

# *Indonesian Mining Investment Climate*

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# **Agenda**

- Background
- Global trends
- Investment trends in Indonesia
- Some key challenges to investment in the Indonesian mining industry
- Outlook

## **Background**

- Asian mining operations and investments are influenced by global as well as local trends in the industry
- Many prospective regions are competing for limited investment spending
- Understanding industry trends, globally and locally, is key to successful mining operations and investment
- Indonesia is geographically advantaged due to abundant natural resources and close proximity with the key minerals/coal demand growth, i.e. China and India
- However, this does not mean investments will come automatically. Mining companies and all stakeholders, including the Government, will need to be agile to ensure an attractive investment climate and long-term investment returns

## ***2012 – a challenging time for miners***

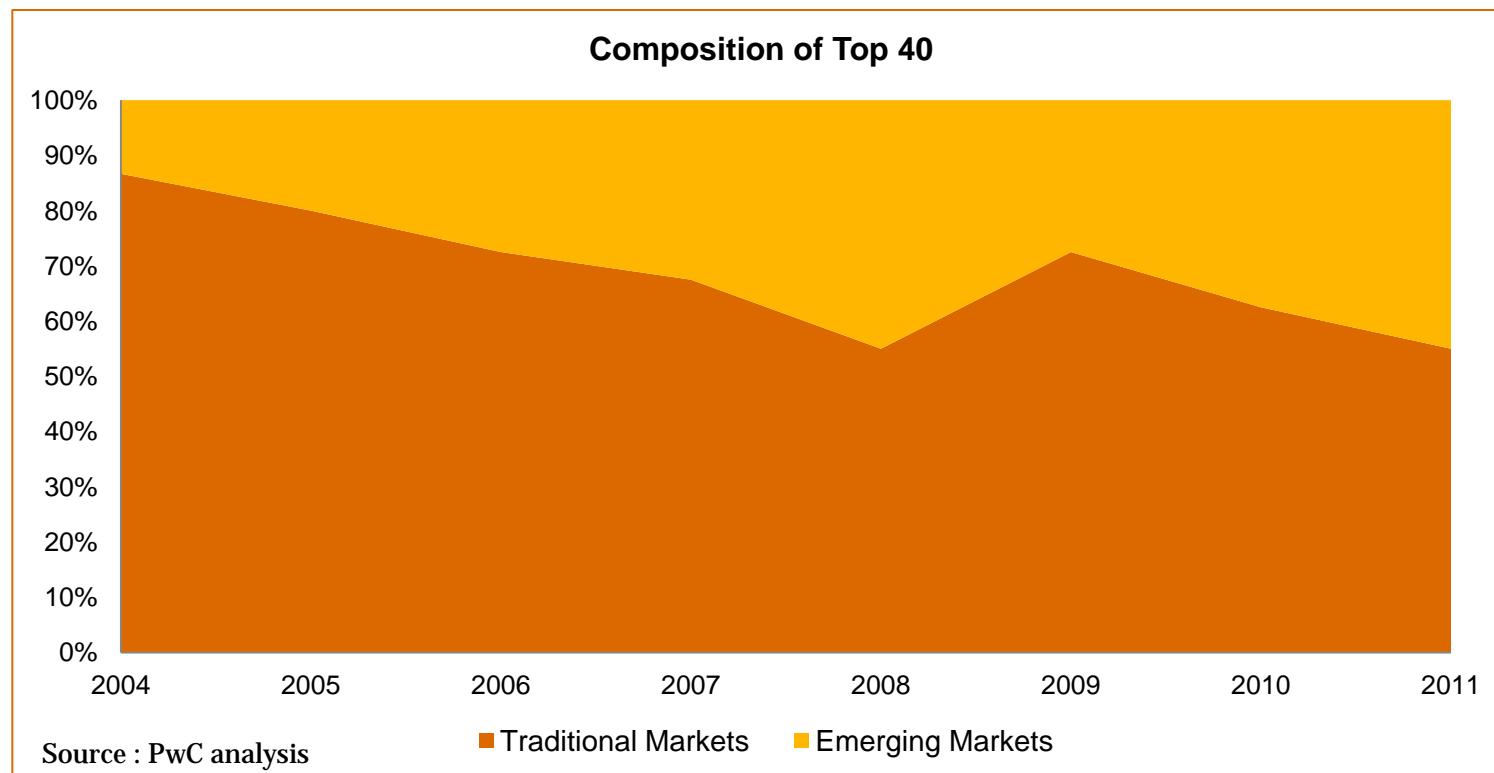
- Commodity prices are under pressure from global economic conditions
- Leads to “knee-jerk” reactions – cost cutting and deferral of capex
- Immediate impact seen in Indonesian coal sector
- Near and medium-term demand will continue to be stoked by growth in the emerging markets (including Indonesia)
- Supply is challenging – declining grades, increased cost of extraction and new mines in remote locations
- Clear shift in the industry to the emerging markets
- Increased focus by governments and other stakeholders – particularly on government-take (taxes and royalties)
- Uncertainties compounded by Indonesian regulatory action.

## ***We are also seeing...***

- The new era is bringing a changing face to the industry
  - Vertical integration upstream led by the steel and power industries – seen in Indonesian coal and globally
  - Private Equity and Sovereign Wealth Funds
  - State Owned Enterprises and utilities entering through funding and off-take agreements
  - Traders moving upstream
- Stakeholder management is increasingly critical
- Political attention on the distribution of benefits.

## Market Evolution

- Composition of Top 40 global mining companies shifting to emerging markets
- New players on the horizon (e.g. traders, IPOs)



## ***Looking forward***

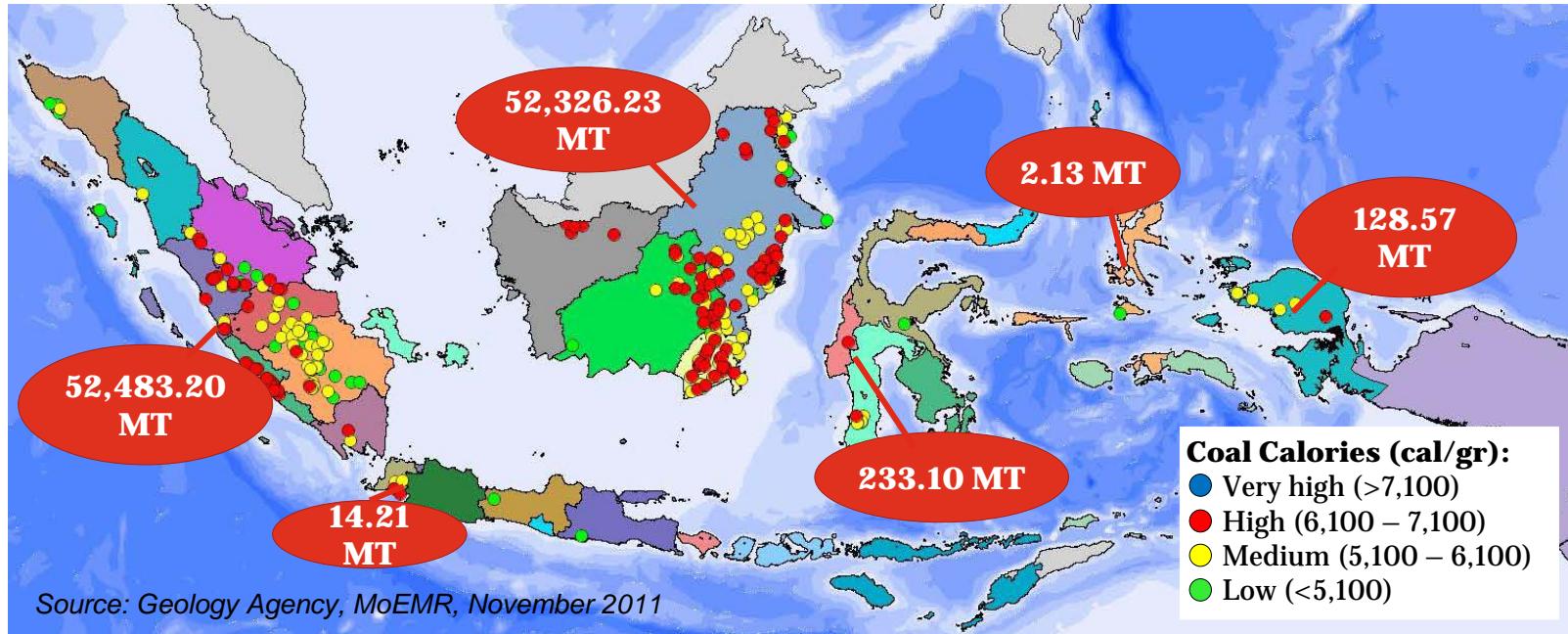
- Strong demand fundamentals remain – particularly in the emerging markets (including Indonesia)
- Commodity price volatility is nothing new – over-reaction will lead to under-investment for the future
- Supply challenges on the horizon for many producing countries – particularly infrastructure constraints for coal in Indonesia and regional competitors
- Costs continue to be an increasing challenge.



# *Trends in Indonesia*

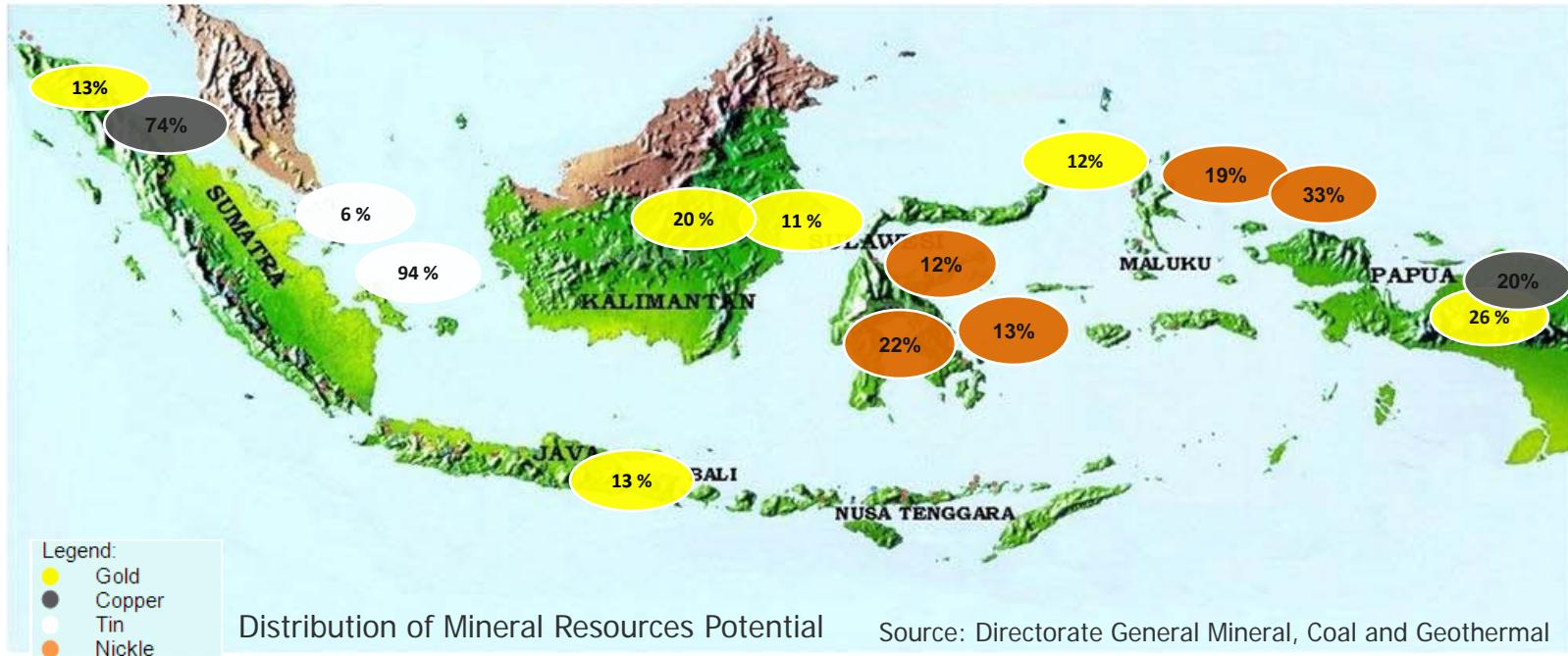


# **Indonesian thermal coal reserves and resources**



- Total Resources 105.2bn MT in 2011 (Sumatera 52.5bn, Kalimantan 52.3bn)
- Total Reserves 21.1bn MT in 2010 (Sumatera 11.5bn, Kalimantan 7.2bn)
- Resource quality: approx 25% low rank, 60% medium, and 15% high quality
- Five 1<sup>st</sup> generation CCoWs and PTBA account for approx 50% and 23% of Indonesian coal reserves and resources respectively

# Indonesian mineral reserves and resources

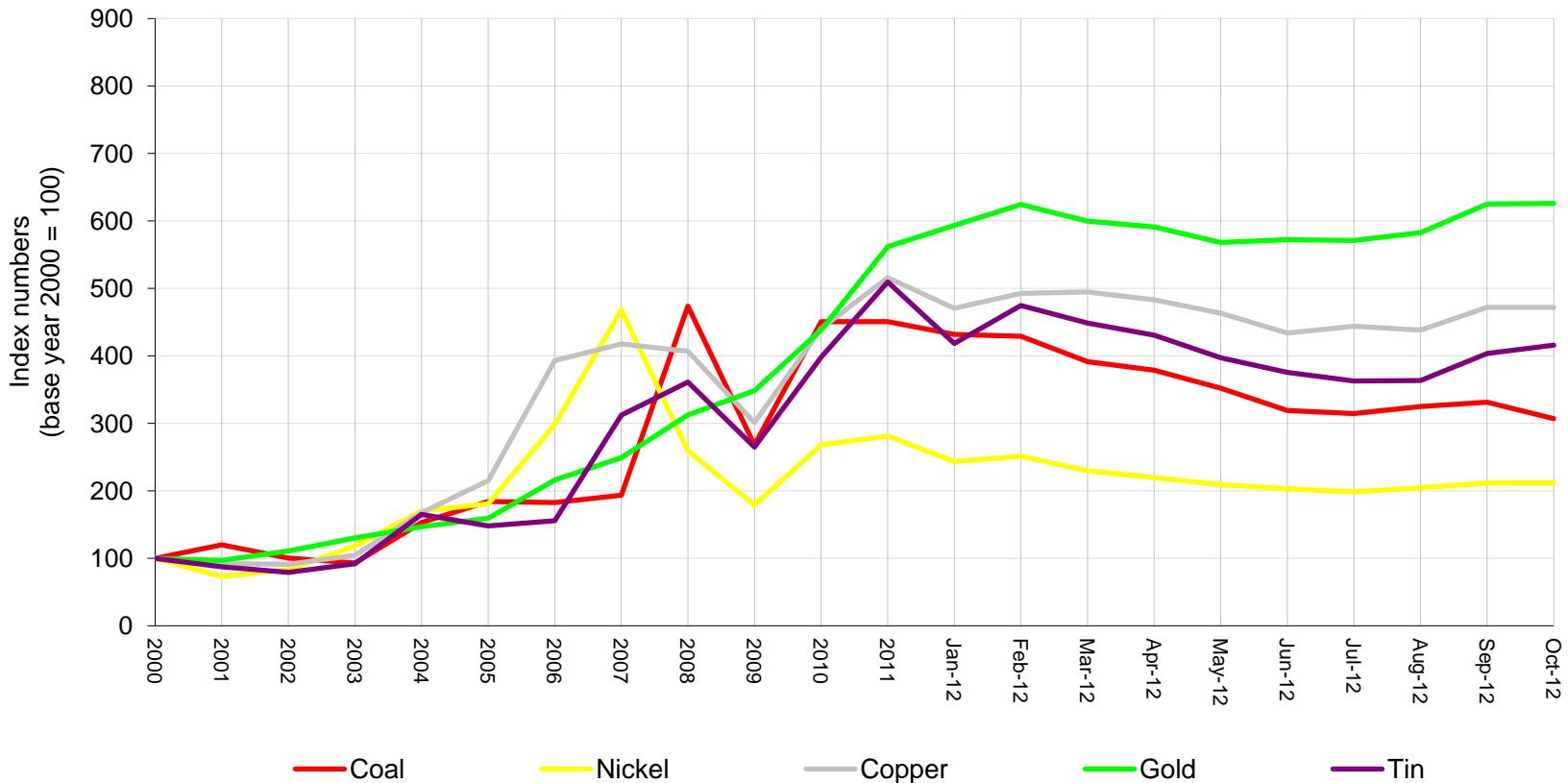


	<b>Unit</b>	<b>Resources</b>	<b>Reserves</b>
Nickel	Tonnes (ore)	1,878,547,773	546,838,401
Tin	Tonnes (metal)	650,135	338,911
Copper	Tonnes (metal)	69,766,509	42,859,957
Primary gold	Tonnes (metal)	4,347	4,250

## ***Indonesian thermal coal and mineral reserves and resources***

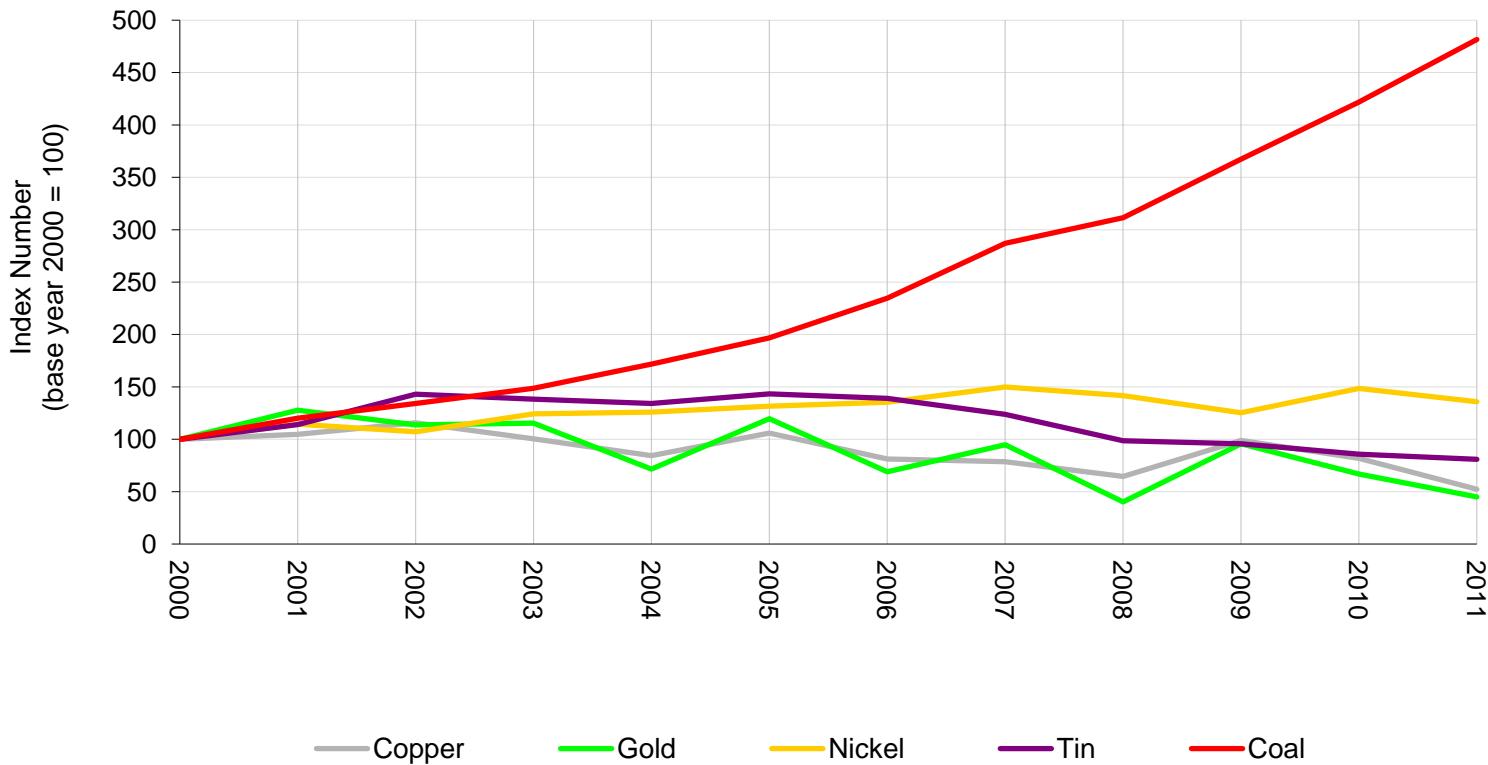
- Still significant under-explored regions with coal and mineral potential e.g. Papua, Sulawesi and Kalimantan with lack of infrastructure. This provides opportunities for exploration and development of mine infrastructure.
- Significant opportunity for coal upgrading and mineral processing and refining industries. This includes utilisation of low rank coal (i.e. coal liquefaction/gasification and mine-mouth power plants), as well as smelters.
- Indonesia's significant remaining undeveloped resources has lead to increased M&A activity in recent years – current downturn in prices may see opportunistic M&A activity.

# Commodity Prices



Source: AME Mineral Economics (for coal price), Kitco.com (for gold price), minerals.usgs.gov and www.lme.com (for tin, copper and nickel price).

# **Minerals Production - Indonesia**



Source : ESDM, APBI & BPS

# ***M&A activities in 2011 and 2012 in the mining sector in Indonesia***

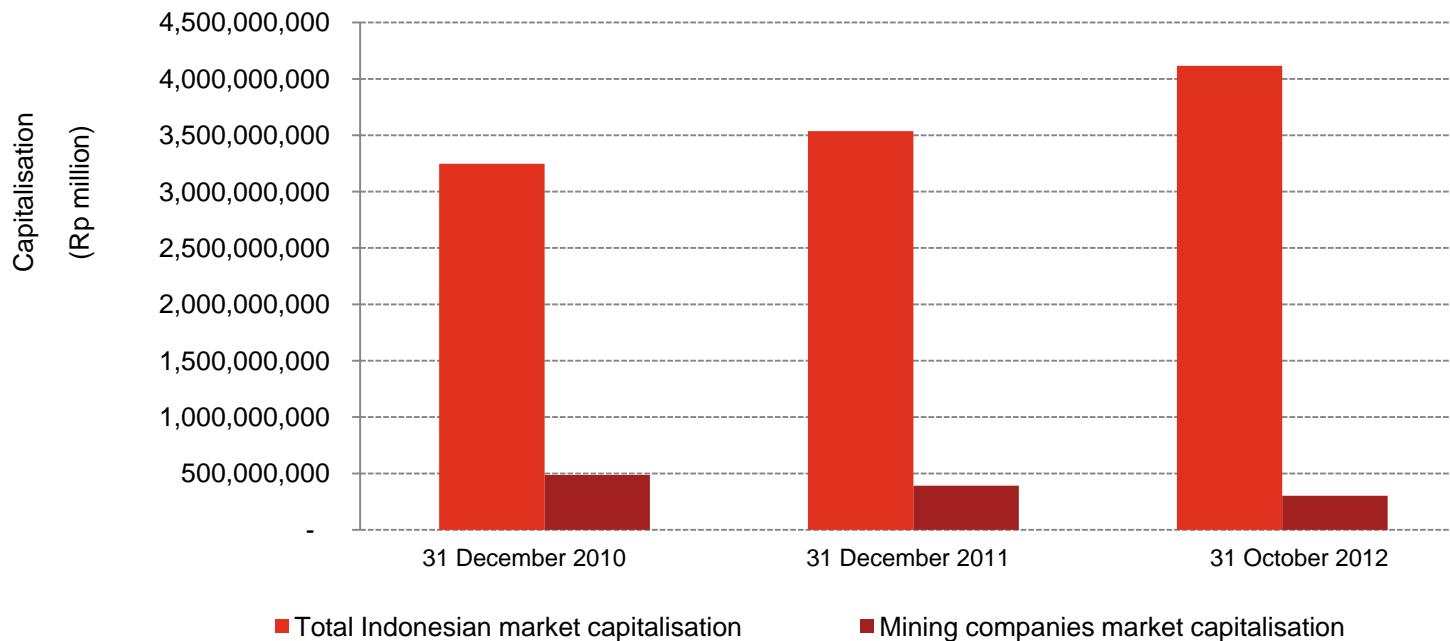
Date	Target	Acquirer	Target Sector	% interest	Deal size (US\$ million)*	Deal Status
Oct 2012	PT Bumi Resources Tbk	PT Bakrie and Brothers Tbk	Coal	19	278	Announced
Sep 2012	Indo Mines Ltd	Rajawali Group	Diversified mining	46	52	Ongoing
Aug 2012	Sakari Resources Ltd	PTT PCL	Coal	55	1,149	Ongoing
Aug 2012	PT Borneo Berkat Makmur	PT United Tractors Tbk	Coal	100	51	Ongoing
July 2012	PT Golden Energy Mines Tbk	United Fiber System Ltd	Coal	30	547	Ongoing
July 2012	PT Ganda Alam Makmur	LG International Corp	Coal	60	224	Ongoing
May 2012	PT Multi Tambangjaya Utama	PT Indika Energy Tbk	Coal	85	205	Completed
Mar 2012	Confidential	PT Inovisi Infracom Tbk	Coal	100	150	Ongoing
Jan 2012	PT Golden Energy Mines Tbk	United Fiber System Ltd	Coal	67	1,215	Ongoing
Jan 2012	Bumi PLC	PT Borneo Lumbung Energi & Metal Tbk	Coal	24	1,000	Completed
Jan 2012	PT Apuah Kutai Langgong	Atech Holdings Ltd	Coal	60	42	Ongoing
Dec 2011	PT Astrindo Mahakarya Indonesia	PT Benakat Petroleum Energy Tbk	Mining services	100	600	Ongoing
Dec 2011	PT Golden Energy Mines Tbk	GMR Infrastructure Ltd	Coal	30	550	Ongoing
Dec 2011	PT Tri Tunggal Pitriati	Energy Earth PCL	Coal	100	55	Completed
Dec 2011	Strand Minerals Indonesia Pte Ltd	Pacific Metals Co Ltd	Investment company in resources	3	39	Completed

# ***M&A activities in 2011 and 2012 in the mining sector in Indonesia***

Date	Target	Acquirer	Target Sector	% interest	Deal size (US\$ million)	Deal Status
Nov 2011	PT Gunung Besi Utama	PT Bumi Citra Permai Tbk	Metal-iron	97	260	Ongoing
Oct 2011	PT Bumi Resources Minerals Tbk	Bumi Plc	Diversified mining	75	2,261	Discontinued
Oct 2011	Multiple targets	China Nickel Resources Holdings Co Ltd	Diversified mining	100	266	Ongoing
Oct 2011	PT Bukit Enim Energi	PT Adaro Energy Tbk	Coal	46	46	Completed
Aug 2011	PT Mustika Indah Permai	PT Adaro Energy Tbk	Coal	75	223	Completed
July 2011	Coal Vista Resources Ltd	Thionville Financier Ltd	Coal	100	80	Ongoing
June 2011	Pakar Thermal Coal Project	Kangaroo Resources Ltd	Coal	99	281	Completed
June 2011	PT Berau Coal Energy Tbk	Bumi PLC	Coal	10	215	Completed
June 2011	South East Asian Assets	J&Partners LP	Gold	100	200	Completed
Apr 2011	PT Mitrabahtera Segara Sejati Tbk	PT Indika Energy Tbk	Transport-marine	51	213	Completed
Mar 2011	PT Berau Coal Energy Tbk	Bumi Plc	Coal	75	1,514	Completed
Mar 2011	PT Bumi Resources Tbk	Bumi Plc	Coal	25	1,334	Completed
Mar 2011	Lion Gold Holdings Ltd	Bel Global Resources Holdings Ltd	Gold	100	62	Discontinued
Mar 2011	PT Indoasia Cemerlang	STX Corp Co Ltd	Diversified mining	33	33	Completed

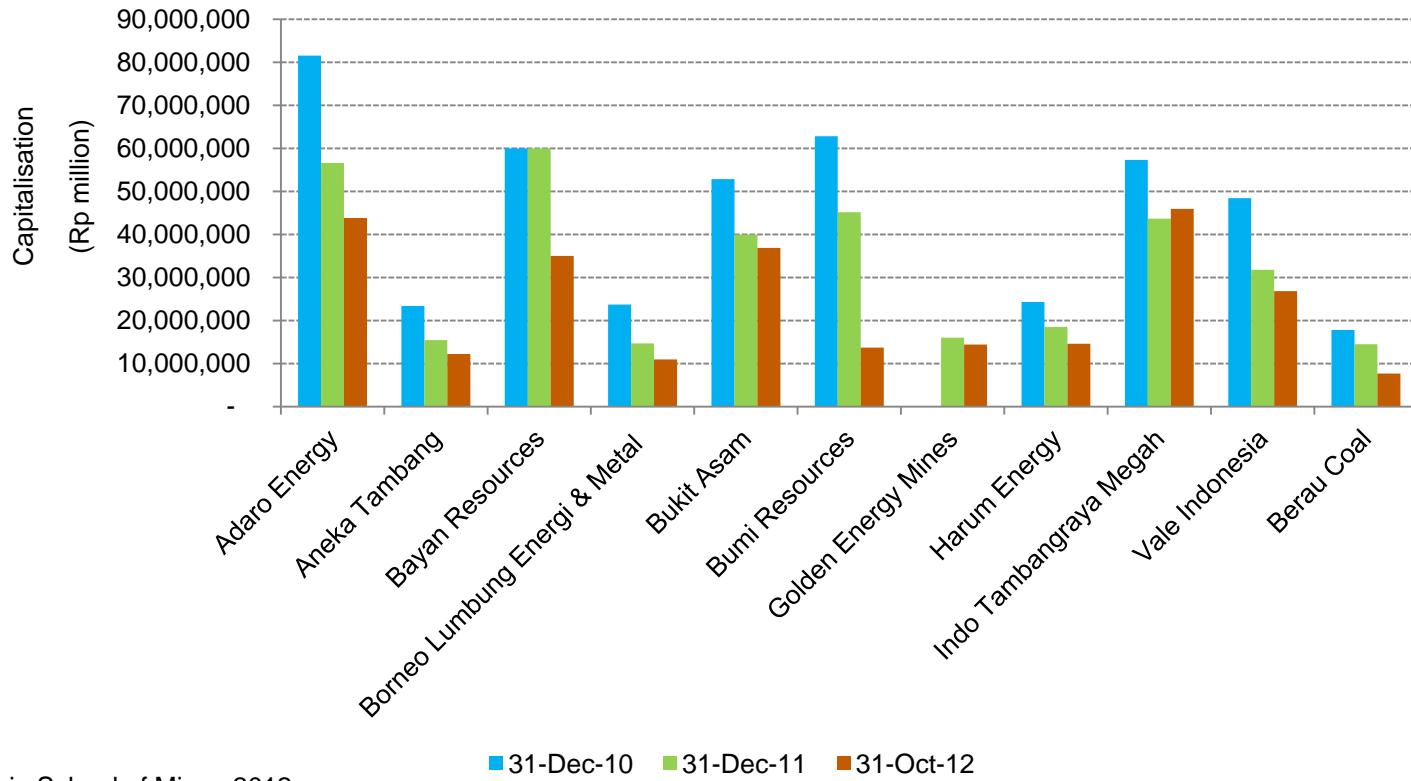
# ***Mining Companies in IDX***

## **Indonesia Stock Exchange market capitalisation vs. mining market capitalisation**



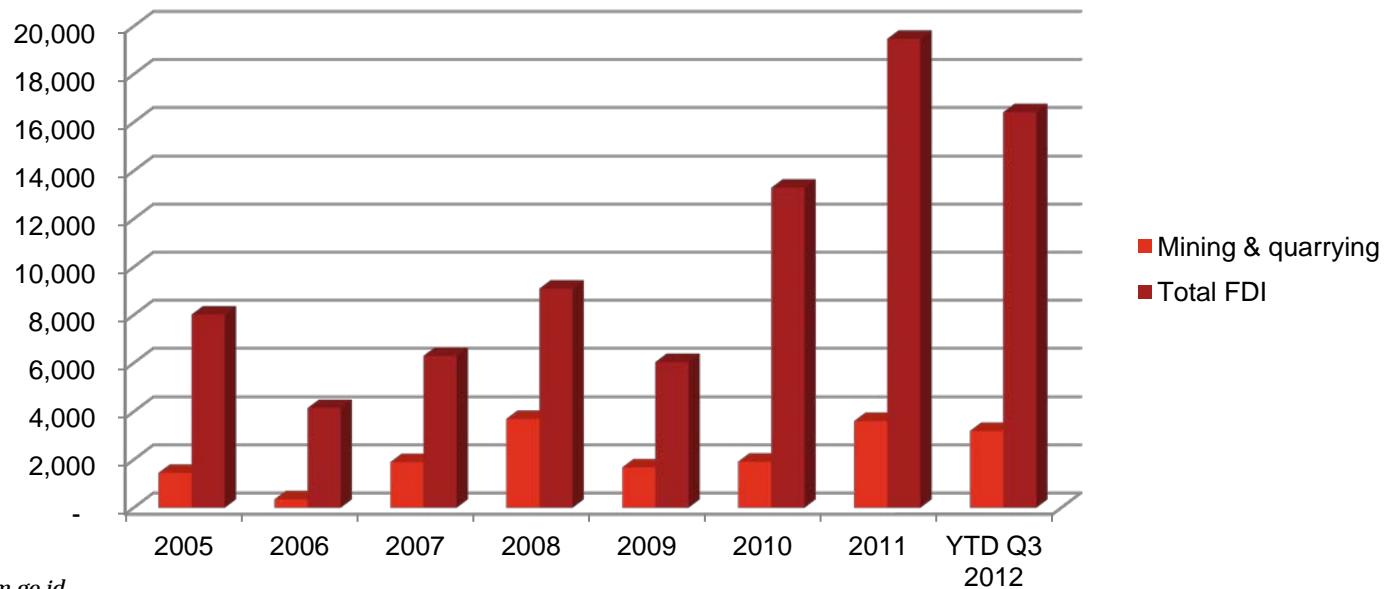
# ***Mining Companies in IDX***

Market capitalisation of Indonesian mining companies with market cap > Rp. 10 trillion



# ***Trend of foreign direct investment (FDI) in Indonesia***

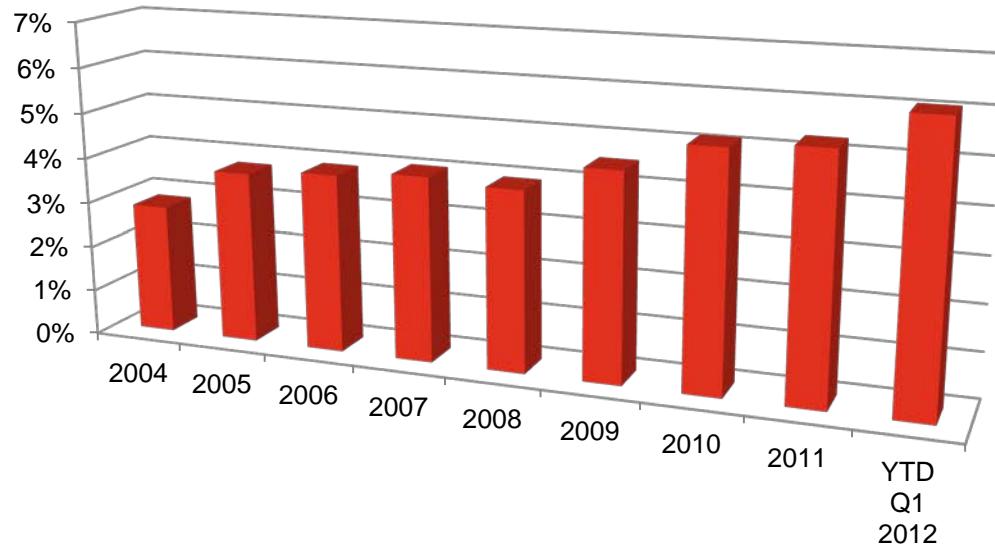
in million US\$



Source: [www.bkpm.go.id](http://www.bkpm.go.id)

- Gradual increase in FDI during the last 5 years, except for 2009 due to the global financial crisis.
- 2011 shows a significant increase both for mining investment and FDI in general, with 2012 likely to show a slight increase.

## ***Contribution of mining sector to Indonesian GDP***



Source: Badan Pusat Statistik

- Some increase in contribution during 2009 and 2010, mainly due to higher commodity prices, with 2011 flat.
- Contribution in 2012 appears set to remain above 5% of GDP, based on Q1 information, subject to the impact of decline in commodity prices over the following quarters.

## ***Trend of exploration and investment expenditures in Indonesia***

- Some increase in total investment in 2011, and projected to increase slightly for 2012. No real increase in exploration expenditure spending. 2013 may be impacted by current belt-tightening.
- Spending on greenfields exploration expenditures stagnant during last 5 years – most investment on existing projects.

**Total investment in mining industry (existing and greenfields):**

	2008	2009	2010	2011	Projected 2012
Total investment (US\$ billion)	1.7	1.8	3.1	3.4	3.6

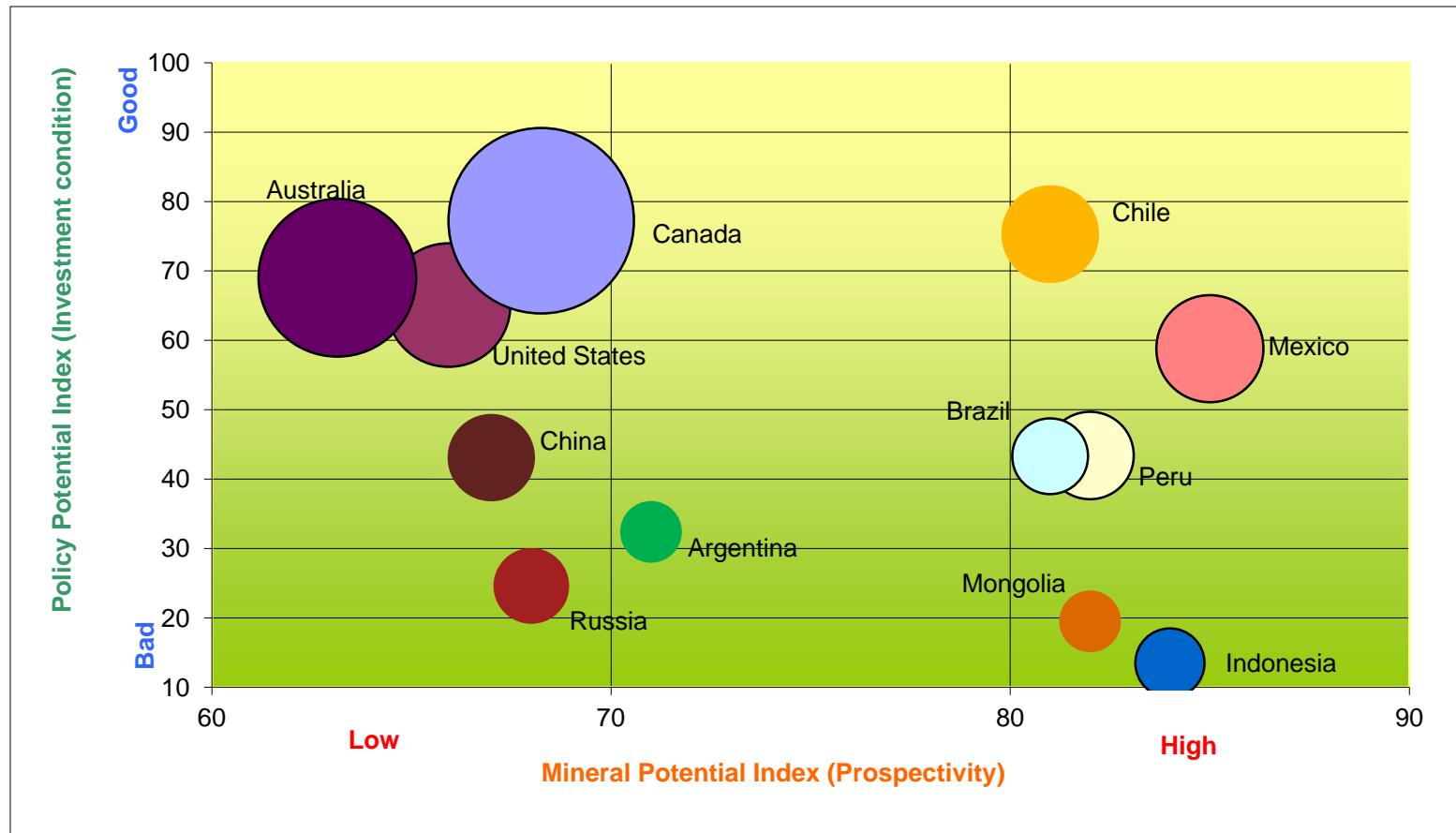
Source: PwC, IMA and ICMA survey , Metal Economics Group's survey, Directorate General of Mineral, Coal and Geothermal

## ***Key Mining Expansion Plans***

- There are limited new expansion plans announced for Indonesia (mainly from the old players in Indonesia, except for G-Resources and Eramet).
- Greenfields exploration is likely to remain at low levels in the next couple of years – but some large projects commenced or in the pipeline.

<b>Company</b>	<b>Mine</b>	<b>Expected Output</b>	<b>Date</b>
G-Resources	Martabe, North Sumatra	Gold: 250kozpa; silver: 2-3mozpa	2012
Rio Tinto	Sulawesi	Nickel: 46-100 ktpa	2015
Eramet	Weda Bay	Nickel: 65ktpa; cobalt: 4.6ktpa	2017
PT Antam	Gag Island	Nickel: 40ktpa; cobalt: 4ktpa	2013 ?
Vale	East Pomalaa/Bahadopi	Nickel: 50mnt resources	n/a
Intrepid Mining	Tujuh Bukit	Gold: 130mnt resources	n/a
Freeport	Wabu	Gold:43mnt resources	n/a
Churchill Mining ?	East Kutai	Coal: 30mntpa	2013 ?

# ***Survey result of mining investment climate in Indonesia***



Source: Fraser Institute and Metal Economics Group

## ***Survey result of mining investment climate in Indonesia (continued)***

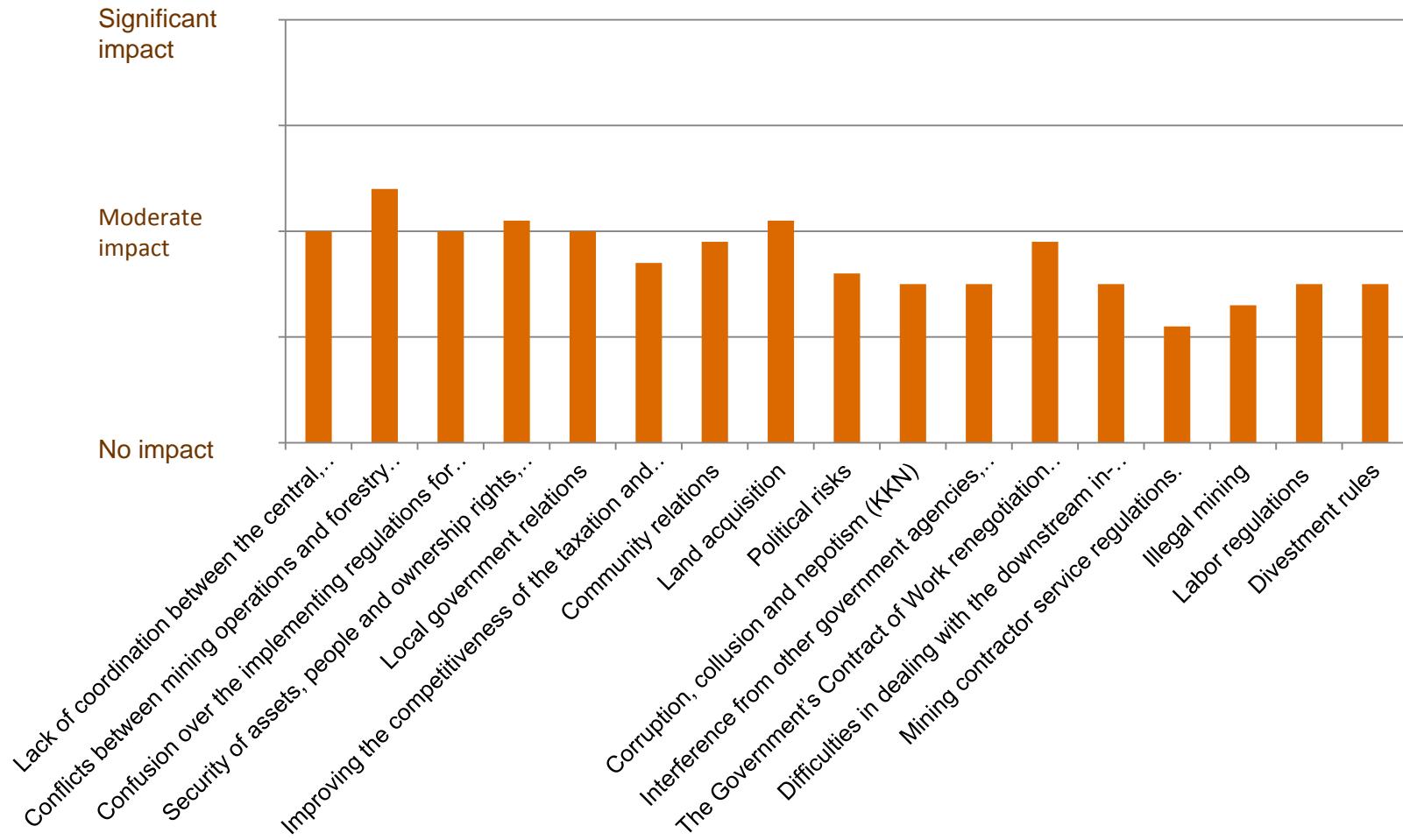
- Based on the 2011 global mining policy survey (Fraser Institute), consistent with previous years, Indonesia has a high rank in terms of mineral prospectivity, but low rank in investment conditions.
- This perception contributes to Indonesia's low proportion of global exploration spending.
- The new mining regime based on the 2009 mining law has not yet had a positive impact on the investment climate, despite some initial improvement in perception of regulatory certainty overall.
- Recent regulatory activity in 2012 may see further negative impact in coming years.

# ***What are current issues in the Indonesian mining sector?***

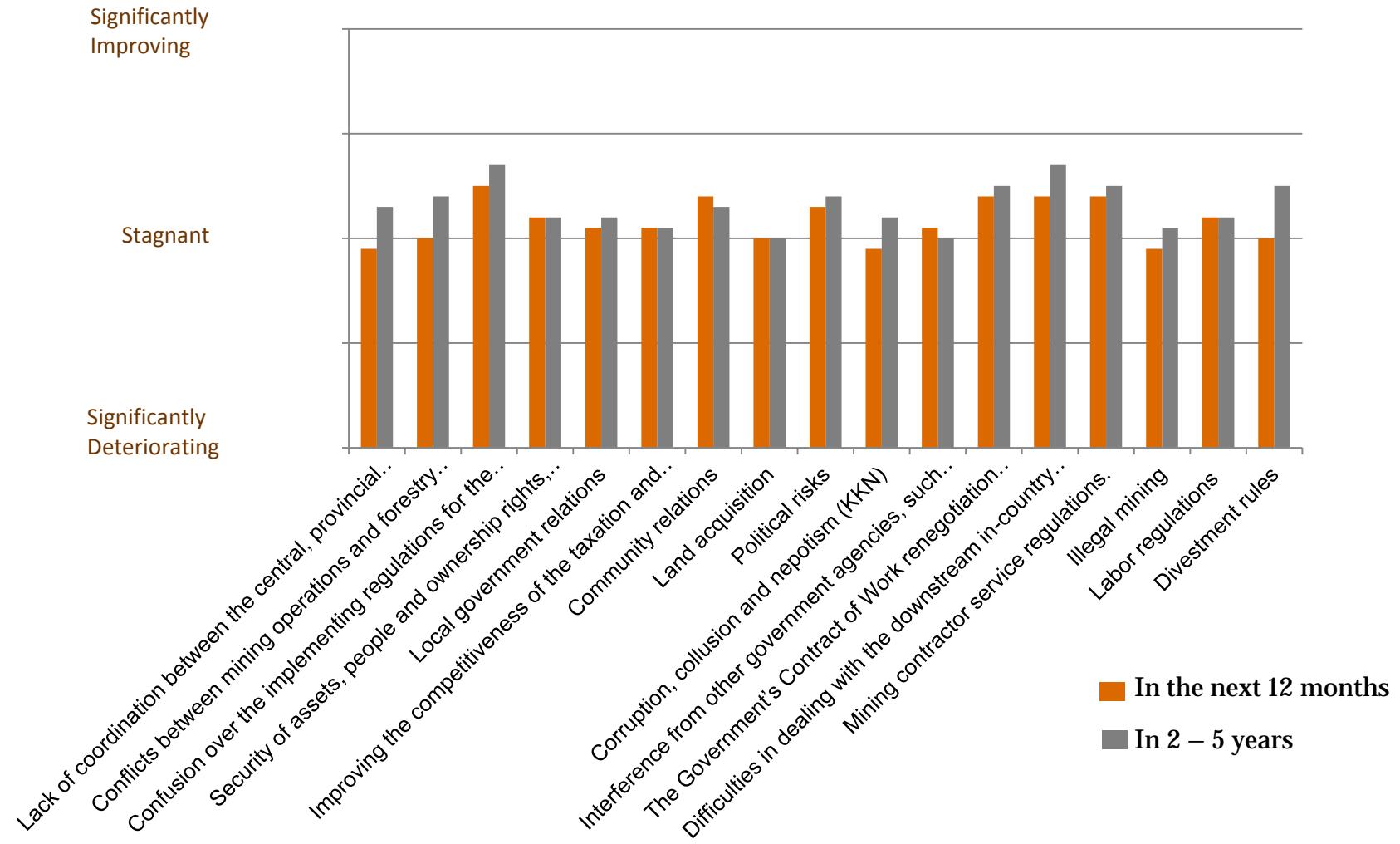
- 1 Lack of coordination between the central, provincial and regional governments
- 2 Conflicts between mining operations and forestry regulations
- 3 Confusion over the implementing regulations for the new Mining Law
- 4 Security of assets, people and ownership rights, including mining licences
- 5 Local government relations
- 6 Improving the competitiveness of the taxation and royalty system relative to other prospective countries
- 7 Community relations
- 8 Land acquisition
- 9 Political risks
- 10 The Government's Contract of Work renegotiation efforts

**Uncertainty !!**

# ***Impact of issue on investment***



# ***Development of resolution of the issue***



## ***Changes in mining business model***

- New coal and mineral projects are generally located in remote areas (e.g. Sumatera, Central Kalimantan and Sulawesi)
- Major infrastructure is required for these projects, e.g. railway, port, etc, at significant costs (over US\$1bn) – requires deep pockets
- The challenge is the best business structure, i.e. whether to include or exclude the infrastructure in the mining company (considering different investor objectives, regulatory restrictions, tax implications, etc.)
- The same issue exists in development of in-country metal processing facilities and value-added mining products (as required under the new Mining Law).

# ***Some key challenges to investment in Indonesian mining***



## **Regulatory challenges**

### **Key changes under the new mining law**

- New mining law effective January 2009 – foreigners and locals invest on a (relatively) level playing field
- Contract of Work system abolished – both foreigners and locals apply for mining licences. Existing CoWs will be honoured until their expiration dates
- Initially, increased interest from global players, due to more certainty of the regulatory regime in place:
  - Indian, Chinese and Korean utilities looking for security of coal supply
  - BHP Billiton entering into a partnership with a local player to develop large coking coal project
  - New players in Indonesia (Eramet, G-Resources, others)
  - Significant Private Equity activity

## **Regulatory challenges**

### **Key challenges under the new mining law**

- Unclear transitional provisions for Contracts of Work under the new mining law. Government negotiation team announced in January 2012 through Presidential Decree
- Domestic Market Obligation regulation (Ministerial Reg. 34/2009)
- Coal and Mineral Price Benchmarking Regulation (Ministerial Reg. 17/2010)
- Mine closure guarantee through time deposit at state-owned bank (Govt. Reg. 78/2010)
- Limitations on related party mining contractor services (Ministerial Reg. 28/2009)
- Forestry regulations
- Tax – lack of investment incentives; increased focus on transfer pricing, etc.

## **Regulatory challenges**

### Key challenges under the new mining law (continued)

*New for 2012:*

- Foreign equity divestment requirements for new mining concessions – staged divestment down to 49% by 10<sup>th</sup> year of production. Increase from 20% in initial regulations (Govt. Reg. 24/2012). Applicable to all IUPs (i.e. retrospective)
- Mandatory in-country processing for minerals and ban on export of unprocessed ore effective 6 May 2012 (Ministerial Reg. 7/2012)
- Subsequent regulations to apply a 20% export duty on export of mineral ores, effectively providing the opportunity for mines in the production stage to continue to export ore until January 2014, with a levy.
- Recent press indicating the Supreme Court may have struck-down the regulation banning exports of ore.

# **Uncertainty !!**

# Outlook



## **Outlook**

- Constant changes in the industry, those who are most agile with a long-term view will likely prosper
- Regulators need to find a balance between securing state revenue and attracting investments (including greenfields exploration investment), and at the same time preserving sustainable mining practices
- Continuous dialogue between mining players, regulators and other stakeholders is crucial to attract new investments
- As global miners will continue to hunt for projects in new geographies and shift the focus to acquisition of exploration and development stage assets, developing countries, including those in Asia, are well placed to tap this opportunity. The question is how fast the regulators can establish an attractive/competitive investment framework.

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# ***Thank you***

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