

Financial Performance Analysis using Economic Value Added (EVA) Method at PT. Darma Henwa Tbk. Period 2017-2019

Abdul Muta Ali¹, Adi Saputro², Muhammad Fahmi Nurani³ Marliza Noor Hayatie⁴

^{1,2,4} Department of Economics and Business, Accounting Study Program, Politeknik Negeri Tanah Laut

³ Sharia Faculty, Antasari Islamic University Banjarmasin

Article Info

Article history:

Received Oct 1, 2020

Revised Feb 10, 2021

Accepted April 25, 2021

Keywords:

Financial Performance
Economic Value Added
NOPAT
Capital Charge

ABSTRACT

Measurement of financial performance is the achievement of the company's achievements in a period that describes the financial health condition of the company. This study aims to determine the calculation and measurement of the financial performance of PT financial statements. Darma Henwa Tbk in 2017-2019. Analysis in this study using Economic Value Added (EVA) method. The results of research on PT. Darma Henwa Tbk. shows that 2017 with a value of \$199,460 shows a positive value. This is because the value of NOPAT in that year is greater than the capital charge value generated. Meanwhile, in 2018 the value of EVA increased by \$2,893,767, which still generated positive value in that year. However, in 2019 EVA value decreased and obtained a negative value of -\$764,780. The decrease is caused because the value of NOPAT in 2019 is smaller than the capital charge value.

This is an open-access article under the [CC BY-SA](#) license.



Corresponding Author:

Abdul Muta Ali,

Economics and Business, Accounting Study Program,

Politeknik Negeri Tanah Laut,

Jl. A. Yani KM.6, Panggung, Pelaihari, Tanah Laut, Kalimantan Selatan, Indonesia, 70815.

Email: ali@politala.ac.id

1. INTRODUCTION

Company is an organization to get results from the activities and businesses. A company was founded to make as much profit as possible. The ability to realize this goal is an achievement that every company must achieve. So, from this, a company must have good management in making decisions to realize the company's goals in the future in the form of good profits for the company.

According to the Statement of Financial Accounting Standards (PSAK) No. 1 (2015:3) states that "Providing information about the financial position, financial performance of the entity's cash flows that are useful for the majority of users of the report in making economic decisions". In terms of financial statements, financial performance must be considered for every company. When viewed from the company's financial position contained in the company's financial statements from the period of previous years. Of course, analysis is needed to find out how well the company's financial performance is during the company's activity period.

Economic Value Added (EVA) is currently one of the methods used to measure the level of operating efficiency of a company in using capital to create added value or profitability. One of the financial performance measurements seen from the company's financial statements is to EVALuate financial performance with Economic Value Added (EVA) analysis. The EVA concept focuses more on efforts to create corporate value and assess financial performance fairly as measured by using a weighted measure of the existing initial capital structure, namely by using the weighted average cost of capital (WACC). Weighted Average Cost of Capital (WACC) is a measure of the weighted average cost of debt and equity. Thus the calculation will include the calculation of each component, namely the cost of debt (cost of debt), the cost of share capital (cost of equity), and the proportion of each in the company's capital structure.

Based on the description above, the author is very interested in researching the analysis of the financial performance of PT. Darma Henwa Tbk. in the Financial Statements for 2017 to 2019. These calculations will

conclude whether financial performance can add economic value to the company or vice versa. Therefore the authors are interested in researching and taking the title "Financial Performance Analysis Using Economic Value Added (EVA) Methods at PT. Darma Henwa Tbk. the 2017-2019 period".

2. RESEARCH METHODS

The value-based concept of measuring business performance has its theoretical basis in economic profit. Economic profit is based on the existence of opportunity costs that are very well known in economic theory. The article deals with the measurement of the economic profit by the Economic Value Added indicator[1]. In 1993, the article of Additional economic value rules introduced EVA's basic concept and principle. After that, many experts and scholars have given concerns on this theory[2]. The most common value-oriented indicator, economic value added (EVA), is in the article. The developer of the EVA concept is Stern Stewart & Company. They criticized the traditional indicators as ROA, ROI, PAT, EPS etc., for their characteristics and the weak explanatory power in terms of value creation[3]. In contrast, developed countries have focused on environmental public policies to sustain companies' value and improve market efficiency and business models[4].

The relationship between open innovation practices and financial performance of firms. The results show that a firm's overall openness level improves financial performance[5]. From the organization's point of view, the financial performance of this system is affected by factors on both macro, meso, and micro levels[6]. However, most of the aforementioned studies have focused on non-financial enterprises, and there is relatively little work on banks. Since the banks industry has played an essential role in the country's economic development[7]. The demands from increasingly specialized customers and institutions[8]. A stable insurance industry promotes economic growth and development because a well-functioning insurance sector simplifies business and economic relationships by spreading risk and offers lasting investment and financial stability[9]. Digitalization has spread to all productive sectors, presumably because there is strong evidence that a company's digitalization has a positive influence on its performance[10]. Some collinearity is inevitable because sample quality deteriorates as the number of observations decreases[11].

In processing the data, the author uses the method of calculating the company's financial performance analysis, namely:

1. Counting the steps to determine the analysis of Economic Value Added (EVA):

a. NOPAT (Net Operating Profit After Tax)

$$\text{NOPAT} = \text{Profit/Loss Before Interest/Tax} - \text{Tax Expense}$$

b. Invested Capital Invested (capital)

$$\text{Invested Capital} = \text{Total Debt and Equity} - \text{Short term debt}$$

c. WACC (Weight Average Cost of Capital)

$$\text{WACC} = \{(D \times r_d) (1 - \text{Tax}) + (E \times r_e)\}$$

Find:

$$D = \text{Total Debt}$$

$$\frac{\text{Total Debt and Equity}}$$

$$r_d = \text{Interest Expense}$$

$$\frac{\text{Total Debt}}$$

$$E = \text{Equity Expense}$$

$$\frac{\text{Total Debt and Equity}}$$

$$r_e = \text{Profit After Tax}$$

$$\frac{\text{Total Equity}}$$

$$\text{Tax} = \text{Tax Expense}$$

$$\frac{\text{Net Profit}}$$

d. Capital Charge

Is the amount of funds available to the company to finance the company which is the sum of the total debt and share capital?

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

2. The analysis uses the method Economic Value Added (EVA) which is formulated as follows:

$$\text{EVA} = \text{NOPAT} - (\text{WACC} \times \text{Invested Capital})$$

Description:

$$\text{NOPAT} = \text{Net Operating Profit After}$$

$$\text{WACC} = \text{Weighted Average Cost of Capital}$$

$$\text{Invested Capital} = \text{Total Assets (Total capital invested)}$$

Drawing conclusions from the calculation results of EVA analysis in this study based on the following indicators:

- a. If $\text{EVA} > 0$, it indicates the occurrence of economic added value for the company.
- b. If $\text{EVA} < 0$, it shows that there is no added value for the company. If $\text{EVA} = 0$, it indicates a break-even position because profits have been used to pay obligations to funders, both creditors and shareholders.

3. RESULT AN DISCUSSION

Tabel 3.1 11 EVA (Economic Value Added) (in US Dollars)

Year	NOPAT (1)	CC (2)	EVA (1-2)
2017	\$444,999	\$245,539	\$199,460
2018	\$7,530,056	\$4,636,289	\$2,893,767
2019	\$6,690. 616	\$ 7,455,396	- \$ 764,780

Based on the research findings and the results of calculations that have been done, it can be seen from the table above that the value of Economic Value Added (EVA) at PT. Darma Henwa Tbk. in 2017 and 2018 has increased. The resulting EVA value is still positive, which means that the EVA value > 0 means that the company's financial performance can be said to be good because the company is able to obtain added value. Whereas in 2018 to 2019 the EVA value decreased and obtained a negative value, which means that the EVA value < 0 means that the company's financial performance has not been said to be good because the company is unable to obtain added value. This is in accordance with other theories that support, stating that a positive EVA indicates that the rate of return generated is greater than the cost of capital or means the company has succeeded in creating added value. A negative EVA indicates that the value of the company decreases because the rate of return is lower than the cost of capital or means that the company fails to create the added value that investors demand.

The amount of NOPAT value will be influenced by operating profit and tax burden borne by the company. If the operating profit and tax burden are high, the NOPAT value will also be high and affect the EVA value. And vice versa if operating profit and tax burden are low, then the NOPAT value will also be low and can lead to negative EVA for the company. Based on the calculation of table 4.1.1, the number of NOPAT each year is positive. The positive value of NOPAT is because the profit generated is greater than the value of the tax burden, and vice versa, the negative value of NOPAT is because the profit generated is smaller than the value of the tax burden.

Based on table 4.1.2, the value of invested capital from 2017 to 2018 has increased. This is due to the increasing amount of debt and equity and the value of short-term debt is smaller than total debt and equity. The higher the value of invested capital, the better the company will be. This is due to the increase in the amount of capital for the owner of the company. Based on table 4.1.3, it shows that the value of the Weighted Average Cost of Capital (WACC) has increased every year. The company experienced fluctuations in the value of WACC due to two factors, namely a decrease or increase in the value of the cost of debt or caused by a decrease or increase in the value of the cost of equity. The greater the WACC value obtained by the company each year, the greater the rate of return on investment obtained by the shareholders (investors).

4. CONCLUSION

In conclusion, it can be concluded several things as follows: 1. Based on calculations using the Economic Value Added (EVA) method of PT. Darma Henwa Tbk. The 2017-2019 period yielded \$199,460 in 2017 and \$2,893,767 in 2018 an increase. Meanwhile, from 2018 to 2019, the EVA value of -\$764,780 decreased and obtained a negative value. 2. Measurement of company financial performance at PT. Darma Henwa Tbk. as measured by the Economic Value Added (EVA) approach from 2017 to 2018, has increased and has a positive value. However, in 2019 EVA is negative, which means EVA is below 0. This means that a declining EVA can be said that the company's financial performance is not good enough because the company cannot create *Financial Performance Analysis using Economic Value Added (EVA) Method at PT. Darma Henwa Tbk. Period 2017-2019*

added value or the profits generated are not able to meet expectations for the company's shareholders at the end of the year.

REFERENCES

- [1] S. Jakub, B. Viera, and K. Eva, "Economic Value Added as a Measurement Tool of Financial Performance," *Procedia Econ. Financ.*, vol. 26, no. 15, pp. 484–489, 2015, doi: 10.1016/s2212-5671(15)00877-1.
- [2] Z. Xin'e, W. Ting, and Z. Yuan, "Economic Value Added for Performance Evaluation: A Financial Engineering," *Syst. Eng. Procedia*, vol. 5, pp. 379–387, 2012, doi: 10.1016/j.sepro.2012.04.059.
- [3] V. Berzakova, V. Bartosova, and E. Kicova, "Modification of EVA in Value Based Management," *Procedia Econ. Financ.*, vol. 26, no. 15, pp. 317–324, 2015, doi: 10.1016/s2212-5671(15)00859-x.
- [4] M. del P. Rodríguez-García, A. F. Galindo-Manrique, K. A. Cortez-Alejandro, and A. B. Méndez-Sáenz, "Eco-efficiency and financial performance in Latin American countries: An environmental intensity approach," *Res. Int. Bus. Financ.*, vol. 59, no. September 2021, 2022, doi: 10.1016/j.ribaf.2021.101547.
- [5] Q. Lu and H. Chesbrough, "Measuring open innovation practices through topic modelling: Revisiting their impact on firm financial performance," *Technovation*, no. xxxx, p. 102434, 2021, doi: 10.1016/j.technovation.2021.102434.
- [6] J. N. Uhrnholt, J. H. Kristensen, M. C. Rincón Gil, S. F. Jensen, and B. V. Waehrens, "Circular economy: Factors affecting the financial performance of product take-back systems," *J. Clean. Prod.*, vol. 335, no. January, p. 130319, 2022, doi: 10.1016/j.jclepro.2021.130319.
- [7] G. Zhou, Y. Sun, S. Luo, and J. Liao, "Corporate social responsibility and bank financial performance in China: The moderating role of green credit," *Energy Econ.*, vol. 97, p. 105190, 2021, doi: 10.1016/j.eneco.2021.105190.
- [8] J. P. García Castro, D. F. Duque Ramírez, and J. Moscoso Escobar, "The relationship between intellectual capital and financial performance in Colombian listed banking entities," *Asia Pacific Manag. Rev.*, vol. 26, no. 4, pp. 237–247, 2021, doi: 10.1016/j.apmr.2021.03.002.
- [9] O. M. Olarewaju and T. S. Msomi, "Intellectual capital and financial performance of South African development community's general insurance companies," *Heliyon*, vol. 7, no. 4, p. e06712, 2021, doi: 10.1016/j.heliyon.2021.e06712.
- [10] A. Fernández-Portillo, M. Almodóvar-González, M. C. Sánchez-Escobedo, and J. L. Coca-Pérez, "The role of innovation in the relationship between digitalisation and economic and financial performance. A company-level research," *Eur. Res. Manag. Bus. Econ.*, vol. 28, no. 3, p. 100190, 2022, doi: 10.1016/j.iedeen.2021.100190.
- [11] E. Saygili, S. Arslan, and A. O. Birkan, "ESG practices and corporate financial performance: Evidence from Borsa Istanbul," *Borsa Istanbul Rev.*, 2021, doi: 10.1016/j.bir.2021.07.001.

BIOGRAPHIES OF AUTHORS



Abdul Muta Ali a lecturer in the Accounting Programme, Department of Economics and Business, Politeknik Negeri Tanah Laut, Indonesia. His research interest includes the accounting, balance of payment, econometrics, corporate finance, Islamic banking and finance, financial economics. Email: ali@politala.ac.id



Adi Saputro was born on April 18, 1999 in Kediri, East Java. He is an active student in the Department of Economics and Business Accounting Study Program at Politeknik Negeri Tanah Laut. Email: 1801320001.akt@politala.ac.id



Muhammad Fahmi Nurani, Is a lecturer in the Universitas Islam Negeri Antasari Banjarmasin. Email: mfahminurani@uin-antasari.ac.id



Marliza Noor Hayatie, S.E., M.M, born in Banjarmasin on March 6, 1985. Graduated from S1 Accounting in 2009 at STIE Pancasetia Banjarmasin. Graduated from master's in financial management 2014 at STIE Pancasetia, Banjarmasin. Worked at the ISFI Banjarmasin Academy of Pharmacy in 2010-2019 as a lecturer and financial staff. Then she became a lecturer in the Accounting Study Program Politeknik Negeri Tanah Laut.