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Study Case: Company Valuation and Forecasting Financial Trends at PT PP London Sumatera Indonesia (LSIP)

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ABSTRACT: PT PP London Sumatra Indonesia Tbk (LSIP) is a company that has been established in Indonesia since 1906 and started its IPO in 1996 with an IPO price of Rp4.650 for each share. Even though the company's performance is going well and the trend of palm oil consumption in Indonesia is increasing, the share price of PT PP London Sumatra Indonesia Tbk has fluctuated and even decreased when compared to the initial IPO price and share prices in the last 5 years. So this raises the question of how the company's stock performance will be in the next few years. In this research, the author begins by analyzing the macro-environment which may have an impact on the company and industry, then the author carries out an analysis of the financial statements of the company and its competitors. Apart from that, the author also tries to forecast the company's financial performance and then continue with company valuation analysis using the discounted cash flow method. After getting the valuation results, the author tries to see the company's level of sensitivity using scenario analysis and also carries out capital structure analysis to find the optimal capital structure. Based on the results of financial performance analysis, Lonsum (LSIP) has better financial performance compared to its competitors except for assets turnover. And then based on the results of discounted cash flow analysis, this company is not yet worthy of being a place for us to invest. And the last based on all the results of the previous analysis, when compared with competing companies, LSIP is a company that has quite a lot of potential as a place to invest. However, currently the company still has to look for a catalyst in order to become a company that is worthy of being a place for us to invest. Based on the result, the author suggest the reader to continue to collect information related to PT PP London Sumatra Indonesia Tbk, other competitors and plantation in similar industries to find catalysts that have positive impact on the company, and invest when the company has a positive catalyst.

KEYWORDS: Financial Performance, Forecasting, Plantation, Stock Price, Valuation.

INTRODUCTION

PT PP London Sumatera Indonesia Tbk (LSIP) or also known as “Lonsum” is a plantation company in Indonesia that founded in 1906 when Harrisons & Crosfield Plc, a general trading and plantation management services company with headquarters in London, United Kingdom established its first plantation in Indonesia close to the city of Medan in North Sumatra. Currently, PT PP London Sumatera Indonesia Tbk main businesses are plant breeding, planting, harvesting, processing, and selling palm products, rubber, oil palm seeds, cocoa, and tea. Rubber, tea, and cocoa were among Lonsum's diverse early crops. Oil palm plantations were started by Lonsum in the 1980s, and since then the crop has developed into the company's main crop and a major driver of growth. Lonsum listed its shares on Jakarta and Surabaya Stock Exchanges (now Indonesia Stock Exchange) in 1996. In 2007, Indofood Agri Resources Ltd. (IndoAgri) through its subsidiary, PT Salim Ivomas Pratama Tbk (SIMP) acquired and became Lonsum’s majority shareholder. Since the acquisition, Lonsum is part of PT Indofood Sukses Makmur Tbk’s (Indofood) Group and synergising with other companies under Indofood Group. Lonsum’s estates are located in Sumatra, Kalimantan, Java and Sulawesi. As of December 31, 2022, total nucleus planted area was 111,240 hectares comprising 91,151 hectares of oil palm, followed by 16,074 hectares of rubber and 4,015 hectares of other crops mainly cocoa and tea. Oil palm and rubber plasma partnership was 35,064 hectares. Lonsum operates 12 palm oil mills in Sumatra and Kalimantan, with a total combined annual Tandan Buah Segar (TBS) processing capacity of 2.7 million tonnes. Lonsum also operates 3 crumb rubber processing facilities, 2 sheet rubber processing facilities, a cocoa factory and a tea factory.

PT PP London Sumatera Indonesia Tbk initiated an Initial Public Offering on the Indonesian stock exchange in 1996, at that time the price offered was Rp4.650 for each share, 28 years later the share price of PT PP London Sumatra Indonesia Tbk as per 16 March 2024, is decrease to Rp885 for each share. Even though based on BPS (2023) data about palm oil export in 2012-2022, It is known

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that the amount of our palm oil exports has fluctuated but still has an increasing trend. It can be seen that in 2012 the amount of Indonesian palm oil exports was 19.675.000 tons and then increase to 26.220.000 tons in 2022 and then the trend of palm oil per capita expenditure in Indonesia from 2018 to 2022 is tends to increase (BPS, 2023). And Then Based on Indonesia Stock Exchange (2024), it is known that 5 huge competitors in Plantations industry experienced a decline in stock value. , this raises the question of what caused the decline in share value of companies operating in this industry, whether due to the company's poor financial condition or other reasons. In this study, the researchers want to analyze, predict and provide strategic recommendations related to PT PP London Sumatera Indonesia Tbk based on analysis of the company's financial performance.

METHODOLOGY

This research only uses secondary data originating from the company's annual financial reports for 2018 – 2023 and competitors annual financial reports in 2023. All financial report data is sourced from the Indonesia Stock Exchange and the company's official website. In this research, the methodology used is an analysis method that is commonly used by other researchers such as PESTEL analysis, financial performance analysis, valuation analysis, and the last sensitivity analysis.

RESULT AND DISCUSSION

This research only uses secondary data originating from the company's annual financial reports for 2018 – 2023 and competitors annual financial reports in 2023. All financial report data is sourced from the Indonesia Stock Exchange and the company's official website. In this research, the methodology used is an analysis method that is commonly used by other researchers such as PESTEL analysis, financial performance analysis, valuation analysis, and the last sensitivity analysis.

A. PESTEL Analysis

Political Factors

Political factors include things like tax policy, fiscal policy, tariff policy, political climate, and the strength of institutions such as the federal banking system. The palm oil industry is also inseparable from the emergence of policies from the government in Indonesia, some of which are: (1) Domestic Cooking Oil Stabilization Policy in 2022; (2)Palm Plantation Replanting Policy in 2021.

Economic Conditions

The growth rate of the plantation industry in Indonesia since 2013 has fluctuated and even tends to decline. It can be seen that the growth rate of the GDP of the plantation sector in Indonesia has never reached its previous highest point in 2013, namely 6,15 %, and currently the plantation industry's GDP growth rate is at 3,07% in the first quarter. Apart from the GDP growth rate, the author also looks at the economic situation through the number of large companies operating in the palm oil sector, in 2006 the number of large companies operating in the palm oil sector was 956 units, while at the end of 2023 there were 2294 units of companies operating in the palm oil sector. Based data from BPS (2024), the number of realizations of domestic and foreign direct investment in food crops, plantation, and livestock sector since 2017 has fluctuated, in 2017 - 2019 there was an increase in the number of realizations of domestic and foreign direct investment in food crops, plantation, and livestock sector then there was a decrease in the amount of investment until 2021, and then again there was an increase in the amount of investment until 2023.

Sociocultural Forces

Sociocultural forces include social values, attitudes, cultural influences, and lifestyles that impact the demand for certain goods and services. Based on BPS (2024) data, we can see the development of average per capita expenditure on cooking oil in Indonesia. It can be seen that the average per capita expenditure in Indonesia tends to increase.

Technological Factors

Technological factors include the rate of technological change and technical developments that have the potential to have a broad impact on society, and then one technological factor that has the potential to have a positive impact on the palm oil industry is the use of palm oil as a raw material for biodiesel production. Currently the world's top 5 biodiesel producers are the European Union, United States, Indonesia, Brazil and Argentina. The United States, Brazil and Argentina are developing soybean-based biodiesel, while Indonesia is developing palm oil-based biodiesel. Meanwhile, the European Union uses mixed feedstock consisting of rapeseed oil, used cooking oil and palm oil (PASPI,2021). One of the important things needed in Biodiesel production is the availability of various feedstocks, one of which is palm oil. Based on USDA (2020), palm oil is one of the feedstocks that is very widely used as a raw material for biodiesel or biofuel. It can also be seen that the role of palm oil as a raw material for biodiesel has increased from year to year.

Environmental Forces

One of the relevance that can be discussed from this environmental force comes from the fact that some industries contribute more significantly than others to air and water pollution or the depletion of natural resources that cannot be replaced, or the inefficient use of energy/resources, or is closely related to other types of activities that damage the environment. Then, if we talk about the plantation industry, of course it cannot be separated from deforestation. Based on BPS (2024) From 2014 to 2022 the number of deforestations in Indonesia tends to decrease. It had increased drastically with the amount of deforested land increasing to 1.092.181 hectares throughout 2015, then the number of deforestations in Indonesia continued to decline to only 104.032 hectares throughout 2022. And then we also look at environmental conditions through data on greenhouse gas emissions figures in the previous period. Based on BPS (2024), it is known that since 2000-2019 the number of greenhouse gas emissions from the agricultural sector in Indonesia has tended to increase even though there was a decline from 2017 to 2018.

Legal Factors

As is known, legal and regulatory factors include all regulations and laws that must be complied with by the company. As for the plantation industry, every business actor is obliged to comply with the following: (1) IUP-B, a plantation business permit that must be owned by all plantation business actors who have a land area of more than 25 hectares and only carry out plantation crop cultivation including pre-planting activities, planting, plant maintenance, harvesting and sorting including changing plant types and diversification; (2) IUP-P, a plantation business permit that must be owned by all plantation product processing business actors who have a management capacity equal to or greater than 5 tons of FFB per hour; (3) a plantation business permit that must be owned by all plantation business actors who are integrated between cultivation and the plantation product processing industry.

B. Financial Statement Analysis

Balance Sheet

Based on the results of balance sheet calculations published by Lonsum and the competitors, We can see the comparison between companies in **table 1** below.

Table 1. Result in Balance Sheet Analysis (Expressed in Millions of Rupiah, Unless Otherwise Stated)

31 December 2023	***LSIP***	***SIMP***	***AALI***
Current Asset	5.376.837	9.896.897	7.118.202
Non-Current Asset	7.137.366	25.115.454	21.728.041
Total Asset	12.514.203	35.012.351	28.846.243
Current Liabilities	564.496	9.411.112	3.882.141
Non-Current Liabilities	602.266	3.880.314	2.398.096
Total Liabilities	1.166.762	13.291426	6.280.237
Equity	11.347.441	21.720.925	22.566.006

In the balance sheet comparison table above, it can be seen that Lonsum (LSIP) has fewer assets when compared to its competitor companies. This also has an impact on the company's total liabilities and equity being smaller when compared to its two competitors. This aroused the researcher curiosity about the causes of this occurrence and then after reviewing the financial statement it was discovered that one of the reasons for this occurrence could be explained in the following **table 2**.

Table 2. Debt (Expressed in Millions of Rupiah, Unless Otherwise Stated)

31 December 2023	***LSIP***	***SIMP***	***AALI***
Short-Term Debt/Loans	0	6.943.245	2.315.298
Long-Term Debt/Loans	0	852.807	1.689.754

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Total Debt	**0**	**7.796.052**	**4.005.052**

Table 2 above is a comparison of the amount of debt/loans owned by Lonsum (LSIP) and its competitors. Based on the table above, it is known that Lonsum has no debt/loans at all, this is one of the reasons why Lonsum (LSIP) has less number of assets compared to the competitors.

Income Statement

Based on the results of income statements calculations published by Lonsum and the competitors. We can see the comparison between companies in **table 3** below.

Table 3. Income Statement (Expressed in Millions of Rupiah, Unless Otherwise Stated)

31 December 2023	***LSIP***	***SIMP***	***AALI***
Revenue	4.189.896	16.002.643	20.745.473
Gross Profit	1.150.868	3.358.216	2.770.980
Operating Profit	759.425	1.930.168	1.654.512
Profit Before Income Tax	911.426	1.487.689	1.498.402
Profit for the Year	**760.673**	**926.776**	**1.088.170**

In the income statement comparison table above, it can be seen that Lonsum (LSIP) has generate fewer revenue when compared to its competitor companies. However, if we look deeper we can see that even though competing companies have many times more revenue than Lonsum (LSIP), this is not the case in profit of the year, it can be seen that the competitor company's profit of the year is only about 21% and 43% more compared to Lonsum (LSIP). This aroused the researcher curiosity about the causes of this occurrence and then after reviewing the financial statement it was discovered that one of the reasons for this occurrence could be explained in the following **table 4**.

Table 4. COGS Percentage (Expressed in Millions of Rupiah, Unless Otherwise Stated)

31 December 2023	***LSIP***	***SIMP***	***AALI***
Cost of Goods Sold	3.039.028	12.644.427	17.974.493
Revenue	4.189.896	16.002.643	20.745.473
COGS Percentage	**72,53%**	**79,01%**	**86,64%**

The **table 4** above illustrates the Cost of Goods Sold percentage of revenues from Lonsum (LSIP) and its competitors. Based on **table 4**, we can see that Lonsum (LSIP) has a lower Cost of Goods Sold percentage compared to other competing companies, this shows that Lonsum (LSIP) can generate revenue with more efficient cost than other companies.

Cashflow Analysis

Based on the results of cashflow analysis calculations published by Lonsum and the competitors. We can see the comparison between companies in **table 5** below.

Table 5. Cashflow (Expressed in Millions of Rupiah, Unless Otherwise Stated)

31 December 2023	***LSIP***	***SIMP***	***AALI***
Operating Cashflow	1.411.390	3.829.754	2.538.738
Investing Cashflow	(364.167)	(1.315.800)	(1.020.975)
Financing Cashflow	(366.654)	(1.619.939)	(1.043.718)
Net Cashflow	**680.569**	**894.015**	**474.045**

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In the cashflow comparison table above, It can be seen that the majority of cash inflow to Lonsum (LSIP) and its two competitors comes from operating cash flow, this shows that the three companies already have operational activities that can generate revenue for the company.

Table 6. Capital Expenditure (Expressed in Millions of Rupiah, Unless Otherwise Stated)

31 December 2023	*LSIP*	*SIMP*	*AALI*
Additions to Plasma Receivables	22.053	84.129	-
Additions to Fixed Assets	368.845	975.961	715.685
Payments/Addition to other Non-Current Assets	887	10.247	-
Additions of Bearer Plants	-	280.062	520.652

Table IV.6 shows the comparison of capital expenditure between PT PP London Sumatra Tbk and its competitors, the table shows that the largest capital expenditure in each company comes from adding fixed assets. Then it can be seen that one of the things that differentiates Lonsum (LSIP) from other companies is the addition of bearer plants in competing companies, whereas Lonsum (LSIP) does not add bearer plants. However, in general, each company that has been analyzed has added assets that can be used to increase the company's productivity.

Financial Performance Analysis

Based on financial performance analysis of financial statement published by PT PP London Sumatera Indonesia Tbk (LSIP) and its competitor companies, researcher found the results written in **table 7** as follows:

Table 7. Result in Balance Sheet Analysis (Expressed in Millions of Rupiah, Unless Otherwise Stated)

31 December 2023	*LSIP*	*SIMP*	*AALI*
Return on Assets	6,18%	2,66%	3,94%
Return on Equity	6,81%	4,29%	5,04%
Assets Turnover	0,33611780	0,44998371	0,71418417
Dept to Equity Ratio	10,28%	61,19%	27,83%
Gross Profit Margin	27,47%	20,99%	13,36%
Operating Margin	18,13%	12,06%	7,98%
Net Profit Margin	18,45%	5,83%	5,48%

Based on the results of the analysis above, it can be seen if when compared with the two main competitors of PT PP London Sumatra Tbk (LSIP), namely PT Salim Ivomas Pratama Tbk (SIMP) and PT Astra Agro Lestari Tbk (AALI). LSIP or London Sumatra has better performance in all analysis results, except for asset turnover. One other thing that differentiates Lonsum (LSIP) from its competitor companies is Return on Equity (ROE), It can be seen from Lonsum (LSIP) that its ROE tends to have the same value as its Return on Assets (ROA), whereas in its competitor companies, the company's ROE is much higher when compared to its ROA. Among the things that caused this to happen were (1) the absence of debt or loans owned by Lonsum (LSIP); and secondly (2) Lonsum (LSIP) is more efficient in generating company revenue when compared to its two competitors.

Table 8. Result in Balance Sheet Analysis (Expressed in Millions of Rupiah, Unless Otherwise Stated)

	LSIP		*SIMP*		*AALI*	
	2023	***2022***	***2023***	***2022***	***2023***	***2022***
Net Profit Margin	18,45%	23,82%	5,83%	9,31%	5,48%	9,10%
Asset Turnover	0,34	0,37	0,45	0,49	0,71	0,75
Equity Multiplier	1,10	1,14	1,61	1,71	1,28	1,31
Return on Equity	6,84%	9,99%	4,23%	7,83%	5,00%	8,93%

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Table 8 shows the results of return on equity calculations using the DuPont Analysis method which disaggregates return on equity into components of profitability, productivity, and leverage. Based on the DuPont analysis, it is known that the three companies are experiencing a decline in performance when compared with the performance in the previous year. It can also be seen that lonsum (LSIP) has a highest return on equity value in both years. However, when we compare the company's return on equity with its net profit margin, it can be seen that lonsum (LSIP) has the largest difference compared to its competitors. This is because lonsum (LSIP) has smaller Asset Turnover and Equity Multiplier compared to its competitors.

C. Discounted Cashflow Analysis

To assess whether a company is suitable as a place for investment or not, in this study the researcher used the discounted cash flow method at Lonsum (LSIP) to determine the future value of the company's equity. The results of the analysis can be seen in **table 9** below.

Table 9. Discounted Cashflow Analysis (Expressed in Millions of Rupiah, Unless Otherwise Stated)

	2024F	*2025F*	*2026F*	*2027F*	*2028F*
Free Cash Flow	343.871	669.909	708.830	706.539	725.382
Terminal Value					11.333.085
Discount Factor	0,895	0,800	0,716	0,641	0,573
Present Value	307.649	536.211	507.601	452.664	6.911.814
Total Discounted Firm Value	8.715.939				
Less: Net debt	0				
Less: Minority Interest	(1.177)				
Equity Value	8.717.115.686.225				
Number of Shares	6.822.863.965				
Equity Value per Share (IDR)	**Rp1.277,63**				

The **table 9** above shows the predicted value of the company's free cash flow in the future. It can be seen that free cash flow is predicted to increase in 2025 and then tend to stabilize. However, if we look at the present value, we can see that since 2025 the value will tend to continue to decline. So when added together, we will get a total equity value of Rp8.717.115.686.225 with the Equity Value per-share Rp1.277,63. This amount is smaller when compared to the company's Book Value per Share (BVPS) at the end of 2023 (worth Rp1.664) so based on the results of the discounted cash flow analysis, this company is not yet worthy of being a place for us to invest.

D. Sensitivity Analysis

In this sensitivity analysis, the researcher tried to see the effect of changes in company revenues and WACC on the company's equity value per share. The results of the analysis can be seen in **table 10** below.

Table 10. Result in Balance Sheet Analysis (Expressed in Millions of Rupiah, Unless Otherwise Stated)

	Revenues Change					
		80%(-20%)	**90%(-10%)**	**100%(0%)**	**110%(+10%)**	**120%(+20%)**
	8%	**2343,56**	**2641,09**	**2938,61**	**3236,14**	**3533,66**
	9%	**1744,17**	**1966,78**	**2189,40**	**2412,02**	**2634,63**
	10%	1386,98	1564,94	**1742,90**	**1920,86**	**2098,82**
	11%	1149,87	1298,18	1446,49	1594,79	**1743,10**
	12%	981,01	1108,19	1235,38	1362,56	1489,74
WACC	**13%**	854,66	966,02	1077,38	1188,74	1300,10
	14%	756,55	855,62	954,70	1053,77	1152,84

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The **table 10** above is the author's simulation that shows the predicted results of the earning value per share when there are changes in the company's revenue and WACC which can be caused by several factors. At the beginning of the analysis, we already knew that the company's equity value per share is Rp1.277,63, which shows that this company this company is not yet worthy of being a place for us to invest. Based on table IV.10 above shows that under normal revenue conditions, PT PP London Sumatera Indonesia must be able to reduce its WACC to 10% to being a worthy place for us to invest in and then if revenue increases by 20 %, the company must still make efforts to reduce the WACC value to at least 11 %. So this shows that with a change in strategy, PT PP London Sumatra Tbk still has the opportunity to become a company that is worthy of being a place for us to invest.

E. Optimum Capital Structure

Due to the findings in the previous discussion, namely the company's capital structure, it was found that Lonsum (LSIP) does not use debt as part of the company's capital, the researcher wants to try to find the most suitable capital structure for Lonsum by conducting an optimum capital structure analysis. The researchers found the following results:

Table 11. Optimum Capital Structure (Expressed in Millions of Rupiah, Unless Otherwise Stated)

	0% Debt/ 100% Equity	**10% Debt/ 90% Equity**	**20% Debt/ 80% Equity**	**30% Debt/ 70% Equity**	**40% Debt/ 60% Equity**	**50% Debt/ 50% Equity**
Value of Debt	0	1.134.744	2.269.488	3.404.232	4.538.976	5.673.721
Value of Equity	11.347.441	10.212.697	9.077.953	7.943.209	6.808.465	5.673.721
Pretax cost of debt	7,13%	7,13%	7,13%	7,13%	7,13%	7,13%
After-tax cost of debt	5,56%	5,56%	5,56%	5,56%	5,56%	5,56%
Weights of						
- Debt	0%	10%	20%	30%	40%	50%
- Equity	100%	90,00%	80,00%	70,00%	60,00%	50,00%
Unlevered beta	1,49	1,49	1,49	1,49	1,49	1,49
Levered beta	1,49	1,62	1,78	1,99	2,26	2,65
Risk-free rate	6,4%	6,4%	6,4%	6,4%	6,4%	6,4%
Market premium	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%
Cost of equity	11,8%	12,2%	12,8%	13,6%	14,6%	16,0%
WACC	11,8%	11,6%	11,4%	11,2%	11,0%	10,8%
EBIT	911.426	911.426	911.426	911.426	911.426	911.426
Taxes (@ 22%)	200.514	200.514	200.514	200.514	200.514	200.514
EBIAT	710.912	710.912	710.912	710.912	710.912	710.912
+ Depreciation	384.885	384.885	384.885	384.885	384.885	384.885
- Capital exp.	(391.785)	(391.785)	(391.785)	(391.785)	(391.785)	(391.785)
+ Change in NWC	248.394	248.394	248.394	248.394	248.394	248.394

Based on **table 11** above shows the results of calculating the value of company assets when there is a change in the company's capital structure. Based on the calculation results above, it can be seen that the highest company asset value occurs when the capital structure consists of 50% debt and 50% equity. This shows that the company has the freedom to use debt to develop the company.

CONCLUSION

Based on the research results from the analysis of the financial reports of PT PP London Sumatera Tbk and its competitors above, it can be concluded as follows:

1. Based on the results of financial performance analysis, Lonsum (LSIP) has better financial performance compared to its competitors except for assets turnover. Apart from that, Lonsum (LSIP) is also able to generate revenue at a more efficient

cost of goods sold when compared to other competing companies. However, in the DuPont Analysis, Lonsum (LSIP) has the biggest difference compared to its competitors due to its Asset Turnover and Equity Multiplier are smaller than its competitors.

2. Based on the results of the analysis using the discounted cash flow method, it is known that the company's equity value per share in 5 years from now is Rp1.277,63, which means this value is smaller when compared to the company's book value per share at the end of 2023 (worth Rp1644). So based on the results of discounted cash flow analysis, this company is not yet worthy of being a place for us to invest. However, when we look at the simulation results in sensitivity analysis, it is known that the company still has an opportunity to become a company that is worthy of being a place for us to invest.
3. Based on all the results of the previous analysis, when compared with competing companies, LSIP is a company that has quite a lot of potential as a place to invest. However, currently the company still has to look for a catalyst in order to become a company that is worthy of being a place for us to invest.

RECOMMENDATION

Based on the results of the analysis carried out by researchers and discussed above, the recommendations for this research are as follows:

1. Continue to collect information related to PT PP London Sumatra Indonesia Tbk and other competitors in similar industries to find catalysts that have positive impact on the company.
2. Continue to collect information related to the plantation industry to look for catalysts that will have a positive impact on the company.
3. Investing in PT PP London Sumatra Indonesia Tbk if there is a catalyst that can have a positive impact on the company, such as (1) new investments such as replanting or diversification; (2) an increase in the price of CPO or rubber; and (3) the company's strategic steps have the potential to have a positive impact on the value of the company's shares.

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