

THE VALUATION OF PT. INDOCEMENT TUNGGAL PRAKARSA BY USING DISCOUNTED CASH FLOW

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Abstract. The experiences of Asian economies such as Japan and Korea point to the fact that infrastructure development is a key driver of economic development (Kim, 2006, cited in Isaac & Olayide, 2018). This states that the main key in a country's economic development is supported by how well the country's infrastructure develops in other words the economy and infrastructure should have a reciprocal relationship. Specifically, the impact of Indonesia's infrastructure development is felt by one of the cement companies in Indonesia, PT Indocement Tunggul Prakarsa Tbk, which will be referred to as INTP. The strategy made by the INTP was apparently not enough to bring great profits to INTP. Some investors consider that INTP is not feasible or is said to be overvalued with its current conditions based on Bloomberg consensus, of the 20 analysts who cover INTP shares, there are 13 analysts who provide hold recommendations, 12 sell recommendations and 5 buy recommendations. So from that the purpose of this study is to find out what is the appropriate value for INTP for investors with the economic conditions described earlier. To find out the intrinsic value of INTP, the author uses the DCF Valuation method, which is a discounted cash flow assessment. The author also prepares equity costs, debt costs, capital costs, FCFE projections, growth rates, and terminal values for discounted cash flow assessments. The results of this study state that INTP intrinsic value is overvalued compared to market value. This study can provide recommendations to investors and also PT Indocement Tunggul Prakarsa Tbk.

Keywords : Infrastructure Sector, Financial Performance, Relative Valuation, Discounted Cash Flow Valuation

INTRODUCTION

Infrastructure is a promising economic door opener for cement companies in Indonesia, especially for PT Indocement Tunggul Prakarsa Tbk (INTP). We know that there is a reciprocal relationship between infrastructure development and the economy. This also happens to INTP, based on the company's annual financial report, INTP has experienced revenue decline from 2014 to 2017. The decline in revenue resulted in a decrease in profit from INTP. This states means that there is a negative relationship between industry in general and INTP because infrastructure development should affect INTP positively. This negative relationship also resulted in confusion among shareholders in determining the current value of INTP. Because of this the topic becomes interesting, the authors determine to do a valuation of INTP for investors with the economic conditions that have been explained previously.

This study is using the annual report of PT Indocement Tunggul Prakarsa Tbk. (INTP) from 2008 to 2017 and PT Indocement Tunggul Prakarsa Tbk. (INTP) company report. The projection of this study is limited to 10 years period. According to the question of this study stated above the objectives of this study as follow:

1. To value PT Indocement Tunggul Prakarsa Tbk. (INTP) in 2018.
2. To compare PT Indocement Tunggul Prakarsa Tbk. (INTP) market share price to its intrinsic share price.
3. To provide recommendation for investors and PT Indocement Tunggul Prakarsa Tbk. (INTP) management.

The data process , At this step, the author will process the data that was previously obtained. The valuation, there is discounted cash flow valuation. The author also prepares the cost of equity, cost of debt, cost of capital, FCFE Projection, growth rate, and terminal value for discounted cash flow valuation. From DCF Valuation, the intrinsic

value might be lower than how the market price the firm. So, the author could provide recommendation for the investors to SELL the stock as it is currently the intrinsic price is under the market price.

LITERATURE REVIEW

Discounted Cash Flow

While discounted cash flow valuation is one of the three ways of approaching valuation and most valuations done in the real world are relative valuations, it is the foundation on which all other valuation approaches are built (Damodaran, 2002).

Accuracy of DCF valuation is based on FCF, the growth rate, and the discount rate that will be used. Then the intrinsic value that has been calculated with the valuation concept will be compared with the market stock price and from the results of the comparison it will be seen whether the intrinsic value is overvalued or undervalued. In conclusion, DCF is an accurate estimation of a business' intrinsic value. The formula is:

$$P = \frac{FCF_1}{(1+r)^1} + \frac{FCF_2}{(1+r)^2} + \frac{FCF_3}{(1+r)^3} + \dots + \frac{FCF_{\infty}}{(1+r)^{\infty}}$$

Where:

P = Total present value of future free cash flow to the firm

FCF_n = Expected cash flow in period *n*

r = Cost of Capital

Weighted Average Cost of Capital (WACC)

The WACC is just the rate at which the free cash flows (FCF) must be discounted to obtain the same result as the valuation using equity cash flows. The WACC is neither a cost nor a required return: it is a weighted average cost and a required return. To refer to the WACC as the "cost of capital" may be misleading because it is not a cost (Fernandez, 2017). Weighted average cost of capital (WACC) is a calculation of the company's capital costs in which each category of capital has proportional weight. All sources of capital, including ordinary/common shares, preferred shares, bonds and other long-term debt, are included in the WACC calculation.

$$WACC = (W_d \times (K_d \times (1 - T))) + (W_e \times K_e)$$

Where:

WACC= Weighted average cost of capital

W_d = Percentage of financing that is debt

K_d = Cost of debt

T = Effective tax rate

W_e = Percentage of financing that is equity

K_e = Cost of equity

METHODOLOGY

Determine Research Topic

To determine the main topic the author seeks information from various sources. The sources used are news and websites. After the main topic is selected, the author determines the industry and company that are relevant to the topic for this research. Next the author identifies a problem that occurs in the industry, especially the selected company, of course the chosen problem is relevant to the main topic. After the author finds a relevant problem, author determines the purpose of this research. Finally, the author extracts a research design with the aim of facilitating research.

Theoretical Framework

After the problem has been identified, then the author needs to find theories and information that is useful and relevant to help the author analyze the research data. Theory and information used are also able to help authors to achieve the objectives of this research with a clear basis. The main source for conducting this research is the second edition of the book from Damodaran with the title "Damodaran on Evaluation: security analysis for investment and corporate finance"(2006). In addition to the main book from Damodaran, the author also has other sources, such as; reference book, previous studies, journal articles, and websites. In this step, the author explains the theories that support the research to achieve the research objectives.

Data Collection

In carrying out this research, the author uses secondary data. Some data is taken from the company's annual report, company financial statements, BI official website, CSI Market, Yahoo Finance, IDX because the company was selected as a public company. Most of the data needed is a company's financial statements, government bond coupons, historical stock prices, country default spreads, and other information that is useful for this research.

Data Processing

At this step, the author will process the data that was previously obtained. The valuation, there is discounted cash flow valuation. The author also prepares the cost of equity, cost of debt, cost of capital, FCFE Projection, growth rate, and terminal value for discounted cash flow valuation.

Data Analysis

After the data is processed, next, the author will analyze the data with theories and information in the second chapter. In the analysis process the author needs precision and patience because the analysis process is so complex.

Conclusion and Recommendation

After all steps are completed including analysis data, the author will draw conclusions from the results of the analysis. The conclusion will illustrate the condition of valuation of PT Indocement Tunggal Prakarsa Tbk. (INTP). The conclusion will also answer the problem statement in the first chapter. In addition to conclusions, the authors also provide recommendations for investors and PT Indocement Tunggal Prakarsa Tbk. (INTP) management based on the results of research conducted by the author.

FINDINGS AND ARGUMENT

PT Indocement Tunggal Prakarsa Tbk. in this study the results of the intrinsic value were overvalued compared to the market share price. This can be seen from the smaller intrinsic value compared to the market share price. It can also be interpreted that the market still has good confidence in the company compared to the original value of the company based on its fundamentals. Confidence from the market to the company is a natural thing, this reasonableness has been explained by the writer in chapter 1 research background, the author gets a lot of information about the strong potential in the infrastructure sector, especially in Indonesia. This can be seen from the statements of the president and parliament who want to focus on infrastructure development because they are considered to have a multiplier of effects on the economy, where infrastructure is considered as a factor that can help the door of the economy in Indonesia open to investors evenly throughout Indonesia. In addition to statements from the president and ministers, this is also evidenced by the increasing budget for the infrastructure sector. Seen in the APBN, the government allocates infrastructure budget to reach Rp 420.5 trillion, higher than the 2018 allocation of Rp 410.7 trillion (Wicaksono, 2018). The infrastructure in Indonesia (Asia's 4th best economic country) is still not said to be lacking.

On the other hand, although economically and politically the infrastructure sector strongly supports the development of the company, it cannot be denied that INTP has strong competitors. SMGR is the strongest competitor in this sector, as time goes on SMGR is increasingly strengthening its strategy to survive as the number 1 competitor and ruler of market share in this sector. Judging from its ownership, SMGR is a state-owned company where to increase the country's economy, SMGR will receive more projects than others, as seen from the higher

income of SMGR compared to INTP. In addition, SMGR has also expanded its wings by acquiring the third strongest competitor in this sector, Holcim. So that SMGR will be stronger in competing with the same market prey.

Judging from the resource, unstable and continuously corrected coal prices are also an obstacle for INTP. It can be seen from COGS that continues to increase from year to year, revenue continues to decline from 2014-2017 and has an impact on the company's net income which continues to decline, this indicates a weakened INTP ability to compete with the market and fundamentally proven that INTP is overvalued with a premium market share.

CONCLUSIONS

To give a conclusion of the study from PT Indocement Tunggal Prakarsa Tbk., Let's discuss the results based on the calculations that the authors have done through the analysis data in chapter 4.

How much is PT Indocement Tunggal Prakarsa Tbk. (INTP) valued in 2018?

To find out the value of the company in 2018, the author uses the DCF valuation method. In this study the authors chose DCF Valuation: Equity Valuation because the method best fits the characteristics of the company, which has unstable leverage dividends. With this method the author managed to find the intrinsic results of the company value, the value was IDR 17,799.

Is the market stock price of PT Indocement Tunggal Prakarsa Tbk. (INTP) appropriate to its fundamental?

The author will answer that the company's fundamental value is compared with the market value enough to be said appropriate. This is because the intrinsic value of the company is IDR 17,799 less than the market per September 2018 which is IDR 18,500. It can be interpreted that the value of the company is slightly overvalued against the market value, with a difference of -3.79% with the market value.

What course of action that can be recommended to investors and PT Indocement Tunggal Prakarsa Tbk. (INTP) management?

From this study the author can provide recommendations to investors as follows;

1. Hold stock, because at this time even though the intrinsic value of the company is smaller (-3.79%) compared to the market price, the difference is not significant, on the other hand, the industrial, economic and political conditions do not threaten the condition of the company.
2. To prevent large losses, the authors suggest buying stocks that have a negative correlation with the infrastructure industry, for example the consumer goods company.

The author also has several recommendations for PT Indocement Tunggal Prakarsa Tbk. about what might be done to respond to the current situation;

1. The company is good at continuing to look for new strategies to expand market share because competitors are getting stronger.
2. Companies innovate in products and compete in prices to capture market share in addition to government projects.
3. Companies are advised to conduct research on substitute fuels that have the same ability as coal, so far the company has found several ways, companies only need to maximize returns.
4. Reducing the burden on the company as long as the price of fuel soars so that the company's net income can increase.
5. Adopt and make several new technologies that can increase the effectiveness and efficiency of production to reduce the burden on the company.

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