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VALUATION MODEL FOR THE MERGER & ACQUISITION OF PT BANK HARDA INTERNASIONAL TBK (BBHI) SHARES BY PT BANK MEGA TBK (MEGA)

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ABSTRACT

The digital sector's growth, particularly during the pandemic, prompted companies' digital transformations. Fintech's rise in finance drove major banks to focus on digital banking, leading to the increased popularity of mergers and acquisitions (M&A) for expansion. This study aims to establish a suitable transaction structure and price for PT Bank Harda International Tbk (BBHI) acquisition by PT Bank Mega (MEGA). Comparing this with MEGA's 2021 strategy, the valuation of BBHI and MEGA assesses merger prospects. The research uses quantitative and descriptive analysis of BBHI and MEGA's finances, employing Discounted Free Cash Flow, Liquidation and Accounting Valuation, and Relative Valuation. Synergy's role in enhancing merger value is considered. Results project growth in key metrics for both companies over five years, with the merger significantly boosting equity, market capitalization, and enterprise value. A 17.6% internal rate of return (IRR) makes the acquisition appealing. BBHI's equity value per share (Rp.731) compared to prior transaction prices (Rp.160) indicates undervaluation but the positive market response is reflected in the post-acquisition share price rise. The analysis underscores considerable post-merger value enhancement, favoring MEGA's market capitalization and enterprise value, benefiting both parties and supporting BBHI's merger with PT Bank Mega, Tbk under PT Mega Corpora.
Keywords: Merger, Acquisition, FCF, IRR, Bank.

ABSTRAK

Pertumbuhan sektor digital, khususnya selama pandemi, mendorong transformasi digital yang dilakukan perusahaan. Peningkatan Fintech di bidang keuangan mendorong bank-bank besar untuk fokus pada perbankan digital, yang menyebabkan meningkatnya popularitas merger dan akuisisi (M&A) untuk ekspansi. Penelitian ini bertujuan untuk menetapkan struktur transaksi dan harga yang sesuai untuk akuisisi PT Bank Harda International Tbk (BBHI) oleh PT Bank Mega (MEGA). Dibandingkan dengan strategi MEGA tahun 2021, penilaian BBHI dan MEGA menilai prospek merger. Penelitian ini menggunakan analisis kuantitatif dan deskriptif terhadap keuangan BBHI dan MEGA dengan menggunakan metode Discounted Free Cash Flow, Liquidation and Accounting Valuation, dan Relative Valuation. Peran Sinergi dalam meningkatkan nilai merger juga dipertimbangkan. Hasil tersebut memproyeksikan pertumbuhan metrik utama bagi kedua perusahaan selama lima tahun, dengan merger yang secara signifikan meningkatkan ekuitas, kapitalisasi pasar, dan nilai perusahaan. Tingkat pengembalian internal (IRR) sebesar 17,6% membuat akuisisi ini menarik. Nilai ekuitas per saham BBHI (Rp731) dibandingkan harga transaksi sebelumnya (Rp160) menunjukkan undervaluation namun respon positif pasar tercermin dari kenaikan harga saham pasca akuisisi. Analisis ini

menggarisbawahi peningkatan nilai pasca-merger yang cukup besar, mendukung kapitalisasi pasar dan nilai perusahaan MEGA, menguntungkan kedua belah pihak dan mendukung merger BBHI dengan PT Bank Mega, Tbk di bawah PT Mega Corpora.
Kata Kunci: *Akuisisi, Bank, , FCF, IRR, Merger.*

INTRODUCTION

The significant progress in the digital industry in 2020 was particularly noteworthy, especially amid the COVID-19 pandemic, where numerous companies embraced digital transformation. The financial sector, in particular, experienced a notable shift with the rise of fintech companies. Major banking institutions began focusing on expanding their digital banking divisions, and it was not uncommon to see large banks acquiring smaller ones to strengthen their presence in the digital banking landscape. A clear example of this trend is Bank Mega's acquisition of Bank Harda Internasional, which has now been rebranded as Allo Bank, a digital bank. This study aims to determine the appropriate deal structure and acquisition price for PT Bank Harda Internasional Tbk (BBHI) in the event of its acquisition by PT Bank Mega (MEGA). It will be compared to the approach taken by Mega Corpora (the controlling shareholder of MEGA) in 2021. The research will involve evaluating the valuations of both the target company (BBHI) and the acquiring company (MEGA). Additionally, a valuation simulation will be conducted to assess the potential outcomes of the merger.

The significance of mergers and acquisitions (M&A) as a vital strategy for company growth in the era of globalization has become increasingly evident (Yaghoubi et al., 2016; Tarigan, 2018). Businesses worldwide commonly utilize M&A as a strategic tool to expand their operations and venture into larger geographic markets, including other countries and nations (Yaghoubi et al., 2016). The primary objectives of M&A for firms are to achieve synergistic benefits by collaborating with other companies rather than operating independently and to maximize shareholder wealth (Malik, 2014; Joshipura and Panda, 2019; Tarigan, 2018). In the current business landscape, M&A is employed not only to compete effectively in fierce markets but also to enhance profit margins, increase market share, and establish dominance in the international arena (Hitt and Pisano, 2003). Additionally, M&A offers significant advantages, including improved profitability and enhanced shareholder value (Yaghoubi et al., 2016; Tarigan, 2018).

Researchers have been continuously exploring a critical question concerning the benefits of mergers and acquisitions (M&A): Does M&A truly lead to profitability? Despite M&A being viewed as a promising growth strategy for companies, several studies (Dutta and Dutta, 2015) have demonstrated that acquiring firms often experience negative abnormal returns. Various research findings have also investigated the extent to which share prices can fully reflect the impact of significant corporate events like M&A transactions (Boateng and Bi, 2013). Interestingly, these outcomes challenge the notion of an efficient market (Dutta and Dutta, 2015), where, in a semi-strong efficient market, stock prices should already incorporate all relevant information during the announcement period of such firm events, including M&A deals.

RESEARCH METHOD

This study involves a quantitative and descriptive analysis focused on evaluating the financial condition of both the target company and the acquirer company. In order to determine the valuation, the research employs four different approaches, as outlined by Damodaran (2012): a) Discounted Free Cash Flow, b) Liquidation and Accounting

Valuation, c) Relative Valuation, and d) Contingent Claim Valuation (Rosenbaum, 2009).

The Discounted Free Cash Flow Model is utilized to project the potential future income that the companies may generate. This approach takes into account the company's growth prospects and assesses its value based on its ability to generate cash flow, which is relevant to both the company and its shareholders.

On the other hand, the Dividend Discount method evaluates the intrinsic value of the company by considering historical and expected dividends. Meanwhile, Relative Valuation determines the company's value by analyzing the market price of similar assets.

During a merger or acquisition process, two sources of value enhancement are considered: firstly, when the value of the target company is lower than its intrinsic value (undervalued), and secondly, the synergy value resulting from the integration of the two entities. Synergies are the net result of value inflows and outflows that occur during the merger or acquisition. If the inflows exceed the outflows, the merger or acquisition is expected to add value to the acquirer. Therefore, a thorough analysis of the value flow to the companies involved is essential in this context (Schweiger, 2002)

The integration process consists of two main stages. It commences with the establishment of financial strategic goals, and the alignment of these goals plays a crucial role in identifying potential sources of value. The second stage involves the integration process, which begins with target selection and continues until the integration is officially announced. This stage comprises three phases: transaction, transition, and integration. Various activities, such as valuation, pricing, and synergy determination, are undertaken throughout these phases, all of which must be geared towards achieving the set goals. The third stage emphasizes continuous evaluation and improvement until the synergy value is realized (Schweiger, 2002).

The challenge of value creation arises from negotiating a price that does not exceed its worth to the buyer. This price is influenced by the value of the target company, recognized synergy from the acquisition, and the cost of controlling the target company.

If the price is lower than or equal to the value of the target company itself, then the buyer may encounter some difficulties in creating value. On the other hand, if the price to be paid is higher than the value of the target company itself, then the buyer must capture synergies to justify the price. Additionally, if the price paid exceeds the value of the target company itself and the expected synergy value, then the buyer has overpaid.

A value map can be used to assess the target company's value based on the relationship between future profitability (expressed as expected ROA/E) and the premium or discount of the stock price (expressed as the P/BV ratio) for a comparable sample. Correlation can be analyzed using statistical regression approaches to determine these ratios (Franceschi, 2008). This theoretical value represents the relative position of the target candidate.

Financial ratio analysis serves as a valuable tool for business individuals and other users of financial statements to assess a company's financial performance (Khajar, 2010). ROE, for instance, is dependent on the company's size; smaller companies with relatively modest capital tend to exhibit lower ROE values. This ratio compares the net profit after tax with the equity invested by the company's shareholders (Van Horne and Wachowicz, 2005). It reflects the company's ability to generate a return on investment based on the book value of shareholders' equity, making it useful for comparing investment opportunities with effective cost management.

Another key ratio is the Debt to Equity Ratio (DER), which provides insights into the proportion of debt to equity in a company. It is calculated by dividing total debt by total equity.

Price to Book Value (PBV) is a ratio that assesses the relationship between the current stock price and the book value of the company. This ratio aids investors in evaluating the current share price in relation to the company's value.

The Price-Earning Ratio (PER) demonstrates the fairness value of stock prices by comparing the company's stock price with its earnings. PER provides an illustration of the current market price in light of past profits and projected future profits.

But, Frequently acquisition plan information can cause changes in the stock value of the target company (Randi, 2012). Research conducted by Putri (2013) indicates that the value of the company to be acquired is higher compared to its market value. Falatehan (2011) and Tjandra (2012) also observe that the offered value is significantly higher (overvalued) than the intrinsic value of the company. And it happen when BBHI giving press realese about the firm will be acquired by Mega Corpora. The stock price hikes from Rp138/shares to Rp1300/shares increase 10 times from press release to tender offer day. However, this is not always the case, as demonstrated by Pratama (2010) and Magdalena (2012). Several studies have commonly employed methods such as the Discounted Cash Flow Model, particularly Free Cash Flow to Equity, and Relative Valuation. For further insights, refer to the research by Kasim (2011) and Marzuki (2013).

The primary focus of this research is on value valuation. The asset and market calculation approaches were specifically chosen due to the utilization of the banking industry as the study's context. The methods applied include the Discounted Free Cash Flow, and the Relative Valuation using Price to Book Value (PBV), Price Earning Ratio (PER), and Debt to Equity Ratio (DER) were also employed. The study encompasses a period of 5 years before 2023, along with a forecasting analysis for 5 years after 2022.

RESULT AND DISCUSSION

Data Analysis

The first thing that will be done is to prepare BBHI and MEGA financial statement data from 2020 to 2022, then analyze the financial statements (income statement, balance sheet, cash flow) and projection for the next 5 years to 2027.

Target — **Assumptions**

(Rp Millions, except per share data)

	Actual				Projections for the Period Ending December 31,				
	2020	2021	2022		2023	2024	2025	2026	2027
Income Statement									
Sales Growth	NA	173.4%	95.3%		**6.9%**	6.9%	6.9%	6.9%	6.9%
COGS as a % of Sales	-	-	-		**5.5%**	5.5%	5.5%	5.5%	5.5%
SG&A % annual increase (decrease)	NA	-	-		**5.5%**	5.5%	5.5%	5.5%	5.5%
Other Operating Expense as a % of Sales	10.8%	4.9%	28.3%		**5.5%**	5.5%	5.5%	5.5%	5.5%
EBITDA Growth	NA	177.7%	45.0%	-	34.4%	6.9%	6.9%	6.9%	6.9%
EBITDA Margin	93.8%	95.3%	70.8%	-	89.0%	89.0%	89.0%	89.0%	89.0%
Balance Sheet									
Receivable Days	-	-	-		**59.0**	59.0	59.0	59.0	59.0
Inventory Days	-	-	-		**119.0**	119.0	119.0	119.0	119.0
Other Current Assets % of Sales	-	-	-		**5.5%**	5.5%	5.5%	5.5%	5.5%
Accounts Payable Days	-	-	-		**240.0**	240.0	240.0	240.0	240.0
Other Current Liabilities % of COGS	-	-	-		**50.0%**	50.0%	50.0%	50.0%	50.0%
Working Capital/Sales (Excl Cash & Debt)	(615.0%)	(304.3%)	(40.9%)	-	17.1%	17.1%	17.1%	17.1%	17.1%
Cash Flow									
Capital Expenditures	**41,050.0**	**37,010.0**	**180,350.0**		100,887.3	107,873.8	115,344.0	123,331.6	131,872.3
Capex as a % of Sales	24.5%	8.1%	20.1%		**10.5%**	10.5%	10.5%	10.5%	10.5%
Depreciation	**19,890.0**	**9,550.0**	**24,120.0**		31,853.3	34,059.1	36,417.7	38,939.6	41,636.2
Depreciation as a % of Sales	11.8%	2.1%	2.7%		**3.3%**	3.3%	3.3%	3.3%	3.3%
Goodwill Amortization (Pre-6/2001)	-	-	-		-	-	-	-	-
Amortization of Intangibles	-	-	-		-	-	-	-	-
Retirement of Senior Debt	-	-	-		-	-	-	-	-
Retirement of Subordinated Debt	-	-	-		-	-	-	-	-
Chg in Deferred Taxes - Asset	NA	(4,050.0)	(1,640.0)		-	-	-	-	-
Chg in Deferred Taxes - Liab	NA	-	0.9		-	-	-	-	-
Dividend from Affiliates	-	-	-		-	-	-	-	-
Payout Ratio of Affiliates	-	-	-		-	-	-	-	-
Dividends per Share	-	-	-		-	-	-	-	-
Dividend Payout Ratio	-	-	-		-	-	-	-	-
Dividends Paid	-	-	-		-	-	-	-	-
Effective Tax Rate	19.2%	12.5%	23.4%		**25.0%**	25.0%	25.0%	25.0%	25.0%
Other									
Shares Outstanding - Basic	-	-	**21,728.0**		**21,728.0**	21,728.0	21,728.0	21,728.0	21,728.0
Shares Outstanding - Diluted	-	-	**21,728.0**		**21,728.0**	21,728.0	21,728.0	21,728.0	21,728.0
Revolving Credit Facility Rate	-	-	-		**2.00%**	2.00%	2.00%	2.00%	2.00%
Senior Debt Rate	-	-	-		**5.00%**	5.00%	5.00%	5.00%	5.00%
Subordinated Debt	-	-	-		**8.00%**	8.00%	8.00%	8.00%	8.00%
Average Interest Rate	NA	-	-		2.00%	-	-	-	-
Marketable Securities Rate	-	-	-		-	-	-	-	-

Figure 1. Target Company Assumptions

The financial statement data of the target company (BBHI) is projected using the assumptions in the table above. Sales growth is projected to grow 6.9% per year. With an average operating expense growth of 5.5%. This is expected to increase EBITDA from Rp634 million in 2022 to Rp1.11 trillion in 2027. Based on these projection assumptions, a BS projection is also formed for the target company to have assets that increase from IDR11,059T in 2022 to IDR14,269T in 2027. This increase is of course supported by an increase in retained earnings which grows gradually from Rp.324M in 2022 to Rp.3.85T in 2027. After that, the financial statements of the acquiring company (MEGA) were also analyzed and projected for the next 5 years using the following assumptions.

Acquirer									Assumptions
(RpMillions, except per share data)									
	Actual				Projections for the Period Ending December 31,				
	2020	2021	2022		2023	2024	2025	2026	2027
Income Statement									
Sales Growth	NA	2.6%	2.8%		**6.9%**	6.9%	6.9%	6.9%	6.9%
COGS as a % of Sales	-	-	-		**5.5%**	5.5%	5.5%	5.5%	5.5%
SG&A % annual Increase (Decrease)	NA	-	-		**5.5%**	5.5%	5.5%	5.5%	5.5%
Other Operating Expense as a % of Sales	11.9%	11.1%	12.9%		**5.5%**	5.5%	5.5%	5.5%	5.5%
EBITDA Growth	NA	29.0%	0.9%	-	108.5%	6.9%	6.9%	6.9%	6.9%
EBITDA Margin	37.0%	46.5%	45.6%	-	89.0%	89.0%	89.0%	89.0%	89.0%
Balance Sheet									
Receivable Days	-	-	-		**59.0**	59.0	59.0	59.0	59.0
Inventory Days	-	-	-		**119.0**	119.0	119.0	119.0	119.0
Oth Cur Assets % of Sales	-	-	-		**5.5%**	5.5%	5.5%	5.5%	5.5%
Days in Accounts Payable	-	-	-		**240.0**	240.0	240.0	240.0	240.0
Oth Cur Liab % of COGS	-	-	-		**50.0%**	50.0%	50.0%	50.0%	50.0%
Working Capital/Sales (Excl Cash & Debt)	(329.0%)	(400.1%)	(377.3%)	-	17.1%	17.1%	17.1%	17.1%	17.1%
Cash Flow									
Capital Expenditures	**6,131,770.0**	**5,927,440.0**	**6,644,740.0**		4,106,554.0	4,390,932.9	4,695,005.0	5,020,134.1	5,367,778.4
Capex as a % of Sales	55.9%	52.7%	57.5%	-	**33.2%**	33.2%	33.2%	33.2%	33.2%
Depreciation	**301,770.0**	**267,440.0**	**274,740.0**		185,587.5	198,439.5	212,181.4	226,875.0	242,586.0
Depreciation as a % of Sales	2.8%	2.4%	2.4%		**1.5%**	1.5%	1.5%	1.5%	1.5%
Goodwill Amortization (pre-6/2001)	-	-	-		-	-	-	-	-
Amortization of Intangibles	-	-	-		-	-	-	-	-
Retirement of Senior Debt	-	-	-		-	-	-	-	-
Retirement of Subordinated Debt	-	-	-		-	-	-	-	-
Chg in Deferred Taxes - Asset	NA	206,510.0	(136,610.0)		**34,950.0**	34,950.0	34,950.0	34,950.0	34,950.0
Chg in Deferred Taxes - Liab	NA	(202,710.0)	90,680.0		**(56,015.0)**	(56,015.0)	(56,015.0)	(56,015.0)	(56,015.0)
Dividend from Affiliates	-	-	-		-	-	-	-	-
Payout Ratio of Affiliates	-	-	-		-	-	-	-	-
Dividends per Share	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -
Dividend Payout Ratio	-	-	-		-	-	-	-	-
Dividends Paid	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -
Effective Tax Rate	19.1%	19.1%	19.4%		**25.0%**	25.0%	25.0%	25.0%	25.0%
Marginal Tax Rate	40.0%	40.0%	40.0%		40.0%	40.0%	40.0%	40.0%	40.0%
Other									
Shares Outstanding - Basic	-	-	**11,721.0**		**11,721.0**	11,721.0	11,721.0	11,721.0	11,721.0
Shares Outstanding - Diluted	-	-	**11,721.0**		**11,721.0**	11,721.0	11,721.0	11,721.0	11,721.0
Revolving Credit Facility Rate	-	-	-		**4.40%**	**4.40%**	**4.40%**	**4.40%**	**4.40%**
Senior Debt Rate	-	-	-		**5.00%**	5.00%	5.00%	5.00%	5.00%
Subordinated Debt	-	-	-		**8.00%**	8.00%	8.00%	8.00%	8.00%
Average Interest Rate	NA	-	-		4.42%	4.41%	4.41%	4.42%	4.45%
Marketable Securities Rate	-	-	-		-	-	-	-	-

Figure 2. Acquirer Company Assumptions

From this data, sales growth is projected to grow 6.9% per year. With an average cost growth of 5.5%. This is expected to increase EBITDA from Rp.5.27T in 2022 to Rp14.37T in 2027. Based on these projection assumptions, a BS projection is also formed for the target company to have assets that increase from Rp141.88T in 2022 to Rp168.36T in 2027. This increase is of course supported by an increase in retained earnings which grows gradually from Rp.5.27T in 2022 to Rp.46.17T in 2027. After that, an analysis of the company's financial proforma is also carried out if the New Company is merged and projections are made for the next 5 years using the following assumptions.

Newco								Assumptions
(Rp Millions except per share data)								
	Actual			Projections				
	2020	2021	2022	2023	2024	2025	2026	2027
Income Statement								
Sales Growth	NA	2.6%	2.8%	7.8%	6.9% #	6.9% #	6.9% #	6.9%
COGS as a % of Sales	-	-	-	5.5%	5.5% #	5.5% #	5.5% #	5.5%
Integration Related Expenses ($M)				**100.0**	**50.0**	-		
SG&A % annual increase	NA	-	-	-	(600.0%) #	180.0% #	- #	-
Other Operating Expense as a % of Sales	11.9%	11.1%	12.9%	5.5%	5.5%	5.5%	5.5%	5.5%
EBITDA Growth	NA	29.0%	0.9%	7.8%	6.9%	6.9%	6.9%	6.9%
EBITDA Margin	37.0%	46.5%	45.6%	89.0%	89.0%	89.0%	89.0%	89.0%
Balance Sheet								
Receivable Days	-	-	-	59.0	59.0	59.0	59.0	59.0
Inventory Days	-	-	-	119.0	119.0	119.0	119.0	119.0
Oth Current Assets % of Sales	-	-	-	5.5%	5.5%	5.5%	5.5%	5.5%
Days in Accounts Payable	-	-	-	240.0	240.0	240.0	240.0	240.0
Oth Current Liabilities % of COGS	-	-	-	50.0%	50.0%	50.0%	50.0%	50.0%
Working Capital/Sales (Excl Cash & Debt)	(333.3%)	(396.3%)	(353.1%)	- 17.1%	17.1%	17.1%	17.1%	17.1%
Cash Flow								
Capital Expenditures	6,131,770.0	5,927,440.0	6,644,740.0	4,207,441.3	4,498,806.7	4,810,349.0	5,143,465.7	5,499,650.7
Capex as a % of Sales	55.9%	52.7%	57.5%	31.6%	-	-	-	-
Depreciation	301,770.0	267,440.0	274,740.0	217,440.8	232,498.6	248,599.1	265,814.6	284,222.3
Depreciation as a % of Sales	2.8%	2.4%	2.4%	1.6%	-	-	-	-
Goodwill Amortization (Pre-6/2001)	-	-	-	-	-	-	-	-
Amortization of Intangibles	-	-	-	-	-	-	-	-
Amortization of Deferred Financing Exp	-	-	-	19.1	19.1	19.1	19.1	19.1
Chg in Deferred Taxes - Asset	NA	206,510.0	(136,610.0)	34,950.0	34,950.0	34,950.0	34,950.0	34,950.0
Chg in Deferred Taxes - Liab	NA	(202,710.0)	90,680.0	(56,015.0)	(56,015.0)	(56,015.0)	(56,015.0)	(56,015.0)
Dividend from Affiliates	-	-	-	-	-	-	-	-
Payout Ratio of Affiliates	-	-	-	-	-	-	-	-
Dividends per Share	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Dividend Payout Ratio	-	-	-	-	-	-	-	-
Dividends Paid	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Effective Tax Rate	19.1%	19.1%	19.4%	25.0%	25.0%	25.0%	25.0%	25.0%
Marginal Tax Rate	0.0%	0.0%	0.0%	40.0% #	40.0% #	40.0% #	40.0% #	40.0%
Other								
Shares Outstanding - Basic	-	-	11,721.0	12,007.5	12,007.5	12,007.5	12,007.5	12,007.5
Shares Outstanding - Diluted	-	-	11,721.0	12,007.5	11,721.7	11,721.7	11,721.7	11,721.7
Revolving Credit Facility Rate	-	-	-	4.40%	4.40%	4.40%	4.40%	4.40%
Senior Debt Rate	-	-	-	5.50%	5.50%	5.50%	5.50%	5.50%
Subordinated Debt	-	-	-	8.00%	8.00%	8.00%	8.00%	8.00%
Average Interest Rate	NA	-	-	4.44%	4.42%	4.42%	4.42%	4.42%

Figure 3. New Company Assumptions

From this data, sales growth is projected to grow 7.8% in 2023, and will consistently grow 6.9% in the following years until 2027. With an average operating expense growth of 5.5% each year. This is expected to increase EBITDA from Rp.11.85T in 2022 to Rp15.49T in 2027 after both are combined into one affiliated business unit. Based on these projection assumptions, a BS projection is also formed for the target company to have assets that increase from IDR150.0T in 2022 to IDR176.87T in 2027 after the two are combined into one affiliated business unit. This increase is of course supported by an increase in retained earnings which grow gradually from Rp.5.27T in 2022 to Rp.49.57T in 2027. After that, the target company, the acquirer, and the projected new company are projected using free cash flow calculations for the next 5 years and calculatted the equity value of each company. The following are the results obtained.

Target	2023	2024	2025	2026	2027
Free Cash Flow					
EBIT	820,732.0	877,567.7	938,339.3	1,003,319.2	1,072,799.1
Less: Taxes	(205,183.0)	(219,391.9)	(234,584.8)	(250,829.8)	(268,199.8)
Plus: Deprec. & Amort..	31,853.3	34,059.1	36,417.7	38,939.6	41,636.2
Less: Gross Capex	(100,887.3)	(107,873.8)	(115,344.0)	(123,331.6)	(131,872.3)
Less: Δ NWC	(137,381.2)	(9,513.6)	(10,172.5)	(10,876.9)	(11,630.1)
Equals: Free Cash Flow	409,133.7	574,847.5	614,655.6	657,220.6	702,733.1
Period	1.00	1.00	1.00	1.00	1.00
Mid-Year Convention	0.50	1.50	2.50	3.50	4.50
Discount Factor	0.99	0.96	0.93	0.90	0.88
PV FCFF	403,123.6	549,884.5	570,816.7	592,545.7	615,101.8
		3.8%	3.8%	3.8%	
PV (Years 1- 5)	2,731,472.2				
PV (Terminal Value)	11,401,351.0				
Enterprise Value	**14,132,823.2**				
Plus Cash	1,790,000.0				
Less Debt & Min. Int.	37,370.0				
Equity Value	**15,885,453.2**				
Equity Value Per Share	731.1				
Assumptions:					
WACC	3.0%				
Target D/E*	**500.0%**				
Target D/TC*	83.3%				
Marginal Tax Rate	40.0%				
ke	12.0%				
Rf	**6.9%**				
Rf - Rm	**1.4%**				
Beta	**3.66**				
Terminal Value					
FCF 2027	702,733.1				
Terminal Growth Rate	**3.8%**				
Terminal Period WACC	**9.4%**				

Figure 4. Target Company Valuation

From the calculation of the data above, the company's free cash flow target is expected to increase from Rp.409.13M in 2023 to Rp.702.73M in 2027. With the assumption of using the average D/E ratio of banking companies of 500%, Risk Free 6.9, Market Return 5.5%, and beta 3.66. Then obtained Terminal Period WACC 9.4%. this is equivalent to an equity value of Rp.15.88T or Rp.731.1 per share. Then calculate the valuation for the acquiring company as below.

Acquirer	2023	2024	2025	2026	2027
Free Cash Flow					
EBIT	10,812,812.1	11,561,599.3	12,362,240.1	13,218,325.2	14,133,694.2
Less: Taxes	(4,325,124.8)	(4,624,639.7)	(4,944,896.0)	(5,287,330.1)	(5,653,477.7)
Plus: Deprec. & Amort.	185,587.5	198,439.5	212,181.4	226,875.0	242,586.0
Less: Gross Capex	(4,106,554.0)	(4,390,932.9)	(4,695,005.0)	(5,020,134.1)	(5,367,778.4)
Less: ∆ NWC	(17,553,190.7)	(213,691.6)	(222,190.4)	(231,277.8)	(240,994.5)
Equals: Free Cash Flow	(14,986,469.9)	2,530,774.5	2,712,330.0	2,906,458.2	3,114,029.7
Period	1.00	1.00	1.00	1.00	1.00
Mid-Year Convention	0.50	1.50	2.50	3.50	4.50
Discount Factor	0.97	0.95	0.92	0.89	0.86
PV FCFF	- 14,491,083.6	2,406,333.0	2,493,712.1	2,583,862.4	2,676,884.1
		3.6%	3.6%	3.6%	
PV (Years 1- 5)	(4,330,291.9)				
PV (Terminal Value)	51,356,518.1				
Enterprise Value	**47,026,226.2**				
Plus Cash	25,570,000.0				
Less Debt & Min. Int.	1,291,750.0				
Equity Value	**71,304,476.2**				
Equity Value Per Share	6,083.5				
Assumptions:					
WACC	3.4%				
Target D/E*	**500.0%**				
Target D/TC*	83.3%				
Marginal Tax Rate	40.0%				
ke	7.3%				
Rf	**6.9%**				
Rf - Rm	**1.4%**				
Beta	**0.28**				
Terminal Value					
FCF 2020	3,114,029.7				
Terminal Growth Rate	**3.6%**				
Terminal Period WACC	**9.0%**				

Figure 5. Acquirer Company Valuation

From the results of the data calculation above, the free cash flow of the acquiring company is expected to increase from Rp.-14.98T in 2023 to Rp.3.11T in 2027. With the assumption of using the average D/E ratio of banking companies of 500%, Risk Free 6.9, Market Return 5.5%, and beta 0.28. Then obtained Terminal Period WACC 9.0%. this is also equivalent to an equity value of Rp.71.30T or Rp.6,083.5 per share. Next calculate the valuation for the New Company after becoming an affiliate.

Newco	2023	2024	2025	2026	2027
Free Cash Flow					
EBIT	11,633,354.1	12,439,126.3	13,300,710.0	14,221,775.1	15,206,624.0
Less: Taxes	(4,653,341.7)	(4,975,650.5)	(5,320,284.0)	(5,688,710.0)	(6,082,649.6)
Plus: Deprec. & Amort.	217,459.9	232,517.6	248,618.2	265,833.6	284,241.3
Less: Gross Capex	(4,207,441.3)	(4,498,806.7)	(4,810,349.0)	(5,143,465.7)	(5,499,650.7)
Less: Δ NWC	(46,121,410.9)	(232,578.8)	(242,384.5)	(252,790.4)	(263,996.8)
Equals: Free Cash Flow	(43,131,379.9)	2,964,608.0	3,176,310.7	3,402,642.7	3,644,568.2
Period	1.00	1.00	1.00	1.00	1.00
Mid-Year Convention	0.50	1.50	2.50	3.50	4.50
Discount Factor	0.98	0.95	0.91	0.88	0.85
PV FCFF	- 42,361,321	2,808,638	2,902,710	2,999,503	3,099,070
		3.3%	3.3%	3.3%	
PV (Years 1- 5)	(30,551,400.3)				
PV (Terminal Value)	86,522,674.8				
Enterprise Value	**55,971,274.5**				
Plus Cash	27,359,000.0				
Less Debt & Min. Int.	3,063,248.3				
Equity Value	**80,267,026.2**				
Equity Value Per Share	6,685				
WACC =	3.7%				
Target D/E*	**500.0%**				
Target D/TC*	83.3%				
Marginal Tax Rate	40.0%				
ke	8.7%				
Rf	**6.9%**				
Rf - Rm	**1.4%**				
Beta	**1.28**				
Terminal Value					
FCF 2027	3,644,568.2				
Terminal Growth Rate	**3.3%**				
Terminal Period WACC	**7.0%**				

Figure 6. New Company Valuation

From the results of merging the two companies into an affiliate, the calculation of the company's free cash flow will increase from Rp 43.13T in 2023 to Rp 3.64T in 2027. With the assumption of using the average D/E ratio of banking companies of 500%, Risk Free 6.9, Return Market 5.5%. Then obtained Terminal Period WACC 7.0%. this is also equivalent to an equity value of Rp. 80.27T or Rp. 6,685 per share. Next calculate the terminal value and IRR of the new company acquisition. The results are obtained as below.

Newco Internal Rate of Return on Acquisition		
Purchase Price (including Trasaction Expenses)	2022	(3,477,621.6)
Free Cash Flows	2023	(43,131,379.9)
	2024	2,964,608.0
	2025	3,176,310.7
	2026	3,402,642.7
	2027	3,644,568.2
Terminal Value		86,522,674.8
IRR		17.6%

Figure 7. New Company IRR on Acquisition

The company has a terminal value of Rp.86.52T, this is obtained from the purchase price (including transaction expense) in 2022 of Rp.-3.48T and Free Cash Flow of Rp.-43.13T in 2023. FCF Rp. 2.96T in 2024, FCF Rp. 3.18T in 2025, FCF Rp. 3.40T in 2026, and FCF Rp. 3.64T in 2027. Thus, an IRR rate of 17.6% is obtained. Then calculate the transaction price that must be compared with the transaction price that has occurred in the past year. The calculation is as follows:

Acquirer — Transaction Summary
(Rp Millions, except per share data)

Transaction Value	
Price Per Share	160
Target Shares Outstanding	21,728.0
Dilutive Effect: Stock Options/Security Conv	3.2
Equity Consideration	3,476,987
Less: Cash	1,790,000
Less: Equity in Affilates	-
Plus: Total Debt	37,370.0
Plus: Noncontrolling Interests	-
Less Other Adjustments	-
Enterprise Value	1,724,357

Form of Payment	Acq. Shares	%
% Stock		50.0%
% Cash		50.0%
Target Preannouncement Share Price		156
Implied Purchase Price Premium		2.6%
Current Shares Outstanding	11721	97.6%
Shares Issued to Target Sh.	285.8	2.4%
New Common Shares Issued	0.7	0.0%
Convertible Preferred Shares	-	-
New Warrants Issued	-	-
Total Shares	12,007.4	100.0%

Sources & Uses		
Excess Cash		1,000
Common Shares Issued to Target Shareholders		1,738,493
New Common Shares Issued to Public		4,000.0
Convertible Preferred Equity	-	-
Revolving Credit Facility	4.40%	-
Senior Debt	4.90%	1,734,128.3
Subordinated Debt	8.00%	-
Total Sources		3,477,622
Equity Consideration		3,476,987
Transaction Expenses	10 yrs	635.0
Total Uses		3,477,622

Goodwill		
Target Tangible Book Value		6,409,510
Adjustments		-
Adjusted Book Value		6,409,510.0
Equity Consideration		3,476,986.6
Goodwill	-	2,932,523
Transaction Exp Amortization		19
% of Transaction Expenses Amortized		30.0%

Debt	
5-Year Treasury Rate	1.30%
Swap Rate (Bps)	60
Revolving Credit Facility (Bps over Treasury)	250
Senior Debt (Bps over Treasury)	300
Senor Debt Amortization (Years)	10.0
Unsecured Debt Amortization (Years)	15.0

Performance Fundamentals-Acquirer	Current	2027
Price per Share	6,083.48	11,383.19
Shares Outstanding	11,721.0	12,007.4
Market Capitalization	71,304,476	136,682,843
Net Debt & Preferred Equity	(24,278,250.0)	1,423,857.5
Enterprise Value	47,026,226	138,106,700
LTM EBITDA	5,274,740	15,490,865
Enterprise Value / LTM EBITDA	8.9x	8.9x

SG&A Synergies	Rp's
2023	3.0
2024	5.0
2025	8.0
2026	8.0
2027	8.0

Gross Margin Improvement	%	Rp's
2023	0.0%	5.0
2024	0.0%	10.0
2025	0.0%	15.0
2026	0.0%	15.0
2027	0.0%	15.0

Incremental Sales Synergy	Gross Margin	Rp's
2023	94.5%	25.0
2024	94.5%	75.0
2025	94.5%	150.0
2026	94.5%	150.0
2027	94.5%	150.0

Earnings per Share	Acquirer	Newco
2023P	629	660
2024P	621	673
2025P	681	738
2026P	745	809
2027P	815	885

Cash EPS	Acquirer	Newco
2023P	- 3,265	- 3,163
2024P	617	673
2025P	678	739
2026P	742	810
2027P	812	886

Accretion / (Dilution)	EPS	Cash EPS
2023P	4.9%	(3.1%)
2024P	8.4%	8.9%
2025P	8.4%	9.0%
2026P	8.5%	9.1%
2027P	8.6%	9.1%

Valuation	Present Value $'s
Target	15,885,453.2
Acquirer	71,304,476.2
Newco	80,267,026.2
Synergies	(6,922,903.2)
Net Present Value	5,484,928.5

Total Debt to Total Capital	Industry Average	Newco
2023P	37.8	59.9%
2024P	37.8	52.3%
2025P	37.8	44.8%
2026P	37.8	37.4%
2027P	37.8	30.2%

Interest Coverage (EBITDA to Interest Expense	Industry Average	Newco
2023P	3.8	11.0x
2024P	3.8	6.6x
2025P	3.8	7.7x
2026P	3.8	9.1x
2027P	3.8	11.2x

SG&A as a % of Incremental Sales 10.0%

Figure 8. Transaction Summary

For the acquisition transaction carried out by PT Mega Corpora against BBHI occurred at a price of Rp. 160 per share. With BBHI's equity value of Rp.731.1 per share this transaction is clearly undervalue. although this transaction is undervalue, the market assesses that this transaction will make BBHI have a good future so that the share price has increased 9X from the price of 156 when BBHI first released the press release of the acquisition action.

Based on the results of the valuation analysis above, if the company is merged in the MEGA affiliation, it will make MEGA's market capitalization increase almost 2x from Rp.71.34T to Rp.136.7T in 2027. And the Enterprise Value increases almost 3x from Rp.47.03T to Rp.138.1T in 2027. This value is equivalent to 8.9X EV/EBITDA which means it is very good for MEGA if BBHI is merged into PT Bank Mega, Tbk not under PT Mega Corpora.

CONCLUSION AND RECOMENDATION

Conclusion

The analysis conducted in this study focuses on the valuation of the target company (BBHI) and the acquiring company (MEGA) in the context of an acquisition. The financial statements of both companies were analyzed and projected for the next five years, with assumptions regarding sales growth and operating expense growth.

1) The target company's EBITDA, assets, and retained earnings are expected to increase gradually over the forecast period.
2) The acquiring company's EBITDA, assets, and retained earnings are projected to grow.
3) After merging the two companies into one affiliated business unit, The results showed that the equity value of the target company is expected to increase significantly, and the new affiliated company is projected to have a higher market capitalization and enterprise value compared to the acquiring company alone.
4) The IRR was found to be 17.6%, indicating a potentially attractive investment opportunity.
5) The equity value of target company Rp.731 per shares compared with past transaction prices between BBHI and PT Mega Corpora is Rp.160 per shares, indicating that the acquisition was **undervalued** but viewed positively by the market, as evidenced by the increased share price of the target company after the acquisition announcement.
6) The analysis suggests that merging the target company into the MEGA affiliation could substantially increase MEGA's market capitalization and enterprise value, making it a favorable move for MEGA. This outcome makes it beneficial for BBHI to be merged into PT Bank Mega, Tbk under PT Mega Corpora.

Recommendation

Based on the analysis conducted in this study, several recommendations can be made:

1) **Optimize Synergies**: Given the projected growth in EBITDA, assets, and retained earnings for both the target company (BBHI) and the acquiring company (MEGA), it is recommended to actively seek and capitalize on synergies between the two entities post-merger. Identifying and leveraging complementary strengths and resources can further enhance the combined entity's performance and value.
2) **Strategic Integration**: To fully realize the potential benefits of the acquisition, strategic integration efforts should be carefully planned and executed. This includes aligning operational processes, optimizing cost structures, and streamlining organizational structures to achieve efficiency and effectiveness across the newly formed affiliated business unit.
3) **Market Perception Management**: Despite the undervaluation of the target company indicated by its equity value compared to past transaction prices, the positive market response post-acquisition announcement suggests confidence in the strategic rationale and potential synergies of the merger. It is essential for both companies to continue communicating the strategic vision and value proposition of the merger to stakeholders to maintain positive market perception and support.
4) **Monitoring and Evaluation**: Continuous monitoring and evaluation of the performance and integration progress of the merged entity are crucial. This includes tracking key financial metrics, assessing operational synergies, and addressing any challenges or obstacles that may arise during the integration process. Regular reviews will enable timely adjustments and course corrections to ensure the realization of expected benefits.
5) **Long-Term Growth Strategy**: Looking beyond the immediate post-merger period, it is important for MEGA to develop a clear long-term growth strategy for the newly formed entity. This may involve exploring opportunities for

diversification, expansion into new markets or product lines, and investment in innovation and technology to sustain competitive advantage and drive future growth.

Overall, the analysis suggests that the merger presents a compelling opportunity for both BBHI and MEGA to create significant value through strategic collaboration and integration. By implementing the recommended strategies and closely monitoring the integration process, both companies can position themselves for sustained growth and success in the marketplace.

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