure that we publish our first A&M Distress Alert (ADA) for Indonesia. We trust you will find the analysis useful as an overall temperature check on corporate performance in Indonesia.

Going forward, we plan to regularly update the watchlist and extend the scope to other SE Asian markets.

While most corporates are healthy, corporate distress is increasing in Indonesia, and financial positions have not recovered to pre-Covid levels. Many companies still need to significantly deleverage and turn around their operational performance.

Corporate leadership must now be prepared for growing challenges, including moderate growth projections, disrupted supply chains, volatile input costs, restrained access to capital and severe financing costs. Growth at any cost will no longer be possible.

Corporates need to act urgently to appropriately respond to current challenges.



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INTRODUCTION

While economies are recovering from the impact of Covid-19, the global growth outlook remains mild at best. Globally, the business landscape has become increasingly complex — it has certainly not returned to 'normal' and is unlikely to ever return to a pre-pandemic scenario.

The current state of affairs combines commodity price fluctuations, supply chain disruptions due to international conflicts and China's decoupling strategy, rampant global inflation, persistently high interest rates, curtailed startup capital and valuations, weakening of global free trade agreements, and growing concerns of climate change impacts. With them, companies are facing significant stress on their corporate strategies, balance sheets and operations.

Organizations are now assigning greater importance to capabilities such as scenario planning, macro/micro risk scanning and prudent decision making, which are essential for success.

Even though Indonesia remains relatively isolated from global headwinds with an expected economic growth of 5 percent and overall positive investor sentiment, based on our Indonesian Listed Company Market Tracker, several emerging trends are likely to continue progressively to challenge corporate performance.

The A&M Distress Alert (ADA) aims to provide a snapshot of companies' financial and operational health as they navigate this new, tougher environment.

Our proprietary index considers 17 key performance indicators (KPIs) of Indonesian listed entities with revenue greater than $50 million USD. The index assesses the robustness of entities' balance sheets and earnings, identifying those that are in, or may soon be in, financial distress.

In this report, we will explore the key findings of our analysis and discuss the outlook for corporate financial health in 2024 and beyond.

METHODOLOGY

A&M's Financial Restructuring Advisory team has developed a methodology to assess performance and balance sheet robustness of Indonesia businesses, aiming to identify those that are potentially in distress or may soon be heading in that direction.

The study includes more than 360 Indonesian listed companies with over $50 million USD of annual revenues that consistently provided data for all years from 2019 to 2022, excluding financial service institutions.

The ADA index is created based on 17 KPIs clustered into two subscores: The performance score is based on the company's income statement health and is also measured against its industry peers. The robustness score is based on detailed balance sheet strength. The index attempts to provide a long-term view of the overall financial and operational resilience of the companies.

The scores are applied on a scale from zero (heavily impacted) to 10 (very solid situation). Based on the scoring, companies are clustered into four groups: businesses that are in or on the verge of financial distress because they have significant balance sheet issues in addition to poor financial performance (Cluster 1), those with weak balance sheets (Cluster 2), those with weak performance (Cluster 3) and finally, firms considered to be in an overall healthy position (Cluster 4).

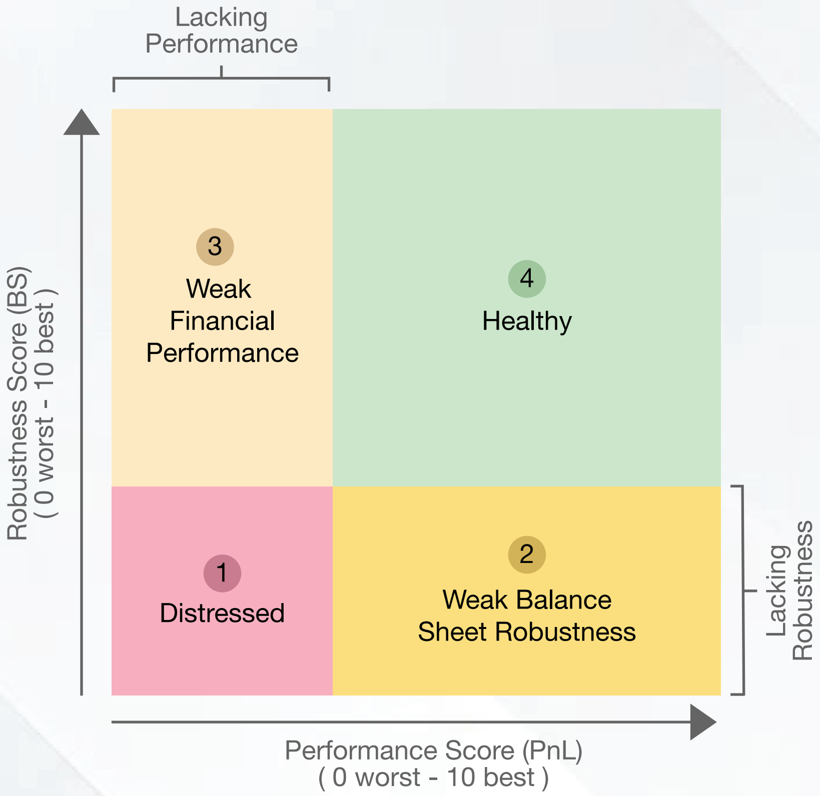
ADA Clustering

Distressed (Cluster 1): Companies with significant deficits in both their financial and earnings situation. These, therefore, have insufficient liquidity and/or inadequate and unsustainable capital structures and weak/insufficient profitability. Some of these companies are, therefore, likely to be in financial distress, requiring a turnaround.

Weak balance sheet robustness (Cluster 2): Companies with a robust earnings/profit performance but with insufficient liquidity and/or inadequate and unsustainable capital structures. These companies potentially need financial restructuring.

Weak financial performance (Cluster 3): Companies having a fundamentally solid balance sheet but showing weaknesses in their earnings or profitability. These companies potentially need performance improvement measures.

Healthy (Cluster 4): Companies that have a solid balance sheet and robust earnings.



Corporate Performance at a Glance

Our analysis result can be summarized in five key points.

Firstly, the overall position of Indonesian corporates seems weak with 44 percent of Indonesian listed companies showing a clear opportunity for improvement, of which 19 percent need to enhance financial health, 9 percent require addressing operational performance and, 14 percent of corporates in distress status would require simultaneous interventions in both areas. Notably, the remaining companies, approximately 56 percent, maintain a healthy status and outlook.

Secondly, corporate health seems to be worsening and has not recovered to pre-Covid level. Over the last 12 months the distress level remains high while both balance sheet robustness and operational performance have weakened.

Thirdly, it seems that in Indonesia the speed of recovery from corporate distress is relatively slow, resulting in a growing subgroup of 'zombie companies'. A concerning 44 percent of distressed companies remained in distress status even three years later, in contrast to more advanced economies like the UK, where only 24 percent remained in distress after three years. Several barriers potentially contribute to this issue, including resistance to fundamental operational changes, shareholder control retention, creditor reluctance for debt reductions and a less robust legal framework for financial restructuring.

Fourthly, the principal driver of distress in Indonesia seems to be weakened balance sheets and capital structures rather than compromised operational performance, as 22 percent of distressed companies in 2022 had a low robustness score three years prior, versus only 9 percent with a low performance score three years earlier. This situation is particularly concerning, given the current scenario of heightened interest rates which will severely strain any company in need of financing.

Lastly, on a sectoral basis, distress can be observed across sectors with the Top 3 most exposed being the Metal and Non-Coal Mining, Retail and Transportation, and the Infrastructure and Construction sectors. Further, two sectors — Chemicals and Materials, and Consumer Goods — showed a concerning worsening trend of distress over the last two years. This troubling picture highlights the strategic need for Indonesian corporates to urgently achieve improvements in their financial health and operational profitability to overcome today's complex environment. Going forward, corporates will also need to be much more judicious in balancing out their growth versus profitability choices. A growth-at-all-costs approach is no longer a valid option.

A&M DISTRESS WATCHLIST – INDONESIA

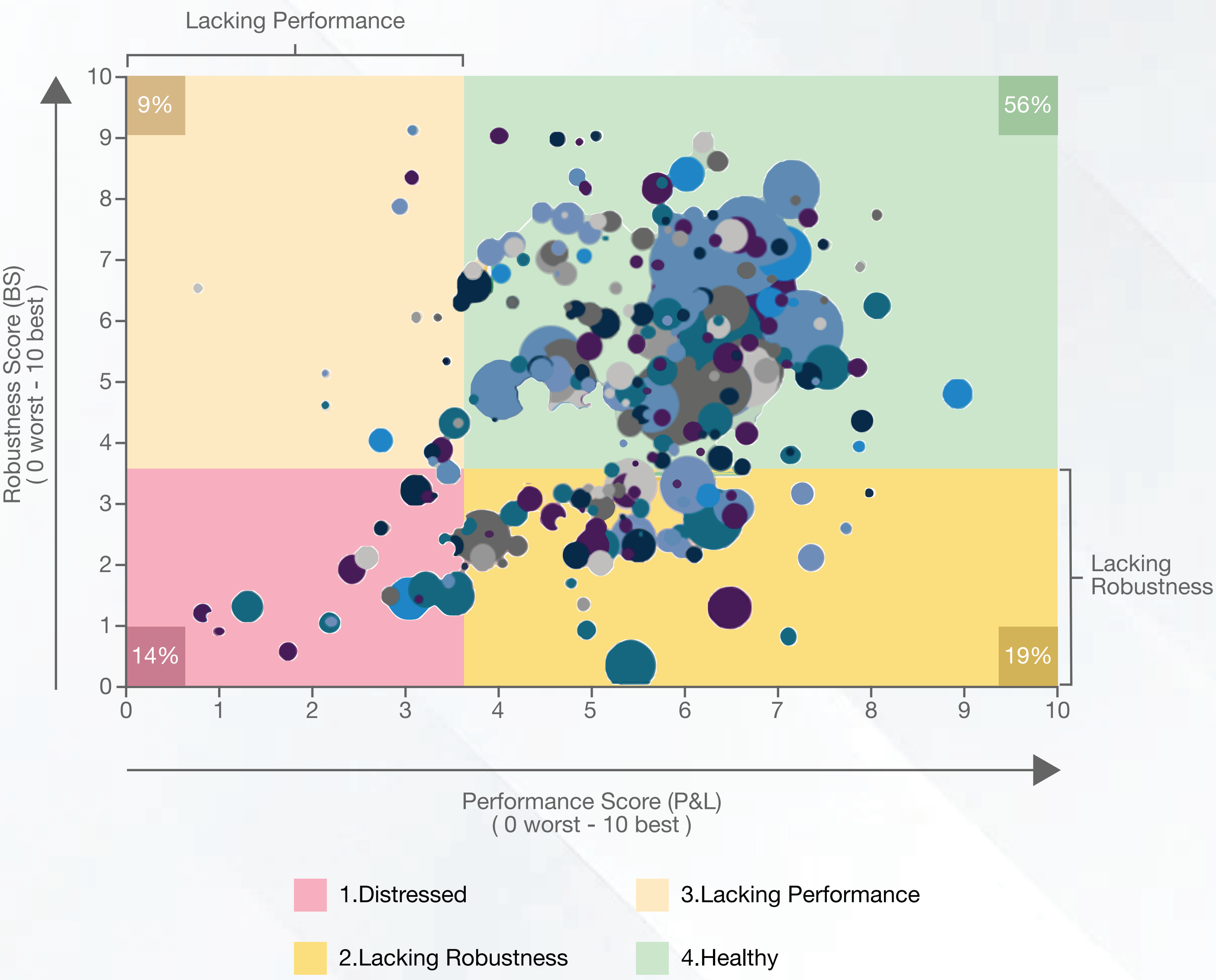
1. Over the last 12 months, the performance of 44 percent of Indonesian listed companies highlight an opportunity for improvement.

Of these, roughly 14 percent have been classified as distressed, indicating a pressing opportunity for simultaneous enhancements in their balance sheets and operational efficiency. Another 9 percent of companies exhibit a deficiency in profit and loss (P&L) performance, while 19 percent require intervention to increase the resilience of their balance sheets.

Encouragingly, the analysis also reveals that approximately 56 percent of the sampled companies continue to operate with a healthy status, showcasing resilience and a sound financial position.

Exhibit 1. A&M Distress Alert Metrics for Indonesian Listed Companies

Overall clustering LTM2023#-360 companies

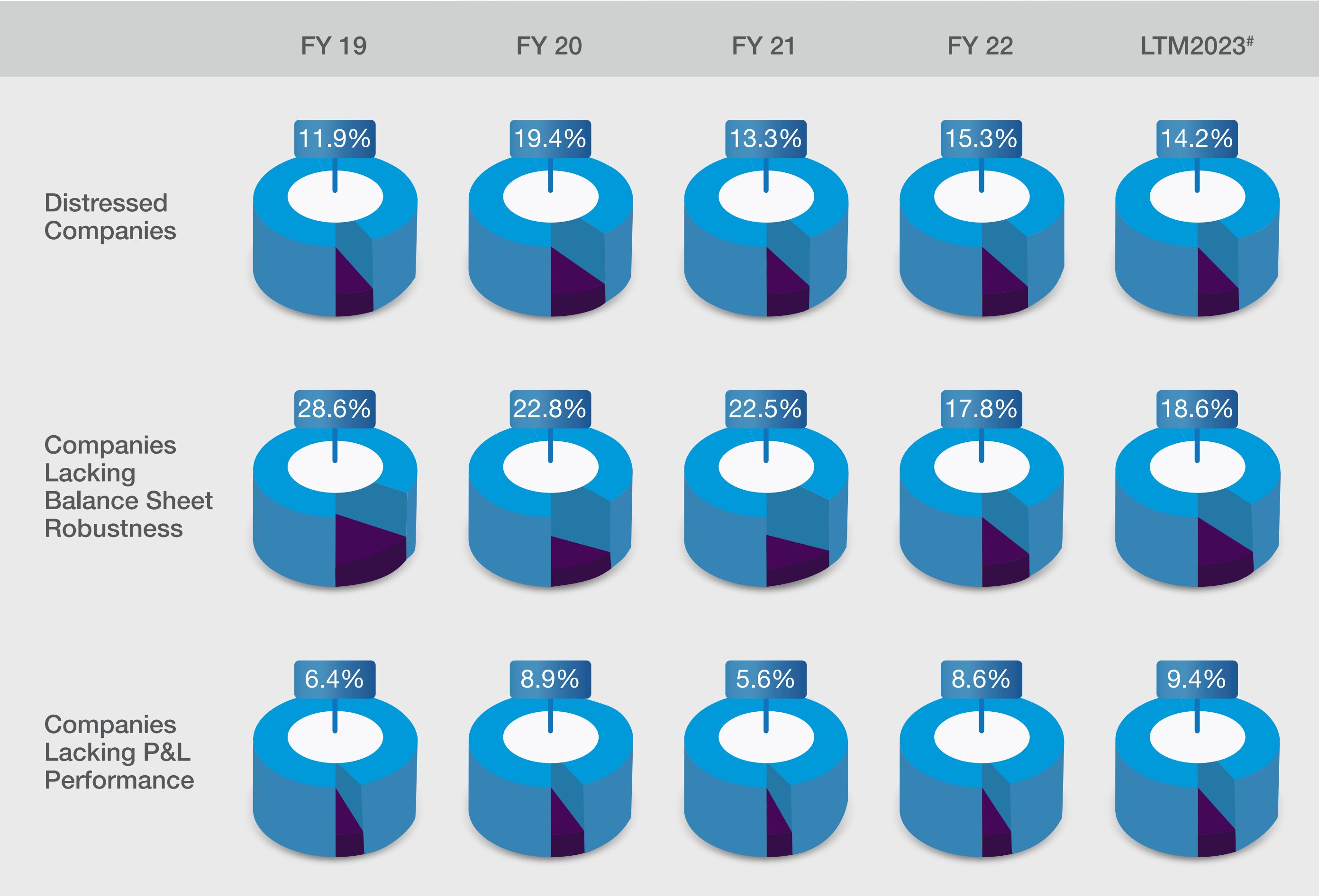


#This period refers to July 2022-June 2023.

2. Despite post-pandemic recovery, corporate distress is growing as compared to 2019.

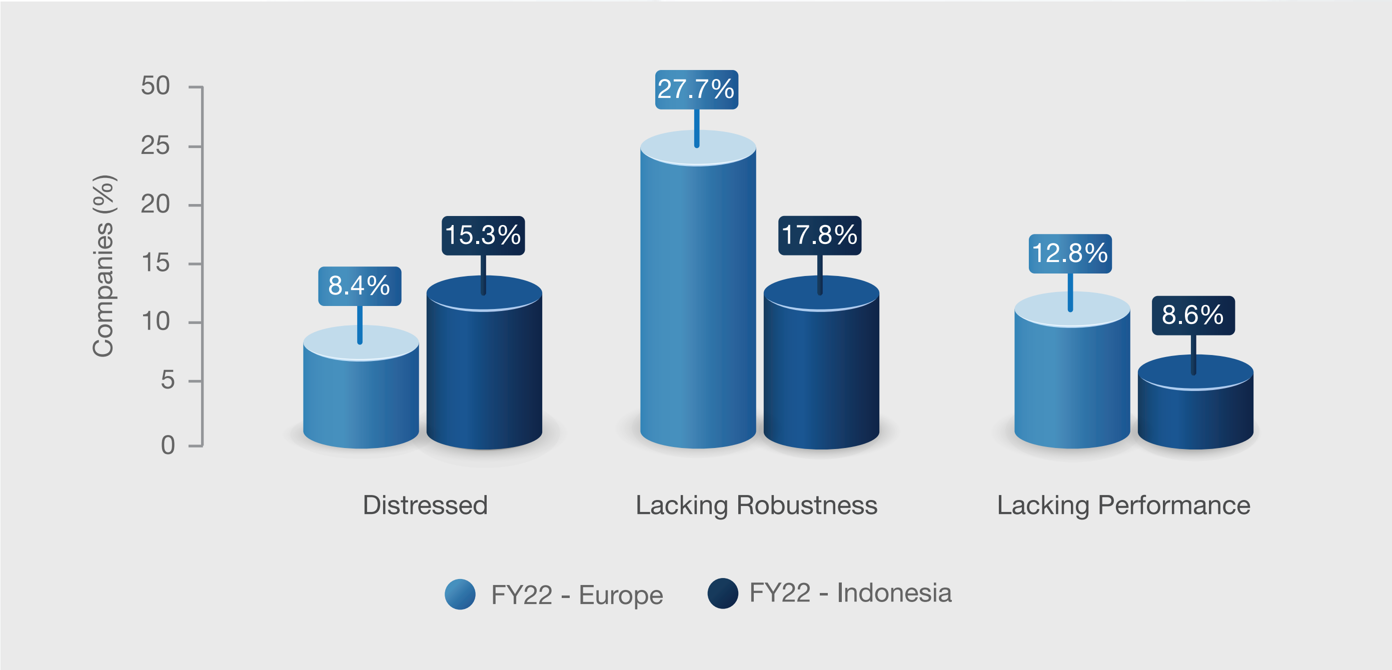
The number of distressed companies remains at 14–15 percent of the total sample and has worsened compared to the pre-Covid level, indicating that the recovery has been insufficient and that the weight of leverage is dragging companies down.

Exhibit 2. Annual Trend of Distressed Companies



#This period refers to July 2022-June 2023

Exhibit 3 Comparison of Indonesian and European Distressed Companies.



When compared to the EU, the share of distressed companies in Indonesia is almost twice as high. This finding is further underpinned by the growth in the number of companies officially in PKPU (Penundaan Kewajiban Pembayaran Utang or the Suspension of Debt Payment Obligation) filings in Indonesia (Exhibit 4).

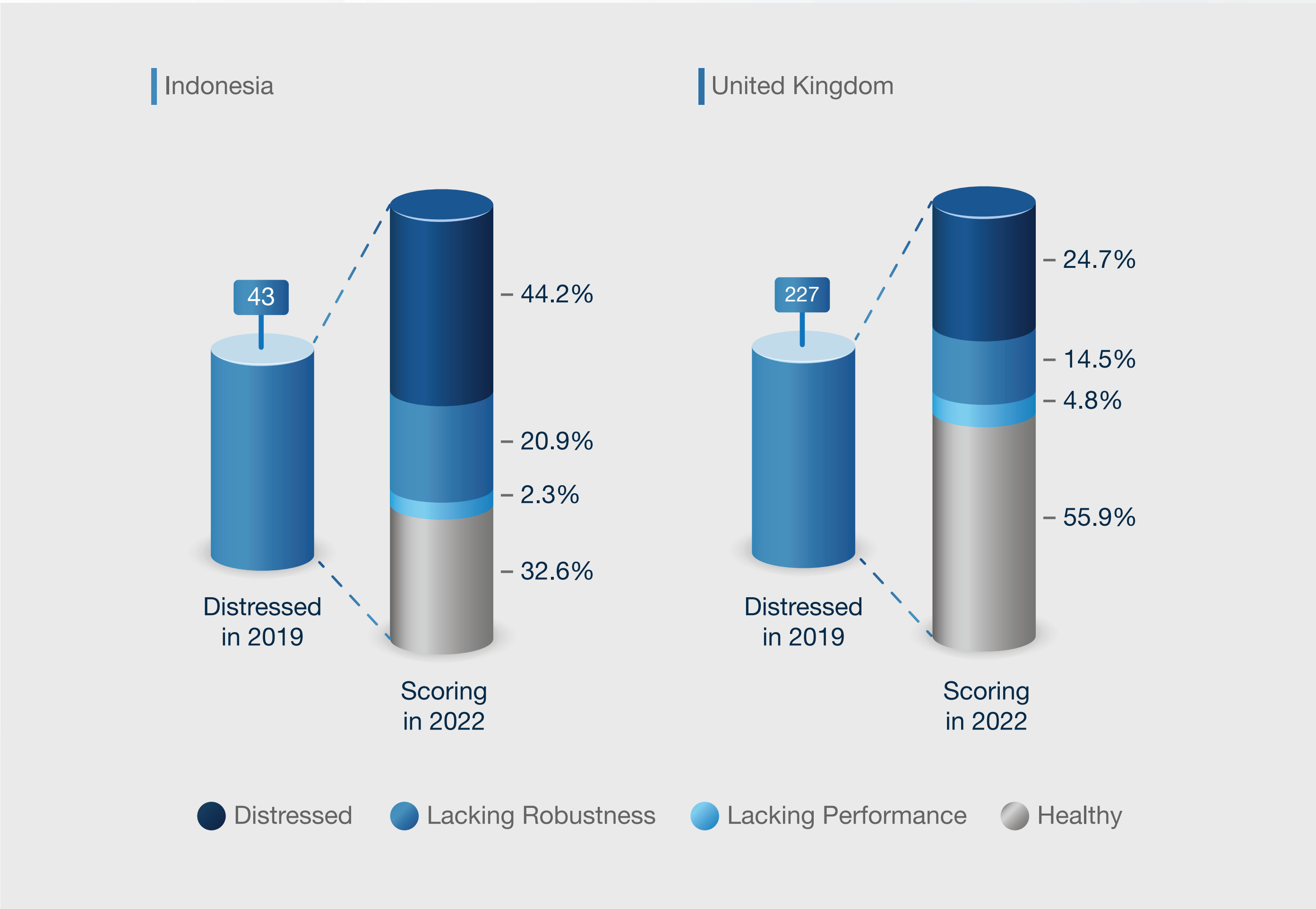
Number of companies filing for PKPU in Indonesia

3. In Indonesia, speed of recovery from distress remains a formidable challenge, creating a growing sub-group of 'zombie companies'.

Over 44 percent of distressed companies in 2022 were already in this state three years earlier and only 32 percent returned to a healthy status. This is in contrast to more advanced economies such as the UK (Exhibit 5), where only 24 percent of companies remained in distress in three-year timeframe and 65 percent returned to healthy. Several major barriers within the Indonesian landscape potentially contribute to this challenge:

- A resistance to embracing substantial operational changes, influenced by cultural norms, cost concerns and regulatory complexities
- Shareholder's persistent desire to retain control, even in challenging circumstances
- Reluctance among specific creditors to agree to debt reductions or haircuts
- Lack of a robust legal framework for facilitating financial restructuring processes

Scoring Trend of Distressed Companies 2019 vs 2022

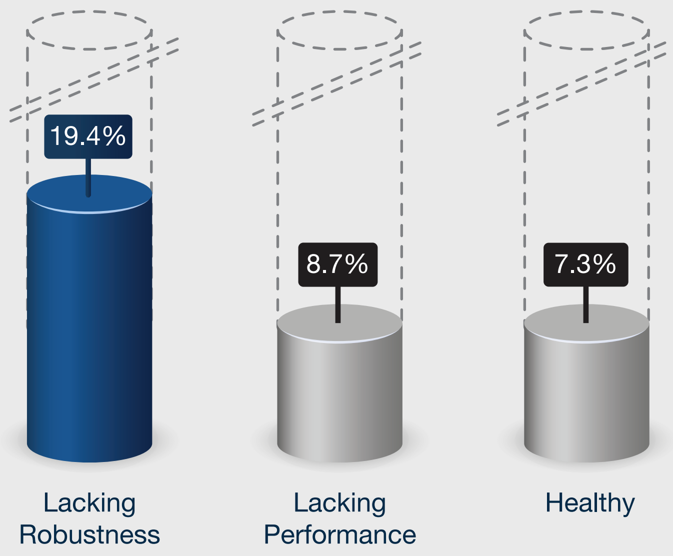


4. **When tracked over time, the largest driver of distress in Indonesia seems to be weakened balance sheets and capital structures rather than operational performance.**

   Of the distressed companies in LTM2023, 20 percent already had weak robustness scores three years earlier, compared to only 9 percent regarding their operational performance. This is an extremely concerning situation given the current scenario of heightened interest rates. More turbulence is expected in the coming year.

Lack of robustness in balance sheets / capital structure is the largest contributor to corporate distress.

% distress companies in LTM2023# Vs 2019 by cluster of origin



Observations

- **Balance Sheet / capital structure weakness is the primary contributor to distress positioning**
- Almost 20% of companies lacking robustness in 2019 became distressed by LTM2023
- 82% of distressed companies in LTM2023

  had balance sheet issues in at least one period between 2019-LTM2023
- Weak operational P&L appears to be less of a driving factor

The number of businesses lacking balance sheet robustness has remained high at 19.4 percent of all companies, and the main driver of distress as shown above is balance sheet weakness. These businesses are decreasing their unlevered free cash flow while increasing their debt position, resulting in decreased debt servicing capabilities.

This means that the companies' ability to generate cash/profits to pay for higher levels of debt is gradually being eroded.

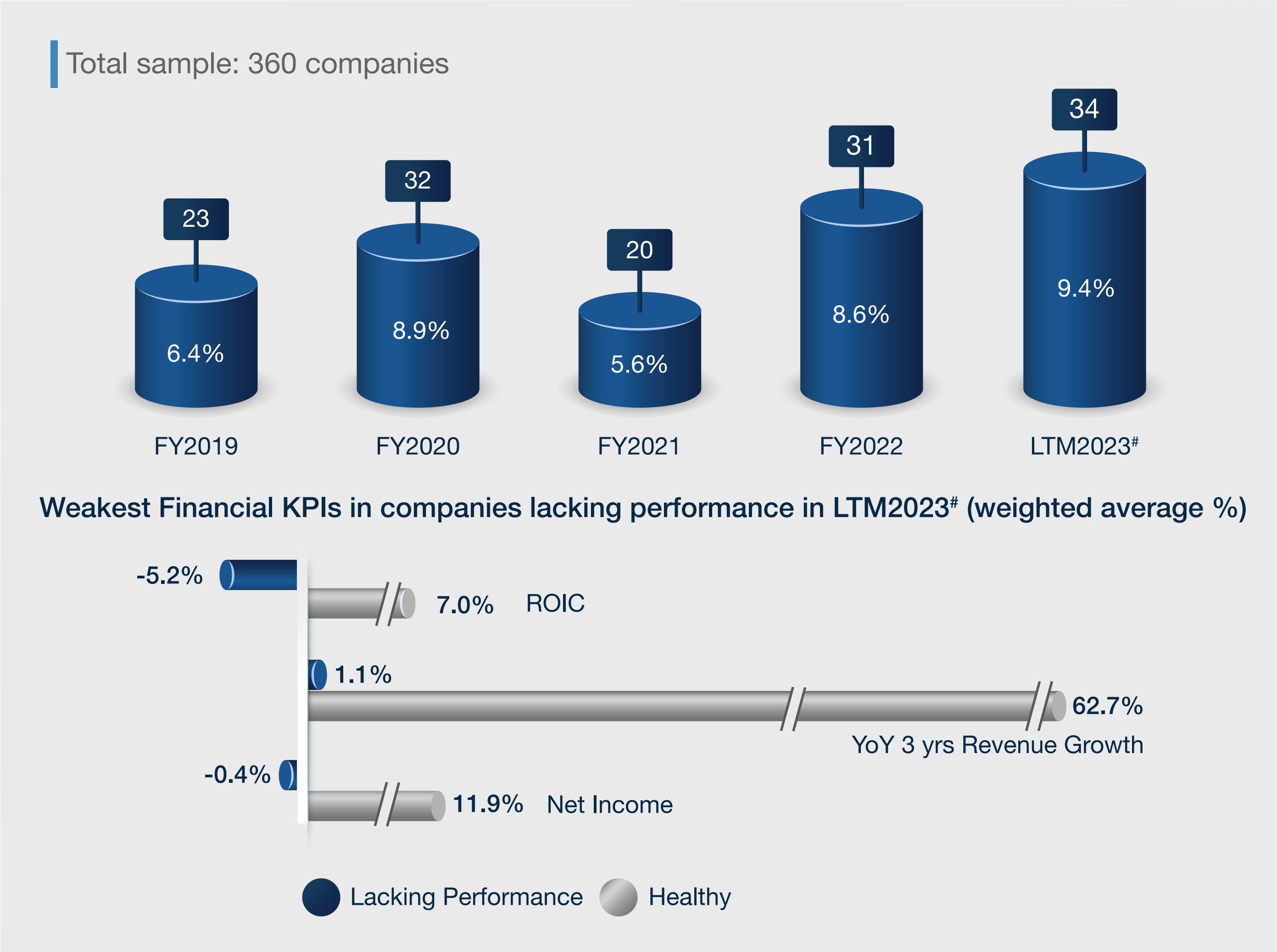
This situation will only worsen with the persistently higher levels of interest rates since beginning 2023. As refinancing dates come closer and operating performances don't improve, many companies will find themselves in a severe state of distress. With Indonesian interest rates high to address inflation and rupiah weakness concerns, Indonesian companies are not immune. Weaker-rated companies whose business models are not competitive or future-ready are of particular concern. Included in this group are the so-called zombie companies, firms that have long needed to address their capital structures but managed to stay afloat due to cheap borrowing available in an era of ultra-low rates. With financial buffers being quickly wiped out, the survival of these companies comes into question.

As financial headwinds escalate in the months ahead, companies must thoroughly review and manage their existing debt levels, especially if there is a significant short-term exposure.

#This period refers to July 2022-June 2023.

5. Corporate profitability is seemingly under strain amid soaring inflation and input costs, coupled with lackluster demand.

Percent of companies lacking operational P&L performance



In LTM2023, approximately 10 percent of companies faced an urgent need to improve their business performance. It was evident that businesses were significantly affected, with performance metrics resembling the challenging times seen during the Covid-19 pandemic in 2020.

The companies that struggled with their P&L in LTM2023 encountered significant difficulties across three crucial aspects: the ability to grow, to generate profits and to achieve solid returns on invested capital.

This situation highlights that it was not a simple choice between growth and profitability; instead, these struggling companies found themselves performing poorly in both areas. Balancing the twin challenges of sustaining growth and profitability emerged as a vital concern for businesses seeking to thrive in the unpredictable economic environment and ensure long-term success.

#This period refers to July 2022-June 2023

SECTOR TRENDS

Distress is present across industry sectors with varying degrees of concern.

The three most distressed sectors currently are Metal and Mining, Retail, and Transportation, Infrastructure and Construction, in descending order. Distress has grown most strongly in Metal and Mining, Consumer Goods, and Chemicals and Materials.

On the opposite side of the spectrum we can see how Agriculture, Coal Mining and Energy, Communication and IT, and Healthcare recorded low distress levels and clear improvement trends.

Sector Distress 2023 LTM#

Industry	Percent	Companies in Distress	Ppt Change from LTM2021#
Metal and Mining	25.0%	5	150%
Retail	20.8%	5	25%
Transportation, Infrastructure and Construction	20.0%	6	-14%
Real Estate, Leisure, and Hospitality	17.1%	6	-45%
Consumer goods	16.7%	6	100%
Chemicals and Materials	15.2%	5	67%
Automotive, Industrial, Infrastructure, Aerospace and Defence	12.9%	8	-27%
Health care	10.0%	2	0%
Communication, Media, and IT	8.6%	3	-40%
Energy & Fuels (coal)	7.9%	3	-63%
Agriculture	7.4%	2	-50%

#This period refers to July 2022-June 2023

METAL AND MINING

- The Metal and Mining sector in Indonesia is a significant contributor to the country's economy. Indonesia is rich in natural resources, including minerals and metals, making mining a crucial industry for the nation. The sector experienced growth, driven by strong demand for commodities, particularly from countries like China, which is a major consumer of Indonesian minerals.
- During Covid, there was a decrease in global demand for commodities as economic activities slowed down. This affected the prices and demand for Indonesian metals and minerals. It also caused supply chain disruptions, which affected mining operations, transportation and logistics.
- The long-term outlook for the Metal and Mining sector in Indonesia remains positive, given the country's vast mineral resources. As the global economy recovers and demand for commodities increases, Indonesia is likely to see a resurgence in demand for its metals and minerals. The government aims to secure steady investments to boost the mining industry. Plans include establishing 91 smelters, with 48 operational by end-2023. Efforts also target increase capacity of stainless steel, alumina and copper.
- It is important to note that commodity prices, including those of metals and minerals, can be subject to volatility due to factors like changes in global demand, geopolitical tensions and supply disruptions.
- However, the distress level is still high where the companies are mostly dealing with poor capital allocation on expansion and product diversification or operational inefficiency including high raw material costs.

List of Industries:

- Diversified Metals and Mining
- Aluminium
- Steel
- Gold

Percent of total companies

KPI - LTM2023#	Healthy	Distressed
Net Debt/EBITDA*	(0.06)	8.76
Equity Ratio*	61%	31%
Debt Service Coverage Ratio (UCF)*	14.24	1.21
Revenue growth yoy*	16%	-21%
EBITDA Margin*	15%	0%
ROIC*	9%	-6%

*sector median

#This period refers to July 2022-June 2023

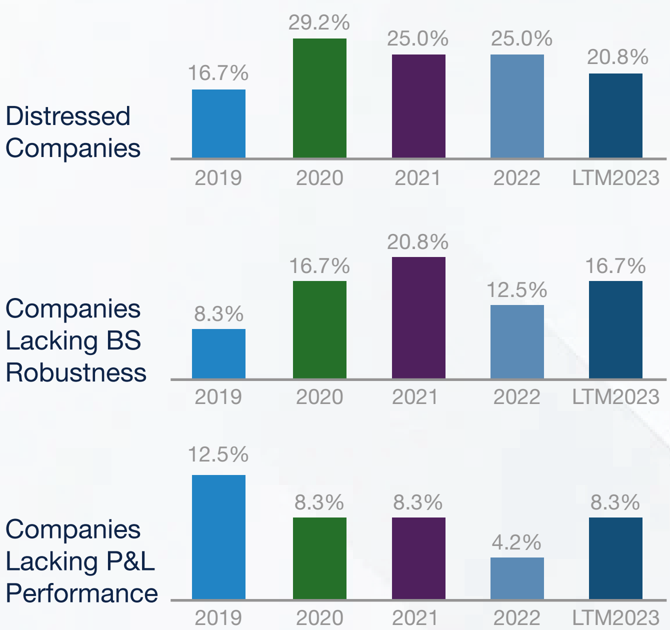
RETAIL

- While gradual price hikes supported by global inflationary pressures and pent-up demand helped the Retail sector to recover (e.g., 6 percent revenue growth), there is still a big gap vs. pre-Covid levels.
- While modern trade market share is steadily increasing, general trade still dominates the Indonesian retail landscape (~65–70 percent). As such, retailers playing in both spaces need to establish differentiated pricing strategies for both channels to enforce the desired price changes without compromising sales volume.
- We see that ~46 percent of companies either lack robustness in their balance sheets or performance, or are deficient in both. This points to the dichotomy in pricing strategies, whereby robust and effective pricing strategies and processes can make or break a retailer in the post-pandemic environment.
- Retailers that face financial distress often struggle to meet their short-term obligations. This is particularly true when their current ratio falls between 0.6 and 0.8. During these times, effectively managing inventory and working capital becomes critical.

List of Industries:

- Consumer Staples Merchandise Retail
- Computer and Electronics Retail
- Other Specialty Retail
- Food Distributors
- Broadline Retail
- Apparel Retail
- Food Retail

Percent of total companies



KPI - LTM2023#	Healthy	Distressed
Net Debt/EBITDA*	-0.01	-1.47
Equity Ratio*	64%	1%
Debt Service Coverage Ratio (UCF)*	5.8	2.47
Revenue growth yoy*	14%	2%
EBITDA Margin*	5%	-1%
P&L - ROIC*	7%	-15%

*sector median

*sector median

#This period refers to July 2022-June 2023

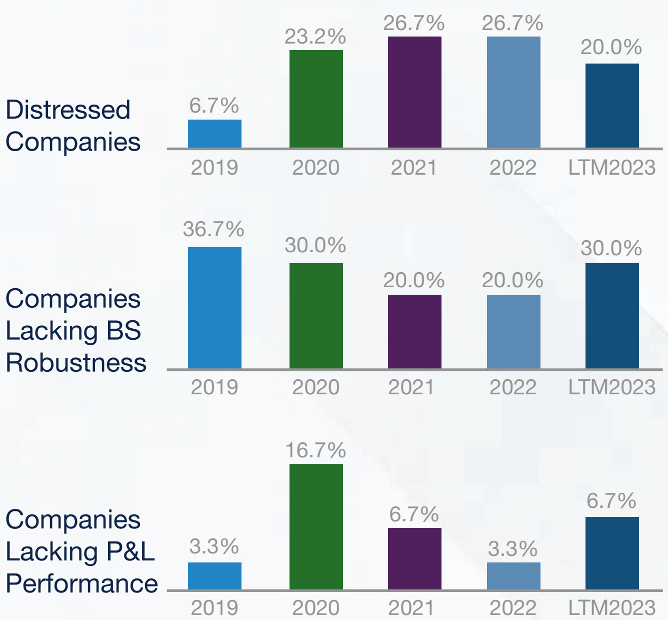
TRANSPORTATION, INFRASTRUCTURE AND CONSTRUCTION

- Pre-pandemic, Indonesia's transportation, infrastructure and construction sectors thrived, driven by substantial government investments to boost connectivity, foster economic growth and attract investments. The country's burgeoning population and emerging middle class fueled high demand for transportation services and urban development.
- Throughout the pandemic, airlines, public transportation and logistics companies experienced a significant drop in operations due to reduced travel and supply chain disruptions. Simultaneously, government budget constraints impacted infrastructure development plans, and construction projects faced setbacks from workforce restrictions, supply chain issues and funding challenges. These challenges have led to the deterioration of working capital, profitability and debt service capabilities for companies within the industry.
- This has resulted in 57 percent of companies within this sector experiencing performance and/or capital structure issues. Several construction companies have faced in-court bankruptcy or PKPU cases, alongside consensual restructuring efforts.
- With an uncertain economic outlook, heightened interest rates and a weakening rupiah, companies in this sector need to proactively address liability management. The imperative for strategic planning and financial prudence in addressing these challenges has become paramount.

List of Industries:

- Construction and Engineering
- Passenger Ground Transportation
- Marine Ports and Services
- Marine Transportation
- Highways and Rail Tracks
- Passenger Airlines
- Airport Services

Percent of total companies



KPL - LTM2023#	Healthy	Distressed
Net Debt/EBITDA*	(0.17)	11.35
Equity Ratio*	57%	24%
Debt Service Coverage Ratio (UCF)*	2.00	(0.22)
Revenue growth yoy*	17%	-3%
EBITDA Margin*	25%	3%
ROIC*	0.06%	0.01%

*sector median

#This period refers to July 2022-June 2023

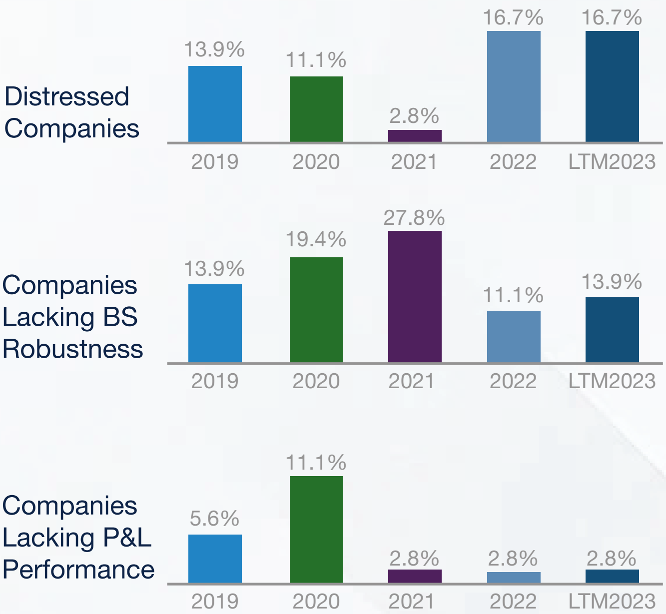
CONSUMER GOODS

- The percentage of distressed consumer goods companies rose from 2.8 percent to 16.7 percent from 2021–2022, the second largest increase among all sectors in the analysis.
- More than half of the distressed companies are in the food products industry, which had struggled with supply and demand imbalances — from large stockpiles of poultry to export bans on cooking oil.
- High inflation had also thinned the margins of manufacturers as raw material prices for manufactured goods skyrocketed and discretionary spending plummeted, leaving manufacturers to struggle with excess inventory and difficult pricing decisions.
- Companies had to either seek methods to store excess inventories or offload them at a loss, many of which had to sacrifice their free cash flow to strengthen their cold chain and logistic networks.
- Going forward, the mixture of high interest rates, decreasing inflation and an appreciating rupiah will call for consumer goods companies to exercise greater and more effective financial control.

List of Industries:

- Soft Drinks and Non-alcoholic Beverages
- Personal Care Products
- Packaged Foods and Meats
- Household Products
- Brewers
- Footwear
- Apparel, Accessories and Luxury Goods
- Tobacco

Percent of total companies



KPL - LTM2023#	Healthy	Distressed
Net Debt/EBITDA*	-0.13	1.3
Equity Ratio*	65%	34%
Debt Service Coverage Ratio (UCF)*	5.43	1.1
Revenue growth yoy*	10%	-11%
EBITDA Margin*	17%	-1%
ROIC*	7%	-9%

*sector median

#This period refers to July 2022-June 2023

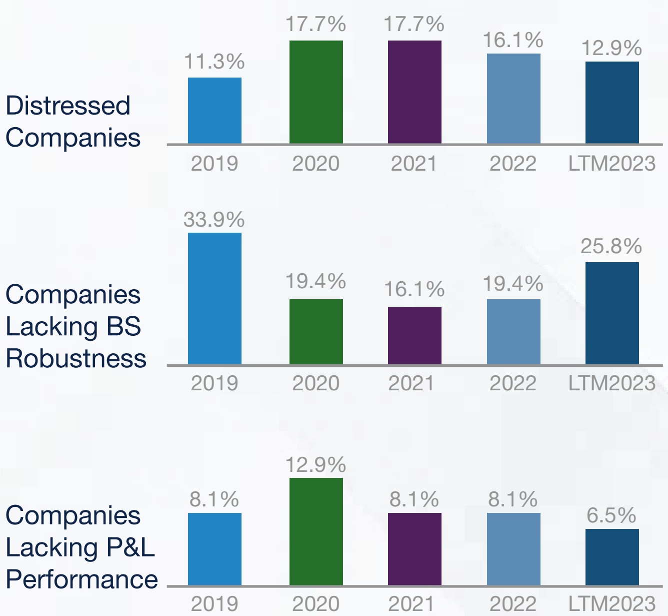
AUTOMOTIVE, INDUSTRIAL, AEROSPACE AND DEFENCE

- Supply chain disruptions were the primary cause of production shortfalls in this sector for the past two years. Most companies had sustained a decline in profitability since the onset of the pandemic but had managed to secure a strong recovery in 2022 due to pent-up demand and peak-level prices.
- However, long-term challenges still exist for the automotive companies as they were forced to cut down on R&D expenses to free up their cash flows to strengthen their supply chains, reducing their efforts to catch up with emerging trends, such as electrification, which require substantial shifts in business models and investments.
- Defence spending has remained robust in Indonesia despite pandemic-induced financial pressures. Looking ahead, defence budget pressures, such as security threats from Russia's invasion of Ukraine and the Minimum Essential Force Policy, are set to increase capital expenditures for Indonesia to modernise its armed forces and support existing projects.
- Going forward, maintaining sustainable leverage and healthy profitability would require manufacturers to reevaluate their long-term sales, fixed costs and R&D strategy through exercises such as cost takeouts.

List of Industries:

- Automotive/Electrical Parts, Equipment and Retail
- Trading Companies and Distributors
- Metal, Glass and Plastic Containers
- Tires and Rubber
- Commercial Printing
- Home Furnishings

Percent of total companies



KPL - LTM2023#	Healthy	Distressed
Net Debt/EBITDA*	0.08	2.3
Equity Ratio*	64%	5%
Debt Service Coverage Ratio (UCF)*	3.74	1.6
Revenue growth yoy*	13%	-18%
EBITDA Margin*	11%	0%
ROIC*	5%	-12%

*sector median

#This period refers to July 2022-June 2023

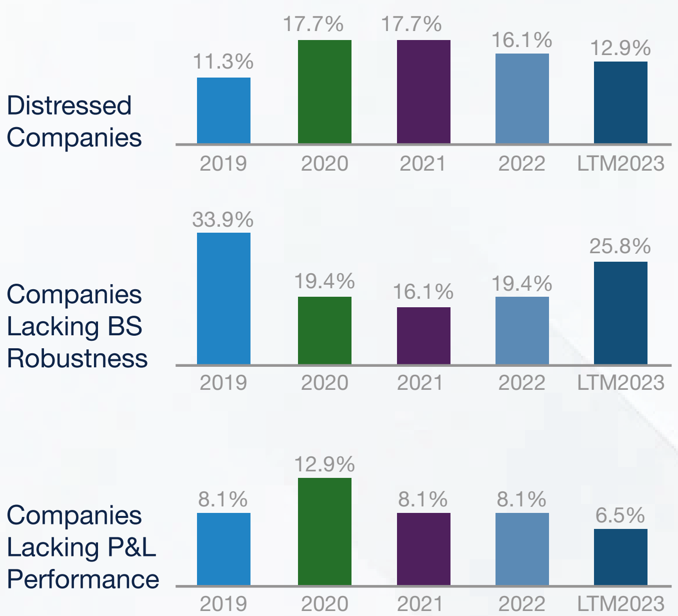
CHEMICALS AND MATERIALS

- The Indonesian chemical market remains promising as a huge local demand gap exists. Demand is rising, notably for natural gas downstreaming and potential coal-to-methanol adoption, and a push toward B50 biofuel blends. However, market volatility persists due to feedstock price fluctuations and regional competition.
- However, the sector has one of the highest rates of companies lacking robustness in their balance sheet, as it is exposed to a wide range of factors that serve as potential catalysts in tipping these companies' balance sheets.
- Companies in financial distress often exhibit common indicators, such as depleted cash and insufficient current operational performance to support both servicing long-term debts and facilitating new investments.
- One of the key reasons is that the sector has one of the highest shares in foreign investment in Indonesia. When the pandemic struck there was a significant slowdown in foreign capital inflow and an increase in foreign capital outflow, which resulted in companies having to source for alternative financing to support their capital-intensive activities, often at disadvantageous rates.

List of Industries:

- Paper and Plastic
- Construction Materials
- Commodity Chemicals
- Diversified Chemicals
- Paper Products
- Industrial Gases

Percent of total companies



KPL - LTM2023[#]	Healthy	Distressed
Net Debt/EBITDA*	0.08	2.33
Equity Ratio*	64%	5%
Debt Service Coverage Ratio (UCF)*	3.74	1.65
Revenue growth yoy*	13%	-18%
EBITDA Margin*	11%	0%
ROIC*	5%	-12%

*sector median

[#]This period refers to July 2022-June 2023

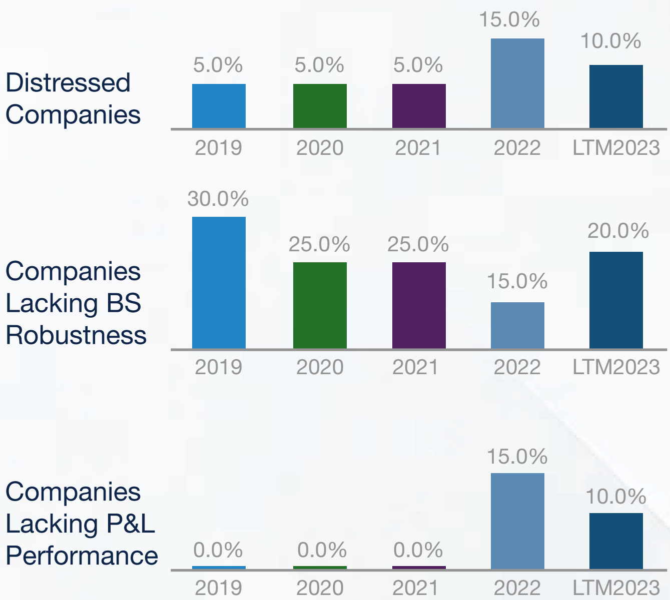
HEALTHCARE

- Indonesia's Healthcare sector offers considerable untapped potential, characterized by low per capita spending relative to peer countries and a shortage of hospital beds to meet the World Health Organization threshold. The BPJS (Badan Penyelenggara Jaminan Sosial Kesehatan, Social Security Agency on Health) program, which covers 84 percent of the population, drives market growth, while substantial support from the private sector, including industry conglomerates, has been evident over the past decades.
- Healthcare businesses have been particularly affected by recent inflationary cost pressures and high rates, which have contracted margins and affected free cash flows of highly leveraged firms. Moreover, the BPJS model has demonstrated the potential to expose healthcare providers to financial risk, with one of the reasons being that the disbursement cycle typically takes 2–3 times longer compared to other payors.
- The percentage of distressed healthcare companies rose from 5 percent to 15 percent from 2021 to 2022 with negative revenue growth across the sector and impacted profitability.

List of Industries:

- Healthcare Services
- Healthcare Distributors
- Healthcare Facilities
- Healthcare Supplies
- Pharmaceuticals

Percent of total companies



KPL - LTM2023#	Healthy	Distressed
Net Debt/EBITDA*	(0.43)	3.18
Equity Ratio*	74%	22%
Debt Service Coverage Ratio (UCF)*	0.13	(0.01)
Revenue growth yoy*	3%	-39%
EBITDA Margin*	20%	-22%
ROIC*	6%	-27%

*sector median

#This period refers to July 2022-June 2023

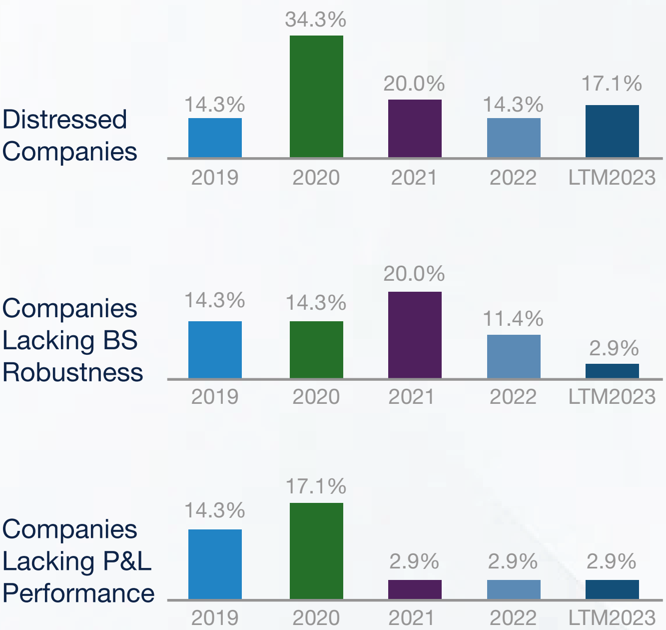
REAL ESTATE, LEISURE AND HOSPITALITY

- Real estate, leisure, and hospitality businesses in Indonesia have experienced a notable reduction in pressure following the pandemic-induced distress, yet they now face impediments such as global economic uncertainties and the upcoming Indonesian election.
- The industry confronts three primary challenges: constrained sales growth, excessive leverage on balance sheets and a heavy debt repayment. This situation is seen persisting until at least Q2 2024, post election, when market confidence is expected to recover.
- The government's successful intervention during the pandemic involved the removal of value-added tax, resulting in a 10–15 percent year-on-year sales growth. This program has been reinstated from November 2023 to December 2024 to continue supporting the industry in navigating ongoing uncertainties.

List of Industries:

- Hotels, Resorts and Cruise Lines
- Real Estate Operating Companies
- Real Estate Development
- Restaurants
- Leisure Facilities

Percent of total companies



KPL - LTM2023#	Healthy	Distressed
Net Debt/EBITDA*	0.72	13.80
Equity Ratio*	57%	40%
Debt Service Coverage Ratio (UCF)*	3.14	1.87
Revenue growth yoy*	32%	-7%
EBITDA Margin*	38%	17%
ROIC*	6%	-2%

*sector median

#This period refers to July 2022-June 2023

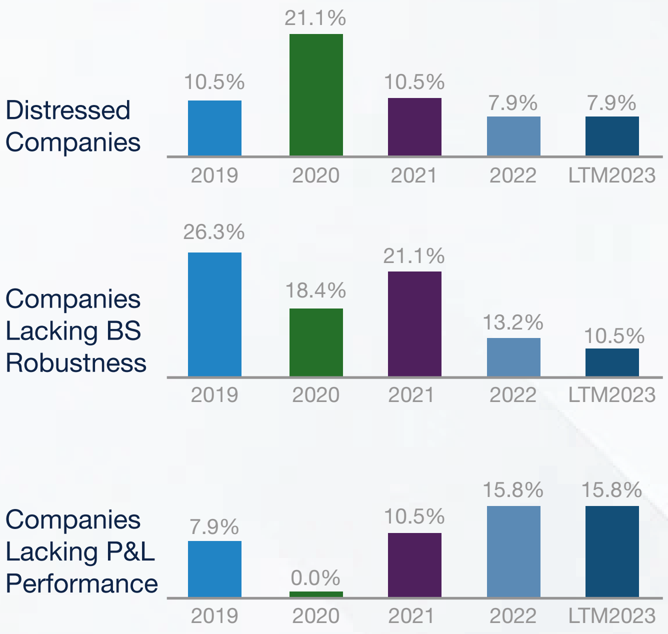
ENERGY AND CONSUMABLE FUELS (COAL)

- Indonesia is the world's third-largest producer of coal and one of the largest exporters, with coal being the country's top export. Along with the spike in energy prices and coal consumption, and increased demand for Indonesian coal due to energy sanctions on Russia, the Coal and Energy sector in Indonesia had experienced a significant earnings surge in the past two years.
- However, as the of price coal started correcting in 2023, coal production and mining companies have had to take some reality checks and wind down from the earnings fever that played a part in accelerating Indonesia's economic recovery.
- While consumption is expected to rise in the medium term, the international thrust on acting against climate change is increasingly pushing nations to start putting in place action plans to reduce carbon emissions.
- As international climate regulations mount over the sector and its exports, companies need to reconsider their business models and investment strategies to transition to green energy and/or mitigate their carbon emissions.

List of Industries:

- Independent Power Producers and Energy Traders
- Oil, Gas and Consumable Fuels
- Gas Utilities
- Renewable Electricity
- Oil and Gas Drilling

Percent of total companies



KPL - LTM2023#	Healthy	Distressed
Net Debt/EBITDA*	(0.19)	4.40
Equity Ratio*	59%	12%
Debt Service Coverage Ratio (UCF)*	13.42	0.83
Revenue growth yoy*	24%	-5%
EBITDA Margin*	31%	8%
ROIC*	9%	0%

*sector median

#This period refers to July 2022-June 2023

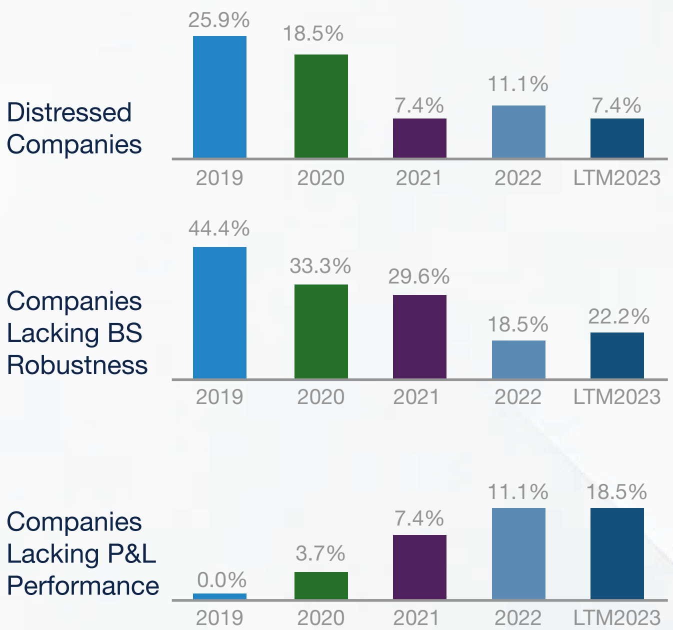
AGRICULTURE

- Indonesia's top agriculture exports include palm oil, coffee and rubber. The Agriculture sector had experienced healthy growth in the past few years due to the increased necessity of food and agro-industrial products during the pandemic.
- With president Joko Widodo's policy focus on agriculture as one of Indonesia's most vital sectors, many government subsidies and programmes were put in place to support the growth and resilience of the industry during the pandemic.
- As such, there have been waves of deleveraging across the sector resulting in higher robustness in balance sheets. We are also starting to see a shift in capital structure leaning toward a higher proportion of equity, from ~42.5 percent to 46 percent, as overlevered companies are more prone to distress due to unpredictable commodity price fluctuations.
- On the other hand, corporate profits are expected to grow in pace with the level of government support. However, being the least digitised sector in Indonesia, agriculture players face a swathe of untapped opportunities for productivity gains and development opportunities — thus, players should look toward digital transformation as a key lever to unlock and sustain high levels of growth.

List of Industries:

- Agricultural Products and Services
- Fertilizers and Agricultural Chemicals
- Paper and Forest Products

Percent of total companies



KPL - LTM2023#	Healthy	Distressed
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Equity Ratio*	59%	12%
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*sector median

#This period refers to July 2022-June 2023

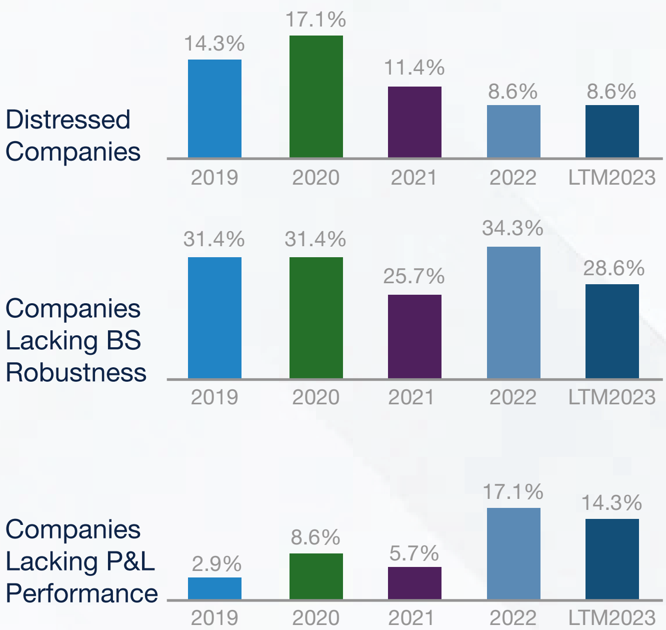
COMMUNICATION, MEDIA AND IT

- The number of companies lacking in balance sheet robustness and P&L performance in this sector remains elevated, signaling an industry that has struggled to fully recover from the Covid-19 crisis, despite relatively healthy growth during the pandemic due to increased need for connectedness.
- Indonesia's media landscape is dominated by large media groups that have been increasing market share — smaller media outlets tend to require backing from conglomerates to thrive in this capital-intensive industry.
- Average debt levels have risen by 28.3 percent since 2019, while average EBITDA increased only 7.1 percent over the same period. This points toward the intense competition to opportunistically gain market share during the pandemic while demand for digital and media services were at peak levels.
- The growth in distributed IT infrastructure is poised to place Indonesia in the lead among its APAC peers as demand for cloud and edge computing solutions increases with global tech powerhouses such as Alibaba Cloud and Amazon Web Services beginning to enter and scale up their cloud businesses in Indonesia.
- The path forward would entail a greater level of capital investment in both technologies and digital infrastructure, and companies will have to reconsider their capital structures to be able to sustainably finance these expenditures.

List of Industries:

- Integrated Telecommunication Services
- Technology Distributors
- Broadcasting
- Advertising
- IT Consulting and Other Services
- Cable and Satellite
- Movies and Entertainment
- Wireless Telecommunication Services
- Application Software
- Electronic Components

Percent of total companies



KPL - LTM2023#	Healthy	Distressed
Net Debt/EBITDA*	0.1	-8.21
Equity Ratio*	64%	-0.1%
Debt Service Coverage Ratio (UCF)*	4.21	0.99
Revenue growth yoy*	1%	-23%
EBITDA Margin*	13%	-2%
ROIC*	5%	-8%

*sector median

#This period refers to July 2022-June 2023

MORE RESTRUCTURING IN THE OFFING

It emerges from the latest analysis that companies are entering what could be a prolonged period of economic turbulence in a vulnerable financial position. More than 14 percent of firms across Indonesia have distress issues, a percentage that has seen a rise over the pre-Covid period.

As the Indonesian economy improves, the government's COVID-19 relief measures that provided critical assistance to various sectors during the pandemic, are being phased out or have already expired. The withdrawal of these measures, which were critical in sustaining businesses during the pandemic-induced downturn, marks the beginning of the post-COVID economic landscape. This shift is likely to expose weaknesses in companies that have relied on such assistance, particularly those that have not yet fully adapted to the new market realities. As a result, these industries may now face the challenge of navigating a recovering economy without these fiscal buffers. The expiration of these measures may hasten the need for corporate borrowers to seek alternative financing and restructuring strategies, to address their debt obligations and operational challenges in a more self-sustained and market-driven environment.

What's more, tailwinds that helped preserve profitability in an inflationary environment — such as pent-up demand post the pandemic and cost pass-through mechanisms — are gradually fading for some sectors.

While this weakening trend has not yet materialised into a meaningful wave of corporate restructurings in Indonesia, we expect that tougher conditions will force more companies to actively pursue deleveraging and restructuring measures.

Corporate borrowers will need to consider alternative options to solve their outstanding debt. Dry powder and innovative structures are available, albeit at a higher cost of capital.

Alongside measures to regain balance sheet sustainability, transformational and operational restructurings (e.g., closure of locations, disposal of divisions, product offering adjustments, development of new products, workforce reduction, digital transformation, etc.) will also become more frequent.

Key takeaways for stakeholders

- **Immediate action:** Continuous review of short term cash flow forecast and cash management tools to obtain a robust platform for restructuring.
- **Rigorous business model/portfolio review:** Only a transparent business plan based on a realistic analysis of the situation can help the management and the board understand the impact of ever-changing market conditions and customer demands (e.g., Is the business model still viable/competitive?) and implement countermeasures if needed.
- **Robust three-way financial planning:** The development of a robust, integrated financial plan that combines the business plan and the impact from restructuring measures is vital to evaluate the feasibility of a restructuring against different scenarios.
- **Plan for volatility:** Permanent screening of macroeconomic drivers, peer behavior analysis and scenario planning should be conducted and modeled in three-way financial planning. It is not sufficient to rely on a business-as-usual plan anymore, given the manifold challenges.

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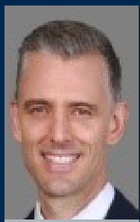

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