

FINANCIAL PERFORMANCE ANALYSIS OF INDONESIAN TELECOMMUNICATION COMPANY

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Abstract: *This study thoroughly examines the financial performance of four leading telecommunications companies in Indonesia. Telkom Indonesia (TLKM), XL Axiata (EXCL), Smartfren (FREN), and Indosat (ISAT) over the period 2021–2022. By analyzing financial performance using financial ratios such as leverage ratio (DAR, DER) and profitability (NPM, ROA, ROE), it can be seen that Telkom Indonesia experienced a decrease in debt ratio and a decrease in profitability. XL Axiata saw an improvement in its debt ratio but also experienced a considerable decline in profit. Smartfren showed a decrease in its debt ratio and a significant increase in profitability. Indosat had a combination of changes in profitability and a decrease in debt ratio. These findings emphasize the importance of organizations prioritizing efficient debt management and strategic initiatives to improve profitability in the changing telecommunications sector.*

Keywords: *Financial Performance, Leverage Ratio, Profitability Ratio, Ratio Analysis.*

INTRODUCTION

Telecommunication companies in Indonesia play an important role in providing communication and information technology services (Setiawan et al., 2023). Telecommunications is a vital sector in the technological and economic development of a country. This study aims to analyze the financial performance of Indonesian telecommunication companies, focusing on the debt ratio and profitability ratio.

Telecommunication companies operate in a dynamic and complex environment, particularly due to rapid technological advancements. These factors create significant financial challenges for companies, which require a thorough evaluation of their financial performance. In this case, the use of leverage ratio and profitability ratio becomes relevant in measuring the financial efficiency and competitiveness of telecommunications companies. Indonesia has numerous telecommunications companies, ranging from government-owned companies like PT Telkom Indonesia (Persero) Tbk, which is also a state-owned enterprise (BUMN), to government-owned but not majority-owned companies like PT Indosat Tbk, and privately-owned companies like PT Smartfren Telecom Tbk, PT XL Axiata Tbk, PT First Media Tbk, PT Link Net Tbk, and others (Putri & Hermuningsih, 2023).

The main objective of this study is to analyze financial performance using the leverage ratio and profitability ratio in telecommunication companies listed on the Indonesia Stock Exchange during the 2021-2022 period. The research subjects are companies that provide mobile communication networks, namely PT Telkom Indonesia (Persero) Tbk (TLKM), PT XL Axiata (EXCL), PT Indosat Tbk, and PT Smartfren. This research will use a quantitative descriptive data analysis approach with financial performance analysis. data obtained from the annual financial statements of telecommunications companies listed on the Indonesia Stock Exchange. The data will be analyzed descriptively. The ratios that will be examined in this study are leverage ratios, namely debt to equity ratio (DER) and debt to assets ratio (DAR), as well as profitability ratios, namely return on equity (ROE), net profit margin (NPM), and return on assets (ROA). These ratios will be calculated and compared to evaluate financial performance.

Several previous similar studies (Khalifah & Siswanti, 2023), The research focuses on doing a comparative analysis titled "Comparative Analysis of Financial Performance between PT. XL Axiata Tbk and PT. Indosat Tbk using Current Ratio, Return on Equity, and Debt to Equity Ratio for the period 2017-2021." Furthermore, another study also conducts a comparative analysis or performance comparison (Deprianti et al., 2023). Furthermore, several other studies with different research subjects (Azizah et al., 2023; Deprianti et al., 2023; Melenia et al., 2023; Novia et al., 2023).

This comparative analysis of financial performance aims to provide valuable insights for stakeholders, such as company management, investors, and capital market regulators. These insights will help them make informed decisions regarding investment and risk management in the telecommunications sector.

LITERATURE REVIEW

1. Financial Performance

Financial statements provide a means to assess the financial performance of a company. The financial ratios used in this study include liquidity ratios, activity ratios, profitability ratios, and solvency ratios (Firdaus & Dara, 2020). Financial performance evaluation is the process of assessing the effectiveness of operations, organisation, and employees based on predetermined objectives, standards, and criteria on a periodic basis according to Srimindarti (2006:34) in (Mangkona et al., 2023).

2. Financial Ratio Analysis

According to Harahap (2011:297) in the study conducted by Mangkona et al. (2023), Financial Ratio Analysis is a figure obtained from comparing one item in the financial statement with another item that has relevant and significant (meaningful) relationship. Financial ratio analysis is one method used to evaluate the performance of a company in both the past and present. The results of financial ratio analysis can be utilised to assess the financial position and business growth of a company (Setyawan et al., 2023). In the study Setyawan et al., (2023), financial ratios are a method of calculation using financial statements as a tool to assess the financial condition and performance of a company. These ratios are obtained by comparing one financial statement with another, where there is a relevant and significant relationship between them.

2.1 Various Types of Ratios Financial Ratios

According to Rita et al. (2022) in Setyawan et al. (2023), there are four types of financial ratios (Setyawan et al., 2023).

- a. The Liquidity Ratio is a ratio that indicates a company's ability to meet short-term obligations.
- b. The activity ratio is a financial ratio that measures how well a company manages its assets.
- c. Solvency ratio (leverage) is a ratio used to measure the extent to which a company's assets are financed by debt, both in the short term and long term.
- d. Profitability ratio. Profitability refers to a company's ability to generate profit from the capital used to produce earnings.

RESEARCH METHOD

The type of research used by the researcher in this study is descriptive quantitative research with comparative analysis. Comparative research involves the examination and comparison of two or more objects or entities (Priyono, 2016) in (Setiawan et al., 2023). Within this study, the researcher will compare the financial performance of telecommunications companies listed on the Indonesian Stock Exchange throughout the period of 2021–2022. Researchers can download the available secondary data from the Indonesia Stock Exchange website in the form of annual reports. The research focuses on telecommunications companies and companies that provide cellular telecommunications networks, such as PT. Telkom, PT. XL Axiata, PT. Indosat, and SmartFreen. The analysis of ratios used includes leverage ratios, including the debt-to-equity ratio and the debt-to-asset ratio. Furthermore, the analysis includes the use of

profitability ratios such as net profit margin, return on equity, and return on assets.

RESULTS AND DISCUSSION

1. Financial Ratio Results

The results of the research conducted, obtained the results of the leverage ratio and profitability ratio of Telkom, XL, Indosat and Smartfren companies in the following table.

Tabel 1. Financial Ratio Result

KODE COMPANY CODE	THE YEAR	LEVERAGE RATIO		PROFITABILITY RATIO		
		DAR	DER	NPM	ROA	ROE
TLKM	2021	47	90	23	10	23
TLKM	2022	45	84	18	12	18
EXCL	2021	72	262	5	1.79	6.49
EXCL	2022	70	239	4	1.34	4.55
FREN	2021	71	243	-4	-0.94	-3.24
FREN	2022	67	195	10	2.34	6.84
ISAT	2021	84	515	22	10.92	67.21
ISAT	2022	72	260	11	4.72	16.99

Source: Processed Data

During the period 2021 to 2022, Telkom Indonesia (TLKM) experienced a decrease in the debt ratio with the Debt to Asset Ratio (DAR) decreasing from 47 to 45 and the Debt to Equity Ratio (DER) decreasing from 90 to 84. However, the company's profitability also decreased with Net Profit Margin (NPM) falling from 23 to 18, Return on Assets (ROA) increasing from 10 to 12, and Return on Equity (ROE) falling from 23 to 18.

XL Axiata (EXCL) showed improvement in its debt ratios, with DAR falling from 72 to 70 and DER dropping from 262 to 239. However, the company's profitability declined, particularly NPM which dropped from 5 to 4, ROA from 1.79 to 1.34, and ROE from 6.49 to 4.55.

Smartfren (FREN) saw a decline in its debt ratios, with DAR falling from 71 to 67 and DER falling from 243 to 195. FREN's profitability improved significantly, especially NPM which rose from -4 to 10, ROA from -0.94 to 2.34, and ROE from -3.24 to 6.84.

Indosat (ISAT) showed a decrease in debt ratios, with DAR falling from 84 to 72 and DER falling from 515 to 260. ISAT's profitability showed mixed changes, with NPM falling from 22 to 11, ROA increasing from 10.92 to 4.72, and ROE falling from 67.21 to 16.99.

CONCLUSIONS

The comprehensive evaluation of the financial performance of four Indonesian telecommunication companies, specifically Telkom Indonesia (TLKM), XL Axiata (EXCL), Smartfren (FREN), and Indosat (ISAT), from 2021 to 2022, reveals a range of patterns and dynamics. Telkom Indonesia's debt ratio decreased, while its profitability exhibited a downward trend. Conversely, XL Axiata saw an enhancement in its debt ratio but encountered a substantial decrease in profitability levels. Smartfren's profitability had a notable surge, even if its debt ratios were lower. Indosat demonstrates fluctuating profitability performance, despite a decrease in some debt ratios. Ultimately, these organisations must prioritise debt management and profitability initiatives in order to enhance their financial performance in the face of the evolving dynamics of the telecoms market.

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