



Indonesia

Indonesian M&A activity is expected to continue to slow down amid the global financial crisis and the upcoming parliamentary and presidential elections



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Current Environment

The global economic slowdown affecting developed countries started to impact the Indonesian economy in the second half of 2008. Indonesia's real GDP grew by 6.1% year on year in the third quarter, the slowest pace of expansion since the first quarter of 2007.

Global sentiment has made foreign investors, who provided much of the liquidity for Indonesia's investment boom in 2007, risk averse. The outbreak of the global crisis has prompted investors to move their portfolios out of Indonesia, setting off a wave of capital outflows. This behavior has triggered a weakening in the Rupiah and a collapse in the Indonesian stock market.

Starting in October 2008, the Indonesian Rupiah exchange rate underwent significant depreciation. The Rupiah depreciated by approximately 20% from Rp9,272/US\$1 at the end of June 2008 to Rp10,950/US\$1 in December.

The Indonesian stock exchange index also significantly weakened during the second half of 2008. The stock exchange index decreased by approximately 40%, from 2,300 in June to approximately 1,300 in December. The exchange was even closed for a few days in October to avert panic selling by investors.

Several measures have been taken by the government of Indonesia to influence the Rupiah exchange rate, the stock market index and the economy as a whole.

Effective October 2008, the government increased the maximum deposit amount guaranteed by the Deposit Insurance Corporation from Rp100 million to Rp2 billion for every bank customer. By increasing the guaranteed limit, the government expects that it will assuage depositor worries about bank failures, thus reducing capital flight and negative pressure on the exchange rate.

The government has also introduced regulations restricting speculative conversion of the currency. Purchases of foreign currency have been limited to US\$100,000 per customer per month, unless a substantive underlying transaction can be proved. To help stimulate trading on the stock market, the government is encouraging state-owned companies to buy back shares.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2008

Despite the slowing economy, deal activity has remained relatively buoyant, although the average deal size has declined substantially. During the second half of 2008, there were 161 deals announced with a total estimated value of US\$4.9 billion, compared to 100 deals announced with a value of US\$12.3 billion in the first half, and 73 deals with a value of US\$4.1 billion in the second half of 2007.

Financial Services

In the first half of the year, Malayan Banking Bhd ("Maybank") announced that it would acquire a 55.7% stake in Bank Internasional Indonesia ("BII"), one of the largest banks in Indonesia. Later in the year, Maybank agreed to expand its shareholding by 16.2% for US\$190.9 million.

In December, Maybank put in a tender offer to purchase minority shareholders' shares. As a result, Maybank now effectively holds approximately 97% of the equity interest in BII. Following the acquisition and the completion of the tender offer process, the new shareholders plan further corporate action by studying a possible merger with the subsidiary company in Indonesia, Maybank Indocorp.



Malaysia's Commerce International Merchant Bankers Sdn Bhd ("CIMB") completed the merger of its subsidiary CIMB Niaga Bank with Lippo Bank after acquiring 51% of the Lippo Bank's stake from Santubang Investments BV. CIMB Group now holds a controlling share ownership of 77.8% of Bank CIMB Niaga. This was the first banking merger under the government's single presence policy. The policy prohibits shareholders from having controlling stakes in more than one bank. The controlling shareholder must either divest their stakes, merge the banks into a single entity, or establish a bank-holding company.

CIMB Niaga Bank is now the nation's sixth largest bank by assets. The merger results in a bank with Rp100 trillion (US\$1 billion) of assets, serving customers through 650 branches, run by almost 11,000 employees in approximately 120 Indonesian cities. After the merger, Lippo Bank shares were delisted from the Indonesian Stock Exchange.

United Overseas Bank ("UOB") Ltd of Singapore completed a tender offer for the shares of PT UOB Buana, buying 37.9% of Buana's shares from the public for approximately US\$346 million. This took its ownership of Buana to 99%, and it will now propose delisting Buana from the Indonesian Stock Exchange.

Woori Investment & Securities Co. ("Woori"), the brokerage unit of South Korea's top financial services group bought a controlling (60%) stake in an Indonesian securities firm, PT Clemont Securities Indonesia. The acquired company will be renamed PT Woori Korindo Securities Indonesia. The acquisition is a result of Woori's strategy to expand into investment banking and securities operations in Indonesia.

Energy and Mining

Kalimantan Gold Corporation Ltd ("Kalimantan Gold") completed the acquisition of a 25% interest in Kalimantan Surya Kencana Contract of Work ("KSK COW"). Kalimantan Gold already owned the remaining 75% interest through its wholly owned subsidiary, Indokal Limited. KSK COW holds a mining licence covering a total area of 941 square km, which comprises a total of 38 mineral prospects located in Central Kalimantan, Indonesia. Of the 38, Kalimantan Gold has identified several which it considers as having the potential to host world class copper-gold porphyry deposits.

Consumer and Industrial

The South Korean hypermarket giant Lotte Group announced that it will buy a 55% stake in PT Makro Indonesia ("Makro") for US\$146.8 million. Makro operates 19 wholesale outlets in Java, Bali, Sumatra, Kalimantan, and Sulawesi and serves around 500,000 customers. Lotte Group is the second foreign retailer to enter Indonesia, after PT Carrefour Indonesia. The Government allows foreign companies to control 100% of the shares in hypermarkets or supermarkets with shopping area size of more than 1,200 square meters and in department stores with shopping area size of more than 2,000 square meters.

In another tender offer in Indonesia, PT Bogamulia Nagadi, the majority shareholders of PT Tempo Scan Pacific Tbk, a listed Indonesian pharmaceutical company, are offering to buy 1.04 billion shares, equivalent to a 23.2% stake in the company held by the investing public.

Outlook

The Economist Intelligence Unit ("EIU") forecasts that annual average GDP growth will decrease to 3.5% in 2009, the economy's slowest rate of growth since 1999. The EIU also estimates that growth will be barely higher in 2010 (averaging 3.6% that year). The slowdown in 2009-2010 is due to the global crisis which has resulted in decreased external demand. Although imports are likely to slow significantly, exporters are also likely to struggle, resulting in a negligible contribution to growth from net exports

Consumer price inflation is expected to average 6.1% a year during 2009-2013. The rate of price increases will be slow between 2009 and 2013 as upward pressure on wages remains weak (owing to high levels of unemployment) and as global commodity prices stabilise.

M&A activity is predicted to slow down due to the global financial crisis and the upcoming parliamentary and presidential elections in 2009, with most investors expected to take a "wait and see" position due to the uncertain situation. ■