

# Financial Performance Analysis of Hisense Home Appliances

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**Abstract:** *With the rapid development of global economy and science and technology, China's home appliance industry has experienced a period of rapid growth, with a high penetration rate of products, and the market has changed from an incremental market to a stock market. In recent years, Hisense Home Appliance Group Co., Ltd. is a leading enterprise in China's home appliance industry, and its financial performance analysis is the focus of investors' attention. Choose hisense appliances company as the research object, this article first introduces the basic situation of the company, then choose hisense appliances company financial data of 2015-2019 of hisense appliances debt paying ability, profit ability, operation ability and development ability and so on four aspects to carry on the financial performance analysis, performance evaluation, and make a final in the company's financial performance for hisense appliances put forward the corresponding suggestion.*

**Keywords:** Hisense home appliances, Financial performance, profitability

## 1. Company Profile

Hisense Home Appliance Group Co., Ltd. is one of China's large white goods manufacturers. Founded in 1969, its main business covers the research and development, manufacturing, marketing and after-sales service of products in the field of white goods such as air conditioners and refrigerators, and its products are exported to more than 130 countries and regions. In April 1997, Hisense divvied off the core assets of the TV industry and listed on the Shanghai Stock Exchange, and Qingdao Hisense Electric Co., LTD. (600060) became a public company. In September 2005, Hisense invested to acquire Kelon. So far, Hisense has hisense electrical appliances, Kelon electrical two listed companies in Shanghai, Shenzhen, Hong Kong. At the end of 2006, Guangdong Kelon Electrical Co.,Ltd. (Kelon) and Hisense Electrical Holdings Co.,Ltd were successfully reorganized, which led to the birth of Hisense Kelon Electrical Holdings Co.,Ltd., a new aircraft carrier of Chinese white goods. The controlling shareholder of the company is Qingdao Hisense Air Conditioning Co., LTD. The company was registered and established in Qingdao city on November 17, 1995, and its legal representative is Tang Yeguo. By the middle of 2020, The number of shares held by Qingdao Hisense Air Conditioning Co., Ltd. is 516.8 million, accounting for 37.95% of the total share capital.

Hisense Home Appliance Group Co., Ltd. is mainly engaged in the research and development and manufacturing of white home appliances such as refrigerators and air conditioners, the internal and external sales of products and the provision of after-sales services, as well as the transportation of self-run products.

## 2. Financial performance analysis of Hisense home Appliances

The financial performance analysis of Hisense household

Appliance Company mainly analyzes the company's financial performance indicators, such as short-term solvency indicators, current ratio and quick ratio, long-term solvency indicators, asset-liability ratio, receivables turnover ratio, total asset net interest rate and net asset growth rate. The financial performance of Hisense household Appliance Company is analyzed from the following aspects of its financial indicators, including debt paying ability, profitability, operation ability and development ability.

### 2.1 Analysis of the company's solvency

#### 2.1.1 Short-term solvency analysis

Short-term solvency is the ability of an enterprise to repay current liabilities with current assets. On the one hand, the capacity depends on the number and quality of current assets, that is, it pays attention to their liquidity and liquidity; On the other hand to see the current debt and the quality of the situation, debt repayment mandatory degree and urgency for the quality of debt. The specific analysis is as follows:

Analysis of short-term solvency indicators

Short-term solvency	2015	2016	2017	2018	2019
Current ratio (%)	0.90	0.97	1.05	1.06	1.18
Quick rate (%)	0.66	0.77	0.81	0.84	1.01
Cash ratio (%)	10.74	16.67	21.23	27.01	29.37

Source: Oriental Wealth

Generally speaking, the larger the current ratio and the quick ratio, the stronger the short-term solvency of the enterprise. As shown in the above table, from 2015 to 2019, the current ratio, quick ratio and cash ratio of Hisense household appliance company change in a similar trend, and the overall trend increases year by year, indicating that the short-term solvency of Hisense household appliance company is constantly enhanced. From 2015 to 2018, the increasing trend of current ratio and quick ratio is small,

while in 2019, the increasing trend of current ratio and quick ratio is obvious, with the increase of current ratio by 0.12% and quick ratio by 0.17%. From 2015 to 2018, the short-term solvency of Hisense household appliance Company rose. In terms of cash ratio, the cash ratio can better reflect the company's ability to directly pay current liabilities than the quick ratio. Since 2015, Hisense household appliance Company has shown a straight upward trend on the whole. From 2015 to 2016, the company's cash ratio increased the most, with an increase of 5.93%. In 2019, the cash ratio increased by 2.36% compared with that at the end of 2018. The cash ratio of Hisense home Appliance company in 2018 was 27.01 percent, increasing to 29.37 percent in 2019.

### 2.1.2 Long-term solvency analysis

In the long run, all debt needs to be repaid. Indicators to measure the long-term solvency of enterprises are also divided into stock ratio and flow ratio. Specific analysis is as follows:

Analysis of long-term solvency indicators

Long-term solvency	2015	2016	2017	2018	2019
Asset-liability ratio (%)	68.70	72.06	67.62	63.86	63.28
Equity ratio (%)	211.14	250.99	202.91	171.20	166.96

Data source: Sina Finance and Economics

Asset-liability ratio reflects the ratio of a company's total liabilities to its total assets, which can measure the degree of protection of creditors' interests in the liquidation of a company. The lower the debt-to-asset ratio, the more secure the debt service, the safer the loans and the easier the debt. As shown in the above table, the asset-liability ratio showed a trend of first increasing and then decreasing. Except for the increase in 2015-2016, the asset-liability ratio kept decreasing in other years. In 2016, the asset-liability ratio increased by 3.36% from 68.70% to 72.06%. Since 2016, the asset-liability ratio has shown a trend of continuous decline, dropping by 83.03% to 63.28% in 2019. A significant reduction in 2017 and a smaller reduction in 2019. In addition, hisense electrical appliances company property ratio also showed a trend of declining after the first increase, in line with the change trend of company asset-liability ratio, equity ratio increased from 211.14% in 2015 to 2016 to 250.99%, increase amplitude is bigger, since 2016, hisense electrical appliances company property ratio of falling, in 2017 and 2018, the size is bigger, decreased from 250.99% in 2016 to 171.20% in 2018, a smaller decline in 2018, 2019 to 166.96% in 2019, Generally speaking, it shows a trend of increasing first and then decreasing continuously.

## 2.2 Analysis of company operation capacity

The operation capacity analysis of Hisense Household Appliance Company mainly analyzes the receivable turnover, inventory turnover, fixed assets turnover and total assets turnover, etc. The specific analysis is as follows:

Analysis of company operating capacity indicators

Operation ability	2015	2016	2017	2018	2019
Accounts receivable turnover rate (times)	11.53	11.11	12.05	12.15	10.60
Inventory turnover rate (times)	7.11	8.31	8.90	9.18	9.12
Fixed assets turnover rate (times)	7.01	7.34	9.50	10.58	10.23
Total asset turnover (times)	1.70	1.60	1.65	1.66	1.34

Data source: Sina Finance and Economics

Generally speaking, the higher the receivable turnover ratio is, the better, which indicates that the company has a fast collection speed, short average collection period, less bad debt losses, fast asset flow, and strong solvency. As shown in the above table, from 2015 to 2019, Hisense household Appliance Company's accounts receivable turnover first decreased, then increased, and then decreased. On the whole, accounts receivable turnover declined by a small margin, from 0.93% to 10.60% from 2015 to 2019. Inventory turnover reflects the relationship between selling cost and average inventory balance. As shown in the above table, the inventory turnover of Hisense Household Appliances Co., Ltd. showed an increasing trend from 2015 to 2018, increasing 2.07% from 7.11% in 2015 to 9.18% in 2018, and slightly decreasing by 0.06% in 2019.

The higher the turnover rate of fixed assets, the higher the utilization rate of fixed assets, the better the management level. As shown in the above table, from 2015 to 2019, the turnover of fixed assets of Hisense Household Appliance Company showed a trend of first increasing and then decreasing, which was the lowest in 2015 and the highest in 2018. The higher the turnover of fixed assets, the higher the utilization rate of fixed assets and the better the management level. In 2018, the turnover rate of the company's fixed assets was the highest, indicating that the investment in fixed assets was appropriate, the structure distribution was more reasonable, and the enterprise could give full play to its use efficiency and good management level. Total asset turnover ratio is the ratio of net sales revenue and average total assets in a certain period of an enterprise. It is an indicator to measure the ratio between the scale of asset investment and the level of sales. The higher the turnover rate of total assets, the stronger the sales ability of enterprises, the better the benefit of asset investment. From 2015 to 2019, the turnover rate of Hisense's total household appliance assets has been decreasing year by year, which indicates that hisense's operation efficiency with its assets is increasing. In 2017, the turnover rate of Hisense's total household appliance assets was 1.65, an increase of 0.05 compared with that in 2016. In 2019, the turnover rate of Hisense's household appliance assets was 1.34.

## 2.3 Analysis of the company's profitability

An important part of corporate financial analysis is corporate profitability analysis, which mainly analyzes indicators such as gross profit rate on sales, net profit rate on sales and net profit rate on total assets.

## Analysis of corporate profitability indicators

Profitability	2015	2016	2017	2018	2019
Gross profit margin on sales (%)	21.43	23.36	19.46	19.01	21.44
Net interest rate on sales (%)	2.32	4.27	6.13	3.95	5.21
Net interest rate on total Assets (%)	3.95	6.85	10.12	6.57	6.99

Data source: Sina Finance and Economics

As shown in the above table, the gross profit margin of Hisense household Appliance Company is relatively stable from 2015 to 2019, which is 21.4% in both 2015 and 2019. The gross profit margin of Hisense household appliance Company shows a trend of first increasing, then continuously decreasing, and then increasing. The gross profit margin of hisense household appliance company has improved in 2016, increasing from 21.43% in 2015 to 23.36% in 2016. In 2017 and 2018, Hisense's sales gross margin declined, with the sales gross margin increasing from 19.01 percent in 2018 to 21.44 percent in 2019. On the whole, from 2015 to 2019, hisense household appliance Company's sales net interest rate showed a trend of increasing, which generally showed a trend of increasing first and then increasing and decreasing. In 2017, the highest net profit rate of Hisense household appliances was 6.13%, and in 2015, the lowest net profit rate was 2.32%. From 2015 to 2017, the net profit rate of hisense household appliances increased continuously, and dropped to 3.95% in 2018. In 2019, the net profit rate of Hisense household appliances increased sharply to 5.21%. Hisense home Appliance company has strong profitability in 2017 and 2019. As shown in the above table, the net interest rate on total assets of Hisense Home Appliance Company has been increasing first and then decreasing since 2015. The net interest rate on total assets is the percentage of the company's net profit and the average total assets. This index reflects the level of profit that the company makes by using all its assets. The higher the index, the higher the level of input and output, the more effective the asset operation, and the higher the level of cost control. Reflects the level of enterprise management. In 2019, the company's net interest rate on total assets rose slightly compared with 2018, and the increase in net profit was larger than the increase in assets. In 2017, Hisense home Appliance Company had the highest net interest rate on total assets and the lowest net interest rate on total assets in 2015.

#### 2.4 Analysis of the company's development capability

Ability refers to the development of enterprise future development trend of the production and business operation activities and development potential, from the point of formation, the growth of the enterprise ability mainly through its own production and business operation activities, expanding accumulation, which formed mainly on increasing sales revenue, increasing capital investment, and constantly create profits, etc. The specific analysis is as follows:

#### Development Capability analysis of China Eastern Airlines from 2015 to 2019

Development capacity	2015	2016	2017	2018	2019
Main Business Revenue growth rate (%)	-11.54	13.88	25.28	7.56	3.98
Net profit Growth rate (%)	-23.50	109.75	79.68	-30.62	37.06
Growth rate of Net Assets (%)	13.53	18.99	30.62	13.46	58.20
Growth rate of Total Assets (%)	7.73	33.32	12.69	1.65	55.72

Data source: Sina Finance and Economics

As shown in the above table, it can be found that the growth rate of main business income of Hisense Home Appliance Company from 2015 to 2019 presents a trend of first increasing and then decreasing, and the growth rate of net profit, net assets and total assets presents a trend of first increasing and then decreasing. In 2019, hisense household Appliance company's main business revenue growth rate, net profit growth rate, net asset growth rate and total asset growth rate are all positive.

Then compare the relationships between the types of growth rates. First of all, compare the growth rate of net assets and net profit growth rate, during 2015-2019, 2016 and 2017, hisense electrical appliances company net profit growth rate of more than net asset growth, especially in 2016, more than net asset growth rate around 90%, net profit growth of the rest of the year are net asset growth rate more than net profit growth rate, especially in 2018, the net growth rate more than 43% net profit growth. Secondly, compared with the growth rate of main business income and net profit, the growth rate of main business income of Hisense Home Appliance Company in 2015 and 2018 exceeded the growth rate of net profit, especially in 2018, the growth rate of main business income exceeded the growth rate of net profit by about 38%, and the growth rate of net profit was high in the rest years. Finally, compare the hisense electrical appliances company net profit growth rate and growth rate of total assets, the whole, net profit growth rate and growth rate of total assets change trend is consistent, all showed a trend of increased after decreased and then increased, 2016 and 2017, hisense appliances company net profit growth rate is more than the total assets growth rate, especially in 2016, more than total assets growth rate is as high as 76%, net profit growth of the rest of the year all is total assets growth rate more than net profit growth rate, especially in 2018.

### 3. Performance evaluation of Hisense Home Appliance Company

From the perspective of solvency, in the past five years, the company's current ratio has been lower than the optimal level 2 with little fluctuation, which may lead to the situation of insufficient current assets and unable to repay debts, which is relatively dangerous. Too high quick ratio will reduce the profitability of capital. In general, the quick ratio of the company is on the rise, indicating that the short-term debt paying ability of Hisense household

appliance Company is increasing year by year. The change of the company's asset-liability ratio does not fluctuate much, but the higher value is above 60%, indicating that the company's financial risk is high and its long-term solvency needs to be strengthened.

From the perspective of operation capacity, compared with representative companies in the same industry, Hisense home appliance Company has a leading position in the inventory turnover and total asset turnover, but a low account receivable turnover. It indicates that the company has strong inventory liquidity and high asset utilization efficiency, but the company needs to strengthen the management efficiency of accounts receivable. In general, Hisense household appliance Company has a strong operating capacity. In 2019, various indicators have picked up, and there is still some room for improvement.

From the perspective of profitability, in the past five years, compared with Gree Electric Appliances, Midea Group and Qingdao Haier, Hisense household appliance Company's sales gross profit margin is significantly lower, indicating that the company needs to strengthen its product competitiveness and profit quality. By comparing the return on equity, we can see that the company has strong profitability. Therefore, in the future business development, the company should take the promotion of sales gross margin as the main goal. In 2019, the total revenue of Hisense household appliance Company was 37.453 billion yuan, with a year-on-year growth of 3.98%. In 2019, the net profit of Hisense household appliance Company increased by 30.22% year-on-year.

From the perspective of development ability, in the past five years, the development ability of Hisense household appliance company is basically in a positive state, but its growth rate is different, which also makes its own development ability constantly fluctuates. Compared with representative companies in the same industry, Hisense home appliance Company has a low revenue growth rate, especially compared with Midea Group. However, the company's net profit growth rate is in a leading position, indicating that the company is in the growth period, strong profitability, combined with the two indicates that the company still has certain problems in operation and management.

#### 4. Suggestions on improving the financial performance of Hisense home Appliances

Through the analysis of the above financial indicators, the following conclusions can be drawn: first, the enterprise has a strong solvency, less financial risk, but the ability to use external funds is poor; Second, the operation capacity is increasing, but the turnover of accounts receivable is slowing down; Third, profitability has been improving, but the ability to obtain cash is weakening. In order to further strengthen the financial management of Hisense, the following measures can be taken:

First, appropriate expansion of creditor's rights financing to increase the wealth of shareholders. At present, Hisense electric Appliance has been continuously enhancing its profitability and operating capacity. Hisense has won the bid for the national 863 Plan and the key projects of the Electronic Information Industry Development Fund respectively.

LED light source system development project "and" LCD TV in large size LED backlight module technology research and development and industrialization "projects, to rapidly promote hisense in the competitiveness of the industry, therefore, under the current financial situation is relatively stable, proper increase of creditor's rights financing, will enhance the enterprise the management vitality, with further increase of shareholder wealth.

Second, strengthen accounts receivable management, improve the ability to obtain cash. Because of hisense electric appliance of domestic electrical appliances chain stores sales, mainly the method of payment for bank acceptance bill) size and the proportion of sales increase, lead to increased notes receivable, and debt collection of home appliance chain stores have certain payment cycle, cause the overall duration of receivables collection and accounts receivable takes up more, affects the accounts receivable turnover and attains the capacity now, as a result, a reasonable credit policy and strengthening the management of accounts receivable, and is to improve the quality of sales revenue, the key to accelerate the capital turnover.

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