

An Analysis of Economic Value Added Method as a Tool of Measurement of Profitability Comparison

(Case Study at Telecommunication Company Listed on the Indonesia Stock Exchange Period 2013-2018)

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Abstract—This study aims to measure the profitability comparisons between the companies based on the analysis method of Economic Value Added (EVA) during the period 2013 to 2018 at telecommunication companies listed on the Indonesia Stock Exchange (IDX). The method used is descriptive analysis using time series data. The results of this study indicate that there is profitability comparison between telecommunication companies namely PT. Telekomunikasi Indonesia Tbk where its profitability is better than the value of EVA during six years is positive or $EVA > 1$ compared to other telecommunication companies. Therefore, it can be said that PT. Telekomunikasi Indonesia Tbk. The poorest profitability of the company is PT. Smartfren Telecom Tbk, thus, the additional value for the company has not reached perfectly. Moreover, it can be seen that between PT. Telekomunikasi Indonesia Tbk and PT. Smartfren Telecom Tbk. have significant differences due to the level of profitability at PT. Smartfren Telecom Tbk. that is worse than PT. Telekomunikasi Indonesia Tbk, which continues to generate positive EVA every year due to a better profit level.

Keywords: Economic Value Added (EVA), Net Operating Profit After Tax (NOPAT), Capital Charges (CC)

I. INTRODUCTION

This infrastructure sector is important for the movement of the Stock Index in the capital market because it is filled with issuers that are quite sensitive, for example telecommunication companies. The revitalization of ports and airports that are being intensively carried out by the government in order to achieve better economic growth. But towards the end of the year, the infrastructure sector was pressured by a government policy that decided to raise the price of subsidized fuel oil (BBM) which was spreading to the performance of the transportation subsector which was highly dependent on BBM.

Analyst Research Vibiz Centre believes the outlook for the shares of the performance of the infrastructure sector next year is predicted to have considerable potential. Some government

projects that are the focus are on revamping Indonesia's infrastructure. Toll roads, airports and ports are sectors that will be of particular concern. In addition, the information technology sector is also in the spotlight because of a number of Joko Widodo's new programs such as e-government, e-catalog and e-budgeting. So, the government will need the services of issuers of the information technology sector to realize the plan.

Meanwhile the issuers of the tower sector have interesting prospects. There are several reasons the prospect of this issuer is attractive. One of them is, the issuer's revenue from the tower is still in a long-term contract of around three to five years. So that this provides certainty of income for tower issuers. Technology is developing. In addition, the potential of the 4G network is not yet optimal in Indonesia and if the operator will later enter the network, the need for Base Transceiver Station (BTS) will also increase.

The issuers of the operators themselves will still find it difficult to develop given the fierce competition among telecommunication operators in fighting over a saturated market that makes investors' expectations not too high for the increase in the performance prices of telecommunication operator shares. Currently the Indonesian telecommunication industry market penetration has reached more than 90% so that telecommunication issuers find it difficult to increase revenue growth. However, even though the market share has been relatively limited, the telecommunication issuer's net profit can still grow by continuing to add service variants to customers. The biggest potential that telecommunication companies can rely on to increase revenue is data services [1].

Various telecommunication companies that now stand in Indonesia, but large companies that have good performance are PT. Telekomunikasi Indonesia Tbk., PT. Indosat Tbk. and PT. XL Axiata Tbk. These three companies have their own advantages, PT. Telekomunikasi Indonesia Tbk. is a company whose majority shares are owned by the government, while PT. Indosat Tbk. it was a foreign capital company in Indonesia, but

in 1980 Indosat became a State-Owned Enterprise whose all shares were owned by the Indonesian government, and PT. XL Axiata Tbk. became the best in the Asian region, and is majority owned by Axiata Group Berhad with shares of 66.55% and the remainder being publicly owned with shares of 33.45%.

The increasing number of competitors in an effort to make it more difficult for companies to predict the survival of the company. Many companies are competing to improve the performance of their companies in order to survive in business competition.

The financial statements are as information to find out how the company's performance so far, including achievements so far and any deficiencies that must be corrected. Especially for the company is the level of achievement of return on sales, for the survival of the company and for the welfare of those who have invested and added value generated in order to improve the determination of the company's internal goals in the short term. The report consists of a balance sheet, income statement, statement of changes in capital and cash flow [2].

Company managers will be responsible for their performance so far, it is hoped that the company's management will succeed in running the company and avoid losses that will disappoint many parties at the company.

On this basis the company's management is required to continue to improve its performance. One of the profits generated from the sale of the company every certain period. Basically, every company wants to generate maximum profit. In order to increase the profit income that will be generated from each period the company can use the Economic Value Added (EVA) method. The results of the profit measurement will be used as a basis for company management in making decisions in the future [3].

Company management is required to be able to increase the value added of the company in the sense that the company can increase its revenue. To find out the measurement of profitability the company can use the Economic Value Added method, also known as EVA [3].

Based on the aforementioned background description, the researcher is interested in examining: how is the profitability comparison between telecommunications companies and whether there is a significant difference in profitability between telecommunications companies listed on the Indonesia Stock Exchange based on the 2013-2018 Economic Value Added method.

The purpose of this study was to determine the comparability of profitability and find out significant differences in profitability between telecommunications companies listed on the Indonesia Stock Exchange in the period 2013-2018.

Financial performance is an analysis carried out to see the extent to which a company has carried out using the rules of financial implementation that have met the standards and provisions in SAK (Financial Accounting Standards) or GAAP (General Accepted Accounting Principle) and others. The five stages in analysing the financial performance of a company in

general [3], namely: Conducting a review of financial statement data, Performing calculations, Comparing the results of calculations that have been obtained using Time series analysis and Cross sectional approach, Interpreting (interpretation) to various problems found, seek and provide solutions to problems (solutions) to the problems found.

Financial statement analysis is processing further financial statements through a process of comparison, evaluation and trend analysis, will be able to predict what might happen in the future, so this is where the financial statements are needed [3]. Sugiono and Untung analysis of financial statements is an attempt to move data from a financial statement into a special format that aims to standardize financial statements, or in other words the reclassification of items in the financial statements [3]. From the definitions above can be concluded that the analysis of financial statements is the processing of data from financial statements in order to find out the financial condition.

EVA is a performance measure that combines the acquisition of value with the cost of obtaining the added value. EVVA is an estimate of the actual economic profit from business for the year in terms of and very much different from accounting profit [4]. This ratio measures the added value generated by a company by reducing the burden of capital costs (cost of capital) that arise as a result of investments made. Kountur [5]. EVVA can be grouped into 3 different categories, namely:

- EVA value > 0 or EVA is positive, meaning that in this position means the company's management has succeeded in creating economic added value for the company.
- EVA value = 0, meaning that in this position means the company's management is in the break-even point. The company did not experience a setback but also did not experience economic progress.
- EVA value < 0 or EVA is negative, meaning that in this position means there is no process of adding economic value to the company, meaning that the profits generated cannot meet the expectations of the creditors and shareholders of the company (investors).

Earnings (Income - also called Earnings or Profit) is a summary of the results of business operating activities stated in financial terms [6]. Profitability is one of the ratios used to measure a company's ability to earn profits related to sales or production, total assets or own capital [3]. The conclusion is that the Company's Profitability is the final result where the company knows the company's ability to generate profits.

II. RESEARCH METHOD

The type used in this research is descriptive research. The population in this study telecommunications companies listed on the Stock Exchange in the period 2013-2018.

With the following sample criteria: (1). The company is engaged in the Infrastructure, Utilities and Transportation sector of the Telecommunications subsector and was listed on the Indonesia Stock Exchange (IDX) in 2013 to 2018. (2). The

company issues audited financial statements annually for the period 2013 to 2018.

Data analysis methods in this study are using the Economic Value Added (EVA) formula as follows:

$$EVA = NOPAT - Capital Charges$$

III. RESULTS

EVA calculation results can be seen as follows:

TABLE I. EVA CALCULATION RESULTS OF FOUR TELECOMMUNICATIONS COMPANIES 2013-2018

Year	Stock Code			
	<i>EXCL (in million rupiah)</i>	<i>FREN (in million rupiah)</i>	<i>ISAT (in million rupiah)</i>	<i>TLKM (in billion rupiah)</i>
2013	2.183.956	-1.501.280	360.576	12.181
2014	1.993.250	-1.374.962	445.996	11.040
2015	2.077.947	347.248	284.440	13.678
2016	897.572	-302.450	-652.337	15.354
2017	-821.979	-540.035	-576.873	17.429
2018	-1.223.298	241.285	-587.424	18.429

Source: Processing Data

Based on the results of calculations from table 1 of the EVA value in four telecommunications companies, it can be seen that PT. XL Axiata Tbk. able to create positive EVA values or $EVA > 0$ within four years of the 2013-2016 period. Means the company is able to generate economic added value or increase wealth for the company and its shareholders. In 2017 and 2018 the value of EVA at PT. XL Axiata Tbk is negative or $EVA < 0$. Means that the company is still lacking in generating profits so that it cannot meet the expectations of creditors and investors.

PT. Smartfren Telecom Tbk. able to create a positive EVA or $EVA > 0$ only in 2015 and 2018. Means the company is only able to create economic value added for the company and is able to provide a rate of return for shareholders. In 2013, in 2014, in 2016 and in 2017 PT. Smartfren Telecom Tbk produces negative EVA or $EVA < 0$. This means that the company has not been able to provide economic added value for the company and provide a rate of return to investors.

PT. Indosat Tbk. only able for a period of three years the period 2013-2015 created a positive EVA value or $EVA > 0$. Means that PT. Indosat Tbk. for three years it has succeeded in creating economic added value for the company and providing returns to investors. In 2016, in 2017 and in 2018 the company created a negative EVA value or $EVA < 0$. This means that the company has not been able to provide additional economic value in the sense of the resulting profitability cannot meet the creditors and investors.

PT Telekomunikasi Indonesia over the period of six years 2013-2018 has been able to create a positive EVA value or $EVA > 0$. This means that the company's management has been able to create economic added value and provide profitability that meets the expectations of creditors and investors.

IV. DISCUSSION

Based on the research that has been done, this research is in accordance with the research that researchers want, namely to analyse the profitability comparison between service companies in the infrastructure, utilities and transportation sectors of the telecommunications sector that has gone public using the Economic Value Added (EVA) measurement tool. In EVA contains several variables needed before the calculation of the EVA method itself, among others, Net Operating Profit After Tax (NOPAT), Invested Capital (IC), Weighted Average Cost of Capital (WACC) and Capital Charges (CC). To calculate these variables, financial statement data in the form of profit / loss, balance sheet and cash flow reports from four companies are needed, including PT. XL Axiata Tbk., PT. Smartfren Telecom Tbk., PT. Indosat Tbk. and PT. Telekomunikasi Indonesia Tbk.

So, the analysis using the EVA method can be seen that the profitability of companies can be measured and compared between telecommunications companies that have gone public. Among the four companies that have been analysed, companies that are able to create economic added value over the six years 2013-2018 are only one company, namely PT. Telekomunikasi Indonesia Tbk. While other companies have not yet succeeded in creating added value during the 2013-2018 period. If compared to PT. Telekomunikasi Indonesia Tbk. Better than PT. XL Axiata Tbk. because PT. XL Axiata Tbk. In 2017 and 2018 the earnings have actually declined. While PT. XL Axiata Tbk. with PT. Indosat Tbk. When compared, it is still better for PT. XL Axiata Tbk. because PT. Indosat Tbk. In 2016-2018 the earnings have actually declined so that in the last three periods it failed to provide a rate of return to Investors. So, between companies PT. XL Axiata Tbk. and PT. Indosat Tbk there are significant differences. This is also justified by Melinda F. Kountur, Victoria N. Untu in her research entitled "Economic Value Added Analysis as a Comparative Measurement Tool for Financial Performance at PT. XI Axiata

Tbk and PT. Indosat Tbk 2013-2016 period "that there are significant differences in financial performance between PT. XL Axiata Tbk. and PT. Indosat Tbk. This can be seen from the ownership status of the two companies, where PT. XL Axiata Tbk. Is a private company, while PT. Indosat Tbk. Once a government company but in 2002 PT. Indosat Tbk. Returned to a foreign capital company. This has caused the performance of the two companies to be significantly different, because PT. Indosat Tbk. Have experienced a change of ownership status.

V. CONCLUSION

- Profitability generated by PT. Telekomunikasi Indonesia Tbk is better among other telecommunications companies namely PT. Indosat Tbk. which only succeeded in creating positive EVA values for three years, PT. XL Axiata Tbk. only produced positive EVA for four years and PT. Smartfren Telecom Tbk. only created positive EVA values in 2012 and 2015. Because PT. Telekomunikasi Indonesia Tbk. over a period of six years it always creates positive EVA value or economic added value for the company and provides a rate of return for shareholders.
- The results of the analysis that there are significant differences in profitability among telecommunications companies listed on the IDX based on the Economic Value Added method, namely between PT. Telecommunications with PT. Smartfren Telecom Tbk. because seen from the level of profit that the profit generated by PT. Smartfren Telecom Tbk. much worse compared to PT. Telekomunikasi Indonesia Tbk.

Based on the results obtained, to increase the value of Economic Value Added for companies that have a negative EVA value seen from the level of profitability and negative Net Operating Profit After Tax during the 2013-2018 period, namely PT Smartfren Telecom Tbk. and PT. Indosat Tbk. What can be done to increase the level of profitability and net profit after tax is that these companies must be more efficient in using company assets and capital so as to reduce the company's capital costs, because efficiency of capital costs will cause EVA to be positive.

For PT. XL Axiata Tbk. which already has a good net operating profit after tax, in the future it is expected to maintain stability in obtaining net profit, in addition to PT. XL Axiata Tbk to be more efficient with capital costs in order to be able to achieve positive EVA values continuously. For PT. Telekomunikasi Indonesia Tbk. It is expected to maintain a stable level of profitability so that the net profit obtained reaches the target, so that net operating profit after tax remains in a positive position. And capital costs to be more efficient again.

Utilization of the results of this study can be used as recommendations for academics, especially in the field of financial management studies on measuring and comparing company profitability based on the Economic Value Added method.

For Researchers Furthermore, in the future the Economic Value Added method is used to analyse the profitability of companies in the telecommunications sector but in other sector companies.

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