

Analysis of the Financial Situation of Haidilao under the Influence of the Pandemic

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Abstract: Because of a sudden outbreak of Covid-19 pandemic, the booming and flourishing situation of Haidilao was completely broken. For a while, the city lockdown, home quarantine and other pandemic prevention measures make the Haidilao's traditional operation model unsustainable. The COVID-19 pandemic has fully exposed the problems and pain points existing in Haidilao and brought opportunities for it to seek new development. This article according to the case of Haidilao, analyzed its status by using literature search, contrastive analysis, field research and interview method and briefly analyzed its financial conditions in five respects including the debt paying ability, profitability, operation ability, development ability and Dupont analysis system. According to the actual situation of Haidilao, the existing problems were discovered, and suggestions and strategies were put forward for its future development. Finally, it was concluded that Haidilao's operating performance declined because of the Covid-19 pandemic, and it needs to improve the defects to develop better in the future.

1. Introduction

Since the beginning of 2020, the COVID-19 pandemic has raged around the world, causing a considerable blow to the world economy. From the perspective of the industry, the catering industry has been severely impacted, with many catering enterprises facing serious losses or even bankruptcy. As a representative enterprise in China's catering industry, Haidilao's development has attracted the attention of investors, government regulators and other enterprises in the industry.

In order to find out the severe impact of the pandemic, we analyze Haidilao's financial problems and put forward relevant strategies to minimize the impact of the pandemic. The financial analysis of Haidilao is based on its financial statement data, compared with historical data and competitive enterprise data, we can research the current financial situation of the Haidilao and find financial problems so that we can put forward ideas to solve them. In addition, how to resolve the crisis and find new opportunities and breakthroughs has become the priority and important goal of the catering industry at present. In view of the status of Haidilao in the Chinese catering industry is very important, so the financial analysis and solve the financial problems is important for Haidilao itself and the catering industry.

2. Results

2.1 Analysis of current financial status of Haidilao

Before the pandemic, Haidilao's revenue in the past five years showed an upward trend, with the company's operating revenue reaching 26.556 billion yuan in 2019 from 5.757 billion yuan in 2015. Meanwhile, the company's net profit rose to 2.347 billion yuan from 411 million yuan. The annual growth of operating revenue represents the rising status of Haidilao in the catering industry, and consumers increasingly recognize Haidilao's products and services. With the continuous growth of income, the per capita consumption of Haidilao reached 105.2 RMB in 2019.

After the COVID-19 outbreak in 2020, Haidilao fell into a situation of declining revenue and tight cash flow. According to the 2020 annual report, due to the impact of the pandemic in 2020, passenger

flow declined, and the annual average turnover rate of Haidilao decreased from 4.8 times/day to 3.5 times/day. Haidilao, however, actively developed its food delivery business during this tough time, with its food delivery revenue reaching 717 million yuan, up 60.0%.

Since the mainland China is Haidilao's main market, the business situation of Haidilao has gradually improved since the pandemic was gradually brought under control in China in the second half of 2020. By the end of 2020, Haidilao had turned a loss into a profit, with a net profit of 309 million yuan, but the company's net profit was still down 86.8% compared with 2019.

This chapter mainly analyzes the financial data of Haidilao in 2020. The longitudinal comparison takes 2019 as the base period and 2020 as the calculation period for financial analysis. For horizontal comparison, the financial data of Haidilao and Xiabuxiabu, the second largest catering company in Hong Kong stock market, are compared to understand the financial status of Haidilao in 2020 and the reasons for its formation through comparative analysis.

2.2 Solvency analysis

It can be seen from Table 1 that the indicators of Haidilao's solvency in 2020 have significantly decreased compared with the data in 2019, and the three ratios have nearly halved compared with that in 2019, indicating that the solvency risk of Haidilao in 2020 has significantly increased compared with that of the previous year. This is because Haidilao could hardly generate income in the first half of 2020 and lacked operating cash flow inflow. Haidilao borrowed money from banks to maintain the daily operation of the company, thus increasing its debt scale. In addition, the current ratio of Haidilao in 2020 was 0.67, which was far lower than 1, which was very worthy of vigilance. It shows that Haidilao's current liabilities have pierced current assets, and the net working capital is negative at this time so that the financial risk is higher. In addition, compared with Xiabuxiabu, the change range of Haidilao's solvency index is significantly greater than Xiabuxiabu, indicating that the pandemic has a more severe impact on Haidilao's solvency.

Table.1. Haidilao solvency indicators

Year	Current Ratio		Quick Ratio		Cash Ratio(%)	
	Haidilao	Xiabuxiabu	Haidilao	Xiabuxiabu	Haidilao	Xiabuxiabu
2019	1.27	1.17	1.06	0.76	39.23	45.80
2020	0.67	1.12	0.55	0.77	20.60	55.43

2.3 Profitability analysis

As shown in Table 2, Haidilao's profitability in 2020 showed a "cliff-like" decline compared with that in 2019. Among them, the net interest rate on total assets fell as much as 91.1%, the biggest decline. Through the analysis of the reasons, we can know that the serious decline in Haidilao's profitability in 2020 is mainly due to the 86.8% decline in Haidilao's net profit in 2020 compared with that in 2019. In addition, from the perspective of horizontal analysis, compared with Xiabuxiabu, Haidilao has more advantages in profitability than Xiabuxiabu. Under the impact of the pandemic, although the profitability of both companies has been significantly hit, Haidilao is still superior.

Table.2. Haidilao Profitability indicators

Year	Net Profit Ratio(%)		Net Interest Ratio on Total Assets(%)		EPS(RMB)	
	Haidilao	Xiabuxiabu	Haidilao	Xiabuxiabu	Haidilao	Xiabuxiabu
2019	8.84	4.82	14.40	6.49	0.44	0.27
2020	1.08	0.21	1.28	0.03	0.06	0.0017

2.4 Operation capacity analysis

As can be seen from Table 3, in 2020, inventory turnover decreased by 23.3%, total asset turnover decreased by 27.0%, and current asset turnover basically remained at the original level. The reasons for this series of changes are as follows: First, Haidilao continued to expand and increased the number of restaurants in 2020; In addition, the operation of the supply chain had been hit by the pandemic. Restaurant expansion increased the total assets and inventory on one hand, on the other hand the

influence of pandemic in the first half of 2020 can't generate income, all of these factors reduced the inventory turnover and total assets turnover, and in terms of current assets turnover, Haidilao 2020 full-year revenue growth of 7.75%, and borrowing 4.221 billion yuan from the banks, The injection of debt capital makes the current assets increase and thus keeps the turnover of current assets relatively stable. In addition, compared with Xiabuxiabu, the turnover speed of inventory, current assets, and total assets of Haidilao is still stronger than Xiabuxiabu under the impact of epidemic factors in the catering industry, indicating that Haidilao still has strong competitiveness and is in a leading position in the industry.

Table.3. Haidilao operating capacity indicators

Year	Inventory Turnover		Current Assets Turnover		Total Assets Turnover	
	Haidilao	Xiabuxiabu	Haidilao	Xiabuxiabu	Haidilao	Xiabuxiabu
2019	56.50	27.38	50.91	29.00	72.58	72.95
2020	7.75	-9.53	-67.65	-12.62	33.54	2.74

2.5 Development capability analysis

As can be seen from Table 3.9, Haidilao's operating revenue and total assets showed a trend of growth in 2020, but compared with 2019, the growth rate and range were significantly lower, while the operating profit suffered a serious blow, from 50.91% growth in 2019 to a negative growth of 67.65% in 2020. The main reason is the adverse impact brought by the pandemic. On the one hand, Haidilao actively participates in public affairs and increases the operation cost related to pandemic prevention: In addition, Haidilao purchased a large number of fixed assets due to restaurant expansion. As a result, the operating revenue, and total assets of Haidilao increased while the operating profit declined significantly. In addition, compared with Xiabuxiabu, the growth rate of Haidilao's operating revenue and total assets is ahead of Xiabuxiabu, but the growth rate of operating profit is lower than Xiabuxiabu, indicating that Haidilao is more severely affected by the pandemic in operating profit than Xiabuxiabu.

Table.4. Haidilao development capacity indicators

Year	Revenue Growth Rate(%)		Profit Growth Rate(%)		Total Assets Growth Rate(%)	
	Haidilao	Xiabuxiabu	Haidilao	Xiabuxiabu	Haidilao	Xiabuxiabu
2019	56.50	27.38	50.91	29.00	72.58	72.95
2020	7.75	-9.53	-67.65	-12.62	33.54	2.74

2.6 Comprehensive analysis of financial position

As shown in Figure 1, DuPont analysis is carried out for Haidilao's data in 2020.

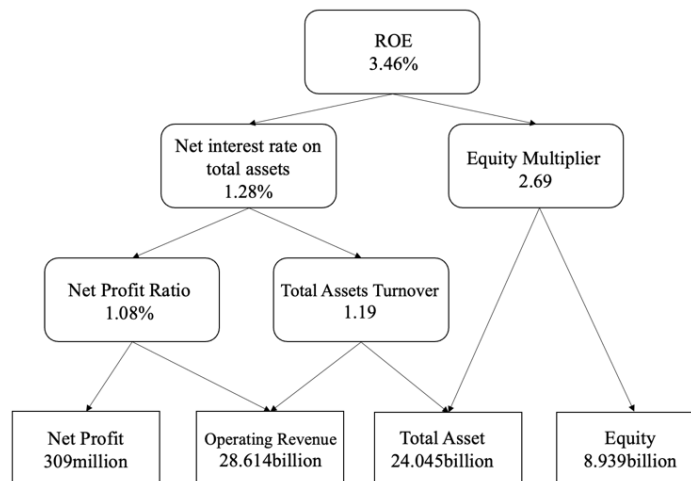


Figure 1. Haidilao 2020 Dupont Analysis System

As for net profit ratio, as shown in Table 5, due to the impact of the epidemic in 2020, the annual net profit decreased by 86.8%, resulting in a significant decline in net profit ratio. Secondly, the turnover rate of total assets also declined compared with 2019, which is caused by the fact that the growth rate of total assets of Haidilao in 2020 is higher than the growth rate of operating revenue. Finally, as for its equity multiplier, the equity multiplier in 2020 increased compared with the previous year, mainly because Haidilao increased its equity multiplier by using financial leverage due to the opening of new stores and operation in 2020.

Table.5. Core indicators of DuPont analysis system of Haidilao

Indicator name \ Year	Base Period(2019)	Calculation Period(2020)
ROE	27.95%	3.46%
Net Profit Ratio	8.84%	1.08%
Total Assets Turnover	1.63	1.19
Equity Multiplier	1.94	2.69

Compared with the base period of 2019, the ROE in 2020 has a significant decline, among which the factors that have the greatest negative impact on it are net profit ratio and total asset turnover. The equity multiplier is a positive factor affecting the ROE.

Through the analysis of the driving factors of the ROE of Haidilao, we can find that the following reasons. First, due to the impact of the pandemic, Haidilao's operating costs have increased, among which, the salary payable to employees has increased by 21.1% compared with 2019. In addition, due to restaurant expansion, the company has purchased more fixed assets, so Haidilao's depreciation and amortization has increased by 60.4% in 2020. These factors have increased costs and result in a significant decline in net profit. Second, due to the implementation of the restaurant expansion strategy in 2020, Haidilao purchased many fixed assets, which led to the increase of total assets and the decrease of total asset turnover. Third, As Haidilao borrowed funds from banks in 2020, it alleviated the adverse impact caused by the pandemic, resulting in an increase in equity multiplier and financial leverage. The combination of the above reasons leads to a significant decline in Haidilao's ROE in 2020 compared with that in 2019. In the future, Haidilao should pay attention to control its own operating costs in addition to meeting business needs and coping with external risks, to gradually recover its own operation and financial ability and level.

3. Discussion

3.1 Current financial problems of Haidilao

3.1.1 Unreasonable financing structure

Haidilao excessive use of debt funds for financing, making its own financial leverage increased. From the perspective of solvency, the current assets of Haidilao in 2020 are not enough to cover its current liabilities. In other words, the operating capital of Haidilao in 2020 is negative, which is a very dangerous signal for Haidilao, indicating that the current assets of Haidilao are not enough to pay its current liabilities. Haidilao currently adopts a relatively aggressive financial policy. Although the use of financial leverage tools is helpful to improve corporate profits, excessive financial risks are very dangerous for enterprises.

3.1.2 Decline in profitability

At present, the profitability of Haidilao is not as good as before, as the development of new catering modes has impacted offline catering. With the rise of the Internet economy and the outbreak of the pandemic, the catering industry has developed from offline to online, and people are more inclined to use the Internet to combine food with takeout delivery and other emerging ways to consume food. The most obvious impact of the new catering model on Haidilao is reflected in the profits of major stores. Haidilao's previously relatively stable profit model is being broken, and the performance of the new restaurants is not as good as before, because many consumers have started to switch to online catering consumption, resulting in the performance of the new restaurants is not as good as before. In 2018,

Haidilao's prospectus shows that in 2017, Haidilao's operating revenue exceeded 10 billion yuan, increasing by 36.24%; Net profit rose 22.1 per cent, below expectations. In 2020, the offline operation of Haidilao suffered a severe blow under the impact of the epidemic, and its net profit was only about 13% of that of 2019.

3.1.3 Decline in inventory turnover capacity

With the rapid expansion of Haidilao restaurants in recent years, the inventory turnover capacity of Haidilao tends to decline, because the construction speed of the supply logistics system of Haidilao does not keep pace with the expansion speed of the restaurants. Therefore, a more perfect supply logistics system is needed as a guarantee. If the construction of the supply logistics system is not timely matched with the expansion of catering stores, it will hinder the further development of Haidilao.

At present, Haidilao has seven modern large-scale logistics distribution bases and one base material production base in China, and has established a subsidiary, Shuhai Supply, to conduct unified management and scheduling of the supply chain. Logistics and Beijing Zhongleng Logistics Co., Ltd. has established a long-term cooperative relationship. But there are still some deficiencies worthies of further improvement. Firstly, the number of logistics distribution bases is still small compared with Haidilao stores nationwide, and hierarchical distribution mode has not been formed. Secondly, logistics determines whether food materials can be delivered to Haidilao stores on time and in good quality and quantity. Although Haidilao has established a cooperative relationship with Zhongleng Logistics, it has failed to establish its own complete logistics system, and there are certain logistics risks. These problems in the financial aspect are reflected in the reduction of inventory turnover capacity of Haidilao. For catering enterprises, inventories are mostly food materials, spices and other items that are difficult to preserve for a long time, so the strength of inventory turnover capacity affects the development of the whole enterprise.

3.1.4 High cost

The cost problem of sea bottom fishing basically has the following aspects. First in management oversight, Haidilao too humanized and flattening system structure design is not conducive to saving cost, Haidilao employees can according to actual condition to decide send food or free of charge to customers, so too with free of charge, free food is not only easy to cause some staff to lie about the singular free fraud, but also easy to increase a lot of additional costs. Second, in terms of raw material cost, although Haidilao has established Shuhai Supply Company to supply its food materials, in general, the raw material cost of Haidilao is still relatively higher in the industry, which reflects that Haidilao has not played the role of its subsidiaries in saving the cost of raw material supply. Third, in terms of human cost, Haidilao stores have the problem of staff redundancy. According to the survey, there are often several service personnel at each table to serve customers, which greatly increases the human cost of Haidilao, reduces the profit margin of Haidilao, and is not conducive to the development of the enterprise.

3.2 Measures to solve the financial problems of Haidilao

3.2.1 Optimize the financing structure

For Haidilao, it is necessary to reduce financial leverage to cope with its current debt repayment problems and reduce the proportion of debt in total funds. First, in terms of solvency, current assets should be increased while current liabilities should be reduced accordingly, so as to keep working capital in a healthy index range, so as to maintain the daily operation of the enterprise and deal with short-term liabilities. For Haidilao, its hands should be relatively abundant cash and other current assets to cope with some possible emergencies. In addition, Haidilao should reduce the enterprise's overall debt scale, more use of equity capital requirements of money to solve their own problems, eventually make Haidilao on a path to a low debt management, to reduce the financial risk of the Haidilao.

3.2.2 Improve profitability

For Haidilao, the improvement of profitability is to find new profit points of the enterprise. In terms of finding new profit points, due to the impact of the pandemic on traditional catering, it will be difficult for offline catering to recover to the pre-pandemic level and scale for a long time in the future. Haidilao should start to develop new businesses and find new profit points. The semi-finished catering business is a big opportunity for Haidilao, because of its advantages of convenient operation, timesaving, contact reduction, safety and health, consumers prefer to consume this type of product. Semi-finished dishes are a new field in recent years and have a very broad prospect. At present, the relevant domestic market has not been fully developed, the market potential is large, looking to the future, combined with contemporary people's lifestyle and work pace, the development direction of semi-finished dishes will become a new trend in the development of catering industry. Haidilao should strive to expand their business scope, the exploitation of semi-finished dishes in the market, and in the food quality, service system and user loyalty. Strive to ensure the high-end quality of products at the same time, to create their own characteristics and widely accepted market products. In this way, Haidilao will establish a new profit model to improve their profitability.

3.2.3 Improve the supply logistics system

For Haidilao as well as the entire catering enterprises, inventory issues are critical to the development of enterprises. Considering that most of the inventory of catering enterprises is food materials, spices, etc., which should not be kept for a long time, the solution of the inventory problem needs to rely on the enterprise's perfect supply logistics system.

Under the background of normalized pandemic prevention and control, the supply logistics system of catering enterprises is expected to become a new round of competition under the new normal. Haidilao should reform and innovate the supply logistics management, improve the supply logistics system, and build a close strategic cooperative relationship with front-end suppliers and logistics enterprises. The use of big data to establish a complete integrated system, food supply and food distribution, food distribution and catering services closely linked together and maintain a relatively stable. In the future, Haidilao should through improving their supply system, makes itself with the supplier, logistics enterprises to maintain good relations of cooperation between, forming a set of mature, security of supply network, by improving the supply logistics system construction, guarantee the fresh ingredients can be sent to the bottom of the sea in the first time for each big stores, to ensure the normal operation of the enterprise, Thus improve the inventory turnover of enterprises, further improve the inventory turnover capacity of Haidilao.

3.2.4 Strengthen cost management

For Haidilao, cost control is a problem which cannot be ignored, first, on the internal management should develop more formal system to standardize the ordinary staff to give customers free food and free of charge, avoid fraud due to the related behavior of employees and unplanned cost too much. Second, in terms of the cost of food materials, Haidilao should maximize the role of its subsidiary Shuhai Supply chain in the supply of food materials, strictly control the cost of its food materials, minimize the cost on the premise of quality assurance, and increase the profit space of the enterprise. Third, the human cost should be controlled, the post establishment should be streamlined, and the job division should be clear, and strive to achieve one post, one post, especially in the store service personnel should avoid the redundant situation of many posts. The profit of Haidilao can be improved by controlling the labor cost.

4. Conclusions

By analyzing the financial data of Haidilao in 2020 and comparing it with the data of 2019 and Xiabuxiabu, the second largest company in the industry, this paper explores the financial operation of Haidilao in 2020 from the perspectives of debt paying ability, operating capacity, profitability, development capacity and DuPont analysis system. Found after COVID since 2019-19 outbreak and

disease prevention measures and restrictions on consumption places around the world, makes the Haidilao in 2020 financial capacity significantly declined compared with the previous year, compared with other companies in the same industry, Haidilao in profit ability, operation ability and development ability are still in a leading level. But Haidilao should implement more sound financial policies and build a healthier capital structure, while reducing costs and increasing revenues.

After understanding the basic situation of Haidilao and conducting financial analysis, it is concluded that a series of problems existing in the company mainly come from four aspects: first is unreasonable financing structure; Second is profitability decline; Third is inventory turnover capacity decline; Fourth is costs remain high. These problems were exposed more significantly under the impact of the epidemic, resulting in poor performance and declining performance of Haidilao in 2020.

Finally, this paper puts forward some relevant strategies for Haidilao to reverse the unfavorable situation brought by the pandemic according to its own situation in the future operation: first, optimize the financing structure of the enterprise; Second, improve profitability; Third, enhance inventory turnover capacity; Fourth, strengthen cost control. Through this series of strategies, make Haidilao to improve and perfect its own business.

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