

**ESTIMATING THE VALUE OF PT HANJAYA MANDALA
SAMPOERNA TBK. USING THE DISCOUNTED CASH FLOW
METHOD**

Omar Yusuf Tadjoeidin and Isrochmani Murtaqi
School of Business and Management
Institut Teknologi Bandung, Indonesia
omartadjoedin@hotmail.com

Abstract

The success of Sampoerna attracted Philip Morris International Inc. ("PMI"), which is one of the leading tobacco companies in the world. In May 2005, the majority ownership of Sampoerna was acquired by Philip Morris Indonesia, an affiliate of PMI. In the capital market, the share price of PT HM Sampoerna Tbk. rises after the acquisition. The end of 2005 the share price of HMSP around Rp 8,000 and continued rising until the recent share price of Rp 51,200 in 2012. The author computes intrinsic share value of the company as of 2012. For the purpose of this final project the author will use Discounted Cash Flow method. The result the author's computation is an intrinsic value of Rp 43,392 at august of 2012. While the share price in 2012 of PT HM Sampoerna Tbk. in capital market is Rp 51.200. Which mean the current share price of PT HM Sampoerna Tbk. is overvalue. PT HM Sampoerna Tbk. has a minimum portion of shares in capital market. Actually, the current outstanding shares only 2.05% from total shares. Therefore the intrinsic value of the author's computation may not represent the share price of the company in total. In author opinion, the acquisitions cause a positive perception in public that increase the share price.

Keywords: intrinsic share value, discounted cash flow, income approach.

Introduction

Nowadays, Indonesians economic is developing. One aspect for the economics development is in commodity sector, which includes cigar industries. Cigar industries in Indonesia has been the main sector of Indonesians Economics since long time, there are so many cigarettes smokers

in Indonesia. Moreover, cigarettes industry needs so many workers and it generates the raise the standard of living of Indonesian people to create jobs. The magnitude of the tobacco industry in Indonesia helped the economic standard of the community indirectly.

At present there are a lot of pros and cons in tobacco industry. A lot of people who disagree with the industry since the tobacco industry directly cause the Indonesia people to live unhealthy. While proponents said that it would be a lot of labor become unemployed if the tobacco industry is stop running its business or even closed completely.

In other hand, the sales of cigarettes stable because of the tax received, the customs duty on a cigarette can reach 50% of the sales price. PT HM Sampoerna Tbk is the largest Indonesian tobacco company, it has as big as impacts to the employment. The third generation of the family Sampoerna, led the company in 1978. Under his control, Sampoerna is growing rapidly and became a public company in 1990 with a modern business structure. Sampoerna also strengthen its position as one of the leading companies in Indonesia.

In May, 2005, Philip Morris takes over PT HM Sampoerna Tbk with the acquisition of 98% of the company. This change is certainly going to change the performance and value of the company, with management and capital are considered better than before.

Theoretical Foundations

A. Valuation

Valuation is calculating the value of a performance management based on certain aspects. One of which is Income Approach. And the method that will be used is Discounted Cash Flow.

B. Discounted Cash Flow

According to Damodaran (2002), Discounted cash flow (DCF) analysis uses future free cash flow projections and discounts them (most often using the weighted average cost of capital) to arrive at a present value, which is used to evaluate the potential for investment. If the value arrived at through DCF analysis is higher than the current cost of the investment, the opportunity may be a good one.

C. Pro Forma Financial Statements

Pro Forma Financial Statement is a projected financial statements. According to Gitman, there are a simple method for developing a pro forma income statements, that method is percent of sales method.

D. Sales Forecast

In this research, the author forecast the sales by using the company sales from 2006 to 2011 and forecast the company sales from 2012 to 2016. According to Damodaran (2002), to calculate estimated growth, the author will use Compound Growth Rate as the discount rate. The CAGR model is as follows.

$$\text{CAGR}(t_0, t_n) = \left(\frac{V(t_n)}{V(t_0)} \right)^{\frac{1}{t_n - t_0}} - 1$$

$V(t_0)$: start value, $V(t_n)$: finish value, $t_n - t_0$: number of years.

E. Free Cash Flow (FCF)

According to Damodaran (2002), free cash flow (FCF) represents the cash available to investors after the firm has met all operating needs and paid for net investments in fixed assets and current assets. Free cash flow can be defined as follows.

F. Terminal Value

According to Damodaran (2002), terminal value measures the present value at a future point in time of all future point in time of all future cash flow when it expected as a stable growth rate. This calculation can also refer to the value of

entire company at specified future valuation date. This method can be calculated as follows:

$$\text{Terminal Value} = \frac{\text{FCF to Firm} \times (1 + \text{Perpetuity Growth})}{(\text{WACC} - \text{Perpetuity Growth})}$$

G. Present Value of FCF

According to Damodaran (2002), free cash flow (FCF) represents the cash available to investors after the firm has met all operating needs and paid for net investments in fixed assets and current assets. PV FCF is taken the projected free cash flow into year 0. This method can be defined as follows:

$$\text{EBIT} = \text{Gross profit} - \text{Total operating expenses}$$

$$\text{Depreciation} = \text{Depreciation}$$

$$\text{Capex}(n) = \text{Fixed assets}(n) - \text{Fixed assets}(n-1)$$

$$\text{NWC current} = \text{Total current assets} - \text{Total liabilities}$$

$$\text{Change in NWC} = \text{NWC}(n) - \text{NWC}(n-1)$$

$$\text{FCF to Firm} = \text{EBIT}(1 - \text{Tax}) + \text{DEP} - \text{Capex} - \text{Change in NWC}$$

$$\text{Terminal Value} = \frac{\text{FCF to Firm} \times (1 + \text{Perpetuity Growth})}{(\text{WACC} - \text{Perpetuity Growth})}$$

$$\text{PV FCF to Firm} = \text{FCF to Firm} / (1 + \text{WACC})$$

$$\text{PV Terminal Value} = \text{Terminal Value} / (1 + \text{WACC})$$

$$\text{PV FCF} = \text{SUM}(\text{PV FCF to Firm}; \text{PV Terminal Value})$$

H. Intrinsic Share Value

According to Damodaran (2002), intrinsic share value is calculation of share value based on projected value from historical data. To find the fair value of share price using the income-based methods, the author use a formula which is provide below.

$$\text{Intrinsic Share Value} = \frac{\text{PV FCF} - \text{Long-term Liabilities}}{\text{Number of Outstanding Common Share}}$$

I. Cost of Capital

According to Gitman (2009), cost of capital in the project's rate of return that the company should have to create a good relationship about

the firm's value in the market and attract outsourcing funds. It represents the firm's cost of financing and is the minimum rate of return that a project must earn to increase firm value.

J. Cost of Debt (r_d)

According to Gitman (2009), cost of debt is the rate of return that must be paid by company against its debts. Debt in question can be derived from bank loans or corporate bonds. In general, the cost of debt is set to variables such as the level of the cost of current interest, the default risk of the company, and the tax benefits for companies with a debt. The formula of cost of debt after tax can be calculated as follows:

$$R_d = \text{loan interest rate} \times (1 - T)$$

K. Cost of Equity (r_e)

According to Gitman (2009), cost of equity represents the company's compensation, which the market demands in exchange for owning the assets and endure the ownership risks. To calculate the cost of common stock equity, there are two methods, which are Capital Asset Pricing Model (CAPM) and constant-growth calculation. In this term, the author will present the cost of common stock equity through CAPM approach. This calculation indicates the relationship between rate of return and company's risks through its beta.

$$\text{Cost of Equity } (r_e) = R_f + (\beta \times \text{Risk Premium})$$

L. Debt Proportion (W_d)

Debt proportion can be calculated by dividing the long-term liabilities to sum of long-term liabilities and total equity.

$$\text{Debt Proportion } (W_d) = \frac{\text{Long-term liabilities}}{(\text{Long-term liabilities} + \text{Total Equity})}$$

M. Equity Proportion 2011 (W_e)

Equity Proportion can be calculated by dividing the total equity to sum of long-term liabilities and total equity.

$$\text{Equity Proportion } (W_e) = \frac{\text{Total Equity}}{(\text{Long-term liabilities} + \text{Total Equity})}$$

$$\begin{aligned} & \text{Or} \\ & = 1 - \text{Debt proportion} \end{aligned}$$

(W_d)

N. Weighted Average Cost of Capital (WACC)

According to Gitman (2009), WACC is the weighted average rate of expected after-tax returns sources of corporate funding. WACC is also the discount rate used to estimate the value of the company.

The formula of WACC is:

$$WACC = (w_d \times (r_d \times (1 - T))) + (w_e \times r_e)$$

Methodology

A. Problem Identification

In this research, the author will discuss and solve the problem by estimating the value of PT HM Sampoerna Tbk. that will be done by several approaches and giving recommendations to the management to enhance the firm's value.

B. Literature Review

This research will use theories and tools that can solve the problem of estimating firm's value. Some of the theories taken by textbook such as "Principle of Managerial Finance", written by Lawrence J. Gitman, "Investment Valuation". Written by Aswath Damodaran, and also other books, journals, and papers that used as the reference for this research will be mentioned in the reference site.

C. Data Collection

The data that will be collected and analyzed in this research are the audited financial statements of PT HM Sampoerna Tbk. from the year 2006 until 2011, then trying to predicted company sales for the next 5 years.

D. Model and Data Analysis

In this research, the author will use Discounted Cash Flow method to calculate the value of the company. According to Lorillard, tobacco industry have strong characteristics in the cash-flow. On that basis, Discounted Cash Flow approach is the best process for valuing the tobacco companies.

This method looks at future income and assume that the company's profit is stable. Discounted Cash Flow method is calculating the present value of the expected cash flows.

E. Data Analysis

The data is then computed and analyzed to find intrinsic value. To support the assumptions and the recommendations that given in order to

enhance the company's value, the author use the Indonesian market outlook in Cigarette Industry Sector.

F Conclusion

The Conclusion of this research is to find the value of PT HM Sampoerna Tbk. from the pro forma financial statement using the methods above.

Data Analysis

The formula for this chapter has been explained in chapter II

A. Cost of Debt 2011 (rd)

PT Sampoerna Tbk. has borrowed funds from PT Philip Morris Indonesia, Philip Morris International Management SA, Philip Morris International IT Service Center SARL, Philip Morris Information Service Limited, Philip Morris Global Services Inc., and Others (less than Rp.1.0 billion each). Based on data from annual report, PT HM Sampoerna Tbk.'s cost of debt is 7.24%.

B. Cost of Equity 2011 (re)

In this research, the Author use Capital Asset Pricing Model (CAPM) to determine Cost of Equity. CAPM will explain the relationship between risk and return in rational market equilibrium. The formula of CAPM to generate the Cost of Equity consist of risk-free rate, beta, and market risk premium of the company. The risk-free rate are use BI rate, which has a rate 6% in December 2012. The beta coefficient is 0.46 in 2012, this nominal got from website damodaran.com. And for the risk premium, the author is using country risk, which represents the market risk premium of the company. The nominal of risk premium is 9.60% for Indonesia according to Country Default spreads and Risk Premium (January 2012) by Aswath Damodaran.

$$\text{Cost of Equity (re)} = R_f + (\beta \times \text{Risk Premium})$$

$$= 5.25\% + (0.46 \times 9.60\%)$$

$$= 9.66\%$$

C. Debt Proportion in year 2011 (Wd)

Debt proportion can be calculated by dividing the long-term liabilities of 684,657 to sum of long-term liabilities and total equity of 10,201,789.

Debt Proportion (Wd) :

$$= \text{Long-term liabilities} / (\text{Long-term liabilities} + \text{Total Equity})$$

$$= 684.657 / (684.657 + 10.201.789)$$

$$= 0.0629$$

$$= 6.29\%$$

The calculation above shows that PT Sampoerna Tbk. has proportion of long-term liabilities in capital structure is 6.29%.

D. Equity Proportion in year 2011 (We)

Equity Proportion can be calculated by dividing the total equity to sum of long-term liabilities and total equity. Or 1 - Debt proportion (Wd)

$$\text{Equity Proportion (We)} = 1 - W_d$$

$$= 1 - 0.0629$$

$$= 0.9371$$

$$= 93.71\%$$

The calculation above shows that PT Sampoerna Tbk. has proportion of equity in capital structure is 93.71%.

E. Weighted Average Cost of Capital (WACC)

Weighted Average Cost of Capital is average cost of funds in the long-term. In income approach method WACC is used as discount rate to find the present value of Free Cash Flow.

$$\text{WACC} = (W_d \times r_d (1-T)) + (W_e \times r_e)$$

$$= (0.06 \times 0.07 (1-0.25)) + (0.93 \times 0.097)$$

$$= 9.4\%$$

Table 4.1

Weighted Average Cost of Capital (WACC)

NO	Description	Value	Information
1	Discount Rate (WACC)	9.4%	
2	Cost of Equity (re)	9.67%	Sum of risk-free rate and multiplied between Market risk premium and beta
3	Risk-free Rate (rRf)	5.25%	Nominal Bank Indonesia Rate December 2012
4	Market Risk Premium (rM-rRf)	9.60%	According to Country Default Spreads and Risk Premium (January 2012) by Aswath Damodaran
5	Beta	0.46	According to damodaran.com 2012
6	Cost of	7.24%	Effective interest

	Debt (rd)		rate of company's current debt in 2011 (based on annual report 2011)	(We)
7	Perpetuity Growth (g)	4.45%	Inflation rate in Indonesia	
8	Corporate tax (T)	25.00%	Company's effective tax rate under the income tax law no. 36 year 2008.	
9	Debt Proportion (Wd)	6.29%		
10	Equity Proportion	93.71%		

F. Pro Forma Financial Statement

The pro forma income statement and balance sheet will be generated using growth from the CAGR. The author assumes that all of the accounts in the income statement expected to increase with the growth from CAGR calculation. The tax rate is based on Indonesian government regulation, which is 25% of the net income before tax account.

The formula is:

$$\text{Year}(n) = \text{Year}(n-1) \times (1 + \text{CAGR})$$

Table 4.2
Pro Forma Income Statement PT Sampoerna Tbk.
For the years ended 2012-2016
In Million Rupiah

	2016F	2015F	2014F	2013F	2012F
NET INCOME					
Net Sales	94,561,643	84,176,726	74,932,298	66,703,108	59,377,662
Cost of goods sold	67,376,603	59,977,192	53,390,397	47,526,975	42,307,483
Gross profit	27,185,040	24,199,534	21,541,901	19,176,133	17,070,178
Operating expenses					
Selling	6,373,592	5,673,634	5,050,546	4,495,886	4,002,141
General and administrative	1,816,743	1,617,225	1,439,619	1,281,518	1,140,779
Total operating expenses	8,190,335	7,290,859	6,490,165	5,777,404	5,142,920
Operating income	18,994,705	16,908,675	15,051,736	13,398,729	11,927,258
Other income/(expenses)					
Interest income	221,470	197,148	175,497	156,223	139,067
Goodwill amortisation	-364,611	-324,569	-288,924	-257,194	-228,949
Financing costs	-38,773	-34,515	-30,725	-27,350	-24,347
Miscellaneous - net	689,420	613,707	546,308	486,312	432,904
Other income/(expenses) - net	507,505	451,770	402,156	357,991	318,675
Share of results of associates					
Profit before income tax	19,520,130	17,376,397	15,468,092	13,769,361	12,257,187
Income tax expense					
Current	5,195,595	4,625,006	4,117,080	3,664,936	3,262,446
Deferred	-102,874	-91,576	-81,519	-72,567	-64,597
Income tax expense - net	5,092,721	4,533,430	4,035,561	3,592,369	3,197,849
Consolidated profit before minority interest	14,427,409	12,842,967	11,432,531	10,176,992	9,059,338
Minority interest	-1,768	-1,573	-1,401	-1,247	-1,110
NET INCOME	14,429,177	12,844,541	11,433,932	10,178,239	9,060,447

Table 4.3
Pro Forma Balance Sheet PT Sampoerna Tbk.
For the years ended 2012-2016
In Million Rupiah

BALANCE SHEET	2016F	2015F	2014F	2013F	2012F
ASET					
Current assets					
Cash and cash equivalents	3,703,489	3,296,766	2,934,709	2,612,415	2,325,515
Short-Term investment					
Trade receivables					
- Third parties - net	1,472,806	1,311,060	1,167,077	1,038,907	924,812
- Related parties	121,948	108,556	96,634	86,022	76,575
Other receivables					
- Third parties	89,734	79,879	71,106	63,297	56,346
- Related parties	270,741	241,008	214,540	190,979	170,005
Inventories - net	15,946,147	14,194,914	12,636,005	11,248,298	10,012,991
Prepaid taxes	914,376	813,958	724,568	644,995	574,160
Advance for purchase of tobacco	3,682,368	3,277,964	2,917,973	2,597,516	2,312,252
Prepaid expenses and other assets	367,931	327,525	291,555	259,536	231,033
Total current assets	26,569,541	23,651,630	21,054,168	18,741,964	16,683,691
Non-current assets					
Deferred tax assets	168,592	150,077	133,595	118,923	105,863
Investments in associates	39,675	35,318	31,439	27,987	24,913
net of accumulated depreciation and assets impairment	6,888,912	6,132,360	5,458,894	4,859,389	4,325,723
Land for development	310,429	276,337	245,989	218,974	194,926
Goodwill - net	108,098	96,226	85,659	76,251	67,877
Other assets - net	579,395	515,765	459,123	408,701	363,817
Total non-current assets	8,095,101	7,206,083	6,414,699	5,710,226	5,083,120
TOTAL ASSETS	34,664,641	30,857,713	27,468,867	24,452,191	21,766,810
	2016F	2015F	2014F	2013F	2012F
LIABILITIES					
Current liabilities					
Other payables					
- Third parties	2,278,952	2,028,674	1,805,882	1,607,557	1,431,012
- Related party	1,188,354	1,057,847	941,672	838,256	746,198
Taxes and Excise tax payable	10,619,417	9,453,175	8,415,011	7,490,861	6,668,202
Accrued expenses	1,047,903	932,821	830,377	739,184	658,005
Dividends payable	0	0	0	0	0
Obligations under finance leases - current	53,959	48,033	42,758	38,062	33,882
Total current liabilities	15,188,585	13,520,549	12,035,700	10,713,920	9,537,299
Non-current liabilities					
Deferred tax liabilities	9,927	8,837	7,867	7,003	6,234
Obligations under finance leases - long-term	89,528	79,696	70,943	63,152	56,217

Deferred revenue	82,687	73,606	65,522	58,327	51,921
Benefit obligations	1,042,722	928,209	826,271	735,529	654,752
Total non-current liabilities	1,224,864	1,090,348	970,604	864,010	769,123
EQUITY					
Issued and fully paid	784,127	698,013	621,356	553,118	492,373
Additional paid-in capital	75,277	67,010	59,650	53,100	47,268
Cumulative translation adjustments	1,102,751	981,645	873,839	777,873	692,446
Difference in equity transaction of subsidiaries	-53,171	-47,332	-42,134	-37,507	-33,388
Retained earnings					
- Appropriated	161,012	143,329	127,588	113,576	101,103
- Unappropriated	16,179,956	14,403,046	12,821,279	11,413,225	10,159,806
Total equity	18,251,192	16,246,816	14,462,563	12,874,261	11,460,388
TOTAL LIABILITIES AND EQUITY	34,664,641	30,857,713	27,468,867	24,452,191	21,766,810

NET INCOME	2016F	2015F	2014F	2013F	2012F
Net Sales	94561642.65	84176725.68	74932297.57	66703107.94	59377661.62
Cost of goods sold	67376602.58	59977191.96	53390396.92	47526974.67	42307483.22
Gross profit	27185040.06	24199533.72	21541900.65	19176133.27	17070178.4
Operating expenses					
Selling	6373592.256	5673633.747	5050545.846	4495886.496	4002140.759
General and administrative	1816743.192	1617225.431	1439619.043	1281517.684	1140779.279
Total operating expenses	8190335.448	7290859.178	6490164.889	5777404.18	5142920.038
Operating income	18994704.61	16908674.54	15051735.76	13398729.09	11927258.36
Other income/(expenses)					
Interest income	221469.7894	197147.6086	175496.5301	156223.2091	139066.5163
Goodwill amortisation	-364610.9701	-324568.7865	-288924.1022	-257193.9765	-228948.506
Financing costs	-38773.40377	-34515.24404	-30724.72249	-27350.48234	-24346.80685
Miscellaneous - net	689419.8506	613706.6152	546308.3334	486311.843	432904.2671
Other income/(expenses) - net	507505.2662	451770.1932	402156.0387	357990.5933	318675.4705
Share of results of associates					
Profit before income tax	19520130.48	17376397.27	15468092.4	13769360.75	12257186.64
Income tax expense					
Current	5195594.957	4625006.072	4117080.208	3664935.608	3262446.28
Deferred	-102873.9462	-91576.15825	-81519.11215	-72566.54758	-64597.16856
Income tax expense - net	5092721.011	4533429.914	4035561.096	3592369.06	3197849.111
Consolidated profit before minority interest	14427409.47	12842967.35	11432531.3	10176991.69	9059337.524
Minority interest	-1767.550543	-1573.435201	-1400.637928	-1246.81754	-1109.889963
NET INCOME	14429177.02	12844540.79	11433931.94	10178238.51	9060447.414

G. Present Value of Projected Free Cash Flow (PV FCF)

Free cash flow (FCF) represents the cash available to investors after the firm has met all operating needs and paid for net investments in fixed assets and current assets. PV FCF is taken the projected free cash flow into year 0.

Table 4.4
PV of Projected FCF PT Sampoerna Tbk.
For the year ended 2012-2016
In Million Rupiah

ESTIMATE CORPORATE VALUE	2016F	2015F	2014F	2013F	2012F
EBIT	18,994,705	16,908,675	15,051,736	13,398,729	11,927,258
TAX	25%	25%	25%	25%	25%
EBIT(1-Tax)	14,246,028	12,681,506	11,288,802	10,049,047	8,945,444
DEP	667,866	594,520	529,228	471,108	419,370
Capital Expenditure	756,552	673,466	599,505	533,666	475,058
Net Working Capital	11,380,956	10,131,080	9,018,468	8,028,045	7,146,392
Change in Net Working Capital	1,249,875	1,112,612	990,423	881,653	784,829
Free Cash Flow to Firm	11,571,735	10,300,908	9,169,645	8,162,620	7,266,187
Terminal Value	244,195,302				
Discount Factor (WACC)					0
Perpetuity Growth					0
PV of Free Cash Flow to Firm	7,384,480	7,191,387	7,003,343	6,820,216	6,641,878
PV Terminal Value	155,832,751				
TOTAL PV of Free Cash Flow (beginning of 2012)					190,874,055

H. Intrinsic Share Value

To find the fair value of share price using the income-based methods

Table 4.5

Intrinsic Share Value

Total Long-term Debt	Rp 684,657,000,000
Outstanding Shares 201	4,383,000,000
Value	Rp 190.874.055,000,000
Intrinsic Share Value	Rp 43,392.52
Share Price 2012	Rp 51.200

Conclusion & Recommendation

A. Conclusion

Based on financial statement, the revenue from 2001-2005 before Philip Morris acquired PT HM Sampoerna Tbk. are below than 2006-2011 when the year of Philip Morris take over PT HM Sampoerna Tbk. Which PT HM Sampoerna Tbk. have experiencing the excellent condition.

The author used Discounted Cash Flow Approach in estimating the value of PT HM Sampoerna Tbk. Due to DCF is the most effective to valuating the cigarette company. According to present value of free cash flow the company value of PT HM Sampoerna Tbk. is Rp 190,874,055,000,000. And for the intrinsic share

value is Rp 43,392.52 whereas the share price in capital market at recent updates is Rp 51.200. it's mean the current share price of PT HM Sampoerna Tbk. is overvalue.

PT HM Sampoerna Tbk. classified has a minimal portion of shares in capital market. Actually, the current outstanding shares are only 2.05% from total shares. Therefore the share price in capital market may not represent the real price based on intrinsic value. In author opinion, blue chip and acquisition cause an increase in public perception. As a result, the stock rose steadily to exceed HMSP away from its intrinsic value. A blue chips company is a company that is healthy. If we look at the Jakarta Stock Exchange, the blue chips are frequently traded such as PT Gudang Garam, PT Telkom, PT Indofood and, PT HM Sampoerna. Philip Morris has 98% of Sampoerna which reduce the outstanding shares. Consequently provide positive sentiment to the market to chase the stock HMSP caused the stock price soaring.

B. Recommendation

After doing the valuation of the company, the stock of PT HM Sampoerna Tbk. has been overvalued. HMSP be judged overvalued stock due to high demand, especially due to the perception of investors.

A stock which is considered to be overvalued is likely decline to reflect the price in accordance with the financial statements. Investors try to avoid the overvalued stocks because they are not considered to be a good decision. the Authors recommend not to buy the shares due to stock price HMSP been overvalued. According to the statement above, the authors recommend not to buy the stock of PT HM Sampoerna Tbk.

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