Valuation and Business Performance Analysis of PT Barito Renewables Energy Tbk. (BREN) Post-IPO

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Abstract: This study analyzes the valuation and financial performance of PT Barito Renewable Energy Tbk (BREN), specifically examining its post-IPO performance within Indonesia's renewable energy sector. Employing the Discounted Cash Flow (DCF) method alongside a Free Cash Flow to the Firm (FCFF) approach and Relative Valuation metrics (including Price Earnings Ratio, Price to Book Value, and EV/EBITDA), the findings indicate a significant overvaluation of BREN's stock, with an intrinsic value per share derived from the DCF method estimated at $0.00832, which starkly contrasts with its market price of $0.486. This discrepancy points to a substantial market overvaluation, influenced by speculative trading and heightened investor enthusiasm. Furthermore, BREN's financial profile reveals elevated leverage ratios, such as Debt-to-Equity and Debt-to-EBITDA, in comparison to industry peers, underscoring inherent financial risks despite commendable operational efficiency evidenced by an 84% EBITDA margin. The study emphasizes the necessity of reconciling market expectations with financial fundamentals, providing critical insights into the dynamics of overvaluation among emerging renewable energy firms, and proposing strategies to enhance financial sustainability while supporting Indonesia's transition toward renewable energy.

Keyword: Discounted Cash Flow, Relative Valuation, Renewable Energy, Financial Performance, Indonesia

INTRODUCTION

Indonesia's renewable energy sector is undergoing substantial expansion, propelled by heightened awareness of global climate change and supportive government initiatives such as the Just Energy Transition Partnership (JETP) and the National Energy Policy (KEN). These strategic frameworks aim to achieve net-zero emissions by 2060 and to elevate the contribution of renewable energy to 23% of the nation's energy mix by 2025 (Ministry of Energy and Mineral Resources, 2023). Within this context, PT Barito Renewable Energy Tbk (BREN) has emerged as a prominent entity, particularly in the domain of geothermal energy projects, thereby playing a vital role in Indonesia's transition to sustainable energy.

Following its Initial Public Offering (IPO) in October 2023, BREN's share price exhibited rapid appreciation, raising pertinent questions regarding the correspondence between

its market valuation and underlying financial performance. This research employs the Discounted Cash Flow (DCF) method alongside relative valuation metrics, such as Price-to-Earnings Ratio (PER), Price-to-Book Value (PBV), and Enterprise Value to EBITDA (EV/EBITDA), to ascertain whether BREN's valuation is consistent with its financial fundamentals. Furthermore, the analysis includes financial leverage indicators, specifically Debt-to-Equity and Debt-to-EBITDA ratios, to evaluate the risks associated with its capital structure.

The study aims to address three core inquiries: (1) What is the intrinsic value of PT Barito Renewable Energy Tbk (BREN)? (2) How does its valuation stand in comparison to industry competitors? (3) What implications do these findings entail for stakeholders within the renewable energy sector? By investigating these critical areas, the research offers valuable insights into the dynamics of valuation in emerging markets and provides recommendations to enhance financial sustainability while supporting Indonesia's energy transition.

METHOD

This research undertakes a rigorous quantitative analysis to assess the valuation and financial performance of PT Barito Renewable Energy Tbk (BREN), with particular emphasis on its positioning within Indonesia's renewable energy sector following its initial public offering (IPO). The study employs both absolute and relative valuation methodologies in conjunction with financial performance analysis to fulfill the research objectives.

Type of Research

The research adopts a descriptive quantitative design, aiming to yield comprehensive insights into the valuation dynamics and financial risks associated with BREN. The quantitative approach leverages numerical data analysis sourced from financial statements, industry reports, and stock market data.

Sample and Population

The population examined in this study comprises companies actively operating within Indonesia's renewable energy sector, specifically those engaged in geothermal energy production. BREN is selected as a focal case study owing to its prominent market stature and recent IPO. A comparative analysis is conducted with peer entities within the same sector to benchmark valuation metrics, including Price-to-Earnings Ratio (PER), Price-to-Book Value (PBV), and EV/EBITDA.

Time and Place of Research

The research was conducted from October 2023 to December 2023, utilizing publicly accessible data sources, including BREN's financial reports, industry benchmarks, and overall market performance data. Data collection and analysis were executed remotely, employing online databases and financial modeling tools.

Instruments and Procedures

The investigation utilizes various valuation models and financial ratio analyses as methodological instruments. Two primary valuation approaches are applied:
a) Discounted Cash Flow (DCF): This method estimates BREN's intrinsic value utilizing the Free Cash Flow to the Firm (FCFF) methodology. Key assumptions include projected revenue growth, operational cost efficiency, and discount rates derived from the Weighted Average Cost of Capital (WACC).

b) Relative Valuation: This entails the calculation of metrics such as Price-to-Earnings Ratio (PER), Price-to-Book Value (PBV), and EV/EBITDA, which are then compared to industry peers to evaluate BREN's market valuation.

The data collection process follows these steps:
a) Financial data pertaining to BREN and its peer companies are acquired from annual reports, stock exchanges, and online platforms such as Simply Wall St.
b) DCF modeling is performed using Excel, integrating assumptions inferred from market reports and financial statements.
c) Relative valuation metrics are computed and benchmarked against industry averages.

Research Techniques

The analysis synthesizes valuation outcomes with financial performance metrics. Key financial ratios, including Debt-to-Equity, Debt-to-Asset, and EBITDA margin, are employed to evaluate operational efficiency and leverage risks. Comparative peer analysis is conducted to situate BREN's performance within the broader sector context.

Other Considerations

The study acknowledges certain limitations pertaining to the accuracy of the financial data and the assumptions underpinning the valuation models. Additionally, fluctuations in market conditions and potential regulatory changes may impact the generalizability of the findings. Nevertheless, the methodologies adopted offer robust insights into BREN's valuation and financial performance, contributing to a deeper understanding of its role within the renewable energy landscape.

RESULTS AND DISCUSSION

The valuation of PT Barito Renewable Energy Tbk (BREN) reveals noteworthy discrepancies between its intrinsic and market values. Utilizing the Discounted Cash Flow (DCF) analysis, specifically through the Free Cash Flow to the Firm (FCFF) approach, we estimate BREN's intrinsic value per share at $0.00832. In contrast, its current market price stands at $0.486, leading to a conclusion of substantial overvaluation. This divergence suggests that the company's stock price has been influenced more by speculative trading and exuberant investor sentiment than by its underlying financial performance.

Table 1. Result of DCF valuation

SUM OF PV	2.852.142
LESS DEBT	(1.987.269)
ADD CASH AND CASH EQUIVALENTS	247.787
VALUE OF EQUITY	1.112.660
NUMBER OF SHARES OUTSTANDING	133.786.220
ESTIMATED INTRINSIC VALUE PER SHARE	0,00832
SHARE PRICE	0,486
PRICE AS A PERCENTAGE OF INTRINSIC VALUE	5838%

Source: Author's own work

The findings from the Relative Valuation analysis corroborate the conclusions drawn from the DCF method. BREN's Price-to-Earnings Ratio (PER), Price-to-Book Value (PBV), and Enterprise Value to EBITDA (EV/EBITDA) ratios manifestly exceed the industry averages. For example, BREN's EV/EBITDA ratio is reported at 132.86, in stark contrast to the industry average of 7.42. This inconsistency underscores the company's pronounced overvaluation in relation to its peers.

Table 2. Comparison of BREN's valuation metrics PER, PBV, EV/EBITDA) to peer averages

	2023 (in $)				
	BREN (in Thousands)	Average	PGEO (in Thousands)	KEEN (Full Amount)	POWR (Full Amount)
PER	591,95	13,75	18,24	14,23	8,79
PBV	99,86	1,16	1,53	0,97	0,97
EV TO EBITDA	132,86	7,42	8,18	11,67	2,41

Source: Author's own work

Financial Performance Assessment

From a financial performance perspective, BREN exhibits robust profitability as evidenced by its Net Profit Margin (NPM). The company's net profit margin surpasses that of several industry peers, signifying its capability to generate superior returns relative to revenue. Nevertheless, an examination of its financial structure reveals considerable risks. The Debt-to-Equity Ratio (DER) stands at 3.056, and the Debt-to-EBITDA ratio is 3.96, both exceeding those of comparable firms within the sector. This pronounced reliance on debt financing indicates an increased susceptibility to market fluctuations and interest rate volatility.

Table 3. Comparison of BREN's Net Profit Margin to peer averages

Net Profit Margin				
	2020	2021	2022	2023
BREN	0,224	0,295	0,303	0,245
Peer Companies				
PGEO	0,206	0,231	0,330	0,403
KEEN	0,340	0,219	0,346	0,309
POWR	0,205	0,248	0,158	0,163
Average of peers	0,250	0,232	0,278	0,291

Source: Author's own work

Table 4. Comparison of BREN's DER to peer averages

DER				
	2020	2021	2022	2023
BREN	1,918	1,607	4,758	3,056
PGEO	0,224	0,505	0,753	0,371
KEEN	0,428	0,545	0,508	0,585
POWR	0,005	0,003	0,004	0,006
Average	0,219	0,351	0,422	0,321

Source: Author's own work

Table 5. Comparison of BREN's Debt to EBITDA to peer averages

Debt to EBITDA				
	2020	2021	2022	2023
BREN	3,786	3,579	4,377	3,960
Peer Companies				
PGEO	0,964	2,458	2,986	1,945
KEEN	6,253	4,675	3,668	4,512
POWR	0,018	0,011	0,015	0,023
Average of peers	2,412	2,381	2,223	2,160

Source: Author's own work

Discussion

The findings elucidate a discernible misalignment between BREN's market valuation and its financial fundamentals. The overvaluation identified through both Discounted Cash Flow (DCF) and Relative Valuation analyses suggests that market sentiment and speculative

activities have eclipsed intrinsic performance measures. While the Net Profit Margin elucidates BREN's profitability and operational efficacy, the elevated debt ratios point towards potential financial vulnerability, particularly in the context of economic instability or declining revenues.

These results carry significant implications for various stakeholders. For investors, the discerned overvaluation raises pertinent concerns regarding the possibility of future price corrections and the long-term viability of the investment. Policymakers must take these dynamics into account when formulating regulatory frameworks to promote market stability and transparency. Furthermore, the findings underscore the critical importance of aligning market expectations with underlying financial fundamentals to mitigate the risks associated with overvaluation.

CONCLUSION

This study provides a comprehensive evaluation of the valuation and financial performance of PT Barito Renewable Energy Tbk (BREN) subsequent to its Initial Public Offering (IPO) in October 2023, thereby contributing to a more nuanced understanding of valuation dynamics within Indonesia's renewable energy sector. The analysis reveals a pronounced misalignment between BREN's market valuation and its intrinsic financial performance. Utilizing the Discounted Cash Flow (DCF) methodology, the estimated intrinsic value per share of BREN is determined to be $0.00832, significantly lower than its prevailing market price of $0.486, indicating a substantial overvaluation.

Additionally, the application of relative valuation metrics, including the Price-to-Earnings Ratio (PER), Price-to-Book Value (PBV), and Enterprise Value to EBITDA (EV/EBITDA), corroborates the notion of overvaluation in comparison to industry benchmarks.

From a financial standpoint, BREN demonstrates commendable profitability, as evidenced by its elevated Net Profit Margin. However, its high Debt-to-Equity and Debt-to-EBITDA ratios underscore considerable financial risks, suggesting a reliance on leveraged financing strategies. These findings imply that speculative trading behavior and an amplified market enthusiasm have predominantly influenced BREN's valuation, rather than its underlying operational and financial fundamentals.

This research contributes to the domain of financial analysis by presenting a robust methodology for assessing valuation discrepancies and financial risks within the renewable energy sector. It underscores the critical need for alignment between market expectations and intrinsic values to enhance decision-making processes among investors, policymakers, and corporate stakeholders. By addressing these valuation discrepancies, companies such as BREN may improve their financial sustainability and more effectively support Indonesia's energy transition objectives. Furthermore, this study enriches the academic discourse concerning corporate valuation in emerging markets, particularly within sectors characterized by transformative change, such as renewable energy.

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