

CHAPTER 1 : INTRODUCTION

1. 1 Background Research

According to WHO data, the current COVID-19 pandemic started in Wuhan, China, with the first recorded case on December 31, 2019. Following this, on January 30, 2020, the World Health Organization declared a global health emergency due to the virus's spread, turning the COVID-19 epidemic into a pandemic (Rababah, et al., 2020). This virus is spreading the planet pretty quickly, the first two COVID-19 cases in Indonesia were revealed by President Joko Widodo on March 2, 2020 (Daryanto, et al., 2021). All of Indonesia's provinces have reported confirmed cases, and the government of that country declared the COVID-19 outbreak a "national disaster" in April and started implementing countermeasures to lessen the pandemic's effects.

The COVID-19 pandemic has affected every sector in the world, particularly the economy. Significant economic effects are already evident as a result of decreased production, fatalities, company closures, disruptions to commerce, and a decline in the tourism sector (Pak, et al., 2020). Businesses, community centers, schools, and Non-Governmental Organizations (NGOs) have been asked to cease operations as part of social distancing; mass gatherings have been outlawed; and lockdown measures have been implemented in numerous countries to lessen or halt the exponential increase in the number of new COVID-19 cases that occur every day, thereby easing the burden on medical services (Tambunan, 2021).

The global gross domestic product (GDP) decreased by 3.4 percent in 2020. In 2020, the global GDP was estimated to be worth 84.9 trillion dollars. This means that a just 3.4 percent decline in economic growth translates into an economic output loss of almost two trillion dollars (Dyvik, 2024). Table 1.1 provides information on the COVID-19 pandemic's economic effects in the East Asia and Pacific area. It shows the anticipated real GDP growth (adjusted for inflation) for a number of nations between 2017 and 2021. With noticeably reduced GDP expectations for 2020 and 2021, most countries see a considerable slowdown in comparison to pre-pandemic forecasts released in January 2020. All of the region's

economies are affected by the epidemic, but the intensity varies, with smaller nations like Fiji suffering a more severe fall than China (World Bank, 2020).

Table 1. 1 East Asia and Pacific Country Forecasts

	2017	2018	2019e	2020f	2021f	Percentage point differences from January 2020 projections	
						2020f	2021f
Cambodia	7.0	7.5	7.1	-1.0	6.0	-7.8	-0.8
China	6.8	6.6	6.1	1.0	6.9	-4.9	1.1
Fiji	5.4	3.5	1.0	-4.3	1.9	-6.0	-1.0
Indonesia	5.1	5.2	5.0	0.0	4.8	-5.1	-0.4
Lao PDR	6.9	6.3	4.7	1.0	4.6	-4.8	-1.1
Malaysia	5.7	4.7	4.3	-3.1	6.9	-7.6	2.4
Mongolia	5.3	6.9	4.8	-0.5	4.9	-6.0	-0.3
Myanmar	6.2	6.8	6.3	1.5	6.0	-5.2	-0.8
Papua New Guinea	3.5	-0.8	6.0	-1.3	3.4	-4.2	0.5
Philippines	6.9	6.3	6.0	-1.9	6.2	-8.0	0.0
Solomon Islands	3.7	3.9	2.7	-6.7	-0.3	-9.5	-3.1
Thailand	4.1	4.2	2.4	-5.0	4.1	-7.7	1.3
Timor-Leste	-3.8	-0.8	3.4	-4.8	3.8	-9.4	-1.1
Vietnam	6.8	7.1	7.0	2.8	6.8	-3.7	0.3

Source : (World Bank, 2020)

Based on **Table 1.1**, before 2020, Indonesia's GDP grew steadily between 2017 and 2019 at a rate of about 5%. The epidemic affected all of the region's economies in 2020, bringing a brief downturn in the economy (World Bank, 2020). Large-scale social restrictions (PSBB) contributed to Indonesia's economic downturn by hindering several industries, including the travel and tourist sector (Restikadewi, et al., 2021). In many cities, regions, and countries, tourism is a critical component of the national GDP. The tourist and leisure industry contributes significantly to economic activity and customer happiness, but it has also become the most vulnerable industry member (Abbas, et al., 2021).

According to the UNWTO World Tourism Barometer (2021), in 2020, international tourist arrival statistics decreased by around 74 percent, namely from 1.5 billion in 2019 to around 381 million in 2020. Losses resulting from this decline in tourist arrivals reached around 1.3 trillion USD in international tourism expenditure. Losses due to the COVID-19 pandemic are equivalent to 11 times the losses due to the global crisis in 2009.

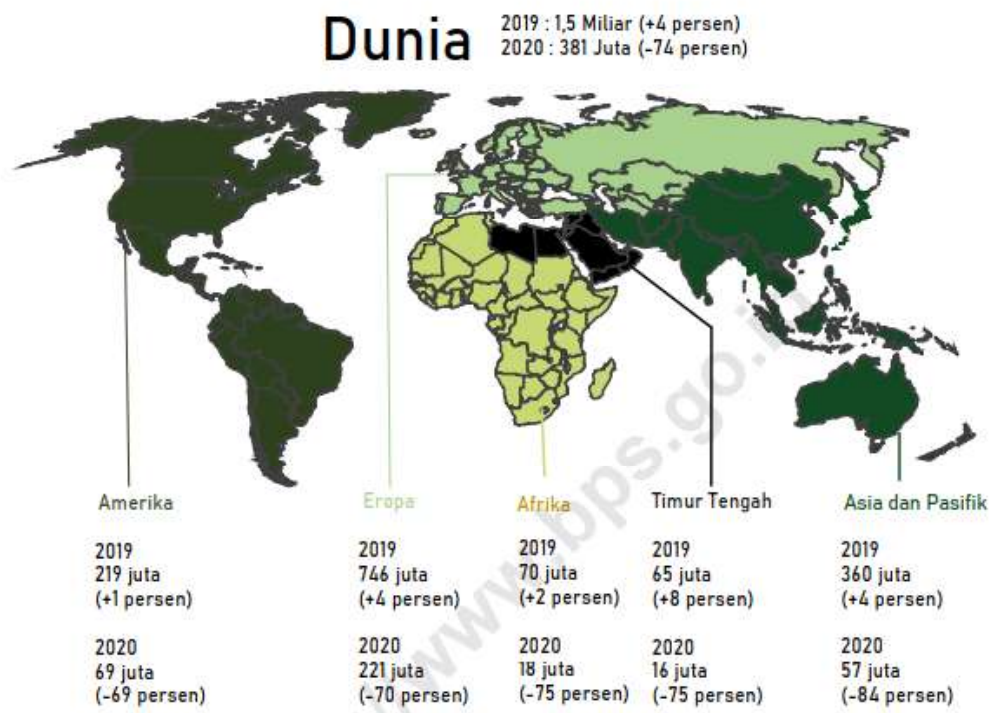


Figure 1. 1 International Tourist Visits in 2019 and 2020

Source : (BPS, 2021)

Based on **Figure 1.1**, it can be seen that the tourism sector in all parts of the world in 2020 was greatly impacted by the COVID-19 pandemic, countries in Asia and the Pacific experienced the strongest blow during this period, with a decline in international arrivals of 84 percent (BPS, 2021). One sector that is closely related to tourism is the transportation sector. Transportation is crucial for business and economic growth. The air transport sector serves individuals (passengers) and businesses (cargo). Air transport services have boosted business opportunities in hospitality, tourism, import/export, and online shopping (Aman & Altass, 2021). According to research, in 2004, as many as 40% of international tourists traveled by air, and 40% of transportation of goods or logistics contributed to both international and regional exports (Ratnawati, 2021).

This sector has also suffered a severe blow due to the COVID-19 pandemic. The International Civil Aviation Organization (ICAO) stated that aviation has been at its worst moment in history with the collapse of global air travel demand for air travel globally (BPS, 2021). Based on **Figure 1.2**, total passengers in 2020 dropped

by 60 percent due to the impact of the COVID-19 pandemic, from 4.5 billion in 2019 to 2.7 billion in 2020. As a result of the decline in air traffic, financial losses in airlines is estimated at USD 370 billion, with the largest losses in Asia/Pacific at 32 percent, followed by Europe (27 percent) and North America (24 percent) (BPS, 2021).

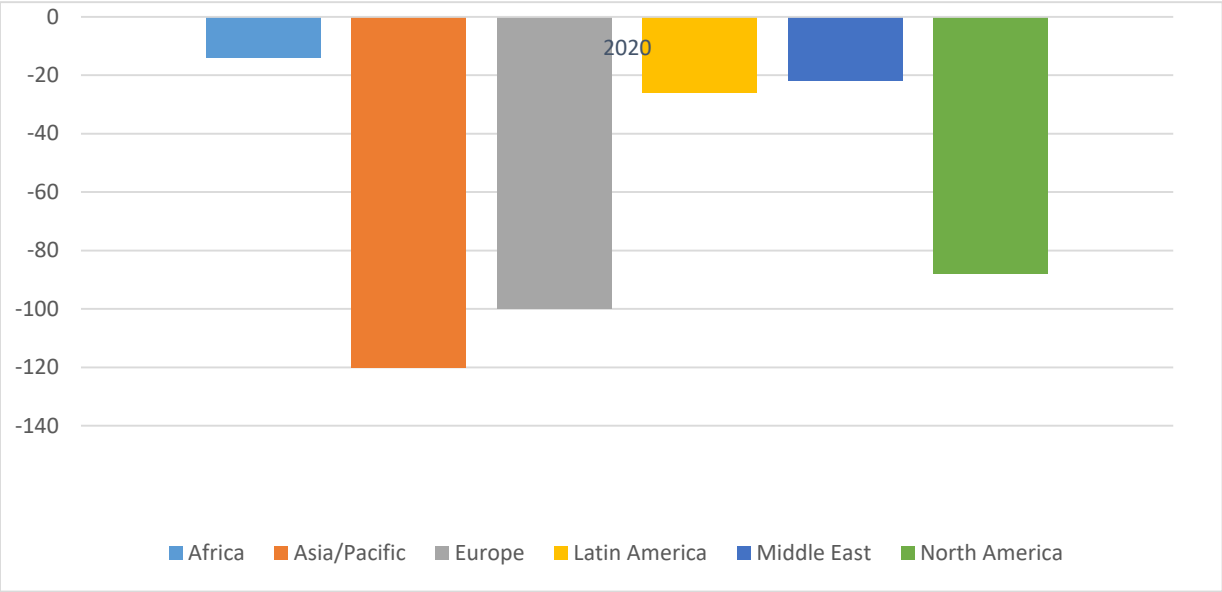


Figure 1. 2 Global Airline Revenue Losses (Million USD)

Source : (BPS, 2021)

The aviation industry in Indonesia has also experienced a significant decline in the COVID-19 pandemic. Based on **Figure 1.3** and **Figure 1.4** in 2020, the number of of air transportation passengers for international flights at the three main airports (Soekarno-Hatta, Ngurah Rai, and Juanda Airports) experienced a decline of more than 80 percent (y-on-y). As for domestic flights, the decline in the number of passengers at the three main airports reached more than 55 percent (y-on-y) (BPS, 2021).

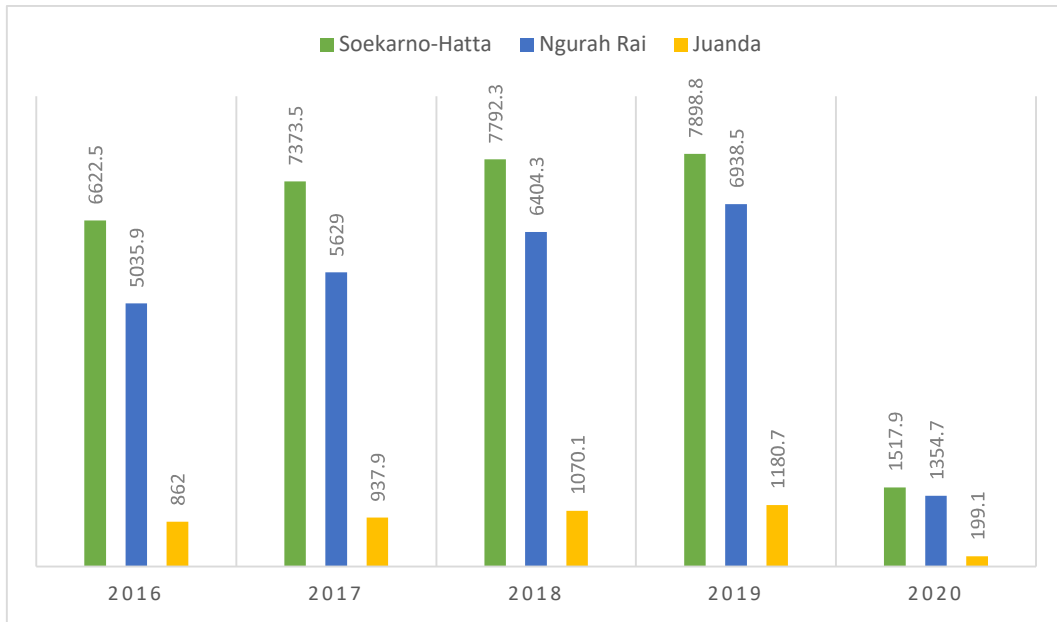


Figure 1.3 Number of International Flight Air Transportation Passengers at Three Main Airports in Indonesia, 2016 - 2020 (Thousand People)

Source : (BPS, 2021)

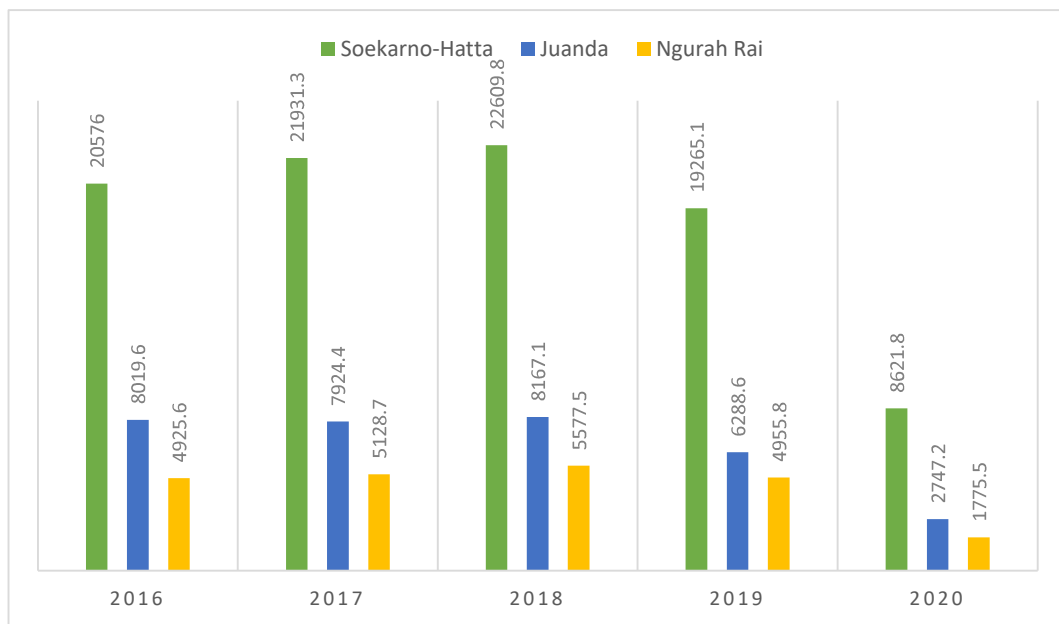


Figure 1.4 Number of Domestic Flight Air Transportation Passengers at Three Main Airports in Indonesia, 2016 - 2020 (Thousand People)

Source : (BPS, 2021)

The decline in the number of passengers that occurred at several airports in Indonesia is related to the decline in the number of passengers using air transportation. Indonesia has several airlines operating domestically and

internationally, such as Garuda Indonesia, Air Asia, Batik Air, Lion Air, Citilink, Pelita Air, Sriwijaya Air, etc. Chairman of the Indonesia National Air Carrier Association (INACA), Denon Prawiraatmadja also stated that there was a drastic decrease in the number of airplane passengers as a result of the Covid-19 pandemic.

Table 1.2 Net Profit Growth of Aviation Companies in 2018-2021

Year	CMPP	GIAA
2018	-907,025	-3,314,549
2019	-157,369	-619,533
2020	-2,754,590	-34,932,913
2021	-2,337,876	-23,844,160

Source : (Rachmawati & Maulana, 2023)

The companies listed in **Table 1.2** which are PT Garuda Indonesia Tbk (GIAA) and PT Air Asia Indonesia (CMPP) are airline companies listed on the IDX in 2020, the net profit of the two aviation sector companies experienced negative growth, in other words, the losses are getting bigger (Rachmawati & Maulana, 2023). The decrease in net profit was caused by a huge drop in revenue from the previous year but many unavoidable expenses, such as airport expenses, depreciation expenses and other fixed expenses (Rachmawati & Maulana, 2022). Negative net income is an indicator of a decline in company performance in terms of profitability due to increased costs and decreased sales (Nurhayati, et al., 2017).

1. 2 Company Profile

1. 2. 1 PT Garuda Indonesia Tbk (GIAA)

Garuda Indonesia, established in 1949, is a prominent airline in Indonesia. On December 21, 1949, further negotiations were held between the Indonesian government and KLM regarding the establishment of a national airline. President Soekarno chose and decided "Garuda Indonesian Airways" (GIA) as the name of this airline. In preparing the Indonesian air staff, KLM was willing to temporarily place its staff on duty and train the Indonesian air staff. For this reason, during this transition period, GIA's first Managing Director was a Dutchman, Dr. E. Konijneburg. The first GIA fleet was also a relic of KLM-IIB (GIA, 2020).

The firm is a 5-star airline that offers both domestic and international flights (for people and cargo). For more than half a century, this flag carrier was entirely state-owned until its initial public offering in 2011, when approximately 28% of its shares were offered to the public (Investments, 2024). The number of employees of the Company and its subsidiaries (collectively referred to as the "Group") as of December 31, 2020 and 2019 was 21,774 and 27,913 respectively (GIA, 2020).

The number of Garuda Indonesia destinations currently totals 15 international and 48 domestic, with the number of countries directly flown by Garuda Indonesia totaling 10 countries. In addition, the number of fleets owned by Garuda Indonesia currently totals 142 aircraft with an average age of 8.54 years. As well as the number of daily departures in 2020 reaching 199 flights per day and also received awards from Trip Advisor as Travelers Choice Major Airline Asia and The Best Airline in Indonesia, and was named one of the airlines with the best health and safety protocol standards in the world by Safe Travel Barometer (GIA, 2020).



Figure 1.1 Domestic Destinations of Garuda Indonesia

Source : GIA Annual Report, 2020

Garuda Indonesia, a well-known airline, strategically uses subsidiaries to strengthen its operations across multiple industries. These subsidiaries, including PT Aerowisata, PT Sabre Travel Network Indonesia, PT Garuda Maintenance Facility Aero Asia (GMFAA), PT Aero Systems Indonesia (ASYST), PT Citilink Indonesia, PT Gapura Angkasa, and Garuda Indonesia Holiday France, operate as separate legal entities under the parent company's umbrella (GIA, 2020). Despite their autonomy in day-to-day operations, they are nonetheless firmly under the direction and supervision of Garuda Indonesia. This decentralized structure seen in **Figure 1.6** allows each subsidiary to specialize in a particular area, thus improving efficiency and effectiveness.

Nama Name	Kegiatan Usaha Business Activities	Kepemilikan Saham Share Ownership	Tahun Pendirian Year of Incorporation	Status Operasi Operation Status	Jumlah Aset (USD) Total Assets (USD)	Domisili Domicile
PT Aero Wisata	Perhotelan, Jasa Boga dan Penjualan Tiket Hospitality, Catering and Ticket Sales	99,99%	1973	Beroperasi Operating	125.536.687	Indonesia
PT Sabre Travel Network Indonesia	Penyedia jasa sistem komputerisasi reservasi System Service Providers Computerized Reservation	95,00%	1996	Beroperasi Operating	10.587.882	Indonesia
PT Garuda Maintenance Facility Aero Asia Tbk	Perbaikan dan Pemeliharaan Pesawat Aircraft Repair and Maintenance	89,99%	2002	Beroperasi Operating	520.855.088	Indonesia
PT Aero Systems Indonesia	Penyedia Jasa Teknologi Informasi Information Technology Services	99,99%	2005	Beroperasi Operating	9.160.279	Indonesia
PT Citilink Indonesia	Angkutan Udara Niaga Commercial Air Transport	99,99%	2012	Beroperasi Operating	2.448.118.522	Indonesia
Garuda Indonesia Holiday France	Biro Perjalanan Wisata, Penjualan Tiket, dan Jasa Penyewaan Pesawat Travel Agency, Ticket Sales, and Aircraft Rental Services	100,00%	2014	Beroperasi Operating	5.053.234.770	Francis

Figure 1. 2 Garuda Indonesia and Its Subsidiaries

Source : GIA Annual Report, 2020

Garuda Indonesia's vision is to become a sustainable aviation group by connecting Indonesia and beyond while delivering Indonesian hospitality (GIA, 2020). This vision underlines the company's long-term objective of not only leading

the aviation sector, but also ensuring that its growth and operations are founded on sustainability principles, as well as serving as a global representation of Indonesian hospitality. Garuda Indonesia's mission is to strengthen its business fundamentals through strong revenue growth, implementation of cost leadership, organizational effectiveness, and reinforcement of group synergy while focusing on high standards of safety and customer-oriented services delivered by professional and passionate employees (GIA, 2020). This purpose demonstrates the company's dedication to attaining long-term growth, managing expenses economically, enhancing service quality, and keeping safety and customer pleasure as top objectives.

The year 2020 was a year full of challenges for the company because of the pandemic COVID-19. Garuda Indonesia flew 10.81 million passengers, down 66.11% compared to 31.89 million passengers in 2019 (GIA, 2020). Meanwhile, the amount of cargo in 2020 was 235.40 thousand tons, a decrease of 29.89% compared to 2019 of 335,764 tons. In 2020, Garuda Indonesia earned USD1.49 billion in operating sales, a 67.36% decline from USD4.57 billion in 2019 (GIA, 2020). The COVID-19 epidemic led to a drop in performance, although attempts have been made to boost interest in air travel, particularly in the domestic market, through the #becauseyoumatter campaign. In April 2020, Garuda Indonesia launched a campaign to enhance its New Normal services from pre-flight to post-flight using the Indonesian Hospitality concept. The campaign prioritizes passenger safety and comfort while adhering to COVID-19 protocols (GIA, 2020).

1. 3 Research Problem

The aviation industry had a huge influence by COVID-19 pandemic, including company like PT Garuda Indonesia Tbk (GIAA). The company is confronted with unprecedented challenges and uncertainties, necessitating the ability to maintain success in turbulent times. Due to a sharp decline in passenger traffic and cargo demand, Garuda Indonesia experienced a significant drop in revenue during COVID-19. It is critical to assess, analyze, and evaluate their financial performance and overall health in order to reduce risks and assure market sustainability. Shareholders, stakeholders, and investors must be informed about how the pandemic would affect Garuda Indonesia's financial performance and health.

An analysis of pre-pandemic (2016-2019) and during-pandemic (2020-2023) financial data will reveal the pandemic's impact on key financial metrics such as revenue, profitability, liquidity, and solvency. Furthermore, reviewing the steps adopted by Garuda Indonesia to manage the crisis will provide useful insights and recommendations for improving resilience and sustainability in the aviation industry.

1.4 Research Questions

1. How is the financial performance condition of Garuda Indonesia before and during the COVID-19 pandemic in terms of profitability, liquidity, solvency, and activity ratio?
2. Are there any significant differences in the financial performance measures of Garuda Indonesia before and during the COVID-19 pandemic, especially in terms of liquidity, solvency, activity, and profitability?
3. How was the financial healthiness of the company before and during the COVID-19 pandemic?
4. Are there any significant differences in the financial healthiness measures of Garuda Indonesia before and during the COVID-19 pandemic?

1.5 Research Objectives

1. To analyze and evaluate the financial performance condition of Garuda Indonesia before and during COVID-19.
2. To identify and analyze any significant differences in Garuda Indonesia's financial performance measures before and during the COVID-19 pandemic.
3. To assess Garuda Indonesia's financial health before and during the COVID-19 pandemic.
4. To identify and analyze any significant differences in Garuda Indonesia's financial healthiness measures before and during the COVID-19 pandemic.

1.6 Scope and Limitation of Study

This research aims to provide a comprehensive financial performance analysis of the aviation company, Garuda Indonesia (GIAA), based on financial ratio analysis and evaluation of financial health using the Altman Z-Score. The

study will focus on assessing the financial performance and health condition of GIAA. The variables used in this study will primarily be financial ratios, which include profitability, liquidity, activity, and solvency ratios for GIAA. These ratios will be calculated and examined to fully understand the company's financial performance over 28 quarters from 2016 to 2023.

Furthermore, the Altman Z-Score approach will be used to assess GIAA's financial health. This method will evaluate the company's financial stability and bankruptcy risk between 2016 and 2023. The study focusing on Garuda Indonesia (GIAA) within the aviation sector encounters several limitations. Firstly, the study focuses just on these organizations, which may limit the findings' applicability to the larger aviation sector landscape. Moreover, the analysis is limited to the period 2016–2023, with a particular emphasis on quarterly financial statements. The COVID-19 pandemic, which began in the first quarter of 2020, acts as a cutoff point for paired t-Test statistics, perhaps neglecting the pandemic's long-term financial repercussions.

Moreover, the study's financial ratio measurements, which include liquidity, solvency, activity, and profitability, may leave out other critical indicators required for a complete knowledge of financial performance. In the end, the study's sampling data for measuring financial healthiness is limited to the last eight years, with quarterly reports spanning 2016 to 2023, thus restricting insights into long-term trends or cyclical patterns in the aviation sector. Despite these constraints, the study intends to provide useful insights into the financial dynamics of GIAA, allowing stakeholders to make educated decisions in the aviation industry.

1.7 Research Gap and Novelty

Numerous studies have been performed to assess the effects of COVID-19 on businesses in **Table 1.3**, particularly airline companies, and their customer base. The novelty of this study lies in its detailed examination of financial parameters such as liquidity, solvency, activity, and profitability. By focusing on these critical factors and employing the Altman Z-Score method for financial health evaluation, this study provides a new methodology for assessing Garuda Indonesia's (GIAA) financial performance and stability. Additionally, this study introduces the use of

the t-Test to statistically in financial performance and Altman Z-Score before and during COVID-19, further enhancing the robustness and validity of the findings.

Table 1. 3 List of Previous Related Research

Author	Title of Research	Methodology	Results
Rachmawati, D & Maulana, A.D (2023)	Financial distress condition of Indonesian aviation sector companies before and during the Covid-19 pandemic	1. The study utilized quantitative financial statements from four airline firms listed on the IDX between 2018 and 2021. 2. A two-way ANOVA test was performed on the data using Minitab 20 software.	Altman, Grover, and Springate models reveal CMPP, GIAA, and IATA consistently face disruptions for at least four years, while HELI experienced health issues in 2018 and 2019.
Handayani, D. P (2022)	Comparison of Company's Financial Performance Before and During The Covid-19 Pandemic for Land and Air Transportation Service Companies in IDX	The data analysis utilized descriptive statistics, a Kolmogorov-Smirnov test for normality, a paired sample t-Test for difference, and a Wilcoxon Signed Rank for non-normal distribution.	Despite the Covid-19 pandemic, net profit margins, return on assets, and debt-to-equity ratios for ground and air transportation companies remained consistent in 2018-2019 and 2020-2021.
Daryanto, W.M, Rizki, M. I, & Mahardhika (2021)	Pre-and Post-COVID-19 condition, performance and future of the	The framework predicts the normalization of aviation industry capacity during COVID-19 recovery using ratio	The airline industry's performance was good before the COVID-19 pandemic, with an average annual tax

	airline industry: Evidence from accounting data	analysis and financial evaluation considering operational profit margin, net profit margin, ROIC, revenue trend, aircraft fleet, and tax contributions.	revenue of \$118 billion and acceptable operational profit margins, net profits, and returns.
Daryanto, W.M, Rizki, M. I, & Mahardhika (2021)	Financial Performance Analysis Of Construction Company Before And During Covid-19 Pandemic In Indonesia	The study analyzes a company's financial performance before and during the COVID-19 pandemic using Altman Z- Score and data from quarterly financial statements from 2019 to 2020.	PT PP Properti's financial performance significantly deteriorated during the pandemic, falling from a grey zone in Q3 2019 to a weaker position, as per Altman Z-score.
Wulaningsih, D.U & Daryanto, W.M (2023)	Financial Distress Analysis for Garuda Indonesia Uses the Altman Z-Score Method in the 2018-2022 Period	The Altman Z-Score model is used to analyze a company's bankruptcy tendency using financial ratios from Garuda Indonesia reports.	Research indicates Garuda Indonesia may face potential bankruptcy due to financial difficulties, as evidenced by a Z-Score value below the cut-off point of >1.10.

1.8 Research Benefits

1. Theoretical Benefits

The research helps improve financial theories by studying how well airlines are doing financially. Extensively examining airlines' financial health and the issues they confront, may improve existing financial theories and gain a deeper understanding of how money works in various sorts of enterprises.

By assessing financial statistics and employing tools such as the Altman Z-Score, the study supports the correctness of airline-specific financial models. This confirmation makes these models more reliable and valuable for decision-making and risk management in the airline industry.

2. Practical Benefits

Financial performance analysis provides key stakeholders, such as investors, management, and regulators, with useful information on the financial health of the companies. This data enables educated decisions about investment plans, operational improvements, and regulatory compliance.

GIAA can manage risks more effectively by recognizing areas of financial strength and weakness, such as liquidity, solvency, profitability, and activity. For example, if liquidity ratios suggest possible cash flow issues, management might take steps to increase cash reserves or gain access to finance.