PT Sinarmas Sekuritas (SMAS)

Corporate rating $_{ir}$**AA/Negative**

Rating Period
April 1, 2020 – January 1, 2021

Kredit Rating Indonesia has revised the outlook for corporate rating of PT Sinarmas Sekuritas to 'Negative' from 'Stable'.

Following the worldwide COVID-19 pandemic, Indonesia's capital market has been under pressure, in-line with other countries' capital market. Negative sentiments to the capital market has greatly affected the stock market and will continue as we have yet to see satisfying containment of the virus. As a result, we see Jakarta Composite Index (JCI) to drop 5% for six times, which prompts trading halt. The decline in JCI is a negative sign for the capital market sector, in which investors lose confidence and investing capacity. We believe the securities sector itself is yet to recover, with the current trading activities becoming the new low and will take time to go back to its prior level before COVID-19 pandemic.

Asset under management (AUM) of Sinarmas Asset Management (SAM) should deteriorate in value following lower JCI, which showed a significant dip of -29.7% YTD as of Mar 30. As of 9M19, we note that 40.4% of SAM's AUM consisted of equity asset. We believe Sinarmas Sekuritas' (or "the Company") more than 50% investment management revenue share should be adversely impacted from lower management fee.

Revenue from equity brokerage (9M19: 19% of total revenue) should also decline, as we believe has already been negatively impacted from lower stock trading activities, in which we note that total stock traded value in Indonesia Stock Exchange (IDX) as of Feb 2020 is lower (-26.9% yoy) with possible similar value in March (as of 3rd week of March 2020: Rp114.17tn vs. February: Rp131.73tn). We also note lower trading volume in IDX (Feb 2020: -50.5% yoy).

Expect diminishing revenue from investment banking (IB) deals as a result of uncertain market condition, but we view positively on IB deals in the Company's three initial public offering (IPO) pipeline which could serve as earnings buffer amid the COVID-19 pandemic. While the three IPOs in 1H20 is reported to be still on-schedule, however we are cautious on the Company's ability to achieve its target of eight IPOs in 2020.

The Company's clean, debt-free balance sheet will serve as earnings cushion as well, considering its peers might get double pressure from a leveraged balance sheet. Accounting for the COVID-19 impact, we believe the Company's unleveraged balance sheet is favorable compared to its peers.

As part of Sinarmas group (99.99% owned by SMMA), we view SMAS has no real obstacles to obtain funding from financial institutions if needed. Downward rating pressure for SMAS may arise from a prolonged pandemic and economic downturn that could erode the financial strength and rating of the parent company. The shift to higher risk appetite through higher reliance of proprietary trading and margin financing can also act as downward rating pressure for SMAS.

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