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# FINANCIAL PERFORMANCE OF STATE-OWNED PLANTATION COMPANY: THE CASE OF PT PERKEBUNAN NUSANTARA VII LAMPUNG

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***ABSTRACT***

*This research aims to analyze the financial performance (liquidity, profitability, and solvability) and cash flow (operational, investment, and funding activity) of PT Perkebunan Nusantara VII Lampung in 2012 – 2016. The method used is a descriptive method with a quantitative approach. The type of data used is secondary data. The results are Liquidity Ratio (Cash Ratio, Quick Ratio, and Current Ratio) of PT Perkebunan Nusantara VII decreased, the Profitability Ratio (Return on Asset, Return on Equity, Gross Profit Margin, Operating Profit Margin, and Net Profit Margin) fluctuated, and Solvability Ratio (Debt to Asset Ratio dan Debt to Equity Ratio) also fluctuated. Cash flow from the operational, investment, and funding activities of PT Perkebunan Nusantara VII in 2016 decreased.*

**Keywords**: Financial performance, liquidity, profitability, solvability, and cash flow

## INTRODUCTION

Activities carried out by a company have several goals, one of which is to optimize profits from the business it carries out. Goal achievements are a benchmark for company performance, which is carried out by a person or group of people, by their respective authority and responsibilities, legally, without violating the law and following company morals and ethics (Prawirosentono, 1999).

The level of company health is determined based on an assessment of the company's performance for the financial year in question. This assessment includes three aspects; financial, operational and administrative aspects. The financial aspect has the highest weight. To achieve a good assessment of financial aspects, companies must develop appropriate planning, implementation and control, as well as producing financial reports. By analyzing financial statements, the company's financial performance can be assessed. Financial performance is defined as work performance in generating profits achieved by the company in a certain period as stated in the financial report (Rahayu, 2010).

One technique for analyzing financial reports is by calculating financial ratios. Financial ratios consist of liquidity ratios, profitability ratios, and solvency ratios. The liquidity ratio shows the company's ability to fulfil short-term obligations, the profitability ratio shows the company's ability to earn profits, and the solvency ratio shows the company's ability to fulfil all its obligations.

Financial report analysis can measure the company's level of progress. The company can also perceive the financial condition and achievement of management performance targets. In addition, the results of the analysis are used to determine the direction and goals of the company so that adequate economic decisions are taken. Financial reports also function as an informational tool that connects the company with internal parties such as owners (assessing the company's success) and company managers (determining and assessing policies) as well as external parties such as investors (investing capital), creditors (giving credit), and the government (determining the amount of tax the company must pay). Therefore, analyzing a company's financial performance through financial reports is important.

## METHOD

The method used in this research is the quantitative descriptive analysis method, with data being taken from the company's official website. The type of data used in this research is secondary data (from the annual financial report of PT. Perkebunan Nusantara VII Lampung in 2012 - 2016). Determining the research location was carried out deliberately or purposively.

The variables used in this research are liquidity ratios (Current Ratio, Quick Ratio, Cash Ratio), profitability ratios (Return on Assets, Return on Equity, Gross Profit Margin, Operating Profit Margin, Net Profit Margin), and solvency ratios (Debt to Asset Ratio, Debt to Equity Ratio). From these ratios, a trend analysis was then carried out with the base year used being 2012 so that we could see whether the ratio was experiencing an upward, downward or constant tendency. The company's financial ratios are also compared with standard industry financial ratio values and the financial ratios of PT Perkebunan Nusantara III (Persero) as the parent company.

## RESULTS AND DISCUSSION

Financial performance from an economic aspect can be measured by liquidity ratios, profitability ratios and solvency ratios.

**Liquidity Ratio**

The liquidity ratio is a ratio that shows the company's ability to meet short-term obligations

Table 1. Liquidity Ratio of PT Perkebunan Nusantara VII (%)

| Liquidity Ratio | Year | | | | | Average |
|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | |
| Current Ratio | 124.74 | 106.28 | 38.11 | 43.20 | 31.79 | 68.82 |
| Quick Ratio | 59.95 | 33.09 | 18.47 | 18.00 | 6.80 | 27.26 |
| Cash Ratio | 31.71 | 19.65 | 11.38 | 12.73 | 5.16 | 16.13 |

Source: Yearly Report of PT Perkebunan Nusantara VII 2016

1. Current Ratio

Current Ratio measures the company's ability to meet short-term obligations based on current assets. PT Perkebunan Nusantara VII's Current Ratio in 2012-2016 tends to decline. Based on Table 1, in the period 2012 - 2016, the increase in the Current Ratio only occurred in 2015. According to Kasmir (2008), the standard industry Current Ratio is 200%, while the average Current Ratio of PT Perkebunan Nusantara VII in 2012-2016 is 68.82%, which means that current assets can guarantee current liabilities of 68.82%. Thus, the current assets owned by PT Perkebunan Nusantara VII are still below industry standards. Apart from that, the average Current Ratio of PT Perkebunan Nusantara VII is also below PT Perkebunan Nusantara III (Persero) which has an average Current Ratio of 85.96%.

2. Quick Ratio

The Quick Ratio measures a company's ability to meet current obligations using current assets without taking inventory into account. Based on Table 1, in the period 2012 – 2016, the Quick Ratio of PT Perkebunan Nusantara VII experienced a decline. According to Kasmir (2008), the standard industry Quick Ratio is 150%, while the average Quick Ratio of PT Perkebunan Nusantara VII in 2012-2016 is 27.26%, which means that every IDR1,- of current liabilities is guaranteed by quickly disbursing current assets of IDR0.27,- which is below the industry standard.

3. Cash Ratio

Cash Ratio measures how much cash or cash equivalents is available to pay short-term debt. PT Perkebunan Nusantara VII's cash ratio in 2012-2016 experienced a trend in decline. Based on Table 1, in the period 2012-2016, the increase in Cash Ratio only occurred in 2015. According to Kasmir (2008), the standard industry Cash Ratio is 50%, while the average Cash Ratio of PT Perkebunan Nusantara VII in 2012-2016 is 16.13%, which means cash and cash equivalents are only able to guarantee current liabilities of 16.13%, which is below industry standards.

**Profitability Ratio**

The profitability ratio shows the company's ability to earn profits.

Table 2. Profitability Ratio of PT Perkebunan Nusantara VII (%)

| Profitability Ratio | Year | | | | | Average |
|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | |
| Return on Asset | 0.76 | 0.95 | -17.22 | 0.38 | -4.62 | -3.95 |
| Return on Equity | 3.67 | 10.66 | -203.6 | 1.58 | -17.65 | -41.07 |
| Gross Profit Margin | 18.71 | 20.99 | -11.74 | 22.12 | 14.17 | 12.85 |
| Operating Profit Margin | 6.73 | 8.69 | -21.3 | 10.87 | 0.37 | 1.07 |
| Net Profit Margin | 1.25 | 1.7 | -30.36 | 1.05 | -16.77 | -8.63 |

Source: Yearly Report of PT Perkebunan Nusantara VII 2016

1. Return on Asset (ROA)

Return on Assets (ROA) measures the results of using company assets in creating net profit. PT Perkebunan Nusantara VII's ROA between the years 2012-2016 fluctuated. Based on Table 2, it can be seen that ROA increased in 2013 in comparison to 2012, while it decreased in 2014, increased in 2015, and decreased in 2016. According to Kasmir (2008), the standard industry ROA is 30%, while the average ROA of PT Perkebunan Nusantara VII in 2012-2016 was -3.95%, which means the company has not been able to generate profits from the assets it owns and is below the industry standard. Apart from that, the average ROA of PT Perkebunan Nusantara VII is -3.95% which is also below PT Perkebunan Nusantara III (Persero) which has an average ROA of 3.35%.

2. Return on Equity (ROE)

Return on Equity (ROE) measures the results of using company equity in creating net profit. PT Perkebunan Nusantara VII's ROE between the years 2012 – 2016 fluctuated. Based on Table 2, ROE in 2013 experienced an increase from 2012, an extreme decrease in 2014, an extreme increase in 2015, and a decrease in 2016. According to Kasmir (2008), the standard industry ROE is 40%, while the average ROE of PT Perkebunan Nusantara VII in 2012-2016 was -41.07%, which means the company has not been able to generate profits from the use of equity and is below the industry standard. Additionally, the average ROE of PT Perkebunan Nusantara VII is below that of PT Perkebunan Nusantara III (Persero) which has an average ROE of 3.92%.

3. Gross Profit Margin (GPM)

Gross Profit Margin (GPM) measures the percentage of gross profit over net sales. GPM PT Perkebunan Nusantara VII in 2012-2016 fluctuated. Based on Table 2, GPM in 2013 increased from 2012, in 2014 it decreased, in 2015 it increased, and in 2016 it decreased. According to Kasmir (2008), the standard industry GPM is 30%, while the average GPM of PT Perkebunan Nusantara VII in 2012-2016 is 12.85%, which means that every IDR1,- sales produces a gross profit of Rp0.12,- which is still below industry standards. Apart from that, the average GPM of PT Perkebunan Nusantara VII is 12.85% which is also below PT Perkebunan Nusantara III (Persero) which has an average GPM of 27.41%.

4. Operating Profit Margin (OPM)

Operating Profit Margin (OPM) measures the percentage of operating profit on net sales. PT Perkebunan Nusantara VII's OPM in the years 2012-2016 fluctuated. Based on Table 2, OPM in 2013 experienced an increase from 2012, a decrease in 2014, an increase in 2015, and a decrease in 2016. The average OPM of PT Perkebunan Nusantara VII in 2012-2016 was 1.07%, which means that every IDR1,- of sales generated a gross profit of IDR0.01,-. Apart from that, PT Perkebunan Nusantara VII's average OPM is also below PT Perkebunan Nusantara III (Persero) which has an average OPM of 9.75%.

5. Net Profit Margin (NPM)

Net Profit Margin (NPM) measures the percentage of net profit on net sales. PT Perkebunan Nusantara VII's NPM fluctuated between the years 2012 – 2016. Based on Table 2, NPM in 2013 increased from 2012, decreased in 2014, increased in 2015, and decreased in 2016. According to Kasmir (2008), the standard industry NPM is 20%, while the average NPM of PT Perkebunan Nusantara VII in 2012 - 2016 was -8.63%, which means the company has not been able to generate profits from sales which are still below the industry standard. Apart from that, the average NPM of PT Perkebunan Nusantara VII is below that of PT Perkebunan Nusantara III (Persero) which has an average NPM of 14.96%.

Table 3. Solvency Ratio PT Perkebunan Nusantara VII (%)

| Solvency Ratio | Year | | | | | Average |
|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | |
| Debt to Asset Ratio | 78.58 | 90.12 | 108.76 | 75.63 | 78.45 | 86.31 |
| Debt to Equity Ratio | 366.93 | 911.75 | -1,241.30 | 310.26 | 364.00 | 142.32 |

Source: Yearly Report of PT Perkebunan Nusantara VII 2016

**Solvency Ratio**

The solvency ratio shows the company's ability to fulfil all its obligations.

1. Debt to Asset Ratio (DAR)

Debt to Asset Ratio (DAR) measures the comparison between total debt and total assets. PT Perkebunan Nusantara VII's DAR fluctuated in the years 2012-2016. Based on Table 3, DAR in 2012-2014 increased, decreased in 2015, and increased in 2016. According to Kasmir (2008), the standard industry DAR is 35%, while the average DAR of PT Perkebunan Nusantara VII in 2012-2016 is 86.31%, which means 86.31% of assets are financed by debt and 13.69% are financed by capital. This indicated that the company's ability to pay off its obligations is poor. PT Perkebunan Nusantara VII's average DAR of 86.31% is below

PT Perkebunan Nusantara III's (Persero) average DAR of 58.90%.

2. Debt to Equity Ratio (DER)

Debt to Equity Ratio (DER) measures the proportion of debt to capital. This ratio is used to determine the comparison between the amount of funds provided by creditors and the amount of funds originating from the company owner. PT Perkebunan Nusantara VII's DER in the years of 2012-2016 experienced fluctuations. Based on Table 3, DER in 2013 experienced an increase from 2012, an extreme decrease in 2014, and extreme increases in 2015 and 2016. According to Kasmir (2008), the standard industry DER is 90%, while the average DER of PT Perkebunan Nusantara VII in 2012 - 2016 was 142.32%, which means the amount of debt is greater than the equity owned. Apart from that, the average DER of PT Perkebunan Nusantara VII is above that of PT Perkebunan Nusantara III (Persero) which has an average DER of 151.61%.

**Cash Flow**

The cash flow report contains information on changes in financial position because of business activities, expenditures, and investments during a certain period (Lubis, 2017).

Based on Table 4, the position of cash and cash equivalents at the end of 2016 of PT Perkebunan Nusantara VII decreased by 59.32%. In 2015, the Company's cash and cash equivalents position was IDR 433.595 billion, while in 2016 it fell to IDR 176.375 billion. This decrease mainly occurred due to a decrease in net cash obtained from operating activities and net cash obtained from financing activities.

Table 4. Cash Flow of PT Perkebunan Nusantara VII (IDR million)

| Description | 2015 | 2016 | Difference | Change (%) |
|---|---|---|---|---|
| Net Cash from Operational Activities | 402,768 | 122,550 | -280,218 | -69.57 |
| Net Cash used on Investing Activities | -882,664 | -446,771 | 435,893 | -49.38 |
| Net Cash Earned from Funding Activities | 626,426 | 70,095 | -556,331 | -88.81 |
| Net Cash & Cash Equivalent Changes and Restricted Cash | 146,551 | -254,125 | -400,676 | -273.40 |
| Effect on Exchange Rate Difference | -18,805 | -3,095 | 15,710 | -83.54 |
| Cash & Cash Equivalent and Restricted Cash in the Start of the Year | 305,849 | 433,494 | 127,746 | 41.77 |
| Cash & End Cash Equivalent and Restricted Cash Use in the End of the Year | 433,595 | 176,375 | -257,220 | -59.32 |

Source: Yearly Report of PT Perkebunan Nusantara VII 2016

## CONCLUSION

Based on the research results, it can be concluded that:

1. PT Perkebunan Nusantara VII's liquidity ratio in 2012 - 2016 generally decreased and the company was unable to pay its current liabilities either with current assets, current assets without inventory, cash and cash equivalents. The profitability ratio fluctuates, and the company is unable to generate a net profit using all assets, and equity owned, and can generate gross profit and operational profit through sales but remains unable to generate net profit through sales. The solvency ratio is also fluctuating, and more than half of the company's total assets are financed by debt and the company cannot pay its total debt with the total equity it owns.
2. PT Perkebunan Nusantara VII's net cash flow obtained from operating and financing activities and used for investment activities in 2016 decreased from 2015.

## RECOMMENDATIONS

Based on the conclusions, the following recommendations can be given:

1. PT Perkebunan Nusantara VII can increase rubber sales by increasing production. This can be done by increasing tapping discipline starting from the time of tapping to production collection, increasing supervision in tapping quality, and preventing production losses by maintaining good relations with the surrounding community.

2. PT Perkebunan Nusantara VII can restructure the organization by not recruiting new employees to replace employees who are entering retirement so that basic production costs such as administrative and general expenses which include salary components, social benefits, security costs and travel costs service may be reduced.
3. 3. PT Perkebunan Nusantara VII can implement a reward and punishment system so that employees are more motivated to excel and that the company's targets are achieved.

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