

ANALYSIS OF FINANCIAL PERFORMANCE IN THE RESTRUCTURING OF PT INDONESIA ASAHAN ALUMINIUM (PERSERO) TO A MINING INDUSTRY HOLDING COMPANY USING THE ECONOMIC ADDED VALUE APPROACH

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Abstract—In order to increase the value of the company of the State-Owned Enterprises (BUMN) in the mining sector, one of the strategies undertaken by the company is to restructure through the establishment of a holding company. Several state-owned companies consisting of PT Indonesia Asahan Aluminum (Persero), PT Aneka Tambang, Tbk., PT Bukit Asam, Tbk., and PT Timah Indonesia, Tbk. have established a Mining Industry BUMN Holding Company. It is expected that with the establishment of the holding companies related to finance can increase.

One way to obtain company performance is to get a value from an approach using EVA. EVA can be used to asses company health by showing how the value is created by the company. EVA can also find out whether the company has used its capital well or not.

Keywords—*financial performance, holding, restructuring, Economic Value Added (EVA)*

I. INTRODUCTION

PT Indonesia Asahan Aluminum (Persero) has become a company of the State-Owned Enterprises (BUMN) of the Mining Industry, synergizing with members of other holding companies. The establishment of the BUMN restructuring was one of the government assignments in accordance with Government Regulation (PP) No. 47 of 2017 concerning the Addition of the State Capital Participation of the Republic of Indonesia to the Capital Shares of the Company Perseroan (Persero) PT

Indonesia Asahan Aluminum as the holding company of the Mining Industry Holding.

With corporate restructuring, it is expected that the company can run a better business and strategy. Moreover, the company is currently developing and expanding its business. Restructuring not only encourages the efficiency of production costs but also has the opportunity to increase market penetration, increase business effectiveness and strengthen the capital structure.

During the increase of conditions of the corporate competition at this time, not only domestically but globally, companies are required to be able to survive and develop and prepare strategies in the company's short-term and long-term plans. Using a value-based method of measuring financial performance, considering the value of market capitalization and also as the expectations of shareholders, and making management in determining decisions, requires the need for more comprehensive information.

Carrying out an evaluation of company policies, whether the policy is considered appropriate or not, is expected to be an important point to determine the next strategy through the position and financial performance of the company to show financial position and health.

According to Koç (2017), based on the economic value-added (EVA) approach, companies that apply this method approach can show more clearly how "value" is created, which work units show more effective and efficient performance, how the company's capital investment has an impact on increasing company revenues, and strategic thinking. The approach taken can also provide information about how the company will be in the future.

II. LITERATURE REVIEW

A. Restructuration

Restructuring is a rearrangement of company composition. The composition of the company can come from the financial structure, asset structure, or company organizational structure. Examples of forms of restructuring models include the establishment of holding companies, mergers, consolidations, takeovers, sale of shares to the public (IPO), sales to strategic partners (sales), sales to management (MBO), management contracts, and other strategic alliances (Pranoto et al., 2013).

In general, companies that conduct restructuring aim to make efficiency and effectiveness in business processes and policies, strengthening capital structures, and strengthening markets. One of the achievements of the company in restructuring is done by looking at financial performance. Financial performance can be evaluated based on the company's financial statements to show the position and financial health of the company.

B. Economic Value-Added

In addition, there are several other approaches that are used to assess a company's health, one of them is the economic value-added (EVA) approach. The EVA approach can clearly show how the "value" is created, like which units show more effective and efficient performance, and how the company's capital investment has an impact on increasing the company (Koç, 2017). The method approach can also provide information about how the company will be in the future. EVA is an accounting-based method to measure the company's financial performance that comes from operating profit including taxes. This method was created by consultant firm Stern Value Management, or named as Stern Stewart & Co. Basically, EVA is the difference between Rate of Return (ROR) and Weighted Average Cost of Capital (WACC). This method was created by consultant firm Stern Value Management, or named as Stern Stewart & Co. The goal is how the company controls the cash to improve value and other personal interest (Ende, 2017).

There are 3 meanings of EVA. Positive EVA means the company has succeeded to create or increase the EVA. When the EVA same as 0, it means the company is at break even, neither to increase nor to decrease. The management is at the position where they haven't improved their value economically and are stagnant. Negatives EVA means the company hasn't improved any value and decreases the value that has been built.

There are several formulas to calculate EVA, Rago (2008) explains the equations based on Stewart as follows:

$$\begin{aligned} \text{EVA} &= \text{NOPAT} - \text{cost of capital} \times \text{capital, or} \\ \text{EVA} &= \text{operating profits} - \text{capital charge} \end{aligned}$$

Ramos et al. (2013) determine the EVA different from Rago. His equation is as follows:

$$\begin{aligned} \text{EVA} &= \text{Capital} (\text{ROA} - \text{WACC}) \\ \text{ROA} &= \text{Return on Asset} \\ \text{WACC} &= \text{Weighted Average Cost of Capital} \end{aligned}$$

C. Net Operating Profit After Tax (NOPAT)

The EVA will help managers to make a decision about which project will have a benefit to the company or not. There are some elements to calculate EVA, first is NOPAT. Net Operating Profit After Tax (NOPAT) eases adjustments to take accounting data from the financial report (Rago, 2008). Young and O'Byrne (2001) explain the NOPAT as follows:

$$\text{Net Sales} - \text{Operating Expenses} = \text{Operating Profit (EBIT)},$$

$$\text{EBIT} - \text{Taxes} = \text{NOPAT}$$

D. Weighted Average Cost of Capital (WACC)

The Weighted Average Cost of Capital is one of the important parameters in finance analysis and it will help several applications like firm valuation, capital budgeting analysis, and EVA (Berry, 2014 and Rehman, 2010). The standard formula for WACC is as follows:

$$\text{WACC} = w_d r_d (1 - T) + w_{ps} r_{ps} + w_s r_s$$

Where,

$$\begin{aligned} w_s &= \text{the portion of capital by common equity} \\ &\quad \text{(usually known as a cost of equity)} \\ k_s &= \text{rate on common equity} \\ w_{ps} &= \text{the portion of capital by preferred stock.} \\ k_{ps} &= D_s / P_s = \text{rate on preferred stock.} \\ W_d &= \text{the portion of capital by debt (usually known} \\ &\quad \text{as a cost of capital)} \\ k_d &= \text{interest rate on debt (before tax)} \\ T &= \text{tax rate} \end{aligned}$$

E. Invested Capital

The invested capital is the results of the company balance sheet at about the amount of capital that has been invested in operational and non-operational activities by creditors and stakeholders (Daeng GS, 2017). The invested capital is the sum of all company loans such as bank loans, debt, leasing, bonds, liabilities of taxes, and other liabilities excluding short term loans.

F. The Advantages and Disadvantages of EVA

EVA was a concept to see the capital and assets that actually increase the value of operations. The advantages of EVA are (Daeng GS, 2017):

- EVA will focus on the value added

- EVA gives management, investors, and creditors information about how the capital is used properly.
- EVA doesn't require other company data to compare with it.
- EVA is a practical measurement, which means it is easier to use and allows the management to quickly make a decision.
- EVA is very easy to use

Even though EVA have some advantages, there are some disadvantages from using EVA, which are as follows:

- EVA is sensitive to the capital market, it can be high and low based on the capital market.
- The EVA actually is easy to use, but one of the parameters can be tricky as it has to calculate the cost of capital, especially if the company isn't registered in the market stock.

III. Method

This research uses PT Indonesia Asahan Aluminium (Persero). The purpose is to assess company performance based on finances, using the EVA approach. The table will explain the EVA, from NOPAT, Invested Capital (C), and WACC.

The first step is to collect data for this study subject. The data comes for a published annual report of PT Indonesia Asahan Aluminium (Persero) from 2015 to 2017. According to those annual reports, starting from 2016, PT Indonesia Asahan Aluminium (Persero) published 2 kinds of a financial report, as an operating company and as a Holding company (consolidation with other company). The authors will focus on the PT Indonesia Asahan Aluminium as operating.

The second step is to calculate the parameter for EVA of PT Indonesia Asahan Aluminium (based on annual reports) such as NOPAT, WACC, and Invested Capital. The third step is to calculate the Economic Value Added (EVA). And the last step is to analyze the result of EVA.

A. Statements of the Financial Report

In 2017, PT Indonesia Asahan Aluminium (Persero) got additional Company's Share Capital from:

- Republic of Indonesia's Government Equity Participation as Holding Mining Industry (PT Aneka Tambang, Tbk., PT Bukit Asam, Tbk., and PT Timah, Tbk.) amounting USD 3.1 billion.
- Republic of Indonesia's Government Equity Participation from PT Freeport amounting USD 537 million

- Equity Participation to PT Panca Mitra Limbah Indonesia (PT PMLI) amounting USD 294,803.

To get the fair equation of financial data, the authors exclude those additional companies' share capital to the company equity in 2017. Even without additional companies' share capital, the equity still increased 29% in 2017 and 42.8 % in 2016. One of the causes is the surplus of revaluating assets in 2016 and the addition of land assets in 2017.

TABLE 1. STATEMENTS OF THE FINANCIAL REPORT

Parameter	Unit	2015	2016	2017
Short-Term Liabilities	\$	56,547,468	85,179,812	122,238,664
Long-Term Liabilities	\$	18,329,162	5,512,010	14,232,691
Total Liabilities	\$	74,876,630	90,691,822	136,471,355
Total Equity	\$	1,059,042,072	1,532,799,995	1,971,306,638
Total Liabilities and Equity	\$	1,133,918,702	1,623,491,817	2,107,777,993
Total Liabilities (Long-Term) and Equity	\$	1,077,371,234	1,538,312,005	1,985,539,329

B. Share Capital and Dividend PAYMENT

TABLE 2. SHARE CAPITAL AND DIVIDEND PAYMENT

Parameter	Unit	2015	2016	2017
Share Capital (BUMN 100%)	\$	920,476,000	920,476,000	920,476,000
Total Share	Share	920,476	920,476	920,476
Dividend	\$	90,000,000	23,714,544	19,923,270
Dividend/Share	\$/share	98	26	21.7

On 19 December 2013, PT Indonesia Asahan Aluminium (Persero) became the Government of the Republic of Indonesia, owning 100% of the company's 920,476 issued shares, transferred from Nippon Asahan Aluminium Co., Ltd. as foreign direct investment. The dividend payout ratio in 2015 is 70%, based on the Ministry of Finance letter as the interim dividend 2 years (2014 and 2015) amounted to USD 90 million. In 2016 and 2017, the Dividend Payout Ratio is become 30%, amounted to USD 23.71 million and USD 19.92 million.

IV. RESULTS AND DISCUSSION

A. WACC Parameter Requirement

To calculate WACC, there are parameter requirements such as interest rate (I), tax rate (T), weight of cost of debt (w_d), cost of debt (w_d), weight of cost of preferred stock (w_{ps}), cost of preferred stock (k_{ps}), weight of common equity (w_s), and cost of common equity (k_s). Because the company is 100% government owned, the w_s and k_s become zero (0). The interest rate is a fixed value, valued at 5.25 %, based on the fair value collected in the annual report.

TABLE 3. WACC PARAMETER REQUIREMENT

Parameter	Unit	2015	2016	2017
I (based on fair value)	%	5.25	5.25	5.25
T (Total tax rate)	%	23.81	26.16	21.18
w_d	%	1.70	0.36	0.72
k_d	%	4.00	3.88	4.14
w_{ps}	%	98.30	99.64	99.28
k_{ps}	%	9.78	2.58	2.16

The total tax rate is roughly calculated from the ratio of earning before tax and tax paid. Tax paid changes from year to year due to changes of surface water tax. The high value of k_{ps} in 2015 is because of a high dividend payout ratio due to foreign direct investment.

TABLE 4. TOTAL TAX RATE

Parameter	Unit	2015	2016	2017
NOPAT	\$	79.048.479	66.440.899	110.137.159
WACC	%	9,66	2,58	2,17
Invested Capital	\$	1.077.371.234	1.538.312.005	1.985.539.329
EVA	\$	-25.058.829	26.793.041	67.004.932

B. Economic Value Added (EVA)

To get an EVA, we need NOPAT, WACC, and invested capital. The NOPAT is according to what is shown in the table. The NOPAT in 2016 decreased, while after 2017 it is highly increased. This is because some of the increased profit is due to operating efficiency and dividend incomes in 2017. The invested capital comes from the total equity and liability reduced by short-term liability. The invested capital increased because there was asset revaluation in 2016 and because of the increased capital stock.

From this analysis, EVA steadily increased from 2015 to 2017, starting at negative in 2015. One that affects this is because of the high dividend interim in 2015. Barker et al. (1999) found that most chief financial officers believe the dividend affects the firm's value. Starting from 2016, the EVA begin to be positive. It means the operating profit creates a value from utilizing the capital charge. Also, this is confirmed in research by Haque et al. (2013), which found that paying less of a dividend will increase the EVA.

But based on these results the restructuring effect still has not provided maximum results. However, it appears that there is an increase in the company's capital structure in the form of equity participation. This shows that the company will have a stronger capital structure. The trend is actually good to 2017, but if the invested capital includes equity participation,

the EVA will be negative. Equity participation couldn't be utilized yet so the author excludes it.

V. CONCLUSION

- A. The financial performance using EVA began as negative in 2015 and increased and started to be positive in 2016 and 2017. This is a satisfying accomplishment to the company (as an operating company).
- B. The WACC in 2015 is 9.66% while in 2016 and 2017 it is 2.58% and 2.17%. Using the Dividend Discounted Model for preferred stock (government as the company's sole shareholder) is sensitive when the dividend highly increased.
- C. The restructuring has not yet provided good results to the company as an increased profit. However, the company now has stronger capital structures.

The steady increase of EVA from 2015 to 2017 and starting positive from 2016 is a good sign for the management. The company has been able to create a positive value for the company. In 2013, the company has become an SOE enterprise, and it has been good sign since 2015 when the EVA increased, while the company gave an interim dividend to the government for about 2 years. The government should also make a good follow up and support the company if they want the company to sustain while maintaining the dividend allocation and taxes.

The company has good performance since the NOPAT highly increased in 2017. The restructuring isn't yet complete, but the positive signs can be higher if the company utilizes equity participation. Management must be able to utilize the capital participation and take the right decision to increase EVA. Further analysis needs to be done when corporate restructuring becomes more established.

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