

Financial Analysis - Take T Company as an Example

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Abstract: Financial analysis plays an important role in the process of business management of enterprises. However, nowadays, enterprises habitually choose traditional financial analysis indexes in the process of financial analysis, but ignore non-traditional financial analysis indexes. This thesis adds non-traditional financial analysis indexes, aiming to establish a relatively perfect financial analysis system from traditional financial analysis indexes and non-traditional financial analysis indexes, and provide a new perspective for the financial analysis of Company T.

Keywords: Financial Analysis; Company T; Analysis Report

1. Introduction

Financial analysis is very important in the development process of each economic organization, through the analysis of the financial of each organization, not only can see the current development of the organization, but also can predict the future development profile of the organization, but the whole structure of financial analysis in China is not perfect, in the financial analysis, the focus of analysis mostly tends to be on the traditional analysis index, this paper pushes the new, adding new analysis elements, hoping to build a more complete financial analysis structure. We hope to build a more complete financial analysis structure.

This paper takes Company T as an example, and based on Company T's financial statements from 2015 to 2019, we select traditional financial analysis indicators and non-traditional financial analysis indicators to analyze Company T's financial activities, reveal the advantages and disadvantages of Company T's development, and at the same time, give some reference to other companies in this industry.

2. T Company Financial Analysis

2.1 Introduction of T Company

T Company was founded in Shenzhen in November 1998 by five people, including Ma Huateng, with a registered capital of RMB 65 million, and its products include QQ, WeChat, Glory of Kings, QQ Music, etc. Its main businesses include social networking, finance, entertainment and information. In June 2004, the company was listed on the Hong Kong Stock Exchange.

2.2 Analysis of traditional financial indicators

2.2.1 Solvency analysis

Table 1 Company T's solvency indicators for the medium term 2015-2019

Projects		2015	2016	2017	2018	2019
Short-term solvency	Current Ratio	1.25	1.47	1.18	1.07	1.2
	Quick Ratio	1.25	1.47	1.17	1.07	1.2
	Cash Ratio	0.37	0.65	0.70	0.53	0.58

Long-term solvency	Cearing Ratio	0.60	0.53	0.50	0.51	0.48
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Table 2 Solvency indicators of major listed companies in the industry in mid-2019

Listed Companies	Current Ratio	Quick Ratio	Cash Ratio	Cearing Ratio
Alibaba	1.38	1.38	0.16	0.37
Baidu	2.61	2.61	0.60	0.42
Jingdong	0.91	0.58	0.23	0.64
NetEase	2.15	2.04	0.51	0.38
Sina	2.52	2.52	0.22	0.38
Average	1.91	1.83	0.34	0.44

In terms of short-term solvency, the current ratio of Company T shows a trend of rising, then falling and then rising in the last five years, and is overall lower than the even degree of the main listed companies in the industry, thus reflecting that Company T has less working capital to cover short-term accounts, and its short-term solvency is less satisfactory. The gearing ratio shows a downward trend, but the overall level is higher than the even degree of the Bank, and the corresponding value in the middle of 2019 is also higher than the even degree of the industry, indicating a lower proportion of current assets compared to liabilities and a poor long-term solvency.

In summary, the solvency of T is relatively poor.

2.2.2 Analysis of operating capacity

Table 3 Company T's operating capacity indicators for the interim period 2015-2019

Projects	2015	2016	2017	2018	2019
Fixed asset turnover rate	11.51	12.74	12.69	10.67	4.63
Current asset turnover ratio	0.86	0.56	0.72	0.73	0.77
Total assets turnover ratio	0.42	0.25	0.26	0.23	0.24

Table 4 Operating capacity indicators of major listed companies in the industry for the medium term 2019

Listed Companies	Fixed asset turnover rate	Current asset turnover ratio	Total assets turnover ratio
Alibaba	2.43	0.77	0.22
Baidu	2.71	0.33	0.17
Jingdong	13.46	2.34	1.19
NetEase	3.40	0.26	0.21
Sina	3.88	0.29	0.16
Average	5.18	0.80	0.39

The fixed asset turnover ratio of Company T shows a trend of rising and then falling, and the overall turnover level is high, indicating that fixed assets are fully utilized by Company T. However, the fixed asset turnover rate in mid-2019 is less than the even degree of major listed companies in this industry, which indicates that the fixed assets of Company T have not been fully utilized since 2019, and Company T should pay attention to it to reduce the fixed assets being backlogged. Overall, Company T is more capable in terms of operations and has certain advantages.

2.2.3 Profitability analysis

Table 5 T2015-2019 interim profitability indicators (%)

Projects	2015	2016	2017	2018	2019
Gross sales margin	59.53	55.61	49.18	45.45	45.30
Net sales margin	28.30	27.28	30.48	25.58	30.15
Return on Net Assets	27.70	25.92	31.54	24.41	14.46
Total Return on Assets	12.18	11.80	18.56	14.78	6.67

Table 6 Profitability indicators of major listed companies in the industry in the medium term 2019 (%)

Listed Companies	Gross sales margin	Net sales margin	Return on Net Assets	Total Return on Assets
Alibaba	46.34	38.42	16.95	8.85
Baidu	39.73	-9.34	-2.67	-1.43
Jingdong	14.85	2.87	12.25	3.49
NetEase	43.68	15.03	11.34	6.07
Sina	76.21	19.68	3.04	1.36
Average	44.16	13.33	8.18	3.67

As can be seen from the above table, Company T's gross sales margin shows a downward trend, but the overall level is higher than that of the major listed companies in the industry. The return on net assets roughly shows a trend of decreasing, then increasing and then decreasing, reaching the maximum value in 2017, indicating that the profitability of Company T shows a downward trend, but the corresponding value in the middle of 2019 is still higher than the industry's uniform degree, and the profitability of Company T is still relatively strong compared to the uniform degree of the Bank. Combined with the above various profitability indicators, Company T has a relatively strong profitability compared to the major listed companies in the industry.

2.2.4 Growth capacity analysis

Table 7 Company T's growth capacity indicators for the 2015-2019 interim period (%)

Projects	2015	2016	2017	2018	2019
Operating income growth rate	30.32	47.71	56.48	79.91	18.40
Assets growth rate	21.85	42.39	48.78	128.57	30.87
Total assets growth rate	79.25	29.03	40.10	30.44	26.29
Growth rate of total liabilities	107.45	13.50	32.40	32.33	21.40

Table 8 Growth capacity indicators of major listed companies in the industry in the medium term 2019 (%)

Listed Companies	Operating income growth rate	Assets growth rate	Total assets growth rate	Growth rate of total liabilities
Alibaba	40.87	41.01	40.59	33.52
Baidu	7.62	11.67	7.03	2.97
Jingdong	22.00	17.28	12.28	8.42

NetEase	21.89	19.91	23.08	16.87
Sina	3.08	6.40	12.96	15.99
Average	19.02	19.25	19.19	15.55

The growth rate of T's operating income shows a trend of rising and then falling, and it reached the maximum value in 2018, which is much larger than the industry average, indicating that T's operating condition is good and its market share is high, and the growth rate of T's operating income is higher than the even degree of the major enterprises in the Bank, which indicates that T's operating income has expanded and its market prospect is good. The growth rate of total assets shows a decreasing, then increasing, then decreasing trend, but the average value is higher than the industry average, which indicates that T's asset operation scale has been expanding faster and faster in recent years. The growth rate of liabilities shows a decreasing trend overall, indicating that T's liabilities are becoming less and the company is growing. This shows that T's growth ability is getting stronger.

2.2.5 Summary

Company T's solvency is poor, so it should enhance the daily management of inventory and minimize the storage of raw materials to prevent the inventory from being backlogged.

Company T has a strong operating, profitability and growth capacity. However, there are also some problems, so the total assets should be properly applied and appropriate marketing strategies should be adopted to enhance profitability.

2.3 Analysis of non-traditional financial indicators

2.3.1 User size

T Company's most successful applications are QQ and WeChat. In March 2019, more than 1.1 billion people use WeChat and more than 700 million people use QQ. QQ and WeChat have brought T a huge amount of users and popularity, promoting the long-term development of the company.

2.3.2 Innovation Capability

T Company has creatively developed software such as WeChat, which is popular among the public. In the field of games, T Company has even brought its innovative ability to the extreme. In addition to King's Glory, Company T launched Peace Elite, which has exploded in the market and has just been released for a short time, with a surge of users, and now Peace Elite is already the second place in the hotness list.

2.3.3 Marketing Capability

The cost of T Company's marketing program is very low because it has its own platform, which saves a lot of costs, so it will mostly publish advertisements on its own platform, which saves both time and effort, and since the target of information dissemination is originally the users of many of the company's products, the information dissemination is considered to be right on target. In addition, T Company will use its own user base for marketing. Since QQ and wechat have laid a solid foundation for the users of T company, all the applications developed by T company can directly log in with QQ or wechat with one key, which makes the public willing to try, so that T company's products can retain customers.

2.3.4 Talent Management Capability

If an enterprise wants to have a great development, the first thing is to make good use of talent. T Company put people as the focus of daily management. When recruiting people with innovative ability and so on, these people will be intensively trained as backups on the management level, and when the company needs them, they will step up to the management level.

2.3.5 Summary

In addition to traditional financial indicators, non-traditional financial indicators are just as important to the development of T. The development of T has also brought many lessons and inspirations to Internet companies. First, each company must have iconic products that are irreplaceable. Secondly, each enterprise must strengthen its innovation ability and keep innovating. Finally, each enterprise should also carry out a proper status of this enterprise, reasonably formulate enterprise development strategy, and learn more from each other, so that the industry development is getting better and better.

3. T Company's financial analysis report

3.1 Basic informations

Until June 30, 2019, operating income was \$174,286 million, an increase of 21% compared to the previous period, this result was mainly due to the boost of mobile games, commercial payments, and in particular, King's Quest. Operating earnings were 64,263 million, an increase of 26% over the previous period. Net profit was 23,525 million, an increase of 19% over the previous period, and net profit margin decreased by 1% to 26%.

3.2 Main problems exist

The main problem that T currently has is the high cost of content and services, until June 30, 2019, T's cost of revenue amounted to \$49,695 million, an increase of 27% compared to the previous period, which indicates a relatively high cost of content, mainly consisting of a 32% increase in the cost of value-added services business to \$22,783 million, while the most important factors contributing to the growth of value-added services business are the increase in online game services and content cost increase, hand game channel cost increase; financial and enterprise service cost increased 41% year-on-year to \$173.91, mainly due to the expansion of financial and cloud service scale. In addition, a number of games were in the newly launched stage, and the response in the market was not as strong and lacked momentum. At the same time, the revenue of endgame is also going down and the commercialization is low.

3.3 Suggested measures

T Company should reduce content and service costs, strengthen market research, streamline game services, and adopt a strategy of contraction or even abandonment for some services with low adoption rates to truly reduce content costs. Secondly, Company T can market appropriately to promote financial service revenue and offset the cost brought by scale expansion. Finally, Company T should shift its focus to the promotion aspect of games to enhance the development momentum of newly launched games and drive the development of endgames together.

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