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Research Paper

Analysis of the Stock Value of PT. Bank ICB Bumiputera TBK in Pre and Post Acquisition Using Discounted Return Model and Relative Valuation

Muhammad Yaufi, Fachrudin, Khaira Amalia Fachrudin

Master of Management, Universitas Sumatera Utara, Indonesia

Corresponding Author: Muhammad Yaufi

ABSTRACT

The objective of the research was to determine the stock intrinsic value of PT. Bank ICB Bumiputera TBK in pre and post acquisition. The calculation of the stock intrinsic value estimation was done by using stock assessment method, discounted return model (free cash flow to equity) and relative valuation (price to book value), supported by top-down analysis by doing macroeconomic analysis, analysis of five forces porter industry, and financial statement analysis to determine basic assumption in calculating the stock intrinsic value of PT. Bank ICB Bumiputera TBK in pre and post acquisition. The result of the calculation by using discounted return model (free cash flow to equity) showed the stock intrinsic value in pre acquisition was 121 Rupiah and in post acquisition it was 70 Rupiah. The result of the calculation by using relative valuation (price to book value) showed that the stock intrinsic value in pre acquisition was 98 Rupiah and in post acquisition was 78 Rupiah. From the comparison between the stock intrinsic value and market price, it was found that BABP stock was in the position of undervalued.

Keywords: Stock Intrinsic Value, Discounted Return Model, Relative Valuation

INTRODUCTION

Competition in the business world is now increasingly complex, especially in the banking world, there are many banks that operate locally and internationally. So that requires companies to be able to grow and develop in order to survive and become more efficient and sturdy in capital so as to grow strong competitiveness nationally and internationally.

Company growth can be done in an organic or non-organic way, if organic growth is done from within by maximizing the internal resources of the company, then non-organic growth is a strategy of relying on growth from outside the company by way of mergers or acquisitions of other companies. Anggoro (2013) mergers, consolidations, acquisitions, and company separations (MKAPP) are common phenomena in business. MKAPP can be used by business people to carry out company restructuring, company expansion, or meet the provisions of the legislation.

Consolidation is the merging of two or more companies into one new company after the merger process and the formation of a new company. Whereas a merger is a merger of companies in the condition that a company takes over one or more other companies. Acquisition itself is a takeover of ownership or control of the shares or assets of a company by another company, and in this event the takeover or takeover company still exists as a separate legal entity.

PT. MNC Kapital Indonesia, Tbk (MNCKI) is a publicly listed company listed on the Indonesia Stock Exchange with the BCAP stock code as a subsidiary of PT. MNC Investama Tbk, which manages strategic investments in the financial services sector. MNCKI has subsidiaries with various business activities including non-bank financial institutions, underwriters and securities trading intermediaries, investment managers for individual and institutional clients, as well as life insurance and general insurance. In 2014 the company wanted the flexibility to conduct its financial business by becoming a financial supermarket with services in the financial sector that are complete and of higher quality.

One of the strategic steps to meet the company's target, MNCKI made an acquisition of PT. Bank ICB Bumiputera Tbk, which is engaged in business activities as a commercial bank. Share ownership in PT. Bank ICB Bumiputera Tbk before the takeover of shares amounted to 69.89 percent which was controlled by ICB Financial Group Holding AG, a company headquartered in Switzerland, the composition of shares before the takeover of shares by PT. Bank ICB Bumiputera, Tbk.

PT. Bank ICB Bumiputera Tbk is a publicly listed company listed on the Indonesia Stock Exchange with a share code BABP. Acquisition of PT. Bank ICB Bumiputera, Tbk by MNCKI will be of strategic value to MNCKI, where prior to the acquisition MNCKI did not have a subsidiary engaged in commercial bank business activities, this acquisition was the only one that occurred in the financial industry, where local companies annexed foreign banks.

MNCKI acquired PT. Bank ICB Bumiputera, Tbk where based on the Stock Acquisition Assessment by the Business Competition Supervisory Commission, it is known that MNCKI has owned 34.05% of PT. Bank ICB Bumiputera Tbk, valued at Rp. 511,785,955,600 as of September 5, 2014, with a total number of outstanding shares of 5,431,217,756 shares, the acquisition value of BABP is recorded at 94 rupiah per share.

LITERATURE REVIEW

Intrinsic Value

According to Mardiana (2011), there are three types of values related to shares, namely book value, market value and intrinsic value. Book value is the value of shares according to the books of the issuer. Market value is a book value of shares in the stock market and intrinsic value is the true value of shares.

According to KEPI and SPI Edition VI, market value is an estimate of the amount of money that can be obtained from the exchange of an asset or liability at the valuation date, between the buyer interested in buying and the seller interested in selling, in a bond-free transaction, the marketing of which is carried out properly where both parties act on the basis of their understanding, prudence and without coercion.

Stock

According to Fahmi (2012:81) Shares are papers that are clearly listed in face value, company names, and are followed by rights and obligations that have been explained to each holder.

Gordon (1962) states that stocks are securities that indicate ownership of a person or entity in a company.

According to Benji (2011) shares are defined as signs of ownership or ownership of individual investors or institutional investors or traders of their investments or the amount of funds invested in a company.

Based on the above definitions, it can be concluded that the stock is a sign of capital participation in a company, where the ownership of these shares then the investor will benefit.

Undervalued and Overvalued

Investment illustrates how investors take a decision on the securities chosen, how extensive and when the investment is made. The five steps in the investment process are to determine investment policy, conduct security analysis, portfolio construction, portfolio revision and evaluation of portfolio performance (Panjaitan, 2014). Before investing, investors need to determine investment policies based on return and risk. Then conducting a security analysis is useful as identifying the wrong stock price. This relates to his decision later whether to buy or sell these shares.

Fundamental Analysis

In selling or buying shares, a comparison of intrinsic value and market price is needed. This is done to determine an investor's decision to sell or buy these shares. In an assessment, before assessing the intrinsic value of a company, a fundamental analysis is needed. This study uses fundamental analysis with a top down approach or top down analysis.

In this case, the top down analysis will start the analysis with macroeconomics, then continue the development of the relevant industry and the development of company information and valuation with the company's financial statements.

As explained above, this top down approach will analyze the macroeconomic condition approach to the company's internal information and financial performance reports on the company. This analysis is important because it relates to the macro and internal conditions of the company.

Discounted Returns Model

The basic principle underlying the discounted returns model is that the value of each and every asset is equal to the present value of the flow of results that will be generated in the future. The present value must be obtained using an appropriate discounting factor (capital cost) that is coherent with the level of risk associated with the expected outcome in the future. The capital used for banks and most relevant financial companies is equity capital and therefore estimates the value, the relevant flow of results, depending on the model adopted dividends, cash flows to equity, or equity excess returns. Each of the three has its own feature size but all capital cost quantifications are practically the same. The method used in this approach is the dividend discount model, the discounted cash flow model, and the excess return model.

Relative Valuation

According to Damodaran (2002), this Relative Valuation method aims to assess assets by comparing similar assets contained in the market. There are two components in this method, the first component in valuing assets based on this method, the price must be equated with the conversion of prices at book value, multiple earnings and sales.

RESEARCH METHODS

Types of Research

This type of research is qualitative and quantitative research, accompanied by literature studies by obtaining secondary data and theoretical basis. This study also included a case study. Case studies are in-depth and contextual studies of similar situations in other organizations. Case studies relating to the background and current conditions of the subjects studied and their interactions with the environment (Pratama, 2010).

Research Location and Time

This research was conducted for nine months starting in October 2018 until July 2019 with data collection through internet media. All share price data has been listed on the Indonesia Stock Exchange (IDX). The author chose the issuer PT. Bank ICB Bumiputera Tbk. The reason for conducting research on the company is that in 2014 it was the only foreign owned bank company / financial institution acquired by a local non-bank financial service institution / company that was reported to the Business Competition Supervisory Commission in Indonesia.

Data Collection Technique

This research uses literature study method by using secondary data. The data is referred to as secondary data because it is obtained indirectly with various media, namely:

a.Financial Report and Annual Report of PT. Bank ICB Bumiputera Tbk, in the period 2010 to 2017.

b.Data stock price data of PT. Bank ICB Bumiputera, Tbk with a share code of BABP for eight years (2010-2017).

c.Composite stock price index data (CSPI) with the same timeframe as stock prices (2011-2017) in order to compare the performance of the investigated stocks with general stock prices.

d.Data of macroeconomic variables such as the rate of growth of gross domestic product, inflation, interest rates, and the rupiah exchange rate.

e.Information about the company through magazines, newspapers, internet and other publications.

f.Other supporting data needed during the study.

Data Processing Techniques

Data processing techniques using Microsoft Excel, after that the data will be analyzed with quantitative analysis. The steps - steps taken by the author in valuing the stock value of PT. Bank ICB Bumiputera Tbk, the free cash flow to equity method is as follows:

a.Conduct a macroeconomic analysis that affects the company under study, which will later be used as an assumption in valuation.

b.Conduct an analysis of the five forces model of competition based on Michael Porter's theory in accordance with the banking industry, which will be used as an assumption in valuation.

c.Perform cost of equity calculations.

d.Perform stock valuation calculations using the discounted cash flow method (free cash flow to equity) in accordance with the valuations of financial institutions and the two stage growth model. The two stage growth model is used because the company is expected to grow faster than a stable company in the initial period.

e.Perform stock valuation calculations using the relative valuation method (price to book value)

RESULT

Free Cash Flow to Equity

In assessing companies engaged in the financial industry, operational decisions cannot be separated from income and interest expenses because they are an important component of company revenue. The calculation of equity cash flow is presented in tabular form in the following calculation:

Pre Acquisition

Table 1 Calculation of Stock Intrinsic Value Pre Acquisition with FCFE

Uraian	2014	2015	2016	2017	2018	2019
Operating Income	52.193	102.746	116.450	134.498	157.875	187.943
Depr & Amort	(168.212)	(142.980)	(121.533)	(109.380)	(98.442)	(88.598)
Capital Expenditures	-	-	-	-	-	-
Changes in Net Working Capital	(214.040)	(214.040)	(214.040)	(214.040)	(214.040)	(214.040)
Net Cash Flow To Equity		31.687	23.943	29.838	42.277	62.501
Growth						2,37%
Discount Rate	13,97%	13,97%	13,97%	13,97%	13,97%	13,97%
Discount Factor	0,8774	0,7698	0,6755	0,5926	0,5200	0,5200
PV	-	24.393	16.173	17.683	21.983	32.499
Total PV of NCF to Equity	112.732					
PV of Continuing Value	551.451					
Indicated Value of Equity	664.183					
Share of Equity (100%)	664.183					
Market Value of Equity (juta rupiah)	664.183					
Market Value of Equity	664.183.095.670					
Jumlah Saham Beredar	5.486.078.541					
Nilai Intrinsik Saham	121					

The indicative value of equity generated by discounting the net free cash flow of equity and cash flows in the eternal period is Rp664,183,000,000, with a total stock count of 100%, the intrinsic value of shares per share with the number of outstanding shares of 5,486,078,541 shares is Rp121.

Post Acquisition

Table 2 Calculation of Stock Intrinsic Value Post Acquisition with FCFE

Uraian	2017	2018	2019	2020	2021	2022
Operating Income	78.656	115.361	364.517	343.851	324.657	306.270
Depr & Amort	(171.212)	(188.333)	(207.167)	(227.883)	(250.671)	(275.739)
Capital Expenditures	-	-	-	-	-	-
Changes in Net Working Capital	(204.128)	(204.128)	(204.128)	(204.128)	(204.128)	(204.128)
Net Cash Flow To Equity		99.566	367.555	367.606	371.201	377.880
Growth						2,56%
Discount Rate	13,93%	13,93%	13,93%	13,93%	13,93%	13,93%
Discount Factor	0,8777	0,7704	0,6762	0,5935	0,5210	0,5210
PV	-	76.706	248.543	218.183	193.378	196.857
Total PV of NCF to Equity	933.667					
PV of Continuing Value	3.406.978					
Indicated Value of Equity	4.340.645					
Indicated Value of Equity	4.340.645					
Share of Equity (34,05%)	1.477.990					
Market Value of Equity (juta rupiah)	1.477.990					
Market Value of Equity	1.477.989.554.894					
Jumlah Saham Beredar	21.261.473.347					
Nilai Intrinsik Saham	70					

The indicative equity value generated by discounting the equity net free cash flow and cash flow in the eternal period (terminal value) is Rp4,340,645,000,000, with a total stock calculation of 34.05%, the equity stock market value is Rp1,477,989,554,893, so the intrinsic value of shares per share with a total number of outstanding shares of 21,261,473,347 shares is Rp70.

Price to Book Value

The following can determine the position of PT. Bank ICB Bumiputera, Tbk for the period 2004-2017 based on the price to book value method:

Table 3 PT. Bank ICB Bumiputera, Tbk Based on Price to Book Value (PBV)

Year	PBV Ratio	Stock Position
2004	1,31	Overvalued
2005	1,22	Overvalued
2006	0,89	Undervalued
2007	1,02	Overvalued
2008	0,86	Undervalued
2009	0,85	Undervalued
2010	1,10	Overvalued
2011	0,98	Undervalued
2012	1,32	Overvalued
2013	1,08	Overvalued
2014	0,86	Undervalued
2015	0,95	Undervalued
2016	0,79	Undervalued
2017	0,65	Undervalued
Mean PBV 2004-2017	0,99	Undervalued

Based on the above Table 3, it can be seen that from 2004 to 2017 the shares of PT. Bank ICB Bumiputera, Tbk majority is in an undervalued position only in 2004, 2005, 2007, 2010, 2012 and 2013 shares were in an overvalued position.

Pre Acquisition

The results of the calculation of the stock value on 30 June 2014 with price to book value where the total equity compared to the number of outstanding shares is 98 while the PBV ratio is 0.86.

Table 3 Calculation of Price to Book Value Pre Acquisition

Year	Price	Total Equity	Number of Shares Outstanding	BV
2014	84	535,849,531,912	5,486,078,541	98

Post Acquisition

Table 4 Calculation of Price to Book Value Post Acquisition

Year	Price	Total Equity	Number of Shares Outstanding	BV
2017	51	1,658,394,921,066	21,261,473,347	78

The results of the calculation of the stock value on 31 December 2017 with price to book value where the total equity divided by the number of outstanding shares is 78 while the PBV ratio is 0.65.

CONCLUSION AND SUGGESTION

CONCLUSION

1.BBAP's share price in 2014 prior to the acquisition was 84 rupiahs, while the intrinsic value of the stock based on calculations with free cash flow to equity was 121 Rupiah, the BABP's share value pre acquisition was undervalued

2.BABP's share price in 2017 after the acquisition is 51 rupiahs, while the intrinsic value of the stock based on calculations with free cash flow to equity is 70 Rupiah, the BABP's share value post acquisition was undervalued

3.BABP’s share price in 2014 prior to the acquisition by MNCKI was 84 Rupiah, while the price to book value was 98 Rupiah based on the relative valuation calculation with a price to book value of 0.86, the BBAP share value pre acquisition was undervalued

4.BABP’s share price in 2017 after the acquisition by MNCKI was 51 Rupiah, while the price to book value was 78 Rupiah based on the relative valuation calculation with a price to book value of 0.65, the BBAP share value before the acquisition was undervalued.

5.PT. MNCKI is keen to see the opportunity to acquire PT. Bank ICB Bumiputera Tbk, where the price of shares purchased in 2014 was still too cheap, this can be seen from the market price which is smaller than its intrinsic value.

SUGGESTION

1.After the acquisition lasted for three years, PT Bank ICB Bumiputera Tbk, which has changed its name to PT. MNC Bank International Tbk remains in good standing as indicated by the share price still below its intrinsic value, so that the stock is still worth maintaining.

2.From the investor's point of view, because the stock price that occurs during the valuation before and after is still below the prediction price or intrinsic value of the stock, then there is still the possibility that the price will increase in the future, investors should buy the BABP shares.

3.This research has limitations, where only one object to be analyzed is PT. Bank ICB Bumiputera Tbk, so that for further research, several other valuation objects can be added as a value comparison and to know the range of value generated and the opportunity to increase share prices in banking services companies.

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