

Research Article

Financial Analysis and Strategic Insights for Pt Sentral Mitra Informatika, Tbk.

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Abstract: The IT industry is experiencing significant global growth, with the Asia Pacific region leading in market share. PT Sentral Mitra Informatika, Tbk. (SMI), an established company in Indonesia's IT sector faces challenges such as fluctuating revenue growth, competitive pressures, high revenue volatility, escalating general and administrative expenses, and significant profit decline. This study employs financial ratio analysis, discounted cash flow (DCF) valuation, and business portfolio construction to assess SMI's financial health, determine its intrinsic value, and explore strategies to enhance its value. Financial ratios examine liquidity, profitability, and leverage, while the DCF method estimates SMI's intrinsic value. The research covers SMI's financial performance from 2018 to 2023, analyzing historical data and projecting future performance. The study comprehensively analyzes SMI's financial performance and offers strategic insights to improve its financial stability and growth potential. Key areas for improvement are identified, and strategic recommendations are provided to enhance SMI's financial stability and growth potential.

Keywords: Computer Hardware, Discounted Cash Flow, Financial Ratio Analysis, Strategic Insights.

I. INTRODUCTION

The global IT industry has grown significantly over the past decade, as demonstrated by increasing IT spending worldwide from 2013, which amounted to 3.7 trillion USD to 4.9 trillion USD in 2023. In 2019, the Asia Pacific region led the computer peripherals market with a 43% share, while the global market was valued at \$245 billion. Despite overall growth, specific segments show varied trends. The printer and hardcopy peripherals market is expected to grow modestly by 0.83% from 2024 to 2029 due to digitalization and reduced reliance on physical documents. Conversely, the 3D printing market is projected to expand from \$24.9 billion in 2024 to \$37.2 billion in 2026 (Statista, 2024). Operating in this dynamic environment is PT Sentral Mitra Informatika, Tbk. (SMI), an established player in Indonesia's IT sector. SMI provides comprehensive IT solutions, including hardware, software, and services, to a diverse clientele. Despite positive market trends, SMI faces fluctuating revenue growth and competitive pressures.

II. LITERATURE REVIEW

A) Financial Ratio Analysis

Financial ratio analysis is a method used to evaluate a company's financial health by examining various financial ratios derived from its financial statements (Bloomenthal, 2024). Financial ratios can be grouped into five categories: liquidity, activity, debt, profitability, and market ratios. Liquidity, activity, and debt ratios measure a company's risk, while profitability ratios measure how much money it makes. Market ratios measure risk and return (Gitman & Zutter, 2015).

- a. **The liquidity ratio** measures a firm's ability to pay its short-term obligations. Firms need to have enough liquidity for day-to-day operations but must also balance this need with the low returns that liquid assets generate. The two basic measures of liquidity are the current ratio and the quick ratio (Gitman & Zutter, 2015).
- b. **The activity ratio** measures how efficiently a company manages its assets and converts them into sales or cash. Examples include inventory turnover, average collection period, average payment period, and total asset turnover (Gitman & Zutter, 2015).
- c. **Debt ratio** is the amount of other people's money a firm uses to generate profits. Financial analysts are most concerned with long-term debt, which commits the firm to a stream of contractual payments over the long run. The more debt a firm has, the greater its risk of being unable to meet its debt payments. Shareholders and lenders are concerned about a firm's debt position (Gitman & Zutter, 2015).
- d. **The profitability ratio** is a key measure of a firm's financial health. Analysts use various profitability metrics to evaluate how well a firm generates profits relative to its sales, assets, and equity. Firms need to be profitable to attract outside capital and to meet the expectations of owners, creditors, and management. The market also places a high value on earnings, so firms are incentivized to boost profits (Gitman & Zutter, 2015).



- e. **Market ratios** compare a firm's market value to its accounting values, providing insight into investor sentiment and financial performance. The two widely quoted market ratios are based on earnings and book value (Gitman & Zutter, 2015).

B) Discounted Cash Flow

Discounted Cash Flow (DCF) is a technique for assessing the worthiness of capital investments, not just in stocks and shares, but in tangible assets like glasshouses, orchards, and plantations. DCF is a sophisticated method widely used by large industrial firms for capital planning (Crozier, 1969).

- a. **Forecast the Free Cash Flow to the Firm (FCFF):** The enterprise Discounted Cash Flow (DCF) valuation model relies on forecast free cash flow (Koller, 2015). This step involves conducting a historical financial analysis and making assumptions about future growth. The author reviewed the company's financial performance comprehensively to identify trends and patterns. To calculate the FCFF, the author used the formula stated by Damodaran (2014):

$$FCFF = EBIT \times (1 - \text{Tax Rate}) + \text{Depreciation} - \text{CapEx} - \text{Change in Working Capital}$$

Based on the formula, the author will primarily focus on creating assumptions for unlevered free cash flow, fixed assets, and net working capital. The main assumptions for the forecast will be based on average growth rates and common size analysis.

- b. **Calculate the Weighted Average Cost of Capital (WACC):** WACC is a crucial metric in financial analysis, as it represents the average rate of return a company is expected to pay its security holders to finance its assets. WACC is used to discount the future cash flows of the firm to their present value, enabling investors and analysts to assess the company's valuation accurately. According to Damodaran (2014), WACC is a composite cost of financing that includes both the costs of debt and equity, weighted according to their proportions in the company's capital structure. The formula for WACC is expressed as:

$$\text{Cost of capital} = k_{\text{equity}} \left(\frac{\text{Equity}}{[\text{Debt} + \text{Equity}]} \right) + k_{\text{debt}} \left(\frac{\text{Debt}}{[\text{Debt} + \text{Equity}]} \right)$$

Cost of Equity: According to Damodaran (2014), the Cost of equity represents the rate of return required by equity investors in the firm. The formula for Cost of equity is expressed as:

$$\text{Cost of equity} = \text{Risk-free rate} + \text{Beta} * \text{Risk Premium}$$

Cost of Debt: According to Damodaran (2014), the Cost of debt measures the current Cost of borrowing, adjusted for the tax benefits of borrowing. The formula for pre-tax Cost of debt is expressed as:

$$\text{Pre-tax Cost of Debt} = \text{Riskfree rate} + \text{Default spread for country} + \text{Default Spread for firm}$$

Whereas the after-tax Cost of debt is calculated as

$$\text{After-tax Cost of Debt} = (\text{Riskfree rate} + \text{Default spread}) * (1 - \text{marginal tax rate})$$

- c. **Calculate the Terminal Value (TV):** The approach most consistent with a discounted cash flow model assumes that cash flows beyond the terminal year will grow at a constant rate forever. In this case, the terminal value can be estimated as follows (Damodaran, 2012):

$$\text{Terminal value}_n = FCFF_{n+1} / (\text{Cost of capital}_{n+1} - g_n)$$

- d. **Discount the FCFF and TV:** According to Damodaran (2014), the value of the operating assets of a firm can be written as the present value of the expected cash flows and a terminal value at the end of the period. The formula for the present value of the operating assets at time t is expressed as

$$\text{Value}_0 = \sum_{t=1}^n \left(\frac{E(FCFF)_n}{(1+r)^t} + \frac{\text{Terminal Value}_n}{(1+r)^n} \right)$$

C) Steps in Constructing a Portfolio of Business

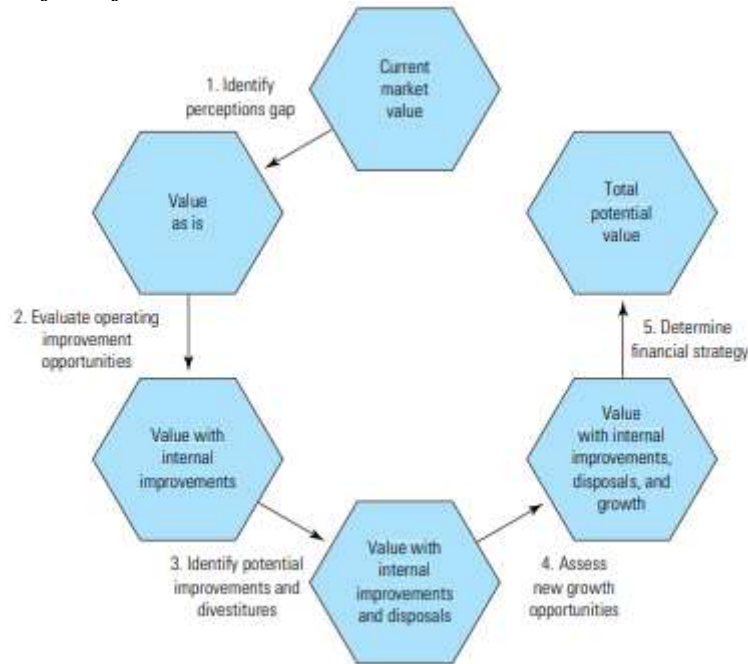


Fig. 1 Steps in Constructing a Portfolio of Business (Source: Koller et al., 2015)

a. Identify a perception gap.

According to Koller (2015), identifying a perception gap involves determining the company's current market value and comparing it to its intrinsic value, as estimated using Discounted-Cash-Flow (DCF) projections based on existing business plans "Value As-Is." Any difference between these values implies that the company's managers and investors have different perspectives on the business's value.

b. Evaluate operating improvements

According to Koller (2015), evaluating operating improvements involves identifying and valuing opportunities to enhance internal operations. This can be achieved by increasing margins, accelerating core revenue growth, and improving capital efficiency. The author will use findings and opportunities derived from financial ratio analysis to address these improvements.

c. Identify businesses for disposal and new owners.

According to Koller (2015), assessing new growth opportunities involves identifying potential acquisitions or initiatives to drive growth. Estimating the potential impact of these opportunities on the company's value is essential.

d. Assess new growth opportunities.

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e. Determine financial strategy

According to Koller (2015), determining financial strategy involves estimating how the company's value might be increased through changes in its capital structure or other financial strategies.

III. METHODOLOGY

A) Research Design

Research design is a detailed blueprint that guides a research study toward its objectives. It involves making interrelated decisions that shape the overall approach to collecting, measuring, and analyzing data. This comprehensive plan ensures the research is conducted systematically and effectively, allowing researchers to achieve their study's goals and objectives (Kumar et al., 2018). Here is the blueprint of the research design:

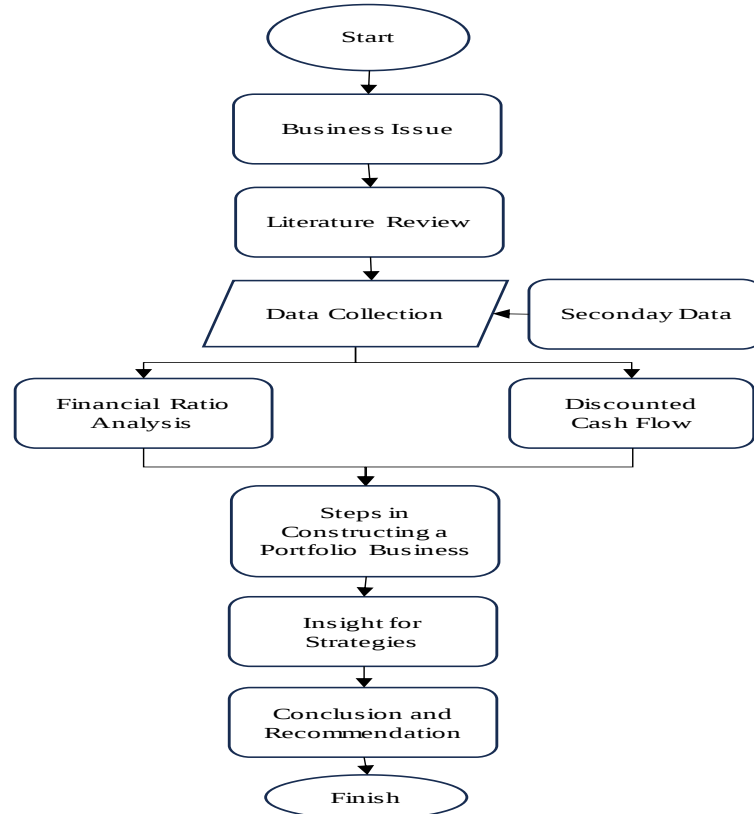


Fig 2. Research Design

This research design outlines progress for evaluating financial performance and developing strategies for long-term growth. It begins by identifying the business issue and then reviews relevant literature. Data is collected through secondary data. Key steps include performing financial ratio analysis and calculating Discounted Cash Flow (DCF) to evaluate a business's financial health and intrinsic value. After that, the process includes outlining the steps for constructing a business portfolio to align with strategic goals. The study concludes with insights and strategies based on data analysis.

IV. RESULTS AND DISCUSSION

A) Financial Ratio Analysis

a. Financial ratio calculation

Table 1: Financial Ratio Calculation

Financial Ratio	Ratio	SMI				COMPUTER HARDWARE SUBINDUSTRY FY 2023		
		2023	2022	2021	Average	Worst	Average	Best
Liquidity	Current Ratio	3,82	3,54	3,74	3,70	1,77	3,79	9,35
	Quick (Acid-Test) Ratio	2,76	2,58	2,71	2,68	0,67	2,07	4,49
Activity	Inventory Turnover	2,21	3,25	2,97	2,81	0,73	3,89	12,74
	Average Collection Period	54,66	60,10	68,71	61,16	204,97	87,89	43,64
	Average Payment Period	63,41	38,05	83,76	61,74	106,25	72,25	39,97
	Total Asset Turnover	0,61	0,78	0,62	0,67	0,33	1,01	2,18
Debt	Debt Ratio	0,22	0,22	0,18	0,21	0,50	0,33	0,07
	Debt-to-Equity Ratio	0,28	0,28	0,22	0,26	1,01	0,56	0,07
Profitability	Gross Profit Margin	26,01%	25,76%	23,85%	25,21%	13,55%	24,15%	31,57%
	Operating Profit Margin	-0,69%	2,57%	-0,40%	0,49%	-33,55%	1,44%	24,11%
	Net Profit Margin	0,15%	0,96%	0,31%	0,47%	-27,43%	-0,33%	11,38%
	EPS	0,23	1,83	0,44	0,83	- 1,88	19,46	53,22
	ROA	0,09%	0,75%	0,19%	0,35%	- 0,09	0,04	0,14
Market Ratios	Return on Equity (ROE)	0,12%	0,97%	0,24%	0,44%	- 0,10	0,09	0,24
	Price/Earnings (P/E) Ratio	315,36	69,78	832,40	405,84	315,36	68,22	0,35
	Market/Book (M/B) Ratio	0,71	1,28	3,7	1,90	53,50	13,80	0,71

Source: Author Calculation

This table compares SMI's financial ratios from 2021 to 2023 and its average with subindustry computer hardware for 2023. It covers Liquidity, Activity, Debt, Profitability, and Market Ratio. Each ratio highlights SMI's financial health and performance against subindustry benchmarks.

b. Financial ratio assessment

Table 2: Financial Ratio Key Point.

Ratio	Value (2023)	Description	Assessment
Current ratio	3.82	Indicates high liquidity and the ability to cover short-term liabilities.	Good
Quick ratio	2.76	Reflects high liquidity without relying on inventory.	Good
Inventory turnover	2.21	Indicates potential challenges in inventory management.	Moderate
Average collection period	54.66 days	Reflects efficient receivables management.	Moderate
Average payment period	63.41 days	Indicates a decline in payment efficiency.	Moderate
Total Asset Turnover	0.61	Indicates lower efficiency in asset utilization.	Bad
Debt Ratio	21.77%	Reflects moderate leverage.	Moderate
Debt-to-Equity Ratio	27.83%	Indicates balanced asset financing.	Moderate
Gross profit margin	26.01%	Indicates strong profitability.	Good
Operating profit margin	-0.69%	Indicates operating losses.	Bad
Net profit margin	0.15%	Indicates minimal profitability.	Bad
EPS	0.23	Reflects minimal earnings per share.	Bad
ROA	0.09%	Indicates minimal returns on assets.	Bad
ROE	0.12%	Indicates minimal returns on shareholders' equity.	Bad
P/E Ratio	315.36	Indicates high investor expectations or earnings volatility.	Bad
M/B Ratio	0.71	Reflects lower market valuation.	Bad

Source: Author Assessment

SMI has high liquidity and lower leverage compared to industry averages, which are positive indicators of financial health. However, the company faces significant profitability challenges and issues in asset utilization and inventory management. While the market ratios are not favourable, they are influenced more by external factors. Considering these aspects, SMI's overall financial health is **moderate**.

c. Improvement targets and suggestions

Table 3: Improvement Targets and Suggestions

Step	Target	Suggestion
Operating improvements		
Decrease SG&A Expense	23%	Decrease SG&A Expense: Aim to reduce SG&A expenses to 23% of Revenue. Implement cost control measures across all possible accounts in the SG&A structure. Specifically, the target sales and marketing expenses should be 7% of Revenue, and general and administrative expenses should be 16%.
Decrease average collection period	48 Days	Decrease Average Collection Period: Set a KPI target to reduce the average collection period to 48 days. This can improve cash flow and reduce the risk of bad debt expenses.
Decrease average payment period	50 Days	Decrease Average Payment Period: Aim to reduce the average payment period to 50 days. Strengthen supplier relationships, negotiate better payment terms, and improve cash flow management.
Assess new growth opportunities.		
Increase Total Asset Turnover		Enhance the company's presence in the 3D printing market through strategies such as market education, partnerships, and collaborations to boost 3D printer sales and establish it as a key product line.
Increase Sales	20%	After netting debt with cash and equivalents, the current ratio will become 7.8. The initial target was to utilize the current ratio of 3, resulting in a net working capital of Rp 35 billion. Convert this to sales with SMI's minimum acceptable gross profit of 5%, leading to a 35% increase in sales. However, to be conservative, the target will be set to a 20% increase in sales in accordance with the projected CAGR of the 3D printer market from 2022 to 2026, which is around 20%
Decrease Current Ratio		

Determine financial strategy		
Debt Ratio	Zero	Given the current condition with negative interest coverage, it is better to aim for zero debt by paying it off with cash and equivalents.

Source: Author Assessment

B) Discounted Cash Flow

a. Forecast the Free Cash Flow to the Firm (FCFF)

This section forecasts the Free Cash Flow to the Firm (FCFF), divided into three components:

- Unlevered Free Cash Flow: Evaluates cash generated from core operations, excluding debt and interest.
- Fixed Asset Investments: Estimate capital expenditures required for maintaining and expanding fixed assets.
- Net Working Capital: Examines short-term asset and liability management to optimize liquidity.

b. Forecast Assumptions

Table 4: Unlevered Free Cash Flow – Historical

Unlevered Free Cash Flow	Actual		
Fiscal Year	2021	2022	2023
Revenue	102.316.904.804	136.370.430.067	106.699.011.283
Cost of Revenues			
Cost of Goods Sold (COGS)	64.447.478.989	90.924.588.924	67.474.852.872
Others	511.687.440	1.998.696.716	4.431.954.710
Total Cost of Revenues	64.959.166.429	92.923.285.640	71.906.807.582
Gross Profit	37.357.738.375	43.447.144.427	34.792.203.701
Operating Expense			
Sales and Marketing	3.545.383.723	4.124.715.662	2.216.193.093
General and Administrative	17.884.183.781	23.531.457.841	22.187.017.880
Total Operating Expense	21.429.567.504	27.656.173.503	24.403.210.973
EBITDA	15.928.170.871	15.790.970.924	10.388.992.728
Depreciation and Amortization	16.337.542.594	12.288.753.898	11.122.802.691
Operating Profit (EBIT)	- 409.371.723	3.502.217.026	- 733.809.963
Tax Income	346.222.143	2.508.342.327	791.037.500
Net Operating Profit After Taxes (NOPAT)	- 755.593.866	993.874.699	- 1.524.847.463
(+) Depreciation & Amortization	16.337.542.594	12.288.753.898	11.122.802.691
(-) Capital Expenditure	11.339.913.633	891.919.544	5.354.419.070
(-) Change in NWC	1.658.081.347	12.976.380.152	3.776.959.749
NWC	42.127.530.330	55.103.910.482	51.326.950.733
Current Asset (minus cash)	57.833.158.471	64.965.905.919	63.153.478.034
Current Liabilities (minus debt)	15.705.628.141	9.861.995.437	11.826.527.301
Unlevered Free Cash Flow	2.583.953.748	- 585.671.099	8.020.495.907

Source: Author Calculation

This table presents the foundational unleveraged free cash flow model, incorporating historical data (excluding adjusted tax income). It serves as the baseline before the author integrates forecasted figures.

Table 5: Assumption – Operating Income

Assumptions	Actual		
Fiscal Year	2021	2022	2023
Revenue Growth	3,09%	33,28%	-21,76%
Common Size			
Cost of Revenues			
COGS	63%	67%	63%
Others	1%	1%	4%
Sales and Marketing	9%	9%	6%
General and Administrative	17%	17%	21%
Corporate Income Taxes Rate	Based on Law on Harmonization of Tax Regulation (UU HPP)		

Source: Author Calculation

To forecast operating income, the author will use the following assumptions:

1. Revenue Growth

Average Annual Growth Rate (2021-2023): The forecast will be based on the average annual growth rate observed over the past three years.

2. Cost of Revenues

Average Common Size (2021-2023): The Cost of Revenue will be projected as a percentage of total Revenue, averaged over the past three years.

3. SG&A Expenses: Average common size from 2021 to 2023.

Average Common Size (2021-2023): Using the three-year average, SG&A expenses will be estimated as a percentage of total Revenue.

4. Corporate Income Tax

Tax Calculation Basis: The corporate income tax will be calculated in accordance with the Law on Harmonization of Tax Regulation.

Table 6: Assumption – Capex & Depreciation

Fixed Assets Schedule	Actual		
Fiscal Year	2021	2022	2023
Beginning, Fixed Assets	79.169.470.809	83.175.566.855	71.452.226.221
D&A	16.337.542.594	12.288.753.898	11.122.802.691
Capex	20.343.638.640	565.413.264	4.844.706.960
Ending, Fixed Assets	83.175.566.855	71.452.226.221	65.174.130.490
Assumptions	Actual		
Fiscal Year	2021	2022	2023
D&A as a % of Beginning			
Fixed Assets	20,6%	14,8%	15,6%
Capex as a % of Beginning			
Fixed Assets	25,7%	0,7%	6,8%

Source: Author Calculation

To forecast fixed asset investment, we will use the following assumptions and components:

1. Depreciation & Amortization (D&A):

Average Ratio (D&A/Beg. Fixed Assets): Depreciation and amortization will be forecasted based on the average ratio of D&A to beginning fixed assets from the past three years.

2. Capital Expenditure (CapEx):

Average Ratio (CapEx/Beg. Fixed Assets): Capital expenditure will be estimated based on the average ratio of CapEx to beginning fixed assets from the past three years.

3. Beginning Fixed Assets:

Roll Forward Method: Beginning fixed assets will be rolled forward from the ending fixed assets of the previous year.

4. Ending Fixed Assets:

Calculation Basis: Ending fixed assets will be calculated as beginning fixed assets minus depreciation amortization plus capital expenditure.

Table 7: Assumption – Net Working Capital

New Working Capital	Actual		
Fiscal Year	2021	2022	2023
Trade Receivable	19.259.844.161	22.454.454.840	15.979.496.225
Inventory	21.689.619.003	27.961.756.550	30.553.076.863
Other Current Assets	16.883.695.307	14.549.694.529	16.620.904.946
Current Assets (minus cash)	57.833.158.471	64.965.905.919	63.153.478.034
Trade Payable	14.879.705.458	8.823.914.579	11.271.355.019
Unearned Revenue	345.178.931	475.500.560	314.593.639
Accrued Expense	43.640.100	43.640.100	0
Other Current Liabilities	437.103.652	518.940.198	240.578.643
Current Liabilities (minus debt)	15.705.628.141	9.861.995.437	11.826.527.301
Assumptions	Actual		
Fiscal Year	2021	2022	2023
Revenue	102.316.904.804	136.370.430.067	106.699.011.283
Cost of Revenue	64.959.166.429	92.923.285.640	71.906.807.582
Average collection period	68,71	60,10	54,66
Days Inventory Outstanding (DIO)	78,08	66,45	100,08
Average payment period	83,76	38,05	63,41
Other Current Assets as a % of Revenue	16,50%	10,67%	15,58%
Unearned Revenue as a % of Revenue	0,34%	0,35%	0,29%
Accrued Expense as a % of Revenue	0,04%	0,03%	0,00%
Other Current Liabilities as a % of Revenue	0,43%	0,38%	0,23%

Source: Author Calculation

To forecast net working capital, the author will use the following assumptions:

- Trade Receivable:
Average Collection Period: The forecast will be based on the average of the "average collection period" from the past three years.
- Inventory:
Days Inventory Outstanding (DIO): Calculated as the average inventory divided by (sales/365), using the average DIO over the past three years.
- Other current assets:
Ratio to Revenue: Estimated using the average ratio of "other current assets to revenue" from the past three years.
- Trade Payables:
Average Payment Period: The forecast will be based on the average "average payment period" from the past three years.
- Unearned Revenue:
Ratio to Revenue: Estimated using the average ratio of "unearned revenue to revenue" from the past three years
- Accrued Revenue:
Ratio to Revenue: Forecasted using the average "accrued revenue to revenue" ratio from the past three years.
- Other current liabilities:
Ratio to Revenue: Estimated using the average ratio of "other current liabilities to revenue" from the past three years.

c. Forecast Value

Table 8: Forecast Value – Capex & Depreciation

Fixed Assets Schedule	Forecast				
Fiscal Year	2024	2025	2026	2027	2028
Beginning, Fixed Assets	65.174.130.490	61.302.577.618	57.661.007.432	54.235.758.223	51.013.979.828
D&A	11.074.694.399	10.416.821.949	9.798.029.237	9.215.994.802	8.668.535.083
Capex	7.203.141.527	6.775.251.764	6.372.780.028	5.994.216.407	5.638.140.682
Ending, Fixed Assets	61.302.577.618	57.661.007.432	54.235.758.223	51.013.979.828	47.983.585.427
Assumptions	Forecast				
Fiscal Year	2024	2025	2026	2027	2028
D&A as a % of Beginning Fixed Assets	17,0%	17,0%	17,0%	17,0%	17,0%
Capex as a % of Beginning Fixed Assets	11,1%	11,1%	11,1%	11,1%	11,1%

Source: Author Calculation

The forecast values for Capital Expenditures (CapEx) and Depreciation Amortization (D&A) in the Fixed Assets Schedule show that beginning fixed assets decrease over time due to D&A, which is consistently 17% of the beginning fixed assets each year. CapEx, calculated as 11.1% of the beginning fixed assets, represents the investments made to maintain and expand the company's fixed assets. The ending fixed assets are determined by subtracting D&A and adding CapEx to the beginning fixed assets, reflecting the net change in the asset base over the forecast period.

Table 9: Forecast Value – Net Working Capital

New Working Capital	Forecast				
Fiscal Year	2024	2025	2026	2027	2028
Trade Receivable	18.748.587.705	19.661.921.501	20.619.748.174	21.624.235.188	22.677.655.590
Inventory	24.996.193.865	26.213.878.577	27.490.882.562	28.830.095.548	30.234.548.033
Other Current Assets	15.944.550.260	16.721.285.919	17.535.860.103	18.390.116.110	19.285.987.032
Current Assets (minus cash)	59.689.331.830	62.597.085.996	65.646.490.840	68.844.446.846	72.198.190.655
Trade Payable	12.556.056.225	13.167.722.056	13.809.185.070	14.481.896.829	15.187.379.610
Unearned Revenue	365.860.769	383.683.605	402.374.677	421.976.281	442.532.773
Accrued Expense	18.472.908	19.372.182	20.315.895	21.305.579	22.343.477
Other Current Liabilities	385.379.032	404.152.696	423.840.916	444.488.244	466.141.402
Current Liabilities (minus debt)	13.325.768.333	13.974.930.540	14.655.716.557	15.369.666.932	16.118.397.261

Assumptions	Forecast				
Fiscal Year	2024	2025	2026	2027	2028
Revenue	111.896.832.821	117.347.865.222	123.064.443.604	129.059.503.987	135.346.612.569
Cost of Revenue	74.232.638.595	77.848.867.115	81.641.259.503	85.618.397.547	89.789.281.096
Average collection period	61,16	61,16	61,16	61,16	61,16
Days Inventory Outstanding (DIO)	81,54	81,54	81,54	81,54	81,54
Average payment period	61,74	61,74	61,74	61,74	61,74
Other Current Assets as a % of Revenue	14,25%	14,25%	14,25%	14,25%	14,25%
Unearned Revenue as a % of Revenue	0,33%	0,33%	0,33%	0,33%	0,33%
Accrued Expense as a % of Revenue	0,02%	0,02%	0,02%	0,02%	0,02%
Other Current Liabilities as a % of Revenue	0,34%	0,34%	0,34%	0,34%	0,34%

Source: Author Calculation

The forecast values for Net Working Capital (NWC) show that current assets and liabilities are projected to increase steadily over the forecast period. Trade receivables are forecasted using an average collection period of 61.16 days, while inventory is calculated using a Days Inventory Outstanding (DIO) of 81.54 days. Trade payables are also forecasted using a DIO of 81.54 days. Other current assets and current liability components are projected using their respective percentages of Revenue.

Table 10: Forecast Value – Unlevered Free Cash Flow

Unlevered Free Cash Flow	Forecast				
Fiscal Year	2024	2025	2026	2027	2028
Revenue	111.896.832.821	117.347.865.222	123.064.443.604	129.059.503.987	135.346.612.569
Cost of Revenues					
Cost of Goods Sold (COGS)	71.950.153.383	75.455.191.082	79.130.976.008	82.985.826.081	87.028.464.424
Others	2.282.485.211	2.393.676.033	2.510.283.495	2.632.571.466	2.760.816.672
Total Cost of Revenues	74.232.638.595	77.848.867.115	81.641.259.503	85.618.397.547	89.789.281.096
Gross Profit	37.664.194.226	39.498.998.107	41.423.184.101	43.441.106.440	45.557.331.474
Operating Expense					
Sales and Marketing	9.456.699.003	9.917.380.251	10.400.503.497	10.907.161.998	11.438.502.269
General and Administrative	20.711.646.396	21.720.610.213	22.778.725.506	23.888.386.680	25.052.104.780
Total Operating Expense	30.168.345.399	31.637.990.465	33.179.229.003	34.795.548.677	36.490.607.049
EBITDA	7.495.848.828	7.861.007.642	8.243.955.097	8.645.557.763	9.066.724.424
Depreciation and Amortization	11.074.694.399	10.416.821.949	9.798.029.237	9.215.994.802	8.668.535.083
Operating Profit (EBIT)	3.578.845.571	2.555.814.307	1.554.074.140	570.437.039	398.189.341
Tax Income	787.346.026	562.279.147	341.896.311	125.496.149	87.601.655
Net Operating Profit After Taxes (NOPAT)	2.791.499.546	1.993.535.159	1.212.177.829	444.940.890	310.587.686
(+) Depreciation & Amortization	11.074.694.399	10.416.821.949	9.798.029.237	9.215.994.802	8.668.535.083
(-) Capital Expenditure	7.203.141.527	6.775.251.764	6.372.780.028	5.994.216.407	5.638.140.682
(-) Change in NWC	4.963.387.235	2.258.591.959	2.368.618.826	2.484.005.631	2.605.013.481
NWC	46.363.563.408	48.622.155.457	50.990.774.283	53.474.779.913	56.079.793.394
Current Asset (minus cash)	59.689.331.830	62.597.085.996	65.646.490.840	68.844.446.846	72.198.190.655
Current Liabilities (minus debt)	13.325.768.333	13.974.930.540	14.655.716.557	15.369.666.932	16.118.397.261
Unlevered Free Cash Flow	6.043.440.562	610.556.933	155.347.446	292.831.874	735.968.606

Assumptions	Forecast				
Fiscal Year	2024	2025	2026	2027	2028
Revenue Growth	5%	5%	5%	5%	5%
Common Size					
Cost of Revenues					
COGS	64%	64%	64%	64%	64%
Others	2%	2%	2%	2%	2%
Sales and Marketing	8%	8%	8%	8%	8%
General and Administrative	19%	19%	19%	19%	19%
Corporate Income Taxes Rate	22%	22%	22%	22%	22%

Source: Author Calculation

The forecast values for unlevered Free Cash Flow (FCF) show that Revenue is projected to grow at a consistent rate of 5% annually from 2024 to 2028. The Cost of revenues, including The Cost Of Goods Sold (COGS) and other costs, is forecasted to remain at 66% of Revenue. Operating expenses, including sales and marketing and general and administrative expenses, are projected to be 27% of Revenue. Depreciation And Amortization (D&A) expenses are expected to decrease over time, while Capital Expenditures (CapEx) are projected to decline gradually. Changes In Net Working Capital (NWC) are forecasted based on the projected increases in current assets and liabilities. The resulting unlevered free cash flow fluctuates, with positive values in 2024, 2027, and 2028 and negative values in 2025 and 2026, reflecting the impact of operating performance, CapEx, and changes in NWC on the company's cash flow.

d. Calculate the Weighted Average Cost of Capital (WACC)

Table 11: Data Variables for WACC

Variable	Amount	Description	Ref From
Government Bond 10 Years	6.56%	As of 31 Dec 2023,	World government bonds
Country Default Spread	2.07%	As of 5 Jan 2024,	Country Default Spreads and Risk Premiums, Damodaran
Risk Premium	2.78%	As of 5 Jan 2024,	Country Default Spreads and Risk Premiums, Damodaran
Interest Coverage	-4.95	As of 31 Dec 2023,	Author Calculation
Company Default Spread	20%	As of Jan 2024,	Ratings, Interest Coverage Ratios and Default Spread, Damodaran
Beta Stock	-0.25	5Y Monthly	Yahoo Finance
Corporate Income Tax	22%	UU no. 7 2021	Law on Harmonization of Tax Regulation.

The risk-free rate is based on the 10-year Indonesian government bond yield, which is 6.563% as of December 31, 2023. In account of country-specific risks, an Indonesia default spread of 2.07% is included, according to Damodaran's data from January 5, 2024. Additionally, the equity risk premium is set at 2.78%, sourced from Damodaran. The company's interest coverage ratio is -4.96 as of December 31, 2023, indicating that earnings are insufficient to cover interest expenses. As a result, the company default spread is 20%, reflecting a high risk of default. The stock beta, calculated over a 5-year monthly period, is -0.25, showing that the stock moves inversely to the market. Lastly, the corporate income tax rate is 22%, based on the Law on Harmonization of Tax Regulation (UU no. 7, 2021).

e. Cost of Equity

Table 12: Cost of Equity Calculation

Description	Amount
Government bond 10 years	6.56%
Country default spread	2.07%
Risk-free rate	4.49%
Beta	-0.25
Risk premium	2.78%
Cost of Equity	3.80%

Source: Author Calculation

Based on the 10-year Indonesian government bond yield, the risk-free rate is 6.56%. To adjust for the country default spread of 2.07%, the risk-free rate becomes 4.49%. The stock beta, which measures the stock's sensitivity to market movements, is -0.25. The equity risk premium is 2.78%. By combining these factors, the cost of equity is calculated to be 3.80%, representing the expected return shareholders require to invest in the company.

f. Cost of Debt

Table 13: Cost of Debt

Description	Amount
Risk-free rate	4.49%
Default spread for the country	2.07%
Default spread for firm	20%
Pre-tax Cost of debt	26,56%
Corporate income tax	22%
After-tax Cost of debt	20,719%

Source: Author Calculation

The risk-free rate, based on the 10-year Indonesian government bond yield, is 4.49%. Account for country-specific risks; a country default spread of 2.07% is added. Additionally, the company's default spread is 20%. By Combining these factors, the pre-tax Cost of debt is calculated to be 26.56%. After accounting for the corporate income tax rate of 22%, the after-tax Cost of debt is 20.72%. This represents the effective interest rate the company pays on its debt, adjusted for tax savings.

g. Weighted Average Cost of Capital

Table 14: WACC Calculation

Description	Amount
Debt	16.785.297.445
Equity	136.594.715.545
Debt Weight	10,94%
Equity Weight	89,06%
After-Tax Cost of Debt	20,72%
Cost of Equity	3,798%
WACC	5,650%

Source: Author Calculation

The debt weight is 10.94%, with an after-tax cost of debt of 20.72%. The equity weight is 89.06%, with a cost of equity of 3.80%. Combining these factors, the WACC is 5.65%. The WACC of 5.65% represents the company's overall Cost of capital from both equity and debt financing sources. This rate is a discount rate for evaluating investment opportunities and reflects the minimum return the company needs to achieve to satisfy its investors and creditors.

h. Calculate the Terminal Value (TV)

Table 15: Terminal Value Calculation

Description	Amount	Explanation
Unlevered Free Cash Flow, 5th year	735.968.606,39	Calculation
Growth	5,05%	GDP Growth 2023, World Bank
WACC	5,65%	Calculation
Terminal Value	97.620.613.820	Calculation

Source: Author Calculation

The unlevered free cash flow for the 5th year is 735,968,606.39, derived from the company's financial forecast. The growth rate is 5.05%, based on the GDP growth rate for 2023 provided by the World Bank. The Weighted Average Cost of Capital (WACC) is 5.65%, calculated from the company's Cost of equity and Cost of debt. By Combining these factors, the terminal value is calculated to be 97,620,613,820. This represents the present value of all future free cash flows beyond the forecast period.

i. Discounted the FCFF and TV

Table 16: Discounted the FCFF

Unlevered Free Cash Flow	Forecast				
Fiscal Year	2024	2025	2026	2027	2028
Unlevered Free Cash Flow	6.043.440.562 -	610.556.933 -	155.547.446	292.831.874	735.968.606
Forecast Year	1	2	3	4	5
Present Value (PV) of Free Cash Flow	5.720.258.423 -	547.002.052 -	131.903.727	235.041.161	559.134.462

Source: Author Calculation

Each forecast year's unlevered free cash flow is discounted to its Present Value (PV) using the Weighted Average Cost of Capital (WACC). The sum of the present values of the free cash flows (PV of FCF) is 5,835,528,267, representing the total discounted value of the company's free cash flows over the forecast period.

Table 17: Discounted the TV

Description	Amount
Terminal Value	97.620.613.820
WACC	5,65%
PV of Terminal Value	74.164.915.291

Source: Author Calculation

By discounting the terminal value using the WACC, the Present Value (PV) of the terminal value is calculated to be 74,164,915,291. This represents the value of the company's future cash flows, discounted back to the present, providing a comprehensive view of the company's long-term financial health and potential.

j. Calculate the Implied Share Price

Table 18: Calculate the Implied Share Price

Implied Share Price Calculation	
Sum of PV of FCF	5.835.528.267
Growth Rate	5,05%
WACC	5,65%
Terminal Value	97.620.613.820
PV of Terminal Value	74.164.915.291
Enterprise Value	80.000.443.558
(+) Cash	46.278.921.734
(-) Debt	16.785.297.445
(-) Minority Interest	57.562.778
Equity Value	109.436.505.069
Outstanding Shares	715.749.640
Implied Share Price	152,90

Source: Author Calculation

The sum of the Present Values (PV) of the Free Cash Flows (FCF) is 5,835,528,267. The growth rate is 5.05%, and the Weighted Average Cost of Capital (WACC) is 5.65%. The terminal value is 97,620,613,820, and its present value (PV) is 74,164,915,291. By Combining these factors, the enterprise value is calculated to be 80,000,443,558.

To determine the equity value, we add the company's cash reserves of 46,278,921,734 to the enterprise value and subtract the debt of 16,785,297,445 and the minority interest of 57,562,778. This results in an equity value of 109,436,505,069.

Finally, the implied share price is calculated by dividing the equity value by the number of outstanding shares, which is 715,749,640. This results in an implied share price of 152.90.

C) Steps In Constructing a Business Portfolio and Insight for Strategies

a. Identify a Perceptions Gap

1. Solution:

- Identify Undervaluation: The stock's market value is 71 IDR, while its intrinsic value is 152.90 IDR, indicating a significant undervaluation of 81.90 IDR.

2. Implementation:

- Communicate Value: Enhance investor relations by clearly communicating the company's growth strategies and financial health to the market. This can include regular public exposure and transparent reporting.

Expected Outcomes:

- Target: Reduce the perception gap by increasing the market value closer to the intrinsic value of 152.90 IDR.

b. Evaluate Operating Improvements

1. Solution:

- Decrease SG&A Expenses: Aim to reduce SG&A expenses to 23% of revenue.
- Decrease Average Collection Period: Set a KPI target to reduce the average collection period to 48 days.
- Decrease Average Payment Period: Aim to reduce the average payment period to 50 days.

2. Implementation:

- SG&A Expenses: Implement cost control measures across all possible accounts in the SG&A structure. Enhance employee productivity through training and performance incentives.
- Average Collection Period: Set a KPI target to reduce the average collection period to 48 days. This can improve cash flow and reduce the risk of bad debts.
- Average Payment Period: Set a KPI target to reduce the average payment period to 50 days, strengthen supplier relationships, negotiate better payment terms, and improve cash flow management.

3. Expected Outcomes:

a) **Target:**

- SG&A Expenses: Reduced SG&A expenses to 23% of Revenue.
- Average Collection Period: Reduced the average collection period to 48 days.
- Average Payment Period: Reduced the average payment period to 50 days.

b) **Projection:**

- Positive EBIT
- Inherent value rise to 779,74

c. **Identify businesses for disposal and new owners.**

Due to data limitations, the author cannot identify the businesses for disposal. The only available information comes from the consolidated financial statement, which does not provide standalone performance details for the company and its subsidiaries. Not available

d. **Assess New Growth Opportunities**

1. Solution:

- Increase Total Asset Turnover: Diversify further into the 3D printing market.
- Increase Sales: Achieve a 20% increase in sales.

2. Implementation:

- Total Asset Turnover: Although the company already offers a 3D printer product, it is not yet the main product. Focus on market education, partnerships, and collaborations to increase 3D printer sales.
- Sales Increase: The Current Asset (CA) will become 7.8 after netting debt with cash and equivalents. The initial target is to utilize CA to 3, resulting in a net working capital of Rp 35 billion. Convert this to sales with SMI's minimum acceptable gross profit of 5%, leading to a 35% increase in sales. However, to be conservative, the target is set to a 20% increase in sales, which is in line with the CAGR of the 3D printer market from 2022 to 2026, which is around 20%.

3. Expected Outcomes:

a) **Target:**

- Total Asset Turnover: Increase total asset turnover by diversifying into the 3D printing market.
- Sales Increase: Achieve a 20% increase in sales.

b) **Projection:**

- Achieve skyrocket revenue growth
- Net working capital more than Rp. 100 billion
- Inherent value to 138,66

e. **Determine Financial Strategy**

1. Solution:

Zero Debt Ratio: Given the current negative interest coverage and considering that more than half of the past three years and the next five years also show negative interest coverage, it is recommended to aim for zero debt.

Implementation: This can be achieved by paying off debt with cash and cash equivalents, leveraging the company's high current ratio.

Expected Outcomes:

1. Target:

Debt Ratio: Achieve a zero-debt ratio, reducing financial risk and improving financial stability.

2. Projection:

Inherent value to 162,11
Zero interest expense

V. CONCLUSION AND RECOMMENDATION

A) *Conclusion*

Based on the data processing and analysis conducted in this study, the following conclusions have been drawn:

1. SMI has high liquidity and lower leverage compared to industry averages, which are positive indicators of financial health. However, the company faces significant profitability challenges and issues in asset utilization and inventory management. While the market ratios are not favourable, they are influenced more by external factors. Considering these aspects, SMI's overall financial health is moderate.
2. The stock's intrinsic value is Rp 152.90 for 2023, whereas its market value, as of December 29, 2023, is Rp 71, indicating a significant undervaluation of Rp 81.90.

3. Several strategies can be implemented to enhance the company's intrinsic value. First, closing the perceptions gap by improving investor relations through transparent communication of growth strategies and financial health can align the market value with the intrinsic value of Rp152.90. Second, improving operational efficiency by reducing SG&A expenses to 23% of Revenue, shortening collection periods to 48 days, and increasing payment periods to 50 days can boost profitability and raise the inherent value to Rp779.74. Third, pursuing growth opportunities by diversifying into the 3D printing market and targeting a 20% sales increase can lead to revenue growth. Although this may lower the inherent value to Rp138.66, it will raise net working capital to more than Rp100 billion. Finally, adopting a zero-debt strategy by paying off debt using cash reserves can minimize financial risk, improve stability, and raise the inherent value to Rp162.11.

B) Recommendation

a. Management

Recommendation: To enhance profitability, operational inefficiencies, particularly in SG&A expenses, must be addressed. Implement cost control measures across all SG&A accounts, targeting a reduction to 23% of Revenue. Enhance employee productivity through training and performance incentives. This will improve operational efficiency and contribute to a higher inherent value.

b. Investors

Recommendation: The market stock price is undervalued at 71 IDR, with an intrinsic value of 152.90 IDR, indicating significant growth potential. Investors should monitor the company's progress in addressing operational inefficiencies and pursuing growth opportunities. Consider investing if management successfully addresses their operational inefficiency.

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