



# Indonesia

Continued stability and economic growth underpin Indonesia's M&A activity

## Current Environment

2007 opened with a succession of transport accidents and natural disasters. This has put President Susilo Bambang Yudhoyono on the defensive, where an ingrained culture of corruption within the government was blamed for ineffective crisis management, and reckless decision making is said to have resulted in poor safety and environmental standards across the country. The President, however, took an introspective measure by reshuffling his cabinet in May 2007.

Despite the difficulties, real GDP grew to 6.2 percent during the first half of 2007, marking the first time in 11 years that Indonesian GDP reached above 6 percent. Key to the improved growth is the Central Bank of Indonesia's policy for monetary expansion, which includes continuing to lower interest rates and also rising domestic private consumption and vigorous export performance.

During the first half of 2007, the stability in monetary conditions continues to offer a more robust basis for sustainable economic growth. The rupiah exchange rate appreciated from an average of Rp 9,098/US\$1 in December 2006 to Rp 8,966/US\$1 in June 2007. According to the Governor of the Central Bank of Indonesia, a number of factors contributed to this appreciation in the Rupiah, including healthy performance in the balance of payments, continued attractiveness of rupiah yields and a controlled level of exchange rate risk exposure in the banking system. With the stronger rupiah and subdued inflation expectations, core inflation in May 2007 eased to 5.62 percent year on year, representing a low for the past six years.

Stock market performance also shows an improvement in most sectors. According to statistics released by the Jakarta Stock Exchange, average daily trading in May 2007 was Rp 4,634 billion (equivalent to US\$515 million) which was significantly higher than Rp 2,583 billion (equivalent to US\$287 million) in December 2006.

The Investment Coordinating Board reported that from January to March 2007 they have approved 245 foreign direct investment projects with the realised investment value of approximately US\$3 billion and 42 domestic investment projects with the realised investment value of approximately US\$15 billion.

## Deal Activity



In the first half of 2007, there were 84 deals announced, with a total estimated value of US\$4.5 billion. The most active sectors are energy and mining, agricultural and telecommunication sectors. A selection of key deals completed in the first half of 2007 are summarised below.

### Energy and mining sector

India's Tata Power Co Ltd signed an agreement with Bumi Resources (BR), a coal mining company, for the purchase of a 30 percent stake in premiere coal mines of BR. The coal mines consist of Kaltim Prima Coal, Arutmin Indonesia and IndoCoal Resources Ltd. Last year, these coal companies produced approximately 53.5 millions tonnes of coal. The total value of the deal was estimated at US\$1.3 billion.

Coal Fe Resources has entered into a conditional share sale agreement with Bungo Raya Nusantara for the acquisition of a 60 percent equity interest in Nusantara Thermal Coal (NTC). The total value of the deal was announced at US\$44.7 million. NTC has a third generation coal contract of work concession, carrying the right to mine an area of 2,832 hectares for a period of 30 years from March 2006 in Muara Bungo Regency. The total historical mineral resource for the concession is estimated to be 29.9 million tonnes of coal.

Can-Asia Minerals Inc. signed a letter of intent to acquire a 50 percent interest in the Indonesian oil and gas property of Hunamas Manumpak Interbuana, an oil and gas exploration and production company, for US\$25.3 million.

### Agriculture sector

Through its subsidiaries, Indofood Sukses Makmur planned to acquire ordinary shares and notes convertible into a 56.3 percent interest in Pan London Sumatra Indonesia (Lonsum), a palm oil plantations owner and operator, from First Durango Singapore Pte Ltd and Ashmore Investment Management Ltd, for a total value of US\$571.8 million. Concurrently, Indofood planned to acquire a further 8.03 percent stake in Lonsum from Eddy Sariaatmadja. Lonsum began its operations in



1904 with a plantation near Medan, North Sumatra. With a current market capitalisation of US\$1.1 billion, it is the third largest plantation after Astra Agro Lestari and Sinar Mas Agro Resources and Technology.

Central Proteinprima, together with Thai agribusiness giant Charoen Pokphand (which owns a stake in the company), formed the Neptune Consortium to acquire Dipasena Citra Darmaja (Dipasena) for a total value of US\$78.9 million. Before the Indonesian monetary crisis, Dipasena was one of the biggest shrimp producers in the world.

Bakrie Sumatra Plantations plans to acquire a 100 percent stake in Sumbertama Nusapertiwi (Sumbertama) for US\$28.6 million. Sumbertama owns 7,229 hectares of oil palm plantations and a palm oil plant with the capacity to process 45 tons of fresh fruit bunches per hour in Jambi, Sumatra province.

#### Telecommunications sector

Maxis Communications Bhd, through its wholly-owned subsidiary Althem BV, raised its interest to 95 percent by acquiring a further 44 percent stake in Natrindo Telepon Seluler, a wireless telecommunications services provider from Penta Investment Ltd, for US\$123.9 million in cash.

TM International Sdn Bhd, a wholly-owned unit of Telekom Malaysia Bhd, agreed to raise its interest to 66.98 percent from 59.6 percent by acquiring a further 7.38 percent stake in Excelmindo Pratama, a wireless telecommunications services provider, for US\$113 million in cash.

#### Consumer and industrial products sector

Chandra Asri Petrochemical Center, a joint venture between State Owned Assets Management Company, Glazers & Putnam Investment Ltd and Marubeni Corp, planned to acquire the entire share capital, of Styrimdo Mono Indonesia, a styrene and ethyl benzene manufacturer, from Toyota Tsusho Corp, for US\$95 million.

Ramayana Lestari Sentosa plans to acquire a 55 percent stake in Alfa Retailindo for a total value of US\$45.4 million. Earlier in the year, a 34.1 percent stake of Alfa Retailindo was acquired by Singapore based Prime Horizon.

Netherland's Koninklijke Numico NV acquired the remaining 1.3 percent of Sari Husada's stake to complete the delisting process of Sari Husada. The total value of the deal was US\$18.9 million.

#### Financial services sector

In a privately negotiated transaction, Spinnaker Funds planned to acquire a 25 percent stake in Trimegah Securities at a total value of US\$21.6 million.

Bank International Indonesia (BII) plans to increase its share in Wahana Ottomitra Multiartha Finance (WOM) by acquiring an additional 15.01 percent share of International Finance Corporation. Currently BII hold 46.99 percent of WOM's shares.

## Outlook

According to Business Monitor International Ltd, Indonesia is one of the few countries that should see faster growth in 2007, as consumption and investment growth accelerate on the back of last year's interest rate cuts. The interest rate reductions by the Central Bank of Indonesia have created space for business to seek more economically priced financing alternatives to keep pace with rising domestic demand.

Furthermore, the Governor of the Central Bank of Indonesia predicted a higher economic growth in 2008. However, there are three matters demanding careful attention for Indonesia to achieve such growth. Firstly, an improved investment climate and realised levels of government capital/development expenditures should occur. Secondly, efforts are necessary to address non-financing obstacles to infrastructure projects. Thirdly, policies are needed to ensure more effective allocation of regional government development funds to development activities that will promote recovery in the local sector.

Real GDP growth is forecast to average 5.8 percent pa. in 2007-2011, reflecting a return to positive net foreign investment inflows and solid private consumption. Consumer price inflation is forecasted at an average of 6.1 percent p.a. in 2007-2011, helped by falling global oil prices and by the fact that upward wage pressures will be low, owing to persistently high levels of unemployment. The current account will remain healthily in surplus during the forecast period, supported by steady growth in exports of goods and services. The stock of external debt will stabilise at about US\$132 billion – US\$136 billion in 2008-2011, reflecting a continuing reluctance on the part of both the public and the private sectors to borrow abroad.

In the banking sector, the Central Bank of Indonesia has issued a single presence policy that prohibits shareholders from having controlling stakes in more than one bank. Controlling shareholders must divest their stakes, merge the banks into a single entity, or establish a bank-holding company. Most of the top banks in Indonesia are already owned by foreign institutions through acquisitions that occurred during 2002-2006. Foreign investors have acquired smaller banks and the trend is likely to continue following the increase in minimum capital requirements for commercial banks to US\$9 million by the end of 2007 thereafter to US\$11 million by the end of 2010.

The mining sector is also likely to stay active. The global mining boom has continued from 2006 and looks certain to continue for some time yet. The Indonesian mining industry's financial results are robust and are likely to continue to be so because of continued high mineral prices and global demand. There are a number of potential transactions or expansions that are likely to come to the market in the near future.

Overall, the outlook for M&A activity in Indonesia is promising, with activity concentrated amongst smaller-sized deals.