Plantation NewsFlash

A Recovery Momentum and Journey to Sustainable Industry

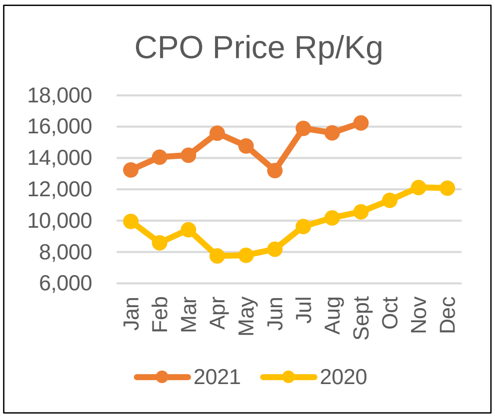
November 2021 / No. 01

Threat and opportunities from the recovery of palm oil industry in Indonesia

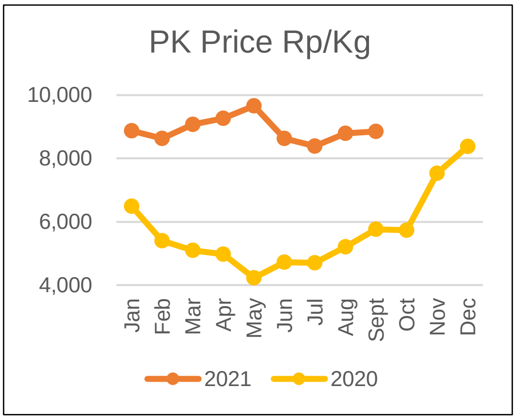
Steven Anggoro and Andreas Rabindra

The palm oil industry is one of the key drivers of Indonesia’s economy. As the world’s largest exporter of Crude Palm Oil (“CPO”), the industry contributed 11% to Indonesia’s total exports in 2020. Furthermore, Indonesia is also by far the largest producer and consumer of palm oil in the world with estimated production and consumption of 51 million and 17 million MT in 2020 respectively.

Indonesia’s palm oil industry is focused on the upstream sector of CPO production. The palm oil products prices were relatively less affected by the pandemic, and the industry enjoyed a rally of favourable prices during 2021. The graphics below show the price trend of CPO and Palm Kernel (“PK”), the upstream palm oil products, between 2020-2021.



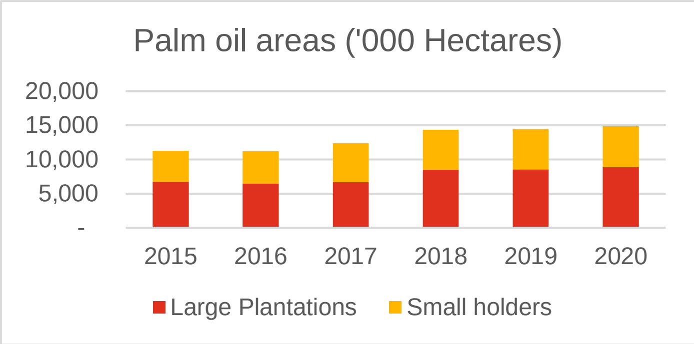
Source: GAPKI



Source: MPOB (translated using BI middle rate)

Palm oil production and productivity

Indonesia’s palm oil production has grown significantly in volume from 28 million ton in 2013 to the projected 52 million tons in 2021. However, from the total area of 14.9 million hectares in 2020, approximately 40% is under smallholder estates ownerships which have a lower productivity rate, defined as the total production per total area of mature plantations.



Source: BPS

In 2020, productivity for large plantations was approximately 3.6 tonnes of CPO per year per hectare, while smallholder estates had lower productivity at approximately 2.7 tonnes of CPO per year per hectare. This level of productivity is considerably low compared to the neighbouring plantations in Malaysia, which can produce up to 6 tonnes of CPO per year per hectare.

Low productivity in the palm oil industry, among other things such as environmental concerns, has led the government to impose a moratorium on the issue of new permits. This moratorium is set to expire in September of 2021. Despite calls from environmental agencies and various stakeholders, there has not yet been a decision to extend the moratorium.

The government is currently still evaluating the effectiveness of the moratorium but is still committed to turn Indonesian forest into a net carbon sink by 2030 as pledged in the Paris Agreement.

Threats and opportunities

The push of sustainability and governance in the palm oil industry has ramped up in recent years. In response, the President of the Republic of Indonesia issued the Presidential Regulation No 44/2020 related to the certification system of sustainable palm oil plantations in Indonesia. Up to the end of 2020, there have been 682 ISPO (Indonesian Sustainable Palm Oil) certificates issued totalling to 5.8 million hectares from the total palm oil plantation area of 14.9 million hectares.

A major portion of Indonesia's palm oil production output is currently sold overseas. From the 48 million tons of CPO production in 2020, 34 million tons were exported making Indonesia the world's number one CPO exporter. The top three countries of destination for Indonesia's CPO exports are India, China, and Pakistan together accounting for 41% of Indonesia's total exports. Exports to the EU market has been declining year on year.

These sustainability and governance concerns have led to consumer backlash in the European market and plans of phasing out the use of palm oil in EU biofuels by 2030. As a response the Indonesian government has issued a directive to use 30% blended ("B30") biodiesels to include not only public transportation but also privately-owned vehicles. There are also plans to increase the current mix of B30 to B40 in the future, but this has been delayed due to lower demand and stocks during the COVID-19 pandemic.

The Indonesian government is also considering applying a carbon tax to meet its commitment to reduce the emission by 29% by 2030 without the international support. A comprehensive carbon tax mechanism is yet to be developed with consideration to its effect to the economic growth and foreign investment, as well as the applicability and practicality of this tax in Indonesia.

Indonesian palm oil companies can mitigate key Environmental, Social and Governance ("ESG") risks by being proactive

Andrew WK Chan and Maurice Shawndefar

As the global economy accelerates efforts to recover from the 2020 economic downturn caused by the COVID-19 pandemic, we are already observing significant growth in Indonesia's palm oil industry in 2021. According to the Indonesian Palm Oil Association (GAPKI), Indonesia's palm oil export value reached record highs in May and August 2021 (US$ 3.06 and 4.42 billion, respectively). In July, GAPKI recorded a staggering 35 percent rise in exports. The largest portion of this rise in exports was attributed to the European Union (EU) member states where demand increased by 139,200 tons and pushed total exports to the EU to above 500,000 tons.[1]

However, despite the promising financial indicators, the industry remains under scrutiny due to exposure to significant ESG-related risks such as deforestation, environmental degradation, and labor rights violations. Over the course of the past 18 months, we've witnessed stringent policies and efforts from regulators and investors that have added pressure to the industry to tackle the most material ESG risks.

From a regulatory standpoint, new schemes such as the EU's carbon border adjustment mechanism have been proposed that would make it costlier for carbon-intensive industries to enter the EU market.[2] The US Customs and Border Protection recently imposed bans on two Malaysian palm oil companies due to allegations of poor labor practices.[3] And most recently, the Government of Indonesia announced the launch of the country's first carbon tax scheme at IDR 30,000 (US$ 2.1) per metric ton of CO2.[4]

On the other hand, investors have further committed themselves to sustainability efforts and introduced more rigorous ESG criteria to inform their investment decisions. With the expansion of the United Nations Principles of Responsible Investment (PRI) network and the PRI Investor Working Group on Sustainable Palm Oil, investors have begun assessing four key areas which they believe to be material to the industry. These comprise 1) emissions and energy management, 2) land, 3) biodiversity, and 4) labor management.[5]

In order to have a comprehensive and effective response to these material issues, we propose palm oil companies focus on and take action in three different areas, including net zero, the circular economy, and labor management.

Net zero commitment across the value chain

An ESG action that the international community has increasingly observed following the COVID-19 pandemic is private sector commitment to net zero. As of March 2021, 21 percent of the world's largest public companies committed themselves to net zero and this figure is expected to increase given investor and regulatory pressures demanding emissions reduction and net zero transformation.[6] A comprehensive net zero transformation strategy, in line with science-based targets, can support a business to identify its most material

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[1] https://gapki.id/en/news/20376/export-value-reaches-highest-record; https://thepalmscribe.id/indonesia-posts-over-35-rise-in-palm-oil-exports-in-july-2021-2/; https://gapki.id/en/news/20718/export-surging-due-to-energy-crisis-in-india-china
[2] https://www.dw.com/en/eu-asean-trade-environment-carbon-emissions/a-58740914
[3] https://apnews.com/article/forced-labor-malaysia-261eb108042b23eee596091a40a9a9aa
[4] https://jakartaglobe.id/business/indonesia-is-set-to-introduce-21-per-ton-of-co2e-carbon-tax
[5] https://emea.nikkoam.com/articles/2021/palm-oil-investing-through-an-esg-lens
[6] https://www.forbes.com/sites/dishashetty/2021/03/24/a-fifth-of-worlds-largest-companies-committed-to-net-zero-target/?sh=57c7a7cd662f

environmental risks and opportunities to create long-term value. In creating value, a business must integrate and mainstream its net zero commitments, objectives, and initiatives across its corporate strategy, which will require integrated thinking across management and operations.

Furthermore, net zero commitments cannot be achieved without targeted initiatives and effective enforcement across the value chain. It is therefore imperative that businesses set and enforce clear and robust policies and standards by which their customers and suppliers abide (e.g. NDPE - No Deforestation, No Peat, No Exploitation). As part of these efforts, palm oil companies can enforce zero-burning policies and land restoration plans in line with ASEAN guidelines.[7]

It is important to note that regulators and investors seek more transparency in reporting and disclosure standards to detect greenwashing and insincere commitments in the market.[8] The Taskforce on Climate Related Financial Disclosures (TCFD) is beginning to take a leading role across markets for climate risk reporting, as more and more countries begin to support the standard.[9] More recently, the Taskforce on Nature Related Financial Disclosures (TNFD) was launched with the mission "to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature related risks, which aims to support a shift in global financial flows away from nature negative outcomes and towards nature positive outcomes."[10]

It is therefore critical for Indonesian plantation companies to support disclosures standards in line with TCFD and TNFD to tackle climate and biodiversity risks and challenges facing the industry. Additionally, companies can demonstrate their full commitment to net zero by transitioning towards green and regenerative business models, optimizing emissions reduction across their value chains, and offsetting the remainder through the voluntary carbon trading market in Indonesia.

Circular economy

In order to achieve net zero targets across the value chain, companies must understand the end-to-end supply chain. Investors are therefore keen to understand the company's capacity to conduct thorough assessment and mapping of the plantation's estate and areas for conservation sites, and look for evidence that the company has a comprehensive understanding of its supply chain from plantation to refinery.[11] This is where obtaining RSPO (Roundtable on Sustainable Palm Oil) certification can demonstrate that a company's palm oil production is in line with international sustainability standards.

The circular economy can play a significant role to increase productivity and efficiency across the supply chain while reducing carbon emissions. Whether its modern technology to enhance efficiency of farmers and manage their waste in a sustainable way; more eco-friendly vehicles for the transportation of fresh fruit bunches (FFB) to mills or crude palm oil (CPO) to manufacturing facilities; upgrading facilities and buildings to meet green building standards and reduce carbon emissions (e.g. mills, refineries, manufacturing facilities), palm oil companies can work across the supply chain to ensure that the practices are sustainable and aligned with international sustainability standards.

[7] https://www.rspo.org/files/resource_centre/ASEAN%20Zero%20Burn%20Guidelines.pdf
[8] https://www.asianinvestor.net/article/regulators-and-investors-see-transparency-as-key-to-uncovering-greenwashing/473050
[9] UK and New Zealand governments have become the first two countries to make TCFD reporting mandatory; Singapore Exchange has proposed the measure; Hong Kong's financial regulator announced to make TCFD reporting mandatory beginning 2025; Bursa Malaysia strongly encourages TCFD reporting.
[10] https://tnfd.global/
[11] https://emea.nikkoam.com/articles/2021/palm-oil-investing-through-an-esg-lens

Furthermore, a comprehensive focus on the circular economy can enable companies to identify new green business opportunities such as using the waste from palm oil production for palm oil clinker for the construction sector; feedstock for waste gasification plants; and innovative use such as biocomposite manufacturers.[12]

Labor management and human rights

Indonesian palm oil companies mainly rely on two mechanisms to harvest FFB from plantations. The first mechanism is more easily traceable as it's either harvesting from the company's plantation (a.k.a. inti) or from smallholder farmers' plantations managed by the company (a.k.a. plasma). However, the second mechanism relies on one or more middlemen or agents that work with smallholders. This second mechanism makes the FFB less traceable and more difficult to manage as there is less or no direct contact with the smallholder farmers.[13]

Under the first mechanism, companies can take direct action to improve labor conditions of workers in the plantation. Investors are keen to assess the fairness of social and economic development by reviewing the suitability of wages and other benefits provided to plantation workers, and additionally assess the support schemes for smallholder farmers (plasma). However, the supervision, management, and improvement of labor standards under the second mechanism is more challenging due to the lack of direct interaction with smallholder farmers, as well as the complex and multi-stakeholder nature of the supply chain. Nonetheless, companies can introduce policies and standards that suppliers must follow, including the right to audit labor practices, and terminate such contracts or seek a comprehensive mediation plan upon violation of standards. Investors expect palm oil companies to establish robust governance frameworks that can effectively handle grievances submitted by employees, suppliers including smallholder farmers, and communities.

In conclusion, this is the right time for palm oil companies to act by adopting and mainstreaming ESG across their strategy, operations, and supply chains. In Indonesia, palm oil companies can further identify key risks and opportunities in the industry, the company, and geographical locations where they operate or have an existing presence. Companies which can take a value creation lens to incorporate ESG across their business can improve financial performance over time.

In line with this, net zero commitments are increasing across the industry and are being cascaded through value chains. As Indonesian palm oil companies look to commit to net zero, they should consider taking a holistic approach to manage ESG risks while also unlocking new business opportunities such as the circular economy. Net zero transformation should not only consider environmental outcomes, but also take into account social impacts, especially given palm oil's contribution to uplifting rural communities and supporting Indonesia's economic growth. This is a delicate balance to achieve, but critical to get right as relevant impact metrics will provide investors and businesses with decision-useful information to create shared value.

[12] https://www.mdpi.com/1996-1944/8/12/5494
[13] https://wri-indonesia.org/en/blog/achieving-palm-oil-traceability-indonesia%E2%80%99s-complex-supply-chain

Legal reform in the plantation sector

Indra Allen, Indra Natakusuma and Fifiek Mulyana

Following the issuance of Law No. 11 of 2020 on Job Creation (**"Job Creation Law**") in November 2020, several key amendments were introduced to the Laws governing various sectors, including the plantation sector. This legal alert covers key changes impacting on the plantation sector, specifically amendments to several of the provisions of Law No. 39 of 2014 on Plantations ("**Plantation Law**") pursuant to the issuance of the Job Creation Law and its implementing regulations.

Updates to plantation activities business licensing

The Job Creation Law generally shifts the authority to issue business licenses previously issued by local governments or relevant ministries to the central government. Under the previous Plantation Law, the following licenses in the plantation sector were granted by local government: (i) processing plantation business permits (IUP-P); (ii) cultivated plantation business permits (IUP-B); and (iii) integrated plantation business permits (IUP). The Job Creation Law, however, introduces new terms for the issuance of business licenses for all types of plantation business activities, which will be granted using a risk-based approach.

Based on Government Regulation No. 5 of 2021 on Risk-Based Business Licensing ("**GR 5/2021**"), licenses will be assessed according to the scale and level of risk of the respective business activities, which in turn is determined through a risk analysis. In this regard, current business activities are classified as either: (i) business activities with a low risk level; (ii) business activities with medium-low risk level; (iii) business activities with medium-high risk level; and (iv) business activities with a high-risk level. Depending on the category, the following licensing requirements will apply: (i) low risk business activities will only require a Business Identification Number ("**NIB**"); (ii) medium-low risk business activities will require a NIB and standard certificate (in the form of a statement letter by the businesses); (iii) medium-high risk business activities will require a NIB and standard certificate (certified by the relevant authorities); and (iv) high risk business activities will require a NIB, business license, and standard certificate (as may be relevant). The process of issuing business licenses is carried out through the Online Single Submission ("**OSS**") system.

Based on GR 5/2021, identification of business activities based on the risk-based approach is carried out by referring to the Indonesian Standard Classification of Business Fields (“**KBLI**”) of each business activity. For example, in KBLI 01262 (Palm Oil Plantation), is listed as follows:

1. Palm oil cultivation:
   - Micro and small businesses each with a land area of <25 Ha are categorized as business activities with a low risk level.
   - Large businesses each with a land area of >25 Ha are categorized as business activities with a high-risk level.
2. Palm oil seed production is categorized as a business activity with a medium-high risk level.

The same risk determination also applies to KBLI 01140 (Sugarcane Plantation) which consists of sugarcane cultivation and sugarcane seed production.

Furthermore, in line with the “one-stop shop” concept introduced with the OSS system, the Job Creation Law introduces a new integrated single business licensing scheme.

Relaxation of restrictions on foreign investment

The Job Creation Law currently stipulates that the development of plantation business activities must be performed through capital investments and comply with the prevailing investment regulations.

Further, as an implementing regulation of the Job Creation Law, the Government of Indonesia issued Presidential Regulation No. 10 of 2021 on Investment Business Fields, as amended by Presidential Regulation No. 49 of 2021, collectively known as the new Positive Investment List. Presidential Regulation No. 10 of 2021 revoked Presidential Regulation No. 44 of 2016 on the Negative Investment List. The Positive Investment List relaxes restrictions on foreign investment, including the removal of foreign participation restrictions for palm oil plantations (meaning these are now open to 100% foreign investment), in contrast to the maximum 95% foreign participation required under the previous regulations.

The spirit of the Job Creation Law is to ease the business licensing process and attract new investors, and it is hoped that the changes to these provisions will simplify the process for foreign investors entering the plantation sector in Indonesia.

Restrictions on the transfer of the granted land area of a plantation company

Previously, all types of plantation companies were restricted from transferring their rights to granted land areas that result in the relevant plantation companies holding less than the required minimum plantation land area. Currently, the restriction only applies to plantation companies engaged in partnership or plasma nucleus activities. Further, the types of administrative sanctions are not currently specified in the law but will be stipulated in further implementing regulations in the form of a Government Regulation.

The facilitation of plasma plantation

Under the previous Plantation Law, all types of plantation companies are required to facilitate a plasma plantation of at least 20% (twenty percent) of the total plantation area cultivated by the relevant plantation company. Following the issuance of the Job Creation Law, the requirement to facilitate a plasma plantation only applies to cultivation plantation companies with land that is wholly or partly made up of other purpose land area (*area penggunaan lain*) located outside of Right-to-Cultivate (*Hak Guna Usaha*) land title areas and/or released forest areas (*pelepasan kawasan hutan*) of approximately 20% of the total of such area. The obligation of plasma plantation facilitation is integrated along with other obligations that arise in the acquisition of plantation land, among others, if the land derived from released forest areas (*pelepasan kawasan hutan*) with the obligation to provide 20% of the land to the community has been implemented, then the obligation of plasma plantation facilitation should be considered to be completed. This change to the provisions of the previous Plantation Law is positive for investors, considering the difficulties many plantation companies experienced complying with this obligation, due to the limited availability of land.

Obligations regarding plantation cultivation

Under the previous Plantation Law, plantation companies were required to cultivate at least 30% of their land area within three years of obtaining the land title, and their total land area within six years. The Job Creation Law now obliges plantation companies to cultivate their land area within two years of obtaining the land title but it is not clear whether this should cover the full land area or not.

Further, any failure by a plantation company to fulfil this obligation by the deadline may result in the land area not yet cultivated being taken over by the Government. The Job Creation Law removed the administrative sanctions for non-compliance with the plantation cultivation obligation stipulated under the previous Plantation Law.

The above provision may give rise to an obligation for new plantation companies in Indonesia to accelerate the development of their plantations. However, the removal of the minimum cultivation area requirement could also be interpreted as meaning that any cultivation activity having been carried out constitutes compliance with the plantation cultivation requirement. However, this remains to be seen in practice.

Obligations of a plantation company prior to the commencement of business operations

The Job Creation Law requires plantation cultivation and plantation product processing business activities to obtain the land title **and** plantation business license prior to the commencement of their business operations. This provision is a consequence of the change to the interpretation of Article 42 of the previous Plantation Law based on Constitutional Court Decision No. 138/PUU-XIII/2015 which emphasizes that both documents are mandatory for conducting plantation business activities (under the previous Plantation Law the requirement was for “land title **and/or** plantation business license”).

In practice, the adoption of the Constitutional Court’s Decision has led to substantial challenges for investors, for example the time-consuming process for obtaining land titles, and the huge amounts of money required for land compensation.

Minimum and maximum plantation areas

Under the Job Creation Law, the central government will specify the minimum and maximum plantation areas that may be cultivated. These limits will only take into consideration the type of plantation and/or the availability of agroclimatic suitable land. The relevant implementing regulation, Government Regulation No. 26 of 2021 on the Implementation of Agriculture, sets maximum limits on plantation areas, such as 100,000 hectares for palm oil plantations and 125,000 hectares for sugarcane plantations. The maximum referred to above applies to a single plantation company (and not a group of companies) nationally.

Environmental licenses

The Job Creation Law cancels Article 45 of the previous Plantation Law regarding environmental licenses, which required an environmental license to be obtained. However, the environmental license, which has been substituted for environmental approval under the Job Creation Law, will be implemented using a risk-based approach and an assessment of the business activities.

Land Bank

One of the key provisions of the Job Creation Law is the creation of the Land Bank, a central government special agency established to manage land, and entrusted with performing land planning, procurement, acquisition, management, utilization, and distribution activities.

The Right-to-Manage (*Hak Pengelolaan*) title will be given to the land managed by the Land Bank. Any party acquiring land from the Land Bank will also be entitled to the Right-to-Build (*Hak Guna Bangunan*), Right-to-Use (*Hak Pakai*), or Right-to-Cultivate (*Hak Guna Usaha*) title, in addition to the Right-to-Manage (*Hak Pengelolaan*) title to the land.

The above changes and new provisions may increase the ease of doing business and attract more relevant parties and investors to the plantation business sector in Indonesia. However, further implementing regulations will need to be issued to provide greater certainty.

In respect of the above, PwC (specifically Melli Darsa & Co., an Indonesian member law firm of the PwC global network) can help you by providing comprehensive legal assistance for your business in the plantation sector, including providing legal advice, preparing and finalising agreements and legal documentation, and other legal assistance services.

Imposition of the carbon tax through the Harmonisation of Tax Regulations ("HPP") Law

Antonius Sanyojaya

The Carbon Tax is a new provision introduced in the HPP Law which is to be effective from 1 April 2022.

Tax object

Carbon Tax is to be imposed on "carbon emissions" which have a negative impact on the environment. The "carbon emissions" that are subject to Carbon Tax may be added to/expanded through the issuance of a Government Regulation ("GR") (after being agreed with Parliament in the context of the Annual State Budget proposal). This may lead to a question on whether the scope of the Carbon Tax could then be revisited every year.

Notwithstanding this, the imposition of any Carbon Tax must take into account the following two (2) "macro" factors:

a. the Carbon Tax "roadmap", including:
   - a carbon emission reduction strategy;
   - the prioritised industries/sector which become targets;
   - the alignment with the new and renewable energy development programme; and/or
   - the alignment with various other policies;

   and/or

b. the carbon market roadmap itself.

Tax subject

Individuals or companies purchasing goods containing carbon or carrying-out activities which result in a certain level of carbon emissions within a certain period are the parties subject to the Carbon Tax.

The HPP Law broadly stipulates that a Carbon Tax subject can be either a carbon purchaser or a carbon emitter with clarity to be provided in a GR (subject to agreement by the parliament). The elucidation already determines the first tax subjects to be power plant companies (i.e. carbon emitters). The elucidation also emphasises that the imposition of this tax shall be prioritised towards corporate tax subjects (instead of individuals).

Tax rate and taxable event

The rate of Carbon Tax shall at least be the carbon price in the domestic carbon market per kg CO_2e.

However, based on the HPP Law, the above rate shall not be less than IDR 30/kg CO_2e. This base rate can also be revisited through the issuance of a Minister of Finance ("MoF") Regulation (after consultation with Parliament).

This appears to mean that, once the carbon market in Indonesia is established, the Carbon Tax rate will follow the market price but with an IDR 30/kg CO_2e floor (being the current minimum price).

The Carbon Tax is due:

a) upon the purchase of goods containing carbon;
b) at end of each calendar year (i.e. December) during which the carbon emitting activity is carried out; or
c) per other timing as determined by a GR.

Implementation Milestone

The imposition of Carbon Tax will be carried out gradually with the following milestones:

2021	Development of the carbon trading mechanism
2022 - 2024	Imposition of the Carbon Tax against coal-fired power plant projects through the "cap and tax" mechanism. Where such projects produce carbon emissions above the carbon limit/cap determined by the Government/relevant Ministry, Carbon Tax shall be imposed on such "excess". It is not clear whether the "cap and tax" mechanism applied during this milestone might be mixed with a "cap and trade" mechanism allowing a carbon "trade" amongst producers subject to this cap (see below). Developments in this area, particularly the impact on coal-fired power projects and PLN, should be monitored.
2025 and onwards	Full implementation (in stages) of carbon trading and the expansion of Carbon Taxation more generally will occur according to the readiness of the relevant sectors, economic conditions and/or the scale of application.

Carbon "Offset"

Taxpayers who participate in trading and offsetting carbon emissions, as well as other mechanisms in accordance with laws and regulations in the environmental sector, can be granted:

- a Carbon Tax reduction; and/or
- other benefits for the fulfilment of Carbon Tax obligations.

This appears to follow the international approach whereby trading or an offset will be allowed to lower a Carbon Tax obligation. On the other hand any trading/offset mechanism may alternatively increase a Carbon Tax obligation (i.e. via an increased Carbon Tax rate based on demand). This "carrot and stick" mechanism appears aimed at helping Indonesia to meet its commitments under the Paris Agreement with regard to climate change.

Effective Date

The implementation of Carbon Tax will be in stages according to market readiness with the earliest stage to be on 1 April 2022 for coal-fired power plant companies (as above).

Implementing regulations

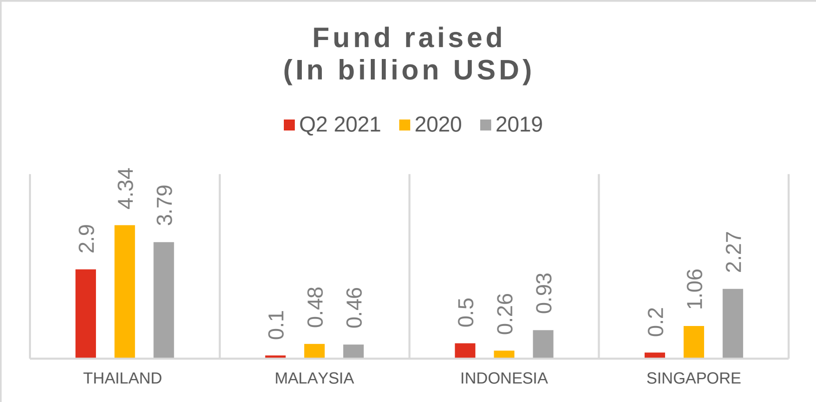
GRs will be issued to further stipulate the roadmap policy, tax objects and subjects, taxable events, and the allocation of Carbon Tax revenue for climate change matters.

MoF Regulations will stipulate the tax rates, tax base, administrative mechanism, and procedures for Carbon Tax reductions as are relevant for fulfilling Carbon Tax obligations.

Palm oil industry recovery - right momentum for IPO

Jasmin Maranan and Andi Harun

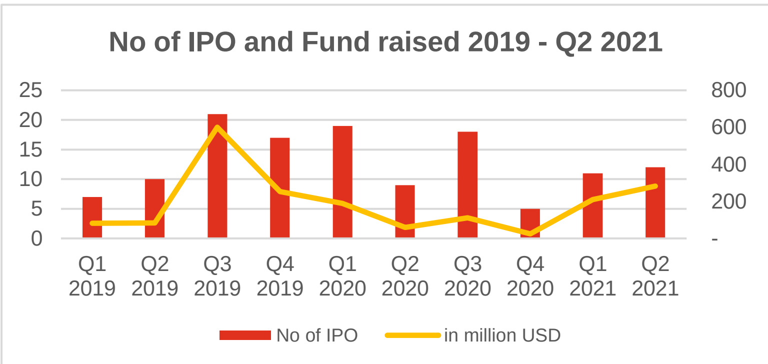
In the first half of 2021, there were 23 companies that conducted an Initial Public Offering in Indonesia, the highest among ASEAN countries.

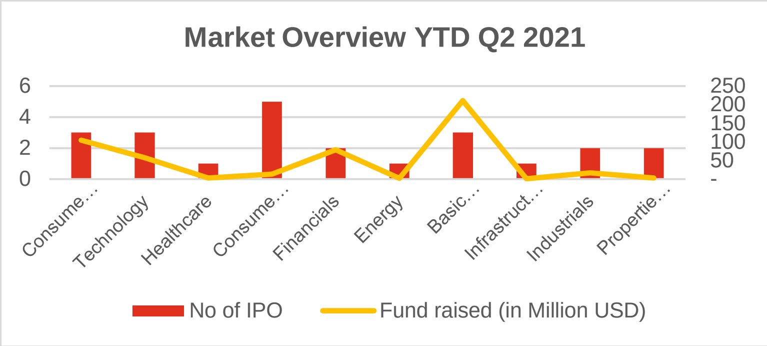


Source: Bisnis Indonesia, PwC publication & analysis

These 23 IPO transactions generated total proceeds of IDR7.1 trillion or approximately USD0.5 billion, a number lower than two other ASEAN countries in terms of average proceeds. Thailand stock exchange generated USD2.9 billion with 15 IPO deals while Malaysia and Singapore recorded 12 IPO deals that raised USD0.1 billion and 3 IPO deals totalling USD0.24 billion, respectively. In total, the ASEAN market remained stable with a record of 55 IPO deals that generated USD5.1 billion in the first half of 2021. As the pandemic eases, this momentum is expected to continue into the second half of 2021, most likely led by Thailand and Indonesia.

Indonesia IPO trends showing an uptick





Source: IDX and PwC analysis

General

Despite the challenging global pandemic that hit Indonesia's economy, the Indonesia Stock Exchange (IDX) has shown signs of recovery in the early part of this year. The stock exchange welcomed 23 new issuers representing different sectors in the first half of 2021. The highest funds raised were generated by the Basic Materials sector with three IPO deals that raised proceeds of IDR3 trillion, followed by the Consumer Non-cyclicals with three IPO deals with total proceeds of IDR1.5 trillion.

Focus Industry: Plantation

IDX welcomed two new issuers under plantation and crops sub-industry: FAP Agri Tbk. (FAPA) which listed on 4 January 2021 on the Development Board with proceeds of IDR1 trillion and PT Triputra Agro Persada Tbk (TAPG) which listed on the Main Board on 12 April 2021 with proceeds of IDR173 billion.

Plantation Companies IPO 2018 – Q2 2021

Entity	Code	Board	Date of IPO	Fund raised (IDR)	IPO Price (IDR)
PT Mahkota Group Tbk.	MGRO	Main	12-Jul-18	158,329,800,000	225
PT Andira Agro Tbk.	ANDI	Development	16-Aug-18	100,000,000,000	200
PT Palma Serasih Tbk.	PSGO	Development	25-Nov-19	299,250,000,000	105
Cisadane Sawit Raya Tbk.	CSRA	Development	9-Jan-20	51,250,000,000	125
Pradiksi Gunatama Tbk	PGUN	Development	7-Jul-20	103,500,000,000	115
FAP Agri Tbk.	FAPA	Development	4-Jan-21	1,001,717,712,000	1,840
PT Triputra Agro Persada Tbk	TAPG	Main	12-Apr-21	173,240,000,000	200

Source: IDX

In terms of market capitalisation, as at 30 June 2021, the major players are PT Astra Agro Lestari Tbk with market capitalisation of IDR14,628 billion (USD1,009 million) and PT Triputra Agro Persada Tbk with market capitalisation of IDR14,095 billion (USD972 million).

Market Capitalisation – Plantation Listed Companies (in billion IDR)

No	Company	Code	Listing	Board	2018	2019	2020	Q2 2021
1	Astra Agro Lestari Tbk	AALI	9-Dec-97	Main	22,759	28,052	23,722	14,628
2	PT Triputra Agro Persada Tbk	TAPG	12-Apr-21	Main				14,095
3	SMART Tbk	SMAR	20-Nov-92	Development	11,632	11,891	11,920	10,713
4	PT FAP Agri Tbk	FAPA	4-Jan-21	Development				10,053
5	Sawit Sumbermas Sarana Tbk	SSMS	12-Dec-13	Main	11,906	8,049	11,906	7,906
6	PP London Sumatra Indonesia Tbk	LSIP	5-Jul-96	Main	8,529	10,132	9,381	6,993
7	Salim Ivomas Pratama Tbk	SIMP	9-Jun-11	Main	7,276	6,833	6,643	6,896
8	Dharma Satya Nusantara Tbk	DSNG	14-Jun-13	Main	4,346	4,876	6,466	5,300
9	Tunas Baru Lampung Tbk*	TBLA	14-Feb-00	Main		5,315	4,995	4,274
10	Provident Agro Tbk	PALM	8-Oct-12	Development	1,851	1,424	2,449	3,560
11	Bisi International Tbk*	BISI	28-May-07	Main	5,025	3,150	3,090	3,375
12	Palma Serasih Tbk	PSGO	25-Nov-19	Development			2,243	3,374
13	Sampoerna Agro Tbk	SGRO	18-Jun-07	Main	4,479	4,498	3,052	3,374
14	Eagle High Plantations Tbk	BWPT	27-Oct-09	Main	5,170	4,949	4,540	2,711
15	Mahkota group Tbk	MGRO	12-Jul-18	Main	3,501	3,199	2,897	2,435

Source: IDX

Preparing for a successful IPO

Planning, executing, and managing an IPO is a complex task for any organization. The better prepared a company is, the more efficient and less costly the process can be. While the planning process for an IPO can start the day a company is incorporated or as late as months before a public offering, an orderly plan executed over a one- to two-year period is recommended. This window gives a private company time to build the capabilities to think, act and perform as a public company.

The preparation process can often be lengthy, depending on the maturity of a company's existing processes. It is vital that the company understands and addresses any gaps and secure the success elements described above before going public.

The most common reasons for an IPO are: to provide an exit for current shareholders, to finance innovation and growth and to increase visibility and credibility with stakeholders. The most common question is when is the right time to launch an IPO. In today's uncertain world, an IPO window can open and close in a blink of an eye. External market forces are beyond a company's control but preparation is not. The more prepared an organization is, the better the chances are for a successful IPO.

How to plan for a successful IPO:

1. **Start with strong IPO leadership**
   Ensure that your IPO team has a strong leader in place. In most companies, this role is assigned to the chief financial officer ("CFO"), sometimes head of business development or corporate finance. For larger or more complex IPOs, an IPO steering committee is usually formed. A strong IPO leader should be clearly identified as he/she becomes the point of contact, both internally and externally, and will drive the whole process, achieve milestones, liaise with stakeholders, and take critical decisions.

2. **Support the effort with sound project management**
   Success depends on identifying issues and monitoring progress through effective project management. Without this, one part of the organization might not know what another is doing. Successful IPOs use appropriate resources to support the IPO leader to build the plan, monitor progress, identify issues and keep the process on track. The IPO process often leads to increased workload. External resources may be considered to carry out day-to-day tasks or to perform specialized functions.

3. **Perform a thorough IPO readiness assessment**
   A robust IPO readiness assessment is the first step in a successful IPO. It is vital to identify big-picture issues and prevent surprises later. The assessment, in the form of a questionnaire, will help to identify key issues and gaps to be remediated. At the end of the readiness assessment, a company will have a clear roadmap of how to get there, with recommendations and workstreams prioritized, responsibilities assigned and a timetable for remediation. The readiness assessment therefore becomes a starting point for the company's transformation.

4. **Build a robust finance organization.**
   Getting the right finance organization, with the right capabilities to deliver accurate and reliable financial reporting within a relatively short period of time, is an important factor in creating a successful IPO. We recommend a company to start acting like a public company at least one year in advance before filing its registration statement, focusing on reducing the monthly financial closing process to a reasonable period and preparing quarterly financial information with a level of detail and accuracy of a would-be public company. It is also critical to develop a strong Financial Planning and Analysis function to accurately forecast earnings, track against guidance and deliver detailed projections needed for IPO valuation exercise. The first few quarters of life as a public company are critical. Inability to submit the required financial reports to the regulators will be damaging to shareholder value and can compromise credibility. It is, therefore, important to build strong finance organisation with a repeatable process before getting in the spotlight.

5. **Think of a sustainable process.**
   After the IPO kick-off meeting, the organization and all its advisors have their hands full with the offering document, meetings with bankers, the registration statement process, investor slides and roadshow materials. Companies tend to place less focus on building a sustainable process (e.g. investor relations, corporate governance, audit committees, internal control, legal and tax). Once listed, a company will need to address ongoing compliance and regulatory requirements and will require staging in a carefully controlled manner to ensure each element is ready.

The key to a successful IPO is being consistent throughout—solid economics, strong fundamentals and a well-prepared equity story that is easily understood. Although the IPO market is beyond control, companies that envision an IPO in their future can start now and give themselves the best possible chance for success when the markets open. As the saying goes, "A plan to fail is to fail to plan."

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