*Proceeding Book of **The 6th ICMEM 2021**, 11-13 August 2021, Bandung, Indonesia*
***ISBN**: 978-623-92201-2-9*

The Comparison of Financial Performance and Financial Distress Analysis Between PT Hanjaya Mandala Sampoerna Tbk with Other Companies in Cigarette Industry During Covid-19 Pandemic

Putri Gabriela Yordanus* and Atika Irawan

School of Business and Management, Institut Teknologi Bandung, Indonesia

Email: putri_gabriela@sbm-itb.ac.id

Abstract – **The pandemic of Covid-19 hit all sectors including economic and industry. This situation led to contract payment delay, lower utilization rate of asset and employees, production and distribution delay, lower supply and purchasing power where people start to prioritize their expenditure. The cigarette industry supposed to not really affected by the pandemic since it still ranks second as the thing most people bought during the pandemic. However, the market leader company in this industry is the only company who experience lower income and generate more liabilities during the pandemic among the industry. Therefore, financial performance and financial distress analysis should be conducted in order to see the company's position throughout the industries. It aims to give information regarding this company's position and recommendation for further development. This research uses financial ratio analysis including profitability, liquidity, debt, and activity ratios to determine the financial performance analysis. While the financial distress analysis uses Altman Z-Score. The result shows that this market leader company has higher score compared to others but they indeed experienced decrement during the pandemic. It gives spaces for development to this company.**

Keywords - **Financial performance, financial distress analysis, financial ratio, Altman Z-Score**

I. INTRODUCTION

The pandemic of Covid-19 that caused by the virus of Sars-Cov-2[8] are spreading all around the world. In Indonesia, the first death case of this pandemic is confirmed on March, 11 and led to social distancing regulation throughout the nation starting on March, 31 as an emergency action [9]. This action gives negative effects to economic and industries including contract payment delay, lower utilization rate of asset and employees, production and distribution delay, lower supply due to higher production cost as an effect of social distancing regulation, and lower purchasing power [10].

The cigarette industry in Indonesia is one interesting sector that can be reviewed during this pandemic. Since it has a big market especially in Indonesia where 28.69% of the above 15 years old population are smokers [6]. With 62.9% - man and 4.8% - woman population are daily users of both chewable and suck able cigarettes [15]. This situation generates a great business opportunities. 332.38 billion of cigarettes are produced in 2018 that exceed government's production road map [15]. Although the pandemic of Covid-19 attacks the respiratory system, cigarettes is still considered as an essential goods to purchase during the pandemic. It is the second most item bought by Indonesian during the pandemic [13].

PT Hanjaya Mandala Sampoerna Tbk is one of the listed cigarettes companies in Indonesia. As a market leader with 32.2% of shares among the industry, during the pandemic, only this company that generates loss in income and increasing liabilities despite the high demand. Meanwhile, the other companies manage to improve their net income during the pandemic, or decreasing the liabilities when they experience loss in income.

Therefore, this research aims to do financial performance analysis toward PT Hanjaya Mandala Sampoerna Tbk in order to determine their position among the industries and suggest further development that can be conducted by the company. The financial distress analysis also will be done to complete the information regarding this company's financial situation.

Previous studies from Wiyarni (2018) that used Altman Z-Score as the bankruptcy prediction toward cigarettes industry in Indonesia shows validation on using the Altman Z-Score [17]. It is also supported by Manasser (2018) [12]. While financial ratios also have been used in several studies to conduct financial performance and proven to generate credible data [7].

II. METHODOLOGY

A. Financial Performance Analysis

Financial performance analysis included analysis and interpretation of financial statements I such a way that it undertakes full diagnosis of the profitability and financial soundness of the business [16]. In this research the financial performance analysis will be done using the financial ratio analysis that consist of profitability ratios, liquidity ratios, debt ratios, and activity ratios.

Financial ratio analysis is a process of determining and interpreting relationships between the items of financial statements to provide a meaningful understanding of the performance and financial position of an enterprise [5]. The basic data inputs are gathered from the firm's income statement and balance sheet [10]. The ratio could fill the need as simple yet quick method of relative comparison with other companies or among the industries [11].

The profitability ratios including gross profit margin (GPM), operating profit margin (OPM), net profit margin (NPM), return on asset (ROA), return on equity (ROE), and earnings per share (EPS). The liquidity ratios will consist of current ratio (CR) and quick ratio (QR). The debt ratios analysis includes debt ratio (DR), debt-to equity ratio (DTER), time interest-earned ratio (TIER), and fixed payment coverage ratio (FPCR). The activity ratios consist of inventory turnover (IT), average collection period (ACP), fixed asset turnover (FAT), and total asset turnover (TAT).

B. *Financial Distress Analysis*

Financial distress analysis is conducted to determine a bankruptcy state of company. In this research Altman Z-Score (1968) [1] will be used to predict a company's bankruptcy state. It is the first bankruptcy prediction model developed by Altman himself (1968). It becomes the pioneer of bankruptcy prediction model since it is followed by the other bakrupty prediction model such as Logit Model by Ohlson (1980), Taffler (1984), and Zmijewski (1984).[1] Altman Z-Score has developed twice in order to keep being relevant. It revised first in 1983 to be used in private company and continued in 1995 into credit risk model for emerging countries.[3][4] It suits company with less inventory.[2] Therefore, the most suitable model is the first model in 1968 since PT Hanjaya Mandala Sampoerna and the other companies are not a private company and hold a lot of inventory. The equation of Altman Z-Score (1968) is:

$$Z = 1.2A + 1.4B + 3.3C + 0.6D + 0.99E$$

Where:
Z = Z-score

A= Working Capital / Total Asset
B= Retained earnings / Total Asset
C= EBIT / Total Asset
D= Market Value of Equity / Total Liabilities
E= Sales / Total Asset

If the Z-Score is > 2.99, it indicates the company is far away from bankruptcy. While if it scores between 1.81 and 2.99, the company is in the gray zone. And if it scores < 1.81, the company is predicted to be bankrupt.

C. *Research Design*

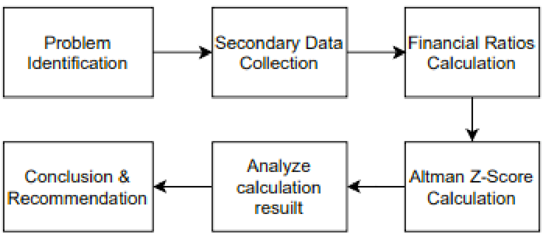

Fig. 1. Research Design Framework processed by author

The research starts by identifying problem existed from PT Hanjaya Mandala Sampoerna Tbk. compared with the other companies in the industry. It continues by collecting secondary data gathered from each listed companies' financial statements on each official website (sampoerna.com, gudanggaramtbk.com, wismilak.com, and indonesiantobacco.com). After the data gathered, financial ratios and Altman Z-Score's calculations will be conducted. It led to analyzation result followed by conclusion and recommendation for the company.

III. RESULTS

A. *Financial Ratios Analysis*

TABLE I
PT HANJAYA MANDALA SAMPOERNA TBK
FINANCIAL RATIOS

Indicator	2016	2017	2018	2019	2020
GPM	24.99%	24.44%	23.88%	24.63%	20.31%
OPM	13.27%	13.49%	11.66%	13.64%	8.78%
NPM	13.13%	12.60%	12.77%	13.14%	9.17%
EPS	110	109	116	118	74
ROA	29.48%	28.94%	29.25%	27.37%	17.07%
ROE	36.66%	36.59%	38.55%	39.05%	28.04%
CR	5.23	5.27	4.30	3.28	2.45
QR	2.21	2.49	2.58	1.99	1.37
DR	19.60%	20.93%	24.13%	29.91%	39.12%
DTER	24.38%	26.47%	31.80%	42.67%	64.26%
FPCR	15.93	20.30	26.87	61.67	39.14
TIER	70.70	89.27	122.63	169.75	131.55
IT	3.68	4.15	5.35	4.88	4.07
ACP	19.10	13.93	13.05	13.03	16.20
FAT	13.84	14.38	14.65	14.53	14.04
TAT	2.25	2.30	2.29	2.08	1.86

TABLE II
PT GUDANG GARAM TBK FINANCIAL RATIOS

Indicator	2016	2017	2018	2019	2020
GPM	21.79%	21.87%	19.48%	20.61%	15.19%
OPM	13.99%	21.12%	18.32%	16.96%	16.80%
NPM	8.63%	9.25%	8.33%	9.77%	6.63%
EPS	3470	4030	4050	5655	3975
ROA	10.46%	11.54%	11.53%	13.73%	9.71%
ROE	16.65%	18.26%	17.65%	21.21%	12.97%
CR	1.94	1.94	2.06	2.06	2.91
QR	0.20	0.26	0.31	0.37	0.57
DR	37.15%	36.81%	34.68%	35.24%	25.15%
DTER	59.11%	58.25%	53.10%	54.42%	33.61%
FPCR	0.48	0.53	0.40	0.63	0.38
TIER	8.50	14.03	16.47	25.75	26.25
IT	1.59	1.72	2.00	2.05	2.43
ACP	10.00	9.77	6.58	6.20	8.15
FAT	3.72	3.89	4.21	4.36	4.15
TAT	1.21	1.25	1.39	1.41	1.46

TABLE II
PT INDONESIAN TOBACCO TBK FINANCIAL RATIOS

Indicator	**2016**	**2017**	**2018**	**2019**	**2020**
GPM	26.60%	29.20%	28.57%	26.41%	26.97%
OPM	13.99%	21.12%	18.32%	16.96%	16.80%
NPM	-2.51%	6.92%	140.88%	5.12%	6.12%
EPS	-66725	390238	12.37	-8.73	6.51
ROA	-1.24%	4.87%	53.28%	1.90%	2.71%
ROE	-23.74%	47.51%	91.99%	3.20%	4.89%
CR	0.20	0.20	0.27	0.64	0.90
QR	0.03	0.03	0.05	0.03	0.06
DR	94.79%	89.75%	42.08%	40.57%	44.60%
DTER	1818.92%	875.75%	72.65%	68.26%	80.50%
FPCR	0.84	1.62	1.52	0.09	0.59
TIER	0.91	1.98	1.90	0.83	1.76
IT	2.31	3.47	3.35	1.44	1.23
ACP	12.50	10.41	5.64	4.99	8.35
FAT	0.61	0.86	0.43	0.51	0.64
TAT	0.49	0.70	0.38	0.37	0.44

TABLE IV
PT WISMILAK INTI TIMUR TBK FINANCIAL RATIOS

Indicator	**2016**	**2017**	**2018**	**2019**	**2020**
GPM	30.21%	29.31%	31.42%	30.97%	31.37%
OPM	7.97%	2.99%	3.71%	2.06%	10.27%
NPM	5.93%	1.33%	1.93%	2.38%	8.03%
EPS	50.56	19.31	24.33	12.99	82.03
ROA	7.38%	1.60%	2.16%	2.55%	9.92%
ROE	10.08%	2.00%	2.70%	3.21%	13.50%
CR	3.39	5.36	5.92	6.02	3.66
QR	0.74	1.20	1.57	2.51	1.76
DR	26.78%	20.20%	19.94%	20.50%	26.55%
DTER	36.58%	25.32%	24.90%	25.78%	36.14%
FPCR	0.12	0.13	0.45	0.19	1.14
TIER	12.15	9.80	60.36	8.25	53.77
IT	1.51	1.56	1.48	1.74	2.05
ACP	13.92	14.19	16.49	17.32	18.35
FAT	5.10	4.72	4.39	4.23	6.67
TAT	1.25	1.20	1.12	1.07	1.24

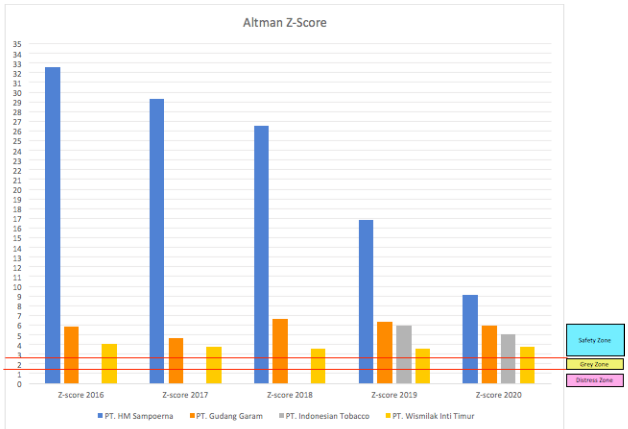

Fig. 2. Altman Z-Score analysis processed by author

IV. DISCUSSION

The profitability ratio analysis shows that PT Hanjaya Mandala Sampoerna is not the company that receives the highest gross profit. They also are not the company that generates the highest operating profit margin. But they manage to has the highest net profit margin among the industry. It tells PT Hanjaya Mandala Sampoerna able to manage their expenses, taxes, and interest very well compared to the industry. The Return on Asset and Return on Equity analysis could also tell that PT Hanjaya Mandala Sampoerna is still the leading company in the market with the highest percentage they achieve throughout the year even during the pandemic. It indicates they can utilize their asset and equity very well. Despite still being a profitable company, PT Hanjaya Mandala Sampoerna experienced a decline of around 4% on their net profit margin caused by lower sales received. While other companies such as PT Wismilak Inti Timur and PT Indonesian Tobacco could increase their sales significantly that caused by ther lower product's price. They also experience a 10% decrement on their return on asset that caused by 2 of their production factories are closed due to Covid-19 resulting in less production and less sales. Also 11% decrement on their return on equity in year 2020. But for the earnings per share, PT Hanjaya Mandala Sampoerna offered less earnings compared to its competitor PT Gudang Garam, and in 2020 it also lower than PT Wismilak Inti Timur due to sales incline by PT Wismilak Inti Timur.

The liquidity ratio analysis shows that PT Hanjaya Mandala Sampoerna considered as a liquid company among the industry. They still manage to cover their current liabilities with their current assets. However, it is gradually decreasing since 2018 due to the increasing excise tape prices regulation from the government that increase the tax payable account and increase thhe liabilities which can be a consideration before taking more current liabilities.

The debt ratio analysis gives information that PT Hanjaya Mandala Sampoerna increasing their debt gradually from 2016 until 2020. From the lowest debt ratio holder in the industry in 2016, it becomes the second highest in 2020. The debt itself is 64.26% of its equity. Despite the increasing debt amount, PT Hanjaya Mandala Sampoerna is still able to pay both their fixed payment and interest with their EBIT. It can be happened due to their parent company's support. Most debt taken by this company is from their parent companies Phillip Morris. Therefore, they manage to get lower interest than other companies who has debt toward banks.

The activity ratios tell that PT Hanjaya Mandala Sampoerna has a good inventory turnover, fixed asset turnover, and total asset turnover. Their inventory turnover is still above the others despite the decline during the pandemic in 2020 due to the inability to balance the inventory and sales resulting in higher inventory since the sales are dropping. While they have high number on fixed asset turnover due to their management decision on leasing compared to owning the asset. And high total asset turnover indicates that they manage to generates high sales from its asset. Although it has a slight decrement both in 2019 and 2020, they still have the highest total assets turnover. The average collection period result tells that this company collecting receivables longer compared to its competitors in the industry where the others can collect between 6 to 9 days while PT Hanjaya Mandala Sampoerna collect in 13 to 17 days.

Finally, the financial distress analysis using the Altman Z-Score model shows that all the cigarettes company that being compared are in the safe zone. The data for Indonesian Tobacco in year 2016 to 2018 is not available due to the inability of Altman Z-Score (1968) model to be used in private company. Despite receiving the highest Z-Score among the industry, PT Hanjaya Mandala Sampoerna score is decreasing each year which is not a good sign. The decline on market value gives a big contribution to this condition.

IV. CONCLUSION

PT Hanjaya Mandala Sampoerna is still leading the industry based on its financial performance. They manage to generates highest net profit margin among the industry. It indicates they can manage their expenses, interest, and taxes very well. They also have high number both on return on asset and equity. But for its earning per share, PT Hanjaya Mandala Sampoerna offer lower earnings compared to its competitor. In 2020, it is lower than both PT Gudang Garam and PT Wismilak Inti Timur due to high number of shares and decreasing sales.

PT Hanjaya Mandala Sampoerna also considered as a liquid company. But the increasing liabilities should be seen by the company. This company keep increasing their debt year by year. Even though they can handle both its' interest and fixed payment with their EBIT, it may come up as a concern in the future.

The activity ratios of the company are on the top compared to its competitors except for the average collection period. They can reach high inventory turnover and fixed asset turnover due to leasing decision. They also manage to generates highest sales from its asset although it declines during the pandemic.

Despite their great achievement compared to the industry, several improvements could be done by PT Hanjaya Mandala Sampoerna for further development. Research regarding high sales generated during the pandemic by other companies can be conducted. It may be caused by product and price diversification. Beside that the company could accelerate their average collection period since other companies could do it. Further research regarding the depleting market price experienced by the company throughout the years. It may be caused by the lower earnings per share offered by the company compared to the others. The liability burden could also give contribution to this matter. Further research should be conducted regarding the optimal amount of liabilities faced by the company. Because exceeding the optimal amount of liabilities will not benefit the company in the long run.

ACKNOWLEDGMENT

I would like to thank God for His blessing, grace, and guidance through my life journey until I manage to reach this step. This paper also would not have finished without the support and help from my parents, supervisor, sister, and friends. Therefore, I would like to thank these people for their endless effort and support for me on finishing this paper.

REFERENCES

[1] Altman, E. I., Iwanicz-Drozdowska, M., Laitinen, E. K., & Suvas, A. (2016). Financial Distress Prediction in an International Context: A Review and Empirical Analysis of Altman's Z- Score Model. Journal of International Financial Management & Accounting, 28(2), 131–171. doi:10.1111/jifm. 12053

[2] Altman, E.I., Hartzell J., Peck M. (1998). Emerging Markets Corporate Bonds: A Scoring System. Salomon Brothers Inc. New York, and in Levich, R. and Mei, J.P. "The Future of Emerging Market Flaws". Kluwer. and revisited in Altman,
E.I. and Hotchkiss, E. (2006) Corporate Financial Distress & Bankruptcy. J. Wiley & Sons

[3] Altman, E. I., Hartzell, J., & Peck, M. (1998). Emerging market corporate bonds — a scoring system. Emerging Market Capital Flows, 391–400. doi:10.1007/978-1-4615- 6197-2_25

[4] Altman, E.I. and Hotchkiss, E. (2006). Corporate Financial Distress & Bankruptcy. 3rd edition. J. Wiley & Sons. Hoboken. New Jersey

[5] Babalola, Y. A., Abiola, F. R. (2013). Financial Ratio Analysis of Firms: A Tool for Decision Making. International Journal of Management Sciences Vol. 1, No. 4, 2013, 132-137.

[6] Badan Pusat Statistik. (2020). https://www.bps.go.id/indicator/30/1435/1/persentase-merokok-pada-penduduk-umur-15-tahun-menurut- provinsi.html.

[7] Barnes, P. (2005). The Analysis and Use of Financial Ratios. Journal of Business and Accounting. Retrieved on June 15, 2021.

[8] Coronavirus disease (COVID-19). (n.d.). Retrieved December 14, 2020, from https://www.who.int/emergenc ies/diseases/nove l-cor ona virus- 2019/ quest ion-and- answers-hub/q- a-detail/coronavirus-disease-covid-19

[9] Detikcom. (2020, September 2). Timeline Setengah Tahun COVID-19 di Indonesia. Retrieved October 11, 2020, from https://news.detik.com/berita/d-5156199/timeline-setengah- ta hun- c o v id - 1 9 - d i- i n d o n e s ia

[10] Fajar, T. (2020, April 08). Daftar Sektor Industri yang Terdampak Covid-19, Apa Saja?: Okezone Economy. Retrieved October 11, 2020, from https://economy.oke zone.com/read/2020/04/08/320/2196153/daftar-sektor- industri-yang-terdampak-covid-19-apa-saja?page=1

[11] Gitman, L. J., & Zutter, C. J.(2015). Principles of Managerial Finance 14th edition.Edinburgh:Pearson Education Limited.

[12] Manaseer, S. and Al-Osaibat, S.D. (2018). Validity of Altman Z-Score Model to Predict Financial Failure : Evidence from Jordan. International Journal of Economics and Finance; Vol 10, No. 8, 2018, available at SSRN: https://ssrn.com/abstract-3558424

[13] Rahmawati, L. (2020). Peran E-commerce dalam Mendukung Ketahanan Pangan Wilayah Jakarta Saat Pandemi Covid-19. Retrieved October 11, 2020, from http://jurna l. lemhannas.go. id/index. php/jkl/artic le/view/61/92

[14] Ross, Stephen A., Westerfield, Randolph W., Jordan, Bradford D.(2019). Fundamentals on Corporate Finance 12th edition. New York: McGraw-Hill Education

[15] TCSC-IAKMI. (2020). Atlas Tembakau Indonesia 2002. Tobacco Control Support Center – Ikatan Ahli Kesehatan Masyarakat Indonesia.

[16] Verma, E. (2020). Financial Performance- Understanding its Concepts and Importance. Retrieved December 14, 2020. International Journal of Management Vol. 1 P.P. 01-08; October 2019

[17] Wiyarni, C. (2018). Z-Score Bankruptcy Prediction Model and Stock Prices of The Cigarette Companies in Indonesia. Retrieved June 20, 2021. International Journal of Business Marketing and Management Vol 03, P.P. 01-07; October 2018