

 Early Warning System

IFC-31462

Medco Power 2011



Quick Facts

Countries	Indonesia
Financial Institutions	International Finance Corporation (IFC)
Status	Active
Bank Risk Rating	B
Voting Date	2011-12-17
Borrower	MEDCO POWER INDONESIA, PT
Sectors	Infrastructure
Investment Type(s)	Equity
Investment Amount (USD)	\$ 25.00 million
Project Cost (USD)	\$ 430.50 million



Project Description

The proposed IFC transaction is an equity investment of up to \$25 million in PT Medco Power Indonesia ("MPI" or the "Company"), an independent power producer ("IPP") in Indonesia ("Medco Power 2011" or the "Project" or the "Investment"). The Investment is part of a \$112 million equity package to be arranged by a consortium of financial investors to acquire majority of MPI and provide growth capital to MPI. MPI is currently owned 100% by PT Medco Energi Internasional Tbk ("MedcoEnergi"), an oil and gas exploration company in Indonesia.

In line with MedcoEnergi's strategic re-focusing on its hydrocarbon business, MedcoEnergi has decided to invite a financial investor into MPI to facilitate its further growth in the domestic IPP market, which is poised for significant growth in response to growing electricity demand in the country. The power grids in Indonesia comprise a large, interconnected Java-Bali grid and several other smaller island grids, most of which are isolated. Given growth in electricity demand of over 9% per annum, the Indonesian power sector has struggled to meet its required investment needs over the past decade.

In light of these factors, MPI has focused on developing, owning and operating small- to medium-scale IPPs tailored to smaller islands and isolated grids with unmet demand for electricity. MPI has developed six gas power projects with a total gross installed capacity of 189MW. MPI also provides Engineering, Procurement and Construction ("EPC") and Operations and Maintenance ("O&M") services to other power producers in the country. Given the increasing awareness of the climate change agenda in the country, MPI's future strategy is to pursue small- to medium-IPP in the clean energy sphere. The growth capital provided by IFC and its co-investors is to be used for:

- i) the expansion of MPI's existing gas plants from simple-cycle to combined-cycle, thereby improving their efficiency;
- ii) developing small scale hydro projects; and
- iii) new gas fired power projects.



Investment Description

- International Finance Corporation (IFC)

Total project costs required for undertaking MPI’s expansion, acquisition and green-field projects are estimated at about \$430.5 million. This is to be funded through a debt to equity ratio of approximately 70:30 with \$283.5 million in loans at a project level and \$147 million in equity, of which MPI is to contribute \$112 million and the other equity holders of the projects are to contribute the remaining \$35 million, as summarized below:

Sources of funds (\$ mill)	Uses of funds (\$ mill)	Total Equity	\$147	Committed Projects	Gross Capital Expenditure	\$398.7	
Subscription of MPI’s new shares	\$112	Of which the IFC Investment	\$25	Working Capital, EPC, Acquisitions	\$31.8	Equity from minority shareholders in MPI’s subsidiaries	\$35
		Total Debt (to be borrowed at a project level)	\$283.5	Total	\$430.5	Total	\$430.5



Private Actors Description

The group of financial investors in which IFC would participate is led by Saratoga Capital. Founded in 1998 by Messrs. Edwin Soeryadjaya and Sandiaga Uno, Saratoga is an investment management firm focused on Indonesia. Saratoga has invested about \$600 million to date in various industries. Saratoga Asia II raised funds primarily among institutional investors, including IFC. Saratoga's portfolio companies are valued in excess of \$ 2 billion and currently employ over 20,000 people.

The Soeryadjaya family was the founder of Astra International, a large Indonesian automotive manufacturer, and an IFC client in the 1990s. The family exited from Astra International in the late 1990s and has refocused its business activities into investment through Saratoga which is now among the best regarded investment firms in Indonesia.

Established in 1980 by Arifin Panigoro as a drilling company, MedcoEnergi is now an integrated oil & gas exploration company with operations in Indonesia as well as the United States, the Middle East, and North Africa. Listed on the Jakarta Stock Exchange (owned 50.7% by Encore Energy; 37.6% the public; and 11.7%, the treasury stock), MedcoEnergi reported \$929.9 million in revenues and \$222.5 million in EBITDA for FY2010.



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ACCOUNTABILITY MECHANISM OF IFC

The Compliance Advisor Ombudsman (CAO) is the independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an IFC or MIGA- financed project. If you submit a complaint to the CAO, they may assist you in resolving a dispute with the company and/or investigate to assess whether the IFC is following its own policies and procedures for preventing harm to people or the environment. If you want to submit a complaint electronically, you can email the CAO at CAO@worldbankgroup.org. You can learn more about the CAO and how to file a complaint at <http://www.cao-ombudsman.org/>