

Investor Briefing | Concern about DBS' role as financial advisor in Jawa 9 and 10 | 23 June 2020

Dear Sir or Madam:

This briefing is to call investors' attention to DBS' role as the financial advisor for the proposed new Jawa 9 and 10 coal power plant in Indonesia.^[1] This project is sponsored by two Indonesian companies, Perusahaan Listrik Negara (PLN) (state-owned) and Barito Pacific (publicly listed), and proposed to be constructed by Korea's Doosan Heavy Industries.

There are serious concerns around the financial viability and necessity of this project. It will pollute the air in surrounding areas and beyond, and affect the lives and livelihoods of local communities.

Development of this coal power plant will also risk global chances to achieve the climate goals of the Paris Agreement, directly contradicting DBS' commitment on climate.

We understand financial close for this project has been slated for 2020. **We urge investors to raise this project with DBS as soon as possible.**

Additional air pollution for uncalled for electricity

Jawa 9 and 10 coal power plant has been proposed to be built in Banten Province, about 100 kilometres from Jakarta, Indonesia. Currently, there are 22 plants operating in Jakarta and the surrounding area, with a further 52 coal power projects in the neighbouring Banten province. Reports have highlighted the horrendous air pollution and associated respiratory and skin diseases affecting the local population.^[2] Modelling of health impacts have estimated that Jawa 9 and 10 will cause over **4,700 premature deaths** over its operating lifetime.^[3]

Given the possibility that most of the produced electricity by Jawa 9 and 10 may not be used, these additional harms would be especially egregious. PLN'S CEO states that due to COVID-19 slowdown, Indonesia's electricity demand may fall by 9.7%.^[4] The

Jawa-Bali grid, where the proposed Jawa 9 and 10 coal power plant project is located, is projected to be oversupplied by up to 41.5% in 2020,^[5] creating a high likelihood that electricity from Jawa 9 and 10 will also remain unutilised. PLN's poor financial health remains a critical issue and its 2019 profit, before the COVID-19 slowdown, had already fallen 63% due to high operational costs. These factors create a significant risk that PLN could postpone new coal power plants.

High risk of financial exposure

In the 2nd pre-feasibility study, the Korean Development Institute (KDI) pointed out that Jawa 9 and 10 showed a 'grey zone' score of 0.549 and a negative profitability assessment. The project is valued at **negative USD 43.58 million**.

Doosan Heavy Industries, the Engineering Procurement and Construction (EPC) contractor for the project, has been exhibiting signs of financial ill-health. From 2010 to 2019, the company's credit rating fell from A+ to BBB, and its share price fell 93%, from KRW 78,000 to around KRW 5,000.^[6] According to the International Energy Agency's World Energy Investment 2019 report, investment decisions for coal power declined by 80% in the last decade.^[7] Nevertheless, Doosan Heavy has continued to rely on coal power plant equipment for 70 to 80% of its revenue.

Korea Development Bank and Export-Import Bank of Korea bailed out Doosan Heavy with a loan worth approximately USD 825 million purportedly as part of the COVID-19 recovery.^[8] However, as noted above, Doosan Heavy's financial crisis predated the COVID-19 crisis. Nevertheless, the bailout package is insufficient to meet Doosan Heavy's needs, as it has an additional USD 2 billion in debt and bond issuances that become due at the end of this year.

The financial distress and potential collapse of Doosan Heavy would make it difficult to guarantee Jawa 9 and 10's delivery, which could shift much of that risk to other parties in the transaction - including financial

advisors of the project. No investor connected to this project should allow it to proceed without a thorough assessment of the state of Doosan Heavy's financial state.

Contradiction with DBS' commitment to the environment

DBS' "Approach to Financing New Coal Power Plants" commits DBS to be out of new coal power by 2021. However, DBS supporting a coal power plant today would lock Indonesia into using coal past 2045, when experts say the world needs to be completely out of coal by 2040 to ensure a safe climate.^[9] This raises significant reputational risks for DBS, throwing the integrity of its coal power commitments into question.

We understand Jawa 9 and 10 has not reached financial close. **We urge investors to raise these financial, environmental and social concerns with DBS and encourage the company to avoid Jawa 9 and 10 and other coal power plant projects, by August 2020 before Jawa 9 and 10 reached financial close.**

We would appreciate the opportunity to further discuss our concerns. You can contact us at binbin.mariana@marketforces.org.au.



Binbin Mariana
Southeast Asia Energy Finance Analyst
MARKET FORCES

Twitter: @Market_Forces

[Website](#) [Facebook](#)

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[1] As stated on the Indo Raya Tenaga website:

<https://www.irt.co.id/project-consultants/>.

[2] Shashank Bengali, LA Times, 'China, Japan and South Korea, while vowing to go green at home, promote coal abroad', (13 May 2019), online:

<https://www.latimes.com/world/asia/la-fg-indonesia-south-korea-coal-energy-finance-20190513-story.html>.

[3] Greenpeace, Health Impacts of Units 9 10 of the Jawa Coal-Fired Power Plant in Banten, (November 2019) online:

<https://www.marketforces.org.au/wp-content/uploads/2019/12/Korean-Jawa-9-10-Health-Impacts-compressed.pdf>.

[4] Reuters, Indonesian utility PLN cuts revenue target, seeks to delay debt payments, (22 April 2020), online:

<https://www.reuters.com/article/indonesia-electricity/update-1-indonesian-utility-pln-cuts-revenue-target-seeks-to-delay-debt-payments-idUSL3N2CA2HT>.

[5] Reuters, Indonesia's PLN "burdened" by electricity oversupply-official, (5 March 2020), online:

<https://www.reuters.com/article/indonesia-electricity-idAFL4N2AY2AO>.

[6] Mongabay, Green groups target South Korea's bailout of coal powerplant builder, (10 April 2020),

online: <https://news.mongabay.com/2020/04/south-korea-doosan-heavy-coal-power-bailout-covid19-indonesia/>.

[7] International Energy Agency, World Energy Investment, 2019 , (May 2019), online:

<https://www.iea.org/reports/world-energy-investment-2019>.

[8] Mongabay, Green groups target South Korea's bailout of coal powerplant builder, (10 April 2020),

online: <https://news.mongabay.com/2020/04/south-korea-doosan-heavy-coal-power-bailout-covid19-indonesia/>.

[9] *Climate Analytics*, Coal Phase Out, online:
<https://climateanalytics.org/briefings/coal-phase-out/>.

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