

Research on the Value of Three Companies in Chinese Air-Conditioning Industry

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Abstract: *After more than 30 years of development, Chinese air-conditioning industry has become an internationally competitive industry and is gradually entering a mature period. This paper mainly analyzes the three companies in the first echelon of Chinese air-conditioning industry: Gree, Midea, Qingdao Haier's assets, liabilities, equity and financial operating capacity value comparison finally formed the evaluation of the operating performance and value of the three companies.*

Keywords: Air-conditioning Industry; Balance sheet; Balance sheet; Financial value analysis

1. Company Introduction

Founded in 1991, Zhuhai Gree Electric Appliance Co., Ltd. is the world's largest international home appliance enterprise integrating R&D, production, sales and service. Gree Electric's "Gree" air conditioner is the only "world famous brand" product in Chinese air conditioner industry, with operations in more than 100 countries and regions around the world. Gree Electric Appliances will adhere to the development strategy of "self-development, independent innovation, and own brand", and aim to "create the world's leading air-conditioning enterprise and achieve the world brand of Gree for 100 years" and contribute more power to "Created in China".

Midea Group is a global technology group that spans consumer electronics, HVAC, robotics and automation systems, offering a diverse range of products, including consumer electronics businesses with kitchen appliances, refrigerators, washing machines and small appliances. The HVAC business centered on household air conditioners, central air conditioners, heating and ventilation systems. According to the 2016 Global Innovation Report released by Thomson Reuters, Midea ranked first among the world's leading innovation institutions in the field of home appliances and the first in the field of kitchen appliances in Asia. The European Commission "2016 Global Enterprise R&D Investment Ranking", Midea is the only Chinese home appliance company listed in the TOP200. Looking forward to the future, Midea Group will continue to develop steadily and become an enterprise group with a perfect corporate governance structure that is global, technological, and moderately diversified.

Founded in Qingdao in 1984, Haier Group is the world's leading provider of complete home appliance solutions and virtual and real-world convergence channels. Since its establishment, Haier has adhered to the innovation system centered on user needs to drive the sustainable and healthy development of the company, and has grown from being a small, insolvent and endangered collective small factory to one of the world's largest manufacturers of household electrical appliances. According to Euromonitor, the world's authoritative market research organization, released the

global retail sales volume of large household appliances in 2015. Haier's large household appliances ranked first in the world in terms of brand retail sales in 2015. This is the seventh time Haier has been reelected since 2009. The world's first.

2. Literature Review

After more than 30 years of development, Chinese air-conditioning industry has become an internationally competitive industry, and is gradually entering a mature stage. Now scholars mainly analyze the value of enterprises based on their financial statements.

Sun Qi (2014) first analyzed the external environment of Gree Electric Appliances using her PEST model in her master's thesis, and concluded that the external macro environment is conducive to the development of the air-conditioning industry. Xiao Ping (2017) mainly analyzes the strategic management behind Gree Electric Appliance Co., Ltd. in recent years. Through the analysis of financial statements, Gree Electric Appliance Co., Ltd. adopts strategic management of both operation and investment, and gradually from the specialization strategy. Transforming to a diversified strategy. Pan Mingyan (2017) takes Gree Electric Appliance Co., Ltd. as an example. Based on the Harvard framework, the analysis of the financial statements of the sample companies from 2014 to 2016 from the perspectives of strategy, accounting, finance and prospects reveals the financial problems of the company. And propose corresponding solutions.

3. Chinese air conditioning industry analysis

From the perspective of the development cycle of the air-conditioning industry, Chinese air-conditioning industry has entered a mature stage of industry development, and its development has quickly hit the bottleneck of industry development. From the perspective of the future, there will be many factors affecting the development of the home appliance industry. First, the residential market will affect the development of the home appliance industry. The commodity housing market began to rebound from May 2015 and continued to grow for 23 months in June 2017.

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Judging from the strict real estate control policies introduced by some cities in recent months, the government's attitude toward the regulation of the real estate market is very firm at this stage, and the sales growth rate of commercial housing has also slowed down accordingly. If the real estate market can return to the healthy operation zone, it will be conducive to the smooth operation of the home appliance industry. Second, commodities will also affect the development of the home appliance industry. Since 2017, commodity prices have fallen back from 2016, but are still at a high level. If commodity prices continue to run at high levels or skyrocket, it will increase the cost pressure of the downstream industry chain.

The domestic market will focus on the development direction of transformation and upgrading. Especially in the air-conditioning industry, market performance can be described as hot. However, in the face of the complicated situation, we still need to be cautious about the market performance of 2019. On the one hand, in the hot weather environment of the first half of 2018, some enterprises have gone back to the old road of stockpiling, holding a gambling one. The mentality of the weather, other hidden risks, is not conducive to the healthy operation of the industry; on the other hand, the collective price increase of raw materials in the early stage has put a lot of pressure on the cost of home appliances, and has also eroded the profits of enterprises. These possible risk points force companies to upgrade in production management, cost control, and innovative design. This is both a difficult and an opportunity for the company. In general, under the background of "supply-side structural reform", under the continuous promotion of industrial transformation and upgrading and consumption upgrading, home appliance enterprises should continue to face difficulties, constantly explore market opportunities, increase new impetus, and inject new vitality into the market.

4. Comparison of development strategies and sales models of the three companies

4.1 Comparison of development strategies

Gree mainly builds a smart home appliance ecosystem and develops smart homes; on the other hand, it builds a vertical industry chain and shapes multiple world brands. The company will continue to take the air-conditioning industry as the pillar, vigorously develop and develop new industries such as new energy, living appliances, industrial products, molds, mobile phones, automation equipment, etc., and carry out the industry from simple home appliance manufacturing enterprises to new energy industries and equipment manufacturing enterprises. Broaden and achieve diversified and steady development.

Midea will continue to firmly implement the strategy of "product leadership, efficiency drive, global operation", and its Internet-based intelligent manufacturing transformation has been carried out in a low-key manner. In May 2016, betting on intelligent production, using KUKA cash

technology, will be The company's factories are more comprehensively intelligent and automated, and continue to develop intelligent robots as separate businesses, gaining new revenue growth points.

Haier has transformed from a traditional manufacturer of home appliances to a platform for the whole society to incubate customers. It is committed to becoming an Internet company, subverting the closed system of the traditional enterprise's self-contained system, but becoming a node in the network interconnection, interconnecting various resources. To create a new platform for creating a win-win situation and achieve win-win value for all parties involved.

4.2 Comparison of sales models

Gree is cooperating with the manufacturer's shares to make his sales model. Gree and the dealer organization established a regional joint venture sales company with Gree as a major shareholder, and used this company to act as a branch of Gree to manage the local market. The chairman of each regional sales company is appointed by Gree, and the general manager is jointly elected according to the number of shares invested by the participating distributors. Each shareholder pays dividends according to the share capital structure at the end of the year, and the share dealers form an interest alliance.

Midea's sales model is to drive retailers with wholesalers. Midea's companies have established their own branches in almost every administrative province in the country, and have established offices in prefecture-level cities. In a regional market, Midea's branches and offices typically manage a large number of retailers through several local wholesalers. Wholesalers are free to supply to retailers in the region. The dealer pays the advance payment to the manufacturer, and the large dealers who pay more often naturally request more discounts. Manufacturers adopting this model have introduced an annual sales policy based on the amount of funds.

Haier has established its own sales branch in almost every province in the country, Haier Industry and Trade Company. At the same time, Haier Company has established its own branches and established sales channels and networks in both provincial capitals and county-level cities. Qingdao Haier is mainly dominated by retailers. Haier Industry and Trade Company directly supplies and provides support to retailers, and transforms many retailers into Haier stores. In the Haier model, department stores and retail stores are the main distribution forces. Haier's sales policy is also biased towards retailers, providing them with more services and support, and ensuring that retailers can obtain higher gross margins than the US model's policies. In general, retailers' gross margins are Between 8-10% - this is already very good in the home appliance industry. Wholesalers do not have the same distribution power as the US model, and wholesale gross margins are generally only 3-4%.

5. Accounting Statement Analysis

5.1 Analysis from the perspective of balance sheet

Table 1: Balance sheet in 2015-2016

Unit: 100 Billion RMB

| | Midea | | Gree | | Haier | |
|---------------------|---------|------------|---------|------------|---------|------------|
| | 2016 | proportion | 2016 | proportion | 2016 | proportion |
| Current assets | 1206.21 | 70.70% | 1429.1 | 78.36% | 695.16 | 52.96% |
| Money funds | 171.96 | 10.08% | 956.13 | 52.43% | 235.04 | 17.91% |
| Stock | 156.26 | 9.16% | 90.24 | 4.95% | 152.37 | 11.61% |
| Bill receivable | 74.27 | 4.35% | 299.63 | 16.43% | 137.97 | 10.51% |
| Accounts receivable | 134.54 | 7.89% | 29.6 | 1.62% | 122.47 | 9.33% |
| Fixed assets | 210.56 | 12.34% | 176.81 | 9.70% | 155.39 | 11.84% |
| Current liabilities | 891.84 | 52.28% | 1268.76 | 69.57% | 734.52 | 55.96% |
| Total liabilities | 1016.24 | 59.57% | 1274.46 | 69.88% | 936.75 | 71.37% |
| Owners' equity | 689.76 | 40.43% | 549.23 | 30.12% | 375.80 | 28.63% |
| Total assets | 1706.01 | 100.00% | 1823.69 | 100.00% | 1312.55 | 100.00% |

It can be seen from the table that the total assets of Gree in the total assets of the three companies at the end of 2016 are the highest, 1.17 billion more than the US, 1.07 times that of the US; and 51.1 billion more than Haier, 1.39 times that of Haier. In terms of owner's equity, the owner's equity of the United States was the highest in 2016, which was 14.53 billion yuan higher than Gree and 31.396 billion yuan higher than Haier. Gree's current assets accounted for 78.16% of total assets, slightly higher than the US's 70.7%, much higher than Haier's 52.96%. In addition, the liquid assets of Midea and Gree are greater than the total liabilities, while Haier is the opposite, then Haier is inferior to the other two companies in terms of solvency. In terms of financial leverage, Midea's financial leverage is at least 2.47, followed by Gree at 3.32, and the highest is Haier's leverage ratio of 3.5. It can be seen that Gree and Haier's leverage ratio is not much different, and they are all at relatively high levels.

In terms of assets, in terms of liquid assets structure, the proportion of Gree's current assets is high in monetary funds and notes receivable, while the highest in the US is other

liquid assets (mainly some investment assets such as wealth management products). The highest percentage is money. The ratio of inventory and accounts receivable to total assets is lower than that of the other two companies. In particular, accounts receivable are significantly smaller than the other two companies. It can be seen that Gree liquid assets are highly liquid, but there are also capital utilization rates. Not a high problem. Among the non-current assets structure, Gree has the lowest proportion of fixed assets, and Haier has the highest amount of non-current assets (mainly due to the acquisition of Haier in 16 years, resulting in an increase of 21 billion in goodwill.)

In terms of liabilities, 99.5% of Gree's liabilities are current liabilities, among which the current liabilities are the highest in other current liabilities (sales rebates); the US current liabilities account for the lowest proportion of total assets and the asset-liability ratio is the lowest; Haier's non-current The debt is the highest, and its proportion of total assets is much higher than the other two companies.

5.2 From the perspective of income statement

Table 2: Income statement in 2015-2016

Unit: 100 Billion RMB

| | Midea | | Gree | | Haier | |
|------------------------|---------|---------|---------|---------|---------|--------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Total operating income | 1598.42 | 1393.47 | 1101.13 | 1005.64 | 1190.66 | 897.97 |
| Operating income | 1590.44 | 1384.41 | 1083.03 | 977.45 | 1190.66 | 897.97 |
| Operating cost | 1156.15 | 1026.63 | 728.86 | 660.17 | 821.27 | 647.17 |
| Sales expense | 176.78 | 148.00 | 164.77 | 155.06 | 212.54 | 131.08 |
| Management costs | 96.21 | 74.42 | 54.89 | 50.49 | 83.82 | 65.54 |
| Financial expenses | -10.06 | 1.39 | -48.46 | -19.29 | 7.21 | -5.14 |
| Operating profit | 174.36 | 149.17 | 174.56 | 135.16 | 71.18 | 64.58 |
| Total profit | 189.15 | 160.51 | 185.31 | 149.09 | 81.83 | 69.81 |
| Net profit | 158.62 | 136.25 | 155.25 | 126.24 | 66.91 | 59.25 |

It can be seen that the highest operating income in the past two years is the United States. In 2015-2016 years, Gree's revenue is greater than Haier's revenue, while in 16 years,

Haier's revenue surpassed Gree's second. In 2016 years, the revenue of the United States was 50.737 billion yuan more than that of Gree. The revenue of Haier was 10.763 billion

yuan higher than that of Gree. In terms of net profit, the operating income of the United States in 16 years was more than 50 billion yuan higher than Gree, but the net profit was

almost the same as Gree.

5.3 From the perspective of cash flow statement

Table 3: Cash inflow comparison

| Cash inflow comparison | Midea | | Gree | | Haier | |
|---------------------------------------|---------|---------|--------|---------|---------|---------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Cash flow from operating activities | 1626.59 | 1342.78 | 755.15 | 1187.97 | 1385.69 | 1124.17 |
| Investment activity cash inflow | 763.23 | 447.41 | 34.41 | 11.79 | 11.24 | 16.81 |
| Cash inflow from financing activities | 352.36 | 263.83 | 144.92 | 113.54 | 435.4 | 69.63 |

Table 4: Cash outflow comparison

| Cash outflow comparison | Midea | | Gree | | Haier | |
|---|---------|---------|--------|--------|---------|---------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Cash outflow from operating activities | 1359.64 | 1075.14 | 606.55 | 744.18 | 1305.14 | 1068.12 |
| Cash outflow from investment activities | 961.04 | 627.3 | 226.87 | 58.92 | 407.21 | 119.55 |
| Cash outflow from financing activities | 350.76 | 352.6 | 202.44 | 190.37 | 137.15 | 88.59 |

Table 5: Net cash flow comparison:

| | Midea | | Gree | | Haier | |
|---|---------|---------|---------|--------|---------|---------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Net cash flow from operating activities | 266.95 | 267.64 | 148.6 | 443.78 | 80.55 | 56.05 |
| Net cash flows from investing activities | -197.81 | -179.89 | -192.46 | -47.13 | -395.97 | -102.74 |
| Net cash flow from financing activities | 1.6 | -88.77 | -57.52 | -76.83 | 298.25 | -18.96 |
| Net increase in cash and cash equivalents | 73.26 | -0.85 | -60.44 | 338.58 | -15.07 | -64.11 |
| Final cash and cash equivalent balance | 125.13 | 51.87 | 713.21 | 773.65 | 232.18 | 247.46 |

According to the data in the table, the 16-year Gree operating cash inflow decreased by 432.82 year-on-year, which is also different from the same industry. The operating cash inflow is 8.875 billion less than the US, and 63.554 billion less than Haier. Gree generated a net increase in cash flow of 33.858 billion in 2015, while the net increase in cash flow of the other two companies in 2015 was negative; the US cash inflows from investment and cash inflows from financing were relatively large.

Compared with the other two companies, the net cash flow of US investment financing is similar to that of the other two companies. From Haier's data, it can be seen that Haier's net financing in 2016 has changed greatly from 2015. The increase of 31.721 billion, the net investment flow has also undergone a relatively large change, a reduction of 29.323 billion.

6. Financial ability analysis

Table 6: Financial ability

| | | Current ratio | Quick ratio | Assets and liabilities | Property ratio | Accounts receivable turnover | Inventory turnover | Sales margin | ROE |
|-------|------|---------------|-------------|------------------------|----------------|------------------------------|--------------------|--------------|--------|
| Gree | 2015 | 1.07 | 0.99 | 69.96% | 232.94% | 35.29 | 7.31 | 12.91% | 26.95% |
| | 2016 | 1.13 | 1.06 | 69.88% | 232.04% | 37.09 | 7.88 | 14.33% | 30.00% |
| Midea | 2015 | 1.30 | 1.15 | 56.51% | 129.95% | 14.03 | 8.06 | 9.84% | 26.78% |
| | 2016 | 1.35 | 1.18 | 59.57% | 147.33% | 13.35 | 8.87 | 9.97% | 25.38% |
| Haier | 2015 | 1.38 | 1.16 | 57.29% | 134.15% | 14.05 | 7.36 | 6.60% | 18.41% |
| | 2016 | 0.95 | 0.74 | 71.37% | 147.33% | 13.02 | 6.90 | 5.62% | 19.11% |

From the perspective of current ratio, the United States is stronger than Gree than Haier, but the flow and quick ratio of Gree and Midea are both greater than 1, indicating that there is no obvious debt repayment problem; from the perspective of asset-liability ratio, 2016 The United States has the lowest asset-liability ratio, followed by Gree and Haier. In 2015, Haier's asset-liability ratio was lower than Gree but its asset-liability ratio increased by 14.08% in 2016. Gree indicated that it increased its liabilities in 2016, resulting in asset-liability ratio. In terms of leverage, in 2016, Midea's financial leverage was the lowest, 84.71% lower than Gree and 101.04% lower than Haier.

From the aspect of accounts receivable, Gree's accounts receivable turnover rate is the largest, and it is about 2 times that of the United States and Gree, indicating that its accounts receivable collection speed is fast, and the accounts receivable ability is strong; 2015 to 2016 In the year, Gree and Midea's inventory turnover rate has increased, inventory has become faster, and competitiveness has increased;

From the point of view of net sales rate, Gree's sales net profit rate is the highest in 2015 and 2016, which means that one unit of operating income is increased. The highest net

profit is Gree, followed by the United States, and then Haier. From the perspective of ROA. The highest net profit created by a unit of assets is beautiful, Gree is lower than the United States, and Haier is the lowest; from the perspective of ROE, the highest is Gree.

7. Summary and Recommendations

Based on the financial report data of Gree Electric Appliances, Midea and Qingdao Haier for 14 to 15 years, this paper calculates and analyzes the development strategy, sales and assets, and business performance of the three leading air-conditioning enterprises in China. The following conclusions:

From the perspective of solvency, Gree and Midea are equally divided in terms of debt repayment. Haier's solvency is slightly inferior to the other two companies. In terms of operational capacity, Gree's current assets are relatively large in terms of capital utilization, and funds exist. Idle problem, the utilization rate is not high, the operating capacity is slightly inferior to the other two companies; from the perspective of profitability, Gree has the strongest profitability; from the aspect of products, Gree air-conditioning products are more competitive in the air-conditioning industry. One point is that Haier and the United States cannot match each other. In addition, the United States and Haier have not established such strong competitiveness in the air-conditioning industry as Gree in other product industries. The future uncertainties still exist. In addition, with the recent years The recovery of the air-conditioning industry, Gree relies on the strong competitiveness of the air-conditioning industry in the next few years. In summary, in terms of corporate value, Gree is the largest, followed by beauty, and Haier is the weakest.

Combined with the above analysis, the following suggestions are given:

First, companies should differentiate their products, have unique quality advantages, be recognized by the market, and enhance brand loyalty.

Secondly, enterprises should pay attention to the construction of marketing channels, and develop online and offline at the same time, so that the marketing channels are continuously refined and sinked, opening up market space.

Finally, enterprises will eventually reach a bottleneck in the future of a single tissue paper product. Enterprises must enhance customer stickiness, consider expanding their business, achieve diversification strategies, and actively explore the market.

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