

**VALUATION OF PT. ASTRA AGRO LESTARI SHARE PRICE USING *DISCOUNTED*
CASH FLOW METHOD**

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ABSTRACT

This study was conducted to determine the intrinsic value of PT. Astra Agro Lestari (AALI) share price by using Discounted Cash Flow Method. This study uses a top-down analysis approach where the method starts with the macroeconomics analysis and proceed with the analysis of the company, analysis of financial projections for the next five years and finally analyzes the determination of the intrinsic value of company share price with different basic assumptions. The results of calculations with the Discounted Earnings Approach valuation indicates that the intrinsic value of stock AALI today is Rp. 29,404 in which by comparing these results with the closing price of Rp 25,800 implies the current stock is undervalued.

Keywords: *Stock Valuation, Fundamental Analysis, Discounted Cash Flow Approach.*

Introduction

According to Reuters during the past decade Indonesian economy shows a tremendous performance with its robust and resilient GDP growth of more than 5 percent per annum. As the economy consistently growing, this leads to massive improvement in every sector in the country and finally provides businesses and enterprises to grow in the foreseeable future. The economic progress is reflected with the positive trend in Indonesian Stock Exchange (IDX) performance in the earlier January 2014. In accordance to Bloomberg, Indonesian Stock Indices or Indeks Harga Saham Gabungan (IHSG) grows significantly to 4,454 from around 4,274 at the end of December 2013. This trend is expected to progress as many analysts believe that Indonesia's economy still move in the positive direction as a result of election year in 2014 and the positive sign of global economy drivers such as Japan and United States. Massive capital inflow to the country as a result of improvement in Indonesian Bond Rating into Investment Grade from several credit rating agencies such as Moody's and Fitch boosted investors' confidence to invest in the country. Going forward, this phenomenon continues to drive the increasing shares prices being listed in Indonesia Stock Exchange (Reuters, 2013).

The bullish trend in the market surely makes investors difficult to recognize whether some shares are still suitable to complements investors portfolio due to the fact that Indonesia stock market is still considered inefficient. Therefore, it is highly required to determine whether the intrinsic value of share is correctly priced or mispriced in order to identify which stocks are worth buying. The enterprise value can be reflected from its intrinsic share price which essential for both shareholders and stakeholders in deciding strategic corporate actions in the long term. It is an obligation for all stakeholders who have been given trust by shareholders to give the optimal return and finally maximize the shareholders wealth through the increasing share value. Information regarding the share price of a company is truly required by the investors as guidance in giving investment recommendation on stocks or even in deciding the potential merger and acquisition.

In fact that Indonesian stock market is still considered inefficient where the current market price of shares is not reflecting the true fair value of a company. Thus, a comprehensive fundamental analysis and appropriate valuation method is essentially required in calculating the true intrinsic value of a company share. One of the most widely-known as accurate and reliable method in predicting the share value is fundamental analysis in which a comprehensive analysis is done on the company performance, industry outlook, competitive positioning and the macro economy conditions. In addition, an appropriate method of valuation is also needed in identifying the true intrinsic value of a company share. Discounted

Cash Flow (DCF) approach is one of reliable method in valuing the share price through the projections of company Free Cash Flow (FCF) in the long term.

In accordance to Indonesia Statistic Agency or BPS data in 2013 shows that agribusiness and plantation industry is one of the most important sectors to Indonesian economy which contribute 24 percent of the total GDP. Indonesia is the largest palm oil producer in the world, in which making it as vital sector to country and finally the stocks from plantation sectors is preferable among investors in the market. Several company shares from plantation sectors are among top performing and preferred stocks by investors which include in LQ 45 (the market indices for top 45 largest market capitalization and most traded stocks in IDX) such as PT. Astra Agro Lestari Tbk (AALI), PP. London Sumatera Indonesia, Tbk (LSIP) and PT. BW Plantation, Tbk (BWPT).

In studying the valuation method for agribusiness sectors, this research selects the case study on PT. Astra Agro Lestari Tbk (AALI.JK). PT. Astra Agro Lestari Tbk is the largest agribusiness company listed in Indonesia Stock Exchange (IDX) measured by market capitalization .Based on Reuters data, in 2013 AALI occupies the first position when it passed through PT.London Sumatera Tbk (LSIP.JK) and PT. BW Plantation Tbk (BWPT) with a total capitalization of Rp 37 trillion. As the largest plantation company in terms of market value followed with strong fundamental as well as higher liquidity, the company become the top stock list of investor portfolio and the hottest equity research object by almost analysts in the capital market. Therefore, a reliable and valid valuation method is required in order to determine the target price of AALI share.

Research Objective

The research aim to give AALI stock valuation and price target as well as recommendation to investor based on its fundamental analysis.The overall purpose of this thesis is to determine the fair value of the AALI stock through a strategic and financial analysis of the corporation. This leads to the following problem statement:What is the fair value of the AALI stock on January 16th 2015 (Target Price in next 12 months)

Literature Review

According to Fama (1970), the intrinsic value of company shares is the reflection of all the information in the company. Share price can be estimated through several valuation methods. Myer (1977) asserts that the share price can be forecasted from the present value of its predictable cash flows plus the value of rights or options embedded in the company. In

addition, valuation's methods vary in regards to the complexity of approach and the nature of business models. According to Samsul (2006), there are several common methods in which widely used in equity valuation such as Discounted Earnings Method, Relative Valuation Method and Factor Model Approach. Discounted earnings method is classified into two model such as earning approach and dividend approach. Relative approach is divided into Price Earnings Ratio (PER), Price to Book Value Ratio (PBR) and Price Dividend Ratio. Factor model is categorized into single factor, single index model and multifactor model. According to Manurung (2011), there are several types of approach can be utilized in conducting valuation such as discounted earnings method which can be calculated from earnings and dividend. Earnings approach is the first approach being introduced as it believes that the company will be going concern means that the company always strives to get earnings. One of the basic foundations in earnings approach is present value principle in which the value of earnings is the present value from the expected future earnings of the company. In addition, the earnings approach has four types of method such as discounted earnings, EBITDA approach, Price Earnings Ratio (PER) approach and free cash flow approach.

DCF is a simple and widely known method of discounting the value of expected future cash flows back to present value as a function of the time value of money and risk reflected in the discount rate. Essentially, the DCF equation answers the question: What is the value of future cash flows expressed in terms of today's present value? Evaluating two or more assets after adjusting each for the impact of both time and risk enables the decision maker to compare the assets on equal grounds in terms of present value and was widely considered to be one of the most important contributions to modern finance throughout history. Still to this day, various DCF techniques are considered to be an integral component of modern day finance evidenced by Higgins (1998) stating that "Indeed, it is not an exaggeration to say that discounted cash flow analysis is the backbone of modern finance and even modern business". The discounted cash flows method according to Siegel (1985) was first developed by Williams (1938) and later refined in the context of corporate finance by Gordon (1962). The DCF method of valuation popularized by Gordon (1962) has remained the single most popular method of valuation among finance professionals for the past four decades (Siegel 1985; Higgins 1998).

Following the work of Gordon (1962), a host of modifications to the traditional DCF model evolved. To illustrate, Fernandez (2002) compiled a list of ten versions of cash flow discounting models that can be used to value investments including, free cash flow, equity

cash flow, capital cash flow, adjusted present value, risk adjusted cash flow, risk-free adjusted, economic profit and economic value added. Applying each model to one specific company for the purpose of valuation, Fernandez (2002) demonstrates that each model performs similarly since each method analyzes the same basic reality under the same circumstances with the only difference being the starting point of the cash flows.

This valuation method is applied to estimate the value of a firm or an asset. It uses future cash flows projections and discounts them with a suitable rate in order to calculate the present value of the target. In a simple illustration, a company's value is equal to all the cash they have that could make future investment and generate more money. However, cash in the future always worth less than cash today due to the inflation. As the result, the net present value should be multiplied with a discounted factor. There are three pathways to carrying on DCF valuation approach: classic DCF valuation, adjusted present value approach and excess returns approach. The classic DCF valuation is considered to be the most popular one due to its ease. Analysts simply discount cash flows (to firm or equity) at the appropriate discount rate (cost of capital or cost of equity). The sum of net present value of the cash flows is the value of equity or firm. The effects of debt financing are built either into the cash flows in equity valuation or into the cost of capital in firm valuation.

Refer to Manurung (2011) research on valuation in *Valuasi Wajar Perusahaan*, Discounted Cash Flow model based on the discounted earnings approach is done by analyzing the free cash flow of a company. Free cash flow is the summation of the cash flow from operations and cash flow from investing activities. To understand the essence of cash flow in the company is very important in determining the company expected cash flow. Cash flow itself is categorized into cash inflow and cash outflow. Cash inflow said to be positive indicator as it is cash coming from company revenue streams as a result of effective business operations. Meanwhile, the cash outflow accounted as negative as it is cash paid out by a company to sustain its operation in the future for example investment and expenditure. The statement of cash flow from the company financial report is an obligation from the regulator to make sure that investors recognize the cash flow of a company from its operation, financing and investing activities.

There are several activities affecting the company cash inflow such as income streams from company business operations, additional financing to company business operations, issuance of company new shares, and income from asset's sale activities such as property, factory, land, inventories and other type of assets. The cash inflow and cash outflow in the company can be categorized into three characteristics of cash flow activities such as cash flow from operations, cash flow from investing activities and cash flow from financing

activities. According to Anthony, et al (2007) asserts that the cash flow calculation can be performed through direct method and indirect method or reconciliation method. Direct method is done by directly calculated the total of cash inflow and cash outflow in the company. Currently, the regulators expect the company to provide this direct method of cash flow calculation in the financial report. However, the company should also provide the reconciliation from net income and cash flow from operations in the separate financial report.

Meanwhile, indirect method is done through the indirect calculation in which very distinctive and difficult to understand compare to direct method. The indirect method started with the net income calculation to be added with non-cash expenses such as depreciation/amortization and additional working capital. As the free cash flow is the difference of the cash flow from operations and cash flow from investing, thus when there is a surplus in free cash flow or positive free cash flow, it can be used to other investments such as financial instruments. If the free cash flow is negative or deficit, the company should finance it through the bond issuance or new shares issuance in order to net off the deficit. The calculation on company value with free cash flow approach states that the value of company is the cash flow into the company as long as it operates. The future net cash flows of company are defined as the true value of the company. According to Damodaran (2002), the calculation on company value with discounted cash flow approach can be done by two form of model, first is free cash flow and second is free cash flow to equity of FCFE. Finally, due to its comprehensiveness in valuing the company future cash flows and appropriate approach to AALI business model, hence the author focuses the AALI stock price valuation with Discounted Cash Flow (DCF) model valuation.

Manurung (2011) asserts that the valuation method with discounted earnings approach lay on the principle of “going concern”. Going concern principle believes that the company is assumed to operate its business in the foreseeable future and will always make earnings. In other words, the true value of a company share is measured by the capability of company to create earnings in the future. This obliges investors to conduct appropriate valuations in determining the present value of company future earnings. The calculation of earnings approach model as follows:

$$P_0 = (E_1 / (1 + r)^1) + (E_2 / (1 + r)^2) + (E_3 / (1 + r)^3) + \dots + (E_n / (1 + r)^n) \dots\dots(1)$$

Description:

P_0 = Share price in period 0

E_n = Company earnings in period n, n = 1, 2, 3...

r = Cost of Capital / WACC

In Discounted Earnings Method, the analysis focuses mainly on the company financial evaluation. This financial analysis is conducted by evaluating the company financial statement since it provides the company information in quantitative basis. According to White et.al (2003) asserts that there are three type of company financial report such as Balance Sheet, Income Statements and Statement of Cash Flows.

Another approach in conducting equity valuation is relative valuation in which this approach compares the assets value or the relative assets value of a company against its peers in similar industry or sector. The relative valuation approach focus on the numbers of factors from the financial statement of the company in which several ratios and financial indicators are used as the multiples such as earning per share (EPS), book value of equity, sales, etc. one of the most widely used model in relative valuation approach is price-to book value ratio (PBV). This model utilizes book value as multiples in which by distribute equity value with the number of outstanding shares. PBV ratio is commonly used by analysts in valuing banking industry as a relative valuation method. Book value of a bank is an appropriate indicator in determining the intrinsic value of enterprise since mostly bank's assets are in form of bonds or commercial loans and securitized assets where the values similar to its book value (Reilly and Brown, 2006).

This is the formula used in the calculation of PBV:

$$PBV = \frac{P_0}{BV} \dots\dots\dots(2)$$

Description:

P0 = Share Price

BV = Book Value of Equity

In this thesis, the author intend to test AALI stock price with Discounted Earnings approach specifically with Discounted Cash Flow (DCF) model. The reason why choosing DCF model due to its alignment with AALI business model which suits to valuate in cash basis method. Most tests of DCF models have been done byusing dividend discount models.However, in this research, DCF method chosen as the ideal method for analysis since it is more appropriate to the nature of plantation business where it relies on the long term investment which is plantation as the future generating cash flow investment. On top of that, in agribusiness sectors where AALI operate, not all the companies distribute the dividend payment consistently to its investors which make it difficult to analyze with dividend model.

In addition, the literature review actually seeks to provide an overview of the DCF valuation method used for the purpose of cash flow projections and value estimator.

In investments, it is impossible to get rid of all the risk. As investors, it deserves a rate of return that compensates for taking on risk. The capital asset pricing model (CAPM) helps to calculate investment risk and what return on investment should expect. The capital asset pricing model was the work of financial economist William Sharpe, set out in his 1970 book "Portfolio Theory and Capital Markets." His model starts with the idea that individual investment contains two types of risk: First, Systematic Risk, these are market risks that cannot be diversified away. Interest rates, recessions and wars are examples of systematic risks. Second, Unsystematic Risk, also known as "specific risk," this risk is specific to individual stocks and can be diversified away as the investor increases the number of stocks in his or her portfolio. In more technical terms, it represents the component of a stock's return that is not correlated with general market moves.

Modern portfolio theory shows that specific risk can be removed through diversification. The trouble is that diversification still doesn't solve the problem of systematic risk; even a portfolio of all the shares in the stock market can't eliminate that risk. Therefore, when calculating a deserved return, systematic risk is what plagues investors most. CAPM, therefore, evolved as a way to measure this systematic risk.

Sharpe found that the return on an individual stock, or a portfolio of stocks, should equal its cost of capital. The standard formula remains the CAPM, which describes the relationship between risk and expected return. Here is the formula:

$$r_a = r_f + \beta_a (r_m - r_f) \dots \dots \dots (3)$$

Description:

($r_m - r_f$) = Equity market premium

r_f = Risk free rate

β_a = Beta of stock

r_m = Expected market return

Discount Rate Estimation

In conducting valuation with discounted earnings approach, the discount rate is required to calculate the present value of future expected cash flow from the company operations. Discount rate used in this discounted earnings approach is Weighted Average Cost of Capital (WACC).

Cost of Fund

Cost of Fund (K_d) is the cost which company should pay from its liabilities or debts. Generally, the cost is paid in the form of interest's fee and interest rate is determined by

the creditors. The interest rate is charged in accordance to several factors such as interest rate in the market and default risk factor. Due to the difference of total debt and interest, therefore the cost of fund is proportionately measured by its weighted average cost of fund.

Cost of Equity

Cost of Equity (Ke) is the expected rate of return from the company share. Investors usually expect the return from the investment being made in the company shares. One of the most common ways in calculating cost of equity is by using Capital Asset Pricing Model (CAPM). This is the formula used in the calculation of cost of equity (Ke) with CAPM:

$$K_e = R_f + \beta \times (R_m - R_f) \dots\dots\dots (4)$$

In accordance to formula above, there are three data required as the input in CAPM calculation, such as:

1. Risk free rate (Rf)

Risk free rate is the rate of return from the risk-free investing instrument. Risk free investment is the government financial assets such as treasury bills or Sertifikat Bank Indonesia (SBI), government bonds or Surat Utang Negara (SUN) which have low probability of default.

2. Beta (β)

Beta measures the sensitivity of share to the systematic risk. In CAPM, the systematic risk is defined as the market risk as a whole. In line with the concept of “higher risk higher return”, therefore beta also can measure the relationship between the company stock return and the market return.

3. Risk Premium (Rm-Rf)

Risk Premium is the difference of the average return of market and the average return of risk free asset. According to Damodaran (2002), the rate of risk premium of each country is not similar as a result of different macro economy conditions, political risk, and market structure. In calculating CAPM, the difference in each country risk can be accommodated by adding the country risk premium, where the additional premium to offset the unique risk from each country.

4. Weighted Average Cost of Capital

Weighted Average Cost of Capital (WACC) is the average weighted of the whole capital injected in the company includes cost of debt and cost of equity.

The formula used to calculate WACC as follows:

$$WACC = K_e \times \frac{E}{(D+E)} + K_d \times (1 - T) \times \frac{D}{(D+E)} \dots\dots\dots (5)$$

Description:

Ke = Cost of Equity

Kd = Cost of Debt

T = Tax rate

$\frac{E}{(D+E)}$ = Equity Proportion

$\frac{D}{(D+E)}$ = Debt Proportion

Data Collection Method

The thesis is written from an investor's point of view and this implies that only publicly available information will be applied in the thesis. As the valuation of AALI consists of both financial and strategic aspects the data applied will be both quantitative and qualitative. The primary sources of information are the annual reports of AALI and its competitors, which are supplemented with the company web sites, statistical data, articles from journals and newspapers as well as professional market reports create the foundation for a solid knowledge on AALI and the plantation industry in general. The study trails the previous five years financial performance and focuses on the five years duration of financial projections starting from 2014 to 2018. The source of data used in this study is secondary data as it is obtained indirectly from data source center such as Thomson Reuters and other medias as follows:

- a) Financial Report and Annual Report of PT. Astra Agro Lestari, Tbk in period of 2009-2013.
- b) Share price quote of PT. Astra Agro Lestari, Tbk with tickers AALI for five years period (2009-2013).
- c) Indonesian Stock Indices or Indeks Harga Saham Gabungan (IHSG) data in the same period of year (2009-2013) in order to compare the share performance of AALI with market performance.
- d) Variable data such as Macro economy indicators (interest rate, GDP growth, inflation, SBI rate and exchange rate) and industry productivity.

Method of Analysis

In this research, the selection method of a company is by purposive sampling method/non-probability sampling which means that selecting PT. Astra Agro Lestari, Tbk. do not take into account the principle of probability, and only seeing the factors from the data with the purpose of research. The reason to choose AALI as the sample on this study because AALI share include in LQ45 indices where the company shares is categorized as liquid shares, mostly traded in large volume as well as one of the largest company in terms of market

capitalization. Thus, the result on this study is not the reflection to other companies in same sectors or even across industry.

Phase of Fundamental Analysis

There are several steps in conducting the fundamental analysis and valuation on this study:

- a. First, conducting global macro economy analysis which affects the industry and company performance in this case is AALI.
- b. Second, doing industry analysis in which AALI include in the agribusiness and plantation industry. Industry analysis is conducted with Michael Porter theory, five forces model of competition, plantation industry analysis, and several financial indicators analysis.
- c. Third, conducting company analysis such as financial performance analysis, key ratios analysis and financial projections analysis in which to be assumed based on the macro economy and industry conditions.
- d. Fourth, conducting cost of capital/WACC calculation.
- e. Fifth, determining the share price target with valuation calculation by conducting Discounted Earnings Approach (DCF).

RESULT ANALYSIS AND DISCUSSION

Global and Indonesia's Macro Economy Analysis

The global economy is on the rising trend in 2013 and continues to move forward as the macro economy indicators show a positive sign. According to International Monetary Fund (IMF) in World Economic Outlook (WEO) 2014, global economy growth is projected to strengthen to 3.6 percent in 2014 and then to increase further to 3.9 percent in 2015 (See table 1IMF World Economic Outlook 2014). A major impulse to global growth has come from the United States, whose economy grew at 3¼ percent in the second half of 2013, stronger than expected in the October 2013. Growth in other advanced economies is also projected to strengthen moderately in 2014–2015, as a result of inclining momentum in 2013. GDP growth in the global key drivers such as Japan, Emerging Asia and Advanced Europe remain on the rising trend. Growth in Japan is expected to moderate, mostly as the result of a modest fiscal drag. Among emerging market economies, growth is projected to remain robust in emerging and Developing Asia and economy to recover in Eurozone drive by the Germany and France as the main contributor.

Many analysts believe that Indonesia economic growth is bouncing back in 2014 as a result of the election year in 2014 and declining in the current trade deficits. Bank Indonesia forecasts that Indonesia GDP growth may increase to 5.86 percent in 2014 from 5.71 percent in 2013 (Bank Indonesia). Getting election boost in 2014, though trending down, due to subsidized fuel price hike and efforts to curb current account deficits in 2013-2014 via monetary tightening. Non-food spending may still provide support, albeit investments may grow slower. Headline inflation returning to normal after temporary pick up in 2013, following administered and food prices hike. The ex-gold core inflation is seen rising lately indicating pressure coming from Foreign Exchange (FX) depreciation. Policy rate has been raised by 175 bps in 2013 in response to the higher inflation rate due to energy subsidy reforms and efforts to close the perception gap. Current Account deficits expected to shrink, as exports rises slowly with commodity prices stabilizing and slightly up. Balance of Payment may still be in surplus despite some temporary outflows of capital. BI balancing FX intervention and keeping FX reserves.

AALI Overview and Business Description

PT. Astra Agro Lestari Tbk is Indonesia's largest agribusiness company by market value. AALI is a leading palm oil producer in Indonesia, established since 33 years ago and headquartered in Jakarta. AALI deliver high quality palm oil products (CPO) to fulfill the domestic and export markets. AALI, majority-owned by diversified conglomerate Astra International, the largest diversified conglomerates in Indonesia. Astra Agro Lestari is financially sound and has a strong presence in domestic market as well as benefit from Indonesia's economic growth, natural resources and infrastructure development. After the long journey through acquisitions, mergers, and development, AALI has assets of Rp 14.96 trillion by the end of 2013. Currently, AALI manages the total of 281,378 ha of oil palm plantations, which consist of 220,021 ha of nucleus estates and 61,357 ha of plasma estates. In order to operate, AALI employs 29,766 permanent employees in Jakarta, Sumatra, Kalimantan and Sulawesi. AALI has been public listed in Indonesia Stock Exchange (IDX) since 1997. Currently public investors holding are 20.32% of the shares. Since the Initial Public Offering (IPO) in 1997, AALI shares prices have been steadily increasing from Rp 1,550 per share to Rp 25,100 per share at the end of IDX trading in December 2013 (Company Annual Reports).

The outlook for 2014 remains positive, despite heightened competition in the agribusiness market and weak rupiah concerns about possible increases in interest rates as well as inflation remain. AALI's CPO production increase 4.1%, reaching 1.39 million tonnes. The increase of AALI's CPO production until November 2013, is driven by the increase of November 2013 production amounting 155,321 tonnes. Thus, AALI's CPO production until November 2013 reaches 1.39 million tonnes or increase by 4.1% compared to the same period last year. Rising production trend in November 2013 also occurs in AALI's kernel production which reaches 296,886 tonnes or increase by 1.3% from 293,155 tonnes in 2012.

The challenging year of 2013 have inevitably affected the performance of PT Astra Agro Lestari Tbk. Slow recovery from the global economic crisis has contributed to the price volatility of various commodities, including the Crude Palm Oil (CPO) price. On the other hand, US government policies to reduce the injection of fresh funds to support the recovery of their real sectors have led to the depreciation of most Asian currencies, including the Indonesian Rupiah. In addition, unfavorable weather condition also impacted to the decline of operational performance in most palm plantations. As shown in figure 4.8, the production of

the Company's Fresh Fruit Bunches (FFB) from nucleus plantations declined by 9.5%, from 4.13 million tons in 2012 to 3.74 million tons in 2013. This has brought down the average crop productivity (yield) in 2013 to 20.7 tons/ha, compared to 23.5 tons/ha in the previous year. Nevertheless, the company was still able to manage total CPO production of 1.54 million tons, an increase of 4.2% compared to last year. This increase was attributed to a 41.5% increase of FFB purchased from third party, from 1.26 million tons in 2012 to 1.78 million tons in 2013. CPO production in 2013 was the highest production level in the Company's history. With an average CPO selling price of Rp 7,277/kg, 0.6% lower compared to 2012 price, coupled with a foreign exchange loss due to the Company's US Dollars debt, the Company still managed to record a profit attributable to Shareholders of Rp 1.80 trillion in 2013, lower than the Rp 2.41 trillion earned from the previous year.

Facing the challenging business climate of 2013, AALI strived to strengthen its business model and focused on four key areas, namely: First, the company strived to achieve cost leadership by improving internal processes, so that operational efficiency can be improved through intensification and mechanization programs. Second, the company has been expanding its business lines, both upstream by developing own seedling area, and downstream by building a refinery and establishing a joint venture marketing company in Singapore to market CPO derivative products. Third, the company expanded into rubber plantations, as a part of its diversification strategy. Fourth, the company continued its efforts to acquire new landbank followed by implementing a new planting and replanting program, in order to ensure production sustainability. Capital expenditure of Rp 2.87 trillion was spent throughout 2013 to support company growth strategy in the long term. Most of this investment was allocated for intensification and mechanization activities, adding the capacity of the CPO mills and storage, construction of refinery plants, as well as new planting of oil palm crops and rubber, and replanting of oil palm crops. In 2013, the company increased its CPO storage capacity by 10,000 tons to 225,450 tons. In the same year, the company completed construction of one refinery in West Sulawesi. This plant has now begun operating commercially, with a production capacity of 2,000 tons CPO/day. First shipment from this refinery to customers was done in February 2014. Throughout 2013, the company carried out new planting and replanting of 10,720 hectares.

Financial Analysis of AALI

As shown from table 1, AALI posted impressive financial results during the last five years with the inclining revenue growth of more than 15 percent CAGR. The revenues grow from Rp 7,424.3 billion in 2009, Rp8,843.7 billion in 2010, Rp10,772.6 billion in 2011,

Rp11,564.3 billion in 2012 and Rp13,392.8 billion in 2013. This means that AALI sales revenue turnover almost double from the last five years. AALI Earnings Before Interest Taxes and Depreciation/Amortization (EBITDA) also grow significantly except in the year of 2013. AALI EBITDA in 2009 is Rp2,894.6 billion rise to Rp3,253.4 billion in 2010, Rp3,531.7 billion in 2011, Rp3,960.5 billion in 2012 and lower to Rp3,162.0 billion in 2013. Declining EBITDA in 2013 due to the significant rising of Operational Expenses (Opex) to 5 percent. Selling expenses in increasing from Rp 11,564.3 billion in 2012 to 13,392.8 billion in 2013. The incline cost of selling due to higher inflation rate in 2013 while the CPO price remains moderate. AALI Net Profit also doubles in the last five years, except in 2013. In 2009, AALI booked net profit Rp2,894.6 billion, Rp3,253.4 billion in 2010, Rp3,531.7 billion in 2011, Rp3,960.5 billion in 2012 and Rp3,162.0 billion in 2013. AALI Earning per Share (EPS) moves in the positive direction in the last four years, in 2009 AALI EPS is Rp 1,055, Rp1,281 in 2010, Rp1,528 in 2011, Rp1,531 in 2012 and Rp1,021 in 2013.

Table 1 Financial Summary of AALI

FINANCIAL SUMMARY

Based on Current Price of Rp25,800

Year to 31-Dec	Turnover (Rpbn)	EBITDA (Rpbn)	Net Profit (Rpbn)	EPS (Rp)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rp)
2009	7,424.3	2,894.6	1,660.6	1,055	(36.9)	24.5	13.7	422
2010	8,843.7	3,253.4	2,016.8	1,281	21.4	20.1	12.2	640
2011	10,772.6	3,531.7	2,405.6	1,528	19.3	16.9	11.2	764
2012	11,564.3	3,960.5	2,410.3	1,531	0.2	16.9	10.0	765
2013	13,392.8	3,162.0	1,607.7	1,021	(33.3)	26.9	13.4	510
2014F	15,581.4	4,423.5	2,655.1	1,686	65.2	16.3	9.6	843
2015F	16,685.8	4,851.3	2,874.8	1,826	8.3	15.1	8.7	913
2016F	17,478.0	4,370.4	2,861.4	1,575	(0.1)	16.4	9.7	787
2017F	18,767.6	4,700.3	3,105.3	1,716	0.1	15.0	9.0	986
2018F	19,522.6	4,872.4	3,496.7	2,221	0.3	11.6	9.0	1,110

Source: Company Release

Table 2 AALI Production in 2006-2013

Year	FFB Harvested	CPO	Kernel
2013	5,753,233	1,738,658	348,141
2012	5,498,020	1,476,358	323,051
2011	4,798,470	1,268,196	269,299
2010	4,235,052	1,113,277	239,385
2009	4,295,022	1,082,953	232,243

Source: Company Release

As reflected from table 2 and table 3, the inclining revenues of AALI mainly contributed by increasing CPO production due to its expanding total plantation area and matured plantations in the last five years. In 2009, AALI has a total of 189,342 Ha matured area, rise to 192,754.9 Ha in 2010, 217,420.4 in 2011, 252,003.7 Ha in 2012, 261,510.6 Ha in 2013. This reflects almost 38 percent of growth in the last five years. The increasing total matured area followed by increasing productivity rate of AALI Fresh Fruit Bunches (FFB) and CPO production.

Table 3 AALI Total Planted Area in 2009-2013

Year	2009	2010	2011	2012	2013
Matured Area (Ha)	189,342.00	192,754.90	217,420.39	252,003.70	261,510.60
Growth (%)	2.79	1.80	12.80	15.91	3.77
Immatured Area (Ha)	67,430.00	58,276.00	46,238.00	19,749.00	18,436.00
Total Planted Area (Ha)	256,772	251,031	263,658	271,753	279,947
Growth (%)	5.37	(2.24)	5.03	3.07	3.02

Source: Company Release

As we can see from table 4, in the next five years (2014-2018), it is forecasted that AALI total matured area will grow at 2.5 percent CAGR. This has come to effect as AALI allocates its Capex for additional plantation area in the next five years. The total Rp 3.3 trillion Capex will allocated for plantations expansion.

Table 4 AALI Expected Total Planted Area in 2014-2018

Year	2014E	2015E	2016E	2017E	2018E
Matured Area (Ha)	269,877.40	277,677.40	285,477.40	293,277.40	301,077.40
Growth (%)	3.20	2.89	2.81	2.73	2.66
Immatured Area (Ha)	18,000.00	18,000.00	15,000.00	12,000.00	9,000.00
Total Planted Area (Ha)	287,877	295,677	300,477	305,277	310,077
Growth (%)	2.83	2.71	1.62	1.60	1.57

Source: Company Release

It is shown from table 5, AALI financial position rise significantly in the last five years (2009-2013). As shown at table below, AALI total assets is increasing from Rp7,571.4 billion in 2009, Rp8,791.8 billion in 2010, Rp10,204.5 billion in 2011, Rp12,419.8 billion in 2012 and become Rp13,574.4 billion in 2013.

Table 5 AALI Financial Position 2009-2013

Balance Sheet					
Year to 31 Dec (Rpb)	2009	2010	2011	2012	2013
Current Assets					
Cash and Cash Equivalents	788.5	1,240.8	838.2	227.8	1,200.7
Account Receivables	156.7	98.8	16.4	50.1	154.1
Inventories, Net	610.0	624.7	769.9	1,249.1	995.2
Other Current Assets	159.1	86.9	261.9	253.5	193.6
Non-current Assets					
Fixed Assets	2,445.0	2,686.9	3,424.2	4,918.7	5,711.9
Goodwill	61.6	53.3	56.0	56.0	14.4
Other LT Assets	3,350.5	4,000.4	4,838.0	5,664.8	5,665.8
Total Assets	7,571.4	8,791.8	10,204.5	12,419.8	13,574.4
Current Liabilities					
ST Debt	0.0	0.0	0.0	972.0	1,600.0
Other Current Liabilities	939.0	1,061.9	1,440.4	1,590.4	1,473.0
Non-current Liabilities					
LT Debt	0.0	0.0	0.0	0.0	500.0
Other LT Liabilities	205.8	272.7	338.0	492.1	158.1
Minority Interests	200.3	245.6	286.5	336.2	311.9
Shareholders' Equity	6,226.4	7,211.7	8,139.6	9,029.2	9,833.0
Total Equity & Liabilities	7,571.4	8,791.8	10,204.5	12,419.8	13,574.4

Source: Company Release

AALI revenues also move drastically in the last five years with sales turnover almost double from Rp 7,424.3 billion in 2009 to Rp 13,392.8 billion in 2013 (see table 6). Its Cost of Goods Sold (COGS) climbed proportionately, in 2009 the total COGS was Rp 4,322.5 billion and in 2013 become Rp 9,081.5 billion. AALI Gross Profit increased from Rp 3,101.8 billion in 2009 to Rp 4,311.3 billion in 2013. This translates to substantial incline in AALI Operating Profit in 2009-2012 from Rp2,610.2 billion in 2009, Rp2,998.7 billion in 2010, Rp 3,195.7 billion in 2011, Rp3,453.7 billion in 2012 but decline to Rp2,558.7 billion in 2013 due to considerable climbed in Operating Expenses as a result of higher inflation in 2013. Finally, its Net Income surged immensely from Rp1,660.6 billion in 2009, Rp2,016.8 billion in 2010, Rp2,405.6 billion in 2011, to Rp2,410.3 billion in 2012, but decline to Rp1,607.7 billion in 2013 as the effect of higher Opex and loss in foreign exchange transactions. Overall, AALI demonstrated hefty income in the last five years.

Table 6 AALI Income Statement 2009-2013

Income Statement					
Year to 31 Dec (Rpb)	2009	2010	2011	2012	2013
Turnover	7,424.3	8,843.7	10,772.6	11,564.3	13,392.8
COGS	(4,322.5)	(5,234.4)	(6,837.7)	(7,206.8)	(9,081.5)
Gross Profit	3,101.8	3,609.3	3,934.9	4,357.5	4,311.3
Operating Expenses	(491.6)	(610.6)	(739.2)	(903.8)	(974.8)
Operating Profit	2,610.2	2,998.7	3,195.7	3,453.7	2,558.7
Other Income	(109.8)	(34.7)	137.3	71.2	(189.2)
Interest Expenses	(30.6)	(8.3)	(5.8)	(29.2)	0.0
Interest Income	58.0	39.3	93.4	22.0	84.0
Gain/Loss on forex	(111.2)	(28.0)	0.4	(0.8)	(273.2)
Others	(26.0)	(37.7)	49.2	79.2	0.0
Associates	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	2,500.4	2,964.0	3,332.9	3,524.9	2,369.5
Tax	(770.8)	(860.4)	(834.4)	(1,004.6)	(675.3)
Minority Interest	(69.0)	(86.9)	(93.0)	(110.0)	(103.1)
Extraordinary Items	0.0	0.0	0.0	0.0	0.0
Net Profit	1,660.6	2,016.8	2,405.6	2,410.3	1,607.7

Source: Company Release

As illustrated from table 7, in the last five years, AALI retained bulk of net cash flows as consequence of profitable business operations. Its cash flow from operations upsurge from Rp 1,954.8 billion in 2009 to Rp 2,583.8 in billion 2012 caused by escalation in net profit. However, its cash flow from operations deteriorated in 2013 caused by drop in net income. In addition, its Capital expenditure (Capex) risen moderately as the company expanded its business operations. AALI Capex in 2009 was Rp 1,322.6 billion, Rp 1,538.0 billion in 2010, Rp 1,855.7 billion in 2011, Rp 2,591.6 billion in 2012 and Rp 1,628.4 billion in 2013. This capex was used to expand its current plantation area and to build CPO refinery factories and manufacturing facilities. Cash flow from financing activities indicated that AALI only add its net debt in 2012 to Rp972.0 billion and Rp1,128.1 billion in 2013. The additional debt was offered from bank loans. AALI ending cash displayed a decent improvement from Rp788.5 billion in 2009, Rp1,240.8 billion in 2010, Rp838.2 billion in 2011, Rp227.8 billion in 2012 and Rp1,200.7 in 2013. A weaken cash balance in 2012 was due outsized number of capex which total Rp 2,591.6 billion.

Table 7 AALI Cash Flow Statement 2009-2013

Cash Flow					
Year to 31 Dec (Rpb)	2009	2010	2011	2012	2013
Net Profit	1,660.6	2,016.8	2,405.6	2,410.3	1,607.7
Depreciation and amortization	284.4	254.7	336.1	506.8	603.3
Change in Working Capital	104.9	238.4	140.7	(354.4)	92.3
Others Non-Cash	(95.2)	154.3	58.4	21.1	(545.6)
Cash Flow from Operations	1,954.8	2,664.1	2,940.7	2,583.8	1,819.6
Capex	(1,322.6)	(1,538.0)	(1,855.7)	(2,591.6)	(1,628.4)
Investment	0.0	0.0	0.0	0.0	0.0
Others Investing Activities	(140.7)	408.5	(56.1)	(104.0)	408.8
Cash Flow from Investments	(1,463.3)	(1,129.6)	(1,911.8)	(2,695.6)	(1,219.6)
Net Change in Debt	0.0	0.0	0.0	972.0	1,128.1
New Capital	0.0	0.0	2.6	(64.1)	0.0
Dividend	(590.5)	(1,031.5)	(1,480.3)	(1,456.6)	(803.9)
Others Financing Activities	19.9	(50.9)	46.1	50.2	51.0
Cash Flow from Financing	(570.6)	(1,082.4)	(1,431.6)	(498.6)	327.4
Change in Cash	(79.1)	452.2	(402.6)	(610.4)	972.9
Begin Cash & Cash Equiv.	867.7	788.5	1,240.8	838.2	227.8
Ending Cash & Cash Equiv.	788.5	1,240.8	838.2	227.8	1,200.7

Source: Company Release

Financial Ratios of AALI

As seen on the table 8 below, AALI financial ratios are showing good signs. Its sales turnover growth is at 11 percent CAGR in the last five years. In addition, its profitability is indicating a robust trend from 2009 to 2013. On average company gross margin was 37.8 percent, EBITDA margin at 34.18 percent, Operating margin was 30.3 percent, Net margin was 20.52 percent, Return on Asset (ROA) was 31.5 percent and Return on Equity was 27.12 percent. AALI financial leverage ratios such as Total Debt/Total Asset was at 7.8 percent in 2012 and to be 15.5 percent in 2013 due to increasing portion of debt. Its Total Debt/Total Equity was at 10.8 percent in 2012 and become 21.4 percent in 2013. Its Net Debt (Cash)/Equity was at 8.2 percent in 2012 and to be 9.1 percent in 2013. Overall, its liquidity was remained in vigorous drift. On average current ration was at 131.68, quick ratio was 80.5 and its inventory turnover was 29.68 days.

Table 8 AALI Key Financial Ratios 2009-2013

Ratio					
Year to 31 Dec (%)	2009	2010	2011	2012	2013
Growth					
Turnover	(9.0)	19.1	21.8	7.3	15.8
EBITDA	(17.9)	12.4	8.6	12.1	(20.2)
Pre-tax Profit	(36.7)	18.5	12.4	5.8	(32.8)
Net Profit	(36.9)	21.4	19.3	0.2	(33.3)
EPS (fully diluted)	(36.9)	21.4	19.3	0.2	(33.3)
EPS (weighted average)	(36.9)	21.4	19.3	0.2	(33.3)
Profitability					
Gross Margin	41.8	40.8	36.5	37.7	32.2
EBITDA Margin	39.0	36.8	32.8	34.2	28.1
Operating Margin	35.2	33.9	29.7	29.9	22.8
Net Margin	22.4	22.8	22.3	20.8	14.3
ROA	37.0	36.7	33.6	30.5	19.7
ROE	29.2	30.0	31.3	28.1	17.0
Leverage					
Total Debt/Total Assets	0.0	0.0	0.0	7.8	15.5
Total Debt/Equity	0.0	0.0	0.0	10.8	21.4
Net Debt (Cash) /Equity	(12.7)	(17.2)	(10.3)	8.2	9.1
Liquidity					
Current Ratio	182.6	193.2	131.0	69.5	82.1
Quick Ratio	117.6	134.3	77.5	20.7	52.4
Debtor turnover (day)	7.7	4.1	0.6	1.6	4.2
Creditor turnover (day)	12.3	15.9	18.8	18.8	14.9
Inventory turnover (day)	30.0	25.8	26.1	39.4	27.1
P/E ratio (fully diluted)	24.5	20.1	16.9	16.9	26.9
P/E ratio (weighted avg)	24.5	20.1	16.9	16.9	26.9

Source: Company Release

AALI Share Performance Analysis

As we can see from figure 1, AALI shares showed better performance compare to IHSG. In the last two years, AALI share's return upbeat IHSG return with 43.97 percent compare to IHSG 21.73 percent. This drift indicates that AALI shares is not moving in the same direction with market indices means that AALI shares is defensive stocks. It is also proven by its low beta which is 0.36, confirmed a low relationship and less esposed from the market or systematic risks.

Figure 1 AALI versus JKSE (IHSG) performance in 2012-2014



Source: Thomson Reuters

In addition, AALI shares performance also better compare to market indices such as LQ 45 where AALI yield is 43.84 percent versus LQ 45 return is 21.56 percent (see figure 2). AALI shares include in LQ 45 indices where the top 45 companies based on market capitalization and most liquid stocks in the market. In comparison to its peers in LQ 45 index, AALI shares performance and return was absolutely better off with almost 21 percent premium. Going forward, this impressive stock performance is expected to realize as the industry in the upward trend and AALI able to gain the momentum. It is believed that the company cash-generating values will incline the company profit and finally boost the company shares return when the market realized. Thus, AALI shares still possess a good prospect in the future as the complementary of investors' portfolios.

Figure 2 AALI versus JKLQ45 (LQ-45 Indices) performance in 2012-2014



Source: Thomson Reuters

Basic Assumptions

In accordance to macro economy, industry, competitive positioning analysis as well as company financial analysis, this part will discuss the main assumptions made in the valuation in determining the intrinsic value of company. This basic assumption relies on the analysis of previous financial performance started from 2009-2013 and macro analysis in creating the financial projections for the period 2014-2018. The detail of basic assumptions on the valuation calculation as follows:

1. Long term growth (LTG) is expected at 5.6 percent based on five year average turnover growth CAGR and GDP growth assumption (author assumption).
2. Sales Revenues/Turnover growth is forecasted at 5.6 percent CAGR in the next five years (2014-2018).
3. EBIT growth is forecasted at 11.0 percent CAGR in the next five years (2014-2018).
4. Net income growth is forecasted at 18.8 percent CAGR in the next five years (2014-2018).
5. GDP growth is assumed at moderate rate of 5.78 percent in the next five years (2014-2018).
6. Inflation rate is assumed at moderate and manageable rate of 5.5 percent in the next five years (2014-2018)
7. Matured plantation area growth rate is forecasted at 3 percent CAGR in the next five years (2014-2018).
8. Exchange rate of IDR/USD is assumed at modest and manageable rate at 11,500 in 2014, 11,500 in 2015, 11,000 in 2016, 11,000 in 2017 and 10,500 in 2018.
9. CPO price is forecasted at \$961.5 per tonnes in 2014, \$994 per tonnes in 2015-2016 and \$1025.6 per tonnes in 2017-2018.

10. FFB yield productivity is assumed at 22.50 tonnes/Ha in the next five years (2014-2018).
11. CPO extraction rate (%) is assumed at 22.75 percent in the next five years (2014-2018).

WACC Calculation

<u>Assumption</u>		
Risk free rate of interest (SUN rate 10 years)	8.02	%
Market Risk premium	5.73	%
Beta	0.46	
Cost of equity	13.88	%
Cost of debt	10.80	%
WACC	12.63	%
LTG	5.60	%

1. Risk free rate is based on SuratUtang Negara (SUN) 10 years in 2014 at 8.02 percent (Pefindo, 2014)
2. Market risk premium is based on IHSG annual return in 2012-2013 at 13.8 percent subtracts risk free rate at 8.02 percent which is 5.73 percent premium (IDX).
3. Beta at 0.46 is based on the regression calculation result and Thomson Reuters Data.
4. Cost of equity is calculated at 13.88 percent
5. Cost of debt is based on corporate bond AA rating at 10.8 percent
6. Tax rate is assumed at 25 percent.
7. Thus, The Weighted Average Cost of Capital (WACC) of AALI is calculated 12.63 percent.

Intrinsic Value Calculation with DCF

Using discounted cash flow method, as it incorporates the long-term growth opportunity of this company resulted from the additional of plantations.

Table 9 AALI FCF Calculation 2014-2018

Free cash flow forecast (Rpb)	2014F	2015F	2016F	2017F	2018F
EBIT	3,762.4	4,139.3	3,607.4	3,886.1	4,007.3
Depreciation and Amortization	661.1	712.1	763.1	814.1	865.1
Adjusted Tax	(962.2)	(1,178.9)	(915.0)	(1,063.1)	(865.2)
Change in Working Capital	130.2	125.8	79.4	294.2	18.1
Capex	(1,650.0)	(1,456.0)	(1,456.0)	(1,228.0)	(1,228.0)
Free Cash Flow	1,941.4	2,342.2	2,078.8	2,703.4	2,797.3

Table 9 shows the company EBIT is forecasted to expand from Rp 3,762.4 billion in 2014, Rp 4,139.3 billion in 2015, Rp 3,607.4 billion in 2016, Rp 3,886.1 billion in 2017 and Rp 4,007.3 in 2018. This translate to moderate level of company forecasted free cash flow in the next five years, Rp 1,941.4 billion in 2014, Rp 2,342.2 billion in 2015, Rp 2,078.8 billion in 2016, Rp 2,703.4 billion in 2017 and Rp 2,797.3 billion in 2018.

Table 10 AALI DCF Valuation Calculation Result

Discounted Free Cash flow Valuation:

FCF	=	8,225.1
Terminal Value	=	38,978.1
Enterprise value	=	47,203.2
Net debt	=	899.3
Value of equity	=	46,303.9
No of shares (billion)	=	1.6

Price per share	=	29,404
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Based on Table 10, the valuation for AALI on a 5year valuation by using the FCFE model or discounted cash flow model. It is believed that discounted FCFE can reflect free cash flow value of company and account for future growth in a long term prospective. The intrinsic price from this model is IDR 29,404 as shown in the figure beside. EBIT is expected to grow on 5.6 percent annually as a result of increasing CPO prices and declining capital expenditure. Inflation rate remain stable at 5.5 percent with an annual GDP growth of 5.8 percent.

Table 11 Sensitivity Analysis of DCF

	Perpetual Growth Rate					
		4.0%	5.0%	5.6%	6.0%	7.0%
WACC (%)	11.0%	28,633	30,523	31,345	37,867	43,717
	12.0%	26,045	28,038	30,139	32,814	36,576
	12.6%	25,468	27,114	29,404	30,472	34,466
	13.0%	23,949	25,904	28,276	29,117	32,998
	14.0%	21,325	23,598	25,649	26,274	28,683

Based on sensitivity analysis using discounted cash flow method, it is concluded that the estimate price of AALI will range from the lowest of Rp 21,325 to the highest Rp 43,717 (see table 11). The lowest price which is Rp 21,325 is based on the most pessimistic assumption such as 4 percent of perpetual growth and 14 percent of WACC. While, the maximum price of Rp 43,717 is based on the assumptions of 7 percent of perpetual growth rate and 11 percent of WACC. In regards to current calculation which refer to 5.6 percent in long term growth or perpetual growth and 12.6 percent WACC, thus the final forecasted price of AALI in the next twelve months is at Rp 29,404.

Conclusion

Based on valuation, it is concluded that AALI intrinsic value is Rp29,404 per share. In comparison to current AALI price being traded in the market only Rp25,800 indicates that the company share is being undervalued, potential upside gains of 15.7 percent for investors. Astra Agro Lestari is a palm oil giant with brighter growth prospect in the future. A better CPO price prospect is the main catalyst for company revenues growth. It is believed that the market has not yet recognized the fair cash-generating potential of the firm from the new operated factory and additional matured planted area. With IDR 3,773 Billion EBITDA at the end of 2013 and it is expected to grow at 8 percent annually as a result of increasing revenue through increasing CPO price in the spot market, stability of cash flow, strong financial position enable company to expand additional plantations and declining capital expenditure in the next five years.

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