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Process of Privatization: International Initial Public Offering (IPO) of an Indonesian State-Owned Enterprise (SOE)

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Abstract

This paper describes process of privatization through international initial public offering (IPO) of an Indonesia State Owned Enterprice (SOE). The case referred to in this paper is PT Tambang Timah, an Indonesian Mining SOE, which previously suffered from fundamental change in the industry but was successfully turned around prior to its IPO. The discussion starts with the background on privatization of SOEs by highlighting the historical policies of Government toward SOEs, environmental changes leading to improving performance of SOEs, and IPO as an alternative to improving SOE's performance. It followed by a summary description of a successful turn-around and privatization of PT Tambang Timah as the case example. It concluded with some lessons learned from the process as well as the specific case.

Keywords: Initial public offering, PT Tambang Timah, mining

1. Introduction

This paper presentation is prepared as an address to distinguished audience, members of the Asian Organization of Supreme Audit Institutions. The organizing committee of the Seminar has asked me to present our experience in privatizing PT Tambang Timah, an Indonesian SOE under the Ministry of Mines & Energy, by highlighting both the macro as well as micro aspects of the process. Such an experience is unique, because the Company we are referring to would have been bankrupt if we didn't rescue for its survival, only then could we improve its performance and place its shares to the public. Issues of improving performance and privatization of State Owned Enterprises (SOEs) in Indonesia have only been a concern since the last two decades, partly due to the Government disappointment on the performance of its SOEs, as well as the impact of diminishing importance of oil revenues and their consequences. Such concern has been reinforced as we are approaching the third millennium, when open and free trades of the global economy becomes a reality.

2. Background to Privatization

2.1. State Owned Enterprises defined

The very existence of SOEs in Indonesia is often referred to the provisions outlined in paragraph 3 Article 33 of the 1945 Constitution which states that important branches of production to the country and those which command the necessity of the majority of the people shall be controlled by the state.

State Owned Enterprise (SOE) in Indonesia is defined as an enterprise whose capital is wholly owned by the State, or whose majority shares (i.e. more than 51%) is owned by the state, which can be a joint venture between State and Local Government, State and foreign companies, or the State and national private companies.

According to the objectives of their establishment, SOE are classified into companies that:

a. are pioneering and developing infrastructures
b. produces national defense and security goods
c. are established to implement certain government policy or strategy
d. are established with the object of securing the welfare of the people
e. should be owned and controlled by the State as a matter of law
f. undertake commercial function and which can be carried out by private sector.

2.2. Economic Justification for SOEs

The growth of the SOEs since late 1950s in Indonesia and elsewhere in the developing countries is attributable in part to the colonial experience during which a foreign administration directed the bulk of the economic activity. In the post independence years, state domination of the economy was accepted since this was the system to which the new government were accustomed. After independence there often remained a deep-seated suspicion of the motives of private sector stemming from foreign control of industrial and agricultural development.

The economic justification for public enterprise has been based largely on the notion of market failure in that under certain conditions the market produces suboptimal economic outcome such as low production and extremes of wealth and poverty. For example, so called "natural monopolies" providing electricity, communications, transport, water supply, and port facilities, were thought to offer classic cases of market failure that justified government intervention. In other cases, non-economic arguments about the weaknesses, foreign dominance, or incorrect ethnic composition of the indigenous private sector led many government to create large SOEs.

Government hoped that public enterprises would assist the development of "strategic" sectors, gain access to commercial credit that would be denied to small private businesses, fill the entrepreneurial gaps, empower numerically large but economically weak segment of the population, maintain employment levels, and raise the level of saving and investment. In other cases, the establishment of an SOE is intended to boost development of remote areas where infrastructure is still to be built.

2.3. Reason for Failure of the SOEs

Over more than three decades of national independence in the developing world, enterprises owned by the state have produced a staggering burden of subsidy costs for their government. SOE borrowing on the international market added substantially to the national debt. The growing number of state enterprise and their expansion into new fields of endeavor brought government to the realization that they had created a monster that could devour them.

The growing indebtedness of SOEs can be traced back to several sources:

- ❑ Governments were prone to use them for other purposes than originally designed, thus signaling conflicting objectives to the managers
- ❑ Inexperience management were unable to operate the business profitably, not only because some government policies were not conducive, but also because they often have to carry out their duty in other than economic objectives.
- ❑ Governments failed to develop effective means for monitoring the numbers and performance of SOEs.

2.4. Changes in the Economic Environment & Their Impacts

The conditions of SOEs may become even more deteriorated as globalization of the world economy is taking its impact, which triggered government initiatives to improve the performance of its SOEs if they are to be competitive in the new economic environment.

The challenges of the new world economic environment have been marked by two apparent trends. First is the completion of the Uruguay Round which has strengthened the General Agreement on Trade and Tariff (GATT) and put the World Trade Organization (WTO) in place with the objective of promoting freer trade. Second, there is a growing popularity of regional and sub-regional trade arrangement, such as NAFTA, European Union (EU), AFTA, and the APEC, which are in line with the fundamental GATT principle of non-discriminatory treatment and the creation of a trading systems based on multilateralism. These regional free trade areas appear as impetus to smoothen, broaden, and deepen international trade.

These trends have led government to adjust its macro economic, trades, and industrial policies so the national economic environment becomes more market oriented, deregulated and debureaucratized that will enable greater private sector initiatives and participation. This also means that SOEs' performance needs to be improved if they are to be competitive in an open market environment.

2.5. Approaches to Improve SOEs' Performance

Observe from various countries experiences with regard to SOEs reforms, we can see that there are several approaches to improve SOEs performance with different degrees of detachment from government ownership, funding, as well as control. These include Corporatization of SOEs, Private Sector Participation in SOEs, Public Private Partnership, and Privatization.

2.6. Privatization defined

It is apparent that privatization is only an element of wider economic policy reforms of deregulation and liberalization. In a broader sense, privatization means the *introduction of market forces into the economy.* In a specific term, however, privatization means *the transfer of commercially oriented SOEs' activities or assets to private ownerships and / or control, either wholly, majority, or minority.*

2.7. Techniques for Privatization

Various techniques for privatization include public offering of SOEs shares in the stock market, private placement of SOEs shares to selected investors, introducing new private investments in the SOEs, reorganization of diversified SOE into component parts, management and/or employee buyout, and leases & management contracts.

2.8. Motivation for Privatization

When it comes to the question of why government privatize, experiences of world wide privatization indicated a variety of motivations. Among others, are:

1. Growing awareness of the deficits created by mounting subsidy costs that may be reaching a crisis point
2. The view that privatization is a source of additional revenue for the Treasury from the sale of SOEs' assets
3. The view that profits from sales is a potential way to avoid, or reduce, a rise in tax rates
4. Privatization may reflect a genuine concern of Government to reduce the public sector or just a reluctant response to pressure asserted by external agencies
5. General dissatisfaction with the performance of the SOEs may be a force for change

Generally speaking, privatization is aimed at such different objectives as reducing the Government role in the economy, raising revenue for State, and introducing greater competition, while at the same time increasing efficiency, exposing firms to greater market discipline, raising investment capital for the industry or company being privatized, and promoting wider share ownership.

3. Privatization Trends in Indonesia

3.1. Legal Framework of Indonesian SOEs

SOEs have existed in Indonesia since before the independence. During the colonial era, SOEs in Indonesia were classified into two types; those established under the law on State Owned Enterprises called IBW (Indonesische Bedrijven Wet) and those established under Public Finance Law called ICW (indonesische Comptabiliteit Wet). The first type of SOE was directly supervised by Ministry of Finance and the budget had to be submitted to the Parliament for approval. Their function, like other business entity was to make profit -- that is a commercial function. The second type was more like state agencies because their main function was not to seek profit, but to serve the public.

After independence, a new type of SOE was introduced by virtue of Presidential Instruction No. 17 of 1967 with the name Perusahaan Perseroan or PERSERO, characterized as limited liability company incorporated under the Commercial Law which shares are wholly or majority owned by the Government. Law No. 9 of 1969 was enacted to describe and classify SOEs into three different forms, and the Government Regulations No.12 of 1969 was issued to regulate the transition of previous State Owned Enterprise under the IBW into Limited Liability type of SOE. To date, the majority of the Indonesian SOE refer to Government Regulation No. 3 of 1983 for its Supervision and Audit.

3.2. External Shocks and Macro Economic Adjustments

Mari Pangestu (1996) identified several distinct periods of Indonesian economic development since the beginning of the New Order under President Soeharto. The article analyses the changes in the role of Government in the economy through its macroeconomic policy, trade and industrial policy, and the ownership and Government Regulation. The following table provides a good summary of the changes in external environment during these periods and policy direction taken by the Government.

Table 1: Historical Summary of Government Policy Towards SOEs in Indonesia

Period	Change in External Environment	Macro Economic Policy	Trade & Industry Policy	Ownership & Govt, Regulation
1958-1965 Guided Economy		Instability, hyperinflation, forex control	Strongly inward looking	Nationalization, State domination, strict control of private & foreign investment
1967-1973 Rehabilitation & Stabilization		Stabilization: open capital account	Moderately outward looking (import substitution)	Liberalization of domestic & foreign investment, some rationalization of SOEs
1974-1981 Oil boom	Sharp increase in oil (1973 & 1979) & non-oil commodity prices	Maintain stability, some inflation, lack of sterilization of oil revenues	Growing inward looking (more import substitution)	Increasing investment in public & SOEs, restriction on dom & foreign invesment
1986-1988 First External Shock	Decline in oil commodity prices	Fiscal austerity,devaluation, tight money policy	Strongly inward proliferation of non tariff barriers	Continued reliance on SOEs & regulation of market economy
1986-1988 Second External Shock	Cont'd decline in oil & commodity prices, Yen appreciation	Devalution, tight money policy, balance budget	Shift to outward oriented economy	Deregulation, relaxation of investment regulation, reduce reliance on SOEs
1988-now Non-oil led recovery	Stable oil price & further decline in commodity prices	Maintain macro economic stability	Further shift to outward oriented economy	Deregulation extended, initial steps toward SOE reforms

Source: Marie Pangestu

It is interesting to note that the Government policy with regard to the role of the SOEs has been changing in line with external changes of the environment and its macro economic policy responses. During the early period of the New Order between 1967 to 1973, some rationalization of SOE started to take place, parallel with liberalization of domestic and foreign investment. Then came the periode of oil boom between 1973 to 1981, during which time there was a growing restriction on foreign and domestic investment, and the share of Government investment in the SOE was increasing.

The first external shock happened between 1982 to 1985 when oil price began to decline along with other commodity prices. Fiscal austerity, devaluation, and tight money policy characterized the Government policy during this period. The second external shock happened between 1986 to 1988 when oil price declined sharply and Government continued with tight monetary policy and further devaluation. During this period, industrial policy was shifted to outward orientation of non-oil export, promotion of foreign and domestic investment, and reducing reliance on SOEs.

The period from 1988 onward has been characterized with stable oil prices and further shift to outward looking economy. Various deregulation measures has been taken place since then, extended to investment, finance and other areas, and initial steps toward SOE reforms were taken.

3.3. Conditions of the SOEs 1987 - 1995

The role of SOEs in Indonesian economy has been significant. Their contribution to the GDP during 1987-1995 was around 12 - 16 percent, and the SOEs' profit in 1995 contributed 23,2% to the Government non-tax revenue in addition to their corporate income tax payment of nearly Rp. 2,3 Trillion. Unfortunately, the performance of the SOEs, as measured from their profitability, solvency, and liquidity, has not been satisfactory. The following chart shows that nearly half of the existing SOEs has been classified as either less sound or unsound between 1987 to 1995. Consequently, there is an urgent need to improve the efficiency and productivity of the SOEs, if they are expected to maintain their contribution to the economy and be competitive in the liberalized economic environment.

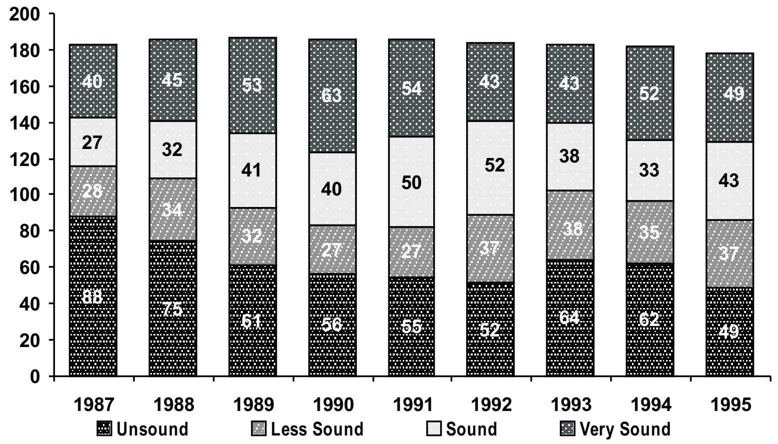

Figure 1. Numbers of Indonesian SOEs and Their Performance 1987-1995
Source: Miranda S. Gultom (1995); Mar'ie Muhammad (1996)

3.4. Principle of SOEs Restructuring

Policies regarding the effort to enhance the efficiency and productivity of State Owned Companies are stated in the Presidential Instruction No. 5/1988 and the Decree of Finance Minister No. 740/KMK.00/1989. Various forms of restructuring programs that can be carried out to strengthen the performance of State Owned Companies include as follows:

1. The change of legal status of an SOE to a more appropriate form,
2. Joint Operation and Management Contract to a third party,
3. Merger and Consolidation of SOEs,
4. Splitting a diversified SOE into many, more focused SOEs or legal entities,
5. Public offering of SOE shares to the capital market,
6. Direct placement of company's shares to the public,
7. The formation of Joint Venture company with State participation.

The application of each of the above technique depends on the soundness of the SOE's concern based on profitability, solvability, and liquidity criteria.

3.5. Government Policies on SOEs Reforms

In summary, following the Presidential Instruction Number 5/1988 a series of implementation policies were issued. Finance Minister Decree No. 740 / 1989 clarifies the soundness criteria and the restructuring techniques that can be applied to each soundness category. Finance Minister Decree No. 741 / 1989 requires SOE to have Long-term or Corporate Plan, Annual Plans and Budget, and the decision making authority.

Government Regulation No. 55 / 1990 was issued to adjust with the reguirement of publicly listed SOE to comply with Capital Market Regulations and to exempt them from some stringent rules for procurement, sale of assets, and so on. With the enactment of new laws on limited liability company and the capital market, we can expect that Government will further refine its policies toward reforms and privatization of SOEs.

4. Privatization of PT Timah: A Case Study

4.1. Background of the Company

Tin has been mined in Indonesia continuously for over than 200 years. The country has rich deposits of high grade tin ore, and for many years tin has produced significant foreign exchange to the country. Indonesia is one of the largest worldwide producers of tin. Traditional industrial countries have seen modest declines in tin consumption, while newly developing countries show modest increases. The 800-kilometer Indonesian Tin Belt is part of what is known as The South East Asia Tin Belt which expands from Thailand, through Malaysia, and into Indonesia. The tin deposits in Indonesia are found on the islands of Karimun, Kundur, Singkep, Bangka, Belitung, Karimata, the eastern part of Sumatra, and the western part of Kalimantan.

As long ago as 1709, history noted the discovery of tin deposits in the River Olim, near Toboali, Bangka. In 1711 the sultans of Palembang sent laborers to Bangka to start tin mining. Following the demise of the Dutch East India Company, in 1816 the Dutch East India Government took over the tin mining operations on Bangka Island, and managed them under the name of Bangka Tin Winning Bedrijf (BTW). The operations on Belitung Island were turned over to a Dutch private company called Gemeenschappelijke Mijnbouw Maatschappij Biliton (GMB). while the operations on Singkep Island were turned over to another Ducth private company called NV Singkep Tin Exploitatie Maatschappij (Sitem).

After the independence of the Republic of Indonesia, the three Dutch companies were nationalized between 1953-1958, although each remained under separate management. The three state-owned companies were later grouped together under the coordination of a BPU (State Tin Enterprise Coordinating Board) Timah. In 1968, the three companies were merged into one entity called PN Timah (PN being state-owned company). Each of the previous three companies became a business/mining unit, and remained largely independent of each other.

In 1976, PN Timah became PT Timah, this time with the addition of another business unit: the smelting division in Mentok. Although legally the four business units were under one single management, the system and culture of each unit had not been totally or successfully integrated. Each unit maintained its system and culture, which was distinctively different from the others.

4.2. The Tin Industry in the 1980s

In the 1920s the Dutch and British colonials -- who owned tin operations in Indonesia and Malaysia -- congregated in Bandung and started what was known The Bandoeng Pool. This was the first attempt to cartelize the tin industry. Since then, there have been many attempts to artificially fix the tin price -- that is: balancing supply and demand which in fact created false scarcity by building buffer stock, resulting in price hikes. The modern-day cartel, the International Tin Council (ITC), was founded in 1956 and collapsed in 1985. The collapse was the result of excessive stockpiling of tin which ITC could no longer afford. In 1982, ITC's buffer stock accumulated to 50,000 tonnes -- twice the annual production of Indonesia in that period.

Only 60% of the stock was financed by member countries. The rest was financed by commercial loan. ITC ignored the fact that the skyrocketing price of tin had sparked the advent of new technologies to substitute or minimize the use of tin. Among others, there were Substitution and Miniaturization. On the supply side, the world also witnessed the emergence of new producers: such as Brazil and China. These new players enjoyed the benefits of low-cost production, making the market more competitive. The resultant supply pressure contributed to the collapse of the ITC and a decline in price to US$ 6,200 in 1986. The price has never been fully recovered, and in 1991 reached its historic low point of around US$ 5,200 during a period of general recession in the major industrialized countries.

4.3. The State of PT Timah in the 1980s

Tin has been significant export earner for Indonesia historically and in 1980 was the largest non-oil source of foreign exchange. It has declined significantly with the fall in price and is now ranked the fifth. PT Tambang Timah (Persero), a wholly owned state company, is the primary holder of tin mining rights in Indonesia. Except for the rights assigned to PT Koba Tin, a joint venture between Timah and the RGC of Australia, and other small producers, all known tin reserve are controlled by Timah.

Timah, which historically had been profitable, was not well prepared for the market decline in the mid 1980's. For the 1990, it made a net loss. This loss, controlled in 1991, can be traced to a number of source. *First* is the Company's historic mission as an organ of national development. The level of employment and overhead and services maintained was based on the level of revenue achievable rather than strictly on the needs of the business operation.

The *second* source of its financial performance problems was a rigid organization and decision making structure. *Third*, and perhaps most importantly, the Company had a very large number of employees and provided them with a full range of social and economic benefits. Timah, the Government of Indonesia, and the World Bank have recognized and studied this history.

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The main problems were:

1. Continued low tin price
2. Obsolete main and supporting production equipment
3. Bureaucratic Management
4. Low Productivity, low efficiency, and overstaffing
5. Poor Management Information and Accounting Systems
6. Heavy burden of non-core functions, e.g. Guest Houses, Hospitals, Schools, TV Relay Stations, etc.

4.4. Diagnosis of the Problems

Diagnosis of the problems revealed that if "the business as usual" scenario had been adopted to continue Timah's operations by maintaining its Headquarters in Jakarta, retaining all its 25,000 employees, keeping all of the dredging and inland operations which required a capital expenditure of Rp 150 billion per annum to maintain the operation, then Timah would not have been able to sustain operating losses of Rp 70 billion per annum without requiring Government subsidies to the tune of Rp 420 billion in five years. A fundamental change was therefore needed. It was a *'change or die'* situation!

4.5. Key Findings of the Restructuring Study

During this crisis situation, a World Bank Mission was commissioned to help Management and Government understand the situation and formulate strategies for changes. Arthur Andersen & Co., an international consulting firm, was then commissioned by PT Timah with the funding from World Bank loan to help undertake detailed study for Timah restructuring. Key findings of the restructuring study recommended that:

- ❑ A successful financial and mining operation restructuring of Timah can be achieved.
- ❑ Profitability can be achieved during the first or second year of the restructuring programs.
- ❑ Timah can be a low cost tin producer, competitive by world standards.
- ❑ The restructuring programs will require a major labor retrenchment of approximately 14,000 people (by 1996) of the current 24,000 people.
- ❑ The restructuring programs must be implemented immediately (commencing 1992).
- ❑ Major contributions by way of taxes, dividends, and royalties will accrue to the government.
- ❑ Timah will contribute significant foreign exchange earning to the country.
- ❑ Timah can be a future candidate for public or private share placement.

4.6. The Cost of Inactions

The study also recommended that the restructuring would cost Rp 113 billion of funding, which needed to be paid by the Government as the sole shareholder. With Rp 113 billion in place, PT Timah should be able to make between Rp 20 - 50 billion in operating profit per annum, or an accumulated figure of Rp 245 billion in five years. Capital expenditures would need to be kept at Rp 45 - 55 billions a year. However, if restructuring *was not* to take place, PT Timah would suffer continuing losses, Government would have to shoulder further losses of around Rp 60-80 billions per year, and yet the light at the end of the tunnel would still not be in sight.

4.7. Restructuring objectives and programs

The restructuring aimed at becoming a modern company, highly competitive, with a strong work ethos and a new corporate culture. Technically speaking, the restructuring was aimed at:

- ❑ increasing productivity from 0.9 ton/per year/per man, to 4.5 ton per man per year
- ❑ increasing technical efficiency from below 50%, to around 85-90%
- ❑ lowering operating cost to US$4,500 per ton, which was then revised to US$ 4,000 as the tin price hitted the lowest level in history on September 1993.

4.8. The Restructuring Programs of 1991 - 1995

The complete restructuring of PT Timah consisted of four programs, i.e.:

1. Reorganization, so that the new organization would be simple, lean, effective, and re-oriented or re-focused to mining operations
2. Relocation of PT Timah headquarters from Jakarta to Pangkalpinang to reduce cost and to bring the decision-making unit closer to operation bases
3. Reconstruction and repair of major production facilities to improve technical efficiency
4. Divestment of all non-productive assets. For instance, the hospitals were relinquished to the Ministry of Health, schools were turned over to the Ministry of Education. We have sold PT Timah headquarters in Jakarta. Guest houses were handed over to our cooperatives to be run and managed as public guest houses.

Like in many reforms which require fundamental change, good programs will not go anywhere unless there is consent from the external power and support from the internal forces. The new management did a splendid job in getting support from within the company. At the same time, the new management was also able to obtain consent from the Minister of Mines and Energy, Minister of Finance, and most importantly from the President of the Republic of Indonesia.

The Ministry of Finance agreed to foot the cost of the restructuring programs, a total of Rp 151.33 billions, mainly to pay for outstanding loans and severance pay for employees, plus approximately Rp. 4,5 Billion funding for restructuring study by the World Bank.

4.9. Financial Restructuring

In line with the business reorganization, the company also undertook financial restructuring, which included quasi-reorganization, rebuilding its accounting and financial systems and policies, and renovation of its Management Information Systems.

Quasi-reorganization basically is balance-sheet restructuring, which comply with prevailing Indonesian GAAP. The strategies included:

- ❑ the elimination of deficits in retained earnings,
- ❑ revaluation of assets, since most assets were lower than book-value,
- ❑ start afresh with zero retained earnings, and
- ❑ reconstituted capital structure.

The net impact of Quasi-Reorganization on the company overall capitalization was a reduction of paid-up capital from Rp 300 billion to Rp 120 billion, eventhough Government injected fresh capital participation to finance the restructuring. Successful implementation of these strategies precluded the need to declare legal bankruptcy. Rebuilding of accounting systems and revamping of financial policies were undertaken in conjunction with the restructuring implementation programs.

Renovation of the Management Information Systems was started in 1992, utilizing modern information technology of computer and communications systems applications. Today, each of the operational locations of PT Timah has been interconnected with Local Area Networks (LAN), and all location are, in turn, interconnected through a Wide Area Network (WAN). Voice and data are transmitted by VSAT, microwave, modem, as well as radio trunking systems.
The implementation of modern MIS enables the Company to take management, business, and operational decisions immediately and accurately.

4.10. The Bottomline

The restructuring programs, which was undertaken during 1991-1995, has been successfully implemented and has resulted in significant improvement in the Company's performance. Reorganization has flattened the organization structure. From the previous 8 layers, these are now only 4 layers between the Directors and the Field Supervisors. Thanks to modern MIS, the Management is now able to respond quickly to any changes in the market as well as in the production field. MIS has also shortened the time to complete the Annual Financial Report and the Audit Report. In 1989, it took 22 months to have the Audit Report completed, and still the Company received 6 qualifications. The 1995 Audit Report was completed in 24 calendar days, with no qualifications.

Within the same period of time, PT Timah has been able to dramatically increase production and sales. Mine production has been nearly doubled from 22,790 tonnes of tin ores in 1990 to 38,829 tonnes in 1995. Smelting output has increased from 26,295 tonnes of tin metal in 1990 to now 37,416 tonnes in 1995, while the sale of tin metal has increased from 25,870 tonnes to 36,401 tonnes in the same period. With drastic reduction in the total number of employees from 25,046 in 1990 to 5,630 at end of 1995, Timah's productivity has also improved dramatically, from 0.91 ton per man per year to 6.9 tonnes per man per year in 1995.

In line with the findings of the World Bank's Study, Timah's profitability has been achieved since 1992, the first year of the restructuring programs. This was due to the successful cost reduction program, which brought down the delivered cost per tonne from over US$ 6,000 in 1991 to around US$ 4,300 in 1995, while at the same time the tin price has never been fully recovered from its US$ 6,000 level.

These achievements has placed Timah at its best competitive position as a fully integrated tin company with activities from exploration all the way to marketing; the world's largest tin producing company; producing and marketing the highest purity tin metal; and as one of the lowest tin producer in the world. With its improved performance and primier competitive position, Timah successfully went public through initial public offering (IPO) of its shares.

5. Discussion

5.1. Successful International IPO

Timah shares were listed on the Jakarta, Surabaya, and London Stock Exchanges on October 1995, after a full six month of preparation. The IPO itself was regarded as a high profile transaction. It is the first Indonesian Company to be listed on the London Stock Exchange. It was also a litmus for Telkom listing on the London Stock Exchange.

During the IPO, 25% of Timah's after IPO shares owned by the Government was divested, and the Government received a net of US$ 154,6 Million IPO proceed. Timah was also raising a fresh fund from new issue of 10% of after IPO shares, and the company received a net proceed of Rp. 140,5 Billion. Timah's market capitalization at the IPO was US$ 640 Million, reflecting nearly three times of the book value.

5.2. Why Should Timah Go Public?

From the Government point of view, the objectives of public offering of SOE are:

- ❑ to raise fund from the divestment of Government's shares in the SOE and to use the proceed to reduce high interest bearing Government's foreign loans,
- ❑ to finance development of technology, and research & development for the future,
- ❑ to improve the Country's image through successful privatization of the best Indonesian SOEs,
- ❑ to improve SOE productivity, efficiency, and profitability through market discipline, and
- ❑ to contribute to the development of Indonesian capital market by broadening investors' opportunities to invest in the best Indonesian SOEs.

While from the Company's perspectives, its objectives of going public are:

- ❑ to recoup Government's investment in the Company's restructuring programs through realization of the company's value,
- ❑ to maintain the result of the Company's restructuring by exposing the company's management to a broader shareholders' base as a publicly listed company,
- ❑ to raise fund to finance the expansion programs of its tin business to maintain its competitiveness & leadership, and
- ❑ to access capital market for future financing of its growth strategy & diversification.

5.3. IPO Process

Going public simply means taking the company's shares to the general public for the first time through a process which is known as initial public offering, so that after IPO the former shareholder(s) would sacrifice part or all of its shares as well as control over the company in return for fresh fund accrued either to former shareholder(s) or the company.

This accompanying chart shows you a simplified process of IPO, which is basically a process of disclosure through audits, due diligence, valuation, as well as marketing / promotion. We don't need to do them all ourselves, but instead are assisted by various professionals and institutions.

Chart 2: Simplified Diagram of an IPO Process

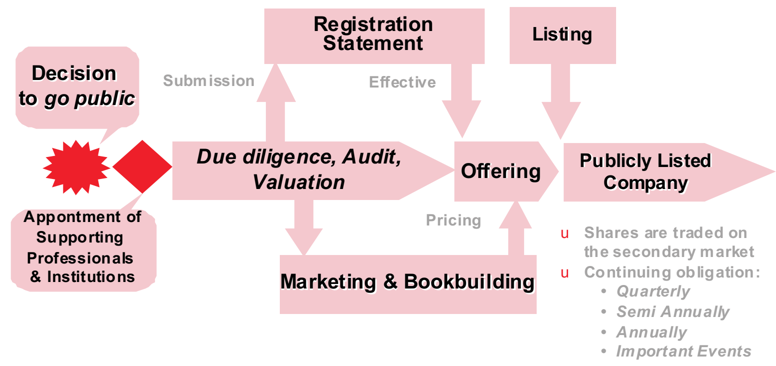

Figure 2. Simplified Diagram of an IPO Process

IPO preparations can be very demanding on management time. Early in the process, Timah formed a small internal IPO working team specifically for liaising with the teams of investment banks, lawyers, accountants, appraisal experts, PR consultants which are required for the process. This team was responsible for the day to day running of the IPO preparations, drawing upon support from the Directors when necessary. This is Timah's way of maintaining focus on business during a very disruptive, but important period.

5.4. Floatation Time Table

Time schedule for an IPO process is very tight. The time between the Company's receiving approval from Minister of Finance to go public on April 10, 1995 and the actual listing date took only six month. Half of the time available was used as a preparation period of audits, due diligence, and valuation to produce a document called registration statement to be submitted to the Capital Market Supervisory Agency (Bapepam). Only after the document was submitted to Bapepam can the Company start its marketing activities of its shares.

The most interesting part of the marketing activities is known as public expose or roadshow, events where the company introduces itself to the public as potential investors or shareholders. This is the time when the Company has a chance to present its business activities, environments, and performances to attract the interest of the public to subscribe its shares. The IPO process is closed at the date of listing, when the company's shares start to be traded on the secondary market and the fund from the IPO proceed is transferred to the company's and / or issuing shareholders accounts.

5.5. Offering Size & Listing

As I have mentioned before, 35% of the company shares after IPO was offered, which consisted of 25% Government divestment offered internationally in the form of Global Depository Receipt, and 10% new issue offered domestically. You may ask why should Timah be listed on the London Stock Exchange ? Why not New York, or somewhere else. There are both general and specific reasons which are conducive to successful flotation. London is Europe's leading financial center, and one of the world's largest investment centers. Over twice as many international companies have chosen to list their securities on the London Stock Exchange than on any other financial centers, including New York. There is more than twice the volume of international equities trading in the LSE than on any other Exchange. LSE provides access to the largest pool of international equity capital in the world. London also has a strong mining focus. Most of the major mining companies are listed on LSE, including RTZ/CRA, the largest mining company in the world. London is home to the London Metals Exchange, the single most important metals market for base metal trading. For these reasons, Timah selected the LSE and the Company has been pleased with the results so far.

5.6. Syndicate Structure

Although all supporting professionals and institutions are important during the IPO process, the syndicate of Investment Bankers, especially the Global Coordinator as well as Lead Managers, play a central role of coordinating the whole process. Through a transparent and objective process of selection, Government awarded the mandate to Barclays de Zoed Wedd (BZW) to act as Global Coordinator as well as Lead Manager for international offering, while the Company appointed Niaga Securities and Pentasena Securities as Joint Lead Manager for domestic offering. The syndicate structure for the international offering consisted of a Lead Manager, two Co-Lead Managers, three Senior Co-Managers, and 8 Co-Managers, while the domestic syndicate consisted of 2 Joint Lead Managers, 26 Underwriters, and 119 Selling Agents.

5.7. Major Selling Points

Selling shares of a Company at a value is not an easy task. We have to find bold selling points which can differentiate this particular Company from the others. Thanks to the company success in restructuring and its unique position in the market that made the selling of Timah's share attractive.

Timah is a company with unique exposure to tin; it is a dominant producer of tin, and it is one of the lowest producer of tin. In addition, Timah has also formulate its strategy to diversify its business in line with its competence. These factors have made Timah a good story that attracted investors' interest. During our discussions with potential investors, Timah found that some investors were able to give very useful insight / comments on the Company's operations, market environment and future directions. We did not expect the level of two way communications which developed as the roadshow progresses.

5.8. Marketing Challenges

However the challenge was still there in the industry as well as the capital market. At the industry level, Timah faces a volatile price of tin as other base metal producers do. No comparable companies as unique as Timah made benchmarking for the company's market ratios difficult. And, although there are huge potential investors specializing in resource sector, only a small number of them were following tin. The capital market has also complicated the marketing effort. There were several large IPO at the same time competing for the same financial resources. The Jakarta Stock Exchange was also volatile during the period.

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5.9. Pricing

When it came to the pricing decisions of the issue, several factors had been considered. During the marketing period, it was indicated that the IPO price of Timah shares ranged between Rp. 2.450 to Rp. 2.900 per share. There were strong international demand for Timah's shares, the subscription was nearly four fold of the offer size. But the domestic response was cool, which might be attributed to investors' less understanding of the industry or the market expectation of the following larger and better known offer of Telkom shares a month later.Finally, the Government decided to set the price at the top of the range, i.e. Rp. 2.900 per share or US$ 12.73 per GDR represented by 10 shares.

6. Conclusion

It was believed that the successful restructuring of Timah is attributed to the following:

- ❑ First, there were clear objectives, both quantitatively and qualitatively.
- ❑ Second, the restructuring program was supported by all stakeholder, not only both the Ministry of Mines & Energy and the Ministry of Finance, but most importantly was blessed by President Soeharto. Without these, we would not have got anywhere.
- ❑ Third, not only we were able to drastically change the structure and orientation of the Company, we also managed to cultivate new attitudes, values, and company culture, and developed new management systems.
- ❑ Fourth, the restructuring programs involved all employees, from the top level down to the lowest level. Not a single person was untouched or left without participation. And lastly, conflicts were only a natural cause from this massive operation. But, all conflicts and potential conflicts were quickly localized and contained. *Fundamental restructuring has increased the value of the company and improved the company's competitive position in the tin market, and finally has helped the Company's successful international IPO.*

Now, what lesson can we learn from the IPO process of Timah. There are several things that can be noted:

- ❑ First, an IPO is only a start of another change, i.e. becoming an open publicly listed company. So, don't despair.
- ❑ Second, you can never do enough in preparation. So, be prepared as soon as a company is considering of going public, because different exchanges have different rules, and audit of resource companies is tricky. There have to be consistent material information content between the financial, legal, as well as operational audit reports.
- ❑ Third, in order to have better position in front of the investment bankers, you are advised to prepare your owned business model. Otherwise, you will only have to depend on other parties' advises.
- ❑ Fourth, have a good story and a solid business plan. This will help you achieve long term success. And finally, be transparent and candid in your communication with potential investors by always keeping the market informed. Most investors are extremely interested in management, and investors do hold the power during the process as well as thereafter.

The last thing I would like to mention is the advantage of being a publicly listed company, especially from the point of view of a privatized SOE:

- ❑ Privatization through IPO has created better image and enhanced profile of the Company in the eyes of the public.
- ❑ The company has also the advantage of knowing its "market value", which may become a better measure of management performance as well as a better tool for its financing practices.
- ❑ Becoming a publicly listed SOE makes its management more accountable through better and simpler decision making process.
- ❑ International IPO has also improved the Country's image in the international arena, since Government will only allow its best SOE to be privatized and listed internationally.
- ❑ To the Company, IPO is a means for better access to public for future financing when the Company needs them for further expansion and growth.
- ❑ Finally, a privatized SOE can expect less management intervention from the Government, while still enjoy Government support as majority shareholder.

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