Strategic Valuation and Benchmarking Analysis of PT. Nusantara Turbin dan Propulsi

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Abstract. Companies will have to adjust responsively to cope with relentless competition in today's market. Some strategies and tactics needs to be reviewed so that it could be applied in any specific situation, one of which is corporate restructuring. This research chose PT. Nusantara Turbin and Propulsi as the object of research. PT. Nusantara Turbin dan Propulsi (PT. NTP) is an aero engine and industrial turbine Services Company that based in Bandung, Indonesia. The company has been discussing issues about corporate strategy especially in finance sector. One of the possible strategic improvements is by doing Initial Public Offering (IPO). In this research, writer will help the company to calculate value of the firm as the first step on determining fair price of their stock. Other thing that PT. Nusantara Turbin dan Propulsi needs to observe is to analyze their current financial performance. Analyzing surrounding environment will be needed for company to learn about their competitors and trends in market. In that case, writer will also perform Benchmarking Analysis to enrich this research. By doing so, company will get illustration in which aspect of its performance that already eminent or even fall behind contrast to surround industrial condition. Benchmarking Analysis will be helpful to support valuation analysis and also give recommendation to company about which aspect they need to improve. Writer used Discounted Cash Flow method based on theories from Aswath Damodaran. In doing calculation writer categorized the free cash flow forecast into two scenarios which are conservative and optimistic. For the optimistic scenario the value of the firm is IDR 1,895,488,105,171. In other hand, for the conservative scenario the value of the firm is IDR 287,578,774,664. The company could use this valuation result as a based on determining fair price for their Initial Public Offering. For the benchmarking analysis, writer performs Intra Industry Analysis and Inter Industry Analysis. Both learning conclude that PT.NTP not yet perform maximally and still below their main competitor however the company is expected to grow in the future with their good percentage of growth on their Return on Equity.

Keywords: Valuation, Benchmarking Analysis, MRO Company

1. Introduction

These days the levels of competition on any business industries are escalate dramatically due to many aspects. Companies will have to adjust responsively to cope with relentless competition in today's market. Some strategies and tactics needs to be reviewed so that it could be applied in any specific situation, one of which is corporate restructuring. Since market become so volatile these days, each company has to search for best strategies that fit in certain condition based on their company performance. In this thesis, writer will focus on PT. Nusantara Turbin and Propulsi as the object of research. PT. Nusantara Turbin dan Propulsi (PT. NTP) is an aero engine and industrial turbine Services Company that based in Bandung, Indonesia. It is a developing national company that aims to become market leader in its business sector. In PT. NTP case, the company has been discussing issues about corporate strategy especially in finance sector. Having the current condition, the company wants to improve their financial performance. The company targeted to gather more capital by initiating to put company stock into public or usually named Initial Public Offering (IPO). Other thing that PT. NTP needs to observe is to analyze their current financial performance. They must to analyze surrounding environment to learn about their competitors and trends in market. To help PT. NTP collect valid information before decide to implement the corporate strategy, writer will seek to calculate and analyze company condition by conduct valuation and benchmarking analysis. Valuation analysis performed the get numbers of how much is the actual value of the firm. Benchmarking analysis is comparison between

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companies with other company. In this case, benchmarking will be helpful to support valuation analysis and also give recommendation to company about which aspect they need to improve.

2. Literature Review

Valuation is a method of estimating economic value of an asset or capital. Business valuation is hence a process and a set of procedures used to estimate the economic value of an owner's interest in a business (Damodaran, 2006). In this research writer will only take focus on financial valuation. In finance, valuation is the process of estimating what something is worth. Valuation has many roles in finance. One of which is for Corporate Finance to determine company strategy. This research will used Discounted Cash Flow model as the main method. Method that relates value of an asset to the present value of expected future cash flow on that asset. In discounted cash flows valuation, the value of an asset is the present value of the expected cash flows on the asset, discounted back at a rate that reflects the riskiness of these cash flows. This approach gets the most play in industry and comes with the best theoretical qualifications. (Damodaran, 2006)

Benchmarking is process of comparing business process and performance with other business in the same or other industries. Usually benchmarking target are chooses from "best practices" business so that company who do the benchmarking could gain recommendation to improve their performance. Benchmarking divided into lot of types, but in this thesis writer will be focuses on financial benchmarking. Financial benchmarking is performing a financial analysis and comparing the results in an effort to assess ones competitiveness and productivity. On doing financial benchmarking, one of the methods is comparing profitability ratio from each company. (Hunger & Wheelen, 1999)

3. Methodology

Free Cash Flow will be used as one of the ingredients to calculate the value of the firm. Free Cash Flow is cash flow that available to distribute among securities holders of an organization including equity holders, debt holders, preferred stock holders, and so on. It is used on DCF method because it represents the net cash flow of the company after being reduced by other planned expenditure (Damodaran, 2006).

Free Cash Flow = EBIT (1-Tax Rate) + Depreciation & Amortization – Changes in Working Capital – Capital Expenditure

Discounted cash flow (DCF) analysis is a method of valuing a project, company, or asset using the concepts of the time value of money. In valuation, discounted cash flow is a method to calculate current value of the firm using future cash flow that discounted into present time. According to Aswath Damodaran, the formula of discounted cash flow valuation is

Value of firm = Value of Operating Assets + Cash & Non Operating Assets

In calculating valuation it will also need to discounted terminal value which represents constant cash flow from the end of period until infinite time. Terminal Value is the present value at a future point in time of all future cash flows when we expect stable growth rate forever.

$$\text{Terminal Value} = FCF \frac{n+1}{(r-gn)}$$

4. Result and Discussion

4.1. Valuation Analysis

First topic that will be calculated in thesis is Valuation Analysis. The value of the firm computed from the forecast of company's free cash flow for next 5 years. All of the free cash flow are discounted into present value and sum up with discounted terminal value to get the estimation of firm's value. Writer categorized the forecast into two scenarios which are conservative and optimistic. For the optimistic scenario, writer estimate future financial performance based on company's sales projection. Otherwise, the

conservative scenario used the compound annual growth rate (CAGR) based on historical financial data of the company.

There are three initial component that need to be calculated which are WACC, NWP and CAPEX. In this thesis, Weight Average Cost of Capital (WACC) is used as the discount rate to calculate value of the firms. The amount of WACC is calculated as follow.

WACC = Cost of Equity x Weight of Equity + Cost of Debt x Weight of Debt x (1-T)

= 15.35 % x 86.47 % + 5.5 % x 13.53 % (1 - 25.00%) = 13.83%

Net Working Capital (NWP) is calculated by summing accounts on current assets (accounts receivable, and inventories) and then reduces it with account on current liabilities (accounts payable). Capital Expenditure (CAPEX) computed by find out difference between increase on total assets and increase on total liabilities each year.

4.1.1 Conservative Scenario

To create forecast for conservative scenario, writer used Compound Annual Growth Rate (CAGR). It is calculate based on PT. NTP historical financial data in year 2007-2011. The growth analysis will focus on sales aspect because it is assumed to represent company performance and influenced changing in other aspect. CAGR calculate by following formula:

$$CAGR = ((\frac{EndingValue}{BeginningValue})^{\frac{1}{NumberofYears}}) - 1 = 4.47\,\%$$

The Pro Forma Balance and Pro Forma Income Statement are calculated by compounding historical data with CAGR. Table below will show the calculation of value of the firm (on thousands IDR).

Table 1 Free Cash Flow Conservative Scenario

	2012	2013	2014	2015	2016
Operating Income	49,750,758	51,974,316	54,297,253	56,724,011	59,259,231
Tax Payment	(12,437,690)	(12,993,579)	(13,574,313)	(14,181,003)	(14,814,808)
Operating Income After Tax	37,313,069	38,980,737	40,722,940	42,543,008	44,444,423
Depreciation	1,418,714	1,482,122	1,548,364	1,617,566	1,689,861
Operating Cash Flow	38,731,783	40,462,859	42,271,303	44,160,575	46,134,285
Change in Net Working Capital	(9,070,073)	(9,475,505)	(9,899,060)	(10,341,548)	(10,803,815)
Capital Expenditure	(2,471,886)	(2,582,380)	(2,697,812)	(2,818,404)	(2,944,387)
Free Cash Flow	27,189,824	28,404,974	29,674,431	31,000,622	32,386,083

After sum up all discounted free cash flow and terminal value, the Value of the Firm for conservative scenario is IDR 287,578,774,664.

4.1.2 Optimistic Scenario

To create forecast for optimistic scenario, writer used PT. NTP target sales projection for 2012-2016. Table below will show the calculation of value of the firm (on thousands IDR)

After sum up all discounted free cash flow and terminal value, the Value of the Firm for optimistic scenario is IDR 1,895,488,105,171.

4.2. Benchmarking Analysis

The last part of this chapter discussed about Benchmarking Analysis. PT. NTP need to execute Benchmarking Analysis in order to improve their performance based on the comparison with superior competitor.

4.2.1 Intra Industrial Benchmarking Analysis

On this type of benchmarking, writer compared PT. NTP financial performance with its competitor in the same industry. In local aircraft engine maintenance industry, the main competitor of PT. NTP is PT. Garuda Maintenance Facility AeroAsia (PT. GMF AeroAsia). Below are the financial ratio data of both companies from 2006-2010:

Table 3 Profitability Ratio PT. NTP and PT. GMF

Ratio	PT. NTP	PT. GMF	PT. NTP	PT. GMF	PT. NTP	PT. GMF
	2010		Growth 2006-2010		CAGR 2006-2010	
Gross Profit Margin	19.26%	20.76%	-33.52%	-18.42%	-9.71%	-4.96%
Operating Profit Margin	5.20%	3.62%	-44.15%	-50.16%	-13.54%	-16.00%
Net Profit Margin	0.76%	1.90%	-80.16%	-48.15%	-33.22%	-15.12%
Return on Asset	0.37%	1.98%	-80.73%	-58.49%	-33.54%	-19.69%
Return on Equity	0.48%	6.28%	-78.18%	-58.36%	-31.63%	-19.67%

Based on the table, PT. NTP are lacking in all of ratio except Operating Profit Margin. Same thing also happen in growth of performance in 2006-2010.

4.2.2. Inter Industrial Benchmarking Analysis

In this part, the benchmarking analysis will match up PT. NTP with companies from different industries. The purpose of this analysis is to find out if the aircraft maintenance industry, represented by PT. NTP, is interesting and profitable from the point of investor's view. This benchmarking analysis will be done by comparing PT. NTP with 4 other companies. Two companies that going to be evaluates come from services industry and other two companies come from products industry. Writer will compared financial aspect which represented by Return of Equity ratio and also market aspect which represented by company's sales level.

Table 4 Benchmarking Comparison

| Company	Sector	Performance (2011)		CAGR of ROE (2007-2011)
		Financial (RoE)	Market (Sales)	
PT. NTP	Aircraft Maintenance Service	3.51%	IDR 214,552,933,491	56.57%
Service Sector				
TELKOM	Telecommunication Service	23.10%	IDR 71,918,000,000,000	-12.38%
GARUDA	Air Transport Service	10.88%	IDR 27,165,000,000,000	89.71%
Non Service Sector				
UNILEVER	Consumer Good	113.20%	IDR 23,469,000,000,000	11.59%
HM Sampoerna	Tobacco	79.19%	IDR 52,856,708,000,000	10.69%
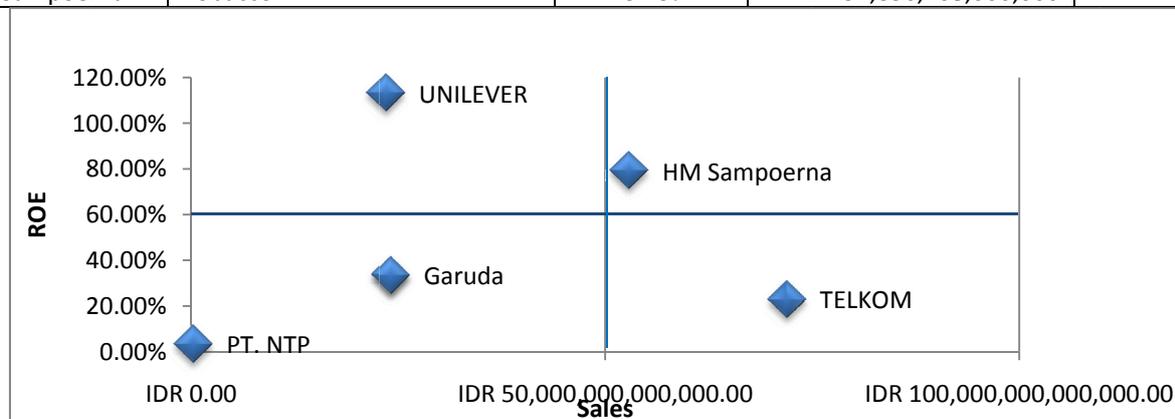
Figure 1 Benchmark Mapping

5. Conclusion

Based on the calculation writer comes up with the estimation of firm's value. For the optimistic scenario the value of the firm is IDR 1,895,488,105,171. In other hand, for the conservative scenario the value of the firm is IDR 287,578,774,664. The company could use this valuation result as a based on determining fair price for their Initial Public Offering. From Benchmarking Analysis, it is illustrate that PT. NTP financial performance is below its competitor. Compared to main competitor in same industry, PT. GMF, PT. NTP is still lacking in many aspect of profitability ratio. Moreover, compared to companies in other industry, PT. NTP also not yet become a considerable company. However based on the CAGR of ROE it is shown that the company have second highest percentage of 56.57%. It means that PT. NTP expected to be grown in the future.

6. References

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Table 2 Free Cash Flow Optimistic Scenario

	2012	2013	2014	2015	2016
Operating Income	80,536,953	154,145,979	211,920,934	260,929,468	302,961,819
Tax Payment	(20,134,238)	(38,536,495)	(52,980,234)	(65,232,367)	(75,740,455)
Operating Income After Tax	60,402,715	115,609,485	158,940,701	195,697,101	227,221,364
Depreciation	19,149,780	21,569,780	22,696,893	23,824,007	24,951,120
Operating Cash Flow	79,552,495	137,179,265	181,637,594	219,521,107	252,172,484
Change in Net Working Capital	90,378,585	(43,663,650)	(46,651,251)	(40,612,586)	(36,248,937)
Capital Expenditure	(88,723,292)	34,017,493	28,382,465	23,099,955	22,307,433
Free Cash Flow	81,207,788	127,533,108	163,368,807	202,008,476	238,230,979