

FINANCIAL PERFORMANCE ANALYSIS OF PT HERO SUPERMARKET TBK DURING THE PERIOD OF ECONOMIC SLOWDOWN

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Abstract

Indonesia is 4th most populated nation in 2015, with emerging middle class consumers that has growing interest in consumer products. Household consumption expenditures contributed 56.07% to the nation GDP in 2014. This makes retail industry a promising business in Indonesia. During the period of 2011-2015, Indonesia economic growth was experiencing a slight slowdown, which impacts the retailer in Indonesia. With low GDP growth, retail industry in Indonesia as one of the biggest contributor to GDP needs to maintain the performance to leverage the nation economy. The retail sales trend was fluctuating within each year, as consumer curbed spending, saving money as they know the unstable economic condition. One of the oldest local modern retail that still existed until now is PT Hero Supermarket Tbk. Having a declining market trend, PT Hero Supermarket Tbk seems getting hit by the effect of economic slowdown that drive the declining of retail sales. By the end of 2015, the company experienced loss even though it has done several preventive measures such as closing some less profitable store, driven by the previous year's performance. This research will assess the financial performance of PT Hero Supermarket Tbk within the year 2011-2015, when the nation and the industry experienced hardship as the effect from economic slowdown. The research will be using financial ratio analysis and DuPont system of analysis. Three types of analysis will be used which are time series analysis, cross section analysis, and combined analysis. The result of this research shows the performance of PT Hero Supermarket Tbk is averagely declining from 2011-2015. The ratios of PT Hero Supermarket Tbk is below industry average. The last two years were the worst year within the period for PT Hero Supermarket Tbk. The recommendation for PT Hero Supermarket Tbk is to improve its operating efficiency and asset-use efficiency to increase its ROA and ROE. It can be done by reducing the operating cost, especially rent and salaries, as both contribute the most to the operating expense. PT Hero Supermarket Tbk should

Keywords: Financial, Indonesia, performance, ratio, retail

Introduction

Indonesia is the 4th most populous nation in the world, with a population of approximately 258 million in 2015. Emerging middle class consumers are well educated and have a growing interest in imported goods, particularly for consumer products such as processed foods. In 2014, GDP distribution at current market prices showed that household consumption expenditures were distributed 56.07 percent (2014 GDP IDR 10,542 trillion) (Rangkuti & Wright, 2015). This makes good deal for retailer in Indonesia.

Within the year of 2011 to 2015, Indonesia economic growth was experiencing a slight slowdown. Based on the data from Badan Pusat Statistik, the average annual growth rate is 5.7%, annually decreasing from 6.5% by the end of 2011 to 5.04% in 2015, reaching the all-time low of 4.66% on Q2 2015. According to (Indonesia Investments, 2015), some of the causes are falling commodity

prices, sluggish global economic growth, Indonesian political condition, and Bank Indonesia's high interest rate environment. This affects various sectors in Indonesia, including the retail industry. Indonesia's retail landscape is undergoing profound change as modern outlets increasingly replace wet markets and independent small shops. High consumer confidence, an expanding middle class and rising personal incomes have made private consumption the most important component of Indonesia's economy and attracted numerous global retailers.

While fluctuating strongly from one month to another, retail sales have generally outperformed GDP growth in recent years with double-digit annual increases. Central bank data show that sales at 650 retailers surveyed across the country declined in January 2014 from the previous month, but were up almost 25% on the year. In terms of goods categories, information/communication equipment and other household equipment have seen the greatest increases since 2010, clearly benefitting from the rising living standard enjoyed by middle-class city dwellers (Global Business Guide Indonesia, 2014).

According to Global Retail Development Index (GRDI) by A.T. Kearney, Indonesia reached its highest GRDI ranking ever at 12th in 2015. Economic uncertainty eased after the election of pro-reform President Widodo on July 2014. Despite a slight decline in retail sales per capita last year, total retail sales area grew 14.5 percent as retailers continue to be drawn to Indonesia's large population and growing middle class (AT Kearney, 2015).

After a slight slowdown in 2015 in dollar terms, the Indonesian retail sector will benefit from booming total household spending. According to report by Business Monitor International Ltd (2016), total household spending is forecasted to grow by 6.1% in 2016 and will average to 11.9% over the coming four years. This means for the following year, Indonesia still remain as one of the most rewarding destinations for retail investment, both regionally and globally.

PT Hero Supermarket Tbk (Hero Group) is one of the oldest local modern retail running in Indonesia, founded in 1971 by the late Muhammad Saleh Kurnia in Jl. Falatehan, Jakarta. Hero Group opened its first store in Jakarta in 1971 and has grown to become one of Indonesia's leading operators of supermarkets (Hero and Giant Ekspres), hypermarkets (Giant Ekstra), health and beauty stores (Guardian), convenience stores (Starmart), and home furnishings (Ikea), operating six store brands with 610 stores across 44 cities in Indonesia as of 31 December 2015.

Table 1 Growth and Market Share of PT Hero Supermarket Tbk's Supermarket and Hypermarket Line (2014-2015)

	Growth		Market Share	
	YTD 2014	YTD 2015	YTD 2014	YTD 2015
Indonesia Hypermarket & Supermarket				
Giant Ekstra	9.8%	1.5%		
Giant Ekspres	12.8%	9.6%	8.2%	8.9%
HERO	11.1%	11.5%	4.6%	5.1%
	0.0%	-3.2%	1.0%	0.9%

Source: Nielsen Retail Audit, taken from PT Hero Supermarket Tbk Annual Report 2015

The table above shows three of PT Hero Supermarket Tbk's retail chain compared to the industry. The growth of hypermarket and supermarket was decreased from 2014 to 2015. The growth of Giant Ekstra and Giant Ekspres, two of PT Hero Supermarket Tbk's low price retail were above the industry growth. Meanwhile, Hero which targets premium customer shows no growth in 2014 and

negative value in 2015, mainly caused by the closing of several of its store. Giant Ekspres and Giant Ekstra's market share was increasing, while Hero's market share was declining by 0.1%. The market share does not show significant improvement in PT Hero Supermarket Tbk's supermarket and hypermarket line.

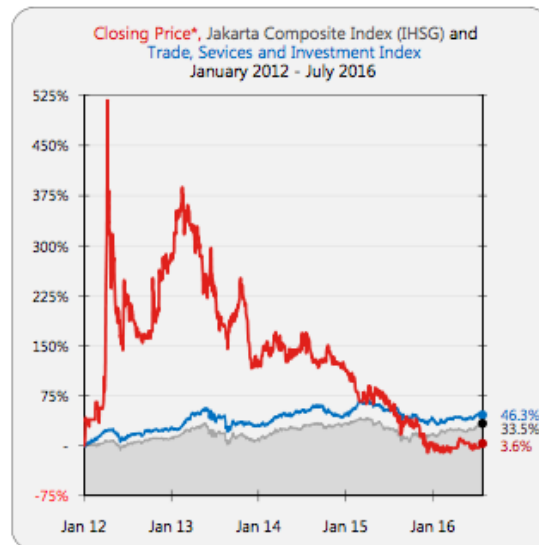


Figure 1 Closing price of HERO compared to IHSG and Trade, Services and Investment Index
Source: www.idx.co.id

HERO's market capitalization is declining. If the company failed to assess its declining financial condition, it will not be able to prepare for future threats. Low performance by Hero Group will not only affect the company, but also the shareholder and the national economy growth, as retail trade industry has high contribution towards the nation GDP. This research will assess the financial performance of PT Hero Supermarket Tbk during the time 2011-2015 to discover the root cause of the group problem considering the industry trend as well as giving the base of recommendation for future improvement and expansion.

The objective of this research is to answer the following questions:

1. How is the financial performance of PT Hero Supermarket Tbk in the year 2011-2015?
2. What is the recommendation to improve the financial performance of PT Hero Supermarket Tbk?

The research is limited to only data from 2011-2015. The company used as benchmark are four competitors listed in Indonesia Stock Exchange.

Methods

This research used quantitative approach. The financial performance of PT Hero Supermarket Tbk will be analyzed by using time series analysis, cross-sectional analysis, and combined analysis. The analyses are used by defining the financial ratios and using calculation based on DuPont system of analysis. The ratio analysis used in this research are mainly taken from *Principal of Managerial Finance* by Gitman. Other sources also used to complete each ratio understanding. Time series analysis is used to assess historical financial performance of PT Hero Supermarket Tbk between 2011-2015 and cross sectional analysis is used to assess the performance of PT Hero Supermarket Tbk compared to four competitors in the year 2015.

Results and Discussion

Time Series Analysis Financial Ratio Analysis

Table 2 Financial Ratios of HERO (2011-2015)

PT Hero Supermarket Tbk					
Financial ratios	2011	2012	2013	2014	2015
Liquidity ratios					
Current ratio	0.82	0.68	1.63	1.18	1.21
Quick (acid-test) ratio	0.24	0.22	0.81	0.36	0.42
Activity ratios					
Inventory turnover	5.63	5.21	4.95	4.60	5.37
Average collection period (days)	7	8	8	9	10
Average payment period (days)	61	69	57	56	53
Total asset turnover	2.41	1.99	1.53	1.64	1.78
Debt ratios					
Debt ratio	0.62	0.69	0.31	0.34	0.35
Times interest earned ratio	14.66	10.49	16.98	0.98	-2.46
Profitability ratios					
Gross profit margin (%)	23.93	23.19	23.92	22.97	23.18
Operating profit margin (%)	4.29	4.20	6.58	0.09	-0.47
Net profit margin (%)	3.06	2.88	5.64	0.32	-1.00
Earnings per share (Rp)	83	92	176	10	-34
Return on total assets (%)	7.36	5.74	8.65	0.53	-1.79
Return on equity (%)	19.24	18.26	12.53	0.80	-2.76
Market ratios					
Price/Earnings (P/E) ratio	132.45	47.06	13.77	227.56	-33.39
Market/Book (M/B) ratio	2.55	8.59	1.89	1.91	0.92

Liquidity ratios shows the company's ability to pay short term debt as they come due. High ratio means better performance on paying short term debt without experiencing financial distress. PT Hero Supermarket Tbk current ratio are fluctuating, having its highest point on 2013. In 2011 and 2012, it's showed that PT Hero Supermarket Tbk might experience some difficulties in fulfilling its short term debt, as the ratio in both years are below 1, which means PT Hero Supermarket Tbk has more current liabilities than current assets owned. It rose sharply to 1.63 in 2013, showing a better ability in paying debts. It's mainly because on 2013, PT Hero Supermarket Tbk's assets increased while its liabilities decreased from the year before. Then on the following year, the ratio falls to slightly above 1, because the company's current assets decreased while its current liabilities increased. The quick ratio is far below the current ratio every year. This is because in a retail business, inventory contribute much to a company's current assets. This is common in the retail industry however, and does not mean much if the company's inventory is well managed and can be liquidated in ease.

Activity ratios gives information about the company's efficiency in managing accounts that is converted into cash. The inventory turnover of PT Hero Supermarket Tbk is slightly decreasing through the years. PT Hero Supermarket Tbk is able to manage its inventory efficiently, with no significant difference in the ratio within 5 years. In 2011, the average age of PT Hero Supermarket Tbk's inventory is about 64 days ($365/5.63$) and only increased by three days in 2015 at 67 days ($365/5.37$). The average collection period of PT Hero Supermarket Tbk is increased from the year 2011-2015. This means the ability of PT Hero Supermarket Tbk to collect account receivables decreased through the years, although the performance of PT Hero Supermarket still considered excellent, as the average collection period of the company were far below the standard days of collecting receivables (30-90 days). Average

payment period is calculated by dividing account payable with average purchases per day. In this research, average purchase per day is calculated by dividing cost of goods sold with number of days in a year. The ratio defines the average credit term of the company. Longer day of average payment period means greater benefit for the company. The ratio tends to be fluctuated between 61 days in 2011 to 53 days in 2015. This ratio may become one of lenders consideration, as it gives insight on how the company's bill-paying pattern. Total asset turnover indicates a company's ability to generate sales by maximizing its assets. The ratio was declining from 2011 to 2013, then slightly increased in 2014 and 2015, while still below the ratio in the start of the period. This means PT Hero Supermarket Tbk has been less efficient in using its assets to generate sales. Total assets owned by PT Hero Supermarket Tbk was constantly increasing through the years, but the increase in sales is not as good.

Debt ratio shows the comparison of total assets that is financed by third party outside the company. Higher ratio means greater risk for the company, as it shows bigger amount of loan money used to generate profit. PT Hero Supermarket Tbk greatly decreased its dependency on debts in 2013. On that year, the assets of the company increased while its liabilities decreased. PT Hero Supermarket Tbk has reduced its risk by using less loans and payable compared to its own asset. Times interest earned ratio measures a company's ability to fulfill its contractual interest payments by using its earnings before interest and taxes. PT Hero Supermarket Tbk's times interest earned ratio was generally decreasing, except in 2013, it was increased into 16.98. After that, it's falling significantly and finally reached negative value of -2.46 in 2015. The main problem that caused this is the company's EBIT is averagely decreasing year on year. During the last two years, the company had a higher risk for bankruptcy and unstable financial condition.

Profitability ratios asses a company's ability in generating profit compared to some of its cost. There are profit margins, earnings per share, return on assets and return on equity. Profit margins itself consist of gross profit margin, operating profit margin, and net profit margin. Gross profit margin of PT Hero Supermarket Tbk remains stable from 2011-2015, staying at 23% in average. Cost of goods sold of the company continued to increase and the company sales also increased in similar growth.

The company's net profit and operating profit margin is far below the gross profit margin. The significant difference between gross profit margin and operating profit margin means a really high operating expense. Operating profit often seen as the purest profit earned by a company because it's the profit gained from its operating performance against its financial expenses and taxes. PT Hero Supermarket Tbk expense on operating activity exceed the gross profit earned on the year 2015, resulting in negative value. The net profit margin of PT Hero Supermarket Tbk does not show significant difference with the operating profit margin. This means financial costs such as interest and taxes only contribute a small portion to the company's cost compared to the operating expense. Earnings per share (EPS) is the allocation of company's profit to each outstanding share of common stock. The earnings per share of the company is fluctuating, having its highest value on 2013, then it was decreased in 2014 and reached negative value on 2015. EPS was falling to Rp10 in 2014 because the earnings available for common stockholders decreased greatly while the number of shares outstanding stayed the same. High earnings per share was more favorable for investors, as it gives more dividend from the company. So as the company's profit was declining, the benefit of investor who have the share was also declining. In the recent two years, it might not be as profitable as before for the shareholders.

Return on total assets showed the ability of a company in generating profit efficiently by utilizing all of the assets. PT Hero Supermarket Tbk's ROA is fluctuating from 2011 to 2015, averagely declining. This means the company was not maintaining the assets efficiently to generate profit. PT Hero Supermarket Tbk's assets is constantly increasing from year to year, but the net profit growth is not as significant as the increase of total assets.. The company's return on equity is even worse than the return on assets. It perform similarly, but with lower value in the end. From the ratio it can be assumed that

PT Hero Supermarket Tbk performance in generating profit from the amount added by stockholders was not good. As return on equity reflects value creation of a company, PT Hero Supermarket Tbk's value is continually decreasing.

Market ratios show PT Hero Supermarket Tbk's performance in the market. PT Hero Supermarket Tbk's P/E ratio was decreasing from 2011 to 2013, showing that the company could not manage its performance so the confident level of investor got lowered. Then the P/E ratio was suddenly increased by 213.79 points 2014. However, the high ratio was not caused by the increase of closing market price, in fact the market price was declining. It was instead the decrease of earnings per share that caused P/E ratio to jumped into 227.56 on 2014. It was then significantly decreased to -33.39 on 2015 because the year's earnings per share was negative and the market price was also decreased from the year before. The market/book ratio of PT Hero Supermarket Tbk shows declining trend from 2011 to 2015. The increase of ratio in 2012 was caused by stock split of 10:1 resulting in the addition of shares outstanding by ten times. This makes book value per share of common stock decreased. The closing market price was also decreased, but was not as much as the decrease of book value per share of common stock. After the addition of shares outstanding in 2014, the ratio remains stable then decreased in 2015. PT Hero Supermarket Tbk market value was above the book value from 2011 to 2014. But in 2015, the market price is slightly below the book value, showing low performance by the company that made investor less attracted to pay higher value.

DuPont Analysis

Table 3 DuPont Analysis of PT Hero Supermarket Tbk (2011-2015)

DuPont Analysis	2011	2012	2013	2014	2015
Net profit margin	3.06	2.88	5.64	0.32	-1.00
Total asset turnover	2.41	1.99	1.53	1.64	1.78
Equity multiplier	2.62	3.18	1.45	1.52	1.54
ROA	7.36	5.74	8.65	0.53	-1.79
ROE	19.24	18.26	12.53	0.80	-2.76

The company's net profit margin defines its operating efficiency. The net profit margin trend is declining from 3.06% in 2011 to -1% in 2015. The net profit margin managed to increase in 2012 and 2013 due to lower operating expense. In 2014, the margin decreased by about 5% because the operating expense was so high. PT Hero Supermarket Tbk experienced many losses caused by the closing of some of its store. It again happened in 2015, even so far that it caused the company to experience net loss for the year.

Total asset turnover defines the company's asset-use efficiency. PT Hero Supermarket Tbk's total asset turnover was fluctuating, reaching its lowest in 2013. After that, it increased slightly for the next two years. The company's assets were increasing from year to year. The sales were also constantly increased, but the improvement was not as high until it can keep up in 2014. But then, the ratio was still below the initial ratio in 2011. This means the company's ability in using assets to generate sales was not done efficiently.

Equity multiplier defines the financial leverage condition of PT Hero Supermarket Tbk. The formula is total asset divided by total shareholder's equity. The company's equity multiplier was fluctuating. It was increased in 2012, decreased in 2013, then slightly increased in 2014 and 2015. The data shown that since 2013, PT Hero Supermarket Tbk was less dependent on debt to finance its asset.

In summary, the ROE of PT Hero Supermarket Tbk was continually decreasing for five years. The company tend to use less financial leverage in the recent years, when the ROE was dropping low.

Cross Sectional Analysis Financial Ratio Analysis

Table 4. Financial Ratios of PT Hero Supermarket Tbk, The Competitors, and Industry Average (2015)

2015						
Financial ratios	IA	HER	MPP	RAL	RAN	MIDI
Liquidity ratios						
Current ratio	1.54	1.21	1.41	2.95	1.33	0.79
Quick (acid-test) ratio	0.79	0.42	0.43	2.09	0.67	0.33
Activity ratios						
Inventory turnover	5.66	5.37	4.19	4.29	7.32	7.10
Average collection period (days)	6	10	1	2	7	10
Average payment period (days)	62	53	56	93	54	54
Total assets turnover	2.02	1.78	2.21	1.21	2.66	2.22
Debt ratios						
Debt ratio	0.48	0.35	0.56	0.27	0.46	0.77
Times interest earned ratio	2.66	-2.46	5.77	9.04	-1.38	2.34
Profitability ratios						
Gross profit margin (%)	25.10	23.18	16.92	36.07	24.37	24.93
Operating profit margin (%)	1.95	-0.47	1.93	4.53	-0.79	4.54
Net profit margin (%)	1.46	-1.00	1.31	6.07	-1.05	1.96
Earnings per share (Rp)	17	-34	34	47	-11	49
Return on total assets (%)	2.00	-1.79	2.91	7.35	-2.80	4.35
Return on equity (%)	5.56	-2.76	6.59	10.08	-5.21	19.10
Market ratios						
Price/Earnings (P/E) ratio	3.75	-33.39	53.63	14.78	-32.27	16.00
Market/Book (M/B) ratio	2.09	0.92	3.54	1.49	1.43	3.06

The industry average was calculated by using average ratios from five companies due to unavailability of data.

PT Hero Supermarket Tbk's liquidity ratios were below the industry average, standing on the second from the lowest, higher only from PT Midi Utama Indonesia Tbk. It shows that PT Hero Supermarket Tbk's underperformed towards the sector's ratio. Meanwhile, the company with highest liquidity ratios was PT Ramayana Lestari Sentosa Tbk. It means PT Ramayana Lestari Sentosa Tbk has the best ability in paying short-term debt with sufficient short-term assets.

PT Supra Boga Lestari Tbk had the highest inventory turnover. PT Hero Supermarket Tbk was on the 3rd rank, underperformed slightly below the industry average. The company with fastest average collection period was PT Matahari Putra Prima Tbk, taking only 1 day in average, far quicker than PT Hero Supermarket Tbk and PT Midi Utama Indonesia Tbk, both took the longest time, 10 days in average. In the contrary, PT Hero Supermarket Tbk took the fastest time in paying its account payable, taking only 53 days. The company with total asset turnover was PT Supra Boga Lestari Tbk. Meanwhile PT Hero Supermarket Tbk was in 4th rank, with ratio below the industry average.

PT Midi Utama Indonesia Tbk had the highest debt to asset ratio. PT Hero Supermarket Tbk's debt ratio was below industry average, standing in 4th rank compared to its competitor. This means compared to the competitors, PT Hero Supermarket Tbk can be considered using low portion of debt to cover the payment of its assets. The low ratio of PT Hero Supermarket Tbk means lower risk in fulfilling the obligations. The times interest earned ratio of PT Hero Supermarket Tbk was the lowest, reaching negative value. This means PT Hero Supermarket Tbk had the worst performance in fulfilling the annual interest using its earnings before income and taxes. The company with highest times interest earned ratio was PT Ramayana Lestari Sentosa Tbk.

PT Ramayana Lestari Sentosa Tbk had the highest gross profit margin compared to the other companies, while PT Hero Supermarket Tbk was in the 4rd rank, slightly below the industry average. Other than gross profit margin, PT Hero Supermarket Tbk was underperformed compared to the industry average. There was significant difference between PT Hero Supermarket Tbk's gross profit margin with operating profit margin and net profit margin. As the company experienced loss for the year, the profitability ratios show negative value. Meanwhile, PT Matahari Putra Prima Tbk that has the lowest gross profit margin, performed better in the other profitability ratios compared to PT Hero Supermarket Tbk, showing inefficiency in the company operation.

PT Hero Supermarket Tbk's poor performance affected its market ratios. The price to earnings ratio of PT Hero Supermarket Tbk was the lowest compared to its competitors. The company with highest price to earnings ratio was PT Matahari Putra Prima Tbk, far above the other companies. For the market to book ratio, PT Hero Supermarket Tbk also the lowest. The ratio was below 1, showing that the market value of PT Hero Supermarket Tbk were lesser than the valuation of equity in the financial statement, while other companies were above 1.

DuPont Analysis

Table 5 DuPont Analysis of PT Hero Supermarket Tbk and The Competitors (2015)

2015 DuPont Analysis	HERO	MPPA	RALS	RANC	MIDI
Net profit margin	-1.00	1.31	6.07	-1.05	1.96
Total assets turnover	1.78	2.21	1.21	2.66	2.22
Equity multiplier	1.54	2.27	1.37	1.86	4.39
ROA	-1.79	2.91	7.35	-2.80	4.35
ROE	-2.76	6.59	10.08	-5.21	19.10

Three companies used their own dominant advantage in order to generate return for the companies for the year 2015. PT Ramayana Lestari Sentosa Tbk was good in operating efficiency, PT Supra Boga Lestari Tbk was good in asset-use efficiency, and PT Midi Utama Indonesia Tbk relied on financial leverage in order to get higher ROE. Meanwhile, PT Hero Supermarket Tbk has performed poorly in 2015, resulting in negative value for both ROA and ROE, did not able to generate return for the year.

Combined Analysis

The financial performance of PT Hero Supermarket Tbk from 2011 to 2015 is compared to the industry average of 5 companies to show whether it was underperformed or not compared to the competitors.

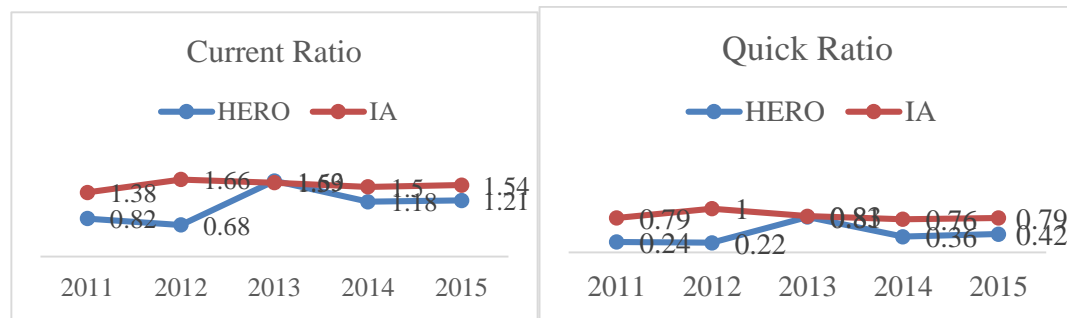


Figure 2. Liquidity Ratios of Combined Analysis

PT Hero Supermarket Tbk's current ratio was fluctuating below the industry average. The current ratio was overlapping the industry average by a slight amount in 2013, then it decreased again until 2015. In conclusion, 2013 marks the best year of PT Hero Supermarket Tbk in fulfilling its short term obligations, but it was still in average compared to its competitors.

The quick ratio is the same as the current ratio. PT Hero Supermarket Tbk showed similar trend. The significant increase of liquidity ratios in 2013 was caused by the addition of cash as its current asset and having no bank borrowings or loan as its current liabilities. On the following year though, the cash were decreased, and so the ratio. Inventories contribution was big to the retail industry assets, so the quick ratio of PT Hero Supermarket Tbk for five years were below 1. It was also the same for the industry average except on the year 2012, when the ratio was exactly 1. For both liquidity ratios, 2012 was the year with highest industry average ratio, while it was the lowest for PT Hero Supermarket Tbk.

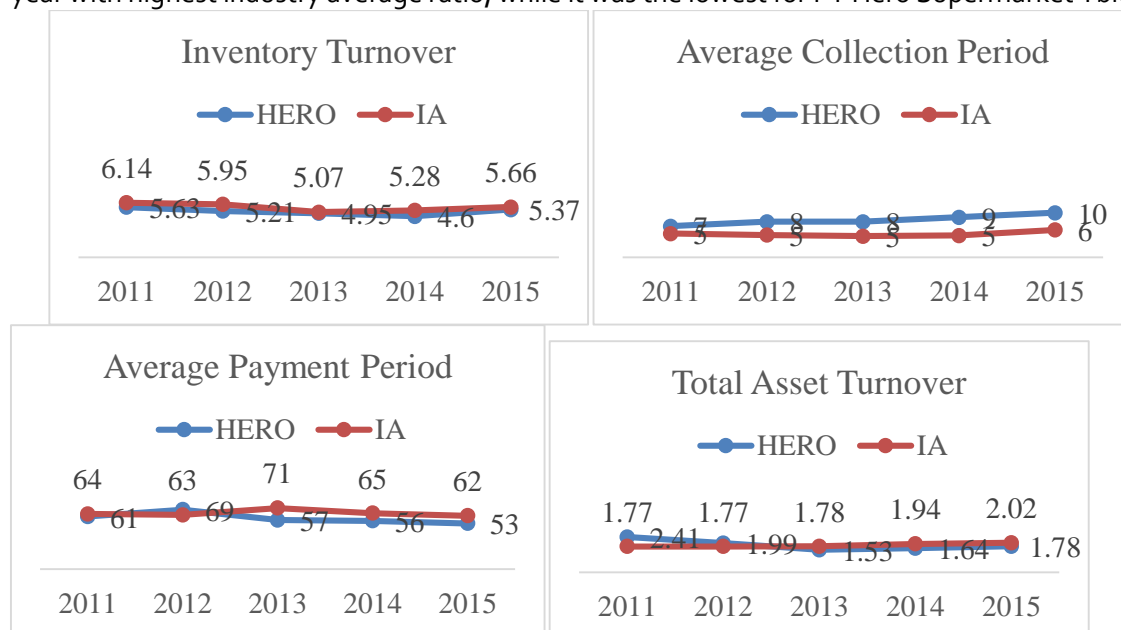


Figure 3 Activity ratios of Combined Analysis

The inventory turnover of PT Hero Supermarket Tbk remains below the industry average for five years. It means compared to the industry, PT Hero Supermarket Tbk's ability to manage the inventory was still underperformed even though the company's inventory turnover can be considered stable. It was declining from 2011 to 2014, until it was finally rose in 2015. The increase of inventory turnover in 2015 was caused by the decrease of inventory while the cost of goods sold increased. But it still was not enough to overlap the industry average.

The average collection period of PT Hero Supermarket Tbk was above the industry average for five years. This means PT Hero Supermarket Tbk took more days in collecting receivables compared to the industry. The performance of PT Hero Supermarket Tbk in terms of average collection period is worse

than its competitors. But it was still considered acceptable, with the longest days to collect debts being 10 days.

The average payment period of PT Hero Supermarket Tbk started slightly below the industry average, overlapping the industry average in 2012, then it decreased again below the industry average in 2013. After that, it continued to decrease until 2015, maintaining below the industry average. PT Hero Supermarket took the longest day of payment on 2012, while the industry average on that year was considered low. The cost of goods sold of PT Hero Supermarket Tbk was constantly increasing every year, so the company managed to reduce its account payable since 2013 in order to take shorter days to pay liabilities.

The industry average total asset turnover trend was increasing. The total asset turnover of PT Hero Supermarket Tbk was declining from the year 2011 to 2013. The company's performance was above average in the year 2011 and 2012, and eventually fell under the industry average in 2013. PT Hero Supermarket Tbk's assets were increasing every year, so the ratio decreased because the growth of sales was not as much as the increase of asset until 2013. In 2014, PT Hero Supermarket Tbk managed to use asset more efficiently with the sales increased 14% from the year before, although the ratio was still under the industry average.

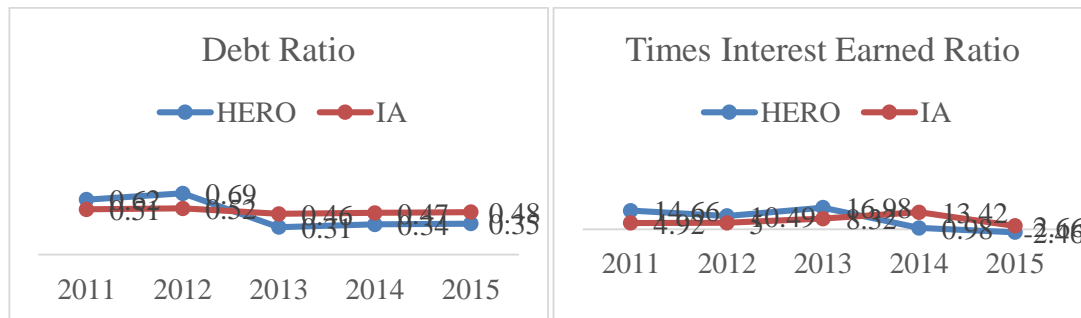


Figure 4 Debt Ratio of Combined Analysis

The chart showed debt ratio of the industry average tend to be stable. In the other hand, PT Hero Supermarket Tbk's debt ratio was fluctuating, increased to its highest in 2012, then fell to its lowest below the industry average. PT Hero Supermarket Tbk managed to lower its debt to asset ratio by reducing its liabilities, having no bank borrowings and other loan in 2013. Its asset also increased significantly, with the addition of cash and property and equipment. The debt ratio increased slightly in the next two years, still below the industry average. PT Hero Supermarket Tbk has been reducing its risk compared to the first two years, the best decision taken with the uncertainty of consumer confidence in spending expenses.

The industry average times interest earned ratio was increasing from 2011 to 2015, then decreased to its lowest state in 2015. PT Hero Supermarket Tbk contributes in lowering the ratio of industry average in 2015, having negative value on the company's ratio. Compared to the industry average, PT Hero Supermarket Tbk's ratio tends to be fluctuated. From year 2011 to 2013, the company's ratio was far above the industry average. Then the company's earnings before interests and taxes was greatly decreased because of high amount of operating expense in 2014, leads the ratio to fell below 1. Because the company experienced loss in 2015, the ratio fell farther to negative value.

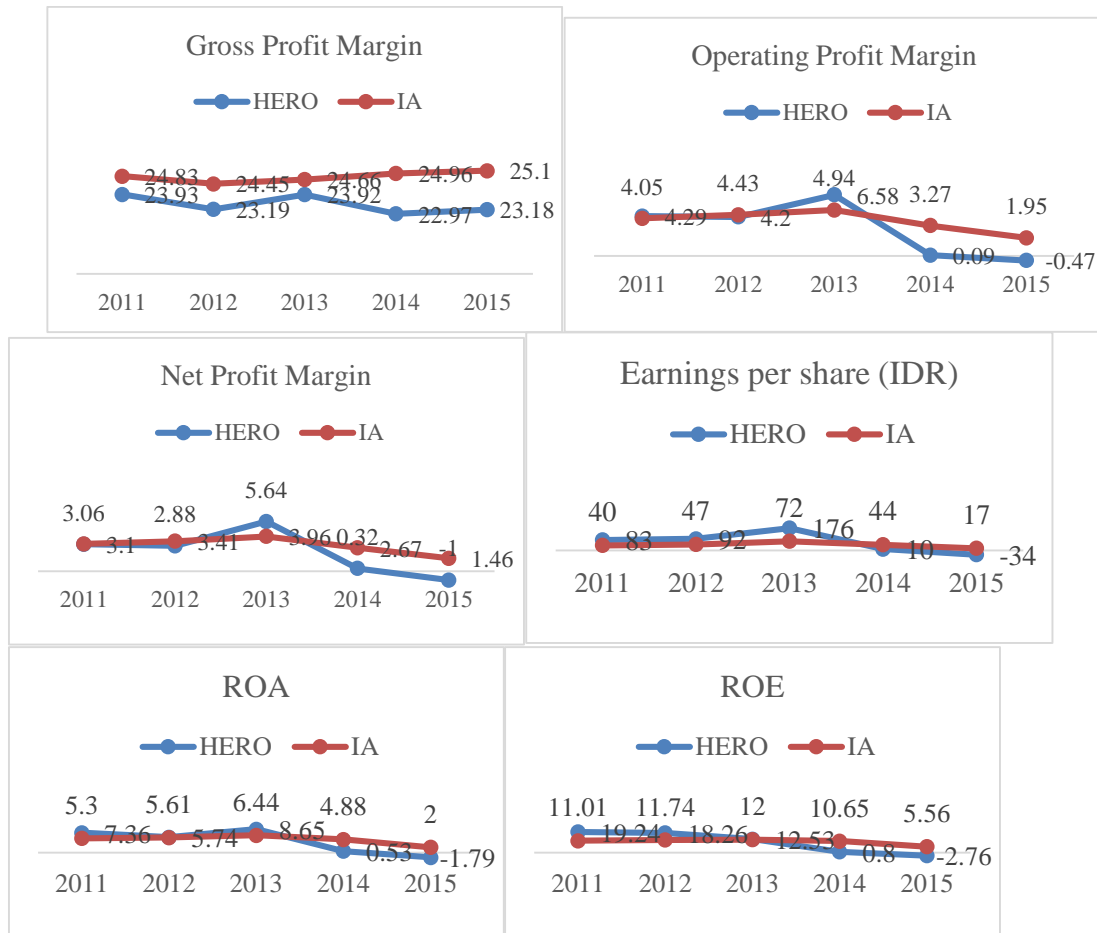


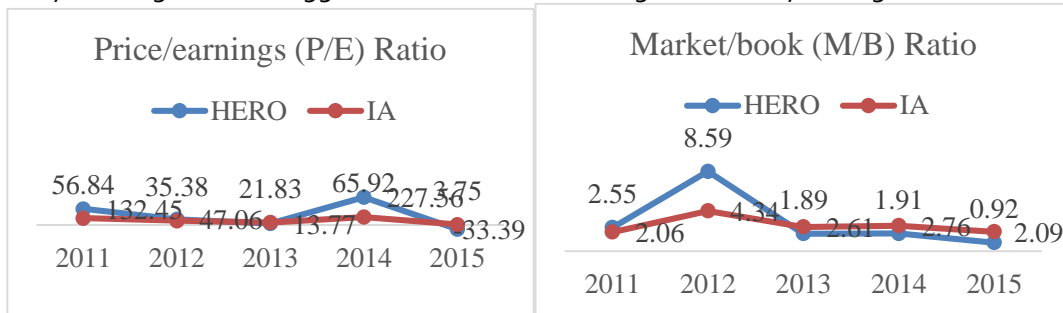
Figure 5. Profitability Ratios of Combined Analysis

PT Hero Supermarket Tbk's gross profit margin was fluctuating by a small amount each year. The chart above shows that PT Hero Supermarket Tbk's gross profit margin is constantly below the industry average five years. The thinnest gap between PT Hero Supermarket Tbk and the industry was in 2013. The growth of PT Hero Supermarket Tbk's gross profit margin was not able to reach even the lowest point of industry average.

The operating profit margin trend of industry average is declining. Compared to the industry average, PT Hero Supermarket Tbk's operating profit margin was fluctuating. It has similar ratio in 2011 and 2012, then it increased to above the industry average in 2013. The ratio continued to decrease in 2015 as PT Hero Supermarket Tbk experienced loss. The net profit margin movement in the chart of PT Hero Supermarket Tbk compared to the industry average is similar with the operating profit margin. This is mainly because income and expense after operating profit, such as finance income or tax benefit do not contribute much to the ratio growth for PT Hero Supermarket Tbk and also the industry. The earnings per share of PT Hero Supermarket Tbk was fluctuating more than the industry average. For both PT Hero Supermarket Tbk and the industry average, 2013 was the year with highest earnings per share. In 2014 though, PT Hero Supermarket Tbk's earnings per share fell significantly to below the industry average, then turned to negative value in 2015.

PT Hero Supermarket Tbk's return on asset trend is declining. Although the company has reached its highest in 2013 above the industry average, like other profitability ratios, in 2014 the ratio fell down turning below the industry average. PT Hero Supermarket Tbk's ability in maintaining the total asset was decreasing through the years when it should be improved. PT Hero Supermarket Tbk's return on equity was continually decreasing for five years. In the first two years, the company's ROE was still above the industry average. In 2013, PT Hero Supermarket Tbk's ROE was similar with the industry

average and eventually fell below it in 2014. The ROE industry average trend is declining, so it can be seen that in the last two years were hard for the industry. The low ROE of PT Hero Supermarket Tbk in recent years might be the biggest contributor in lowering the industry average ROE.



The price to earnings ratio of PT Hero Supermarket Tbk was fluctuating compared to the industry average. The P/E ratio of the company was below the industry average in 2013 and 2015. There was a significant increase in 2014. It was because the low earnings per share, with only Rp10 compared to Rp176 in the year before. While the decrease in closing price was not significant. Overall, investors still have high confidence in PT Hero Supermarket Tbk until 2014, as it mainly above the industry average. But in the year 2015, the P/E ratio was negative, so it was not acceptable and considered to be invalid.

The market/book ratio shows the company's risk and return. PT Hero Supermarket Tbk started slightly above the industry average in 2011, then rose significantly almost twice the industry average in 2012. Then it fell drastically even to below the industry average and keep decreasing through the years.

Conclusions

Based on financial ratio analysis and DuPont analysis used in the previous chapter, the performance of PT Hero Supermarket Tbk can be concluded. The company's overall performance trend was decreasing from year to year. The liquidity of PT Hero Supermarket Tbk was fluctuated through the years, with highest liquidity in 2013. The most profitable year for PT Hero Supermarket was also in 2013, showing that the liquidity plays a major role in the company's performance in generating profit. PT Hero Supermarket Tbk's ability in managing inventory and total asset was declining. The company also took more days in collecting debts and tends to fulfill account payable in shorter period each year. PT Hero Supermarket has taking lower risk as its reliance on debt decrease significantly in 2013. The company's ability to fulfill interest was fluctuating, being the highest in 2013. As stated before, 2013 was the most profitable year for PT Hero Supermarket Tbk, with the year having the highest profit margin compared to other year. Even though on that year, the company's ability to efficiently use asset was the lowest. In aspect of performance for the market, the investor confidence towards PT Hero Supermarket Tbk was declining until 2013, when in the following year it rose up highly, probably caused by PT Hero Supermarket Tbk opening the first IKEA in Indonesia, so investor has high hope for the company. Meanwhile the market/book ratio rose significantly in 2012, mainly caused by the 10:1 stock split. On the following years though, the price adjusted itself. In overall, PT Hero Supermarket Tbk has the trend of increasing performance and reach its peak in 2013, then significantly decreasing until it experienced loss in 2015. It applies for the operating efficiency, but interestingly the company's efficiency in using asset to generate sales was the lowest in 2013. The ROA in 2013 is the highest despite the total asset turnover was the lowest. It means while the company had used the assets less efficiently to gain sales, it managed to gain profit from other gains and operated efficiently, resulting higher ROA. The result of DuPont analysis showed that PT Hero Supermarket Tbk depends on financial leverage to generate higher ROE only when the operating efficiency and asset-use efficiency was good and only plays minor contribution compared to the other two aspects.

Compared to the competitors and industry average, PT Hero Supermarket Tbk performed poorly in the most recent year, 2015. It performed worse than the industry average. Most of its profitability ratios

show negative value. PT Hero Supermarket Tbk already close 74 of its store in the beginning of the year as an act to minimize the loss from less profitable store, but by the end of the year it still recorded loss in the annual report. The five-year comparison of PT Hero Supermarket Tbk shows that most of the time the company's ratio was below industry average. PT Hero Supermarket Tbk was not able to maintain its performance to improve every year and stay above the industry average. This means PT Hero Supermarket Tbk was still underperformed compared to its industry and the performance was declining from 2011 to 2015.

Some factors have affected PT Hero Supermarket Tbk to underperformed compared to the industry. The biggest problem is the operating efficiency of the company was not well maintained. PT Hero Supermarket Tbk has too many stores to operate, and some of its store does not give significant return for the company. The operating expense was too big, resulting in lower net profit. Salaries and allowance contribute the most to the operating expense. Other high expenses include rent and depreciation. PT Hero Supermarket Tbk also gained significant loss from discontinued operation, lowering the net profit even more. Profit gained from other than sales also not increased constantly through the years. The liquidity of the assets was also unstable; it should be increase through the years instead of fluctuating. Other factors include the inefficient use of the company's asset to get return. It was shown by the growth of ROA. When the ROA was declining, PT Hero Supermarket Tbk also tend not to use too much financial leverage, resulting in low ROE.

Based on the financial analysis, some recommendation can be made for PT Hero Supermarket Tbk in order to improve future performance. The recommendations are:

- PT Hero Supermarket Tbk should reduce its expenses and costs in order to gain higher profit margin. The company's cost of goods sold should be reduced to fasten the inventory turnover. From year to year, the operating expenses of the company was too high. The company should cut the number of its employees as salaries and allowance contribute the most to the operating expense. Rent expense was also high. PT Hero Supermarket Tbk already closed some of its store. In the future, it would be better for the company to improve the performance of existing store, keep on cutting the less profitable while expanding the retail chain. In choosing the place to open new stores, the company should be more careful and calculate its prospect better, as closing less profitable store costs much and impact the company's net profit.
- PT Hero Supermarket should also improve its sales, maintaining the performance its premium supermarket, Hero, as the majority of its customer do not really impacted by the economic slowdown and still have high confidence in daily spending. With so many competitors in the retail industry now, PT Hero Supermarket Tbk should strengthen its brand so customer will not switch brand and PT Hero Supermarket can improve its market share.
- PT Hero Supermarket Tbk's ROA and ROE was declining in average for the last five years. The company should improve its operating efficiency and asset-use efficiency to be at least the same with the performance in 2013. The company could also rely on financial leverage to increase ROE, but only if the ROA show positive value.

This section provides a brief explanation of the study and the impact of the study.

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