

# CHAPTER I

## Introduction

### 1.1 Research Objective Overview

#### 1.1.1 Company History



**Figure 1.1: INSPIRA TELEVISI INDONESIA LOGO**

Source: Human Resource of Inspira Televisi Indonesia

Inspira Televisi Indonesia is an Indonesia television company that has eight points of broadcasting rights in Indonesia (North Sumatera, West Sumatera, Banten includes: Jakarta, Bogor, Depok, Tangerang, Bekasi or usually called Jabodetabek, West Java, Jogjakarta, Central Java, East Java, and South Kalimantan). This company stands under PT. Global Garda Media (GGM) that was founded in June 22<sup>nd</sup> 2011. GGM itself is a holding company that moves in integrated marketing solution, television, production house, event organizer, and online news.



**Figure 1.2: PT. GLOBAL GARDA MEDIA LOGO**

Source: Human Resource of PT. Global Garda Media

GGM brand identity consists of three circles element that they called as improvement globe. It has 180 degrees circle, 270 degrees circle and 360 degrees circle which means that something always moving forward getting closer to the perfection as well as their commitment in it.

They have vision to be the most creative world-class creative-preneur that has benefits to the neighborhood and highly responsible company. They also have mission as follow:

1. Treat customer with the best, creative, and professionals human resources.
2. Maximizing all creativity resources as the power to compete in a world-class.
3. Being the best company that very concern about corporate social responsibility (CSR).

## **1.2 Research Background**

On December 12<sup>th</sup> 2012, Federal Communications Commission (FCC) changed the television marketplace and technology should permit cable operators more flexibility in meeting their legal obligation to ensure that all broadcast stations are "viewable" to subscribers (<http://www.fcc.gov/> accessed: January 4<sup>th</sup>, 2015). Ever since, a hybrid cable system operator may choose to carry some or all local broadcast stations only in digital format (instead of carrying these stations in both digital and analog format). This is a decision made by subscriber's cable company and not required by the federal government. If the cable operator companies decides to carry certain local broadcast stations only in digital format, FCC rules require that it offers the companies the necessary equipment (for example, a set-top box, digital transport adaptor (DTA), or a Cable CARD) either for free or at an affordable cost. Cable operators must also provide at least 30 days notice to subscribers and local broadcast stations before carrying a broadcast station only in digital format. In other word, the

television company should change its broadcasting system from analogue television to digital television.

The differences between analogue and digital television are on the systems of broadcasting and its hardware transmitter. Analogue television transmitting the sound and the picture on analogue signal, as digital television transmitting them through digital signal which has benefits giving a better output (<http://www.princeton.edu/> accessed: January 4<sup>th</sup>, 2015). Based on industry statistics, percentage of households that using digital television is higher than analogue television. The usage of digital television is increasing from 2008 with only 40,226 millions of households to 100,453 millions of households in 2012 and bouncing up reaching 220,422 millions in 2014, as in the end of 2014, the total of Asean population is approximately 618 millions of people. It is forecasted that in 2018, Asean households are going to use digital television. It approves that the demand towards digital television is increasing, as it will force analogue television companies to switch to use digital instead of analogue television. (<http://www.fcc.gov/> accessed: January 4<sup>th</sup>, 2015)

Since then, valuation has been used as a method to forecast a company's value. Valuation is useful in a wide range of tasks. By knowing the company's value, the role it plays is different in different kind of arenas. According to Damodaran (2012:5):

For small private businesses thinking about expanding, valuation plays a key role when they approach venture capital and private equity investors for more capital. The share of a firm that a venture capitalist will demand in exchange for a capital infusion will depend based on the value they estimate for the firm, that is the result of valuation. As the companies get larger and decide to go public, valuation determine the prices at which they are offered to the market in the public offering. Once established, decisions on where to invest, how much to borrow, and how much to return to the owners will be all decisions that are affected by valuation.

Studies of valuation have been pursued not only through discounted cash flow (DCF) analysis, but also through economic value added (EVA) analysis such as in Nguyen (2013), though this research will be applying DCF analysis considering the beginning of the project when the capital base is still big, and the return is low. Continually, it is extended to the use of Net Present Value (NPV) model such as in Belanová (2012). Not only NPV method that be able to use in capital budgeting, but there is also internal rate of return (IRR) such as in Beislér (2010), Net Operating Profit After Tax (NOPAT) such as in Cingros (2010), real options such as in Marketos (2011), and Payback Period (PP) such as in Hlangwane (2012). There is also the used

of sensitivity analysis to determine the most influential parameters such as in Supriyadi (2013) and Sorenson (2010).

In valuation, there are several models such as Gordon Model, Free Cash Flow to Equity (FCFE), and Free Cash Flow to Firm (FCFF). In this case, Inspira Televisi Indonesia will be evaluated through one of those three methods. On the result, the researcher wants to know the company's valuation based on the firm's aspect, not only from the equity aspect. In another hand, the company's capability to pay is pay out fewer than its dictated by its cash flow (Kuhlman, 2008:197). Free Cash Flow to Equity (FCFE) showing the valuation only from the equity aspect. There is still, to use Gordon Model, Inspira Televisi Indonesia's capability to pay dividend is pay out fewer. Thus, the appropriate model to valuate Inspira Televisi Indonesia is using Free Cash Flow to Firm (FCFF) method. In doing valuation, there are valuation method as well, that is consists of Net Present Value (NPV), Internal Rate of Return (IRR), Profitability Index (PI), and Payback Period (PP). NPV and IRR model tells whether the investment will increase the firm's value or not. Unlike the profitability index and payback period, it does not show any concrete criteria to indicate whether an investment increases the firm's value (Bodie *et al*, 2013:89). Thus, NPV and IRR is the model that will be used by the researcher in doing this valuation because those two model show whether or not the firm's value is increasing by doing an investment in this project.

All relevant data is extracted from the company's financial report to forecast the company financial situation in the near future. This research will also show calculations of Inspira television Indonesia's net present value (NPV), internal rate of return (IRR). Considering if NPV and IRR showing different result, NPV result is preferred as it better reflects the primary goal, which is to grow the company's financial wealth (Keown et al, 2013:310). So, the researcher wants to valuate Inspira Televisi Indonesia's financial projection by counting it's FCFF, NPV, and IRR. In the end, the title of this research would be valuation of Inspira Televisi Indonesia as a new digital television company.

### **1.3 Problem Statements**

1. How much is Inspira Televisi Indonesia's Free Cash Flow to Firm (FCFF)?
2. How much is Inspira Televisi Indonesia's net present value (NPV)?
3. How much is Inspira Televisi Indonesia's internal rate of return (IRR)?
4. Is Inspira Televisi Indonesia a feasible investment for investor?

### **1.4 Research Objectives**

1. To know Inspira Televisi Indonesia's FCFF
2. To know Inspira Televisi Indonesia's NPV
3. To know Inspira Televisi Indonesia's IRR
4. To know the feasibility to invest in Inspira Televisi Indonesia

### **1.5 Research Benefits**

#### **1.5.1 Theoretical Aspects**

1. Author

This main purpose of this paper is a requirement for a Bachelor in Management of International ICT Business. But that is not the only reason, as the title chosen is focused on concerning in valuation companies that is a brand new. The output of this paper has been expected for a writer to be guidance to invest in the near future

2. Researcher

The researcher can also have a benefit, as this paper focused on concerning valuation of the company. In the future they could make a deeper and better analysis of this paper and generates this to everyone who needs it.

#### **1.5.2 Practical Aspects**

1. Investor

This paper will give the investors a better acknowledgment whether or not this company will be a feasible investment

2. Company

This paper can give the company acknowledgment in how valuable they are to be invested by investors, and in the future they probably could perform a better fundamental performance to increase the value of the company

## **1.6 PAPER STRUCTURE**

### **CHAPTER I INTRODUCTION**

This chapter pictures the background of the issue, problem identification, objective and benefit of the research, and also paper structure.

### **CHAPTER II LITERATURE REVIEW**

This chapter describes theoretical basis that are related to the research to support the problem solving process.

### **CHAPTER III RESEARCH METHODOLOGY**

This chapter explains the research methodology approach, which is used in this paper, operational variable, data collection method, population and sampling, and also data analysis.

### **CHAPTER IV RESEARCH ANALYSIS AND RESULT**

This chapter analyzes the data of companies' valuation, and explains the result, which is to know the feasibility of the company to be invested by investors.

### **CHAPTER V CONCLUSION**

This chapter explains the conclusion of the research, input for companies and also advice for upcoming researchers.