Analysis of the profitability of ASD Company

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Abstract. Profitability is an indicator of the operating conditions of enterprises, which reflects the capital or capital appreciation ability of listed companies. Based on Chinese listed companies love foster co., LTD., for example, from the business income, debts and net profit three indicators are introduced with their financial situation and through the production and business operation, assets, and collection ability three aspects to analyze its profitability, it is concluded that love foster's profit ability is weak, the collection ability is poor, and diversification strategy, speed up product development from reasonable development, broaden the sales channels, optimize inventory management, etc.

Keywords: Financial analysis; management;home appliance.

1. Research background and significance

With the rapid development of the economy, a company must continuously grow in order to stand firm in the market. And more profitable and powerful enterprises will win the favor of investors and creditors. Therefore, enterprises must continuously improve their profitability.

This article takes the profitability of Esda Electric Company as an example and fully utilizes its financial data to analyze its profitability. Compare the financial data of Esda Company from different years with the financial data of listed companies in the same industry, identify the problems in the company's profitability based on the challenges and risks faced by the industry, try to propose specific solutions, and propose strategies and measures to enhance Esda Company's profitability.

2. Industry Overview and Introduction to Asd

2.1. Current Situation of Home Appliance Industry

2.1.1 Analysis of the Characteristics of the Home Appliance Industry

(1) From the perspective of business environment: With the increase of residents' income, consumers' purchasing power for home appliances has greatly increased, and their expectations for home appliances continue to increase. At the same time, the demand for Small appliance continues to increase and change, Small appliance are further subdivided, and the trend of product structure upgrading is obvious.

For enterprises, the transformation of Chinese home appliances has become inevitable, and home appliance manufacturing enterprises and channel merchants are pushing corresponding high-end products.

(2) From the perspective of industry structure, in 2018, China's economy continued to develop steadily, and a stable economic environment provided opportunities for the rapid development of China's home appliance industry.

(3) From the perspective of production and sales structure, home appliance enterprises have gradually transformed into market-oriented enterprises. Enterprises must continuously develop new products and improve product quality to meet current market demands.

2.1.2 Characteristics of the Home Appliance Industry Market

(1) The demand for Small appliance has increased. The demand for Small appliance increased. The market share of high-end, intelligent and healthy Small appliance has been rising and has become the main driving force for market growth.

(2) The widespread use of O2O mode. With the strategic cooperation with e-commerce platforms, more and more home appliance manufacturers are starting to jointly explore the online market.

2.2. Introduction to Asd

Asd is a traditional household appliance enterprise focusing on industrial investment, mainly involving cooking utensils, kitchen Small appliance and other related businesses.

2.3. The financial situation of Asd

2.3.1 Operating income situation

Operating income is the main operating result of a company and an important guarantee for the company to obtain profits. Firstly, conduct a vertical comparison of the operating revenue of Esda over the past five years, and then analyze the specific situation of the company in 2017.

Analysis of Enterprise Operating Income from 2014 to 2018

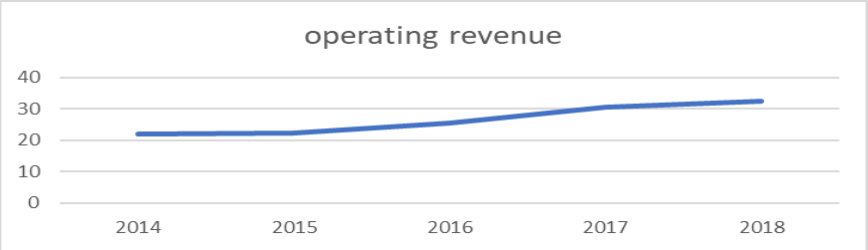

Fig 1.Growth of operating revenue of Asd from 2014 to 2018

From Figure 1, it can be seen that over the past five years, the operating revenue of Asd has maintained continuous growth. In 2017, the company's operating revenue increased significantly compared to the previous year, with a year-on-year increase of 20.57%. It is estimated that the company's sales revenue in 2017 may reach 3.258 billion yuan, with a year-on-year growth of 6.06%, which may be affected by the outbreak of the China—United States trade war. However, through observation and analysis of peers, it was found that the industry's growth rate is still 9.9%. It is easy to find that over the past five years, the growth rate of Asd has been lower than that of its peers.

2.3.2 Debt situation

This paper analyzes the liabilities of Asd from three aspects: debt structure, Quick ratio and asset liability ratio.

Table 1.2014-2018 Statement of Changes in Liabilities of Asd

	2014	2015	2016	2017	2018
current liabilities	6.923	7.275	9.873	15.31	15.86
Non-current liability	3.474	3.442	3.295	5.628	8.318
Total liabilities	10.4	10.72	13.17	20.94	24.17

Table 1 shows that in the past five years, the total amount of liabilities of the company has shown an upward trend, Current liability have increased year by year, while Long-term liabilities have declined, accounting for less than 20%.Then analyze the debt paying ability of the enterprise from two other aspects.

Table 2. Comparison of the company's Quick ratio with that of the same industry

	2014	2015	2016	2017	2018
Acid-test Ratio	1.68	1.58	1.13	1.06	1.02
Industry average	0.80	0.79	0.81	0.76	0.82

The Quick ratio is a measure of an enterprise's ability to immediately convert its current assets into cash. From Figure 3, we can easily see that in the past five years, the Quick ratio of Aishida is higher than that of its peers, and is gradually approaching 1. This indicates that Esda has good short-term solvency.

Table 3. Comparison of the company's asset liability ratio with peers

	2014	2015	2016	2017	2018
debt to asset ratio	38.41%	39.13%	38.03%	48.30%	51.83%
Industry average	60.58%	60.01%	60.23%	60.04%	58.78%

The asset liability ratio is a measure of a company's ability to use funds provided by creditors and the safety of loans provided by creditors. As shown in Figure 4, the company's asset liability ratio from 2014 to 2016 was below 40%, far below the industry average, indicating that the company's operations are very conservative, and analysis suggests that the company lacks a clear investment direction. In 2017, the company formulated and implemented correct and effective strategies, and the asset liability ratio began to rise and trend towards the industry average level.

2.3.3 Changes in net profit

Net profit is the ultimate result of a company's operations and the main indicator for measuring its operational efficiency.

From 2014 to 2017, the net profit of Esda Company maintained stable growth, reaching 162 million yuan in 2017. The net profit increased by 20.57% year-on-year with the growth of operating revenue. But in 2018, the net profit of shareholders was 133 million yuan, a year-on-year decrease of 17.71%. According to analysis, influenced by policies, in 2017, Esda Company received a government subsidy of 53.75 million yuan. However, in 2018, due to the end of the household appliance subsidy policy, the government subsidies received by the enterprise decreased due to a significant decrease in non operating income, resulting in a decrease in net profit in 2018.

Based on the above analysis of the financial situation of Esda Company, we can conclude that:

(1) Esda's operating revenue has maintained stable and continuous growth in the past five years.

(2) From a debt perspective, the company operates steadily, has low financial risks, and has a good ability to repay debts.

(3) The net profit of Esda Company in the past five years has only decreased in 2018, indicating that the company has been operating well in the past five years.

2.4. Analysis of profitability indicator system

2.4.1 Analysis of profitability in production and operation

The main source of income for Esda Company is its operating activities. Therefore, the profitability of its business activities has a significant impact on its profitability. We are now analyzing the profitability of Esda Company through sales profit margin.

Table 4. Comparison of sales profit margin between the company and the same industry

	2014	2015	2016	2017	2018
ASD	4.60%	6.10%	6.33%	6.17%	4.56%
Industry average	16.40%	17.30%	9.80%	17.30%	5.20%

From the table 4, it can be seen that there is a significant gap between the sales profit margin of Asd Company and the industry average level. The significant fluctuation in the sales profit margin of the same industry indicates that the development of the industry in the past five years has not been stable, but it has always been higher than the sales profit margin of Asd Company.

2.4.2 Analysis of asset profitability

(1) Total Return on assets

The return on total assets is the ratio of investment return to total investment. The larger the indicator value, the better the operational performance. On the contrary, the worse.

Table 5. Comparison between the Company's total Return on assets and the same industry

	2014	2015	2016	2017	2018
Return on Total Assets Ratio	4.38%	4.99%	4.93%	6.10%	3.91%
Industry average	6.28%	5.98%	4.23%	5.99%	3.97%

As shown in table 5, compared to the same industry, except for Asd in 2016, which was higher than the average level in the same industry, the rest were lower than the same industry. This indicates that the company's profitability from utilizing assets is poor. In 2017, there was a significant decline, reflecting some issues with the profitability of the company, which require the attention of the company's management.

(2) Cost profit margin

Cost profit margin is the ratio of total profit to total cost over a certain period of time. The higher the indicator, the greater the profit, indicating that the economic benefits of the enterprise are better.

Table 6. Comparison of the company's cost and expense profit margin with the same industry

	2014	2015	2016	2017	2018
Cost utilization rate	7.19%	9.93%	10.62%	10.19%	7.25%
Industry average	5.37%	5.49%	4.12%	5.36%	4.89%

From table 6, it can be seen that from 2015 to 2017, the cost and expense profit margin of Asd was higher than that of the same industry, indicating that the company's revenue during this period was higher than the industry average. The main reason for the decline in 2018 was an increase in costs and expenses, but a decrease in the company's profits, indicating some issues with the profitability of the company's assets.

2.4.3 Analysis of cash collection ability

(1) Profit to Cash Ratio

The profit cash ratio reflects the ratio relationship between the net cash flows generated from current operating activities. Generally speaking, the larger the ratio, the stronger the profit quality of the enterprise.

Table 7.. Company Profit Cash Ratio

	2014	2015	2016	2017	2018
Net operating cash flow	2.532	1.301	3.145	1.071	1.408
Net profit	0.885	1.136	1.343	1.619	1.332
	2014	2015	2016	2017	2018
Profit to Cash Ratio	2.861	1.145	2.342	0.662	1.057

According to Table 7, it can be seen that the profit to cash ratio of Asd has been consistently below 1. Although there was a significant increase in 2017, the profit to cash ratio reached 1.5, mainly because the company had a large net profit that year and overall, its cash flow ability was weak.

2.5. Summary

Through the above analysis, it is found that the operating revenue of Asd has steadily increased in the past five years, and the overall net profit has shown an upward trend. The com pany has low financial risk and strong debt paying ability; The company's profitability is analyzed from three aspects: production and operation business, asset profitability, and cash profitability. It is found that the company's sales profit margin and total asset return rate are comparable to those in the same industry, with a lower average level indicating that the company's operating activities and asset profitability need to be strengthened. Moreover, the company's current cash collection ability is weak,

so the company should strive to improve its cash collection ability to avoid adverse effects on the company from cash flow parties.

3. Analysis of specific factors that weaken profitability

3.1. Problems with diversified development strategy

In 2016, the company entered the field of intelligence. After more than a year of development, the company's financial expenses increased by nearly 20 million, resulting in a 9.4% increase in revenue while profits decreased by 19.36%. The company is eager to transform and has acquired a large number of robotics companies in a short period of time. However, due to the underperformance of several of its subsidiaries, the overall robotics business did not meet expectations.

3.2. Lack of innovation in products and expansion of sales channels

The share of the domestic market of Asd has always been lower than that of Supor, which is a kitchen Small appliance enterprise. Supor is earlier than Elstar in product research and development and innovation, while Asd has not upgraded and innovated the company's products for a long time, which has been unable to meet the needs of consumers, leading to a large reduction in buyers and sales revenue.

4. Suggestions for improving profitability

4.1. Reasonable development and diversification strategy

In 2017, as a home appliance enterprise with a product structure mainly focused on cooking utensils, Asd began to experiment in the field of intelligence, adding robot products in addition to household appliances and cooking utensils. Although the sales revenue of robots increased significantly in 2018, the sales of cooking utensils, which were the main selling products, began to decline.

Asd needs to gradually achieve diversified operations. Therefore, when conducting new product business, it is necessary to choose industries with high correlation with existing businesses, good market prospects, high profit margins, and weak market competitiveness. Before entering an industry, enterprises should ensure that they have a certain level of research and development capabilities, develop new products that meet market demand, and cannot ignore the development of their own core industries.

4.2. Accelerate product development and expand sales channels

Traditional home appliance enterprises need to adapt to the development of the times, promote product intelligence to the main research and development direction, and accelerate the close integration of information technology and manufacturing industry.

The O2O model has gradually integrated into contemporary people's lives, and the online market has become an indispensable channel market in the home appliance industry, with its share continuously increasing. Aishida Company not only needs to strengthen its market size in China, but also expand its network market size and market share in China, and improve its profitability.

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