

[79]

## Analysis of Long-Term Financial Management Policy Case Study PT Sierad Produce Tbk

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**Abstract.** The company's long-term financial policy is the policy that is associated with a model of the enterprise. Corporate funding can come from debt or equity. The company's equity capital can originate from own capital and shareholders as well as bonds.

The purpose of this research is to identify on PT Sierad Produce Tbk; to find out the sources of capital used by the company; to know the performance of the company, and long-term financial policy.

The results of this study showed that analysis of TP Sierad Produce Tbk more dominant use of equity in debt for the purposes of the company's capital. This is indicated by the ratio of debt to equity ratio which was only reached 48.37%, meaning that only 48.37% venture capital is funded by the equity that comes from its own capital and shareholders. The toughest issue facing the company is a matter of very high operating expenses, due to the price of chicken dropped below the cost of goods production and the company should sell loss because if not for sale will add to the burden of operational, while chicken prices in the more elderly lower. In the year 2015 is the year that the weight for the company in that year suffered a loss of up to 332 billion which caused many factors but by borrowing long-term debt the company succeeded in lowering the level of loss that very significant though still many deficiencies within the company and still losing money in of 68 billion, but it is an increase in the need to preserve. Things to do by the company is expanding exports of its products because the company needs for the production of raw materials in use are still imported and hit its high operating costs.

**Keywords:** financial management, long-term funding, financial performance, financial ratios

### 1. Introduction

Economic growth in Indonesia after the reform era continues to grow rapidly, supported by state facilities for investors and entrepreneurs which make Indonesia the fastest growing economy in the world.

The company was established under the name PT Betara Darma Export-Import, on September 6, 1985, PT. Sierad Produce Tbk. replaced PT Betara Darma Import Export. Since December 27, 1996, the Company listed its shares on the Indonesia Stock Exchange (formerly the Jakarta Stock Exchange) with the stock code "SIPD". PT. Sierad Produce Tbk engaged in Integrated Chicken Farming produces various kinds of products such as animal feed, broilers DOC, laying hens, live chickens, broilers, processed foods.

In 2001, 3 (three) companies engaged in the integrated poultry business, namely PT Anwar Sierad Tbk, PT Sierad Feedmill and PT Sierad Grains merged and merged into one with the company. In 2011, the company took over the shares of PT Belfoods Indonesia, a company that runs businesses in the

frozen food processing industry through the conversion of debt into share ownership (debt to equity swap).

Based on the background described above, the researcher formulates the problems that will be discussed in the research are:

1. More in-depth research on business analysis of PT. Sierad produce Tbk
2. More in-depth research on the profitability analysis of PT. Sierad produce Tbk
3. More in-depth research on asset management analysis of PT. Sierad produce Tbk.
4. More in-depth research on the analysis of PT. Sierad produce Tbk.

## **2. Research Methodology**

The method used in this study is descriptive and quantitative methods. Descriptive research is a form of research aimed at describing existing phenomena, both natural phenomena and man-made phenomena. The phenomenon is biased in the form, activity, characteristics, changes, relationships, similarities, and differences between one phenomenon and another.

Quantitative research is one type of research whose specifications are systematic, planned, and clearly structured from the beginning to the making of its research design. Another definition of quantitative research is that research requires a lot of use of numbers, ranging from data collection, interpretation of the data, and the appearance of the results.

### *2.1 Analysis Method*

#### **A. Trend Analysis**

Trend analysis is an analysis method that is intended to make an estimate or forecast in the future. To forecast well, it takes a variety of information (data) that is quite a lot and observed in a relatively long period of time, so that the results of the analysis can be known to what extent the fluctuations occur and what factors influence the changes.

#### **B. Analysis of Financial Ratio**

Financial Ratio Analysis or Financial Ratio is an analysis tool used by companies to assess financial performance based on comparative data of each post contained in financial statements such as balance sheet, profit and loss, and cash flow in a certain period. The ratio that will be used in this study is the analysis of the ratio of liquidity, profitability, activity, solvency, market value.

#### **C. Analysis of Dupont**

DuPont analysis is a method used to analyze the ability of a company and the rate of return on equity. And shows the rate of return on assets that can be obtained from the net margin multiplication (Net Profit Margin) with the Total Assets turnover (Total Assets).

#### **D. SWOT Analysis**

SWOT analysis is a form of analysis in the management of a company or within an organization that can systematically help in the preparation of a plan that is mature to achieve goals, both short-term goals and long-term goals.

## **3. Results And Discussion**

Market share rating for the animal feed sub-sector listed on the Indonesia Stock Exchange. PT Sierad Produce Tbk is in 4th place with a market share of 5.13%. The company is still optimistic although it is currently considered the smallest for the scale of the same animal feed industry.

### *3.1 Risk Control*

As a business entity, the Company faces a variety of risks both systematically and non-systematically in carrying out daily operational activities. The following are the risks faced by the Company:

#### **1. Risk of Availability and Fluctuation of Raw Material Prices.**

To meet certain raw material needs, the Company imports from abroad considering that the majority of the main raw materials used by the Company are commodity goods such as corn and soybean meal. The availability and prices of these raw materials depend on weather conditions, harvest and supply and demand levels which are often not available in the local market with an adequate amount. The Company manages these risks by trying to reduce costs by purchasing large quantities of raw materials. In addition, the Company also continues to look for raw materials that can be substituted from imported raw materials through various research and development.

## 2. Exchange Rate Risk

The Company has an exposure to the exchange rate of the Rupiah against other national currencies, especially the US Dollar with the purchase of imported raw materials. Anticipation by the Company to mitigate the risk of fluctuations in the exchange rate is by conducting good cash management and natural hedging. In addition, in order to obtain the best exchange rate in each transaction, the Company also monitors changes in foreign exchange rates against the Rupiah value along with conditions that can affect it.

## 3. Risks of Live Chicken Price Fluctuations

Live chickens are a commodity product whose price is strongly influenced by the level of supply and demand. In order to reduce the risk of a temporary or seasonal decline in the price of live chickens, the Company seeks to maximize the production capacity of modern chicken brooders where live chicken that is cut will be stored for later sale at high prices or further processed into processed food.

## 4. Risk of disease outbreak

Poultry deaths on farms are often caused by disease outbreaks. To overcome this risk, the Company implements bio-security in all facilities owned, as well as by providing consultation and guidance to farmers. In addition, to prevent disease outbreaks, the Company routinely provides vaccination against poultry.

## 5. Interest Rate Risk

The Company is exposed to interest rate risk, credit risk and liquidity risk related to financing facilities in the form of bank loans and finance lease liabilities. In order to minimize interest rate risk, the Company manages interest expenses through a combination of fixed interest rates and variable interest rates accompanied by an evaluation Market interest rates. Management also reviews the various interest rates offered by creditors before making a decision to enter into a debt agreement to obtain favorable interest rates. Other efforts undertaken by the Company are by always maintaining business relationships with other trusted parties, establishing verification policies and credit authorization, and monitoring the collectibility of receivables on a regular basis to reduce the number of uncollectible receivables.

## 6. Liquidity Risk

The Company periodically evaluates the projected cash flows and actual cash flows including the maturity date of the debt. In addition, in order to obtain optimal funding sources, the Company reviews the financial markets.

### 3.2 Analysis of Profitability

#### Profitability Ratio

The increase in sales of PT Sierad produce Tbk has sales that are still below the industry average. This shows that the company has not been able to compete and maintain consumer interest. The decline in the cost of goods sold was divided by sales of PT Sierad Produce Tbk below the industry average. This shows that PT Sierra Produce Tbk has been efficient in suppressing HPP compared to competing industries that have an increasing trend, so that the profit can be maximized compared to the competitor industry. Increasing the trend of operational expenses divided by sales of PT Sierad Produce Tbk is still above the industry average. This is caused by many factors, especially external factors, namely the exchange rate of the rupiah against the dollar decreases causing raw material costs to rise because most of the raw materials are imported. There is also an excessive supply of DOC (day old chicken) compared to demand in the market. Government policies ~~that~~ limit corn imports and the destruction of DOC brooders to stabilize DOC prices. Viruses that attack livestock also affect the production and burden of the company. There are also unstable prices of chicken meat and eggs which causes market demand for these commodities to decline.

Judging from the gross profit margin (GPM) the company is able to minimize sales costs so that the gross profit generated is better and more efficient than the industry average. This is due to HPP being able to be suppressed by the company so that the gross profit received has increased.

However, the operating profit margin (OPM) of PT sierad Produce Tbk and industry has not been able to suppress such operating and production costs so that operating profit margins have decreased. High operating expenses and declining sales are a problem for all companies engaged in the animal feed sector, moreover many external factors that cannot be controlled by the company. This has an impact on the profits earned by the company to become inefficient and even lose.

So that the ratio of Net Profit Margin (NPM) of PT sierad Produce Tbk is not able to suppress expenses such as tax expenditures, and interest expense, so the net profit earned by the company experienced a

significant decline until it loses. This is because the company uses more of its equity compared to using debt so that the tax burden that the company has is high.

At the Return of Assets (ROA) ratio of PT Sierad Produce Tbk below has decreased. This shows that the company's Earning After Tax (EAT) has a loss and sales that are always decreasing. This causes the company to be unable to return the use of assets within one year.

This also affects the Return on Equity (ROE) ratio of PT Sierraaduce Tbk. Decreased. This shows that the company's Earning After Tax (EAT) has experienced a loss and sales that are always decreasing. This causes the company to be unable to return equity within one year.

### *3.3 Asset Management Analysis*

#### *1. Activity Ratio*

Current asset turnover (CATO) PT Sierad produce Tbk experienced a decline due to the increase in company sales not comparable with the increase in current assets owned by the company in the last five years. This causes current asset turnover (CATO) of PT Sierad produce Tbk to be under the animal feed sub-sector industry. This decline means that the company has not been able to use existing current assets to generate higher returns.

This happens also in the ratio of Fixed Assets Turn Over (FATO) of PT Sierad produce Tbk due to the decrease in fixed assets owned by the company for the last five years but fixed assets sold by the company are unproductive assets so that they have no influence on sales but still the company unable to increase sales. This causes Fixed Assets Turn Over (FATO) PT Sierad produce Tbk is under the animal feed sub-sector industry. This decrease means that the company has not been able to use existing fixed assets to generate even higher profits.

Because the ratio of CATO and FATO has decreased, the trend of Total Asset Turn Over ratio has also decreased because the use of company assets can not increase sales so that the profits owned by the company will decrease.

But the current ratio activity of PT sierad Produce Tbk in the ratio of Current Ratio (CR) has increased even though a little, this is because the company has a short-term debt that is slightly compared to the current assets used so that the turnover is good.

Similarly, the Quick Ratio (QR) turnover of net current assets that have been reduced by inventory has a good trend, this shows the company is able to pay its short-term debt with cash.

### *3.4 Analysis of Funding Policies*

#### *Solvability Ratio*

Increased Debt to Total Asset Ratio (DAR) trends PT Sierad Produce Tbk is due to a decrease in total debt and a decrease in the trend of total assets, assets are reduced due to depreciation and there are some unproductive assets sold. This shows that PT Sierad Produce Tbk is able to manage its debts well, because the increase in Debt to Total Asset Ratio (DAR) of PT Sierad Produce Tbk is insignificant. However, it can be seen that the funding of corporate assets uses more debt so that the risk is higher but has a high chance of return.

Decrease in Debt to Equity Ratio (DER) of PT Sierad Produce Tbk due to a decrease in total debt and an increase in equity held by PT Sierad Produce Tbk. This shows that PT Sierad Produce Tbk is able to manage to fund based on debt well. Although it uses more of its equity compared to its debt because it avoids the risk of large interest in order to reduce the risk of not being paid. This step was taken because the EBIT of the company was unable to generate profits in 2014 and 2015 so that the company had an interest and tax expense that was not paid. This could threaten the continuity of the company because of an increase in liabilities that must be paid by the company.

Long-Term Debt Ratio (LDER) of PT Sierad Produce Tbk is known that long-term debt growth is lower than equity growth, which means that low-risk companies are funded by the company's equity. But this causes the company to have a high tax burden because it uses more equity as evidenced in 2014 to 2015 the tax burden of PT sierad produce Tbk from 2.89 billion to 22.52 billion this has an impact on net income and corporate dividends that will be shared with shareholders.

In the ratio of Time interest earned (TIE) PT. Sierad Produce Tbk has not been able to pay the fixed costs of the company in the form of interest loans by utilizing the company's EBIT, which means the company has not been able to pay interest and few opportunities to get additional loans if the company seeks loans through interest (bonds) interest offered by the company must be high so investors are interested in buying it with the hope of high profits. This was due to the low EBIT and high operating expenses which caused the company to be unable to pay its interest expenses, especially in 2014 and 2015 which experienced very large losses.

### 3.5 Evaluation of dividend policy

The ratio of PT Sierad Produce Tbk Earning Per Share (EPS) has not been able to distribute dividends to its investors, because the company has not been able to generate high net income so that there is a decline in other causes namely high outstanding shares also become a problem so in 2015 the company conduct stock split reverses which aims to increase the share price and reduce dividends distributed. This has an impact on the confidence of prospective investors to buy the company's shares because the expected profits are not appropriate. If it continues, the company will find it difficult to get additional capital from new investors so the company is underfunded and threatened with bankruptcy.

This has an effect on the Price Earning Ratio (PER) ratio because the dividend distributed is compared to the stock price, because the dividend is not distributed, so the company's stock price does not dare to buy at a higher price than the original stock price.

### 3.6 Dupont Analysis

From the above Dupont analysis, PT Sierad Produce Tbk, from 2012 to 2016 decreased, this caused PT Sierad Produce Tbk unable to increase return on equity (ROE). This shows that in the return of capital to the sale of PT Sierad Produce Tbk, it has not been efficient in generating profits.

## 4. Conclusion

### 4.1 Evaluation of Financial Performance

#### 1. Profitability

From the analysis of sales in 2012 to 2016, the company experienced a decline, this caused PT Sierad Produce Tbk to be unable to compete with competing industry sales, which had an impact on the company's profits. In the cost of goods sold divided by sales increased at higher than the competitor industry this shows that the company has not been able to reduce the cost of goods sold. From the results of the analysis carried out on operating expenses divided by sales the company experienced a higher increase than the competitor industry, which means that the company's operating expenses are very high, the company has not been efficient in suppressing costs while decreasing sales. From the analysis measured by calculating the Net Profit Margin, Gross Profit Margin, and Operating Profit Margin the company has a value that is not so good, is below the industry average which means that the profits received by the company are still not so optimal, because the company does not press the burden businesses that affect the company's net income. From the analysis of Return On Assets (ROA) of PT Sierad Produce Tbk has a minus value, this explains that the company is unable to return assets from the net profit earned because the company's net profit suffered losses. Likewise, Return On Equity experienced a minus decrease in the ratio calculation, because the net lab of the company suffered a loss, so the company was unable to return equity.

#### 2. Asset Management

From the analysis of the asset management performance of PT Sierra Produce Tbk for the period of 2012 to 2016, the company has not been able to process its assets properly. This is due to the calculation of the activity ratio of the CATO value (Current Asset Turnover) in PT Sierad Produce Tbk has a value of 2.92x rotation. This means that PT Sierad Produce Tbk has used its smooth assets well. However, when compared with the industry average, it can be said that the CATO value is below the industry average that has a 3.01x rotation. as with FATO Fix Asset Turnover PT Sierad Prouce Tbk has a 2.69 times turnover, which means the company has used its fixed assets well. But the competitor industry has 3.23 times that is still above PT Sierra Roduca Tbk which means that the competitor industry is more efficient in using its fixed assets to get profit. And total asset turnover (TATO) of PT Sierad Produce Tbk as much as 1.37 times, this states that the company can be said to be good because the turnover is over 1 time but the industry's turnover of competitors has a higher turnover of 1.49 times which means that the competitor industry is more efficient in using all its assets. Furthermore, PT Sierad produce Tbk's current ratio has 0.88 times turnover, this can be said to be bad because PT Sierad Produce Tbk's current ratio turnover does not touch the number 1 time so the company is unable to meet the current liabilities of the company using current assets. Different from competing industries which have a turnover of 1.84 times. The cash ratio of PT Sierad Produce Tbk still does not have a good value. The company is still below the industry average below 1 time. This means that the company still cannot pay its short-term liabilities with the cash that is in the company at the time of maturity. While Quick Ratio has good value because it is above the industry average.

#### 4.2 Evaluation of funding performance

From the analysis measured by calculating the solvency ratio: Debt-Asset Ratio and Debt-Equity Ratio from 2012 to 2016 the company has a better value below the industry average. Even though the company has high debt, it can be said to be safe compared to its competing companies. Whereas the Long Term Debt To Equity LDER and Time Interest Equity (TIE) are still below the industry average and have less good value due to long-term debt that has less maximum use and loss of net income. The conclusion of the financial performance is that companies use their own capital more than using debt even more so using long-term debt so that the tax burden is very high, this causes the company is unable to pay the burden even though the debt owned by the company is not good enough to pay interest expense is seen in the average TIE ratio of only 0.08%, this is due to very high operational expenses which cause the company to receive very low profit before interest expense and tax (EBIT) and decrease sales. this causes an inability to pay interest and taxes.

#### Dividend policy valuation

From the calculation of the analysis of earnings per share (EPS) and price earning ratio (PER) in the period 2012 to 2016, the company has a poor performance can be seen EPS and PER are far below the industry average. this is caused by companies that always lose each year, this affects the dividend distribution, which is under 0 which means there is no profit distributed by the company to shareholders. This has an effect on PER, a bad PER ratio causes the company's stock not worth buying because the shares purchased are not proportional to the profit expected by investors. So the conclusion of these two ratios is that PT sierad Produce Tbk is not feasible for investment because dividends are not given during the last 5 years and the stock value is bad.

### 5. Recommendations

Based on the results of the conclusions above, the suggestions that can be given by the author are as follows:

- a. Companies need to add additional funds to make improvements, such as modernization, capital structuring and management structuring.
- b. The company must give trust to the banking world, to get additional working capital.
- c. Companies need to develop such as exporting goods that are produced.
- d. Companies need to reduce operating costs that swell to close the threat from external parties with existing external forces.
- e. Adding to the sale of animal feed and seeds to small farmers and those in remote areas so that PT sierad produce Tbk's products can dominate the market as a whole.
- f. Provide training and education to employees so that the company can maximize the performance of its employees.
- g. Produce their own raw materials so that the burden can be reduced, such as opening corn farming which is the main raw material for making animal feed, especially the restrictions on the import of corn by the government so that it can be overcome.

### 6. Disclaimer

This report was made by the author as a student research in order to fulfill the requirements of completing the final assignment to achieve a Bachelor of Capital Market Financial Management. The above research is made on the basis of reliable company data and other relevant external information, and is carefully processed according to the equity research procedures. The author is not responsible for the possibility of the incompleteness of the data being processed.

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Prospective statements in this report are made based on various assumptions regarding the current and future conditions of the Company and the business environment in which the Company conducts business activities. The Company does not guarantee that documents that have been verified as valid will bring certain results as expected.

This report contains the word "Company" or "company" which is defined as PT Sierad Produce Tbk which runs a business in the field of the animal feed industry. Sometimes the word "SIPD" is also used on the basis of convenience to refer to PT Sierad Produce Tbk in general.

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