

CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

The study is performed to investigate the best firm multiplier for relative valuation (valuation by comparables) using Enterprise value to Earning before Interest and Tax ratio (EV/EBIT). The study works with 37 samples that meet the sample selection criteria during 2001-2007. Among the five methods, i.e. arithmetic mean, median, harmonic mean, closest ROA, and closest TA, in calculating the comparable multiplier, closest TA performs the worst in Indonesia capital market during 2001-2007. Arithmetic mean and harmonic mean has weaknesses and they tend to bias the result due to outliers. The result of averaging tends to bias upwards for arithmetic mean and bias downward for harmonic mean. Median does not cause any biases but has equal performance with arithmetic mean and harmonic mean. Despite its advantage in valuation compared to arithmetic mean and closest TA, there is no statistical evidence to argue that closest ROA is different from median and harmonic mean.

5.2 Limitation

Some limitations that encountered during the research are as the following:

1. There are very limited resources related to the topic of this research in Indonesia.

On this reason, the author cannot compare his findings with prior research and some materials that can support his findings. Most of the resources are taken from overseas studies and may or may not support the findings.

The size of final sample is considered to be relatively small compared to the initial sample (37 out of 112 IPOs). Many of the IPOs do not have sufficient comparables in the same sector, including those samples might impair the accuracy of comparable firm valuation method. In addition, the study is purposive sampling, thus only initial samples that meet the requirement and go public during 2001-2007 are taken as final sample. Hence, readers are advised to take extra precaution in interpreting the result.

5.3 Recommendation

Based on the research conducted, the following recommendations are offered:

1. Understand the valuation process. Some analyst may provide software to calculate the best offering price while some may provide the ratios. Valuation practitioner should avoid black box syndrome: blindly input the variables and accept the output (offering price) without understanding the process.
2. Do not use relative valuation when there are no sufficient peers. Number of peer is the main essence of relative valuation, recalling that the first step on relative valuation is peer identification. Without sufficient comparable firms, definitely the valuation will not be optimal.

5.4 Avenue for Further Research

Besides providing insight to academics, valuation practitioners and capital market participants, the findings from this study can be utilized for further study. One can attempt to use different ratio than this study, i.e. using ratio other than EV/EBIT. Those ratios can be evaluated to find the most optimum ratio in relative valuation for

Indonesian market. On the other hand, others can pursue a comparison between relative valuation to other valuation method, e.g. residual income, DCF, etc. It will provide insight of the most optimal and efficient valuation method.