Executive Summary

POLYMAN SIMARBA ATONG, 2009. An Analysis of Value Investing of some Indonesian Public Companies in the Age of Turbulence. Supervisory Commisioned by **UJANG SUMARWAN** and **DJONI TANOPRUWITO**

In the year of 2009, these are traumatic and historic times. Within 14 months, the US stock market has fallen over 47% from its October 2007 high. The main cause of this financial crisis is simple, bad bank practices. This cause many people to have a loss in their wealth. Therefore, it can clearly seen that one of the purposes of writing this thesis is to educate the population to understand the right method and the right instrument to invest in stock market, to achieve their financial goals. If one must know how to profit or stand out in the stock market, one must learn from the best, which is none other than Warren Buffett himself. Over the past 25-years, Berkshire has grown at a compound rate of 23.2% per year, nearly double than the market, which is only 12%.

Warren Buffett believed a technique called Value Investing. Basically, the essence of value investing is buying stocks at less than their intrinsic value (fair value). Although value investing can be proven successful in United States of America (USA), there is no research studies that give evidence it can applied successfully in Indonesia. Even if on the assumption that value investment can be applied and proven successful in Indonesia capital market, what kind of stocks would Warren Buffett pick to gain enormous amount of profit and beat the market on average? Thus, by having this gap, this research is pursued.

The process of creating a portfolio based on Warren Buffett teaching, one must see from two perspective, from quantitative and qualitative persepctives. Quantitative criteria is based on Return on Equity (ROE), Return on Asset (ROA), Debt to Equity Ratio (DER) and the value of a business. Qualitative criteria is based on whether the company has sustainable competitive advantage component and whether the company has honest, rational and capable people.

Thus, out of 400 public listed companies, 7 solid companies are selected. They are Astra Agro Lestari Tbk (AALI), Tambang Batubara Bukit Asam Tbk (PTBA), International Nickel (INCO), Semen Gresik Tbk (SMGR), H.M. Sampoerna Tbk (HMSP), Telkomunikasi Indonesia Tbk (TLKM) and Bank Raykat Indonesia Tbk (BBRI). They are all liquid companies (LQ-45), best in their own industry, good management team (high ROE and ROA), low risk (low DER), positive cash flow and most importantly, they are all below their intrinsic value.

To test whether the concept that is used by Warren Buffett is applicable in Indonesia is to see whether the performace of the portfolio (which contain 7 selected companies) will performed better than the market, in good times (2007) and bad times (2008). In bull times (2007), the portfolio beat the market (IHSG)

by 48%. Furthermore, the performance of the portfolio performed better than the market by 1% in bear times (2008).

One interesting finding, throughout 2007 to 2009. Although the market is down by 22%, the performance of the portfolio gain 4%, beat the market by 26%. With this result, it can conclude that Warren Buffett technique could be implement in Indonesia Stock Market (BEI). It basically shows that Value Investing can beat the market, both good times and bad times.

By using Return Risk Adjusted (RRA) method, in the period of 2007 (bullish times), The average return from the portfolio is 0.959481 or 95.95% in one year. On the other hand, the market return is 0.512862 or 51.29%. The portfolio has beta of 1.020500. The value of R-Square (R^2) in the portfolio is 0.833579. The performance of the porfolio using Sharpe measurement is as much as 52.367070 and the market is 28.597934. The performance of the portfolio using Treynor meausrement is as much as 0.855893 and the market is 0.426820. Using Jensen measurement, the portfolio will give a return as much as 0.437869 or 43.79% above the market. Lastly, using appraisal ratio of the portfolio is 64.408866. By using serveral measurement, it shows that a portfolio that is formed using Warren Buffett techinques in good times (Bullish times) achieve higher performance (using RRA method) than the general market.

In the bearish times, The average return from the portfolio has loss of 46.75%. On the other hand, the market return has also a loss of 47.65%. The portfolio has beta of 1.043602. The value of R-Square (R2) in the portfolio is 0.580482. The performance of the porfolio using Sharpe measurement is as much as -16.205591 and the market is -22.557668. The performance of the portfolio using Treynor meausrement is as much as -0.531049 and the market is -0.563204. Using Jensen measurement, the portfolio will give a return as much as 0.033557 or 3.36% above the market. By using serveral measurement, it shows that a portfolio that is formed using Warren Buffett techinques in bad times (Bearish times) achieve higher performance (using RRA method) than the general market.

By using different measurement, apart from using Holding Period Return or Return Risk Adjusted, the author conlcude that the portfolio performance using Warren Buffett techniques able to implement and able to make decision making in selecting stocks in Indonesia Stock Market (IDX). The reason is because it able to beat the market, in good times (2007) and bad times (2008). This thesis also shown an evidence of how each of the selected stocks really invested in Indonesia Stock Exchange, which is shown in Appendix 7. However, there are several short-comings from the result of this thesis.

Firstly, different companies do not has the same methodology and procedure creating Profit/Loss Statement and Balance sheet. Secondly, although the result of this thesis is based on long term view (like 10 years), the data is used only cover a short period of time (which is 5 years). Lastly, the condition of public companies in Indonesia still does not have enough transparency among investors. Nevertheless, there are several points that need to be considered in order to give more accurate result.

Firstly, those future students who are interested and further this research need to follow the principals and philosophy of Warren Buffett, especially selecting public companies that are fundamentally strong and has durable competitve advantage. Secondly, by taking careful look at each company's procedure of creating Profit/Loss Statement. Thirdly, one must focus on the company which has foreign debt as it will expose to the fluctuation of the currency. Lastly, one must consider the weakness of Return on Asset (ROA), Return on Equity (ROE) and also Present Value (PV) as growth (r) and discount value (i) is easily manipulated or influenced. Thus, one must implement with utmost care due to its sensitivity and impact to its formula.

Keywords: Value investing, financial crisis, Warren Buffett, intrinsic value, Indonesia stock exchange (IDX), fundamental analysis, stock market