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ABSTRACT

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MERGERS AND ACQUISITIONS OF INDONESIAN OIL AND GAS RESERVES - INSIGHTS FROM A LOOKBACK ON THIRTY FIVE YEARS OF TRANSACTIONS.

A database of transactions involving Indonesian oil and gas reserves has been developed and maintained since the early 1990's and further populated with transactions back to the beginning of the PSC era in 1961.

Data sources include industry interviews and databases, company annual reports, stock exchange releases, takeover documents, and a lot of personal research by the author. The result is a unique historical record of thirty-five years of activity during which time 12.4 billion BOE of risked reserves and 5.8 billion BOE's of proved developed and producing reserves changed hands.

Recorded to the end of 2002, are 162 deals involving 234 assets which changed hands for US$ 19.4 billion in money of the day terms. 87% of the cumulative nominal deal value was transacted since 1998.

Included with each transaction are records of the type of transaction, oil and gas reserves, development and production status and the characteristics of the acquirer. Importantly, each transaction (to the end of 1998) has been analyzed to quantify, within the constraints of available information, the value creation or destruction accruing to the acquirer and seller.

The paper reviews trends in M&A activity, in terms of annual activity, aggregate value and volumes, liquidity and price trends. The paper then identifies some of the possible global and local drivers of activity and also explores factors driving price trends such as competition, finding costs and market sentiment.

M&A activity in Indonesia peaked in value terms during the 1998 global industry consolidation however 2002 turned out to be one of the most active years ever in terms of number of deals, assets and BOE changing hands

The lookback on value creation and destruction through M&A to the end of 1998 is reviewed along with the key drivers teased out from the analysis. The risk and return characteristics of the different transaction types are also analyzed to deliver strategic insight and identify key success and failure factors.

Key insights include the observation that value creation through acquisitions is a lower risk growth strategy than exploration however the size of the reward is certainly much lower. Multi asset corporate deals created the most value and on average had the highest historical success rate and were demonstrably lower risk as measured by the volatility of returns. Just as portfolio theory suggests however, the tradeoff in asset diversification was in the probability in achieving upside value. Overall, a fairly efficient market is observed with higher returns associated with higher risks.

The analysis also quantifies historic risk and reward for operators versus non-operators and new entrants versus existing participants and concludes that while new entrants were not disadvantaged, operating was important.