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PT Garuda Indonesia (PERSERO) Tbk Stock (GIAA) Fair Value Valuation Post Restructuring and Relisting on IDX

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ABSTRACT: The financial difficulties experienced by PT. Garuda Indonesia, characterized by its inability to meet its obligations to several creditors, resulted in the temporary delisting of its shares from the Indonesia Stock Exchange (IDX) on June 18, 2021. This situation was further exacerbated by the impact of the Covid-19 pandemic, which led to a decline in revenue due to a decrease in passenger numbers and air traffic.

Garuda Indonesia initiated a restructuring effort through the Postponement of Debt Payment Obligations (PKPU) route with a number of creditors. This resulted in an extension of the payment terms, a conversion of debt to equity, and a modification of the debt structure. The company also implemented improvements to its operational practices aimed at reducing costs. These efforts have produced positive outcomes, including an increase in equity and a decrease in the company's liabilities. Garuda Indonesia also increased the company's capital through Additional Capital with Pre-emptive Rights (PMHMETD), Additional Capital without Pre-emptive Rights (PMTHMETD) and investment from the government of the Republic of Indonesia through State Investment (PNM). After completing the restructuring process, Garuda Indonesia (GIAA) shares were free from suspension and were able to return to the Indonesia Stock Exchange (IDX) with an initial price of Rp.204. This study was conducted to determine the fair value of GIAA shares upon their return to IDX in early January 2023. The study utilized two methods: the Discounted Cash Flow (DCF) method and the Relative Valuation method. The DCF method resulted in a fair value of Rp. 165.3 for the shares, implying that the initial issuance value was overvalued by 18.97%. The Relative Valuation method EV/sales ratio, yielded a fair value of Rp. 929 for the shares, suggesting that the current issuance value was undervalued by 355%.

KEYWORDS: Company restructuring, DCV Valuation, Relative Valuation.

INTRODUCTION

The aviation industry was in a bad condition when the Covid-19 pandemic hit, according to IATA The pandemic erased essentially 20 years of gains in passenger traffic in one sudden move. Compared to the International Air Transport Association's (IATA) pre-pandemic forecast, the loss of travel between 2020 and 2022 is estimated to be equivalent to 1.8 times the achieved Revenue Passenger Kilometres (RPKs) in 2019. The decline in performance of PT. Garuda Indonesia (Persero) Tbk due to the impact of the pandemic, coupled with internal problems, flawed policies, and elevated fuel prices, resulted in a decrease in the number of flights and an increase in operational costs, leading to a rise in ticket prices and a decline in passenger numbers. Garuda Indonesia has recorded negative equity over the course of the past three years. This had a direct impact on the financial situation of the company, leading to a failure to fulfill its obligations to shareholders and investors, including defaulting on sharia bond (sukuk) holders. As a result, the Indonesia Stock Exchange (IDX) temporarily suspended trading in the company's shares.

LITERATURE REVIEW

a. PESTEL Analysis

Pestel analysis is used to see and evaluate external conditions that have an impact on the aviation business, especially for PT. Garuda Indonesia. This is useful in analysing the business of PT. Garuda Indonesia after the company was faced with business problems. Firm's external environment consists of all factors outside the firm that can affect its potential to gain and sustain a competitive advantage. By analysing the factors in the firm's external environment, strategic leaders can mitigate threats and leverage opportunities [1]. PESTLE can help to avoid strategies that may be doomed to failure for reasons beyond control [2].

PESTLE stands for Political, Economic, Social, Technological, Legal, and Environmental. It provides a broad view of the complete environment of the aviation industry. The analysis will determine the factors for the economic, environmental, socioecological, and geopolitical sustainability facets. It provides the framework for the correlation with the PT. Garuda Indonesia to determine the strength and weaknesses.

b. Company Analysis

1. Turnover Ratio

a. Fixed Asset Turnover Ratio

The fixed asset turnover ratio is a metric that indicates how effectively a business is utilizing its fixed assets to generate sales. An increase in this ratio suggests that the company is making efficient use of its fixed assets [3]. The fixed asset turnover ratio measures the ratio of net sales to company net fixed assets [4]. A higher ratio indicates that the company is efficiently generating sales with a smaller amount of fixed assets. Conversely, if the ratio decreases over time, it suggests that the company has either invested too much in fixed assets or it needs to introduce new products to increase sales [5].

$$Total\ Debt\ to\ Equity = \frac{Sales}{Net\ Fixed\ Asset}$$

2. Liquidity Ratio

The liquidity ratio refers to the concept of how far the company's assets are available in completing its obligations **[6]**. They are used to assess a company's financial health and provide insight into its liquidity position. Business liquidity depends on the organization's ability to convert its assets into cash to meet current liabilities or other liabilities.

a. Current Ratio

Current Ratio is a ratio used to measure the ability of a company to meet its short-term liabilities that are due by using the total current assets available. In other words, this Current Ratio illustrates how much the availability of current assets owned by the company compared to the total current liabilities **[7]**. The company which has a high Current Ratio is not necessarily said to be good since a high Current Ratio may occur due to lack of effective cash and inventory management.

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

b. Quick Ratio

Quick Ratio or Acid Test Ratio is a ratio to measure a company's ability to pay short-term financial liabilities by using liquid assets that are more liquid (Liquid Assets). This ratio is calculated by comparing current assets after deducting inventories with current liabilities. states that the extent to which own capital guarantees all debts, this ratio can also be read as a comparison between external party funds and company owner funds. The quick ratio is almost the same as the current ratio, the difference is that the quick ratio does not include inventory in the calculation [8]. Inventory is not calculated on the quick ratio because inventory has a level of liquidity that is considered to create problems. Inventory is the least liquid part of current assets and often decreases in value when the company is declared to have ceased operations [9].

$$\boldsymbol{Quick\ Ratio = \frac{(Current\ Asset - Inventory)}{Current\ Liabilities}}$$

3. Profitability Ratio

Profitability is the ability of a company to earn profits through all available capabilities and sources such as sales activities, cash, capital, number of employees, and number of branches [10]. Profitability is essential for companies because to sustain a company's life without profit will be difficult for the company to attract outside investors.

a. Gross Profit Margin

Gross Profit Margin is a ratio of profitability that shows the rate of return on gross profit to net sales, the higher the gross profit margin, the greater the gross profit value. Which suggests that companies are able to cover cost such as administration, depreciation, and also interest expenses on debt and taxes. It means that the company's performance will be considered good as well as attracting investors to invest in the company, so that the company's revenue will increase **[11]**.

$$Gross\ Profit\ Margin = \frac{Gross\ Profit}{Net\ Sales} \times 100\%$$

b. Net Profit Margin

Net Profit Margin (NPM) ratio is a ratio used to show a company's ability to generate net profits after tax deduction [12]. The greater number of the NPM, then the company's performance will be more productive so that it will increase investor confidence to invest in the company. This ratio also shows how much percentage of net profit earned from each sale. The greater number of this ratio, the better the company's ability to get high profits is considered.

According to Gitman 2012 in [13] net profit margin measures the remaining percentage of sales after deducting with total expenses and costs, such as interest; tax; and preferent stock dividends. So, if a company has a high NPM (Net Profit Margin) then the company can be called good.

$$Net\ Profit\ Margin = \frac{Net\ Profit}{Total\ Revenue} \times 100\%$$

4. Solvability Ratio

Solvability ratio is the ratio that illustrates the company's ability to pay its long-term obligations if the company is liquidated. Types of Solvability Ratios include debt to equity ratio (DER) Ratio of total debt to total assets (DAR), times interest earned [14].

This ratio shows the ratio between debt and equity in a company's funding and shows the level of capital capability owned by the company to meet all obligations to be borne

a. Total Debt to Asset Ratio

Debt to total Assets Ratio (DAR) is a financial ratio that measures the proportion of a company's total assets that are financed through debt. It is calculated as the total amount of debt (including short-term and long-term debt) divided by the total amount of assets. The higher this ratio means the greater the amount of loan capital used to invest in assets to generate profits for the company **[15]**. The DAR provides an indication of a company's leverage and its ability to meet its debt obligations. A high DAR indicates that a large portion of the company's assets are financed through debt, which can increase the company's financial risk. On the other hand, a low DAR indicates that the company has a more conservative financial profile and is less exposed to financial risk.

$$Total\ Debt\ to\ Asset = \frac{Total\ Debt}{Total\ Asset}$$

b. Total Debt to Equity Ratio

Debt to Equity Ratios are ratios that show the results of the total assets used in the company [16]. The debt-to-equity ratio is a financial ratio that compares a company's total debt to its total equity. It is used to measure a company's financial leverage, or the amount of debt it is using to finance its assets. The ratio is calculated by dividing a company's total liabilities by its total shareholder equity. A higher ratio indicates that a company is using more debt to finance its operations, while a lower ratio indicates that the company is using more equity. The debt-to-equity ratio is commonly used by investors and analysts to evaluate a company's financial risk. A high debt to equity ratio can indicate that a company is taking on too much debt, which can make it more vulnerable to economic downturns and interest rate changes.

$$Total\ Debt\ to\ Equity = \frac{Total\ Debt}{Total\ Equity}$$

c. DCF Valuation

Discounted cash flow (DCF) valuation estimates the fundamental value of a company by the cumulative present values of its future cash flows [17]. Furthermore**,** DCF method arriving at a NPV relies on the generation of periodic forecast cash flows (income less operating costs) for a project, and then working these cash flows to take into account various additional deductions, including capital expenditure, taxes and royalties, to typically arrive at a post-tax cash flow for each period [18]**.** In this study DCF is used to see the results of stock valuation which will also use Future Free Cash Flow (FFCF) and Discounted Weighted Average Cost of Capital (WACC) to get potential future stock value in investing. Discounted Cash Flow (DCF) aims to estimate the value or fair price of a stock in the present from the future expected return on investment.

$$Value = \sum_{t=1}^{t=n} \frac{Expected\ Cash\ Flow\ t}{(1+r)^t} + \frac{Terminal\ Value}{(1+r)^n}$$

d. Relative Valuation

Relative valuation is a method of valuing a company or an asset by comparing it to similar companies or assets in the same industry or market [19]. The goal of relative valuation is to determine the fair value of a company or asset by comparing it to other companies or assets that have similar characteristics. This method is often used by investors and analysts to evaluate the relative value of a stock or other securities. Relative valuation is used to determine the fair price of a stock in terms of comparison aspects such as Price-to-earnings (P/E) ratio, Price-to-book (P/B) ratio, Price-to-sales (P/S) ratio, Enterprise value-to-EBITDA (EV/EBITDA) ratio, The EV/Sales ratio.

METHODOLOGY

In this study, there are two data collection methods used, the first is using primary data and the second is using secondary data. Primary data is the original data that is collected by the researcher for the specific purpose of the study. This primary data is obtained or obtained from sources such as annual reports and financial reports from PT. Garuda Indonesia (Persero) Tbk. This primary data is a specific research project and cannot be found in any other source.

The secondary data used in this research are published research papers, government reports, and online databases. This secondary data is used to obtain information regarding external factors and the latest information regarding the restructuring process of PT.

RESULT AND DISCUSSION

1. Restructuring

Garuda Indonesia has undergone a comprehensive financial and operational restructuring, which has included several financial restructuring scenarios for its creditors. These scenarios have involved the conversion of debt to equity, alteration of the debt repayment scheme, and extension of the debt term. As a result, the company has seen a reduction in debt and an increase in equity, demonstrating the effectiveness of these measures. Garuda Indonesia also undertook a Right Issue, known as Pre-emptive Rights (PMHMETD), which was made available to all recorded shareholders on the recording date with a maximum transaction value of approximately IDR 12.4 trillion, which included a Capital Increase by the Government of Indonesia as the majority shareholder in the amount of IDR 7.5 trillion. 60% of the proceeds from the rights issue were used by Garuda for aircraft maintenance and restoration, while the remaining 40% were allocated for operational activities. It is important to note that the rights issue was not utilized for debt payments.

Garuda Indonesia has a contract for aircraft leasing at a cost that is higher compared to other airlines globally. The proportion of the lessor contract cost to revenue for Garuda is 24.7%, which is 4x higher than the global average. This results in Garuda having the highest aircraft rental cost to revenue ratio in the world. To address this disparity, Garuda negotiated with its lessors to reduce the lease rate, resulting in a 31% reduction on narrow-body aircraft and 55% on wide-body aircraft. Garuda also changed its leasing system to the Power by Hour (PBH) model.

2. PESTLE Analysis

a. Political

Political factors can play a significant role in the restructuring of a company. Moreover, PT. Garuda Indonesia is a public company whose majority shares are owned by the government of the Republic of Indonesia coupled with the company restructuring, the Indonesian government added government funds in participating in Preemptive Rights (Right Issue) IDR 7.5T increasing its share of ownership from 60.54% to 84.08%, this further strengthens the government's position within the ranks of the company. The government's role in supporting the financial restructuring process through the PKPU process and making regulations greatly influences the company, including regulations regarding regional restrictions which were abolished post-pandemic, this makes aircraft flight operations more normal which brings more income to the company. The political situation also had a major impact on the restructuring process which later had an impact on GIAA's shares, where the approaching political years will result in the possibility of several new regulations which will directly or

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indirectly impact the company's restructuring process. Government political decisions such as opening regional borders and supporting additional capital are an opportunity for the company to support business operations.

b. Economic

Jet fuel prices rose sharply in 2022, averaging USD 139.1 per barrel, up almost 42% from January. The volatile oil prices are expected to continue in 2023, as the EU has banned its vessels from transporting Russian crude oil and petroleum products to third countries. Limited refining capacity is also likely to keep the crack spread between crude and jet fuel prices high. However, the global economic slowdown could help keep oil prices in check. On the other hand, despite global economic challenges, the Indonesian economy remains resilient, with strong growth projected for 2023 in the range of 4.5-5.3%. This is a positive sign for airlines, as a growing economy often leads to an increase in air travel demand, resulting in higher revenue. The Indonesian GDP is projected to grow by 24% by 2025, with a 15% increase in production industry and a 25% increase in personal consumption. Moreover, the country is expected to have the fourth largest aviation market in the world by 2039, with a 4% increase in passenger traffic, 4% increase in cargo traffic, and a 3.1% increase in aircraft fleet. It is crucial for airlines to take advantage of this momentum and maximize their revenue.

c. Social

The Indonesian aviation sector offers significant opportunities due to it being the largest in Southeast Asia, as Indonesia's population comprises of 41% of Southeast Asia's total population. In terms of total travelers, the country is ranked as having the 7th fastest growing aviation industry in the world, but in terms of aircraft orders and business value, it is ranked 2nd, only behind China. Due to Indonesia being an archipelago comprising more than 17,000 islands, air travel is necessary for the mobility of both people and goods.

After the end of the restrictions and the opening of regional and state borders, people again want to travel out of town for holidays, religious visits and so on. One of the leading modes of transportation is an airplane. The increasing tendency of people to travel using airplanes creates an opportunity for the company to get higher sales. In addition, Garuda Indonesia as a National Flag Carrier with full service provides various domestic and international flights with first class services.

d. Technology

Technology can be used to improve the efficiency of the aviation industry, such as by streamlining processes, reducing fuel consumption and improving the accuracy of flight plans. Technology can be used to enhance the passenger experience, such as by providing in-flight entertainment and connectivity, and by allowing for self-service check-in and baggage drop-off.

Garuda Indonesia, the national flag carrier airline of Indonesia, has been actively pursuing digitalization in recent years to improve its operations and enhance the customer experience.

In terms of customer experience, Garuda Indonesia has implemented several digital initiatives, such as online booking and check-in, mobile app, and real-time flight information updates. These initiatives have made it easier for customers to book, manage, and track their flights, and have contributed to a more seamless travel experience.

In terms of operational efficiency, Garuda Indonesia has implemented several digital solutions to streamline its processes. For example, the airline has adopted electronic flight bags, which allow pilots to access flight information and documents electronically, reducing the weight and costs associated with traditional paper-based flight bags. Additionally, Garuda Indonesia has also implemented a computerized maintenance management system to improve its maintenance and engineering processes, and to ensure regulatory compliance.

Overall, Garuda Indonesia has made significant progress in digitalizing its operations and enhancing the customer experience, and it is likely that the airline will continue to pursue further digital initiatives in the future.

e. Legal

PT. Garuda Indonesia (Persero) Tbk is undergoing a process of financial and financial restructuring as a result of financial problems and defaults to a number of creditors. To avoid bankruptcy, the company is taking legal action, namely PKPU. Provisions for the peace plan in PKPU are regulated in Article 265 of UU No. 37 of 2004. PKPU is a legal procedure or legal remedy that gives rights to every debtor who cannot or predicts that he will not be able to continue paying his debts that are due and collectible, can apply for PKPU, with the intention of submitting a peace plan which includes an offer to pay all or part of the debt to concurrent creditors. This peace plan is an offer from the debtor for the payment of all or part of his debt to the creditors. in PKPU, the most frequent is rescheduling. Rescheduling is rescheduling related to the time of payment in the form of repayment of the principal debt as well as profit sharing, profit margin, and fees which are the debtor's obligation. In addition, rescheduling is also combined with debt-to-equity swaps, reductions and postponements of interest arrears, asset sales and equity carve-outs as well as adding new debt. Therefore, the PKPU process is very profitable for the company, because with the PKPU homologation with the effective restructuring scheme, Garuda (Parent Entity) the Company can further record a decrease in the value of debt from ~ USD 10.1 billion to ~ USD 5.1 billion, as well as equity improvement from (USD 5.3 billion) to (USD 1.5 billion).

f. Environmental

In Indonesia, the aviation industry has been growing rapidly in recent years, driven by an increase in tourism and a growing middle class. However, the industry also faces a number of challenges related to the environment, such as air pollution, noise pollution and carbon emissions.

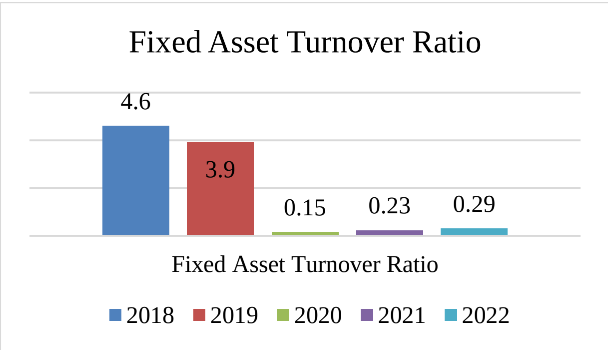
The government of Indonesia has implemented a number of policies and regulations to address these environmental issues and promote sustainable growth in the aviation sector. For example, the government has set a target to reduce carbon emissions from the aviation industry by 2% per year, through measures such as the use of alternative fuels, and the development of more efficient aircraft and air traffic management systems.

3. Company Analysis

a. Fixed Asset Turnover Ratio

The aircraft (airframe, engine, rotable part and other spare part) is a fixed asset owned by Garuda Indonesia. Based on the calculation, the value of the fixed asset turnover ratio is 0.29, which indicates that the company is generating less sales than it has invested in fixed assets. One of the factors contributing to this low value is the underutilization of the aircraft (airframe, engine, rotable part and other spare part). This implies that the existing aircraft have not been optimally utilized by the company. Furthermore, it is also indicative of ineffective routes which prevents Garuda Indonesia from generating sufficient sales compared to the available fleet.

Based on Garuda Indonesia's fixed asset turnover ratio performance over the past five years, the company has experienced a continuous decline.



The decline in the fixed asset turnover ratio of the company was mainly attributed to the decrease in sales resulting from the Covid-19 pandemic, as well as the suboptimal utilization of aircraft. As a result, the company is prioritizing the optimization of aircraft use and intensifying efforts to increase sales

a. Gross Profit Margin

Garuda Indonesia Gross Profit stated in negative which -13,11%. It means that the company's cost of goods sold (COGS) is higher than its revenue. This is an indicator of poor financial performance, as the company is not generating enough revenue to cover its costs. In such a scenario, the company may be facing operational challenges such as high costs, weak demand for its products, or inefficiencies in its production process. It is important for the company to address these issues in order to return to profitability and improve its financial performance.

When compared with some of its competitors, Garuda Indonesia's position is:

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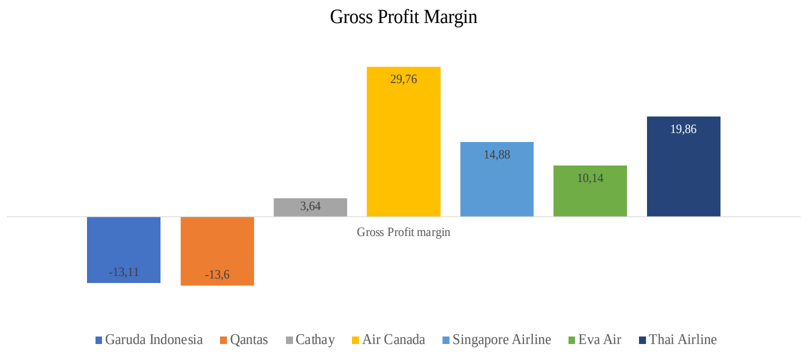
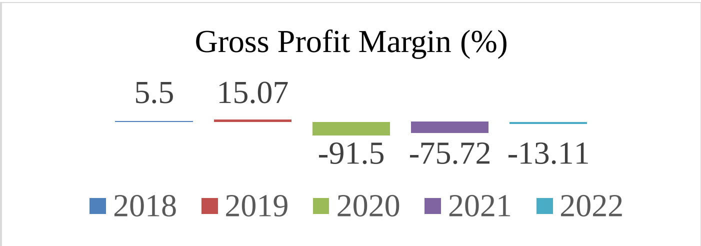


Through the diagram, it can be seen that Garuda Indonesia's gross profit margin position using historical data for 2022 is still in a negative position along with Qantas, while the industry average using this data is at 7.36.

Garuda Indonesia's financial performance seen from the last 5 years is:

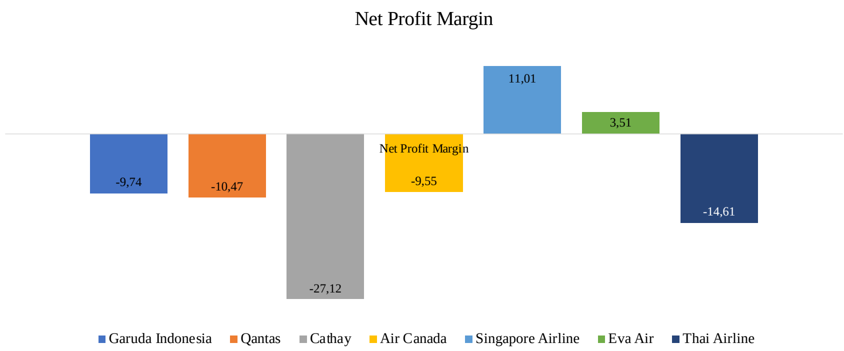


In 2020-2022 company's gross margin ratio is negative, it means that the company's COGS is higher than its revenue. This is an indicator as the company is not generating enough revenue to cover its costs. The company may be facing operational challenges such as high costs, weak demand for its products, or inefficiencies in its production process. But in 2022 company start to grow positive as they start new operational scenario. Possible steps to improve the gross margin ratio include reducing costs, improving operational efficiency, increasing sales, and potentially changing the company's product mix to focus on higher-margin products.

b. Net Profit Margin

Garuda Indonesia NPM is -9,74. Negative net profit margin ratio indicates that a company's expenses are greater than its revenue. This can occur for a variety of reasons, such as declining sales, rising costs, or a shift in the product mix towards lower-margin products. Companies with negative net margins are operating at a loss and may be struggling financially. If this situation persists, the company may need to implement cost-cutting measures, increase sales, or seek additional funding. Over time, a company with a negative net margin ratio may also face challenges attracting investment capital or retaining its existing customers.

When compared with some of its competitors, Garuda Indonesia's position is:



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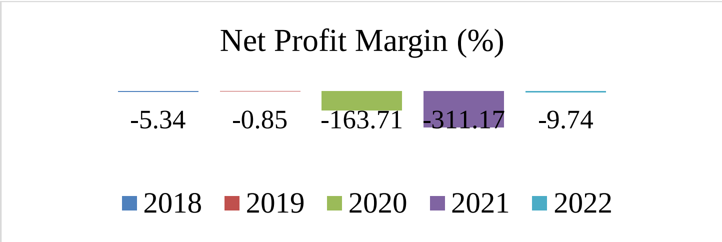
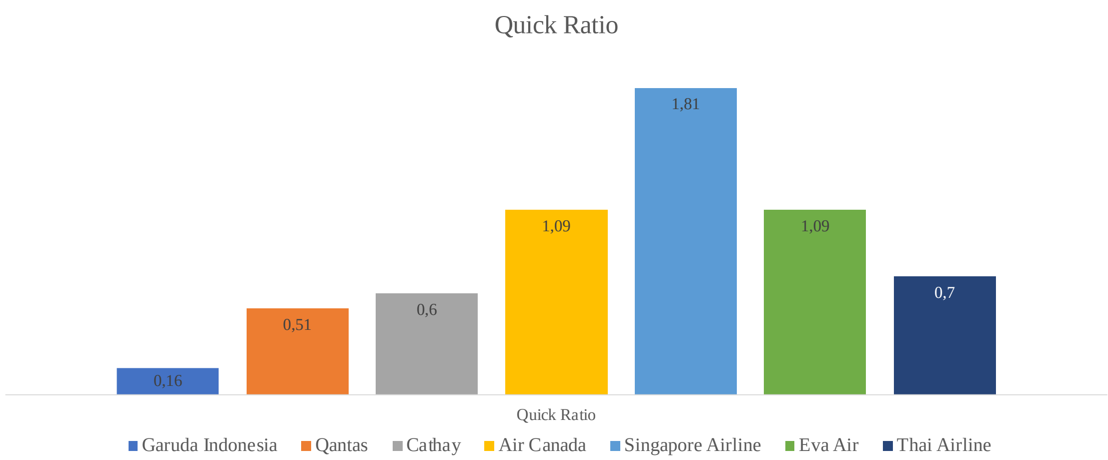
Garuda Indonesia's position through net profit margin is still negative, followed by several other airlines. This is because the gross profit obtained still cannot cover operating expenses.
Meanwhile, Garuda Indonesia's financial performance seen from the last 5 years is:



A negative net margin ratio indicates that a company's expenses are greater than its revenue. This can occur for a variety of reasons, such as declining sales, rising costs, or a shift in the product mix towards lower-margin products. Companies with negative net margins are operating at a loss and may be struggling financially. Garuda Indonesia success to cut the negative amount to -9,74 in 2022. This came to positive signal to further year.

c. Quick Ratio

Garuda Indonesia a quick ratio is 0.16, in the airline industry could be considered a low level of liquidity, which indicates that the company may not have enough quick assets to cover its short-term liabilities. The quick ratio is a measure of a company's ability to pay its short-term debts.
A high quick ratio indicates that a company has a strong ability to meet its short-term obligations, while a low quick ratio may suggest that a company may have difficulty paying its bills in a timely manner.
When compared with some of its competitors, Garuda Indonesia's position is:



Comparing the quick ratio between Garuda Indonesia and several other competitors, Garuda Indonesia has the lowest quick ratio of 0.16. This indicates that compared to its competitors Garuda Indonesia has a weak ability to pay its short-term obligations with its most liquid assets.
Meanwhile, Garuda Indonesia's financial performance seen from the last 5 years is:

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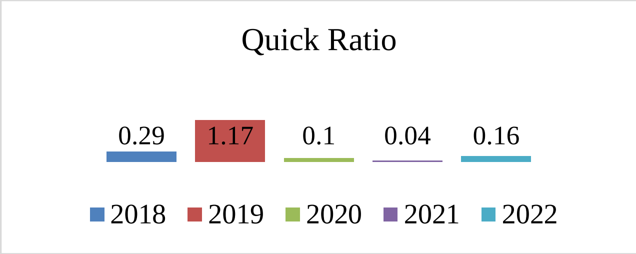
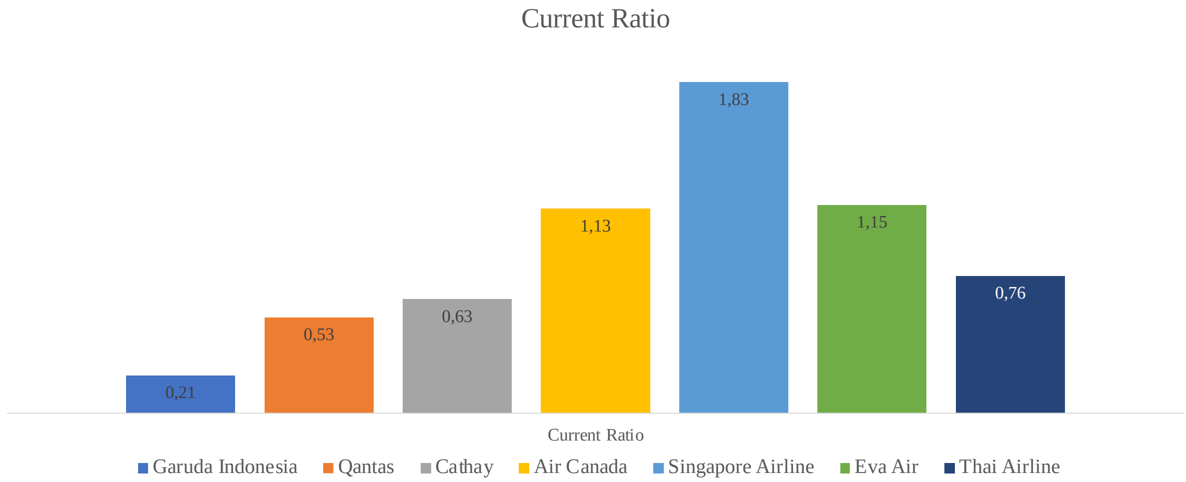


From 2019 to 2021 company Quick ratio continue to decrease. This also indicates that a weakened in company's ability to meet its short-term obligations using only its most liquid assets. But in 2022 after they conduct some financial restructuring there some positive growth in it.

d. Current Ratio

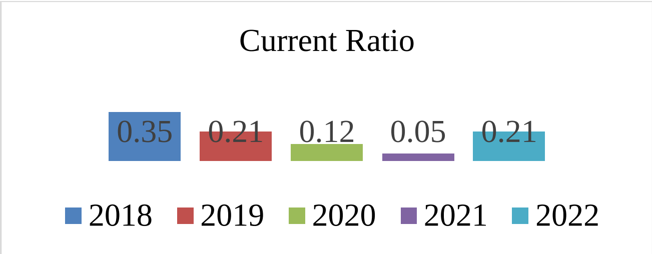
The current ratio is a financial ratio that measures a company's ability to pay its short-term obligations. A current ratio below may indicate that the company is having difficulty paying its short-term obligations and may be at risk of financial trouble. Garuda Indonesia current ratio is 0.21; which mean company has assets that are worth approximately 0.21 times its current liabilities. Current ratio below 1 is considered a sign of potential liquidity problems, as the company may not have enough assets to cover its short-term obligations.

When compared with some of its competitors, Garuda Indonesia's position is:



Compared to several other competitors, Garuda Indonesia has the lowest current ratio of 0.21. This is due to the high liabilities owned by the company. This should be the company's concern to reduce current liabilities and increase its profitability.

Meanwhile, Garuda Indonesia's financial performance seen from the last 5 years is:



Garuda experienced decrease in current ratio from 2018 to 2021. This means that decrease on company's ability to pay its short-term liabilities (debts and obligations due within one year) using only its most liquid assets (cash and cash equivalents, marketable securities, and accounts receivable).

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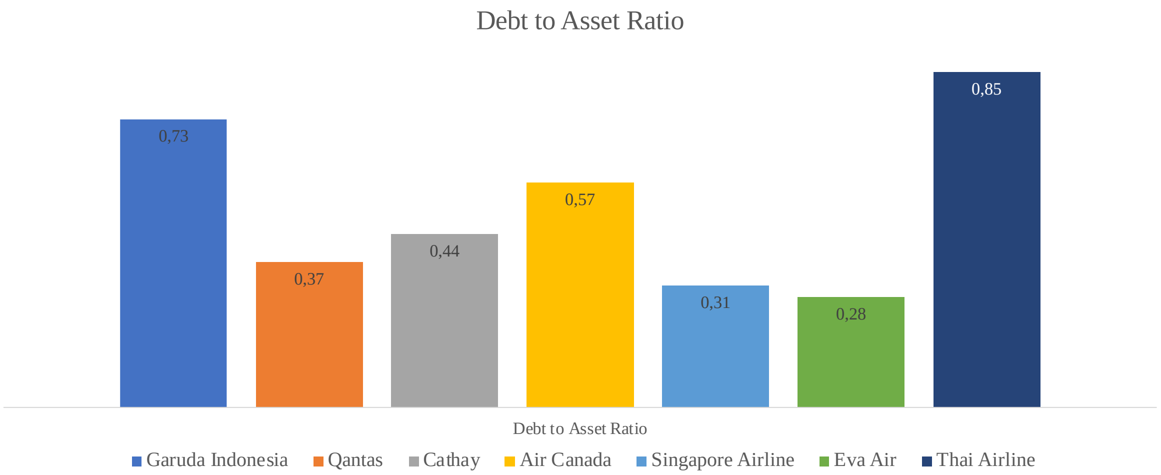
e. Debt to Asset Ratio

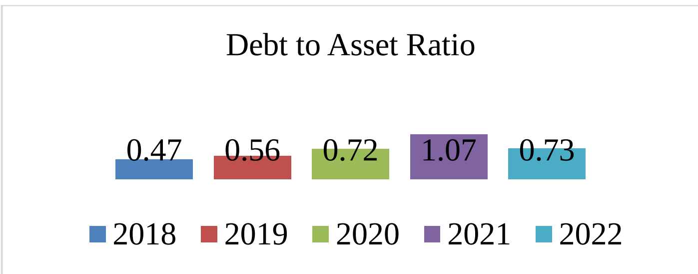
Garuda Indonesia's DAR value is 0.73. This indicates 73% of its assets financed by debt, and 27% by equity. A high debt to asset ratio may indicate that a company is highly leveraged, and therefore, may be carrying a high amount of financial risk. Debt to Asset Ratio (DAR) is a financial metric used to measure a company's financial leverage. The debt to asset ratio provides an idea of how much of a company's assets are financed through debt, compared to equity.

When compared with some of its competitors, Garuda Indonesia's position is:



Garuda Indonesia has a high DAR when compared to 6 other airlines, only Thai Airline has bigger DAR than Garuda Indonesia.

Garuda Indonesia's financial performance seen from the last 5 years is:



Increasing in DAR by Garuda Indonesia indicates that the company is using more debt financing and relying less on equity financing. But in 2022 Garuda Indonesia performed good financial performance that company can slightly lowered their DAR as result on agreement in restructuration.

f. Debt to Equity Ratio

The Debt to Equity (D/E) ratio is a financial metric used to measure a company's leverage, or the amount of debt it is using compared to the amount of equity it has available. The resulting number provides an indication of how much of the company's financing comes from debt and how much comes from equity.

Garuda Indonesia DER has a negative value, -0,211, this is due to the company's negative equity for 3 consecutive years from 2019-2022. Higher Ratio indicates risky financial position indicates that a company is using more debt to finance its operations and growth. According to Babaloa [20] acceptable Debt to Equity Ratio is 2:1 which means debt can be twice the equity, but the ideal D/E ratio varies by industry and can also depend on a company's stage of development and its overall financial strategy.

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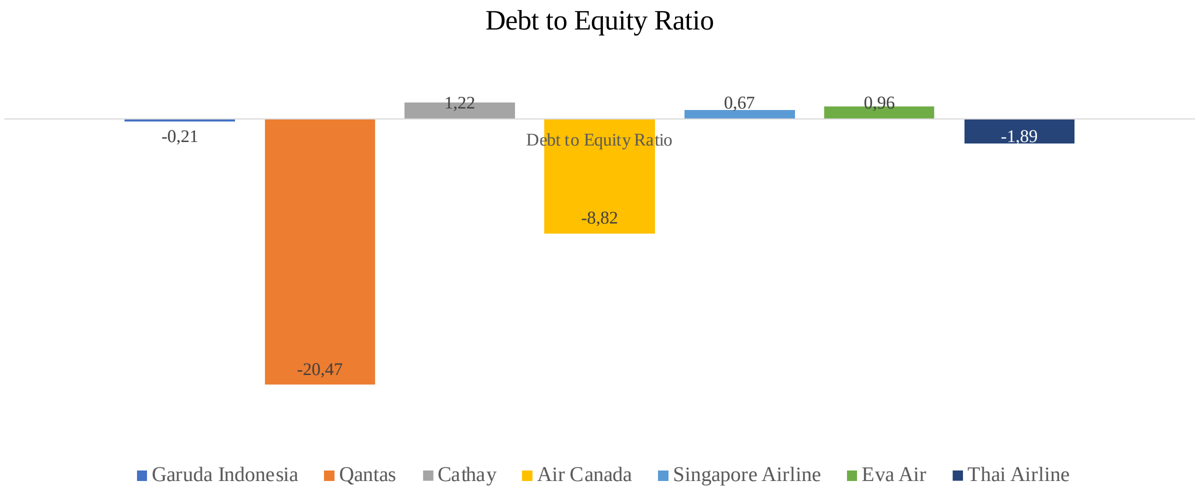
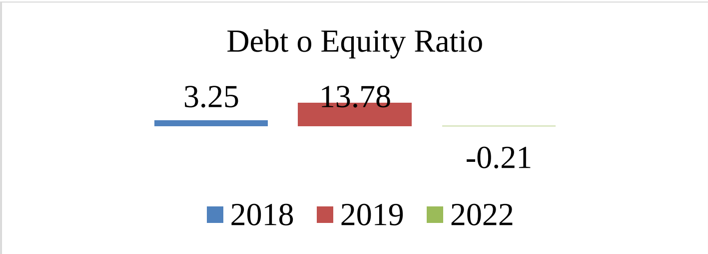
When compared with some of its competitors, Garuda Indonesia's position is:



When compared to the other 6 airlines, there are 3 other airlines that also have a negative DER ratio, where the equity of the company is negative. Qantas, Air Canada and Thai airlines has the negative value greater than Garuda because it has a larger debt than Garuda Indonesia, while the amount of negative equity is smaller. This should be a concern for Garuda Indonesia to continue to make financial improvements to record positive equity again.

Meanwhile, Garuda Indonesia's financial performance in 2018, 2019 and 2022 is:



From 2020-2022 they not provide DER by the case big negative amount in their equity, In 2022 they company's good performance make equity much better equity in 2022, as the company also got new funding to nourish their equity.

4. GIAA Valuation

The assumptions utilized in the calculation of Weighted Average Cost of Capital (WACC) for the purpose of determining the value through the Discounted Cash Flow (DCF) method are as follows:

Assumption	Rate	Note
Risk Free Rate	7,46	Indonesia 10 Y Government Bond
Equity Risk Premium	6,12	Damodaran Equity Risk Premium
βGIAA	1,498	Pefindo Data
ke	16,63	CAPM
Bond Spread (rating)	1,10%	Pefindo Data 2019
kd	8,56	
After tax kd	6,68	
Terminal Growth Rate	4,5%	Estimate Economic Growth

By using the assumptions above, in carrying out calculations, the WACC value is 10,9%. Using that WACC, the fair value price for PT. Garuda Indonesia (GIAA) shares is determined to be IDR 165.3. This price is lower than the base price upon GIAA's return to the Indonesia Stock Exchange (IDX), which was IDR 204.

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Implied Share Price Calculation	
Equity Value	Rp 4.279.617.417.497
Diluted Shares Outstanding	25.890.000.000
Implied Target Share Price	Rp 165,30
Current Price (January 2023)	Rp 204,00
Downside	-18,97%

This calculation demonstrates that the shares of PT. Garuda Indonesia (GIAA) are overvalued by 18.97% when compared to the calculations performed using the Discounted Cash Flow (DCF) method.

The relative valuation was performed by comparing the company with competitors who possess a market capitalization that is similar to Garuda Indonesia. This comparison enabled the calculation of peer and financial ratios, which are as follows:

Relative Valuation							
Peers							
	Korea Airline	Cathay	Qantas	Air Canada	Turkish	Air France-	Average
PER	6,94	13,6	7,27	18,90	5,47	10,90	10,51
PBV	0,9	0,85	12,70	2,91	0,86	-1,41	3,64
EV/EBITD	3,74	5,14	3,41	5,10	4,98	3,31	4,28
EV/Sales	0,88	1,18	0,77	0,77	1,07	0,44	0,85

The comparison of the Enterprise Value (EV) to Sales ratio with that of its peers indicates that Garuda Indonesia is viewed as being in a similar position to its competitors in terms of sales and revenue. Given an average EV/Sales ratio of 0.85 among peers, the estimated share price per share for Garuda Indonesia Airlines (GIAA) is IDR 929 or the previous price that listed on IDX undervalued by 355,1%.

CONCLUSION

- Garuda Indonesia's financial performance has declined over the last five years, seen in deteriorating financial ratios and a turnover ratio below 1, indicating underutilized fixed assets. The company has eliminated unprofitable aircraft types and shifted to more lucrative routes, but may struggle with short-term financial obligations due to factors such as inefficient cash management or excessive debt. Garuda Indonesia could increase assets through new routes or products, or reduce liabilities through renegotiating payment terms and cutting non-essential expenses. To improve solvency, the company should focus on restructuring its negative equity and refinancing debt for lower interest rates or longer repayment periods.
- After Financial and internal problems that were exacerbated by the Covid-19 pandemic, GIAA stock also delisted from IDX. In mid of 2022 PT. Garuda Indonesia carry out financial restructuring through PKPU.
- The results of the company's PKPU homologation: delays in debt payment terms, debt to equity conversions and additional capital as a form of peace implementation. As a result, the company decrease in debt from USD 10,1Bn to USD 5,1Bn and an increase in equity from –USD 5,1Bn to -USD 1,5Bn. Garuda Indonesia has also made additional capital through issuance of rights issues and issuance of new equity through non-rights issues. Right with a maximum transaction value of around IDR 12.4 trillion. The government contributed Rp. 7.5 trillion to the State Investment (PMN).
- Proceeds from the rights issue are used for maintenance, restoration by 60% and work operations by 40%.
- Garuda Indonesia of performance indicators has shown progress after the restructuring such as Fixed asset turnover ratio (0,23 to 0,29), Gross Profit Margin (-72,57 to -13,11), Net Profit Margin (-311,17 to -9,74), Quick Ratio (0,04 to 0,16), Current Ratio (0,05 to 0,21), Debt-to-Asset Ratio (1,07 to 0,73), and Debt-to-Equity Ratio (13,78 to -1,79). But this it is apparent that Garuda Indonesia still has significant work to do in order to improve its financial performance.
- Using discounted cash flow method, GIAA is overvalued by 12,05%.
- Using EV/Revenue comparison, GIAA is undervalued by 355,1%.

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RECOMMENDATION

- Potential investors should monitor Garuda Indonesia's equity performance closely. If the equity value shows improvement and is no longer in the negative range, then investing in the company may be worth considering.
- The relationship between Garuda and creditors is also an important point that investors must pay attention to, including Garuda's relationship with the lessor creditors of aircraft Greylag Goose Leasing 1410 Designated Activity Company and Greylag Goose Leasing 1446 Designated Activity Company.
- GIAA's Earning Per Share which is gradually positive in Q2 and Q3 2022 is the impact of a successful restructuring, however investors must be able to ensure that GIAA can obtain positive revenue growth and sustainable operational cost streamlining.
- In addition, the company's inability to provide dividends is also an important point for investors, therefore investors need to do due diligence on financial performance, including Garuda's plan to pay the company's debts.
- The management of Garuda Indonesia should give their full attention to the debt repayment scheme approved by creditors, in order to promptly improve the company's debt structure.
- Management must be able to achieve the company's profit target of US$399 million by 2023 and determine the most profitable flight routes while eliminating any unprofitable routes.
- The company is committed to prioritizing the key aspects of its operations, namely simplicity, profitability, and full-service, while working in coordination with Citilink for flight planning.
- Optimizing the aircraft fleet with the aim of cost efficiency and increasing revenue.
- To run a company with a Good Corporate Governance (GCG) system, it is essential to balance the interests of various stakeholders, including shareholders, management, customers, suppliers, lenders, government, and society. This can be achieved through transparency, accountability, fairness, and responsibility.

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