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Overvalued And Undervalued Stock? Comparative Case Study Using Discounted Cashflow Method

Yulia Sukma Hardyanti [1], Vita Via Puspita [2], Ika Atma Kurniawati [3]
[1,2,3)] Universitas Airlangga, Fakultas Ekonomi dan Bisnis, Surabaya
E-mail: yulia.sukma.hardyanti-2024@feb.unair.ac.id ,[2] vita.via.puspita-2024@feb.unair.ac.id

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ABSTRACT

This study aims to analyze the intrinsic value of PT Indofood Sukses Makmur Tbk and PT Unilever Indonesia Tbk using the Discounted Cash Flow (DCF) method. The companies were selected based on their strategic role in the consumer goods sector and their attractiveness to investors. A descriptive quantitative approach was applied using secondary data from financial reports for 2022–2024. The results indicate that INDF shares are undervalued on 2022 until 2024, UNVR shares are overvalued on 2022 until 2023 dan undervalued on 2024. This discrepancy reflects differences in business structure and cash flow efficiency between the firms. The findings emphasize the importance of fundamental valuation in supporting rational and strategic investment decisions.

INTRODUCTION

Investment is an activity that involves investing capital in various assets with the aim of obtaining future profits, generally long-term. In the Indonesian context, investments can be made through various funding instruments, including the banking sector and capital markets. However, it is important to remember that investments always involve risks, the level of which varies depending on the type of instrument chosen. One type of investment that is more stable and relatively safe compared to others is investing in securities, where investors pay based on the amount of funds invested. According to Alexandri et al. (2022), the primary goal of investors in investing is to obtain an optimal rate of return. To achieve this goal, investors need to understand the company's potential to increase its income. Furthermore, it is crucial to note that each type of investment has different characteristics and risks. Some investments, such as stocks, carry a high level of risk but also offer the potential for large profits (high returns), while other types of investments may be more stable but with relatively lower returns.

Capital markets play a crucial role in the contemporary economy by facilitating the allocation of financial resources from entrepreneurs seeking capital to investors for investment purposes. The primary instrument in the capital market is stocks, which signify ownership in a company and provide investors with the potential to realize profits through capital gains and dividends. However, the process of making stock investment decisions requires careful analysis to ensure that stock market prices accurately reflect the company's intrinsic value.

As the global economy continues to show increasing growth, this has also impacted the capital market, including in Indonesia. The Indonesian capital market itself has experienced significant improvements, marked by increased interest and participation from domestic investors. Previously, the Indonesian capital market was dominated by foreign investors, but now the trend of increasing local investor involvement is increasing, indicating growing confidence in the potential of the Indonesian capital market. This phenomenon illustrates a significant change in the dynamics of the Indonesian capital market, where domestic investors now play a greater role in influencing market movements. Therefore, understanding stock valuation through proper analysis is crucial for investors.

Stock valuation is a fundamental element in the investment decision-making process, as it allows investors to determine whether a particular stock is undervalued, fairly valued, or overvalued. The discounted cash flow (DCF) approach is a valuation methodology recognized for its capacity to provide a more accurate depiction of intrinsic value. This technique prioritizes a company's estimated future cash flows, which are discounted to their present value, thus summarizing the company's potential long-term performance.

The consumer goods industry in Indonesia is a significant sector that tends to exhibit stability amidst economic turmoil. This stability is attributed to the essential nature of daily consumed products, including food, beverages, and household goods. On the Indonesia Stock Exchange (IDX), PT Indofood Sukses Makmur Tbk (INDF) and PT Unilever Indonesia Tbk (UNVR) are examples of leading issuers in the consumer goods sector. Both entities are recognized for their strong business fundamentals, extensive market share, and well-curated product portfolios, and are widely recognized by the Indonesian public.

Furthermore, both Indofood and Unilever are distinguished by their attractive profitability and dividend distribution levels, making their shares attractive not only to retail investors but also to institutional investors, including mutual funds and pension funds. The sustained performance growth and esteemed reputations of these companies make their stocks worthy of rigorous fundamental analysis, particularly using the Discounted Cash Flow (DCF) method to determine their intrinsic value and investment viability (Al Hafis, M., & Nawir, J, 2024).

Stock valuation is crucial in the food and beverage sector, such as PT Indofood and PT Unilever. This sector is often affected by external factors that are not always directly reflected in stock market prices. Through stock valuation, investors can obtain a more accurate estimate of a company's intrinsic value, allowing them to evaluate whether the company's shares are undervalued or overvalued. This process helps investors identify potential risks and opportunities, enabling them to make informed investment decisions.

LITERATURE REVIEW

The Concept of Intrinsic Stock Value

Intrinsic stock value refers to an estimate of a stock’s fair value that reflects the company’s fundamental condition, independent of short-term market price fluctuations. According to Damodaran (2012), intrinsic value is obtained by discounting expected future cash flows to their present value using a discount rate that reflects investment risk. This concept serves as the primary foundation of fundamental analysis, particularly in determining whether a stock is overvalued or undervalued.In the context of capital markets, rational investors are assumed to compare a stock’s market price with its intrinsic value before making investment decisions. When the market price is lower than the intrinsic value, the stock is considered to have long-term profit potential (Bodie, Kane, & Marcus, 2018).

Overvalued and Undervalued Stocks

A stock is classified as overvalued when its market price exceeds its intrinsic value, whereas a stock is considered undervalued when its market price is below its intrinsic value

(Tandelilin, 2017). Overvalued conditions are often driven by market speculation, investor sentiment, or overly optimistic growth expectations. Conversely, undervalued stocks may arise due to information asymmetry, short-term negative sentiment, or a lack of investor attention to the company's fundamental performance.

Fama (1970), through the Efficient Market Hypothesis, argues that in a fully efficient market, overvalued and undervalued conditions are difficult to identify. However, numerous empirical studies suggest that market inefficiencies still exist, allowing stock mispricing to occur and thereby maintaining the relevance of fundamental analysis.

Discounted Cash Flow (DCF) Analysis

Discounted Cash Flow (DCF) analysis is a valuation method that assesses stock value based on projected future free cash flows, which are then discounted to their present value using the Weighted Average Cost of Capital (WACC) (Damodaran, 2012). This method is regarded as a comprehensive valuation approach because it emphasizes a company's ability to generate cash flows. According to Penman (2013), the main advantage of the DCF method lies in its long-term orientation toward a firm's fundamental performance. Nevertheless, this method also has limitations, particularly its sensitivity to assumptions regarding cash flow projections and discount rates, which necessitates careful and prudent application.

Comparative Case Study in Stock Valuation

A comparative case study approach is employed to compare stock valuation conditions across firms or across different time periods in order to gain a deeper understanding of the factors influencing overvalued and undervalued stocks. Yin (2018) states that comparative studies enable researchers to systematically identify patterns, differences, and similarities among research objects.

In stock valuation research, a DCF-based comparative case study can help evaluate differences in intrinsic value among companies within the same industry and reveal the influence of financial performance, growth prospects, and risk on market stock prices (Koller, Goedhart, & Wessels, 2020).

METHODS

This research is descriptive with a quantitative approach to provide an overview of the company's condition. The study used a three-year period: 2022, 2023, and 2024. This study examines the consumer goods industry, divided into two sectors: the private family-owned company PT Indofood and the international private company PT Unilever.

The information sources for this study were secondary data obtained from each company's website and the Indonesia Stock Exchange website, in the form of audited annual financial reports and company reports. The type of data used in this study is quantitative data in the form of financial reports. The financial reports of PT Indofood and PT Unilever used in this study are audited annual financial reports and company reports for 2024, 2023, and 2022.

The method used is discounted cash flows (DCF). The stages of stock valuation using DCF adopt the technique used by (Martia et al., 2018) and Charles S. Mizrahi in his book *Getting Started in Value Investing*:

a. Obtain dividend, EPS, and DER data from the company to be evaluated. The required data covers three years, from 2022 to 2024.
b. Calculate the DPR (Dividend Payout Ratio, obtained by dividing Dividends by EPS), the average EPS growth rate (EPS growth), and the average PER.
c. Project EPS and the future value of EPS.
d. Calculate the future value of the stock price by multiplying the future value of EPS by the PER.

d. Calculate the accumulated dividends received during . Dividends are calculated by multiplying the Future Value of EPS by the DPR.
e. The future value of the total stock price is obtained by summing the stock prices at the end of the year. Assume a 15% yield.
f. The final step is to calculate the fair value of the stock by finding the Present Value of the total future stock price.

RESULTS

Table 1 Results of calculation of EPS, DPR, PER of PT Indofood

Year	Dividend	Stock price	DPS	EPS	EPS Growth	DPR	PER
2022	2,440,959.00	6,725.00	278	724	0	0.38	9.29
2023	2,256,570.00	6,450.00	257	928	28.18%	0.28	6.95
2024	2,344,374.00	7,700.00	267	984	6.03%	0.27	7.83
Average	2,347,301	6,958	267.33	878.67	11%	0.31	8.02

The table above shows that EPS increased from 724 to 984. This is a positive sign of the company's performance , which has successfully increased earnings per share. This indicates good operational efficiency, revenue growth, or effective cost control. Despite the increase in profits, dividends tend to remain stable. This indicates prudence in distributing profits for expansion and investment. The decrease in DPR indicates that Indofood is retaining profits and allocating them for the long term. This is a positive long-term trend, but for investors who rely on dividends, it may be less attractive.

Indofood's PER decreased in 2023 due to declining share prices and increasing EPS, resulting in low market valuation.

Table 2 Results of calculation of EPS, DPR, PER of PT Unilever

Year	Dividend	Stock price	DPS	EPS	EPS Growth	DPR	PER
2022	5,722,500.00	4700	150	151	0	0.99	31.13
2023	5,112,100.00	3530	134	126	-16.56%	1.06	28.02
2024	4,501,700.00	1775	118.00	88	-30.16%	1.34	20.17
Average	5,112,100.00	3,335.00	134.00	121.67	(0.16)	1.13	26.44

The decline in EPS for three consecutive years indicates weakening Unilever's profitability due to intense competition in the FMCG market and declining sales. This is a negative signal for investors focused on fundamental growth. Despite the sharp decline in profits, Unilever continues to distribute substantial dividends. This demonstrates its efforts to maintain trust through dividends, relying on cash and retained earnings to pay dividends.

A DPR exceeding 100% indicates that Unilever is paying out more than it earns, meaning that dividends are not entirely derived from current year profits but also from retained earnings from previous years. The decline in PER is a result of the decline in share price and EPS. This indicates weakening market confidence.

The next step is to calculate the EPS projection for the next three years. Since the average EPS growth is below 15%, according to Mirzahi in Desmond Wira (2017), the figure used is 10%.

Table 3 Results of PT Indofood's EPS Projection Calculation

Year	EPS 2024	FV	EPS projection
2025	984	1.10	1082.4
2026	984	1.21	1190.64
2027	984	1.33	1309.70

Based on table 3, Indofood's EPS projection for the third year is Rp. 1,309,700.

Table 4 Results of PT Indofood's EPS Projection Calculation

Year	EPS 2024	FV	EPS projection
2025	88	1.10	96.8
2026	88	1.21	106.48
2027	88	1.33	117.12

Based on table 4, Unilever's EPS projection for year 3 is Rp. 117.12

Calculate the projected stock price by multiplying the projected EPS by the average PER. Therefore, the projected stock price in 2027 for PT Indofood is Rp. 10,505.71 and PT Unilever is Rp. 3,096.56.

Table 5 Results of PT Indofood's Dividend Projection Calculation

Year	EPS projection	DPR	Dividend Projection
2025	1082.40	0.31	335,544
2026	1190.64	0.31	369.0984
2027	1309.70	0.31	406.00824
Total			1110.65

Based on table 5, PT Indofood's dividend projection is Rp. 1,110.65

Table 6 Results of PT Unilever's Dividend Projection Calculation

Year	EPS projection	DPR	Dividend Projection
2025	96.8	1.13	109.63
2026	106.48	1.13	120.59
2027	117.12	1.13	132.65
Total			362.89

Based on table 5, PT Unilever's dividend projection is Rp. 362.89. The total stock price projection is obtained by adding the stock price projection and dividend projection. Therefore, the total stock price projection for PT Indofood is Rp. 11,616, and the total stock price projection for Unilever is Rp. 3,459.

Table 7 Results of the calculation of the fair price of PT Indofood shares

Year	FV	r (assumption 15%)	Fair price of shares	Stock price	Conclusion
2022	11,616	0.15	7,637	6,725	Undervalued
2023	11,616	0.15	8,783	6,450	Undervalued
2024	11,616	0.15	10.101	7,700	Undervalued

Based on Table 7, it can be seen that PT. Indofood shares are undervalued , with a fair share price higher than the market price. This has occurred for 3 consecutive years.

Table 7 Results of the calculation of the fair price of PT Unilever shares

Year	FV	r (assumption 15%)	Reasonable price	Stock price	Conclusion
2022	3,459	0.15	2,274	4,700	Overvalued
2023	3,459	0.15	2,615	3,530	Overvalued
2024	3,459	0.15	3,008	1,775	Undervalued

Table 7 shows that PT Unilever shares were overvalued , with a fair share price higher than the market price for two years, before becoming undervalued in 2024.

Based on the calculations above, PT Unilever, an international company, shows its market price is lower than its share price in 2022 and 2023. Investors are advised to sell this year. The stock becomes undervalued in 2024, when its share price declines, creating a buying opportunity due to the low selling price. This indicates a temporary decline in confidence and a potential recovery that has not yet been seen by investors. This opens up opportunities for future share price improvements.

PT Indofood's stock value is below its fair value, potentially generating capital gains for investors. This makes it an attractive investment option for the future. Indofood's fair value has increased year-on-year from Rp 7,367 to Rp 10,101, consistent with the approaching future value . PT Indofood is suitable for medium- to long-term investors, and its business processes are stronger and more optimistic.

Overall, PT Indofood has been more stable and consistently providing opportunities for three consecutive years, making it a good choice for investors using fundamental analysis. Meanwhile, PT Unilever only showed good value in 2024, requiring caution going forward. For value investors , this approach helps determine the best time to enter the market.

Although these two companies are in the same industry and sector, their valuations differ. This is because:

a. The business structure where PT Indofood has a more diversified business structure from agribusiness to distribution while PT Unilever focuses more on household care.
b. Operational efficiency and cash flow growth. PT Indofood demonstrated more stable cash flow compared to PT Unilever.
c. Market expectations are high for Unilever with its big name internationally.
d. The market does not accurately reflect the company's fundamentals. PT Unilever's high market price in 2022-2023, resulting in its overvaluation , reflects excessive optimism and overly high market expectations. Meanwhile, PT Indofood has not received as much market attention as PT Unilever.
e. PT Unilever Indonesia is part of a multinational group, so cash flow can be impacted by currency exchange rates.

CONCLUSION

Based on the results of the analysis that has been carried out on the stock valuation of PT Indofood Sukses Makmur Tbk (INDF) and PT Unilever Indonesia Tbk (UNVR) using the *Discounted Cash Flow* (DCF) method with an assumed discount rate of 15%, the following conclusions were obtained:

1. Shares of PT Indofood Sukses Makmur Tbk have been declared undervalued *for* three consecutive years. Consequently, INDF shares are still trading below their intrinsic value, making them attractive to investors in the future.
2. PT Unilever Indonesia Tbk shares were declared overvalued *for* two consecutive years, then *undervalued* in 2024. This indicates that UNVR shares will trade above their intrinsic value in 2022-2023. The market has high expectations for this stock. Investors began to take interest in 2024, opening up opportunities for the future. This is attractive for *value investors* .
3. *Discounted cash flow* based valuation provides a more accurate picture compared to market price alone.
4. A comparison between the shares of PT Indofood Sukses Makmur Tbk, which is a national private company, and PT Unilever Indonesia Tbk, which is an international private company, shows that business structure and cash growth are important factors in creating fair share value.

SUGGESTION

The findings of this study are useful for investors, who should not rely solely on market prices when making investment decisions. Investors can use the *discounted cash flow method* to assess the fair value of shares. Companies also need to maintain cash flow growth in fundamental valuation. This research can be further developed using other sectors, such as state-owned enterprises (SOEs) or across countries. This research can also be expanded using other business valuation methods, such as *real option valuation* or *economic value added* .

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