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Corporate Funding Alternatives to Support Business Growth: Case Study at PT Berlian Jasa Terminal Indonesia

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ABSTRACT

This study aims to analyse several alternatives of corporate funding to support business growth of PT Berlian Jasa Terminal Indonesia (BJTI). In 2019, PT BJTI faces quite a challenge, the target of increasing sales as much as 54% is far above the Internal Growth Rate and Sustainable Growth Rate of PT BJTI which is only 1.88% and 3.18%. In order to reach the expected business growth, PT BJTI requires additional funding from external sources. Taking into account the current condition of the financial performance of PT BJTI, the company needs the most effective and efficient solution so that it can support its efforts in increasing sales and at the same time, not adding unnecessary burden to PT BJTI's financial performance. An analysis of several available alternatives has been carried out, and the best alternative has been obtained. The solution to the problem of PT BJTI is to do a combination of external financing through Debt and Equity, this alternative yield lowest capital cost, amounted 9.86% and overall improve PT BJTI`s financial performance. This alternative is able to solve the problems of PT BJTI's funding needs while still maintaining its healthy performance.

Keywords: Debt, Equity, External Funding, Growth, Financing Solution

INTRODUCTION

PT Pelabuhan Indonesia III (Persero) (Pelindo III) is one of four state-owned companies engaged in the port industry. Pelindo III cover around East and Central Java, South and Central Kalimantan, Bali, East and West Nusa Tenggara. In 9 January 2002, Pelindo III made a strategic decision of establishing a subsidiary which actually a spin-off of Usaha Terminal – a business unit by Pelindo III in Tanjung Perak – namely PT Berlian Jasa Terminal Indonesia (BJTI) .PT BJTI) is one of the subsidiaries of Pelindo III which serves as port terminal operator in Terminal Berlian, Surabaya.

As an effort to expand the business portfolio, PT BJTI has made several investments for PT BJTI itself as well as in the form of the creation of subsidiaries – of which subsequently requires a significant capital value. Noted in the PT BJTI Corporate Budget Work Plan for the year 2019 which approved by its Shareholder, and sales growth target is 1.6 trillion rupiah, of which the value rises by 54% of the 2018 revenue achievement, with IDR 344 billion of investment value.

PT BJTI's fund needs for 2019 are quite large, in order to fund investments and other costs to support the company to achieves its revenue target. On the other hand, the financial performance of PT BJTI in the last 5 years continues to decline, which is shown through the decreasing profitability ratio and interest coverage ratio. Taking into account the current financial condition of PT BJTI as well as the amount of funding needed to develop the company's business, it is essential for PT BJTI to think of new alternative funding sources that are in line with the current financial condition of PT BJTI, namely a more efficient new source of funding.

METHODS

This paper was prepared to find the most adequate funding alternative for PT BJTI to fund its investment in order to achieve targeted business growth, as well as to overcome PT BJTI's financial problems in operational activities. The research method that is used in this paper starts from the existence of a business issues in the company, namely looking for alternative funding to support the growth of PT BJTI's business. Steps to be carried out in this paper are as follows:

1. External Scanning: analyse the factors that could affects the achievability of PT BJTI's business growth targets, and to find out the performance measurement of similar industries.
2. Internal Scanning: analysing the financial performance of PT BJTI from 2015 to 2018 to determine the level of the company's ratio from year to year and the position of PT BJTI compared to similar industries, and measure the level of the company's ability to grow without using internal funding sources.

3. Analysing the root cause of the problem to find out any solutions to overcome the problems faced.
4. Calculating the External Fund Needs to find out the amount of funding needed by PT BJTI in 2019.
5. Analysing alternative solutions available to find the best alternative by taking into account the company's conditions and targets.

2.1 External Scanning

External scanning using the Porter's Five Forces model to identify the intensity of competition within an industry: Threat of new Entrants, bargaining power of Buyers, Bargaining power of Suppliers, Threat of Substitutes and Rivalry among Existing Firms (Porter, 2008).

TABLE 1. PORTER'S 5 FORCES

Threat of New Entrants	Medium	The port business requires large working capital to start its business, but now there are private port terminal companies that have begun operating for public
Bargaining Power of Buyers	Medium	Tariff arrangement is something that must be agreed upon by the Port Association
Bargaining Power of Suppliers	Low	Equipment company available not only in Indonesia
Threat of Subtitute Services	Low	Customer considers logistics cost, where Port/ship have a lower cost than the other channel of logistic (e.g: air or land courier)
Rivalry among Existing Firms	Medium	Competition in this industry is influenced by geographical location.

Based on Table 1., it can be concluded that the competitor`s has a significant impact on PT BJTI's performance as indicated by the presence of private companies that have operated professionally. However, in terms of both service and equipment availability, PT BJTI still prevails. It is expected that sales growth targets that have been set by shareholders can be achieved in 2019, therefore PT BJTI needs to increase its performance and production capacity to get new markets.

2.2 Internal Scanning

Internal scanning meant to analyse the financial performance of PT BJTI from 2015 to 2018 to determine the level of the company's ratio from year to year and the position of PT BJTI compared to similar industries, shown in table 2. Table 2. Shows that the performance of PT BJTI decreases from year to year and the liquidity and profitability ratios of PT BJTI's performance are lower than the industry average, and the industry average data coverage is not available because 3 (three) comparison companies used in this paper has no interest costs, while PT Pelindo III as the majority shareholder of PT BJTI has a financial covenant with its investors with a minimum ICR value of 3x.

Another internal analysis is to calculate the Internal Growth Rate (IGR), namely the maximum growth rate that can be achieved with no external financing of any kind (Ross, Westerfield, Jordan, Lim, & Tan, 2012) with the following formula:

$$IGR = \frac{ROA\ x\ b}{1 - ROA\ x\ b}$$

The value of PT BJTI's ROA is 3.08%. Then from net income of 111,385 million rupiahs, 40% is allocated as dividends, so the retention value is 60%. Hence, PT BJTI's IGR value is 1.88%.

TABLE 2. FINANCIAL RATIO

Financial Ratios	2015	2016	2017	2018	Industry Average
Liquidity					
Current Ratio	495.67%	520.35%	438.25%	293.35%	174.13%
Net Working Capital	601,083	463,395	513,813	458,436	365,567
Profitability					
NPM	19.60%	13.89%	23.35%	10.52%	29.88%
ROE	10.16%	6.51%	10.08%	5.13%	70.62%

ROA	6.40%	4.33%	6.21%	3.08%	39.79%
Solvency					
Debt to Equity Ratio	58.76%	50.20%	62.34%	66.55%	109.38%
Interest Coverage Ratio	4.49	2.74	4.05	2.44	
Growth					
Revenue Growth	0.92%	-1.11%	1.03%	13.61%	19.34%
EAT Growth	-16.21%	-29.91%	69.81%	48.83%	40.38%

2.3 Root Cause

Author will use 5 Whys Analysis to determine the root cause of this problem, The 5 Whys Analysis consists of stepping down into details of problem circumstances. Its primary goal is to find the exact reason that is asking for a sequence of "Why" questions (Myszewski, 2013). Problem Statement: "PT BJTI Lack of Fund"

1. WHY 1: Why is PT BJTI underfunded?
   Because PT BJTI needs additional operational and investment fund to support its projected growth.
2. WHY 2: Why does PT BJTI need to grow and prosper?
   Because PT BJTI needs to fix its financial performance that has been declined steadily in the previous years.
3. WHY 3: Why does PT BJTI need to fix its financial performance?
   Because PT BJTI`s financial performance has been declined steadily in the previous years.
4. WHY 4: Why did PT BJTI`s financial performance decline?
   Because there is increase in interest-bearing loan.
5. WHY 5: Why did the interest-bearing loan increase?
   Because internal funds are insufficient, and retained earnings are lower than the need to grow.

Therefore, the root of the problem is the inadequacy of company`s internal funding to achieve the company`s growth target, therefore the solutions needed by PT BJTI is by raising external funds to boost its financial performance.

RESULT AND DISCUSSION

3.1 External Financing Needs

Based on 5 Whys Analysis, the root cause of the problem is raising external funds to reach the sales target in 2019 and based on the IGR calculation which shows a value of 1.88%, and based on external and internal analysis that the financial performance of PT BJTI is declining. Based on this situation, the company needs to find the most effective and efficient external funding alternatives for the company's current conditions.

However, the 2018 External Financing Needs (EFN) value needs to be calculated beforehand. EFN is the total amount of new interest-bearing debt, preferred and common stock the firm must issue to support its planned growth (Ross, Westerfield, Jordan, Lim, & Tan, 2012). EFN calculation will the carried out using the percentage of sales approach, (Ross, Westerfield, Jordan, Lim, & Tan, 2012), Figure 2., shows the income statement and balance sheet of PT BJTI in 2018, and the pro forma income statement and balance sheet in 2019 when the growth of revenue is expected to occur. It was found that PT BJTI's external funding needs for 2019 is amounted to IDR 422 billion.

FIGURE 2. THE COMPARISON BETWEEN FINANCIAL STATEMENT 2018 AND PRO FORMA FINANCIAL STATEMENT 2019

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Financial Statement (2018)

Income Statement (2018)

(in million rupiah)

Sales 2018	**1,059,149**
Costs	903,448
Taxable Income	155,701
Taxes	-44,316
Net Income	111,385

Balance Sheet (2018)

ASSETS		**LIABILITIES AND EQUITY**	
Current Assets		**Current Liabilities**	
Cash and cash equivalents	284,899	Trade Account Payable	99,619
Trade Receivables	138,202	Other Current Liabilities	137,611
Other Receivables	213,818	**Non Current Liabilities**	
Inventory	10,638	Other Payable - Related Party	1,152,593
Other Current Assets	48,108	Other long-term liabilities	54,509
Total Current Assets	**695,666**	**Total Liabilities**	**1,444,332**
		EQUITY	
Non-Current Asset	**2,918,895**	Share Capital	1,114,310
		Diff. frm changes in equity in subsid. & effect on trans. w/ non-controlling int.	39,960
		Other Comprehensive Income	36,522
		Retained Earning	607,629
		Non Controlling Interest	371,808
		Total Equity	**2,170,229**
Total Assets	**3,614,561**		**3,614,561**

Pro Forma Financial Statement (2019)

Proforma Income Statement (2019)

(in million rupiah)

Sales 2019	**1,633,529**
Costs	1,404,476
Taxable Income	229,053
Taxes (25%)	-57,263
Net Income (NPM 10.52%)	171,790
RE (60%)	103,074

Balance Sheet (2019)

ASSETS		*(chang*	**LIABILITIES AND EQUITY**		*(change*
Current Assets			**Current Liabilities**		
Cash and cash equivalents	**439,401**	**154,502**	Trade Account Payable	**153,643**	**54,024**
Trade Receivables	**213,149**	**74,947**	Other Current Liabilities	137,611	0
Other Receivables	213,818	0	**Non Current Liabilities**	0	0
Inventory	**16,407**	**5,769**	Other Payable - Related Party	1,152,593	0
Other Current Assets	48,108	0	Other long-term liabilities	54,509	0
Total Current Assets	**930,884**		**Total Liabilities**	**1,498,356**	
			EQUITY		
Non-Current Asset	**3,262,972**	**344,077**	Share Capital	1,114,310	0
			Diff. frm changes in equity in subsid. & effect on trans. w/ non-controlling int.	39,960	0
			Other Comprehensive Income	36,522	0
			Retained Earning	**710,703**	**103,074**
			Non Controlling Interest	371,808	0
			Total Equity	**2,273,303**	
Total Assets	**4,193,856**			**3,771,658**	
			External Financing Needed	**422,197**	

3.2 Funding Alternatives

Furthermore, to obtain the best solution, an analysis were run through several funding alternatives to fulfil PT BJTI's needs, which are: Additional Paid in Capital, Shareholder's Loans, Bank Loans, IPOs and a combination of Debt and Equity funding.

3.2.1 Funding from Shareholder as Paid in Capital.

PT BJTI`s funding will be obtained through additional capital paid by existing shareholders. Additional paid in capital resulted in better financial performance, whereas all liquidity and profitability ratios in 2019 fared better than previous year. This is caused by growth in revenue and presence of cash flow from paid in capital. Similar condition applied in PT BJTI`s solvability ratio, the debt to equity ratio values goes down due to addition of paid capital, and Interest Coverage Ratio (ICR) increased by 1.4 times, which means that PT BJTI`s ability to pay its interest cost increases and have met the financial covenant requirements of Pelindo III.

3.2.2 Funding from Shareholder as Loan.

PT BJTI has securing Shareholder Loan since 2015. The loan itself has 5 years period with interest rate similar to that from State Owned Bank to Pelindo III, plus 1% for management cost or margin of Pelindo III. This alternative resulted in fairly good financial performance, whereas liquidity, profitability and company`s growth showing increase in value compared to 2018`s performance, this was due significant revenue growth which consequently generate enough cash inflow for the company that higher than the interest cost. But ICR ratio that stay stagnant and Debt to Equity Ratio (DER) shows an increase to 81% (15% increase), it means there is increase in the debt repayment risk.

3.2.3 Funding from Bank Loan.

The difference from Alternative 2 (loan from shareholders) lies in the loan`s interest rate. In this alternative, it is assumed that bank`s interest rate that will be used is the rate when Pelindo III act as Guarantor, therefore the bank`s interest rate is lower when compared to bank interest rates to PT BJTI directly, given Pelindo III's rating and Pelindo III is a state-owned company. The rate is 3 Months JIBOR + 1.5%. This alternative resulted in slightly better financial performance compared to financial performance in Alternative 2 (loan from shareholders), this is caused by lower interest rate (1% lower). Liquidity ratio, profitability and growth shows increase in value compared to 2018`s performance because significant revenue growth that resulting in higher cash inflow to PT BJTI compared to its interest cost. ICR in the third alternatives amounted 0.34 times, higher than in 2018.

3.2.4 Funding from IPO.

PT BJTI's funding could also be obtained through an IPO - by selling some of company shares to public. The impact of PT BJTI`s financial performance by conducting IPO is considered the same with first alternative (additional paid in capital from shareholders). Whereas financial ratios experienced significant improvement due to revenue growth, decline of DER and increase in ICR resulted in improved PT BJTI`s overall financial performance. Besides that, by conducting IPO, PT BJTI can gained several other non-financial benefit, including rise of company`s value, because by being listed in stock exchange will encourage investors to compete each other, other benefit is company reputation will be taken into account because not all company have capabilities to be listed in stock exchange due to specific requirements for company with certain growth rate and other requirements to be listed.

Besides the benefits, there are also several shortcomings, including company`s privacy, longer decision-making process and more company`s information will be exposed to public. Another matter that need to be taken into account, is the process of preparing IPO is quite expensive and need large cost.

Before deciding to conduct IPO, a valuation on company need to be carried out. Author will use discounted cash flow method to calculate company`s value. Several number of forecasts will be conducted to calculate PT BJTI`s free cash flow for the next 5 years, then for the following years after forecasted years, growth that occurs on the free cash flow method is reflected through the Terminal Value which indicated cash flow in the final year of the forecast with the constant-growth valuation (Chaplinsky, Schill and Doherty, 2000).

$$\text{Terminal Value} = \text{FCF}^{\text{Steady Sate}} \div (\text{WACC} - \text{g})$$

Where:

- FCF Steady Sate is the steady-state expected free cash flow for the year after the final year of the cash flow forecast
- WACC is the weighted average cost of capital
- g is the expected steady-state growth rate of FCF Steady State in perpetuity

$$\text{FCF} = \text{NOPAT} + \text{Depreciation} - \text{CAPEX} - \Delta\text{NWC}$$

Where,

- NOPAT is equal to EBIT (1-t) where t is the appropriate marginal (not average) cash tax rate, tax rate for this study is 25% (a corporate income tax rate applies in Indonesia based on Directorate General of Taxes' policy).
- Depreciation is noncash operating charges.
- CAPEX is capital expenditures for fixed assets.
- NWC is the increase in net working capital.

Weighted Average Cost of Capital (WACC) is expected the average future cost of capital over the long run (Gitman, Juchau, and Flanagan, 2015). WACC can be specified as (Chaplinsky, Schill and Doherty, 2000):

$$\text{WACC} = \text{W}_\text{d}\text{K}_\text{d}\ (1 - \text{T}) + \text{W}_\text{e}\text{K}_\text{e}$$

Where,

- kd is cost of debt

Bruner (2001) said that cost of debt is total interest expense and dividing it by company's average debt balance. To forecast value of before-tax cost of debt, author determine value of one-year loan interest expense, then divide it by the value of total interest-bearing debt. Interest expense for the year 2018 of PT BJTI amounted IDR 107,756,195,705 and total interest-bearing debt amounted IDR 1,052,592,508,902, resulting in before tax cost of debt is 10.24%, so cost of debt after tax is 7.68%.

- ke is cost of equity

The cost of capital represents the firm's cost of financing and is the minimum rate of return that a project must earn to increase frim value (Gitman, Juchau, & Flanagan, 2015):

$$\text{k}_\text{e} = \text{R}_\text{f} + \beta \text{ x } \text{R}_\text{p}$$

Where,

- Rf is risk-free rate. Author uses Saving Bond Ritel No. 005 (SBR005) which launched by Ministry of Finance in January 2019 with 8.15% coupon (Directorate General of Budget Financing and Risk Management, 2019)
- Rp is risk premium. Indonesia Risk Premium is 2.64% (Damodaran, 2019).
- β is 1.14 (Damodaran Total Beta data for Industry average (Transportation) in emerging market) (Damodaran, 2019).

So, the cost of equity/capital PT BJTI is 11.16%.

Wd is the weight of debt component in the company's capital structure

$$W_d = \frac{\text{Debt}}{\text{Debt} + \text{Equity}}$$

Based on financial report of PT BJTI in 2018, Wd is 32.66%
W_e is the weight of equity in the company's total capital

$$W_e = 1 - W_d$$

So, W_e of PT BJTI is 67.34%.
Based on the WACC`s formula above, and after each of PT BJTI`s WACC elements discovered, it can then be estimated that WACC value of PT BJTI is 10.02%.

$$\text{WACC} = (32.66\% \times 7.68\%) + (67.34\% \times 11.16\%)$$

From tables 3. and 4., it can be seen the equity value of PT BJTI before and after the IPO, it appears that the value of the company increases after offering its shares to the public, where the value of shares prior to the public offering amounted in IDR 9.4 million and after shares offering the value of company is IDR 12.9 million.

TABLE 3. STOCK VALUATION BEFORE PUBLIC OFFERING IN CONSTANT GROWTH

(in millions rupiah)

	Trend/History				Forecasts/Projections				
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Assumptions:									
Revenue Growth	0.92%	-1.11%	1.06%	13.61%	3.62%	3.62%	3.62%	3.62%	3.62%
Operating Ratio	73.59%	80.96%	76.59%	76.33%	77.96%	77.96%	77.96%	77.96%	77.96%
Tax Rate					25.00%	25.00%	25.00%	25.00%	25.00%
Current Assets/Sales	80.72%	62.18%	71.41%	65.68%	66.42%	66.42%	66.42%	66.42%	66.42%
Current Liabilities/Sales	16.29%	11.95%	16.29%	22.40%	16.88%	16.88%	16.88%	16.88%	16.88%
Yearly depreciation and capital ex	47,314	74,081	85,244	102,263	119,933	119,933	119,933	119,933	119,933
Cost of Capital					**10.02%**				
Terminal Growth Rate					**3.00%**				
Revenue				1,059,149	1,097,501	1,137,243	1,178,423	1,221,094	1,265,310
Current Asset				695,666	729,010	755,408	782,762	811,106	840,477
Current Liabilities				237,230	185,268	191,977	198,928	206,132	213,596
NWC				458,436	543,742	563,432	583,834	604,975	626,881
Operating Income					241,888	250,647	259,723	269,128	278,873
Taxes					60,472	62,662	64,931	67,282	69,718
NOPAT					181,416	187,986	194,793	201,846	209,155
Capex, net of depreciation					119,933	119,933	119,933	119,933	119,933
Change in NWC					-85,306	-19,689	-20,402	-21,141	-21,906
Free cash flow					216,043	288,229	294,323	300,638	307,181
Terminal value									**16,883,200**
Total flows					216,043	288,229	294,323	300,638	17,190,382
Present value of flows					**196,360**	**238,102**	**220,985**	**205,160**	**10,662,222**
Enterprise Value					11,522,828				
Less: debt outstanding of 2018					1,052,593				
Equity value					10,470,235				
Current shares outstanding (full amount)					1,114,310				
Equity value per share					**9.40**	Current share price			

TABLE 4. STOCK VALUATION AFTER PUBLIC OFFERING

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									(in millions rupiah)
	Trend/History				Forecasts/Projections				
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Assumptions:									
Revenue Growth	0.92%	-1.11%	1.06%	13.61%	54.23%	18.49%	7.20%	7.20%	7.20%
Operating Ratio	73.59%	80.96%	76.59%	76.33%	77.96%	77.96%	77.96%	77.96%	77.96%
Tax Rate					25.00%	25.00%	25.00%	25.00%	25.00%
Current Assets/Sales	80.72%	62.18%	71.41%	65.68%	66.42%	66.42%	66.42%	66.42%	66.42%
Current Liabilities/Sales	16.29%	11.95%	16.29%	22.40%	16.88%	16.88%	16.88%	16.88%	16.88%
Yearly depreciation and capital ex	47,314	74,081	85,244	102,263	119,933	119,933	119,933	119,933	119,933
Cost of Capital					**10.02%**				
Terminal Growth Rate					**3.00%**				
Revenue				1,059,149	1,633,529	1,935,500	2,074,765	2,224,050	2,384,077
Current Asset				695,666	1,085,064	1,285,647	1,378,153	1,477,316	1,583,613
Current Liabilities				237,230	275,754	326,730	350,239	375,440	402,454
NWC				458,436	809,310	958,918	1,027,914	1,101,876	1,181,159
Operating Income					360,029	426,583	457,277	490,179	525,449
Taxes					90,007	106,646	114,319	122,545	131,362
NOPAT					270,021	319,937	342,957	367,634	394,087
Capex, net of depreciation					119,933	119,933	119,933	119,933	119,933
Change in NWC					-350,874	-149,608	-68,997	-73,961	-79,283
Free cash flow					39,080	290,262	393,893	413,606	434,736
Terminal value									**23,893,824**
Total flows					39,080	290,262	393,893	413,606	24,328,560
Present value of flows					**35,520**	**239,781**	**295,744**	**282,251**	**15,089,630**
Enterprise Value					15,942,926				
Less: debt outstanding of 2018					1,052,593				
Equity value					14,890,334				
Current shares outstanding (full amount)					1,114,310				
Number of new shares (full amount)					31,580				
Total number of shares (full amount)					1,145,890				
Equity value per share					**12.99**				

3.2.5 Funding from Combination of Debt and Equity.

In this alternative, to obtain additional funding, a combination of debt and additional paid in capital will be conducted. In raising funds to finance operations, companies can utilize a number of alternatives including issuing debt or equity (Fruhan Jr, 1979). To determine the composition of amount of debt and paid in capital, Optimal Capital Structure calculation will be carried out. Optimal Capital Structure is a financial measure used by companies to determine the best combination of debt and equity used to fund operation and expansion (Rustam, 2015). Summary of result of the calculation of the Optimal Capital Structure of PT BJTI is shown in table 5. It can be concluded that PT BJTI`s Optimal Capital Structure can be achieved using the concept of combination funding, with a composition of debt at 35% and equity at 65%. With this composition, PT BJTI`s WACC value stand at lowest point of 9.86%.

TABLE 5. OPTIMAL CAPITAL STRUCTURE OF PT BJTI

D/(D+E)	Cost of debt	E/(D+E)	Cost of equity	Cost of Capital
0.00%	6.68%	100.00%	10.36%	10.36%
10.00%	6.68%	90.00%	10.54%	10.16%
20.00%	7.05%	80.00%	10.77%	10.03%
30.00%	7.28%	70.00%	11.07%	9.93%
35.00%	7.28%	65.00%	11.25%	**9.86%**
40.00%	7.61%	60.00%	11.46%	9.92%
50.00%	11.06%	50.00%	12.01%	11.54%
60.00%	12.86%	40.00%	12.84%	12.85%
70.00%	13.22%	30.00%	14.33%	13.55%
80.00%	19.25%	20.00%	17.85%	18.97%
90.00%	19.63%	10.00%	27.22%	20.39%

After obtaining best combination of debt and equity, company`s performance will be calculated with intended composition, which means from total additional funding needed amounted 422 billion rupiah, 300 billion Rupiah will be funded thorough loan and the rest of 122 billion Rupiah will be funded by additional equity/paid in capital. By using this alternative, financial performance of PT BJTI would be increased, which reflected by liquidity ratios and profitability improvement compared to 2018, PT BJTI`s DER increased due to additional debt, however ICR value increased to 3.01 times.

3.3. Comparison of the Financial Performance of Each Alternative.

A comparison of each alternative's financial performance is made to decide which alternatives is the best, where the choice taken considered the best both for PT BJTI and Pelindo III as the major shareholder of PT BJTI.

The comparison of each alternative`s financial performance is shown in table 6.

TABLE 6. COMPARISON OF THE FINANCIAL PERFORMANCE OF EACH ALTERNATIVE

Financial Ratios	2018	Alt. 1 & 4	Alt. 2	Alt. 3	Alt. 5
Liquidity					
Current Ratio	293.25%	358.69%	346.90%	347.98%	352.72%
Net Working Capital	458,436	753,432	719,099	722,264	736,072
Profitability					
NPM	10.52%	13.90%	11.80%	11.99%	12.51%
ROE	5.13%	8.08%	8.19%	8.32%	8.22%
ROA	3.08%	5.27%	4.51%	4.58%	4.76%
Solvency					
Debt to Equity Ratio	66.55%	53.34%	81.61%	81.50%	72.32%
Interest Coverage Ratio	2.44	3.81	2.70	2.78	3.01
Growth					
Revenue Growth	13.61%	54.23%	54.23%	54.23%	54.23%
EAT Growth	-48.83%	103.89%	73.07%	75.91%	89.98%

Based on table 6 above, the analysis can be explained as follows:

1. Alternatives 1 and 4 is the most adequate and attractive alternatives for PT BJTI, while they stay as most unprofitable alternatives for BJTI`s shareholders. Therefore Alternatives 1 and 4 cannot accommodate interest of both parties (PT BJTI and shareholders).
2. The opposite occurred in Alternative 2 and 3, those alternatives to obtain fund through loan only fared better in ROE ratio, this alternative quite appealing for shareholder because it generates more revenue if compared to total invested equity. However, the ICR score for these alternatives is below 3 times, while the covenant that Pelindo III signed (Global Bonds), required ICR score at least 3 times. Therefore, both Alternatives 2 and 3 cannot be chosen to obtain the fund needed.
3. Alternatives 5 is combination of funding between debt and equity, this alternative yield middle value between PT BJTI`s interest as a company that obliged to grow; and shareholder`s interest which require continuity and high rate of return from PT BJTI. The value of financial performance in this alternative is decent in almost all ratio, even though the value in this alternative is not the highest one, this alternative generates sufficient value for PT BJTI and its shareholders. PT BJTI able to keep its liquidity and profitability at sufficient value to achieve its revenue target and continue its business, likewise Pelindo III as the shareholder can preserve its safe level of ROE and ICR value within the covenant's requirement. After considering all stakeholders' interest, Alternatives 5 which in the form of combination of debt and equity serves as the best alternative that can be used to obtain additional fund to support its target revenue/growth.
4. Regarding with alternative 5, in order to decide what type of debt to be used, a comparison analysis between Alternative 2 and 3 shown that Alternative 3 resulted in better performance, where there is a 1% saving in interest cost compared to loan from shareholders in Alternative 2. Therefore, alternative debt to be used is to obtain the loan from the bank.
5. Furthermore, to choose an equity alternative, other than merely comparing Alternative 1 and 4, there are several other matters that needed to be considered:
   - Complexity of the time and process to carry out the IPO will take a long-time process of around 6 (six) months or more. Meanwhile PT BJTI as subsidiary of a State-Owned Enterprise, as stated in the company`s article of association, it has responsibility to report to Ministry of State-Owned Enterprise to obtain written approval for all strategic corporate actions, which this process alone can take time up to 2 (two) months or even more.

- The high target that must be achieved by PT BJTI this year requires it to move swiftly in taking strategic measures to further increase its production capacity, therefore the additional funding needed by PT BJTI expected to be obtained as soon as possible with minimum hassle.

Considering all the matters mentioned above, therefore paid-in capital considered as the most efficient and effective method of equity funding for PT BJTI.

CONCLUSIONS

PT BJTI is one of Pelindo III`s subsidiary that is expected to significantly contribute profit to its holding. However, during the last 5 years, PT BJTI`s financial performance has consistently declined, which mainly caused by the increasing needs for funding obtained through shareholder loans, where the funding is used to achieve the company’s growth target.

In 2019, PT BJTI is challenged by its shareholders to improve its performance through assigning new revenue target which is 154% from those of 2018`s. The high revenue target that assigned earlier is an enormous challenge to PT BJTI Board of Directors, where they need to formulate strategic actions to achieve the target. Those strategies include, marketing strategic, operational and especially funding, because sufficient funding is needed to improve company`s capability. After analysing company`s internal performance, it is concluded that the maximum company`s growth was only at 1.88% value. Therefore, additional external funding is needed to achieve the targeted revenue growth of 54% for 422 billion rupiah. And based on financial analysis conducted before, it can be concluded that almost all of PT BJTI financial ratios deteriorated in 2018, meanwhile the external funding might increase company`s debt and put company in riskier position because there is higher possibility that it cannot fulfil its debt obligation. Company needs a solution to this matter that both able to support company`s growth and to keep financial performance healthy.

There are several alternatives that can be done to solve the problems above. First, an external funding obtained from additional paid in capital by current shareholders, resulting in better financial performance compared to the previous year. Second, an external funding obtained from shareholder`s loan, which is a scheme that has already been done by PT BJTI so far - although this alternative resulted in lower financial performance compared to Alternative 1, yet DER is increase and ICR lowered. Third, an external funding obtained from bank`s loan, this alternative fare slightly better than first alternative because PT BJTI used Pelindo III credit facility`s interest rate, however DER value stays at high value. Fourth, an external funding obtained from IPO, where this alternative results in same financial performance with Alternative 1. Fifth, an external funding obtained from combining debt and equity funding, where the funding structure is determined by Optimal Capital Structure formulation.

After considering the result of analysis from each alternative and the existing condition, author recommends PT BJTI to take Alternative 5 as the most feasible method to obtain fund to support 2019`s revenue growth. Through Alternative 5 funding scheme, both PT BJTI and Pelindo III `s needs can be accommodated. This alternative generates better liquidity and profitability than option-to-loan alternative, and generate better ROE than additional paid in capital alternative, and this option can fulfil ICR value as required by its holding company, namely above 3 times, and overall company`s value is better than IPO alternative.

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