

Financial Performance Analysis By Using Economic Value Added (EVA) Method at PT. Pelayaran Tempuran Emas Plc In Period of 2017-2019

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Abstract— This research aims to determine and analyze financial performance by using Economic Value Added (EVA) method at PT. Pelayaran Tempuran Emas Plc. This research used descriptive quantitative analysis for secondary data namely in the form of financial statement of PT. Pelayaran Tempuran Emas Plc. as a company listed in Indonesia Stocks Exchange (IDX) per 31 December during the period of 2017 – 2019. Results of the research using EVA analysis show that the EVA value obtained by PT. Pelayaran Tempuran Emas Plc during three years decreased but had positive value ($EVA > 0$). Positive EVA value indicates good performance and the existence of economic added value process into the company.

Index Terms— Financial Performance, Economic Value Added

1 INTRODUCTION

It is necessary for measuring company financial performance in order to determine its success to achieve its goals. Company performance is one of the important indicators which can be measured and seen through financial statement by analyzing financial statement. Company financial performance development analysis can be obtained by an analysis on company financial data which is presented in financial statement. To measure the level of a company performance, generally there is an assessment on company financial performance itself by using financial ratios.

Besides, measurement on this financial ratio greatly relies on methods used in presenting company financial statement, so company financial often seems to be good and increasing, though in reality, the performance faces no improvement and even decreases. An approach commonly used to assess financial performance is an evaluation on financial statement.

An approach using financial analysis of Economic Value Added (EVA) approach is one of the relevant financial measurement tools used to determine the level of company effectiveness in return on investment taken by a company by using performance measurement seen from (Value Based) namely Economic Value Added (EVA) concept.

Economic Value Added (EVA) can be used as an alternative for company financial performance assessment since one of the investor considerations in investment is company performance. In this research, the research objects are shipping companies listed in IDX; one of which is PT. Pelayaran Tempuran Emas Plc, as one of the shipping companies in Indonesia. In order to maintain its existence and to achieve the expected progress, then PT. Pelayaran Tempuran Emas Plc, requires an evaluation on whether it has illustrated company efficiency and effectiveness or not. Based on the background, then the problem in this research is the financial performance analysis using Economic Value Added (EVA) at PT. Pelayaran Tempuran Emas Plc. The research aims to determine and analyze the financial performance and the level of economic added value

by using Economic Value Added (EVA) method at PT. Pelayaran Tempuran Emas Plc.

2 LITERATURE REVIEW

2.1 Definition of Financial Statement

According to Fahmi (2011), financial statement is an information giving description on a company financial and moreover, the information can be used as a description of the company financial performance. From the definition, it can be concluded that financial statement is a summary of transactions taken by a company during one period of accounting or one fiscal year.

According to Fahmi (2011), main purpose of financial statement is to provide financial information including any changes on financial statement elements shown to other interested parties in order to assess financial performance of the company and also to the company management party. Unique characteristics which can lead to useful information presented in financial statement for its users are that the information must have characteristics showing financial statement qualitative, among others are: (1). Relevance. (2) understandability. (3). verifiability. (4). Neutrality, (5). Timeliness, (6). Comparability, and (7). Completeness. Accounting information reported must cover all relevant needs for its users..

2.2 Financial Performance

According to Decree of Minister of Finance Republic of Indonesia Number 740/ KMK.00/1989 concerning Improvement on Efficiency and Productivity of State Owned-Entity, financial performance is defined as achievement achieved by a company in certain period which reflects the level of company health. Company financial performance is one of the assessment basics on financial conditions which can be done based on financial ratios".

Financial can be defined as an achievement achieved by a

company in certain period which reflect the level of company health” (Winarni and Sugiyarso,2005:111). Financial performance is an analysis in certain period of time in order to measure a description of company condition by using financial implementation rules correctly and appropriately. According to Sucipto (2003), he said that financial performance is a determination of certain measurement which can measure success of an organization or company in generating profits. Financial performance can be measured by analyzing and evaluating company financial statement.

2.3 Economic Value Added (EVA)

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Economic Value Added (EVA) is a measure of a company financial performance, it has actually become one of the most widely used economic tools for the past 200 years. The simplest form of EVA is residual income. In order to obtain an adequate rate of return on investment, the level of the rate of return must be greater than the risks faced. Thus, the rate of return on investment is zero (0) if the level of the return on the company investment is equal to the level of the risks faced by the company. If there is a small portion of an investment capital burden, then why would a manager pay in a great portion to invest his capital.

According to Brigham (2006: 68) Economic Value Added (EVA) is the value added by management to shareholders during a certain year. According to Rahardjo (2005: 123), he defined Economic Value Added (EVA) as operating profit reduced by taxes and interest costs on debt and reduced reserves for the cost of capital.

According to Keown (2010:44), EVA or economic value added is the reduction in operating profit after tax (NOPAT) and capital costs for the period (namely, products of the company cost of capital and capital invested at the beginning of the period). To calculate EVA, it is as follows:

$$EVA = NOPAT - (WACC \times \text{The invested capital})$$

Table 2.1
Steps of Calculating EVA

| EVA components | Calculation formula of each EVA component |
|------------------|---|
| NOPAT | EBIT (1 - Tax tariff) |
| WACC | $\frac{Debt}{Debt + Equity} \text{ Cost of Debt } (1 - T) + \frac{Equity}{Debt + Equity} ROE$ |
| Invested capital | (Long Term Liabilities + Shareholder Equity) - Short Term Debts |
| EVA | NOPAT - (WACC × Invested Capital) |

EVA value > 0 or EVA is positive, indicating the existence of company value added process and it has succeeded in creating value for fund providers, EVA value = 0, indicating company break-even position because all profits are used to pay liabilities for fund providers, both creditors and shareholders and EVA value < 0 or EVA is negative, indicating that there is no value added process because the available profit cannot meet the expectations of investors.

EVA Components

Based on the definitions given regarding Economic Value Added, then the components that support calculation of Economic Value Added are as follows:

1. Net Operating Profit After Tax (NOPAT)

NOPAT is the company operating profit after tax and measures the profit earned by the company from ongoing operations. Net operating profit after tax (NOPAT) can be formulated as follows (Young and O'byrne, 2010):

$$NOPAT = \text{Operation profit} + \text{interest income} - \text{income taxes} - \text{Tax Exemption Interest}$$

or

$$NOPAT = \text{Business Profit (Loss)} - \text{Taxes}$$

2. Cost of Capital

Cost of Capital is the minimum rate of return that must be obtained by the company from the invested capital. Young and O'byrne (2010) argued that the cost of capital is equal to the company invested capital multiplied by the weighted average cost of capital (WACC). The cost of capital can be formulated as follows:

$$\text{Cost of Capital} = \text{Weighted Average Cost of Capital (WACC)} \times \text{Invested Capital}$$

To obtain the Cost of Capital, it is necessary to calculate the cost of each resource and the average cost of capital from the total funds used by calculating the WACC (Weighted Average Cost of Capital).

The cost of capital can be classified into four parts consisting of:

3. Cost of Debt

The cost of debt is the pre-tax interest rate that a company pays to its lenders. The cost of debt is calculated from the amount of interest paid by the company in a period of one year divided by the number of debts that generate interest.

$$\text{Cost of Debt (rd)} = \frac{\text{interest Cost}}{\text{Total of Long Term Debts}} \times 100\%$$

$$\text{Capital Level (D)} = \frac{\text{Total Debts}}{\text{Total Debts and Equity}} \times 100\%$$

$$\text{Level of Capital (rd)} \text{ Equity (E)} = \frac{\text{Total Equity}}{\text{Total Debts and Capital Equity (Capital Charges)}} \times 100\%$$

4. Cost of Equity

The cost of equity is the cost that arises from meeting the capital requirements of common stock.

According to Brigham and Houston (2011) the cost of equity is the cost of retained earnings as long as the company has retained costs, but the cost of equity will become new common stock after the company runs out of retained earnings.

$$\text{Cost of Equity (re)} = \frac{\text{Nett Profit After Taxes}}{\text{Total Equity}} \times 100\%$$

$$\text{Level of Tax} = \frac{\text{Tax Expenses}}{\text{Nett Profit Before Tax}} \times 100\%$$

5. Weighted Average Cost of Capital (WACC)

Investors require higher returns for buying shares in a particular company than when making loans because the former is riskier. Therefore, company cost of capital depends not only on the costs of debt and equity financing but also on how much of each it owns the capital structure. These relationships are combined in the weighted average cost of capital (WACC). Weighted Average Cost of Capital (WACC) is weighted average of the cost components of debt, preferred stock, equity and retained earnings. The formula for calculating WACC is as follows:

$$WACC = [(D \times rd) (1 - tax) + (E \times re)]$$

6. Invested Capital

According to Widjaya (2011), invested capital is the total amount of liabilities excluding short-term liabilities without interest (Non Interest Bearing Liabilities). Then, trade payables, accrued costs, tax payables, customer advances.
 Total Assets - Short-term Liabilities

3 RESEARCH METHOD

The object of this research is the analysis of financial performance by using Economic Value Added (EVA) method at PT. Shipping Tempuran Emas Plc. in the period of 2017-2019. The type of data in this study uses qualitative data types with a quantitative approach in the form of the financial statements at PT. Shipping Tempuran Emas Plc., in the period of 2017-2019. While, the sources used in this study are secondary data, namely data obtained from financial statements sourced from the BEI website (www.idx.co.id). To obtain the necessary data in this study, the authors use documentation techniques from the data. published by PT. Pelayaran Tempuran Emas Plc., for the period of 2017-2019 on the Indonesia Stock Exchange, through the IDX's official website, namely www.idx.co.id.

The stages of analysis in this study are as follows:

1. Collecting the necessary data from the company in the form of financial statements from 2017 to 2019.
2. Calculating EVA components

- a. Calculating NOPAT based on financial statements

$$NOPAT = \text{Profit (loss) after taxes} + \text{interest cost}$$

Notes:

Interest cost = bonus cost and profit shares

- a. calculating Invested Capital

- b. Total Assets - Short-term Liabilities

- c. Calculation of WACC (Weighted Average Cost of Capital)

$$WACC = [(D \times rd) (1 - tax) + (E \times re)]$$

$$\text{Level of Capital (D)} = \frac{\text{Total Debts}}{\text{Total Debts and Equity}} \times 100\%$$

$$\text{Cost of Debt (rd)} = \frac{\text{Interest Cost}}{\text{Total Debts and Long term Dents}} \times 100\%$$

$$\text{Level of Capital / Equity (E)} = \frac{\text{Total Equity}}{\text{Total Debts and Equity}} \times 100\%$$

$$\text{Cost of Equity} = \frac{\text{Nett Profit After Tax}}{\text{Total Equity}} \times 100\%$$

$$\text{Level of Tax} = \frac{\text{Cost of Tax}}{\text{Total Nett Profit Before Tax}} \times 100\%$$

- d. Calculating Capital Charges

$$\text{Capital Charges} = WACC \times \text{Invested Capital}$$

- e. Calculating EVA

$$EVA = NOPAT - \text{Capital Charges}$$

- f. Being Analyzed based on EVA standards

- g. Drawing conclusion based on the calculation results.

4 RESULTS AND DISCUSSION

4.1 Research results of Financial Performance Analysis by Using Economic Value Added method at PT. Pelayaran Tempuran Emas Plc.

In the EVA calculation results, it can be seen that the EVA value in 2017 to 2019 (Table 5.11) is always positive, which means NOPAT or the company net profit is higher than the cost of capital so that the profit (value) in the company is increasing.

Table 5.11 Calculation Results of NOPAT, Cost of Capital, Cost of Debt, Level of Capital, Level of Capital/Equity, Cost of Equity, Tax Expenses, WACC, Invested Capital, EVA by using Economic Value Added (EVA) Method for the period of 2017

| Years | Nopat (Rp) | Cost of Capital (Rp) | Cost of Debts (rd) % | Level of Capital (D) % | Level of Capital / Equity (E) % |
|-------|-------------|----------------------|----------------------|------------------------|---------------------------------|
| 2017 | 133.577.510 | 14.696 | 112.520 | 0.649 | 0.350 |
| 2018 | 110.903.653 | 16.083.276 | 138.969 | 0.623 | 0.376 |
| 2019 | 160.982.000 | 1.277.475 | 93.313 | 0.637 | 0.362 |

| Years | Cost of Equity (re) % | Tax Expenses % | WACC % | Invested Capital (Rp) | EVA (Rp) |
|-------|-----------------------|----------------|--------|-----------------------|-------------|
| 2017 | 12.157% | 0.766 | 0.007 | 2.099.550 | 133.562.814 |
| 2018 | -1.770% | 1.054 | 8.55 | 1.881.085 | 94.820.377 |
| 2019 | 49.231 | 0.421 | 0.59 | 2.165.212 | 159.704.525 |

Source: Processed secondary data, 2021

Interpretations:

1. From the research, it can be seen that PT. Pelayaran Tempuran Emas Plc., Shipping from 2017 had the capital cost of Rp. 14,696, and in 2018 the cost of capital was Rp.

- 16,083,276, this year is the year with the highest number of capital costs compared to the cost of capital in 2019 namely Rp. 1,277,475.
2. From this study, it was found that the value of the company level of capital of PT. Shipping Tempuran Emas Plc. which was the smallest in 2018 was 0.623% which this value decreased compared to the previous year in 2017, which was 0.649%. While in 2019, it rose only 0.637%.
 3. From the research, it can be seen the value of weighted capital costs during the research period (WACC), namely from 2017 to 2019, PT. Pelayaran Tempuran Emas Plc experienced an increase in value in 2018 of 8.55% from the previous year of only 0.007% while in 2019, it decreased again by 0.59%
 4. Based on its definition, Net Operating After Tax (NOPAT) is the result of the sum of operating profit, interest income, income tax expense/income, tax shield on cost of interest, share of subsidiary net profit/loss, exchange gain/loss and other profit/loss. The NOPAT calculation does not include non-operating factors and extraordinary profit/loss, such as profit or loss from business income. Calculation of NOPAT excludes non-operational factors and extraordinary profit/loss, such as profit or loss from business income. NOPAT can be obtained from company profits, namely data on net income after taxes and the amount of interest costs borne by the company. From this study, NOPAT itself experienced an ups and downs in value where in 2017 the value was Rp. 133,577,510 and decreased in the following year, namely 2018 by Rp. 110,903,653 in the following year, namely 2019 rose higher than 2017 which was Rp. 160,982,000.
 5. EVA in 2017 > 0 / positive, then the financial performance of PT. Pelayaran Tempuran Emas Plc in 2017 has an economic value (EVA) of IDR 133,577,510.
 6. EVA in 2018 > 0 / positive, then the financial performance of PT. Pelayaran Tempuran Emas Plc in 2018 has an economic value (EVA) of Rp 94,820,377.
 7. EVA in 2019 > 0 / positive, then the financial performance of PT. Pelayaran Tempuran Emas Plc in 2019 has an economic value (EVA) of IDR 159,704,525.

4.2 Research results of Financial Performance Analysis by Using Economic Value Added method at PT. Pelayaran Tempuran Emas Plc.

After calculation of all EVA components is ready, company EVA value can be calculated so it can be known the level of company to create added value. One of the ways to see a company conditions is to by seeing at financial performance of a company. By seeing at the company financial performance, an investor can see a company conditions. As explained by company financial performance, it can be seen from financial statement so an investor can use it to support the decision, so it is necessary for good information, namely information taken from financial and non financial reports.

Based on the above calculation, EVA in 2017 was Rp. 133.562.814, resulting in a value > 0 which means that EVA

was positive, which means that in 2017, it was able to increase the value (profit) of the company by Rp. 133.562.814. This happened because the NOPAT obtained in 2017 was greater than the cost of capital. EVA in 2018 was Rp. 94,820,377 resulted in a value > 0 which means the EVA value is positive, which means that in 2018, it was able to increase the value (profit) of the company by Rp. 94,820,377. This happened because the NOPAT obtained in 2018 was greater than the cost of capital. EVA in 2019 of Rp. 159,704,525 resulted in a value > 0 which means a positive EVA value, which means that in 2019, it was able to increase the value (profit) of the company by Rp. 159,704,525. This happened because the NOPAT obtained in 2018 was greater than the cost of capital.

The EVA values during three periods consecutively show that PT. Pelayaran Tempuran Emas Plc., can be said to be successful and unsuccessful to give profits from the polcies and investment taken. In Tabel 5.11, it can be seen that it can give information on company conditions, which there was EVA value decrease in 2018 namely Rp. 94.820.377. This is certainly very unprofitable for shareholders because it cannot increase the value of wealth for shareholders, but in the following year, in 2019, the EVA value increased again by Rp. 159,704,525. It can be seen from this calculation that it is necessary for PT. Pelayaran Tempuran Emas Plc., to more improve its company performance. This is related to the development of increasing-tense competition among shipping companies.

5 CONCLUSION AND RECCOMENDATIONS

5.1 Conclusion

Based on the results of the analysis and discussion as in the previous chapter, conclusions can be drawn:

1. Based on the results of the EVA calculation, the company or in this case THE management can be said to be successful and unsuccessful in creating added value for investors (investors or creditors) and can increase the value of company assets during the period of 2017 to 2019. However, in 2018, there was a decrease in EVA value of Rp. 94,820,377. This is certainly very unprofitable for shareholders because it cannot increase the value of wealth for shareholders, but in the following year, in 2019, the EVA value increased again by Rp. 159,704,525.
2. Financial performance of PT. Pelayaran Tempuran Emas Plc can be said to be quite good. This is indicated by a positive EVA value every year, from 2017 to 2019, it shows that the profits obtained are able to cover the entire cost of capital (capital charger).

5.2 Recommendations

Based on the conclusions from the results of calculations and analysis that have been carried out, the recommendations that can be given include:

1. For the company, PT. Pelayaran Tempuran Emas PLc., in order to maintain the assets owned currently and in the future, it must maximize it in order to earn profits so that the

- company NOPAT can cover the entire company capital charger so that it can obtain positive EVA values.
- For investors (investors or creditors). To invest in a company, it must pay attention to and assess the company financial performance in order to find out the rate of return on investment before investing in a company. One method that can be used in assessing the company financial performance is the EVA method.
 - For further studies, any researchers who want to conduct research on financial performance are recommended to use other methods such as Market Value Added (MVA), Financial Value Added (FVA) and add other research objects of similar companies as a comparison.

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