

Financial Diagnosis of Haier Smart Home Co., Ltd.

--Balance Sheet as the Core of the Financial Position Diagnosis

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Abstract

Financial diagnosis is to improve management, improve economic benefits for the purpose of revealing the key problems, put forward improvement measures and implement a modern management method. The object of diagnosis in this paper is Haier Smart Home Co., Ltd., and the analysis is mainly based on the balance sheet data and relevant information in the annual financial report of Haier Smart Home Co., Ltd. from 2015 to 2019. Firstly, this paper analyzes the basic information and financial information in the annual financial report of the listed company, reveals the overall trend of some of the company's main assets, liabilities and owner's equity items, and analyzes the balance sheet structure. Then the main balance sheet financial ratios are calculated and the possible influencing factors are evaluated in combination with the business development strategies of the company in the period of analysis. In order to more accurately judge the overall changes in the financial situation of Haier Smart Home Co., Ltd. from 2015 to 2019, this paper compares it with major enterprises in the same industry (Gree Electric Appliances Inc. and Midea Group). Finally, based on the obtained financial data, the main changes and influencing factors of the company's financial situation from 2015 to 2019 were diagnosed.

Keywords

Financial Diagnosis; Haier Smart Home Co., Ltd.; Balance Sheet; Financial Ratio; Financial Condition.

1. Introduction

Company name: Haier Smart Home Co., Ltd. (hereinafter referred to as "Haier Smart Home")
Company code: 600690

Haier Smart Home Co., Ltd., formerly known as Qingdao Haier Co., Ltd., was founded in 1994 and officially renamed Qingdao Haier Smart Home Co.,Ltd. in 2019.

Haier Group is a global service provider of better life solutions. At present, Haier Group has 10 research and development centers, 25 industrial parks, 122 manufacturing centers and 106 marketing centers in the world. In 2018, its global turnover reached 266.1 billion yuan.

Haier Smart Home Co., Ltd. is the main brand of household appliances under Haier Group. The main business of the company: research and development, production and sales of refrigerators/freezers, washing machines, air conditioners, water heaters, kitchen electricity, small home appliances, U-Home smart home products, etc., to provide consumers with smart home appliances complete solutions; Channel integrated services business provides logistics, home appliances and other products distribution business.

Facing the opportunities and challenges in the era of the Internet of Things, the company has transformed to the Internet of Things platform. Through the construction of U+ intelligent life platform and intelligent manufacturing platform, the company has realized the smart home leading in the era of the Internet of Things serving consumers and the intelligent manufacturing leading in the era of the Internet of Things serving producers and sellers.

Table 1. Analysis of Comparative Statement of Balance Sheets from 2015 to 2019

Analysis of Comparative Statement of Balance Sheets from 2015 to 2019 (list some major items)			
Items	In 2015	Increase in 2015 compared with 2014	Growth Ratio
Monetary Capital	24,714,814,951.97	—	—
Total Current Assets	54,867,240,117.01	—	—
Fixed Assets	8,420,548,468.52	—	—
Intangible Assets	1,453,470,715.09	—	—
Total Non-current Assets	21,093,432,684.37	—	—
Total Assets	75,960,672,801.38	—	—
Short-term Borrowing	1,873,108,241.50	—	—
Total Current Liabilities	39,783,314,383.20	—	—
Total Non-current Liabilities	3,775,096,361.30	—	—
Total Liabilities	43,558,410,744.50	—	—
Additional Paid-in Capital	83,383,194.51	—	—
Total Owners' Equity (or Shareholders' Equity)	32,402,262,056.88	—	—
Items	In 2016	Increase in 2016 compared with 2015	Growth Ratio
Monetary Capital	23,504,634,124.25	-1,210,180,827.72	-4.90%
Total Current Assets	69,516,189,034.76	14,648,948,917.75	26.70%
Fixed Assets	15,539,046,885.38	7,118,498,416.86	84.54%
Intangible Assets	7,242,420,479.44	5,788,949,764.35	398.28%
Total Non-current Assets	61,739,101,290.48	40,645,668,606.11	192.69%
Total Assets	131,255,290,325.24	55,294,617,523.86	72.79%
Short-term Borrowing	18,165,531,879.15	16,292,423,637.65	869.81%
Total Current Liabilities	73,452,855,061.87	33,669,540,678.67	84.63%
Total Non-current Liabilities	20,222,068,851.90	16,446,972,490.60	435.67%
Total Liabilities	93,674,923,913.77	50,116,513,169.27	115.06%
Additional Paid-in Capital	83,383,194.51	0.00	0.00%
Total Owners' Equity (or Shareholders' Equity)	37,580,366,411.47	5,178,104,354.59	15.98%
Items	In 2017	Increase in 2017 compared with 2016	Growth Ratio
Monetary Capital	35,177,276,903.91	11,672,642,779.66	49.66%
Total Current Assets	88,332,451,429.22	18,816,262,394.46	27.07%
Fixed Assets	16,017,523,376.11	478,476,490.73	3.08%
Intangible Assets	7,005,186,296.28	-237,234,183.16	-3.28%
Total Non-current Assets	63,130,659,278.41	1,391,557,987.93	2.25%
Total Assets	151,463,110,707.63	20,207,820,382.39	15.40%
Short-term Borrowing	10,878,580,275.18	-7,286,951,603.97	-40.11%
Total Current Liabilities	76,894,450,536.48	3,441,595,474.61	4.69%
Total Non-current Liabilities	27,818,654,033.79	7,596,585,181.89	37.57%
Total Liabilities	104,713,104,570.27	11,038,180,656.50	11.78%
Additional Paid-in Capital	826,883,093.84	743,499,899.33	891.67%
Total Owners' Equity (or Shareholders' Equity)	46,750,006,137.36	9,169,639,725.89	24.40%
Items	In 2018	Increase in 2018 compared with 2017	Growth Ratio
Monetary Capital	37,456,355,407.28	2,279,078,503.37	6.48%
Total Current Assets	94,260,331,301.04	5,927,879,871.82	6.71%
Fixed Assets	17,319,638,881.37	1,302,115,505.26	8.13%
Intangible Assets	9,209,242,721.71	2,204,056,425.43	31.46%
Total Non-current Assets	72,439,212,942.75	9,308,553,664.34	14.74%
Total Assets	166,699,544,243.79	15,236,433,536.16	10.06%
Short-term Borrowing	6,298,504,892.57	-4,580,075,382.61	-42.10%
Total Current Liabilities	80,081,661,150.42	3,187,210,613.94	4.14%
Total Non-current Liabilities	31,487,604,155.87	3,668,950,122.08	13.19%
Total Liabilities	111,569,265,306.29	6,856,160,736.02	6.55%
Additional Paid-in Capital	2,208,773,474.57	1,381,890,380.73	167.12%
Total Owners' Equity (or Shareholders' Equity)	55,130,278,937.50	8,380,272,800.14	17.93%
Items	In 2019	Increase in 2019 compared with 2018	Growth Ratio
Monetary Capital	36,178,815,683.25	-1,277,539,724.03	-3.41%
Total Current Assets	100,547,144,611.51	6,286,813,310.47	6.67%
Fixed Assets	21,180,057,212.01	3,860,418,330.64	22.29%
Intangible Assets	10,687,071,783.07	1,477,829,061.36	16.05%
Total Non-current Assets	86,907,091,671.66	14,467,878,728.91	19.97%
Total Assets	187,454,236,283.17	20,754,692,039.38	12.45%
Short-term Borrowing	8,585,049,237.18	2,286,544,344.61	36.30%
Total Current Liabilities	95,609,737,445.91	15,528,076,295.49	19.39%
Total Non-current Liabilities	26,854,638,569.33	-4,632,965,586.54	-14.71%
Total Liabilities	122,464,376,015.24	10,895,110,708.95	9.77%
Additional Paid-in Capital	4,435,890,845.47	2,227,117,370.90	100.83%
Total Owners' Equity (or Shareholders' Equity)	64,989,860,267.93	9,859,581,330.43	17.88%

2. Balance sheet structure and change analysis

2.1 Comparative analysis of balance sheets from 2015 to 2019

According to Table1, you can see that haier's intellectual home co., LTD. Of the 2016 fastest-growing assets scale, it shows that in 2016, haier think tank companies accelerated sharply in asset scale expansion, beginning in 2017, after until 2019, haier has total assets of companies remain relatively flat and stable growth.

2016 fixed assets, intangible assets, the company is measured at fair value and the changes are recorded into the profits and losses of the current financial assets, accounts receivable, other receivables, inventories, long-term equity investment and development spending, goodwill, deferred income tax assets and non-current assets other than huge assets such as growth, mainly because in 2016 during the reporting period, The Company completed the acquisition of GEA Appliances. At the same time, the acquisition of GEA also brought about significant changes in corporate liabilities, as shown in Table 1.

After experiencing the rapid increase of assets and liabilities items in the balance sheet caused by the acquisition of GEA in 2016, the growth ratio of major balance sheet items in 2017 significantly changed, and many items were affected by the acquisition of GEA. In 2017, the financial assets measured at fair value and the changes booked into the current profit and loss decreased by 74.29% compared with the beginning of the year, mainly due to the impact of the changes in the fair value of foreign exchange contracts and other derivative financial instruments; Short-term borrowings decreased 40.11% compared with the beginning of the year, mainly due to the repayment of part of the borrowings by the Company; The capital reserve increased 891.67% compared with the beginning of the year, mainly due to the change of other owners' equity of the invested units calculated by the company's equity method, which was confirmed by the company on a proportional basis.

In 2018, Haier Smart Home accelerated the promotion of smart family solutions, took a series of measures such as improving the number and quality of contacts, deepening the marketing transformation, strengthening the high-end leading advantage of Casati, and building a leading young brand, so as to realize the growth against the trend and counter the industry fluctuations. For the overseas market, Haier Group accelerates the coordination of global operation system and deepens the "trinity" global layout. The sub-brand GEA continues to promote the replication of the man-in-one model and the business transformation. These developments enabled the company's assets to grow at a rate of 10.06% in 2018 after experiencing rapid growth in 2016 and 2017. In addition, due to changes in accounting standards at the end of 2017, the company's financial statements also had a greater impact. In 2018, the changes of trading financial assets, financial assets measured at fair value and recorded into current profits and losses, and derivative financial assets were mainly caused by the reclassification of financial assets by the new financial instrument standards. The contract assets increased by 100.00% compared with the beginning of the year, which is mainly used to calculate the business that the company has reached the progress target and has not yet received the due settlement amount according to the new revenue criteria; The change of available for sale financial assets, other equity instrument investment and other non-current financial assets is mainly caused by the reclassification of the items in the new financial instrument standards; Construction projects under construction increased by 140.50% compared with the beginning of the year, mainly due to the expansion of investment by the company to meet the demand of production capacity; The development expenditure decreased by 44.27% compared with the beginning of the year, which was mainly caused by the transfer of part of the self-developed technology of the subsidiary GEA into intangible assets after the completion of the development stage. Short-term borrowings decreased by 42.10% compared with the beginning of the year, mainly due to repayment of borrowings; The 99.75% decrease in advances compared with the beginning of the year was mainly due to the reclassification to contractual liabilities under the new revenue criteria; Other current liabilities increased 886.10% from the beginning of the year, mainly due to the recognition of liabilities for the anticipated return of sales in accordance with the new revenue guidelines.

Table 2. Amount and proportion of major items in the balance sheet from 2015 to 2019

Amount and proportion of major items in the balance sheet of 2015			
Items	Amount (ten thousand Yuan)	Proportion	Compared with the previous period increase proportion
Inventories	8,559,244,039.09	11.27%	—
Fixed Assets	8,420,548,468.52	11.09%	—
Long-term Equity Investments	4,958,908,333.93	6.53%	—
Construction in Progress	1,391,471,823.07	1.83%	—
Total Assets	75,960,672,801.38	100.00%	—
Short-term Borrowing	1,873,108,241.50	4.30%	—
Total Liabilities	43,558,410,744.50	100.00%	—
Amount and proportion of major items in the balance sheet of 2016			
Items	Amount (ten thousand Yuan)	Proportion	Compared with the previous period increase proportion
Inventories	15,237,942,420.85	11.61%	0.34%
Fixed Assets	15,539,046,885.38	11.84%	0.75%
Long-term Equity Investments	11,057,819,628.14	8.42%	1.90%
Construction in Progress	1,769,875,050.35	1.35%	-0.48%
Total Assets	131,255,290,325.24	100.00%	—
Short-term Borrowing	18,165,531,879.15	13.84%	9.54%
Total Liabilities	93,674,923,913.77	100.00%	—
Amount and proportion of major items in the balance sheet of 2017			
Items	Amount (ten thousand Yuan)	Proportion	Compared with the previous period increase proportion
Inventories	21,503,524,800.18	14.20%	2.59%
Fixed Assets	16,017,523,376.11	10.58%	-1.26%
Long-term Equity Investments	12,992,767,394.28	8.58%	0.15%
Construction in Progress	1,530,390,130.25	1.01%	-0.34%
Total Assets	151,463,110,707.63	100.00%	—
Short-term Borrowing	10,878,580,275.18	7.18%	-6.66%
Total Liabilities	104,713,104,570.27	100.00%	—
Amount and proportion of major items in the balance sheet of 2018			
Items	Amount (ten thousand Yuan)	Proportion	Compared with the previous period increase proportion
Inventories	22,377,191,121.53	13.42%	-0.78%
Fixed Assets	17,319,638,881.37	10.39%	-0.19%
Long-term Equity Investments	13,966,481,596.07	8.38%	-0.20%
Construction in Progress	3,873,492,230.24	2.32%	1.31%
Total Assets	166,699,544,243.79	100.00%	—
Short-term Borrowing	6,298,504,892.57	5.65%	-1.53%
Total Liabilities	111,569,265,306.29	100.00%	—
Amount and proportion of major items in the balance sheet of 2019			
Items	Amount (ten thousand Yuan)	Proportion	Compared with the previous period increase proportion
Inventories	28,228,600,971.61	15.06%	1.64%
Fixed Assets	21,180,057,212.01	11.30%	0.91%
Long-term Equity Investments	20,460,763,915.68	10.92%	2.54%
Construction in Progress	2,391,364,659.97	1.28%	-1.04%
Total Assets	187,454,236,283.17	100.00%	—
Short-term Borrowing	8,585,049,237.18	7.01%	1.36%
Total Liabilities	122,464,376,015.24	100.00%	—

In 2019, the change of other receivables, other comprehensive income and derivative financial liabilities is mainly caused by the Candy brought in by the acquisition; Assets held for sale decreased by 100.00% compared with the beginning of the year, mainly due to the completion of the disposal of Shengfeng Logistics, a subsidiary of Haier Electric Appliances; Compared with the beginning of the year, other current assets increased by 37.53%, mainly due to the Candy brought in by the acquisition of this period and the increase of financial products; Long-term equity investment increased by 46.21% compared with the beginning of the year, which was mainly caused by the equity change of Haier Electric Appliance subsidiary; Short-term borrowing increased by 36.30% compared with the beginning of the year, mainly due to the acquisition of Candy expenses; The liabilities held for sale decreased by 100.00% compared with the beginning of the year, mainly due to the completion of the disposal of Shengfeng Logistics, the subsidiary of Haier Electric Appliances; Non-current liabilities due within one year increased by 57.18% compared with the beginning of the year, mainly due to the fact that some long-term borrowings will mature within one year and be incorporated into Candy in the current period; Deferred income tax liabilities increased by 184.80% compared with the beginning of the year, mainly due to the candy brought in by the acquisition and the equity change of

Haier Electric subsidiary; Other non-current liabilities decreased by 96.16% compared with the beginning of the year, mainly due to the disposal of long-term equity investment in logistics of Haier's electrical subsidiary.

2.2 Analysis of balance sheet structure from 2015 to 2019

The data in Table 2 are analyzed as follows:

- (1) The change in the proportion of inventories, fixed assets and long-term equity investments in 2016 was mainly due to the completion of the acquisition of GEA in 2016; The change in the proportion of projects under construction and short-term borrowings was mainly due to the large amount of borrowings financed by the cash acquisition of GEA business.
- (2) The inventory ratio in 2017 increased by 2.59%, mainly due to the company's concentrated inventory at the end of the year based on orders and expectations for the future; The change of fixed assets, long-term equity investment, construction in progress and short-term borrowing ratio is mainly caused by the repayment of a large amount of debt at the end of the acquisition business in the current period.
- (3) The change in the proportion of inventories, fixed assets, long-term equity investment and construction projects in 2018 was mainly caused by the expansion of investment by the Company to meet the demand of production capacity; The proportion of short-term borrowings decreased by 1.53%, mainly due to repayment of borrowings.
- (4) The change in the proportion of inventory, fixed assets and long-term equity investment in 2019 is mainly caused by the equity change of Haier Electric subsidiary; The proportion of projects under construction decreased by 1.04%, which was mainly caused by the transfer of projects under construction to fixed assets. Short-term borrowing ratio increased 1.36%, mainly due to the acquisition of Candy.
- (5) Based on the changes in the proportion of major assets projects in the past five years, the changes in inventories, fixed assets, long-term equity investment, projects under construction and short-term loans reflect that enterprises have maintained a good operating and development situation in the past five years and implemented the policy of active expansion.

2.3 An analysis of key financial ratios

Table 3. Major changes in financial ratios from 2015 to 2019

Main Financial Indicators					
The report date	2015	2016	2017	2018	2019
Accounts receivable turnover rate (times)	15.694	12.950	12.670	15.652	18.633
Inventory turnover rate (times)	8.02	6.90	5.98	5.93	5.57
Total assets turnover ratio (times)	1.32533	1.14919	1.12659	1.15234	1.13375
Liquidity Ratio (yuan)	1.3792	0.9464	1.1487	1.1771	1.0516
Quick ratio (yuan)	1.164	0.739	0.8691	0.8181	0.6656
Asset-liability ratio (%)	57.3434	71.3685	69.1344	66.9284	65.3303
Return on assets (%)	8.812	7.898	7.454	7.182	8.230
Return on equity (%)	18.413	19.112	21.442	18.976	20.422

As can be seen from Table 3, the liquidity ratio of Haier Smart Home Co.,Ltd. fluctuated and decreased slightly in the five years from 2015 to 2019, but it was generally stable. Overall, the quick ratio showed a downward trend. The assets and liabilities first showed a rising trend, and then fell, indicating that the solvency of Haier's intellectuals declined, which was closely related to the rapid expansion of Haier in recent years. In the downward trend of current ratio and quick ratio as well as the upward trend of asset-liability ratio, the financial indicators of 2016 cannot be ignored. In 2016, the current ratio and quick ratio decreased significantly compared with 2015, while the asset-liability ratio increased significantly. The company announced "Qingdao Haier Co., Ltd. Material Asset

Purchase Implementation Report", according to the report, the company's purchase of General Electric appliances assets related to the material asset purchase has been completed." It can be seen that the reason for the rapid increase of Haier's debt in a short period of time is the completion of the cash acquisition of GEA. The negative trend of the solvency index reflects the heavy short-term debt pressure brought by the cash acquisition in 2016. The acquisition of GEA Home Appliances completed in 2016 had a great impact on the balance sheet and relevant major financial indicators of 2017, making the quick ratio of 2017 decreased and the asset-liability ratio increased compared with that of 2015.

Inventory turnover and total asset turnover both showed a downward trend. Although the turnover of accounts receivable increased after 2017, it also showed a downward trend before 2017. The change trend of the three indicators indicated that the turnover speed of assets decreased and the profitability of the enterprise declined. We should strengthen the sales work, innovate the sales model, and strictly control the costs and expenses to reverse the trend of the company's declining ability.

3. Conclusions

Through the horizontal and vertical comparison of Haier Smart Home Co.,Ltd., it can be concluded that:

(1) The current ratio and quick ratio of Haier Smart Home Co.,Ltd. are low, and the short-term solvency of the company is not strong. Through the analysis of the major events of the enterprise, it can be concluded that a large part of the company's funds have been invested in the cash acquisition of GEA. The rapid expansion of the enterprise scale has led to the failure of the enterprise to provide sufficient debt repayment guarantee. However, in the long run, a successful acquisition of GEA will help expand overseas markets and increase operating revenue, thus improving the financial strength of the enterprise and improving its solvency. So the recent lack of solvency should ease over the next few years.

(2) The enterprise accounts receivable turnover and inventory turnover rate is low, that the enterprise to accounts receivable management is not reasonable, inventory liquidation ability is weak, can not effectively guard against market fluctuations, increase the risks of the backlog of inventory, but the total asset turnover is higher, increase the capital use efficiency, reduces the opportunity cost of capital, Reflects the company's high level of operation and management. Haier's accounts receivable turnover ratio of home co., LTD. Has a rising trend, grow, while weak demand due to macroeconomic growth is slowing, but the company improve the management of accounts receivable, to enhance the liquidity of accounts receivable, improve the efficiency of the recovering of accounts receivable, make the enterprise cash flow speed, will benefit the development of enterprises in the future.

(3) The asset-liability ratio of Haier Smart Home Co.,Ltd. has been on the rise in the past five years, indicating that the solvency of the enterprise has been reduced and the financial risk has gradually increased. The increase of the company's equity ratio reflects that the company's financial structure has changed greatly in recent years and its operating conditions have changed greatly.

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