

STOCK VALUATION AND BUSINESS PERFORMANCE OF PROPERTY INDUSTRY POST COVID-19 ERA: CASE STUDY PT B

ABSTRACT

In 2019 the pandemic Covid-19 caused sharp decline on Indonesian economy, yet in 2021 the economic condition started to recover, indicated by 7% increase in Gross Domestic Product and Consumer Confidence Index. One sector influenced by strong economic recovery is property industry, furthermore government gave stimulus to boost property industry growth. PT B is a leading property developer having various projects and land bank across Indonesia. Post Covid-19 era, the financial performance of PT B showed a good condition, the evidence is the increase in company profitability and decline in the debt. The fundamentals contrast with the stock price as the price declined even in the recovery phase. This condition encourages the writer to do the research on PT B stock valuation and whether the share is classified as overvalued or undervalued. The research will utilize secondary such as financial reports, annual reports, public expose from idx.co.id, and other literature sources. The methodology to process the data is Discounted Cash Flow valuation method to find the actual intrinsic value and value-added intrinsic value, to find the fair value using Net Asset Value valuation method. The added value is a proposal to developing housing projects for Generation Z with goal to increase the company share price. The result is the stock fair value to be IDR 1,250 – 2,554. Finally, the author will determine if the stock of PT B is undervalued or overvalued and give investment recommendations.

Keyword: Property Developers, Recovery Phase, Stock Valuation, Discounted Cash Flow, Added-Value, Net Asset Value

1. INTRODUCTION

COVID-19 is a disease caused by the SARS-CoV-2 virus. The first official cases were reported in Wuhan, China in December 2019. In Indonesia, the first two cases confirmed in early March 2020. In a short time, the disease spreading rapidly. By 28 March 2020, the confirmed reached 1,155 cases spreading in 28 provinces.

From the macro side, the pandemic resulted in the decline in Indonesian GDP. In 2020, GDP contracted, and the growth declined with rate of -2.1% in total. In 2021, Indonesia annual GDP grew sharply by more than 5% to 3.7%. The Indonesia GDP growth shown in Figure 1.

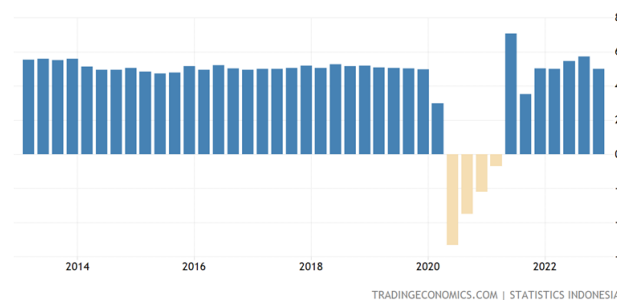


Figure 1 Indonesia GDP Annual Growth
(tradingeconomics.com, 2023)

Starting end of 2021, the economy started to bounce back and looking at the economic condition in 2022, Indonesia experienced rapid growth of 5.2%. Economic growth was boosted by a sharp acceleration in private consumption. The latest consumer survey conducted by Bank Indonesia in December 2022 showed Consumer Confidence Index of 119.9 compared to December 2021 of 118.5. Strong economic growth and increasing Consumer Confidence Index resulted in high performance in all sectors including property sector.

1.1 Overview

PT B is the leading property developer in Indonesia having almost 40 years of experience in the field of property development. The company established in 1984 as a part of Sinar Mas Group. The company manages a strategic land bank with more than fifty projects in city development, residential, commercial, retail, and industrial estates.

1.2 Business Scope

PT B main business in real estate business consists of residential area and industrial estates sales, rental, profit sharing and fee-based; building and infrastructure construction; land preparation; water, electricity and amusement parks.

PT B aims to balance between sales revenue and recurring revenue. The contributors of sales development revenues are residential areas, shop houses, industrial and commercial estates, apartments, and trade centre. In the recurring revenues side, the company has a portfolio of office buildings, malls as well as hotels and recreation area. PT B owns shopping malls, office buildings, building management, hotels also convention and exhibition facilities.

1.3 Business Prospect

PT B has benefited from portfolio diversification especially during pandemic time. These five products have the potential to further developed since the market demand is high. The Company will continue to develop its recurring income portfolio with goal to reach 20% of total revenue.

1.4 Business Issue

Looking at the Residential Property Price Survey conducted by Bank Indonesia, the price of residential housing (IHPR) increases year by year. In 2022, the price increased by 2% compared to in 2021. Even during pandemic era, the housing price increased although with lower price growth. From the commercial side, the sales prices growth fluctuating year by year. In general, the price increased since 2020 until 2022.

Property sector experienced downturn during 2020 due to Covid-19. In general, most noticeable effects of Covid-19 on the property sector is the decline in demand for both residential and commercial properties. As a result of reduced demand, property developers have had to delay or cancel new construction projects, leading to a decrease in property supply. Moreover, the pandemic has also resulted in a slowdown in property sales, and many property buyers have postponed their investment decisions until the pandemic situation improves.

PT B enjoyed the increase in sales of residential products during pandemic era. In the recovery phase, in 2021, the company succeeded in increasing the revenue by 24% and profit by 379%. However, the stock price kept stagnant and has not followed strong recovery performance. The stock price increase by 61% in 2021 compared to 2020 and then slowing down until today. The big questions would be, does the stock price reflected the company performance and fundamental? How is the company valuation?

The wider goal of this final project to evaluate the fundamental of PT B and to determine intrinsic and fair price. The valuation process will be conducted using Discounted Cash Flow (DCF). After doing the valuation, the writer planned to find the connection between company fundamental to its stock price in the post Covid-19 era.

2. METHODOLOGY

The purpose of research methodology is to provide a systematic approach to conducting research studies in a way that ensures the accuracy, reliability, and validity of the results. The goal of this research is to calculate intrinsic value and valuation of PT B therefore the methodology will explain the how to calculate the intrinsic value and valuation. Furthermore, the framework will be used to propose a recommendation related to the company stock.

2.1 Data Collection Method

In this research, the writer used the secondary data. The secondary data used in this research are:

1. Financial and annual report of PT B and its competitors.
accessed from IDX. The financial reports used are audited reports from period 2018-2022.
2. Other supporting documents from books, journals, and articles.

2.2 Data Analysis Method

The data analysis method of this research is quantitative analysis. Quantitative analysis is a method of data analysis that involves using statistical and mathematical tools to examine numerical data. The analysis comprises of several steps which are:

1. Assessing Internal and External Business Environment
Internal analysis basis is PT B annual reports, external analysis by PESTEL and Porter's Five Forces.
2. Analysing Financial Report
The analysis included in this part are financial ratios and cash flow analysis. Historical data used as a basis for future performance projection.
3. Determine company's Equity Value and Intrinsic Value per Share.
Valuation and intrinsic value are determined by calculating cash flow by Discounted Cash Flow method and total asset by Net Asset Value valuation.

3. RESULT AND DISCUSSION

3.1 External Analysis

External analysis is the analysis of outside factors affecting a company's competitive position and influencing its strategic formulation.

3.1.1 PESTEL Analysis

PESTEL analysis is to identify the macro-environmental factors that might affect the company business.

Table 1 PESTEL Analysis

Politic	In 2024 Indonesia will have presidential election. The politic year feared to have effect to economic instability. As mentioned by Bisnis Indonesia, property sector has high uncertainty due to political year in 2024.
Economic	In 2021, Bank Indonesia interest rate reached a record low of 3.50% and increased up to 5.75% in 2022. Low interest rate equal to low installment making buying property interesting for many Indonesian customers.
Sociocultural	Based on report from BPS, Indonesia's demography is dominated by millennials and gen Z for more than 50%. However, as mentioned by the Minister of Finance, Sri Mulyani, gen Z will not be able to buy house due to low purchasing power. PT B needs to build affordable houses for millennials and gen Z.
Technology	Many industrial sectors are utilizing IoT since it is more efficient. For example, IoT can be used to control energy usage, customers are able to experience the housing model by Virtual Reality. PT B needs to implement IoT in the future to stay relevant.
Environment	Based on the Paris Agreement 2015, countries agreed to limit global warming by 1.5 ⁰ C by 2030. One example was to implement carbon neutral across different sectors. In the real estate sectors in Indonesia, one concrete action is to build green buildings. Green building is a building using a

	process that is environmentally friendly and energy efficient.
Legal	Property developers in Indonesia need to follow several rules such as Land Utilization Permit, Building Permit, and several other regulations. Some regulations are: Law No. 5 of 1960 concerning Basic Agrarian Regulations Law no. 1 of 2011 concerning Housing and Residential Areas Government Regulation Number 16 of 2021 concerning Buildings.

3.1.2 Porter' Five Forces

The focus of this model is the profitability potential of the industry. The five forces of this model are threats by industry rivalry, powerful buyers, potential new entrants, powerful suppliers, and substitute products.

Table 2 Porter's Five Forces

Forces	Explanation	Classification
Bargaining Power of Suppliers	PT B needs a huge number of structural steels to construct its products. To fulfill its needs, the company purchases steel from suppliers abroad and domestic suppliers. Since the number of purchases is very high, it will be easy to select suppliers from the market.	Low
Bargaining Power of Buyers	There are many developers around the Jakarta area. Buyers are able to choose to buy a housing product from which developer. Furthermore, the buyers are well informed related to quality and prices. In many cases, the buyers tend to postpone buying housing products.	High
Threat of Substitutes	In the property sector, it is hard to find substitutes for property products. One example of substitutes is, since PT B is profit oriented, the company tends to sell property products. However, some people tend to lease instead of buying, some people choose to live in a share house instead of owning a property.	Low
Threat of New Entrants	PT B owns numerous projects across Indonesia with huge amount of land bank. BC for example has an area of 6,000 ha with excellent public facilities. New developers need a significant amount of investment for buying the land and building public facilities. The huge amount of investment becomes an entry barrier for new entrants.	Low
Industry Rivalry	PT B products are landed houses, apartments, shophouses, malls, hotels, and offices. In the Jakarta area, there are several big developers with business similar to PT B.	High

3.2 Internal Analysis

Internal analysis is based on assessment of company internal resources and capabilities. The resources are divided into tangible and intangible resources. The tangible resources are financial resources. The intangible resources are marketing resources; brand, image, reputation; human resources and organizational factors.

3.2.1 Land Bank

PT B is one of the largest property developers. The company is managing various projects across Indonesia.:

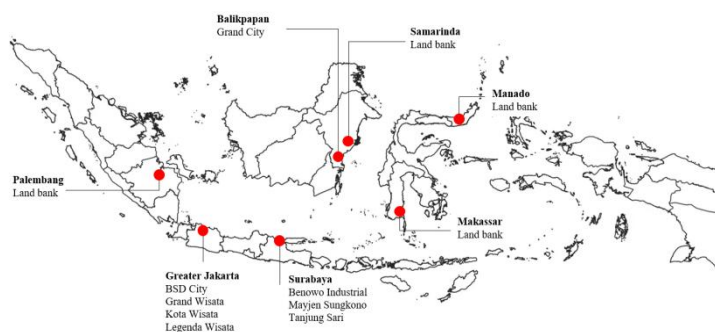


Figure 2 Landed Project of PT B Across Indonesia

Table 3 PT B Land Bank

Project	Total Area (ha)	Developed Area (ha)	Land Bank (ha)
BC	5,950	3,750	2,200
GW	1,100	619	481
KW	750*	586*	164*
LW			
BI	430	-	430
MS	41	-	41
TS	1.7	-	1.7
GC	270	114	156
SP	245	-	245
MP	14	-	14
MP 2	5	-	5
PP	150	-	150

* consolidated

3.2.3 Financial Resources

Financial resources that will be analyzed in this research are assets, equity, revenue, profit, debts or liabilities, stock price and market size through market capitalization from 2018 to 2022.

a. Assets, Equity and Liabilities

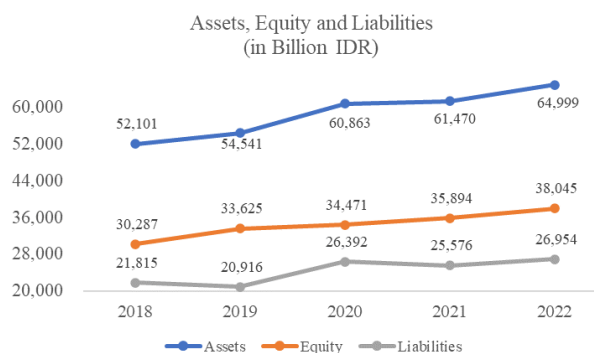


Figure 3 Balance Sheet

Referring to Figure 3, the assets of PT B increased year by year. In 2019, the cash was lower since PT B acquired a transportation company to be its subsidiary. Shareholders' equity and liabilities show steady growth.

b. Revenue and Net Profit

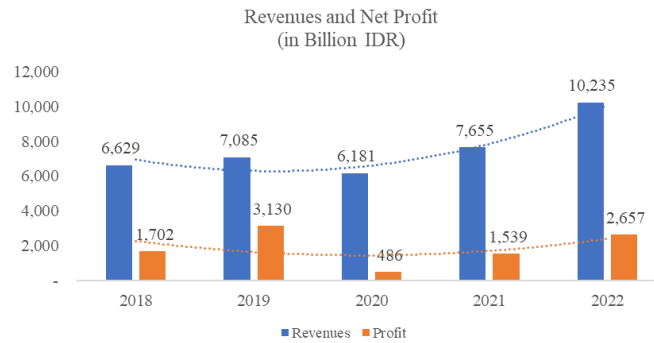


Figure 4 Revenues and Net Profit

The revenues and net profit declined in 2020 since pandemic Covid-19 happened in that year. During recovery phase in 2021 and 2022 the revenues and net profit recovered. The revenues of 2022 increased for more than 50% compared to 2020. The 2022 net profit was 546% of net profit of 2020 although still lower than the profit before pandemic era. Overall, the company has a good profitability performance.

c. Stock Price and Market Capitalization

Stock price and market capitalization can be seen in the Figure 5 below. The stock price used is on 30 December of respective year. The price declined since 2018 to 2022. Since market capitalization is calculated from stock price times the outstanding shares, the market capitalization also decreased from year to year. The decrease caused by pandemic and although the revenues and profit show that PT B business is healthy, investors still wait and see to invest in property sector like PT B.

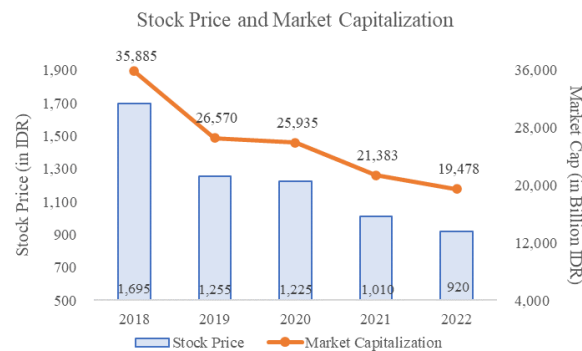


Figure 5 Stock Price and Market Capitalization

d. Dividend History

Dividend history compared to stock price is shown in the Figure 6. From 2008 to 2016 PT B shared dividend to the investors. The company stopped to share the dividend for the year of 2017. After ceasing sharing dividend, the stock price decreased.

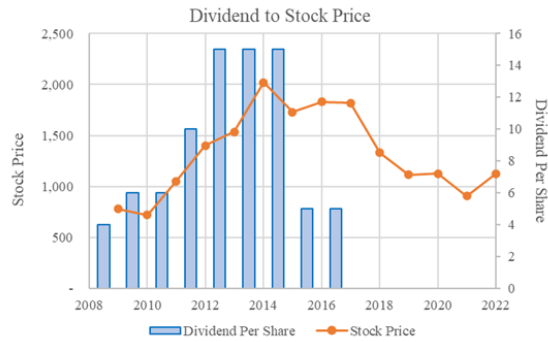


Figure 6 Dividend to Stock Price

3.2.4 Marketing and Brand

PT B is a company with a good reputation and good brand name in the property sector. This is proven by many awards received by the company in 2022. The achievements can be seen in the table below:

Table 4 PT B Awards and Achievement

Projects	Year	Awards and Achievements
BSD City	2022	Best Sustainable Developers (Asia) from Asia Property Award
		Brand of The Year Category in World Branding Award of 2021 and 2022
		Marketeer of the Year 2022 for Industry Marketing Champion from MarkPlus Inc.
		Outstanding Achievement Sustainable Development from FIABCI-REI

3.2.5 Human Resources

Human resources or human capital is an important factor for PT B. By the end of 2022, the number of employees was 3,377 people. In PT B, there are six position levels. The rank from lowest to highest is non-staff (intern), staff and section head, manager, senior manager divided into managers and division head, top management divided into group division head, directors, and CEO of each project. The composition is as following:

Table 5 Employees Composition Based on Age

LEVEL JABATAN POSITION LEVEL		2022			2021		
		<30 TAHUN YEARS OLD	30-50 TAHUN YEARS OLD	>50 TAHUN YEARS OLD	<30 TAHUN YEARS OLD	30-50 TAHUN YEARS OLD	>50 TAHUN YEARS OLD
NonStaf	NonStaff	51	549	163	57	610	142
Staf	Staff	455	1.210	262	343	1.161	233
Manajer	Manager	22	371	214	14	399	184
Manajer Senior	Senior Manager	0	30	26	0	30	32
Top Management			6	18	0	7	18
TOTAL			3.377			3.230	

3.2.6 Stockholder Composition

PT B went public on 6 June 2008 by offering 1,093,562,000 shares at IDR 550 to the public. To increase the working capital, in December 2021 PT B did a limited right issue. PT B conducted a series of capital increases without pre-emptive rights in 2014, 2015 and 2020 with total of 3,674,369,220 shares.

Table 6 Stockholder Composition

Stockholder Name	Number of Stock	%
PT PA	7,178,090,864	33.90
PT EU	5,425,964,486	25.63
Treasury Stock	257,970,700	1.22
Public and Others below 5%	8,309,339,762	39.25
Total	21,171,365,812	100.00

3.2.7 Business Solutions

This section consists of two big parts. The first part is financial performance analysis. Financial performance analysis conducted is an analysis using several financial ratios. The second part is valuation. The valuation that will be conducted is Discounted Cash Flow and Net Asset Value valuation.

3.2.7.1 Financial Performance Analysis

Looking at the income statement, the revenues growth from 2018-2022 is not parallel with the gross profit growth. The gross profit growth is slower than the revenues growth. Gross profit is revenues minus cost of revenue. The higher the cost of revenues, the lower the growth profit. The highest portion of the cost of revenues is construction cost. The growth of revenues and gross profit can be seen in the table below.

Table 7 Revenues, Gross Profit, Construction Costs in Million IDR

Year	Revenues	Gross Profit	Construction Cost
2018	6,628,782	4,754,508	123,051
2019	7,084,864	5,066,066	120,673
2020	6,180,589	4,251,843	119,287
2021	7,654,802	4,740,051	490,049
2022	10,235,480	6,826,040	980,497
Growth	54%	44%	697%

From 2018 to 2022, revenues grew by 54% and gross profit by 44%. The lower gross profit growth is caused by construction costs. Construction costs grew by almost 700% from 2018 to 2022. The sharp increase in construction costs is caused by the increase in steel prices. PT B needs a huge amount of steel for construction purposes. Steel is utilized for the structure of the building.

Despite the increase in the construction cost, net profit is growing. The sales figure dropped in 2020 due to covid-19 pandemic. To tackle the drop in sales, PT B introduced the national promotional strategy in 2020, a sales program that gives the customers additional discounts and gimmicks and implemented in all PT B projects across Indonesia. The introduction of a national promotional strategy in 2020 has been proven to be effective in increasing the sales numbers and ultimately increased revenues and profit.

3.2.7.2 Market Seasonality

Market seasonality is the likelihood of stock market to create a consistent pattern over the calendar year. In general, the stock market tends to repeat its pattern over long periods of time.

In general, the PT B market created a pattern as shown in Figure 7. The seasonality pattern of PT B revenues goes down in Q2 and then increases in Q3 and Q4. The revenue peak happened in Q4. From internal sources, the revenues increase in Q3 and Q4 is caused by numerous product launches that took place in that period.

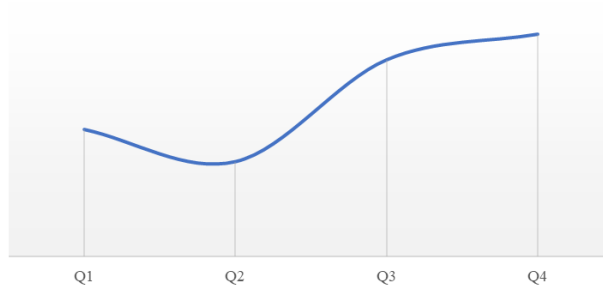


Figure 7 General Pattern of PT B Seasonality

There is an anomaly from the pattern in 2019. In 2019, the revenue peak happened in Q2 instead of Q4. 2019 was a politic year due to presidential election. The presidential election was conducted in May 2019, the result announced in June and due to dispute, the result from Supreme Court and Constitutional Court announced in Q3 2019.

3.2.7.3 Profitability Ratio

Looking at the profitability ratio, the Gross Profit Margin is proportional with operating profit margin. The net profit margin reached its peak in 2019 and then decreased 83.2% in 2020 due to pandemic. However, in 2021 and 2022 due to recovery in economic conditions, the net profit margin gradually increased in-line with the increase in sales numbers.

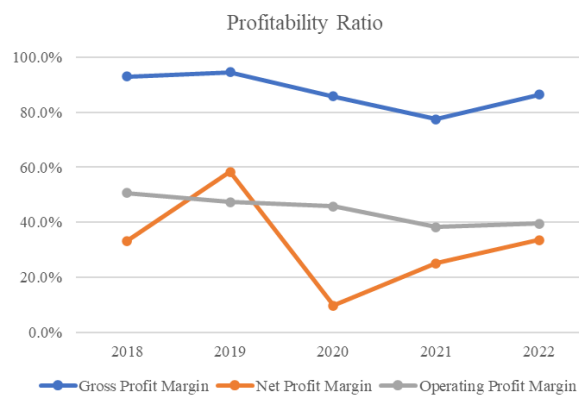


Figure 8 PT B Profitability Ratio 2018 – 2022

3.2.7.4 Solvency

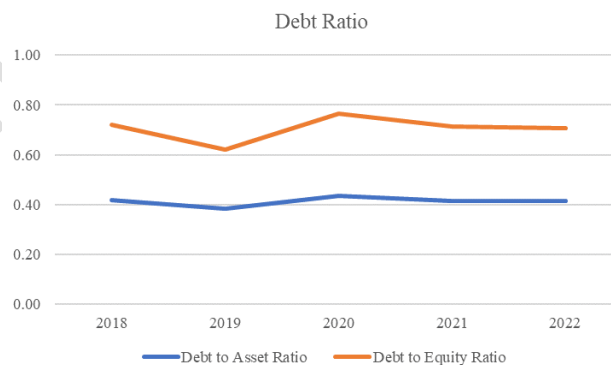


Figure 9 PT B Debt Ratio 2018 - 2022

The figure above shows the solvency of PT B from 2019 to 2022. Generally, the debt to asset ratio and debt to equity ratio are stable. There is a spike in 2020 meaning in that year PT B relied more on the debt financing than equity. However, overall PT B is in good condition since DER and DAR are still below 1.

3.2.7.5 Management Performance

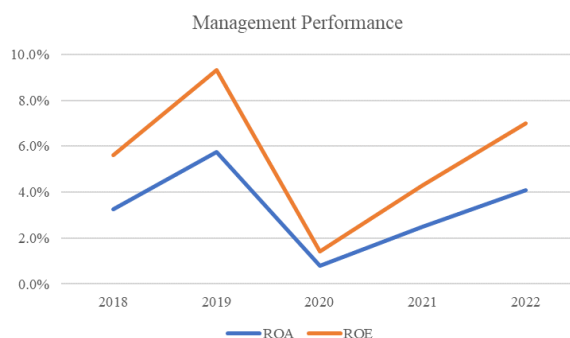


Figure 10 Management Effectiveness 2018 – 2022

The Return on Assets and Return on Equity are proportional. In 2020, ROA dropped by 86% and ROE by 85%. Along with the recovery in many sectors including economy, ROA and ROE started to increase in 2021. In 2022, compared to 2020 the ROA increased by 412% from 0.8% to 4.09% and ROE increased by 395% from 1.41% to 6.98% meaning the management is more effective to earn profit in 2022.

3.2.7.6 Technology

The company is developing a digital environment to be ready for the future. Digital environments currently being built are data centers and dedicated technology centers for tech companies and start up. The long-term goal is to get support from technology companies to implement smart cities and smart homes.

3.2.7.7 Weighted Average Cost of Capital (WACC)

This research employs Discounted Cash Flow valuation method, according to (Damodaran, 2012), in firm valuation the discount factor used is WACC. Before defining WACC, cost of debt, cost of equity should be defined first.

Table 8 WACC Calculation

Variable	Value
Firm Equity Value (mio IDR)	38,045,436
Firm Debt Value (mio IDR)	11,938,555
Total Debt + Equity (mio IDR)	49,983,991
We	76.12%
Wd	23.88%
Cost of Equity	17.00%
Cost of Debt	10.17%
Tax	22%
WACC	14.83%

3.2.7.8 Discounted Cash Flow (DCF)

Table 9 Intrinsic Value

Intrinsic Value	
Firm Value	28,666,959
Net Debt	2,204,136
Equity Value	26,462,823
Current Shares Outstanding	21,171,365,812
Intrinsic Value Per Share	1,250
Closing Price per 9 June 2023	1,170
Margin of Safety	6.40%

DCF calculation shows that the PT B intrinsic value is IDR 1,250 per share. As per the 9 June 2023 closing, PT B stock is traded at IDR 1,170 per share. This means, according to valuation through DCF method, PT B stock at 1,170 per share is undervalued by 6.4%.

3.2.7.9 Discounted Cash Flow with Added Value

Minister of Finance, Sri Mulyani mentioned that gen Z are not able to buy house. She explained that the income level and housing price level are not in equilibrium state. Gen Z or the young generations demand an affordable house while developers tend to supply houses for higher prices.

To fulfil the demand of gen Z, the writer recommends PT B to develop a large cluster and build 1,000 small houses with land size 30 sqm and building size 40 – 45 sqm with price of IDR 930 million including furniture and VAT.

Table 10 Added-Value Intrinsic Value

Intrinsic Value	
Firm Value	36,342,939
Net Debt	2,204,136
Equity Value	34,138,803
Current Shares Outstanding	21,171,365,812
Intrinsic Value Per Share	1,612
Closing Price per 9 May 2023	1,170
Margin of Safety	27.44%

Assuming the total unit provided is 1,000 units and 80% sold, the intrinsic value becomes IDR 1,612. The closing price per 9 May is IDR 1,170, meaning with the intrinsic value of IDR 1,612, the margin of safety is 37.82%.

3.2.7.10 Net Asset Valuation

The calculation of Net Asset Value is started by listing down the land bank owned by PT B and calculate the total value by finding the price/sqm. Net asset value is the value if all the land banks sold at the 2022 price. The total net asset value after discount divided by current shares outstanding equal to fair value per share.

Table 11 Fair Value from NAV

Total Value	286,875,000
Total Value After Tax 5%	272,531,250
Less: Debt	11,938,555
Cash	9,734,419
Total Net Asset Value	270,327,114
Discount to NAV	80%
Total Net Asset Value after Discount	54,065,423
Current Shares Outstanding	21,171,365,812
Fair Value per Share	2,554

As per the 9 June 2023 closing, PT B stock is traded at IDR 1,170 per share. The margin of safety from closing price to fair price is 118.29% and the margin of safety from intrinsic value of IDR 1,250 is 104.32%.

4. CONCLUSION

PT B is the property developer with the largest land bank in Indonesia. Since its IPO in 2008 the stock price is considerably constant. However, in 2017 the stock price started to decline. During the pandemic era, the company owner bought the shares to prevent steep decline of the stock price. The company stock has a long investment timeframe.

In general, the financial performance of PT B is in good condition in terms of profitability and solvency. The Return on Assets and Return on Equity is a little low since PT B has the highest assets and equity. The valuation result of the research indicates that PT B stock is undervalued. As calculated using Discounted Cash Flow method, the intrinsic value per share is IDR 1,250 with margin of safety of 6.4% as compared to the closing price on 9 June 2023 which is IDR 1,170.

The proposal to increase the share price is to have a value added which is develop a large cluster with affordable houses to attract the gen Z customers. With the sales numbers assumption of 80%, the intrinsic value of is 1,612 per share. Compared to the actual intrinsic value, the value-

added intrinsic value is 29% higher. The margin of safety compared to the closing price on 9 June 2023 is 38%.

A common valuation method to find a fair price of property or real estate industry is Net Asset Value. As a result, the fair value of PT B shares is IDR 2,554 per share.

In summary, the range of fair price is IDR 1,250 – 2,554 per share.

COMPETING INTERESTS DISCLAIMER:

Authors have declared that they have no known competing financial interests OR non-financial interests OR personal relationships that could have appeared to influence the work reported in this paper.

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