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## Is Rights Issue Will Raising the Stock Price of PT Nippon Indosari Corpindo Tbk?

### Abstract

The stock price of PT Nippon Indosari Corpindo Tbk (ROTI) declined due to the right issue announcement by the corporation, had caused the price of ROTI to fall from IDR 1,760 to IDR 1,195. As the price of the stock itself was in a volatile condition, it was interesting to understand more about the status of the stock price, whether it was undervalued or overvalued. The purpose of this study to calculate the fair share price of ROTI in 2017 based on the 2010-2016 historical data. The findings will be compared with the stock price in the market to know that ROTI was undervalued or overvalued for the decision of the investor to buy, hold or sell its shares. The valuation model used Constant-Growth Model or the Gordon Model. Based on the calculation the fair stock price was IDR 1,617.39, whereas when using the Gordon Model the fair share price was IDR 1,104.19 per share. Based on data from Bursa Efek Indonesia, the closing price for ROTI on December 30, 2016, were IDR 1,600 and it can be concluded that the stock price of ROTI was undervalued.

**Keywords:** Constant-Growth Model; Fair Share Price; Right Issue; Stock Price; Valuation Gordon Model

**JEL Classification:** G11, G23

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### Abstrak

Harga saham PT Nippon Indosari Corpindo, Tbk (ROTI) menurun dikarenakan pengumuman right issue oleh perusahaan yang menyebabkan harga ROTI jatuh dari Rp1.760 menjadi Rp1.195. Karena harga saham itu sendiri berada dalam kondisi bergejolak, akan menjadi menarik untuk memahami mengenai status harga saham ROTI, apakah itu undervalued atau terlalu tinggi. Tujuan penulisan artikel ini adalah untuk menghitung harga wajar saham ROTI pada tahun 2017 berdasarkan data historis 2010-2016, dan membandingkannya dengan harga saham di pasar untuk mengetahui bahwa ROTI dinilai terlalu rendah atau terlalu tinggi untuk keputusan investor untuk membeli, menahan atau menjual sahamnya. Model penilaian yang digunakan adalah Constant-Growth Model atau Gordon Model. Berdasarkan perhitungan diketahui bahwa harga wajar adalah Rp1.617,39, sedangkan ketika menggunakan Gordon Model, harga wajar adalah Rp1.104,19 per saham. Berdasarkan data dari Bursa Efek Indonesia, harga penutupan untuk ROTI pada 30 Desember 2016, adalah Rp1.600 dan dapat disimpulkan bahwa harga saham ROTI dianggap rendah.

**Kata Kunci:** Model Constant-Growth; Harga Saham Wajar; Right Issue; Harga Saham; Valuasi Model Gordon

In stock investing, the investor cannot be separated from return and risk. Since a long time ago, we were already familiar with this slogan “high-risk, high return.” Based on Sayim, Morris, & Rahman (2013) there is a significant impact of investor sentiment on stock return and volatility in all industries. They find that the positive rational component of US individual investor sentiment tends to increase the stock return in the industries. In order to get success in the capital market, investors have to change the slogan to become “low acceptable risk but still high return.” Baker & Wurgler (2006) find that investor sentiment relates to the stock price. The investor must do some analysis before buying a stock to avoid misprice since we are talking about long-term investment. It means that the investor must be familiar with fundamental analysis. One of the most important fundamental analyses done by investors is stock valuation. The stock valuation is an analysis of the value of the actual stock. Therefore, by conducting stock valuation analysis, investors are expected to be able to know what the fair value of stock so that it can avoid the risk of mispricing. PT. Nippon Indosari Corpindo, Tbk. (later called as ROTI) Is known as bread company in Indonesia including manufacture, sale, and distribution.

According to the company’s annual report in 2016, ROTI recorded net sales of IDR 2.52 trillion in 2016; it is up 16 percent from IDR 2.17 trillion in the previous year. The company sets a revenue growth target of 20 percent in 2017 and 11.5 percent earnings of the sets revenue. The products of ROTI consist of sweetbreads, white bread, and cakes.

Based on data from the Central Bureau of Statistics (BPS), it is known that the household expense in food for the year 2014 is about 26.5 percent. It was known that the value of Indonesia’s bread market was reached IDR 4.6 trillion with 13 percent annual growth since 2008. The improvement of the Indonesian economy still demonstrates good result with the Indonesian economy grew 5.02 percent in 2016 as compared to 4.88 percent in 2015. Accord-

ing to Bank Indonesia data, the improvement of consumer confidence level is continuously improving to the Indonesian economy as indicated by Consumer Confidence Index (CCI) that was still within the optimistic level (Annual Report ROTI, 2016). So, based on the above industry overview and its condition, it could be said that Indonesia is still a big potential market for the bread industry. It means that the business prospects of ROTI will still grow in the long run and it is in line with company strategic with expansion to maintain its revenue growth in the future. Since January 2017, PT Nippon Indosari Corpindo, Tbk (ROTI)’s stock price has been dropped for more than 30 percent from its peak price at IDR 1,760 to IDR 1,195 (price on July 11<sup>th</sup>, 2017). The stock price performance above is a reflection of actual condition that ROTI faced during half of this year such as disappointing performance in first quarter 2017; it was possibly coming from right issue plan that published by the company on May 29<sup>th</sup>, 2017.

This part will talk about the literature review as one of the methods in this study to gather the theoretical review of the financial aspect that will be discussed in this and next part respectively. The financial aspect theory such as capital market, common stocks, dividend, and right issue, valuation methods such as Gordon Model, capitalization maintainable future earnings, net asset, and liquidation value will review one by one to get the understanding of each aspect to get the fair stock price value. The objective of the literature review is to look at the steps according to its contributions, so it will be easy to understand the study object. Fundamental analysis uses future and present data in order to estimate the fair stock market value and to predict future value. It usually begins by analyzing the macroeconomic environment, analyzing sectors and then financial statements in order to determine the real value of the company.

The aim of the analysis is not only to find a successful company; the aim is to find the compa-

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nies that are worth more than other investors estimate (Baresa, Bogdan, Ivanovic, 2013). Johnson, Moorman, & Sorescu (2009) said that firms with strong shareholder rights and firms with weak shareholder rights differ from the population of firms and each other in how they cluster across industries. Firms with dual-class voting structures are typically immune from a hostile acquisition regardless of whether they have a pill in place or some other anti-takeover defense in place (Masulis, Wang, & Xie, 2009; Gompers, Ishii, & Metrick, 2010). Earlier studies either do not study the information content of individual investor trading or assume that individual investors are uninformed traders. Recent studies provide evidence of price informativeness of trading by individual investors, and suggest that individual investors may possess valuable private information (Evans, 2010; Kaniel et al., 2012; Kelley & Tetlock 2012; Wang & Zhang, 2015).

A financial statement is an essential thing for investors to know about the company. The study of Baresa, Bogdan, & Ivanovic (2013) used the financial statement of the company for fundamental analysis to stock price and predicted future value. The analysis starts with macroeconomic environment, the industry, competitors, balance sheet, income statement, cash flow statement, and other financial statements to find the value of the company. This method is to find out the performance of the company and help investors to make some decisions. According to Kirui, Nelson, & Onono (2014), there is a relationship between macroeconomic variable with the volatility of stock returns in Nairobi. Ouma & Muriu (2014), using money supply, exchange rate, and inflation as independent variables and these variables impact to the stock market in Kenya. Valuation model relevant used in investment decision in manufacture firms in the Indonesia Stock Exchange could prove simultaneously dividend yield, retained earnings, book value, and total debt had a significant effect on stock price and partially dividend yield had no significant effect on stock price and whereas

retained earnings, book value, and total debt had a significant effect in partial to stock price (Ediningsih & Yacobus, 2012). Sharafoddin & Emsia (2016) said that the value of a company's stock increases if the above factors (government spending, political system, institutional investors, the financial health of managers, and bonus share) are used alongside in a proper manner according to the information available in the company. Chashmi, Metan, & Nasrollahi (2012) in a study investigated the role of institutional investors as a controlling force.

This study shows that institutional investors monitor a company's earnings by controlling the managers and concludes that the arrangement of shareholders should be considered while using the financial statements. It is also recommended that minor investors reflect upon their decisions about buying these companies' shares and take into account the size and leverage of the company. Gherghina, Vintil, & Tibulca (2014) in a study investigated the relationship between corporate governance ratings and company values and examined the practical and empirical evidence of 100 top companies in NYSE and Nazdeek Stock Exchanges. Their purpose was to test the relationship between corporate governance ratings and value of all S&P 100 companies except for the companies in the financial sector that use the data for the year 2013. By estimating the equations of cross-sectional regression, it has been concluded that there is not a relationship between corporate governance rating and firm value. Therefore, when making investment decisions, these rates should be considered with a certain confidence.

In general, the purpose of the right issue is to increased working capital a company. Based on Peraturan Otoritas Jasa Keuangan No. 32/POJK.04/2015 Penambahan Modal Perusahaan Terbuka dengan Memberikan Hak Memesan Efek Terlebih Dahulu it is stated that preemptive rights abbreviated as the right are the inherent right of shares which gives shareholders the opportunity to pur-

chase shares and other Equity Securities either convertible into shares or which entitles to buy shares, before being offered to parties other.

The right issue fund will be used for business expansion, pay the loan, increase paid capital and acquisition. In offering a right, the company grants rights to its stockholders. The smaller corporations are used rights primarily by whose stocks are either personally owned or in publicly owned and not actively traded. The stockholders allow purchasing additional shares at a price below the market price through this financial mechanism, in direct proportion to their number of owned stocks. Based on Kithinji, Oluoch, & Mugo, (2014) there are no significant between rights issue and investor's reaction. Besides that, there is a relationship between a rights issue and the company's share performance. Ogada & Kalunda (2017) show that market returns were significantly higher after the right issue.

To maintain a plan in which to buy and sell a stock, some of the investors play a diversification portfolio with the investment strategy. Generally, through regular cash dividends and increasing share value, the reward is given to the common stockholders. Other investors have a more speculative motive for trading. They try to spot companies whose shares are undervalued—meaning that the actual value of the shares is higher than the current market price. These investors buy shares that they believe to be undervalued and sell shares that they think are overvalued (that is, the market price is higher than the actual value). Regardless of one's motive for trading, understanding how to value common stocks is an essential part of the investment process.

Based on the background above, the author interested to conduct this research. The purpose of this research is to estimate the reasonable stock price of PT Nippon Indosari Corpindo Tbk (ROTI) for the year 2017 and then compare it with the existing stock price in order to know that PT Nippon Indosari Corpindo Tbk (ROTI)'s stock price is undervalued

or overvalued for investor decision making buy, hold, or sell. The findings of the study will be useful for all stakeholders involved in the issue to make decisions and perform actions needed for their respective interests.

## **METHODS**

Description of this research steps that will provide the best solution for an investor in the capital market regarding their investment decision is stated in the conceptual framework. The conceptual framework of this research is shown in Figure 1.

It is known that the company PT Nippon Indosari Corpindo Tbk (ROTI) that already listed on Indonesia Stock Exchange with code ROTI having a problem with its stock price movement during first semester 2017 (1H17). Its stock price was getting low for more than 30 percent. It dropped to below IDR 1,145 after reaching a peak of IDR 1,750. Is this a great time to buy? It has been already stated as the issue of this research, stock valuation of ROTI. According to the conceptual framework, the next step after having identified issue is to find the cause of the issue. Since this research will be limited to review the financial aspect. It will present the company growth analysis within 2010–2016 period as part of the situational business analysis. This research will continue to determine the stock valuation by using the chosen method such as Gordon Model, Book Value, Capitalized Maintainable Future Earnings, and Liquidation Value including with its stock price analysis by comparing the valuation result with the market price to know the stock is undervalued or overvalued. Finally, this research will recommend for the investor in their investment decision with the option: buy, hold, or sell.

The data collection method in this research is using library study and internet research. The type of data is categorized as the secondary data with the following detail: (1) using the annual report and financial statement report of PT Nippon Indosari

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Corpindo Tbk (ROTI) for the year 2010-2016 that published on the company website; (2) using stock price historical data and IHSG data that obtained from Yahoo Finance and Indonesia Stock Exchange (IDX) website; and (3) using macroeconomic variable data such as BI rate, SBI, inflation rate, and gross domestic product (GDP) that obtained from Bank Indonesia, BPS, and another related website.

The data analysis method that is used in this research is quantitative descriptive. Based on Damodaran (2012), this research will use the following three methods such as Gordon Model, Book Value, and Liquidation Value to determine the intrinsic value of PT Nippon Indosari Corpindo Tbk (ROTI). After having each value then it will be averaged then compare it with its market value to get the company is overvalued or undervalue.

The method named as Gordon Model that can be used to value a company that is in 'stable' with growing dividend at a rate that can be constant forever (Damodaran, 2012). It is known as the dividend valuation approach, called the constant-growth model, assumes that dividends will grow at a constant rate, but a rate that is less than the required return (the constant rate of growth, called as  $g$ , is assumed that should be less than the rate of required return,  $r_s$ , it is necessary for deriving this model in the mathematical condition). The equation as follows (Damodaran, 2012):

$$P_0 = \frac{D_1}{r_s - g} \quad (1)$$

Where:

- $P_0$  = value today of common stock
- $D_t$  = dividend per share than expected at the end of year  $t$
- $r_s$  = required return on common stock
- $g$  = growth rate in dividends forever

Starting with the fact that the company's stock price dropped during first semester 2017 (1H17) to

below IDR 1,145 after reaching a peak of IDR 1,750. Then, comes a question, "Is this a great entry point to buy?" In the previous section, growth analysis becomes a preliminary tool to answer the question, but the result is not much help since it only provided information about the condition of the company. Since the company publishes the right issue plan through its official website then no longer after that the stock price of ROTI dropped. Even though the right issue purpose is to get additional capital for expansion such as build a new factory outside Java island like in east Indonesia region and Philippines, but it looks like the investor gives a negative response to this plan. This relates to the current investor position where the current price position is opening an entry point for strategic and activist investors to take over the company. Activist investor offers a threat as it is mostly will affect the company structure (Engelen, Konings, & Fernandez, 2008). It makes sense since the right issue will create much-paid capital than before. Since the right issue detail is not published yet although it was already approved, then it becomes the speculation in the capital market particularly about the theoretic price, and that is why it affected to the company stock price. The other item in the second domain is poor financial performance. Based on consolidated financial statements as of June 30<sup>th</sup>, 2017, ROTI has recorded earnings only IDR 46 Billion. It was declined 64 percent compared to the same period in the previous year with recorded IDR 129 Billion. Earnings were dropped as affected by decline sales due to increasing operational cost such as return sales increasing and employee expenses. The company was recorded sales IDR1.18 Trillion; it was decreased by 1 percent compared to the first semester last year (2016). Return sales increased was becoming a major factor in making the earnings become drop significantly. Return sales were increased 79 percent compared to the same period in the previous year or equal to 26 percent of the revenue. Return sales high was affected by purchasing power

dropped due to boycott 212 and Ramadhan moment that created sales volume getting low. Return sales high was affected by purchasing power dropped. Since this research is limited to the financial aspect only. So, the poor financial performance during half semester 2017 is still acceptable, and it assumes as the temporary “one time” effect to the ROTI stock

price. So, in order to answer the question “Is this a great entry point to buy?” the stock price valuation of ROTI must be calculated to get intrinsic value (fair share price) of this company. Is this stock (ROTI) undervalue or overvalue? It will be part of the next part.



Figure 1. IHSG vs. ROTI Jan-Aug 2016

(Source: Yahoo Finance)



Figure 2. IHSG vs. ROTI Jan-Aug 2017

(Source: Yahoo Finance)

## RESULTS

### Current Conditions

In normal condition, ROTI's stock price always follow the movement of IHSG. Once IHSG increased then its stock price will also increase even higher than IHSG and vice versa while decreasing. Figure 1 describes ROTI's stock performance vs. IHSG performance from January 1<sup>st</sup>, 2016 until August 8<sup>th</sup>, 2016.

In contrast with the situation in 2016 above, in 2017, ROTI's stock price was tough to follow the IHSG performance. While IHSG increases by about 10 percent until now but the ROTI's stock price is declined by more than 30 percent. It is weird. What is going on with ROTI by the way? Figure 2 describes ROTI's stock performance vs. IHSG performance from January 1<sup>st</sup>, 2016 until August 8<sup>th</sup>, 2017.

Indonesia is an excellent market for the bread industry to grow. Sari Roti plays in mass production segment with 90 percent market share. Bread production has increased since the period 2009-2013 based on BPS. It presents in Figure 3.



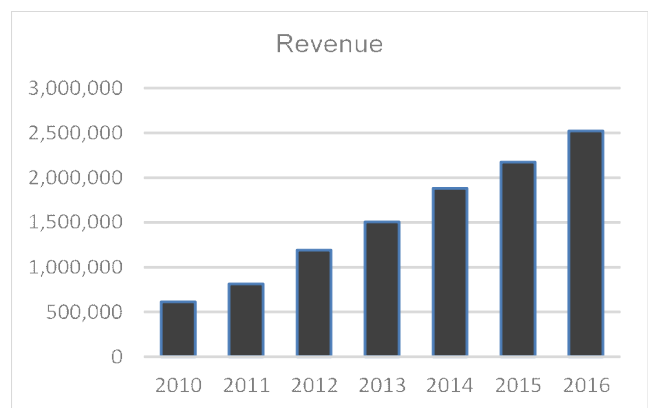
**Figure 3. Bread Production**  
(Source: BPS, 2013)

The company is currently expanding its marketing network expanding into the Philippines. Through cooperation with Monde Nissin Corporation in forming a joint venture company, it is likely

to grow the company's revenue in the coming years. Optimization of business partners "General Trading.", increased minimarket outlet. Nippon, making business in this bread industry continues to grow. Until June 2016, Sari Roti products are sold in 23 types of modern outlets. Until now Indomaret has 12,100 outlets, and Alfamart has 11,115 outlets. The distribution channel of Nippon products is still dominated by Modern Trade which is 79 percent, compared with General Trade which only contributes 21 percent.

### Revenue and Growth Analysis

PT Nippon Indosari Corpindo Tbk or ROTI as become a big company in the bread industry with a bright prospect in the future. In this section, the research will talk about the company growth analysis. It primarily reflects the company productivity. The revenue growth affects company value (Cheng et al., 2010). There are five parameters will be reviewed here such as revenue, earning, equity, stock price, and average ROE. The data will be taken based on the financial statement of PT Nippon Indosari Corpindo Tbk for the year 2010-2016. It is essential for an investor to know the company growth at least in the last five years before investing in its stock. So, from the growth analysis, it expects that it will be no fundamental issue with the company during the period year 2010-2016.



**Figure 4. Revenue Growth for 2010-2016**  
(Source: Annual report PT. Nippon Indosari Corpindo Tbk, 2016)

From Figure 4, it seems that the revenue was increased from 2010-2016 but not for the growth. After listed (IPO) in 2010, in consecutive two years (2011 and 2012) ROTI recorded excellent growth with 33 percent and 46 percent respectively. The two new factories in Semarang and Medan start its operation, and it made the company bread production capacity was about 1.8 million pieces per day.

As a result, the company revenue growth increased 33 percent in 2011. This success story was still ongoing in 2012. The new factory in Cibitung started its operation and increased the company bread production capacity to be 3 million pieces per day (76 percent more production capacity compared to 2011). The revenue growth was increased 46 percent this year.

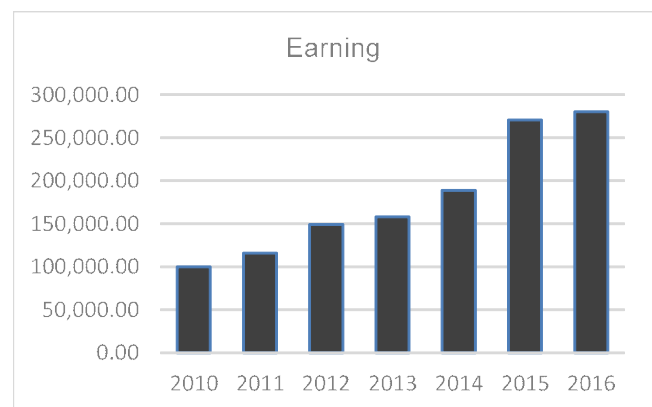
In 2013, there were two additional new factories start to operate in Palembang and Makassar. The production capacity increased to 3.5 million pieces per day. At this moment, the new two factories did not give any impact on revenue growth since it was declined to be 26 percent (compared to 2012 with 46 percent revenue growth).

The high cost of opening a new market in Makassar and Palembang was becoming the cause of declining revenue growth in this year. Another challenge was poor infrastructure in Medan plant that caused frequent electricity interruption to the production process. Also, there was also a national labor strike that is causing six weeks of frequent serious interference in the production process at Cikarang and Cibitung plant. The company's revenue growth target did not achieve in this year 26 percent vs. 30 percent (actual 2013 vs. target 2013). In 2014, the two new factories in Purwakarta and Cikande started operation. It made the production capacity to be 4 million pieces per day. The company sets a revenue target was 25 percent from the previous year (in 2013), and it achieved the target. In 2015 and 2016, the revenue growth was a bit lower than the target. The company's revenue target is 20 percent growth compared to the previous

year (2014 and 2015), but the actual growth was only 16 percent for both. The challenge was coming from Indonesia economic condition such as unstable rupiah currency and weakening consumer's purchasing power.

### Earnings Growth Analysis

Based on Figure 5, it is known that the average growth in earnings during the last six years (2010-2016) is 19.5 percent. After ROTI's IPO in 2010, the earning increased in line with the revenue but two years after that earnings becoming declined particularly in 2013 since earnings only grew for about 5.9 percent due to an increase of operational expenses (currency volatility impacts to raw material cost). It caused net profit margin decreased from 14 percent average to only 10 percent for this year. In 2014, the operating expense was slightly decreased by delaying build new factory, especially from labor cost. It was ongoing in 2015 while the operating expense decreased significantly to 15.8 percent and it results in 43.4 percent of the earnings growth. In 2016, since the operating expense increased 24.2 percent again compared to previous year due to an increase in selling expenses, and then it caused the earnings for 2016 only grew about 3.5 percent.



**Figure 5. Earnings Growth for 2010-2016**

(Source: Annual report PT. Nippon Indosari Corpindo Tbk, 2016)

### Annual ROE Analysis

It is known that the average of annual ROE during the last six years (2010-2016) is 21.03 percent (shown in Figure 6). Based on that result, since the earnings look slower, it will follow the ROE as well as it is linear with earnings.

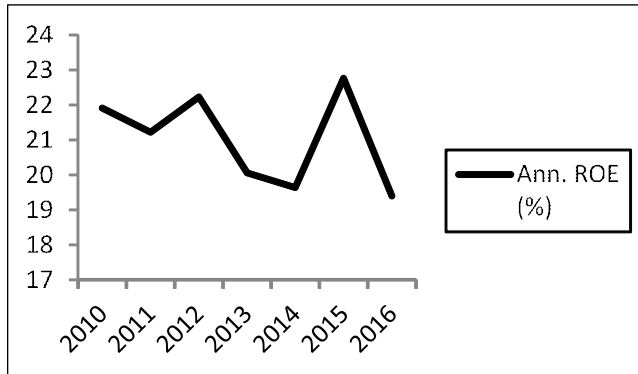


Figure 6. Average ROE

### Equity Growth Analysis

Based on Figure 7, it is known that the average growth of equity during the last six years (2010-2016) is 21.2 percent. The equity growth was coming from retained earning that put the equity. In 2014, the company also cut the dividend by only 10 percent of its total earnings and still keep 90 percent earnings as cash or put into equity.

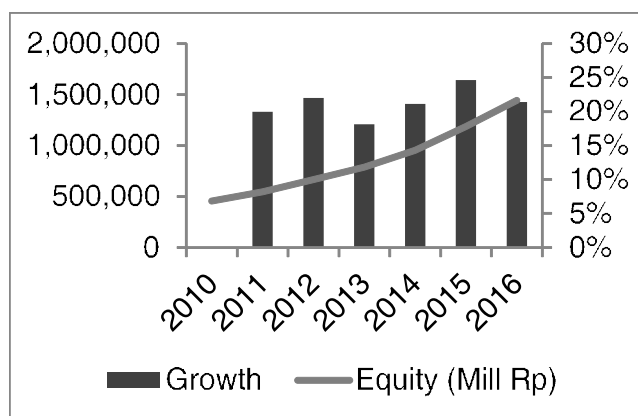


Figure 7. Equity vs. Growth for 2010-2016

### Growth Analysis

Based on Table 1, the results of the growth analysis are suitable for all indicators. It means that the company is fundamentally strong enough and has no issue with its growth during the last six years. So, the stock price dropped in 2017 will become an interesting issue to explore more details in the next section. Excellent company if its growth above 10 percent in 10 years. For the Indonesia market, since the market has a significant potential to grow. So, the number is adjusted to 15 percent in 5 years (Rudiyanto, 2013).

Table 1. The result of Growth Analysis

Indicator	Result (%)	Indicator
Revenue Growth	27.4	Good
Earnings Growth	19.5	Good
Annual ROE	21.03	Good
Equity Growth	21.2	Good

(Source: Rudiyanto, 2013)

### Gordon Model

Gordon Model is a stock valuation approach using dividend. Erianda, Siswanto, & Arini (2011) conducted research to calculate the fair stock price of PT Telkom using this method.

Continuity of dividend payment becomes the reason this method was chosen. The dividend can assume one of cash flow that got by stockholders every year. Since PT Nippon Indosari Corpindo Tbk always give a dividend to their stockholder every year particularly since they were listed on Indonesia Stock Exchange in 2010 until now. So, implementation of this method is suitable to calculate the company stock valuation. The Gordon Model will find the fair stock price of the company. The method is consist of three steps as follow, cost of equity, growth estimation, and value of equity per Share. Each step will be reviewed in the next section.

According to the financial report of PT Nippon Indosari Corpindo Tbk per December 31<sup>th</sup>, 2016. Table 2 present the summary of a financial report with the following results.

**Table 2.** Summary of Financial Report ROTI December 2016

Items	2011	2012	2013	2014	2015	2016
Revenue (Bill IDR)	813	1,190	1,505	1,880	2,174	2,521
Op. Profit (Bil IDR)	153	199	232	299	454	443
Net Income (Bil IDR)	116	149	158	189	271	280
EPS (IDR)	115	145	31	37	53	55
Dividend per Share (IDR)	24.65	28.65	3.12	5.53	10.61	13.73
ROE (%)	21.22	22.23	20.06	19.64	22.76	19.4
Dividend Payout Ratio (%)	21	20	10	15	20	25

Source: PT. Nippon Indosari Corpindo Tbk, 2016

### Cost of Equity

As the first steps in calculating the Gordon Model is to determine cost of equity. Either high or low, every investment comes with risks, or cost of equity is the expected return on investment to compensate the risks investor bear by investing their capital. In his book, Damodaran (2012) says that the cost of equity is the rate of returns investors requires an equity investment in a company. Cost of equity in this research will be calculated by using Capital Asset Pricing Model (CAPM) approach as the discount rate of the calculation of a fair stock price using the Gordon Model. Beta coefficient is a popular method of capital asset pricing model (CAPM) and can be found in almost every financial overview or analysis for a company. Beta coefficient is a relative measure of non-diversifiable risk. Since the cost of equity is a required return that the investor wants as the consequences of their investment in the company's share. So, the formula for this calculation is as follow.

$$r = \text{Riskless Rate} + \text{Beta} (\text{Risk Premium}) \quad (2)$$

Where:

r : required rate on equity

Riskless rate : return rate with no risk

Beta : sensitivity of stock price movement to stock index

Risk premium: return on asset with risk

**Table 3.** Data Source for Calculating Cost of Equity

Data	Value (%)	Source
Risk-Free Rate	8.25	SUN Seri FR0072
Beta	0.75	Reuters
Country Risk Premium	9.71	Damodaran (2016)

By using the Equation 2:

$r = \text{riskless rate} + \text{beta} (\text{risk premium})$

$r = 8.25\% + 0.75 (9.71\%)$

$r = 0.1553$  or 15.53%

The result for require rate on equity is about 15.53 percent. It means that the cost of equity in the stock valuation of PT Nippon Indosari Corpindo, Tbk is about 15.53 percent as the investor's required return from company share investment.

### Growth Estimation

The second step in calculating the Gordon Model is to determine the estimation of dividend growth rate. This method is one of the essential things in doing stock valuation since it is related to revenue and earnings. The growth rate estimation is to ensure that dividend growth is matched with the calculation. If not, it will affect the fair stock price calculation. The value will be far away from the market price, and it will be no good for investor decision on their investment. The growth estimation can be calculated with the following formula:

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$g = \text{retention ratio} \times \text{ROE}$

$g = (1 - \text{DPR}) \times \text{ROE}$

Where:

$g$  : growth

ROE : Return on Equity

DPR : Dividend Payout Ratio

Based on the annual financial report of PT Nippon Indosari Corpindo Tbk in 2016 and by considering the financial performance during the first semester 2017 was below expectation. So, in this research, it will use the assumption that the DPR that will be used is DPR in 2016. As known that DPR = 0.25 or 25 percent and ROE = 19.4 percent. Then the calculation for growth estimation will be:

$g = \text{retention ratio} \times \text{ROE}$

$g = (1 - \text{DPR}) \times \text{ROE}$

$g = (1 - 0.25) \times 19.4\%$

$g = 14.56\%$

From the calculation above it found that the estimated growth rate is about 14.56 percent. It means that PT Nippon Indosari Corpindo Tbk will generate growth is about 14.46 percent in the annual base.

### Value of Equity per Share

The third step in calculating the Gordon Model is to determine the value of equity. It is a tool which used to calculate the fair price of the company share. Value of equity consists of three elements such as dividend per share, cost of equity and expected growth rate. The value of equity per share can be calculated with the following formula:

$$V_0 = \frac{D_0 \times (1+g)}{r-g} = \frac{D_1}{r-g}$$

Where:

$V_0$  : fundamental value

$D_1$  : expected dividend

$D_0$  : paid dividend

$r$  : required return on equity

$g$  : dividend growth rate

By using the formula above the calculation will become:

$$V_0 = [13.73 \times (1 + 0.1456)] / [0.1553 - 0.1456]$$

$$V_0 = 1617.39$$

According to the calculation above, the fair price of ROTI's share using the Gordon Model is about IDR **1617.39** per share.

## DISCUSSIONS

The result of stock valuation methods that conducted to PT Nippon Indosari Corpindo Tbk or ROTI using Gordon Model which used the period since the PT Nippon Indosari Corpindo Tbk or ROTI is listed on the Indonesia Stock Exchange (IDX) in 2010 until the last recent annual report as per December 2016. Based on the calculation results on the price of shares of PT Nippon Indosari Corpindo Tbk. Which is, in this case, using the four approaches mentioned above then obtained each value of the fair value of shares whereby using Gordon Model method is IDR 1617.39. As shown in table 3-3 about the calculation result of Gordon Model methods of PT Nippon Indosari Corpindo Tbk. That has just been discussed in the previous section, and by taking Gordon Model valuation methods of the stock price, the result is obtained from the weighted average value as shown in Table 4.

**Table 4.** Results of Valuation Method (Author's Analysis)

Valuation Method	Share Price (IDR)
Gordon Model	1,617.39

According to calculation in Table 4, finally, the fair stock price per share of the PT Nippon Indosari Corpindo Tbk is obtained. The fair stock price is IDR 1,617.39. This value still has no meaning yet until it is compared with the actual market price. Based on the IDX data that obtained from yahoo finance, the closing price for ROTI on Friday, December 30<sup>th</sup>, 2016 is IDR 1,600. Since the fair of the ROTI is about IDR 1,617.39, so it means that the current ROTI stock price still slightly below the fair stock price at that time. It could be said that ROTI still undervalues. Since we are going to use the limit from CFA (Chartered Financial Analyst) as the recommendation to buy, hold or sell. Then buy rating placed when the security delivers potential upside greater than 15 percent for the next 12 months. Sell rating is delivered when the security is expected to deliver less than -15 percent return over the next 12 months. Hold rating implies 15 percent to -15 percent returns over the next 12 months. According to our result, it is categorized as HOLD rating since the returns are only at 15 percent to -15 percent returns over the next 12 months.

## CONCLUSION AND SUGGESTIONS

### Conclusion

Based on the calculation of the fair stock price of PT Nippon Indosari Corpindo, Tbk (ROTI), using the Gordon Model approach, it is concluded that the fair stock price of ROTI falls to IDR 1,617.39 per share. Based on the closing price of ROTI, the price is about IDR 1,600 per share. Comparing the two results, we can see that the price of ROTI is undervalued. It means that the market stock price is still

a bit lower than its fair stock price with HOLD rating since the returns are only at 15 percent to -15 percent returns over the next 12 months (Rudiyanto, 2013).

From the findings above, we can conclude that there are volatilities found in the market when it comes to determining the fair stock price. Even the slightest information or rumors in the market can influence the stock price. For that, a good investor should always recheck and recalculate the value of the stock price, and not fully use the provided data available. By calculating the value, the investor will always be able to mitigate the risk that occurs, to avoid unnecessary losses.

### Suggestions

For the case of ROTI, investors are suggested to wait and see also until there is an official announcement from the company about the right issue detail. An investor that already know the intrinsic value of the company will get the benefit information regarding their next decision. To redeem the right issue share the investor must know the theoretical price due to this action. As long as the right issue price is still below the theoretical price and fair stock price, the investor who already bought this stock is allowed to redeem this new share.

It would be interesting to check whether the fair stock price of ROTI is now in the year 2018, and conduct calculation in reverse, to know the full effect of the right issue to the overall stock price of the ROTI. It would also be interesting to check on the stock price on the similar industries in Indonesia or other countries.

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# Is Rights Issue Will Raising the Stock Price of PT Nippon Indosari Corpindo Tbk?

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