

Identification and Analysis of Haier Group's Financial risk

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Abstract

China's household electrical appliances industry is facing both opportunities and challenges, which are reflected in the financial work of enterprises through different forms, forming financial risks. Qingdao Haier as a leading enterprise, financial risks are increasingly prominent. This paper analyzes the financial indicators of Qingdao Haier from 2011 to 2015 from three aspects of financing, investment and operation, and identifies the possible financial risks in these three aspects.

Keywords

Financial risk, identification.

1. Research background and purpose

With the development of economy and the improvement of living standard, domestic appliances have entered every aspect of people life. Household appliance industry is also faced with many opportunities and challenges, such as economic environment, industry competition and so on, which are reflected in the financial management of enterprises through different forms, forming financial risks. The financial crisis brought by the financial risk will affect the continuous operation and development of the enterprise, so it is very important to identify the financial risk in time and to prevent it.

Qingdao Haier Co., Ltd. (hereinafter referred to as Qingdao Haier) as the leading enterprise in the household appliance industry in China, with the increasingly complex market economy environment, the competition in the industry is intensifying, compared with Midea and GREE ELECTRIC APPLIANCES, INC. OF ZHUHAI in recent years, Market share fell, net profit also fell, financial risk is increasingly prominent.

The problem of financial risk has become the focus of attention, but most enterprises do not pay attention to its identification and analysis in their daily management. Based on this background, this paper analyzes the financial indicators of Qingdao Haier in 2011-2015 from three aspects: financing, investment and operation, in order to identify the financial risks exposed by Qingdao Haier in the past five years.

2. Company profile

2.1 The Company

Qingdao haier co., LTD., founded on April 28, 1989, is a limited liability company established by directional fund-raising on the basis of the reorganization of the former Qingdao refrigerator general factory. On November 19, 1993, Qingdao haier co., ltd. was listed on the Shanghai stock exchange, raising 369 million yuan, stock abbreviation: Qingdao haier, stock code: 600690.

The company was one of the first blue chip companies listed in the Shanghai stock exchange's 180-component index and controlled haier appliances (stock code: 01169.hk), which is listed on the main board of Hong Kong. Since the company inception, always adhere to customer demand as the center of the innovation system of drive continued and healthy development of the company, from an insolvent, failing collective small factory developed into one of the world's largest home appliance manufacturers, the company business from a single refrigerator also expand into the washing machine, air conditioning, water heater, kitchen appliances such as complete sets of white goods

channels of research, development, production, sales and integrated services business, through different development cycles to achieve results continued steady growth, the industry market established global leader white electricity market position. The company continues to innovate in terms of brand, technology research and development, product, channel network construction, operation mode and other aspects, build the competitiveness of the enterprise constantly adapting to the changes of The Times, and become an enterprise adapting to The Times. Faced with the challenges and opportunities in the Internet era, the company actively invested in the layout of the U+ intelligent life platform and the connected factory in parallel ecosphere platform, and transformed to the platform enterprise of intelligent life overall solution, in the hope of improving the operation efficiency and growth space through the breakthrough in business model and operation model.

Mainly engaged in refrigerator, air conditioner, refrigerator, washing machine, water heater, dishwasher, gas stove and other household appliances and related products production and management, as well as business flow. Haier is one of the most valuable brands in China. The company has established 29 manufacturing bases, 8 comprehensive research and development centers, 19 overseas trading companies and more than 60,000 employees worldwide, and has developed into a large-scale multinational enterprise group. Haier refrigerator, haier washing machine global market share, in the industry are ranked among the best. Haier is also a world leader in smart home integration, network home appliances, digitization, large-scale integrated circuits and new materials. In June 2009,IEC selected haier as the world's first "standard innovation practice base".

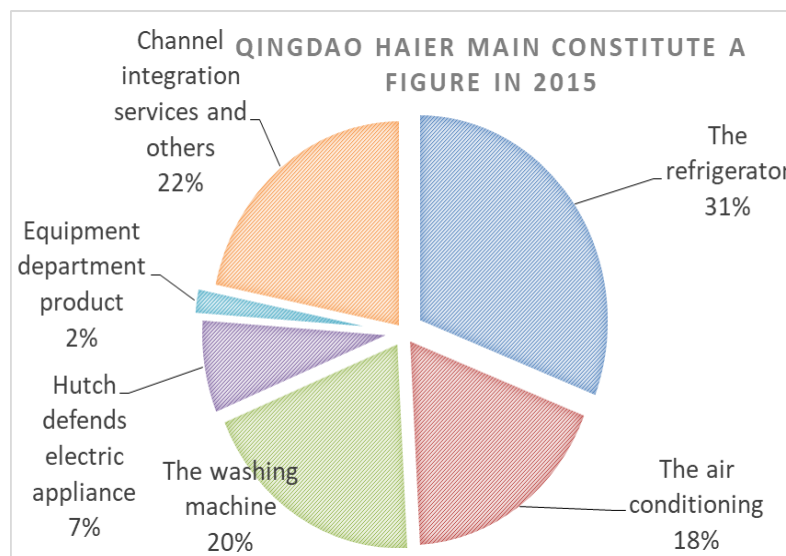


Fig. 1 chart of Qingdao haier's main business in 2015

2.2 Industry development

Influenced by factors such as slowing economic growth and the stock update cycle of domestic white power industry, the domestic white power market continued its downward trend in 2015 in the first half of 2016: retail sales of refrigerators, washing machines and air conditioners dropped by 9.29%, 3.42% and 6.74% year-on-year respectively in the first half of 2016. Under the pressure of high inventory in the air conditioning industry channels, manufacturers' shipments declined significantly. The industry online showed that the domestic shipments of air conditioners in the first half of the year were 2618.56 million units, down 31.97 percent year-on-year. Under the background of continuous shrinking scale and product homogenization, the price competition in the white power industry becomes increasingly fierce. Affected by factors such as the recovery of the real estate market and the potential of popularizing space, the kitchen and bathroom industry maintained growth, with retail sales volume of water heater, lampblack machine and gas stove industry increasing by 6.12%, 2.45% and 0.07% respectively year-on-year. Industrial consumption upgrade continued, intelligent become the trend of development.

3. Financial risk analysis

3.1 Financing

3.1.1 Financing risk profile

As shown in Table 1, the cash flow statement generated by Qingdao haier's fund-raising activities in the past five years shows that in recent years, Qingdao haier mainly raised funds by absorbing investment and bank borrowing, and seldom obtained cash by issuing bonds or other financing activities. Except in 2014, bank borrowings raised more money than investment. In terms of the use of funds, most of the funds are used to repay debts and distribute dividends.

Table 1 Qingdao haier's 2011-2015 cash flow statement (unit: RMB 10,000)

Project	2011	2012	2013	2014	2015
Receive cash from investments	17712	18485	38102	507557	34247
Cash received by issuing bonds	0	0	0	105502	0
et the cash received from the loan	205433	116517	137881	126866	660348
Receive other cash related to financing activities	0	43860	0	0	1706
Cash paid for debt service	95503	116839	129379	148303	693999
Cash that distributes dividends, profits, or interest payments	51484	108877	139067	146829	176420
Pay other cash related to financing activities	632	0	0	8859	15444
Net cash flow from financing activities	75524	-46853	-92463	435932	-189561
et the cash received from the loan	0	18485	38102	507557	34247
Receive other cash related to financing activities	205433	0	0	105502	0

3.1.2 The scale of liabilities

The scale of liabilities is the core issue in the decision-making of enterprise capital structure. From the perspective of absolute quantity, the larger the scale of corporate liabilities, the more debts to be paid and the interest to be paid, and the more likely it is that the enterprise will induce financial risks due to its reduced solvency. From the perspective of relative quantity, the higher the debt ratio of the enterprise, the greater the debt repayment pressure the enterprise faces, and the higher the financing risk. Therefore, there is a very close positive correlation between the size of liabilities and financial risks. Table 2 is analyzed. By studying the asset-liability ratio of Qingdao haier in the past five years, it can be seen that its asset-liability ratio is in a downward trend, with the average asset-liability ratio being 65.13%, which is slightly higher, and may present the risk of insolvency.

Table 2 Qingdao haier 2011-2015 debt scale (unit: RMB 10,000)

Project	2011	2012	2013	2014	2015
total indebtedness	2818453	3426217	4102171	4588649	4355841
total assets	3972348	4968831	6101585	7500645	7596067
Debt Asset ratio (%)	70.95%	68.95%	67.23%	61.18%	57.34%

3.1.3 Profitability

Normal businesses typically pay off debt and distribute dividends at a profit, rather than taking on new debt to pay off old ones. Therefore, if a company has a certain profitability, its debt paying ability will be strong. At the same time, it will attract new capital investment, improve its financing ability and reduce the possibility of financing risk. As shown in Table 3, the company's operating net interest rate is at a low level. From 2011 to 2014, the company was in a rising period, and it declined in 2015. Poor profitability will have a negative impact on the company's repayment of matured debts and investment attraction, and it is more likely to cause financial risks due to poor profitability.

Table 3 the profitability indicators of Qingdao haier from 2011 to 2015

Project	2011	2012	2013	2014	2015
Net operating rate (%)	4.95%	5.46%	6.42%	7.54%	6.60%
Operating margin (%)	23.62%	25.24%	25.32%	27.52%	27.96%

3.1.4 Debt paying ability

If the enterprise borrows money for financing, it is bound to assume the obligation of repayment due. If the enterprise lacks debt paying ability, the enterprise will fall into financial difficulties or even a vicious circle, which will affect the survival and development of the enterprise. From the perspective of short-term debt paying ability, as shown in Table 4, the current ratio of the company in the past five years is lower than the standard value 2 of this index, indicating that its debt paying ability is not strong, while the quick ratio is closer to the standard value 1 of this index, and the variation range is not large, which is relatively stable.

Table 4 list of Qingdao haier's solvency indicators for 2011-2015

Project	2011	2012	2013	2014	2015
Current ratio	1.21	1.27	1.30	1.43	1.38
Quick ratio	0.98	1.04	1.12	1.25	1.16
Times interest earned	39.25	-244.10	-145.77	-33.81	-13.00

3.2 Investment risk analysis

The main purpose of the enterprise investment is expected to higher future earnings, and the investment risk is due to the lack of feasibility of investment projects, investors insufficient understanding of situation such as investment decision-making errors, lead to actual income and expected far, even unable to recover the investment fund, this kind of circumstance can bring about huge losses to the enterprise, so the analysis of investment risk is very important. The cash flow generated by Qingdao haier's investment activities in the past five years is shown in Table 5. It can be seen that the cash flow of Qingdao haier's investment activities in the past five years is higher than the inflow, and the net cash flow is negative. In 2015, it even reached -10273403690.47 yuan. Although it shows that the company adopts a positive expansion development model in terms of investment scale, the actual return is far lower than expected, which may bring losses to the company and some risks.

Table 5 Qingdao haier's 2011-2015 cash flow statement of investment activities(unit: RMB 10,000)

Project	2011	2012	2013	2014	2015
Proceeds from sell of investment	5056	0	4988	464	105300
Receive cash from investment income	483	4199	81693	7023	10813
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets	321	452	36046	9668	1120
Dispose of net cash received by subsidiaries and other operating units	0	0	0	40464	49809
Other cash received in connection with investment activities	0	0	1905	4308	1097
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets	158431	122799	175126	200543	249174
Payment for investment	298633	0	87076	186494	370921
Net cash paid by subsidiaries and other business units	0	0	0	0	567226
Payment of other cash related to investment activities	0	0	0	0	8160
Net cash flows from investment activities	-451202	-118147	-137568	-325107	-1027340

3.3 Operational risk analysis

3.3.1 Inventory liquidation risk

Inventory liquidation risk is the possibility of inventory overstocking, difficulty in realization and loss caused by the changes of various uncertainty factors. By analyzing the ratio of inventory to current assets, the realization risk of enterprise inventory can be understood to some extent. It can be seen from Table 6 that there is a certain relationship between Qingdao haier's inventory and net profit. The higher the ratio of inventory to current assets, the lower the net profit. If the liquidity of inventory is not good, it is very likely to be out of date or price drops, which will affect the company's debt paying and profitability to a certain extent. The amount of inventory in 2013-2015 is constantly increasing, which may bring some risks.

Table 6 ratio of inventory to current assets of Qingdao haier from 2011 to 2015(unit: RMB 10,000)

Project	2011	2012	2013	2014	2015
Inventory	596911	709864	686400	755791	855924
Current assets	3133399	3969968	4954700	5947451	5486724
Inventory / Current assets (%)	19.05%	17.88%	13.85%	12.71%	15.60%
Net profit	364766	436061	555128	669226	592208

3.3.2 Receivables recovery risk

Receivables is the enterprise should form when selling products to the purchaser, collecting relevant payments today, credit has become a common means of competition of manufacturing and promotion methods, as well as to bring huge benefits to the enterprise can form with a large number of receivables not timely recovery of liquidity risk and solvency risk. It can be seen from Table 7 that the ratio of receivables of Qingdao haier to current assets in the past five years is about 10%, and the company's balance of receivables is not high, resulting in little risk.

Table 7 Qingdao haier accounts receivable, current assets and sales income analysis table for 2011-2015(unit: RMB 10,000)

Project	2011	2012	2013	2014	2015
Receivables	308182	419672	432683	529578	614139
Current assets	3133399	3969968	4954700	5947451	5486724
Receivables/Current assets (%)	9.84%	10.57%	8.73%	8.90%	11.19%
Operating income	7366250	7985659	8648772	8877544	8974832
Receivables/Operating income (%)	4.18%	5.26%	5.00%	5.97%	6.84%

4. Conclusion

Taking Qingdao haier as the research object, using the theory and method of financial risk analysis and evaluation of the, for Qingdao haier from 2011 to 2015 financial data for financing, investment, operation risk analysis, identify the possible financial risks in these three aspects, which may be caused in 2016, Qingdao haier one of the reasons for the decline in operating profits. It can be seen that timely identification and prevention of corporate financial risks is crucial to the sustainable operation and development of enterprises.

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