ABSTRACT

Equity is a seed that will grow as the firm operated. To increase the net income by increasing market share or expanding the business, firm must increase debt or equity. Creditor will lend the money if the firm can show the capability to pay the debt and show some collateral. If firm can not increase leverage any more, firm should sell the equity. Firm sells equity above the book value because of the prospect of the firm. Investor will buy the equity if it gives a higher return than interest in bank.

Firm and investors evaluate the equity with expectation of some profit. Firm wants to value the equity as high as it can, but investors, when they buy equity, they want to pay as low as possible. Investors, because they are taking a risk when buying equity, they must analyze the firm carefully. A good fundamental analysis can help investor to avoid a wrong investment.

Fair offering price of stocks can help maintain the image and the value of the stock market itself. In a closely efficient market, almost all investors have the information about the stocks, but a smart investor can pick a good stock most of the time.

In Indonesia, most of personal investors do not have enough knowledge about equity analysis and they often end their activities in capital market because of loosing money. Equity market in Indonesia will grow along with the economic growth of the nation as long as price of share do reflect the value of the firm. After knowing the issues above, hopefully the use of IPO-Analyzer will help an investor to avoid a big loss and to gain some profit.

Jakarta, October 10th, 1996
# TABLE OF CONTENTS

Page Title ........................................................................................................... i  
Approval ............................................................................................................... ii  
PREFACE ............................................................................................................... iii  
ABSTRACT ............................................................................................................. iv  
TABLE OF CONTENTS ........................................................................................ vi  
LIST OF TABLES ................................................................................................... viii  
LIST OF FIGURES ................................................................................................ ix

## CHAPTER 1  INTRODUCTION............................................................................. 1  
1.1 Background ................................................................................................... 1  
1.2 Context of Problem analysis ....................................................................... 2  
1.3 Goal and Benefit ......................................................................................... 3  
1.4 The Scope of The Project ........................................................................... 4

## CHAPTER 2  THEORETICAL FOUNDATION......................................................... 5  
2.1 FUNDAMENTAL ANALYSIS......................................................................... 5  
2.2 ECONOMIC THEORY .................................................................................... 5  
2.2.1 Macro economy & Industry Analysis ...................................................... 6  
2.2.2 Fiscal Policy ............................................................................................ 6  
2.2.3 A monetary Policy ................................................................................ 6  
2.2.4 Business cycle ....................................................................................... 7  
2.2.5 Leading economic indicator ................................................................. 7  
2.2.6 Sensitivity to the business cycle ........................................................... 7  
2.2.7 Industry life cycle ................................................................................ 8  
2.3 FINANCIAL THEORY .................................................................................. 8  
2.3.1 Financial Statement ............................................................................. 8  
2.3.2 Advantage of common stock financing ................................................. 10  
2.3.3 Disadvantages of common stock ....................................................... 10  
2.3.4 Bonds .................................................................................................. 10  
2.3.5 Convertible Financing ......................................................................... 14  
2.3.6 Equity .................................................................................................... 15
CHAPTER 3  PROJECT METHODOLOGY ............................................. 24
  3.1 MODEL AND PROCESS .................................................. 24
  3.2 VARIABLES .............................................................. 26
    3.2.1 Macro Economy and Politics Factors ............................. 26
    3.2.2 Firm's Performance & Value Factors ................................ 28
    3.2.3 Stock Market Factors .............................................. 30
  3.3 DATA and INFORMATION GATHERING ................................. 30
  3.4 ANALYSIS .............................................................. 31
    3.4.1 Method of Analysis ............................................... 31
    3.4.2 Design proposed in the project ................................. 31

CHAPTER 4  EVALUATION and DISCUSSION ................................... 33
  4.1 DATA ANALYSIS and DESCRIPTION ..................................... 33
    4.1.1 International Economy ........................................... 33
    4.1.2 Economy Valuation ............................................... 34
    4.1.3 Profitability Ratio ............................................... 34
    4.1.4 Liquidity Ratio .................................................. 37
    4.1.5 Debt Management Ratio ......................................... 37
    4.1.6 Asset Management Ratio ....................................... 38
    4.1.7 Market Value .................................................... 40
    4.1.8 The use of Debt ................................................ 42
    4.1.9 The use of Common Stock ...................................... 43
    4.1.10 Acquisition of negative profit asset ......................... 43
    4.1.11 Valuing assets .................................................. 44
    4.1.12 Stock Market Analysis ........................................ 44
  4.2 PROJECT EVALUATION .................................................. 44
  4.3 DESIGN and prototype of PROJECT ................................... 45

CHAPTER 5  CONCLUSION and SUGGESTIONS .................................. 50
  5.1 CONCLUSION ........................................................... 50
  5.2 SUGGESTIONS .......................................................... 50

REFERENCES
READINGS
APPENDICES
CURRICULUM VITA
<p>| Figure 2.1 | Relation between PV, interest rate, and time | 12 |
| Figure 2.2 | Relation between future value, growth, interest and time. | 12 |
| Figure 2.3 | Value of LT &amp; ST 15% annual coupon rate bond at different market interest rates | 14 |
| Figure 2.4 | Decreasing price as supply expand from S1 to S2 | 14 |
| Figure 2.5 | Executive Information System | 21 |
| Figure 2.6 | Executive Information System | 22 |
| Figure 2.7 | Steps in developing prototype | 23 |
| Figure 3.1 | Flow of analysis activities | 24 |
| Figure 3.2 | Security Market Line | 27 |
| Figure 4.1 | Screen 1, main menu prototype IPO-Analyizer | 45 |
| Figure 4.2 | Screen 2, input economic &amp; politics factors | 46 |
| Figure 4.3 | Analysis of economic &amp; politics, screen 5 | 46 |
| Figure 4.4 | Screen 6, Result from economic &amp; politics analysis | 46 |
| Figure 4.5 | Screen 3, input firm factors | 47 |
| Figure 4.6 | Screen 7, Analysis firm factors | 47 |
| Figure 4.7 | Screen 8, Suggestion in / out from firm analysis | 47 |
| Figure 4.8 | Screen 4, input market factors. | 48 |
| Figure 4.9 | Screen 9, analysis of market factors. | 48 |
| Figure 4.10 | Screen 10, Suggestion from market analysis | 48 |</p>
<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 2.1</td>
<td>Composition of capital and debt company x and y</td>
<td>18</td>
</tr>
<tr>
<td>Table 2.2</td>
<td>Ratio decomposition analysis</td>
<td>19</td>
</tr>
</tbody>
</table>