

Research on Financial Performance of CRRC Restructuring

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Abstract: Based on the operating status of China CRRC, this paper analyzes its debt paying ability, operating ability, profitability and development ability by using financial indicators, and compares its financial performance before and after restructuring from 2010-2014 to 2015-2020, the existing problems are discussed and the suggestions for the future development of the reorganization are put forward.

Keywords: CRRC; Restructuring; Financial Performance

1. Merger and acquisition process

CSR is the acquisition party and CNR is the target party. CSR's acquisition of CNR mainly takes the way that CSR absorbs CNR and merges CNR. Both CNR's A-shares and H-shares are exchanged at the same share-for-share ratio, the combined share-for-share ratio is 1:1.1; that is, 1.1 CSR shares can be exchanged for each CNR share. Listing and circulation of a shares and H shares to be issued, while writing off the A shares and H shares of CNR, after the merger, the new company will inherit all of CSR's assets, liabilities, business, personnel and all other rights and obligations².

In order to better play the synergistic effect of operation, management and finance, Merger and acquisition can reduce the duplication of R & D expenses, improve the operating performance of CNR, avoid malicious competition, and better adapt to the international environment, enhance the ability to withstand risks. The specific merger and acquisition process have gone through four stages. Starting from October 27, 2014, CSR and CNR were suspended for the first time due to the planning of major asset restructuring matters. On December 30, 2014, CSR and CNR announced their merger plans to carry out merger matters, trading resumed on December 31, 2014; the merger of CSR and CNR was accepted by the Securities and Futures Commission on March 17, 2015, and trading of CSR and CNR was suspended again 20 working days later; on June 8, 2015, the strategic merger of CSR and CNR was completed, the share exchange ratio is 1:1.1. CNR is cancelled and CNR is renamed China CRRC³.

2. Financial performance analysis

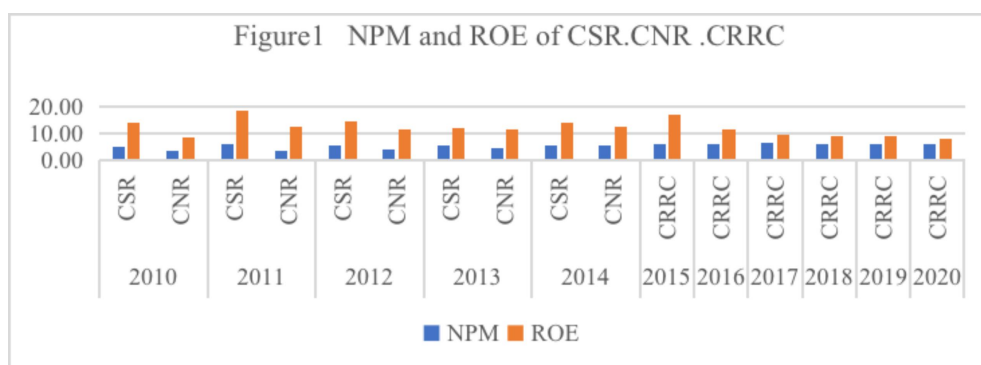
The financial performance analysis of CRRC mainly uses the financial data of the annual reports of CSR Corporation Limited, CNR and CRRC, using financial indicators to analyze the debt-paying ability, operating ability, profitability and development ability before and after the reorganization. The main financial indicators from 2010 to 2020 are selected, and the data comes from Choice finance, 2010-2014 is pre-merger and 2015-2020 is post-merger.

2.1 Profitability analysis

Profitability is the ability to analyze the level of corporate profits, in general, The more profits have been obtained for a certain time, the stronger the profitability.

¹Gao MengYao. A case study of M&A between CNR and CSR—Based on International Competitiveness[D]. 2016.

² Xu MuShiQi. The research of Strategic Merger and Acquisition Match and performance—Case Study of Acquisition of CNR by CSR.[D]. 2019.



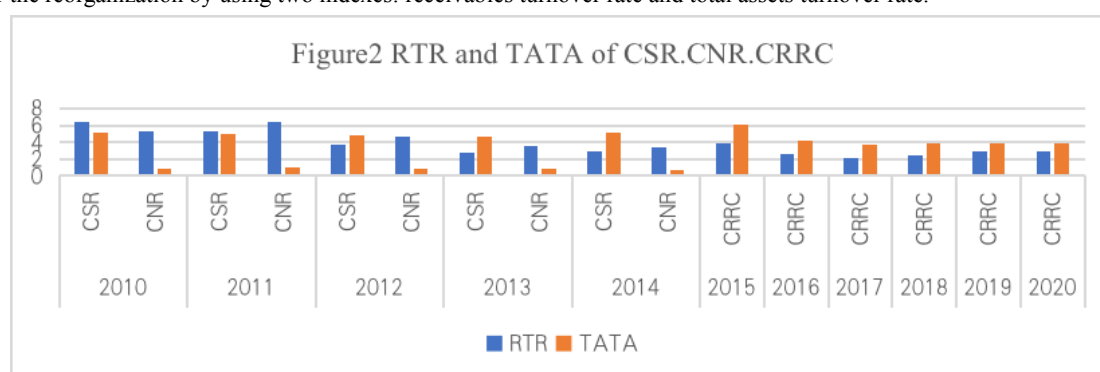
From 2010 to 2014, the net profit margin of CSR Corporation Limited is higher than that of CNR, and CNR is more efficient than CNR in capital operation, the net interest rate of sales has been increasing continuously in the past three years, but it declined in 2018, but recovered again in 2019 and 2020. After the reorganization, the overall trend is growing, but it fluctuates within six years, showing a trend of rising-falling-rising. Overall, the merger achieved a strong combination, effective use of resources, effective use of costs, sales profits increased significantly, to a certain extent, played a synergistic effect.

From the Return on Equity, before the merger and acquisition in 2010-2014, CSR's Yield valve is significantly higher than the Yield valve of CNR, CSR Corporation Limited's sales profit is better than CNR; after the merger and acquisition from 2015 to the highest, from 2016 to 2020 has been declining for five years, after the merger and acquisition shareholders' rights have not realized a good allocation, there is still more resistance in the internal integration, so in the long run, Yield valve or decline.

From the two indicators of change, the profit growth rate of CRRC is still relatively slow after the acquisition. Because CSR and CNR are being restructured through a stock exchange, in essence CRRC has increased its equity and Yield valve is declining; Combined with the overall economic environment and background, the reduction in overseas orders has led to a slow growth in its profitability,

2.2 Operating capacity analysis

Operating capacity is the ability to analyze the use of enterprise funds, is an important indicator to judge whether an enterprise can obtain income through efficient use of assets. This paper analyzes the changes of operating capacity before and after the reorganization by using two indexes: receivables turnover rate and total assets turnover rate.

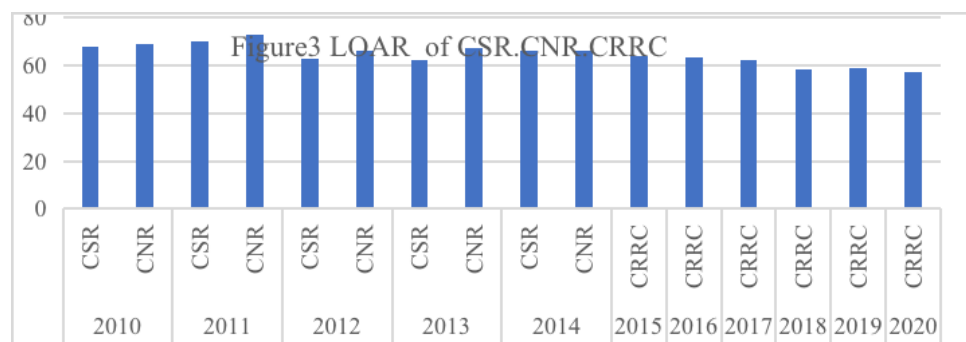


In terms of the turnover rate of accounts receivable, the turnover rate of accounts receivable in CSR Corporation Limited was higher than CNR in 2010 before the reorganization, and the turnover rate of accounts receivable in CNR was higher than CNR in the four years from 2011 to 2014 Acquisition of former CSR and CNR in Vicious Competition for overseas orders, and most of the credit sales orders; after the restructuring, the turnover rate of accounts receivable is relatively high, and the turnover rate of accounts receivable decreased in 2016-2017, from 2018-2020 receivable turnover rate again showed an upward trend. Compared with before and after the reorganization, the turnover rate of accounts receivable is in the decline, after the reorganization, accounts receivable or improved.

From the perspective of the total assets turnover rate, the total assets turnover rate of CSR Corporation Limited was higher than that of CNR in 2010-2014 before the reorganization, and the utilization efficiency of the total assets of CNR was higher than that of CSR, however, since 2016 there has been a downward trend, mainly due to a large inventory backlog, resulting in a decline in total asset turnover.

2.3 Debt-paying ability analysis

Debt-paying ability is the ability to analyze the enterprise assets and the income obtained in the production and operation activities to pay off debts. This paper selects the liability on asset ratio and the current ratio to analyze the ability of the enterprise to repay the long-term and short-term debt before and after the reorganization.



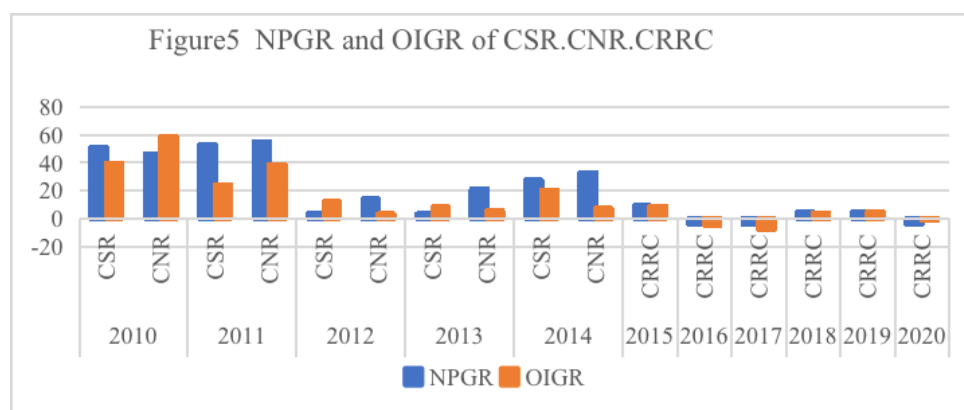
From the perspective of the liability on asset ratio, CNR's in 2010-2014 is higher than that of CSR before the restructuring, and CNR's repayment ability is weaker; after the restructuring, the balance sheet ratio of CNR has been declining continuously in 2015-2020. After the reorganization, the long-term debt-paying ability has been enhanced;



From the perspective of the current ratio, the current ratio of the former CSR is higher than that of CNR, and the short-term solvency of CNR is higher than that of CNR; the current ratio of the latter continues to increase after the restructuring, after the merger and acquisition, the proportion of quick-acting assets in total assets gradually increased, and the proportion of current liabilities increased because of the increase in year-end sales and customers using bills of exchange settlement reduced. In general, CRRC's ability to pay its debts has gradually increased.

2.4 Growth ability analysis

The ability to grow is the ability to analyze a firm's potential to expand its market size, to grow its business by leveraging its profitability and to raise capital. This article selects the net profit growth rate, the operating income growth rate two indexes to analyze its growth ability.



Looking from the net profit growth rate, the net profit growth rate of CNR before the restructuring is higher than that of CSR, and the operating efficiency of CNR is better than that of CSR. After the restructuring, the growth rate of net profit in 2015-2017 is decreasing, the growth rate of net profit in 2018-2019 is increasing, and the growth rate of net profit in 2020 is decreasing. After the restructuring in 2015-2017, due to the large economic environment and low economic efficiency of the high-speed rail market, the domestic demand for high-speed rail has gradually decreased, with Malaysia, France, Belarus, New Zealand, Hungary and other countries along the “Belt and Road” to provide a green bus with Chinese wisdom and other projects, so in 2018-2019 net profit growth rate picked up again; But in 2020, the impact of the epidemic factors led to a decline.

In terms of the growth rate of business income, the growth rate of business income of CNR in 2010-2011 was higher than that of CSR, and the growth rate of business income of CSR Corporation Limited was higher than that of CNR in 2012-2014. After restructuring, the growth rate of business income of CNR in 2015-2017 is declining, the growth rate of operating income increased in 2018-2019 and decreased again in 2020. After the reorganization of the domestic transport infrastructure overcapacity, car products unsalable; the late “Belt and Road” policy, car’s overseas orders increased the growth rate of operating income; 2020 was affected by the epidemic, the rate of growth of operating income fell again.

The growth rate of net profit is higher than the growth rate of business income, which indicates that the enterprise is in the high-speed growth stage and has good development ability. After restructuring, the growth rate of net profit is higher than the growth rate of operating income from 2015 to 2020, which indicates that the profitability of CRRC is constantly improving, so it has better development ability.

3. Post-restructuring proposals

Through the analysis of the four capabilities of the traditional financial indicators, we know that the debt-paying ability of CRRC has been strengthened in the smooth after the restructuring, the profitability and operating ability have been slowed down, and the growth ability has been strengthened in the short term. In view of the financial performance aspect’s situation, proposes some suggestions to the future long-term development.

Enhancing synergies. The scale effect of CSR joining forces with CNR is not very significant. After the restructuring in 2016,2017 operating income growth and net profit growth are not optimistic. In 2018,2019, some recovery, and 2020 has decreased, so the current situation should be reasonable to adjust the scale of production, effective cost control, and the production, sales and operation of these links and processes for a deeper level of analysis and research. Strengthen the management of staff, board of Directors and management.

Seize the opportunity, improve internal control, strengthen asset management. The “Belt and Road” strategy has brought many opportunities for CRRC, and the huge export volume has promoted the development and operation of railway transportation. The “Made in China 2025” strategy provides CRRC products with support and assistance at various levels, such as financial guarantee, technology Innovation and talent introduction. In the face of opportunity, CRRC must establish risk awareness, establish a sound internal management and control system, to ensure that each important emergency can be timely targeted and effective handling. Improve inventory turnover, strengthen technology research and development, formulate a reasonable inventory management system.

Strengthening risk management. AT present, there are many international policies, laws and regulations and financial risks, how to reasonably avoid these risks, we need to carefully study and grasp the relevant national laws and regulations on market access, and careful compliance to avoid adverse consequences; Second, the exchange rate should be considered in all its aspects. Trade barriers and other high-cost issues, reasonable economic benefits and formulate the corresponding implementation plans.

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