

CHANDRA ASRI

Constructive story intact

We maintain our Overweight recommendation on the Chandra Asri (BRPTIJ; B2 Pos, B+ Stb) 2015 bonds. The company reported better-than-expected 2010 results – EBITDA was USD90mn compared with our forecast of USD67mn – due to strong 4Q10 earnings. The near-term outlook for the company remains constructive, in our view, given improving industry fundamentals and its recent merger with sister company TPI. Based on the credit metrics and liquidity position of the joint company, we think a one-notch rating upgrade is highly likely in the near term. We see the volatility in petrochemical prices and Chandra Asri's expansion plans as the key credit risks.

The BRPTIJ '15s have outperformed the Barclays Capital Asian HY corporate index in the past six months (see Figure 1), although they remain relatively cheap compared with Indonesian corporate and global petrochemical peers (see Figure 2 and Figure 3). We expect the yield on the bonds to tighten further in the near term on an improvement in credit metrics, a rating upgrade and, potentially, a share issuance by the company. The Chandra Asri '15s are indicated at 112.5/113.5 (mid-yield 8.4%).

4Q10 results surprise. EBITDA during the quarter rose to USD29mn from USD4mn in 3Q10. The stronger earnings were largely driven by a recovery in the ethylene-naphtha spread following a severe tightening in 3Q10, when a large amount of new capacity started operation in Asia. The company's full-year EBITDA declined to USD90mn from USD117mn. This was largely expected given weaker petrochemical spreads in 2010.

Positive industry outlook. Despite the rise in oil prices, petrochemical margins have been relatively resilient in 1Q10 (see Figure 4). We expect this trend to continue for the remainder of 2011 as we believe the industry is past the worst in 2010, when large capacity additions took place (see Figure 5). Demand for Chandra Asri's products should remain robust as Indonesian is a net-importer of most petrochemical products.

Stronger together. The merger with TPI has created a stronger credit, as TPI is currently debt free. Debt leverage of the combined entity in 2010 would have been 1.5x compared with 2.5x for Chandra Asri alone. In addition, the consolidation improves the company's vertical integration and enables Chandra Asri to produce higher-value-added products with lower price volatility. We believe the stronger credit profile arising from the merger is likely to lead to a positive rating action by Moody's and S&P in the near term. (We provide key financial figures for the merged entity in Figure 7)

Robust liquidity. Following the combination with TPI, Chandra Asri had cash of USD173mn and no short-term debt at end-2010. We see potential for further strengthening of the company's liquidity position, as it intends to float up to an additional 20% of shares (current free float is 5%) in the near term. Assuming half of this will through the issuance of primary shares, we estimate the company could raise up to USD150mn based on its current stock price. The objective of the float is to improve liquidity in the shares, according to management.

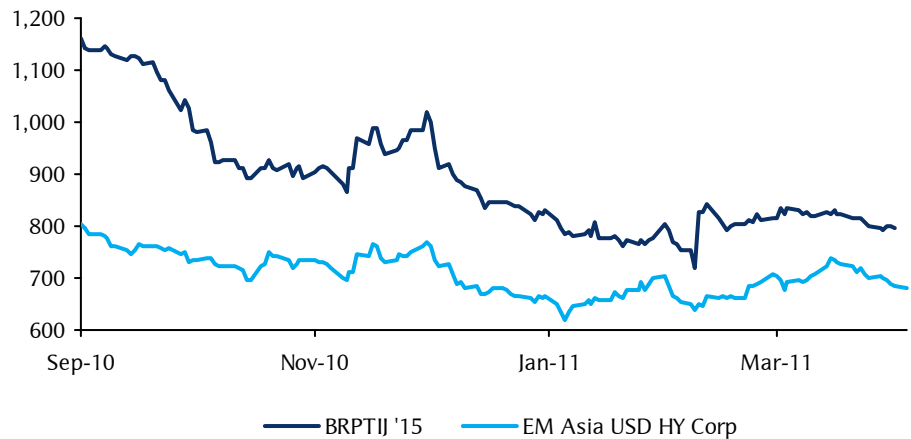
Erly Witoyo
+65 6308 3011
erly.witoyo@barcap.com

www.barcap.com

We expect Chandra Asri's free cash flow to be positive in 2011. The company has budgeted capex of USD70-75mn for the year, to be used for the debottlenecking of existing facilities and the construction of a butadiene plant. Combined with TPI, annual operating cash flow has averaged USD130mn for the past two years.

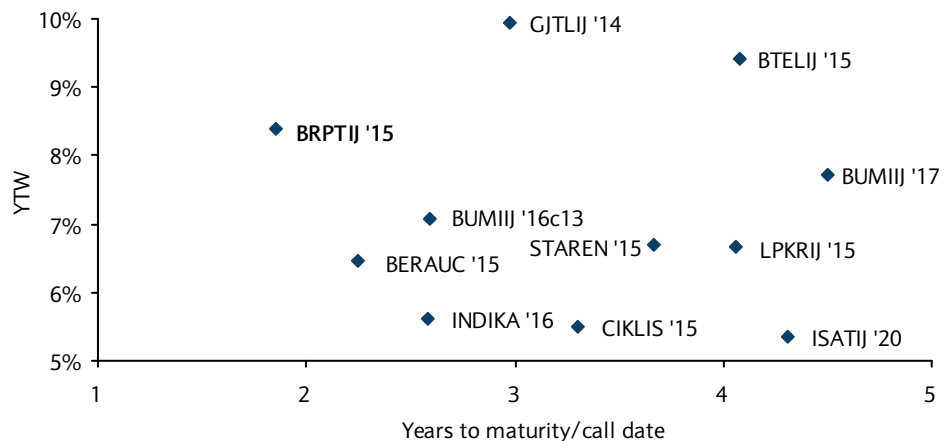
Expansion risk. Chandra Asri is contemplating various expansion projects, which could cost over USD400mn between 2011 and 2014. This could include a 200kt increase in the capacity of its polyethylene plant through debottlenecking and the construction of a new 400kt naphtha cracker. Management is undertaking a feasibility study of these expansions and expects the project phasing to be back-ended (2012-14). Given the company's current liquidity position, expected cash flow generation, and plans for a rights issue, the need for the company to take on additional debt to fund this expansion is low, in our view.

Figure 1: The BRPTIJ '15s have outperformed...



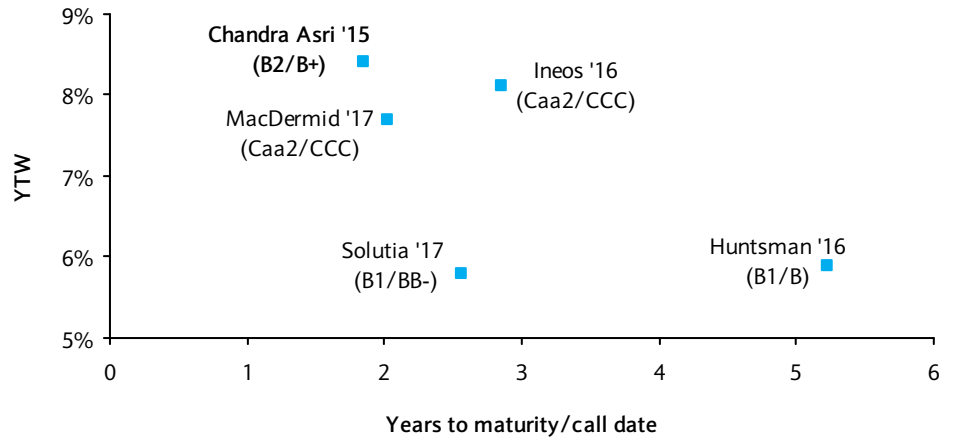
Source: Barclays Capital

Figure 2: ... but are still cheap to Indonesian corporate peers...



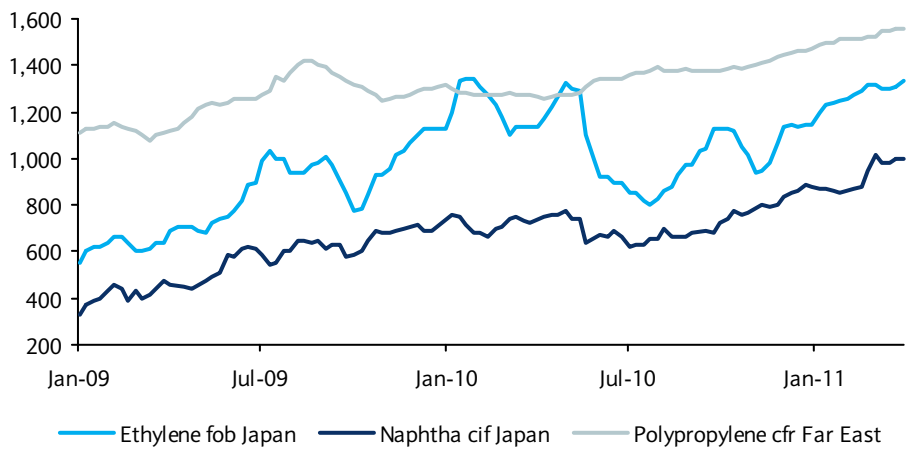
Source: Barclays Capital

Figure 3: ... and global HY petrochemical peers



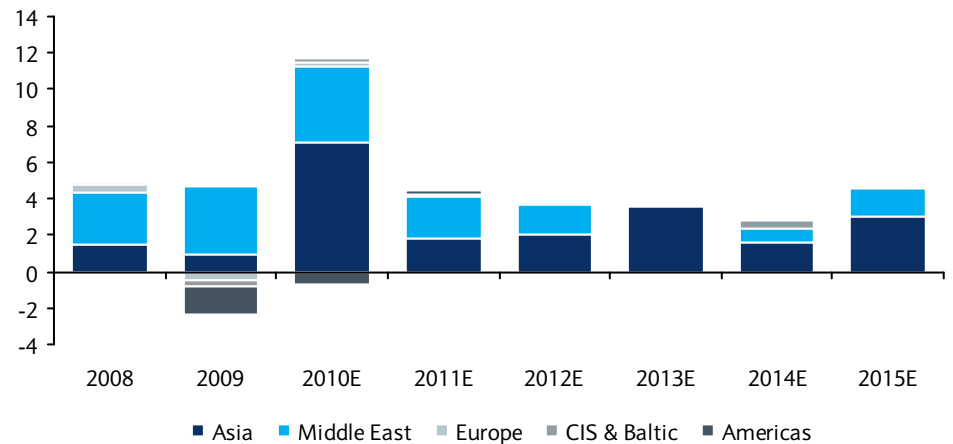
Source: Barclays Capital

Figure 4: Petrochemical prices – ethylene-naphtha spread remains resilient (USD/tonne)



Source: Bloomberg, Barclays Capital

Figure 5: Global ethylene capacity additions to normalise in 2011 (mt)



Source: CMAI, Barclays Capital

Figure 6: Chandra Asri – financial summary

USD mn	2008	2009	2010	y/y	4Q09	3Q10	4Q 10
Profit & loss							
Operating revenue	1,625	1,119	1,624	45%	355	332	462
Gross profit	-112	83	65	-22%	7	-4	25
EBITDA	-89	117	90	-24%	17	4	29
EBIT	-140	63	35	-45%	3	-9	15
Gross interest expense	18	14	44	211%	3	13	13
Net income	-152	46	-94	-304%	0	-10	-89
Cash flow							
Operating cash flow	-46	94	47	-50%	17	25	-27
Capex	-8	-12	-6	-47%	-2	-1	-4
Dividends paid	-1	0	-13	NM	0	-1	0
Free cash flow	-55	82	28	-66%	15	23	-31
Balance sheet							
Cash	77	112	112	1%	112	120	112
Restricted cash	0	0	15	NM	0	0	15
Total assets	1,132	1,225	1,214	-1%	1,225	1,219	1,214
Short-term debt	48	43	0	NM	43	0	0
Long-term debt	252	209	220	5%	209	221	220
Total debt	300	253	220	-13%	253	221	220
Net debt	223	141	108	-23%	141	102	108
Total shareholders' equity	642	689	581	-16%	689	670	581
Credit ratios							
Gross margin	-6.9%	7.4%	4.0%		2.0%	-1.3%	5.4%
EBITDA margin	-5.5%	10.5%	5.5%		4.7%	1.3%	6.3%
EBITDA/Gross interest	-5.0x	8.3x	2.0x		6.1x	0.4x	2.2x
EBIT/Gross interest	-7.8x	4.5x	0.8x		1.2x	-0.7x	1.1x
Total Debt/EBITDA (annualised)	-3.4x	2.2x	2.5x		3.8x	12.4x	1.9x
Net debt/EBITDA (annualised)	-2.5x	1.2x	1.2x		2.1x	6.4x	0.9x
Total debt/Total capital	32%	27%	28%		27%	25%	28%
Net debt/Net capital	26%	17%	16%		17%	13%	16%

Source: Company data, Barclays Capital

Figure 7: Key financial figures on merged entity (FY10; USD mn)

	Chandra Asri (CA)	TPI	CA + TPI
EBITDA	90	59	149
Interest	44	3	47
Cash and equivalents	112	61	173
Total debt	220	0	220
Equity	581	228	809
EBITDA/interest	2.0x	18.9x	3.2x
Debt/EBITDA	2.5x	0.0x	1.5x
Debt/total capital	28%	0%	21%

Source: Company data, Barclays Capital

Analyst Certification(s)

I, Eryl Witoyo, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Important Disclosures

For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Capital Research Compliance, 745 Seventh Avenue, 17th Floor, New York, NY 10019 or refer to <https://ecommerce.barcap.com/research/cgi-bin/all/disclosuresSearch.pl> or call 212-526-1072.

Barclays Capital does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Barclays Capital may have a conflict of interest that could affect the objectivity of this report. Any reference to Barclays Capital includes its affiliates. Barclays Capital and/or an affiliate thereof (the "firm") regularly trades, generally deals as principal and generally provides liquidity (as market maker or otherwise) in the debt securities that are the subject of this research report (and related derivatives thereof). The firm's proprietary trading accounts may have either a long and / or short position in such securities and / or derivative instruments, which may pose a conflict with the interests of investing customers. Where permitted and subject to appropriate information barrier restrictions, the firm's fixed income research analysts regularly interact with its trading desk personnel to determine current prices of fixed income securities. The firm's fixed income research analyst(s) receive compensation based on various factors including, but not limited to, the quality of their work, the overall performance of the firm (including the profitability of the investment banking department), the profitability and revenues of the Fixed Income Division and the outstanding principal amount and trading value of, the profitability of, and the potential interest of the firms investing clients in research with respect to, the asset class covered by the analyst. To the extent that any historical pricing information was obtained from Barclays Capital trading desks, the firm makes no representation that it is accurate or complete. All levels, prices and spreads are historical and do not represent current market levels, prices or spreads, some or all of which may have changed since the publication of this document. Barclays Capital produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

Explanation of the High Yield Sector Weighting System

Overweight: Expected six-month total return of the sector exceeds the six-month expected total return of the Barclays Capital U.S. High Yield 2% Issuer Capped Credit Index, the Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, or the EM Asia USD High Yield Corporate Credit Index, as applicable.

Market Weight: Expected six-month total return of the sector is in line with the six-month expected total return of the Barclays Capital U.S. High Yield 2% Issuer Capped Credit Index, the Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, or the EM Asia USD High Yield Corporate Credit Index, as applicable.

Underweight: Expected six-month total return of the sector is below the six-month expected total return of the Barclays Capital U.S. High Yield 2% Issuer Capped Credit Index, the Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, or the EM Asia USD High Yield Corporate Credit Index, as applicable.

Explanation of the High Yield Research Rating System

The High Yield Research team employs a relative return based rating system that, depending on the company under analysis, may be applied to either some or all of the company's debt securities, bank loans, or other instruments. Please review the latest report on a company to ascertain the application of the rating system to that company.

Overweight: The analyst expects the six-month total return of the rated debt security or instrument to exceed the six-month expected total return of the Barclays Capital U.S. 2% Issuer Capped High Yield Credit Index, the Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, or the EM Asia USD High Yield Corporate Credit Index, as applicable.

Market Weight: The analyst expects the six-month total return of the rated debt security or instrument to be in line with the six-month expected total return of the Barclays Capital U.S. 2% Issuer Capped High Yield Credit Index, the Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, or the EM Asia USD High Yield Corporate Credit Index, as applicable.

Underweight: The analyst expects the six-month total return of the rated debt security or instrument to be below the six-month expected total return of the Barclays Capital U.S. 2% Issuer Capped High Yield Credit Index, the Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, or the EM Asia USD High Yield Corporate Credit Index, as applicable.

Not Rated (NR): An issuer which has not been assigned a formal rating.

Rating Suspended (RS): The rating has been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where Barclays Capital is acting in an advisory capacity in a merger or strategic transaction involving the company.

This publication has been prepared by Barclays Capital, the investment banking division of Barclays Bank PLC, and/or one or more of its affiliates as provided below. It is provided to our clients for information purposes only, and Barclays Capital makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays Capital will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays Capital is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays Capital, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays Capital, the information contained in this publication has been obtained from sources that Barclays Capital believes to be reliable, but Barclays Capital does not represent or warrant that it is accurate or complete. The views in this publication are those of Barclays Capital and are subject to change, and Barclays Capital has no obligation to update its opinions or the information in this publication.

The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays Capital and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays Capital recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This communication is being made available in the UK and Europe primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion Order) 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Capital is authorized and regulated by the Financial Services Authority ('FSA') and member of the London Stock Exchange.

Barclays Capital Inc., U.S. registered broker/dealer and member of FINRA (www.finra.org), is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC (www.iroc.ca).

Subject to the conditions of this publication as set out above, Absa Capital, the Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No.: 1986/004794/06), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Absa Capital in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Capital is an affiliate of Barclays Capital.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Capital Japan Limited. Barclays Capital Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokuchō (kinshō) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA).

Barclays Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar.

This material is distributed in Dubai, the UAE and Qatar by Barclays Bank PLC. Related financial products or services are only available to Professional Clients as defined by the DFSA, and Business Customers as defined by the QFCRA.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the Publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower | Level 18 | Riyadh 11311 | Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in India by Barclays Bank PLC, India Branch.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays Capital and its affiliates do not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

Barclays Capital is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

© Copyright Barclays Bank PLC (2011). All rights reserved. No part of this publication may be reproduced in any manner without the prior written permission of Barclays Capital or any of its affiliates. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.