

Acquisition of an oil pipeline company in indonesia a study of oil pipeline project

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Abstrak

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1. BACKGROUND

Indonesia has been developing its economy for 30 years. In line with this effort, the Government of Indonesia has also been inviting private companies to participate for developing the economy.

It is noted that most private companies got their fund from overseas finance institution either through course or non-recourse project financing. This fund usually had a short-term payment period but was used for long term investment projects. This practice, among other things, creates the need for huge amount of dollars to pay the short-term debt while in other side the revenue(s) is still not cultivated. Bad business practices has added on to put Indonesia in the currency crisis leading into situation in which the local companies loose their capabilities to pay back their debt to creditors on time. This inability to pay the debt has caused Indonesia loosing Investor& confidence on its economy.

In facing the above situations Indonesian companies have looked for ways to pay back their debt and overcome the economy crisis. One of these ways is acquisition of the company assets. Through the acquisition the local shareholders will receive fresh funds and have their infrastructure project be completed on time.

2. PROBLEM FOCUS

As a trend in Indonesia currently, the oil pipeline infrastructure projects are designed with B&R (build and rent) contract schemes and requires a separate entity to handle this project.

The pipeline is required by government to provide cheaper transportation alternative for distributing refined product to the people in Indonesia. Technology required is not complicated. Financing of the project has been done by using owners equity and complemented by loan from both local and overseas financial institution. However their equity apparently was obtained by borrowing from other lending company.

Over debt has led local company to financial crisis. This, of course, reduces the value of Company. Reassessment of company is required to know the current value of their company. The economy crisis also affects refined oil supply and demand structure leading to project economic.

3. ANALYSIS

A comprehensive analysis on the local company shows its strength, weakness, opportunity, threatens of the company, what aspect will be affected by acquisition process and what gain local shareholder will achieve. Then Local Company is expected to be able to negotiate intelligently with the potential investor from overseas by using the paper recommendation.

4. CONCLUSION AND RECOMMENDATION

The country risk of Indonesia is so high that investment require higher rate of return on their investment. Fortunately, East Kalimantan has abundant natural resources so that its economy growth and refined product consumption rates are original design of pipeline facility, is excessive and requires some modification to reduce its cost and optimise its design.

By using the same rate for both debt interest rate and discounted cash flow rate, then higher rates will reduce company value. Due to current economic situation Investor will face some risk such as political risk, financial risk, contract risk which will raise the investor rate hurdle rate. This also gives an opportunity to Investor to negotiate with Pertamina to optimise its design so that there might be any cost saving for both parties
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The project characteristic is fixed revenues so that Investor should reduce its project expenses to achieve higher rate of return. Reducing construction completion time, Capital Expenditure (CAPEX), design change, and higher percentage of debt at operating life, etc. could do this.

During negotiation with potential investor it may be difficult to sell company with the same price as company value since this will lower the investor's estimated rate of return. The risks such as political, financial, contract risks should be discussed with Pertamina in the presence of local owner to smooth the negotiation and proper risk management strategies should be applied.
