ANALYSIS OF XL AXIATA FINANCIAL PERFORMANCE: BEFORE AND AFTER AXIS ACQUISITION

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ABSTRACT

The telecommunication industry in Indonesia has reached its saturation phase in which the market will not expand further and only limited demand is available. However, XL Axiata came up with the idea of acquiring Axis. By doing so, XL Axiata aimed to reach out to a wider market and provide wider coverage of the network within Indonesia for its customers. The acquisition decision must affect the performance of the XL Axiata company. Therefore, the purpose of this study is to measure the financial performance of XL Axiata and to examine the significant difference between the financial performances of before and after the acquisition in 2014. The data were collected from XL Axiata financial reports with two periods: prior (2010-2014) and post (2014-2017) the acquisition. Financial ratio analysis was used to analyze the data. The finding shows that XL Axiata is in good condition with improvement after the acquisition as it showed in all ratio results, although in several sectors the improvement is not significant. The authors believe that the findings will be helpful to illustrate the impacts of acquisition decisions within the telecommunication industry.

Key words: financial performance; financial ratio analysis, telecommunication industry; acquisitions.

1. INTRODUCTION

The telecommunication sector is one of the biggest factors that influence Indonesia's GDP growth compared to others' sectors that is shown by the increase of telecommunication contribution growth value in rupiah every year. (Puslitbang SDPPI, 2018). In Indonesia, many telecommunication companies such as PT Hutchison 3 Indonesia (Tri), PT XL Axiata (XL), PT Indosat (Indosat), PT Sampoerna Telekomunikasi Indonesia (Ceria), PT Telekomunikasi Selular (Telkomsel), and PT Smartfren are fighting to grab the biggest portion of the market share. 90% of the market share is owned by the three biggest telecommunication companies, one of them is XL Axiata.

PT XL Axiata Tbk was known as PT Excelcomindo Pratama Tbk or in short, named XL, started the business in 1996 and became the first private company that provided telephone service in Indonesia. XL services are covered calls, data, and other value-added services. The company has developed and strengthened its bandwidth network in several big cities in Indonesia and keeps on expanding its international network through several partnerships in foreign countries.

However, the telecommunication market already reached its saturation phase in which any company in the telecommunication industry can not expand the market because there is no demand available in the market anymore but on the other hand, many telecommunication companies enter the market. As one of the newest telecommunication companies that enter the market, Axis is considered as a competitor that has potential growth. Axis has the biggest average revenue per user for post-paid products in the industry as shown in the table below. Axis' outstanding performance attracted XL attention. Looking through the saturation issue, XL believed that acquiring Axis will expand its portion in market share.

Table 1 Average Revenue Per User (ARPU) in Cellular Postpaid

No	Company	Postpaid ARPU (Rp)						
		2011	2012	2013	2014	2015	2016	2017
1	Telkomsel	197,000	189,000	184,000	167,000	162,437	143,739	140,250
2	Indosat	136,702	191,074	166,014	134,242	106,958	151,884	92,252
3	XL Axiata	182,000	145,000	132,000	118,000	107,000	116,000	114,000
4	Smartfren Telecom	40,000	30,000	50,000	66,000	63,400	58,500	56,600
5	Smart Telecom	46,000	64,000	72,000	76,000	63,000	55,000	53,000
6	STI	197,882	198,742	181,859	323,473	296,621	943,701	256,895
7	H3I	109,000	123,400	104,150	98,300	150,308	130,768	120,441
8	Axis	395,049	470,538	682,537				

Moreover, the acquisition of XL Axiata and Axis occurred because between 2010 to 2017 the telecommunication industry faced a new problem as SMS and call transactions are declining due to the high demand for data usage from the market. Both reasons are foreseen as the reason why XL Axiata decided to acquire Axis at that time. By acquiring Axis, XL Axiata expected to gain its market share and expand its spectrum of frequency to wider areas of Indonesia.

Although some journals have proven that mergers and acquisitions may lead to better financial performance in several industries such as banking (Al Hroot et al., 2017), pharmaceutical (Daryanto, 2019), and electrical service (Zen & Andati, 2016), the analysis of merger and acquisition impact on Indonesian telecommunication industry is still limited. Therefore this research is conducted to see if XL Axiata's decision on acquiring Axis will bring improvement and solve XL Axiata's current problems by analyzing its financial performance before and after the acquisition. Financial ratios and simple paired t-test analysis will be used in this study.

2. LITERATURE REVIEW

TELECOMMUNICATION INDUSTRY IN INDONESIA

The telecommunication industry is one of the most important forces in the economy (Fakher, 2016). Technology built up innovation and growth to accelerate the industry (Business Wire, 2014). 90% of the telecommunication industry market share in Indonesia held by Telkomsel, Indosat, and XL Axiata as the top three telecommunication companies in this country. Followed by Smartfren, STI, HTI, and Axis which combined hold 10% of the market share (Kementrian Komunikasi dan Informatika, 2018).

The services provided by telecommunication companies (provider companies) range from voice, SMS, data to international calls. The trend of the telecommunication industry has shifted from voice and SMS to data usage and brought impact to telecommunication companies with a decrease in the revenue growth in 2014 (Kementrian Komunikasi dan Informatika, 2018). To gain more portion of market share, the provider companies compete to expand and dominate their bandwidth and coverage area. The coverage area is the scope of the area where the provider companies deliver the services (Wardhana & Makodian, 2010). In 2014 based on the Indonesia Telecommunication Report (2014), the popularity and high demand for data usage services have been seen as potential opportunities for international provider companies to enter the market.
Since the telecommunication market in Indonesia has been saturated with no more demand available in the market, many providers try to dominate each others' bandwidth and coverage area (Frost & Sullivan, 2018).

XL Axiata, established in 1996, is the first private provider company that includes in the top three telecommunication companies in Indonesia. The company also became the first operator company that launched 4.5G to the market (XL Axiata, 2020). Within this circumstance, XL Axiata started considering to acquire Axis to expand their market. By acquiring Axis through acquisition, it predicted that XL Axiata would rank the second largest provider companies in Indonesia since it will gain broader access to Axis bandwidth and coverage area (Indonesian Telecommunication Report, 201). The acquisition process was done and became official in March 2014.

MERGER AND ACQUISITION

Merger and acquisition is an ownership change in the form of combination in several businesses, assets, and alliances which aim to improve company performance and maximize shareholders' values (Eleftheriadis et al., 2011). Integration on achieving the long-term value goal between the acquiring firm and the acquired target company called strategic merger and acquisition (Hitt et al., 2001). By conducting merger and acquisition, the company can develop and extend the existing resource and capabilities (Uhlenbruck et al., 2006) to overcome any boundaries that the company faces within the industry by combining the technologies (Rosenkopf & Nerkar, 2001). Recently the importance of financial practice in acquisitions has kept on increasing due to further involvement of private equity in merger and acquisition contracts among the firms (Stucchi, 2012). Although there are some approaches that can be used to assess a company's performance after conducting merger and acquisition, operational performance approach through examining accounting data with financial ratio is the best approach to evaluate the performance (Al Hroot et al., 2017).

FINANCIAL RATIO ANALYSIS

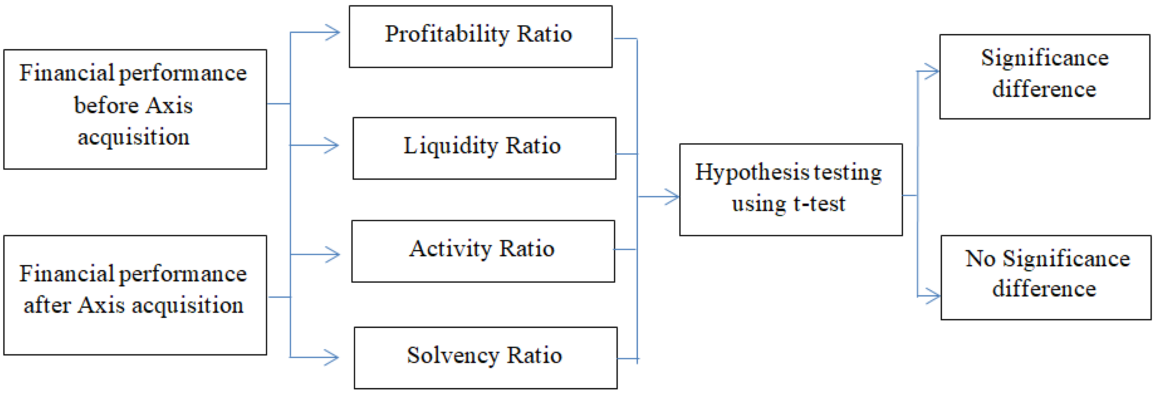
From a management perspective, company performance measures through three factors in the organization which includes operational, marketing and finance (Heizer & Render, 2006). For finance, the company performance often appraises from financial statements, balance sheets, profit and loss statements (Peterson, 2013). Financial statements have the richest information to assess the condition from the company's financial aspect which can be done in a specific period to gather the whole picture of the company's condition (Subramanyam & Wild, 2009).

The measurement in financial performance allows the company to learn the condition of past performance to perform better in the future by avoiding the past mistake and maintain the aspect that already done well in the company (Chmielewska & Matuszyk, 2018). As explained by Subramanyam and Wild (2009), decision making can be derived from the financial performance result as the risk can be suppressed immediately and new prospects from the evaluation can be determined to get improvement on following years' company performance.

In financial ratio analysis, some essential components have to be discussed, such as liquidity ratio, profitability ratios, debt ratios, cash flow ratios, and operating performance ratios (Bloomenthal, 2020). Gitman & Flanagan (2015) explained that there are five categories of measurement ratios to assess financial performance. Those ratios are liquidity ratio, activity ratio, profitability ratio, debt ratio, and the last one is the market ratio. Costea & Hostiuc (2009) stated that the liquidity ratio reflected the effect of partitioning money and other liquid resources by the short term borrowings and liabilities. The ratios that can help to measure and analyze the liquidity of a company are quick ratio, current ratio, cash ratio, and cash conversion cycle (Hayes, 2020). Debt ratios are a measurement that is used to compare a company's debts to its assets (Falk & Steiger, 2018). The ratios that are usually used to analyze the solvency of a company are debt ratio, debt to equity ratio, interest coverage ratio, capitalization ratio, and a fixed asset to the net worth ratio (Kenton, 2019). Tulsian (2014), stated that profitability ratios are an indicator to measure a company's capacity to generate benefits or income. Those ratios show how sufficiently the benefit of a company is being administered. Net profit margin, return on investment (ROI), return on equity (ROE), and earning per share (EPS) are the examples of profitability ratios. These measurements reflected how proficient a company can perform at creating benefits (Kenton, 2020). Activity ratios show how the company used its resources optimally. Asset utilization that is conducted by the management could be analyzed in conjunction with the rate of the benefit of the company (Abbas, 2019). Activity Ratio is represented by Asset Turnover calculated by dividing total revenue with total assets with higher turnover shows better management on asset efficiency which can lead to better profitability ratio (Kharusi & Murthy, 2017).

The most important assessment to gather a whole picture of the firm condition is financial performance. The increase in financial performance leads to an increase in firm performance. Excellent performance developed from the financial analysis can bring the firm ready to compete with its competitors (Fauzi & Idris, 2009).

3. RESEARCH MODEL



The analysis process of XL Axiata financial performance represented by this research model is adapted from previous research of Ahli Bank Company’s after and before acquisition financial performance that is conducted by Al-Hroot et al., in 2017. Despite the fact that the industry discussed in Al-Hroot’s research is different from the industry on this telecommunication research**Figure 3.1 Financial Performance Re**, the methodology of the research is still suitable to achieve this research objective since both studies discussed the impact of merger and acquisition by assessing financial performance of the company.
search Model

4. HYPOTHESIS

Developed from the literature review these hypotheses are tested in this research and development from the literature review:

<u>Profitability Ratio</u>
Ho: there is no significant difference of RoA (return of asset) ratio in financial performance between before and after the acquisition of XL and Axis company
H1: there is a significant difference of RoA (return of asset) ratio in financial performance between before and after the acquisition of XL and Axis company

Ho: there is no significant difference of RoE (return of equity) ratio in financial performance between before and after the acquisition of XL and Axis company
H1: there is a significant difference of RoE (return of equity) ratio in financial performance between before and after the acquisition of XL and Axis company

<u>Liquidity Ratio</u>
Ho: there is no significant difference of current asset ratio in financial performance between before and after the acquisition of XL and Axis company
H1: there is a significant difference of current asset ratio in financial performance between before and after the acquisition of XL and Axis company

<u>Activity Ratio</u>
Ho: there is no significant difference of asset turnover ratio in financial performance between before and after the acquisition of XL and Axis company

H1: there is a significant difference of asset turnover ratio in financial performance between before and after the acquisition of XL and Axis company

Solvency Ratio
Ho: there is no significant difference of debt to equity ratio in financial performance between before and after the acquisition of XL and Axis company
H1: there is a significant difference of debt to equity ratio in financial performance between before and after the acquisition of XL and Axis company

Ho: there is no significant difference of debt to asset ratio in financial performance between before and after the acquisition of XL and Axis company
H1: there is a significant difference of RoA (return of asset) ratio in financial performance between before and after the acquisition of XL and Axis company

5. METHODOLOGY

This study used financial ratio analysis and paired sample t-test to determine the significant difference between XL pre and post-financial performance. The analysis derived from data collected from the Annual Report from 2010 to 2013 with classification as follows: pre-acquisition period (2010, 2011, 2012 and 2013) and post-acquisition period (2014, 2015, 2016, 2017). Variables listed below are tested in this research:

Table 5.1 The variables: Profitability, Activity, Liquidity, and Solvency Ratios

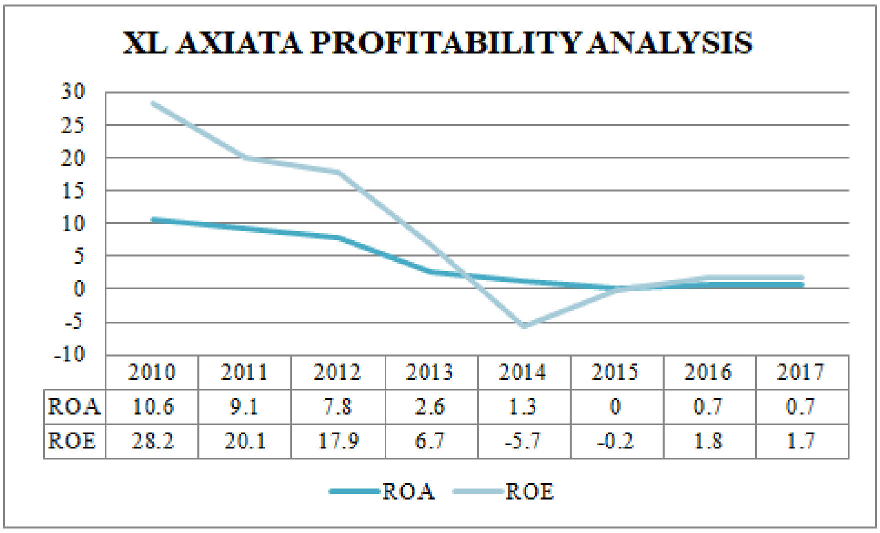
PROFITABILITY RATIO	
Return on Asset	Return on Asset = Net Income/Total Asset
	ROA measures the efficiency of operating management by utilizing its total assets to generate income
Return on Equity	Return on Equity = Net Income/Total Shareholder's Equity
	ROE measures the efficiency of capital or financial management
LIQUIDITY RATIO	
Current Ratio	Current Ratio = Current Asset / Current Liabilities
	Current Ratio indicates a company's ability to pay its short-term obligation
ACTIVITY RATIO	
Asset Turnover	Asset Turnover = Revenue / Capital Employed
	Asset Turnover measures the value of a company's sales or revenues relative to the value of its assets
SOLVENCY RATIO	
Debt/Equity Ratio	Debt/Equity Ratio = Total Liabilities/Shareholder's Equity
	Debt/Equity Ratio measure of the degree to which a company is financing its operations through debt versus wholly-owned funds
Debt to Asset Ratio	Debt/Equity Ratio = Total Liabilities / Shareholder's Equity
	Debt/Equity Ratio measure of the degree to which a company is financing its operations through debt versus wholly-owned funds

6. RESULT / DISCUSSION

6.1 Profitability Analysis

The graph below shows the trend of XL's profitability that is reflected by the percentage return on asset (ROA) and return on equity (ROE) for 2010 - 2017. As shown on the graph, both ROE and ROA of XL seem to have a downward trend due to the saturation phase that the telecommunication industry is facing where there is no more demand available in the market. For ROE, the percentage of ROE went negative in 2014 and 2015. On the other hand, the ROA also hit the lowest point in 2015. These cases may be caused by the acquisition process that is being carried out by XL Axiata against Axis. After the acquisition, the ROE and ROA started to rise back in 2015 – 2017 showing the ROE has recovered from the acquisition phase.

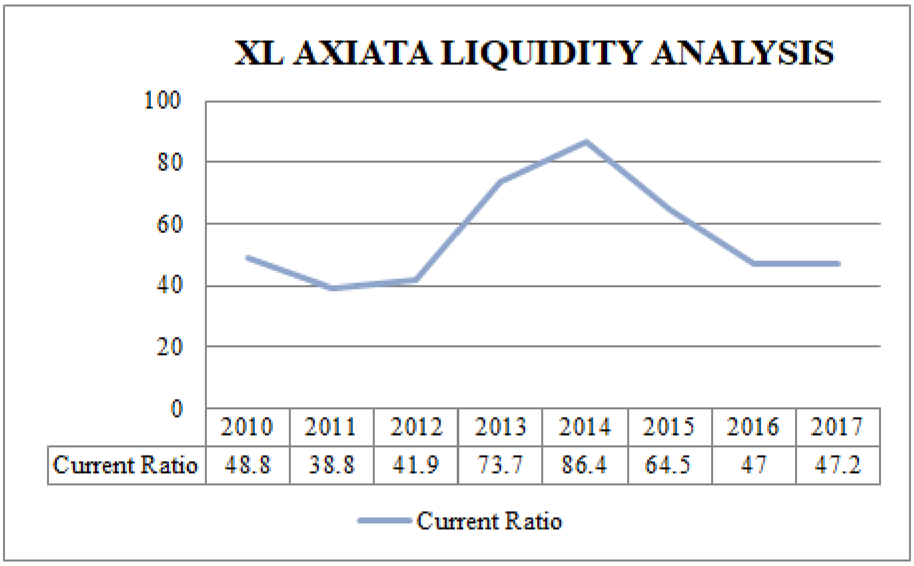
Figure 6.1 XL Axiata Profitability Ratio Analysis



6.2 Liquidity Analysis

The graph below represents XL Axiata's liquidity by the percentage of the current ratio from 2010 – 2017. Looking at the percentage, XL Axiata Company is shown to have a high liquidity level as most of the ratios are above 38. Although the current ratios have fluctuated, all of them are still in an elevated position. These reflect that XL Axiata is in a good condition as a higher current ratio is always more favorable than a lower current ratio and the result explained that XL Axiata can easily pay its current debt payments. If XL Axiata is weighted down with current debt, its cash flow will be suffered.

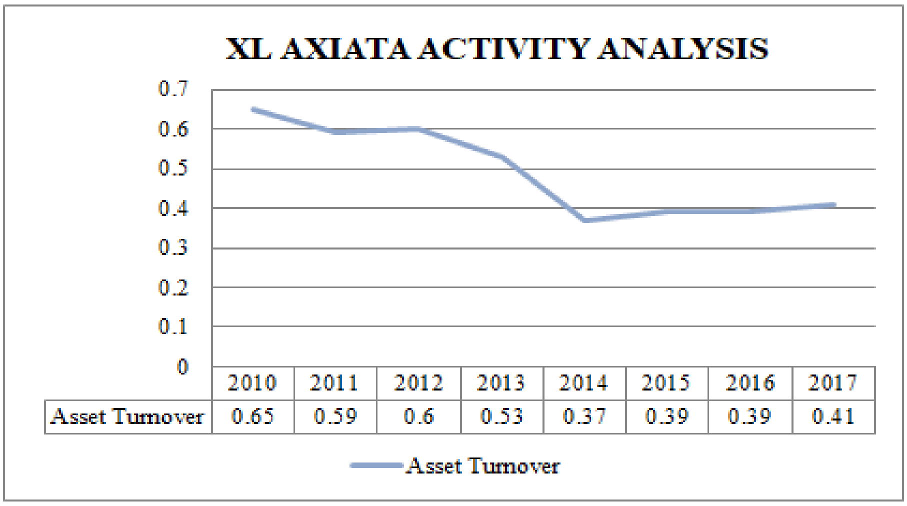
Figure 6.2 XL Axiata Liquidity Ratio Analysis



6.3 Activity Analysis

The following graph shows information about the activity of XL Axiata that is represented by its asset turnover ratio. It shows that the trend of the ratio is declining especially from 2013 to 2014. This problem might be arising because there is some significant increase in total assets due to Axis acquisition in 2014, while at the same time XL Axiata is still adapting with a new management system. However, in the following year, XL Axiata fixed its asset management and the ratio started to increase to a more stable level.

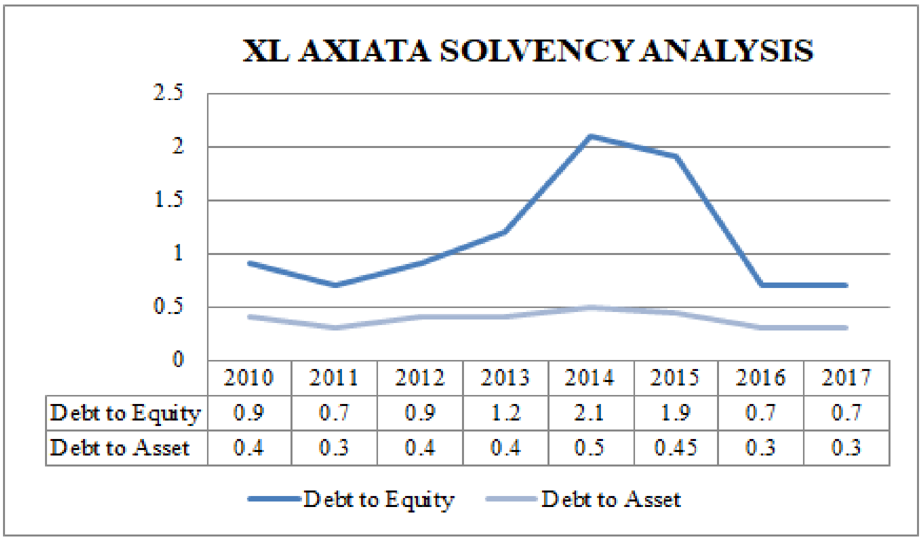
Figure 6.3 XL Axiata Activity Ratio Analysis



6.4 Solvency Analysis

The below graph shows XL Axiata's solvency by its debt to equity ratio and debt to asset ratio from 2010 to 2017. As with many solvency ratios, a lower ratio is more favorable than a higher ratio. From the graph, it shows that both debts to equity and debt to assets are on the increase when the acquisition occurred in 2014. The soaring number of debt held by XL Axiata in 2013-2014 is the reason why the increase in the ratio shown on the graph. Although there is a slight increase in the ratio, the overall solvency ratios that XL Axiata has are on the secure side by having lower ratios. A lower debt to equity and debt to asset usually implies a more financially stable business.

Figure 6.4 XL Axiata Solvency Ratio Analysis



6.5 T-test Analysis

Table 6 represents the outcome from the Paired Sample T-test of XL Axiata's financial performance. In this test, we use p-value as a measuring tool to prove the hypothesis. The hypothesis will be accepted if the p-value is < 0.05 and rejected if the p-value is > 0.05. The result found that there is a positive significant difference in XL Axiata's profitability and activity after the acquisition. On the other hand, the liquidity and solvency ratio of XL Axiata is positive but not significant. From the table, it shows that the p-value of ROA, ROE, and total asset turnover in a row are 0.014, 0.025, and 0,004. Because those results are < 0,05, therefore, we reject the Ho. Meanwhile, for liquidity ratio and solvency ratio, the p-value is 0.254 for the current ratio, 0.208 for debt to equity, and 0.430 for debt to asset. Because the p-values are > 0.05, therefore, we accept the Ho. This result proves that after the acquisition, there are some positive and significant improvements that XL Axiata made especially on the profitability and activity side. However, the liquidity and solvency of XL seem not to have the same level of improvement compared to the other aspect or we can conclude there are only slightly positive changes.

Table 6.1 Summary of XL Axiata Ratio Analysis (T-Test Result)

Financial Ratio	Status	Mean	*p-value*	Decision
Profitability Ratio				
Return on Asset	Pre	7.525	0.014232648	Reject Ho
	Post	0.675		
Return on Equity	Pre	18.225	0.025589693	Reject Ho
	Post	-0.6		
Liquidity Ratio				
Current Ratio	Pre	50.8	0.254803625	Accept Ho
	Post	61.275		
Activity Ratio				
Total Asset Turnover	Pre	0.5925	0.004261359	Reject Ho
	Post	0.39		
Solvency Ratio				
Debt to Equity	Pre	0.925	0.208048913	Accept Ho
	Post	1.35		
Debt to Asset	Pre	0.375	0.430677155	Accept Ho
	Post	0.3875		

7. LIMITATIONS

This research focuses on the financial aspect of XL to compare the company before and after the acquisition performance. The periods compared were only taken four years before and four years after the acquisition. Further research with longer periods must be conducted to see a broader transformation in the longer term. Limited ratio used in this research due to limited data available from the company's annual reports. The telecommunication industry shifting from SMS and call usage to data usage is a very interesting topic that can be discussed not only from one company acquisition occurrence but can discuss other related companies' performance further.

8. CONCLUSION / RECOMMENDATION

The purpose of this research is to compare and to examine the significant difference between XL Axiata financial performance between before (2010 to 2013) and after (2014 to 2017) it acquired Axis where we can see the effectiveness of acquisition between these two companies. The objective of the acquisition is to maximize the profitability and stability of both companies. To see the acquisition effectiveness, financial ratio analysis is used in this research. The research result showed an improvement in financial performance after the acquisition, especially in profitability and activity aspects. Despite overall improvement, several aspects such as liquidity and solvency show no significant difference in the changes yet the company is still doing fine and well after the acquisition. It can be seen from the result that there are no negative changes in financial performance.

After the acquisition, XL Axiata had opportunities to expand its network capacity by managing the additional coverage area and bandwidth well. With these developments, XL Axiata was hoped to be able to cater to the rising demand and interest of data usage users (Indonesia Telecommunication Report, 2014). Based on the Indonesia Telecommunications Report (2017), XL Axiata was able to increase 23% of its market share in 2017 after acquiring Axis in 2014. It shows that the objective of XL Axiata to acquire with Axis brought success for the company. The idea to get a bigger portion of the market share and a wider range of bandwidth networks all over Indonesia are simply achieved and the sources are being utilized to perform better as represented in the growth of financial reports. In conclusion, the positive changes toward the acquisition show that XL Axiata can overcome the company issues in financial views.

However, as stated in this research result, the improvement of XL Axiata performance in terms of its financial condition shows that their liquidity and solvency aspects may need more attention. To improve those aspects, XL Axiata needs to come with a better plan to manage its liability.

To increase the solvency ratio, XL Axiata has broad options such as increasing the cash flow by issuing new stock, leasing the company assets, and improving the number of sales (Kumaran, 2018). Avoiding new debt, reevaluating the expenses and pushing the number of sales will also be the best suggestion to get a higher ratio of solvency (Shieldsmith, 2019).

Upon acquiring Axis, XL Axiata owns a huge number of BTS towers. Selling several Base Transceiver Station (BTS) towers to the market will be one of the options available for XL Axiata to increase their cash so it will boost the liquidity ratio by transferring non-current asset (BTS tower) to current asset (cash). Once the company is stable and in very good financial condition, they have options to rent or buy back those BTS towers. With the same purpose, selling their BTS towers also will reduce the maintenance expense which will help increase the solvency ratio.

This research has discussed the theory and measurement of financial ratio analysis within the telecommunication industry which should be considered as the main tools to review the company performance after the acquisition. Hopefully, students will have a better image of applying financial ratio analysis to everyday business. To conclude, this research will also help the business within the industry to determine the possibilities and opportunities of telecommunication companies on expanding their market, products, or network range.

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