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**STOCK PRICING ANALYSIS OF PT. LEN AS ALTERNATIVE SOURCES OF
FUND THROUGH THE INITIAL PUBLIC OFFERING (IPO)
ANALISIS HARGA SAHAM PT. LEN SEBAGAI ALTERNATIF SUMBER
PENDANAAN MELALUI PROSES INITIAL PUBLIC OFFERING (IPO)**

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Abstract— PT. LEN is one of state owned companies (BUMN) in Indonesia which is engaged in technology industries. As one of state owned companies (BUMN) which enroll in strategic industries, PT. LEN has a very important role in supporting the growth of Indonesia's development, PT. LEN's business performance has successfully led PT. LEN as a trillion company. In 2011, the life cycle of this company has been projected from phase Stability to phase Growth. Nevertheless, one issue has arisen when the growth of the company is hampered by funding issue, especially the lack of capital to run the projects. The growth of revenues become unbalanced with working capital, especially liquid working capital (cash). The objective of the company is to Go Public with huge amount of capital which can support the business activities and also to strengthen the capital structure and the liquidity of assets. The sales revenue from some of its stocks is used as an alternative source of fund apart from bank loans. The fund is used to expand the company's activities, to build the facility of developing system, and also to build fabrication workshop. The total amount of fund needed is 590 billion. During the IPO process, there are several things to be concerned, internally and externally. From the company's internal perspective, several things to be concerned are company's financial fundamental analysis, valuation, and company's feasibility studies in doing IPO. From the external perspective, PT. LEN needs to concern about macroeconomic factor and the industrial competition. Both of internal and external perspective will affect investors' interest to the company. This thesis uses Discounted Cash

Flow as a method to calculate the valuation of the company. This method is used to value stock's price in a company by calculate the Future Expected Cash Flow. The Discounted Cash Flow method is used to value the stock's price and the amount of stocks issued by PT. LEN for IPO process so the price will be interesting to the investors. Other than to fulfill the needs of source funding, IPO process is also one of the programs to privatize the state owned companies in Indonesia which is included in BUMN's Masterplan 2010-2014.

Keywords: *BUMN (State owned companies), Need of Funds, Initial Public Offering, Discounted Cash Flow*

I. INTRODUCTION

The large's population of Indonesia and the highest economic growth in Southeast Asia, offering the opportunities for business continuity in the technology industry to enlarge the market share of the industry itself. Meanwhile, the entry barrier of new players both from lokal or multi national company, facilitated by the reforms in the regulation, strengthen the position of technology-based industries as one of the most potential and strategic sectors for investment long-term.

PT. LEN is one of the SOE (State Owned) Indonesia based technology industry. As one of the companies which involved in the strategic industry, PT.LEN have a vital role in supporting the growth for developing. The company target is going public with a capital which can support various business activities, but behind this is the

period to main a focus of repositioning the business to be prepared carefully by the company.

In an effort to achieve the target company, PT. LEN set the following key strategies:

- a. Develop export markets by focusing on the innovation of products that the company has been certified.
- b. Strengthen the capital structure and liquidity levels.
- c. Develop a strong business development model.
- d. Doing business feasibility studies and preparation of the formation of a new subsidiary.
- e. Doing business repositioning stage.

1.1 Company History

PT Len Industries is a technology-based company engaged in the electronics business and infrastructure. At its inception in 1965, PT Len Industries is a research institution, but in 1991 doing transformation into a State-Owned Enterprises (SOEs). These changes are based on Government Regulation No.16 of 1991, Statute # 2 dated March 9, 1991 which regulates the status changes to UP LEN-BPIS Corporation. Since then, PT Len s under the coordination of ministrie state of SOE, since then Len is no longer an extension of the National Electronics Institute, but has become a professional business entity by the name of PT. LEN INDUSTRIES (len.co.id, 2012). In 1998, based on the PP no. 35 in 1998, PT Len Industries was converted into a subsidiary of PT. Bahana craft Strategic Industries (BPIS PT.). But in 2002 returned to the Company the Company due to the dissolution of PT. BPIS.

Since changing the status to a company, Inc. Len has an obligation to pursue profit as well as its duty as a state owned enterprises, and then for supporting of all government policies and various other needs of the domestic industry. Since then, PT Len did a lot of business transformation, organizational and managerial. One of the most significant change was in 2006 PT Len decided to have a subsidiary.

On January 18, 2006 PT Len took over 75% stake in Indonesia Eltran from Cooperative Employees and Pensioners PT Len. This decision was made based on consideration of the need for container for accomodate projects not included in the core business and also to expand the career paths of employees so as not to do well only on the parent company.

Later in the year 2009, PT Len acquired PT. SEI (Solar Energy Indotama) and PT. Main Interlokindo so in the end PT Len has three subsidiaries. Acquisition process was done because of the renewable energy business opportunities and greater signaling contractor while PT Len has limitations to capture all the opportunities that exist.

As an SOE, PT Len has three strategic roles, namely:

1. Helped maintain the sovereignty of the state, through transportation and telecommunications products and means of navigation aids
2. Improve the welfare of the community, through renewable energy and telecommunications and transportation
3. Support of defense and state security, defense electronics through product

During the operation approximately 47 years, PT Len has successfully developed the business and various products in the field of electronics for industrial and infrastructure, and has demonstrated experience in the following (bumn.go.id, 2012):

- a. Broadcasting (for over 30 years) with hundreds of TV and Radio transmitters are installed in various parts of Indonesia
- b. Telecommunications network infrastructure (in large cities and remote areas)
- c. Railway signaling system in various railway lines in Java
- d. Electronics for the defense (land-sea-air)
- e. Power Electronics systems for electric railways
- f. Thousands of Solar Power Generation System that has been used by people in various regions in Indonesia and even abroad.

1.2 Scope of Company's Business Field

Line Bisnis	Produk	Pelanggan
Elektronika Perawatan	Secure Radio Communicator, Integrated Weapon System (IWS)	Kementerian Pertahanan, Militer Indonesia, Polisi Republik Indonesia
Energi Terbarukan	Model Surya, Sistem Tenaga Surya kecil, Perumahan, Penerangan Jalan Tenaga Surya, Sistem Tenaga Hibrida, Koch Meter Pabrik	Kementerian Kelautan & Perikanan, BPPT, Pemersitah, Daerah, Kementerian ESDM
Sistem Kontrol	Sistem Kontrol, Detektor & Flow Management, SCADA, Training System, Radar Data	PT PLN (Persero), PT Indonesia Power, PT Pabrik II (Pabrik), Badan Meteorologi & Geofisika, Direktorat Jenderal Bea & Cukai, Lembaga Pelatihan
Sistem Navigasi	Automatic Dependent Surveillance - Broadcast (AD-B), Aeronautical Navigation Equipment, Marine Navigation Equipment	Kementerian Perhubungan
Telekomunikasi	WDMX, VSAT, Telepon Satelit Tenaga Surya, DVB-T Transmitter (Penerang TV Digital), EPO/Powerline, Sistem Adhena	Kementerian Kelautan & Perikanan, Kementerian Kelautan & Perikanan, DMI, TVRI, RRI, TV & Radio, Swasta, Pemerintah Daerah
Kelembagaan Kereta Api	Sistem Interlocking, Sistem Peringatan Otomatis & Level Crossing, CTC, LED Sistem Perawatan	Kementerian Perhubungan, PT Kereta Api (Persero)

Figure 1. Company Business Field

Besides the company business field in the figure 1, PT. LEN also provides support services, that is: survey, planning and system design, procurement, engineering, installation, and maintenance training products, after sales service, commissioning and testing. In addition, PT. LEN also features a training center that will provide training on operation and maintenance of standard products to customers.

1.3 Business Issue

PT. LEN is one of the state-owned company has two strategic role as a driver of economic corridor by implementing connectivity projects (Railway System, Telecommunication, Navigation and Energy) and drive innovation corridor to support the independence of Technology and National Competitiveness through the development of human resources and construction of Industrial Facilities.

In the period 2009 to 2011, the company's business performance has been able to bring the PT. LEN become a trillion company is reflected in the signing of contracts over one trillion rupiah in 2011. With that result PT.LEN position has moved from Stability period to Growth period. The growth of PT. LEN hit by Capital problems in doing business because the lack of liquid capital to execute projects. Revenue growth is'nt balanced with the company working capital , especially working capital that is liquid /cash.

Most of the land and buildings paid-in capital from shareholders when the PT. LEN establish. After that there were the additional capital twice given in the form of cash for working capital from shareholders amounting to Rp 10, 6 billion and Rp 5 billion. Moreover PT. LEN has a need for funds in its business development for the construction of facilities development system and construction of fabrication workshop in the mount of 590 billion Rupiah.

II. BUSINESS ISSUE EXPLORATION

Initial thoughts are formed in order for PT. Len Initial Public Offering "IPO" plans is derived from the Company's Long Term Plan (RJPP) LEN and privatization programs plans for state-owned enterprises in Indonesia which is contained in the Masterplan SOEs from 2010 to 2014, is pushed PT. LEN to do the IPO process. Besides the need for investment funds and capital project work lead PT. LEN plans to go public, as an alternative funding source other than the bank loan. Conceptual framework

provides descriptions of the research steps will be undertaken in order to provide the best solution for the company.

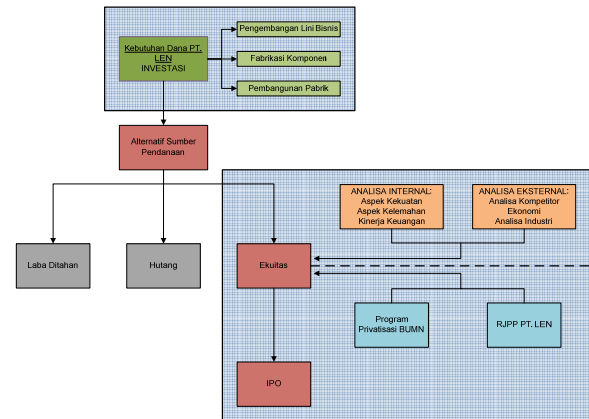


Figure 2. Conceptual Framework

Investment activities required by the PT. LEN for the development of machining facilities, equipment, measuring instruments and product development. However availability of working capital is the weak point of LEN in the past five years, with the level of debt to equity up to 353,84% in 2011.

From the figure 2 , the research will be based to external and internal analysis ; and then combined with SOE policies and the Company's Long Term Plan (RJPP). The external analysis study, include economic analysis, Indonesia stock exchange analysis, Industry analysis (such as : competitor, market, etc.) , business opportunity and business threats analysis.

Indonesia's economic growth target in 2012, is 6.7% or greater than in 2011. Indonesia capital market growth supported by three supporting factors : macroeconomic factors, the performance of the listed companies in Indonesia, the money market.

The business opportunity aspect According to RJPP PT. LEN (2012-2016):

- Domestic Market Growth for Infrastructure
- Market Independent Power Producer (IPP) and Energy Conservation.
- TKDN Policy (The content of the Interior).

Aspects of Threat: Intensity of Competition Local, Regional and Global (CAFTA and the WTO), the dependence of the government market, which has not been an effective government regulation, technological change.

The internal analysis studied, include corporate financial analysis, company strength point and weakness point. In 2011 the company net profit reach 1.3 trillion Rupiah, is growing 44,52% compared to last year. The fundamental analysis was restricted to companies that have gone public and companies from Asia. Len five business lines have more than 50% market share, especially for Railway Transportation.

The analysis of Internal aspects is aimed to compare aspects of the power (strength) and weakness (weakness) by the Company. The strength point for this company is strong human resources competencies, experienced in infrastruktur and electronics business, goverment market access, multiple lines of business and captive market for goverment.

The business weakness aspect :

- Limitations for working capital
- Product component or raw material
- Low bargaining power
- Lack of production facility
- Low experience in manufacturing product.

SOE privatization program carried out in order to improve the performance and value-added enterprises, improvement of financial structure and management, the creation of a healthy industry structure and competitiveness, empowering the state to compete globally orientation, distribution of ownership by the public as well as the development of domestic capital markets.

There are few alternative sources of funding. Sources of funding can be met from two sources, internal funding and external funding sources (Damodaran, 2006).



Figure 3. Alternatives Sources of Funding

Retained earning inadequate to meet financing needs. Alternatives through debt can not be done because the value of corporate debt to equity ratio is too high to reaches 354%. The last choice is through equity alternative conduct an Initial Public Offering (IPO). In addition to strengthening the capital structure, IPO can have

a positive impact on PT. LEN and support the SOE program of privatization.

The root causes is to valuating the stock price and the number of shares to be published by company when doing an IPO and how the procedural process for the company to be listed on the stock market Indonesia.

IPO pricing calculation of the company is a way to determine the fair value of a company by comparing it with the indicators and the indicators that influence it compares with other companies that have first go public

III. BUSINESS SOLUTION

the valuation method used for the IPO of PT. Len is discounted cash flow method (DCF). This method is often used to assess a company's stock price, by assessing the expected future cash flow of a company.

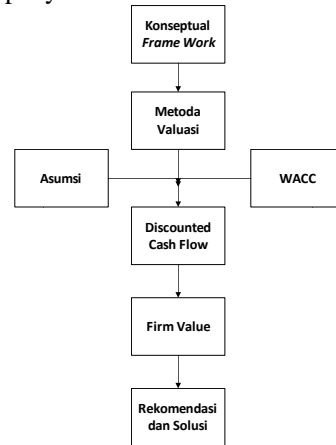


Figure 4. Framework Analysis

Discounted cash flow is used to estimate the intrinsic value of a company. Discounted cash flow valuation using, discount rates to reflect the risks contained in the cashflow and discount rate used in calculating the cost of capital. To fulfill the investment needs of PT. LEN amount of 590 M, it will be filled through equity financing and debt financing. The composition of the debt to equity in this reasearch is 60% debt and 40% equity, this number is obtained from the calculation of the average composition between debt and equity of firms in this industry. The discount rates calculation using (WACC) weighted average cost of capital (Damodaran, 2006):

Where:

r_i = cost of debt

w_i = long term debt proportion in capital structure

r_s = cost of equity
 w_s = weight of common stock of equity

Cost of Debt (K_d):	
Estimated Cost of Debt	11,00%
Tax Rate (T)	25%
$K_d = \text{Cost of Debt} \times (1 - T)$	8,25%
Cost of Equity (K_e):	
Risk Free Rate	5,75%
Beta	1,14
Market Risk Premium (r_m)	9,60%
$K_e = r_f + \beta \times r_m$	16,65%
Debt to Total Capital ratio (w_d)	60%
Equity to Total Capital ratio (w_e)	40%
WACC	11,61%

Figure 5. WACC Calculation

To determine the projected company income statement for the next five years, performed three scenarios, pessimistic scenario, mostlikely, and optimistic. Projections that will be used to assess companies based on sales growth, cost of revenue, operating expenses and economic growth. The next steps, it's to calculate net working capital and net capital expenditure Which is calculated by subtracting capital expenditure to changes in depreciation. Working capital or working capital is generally defined as the difference between current assets and current liabilities and is used to view the remainder of the current assets that have been paid in current liabilities which will be used as working capital for the company. The equation for working capital is :

$$\text{Non cash working capital} = \text{Non cash Current Asset} - \text{Non debt Current Liabilities}$$

Discounted cash flow (DCF) valuation method, process requires the calculation of free cash flow (FCF). Free cash flow in getting from the calculation (Damodaran, 2006):

$$\text{FCFF} = \text{EBIT}(1-T) - (\text{Capital Expenditure} - \text{Depreciation} + \text{Change in Working Capital})$$

Then, to obtain firm value present value calculation of future FCFF and terminal value. In calculating the present value WACC as the discount rate used. To calculate the valuations of the IPO firm's stock price, then firm value should be reduced by the amount of debt that the company will obtain equity value of the company. Having obtained the company's equity value to be divided by the number of shares (common stock outstanding) will be obtained from the intrinsic value of the company's stock price. The following table is calculated for the terminal value, firm value and equity value for the composition of 60% debt: 40% equity in mostlikely scenario. The result :

Firm Value	Rp 3.861.511.606.682
Market Value of Debt	Rp 704.381.320.000
Market Value of Equity	Rp 3.157.130.286.682

Figure 6. Market Value of Equity

The stock price analysis with DCF method result, shown in Figure 7 with three different scenario.

	Pesimis	Mostlikely	Optimis
Market Value of Equity	Rp 1.527.200.880.786	Rp 3.157.130.286.682	Rp 4.907.954.981.347
Perubahan Equity	Rp 410.979.080.000	Rp 410.979.080.000	Rp 410.979.080.000
Penambahan Equity	26,91%	13,02%	8,37%
Jumlah Saham Dasar	45.601	45.601	45.601
Penambahan Jumlah Saham	12.272	5.936	3.819
Jumlah Saham	57.873	51.537	49.420
Harga Saham	Rp 26.389.057	Rp 61.259.364	Rp 99.312.101

Figure 7. DCF method for stock pricing analysis

Figure 7 is mathematically calculation for determining the value of the shares, which uses the discounted cash flow valuation method to calculation. While the reference in determining stock prices can be influenced by a variety of possibilities depending on stock market conditions related to the conditions of supply and demand.

	Pesimis	Mostlikely	Optimis
Harga Saham Valuasi	Rp 1.319	Rp 3.063	Rp 4.966
EPS	Rp 30	Rp 63	Rp 97
PER Sektor	22,5	22,5	22,5
Penawaran Harga Wajar	Rp 675	Rp 1.416	Rp 2.191

Figure 8. stock pricing analysis using PER in sector

Figure 8, shown calculation of fair value pricing offers companies in the IPO process by taking into consideration the average price earnings ratio in the industry. The average price earnings ratio that is used is the industry PER of a truly kind, in because of the capitalization ratio of capital to the profit needs of the ordinary can be different for each type of business.

After making the IPO the company will get the cash funding requirement on the other side of the company will also be confronted with market risk. The following are risks that can arise when a company has peddle copies of his shares in the stock / market.

The factors that could affect the stock price according to Weston and Brigham (1993:26-27) is the projected earnings per share, when earned income, the level of risk from the projected earnings, and dividend policy. Other factors that can influence stock price movements are external constraints such as the state of the economy in general and specifically in Indonesia, industry conditions, distinctive competencies and companies, government policies, market share companies, stock exchanges and state taxes.

Here are some factors that affect the future prospects of PT. LEN:

- Growth in the domestic infrastructure market
- TKDN policies (The local content product) As mentioned above, LEN is one of the electronics firms in the country, although there are some companies that supply solar panels, but Len main competitors come from abroad.
- The average market share per line of business is 50%
- Len existence as a business entity that developed from a research institute supported by the superior competence of human resources.
- Since its founding, the business environment is Len projects funded by the government / state budget. Len access to markets is also supported by the Government of Len's status as a State Owned Enterprises (SOEs), despite the fact that the field remains in a healthy competition with private companies. The ability of market-funded access to the state budget can increase bargaining position in the market competition.

IV. CONCLUSION AND IMPLEMENTATION REKOMENDATION PLAN

The initial public offering meant to invite the public to shareholders. Post IPO will bring change for the company that originally owned by the Government. By inviting the public to the shareholders of the shareholders will be acting as the owner of the company, which acts as the public investor and owner of the company will act in a commercial course in view of the company's performance because investors want their investments profitable and can grow further.

By doing an initial public offering to the public, companies can enjoy the benefits include the following:

- a. Obtain additional funding in the form of cash in large numbers and received simultaneously to increase the capital structure.
- b. Additional funds may be used for expansion / expansion of the company or can also be used for debt payments, so as to reduce interest expenses and ultimately increase its profit.
- c. The cost to the company to go public, including mild when compared with other funding sources

such as borrowing money from banks or other financial institution.

d. Transformation of a company's management more transparent, professional, credible and meet the demands of good corporate governance. By becoming a public company, the company will be controlled by the party - the company externally to prevent the business practices unhealthy. (Fakhrudin, 2008)

e. Increase market share. Many publicly traded companies reported that facilitate the sale of products and services to consumers. (Brigham, Eugene, Ehrhardt, 2005)

The losses make an initial public offering to the public, are as follows:

a. Responsibility to make full disclosure to the public (full disclosure). This is a major consequence of which the company became a public company required to comply with disclosure regulations prescribed both Bapepam-LK, Institute of Bursa and various other liabilities. Management may not like the opening to the public because the data are indirect competitors can know the company's financial position until the ownership of the company

b. The risk of the not traded stock and has a low price

c. Pay more costs incurred related with company stock, such as the cost of listing of shares on the Stock Exchange, Register services pay (BAE). The cost of the financial statements 4 times per year and annual report.

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Undang-Undang No. 21 tentang Minyak dan Gas Bumi

Surat Keputusan Menteri nomor: 11/M-IND/PER/3/2006 tentang Pedoman Teknis Penggunaan Produksi Dalam Negeri yang diperbaharui dengan Surat Keputusan nomor: 11/M-ind/PER/6/2006

Undang-Undang No. 36 Tahun 2008 Pasal 17 Ayat 2a Tentang *Corporate Tax Rate*

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