

The Financial Analysis of the Income Statement as the Core of Gree Electric Appliance Co., Ltd.

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Abstract

Through the analysis of income statement, we can generally understand the realization and composition of enterprise income, costs and expenses, net profit (or loss). Based on the income statement data and relevant financial information in the 2018-2020 financial statements of Gree Electric Appliance Co., Ltd., this paper reveals the structure and change trend of its income statement through the comparative analysis of the three-year income statement data of Gree Electric Appliance Co., Ltd. Combined with the relevant financial information of the company, the financial ratio analysis method is used to analyze the development and changes of its operating results and profitability.

Keywords

Income Statement; Operating Income; Cost and Expense; Financial Ratio.

1. Introduction

Gree Electric appliance is a diversified, science and technology-based global industrial group. It has three brands: Gree, toso and Jinghong. Its products cover two major fields of household consumer goods and industrial equipment, including household air conditioning, HVAC, refrigerator, washing machine, water heater, kitchen electric appliance, environmental appliances, communication products, smart building and smart home; Including high-end equipment, precision molds, refrigeration equipment, motors, compressors, capacitors, semiconductor devices, precision casting, basic materials, industrial energy storage and renewable resources, the products are exported to more than 160 countries and regions, provide satisfactory products and services for more than 400 million users around the world, and strive to create a better life.

2. Analysis of Company's Operating Results with Income Statement as the Core

2.1. Structural Analysis of Income Statement

The structural analysis of the income statement reflects the relationship and changes between the part and the whole in the income statement by calculating the proportion and structure of each item and the total operating revenue in the income statement, as shown in Table 1.

Table 1. structural analysis of income statement from 2018 to 2020

Items	2018	2019	2020
Total operating income(RMB100mn)	2000	2005	1705
operating profit(RMB100mn)	310	296.1	260.4
Operating costs(RMB100mn)	1382	1435	1242
Administrative expenses(RMB100mn)	43.66	37.96	36.04

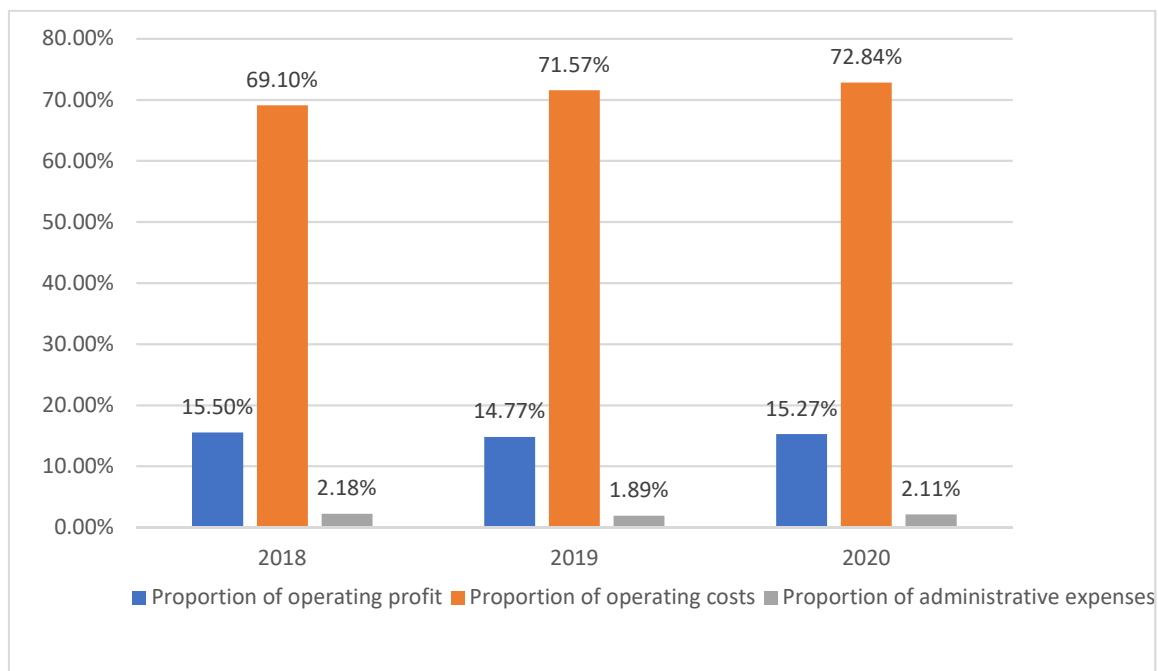


Figure 1. Structural analysis of 2018-2019 income statement

From Figure 1, we can easily find that:

(1) The proportion of operating profit of Gree Electric Appliance in total operating revenue decreased from 15.50% in 2018 to 14.77% in 2019, which indicates that the profitability of the enterprise is declining. There may be market saturation, limited industry development and intensified competition. The enterprise should make great efforts to innovate and broaden sales channels.

(2) The rebound in 2020 was 15.27%, reflecting that Gree Electric promoted the new retail model nationwide, steadily promoted the reform of sales channels and internal management, and implemented active promotion policies in the second half of 2020 to adapt to market changes. With the effective integration of online and offline, the channel efficiency of the company's products has been improved, the channel cost has been reduced, the market competitiveness has been further improved, and the performance has gradually warmed up in the second half of 2020.

(3) The proportion of operating costs in total operating revenue is increasing year by year, and the proportion is relatively large. This is mainly caused by product costs and sales expenses. At the same time, it also reflects the industrial characteristics of home appliance manufacturing industry. Enterprises shall properly control operating costs and obtain corresponding operating profits.

2.2. Analysis on Change Trend of Income Statement

2.2.1. Analysis of Changes in Operating Income

Operating income is an important guarantee for an enterprise to achieve business results. The change of operating income is a comprehensive reflection of the enterprise's sales ability, growth ability and popularity with consumers.

By analyzing the change trend of operating income, we can see the fluctuation of enterprise income and its competitive position in the market.

Table 2. changes in operating income of Gree Electric Appliance from 2018 to 2020

Items	2018	2019	2020
Operating income (RMB100mn)	1981	1982	1682
Growth rate of operating income	--	0.05%	-15.14%

As can be seen from Table 2, The operating revenue of Gree Electric in 2019 has little change from that in 2018, while the operating revenue in 2020 is 168.2 billion yuan, a decrease of 15.12% over that in 2019. One of the reasons for the decrease in operating revenue in 2020 is that in the first half of 2020, the epidemic had a great impact on the offline retail market of the domestic air conditioning industry. It can be seen from the financial statements that 70% of Gree's operating revenue comes from air conditioning, so its performance is poor in the first half of the year. In the second half of the year, it began to implement the new retail model, improve the channel efficiency and gradually improve the performance. In the first three quarters of 2020, the operating revenue of Gree Electric appliance also decreased by 18.8% year-on-year, and the net profit decreased by 38%. The data of the whole year in 2020 was significantly better than that at the end of the third quarter.

2.2.2. Quality Analysis of Cost

The control of costs and expenses is not necessarily the lower the better, but should actively give full play to the maximum energy efficiency of costs and expenses. Gree Electric has an integrated supply chain, which saves the corresponding costs to a great extent, carries out assembly line operation, and optimizes the enterprise's supply and sales links.

Table 3. cost growth rate

Items	2017	2018	Growth rate in 2018	2019	Growth rate in 2019	2020	Growth rate in 2020
Total operating costs	1206.183	1693	34.52%	1707	1.52%	1463	-14.29%
Operating costs	955.6	1382	38.81%	1435	3.84%	1242	-13.45%
Taxes and surcharges	15.13	17.42	15.14%	15.43	11.42%	9.646	-37.49%
Selling expenses	166.6	189.0	13.45%	183.1	3.12%	130.4	-28.78%
Administrative expenses	24.54	43.66	77.92%	37.96	13.06%	36.04	-5.06%
R & D expenses	36.18	69.88	93.15%	58.91	-15.70%	60.53	2.75%
Financial expenses	4.313	-9.482	319.85%	-24.27	155.96%	-19.38	20.15%

unit: RMB 100mn.

As can be seen from Table 3, The growth rate in 2019 shows a significant decline. It is still because of the price war between Gree brand and "oaks" brand. Without more operating revenue, there will be no more operating costs. Therefore, the decline of operating costs is also partly due to the cost control of enterprises. In terms of expenses, basically all expenses decreased significantly from 2018 to 2019, because the reduction of operating revenue led to the reduction of corresponding expenses. In addition, the enterprise's reasonable cost control and resource allocation enabled the enterprise to reduce the expenses, which also shows that Gree Electric has relied on its brand and image in the industry, It saves the marketing expenses and various expenses invested in a large amount at the beginning of entering the industry. Among them, the financial expenses have been negative from 2018 to 2019, which shows that

it is mainly due to the increase of interest income and exchange income. In 2020, affected by the epidemic, the operating revenue decreased by 15.14%, resulting in a significant decrease in corresponding costs and expenses. The reason why the sales expenses decreased more in 2020 is that under the new revenue standard, the sales rebate is no longer included in the expenses, but offset the revenue instead. However, R & D expenses have increased. Maintaining a large amount and high proportion of R & D investment can see the characteristics of Gree Electric appliance manufacturing industry.

2.3. Relevant Financial Ratio Analysis

Table 4. financial indicators of Gree Electric from 2018 to 2020

financial index	2018	2019	2020
Operating income (RMB100mn)	1981	1982	1682
Operating costs (RMB100mn)	1382	1435	1242
Net profit(RMB100mn)	263.8	248.3	222.8
Return on net assets	33.36%	25.72%	18.88%
Return on total assets	11.32%	9.3%	7.9%
Gross profit margin of sales	30.23%	27.58%	26.14%
Net profit margin on sales	13.31%	12.53%	13.25%

The following analysis is made according to Table 4:

Net profit analysis.

Net profit refers to the total profit of the enterprise in the current period minus the amount after income tax, that is, the after tax profit of the enterprise.

From 2018 to 2020, the net profit of Gree Electric Appliance has been declining, which may be due to the negative growth of real estate sales in 2019 and the intensification of market competition caused by the overall depression of the industry. On the other hand, the air conditioning price war launched by Gree Electric in the fourth quarter of 2019 also affected its operating revenue and profits, mainly affecting Gree's profitability. In addition, in the first half of 2020, affected by the epidemic of New Coronavirus pneumonia, the terminal sales and installation activities of the air-conditioning industry were almost impossible to carry out, and the companies and upstream and downstream enterprises could not resume work and resume production in time. All of these resulted in a downward trend in GREE's revenues and profits.

Sales gross profit margin analysis.

The ratio of sales gross profit to sales revenue is commonly known as the sales gross profit margin. The general calculation formula is as follows: sales gross profit margin = sales gross profit ÷ sales revenue, sales gross profit = sales revenue - sales cost. The higher the gross profit margin, the stronger the profitability of the product. It reflects the gross profit of 1 yuan per product sold. It can also be understood as how much remaining sales revenue can be used for expenses and profits in each period after deducting sales costs.

Net interest rate on sales analysis.

Net interest rate on sales is one of the commonly used indicators to measure the profitability of enterprises in the stock market, also referred to as net interest rate. Its definition is as follows: net interest rate on sales = net profit after tax / sales revenue. The sales net profit margin is the most direct and simplest measure of an enterprise's ability to convert sales into shareholder profits in a certain period of time, that is, how much net profit is brought by every 1 yuan of sales revenue. The sales net interest rate represents the income level of sales revenue. The larger the sales net interest rate index, the higher the level of profit created by the enterprise.

In the past three years, the net profit margin of Gree Electric Appliance and Haier Zhijia has decreased first and then increased, indicating that the profitability of the enterprise is declining in 2019. In 2019, the operating revenue increased by nearly 100 million yuan, the net profit decreased by 1.55 billion yuan, and the net profit margin of sales increased in 2020, indicating that the enterprise has implemented active promotion policies to adapt to market changes and promote new retail models. With the effective integration of online and offline, the company's performance will gradually pick up in the second half of 2020, which to some extent reflects the current depression of the home appliance industry and the gradual intensification of market competition. However, due to Gree's moat advantage in the air conditioning industry, the decline of sales net interest rate index is not much, and its profitability index still remains in the leading position in the industry.

Return on net assets analysis.

Return on net assets, also known as return on shareholders' equity / return on net worth / return on equity / return on equity / return on equity / return on equity / return on net assets, is the percentage between net profit and average shareholders' equity. It is the percentage obtained by dividing the company's after tax profit by net assets. This indicator reflects the income level of shareholders' equity and is used to measure the efficiency of the company in using its own capital. The higher the index value, the higher the return brought by the investment. This indicator reflects the ability of self owned capital to obtain net income.

The return on net profit in 2018 was 33.36%, much higher than Midea Group and Haier Zhijia. The decline in 2018 was mainly due to the decline in the growth rate of the domestic air conditioning market in the second half of 2018. In the fourth quarter, it was the off-season of the industry. At this time, the market competition was fierce and manufacturers began to sell goods at low prices, so the profit level of the air conditioning industry decreased. At the same time, the decline is related to Gree's marketing model of goods pressing and rebate. Because there are seasonal factors in the sales of air conditioning products, Gree's sales strategy will force dealers to buy a large number of products in the off-season. In order to promote this sales model, Gree will rebate dealers. The more goods pressing, the higher the rebate.

3. Conclusion

(1) The main source of operating income of Gree Electric appliance is the air conditioning business. There is a lot of investment in R & D in the early stage of air conditioning, and the subsequent economic benefits continue to grow. At the same time, Gree Electric Appliance has excellent brand effect, which is the main reason for the rising sales performance of Gree Electric Appliance year by year. On the whole, the gross profit margin of Gree Electric appliance is in the leading position, but the gross profit margin of Gree Electric Appliance has declined as a whole during these three years. Gree's net profit margin and return on net assets are relatively high, indicating that Gree's sales, capital operation and profitability are in a leading position in the industry.

(2) Gree Electric pursues the differentiation strategy in recent years. The proportion of its core product air conditioner in the total products decreases year by year, but the decline proportion is small. The proportion of its new intelligent equipment products begins to rise, indicating that Gree Electric is not satisfied with the core competitiveness of air conditioner and wants to pursue diversified development. At present, Gree Electric Appliance has not brought income growth to the enterprise in the new product field, and it is still in the investment stage.

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