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The Analysis of Stock Fair Value Valuation of PT. Perkebunan Nusantara IV with Free Cash Flow to Equity Method

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Abstract: *To develop a business, a firm needs some resources of fund. Today, PT. Perkebunan Nusantara IV (PTPN-IV) only have the bank loan and own capital as the main resources. Other resources of fund that also available as well is going public by selling stocks to public in the stock market. Before selling the stock in the stock market, the firm must do initial public offering. This research goals is to analys the fair value of stock of PTPN-IV on its initial public offering in 2020. The valuation method used in this research is Discounted Free Cash Flow To Equity, which is projected forward to 2025 than discounted back to 2020. The result of this research shows that the fair value of PTPN-IV stock in 2020 is Rp.823 per share and its nominal value is Rp.1.280 per share which is overvalued.*

Keywords: *Initial Public Offering, PTPN-IV, Valuation, Fair Value Of Stock, Free Cash Flow To Equity*

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I. Introduction

Based on the Long Term Plan or RJP, PT. Perkebunan Nusantara IV (hereinafter referred to as PTPN-IV) plans to seek cheap alternative funding sources, one of which is to conduct an initial public offering (IPO) that will be conducted in 2018 or 2020. This discourse has been delivered during meetings with holding holding, but until now PTPN-IV has not yet estimated the value of shares to be offered at the time of the IPO.

The IPO plan needs to be considered to develop the business in the context of investment or to finance working capital. Since the change in the status of PTPN-IV from a state-owned company to a subsidiary of PTPN-III, the IPO plan will require permission from the holding holding company.

Besides getting additional capital for business development, being a public company will also encourage the management of the company to become more transparent and corporate governance to be better and better (Good Corporate Governance) and able to improve performance. The IPO is one of the strategic decisions. In addition to meeting capital requirements, the IPO is also a managerial transformation process from a closed company to a public company (Tbk). Managerial transformation is a commitment to managing the company to be more transparent, accountable and independent. In general, it can be said, after listing shares on the stock exchange, companies are forced to be more oriented to shareholders and stakeholders.

In the process of going public, before being traded on the secondary market, shares are first sold in the primary market or often called the primary market. Initial public offering through the primary market is known as an initial public offering (IPO). The share price that the company will sell on the primary market is determined by an agreement between the issuer (issuing company) and the underwriter (underwriter), while the stock price sold on the secondary market is determined by market mechanisms, namely demand and supply.

According to Gumanti (2002), determining the initial stock price of a company is not easy. One of the reasons for the difficulty in fixing the price of the initial offer is that there is no relevant price information. This happened because before the initial public offering, the company's shares had never been traded, making it difficult to assess and determine a reasonable price. In addition, limited information about what and who is going to go public makes the underwriters and potential investors have to do a good analysis before deciding to buy (order) shares.

The stock price offered at the time of offering shares in the primary market is an important factor because it will determine the amount of funds to be obtained by PTPN-IV as an issuer and investors' interest to invest by buying the shares. High prices allow PTPN-IV to obtain large amounts of funds to finance the company's operations or carry out development, but reduce investor interest in investing. Conversely, low prices make PTPN-IV unable to obtain large amounts of funds but increase investor interest in investing. Thus PTPN-IV must have a plan for selling prices of shares to be traded on the primary market.

II. Theoretical Review

2.1 Company Valuation

In general there are 3 valuation approaches, namely:

a. Market Approach

Comparative methods of companies listed on the stock exchange (guidline publicy traded company method), closed company comparison methods (guidline transaction method or direct data method), comparison methods of merger and acquisition companies (guidline merged and acquired company method).

b. Income Approach:

Discounted cash flow method, capitalization of income method.

c. Asset-Based Approach:

Methods for adjusting net assets, adjusted net asset method, adjusted book value method, net asset valuation method, and asset accumulation method, the method of excess revenue capitalization (excess earnings method).

For the purposes of this thesis research, researchers will use the Discounted Cash Flow Method or Discounted Cash Flow Value approach because it is considered more appropriate in describing the value of the company through discounting future cash flows.

2.2 Discounted Cash Flow Valuation

Damodaran (2006) states that in the discounted cash flow valuation the value of an asset is the current value of the cash flow that will be generated by the asset in the future which is discounted by the interest rate that reflects the risk of the asset. This is done because the value of cash flows received in the future differs from the present due to changes in currency values.

2.3 Discount Interest Rate

The interest rate represents the level of risk of an asset. The higher the level of asset risk, the higher the interest rate used. In the context of valuation, risk is seen as a variation in the actual rate of return obtained with the expected rate of return. This risk is called the cost of equity. One model used to measure the yield rate of an asset is the Capital Assets Pricing Model (CAPM).

The CAPM formula takes into account the level of risk of a country that has an effect on the performance of a company within that country. The Country Risk Premium used is what applies in Indonesia where PTPN IV runs its business. The Mature Market Equity Risk Premium used is the one that applies in the capital market in the United States because it is considered mature.

There are two main requirements in determining whether an asset is a risk-free asset. The first is that the asset may not have a risk of default and the second is that the asset does not have a reinvestment risk for a long time.

2.4 Free Cash Flow to Equity

FCFE is cash flow received by shareholders after the company fulfills all of its obligations, including payment of taxes, paying off debt and investing in the company itself. In other words, FCFE is a potential dividend that can be received by shareholders.

For the purposes of this thesis research, the researcher chose to use the Free Cash Flow To Equity method, where the reference is the value of equity (the value of all assets minus all liabilities).

In calculating the value of a company, the FCFE used in the Discounted FCFE model is not FCFE in the past, but FCFE will be accepted in the future. Therefore it is necessary to estimate FCFE in the future. In this study the FCFE estimation will be carried out until 2025 or as much as the next 10 years.

Some previous studies carried out projections by rearranging financial statements (Financial Position Reports and Profit and Loss Statements) with many different years. Research conducted by Diana Mardiana on Bank DKI projections is carried out only for the next 5 years. Research conducted by Magdalena (2012) at PT. Bukit Asam, projections are carried out in the next 12 years, while research conducted by Panjaitan (2014) projections are carried out in the next 10 years.

III. Materials and Method

3.1 Types of Research

Based on the field, this study included academic research, which is an educational tool that prioritizes internal validity (the truth of the method of research). Based on the objectives, this study included applied research. Based on the nature of the explanation of science, this study includes research on causality. Whereas according to the analytical approach this research includes descriptive quantitative research. The study was conducted using fundamental analysis methods with a top-down analysis approach. This approach begins with an analysis of macroeconomic conditions, analysis of industrial conditions, and analysis of the company and then the company's equity value will be shared with the number of existing shares or the plan for the number of shares to be issued if the company plans an IPO.

3.2 Location Research

This research was carried out directly on the research object, namely in PT. Nusantara IV Plantation located on Jalan Let.Jend. Suprapto No.2 Medan. This study began in January 2016 and is planned to be conducted for 6 months, namely until June 2016.

3.3 Data Processing Techniques

The analytical method used to assess fair prices is a top down analysis approach with stages that begin with an analysis of macroeconomic conditions, business conditions, and company analysis. Company valuation is carried out using the Discounted Cash Flow Value (DCF) method where the free cash flow to be used is free cash flow to equity from future cash flow projections, the data will be processed using the Microsoft Excel application.

The steps for processing data are as follows:

1. Using top down analysis to determine the condition of the company's fundamentals. Macroeconomic analysis and industry conditions will be taken from various sources such as business magazines, official websites of related institutions such as the International Monetary Fund (IMF), Bank Indonesia, Central Statistics Agency, Indonesia Stock Exchange, Chamber of Commerce and Industry, Indonesian Palm Oil Entrepreneurs Association (GAPKI) and other sources.
2. Analyzing the company by making financial report projections up to the period of 2025 based on the Long Term Plan (CPR) of the company by using assumptions according to the results of the analysis of the fundamental conditions and calculating financial ratios.
3. Perform a cost of equity calculation using the capital assets pricing model (CAPM) with the formula:

$$E(r) = Rf + \beta \times (ERP_{mm} + CRP)$$

4. Calculating free cash flow to equity using the formula:

$$FCFE = NI - Net\ CapEx - \Delta NCWC + Net\ Debt$$

5. Calculating the two stages of discounted free cash flow to equity using the formula:

$$Value\ Of\ Equity = \sum_{t=1}^{t=n} \frac{FCFE_t}{(1+k_e)^t} + \frac{Terminal\ Value}{(1+k_e)^n}$$

6. Next calculate the value per share by dividing the company's equity value by the number of shares outstanding or the estimated number of shares to be issued for the purpose of the IPO.

Through this calculation, it will be known how much the nominal value per share compared to its fundamental value in 2020 as a basis for determining the implementation policy or delay of the initial public offering.

IV. Results and Discussion

Results and Discussion

Based on the results of an analysis of macroeconomic conditions, Indonesia's economic conditions are expected to continue to grow at a minimum of 6% per year. The financial policy package carried out by the government including Tax Amnesty is believed to be able to generate additional patriarchal funds of up to 37 trillion which will encourage economic growth.

Based on the analysis of the palm oil industry, in 2016 Indonesia's CPO production will grow around 6% per year, while Indonesia's CPO consumption grows 10.99% per year so that it can be said that Indonesia's CPO production has not been able to meet CPO needs. This can encourage an increase in CPO prices, which is a growth potential for PTPN-IV in the future.

Based on the analysis of the Comprehensive Income Statement, revenue growth rose by around 3% to 18%, but in 2012, 2013 there was a decrease of approximately 2%, although this decline was not followed by a decrease in gross profit because in 2012 gross profit still grew by 1 % so that it can be said that PTPN-IV is able to reduce the cost of production. The biggest decline occurred in 2015 where the decline in income reached 18% and the decrease in gross profit reached 38% percent, which means there is management of inefficient cost of goods sold.

The decrease in profit before tax also occurred in 2012, 2013 and 2015. In 2012 and 2013 the decline in profit before tax reached 23% until 29% while in 2015 it reached 61%. This shows that PTPN-IV is still not efficient in managing its operational costs, especially fixed costs and overhead costs, because this decrease is far greater than the decrease in gross profit.

In a study conducted by Benaji (2011), the intrinsic value of Perum Pegadaian shares is in the range of Rp.1,716.40 to Rp.3,839.35 per share, while the nominal value of the shares is Rp.1,000 per share. Thus it can be said that the nominal value of the Pawnshop Corporation is undervalued against its intrinsic value.

In the research conducted by Panjaitan (2014), the intrinsic value of the shares of PT. Elnusa, Tbk is Rp.341 per share, while the market price is Rp.173 per share at the closing position on December 31, 2012 so that it can be said that this market value is undervalued against its intrinsic value and relatively cheap. Meanwhile for PT. Medco Energi International obtained intrinsic value

Rp. 2,046 per share while the market value is Rp. 1,630 per share at the closing position on December 31, 2012 so that it can also be said to be undervalued.

In a study conducted by Magdalena (2012), the intrinsic value of shares PT. Bukit Asam, Tbk with the method of free cash flow to equity is Rp.37,995.59 while the nominal value is Rp.20,150 per share, so that it can be said that this nominal value is undervalued of its intrinsic value.

In the research conducted by Rifki Khoirudin (2012), the intrinsic value of PT. Atlas Resourcess is Rp. 1,115 per share while the nominal value is Rp. 1,500 per share so that it can be said that this nominal value is overvalued against its intrinsic value.

V. Conclusion and Suggestion

Conclusion

Based on the results of the research conducted in the previous chapters, the following conclusions were obtained:

1. Based on historical data on the Financial Position Report 2010 to 2025, the company's equity is predicted to grow by an average of 5.33% annually, with growth of this size, so in 2020 the book value of the company's equity is Rp.5,547,287,394,339.
2. Assuming the nominal value of the shares to be issued at the time of the initial public offering is Rp. 1,280 per share, PTPN-IV will issue 4,334,539,563 shares at the initial offering.
3. Based on historical data on company performance throughout 2010 to 2025 and other data according to valuation statistics as listed in Appendix 7, the fundamental value of corporate equity in 2020 is Rp. 3,567,687,211,225.
4. The low fundamental value of corporate equity is due to the company's low net income in 2013 and 2015 due to not achieving production due to hurricane Elnino and controlling the cost of goods and costs that are less efficient.
5. Assuming the number of shares to be issued is 4,334,539,563 sheets, the fundamental value per share at the time of the initial public offering is Rp.823 per share or discounted by 35.69%.
6. The fundamental value of this stock indicates that at the time of the initial offering, the value of the shares to be offered is overvalued where the fundamental value of the stock is below its nominal value. This is certainly not attractive to investors.

Suggestion

Based on the analysis that has been done, the author gives the following suggestions:

1. To increase the equity value of the company, PTPN-IV must increase its cash flow by increasing net income, and making efficient spending on investment (capital expenditure), working capital (net working capital), or interest payments.
2. For the plantation industry, especially oil palm, an increase in net income can be obtained by increasing the production of fresh fruit bunches (FFB) and dried tea leaves and reducing production costs and preventing the occurrence of losis from the harvest stage to processing in palm oil mills (PKS) . This is a factor that can be controlled by the company because the price factor is an external factor that is much influenced by other external factors so that it cannot be controlled by the company. Currently the price of Indonesian palm oil is still referring to international CPO prices in the Rotterdam physical market, while the export benchmark price (HPE) is still set in the US dollar exchange rate.
3. With the current conditions, it is better for PTPN-IV to delay the initial public offering plan and focus on improving performance to produce better net income and cash flow to equity so that the fundamental value of the company's equity can increase and the fundamental value of shares offered on the primary market can higher than the nominal value to attract investors.
4. To change the mindset of SOEs and their subsidiaries to become professional and transparent companies and ready to compete with other private companies in earning profits, SOEs and their subsidiaries need to become open companies. However, government support is still needed to strengthen SOEs to remain state assets while remaining profit-oriented and able to compete with other private companies in the same industry. The government has planned to form a holding holding BUMN where government ownership is 100%. This 100% ownership is for the equity of BUMN which can be seen in the balance sheet of the country's wealth. For

holding companies, government ownership must not be less than 51% and there must be Series A shares owned by the government so that state control is maintained.
5. For subsequent research conducted for PTPN-IV, it can use the assumption of the timing of the implementation of different initial public offers with a longer historical data range to produce different calculations and be carried out with different valuation methods.

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