Research on Development Strategy Based on Financial Analysis of Listed Companies-Take Gree Electric as an example

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Abstract. With the development of the market economy, financial statement analysis is playing an increasingly important role for business managers, investors and various social stakeholders. The financial statements of an enterprise can not only reflect the cash flow of an enterprise, but also reflect the enterprise's operating results and specific development strategies. Therefore, using quantitative research methods, this paper compares some financial indicators between the Gree Electric and its main competitors. The results show that Gree must make up the gap in product innovation in order to maintain its leading position in the industry. The study of financial statements is of great value. In addition to mining corporate strategies, it can also provide suggestions for the development of the industry.

Keywords: Financial Indicators, Competitive Strategy, Gree Electric.

1. Introduction

Founded in 1991, Gree Electric Appliances, Inc. Of Zhuhai (Gree) is a professional air conditioning enterprise integrating research, development, production, sales and service. After more than 20 years' efforts, Gree has become a leading brand in the air conditioning manufacturing industry. In addition to its excellent technology and innovation ability, its financial operation mode has also contributed a lot. Gree is a leading brand in the air conditioning industry and its advanced equipment will play a great role in promoting the market of Gree's products in the next few years. In the current market, however, due to the advantages of low price and convenient use, the electric fans, air-conditioning fans and bladeless fans are still highly substitutable for air conditioners. For the market share, among its main competitors, Midea and Haier closely follow it, which bring some pressure to its development. Therefore, in order to maintain its leading position in this industry, Gree must make up for its gaps in product innovation while satisfying its consumers.

Chinese scholar Zhao and Li put forward a financial theory of competitive strategy, which fused the modern financial theory and the strategic management [1, 2]. The traditional financial analysis focuses on the use efficiency of funds within an enterprise, while strategic management brings competitors into the scope of research. The combination of the two can make and choose more reliable strategic plans for enterprises. In order to provide certain support for enterprises, on one hand, the enterprise development strategies should be made based on financial analysis. On the other, the financial forecast should be made by specific strategies. In this way, financial analysis can play a full role in the strategy formulation and development of an enterprise. According to Mu, the connotation of the analysis of financial statements is based on the financial status, operating results and cash flow of enterprises [3]. Taking the basic business activities of an enterprise as the object, a series of judgments and reasoning are made on various indicators of an enterprise, such as solvency and profitability, so as to systematically understand and grasp the whole process of enterprise development. Financial information and data reports can be used to understand the past, evaluate the present and predict the future, providing necessary information for making correct decisions. According to the research of Li, there are two types of relationships between the financial statement analysis and the competitive
strategy [4]. One is that the competitive strategy analysis of enterprises is the basis and premise of financial statement analysis, and it is often difficult to accurately and objectively evaluate the financial situation without understanding the competitive strategy of enterprises. The other is that the formulation of corporate competition strategies should also be based on the analysis of financial statements. In this way, it can be used to make reasonable judgment to the position of the enterprise, so as to make correct decisions.

In this paper, based on the previous research, the quantitative methods have been used to make a comparative analysis between Gree and its main competitors in the industry through their public financial annual reports from 2015 to 2017. We hope this research can find out the existing problems of Gree at the present stage and put forward a more detailed development strategy for its subsequent development. By sorting out the current financial situation and operating results of the enterprise, it provides a certain basis for strategy formulation from the perspective of financial management.

2. Data and Method

2.1. Data
The data source of this paper is the annual reports published by Gree from 2015 to 2017 [5]. Through the analysis of Gree's financial data, the paper aims to put forward theoretical and practical Suggestions that are beneficial to Gree's strategic development. Moreover, it also predicts Gree's financial situation in 2020 and finds out the unique advantages of "Gree mode".

2.2. Method
For the data analysis of the three years from 2015 to 2017, this paper will use quantitative research method to divide the main data into 4 indexes--profitability index, operation ability index, debt solvency index and development ability index. Among them, profitability index refers to the ability of enterprises to obtain profits, also known as the enterprise's capital or capital appreciation ability. It usually represents the amount and the quality of corporate income in a certain period of time. This index is mainly reflected by comparing gross profit margin, net profit margin and operating margin. Operation ability index refers to the operation ability of an enterprise, that is, the ability of an enterprise to use various assets to earn profits. Operation ability index mainly divided into 4 classes--the total assets turnover, current assets turnover, receivables turnover ratio and the inventory turnover ratio. Debt solvency index refers to the ability of an enterprise to repay long-term and short-term debts with its assets. Whether an enterprise has the ability to repay cash and debts is the key to its healthy survival and development. Therefore, debt solvency index is mainly analyzed based on current ratio, quick ratio and debt asset ratio. Finally, development ability index refers to the potential ability of an enterprise to expand its scale and strength. For this index, this paper mainly focused on Gree's increasing rate of main business revenue and growth rate of operating profit in the past three years.

3. Results and Discussion
The following will focus on the profitability index, operating capability index, debt solvency index and development capability index.
3.1. Analysis of Profitability Index

| Year | Gree (%) | Haier (%) | Midea (%) |
|------|----------|-----------|-----------|
| 2015 | 32.46 %  | 27.93 %   | 25.84 %   |
| 2016 | 32.70 %  | 31.02 %   | 27.31 %   |
| 2017 | 32.86 %  | 31.00 %   | 25.03 %   |

Gree's operating gross margin and net sales margin are higher than Haier and Midea, and Gree's operating gross margin and net sales margin are still on the rise (Table 1). The reason is that Gree’s main product is air conditioners, and its development has the characteristics of high degree of specialization and strong profitability. Gree’s profit margin is greater than that of Haier and Midea, and its ability to obtain profits by expanding its scale is also higher than that of Haier and Midea. From the perspective of operating profit margin, Gree’s operating profit margin is still higher than that of Haier and Midea. Besides, its operating profit margin has continued to increase from 2015 to 2017. This indicates that the operating profit obtained by selling is large and the profitability of the enterprise is strong.

3.2. Analysis of Operation Ability Index

| Year | Gree (times) | Haier (time) | Midea (times) |
|------|--------------|--------------|---------------|
| 2015 | 0.60         | 1.18         | 1.07          |
| 2016 | 0.59         | 0.90         | 0.93          |
| 2017 | 0.68         | 1.05         | 0.97          |

From 2015 to 2017, shown in Table 2, Gree's total asset turnover rate and liquid asset turnover rate were rising. It can be seen that Gree is constantly adjusting its capital structure and improving operating efficiency. However, its ratios in the past three years have been lower than those of its peers. From 2015 to 2017, Haier and Midea’s total asset turnover rate and liquid asset turnover rate were both higher than Gree’s. This shows that the use efficiency of all assets of Haier and Midea is higher than Gree’s. In 2017, the turnover rate of accounts receivable decreased by a large margin, indicating that the enterprise could not timely collect accounts, which increased the probability of bad debts. Haier and Midea have small fluctuations in the turnover rate of accounts receivable, but Gree's
turnover rate of accounts receivable is higher than Haier and Midea, which indicates Gree's strong capital liquidity. From 2015 to 2017, the inventory turnover rate of Gree showed an upward trend. From 2016 to 2017, Gree's inventory turnover was all higher than Haier and Midea, indicating that Gree's low inventory occupancy and strong liquidity are conducive to enhancing its operation capacity [6, 7].

3.3. Analysis of Debt Solvency Index

Table 3. Debt solvency index of Gree, Haier and Midea from 2015 to 2017 [5].

| Year | Gree | Haier | Midea |
|------|------|-------|-------|
|      | Current ratio |      |       |       |
| 2015 | 1.07 | 1.37  | 1.20  |
| 2016 | 1.12 | 0.94  | 1.23  |
| 2017 | 1.16 | 1.14  | 1.32  |
|      | Quick ratio |      |       |       |
| 2015 | 0.98 | 1.16  | 1.05  |
| 2016 | 1.05 | 0.73  | 1.06  |
| 2017 | 1.05 | 0.86  | 1.07  |
|      | Asset-liability ratio |      |       |       |
| 2015 | 69.96% | 57.34% | 56.51% |
| 2016 | 69.88% | 71.36% | 59.56% |
| 2017 | 68.90% | 69.13% | 66.57% |

In general, it is more reasonable when the current ratio of the enterprise is 2:1. However, from 2015 to 2017, Gree's current ratio fluctuated around 1.1, a low ratio but relatively stable (Table 3). This shows that Gree's short-term debt solvency is common and the liquidity of corporate assets is weak. Compared with Haier, Gree’s current ratio is more stable. However, compared with Midea, Gree’s current ratio is lower and its short-term debt solvency is also weaker. From 2015 to 2017, Haier's quick ratio was not stable, and in the same time, Gree's quick ratio showed a rising trend on the whole, and its short-term solvency was gradually enhanced. Gree's asset-liability ratio remains around 70%, which is higher than Haier and Midea. Overall, Gree's actual financial risk is small and Gree's asset-liability ratio has declined, which shows that Gree is optimizing its capital structure.

3.4. Analysis of Development Capability Index

Table 4. Development capability index of Gree, Haier and Midea from 2015 to 2017 [5].

| Year | Operating income growth rate | Gree | Haier | Midea |
|------|--------------------------------|------|-------|-------|
| 2015 | -29.04 %                      | 1.10 % | -2.28 % |
| 2016 | 10.80 %                       | 32.67 % | 14.88 % |
| 2017 | 36.92 %                       | 33.75 % | 51.35 % |
|      | Operating profit growth rate   |      |       |       |
| 2015 | -58.29 %                      | -0.62 % | -36.68 % |
| 2016 | -19.38 %                      | 31.17 % | -44.55 % |
| 2017 | 21.71 %                       | 42.66 % | -34.99 % |

From 2015 to 2017, Gree, Haier and Midea's operating income growth rate all showed an upward trend, and Gree's operating income growth rate was higher than the other two companies, shown in Table 4. In 2015, under the general environment where the overall growth rate of the home appliance industry was declining, the operating profit growth rates of the three companies were all negative. From 2015 to 2017, Midea’s operating profit growth rate was relatively unstable and has been experiencing negative growth all the time. Meanwhile, Gree and Haier’s operating growth rates are rising, but Gree’s operating profit growth is very slow, which shows that the air-conditioning market...
has become more saturated and its profit margins have been less. On the other hand, Gree's single product structure is also one of the reasons for its limited development [8].

4. Forecast

From the previous financial analysis, it can be seen that Gree’s current source of revenue is mainly concentrated in air-conditioning products. In 2017, the income from the air-conditioning business has accounted for 83% of the company’s total revenue. Gree's operating income is currently maintaining sustained and steady growth, with good returns and sufficient funds. However, the single product structure makes it extremely dependent on the huge revenue brought by air conditioning products. At present, when the air conditioning market is approaching saturation, it is obviously not wise to continue to rely so much on a single product. It is urgent to develop new products, focus on new industries and expand the category of featured products. In 2017, Gree's intelligent equipment has already appeared on the market, indicating that Gree has started to explore new industries [9, 10]. However, the diversified products that have been put into production recently are far from the previous product structure, and the new industries that are not familiar with blindly putting into production are at greater risk. Therefore, Gree's overall development strategy in the next three years is as follows: The company should maintain its leading position and advantage in the air conditioning industry, combine existing technology, develop new air conditioning products, meet the needs of special market groups, and develop overseas markets [11].

| Project        | Forecast (100 million yuan) |
|----------------|----------------------------|
| Operating income | 2,122.88            |
| Operating costs    | 2,253.72              |
| Financial expenses | 26.06                |
| Sales expense      | 185.22                |
| Management costs   | 75.8                  |
| Operating profit   | -417.92               |

The operating profit forecast has been done in Table 5. According to the operating income of Gree over the years, the relation between its operating income (named y) and year (named x) are shown in formula (1):

\[ y = 46.764x + 1027 \]  

\[ (1) \]

According to the current data, it can be roughly predicted that the operating income in 2020 will be 212.288 billion yuan [12]. Combined with the two development strategies of new children's electric and developing overseas markets, Gree is expected to sell 62.5 million units of this product annually after its launch. The cost of the new multi-functional air conditioner for children is about 3,605.95 yuan, so Gree will increase the cost by 225.372 billion yuan every year. In addition, the development of overseas markets will also add a significant expense. According to the plan, management fees invested in developing overseas markets will reach 7.58 billion yuan each year. At the same time, the two strategies added 2.606 billion yuan in financing and 18.522 billion yuan in marketing [13].
Table 6. 2020 balance sheet (forecast).

| Project                                                                 | 2020 (forecast) | Project                              | 2020 (forecast) |
|------------------------------------------------------------------------|-----------------|--------------------------------------|-----------------|
| Assets                                                                 |                 | Current liabilities                  |                 |
| Current assets                                                         |                 | Short-term loan                      | 260.96          |
| Money funds                                                            | 1,425.94        | Derivative financial liabilities     | 8.72            |
| Financial assets that are measured at fair value and whose changes are included in the current profit and loss | 8.70            | Accounts payable                      | 283.73          |
| Financial assets that are measured at fair value and whose changes are included in the current profit and loss |                 |                                      |                 |
| Derivative financial assets                                            | 6.79            | Advance receipt                      | 198.07          |
| Bill receivable                                                        | 461.72          | Employee compensation payable        | 18.77           |
| Accounts receivable                                                    | 83.22           | Taxes payable                        | 54.82           |
| Prepayments                                                            | 3.72            | Interest payable                     | 1.96            |
| Interest receivable                                                   | 26.37           | Dividend payable                     | 0.07            |
| Other receivables                                                      | 3.53            | Other payables                       | 26.05           |
| Stock                                                                  | 231.90          | Other current liabilities            | 692.10          |
| Other current assets                                                   | 144.71          | Non-current liabilities:             |                 |
| Total current assets                                                   | 2,396.59        | Long-term employee compensation payable| 1.13            |
| Non-current assets                                                     |                 | Deferred income                      | 1.26            |
| Loans and advances                                                     | 93.43           | Deferred income tax liabilities      | 4.04            |
| Available for sale financial assets                                    | 30.52           | Total non-current liabilities        | 6.43            |
| Long-term equity investment                                            | 1.10            | Total Liabilities                    | 1,558.11        |
| Investment real estate                                                 | 7.27            | Owners’ equity:                      |                 |
| Fixed assets                                                           | 174.67          | Equity                               | 60.16           |
| Construction in progress                                               | 10.21           | Capital reserve                      | 1.04            |
| Fixed assets liquidation                                               | 0.15            | Other comprehensive income          | (0.92)          |
| Intangible assets                                                      | 36.05           | Surplus reserve                      | 35.00           |
| Long-term prepaid expenses                                             | 0.22            | Undistributed profit                 | 557.40          |
| Deferred tax assets                                                    | 108.38          | Total owner's equity attributable to the parent company | 655.95 |
| Other non-current assets                                               | 14.12           | Minority shareholders' equity        | 12.40           |
| Total non-current assets                                               | 476.12          | Total owners' equity                 | 13.21.03        |
| total assets                                                           | 2,872.71        | Total Liabilities and Owner's Equity | 2,872.71        |

The forecast of 2020 balance sheet of Gree has also been given in Table 6. Based on the consolidated balance sheet data of Gree from 2015 to 2017 and the asset-liability ratio in recent years, the forecast of 2020 balance sheet of Gree has also been given in Table 6. As can be seen from the above table, the debt level of enterprises has significantly increased, which indicates that the proportion of current liabilities of enterprises is too high and the liquidity risk of enterprises is also relatively high [14].
5. Conclusion

To sum up, the results of our analysis of the financial data are as follows: (1) Gree's profitability is at a relatively high level among its peers and has strong competitiveness. Besides, Gree has a good operating and development prospect at present, with good profitability and sales performance. (2) The data of Gree from 2015 to 2017 shows that although the probability of bad debts increased in 2017, the efficiency of asset use and its effect were good, and the operating efficiency and the operating capacity of the enterprise were enhanced. (3) Gree's liquidity is general, which is slightly weaker than Midea, and its liquidity of assets is also weak, but its actual financial risk is relatively low. (4) Gree has been in good operation in the past three years and is still continuously expanding its production scale and industrial structure. Its operating profit and net profit are increasing year by year. Although this paper is focusing on Gree, the method of financial analysis is universal and it can provide valuable suggestions for any enterprises that want to have a bright future.

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