

Valuation & Impairment Considerations Post Covid-19 Era



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Valuation

- ◆ Valuation is the process to estimate the value (of an asset or a business).




Valuation Approaches

- ◆ For relative value: price multiple (PER, PBV, PEG, EV/EBITDA) → weaknesses?
- ◆ For absolute value:
 - Accrual or Accounting Based: Residual income model
 - Cash Flow Based: DCF model (dividend/FCFF/FCFE) → mainstream
 - Asset Based



Discounted Cash Flow Model

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- ◆ The value of an asset or a business depends on the following four variables:
 - The amount,
 - The timing,
 - The uncertainty (reflected in the discount rate), and
 - The growth of the future cash flows

Post Covid-19 Era

- ◆ The first variable, the amount of future cash flows, is significantly affected for several businesses as demand plummets and supply is constrained especially in the sectors:
 - Tourism and Leisure: e.g. Garuda
 - Transportation and Energy
 - Commercial Property: offices and shopping malls
 - Multifinance and Banking → loan relaxation



Post Covid-19 Era

- ◆ The third variable, the uncertainty of future cash flows, is rising. It makes the discount rate should be raised and hence the value declines.
- ◆ Behavioral Approach to Asset Pricing: There should be one proxy for sentiment risk to add to the discount rate derived from CAPM.



Post Covid-19 Era

- ◆ The fourth variable, the growth rate of future cash flows, is projected to be negative for this year (except for few sectors), around zero for next year but will be positive and high enough in the years afterwards due to the low base in this year and next year.



The Case of Multifinance Industry in Indonesia

- ◆ Out of Rp452.5 trillion financing in 180 leasing companies, Rp80.6 trillion or 2.6 million contracts have been restructured and 485,000 contracts still under review by June 2. Many multifinance companies will suffer losses and higher debt ratio by the end of 2020.



The Case of Banking Industry in Indonesia

- ◆ Banks are no better.
- ◆ The restructuring amount has reached Rp597 trillion (of Rp5,800 trillion credit) from more than 5.5 million debtors and it is projected to rise higher in the following months.



Summary

- ◆ Impairment is worth considering for some sectors such as airline, property, multifinance, and banking industry.
- ◆ Year 2020 will be remembered as the turnaround year in the human history and the most miserable year for most businesses.





THANK YOU