Analysis of the 2021 Annual Report of Guizhou Maotai Liquor Co., LTD

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Abstract: The article mainly analyzes the 2021 annual report of Guizhou Maotai Liquor Company Limited, through the background analysis of Guizhou Maotai Liquor Company Limited, financial ratio analysis, from the company's current ratio, quick ratio, gross margin and other analysis of the company's solvency and profitability, but also the quality of financial position, and concluded that the enterprise is an operation-driven enterprise, from the allocation of resources, the quality of project funds Ltd. was analysed in terms of resource allocation, quality of project capital and other aspects. Finally, the company's development prospects were forecasted, concluding that Guizhou Maotai needs to innovate with multiple brands, categories, scenarios, channels and consumer groups to be able to sustain its growth and continue to take a leading position among its peers.
Keywords: Guizhou Maotai Liquor Company Limited; Financial Ratio Analysis; Financial Position

1. Background analysis

A comprehensive view of the 2021 annual report of Guizhou Maotai Liquor Company Limited reveals that Baker Tilly International (Special General Partnership) has issued an audit report for the company. The Board of Directors, the Supervisory Committee and the Directors, Supervisors and senior management of the company guarantee the truthfulness, accuracy and completeness of the annual report and that there are no false statements, misleading statements or material omissions, and that they assume individual or joint legal responsibility. The company is listed on the Shanghai Stock Exchange under the A share class, with the stock name Guizhou Maotai and stock code 600519.

The company's principal business is the production and sale of Moutai wine and a series of spirits, with its leading product being Guizhou Moutai wine, one of the three most famous distilled spirits in the world. The company's business model is to procure raw materials, produce products and sell products. The procurement of raw materials is carried out in accordance with the company's production and sales plans, and the production process of the products is to make malt, make wine, store, blending and packaging. The sales model is to sell the company's products through direct sales and wholesale agency channels, with direct sales channels referring to self-operated channels and wholesale agency channels referring to social distributors, supermarkets and e-commerce channels.

The company has four core potentials and has core competitiveness in the wine industry. The company achieved a total revenue of RMB 109,464 million for the year 2021, an increase of 11.71% year-on-year; a total profit of RMB 74,528 million, an increase of 12.59% year-on-year; and a net profit attributable to owners of the parent company of RMB 52,460 million, an increase of 12.34% year-on-year, with all indicators maintaining double-digit growth and the comprehensive strength of the company reaching a new level.

2. Accounting analysis

The audit opinion issued by the certified public accountant is an unqualified audit report in which the certified public accountant considers that the financial report of the enterprise meets the following conditions:

1.The accounting statements have been prepared in accordance with the Accounting Standards for Business Enterprises and other national financial accounting regulations.

2.The accounting statements properly present, in all material respects, the financial position of the audited entity, the results of its operations and the changes in its funds.

3.The accounting treatment follows the principle of consistency.

4.The CPA has completed the intended audit procedures as required by the principles of independent auditing and has not been hindered or restricted in the course of the audit.

5.There are no material undetermined matters affecting the accounting report.

6.There were no significant matters that should have been adjusted but were not adjusted by the audited entity.

3. Financial ratio analysis

The basic financial ratios were calculated based on the data from Guizhou Maotai Liquor Co.'s 2021 statements (parent company data).

Table1

Ratio Name	Calculation formula	Numerator ($)	Denominator ($)	Ratio values
Current ratio	Current assets/current liabilities	113,385,330,384.68	13,705,835,622.68	8.3
Quick ratio	Quick assets/current liabilities	113,385,330,384.68 -32,424,250,538.15	13,705,835,622.68	5.9
Gross margin	Gross profit / Operating income * 100%	37,344,898,964.17 -8,991,912,828.37	37,344,898,964.17	75.9%
Core Margin	Core profit / operating income * 100%	5656057911	37,344,898,964.17	15.1%
Return on net assets	Net profit/average net assets*100%	49,679,102,092.33	(143,576,118,742.08) +114,644,087,360.56)/2	38.5%
Inventory turnover rate	Operating Costs / Average Inventory	37,344,898,964.17	(32,424,250,538.15) +28,162,833,603.66)/2	1.23
Core profit capture rate	Net cash flow from operating activities / Core profit	12,782,128,894.34	5656057911	226%
Total Return on Assets	EBITDA/average total assets	51,484,112,939.54 +9,093,212.00	(143,576,118,742.08) +114,644,087,360.56)/2	39.88%

Description:

1) In calculating the underlying financial ratios, data from the parent company's statements are used because the parent company is the de facto controller of the entire business and it makes practical sense to calculate the parent company's financial ratios.

2) From the above data, it can be seen that Guizhou Maotai's current ratio is 8.3. The current ratio reflects an enterprise's ability to use current assets to repay current liabilities, which are characterised by short repayment periods and relatively easy realisation of current assets, which shows that Guizhou Maotai's short-term debt servicing ability is very strong and higher than other enterprises of the same type, and Guizhou Maotai's current assets are relatively strong.

3) The quick ratio is 5.9. The quick ratio is more accurate in evaluating the short-term solvency of an enterprise. Generally speaking, the higher the ratio, the stronger the ability to repay current liabilities, but too high a ratio may also lead to poor profitability. For Guizhou Maotai Wine, the quick and current ratios do not affect the profitability of the enterprise, and the short-term repayment ability is also strong, which tells us that the enterprise has strong capital.

4)The gross profit margin of the parent company was 75.9%, which was much higher than other enterprises of the same type. According to the gross profit margin of the main business in the financial report for the year 2021, the gross profit margin of the main business of alcoholic beverages was 91.62%, an increase of 0.14 percentage points over the previous year, mainly due to an increase in operating revenue of 11.85% over the previous year, while operating costs decreased by 9.99% over the previous year, making the gross profit margin of alcoholic beverages The gross profit margin of Moutai increased compared to the previous year. In terms of product differentiation, the gross profit margin of Moutai wine was 94.03% and the gross profit margin of other series of wines was 73.69%, which was much higher than that of other wine companies of the same type, and the gross profit margin of Moutai wine as the main product reached over 90%, while at home and abroad, the gross profit margin also reached over 90%. This was 0.50 percentage points higher than the previous year.

Table 2 The main business by industry, products, regions and sales model

Main business by industry						
Industry -specific	Operating income	Operating cost	Gross profit margin (%)	revenue Relative over Annual increase and decrease(%)	Business into This than on Year increase or decrease(%)	Gross profit margin increased or decreased over the previous year (%)
liquor	106,059,290,342.18	8,890,990,510.72	91.62	11.85	9.99	An increase of 0.14 percentage points
Main business divided by product situation						
Sub-product	operating receipt	operational cost	Gross profit margin (%)	Business to receive Into the above Year increase or decrease (%)	Business into This than on Year increase or decrease (%)	Gross profit margin increased or decreased over the previous year (%)
Maotai	93,464,512,115.94	5,577,910,539.00	94.03	10.18	9.36	An increase of 0.04 percentage points
Other series of wine	12,594,778,226.24	3,313,079,971.72	73.69	26.06	11.06	An increase of 3.55 percentage points
Main business by region situation						
Sub-region	operating receipt	operational cost	gross profit rate (%)	Business to receive Into the above Year increase or decrease (%)	Business into This than on Year increase or decrease (%)	Gross profit margin increased or decreased over the previous year (%)
internal	103,440,817,492.55	8,649,283,176.18	91.64	11.96	9.83	An increase of 0.16 percentage points
external	2,618,472,849.63	241,707,334.54	90.77	7.66	15.96	A decrease of 0.66 percentage points
Main business into sales model						
Sales model	operation revenue	operational cost	gross profit rate (%)	Business income, entry ratio, annual increase and decrease(%)	Business, this than, year increase or decrease(%)	Gross profit margin increased or decreased over the previous year (%)

Wholesale agency	82029927984.26	7958382622.48	90.30	0.55	6.06	A decrease of 0.50 percentage points
Direct selling	24029362357.92	932607888.24	96.12	81.49	60.89	An increase of 0.50 percentage points

Unit: Yuan Currency: RMB

5) The core profit margin of Guizhou Maotai Liquor Company Limited is 15.1%. Core profit margin is the ratio of core profit to operating revenue, and core profit is the gross profit margin minus taxes and additional administrative expenses selling expenses, administrative expenses, interest expenses and research and development expenses. Core profit provides a more objective assessment of management's operating performance and management capabilities in its business activities.

6)Inventory turnover is a dynamic internal management indicator, reflecting the speed of inventory flow in a certain period of time, the inventory turnover ratio is 1.23, reducing inventory can effectively reduce the capital tied up, and can reduce operating risks, improve the company's financial position and the ability to withstand risks, the faster the enterprise's inventory turnover, the higher the profitability of a certain period of time.

7)The core profit yield measures the profitability of a company's own operating activities. Guizhou Maotai Wine's core profit yield has exceeded two hundred percent, indicating that the company's own operating activities are highly profitable, as Guizhou Maotai Wine's high core profit yield indicates that the company is of better quality. At the same time, the core profit yield is more valuable in measuring the company's short-term solvency, as the company's profits have the ability to generate sufficient cash, the company's operating activities are secure in obtaining cash, and the company's short-term solvency is strong.

8)Return on net assets is used to measure the profitability of the business. A return on net assets of 38.5% is not significantly different from the return on total assets, indicating that the business is not using financial leverage to generate revenue. The return on total assets is management's ability to create value with available resources, indicating that the business is more profitable overall and higher than others in its industry.

4. Qualitative analysis of financial position

4.1 Quality analysis of capital structure

From the liability items in the consolidated statement, the liabilities of Guizhou Maotai Liquor Co., Ltd. are mainly liquid liabilities, the company's liquid liabilities are about 57.9 billion and the non-liquid liabilities account for about 296 million, the current liabilities were 45.7 billion at the beginning of the year, an increase of 12.2 billion, accounting for the majority of the total liabilities, mainly concentrated in deposit-taking and interbank deposits, contract liabilities, tax payable and other current assets. The company's current assets amounted to approximately $220,766 million, which tells us that the company does not have a solvency problem and that its current assets are sufficient to cover its current liabilities and the company is not under pressure to service its debts. Liabilities are mainly operating liabilities. Typical operating liabilities include accounts payable, contract liabilities, employee compensation payable and taxes payable, all of which the company accounts for a large proportion of. Operating liabilities capital usually has a low comprehensive cost, comprehensive repayment pressure lower than the carrying amount as well as a characteristic of solidifying upstream and downstream relationships, and in general, companies tend to obtain such by maximising the use of upstream and downstream relationships capital. The company is predominantly operating debt capital and is an operationally driven business. The company is in a dominant competitive position in its industry, with operating liabilities accounting for a relatively high proportion of its liabilities and a clear strategic connotation, using its unique competitive advantage to maximise the use of upstream and downstream enterprises' capital to support its own operations and expansion. The financial effects of an operation-driven enterprise strategy are: 1. A large amount of the capital required for the enterprise's operations and expansion comes from upstream and downstream enterprises that have no capital costs. 2. As accounts payable are formed entirely by using the enterprise's own commercial credit, there is no fixed time requirement for payment, and the scale of liabilities for advance receipts includes the gross profit factor, the actual scale of liabilities for enterprises with high advance receipts is not as high as the calculated gearing ratio. Therefore, the use of funds obtained from operating liabilities will reduce the debt servicing pressure of the enterprise to a certain extent. 3. To a certain extent, it solidifies the business and financial ties between the enterprise and upstream and downstream enterprises, making them an overall economic alliance body.

4.2 Asset quality analysis

4.2.1 Resource allocation strategy

According to the Guizhou Maotai Liquor Group's FY2021 parent company balance sheet, the company's typical operating assets such as accounts receivable and inventories account for a relatively large portion of the total assets. Of these, accounts receivable amounted to approximately $1.48 billion, inventory amounted to approximately $32.424 billion, while financial assets held for trading with investment overtones. Derivative financial assets, etc. were nil, and other receivables were about 9.21 million compared to operating assets, which accounted for a relatively small percentage, so it is clear that the strategy adopted by Guizhou Maotai Liquor Company is an operating-led development strategy. Operating-led companies are able to maintain their core competencies to the greatest extent possible.

In the consolidated statements, from an overall perspective, total assets increased from $213,396 million at the beginning of the year to $255,168 million. From a structural perspective, there were $220,766 million of current assets in total assets at the end of the year, accounting for 86.52% of total assets, of which $51,810 million, or 23.47% of current assets, were monetary funds, there were no trading financial assets and derivative financial assets, and receivables There were no trading financial assets or derivative financial assets, and both notes and accounts receivable were nil. In terms of non-current assets, non-current assets amounted to approximately $34.4 billion and fixed assets amounted to approximately $17.472 billion, accounting for approximately 51%. It can be concluded that both the consolidated and parent company statements show an operating dominance.

4.2.2 Quality analysis of monetary projects

As shown in the overall size of the consolidated statements, the company's monetary funds increased from 36.1 billion at the beginning of the year to 51.8 billion. The balance of monetary funds is too large for a long period of time and the company's business scale may reduce the overall profitability of the company, therefore, the company should actively look for new investment directions, make new strategic layout and adjustment, and mention the overall efficiency of the use of funds.

4.2.3 Debt quality analysis

Notes receivable started the year with $1.53 billion and ended the year with zero notes receivable, indicating that all notes receivable were collected during the year, while accounts receivable were zero at both the beginning and end of the year. Other receivables did not differ much at the beginning and end of the year, and were approximately $100 million lower than at the beginning of the year. A comparison of the parent company's balance sheet shows that the company's other receivables are basically made up of amounts from subsidiaries, but the subsidiaries' assets are of high quality and not tied up and forming non-performing assets.

4.2.4 Inventory item quality analysis

From the consolidated balance sheet, inventory at the beginning of the year was $28.87 billion and at the end of the year was $33.39 billion, an increase of $4.52 billion. From the consolidated income statement, we can learn that operating costs also increased in fiscal 2021 compared to the previous year, but the increase in operating costs was less than the increase in inventory, and we can learn that the turnover of inventory has become slower, with raw materials, work in progress, inventory goods and self-made semi-finished products all having different degrees of It is possible that the increase was due to an increase in raw material reserves.

4.3 Analysis of controlled investments and corporate expansion strategies

Table 3 Analysis of the scale of resources tied up in controlled investments in companies

	Consolidated number (1)	Number of parent companies (2)	The basic size of the resources tied up in controlled investments in the business (3) = (2) - (1)
Long-term equity investments	0	1,624,535,587.55	1,624,535,587.55

Other receivables	33,158,974.32	9,210,501.43	Not applicable
Prepayments	389,109,841.28	355,933,658.53	Not applicable
Other current assets	71,527,560.74	74,711.92	Not applicable
Other non-current assets	2,059,761,333.33	2,059,761,333.33	Not applicable
Total	2553557709.67	4049515792.76	1,624,535,587.55

Table 4 Expansion effect of corporate controlled investment assets

	Consolidated assets (1)	Parent company assets (2)	Expansion effect of corporate controlled investment assets (3) = (1) - (2)
Asset expansion effect	255,168,195,159.90	143,576,118,742.08	111,592,076,417.82

From the calculations in the table above, it can be seen that the size of the controlled investment in the company is approximately $1,620 million, leveraging approximately $111,592 million in assets of the subsidiary, indicating that the company's expansion strategy has brought about a good expansion effect, through which the company has achieved leapfrogging growth.

4.4 Money management models for businesses

A comparison between the consolidated balance sheet and the parent company balance sheet shows that the monetary funds in the consolidated balance sheet are smaller than those in the parent company balance sheet, which tells us that the enterprise has a centralised funding management model where the parent company will channel monetary funds to its subsidiaries.

4.5 Comparative Analysis of Consolidated Statements and Parent Company Statements

4.5.1 Balance Sheet

In the consolidated balance sheet, the monetary capital is about 51.8 billion, and the parent company's monetary capital is 79.1 billion, the subsidiary has taken up part of the parent company's monetary capital; in the inventory item, the consolidated statement inventory is about 33.39 billion, and the parent company's inventory is about 32.42 billion, it can be learned that all of the parent company's inventory accounts for most of the total inventory, and the parent company's inventory is larger; the consolidated balance sheet's long-term equity investment in the consolidated balance sheet is much smaller than the parent company's long-term equity investment, indicating that the enterprise's long-term equity investment is dominated by controlling investment; there are approximately $17.4 billion of fixed assets in the consolidated statement, which is slightly higher than the parent company's $17.0 billion, and the intangible assets in the consolidated statement are the same as the parent company's, which can be known that all intangible assets are concentrated in the parent company.

4.5.2 Income statement

The operating income of the consolidated income statement was $106.2 billion and the operating income of the parent company was $37.3 billion. It is known that both the parent company and the subsidiary company have direct external sales activities, and in general, the operating income of the subsidiary company accounts for a very important part of the profitability of the subsidiary company.

4.5.3 Cash flow statement

The net cash flow from operating activities was $64.0 billion in the consolidated statements and $12.7 billion in the parent company's statements, which shows that the cash flow generated from the operation of subsidiaries is also very important, and the cash flow generated from the operation of the parent company accounted for approximately twenty percent of the cash flow generated from the operation in the consolidated statements. The change in the net cash flow from operating activities for the period was mainly due to the increase in cash received from the sale of goods and provision of services The increase in cash from investing activities was approximately $39.4 billion in the parent company and -5.56 billion in the consolidated statements, mainly due to the increase in cash paid for the purchase of large certificates of deposit during the period. The net cash flow from financing activities was approximately -26.6 billion in the consolidated statements and -23.3 billion in the parent company, the change was mainly due to the increase in the distribution of cash dividends in the current period, the net cash flow from financing activities were used to distribute dividends, pay cash and repay interest, etc., the net cash flow from business operations When the net cash flow generated from operations and the net cash flow generated from investments can meet the daily cash requirements of the enterprise, it can reduce the rate of fund raising and actively return the principal amount borrowed, consume the cash flow generated from the first two items at the same time, reduce the cost of capital and improve the economic efficiency of the enterprise.

4.6 Overall quality assessment of financial position

In terms of asset quality, the overall quality of the company's operating assets can meet the needs of the company's business activities, and has strong profitability, turnover and value preservation, the company has no obvious non-performing assets occupied, the quality of assets is good; in terms of the quality of the capital structure, the company does not have the problem of solvency, current assets are sufficient to repay current liabilities, the company does not have debt servicing pressure. The company's liabilities are mainly operating liabilities, and the company has strong financing capacity, while the company is operating-driven with mainly operating liabilities capital. The company is in a dominant position of competition in the same industry and is able to occupy the maximum amount of capital from upstream and downstream enterprises to support its own operation and expansion; in terms of profit quality, operating revenue increased by 11.88% compared with previous years, mainly due to the increase in sales volume and changes in product mix during the period; in terms of cash flow quality, cash flow from operating and investing activities and financing activities and the enterprise's development strategy.

5. Forecast of the company's development

Guizhou Moutai Wine Group has a more balanced asset structure, but its high gross margin is mainly due to its main business Moutai Wine, other series of wine gross margin is lower than Moutai Wine about twenty percent, and the vast majority of revenue and profits are from Moutai Wine products, Guizhou Moutai needs to innovate multi-brand, multi-category, multi-scene, multi-channel, multi-consumer crowd to be able to continue to do large, in the same type of wine industry in order to continue to occupy The company has a leading position in the industry.

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