

Analysis Method Economic Value Added of Cosmetics Companies Listed on Indonesia Stock Exchange

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ABSTRACT

Analysis using the EVA method can be used as an assessment of company performance that focuses on creating value and identifying an investment that maximizes returns and minimizes capital costs. This study aims to analyze the company's financial performance using the economic value added (EVA) method, using secondary data cosmetic companies listed on the Indonesia Stock Exchange, including PT Martina Berto Tbk, PT Mustika Ratu Tbk, and PT Unilever Indonesia Tbk during 2013-2017 period. Data analysis starts from the calculation of Net Profit Operating After Tax (NOPAT), Invested Capital, Weight Average Cost of Capital, Cost of Capital and finally, calculates the value of EVA. The results of the research show that PT Unilever Indonesia Tbk produced positive EVA values affected by capital cost smaller than the NOPAT value. The other two companies, PT Martina Berto Tbk and PT Mustika Ratu Tbk produce negative EVA values affected by capital cost greater than the NOPAT value. EVA can reflect in real the company's ability to provide economic value-added value to the company and its shareholders, moreover the investors can choose investments that can maximize the capital they have invested. A positive EVA value of PT Unilever Indonesia Tbk can attract many investors to buy the company's shares and strengthen the image of the company. This research also provides some input as suggestions for the management of the company to more attention to the policy to create value-added and improving the company's financial performances for the next period.

Keywords: *financial performance, economic value added (EVA)*

1. INTRODUCTION

using EVA, it is known whether the company has Each company aims to maximize the wealth of its shareholders. The company's goal is not just to create the maximum profit but also to create value for the company that will have a positive impact on financial performance.

One financial performance measurement concept developed at this time is based on the value-added method of Economic Value Added (EVA) that assesses performance based on the value (Value Based). EVA method was first developed by Stern Stewart and a financial analyst on the firm Stern Stewart and Co. in 1993. In Indonesia, this method is known as NAMI, and the added value is created when the company earned a profit above its cost of capital. Positive EVA indicates that the management company managed to increase the value of the company by following the management goal is to maximize the value of the company, whereas a negative EVA indicates that the value of the company decreased due to a low rate of the cost of capital.

Based on Government Regulation No. 14 of 2015 concerning the National Industrial Development Master Plan 2015-2035, the cosmetics industry is categorized mainstay industry or priority industries play a major role as a major driver of the national economy [1], Based on data from the Ministry of Industry in 2016, the market growth Cosmetic Industry in Indonesia averaged 9.67% per year in the last six years (2009-2015) and was estimated in 2017 of the market (market size) cosmetics market amounted to Rp 46.4 Trillion [2], Rating the company's financial performance can be evaluated from the financial statements of companies that have benefits for the company's management, investors, creditors and other parties who have an interest. Assessment using Economic Value Added help the company's management to be guided by the long-term goals to encourage management to focus on processes that add value and eliminate the activity or activities that do not add value to the company. Assessment using EVA also does not require comparative data and taking into account the capital costs to be borne by the company. Having conducted an analyzed financial performance been able to provide economic added value for the company and its shareholders and creating value for the company.

Companies that will be examined is the cosmetic company in Indonesia Stock Exchange (IDX), among others, PT Martina Berto Tbk, PT Mustika Ratu Tbk, and PT Unilever Indonesia Tbk during the period 2013-2017.

1.1 Literature Review

1.1.1. Definition of Financial Performance

According to Fahmi [3], the financial performance is an analysis done to see the extent to which a company has conducted using the rules of financial performance is good and right. The company's financial performance measurement is essential in the process of evaluating the company's performance. Enterprise performance evaluation is the process of comparing the actual performance and targets that have been planned by the management, to identify corrective actions that need to be done to ensure the achievement of corporate objectives and to communicate to the parties concerned.

1.1.2. Definition Economic Value Added (EVA)

Economic Value Added (EVA) is an enterprise performance measurement concept popularized in the 1970s by Stern and Steward. EVA definition according to Keown, Arthur J [4] is the difference in net operating profit after tax and capital charges for the period. This added value method can be used as a reference that is better for the owners of capital to consider whether the company will provide gains or losses on invested capital. Positive EVA indicates that the management company managed to increase the company value for the owner of the company by following the purpose of maximizing the value of the company's financial management, whereas a negative EVA indicates that the value of the company decreased because the rate of return is lower than their cost of capital.

1.2. Empirical Studies

Research using EVA ever done by Costin and Balaga [5] states that the requirement of business organizations to implement the EVA is aware of the cost of capital and EVA as an approach to creating added value for shareholders, as the basic system of quantitative modern, EVA is used as a business strategy better to monitor the efficiency of business processes. Companies that use the concept of EVA has a real continuity and a strong development in the long term to increase the market value and business value. EVA is a challenge to be understood, managed and implemented.

Research using EVA was also done by Dzulkirom, Saifi, and Simbolon [6] the pharmaceutical company listed on

the Indonesia Stock Exchange Period 2010-2012. Overall the five companies in the pharmaceutical sector of Indonesia Stock Exchange EVA good value seen from the calculation except that two companies have a negative EVA value for 2010-2012, namely PT Kimia Farma Tbk with EVA Rp -19,923,733,488 and PT Kalbe Farma Tbk with EVA Rp -1186067008. This indicates poor financial performance because it has not been able to create economic value for the company that needs to be evaluated by the company's internal parties related to the creation of value.

Research using EVA was also done Sugianto and Nugraha [7]. This study analyzes the financial performance ratio analysis and analysis of the EVA method. Research using the quantitative descriptive method at PT Alfaria and PT Indofood period 2015-2016. The study states that the financial performance using financial ratios and methods of EVA both have a positive value on liquidity and profitability ratios and the results of the analysis using EVA in the two companies have shown positive results. EVA method can be used to support the financial statement analysis method because the method of EVA inserts its capital.

Melinda and Victoria [8] investigated PT XL Axiata Tbk and PT Indosat Tbk Period 2009-2013 using EVA and from the calculation and analysis of the two companies demonstrated that NOPAT PT XL Axiata Tbk from the years 2009 to 2013 are superior to PT Indosat Tbk. The low value of NOPAT caused PT Indosat do not reduce their costs so that the lower operating profit gained. In 2013 PT Indosat Tbk achieves a negative EVA value or <0 because of the high capital costs and also increase the cost of capital weighted average so that enterprises experience performance degradation and is not capable of creating economic value for the company and shareholders. The cost of capital weighted average enough to affect the value of EVA generated by the company. The smaller the value of its WACC, the better for EVA calculation. Value creation is very important because it is one factor considered by the investors and potential investors to invest their capital into the company. Stakeholders require an accurate analysis of the financial performance form the basis for investment decisions that have a return rate (Rate of Return) profitable.

Further research using EVA conducted by Supriyanto and Lestari [9] in PT Bank Mandiri (Persero) Tbk. The financial performance of the company from the 2013-2014 year shows good performance shown by the management company was able to increase the value of capital invested by the investor to produce a positive value or profit. Analysis using the EVA can support an accurate assessment of financial performance based on value creation.

2. METHODOLOGY

Research type used in this study was a descriptive study using secondary data from the financial statements of the balance sheet and profit and loss cosmetic company listed on the Indonesia Stock Exchange (IDX) The period from 2013 to 2017, obtained from the Office of the Representative of Indonesia Stock Exchange (BEI) in Palembang Jl. Angkatan 45 No.13-14, Demang Lebar Daun, Ilir Barat I, Palembang, South Sumatra.

Collecting data in this study conducted in two stages: 1). Study Library, namely data collection is done by searching, reading, and study of literature books, journals, and previous research related to the research and 2) Documentation, namely the collection of necessary data such as history, organizational structure, the financial statements of balance sheet and income statement cosmetic company through the official web IDX is www.idx.co.id and the official website of each company.

Assessment of financial performance using the EVA method begin with the following stages:

$$\begin{aligned} \text{NOPAT} &= \text{Net Profit after Taxes} + \text{Interest Expense} & (1) \\ \text{invested Capital} &= \text{Total Debt and Equity} - \text{Loans Short-term} & (2) \\ \text{WACC} &= [(D \times rd) (1-\text{tax}) + (E \times RE)] & (3) \\ \text{Cost of Capital} &= \text{WACC} \times \text{invested Capital} & (4) \\ \text{EVA} &= \text{NOPAT} - \text{Cost of Capital} & (5) \end{aligned}$$

O'Byrne and Young [10] argued that the capital cost equal to the capital invested multiplied by the weighted average cost of capital (WACC).

3. RESULTS AND DISCUSSION

Table 1 below is the result of the calculation of financial statement analysis recapitulation EVA method:

Table 1 Summary of Calculation of EVA

Company	Economic Value Added (EVA) (In million rupiah)				
	2013	2014	2015	2016	2017
PT Martina Berto Tbk	-1126	-1294	-17676	-1944	-32065
PT Mustika Ratu Tbk	-10570	-2033	-5143	-25708	-19928
PT Unilever Indonesia Tbk	3.32681	3341677	3440046	3916958	4.4105

Source: Adapted Secondary Data, 2019

Based on calculations using EVA to the cosmetic company listed on the Indonesia Stock Exchange, among others, PT Martina Berto Tbk, PT Mustika Ratu Tbk, and PT Unilever Indonesia Tbk period 2013-2017, only one company has been able to provide economic added value for the company and shareholders shares, PT Unilever Indonesia Tbk with EVA calculation result is positive and continued to increase during the period 2013-2017. The results of this study together with the results of research conducted by Lewis and Nugraha [7] and Supriyanto and Widianti [9] means the good performance of the management companies can increase the value of capital invested by the investor. Two other companies, PT Martina Berto Tbk dan PT Mustika Ratu Tbk can not create value-added for companies and shareholders with EVA negative or $EVA < 0$.

EVA PT Martina Berto Tbk has calculated from 2013 until 2017 has a negative EVA value. The result of this calculation is equal to the results of Melinda and Victoria [8]. Negative EVA means the company has not been able to provide economic added value for the company and shareholders. The company has been able to manage existing capital effectively to improve the return that value creation still must continue to be pursued. This means that the number of capital costs is born by the company exceeds the amount of profit that can be achieved by the company so the company had to reduce the allocation of capital or invests primarily in fixed assets that many come from a bank loan that would cause higher interest expense due to PT Martina Berto Tbk many use the capital expenditure of a bank loan to repair machinery, buildings, and other infrastructure. With the reduction of capital from the debt, it is expected to reduce the cost of capital so that the company can provide economic value added in the next period. buildings and other infrastructure. With the reduction of capital from the debt, it is expected to reduce the cost of capital so that the company can provide economic value added in the next period. buildings and other infrastructure. With the reduction of capital from the debt, it is expected to reduce the cost of capital so that the company can provide economic value added in the next period.

PT Mustika Ratu Tbk also had a less than satisfactory financial performance during the period 2013-2017 for achieving a negative EVA value or < 0 . The EVA PT Mustika Ratu Tbk during the period 2013-2017 in 2013 sebesar -10 570, 2014 amounted to -12 033, the year 2015 amounted to -5143, 2016 amounted to -25 708, and in 2017 amounted to -19 928. With the results of the EVA calculation for five years is negative or < 0 then the company has not been able to provide economic added value for the company and its shareholders and has not been able to manage the capital that has been invested effectively in the creation of corporate value and should improve its performance. Total cost of capital is greater than the value of NOPAT or operating profit after tax achieved by the company, then the company had to reduce the allocation of capital or invests primarily in fixed assets that many come from a bank loan that would cause higher interest expense and increase capital costs to be borne by

the company. EVA is negative means that the company did not achieve profit or profit above required of return and this could be a warning of financial distress in the company.

Unlike the PT Martina Berto Tbk and PT Mustika Ratu Tbk, PT Unilever Indonesia Tbk has been able to provide economic added value for the company and shareholders with positive EVA or $EVA > 0$ annually. In 2013 the EVA value of 3.32681 million, in 2014 amounted to 3,341,677, 2015 amounted to 3,440,046, 2016 amounted to 3,916,958, and in 2017 amounted to 4.4105 million. During the period 2013-2017, the company has been able to provide economic added value for the company and shareholders to reach a value of NOPAT increasing from year to year. PT Unilever Indonesia Tbk shows that the company has been able to create value for the company and maximize the wealth of its shareholders on the invested capital [9]. Positive EVA indicates that Unilever can be an alternative for investors to invest their capital as it continues to provide a value-added economy and proof that the company can provide a return that exceeds the cost of capital [6]. As the concept of EVA is a reduction in the capital cost of the company's profit thus providing economic added value for shareholders on the capital that has been planted and maximize the value of the company has become the new paradigm for the company at this time. EVA concept is different from the calculation of income or profit because by assessing the performance of using EVA can know the actual size of the company's profitability.

4. MANAGERIAL IMPLICATIONS

The result is PT Unilever Indonesia Tbk is able to provide economic added value for the company and the shareholders during period 2013-2017, but the two other companies, namely PT Martina Berto Tbk and PT Mustika Ratu Tbk has not been able to produce economic value for capital expense NOPAT higher than the value achieved. We recommend that the management of PT Martina Berto Tbk and PT Mustika Ratu start focusing on policies that encourage the creation of value for the company. Management must begin to realize their cost of capital and start using EVA as an approach to creating added value for shareholders, as the basis of the modern quantitative system. EVA is used as a business strategy that is better to monitor the efficiency of the business process [5].

Profit continues to fall even loss-making companies should be able to increase sales by doing the development or product innovation is accompanied by the latest packaging design so that it can compete with foreign products, it also strengthens the brand or brands. Total receivables turnover is low or restrained long enough outlets so that the company's cash flow should also begin to be noticed and corrected to improve soon and the company does not need to borrow from banks to pay to suppliers. PT Martina Berto Tbk and PT Mustika Ratu Tbk also should pay more attention to capital management policies that can generate profits and increase sales and reduce operating costs and

capital costs to increase profits for the company. The management company is also expected to choose investments and allocate the use of capital in activities that provide a high return for the company so that the achievement of profit can be increased. PT Unilever Indonesia Tbk should continue to be oriented on creating added value in its operations to maintain the continued positive EVA for the next period. For investors or potential investors can analyze or assess the financial performance as information that can be relied upon in making investment decisions. By determine whether there is economic value produced by companies, investors and prospective investors can consider and choose carefully related to the creation of value (value creation) companies that can maximize the value of its shareholders.

5. CONCLUSION

From the calculation and analysis of financial performance using EVA has been done on the cosmetic company listed on the Indonesia Stock Exchange concluded that PT Unilever Indonesia Tbk has been able to provide economic added value for the company and shareholders with positive EVA or > 0 and continue increased over the period 2013-2017. Positive EVA obtained from NOPAT greater than the cost of capital charged to the company so that the company's management has succeeded in creating value for the company and shows the company's financial performance was excellent while PT Martina Berto Tbk and PT Mustika Ratu has not been able to provide added value economic for the company and its shareholders because of its EVA value during the period 2013-2017 shows a negative result or < 0 .

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