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PT PRIMA LAYANAN NASIONAL ENJINIRING FAIR MARKET VALUE OF EQUITY ANALYSIS RELATED TO INITIAL PUBLIC OFFERING (IPO) PLAN BY RELATIVE VALUATION APPROACH

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Abstrak

PT Prima Layanan Nasional Enjiniring (PT PLN Enjiniring) plans to conduct an initial public offering in 2012 that is intended for business development. Purpose of this research was to estimate the fair market value of equity of PT PLN Enjiniring in the framework of an initial public offering. Fair market value of equity of PT PLN Enjiniring is acquired by using relative valuation method with multiple PER (price to earning ratio), PBV (price to book value) and PSR (price to sales ratio). Information used for this research come from two secondary data from financial reports and other information contained in the annual report 2008-2010 PT PLN Enjiniring years audited by public accountants, comperative financial reports, and company's stock data comparison. The estimated fair market value of equity of PT PLN Enjiniring per December 31st 2011 by using the method of relative valuation is obtained indication the fair market value of equity amounting to Rp3.048.352.406.030

Keywords:
initial public offering, nilai pasar wajar ekuitas, relative valuation

Introduction

In an open market like these days, companies are forced to be always active to develop their strategies in order to survive, grow and have competitiveness among the others. For the sake of developing and expanding their business, a company must need huge fund and sometimes it can't be met by depending on its internal income. This is why for those companies which haven't become public companies may increase their fund with some left alternatives.First one is to directly sell to the known, existed stockholders. Second way is to sell to employees through Employee Stock Ownership Plan (ESOP). Another option, or the third, is to add their own stocks by dividend reinvestment plan. Fourth, to do a direct-sell to a single buyer (such as institutional investor) in private, and last, sell them to public by stock market (Jogiyanto, 2010:34).

One of companies which is now preparing to go in public is PT Prima Layanan Nasional Enjiniring (PT PLN Enjiniring), a subsidiary of PT PLN (Persero), that will launch their Initial Public Offering (IPO) in 2012 (Tempo Magazine, May 2nd 2012). This corporate act of PT PLN Enjiniring through IPO mechanism is an answer to their problems, mainly in funding, so that they may get additional capital to develop a few products and own a competitive service.

The main factor that needs to be concerned in shares releasing process (IPO) is about the price fixing of companies. A right price fixing is when shares as company's value indicator is not an easy way to do because that action will be connected to cash flow which will be received by companies in the future, bringing hopes of giving some benefits to its owners.

Research's Aims and Benefits

Aims of this research is to do a company valuation to PT PLN Enijiring in fixing the fair market value of equity based on price levels reflect on true company's newest condition and performance as of will be the prime materials in shares when it comes to initial public offering (IPO) by companies from academical sides.

This reserach is expected to give some benefits and information for those who may concern. The mentioned benefits of this research are:

1. To give enrichment and literature contribution in Company Valuation to fix the fair market value of equity;

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2. For the company (PT PLN Enjiniring) or government, this research can be used as stock pricing evaluation materials which will be offered in open market, so that there will be no potencial financial loss of a nation caused by the way too low fixed price and the fund from stocks can be higher.
3. For the investors, PT PLN Enjiniring's price fixing of fair market value of equity can be used as consideration materials in decision making while they are investing.

Literature Review

There are many done researches which used multiple numbers approach to measure fair market value in IPO.According to Kim and Ritter (1999) there are types of literature suggest that the starting point in IPO price fixing is by comparing the operational performance and company financial condition among other companies which are already in same industries. Companies and guarantorsfix the price based on market value ratio analysis by to specific differences in companies. After the price fixed, companies and guarantors will collect the IPO market data in detail to fix the final price.

Alford (1992) researched the accuracy of valuating method P/E (Price to Earning) when a benchmark company have been chosen based on an industry and found out that this method is quite effective. Besides the industry grouping, the adjustment of company value judged as not improving any accuracy, while the adjustment based on leverage levels differences lowered the accuracy.

Liu, Nissim and Thomas (2007) researched a research about company valuation by using multiple numbers method. The study's result found out that the equity valuation with multiple numbers industry based on reported profit was close to market price rather than operating cash flow to determine a company valuation. A simple multiple is based on price-earnings ratio.

The selection of value drivers are consisting: cash flow, book value of equity, profit and income. Company valuation is based on accounting profit through industry multiple is more representative since profit/earnings reflect on valuation changes while cash flow happens.EPS (Earnings per Share) estimation represented better in net cash flow income, after that the net income and book value of equity is in second position, which left multiple from sales in the last place.

While comparing the use of dividend with earnings, earnings estimation is far better than valuation by dividend estimation. In this research, some companies which have the negative value drivers are listed (earnings, dividend, operating cash flow) because of the company valuation based on multiple can only be calculated at the moment when the driver value arepositive. The study also used the market value (market price) as a proxy for intrinsic value. The price difference between multiple earning with multiple cash flow can be caused by some of the market inefficiency.

Cooper and Corderio (2008) did a study in optimal equity value by using some comparative companies. The method used was to estimate the target value and measuring the pricing error, also to change among companies with many or less comparison. The results of their study is that using five comparison is less accurate than ten comparison. However, accuracy is not only depends on the quantity, because it would be far better if there was a match company which has same growth level compared to the objected company. Broadie (2007) sai that there is no state in which the equity values are positive, but the firm nevertheless rationally chooses not to fulfill its obligations.

Shaked, D'Arrezo and Plastino (2010) studied valuation methods with market data approach or sales comparison approach. The study found out a few important things to be concerned in order to get an accurate valuation, such as nonrecurring item that happens some times,which its effects to cash flow are only in temporal period of time, forward multiple or multiple using with projecting the future, choosing the right multiple in valuation, and compatible comparison between multiple and company which wanted to be studied. The use of market data approach would also be matched with company's condition, for example, there were some companies which were still new or companies face financial crisis or even in bankruptcy. Raji (2015) said that valuation was necessary as it formed the basis for estimating the value of assets and for putting a price on the shares of companies, which will take over the privatised assets.

Roosenboom (2012) also investigated how the guarantors determine fair value in IPO and how they use this fair market value as cornerstone of price fixing in IPO. Roosenboom collecteda group of data which consisted 228 guarantors' reports about IPO in some companies existed in NYSE Euronext ParisThe study shows that in general, guarantors estimate fair market value in company's IPO by using multiple or relative valuation, dividend discount model and DCF. Not even any valuation technique more could not be positively and more accurate than other known valuation techniques. Ritter (1998) said that An initial public offering (IPO) occurs when a security is sold to the general public for the first time, with the expectation that a liquid market will develop. While Brau (2006) said that traditional textbook explanations such as lowering the cost of capital and the pecking order of financing are not among the most important reasons for conducting an IPO.

Nofiansyah (2008) also did a research by estimating fair market value of PT Mandiri (Persero) Tbk stocks as Government of Indonesia stocks inclusion in the year of 2007. Analysis tools used wererelative valuation approach, discounted cash flows approach, and devidend growth of Gordon model.This research has intrinsic value of each shares as much as Rp 4.095, income approach in measurement of Rp Rp4.201,98 to Rp4.371,15 and with Gordon model, Rp 3.571. The reconciliation result from all of those three is that the fair market value of Mandiri stocks was Rp4.074,02 each share.

Suhendri (2008) had studied by analyzingthe reasonableness of the price stock and financial performance in preparation process of initial public offering (IPO), case study PT. "X". Analysis tools used were discounted-cash flow and relative valuation. The final research results of PT "X" are; calculation of stock pricing by using discounted cash flow was stock price of Rp 1.028, meanwhile relative valuation method was Rp.1203.

Yustikarini (2009) also had written a study to estimate the fair market price inpreparation process of initial public offering (IPO), case study of PT Perkebunan Nusantara VII (Persero). The analysis tool used wasdiscounted-cash flow and relative valuation. Results from this study found out stocks pricing valuation by using discounted cash flow, made amounted to Rp551 while using relative valuation resulted price of Rp621 per share.

Research Method

According to Prawoto (2004: 69), the data required in the assessment of business or stock can be divided into two, such as particular or specific data and general data. Specific data is data derived from the company while the general data is data related to the industry, economic environment and stock market data.

In this study, the specific data used are the financial statements and annual report of PT PLN Enjiniring within a period of 3 years, that is from 2008 to 2010 which were obtained from a website, www.pln-enjiniring.com. General data used in this study were consisted of:

1. Financial statement of December 31st 2011 of benchmark company from each company website,
2. Historical data of listed-benchmark company's stock price from www.finance.yahoo.com
3. Other secondary data.

Analysis Tools

*Relative valuation*is a business valuation approach by basing the comparison among companies classified by same or equal industries. Relative valuation method has some positive sides compared to another, and they are (1) using less assumptions, (2) simpler and easier to understand by valuation statement readers and (3) reflects today's market condition. Relative valuation method counts heavily to measure assets based on how similar they are according to latest market price, because the price of each stock is also a function of equity value of a company and revolved stocks, stock price can't be compared among companies but it needed to be standardized by its earning, book value or revenue (Damodaran, 2002: 453-454).

Valuation ofstock companies in this study is using relative valuation method by multiple applications namely PER, and PBV PSR. Relative valuation is a valuation businesses approach or companies with bases on a comparison between companies valued at comparable or similar companies in the same industry. Relative valuation method has advantages over other methods that use less assumption, simpler and easily understood by the user as well as the assessment report reflect current market conditions. The method focuses on assessing the relative valuation of assets based on how closely the assets according to the current market price. Therefore, the price of a share of stock is a function of the equity value of a company and the number of outstanding shares, the stock price cannot be directly comparable between companies but must be standardized against earnings, book value or revenue (Damodaran, 2002: 453-454).

That standardization process will bring in multiple (price multiplier factor) which will be in form ofprice earnings ratio, price book value ratio dan price revenue ratio/price to sales ratio which can be compared among companies and also used on relative valuation method.

1. *Price to earnings ratio*

Is a ratio by comparing between price per stock and income per stock (Damodaran, 2002: 468).

PER = $\frac{\textit{Price per share}}{\textit{Earning per share}}$

2. *Price to Book value ratio*

Is a ratio by comparing between price per stock and book value equity per stock (Damodaran, 2002: 512)

PBV = $\frac{\textit{Market Price per share}}{\textit{Book value of equity per share}}$

3. *Price revenue ratio/price to sales ratio*

Is a multiple ratio by comparing price market from equity and obtained income (Damodaran, 2002: 544)

P / S sales ratio = $\frac{\textit{Market Value of Equity}}{\textit{Revenue}}$

Koller (2005: 366) stated that in process of valuation, a company using relative valuation methods will have some steps as follow:

1. to determine benchmark companies which move in same industry and have the same return on investment or growth level;
2. to determine average multiple or sell price multiplier factor to earnings, book value and income from benchmark companies,

Use the average multiple or price multiplier factor from benchmark company multiply by earnings, book value and object company's income

Result And Discussion

Rating by using relative valuation method is done with price multiple from benchmark companies, namely price to earning ratio (PER), price to book value ratio (PBV) and price to sales ratio (PSR).

Comparative Company Selection

As Damodaran stated (2002:462), that in selection of comparative companies, it needed to classify companies based on the same risk, growth and cash flow with assessed company.

On this research, it has been selected companies from infrastructure energy that already in exchange or go public where as only two listed companies, namely PT Perusahaan Gas Negara (Persero) Tbk (with sales transaction code PGAS) dan PT Leyand International Tbk (with sales transaction code LAPD).

Comparative financial data which based on financial statements as of December 31, 2011 are derived from www.idx.co.id and benchmark company's closing stock price of 31 December 2011 which obtained from www.finance.yahoo.com can be seen in the following table:

Table 1. Benchmark Companies' Data for Fair Market Value Valuation of Equity of PT PLN Enjiniring Per 31 Desember 2011 (in thousand rupiah)

Description	sales TCodes		Subject
	PGAS	LAPD	
Number of Assets	30.976.445.812	1.184.678.779	199.102.240
Net Profit	6.163.463.025	6.504.192	51.168.338
Operating revenues	19.567.407.240	359.115.637	201.470.791
Number of Equity	17.184.711.978	695.809.656	158.878.604
Price stock of 31 Desember 2011	3.175	196	
Number of outstanding shares	24.241.508.196	3.966.350.319	
Profit/Earnings each stock	244,75	0,74	

Sources: www.idx.co.id and www.finance.yahoo.com (edited)

Calculating PER, PBV and PSR of Comparing Company

To get the equity of benchmark company's market value is derived by multiplying the number of outstanding shares of the company with stock market prices on a certain dates. For this research, stocks price used is the stock price as of December 31, 2011. The results of the calculation of PER, PBV and PSR can be seen in the following table:

Table 2. PER, PBV, and PSR calculation of Comparing Company, date of 31st December 2011

No	Code	Companies	NI/ Share	BV/ share	Sales/ Share	PER	PBV	PSR
1.	PGAS	PT Perusahaan Gas Negara (Persero) Tbk	244,75	635,41	19.568,00	12,97	4,86	0,16
2.	LAPD	PT Leyand International Tbk	0,74	104,48	360,00	264,86	1,88	0,54
		Average				138,92	3,37	0,35

Sources: www.idx.co.id, www.finance.yahoo.com and some research's data

Calculating Estimated Value of Equity Per Share

Estimated value of equity per share of PT PLN Enjiniring is done by multiplying the average company's PER's compared with the company's net profit per share, multiplying PBV with the book value of equity per share and multiplying PSR with sales of PT PLN Enjiniring. The calculation result can be seen in the following table:

Table 3. Equity Valuation Measurement Stocks of PT PLN Enjiniring Based on Relative Valuation (in thousand rupiah)

No.	Description	Multiplier	Net Earnings	Equity	Sales	Equity valuation
1	PER	138,92	51.168.338			7.108.236.148
2	PBV	3,37		158.878.604		535.030.120
3	PSR	0,35			201.470.791	71.189.618

Sources: processed data and financial statements projection of PT PLN Enijiniring, year of 2011

After obtaining the estimated value of each multiplier, the next thing to do is to reconciliate by giving different weight to get fair market value estimation, because based on Liu, Nissim, and Thomas's (2007) research, the EPS estimation represents valuation better than net cash flow estimation, then the net cash flow and book value of equity is on 2nd place and the last one is multiple from sales.

Table 4. Equity Valuation Reconciliation of PT PLN Enjiniring Stocks According to Relative Valuation (in whole rupiah)

No.	Description	Valuation Estimation	Weight	Weighted value
1	PER	7.108.236.148.148	40%	2.843.294.459.259
2	PBV	535.030.120.645	35%	187.260.542.226
3	PSR	71.189.618.181	25%	17.797.404.545
		Weighted Average		Rp3.048.352.406.030

Source: processed data

Based on measurement above, equity of fair market value of PT PLN Enjiniring, done by relative valuation method is valued as Rp3.048.352.406.030

Conclusions

The fair market value of the equity using relative valuation method gives the estimated value of the equity of PT PLN Enjiniring in the amount of Rp3.048.352.406.030. In this research, the study produces a value that do not close or approach each other and there are also huge differences among the three price multiple (price multiplier) of the comparison companies, which is price-to-earnings ratio (PER),price to book value ratio (PBV) and price to sales ratio (PSR) so that in reconciliation process will be given different weight to each valuation.Estimated value per share of PT PLN Enjiniring cannot be done. This is due to unknowing number of shares to be sold later at the time of the initial public offering.

Based on previous written conclusion, then it can be suggested as follows:

1. PT PLN Enjiniring should make the estimated fair market value of equity found from this research that reflects the performance of its company as a reference in the pricing shares for the purpose of IPO. Low determination of stock price offer will result in the potential loss of the company, so that the income from stock sales cannot be maximized.
2. For prospective investors, it is suggested to use equity of fair market value as reference so that there will be no financial loss or payment at higher costs than market value, so it be a benefit for investors.

Public or academics may use this research as new additional insight and reference in business valuation.

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