Financial Performance Analysis of Huayu Automobile Based on EVA

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Abstract: In recent years, the traditional auto industry has been sluggish and financial performance is worrying. The development status and prospects of the auto industry have received widespread attention from the society. As a long-established and medium-sized company, Huayu Automobile can represent the financial performance of traditional auto companies to a certain extent, so this paper evaluates the company's financial performance based on economic value added. The study found that the economic value added of Huayu Automobile is generally in a stable growth state, which is mainly due to the good control of Huayu Automobile's operating costs. However, Huayu Automobile still has a financial disadvantage, its operating income is too stable and its debt capital ratio is growing too fast. Therefore, this article further proposes relevant suggestions for improving the company's financial performance in terms of capital structure and operating income.

1. Introduction

1.1 Current situation and characteristics of automobile industry

The global auto industry is facing turbulence as global trade frictions intensify and economic downward pressure intensifies. [1]According to the National Bureau of Statistics, in 2019, the total profit of China's auto manufacturing industry dropped by 16.61%, and nearly 80% of profitable auto companies showed a trend of profit decline, and the total profit of the annual auto manufacturing industry may fall below 600 billion yuan. In addition, the traditional automobile industry is also impacted by the new energy automobile industry. China's new energy vehicles began in the early 21st century. In the sales and purchase of new energy vehicles, pure electric vehicles accounted for the mainstream, up to 79.23%. [2]With the support of national policies, new energy vehicles are booming, and they are gradually replacing traditional fuel vehicles. In the future, they will occupy more and more of the automobile market. To sum up, the current situation of the automobile industry is grim. Influenced by new energy vehicles, the current situation of the traditional automobile industry is even more worrying.

1.2 Brief introduction of Huayu Automobile Company

Huayu Automotive Systems Co., LTD. (hereinafter referred to as "Huayu Automotive") was formerly known as Shanghai Automotive Industry Corporation (hereinafter referred to as "SAIC"). Originally, the company was the largest cross-provincial long-distance passenger transport company in China and the largest bus and tram transport company in Shanghai, with the largest fleet in The country and responsible for 60.01% of the passenger volume of buses and trams in Shanghai, holding a monopoly position in the bus market in Shanghai. The company completed major asset restructuring at the end of March 2009, realizing the overall transformation from bus business to independent supply of auto parts business. The 23 independent suppliers of auto parts under Huayu Auto cover the three main business areas of auto interior and exterior parts as well as functional assembly and hot processing. These companies occupy various domestic market segments and have strong core competitiveness and sustainable development ability.

Huayu Auto's stock earnings since the listing has been relatively stable, in line with the overall economic market, suitable for long-term holding. However, the shareholders and investors of Huayu

Automobile are also worried about its prospects: one is because of the overall economic downturn in the market, and the other is because of the severe situation in the traditional automobile industry. Fortunately, Huayu Automobile's financial performance level is stable, in the traditional auto industry is a leader.

After restructuring, Huayu Automobile, formerly Known as Shanghai Bus, has realized the overall transformation from bus business to independent supply of auto parts business. The total share capital increased from the original 1.471 billion shares to 2.582 billion shares, making It the largest market capitalization listed auto parts company in a-share market. However, compared with SAIC, a leading company in the automobile industry, Huayu Automobile, as a medium-sized company, has more research value and is more typical compared with its peers. Therefore, this paper chooses Huayu Automobile as an example for analysis, hoping to provide some enlightenment and reference for other enterprises in the automotive industry.

2. Current situation and analysis of Financial performance of Huayu Automobile

2.1 NOPAT

After-tax operating net income reflects the absolute value of a business's earnings without taking into account capital invested. When the invested capital is constant, the higher the after-tax operating net profit is, the stronger the profitability of the company is. According to Figure 2, only from the after-tax operating net profit of Huayu Automobile from 2010 to 2019, the company's profit level is in a stage of steady growth. However, compared with other periods, the after-tax operating net profit from 2014 to 2016 was a jump period. After analyzing the financial statement data of the company in recent ten years, the author found two main reasons: First, before 2015, the automobile industry was relatively stable, and new energy vehicles, competitors of traditional automobiles, were not recognized by the public as they are now. Therefore, by expanding business scale and improving business conditions, the operating income could still increase significantly. Second, over the past five years the company has kept its operating costs as low as possible. To sum up, Figure 1 not only reflects the steady increase of after-tax net profit of Huayu Automobile in the past decade, but also reflects the efforts made by the company in operating costs to realize profit increase.

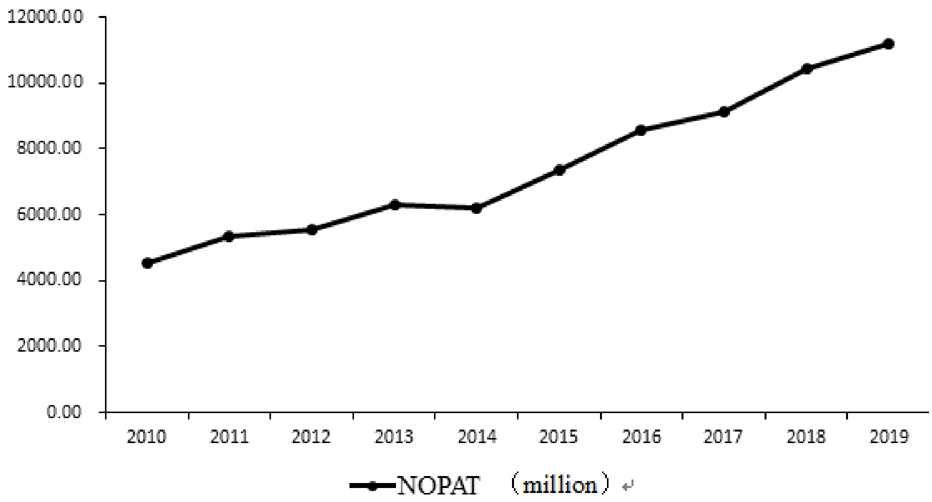

Figure 1. NOPAT of Huayu Auto from 2010 to 2019

2.2 Capital structure

As shown in Figure 2, the total capital of Huayu Automobile also showed an overall growth trend from 2010 to 2019, indicating that although the traditional automobile industry was in a downward phase, the company was still making efforts to expand capital and seek breakthroughs. It is worth noting that the company's capital structure has undergone some changes. Although equity capital and debt capital have both increased in recent years at roughly the same absolute rate, a closer look reveals that they have increased at different rates. Since 2013, debt capital has increased by more than equity capital every year. The ratio of equity capital to debt capital has changed from almost 20 to 1 in 2010 to almost 5 to 1 in 2019. It can be seen that in recent years, Huayu auto group is more inclined to choose debt capital rather than increase equity capital when carrying out capital expansion. In addition, as shown in Figure 1, the after-tax operating net profit of Huayu Automobile company from 2014 to 2016 has been greatly increased, and certain reasons have been found in Figure 2. The company's capital has also been greatly increased from 2014 to 2016, and the after-tax operating net profit of Huayu Automobile Company has been greatly increased through capital expansion.

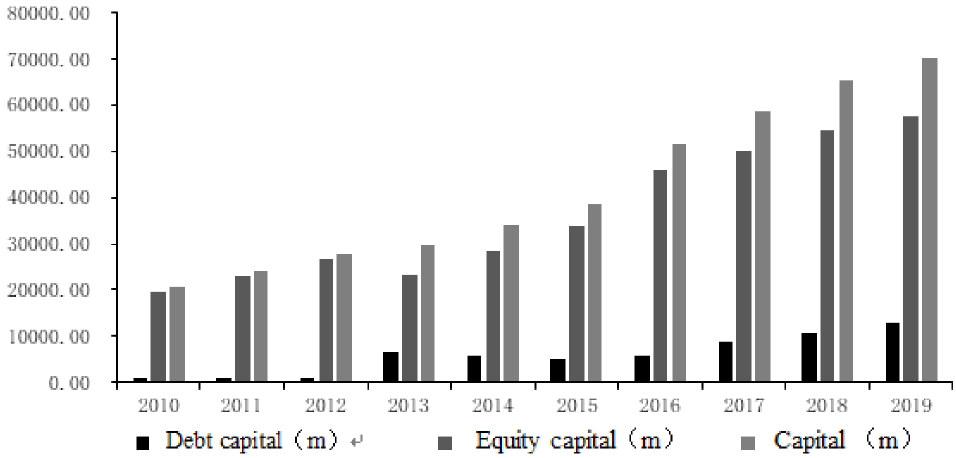

Figure 2. 2010-2019 Huayu Auto Capital

2.3 WACC

Although in Figure 3, the beta and cost of capital of Huayu Automobile fluctuated significantly on the surface, a careful observation shows that the beta of the company has fluctuated around "1" in fact, and the cost of capital ratio has remained around 7% without significant change. Therefore, from 2010 to 2019, the capital cost ratio and beta of Huayu Automobile Company basically maintained a relatively stable state. Cost of capital ratio is often called discount rate or necessary rate of return. Although the company's cost of capital ratio has not changed much in recent years, it has also declined slightly. It can be seen that the expected financial performance of Huayu Automobile Company has decreased, which also reflects the current attitude of the company's shareholders from the side. In addition, the company's beta coefficient has been kept around "1", so it can be seen that the company's stock trend highly overlaps with the market, without its own significant appreciation or decline, which is both advantages and disadvantages: on the one hand, it means that the company's financial stability, stock stability, suitable for long-term holding; On the other hand, it also proves that the company's business has not broken through.

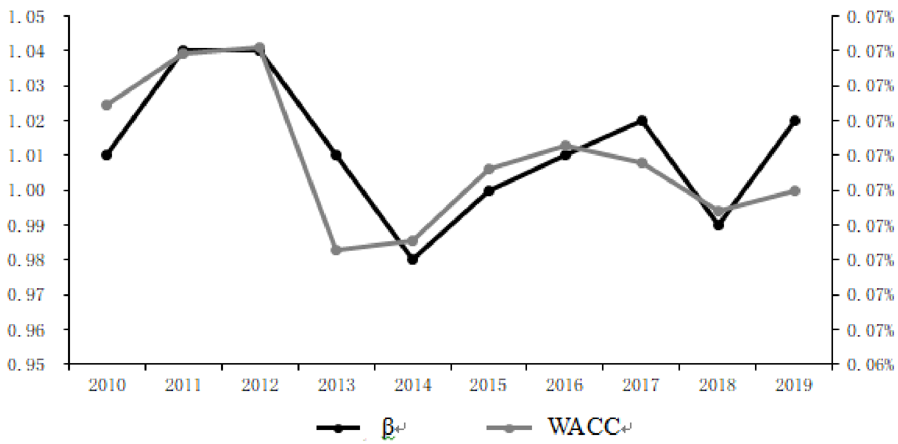

Figure 3. β and WACC of Huayu Auto from 2010 to 2019

2.4 EVA

Although it can be seen from the previous analysis that the economy of traditional automobile industry is declining and the current financial performance is worrying, as shown in Figure 4, the EVA index of Huayu Automobile Group is generally in a steady rise in the past decade. EVA index is the difference between after-tax operating net profit and capital cost. As long as the EVA index of a company is positive in a certain year, the financial performance of the company in this year is not bad. First of all, EVA indicators of Huayu Automobile from 2010 to 2019 are all positive, which proves that the company's financial performance in this year is not bad. In addition, the EVA index of the company increased steadily in the past decade, which also proves that the financial performance level of Huayu Automobile has been in a stable situation. To sum up, based on the calculation of economic added value of Huayu Automobile, this paper concludes that the financial performance of Huayu Automobile from 2010 to 2019 is stable. However, although the company's economic added value has increased year by year in the past decade, the growth rate is always small, so the financial performance of Huayu Auto still needs to be improved.

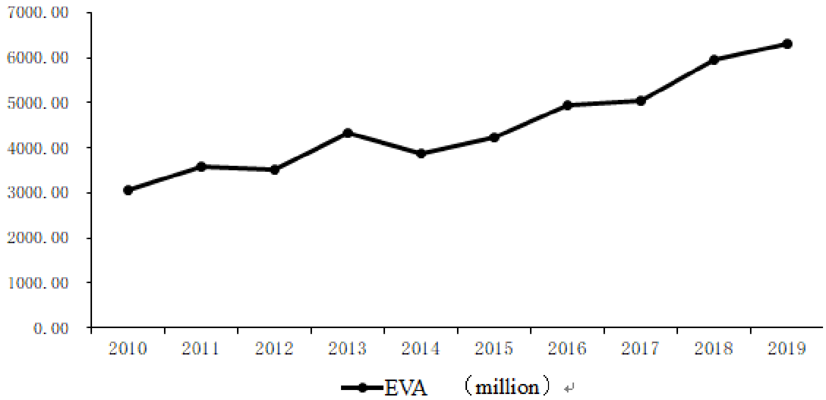

Figure 4. EVA of Huayu Auto from 2010 to 2019

3. Financial advantages and disadvantages of Huayu Automobile

3.1 Advantages

Reduce operating costs. Under the current industry background, it is difficult for the traditional auto industry to maintain a stable level of profitability. However, the managers of Huayu Automobile are well aware of the way: since it is difficult to achieve a significant increase in operating income, they should try their best to control operating costs so as to maintain and even improve the company's profitability. Therefore, when calculating the NOPAT of Huayu Automobile, the author found that the company's operating income did not increase significantly from 2010 to 2019, and even showed a trend of regression from 2015. However, Huayu Automobile finally maintained a stable profit level through the control of its operating cost.

3.2 Disadvantages

The cost of debt is rising too fast. Appropriate financial leverage can achieve the effect of tax shield, so as to achieve the increase of corporate profits; In addition, debt capital can better protect shareholders' rights and interests than equity capital. So most companies prefer debt capital over equity capital. However, the high debt cost ratio will greatly increase the risk of enterprise operation. If the enterprise's debt repayment level is not good, there will be a high risk of bankruptcy. The ratio of debt capital to equity capital of Huayu Auto changed from 1:20 in 2010 to 1:5 in 2019, indicating that the company is more inclined to debt financing in recent years. Although, according to the current data, The financial performance level of Huayu Automobile is good and its debt paying ability is not low, but the debt cost ratio of the company increases too fast. If the development continues like this, Even though Huayu Automobile company can improve its financial performance, it is likely to be difficult to bear operational risks.

Revenue growth is slow. Although no matter from the traditional accounting profit index or from the perspective of economic added value, The financial performance of Huayu Automobile from 2010 to 2019 is in a state of stable growth. But in fact, this is all the result of the company to reduce operating costs, while Huayu auto's operating income has not increased, and has even decreased since 2015. Therefore, in order to further improve the company's financial performance, it is necessary to increase operating income. After all, the reduction of operating cost is limited. In the short term, reducing operating cost can effectively increase the company's profit, but this method cannot be effective in the long run, so it is crucial to improve the operating income. Only by controlling operating costs and improving operating income can the company's financial performance be improved more effectively.Conclusions

The trend of mass data in power system provides a basis for load characteristic analysis and prediction model establishment, but the classical load forecasting method can not afford such a huge time and computing resource consumption. The problem of over fitting in large sample set will affect the prediction accuracy. In this paper, a power load forecasting model is built by using the BP neural network model, making full use of the powerful data processing function of Clementine and preventing the over fitting function. The experimental results show that the BP neural network model has good predictability and robustness, and has a certain practical application value.

4. Suggestions

4.1 Optimize capital structure

The debt cost ratio of Huayu Automobile has increased too much. Although the company's debt paying ability is not low at present, the high debt capital ratio will still increase risks for the company. Therefore, when Considering increasing investment capital, Huayu Automobile should not blindly favor debt capital in order to protect shareholders' rights and interests. It can also appropriately increase equity capital and optimize the capital structure of the company, so as to achieve the result of both increasing capital and controlling risks. [3]Of course, the suggestion to optimize the capital structure of Huayu Automobile does not mean that the company should abandon debt capital blindly, and appropriate financial leverage can improve profitability, but too much of a good thing, so it is necessary to find a degree that is more suitable for the company. It is suggested that Huayu Auto can set a critical point of debt cost ratio by taking into account the company's debt repayment level and profitability. In this critical point, in order to protect the shareholders' rights and interests of the company, we can consider increasing the debt capital; But once that point is reached, raise red flags and pay special attention to the company's capital structure.

4.2 Achieve revenue growth

From the point of view of operating income, the profit level of Huayu automobile is not high, of course, this is also related to the background of the whole industry. However, no matter from the current automotive market, or from the perspective of policy, are released to the "new energy", "high-tech" step signal.[4] So, Huayu automobile group should try to get out of the comfort zone, don't meet the status quo, car production and sales of formality, can consider to dabble in new energy field and high-tech cars, the traditional car combined with new energy and other high-tech products, seek improvement in stability, carrying out a new company in operating income, so as to promote the company's financial performance.

5. Conclusion

Based on economic value added (EVA), this paper analyzes and studies the financial performance of Huayu Automobile, longitudinally analyzes and objectively evaluates the company's ECONOMIC value added from 2010 to 2019, and finds the advantages and disadvantages of Huayu Automobile in financial aspects. In view of the financial status quo of the enterprise, the debt cost ratio continues to increase and the operating income is at a low level, suggestions for improvement are put forward:

optimizing the capital structure, involving new areas to achieve income growth. At present, in addition to Huayu Automobile, many companies in the traditional automobile industry also have such problems, so I hope to promote these two suggestions. In addition, most other companies in the industry have not achieved the same reduction in operating costs and thus improved financial performance. Therefore, it is also suggested that other traditional automobile industry companies should pay extra attention to: while increasing operating income, reduce operating costs. To sum up, it is suggested that enterprises in the automotive industry can optimize capital structure, reduce operating costs and achieve revenue growth, and finally achieve a breakthrough in corporate financial performance.

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