

ABSTRACT

This study aims to analyze the effect of profitability and leverage on the formation of free cash flow and its implications for intrinsic firm value using the Discounted Cash Flow (DCF) valuation approach based on Free Cash Flow to Equity (FCFE). This study uses a purposive sampling technique. The data used in this study are the financial statements of coal mining companies listed on the Indonesia Stock Exchange during the 2020–2024 period, with a research sample of 3 companies, namely PT Bayan Resources Tbk (BYAN), PT Indo Tambangraya Megah Tbk (ITMG), and PT Bukit Asam Tbk (PTBA). The analysis in this study uses the FCFE-based Discounted Cash Flow valuation method through financial statement projections, cash flow estimation, terminal value calculation, and sensitivity analysis using best case, base case, and worst case scenarios.

This study analyzes changes in profitability through changes in cost of goods sold relative to sales and changes in leverage through changes in the company's funding structure to examine their impact on the formation of FCFE and intrinsic firm value. A sensitivity analysis approach is used to identify the extent to which changes in operational conditions and funding structure affect the company's ability to generate cash flow for shareholders.

The results show that an increase in profitability is consistently followed by an increase in FCFE, which ultimately enhances the intrinsic value of the company. Conversely, a decrease in profitability is followed by a decline in FCFE and the company's intrinsic value. Meanwhile, changes in leverage show relatively limited changes in FCFE and intrinsic firm value under moderate conditions. This study also shows that changes in FCFE caused by changes in profitability and leverage are followed by changes in intrinsic firm value in the same direction. Therefore, profitability becomes a more dominant factor than leverage in determining the company's ability to generate cash flow and form intrinsic firm value.

Keywords: Firm Valuation, Discounted Cash Flow, Free Cash Flow, Profitability, Leverage, Intrinsic Firm Value, Coal Mining.