

# *Analysis of Corporate Financial Statements Based on Strategic Perspective*

## *- Taking BYD Company Limited as an Example*

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**Abstract:** As global oil prices continue to rise, new energy vehicles are gradually becoming a popular choice for many consumers. At present, both traditional and emerging car companies are focusing on the new energy vehicle market. In this situation, new energy vehicle enterprises must improve their own competitiveness. Financial statements can give a clear idea of the solvency, development potential and operational capacity of an enterprise. This paper analyzes the financial reports of BYD, one of the most representative new energy vehicle companies in China. By analyzing the company's financial reports in recent years, this paper studies how to give full play to the influence of financial statement analysis on business decisions. The aim of this paper is to propose effective measures as well as reasonable suggestions, so as to facilitate better business decisions by business operators.

**Keywords:** financial statement analysis, business decision making, influence

## 1. Introduction

The automotive industry has suffered a period of a downturn since COVID-19 began to ravage the world in 2020. Now, in the post-epidemic era, many Chinese car companies have seen a rebound in sales. Meanwhile, sales of new energy vehicles are set to reach an inflection point in 2021. By reviewing the data released by the China Association of Automobile Manufacturers (CAAM) in January 2022, it can be seen that China's vehicle production and sales finished at 26.082 million and 26.275 million units respectively in 2021, up 3.4% and 3.8% year-on-year [1].

In these very competitive times, it is very important that a company has a better financial position. Chad Albrecht and Daniel Holland believe, at present, a more perfect enterprise management strategy is needed to effectively improve the efficiency of financial management [2]. Khanna and Palepu believe that the basis of financial strategy is "rational utilization" and "scarcity", which can ensure the stable operation of enterprise resource structure, solvency and capital flow [3]. Musinszki and Suveges believe that Financial analysis should combine financial indicators with strategic decision-making to strengthen the strategic management of enterprises [4]. Jarunee Wonglimpiyarat believes that Traditional financial models cannot fully understand the strategic positioning of enterprises. Enterprises need more clear financial indicators to measure themselves, so as to demonstrate the strategic significance of using the modern enterprise financial models [5]. Will Kenton believes that

the financial strategy not only includes the correct control and distribution of the company's assets and liabilities, but also the supervision of the operation and financing projects, so as to better meet the long-term financial goals of the company's development [6]. Dorisz Talas believes that assets will become the driving force to promote the development of enterprises [7]. Sabel J. David Cabedo believes that the theory of making decisions only relying on accounting information is one-sided and not comprehensive enough. Only by adding other specific information, can the analysis and discussion be comprehensive enough [8]. Cannon believes that it is very important to judge whether an enterprise's profit status is good by comparing and analyzing relevant financial data indicators such as operating expenses and gross profit margin [9]. Zhou believes that financial report plays a major role in the future development of enterprises and can determine the development direction of enterprises to a certain extent [10].

BYD (HK01211, SZ002594), listed in Hong Kong and Shenzhen, is a high-tech enterprise. BYD's business layout covers the fields of electronics, automobiles, new energy and rail transportation. In August 2022, BYD released its report for the first half of 2022, which showed that BYD achieved operating revenue of 150.607 billion yuan in the first half of the year, up 65.71% year-on-year [11]. Net profit attributable to shareholders of the listed company was 3.595 billion yuan, an increase of 206.35% year-on-year, maintaining an upward trend in performance.

This paper hopes to calculate some financial indicators from the data provided in BYD's financial reports in recent years, so as to analyze some problems in BYD's management through these data and make relevant suggestions. Through this series of analyses, this paper hopes to achieve the purpose of enhancing BYD's own competitiveness.

## **2. Analysis of BYD's Operation and Management**

### **2.1. Analysis of Assets**

Assets are resources owned by a business that generate economic inflows for the business. For a company, assets play a very important role. Therefore, for automotive companies, assets make a very significant contribution to their profitability and operational capacity. Therefore, this paper first analyses the asset composition of BYD.

In terms of monetary capital, the company's monetary capital remains at a relatively stable position until 2021. It is 13.052 billion yuan in 2018, 12.55 billion yuan in 2019, 14.445 billion yuan in 2020 and 50.457 billion yuan in 2021. BYD's financial report for the first half of 2022, published on 29 August 2022, shows a monetary capital of 44.686 billion yuan for the first half of 2022. The monetary capital for the first half of 2021 is 21.789 billion yuan [11]. Thus, it is reasonable to assume that BYD's total monetary funds will reach another high record at the end of 2022. BYD's monetary funds rose sharply in 2021, up 349.3% year-on-year. The main reasons for the surge in BYD's monetary funds are the following: BYD's net cash flow from operating activities grew very well in FY 2021. In addition, BYD has raised capital through the issuance of shares, which has provided it with a large amount of available capital for its subsequent development. At the same time, BYD's net cash flow from operating activities has been at a high level in the industry and is much higher than its net profit. These are the reasons why BYD currently holds stable and sufficient monetary funds.

Fixed assets and construction in progress are also very important items for automotive companies. We next provide a brief analysis of BYD's fixed assets and construction in progress.

According to BYD's mid-year financial report data for 2022, its fixed assets are 69,924 billion yuan. Because of the rapid capacity expansion in August 2021. This is an increase of 8.703 billion yuan compared to the end of last year. Construction in progress reached 34.256 billion yuan, an increase of 13.978 billion yuan compared to the end of last year [11]. It is also because the capacity expansion is so rapid that it has increased BYD's production capacity from 600,000 units in 2021 to

an expected 2.2 million units by the end of 2022. The depreciable life used by BYD is also a detail of interest during the study. Its machinery and equipment are depreciated over a period of 5-12 years. By comparing it with other car companies, this paper finds that BYD's use of depreciation years is overall significantly lower than its peers. This results in relatively lower profits on the financial statements. In fact, BYD could have extended the depreciation life to achieve a higher profit value. But BYD did not do so, and we believe it has higher long-term aspirations.

Inventory is also a very important subject for car companies. BYD's inventory was 26.33 billion yuan in 2018, 25.572 billion yuan in 2019, 31.396 billion yuan in 2020, 43.355 billion yuan in 2021, and 57.253 billion yuan in 2022 [11]. Through the data calculation can be obtained, BYD's inventory turnover in the middle of 2018-2022 was 4.61, 4.71, 4.12, 4.43, 5.03, and 4.92. This suggests that BYD's own inventory pressure is not great. In the new energy vehicle industry, due to various reasons, there is widespread delivery pressure, BYD has a considerable amount of raw materials, products, turnover materials and sustainable production capacity, which is valuable.

## 2.2. Operational Capacity Analysis

**Analysis of Financial Indicators.** Operation capability can reflect the resource utilization efficiency of an enterprise, which is also an important rating index of enterprise operation and management. At the same time, operating capacity is also an important indicator reflecting the operation and management of enterprises. This paper selects Total Assets Turnover, Accounts Receivable Turnover and Fixed Assets Turnover to analyze the operating ability of BYD.

Total Asset Turnover is the ratio of operating income to average total assets. The TAT of BYD is shown below. The reason not to list mid-2022 figures is that BYD is a very profitable company. As a result, the sales revenue in the interim financial report must be much lower than that in the year-end financial report, which also makes the calculated TAT inaccurate. Therefore, based on the data of the last 12 months, this paper calculates the recent total asset turnover ratio (Table 1). BYD's TAT rate overall is rising steadily. This indicates that the company is using its total assets more and more efficiently.

Table 1: Recent BYD total asset turnover ratio.

Year	2018	2019	2020	2021	Nearly 12 months
TAT	0.7	0.65	0.79	0.87	0.97

The second is the Accounts Receivables Turnover Rate. The ART rate is the average number of times receivables are converted into cash in a given period. It reflects how many rounds of business the receivables have helped the company to do during the year. The data provided in BYD's published financial reports and calculated can be used to derive ART ratio in the table below (Table 2). Normally, higher ART means a shorter collection period, which also means the faster collection of receivables. Otherwise, a company's working capital will become excessively stagnant in accounts receivable, affecting normal capital turnover. A comparison of the data shows that BYD's ART has been steadily improving. It can also be calculated that BYD's latest ART days is 44 days, which is BYD's best level in the past three years. Overall, the company's position in the market is getting stronger and the company is using its capital more and more efficiently. This is very good news for BYD.

Table 2: Recent BYD's accounts receivables turnover ratio.

Year	2018	2019	2020	2021	Nearly 12 months
ART	2.8	2.7	3.7	5.6	7.3

The Fixed Asset Turnover ratio is the ratio of a company's annual net product sales revenue to the average net value of its fixed assets. It reflects how many rounds of business the fixed assets have helped the company to do during the year. This indicator, shown in the table below, can be calculated based on BYD's official financial reports disclosed in recent years. The FAT ratio is mainly used to analyze the efficiency of the utilization of fixed assets. If FAT is lower than the overall industry average, it indicates that the utilization of fixed assets is low, which affects the profitability of the company. BYD's data for the last few years shows an increasing trend in fixed asset turnover, which also indicates that the company is absorbing new capacity very well (Table 3).

Table 3: Recent fixed asset turnover rate of BYD.

Year	2018	2019	2020	2021	Nearly 12 months
FAT	3.0	2.7	3.0	3.7	4.4

**Cross-sectional comparison of operating capacity.** In terms of TAT, BYD's TAT ratio is in the leading position in the industry. Compared to Great Wall Motor's 0.79, Chang'an Automobile's 0.78, and SAIC's 0.77, BYD's total asset turnover ratio is still quite ahead. The data shows that BYD's total assets are increasing, so a major reason for the increasing total asset turnover ratio is that sales revenue has increased more significantly compared to total assets. This is also due to the increasing number of consumers opting for new energy vehicles as a result of rising fuel prices.

In terms of ART, BYD's figures are at an industry average. Compared to SAIC's 13.0 and GAC's 11.8, BYD's 7.3 is unremarkable. The reason for the high ART of these two companies is that they own some subsidiaries. This comparison shows that BYD's receivables turnover ratio continues to improve as a reflection of its own strength.

Finally, compare FAT ratio. BYD's FAT ratio has steadily increased in recent years. Compared to Great Wall Motor's 5.0 and GAC's 4.9, BYD's 4.4 is the industry average. However, Great Wall Motor has a market capitalization of \$287 billion, GAC has a market capitalization of \$146 billion and BYD has a market capitalization of \$814 billion. BYD's total fixed assets are also considerably higher compared to these two car companies. This is one reason why BYD's FAT ratio is relatively low.

### 2.3. Analysis of Solvency

**Analysis of financial indicators.** The current ratio is the ratio formed by current assets to current liabilities. Theoretically, the greater the ratio, the greater the probability and ability of the company to repay its debts, and the greater the protection of creditors' rights and interests. The current ratio of BYD in recent years can be calculated based on the financial reports published by BYD in recent years as shown in the table below (Table 4). From the data for these years, BYD's current ratio basically fluctuates around 1 and is relatively stable. However, it can be seen from the other data that BYD's current assets as a percentage of total assets are very problematic and that the financial structure is not very stable. BYD's solvency is not strong and can even be described as somewhat weak. On the other hand, BYD's current ratio has been rising in recent years, albeit to a lesser extent. But this also shows that BYD has been trying to increase its total current assets over the years, which makes its solvency somewhat stronger in theory.

Table 4: 2016-2021 BYD current ratio.

Year	2016	2017	2018	2019	2021
Current Ratio	1	0.98	0.99	0.99	1.05

The quick ratio is actually the ratio of assets to current liabilities. Theoretically, the higher the value of the quick ratio, the better the solvency of the company or firm. At the same time, a quick ratio of 1 is usually theoretically considered to be a more appropriate value. The quick ratio of BYD in recent years can be calculated from the financial reports published by BYD recent years as shown in the Table 5. Theoretically, when a company's quick ratio is 1, its ability to repay its debts is strong and secure. However, the data for BYD in recent years shows that BYD's short-term debt servicing ability is not strong. The actual situation may be worse than what the data reflects. But turning BYD's quick ratio forward a few more years, we can see that BYD's quick ratio has still improved somewhat, indicating that its short-term solvency has improved, but there is still a lot of room for development (Table 5).

Table 5: 2017-2021 BYD quick ratio.

Year	2017	2018	2019	2020	2021
Quick Ratio	0.78	0.76	0.75	0.75	0.71

**Cross-sectional comparison of solvency.** BYD is part of the automotive manufacturing industry. As can be seen from the data of recent years, BYD's solvency indicators are not particularly outstanding in the industry. Meanwhile, BYD's current ratio and quick ratio are both at the lower to the middle level of the industry. By comparison, this study finds that GAC's current ratio in 2021 is 1.38 and that of Great Wall Motor is 1.26, while their quick ratios are 1.17 and 1.04 respectively. However, compared to BYD, the quick ratio of other car companies is not very outstanding, and their gearing ratios are all above 50%. Compared with the original real estate companies, the auto manufacturing industry is not very capable of servicing its debts. All in all, BYD's ability to service its debt is relatively weak, both in its industry and in comparison, to other industries, and is not optimistic.

#### 2.4. Analysis of Profitability

**Analysis of financial indicators.** By the data of Table 6, it is easy to see that BYD's net profit is not particularly stable in recent years. It continued to decline from 2017 to 2019, but rebounded significantly in 2020. This is due to the rapid development of the new energy vehicle industry in recent years, which is favored by many consumers, resulting in a rebound in net profit. Up to the 2022 interim report, it can be seen that the net profit in the first half of 2022 has already exceeded the net profit in 2021. During these six months, BYD's new energy vehicle sales reached a record high. In this regard, the high sales volume also offset some of the problems caused by the increase in upstream raw material prices due to the war between Russia and Ukraine. In addition, in terms of gross profit margin, BYD's value has remained relatively stable with a small increase, which also represents BYD's excellent work in cost control. In terms of return on net assets, BYD's value has also remained relatively stable, which is attributable to its excellent management skills.

Table 6: BYD's net profit in recent years (currency: RMB unit: billion yuan).

Year	2017	2018	2019	2020	2021	2022 H1
Net Profit	4.066	2.78	1.614	4.234	3.045	3.595

**Cross-sectional comparison of profitability.** Among the new energy vehicle enterprises, BYD's profitability is still worthy of recognition. It can be seen through the data released by major new energy vehicle enterprises in the first half of 2022 that BYD's sales in the first half of the year were as high as 650,000 units, but its net profit was 3.6 billion yuan [11]. This figure is lower than that of independent brands such as Great Wall and Geely. Through research, it is found that there are two main reasons for its lower net profit. Firstly, BYD has increased its investment in many new factories in the past year and its production capacity has not reached the best condition. It is expected that its profits will increase significantly once the plant is built. The second is that BYD announced in March this year that it would cease production of all fuel vehicles and transform all of them into new energy vehicles, in which a considerable transformation cost was required. But for BYD in this particular situation, the net profit of RMB 3.6 billion is already a very good performance. At the same time, the return on net assets and gross margin figures show that BYD is basically above the industry average. This indicates that BYD is more robust and profitable. Through other relevant information, this study finds that BYD's own cost leadership strategy and product differentiation strategy is well executed. This has resulted in BYD reaching its goal of high gross margins while achieving higher profits at lower costs. BYD's net cash flow from operations is much higher compared to its peers. This value correlates very well with net profit and is to some extent even more realistic than net profit. This also means that in the near future, BYD's annual net profit is very likely to exceed 100 billion yuan.

### 3. Conclusion

BYD's overall financial capability is very strong, and in line with its development and management strategy, BYD has been focusing more and more on its investment in heavy assets and intangible assets in recent years. In the past two years, BYD's own revenues have been increasing, and it has used these revenues to expand its business scale and upgrade its production capacity. At the same time, BYD's own short-term and long-term borrowings have also increased, which has led to its debt servicing capacity being relatively inferior to that of its competitors in the same industry. Therefore, from a comprehensive perspective, BYD's profitability and operating capacity are stronger than those of its industry peers, but its debt servicing capacity is slightly less.

BYD's core competitiveness in the new energy vehicle industry is inextricably linked to its reasonable asset-heavy structure. Therefore, BYD should continue to maintain or even further optimize its asset structure. At the same time, some of BYD's financial indicators are underperforming. BYD can improve in the following ways. First, choose a reasonable financing method. BYD's own debt servicing capacity is not very strong. Therefore, BYD needs to take advantage of its own revenue and assets to increase equity financing, etc., so as to reduce the cost of raising funds. Second, BYD needs to strengthen its cost control. BYD, as an automobile manufacturer, has more heavy assets, such as plants and production lines. It is because the value of assets such as BYD is relatively large, frequently used, and has a short depreciable life. This requires it to exercise careful cost control as a means of reducing management costs. Thirdly, the Chinese government's policies are now more supportive of the new energy industry. This, coupled with the fact that the price of petrol has risen sharply, has made people more inclined to buy and use new energy vehicles, which cost less. It is believed that a new climax in the development of new energy vehicles will be ushered in in the near future. BYD needs to upgrade its production capacity as soon as possible, so as to meet the development of the times.

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