

THE EVALUATION ON THE FINANCIAL PERFORMANCE OF PAPER AND PULP COMPANIES IN INDONESIA

Rinaldi Syahrani^{*)1}, Dedi Budiman Hakim^{**}), and Dadang Sukandar^{***})

^{*)} School of Business, Bogor Agricultural University
Jl. Raya Pajajaran, Bogor 16151

^{**}) Department of Economic, Faculty of Economics and Management, Bogor Agricultural University
Jl. Kamper, Wing 4 Level 5, Campus of IPB Darmaga, Bogor 16680

^{*)} Department of Community Nutrition, Faculty of Human Ecology, Bogor Agricultural University
Jl. Lingkar Kampus, Campus of IPB Darmaga, Bogor 16680

ABSTRACT

In 2013, the government has made the pulps and papers industries into a strategic sector. The decision to make the pulp and papers as the strategic sector, proved that the government is serious in developing companies in this sector. However, in the same year the producer's margin in the Asia market has dropped. Hence, due to the two reasons, the financial performance of the Pulps and Papers in Indonesia need to be evaluated. The objective of the research is to evaluate the financial performance of the pulps and papers companies in Indonesia. The method is using the financial ratio and economic value added that is obtained from the financial data report. The data are entered and processed using Excel software. The result obtained is that in a long term, the Tjiwi Kimia paper company has the best financial performance in solvability and profitability, while Indah Kiat Pulps and Papers Company have the best long term liquidity. In a long term, there are no companies have the best economic value added. In 2013, Indah Kiat Pulps and Papers have the best financial performance in terms of liquidity, profitability and economic value added production, while Tjiwi Kimia Company has the best solvability.

Keywords: economic value added, financial performance evaluation, pulp and papers, financial ratio, financial report

ABSTRAK

Pada tahun 2013, pemerintah menjadikan industri pulp dan kertas sebagai sektor strategis. Penetapan industri pulp dan kertas sebagai sektor strategis menandakan pemerintah serius di dalam mengembangkan perusahaan yang ada di industri ini, tetapi di tahun itu margin produsen untuk produk pulp dan kertas di pasar Asia adalah rendah. Perusahaan pulp dan kertas Indonesia butuh dievaluasi kinerjanya karena kedua alasan itu. Tujuan penelitian ini adalah untuk evaluasi kinerja keuangan perusahaan pulp dan kertas di Indonesia. Metode penelitian menggunakan rasio keuangan dan economic value added yang bersumber dari data laporan keuangan. Data di entri dan diolah menggunakan software excel. Hasil yang didapatkan adalah Pabrik Kertas Tjiwi Kimia memiliki kinerja keuangan yang paling baik dalam solvabilitas dan profitabilitas secara jangka panjang. Likuiditas paling baik secara jangka panjang dimiliki Indah Kiat Pulp and Paper. Secara jangka panjang tidak ada yang paling baik dalam penciptaan nilai tambah ekonomi. Pada tahun 2013, Indah Kiat Pulp and Paper memiliki kinerja keuangan yang paling baik dalam hal likuiditas, profitabilitas, dan penciptaan nilai tambah ekonomi. Solvabilitas dimiliki oleh Pabrik Kertas Tjiwi Kimia.

Kata kunci: nilai tambah ekonomi, evaluasi kinerja keuangan, pulp dan kertas, rasio keuangan, laporan keuangan

¹ Corresponding author:
Email: rinaldisyahrani@gmail.com

INTRODUCTION

Indonesia has a vast forest area where some are used for economical purposes. Wood obtained from the forest is the basic material to produce pulp and paper. The activity to obtain the wood is an upstream agribusiness while manufacturing pulp and paper is a processing system (Desai, 1974). Agribusiness is one of the important sectors in Indonesia's Economy (Sugiartawan, 2013). This predominance has shown statistically from 1981 (Syaifuddin, 2005). However, the Ministry of Trade and Industry, has just recently established pulp and paper industry as one of the strategic sector (Indonesia Finance Today Online, 2013).

The establishment of pulp and paper industry as a strategic sector is intended to develop this sector. This development needs funding (capital) that is earned from loan, stock and private capital (Myers and Majluf, 1984). The funding that is obtained from stocks is given by investors who are interested in the company, while the funding which is acquired from a loan can be obtained when the creditor is interested in the company. The investor and creditor have to decide which company deserves to be invested and which to be given a loan. Therefore they evaluate the working performance and financial performance using data from the financial report (Apriyanto, 2013). The company's financial performance is based on the company's capacity in managing the input to gain profit (Sasongko and Wulandari, 2006). Creditors and investor are just interested in information on output, and investment and credit risk (Sunardi, 2010).

Besides being a strategic sector, in 2013 the pulp and paper company dealt with low producer margin that is a condition when the company's expenses increases but the price of the product is the same even though in Asia the demand for pulp and paper increased 0.8% from the previous year (Asosiasi Pulp dan Kertas Indonesia, 2014).

When there was a low producer margin, companies in pulp and paper gain profit. The pulp and paper company showed a positive performance referring to the amount of net profit. Indah Kiat Pulp and Paper received a net profit of 2 trillion; Toba Pulp Lestari received 46 million and Pabrik Kertas Tjiwi Kimia about 329 billion. It cannot be concluded from this data that the financial performance of each company is good. It still needs to be reviewed. Even though profit

is important to make a conclusion about a company, but there is other information in a financial report that has not been combined.

The evaluation on financial performance using financial ratio is a solution to overcome this problem. This financial method is able to combine many aspects of financial information from a financial report of a company (Burkhardt and Wheeler, 2013). Financial ratio is defined as the relationship between two variables that are represented by a pair of numbers showing how much bigger an amount is than the other (Schmidgall and DeFranco, 2004). In general financial ratio is divided into three that explains about the company's liquidity, solvability, and profitability (Salmi and Martikainen, 1994). These ratios will then be analyzed so they can be suitable for people's view (Rehman et al. 2015).

There are still many weaknesses in this method. Firstly, this method depends on how the data is arranged in each company so the performance of the company cannot be analyzed (Utomo, 1999). Another weakness is that, there is not a clear value for investor in describing the increasing and decreasing of the company's performance (Agustina, 2003). In other words the financial ratio neglects some variables that create a clear value (Bakar, 2010). The financial ratio weakness is about creating a value because in this method it overlooks the cost. That is why economic value added is used (Triatmojo, 2011).

The first concept of the term economic value added (EVA) is first used by Modigliani in 1958. He found that profit economy is the source of the creation of the company's value. EVA then is described when a scientist named Stern and his colleague, Stewart tried to find an answer from a problem about agency cost from Jensen's and Meckling (1976) in free cash flow. The economic value added was the answer and is defined as the financial performance standard that is obtained from operating income after tax, investment needed to produce the income and investment cost in an asset (Brewer et al. 1999).

In Indonesia, economic value added has been tested to calculate finance performance in a pulp and paper industry. Using regression analyze method it is possible to use economic value added to calculate the financial performance in a pulp and paper industry (Husada, 2011).

The result from the previous research about financial performance in a pulp and paper company using altman z-score shows that the company experienced a problem in financial performance. Six out of seven companies that are studied in the research are defined as unhealthy when the world price of paper dropped due to decreased of paper the demand (Wachyuono, 2015).

This research is different from the previous one because the previous one concentrates on the financial performance based on financial distress in a pulp and paper company while the purpose in this research is to evaluate a company's financial performance in Indonesia when the strategic sector was implemented and the producer margin is low in 2013. It is important to conduct this research, to find out how the financial performance in pulp and paper companies in Indonesia, after the regulation convenience given by government and at the same time there is a hindrance concerning the low producer margin. The result from this will show whether the companies' financial performance is disturbed or not, and which part is disturbed. Besides that, the comparison of each company's financial performance can be shown.

The scope of the research is about financial ratio and economic value added in pulp and paper companies that are registered in the Indonesia's stock exchange. The financial data used is the company's financial report from 2009–2013 (Table 1).

Table 1. Net profit (loss) of pulp and paper company in Indonesia

Company	Net profit (loss) 2013
Indah Kiat Pulp and Paper	2.696.231.178.000
Toba Pulp Lestari	46.097.560.976
Pabrik Kertas Tjiwi Kimia	329.224.890.000

METHODS

The data used for this research is the secondary data from the company's financial report and other related resources. The data is from 6 companies from 8 public companies sub sectors in pulp and paper from 2009-2013. In 2013, the pulp and paper industry became a strategic sector. The use of 5 recent years data is to analyze the long term for these company- Fajar Surya Wisesa (FASW), Indah Kiat Pulp and Paper (INKP), Toba Pulp Lestari (INRU), Kertas Bekasi Rahmat

Indonesia (KBRI), Suparma (SPMA) and Pabrik Kertas Tjiwi Kimia (TKIM).

These 6 companies are chosen because they are big companies in accordance to the law number 20/2008. A company is categorized as a big company when it has a current asset of more than 10 milyar rupiahs. The technical analysis used is financial ratio and economic value added.

The financial ratio used is liquidity ratio, profitability and solvability. The liquidity used in this research is current ratio or active ratio.

$$\text{Current ratio} = \text{current assets} / \text{current debt}$$

The fixed rule for current ratio is that the value ratio is between 1 and 2 (Stepanyan, 2014). This value shows that the company has a good performance in terms of liquidity. A value ratio over 2 shows that the current asset has a problem. A value ratio under 1 shows that the current asset is not capable of paying the current debt. The solvability ratio used in this research is debt to equity ratio.

$$\text{Debt to equity ratio} = \text{Total debt} / \text{Total equity}$$

The fixed rule for debt to equity ratio for manufacture and big retail companies is that their value ratio is between 2–5 (Gallo, 2015). Profitability ratio used in this research is net profit margin.

$$\text{Net profit margin} = \text{Net profit} / \text{Sales}$$

The rule of net profit margin is the higher the ratio of the net profit margin, the better the performance of the company is. This is because the effect of the net profit margin towards the profit is positive (Hamidu, 2013). Economic value added (EVA) is used to see the economic value added of a company in the present year.

$$\text{EVA} = \text{NOPAT} - (\text{Invested Capital} \times \text{WACC})$$

Net Operating Profit After Taxes (NOPAT) is described as net operating profit after tax. Invested capital is the amount of money invested in a company. Weighted Average Cost of Capital (WACC), the weighted average cost of capital is the rate that a company is expected to pay on average to all its security holders to finance

assets (Young, 1999). The rule in about economic value added is when the value is > 0 then there is an economic value added in the company; on the other hand, when the EVA is < 0 then there is value in the company (O'Byrne et al. 1996). If the EVA is positive then there is value in the company while a negative EVA means the business is destroying value on funds invested in it (Sunarto, 2005). Moreover, prosperity for the stock holders happen when the income is higher than the operating cost and the cost of capital or in other words the EVA is positive (Mustoffa, 2014). A negative economic value added is prosperity decline for stock holders.

This research is based on Indonesia's predominance in pulp and paper upstream agribusiness and eventually became a strategic sector in 2013. In other words, the pulp and paper company is expected to develop. The development of this needs capital but in 2013 there had been a problem concerning the low margin producer. When there is an obstacle, the company must be able to show their best performance to the investor and creditor. In general the performance of a company can be evaluated from the evaluation on the financial performance based on their financial reports. The financial performance is based on the cash flow report using long term fundamental analysis. The evaluation is based on financial ratio to calculate the level of liquidity, solvability, profitability of a company and then completed with economic value added. The EVA is added to see whether the company has increased a

value added when liquidity, solvability and profitability were good. The result from financial ratio and economic value added will give a conclusion on the managerial implication for the company, investor and creditor. The research framework on Figure 1.

RESULTS

Company Liquidity

From 2009–2013 Fajar Surya Wisesa has a current ratio of 2.31, 0.84, and 1.32, 0.58 and 1.42. Based on the calculation of the company's liquidity, for the year 2009, 2011 and 2013, Fajar Surya Wisesa is able to fully pay their current debt. The current ratio value more than 1 shows that the company has the ability to fully pay their current debt. Meanwhile, the current ratio value in 2009 is above 2, this indicates that there is inefficiency in handling the current asset. The company's liquidity performance is good only in 2011 and 2013. It is only good for 2 year research from a total of 5 year research. So, in a long term the company's liquidity is not good. From 2009–2013 Indah Kiat Pulp and Paper has a current ratio of 0.88, 1.81, 2.04, 1.01 and 1.46. The company's liquidity performance is good in 2010, 2012 and 2013. The value ratio is good because the value is between 1–2. In a long term the liquidity of Indah Kiat Pulp is good because it can maintain a good liquidity for 3 years.

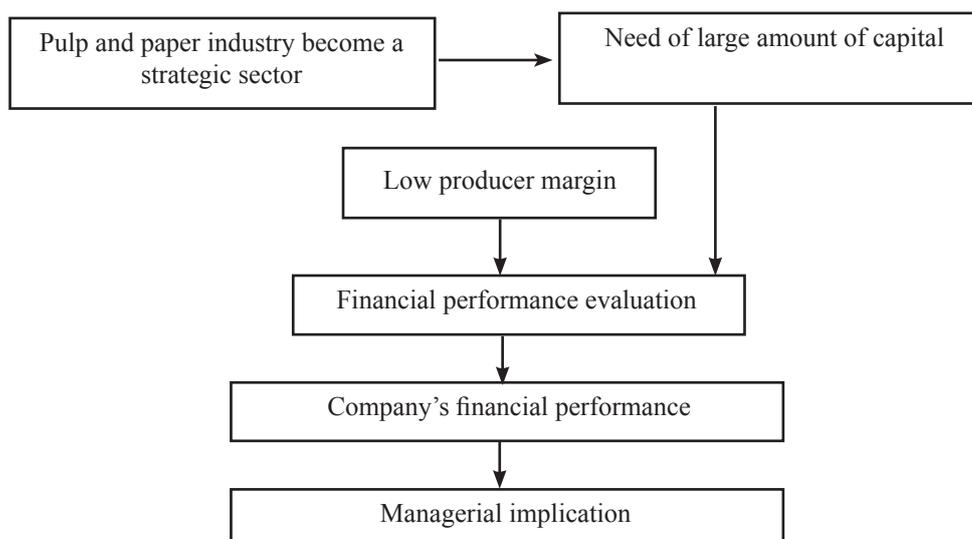


Figure 1. Research framework

From 2009–2013 Toba Pulp Lestari has a current ratio of 1.75, 1.24, 1.17, 0.73 and 0.64. Toba Pulp Lestari has a good liquidity performance from 2009–2011. The value is good because it is between 1–2. In a long term the liquidity performance is good because it can maintain a good liquidity for 3 years. In addition, Kertas Basuki Rahmat has a current ratio of 0.03, 0.35, 0.64, 2.29, and 1.39. This company’s liquidity performance is only good in 2013. The value ratio is between 1–2. In a long term this company has a bad liquidity performance.

Suparma has a current ratio of 1.39, 3.91, 1.22, 2.65, and 1.2 for the year 2009-2013. Suparma has a good liquidity performance in the year 2009, 2011 and 2013. The value ratio is between 1–2. In a long term this company has a good liquidity performance because for three years the company has also a good performance. Pabrik Kertas Tjiwi Kimia has a current ratio of 2.36, 2.29, 1.92, 2.41 and 2.31 for the same years. The company’s liquidity is only good in 2011. In that year the current ratio is between 1–2. Current Ratio Pulp and Paper Company in Indonesia 2009–2013 on Figure 2.

Company’s Profitability

Fajar Surya Wisesa has a net profit margin of 0.1, 0.8, 0.03, and 0.001 from the year 2009–2012. In 2013, Fajar Surya Wisesa’ net profit margin is 0.05. For the years 2009–2013 the company has a good profitability. This is because the value ratio is positive after 4 years from 5 years research. In a long term this company’s profitability performance is good.

Indah Kiat Pulp and Paper has a net profit margin of -0.09 in 2009 and 0.01, 0.01, 0.08 from the year 2010–2013. The profitability performance in 2010–2013 is good. This is because the ratio is positive. In a long term Indah Kiat Pulp and Paper’s profitability performance is good because for 4 years it has a positive net profit margin.

In 2009 and 2012, Toba Pulp Lestari has a net profit margin of -0.07 and -0.03 and for 2010, 2011 and 2013, is 0.004, 0.0004, and 0.04 respectively. The profitability performance is good in these years because the value is positive. In a long term this company has a good profitability performance and for three years it can create net profit. While Kertas Basuki Rahmat Indonesia from 2009–2013 has net profit margin of 0.19, -0.64, -0.77, 0.82, -1.54. The profitability for this company is good although it has not shown a good profitability in a long term.

Suparma’s net profit margin is 0.07, 0.03, 0.03, 0.03 and -0.02 during 2009–2013 and the profitability performance is also good in a long term. The performance of the company in that year has a positive value ratio. This is because the value is positive during 4 from 5 years of the research. The net profit margin for Pabrik Kertas Tjiwi is 0.03, 0.03, 0.05, 0.03, and 0.02. The profitability for this company is good during 2009–2013. This is because the ratio value is positive. In a long term the profitability is also good because during the research the value is always positive. Net Profit Margin Pulp and Paper Company in Indonesia 2009–2013 on Figure 3.

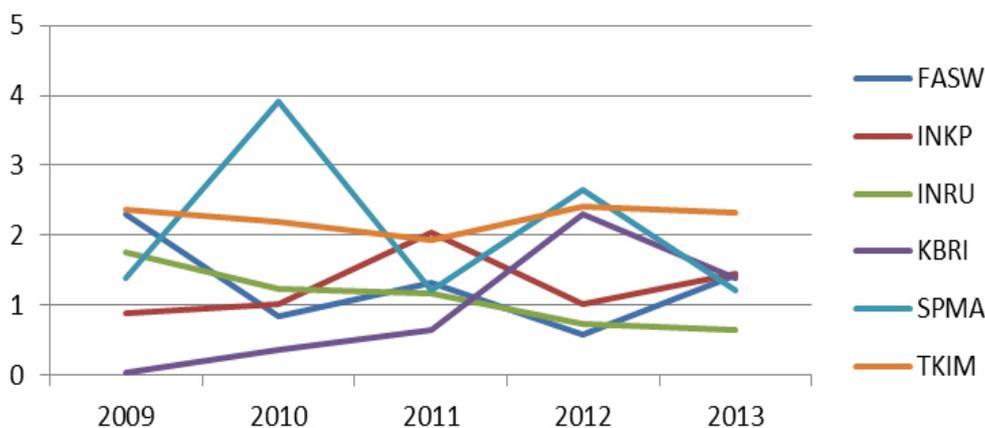


Figure 2. Current Ratio Pulp and Paper Company in Indonesia 2009-2013

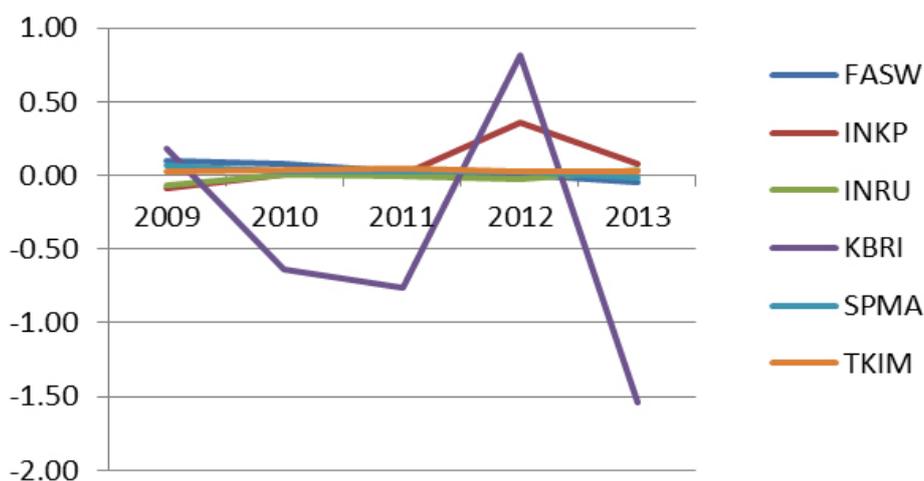


Figure 3 Net Profit Margin Pulp and Paper Company in Indonesia 2009-2013

Company's Solvability

Fajar Surya Wisesa recorded that the debt to equity ratio is 1.32, 1.48 and 1.74 during 2009–2011. While during 2012–2013, the ratio is 2.09 and 2.65. According to the criteria of the manufacture company, the value of the debt to equity ratio is between 2–5. The solvability of the company is not good for a long term but showed an improvement in last two years. Indah Kiat Pulp and Paper has a ratio value of 1.92, 1.95, 2.12, 2.21 and 1.95 during 2009–2013. During 2011–2012, the solvability is good. The ratio value for both years is between 2–5. In a long term the solvability of this company is not good because the value is good for only two years of overall 5 years research.

Toba Pulp Lestari has a ratio value of debt to equity ratio, 1.36, 1.31, 1.54, 1.56 and 1.54 during 2009–2013. The solvability is bad because the value of the ratio mentioned is below 2. Kertas Basuki Rahmat Indonesia's ratio value is 1.08, 0.23, 0.1, 0.04 and 0.14 during 2009–2013. In a long term, the solvability of the company is bad because all the value is below 2.

Suparma's ratio value is 1.08, 1.07, 1.07, 1.14 and 1.34 during 2009–2013. In a long term Suparma's solvability is bad because all the value is below 2. Pabrik Kertas Tjiwi Kimia has a ratio value of 2.63, 2.45, 2.46, 2.46 and 2.26 during 2009–2013. The solvability of this company is good because the value is above 2 and below 5.

Based on the overall financial ratio analysis (liquidity, profitability, and solvability), in general the performance

all the companies is bad for a long term. This matches Wachyuono's research. Debts to Equity Ratio Pulp and Paper Company in Indonesia 2009–2013 on Figure 4.

The company's Economic value added

The economic value added in Indah Kiat Pulp and Paper only happened in 2010 and 2013. The value is in million rupiahs – 156.855, 2.586, -437.073, -1.695.952, and 90.663. In a long term this company showed a poor economic value added. The economic value added for Pabrik Kertas Tjiwi only happened in 2009 and 2010. This pointed out that the profit attained in 2011, 2012 and 2013 is not able to make a value added for the company. The economic value added for this company (in million rupiahs) -18.421, 19646, -68.723, -426.132, -7.144. The financial performance in a long term for Pabrik Kertas Tjiwi Kimia is not good based on the economic value added. EVA for Pulp and Paper Company in Indonesia 2009–2013 (million rupiahs) on Figure5.

In 2009 and 2010, Fajar Surya Wisesa had attained a value added and the economic value added in million rupiahs is 6.596, 11.431, -90.151, -64.500, and -34.849. Based on the result of the EVA, in a long term this company has a bad performance because the company is not capable to increase the value added for 3 years. This condition is even worsened due to the inability of the company to produce a value in the last 3 years.

The value added in Toba Pulp Lestari happened only in 2010 and 2013. The economic value added for this company is (in million rupiahs) -4.783, 452, -1.549,

-32.062, and 2.091. Toba Pulp Lestari has a bad financial performance for the long term based on the economic value added. The value added in Kertas Basuki Rahmat Indonesia happened only in 2009 and 2012. The economic value added for this company is (in million rupiahs) 1.382, 53.610, -2,091, 116, and 1.251. Kertas Basuki Rahmat Indonesia has a bad financial performance for the long term based on the economic value added. The value added in Suparma happened only in 2009 and 2010. The economic value added for this company is (in million rupiahs) 247, 392, -23.596, -24.727, and 1.749. Suparma has a bad financial performance for the long term based on the economic value added.

Managerial implications

The liquidity problem in Fajar Surya Wisesa is due to the current asset while issues in profitability are caused by excess loss in foreign exchange rate. To create an economic value added, Fajar Surya Wisesa needs to adjust their long term debt and to increase their operational profit higher than their loss in foreign exchange rate.

In 2013, Indah Kiat Pulp and Paper needs to add their current debt because in the same year they have a debt to equity ratio below 2. The limit is the value of debt to equity ratio. The value of the company's ratio has to be between 2–5. Indah Kiat Pulp and Paper only manage to increase the economy added value in 2010 and 2013; because of this the company has to increase operational profit after tax.

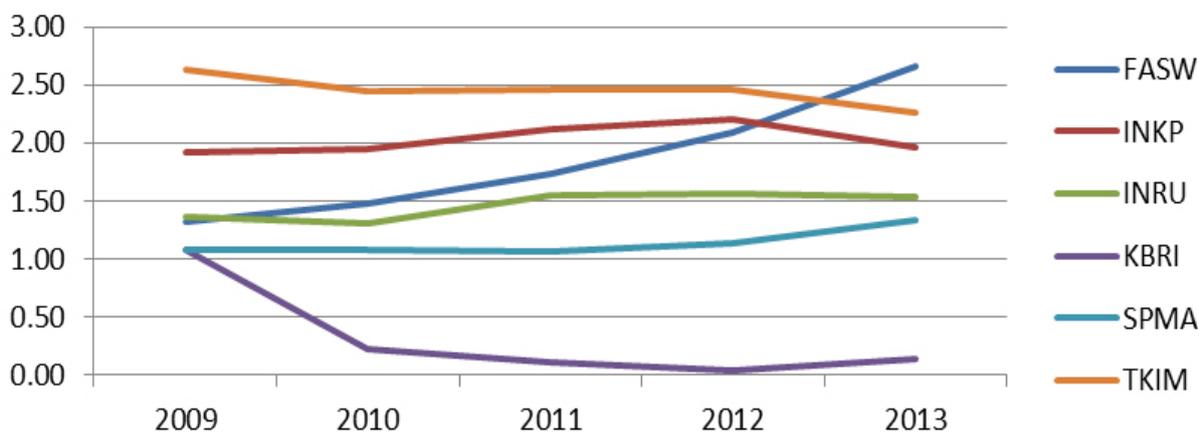


Figure 4. Debts to equity ratio pulp and paper company in Indonesia 2009–2013

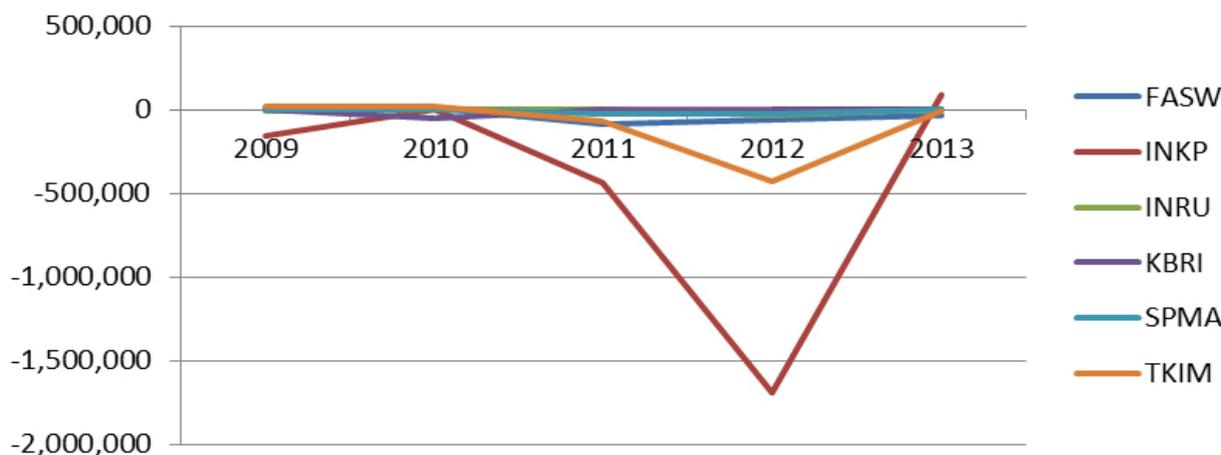


Figure 5. EVA for pulp and paper company in Indonesia 2009–2013 (million rupiahs)

Toba Pulp Lestari has to add their current asset especially the cash. In 2013, they only achieved 4% in the net margin, so they need to increase the net profit. This company also needs to gain more current debt until the value of debt to equity ratio is between 2–5. The problem is in creating an economic value added it needs to also create an operational profit. The solution to this problem is by decreasing the value of cost of goods sold, increasing the quantity of sales or decreasing the value of operating expenses.

Kertas Basuki Rahmat Indonesia needs to consider the creation of current assets because in a long term it deals with the lack of current assets. To increase the profitability, the company needs to add operational capital based on the current debt. This company has more equity than the debt and it is dominant in the current debt rather than the long term debt. By increasing the debt, especially long term debt, it is possible that the company can expand and improve the solvability. The limit for increasing the debt is the value of debt ratio to the company's equity is between 2–5. Kertas Basuki Rahmat needs to create more profit so they can increase the economic value added of the company.

The cause of Suparma's loss is the incapability of profit from the sale in covering the amount of net foreign exchange loss. If this company intends to create profit, it needs to be more aware of the foreign exchange. The company needs to borrow debts in current debts because its long term debts are considerable high. The limit for the company to add its debt by checking at its debt to equity ratio that is between 2–5. To create an economic value added the company has to gain more in operational profit because the amount of operational profit after tax is not capable to cover the invested capital.

Pabrik Kertas Tjiwi Kimia needs to observe the amount of inventories carefully to prevent inefficiency. The company has a greater long term debt than the current debt and it still has the capability to increase the current debt. This is possible because a company with a high long term debt will decrease its debt until it reaches optimal (Shyam-Sunder and Myers, 1999). The limit to increase the debt is based on the value of the debt to equity ratio and the value is between 2–5. This company needs to increase the profit from invested capital so it can create an economic value added.

So in the year 2013, Toba Pulp Lestari needs to add its current asset and Pabrik Kertas has to decrease its stock. While Fajar Surya Wisesa, Kertas Basuki Rahmat Indonesia and Suparma need to create net profit. In addition, Indah Kita Pulp and Paper, Toba Pulp Lestari, Kertas Basuki Rahmat Indonesia, and Suparma must increase their current debt. Furthermore, Pabrik Kertas Tjiwi Kimia has to increase its operational profit after tax. Kertas Basuki Rahmat Indonesia, Suparma and Fajar Surya Wisesa, also need to create operational profit after tax.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The best long term financial performance based on liquidity is Indah Kiat Pulp and Paper. It is because the liquidity performance is good for 3 years and in the last 2 years of the research. The company with the best profitability and solvability is Pabrik Kertas Tjiwi Kimia, due to its 5 years continuous good profitability. No pulp and paper company had the best financial performance in a long term based on economic value added.

In general, for a long term the pulp and paper company has a bad financial performance. This matches the previous research conducted by Wachyuono. Indah Kiat Pulp and Paper has the best liquidity because the value is nearly 2. In addition, the same company also is the best company for profitability because the company's net profit margin is about 8%. The best solvability is Pabrik Kertas Tjiwi Kimia because the debt ratio towards equity is capable to create profit. Moreover, Indah Kiat Pulp has the best creation of value-added because it has the largest value added. In 2013, in general the pulp and paper company has a good financial performance. The best performance is by Indah Kiat Pulp and Paper.

Recommendations

According to the overall analysis the six companies are not feasible to invest. The companies have problems in liquidity, profitability, solvability, and most of all the economic value-added in a long term. The debt should be given to five companies except Pabrik Kertas Tjiwi Kimia. With lack of debt, the performance of the company to create profit and economic value-added

is disturbed. The research is narrowed by six public pulp and paper company, financial ratio and economic value added. There should be similar researches carried out with different companies and using more analysis method like, balance scorecard to evaluate the performance of the company beyond financial performance.

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