



# Valuation Analysis of Combined Company Value Through Acquisition Process: Case Study of PT Vale Indonesia Tbk and PT Kapuas Prima Coal Tbk

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**Abstrak**– Studi ini bertujuan untuk menganalisis penilaian nilai perusahaan gabungan melalui model valuasi & strukturisasi M&A. Perhitungan keuangan yang dipertimbangkan dalam analisis ini adalah data yang bersumber dari laporan posisi keuangan, laporan laba rugi, dan laporan arus kas selama tiga tahun terakhir pada PT Vale Indonesia Tbk dan PT Kapuas Prima Coal Tbk sebagai studi kasus dalam artikel ini. Pengambilan data untuk penelitian ini diperoleh dari situs web IDX yang menyediakan data saham historis. Penelitian ini dilakukan untuk mengidentifikasi kelayakan akuisisi PT Kapuas Prima Coal Tbk oleh PT Vale Indonesia Tbk menggunakan pendekatan proyeksi keuangan antar perusahaan. Metode valuasi dan strukturisasi M&A yang digunakan meliputi analisis Discounted Cash Flow (DCF), perbandingan pasar, dan penilaian berdasarkan transaksi terdahulu. Informasi mengenai teknik spesifik, asumsi yang dibuat, dan proses analisis akan meningkatkan pemahaman pembaca tentang validitas hasil. Dari hasil analisis, dengan perbandingan Nilai Ekuitas perusahaan target, perusahaan pengakuisisi, dan perusahaan baru, dapat diperoleh informasi yang menunjukkan bahwa Nilai Ekuitas Newco secara signifikan lebih tinggi daripada jumlah Nilai Ekuitas individu perusahaan target. Manfaat penelitian yaitu menyediakan informasi penting yang dapat digunakan oleh manajemen perusahaan, investor, dan pemangku kepentingan lain dalam membuat keputusan terkait akuisisi dan penggabungan perusahaan.

**Kata kunci:** model valuasi & strukturisasi M&A, Logam & Mineral Terdiversifikasi, Akuisisi.

**Abstract**– This study aims to analyze the valuation of the combined company through M&A valuation and structuring models. The financial calculations considered in this analysis are based on data from the statements of financial position, income statements, and cash flow statements over the past three years for PT Vale Indonesia Tbk and PT Kapuas Prima Coal Tbk as case studies in this article. Data collection for this research was obtained from the IDX website, which provides historical stock data. This research was conducted to identify the feasibility of the acquisition of PT Kapuas Prima Coal Tbk by PT Vale Indonesia Tbk using an inter-company financial projection approach. The valuation and M&A structuring methods used include Discounted Cash Flow (DCF) analysis, market comparison, and valuation based on previous transactions. Information on specific techniques, assumptions made, and the analysis process will enhance the reader's understanding of the validity of the results. The analysis results, comparing the Equity Values of the target company, the acquiring company, and the new company, indicate that the Equity Value of Newco is significantly higher than the sum of the individual Equity Values of the target companies. The benefits of the research include providing important information that can be used by company management, investors, and other stakeholders in making decisions related to acquisitions and company mergers.

**Keywords:** M&A valuation & structuring model, Diversified Metals & Minerals, Acquisitions.

## I. INTRODUCTION

Exploitation of natural resources such as the mining industry is one of the industries that is financially very profitable for the country's economy because it has a high selling power in the global market [1] However, any exploitation of these natural resources can have an impact on the environment, both physically and socially. Mining activities generally carried out in forest areas can cause overall environmental damage in the form of water, soil and air pollution. That environmental pollution is a situation that occurs due to changes in the condition of the environmental system, namely, soil, air, and water that are not favorable for human, animal, and plant life caused by the presence of foreign objects such as garbage, industrial waste, oil, heavy metals that are harmful from human activities and result in the environment not functioning as before.[2]

All fossil fuels will eventually run out. Therefore, it is very important for us to manage the metal & mineral energy resources in the earth efficiently,[3] so as to provide maximum benefits in the long term. Good mine management is carried out starting from the exploration stage to utilization.[4] The exploration stage aims to increase the discovery of new reserves through the search for existing mining areas. Furthermore, at the exploitation stage, it is necessary to develop updates in mining techniques, so as to obtain reserves that could not previously be achieved. Meanwhile, in the utilization stage, important developments are made regarding the efficient use of metals & minerals.

A business combination is the union of two or more separate companies into one economic entity because one company merges with (uniting with) another company or obtains control of the assets and operations of another company (PSAK No. 22).[5] Merger is a combination of

two (or more) companies where one company retains its name while the other ceases to be a legal entity, and an acquisition occurs when one company purchases all or part of the ownership of at least some or all of the shares of another company or some or all of the assets of another company.[6] Economic analysis indicates two motivations for maximizing the value of a corporate takeover.[7] Either a takeover is undertaken to achieve synergies between the acquiring firm and the target firm or a takeover is undertaken to discipline the managers of the target firm. In a synergistic takeover, profits are obtained by efficiency, which results from the combination of the physical operations of the acquiring company and the target company. The existence of synergy can be reflected in the improvement of the company's operating performance. Companies in conducting mergers or acquisitions can be inter-industry or inter-industry. The selection of a company's acquisition target is an important strategic step in business development.[8] In the Diversified Metals & Minerals industry, where companies operate in various sectors such as metals and minerals mining, the selection of acquisition targets must be done carefully to ensure strategic fit and optimal growth potential. One of the main reasons for acquiring other companies is to target underperforming businesses. These are companies that have experienced a decline in financial performance over time. By acquiring such a company, the acquiring company aims to utilize its expertise, resources, and presence in the market to turn around the target company.[9]

One of the motives behind acquisitions is economies of scale. Economies of scale refer to the cost advantages a company gains by increasing its size or operations. Acquisitions offer the opportunity to achieve synergies and cost savings.[10] Synergies arise when the merged entities can achieve more together than they could individually.[11] This could be in the form of operational efficiencies, increased market share, or complementary product portfolios. By eliminating duplicate functions, streamlining operations, and increasing economies of scale, companies can reduce costs and improve financial performance.

Mergers and acquisitions (M&A) have long been pivotal strategies for companies seeking growth, efficiency, and competitive advantage. Recent studies have further expanded on the methodologies and impacts of M&A in various industries. Valuation models remain a core component of M&A analysis. These methodologies ensure precise and reliable outcomes, as supported by further research from Koller, Goedhart, and Wessels [12]

The structuring of M&A deals has also seen significant advancements. Gaughan (2018) in "Mergers, Acquisitions, and Corporate Restructurings" discusses various structuring methods, including cash payments, stock payments, and hybrid approaches. These studies emphasize the importance of selecting the appropriate financing structure to maximize the benefits of the acquisition [13].

Financial projections between companies continue to be a critical aspect of M&A analysis. The use of inter-company financial projections to evaluate the feasibility of acquisitions and understand the potential synergies that can be achieved from combining entities.[14]

Comparative case studies provide valuable insights into the practical application of these theories. Research by Bauer and Matzler (2019) in "Antecedents of M&A Success: The Role of Strategic Complementarity, Cultural Fit, and Autonomy" illustrates the realization of synergies through strategic and operational integration. Moeller and Schlingemann (2021) in "Cross-Border Mergers and Acquisitions" examine the varying outcomes of cross-border versus domestic acquisitions, providing a contemporary understanding of the factors that influence M&A success.

Acquiring a company that is underperforming to achieve economies of scale and improve its overall performance. By acquiring a smaller company or a competitor, the acquiring company can benefit from economies of scale, such as cost savings through bulk purchasing, resource sharing, and increased market power. It can also provide opportunities for the acquiring company to turn things around. By bringing in new management, implementing strategic changes, or enhancing synergies between the two companies, the acquiring company can potentially improve the performance of the acquired business and enhance its position in the market.

Indonesia is one of the lucky countries to have a large wealth of natural resources in the form of metals & minerals. Many metal & mineral companies have grown in Indonesia. However, the large number of companies in the metal & mineral sector that are developing and the limitation factor to manage in order to realize the ideals of efficiency make mergers and acquisitions an attraction or shortcut to owning companies in the metal & mineral sector. Based on the results of the research Analysis of Company Acquisition Target Selection Using Financial Performance Segmentation Methodology: Case Study of Diversified Metals & Minerals industry (Ahmad Syawaldi & Rayuli Wulandari) provides results that companies in the Diversified Metals & Minerals industry there are 4 companies that have increased financial performance, namely PT Aneka Tambang, PT Central Omega Resources, PT Ifishdeco and PT Timah. And there are 3 companies that are stable in their financial performance, namely PT Bumi Resources Minerals, PT Vale Indonesia PT PAM Minerals and PT Trinitan Metals and Minerals. While there are 3 companies that have decreased, namely, PT Pelat Timah Nusantara Tbk, PT Trinitan Metals and Minerals Tbk, PT Kapuas Prima Coal Tbk. Based on this research, one of the large companies in the metal & mineral sector in Indonesia that is stable in financial performance is PT Vale Indonesia Tbk and the company that has decreased is PT. Kapuas Prima Coal Tbk.

PT Vale Indonesia Tbk or PT Vale (formerly PT International Nickel Indonesia Tbk) is an integrated nickel mining and processing company operating in Sorowako

Block, East Luwu Regency, South Sulawesi Province. PT Vale is part of Vale, a Brazilian multi-mining company. PT Vale mines nickel laterite to produce the final product of nickel in matte. PT Vale's nickel production volume averages 75,000 metric tons per year. PT Vale uses pyrometallurgical technology or smelting technique. PT Vale is a foreign investment (PMA) mining company under a Contract of Work that was amended on October 17, 2014 and is valid until December 28, 2025. One of the points of renegotiation is the reduction of the Contract of Work area from the previous 190,510 hectares to 118,435 hectares. [15]

Kapuas Prima Coal Tbk was established on July 12, 2005 and commenced operations in 2010. Its parent company is PT Sarana Inti Selaras, which was established and domiciled in Indonesia, while the Company's main shareholders are Tan Ali Susanto and Jo Muryani. Based on the Company's Articles of Association, the scope of its activities is engaged in mineral mining and trading. Currently, ZINC's main activities are mining iron ore (Fe), galena - lead (Pb) and zinc (Zn). The iron ore content is one of the supporting materials of electric battery raw materials besides nickel. [16]

Currently, PT Vale Indonesia is working on a project to produce raw materials for electric batteries in the Pomala Block, southeast Sulawesi. With this, there is a very open opportunity for PT Vale Indonesia to acquire PT Kapuas Prima Coal Tbk as a supplier of iron ore for supporting materials for electric battery raw materials other than nickel. So that a question arises how PT Vale Indonesia analyzes the feasibility of acquiring PT Kapuas Prima Coal Tbk using an intercompany financial projection approach. In this article, it will be discussed regarding the Valuation Analysis of the Combined Company Value through the Acquisition Process: Case Study of PT Vale Indonesia Tbk and PT Kapuas Prima Coal Tbk.

## II. METHODOLOGY

This research uses a quantitative research methodology approach using the Discounted Cash Flow (DCF) methodology approach. This method is a method of ranking investment proposals using the concept of time value of money. [17] This method is an investment proposal assessment technique based on financial measures. The use of DCF method requires the fulfillment of DCF parameters which include: (1) the future cash flow of a project (2) the risk-adjusted discount rate (3) the project's impact on cash flows generated from other assets (4) the project's impact on future investment opportunities [18]

The model for calculating valuation in this study uses M&A valuation & structuring which aims to determine or predict the value of the company after the company has merged or made an acquisition seen from the New Company processed in MS software. Excel software. After that, the data that has been collected is calculated for the valuation value. Valuation is an effort made to measure the value of a company by looking at how its financial management and economic performance. Valuation is

done periodically because the economic condition of a company must be different in each period.

The data obtained in this study was taken from IDX WEB which is a provider of historical stock data. IDX WEB provides researchers with access to important fundamental data of listed companies. This data includes financial statements, annual reports, and other disclosures required by the exchange. Fundamental analysis involves examining a company's financial health, evaluating its assets and liabilities, and assessing its overall performance. With the help of IDX WEB, it is possible to access these fundamental data points and conduct in-depth analysis to understand the financial condition of companies listed on the Indonesian stock market. The data analyzed in this study is data relating to the issuers PT Vale Indonesia Tbk and PT Kapuas Prima Coal Tbk.

## III. RESULT AND DISCUSSION

The main driver for the emergence of Merger and Acquisition transactions is constructive synergy. This synergy arises from the merger of two entities to achieve cost savings, increased revenue and efficiency. This synergy can result in additional post-merger enterprise value. From the results of the estimation of the value of the new company, by projecting the combined financial statements of two companies, namely PT Bumi Resources Minerals and PT Pelat Timah Nusantara and including synergies therein can be seen in Table.1. Where this table presents the projected financial statements of the merged company, including the income statement, balance sheet, and cash flow statement. These projections are based on a comprehensive analysis of each company's financials, market trends, and potential synergies.

Based on the results of the post-merger projection of two acquisition companies between PT Vale Indonesia Tbk and PT Kapuas Prima Coal, the projected financial statements of the merged company, including the income statement, balance sheet, and cash flow statement are shown in the following table:

Table 1. Actual and projections after the merger of the two companies. In sales growth occurred in 2021 and 2022



	2020	Actual 2021	2022	2023	2024	Projections 2025	2026	2027
<b>Income Statement</b>								
Sales Growth	-	22.6%	28.5%	4.0%	17.1%	17.1%	16.8%	16.8%
COGS as a % of Sales	64.3%	58.8%	59.5%	-	0.2%	-	-	-
Innovation Related Expenses (SM)	-	-	100.0	50.0	-	-	-	-
SG&A % annual increase	NA	10.8%	204.0%	16.7%	66.1%	67.2%	67.8%	68.7%
Other Operating Expense as a % of Sales	0.0%	0.2%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%
EBITDA Growth	NA	42.4%	21.3%	66.5%	14.7%	13.9%	11.3%	8.4%
EBITDA Margin	34.3%	39.8%	37.5%	54.7%	30.9%	30.3%	28.0%	25.9%
<b>Balance Sheet</b>								
Receivable Days	28.9	39.9	47.7	25.0	25.0	25.0	25.0	25.0
Inventories Days	104.7	105.7	86.2	69.7	69.8	69.8	69.8	69.8
On Current Assets % of Sales	12.5%	6.4%	4.5%	5.2%	5.2%	5.2%	5.2%	5.2%
Days in Accounts Payable	27.9	27.9	22.5	30.0	30.0	30.0	30.0	30.0
On Current Liabilities % of COGS	16.3%	31.2%	13.9%	22.8%	22.7%	22.6%	22.5%	22.5%
Working Capital/Sales (Excl Cash & Debt)	22.1%	13.8%	18.4%	7.5%	7.5%	7.5%	7.6%	7.6%
<b>Cash Flow</b>								
Capital Expenditures	(2,210.0)	(2,980.0)	(3,250.0)	1,336.0	1,563.5	1,829.7	2,141.2	2,505.7
Capex as a % of Sales	(19.9%)	(18.9%)	(18.6%)	6.3%	-	-	-	-
Depreciation	2,200.0	2,290.0	2,490.0	1,963.5	1,828.5	2,138.5	2,501.2	2,925.4
Depreciation as a % of Sales	19.8%	16.8%	14.2%	7.3%	-	-	-	-
Goodwill Amortization (Pre-2020)	-	-	-	-	-	-	-	-
Amortization of Intangibles	-	-	-	300.0	300.0	300.0	300.0	300.0
Amortization of Deferred Financing Exp	-	-	-	19.1	19.1	19.1	19.1	19.1
Chg in Deferred Taxes - Asset	-	-	-	-	-	-	-	-
Chg in Deferred Taxes - Liab	-	-	-	-	-	-	-	-
Dividend from Affiliates	-	-	-	-	-	-	-	-
Payout Ratio of Affiliates	-	-	-	-	-	-	-	-
Dividends per Share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Dividend Payout Ratio	-	-	-	-	-	-	-	-
Dividends Paid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Effective Tax Rate	20.9%	24.9%	27.3%	26.0%	26.0%	26.0%	26.0%	26.0%
Marginal Tax Rate	0.0%	0.0%	0.0%	40.0%	40.0%	40.0%	40.0%	40.0%
<b>Other</b>								
Shares Outstanding - Basic	-	-	358.1	509.7	509.7	509.7	509.7	509.7
Shares Outstanding - Diluted	-	-	361.7	513.3	413.6	413.6	413.6	413.6
Revolving Credit Facility Rate	-	-	-	4.40%	4.40%	4.40%	4.40%	4.40%
Senior Debt Rate	-	-	-	5.50%	5.50%	5.50%	5.50%	5.50%
Subordinated Debt	-	-	-	8.00%	8.00%	8.00%	8.00%	8.00%
Average Interest Rate	-	1.08%	1.41%	4.98%	4.98%	4.98%	4.98%	4.98%
Marketable Securities Rate	-	-	-	-	-	-	-	-

Based on the table above, it displays the actual and also projections after the merger of the two companies. In sales growth occurred in 2021 and 2022, amounting to 22.6% and 28.5% respectively and is projected to continue to increase for the next 5 years. This means that there is a positive trend in the company's ability to generate higher sales in the future.

The EBITDA section in 2021 displays a high value of 42.4% and this implies a significant increase in the company's operating income compared to the previous year. This high growth could be due to a variety of factors, including increased sales, cost efficiency measures, or the successful implementation of new business strategies. However, the following years see a potential decline in EBITDA, meaning that there is a potential decline in the company's operating income compared to the previous year. A negative growth rate may indicate challenges facing the company, such as increased competition and others. EBITDA growth is an important indicator of a company's financial performance and its ability to generate operating profit.

In this case, it is clear that there is a decrease in CapEx from 2020 to 2022. This suggests that the merged entity plans to make substantial investments at an early stage to capitalize on growth opportunities and synergies and then decline. To understand the impact of capex on sales, one can calculate capex as a percentage of sales. In 2020, the ratio of capital expenditure to sales reached 19.9%. However, in 2021 and the following year, this ratio decreased, indicating that the level of capital expenditure has begun to stabilize compared to sales. Capex plays an important role in seeing the company's growth and expansion. Capex represents funds allocated to acquire or improve physical assets, such as property, equipment, or technology. By investing in these assets, companies aim to increase production capabilities, improve efficiency, and drive revenue growth.

The marginal tax rate, which comes into effect will be a material consideration for additional income, from 2023

to 2025 the tax rate remains at 26%. This indicates that any additional income generated by merging companies beyond a certain threshold will be subject to a flat tax rate of 26%. Taxation is a significant factor and can affect a company's profitability and cash flow. The effective tax rate shows the overall tax burden on a company's profits, taking into account various tax deductions, credits and exemptions. This suggests that merging companies may have implemented tax planning strategies or benefited from tax incentives, resulting in a lower effective tax burden.

Merger or acquisition valuation is an important component in determining the appropriateness of the offer price and post-transaction capital structure. It involves analyzing the financial performance and projections of the target company and the acquirer, as well as identifying potential synergies that may arise from the merger. This study discusses the valuation analysis and financial projections of Newco, the newly formed company from the merger, based on available and calculated data. The individual valuations of the target company, the acquirer, and newco can be seen in the following table:

Table 2. The individual valuations of the target company

Target	2022	2023	2024	2025	2026
Free Cash Flow					
EBIT	17.6	27.0	28.9	19.8	(5.0)
Less: Taxes	(7.0)	(10.8)	(11.6)	(7.9)	2.0
Plus: Deprec. & Amort.	325.6	328.7	332.0	335.8	340.0
Less: Gross Capex	(3.2)	(3.6)	(4.0)	(4.5)	(5.0)
Less: Δ NWC	474.9	(4.1)	(4.6)	(5.2)	(5.8)
Equals: Free Cash Flow	807.9	337.1	340.7	338.0	326.2
Period	1.00	1.00	1.00	1.00	1.00
Mid-Year Convention	0.50	1.50	2.50	3.50	4.50
Discount Factor	0.94	0.82	0.72	0.63	0.55
PV FCF	\$ 756.7	\$ 277.0	\$ 245.6	\$ 213.7	\$ 180.9
PV (Years 1-5)	1,673.8				
PV (Terminal Value)	3,173.0				
Enterprise Value	<b>4,846.8</b>				
Plus Cash	53.5				
Less Debt & Min. Int.	1,100.0				
Equity Value	<b>3,800.3</b>				
Equity Value Per Share	\$ 21.78				
<b>Assumptions:</b>					
WACC	14.0%				
Target D/E*	<b>30.0%</b>				
Target D/TC*	23.1%				
Marginal Tax Rate	40.0%				
ke	7.8%				
Rf	<b>6.3%</b>				
Rf - Rm	<b>2.2%</b>				
Beta	<b>0.69</b>				
Terminal Value					
FCF 2020	326.2				
Terminal Growth Rate	<b>3.5%</b>				
Terminal Period WACC	<b>9.4%</b>				

Table 3. The Newco Equity Value

Newco	2022	2023	2024	2025	2026
Free Cash Flow					
EBIT	18,318.5	21,016.2	23,936.9	26,557.2	28,603.2
Less: Taxes	(7,327.4)	(8,406.5)	(9,574.8)	(10,622.9)	(11,441.3)
Plus: Deprec. & Amort.	1,882.6	2,147.6	2,457.6	2,820.2	3,244.5
Less: Gross Capex	(1,336.0)	(1,563.5)	(1,829.7)	(2,141.2)	(2,505.7)
Less: Δ NWC	769.1	(427.6)	(533.8)	(596.3)	(697.1)
Equals: Free Cash Flow	12,306.7	12,766.2	14,456.2	16,017.1	17,203.6
Period	1.00	1.00	1.00	1.00	1.00
Mid-Year Convention	0.50	1.50	2.50	3.50	4.50
Discount Factor	0.96	0.89	0.82	0.75	0.69
PV FCFF	\$ 11.8	\$ 11.3	\$ 11.8	\$ 11.2	\$ 11.9
PV (Years 1-5)	58.0				
PV (Terminal Value)					
Enterprise Value	58.0				
Plus Cash	34,576.0				
Less Debt & Min. Int.	7,701.1				
Equity Value	26,932.9				
Equity Value Per Share	\$ 52.84				
WACC =	8.4%				
Target D/E*	20.0%				
Target D/TC*	16.7%				
Marginal Tax Rate	40.0%				
ke	9.5%				
Rf	2.5%				
Rf - Rm	5.5%				
Beta	1.28				
Terminal Value					
FCF 2020	17,203.6				
Terminal Growth Rate	3.0%				
Terminal Period WACC	7.0%				

After assessing the individual valuation of each target company and acquirer, so as to determine the valuation of the new company (Newco). The data presented in the table above shows that the Newco Equity Value is 26,932. This value is the estimated combined equity value of the target and acquirer companies after the merger. The Equity Value Per Share for Newco is 52.84.

By comparing the Equity Values of the target company, the acquiring company and the new company, we can obtain information on the impact of the business combination on the overall value of the combined entity. The data shows that Newco's Equity Value is significantly higher than the sum of the individual Equity Values of the target companies. This suggests that the merger has created value and synergies, resulting in an entity that is more valuable than the target company by the number of shares outstanding. The Equity Value Per Share of Newco is higher than the Equity Value Per Share of the target company and the acquirer individually. This indicates that shareholders of both companies can benefit from the merger in terms of increased share value.

#### IV. CONCLUSION

By comparing the Equity Value of the target company, the acquiring company, and the new company (Newco), information can be obtained showing that the Equity Value of Newco is significantly higher than the sum of the individual Equity Values of the target companies. This shows that the merger has created value and synergies, resulting in an entity that is more valuable than the target company based on the number of shares outstanding. The Equity Value Per Share of Newco is higher than the Equity Value Per Share of the target company and the acquirer individually. This indicates that shareholders of both companies can benefit from the merger in terms of increased share value. However, this article has been

prepared as a suggestion to both companies if they wish to undertake acquisition activities. This research also highlights the importance of using appropriate valuation methods such as Discounted Cash Flow (DCF) analysis, market comparison, and valuation based on previous transactions to obtain an accurate picture of the combined company's value. Additionally, the selection of an optimal financing structure, whether in the form of cash payments, stock payments, or a combination of both, plays a crucial role in the success of M&A. Besides benefiting the shareholders, this merger is also expected to improve operational efficiency and strengthen the market position of the combined company. Thus, this research not only offers insights for PT Vale Indonesia Tbk and PT Kapuas Prima Coal Tbk but also provides valuable guidance for other companies considering similar M&A strategies.

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