

CHAPTER I

INTRODUCTION

1.1 Overview

PT Charoen Pokphand Indonesia Tbk is Indonesia's largest producer of poultry feed, day old chicks and processed chickens. The Company was established in 1972 as the first high-volume feed mill in Jakarta manufacturing premium quality poultry feed. Today, the Company is focused on agro-business activities that encompass the entire spectrum of the poultry business, from the production of superior feed products, to the breeding of fast-growing, disease-resistant poultry stock and to the creation of high quality processed poultry products. Success key of the the growth Company's is the commitment to engage in all facets of the entire production chain, from feed formulation to poultry stock to processed, value-added poultry products. This approach has proved highly successful in ensuring both the reliability of supply for our own production and the requirements of the industry as well as consistent quality of poultry feed and poultry products across the nation. Poultry feed is the cornerstone of the Company's business. The Company is the country's largest and most successful producers of high quality poultry feed. The Company is also the dominant force in the production and supply of poultry breeding stock for layer and broiler chicken in Indonesia.

Financial analysis is one of the most important activity in every companies because it is measured the shareholders wealth. Currently, there are tools that common to measure financial performance of a company which are EVA and MVA. Those are able to calculate the true of economic profit rather than profitability ratios that only able to calculate accounting profit. That is why EVA

and MVA become the effective tools to measured financial performance nowadays.

1.2 Research Background

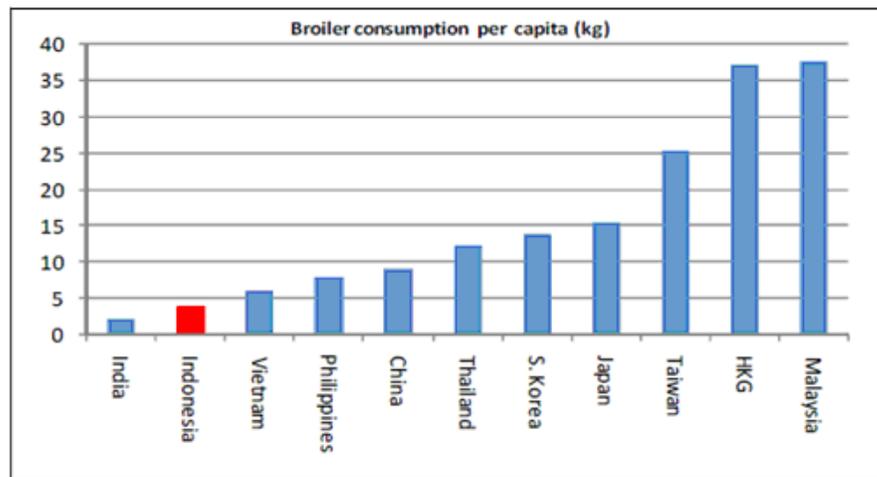
In general, the purpose of any business or company is maximizing shareholder wealth or generating profits for the shareholders of both the companies engaged in services or goods and to maximize the wealth can be interpreted as a search for profit. Valuation become important in every companies because it is the measured stockholders wealth which is to see whether the purpose of company achieved or not.

For management, financial analysis is not sufficient to determine whether there has been a value-added enterprise, while the Shareholders does not quite have the confidence that has been embedded capital would provide a level of expected results. In addition, measurement of performance using financial ratio analysis is to compare the ratio of a company with another company or comparison with similar ratios of the company in the previous period. Financial performance of a company can be assessed using some financial analysis tools, one of them which is the financial statement using several approaches, for example financial ratios profitability ratios, liquidity ratios, the ratio leverage and others. The financial statement is important remembering it can give information that can be used in decision making. There are many parties who have concerned in financial statement such as investor, creditor and management of the company itself. Financial statement gives the information about profitability, risk and timing of cash flow that produced by the company. Those information will affect the wishes of concerned parties and will affect the value of the company eventually (Hanafi, 2004: 27).

The Company is also the dominant force in the production and supply of poultry breeding stock for layer and broiler chicken in Indonesia. As with poultry feed, the Company is the large producer of high quality DOC for Indonesian farmers thanks to an extensive network of breeding facilities across Java, Kalimantan, Bali, Sulawesi and Sumatra. While poultry feed and poultry breeding activities have historically been the main agro-business focus, the Company has also responded to the rising poultry consumption by expanding into poultry processing and production of high value-added poultry products. This is carried out at the Company's own slaughterhouse and processing plant in Cikande (West Java), Salatiga (Central Java) and Surabaya (East Java).

Figure 1.1

Broiler consumption per capita (kg) in 2009



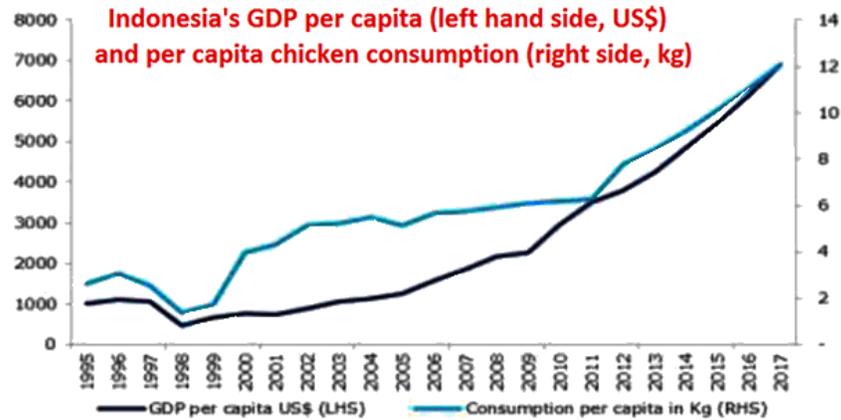
Source: www.roycefunds.com

Based on the figure 1.1, it can be seen that chicken consumption per capita in Indonesia is quite low if compared with Malaysia, Thailand, and Philippines since Indonesian population is the biggest in South East Asia and most of the people are not vegetarian. It is show that there is huge gap more than 30kg

between Indonesia and Malaysia, 3kg with Philippines and 9kg with Thailand can be known based on the diagram above.

Figure 1.2

Indonesian GDP per capita and per capita chicken consumption



Source: www.efeedlink.com

Based on the figure above it is show if chicken consumption per-capita in Indonesia is only 4.2 kg in 2009 with \$ 2.700 GDP per capita, while the consumption chicken per-capita in Malaysia reaching 32-33 kg with \$ 7.277 GDP per-capita. This is show, there is growth opportunity that widely open for this industry to more develop and achieving the significant number in the future. Growth opportunity later must be balanced with the accurate business strategy. Accurate business strategy must be form based on some consideration, which one of them is financial performance of the company. To know exactly the financial performance of a company, finance manager have to do deeper finance analysis to determine business strategy and also investment policy. Besides, financial analysis become important because it is also measured the shareholders wealth which is maximizing shareholders wealth is the purpose of every companies. In previous years, tools that common to do the financial analysis is financial ratio.

In general, the use of financial ratio analysis has advantageous, among others, can do a comparison of the performance of the company from time to time and interested parties for companies such as owners, managers and investors to evaluate financial performance and condition quickly. While the weakness of this analysis is not able to satisfy the desires of management and donors (creditors and shareholders) because of financial ratios emphasis on accounting profit so that the calculation does not include the cost of capital income (cost of capital). So not quite sure whether the capital which has been invested in the future can provide the results as expected.

Fuhrmann (2011) said Return on Equity (ROE) and Return on Assets (ROA) are two of the most important measures for evaluating how effectively a company's management team managing the capital that shareholders entrust to it. Return on equity (ROE) helps investors gauge how their investments are generating income, while return on assets (ROA) helps investors measure how management is using its assets or resources to generate more income. However, According to Darsono (2005: 56) there are some weaknesses of ROA as follows:

- a. Performance measurement using ROA create division managers have a tendency to skip the project - a project which lowers divisional ROA, even though the project -project can increase the overall level of corporate profits
- b. Management also tend to focus on short-term goals rather than long-term goals.
- c. A project in the ROA can improve short-term goals, but the project has long-term negative consequences. Budget marketing and use of raw materials are relatively inexpensive thus lowering the quality of the product in the long run.

Widely, ROE is still used to measure the profitability of the company. ROE measures the net income earned by a firm through the use of capital supplied by stakeholder (Vincent and Kumar, 2014). But, Carton (2006) found if ROE is not

consistence with the increasing investor value. And the main weaknesses of ROE is affected by gearing level a company. Gearing and asset turnover can affecting ROE so that the higher gearing could affect the higher asset turnover, which is not profitable, it would be effect on higher ROE. To answer these challenges, now there is a new concept in assessing the financial performance of a company's right to take fully into account the interests and expectations of fund providers that return on capital invested in the company. The concept in question is Economic Value Added (EVA) and Market Value Added (MVA) (Rudianto, 2006: 340).

Modern financial performance in addition to EVA that is associated with the market also measured from the MVA is the market value of the stock compared to its book value. EVA method developed by Stern Stewart, he found that EVA is better measure to asses corporate performance and the creation of shareholder than conventional accounting measures. He added also if EVA is a method that is more precise and accurate for measuring the wealth of stockholders than other methods (Stewart, 1991 in D. Crowther 2014:69). Stewart also stated that EVA was the one that drives stock prices, instead of EPS, ROE, and ROI (Harvard Business Review, December 1995 in Hidayat, 2006). In addition to EVA, the accounting statements does not reflect market values, so they are not sufficient for purpose of evaluating company performance. To help this void, financial analyst have developed another approach that is also used to measure the performance of companies which is Market Value Added (MVA) (Brigham and Houston 2015: 78). Mirza&Imbuh (1999) as states that the wealth or welfare of the owners (shareholders) will increase or if the MVA also increases the maximum or maximum.

The livestock industry is a rapidly growing industry in Indonesia. It can be seen from the feed requirements continue to increase along with the increase in demand for livestock products such as chicken every year. 2015 is predicted to

grow 10%. It will be marked increase in feed consumption of 14.7 million tons will increase from 7 million tons last year according to Gabungan pengusaha pakan ternak Indonesia (GPPTI) (kabarbisnis.com, 2014). Companies engaged in the livestock industry, especially poultry, are not overly affected by the economic crisis. Based on the financial statements of PT. Charoen Pokphand Indonesia when the crisis in 2008, PT. Charoen Pokphand Indonesia increased their earnings from 2008 to 2009. This is resulting the product is directly related to consumption. With the economic crisis of 2008 Chickens can be a substitute for meat because it is cheaper but still nutritious. (Anggaranti, 2011).

Based on the phenomenon in research background above, the author is encouraged to conduct a research with the title **“An Analysis of EVA and MVA as a Measurement of Financial Performance (Case study on PT Charoen 2009-2013)”**.

1.3 Research Question

Based on the research background above, the author tries to conduct a research to analyze:

1. How the financial performance of PT. Charoen Pokphand measured using EVA?
2. How the financial performance of PT. Charoen Pokphand measured using the MVA?

1.4 Research Objectives

According to the problems above, the author was conducting a research which intends to:

1. To examine the financial performance of PT. Charoen Pokphand using Economic value added method.
2. To examine the financial performance of PT. Charoen Pokphand using Market value added method.

1.5 Research Benefits

The benefits that are expected from this research are:

1. The result of this research is expected to give source of information to the company and stakeholder involved.
2. For the investor, it is expected that the result of this research would give proper information towards the investment decision.
3. For the academicians, the author hopes that this research could become an additional literature sources for the future research.

1.6 Writing Structure

In order to be systematical, the writing structure is arranged to provide a brief overview regarding the research conducted. The following structures are:

CHAPTER I INTRODUCTION

This chapter contains a brief review of the research background, problem formulation, research benefits and the research objectives.

CHAPTER II THEORETICAL BASIS

This chapter contains the literature study to describe the theory and the tools used in the research.

CHAPTER III RESEARCH METHODOLOGY

This chapter contains the type of research conducted, sample and population, scope of the research, objects of the research, data of the research and steps conducting the research.

CHAPTER IV RESULT AND ANALYSIS

This chapter contains the result of the model and its analysis.

CHAPTER V CONCLUSION AND SUGGESTION

This chapter contains the conclusions of the research and suggestion for a better research in the future.