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Stock Valuation of PT Widodo Makmur Perkasa TBK by Using Discounted Cash Flow Method and Relative Valuation

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ABSTRACT: The emergence of Covid-19 in Indonesia caused an economic decline in 2019-2020. This also has an impact on the capital market in Indonesia, which is shown by the decline in the Composite Stock Price Index (IHSG) which was seen at the beginning of 2020 at the level of 6,300 and decreased to 3,900 in March 2020. However, the number of investors in Indonesia has increased every year, the same as the increase number of companies that have conducted an initial public offering (IPO) and listed their shares on the Indonesian Stock Exchange (BEI). One of the companies conducting an initial public offering is PT Widodo Makmur Perkasa Tbl. (WMPP) in 2021. This company has the potential to continue to grow knowing that Indonesia's population is expected to continue to grow at a growth rate of 1.25 percent per year, and the Indonesian economy will grow by 5.31 percent in 2022, exceeding the growth rate in 2021 it is 3.70 percent, and is expected to continue to increase every year. In addition, the urban population in Indonesia is expected to reach 66.6% in 2035 and 70% in 2045. This study aims to find out whether WMPP companies are valued too low or too high using the DCF and Relative Valuation methods. Apart from that, this research also carried out external and internal analysis to see the company's potential. The method used to analyze external conditions in company analysis is PESTEL and the author uses VRIO analysis to determine internal conditions.

The findings of the study reveal that this company's industrial sector is attractive to investors because this industry has a significant contribution to the development of Indonesia's GDP; this can be a trigger for the Government of Indonesia to continue to support this sector. Apart from that, increasing people's income and the company's concern for the environment can be an attraction for investors. However, the only problem is disease outbreaks in cows and chickens which can trigger a decline in income.

Based on the result of the VRIO analysis, this company has sustainable competitive advantages such as a large number of assets with quite a lot of production capacity. This company also has a vertical integration business and diverse products & business units. The result of the WMPP company valuation based on relative valuation show that the WMPP company has a lower PER, PBV and EV to EBITDA than those of the average of similar companies or can be said to be undervalued. However, the WMPP company's EV to Sales is higher than that of the average of similar companies, indicating that the stock is overvalued. Furthermore, based on the Discounted Cash Flow (DCF) result, the intrinsic value of this company is IDR -55, but the share price is IDR 50. This shows that WMPP is overvalued.

KEYWORDS: DCF Valuation, Relative Valuation, Valuation.

INTRODUCTION

Company Widodo Makmur Perkasa Tbk. (WMPP) is a company that has been in existence for over 25 years, with its primary focus on cattle farms, poultry, and beef processing. Population growth, urbanization, and the economy, according to Smith, Gotoh, and Greenwood[1], can affect the demand for cattle and poultry. As demonstrated in the preceding section, the Indonesian population is expected to continue growing at a rate of 1.25 percent per year, and the Indonesian economy grew by 5.31 percent in 2022, surpassing 2021's growth rate of 3.70 percent, and is forecasted to continue rising each year. In addition, it is predicted that the urban population of Indonesia will reach 66.6% in 2035 and 70% in 2045. These factors present WMPP companies with a decent opportunity for continued growth.

In December 2021, Widodo Makmur Perkasa Tbk (WMPP) conducted an Initial Public Offering (IPO) with an offer price of Rp160 and obtained an IPO funds of Rp 678.9 billion. WMPP utilized IPO funds of Rp 129 billion to provide subsidiaries with capital and increased working capital by Rp 400.74 billion [2]. The company's share price has decreased from an initial price of Rp 160 to its current price of Rp 50. (April 2023). Several factors, including an outbreak of Foot and Mouth Disease, an infectious disease in livestock, and high feed prices that can reduce the company's income and profits.

LITERATURE REVIEW

1. External Analysis

   Before investing, investors should first see whether this company or industry has good prospects in the future by analyzing its external conditions. According to Damodaran (2012)[3], "external analysis in investment refers to the process of evaluating and assessing external environmental factors and trends that can influence investment decisions. This involves analyzing various external factors, such as the economy, industry trends, market conditions, environmental regulations, and the competitive landscape, to gain insight into the potential risks and opportunities associated with an investment." To carry out external analysis, this final project uses the PESTEL analysis method.

a) PESTEL Analysis

   To find out external macro conditions that can influence a company's performance, the PESTEL framework is one method that can be used. PESTEL is an abbreviation for Political, Economic, Social, Technological, Environmental and Legal Factors. According to Dang (2018)[4], "the PESTEL framework can help in identifying and predicting future trends around an organization or business. By using this method, investors or businesses can understand more about threats or opportunities that might affect the performance and strategy of a company or business. By adopting the PESTEL Framework, the author can evaluate the potential risks and opportunities of PT Widodo Makmur Perkasa Tbk.

2. Internal Analysis

   In contrast to external analysis which focuses on macro analysis, internal analysis focuses on micro analysis and can help determine the strengths and weaknesses of a company [5]. Internal analysis can help evaluate the capabilities and competitiveness of a company, which is one of the considerations for investment. With this analysis, investors can find out the financial condition, the company's position in the market, strengths and weaknesses, and other attractions of the company. In this writing, the author uses VRIO Analysis to understand PT Widodo Makmur Perkasa Tbk performance.

a) VRIO Analysis

   The primary goal of VRIO Analysis is to measure the competitiveness of the company based on their resources which means it aims to analyze internal resources, capabilities and competencies which gives it an edge over competitor [6]. VRIO Analysis method is usually used to determine the company's strength and weakness and find the long-term competitive advantage. VRIO stands for Value, Rarity, Imitability, and Organization. With the VRIO Analysis method, business analysts and investors can better understand the advantages and disadvantages of a company. The results of this method can help make better investment decisions.

3. Valuation

   In this final project, the author will apply two valuation methods which are Relative Valuation and the Discounted Cash Flow Valuation method to determine the valuation of the company PT Widodo Makmur Perkasa Tbk.

a) Relative Valuation

   Relative valuation is a technique that involves comparing a company to comparable entities in the same industry in order to determine whether it is overvalued or undervalued. Based on Damodaran (2006)[7], "In relative valuation, the value of an asset is determined by the valuing of "comparable" assets, which are standardized using a common variable such as earnings, cashflows, book value, or revenues". In this writing, the author used 4 ratios to be comparison to its peers, namely Price Earnings Ratio, Price to Book Value, EV to EBITDA and EV to Sales ratio which is explained below:

- Price Earnings Ratio (PER)

  The price-earnings ratio (PER) is a valuation ratio by computing a company's share price divided by its earnings per share. The price-earnings ratio is calculated as the market value per share divided by earnings per share. The PER is referred to as "multiple", because it shows how much investors are willing to pay per dollar of earnings [8]. A high PER compared to that of its peers indicates that the stock is overvalued. In contrast, a low PER compared to that of its peers indicates that the stock price is undervalued.

- Price to Book Value (PBV)

  Price to Book Value (PBV) is a valuation ratio by computing the price per share divided by the book value per share. A high PBV compared to that of its peers indicates that the stock is overvalued. On the contrary, a low PBV compared to that of its

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peers indicates that the stock is undervalued, which indicates a value investment opportunity. However, the low price to book value can also indicate a decline in the fundamental performance of the issuer [9].

- EV to EBITDA
  Enterprise Value to EBITDA is a valuation ratio by computing a company's Enterprise Value (EV) to its Earnings Before interest, Taxes, Depreciation & Amortization (EBITDA). A high EV/EBITDA relative to that of the average of its peers indicates that the company is overvalued. In contrast, a low EV/EBITDA relative to that of the average of its peers means that the company is undervalued.
- EV to Sales
  Enterprise Value to Sales is a valuation ratio by computing a company's Enterprise Value (EV) to its annual sales. A high EV/Sales ratio relative to that of the average of its peers indicates that the company is overvalued. And vice versa, when the EV/Sales ratio is low relative to that of the average of its peers, the company is considered to be undervalued.

b) Discounted Cash Flow Valuation
Discounted Cash Flow (DCF) is a method used to determine the value of a company from the present value of its future cash flows. This method is used to find the intrinsic value of a company and compare it with the market value [10]. In this final project, the DCF method projects future Free Cash Flow to the Firm and then discounts them based on the time value of money using a discount rate.

WACC as the Discount Rate
The discount rate used is the Weighted Average Cost of Capital (WACC) for WMPP. The formula to determine WACC is:

$$WACC = \frac{E}{V}K_e + \frac{D}{V}K_d(1-t)$$

Where:
E : Market value of firm's equity
D : Market value of firm's debt
V : Risk Free Rate of Return
Ke : Cost of Equity
Kd : Cost of Debt Before Tax
t : Tax rate

Cost of Equity
According to Damodaran (2006), "Cost of equity is the rate of return a company must pay out to equity investors. It represents the compensation the market demands in exchange for owning an asset and bearing the risk associated with it. In this final project, cost of equity is determined using Capital Asset Pricing Model (CAPM). Essentially, the CAPM equation is a model that considers an investment's riskiness relative to the current market." The formula for CAPM is below:

$$Cost\ of\ Equity = R_f + \beta(R_m - R_f)$$

Where:
Rf : Risk Free Rate of Return
β : Beta
Rm : Market Rate of Return
t : Tax Rate

Terminal Value
Terminal Value is the value of Free Cash Flow of the Firm beyond the forecast period, based on the assumption that the Free Cash Flow of the Firm continues to grow at a sustainable rate. Terminal value can be calculated by formula below:

$$Terminal\ Value = \frac{[FCFF_n(1+g)]}{(WACC - g)}$$

Where:
g : Terminal Growth Rate
FCFF : Free Cash Flow to the Firm

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Present Value of FCFF

Afterwards, the Free Cash Flow to the Firm until the end of the forecast period and beyond the forecast period are discounted back to their present value using the discount rate with the formula below:

$$Present\ Value = \frac{FCFF_1}{(1+r)^1} + \frac{FCFF_2}{(1+r)^2} + \frac{FCFF_3}{(1+r)^3} + \frac{FCFF_n}{(1+r)^n} + \frac{TV}{(1+r)^n}$$

Where:

FCFF : Free Cash Flow to the Firm
TV : Terminal Value
r : Discount Rate
n : The number of periods

METHODOLOGY

Data collection methods consist of primary and secondary methods of data collection in order to gather reliable information and a deeper knowledge of the problem. This study uses secondary data, which is data acquired from the public domain.

In this study, secondary data is collected from the annual reports (inclusive of the financial reports) downloaded from WMPP's official website, the company's share prices downloaded from www.financeyahoo.com, and industry reports downloaded from various other sources on the internet.

RESULT AND DISCUSSION

1. PESTEL Analysis

The analysis conducted in this PESTLE framework examines the factors that may impact the five business sectors owned by PT Widodo Makmur Perkasa Tbk. These sectors include wholesale trading and cattle farming, slaughterhouses, wholesale trading of meat and its processed products, poultry farming, trading of animal feed, wholesale trading of agricultural food and beverages, and construction. The objective of this analysis is to identify external factors that can be categorized as threats or opportunities that the company can leverage.

- Politic

Political instability can pose a threat to companies, as it creates a business environment filled with uncertainty and volatility, making it challenging to formulate strategic business plans for the future. In terms of legality or regulations, several industries within the company's business lines significantly contribute to the GDP structure, this indicates that these business lines are on a positive trend. If the market is positive, there is a possibility of policies or incentives from the government related to the industry to support the business actors within it. This would present an opportunity for the company, with the potential assistance from the government.

The Ministry of Agriculture is promoting the development of the livestock and animal health industry in Indonesia through technological innovation, which positively impacts GDP growth. To achieve this, the government provides financial inclusion support through the People's Business Credit (KUR) scheme, facilitating credit for the development of agricultural and livestock businesses. However, this sector still requires substantial capital or investment.

In the livestock sector, particularly meat production, it is included in the National Medium-Term Development Plan (RPJMN) for 2020-2024. Through this program, the government aims to support business activities in the livestock sector to achieve national meat self-sufficiency by 2026. This initiative will ensure a stable domestic meat supply, reducing reliance on imports, which are subject to price fluctuations. Consequently, this will also enhance public welfare [11]. With the company's products encompassing various types of beef, this initiative will increase the demand for domestically sourced beef, thereby boosting the company's sales.

- Economic

Inflation, in 2024, the global economy remains shrouded in uncertainty due to the ongoing impact of the Russia-Ukraine war, which began in early 2022. This conflict continues to drive inflation in various countries, including Indonesia, resulting in rising prices of basic necessities and other goods. In 2024, Indonesia experienced a year-on-year (y-on-y) inflation rate of 2.57% with a Consumer Price Index (CPI) of 105.19 [12]. This indicates that overall prices of goods and services increased by 2.57% compared to 2023. These price hikes continue to burden consumers and pressure household purchasing power. However, deflation in the volatile food group was primarily contributed by commodities such as red chili, rice, broiler eggs, and bird's eye chili. The decline in food commodity prices was mainly influenced by the ongoing harvest season, particularly for various types of chilies and rice [13].

The increase in household income and the middle class in Indonesia presents an opportunity for companies. According to Bank Indonesia, non-oil and gas GDP growth in Indonesia in the first quarter of 2024 reached 5.11% YoY, driven by strong household consumption. This is evidenced by the distribution of GDP by expenditure, where household consumption accounts for 54% of the total [14]. According to the World Bank, Indonesia's GDP per capita has been on a positive trend since 2021, This increase will have a positive impact on the rising demand, which can be leveraged by business lines in the wholesale trade and livestock sectors.

The GDP by business sector shows a relatively stable trend for wholesale trading, manufacturing, and construction sectors. However, there has been a significant decline in the agriculture, forestry, and fisheries sectors, which poses a threat to the company, particularly in those lines of business. Nonetheless, considering the GDP structure in the first quarter of 2024, the Indonesian economy is dominated by five industrial sectors: manufacturing 19.28%, followed by wholesale trading 13.15%, and construction 10.23%. This presents an opportunity for the company, as three out of its five business lines have a growing market potential. With likely continued demand growth, there is an opportunity to expand market reach and increase market share.

- Social

  Outbreaks of diseases remain an issue that cannot be overlooked and pose a threat to the company. Various animal diseases affecting cattle and poultry are persistent challenges. Based on data, Foot-and-Mouth Disease (FMD) in cattle was quite alarming in 2022, significantly impacting the buffalo population in Java, which decreased by 15.10 percent [15]. Similarly, poultry diseases such as Newcastle Disease (ND), Avian Influenza (AI), Infectious Bronchitis (IB), fowl pox, stress due to the dry season, and Swollen Head Syndrome were prevalent in 2023, affecting laying hens during their production phase [16]. Strengthening biosecurity and sanitation measures to prevent disease is crucial for maintaining product quality and hygiene, which the company must uphold.

  Shifting consumer perspectives on the value of a company and increased awareness of food quality present an opportunity for the company. Currently, the company has adopted environmentally friendly production principles, such as using solar PV as an energy source. Additionally, the company emphasizes transparency in its business ethics. Lastly, the quality of the products is derived from high-quality sources that meet stringent cleanliness and safety standards. If the company can maintain and even enhance these practices, it will create a favourable opportunity to benefit the business.

- Technology

  The company's awareness of carbon decarbonization is a trending issue that presents an opportunity for significant growth and differentiation in the market. The company already has a dedicated business line focused on renewable energy, which not only underscores its commitment to sustainability but also strategically supports the energy needs of its other business lines. This integration of renewable energy can lead to cost savings, energy security, and a reduction in overall operational emissions. For a publicly traded company, a strong ESG performance can attract a broader base of investors, including institutional investors who manage large funds and adhere to strict ESG criteria. focus on carbon decarbonization and renewable energy not only aligns with global sustainability trends but also provides a strategic advantage that can enhance its market position, attract responsible investors, and foster long-term growth and resilience.

- Environment

  A significant threat in this field is waste management related to GHG emissions. According to World Resources Institute [17]," …beef production is one of the world's most resource- and emissions-intensive foods, with land use and GHG emissions being 7 times higher than chicken and 20 times higher than beans per gram of protein. This substantial environmental impact poses a challenge for companies engaged in beef production." According to Waite and Zionts (2022), "There are two potential solutions to reduce enteric methane emissions by using enteric methane inhibitors, which are feed additives that prevent the formation of methane in the gut and improve manure management. Effective manure management can help reduce emissions of methane and nitrous oxide, both potent GHGs. This not only reduces the environmental impact but also provides an additional energy resource that can be used within the farming operations or sold to the grid."

- Legal

There are several regulations or legislations that form the foundation of the industry followed by WMPP include:

- Law No. 41 of 2014 on Animal Husbandry and Animal Health, updated with regulation No. 2 of 2022.
- Law No. 18 of 2009 on Animal Husbandry and Animal Health, updated with regulation Law No. 2 of 2022
- Government Regulation no. 95 of 2019 concerning Veterinary Public Health and Animal Welfare
- Minister of Agriculture Regulation No. 54 of 2018 on Guidelines for Animal Slaughter
- Minister of Agriculture Regulation No. 26 of 2018 on Guidelines for Plantation Business Licensing
- Law No. 7 of 2014 on Trade: This law regulates trade, including commodity trade
- Law No. 2 of 2018 on Construction Services
- Minister of Energy and Mineral Resources Regulation No. 12 of 2017 on Solar Power
- Law No. 32 of 2009 on Environmental Protection and Management
- Law No. 13 of 2003 on Manpower
- Government Regulation No. 11 of 2022 regarding business entities other than state-owned enterprises or BUMN that are allowed to import livestock or animal products from certain countries or zones of origin

The regulations are mandatory for the company to comply with; however, there is a possibility that changes to these regulations can create opportunities or even threats for the company. For example, the change from Ministerial Regulation No. 41 of 2019 to Ministerial Regulation No. 19 of 2020 reduced the required availability of breeding cows in their capacity from 5% to 3% for livestock business groups, livestock cooperatives, and farmer groups. This change was made to facilitate industry players affected by the pandemic.

2. VRIO

The analysis conducted in this subsection aims to identify and evaluate the resources and capabilities of internal factors that can provide sustainable competitive advantage. These can also be categorized as the strengths and weaknesses of the company.

a) Tangible Resources

- Asset

For the cattle farm business line, the company owns a cattle farm in Cianjur with an area of 130 hectares and in Cariu with an area of 35 hectares. The assets include cattle farms, a feed mill, and crossbreeding facilities with a production capacity of 172,000 heads/year. For the poultry farm business line, the assets include farms in Central Java and West Java, broiler commercial farms in West Java and Central Java, layer commercial farms in Central Java, a hatchery in Central Java, feed mills in Banten and East Java with a production capacity of 888,300 tons/year, and an abattoir in Central Java with a production capacity of 79,380 tons/year. For the meat processing business line, the company has a production capacity of 300 heads/day with assets that include an abattoir and a leather factory with a production capacity of 2,000,000 sq feet/year. For the agriculture commodities trading business line, the assets include warehouses in Central Java (3,000 mt) and West Java (5,000 mt), as well as a rice mill in Central Java with a capacity of 50,000 mt/year. Altogether, these assets make the company the largest in each of its business lines.

<table>
<tr><th>Core competencies</th><th>Valuable</th><th>Rare</th><th>Costly to imitate</th><th>Organize to capture value</th><th>Result</th></tr>
<tr><td rowspan="2">Asset</td><td>Yes.</td><td>Yes</td><td>Yes.</td><td>Yes.</td><td rowspan="2">Sustainable Competitive Advantage</td></tr>
<tr><td colspan="4">Based on the extensive area and production capacity owned by the company, these aspects are considered valuable. Few companies possess similar resources, making them difficult to replicate. With the largest trademark in each of its business lines, this part of the company undoubtedly falls under sustainable competitive advantage</td></tr>
</table>

- Network Distribution

The company has 77 suppliers, all of whom are domestic. For partnerships involving the company's end products, the partners include the Indonesian Ministry of Social Affairs, Pasar Jaya, KitaMart, 212Mart, Prima Freshmart, and LotteMart. The company also collaborates with modern online marketplaces, distributors, and other general or traditional markets, such as Lotte, Primafood, Naga Swalayan, Hari-Hari Swalayan, blibli.com, and Shopee.

Core competencies	valuable	rare	Costly to imitate	Organize to capture value	Result
Network Distribution	Yes.	Yes.	no.	no	Temporary Competitive Advantage
	The company has extensive relationships with suppliers and customers and employs marketing strategies targeting various segments and types of marketplaces. However, these aspects are not costly to imitate, as any company can enter the same area or attempt to develop similar resources. What is rare and valuable here is the ability to maintain relationships with these suppliers and customers, which is crucial for sustaining business continuity up to the present.				

b) Intangible Resources

- Vertical Integration

The company operates a complex vertically integrated business from upstream to downstream, consisting of: (a) Integrated cattle farming business, including feedlot, breeding, feed factory, and biofertilizer production. (b) Integrated poultry farming businesses, including poultry slaughterhouses, commercial farming, hatching, breeding, and feed factory. (c) Meat processing business, including slaughterhouse, leather factory, and manufacturing processed meat products. (d) Plantation and agricultural trade business. (e) Construction and energy business. These interconnected businesses are developed to support the company's end-to-end business processes. Starting with the cattle livestock business, supported by the agricultural farm business to supply its feed, the meat processing line then processes food sourced from the internal farm. This is complemented by the construction and renewable energy business line, which supports construction, energy, and sustainable initiatives across the company's entire operations.

Core competencies	Valuable	Rare	Costly to imitate	Organize to capture value	Result
Vertical Integration Business	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage
	Not all companies can establish a comprehensive business line from downstream to upstream. Beyond utilizing its resources, the company effectively leverages its capabilities, creating a unique value that distinguishes it from its competitors.				

- Diverse Product & Business Unit

The company does not focus solely on a single business line; it operates a total of five business lines, producing approximately 550 end products, with the largest composition being sausages, chicken parts, meatballs, and nuggets. However, the company's business diversification primarily supports the entire business process from upstream to downstream. This diversification enables the company to be less vulnerable to country-specific risks.

Core competencies	valuable	Rare	Costly to imitate	Organize to capture value	Result
Diverse Product & business unit	Yes.	Yes.	Yes.	Yes.	Sustainable Competitive Advantage
	The company's extensive range of business lines also impacts its end products, a capability that few companies possess. Achieving this level of integration requires substantial financial resources and time to build. This positions the company uniquely in the market, given the significant investment and effort needed to develop such a comprehensive business structure.				

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- Brand Reputation and Customer Relationship
  As a key player in the industry, the company has established a strong brand reputation. The company remains committed to maintaining good relationships with all stakeholders, enhancing efficiency, and ensuring product quality. It has collaborated with major customers for approximately 15 years as a slaughterhouse partner, facilitating sales to both traditional and modern markets across Indonesia.

Core competencies	Valuable	Rare	Costly to imitate	Organize to capture value	Result
Brand Reputation & customer relationship	Yes.	Yes.	No.	No	Temporary Competitive Advantage
	The reputation that has been built is certainly valuable and rare, as well as costly to imitate, due to the significant investment required to reach the company's level. However, this is not a unique value, as there are several competitors with strong brand reputations and good customer relationships as well.				

3. Relative Valuation
   The relative valuation of PT. Widodo Makmur Perkasa (WMPP) was performed by comparing the Price to Earnings Ratio (PER), Price to Book Value (PBV), Enterprise Value to EBITDA (EV to EBITDA), and Enterprise Value to Sales (EV to Sales) of the company with those of its competitors, which are those who possess a business line that is similar to that of WMPP and are domiciled in Indonesia. The competitors are as follow:

   - PT Estika Tata Tiara Tbk (BEEF)
   - PT Japfa Comfeed Indonesia Tbk (JAPFA)
   - PT Charoen Pokphand Indonesia Tbk (CPIN)

Relative Valuation						
			Peers			
	WMPP		BEEF	JAPFA	CPIN	Average
Price Earnings Ratio (PER)	-1,68		30,60	14,80	35,60	27,00
Price to Book Value (PBV	1,59		12,40	1,04	3,05	5,50
EV to EBITDA	-9,68		36,80	5,89	17,40	20,03
EV to Sales	4,91		2,85	0,39	1,45	1,56

The above calculation shows that WMPP has a lower PER, PBV, and EV to EBITDA compared to those of the average of its peers. This shows that WMPP is undervalued.

The above calculation shows that WMPP has a higher EV to Sales compared to that of the average of its peers. This shows that WMPP is overvalued.

4. Discounted Cash Flow Valuation Analysis

a) Free Cash Flow to Firm
   To calculate Discounted Cash Flow Valuation (DCF), the first thing to do is look for future cash flow from the company Widodo Makmur Perkasa. In this writing, to find out future cash flow, the author uses assumptions as in the table below:

REVENUE		
Y2017	Rp 2.437.506.194.885	
Y2018	Rp 2.895.950.265.591	18,8%
Y2019	Rp 2.794.796.795.475	-3,5%
Y2020	Rp 3.031.488.092.499	8,5%
Y2021	Rp 6.234.855.968.339	105,7%
Y2022	Rp 4.390.077.670.408	-29,6%
Y2023	Rp 907.226.175.158	-79,3%
AVE GR		3,4%

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Revenue growth from 2017 – 2023 is used as the growth rate for WMPP. Based on table above, the revenue for WMPP experienced a significant increase in 2021 and a quite sharp decline in 2023. The decrease in revenue in 2022 and 2023 was the impact of the Foot and Mouth Disease outbreak and was also accompanied by increasing price of feed for livestock.

COGS		
Y2017	Rp 2.138.531.582.435	87,7%
Y2018	Rp 2.530.235.097.637	87,4%
Y2019	Rp 2.446.803.205.275	87,5%
Y2020	Rp 2.588.197.004.971	85,4%
Y2021	Rp 5.402.225.868.344	86,6%
Y2022	Rp 4.052.647.405.304	92,3%
Y2023	Rp 1.277.502.673.277	140,8%
COGS % of revenue		95,4%

SG&A		
Y2017	Rp 147.063.540.032	6,03%
Y2018	Rp 176.279.120.604	6,09%
Y2019	Rp 173.668.693.197	6,21%
Y2020	Rp 196.549.142.655	6,48%
Y2021	Rp 261.854.889.197	4,20%
Y2022	Rp 305.895.150.900	6,97%
Y2023	Rp 200.260.870.211	22,07%
SG&A % of revenue		8,3%

After knowing the growth rate of the company's revenue, the next step is to predict COGS and operating expenses, which are calculated by averaging the COGS percentage of revenue and operating expense percentage of revenue during 2017 to 2023 with calculations that can be seen in table above.

Tax Rate Y23	
Tax Expense	7.937.780.405
Profit Before Income Tax	- 888.840.549.061
Effective Tax Rate	-0,9%

Tax Rate Y21	
Tax Expense	91.335.894.991
Profit Before Income Tax	393.257.908.929
Effective Tax Rate	23,2%

Moreover, in this final project, to determine the tax rate, the author uses the effective tax rate in 2021. This is because in 2023 the WMP company experienced a very drastic decline in sales which caused a deficit in EBIT that year.

- WACC as the Discount Rate

To calculate the WACC, the assumptions below are required:

Assumption	*Rate*	*Note*
Risk Free Rate	6,56%	10 Year Government Bond
Equity Risk Premium	7,38%	Damodaran Equity Risk Premium
Bond Spread	2,07	Damodaran Default Spread
Terminal Growth	4,22%	Average Economic Growth Over 10 Years
Tax Rate	22%	Damodaran Corporate Tax Rate
BETA	1,75%	

These assumptions are taken from several validated sources such as the Damodaran equity risk premium and default spread, 10-year government bonds, and the average Indonesian economic growth rate over 10 years.

- Beta

Since the beta for WMPP could not be found on any other sources, the author uses own calculation using regression with company’s 3 years share price volatility relative to that of the market price. Based on the calculation, the BETA use for WACC is 1,75% that can be seen on figure 4.2 below.

Beta is computed as follows:

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SUMMARY OUTPUT

Regression Statistics	
Multiple R	0,298227686
R Square	0,088939753
Adjusted F	0,081085785
Standard E	0,086782603
Observatio	118

ANOVA

	df	SS	MS	F	Significance F
Regressio	1	0,085284902	0,085284902	11,32418122	0,001037816
Residual	116	0,87362154	0,00753122		
Total	117	0,958906442			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95,0%	Upper 95,0%
Alpha	-0,007449487	0,008002938	-0,93084408	0,353867424	-0,023300315	0,00840134	-0,023300315	0,00840134
Beta	1,746653108	0,519042901	3,365142081	0,001037816	0,718623242	2,774682975	0,718623242	2,774682975

- Cost of Equity
  After determining the assumption, Cost of Equity of WMPP is calculated as below:

  Cost of Equity $= R_f + \beta(R_m - R_f)$
  $= 6{,}56\% + (1{,}75 * 7{,}38\%)$
  $= 19{,}48\%$
- Cost of Debt Before Tax
  Furthermore, for the Cost of Debt Before Tax, the author uses Damodaran synthetic rating estimation template that can be seen as below:

Enter the type of firm =	1
Enter current Earnings before interest and taxes (EBIT) =	(570.537.368.330)
Enter current interest expenses =	86.590.002.873
Enter long term risk free rate =	6,5630%
Output	
Interest coverage ratio =	**-100000,00**
Estimated Bond Rating =	**D2/D**
Estimated Company Default Spread =	**12,00%**
Estimated County Default Spread (if any) =	**2,07%**
Estimated Cost of Debt =	**20,63%**

According to Damodaran (2012) [18], "The synthetic rating is a method that is usually used for estimating a company's cost of debt especially for companies that do not have credit rating data." Based on the calculation, the cost of debt before tax for WMPP is 20,63%. And below are the data of equity and debt of WMP's company in the year 2023.

MARKET VALUE OF EQUITY = MARKET CAPITALIZATION	1.470.950.000.000
BOOK VALUE OF DEBT	2.204.479.372.160
CAPITAL = EQUITY + DEBT	3.675.429.372.160

- WACC
  Finaly, with all of the data above, The WACC of the WMP companies can be calculated with the formula below:

$$WACC = \frac{E}{(D+E)} * K_e + \frac{D}{(D+E)} * K_d * (1-t)$$

$= 40{,}02\% * 19{,}48\% + 59{,}98\% * 20{,}63\% * (1 – 22\%)$
$= 17{,}45\%$

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Based on calculations, the WACC of PT Widodo Makmur Perkasa is 17,45%, which is relatively high. The high WACC indicates the higher level of risk associated with investing in the company because WACC represents the average cost a company pays for its financing sources (debt and equity).

WACC of 17,45% also means that the company must earn a return of at least 17,45% on its investment in order to compensate its investors for the risk they are taking. If the company can generate over its WACC it means the company generates more value for its investor. On the contrary, if a company's WACC is higher than its actual return, this is an indication the company is losing value.

- Terminal Value

Terminal value is used to determine the company's FCFF in perpetuity beyond the forecast period of 10 years. This method assumes that a business will generate FCFF at a constant rate forever. To determine Terminal value of WMP's companies, the formula and calculation is below:

$$Terminal\ Value = \frac{[FCFF_{10}(1+g)]}{(WACC-g)}$$

$$= \frac{[109.843.176.528 * (1+4{,}22\%)]}{(17{,}45-4{,}22\%)}$$

= 865.295.227.343

- Present Value of Projected FCFF

Year	FCFF (in Rupiah)	Terminal Value
2023	60.697.438.346	
2024	54.114.225.926	
2025	48.269.455.320	
2026	43.077.585.058	
2027	38.463.324.112	
2028	34.360.356.050	
2029	30.710.229.043	
2030	27.461.389.103	
2031	24.568.337.164	
2032	21.990.893.360	173.234.384.425

- Intrinsic Value Calculation

Share Price Calculation	
Growth Rate	3,4%
WACC	17,5%
Terminal Value	865.295.227.343
PV of Terminal Value	Rp173.234.384.425,19
Sum of PV of FCF	Rp556.947.617.907,11
(-) Debt	(2.204.479.372.160)
(+) Cash	28.002.933.314
Equals Value of Equity	(Rp1.619.528.820.938,89)
Number of Shares Outstanding	29.419.000.000
Estimated Intrinsic Value Per Share	(55)
Current Price	50
Upside	-210%

Based on the calculation above, the fair valuation price for PT Widodo Makmur Perkasa per share is IDR -55. However, the current price of WMPP as of 31 December 2023 is IDR 50. This shows that WMPP is overvalued.

CONCLUSION

With the spread of Covid-19 throughout the world, Indonesia is one of the countries affected by this event. The Indonesian economy experienced a decline during Covid-19, namely in 2019-2020, which was caused by government policy to prevent transmission through large scale social restrictions. However, even though the Indonesian economy is experiencing a decline, the number of investors in the capital market is increasing every year and the same is true for companies that register their companies in initial public offerings (IPO). One of the companies that conducted an IPO during Covid-19 was PT. Widodo Makmur Perkasa (WMPP). This company has good business prospects for investment because this company operates in the livestock industry. It is known that in Indonesia the population, urbanization, and consumption of beef and chicken increase every year.

To find out whether this company is profitable to invest in, this research conducted research on external, internal and valuation of the WMPP company. In conducting external analysis, this research uses the PESTEL framework to determine the external conditions of the WMPP company. Based on the research results, this company's industrial sector can be said to be attractive for investors because this industry has a significant contribution to the development of Indonesia's GDP, this can trigger the government to continue to support this sector. Apart from that, the increase of people's income and the company's concern for the environment can be an attraction for investors. However, the only problem is disease outbreaks in cows and chickens which can trigger a decline in income.

Based on this research, VRIO analysis is used to help determine the strengths and weaknesses of the WMPP company or to analyze the internals of this company. Based on the results, this company has a sustainable competitive advantage such as a large number of assets with quite a lot of production capacity and this company also has a vertical integration business and a variety of products & business units.

Finally, to determine the valuation of WMPP companies, this research uses Relative and DCF valuation. Based on the discussion in the previous chapter, in relative valuation, WMPP companies have lower PER, PBV and EV to EBITDA than the average of similar companies or can be said to be undervalued. Meanwhile, the WMPP company's EV to Sales has higher results compared to the average of similar companies. However, based on the Discounted Cash Flow (DCF) results, the intrinsic value of this company is IDR -55, but the share price is IDR 50. This shows that WMPP is overvalued.

RECOMMENDATION

Based on the results above, the author highlights several important points as below:

1. Based on the results of external and internal analysis, the industrial sector that the WMPP company is involved in has the potential to continue to develop and has several sustainable competitive advantages that other companies do not necessarily have.
2. Based on the results of the intrinsic value, the WMPP company has an intrinsic value of IDR -55 with a price as of 31 December 2023 of IDR 50. This shows that WMPP is overvalued.
3. Based on the result of the relative valuation, the WMPP company has a lower PER, PBV, and EV to EBITDA than those of the average of similar companies or can be said to be undervalued. However, the EV to Sales of WMPP is higher than that of the average of similar companies, and it can be said the company is overvalued.

With the points above, even though the WMPP company has good market potential and have PER, PBV and EV to EBITDA lower than the average of its peers, the author recommends potential not to buy WMPP stock.

the author recommends potential not to buy WMPP stock. Even though the WMPP company has good market potential, this company experienced a loss in 2023, which is different from similar companies which did not experience losses despite the Foot-and-Mouth disease outbreak.

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