

Financial Analysis on Guangzhou Automobile Group

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Abstract. In the modern market, being an investment manager requires the ability to select suitable projects. In another words, he or she needs to have a thorough understanding of the selected company. By analyzing a company's profitability and its performance in the market, the investment manager can effectively select projects with more promising development prospects. Taking Guangzhou Automobile Group as an example, this paper briefly explains the process of valuing a company, which some investors can follow when looking at other projects. This paper first introduces the basic situation of this company and analyzes the basic market information of the same track company. Then, this paper analyzes the operation of this company and evaluates it with its competitors. The data analysis shows that the company needs to take measures to improve liquidity. Finally, this paper presents this company's vision and operational plan for the future. In addition, it may help investors understand the process of selecting and evaluating a company.

Keywords: Guangzhou Automobile Group; financial analysis; valuation.

1. Introduction

Guangzhou Automobile Group (GAC Group) is a company headquartered in Guangzhou, responsible for the design and manufacture of automotive vehicles and components [1, 2]. As A large state-owned shareholding enterprise group listed in A+H shares, it ranks 176th in the Fortune Global 500 [1]. Its main business covers automotive research and development, complete vehicles, spare parts, business services, financial services and travel services six parts [1]. Its passenger car products include 15 series of sedans, 28 series of SUVs and 4 series MPVs [3]. By the end of 2021, GAC Group had a total production capacity of 2.933 million vehicles a year and sell cars through sales stores and Internet channels [3].

In 2021, the entire automobile industry face various impacts and challenges, such as chip shortage and rising raw material prices [4]. Faced with the harsh market environment, GAC Group adheres to the simultaneous promotion of independent innovation and joint venture cooperation, and takes measures such as product structure adjustment and cost control strengthening [1]. By the end of 2021, GAC Group and its joint venture have covered 2,588 passenger car 4s stores in 31 provinces, cities, autonomous regions and municipalities across the country, achieving a steady improvement in operating efficiency and a year-on-year growth of 4.92 percent in annual vehicle sales [3]. In 2021, the production and sales of new energy vehicles were 3.544,900 and 3.520,500, with a year-on-year growth of 1.6 times, and the market share reached 13.4%, 8 percentage points higher than the previous [5]. The development of the new energy vehicle industry may open up new ideas for the development of enterprises.

Reports suggest Didi's autonomous driving unit has entered into a strategic partnership with GAC Automotive Aeon, and the two sides will explore joint venture and cooperation models in the field of intelligent vehicles. Combining the technological advantages of two companies, there will develop an unmanned new energy model. This development will lead the market reform and has important industrial significance and broad market prospects [6]. GAC has also formed strategic cooperative relations with Tencent, Huawei, IFlytek and other technology enterprises, and built a set of intelligent driving interconnection system. It is scheduled for mass production in 2024 [7]. In order to further develop GAC Motor capital operation, this internal reorganization GAC Automotive Aean will undertake part of the research and development staff of GAC Automotive Research Institute and achieve this goal through cash capital increase, asset injection, cash purchase and other ways [1]. After the restructuring, the registered capital of GAC Ian has increased to 6 billion yuan. In the future,

it will further promote employee shareholding and the introduction of strategic investors, and actively seek for listing at an appropriate time [8]. GAC Ian in the research and development, manufacturing, sales of the comprehensive competitiveness will also be improved. The brand may be separated from GAC Group, officially transformed into an independent new energy vehicle enterprise [9]. On December 31, the second factory capacity construction project was implemented, which will drive GAC Group to achieve steady annual sales growth and transform into a science and technology enterprise.

2. Accounting Analysis

2.1. Property, Plant and Equipment

All property, plant and equipment are calculated at historical cost less depreciation. The carrying value of the asset is recorded or recognized as a separate asset when the project-related economic benefits may flow in and the cost can be measured. Other maintenance are included in profit and loss during the financial period. Depreciation is calculated by the straight line method, and its cost is allocated to its surplus amount, deducting its surplus value, as Table 1.

Table 1. Depreciation using the straight-line method

	Useful lives	Residual rate
Buildings	20-50 years	0%-10%
Machinery	5-15 years	0%-10%
Vehicles	4-12 years	0%-10%
Moulds	3-5 years	0%-10%
Office and other equipment	3-20 years	0%-15%
Leasehold improvements	2-20 years	0%

Furniture, accessories and equipment including assets received in the form of free store decoration, recognized at their fair value. These assets are depreciated during their shorter service life or lease term, unless the entity expects to use these assets after the lease term. Finally, the remaining value and useful life of the asset are reviewed, and if the carrying value of the asset is greater than its estimated recoverable value, then recorded as its recoverable amount. Disposal gains and losses are determined by comparing earnings to carrying value and recognized in "net other earnings" in the consolidated income statement.

2.2. Revenue Recognition

This financial statement is the result of the consolidated financial statements of GAC Group and all its subsidiaries. This consolidated statement can reflect the overall financial position, operating performance and cash flow. The company shall bear the losses independently in case of internal transactions. When the Group transfers control of the goods to the customer, the sales revenue is the contractual price minus the sales discount and discount. Revenue from provision of services is recognized during the accounting period for provision of services. The transaction price is a selling price relatively independent when other factors exist. If the independent selling price cannot be observed directly, the independent selling price is estimated according to the adjusted market assessment method. When the entity's right to consideration is unconditional, the contract assets become accounts receivable.

2.3. Investments and Other Financial Assets

GAC Group recognizes financial assets, financial liabilities or equity instruments when becoming a party to the financial instrument contract. Financial assets are classified according to the business model in which the company manages financial assets. Including measurement at fair value and measurement at amortized cost. For assets measured at fair value, the gains and losses will be recorded

at the OCI. Equity instruments not traded are included into equity investments at fair value through other comprehensive income ("FVOCI"). When the right to obtain the cash flow from the financial assets has expired or has been transferred, and the risk and return of the ownership have been transferred, the financial assets will be cancelled. Financial assets measured at fair value by GAC Group at the time of initial recognition. If a financial asset is not recorded at fair value ("FVPL"), the transaction cost of the financial asset carried on the FVPL is included in the profit or loss. When determining whether their cash flows are only for paying principal and interest, financial assets with embedded derivatives should be considered as a whole.

3. Performance Evaluation

In order to better evaluate GAC Group, the data of three competitors are selected here for analysis. The selected companies are all those with similar market capitalization in the same industry. Because only comparing with companies of a similar size can make the data more valuable and the results more convincing. By comparing some necessary data, the development of these companies and their strengths and weaknesses can be easily observed. It is more convenient for investors to make a better choice in selecting projects.

3.1. Liquidity

The first is to assess the liquidity of the four companies. By calculating the current ratio and quick ratio of the four companies can easily judge their liquidity. A current ratio is a measure of the ability of current assets to be realized to repay liabilities before a short-term debt matures. Generally speaking, the higher the ratio, the stronger the solvency of enterprises. Usually the current ratio should be above 2. The quick ratio is the ratio of current assets minus inventory to current liabilities. If a company cannot sell its inventory of finished products at more than the production cost, the inventory may not be sold above the base price. As a result, fund managers often exclude inventories and other less liquid components of current assets and then compare current assets and current liabilities. They instead focus on cash, marketable securities and outstanding bills. This leads to the emergence of quick ratio.

Table 2. Liquidity ratios of GAC Group and its competitors

	Current ratio	Quick ratio
Changan Automobile	1.261	1.166
Guangzhou Automobile	1.254	1.088
Ideal Automobile	4.326	4.192
Nio	2.180	2.109

In Table 2, it can be found that the liquidity of LI is better at 4.326, indicating that the solvency of LI is stronger [9]. Among these four companies, GAC Group's solvency is relatively weak. Therefore, it needs to learn from the relevant experience of Ideal Automobile to make up for its deficiency. GAC Group's quick ratio is also not high, so it can be seen that the risk for creditors is relatively large.

3.2. Solvency

The solvency of an enterprise refers to the ability of an enterprise to repay debts with assets. As an important indicator to reflect the financial situation and operating ability of an enterprise, it can accurately understand the current cash and realizable assets of an enterprise. The analysis of this data helps creditors to make the right reception choices and helps investors to make the right investment decisions. Debt-to-equity ratio is the ratio of total liabilities to shareholders' equity. The debt to equity ratio reflects the comparison between the funds provided by creditors and that provided by shareholders. The lower the ratio, the better the long-term financial situation of the enterprise, and the rights and interests of creditors are guaranteed. Usually the debt-equity ratio should be less than

100%. Moreover, debt-to-assets ratio is the ratio of total liabilities to total assets. The debt-to-assets ratio usually reflects how much of the total assets is financed by borrowing. It can also measure the extent to which companies protect the interests of creditors. When the debt-to-assets ratio is greater than 100%, it indicates that the company is insolvent, which is a great risk to creditors.

Table 3. Solvency ratios of GAC Group and its competitors

	T. Debt to T. Equity (%)	T. Debt to T. Assets (%)
Changan Automobile	142.7	58.74
Guangzhou Automobile	68.20	39.95
Ideal Automobile	50.61	33.61
Nio	117.75	54.08

As Table 3 shown, it can be found that the debt-to-equity ratio of Changan Automobile and Nio is 142.7% and 117.75% [10, 11]. It is not a good performance. Even if the profit is good, there may be a risk of bankruptcy due to mismanagement. It will also affect the company's reputation and normal production and operation. GAC Group and Ideal Automobile are better solvent among the four companies. A lower debt-to-equity ratio and debt-to-asset ratio make them more able to assets in liquidation, and therefore less risk to creditors. These two companies should continue to reasonably arrange the financial activities of enterprises to improve the utilization effect of assets.

3.3. Profitability

As one of the profitability measurements, asset turnover is the ratio of total turnover to total assets. Asset turnover rate can reflect the circulation speed of total assets from input to output. This value can reflect the efficiency of enterprise management and promote enterprises to actively generate income. The higher this value indicates that the faster the total asset turnover speed of the enterprise, the stronger the sales capacity, and the higher the asset utilization efficiency. Similarly, Inventory turnover is the ratio of the cost of goods sold to the inventory balance. This value can be used to observe whether the liquidity of inventory and the amount of capital occupied by inventory is reasonable. While ensuring the normal operation, it should improve the efficiency of the use of funds and the short-term solvency of enterprises. Receivables turnover is the ratio of the sales to receivable balance. This index can measure the enterprise accounts receivable turnover rate and management efficiency. If the company's accounts receivable can be recovered in time, the efficiency of the company's capital use will be greatly improved. Generally, a higher this indicator indicates a higher turnover rate and strong asset liquidity.

Additionally, profit margin is the ratio of net income after tax to sales, and operating profit margin is the ratio of operating income to sales. Gross margin reflects the value of the product after production conversion. In other words, the higher the gross margin, the stronger the profitability of the company. Operating profit margin is a measure of the operating efficiency of enterprises. That is to say, the ability of enterprise managers to make profits without considering non-operating costs. The higher the operating profit, the stronger the profitability of the enterprise.

Table 4. Profitability ratios of GAC Group and its competitors

	Asset turnover	Inventory turnover	Receivables turnover	Profit margin (%)	Operating profit margin (%)
Changan Automobile	0.829	13.67	3.725	3.43	16.64
Guangzhou Automobile	0.510	9.389	9.886	9.84	7.92
Ideal Automobile	0.55	20.26	228.81	-1.19	21.33
Nio	0.53	23.03	18.43	-11.12	18.88

First of all, through the comparison with the competitors, it can be found that GAC Group is at a medium level in terms of capital turnover in Table 4. The gross profit margin of 9.84 and the operating profit margin of 7.92 indicate that GAC Group has certain profitability. Although the profit margin is not very high, good management and operation can promote the stable and long-term development of GAC Group. Similarly, it can be found that the receivables turnover of Idea Automobile is very high, which has reached 228.81 [9]. The inventory turnover rate of Idea Automobile is also very high, indicating that the capital turnover efficiency of this company is very high. Although this company's operating margin is high, the negative gross margin suggests its unprofitable. Nio also has the same problem with the Ideal Automobile. To sum up, although the cost control is very good, the gross profit margin may be negative due to the poor control in the internal management or water and electricity.

3.4. Efficiency

ROA and ROE are two important efficiency measurements. Return on equity is the ratio of net income to equity. This value reflects the efficiency of net assets, which is the efficiency of the company's own capital. The higher the index, the higher the investment yield. Return on assets is the ratio of net income to total assets. Return on assets is an important indicator of the company's profitability of its total assets. The higher the value, the higher the return on assets.

Table 5. Efficiency ratios of GAC Group and its competitors

	Return on equity(%)	Return on assets(%)
Changan Automobile	6.53	2.84
Guangzhou Automobile	8.42	4.98
Ideal Automobile	-0.91	-0.65
Nio	-34.17	-15.38

In Table 5, it is found that the ROE and ROA of Ideal Automobile and NIO are negative, indicating that the return on assets is not high. On the contrary, the ROE and ROA of Guangzhou Automobile Group are both positive and higher than the other three competitors. It can be found that GAC Group has certain competitive advantages.

Some important conclusions can be drawn from the overall evaluation of GAC Group and its three competitors from four aspects: liquidity, corporate solvency, profitability and efficiency. GAC Group is at a disadvantage in terms of liquidity and can learn relevant experience from Ideal Group to improve its competitive advantage. When comparing assets and liabilities, it can be found that GAC Group has good solvency, and the investment risk for creditors is small. When observing the operation and management of these four companies, GAC Group has performed more well. It can be found that although the ideal car liquidity and solvency are good, but the profit is negative. It may be that management problems have led to the unprofitable phenomenon of the Ideal Group. As a competitor in the industry, GAC Group can learn from it to promote the long-term development of the company.

4. Conclusion

Guangzhou Automobile Group plan to implement the "1615" development strategy. One goal is to challenge the sales of 3.5 million vehicles, of which new energy vehicles account for 50% of the sales of independent brands. It plans to become a mobile travel service provider for industry to strengthen six sectors, namely research and development, vehicles, parts, business services, financial services and travel services. Highlighting a key point is reflected in the comprehensive promotion of independent innovation ability, to achieve high-quality development of the group. In electrification, intelligent, intelligent, digital, sharing, internationalization of five aspects of comprehensive promotion. At the same time, the "GLASS Green Net Plan" is implemented to achieve carbon neutrality in the whole product life cycle by 2050. With the new changes in the pattern of the automobile market, new energy vehicles are in the stage from policy driven to market driven. In 2022,

GAC Group will adhere to seek progress in maintaining stability and actively build a new development pattern. Will challenge the target of 15% year-over-year growth. GAC group plans to launch ten new and such models and further improve the product structure while improving comprehensive capabilities. For the development of new energy vehicle sector speculation 30.46 billion yuan and expand the industrial park to implement the capacity increase plan.

In conclusion, this paper studies the basic situation of GAC Group and the market environment. And the analysis of GAC Group accounting calculation standards in order to better analyze the relevant financial data. After selecting the three competitors in the same industry, it made a comprehensive comparison and evaluation of them. It is important for GAC Group to take certain measures in terms of liquidity to increase its competitive advantage. It is worth mentioning that GAC Group belongs to the state of long-term profit, compared with the ideal Group can drama related lessons to ensure long-term development. Finally, the future development strategy and prospect of GAC Group are expounded. It hopes that this paper will be relevant help for investors when choosing appropriate projects.

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