

# *Financial Analysis and Strategic Choice of Listed Companies on the New Third Board*

—*Taking Anhui Hengtai New Material Company as an example*

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**Keywords:** New Third Board; Financial Analysis; Development Direction; Market Development Strategy

**Abstract:** The New Third Board has become an important financing channel for many start-up companies. However, how these listed companies use the new platform to improve financing efficiency and speed up the flow of funds to the physical industry is becoming a new challenge. In view of this, this article uses Anhui Hengtai New Material Technology Co., Ltd. as a research sample to discuss in detail the current financial problems, development problems and strategic selection problems of the current NEEQ listed companies. In this way, it summarizes the predicament of listed companies on the New Third Board, and gives reference to the difficulties faced by the company.

## 1. Introduction

Under the macro background of the innovation-driven development strategy, the New Third Board, as an exclusive platform for innovative and growing small, medium and micro enterprises, bears the great responsibility of activating the market's innovation momentum. Since its development, it has achieved rapid development.

From a macro perspective, the New Third Board market has already had a tremendous capacity, with more than 9,000 listed companies, surpassing the total number of listed companies in Shanghai and Shenzhen. The total amount of financing has further increased, and there are many characteristic companies<sup>[1]</sup>.

The new third board has the basic characteristics of low threshold, which is conducive to improving the company's financing ability and liquidity, improving the company's capital structure, and improving the company's own ability to resist risks. It can promote the standardized development of enterprises and enhance the stamina of enterprises. The main system design of the NEEQ is the transfer system, which has the following two types: one is that listed companies withdraw their listings and enter the small and medium board market in accordance with other ordinary corporate methods; the other is to directly transfer from the NEEQ to the GEM after approval by the China Securities Regulatory Commission Trading listing<sup>[2]</sup>.

The NEEQ listed companies have always been the main reserve force for listing on the ChiNext and even the Main Board, but how to break this threshold has always been a problem that many

business managers and scholars are thinking about together. Anhui Hengtai New Material Technology Co., Ltd. selected in this article is a company listed on the New Third Board in 2018 and has high-quality development potential. Through scientific and reasonable financial analysis of the company and brand-new strategic choices, the company aims to knock down development obstacles, break development bottlenecks, have a higher market share in the future industry, and develop more long-term, which is expected in the next 5 years. Transfer listing.

## 2. Financial Analysis Model and Data

This article selects the financial data of Anhui Hengtai New Material Technology Co., Ltd. from 2017 to 2019 for financial analysis.

### 2.1 Analysis of corporate financial structure

The total liabilities for the selected three-year period are 106 million yuan, 113 million yuan and 120 million yuan. The total owner's equity for the selected period of three years is 115 million yuan, 105 million yuan and 79,675,700 yuan. The ratio of the two continues to rise, and the proportion of debt is increasing year by year, which may be due to a large increase in investment and payables. The overall fluctuation range is not large. The company's financial structure is relatively normal.

### 2.2 Analysis of corporate solvency

This part mainly selects current ratio, quick ratio, asset-liability ratio and equity ratio for analysis.

**Current ratio:** Current assets divided by current liabilities. Generally, the larger the ratio, the stronger the company's short-term solvency. In 2018, the current ratio increased significantly. Although the increase was smaller from 2018 to 2019, it is still on the rise, indicating that the overall short-term debt solvency is relatively strong. The company's liabilities are dominated by current funds from product revenue and expenditure, and non-current capital liabilities are very small.

**Quick ratio:** The ratio of the company's quick assets to current liabilities indicates whether the company's assets can be realized quickly. The quick ratios of Hengtai New Materials Co., Ltd. for three years are relatively high, and the industry's competitiveness is strong, indicating that the liquidity ability is acceptable.

**Asset-liability ratio:** the ratio of total liabilities to total assets. The company's debt-to-asset ratio has shown a downward trend year by year, indicating that for the company, its overall long-term debt solvency has been increasing year by year, which provides more protection for creditors.

**Equity ratio:** The ratio of debt to total owner's equity. It is an indicator of long-term debt repayment ability, the bigger the better. From the selection period data, the property rights ratios from 2017 to 2019 were 92.17%, 107.62%, and 150.61% respectively. The equity ratio is declining year by year, and the degree of fluctuation is relatively large, indicating that the company's long-term debt solvency is gradually weakening.

From an overall perspective, the company's short-term solvency is relatively competitive. But in terms of long-term debt repayment, we still face serious problems.

### 2.3 Analysis of corporate profitability

This section mainly selects representative earnings per share, return on net assets and net interest rate for analysis.

Earnings per share rose by 136.36% from 2017 to 2018, and fell by 28.85% from 2018 to 2019, with relatively large fluctuations and unstable financial conditions.

Return on equity is the ratio of net profit to average shareholder return. The value in 2018 is the most prominent, indicating that the company's operating conditions have been good for 18 years, but it has fluctuated. If necessary, the company needs to adjust its business strategy.

The net profit margin can comprehensively reflect the trend of a company or an industry's operating conditions. The data shows that the net profit margin in 2018 is the largest, indicating that the profitability level in 2018 is relatively good, and the overall fluctuation range within three years is relatively large. Need to find further problems for improvement.

## **2.4 Analysis of corporate operating capability**

This section selects operating indicators such as accounts receivable turnover rate for analysis.

Accounts receivable turnover rate: It shows a fluctuating trend, but there has been a sharp increase in 2019 compared to 2018, indicating that the recovery of corporate accounts receivable has accelerated and the risk of accounts receivable has been reduced.

Inventory turnover rate: generally reflects the company's short-term debt solvency. The data showed that there was only a slight decline in 2019, and the overall inventory turnover rate of the company remained at a reasonable level.

The turnover rate of current assets is used to evaluate the utilization rate of corporate assets. The company's turnover rate in 2018 was the largest, indicating the strongest utilization efficiency of current assets in 2018, but a decline in 2019, indicating that there are some problems in the turnover of current assets.

The total asset turnover rate is an indicator of the ratio of asset investment scale and sales level. From 2017 to 2019, this indicator has continued to rise. The higher the index, the higher the rate of return for each asset.

## **2.5 Analysis of enterprise development capability**

This section mainly selects operating income growth rate, operating profit growth rate and total asset growth rate for analysis.

Operating income growth rate is the ratio of operating income growth to total operating income. In 2017, the company's market conditions were good, an increase of 65.54% over the previous year, a very large growth, and a substantial increase in 2018. The company's three-year operating income turnover rate showed an overall increase and slight fluctuations, indicating that the company's overall operating situation has advantages.

The growth rate of operating profit is the ratio of the growth of operating profit to the total operating profit, indicating the change in the operating profit of a company. The three-year value decreased slightly in 2017 and 2019, indicating that the sales situation in 2018 and the market are relatively high-quality. The overall fluctuation is not large.

The growth rate of total assets is the ratio of the growth of total assets to the total assets at the beginning of the year, reflecting the growth of the scale of corporate assets. This indicator has large fluctuations, but the overall state of continuous growth is relatively stable.

The operating income and profit of the company for the selected period of three years have a certain upward trend, but in 2019, the market shrinkage has led to a decline in sales. The company is affected by some external factors, and its profitability has decreased. The company's product quality is stable, and the main financial and business operations are in good condition, so the company has good future development capabilities.

### **3. Analysis of Financial Distress of Listed Companies**

#### **3.1 Corporate financial structure**

In terms of structure, the company's financial structure is generally normal, but the proportion of the company's liabilities is increasing year by year. This may be due to a substantial increase in investment and payables. It is necessary to further balance the debt ratio and reduce employee compensation payables, short-term loans, and advance accounts. The proportion of other liabilities. From the perspective of asset structure, there has been a tendency towards non-current assets in the past three years, and it is necessary to strengthen the liquidity of assets. The company must pay attention to the profitability of non-current assets while purchasing fixed assets, and double-sided actions to ensure the company's further normal operation.

#### **3.2 Corporate solvency**

The company generally has sufficient operating cash, but the company relies too much on the use of current assets. The ratio of current liabilities to total liabilities continues to exceed 80%, which proves that the company's liabilities are dominated by current funds from product revenues and expenditures, with very few non-current capital liabilities. The company's equity ratio can be derived from financial analysis, showing a trend of declining year by year with relatively large fluctuations, indicating that the company's long-term solvency is gradually weakening.

#### **3.3 Corporate profitability**

The company's profitability fluctuates to a large extent. The realization is that the earnings per share has a downward trend from 2018 to 2019, indicating that there are problems in the company's internal and sales profitability, which caused the stock price to fall.

The return on net assets showed a relatively large degree of volatility, the largest in 2018, indicating that the company's operating conditions were better in 2018, but both 2019 and 2017 fluctuated.

#### **3.4 Corporate operating capabilities**

The turnover rate of corporate accounts receivable is fluctuating, but there has been a significant increase in 2019 compared to 2018, indicating that the accounts receivable in 2019 are in good condition. The data reflects that the inventory turnover rate of enterprises has declined to a certain extent from 2017 to 2019. Although there is only a small decline, some problems have been exposed, indicating that the liquidity of the company's inventory needs to be improved, and it is necessary to plan shipments with partners reasonably Case. The company's liquid asset turnover rate also declined in 2019, indicating that the company's asset liquidity has a downward trend, and losses must be stopped in time.

#### **3.5 Corporate development trends**

Although the revenue and total profit have been steadily increasing during the reporting period, the shrinking market and the influence of some external factors in 2019 led to a decline in sales and a decrease in profitability, which also affected the growth rate of operating profit and the growth rate of total assets.

The company should look for its own development opportunities. Before the new crown

pneumonia has subsided, it must predict the price and market direction in many ways, so that the company is not limited to the current market. Only multi-directional development can further enhance the company's profit level and profit channels, and make the company present a clearer development trend.

## **4. Analysis of the Development and Strategic Direction of Listed Companies**

### **4.1 Analysis of development direction**

Companies listed on the NEEQ are generally companies that cannot be listed on the main board, etc. They make their shares circulate on the NEEQ to obtain funds for corporate development. When the capital and financial situation of these companies meet the requirements of the Growth Enterprise Market, they can be transferred to the new module for development.

The New Third Board is equivalent to a stepping stone for enterprises, allowing enterprises with potential but lacking higher strength to take the opportunity to develop, and at the same time, to accept some enterprises that have suffered losses. In the process of the establishment and continuous development of the New Third Board, a multi-level capital market system is also constantly being formed.

From the perspective of the future development of Anhui Hengtai New Materials Company, the New Third Board can only be used as a stepping stone for them. This financing opportunity should be used to choose a more diversified development direction and adopt a more competitive development strategy in order to realize the transfer as soon as possible. To further expand the company's capital scale,

### **4.2 Strategic direction analysis**

2020 is a special year. Under the influence of the new crown pneumonia, on the one hand, raw material prices have fluctuated and the company's profits have been impacted; on the other hand, orders have decreased, resulting in poor operating conditions in the first quarter of the company. If the price of raw materials fluctuates sharply, it will have a certain degree of impact on the company's profitability.

Therefore, the company can adopt a market development strategy to push existing products into a new market<sup>[7]</sup>. The first is to export products overseas, because the prices of products in overseas markets are generally higher than those in the domestic market. At the same time, in terms of policies, because of the decline in demand in the domestic market, the export policies are relatively high-quality.

At the same time, the company can be more diversified in the domestic market. Because the current domestic solid epoxy resin market is relatively saturated, the industrial chain is relatively complete, and small and medium-sized enterprises are more concentrated. If you want to have a more prominent occupation performance in such a market environment, it is more difficult. Increasing the scale of markets rarely developed by other companies will allow the company to have more industrial destinations and expand its industrial scale.

At the same time, there are also many vacancies in the retail of raw materials on the market. The company can also adopt a diversified sales model to increase the company's business scope. It is not only limited to finished products, but also sells products in various processes to occupy more market share.

The company's main business is epoxy resin, and the proportion of epoxy resin product revenue to main business revenue is generally greater than 95%. If the epoxy resin market develops towards a bad trend in the future, the company will face risks, and the company is likely to experience a

substantial reduction in profits.

Although the company is currently using the accumulated customer source and industry reputation to actively develop the polyester resin product market, and at the same time research and invent new products, the company actively manages the risk of profit from a single product and makes the greatest possible profit. But there is still a big uncertainty.

And the current market is saturated, but the entry of emerging technologies is lacking. If a company wants to occupy a market already occupied by other companies, it must enhance its competitiveness through technological innovation. The company should conduct a reasonable assessment, increase the research and development of polyester resin within a reasonable range, and use its good reputation and reputation in the industry for promotion and sales. The company's profitability will increase new opportunities, thereby changing the situation of a single product.

Companies can research and develop new products to improve performance to attract customer needs, and they can further reduce the cost of original products through technological innovation. You can also focus on the production process to further increase productivity and reduce costs. These three methods can make the company more competitive in the future development.

At the same time, the environmental protection requirements are getting higher and higher recently. Instead of allowing the company to invest a lot of money in environmental protection in the later period, it is better to invest in research and development, so that the source of pollution output is greatly reduced, so that the root cause is suppressed, and the development is also developed. More valuable products.

The company is now in the golden stage of rapid development, and market demand is rising further. With the further expansion of the company's production scale, the replacement of production equipment, the introduction of talents and the research and development of new technologies, the company needs more funds as guarantee and support. In the long run, this financing method that mainly relies on bank credit is not enough to meet the large capital needs of enterprises. If the general environment is constrained, such as the impact of the new crown pneumonia epidemic, a single bank loan financing method can hardly guarantee the normal operation of enterprises.

The company's epoxy resin sales volume ranks first in the industry, with obvious scale advantages, and financing needs have become inevitable. So if you want to further increase your market share, you must raise a lot of funds. Therefore, according to the company's further development plan, it is necessary to expand the level of capital through equity financing through the issuance of stocks to investors, so as to expand the capital scale of the entire company, expand the business line, and make the market share higher.

Companies should recognize the importance of financing in the capital market, formulate reasonable operating plans, strive to be listed on the Growth Enterprise Market, and obtain large amounts of capital through financing in various ways to strengthen the company's capital strength and ensure its good future development.

## 5. Conclusions and Recommendations

Based on the above research, Anhui Hengtai New Materials Co., Ltd. currently operates well among the companies listed on the NEEQ. But it also faces risks including prices, epidemics, and the external environment. At the same time, there are some problems in the company's financial structure, including the improper structure of current assets and non-current assets, and problems with long-term debt repayment.

If a company wants to break through the NEEQ, it must overcome obstacles and actively adopt more powerful strategies. These strategies are meaningful for many NEEQ companies. Including

opening up new overseas markets, expanding our business scope, etc., while actively innovating and increasing scientific research to increase productivity, form unique advantages, and use good business capabilities to gain more financing channels for the company and increase its market share Happening.

Only in this way can the company attract more financing, lay a foundation for the company's expansion, gain a more advanced position in the future industry, and achieve the goal of transferring the board as soon as possible.

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