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Financial Performance Analysis in PT. Pegadaian (Persero) Using the Method Economic Value Added (EVA)

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ABSTRACT

This study aims to determine the financial performance of PT. Pegadaian (Persero) based on an analysis of Economic Value Added (EVA) for 2014 to 2017. The type of research used in this study is quantitative. The research population which is also a sample of research is the financial statements of the last four years (2014-2017). Data collection is done by means of documentation and interviews. Furthermore, it is analyzed using EVA analysis which consists of NOPAT analysis of Invested Capital WACC and Capital Charges. The results of this study show that the value of Economic Value Added (EVA) at PT. Pegadaian (Persero). In 2014-2017 it showed a positive value (EVA> 0) meaning that the company was able to create economic added value for the company so that the company was able to fulfill obligations and create profits for the company.

Keywords: financial performance, economic value added

1. INTRODUCTION

Indonesian is a developing countrywith a population of approximately two hundred and seventy thousand people, which makes Indonesia the fourth most popular country in the world. Most of the people behave consumptively. With a very large population, there's no doubt that the economy in this country is increasing day by day. Coupled with the issue of other cases rom the economic and political fields in Indonesian regarding financial cases, taxes, and so on. This makes the Indonesian state further away from advancing its position in foreign eyes. Based on the case description above, it can be concluded that financial problems can affect economic conditions. Prices of necessities of life that continue to the increase is also the scarcity of goods that occur because the number of human needs that are not proportional to the number of means of satisfying the need. Not a few Indonesian people still have difficulty meeting their needs. The government's role is urgently needed in terms of providing loan disbursement facilities, so that people can overcome their economic problems, which are easy and not at risk. Many parties who take advantage of this case in small communities are in need of funds for their living needs by providing credit or borrowing money easily without any written agreement or debt contract. Irresponsible parties will take advantage of this lending and borrowing opportunity by raising interest rates and multiplying loans which will make the community feel disadvantaged.

In addition, the price of necessities that continues to increase has a significant impact on people's purchasing power. It's not only the people who can't meet their needs because the price of goods is high, traders also feel it because sales have dropped dramatically. Many traders and entrepreneurs were forced to reduce their production, limit their employees and some even went bankrupt and were forced to close their companies. Government programs in the field of economy and national development to support the implementation of policies through the distribution of mortgage-based loans are the objectives of perum Pegadaian in accordance with article five paragraph two of Government Regulation No. 10 of 1990. PT. Pegadaian (Persero) has the motto "Solving Problems Without Problems". Pegadaian offers several kinds of products from them to customers. In addition to accepting the exchange of goods for money, PT. Pegadaian also provides gold credit and capital credit for candidates entrepreneur starting a small business.

As a non-bank financial institution based on pawn law, PT. Pegadaian is always trying to improve its role in lending to the middle to lower economic class who do not receive services from other financial institutions or banks. PT. Pegadaian activities are inseparable from various challenges, one of which is the retention of working capital in the form of receivables. From these problems, it demands that PT. Pegadaian anticipates it by streamlining fund management method. The effectiveness of company management in the importance of managing financial performance improvement, it is necessary to evaluate the financial performance achieved by the company. This study aims to determine the development of financial performance that has been achieved by PT. Pegadaian (Persero). Therefore, in making an assessment of financial performance, it is necessary to have financial reports. The financial report is a description of the results or development of the company's business. These financial statements are used to assist users of financial statements in assessing company performance so that they can make the right decisions. In assessing financial performance, each company has a size that varies between other companies. The measure that is often used in measuring company performance is to use financial ratio analysis.

However, financial ratio analysis still has weaknesses, one of the weaknesses of financial ratios is the difficulty in choosing the right ratio that can be used to benefit stakeholders. Assessment of financial performance using financial ratios is only profit oriented, but at this time the company is in demand not only to be profit oriented but also to be value oriented. To overcome these weaknesses, the Economic Value Added (EVA) method is used. EVA is the company's goal to increase the value or value added of the capital that has been invested by shareholders in the company's operations. Therefore EVA is the difference between net operating profit after tax (NOPAT) and the cost of capital. Concept of Economic Value Added Income. EVA is able to cover the weaknesses of financial ratio analysis so that the two financial performance measurement tools can help the parties concerned. As an initial description, PT. Pegadaian (Persero) through its financial reports shows the development of income and net profit from 2014-2017 as contained in the following table.

Table 1. Development of Revenue and Net Profit of PT. Pegadaian (Persero) 2014-2017

Year	*Income* (Rp)	Growth Percentages (%)	*Net profit* (Rp)	Growth Percentages (%)
2014	7.800.899.551.438		1.761.763.837.602	
2015	8.897.166.464.165	14,05	1.938.429.109.764	10,03
2016	9.708.058.303.877	9,11	2.210.252.401.720	14,02
2017	10.522.796.736.552	8,39	2.513.538.366.470	13,72

Source: PT. Pegadaian (Persero) Financial Report In 2019

Based on the data in table 1 above, it shows that the company's income and net profit in the last four years have continued to increase, which means that the company is able to meet its short term obligations. This can be seen in the 2014 income which increased by 14.05% in 2015, which was followed by net profit which also increased from 2014 to 2015 by 10.03%. This indicates that capital rental income, administrative income and other income as well as net profit generated also increased. Then in 2016 to 2017 the company's income and net profit also increased, this indicates that there is an efficient use of working capital used by PT. Pegadaian (Persero) which is able to generate a net profit greater than the previous year.

Based on the description of the company's financial performance for the last four years above, it can be concluded that the company's financial performance has an impact on the economic added value obtained by the company. A positive EVA indicates that the company has succeeded in creating value for capital owners, consistent with the goal of maximizing company value. On the other hand, a negative EVA indicates that the company's value has decreased as a result of a decrease in the rate of return on investment. By applying the EVA concept, it can be seen how much added value a company can generate after all the cost components have been deducted. When a company succeeds in creating added value, it means that the company's financial performance is good. Important elements in the economy.

Value Added (EVA) are net operating income after tax (NOPAT) and capital charge which is the amount of capital required to generate capital costs. NOPAT is the profit from the company's operations after tax but non-cash finance and recording costs. NOPAT is the total profit that will be distributed to investors. Capital is the amount of net cash invested into the company which can be calculated from the sum of total net assets with current liabilities minus capital placement. While the capital charge is the cash flow needed by investors in assessing the risk of a business in accordance with the amount of capital invested. Reducing the addition or deposit of working capital or fixed assets, it is necessary for company survival in increasing EVA. Based on the explanation above, the writer chose the following research title "Financial Performance Analysis in PT. Pegadaian (Persero) Using The Method Economic Value Added (EVA)".

a. Financial Statement

According to Kasmir (2017) that financial reports are reports that show the company's financial condition at this time or in a certain period. While according to Harahap (2015) financial reports describe the financial condition and results of operations of a company at a certain time or a certain period of time. Fahmi (2014) states that financial reports are information that describes the condition of a company, where in the future it will become information that describes the performance of a company.

b. Financial Performence

According to Fahmi (2014) financial performance is an analysis carried out to see how far a company has carried out using the rules of financial implementation properly and correctly, while Sawir (2011) argues that financial performance is a process or device to find out the company's financial condition, by way of rational decision making using certain analysis. Harmono (2015) suggests that financial performance is generally measured based on net income (profit) or as a basis for other measures such as return on investment or earnings per share (earning per share).

c. Economic Value Added (EVA)

The EVA method was first developed by Stewart and Stern who were financial analysts from the company Stern & Co in 1993. The EVA model offers quite objective parameters because it departs from the concept of the cost of capital, namely reducing profit with costs capital, where the cost of capital reflects the level of risk of the company. The cost of capital also reflects the level of compensation or return expected by investors for the number of investments invested in the company. Positive EVA calculation results reflect a higher rate of return than the level of the cost of capital.

Young & O'Byrne (2001), the notion of EVA is based on the idea of economic profit, which states that wealth is only created when a company covers operational and capital costs. In this narrow sense, EVA is really just an alternative way of assessing financial performance. Tunggal (2008)) EVA is a financial management system for measuring economic profit in a company, which states that prosperity can only be created if a company is able to meet all operating costs and capital costs. Horne (2007:14) EVA is the economic profi generated by the company after all capital costs have been deducted. More specifically, EVA is net operating profit after tax (NOPAT) minus the cost of capital for the capital used.

2. RESEARCH METHODS

Data or information obtained from companies related to this research are analyzed in order to solve problems and prove the truth of the hypotheses that have been previously proposed. The analysis used to complement the deficiencies of financial ratio analysis is Economic Value Added (EVA). The data analysis technique used is quantitative analysis, namely analysis based on data that can be calculated. Quantitative stages to determine Economic Value Added (EVA) are as follows:

a. Calculate Net Operating Profit After Tax (NOPAT)

$$\boxed{\text{NOPAT} = \text{EBIT} - \text{Income Tax}}$$

b. Calculate Invested Capital

$$\boxed{\text{Invested Capital} = \text{Total debt \& Equity} - \text{Short Term Debt}}$$

c. Weighted Average Cost of Capital (WACC)

$$\boxed{\text{WACC} = (\text{Ke} \times \text{We}) + (\text{Kd} \times \text{Wd})}$$

Description:

Ke : Own Capital Cost

$$\frac{\text{Net Profit After Tax}}{\text{Total Equity}} \times 100$$

We : Equity Percentage

$$\frac{\text{Own Capital}}{\text{Total Debt - Equity}} \times 100$$

Kd : Cost of Debt Capital

$$\frac{\text{Interest Expenses}}{\text{Total Debt}} \times 100$$

Wd : Loan Capital

$$\frac{\text{Total Equity}}{\text{Total Debt \& Equity}} \times 100$$

c. Cost of Capital

Cost Of Capital = Invested Capital x WACC

d. Calculating Economic Value Added (EVA)

EVA = NOPAT – Capital Cost

To find out whether there has been value creation in the company or not, it can be determined by criteria proposed by Widiyanto (2004) as follows (1) EVA > 0, then there is economic added value (NITAMI) in the company, so that the greater the EVA produced, the expectations of the funders can be fulfilled properly, namely getting returns on investment equal or more than invested and creditors earn interest. This situation shows that the company has succeeded in creating value for capital owners, thereby indicating that its financial performance is good. (2) EVA < 0, then it shows that there is no process of economic added value (NITAMI) for the company, because the available profits cannot meet the expectations of funders, especially shareholders, namely they do not get returns commensurate with the investment invested and creditors still get interest. So by not adding it indicates poor financial performance. (3) EVA = 0, then it shows a break-even position because all profits have been used to pay obligations to funders, both creditors and shareholders.

According to Abdullah (2010), the benefits derived from the EVA model within a company applying include (1) The application of the EVA model is very useful to be used as a measure of company performance where the focus of performance appraisal is value creation. (2) Assessment of financial performance using the EVA approach causes management attention in accordance with the interests of shareholders. The EVA method makes managers think and act like shareholders, namely choosing investments that maximize returns and minimize the level of capital costs so that company value can be maximized. (3) EVA encourages companies to pay more attention to their capital structure policies. (4) EVA can be used to identify projects or activities that provide higher returns than their cost of capital. Project activitioers that provide a positive present value of total EVA indicate value creation from the project and thus should be taken.

The steps for calculating EVA are as follows (Tunggal, 2008) (1) Calculating NOPAT (Net Operating Profit After Tax). NOPAT is the profit earned from the company's operations after deducting income tax, but includes financial costs and non-cash bookkeeping entries such as depreciation expenses. NOPAT can be obtained from the company's profit report, namely data regarding net income after tax and the amount of interest costs borne by the company. (2) Calculating Invested Capital, invested capital is the total amount of the company's loans excluding short-term interest free loans, such as trade payables, accrued expenses, taxes payable, advances for customers. (3) Calculating WACC (Weighted Average Cost Of Capital), WACC is the total cost of each component of capital, for example, the amount of each component of capital, for example, short-term loans and long-term loans as well as share capital payments, which are weighted according to their proportions in the company's capital structure. (4) Calculating Capital Charges, capital charges are the cash flow required to replace investors for the business risk of the invested capital. The cost of capital is the rate of return a company must generate on a project investment to maintain the market value of its shares. (5) Calculating EVA, EVA can be defined as a financial management system for measuring economic profit in a company, which states that prosperity can only be created if the company is able to meet all operating costs and capital costs. EVA can be calculated from earnings before interest and taxes minus tax expenses minus the cost of capital.

3. RESULTS AND DISCUSSION

3.1 Analysis of Net Operating Profit After Tax (NOPAT)

Table 1. NOPAT

Year	Profit Before Flowers and Tax	Tax	Net Operating Profit After Tax
	(EBIT)		(NOPAT)
	(Rp)	(Rp)	(Rp)
2014	2.379	617	1.761
2015	2.644	706	1.938
2016	2.997	786	2.210
2017	3.417	903	2.513

Source : Data Processing Results 2019

Net Operating After Tax (NOPAT) PT. Pegadaian (Persero) for four years has increased every year. The NOPAT obtained by the company in 2014 was Rp. 1,761,763,837,602, an increase in 2015 by 10.03% to Rp. 1,938,429,109,764. Then in 2016 the NOPAT value increased again from the previous year, namely by 14.02% from Rp. 1,938,429,109,764 to Rp. 2,210,252,401,720 and continued to increase in 2017 by Rp. 2,513,538,366,470.

3.2 Invested Capital Analysis

Table 2. Invested Capital Analysis

Year	Total Debt and Equity	Term Debt Short	Invested Capital
	(Rp)	(Rp)	(Rp)
2014	35.443	17.062	18.381
2015	39.157	17.094	22.063
2016	46.873.	22.630	24.243
2017	48.687	22.160	26.526

Source : Data Processing Results 2019

Invested Capital of PT. Pegadaian (Persero) from 2014 to 2017 has increased. The increase in invested capital over the last four years was due to an increase in the number of short term loans, in the form of bank loans, and bond loans that will mature within one year, as well as an increase in equity.

3.3 Weighted Average Cost of Capital (WACC)

Table 3. WACC

Year	Cost of Debt After Tax (Kd) (%)	Preportions Debt (%)	Cost of Equity (Ke) (%)	Preportions Equity	WACC
2014	7.26	69.50	16.29	30.49	10.00
2015	7.47	67.99	15.46	32.00	
2016	6.68	64.84	13.41	35.14	9.04
2017	6.63	62.59	13.80	37.40	9.30
Rata	7.01	66.23	14.74	33.75	9.58

Source : Data Processing Results 2019

The company's Weight Average Cost Of Capital (WACC) over the last four years has fluctuated, with an average of 9.58% and an average cost of debt after tax (Kd) of 7.01%, as well as an average cost of capital from equity (Ke) of 14.74%. This is because the after-tax cost of debt is obtained from interest expense divided by the total interest-bearing debt, then the interest expense that must be paid by the company will cause tax income. In accordance with the tax rate charged at 25%. While the cost of capital from equity is obtained from net profit after tax divided by the company's total equity.

3.4 Capital Charges Analysis

Table 4. Capital Charges Analysis

Year	Capital Charges (Rp)
2014	1.706.225.888.851
2015	1.711.141.589.460
2016	2.045.815.157.634
2017	2.060.910.573.680

Source : Data Processing Results 2019

The Company's capital charges in the last four years have increased. It can be seen that the company's capital charges in 2014-2017 have increased every year. This was caused by a decrease in the proportion of debt and the proportion of company equity.

3.5 EVA Calculate

Table 5. EVA

Year	EVA (Rp)
2014	55.537.948.751
2015	227.287.520.304
2016	164.437.244.086
2017	452.627.792.790

Source : Data Processing Results 2019

Economic Value Added (EVA) 9.30 at PT. Pegadaian (Persero) in 2014-2017 9.58 experienced fluctuations caused by changes in the NOPAT value and the value of capital charges which were influenced by the WACC component, namely the cost of equity, the cost of debt capital the level of debt capital, the level of equity, and the level of tax. It is known that in 2014-2017 management was able to create a positive EVA value (EVA> 0), meaning that there was an economic value added process or the company was able to produce a return on operations that exceeded capital costs, in other words the company managed to create value for the owner capital so that it indicates good financial performance.

4. CONCLUSIONS AND RECOMMENDATIONS

4.1 Conclusions

Based on the results of financial performance analysis using the Economic Value Added (EVA) method at PT. Pegadaian (Persero), it can be concluded that :

a. Financial performance at PT. Pegadaian (Persero) using the Economic Value Added (EVA) method from 2014-2017 can be said to be good, because in 2014-2017 the company showed a positive EVA value (EVA> 0).
b. The Economic Value Added generated in 2014-2017 has a positive value because the company managed to maximize the rate of return on operating profit and minimize the level of capital costs. Positive EVA or (EVA> 0), means that the company is able to create added economic value, so that the company is able to fulfill obligations and create profits for the company.

c. A positive Economic Value Added indicates that PT. Pegadaian (Persero) in managing the company has obtained profits exceeding operational costs and capital costs, both own capital and debt, which means that the company has succeeded in creating added economic value with the aim of maximizing company value. In addition, EVA also provides a better measurement of the added value provided by the company to shareholders.

4.2 Recommendations

Through this research, researchers can provide reccommendations, including :

a. For companies, company management should supervise the cost of capital used because the cost of capital indicates the amount of return demanded by investors on the capital invested in the company.
b. For investors, it is hoped that through the results of this research, investors will be able to consider and also be able to choose more careful in making decisions to invest. A good first step for investors to invest is to evaluate the company's financial performance.
c. For other parties, this research is expected to be used as a reference for developing similar research in the future related to EVA us company financial performences measurement tools.

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