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STOCK VALUATION ANALYSIS OF PT SINAR MAS AGRO RESOURCES AND TECHNOLOGY TBK USING FREE CASH FLOW TO THE FIRM AND RELATIVE VALUATION

Fitradi Ramiza, Raden Aswin Rahadi
School of Business and Management, Institut Teknologi Bandung, Indonesia
Email: fitradi_ramiza@sbm-itb.ac.id

KEYWORDS
PT SMART Tbk; Financial Performance; Stock Valuation; Intrinsic Value

ABSTRACT
Indonesia is the world's top producer and exporter of palm oil, generating 46 million tonnes of crude palm oil. PT SMART Tbk (SMAR) is one of Indonesia's big palm oil companies, with a plantation area of 136,402 hectares. The Indonesian government implemented the B35 biodiesel policy in February 2023, indicating there is potential for growth in the increased use of palm oil as a biodiesel blend. The positive sentiment from the B35 program, which will continue into the B40 program, is expected to boost domestic market demand for biodiesel, consequently impacting SMAR's sales revenue. The study aims to evaluate SMAR's business performance, intrinsic value, and propose solutions to close the value discrepancy gap. The study adopts a quantitative approach for stock valuation calculations and a qualitative approach for underlying assumptions. The analysis covers financial statement analysis, financial ratio analysis, PESTLE analysis, Porter's five forces analysis, absolute valuation and relative valuation methods. Based on the FCFF analysis, SMAR's intrinsic value is Rp 8,609 while the market price is Rp 5,200, indicating that SMAR is undervalued. The relative valuation analysis using PER, PBV, and EV/EBITDA also indicates that SMAR is undervalued compared to similar companies in the palm oil industry. Overall, this indicates a potential investment opportunity for investors in SMAR shares.

INTRODUCTION

Indonesia is the largest palm oil producer, manufacturing 46 million metric tons of crude palm oil. The palm oil industry has developed and become a crucial sector for the Indonesian economy, largely driven by international demand for palm oil products. Indonesia contributes to over 58% of production and 59% of total global exports. This industry contributes 4.5% to the country's GDP and has significantly improved the lives of people by reducing poverty (Heilmayr & Benedict, 2022).

Indonesia's CPO export value increased from US$35.5 billion in 2021 to US$39.28 billion in 2022, driven by higher palm oil product prices. The industry is expected to face challenges affecting its performance in 2023, resulting in stagnant production. Nevertheless, the implementation of the mandatory B35 program on 01 February 2023 is predicted to boost domestic consumption (Indonesian Palm Oil Association, 2023).

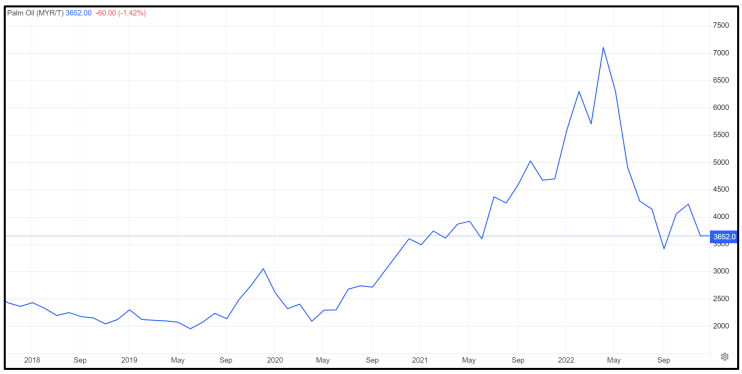


Figure 1. Palm Oil World Price in 2018-2022 (Source: Trading Economics, 2023)

On 01 February 2023, the Indonesian government implemented a mandatory program for using palm oil-based biodiesel 35% (B35), which is a blend of 35% palm oil-based biodiesel (from FAME) and 65% petroleum diesel. Deputy in charge of foods and agribusiness coordination at the economic coordinating ministry, Musdhalifah Mashmud said that B35 is expected to be implemented in all modes of transportation that use biodiesel fuel. The expected allocation of the palm oil-based biodiesel will reach 13.15 million kiloliters in 2023, compared to 10.45 million kiloliters in 2022 (Indonesia Palm Oil Association, 2023).

This B35 biodiesel program will then be upgraded to B40. Indonesia is the forefront country in implementing the blending of biodiesel from vegetable oil. Indonesia initiated the program in 2006 with B2.5, 2016 with B20, 2020 with B30, and 2023 with B35. President Joko Widodo instructed that the utilization of palm oil continues to B40, B50, and B100 (Palm Oil Plantations Fund Management Agency, 2023).

The Ministry of Energy and Mineral Resources is currently finalizing preparations and studies to implement the B40 biodiesel program. The ministry will soon conduct field tests of B40 on heavy machinery, marine vessels, agricultural machinery, and locomotives soon. The ministry is ensuring the readiness of producers and the supply of raw materials, namely crude palm oil, which has been shared with the domestic food industry (Ekonomi Bisnis, 2023).

Stock prices are influenced not only by company performance but also by market sentiment. The biodiesel B35 and B40 programs are expected to create a positive outlook within the palm oil industry. Considering Indonesia's role as the largest producer and exporter of palm oil, PT SMART Tbk has a significant opportunity to capitalize on the rising demand for palm oil in the domestic market. As one of the market leader in the Indonesian palm oil industry, PT SMART Tbk is well-positioned to fulfil the requirements of B35 and B40, leading to improved company performance. These promising prospects and positive market sentiment are expected to drive an increase in stock prices within the palm oil industry, including for PT SMART Tbk.

Financial Ratio Analysis

Financial Ratio analysis encompasses the use of mathematical computations and interpretation of financial ratios to examine and track a company's performance. Financial ratios can be broadly classified into five categories. The liquidity, solvency, and activity ratios focus mainly on evaluating risk, while profitability is used to calculate the returns. Market ratios encompass both the elements of risk and return (Gitman & Zutter, 2015).

Liquidity Ratio

The capacity of a company to meet its short-term liabilities as they become due is used to evaluate its liquidity. Liquidity indicates the financial strength of the company and the capacity to easily fulfil financial obligations (Gitman & Zutter, 2015).

Debt Ratio

The level of debt held by a company signifies the extent to which external funding is utilized to generate profits. Lower debt ratios are preferred by creditors who lend money to a company as these reflect a lower level of financial risk. A higher debt ratio might lead creditors to perceive the company as riskier, which could influence the willingness to provide credit or propose more favourable terms (Rinaldo & Endri, 2020).

Activity Ratio

Activity ratios, also known as efficiency ratios, assess the speed at which different accounts are transformed into inflows or outflows of cash or sales. These ratios measure how the company manages and utilises its resources effectively (Gitman & Zutter, 2015).

Profitability Ratio

Profitability ratios assess the ability of the company to generate profits through its operations. A higher value for profitability ratios suggests that a company has achieved a greater level of profitability, which can make it more attractive to potential investors seeking high returns (Rinaldo & Endri, 2020).

Market Ratio

Market ratios provide a comparison between the current share price of a firm and specific accounting values. These ratios typically indicate the common stockholders' evaluation of the company's overall past and estimated future performance compared to its competitors (Gitman & Zutter, 2015).

PESTLE Analysis

The PESTEL analysis is a comprehensive method that assists organizations in assessing the larger forces and making informed decisions about the strategic direction. The analysis involves the assessment of six significant factors, which consists of political, economic, social, technological, legal, and environmental. By utilizing this framework, companies can map and analyze how the external factors impact the industry. This tool shows a broad overview of the macroenvironmental effects which companies must consider before making decisions (Song, Sun, & Jin, 2017).

Porter's Five Forces

Porter's five forces are used to analyze the company's external environment and identify potential threats to its competitiveness and survival. It allows the company to understand complex external threats and identify the most important factors affecting its industry competition. It is a powerful model that helps industries overcome challenges and guides top management in selecting business strategies (Firmansyah & Amer, 2014).

Absolute Valuation

Absolute valuation is a framework used to determine a company's intrinsic value. This framework provides a precise valuation estimate for the company, showing the comparison against the market price. The fundamental concept of this framework is that an investor's perception of the company's value is shaped by the anticipated returns expected from holding that asset (Stowe et al, 2007).

Discounted Cash Flow

Discounted cash flow (DCF) analysis is a method employed to evaluate the company's intrinsic value. Essentially, DCF attempts to asses the present value from the projected cash flows that the company is expected to generate for investors. The term "discounted" is used because of the concept that money in the future is worth less than money in the present. The DCF method estimates the projected free cash flow and then discounts it to the present value with WACC to calculate the enterprise value (Fahlevi & Yunita, 2016).

$$DCF = \sum_{t=1}^{t=n} \frac{FCFFt}{(1+WACC)^t} + \frac{Terminal\ Value}{(1+WACC)^n}$$

Free Cash Flow to the Firm

Free cash flow to the firm (FCFF) is the cash flow available to the capital providers of a company after deducting operating expenses and the required investments in fixed capital and working capital. The calculation of FCFF may vary depending on the available accounting information. The capital providers may include common stockholders, bondholders, and occasionally, preferred stockholders (Stowe et al, 2007).

$$FCFF = EBIT\ (1\text{-}Tax) + Depreciation - CAPEX - \Delta Working\ Capital$$

Terminal Value

Analysts often incorporate a terminal value when projecting cash flows, which calculates the company's current value based on the projected cash flows beyond a specified period according to the analysis. This terminal value is a critical component of many valuation methods, as it reflects the company's potential for continued growth and profitability beyond the forecast period (Hendrawan & Himawan, 2019).

$$Terminal\ Value = FCFF_t \times (1 + g) / (WACC - g)$$

Weighted Average Cost of Capital

The cost of capital represents a combination of expenses associated with all the funding resources of the company. Moreover, this overall capital cost is referred to as weighted average cost of capital (WACC), which denotes the average after-tax cost of the capital source used for project financing (Hendrawan & Permadi, 2019).

$$WACC = CoE \times Equity\ Weight + After\ Tax\ CoD \times Debt\ Weight$$

Cost of Debt

The cost of debt is the compensation paid to the debtholders and creditors. Calculating the cost accurately poses a challenge, particularly in determining the appropriate default spread specific to the company. In general terms, the calculation follows the formula below (Damodaran, 2014).

$$Cost\ of\ Debt = Risk\text{-}free\ Rate + Country\ Default\ Spread + Company\ Default\ Spread$$
$$After\ Tax\ Cost\ of\ Debt = Cost\ of\ Debt \times (1 - Tax\ Rate)$$

Cost of Equity

The cost of equity represents the return rate that shareholders expect as compensation for the investment made in a company. This rate is strongly connected to the risk level associated with the investment and considers the historical volatility of returns. Capital Asset Pricing Model (CAPM) is utilized to identify the cost of equity, which incorporates various factors and market conditions to calculate an appropriate rate of return (Pardede & Daryanto, 2020).

$$Cost\ of\ Equity = Risk\text{-}free\ Rate + Beta\ Stock \times Risk\ Premium$$

Relative Valuation

Relative valuation is a method of deriving the company's value by comparing it to the pricing of similar companies. In other words, the market is assumed to have correctly valued stocks, but individual stock valuations can be inaccurate. The approaches usually used are PER, PBV, and EV/EBITDA (Damodaran, 2012).

RESEARCH METHOD

Research design is used to map the flow process of the research from start until finish. It explained how the data is collected, processed, and analyze to calculate the business performance and intrinsic value from SMAR. The analysis method consists of FCFF and relative valuation to calculate the intrinsic value from SMAR.

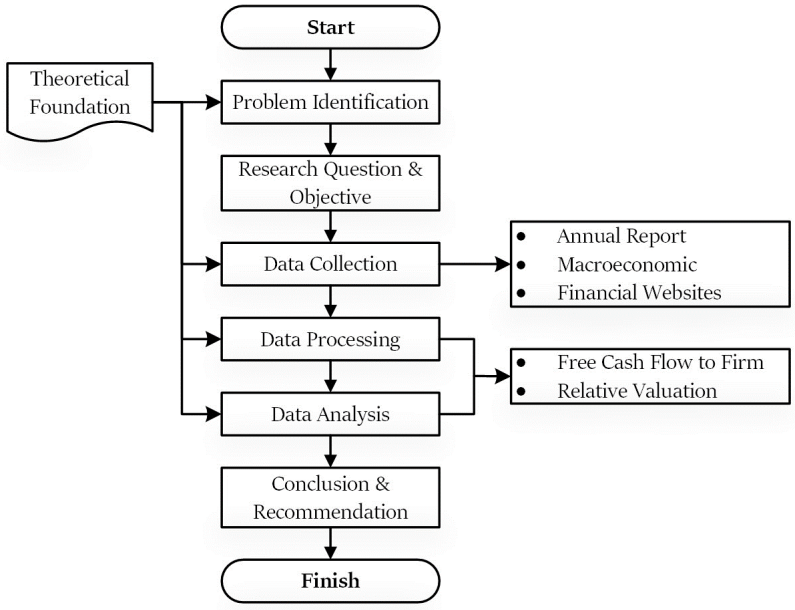


Figure 2. Research Design

This research begins by identifying the issues and business problems faced by PT SMART Tbk, utilizing information obtained from secondary data regarding the company's current condition and challenges within the research observation period. The next step involves determining the research questions and research objectives which to analyze business performance, determine SMAR's intrinsic value, and proposed solution. Data collection is conducted using a secondary method by utilizing available data in public, such as SMAR's annual reports. Data processing and analysis stages involve various methods such as financial ratio analysis, PESTLE analysis, porter five analysis, FCFF, and relative valuation. Conclusions can be drawn based on the conducted analysis, and the recommendations are provided as considerations for investors when making investment decisions in SMAR. Upon completing all stages, this research can be considered finished.

RESULTS AND DISCUSSION

External Analysis – PESTLE

Political

The political factor evaluates government policies that can affect a company. In early 2023, the Indonesian government introduced the implementation of a 35% biodiesel fuel blend, known as B35, which consists of 35% palm oil and 65% diesel fuel. This policy will significantly impact SMAR, whose primary business revolves around crude palm oil (CPO) production, influencing its overall performance.

Economic

The economic factor evaluates the economic conditions in Indonesia that can influence a company's situation. This factor includes the growth of CPO prices, gross domestic product (GDP) growth, inflation growth, interest rates, and exchange rate. The growth of Indonesia's GDP in 2022 at 5.31% indicates positive economic growth. This can impact the growth of the palm oil market and increase purchasing power among the public for products such as SMAR's cooking oil. The average inflation growth of 4.21% in 2022 can affect operational costs and the cost of goods sold. This can lead to increased expenses incurred by the company in its operational activities.

Social

The social factor analyzes the demographic environment in which a company operates. Indonesia is the largest global producer in the palm oil industry, generating 46 million tonnes of crude palm oil in 2022. India serves as the primary consumer of Indonesian CPO domestically and internationally. SMAR manages plantations in Kalimantan and Sumatra, generating job opportunities that can enhance social conditions in the regions where SMAR operates.

Technology

The technological aspect involves technological innovation affecting operations in the palm oil industry. The revolution industry 4.0 has greatly enhanced this sector's efficiency, productivity, and competitiveness. Its impact has led to the emergence of modern agriculture, also referred to as Agriculture 4.0.

Legal

The legal aspect focuses on regulations that companies must adhere to. In April 2022, the Indonesian government enforced a ban on palm oil exports to stabilize cooking oil prices and ensure an adequate supply of CPO in the domestic market. The Minister of Trade of the Republic of Indonesia officially regulated this export ban through Regulation Number 22 of 2022. A temporary prohibition is imposed on the export of crude palm oil, refined, bleached and deodorized palm oil, and used cooking oil.

Environmental

The environmental aspect in the palm oil industry involves factors such as deforestation, habitat loss, and sustainability. According to the Minister of Environment and Forestry, Siti Nurbaya Bakar, deforestation in Indonesia has been decreasing from 2015 to 2022. SMAR follows a strict environmental policy throughout its supply chain, including no deforestation, no peat, and no exploitation (NDPE).

External Analysis – Porter's Five Forces

Threat of New Entrants

The threat of new entrants in the palm oil industry is medium due to the significant capital and assets required to enter the business. Additionally, establishing palm oil plantations in Indonesia is increasingly challenging due to various regulations, including the deforestation

moratorium, the requirement to obtain a Plantation Business License (IUP), as well as the need for ISPO and RSPO certifications, as discussed in the PESTLE analysis.

Bargaining Power of Suppliers

The bargaining power of suppliers is considered low. Indonesia has the largest land area and palm oil production in the world. This creates opportunities for companies to supply goods for plantations. Numerous suppliers in the palm oil industry provide various materials such as fertilizers, pesticides, chemicals, packaging, and fuel. This situation results in a small power of suppliers, as there are more suppliers than buyers.

Bargaining Power of Buyers

The bargaining power of buyers, particularly for SMAR's cooking oil products, is low. SMAR's cooking oil brands, "Filma" and "Kunci Mas" primarily cater to the market's demand for refined cooking oil, which accounted for 61% of SMAR's total sales revenue in 2022. The high consumption of fried food in Indonesia contributes to the strong demand for these products, further reducing the power of buyers.

Threat of Substitute Products

The threat of substitute products in the palm oil industry is medium. While alternatives exist, palm oil remains difficult to replace as a key ingredient in various consumer products. SMAR's cooking oil, for example, relies on palm oil as its primary ingredient, and the demand for palm oil-based cooking oil in Indonesia is high. On the other hand, biodiesel can be replaced by natural gas and geothermal energy.

Rivalry Among Competing Firms

The rivalry among existing competitors in the palm oil industry is high, driven by the competition to increase revenue and reduce costs. Companies with significant assets have an advantage in producing more crude palm oil (CPO). Price plays a significant role in the consumer product segment, such as cooking oil, as consumers tend to choose based on the lowest price. Companies that can lower the cost of goods sold and operating expenses can offer more competitive pricing. Further research is necessary to assess the impact of cooking oil prices on consumer purchase decisions.

Internal Analysis – Financial Ratio Analysis

Liquidity Ratio

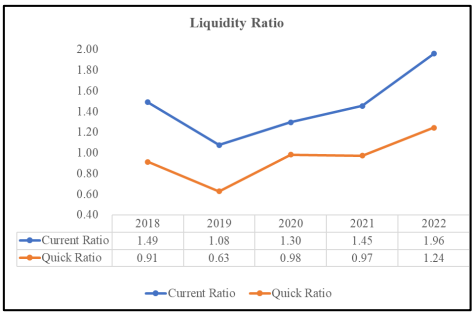
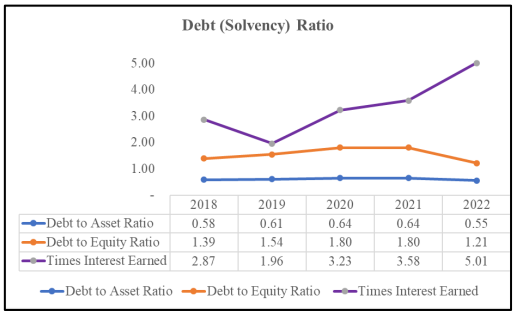


Figure 3. Liquidity Ratio of SMAR

The movement of the current ratio demonstrates an increasing trend, suggesting that SMAR's growth in current assets has outpaced the growth in current liabilities. Based on these findings, SMAR can be considered a liquid company. In 2022, the quick ratio of SMAR increased to 1.24. The amount of current assets and inventory continued to increase, but there was a significant decrease in current liabilities in 2022. As a result, the quick ratio of SMAR increased to above one, indicating that in 2022, SMAR can be considered a liquid company. Based on the two liquidity ratios used above, it can be seen that both ratios had values above

one in 2022. This indicates that SMAR is a liquid company and is able to fulfil its short-term obligations.

Debt Ratio

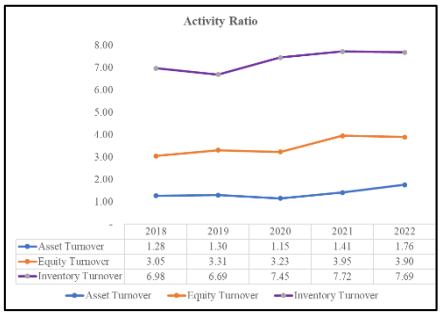


	2018	2019	2020	2021	2022
Debt to Asset Ratio	0.58	0.61	0.64	0.64	0.55
Debt to Equity Ratio	1.39	1.54	1.80	1.80	1.21
Times Interest Earned	2.87	1.96	3.23	3.58	5.01

Figure 4. Debt Ratio of SMAR

Over the past five years, the debt-to-asset ratio calculations consistently show values below one for SMAR. This indicates that SMAR's total assets consistently exceeded its total liabilities, demonstrating SMAR's ability to fulfil its obligations using its assets. The debt-to-equity ratio shows that SMAR relied more on liabilities to finance its operational activities than equity. The times interest earned ratio for SMAR has shown a positive trend over the past five years, reaching its highest value of 5.01 in 2022. This indicates that SMAR generates enough operating profit to cover its interest expenses 5.01 times. Based on the results of the three ratios used, it can be concluded that the debt-to-asset ratio and times interest earned ratio reflect a favourable condition for the company, indicating that SMAR is in a good financial position. However, the debt-to-equity ratio indicates a less favourable situation, suggesting that SMAR has a higher level of debt relative to its equity.

Activity Ratio



	2018	2019	2020	2021	2022
Asset Turnover	1.28	1.30	1.15	1.41	1.76
Equity Turnover	3.05	3.31	3.23	3.95	3.90
Inventory Turnover	6.98	6.69	7.45	7.72	7.69

Figure 5. Activity Ratio of SMAR

In 2022, SMAR achieved an asset turnover value of 1.76, indicating that for every Rp 1 of assets owned by SMAR, it generated Rp 1.76 in revenue. This growth signifies that SMAR has been able to generate higher revenue by efficiently utilizing its total assets. The equity turnover calculation demonstrates a growth trend, rising from 3.05 in 2018 to 3.90 in 2022. Similar to asset turnover, SMAR has succeeded in improving the efficiency of utilizing equity to generate more revenue. The calculation of inventory turnover also shows an increasing trend from 6.98 in 2018 to 7.69 in 2022. This indicates that SMAR is able to sell its inventory at a faster rate. Based on the three activity ratios, there has been an improvement in asset turnover, equity turnover, and inventory turnover. This indicates that SMAR has become more efficient in utilizing its resources, leading to increased revenue.

Profitability Ratio

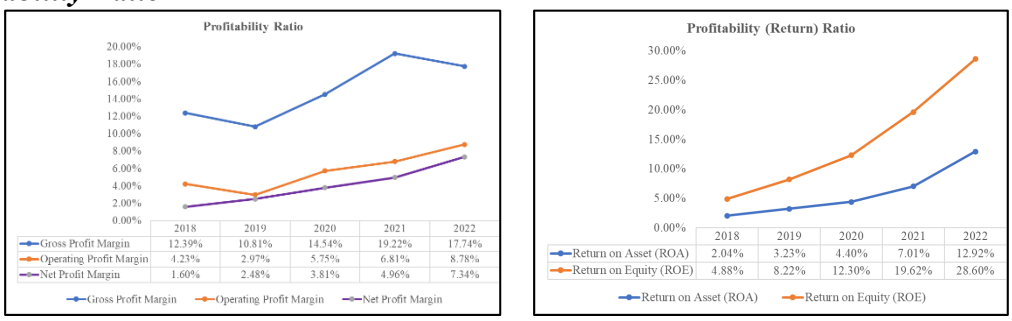


Figure 6. Profitability Ratio of SMAR

The gross profit margin (GPM) for SMAR shows fluctuating growth but shows an overall increasing trend. This indicates that SMAR has effectively managed the growth of its cost of goods sold, leading to higher revenue growth. The operating profit margin (OPM) calculation demonstrates a growing trend, increasing from 4.23% in 2018 to 8.78% in 2022. One of the factors contributing to this improvement is the lower growth of operating expenses compared to gross profit. The net profit margin (NPM) calculation shows significant growth from year to year. The growth in NPM indicates a larger growth compared to GPM and OPM. This improvement is influenced by a reduction in interest expenses and other expenses, resulting in a higher net profit margin.

The return on assets (ROA) calculation exhibits significant year-on-year growth, highlighting the company's enhanced profitability in utilizing its assets. The net profit growth surpasses the growth in total assets, leading to a substantial increase in ROA over time. Similarly, the return on equity (ROE) calculation reveals a rise from 4.88% in 2018 to 28.60% in 2022. This growth in net profit outpaces the growth in equity, resulting in a higher ROE compared to previous years.

Market Ratio

Figure 7. Market Ratio of SMAR

The price-to-earnings ratio significantly decreased from 19.47 in 2018 to 2.58 in 2022. This decline is attributed to the slower stock price growth compared to the earnings per share (EPS), resulting in a decreasing P/E ratio over the years. This trend indicates that the market may not fully recognize or appreciate the stock price of SMAR in relation to its EPS growth.

In 2019, SMAR's PBV ratio increased from 0.95 to 1.09, suggesting that the market price of SMAR was approaching its book value. This was a result of a decrease in total equity combined with an increase in the market price. However, from 2020 to 2022, SMAR's PBV ratio declined. This occurred due to the growth of total equity surpassing the market price, leading to a decrease in the PBV value. This indicates that the price of SMAR during this period became more discounted. Investors may view this as an opportunity to buy the stock at a discounted price.

Stock Valuation Analysis

Calculating the WACC is one of the first steps in the stock valuation analysis using the DCF method. Table 1 shows the necessary variables data for the WACC calculation.

Table 1. Data for WACC Calculation

Variable	Value	Remark	Source
Government Bond 10 Years	6.50%	Government Bond 10 Years	phei.co.id
Risk-Free Rate	4.17%	Government Bond 10 Years - Country Default Spread	Calculation
Country Default Spread	2.33%	Indonesia Default Spread	Damodaran
Company Default Spread	1.42%	Rating Interest Coverage Rate (Moody's)	Calculation & Damodaran
Equity Risk Premium	9.23%	Indonesia Equity Risk Premium	Damodaran
Beta Stock	0.990	Pefindo	Pefindo
Income (Marginal) Tax Rate	22%	Corporate Tax Rate	Annual Report SMAR

The second step is to calculate the cost of debt. Several components are needed to calculate the cost of debt, as already generated from the table above. The calculation of the cost of debt is shown below.

$$\begin{aligned}\text{Pretax Cost of Debt} &= \text{Risk-Free Rate} + \text{Country Default Spread} + \text{Company Default Spread}\\ &= 4.17\% + 2.33\% + 1.42\%\\ &= 7.92\%\end{aligned}$$

$$\begin{aligned}\text{After-Tax Cost of Debt} &= \text{Pretax Cost of Debt} \times (1 - \text{Tax Rate})\\ &= 7.92\% \times (1 - 22\%)\\ &= 6.18\%\end{aligned}$$

The third step is to calculate the cost of equity. Several components are needed to calculate the cost of equity. The calculation of the cost of equity is shown below.

$$\begin{aligned}\text{Cost of Equity} &= \text{Risk-free Rate} + \text{Beta Stock} \times \text{Equity Risk Premium}\\ &= 4.17\% + 0.990 \times 9.23\%\\ &= 13.31\%\end{aligned}$$

The fourth step is to calculate WACC. The calculation of WACC uses the previous value that has been generated. WACC is calculated by combining the cost of debt times the weight of the debt and the cost of equity times the weight of the equity.

WACC = (CoE × Equity Weight) + (After Tax CoD × Debt Weight)
= (13.31% × 0.452) + (6.18% × 0.548)
= 9.40%

The fifth step is to calculate the revenue projection. In this research, the linear regression method is used to calculate revenue projections for the years 2023 to 2027. The calculation uses the Minitab application to get the value of intercept and slope that will be used in the formula of revenue projection.

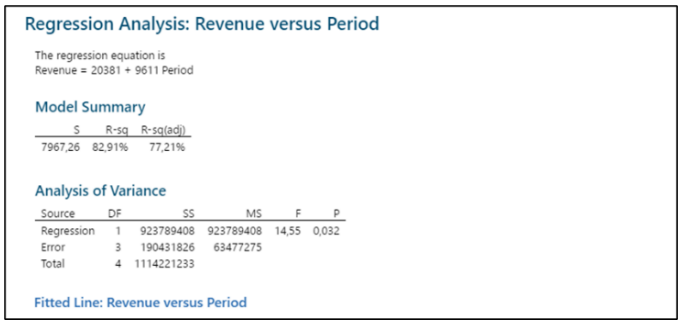


Figure 8. Linear Regression

The result from Minitab shows that the P-value generated is 0.032. It is below the significance value of 0.05, so the linear regression model can be used as it indicates a strong relationship between the independent (period) and dependent (revenue) variables. After getting the result from linear regression, revenue projection can be calculated by using the formula that has been generated.

Table 2. Revenue Projection

Revenue Projection		
Year	**Revenue**	**Forecast**
2018A	37,392	29,992
2019A	36,198	39,603
2020A	40,434	49,215
2021A	57,004	58,826
2022A	75,046	68,438
2023F		78,049
2024F		87,660
2025F		97,272
2026F		106,883
2027F		116,495

Before calculating FCFF, several assumptions need to be calculated based on a percentage of revenue. These variables include cost of goods sold, operating expenses, capital expenditure (CAPEX), depreciation, and non-cash working capital.

Table 3. Variables Percentage of Revenue

	2018	2019	2020	2021	2022	Avg %
Revenue	37,392	36,198	40,434	57,004	75,046	
COGS	32,758	32,286	34,557	46,047	61,734	
% Revenue	88%	89%	85%	81%	82%	85%
Operating Expense	3,052	2,838	3,554	7,075	6,723	
% Revenue	8%	8%	9%	12%	9%	9%
CAPEX	1,249	1,555	1,310	932	1,470	
% Revenue	3%	4%	3%	2%	2%	3%
Depreciation	886	895	1,047	1,392	1,186	
% Revenue	2%	2%	3%	2%	2%	2%
Non-Cash Working Capital	3,501	-167	1,430	4,292	9,125	
% Revenue	9%	0%	4%	8%	12%	6%

Based on the data in table 3, the FCFF can be calculated for the 2023-2027 period. Table 4 shows the calculation of FCFF for 2023-2027.

Table 4. Free Cash Flow to the Firm

FCFF Calculation					
in Billion Rp	2023	2024	2025	2026	2027
Revenue	78,049	87,660	97,272	106,883	116,495
% COGS	85%	85%	85%	85%	85%
COGS	66,389	74,565	82,740	90,916	99,091
% Operating Expense	9%	9%	9%	9%	9%
Operating Expense	7,206	8,093	8,981	9,868	10,755
EBIT	4,454	5,002	5,551	6,099	6,648
Tax Rate	22%	22%	22%	22%	22%
EBIT (1-Tax)	3,474	3,902	4,330	4,757	5,185
% Depreciation	2.29%	2.29%	2.29%	2.29%	2.29%
Depreciation	1,788	2,008	2,228	2,448	2,668
% CAPEX	2.89%	2.89%	2.89%	2.89%	2.89%
CAPEX	2,259	2,537	2,815	3,093	3,372
% Working Capital	6%	6%	6%	6%	6%
Working Capital	5,015	5,632	6,250	6,867	7,485
Changes in Working Capital	- 4,110	618	618	618	618
FCFF	**7,113**	**2,755**	**3,125**	**3,495**	**3,865**

The terminal value captures the cash flow at the end of the research objective period. The required variables include the last year's free cash flow, the long-term growth rate, and WACC.

The value of the long-term growth rate is using assumptions from average GDP growth from the past five years. The calculation of terminal value is shown below.

$$\text{Terminal Value} = \frac{FCFF_t \times (1 + g)}{(WACC - g)}$$
$$= \frac{3{,}865 \times (1 + 3.43\%)}{(9.40\% - 3.43\%)}$$
$$= 66{,}894$$

The next step is to calculate the DCF from the previously calculated data. It will show the present value from FCFF and terminal value.

Table 5. Discounted Cash Flow

Discounted Cash Flow Calculation				
Period	**Year**	**FCFF**	**WACC**	**Present Value**
1	2023	7,113	9.40%	6,502
2	2024	2,755		2,302
3	2025	3,125		2,387
4	2026	3,495		2,440
5	2027	3,865		2,466
Terminal Value		66,894		42,686
DCF				**58,782**

The final step is to calculate the intrinsic value of SMAR. The enterprise value calculation involves deducting the DCF value by net debt and non-controlling interest. The net debt value is derived by subtracting the cash amount from the total debt. Table 6 presents the calculation of the intrinsic value.

Table 6. Intrinsic Value

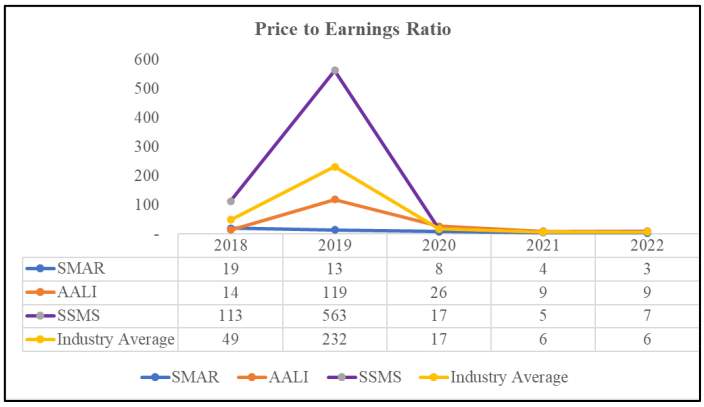
Intrinsic Value	
DCF	58,782
Net Debt	20,873
Total Debt	23,353
Cash	2,480
Non-Controlling Interest	13,181
Enterprise Value	**24,727**
Share Outstanding	3
Intrinsic Value	8,609
Current Market Price	5,200
Condition	**Undervalued**

Based on the calculation of intrinsic value above, it shows that the intrinsic value or fair value from SMAR is Rp 8,609 per share, while the current market price is Rp 5,200 per share. Based on this result, the market value of SMAR is below its intrinsic value, indicating that SMAR is currently in an undervalued position.

Relative Valuation

Relative valuation is used to determine the value of a stock by comparing it to similar stocks in the market. SMAR has several main competitors in the palm oil industry that will be compared in this research. The companies chosen for comparison in this relative valuation are selected based on market capitalization in the palm oil industry. Based on market capitalization, the companies chosen for comparison with PT SMART Tbk (SMAR) are PT Astra Agro Lestari Tbk (AALI) and PT Sawit Sumbermas Sarana Tbk (SSMS).

Price to Earnings Ratio

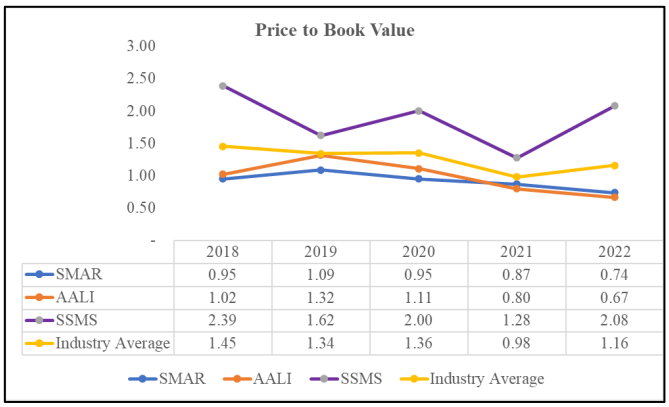


	2018	2019	2020	2021	2022
SMAR	19	13	8	4	3
AALI	14	119	26	9	9
SSMS	113	563	17	5	7
Industry Average	49	232	17	6	6

Figure 9. Price to Earnings Ratio

Based on the figure above, SMAR's price-to-earnings ratio (PER) tends to decrease annually, indicating potential undervaluation. The higher growth in net income compared to stock prices suggests the market's incomplete appreciation of SMAR's earnings growth. This may be due to cautious investor sentiment and uncertainty in the palm oil industry. Based on the calculation results, SMAR's price-to-earnings ratio is lower than the industry average. The price-to-earnings ratio of SMAR in 2022 is 3 times, while the industry average is 6 times. Therefore, based on this PER calculation, SMAR can be considered undervalued.

Price to Book Value



	2018	2019	2020	2021	2022
SMAR	0.95	1.09	0.95	0.87	0.74
AALI	1.02	1.32	1.11	0.80	0.67
SSMS	2.39	1.62	2.00	1.28	2.08
Industry Average	1.45	1.34	1.36	0.98	1.16

Figure 10. Price to Book Value

Based on Figure 10, SMAR's PBV ratio has fluctuated in the past 5 years, mostly below 1. This suggests that SMAR's stock price has been cheaper or discounted compared to its book value. Based on the calculation results, SMAR's PBV ratio is lower than the industry average. The PBV ratio of SMAR in 2022 is 0.74 times, while the industry average is 1.16 times. Therefore, based on this PBV calculation, SMAR can be considered undervalued.

Enterprise Value to EBITDA

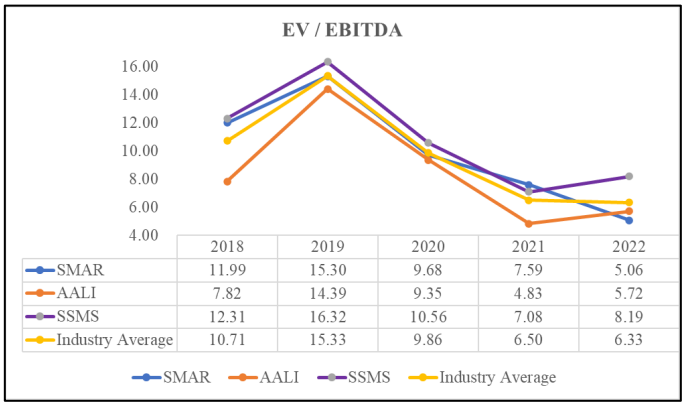


Figure 11. EV / EBITDA

Based on the figure 11, EV/EBITDA ratio from SMAR has shown a decreasing trend over the past 3 years. The growth in EBITDA has outpaced the growth in enterprise value, indicating an improving operational performance of SMAR. However, the market has not fully recognized this performance, as the growth in enterprise value has not been as significant. Based on the calculation results, SMAR's EV/EBITDA ratio is lower than the industry average. SMAR's EV/EBITDA ratio in 2022 is 5.06 times, while the industry average is 6.33 times. Therefore, this EV/EBITDA calculation shows that SMAR can be considered undervalued.

CONCLUSION

Based on financial ratio analysis, the business performance of SMAR can be stated to have kept improving over the years. The company's fundamentals over the past five years show significant progress, especially in the substantial increase in profitability ratios. Furthermore, in 2022, SMAR achieved a remarkable 95% growth in net profit, indicating outstanding performance. However, the market has not fully appreciated the improvement in SMAR's business performance, as the market ratios show a decline over the past five years.

Based on the FCFF method, the intrinsic value of SMAR is Rp 8,609, while the market price is Rp 5,200, indicating that SMAR is undervalued. Furthermore, based on relative valuation methods of PER, PBV, and EV/EBITDA, SMAR is below the industry average, indicating that SMAR is undervalued.

In order to close the discrepancy gap, there are two proposed solutions, signaling and buybacks. SMAR needs to enhance market confidence by engaging in effective communication with investors regarding its long-term growth potential, business strategies, and exclusive value proposition. SMAR can strengthen its market position by focusing on enhancing product reputation and branding, thereby increasing investor interest. Implementing share buybacks can signal confidence in the company's future and contribute to a higher stock price per share.

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