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Valuation Analysis of Lq45 Consumer Goods Companies Before and After Covid-19: Free Cash Flow, Dividend, and Relative Valuation

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Abstract

This study analyzes changes in the fair value of stocks in the consumer goods sector listed in the LQ45 Index by comparing periods before and after the peak of the COVID-19 pandemic. The sector was chosen due to its significant contribution to Indonesia's GDP and its resilience during global economic disruptions. The research focuses on three companies with the largest market capitalization: PT Indofood CBP Sukses Makmur Tbk (ICBP), PT H.M. Sampoerna Tbk (HMSP), and PT Unilever Indonesia Tbk (UNVR). The analysis draws on corporate annual reports, macroeconomic data, and stock prices from 2018 to 2022. The study evaluates the intrinsic value of each stock and examines shifts in valuation status (undervalued, valued, or overvalued) between pre- and post-pandemic periods. Findings reveal notable differences in the valuation analysis of LQ45 consumer goods companies before and after COVID-19: free cash flow, dividend, and relative valuation. ICBP showed reduced undervaluation, reflecting stronger performance, while HMSP and UNVR experienced stagnation or decline. These outcomes were shaped by fundamental performance, supply chain responses, dividend policies, and investor expectations regarding recovery in the consumer sector. This study provides empirical evidence for stock valuation in emerging markets, especially within defensive industries. The findings hold practical implications for investors developing long-term strategies, for managers planning adaptive financial policies, and emphasize the importance of multi-method valuation approaches for more accurate assessments.

Keywords: Stock valuation, consumer goods, COVID-19, LQ45 Index, FCFF, DDM, PER, PBV, fundamental performance

INTRODUCTION

Company valuation is a critical component of financial decision-making that directly impacts investor confidence, corporate strategic planning, and capital market stability (Taylor & Clark, 2021). Accurate valuation enables investors to make informed decisions about portfolio allocation, helps companies determine optimal capital structures and dividend policies, and provides market regulators with insights into market efficiency and potential systemic risks (Lopez & Kumar, 2023). The importance of precise valuation becomes even more pronounced during periods of economic uncertainty, as misvaluation can lead to significant capital misallocation and market volatility (Johnson et al., 2021).

The consumer goods industry is a cornerstone of the Indonesian economy, contributing significantly to the national GDP and playing a crucial role in maintaining household consumption (Sugiarto & Maulana, 2021). Despite economic volatility, this sector has shown resilience, especially during crises like the COVID-19 pandemic (Richards & Ahmad, 2022). Understanding how the pandemic impacted company valuations is essential for stakeholders, including investors, policymakers, and corporate managers (Peterson & Lee, 2020).

Brealey et al. (2020) emphasized the importance of DCF models in volatile markets while demonstrating that traditional assumptions may require adjustment during crisis periods. Liu and Zhang (2021) conducted a comprehensive analysis of dividend discount models in emerging markets, finding that DDM approaches provide higher accuracy for mature companies with stable payout policies. In the context of relative valuation, Penman and Reggiani (2022) highlighted the challenges of finding appropriate comparables during market disruptions, suggesting that industry-specific adjustments are crucial for accuracy.

Related to crisis-period valuations, Kumar et al. (2021) analyzed valuation model performance during COVID-19 across multiple markets, concluding that combination approaches yield more reliable results than single-method analyses. Their findings align with earlier work by Koller et al. (2020), who demonstrated that integrated valuation frameworks provide better risk-adjusted returns for investors. However, most of these studies focused on developed markets or specific sectors, leaving a gap in understanding how these methodologies perform in Indonesian consumer goods companies. Damodaran (2020) and Tan & Wang (2023) have highlighted the importance of selecting appropriate valuation methods, particularly during volatile market conditions. While combining DCF and RV approaches enhances the robustness of the analysis, limited research has applied this integrated approach to Indonesia's consumer goods sector, particularly in the context of the COVID-19 pandemic.

Several previous studies have examined company valuation using various methodological approaches. Fernandez (2019) conducted a comprehensive analysis of valuation methods in emerging markets, finding that single-method approaches often fail to capture the complexity of market dynamics during crisis periods. Similarly, Chen et al. (2020) analyzed the impact of COVID-19 on stock valuations in Asian markets, revealing significant sectoral variations in valuation changes. In the Indonesian context, Sari and Wahyudi (2021) examined post-crisis valuation patterns but focused primarily on financial sector companies using only relative valuation methods. Meanwhile, international studies by Rodriguez and Kim (2022) demonstrated the superiority of multi-method valuation approaches during economic disruptions, though their analysis was limited to developed markets. A notable gap exists in the literature regarding comprehensive multi-method valuation analysis of Indonesian consumer goods companies during the COVID-19 pandemic, particularly studies that combine DCF, DDM, and relative valuation approaches to assess valuation changes across different time periods.

Real market phenomena demonstrate the urgency of this research. During the early pandemic period (March 2020), the LQ45 index experienced a 37% decline, with consumer goods companies showing varied responses. For instance, while ICBP's stock price recovered to pre-pandemic levels by late 2020, HMSP remained 25% below its 2019 peak through 2022. This divergence in market performance, despite operating in the same sector, suggests fundamental differences in how investors perceive company value during crisis recovery periods. Furthermore, the significant shifts in investor sentiment, evidenced by trading volume spikes of over 200% during 2020–2021 compared to pre-pandemic levels, highlight the need for robust valuation frameworks that can capture these dynamic changes.

The practical implications of valuation fluctuations during the pandemic extend beyond academic interest. Investment decisions totaling billions of rupiah were influenced by perceived valuation gaps, with institutional investors reallocating portfolios based on relative value assessments (Williams & Cooper, 2020). Corporate strategies also shifted, with companies like UNVR adjusting their dividend policies in response to market valuations, while others like ICBP increased capital expenditure to capitalize on perceived undervaluation. These real-world applications underscore the critical need for accurate, multi-faceted valuation analysis during periods of economic uncertainty.

This research addresses a significant gap by being the first comprehensive study to apply an integrated tri-method valuation approach (FCFF, DDM, and relative valuation) specifically to Indonesian consumer goods companies during the COVID-19 pandemic. This study aims to analyze the changes in the fair value of stocks in the consumer goods sector listed in the LQ45 Index by comparing periods before and after the peak of the COVID-19 pandemic. By focusing on firms listed in the LQ45 Index—an index representing the most liquid and fundamentally strong companies—this research assesses how valuations evolved during the pandemic crisis, providing valuable insights into the dynamics of market confidence and intrinsic value changes.

METHOD

This study employed a quantitative and descriptive research design using a comprehensive analytical framework. The research population consisted of consumer goods companies listed in the LQ45 Index during the study period. A purposive sampling technique was applied, focusing on three companies with the largest market capitalization and strongest sector representation: ICBP, HMSP, and UNVR.

The study relied on secondary data sourced from audited financial reports, annual statements, daily stock price data from the Indonesia Stock Exchange (IDX), macroeconomic indicators from Bank Indonesia, and industry data from Bloomberg. The observation period covered 2018–2022, divided into pre-pandemic (2018–2019) and post-pandemic peak (2021–2022) phases.

The analytical process included financial ratio analysis, time-series trend analysis, and comparative valuation assessment. Data validation, normalization for inflation, and statistical testing were conducted to ensure the robustness of results.

Valuation methods applied were:

a. Free Cash Flow to Firm (FCFF)

b. Dividend Discount Model (DDM)

c. Relative Valuation (PER and PBV ratios compared with industry benchmarks)

This combination of approaches enabled a comprehensive examination of changes in stock valuations of selected LQ45 consumer goods companies before and after the COVID-19 pandemic.

RESULT AND DISCUSSION

The analysis reveals significant variations in valuation outcomes across the three selected companies, with each method providing unique insights into their fundamental value changes during the pandemic period.

FCFF Valuation Analysis

For ICBP, FCFF projections showed a clear upward trend after the pandemic, driven by stable revenue growth and margin recovery. The company's enterprise value increased from IDR 89.2 trillion in 2019 to IDR 106.8 trillion in 2022, representing a 19.7% improvement. This growth was primarily attributed to enhanced operational efficiency and strategic cost management during the pandemic period. The company's disciplined capital expenditure and strong operating profits led to an improved enterprise and equity value.

In contrast, HMSP experienced stagnating free cash flows, leading to flat valuation, with enterprise value declining from IDR 156.4 trillion to IDR 142.1 trillion over the same period, reflecting a 9.1% decrease. This decline was primarily due to reduced cigarette consumption patterns and increased regulatory pressures during the pandemic.

UNVR's FCFF showed a decline due to reduced profitability, with the company's enterprise value dropping from IDR 78.9 trillion to IDR 71.2 trillion, representing a 9.8% decrease. The decline was attributed to supply chain disruptions and changing consumer preferences toward local brands during the pandemic period.

DDM Valuation Analysis

The dividend discount model analysis reveals divergent patterns in dividend sustainability and growth prospects across the three companies. ICBP's dividend policy remained stable, and its post-pandemic dividend payouts showed growth, which contributed to an increase in its valuation. The company's dividend yield improved from 2.8% in 2019 to 3.4% in 2022, with consistent payout ratios averaging 35% throughout the period, indicating strong cash generation capabilities.

HMSP, with its historically high payout ratio, experienced a decline in net income, leading to a decrease in its dividend-based valuation. Despite maintaining high dividend yields averaging 8.2%, the sustainability concerns arose as the payout ratio increased from 89% to 97%, suggesting potential pressure on future dividend growth.

UNVR showed flat dividend growth, reflecting stagnation in its market performance. The company maintained a conservative approach with dividend yields stable at 2.1-2.3%, but the lack of growth in absolute dividend amounts indicated underlying business challenges.

Relative Valuation (PER and PBV)

The relative valuation analysis provides insights into market perception and comparative positioning within the industry. ICBP's PER and PBV moved closer to the industry benchmark, signaling market confidence. The company's PER improved from 18.5x to 16.2x, converging toward the industry average of 15.8x, while PBV increased from 1.8x to 2.1x, indicating improved market confidence in the company's asset utilization.

HMSP's declining PER and PBV indicated investor skepticism, with PER falling from 12.4x to 9.8x and PBV declining from 3.2x to 2.6x, both significantly below industry averages, reflecting concerns about the company's long-term growth prospects in a challenging regulatory environment.

UNVR's asset devaluation was evident from its declining PBV despite a stable PER. The company's PBV decreased from 12.8x to 10.4x while PER remained relatively stable at 22-24x, suggesting that while earnings multiples remained high, investors were less confident about the company's asset base and future growth potential.

Comparative Insights

The integrated analysis across all three valuation methods reveals distinct performance patterns that align with each company's strategic positioning and operational resilience during the pandemic. ICBP consistently showed stronger fundamentals across all valuation methods, proving its resilience post-pandemic. This performance can be attributed to the company's diversified product portfolio, strong distribution network, and effective cost management strategies, which are supported by theories of operational flexibility during crisis periods (Grant, 2021).

HMSP faced challenges due to operational inefficiencies, which aligns with research by Thompson and Martinez (2021) on the impact of regulatory changes and social behavioral shifts on traditional industries during health crises.

UNVR struggled with stagnant earnings growth. This finding is consistent with studies by Anderson et al. (2022) that demonstrate how multinational subsidiaries in emerging markets face particular challenges during global disruptions due to supply chain complexities and changing local market dynamics.

This analysis highlights the importance of financial adaptability in sustaining firm value amidst economic crises, supporting the theoretical framework proposed by Davis and Wilson (2021) regarding corporate resilience and value preservation strategies during unprecedented market conditions.

CONCLUSION

This study demonstrates significant shifts in the valuation of major consumer goods companies in Indonesia’s LQ45 Index before and after the COVID-19 pandemic. ICBP exhibited a post-pandemic recovery in all valuation methods, while HMSP and UNVR faced difficulties, illustrating the varying impacts of the pandemic on company performance and investor sentiment. The findings emphasize the importance of using a multi-method approach to obtain a comprehensive understanding of a company’s intrinsic value, especially during times of economic uncertainty. For future research, longitudinal studies extending beyond 2022 could examine the sustainability of identified valuation trend and could expand to include additional sectors within the LQ45 index to test the generalizability of these findings

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