South and Southeast Asia

Indonesia

Indonesia's economic performance during the global economic crisis has been relatively strong with M&A activity expected to continue to grow in 2010.

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Current environment

The Indonesian economy maintained its resilience in enduring the global economic crisis during 2009. This resilience was largely a result of the economy's lack of export exposure. Year-over-year real GDP growth was 4.3%, which is relatively stable compared to the GDP growth of 4.1% achieved in the first half of 2009. During the second half of 2009, the Indonesian exchange rate appreciated against the US dollar from Rp10,225 to US$1 at the end of June 2009 to Rp9,400 to US1 at the end of December 2009.

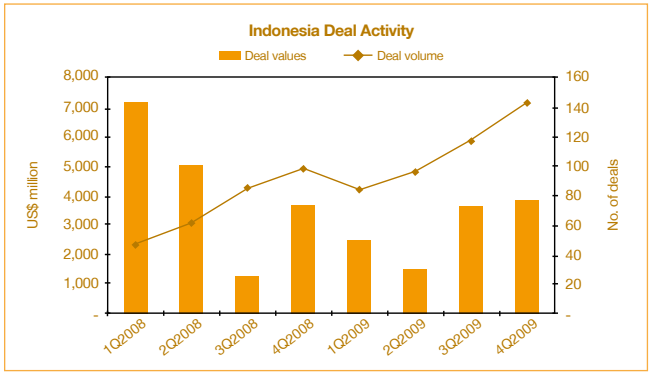
Indonesia also recorded inflation below 3%, the lowest rate in the past nine years. This allowed the Indonesian central bank to keep its benchmark interest rate at 6.5%. Both the low inflation rate and the low interest rate have worked well in stimulating household consumption, which is the largest contributor to Indonesian GDP.

2009 closed with an outstanding performance in the Indonesian stock market. The index increased by 87% during the year to close at 2,534 points at the end of December 2009. The increase was mainly supported by domestic investors since net investment by foreign investors decreased by approximately 29% in 2009.

The incumbent President Yudhoyono was re-elected in 2009 and appointed a former governor of the Central Bank of Indonesia, Boediono, as his Vice-President. In his second term as President, Yudhoyono's anti-corruption campaign appears to remain one of his priorities.

The President's popularity is not unanimous, as was illustrated by recent street protests in the capital, Jakarta, where he was criticised for his handling of the suspected framing of the Corruption Eradication Commission (KPK) and the potential role of his party and cabinet members in the bailout of Bank Century. Up to now, the protests have been peaceful, however, there may be further challenges to his cabinet.

Deal activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2009.

During the second half of 2009, there were 248 deals announced with a total estimated value of US$5.7 billion. A selection of the key deals completed in the second half of 2009 is summarised below:

Energy and Mining

State miner PT Aneka Tambang Tbk. (Antam) signed an agreement with ANZ Bank and Australian-listed gold mining firm, Arc Exploration Ltd. (Arc) to acquire full ownership of PT Cibaliung Sumber Daya (CSD), a mining company. Prior to this transaction, Arc was the majority shareholder of CSD with a 95% share and Antam held the remaining 5%. CSD operates the Cibaliung Gold mine at Pandeglang, Banten. The deal value was not announced but is believed to be approximately US$8 million.

PT Indika Energy Tbk., a 70%-owned unit of PT Indika Mitra Energi, raised its interest to 98.6% from 82% by acquiring a further 16.6% stake in PT Petrosea Tbk. (Petrosea), a Jakarta-based provider of engineering services, for US$16.5 million via a tender offer. The tender offer was a follow-up to the acquisition of an 82% stake in Petrosea from Clough International Singapore in July 2009 for US$83.8 million.

Consumer and Industrial Products

Taisho Pharmaceutical successfully acquired Bristol-Myers Squibb's (BMS) Over The Counter (OTC) drugs trademarks for JPY14.6 billion (US$160 million), and a 98% share in PT Bristol-Myers Squibb Indonesia Tbk. for JPY13.7 billion (US$150 million), or an aggregate value of JPY28.2 billion (US$310 million).

Nippon Steel Consortium, a consortium of several large Japanese steel manufacturers, signed an agreement to buy a 55% stake in PT Pelat Timah Nusantara, a tinplate

manufacturer, for US$60 million from unlisted state-owned steel maker, PT Krakatau Steel.

PT Bentoel Internasional Investama Tbk. (Bentoel) plans to merge with sister company PT BAT Indonesia Tbk. (BAT), a Jakarta-based manufacturer and wholesaler of tobacco, in a stock swap transaction valued at Rp700.5 billion (US$74.2 million). Bentoel offered 7.68 ordinary shares per BAT ordinary share. The combined market share of the two companies is expected to be around 8%.

Telecommunications

PT Global Mediacom Tbk divested its 19% ownership in PT Mobile-8 Telecom Tbk, a fixed wireless company under the brand "Fren", to a group of investors including PT Gerbangmas Tunggal Sejahtera, a Sinarmas business group unit, for approximately Rp211.5 billion (US$22 million).

Financial Services

PT Parahiyangan Griyanusa, a 99%-owned unit of the Sun Life Financial Inc. acquired a 49% stake in insurance provider PT Commerce International ("CI") from Bumiputra-Commerce Holding Bhd. through a joint venture structure, for an estimated value of Rp273.5 billion (US$22.7 million). Upon completion, CI was renamed PT CIMB Sun Life.

Outlook

The Indonesian government has forecasted economic growth of 5% to 6% for 2010. Inflation in 2010 is also expected to be higher than in 2009, and is targeted to be between 4% to 6%. Achieving this targeted range is largely dependent on fluctuations in world oil prices. Any increase in oil prices will raise the price of other commodities, weaken consumer spending and increase interest rates, which will in turn challenge the government's ability to achieve their targeted rate of economic growth.

In addition, with the enactment of the Asean-China Free Trade Association (ACFTA) starting in January 2010, the domestic industry faces the threat of being unable to compete with Chinese manufacturers. Affected industries include petrochemicals, textiles, footwear, electronics, ceramics and food and beverages. On the other hand, ACFTA will benefit the domestic construction business since it will drive down material prices of commodities such as steel and cement.

The mining sector is forecasted to be the sector with the most M&A activity, as the recovery of the global economy will drive up fuel and energy consumption. The plantation sector is also expected to be a driver of M&A activity as crude palm oil continues to be used as a bio-fuel. All of these potential M&A drivers aside, political stability will be key in maintaining the stability of the M&A climate in Indonesia in 2010. ■