

## **ESTIMATING COMPANY VALUE OF PT LIPPO KARAWACI TBK SECTOR COMPANY-USING THREE METHODS VALUATION**

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*Abstract-in the last few years, the Indonesian property sector continues to grow with the help of the Country, which has a strong economy. PT Lippo Karawaci Tbk is a diversified and integrated property group and is involved in townships, residential homes, hospitals, hotels, retail malls and industrial estate development and management. The share price in stock exchange of PT Lippo Karawaci Tbk is not always reflects the share value of the company itself. The objective of this research is to provide information for shareholders regarding share value of PT Lippo Karawaci Tbk by estimating the price per share value using the three methods in valuation, and estimating the company's value. The theoretical fundamental that used in this research is based on valuation theory by Aswarth Damodaran. The methods used are Discounted Cash Flow, Market Approach, and Asset Based Approach. Discounted Cash Flow method result shows that share value of PT Lippo Karawaci Tbk is amount to four thousand nine hundred nineteen rupiah for Pessimistic, seven thousand five hundred twenty six rupiah for Most Likely, and eighteen thousand eight hundred fifty one rupiah for Optimistic. Compared to share price in stock exchange which amount to one thousand one hundred rupiah, the amount is smaller than share value, which shows that it is undervalued. The result of Market Approach method shows that share value of sector is amount to eight hundred sixty one rupiah. Compared to share value of company which amount to one thousand one hundred sixty three rupiah, it is greater than share value of sector, which means that it is undervalued. The result of Asset Based Approach method shows that the share value is amount to two hundred seventy three point five rupiah. Compared to share price which amount to one thousand one hundred rupiah, the share value is smaller, which means that it is overvalued. Based on the results of this research, investors can see the information about the share value compared to the share price according to the three methods above. Moreover, investors can use this information to consider the investment plans of the PT. Lippo Karawaci Tbk.*

*Keywords: Valuation, Dicounted Cash Flow, and PT Lippo Karawci Tbk*

### **Introduction**

Over the past few years Indonesia's property sector continues to grow in tandem with the country's strong economic performance. A trend is being seen for retail space, as local and foreign retailers insistently expand their presence in Indonesia as they compete to seize the increasing purchasing power and spending of Indonesian households. In response to increasing demand for mid-level and luxury property, supported by the expanding middle class and a low interest rate environment the residential market has also grown rapidly. Core inflation has remained stable at below 5%, which has helped to keep borrowing costs down. Starting in 2013, Jakarta's regional government plans to cut land and housing tax for houses and land plots with taxable sales value below 2 billion Rupiah (\$206,000 USD) by 90% and 27%, respectively. Investor confidence has grown over the past several years as the continuing improvement of Indonesian investment climate. Indonesia's property sector is expected to continue favorable from these favorable conditions. In this research the author will to try analyzing valuation PT Lippo Karawaci Tbk. In order to estimate company's value as the benchmark at the beginning year of 2013 to determine the company has experienced undervalue or

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overvalue. This valuation also used to reassure PT Lippo Karawaci Tbk to maintain the value of the Company in condition of global uncertainty about property regulation.

PT Lippo Karawaci Tbk is local property company based in Jakarta that dominates in Indonesia. PT Lippo Karawaci Tbk is a diversified and integrated property group and is involved in townships, residential homes, hospitals, hotels, retail malls and industrial estate development and management. PT Lippo Karawaci Tbk through its subsidiaries is also engaged in property and REIT management. This company has been offered its shares since 28<sup>th</sup> June 1996.

### Literature Study

Valuation method used for examining various economic factors of the company by ascertained formula to assess the value of the company. This valuation also provides an accurate view of financial conditions of the company presents to current or potential investors. The performer in corporate finance should understand valuation. According to Asworth Damodaran, valuation is useful in a wide range of tasks, which is relevant in many areas in corporate finance, starts from mergers and acquisitions, and in portfolio management. Moreover valuation 'in corporate finance could be maximizing the value of the company.

### Methodology

For the basic understanding of valuation that mostly known by people is using three approaches.

Those three approaches are:

1. Asset- Based Approach
2. Market Approach
3. Income Approach

The market approach or price per earning approach is using price per earning ratio (P/E-ratio). Asset Based Approach use net asset value, which focuses on a company's net asset value, or the fair-market value of its total assets minus its total liabilities. According to *Florian Steiger (2009)* the Discounted Cash Flow (DCF) method is based upon forward-looking data and therefore requires a relatively large amount of predictions for the future business situation of the company and the economy in general.

There are three methods of DCF:

1. Free Cash Flow (FCF)
2. Weighted Average Cost of Capital (WACC)
3. Terminal Value

### Data Analysis

Asset Based Approach is use net asset value, calculated by total asset- total liabilities.

**Table 1. Asset Base Approach**

Total Asset	19,712,034,414,895
Total Liabilities	13,399,189,342,618
Net Asset Value	6,312,845,072,277

Market Approach use P/E Ratio sector and company to make a comparison of the value.

**Table 2. Market Approach**

P/E Ratio		P/E Ratio	
Sector	15.38	Sector	20.3
Net Income	1,322,847,018,938	Net Income	1,322,847,018,938
Value	20,345,387,151,266	Value	26,853,794,484,441
P/E Ratio High Last 5 Years		P/E Ratio High Last 5 Years	
Sector	23.99	Sector	22.74
Net Income	1,322,847,018,938	Net Income	1,322,847,018,938
Value	31,735,099,984,323	Value	30,081,541,210,650
P/E Ratio Low Last 5 Years		P/E Ratio Low Last 5 Years	
Sector	11.15	Sector	16.87
Net Income	1,322,847,018,938	Net Income	1,322,847,018,938
Value	14,749,744,261,159	Value	22,316,429,209,484

**Table 4. Optimistic Scenario**

From Table above value company is greater than value sector; it means many investor want to invest their money to this company. Discounted Cash Flow method is started from estimating the sales forecast and pro forma financial statement of the company. In this research, the author made the projections of the financial statement for 5 next years. Here in this research the author will make a projection of income statement and balance sheet for the next 5 years period. This sales projection is an assumption from the author about the condition and the sales expectation of the industry growth. There are three conditions or scenarios is used in this research, that are pessimistic, most likely, and optimistic. The author assumes that the sales projection growth of PT Lippo Karawaci Tbk using the Compound Annual Growth Rate (CAGR). The formula of the CAGR will be explained below. For the Most likely scenario, the author assumes the most likely growth using compound annual growth. For the pessimistic and optimistic ratio the author assumes the growth based on Setya Maharso, head of Real Estate Indonesia. He said that growth property sector optimistically going at 20% because buying power from 2012 to 2013 increase, and for pessimistic at 10% because increasing of house loaning rates amount 15% from Bank Tabungan Negara, so impact in low of buying power in sector property.

**Table 3. Most Likely Scenario**

#	2012					
Depreciation	215,923,862,506	257,513,026,476	307,112,692,572	366,265,766,162	436,812,332,107	520,946,894,601
Operating Cash Flow	1,377,818,795,286,25	1,643,200,912,542	1,959,698,363,977	2,337,156,490,397	2,787,316,946,838	3,324,182,952,256
Ending Fixed Assets	<b>2,222,377,300,854</b>	2,650,430,101,019	3,160,930,287,439	3,769,758,077,457	4,495,852,382,136	5,361,799,942,238
Beginning Fixed Assets	<b>1,556,124,819,331</b>	1,855,850,516,702	2,213,306,476,164	2,639,612,141,894	3,148,028,677,760	3,754,371,484,625
Capital Spending	666,252,481,523	794,579,584,317	947,623,811,276	1,130,145,935,563	1,347,823,704,376	1,607,428,457,613
Ending Δ (Current Assets-Current Liabilities)	11,396,830,364,819	13,591,977,493,432	16,209,932,610,056	19,332,132,896,007	23,055,701,174,045	27,496,467,124,778
Beginning Δ (Current Assets - Current Liabilities)	8,682,491,769,801	10,354,829,276,597	12,349,276,243,533	14,727,874,276,379	17,564,614,834,365	20,947,740,895,262
Change in Net Working Capital	2,714,338,595,018	3,237,148,216,834	3,860,656,366,523	4,604,258,619,627	5,491,086,339,680	6,548,726,229,515
<b>Free Cash Flow</b>	3,425,904,908,781	4,085,769,545,060	4,872,730,919,224	5,811,269,174,462	6,930,579,582,142	8,265,480,724,159
Free Cash Flow Terminal Value						174,586,587,698,239
Discount Factor	9.48%					
Perpetuity Growth	4.30%					
Present Value of Free Cash Flow		3,129,157,953,164	4,085,769,545,060	4,872,730,919,224	5,811,269,174,462	6,930,579,582,142
Present Value of Terminal Value						174,586,587,698,239
company value	181,517,167,280,381					

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Table 4. Optimistic Scenario

FREE CASH FLOW						
	2012	2013	2014	2015	2016	2017
Depreciation	215,923,862,506	265,830,859,270	327,272,979,095	402,916,362,458	496,043,381,231	610,695,069,722
Operating Cash Flow	1,377,818,795,286	1,696,277,335,993,25	2,088,341,957,918,04	2,571,025,409,973,59	3,165,272,638,261	3,896,869,644,172,47
Ending Fixed Assets	2,222,377,300,854	2,736,040,661,052	3,368,428,257,457	4,146,981,105,637	5,105,482,728,462	6,285,525,114,931
Beginning Fixed Assets	1,556,124,819,331	1,915,795,656,177	2,358,598,070,432	2,903,746,461,638	3,574,896,299,280	4,401,170,597,861
Capital Spending	666,252,481,523	820,245,004,875	1,009,830,187,026	1,243,234,644,000	1,530,586,429,183	1,884,354,517,070
Ending Δ (Current Assets-Current Liabilities)	11,396,830,364,819	14,031,006,919,154	17,274,026,976,226	21,266,613,985,347	26,182,017,141,932	32,233,529,140,688
Beginning Δ (Current Assets - Current Liabilities)	8,682,491,769,801	10,689,296,777,957	11,354,312,870,363	11,354,312,870,363	11,354,312,870,363	11,354,312,870,363
Change in Net Working Capital	2,714,338,595,018	3,341,710,141,198	4,114,087,567,513	5,064,986,428,505	6,235,668,808,684	7,676,933,796,460
Free Cash Flow	3,425,904,908,781	4,217,742,472,316	5,192,599,338,405	6,392,777,194,479	7,870,355,017,762	9,689,448,923,563
Free Cash Flow Terminal Value						194,974,729,809,177
Discount Factor	9.48%					
Perpetuity Growth	4.30%					
Present Value of Free Cash Flow		3,129,157,953,164	3,518,717,673,152	3,956,775,032,987	4,449,367,671,958	5,003,284,875,997
Present Value of Terminal Value						123,947,917,807,286
Total Present Value of Free Cash Flow						318,922,647,616,463
Company value	442,870,565,423,748					
Depreciation	215,923,862,506	253,354,110,079	297,272,864,374	348,804,903,404	409,269,984,649	480,216,644,604
Operating Cash Flow	1,377,818,795,286	1,616,662,700,817	1,896,910,027,032	2,225,738,027,380	2,611,568,127,074	3,064,281,599,385
Ending Fixed Assets	2,222,377,300,854	2,607,624,821,002	3,059,654,724,018	3,590,043,688,342	4,212,375,201,369	4,942,587,438,345
Beginning Fixed Assets	1,556,124,819,331	1,825,877,946,965	2,142,392,586,892	2,513,774,813,919	2,949,535,885,138	3,460,835,827,277
Capital Spending	666,252,481,523	781,746,874,037	917,262,137,125	1,076,268,874,423	1,262,839,316,231	1,481,751,611,068
Ending Δ (Current Assets-Current Liabilities)	11,396,830,364,819	13,372,462,780,570	15,690,569,666,611	18,410,518,728,120	21,601,969,019,628	25,346,654,943,091
Beginning Δ (Current Assets - Current Liabilities)	8,682,491,769,801	10,187,595,525,918	11,953,607,944,748	14,025,757,356,897	16,457,112,391,828	19,309,941,088,070
Change in Net Working Capital	2,714,338,595,018	3,184,867,254,653	3,736,961,721,864	4,384,761,371,223	5,144,856,627,801	6,056,713,855,022
Free Cash Flow	3,425,904,908,781	4,019,783,081,432	4,716,609,611,770	5,534,230,524,179	6,493,585,438,644	7,619,243,843,339
Free Cash Flow Terminal Value						153,317,285,784,187
Discount Factor	9.48%					
Perpetuity Growth	4.30%					
Present Value of Free Cash Flow		3,129,157,953,164	4,019,783,081,432,08	4,716,609,611,769,99	5,534,230,524,179,32	6,493,585,438,644,03
Present Value of Terminal Value						97,465,750,332,944
Company value	121,359,116,942,134					

### Company Value and Share Value

The author needs to find the share value of the three scenarios that have been made above. Since there are three scenarios, the calculation will be shown in the table below.

Table 6. DCF Share Value

Company Value	Log Term Liabilities	No of Share Outstanding Common Stock	Share Price	
442,870,565,423,748	7,840,892,661,852	23,077,690,000	18,851	OPTIMISTIC
181,517,167,280,381	7,840,892,661,852	23,077,690,000	7,526	MOST LIKELY
121,359,116,942,134	7,840,892,661,852	23,077,690,000	4,919	PESSIMISTIC

As we can see from the calculation in the table above, it shows that the fair value of share price of PT Lippo Karawaci Tbk. has a range from IDR 4,900– IDR 18,851 amongst these three scenarios, compared to the market value of PT Lippo Karawaci Tbk., which has the value of IDR 1,100 at the beginning of 2013. With the calculation of share prices above, the author can conclude that the market value of PT Lippo Karawaci Tbk. is undervalued compared to the share price of the three scenarios above. This result probably could affect the share price that is likely to rise.

### Conclusion

The Author assumes Discounted Cash Flow is the most effective approach. Because Discount Cash Flow include almost all aspects in financial activities. First is calculating Free Cash Flow, which is determining the cash that a Company generates after investing the money required for maintenance or expand its asset base. Free cash flow allows a Company to achieve at opportunities that increase the shareholder value. In Free Cash Flow itself is contained by some aspects, which are Weighted Average Cost of Capital, Capital Expenditure, Net Change of Capital, and Operating Cash Flow. Calculating Free Cash Flow The Author use three scenarios, which are Most Likely, Optimistic, and Pessimistic. Then got the company value from three scenarios that explained in the table above.

From Company Value The Author calculate Share Price, which are IDR 4,919-IDR18, 851. Compare to current market value IDR 1,100 that explain Share Price of PT Lippo Karawaci Tbk is greater and it is defined undervalued. Discussing about undervalue second method that used in this research, which is Market Approach is also defined undervalued. Because share price of PT. Lippo Karawaci Tbk is also undervalue share price Company is greater than share price Sector. For Company's share price amount to 26,853,794,484,441 and Sector's share price amount to 26,853,794,484,441. Meanwhile the third approach, which is Asset Based Approach, is going different result. This approach use book value that total assets minus total liabilities and the share price is the smallest IDR 273,55. Compare to current market value IDR 1,100 share price of Asset Based Method is overvalued because smaller than market value.