

Is the Borneo Palm Oil Plantation Company Categorized in Investment Grade?

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ABSTRACT

This study aims to identify which oil palm plantations in the Kalimantan region are currently entering the replanting stage and which are rated as "investment grade" by Moody's. It also aims to determine how to invest in oil palm plantations that are currently classified as "investment grade" and/or can raise the notch rating through Moody's. Using a case study methodology, this research is qualitative in nature. Purposive sampling was used in this study's participant selection process, and secondary data sources were used to gather data. Moody's rating analysis is the type of data analysis used in this study. To obtain values for the historical ratio assessment and balance sheet factor variables, a spreading assessment of the company's financial statements for the previous three years is conducted. Additionally, an assessment of the industry/market, company, and management variables is conducted, with data for these variables coming from both internal and external companies. financial reports as well as sales reports, annual reports, legality of production reports, and other supporting documentation. Following input and comprehensive study, an assessment of "B1" with a risk category of "Medium Risk" is the result. Plantation enterprises in Kalimantan that engage in replanting are therefore categorized as investment grade or suitable for investment. Some adjustments must be made for the investment level to either minimally rise or fall into the "Low Risk" category to draw in investors

INTRODUCTION

Purba and Sipayung (2017) state that the palm oil industry plays a crucial role in the Indonesian economy as the country's biggest source of foreign exchange earnings, employment, energy sovereignty, and the engine of the national economy. Palm oil is one of the plantation investment activities that are dispersed throughout the province, with Sumatra and Kalimantan hosting the majority of them. The dispersion of investments across Indonesia demonstrates the significance of the plantation subsector for the advancement of development (Rachmat et al., 1995).

Sumatra and Kalimantan are the two primary Indonesian islands that are home to palm oil plantations. These two palm oil islands are home to around 90% of Indonesia's palm oil plants. According to Imaningsih et. al., (2022), investments in Sumatra's palm oil fields should strengthen the local economy while also preserving the environment and appreciating the wisdom of the locals. Saratian and Arief (2018) assert that social and environmental concerns are just as significant as the triple bottom line idea when it comes to company operations. According to Abdullah et al. (2017), businesses that prioritize the green economy are more sustainable in the long run.

According to data from the Ministry of Environment and Forestry (2018), 125.9 million hectares, or 63.7% of Indonesia's total land area, were covered by forests in April 2018. The agriculture sector is one of the two major producers of GDP after the processing industry, with data from the Ministry of Industry (2018) indicating that it contributed approximately 13.96% of GDP in the third quarter of 2017. Indonesia is the world's largest exporter of palm oil, and palm oil is the product of plantations there. According to GAPKI data (2018), 38.17 million tonnes of crude palm oil (CPO) and 3.05 million tonnes of palm kernel oil (PKO) were produced in 2017, bringing the total amount of palm oil produced in Indonesia to 41.98 million tonnes. Derivatives from palm oil contribute significantly to exports and are among the main sources of wealth for the nation, according to Tuk.or.id (2017).

Originating from palm oil kernels from the Bogor Botanical Gardens, it is well-known that the palm oil plantations in Kalimantan are the oldest gardens in Indonesia. This indicates that Sumatra's palm oil farms are among Indonesia's oldest. Numerous palm oil trees in Sumatra are between 20 and 25 years old, according to news cited from Pertanian.go.id (2020), so they need to be rejuvenated and replanted. Many issues plague palm oil plantations as they approach replanting, such as the use of careless seeds that reduce output, a lack of collaboration between businesses and farmers, and delayed replanting (Bisnis.com, 2019). According to kompas.com (2009), Kalimantan's smallholder palm oil plantations' productivity has started to drop recently. The aging plants' age is the cause of this problem.

The primary issue in palm oil farms, according to Lubis and Lubis (2018), is the reduction in plant production on plants older than 22 years old, as these plants have already outlived the maximum average productivity age for palm oil. However, the Coordinating Minister, Airlangga, stated in the news article on cnbcindonesia.com (2020) that replanting palm oil is crucial to promoting

Indonesia's energy fulfillment through B30, B40, or Green Refinery. The B40 distillation program is anticipated to begin operations in 2022, while the B30 program will be finished by the end of 2020 and 2021. In the meanwhile, efforts to create the Green Refinery (also known as green diesel, or D100) can be pushed for completion in 2026.

Furthermore, the Kalimantan region continues to be a top attraction for investors, particularly in the fields of agriculture and plantations. The New Capital City (IKNB) in Kalimantan has the potential to draw more investment in the future, according to *Bisnis.com* (2021). The region's wealth of natural resources can be made use of. According to Azhar Lubis, Deputy for Investment Control and Implementation of BKPM, equitable distribution of investment development is encouraged outside of Java, particularly in natural resource-based processing industries like agriculture and plantations that process palm oil into cosmetics and pharmaceuticals. At present, Kalimantan still has a great deal of untapped investment potential.

Although the production of palm oil is perceived as a way to support economic growth, the reduction of poverty, and the development of livelihoods through associated jobs and pay the major beneficiaries will remain important actors in the industry in the absence of sound planning and integrated policy. Saratian and Arief (2018) suggest that the growth of oil palm farms is inextricably linked to bank- and investor-financed palm oil investments. Despite the high potential for investment in Kalimantan's palm oil sector, investors and/or the government still require an initial evaluation to guarantee that oil palm plantations achieve investment-grade status through rating assessments. This is particularly important for land conditions that are currently undergoing replanting, where productivity and fertility have declined.

Afrizawati (2011) states that the addition of Indonesia to the investment grade is anticipated to advance global economic growth and attract both foreign and domestic investment. To make informed judgments, businesses and investors need to continue exercising caution when it comes to rating adjustments (Darmesti, 2014). Azanil et al. (2015) state that the higher the rating, the more likely it is that the organization will be able to meet its deadlines. On the other hand, a company's rating indicates how likely default and/or return on investment are. Rating agencies typically assign ratings. One of the most crucial factors in investing is rating since it indicates whether a business may obtain capital through the issue of bonds or loans from banks. One of the things that can influence the course of an investment is a change in rating. It turns out that a high rating affects a lot of things. For instance, it may promote a rise in foreign direct investment (FDI) as well as indirect investment. For instance, an indirect investment is made in the money or capital markets. Mardaconsita and Soelton (2018) assert that a company's rating level is influenced by its profitability ratio.

A rating is a uniform evaluation of a nation or business's capacity to settle its debts. A company's rating can be compared to other companies' ratings to determine whether one is more capable. Azanil et al. (2015) state that the higher the rating, the more likely it is that the organization will be able to meet its deadlines. On the other hand, a company's rating indicates how likely default and/or return on investment are. Rating agencies typically assign ratings. One of the most crucial factors in investing is rating since it indicates whether a business may obtain capital through the issue of bonds or loans from banks. One of the things that can influence the course of an investment is a change in rating. It turns out that a high rating affects a lot of things. For instance, it may promote a rise in foreign direct investment (FDI) as well as indirect investment. For instance, an indirect investment is made in the money or capital markets. Generally speaking, before making decisions on investments in particular nations and especially regarding particular investment vehicles, investors will look for information. This is done to determine the level of risk that must be assumed and the level of projected return on investment that will be provided in exchange for that risk. As per Amran (2016), a company's rating level is influenced by its profitability ratio. According to Christine and Elizabeth (2017), the company's grade is also impacted by the current ratio, return on assets, debt to equity ratio, and total asset turnover. However, prior study on Moody's Rating in the oil palm plantation sector, particularly in Indonesia's Kalimantan region, has not been published in any scholarly journals.

Generally, before making decisions on investments in particular nations and especially regarding particular investment vehicles, investors will look for information. This is done to determine the level of risk that must be assumed and the level of projected return on investment that will be provided in exchange for that risk. According to earlier research by Saratian et al. (2020), oil palm farms in Papua received a "B2" investment feasibility rating with a "Medium Risk" risk category. The company is therefore categorized as "investment grade," or practicable for investment; nevertheless, because of its B2 score, which places it in the lowest investment grade category, improvements are required to raise the company's rating and draw in investors. In a prior study by Saratian et al. (2021), oil palm replanting plantations in Sumatra were the subject of an assessment that resulted in a "Ba3" investment feasibility rating with a "Medium Risk" risk category. According to the previously mentioned research, moody's rating in the oil palm plantation business (replanting), particularly in the Kalimantan Region, has not been the subject of any specialized research. Because oil palm plantations are a leading industry and, practically speaking, financial management requires an investment grading assessment to attract and maintain investor confidence, particularly in replanting oil palm plantation companies, future research is planned to be conducted in oil palm plantation companies spread across the Indonesian islands. The results of this study are also expected to contribute to the body of knowledge in the area of corporate financial management, particularly about investment grade and Moody's rating.

LITERATURE REVIEW

Ratio

Numerous financial parameters, including activity, solvency, liquidity, and profitability ratios. The ratio known as the liquidity ratio illustrates how well a business can pay off its immediate debt. Stated differently, the liquidity ratio functions as a gauge for the degree of the firm's capacity to settle its short-term debt that is scheduled to mature shortly (Hery, 2015). In addition to being used to evaluate and assess the company's short-term financial status, Munawir (2002) states that this ratio is also highly beneficial for managers in assessing the effectiveness of working capital utilization. The ratio used to gauge how much of an asset's financing comes from debt is called the leverage ratio or solvency ratio. The solvency ratio, also known as the leverage ratio, is a ratio that quantifies how much debt is utilized to finance assets. Put differently, the solvency ratio is a metric that assesses the amount of debt that a business needs to pay for its assets (Hery, 2015).

Balance Sheet

Companies utilize financial statements as a means of informing interested parties about financial data that is obtained through the accounting process (Hery, 2015). The four main sections of a financial report are typically the cash flow report, the balance sheet, the profit and loss statement, and the reporting on changes in capital. The company's total assets, debt, and equity for a certain period are listed on the balance sheet. The term "profit and loss" refers to the earnings and outlays for the business in a given time frame. The flow of money coming into and going out over a specific period as a result of financing, investing, and operating operations is called cash flow. The source, usage, and changes in capital that the business experienced within a specific period are also included in the report on changes in capital. These reports are typically intended to inform interested parties about corporate activity or financial data.

Industry/Market

According to Sukirno (1995), an industry is a group of businesses that create identical or extremely similar commodities that are sold in a market. Industries can be generally classified into two categories: industries that produce commodities and industries that produce services. The macro definition of industry encompasses all sectors that have the potential to create added value. A group of businesses that can create uniform goods or closely replace one another is referred to as the micro industry (Hasibuan, 1994).

Company

In general, a firm is an association of individuals who work together to manage and process labor and raw materials to create goods and services that are sold to clients. A company's primary goals are to increase shareholder profits and ensure stakeholders' well-being (Triyani & Saratian, 2021).

Warren et al. (2017) define the firm as an establishment that processes and manages labor and raw materials to create goods and services (output) for consumers. The bulk of businesses want to maximize their revenues. The difference between the amount spent on procuring the resources needed to produce the goods and services and the amount earned from customers for those

goods and services is known as profit. From a business process perspective, there are three categories of firms that run to turn a profit: manufacturing companies, trade companies, and service companies.

Management

Man, money, method, machines, materials, and market are the six management factors that make up the six Ms. The art of managing something that needs to be done by others is called management. Hasibuan (2013) defines management as the science and art of controlling how human resources and other resources are used to accomplish a certain task effectively and efficiently. Human resources and company management are strongly intertwined. Human resources are people who can work for a firm, claims Madura (2011). By employing their physical skills, such as working in a factory to make a product, management can help with production. Ideally, management should be able to contribute by suggesting modifications to the production process or inspiring other employees. Zaharuddin (2006) states that although there are many different kinds of management, there are just two that are relevant to business exploration: small business scale management and large business scale management.

Moody's Rating

Prior research on Moody's Rating from various industries is cited to bolster and validate the findings of this investigation. The findings of a review of multiple earlier studies about Moody's Rating are presented in the following table.

According to Genc and Basar (2019), the MOORA approach and the credit score provided by the three major credit rating agencies are used in the comparison of the outcomes achieved by rating countries on key macroeconomic variables. The second is assessing the three primary CRA outcomes' estimates by macroeconomic indicators to see how optimistic or pessimistic they are. According to the findings of Fererhofer's (2017) study, family businesses outperform credit rating scores in terms of profitability, leverage structure, and liquidity development. There is no discernible difference between family and NFF other than corporate size.

Krichene and Khoufi (2016) assert that businesses with big blockholders and tiny boards typically aim for lower rankings. Additionally, we observe that companies typically undertake decisions to offset departures from their desired rating points. Tang et al. (2018) conducted experiments that revealed that the client's position has a significant impact on the participant's credit rating. This effect was found to be independent of the company's risk profile or investor base sophistication. Additionally, we discovered that the objectives of the participants' briefings were impacted by the client's position and that these briefings significantly predicted the credit rating.

According to White (2010), anyone debating credit rating agencies in public policy should ask themselves the following question: Is it in the best interests of regulated financial institutions and financial parties, as well as the interests of regulated financial institutions and the financial markets more broadly, for one regulatory system to transfer significant safety assessments of bonds to another regulatory system that does the same? How much will more comprehensive regulation of rating agencies be able to force them to make better

decisions now so they can make better decisions later? How far do these rules restrict freedom of movement, creativity, and access to the bond information market? If financial regulators are in charge of the bond portfolio's security, can financial institutions be trusted to look for information on bonds' trustworthiness on their own?

An empirical application that included a review of the credit ratings of businesses from the three main credit rating agencies—Moody's, Fitch, and Standard & Poor—was reported by Hirk et al. (2018). The suggested approach is demonstrated through the collection and analysis of company-level and share price data for publicly traded US corporations, as well as an unbalanced issuer's credit rating panel. According to Joffe et al. (2012), the credit crisis in nations with relatively high incomes proved disastrous. The credit rating sector in China: the stage of rating development and future reform requirements (Bian, 2015).

Following the 2008 financial crisis, the nation's credit rating received significant and warranted criticism (Ozturk, 2015). According to Gaillard's (2009) research, three factors account for 80% of the sub-government rankings: GDP per capita, the history of sovereign issuer defaults, and the ratio of net direct debt to local government operational revenue. According to research by Saratian et al. (2020), Papua's palm oil plantations have an investment feasibility rating of "B2" and fall under the risk category of "Medium Risk." With a B2 score, the company falls into the lowest investment grade category, making it difficult to attract investors despite being categorized as "investment grade" or suitable for investment. Therefore, improvements are required to raise the company's grading.

Saratian et al. (2021); Saratian (2023) said the outcomes are represented as an investment rating of "Ba3" in the "Medium Risk" risk category. Replanting plantations are therefore categorized as investment grade or suitable for investment. To attract investors, the investment grade needs to either improve to the point where it falls into the "Low Risk" category or move up into a higher category altogether.

According to the previously mentioned research, no research has explicitly examined Moody's rating about the palm oil plantation industry (replanting), particularly in the Kalimantan Region. Therefore, it is hoped that the findings of this study will contribute to the body of knowledge in the financial sector, particularly concerning Moody's ratings and investment grade. Naturally, this can be accomplished with effective collaboration between scholars, practitioners, plantation owners, and institutions that handle palm oil. The community's role as stakeholders in the sector itself is also important.

METHODOLOGY

This study combines a case study methodology with a qualitative research approach. Sarwono (2013) states that constructionism, symbolic interaction, and phenomenological theory form the foundation of qualitative research. Among the buzzwords used in qualitative research are people, interaction, process, understanding, and complexity. In qualitative research, the research process is emphasized. Finding the truth about the phenomenon in the idealized environment of the inquiry is another goal of qualitative research. A case study, according to Rahardjo (2017), is a set of scientific activities regarding a program, event, and activity that are conducted intensively, in detail, and in-depth, either at the person, group, institutional, or organizational levels to obtain comprehensive knowledge about the event. The researcher's goal in this instance is to determine whether investments in oil palm plantations and processing in Kalimantan fall into the "investment grade" or "non-investment grade" category according to Moody's rating analysis. Additionally, the researcher wants to determine how to invest in oil palm plantations and processing in Kalimantan to place it in the "investment grade" category and/or raise the rating notch.

Purposive sampling is the method used in this study, whereby the sample is chosen based on the researcher's subjective judgment of what will best yield the needed data (Ferdinand, 2014). One Kalimantan palm oil farm and processing business serve as the study's sample. The company was chosen as the subject of the study because it was fully legal, had permits, was already in operation, had a sizable group garden landbank (more than 100,000 hectares), and had processing plant facilities with a 60 tons per hour capacity. Secondary data sources provided the information gathered for this investigation. The company's Jakarta headquarters provided the data. Financial reports, legal documentation, production reports, sales reports, annual reports, and other supporting data – both internal and external – are sources of secondary data.

Haningsih et al. (2014); Arief et al. (2023) state that for investors to make judgments, they need access to financial, non-financial, and strategic information. To obtain values for historical ratio assessment variables and balance sheet factors, data processing involves evaluating the company's financial statements for the previous three years using mood rating analysis (MRA). Additionally, an assessment of the company, management, industry, and market variables is conducted. The following are the variables, dimensions, and indicators used in this study:

Table 1. Variable, Dimension and Indicator

Variabel	Dimensi	Indikator
Historical Ratio Assessment	Operations	PBT / Total Assets
		PBT / Net Sales
		PBT / Tangible Net Worth
		Sales growth
		GPM
		NOP Margin
		Breakeven Sales Realization
	Debt Service	Earning Coverage
		Cash Flow Coverage
		Trade Payable Days
	Liquidity	Account Receivable Days
		Quick Ratio
		Inventory Days
	Capital Structure	Debt / Tangible Net Worth
Borrowed Funds / EBITDA		
Borrowed Funds / Effective TNW		
Balance Sheet Factors	Liquidity	Inventory Valuation
		Accounts Receivable Risk
		Debt Repayment
	Capital Structure	Owner Support
		Intrinsic Full Value of Intangibles
Industry / Market	Industry	Industry Type
		Market Condition
	Market	Customer Power
		Diversification of Products
		Competitive Position
Company		Years in Relationship
		Business Stage
		Quality Management
		Supplier Power
		Credit History
		Conduct of Account
Management		Experince in Industry
		Financial Reporting and Formal Planning
		Risk Management
		Openness
		Risk Appetite
		Management Style and Structure

The initial phase of the research process involved gathering secondary data from several sources, including financial records, production reports, sales reports, yearly reports, and other internal and external supporting data. After that, analyze the data using MRA's evaluation of the company's financial statements over the previous three years to determine values for balance sheet and historical ratio assessment variables. You can also evaluate industry/market, company, and management variables. Each of these factors will have a score, and

together they will result in a rating that can be categorized as investment grade or not.

Financial statements for the previous three years will be distributed across the study object to conduct the historical ratio assessment and balance sheet factors variables. Subsequently, an industry/market variable check will be conducted by identifying the industry type, market conditions, customer power, product diversification, and competitive position. Years in relationship (company with creditors/investors), business stage, quality management, supplier power, credit history, and account behavior will all be taken into consideration when evaluating the variable company. After that, the management variable is evaluated by looking at things like financial reporting, formal planning, industry experience, risk management, openness, risk appetite, and management style and structure. The investment feasibility rating is the result that will be generated following the completion of the complete analysis. According to Moody's standards, the investment feasibility is broken down as follows:

Table 2. Moody's Rating Grade

Moody's Rating Grade		Score Minimum	Average PD (%) in Master Scale	Kategori Risk Area
1	Aa1	--	0,01%	Low Risk Area
2	Aa2	--	0,03%	
3	Aa3	--	0,04%	
4	A1	--	0,06%	
5	A2	77,646	0,10%	
6	A3	76,581	0,14%	
7	Baa1	73,952	0,18%	
8	Baa2	70,233	0,21%	
9	Baa3	67,446	0,30%	
10	Ba1	64,193	0,41%	Medium Risk Area
11	Ba2	61,866	0,62%	
12	Ba3	58,545	1,00%	
13	B1	55,293	1,47%	
14	B2	51,137	2,62%	High Risk Area
15	B3	48,036	4,70%	
16	Caa1	41,399	7,90%	
17	Caa2	38,278	14,51%	
18	Caa3	37,557	24,66%	
19	Ca1	35,850	46,60%	
20	Ca2	0,000	81,49%	
Default	C	N.A	100.00%	

Aa1 to B2 ratings indicate that an investment is deemed reasonable or falls into the investment grade category. Investment grade with low risk is represented by the green indication, and investment grade with moderate risk is represented by the yellow one. The ratings ranging from B3 to C are categorized as high risk and non-investment grade. Following data processing by Moody's Rating Analysis (MRA), the research result is graded, and it is thus known that

replanting palm oil plantation and processing enterprises in Kalimantan are classified as either non-investment grade or investment grade.

RESEARCH RESULT

Following the completion of all input and analysis, an investment feasibility grade of B1 with a risk category of "Medium Risk" was the result. As a result, a Kalimantan plantation company that engages in replanting is categorized as investment grade or suitable for investment. To attract investors, the investment grade needs to either improve to the point where it falls into the "Low Risk" category or move up into a higher category altogether.

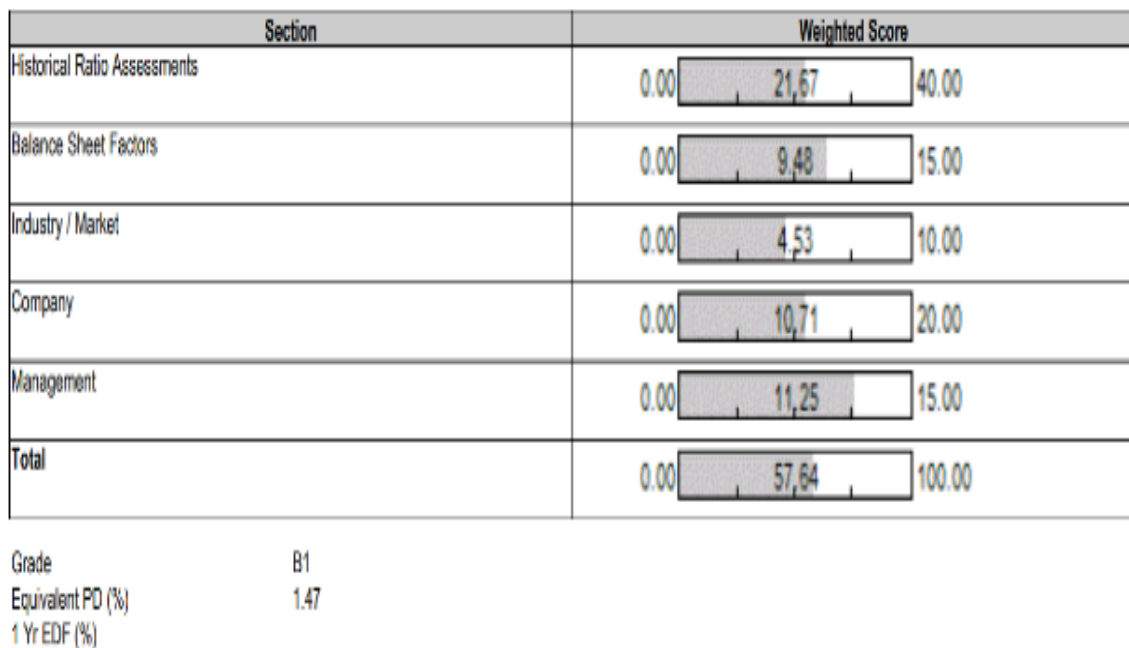


Figure 1. Data Processed by Moody's Rating

DISCUSSION

Furthermore, some steps must be taken to keep the business in the investment grade category or perhaps raise it to a higher rating. The following actions are recommended for the business: It is recommended that companies replant their plantations while adhering to the principles of sustainable plantation concept to strengthen their bargaining position. These two factors are related to industry and market variables. The value of the Historical Ratio Assessment and the Balance Sheet Factor will improve when the market price of CPO and PK increases. Additionally, the business is recognized to have RSPO accreditation, which needs to be upheld. (d) The business also needs to be able to provide appropriate work plans and reports for the management variable. Furthermore, the corporation is subject to a covenant obligation that involves reporting to creditors.

CONCLUSIONS AND RECOMMENDATIONS

Investment grade or investible status is assigned to Kalimantan's Replanting Palm Oil Plantation Company. To attract investors, the investment grade needs to either improve to the point where it falls into the "Low Risk" category or move up into a higher category altogether.

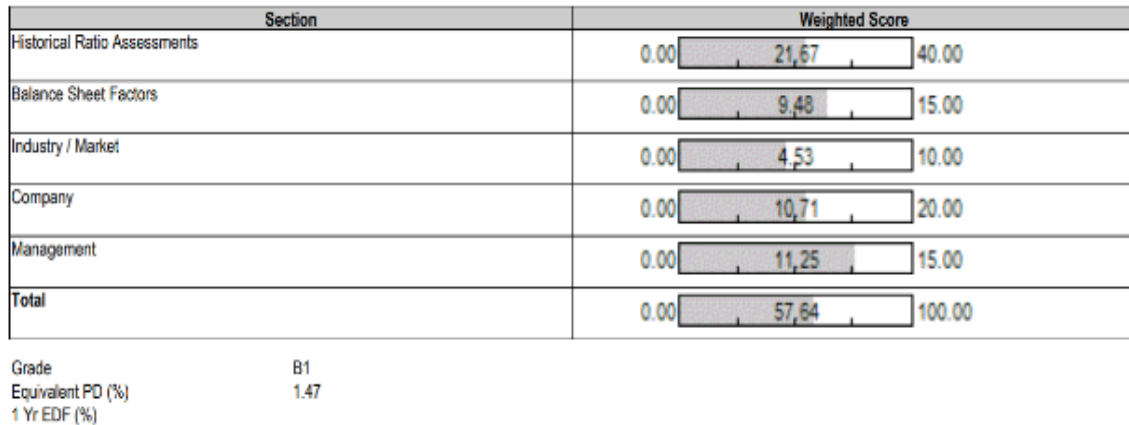


Figure 2. Data Processed by Moody's Rating

Based on the study's findings, palm oil plantation companies in Kalimantan that are replanting must improve in several areas. These include: a) The value of the Historical Ratio Assessment and the Balance Sheet Factor will increase when the market price of CPO and PK increases; b) Companies should diversify their customer base in industry/market variables to strengthen their bargaining position; and c) It is recommended that companies replant their plantations while adhering to the principles of the sustainable plantation concept. Furthermore, the business is recognized to have RSPO accreditation, which needs to be upheld. (d) The business also needs to be able to provide appropriate work plans and reports for the management variable. Furthermore, the corporation is obligated under the covenant to provide reports to its creditors, which may include but are not restricted to financial, sales, and quarterly production reports. It is advised that future researchers focus on the business actions that need to be taken and perform research on a larger sample coverage.

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