

Estimating the Synergy Value of Merger Valuation between Bank Syariah Indonesia (BSI) and Sharia Business Unit of (SBU) Bank Tabungan Negara (BTN)

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ABSTRACT: The merger and acquisition of banking industry are a very important issue in Indonesia. Similar to other banking mergers, the mergers will benefit Bank Syariah Indonesia (BSI), Sharia Business Unit of Bank Tabungan Negara (BTN), and all company stakeholders. This study assessing Bank Syariah Indonesia’s current business environment, determine company’s valuation. This study analyses the environmental aspects of Bank Syariah Indonesia (BSI), both external and internal. Research methodology using quantitative and case study design. This study collects secondary data through various sources. This study computes valuation using Free Cash Flow to Firm (FCFF) and the Discounted Cash Flow (DCF) method. The result show that the synergy value of merger valuation between Bank Syariah Indonesia (BSI) and Sharia Business Unit of Bank Tabungan Negara (BTN) is Rp.98,333,621.89. By calculating the synergy value of Bank Syariah Indonesia (BSI) and Sharia Business Unit of Bank Tabungan Negara (BTN) merger, management could get additional data from preparation of merger and acquisition process.

KEYWORDS: Discounted cash flow, Synergy value, Valuation.

INTRODUCTION

Reporting from the Financial Services Authority's banking industry profile report, Figure 1.1 explained the global economic growth in the fourth quarter of 2022 as a slowdown from the previous quarter along with high global uncertainty. Some world monetary authorities such as The Fed, BOE, European Central Bank (ECB) are still raising their benchmark interest rates to deal with the inflation rate which is still quite high even though it has started to decline.

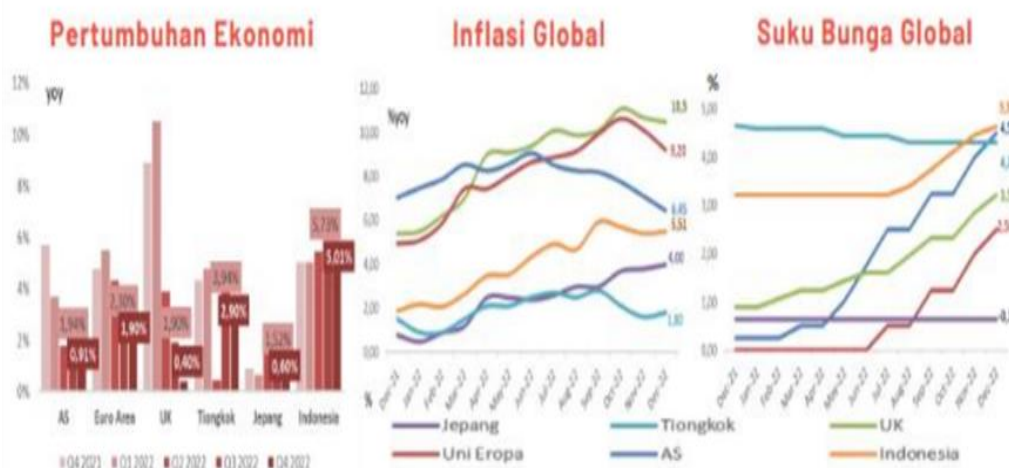


Figure I. Global Economic Growth

The banking industry in Indonesia is one of the few sectors that has experienced significant growth in recent years. Most banks have generated substantial profits in recent periods. Bank Mandiri (BMRI), a state-owned enterprise (BUMN) with total assets of Rp. 1,519.98 trillion as of May 31, 2023. Following closely is Bank Rakyat Indonesia (BBRI), which also recorded total assets of Rp.



1,613.18 trillion as of May 31, 2023. In the private banking sector, CIMB Niaga bank has achieved rapid growth in recent years, with a consolidated total asset of Rp. 347.3 trillion as of March 31, 2023.

One of the most recent strategies employed by the banking industry is the implementation of merger and acquisition strategies involving banks. Acquisition is the process by which one company or entity acquires a majority or all of the shares with the purpose of taking control of the target company. From a business perspective, acquisition occurs when a parent company purchases a smaller company or target company. Acquisition can occur through many methods, including share purchase, asset purchase, or stock exchange. In relation to this acquisition strategy, Bank Syariah Indonesia (BSI) will engage in a corporate action by acquiring Sharia Business Unit of Bank Tabungan Negara (BBTN) through a planned merger and acquisition strategy (*CNBC Indonesia*).

The acquisition strategy of PT Bank Syariah Indonesia (BSI) towards Sharia Business Unit of Bank Tabungan Negara (BTN) is solely aimed at enhancing and realizing the vision of becoming the leading Islamic banking industry in Southeast Asia. This includes establishing a new image for the national Islamic banking sector that is inclusive and universal, accurately mapping the market, diversifying product offerings, improving services, and creating new communication strategies that position Islamic banking as more than just a bank. This merger and acquisition strategy is also expected to enhance the penetration rate of Islamic banking in Indonesia, which currently stands at 6.18%, while the remaining share is held by conventional banks. The merger of PT Bank Syariah Indonesia (BSI) and Sharia Business Unit of Bank Tabungan Negara (BTN) is expected to generate a substantial asset base, hence enhancing market penetration capabilities.

CONCEPTUAL FRAMEWORK

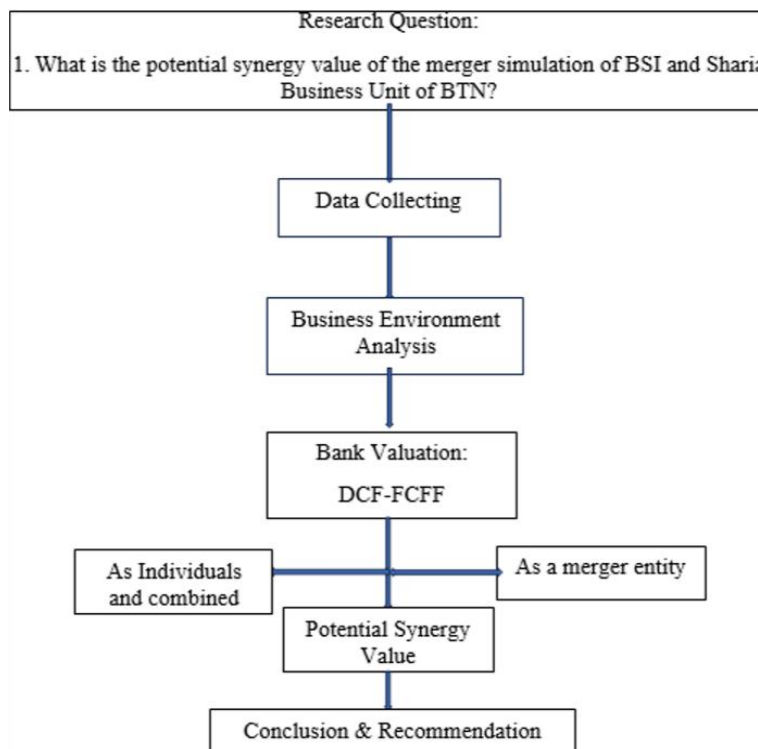


Figure II. Conceptual Framework

The conceptual framework of this research will focus on the bank valuation (free cash flow projection, discounted cash flow projection) and estimate the synergy value of the merger valuation. After analyzing external and internal analysis, then valuation from free cash flow projection and discounted cash flow projection of each company will be analyzed to be able to see the synergy value. Then, the operational and financial synergies will be done using several benchmark factors.



METHODOLOGY

In this study, the data collection method will use the secondary data documentation collection method that will be based on Bank Syariah Indonesia (BSI) and Sharia Business Unit of Bank Tabungan Negara (BTN) annual reports and financial statements. The first step to do is to collect a secondary data that will be used during the research process. The secondary data to be used comes from the annual report of Bank Syariah Indonesia (BSI) and Sharia Business Unit of Bank Tabungan Negara (BTN), wall street journal website, *Otoritas Jasa Keuangan website*, yahoo finance website, PHEI website and literature related to the valuation model of merger and acquisition analysis.

The analysis method that will be used in this research for the business environment analysis will use PESTLE analysis for the external analysis and will use VRIO analysis for the internal analysis. The Discounted Cash Flow – Free Cash Flow to Firm model will be employed in this study to precisely determine the valuation of these banks both individually and as merged entity, and subsequently ascertain its synergy value.

RESULT

A. PESTLE Analysis

From the PESTLE analysis, it can be stated that Indonesia has a demographic advantage with the world's biggest Muslim population, particularly its middle-class growth, as a driving factor of forward domestic demand. The increase in Indonesia's GDP growth is mostly driven by domestic consumer demand, which is influenced by rising GDP and steady inflation. In order to facilitate its expansion, it necessitates a dependable and enduring means of funding, mostly backed by the banking sector. The favorable macro environment serves as the primary assumption for developing financial projections in the next valuation analysis section.

B. VRIO Analysis

Bank Syariah Indonesia has been recognized as the leading Islamic bank in driving the transformation of the Islamic financial system. The brand awareness acquired by Bank Syariah Indonesia indicates the presence of advantages in the digital service system possessed by Bank Syariah Indonesia. The company's proficiency in Islamic finance and its well-established reputation as a reliable provider of sharia-compliant banking services further augment its uniqueness in the business. Bank Syariah Indonesia's shariacompliant operations and strong market position provide significant obstacles for competitors attempting to replicate its fundamental business model. Bank Syariah Indonesia has implemented core values known as AKHLAK (Amanah, Kompeten, Harmonis, Loyal, Adaptif, Kolaboratif). In addition, Bank Syariah Indonesia maintain is competitive advantage by conducting high-quality and transparent recruitment processes to acquire exceptional human resources.

C. Free Cash Flow Projection of BSI and Sharia Business Unit of BTN

The projections are using GDP (Gross Domestic Product) growth rate, it is based from Badan Pusat Statistik (BPS) report. Therefore, the growth rate for Bank Syariah Indonesia (BSI) and Sharia Business Unit of Bank Tabungan Negara (BTN) free cash flow projection are 1.93%.

Before carrying out the analysis of the value of synergy, it is necessary to know first the valuation of the Bank Syariah Indonesia (BSI) and Sharia Business Unit of Bank Tabungan Negara (BTN). The valuation will be done using the Discounted Cash Flow (DCF) method and the cash flow to be used as the basis of the calculation is the Free Cash Flow to the Firm (FCFF) until 2027.

The assumptions that will be used as the basis for the calculation of FCFF are as follows:

1. Earnings before Interest and Taxes (EBIT) are expected to grow at 12.00% based from S&P Global Ratings of Islamic Finance Outlook 2022.
2. Capital Expenditure (CAPEX) are expected to grow at 6.00% and 22.00% based from historical data of BSI and UUS BTN financial statement.
3. Depreciation are expected to grow at 6.00% and 20.00% based from historical data of BSI and UUS BTN financial statement.
4. Net Working Capital (NWC) are expected to grow at 4.00% and 23.00% based from historical data of BSI and UUS BTN financial statement.
5. Tax Rate is determined at 22.00%.



BSI Free Cash Flow To Firm (FCFF) Projection :

Table I. BSI FCFF Projection

FREE CASH FLOW TO FIRM (in Million Rupiah)	2022	2023F	2024F	2025F	2026F	2027 F
Free Cash Flow to the Firm						
Earnings Before Interest and Taxes (EBIT)	\$ 5,656,208.00	\$ 6,334,952.96	\$ 7,095,147.32	\$ 7,946,564.99	\$ 8,900,152.79	\$ 9,968,171.13
(-) Taxes	\$ 1,396,026.00	\$ 1,675,231.20	\$ 2,010,277.44	\$ 2,412,332.93	\$ 2,894,799.51	\$ 3,473,759.42
EBIT(1-t)	\$ 4,260,182.00	\$ 4,659,721.76	\$ 5,084,869.88	\$ 5,534,232.07	\$ 6,005,353.28	\$ 6,494,411.71
(-) Capital Expenditure	\$ (2,300,537.00)	\$ (2,438,569.22)	\$ (2,584,883.37)	\$ (2,739,976.38)	\$ (2,904,374.96)	\$ (3,078,637.46)
(+) Depreciation Expense	\$ 701,792.00	\$ 743,899.52	\$ 788,533.49	\$ 835,845.50	\$ 885,996.23	\$ 939,156.00
(-) Net Working Capital	\$ (3,941,967.00)	\$ (4,099,645.68)	\$ (4,263,631.51)	\$ (4,434,176.77)	\$ (4,611,543.84)	\$ (4,796,005.59)
Free Cash Flow to the Firm	\$ 5,771,704.00	\$ 6,875,590.54	\$ 8,130,313.24	\$ 9,554,822.34	\$ 11,170,383.02	\$ 13,000,855.21

Sharia Business Unit of BTN Free Cash Flow to Firm (FCFF) Projection:

Table II. Sharia Business Unit of BTN FCFF Projection

FREE CASH FLOW TO FIRM (in Million Rupiah)	2022	Projected 2023F	Projected 2024F	Projected 2025F	Projected 2026F	Projected 2027 F
Free Cash Flow to the Firm						
Earning Before Interest and Taxes (EBIT)	\$ 333,616.00	\$ 373,649.92	\$ 418,487.91	\$ 468,706.46	\$ 524,951.23	\$ 587,945.38
Taxes	\$ (49,913.00)	\$ (59,895.60)	\$ (71,874.72)	\$ (86,249.66)	\$ (103,499.60)	\$ (124,199.52)
EBIT(1-t)	\$ 383,529.00	\$ 433,545.52	\$ 490,362.63	\$ 554,956.12	\$ 628,450.83	\$ 712,144.90
(-) Capital Expenditure	\$ (7,467.50)	\$ (9,110.35)	\$ (11,114.63)	\$ (13,559.84)	\$ (16,543.01)	\$ (20,182.47)
(+) Depreciation Expense	\$ 4,870.50	\$ 5,844.60	\$ 7,013.52	\$ 8,416.22	\$ 10,099.47	\$ 12,119.36
(-) Net Working Capital	\$ (72,740.00)	\$ (89,470.20)	\$ (110,048.35)	\$ (135,359.47)	\$ (166,492.14)	\$ (204,785.34)
Free Cash Flow to the Firm	\$ 591,895.00	\$ 654,563.89	\$ 722,826.37	\$ 796,909.83	\$ 876,966.78	\$ 963,042.32

D. Equity Valuation

Equity valuation is a method used to determine the value of a company’s shares. The value of a business may be determined by calculating the present value of terminal value, which is then combined with the present value of free cash flow to the firm (FCFF). Additionally, the value of cash and non-operating assets often consists of cash, marketable securities, and the value of minority shares in other firms. The value of equity in common stock is determined by adding the value of the firm to the amount of outstanding debt.



Table III. Equity Valuation

Valuation of Individual Company	BSI	Sharia Business Unit of BTN
PV of 5 years FCFF	32,073,384.32	3,107,868.23
PV of Terminal Value	133,150,102.55	7,629,828.76
PV of FCFF	165,223,486.87	10,737,697.00
Value of Cash & Non-operating assets	94,571,198.00	9,040,726.00
Value of the Firm	259,794,684.87	19,778,423.00
Value of Outstanding Debt	166,002.00	4,247,518.00
Value of Equity in Common Stock	259,960,686.87	24,025,941.00
Weighted common shares outstanding	43,629,283,740.50	11,730,000,000.00
Value of Equity per share	0.000726	0.00065
Current Price (as of 21 January 2024)	2,010.00	1,355.00

E. Synergy Value

Synergy refers to the additional value that arises from the merger of two companies, resulting in new opportunities that would not have been accessible to both companies if they had operated separately. The categorize and origins of synergy may be classified into two types; operational synergy and financial synergy.

Table IV. Synergy Value after Merger

Value Synergy Combined Firm	In Million Rupiah
Value Combined Firms with Synergy	279,573,107.87
Value Combined Firms	181,239,485.98
Value Synergy	98,333,621.89
Present Value of Synergy	60,802,750.88

The individual company’s values were the values before the merger happened. The terminal value and the value of the combined firms is the sum of the firms valued independently. The combined firm’s value with synergy is Rp.279,573,107 (in Billion Rupiah) meanwhile the combined value without synergy is Rp.181,239,485 (in Billion Rupiah). Therefore, the value of synergy is Rp.98,333,621 (in Billion Rupiah) or for the present value of synergy is Rp.60,802,750 (in Billion Rupiah).

CONCLUSION

Bank Syariah Indonesia (BSI) strategy to survive in the business industry is by improving the company’s performance. This strategy is more focused on have more efficient operational performance and cost efficiency. The strategy that Bank Syariah Indonesia (BSI) use is merger with Sharia Business Unit of Bank Tabungan Negara (BTN) to have synergy and increase market share.

Through the merger process, the integration between Bank Syariah Indonesia (BSI) and Sharia Business Unit (SBU) BTN has made the significant improvement towards the syariah banking industry. The merger brings significant benefits in terms of operational



efficiency. Operational and financial synergies enable the merger to provide more comprehensive services to customers, and overall, the company's financial performance has improved positively after the consolidation process.

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