ABSTRACT

Indonesia as the second largest producer of palm oil in the world, but is still far away compared to Malaysia, the number one in term of marketing technology and derivative product processing. Decision to make investment to establish fatty acid factory is related with larger amount of capital. Therefore, feasibility aspect should be evaluated especially in financial aspect.

The research was conducted in order: (I) to study the present condition of fatty acid production, (2) to analyze of establishing fatty acid factory on the basis of financial aspect, (3) to evaluate sensitivity analysis of development of fatty acid factory as the result of inflation, recovery rate for investor and percent of selling, (4) to evaluate model structure if the project financed by loan investment, and (5) to evaluate profitability of fatty acid production.

The research find that the project of fatty acid is feasible. Evaluation of project feasibility in developing fatty acid factory including some aspects such as (1) market, (2) technology, (3) raw material, (4) operational management, (5) governmental policies and (6) finance.

Analysis of investment at leverage 0% indicated internal rate of return 22.2%, net present value US$ 62,350,000, profitability index 3.02, payback 5 years and 2 month and return on investment = return on equity is 33%.

Development of Fatty acid factory by PT Fajar Utama is profitable because it generate more cash for the company. Changing in capital structure of project financing with ratio of debt to equity 60:40 will produce: (1) net present value (on i = 9.04%) is US$ 62,889,000, (2) payback is 3 years and 11 month and (3) percent of selling allowed to decrease no more than 80.85129%, (4) return on investment will be 31% and return on equity 136%.

Some recommendation for PT Fajar Utama are: (1) conducting cooperation with the major crude palm oil producing companies, (2) conducting cooperation with fatty acid user companies, (3) before making decision on development of fatty acid factory, it is recommended to evaluate changing on investment interest from bank, (4) it is recommended to recruiting expert human resources in agribusiness.