



Indonesia

A combination of investment opportunities and privatisation may drive up M&A activity in 2008

Current Environment

2007 closed with the Indonesian economy performing relatively strongly with real GDP growth of 6.3%. However, in H1 2008 real GDP growth was expected to decrease to 5.7% year-on-year, which is mainly a result of the global economic slowdown.

Increasing international oil prices are the primary driver of inflation, which increased from 6.6% in December 2007 to 10.4% in May 2008. The government's decision in late May 2008 to raise fuel prices by approximately 30% has pushed selling prices of a number of commodities and services significantly higher. In June 2008 the Indonesian Central Bank ("BI") decided to raise interest rates by 25 bps to 8.5% to mitigate the indirect impact of soaring fuel prices on inflation.

As was the case in 2007, the Indonesian Rupiah was also less sensitive to changes in world oil prices during H1 2008. The exchange rate at the end of June 2008 was at Rp9,272 to the US dollar, an appreciation of 1.6% compared to Rp9,419 at the end of December 2007.

The Indonesian stock index fell 16% from the end of 2007 to 2,305 as at 30 April 2008, although according to statistics released by the Indonesian Stock Exchange, average daily trading in the first four months of 2008 was Rp6,033 billion (US\$651 million), higher than average daily trading in Q2 2007 of Rp5,157 billion (US\$588 million).

Out of 1,976 foreign direct investment projects with total value of US\$40 billion approved by Indonesia Investment Coordinating Board in 2007, only 983 projects were actioned by the end of 2007, with a total value of US\$10 billion. The most active sectors were transportation, storage and communication, chemical and pharmaceutical, metal, machinery and electronics, food, and paper and printing.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 30 June 2008

During H1 2008, there were 87 deals announced with a total estimated value of US\$13 billion, compared to 75 deals announced valued at US\$4.1 billion in H2 2007, and 79 deals valued at US\$3.6 billion in H1 2007.

Financial sector

Malayan Banking Bhd ("Maybank") announced that it would acquire a 56% stake in Bank Internasional Indonesia ("BII"), the sixth largest Indonesian bank for US\$1.5 billion from Sorak Financial Holdings Pte Ltd ("Sorak"). Sorak is owned by Singapore government investment agency Temasek (75%) and Korea's Kookmin Bank (25%). Maybank's bid for BII, at 4.6 times book value, indicated a stiff fight from bigger rivals and limited opportunities in Indonesia. Analysts said that it was probably the most expensive bank purchase ever in Indonesia.

Maybank will also offer to buy the remaining 44% shares of BII, with an estimated investment of US\$1.2 billion, which would push its total deal value to US\$2.7 billion.

Maybank has informed that all conditions under the Share Sale Agreement have been met and that all parties have accepted Maybank's proposal to close the transaction on 26 September 2008.

Bank Niaga and Bank Lippo, owned indirectly by Malaysia based Khazanah Nasional Bhd ("Khazanah") have signed a merger plan to form Indonesia's fifth largest bank, Bank CIMB Niaga. The combined bank will have total assets of US\$10.2 billion. The merger is still subject to shareholders' approvals from both banks.

The merger is being made to comply with the Indonesian Central Bank's Single Presence Policy which prohibits any institution from owning a majority stake in more than one bank. Such an institution must sell one of its stakes, merge or create a holding company.



Telecommunications sector

Qatar Telecom (“Qtel”) has completed its acquisition of a 40.8% interest in Indosat, the second largest telecommunication provider in Indonesia, at an announced deal value of US\$1.8 billion. The company is now considering a full takeover of Indosat, which under Indonesian law may require a tender offer for the outstanding shares of Indosat that are not owned by Qtel. At the time of writing, Qtel was in discussions with the Indonesian Capital Market and Financial Institution Supervisory Board regarding the application of Indonesia’s mandatory tender offer rules.

Profesional Telekomunikasi Indonesia agreed to acquire certain assets of Hutchison CP Telecommunications, a telecommunications services provider and a 60%-owned unit of Hutchison Telecommunications International Ltd for US\$500 million in cash, subject to regulatory approvals.

Energy and Mining sector

From the mining sector, Adaro Indonesia, Indonesia’s leading coal mining company, raised US\$1.3 billion by selling a 34.8% stake in the second largest IPO in the country’s history, after Telekomunikasi Indonesia’s US\$1.6 billion offering in 1995. The IPO is pending the Capital Market and Financial Institution Supervisory Board’s approval.

Reliance Power of India is in the process of acquiring three coal assets in Indonesia, Bintangtiga Energy, Bryayan Bintangtiga Energy and Sugico Pendragon Energy, all holding companies to undeveloped concessions in South Sumatra. Coal produced at these concessions is going to be delivered to Krishnapatnam power station in Andra Pradesh and Shahapur power station in Maharashtra which Reliance Power is going to construct.

Richland Group, a publicly traded logistics company in Singapore, has entered into an agreement to acquire a 75% stake for a total amount of US\$150 million of Tristar Global Holdings Corporation’s share in an oil company, Elnusa Tristar Ramba (“Elnusa Tristar”). The remaining 25% stake in Elnusa Tristar is owned by Elnusa, a subsidiary of Pertamina, the Indonesian state-owned oil and gas company. This acquisition was preceded by the acquisition of a 70% stake in Richland Group by Redmount Holdings Limited (“Redmount”), which has the same directors and shareholders as Tristar Global Holdings.

Consumer products sector

Carrefour officially purchased a 75% stake in local retailer Alfa Retailindo with a total value of US\$71 million in January 2008. Carrefour purchased the shares from majority shareholders Sigmantara Alfindo, and Singapore-based Prime Horizon at Rp1,921 per share. After the acquisition, 20% of Alfa’s shares are still owned by Sigmantara Alfindo and Prime Horizon, while the remaining 5% are held by the public.

Singapore-listed Indofood Agri Resources is planning to acquire a 60% stake in Laju Perdana Indah, a sugar plantation company at a price of US\$40.5 million from Bangun Sriwijaya Sentosa, which owns 80% of Laju Perdana Indah.

Outlook

GDP growth is expected to slow to 5.9% in 2008, down from 6.3% in 2007. Despite a recent decision to raise the administered fuel prices, rising global oil prices in 2008 will put further upward pressure on the fuel subsidy bill, thus straining government finances and boosting inflation. The inflation rate is forecasted to be at an average of 9.9% this year and will exceed 11% for the next few months.

However, the Indonesian Central Bank believes that through implementation of existing and future monetary policies, inflation will ease, returning to single-digit level in the range of 5.5% to 7.5% in 2009. Indonesia’s balance of payments is forecast to chart a healthy performance since high international commodity prices will enhance Indonesian export performance.

M&A activity in the banking sector is predicted to increase further. Later in 2008, the government of Indonesia plans to divest its 20%-25% stake in Bank Bukopin. Meanwhile, Bank Negara Indonesia also plans to spin-off its Syariah division later in the year. Some foreign investors have declared their interest to acquire the division.

The telecommunications industry may also make a significant contribution to Indonesian M&A activity since the Indonesian mobile operator, Excelcomindo Pratama (“Excelcom”), aims to sell 7,000 towers for an estimated value of US\$756 million. Excelcom plans to sell and lease back about two-thirds of its mobile phone towers to lower costs and improve the company’s ability to expand.

Nevertheless, the promising outlook for M&A activities in Indonesia should be treated with caution. A slight slowdown in investment growth toward the end of 2008 is forecast to happen as investors may take a “wait-and-see” stance due to uncertainty of the political climate as a result of the upcoming parliamentary and presidential elections in 2009.