P-ISSN: 2828-8599
E-ISSN: 2829-2111

Financial Ratio Analysis to Measure the Financial Performance of PT Adaro Energy Indonesia Tbk

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Abstract

This research aims to analyze financial ratios to assess the financial performance of PT Adaro Energy Indonesia Tbk during the 2020-2023 period. This research is a type of quantitative descriptive research using secondary data obtained from the official website of the Indonesia Stock Exchange (BEI) in the form of the Annual Financial Report of PT Adaro Energy Indonesia Tbk during the 2020-2023 period. The data collection technique used in this research is literature study. The results of financial ratio analysis show a generally positive company performance trend. The liquidity ratio increased, indicating the company's ability to meet short-term obligations. The solvency ratio decreased, indicating a reduction in dependence on debt. Activity ratios increased, reflecting effective asset management. The profitability ratio shows efficiency in generating profits from sales, although it still requires improvement in the aspects of return on investment and equity.

Article Info

Keywords:
Financial Analysis,
Financial Performance,
Financial Ratios

JEL Classification:
G00, G32, L25

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Received: 19-09-2023
Revised: 25-10-2023
Accepted: 12-11-2024
Published: 27-11-2024

1. Introduction

Indonesia is a country rich in natural resources, with various types of mining materials such as gold, silver, copper, oil and gas, coal, and so on (Pelzl & Poelhekke, 2021). This diversity reflects the enormous potential of natural resources spread throughout the country. Abundant mineral and mining material reserves in various provinces and islands strengthen the position of the mining sector as one of the main foundations of the country's economy (Maryanto et al., 2024).

Indonesia is known as one of the dominant powers in the coal industry at the global level, with several leading mining companies listed on the Indonesia Stock Exchange (Sari et al., 2022). It is important to carry out financial report analysis to assess the performance of coal mining companies on the IDX, considering their dependence on the dynamics of commodity prices and demand in the market. Changes in coal prices on international markets during this period had a significant impact on the financial performance of these companies (Maryanto et al., 2024).

PT Adaro Energy Tbk (ADRO) is the second largest mining company in Indonesia and a leading coal producer. PT Adaro Energy Tbk operates in various energy sectors, including mining, ship transportation, dredging, port services, marketing and electricity generation. This company is located in South Kalimantan and operates the largest single coal mine in Indonesia (Simamora et al., 2023).

PT Adaro Energy Tbk was founded on July 28, 2004, and listed on the stock exchange on July 16 2008. As one of the largest mining companies in Indonesia, PT Adaro Energy Tbk was chosen as the research subject because of its dominant position in the mining industry in Indonesia. This makes the financial data relevant for interested parties in analyzing the company's financial ratios (Simamora et al., 2023).

Companies are founded with the main aim of maximizing profits, but the company's success is highly dependent on the effectiveness of financial management. Financial performance is the main indicator in measuring the progress and success of a company. To develop and maintain competitiveness, companies need to evaluate financial performance periodically (Ariyanti, 2020).

Financial performance describes the results achieved by a company during a certain period, which shows the company's health level by referring to data from financial reports (Apriani et al., 2023). A company with strong financial performance is able to generate enough revenue, manage its funds well, and has a good chance of growing and surviving over the long run (Chen et al., 2023). If financial performance is poor, this indicates financial problems, such as losses, debts that cannot be repaid, or liquidity problems. In general, good financial performance builds a strong foundation for business continuity and expansion.

Strategic decision-making aimed at enhancing future business performance heavily relies on financial statistics. According to the Indonesian Accountants Association in PSAK No. 1 (2015) states that "Financial reports are a structured presentation of the financial position and financial performance of an entity". This report has several objectives, including providing an overview of the company's financial position, financial performance and cash flow, which is useful for report users in making the right decisions (Rochman & Pawenary, 2020).

Evaluation of company performance often uses financial ratio analysis as a measuring tool. According to Kasmir in Soleha, (2022) defines financial ratios as an analytical technique that involves numerical comparisons between various elements in financial reports. Comparisons can be made between one component in one financial report or between components in financial reports. The main objective of ratio analysis is to reveal correlations between financial variables, identify trends in changes in the company's financial condition, and provide an objective assessment of the company's financial health (Soleha, 2022).

Financial ratio analysis is divided into several types including liquidity, solvency, activity and profitability ratios. Aspects of financial health are measured differently by each type of ratio. The liquidity ratio evaluates the company's capacity to pay short-term debts, whereas the solvency ratio evaluates the capacity to pay long-term debts. Activity ratios assess how well a business uses its resources, whereas profitability ratios assess how profitable a business may be. Analysts and stakeholders can accurately analyze a company's overall performance by conducting a thorough analysis of these four ratios, which provides a clear picture of the financial health of the organization (Rochman & Pawenary, 2020).

Based on the description above, researchers are interested in discussing further the financial performance of PT Adaro Energy Indonesia Tbk, where PT Adaro Energy Indonesia Tbk is one of the largest coal producing companies in Indonesia. Therefore, the title of this research is "Financial Ratio Analysis to Assess the Financial Performance of PT Adaro Energy Indonesia Tbk for the 2020-2023 Period".

2. Methods

This research uses quantitative descriptive methods. The research process involves analyzing numerical data obtained from annual financial reports. The main steps include calculating financial ratios, processing results, and interpreting ratio analysis. This approach allows researchers to provide a comprehensive understanding of the subject under study.

This research used a library study method, which includes a series of systematic activities such as collecting data from various literature sources, in-depth reading, and recording information relevant to the research topic (Zed dalam Adelia et al., 2024). Secondary data was the source of information used in this study. According to Sugiyono dalam Rochman & Pawenary, (2020) secondary data is defined as a source of information that researchers do not obtain directly but rather through intermediaries such as documents or third parties. This study's secondary data came from the PT Adaro Energy Indonesia Tbk Annual Financial Report for the years 2020–2023 on the official BEI website, www.idx.co.id .

The data analysis technique used in this research is financial ratio analysis. According to Kasmir (2016), the financial ratio analysis tools used to assess financial performance are as follows:

Table 1. Ratio Analysis

Variable	Indicator	Scale
Liquidity Ratio		
Current Ratio	Current Assets / Current Liabilities	Ratio
Quick Ratio	Current Assets - Inventory / Current Liabilities	Ratio
Cash Ratio	Cash And Cash Equivalents / Current Assets	Ratio
Solvency Ratio		
Debt to Asset Ratio (DAR)	Total Debt / Total Assets	Ratio
Debt to Equity Ratio (DER)	Total Debt / Total Equity	Ratio
Long Term Debt to Equity Ratio	Long Term Debt / Total Equity	Ratio
Activity Ratio		
Receivable Turn Over	Sales / Average Receivable	Ratio
Inventory Turn Over	Sales / Inventory	Ratio
Fixed Assets Turn Over	Sales / Total Fixed Assets	Ratio
Profitability Ratio		
Profit Margin on Sales	Sales - COGS / Sales	Ratio
Return on Investment (ROI)	EAIT / Total Assets	Ratio
Return on Equity (ROE)	EAIT / Total Equity	Ratio

Source: Development by Reseacher (2024)

3. Results and Discussion

Table 2. Summary of Financial Ratio Analysis

Types of ratio	Period 2020	2021	2022	2023	Average	Industry Average
Liquidity Ratio						
Current Ratio	1,51	2,08	2,17	2,01	1,95	2x
Quick Ratio	1,42	1,99	2,09	1,93	1,86	1,5x
Cash Ratio	0,68	1,33	1,66	1,55	1,31	0,5x
Solvency Ratio						
Debt to Asset Ratio (DAR)	38%	41%	39%	29%	37%	35%
Debt to Equity Ratio (DER)	61%	70%	65%	41%	60%	80%
Long Term Debt to Equity Ratio	33%	40%	28%	13%	28%	50%
Activity Ratio						
Receivable Turn Over	8,93	9,57	12,95	10,80	10,56	15x
Inventory Turn Over	24,11	31,75	40,67	38,10	33,66	20x
Fixed Assets Turn Over	0,55	0,84	1,48	1,06	0,98	5x
Profitability Ratio						
Profit Margin on Sales	23%	156%	143%	161%	121%	30%
Return on Investment (ROI)	2%	14%	26%	18%	15%	30%
Return on Equity (ROE)	4%	23%	43%	25%	24%	40%

Source: Data Processed (2024)

a. Liquidity Ratio
Current Ratio

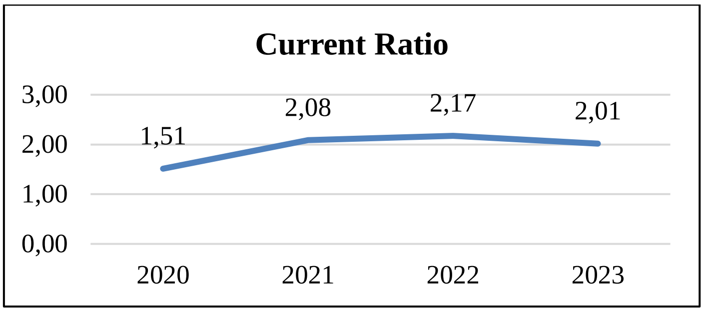

Figure 1. Current Ratio Analysis Chart
Source: Data Processed (2024)

When the current ratio is more than 2, it indicates that the business can pay its short-term debts. On the other hand, if the current ratio is less than 2, it is thought that the business cannot pay its immediate debts. It is evident from the aforementioned statistics that there has been a growth, reaching a value of 2.17 in 2022. Although there is a slight decrease in 2023 to 2.01, this value is still above the industry average. For three consecutive years (2021-2023), the company's current ratio appears to be consistently above 2, so the company is considered good because it is able to fulfill its short-term obligations well. This shows that the company has succeeded in optimizing the management of current assets against short-term liabilities.

Quick Ratio

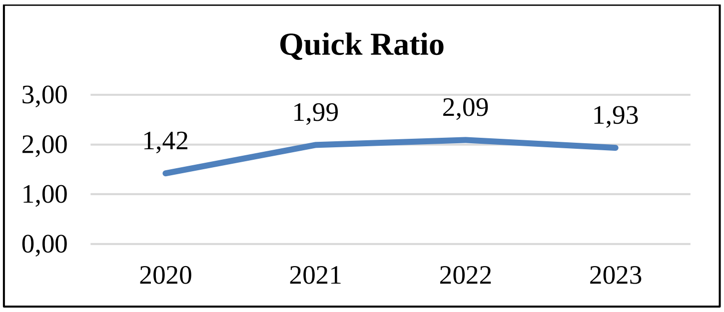

Figure 2. Quick Ratio Analysis Chart
Source: Data Processed (2024)

The PT Adaro Energy Indonesia Tbk quick ratio graph shows a positive trend from year to year, where the ratio value continues to increase. Even though in 2023 there will be a slight decrease in the quick ratio value, this value is still above the industry average. If the industry average is 1.5 times, then in 2021–2023, the company's condition is considered good because it has sufficient liquidity so that it can pay off current debt without having to sell inventory.

Cash Ratio

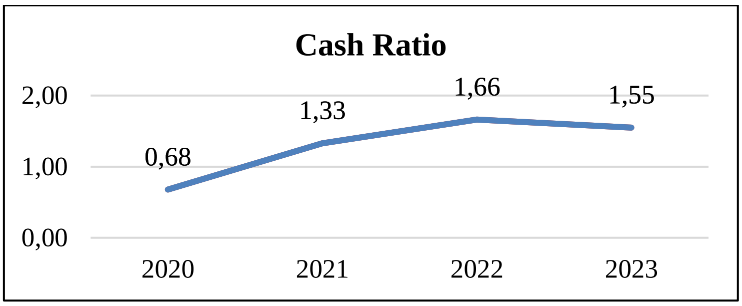

Figure 3. Cash Ratio Analysis Chart
Source: Data Processed (2024)

According to the above table, there has been a noticeable increase for three straight periods, with the highest value occurring in 2022 and reaching up to 1.66 times. When compared with the industry average cash ratio of 0.5 times, the company's condition can be considered good, because the company's cash is able to pay current debts. This also reflects effective cash management in meeting short-term obligations.

b. Solvency Ratio
Debt to Asset Ratio (DAR)

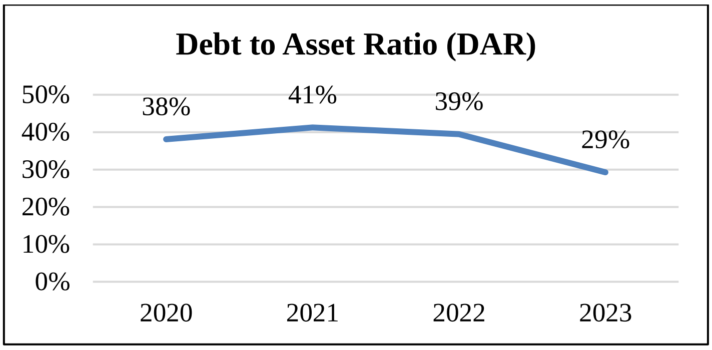

Figure 4. Debt to Asset Ratio (DAR) Analysis Chart
Source: Data Processed (2024)

The ratio of debt to assets (DAR) indicates the percentage of a company's assets that are financed by debt. Because more debt is being utilized to finance or buy corporate assets, a higher DAR ratio indicates that the company is riskier. The debt to asset ratio is 35% on average for the industry. The data above shows a fluctuating trend but tends to decrease from 2020 to 2023. In 2020, the company's DAR was at the level of 38%, then increased slightly to 41% in 2021. After that, there was a significant decline from 2022 to 2023 to 29 %. The decrease in DAR suggests that the business is doing well financially since it is decreasing the amount of debt it uses to finance its assets and is improving its capital structure to sustain long-term growth.

Debt to Equity Ratio (DER)

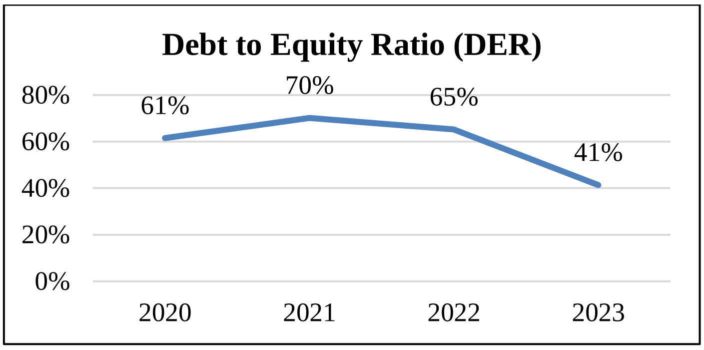

Figure 5. Debt to Equity Ratio (DER) Analysis Chart
Source: Data Processed (2024)

The Debt to Equity Ratio (DER) analysis graph shows significant fluctuations from 2020 to 2023. In 2020, the company's DER was at the level of 61%, then increased to 70% in 2021. In the following two years there was a moderate decline to 65%, followed by a drastic decrease to 41% in 2023. The company's overall health is deemed good if the industry average debt to equity ratio is 80% because a lower DER number implies a lower level of debt for the business. A lower DER value is generally viewed positively by investors because it indicates a smaller debt burden and the potential for better financial stability.

Long-Term Debt to Equity Ratio

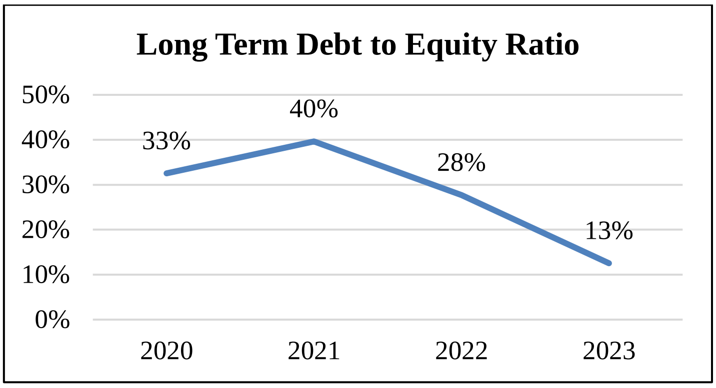

Figure 6. Long Term Debt to Equity Ratio Analysis Chart
Source: Data Processed (2024)

Long-Term Debt to Equity Ratio (LTDtER) is a measurement tool that compares long-term debt with own capital. Based on the data above, it shows that there are significant changes in the long-term debt structure of PT Adaro Energy Indonesia Tbk from 2020 to 2023. A sharp drop from 40% to 13% in 2023 not only reflects a reduction in debt, but may also indicate a fundamental shift in the company's funding structure. If the industry average for this ratio is 50%, then overall the company is considered good because a lower LTDER ratio indicates that the company has a smaller proportion of long-term debt compared to equity. However, sharp declines are also worth noting, as optimal levels of leverage are important for business expansion.

c. Activity Ratio
Receivable Turn Over

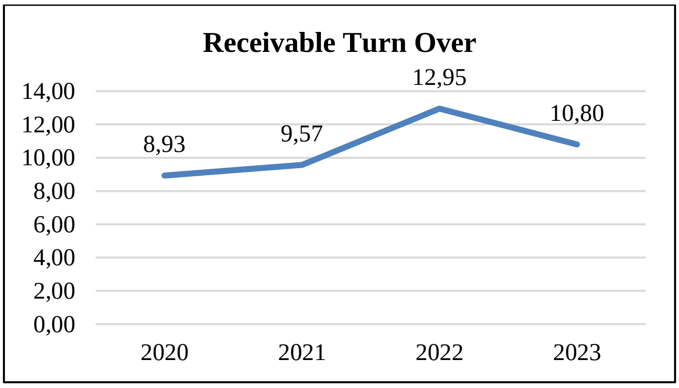

Figure 7. Receivable Turnover Analysis Chart
Source: Data Processed (2024)

The information in the preceding table indicates that the company's turnover of accounts receivable varies from year to year. Receivables turnover is a ratio used to measure how quickly a company can collect receivables during a period. If the industry average for the turnover of accounts receivable is fifteen times, the company's performance is deemed below average, indicating overall underperformance. This demonstrates that the business has not been able to maximize receivables collection efficiency.

Inventory Turn Over

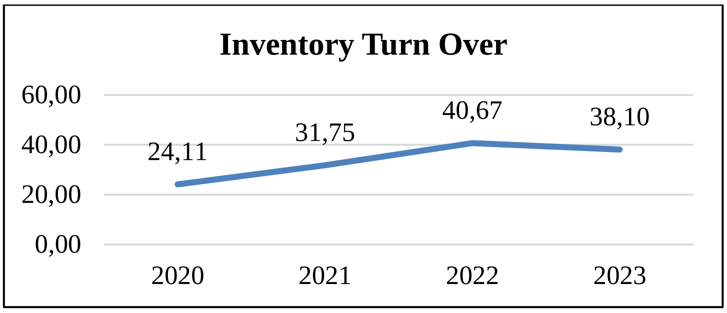

Figure 8. Inventory Turn Over Analysis Chart
Source: Data Processed (2024)

Even if there will be a small decrease in 2023, the data above shows that there has been an increase from 2020 to 2022. This illustrates how the business continuously outperforms the industry standard. The company is considered to have very high overall inventory management skills if the industry average for inventory turnover is twenty times. A high inventory turnover rate indicates that the company is able to manage inventory well, which has a positive impact on increasing profitability and reducing the risk of obsolescence and storage costs.

Fixed Assets Turn Over

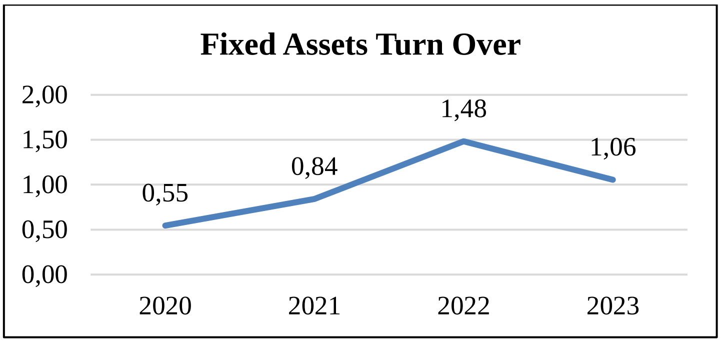

Figure 9. Fixed Assets Turn Over Analysis Chart
Source: Data processed, 2024

As can be observed from the preceding data, there was an increase between 2020 and 2023. However, the company's best value obtained in 2022 of 1.48 times is still much lower than the industry average, which is 5 times for fixed asset turnover. Because it does not represent able to maximize the utilization of invested fixed asset capacity to support the business's operational activities and boost productivity, the company is seen as failing.

d. Profitability Ratio
Profit Margin on Sales

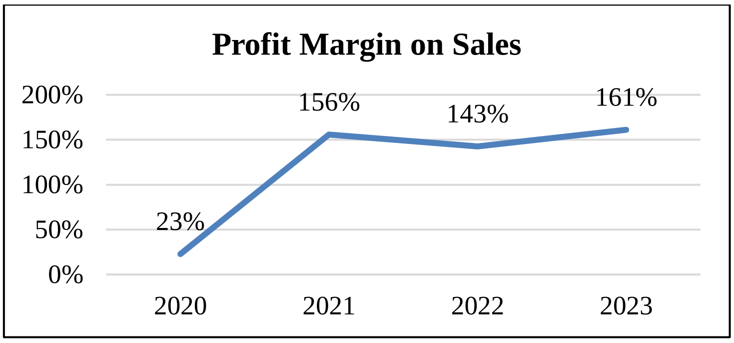

Figure 10. Sales Profit Margin Analysis Chart
Source: Data Processed (2024)

Based on the data above, it shows that the company experienced a significant increase in profit margin from 2020–2021, jumping from 23% to 156%. Even though there will be a decline in 2022, the company will continue to increase its profitability to 161% in 2023. This indicates that the business routinely outperforms the industry average of 30%, and it is seen favorably since it can efficiently control expenses to generate a net profit greater than revenue.

Return on Investment (ROI)

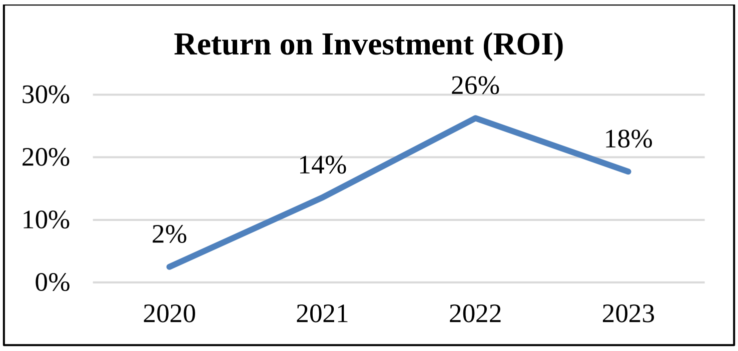

Figure 11. Return on Investment (ROI) Analysis Chart
Source: Data Processed (2024)

Based on the data above, the company experienced a significant increase in ROI, starting from 2% and reaching 26% in 2022. This shows improvements in investment management during that period. Even though there is a decrease in ROI to 18% in 2023, this figure is still much higher than in 2020 and 2021, which reflects that the company is still able to maintain a good level of return on investment. However, the company's performance is viewed as less good when compared to the industry average of 30% since it performs less optimally when it comes to using its assets to generate earnings or returns.

Return on Equity (ROE)

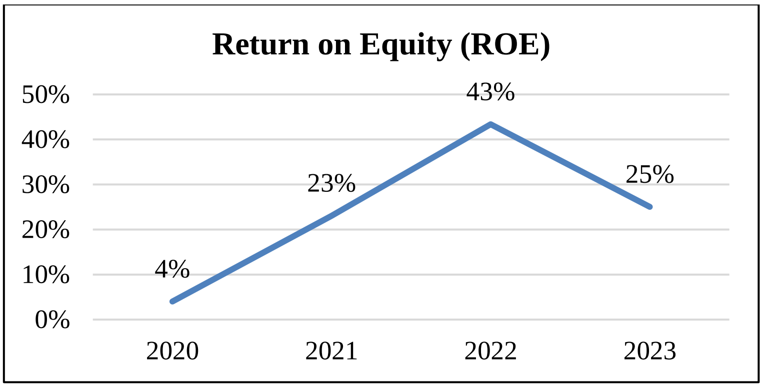

Figure 12. Return on Equity (ROE) Analysis Chart
Source: Data Processed (2024)

4. Conclusion

The following conclusion can be drawn from the findings of the financial ratio data analysis. 1) The company's liquidity ratio can be said to be good. This can be seen every year it has increased, and has a value above the industry average. The higher the liquidity ratio value, it means the company is more liquid. Liquidity is a condition in which a company is considered healthy because it is able to fulfill its short-term obligations on time. 2) The company's solvency ratio can be said to be good. This can be seen from the decline every year, which means the company is increasingly reducing its dependence on debt to finance assets and optimizing the capital structure to support the company's long-term growth. The higher the solvency ratio value, the more company assets are financed by debt. 3) The company's activity ratio can be said to be good. This can be seen from the increase every year, showing that the company can manage the assets it owns effectively and efficiently.

The profitability ratio of the company is considered favorable, as the company's profit margin on sales value is above the industry average, which means the company is becoming more efficient in managing operational costs, thereby producing a higher net profit than their income. The business still has ROI and ROE figures that are below the industry standard. This indicates that the business is not operating at its best since it is not making the best use of the capital or investment it has to produce returns or profits, which shows in the business's performance evaluation.

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