

Analysis of Intrinsic Value of Shares with Free Cash Flow to Firm Model and Relative Valuation for Coal Mining Issuers

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ABSTRACT

Valuation is done to calculate company value. The results of the right valuation can be used in decision making. The purpose of this research is to estimate the intrinsic value of shares in PT. Bumi Resources, Tbk., PT. Delta Dunia Makmur, Tbk., PT. Alfa Energi Investama, Tbk. and PT. Bayan Resources, Tbk using two valuation models, namely free cash flow to firm model and relative valuation. The results showed that as of December 31, 2018, the intrinsic value of BUMI and DOID was Rp197.3 and Rp659.6 undervalued respectively against the market value of Rp124 and Rp525 and the intrinsic value of FIRE and BYAN as of December 31, 2018, respectively, was Rp6,709.9 and Rp19,226.4 were overvalued against the market values of Rp7,750 and Rp19,875. The implication of this research is that investors must consider the decision to be taken to invest in BUMI and DOID shares, because according to the results of this study dated December 31, 2018, BUMI and DOID were undervalued and started selling shares in FIRE and BYAN because of the greater market value of the intrinsic value of the company's shares.

Keywords: Intrinsic Value of Shares, Free Cash Flow to Firm Model, Relative Valuation

INTRODUCTION

Intrinsic value is an asset value that investors have in mind which is then adjusted to reality, this value may not be the same as the asset market price or the

company's book value or even both (Weston and Brigham, 1990). Meanwhile, Bodie (2002) defines the intrinsic value of a share as the present value of all cash payments to investors discounted at the appropriate risk adjusted for the interest rate.

Intrinsic value is the amount an investor considers, based on an evaluation of available facts, to be the "true" or "real" value of an item, usually an equity security. This value will become the market value when other investors reach the same conclusion (Pratt, 2008).

In general, there are three ways to value an asset using one of the existing ones. Valuers can estimate the intrinsic value of an asset by looking at its capacity to generate cash flows in the future. Valuers can estimate Relative Value by examining how the market prices assets that are similar to or comparable to the asset being valued and Finally, we can value assets by calculating cash flows that depend on the particular event (option). By intrinsic valuation, the value of any asset is a function of the expected cash flows generated on the asset, and that value is determined by the size of the cash flows, the expected growth rate of those cash flows, and the risk of uncertainty associated with receiving cash flows this (Damodaran, 2012).

The purpose of a security analysis is to detect differences between the market-

determined value of a security and the security's "intrinsic value". That value is the value a security should have and will have when other investors have the same insight and knowledge as the analyst. If the market value is below what the analyst concludes as intrinsic value, the analyst considers the stock to be a "buy." If the market value is above the assumed intrinsic value, the analyst suggests selling the stock. (several factors such as market expectations are included in their fundamental analysis) (Pratt, 2008).

From a macroeconomic perspective, the coal mining industry is one of the most prospective industries with promising prices. Based on data from the Geological Agency, Ministry of Energy and Mineral Resources (ESDM) in 2018, Indonesia has 37 billion tons of coal with proven reserves of 20.11 billion tons and reserves estimated at 17.02 billion tons. The amount of reserves has increased by 12 billion tons compared to the previous year. Furthermore, the development trend of steam power plants (PLTU) is still ongoing in several countries, in particular. For the domestic market, coal is still the main choice as the primary energy source for electricity generation. Through the increase in coal prices, the company's revenue has also increased in line with global economic growth.

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Data shows that the increase in world coal prices does not necessarily increase the share price of the coal mining industry in the capital market, but also many other factors that can influence the formation of stock prices on the stock exchange. Evidently, of the 22 (twenty two) public companies listed on the Indonesia Stock Exchange (IDX) engaged in the coal mining sector, 9 (nine) of these companies experienced a decline in share prices and 2 (two) shares experienced a fairly large percentage decline. continuously in the capital market, namely BUMI (stock code

PT. Bumi Resources, Tbk) and DOID (stock code PT. Delta Dunia Makmur, Tbk) while PTBA has decreased due to corporate steps to split the nominal value of shares (stock split) for BUMI decreased by 69% so that the share value became 103 and DOID decreased by 44% so that the value of the shares became 525. In addition, 2 (two) shares that have increased continuously in the capital market, namely FIRE (ticker code of PT. Alfa Energi Investama, Tbk) and BYAN (ticker code PT. Bayan Resources, Tbk) where FIRE increased by 314% so that the stock value became 5,880 and BYAN increased by 184% so that the value shares to 19,875.

Various studies have tried to see the intrinsic value using this model, including Riyanto (2013) who evaluated the fair price of shares at the time of the initial public offering in 2012 (case study PT. Waskita Karya, Tbk) using the FCFE model and Relative Valuation which states that both methods showing overvalued results

Research conducted by Ivalandari (2010) with the title of the research is the determination of the fair value of shares through the Discounted Cash Flow and Relative Valuation methods (Case Study of PT. Bumi Resources, Tbk. Period 2005-2009) using the Free Cash Flow to Equity and Relative Valuation methods. that with the Free Cash Flow to Equity method, the stock value shows overvalued while Relative Valuation shows undervalued.

The basic idea of the FCFE is that the value of a company is a function of the company's ability to generate cash flow in relation to the level of return desired by shareholders. The company's ability to generate cash flow is measured by the amount of FCFE available to investors and creditors (Prihadi, 2013:156). The assessment using the FCFE was chosen considering that the business activities carried out by the company in the future will still fluctuate in accordance with estimates of the company's business development.

The second model used is the Relative Valuation model, which aims to

value assets by comparing similar assets in the market. There are two components to this method. The first component in valuing assets based on this method, prices must be equalized by converting prices to book value, multiple earnings or sales (Damodaran, 2002). The second method, it is very difficult to find similar companies because there are no companies that are completely identical even though the companies are in the same industry and core business, but there are still differences in terms of cash flow, growth, and risk. The key in this model is to be able to control for these differences.

The purpose of this research is to estimate the intrinsic value of shares in PT. Bumi Resources, Tbk., PT. Delta Dunia Makmur, Tbk., PT. Alfa Energi Investama, Tbk. and PT. Bayan Resources, Tbk using two valuation models, namely free cash flow to firm model and relative valuation.

RESEARCH METHODS

Based on the type of research proposed this research is qualitative research where this research as a main means of developing science and technology aims to reveal the truth systematically, methodologically and consistently because through the research process analysis and construction are carried out on the data that has been collected and processed. . Therefore, the data and information collected must be relevant to the problems at hand, meaning that the data must be related, related, accurate and accurate and can be justified for its accuracy. In order for the data obtained to meet the criteria as mentioned above, each step in carrying out research must be based on a work procedure called a research model.

In conducting this research, fundamental analysis was used using a top-down approach. This approach is a series of processes from general matters affecting the company to the internal conditions of the company. This approach begins with an analysis of macroeconomic environmental

conditions, then an analysis of the industrial sector in which the company operates and company valuation based on financial projections for the last two years so that the company's intrinsic value will be obtained. With this value, it will be possible to compare whether the value of the issuer's shares under review is undervalued or overvalued.

This research was conducted through internet media which has presented data on coal mining industry companies that have been listed on the Indonesia Stock Exchange (IDX) and have each category of 2 companies that experienced the highest increase and decrease in share prices in 2 (two) consecutive years. participate. When the research was carried out for 3 (three) months, starting from February - May 2020.

The population in this study were all stocks in the coal mining sector listed on the Indonesia Stock Exchange (IDX), namely 22 (twenty two) public companies. From this figure, it was taken 2 largest stock issuers that experienced a fairly large percentage of price decreases continuously and the 2 largest stock issuers that experienced a fairly large percentage increase in prices continuously so that the number of samples used in this study were 4 companies that data were taken for 2 consecutive years from 2017 to 2018.

As for the source of research data in this study, namely secondary data, namely data that is already available from the source by the researcher (Sinulingga, 2016). The data referred to in this study are complementary data obtained from related agencies or institutions as well as literature or literature studies related to the research topic.

RESULT

Overview of PT. Bumi Resources, Tbk

PT. Bumi Resources, Tbk is one of the national companies engaged in the oil, natural gas and mining industry with the aim and objective of the company being to do business in the fields of mining, trade, industry, workshops, agriculture, plantation,

livestock, fisheries, transportation, real estate, services and agents/representatives. PT. Bumi Resources, Tbk has been able to send a lot of coal to the global market and produce mineral mining assets in order to meet the increasing global demand with the company's vision of becoming an international operator in the energy and mining sectors.

Initially, the Company was established under the name PT. Bumi Modern Tbk, namely on June 26, 1973 which was engaged in the hotel and tourism industry. After conducting an initial public offering in 1990, BUMI transformed and entered the oil, natural gas and mining industry through the Extraordinary General Meeting of Shareholders on August 31, 1998. In 2000, based on the Deed of Statement of Meeting Resolutions on Amendments to the Articles of Association of PT. Bumi Modern Tbk No. 18 dated 5 July 2000, drawn up before Alfira Kencana, S.H., the successor of Sutjipto, S.H., Notary in Jakarta, the Company changed its name to PT. Bumi Resources Tbk. The name change has been approved by the Minister of Law and Legislation based on Decree No. C-21041.HT.01.04.TH.2000 dated 20 September 2000, which has been registered in accordance with Law no. 3 of 1982 with TDP No. 090311129169 at the South Jakarta Kodya Company Registration Office under No. 116/ RUB.09.03/II/2001 dated 13 February 2001.

Overview of PT. Delta Dunia Makmur, Tbk

PT. Delta Dunia Makmur, Tbk was established on November 26, 1990, under the laws of the Republic of Indonesia. the company has changed its name several times until finally, it changed from PT. Daeyu Poleko Indonesia at the time of its establishment (1990) to PT. Delta Dunia Makmur, Tbk in 2009. This last name change was made based on the Notary Deed No. 07 dated 16 October 2009 drawn up before Notary Leolin Jayayanti, S.H., Notary in Jakarta and legalized by the

Minister of Law and Human Rights of the Republic of Indonesia through Decree No. AHU-50729. AH.01.02.Tahun 2009 dated 20 October 2009, and has been recorded in the database of the Legal Entity Administration System of the Ministry of Law and Human Rights of the Republic of Indonesia through Letter No. AHUAH.01.10-18607 dated 23 October 2009.

The company was established based on the Notary Deed No. 117 made before Notary Edison Sianipar, S.H., Notary in Jakarta and approved by the Minister of Justice of the Republic of Indonesia through Decree No. C2-1823.HT.01.01.Th.91 dated May 31, 1991, and announced in the State Gazette of the Republic of Indonesia No. 63, Supplement No. 3649 dated 7 August 1992.

The Company started its business as a textile producer of rayon, cotton and polyester yarn for the export market. Then in February 2008, the Company shifted its focus to the field of commercial and industrial property development as an effort to adjust to changing industrial growth trends in Indonesia. Since November 2009, the Company has focused its business on coal mining contractor services through the acquisition of a 99.9% stake in PT Bukit Makmur Mandiri Utama (BUMA). The company, through BUMA, is currently the second largest coal mining contractor in Indonesia based on production volume. This activity is still in accordance with Article 3 of the Company's Articles of Association, the Company is engaged in the service, mining, trading and development business. The Company carries out its main business activities in the field of coal mining contracting through its subsidiaries.

Apart from BUMA, the Company has two other inactive subsidiaries, namely PT. Banyubiru Sakti (BBS) and PT. Pulau Mutiara Persada (PMP). In the past, these two companies, BBS and PMP, were holders of Exploration Mining Business Permits (IUP Exploration) for coal mining concessions, respectively located in East

Kalimantan and Jambi. However, at the beginning of 2018 the BBS and PMP Exploration IUP had been returned to the respective local governments. so that the company is currently devoting all its attention to developing BUMA businesses whose activities have increased in line with the promising conditions of coal prices.

Overview of PT. Alfa Energi Investama, Tbk

PT. Alfa Energi Investama, Tbk which is domiciled in South Jakarta, was established based on the Notary Deed No. 119 on February 16, 2015 which was approved by the Minister of Law and Human Rights of the Republic of Indonesia with Decree No. AHU-0009455.AH.01.01 Tahun 2015 dated 2 March 2015. The Company's Articles of Association have been amended several times, most recently with Deed No. 15 dated 26 June 2018, from Notary Rini Yulianti, S.H., among others in connection with the increase in the Company's authorized, issued and paid-up capital. The amendment deed was approved by the Minister of Law and Human Rights of the Republic of Indonesia with Decree No. AHU-0082577.AH.01.11 Tahun 2018 dated 26 June 2018. The purpose and objective of the company's business according to the articles of association is to become a company engaged in mining, trading and transportation. The Company is a holding company that carries out its business activities with several subsidiaries that focus on mining and energy.

With the company's vision of becoming a company capable of providing solutions to your energy problems, PT. Alfa Energi Investama, Tbk immediately carried out its corporate action, namely acquiring 99% of the shares of PT. Alfa Daya Energi (ADE), a company engaged in the power generation business, a month after the Company was founded.

Overview of PT. Bayan Resources, Tbk

PT. Bayan Resources, Tbk (the Company) or Bayan Group is an

environmentally friendly low sulfur semi-soft coking, sub-bituminous and bituminous coal producer. The Company combines mining, processing and logistics operations through its subsidiaries engaged in various business fields, ranging from mining, port service management, transportation, contracting and equipment rental services.

PT. Bayan Resources, Tbk was established on 7 October 2004 based on the Notary Deed No. 12 dated 7 October 2004 made in the presence of Yani Indrawaty Wibawa, S.H., notary in Jakarta. The deed was approved by the Minister of Law and Human Rights of the Republic of Indonesia in Decree No. C-30690 HT.01.01.TH.2004 dated December 21, 2004. The Company's Articles of Association have been amended several times, most recently based on the Notary Deed No.73 dated 27 May 2016 drawn up before Mala Mukti, SH, notary in Jakarta, regarding the changes term of office of the Board of Commissioners, in particular Article 17, Deed No. 145 dated 26 June 2015 made before Mala Mukti, S.H., a notary in Jakarta, regarding the amendments to the Company's Articles of Association in order to adjust OJK regulations, and Deed No. 24 dated 10 January 2018 made before Mala Mukti, S.H., a notary in Jakarta, regarding the amendments to the Company's Articles of Association and the Composition of the Company's Board of Directors and Board of Commissioners. These deeds have been notified to the Minister of Law and Human Rights of the Republic of Indonesia with the issuance of the Company Data Notification Receipt Letter No. AHU-AH.01.03.008035 dated 16 June 2016, No. AHU-AH.01.03-0946835 dated 29 June 2015 and No. AHU-AH.01.03-0016635 dated 15 January 2018.

The history of the Bayan Group began when the founding Shareholders acquired the first coal mining concession in November 1997 located in Muara Tae, East Kalimantan, otherwise known as PT. Gunungbayan Pratamacoal (GBP). Since then, a number of coal concessions and other companies have been acquired,

including PT Dermaga Perkasapratama (DPP) which is engaged in managing special coal ports. DPP owns and manages a special coal port or the Balikpapan Coal Terminal (BCT), which has an output capacity of up to 20.0 million MT per year. The company's expansion does not stop there. In 2008, the Company purchased KFT-1, which at that time was allocated for the WBM Project to serve small barges and ships to capsize in the South Kalimantan region.

In 2011, the Company expanded again by acquiring 56% shares of Kangaroo Resources Limited (KRL) and its 13 mining

concessions, thus making the Company the majority shareholder in KRL. In 2012, the Company also purchased KFT-2 which was allocated for the Tabang/Pakar project in the East Kalimantan region. However, at the end of 2018, the Company again purchased KRL shares from public shareholders, making the Company a sole or 100% shareholder. KRL is domiciled in Australia and listed on the Australian Stock Exchange, however on December 13 2018 it was delisted and became a private company after the Company officially became the sole shareholder.

Free Cash Flow to Firm Model and Relative Valuation for Coal Mining Issuers

Table 1. Weighting of the Fair Value of Shares

No.	Shares	Assessment Methods		Weighting		Weighting Results		Score Weighted
		FCFF	RV	FCFF	RV	FCFF	RV	
1	DOID	759.79	559.45	50%	50%	379.89	279.73	659.6
2	BUMI	232.08	162.58	50%	50%	116.04	81.29	197.3
3	BYAN	19,895.92	18,556.87	50%	50%	9,947.96	9,278.44	19,226.4
4	FIRE	7,687.57	5,732.28	50%	50%	3,843.78	2,866.14	6,709.9

Source: Author Processed Data

The results showed that as of December 31, 2018, the intrinsic value of BUMI and DOID was Rp197.3 and Rp659.6 undervalued respectively against the market value of Rp124 and Rp525 and the intrinsic value of FIRE and BYAN as of December 31, 2018, respectively, was Rp6,709.9 and Rp19,226.4 were overvalued against the market values of Rp7,750 and Rp19,875.

CONCLUSION AND SUGGESTION

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