

ANALYSIS OF COMPANY FINANCIAL PERFORMANCE WITH ECONOMIC VALUE ADDED (EVA) AND MARKET VALUE ADDED (MVA) METHODS

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Abstract: According to the President Director of PT AIA Financial, Sainthan Satyamoorthy, during this pandemic risk management is very important in maintaining performance and protecting customer assets, in addition to support from OJK regulations and the government as well. able to support insurance against the challenges of the pandemic. This study aims to measure and analyze financial performance using the Economic Value Added (EVA) and Market Value Added (MVA) methods at a life insurance company, namely PT AIA Financial. The variables in this study were proxied using economic value added and market value added as independent variable and life insurance as dependent variable. This type of research is descriptive research with a quantitative approach. This study uses secondary data in the form of the financial statements of PT AIA Financial which are published on the official website of PT AIA Financial. The results of the company's research generally show a negative EVA value in the 2016-2019 period, which means that the company's financial performance has not been good. While the MVA value shows positive results, it means that the company shows that management has succeeded in providing added value through the growth of the market capitalization value of the issued shares or the company is able to sell shares in the market at a premium price.

Keywords: Corporate Financial Performance, Economic Value Added (EVA), and Market Value Added (MVA).

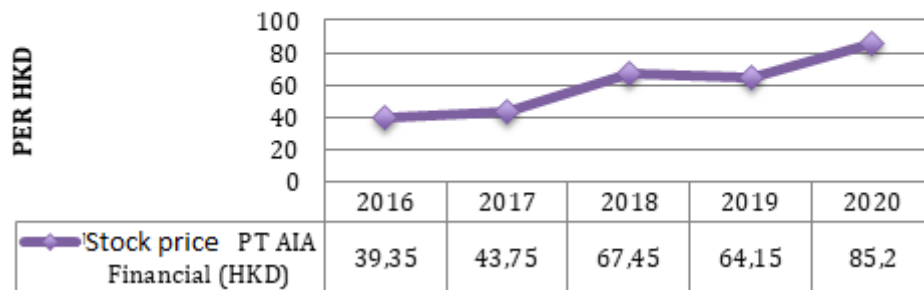
INTRODUCTION

Nowadays people in Indonesia are starting to realize the importance of having an insurance, both life insurance and loss insurance. Considering the current COVID-19 pandemic is happening in Indonesia. Therefore, insurance is a guarantee to reduce losses suffered by customers, so each insurance company has different advantages in providing services to customers. The pandemic has made a number of industries continue to take strategic steps (Sumarni, 2020). In addition to staying afloat, it is also for future market development. This is because the need for health insurance premiums tends to increase due to the Covid 19 pandemic. According to the President Director of PT AIA Financial, Sainthan Satyamoorthy, during this pandemic risk management is very important in maintaining performance and protecting customer assets, in addition to support from OJK regulations and the government as well. able to support insurance against the challenges of the pandemic. Based on the information above, this research will discuss the analysis of the financial performance of companies engaged in insurance so that it can be obtained an idea that companies that have financial performance which

are able to attract investors to invest their capital. By conducting an analysis of financial statements, the company's financial situation and development will be known to determine the financial results that have been achieved, and the weaknesses of the company and the results that have been considered quite good (Utami, 2010). The results of the historical analysis are very important for improving the preparation of plans that will be carried out in the future. By knowing the weaknesses, efforts are made so that in the preparation of plans for the years to come, these weaknesses can be corrected. The results that are considered good enough in the past must be maintained for the future.

The selected insurance company is specifically PT AIA Financial because this company is one of the leading life insurance companies in Indonesia and is a life insurance company registered with and supervised by the Financial Services Authority. This company also has an insurance program to fight the COVID-19 pandemic, so this company has a growing market share.

Share Price of PT AIA Financial (HKD)



Picture 1. PT AIA Financial Stock Price Chart for the Last Five Years

Source: Data Processed by Researchers 2021

EVA is an analytical tool to measure the company's financial performance by calculating operating profit after tax minus the total cost of capital (Suratno, 2005). According Hanafi (2016) definition MVA (Marketing Value Added) is an approach analysis tool used to measure company performance based on market value and calculate the difference between the book value of shares. Here is the formula for calculating Market Value Added (MVA). The author is interested in researching the company PT AIA Financial because when viewed from its financial statements this company has a stock price that fluctuates every year. Therefore, the analysis uses the Economic Value Added (EVA) and Market Value Added (MVA) methods to find out whether there is added value in PT AIA Financial and this analysis also helps investors to determine whether there is an increase or not in investing in this company. Based on these things, this research takes the title 'ANALYSIS OF COMPANY FINANCIAL PERFORMANCE WITH ECONOMIC VALUE ADDED (EVA) AND MARKET

VALUE ADDED (MVA) METHODS AT PT AIA FINANCIAL 2016-2020. The purpose in this study to measure and analyze financial performance using the Economic Value Added (EVA) and Market Value Added (MVA) methods at a life insurance company, namely PT AIA Financial.

Hypotesis

H1: Economic Value Added has an effect to life insurance company.

H2: Market Value Added has an effect to life insurance company.

METHODS

This type of research is descriptive quantitative research, which describes the condition of the financial performance of PT AIA Financial from 2016 to 2020. This research was prepared based on the financial statements of the company PT AIA Financial, which has audited financial statements published in the 2016 to 2020 period.

Economic Value Added (EVA)

EVA is an analytical tool to measure the company's financial performance by calculating operating profit after tax minus the total cost of capital (Suratno, 2005). Steps to calculate EVA:

Calculating NOPAT (Net Operating Profit After Tax)

Formula:

$$NOPAT = Operating Profit Before - Income Tax$$

Calculating Invested Capital

Formula:

$$Invested Capital = (Total Debt and Equity - Short - Term Debt$$

Information:

Invested Capital: The total amount of the company's loans excluding short-term loans without interest, such as trade payables, tax payables and so on.

Calculating WACC (Weighted Average Cost Of Capital)

Formula:

$$WACC = \{(D \times rd) (1 - Tax) + (E \times Re)\}$$

Information:

D: Capital Level

Formula = Total Debt / Total Debt&Equity x 100%

Rd: Cost Of Debt (Cost of Debt)

Formula = Interest expense / total debt x 100%

Tax: Tax

Formula = Tax Expense / Net Profit Before Tax x 100%

E: Equity

Formula = Total Equity / Total Debt&Equity x 100%

Re: Cost Of Equity (Cost of Capital)

Formula = Net profit after tax / total equity x 100%

Capital Charge (CC)

Formula:

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

Description: Cash flow required to compensate investors for business risk from invested capital.

Calculating Economic Value Added (EVA)

Formula:

$$EVA = NOPAT - \text{Capital Charge}$$

Rudianto (2006), explains that the results of a company's performance appraisal using EVA can be grouped into 3 different categories, namely: EVA > 0, then there has been an increase in economic value into the company because the available profit is able to meet the expectations of investors. EVA = 0, then economically the company is in a breakeven state because all available profits are used to pay obligations to fund providers, investors, creditors and shareholders. EVA < 0, it means the company's total capital is greater than the operating profit after tax it earns, so the company's performance is not good.

Market Value Added (MVA)

Hanafi (2016), MVA (Marketing Value Added) is an approach analysis tool used to measure company performance based on market value and calculate the difference between the book value of shares. Here is the formula for calculating Market Value Added (MVA).

Formula:

$$\begin{aligned} \text{MVA} &= \text{Market Value of Shares} - \text{Shareholders' Equity} \\ &= (\text{Outstanding Shares} \times \text{Share Price}) - \text{Equity} \end{aligned}$$

Airlangga (2009), states that: Positive (+) value indicates that management has succeeded in providing added value through the growth of market capitalization value of the issued shares or the company is able to sell shares in the market at a premium price. Zero value indicates that management has not succeeded in providing added or reduced value through the growth of the market capitalization value of the shares because the stock price in the market (stock price) is the same as the book value (equity per share). Negative value (-) indicates that management is not able to provide added value through the growth of the market capitalization value of the issued shares or the stock price in the market (stock price) below book value (equity per share).

RESULTS AND DISCUSSION

EVA Calculation

NOPAT (Net Operating Profit After Tax)

Table 1. PT AIA Financial NOPAT Period 2016-2020

	Profit before tax (EBIT)	Income Tax	NOPAT
	(1)	(2)	(1-2)
2016	1.479.804	29.305	1.450.499
2017	979.203	30.398	948.805
2018	2.653.048	246.821	2.406.227
2019	1.089.514	80.969	1.008.545
2020	1.779.795	2.595.930	-816.135

Source: Data Processed by Researchers 2021

Table 1 shows that the calculation results from NOPAT (Net Operating After Tax) at PT AIA Financial from 2016-2020 have increased and decreased. In 2016-2020 the NOPAT value rose and fell due to net operating income which also increased and decreased every year, while in 2020 the NOPAT value decreased by 1,824,680 from 2019 due to the increased tax rate to 2,595,930.

WACC (Weighted Average Cost of Capital)

Table 2. PT AIA Financial's WACC calculation for the 2016-2020 period

years	Capital Level of Debt (D)	Cost of Debt (Rd)	Tax Rate (Tax)	Capital Level of Equity (E)	Cost of Equity (Re)	WACC (DxRd)(1-Tax)+(ExRe)
2016	0,217	0,647	0,019	0,782	0,168	0,268
2017	0,228	0,478	0,031	0,771	0,082	0,167
2018	0,224	0,401	0,093	0,775	0,183	0,221
2019	0,209	0,509	0,074	0,790	0,080	0,161
2020	0,242	0,394	1,458	0,757	-0,063	-0,09

Source: Data Processed by Researchers 2021

Based on the table, it can be seen that the percentage of WACC at PT AIA Financial has increased and decreased from year to year due to the level of capital from debt, the cost of long-term debt, the tax rate, the level of capital from equity and the proportion of shares in the capital structure from year to year. has increased and decreased. The decline began to occur in 2016-2017 because the value of the level of capital, the cost of long-term debt, the tax rate, the level of capital from equity and the proportion of shares in the capital structure of debt decreased and increased unstable every year, and in 2020 the value of WACC returned. decreased by 0.251 from 2019.

IC (Invested Capital)

Table 3. Calculation of IC PT AIA Financial Period 2016-2020

years	Total Debt and Equity (1)	Short Term Dept (without interest) (2)	Invested Capital (1-2)
2016	11.420.987	2.483.781	8.937.206
2017	15.818.100	3.619.625	12.198.475
2018	16.880.164	3.788.528	13.091.636
2019	18.459.763	3.860.258	14.599.505
2020	16.876.109	4.092.385	12.783.724

Source: Data Processed by Researchers 2021

The table shows that Invested Capital in PT AIA Financial has increased from 2016-2019. This increase was due to the increase in total debt, equity and short-term debt from year to year. Meanwhile, in 2020 it decreased by 1,815,781.

EVA (Economic Value Added)

Table 4. EVA Calculation of PT. AIA Financial Period 2016-2020

Years	NOPAT (1)	WACC (2)	IC (3)	EVA 1-(2x3)
2016	1.450.499	0,268	8.937.206	-944.672
2017	948.805	0,167	12.198.475	-1.088.340
2018	2.406.227	0,221	13.091.636	-487.024
2019	1.008.545	0,161	14.599.505	-1.341.975
2020	-816.135	-0,09	12.783.724	334.400

Source: Data Processed by Researchers 2021

The table shows that the results of calculating the company's financial value using the EVA method of PT AIA Financial in 2016-2020 have increased and decreased due to the value of NOPAT, WACC and IC also increasing and decreasing every year. The biggest increase occurred in 2020, namely 1,676,375 from 2019.

Calculation of MVA (Market Value Added)

Table 5. Calculation of PT AIA Financial's MVA for the 2016-2020 period

	Stock Market Value (1)	Equity (2)	MVA (1-2)
2016	21.004.047	8.937.206	12.066.841
2017	26.367.174	12.198.475	14.168.699
2018	27.658.574	13.091.636	14.566.938
2019	27.352.873	14.599.505	12.753.368
2020	25.874.028	12.783.724	13.090.304

Source: Data Processed by Researchers 2021

The table shows that the results of calculating the company's financial value using the MVA method at the PT AIA Financial company in 2016-2020 have increased and decreased due to the stock market value and Equity which has increased and decreased every year. The decline began to occur in 2019 of 1,813,570 from 2018 due to the high value of Equity and low stock market value. In 2020 the MVA value rose again because the stock market value also started to rise.

The following are the results of the recapitulation of EVA and MVA calculations at PT AIA Financial.

Table 6. Recapitulation of EVA and MVA Value of PT AIA Financial for the 2016-2020 period

Years	EVA	Kriteria	MVA	Kriteria
2016	-944.672	<0	12.066.841	Positif (+)
2017	-1.088.340	<0	14.168.699	Positif (+)
2018	-487.024	<0	14.566.938	Positif (+)
2019	-1.341.975	<0	12.753.368	Positif (+)
2020	334.400	>0	13.090.304	Positif (+)

Source: Data Processed by Researchers 2021

The results of research on financial performance using the EVA method at PT AIA Financial companies in 2016 to 2019 continued to increase and decrease. It can be seen from the results of the EVA calculation table above. This happens because the company's unstable performance increases and decreases. But in 2020 the EVA calculation result increased by 1,676,375 and was positive because $EVA > 0$. But in the 2016-2020 period, the results of the EVA calculation are relatively negative or $EVA < 0$, meaning that it means the company's total capital is greater than the after-tax operating profit it earns, so the company's performance is not good.

While the results of financial performance research using the MVA method, according to Airlangga (2009) said that the value of $MVA > 0$ or MVA is positive and if $MVA < 0$ or MVA is negative. At the PT AIA Financial company, there were increases and decreases, in 2016 to 2018 there was an increase but in 2019 the MVA value decreased, namely the company did not succeed in converting investments into larger ones, even lowering the value of the capital invested in investors, in 2020 again experiencing enhancement. The value of MVA has increased and decreased every year, which means that the value of capital experienced instability every year. The MVA value in PT AIA Financial $MVA > 0$ which means the company is still stable enough to maintain the value of the capital that has been invested.

CONCLUSION

Based on the results of the analysis, the conclusion of this study is that the financial performance of the company PT AIA Financial is measured by using a negative average added value of the industry. In 2016-2019 there is a tendency to create negative economic added value for the company. Meanwhile, the stock market value of PT AIA

Financial managed to provide wealth for shareholders. This is indicated by a positive MVA value every year. The researcher proposes suggestions for further research that the company PT AIA Financial should be able to improve the company's performance in generating profits and minimizing costs for the company to achieve its goals. So companies must be more transparent in their published financial reports, both profit and loss, so companies can evaluate the company's financial performance. Even companies must show their financial statements using EVA analysis, so that investors can really determine the condition of the company's performance and they can make decisions about how much investment will be made in the future.

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