

## **IMPACT OF MERGERS AND FINANCIAL PERFORMANCE ON COMPANY VALUE: PT IOH CASE**

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### **Abstract**

This study aims to analyze the impact of the merger between PT Indosat Tbk and PT Hutchison 3 Indonesia, which formed a new entity named PT Indosat Ooredoo Hutchison (IOH), on the company's value, as well as to evaluate the influence of financial performance measured through liquidity, solvency, and profitability ratios during the 2021–2024 period. This study uses a descriptive quantitative approach by utilizing secondary data obtained from the companies' annual financial statements and official reports. The research results show that the merger between the two companies has a positive impact on the capital structure and competitive position of PT IOH. The solvency ratio (DER) shows a declining trend from 515% in 2021 to 212% in 2024, indicating improved financial stability and reduced reliance on debt financing. Meanwhile, the liquidity ratio remains below the ideal standard, indicating that the ability to meet short-term obligations still needs improvement. In terms of profitability, the ROA and ROE ratios decreased after the merger, suggesting a decline in operational efficiency in the initial post-integration phase. Overall, the analysis results indicate that mergers have a positive impact on company value in the long term, although the benefits have not been fully realized in the early post-merger period. Companies need to strengthen integration strategies and operational efficiency to optimize the increase in company value in the future.

**Keywords:** Merger, Financial Performance, Liquidity, Solvency, Profitability

### **Introduction**

The assessment of a company's value can be conducted through various approaches. For companies listed on the stock exchange, the most commonly used method is by observing the movement of their stock prices. This is due to the nature of stock prices that reflect investors' perceptions and interests in the company. The higher the stock price, the greater the interest of investors, which indirectly indicates that the company has a value considered high by the market. Conversely, a low stock price indicates minimal investor interest, which can be interpreted as a decline in the company's value (Fahlevi et al., 2018).

One of the strategic approaches that a company can implement to increase its corporate value is through efforts to raise its stock price. However, the process of

driving stock price increases is not simple. There are various external and internal factors that can influence stock price fluctuations, whether in the form of increases or decreases, so the company needs to consider a comprehensive and sustainable strategy.

Based on research findings by Dj et al. (2012), solid financial performance plays an important role in attracting investors' interest to invest in a company. The funds invested by these investors directly contribute to the smooth operation of the company's activities. Therefore, it can be concluded that maintaining the attractiveness of shares in the eyes of investors is a strategic step that can drive an increase in stock prices and, ultimately, strengthen the company's value.

The phenomenon of mergers in the telecommunications industry in Indonesia has become an important focus, one of which is the merger between PT Indosat Tbk (Ooredoo Indonesia) and PT Hutchison 3 Indonesia, officially forming a new entity named PT Indosat Ooredoo Hutchison (IOH) on January 4, 2022. Before the merger, Ooredoo Hutchison Asia acquired approximately 1.76 billion Indosat shares at an average price of IDR 6,460.6 per share, totaling IDR 11.37 trillion, indicating the high strategic value of this merger. Following the merger announcement, the market responded positively, temporarily driving up IOH's stock price, although the movement later fluctuated due to the integration process and competitive dynamics in the telecommunications industry.

This study aims to analyze the impact of mergers on the corporate value of PT IOH. Specifically, the study examines whether mergers have an effect on the corporate value of PT IOH. In addition, this research also focuses on an in-depth analysis of how financial performance (measured through liquidity, solvency, and profitability) affects corporate value after a merger has taken place. Through this problem formulation, it is expected that the significance of the merger and the role of post-merger financial performance in determining corporate value can be understood.

## **Theoretical Framework**

### **1. Company Value**

According to Brigham and Houston (2011), company value is investors' perception of management's success in managing resources to increase shareholder wealth. Company value can be measured through share price, the Price-to-Book Value (PBV) ratio, and other financial ratios.

### **2. Mergers and Acquisitions**

According to PSAK No. 22 (Revised 2015), a merger is the combination of two or more companies into a single economic entity with the aim of strengthening its competitive position.

Mergers themselves are divided into various types. Ayu Erlinda Sari (2020;13) divides mergers and acquisitions into the following types:

1. **Horizontal Merger**  
A merger between two companies operating in the same industrial sector and previously being direct competitors in the market.
2. **Vertical Merger**  
Integration between companies in different supply chains, such as between manufacturers and distributors, to strengthen control over supply.
3. **Conglomerate Merger**  
The merger of two business entities from unrelated industrial sectors aims to expand the business portfolio and reduce business risks.
4. **Merger Market Existence**  
Collaboration between companies that have similar products but operate in different geographic areas, to expand marketing reach.
5. **Product Existence Merger**  
The merger of companies with complementary product lines aims to increase production capacity and reach a wider consumer segment.

Through the merger strategy, the company hopes to create synergies that can strengthen overall financial performance, such as operational efficiency, increased profitability, and strengthened capital structure; this positive impact then becomes an attraction for investors to invest their capital, so that stock trading activities increase and encourage share prices to rise in the capital market – this increase reflects an increase in the company's value, which ultimately strengthens the company's position in industrial competition and broadens business expansion opportunities in the future.

### **3. Financial Performance**

Financial performance reflects management's effectiveness in managing a company's resources. Three key ratios frequently used are:

Liquidity ratios are used to assess the extent to which a company is able to meet its short-term obligations. Based on previous research studies, the indicators commonly used in measuring liquidity are the current ratio and the quick ratio. The calculation of liquidity ratios can be carried out using the following formula:

$$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$QR = \frac{\text{Quick Assets}}{\text{Quick Liabilities}}$$

A company is considered to be in a healthy financial condition in meeting its short-term obligations if the current ratio and quick ratio reach or exceed 1:1 or 100%. This indicates that the company's total current assets are sufficient to cover all of its current liabilities, thus the company has adequate liquidity (Laiman & Hatane, 2017).

Solvency ratios are used to assess the extent to which a company is able to meet its financial obligations, both short-term and long-term. One of the main indicators in measuring solvency is the Debt to Equity Ratio (DER), which is a ratio that shows the comparison between a company's total debt and the total equity it owns.

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

In assessing the Debt to Equity Ratio (DER), there are two different perspectives. From an external perspective, such as creditors or financial analysts, a low DER is considered safer because it indicates that the company has more equity compared to its debt. Conversely, for investors and internal management, a high DER is actually seen as a safety indicator, as it reflects the use of leverage to drive business growth and expansion. This view refers to the thinking of Schmitz (2012) as cited in the research by Laiman and Hatane (2017).

Profitability ratios are used to assess the extent of a company's ability to generate profits from its operational activities. Common indicators used to measure the level of profitability include profit margin on sales, return on assets (ROA), basic earning power, and return on equity (ROE). Based on previous studies, ROA and ROE are the ratios most frequently used as references in evaluating a company's profitability.

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

$$ROE = \frac{\text{Net Income}}{\text{Common Equity}}$$

According to research by Dj et al. (2012) and Laiman & Hatane (2017), increased profitability tends to have a positive impact on company value because it reflects the ability to generate attractive profits for investors.

## **Method**

This study uses a quantitative approach with a descriptive analysis method, aimed at gaining a deep understanding of the phenomena occurring in the context of mergers and their impact on company value. This approach was chosen because it allows researchers to explore the meanings, dynamics, and implications of the merger

process carried out by PT IOH, as well as to evaluate the company's financial performance post-merger.

Descriptive analysis in this study is based on secondary data, obtained through the processing and interpretation of the annual reports and financial statements of PT IOH from 2022 to the 2024 financial statements. In addition, this study also refers to various scientific journals and previous studies as a basis for the preparation of the literature review and theoretical framework.

Referring to the definition of literature review according to Nasir (2013) in Leona et al. (2023), this technique is a data collection method through the review of literature relevant to the issue or problem being studied. The literature used includes theories of mergers and acquisitions, the concept of corporate value, as well as financial performance indicators such as liquidity, solvency, and profitability ratios.

**Research Objectives** The main objectives of this research are to:

- Analyze the impact of the merger between PT Indosat and PT Hutchison 3 Indonesia, which officially merged to become PT Indosat Ooredoo Hutchison in early 2022, on the company's value as reflected in stock prices and investor perceptions.
- Evaluate the influence of the company's financial performance post-merger on its value, using relevant financial ratio indicators.

With this approach, the research is expected to provide a comprehensive overview of how merger strategies affect the financial position and market value of companies, as well as contribute to academic literature and business practice in Indonesia.

## Results

This study aims to analyze the effect of financial performance (measured through liquidity, solvency, and profitability) on the value of PT IOH after the merger. Data was obtained from the company's financial statements as well as official sources issued by the relevant authorities. The results are presented in tables to clearly and systematically illustrate changes in liquidity, solvency, and profitability indicators, as well as their impact on the company's value.

### 1. Liquidity Ratio (2021–2024)

**Table 1.1 - Liquidity Ratio**

Year	Liquidity Ratio
2021*Before	0.22%
2022*After	0.23%

2023	0.19%
2024	0.19%

Source: Processed

## 2. Solvency Ratio (2021-2024)

**Table 1.2 - Solvency Ratio  
(in million rupiah)**

Year	Equity	Liability	DER
2021 (Before)	10,302,802	53,094,346	515%
2022 (After)	31,368,590	82,288,756	262%
2023	33,708,792	81,013,457	240%
2024	36,651,797	77,734,901	212%

Source: Processed

## 3. Profitability Ratio (2021-2024)

**Table 1.3 - Profitability Ratio**

Year	ROA	ROE
2021*Before	11%	67%
2022*After	5%	17%
2023	4%	14%
2024	5%	14%

Source: Processed

## Discussion

### 1. Financial performance affects the company's value

Theoretically, liquidity has a positive relationship with a company's value (Dj et al., 2012). A high level of liquidity reflects the company's ability to meet its short-term obligations by utilizing its current assets. This condition indicates that the company's operational activities and sales processes run smoothly. Such operational smoothness contributes to increased productivity, allowing the company to offer more products to the market. Consequently, the company has the potential to expand its market share and gain a more competitive position compared to other companies in the same industry.

Although theoretically liquidity is considered to affect firm value, several previous studies have shown that liquidity does not have a significant impact on the assessment of firm value. This is due to the fact that external parties, such as investors and analysts, tend not to use liquidity as a primary indicator in evaluating company performance. Harford (1999) in Dj et al. (2012) stated that excessive cash holdings can actually hinder acquisition and merger activities. In addition, Ervin (1998) in Dj et al.

(2012) emphasized that corporate profits are more relevant to consider than operational activities, investment, or financing cash flows.

Several previous studies, such as those conducted by Ervin (1998), Harford (1999), Dj et al. (2012), Tarigan (2012), and Novaliza and Djajanti (2013), have shown consistent findings that liquidity indicators, particularly the quick ratio and current ratio, do not have a significant impact on firm value. These findings differ from the results of research by Kharisma (2011) as well as Hamidah and Noviani (2013) cited in Dj et al. (2012), where liquidity measured through the quick ratio and current ratio was actually found to have a significant effect on firm value. In addition, a study conducted by Fahlevi et al. (2018) also revealed that the Loan to Deposit Ratio (LDR) influences firm value, although the research object was limited to the banking sector.

**Based on Table 1.1**, there are fluctuations and a decrease in the liquidity ratio percentage of PT Indosat Ooredoo Hutchison (IOH) during the period from 2021 to 2024. Although several previous studies state that the liquidity ratio does not significantly affect the company's value, calculating the current ratio still provides an overview of the company's ability to meet its short-term obligations. IOH's liquidity ratio, which is below the ideal threshold ( $\geq 100\%$ ), indicates that the current assets owned are not sufficient to cover all short-term liabilities. This could be an indication that the company needs to improve the efficiency of managing current assets to maintain operational smoothness and short-term financial stability.

## **Solvency**

A company's solvency can be measured through the Debt to Equity Ratio (DER), which is the comparison between total debt and total equity of the company (Pandiangan, 2022). The interpretation of the DER value refers to Pandiangan's view (2022), which states that the lower the leverage level, the healthier the company's financial condition is considered. A decrease in the DER value reflects an improvement in the company's ability to meet its long-term obligations, thereby indicating an enhancement in solvency. This view aligns with the findings of Dj et al. (2012), which reveal that a high level of debt has the potential to reduce the company's value.

The influence of leverage on firm value has been supported by the findings of Fitriyanti (2009) and Hartini (2010), as cited in the study by Dj et al. (2012). However, the results of the study by Dj et al. (2012) itself did not find significant evidence regarding the relationship between leverage and firm value. This lack of evidence is based on the view that investors tend to focus more on the effectiveness of the company's fund management rather than the sources of its funding.

**Table 1.2** illustrates the equity and liability conditions of PT Indosat Ooredoo Hutchison (IOH) from 2021 to 2024. The table also shows the Debt to Equity Ratio (DER) of IOH during this period. DER is an important indicator in measuring a

company's solvency, which is the company's ability to meet its long-term obligations compared to the total equity available.

Based on the data presented, IOH's DER experienced a gradual decline from 2021 before the merger to 2024 after the merger. In 2021, the DER was recorded very high at 515%, indicating that the company's liabilities far exceeded its equity. However, in the following years, the DER consistently decreased, reaching 262% in 2022, 240% in 2023, and 212% in 2024. This decline indicates an improvement in the company's capital structure, with a more balanced proportion of debt to equity. Although IOH's DER is still considered high, the downward trend shows that the company is beginning to reduce its reliance on debt financing. This can be interpreted as the company's effort to strengthen its long-term financial position and increase investor confidence in the company's operational stability.

### **Profitability**

The higher the profit earned by the company, the higher the company's value, and vice versa (Dj et al., 2012). Previous research that has examined profitability in relation to company value has shown positive results. The research findings of Suseno (2009), Johor (2009), Lestroyini (2010) (Dj et al., 2012), Dj et al., (2012), and Fahlevi et al., (2018) consistently indicate that profitability has a positive effect on company value.

**Table 1.3** illustrates the profitability conditions of PT Indosat Ooredoo Hutchison (IOH), measured through Return on Assets (ROA) and Return on Equity (ROE) during the period from 2021 to 2024. ROA reflects the company's effectiveness in generating profit from the total assets owned, while ROE measures the rate of return on shareholders' equity.

Based on the data presented, IOH's ROA shows a declining trend from 11% in 2021 to 4% in 2023, before slightly increasing to 5% in 2024. This decline indicates a decrease in efficiency in the utilization of the company's assets to generate profit. Meanwhile, ROE also experienced a significant decrease from 67% in 2021 to 14% in 2023 and remained at the same level in 2024. The decline in ROE indicates that the return on shareholders' equity has decreased, which could be due to a decline in net profit or an increase in equity not matched by profit growth. Despite the decline in both profitability indicators, IOH still recorded positive values for ROA and ROE during this period. This indicates that the company is still able to generate profits, albeit with lower efficiency compared to previous years.

## **2. Mergers affect the Company's value**

A merger is one of the strategies often chosen by companies when they want to expand their business. The reasons behind a merger decision can vary greatly, depending on the conditions of each company. For example, a merger can be carried out to expand the scale of the business or as a rescue measure when a company cannot sustain itself

independently. According to Brigham and Houston (in Novaliza & Djajanti, 2013), the objectives of a merger include creating synergy, tax efficiency, acquiring assets below market value, business diversification, managerial interests, and increasing the residual value of the company. Meanwhile, Sinuraya (in Novaliza & Djajanti, 2013) adds that mergers are also considered for operational efficiency, improving management quality, and optimizing tax benefits.

The merger strategy implemented by a company provides a number of strategic benefits worth considering. According to research by Octaviani in Leona et al. (2023), mergers allow companies to enter the market more quickly and reduce the costs and time associated with product development. This is due to the integration with a company that already has an established market position, enabling the merged company to immediately leverage existing business networks and connections. Conversely, newly established companies generally require more time to build these networks independently.

According to Nareswari (2021) in Leona et al. (2023), mergers tend to have a lower level of risk because the combination of resources from two or more business entities can strengthen a company's operational stability. In addition, the merger process also encourages business diversification, allowing companies to offer various types of products and services. This diversification simultaneously supports market expansion strategies, enabling the company to reach a broader segment and enhance its competitiveness.

Smoothness in the company's operational activities contributes to the efficiency of production processes, which ultimately generates profits for the company. This condition also encourages the acceleration of the company's overall growth. Along with the improvement in performance and growth, the company's value also increases. This increase in value has a positive impact on investors, as it reflects the enhancement of their welfare through the potential for higher returns (Dianah, 2017).

The merger process between PT Indosat Tbk and PT Hutchison 3 Indonesia (Tri) was officially completed in early 2022. The two entities merged to form a new company named PT Indosat Ooredoo Hutchison Tbk. Before the merger, both Indosat and Tri were known as telecommunications companies with significant market shares in Indonesia. Indosat was one of the largest telecommunications operators in the country, while Tri was known for its strong penetration in the young data user segment. The combination of these two companies resulted in a new entity with greater valuation and expanded network capacity. In this merger structure, PT Hutchison 3 Indonesia effectively merged as part of Indosat, making it a subsidiary within a larger business consolidation framework (summarized from various industry sources and official 2022 merger reports).

One of the strategic benefits of the merger between PT Indosat Tbk and PT Hutchison 3 Indonesia (Tri) is the opening of opportunities for external expansion, particularly in terms of expanding operational regions. With this merger, the resulting company, PT Indosat Ooredoo Hutchison Tbk, has greater potential to expand its market internationally. Previously, Indosat had international connectivity through global partnerships with the Ooredoo Group, while Tri also had a strong regional network. This merger strengthens Indosat Ooredoo Hutchison's position in facing competition with other major operators such as Telkomsel and XL Axiata, as well as enhancing the company's competitiveness in providing broader and more integrated telecommunications services.

Although the merger between PT Indosat Tbk and PT Hutchison 3 Indonesia (Tri) brings a number of strategic benefits, the consolidation process also presents various challenges. Both companies come from the same industry, telecommunications, but they have different operational characteristics, organizational cultures, and business approaches. This merger primarily reflects a consolidation strategy to strengthen market position, but differences in management systems and operational structures create obstacles in the integration process. These challenges become even more complex due to the need to restructure the leadership and organizational framework of the merged company, making the unification process far from entirely smooth.

## **Conclusion**

The conclusion that can be drawn from this study is that the merger between PT Indosat Tbk and PT Hutchison 3 Indonesia, which formed PT Indosat Ooredoo Hutchison (IOH), has an impact on the company's value. This merger has a positive effect, particularly in terms of strengthening market position and operational efficiency. However, to maintain company value and enhance investor confidence, a well-planned integration strategy is required. Challenges faced post-merger, such as differences in organizational culture and management systems, necessitate the company to restructure its business strategy to be adaptive and focused on long-term efficiency.

Post-merger financial performance shows varied results. In terms of liquidity, PT IOH's current ratio and quick ratio values have fluctuated and tend to decline, indicating that the company's ability to meet short-term obligations still needs improvement. This suggests that the management of current assets requires attention to ensure smooth operational activities.

From a solvency perspective, the Debt to Equity Ratio (DER) has experienced a significant decline from 2021 to 2024. This condition reflects an improvement in the capital structure and a reduced reliance on debt financing. Consequently, the company has a healthier financial structure and is more stable in the long term.

Meanwhile, profitability measured through ROA and ROE showed a decline after the merger, indicating a decrease in asset and capital efficiency. Nevertheless, PT IOH still recorded a positive profit, which suggests that the company still has potential to increase its corporate value if it can improve its operational strategy. Future improvements in profitability are expected to attract more investors, thereby increasing the stock price and reflecting a rise in the company's value.

Overall, the merger between PT Indosat Tbk and PT Hutchison 3 Indonesia has had a positive impact on the financial restructuring and competitive position of PT IOH, although it has not yet significantly affected the increase in the company's value in the short term. A sustainable integration strategy and strengthening of financial performance are required for this merger to deliver optimal results for the company's value in the future.

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