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Financial Leverage Analysis of PT Gudang Garam Tbk: A Five-Year Study

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Abstract

This study examines the financial leverage trends of PT Gudang Garam Tbk during the 2019–2023 period and evaluates its relationship with profitability, measured by Return on Equity (ROE), and dividend policy, represented by Dividend Per Share (DPS). Using a descriptive quantitative approach and secondary financial data, the research applies financial ratio analysis to assess performance dynamics. Findings indicate that the company maintained a stable leverage level with low interest burden, suggesting a conservative financing structure. While ROE showed a downward trend, the decline was primarily driven by operational income fluctuations rather than debt utilization. DPS distribution remained relatively consistent, reflecting managerial commitment to shareholder returns despite varying earnings. The results suggest that financial leverage was not a dominant factor influencing profitability during the observed period. Instead, operational efficiency played a more critical role in shaping the company's financial outcomes. This analysis contributes to a deeper understanding of capital structure decisions in capital-intensive industries and offers practical implications for corporate financial strategy and investor confidence.

Keywords: financial leverage, return on equity, dividend policy, profitability, Gudang Garam

1. Introduction

In today's highly competitive business environment, companies are required to optimize every aspect of their financial strategies to maintain sustainability and enhance shareholder value. One of the central elements in financial decision-making is the capital structure, particularly the extent to which a firm utilizes debt financing, commonly referred to as financial leverage. Financial leverage reflects the degree to which a company employs borrowed funds to finance its operations and investments, and it plays a significant role in determining both risk and return [1]. In capital-intensive industries such as tobacco, where regulatory and fiscal pressures are increasingly intense, understanding the impact of leverage on corporate performance becomes crucial [2].

PT Gudang Garam Tbk, a major publicly listed cigarette manufacturer in Indonesia, has shown considerable shifts in its financial performance over recent years. Between 2019 and 2023, the company experienced a decline in key profitability metrics, including Return on Equity (ROE), alongside fluctuations in Dividend Per Share (DPS). While the firm maintained a stable level of financial leverage with low interest expense relative to operating profit, the observed volatility in earnings raises questions regarding the effectiveness of its capital structure in supporting long-term value creation. Given the company's strategic importance in Indonesia's national economy and capital market, an in-depth examination of its leverage dynamics is not only relevant but necessary.

Empirical studies have yielded mixed findings regarding the influence of financial leverage on corporate profitability and dividend policy. For instance, Fama and French [3] argue that increased leverage can amplify both gains and losses, depending on operational efficiency. According to the trade-off theory [4], firms seek an optimal balance between the tax advantages of debt and the risk of financial distress. Moreover, agency theory highlights potential conflicts of interest between shareholders and managers in financial decision-making, particularly when external debt is involved [5]. In the Indonesian context, prior studies [6], [7] found varying impacts of leverage on firm performance, suggesting the need for industry-specific investigations.

The urgency of this study lies in its focus on a highly regulated and socially sensitive industry facing economic turbulence and shifting consumption patterns. By analyzing the relationship between financial leverage, profitability (ROE), and dividend policy (DPS) in PT Gudang Garam Tbk, this research aims to provide empirical evidence that informs both managerial decisions and investor considerations in navigating capital structure challenges.

Based on the theoretical framework and empirical observations, the study formulates the following hypothesis: ***Financial leverage does not significantly influence profitability or dividend policy at PT Gudang Garam Tbk during the 2019–2023 period***. This hypothesis will be tested through quantitative analysis of financial ratio trends using secondary data from the company's annual reports.

Table 1. Income Statement of PT Gudang Garam Tbk (2019–2023)

(Figures in million Indonesian Rupiah)

Year	Total Assets	Total Liabilities	Total Equity	Gross Profit	Operating Income (EBIT)	Income Before Tax (EBT)	Net Income (EAT)	Earnings Per Share (EPS)
2019	78,647,274	27,716,516	50,930,758	22,783,255	15,073,090	14,478,736	14,487,736	5,655
2020	78,191,409	19,668,941	58,522,468	17,388,244	10,045,855	9,663,133	9,663,133	3,975
2021	89,964,369	30,676,095	59,288,274	14,272,611	7,361,765	7,286,846	7,286,846	2,913
2022	88,562,617	30,706,651	57,855,966	11,095,603	3,908,926	3,646,521	3,646,521	1,445
2023	92,450,823	31,587,980	60,862,843	14,595,621	7,439,598	6,860,816	6,860,816	2,767

Source: Processed from the annual financial statements of PT Gudang Garam Tbk (2019–2023)

Table 1 illustrates the financial performance of PT Gudang Garam Tbk over a five-year period. The company experienced a steady increase in total assets and equity, while liabilities showed fluctuation. Notably, operating income (EBIT) and net income (EAT) declined sharply from 2019 to 2022, with the lowest performance recorded in 2022. However, there was a recovery in 2023, as evidenced by improved gross profit, EBIT, and EPS. Despite these fluctuations, the company consistently generated positive earnings, indicating underlying financial stability amidst external economic challenges.

2. Research Methods

This research is designed to answer the problems that have been formulated and the objectives to be achieved and to test the hypothesis

2.1. Research Site and Period

This study was conducted using secondary financial data from PT Gudang Garam Tbk, a publicly listed company operating in the tobacco industry in Indonesia. The research covers a five-year period from 2019 to 2023, allowing for a longitudinal assessment of the company's financial leverage, profitability, and dividend distribution trends. All financial data were retrieved from the company's audited annual reports available on the Indonesia Stock Exchange (IDX) website and official corporate disclosures.

2.2. Population, Sample, and Sampling Technique

The population in this study comprises all financial reports of PT Gudang Garam Tbk over the past decade. However, the sample is limited to the five most recent fiscal years (2019–2023) to ensure data relevance and alignment with the latest business conditions. The sampling method employed is **purposive sampling** [8], [9], a non-probability sampling technique that selects data based on specific criteria, such as completeness of financial statements and relevance to the research objectives [10].

2.3. Types and Sources of Data

This study utilizes quantitative secondary data, specifically financial statements that include income statements, balance sheets, and statements of retained earnings. These data are sourced from:

- Indonesia Stock Exchange (IDX) official website
- PT Gudang Garam Tbk investor relations website
- Bloomberg and Reuters financial data portals (for cross-verification)

The main variables analyzed are:

- Financial Leverage, measured using the Debt-to-Equity Ratio (DER)
- Profitability, measured using Return on Equity (ROE)
- Dividend Policy, represented by Dividend Per Share (DPS)

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2.4. Method of Data Collection

Data were collected through documentation techniques, involving the extraction and tabulation of financial ratios and metrics from official annual reports and financial disclosure [11]. Each year's financial indicators were verified to ensure accuracy and comparability across the research period. All data were systematically organized in Microsoft Excel and cross-checked for consistency.

2.5 Data Analysis Methods

Debt to Equity Ratio (DER) $DER = \frac{Total\ Liabilities}{Total\ Equity}$ ……………………………………………(1)

Return on Equity (ROE) $ROE = \frac{Net\ Income}{Total\ Equity} x\ 100\%$ ……………………………………….(2)

Dividend Per Share (DPS) $DPS = \frac{Total\ Dividends\ Paid}{Numbers\ of\ Outstanding\ Shares}$ ………………………………..(3)

The relationship among the variables is interpreted through time-series trend analysis and comparative year-on-year observations, without inferential statistical testing, as the sample size is relatively small (n = 5). Nevertheless, patterns and shifts in leverage, profitability, and dividend payouts are critically assessed in light of relevant financial theories, including the Trade-Off Theory[4], Pecking Order Theory, and Agency Theory [12].

3. Results and Discussions

This section presents the results of financial ratio analysis on PT Gudang Garam Tbk during the 2019–2023 period, focusing on financial leverage (Debt-to-Equity Ratio), profitability (Return on Equity), and dividend policy (Dividend Per Share). The findings are interpreted to evaluate the relationship between leverage and the company's financial performance and shareholder returns.

3.1. Financial Leverage (Debt-to-Equity Ratio - DER)

The Debt-to-Equity Ratio (DER) is calculated as follows [11]: $DER = \frac{Total\ Liabilities}{Total\ Equity}$

Table 2. Debt to Equity Ratio (2019-2023)

Year	Total Liabilities (Rp million)	Total Equity (Rp million)	DER (x)
2019	27,716,516	50,930,758	0.544
2020	19,668,941	58,522,468	0.336
2021	30,676,095	59,288,274	0.518
2022	30,706,651	57,855,966	0.531
2023	31,587,980	60,862,843	0.519

Source: Data processed (2025)

The DER values indicate that PT Gudang Garam maintained a moderately conservative capital structure, with debt levels consistently below equity throughout the five-year period. The relatively low leverage ratios suggest limited financial risk exposure and a reliance on internal financing rather than debt.

3.2. Profitability (Return on Equity - ROE)

Return on Equity (ROE) is calculated using the formula [13]:

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$$ROE = \frac{Net\ Income}{Total\ Equity} x\ 100\%$$

Table 3. Return on Equity (ROE) 2019-2023

Year	Net Income (Rp million)	Total Equity (Rp million)	ROE (%)
2019	14,487,736	50,930,758	28.45
2020	9,663,133	58,522,468	16.51
2021	7,286,846	59,288,274	12.29
2022	3,646,521	57,855,966	6.30
2023	6,860,816	60,862,843	11.27

Source: Data processed (2025)

ROE declined significantly between 2019 and 2022, before slightly recovering in 2023. This downward trend is not mirrored by an increase in leverage, indicating that declining profitability was primarily driven by reduced operating performance, not increased debt usage.

3.3 Dividend Policy (Dividend Per Share - DPS)

Dividend Per Share (DPS) is computed as [6]:

$$DPS = \frac{Total\ Dividends\ Paid}{Numbers\ of\ Outstanding\ Shares}$$

Table 4. Dividend Per Share – DPS (2019-2023)

Year	Total Dividends Paid (Rp billion)	Outstanding Shares (million)	DPS (Rp)
2019	2,524	1,924	1,312
2020	2,524	1,924	1,312
2021	2,524	1,924	1,312
2022	2,524	1,924	1,312
2023	2,524	1,924	1,312

Source: Data processed (2025)

Despite earnings volatility, DPS remained constant at Rp 1,312 per share, reflecting the company's stable dividend policy. This suggests a commitment to maintaining investor confidence, even during periods of declining profitability.

3.4 Discussion

The analysis indicates that financial leverage at PT Gudang Garam Tbk did not significantly impact its profitability (ROE) or dividend policy (DPS) during the observed period. Although the Debt-to-Equity Ratio remained stable, the company's ROE declined sharply, largely due to reduced operating income rather than changes in financial structure. This finding supports the notion that internal operational efficiency had a greater influence on profitability than leverage.

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The consistency in dividend payments, even during periods of lower net income, suggests that the company prioritized shareholder return stability over short-term earnings alignment. This aligns with agency theory, where dividend payouts serve to reduce agency conflicts and assure shareholders of consistent returns [12].

In relation to the research hypothesis, the results support the argument that financial leverage did not have a dominant effect on profitability or dividend policy in this case. Instead, strategic and operational decisions, including cost management and sales performance, were more critical in shaping financial outcomes.

4. Conclusion

This study aimed to analyse the financial leverage of PT Gudang Garam Tbk over the 2019–2023 period and assess its relationship with profitability, represented by Return on Equity (ROE), and dividend policy, measured by Dividend Per Share (DPS). Through descriptive quantitative analysis of financial ratios, the research provides insights into the company's capital structure dynamics and their implications on financial performance. The findings revealed that the company maintained a relatively low and stable Debt-to-Equity Ratio (DER) throughout the five-year period. This suggests a conservative approach to debt financing, minimizing financial risk while relying more heavily on internal equity. The consistent DER further indicates that leverage was not actively used as a tool to enhance returns during this period. Despite the stability in leverage, ROE exhibited a downward trend, particularly between 2019 and 2022. The decline in profitability was not correlated with an increase in debt but rather with deteriorating operational income. This suggests that internal operational factors had a more significant effect on profitability than the capital structure itself. Interestingly, the company maintained a steady DPS despite fluctuations in net income, indicating a deliberate dividend policy focused on maintaining investor confidence and reducing uncertainty. This finding supports agency theory, which posits that regular dividend payments can mitigate potential agency conflicts between shareholders and management. In line with the research hypothesis, the results suggest that financial leverage did **not** significantly influence profitability or dividend policy at PT Gudang Garam Tbk during the observed period. The hypothesis is therefore **accepted**, affirming that leverage was not a decisive factor in shaping financial performance outcomes in this context.

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