

Economic Value Added and Financial Ratio Analysis Implementation on Tobacco Company

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Abstract

The purpose of this study was to determine the company's financial performance appraisal using financial ratio and the concept of Economic Value Added (EVA). The method used is descriptive quantitative approach. Object of this research is Djarum Ltd and HM Sampoerna Ltd which is listed in Indonesia Stock Exchange. Of all financial ratio analysis can be concluded that use of financial ratios HM Sampoerna Ltd able to manage assets and capital to increase sales and profit better than Djarum Ltd, but in the ability of debt financing, Djarum Ltd better able to manage assets and capital to meet debt obligations better than HM Sampoerna Ltd. The financial performance of Djarum Ltd and HM Sampoerna Ltd 2015-2016 period is measured from the calculation of EVA is increased in each year in the three-year study period. EVA high value will attract investors, because the greater value, the higher EVA of the company's value, which means the greater advantage enjoyed by the company. This indicates that the company is able to create economic value for the company and be able to meet the expectations of shareholders and investors.

Keywords: financial performance, liquidity, leverage, profitability, activity, EVA

1. Introduction

Financial ratios are a tool to explain the relationship between one factor to another factor in the financial statements. Results of financial ratio analysis is expressed in a ratio which is a quantity that is the ratio between the value of a particular account in the financial statements with the value of other accounts. Application of financial ratio analysis has several drawbacks that do not take into account the cost of capital, then this analysis is developed further into a financial ratio analysis modified. The method question is the model of Economic Value Added (EVA), which in Indonesia is better known as the concept of Economic Value Added or NITAMI, The application of the concept of Economic Value Added (EVA) in a company will make the company more focus on value creation.

The object of this research is Djarum Ltd and HM Sampoerna Ltd go public and has been listed on the Indonesia Stock Exchange (BEI). Based on the objective in achieving and maintaining the desired progress of the company's performance, Djarum Ltd and HM Sampoerna Ltd requires the assessment of performance, especially in the company's financial performance, making it look the efficiency and effectiveness of the company. Relationships with this research is that this research may provide information regarding the company's financial growth and is used as a material for corporate decision making, so as to push the company's financial performance for the better. Based on this background, the researchers are interested in doing research on a company - the tobacco companies that go public with the title "Assessment of Financial Performance Using Financial Ratio Analysis and EVA Concept (Economic Value Added) (Study at Djarum Ltd and HM Sampoerna Ltd Listed in Indonesia Stock Exchange Period 2015-2016). The purpose of this study was to determine the company's financial performance using financial ratio analysis and the Economic Value Added (EVA) concept.

2. Study Literature

The financial report is an information describing the financial condition of the company and further information can be used as an overview of the company's financial performance (Fahmi, 2016: 2). Financial report is basically the result of the accounting process that can be used as a tool to communicate the company's financial data or activity to the parties concerned (Hery, 2012: 3). Financial performance is a picture of the financial condition of a given period both concerning aspects of fund raising and distribution of funds that are usually measured by indicators of capital adequacy, liquidity, and profitability (Jumingan, 2015: 239). The financial performance is the result or achievement that has been achieved by the company's management in carrying out its functions effectively manage the company's assets during a certain period (Rudianto, 2016: 189). Analysis of the company's financial report is basically a calculation of ratios for assessing the company's financial condition in the past, current and likely future. Ratio analysis is one tool of financial analysis of the most popular and widely used (Hery, 2012: 22) Analysis of financial ratios commonly used to assess the financial performance of companies grouped into four types, namely:

- a. Liquidity Ratio comprising Ratio Current Ratio and Quick.
- b. Activity Ratio consisting of Total Assets Turn Over and Fixed Assets Turn Over.
- c. Profitability ratios which consist of Gross Profit Margin, Operating profit Margin, Net Profit Margin,

Return on Assets and Return on Equity.

- d. Leverage ratio consisting of Debt Ratio and Debt to Equity Ratio.

EVA or economic value added (also called residual income) is net profit companies or divisions after deducting the cost of capital employed. EVA is a means of measuring the performance of companies in which the company's performance is measured by looking at the difference between the return on capital and cost of capital, then multiplied by capital outstanding at the beginning of the year (or an average of one year if the capital is used in calculating the rate of return on capital) (Rudianto, 2016: 217). If $EVA > 0$ indicates that the rate of return generated company exceeds the cost of investment capital committed shareholders. This means the company has created value (create value) for shareholders. If $EVA = 0$ indicates that the company is economically be at the breakeven point, because all the operating profit generated it is used to meet obligations to fund providers, both creditors and shareholders. But if $EVA < 0$ indicates that the rate of return that the company produced insufficient capital charge on shareholder investment. Thus the company instead of creating added value for the company, but instead destroy shareholder value (destroy value) because of profit available cannot meet the expectations of the providers of funds, especially shareholders.

The capital structure is permanent expenditure which reflects the consideration of long-term debt to equity. The capital structure is an equity and debt financing to a company that is often calculated based on the relative funding sources.

Cost of capital is one of the benchmark to assess whether spending decisions taken by the management is the final decision, in addition to the value of the company or stock market prices. The cost of capital is the average rate of return that reflects the actual desired level of income by the investor in the company. The capital costs are included in the financing decision for new investment consists of debt, preferred stock, retained earnings and common stock (Margaretha, 2015: 96).

3. Methodology

The method used is descriptive quantitative approach, because it describes the condition of the company's financial performance through quantitative calculation of certain financial ratios and EVA. Object in this research is Djarum Ltd and HM Sampoerna Ltd listed in Indonesia Stock Exchange. In this study, the data used is secondary data that the data obtained from the Indonesia Stock Exchange (BEI). The collected data includes:

1. The company prospectus which describes the brief history of the company, its vision, mission, organizational structure, shareholders, and the resulting product.
2. The Company's financial statements covering the period 2015- 2016 income statement and balance sheet.

The analytical method used in this research is descriptive analysis method with periodic data (time series). Stages of the analysis are as follows:

1. Conduct an analysis of financial ratios with the method of time series analysis (period 2015- 2016) to determine the company's financial performance and development of the company's financial ratios during the study period. Calculation of financial ratios are included the following:
 - a. Consist Liquidity Ratio Current Ratio and Quick Ratio.
 - b. Activity Ratio consisting of Total Assets Turn Over and Fixed Assets Turn Over.
 - c. Profitability ratios which consist of Gross Profit Margin, Operating profit Margin, Net Profit Margin, Return on Assets and Return on Equity.
 - d. Leverage ratio consisting of Debt Ratio and Debt to Equity Ratio.
2. Perform calculations with the Economic Value Added (EVA) concept in the period 2015- 2016, with the following steps:
 - a. Calculating the cost of debt capital (cost of debt = K_d *).
 - b. Calculating the cost of ordinary share capital (cost of equity = T_o) by using the dividend growth rate.
 - c. Calculating capital structure by adding long-term debt with its own capital.
 - d. Calculating the cost of capital weighted average (WACC).
 - e. Calculating the amount of EVA produced by the company to determine the company's financial performance and development of the company EVA during the study period.
 - f. Assess the financial performance of Djarum Ltd and HM Sampoerna Ltd as measured by financial ratio analysis and method of Economic Value Added (EVA)

4. Result and Discussion

Calculation of financial ratios based on data from the consolidated financial statements of the balance sheet and income statement in 2015 to 2016, includes liquidity ratios, activity ratios, profitability ratios and the leverage ratio.

Table 1 Financial Analysis of Djarum, Ltd and HM Sampoerna, Ltd period 2015-2016(%)

Financial Ratio		Djarum, Ltd			HM Sampoerna, Ltd		
		2014	2015	2016	2014	2015	2016
Liquidity Ratio	CR	224,48	217,02	172,21	174,93	177,58	175,26
	QR	17,45	23,94	21,71	69,94	45,88	32,29
Leverage Ratio	DAR	37,19	35,90	42,06	47,35	49,30	48,35
	DER	59,58	56,29	72,97	89,93	97,22	93,60
Profitability Ratio	GPM	24,18	18,73	19,61	28,75	27,78	26,75
	NPM	11,84	8,30	7,91	15,23	14,72	14,41
	ROA	12,68	9,80	8,63	41,55	37,36	39,44
	ROE	20,32	15,37	14,98	78,92	73,68	76,35
Activity Ratio	TATO	1,07	1,18	1,09	2,73	2,54	2,74
	FATO	1,38	1,64	1,60	3,56	3,15	3,53

Source: Data processed, 2016

1. Liquidity Ratio is the ratio that indicates the company's ability to pay its current debts that must be met with current assets. Current Ratio of Djarum Ltd better than HM Sampoerna, while its quick ratio of HM Sampoerna Ltd better than Djarum, Ltd. This means that Djarum's ability to pay current debts better than HM Sampoerna and HM Sampoerna has a quick ratio greater as current assets less inventory is greater than Djarum, Ltd.
2. Leverage Ratio is a ratio used to determine how much the company's assets and capital are financed by debt. The higher ratio indicates less capacity assets and equity in closing the overall debt. HM Sampoerna Ltd has the leverage ratio is greater than Djarum Ltd, which demonstrates the ability of the company's own assets and capital in a still better cover the debt of Djarum, Ltd.
3. Profitability ratio is the ratio used to measure how the company's performance in profit, Gross Profit Margin is the ability to obtain the gross profit is greater than the sales, while net profit margin is the ability of the company posted a net profit after taxes is greater than sales. ROA is ability company makes a profit on asset management while ROE with the management of their own capital. Profitability Ratios HM Sampoerna Ltd is greater than Djarum Ltd, which means the ability of HM Sampoerna Ltd profit from the sale and management of assets and capital better than Djarum, Ltd.
4. Activity Ratio is the ratio that indicates the company's activities in managing assets to increase sales. From the table it can be seen that the Djarum Ltd and HM Sampoerna Ltd steadily increasing management activities during 2015-2016. However, HM Sampoerna has TATO and FATO greater than Djarum, Ltd. This means that HM Sampoerna Ltd continuously improve asset management activities to increase sales better than Djarum, Ltd.

Economic Value Added (EVA)

EVA or economic value is the net profit of the company or division after deducting the cost of capital employed. The company's net profit (NOPAT) is obtained from Earnings Before Interest and Tax (EBIT) reduced the tax burden. EVA calculations are presented in the table below:

Table 2 Economic Value Added (EVA) Result of Djarum, Ltd and HM Sampoerna, Ltd period 2015-2016

Economic Value Added (EVA)		Djarum, Ltd			HM Sampoerna, Ltd		
		2014	2015	2016	2014	2015	2016
Cost Debt Capital	K _d	6,68	7,40	15,16	8,74	7,49	7,95
	K _j	5,01	5,44	11,20	6,46	5,56	5,93
Cost Capital stock	K _e	15,02	10,17	12,07	12,78	19,77	9,79
Capital Structure	P _d	96,05	96,00	95,87	93,71	92,74	92,63
	P _e	3,95	3,00	4,13	6,29	7,26	7,37
WACC		14,62	9,9	12,03	12,85	18,74	9,51
EVA		4.758.2 10	4.969.6 86	5.649.1 55	11.000. 502	12.379. 738	14.927. 157

Source: Data processed, 2016

EVA calculation Djarum Ltd and HM Sampoerna Ltd always be positive, which means that NOPAT of the gross profit calculation tax deduction greater than the weighted cost of capital. The results were always positive EVA give added value to attract investors or shareholders. EVA positive results also show the company's financial performance in a healthy condition. HM Sampoerna Ltd has a value greater than the EVA Djarum, Ltd, which means the company's financial performance in creating a better economic value of HM Sampoerna Ltd than Djarum, Ltd. The results of the study can help management to determine the condition of

the company's rate of return and financing as well as emphasizing the creation of economic value for shareholders.

Financial Performance

Financial performance of HM Sampoerna Ltd can know the condition of the company tend to be both a financial ratio analysis and EVA is greater or better than Djarum Ltd, this makes the conclusion that the performance of HM Sampoerna better than Djarum Ltd, In the analysis of financial ratio calculations wear internal aspects of the company, namely the company's financial statements such as balance sheet and income statement, whereas for Economic Value Added (EVA) calculation is taking internal and external aspects such as cost of capital, capital structure, share price and dividends that Economic Value Added (EVA) is close to reality.

5. Conclusion

The financial performance of Djarum Ltd and HM Sampoerna Ltd 2015- 2016 period is measured from the calculation of financial ratio analysis as a whole can be quite good, although there are some ratios that fluctuate and there are several ratios can be increased again. Of all the financial ratio analysis used can be concluded financial ratios of HM Sampoerna Ltd able to manage assets and capital to increase sales and profit better than Djarum Ltd, but in the ability of debt financing, Djarum Ltd better able to manage assets and capital to meet debt obligations better than HM Sampoerna Ltd. The financial performance of Djarum Ltd and HM Sampoerna Ltd 2015- 2016 period is measured from the calculation of Economic Value Added (EVA) have been rising annually within three years of the study period. EVA is always positive indicates that the returns generated by the company exceeds the cost of capital and debt. From the calculations in the previous chaer can be said HM Sampoerna has a greater economic value of Djarum, Ltd. Assessment of the financial performance of HM Sampoerna Ltd can know the condition of the company tend to be both a financial ratio analysis and EVA is greater or better than Djarum Ltd, this makes the conclusion that the performance of HM Sampoerna better than Djarum, Ltd.

Suggested can be given as input in maintaining the company's financial performance are as follows:

1. From the analysis of financial ratios can be seen Djarum Ltd and HM Sampoerna Ltd own successes and shortcomings of each particular ratio in the period. Therefore, the company should improve financial performance and for companies that are already well on the achievement of expected to maintain its financial performance in order to compete with similar companies.
2. The management of Djarum Ltd and HM Sampoerna Ltd must always be oriented towards achieving added value in order to value Economic Value Added (EVA) positive can be maintained and capable of being upgraded every year. Calculation of Economic Value Added (EVA) can lead to the real profit companies as measured from the company's ability to generate economic value added so as to consider the expectations of investors.
3. In creating value Economic Value Added (EVA) is positive then the company should be able to obtain the value of NOPAT (EBIT tax deductible) are higher than the cost of capital, in addition to the company's first consider the optimal capital structure for the company to run effectively and efficiently.

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