

CHAPTER I

INTRODUCTION

1.1 Background

As one of a developing country in the world, Indonesia's various economic indicators pointed to ongoing improvement in macroeconomic conditions during 2009. Throughout 2009, the rupiah maintained an appreciating trend in response to the onset of recovery in the global economy and improved risk appetite among global investor. The exchange rate held generally stable during December 2009 as reflected in reduced volatility, despite modest depreciation. General perceptions of investment risk in Indonesia remained comparatively favourable.

The flow of foreign capital is also expected to be stronger as the country offers better opportunities for foreign investors. The purchasing power of the people is expected to remain strong. With interest rate relatively low and rupiah stronger, the domestic market would grow faster.

Economic growth in Indonesia has encouraged many companies to expand their business. In order to do expansion a company needs to acquire big fund for investment. Some methods most commonly used by a company for fund raising for example issuing corporate bond, initial public offering (IPO), bank loan, right issue etc.

PT Indofood Sukses Makmur Tbk (INDF) as one of biggest player in consumer goods industry in Indonesia had done a corporate action in 2009 which to obtain external funding, INDF had spinoffs one of its business unit namely PT Indofood Consumer Branded Product (ICBP). Later in September 2010, ICBP was offered its initial public offering (IPO) to Indonesia capital market.

Given the condition of INDF while doing spin off its business unit ICBP, the writer will try to analyze the impact of spinoffs strategy to INDF financial performance by doing financial statement forecasting compared with actual financial statement for year 2010 and calculating its stock fair value by using Discounted Cash Flow (DCF) model and its weighted average cost of capital (WACC). The same method would also applied to ICBP.

1.2 Problem to be Discussed

As an investor ideally should understand about the company he or she going to invest in it. Unfortunately not many investors are equipped with enough information and knowledge about market condition and methods to do investment.

The fact many investors are doing investment in stock market for example only by rumours or guts feeling. As a result that we can justify from this fact, Indonesia stock market is quite volatile when whistle blower spreading rumours or issue in stock market.

Writer will focus on analyzing INDF financial performance and its stock fair value for year 2010, which in that year its subsidiary (ICBP) listed on Indonesia Stock Exchange (IDX). This thesis is trying to give explanation of some questions that commonly asked such:

- What is the fundamental value of PT Indofood Sukses Makmur Tbk
- What is the fundamental value of PT Indofood CBP
- What is PT Indofood Sukses Makmur Tbk financial ratio outlook
- Does PT Indofood Sukses Makmur Tbk already reflect its stock fair value or it is undervalued or even overvalued
- Is there any difference for each company weighted average cost of capital (WACC) before and after spinoffs decision.
- Was company decision to spin off its subsidiary showed a good decision to raise fund from investors.

1.3 Objective

Objective of writing this thesis is to get the understanding impact of ICBP spinoff and its initial public offering (IPO) during 2009 - 2010 to INDF fundamental stock value and weighted average cost of capital (WACC), compared with INDF did not spinoff ICBP and launched for initial public offering.

The valuation method will use Discounted Cash Flow model to get INDF fundamental value which reflected on company forecasted stock fair value for year 2010.

1.4 Purpose and Benefit

This thesis is expected to help :

Author :

To get understanding about valuation process by implement theory and combined with techniques which commonly used in real market also to get big picture about INDF business strategy as one of biggest consumer goods company in Indonesia.

Investor :

To get adequate and reliable information for investor to analyze a company's condition before making investment decision. This thesis is also expected to deliver guidelines for investors to get additional knowledge and techniques how to see a company fundamental fair value.

Emiten :

In general INDF could see whether spinoffs and IPO decision are beneficial for company by getting an overview of its financial projection performance.

1.5 Limitation

The analysis of thesis will be restricted by using secondary data/financial statements of INDF from 2005 – 2009 and ICBP financial statement from 2007 - 2009. Writer will also use other sources or references to support the analysis and arguments for example from text book, internet, newspaper, journal.

In order doing a company valuation, we need to have understanding about consumer goods industry, common practice in this industry. Knowing an overview of the industry, we can make comparison and analyze INDF performance compared with industry common practice.

Writer will make some calculation of company's financial figures such, stock price valuation by using Discounted Cash Flow model (DCF), weighted average cost of capital (WACC) and financial ratios. Some assumptions will be used for doing calculation. These assumptions are in line with actual condition in order to obtain realistic valuation.

1.6 Systematic Discussion

To make the discussion in line with guidelines and systematic, content of the thesis will be breakdown in five brief and simple chapters as follow :

Chapter 1 : Introduction

This chapter is the basis of the writing process that includes : background, problem to be discussed, objectives, purpose and benefits, limitation and systematic discussion.

Chapter 2 : Literature Review

This chapter will explain general concepts and theories that are used and as a fundamental of problem solving designs that will be discussed related to stock valuation.

Chapter 3 : Methodology

This chapter will explain the thesis methodology, data collection methods and data management techniques to be used in the analysis and discussion stage in the next chapter.

Chapter 4 : Analysis and Discussion

Chapter four will discuss about INDF valuation by using DCF model. The financial data is obtained from audited financial statement from period 2005 – 2009. Then writer will do projection for five consecutive years starting 2010 – 2014.

The analysis will consider some aspects such company financial performance, ratios, business risk, company strategy which all these parameters are intended to increase value of company and increase value of shareholder and stakeholder. The discussion of the issue raised in the first chapter will be answered here based on the company's fact sheets and supported by the theory discussed in chapter two and at the end the INDF stock valuation result will be disclosed on price reasonable value.

Writer will also analyze ICBP fair stock value using DCF method to be compared with market stock value to convince that ICBP spinoff decision was beneficial for company.

Chapter 5 : Recommendation and Lesson Learned

This chapter is a conclusion chapter that consists of lesson learned from the analysis and discussion in chapter four. Recommendation will be included in this chapter.