Analysis of the Performance of Blue Chip Stock of Cigarette Companies Listed on the Indonesia Stock Exchange

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Abstract

This study aims to: 1. Understand how the performance of the cigarette industry in the Indonesia Capital Market. 2. Understand the best performance in the cigarette industry. The research data was obtained from secondary data published on the Indonesia Stock Exchange and information company website in the form of financial reports for the period 2018-2020. The financial statement is analyzed using profitability ratios to explain the performance of each cigarette industry. The Profitability ratio used is ROE, ROA, and NPM. The data analysis method is descriptive and comparative by comparing the results of the calculation of the profitability ratios with the industry average standard. The result of this study indicates that the performance of the cigarette industry was very good in PT. Hanjaya Mandala Sampoerna Tbk.

I. Introduction

The Indonesia Stock Exchange plays a significant role in the development of the Indonesian economy. A role for the Indonesian Stock Exchange is to provide a mechanism for investors or the general public with extra funds to invest in available financial instruments such as stocks, bonds, mutual funds, and other types of investments. Consequently, the public can choose financial products that meet their needs while taking risks and rates of return into consideration.

Financial performance is a measuring instrument to know the process of implementing the company's financial resources (Ichsan, R. et al. 2021). The financial performance of the companies that issue stocks, bonds, and mutual funds with the goal of earning favorable returns in the future must be taken into consideration by investors when choosing financial instruments. Profit levels and cash income are the two types of returns that investor can expect to receive. The proper company or issuer can help investors meet their goals by providing the returns they expect. Investors should carefully analyze the financial performance of a company before committing a certain amount of funds to issuers of securities to invest in them. The financial performance of a company demonstrates the ability of the firm to generate profits, the achievement of the company's goals, and the accomplishments of the company over a specific period of time that indicates the company's overall health.

Profitability, according to Hakim & Apriliani (2020) is defined as a company's ability to make profits through the use of its resources, which include assets and capital. Increasing the profitability of a firm can be accomplished through enhancing the overall performance of the company. Profitability ratios such as ROE (Return on Equity), ROA (Return on Assets), profit margins, and other ratios are used to help investors make investment decisions. In finance, the term "Return on Equity" refers to a ratio that measures the extent to which a corporation generates a net profit for its shareholders.

A high return on equity (ROE) value presented as a percentage implies that the company's performance is improving.

The economic condition of the population is a condition that describes human life that has economic score (Shah et al, 2020). Economic growth is still an important goal in a country's economy, especially for developing countries like Indonesia (Magdalena and Suhatman, 2020).

According to the Ministry of Industry, cigarette companies make a significant contribution to the Indonesian economy. Cigarette companies contribute revenue through excise and taxes that continue to increase. State revenue from excise in 2018 was Rp. 205,5 trillion, in 2019 it was Rp. 205,35 trillion, and in 2020 it was up about 17% from 2019. The financial performance of the cigarette industry in 2018 showed a fairly good performance. Hence, the financial performance can be seen from the profit indicators of several cigarette companies which have increased. The net profit of cigarette companies can be seen in the following table.

Table 1. Cigarette Industry Net Profit

Company name	Net profit		
	2018 Period	**2019 Period**	**2020 Period**
PT. Gudang Garam.,Tbk	Rp 7,79 Trillion	Rp 7,24Trillion	Rp5.67Trillion
PT. HM Sampoerna., Tbk	Rp13,54 Trillion	Rp 13,7Trillion	Rp6,91Trillion

Source: data processed in 2021

As shown in the data in the table above, the average net profit of cigarette sector enterprises declined in 2019-2020 when compared to the previous year. The condition of the Covid-19 pandemic, which impacts poor consumer purchasing power, resulting in a decrease in profit for cigarette industry companies. The amount of sales generated by a company is one of the factors that determine the amount of profit earned by the company.

Based on the above phenomena, the problem formulation is as follows: 1) How is the performance of the cigarette industry listed on the Indonesia Stock Exchange in terms of profitability ratios in 2018-2020? 2) Which firm has the best performance in the tobacco industry?. With the following research goals: 1) To determine the profitability ratio performance of blue chip stocks in cigarette companies listed on the Indonesia Stock Exchange in 2018-2020. 2) Determine the best blue chip stock performance in cigarette companies based on profitability ratios. The contrast between this research and prior research is that this research focuses on making investment decisions by analyzing the financial performance of the cigarette industry, whose shares include blue chips listed on the Indonesia Stock Exchange, as well as on various company objects.

The limitation of this research is that it has to be confined, both in terms of data and discussion, in order to be more focused. The performance data is in the form of annual performance, which can be accessible through the Indonesia Stock Exchange's reports. In implication, it is utilized to make investment decisions, and the only measure employed is financial performance, specifically the profitability ratio.

II. Review of Literature

2.1 Investment Concept

According to Joehnk et al. (2017), investment can be described as the process of placing funds in the goal of generating good returns or increasing in value. There are two types of investment income: current income and capital appreciation. According to Jogiyanto (2017), investment is deferred current consumption for the purpose of facilitating efficient output over a set time period. When productive assets exist, deferring current consumption in order to invest in them might raise total utility.

The steps in developing an investment plan must meet investment requirements, which include having sufficient funds available for basic needs and adequate protection against various general risks; developing investment targets with the desired financial goals to be achieved through investing; adopting an investment plan with written documents outlining how investment funds will be invested; evaluating investment vehicles by assessing potential returns; and finally, personal tax considerations are those that pertain to income tax.

The several types of income include: Firstly, active income, which ranges from wages and salaries to bonuses, tips, retirement income, as well as benefits, which is earned through working (non-investment). Secondly, portfolio income is generated through investments in cash, stocks, bonds, mutual funds, and derivatives. Lastly, passive income is a subset of income that includes revenue from real estate, joint ventures, and such like.

2.2 Financial Statements

According to Brigham (2017), financial statements reflect the state of a business at a specific point in time. Moreover, it highlights the company's operating activity over a number of time periods. Financial statements are critical for a variety of stakeholders. Managers, creditors, and stockholders are all examples of these parties. To begin, the management evaluates the company's performance using financial information. Furthermore, the creditor's objective is to ascertain the business's ability to satisfy financial obligations on time. Finally, shareholders seek to forecast dividends, earnings, and share prices. The following are the most critical components of financial statements.

a. Balance

The balance sheet is a report on the company's financial position at a certain point in time. The balance sheet also shows the position of the company's assets, liabilities, and capital of the company. Assets are presented on the asset side and liabilities and equity are presented on the liability side. Assets are divided into two, namely current assets and long-term assets. Current assets include cash plus other items that can be converted into cash within one year. These items are cash and cash equivalents, accounts receivable, and inventories. Meanwhile, long-term assets are assets with a useful life of more than one year and these assets include physical assets. Long-term assets include buildings, plant, equipment, and intellectual property (patents and copyrights).

The company's liabilities are divided into two categories, namely current liabilities and long-term debt. Current liabilities are obligations that mature within one year. Current liabilities include trade payables, accruals (total wages and taxes accrued), notes receivable that will mature within one year. Meanwhile, long-term debt includes long-term loans and bonds with maturities of more than one year. Equity is divided into two, namely retained earnings and common stock. Retained earnings are the part of the company's profits that

have been saved, not those paid out as dividends. Ordinary shares are capital provided by ordinary shareholders. The balance sheet equation is Assets = Liabilities + Equity.

b. Income Statement

An income statement is a report that summarizes a company's revenues and expenses during an accounting period, usually a quarter or a year. The income statement contains the company's net sales, operating expenses, interest, and taxes. The profit/loss equation is Operating Profit = Sales Revenue – Operating Costs

c. Cash Flow Statement

Net cash flow reflects the cash generated by the company in a certain time. A company that produces high cash flow is not always cash reported in the balance sheet is also high. This is because cash flows are not used to increase cash accounts, but are used to pay dividends, increase inventories, finance accounts receivable, invest in fixed assets, pay off debt, and repurchase common stock. The factors that affect the company's cash balance are cash flow which is a positive net flow that can increase cash in the bank if other things are held constant, changes in working capital, fixed assets, and securities transactions and dividend payments.

The cash flow statement categorizes various activities as operating (which includes net income, depreciation, and changes in working capital other than cash and short-term debt), investment (which includes the purchase and sale of fixed assets), and funding (which includes cash receipts through short-term debt issuance, long-term debt, stocks, using cash to pay dividends, and buy back outstanding shares or bonds).

d. Measurement of Company Performance Using Profitability Ratio

According to Brigham (2017), financial statements are extremely valuable to stakeholders. To begin, managers utilize financial reports to boost performance. Second, creditors analyze financial statements to determine the probability of collecting on a loan. Furthermore, investors rely on financial statements to forecast earnings, dividends, and stock prices. Financial analysis entails two steps: comparing the company's performance to that of other companies, particularly those in the same industry, and evaluating the company's financial position's trend over time.

The most important ratio is return on equity (ROE), which is net income for shareholders divided by total shareholder equity. Shareholders expect to get a high rate of return on their invested capital. ROE shows the level they earn, if ROE is high, then stock prices also tend to be high and actions that increase ROE may also increase stock prices. Utami (2020) highlight that Profitability ratios provide assistance to comprehensively disclose financial condition. One of the financial ratios is the profitability ratio, which is a ratio that relates the profit earned from sales with investment. Ratio analysis is designed to help companies to evaluate their finances.

Financial statements report the company's position at a point in time and its operating activities over the past several periods. Reports can be used to help forecast future earnings and dividends. Financial statement analysis can be used from two perspectives, namely the point of view of investors and management. First, the investor's point of view states that forecasting the future is the essence of actual financial analysis. Second, the management point of view uses financial statements to help anticipate future conditions and as a starting point for planning actions that can improve performance in the future. Profitability ratios are a group of ratios that show the combination of the effects of liquidity, asset management, and debt on operating results.

1. Return on Total Assets (ROA)

Return on Total Assets is the ratio used to measure the return on total assets after interest and taxes. A low rate of return on assets is not always a bad thing, this can be caused by a deliberate decision to use large amounts of debt, high interest expenses resulting in relatively low net income. Return on total assets can be calculated by the equation, namely ROA = Net Profit/Total Assets. The industry average standard for ROA is 30% (Kasmir, 2018).

2. Return on Equity (ROE)

Return on equity is used to measure the rate of return on investment by common stockholders. This ratio can be calculated by the equation, namely ROE = net income/equity. The industry average standard for ROE is 40% (Kasmir, 2018).

3. Profit Margin on Sales (NPM or Net Profit Margin)

The profit margin on sales is used to measure net income per dollar calculated by dividing net income by sales. Companies with low profit margins are likely to get a high return on shareholder investment due to the use of financial leverage. The profit margin on sales can be calculated by the equation, namely Net Profit Margin = net profit/sales. The industry average standard for NPM is 20% (Kasmir, 2018).

2.3 Previous Research

Research conducted by Wardoyo & Purnomo (2019) with an object that measures financial performance with the Du Pont system in telecommunications companies. The result concluded that based on the results of the ROI and ROE ratio values all telecommunications company performance is good, except PT. XL Axiata, Tbk and the best performance is PT. Telekomunikasi Indonesia.

Furthermore, according to Yuniastuti & Nasyaroeka (2017) research with the object of financial performance in transportation companies on the Indonesia Stock Exchange. The result concluded that based on liquidity ratios and profitability ratios the company's financial performance is in good condition.

Meanwhile, according to Suhendro (2018) research with the object of financial performance using financial ratios at PT. Unilever that listed on the Indonesia Stock Exchange. The result concluded that based on the liquidity ratio, Current ratio and Quick Ratio where the company's liquidity is not good as well as wheen fulfilling current obligations. Moreover, according to Sipahelut et al. (2018), research with the object of financial performance in the automotive and component sub-sectors listed on the Indonesia Stock Exchange. The result revealed that based on the overall financial ratios that PT. Selamat Sempurna has the best financial performance compared to the automotive and other component sub-sector companies.

III. Research Method

This is a survey study in the sense that the conclusions and implications of the findings can be generalized to the financial performance of cigarette companies whose stocks include blue chips on the Indonesian Stock Exchange. This study analyzed secondary data in the form of annual financial statements blue chip cigarette industry listed on the Indonesia Stock Exchange during the period 2018-2020. This data is retrieved from the Indonesia Stock Exchange's publication of financial data on cigarette companies at www.idx.co.id and from the cigarette company's website. The data collection technique

used in this study is documentation. Documentation is a process that entails the gathering of data on variables or objects through the use of published and secondary sources. Meanwhile, secondary data was obtained from the Indonesian Stock Exchange, the Financial Services Authority, and each cigarette company's website.

The population in this study are all cigarette companies listed during the 2018-2020 period on the Indonesia Stock Exchange according to the type of research is a survey, then the data will be analyzed using judgment sampling, namely taking samples with certain criteria. The sample criteria used in this study are the selected samples are cigarette companies that are listed in blue chip stocks and which are actively operating on the Indonesia Stock Exchange during the 2018-2020 period, the selected sample is cigarette companies that include blue chip stocks and which issue annual financial statements that have been audited and successively in the 2018-2020 period.

3.1 Operational Definition of Variables

The operational definition of a variable is to describe the variables studied by the researcher. The variables observed in the study are: 1) ROE is the ratio of net income to ordinary equity. With the formula: ROE = Net income / equity, 2) ROA is the ratio of net income to equity. With the formula: ROA = Net Income/Total assets, and 3) NPM is measuring net profit per dollar of sales, calculated by dividing profit by sales. With the formula: Profit margin on sales = Net income/ Sales.

3.2 Data Analysis Technique

The data analysis technique used in this research is descriptive and comparative analysis technique. The comparative technique is done by comparing the results of the calculation of the profitability ratio with the industry average standard as a reference to determine the best performance among companies engaged in the cigarette industry.

IV. Results and Discussion

4.1 Results

Based on the sample criteria, namely cigarette companies that are blue chip and are actively listed on the Indonesia Stock Exchange, the samples used are only two companies which include PT. Gudang Garam, Tbk (GGRM) and PT. HM Sampoerna, Tbk (HMSP). Company performance of PT. Gudang Garam, Tbk in 2019 experienced an increase compared to 2018, this is indicated by profit growth increasing by 39,64 percent from Rp. 7,79 trillion in 2018 to Rp. 10,88 trillion. However, the company's performance in 2020 has decreased, this is indicated by net profit which decreased by 22,03 percent from 2019, but the end of 2020 showed an increase in profit of 2,02 percent. The decline in the company's profit was caused by the large cost of goods.

Furthermore, company performance of PT. Hanjaya Mandala Sampoerna Tbk., in 2019 there was an increase compared to 2018, this is indicated by an increase in net profit of 1,3 percent so that a net profit of Rp. 74,3 trillion. This increasing net profit was due to sales increasing by 0,64 percent to Rp. 106,05 trillion in 2018 compared to only Rp. 106,7 trillion. In a matter of fact, financial performance in 2020 experienced a decline in profit as indicated by a decrease in sales of 11,8 percent of only Rp. 44,73 trillion.

a. Data Analysis

This study was conducted to determine the performance of blue chip cigarette companies listed on the Indonesia Stock Exchange. This analysis of the cigarette industry's performance uses profitability analysis. The profitability ratios used in this analysis include): Return on Equity (ROE) and Return on Total Assets (ROA), as well as NPM (Net Profit Margin). The results of the analysis of profitability ratios can show the best performance of cigarette companies by comparing the calculation of ratios. The calculation of profitability ratios is as follows.

b. Return on Equity (ROE)

The ROE ratio is used to measure the company's ability to provide level of profits provided by shareholders (investors). A high ROE value indicates a high stock price and the company is getting better. The results of the calculation of the cigarette industry's ROE ratio in 2018, 2019, and 2020 can be seen in the ROE calculation table.

Table 2. Calculation Results of the Return on Equity Ratio (ROE) of the Cigarette Industry in 2018-2020

Company	Return on Equity (ROE) Ratio				
	2018	**2019**	**2020**	**Average**	**Industry Average ROE 40% and description**
GGRM	17,3%	21,4%	10%	16,23%	Low
HMSP	38,3%	38,5%	24,11%	33,64%	Low

Source: data processed in 2021

Based on the calculation results shown in the table above, the highest value of the ROE rasio ratio is the company HMSP (PT. HM Sampoerna, Tbk) by 33,64%. HMSP has a ratio value of ROE the highest in 2019 which was 38,5%, since the company was optimizing costs so as to increase the company's profitability. In the other side, GGRM has an average value ROE ratio of 16,23%. The highest ratio value was in 2019 by 21,4%. Therefore, the company that provides the highest rate of return to its investors is HMSP company and the best company performance is HMSP because the ROE value is close to the industry average value.

c. Return on Total Asset (ROA)

The ROA ratio is the ratio used to measure the company's use of its assets in obtaining profits. The greater the ROA value, the higher the company's profit and the stronger the company's position. The results of the calculation of the cigarette industry's ROA ratio in 2018, 2019, and 2020 can be seen in the following ROA calculation table.

Table 3. Calculation of the Return on Total Asset (ROA) Ratio of the Cigarette Industry in 2018-2020

Company	Return on Total Assets (ROA) Ratio				
	2018	**2019**	**2020**	**Average**	**Industry Average ROA 30% and description**
GGRM	11,3%	13,8%	7,4%	10,83%	Low
HMSP	29,1%	27,0%	15,5%	23,87%	Low

Source: data processed in 2021

Based on the calculation results shown in the table above, the highest value of ROA ratio is HMSP company (PT. HM Sampoerna, Tbk) of 23,87%, while the value of the ROA ratio of PT. Gudang Garam, Tbk was obtained as many as 10,83%. HMSP has the highest ROA ratio value in 2018 of 29,1%, because HMSP company's cigarette sales have increased so that net profit has increased. As a result, the company that earns the highest net profit is HMSP company and the best company performance is also HMSP since the ROA value is close to the industry average value.

d. Net Profit Margin Ratio (NPM)

The NPM ratio is used to determine the net profit earned by the company given to shareholders, the higher the NPM value, the higher the profit given to shareholders. The results of the calculation of the cigarette industry's NPM ratio in 2018, 2019, and 2020 can be seen in the following NPM calculation table.

Table 4. Calculation of the Net Profit Margin Ratio (NPM) of the Cigarette Industry in 2018-2020

Company	NPM (Net Profit Margin) Ratio				
	2018	2019	2020	Average	NPM Industry Average 20% and description
GGRM	8,1%	9,8%	6,8%	8,23%	Low
HMSP	15,8%	16,1%	10,19%	14,03%	Low

Source: data processed in 2021

Based on the calculation results shown in the table above, the average value of the NPM ratio for HMSP companies (PT. HM Sampoerna, Tbk) of 14,03%, while the average value of the NPM ratio for PT. Gudang Garam, Tbk., was obtained as many as 8,23%. HMSP has the highest NPM ratio in 2019 of 16,1% because the company has good management so that it can increase sales. The increase in sales in 2019 contributed to an increase in net profit as well. As a logical consquence, the net profit generated by the HMSP company attracts investors to invest their funds in the company.

4.2 Discussion

Based on the results of the calculation of the profitability ratio shows the highest ROE, ROA, and NPM values in cigarette companies whose shares are blue chip, namely HMSP (PT. HM Sampoerna, Tbk). The company's financial performance of PT. HM Sampoerna, Tbk. is higher than PT. Gudang Garam, Tbk. This is because the company has good management so that it can increase sales. The increase in sales in 2019 contributed to an increase in net profit as well. The net profit generated by the HMSP company attracts investors to invest their funds in the company.

Based on the results of the calculation of the profitability ratio shows the value of ROE, ROA, and NPM at the company PT. Gudang Garam, Tbk is lower than the profitability ratio value of PT. HM Sampoerna, Tbk. The value of the profitability ratio at the company PT. Gudang Garam, Tbk decreases is caused by high cost of goods sold due to increased tax rates.

Based on the results of the ratio calculation, ROE, ROA and NPM in 2018-2020 show the highest value obtained by the company PT. HM Sampoerna, Tbk. The profit of this company has increased continuously compared to PT. Gudang Garam, Tbk., which is caused by factor of the company's ability to optimize production costs and the company

creates new, cheaper products to deal with the pandemic situation. As a result, this policy of creating new products can increase profits for the company so that net income increases. The results of this study are in line with research conducted by Wardoyo & Purnomo (2019), which concluded that the results of the ROI and ROE ratio values of all telecommunications company performance showed good results and the best performance was shown by PT. Telekomunikasi Indonesia

V. Conclusion

Based on the results of the calculation of the profitability ratio of the cigarette industry's performance which includes blue chips listed on the Indonesia Stock Exchange, it shows that the best performance was shown by PT. HM Sampoerna, Tbk. compared to PT. Gudang Garam, Tbk. The performance of PT. HM Sampoerna, Tbk. is better because the company's management is able to optimize costs and new products

Based on the conclusion that the research results can be used as a basis for providing suggestions to related parties, namely for potential investors and investors who tend to be risk takers that PT. HM Sampoerna, Tbk., is quite interesting to invest in because it provides a high rate of return. Furthermore, for the Financial Services Authority, it can be used in policy making and supervision of the cigarette industry which is listed on the Indonesia Stock Exchange. The study's limitation is that financial performance is measured solely by profitability ratios rather than other financial measures, as this study focuses on investors who make capital investment decisions based on the degree of profit made.

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