

**PROFIT PHENOMENON IN PT SEMEN PADANG**  
**(An Exploratory Case Study of PT Semen Padang's Performance**  
**in 2004 – 2006 using Economic Value Added Approach)**

**THESIS**

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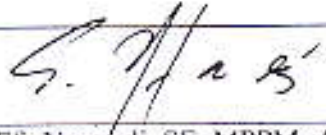
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<p><b>Profit Phenomenon in PT Semen Padang</b>  <b>(An exploratory case study of PT Semen Padang's Performance in 2004 – 2006 using EVA Approach)</b>  <i>Skripsi S1 oleh: Andina Dharma Putri</i>  <i>Pembimbing: Dr. Eddy R. Rasyid M.Com (Hons), Akt</i></p>		
<b>ABSTRACT</b>		
<p>PT. Semen Padang as a cement producer amongst the Top Four Company in the cement industry in Indonesia has successfully weathered the critical years in the company's history and achieved improvement in production efficiency that is shown by almost 100% profit growth per year from 2004 to 2006. This is shown in the company's annual report in 2004 – 2006. This profit phenomenon becomes interesting to be researched because all achievements claimed is based on the accounting profit, while in many cases accounting profit does not really explain whether the company created value to the shareholders or not. Therefore it is interesting to dig into this phenomenon though the economic profit point of view using Economic Value Added. As an exploratory study, this research focuses on collecting all the financial data related to the Profit Phenomenon, aimed to describe the profit phenomenon using EVA approach.</p> <p>The results of this research are (1) the profit phenomenon happened mainly because of the outstanding performance of the PT Semen Padang's management that were able to generate higher earnings with lower invested capital by operating more efficiently year by year, proved by extreme increase in EVA year by year (142.05% in 2004 to 2005, and 495.33% in 2005 to 2006) (2) However, PT Semen Padang showed negative EVA result in 2004 for a quite significant number (-43,979,928), that means PT Semen Padang destroyed value for the shareholders that year, which proved that the accounting profit does not mean a company has an economic profit, (3) PT Semen Padang used more Equity as the source of fund, while the Cost of Equity is a lot more expensive than the Cost of Debt. PT Semen Padang could have created more value to the shareholders if it had a more cost-efficient capital structure</p>		
<p><i>Keywords: Profit Phenomenon, Economic Value Added, Accounting Profit, Economic Profit, Capital Structure</i></p>		

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## CHAPTER I

### INTRODUCTION

#### I.1. Background

Every company has an obligation to provide information to the stakeholders about the company's condition. Financial report is one of the most important kinds of information needed by the stakeholders to make decisions towards the company. A sufficient disclosure about the company will help the stakeholders make appropriate decisions and reduce the inherent uncertainty in every decision taken related to the company.

PT Semen Padang as a cement producer amongst the Top Four Company in the cement industry in Indonesia has been providing their internal and external users with a complete report of financial and non-financial information by publishing their annual reports every year. During the year 2004 to 2006, PT Semen Padang claimed that the company has successfully weathered the critical years in the company's history and achieved improvement in production efficiency that is shown by almost 100% profit growth per year from 2004 to 2006.

Table I – 1

Summary of some Profit Phenomenon Indicators

Indicators	2004	2005	2006
Total Assets	1,703,148,084,000	1,730,207,912,000	1,714,164,166,000
Total Equity	694,785,778,000	803,950,662,000	999,368,625,000
Sales	1,781,420,060,000	2,166,993,974,000	2,684,048,241,000
Profit	60,899,357,000	139,501,609,000	242,613,243,000

Source: Kasmira (2008)

In addition to the achievements stated above, the company claimed there were other indicators of the company's encouraging results; stronger operational cash flow, more solid balance with an increase in equity and assets, as well as lower company liabilities, higher Return on Equity and Return on Assets (Kasmira, 2008).

This profit phenomenon becomes interesting to be researched because all the achievements claimed is based on the accounting profit, while in many cases accounting profit sometimes does not really explains whether the company created value to the shareholders or not (Anand, Garg, and Aurora, 1999). Therefore it would be very interesting to dig into this phenomenon though the economic profit point of view.

Previously, there has been a similar research conducted towards the same phenomenon in PT Semen Padang by Kasmira (2008). The research was to find the reason behind the profit phenomenon in PT Semen Padang using a conventional financial analysis. The focus was on collecting all data and information that explained and described the process of profit increase in the three years. The research also aimed to investigate the causal relationship between the factors and several managerial decisions that have direct impact to the profit phenomenon.

To investigate and analyze why such profit phenomenon happened, Kasmira derived her research into two sections. First was analyzing the financial aspects using financial ratios that are included in the six building blocks of financial statement analysis. Second was analyzing all managerial aspects that played a significant role in the management's success. Her research used the financial statement analysis in the first part because of the connection of the financial statements.

The research concluded that the profit phenomenon happened mainly because of the growth of sales (22.7%) and the decrease of expenses portion. Those double factors stimulated

## CHAPTER V

### CONCLUDING SECTION

#### V. 1. Conclusion

This research leads to the conclusion that the profit phenomenon happened mainly because of the outstanding performance of the PT Semen Padang's management that were able to generate higher earnings with lower invested capital. We can see the growth of Net Operating Profit after Taxes year by year and the reduction of Invested Capital that stimulated the Economic Value Added of PT Semen Padang increased in a very extreme number (142.05% in 2004 to 2005, and 495.33% in 2005 to 2006). The fact that the management generated higher earnings using lower invested capital proved that the management was operating more efficiently. This finding is identical with the previous study by Kasmira (2008) that explained in detail about the causal-effect relationship that stimulated the Profit Phenomenon.

However, it is also proven that the accounting profit does not mean a company has an economic profit. We conclude that from the fact that PT Semen Padang showed negative EVA result in 2004 for a quite significant number (-43,979,928), that means PT Semen Padang destroyed value for the shareholders that year, while at the same time, the company claimed to obtain many accounting-based achievements such as; high increase in Net Income (205% in 2004 from 2003), increase in Gross Income (9.5% - highest in the last five years), increase in Operating Income (20.9% - highest in the last five years), etc, that were measured using the accounting-based performance measurement with the result of increase in ROA (from 1.51 to 1.55), increase in ROE (from 3.92 to 10.74). The contradicting result of the accounting-based

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