

Bumi slams critics of mining deals

By Rupert Walker, | 16 January 2009

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Bumi Resources makes a robust defence of its purchases of three mining companies last week, as Bakrie hopes its convertible bond issue will finally ensure it retains control of its "crown jewels". Bumi Resources and its dominant shareholder, Bakrie & Brothers, countered attacks by mining analysts regarding the coal miner's buying spree last week. Nalin Rathod, president-director of Bakrie, protested that analysts with "no commitment, just criticising on the sidelines, had failed to understand the deals properly", while the media eschewed deep analysis for the easy attractions of "breaking news".

Last week, over four days, Bumi Resources made three purchases of Indonesian coal miners, which analysts quickly complained were too expensive and also too closely connected to Bumi's principal shareholder. It paid a total of about \$564 million for majority stakes in Pendopo Energi Batubar, Fajar Bumi Sakti (FBS) and Darma Henwa.

The price paid for Danwa Henwa, for instance, was seven times the current share price. Bumi also paid a high \$2.6 per tonne of reserves (another measure commonly used in the mining industry) for FBS, compared with Bumi's own valuation of just \$0.93 per tonne.

But, Dileep Srivastava, senior vice-president at Bumi Resources, told *FinanceAsia* that he believes current valuations are not a true reflection of the worth of minerals – that is coal – which he stresses are "real" in contrast to "paper assets which are often speculative in nature". Analysts are simply failing to see the bigger picture, he said.

He points out that in 2007, analysts valued Bumi's reserves at between \$11 and \$15 per tonne, and during the coal price peak between April and June last year they were worth more than \$20 per tonne. The collapse of Bumi's share price from an all-time high of Rp8,750 in June to around Rp750 at the time of the three acquisitions meant a similar fall in the value of reserves, plunging to less than \$1 per tonne.

So claims based on short-term share price movements that Bumi has paid too much are invalid, he says. Instead, all three purchases are part of a long-term strategy to develop its coal mining franchise.

Currently, Bumi's coal mining operations are conducted by its two mining subsidiaries, KPC and Arutmin, located in Kalimantan. Both are low-cost open-cast operations that have captive coal processing facilities and dedicated loading terminals and ports. Together they made up 28% of Indonesia's coal production in 2007, and represent the second largest thermal coal exporter globally.

Bumi also has plans to diversify its business portfolio and revenue mix through other ventures in the mining sector, such as copper, gold, iron ore, bed methane and power.

Nalin Rathod goes further. In a telephone call with *FinanceAsia*, he criticises analysts for guesswork and a failure to understand the deals properly. In addition to the intrinsic merits of the purchases, he emphasises that after an initial down-payment of 10%, the full cost doesn't need to be paid for three years; nor will interest accrue.

But analysts have also noted that all three acquired companies are closely linked to the Bakrie group through ownership and are even sharing some senior executives.

Stevanus Juanda, a Jakarta-based mining analyst at J.P. Morgan, wrote in a note on January 8 that: "A quick check on Indonesian Coal book 2007 [an industry manual] revealed that Bakrie Capital Indonesia owns 90% of Pendopo Energi Batubar." He concluded that "if this acquisition is announced as a non-related party transaction, we believe investors could lose confidence in Bumi Resources".

Both Rathod and Srivastava counter these accusations by pointing out that the Indonesian regulators were satisfied that no market rules were violated. As far as Bumi is concerned, the use of the proceeds by the sellers of the companies is none of its business, they say.

Of course the backdrop to this controversy is a drama that has been confusing and entertaining Jakarta's financial community since early October. Bakrie, Indonesia's largest conglomerate, has spent the past three months in a battle to pay off \$1.2 billion of debts and to retain control of Bumi, the group's crown jewels.

A complex web of debt-for-equity swaps culminated in the announcement this week of a Rp4.26 trillion (\$385 million) convertible bond which will be issued by Bakrie. The CB will be launched in May – subject to regulatory and shareholder approval – and will be sold to the domestic private equity firm Northstar, with whom Bakrie formed a joint-venture last month. The proceeds will be used to buy Bakrie units (but not Bumi shares) and the bonds will eventually be converted into Bakrie & Brothers' equity.

For the moment, at least, it appears that Bakrie has won both the battle and the war.