

**ESTIMATING COMPANY VALUE: PT SARANA MENARA
NUSANTARA, TBK
COMPANY VALUATION OF A TOWER INDUSTRY COMPANY**

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Abstract

This paper examines valuation process of PT Sarana Menara Nusantara (SMN) Tbk, a company in tower telecommunication industry. SMN currently is the market leader of its sector, and on its high growth stage. The valuation was conducted using three different methods, which are asset-based valuation, market approach, and discounted cash flow with three different scenarios, which are most likely, pessimistic, and optimistic. The result of this research will be used as suggestion to the company's management board to increase its value and maintain its growth. Furthermore, the fair stock value per share also calculated in this study, and will be compared to the current market value of the stock, because SMN is a public listed company. The result shows that the company value for 1 January 2012 ranged from Rp 8,568,330,000,000 – Rp 22,035,565,508,695 after calculated using those three methods, and the fair stock value per share were below the current market value. This research focuses on valuating PT Sarana Menara Nusantara (SMN). Then this research will be continued to find recommendation about strategies and actions that can be implemented by the company to maximize its company value and increase shareholder's wealth. Methods that used in this research were asset-based value, Price to Earning Ratio, and mainly Discounted Cash Flow, with using weighted average cost of capital as the discount rate. Quantitative data was used and it is taken from audited financial report of the company. The result shows that the company value for 1 January 2012 ranged from Rp 8,568,330,000,000 – Rp 22,035,565,508,695

after calculated using those three methods. The fair stock value per share were below the current market value. The high market price is caused by market perception, perceiving that the company is now on a high growth stage. This research was conducted by collecting and analyzing the financial report of PT Sarana Menara Nusantara (SMN) in the period of 2009-2011. The research focuses on valuing the firm and estimating the value of company stock per share. The paper valued a public listed company, and Valuation.

Keywords: Corporate Finance; Discounted Cash Flow; WACC; P/E Ratio; Asset-based value, Projection; tower industry; public listed company

Category: Finance

Introduction

Every company that doing business has a similar objective besides the other objectives and goals, which is to maximize the value of the firm. Every decision made by management in a business firm has financial implications, and any decision that involves use of money is a corporate financial decision such as investment, financing, and dividend decisions. These decisions can led the firm to either enhance or reduce the value of the firm.

Valuation is the process of determining the current worth of an asset or company. Valuation is used by financial market participants to determine the price they are willing to pay for a business. For company valuation, the value of a

firm can be directly related to the decisions that it makes, like on which project it should take and how it financed.

According to Damodaran, "There are many areas in valuation where there is room for disagreement, including how to estimate true value and how long it will take for prices to adjust true value. But there is one point on which there can be no disagreement." (Investment Valuation, 2002). A valuation actually is not an objective search for true value. All valuations are biased, and the only questions are how much and in which direction it biased. There were no precise estimation of value and the payoff to valuation is greatest when valuation is least precise. With its nature of uncertainty, there are some misconceptions about valuation, like the more quantitative a model, the better the valuation.

In this research, the company being evaluated is PT Sarana Menara Nusantara (SMN) and PT Profesional Telekomunikasi Indonesia (Protelindo) as its subsidiary. SMN was established in 2008, and with primary focus of the company is to perform investing activity in operating companies that specialize in owning and operating telecommunication towers for lease to wireless communications companies. Protelindo was established in 2003 and has become the largest independent owner and operator of tower sites for wireless communications companies in Indonesia. Protelindo's primary business is leasing space at its multi-tenant tower sites to all major wireless operators in Indonesia pursuant to long term lease agreements. Protelindo owns and operates over 6,000 towers in Indonesia, and has the largest, newest and most expansive portfolio held by any independent owner and operator of towers in Indonesia. Protelindo is the only operating subsidiary of PT Sarana Menara Nusantara, after 99.999% of its outstanding shares are being acquired by PT Sarana Menara Nusantara.

Therefore, this research aimed to help the board of management of PT Sarana Menara Nusantara in taking corporate financial decisions by estimating the value of PT Sarana Menara Nusantara at the beginning of year 2012. After that, the author will propose recommendations to the management board that can enhance the company value.

Literature Review

Business valuation is a process to estimate the economic worth of stakeholder's interest in a business. Business or their assets are valued for a variety of reason, such as merger and acquisition, Initial Public Offering (IPO), buy or sell agreements, stock option planning, and business planning. According to Prof. Ian H. Giddy in *Methods of Corporate Valuation* (2006), there are 3 tools of corporate valuation, which are asset-based method, market approach, and discounted cash flow method.

Asset-based approach aims at determining the value of net assets. The market approach relies on the market condition to determine how much worth of a business, and using P/E ratio as the indicator. Discounted Cash Flow is a method for determining the current value of a company using forecasted future cash flows over determined period of time horizon, which adjusted to the present value, using WACC as discount factor in this research. This research mainly focuses on using discounted cash flow method.

Methodology

Free cash flow (FCF) is the amount of cash flow available to investors (creditors and owners) after the firms has met all operating needs and paid for investments in net fixed assets and net current assets. A firm's value can be estimated with estimated using projected free cash flow. The total present value of the future cash flow will be the firm's value. According to Damodaran, *Investment Valuation*, 2nd ed., the basic discounted cash flow model as follows:

$$(1) \quad \text{Value} = \sum_{t=1}^{t=n} \frac{CF_t}{(1+r)^t}$$

There are literally thousands of discounted cash flow models in existence. However, discounted cash flow models can vary only a couple of dimensions. However, the cash flow only covers several projected years. Terminal value will be used to reflect the company cash flow over unlimited time, after the projected future years, with assumption that the company will have a stable growth

$$(2) \quad \text{Terminal value} = \frac{FCF(1+g)}{(WACC-g)}$$

Historical data from the audited financial report of PT SMN from year 2009-2011 is used in this research to conduct the company value based on those three methods.

Data Analysis

Asset-Based Method

In calculating the company value of PT Sarana Menara Nusantara (SMN) using asset-based method, the value of PT Sarana Menara Nusantara (SMN) can be seen from the total assets of the company from the balance sheet in the latest financial report of the company. Prior the value calculation, some accounts in the balance sheet have to be adjusted with the current market condition, to obtain the fair market value. The company has already noted certain financial assets and liabilities at fair value, which requires the use of accounting estimates.

Table 1. Total Net Assets of SMN From Balance Sheet 2011

The total asset of PT Sarana Menara Nusantara based on the fair value is Rp8,568,330,000,000. So, the corporate value of PT Sarana Menara

	2011
ASSETS	
Cash and cash equivalents	Rp649,452,000,000
Trade receivables	Rp194,602,000,000
Inventories	Rp937,000,000
Prepaid expenses	Rp15,069,000,000
Refundable taxes	Rp42,209,000,000
net investment	Rp1,092,000,000
Fixed asset, less accumulated depreciation	Rp6,956,250,000,000
Long-term site rentals	Rp541,785,000,000
Deferred tax assets	Rp1,800,000,000
Other non-current assets	Rp165,134,000,000
TOTAL ASSETS	Rp8,568,330,000,000

Nusantara (SMN) based on asset-based value is Rp8,568,330,000,000.

A. Market Approach

Headings, In calculating the company value of PT Sarana Menara Nusantara (SMN) using market approach, the author compare with the P/E Ratio of companies that belongs to the same sector with PT Sarana Menara Nusantara (SMN), which is telecommunication sector. The average P/E Ratio from the sector is 36.19.

Tabel 2. Average P/E Ratio

Company Code	P/E Ratio
BTEL	
EXCL	19.27
ISAT	59.08
RINA	
SUPR	16.61
TLKM	14.28
TBIG	29.38
TOWR	78.55
PE Ratio average	36.195

per : 9 july 2012

To get the company value, the P/E ratio needs to be multiplied with net income of the company. The net income of the company in the year 2011 is Rp 283,884,000,000, so the company value is Rp 10,275,181,380,000.

Discounted Cash Flow

In calculating the company value of PT Sarana Menara Nusantara (SMN) using discounted cash flow method, it is started by estimating the sales forecast and prepares the pro forma financial statement of the company, by using assumptions that generated from current market and industry condition. The author used compound annual growth rate of the company, which is 23.49%. This method is conducted in three different scenarios, which are most likely, pessimistic, and optimistic. The annual growth rate are different in each scenario. Weighted average cost of capital reflects the expected average future cost of capital over the long run. The WACC used as discount rate in calculating the present value of the future cash flow.

$$WACC = (80.17\% \times (10.65\% \times (1 - 25\%))) + (19.83\% \times 6.31\%)$$

$$WACC = 7.65\%$$

1) Most Likely Scenario

Table 3. DCF Most Likely

Free Cash Flow				
CAGR : 23.49%				
	2011	2012	2013	2014
Operating Income	Rp905,064,000,000	Rp1,158,732,006,699	Rp1,472,031,326,171	Rp1,818,899,957,788
Tax	Rp226,266,000,000	Rp289,688,001,675	Rp368,007,831,543	Rp464,724,989,447
NOPAT	Rp678,798,000,000	Rp869,064,005,024	Rp1,104,023,494,629	Rp1,354,174,968,341
Depreciation and amortization	Rp480,906,000,000	Rp593,870,819,400	Rp733,371,074,877	Rp905,639,940,366
Operating Cash Flow	Rp1,159,704,000,000	Rp1,462,934,824,424	Rp1,837,394,569,506	Rp2,259,814,908,707
Less :				
Change in Net Working Capital	Rp202,000,000,000	(Rp4,000,000,000)	(Rp4,000,000,000)	(Rp1,000,000,000)
Capital Expenditure	Rp1,446,000,000,000	Rp1,291,000,000,000	Rp1,421,000,000,000	Rp1,446,000,000,000
Free Cash Flow	(Rp1,490,106,000,000)	Rp175,934,824,424	Rp420,394,569,506	Rp814,814,908,707
Terminal Value				Rp20,413,613,884,398
Discount Factor (WACC)	8.03%			
Perpetuity Growth	3.79%			
PV FCF		Rp162,850,604,179	Rp360,190,473,549	Rp612,068,435,359
PV of Terminal Value				Rp16,189,468,184,900
TOTAL PV of Free Cash Flow		Rp17,374,577,697,187		
Stock Price		Rp11,011		

Based on the discounted cash flow model with most likely annual growth rate, the company value of SMN is Rp 17,374,577,697,187.

2) Pessimistic Scenario

Table 4. DCF Pessimistic

Free Cash Flow				
CAGR : 21.15%				
	2011	2012	2013	2014
Operating Income	Rp905,064,000,000	Rp1,096,485,036,000	Rp1,328,391,621,114	Rp1,609,346,448,980
Tax	Rp226,266,000,000	Rp274,121,259,000	Rp332,097,905,279	Rp402,336,612,245
NOPAT	Rp678,798,000,000	Rp822,363,777,000	Rp996,293,715,836	Rp1,207,009,836,735
Depreciation and amortization	Rp480,906,000,000	Rp582,617,619,000	Rp705,841,245,419	Rp855,126,668,825
Operating Cash Flow	Rp1,159,704,000,000	Rp1,404,981,396,000	Rp1,702,134,961,254	Rp2,062,136,505,559
Less :				
Change in Net Working Capital	Rp202,000,000,000	(Rp4,000,000,000)	(Rp4,000,000,000)	(Rp1,000,000,000)
Capital Expenditure	Rp1,446,000,000,000	Rp1,291,000,000,000	Rp1,421,000,000,000	Rp1,446,000,000,000
Free Cash Flow	(Rp488,296,000,000)	Rp117,981,396,000	Rp285,134,961,254	Rp617,136,505,559
Terminal Value				Rp14,601,696,655,903
Discount Factor (WACC)	8.03%			
Perpetuity Growth	3.79%			
PV FCF		Rp109,207,154,885	Rp244,301,197,150	Rp475,572,318,615
PV of Terminal Value				Rp11,580,198,625,799
TOTAL PV of Free Cash Flow		Rp12,407,279,296,389		
Stock Price		Rp6,143		

Based on the discounted cash flow model with most likely annual growth rate, the company value of SMN is Rp 12,407,279,296,389. The annual growth rate is reduced to 21.15%.

3) Optimistic Scenario

Table 5. DCF Optimistic

Free Cash Flow				
CAGR : 25.87%				
	2011	2012	2013	2014
Operating Income	Rp905,064,000,000	Rp1,139,204,056,800	Rp1,433,916,146,294	Rp1,804,870,253,340
Tax	Rp226,266,000,000	Rp284,801,014,200	Rp358,479,036,574	Rp451,217,563,335
NOPAT	Rp678,798,000,000	Rp854,403,042,600	Rp1,075,437,109,721	Rp1,353,652,690,005
Depreciation and amortization	Rp480,906,000,000	Rp605,316,382,200	Rp761,911,730,275	Rp959,018,294,897
Operating Cash Flow	Rp1,159,704,000,000	Rp1,459,719,424,800	Rp1,837,348,839,996	Rp2,312,670,984,903
Less :				
Change in Net Working Capital	Rp202,000,000,000	(Rp4,000,000,000)	(Rp4,000,000,000)	(Rp1,000,000,000)
Capital Expenditure	Rp1,446,000,000,000	Rp1,291,000,000,000	Rp1,421,000,000,000	Rp1,446,000,000,000
Free Cash Flow	(Rp488,296,000,000)	Rp172,719,424,800	Rp420,348,839,996	Rp867,670,984,903
Terminal Value				Rp20,717,981,743,417
Discount Factor (WACC)	8.03%			
Perpetuity Growth	3.79%			
PV FCF		Rp159,874,332,863	Rp360,151,292,496	Rp671,264,231,053
PV of Terminal Value				Rp16,418,784,571,135
TOTAL PV of Free Cash Flow		Rp17,631,074,427,547		
Stock Price		Rp11,263		

Based on the discounted cash flow model with most likely annual growth rate, the company value of SMN is Rp 17,631,074,427,547. The annual growth rate is increased to 25.87%.

Conclusion and Recommendation

PT Sarana Menara Nusantara and Protelindo as its subsidiary is now on excellent growth rate in the tower-leasing business, becoming the leader on this business, with growth in revenue, EBITDA, number of tower, and tenants all over 20%. The growth is driven by favorable conditions in the wireless communication industry, such as the increasing use of smart phones and tablets, which are contributing to

the rapid increase in wireless data communication.

The author used three methods in estimating the value of PT Sarana Menara Nusantara, which are asset based method, price to earnings ratio, and discounted cash flow method. With the use of those three methods, the company value ranged from Rp 8,568,330,000,000 – Rp 27,416,482,692,208.

Table 6. Company Value

No.	Methods	Corporate Value	Stock Price	Information
1	Asset Based Value	Rp8,568,330,000,000	<i>Rp2,380</i>	–
2	Price Earning Ratio	Rp 10,275,181,380,000	<i>Rp4,053</i>	–
3	Discounted Cash Flow	Rp 17,374,577,697,187	<i>Rp 11,011</i>	Most Likely
		Rp 12,407,279,296,389	<i>Rp 6,143</i>	Pessimistic
		Rp 17,631,074,427,547	<i>Rp 11,263</i>	Optimistic
		Rp 16,589,444,085,448	<i>Rp 10,242</i>	Total weighted averaged value

The fair value of the stock price of PT Sarana Menara Nusantara are mostly under the market price per share of PT SMN (TOWR), which is Rp16,000 (per July 16th 2012). The company high growth and good performance affected the market perception, which influenced the market value per share. PT Sarana Menara Nusantara has already did an excellent performance from year to year, which is shown by a very high growth in their business. As the current market price are still overpriced, the author recommend to not buying the stock. For investors that currently holding the stock, it is recommended to sell the stock. A stock which is considered to be overvalued is likely to experience a price decline and return to a level which better reflects its financial status and fundamentals.

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