

Research on the Financial Situation and Future Development of Mengniu Company in the Past Three Years

Chengxuan Xiang

School of Wenzhou Kean University, Wenzhou, China

1162270@wku.edu.cn

Abstract. This article reflects on the development of Mengniu in the past few years and its future development expectations through some basic data analysis on the annual report of Mengniu. By analyzing and comparing the data, it is found that the operating conditions of Mengniu Company in recent years are not very good. Affected by the epidemic, Mengniu's profitability, operating capabilities, and debt repayment capabilities showed a downward trend. Although Mengniu took various measures to restore the situation, most of them have not achieved good results. In addition, whether it is the melamine incident more than ten years ago or the recent mandatory modification in national standards, Mengniu has been questioned time and time again by public opinion, which has also had a major impact on Mengniu's future development. In short, through the financial analysis of Mengniu, the article finds that the future development of Mengniu is full of bumps.

Keywords: Mengniu Company, Financial Analysis, Financial Statements, Data Analysis, Comparative Analysis.

1. Introduction

With the continuous improvement of living standards, the Chinese people's demand for milk is also increasing. As the world's fourth-largest dairy producer and second-largest dairy market country, China's development in dairy products can be described as rapid. Mengniu Dairy (Group) Co., Ltd, as known as Mengniu Company, is a dairy company established in Inner Mongolia Autonomous Region in 1999. It is a nationally important firm in agricultural industrialization, one of the top eight dairy enterprises in the world, and a market leader in the dairy sector. As one of the most well-known dairy firms in China, Mengniu has worked with the Chinese people for more than 20 years and has accomplished a lot.

In 2020, on Zhihu, a well-known Chinese question-and-answer website, an article titled "Six Major Crimes of Mengniu Yili" aroused public discussion. The report made note of the fact that the capital conflict between Mengniu and Yili has prevented common people from accessing affordable, wholesome milk. Mengniu was immediately the subject of public criticism before this item was formally taken down.

2. Related research

Zhang et al. conducted a field survey of 1278 respondents from five provinces in China analyzed through the ordered Logit model and found that, Chinese consumers generally have low confidence in domestic dairy products and maintain a distrustful attitude towards dairy companies [1]. Ding et al. used an evidence-based approach to analyze the elements that affect dairy supply chains' ability to compete, using data from the Chinese dairy sector. The findings demonstrated that, by balancing the impacts of dairy production behavior and dairy farming patterns, government regulation and corporate social responsibility have a substantial impact on the quality assurance of dairy products [2]. Based on the background, Duan et al. analyzed the impact of the Covid-19 epidemic on China's dairy industry from three perspectives: producers, manufacturers, and retailers. The results of the study show that due to the impact of the epidemic, the increase in the cost of producers, labor, and livestock has led to an increase in agricultural costs, and the government's protection measures for the dairy industry are not enough. While retailers want stable prices for dairy products, they are still

affected by changes in consumer behavior and supply chains [3]. Through the PESTEL model, Dong analyzed the impact of external factors on Chinese dairy industry stars from six perspectives. The best available chance following the pandemic is now, but it also brings with it unforeseen difficulties that must be addressed [4].

Wang and Zhu investigated the effect of Mengniu and Yili as replacements on customers' loss aversion jointly. They found that with Mengniu and Yili as substitutes, consumers are more inclined to buy products that have not been discounted before, and no matter how big the gap between the two purchases is, the results will not be affected. This means that the loss aversion brought to consumers by Mengniu and Yili is effective for a long time. It also reflects that the divergence between the two products is very small for consumers [5]. According to the premise that Mengniu and Yili are substitutes for each other, Mengniu's financial situation can be analyzed by studying Yili's financial situation. Wang performed a financial study of Chinese dairy enterprises, using Yili as an example. According to her study, Mengniu has a smaller debt load than Yili but worse profit margins. In addition, from 2017 to 2019, Mengniu's net profit margin and gross profit margin are also growing, and Yili's performance in this regard is relatively poor. The author believes that Yili has a larger market share and development space than Mengniu [6].

The report delves into the financial aspect of Mengniu Group and thoroughly analyzes the investigation process and application of industry financial integration. Mengniu Group presents a case for "establishing a unified financial system and policy, promoting business operation level with large data, strengthening information system construction, and establishing echelon training mechanism for compound talents" to set an example for other Chinese businesses to improve their management accounting system [7]. From the details, Min judged whether the merger between Mengniu and Yashili is effective from four perspectives: financial analysis, operation, customer, and employee M&A performance evaluation system. The results show that although Mengniu has achieved a positive strategic integration effect and is beneficial in the long run, its solvency has deteriorated in the short term due to the lack of effective internal resource adjustment measures [8]. According to Zhou's research, Mengniu, as one of the title products of China's hot talent show, has made a lot of money by relying on the "Youth With You" program. On the one hand, this kind of marketing method has indeed helped Mengniu and the program platform to increase their revenue several times, but it also led to the notorious incident of pouring drinks, resulting in a lot of waste [9]. What is more, Li conducted strategic research on Bright Dairy, reflecting the strategy of Mengniu Dairy from the side. As one of Bright's main competitors, Bright makes a large part of its decisions based on Mengniu. Mengniu performed better than Bright Dairy in every aspect [10].

3. Financial Analysis

3.1. Profitability

Through Table 1, Mengniu's total operating revenue is generally showing an upward trend, despite a decline from 2019 to 2020. Table 2 presents that Mengniu's main source of income is liquid milk products, accounting for more than 80%. In addition, the proportion of ice cream products is also increasing.

Table 1. Total operating revenue in 2019-2022 (unit: 10 thousand yuan) (data calculated from annual report in 2019-2022)

Date	Total operating revenue
2022.12.31	9,259,332.20
2021.12.31	8,814,127.50
2020.12.31	7,603,484.40
2019.12.31	7,902,985.60

Table 2. Detailed product differentiation for the main business in 2020–2022 (unit: 10 thousand yuan) (data calculated from annual report in 2020-2022)

Date	2022.12.31		2021.12.31		2020.12.31	
Product	Amount of money	Proportion	Amount of money	Proportion	Amount of money	Proportion
Liquid milk	7,826,931.30	84.53%	7,651,436.40	86.81%	6,775,099.30	89.11%
Ice cream	565,242.20	6.10%	424,015.10	4.81%	263,373.10	3.46%
Milk powder	381,199.10	4.17%	494,912.70	5.61%	457,297.50	6.01%
Others	480,959.60	5.19%	243,783.30	2.77%	107,714.50	1.42%

It can be seen from Table 3 that the profit margin of Mengniu declined in 2020, but then recovered to the level of 2019. However, Mengniu's gross profit margin is the opposite, rising in 2020, but starting to decline in 2021-2022. In the Return to Assets (ROA) indicator, which measures the profitability of the company's total assets, it can be found that the ROA of Mengniu has experienced a decline in the past four years.

Table 3. Profitability of Mengniu company from 2019-2022

Date	2022.12.31	2021.12.31	2020.12.31	2019.12.31
Profit margin	5.60%	5.63%	4.61%	5.44%
Gross profit margin	35.30%	36.75%	37.65%	37.55%
ROA	4.80%	5.57%	4.41%	5.93%

3.2. Solvency

Through the analysis of Mengniu's financial statements, it can be found that Mengniu's total assets, total liabilities and total equity are all increasing year by year. Mengniu's equity ratio experienced a brief decline from 2019 to 2020, and then returned to a higher level than in 2019.

Table 4. Asset Composition Analysis of Mengniu Company (unit: 10 thousand yuan) (data calculated from annual report of Mengniu company in 2019-2022)

Date	2022.12.31	2021.12.31	2020.12.31	2019.12.31
Total assets	11,781,320.50	9,810,134.40	8,014,624.00	7,853,740.50
Total liabilities	6,776,140.70	5,610,191.20	4,289,868.10	4,519,006.80
Total equity	5,005,179.80	4,199,943.20	3,724,755.90	3,334,733.70

Table 5. Equity ratio of Mengniu Company (data calculated from annual report of Mengniu company in 2019-2022)

Date	2022.12.31	2021.12.31	2020.12.31	2019.12.31
Equity ratio	1.69	1.52	1.30	1.55

The current and quick ratios are two important indicators to measure a company's short-term solvency. Through the analysis of Table 7, Mengniu's current ratio and quick ratio experienced a decline from 2019 to 2021 and increased in 2022. This shows that the company's short-term solvency has declined, and financial risks have increased.

Table 6. Quick ratio and current ratio of Mengniu Company (data calculated from annual report of Mengniu company in 2019-2022)

Date	2022.12.31	2021.12.31	2020.12.31	2019.12.31
Quick ratio	0.87	0.84	0.99	1.02
Current ratio	1.11	1.07	1.21	1.18

3.3. Operating capacity

From Table 7, Mengniu's total asset turnover rate and business cycle changes are just the opposite, and both show cyclical changes from 2019 to 2022. As two indicators reflecting the company's overall operating capabilities, their changes on the one hand indicate that Mengniu's operating efficiency has fluctuated in recent years. The decline in the business cycle also illustrates the decline in Mengniu's operating capacity.

Table 7. Overall operating capabilities of Mengniu Company (unit: day) (data calculated from annual report of Mengniu company in 2019-2022)

Date	2022.12.31	2021.12.31	2020.12.31	2019.12.31
Total asset turnover	0.86	0.99	0.96	1.09
Business cycle	58.95	53.33	55.82	48.94

Through the analysis of Table 8 and Table 9, it is found that Mengniu's operating capacity has been greatly affected during the epidemic. Among them, the number of days of inventory turnover in 2022 has increased by nearly ten days compared with 2019. This is an unoptimistic change, indicating that the company did not immediately recover from the epidemic.

Table 8. Accounts receivable operating capacity of Mengniu Company (unit: day) (data calculated from annual report of Mengniu company in 2019-2022)

Date	2022.12.31	2021.12.31	2020.12.31	2019.12.31
Accounts receivable turnover ratio	23.68	24.66	23.13	24.40
Accounts receivable turnover days	15.20	14.60	15.57	14.76

Table 9. Inventory operating capacity of Mengniu Company (unit: day) (data calculated from annual report of Mengniu company in 2019-2022)

Date	2022.12.31	2021.12.31	2020.12.31	2019.12.31
Accounts receivable turnover	8.23	9.29	8.94	10.53
Inventory turnover days	43.75	38.74	40.26	34.18

3.4. Develop ability

Table 10 reflects the development of Mengniu in the past four years. In 2020, Mengniu Enterprises experienced a sharp decline in various indicators, and the growth rate of operating profit has dropped by more than 60%, which shows that Mengniu Enterprises received a major blow when it first encountered the epidemic. Although Mengniu has gradually resumed development from 2021 to 2022, it was still very slow compared to before the epidemic.

Table 10. Develop ability of Mengniu Company (data calculated from annual report of Mengniu company in 2019-2022)

Date	2022.12.31	2021.12.31	2020.12.31	2019.12.31
Operating Income Growth Rate	5.05	15.92	-3.79	14.57
Operating Profit Growth Rate	17.75	38.78	-31.33	30.77
Growth rate of net assets per share	8.83	11.51	12.84	15.33
Asset growth rate	20.09	22.40	2.05	18.18

4. Industry analysis

4.1. Industry analysis

Dairy products are food products made from emulsion-based raw materials, including milk, yogurt, cheese, butter, whey protein powder, etc. They are an important source of nutrition in people's daily diet, providing rich protein, calcium, vitamin D, and other nutrients [11]. In 2020, the scale of China's dairy market exceeds RMB 400 billion, and it is expected to exceed 500 billion yuan in 2023 [2]. As China's second-largest dairy company, Mengniu's total assets reached 117.8 billion yuan in 2022,

accounting for about a quarter of China's dairy market. However, in the three years from 2019 to 2022, due to the impact of the epidemic, Mengniu's revenue growth rate has dropped by more than half compared to the past.

4.2. The impact of Covid-19

The COVID-19 pandemic has had a significant impact on Mengniu Dairy. Supply chain disruption at Mengniu Dairy is one of the main impacts of the outbreak. Mengniu, as a dairy company focusing on the original ecological origin, its milk production mainly in the autonomous region of Inner Mongolia, which caused a huge impact on its supply chain during the epidemic. Although the relevant person in charge later stated that he would speed up the construction of a comprehensive intelligent supply chain management system for milk sources, warehousing, and distribution, this did not prevent the impact of the epidemic well. Another major impact of the epidemic on Mengniu Dairy is the blockade of public places, such as restaurants and bars, which has further reduced people's consumption demand for dairy products. Although Mengniu has also made its own efforts, such as bundling products with online program voting, this has triggered a series of discussions on business ethics [9]. Despite the epidemic has ended, the above residual impacts have not faded.

4.3. Public opinion crisis

In addition to the impact of the epidemic, Mengniu is also facing long-term accusations from public opinion. The "Sanlu milk powder melamine incident" that shocked the whole of China in 2008 caused a series of domestic milk powders, including Mengniu and Yili, to be questioned by the public, which is a sign that domestic dairy products have begun to lose national trust [1]. This incident directly led to Mengniu introducing COFCO as the largest investor the following year, which meant that Mengniu began to change from private to state-owned. However, this acquisition did not completely curb the fermentation of public opinion. In 2020, people familiar with the matter broke the news that Mengniu and Yili Group changed relevant national standards for profit. This news was quickly blocked by the authorities, but the discussion among the public is still endless. In the same year, the revenue and net profit of Mengniu and other dairy companies both declined, indicating that people's trust in domestic dairy products has further diminished. In addition, Mengniu bonded its own products with the men's team talent show in 2021, resulting in a lot of waste of resources, which once again triggered condemnation on social media [9].

4.4. Comparison

All the contradictions mentioned above do not mean that Mengniu cannot break through the shackles of its own body. First, Mengniu needs to clarify its own product positioning and make products that are different from Yili. As a competitor of Yili, Mengniu's products always seem to be benchmarked against Yili, which means that after the market is saturated, the two companies can only compete within a limited volume. Secondly, unlike Yili, which is a private enterprise, Mengniu is actually a state-owned enterprise. Mengniu needs to make use of the characteristics of its own state-owned enterprises. In addition to being "bigger", it needs to "be stronger". Mengniu may need to stop its continuous acquisition and expansion, and seriously consider whether the acquisition including "Yashili" is necessary [8]. Finally, Mengniu needs to work more on product research. Although Mengniu is willing to spend money on marketing, it has not put much effort into its core areas, the product itself. Yili's research and development expenses in 2018 were 426.9 million yuan, while Mengniu's research and development expenses in the same period were only 159 million yuan. However, from 2018 to 2021, Mengniu's sales expenses reached 14.9 billion, 18.8 billion, 21.5 billion, and 21.5 billion in sequence.

Table 11. Research and development expenses of Mengniu and Yili Company (unit: 100 million yuan) (data calculated from annual report of Mengniu and Yili company in 2018-2021)

Research and development expenses	2021.12.31	2020.12.31	2019.12.31	2018.12.31
Mengniu	3.56	3.18	2.05	1.59
Yili	6.01	4.87	4.95	4.27

5. Conclusion

This paper analyzes the financial statements of Mengniu Company and conducts risk assessment from multiple aspects such as profitability, solvency, operation ability, and development ability. In terms of profitability and debt-paying ability, through research, it is found that although Mengniu's total revenue has increased in the two years from 2019 to 2020, its profit margin and gross profit rate have declined, and its debt ratio has also decreased, indicating that the company's debt-paying ability is reduced. Although Mengniu's various indicators have gradually returned to normal levels from 2021 to 2022, it will still take a long time for Mengniu to fully recover from the impact of the epidemic. In terms of operating capabilities, Mengniu's asset turnover and accounts receivable turnover have declined from 2019 to 2020 and have not returned to their original levels in the next two years. The above three aspects together led to the process of Mengniu's growth ability experiencing a sharp decline and a slight rise from 2019 to 2022.

In order to help Mengniu recover from the impact of the epidemic and public opinion, this paper suggests that Mengniu recognize its product positioning and produce dairy products that are different from other companies; and focus on the quality of the product itself while expanding its scale and invest more in product research and development.

Acknowledgements

The authors gratefully thanks to the professor and teaching assistant.

References

- [1] Zhang, Y., Guan, L., & Jin, S. (2022). Trust and consumer confidence in the safety of dairy products in China. *British Food Journal*, 124 (11), 3644-3665.
- [2] Ding, H., Fu, Y., Zheng, L., & Yan, Z. (2019). Determinants of the competitive advantage of dairy supply chains: Evidence from the Chinese dairy industry. *International Journal of Production Economics*, 209, 360-373.
- [3] Duan, Y., Lai, Q., Li, S., Liu, Z., & Yang, C. (2022, April). Analysis of the Development of the Dairy Industry During COVID-19. In *2022 7th International Conference on Social Sciences and Economic Development (ICSSSED 2022)* (pp. 393-399). Atlantis Press.
- [4] Dong, L. (2023). Study on the External Environment and Countermeasures of China's Dairy Industry—Based on PESTEL Model. *Academic Journal of Business & Management*, 5 (4), 6-9.
- [5] Zhu, J., & Wang, Z. (2022). Loss aversion in post-sale purchases of two close substitutes. *Economics Letters*, 218, 110752.
- [6] Wang, M. (2020, November). Research on the Enterprise Financial Statement and Countermeasure—Take Yili Company as an Example. In *2020 2nd International Conference on Economic Management and Cultural Industry (ICEMCI 2020)* (pp. 6-14). Atlantis Press.
- [7] Chen, N. (2019, March). Exploration and Application of Industry Financial Integration in Enterprise Financial Management and the Enlightenment—Taking Mengniu Group as an Example. In *International Academic Conference on Frontiers in Social Sciences and Management Innovation (IAFSM 2018)* (pp. 266-271). Atlantis Press.
- [8] Min, Z. (2023). Mergers and Acquisitions in China's Dairy Industry: An Analysis of Mengniu Dairy and Milk Ground. *Academic Journal of Current Practice In Business and Management*, 1 (1), 34-45.

- [9] Zhou, Q. (2022, March). The Value of Talent Show to Business—Take Youth With You Series as an Example. In 2022 7th International Conference on Financial Innovation and Economic Development (ICFIED 2022) (pp. 952-955). Atlantis Press.
- [10] Li, J. (2021, July). Operation Status Analysis and Promotion Strategy of BRIGHT DAIRY. In 2021 International Conference on Economic Development and Business Culture (ICEDBC 2021) (pp. 41-46). Atlantis Press.
- [11] Górska-Warsewicz, H., Rejman, K., Laskowski, W., & Czczotko, M. (2019). Milk and Dairy Products and Their Nutritional Contribution to the Average Polish Diet. *Nutrients*, 11 (8), 1771.