

FINANCIAL PERFORMANCE ANALYSIS OF PT. TJIWI KIMIA TBK. AND PT. INDAH KIAT PULP & PAPER TBK.



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Abstract

This research was prepared to obtain an analysis and compare the financial performance of two large issuing companies in the pulp and paper industry, namely PT. Tjiwi Kimia Tbk. and PT. Indah Kiat Pulp & Paper Tbk. by using the 2022 and 2023 financial reports as a data source. The method used is financial ratio analysis which includes liquidity, solvency, and profitability ratios. Based on the results of an in-depth study, it can be stated that PT. Indah Kiat Pulp & Paper Tbk. has better performance in terms of liquidity with a current ratio of 2.65 in 2023, compared to PT. Tjiwi Kimia which has a current ratio of 1.24. However, in terms of solvency, PT. Tjiwi Kimia has a lower debt-to-equity ratio (DER), namely 0.51 times compared to PT Indah Kiat of 0.69 times, indicating that PT Tjiwi Kimia's financial risk is relatively smaller. In terms of profitability, both companies are seen to have proven positive performance. PT Indah Kiat's net profit margin in 2023 will be 11% with an ROE of 14.6%, while PT Tjiwi Kimia posted a net profit margin of 8.7% with an ROE of 13.6%. However, both PT Indah Kiat and PT Tjiwi Kimia still need to improve operational efficiency and manage financial risks prudently, especially regarding debt management.

Keywords: Financial Performance, Ratio Analysis, Pulp and Paper Industry, PT Tjiwi Kimia Tbk., PT Indah Kiat Pulp & Paper Tbk

INTRODUCTION

Business activities in the pulp and paper sector are considered part of a strategic sector that can make a significant contribution to the Indonesian economy (Sasongko & Rachma, 2021). This sector plays a role in moving the wheels of the economy and employs many workers (Ministry of Industry, 2021). Based on data from the Pulp and Paper Association Indonesia (APKI), the national pulp and paper industry has a production capacity of 14 million tons per year and absorbs more than 260,000 direct workers (APKI, 2020).

In recent years, the pulp and paper industry has experienced several obstacles and difficulties, including commodity prices that are always changing (fluctuating), global competition, and environmental sustainability issues (Sulistya & Darmono, 2018). Fluctuations in commodity prices (wood and chemicals) have the potential to affect production costs and company profitability (Ermawati & Marlina, 2020). In addition, increasingly fierce global competition requires companies to increase efficiency and competitiveness (Setiawan, 2019).

PT. Tjiwi Kimia Tbk. and PT. Indah Kiat Pulp & Paper Tbk. are the leading companies in the pulp and paper industry in Indonesia. These companies have been operating for the past decade and have substantial production capacity. PT Tjiwi Kimia has a paper production capacity of 1.4 million tons per year, while PT Indah Kiat can produce pulp and paper production of 4.2 million tons per year (Annual Report PT Tjiwi Kimia, 2022; Annual Report PT Indah Kiat, 2022). However, the financial performance of the two companies is certainly inseparable from industrial and macroeconomic dynamics.

Financial performance analysis by preparing financial reports is used as a way to assess the financial health and future prospects of a company (Subramanyam, 2014; Wastuti & Hasan, 2022). Financial ratios such as liquidity, solvency, and profitability ratios are often used to measure company performance (Brigham & Houston, 2019). By comparing the financial performance of PT Tjiwi Kimia and PT Indah Kiat, investors, creditors, and other stakeholders can get an idea of the competitiveness and potential of the two companies. The results of this analysis can be used as a reference in considering management in formulating business strategies and making financial decisions in the future (Gitman & Zutter, 2015).

REVIEW OF LITERATURE

Financial Management Objectives

Financial management plays a significant role in managing a company's financial resources effectively and efficiently to achieve company goals. Following are some relevant financial management objectives:

1. **Maximizing Company Value:** The main objective is to optimize the company's value as reflected in its share price, with a focus on increasing shareholder wealth through investment, funding, and dividend decisions.
2. **Maintaining Liquidity and Solvency:** It is important to ensure the continuity of company operations by managing cash, receivables, and inventory efficiently and maintaining an optimal capital structure.
3. **Optimizing Profitability:** Aims to ensure the company generates adequate profits by controlling costs, increasing efficiency, and making profitable investment decisions.
4. **Managing Financial Risk:** Aims to protect the company from potential losses due to changes in financial factors such as exchange rates, interest rates, and commodity prices by using hedging instruments and risk management strategies.
5. **Optimizing Capital Structure:** Determining the optimal combination of debt and equity to fund a company's operations and investments by reducing the weighted average cost of capital and maximizing company value.

In the context of PT. Tjiwi Kimia Tbk. and PT. Indah Kiat Tbk., financial management plays an important role in making the right investment, funding, and operational decisions. Financial managers must consider the characteristics of the pulp and paper industry, such as high capital intensity, fluctuating business cycles, and exposure to exchange rate and commodity price risks, in formulating optimal financial strategies for the two companies.

Financial Management Function

Financial management has several important functions in managing the company's financial resources to achieve the goals that have been formulated. The following are the main functions of financial management that are relevant for these two paper companies:

1. **Financial Planning:** Setting short and long-term financial targets, and formulating strategies to achieve them, including budget creation, cash flow projections, and investment analysis.
2. **Working Capital Management:** Managing current assets and current liabilities to ensure the availability of sufficient funds to support daily operations, as well as maintaining company liquidity and profitability.
3. **Investment Decisions:** Involves allocating funds to acquire long-term assets that are expected to produce profitable returns, as well as conducting an investment feasibility analysis.
4. **Funding Decisions:** Determining the optimal source of funds to finance the company's investments and operations, as well as choosing funding sources that maximize company value.
5. **Risk Management:** Identifying, assessing, and mitigating the financial risks a company faces, including credit, market, liquidity, and operational risks.
6. **Financial Reporting and Analysis:** Prepare timely and accurate financial reports, and conduct an analysis of the company's financial performance to provide relevant information to stakeholders.

In carrying out these functions, the financial management of PT. Tjiwi Kimia Tbk. and PT. Indah Kiat Tbk. must consider pulp and paper industry-specific factors such as business cycles, capital intensity, and global market dynamics. Financial managers must also coordinate with other functions within the company to ensure strategic alignment and achievement of overall company goals.

Financial Report

Financial reports are recordings of a company's financial information in an accounting period that describes its performance. The aim is to provide information about the financial position, financial performance, and cash flow of an entity that is useful for users of financial reports for formulating economic decisions. Main types of financial reports:

1. **Financial Position Report (Balance Sheet):** Shows the company's financial position on a certain date, consisting of assets, liabilities, and equity.
2. **Profit and Loss Report:** Presents the company's performance results during a certain period, including income, expenses, profits, and losses.
3. **Equity Changes Report:** Shows changes in the company's equity components during a certain period.
4. **Cash Flow Report:** Provides information about the company's cash receipts and expenditures in a certain period, divided into operating, investment, and funding cash flows.
5. **Notes to Financial Reports:** Contains additional information and detailed explanations regarding items in the financial reports.

PT financial report. Tjiwi Kimia Tbk. (TJIM) and PT. Indah Kiat Pulp & Paper Tbk. (INKP) provides important information for investors, creditors, and other stakeholders to assess the company's performance, financial position, and prospects. Financial report analysis helps identify the strengths, weaknesses, opportunities, and threats facing a company and supports making appropriate economic decisions.

Financial Report Analysis

Financial report analysis is the process of assessing and interpreting financial information in a company's financial reports. The main objective is to provide a better understanding of the company's financial condition, performance, and cash flow, as well as identify trends, risks, and opportunities in business decision-making. Common financial report analysis techniques:

1. **Financial Ratio Analysis:** This involves calculating and interpreting financial ratios to compare a company's performance over time and with other companies in the industry. Examples of ratios include liquidity, solvency, profitability, activity, and market.
2. **Trend Analysis:** Evaluating changes in a company's financial performance over time to identify patterns, trends, and significant changes in financial statement items.
3. **Comparative Analysis:** Comparing a company's financial performance with other companies in a similar industry or with industry averages to assess the company's relative position and identify areas requiring improvement.
4. **Cash Flow Analysis:** Evaluate a company's ability to generate cash flow from operating, investing, and financing activities to assess the company's liquidity, financial flexibility, and sustainability of operations.
5. **Du Pont Analysis:** A structured approach to analyzing a company's profitability and return on equity (ROE) by combining several financial ratios such as net profit margin, asset turnover, and equity multiplier.

These techniques help provide a more complete and in-depth picture of a company's financial condition and support better business decision making.

Financial Ratio Analysis

Financial ratio analysis is a technique for assessing a company's financial performance and condition using data from financial reports (Hansa & Ridaryanto, 2024). Financial ratios express the relationship between accounting numbers and are used to compare a company's performance over time or with other companies in a similar industry. Main categories of financial ratios:

1. **Liquidity Ratio:** Assesses the company's ability to meet short-term obligations. Examples: current ratio, quick ratio, and cash ratio.
2. **Solvency Ratio:** Assesses a company's ability to meet long-term obligations and measures financial leverage. Examples: debt to asset ratio, debt to equity ratio, and interest generated multiple ratios.

3. Profitability Ratio: Measures a company's ability to generate profits from business activities.
4. Activity Ratio: This shows the company's efficiency in utilizing assets to generate income. Examples: inventory turnover, receivables turnover, total assets turnover, and fixed assets turnover.
5. Market Ratio: Evaluate a company's performance and prospects according to the market. Examples: price-to-earnings ratio, price-to-book value ratio, and dividend yield.

Analysis of PT's liquidity ratios. Tjiwi Kimia Tbk. and PT. Indah Kiat Pulp & Paper Tbk. must consider factors such as operating cycles, working capital requirements, and industry practices. A healthy liquidity ratio shows the company's ability to meet its short-term obligations. However, the interpretation of liquidity ratios must be combined with the analysis of other ratios to obtain a comprehensive picture of the company's financial performance.

RESEARCH METHOD

Types and Research Approaches

This research is a descriptive study with a quantitative approach. Descriptive research aims to describe and interpret research objects systematically, factually, and accurately (Sugiyono, 2017). A quantitative approach is used to analyze financial data and financial ratios of PT. Tjiwi Kimia Tbk. and PT. Indah Kiat Pulp & Paper Tbk. (Sekaran & Bougie, 2016).

Data Source

This research uses secondary data, namely the annual financial report of PT. Tjiwi Kimia Tbk. and PT. Indah Kiat Pulp & Paper Tbk. period 2022-2023. Financial reports were obtained from the company's official website, the Indonesia Stock Exchange (BEI), and financial databases such as Bloomberg and Thomson Reuters (Sekaran & Bougie, 2016).

Data Collection Technique

The data collection technique used is a documentation study. Documentation studies involve collecting, reviewing, and analyzing documents relevant to the research objectives, in this case, company financial reports (Sugiyono, 2017).

Operational Definition of Variables

The variables applied in this research study are financial ratios, which consist of:

1. Liquidity Ratios: Current Ratio, Quick Ratio, Cash Ratio
2. Solvency Ratios: Debt to Asset Ratio, Debt to Equity Ratio, Multiple Interest Earned Ratio
3. Profitability Ratios: Gross Profit Margin, Operating Profit Margin, Net Profit Margin, Return on Assets (ROA), Return on Equity (ROE)
4. Activity Ratios: Inventory Turnover, Receivables Turnover, Total Assets Turnover
5. Market Ratios: Price to Earnings Ratio (P/E), Price to Book Value Ratio (P/B), Dividend Yield

The operational definition and calculation formula for each ratio refer to relevant literature (Brigham & Houston, 2019; Subramanyam, 2014).

Analysis Method

Data The data analysis methods implemented are financial ratio analysis and comparative analysis. Data analysis steps include:

1. Calculate the financial ratios of PT Tjiwi Kimia Tbk and PT Indah Kiat Pulp & Paper Tbk for the 2022-2023 period.
2. Analyze trends in each company's financial ratios over time.
3. Comparing the financial ratios of PT. Tjiwi Kimia Tbk. and PT. Indah Kiat Pulp & Paper Tbk. with the average of the same industry or company.
4. Make interpretations of the results of financial ratio analysis and comparisons to assess financial performance, strengths, weaknesses, opportunities, and threats for each company.

5. Conclude and provide recommendations based on the results of the analysis.

Data analysis was carried out using Microsoft Excel software and statistical software such as SPSS or Stata (Sekaran & Bougie, 2016; Sugiyono, 2017).

RESULTS AND DISCUSSION

This discussion will describe the results of calculating financial ratios based on the 2022 and 2023 financial reports. To make it easier to compare the two companies, a table has been created that shows the results of calculating financial ratios based on the 2022 and 2023 financial reports:

Table 1.
Financial Ratio Calculation Results for 2022 and 2023

Financial Ratios	Formulas	PT. Tjiwi Kimia Tbk.		PT. Indah Kiat Pulp & Paper Tbk.	
		2022	2023	2022	2023
Liquidity Ratio					
Current Ratio	Current Assets / Current Liabilities	1.22	1.24	2.44	2.65
Quick Ratio	(Current Assets - Inventory) / Current Liabilities	0.80	0.82	1.75	1.94
Cash Ratio	Cash and Cash Equivalents / Current Liabilities	0.29	0.29	0.56	0.66
Solvency Ratio					
Debt to Asset Ratio	Total Liabilities / Total Assets	0.37	0.34	0.42	0.41
Debt to Equity Ratio	Total Liabilities / Total Equity	0.60	0.51	0.72	0.69
Earned Interest Multiple Ratio	EBIT / Interest Expense	5.06	6.34	7.01	7.81
Profitability Ratio					
Gross Profit Margin	Gross Profit / Sales	17.11%	17.87%	23.19%	22.28%

Financial Ratios	Formulas	PT. Tjiwi Kimia Tbk.		PT. Indah Kiat Pulp & Paper Tbk.	
Operating Profit Margin	Operating Profit / Sales	10.93%	12.16%	19.12%	18.81%
Net Profit Margin	Net Profit / Sales	8.15%	8.67%	12.22%	11.03%
Return on Assets (ROA)	Net Profit / Total Assets	7.32%	7.97%	11.46%	10.64%
Return on Equity (ROE)	Net Profit / Total Equity	11.76%	12.73%	19.56%	17.89%
Activity Ratio					
Inventory Turnover (times)	Cost of Goods Sold / Average Inventory	4.91	5.10	6.52	7.12
Receivables Turnover (times)	Sales / Average Receivables	8.56	9.19	4.87	5.32
Total Asset Turnover (times)	Sales / Average Total Assets	0.90	0.92	0.94	0.96
Market Ratio					
Price to Earnings Ratio (P/E)	Share Price / Earnings per Share	10.92	9.87	12.35	11.42
Price to Book Value Ratio (P/B)	Share Price / Book Value per Share	1.28	1.26	2.41	2.04
Dividend Yield	Dividend per Share / Share Price	2.14%	2.36%	1.68%	1.92%

Notes:

- The market ratio is calculated based on share price assumptions and the number of shares outstanding.
- EBIT = Profit before interest and taxes
- The average value is calculated using the beginning and end of year values.

Interpretation:

1. Liquidity Ratio:

PT. Indah Kiat Pulp & Paper Tbk. has a better liquidity ratio than PT. Tjiwi Kimia Tbk., demonstrated a stronger ability to meet its short-term obligations.

2. Solvency Ratio:

PT. Tjiwi Kimia Tbk. has a slightly better solvency ratio, with a lower debt-to-asset ratio and debt-to-equity ratio. However, PT. Indah Kiat Pulp & Paper Tbk. has a higher multiple ratio of interest earned, indicating a better ability to bear interest expenses.

3. Profitability Ratio:

PT. Indah Kiat Pulp & Paper Tbk. shows superior profitability performance with higher profit margins and return ratios compared to PT. Tjiwi Kimia Tbk.

4. Activity Ratio:

PT. Indah Kiat Pulp & Paper Tbk. has a higher inventory turnover, indicating better efficiency in managing inventory. Meanwhile, PT. Tjiwi Kimia Tbk. has a higher receivables turnover, indicating more effective receivables management.

5. Market Ratio:

PT Indah Kiat Pulp & Paper Tbk has a higher P/E and P/B ratio, indicating more positive market expectations for the company's growth and prospects. However, PT. Tjiwi Kimia Tbk. offers a slightly higher dividend yield.

Overall, PT. Indah Kiat Pulp & Paper Tbk. shows relatively stronger financial performance than PT. Tjiwi Kimia Tbk. especially in terms of profitability and market valuation. However, both companies still have their strengths and weaknesses that are worth considering in a more in-depth analysis.

CONCLUSION

Based on the results of the financial ratio analysis and comparison of the performance of these two companies, several conclusions can be drawn, namely:

1. PT. Indah Kiat Pulp & Paper Tbk. shows better liquidity performance compared to PT. Tjiwi Kimia Tbk., with a higher current ratio, quick ratio, and cash ratio. This shows PT Indah Kiat's ability to fulfill its short-term obligations more effectively.
2. In terms of solvency, PT. Tjiwi Kimia Tbk. has a slightly lower debt-to-asset ratio and debt-to-equity ratio, indicating a lower level of leverage. However, PT. Indah Kiat Pulp & Paper Tbk. has a higher multiple ratio of interest earned, indicating a better ability to bear interest expenses.

3. PT. Indah Kiat Pulp & Paper Tbk. outperforms PT. Tjiwi Kimia Tbk. in the aspect of profitability, with higher profit margins and return ratios. This shows operational efficiency and the ability to generate more optimal profits compared to PT. Indah Kiat Pulp & Paper Tbk.
4. In terms of activities, PT. Indah Kiat Pulp & Paper Tbk. has a higher inventory turnover, indicating more efficient inventory management. On the other hand, PT. Tjiwi Kimia Tbk. shows better receivables turnover, indicating more effective receivables management.
5. The market ratio gives an idea that PT. Indah Kiat Pulp & Paper Tbk. has a more positive market valuation, with a higher P/E and P/B ratio. However, PT. Tjiwi Kimia Tbk offers a slightly higher dividend yield.

Overall, PT. Indah Kiat Pulp & Paper Tbk. proves relatively superior financial performance when compared with PT Tjiwi Kimia Tbk, especially in the aspects of liquidity, profitability, and market valuation. However, both companies have their strengths and weaknesses that should be considered in making investment decisions and financial management.

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