

# The Financial Analysis of the Cash Flow Statement as the Core of Gree Electric Appliance Co., Ltd.

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## Abstract

The cash flow statement records the actual operating cash receipts and expenditures of the enterprise, which has a good reference value for evaluating the financial status and profit realization of the enterprise. From the cash flow statement, we can see the inflow and outflow of the enterprise's cash, understand the enterprise's cash turnover capacity, and objectively evaluate the overall financial status of the enterprise. Based on the cash flow statement data and relevant financial information in the financial statements of Gree Electric Appliance Co., Ltd. from 2018 to 2020, through the comparative analysis of the three-year cash flow statement data of Gree Electric Appliance Co., Ltd., this paper reveals the changes of cash and cash equivalents data and the analysis of the structure and change trend of cash flow statement. Combined with relevant financial information, the financial ratio analysis method is used to analyze its operation status.

## Keywords

Cash Flow; Financial Ratio; Operating Activities; Financing Activities; Investment Activities; Net Cash Flow; Accounting Rate of Return; Growth Rate of Net Operating Cash Flow Per Share.

## 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 fields: household consumer goods and industrial equipment. Gree company adheres to the corporate vision of "creating a world-class enterprise and achieving Gree's century old brand", comprehensively deepens reform and accelerates Digital Transformation Driven by scientific and technological innovation and guaranteed by perfect quality. Based on the household appliance industry, Gree company steadily expands emerging industries such as intelligent equipment, precision molds, new energy and semiconductors, so as to create a more competitive diversified Technology based global industrial group.

After more than 30 years of development in the domestic air conditioning market, China's air conditioning industry has gradually entered a period of stable development, the competitiveness of leading brands has been continuously enhanced, major breakthroughs have been made in technical quality, and the industrial scale has been continuously expanded. In 2016, benefiting from factors such as the hot climate stimulating consumer demand and the new demand driven by the post real estate cycle, the output of household air conditioners reached a record high of 140.5 million units. In 2020, affected by the epidemic, the output of household air conditioners was 150.62 million. With the effective control of the epidemic in China, the gradual recovery of the real estate industry and the support of favorable policy factors, the output of household air conditioners is expected to rise to 156.16 million units in 2021.

## 2. Company Cash Flow Status Analysis with the Cash Flow Statement as the Core

### 2.1. Analysis of Cash Flow Statement Structure and Changes

The cash flow of an enterprise consists of the cash flow generated by operating activities, the cash flow generated by investment activities and the cash flow generated by financing activities. Ratio were analyzed, and the structure of cash flow can help investors to understand the enterprise access to the cash income, reflect the enterprise business activities of cash income structure relations, the judgment ability to obtain cash from project to project size and the quality of the source of corporate profits and thus for the company's business situation with a more accurate understanding of the, Convenient to evaluate the enterprise operating conditions, the ability to create, fund-raising capacity and capital strength.

#### 2.1.1. Analysis of Cash Inflow Structure

The operation, investment and financing activities of enterprises can bring cash inflow. Through the analysis of the cash inflow structure, we can clarify the proportion of the cash flow generated by the enterprise's operation, investment and financing activities in the total cash inflow, and understand the composition of the specific items of cash inflow, so as to clarify where the enterprise's cash comes from and what measures should be taken to increase the enterprise's cash inflow.

**Table 1.** The proportion of all kinds of cash inflows from 2018 to 2020

Items	2018	2019	2020
Cash inflow from operating activities	80%	83%	76%
Cash inflow from investment activities	5%	5%	7%
Cash inflow from financing activities	15%	12%	17%

From Table 1, we can easily find that:

(1) The proportion of cash inflow generated by operating activities reflects the ability of the enterprise's main business to create cash inflow. The proportion of this project of Gree Electric Appliance Co., Ltd. increased from 2018 to 2019, mainly due to the decrease of financing and the investment activities; The proportion of this decrease from 2019 to 2020 due to the increase of financing and the increase of cash inflow from fund-raising activities.

(2) The proportion of cash inflow generated by investment activities reflects the cash flow generated by the purchase of long-term assets and other financial assets other than cash equivalents and disposal activities of the enterprise. The investment cash flow of Gree Electric Appliance Co., Ltd. from 2018 to 2020 has been kept at a low level, with little change, indicating that it has less foreign investment and no demand in this field.

(3) The proportion of cash inflow generated by financing activities reflects the change of the scale of enterprise capital and debt. This proportion from 2018 to 2019 has declined, indicating that enterprises are developing well and capital flow was normal. However, This proportion rose from 2019 to 2020, indicating that enterprises are in urgent need of financing and have greater financial risks.

#### 2.1.2. Analysis of Cash Outflow Structure

The analysis of cash outflow structure refers to the percentage of various cash expenditures of the enterprise in all cash expenditures of the enterprise. Generally, the cash paid for operating activities (such as purchasing goods, receiving labor services and paying for operating activities) often accounts for a large proportion, and the cash outflow from investment and financing activities varies greatly due to different financial policies of enterprises. In the normal business

activities of an enterprise, the cash outflow from its business activities should have a certain stability, and the change range in each period is generally not too large, but the stability of the cash outflow from investment and financing activities is poor, even sporadic and random. With the occurrence of activities such as investment payment, repayment of due debts and payment of dividends, the cash outflow of such activities will increase sharply in the current period. Therefore, due to different situations, it is difficult to adopt a unified standard to analyze the structure of cash outflow.

**Table 2.** The proportion of all kinds of cash outflows from 2018 to 2020

Items	2018	2019	2020
Cash outflow from operating activities	68%	71%	67%
Cash outflow from investment activities	18%	9%	6%
Cash outflow from financing activities	14%	20%	27%

From Table 2, we can easily find that:

Gree's cash outflow is mainly in operating activities, while the proportion of cash outflow occupied by financing activities is relatively small, and the proportion of cash occupied by investment activities is the smallest. The cash outflow from the company's operating activities is mainly the cash paid for purchasing goods and receiving labor services and the cash paid to employees, which is normal.

### 2.1.3. Analysis of Net Cash Flow Structure

Net cash flow structure refers to the percentage of net cash receipts and payments affected by operating activities, investment activities, financing activities and exchange rate changes in the total net cash flow. It reflects how the net cash flow of an enterprise is formed and distributed, and can reflect the reasons why the income exceeds the expenditure or the expenditure exceeds the income, so as to provide a basis for further analysis of the increase or decrease factors of net cash flow. Through the analysis of net cash flow, it can clearly reflect the type of activities that mainly generate net cash flow in the current period, so as to explain whether the formation of net cash flow is reasonable.

**Table 3.** summary of cash flow statement of Gree Electric Appliance from 2018 to 2020

Projects \ times	2018	2019	2020
Net cash flow from operating activities	26,940,791,542.98	27,893,714,093.59	19,238,637,309.16
Net cash flow from investment activities	-21,845,765,275.67	-11,275,048,600.77	97,730,150.18
Net cash flow from financing activities	2,513,846,482.17	-19,221,976,120.93	-21,111,497,498.20

As can be seen from the table 3:

From 2018 to 2020, the net cash flow generated by Gree's operating activities was positive, and the amount increased year by year, indicating that the cash flow generated by Gree's operating activities was relatively stable and the development of the enterprise was in good condition.

The net cash flow generated by Gree Electric in the process of investment management activities is negative, which is mainly due to the decrease in cash paid by Gree Electric in connection with investment activities, which is positive in 2018 and negative in 2019. It is due to the increase in cash paid by enterprises for debt repayment. Although the net cash generated

is negative, the amount also increases year by year, It shows that the enterprise is in the investment return period and debt repayment period. In addition, the balance of cash and cash equivalents at the end of each year is large and increasing year by year, indicating that the enterprise has good payment ability and risk response ability. Generally speaking, Gree has good cash flow status and high cash holding under the cash flow statement, so the earnings quality is good.

## 2.2. An Analysis of Key Financial Ratios

### 2.2.1. Stability Analysis of Accounting Income Quality

The proportion of operating profit in the total refers to the proportion of the main operating income of the enterprise in the total profit after deducting the corresponding items. If the operating profit is low, it indicates that there may be problems in the operation of the enterprise, and vice versa.

**Table 4.** Proportion of operating profit of Appliance in total operating volume from 2018 to 2020

Items	2018	2019	2020
Industry average	0.91	0.97	0.99
Gree Electric Appliance	0.94	1.16	0.99

As can be seen from Table 4, Gree is basically stable in this aspect from 2018 to 2020. Although there are fluctuations, the fluctuation range is very small; Compared with the same industry, Gree's proportion is slightly higher than the average value of the same industry. Therefore, the accounting income quality of Gree Electric Appliance in this regard is relatively satisfactory.

### 2.2.2. Growth Rate of Net Operating Cash Flow Per Share

The growth rate of net operating cash flow per share refers to the change of the net cash flow from distributable operating activities calculated from the shares issued by the company compared with the past value. If the value is greater than 0, it means that the cash flow obtained from the business activities of the enterprise is better; However, if the index value is less than 0, it indicates that there may be problems in the cash flow of the enterprise in operating activities, as shown in Table 5.

**Table 5.** Growth rate of net operating cash flow per share of Gree Electric in 2018-2020

Items	2018	2019	2020
Industry average	0.06	0.45	0.12
Gree Electric Appliance	-0.67	0.10	0.65

It can be seen from the above data that the growth rate of Gree's operating cash flow per share showed an upward trend from 2018 to 2020, but it was lower than the average value of the same industry every year except 2018, indicating that Gree may have problems in growth before 2018. However, its growth rate began to exceed 0 in 2019, indicating that Gree has begun to develop slowly, but still needs efforts.

### 2.2.3. Financial Leverage Coefficient

It refers to the ratio of after tax profit per common share to EBIT. It is generally used to reflect the size and degree of financial leverage and evaluate the company's financial risk. When the ratio is relatively small, it indicates that the enterprise is facing greater financial risk; On the contrary, the ratio is large and the financial risk of the enterprise is small, as shown in Table 6.

**Table 6.** Gree Electric's financial leverage coefficient from 2018 to 2020

Items	2018	2019	2020
Industry average	0.90	0.73	1.18
Gree Electric Appliance	1.10	1.24	1.37

It can be seen from the above data that the company's financial leverage coefficient showed an upward trend from 2018 to 2020, indicating that Gree's financial risk is also gradually increasing; Compared with the same industry, Gree's ratio is higher than that of the same industry, indicating that Gree's financial risk is higher than that of the same industry. Therefore, Gree's financing cost is still large, so Gree faces greater financial risk.

### 3. Conclusion

(1) From the analysis of Gree Electric Appliance, it can be seen that most of the company's profits come from operating activities, and the proportion of its main business in operating profits is relatively high, which shows that the business activities of the enterprise are in a mature period, the risk faced in a short time is low, and the amount of cash at the end of each year of Gree Electric appliance is high, so there is enough time to deal with even if there are risks.

(2) At present, Gree Electric may be in the initial stage of investment and the stage of dividend distribution and debt repayment to shareholders, so the net cash flow generated by its investment and financing management activities is negative, which does not affect the development of the enterprise. On the contrary, it is the performance of the growth of the enterprise. Gree Electric Appliance's operating profit is basically accompanied by the generation of cash flow, and its profitability is still strong. From the perspective of development prospect, Gree Electric Appliance, as a leader in the air conditioning industry, is also moving towards intelligence, which is a relatively good decision. However, from the financial statements of Gree Electric Appliance, its future development is still relatively diversified, and there is great uncertainty in investment. Gree Electric should focus on its own main development rather than exploring in irrelevant fields. From now on, the overall earnings quality of the enterprise is good, but there are also uncertain factors in the future.

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