

# Financial Analysis of Eastern Communications Corporation Based on Harvard Analysis Framework

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**Abstract:** Eastern Communications Corporation is a state-controlled listed company in the field of Information Technology in Zhejiang Province. The article uses the Harvard analysis framework to study and analyze the factors that affect its financial performance and the main problems, and finally puts forward some development suggestions based on the results of the analysis.

**Keywords:** Harvard Analysis Framework; Eastern Communications; Financial Performance

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## 1. Introduction

Established in 1958, Eastern Communications Co., Ltd. is a state-controlled listed company in the field of information technology integrating hardware equipment, software, and services. The company mainly provides information services, which can effectively meet the differentiated needs of different customers around the world and can meet the personalized needs of continuous innovation.

Harvard analysis framework can analyze the financial status of a company from a strategic perspective. The framework mainly includes four parts: Strategic analysis, Accounting analysis, Financial analysis and Prospect analysis. It can effectively grasp the direction of financial analysis and point out the future development of the company in the scientific prediction.<sup>[1]</sup>

With the continuous development of current Internet technology in China, the communications industry is a strategic emerging industry, which has a major leading role in the long-term economic and social development. The Eastern Communications Company is a leading listed company in the industry. By the third quarter of 2020, the company's total operating income ranked 15th in the communications transmission equipment industry. Based on the Harvard analysis framework, this paper analyzes the factors that affect the company's financial performance and finally puts forward some of recommendations.

## 2. Strategic Analysis

This article uses macro policy environment analysis and industry profitability analysis to conduct a strategic analysis of Eastern Communications to understand the company's status, resources and strategic capabilities.

### 2.1 Analysis of policy environment

The report of the two sessions in 2021 pointed out that China is still in a stage of important strategic opportunities. The government should optimize and stabilize the industrial chain and supply chain, vigorously develop the industrial Internet, and at the same time improve the innovation capacity and professional level of small and micro enterprises. In terms of infrastructure, the government should strengthen the construction of 5G network and gigabit optical network to enrich application scenarios.<sup>[2]</sup>

As the communications industry is included by the state as a strategic emerging industry, China is accelerating the integration of industrialization and informatization. At the same time, the construction of an innovative country in 2020 will achieve fruitful results, as the government vigorously promotes scientific and technological innovation and accelerates the

pace of industrial transformation.

The telecommunications industry in which Eastern Communications located is an emerging industry strongly supported by the state. From the policy perspective, the state makes overall plans in order to actively promote industry transformation and seek high-quality development.

## 2.2 Analysis of industry profitability

Judging from the competitiveness of existing competitors in the same industry, the communications industry is a technology-intensive industry. With the increase of market demand, internal competition in the communications industry will inevitably intensify. Suppliers in the communications industry are mainly equipment manufacturers, and many emerging suppliers, including Hengtong Optoelectronics and Industrial Fulian, are vying for market share. Divided by application fields, network communication equipment can be divided into consumer network equipment, enterprise network equipment, data communication network equipment and telecommunications network equipment.<sup>[3]</sup> However, due to the incomplete overlap of the business focus of each business, in the meantime, Eastern Communications continues to try to lead the industry trend. The company undertakes a number of national key research and development projects, and is in a certain leading position in the industry.

## 3. Financial Analysis

Financial analysis is to reflect the financial status and development trend of the enterprise in the operation process, and to provide important financial information for improving the financial management of the enterprise and optimizing business decision-making.<sup>[4]</sup>

### 3.1 Solvency analysis

Solvency analysis mainly analyzes whether the company's assets can be paid in cash for repayment when facing short-term or long-term debt. The main analysis indicators include current ratio, quick ratio and cash-to-liability ratio.

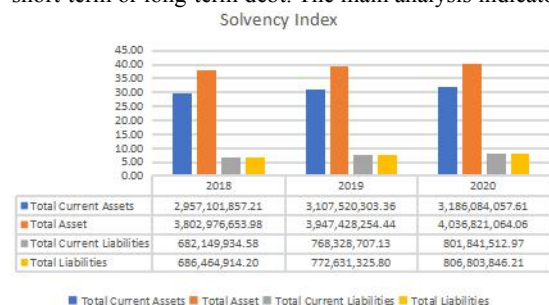


Figure 1: Debt Solvency Analysis

Year	2018	2019	2020
Asset-liability Ratio	18.05%	19.57%	19.99%
Current ratio	4.33	4.04	3.97

Table 1: Solvency Analysis

It can be seen from Figure 1 that the scale of corporate assets and liabilities has shown an upward trend year by year, which is related to the increase in business and scale expansion. Through the analysis of the trend of changes in the asset-liability ratio in Table 1, the asset-liability ratio has been maintained at around 20% throughout the year, which is lower than 40% of the same industry. From the perspective of creditors, it shows that the company has a strong debt repayment ability and good repayment ability. But from the perspective of shareholders, it shows that the company has failed to make full use of financial leverage to maximize profits.<sup>[5]</sup>

### 3.2 Analysis of operating capability

Corporate operating capacity mainly refers to the efficiency and effectiveness of corporate operating assets, and the efficiency of corporate operating assets mainly refers to the turnover rate or turnover speed of assets.<sup>[6]</sup>

Table 2: Operational Capability Analysis

Report date	2018	2019	2020
Operating cycle (days)	322.57	303.82	236.77
Inventory turnover rate (times)	1.17	1.82	3.19
Inventory turnover days (days)	153.65	148.31	112.71
Accounts receivable turnover days (days)	168.92	155.51	124.06

Through the analysis of the operating capability indicators of Eastern Communications in Table 2, it is found that the company's inventory turnover rate and inventory turnover days have increased significantly, indicating that the company's inventory realization ability has increased, and the problem of unreasonable inventory reserves and large capital occupation is gradually being solved. However, compared with the 50-day inventory turnover days of leading companies in the same industry, there is still a gap. The company's inventory may be larger than other companies, so it will take up more working capital. Analyzing the trend of changes in the turnover days of Eastern Communications' accounts receivable in the past three years, it is obvious that the turnover days of corporate accounts receivable have gradually become shorter, indicating that the shorter the time the funds are occupied by external units, the higher the efficiency of management is. Thanks to the improvement in the efficiency of corporate operating assets, the company's production and operation efficiency has improved, and the main business information and communication technology service income that year has increased by 10% compared with previous years.

### 3.3 Profitability analysis

Profitability refers to the company's ability to obtain profit through business operations. Profitability indicators usually include net sales margin, gross margin, net asset interest rate, and return on net assets.<sup>[7]</sup>

Table 3: Profitability Analysis

Report date (100 million yuan)	2018	2019	2020
Operating income	24.05	26.83	29.67
Total operating costs	23.69	26.16	29.49
Net profit	1.30	1.34	1.06
Operating profit margin	5.5%	5%	4%
Sales margin	5.42%	4.98%	3.57%
Return on equity	4.18%	4.24%	3.28%

Through the analysis of profitability indicators in Table 3, it is found that the expansion of the company's industrial scale has caused the increase in operating income costs, but the operating profit margin and sales net interest rate have shown a downward trend year by year. Combined with the analysis of the factors affecting the annual report product revenue, it can be found that the gross profit of the main business gross profit decreased by 14.09% year-on-year mainly due to the serious decline in equipment prices and higher equipment configuration requirements. Although there is a downward trend in operating profit margins, corporate profitability has remained basically stable.

### 3.4 Analysis of development ability

Enterprise development capability could be used to predict the prospects for future expansion of accumulation through its own production and operation activities. The main indicators are the growth rate of operating income, the rate of capital preservation and appreciation, the rate of capital accumulation, and the growth rate of total assets.

Table 4: Development Ability Analysis

Report date	Financial Indicator	Eastcom.cop
2017/12/31	Net profit growth rate (%)	163.01
	Total operating income growth rate (%)	151.90
2018/12/31	Net profit growth rate (%)	-73.18
	Total operating income growth rate (%)	-105.76
2019/12/31	Net profit growth rate (%)	-56.81
	Total operating income growth rate (%)	970.68
2020/12/31	Net profit growth rate (%)	-736.01
	Total operating income growth rate (%)	-8.72

In Table 4, the data proves the company's net profit growth rate has declined year by year mainly due to the impact of the epidemic and the expansion of the company's scale, seeking new development, increasing R&D expenses, accelerating the R&D of core components such as independent modules, and continuously improving the core Competitiveness.<sup>[8]</sup>

## 4. Conclusions and Recommendations

China's communications industry has huge development potential, high technical requirements, and high market entry barriers. The country's support and market demand guarantee the steady development of the industry. At present, the company has the industry's leading telecommunications core network capability platform technology, which is compatible with the government and society. All walks of life reached a strategic cooperation agreement to realize the development of artificial intelligence solution business. Eastcom has a strong brand influence and a stable market position

Improving the sense of innovation. Eastern Communications must adjust its development strategy in a timely manner during its step-by-step development, and formulate timely and effective response strategies for different internal and external environmental risks. "Iron still needs its own hard work". It must adjust and optimize the industrial structure and rely on R&D innovation to occupy the industrial development highland in other ways.<sup>[9]</sup>

Tapping talent advantages. There are many scientific research universities in Zhejiang Province with talents for advanced technology, and the industrial structure is relatively complete. After introducing suitable talents, enterprises should strengthen their attention to independent intellectual property rights. Enterprises are introducing suitable talents. On other way, we should pay more attention to independent intellectual property rights.

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