



Jakarta Islamic Index Financial Performance Analysis Using EVA and MVA Methods

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ABSTRACT

Purpose – The study aims to examine the financial performance of firms listed on the Jakarta Islamic Index between 2018 and 2020 using the Economic Value Added (EVA) and Market Value Added (MVA) methods.

Methodology/approach – The study is a descriptive quantitative study with the population is all companies listed on the Jakarta Islamic Index in 2018-2020. The purposive sampling method employed and determined the sample of seven companies. The data gained from the company's financial statements, accessed at www.IDX.co.id.

Findings – According to the findings of this study, the company's financial performance using the EVA method is positive ($EVA > 0$), indicating that the company can generate economic value added. With a positive number ($MVA > 0$), the financial performance of the MVA is similarly good. It signifies that the company can generate market value-added and has managed to expand investor wealth.

Novelty/value – The concept of measuring financial performance based on Value-added (economic value added - EVA and Market Value added - MVA) to overcome the limitations of financial ratio analysis. These concepts are crucial indicators of an investment's ability to create wealth. By using EVA and MVA, this study examined the financial performance of companies listed on the Jakarta Islamic Index.

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INTRODUCTION

The capital market, which connects investors, firms, and government agencies through trading long-term products such as bonds, equities, and other securities, is one way to invest. Investors, firms, and governments all benefit from the capital market. The objective of investing in the market for most investors is to make income in the form of dividends or capital gains. The capital market provides organizations with a means of raising funds/capital from the public at large or investors to expand their business. The capital market is a source of state revenue for the government, and it has the potential to improve the country's economy.

Although Indonesia was still struggling with the Covid-19 Pandemic in 2021, the capital market in the country grew significantly and achieved positive results. It is reflected in the performance of the Composite Stock Price Index (IHSG), which has reached the level of 6,600.68 as of December 29, 2021 (an increase of 10.4 percent from the position in December 2020). The IHSG growth even broke



a new record at the level of 6,723.39 on November 22, 2021, surpassing the level before the pandemic. Meanwhile, market capitalization on December 29, 2021, reached Rp. 8,277 trillion, an increase of almost 18 percent compared to the position at the end of 2020, which was Rp. 6,970 trillion (KSEI, 2021).

The Jakarta Islamic Index (JII) - 30 is an Indonesian stock index that derives an average stock price index from 30 selected equities that meet sharia standards, such as companies that do not conduct business in contravention of Islamic principles and do not use the usury system. JII is a forum for investors who still doubt the conventional capital market system.

Table 1. JII Market Capitalization and Index 2018 – 2020

Year	Index	Market Capitalization (Rp Trillion)
2018	685.22	2,239.51
2019	698.09	2,318.57
2020	630.42	2,058.77

Source: Sharia Capital Market, 2021

The JII index climbed from 2018 to 2019, but decreased in 2020, according to Table 1. In 2020, the JII index at 630.42, lower by 9.69 percent from the previous year. From 2018 to 2019, JII's market value increased, but then fell in 2020. JII's market capitalization ended the year at Rp. 2,058.77 trillion, which decreased 11.21 percent from the prior year. Although JII's stock market capitalization changed, it was not substantial and sufficient. The COVID-19 epidemic, which ravaged practically every country, was responsible for this downturn. The capitalization value influence how investors invest their money.

The performance of a firm will have a significant impact on the demand for its shares. The better the performance, the higher the demand for the company's shares. Economic Value Added (EVA) and Market Value Added (MVA) are two recently developed methods for assessing a company's financial performance. This process prevents the drawbacks of financial ratio analysis by developing the concept of measuring the financial performance based on value-added (Huda et al, 2015), which does not require comparative data. EVA is a method to calculate a company's actual gain, based on the assumption that all operational and capital costs are met (Rudianto, 2006). The capital share is taken into account by the EVA approach to ensure that investors are adequately compensated. Meanwhile, MVA is used to assess a company's financial performance based on market value, the difference between the market value of its shares and the amount of investor equity capital provided (Brigham & Houston, 2019).

This study aims to examine and analyze how the financial performance of the JII-30 companies is measured using the EVA and MVA methods, intending to provide a reference for investors.

LITERATURE REVIEW

Signalling Theory

Signalling theory (Brigham and Houston, 2019) is an action taken by a company's management that provides investors with information about how the company views business prospects. According to this theory, the rise and fall of market prices, such as stock prices, will influence investment decisions (Fahmi, 2014). Investors will react in diverse ways to these indications, positive or negative signals because of investor responses' significant impact on market conditions.

Financial Performance

Financial performance is an analysis conducted to see the extent to which a company's financial implementation rules. A good company's financial performance is if the company has implemented the rules that apply properly and correctly (Fahmi, 2018). Financial performance is a measure of the success of a company that influences the company's decision-making. Financial performance can reveal how effective management and employees manage company assets (Humanitisri & Ghozali, 2019).

Financial statements

Financial statements are reports that reflect a company's current financial condition or financial condition over a specific period (Kasmir, 2019). The firm provides financial statements regularly to provide information to stakeholders. In general, businesses generate five types of financial statements (Kasmir, 2019):

1. The balance sheet is a report that reveals the company's financial position on a given date.
2. The income statement is a financial statement that summarizes the outcomes of a company's operations over some time.
3. The capital changes report details the amount and type of capital currently owned.
4. The cash flow statement is a financial statement that depicts all aspects of a company's activities, both those that have a direct and indirect impact on cash.
5. Notes to financial statements is a report that provides information if financial statements require additional explanations.

The Economic Value Added (EVA) Method

The Economic Value Added (EVA) method is a method for assessing a company's financial performance and estimate of the actual economic profit of the business for a given year, different from accounting net income, which is not reduced by the cost of equity, whereas EVA costs are (Brigham and Houston, 2010). EVA is a reliable measurement of the value to which a company has developed values for its shareholders (Husnan and Pudjiastuti, 2012).

EVA formulates as follows:

$$\text{EVA} = \text{NOPAT} - \text{Capital Chargers}$$

$$\text{Capital Chargers} = \text{Invested Capital} \times \text{WACC}$$

Steps to calculate EVA:

1. Calculate net profit after tax (NOPAT)
2. Calculate Invested Capital
3. Determine cost of capital (WACC)
4. Calculate Capital Charges
5. Calculate EVA

Description:

NOPAT = Net Operating Profit after Tax

WACC =Weighted Average Cost of Capital (average cost of capital)

Table 2. EVA Indicators

No	Indicator	Explanation
1	EVA value > 0 (positive EVA)	In this position, the company's management has succeeded in creating economic added value for the company



2	EVA = 0	In this position, the company's management is at the break-even point. The company is not experiencing a setback but at the same time not progressing economically
3	EVA value < 0 (negative EVA)	In this position, it means that there is no process of adding economic value to the company, in the sense that the profit generated cannot meet the expectations of creditors and company shareholders (investors)

Source: Rudianto, 2013

Market Value Added (MVA) Method

According to Husnan and Pudjiastuti (2012), MVA is the difference between the market value of equity and equity (own capital) submitted to the company by shareholders. Maximizing MVA can increase profits. MVA calculates by the following formula:

$$\text{MVA} = \text{Stock market value} - \text{Total equity}$$

Table 3. MVA Indicators

No	Indicator	Explanation
1	EVA value > 0 (positive MVA)	Indicating that the company has increased the value of the capital invested by investors.
2	EVA value < 0 (negative MVA)	Indicating that a company has not been able to increase the value of capital invested by investors

Source: Young & O'Byrne, 2001

Research Framework

When investing their money, investors always like to generate a profit. Investors must evaluate the firm's financial performance. The EVA and MVA methods are two methods for measuring and analyzing financial performance that considers the value-added, the business' profit, by integrating the element of capital costs in the calculation. Investors use MVA to determine whether a company can improve shareholder earnings, while EVA used to build value for the company.

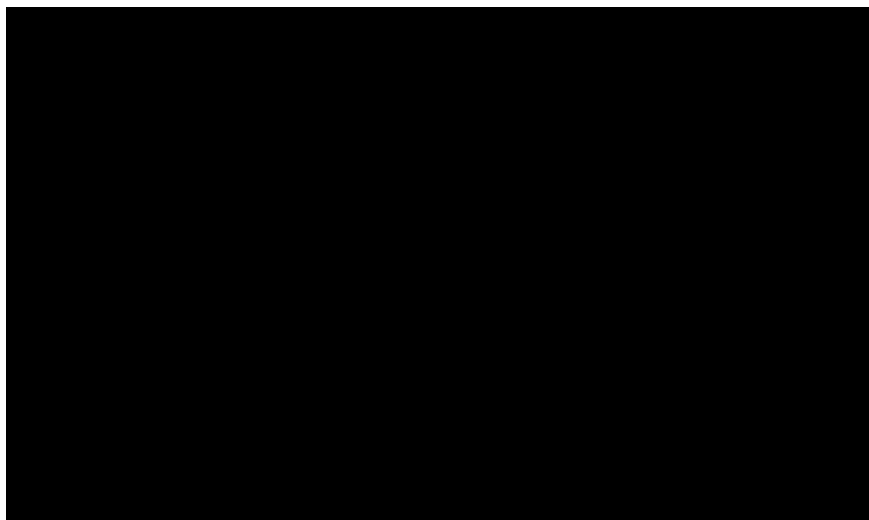


Figure 1. Research Framework

Source: author, 2022

Research Method

The study used a descriptive approach to determine the value of independent variables, either one or more, without drawing comparisons or relating them to other variables (Sugiyono, 2018). The descriptive method uses to discover a picture of a condition by describing it as comprehensively as feasible according to the perspective of facts. The secondary data in this study comes from financial statements of firms registered with JII for the years 2018-2020, from the website www.IDX.co.id. Data is analyzed using the EVA and MVA methods.

The study population comprises all companies listed on the Jakarta Islamic Index from 2018 to 2020. The sample selection is based on a purposive sampling technique, which involves selecting samples according to criteria, such as:

1. The Companies were listed on the Jakarta Islamic Index (JII) for three consecutive years between 2018 and 2020.
2. The Companies released financial statements for the years 2018-2020.

Based on these criteria, a sample of seven companies obtain as follows:

Table 4. Research Sample

No	Code	Company Name
1	ADRO	Adaro Energy Tbk
2	AKRA	AKR Corporindo Tbk
3	ICBP	Indofood CBP Sukses Makmur Tbk
4	KLBF	Kalbe Farma Tbk
5	TLKM	Telkom Indonesia Tbk
6	UNTR	United Tractors Tbk
7	UNVR	Unilever Indonesia Tbk

Source: www. idx.co.id, 2022

RESULT AND DISCUSSION

Calculation of Economic Value Added (EVA)

The EVA calculation results were obtained from seven sample companies from 2018 to 2020, based on data from the company's financial statements, as shown in Table 5 below:

Table 5. Economic Value Added (EVA) JII Companies 2018-2020 (in Rp)

No	Company	2018	2019	2020
1	ADRO	4,702,010,000	4,312,480,000	1,543,500,000
2	AKRA	613,297,647	644,316,255	853,790,368
3	ICBP	455,457,700	502,547,600	668,541 .700
4	KLBF	2,495,560,001,280	2,537,297,416,029	2,714,204,816,580
5	TLKM	2,240,600,000	2,310,100,000	2,545,400,000
6	UNTR	1,047,101,100	867,461,000	3,296,938,000
7	UNVR	9,064,294,000	7,392,810,000	7,138 .314,000

Source: Data processed, 2022

Based on Table 5 above, the results of the EVA calculation from all sample companies from 2018 to 2020 are positive or $EVA > 0$. It indicates that the return generated by the company is greater than the cost of capital. And this shows that the company has succeeded in increasing added value for company owners. Management can align objectives with the interests of shareholders.

The company with the highest EVA value is Kalbe Farma Tbk (KLBF) which is Rp . 2,714,204,816,580 in 2020. While the lowest EVA value is Indofood CBP Sukses Makmur Tbk

(ICBP) in 2018 with Rp. 455,457,700. For three consecutive years, Kalbe Farma Tbk (KLBF) has been in the top position. It demonstrates solid and consistent financial performance, which improves investor confidence in the company. Previous studies that analyzed the company's financial performance using the EVA method include research conducted by Ramadhanty et al., (2020) with the object of research at PT. Bisi International Tbk concluded that the company has a positive EVA value for 5 (five) consecutive years, which means that the company has been able to create economic added value for the company.

Based on the calculation results, no sample company has a negative EVA value ($EVA < 0$) from 2018 to 2020. It demonstrates that the average financial performance of JII-listed companies meets acceptable standards. JII is very selective in determining the shares that will enter and applies criteria, including:

1. Sharia shares are part of the Indonesian Sharia Stock Index (ISSI) and listed over the previous six months.
2. The 60 shares were selected based on the average market capitalization during the previous 12 months.
3. 30 shares were chosen from a total of 60 based on the highest average daily transaction value in the regular market; the remaining 30 are selected shares (OJK, 2020).

Calculation of Market Value Added (MVA)

The results of the MVA calculation from seven sample companies from 2018 to 2020 are displayed in Table 5 below, based on data from the company's financial statements. MVA is calculated using the following formula:

$$MVA = (\text{Shares outstanding} \times \text{Share price}) - \text{Total equity}$$

Table 6. Market Value Added (MVA) of JII 2018-2020 (In Rp)

No	Company	2018	2019	2020
1	ADRO	417,447,178	386,468.983	383,395,292
2	AKRA	158,700,252,617	160,938,912,243	168,764,467,720
3	ICBP	649.926,861	2,395,758,588	4,519,869,429
4	KLBF	1,154,206,596,306,850	1,260,686,781,553,680	1,379,204,539,003,53,000
5	TLKM	52,035,000	52,035,000 433	53,650,417
6	UNTR	5,861,843,166	6,278,937,883	6,488,242,341
7	UNVR	1,015,871,463	708.049,447	661,868,992

Source: Data processed

Table 6 presents that all of the sample companies' MVA calculation results are positive, or $MVA > 0$. It shows that the company can increase profits. MVA is a long-term cumulative measure that should be the company's primary goal in terms of shareholder and value development. Kalbe Farma Tbk (KLBF) has the highest MVA value in 2020, at Rp. 1,379,204,539,003,000. The lowest MVA value in 2019 was Rp 52,035,433, for PT. Telkom Indonesia Tbk (TLKM). Kalbe Farma Tbk (KLBF) has been in the leading position for three consecutive years, according to the outcomes of the MVA calculation. This implies the management of PT. Kalbe Farma Tbk is performing effectively, which will draw investors' attention and raise demand for the company's shares, increasing the share price.

As with the EVA analysis, the analysis using the MVA method shows that all samples of companies listed in JII for the 2018 - 2020 period have positive values, and none of the companies has negative MVA values ($MVA < 0$).

CONCLUSION

The EVA method has a positive value ($EVA > 0$) for the financial performance of companies listed on JII in 2018-2020, with the highest value at Kalbe Farma Tbk (KLBF). It demonstrates that the company has succeeded in improving its economic value added. The MVA method also reveals that all sample companies listed on JII have a positive value ($MVA > 0$), with Kalbe Farma Tbk (KLBF) having the highest value. It suggests that the company can contribute to its market value and succeed in increasing investor value.

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