Value Investing Analysis: A Look at Anthony Salim Portfolio

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Abstract

Investors in Indonesia are in search of the market for stocks, including ways and methods suitable for investors' way of thinking. Value Investing looks for undervalued stocks by carefully analyzing a company's financial ratios. Past research found evidence that investment in value stocks benefitted the likes of Warren Buffet, Seth Klarman, etc. However, we found a lack of studies that investigates value investing in the Indonesian market and investment by prominent figures in Indonesia. This resulted in the following research question: Would Indonesia's prominent figures Anthony Salim portfolio listed at Composite Index in Indonesia consist of value stocks? In order to answer the research question, a quantitative method with a deductive approach has been applied, and historical stock prices and financial ratios over the time period 2019-2020 of Anthony Salim portfolio of eight stocks have been collected from Indonesia Stock Exchange. Intrinsic value and margin of safety by Phil Town (2014) were then calculated, and the research will look into its relationship with the value of the company based on its P/E ratios. The study suggests investors buy IMJS and IMAS stock of Anthony Salim based on the Phil Town method. However, the findings on Phil Town MOS were not statistically significant. The study did contribute with new knowledge, however, by increasing the data available for value investing in Indonesia and highlighting a need for more studies into smaller stock markets and for a period of financial distress, such as the financial crisis.

Keywords: Value, Investment, Intrinsic, Maring of Safety

INTRODUCTION

The capital market has many types of traded products. Investment in stock is increasingly recognized by various people, including today's young people. The potential for high returns is the main attraction in addition to making easier transactions online. Stock investment can be easy and difficult at the same time. To be more expert in investment, various experts, analysts, and opinions emphasize things like 'don't put all eggs in one basket because putting all the eggs you have in one basket can cause them all to break if the basket is dropped. This means that when you invest, don't put all your capital in just one investment. Allocate your funds across multiple investments. And things like 'don't buy a cat in a sack' because investment is not speculation. Like building a business, you are obliged to do research, whether the potential for the business you want to choose is good in the future. The performance of a company in the future is usually reflected in

the movement of its shares. The more confident investors will be in stock, the stock price usually tends to rise.

The value investing strategy has been very well known worldwide since it was introduced by a famous investor in the 20th century, Benjamin Graham, in his book Security Analysis (1936) and The Intelligent Investor (1949). Warren Buffet, known as one of the richest people in the world, has also implemented this investment strategy for a long time. In Indonesia, there is Lo Kheng Hong, who is known as a successful value investor in the country. Value investing is a method of buying shares below their fair price, often referred to as undervalued shares, and then selling them at their fair price. Value investing is suitable for investors who have a high level of patience because the maximum profit is actually obtained when the shares are sold several years later. The simplest way to start a value investing strategy is to look for 'wrongly priced' stocks based on their financial statements. The analysis technique commonly used is top-down analysis, starting from the fundamental condition of the company and then observing the movement of shares and people's purchasing power. The fundamental condition of the company can be analyzed by checking the financial statements and looking at its important parts, such as current and non-current assets, profit/loss, and cash flow statements. Then, potential value investors can conclude whether the issuer is financially healthy or not. The most important principle that a value investor must adhere to is to only buy stocks that perform well and are sold cheaply, meaning they are below their intrinsic value. So that investors do not misunderstand the definition of 'cheap.' Cheap is not only about the nominal share price but also about the value of the stock valuation being targeted.

Investors in Indonesia are in search of the market for stocks, including ways and methods suitable for investors' way of thinking. Value Investing looks for undervalued stocks by carefully analyzing a company's financial ratios. Past research found evidence that investment in value stocks benefitted the likes of Warren Buffet, Seth Klarman, etc. However, we found a lack of studies that investigates value investing in the Indonesian market and investment by prominent figures in Indonesia. This resulted in the following research question: Would Indonesia's prominent figures Anthony Salim portfolio listed at Composite Index in Indonesia consist of value stocks?

METHODOLOGY

In order to answer the research question, a quantitative method with a deductive approach has been applied, and historical stock prices and financial ratios over the time period 2019-2020 of Anthony Salim portfolio of eight stocks have been collected from Indonesia Stock Exchange. Intrinsic value and margin of safety by Phil Town (2014) were then calculated, and portfolios of value stocks or non-value stocks based on P/B ratios were created based on the financial ratios for every year to see if there is a difference between value stocks and non-value stocks.

Phil Town method is composed of two steps:

Step 1: consists of various formulas of Return on Equity average, return on equity growth, earnings growth, sales growth, and free cash flow growth.

Step 2: consists of various formulas of EPS average, EPS growth, PER average, and a series of computations to estimate sticker price and margin of safety.

In addition, the research used to earn per share multiplier as a computation for intrinsic value in its statistical approach in looking at which variables affect the value of the company.

The intrinsic value is a point of balance between demand and supply with the formula:

$$EM = \frac{DPO}{K - g} \quad ……………………………………………………. (1)$$

Where:

DPO = dividend payout ratio

K = return on investment equity

G = growth (ROE x b)

b = retained earnings (1-DPO)

The value of the company can estimate with various formulas, and here we used the price earning ratio:

$$PER = \frac{Price}{EPS} \quad ………………………………………………….. (2)$$

RESULTS

In order to answer the research question, a quantitative method with a deductive approach has been applied, and historical stock prices and financial ratios over the time period 2019-2020 of Anthony Salim portfolio of eight stocks have been collected from Indonesia Stock Exchange. Intrinsic value and margin of safety by Phil Town (2014) were then calculated, and portfolios of value stocks or non-value stocks based on P/B ratios were created based on the financial ratios for every year to see if there is a difference between value stocks and non-value stocks.

Phil Town 1st Step Method

Table 1 shows the result of the 1st Step in Phil Town Method comprising of average return on equity, return of equity growth, earnings growth, sales growth, and free cash flow growth.

Table 1: Descriptive Statistic

Code	ROEAV	ROEG	EG	SG	FCFG
DNET	4.3%	12%	1%	13%	9%
IMJS	3.6%	1%	3%	-23%	2%
IMAS	1.4%	-26%	-2%	7%	2%

SIMP	-2.3%	-4%	-1%	29%	2%
META	6.9%	8%	1%	-1%	43%
LSIP	3.5%	-190%	0%	5%	-46%
INDF	10.4%	30%	2%	4%	18%
ICBP	19.5%	-215%	3%	2%	36%

Source: SPSS

Looking at the figures above, based on Warren Buffet, when he is looking at a company's financial statement, he is looking for consistency. Does it show consistent earnings? Does it show consistent growth in earnings? It is this consistency that shows up on the financial statement that gives Warren notice of the durability of the company's competitive advantage. ICBP and INDF show the highest ROE. However, INDF and DNET have consistency in growth in terms of return on equity growth, earnings growth, sales growth, and free cash flow growth; consistent growth is seen there.

Phil Town 2nd Step Method

Table 2 and Table 3 below show the 2nd step method of Phil Town that consists of computation of EPSt1 and PERt1 based on the historical EPS and PER.

Table 2: EPS and PER

Code	EPSA	EPSG	PERA	PERST	EPSt1	PERt1
DNET	28.64	13%	122.26	20	51.8	1035.5
IMJS	22.51	-24%	838.91	20	5.6	4677.6
IMAS	34.96	49%	137.81	20	255.6	5112.3
SIMP	-20.00	48%	-52.17	20	-140.0	-2800.0
META	10.10	-8%	22.07	20	6.8	149.9
LSIP	42.67	5%	32.24	20	55.6	1112.9
INDF	618.50	-14%	12.56	20	294.6	3699.3
ICBP	412.00	-11%	26.23	20	232.8	4656.2

Source: MSExcel

Table 3: Sticker Price and Margin of Safety

Code	Sticker	MOS	
DNET	416.2	208.1	

IMJS	1879.8	939.9
IMAS	2054.5	1027.3
SIMP	-1125.3	-562.6
META	60.2	30.1
LSIP	447.2	223.6
INDF	1486.7	743.3
ICBP	1871.2	935.6

Source: MSExcel

Table 2 above shows the result of the 2nd step of the Phil Town method. The data is composed of historical EPS and PER. This method resulted in the desired margin of safety computation of Anthony Salim stock shown in Table 3.

Looking at the Table 2 results above, Warren Buffet suggests a simple rule when an investor has their stock P/E ratios of 40 and above, it might be time to sell. However, in terms of buying, the margin of safety in Table 3 can help the investor in comparing the margin of safety with the price of the stock. When the sticker price is higher than the market price, then perhaps it is the right time to buy.

Based on Table 3 above, comparing the result of the 2019 market price of Anthony Salim portfolio and the sticker price, which is the intrinsic value of Phil Town Method, the following comparison given, the market price that is higher than the sticker price is seen on DNET, SIMP, META, LSIP, INDF, ICBP, which means their stock is expensive. While sticker price that is higher than the market price is seen on companies such as IMJS and IMAS. DNET (MP 3070 > SP 416.2), IMJS (Market 292 < Sticker 1879.8), IMAS (Market 1155 < Sticker 2054.5), SIMP (Market 432 > Sticker -1125.3), META (Market 220 > Sticker 60.2), LSIP (Market 1485 > Sticker 447.2), INDF (Market 7450 > Sticker 1486.7), ICBP (Market 11150 > Sticker 1871.2). Therefore, based on the Phil Town method, the company that is value stock in Anthony Salim are IMJS and IMAS.

Intrinsic Value Earning Multiplier

Table 4 below shows the result of intrinsic value based on the earnings multiplier method for Anthony Salim's portfolio.

Table 4: Intrinsic Value Earning Multiplier

Code	Year	Earning Multiplier	EPS1	Intrinsic Value	Intrinsic Value Growth
DNET	2018	0.000	20.4	0.000	0
DNET	2019	0.000	36.88	0.000	

IMJS	2018	-0.042	1.09	-0.001	2.819
IMJS	2019	-0.082	0.27	-0.006	
IMAS	2018	1.719	8.41	4.064	-1.006
IMAS	2019	-0.185	61.5	-0028	
SIMP	2018	0.619	-5.0	-1.017	-0.991
SIMP	2019	0.085	-35.0	-0.008	
META	2018	-0.047	12.08	-0.001	2.920
META	2019	-0.094	8.12	-0.007	
LSIP	2018	4.961	37.04	6.025	-1.045
LSIP	2019	-0.692	48.30	-0.272	
INDF	2018	-0.001	565	-5.483	-0.770
INDF	2019	0.000	672	-.1256	
ICBP	2018	-2.365	392	-1.327	-0.846
ICBP	2019	-0.642	432	-0.203	

Source: SPSS

Based on Table 4, the company with the highest growth in intrinsic value are META and IMJS, 2.920 and 2.819, respectively.

Regression Analysis

Table 5 shows the result of regression analysis of the relationship between two different variables, intrinsic value and margin of safety towards price earning ratio.

Table 5: Regression Analysis

Model	B	Sig.
Constant	-.289	.163
Intrinsic Value	.299	.016
Margin of Safety	.000	.428

Source: (TNR 10pt., italics)

Based on the data given, the result of regression equation is: PER = -.289 + .299 IV + 0.00 MOS. This equation shows that the intrinsic value of earning multiplier has a positive and significant result on the growth of the price earning ratio. This equation means that the increase of Intrinsic Value by 1 will increase the price earning ratio by .299 and vice versa. On the other hand, the margin of safety has no significant effect on the price earning ratio.

CONCLUSION

Based on the analysis and statistical result given on the computation of Phil Town method consists of two steps in determining sticker price, which the intrinsic value of a company's stock and the desired margin of safety given in the study, the following conclusion is given:

1. The result of Phil Town computation shows that the company with sticker price higher than its market price is shown in IMAS and IMJS company.

2. The study suggests based on the Phil Town method, the company that is value stock in Anthony Salim are IMJS and IMAS.

3. The study shows that the intrinsic value of earning multiplier has a positive and significant result on the growth of the price earning ratio.

4. The study shows that the margin of safety of Phil Town has no significant effect on the price earning ratio.

The study suggests investors buy IMJS and IMAS stock based on the Phil Town method. Furthermore, an investor is recommended to have knowledge of investment, stock, and companies. The study hopes to contribute with new knowledge by increasing the data available for value investing in Indonesia and highlighting a need for more studies into smaller stock markets and for a period of financial distress, such as the financial crisis.

Acknowledgment

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