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Evaluating Finansial Due Diligence in the Strategic Acquisition of PT Suryamas Dutamakmur, Tbk (SMDM) by PT Bumi Serpong Damai, Tbk (SMDM)

Elvina Griselda Daulay[1], Erman Arif Sumirat[2]
[1]School of Business and Management, Institut Teknologi Bandung, Indonesia, elvina_griselda@sbm-itb.ac.id
[2]School of Business and Management, Institut Teknologi Bandung, Indonesia, erman.sumirat@sbm-itb.ac.id

Corresponding Author: elvina_griselda@sbm-itb.ac.id[1]

Abstract: This research evaluates the strategic acquisition of PT Suryamas Dutamakmur Tbk. (SMDM) by PT Bumi Serpong Damai Tbk. (BSDE) within Indonesia's competitive real estate market. The study focuses on analyzing SMDM's financial performance, determining its valuation, and quantifying the synergies arising from the acquisition. Using financial analysis, discounted cash flow (DCF), relative valuation, and Damodaran's synergy valuation framework, the study examines the financial and operational aspects of the transaction. Results indicate that SMDM's fluctuating financial performance, highlighted by its strong working capital management and asset turnover, complements BSDE's broader portfolio and profitability metrics. Synergy valuation suggests an additional value of Rp3.483 trillion, exceeding the acquisition cost of Rp2.36 trillion, reinforcing the transaction's financial feasibility. This synergy arises from operational efficiencies, portfolio diversification, and enhanced financial stability, including a reduced cost of capital at 12.05%. Macroeconomic conditions, such as declining interest rates and supportive fiscal policies, present favorable opportunities for the real estate sector while highlighting challenges such as high competition and fluctuating market demand. The findings emphasize the need for strategic integration, leveraging shared resources, and aligning operational strategies to maximize long-term value creation for stakeholders.

Keyword: Acquisition, Due Diligence, Synergy, Valuation, Real Estate

INTRODUCTION

Indonesia's population in mid-2024 reached 281.603 million, with a growth rate of 1.11% (BPS, 2024). The population is predominantly made up of individuals aged 15-64, or the productive age group, which accounts for 67% of the total population. As a primary need, the demand for housing has increased along with the growing population, supported by the dominance of the productive age group. This is further backed by a survey conducted by Bank Indonesia in 2024, which showed that residential property sales grew by 31.16% year-on-year, driven by increased sales across all types of houses. In terms of prices, the Residential Property Price Index indicated a year-on-year increase of 1.89% in the first quarter of 2024, a higher figure compared to the growth in the fourth quarter of 2023, which was 1.74% year-on-year.

The growth of the property sector is also supported by government policies, including fiscal policies such as the Value Added Tax borne by the Government (PPN-DTP) for the purchase of first homes priced up to IDR 5 billion, although the amount of tax covered by the government is only ≤ IDR 2 billion. Additionally, Bank Indonesia (BI) issued a policy to relax the Loan to Value (LTV) ratio to a maximum of 100% for all types of property loans (detached houses, apartments, and shop houses). A similar policy was also implemented in 2021, where the combination of this policy with the LTV relaxation proved effective in improving the performance of the property sector, as can also be seen in the graph where 2021 was the peak of property sector investment.

Besides the two government policies mentioned, the macroeconic factors that affecting the real estate industry is the interest rate or BI rate (Bank Indonesia rate). The historical BI rate data from January to September 2023 remained at 5.75%. In October 2023 through March 2024, the BI rate rose by 25 basis points, reaching 6.00%. From April to August 2024, the BI rate increased again, reaching 6.25%, and in September 2024, the rate decreased to 6.00%. Although an increase in interest rates can indicate economic growth, the central bank’s interest rate has an inverse effect on the real estate industry. When interest rates are high, there is a possibility that demand in the real estate sector will decrease due to rising mortgage costs. In addition to interest rates, inflation can also influence the real estate industry. It has been recorded that Indonesia experienced deflation over the past five months. This could be a favorable condition as asset prices also tend to decrease, but if deflation persists, it may discourage asset purchases because continuously depreciating asset prices can lead to losses for investors.

The market structure of the real estate industry also significantly affects the profitability of a real estate company. There are more than 30 real estate companies listed on the Indonesia Stock Exchange. This sector has a high level of competition with many players, so there isn't a single major player that can significantly influence the industry's direction. One of the real estate companies in Indonesia with the largest total sales is PT Bumi Serpong Damai Tbk. (BSDE). In 2023, BSDE's total sales reached IDR 11,539 billion. BSDE's main competitors include PT Lippo Karawaci Tbk. (LPKR) with total sales of IDR 16,909 billion and Ciputra Group (CTRA) with total sales of IDR 9,245 billion.

According to its annual report, in 2023 BSDE stated that one of the challenges it faced is the increase in BI rate of 25 basis point, making it reach 6,00%, it is proven that the increase of BI rate can hinder the demand of real estate as most property purchases by the public tend to use mortgage or apartment loan payment methods. Moreover, with a monopolistic market structure, BSDE is making efforts to strengthen its position in the market market with increasing land reserves in strategic locations, diversifying geographic presence, and penetrating the market by acquiring 91.99% of the shares of the real estate company PT. Suryamas Dutamakmur (SMDM) in August 2024. This acquisition aligns with the company's strategy, as stated in its 2023 annual report, which focuses on well-known market segments, planned diversification, increasing stability through recurring income, maintaining an adequate land bank, and remaining open to new opportunities in the property sector. This strategy is believed to be capable of facing future challenges and achieving the set targets. However, on the other side, with BSDE’s extensive business portfolio, large land reserve and vacant land, added with the focus on ongoing projects from 2024 to 2026, is acquiring SMDM a strategic move? Considering the macroeconomic conditions of deflation and declining BI rates, further analysis is needed to assess the value BSDE will gain from the acquisition and the appropriate merger and acquisition value to pay SMDM.

METHOD

Due diligence is one of the most important step in merger and acquisition. Due diligence is the process of evaluating and acquiring the requisite level of comprehension regarding four factors: the company and its business operations (i.e., its products, assets, and/or services, and how the company functions); determining an appropriate valuation of the business, assets, and transactions; and vetting management capabilities, key personnel, and employment matters—prior to engaging in a business transaction with, investing in, licensing assets or services from, or purchasing all or a portion of a business or its assets (Berkman, 2013). Another perspective is that a more comprehensive evaluation of the anticipated costs, benefits, and hazards of an M&A transaction can be achieved through the implementation of a rigorous due diligence process (Wangerin, 2019). According to Lajoux and Elson (2009), acquirers typically identify the underlying values that may be advantageous, while also remaining vigilant for potential drawbacks, such as the risks of fraud and insolvency from the target's financial statement. In addition, Koller, et al. (2020) explained that the value obtained by the acquirer is equivalent to the intrinsic value of the target company as an independent entity managed by its previous management team, in addition to the present value of anticipated performance enhancements post-acquisition, which will manifest as increased cash flows for either the target's or the acquirer's business. Based on those statements, it is important to compute the financial performance, the value companies separately and value the possible synergy from the acquisition.

A. Financial Performance

The financial performance of the target company will be measured by several financial ratios which are divided into three categories: profitability ratios, debt ratios, and liquidity ratios. Various metrics have developed to assess profitability. Collectively, these measures allow for the assessment of the firm's profitability in relation to specific sales levels, asset quantities, or the owners' investments. In this research, the company's profitability is measured by gross profit margin, operating profit margin, return on asset, and return on equity. Debt ratio or the debt position of a firm reflects the extent to which external capital is utilized to drive profit generation. The financial analyst primarily focuses on long-term debts due to their implications for the firm's obligation to a series of contractual payments over an extended period. A firm's level of debt directly correlates with its risk of failing to fulfill its contractual debt obligations. Debt ratios in this research are calculated using debt rasio (debt to asset ratio) and liquidity ratio. A firm's liquidity is assessed by its capacity to meet short-term obligations as they arise. Liquidity denotes the firm's overall financial solvency and the efficiency with which it can settle its obligations. Liquidity ratios in this research are consisted of quick and current rasio.

B. Valuation

1) Discounted Cash Flow

Valuing an asset requires a careful forecast of the expected cash flows throughout its lifespan. Forecasting cash flows consists of three essential components. Initially, it is essential to ascertain the duration of the remarkable growth phase. The second is estimating the cash flows during the high-growth period, using the measures of cash flows. The third is the terminal value calculation, which should be based on the expected path of cash flows after the terminal year. The formula for DCF is as below:

$$\text{Value of a firm} = \sum_{t=1}^{t=n} \frac{expected\ CF_t}{(1+r)^t} + \frac{terminal\ value_t}{(1+r)^t}$$

Where:
CF = Total free cash flow generated throughout the year

t = The period of time
r = The expected rate of return

The free cash flow utilized in the equation refers to the free cash flow available to the firm. The free cash flow to the firm is calculated as below:

$$\begin{gathered} Free\ Cash\ Flow\ to\ The\ Firm \\ = EBIT\ (1 - Tax\ Rate) - (Capital\ Expenditure - Depreciation) \\ -(Change\ in\ Working\ Capital) \end{gathered}$$

The formula for terminal value in this valuation method is:

$$Terminal\ Value_n = \frac{E(FCFF)_{n+1}}{r_n - g_n}$$

Where:
r_n = the cost of capital
g_n = is the expected growth rate in perpetuity

The cost of capital serves as a critical factor in the process of discounting cash flows to the firm. The cost of capital represents the weighted average of the expenses associated with various financing components, such as debt, equity, and hybrid securities, that a firm utilizes to meet its financial needs (Damodaran, 2014). The formula for cost of capital is expressed as below:

$$\begin{gathered} Cost\ of\ Capital = \\ \left(\left((Cost\ of\ Debt)\ x\ (1 - Tax)\right) x \left(\frac{D}{D+E}\right)\right) + \left((Cost\ of\ Equity)\ x\ \left(\frac{E}{D+E}\right)\right) \end{gathered}$$

2) Relative Valuation

This valuation method is finding the multiple of price paid by the earnings per share (EPS) generated by the company. Therefore, the formula is:

$$P/E = \frac{Market\ Price}{Earnings\ per\ Share}$$

3) Synergy Valuation

Damodaran (2006) explain that synergy can be categorized into two distinct types, each necessitating adjustments to various inputs. The initial aspect is operating synergies, which influence the operations of the merged entity and encompass economies of scale, enhanced pricing power, and greater growth potential. The process for assessing operating synergies involves the following steps: a) Independently assess the value of the firms involved in the merger by discounting the anticipated cash flows for each firm using the weighted average cost of capital specific to that firm; b) Calculate the value of the combined firm without factoring in any synergy, by summing the values derived for each firm in the initial step; and c) Incorporate the effects of synergy into anticipated growth rates and cash flows, and subsequently revalue the combined firm considering synergy. The disparity in value between the combined firm with synergy and the combined firm without synergy yields a quantifiable measure of synergy.

RESULTS AND DISCUSSION

A. Profitability Ratio

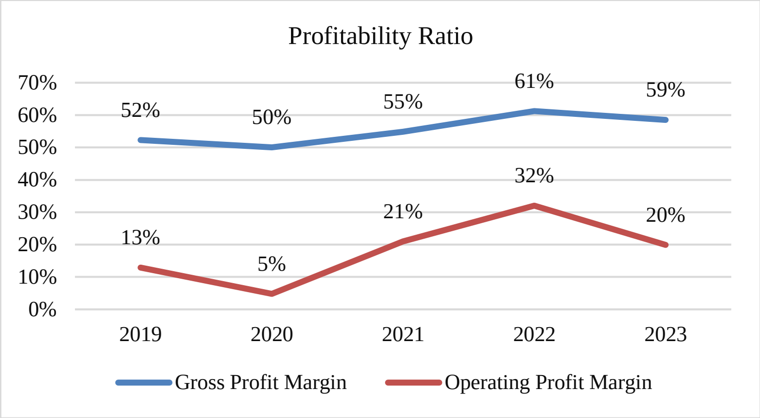

Figure 1. SMDM Profitability Ratio
Source: Resource Research

Above is the operating profit margin and gross profit margin of SMDM in the past 5 years. Gross profit ratio shows the percentage sales earnings remaining after the company paid for its goods. From the calculation, we can see that the lowest point is in 2020. It is mainly because the pandemic COVID-19. SMDM revenue declining sharply from Rp569,4 billion in 2019 to Rp386,5 in 2020.

Although the decline in revenue also followed by declining in cost of revenue, the decline in cost of revenue doesn't seem to be proportional to the decline in revenue, suggesting that cost management was less effective during this period. Despite the overall decline in revenue, the real estate and property segment remained the largest contributor to SMDM's sales, helping to partially offset the downturn. Looking at the COGS across the company's four main operating segments real estate and property, golf and country club, hotel, and estate management the real estate and property segment consistently had the smallest proportion of COGS relative to its revenue, making it the most profitable segment. On the other hand, the estate management segment had the highest COGS-to-revenue ratio, though it was the most stable segment in terms of generating consistent gross profit over the past five years. This suggests that while the estate management segment had higher operational costs, it managed to maintain stability in profitability, unlike the other segments that were more impacted by external factors like the pandemic. The peak point for SMDM's gross profit margin is in 2022 and decline slightly in 2023. Real estate and property sales has slight decreasing sales in 2023 which is caused by tighter competition in the operation area. Compared to its competitor, in 2023, SMDM has very good gross profit margin of 59%. SMDM's main competitors has average of 43% gross profit margin.

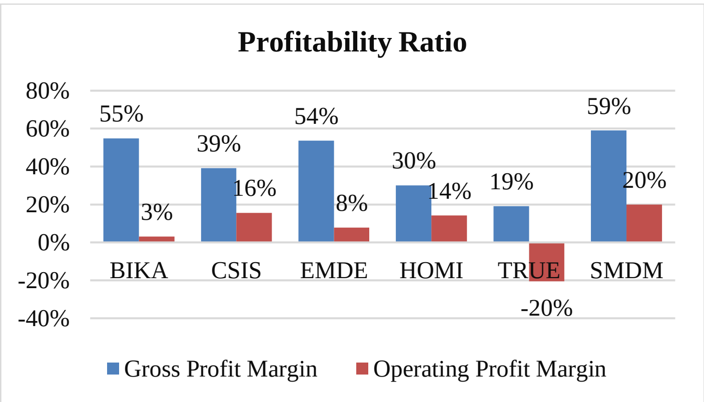

Figure 2. SMDM and Competitor Profitability Ratio Comparison
Source: Research Result

The operating profit margin for SMDM in the past 5 years is fluctuate between 5% to 32%. With the lowest point of 5% is in 2020, and highest point of 32% in 2022. The average of operating profit margin for SMDM in the past 5 years is 18%. The operating profit margin represents the proportion of sales that remains after accounting for all costs and expenses, excluding interest, taxes, and preferred stock dividends. Higher operating profit indicates the efficiency of management's decision in managing its operational expenses, it also indicates higher profitability. SMDM has very good operating profit margin, it can be seen that in 2023 SMDM has the highest operating profit margin compared to its competitor. The average operating profit margin of SMDM competitor in 2023 is 7%. If we compare SMDM with its competitor which also operates in Bogor, HOMI, SMDM has far better profitability. And overall, from the profitability point of view, SMDM has a very good capability to manage its expenses and generate profit to the company.

The profitability ratio can also be assessed through return on assets and return on equity. The return on assets represents the percentage of profit produced relative to the company's total assets; it also reflected the company's effectiveness of asset usage. In 2023, SMDM is able to yield 2.75% return on asset while the industry average is -1.03%. There are three competitor companies that yield negative return on asset, the closest company to yield higher return on asset is HOMI, a residential company in Bogor.

Another ratio that can be used to measure profitability is return on equity. Return on equity is the percentage of profit generated by the common stockholder's investment in the company. Higher return in equity is generally favourable for investors. In 2023, SMDM return on equity is 3.18%, this number is lower than its competitor, HOMI, which can yield 3.27% return on equity. However, the industry average of return on equity is -0.58% and the average of SMDM return on equity in the past 5 years is 3.4%.

B. Debt Ratio

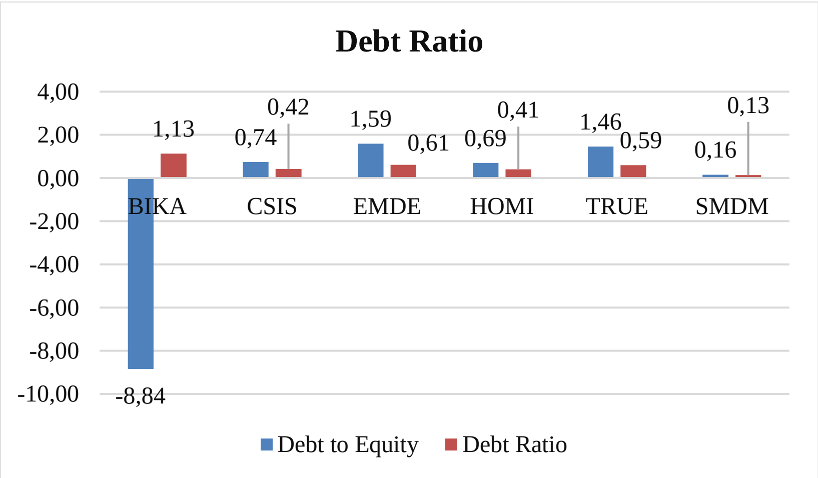

Figure 3. SMDM and Competitor Debt Ratio Comparison
Source: Research Result

Compared to its competitor, SMDM has the lowest debt ratio of 0.13, the industry average for year 2023 is 0.53. The debt ratio represents the percentage of a company's assets that are funded through debt financing. A higher debt ratio indicates that the company relies more on debt to generate profit, although there is no established standard for what constitutes a good debt ratio. There are several advantages and disadvantages of using debt as the source of financing. Companies with higher debt ratio are exposed to higher risk of interest rate fluctuations. Unlike equity, debt should be repaid, companies that failed to meet the obligation might lead to financial distress or even bankruptcy. However, very low debt ratio also signaling that the company is under levered, which it doesn't utilize the full potential of leverage for growth. The choice to utilize debt relies on the company's risk tolerance, growth strategy, and prevailing market conditions.

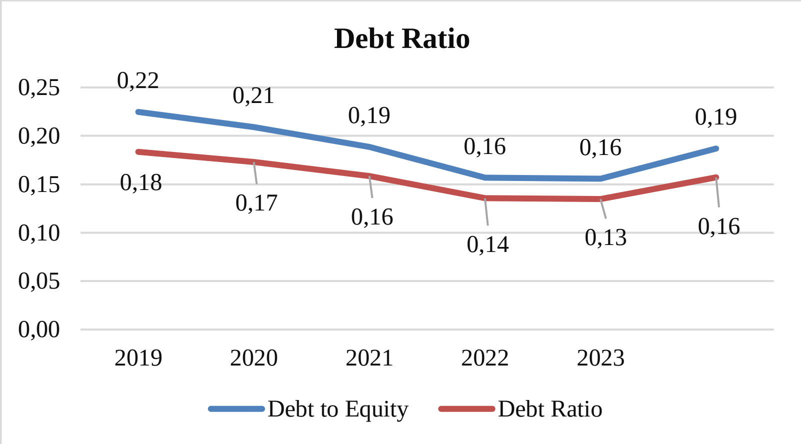

Figure 4. SMDM Debt Ratio
Source: Research Result

Assessing SMDM's debt ratio in the past 5 years, it can be seen that SMDM typically have lower debt ratio. The average of SMDM debt ratio in the past 5 years is 0.16. Same as debt ratio, SMDM's average debt to equity ratio in the past 5 years is 0.19. In 2023, SMDM debt to equity ratio is 0.16, which is below the industry average. The industry average is -0.70 because BIKA has negative debt to equity ratio. BIKA has equity deficiencies from 2020 until 2023. This condition can be caused by BIKA declining net income in 2019, 2020, 2022, and 2023. Low debt to equity ratio indicating that the SMDM use lower debt than equity to finance its assets. SMDM's retained earnings is increasing in the past 5 years and at the same time lowering its total liabilities, meaning that SMDM use its internal source of financing rather than debt and also can be considered as conservative company. However, low debt ratio and debt to equity ratio doesn't appear to be a problem for SMDM, as the company has good profitability compared to its competitor.

C. Liquidity Ratio

The liquidity ratio is assessed through the current ratio and the quick ratio. The current ratio serves as an indicator of a company's capacity to fulfill its short-term obligations or current liabilities. In 2023, the current ratio of SMDM is 4.89, highest among its competitor and the industry average is 2.01. Higher current ratio means the company is more liquid. The average of SMDM current ratio in the past 5 years is 3.27. The majority of SMDM competitor have current ratio above 1 and only BIKA has a very low current ratio of 0.01. This suggests that the companies within the industry are effectively managing their current liabilities. Nonetheless, a high current ratio may suggest that the company is not effectively utilizing its assets for reinvestment purposes. Quick ratio will be providing clearer ability of a company to meet its short-term obligations as it excludes inventory. The quick ratio of SMDM in 2023 is still relatively high at 4.88, the industry average is 0.93. The average of SMDM quick ratio in the past 5 years is 3.26. Same as current ratio, SMDM maintain its quick ratio at a high level for the past 5 years.

D. Growth Assumption

To forecast the growth of the companies, author mostly use compounded average annual growth rate (CAGR) from the historical data (2019-2023) to forecast each of the account in the financial statements. The justification for using CAGR to forecast growth is it provides a smoothed rate of growth, ignoring fluctuations that might occur in individual years. However, there are some accounts that doesn’t use CAGR for growth, such as inventories, payables, receivables, and cash. In forecasting the cash flow for the next five years that SMDM will achieve, the author uses several key assumptions with various considerations.

SMDM's revenue is projected to increase by 25% in 2024 and grow steadily based on the CAGR from 2025 to 2028. The reason behind the high growth rate in 2024 is the company's internal target to generate revenue of 653.5 billion rupiah. In 2023, the company is undergoing a new project of developing new property, infrastructure development and prioritizing initiatives that have the potential to provide significant results in increasing sales and expanding market share.

Historically, SMDM was able to achieve 96% of its revenue growth target in 2019, and in 2022, 85% of the target was achieved. Another justification for setting a 25% revenue growth target is based on available data, which shows that by Q3 2023, SMDM had generated revenue of 556 billion rupiah, representing 90% of the assumed revenue growth for SMDM. For cost of goods sold (COGS), author uses the proportion of COGS to revenue in Q3 2024. After 2024, the author applies stable growth based on the CAGR from 2019 to 2023. Similar to COGS, operating expenses are projected to increase proportionally with revenue, the average proportion of operating expense to revenue from 2019 to 2023 is 35% of its revenue.

The growth of capital expenditure for SMDM is projected using CAGR. The capital expenditure is showing a significant decrease from 2019 to 2021, and in 2021 to 2023 the amount of capital expenditure is increasing slowly. The capital expenditure for is projected to be increasing of 13% annually. Depreciation in this case is assumed to be 5%. Based on the financial statements, the assets have a lifespan of 14–20 years, allowing the assumption of a 5% yearly depreciation.

Working capital is determined by deducting current liabilities from current assets. This assessment evaluates a company's ability to meet short-term obligations and its operational effectiveness. To project the variation in net working capital, therefore it requires to forecast each account in the balance sheet. Any change in working capital will be incorporated into the calculation of free cash flow to the firm.

The growth assumption for BSDE is similar as SMDM. However, the revenue growth rate for BSDE is assumed to be 14%, a median for peer company which have revenue growth of 12-16%. BSDE also is a more stable and mature company, therefore the revenue growth is not as aggressive as SMDM. If compared to Q3 2024, the revenue is 10 trillion rupiah and the projected revenue is around 13 trillion rupiah. The cost of goods sold of BSDE is projected using CAGR, which have the tendency to increase 10% annually.

Operating expense for BSDE is projected to be proportional to its revenue of 45% using the latest operating expense to revenue proportion. Same as SMDM, capital expenditure for BSDE also projected to increase 11% annually. Historical data of capital expenditure of BSDE is fluctuate from 2019 to 2023, in 2019 to 2021 BSDE’s capex decrease and spiking in 2022 which later decrease almost in half in 2023. However, based on Q3 report, the acquisitions of property and equipment is increasing 79% q-t-q, therefore it can be assumed that the total capital expenditure will increase in 2024. Depreciation for BSDE is also smaller, the justification for this is referring to its financial statement, BSDE property have longer use span of 20-30 years. The complete growth assumption for BSDE is presented in Appendix X.

The assumption for terminal growth rate is referring to Indonesia GDP growth. According to Asian Development Bank, Indonesia GDP in 2025 is projected to grow at 4-5%. Real estate industry growth is constrained by limited land supply and long development cycles. Therefore, to portray a stable long-term growth for this industry, the terminal growth rate that is going to be used is 3%.

E. Weighted Average Cost of Capital

Calculating the weighted average cost of capital requires the collection of multiple data points, including the cost of equity, cost of debt, weight of equity, and weight of debt. The cost of equity comprises various components, including the risk-free rate, beta, and risk premium. The analysis utilizes a risk-free rate derived from the average yield of 10 government bonds, which stands at 7.04%. The risk premium used is 6.80% according to Damodaran's mature country market risk premium which then adjusted with Indonesia country risk premium. For beta, author used 1-year, weekly beta from investing.com. The cost of debt is consisted of interest expense and total debt. Weight of debt and equity is the proportion of each debt and equity to the total equity and debt used in the company. The summary of data used to calculate SMDM and BSDE's WACC is provided in the table below.

Table 1. WACC calculation

	BSDE	SMDM
Risk-Free Rate	7.04%	7.04%
Risk Premium	6.80%	6.80%
Beta	0.9	0.75
Total Debt	Rp 11.813.285.968.906	Rp 95.999.023.969
Total Equity	Rp 41.201.586.203.678	Rp 3.058.334.253.906
Interest Expense	Rp 1.618.745.644.976	Rp 7.616.323.409
Tax Rate	22%	22%
Cost of Debt	13.7%	10.3%
Cost of Equity	13.16%	12.14%
WACC	15.33%	13.31%

Source: Research Result

F. Discounted Cash Flow

The calculation of free cash flow to the firm is essential for determining the discounted cash flow, which in turn is utilized to ascertain the intrinsic value of the companies. Free cash flow to the firm is consisted of several components, such as EBIT, capital expenditure, depreciation, and change in working capital. Below is the forecasted FCFF of SMDM for 2024 to 2028 period.

Table 2. SMDM FCFF

	FCFF	PV FCFF
2024	(35.375.195.397)	(31.218.913.712)
2025	(9.232.542.432)	(7.190.501.682)
2026	(6.047.556.758)	(4.156.586.023)
2027	(674.811.415)	(409.315.490)
2028	7.568.319.220	4.051.297.551

Source: Research Result

Table 3. SMDM DCF Result

Terminal Value	75.585.261.659
PV terminal value	40.460.553.598
Enterprise value	27.780.623.125
Cash	2.202.396.668.542

Debt	76.829.335.263
Equity value	2.153.347.956.403
Shares*	4.772.138.237
Share Price	451

Source: Research Result

Historically, SMDM's FCFF has shown fluctuations, with negative figures in 2019, 2020, and 2022, and positive cash flows in 2021 and 2023. This variability reflects the company's dependence on external factors and operational efficiency. Future projections indicate negative FCFF from 2024, primarily due to reinvestment needs, with cash flow eventually turning positive in 2028 as operational stability is achieved. To determine the enterprise value, future cash flows are discounted by applying SMDM's Weighted Average Cost of Capital (WACC) of 13.31%, which reflects the company's risk profile and cost of financing. The terminal value, representing the firm's long-term growth potential, is derived by applying a terminal growth rate of 3% to the final year's FCFF. This terminal value is then discounted back to present value using the same WACC. The total enterprise value is obtained by summing the present value of projected FCFF and the discounted terminal value. To calculate the equity value, the enterprise value is adjusted by adding the cash balance and subtracting outstanding debt from the final year of valuation. Finally, the equity value is divided by the total shares outstanding to determine the fair value per share, which represents the company's intrinsic value. The company's intrinsic value is Rp 451, compared to the company's share on 6 December 2024 of Rp 515, it has potential downside of 13% which reflects the current market price is slightly higher than the fair value implied by the DCF valuation.

Table 4. BSDE FCFF

	FCFF	**PV FCFF**
2024	3.095.389.572.919	2.683.904.737.347
2025	3.173.498.686.156	2.385.843.134.303
2026	3.414.374.399.401	2.225.699.284.868
2027	3.841.786.436.313	2.171.402.558.940
2028	4.498.178.718.077	2.204.426.455.953

Source: Research Result

Table 5. BSDE DCF Result

Terminal Value	37.571.231.005.444
PV terminal value	18.412.566.685.773
Enterprise value	30.083.842.857.184
Cash	25.224.504.625.547
Debt	22.147.866.597.273
Equity value	33.160.480.885.458
Shares*	20.913.395.112
Share Price	1.586

Source: Research Result

The same method is applied to value BSDE. The historical FCFF from 2019 to 2023 shows significant fluctuation, starting with a negative cash flow of Rp15.57 trillion in 2019, followed by positive cash flows of Rp3.64 trillion in 2020, Rp1.57 trillion in 2021, Rp2.69 trillion in 2022, and Rp3.97 trillion in 2023. This variability reflects the company's past operational challenges and subsequent recovery efforts.

Looking forward, the projected FCFF from 2024 to 2028 indicates consistent growth, beginning at Rp3.10 trillion in 2024 and increasing to Rp4.50 trillion in 2028. Each projected FCFF is discounted to its present value using the company's Weighted Average Cost of Capital

(WACC) of 15%, resulting in a cumulative Present Value (PV) of FCFF totalling approximately Rp11.67 trillion over the forecast period. The terminal value calculated using the final year's FCFF and a terminal value amounts to Rp37.57 trillion. When discounted back to present value, the terminal value contributes Rp18.41 trillion to the enterprise value, highlighting the significant role of long-term growth in the company's valuation.

The Enterprise Value (EV) is obtained by summing the PV of the projected FCFF and the PV of the terminal value, totalling Rp30.08 trillion. The enterprise value is then added with the cash balance of Rp25.22 trillion and subtracting the debt of Rp22.15 trillion, resulting in an Equity Value of Rp33.16 trillion. Dividing this equity value by the total number of shares outstanding yields an implied share price of Rp1,586. Compared to the company's share price on 6 December 2024, the implied share price indicates a potential 59% upside, which suggest that BSDE stock price may be undervalued based on the valuation model.

G. Relative Valuation

Relative valuation is conducted to support the result of intrinsic valuation that has been conducted. The method for relative valuation that is used is P/E multiple. P/E multiple is suitable for comparing companies in the same industry with similar growth rates. Below are the comparative companies for SMDM. The companies are chosen based on the portfolio and revenue similarity.

Table 6. SMDM Relative Valuation

Ticker	Stock Price	EPS	P/E Multiple
BIKA	55	-48,55	-1,1328527
CSIS	73	10,97	6,65451231
EMDE	137	181,57	0,75452993
HOMI	366	3,65	100,273973
TRUE	20	-2,83	-7,0671378
Average	19,8966049		
EPS SMDM	21,79		
Fair Price	433,54702		
Downside	-15,82%		

Source: Research Result

The relative valuation for SMDM aligns with the DCF valuation, indicating a potential downside of 16%. This reflects that SMDM's current market price is slightly overvalued compared to its fair value, likely influenced by market sentiment or external factors. The consistency between both methods confirms the reliability of the analysis and suggests limited upside potential under current conditions.

Table 7. BSDE Relative Valuation

Ticker	Stock Price	EPS	P/E Multiple
CTRA	1065	91,87	11,5924676
LPKR	109	352,02	0,3096415
DUTI	4940	507,93	9,72574961
SMRA	530	75,41	7,02824559
PWON	420	46,03	9,12448403
Average	7,55611767		
EPS BSDE	170,16		
Fair Price	1285,74898		
Upside	29.22%		

Source: Research Result

Same as SMDM, the relative valuation results for BSDE align with the findings from the DCF valuation, indicating a potential upside of 29%. However, the competitors selected for BSDE differ from those for SMDM, as BSDE is a larger and more established company. Competitors were chosen based on comparable market capitalization to ensure an appropriate benchmark for valuation. The results suggest that BSDE's current market price is slightly below its fair value, as determined through relative valuation, highlighting an opportunity for potential value appreciation. This alignment between valuation methods reinforces the reliability of the analysis and the attractiveness of BSDE's stock.

H. Synergy Valuation

Synergy that can arise from merger and acquisition can appear in different forms. However, as stated in the literature review, operating synergy is one of the main reason for companies to undergo merger and acquisition process (Garzella & Fiorentino, 2014). Synergy that BSDE will get from this acquisition is portfolio diversification, as SMDM's portfolio includes golf courses and luxury housing, segments that are not currently part of BSDE's offerings. This diversification reduce the risk exposure, enhances both BSDE and SMDM market presence and broadens its product offerings. Synergy from this acquisition also can appears in revenue enhancement by cross selling opportunity and leveraging different customer base from both of companies. Another synergy that can appear from this acquisition is operating synergy in the form of reduced operating expense, cost savings in marketing, sales, and supply chain operations, and shared expertise in property development and project management. Several aspects of management effectiveness can be measured using financial ratios such as asset turnover, return on assets (ROA), and working capital turnover. These ratios highlight the potential synergies that each company can contribute following the acquisition.

Table 8. SMDM and BSDE Performance Ratios

BSDE	**2019**	**2020**	**2021**	**2022**	**2023**	**Average**
Asset turnover	0,133	0,107	0,125	0,162	0,175	0,140
ROA	5,749%	0,799%	2,503%	4,088%	3,381%	3,304%
Working capital turnover	0,432	0,357	0,451	0,574	0,646	0,492
SMDM	**2019**	**2020**	**2021**	**2022**	**2023**	**Average**
Asset turnover	0,179	0,121	0,174	0,168	0,143	0,157
ROA	2,283%	0,584%	3,561%	5,252%	2,753%	2,283%
Working capital turnover	1,173	0,754	0,987	0,767	0,541	0,844

Source: Research Result

Asset turnover assesses the efficiency with which a company produces revenue relative to its assets. Looking at the average performance in the past 5 years, the acquisition of BSDE and SMDM could improve BSDE's asset efficiency by leveraging SMDM's relatively better performance in asset utilization. Return on asset measures the profitability generated per unit of asset. BSDE's 5 years average shows a stronger ROA indicates better profitability management, which can benefit SMDM's operations post-acquisition. Synergies such as cost-sharing, revenue enhancement, and operational efficiency can improve SMDM's profitability and contribute to higher ROA for both entities. Working capital turnover assesses the efficiency with which a company utilizes its working capital to produce revenue. SMDM's historical strength in working capital management can help BSDE improve its working capital turnover. Synergies that can arise may include optimized cash flow management, streamlined inventory handling, and improved receivables/payables processes.

Operating synergy can also be quantified using Damodaran's framework for synergy valuation, which evaluates the additional value created by combining two firms. This framework uses forecasted revenue and EBIT for the year 2028 to determine the incremental value from the merger. Before the acquisition, BSDE's standalone valuation is estimated at Rp46.653 billion, based on its projected cash flows and financial performance. After the merger, the combined firms are valued at Rp50.136 billion, reflecting the operational and strategic benefits of integration. As a result, the synergy value generated from this acquisition is calculated as Rp3.483 billion, highlighting the potential for enhanced performance and efficiencies as a unified entity.

From a financial synergy perspective, the acquisition also provides benefits through an improved cost of capital, which is now estimated at 12.05%. This reduction in the cost of capital can be attributed to the enhanced financial stability of the larger entity, improved access to capital markets, and a stronger combined credit profile. A lower cost of capital not only increases the present value of cash flows but also allows the merged entity to pursue growth opportunities more effectively and at reduced financing costs.
Together, these synergies—both operating and financial—underscore the strategic value of the acquisition. By leveraging combined operational resources and financial efficiencies, the merged entity is positioned to deliver greater shareholder value and achieve sustained growth.

CONCLUSION

The acquisition of PT Suryamas Dutamakmur Tbk. (SMDM) by PT Bumi Serpong Damai Tbk. (BSDE) represents a strategic move to enhance BSDE's market position through diversification and value creation. This research aimed to evaluate the financial performance of SMDM, estimate its fair value, and determine the synergy value BSDE could realize through the acquisition. The findings are rooted in an in-depth analysis of SMDM's historical performance, relative valuation, discounted cash flow (DCF) valuation, and synergy calculations using Damodaran's framework.

The financial analysis of SMDM indicates fluctuating performance over the years, with key metrics such as revenue, cost of goods sold (COGS), and free cash flow to the firm (FCFF) showcasing variability. Despite historical fluctuations, the company's strong asset turnover and working capital management position it as a valuable complement to BSDE's portfolio. BSDE's financial strength, characterized by higher profitability metrics such as return on assets (ROA), offers a foundation for operational alignment and synergy realization.

The valuation results, derived from DCF and relative valuation methods, indicate that SMDM's fair value is slightly lower than its current market price, with a potential downside of 16%. This suggests that the market might slightly overvalue SMDM based on speculative factors. However, synergy valuation demonstrates a potential value addition of Rp3.483 trillion post-acquisition, exceeding the estimated acquisition cost of Rp2.36 trillion. This positive net synergy underscores the financial feasibility and strategic rationale for the acquisition.

From a strategic perspective, SMDM's premium assets, such as luxury housing developments and golf courses, align with BSDE's goal to diversify its portfolio and penetrate high-income market segments. The geographic spread of SMDM's land reserves across Bekasi, Bogor, and Rancamaya further enhances BSDE's footprint, offering long-term growth opportunities. Additionally, macroeconomic factors such as declining Bank Indonesia interest rates and government fiscal policies, including VAT subsidies, have bolstered the property sector's growth, creating a favorable environment for the acquisition.

Operational synergies such as cost savings, revenue enhancement, and portfolio diversification are anticipated as key drivers of value. The integration of SMDM's operational processes with BSDE's established framework is expected to improve efficiency, optimize resources, and strengthen the combined entity's competitive position. Financial synergies, including a lower cost of capital estimated at 12.05%, further support the economic viability of the merger.

The research highlights the importance of a well-structured post-merger integration (PMI) plan to realize these synergies. Successful integration will depend on strategic planning, cultural alignment, and effective management of operational and financial systems. The alignment of SMDM's high-potential assets with BSDE's broader strategic vision ensures the acquisition's long-term success.

In conclusion, this acquisition represents a strategic and financially sound decision for BSDE. By addressing the research questions related to SMDM's performance, valuation, and synergy potential, this study provides a comprehensive framework for understanding the benefits and challenges of the acquisition. The results reaffirm the importance of integrating strategic, operational, and financial considerations to achieve sustained growth and value creation for stakeholders.

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