Asia Credit Research

PT Trikomsel Oke Tbk:
Update on debt restructuring

Wednesday, 17 February 2016

Background: PT Trikomsel Oke Tbk's (Trikomsel) default late last year was the first in the SGD market since the Global Financial Crisis when defaults by Celestial Nutrifoods Ltd and Sino-Environment Technology Group Ltd in 2009. While the USD market has seen its fair share of restructurings and defaults from Indonesian corporates, this is the first in the SGD market. As such, although we do not cover the name, it will be instructive to see how the restructuring plays out.

Current status on debt restructuring: The Commercial Court of Central Jakarta District on 4 Jan 2016 granted a 45-day suspension of PT Trikomsel Oke Tbk's (Trikomsel) debt obligations (Penundaan Kewajiban Pembayaran Utang or "PKPU"). The PKPU was initiated by PT Gapura Artha Semesta, an Indonesian logistic services provider to which Trikomsel owes IDR1.54bn (~SGD161,000). Indonesia's bankruptcy law allows a company to be granted a debt moratorium under PKPU until a suitable restructuring proposal is agreed under court supervision, failing which the company will undergo liquidation. The moratorium comes with strict deadlines, but extensions are common with a maximum of 270 days. In fact, Trikomsel has been granted an extension to the PKPU process of 60 days until 18 Apr 2016. As such the preliminary restructuring plan presented to bank creditors in November is no longer relevant and as expected, the composition/restructuring plan presented under the PKPU process on 10 Feb 2016 was substantially different.

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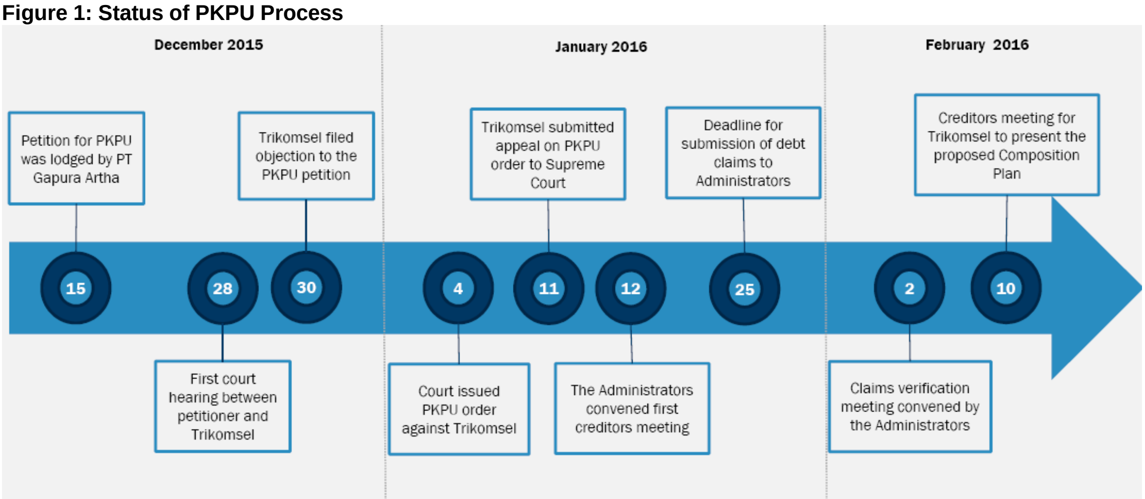
Figure 1: Status of PKPU Process



Source: Company

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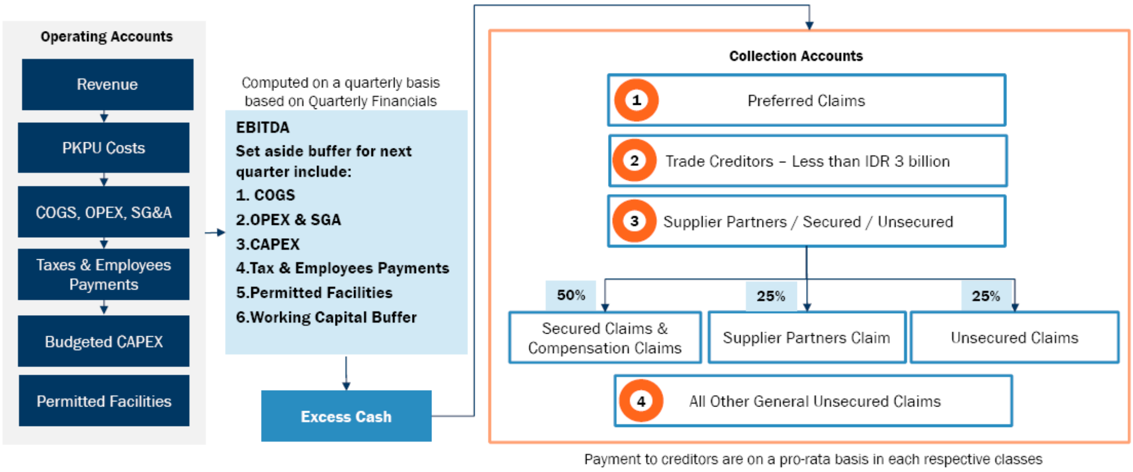
Composition/restructuring plan: The key feature of the composition plan is a cash sweep and waterfall mechanism which essentially means that there is **no firm timeline for repayment.** Revenue generated will be deposited into an Operating Account from which PKPU costs, operational costs, capex and taxes will be paid. Buffers for COGS, operating expenses, sales and general administration costs, capex and tax payable as well as working capital needs will also be set aside. Only after this will cash be swept aside into a Collection Account for debt repayment in the following order 1) Preferential creditors, 2) Trade creditors below IDR3bn (SGD312,500), 3) 25% to Supplier Partners, 50% to Secured Creditors and 4) unsecured creditors and intercompany debt. This essentially means that **only discretionary free cash flow after capital expenditures will be used to pay down debt which sounds very equity-like and represents a downgrade down the capital structure for SGD bondholders from a senior unsecured rank.** Other terms include all foreign-denominated debt and bank facilities to be converted into IDR, which means that **bondholders now have an additional dimension of risk of an FX nature.**

Figure 2: Proposed cash sweep and waterfall structure



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Business Plan: Trikomsel also presented a business plan with little details. Under the plan, Trikomsel is to raise USD10mn of capital solely for operations on a "best effort basis". The company is also looking to raise USD50-60mn by 2H2017 solely for operational purposes, but will "consider using a portion of the proceeds for debt repayments". In terms of assets sales, Trikomsel will consider selling its stake in Equity Tower in Jakarta for USD12-15mn and will look at other saleable assets , also solely for operational purposes. **Overall, Trikomsel seems to be prioritising cash for operations over debt service.**

Bakrie Telecom all over again: A contentious issue is the acceptance of Trisatindo's SGD 206mn intercompany claim as secured claims due to the SGD215mn bonds being assigned to it by the bond issuing vehicle Trikomsel Pte Ltd. **Trisatindo will therefore vote on the company's composition plan in the secured class in place of SGD bondholders whose claims filed by the trustees were rejected.** Note that Trisantindo's claims now represent **38.3%** of the total IDR5.66trn in secured claims. However, the treatment of the **SGD notes in the PKPU proceedings is unsecured** even though Trisatindo is voting in the secured class. Note that the recognition by administrators only determines if the creditor gains the right to vote on a proposed composition plan. All creditors whether registered for the PKPU process or not, are bound by any approved composition plan.

Claims recognized by administrators: According to Debtwire, administrators have recognised eight secured creditors who hold IDR 5.66trn in claims, while 43 unsecured creditors hold IDR 1.45trn.The eight secured creditors in the administrators' final list are: Bank ANZ Indonesia (IDR 199.1bn), Bank Central Asia (IDR 516.5bn), BCA Finance (IDR 181m), Bank Mandiri (IDR 225.5bn), Bank Negara Indonesia (IDR 1.33trn), Deutsche Bank (IDR 589.9bn), Standard Chartered Bank (IDR 621.8bn), and Trisatindo (IDR 2.17trn).Unsecured claims include IDR 20.2bn (SGD 2.1mn) in total claims submitted by six individual bondholders.

Our thoughts: Vote on the composition plan will require a simple majority approval from creditors as well as at least 2/3 of the claims recognized by administrators in each class. This is the first draft of the plan and there will likely be revisions to it. Regarding the Trisatindo claim, comparisons have been made to the same manoeuvre used in Bakrie Telecom's debt restructuring where a SPV representing USD380mn or 49% out of USD770mn of claims, cast votes in favor of a composition plan (94.5% approved, recovery estimated at 7-19%) in place of bondholders of USD380mn in defaulted bonds who were barred from voting. Indonesian corporates have had their fair share of debt restructuring and defaults over the past few years and adding on to our previous point that the debt restructuring was abrupt (company did not explore equity raising or asset sales), this new development further points to willingness (or lack of) rather than ability to pay (although ability to pay in the case of Trikomsel seems lacking as well). Although Trisatindo's claims represent a slightly lower percentage of claims, at this juncture it does seem like bondholders will not get to have much say in proceedings under the PKPU process and recovery values will be low. Note that OCBC Credit Research does not cover PT Trikomsel Oke Tbk or PT Bakrie Telecom Tbk.