

ABSTRACT

Investment is an investment activity carried out with the aim of obtaining profits for investors. Investment decision-making is based on investor behavior, which is influenced by rational and irrational behavior. The cigarette industry contributes 13.9% of domestic tax revenue. In a 5-year period (2017–2021), the average growth of the cigarette industry was 5.6%, with the industry's lowest decline of -4.13% in 2020 contributing to the decline in HSMP's performance as the market leader. Bloomberg's analysis predicts that industry growth will reach 2.5% in 2022. Projected industrial growth is the basis for cigarette company growth.

Price volatility in the market has not shown the actual fair price of cigarette companies, so this thesis aims to provide investors with a rational picture of the fair price of cigarette companies in Indonesia that are listed on the Indonesia stock exchange, such as PT HM Sampoerna Tbk (HMSP), PT Gudang Garam Tbk (GGRM), as well as PT Indonesian Tobacco (ITIC), using the discounted cash flow method of the Free Cash Flow to Firm (FCFF) and Relative Valuation (RV) approaches. The calculation of fair prices is carried out using three scenarios, such as pessimistic, moderate, and optimistic, to obtain stock prices, Price to book Value (PBV), Price to earnings ratio (PER), and Return on investment (ROI) values. Based on the valuation and ROI assessment, an overview is obtained about whether cigarette stocks are still relevant for long-term investment.

The fair price is calculated based on audited financial reports for the 2017–2021 period and projected growth for 2022–2026. The results showed that HMSP shares were overvalued in all scenarios, with an ROI of -0.28. Meanwhile, GGRM shares are overvalued in pessimistic and moderate scenarios with a ROI of 0.11 and undervalued in optimistic scenarios with a ROI of 0.08. Then ITIC shares are undervalued in the moderate and optimistic scenario with $-0.79 < \text{ROI}$ and -0.50 and overvalued in the pessimistic scenario with an ROI of -0.50.

Keywords: *Free Cash Flow to Firm; Relative Valuation; Tobacco industry; intrinsic value; valuation; return on investment*