EFFECTIVENESS OF APPLICATION OF ACQUISITION IN ENERGY SECTOR AND MINING COMPANIES IN INDONESIA

JAM
16, 3
Received, May 2018
Revised, June 2018
Accepted, August 2018

Fatimah Tsaralya Asegaf
Sahala Manalu
Faculty of Economics and Business Universitas Ma Chung

Abstract: The purpose of this study is to determine the difference in the acquirer's financial performance as measured by the current ratio of debt to equity ratio of the operating profit margin net profit margin return on investment return on equity between before and after the acquisition. The type of research used is comparative, the object of study used is energy and mining companies that conduct acquisitions listed on the Indonesia Stock Exchange between 2010-2015. The sampling technique used purposive sampling so that ten companies of energy and mining sector acquired the acquisition activity during the 2010-2015 period whose financial statements are listed in Indonesia Stock Exchange. Test results using Paired Sample t-Test show that four financial ratios do not experience significant differences, namely current ratio, operating profit margin, return on investment and return on equity and two ratios that are different, that is the ratio of debt to equity ratio, net profit margin.

Keywords: financial performance, financial ratios, and acquisitions

JAM
Journal of Applied Management (JAM) Volume 16 Number 3, September 2018 Indexed in Google Scholar

Correspondention Author: Fatimah Tsaralya Asegaf, Faculty of Economics and Business Universitas Ma Chung, Email: 111410104@student.machung.ac.id
DOI: http://dx.doi.org/10.21776/ub.jam.2018.016.03.18

One alternative that can be considered by company management to improve the performance and appearance of the company is through business development. This business development can be done by expanding the business, both internally and externally. Internal expansion can be done through the efficiency and effectiveness of the company's resources. While external expansion can be in the form of a business combination with the aim of obtaining synergy benefits, that is benefits that cannot be achieved if the companies work separately, one of them is by conducting acquisitions. In general, the purpose of the acquisitions is to get synergy or added value. The merger can provide benefits for the company, including increased capabilities in marketing, research, managerial skills, technology transfer, and efficiency in the form of reducing production costs (Hariyani & Serfianto R, 2011).

What has been done by energy and mining companies at this time when it was difficult to find new reserves, the company began to carry out mergers and acquisitions to increase reserves intensely. The reason for choosing objects in the energy and mining sector companies in this study is because in 2011 was a challenging year for the energy and mining sectors. Decline in commodity prices by 25% compared to the previous year. Acquisitions trends occur not only when commodity prices are distressed, but also in conditions of rising commodity prices.

Factors driving the company to acquisitions from the seller side (sell-side) were among others due to distressed selling, namely low commodity prices which made it difficult for the company to get funding to continue its activities. This is what drives mining companies to continue to strive to increase productivity. Some of them struggle to survive, followed by the release of assets or business closure. Energy and mining companies operate in turbulent and volatile environments of the cost inflation sector, slowing economic growth factors, increasing geopolitical risks and volatile prices. This requires a priority change so that companies focus more on committing to capital optimization. With a strong financial report, the company is faced with a challenging decision about how best to utilize the capital owned. However, with the decline in the US credit rating, the eurozone debt crisis and reduced growth rates in China caused stock market volatility and tested many energy and mining companies to conduct acquisitions.

But not always acquisitions by companies produce added value for the company, often the failure or deteriorating performance of the company occurs after the company has acquisitions. Simultaneous testing of all financial ratios is not significantly different(Payamta, Setiawan, & Doddy, 2004). Company performance did not experience improvement after carrying out mergers and acquisitions. Many factors cause such failures as the existence of a conflict between the interests of the manager and shareholders, the decline in commitment. In addition, acquisitions activities have a very complex impact, because there are parties who are disadvantaged and those who benefit from these activities. The adverse impact caused is a large number of termination of employment.

HYPOTHESIS

Current Ratio is the ability of a company to repay debt immediately and be filled with current assets (Suryawathy, 2014). Current Ratio is one of the liquidity ratios. The higher the level of liquidity ratio, the better the condition of the company. Therefore the company conducts acquisitions to increase the company's liquidity. This shows that the efficiency of the company is using its current assets to manage its short-term liabilities is increasing after acquisitions.

H1 : Current Ratio after acquisitions are higher than before acquisitions.

Debt Equity Ratio is comparing total debt with total capital. The higher this ratio means that the equity will be less than the debt. One of the efforts to increase the Debt Ratio is to make acquisitions. By conducting acquisitions, it is expected that there will be a synergy in the company's capital participation which will be quite good by minimizing the use of debt.

H2 : Debt Equity Ratio after acquisitions are higher than before acquisitions.

Operating Profit Margin, this ratio calculates the extent to which a company's ability to generate net income at a certain level of sales. This ratio can be seen directly in the common size analysis for the income statement. This ratio can also be interpreted as the company's ability to reduce costs (measures of efficiency) in the company in a certain period (Hanafi & Halim, 2000).

H3 : Operating profit margin after acquisitions is higher than before acquisitions.

Net Profit Margin (NPM) is profit or net after tax per sale so that the net profit margin serves to measure the net margin with the total net income earned by the company. Therefore, to maximize the net income obtained by the company, it can make acquisitions.

H4 : Net Profit Margin after acquisitions is higher than before acquisitions.

After conducting acquisitions, the size of the company itself grew larger because the assets, liabilities, and equity of the company were merged (Hamidah & Manasye Noviani, 2013). The most underlying factor of a company making acquisitions is economic motives or in other words, the acquisitions are beneficial for the owner of the buying company or acquisitions and the selling company or target company. Thus it can be concluded that when the company decides to make acquisitions, it will affect the increase and decrease of ROI itself.

H5 : Return on Investment after acquisitions are higher than before acquisitions.

Return on Equity (ROE) is used to measure the ability of the capital invested in the company's equity. So that the higher ROE will show the better performance of the company(Suryawathy, 2014). Therefore, in the event of acquisitions, the assets and capital of the company will increase so that companies that join will be able to finance their short-term corporate debt. Thus if a business combination can create synergy, then the level of profitability of the company will be better than before conducting acquisitions. It can be concluded that there will be differences in Return On Equity before and after performing acquisitions.

H6 : Return on Equity after acquisitions are higher than before acquisitions.

METHOD

Quantitative research with comparative methods that lead to variable differences in the aspects studied by collecting, studying, analyzing and integrating variables from the results of the publication of the Indonesia Stock Exchange in the study period and processed based on the sampling criteria. The object of research is limited to public companies conducting acquisitions listed on the Indonesia Stock Exchange in the period 2010-2015. The ratio used to analyze these differences is the Current Ratio, Debt to Equity Ratio, Operating Profit Margin, Net Profit Margin, Return On Assets, Return On Equity. The sampling method used in this study was purposive sampling, where sampling was adapted to the research objectives. The criteria that must be met by the sample are energy and Mining Companies that conduct acquisitions activities in the period 2010-2015 and Financial reports are available two years before acquisitions and two years after acquisitions.

Table 1 Research Sample

No.	Code	Name of the Takeover Company	Company Name Taken Over	Date / Year
1.	INDY	Indika Energy Infrastructure	PT. Mitrabahtera Segara Sejati Tbk	January 16, 2012
2.	SUGI	Sugih Energy Tbk	Eurorich Group	9 November 2012
3.	ENRG	PT. Energi Mega Persada	PT. Kencana Surya Perkasa	May 29, 2013
4.	MEDC	PT. Medco Energy Internasional	PT Pembangkitan Pustaka Parahiangan	January 11, 2013
5.	ANTM	PT. Aneka Tambang Tbk	PT. Dwimitra Enggang Khatulistiwa	June 9, 2012
6.	HRUM	PT. Harum Energy	PT. Karya Usaha Pertiwi	July 2, 2013
7.	BYAN	PT. Bayan Resources Tbk	PT Apira Utama	July 31, 2013
8.	BIPI	PT. Benakat Integra Tbk	PT. Astrindo Mahakarya Indonesia	October 16, 2013
9.	MBAP	PT. Mitrabara Adi Perdana	PT. Bara Dinamika Muda Sukses	November 14, 2013
10.	SRTG	PT. Saratoga Power	PT. Medco Power Indonesia	January 18, 2012

Data analysis methods used in this study are descriptive statistics and paired sample t-test tests with the following formula:

Decision making from the t-test is:

1) Method 1

   If sig> 0.05 then H0 is accepted, Ha is rejected.

   If sig <0.05 then H0 is rejected, Ha is accepted.

2) Method 2

   If t counts> t table, then H0 is rejected by Ha accepted. Shows that there is a significant difference after acquisitions.

   If t count <table, then Ha accepted by Ha is rejected. Then there is no significant difference after acquisitions.

RESULTS

Current Ratio

Based on the results of the analysis in table 4.13 a decision can be taken to accept Ho or reject H1 because the significant level is greater than 0.1 where the value obtained by CR before and after performing acquisitions is 0.109> 0.1. Compared with 1.780 t is smaller than t 1.833. So it can be concluded that there is no difference between the value of the Current Ratio before and after performing acquisitions. 90% Confidence Interval of the difference is the tolerable range of differences. In this case, this tolerance uses a 90% confidence level. So by using a confidence level of 90%, the difference between before and after is -0.669 to 5610. The difference between the standard deviation before and after the event is 4289.

Debt Equity Ratio.

Based on the results of the analysis in table 4.14 a decision can be taken to receive H2 or reject H0 because the significant level is smaller than 0.1 where the value obtained by the DER before and after performing acquisitions is 0.070 <0.1. Compared with t count (-2,058) smaller than t 1,833. So it can be concluded that there are differences in the value of the Debt Equity Ratio before and after performing acquisitions. 90% Confidence Interval of the difference is the tolerable range of differences. In this case, this tolerance uses a 90% confidence level. So using the 90% confidence level, the difference between before and after is -1679 to 0.79. The difference between the standard deviation before and after the event is 1299.

Operating Profit Margin

Based on the results of the analysis in table 4.15 a decision can be taken to accept Ho and reject H3 because the significant level is greater than 0.1 where the value obtained by the OPM before and after performing acquisitions is 0.363> 0.1. Compared with t count (-0.958) smaller than t 1.833. So it can be concluded that there is no difference between the value of Operating Profit Margin before and after performing acquisitions. 90% Confidence Interval of the difference is the tolerable range of differences. In this case, this tolerance uses a 90% confidence level. So using the 90% confidence level, the difference between before and after is -1679 to 0.79. The difference between the standard deviation before and after the event is 0.389.

Net Profit Margin

Based on the results of the analysis in table 4.16 can be decided to accept H4 or reject H0 because the significant level is smaller than 0.1 where the value obtained by NPM before and after performing acquisitions is 0.055 <0.1. Compared with t count (-2.209) smaller than t 1,833. It can be concluded that there is no difference between the value of Net Profit Margin before and after performing acquisitions. 90% Confidence Interval of the difference is the tolerable range of differences. In this case, this tolerance uses a 90% confidence level. So by using a 90% confidence level, the difference between before and after is -0.005 to 0.404. The difference between the standard deviation before and after the event is 0.286.

Return On Investment

Based on the results of the analysis in table 4.17 a decision can be taken to accept Ho or reject H5 because the significant level is greater than 0.1 where the value obtained by ROI before and after performing acquisitions is 0.194> 0.1. Compared to 1.403 t count is smaller than t 1.833. So it can be concluded that there is no difference between the value of Return On Investment before and after performing acquisitions. 90% Confidence Interval of the difference is the tolerable range of differences. In this case, this tolerance uses a 90% confidence level. So using the 90% confidence level, the before and after difference ranges are -0.047 to 0.198. The difference between the standard deviation before and after the event is 0.171.

Return On Equity

Based on the results of the analysis in table 4.18 can be decided to accept Ho and reject H6 because the significant level is greater than 0.1 where the value obtained by ROE before and after performing acquisitions of 0.135> 0.1. Compared to 1.640 t count is smaller than t 1.833. So it can be concluded that there is no difference between the value of Return On Equity before and after performing acquisitions. 90% Confidence Interval of the difference is the tolerable range of differences.

In this case, this tolerance uses a 90% confidence level. So using the 90% confidence level, the before and after difference ranges are -0.039 to 0.243. The difference between the standard deviation before and after the event is 0.197.

DISCUSSION

Based on the results of different test hypotheses it can be explained that the CR (Current Ratio) decision to accept Ho because the significant level is greater than 0.1 where the value obtained by CR before and after performing acquisitions is 0.109> 0.1. Compared with t count 1,527 smaller than t 1,833. So it can be concluded that there is no difference between the value of the Current Ratio before and after performing acquisitions. CR reflects the company's ability to meet its short-term debt and shows that there are no differences after acquisitions. By conducting acquisitions, the company acquisitions and the target company experience management changes automatically and changes in strategies within the company. Changes made by management to increase the liquidity ratio, either by selling non-current assets in the form of buildings, factories, equipment, and then cash in use can be used to pay current debt. The soaring raw material costs, direct labor costs, and overhead costs which are the determinants of the cost of goods sold make prices rise so that the company's operating conditions worsen. Company liquidity means the ability of the company to provide smooth equipment to carry out its production process. The absence of a significant difference occurred because of the possibility that the acquiring company would bear the company's current debt so that the company's current debt resulting from acquisitions would increase compared to current assets. The company must immediately fulfill its short-term debt and increase liquidity. The way the company can do is by selling fixed assets to increase current assets or by increasing the amount of production to pay a short-term debt or current debt. This study is in line with the research of Payamta and Setiawan (2004) who said that the financial ratios of manufacturing companies after mergers and acquisitions did not experience differences compared to before carrying out mergers and acquisitions.

Debt Equity Ratio can be shown to accept Ho because the significant level is greater than 0.05 where the value obtained by DER before and after performing acquisitions is 0.070> 01. Compared with t count (-2.058) smaller than t 1.833. So it can be concluded that there are differences in the value of the Debt Equity Ratio before and after acquisitions. Debt Equity Ratio considers the total assets financed with debt. This shows that the company can repay the debt of the entire company and does not experience difficulties in maximizing its own capital. Means that the capital alone is sufficient to guarantee or pay off the company's debt. Debt Equity Ratio is comparing total debt with total capital. The higher this ratio means that the equity will be less than the debt. Therefore, companies need to pay attention to the growth of equity debt ratio, which is one of them by minimizing the use of debt by increasing the amount of production. One of the efforts to make acquisitions is expected to synergize the company's capital participation will be quite good. The statement is in line with the results of research conducted by(Nur Sylvia Aprilia & Hening Widi Oetomo, 2015). The results of the study stated that there were no differences before and after performing acquisitions.

Operating Profit Margin can be shown to accept Ho because the significant level is greater than 0.1 where the value obtained by OPM before and after acquisitions is 0.363> 0.1. Compared with 0.968 t count is smaller than t 1.833. Operating Profit Margin, this ratio calculates the extent to which a company's ability to generate net income at a certain level of sales. This ratio can be seen directly in the common size analysis for the income statement (last line). This ratio can also be interpreted as the company's ability to reduce costs (measures of efficiency) in the company in a certain period(Hanafi & Halim, 2000). After acquisitions, the company is likely not to reduce costs that include operating costs and lack of control of inventory. Operational synergy occurs when a company that is acquisitions has the same production process so that the machines or other supporting equipment can be used together. In addition, the company must increase the amount of production. Thus the reduction in costs that occur as a result of a combination of two companies will occur efficiency. In research conducted by(Novaliza & Djajanti, 2013)stated that acquisitions did not affect the company's financial performance. So it can be concluded that there is no difference between the value of Operating Profit Margin before and after performing acquisitions.

Net Profit Margin can be shown to receive Ha because the significant level is smaller than 0.01 where the value obtained by NPM before and after performing acquisitions is 0.055> 0.1. So it can be concluded that statistically there are differences in net profit margins in the company after acquisitions. This indicates that the ratio of net profit margins after acquisitions has increased which means that the company shows stability in generating earnings at the level of sales. By examining the target company's profit margins in previous years, acquisitions companies can assess operating efficiency and pricing strategies as well as the competitive status of target companies with other companies. Net Profit Margin (NPM) is profit or net after tax per sale so that the net profit margin serves to measure the net margin with the total net income earned by the company. Therefore, to maximize the net income obtained by the company, it can make acquisitions. This research is in line with research which states that Net Profit Margin after acquisitions has a significant difference (Nur Sylvia Aprilia & Hening Widi Oetomo, 2015).

Return on investment can be shown to accept Ho because the significant level is greater than 0.1 where the value obtained by ROI before and after acquisitions is 0.194> 0.1. Compared to 1.403 t count is smaller than t 1.833. Based on accounting theory, after acquisitions, the size of the company naturally increases because assets, liabilities, and equity of the company are combined (Hamidah & Manasye Noviani, 2013). The most underlying factor of a company making acquisitions is economic motives or in other words, the acquisitions are beneficial for the owner of the buying company or acquisitions and the selling company or target company. This is related to ROI which is the ability of the capital invested in the total assets to generate net profits. The decline in the company's ROI reflects the worsening of operating conditions after acquisitions. Decreasing ratio is caused by many expenses that must be spent by the company during the acquisitions process, thereby reducing the company's profit while the available cash is insufficient to cover costs. This reflects that the company has not been optimal in using assets owned to generate profits. And this means that the expected synergy is not achieved because the total debt is greater than the total assets. In addition, the weak strategy and acquisitions companies lack experience in conducting acquisitions. Thus it can be concluded that when the company decides to make acquisitions, it will affect the increase and decrease of ROI itself. So it seems that there is no difference between the company's ROI before and after acquisitions. This is in line with research conducted by(Aprilia & Oetomo, 2015).

Return On Equity can be shown to accept Ho because the significant level is greater than 0.1 where the value obtained by ROE before and after performing acquisitions is 0.135> 0.1. Compared to 1.640 t count is smaller than t 1.833. Return on Equity (ROE) is used to measure the ability of the capital invested in the company's equity. The higher ROE will show the better performance of the company. Therefore, in the event of acquisitions, the assets and capital of the company will increase so that companies that join will be able to finance their short-term corporate debt. This is consistent with the research conducted (Suryawathy, 2014) concluded that there were no significant ROE differences in the company before and after acquisitions. However, this study is not consistent with researchwhich states that ROE after acquisitions has a significant difference (Aprilia & Oetomo, 2015).

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Financial performance analysis of energy and mining sector companies is done by testing financial ratios. Statistical test results for the ratio of

Current Ratio (CR), Operating Profit Margin (OPM), Return on Investment (ROI), and Return on Equity (ROE) show no significant differences after acquisitions. Whereas Debt Equity Ratio (DER) and Net Profit Margin (NPM) show, there are differences before and after performing acquisitions. The synergy motive can improve the company's economy is not a significant factor in the energy and mining sector companies to conduct acquisitions. There are other considerations such as the company's motive for saving the company from the target of bankruptcy, and the motive of exploiting energy in the form of technology and human resources of the target company.

Recommendation

This research provides input for those who have an interest in the company's performance of business people in making decisions, especially those concerning acquisitions decisions. With these findings, it is expected that companies that will carry out acquisitions should make good preparations before deciding to make acquisitions. Like seeing the condition of the company and seeing the condition of the national economy whether it is good or bad for the company. For investors, they should be more careful in investing their funds in companies that make acquisitions because acquisitions do not always have a good impact on the company. We recommend that you choose a target company that has a good level of liquidity and solvency to maintain the company's liquidity and stability. For academics, this research provides a little scientific contribution that is expected to be able to provide benefits in the world of education. For further researchers, it is advisable to add other variables and extend the period of observation of events and include the target company as a comparison to companies that carry out acquisitions.

REFERENCES

Andini, Hidayat, and Sulasmiyati. 2015. *Analisis Perbandingan Return on Investment, Earing Per Share, dan Abnormal Return Perusahaan Sebelum dan Sesudah Merger dan Acquisitions*. Jurnal administrasi bisnis, 1.

Aprilia, N. S., and Oetomo, H. W. 2015. P*erbandingan Financial performance Sebelum dan Sesudah Acquisitions Pada Perusahaan Manufaktur.* Jurnal Ilmu dan Riset Manajemen.

Darlis, E., and Zirman. (2011). *Dampak Publikasi Acquisitions Pada Perusahaan Pengacquisitions.*Jurnal Ekonomi, 22.

Hamidah, and Manasye Noviani. 2013. *Perbandingan Financial performance Perusahaan Sebelum dan Sesudah Merger dan Acquisitions (Pada Perusahaan Pengacquisitions yang Terdaftar di Bursa Efek Indonesia Periode 2004-2006).* Jurnal Riset Manajemen Sains Indonesia vol. 4, No. 1, 31.

Hanafi, and Halim. 2000. *Analisis Laporan Keuangan Edisi I Cetakan 2.* Yogyakarta: Unit Penerbitan dan Percetakan AMP-YKPN.

Hariyani, and Serfianto R. 2011. *Merger, Konsolidasi, dan Pemisahan Perusahaan.* Jakarta: Visimedia.

Novaliza, P., and Djajanti, A. 2013. *Analisis Pengaruh Merger dan Acquisitions terhadap Kinerja Perusahaan Publik di Indonesia (Periode 2004-2011).* Jurnal Akuntansi dan Bisnis, Vol. 01 No. 1 September 2013.

Nur Sylvia Aprilia, and Hening Widi Oetomo. (2015). *Perbandingan Financial performance Sebelum dan Sesudah Acquisitions Pada Perusahaan Manufaktur*. Jurnal Ilmu dan Riset Manajemen.

Payamta, Setiawan, and Doddy. 2004. *Analisis Merger dan Acquisitions Terhadap Kinerja Perusahaan Publik di Indonesia*. Jurnal Riset Akuntansi Indonesia Vol 7, 265-282.

Suryawathy, A. 2014. *Analisis Financial performance Sebelum dan Sesudah Merger pada Perusahaan yang terdaftar Di Bursa Efek Indonesia*. Jurnal Ilmiah Akuntansi dan Humanika, 1123.