

Hilmi Panigoro, president director of Medco Energi Internasional.



INDONESIA'S 50 RICHEST

Hilmi Panigoro has diversified Medco into mining and renewables while continuing to expand in oil and gas as well—and moving ahead after a personal loss.

THE PROFILE

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FOR FORBES ASIA

HILMI PANIGORO

July was a significant month for **Hilmi Panigoro,** president director of Jakarta-based Medco Energi Internasional,

known for its oil and gas operations. That month saw the IPO of copper-and-gold miner Amman Mineral Internasional on Indonesia's stock exchange, which at \$10.7 trillion rupiah (\$710 million) was the largest IPO in the country this year.

Medco owns 21% of Amman, a stake that has helped broaden the company out of its base in fossil fuels. Add to the mix its expansion into renewable energy, with projects in geothermal and solar, and Medco today is a vastly different company from its roots, emerging as a diversified homegrown energy and mining powerhouse in Southeast Asia, with operations in nine countries.

Panigoro, 68, says he wants to drive Medco to expand even more, either organically or through acquisitions. "The bigger we are, the thirstier we become," he says in an interview in the penthouse on the 55th floor of The Energy, a skyscraper that his family partly owns and located in the heart of one of Jakarta's main business districts.

The company's track record gives a clue to its transformation—since 2017, Medco has spent \$2.3 billion on four major acquisitions. Just as importantly, in the same period it has jettisoned businesses that weren't core to the growth strategy, such as an investment in water dis-

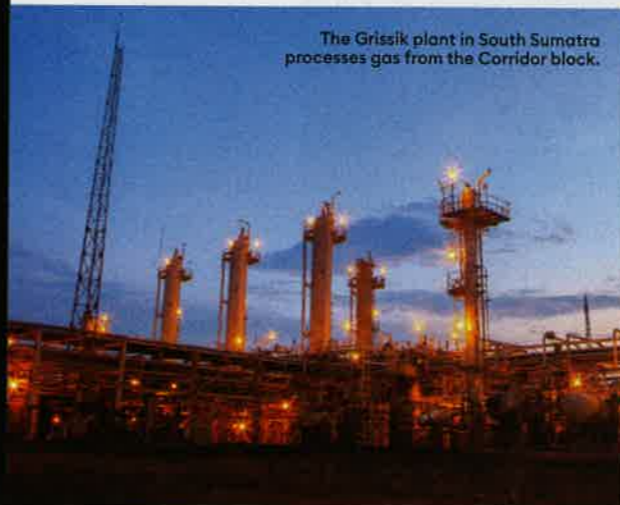
tribution. Between 2020 and 2022, the company's return on assets moved from negative 3% to 8%, return on equity from negative 16% to 30%, while the debt to equity ratio has dropped from 2.3 to 1.8. While oil and gas still hold the lion's share of revenues, at about 95% last year, the investment in Amman was 47% of the profits for company last year. Without going into specifics, Panigoro vows to dramatically boost revenues from non-oil-and-gas sources.

While Panigoro has held his current post for 16 years, he has had to cope with running the company without the support of his older brother Arifin, the company's founder, who died in February 2022. Speaking openly, Panigoro says: "In the first months after he passed away, it was difficult for me to hide my deep feelings of sadness and loss every time I attended a family event or company event. But his enthusiasm during his lifetime has become a continuous mandate and motivation for me to keep growing the company." Yet he admits: "To be honest, I still miss him."

When he died, Arifin was a member of Medco's board of advisors, but his role at the company was much bigger. Panigoro says Arifin was Medco's "strategic visionary." Arifin built Medco alone in the early days after founding

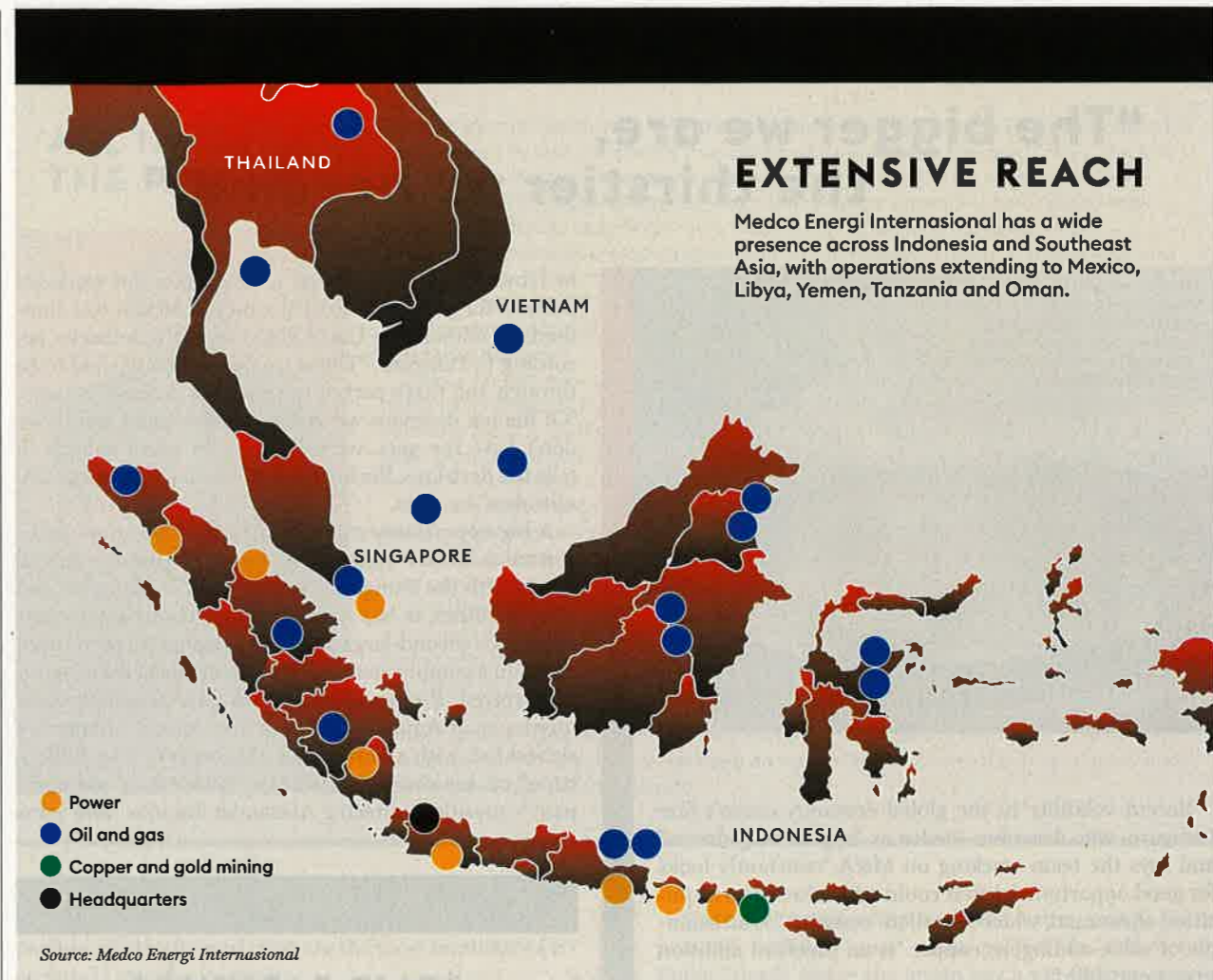


Medco Power Indonesia is part of a group that runs Sarulla Operations, which has a geothermal power plant in Sumatra.



The Grissik plant in South Sumatra processes gas from the Corridor block.

COURTESY OF MEDCO ENERGI INTERNASIONAL



the company, then called Meta Epsi Pribumi Drilling Co., in 1980. Panigoro joined a decade later, as he explains: "Arifin specifically asked me, because my background was working in foreign companies, to [join the company and] build a structured and resilient organization." The two then worked at Medco together for 32 years. Since his brother's death, Panigoro says he has had to assume Arifin's strategic role as well as continuing to have a full-time job managing the day-to-day operations.

Among other issues, Panigoro has had to cope with the company's most recent financials, just released for the first nine months of 2023, that reflect some unexpected setbacks and market cycle fluctuations. Net profit for the period was \$242 million, down 39% from \$401 million for the same period last year, while revenues were \$1.7 billion, down 5% from a year ago. The company blamed the declines on lower oil and gas prices as well as flooding issues at Amman that hurt production.

While the full-year 2023 results may underwhelm investors, they are coming in the wake of stellar results achieved in 2022. Last year, Medco more than doubled its Ebitda to \$1.6 billion from \$667 million the previous year, as the company had record oil and gas production boosted by the 2022 acquisition from ConocoPhillips

Indonesia of the Corridor gas block in Sumatra—the second-largest gas producer in Indonesia—and supported by favorable global gas prices.

Medco's net profit, meanwhile, jumped 11-fold to \$531 million from \$47 million last year, boosted by the \$253 million in profit contributed by Amman. On the island of Sumbawa, Amman operates Batu Hijau mine and the Elang concession, Indonesia's second-largest copper and gold mine after Freeport Indonesia's Grasberg in Papua and one of the largest in the world with 17 billion pounds of copper reserve and 23 million ounces of gold reserve.

While off its peak of around 1,600 rupiah set last September, the company's stock now hovers around 1,000 rupiah in late November, or roughly double its price from December 2021. Medco's stock price gains and other factors have put Panigoro on this year's Indonesia's 50 Richest list for the first time with a net worth of \$2.8 billion, shared with Arifin's family. And analysts remain fairly upbeat about the company's prospects. A recent DBS report says Medco shares could hit 2,000 rupiah by October 2024.

"The bigger we are, the thirstier we become."



Amman Mineral Nusa Tenggara (formerly Newmont Nusa Tenggara) operates Batu Hijau copper and gold mine in Sumbawa, West Nusa Tenggara.

Recent volatility in the global economy doesn't faze Panigoro, who describes Medco as "opportunity driven" and says the team working on M&A "constantly looks for good opportunities that could add value." The acquisition of Amman, which he called "complex," is an example of value-adding, as copper "is an excellent addition to our portfolio."

At the start of Medco's expansion into oil and gas, Panigoro also knew that Medco needed good talent to grow. His former employer Huffco Oil & Gas (now Vico Indonesia), was about to buy Tesoro, a small oil company in Kalimantan. "It never happened because the production was small, but it had lots of employees. I told Arifin, 'Why don't we take it, we need the people to develop the business. It's a strategic acquisition, not about the oil, but the people capable of building a company,'" says Panigoro.

To become a producer in the 1990s, the brothers began by spending \$11 million, most of it funded internally, to buy Tesoro's exploration and production contracts in East Kalimantan. Then these were merged with the driller to become Medco Energi Internasional. Proceeds from its 1994 IPO went to acquire Stanvac Indonesia from Exxon and Mobil Oil in 1995. Stanvac operates the Rimau Block in South Sumatra, where, in 1996, Medco discovered large oil and gas reserves. Following those opportunities were ones that let the company expand abroad and enter the renewable energy business.

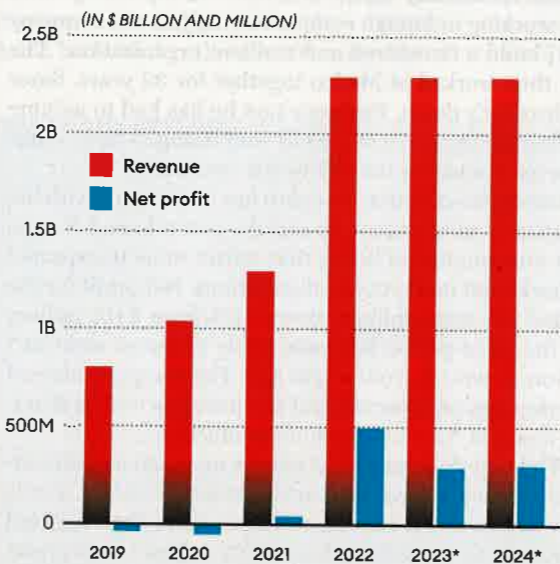
Not every endeavor proved a moneymaker. In 1997, the year the Asian financial crisis erupted, Medco bought concessions in Kazakhstan and Turkmenistan that didn't work out, selling them a year later. Another stumble came

in Libya, where Medco won a concession but work got delayed for years due to civil conflict. Medco lost hundreds of millions (in U.S. dollars) from the setbacks, according to Panigoro. "There are things that we had to go through and that's part of the business process," he says. "Of the ten decisions we made, a couple went bad. If we don't have the guts, we will never be brave enough to take the decisions. We learned our lessons from those two mistakes," he adds.

A big opportunity came in 2016 from Indonesian investment banker Agoes Projosasmito when he joined forces with the Panigoros, whom he calls his "wine and cigar" buddies, to buy Amman, which controls the operator of the second-largest gold and copper mine in Indonesia, in a complicated deal. It was a pivotal decision for all involved. Projosasmito, who is now president commissioner of Amman, this year also joined Indonesia's richest list, with an estimated net worth of \$5.4 billion, based on his shares in Amman, followed by the company's president director Alexander Ramlie, who joins

SOLID EARNINGS

Medco Energi Internasional revenue has nearly tripled from the 2019 level.



*Forecast
Source: Medco Energi Internasional and RHB Sekuritas Indonesia

COURTESY OF MEDCO ENERGI INTERNASIONAL

ALL IN THE FAMILY



Arifin Panigoro

Since its start in 1980 in oil drilling, the company now called Medco Energi Internasional has been run by and completely associated with Indonesia's Panigoro family. The only two bosses in Medco's 43 years have been founder Arifin and his younger brother, president director Hilmi. Oil rigs built by a then-Medco subsidiary were named after women in the family including Arifin's mother, wife and granddaughter.

Hilmi, who has a bachelor's degree from the Bandung Institute of Technology and a master's from the Colorado School of Mines, isn't giving any thought to stepping down just yet. Asked if he has considered retiring, he replies: "As part of the controlling shareholder family, I will never retire, since I will always be involved in major corporate actions."

Hilmi says he's very comfortable if Medco is eventually led by someone whose last name isn't Panigoro. He says that his three children and Arifin's two aren't interested in joining Medco. "Arifin and I have a principle that Medco needs to be managed by good people who are highly competent," he says. "If our family members were interested, that's great, but it's not necessary. The main criteria is competency."

He adds that Medco has a nomination and remuneration committee that regularly reviews the company's succession planning. "All senior management members, including professionals from outside the company, are possible candidates to be the next president director," he says.

As is typical of many Indonesian firms, the highest position on the board of directors is the president director followed by the CEO, who for Medco is Roberto Lorato, an Italian who has worked in Indonesia's oil patch for more than two decades. Supervising the board of directors is the board of commissioners, led by Hilmi's sister Yani Panigoro, who is president commissioner, while Arifin's son Yaser Panigoro is a commissioner and former attorney general for Indonesia Marsillam Simanjuntak is an independent commissioner. Arifin's wife, Raisis, has been an advisor to the board of commissioners since September 2022. —Gloria Haraito

with a \$2.5 billion net worth. "When seeking a business partner, chemistry and trust are the most important [elements]," says Projosasmito.

The proceeds of Amman's IPO will mainly be used for a copper smelter targeted to commence production next year, expand its ore-processing plant, and build a gas-powered power plant. The smelter will annually produce 220,000 tonnes of copper cathode with 99.99% purity and 830,000 tonnes of sulphuric acid."

Alberto Migliucci, CEO of Singapore-based consultancy Petra Commodities, says Amman has a good production history and good cash flows. "Gold and copper are sexy at the moment. Electrical vehicles (EV) need approximately four times more copper than conventional vehicles, which is quite a lot. So your demand is going to go four times up just on the EV uptake," he says. Also, according to Panigoro, Amman has a government-issued contract of work on the Sumbawa concession until 2030, which he looks to renew for another 20 years.

Before going into mining, Medco started working in renewables. Beginning in 2013 after signing the world's largest single-contract geothermal power project in Sarulla, North Sumatra, the company, through its subsidiary Medco Power Indonesia, now owns and operates power plants with a gross capacity of over 3,100 megawatts (MW) in Indonesia.

MUNSHIAHMED FOR FORBES

Medco, in partnership with the Salim group, has a planned 600MW solar plant project on Indonesia's Bulan Island, where the group has a pig farm to supply pork to nearby Singapore. The plant, which has other partners, is expected to start operations in 2028 and will export electricity to Singapore. As for the power and renewables, Panigoro aims to jack up the capacity nationwide to 5,000MW. He'd also like to take Medco Power public within the next five years.

While mining and renewables are the future drivers of growth, Panigoro still plans to expand its core fossil fuels business. He vows to double oil and gas production over the next five years from the 163,000 barrels of oil equivalent per day that Medco had in 2022.

Medco will still seek opportunities to acquire concessions like Corridor, which would significantly boost its reserve and production. "When it comes to the energy transition, the bottom line is electrification. The world's demand of copper will continue to increase while it takes a long time to develop the mines," Panigoro says.

While electric battery power will increasingly replace combustion engines over the long term, oil and gas for now still have a future for their use in petrochemicals, and traditional demand such as for power plants, aviation, maritime and automotive during the transition to electric power. As he puts it: "For the next three decades, oil and gas will still play a crucial role in the world, especially in Asia." 📌