

COMPANY VALUATION ANALYSIS ON PT DAYAMITRA TELEKOMUNIKASI IN PREPARATION OF IPO

Andi Wahyudi and Budhi Arta Surya
School of Business and Management
Institut Teknologi Bandung, Indonesia
andi.wahyudi@sbm-itb.ac.id

Abstract—PT Dayamitra Telekomunikasi, known as Mitratel, a subsidiary of PT Telekomunikasi Indonesia Tbk, is a one of the leading company in tower leasing industry. In 2012 General Meeting of Shareholders, the shareholders asked Mitratel to explore the possibility of an IPO (Initial Public Offering). The objective of the shareholders is to unlock Mitratel value and to finance Mitratel capex while maintaining the Debt Equity Ratio (DER) below 4.0x. Mitratel must assess the value of the company and also assess the IPO plan itself. Undertaking an IPO is a business decision that must be based on consideration of a number of factors. The methods used in this final project to determine the value of Mitratel are Discounted Cash Flow (DCF) Valuation and Relative Valuation. DCF method used is two-stage Free Cash Flow to Equity (FCFE) Discount Model. Relative valuation methods used are Price to Earning Ratio (P/E) and Price to Book Value (PBV) multiples. The results from the two methods are combined to come up with the realistic and attractive price of equity per shares. This final project will also analyze the IPO decision based on strategic, financial, and valuation factors, whether the IPO will satisfy the objective of the shareholders. From the analysis, Mitratel is already eligible to list its shares in the main board of Indonesia Stock Exchange, with the recommended price for Mitratel equity is between Rp. 15.000,- to Rp. 20.000,- per share. However from the strategic, financial, and valuation analysis, in order to get better value, Mitratel is recommended to hold the IPO plan.

Keywords: Two-stage Free Cash Flow to Equity Discount Model, Relative Valuation

1. Introduction

This final project was taken regarding MitratelPT Dayamitra Telekomunikasi's plan to do IPO. PT Dayamitra Telekomunikasi, also known as Mitratel, a subsidiary of PT Telekomunikasi Indonesia Tbk (Telkom), is a one of the leading company in tower leasing business. Mitratel is a company established in 1995, in Balikpapan. At first, Mitratel's shares are owned by several foreign and national companies. During its growth, shares ownership composition of the company has changed for several times, until finally, in 2004, all the company's shares are fully owned by Telkom. By the end of 2007, Mitratel transformed its business by entering the telecommunication infrastructures provision industry. The main business activities was building telecommunications facilities (tower) to be leased to operators and providing maintenance services of telecommunications infrastructure.

In 2011 and 2012 General Meeting of Shareholders, the shareholders asked Mitratel to explore the possibility of an IPO and make a preparation to IPO. The main reason of the shareholders is to unlock Mitratel value. Mitratel is a rapidly growing company and Telkom as a shareholders think that the market was not giving a full valuation for ownership of Mitratel. By listing Mitratel they expect the overall value of Telkom will increase. The second reason is to finance Mitratel capital expenditure while maintain DER below 4x. The Shareholders also expect that when Mitratel finally listed to public, Mitratel is the number one company in the industry.

Mitratel must assess and prepare the IPO so that the IPO will be successful. Undertaking an IPO is a business decision that must be based on consideration of a number of factors. What kind of IPO will

be best suitable to Mitratel as well as shareholders objective? This final project will calculate the value of Mitratel, the price per share, the number of shares that will be issued, and the net proceed. This final project will also analyze the IPO decision based on a number of factors, whether the IPO will satisfy the objective of the shareholders.

2. Business Issue Exploration

A. Conceptual Framework

In analyzing business issue exploration, we use conceptual frameworks that illustrated in Figure 1.

B. Business Issue Exploration

Value unlocking is a process by which subsidiaries of a large corporation(s) are listed as separate business entities, also known as carve-out. A carve out occurs when a parent company sells a minority (usually 20% or less) stake in a subsidiary for an IPO. Equity carve-outs increase the access to capital markets, enabling carved-out subsidiary strong growth opportunities, while retaining control over subsidiary.

Value unlocking is considered beneficial for the parent company. The parent company may have a rapidly growing business in subsidiary but because the subsidiary is private, the markets do not have information about the value of the subsidiary and therefore not giving the parent company a full valuation for ownership of the subsidiary. Listing the subsidiary will unlock the hidden value of the subsidiary.

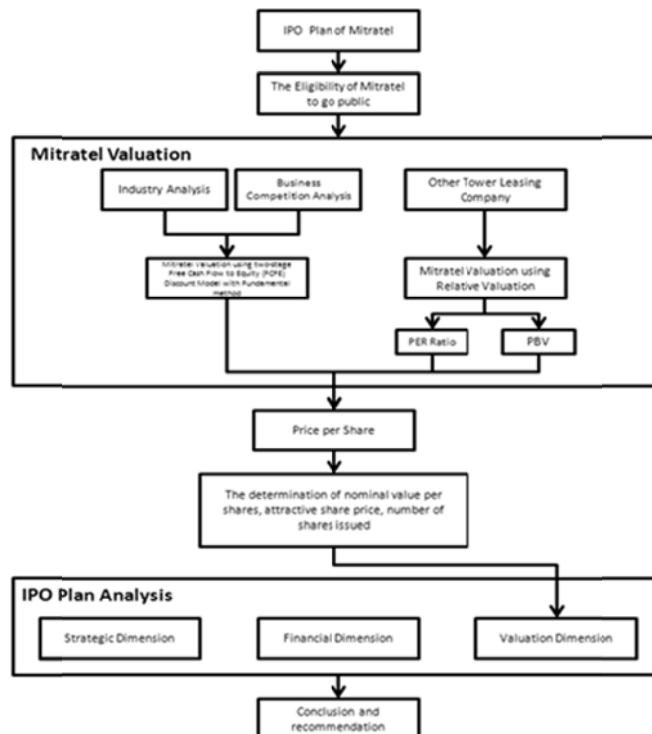


Figure 1. Conceptual Framework

Research confirms the benefit of carve-out. Study found that carved-out companies had significantly higher earnings than industry average during the first three years after carve-out and parent companies had a higher return on assets in the first year after carve-out. With both the share value of subsidiary and parent company expected to rise, the overall value of the company will rise and the shareholders value will increase.

C. Valuation Theory

The approaches used in this final project are Discounted Cash Flow (DCF) Valuation and Relative Valuation. DCF relates the value of the assets to the present value of expected future cash flows on that asset. Relative Valuation estimates the value of an asset by looking at the pricing of comparable assets relative to a common variable. The basic principles of DCF Valuation is that the value of the asset is the present value of the expected cash flows of the assets, discounted back at a rate that reflects the riskiness of these cash flows. The cash flows used in this final project is cash flows after debt payments and after reinvestment needs. These cash flows are called free cash flows to equity (FCFE). This approach is called equity valuation. The discount rate that reflects just the cost of equity financing is the cost of equity.

Cash flow to equity represents cash flow just to holders of equity, which means cash flow that have already reduced by all kinds of debt obligations. The term 'free' means 'free for withdrawal' or can be withdrawn 100% from the companies without affecting the company, because these cash flows are after taxes and after reinvestment needs have been covered. To estimate FCFE, we begin with net income and subtract a firm's reinvestment needs necessary to maintain its current growth. Firm must make capital expenditures to continue to exist and to grow. This cash flow also calculates change in working capital. If net working capital increases, this is an offset to cash flows, whereas if working capital decreases, this is an enhancement of the cash flows.

The cash flow also considers the effect of changes in the levels of debt. Repaying the principal on existing debt represents a cash outflow; but the debt repayment may be fully or partially financed by the issue of new debt, which is a cash inflow. Again, netting the repayment of old debt against the cash inflow from new debt issues provides a measure of the cash flow effects of changes in debt. Allowing for the cash flow effects of net capital expenditures, changes in working capital, and net changes in debt on equity investors, we can define the cash flows left over after these changes as the free cash flow to equity (FCFE).

$$\begin{aligned} \text{Free cash flow to equity (FCFE)} \\ &= \text{Net income} - (\text{Capital expenditures} - \text{Depreciation}) \\ &\quad - (\text{Change in noncash working capital}) + (\text{New debt issued} \\ &\quad - \text{debt repayments}) \end{aligned}$$

This calculation can be simplified if we assume that the net capital expenditures and working capital changes are financed using a fixed mix of debt and equity. If δ is the proportion of the net capital expenditures and working capital changes that is raised from debt financing, the effect on cash flows to equity of these items, assuming the book value of debt and equity mixture is constant, can be represented as follows:

$$\text{Free cash flow to equity} = \text{Net income} - (\text{Capital expenditures} - \text{Depreciation})(1 - \delta) - (\text{Change in noncash working capital})(1 - \delta)$$

This final project used two-stage FCFE model. The two-stage FCFE Model is designed to value a firm that is expected to grow much faster in the initial period and at a stable rate after that. In two-stage FCFE model, the value of any stock is the present value of the FCFE per year for the high growth period plus the present value of the terminal price at the end of the period. In terminal value, we assume that cash flows will grow at a stable growth rate that can be sustained forever after terminal year. In general terms, the value of a firm that expects to sustain high growth for n years can be written as:

$$\text{Value of Equity} = \sum_{t=1}^{t=N} \frac{FCFE_t}{(1 + r_e)^t} + \frac{P_n}{(1 + r_e)^N}$$

where $FCFE_t$ = Free cash flow to equity in year t

P_n = Value of equity at the end of high growth period

r_e = Cost of equity in high-growth (hg) and stable-growth (st) periods

The terminal value for equity is generally calculated using the stable growth rate model:

$$P_n = \frac{FCFE_{n+1}}{r - g_n}$$

where g_n = Growth rate after terminal year forever

There are three factors we should look when considering how long a firm will be able to maintain high growth. (1) *Size of the firm*. Smaller firms are much more likely to earn excess returns and maintain these excess returns than larger firms. (2) *Existing growth rate and excess return*. Firms that have been reporting rapidly growing revenues are more likely to see revenues grow rapidly at least in the near future. (3) *Magnitude and sustainability of competitive advantage*. If there are significant barriers to entry and sustainable competitive advantages, firms can maintain high growth for longer periods.

The discount rate for FCFE model is cost of equity. The formula for cost of equity is:

$$\text{Cost of Equity} = \text{Risk Free Rate} + \beta \times \text{Risk Premium}$$

Aswath Damodaran, in his book, states that there are three ways to estimate growth: Historical growth, Outside (analyst) estimates of growth, and Fundamental growth. With both historical and analyst estimates, growth is an exogenous variable that affects value but is divorced from the operating detail of the firm. The soundest way of incorporating growth into value is to make it endogenous – that is, to make it a function of how much a firm reinvests for future growth and the quality of reinvestment. To derive the relationship between net income growth and fundamentals, we need to estimate directly how much equity the firm reinvest back into its business in the form of net capital expenditures and investments in working capital.

$$\text{Equity reinvested in business} = ((\text{Capital expenditures} - \text{Depreciation}) + \text{Change in non cash working capital})(1 - \delta)$$

where δ is the proportion of the net capital expenditures and working capital changes that is raised from debt financing.

$$\delta = \text{Debt Ratio} = \frac{\text{Book value of debt}}{\text{Book value of Equity} + \text{Book value of Debt}}$$

Dividing the number of equity reinvested in business by the net income gives a measure of the Equity Reinvestment Rate (ERR). The ERR represents the proportion of net income that the firm will retain for reinvestment. Whatever is left over can be paid out (FCFE).

$$\begin{aligned} \text{ERR} &= \frac{\text{Equity reinvested}}{\text{Non cash net income}} \\ &= \frac{((\text{Net Capex} - \Delta \text{ change in non cash working capital})(1 - \delta))}{\text{non cash net income}} \end{aligned}$$

The expected growth in net income can then be written as:

where Non Cash Return on Equity is defined as:

$$\text{Non cash ROE} = \frac{\text{Non Cash Net Income}}{(\text{Book value of Equity} - \text{Cash}) \text{ from previous year}}$$

Since we cannot estimate cash flows forever, we generally impose closure in DCF valuation by stopping the estimation of cash flows sometime in the future and then computing a terminal value that reflects the value of the firm at that point. At the time of the terminal value we approach value of

the firm as going concern. We assume that the cash flows of the firm will grow at a constant rate forever – a stable growth rate. With stable growth, the terminal value can be estimated using a perpetual growth model.

The characteristics of firm in stable growth are:

- *Growth Rate.* The stable growth rate cannot exceed the growth rate of the economy but it can be set lower.
- *Equity Risk.* As firms mature, it is expected that they have less exposure to market risks and betas that are closer to 1 (the average for the market).
- *Project Returns (ROC and ROE).* The return on capital is set to or closer to cost of capital (WACC), while return on equity is set to or closer to cost of equity.
- *Debt Ratios / Leverage.* High growth firms tend to use less debt than stable growth firms.
- *Dividend payout.* Stable growth firms tend to pay high dividends.
- *Reinvestment Rates / Net capital expenditures.* Stable growth firms tend to reinvest less than high growth firms. In a FCFE model, we are focusing on net income growth. The equity reinvestment rate can be computed as follows :

$$\text{Equity Reinvestment Rate} = \frac{\text{Expected Growth}}{\text{Return on Equity}}$$

In the case of firms that are changing rapidly over time, it is dangerous to base value estimates on annual report information that is several months old. Instead, we can use the most recent information. Firms also reveal quarterly report to the public. A more recent estimate of key items in the financial statements can be obtained by aggregating the numbers over the most recent four quarters; this is called “trailing 4 quarters” revenues and earnings. It can be very different from the values of the same variables in the last annual report. It is important that we stay with the most updated reports we can find.

In relative valuation, we value an asset based on how similar assets are priced in the market. There are two essential steps in relative valuation:

1. *Finding comparable assets that are priced by the market.* Usually, analysts use other companies in the same sector as comparable.
2. *Scaling the market prices to a common variable.* Similar stocks in the industry may be very different in terms of size of the company, so in order them to be comparable; they must be converted into multiples.

The multiples used in this final project are Price-Earnings Ratio (P/E) and Price-to-Book Ratio (PBV). The price-earnings ratio is the ratio of the market value of equity to the earnings generated for equity investors:

$$P/E = \frac{\text{Market value of equity}}{\text{Equity earnings}}$$

The price-to-book ratio is computed by dividing the market value of equity by the current book value of equity:

$$\text{Price – to – book ratio} = P/BV = \frac{\text{Market value of equity}}{\text{Book value of equity}}$$

D. Industry Analysis

1) Industry Characteristics of Tower Leasing Industry

Stable and Predictable Cash Flow. The tower leasing industry is characterized by stable and predictable cash flow. The annual/monthly leasing rates are usually locked by a pre-specified contract. A lease contract agreement generally consists of a fixed rate rental fee and a maintenance fee which are adjusted annually with inflation. This industry also characterized by its recurring revenue stream. Switching cost of BTS are very high, thus, at the end of a lease contract, it is most likely that tenants would extend the lease.

Industry Growth is driven by Telecommunication Industry Growth. To boost its service level, it is imperative that mobile operators continue to invest in its network capacity and coverage. This

will boost demands for tower leasing as operators are no longer interested in investing and maintaining telecommunication towers due to its capital intensive nature. Other factor, tower growth is driven by the operator new focus from voice to data services. Data services require more concentrated BTS network with 3G technology.

Group Tower Provider Trend. There is a trend in tower provider industry that companies tend to form a group. Larger companies will expand its tower portfolio through acquisition of smaller company. Mobile operator providers are expected to divest its tower to independent tower provider company.

2) Porter's 5 Forces Analysis

The threat of new entrants analysis are:

1. Tower Industry is highly capital intensive, so it naturally creates a high entry barrier for new entrants.
2. Regulation forbids direct foreign ownership of towers. This shields the industry from foreign competitions.

The bargaining power of suppliers analysis are:

1. **The land where the tower built.** It is very likely that whenever the leasing contract with the land owner expired, the lessor will want a price increase.
2. **Iron materials and tower construction activities.** However, tower construction is only one time cost, paid in the initial period and not recurring. Increase in those prices can be passed on to buyers.

The rivalries among existing competitor analysis are:

1. The government will implement tower sharing plan by the end of FY 2012. With that policy, government will not give a new license to build a new tower if in that area there is already existing tower built. The competition between tower companies is to be the first to build a tower in new blank area.
2. Once a provider put a BTS in a place/tower, there is a high switching cost to relocate it to other tower. This will make competition among tower company low.

The bargaining power of customers analysis are:

1. There is only limited option of tower in one area. So, the customer power is low.
2. The high financial cost to wireless communication companies of moving equipment to a new tower site.
3. The operational risks from disruptions that operators face when switching to a different tower site.
4. Tower provider have a high dependency to mobile operator, if one of their main tenant suffer losses it will affect its cash flow. Fortunately for Mitratel, its two main tenants, Telkomsel and Telkom have a very stable financial condition.

The threat of substitutes analysis are:

1. Substitute for tower service is that operator build tower themselves. However, operators are less interested in building tower and choose to rent the tower.
Based on above analysis, treat of new entrant, bargaining power of Customers, threat of substitutes, and rivalry among existing competitor are categorized as low. While bargaining power of suppliers are categorized as medium.

3) Conclusion on Industry Analysis

Based on the above analysis, the future profit potential and the profitability growth potential of Mitratel are high.

3. Business Solution

E. The Eligibility of PT Dayamitra Telekomunikasi to Go Public

The stock listing in Indonesia Stock Exchange (IDX) is classified into Main board and Development Board. The placement of the issuer depends on the company's fulfillment of the requirements for each board. From the above analysis, Mitratel is eligible to be listed in the Main board.

F. Mitratel Valuation

For the β (beta) of Mitratel, we can use beta from the company in the same industry that already listed in IDX. The beta industry can be calculated from average beta of those companies, which is 0.31. For Risk Free Rate, we use the coupon rate from the latest Fixed-Rate Long Term Government Bond – FR0065, which is 6.33%. Risk Market can be calculated from geometric average growth of JSE Composite Index for the last 5 years which is 10.03%. Thus, Risk Premium = 10.03% - 6.33% = 3.7%. Substituting those values into cost of equity formula, we find the Cost of Equity is 7.48%.

In this final project, we use the “trailing 4 quarters” of financial statement to calculate fundamental growth. The available “trailing 4 quarters” financial statement is from 2nd quarter of 2011 to 2nd quarter of 2012 (2Q11-2Q12). The calculation process and result is shown in the Table I. Based on the industry analysis discussed in chapter 2, Mitratel is expected to grow at the extraordinary growth rate for the first three years, and then grow at the stable growth rate after three years. During stable period, we will assume that β of the firm is 0.9. The value of risk-free rate and risk-premium remain the same. The cost of equity during stable period is: 6.33% + 0.9 x 3.70% = 9.66%.

During stable rate, we assume the growth rate is the same as current Indonesia economic growth, with assumption that this economic growth will stay constant until and during stable growth period. The economic growth in 2012 is 6.5%. So, after the third year, the expected growth rate in net income is 6.5%.

The Equity Reinvestment Rate can be obtained from:

$$ERR = \frac{\text{Expected Growth}}{\text{Return on Equity}} = \frac{6.5\%}{9.66\%} = 67.29\%$$

Table 1. Fundamental Valuation

FREE CASH FLOW TO EQUITY (FCFE) (IDR 000)	2Q12-2Q11
Net Income	237,277,385
(-) Capital Expenditures	1,576,527,258
(+) Non Cash Charges	
Depreciation & Amortization	124,896,847
(-) Change in Non Cash Working Capital	
A1 Current Asset	1,570,781,451
A2 Cash	363,439,411
A3 Current Asset excluding Cash (A1-A2)	1,207,342,040
A4 Current Liabilities	2,007,731,644
A5 Interest Bearing Debts	211,000,000
A6 Current Liabilities excluding Interest Bearing Debts (A4-A5)	1,796,731,644
A7 (+) Change in A3 (year n - year n-1)	893,769,461
A8 (-) Change in A6 (year n - year n-1)	1,580,818,039
Change in Non cash Working Capital	(687,048,578)
δ Debt Ratio	74.00%
FCFE = NI - (Net Capex)(1-δ) - (Change in non-cash WC)(1-δ)	38,469,035
EQUITY REINVESTMENT RATE (ERR)	
A1 Interest Bearing Debt - Current Portion	211,000,000
A2 Interest Bearing Debt - Long Term Portion	1,637,150,322
Total Interest Bearing Debt (A1 + A2)	1,848,150,322
Equity	649,425,481
δ Debt Ratio	74.00%
A3 Net Capex + Change in Non Cash Working Capital	764,581,833
A4 A3 x (1- δ)	198,808,350
Non Cash Net Income	231,008,335
ERR = A4 / Non Cash NI	86.06%
Non Cash Return Of Equity	
Non Cash Net Income	231,008,335
A1 Book Value of Equity Previous Year	346,040,348
A2 Cash / Cash Equivalent Previous Year	174,977,412
A3 A1 - A2	171,062,936
Non Cash Return Of Equity = Non Cash NI / A3	135.04%
Expected Growth Rate in Net Income = ERR * Non Cash ROE	116.22%

In summary, the expected growth rate in net income, equity reinvestment rate, and cost of equity are shown in the Table II:

Table II. Expected Growth Rate, ERR, & Cost of Equity

	High Growth Period (5 year)	Stable Period (perpetuity)
Expected Growth Rate in Net Income	116.22%	6.50%
Equity Reinvestment Rate	86.06%	67.29%
Cost of Equity	7.48%	9.66%

The FCFE each year for the next three years:

Table III. Calculating FCFE during High-Growth Period

	0	1	2	3
Expected Growth Rate		116.22%	116.22%	116.22%
Net Income	237,277,385	513,039,783	1,109,291,637	2,398,503,931
Equity Reinvestment Rate		86.06%	86.06%	86.06%
FCFE		71,512,023	154,622,880	334,324,692
Cost of Equity		7.48%	7.48%	7.48%
Discount Factor	1	0.93043	0.86570	0.80548
FCFE Present Value		66,537,048	133,857,493	269,291,004

The sum of the present value of FCFE over the high growth period is 469,685,545 (IDR 000). The FCFE in year 4:

Table IV. Calculating FCFE in Terminal Period

	3	4
Expected Growth Rate	116.22%	6.50%
Net Income	2,398,503,931	2,554,406,687
Equity Reinvestment Rate	86.06%	67.29%
FCFE	334,324,692	835,603,016
Cost of Equity	7.48%	9.66%

The terminal value of equity is:

$$\begin{aligned} \text{Terminal value of equity} &= \frac{FCFE}{\text{Cost of Equity}-g} = \frac{835,603,016}{0.0966-0.065} = 26,443,133,405 \text{ (IDR 000)} \\ \text{Present value of terminal value of equity} &= \frac{26,443,133,405}{1.0748^3} = 21,299,348,010 \text{ (IDR 000)} \end{aligned}$$

G. The Value of Equity

The value of equity can be obtained by summing the present value of the FCFE in the high-growth period, the present value of the terminal value, and current cash and cash equivalent. The value of equity of the company is 22,132,472,966 (IDR 000). The number of outstanding shares is 45,690,000 shares. Thus, the value of equity per share is 484 (IDR 000), or Rp 484,000,- in full Rupiah.

H. Relative Valuation

The comparable company that is used are PT Sarana Menara Nusantara Tbk., PT Tower Bersama Infrastructure Tbk., and PT Solusi Tunas Pratama Tbk. The equity multiples used to compare the price of the asset are Price-Earnings Ratio (P/E) and Price-to-Book Ratio (P/BV).

The earnings per share of Mitratel in the last four quarters are Rp. 5,193.20. Mitratel value based on comparable companies P/E is shown in the Table V.

TABLE V. MITRATTEL VALUE BASED ON P/E RATIO MULTIPLES

No	Company Name	Symbol	P/E	Mitratel Value
1	PT Sarana Menara Nusantara Tbk.	TOWR	137.94	716,371.19
2	PT Tower Bersama Infrastructure Tbk.	TBIG	34.80	180,726.16
3	PT Solusi Tunas Pratama Tbk.	SUPR	17.65	91,675.64

Based on P/E multiples, the ranges of market value of equity are between Rp 91,675.64 – Rp 716,371.19. The median of market value of equity is Rp. 180,726.16

The book value of equity of PT Dayamitra Telekomunikasi is Rp 649,425,481,000,-, while the outstanding share is 45,690,000 shares. So, the book value of equity per share is Rp 14,123.73. Mitratel value based on comparable companies PBV is shown in the Table VI.

TABLE VI. MITRATTEL VALUE BASED ON PBV MULTIPLES

No	Company Name	Symbol	PBV	Mitratel Value based on respective PBV
1	PT Sarana Menara Nusantara Tbk.	TOWR	12.9	182,867.41
2	PT Tower Bersama Infrastructure Tbk.	TBIG	6.5	91,992.76
3	PT Solusi Tunas Pratama Tbk.	SUPR	2.9	41,522.61

Based on PBV multiples, the ranges of market value of equity are between Rp 41,522.61 – Rp 182,867.41. The median of market value of equity is Rp. 91,992.76.

I. Stock Split Adjustment

The level of price per share based on above valuation is unattractive to be traded in IDX because the price level is too high. Mitratel need to adjust this price level by doing stock split. Based on analysis, the best stock split scenario is 1:20. The price level per share after stock split 1:20 scenario is Rp 24,200,- (DCF value). This price level is attractive enough to be traded in the IDX. TOWR shares are also traded in this level price (in the range of Rp. 17,000 – Rp. 24,000).

J. Share Valuation of Mitratel

The price different between those three values are quite large. Therefore, before concluding which value will be chosen for Mitratel, we will evaluate the different between DCF and Relative Valuation first. In DCF, we look for the intrinsic value of the assets and try to estimate that intrinsic value by looking at an asset’s underlying fundamental. While, in relative valuation, we have given up on estimating intrinsic value and value an asset based on what market perceived it to be worth.

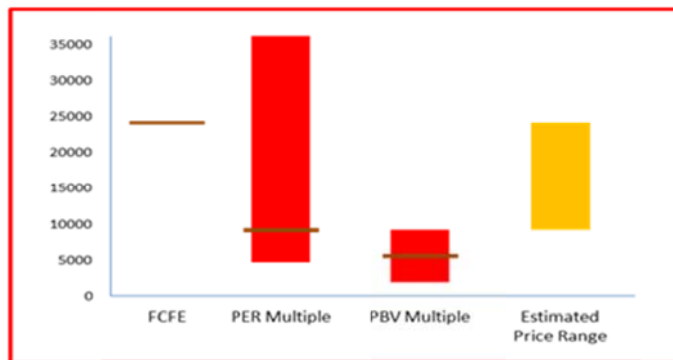


Figure 2. Valuations Summary

Back to Mitratel value calculation, the result imply that the market perceive the value of Mitratel equity below its intrinsic value. This creates a problem for Mitratel. If Mitratel decide to sell its equity per shares based on Relative Valuation, then their value will be undervalued. If Mitratel decide to sell its equity per shares based on FCFE Valuation, then the market may see the value of Mitratel as too expensive and the initial offering may be undersubscribed. Combining all the above valuation methodologies, we estimate the price range of between PER Multiple median and FCFE (Rp 9,036.31 – Rp 24,220.26). However, we consider that Mitratel have a good fundamental and have a very strong tenant profile. Therefore, we estimate that Mitratel can be priced at premium than PER Multiple median. We recommend price between Rp 15,000 – Rp 20,000.

K. The number of shares that will be issued during IPO

The shareholder of Mitratel wanted that the number of shares issued during IPO is the minimum required by IDX. The requirement state that after IPO the total shares owned by non controlling shareholders (minority shareholders) are at least 100,000,000 shares or at least 35% (thirty five percent) of the paid in capital, whichever is lesser. The minimum shares that can be issued by the company while still maintain to comply with the requirement is 100,000,000 shares.

L. Net Proceed

If the company issued 100,000,000 shares at price Rp 20.000,- per share, the proceeds that will be generated from this IPO is Rp. 2.000,000,000,000,-. These proceed will be allocated for Capital Expenditures and Acquisitions.

M. The Analysis of The IPO plan

1. Strategic Dimension

From the analysis above, we can conclude that Mitratel is not mature enough. Mitratel still have much room for growth outside the IPO plan, especially from the unfinished handover process of Telkomsel's tower. Therefore, Mitratel IPO plan can still be delayed further until Mitratel is mature enough. The shareholders of Mitratel also wanted that by the time Mitratel IPO, Mitratel is the leading company in the market. Mitratel will not be the market leader because at the moment TOWR and TBIG are bigger than Mitratel in term of market share and the number of tower owned. Mitratel need to develop its business without using the fund from IPO.

2. Financial Dimension

Mitratel need capital injection. However, Mitratel have the second option to increase its equity, which is by issuing an equity call to Telkom. Mitratel can convert its debt to Telkom into equity and after that raise a new debt to other party or Mitratel can simply ask Telkom to inject new equity capital. Based on Telkom liquidity, Telkom still have cash available to inject a new equity to Mitratel. Equity call has advantages over IPO. The cost to do IPO is higher than equity call. IPO process also more complicated so it takes more time than equity call. Therefore, Mitratel IPO plan can still be delayed.

3. Valuation Dimension

There is large difference of value between FCFE and relative valuation. Underpricing an IPO results in lost potential capital. If Mitratel offered it shares at a higher price than the market will pay, underwriters may have trouble meeting their commitments to sell shares. Even if they sell all of the issued shares, the stock may fall in value on the first day of trading. If so, the stock may lose its marketability and its value. Attempt to reach an offering price that is low enough to stimulate interest in the stock, but high enough to raise an adequate amount of capital for the company is become complicated. This shows that the timing of the IPO is less appropriate to be done at the near future because the market is not ready.

4. Conclusion

Based on the DCF Valuation, using two stages FCFE Method, the value of Mitratel is Rp. 24,220.26,-. While based on Relative Valuation, PER Multiple results Mitratel value between Rp 4,583.78 to Rp 35,818.55, with median Rp 9,036.31. Relative Valuation using PBV Multiple results Mitratel value Rp 2,076.13 to Rp 9,143.37, with median Rp 4,599.64. Combining both valuation method, while

considering the fundamental and the industry analysis, we recommend price between Rp. 15,000 to Rp. 20,000 per share.

However, the large differences of value between FCFE and relative valuation shows that market perceive the value of Mitratel equity below its intrinsic value. Strategic and financial analysis also shows that the IPO can be delayed further in the future. We recommend that Mitratel hold its IPO plan. For the need of capex funding, Mitratel can ask equity call to Telkom.

References

Damodaran, Aswath, 2006, Damodaran on Valuation : Security Analysis for Investment and Corporate Finance, 2th ed., Canada, Wiley Finance Series
PT Dayamitra Telekomunikasi Annual Report, unpublished document.