

Credit Guarantee and Investment Facility

Credit Rating(s)

Financial Strength

idAAA/Stable

Rating Period

July 1, 2022 – July 1, 2023

Published Rating History

JUL 2021

idAAA/Stable

JUL 2020

idAAA/Stable

JUL 2019

idAAA/Stable

PEFINDO has assigned its “idAAA” financial strength rating to Credit Guarantee and Investment Facility (CGIF). The outlook for the corporate rating is “stable”.

The rating reflects CGIF’s important mandate to develop regional bond markets, superior capitalization profile, very strong liquidity position, and conservative underwriting criteria. The rating is constrained by its moderate operating performance.

The rating may be lowered if there is evidence of significant weakening of CGIF’s mandate in its bond market developmental. A significant weakening of shareholder support may also exert downward pressure on the rating. The rating may also be under pressure due to significant deterioration in financial performance, as it may result in key shareholders being less inclined to provide capital support.

CGIF was established in November 2010 as a key component of the Asian Bond Market Initiative (ABMI) to promote economic development and financial stability by developing local currency regional bond markets in the ASEAN region. This mandate was extended by contributing members, consisting of ASEAN+3 governments (China, Japan, and the Republic of Korea) and the Asian Development Bank (ADB). It was established as a trust fund of the ADB (rated AAA/stable by Standard and Poor’s), meaning that although it is operationally and financially separate from ADB, it is not a separate legal entity. It is headquartered in Manila, the Philippines, and its operations were supported by 60 employees as of March 2022.

Rating Definition

A guarantee provider rated idAAA has superior financial security characteristics relative to those of other companies in Indonesia. idAAA is the highest guarantee provider financial strength rating assigned by PEFINDO.

Financial Highlights

As of/for the year ended	Mar-2022 (Audited)	Dec-2021 (Audited)	Dec-2020 (Audited)	Dec-2019 (Audited)
Total Asset [USD Mn]	1,361.3	1,372.8	1,351.7	1,255.1
Total Equity [USD Mn]	1,264.4	1,292.4	1,264.5	1,178.4
Total Investments [USD Bn]	1,213.2	1,214.8	1,270.3	1,176.2
Net Guarantee Fee [USD Mn]	4.2	17.3	15.6	11.2
Net Claims [USD Mn]	0.0	0.0	0.0	0.0
Underwriting Result [IDR Bn]	6.5	17.4	6.9	9.2
Net Income After Tax [IDR Bn]	8.8	29.8	24.0	23.2
Total Comprehensive Income [USD Mn]	*** (36.1)	*** (6.9)	61.5	49.0
ROAA [%]	*2.6	2.2	1.8	2.1
Loss Ratio [%]	0.0	0.0	0.0	0.0
Net Guarantee Fee / Equity [x]	0.0	0.0	0.0	0.0
Retention Ratio [%]	74.7	76.5	78.7	77.1
Equity / Total Assets [%]	92.9	94.1	93.6	93.9
Capital Adequacy Ratio [%] **	35.4	34.2	29.7	29.5
USD exchange rate [IDR/USD]	14,349	14,269	14,105	13,901

*Annualized

**The CAR ratio is similar to banks

***Negative comprehensive income due to unrealized losses in CGIF’s portfolio due to the movement of US interest rates.

The above ratios have been computed based on information from the company and published accounts. Where applicable, some items have been reclassified according to PEFINDO’s definitions.

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Key Strengths

CGIF's important mandate to develop regional bond markets

CGIF has a unique mandate to develop bond deals transactions in ASEAN countries by providing guarantees related to specific transactions such as to the first-time issuer, cross-border transactions, and new instruments. The objective of developing local bond markets is to promote economic development and financial resilience, thereby strengthening the depths of both issuer and buyer sides. Considering its important and unique mandate unlike other commercial guarantee providers, we expect its shareholders to continue its strong support for CGIF in terms of the regulatory framework, strong oversight, and regular capital injection. The latter is important in our view as it will bolster CGIF's business expansion by increasing the number of guarantee deals as well as guarantee capacity, which will ultimately further strengthen the development of local bond markets in the region. Furthermore, CGIF has gradually expanded its presence, with a total of 56 bond guarantees since its inception in 2010. CGIF continues to deliver new guarantee products each year, with the latest milestone being a guarantee for the first ASEAN local currency healthcare social bond issued by First Real Estate Investment Trust (REIT). We expect CGIF to continue its role to promote local bonds development in ASEAN countries, especially in Brunei Darussalam, Cambodia, and Laos, as the bond market transactions in those countries are still at the nascent stage.

Superior capitalization profile

PEFINDO projects CGIF's capitalization profile to remain superior in the near to medium term, underpinned by its sizeable equity of USD1.3 billion, regular capital injections, profit accumulations without dividend payment. Despite the expectation of its paid-up capital to be slightly lower than its original target of USD1.2 billion in 2023 due to potentially unrealized injections from a few shareholders, it has not changed our view of CGIF's superior capitalization profile. Most of CGIF's shareholders, comprising 13 countries plus ADB, continued to provide capital injections, with the latest being USD8.0 million from Thailand, increasing CGIF's total paid-in capital to USD1.15 billion in 1Q2022 from USD1.14 billion in FY2021. Furthermore, its total gearing ratio, measuring the gross guarantee amount over total equity, was conservative at 1.9x and 1.8x in 1Q2022 and FY2021, indicating significant room for business expansion, against its internal limit of maximum guarantee capacity (MGC) of 2.5:1, as regulated in its articles of agreement. The limit also adjusts for credit loss, foreign exchange risk, and illiquid investments. Therefore, we are of the view that it should maintain a superior capitalization profile, taking into account its moderate growth in the medium term. CGIF also maintains a capital adequacy ratio (CAR), as is the case with banks, with the latest CAR of 35.4% as of 1Q2022 and 34.2% in FY2021, well above its internal minimum requirement of 8.8%.

Very strong liquidity position

CGIF's liquidity position in our view is very strong, mainly underpinned by its high amount of liquid assets in the form of high-quality instruments comprised of government bonds, corporate bonds, and bank time deposits. The investment portfolio, consisting of bonds and time deposits (excluding cash and cash equivalent), amounted to USD1.2 billion as of 1Q2022 and FY2021, providing a more than adequate buffer to cover more than half of its bond guarantee amount recorded at USD2.38 billion in 1Q2022 (including coupons) in case of claims. Moreover, its liquid assets to total assets ratio have consistently been above 80% during the years under review, with the latest figure of 89.1% in 1Q2022. We view that the investment policy of CGIF is conservative, allowing investment only in debt instruments with a minimum rating of AA- (international scale) with a slight exception at A+ for debt instruments issued by its shareholder countries. Accordingly, we view CGIF has a strong liquidity capacity in handling potential claims that may arise.

Conservative underwriting criteria

We are of the view that CGIF will continue implementing conservative underwriting criteria in assessing a guarantee proposal, through its strict and tiering credit guarantee process, including a series of rigorous assessments related to the business and financial performance. The underwriting process must follow an internal risk rating score, and must obtain the guarantee and investment committees' approvals, as well as the board of directors. In addition, after the underwriting of the guarantees, CGIF regularly monitors the clients' business and financial performance, as well as status of covenants (financial or collateral). In certain cases, the risk mitigation measures also require collateral including fixed assets. Furthermore, it is backed by global reinsurers' capacity (minimum global rating of A-) to diversify its credit risks. Although individual guarantee deals are allowed up to a B category rating to accommodate issuers from Brunei Darussalam, Cambodia, Laos, and Myanmar, and overall weighted average risk rating at BB, those exposures are safeguarded by the prudential limits in place, such as country limits, industry limits (each set at 20% of MGC), and currency limits (40% of MGC). Since its inception, CGIF has experience its first guarantee claim in November 2021 of USD83 million (net exposure of USD62 million post reinsurance) which has been fully settled within the time frame of guarantee agreement.

Key Weakness

Moderate operating performance

PEFINDO is of the view that CGIF's operating performance will remain moderate in the medium term, mainly attributable to the competitive guarantee fee it offers to clients. Given its developmental role, CGIF has historically maintained a low guarantee fee, averaging below 1.4% over the past five years (2017-2021). Accordingly, its combined ratio is projected to remain high at 70.0%-75.0% in the near to medium term, in line with its historical figures in the past few years. The projection has incorporated the return of business activities to the pre-pandemic era, where we expect that costs related to business travel will increase.

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