

CHAPTER I

INTRODUCTION

1.1 Background

In this modern era, the development of technology has spread through the world. One of the fastest growing technology is the telecommunication sector. The telecommunication industry has played an important role in the development of Indonesia's economy over the last few years. Indonesia's telecommunication sector is a highly competitive, rapidly changing and dynamic industry that has come to reflect significant shifts in social behaviour and interaction. Not only has it increased connectivity across the country, it has also played an important role in stimulating the growth of other sectors such as banking, finance, healthcare, education, tourism and trade.

At the same time, Indonesia is just at the beginning of its digital transformation, with considerable growth potential ahead. With the fourth largest population in the world and a youthful demographic structure, Indonesia is a huge growth market for digital. A growing and relatively young population with rising disposable income make Indonesia a highly attractive country for telecommunication services. While the industry has far outpaced overall GDP growth in recent years, the market remains under-penetrated.

Based on data from Badan Pusat Statistik (BPS), the telecommunications sector contributed 3.17% of the total GDP in 2014. Although its value is still far smaller than that of manufacturing sector (26%) and mining (10%) sector, the telecommunications sector experienced the largest growth at 10.36%, well above

the average national GDP growth at 5.06%. This suggests that the telecommunications sector acts as a catalyst for the national economy.

Against this backdrop, Indonesia's large and highly dynamic telecommunications sector represents the fourth largest mobile telecommunication market in the world, with some 278 million mobile subscribers. In contrast, fixed line users number around 9 million, while fixed-wireless subscribers stand at about 12 million. Of this vast mobile market, which represents a huge potential data market in light of still relatively low smartphone and Internet penetration, approximately 98 percent are prepaid users. Indonesia is also unique in that the number of mobile phones exceeds the 250 million population, indicating that many people use two or more mobile phones. (Indonesian Telecommunication Providers Association (ATSI), 2015).

The Indonesian government is also eager to develop the country's broadband network in an effort to enhance Indonesia's infrastructure. The government created the 'Indonesia Broadband Plan' through which it aims to provide broadband Internet to 30 percent of the total Indonesian population by 2019. Other targets set in this plan include raising the ratio of Indonesian households connected to broadband (20 Mbps) to 71 percent by 2019, and fixed broadband (1 Gbps) penetration in buildings to 100 percent. Meanwhile, mobile broadband penetration is targeted to be raised to 100 percent as well. As the government is eager to enhance Internet connectivity throughout the country, Indonesia's telecommunication providers will benefit from these efforts (Indonesia-Investments article, 2017).

The dominant mobile service providers are Telkomsel, Indosat and XL Axiata, each of which operates their own 2G (GSM) and 3G networks. Telkomsel, a subsidiary of former monopolist Telekomunikasi Indonesia (Telkom), has the widest coverage and largest subscriber base with a market share of 42.4%, according to its 2013 Annual Report. Indosat, once the monopolist of international telecommunications, commands a market share of 19.2%, putting it slightly ahead of XL Axiata (18.7%), a subsidiary of Kuala Lumpur-based Axiata Group. The Indonesian state still holds a majority stake in Telkom and a minority in Indosat, but both companies also have significant foreign shareholdings. Other mobile providers include Hutchison, Smartfren Telecom and Bakrie Telecom, which use CDMA transmission (Global Business Guide Indonesia, 2015).

Aziz (2015) stated in his article in Post Telecommunications Bulletin (2015), said that the competition of the mobile telecommunications operator in Indonesia is dominated and controlled cellular market in Indonesia with the number of subscribers at the end of 2013, the three mobile telecommunications operators which consist of PT. Telkomsel Tbk.: 131,513 million; PT. XL Axiata Tbk.: 60,172 million and PT. Indosat Tbk.: 59,6 million. These three mobile telecommunications operator have determine the market price and company's competitive strategy. The rest by the number of subscribers under 20 million is PT. Smartfren Telecom Tbk.: 11,332 million. This data was obtained from the annual report 2013 of the four companies. The development of profit earned from the last five year already stated in their financial report. As the financial statement reported for telecommunication company is as result :

Table 1.1

Amount of Company's Profit (Loss)

Company	Profit				
	2012	2013	2014	2015	2016
PT. Telekomunikasi Indonesia Tbk.	18,362	20,290	21,274	23,317	29,172
PT. XL Axiata Tbk.	2,765	1,033	(804)	(25)	376
PT. Indosat Tbk.	487.7	(2,672.0)	(1,878.2)	(1,163.5)	1,275.6
PT. Smartfren Telecom Tbk.	(1,563.1)	(2,534.5)	(1,362.5)	(1,565.4)	(1,974.4)

(source : financial report each company)

Based on the table above, some company get more profit at one last year (2016), there are Telekomunikasi Indonesia that has a good financial performance as the biggest profit earning at 2016, then Indosat that also earns bigger profit than previous year, next XL Axiata also earns profit after get loss from previous year. Unfortunately, Smartfren Telecom still has a bad performance that showed by the loss from the last five years.

Fast mobile networks are now the most efficient way for Indonesia to catch up with more developed countries and provide coverage even in less populated regions. This reflects in subscription numbers, where some 310 million cellular subscriptions at the end of 2013 (up 12.4% from 276 million customers a year earlier) dwarf fixed-line and fixed-wireless subscriptions. Continued economic growth is driving both demand for and affordability of cellular services, which points to further upward potential in the world's fourth-most populous country. Unlocking this potential, however, requires substantial network investment. With the number of mobile subscriptions already far surpassing the

country's entire population, operators are focusing their marketing efforts on increasing volumes per customer rather than growing their customer base (Global Business Guide Indonesia, 2015).

In terms of infrastructure, extending and improving mobile networks will connect more people to the internet in a country that remains under-served with broadband. Indonesia is still predominantly a 2G market, and leapfrogging from there to 4G is a huge task that will require substantial investment in towers and equipment. In addition, submarine cables linking the islands of Indonesia are critical to boosting national connectivity. Satellite technology, optical fibres and WiFi hotspots all increase providers' options, but they also stress the need for close integration of cellular and fixed networks to bring various types of communication together in user handsets. Facilitating convergence through technology and know-how is becoming an increasingly important business field. Finally, building and running data centres are another investment opportunity.

The easiest way for foreign investors to engage in the Indonesian telecommunications market is through cooperation with local wireless operators, either in the provision of services or the installation of network infrastructure. In terms of services, products that integrate cellular connections with online services are a way to increase customer loyalty. Social media can generate traffic for personal use and cloud computing for business.

Horne and Wachowicz (2009) stated that the goal of a company is to maximize profit and shareholders wealth. Both of goals are related each other. Profit refers to earnings of a company which are obtained from business activity.

To maximize company's profit, the company need funding to run the operational activities. Although they increase their selling to get fund through production activity, the company still need external fund, especially from investor and creditor, beside the internal fund (from owner). Sometimes, owner's fund is limited and cannot finance the high cost of company's operation. So, as the sources of funding, the company will need loans and investments, that make the existence of investors and creditor is very important for the company. Therefore, it is become a task for a company as the importance of investors and creditors to maximize shareholder's wealth.

As the external parties, investor and creditor should be careful in making investment decision. The fund will not easily given by the investor and creditor. They should make a decision whether they want to invest or not. The invetor and creditor will not invest in a company without expecting to get a return. It is important for the investor to predict the risks and returns from their investment and also the creditor will predict the financial health of the company. Thus, the investor and creditor need a tool to make decision as they will invest or not. The tool will prepare by the company for them, called financial statement.

Financial statement is needed to see the financial condition of the company, so that the investor and creditor can consider the decision making in investment. Kasmir (2008) stated that financial report is report that show financial condition company in a certain time or in certain period. It show how the health of finance of the company. And one kind of statement that can be used is cash flows statement.

Profit does not measure the availability of cash used to pay the obligation of the company. Profit is only used to measure the dividend portion for investor, but cannot measure how much cash available to pay the dividend as well as to pay interest for creditor. Therefore, to overcome the problems and to provide a more focus on the cash position of a company, then the cash flow ratios derived from the statement of cash flows for financial analysis were developed. Cash flow information inform the users of financial statement about the use and source of the entire financial resources in the period (Mills and Yamamura, 1998).

Based on Beaver (1966), one way to calculate the cash flow statement is using cash flow ratio. Cash flow is one of the most important measurements used by investors in valuing a company (Amuzu, 2010). Investor and creditor will using cash flow statement in cash flow ratio especially using cash flow from operation (CFFO) that will see that how real performance in a company. Giacomino (1993) in Nekhasius (2012), noted that cash flow ratio is more reliable than using other ratio, because cash flows ratio can show finance company performance simultaneously and predict bankrupt and financial distress. By using cash flow ratio, it will be easier for investor to predict how much the cash in or cash out from the operating activity in telecommunication company, how efficient and effective they use the money to increase their return and to get investor's trust for the future.

To focus the problem, this research consider the use of cash flow ratios as a tool for analyzing the company's performance engaged in the field of telecommunications sector that actively traded on the Indonesia Stock Exchange for period 2012-2016. Therefore, writer have interest to do research entitled

“Company’s Financial Performance Measurement by Using Cash Flow Ratio Analysis (Empirical Study on Telecommunication Companies listed on Indonesia Stock Exchange (IDX) for Period 2012-2016)”

1.2 Problem Statement

Based on the explanation above, the problems that will be discussed in this research as follows:

1. How the financial performance for each company in telecommunication sector listed on Indonesian Stock Exchange if using sufficiency ratios in period 2012-2016 ?
2. How the financial performance for each company in telecommunication sector listed on Indonesian Stock Exchange if using efficiency ratios in period 2012-2016 ?

1.3 Research Purposes

Based on the description of the background and the formulation of the problem that has noted earlier, the purposes of this research are:

1. To analyze the financial performance of each company in telecommunication sector listed on Indonesia Stock Exchange using sufficiency ratios in period 2012-2016.
2. To analyze the financial performance of each company in telecommunication sector listed on Indonesia Stock Exchange using efficiency ratios in period 2012-2016.

1.4 Research Benefits

The result of this study are expected to give contribution to, as follows:

1. For Researcher

The results of this research are useful to improve knowledge about measurement of company's financial performance using cash flow ratios.

2. For Creditor and Investor

The results of this research can be used as a consideration in analyzing the capability of companies researched in run the company before taking investment and credit decision.

3. For Companies

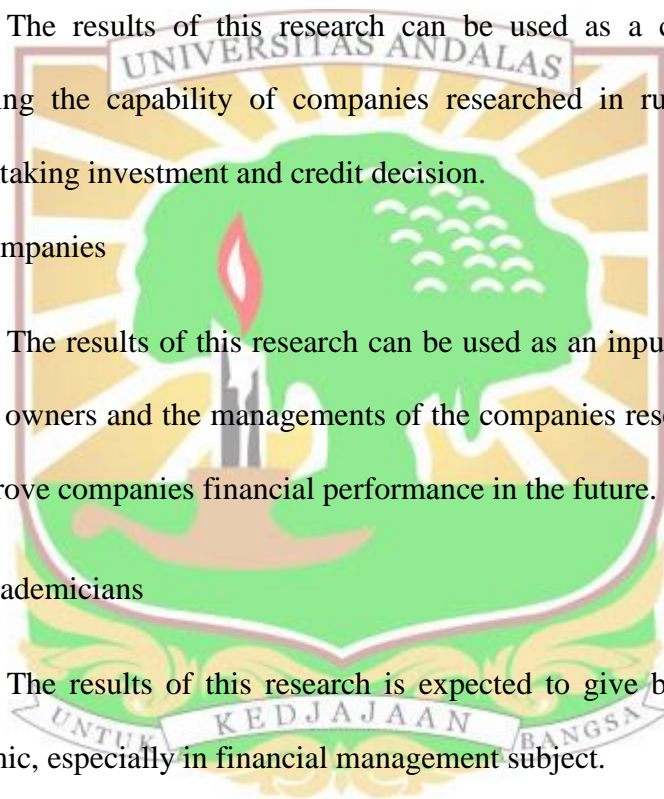
The results of this research can be used as an input and evaluation for the owners and the managements of the companies researched in order to improve companies financial performance in the future.

4. For Academicians

The results of this research is expected to give benefits for both academic, especially in financial management subject.

5. For Further Research

The results of this research can be used as a reference, comparison, judgment, and or development for further research in doing the similar research.



1.5 Writing Systematic

Writing systematic is a pattern in the presentation of scientific papers to obtain a clear picture of research plot. This will facilitate the reader in understanding the content of the study. The writing systematic of this study is as follows:

CHAPTER I : INTRODUCTION

This chapter outlines the research conducted, which consists of the background of the problem; problem formulation; the purposes and benefits of research; and systematical writing of the research.

CHAPTER II : LITERATURE REVIEW

This chapter explains about basic theories underlying this research which are gathered from different sources (such as: opinions from the experts, books, journals, and internet-based information); review of previous researches; theoretical framework; and hypothesis.

CHAPTER III : RESEARCH METHODOLOGY

This chapter describes the way of research will be conducted. It contains the research methods used in the research; population, sampling technique and samples; types and source of data; data collection method; research variables; and analysis techniques used to analyze the data in the research.

CHAPTER IV : RESULT AND DISCUSSION

This chapter explains and discuss the analysis of the results from the research based on the data and the information gathered.

CHAPTER V : CONCLUSION

This chapter describes the conclusions from the analysis of data, the implication of research, the limitations in this research, and also the suggestions from the researcher as a feedback.

