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Indonesia's Indika to Expand Coal-Mining Capacity

By
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JAKARTA, Indonesia—Coal miner PT Indika Energy will expand capacity at least 25% in the next three years to meet the growing demand for fuel in expanding Asian economies, the company's chief executive said.

Indika plans to boost the capacity of the mines it controls through PT Kideco Jaya Angung to 50 million metric tons in the next two to three years from 40 million tons, said Arsjad Rasjid, Indika's CEO and president director. The company hopes to lift capacity at least in part through acquisition.

The Jakarta-based company, which had revenue of around $440 million last year, is seeking to keep up with rising demand for thermal coal to fuel the power plants of India, China and in Indonesia. Indika is Indonesia's third-largest coal miner, behind PT Adaro Energy and PT Bumi Resources.

"There is always growth, it is only the places of growth that change," Mr. Rasjid said in an interview Tuesday. "I believe the cheapest kind of energy will continue to be coal, so even as prices change, the demand will still be there."

Indika's strategy is the latest example of plans to develop Indonesia's vast natural resources. The ability to cash in on the commodities boom is crucial to sustaining Indonesia's economic expansion and creating jobs in the world's fourth-most populated nation, after China, India and the U.S.

PT Nomura Indonesia last week predicted that coal prices will climb 40% next year as global supply fails to keep up with rising demand in Asia. "We expect demand from China and India to remain structurally strong, and Australia and South Africa to continue to face capacity constraints," said Isnaputra Iskandar, a Nomura analyst. "In addition, Indonesia's strong domestic coal demand may put more pressure on global coal supply."

Indika, which exports about 20% of its coal to India and 10% to China, isn't concerned that the biggest importers of Indonesian coal are attempting to cut out the middleman and invest directly in their Indonesian mines. India's Essar Group of Cos. this week said it was looking into buying two coal-bed methane blocks. The company submitted a bid for one coal bed and is conducting a joint study for the other, K.B. Trivedi, president director of PT Essar Indonesia said Monday. Essar Group, which has broad interests, including steel and telecommunications in India, bought coal mines in Indonesia last year with mineable reserves of 64 million tons.

Indika will focus its acquisition efforts on little-known and struggling coal companies to avoid the competitive pressures and high prices that come with interest from international competitors, Mr. Rasjid said.

"The attention of the world is on Indonesia, so it is going to be more of a challenge" to find good deals, he said. "People look at all the big ones and we will look at all the small and medium companies. We look at the spoiled children and the naughty children."

He said that with more than $400 million on its balance sheet, the company has the war chest for acquisitions. The company will have no trouble raising money on capital markets or by selling stakes in some of its companies, he said. Indika last month said it plans to sell up to a 30% stake in PT Petrosea, its coal-mine construction and logistics arm.

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