

Intrinsic Value of Company Shares and Profit Influences on Investor's Decision


Thursday, 05 May 2011 WIB, By: Marwati

YOGYAKARTA - Before taking investment decision in security and equity, investors or prospective investors are advised to compare the intrinsic value of stock with stock prices in the market. The intrinsic value of shares should be determined in advance by analyzing the fundamental factors of the company. One of these factors is the company's profit. That was made by Professor of Accountancy Science, Faculty of Economics and Business, Prof. Dr. Slamet Sugiri, MBA, Akt., at *Exploring the Prospect of Investment in Indonesia's Financial Market* on Saturday (30/4).

According to Sugiri, theoretical stock price depends on permanent profit and value relevance of the profit. The permanent profit has the highest price followed by transitory profit, while value irrelevant component has no price because it has no economic value. "The value between component profits is different, the investor has to classify reported profits based on the permanence. Unfortunately, comprehensive profit report may not reflect economic reality underlying transactions and events that are reported so the investors or prospective investors should perform accounting analysis prior to the report," he said.

He added that a comprehensive profit report does not adequately classify the profit as necessary for security analysis. Therefore, investors should previously perform recasting and adjusting. After that, an assessment of intrinsic value stock with residual income model will be conducted. "The rule of investment is if the intrinsic value is higher/ lower than the price of the stock market, then investors should buy/ sell shares. If the two things are equal, investors should still hold the shares," he said.

Meanwhile, Head of Accounting Standards and Transparency, Bureau of The Capital Market and Financial Institutions Supervisory Board (BAPEPAM-LK), Etty Retno Wulandari, said the purpose of financial reports issued by the company was to serve as the basis for investment decision making, evaluation, and planning. However, the financial report is a form of management accountability to shareholders, board of commissioners, and other stakeholders. "The financial report shows the performance of the company's profitability, liquidity and solvency capability, and capital structure.



With the financial report, investment decisions, whether to buy, sell and hold shares, can also be made," she concluded.

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