

## CHAPTER I INTRODUCTION

### 1.1 Research object

The object of this research is all state-owned open banking companies that persisted in LQ45 index for 5 years over period 2011 February – 2017 January which is reviewed every 12 months by Bursa Efek Indonesia (BEI). Therefore, if some banks are move out from calculation of LQ 45 index will not be included as an object in this research. The list of LQ 45 over period of 5 years can be seen in table 1.1.

**Table 1.1 Research Object**

BUMN Bank Listed in LQ45	Period of LQ 45 (12 Months)					
	Feb 11-Jul 11	Aug 11-Jan 12	Feb 12-Jul 12	Aug 12-Jan13	Feb 13-Jul 13	Aug 13-Jan 14
Bank Mandiri	□	□	□	□	□	□
Bank Rakyat Indonesia	□	□	□	□	□	□
Bank Negara Indonesia	□	□	□	□	□	□
Bank Tabungan Negara	□	□	□	□	□	□
	Feb 14-Jul 14	Aug 14-Jan 15	Feb 15-Jul 15	Aug 15-Jan 16	Feb 16-Jul 16	Aug 16-Jan 17
Bank Mandiri	□	□	□	□	□	□
Bank Rakyat Indonesia	□	□	□	□	□	□
Bank Negara Indonesia	□	□	□	□	□	□
Bank Tabungan Negara	□	□	□	□	□	□

*Source: Secondary Data Processed (2017)*

Bank Tabungan Negara (BTN) will not include in this research object , because the bank BTN out of the LQ 45 index at 4 periods out of 12 (2012 August – 2013 July,2013 February - 2013 July,2014 February - 2014 July and 2014 August – 2014 July). Therefore, a BNI, BRI and Mandiri bank is survived in the LQ 45 list for 5 years. Then these three banks will be the focus of this research object.

## 1.2 Background

Investment is use of financial capital as one of an effort or a business to gain more money. So, investment is an investor effort to plant the owner's capital that expected to give capital gain in the upcoming time. In investment activities, it's commonly divided by 2 forms, which are "real investment and financial investment". Real investment involve tangible assets such a land, machine, or factory. While financial investments involve bond, common share and obligations.

Stocks simply define as an ownership whether single person even institution in a company. Every investor doing stocks investment has the same purpose, which gaining positive differences from buying price between selling price (capital gain), also to receive cash dividend from issuer when the company gained profit.

According to Halim (2005:20) "there are three types of value in stocks valuation they are: book value, market value, and intrinsic value". Book value reflects company's value and company's value reflected by the value of its economic net worth.

So, the valuation of the fair price of shares can be interpreted as an assessment in comparing market value with the intrinsic value of the firm to assist the investor in making a decision whether to make a purchase or conduct a stock sale.

The approach of relative valuation techniques is a way of valuing the fair price of shares by calculating the intrinsic value of shares through the company's earnings value (earnings). Through this approach, the author uses the method of Price Earnings Ratio and Price Book Value Ratio.

Price Earnings Ratio (PER) illustrates the market's appreciation of the company's ability to generate profits. PER is calculated in units of multiples, meaning the market appreciates 10 times the ability of the firm to generate profits. For investors, the smaller price earnings ratio per share, the better, because the stock is included in the cheap category.

(Darmadji, 2006: 199) "Price book value ratio describes how much the market appreciates the value of a company's stock book. The higher this ratio, the more the market believes the prospects of the company"

According to Prof. Verryn G.M Stuart (2011) Bank is an entity that aims to satisfy the needs of the credit, either by means of payment alone or with money he made from someone else, wherever the road circulate exchangers and demand deposits. In addition, the bank is also known as a place to exchange money, transfer money or receive all forms of payment and deposits such as electricity, telephone, tax, water, tuition and other means of payment.

The reason the author decide to value state owned banking stocks because development of the financial sector, especially changes in the banking structure in Indonesia, is expected to bring positive changes to the national economy, because financial institutions, especially banks have a very important role to the movement of the economy of Indonesia. When the country is in the process of economic recovery, most banks are still not optimal in performing its main function as an international financial intermediary institution that describes the ratio of the ratio of credit to third parties.

The role of banking institution intermediation is very influential on the economic growth of a country. When there is a decrease in the number of loans due to the prudence of the bank, will indirectly slowdown in economic growth in the countries concerned.

Banks in running their business raise funds from the community and redistribute them in various investment alternatives. In relation to the collection function, Banks are often referred to as trust agencies. In its activities, the bank may influence the amount of money in circulation which is one of the regulatory goals by the monetary authorities by using various monetary policy instruments.

As a trust institution, banks in their operations use more public funds than their own capital from owners or shareholders. In line with the development of the economy, many banks do various ways to meet the needs of such liquidity. One alternative source of financing for banks is to issue securities in the capital market, such as stocks.

Road construction investment, bridges, factories, or education can directly reduce unemployment and increase people's incomes that will ultimately increase public spending. Investments in capital equipment or capital formation can increase production factors or economic growth and can also provide employment opportunities for the community. A country will develop dynamically if its investments outweigh the depreciation of its factors of production. Countries that have smaller investments than their production factors tend to

experience stagnation (an economy with slow growth rates). In developing countries, where characterized with large population levels generally have relatively small investment ratios.

Comparable company analysis starts with establishing a peer group consisting of similar companies of similar size in the same industry and region. The authors are then able to compare a particular company to its competitors on a relative basis. This information can be used to determine a company's enterprise value and to calculate other ratios used to compare a company to those in its peer group.

Stocks have a high investment risk, but also promise a big return as well. To reduce the risk of stocks then required the actual information, accurate and transparent. Investment decisions in a stock must be preceded by a process of analysis of the variables that are expected to affect the price of a stock due to the nature of the stock is very sensitive to changes that occur, both due to internal and external factors. Internal factors come from within the company, i.e. in the form of company performance (financial performance and performance management), company conditions, and prospects. While external factors, including various information outside the company, such as money market conditions, the condition of the stock market (supply and demand), politics, and issues in circulation today can play a role in the fall of the price of a stock. Investing in shares should not be haphazard in determining the type of shares to be purchased. Everything needs to be careful in determining which portfolio to choose from. Especially, some of traders are new in the stock investment. Must often learn, practice, trial and error. The goal is to find the right instinct and sense in stock investing.

Lots of funding sources of banks collected from the wider community. The source of funds is then used for business development through credit or loans, because the vital role of banking in a country, the banking stocks so in demand by investors. Some investors argue that the existence of banking will last long and always evolve from time to time, because so many individuals and companies will always need banking services. Another reason investors choose banking shares is because the management of these banks is supervised and regulated by the government. As a result, the banking world will always be professional and transparent in managing public funds. And it certainly will provide trust and positive value in the eyes of the community. Therefore there is no doubt that some banking stocks are listed in the LQ 45 index caused by the demand of the investor itself.

The result of valuation can be fundamentally used as a reference for more objective consideration for rational investment decision-making.

Based on the above description, the authors are interested in conducting research entitled “Valuation of banking stocks (BUMN) included in LQ45 in 2013-2017 using relative valuation methods: price earnings ratio and price-book value”

### **1.3 Problem Formulation**

The banking sector is one of the most vital sectors for a country. That's where the heart of a country's economy lies. Bank is an institution that acts as a financial intermediary between parties who need funds, as well as an institution that serves to smoothen the payment traffic.

The banking industry after so long without a significant competitor now has a formidable challenger of financial technology. The presence of a new challenger for the banking industry was very difficult given the industry entry barrier is strong enough. The banking industry is a capital-intensive industry with very strict regulations and also requires a long journey to become a trustworthy financial institution of society.

However, now technology-based innovations are able to address the needs of the community through easy, fast and low cost financial services. The presence of financial tech has become a pressure for banks to change their business model so as to provide competitive services and products. The frequency of bank branch transactions continues to decline. Therefore the number of tellers will certainly decline in the coming years. The emergence of this financial tech also supports making spoiled people want it all practical, fast and cheap. This change makes the rate of money in the bank did not increase significantly. Especially now financial tech offers non-bank transactions that can be accessed by all circles.

In the end, technological developments have opened the door to non-banking institutions to provide technology-based financial services as well as shifting consumer habits that ultimately change consumer preferences in choosing financial products and services. In the midst of these challenges of course the banking needs to respond with strategic steps, especially realizing the real digital banking.

The bank in conducting its business is required to maintain a balance between sufficient liquidity maintenance and achievement of reasonable profitability as well as the fulfillment of

adequate capital requirement in accordance with the type of planting. In line with the development of the economy, many banks do various ways to meet the needs of such liquidity.

As a bank that has listed in LQ 45 Index over 5 year Bank Mandiri, BRI, and BNI must not only operate based on the prudential principles determined by Bank Indonesia, but also must be able to earn profitability or maximize earnings per share (EPS) which can satisfy the desire of shareholders. As mentioned above, stocks have a high investment risk, but also promise big returns as well. To reduce the risk of stocks needed information that is actual, accurate and transparent. Investment decisions in a stock must be preceded by a process of analysis of the variables that are expected to affect the price of a stock due to the nature of the stock is very sensitive to changes that occur, both due to internal and external factors. Internal factors come from within the company, ie in the form of company performance (financial performance and performance management), company conditions, and prospects. While external factors, including various information outside the company, such as money market conditions, the condition of the stock market (supply and demand), politics, and issues in circulation today can play a role in the fall of the price of a stock. Stock valuation aims to provide a real idea of the fairness of the stock price assessed so as to assist in the decision to buy or sell shares, assess the percentage of strength of the shares in the ownership of the company and take into account the level of risk and return on the stock owned so as to facilitate the decision to buy or sell shares.

#### **1.4 Research Questions**

1. What is intrinsic value of Bank Mandiri, BRI, and BNI stock price based on fundamental valuation techniques consisting of Price Earnings Ratio (PER) ?
2. Is the fair price of shares of Bank Mandiri, BRI and BNI assessed by Price Earnings Ratio (PER) method has a significant difference to the stock price?
3. What is intrinsic value of Bank Mandiri, BRI, and BNI stock price based on fundamental valuation techniques consisting of Price to book value (PBV)?
4. Is the fair price of shares of Bank Mandiri, BRI and BNI assessed by Price to book value (PBV) method has a significant difference to the fair value condition of PBV, where the fair value condition of PBV's 1 ?

5. Which is the best method in valuation of Bank Mandiri, BRI, and BNI stock price based on fundamental valuation techniques consisting of Price Earnings Ratio (PER) and Price to Book value (PBV) ?

### **1.5 Research Objectives**

1. To know whether intrinsic value of Bank Mandiri, BRI, and BNI stock price based on fundamental valuation techniques consisting of Price Earnings Ratio (PER)
2. To calculate whether fair price of shares of Bank Mandiri, BRI and BNI assessed by Price Earnings Ratio (PER) method has a significant difference to the stock price
3. To know value of Bank Mandiri, BRI, and BNI stock price based on fundamental valuation techniques consisting of Price to book value (PBV)
4. To calculate whether fair price of shares of Bank Mandiri, BRI and BNI assessed by Price to book value (PBV) method has a significant difference to the fair value condition of PBV, where the fair value condition of PBV's 1
5. To know which is the best method in valuation of Bank Mandiri, BRI, and BNI stock price based on fundamental valuation techniques consisting of Price Earnings Ratio (PER) and Price to Book value (PBV) ?

### **1.6 Research benefits**

#### **1.6.1 Theoretical Aspect**

1. Academician and Researcher

In addition to the insight of science and science in the author understand the capital market, especially regarding the valuation of the fair price of shares. As a complement, adder, and comparison of research results has existed, and adds references as recommendations for research next on the same topic.

#### **1.6.2 Practical Aspect**

1. Investor

As an additional reference for investors and potential investors in determine the fair value of the right stock, so it can earn capital gain maximum.

2. Issuers

This research can be used as a consideration, especially that related to the issue of banking sector stocks that listed in LQ 45 Index.

## **1.7 Research Scope**

### **1.7.1 Research Location and Objects**

The object of this research is All-state-owned open banking companies that persisted in LQ45 index for 5 years over period 2011 February – 2017 January which is reviewed every 12 months. Has been selected three banks Bank Mandiri, BRI, and BNI. Those three banks are the banks whom persisted in LQ 45 index for 5 years (2011-2016)

### **1.7.2 Research Period**

The period of this research is approximately 8 months, which is from August 2017 to April 2018.

## **1.8 Systematic of Writing**

### **CHAPTER 1: Introduction**

Chapter 1 provide general and concise description of the research, which includes research overview, research background, research questions, research objectives, research benefits, research period and systematic of writing.

### **CHAPTER 2: Theoretical review and research scope**

Chapter 2 summarize all valid and scientifically-tested theories, previous research regarding to the problem, a set of reasoning used to describe the research problem that finally form conceptual framework leading to a conclusion and research hypothesis.

### **CHAPTER 3: Research methodology**

Chapter 3 underlines the approach, method, and technique used to collect and analyze data and answer then explain better solution for research problem. It presents research characteristic, measurement scale, population and sample, data collection, analysis technique and hypothesis testing.

### **CHAPTER 4: Research results and discussions**

Chapter 4 the statistical testing and data interpretation are included in this chapter. Moreover, the resulting problem identification will be further examined

## CHAPTER 5: Conclusions and suggestions

Chapter 5 gives the result of the research findings. Additionally, suggestions are given for the next study related to this research.