

# FINANCIAL PERFORMANCE ANALYSIS OF PT. CHITOSE INTERNASIONAL, Tbk 2017-2021 USING THE ECONOMIC VALUE ADDED MEASUREMENT

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## ABSTRACT

Generating profits alone is not enough to provide an overview of the financial performance of a good company, for that purpose this writing aims to know and analyze the financial performance of PT. Chitose Internasional, Tbk in 2017-2021 using the Economic Value Added method which will provide an overview of added value for shareholders. The results of the analysis using economic value added show the financial performance of PT. Chitose Internasional, Tbk in 2017-2018 is not good because it has a negative EVA  $< 0$  or negative EVA. This means that there is no increase in the value of the company to its owners by the company's management, this is possible because the increase in the company's net sales value is almost balanced with the cost of goods sold and other expenses. On the one hand, the cost of capital is greater than the company's ability to earn profits, and the value of NOPAT and Capital Charges in 2021 is even negative.

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## 1. INTRODUCTION

Companies that have gone public and are listed on the Indonesia Stock Exchange are required to have good financial performance, because many parties have an interest in the company's performance. Financial management is required to create the intended purpose by planning the acquisition of funds and allocating and controlling funds in order to maximize organizational value which will ultimately be able to create good and healthy financial performance. Good financial performance allows investors to invest in the companies in question. Financial performance is a thorough assessment of the application of the financial rules of a company (Fahmi, 2018). Financial performance is a way of measuring a company's business capability from a financial standpoint, which is based on financial reports. Financial reports according to Harahap (2002) are media information that summarizes all company activities. Financial reports consist of a balance sheet, which is a report that provides an overview of the company's assets, debts and capital for a certain period; and a profit and loss statement which provides an overview of the company's profit/loss obtained from the difference between the company's sales/revenue and expenses incurred and presented in a certain period.

Knowing the financial performance of a company must be carried out in-depth analysis using a financial approach. Jumingan (2006) (in Matrutu et. al. 2022) states that analyzing financial performance is a company's effort to evaluate the effectiveness of a company's operational activities in a certain period of time. Knowing the company's financial performance can be done by assessing the company's financial statements in the form of a balance sheet or company income statement which will then be analyzed further using existing financial methods and one of them is economic value added. Economic Value Added (EVA) is an indicator of whether there is added value from a company (Sawir, 2001). EVA is a performance measurement tool intended to find out whether there is economic added value obtained from activities carried out by companies that are part of the management strategy (Juwita, R. et al., 2021). Economic Value

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Added or Economic Added Value (NITAMI) is intended to provide an assessment of the level of success of an activity both in terms of the interests and expectations of funders (creditors and shareholders) (Arifin, 2004). Puspita et al, (2015) stated that by measuring value-added performance it is hoped that realistic company performance measurement results will be obtained while at the same time supporting the financial reports presented so as to make it easier for users of financial reports to make decisions for investment and development of company performance in the future.

PT. Chitose Internasional, Tbk is one of the companies engaged in the furniture sub-sector industry since 1979. The development of this kind of business in Indonesia is very promising because Indonesia is rich in natural resources, so that the main raw material needs for the industry are available. PT. Chitose Internasional, Tbk continues to promote creativity and innovation in the products it produces, such as chairs used in offices, schools, hotels, homes, and others. PT. Chitose Internasional, Tbk is not only domestically but also exported to various countries and it is recorded that there are 34 countries which are the marketing network for this company's products.

The company's market which has been wide open to foreign countries, however, does not guarantee that the company will be in good condition, because many factors can affect sales which can have an impact on the company's revenue and profits. One of the factors causing the company's sales to decline was covid 19. The results of research conducted by Mizanina (2020), found that the financial performance of PT. Chitose Internasional, Tbk from 2014-2018 was not doing well because from the financial data, it was found that the company was not liquid, with the company's liabilities continuing to increase.

Based on the data summarized, in 2017-2019 the company's sales continued to increase, but the increase in sales that occurred in 2019 did not have an impact on achieving high profits for the company. In fact, the company's profits experienced a significant decline and decreased to almost 50% of 2018 profits. This was because the company was unable to suppress expenses, both cost of goods sold, general selling expenses and administration including interest expenses. (table 1).

**Table 1.** Progress of the Profit and Loss Report, PT. Chitose International, Tbk  
Year 2017-2021 (in rupiah)

Year	Sale	Cost of goods sold	Selling, General & admin Expenses	Profit and loss
2017	373,995,852,243	48,752,335,546	8,656,796,106	29,648,261,092
2018	370,390,736,433	256,947,701,878	92,291,693,956	13,554,152,161
2019	407,452,029,013	292,192,033,789	98,722,400,194	7,221,065,916
2020	330,675,687,019	233,761,111,651	86,818,323,819	249,076,655
2021	287,145,581,206	273,255,025,402	86,637,644,584	(98,210,943,293)

Source: Financial report of PT. Chitose Internasional Tbk.

The decline in company profits occurred in 2020 and even in 2021 the company suffered losses. The losses experienced by the company were quite large, namely (Rp. 98,210,943,293). This condition was caused by a decrease in sales but this was not offset by a decrease in cost of goods sold, even the sales value of Rp.287,145,581,206, - is almost comparable to the cost of goods sold which amounted to Rp.273,255,025,402, - The condition of the company's financial decline has shifted from 2019 up to 2021 affected by covid 19. The financial condition of a company like this will greatly affect the achievement of added value for investors or company owners. The conditions experienced by this company are in line with the results of research conducted by Utami,

The company's liabilities will continue to increase in 2021. Previously, the company's liabilities in 2017 were IDR 94,304,081,659, increasing by 28.35% to IDR 102,703,457,308 in 2018. The company's liabilities have fluctuated in 2019-2021 with a value that increased because in 2020 it fell by 14.53% from 2019 then rose again in 2021 by 27.09%. (table 2)

**Table 2.** Development of PT. Chitose International, Tbk Period 2017-2021 (in rupiah)

Year	Asset	Liability	Equity
2017	476,577,841,605	94,304,081,659	382,273,759,946
2018	491,382,035,136	102,703,457,308	388,678,577,828
2019	521,493,784,876	131,822,380,207	389,671,404,669
2020	498,020,612,974	112,663,245,901	385,357,367,073
2021	492,697,209,711	143,182,746,626	349,514,463,085

Source: Financial report of PT. Chitose Internasional Tbk.

The components of the balance sheet, both assets, liabilities and equity, have increased from 2017 to 2019. Assets increased from 2017 to 2018 by 3.11% and increased again by 6.13% in 2020. In 2021 assets decreased by 1.07% caused by a decrease in the value of inventories by 38.67% and an increase in fixed assets after deducting depreciation costs. Low equity movement means that there is no addition from company owners or income from low company profits. This condition shows that the company has not been able to manage its assets properly to generate the company's net profit, because the investment embedded in the assets is very large, but the company's profits continue to decline even to the point of losing in 2021.

Reading the numbers in the company's financial statements above alone cannot provide a definite picture of the company's financial performance because the company's success is not only determined by the amount of profit which is the difference between revenue and costs (Umar, 2000) achieved, but is supported by various factors including others, available human resources, management capabilities, and a wide and open market share. Reading the numbers in the financial statements alone cannot obtain information regarding the economic added value for investors of the funds invested because profit acquisition does not mean that the company has good performance because accounting profits are usually recorded in the company's financial statements, while the calculation of economic profit is usually carried out for the benefit of internal decision making as well as knowing the added value for the company and the rate of return to investors. Certainty about the company's financial performance will be further analyzed using the Economic Value Added (NITAMI) method.

## 2. METHOD

This research is a descriptive research using quantitative data in the form of PT. Chitose Internasional, Tbk which has been published, consists of a balance sheet and income statement accessed through the Indonesian Stock Exchange's website <https://www.idx.co.id>. Knowing the company's financial performance and how much added value the company has and the rate of return on investment invested by investors, the analytical method used and the calculation results will be interpreted is Economic Value Added. with the following steps:

$$EVA = EBIT - \text{Tax Expense} - \text{Capital Cost}$$

Where according to Rudianto (2013); Sawir (2001); and Arifin (2004) that;

If  $EVA > 0$ , it means that there is a company's economic value added process

If  $EVA = 0$  indicates the company is in a draw/break even position

If  $EVA < 0$  it means that the company's value added process does not occur

Calculation of economic added value begins with calculating;

*Net Operations After Tax (NOPAD)*

$$NOPAD = \text{Business profit (loss)} - \text{tax} \dots \dots \dots 1$$

*Invested Capital (IC)*

$$IC = \text{Long - term Debt} + \text{Equity} \dots \dots \dots 2$$

*Weighted Average Cost of Capital (WACC)*

$$WACC = (D \times R_d) \times (1 - \text{tax}) + (E \times R_e) \dots \dots \dots 3$$

*Capital Level (D)*

$$D = (\text{Total debt}) / (\text{Total debt} + \text{Equity}) \times 100\% \dots \dots \dots 4$$

*Debt costs (Rd)*

$$R_d = (\text{Interest Expense}) / (\text{Total Long Term Debt}) \times 100\% \dots \dots \dots 5$$

*Level of equity capital (Re)*

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$E = (Total\ Equity)/(Total\ Debt + equity) \times 100\%$ .....	6
Cost of equity(Re)	
$Re = EAT/(Total\ equity) \times 100\%$ .....	7
Tax rate (Tax)	
$Tax = (tax\ expense)/(net\ profit\ before\ tax) \times 100\%$ .....	8
Cost of Capital(CC)	
$CC = WACC \times IC$ .....	9
Economic Added Value(EVA)	
$EVA = NOPAT - CC$ .....	10

### 3. RELUST AND DISCUSSION

Assessment of financial performance using the Economic Value Added (EVA) approach which means economic value added (NITAM) will help assess the level of achievement of company activities that will contribute to meeting the expectations of creditors and investors or shareholders. Thus the company's management must try to generate the maximum profit from the activities carried out by the company. EVA analysis will make it easy for company commissioners to bargain with management. Companies that are able to achieve profit from the accounting side are not necessarily able to provide profits for shareholders. The EVA value can make it easy for company leaders to determine compensation for managers according to their respective performance.

Referring to the explanation above, it is important to analyze financial performance using the EVA method, especially those that have gone public. EVA calculation results at PT. Chitos Internasional, Tbk and supporting components as follows;

1. *Net Operating After Tax*, is the amount that a company can achieve if the company has no debt and cash as well as securities which are non-operating assets (Yahya, 2021). The large or small Nopat value is strongly influenced by the size of the company's tax burden and operating profits.

**Table 3. NOPAT Calculation Results**

Year	L/R before tax	Tax	NOPAT
2017	38,318,873,398	8,670,611,306	29,648,262,092
2018	22,090,078,956	8,535,926,795	13,554,152,161
2019	13,896,350,693	6,675,284,777	7,221,065,916
2020	6,564,977,193	6,315,900,538	249,076,655
2021	(99,225,082,862)	1,014,139,569	(100,239,222,431)

The NOPAT calculation results show a positive NOPAT value from 2017-2020. The highest NOPAT in 2017 with a value of IDR 29,648,262,092 means that there is profit generated from the business being carried out before deducting taxes, it's just that this positive NOPAT has decreased from year to year. In other words, the company's efficiency is still low to generate profits so that in 2021 the NOPAT generated will be negative with quite a large value. This means that the loss that the company will achieve in 2021 is IDR 100,239,222,431.-. This small NOPAT result will affect the small EVA achievement as well. If NOPAT is higher than capital charges, it will make the resulting EVA positive.

2. *Invested Capital* represents the company's total financing excluding short-term debt or the sum of interest-bearing debt and equity. The results of Invested Capital calculations (table 4) show that the value of Invested Capital in 2018 has decreased, but in 2019 it has increased by 1.39%. An increase in the value of Invested Capital indicates an increase in funds allocated for investment. This increase will burden the company because there will be additional capital costs for the additional funds, so that the company will be burdened, and this means that the company's condition cannot be said to be good.

**Table 4. Calculation Results of Invested Capital**

Year	Long Term Debt	Equity	IC
2017	28,289,302,555	382,273,759,946	410,563,062,501
2018	21,627,543,807	388,678,577,828	410,306,121,635
2019	26,345,627,806	389,671,404,669	416,017,032,475
2020	18,075,450,551	385,357,367,073	403,432,817,624
2021	21,560,392,970	349,514,463,085	371,074,856,055

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In 2020-2021 Invested Capital has again fallen from Rp.416,017,032,475 in 2019 to Rp.403,432,817,624 in 2020 and in 2021 to Rp.371,074,856,055. This declining condition should have had a good impact, but the company's long-term debt actually rose in 2021 so that the cost of using capital also rose.

3. *Weighted Average Cost of Capital (WACC)* or the weighted average cost of capital is a measurement to find out the amount of the cost of capital which is the rate of return expected by investors on the investment made. According to Keown, et al (2010) WACC is the weighted average of all capital costs incurred by the company.

**Table 5. WACC Calculation Results**

Year	D	Rd	Q	And	Return	WACC
2017	19.79%	7.34%	22.63%	80.21%	7.76%	7.35%
2018	20.90%	15.40%	38.64%	79.10%	3.49%	4.74%
2019	25.28%	18.34%	48.04%	74.72%	1.85%	3.79%
2020	22.62%	37.95%	96.21%	77.38%	0.06%	0.37%
2021	29.06%	30.42%	-1.02%	70.94%	-28.10%	(11.00%)

The calculation results show that the WACC value has decreased significantly from 2017 of 7.35% to 4.74% in 2018 and until 2021 the WACC is (11.00%). The minus WACC in 2021 is because the company suffers losses. The highest WACC in 2017. A decrease or increase in WACC is strongly influenced by the cost of debt and cost of equity. A decrease in WACC indicates that the company has not been able to manage both debt and capital to generate profit for the company.

4. *Capital Charges (CC)* or management expense is the cost of ownership, meaning the ability to generate capital for the use of either debt by creditors or owners or shareholders. According to Endang (2016) capital charger is cash flow that replaces business risk on the capital invested by investors.

**Table 6. Calculation results of Capital Charges (CC)**

Year	WACC	IC	CC
2017	7.35%	410,563,062,501	30,169,267,977
2018	4.74%	410,306,121,635	19,431,699,822
2019	3.79%	416,017,032,475	15,769,790,186
2020	0.37%	403,432,817,624	1,500,139,408
2021	-11.00%	371,074,856,055	(40,833,323,004)

Table 6 provides an overview of the achievements of capital charges, which are in the same condition as the WACC, namely decreasing from year to year. This decrease is quite significant. In 2017 capital charges amounted to Rp. 30,169,267,977 until 2021 the value has become (Rp. 832,182,699) and when compared to NOPAD it can be seen whether the EVA condition is positive or negative.

5. *Economic Value Added (EVA)* is a company's financial performance measurement tool because it will be able to know the level of success of business activities from a financial perspective and how much added value can be generated for shareholders. Large profits do not mean added value to the owner. The measurement must be using the EVA method, because this method has the advantages described by Mulia (2002), including focusing on added value and taking into account costs as a consequence of investment. In addition, EVA pays attention to the expectations of capital owners or creditors fairly, where the calculation uses a weighted average, namely calculating the cost of debt and capital.

**Table 7. EVA Calculation Results**

Year	NOPAT	CC	EVAs
2017	29,648,262,092	30,169,267,977	(521,005,885)
2018	13,554,152,161	19,431,699,822	(5,877,547,661)
2019	7,221,065,916	15,769,790,186	(8,548,724,270)
2020	249,076,655	1,500,139,408	(1,251,062,753)
2021	(100,239,222,431)	(40,832,182,699)	(59,407,039,732)

The results of the EVA calculation in table 7 show that the NOPAT value is less than the value of capital charges. The 2017 NOPAT is worth IDR 29,648,262,092 and the capital charger is IDR 30,169,267,977. There is a difference of almost 2%. a very striking difference occurred in 2020 where the capital charge is 500% different from NOPAT. If NOPAT is less than the capital charge, EVA will be negative. Conversely EVA is positive if NOPAT is greater than the capital charge. The calculation results above emphasize this where EVA is negative because the capital charge is greater than NOPAT. This means PT.

Chitose Internasional, Tbk has negative EVA in 5 years of analysis (2017-2021). Negative EVA means  $EVA < 0$ , meaning that there is no economic value added process at PT. Chitose International, Tbk. EVA is negative because the available profit cannot meet the expectations of the funders. This means that all profits are used to pay obligations to company owners (shareholders and creditors (Arifin, 2004). A negative EVA indicates poor company performance. According to Puspita, et al. (2015) it is important for a company to record a positive EVA value. because it will affect the company's stock price. If the stock price is high, the wealthier the company's shareholders will be. This is in line with research conducted by Ediningsih and Nilmawati (2010) that EVA has a positive and significant effect on stock prices. The results of this study A negative EVA shows the company's performance is not good. According to Puspita, et al. (2015) it is important for a company to record a positive EVA value because it can affect the company's stock price. If the stock price is high, the more prosperous the company's shareholders will be. This is in line with research conducted by Ediningsih and Nilmawati (2010) that EVA has a positive and significant effect on stock prices. Research result A negative EVA shows the company's performance is not good. According to Puspita, et al. (2015) it is important for a company to record a positive EVA value because it can affect the company's stock price. If the stock price is high, the more prosperous the company's shareholders will be. This is in line with research conducted by Ediningsih and Nilmawati (2010) that EVA has a positive and significant effect on stock prices. Research result This is in line with research conducted by Ediningsih and Nilmawati (2010) that EVA has a positive and significant effect on stock prices. Research result Sihalo (2017) in different companies found positive EVA results, so that the company has added economic value and financial performance is quite good and this is added value for the company.

This means that it is important for the company to produce a positive EVA because the share price will be pushed up and a rising or high share price indicates more prosperous shareholders, meaning that the company is also able to create added value and good financial performance.

#### **4. CONCLUSION**

PT. Chitose Internasional, Tbk from 2017-2021 which was analyzed using the Economic Value Added Method was not good. The EVA value for 5 years of negative analysis or  $EVA < 0$  means that there is no added value generated by the company for capital owners. The profits generated by the company are entirely used to pay obligations to creditors and investors. It is suggested to company management to be more efficient and prudent in utilizing or placing funds for company activities. The proportion of debt to capital must be considered because there are consequences that accompany it. Companies control costs as much as possible, thereby encouraging better profit achievements and creating good performance which can also produce positive EVA.

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