

Financial Performance Analysis Before And After Company Acquisition: Case Study In Pt. Indosat Tbk

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ABSTRACT

Telecommunications companies in Indonesia have increased revenue from data services. This is due to the increased penetration of smartphones in Indonesia and the wider coverage of 4G LTE services. Indosat Ooredoo, company name is PT Indosat Tbk. with the previous name Indosat is one of the companies in Indonesia who provides telecommunications services and networks. In 2013, the Qatar telecommunications company controlled 65% of Indosat's shares and planned to replace all of its owned companies with the name Ooredoo Asia Pte. Ltd. On November 19, 2015 Indosat finally changed its identity and logo with the name Indosat Ooredoo. Because of that, the intent of this case is to know the financial performance of Indosat Ooredoo and to verify the significant differences between financial performances before and after the acquisition in 2015. Data collected from Indosat Ooredoo financial statements are taken with two periods: before the acquisition (2012-2015) and after the acquisition (2016-2019). Paired sample t-test and financial ratio analysis method were used to analyze the entire data. The research proves that Indosat Ooredoo is in a very good financial condition with good performance after the acquisition. Even if several factors are not significantly improved. The author believes that the research will be useful to prove the true effect of acquisition decisions within Indosat Ooredoo Company.

Keyword: Financial performance; Acquisitions; Telecommunication Company; Pair Sample t-test.

INTRODUCTION

The growth of the telecommunications industry is currently increasing rapidly because of many factors. The number of consumer demand for telecommunications operator facilities is very high, so the company is popping up with various types and supporting features as their superior products. This can be seen from the raising uses of telecommunications facilities that are needed by

various groups, and also the large market opportunities are very promising for the development of the telecommunications industry.

One of the famous telecommunication companies in Indonesia, is PT. Indosat Tbk (Indosat). Indosat started its operational activities in 1967. Indosat provides different communication channels like prepaid and postpaid for cell phone users. And also provides other services like voice communication channels for fixed telephones including. Indosat also provides data communication, multimedia, and internet services.

At the end of 2015, Indosat decided to change their identity by changing the company name into Indosat Ooredoo. The reason behind their decision is because Indosat largest shareholder, the international telecommunication company Qatar Telecom QSC had renamed their brand with Ooredoo. Therefore, all of its subsidiaries had to change their names. By performing this action between Indosat and Ooredoo, the company hoped that they could improve their performance and increase the product quality. This research about acquisition is all about to see if Indosat Ooredoo brings financial performance into a very good state by analyzing the data before the acquisition (2012-2015) and after the acquisition (2016-2019).

LITERATURE REVIEW

Indonesian Telecommunications Market

The telecommunications market in Indonesia is one of the fastest improving in the world. This was driven by the development of mobile and internet subscription. according to forecasting that mobile subscription will continue to experience strong growth in 2019 after experiencing slow development in 2018. The number of internet subscriptions will continue to increase after the government imposes a SIM registration policy in 2018, having a significant impact on the market so that it is predicted to increase again between 2019 and 2023. Mobile network operators are facing competitive pressure with the market shifting to unlimited voice and text and data allowance increasingly becoming the sole offering differentiator.

Three large telecommunications companies listed on the Indonesia Stock Exchange (IDX), namely PT. Telekomunikasi Indonesia Tbk (TLKM), PT. XL Axiata Tbk (EXCL), and PT. Indosat Tbk (ISAT), both recorded growth in financial performance. In the second quarter of 2019, ISAT and EXCL respectively recorded revenue growth of up to 19% and 13.4%. Meanwhile, TLKM grew below double digits, which was 7.7%. The performance of telecommunications issuers in the two quarters of this year became a turning point after last year in the same period which experienced minus growth in the revenue account. The problem that occurred last year was the SIM card registration policy regarding the new SIM card that issued by the Company for new customers. TLKM posted a net profit of Rp 11 trillion in the first half of 2019. This increase in profit reached 23.6% compared to last year in the same period. Furthermore, EXCL, which was able to make a profit of IDR 282.7 billion after the previous year, had to lose IDR 81.7 billion. Meanwhile, ISAT still has to record losses in the first half of this year. But, this loss decreased compared to the same period last year. In the first semester of 2019, ISAT posted a current year's loss of Rp 331.8 billion, while last year it was Rp 693.7 billion. The improved financial performance of telecommunications issuers is related to increased revenue in the data post and the internet. In general, the portion of data revenue is more than 50% compared to total cellular revenue. In fact, XL and Indosat touched numbers above 80%.

Financial Performance And Ratio Analysis

Financial statements have data about the state of the organization's assets. The financial statements comprise of five sections, to be specific balance sheet, profit and loss statement, cash flow statement, statement of owner's equity, and note of financial report. The reason for financial statement investigation is to rate the possibilities and dangers of the organization, and to take dynamic. By assessing the organization's possibilities and dangers, the organization can finish up an investigation of the organization's financial condition in a specific timeframe (Peterson, 2009).

Performance is the output or result of the function of a work indicator. Based on management's side, performance will measure three organizational perspectives namely marketing, financial and operational. If it has excellent performance, then a company can compete with its competitors. The important thing to measure organizational development is financial performance. When an organization has an increase in financial performance, the company's financial performance will improve by itself (Fauzi & Idris, 2010; Butt, et al, 2010). To determine financial performance, it is necessary to use a ratio of measuring instruments to determine the value done by the company. Variations in the type of ratio measurement can be seen from several aspects. Gitman and Zutter (2012) starts with five categories of ratio measurement to measure several aspects of measurement financial performance. These ratios contain profitability ratio, activity ratio, debt ratio, liquidity ratio and market ratio.

Paired Sample T-Test

Paired t-test is a statistical technique which typically used to look at and break down the methods for two related examples as clarified by Shier R (2004). This measurable tool is regularly performed by analyst to assess the critical contrasts in pre and post concentrate in a wide range of fields, including fund and business insights. For example, Daryanto et al (2019) explored the financial performance analysis of the traditional taxi industry before and after the booming of the ride-hailing organizations in Indonesia. Mahesh R. furthermore, Daddikar P. (2012) likewise utilized this strategy for investigating post-merger and acquisition financial performance of airline companies in India.

RESEARCH MODEL

This research model of Indosat Ooredoo financial performance was adapted from previous studies that examined the analysis of financial performance before and after the global crisis regarding oil and gas in indonesia conducted by Andika priyadi putra et al., in 2014. The search model of this study is illustrated in Figure 3.1 below:

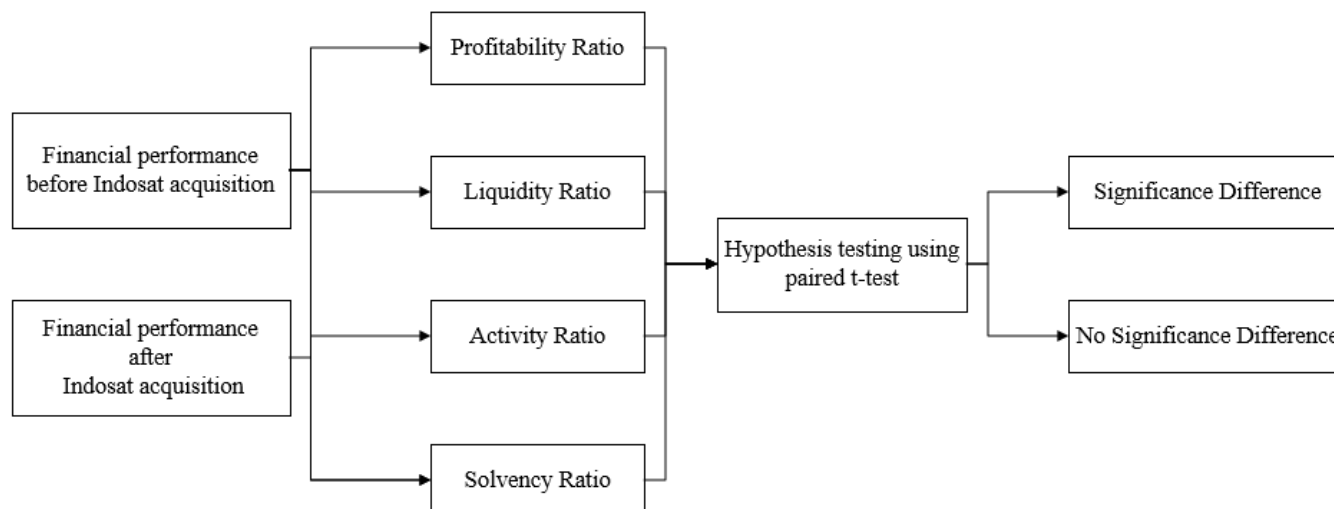


Figure 3.1 Financial Performance Research Model (Author Analysis, 2020)

HYPOTHESIS

Developed from the literature review the hypotheses are implemented in this research and develop from literature review:

Profitability Ratio

H0: Applying RoE (Return on Equity), there is no significant difference in financial accomplishment before and after the acquisition of PT. Indosat TBK

H1: Applying RoE (Return on Equity), there is a slight difference in financial accomplishment before and after the acquisition of PT. Indosat TBK

H0: Applying RoA (return on asset), there is no significant difference in financial accomplishment before and after the acquisition of PT. Indosat TBK

H1: Applying RoA (return on asset), there is a significant difference in financial accomplishment before and after the acquisition of PT. Indosat TBK

Liquidity Ratio

H0: Applying cash ratio, there is no significant difference in financial accomplishment before and after the acquisition of PT. Indosat TBK

H1: Applying cash ratio, there is a significant difference in financial accomplishment before and after the acquisition of PT. Indosat TBK

H0: Applying current ratio, there is no significant difference in financial accomplishment before and after the acquisition of PT. Indosat TBK

H1: Applying current ratio, there is a significant difference in financial accomplishment before and after the acquisition of PT. Indosat TBK

Activity Ratio

H0: Applying total asset turnover, there is no significant difference in financial accomplishment before and after the acquisition of PT. Indosat TBK

H1: Applying total asset turnover, there is a significant difference in financial accomplishment before and after the acquisition of PT. Indosat TBK

Solvency Ratio

H0: Applying total equity to total assets, there is no significant difference in financial accomplishment before and after the acquisition of PT. Indosat TBK

H1: Applying total equity to total assets, there is a significant difference in financial accomplishment before and after the acquisition of PT. Indosat TBK

H0: Applying debt or equity ratio, there is no significant difference in financial accomplishment before and after the acquisition of PT. Indosat TBK

H1: Applying debt or equity ratio, there is a significant difference in financial accomplishment before and after the acquisition of PT. Indosat TBK

METHODOLOGY

This research purpose was conducted to calculate whether there are significant differences in the financial performance of Indosat Ooredoo. There are significant differences that can be known by examining the state of financial performance before and after the company acquisition. The analysis process was obtained from data collected from the company's annual report, financial statements from the 2012-2015 periods for conditions prior to acquisition and 2016-2019 for conditions after acquisition. For the research process, the authors use the method by paired sample t-test with the following research variables as depicted in Table 5.1:

Table 5.1 The Variable: Profitability, Liquidity, Activity, and Solvency Ratios

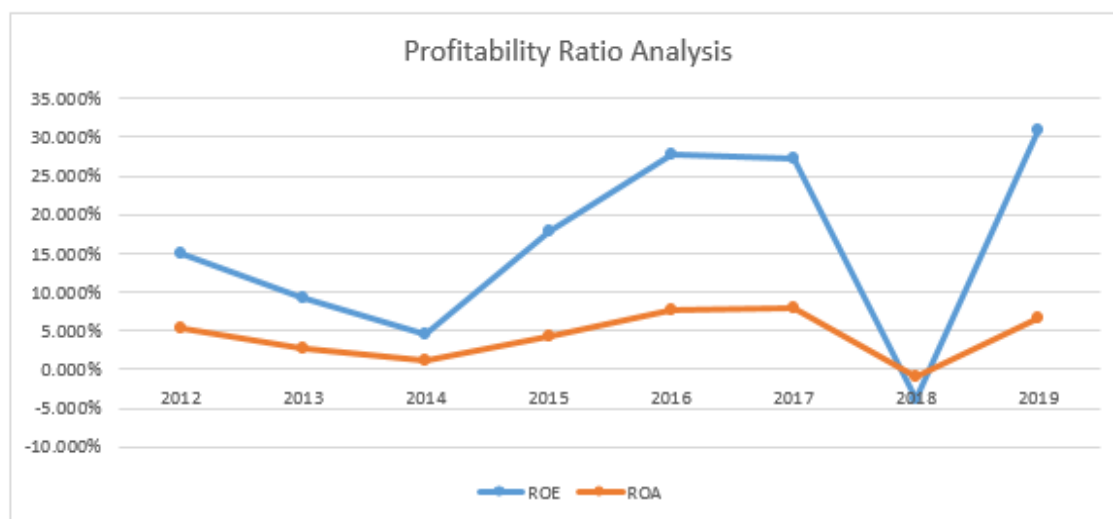
PROFITABILITY RATIO	
Return on Equity	Return on Equity = Net Income / Total Shareholder's Equity
	ROE measures profitability and growth potential
Return on Asset	Return on Asset = Net Income / Total Asset
	ROE measures operating management efficiency by apply its total asset to generate income
LIQUIDITY RATIO	
Cash Ratio	Cash Ratio = (Cash+Cash Equivalents/Current Liabilities) x 100%
	Cash ratio measures the liquidity of the company to pay the current liabilities with only cash and cash equicalents. if the cash ratio above 1, it means that company has the ability to pay its current liabilities with only cash and cash equivalents. if the cash ratio below 1, the company needs more than cash and cash equivalents to pay its current liabilities
Current Ratio	Current Ratio = Current Asset / Current Liabilities
	The current ratio measures the company ability to pay its short-term liabilities by using their short term assets
ACTIVITY RATIO	
Asset Turnover	Asset Turnover = Revenue / Total Asset
	Asset Turnover measures the company ability to generate revenue from deploying its asset. A higher ratio indicates that company using its assets more efficiency and lower ratio indicates that company is using its asset defiviently
SOLVENCY RATIO	
Total Equity to Total Asset	Total Equity to Total Asset = Total Equity / Total Asset
	It is a good indicator to measures the financial health of the company. Equity to asset ratio measures the percentage of company's asset owned by investor and the leverage level of the company with its debt
Debt/Equity Ratio	Debt/Equity Ratio = Total Liabilities / Shareholder's Equity
	Debt/Equity ratio measure of the degree to whitch a company is financing its operation through debt versus wholly owned funds.

Source: Author Analysis (2020)

RESULT AND DISCUSSION

Profitability Analysis

The percentage of graph in Figure 6.1 shows the ratio trend of Indosat Ooredoo profitability that illustrates the ratio ROE and ROA from 2012 - 2019. From the graph, ROE and ROA on Indosat are seen facing upward and downward trends. For the ROE ratio, the percentage ratio of ROE went negative in 2018. ROA also touched the lowest value in 2018. These cases happen because total revenue is lower than total expenses. But in the next year, the trend showed very positive results where revenue has increased and expenses declined from 2018.



	2012	2013	2014	2015	2016	2017	2018	2019
ROE	15.055%	9.137%	4.524%	17.809%	27.795%	27.218%	-3.830%	30.847%
ROA	5.287%	2.768%	1.214%	4.265%	7.751%	7.960%	-0.875%	6.730%

Figure 6.1 Indosat Ooredoo Profitability Ratio Analysis (Author Analysis, 2020)

Liquidity Analysis

The percentage of graph in Figure 6.2 below shows the ratio trend of Indosat Ooredoo liquidity that illustrates cash ratio and current ratio from 2012 to 2019. As shown on the graph, cash ratio and current ratio on Indosat are seen facing upward and downward trends. For cash ratio, all percentage ratios are below 100% Indosat, meaning that it requires more cash than cash and cash equivalents to pay its current liabilities. For current ratio, liquidity level most of the ratios are over 37%. Although the trend is facing upward and downward, all the ratios are still in positive trends. The data shows that Indosat is in good condition despite the low current ratio that indicates unfavorable condition. These results have explained that Indosat Ooredoo can easily pay short term liabilities by using their short term assets.

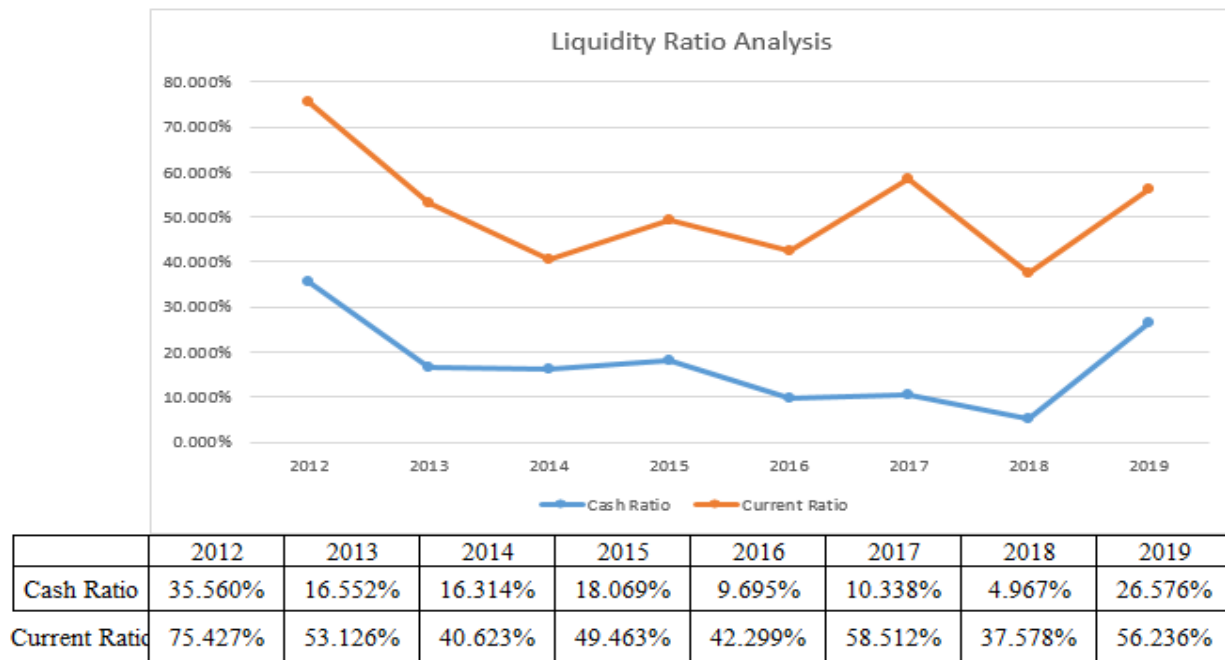


Figure 6.2 Indosat Ooredoo Liquidity Ratio Analysis (Author Analysis, 2020)

Activity Analysis

The percentage of graph in Figure 6.3 shows the ratio trend of Indosat Ooredoo liquidity that illustrate total asset turnover from 2012 - 2019. As shown on the graph, the trend ratio has increased from 2012 to 2017. Nevertheless, the trend ratio is declining from 2017 to 2019 because total assets have significantly increased but revenue has decreased.

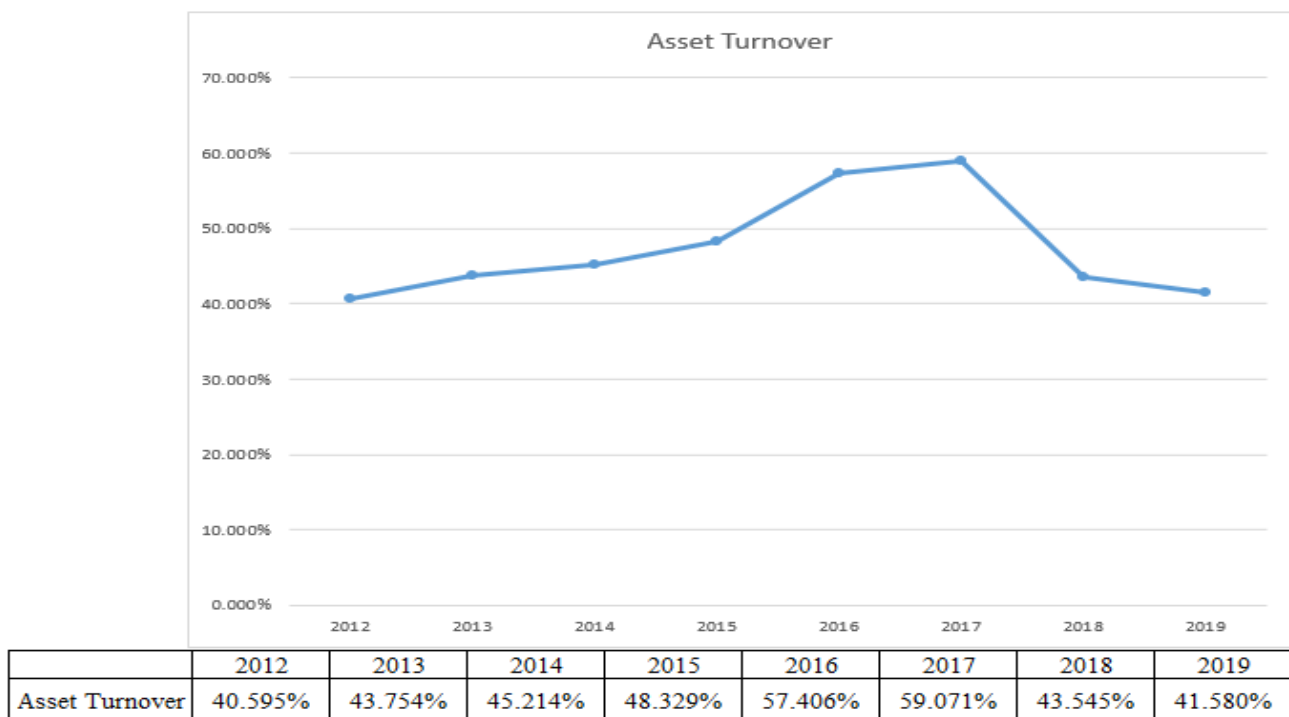


Figure 6.3 Indosat Ooredoo Activity Ratio (Author Analysis, 2020)

Solvency Analysis

The percentage of graph in Figure 6.4 below shows the ratio trend of Indosat Ooredoo liquidity that illustrate total equity to total assets and debt/equity ratio from 2012 - 2019. For solvency ratio, a lower ratio is giving more positive feedback than a higher ratio. The graph shows that debt or equity ratio has increased when it was acquired in 2015. Moreover, it decreased until 2017 and then increased again until 2019. In 2012, the total equity to total assets increased significantly. It can be seen that Indosat Ooredoo total equity to total assets is on the secure side by having lower ratios. However, on debt/equity ratios have higher values which exceed 100%. It means that it is hard for Indosat to finance its operation through debt versus wholly owned funds.

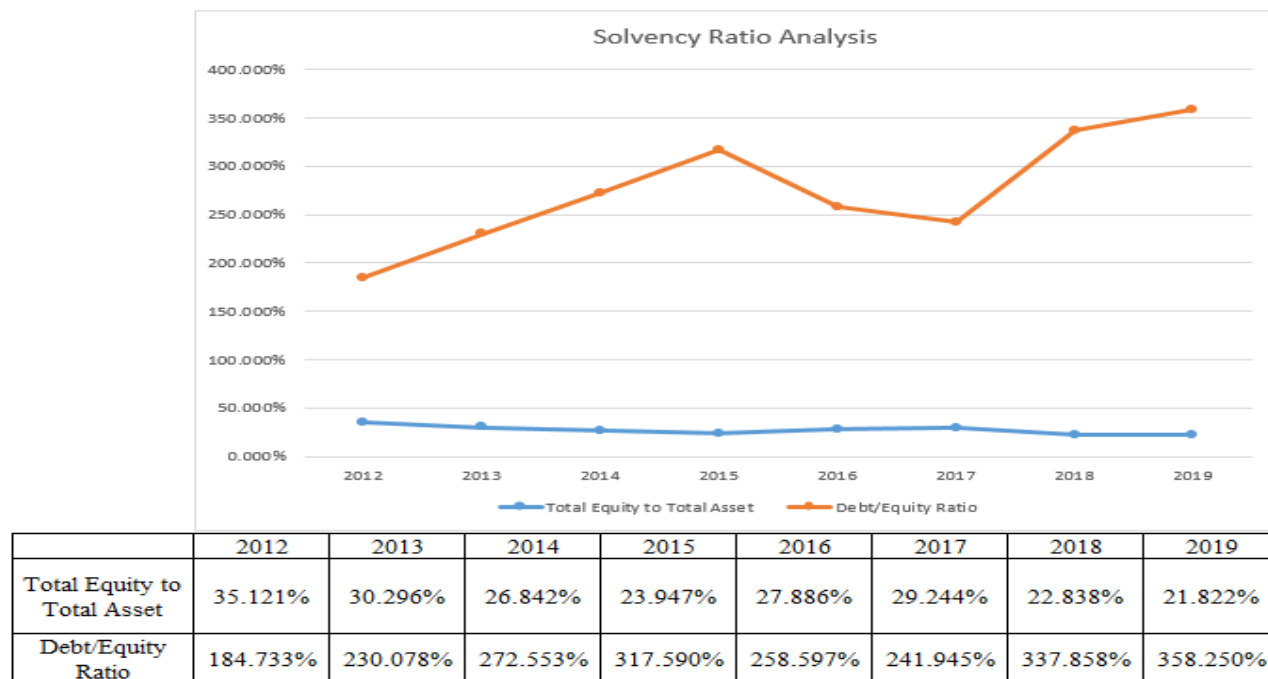


Figure 6.4 Indosat Ooredoo Solvency Ratio Analysis (Author Analysis, 2020)

Paired Sample T-Test Analysis

Table 6.1 gives information about the result of paired sample t-test of Indosat Ooredoo financial performance. In the table test, we use p-value as a measuring tool to validate the hypothesis. To measure the hypothesis, it will be accomplished if p-value is $< 0,05$ and it will be rejected if p-value is $> 0,05$. The result of Indosat Ooredoo found that there are positive significance differences on profitability, activity, and Debt/Equity on solvency ratios. Instead, liquidity and total equity to total assets on the solvency ratio of Indosat Ooredoo are positive, but the difference is not too much. From Table 6.1, it can be seen which ones H_0 are accepted and rejected. P-value of ROE, ROA, Asset Turnover and Debt/Equity Ratio with t-test results of -1,511, -1,33, -0,996, and -3,441 are accepted H_0 because those result $< 0,05$. Meanwhile H_0 which rejected with P-value result $> 0,05$ is Cash Ratio, Current Ratio and Total Equity to Total Assets with t-test value of 1,231, 0,6346, and 2,659. Overall, the result proves that after acquisition, there are some good results and significant improvement made by Indosat Ooredoo especially on profitability, activity, and total equity to total asset on solvency ratio. Meanwhile, the liquidity and debt/equity ratio on solvency ratio seem not to have good results and significant improvement because of other aspects.

Table 6.1 Indosat Ooredoo Paired Sample T-Test Results

Description	Period	Means	Std. Deviation	Paired Sample T-test	Decision
PROFITABILITY RATIO					
ROE	Before	11,631%	5,96157	-1,511	Accept H0
	After	20,508%	16,30294		
ROA	Before	3,384%	1,77834	-1,33	Accept H0
	After	5,392%	4,21209		
LIQUIDITY RATIO					
Cash Ratio	Before	21,624%	9,32329	1,231	Reject H0
	After	12,894%	9,43047		
Current Ratio	Before	54,660%	14,80617	0,6346	Reject H0
	After	48,656%	10,29127		
ACTIVITY RATIO					
Asset Turnover	Before	44,473%	3,21318	-0,996	Accept H0
	After	50,401%	9,11142		
SOLVENCY RATIO					
Total Equity to Total Asset	Before	29,051%	4,80713	2,659	Reject H0
	After	25,448%	3,66576		
Debt/Equity Ratio	Before	251,238%	56,94318	-3,441	Accept H0
	After	299,162%	57,46905		

Source: Author Analysis (2020)

LIMITATIONS

The main focuses from this journal are showing the differences in the financial achievement aspect of Indosat Ooredoo between before and after acquisition. In data processing, the author uses the data periode of four years before and four years after acquisition. The author hopes that further research with a longer scale of time has to do to show wider changes in the future.

CONCLUSION AND RECOMMENDATION

This study mainly discuss about Indosat being acquired by Ooredoo. This company's acquisition aims to extend the profitability and stability of the company. The purpose of this case is to compare Indosat Ooredoo companies before and after the acquisition where the event happened at the end of 2015. To find out whether the effect of the acquisition, it is necessary to conduct a financial ratio analysis study with paired sample t-test. The results acquired from this case study are positive results on financial performance after the acquisition, specifically on profitability, activity, and total equity to total assets at the solvency ratio. However, there are several things, namely liquidity and debt to equity ratio in the solvency ratio which shows insignificant differences but overall Indosat Ooredoo did the right thing and had a good impact after the acquisition even harder in the first time. After the acquisition, Indosat Ooredoo set their focus more on the digital services, affordable services and wider accessibility.

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