

# ***Research on the Corporate Profitability***

## ***- Taking Ningxia Baofeng Energy as an Example***

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**Abstract:** With the continuous advancement of technology and productivity in China, most companies are gradually expanding. However, due to the emergence of New Crown Pneumonia in 2019, the profitability of most enterprises is affected by the New Crown Pneumonia epidemic. Therefore, enterprises are facing greater challenges, and the only way to survive in such an environment is to continuously improve the profitability of enterprises based on legal and reasonable compliance in order to adapt to the progress and development of the times. Facing the new economic environment and policies, enterprises need to analyze the complex economic environment they are currently facing from multiple perspectives. The main object of this paper is to analyze the corporate profitability of Ningxia Baofeng Energy and the impact of various indicators on profitability, identify key indicators that have a significant impact on corporate profitability, and find ways to improve corporate profitability through discussion and analysis. The main methods used in this paper are literature analysis and empirical research, and the analysis of corporate profitability is further developed and discussed by analyzing the content of the literature and studying the specific situation of Ningxia Baofeng Energy. This paper came to the following conclusions about the study of corporate profitability: companies should reduce operating costs through cost control and focus on increasing sales margins to ensure sustainable profitability.

**Keywords:** corporate profitability, energy companies, Baofeng Energy

### **1. Introduction**

The study of corporate profitability in China is an important area in which some progress has been made, but there are still some gaps to be filled. In terms of cost control, some studies focus on the optimization of cost structure and innovative methods of cost management to improve enterprise profitability. However, cost control strategies for different industries and enterprise sizes need further in-depth research. Research on sales margins has also received increasing attention. Current research focuses on market pricing strategies, product mix optimization and sales channel innovation. However, balancing sales growth and profitability improvement remains a challenge that needs to be supported by more empirical studies. The research themes of this paper include the study of cost control and management control needed to enhance corporate profitability and the analysis of how these indicators can further enhance corporate profitability analysis. Some of the main indicators that

have an impact on the profitability of a company, such as return on assets, operating margin, return on net assets, cost/expense ratio, and profitability of the main business, are discussed, and some ideas for other activities of the company, such as penalty avoidance, are proposed. The main research methods used include literature analysis and empirical research. The significance of studying corporate profitability analysis is to reveal the business status and financial health of a company and to help managers and investors assess the profit potential and risks of a company.

## **2. Analysis of Indicators Related to Baofeng Energy's Profitability**

This section analyzes the important parameters and indicators that have affected Baofeng Energy's profitability in the last three years and provides some evaluations and discussions on the possible reasons for these indicators. Also included are some recommendations for Baofeng Energy based on these indicators.

### **2.1. Five Key Indicators**

Return on Assets, Baofeng Energy's return on assets is 26.523%, 30.7793% and 24.5694% from 2020 to 2022. Based on the data, Baofeng Energy's return on assets is higher in 2020 and 2022 with 26.523% and 24.5694% respectively, but reaches its highest point in 2021 with 30.7793% [1]. Baofeng Energy has achieved good profitability in the past three years but peaked in 2021, which may be influenced by various factors such as market competition, industry trends, or internal management issues of the company. Overall, Baofeng Energy's return on assets indicates that the company has achieved good profitability over the last three years.

Baofeng Energy's operating profit margin ratio from 2020 to 2022 are 37.7584%, 36.1399% and 27.1541%. Baofeng Energy's operating margin is higher in 2020 and 2021 with 37.7584% and 36.1399%, but decreases in 2022 with 27.1541% [1]. This may indicate that Baofeng Energy faces some challenges in 2022, such as rising costs and market changes, which makes the net profit as a percentage of total sales revenue decrease. Baofeng Energy's operating margin has performed well overall in the past three years.

Baofeng Energy's return on net assets for 2020 to 2022 are 39.0211%, 44.5029%, and 46.7618%, respectively [1]. Baofeng Energy's return on net assets has performed well overall in the past three years and shows an upward trend. In particular, in 2021 and 2022, Baofeng Energy's return on net assets is 44.5029% and 46.7618%, indicating that the company has achieved good earnings. This may be due to the enterprise's efforts in business management and market expansion, resulting in a higher ratio of net profit to net assets.

Baofeng Energy's cost margin from 2020 to 2022 is 50.0911%, 55.1146%, and 35.6846%, respectively [1]. It can be seen that Baofeng Energy's cost expense ratio continues to be high in 2020 and 2021 with 50.0911% and 55.1146%, respectively, which may indicate that the company's costs and expenses are relatively high in these two years, leading to a decrease in profitability. However, in 2022, the cost and expense ratio significantly decreased to 35.6846%, which may be due to the effective measures taken by the company in terms of cost control, in terms of, for example, going to reduce unnecessary expenses and improving productivity, thus improving profitability. Although Baofeng Energy's cost ratio is relatively high in 2020 and 2021, it achieves a significant decrease in 2022, indicating that the company has made significant progress in cost control.

Baofeng Energy's profit margin of main business from 2020 to 2022 is 43.776%, 40.6944%, and 31.4234%, respectively [1]. Baofeng Energy's main business profit margin shows an overall decreasing trend, which indicates that the profitability of the company in terms of main business is gradually decreasing. In 2020, Baofeng Energy's main business profit margin is 43.776%, which is relatively stable. However, in 2021 and 2022, the main business profit margin decreases by about 3

percentage points and 9 percentage points, respectively, which may be due to the fact that the enterprise has faced the effects of increased market competition and growth in raw material costs, resulting in lower main business revenues or higher costs and expenses, thus reducing the profitability of the enterprise.

## 2.2. Sales Turnover of Baofeng Energy

Baofeng Energy's operating revenues will be 15.9 billion, 23.3 billion and 28.4 billion from 2020 to 2022, with year-on-year growth of 46.54% and 21.89%, respectively; Baofeng Energy's net income will be 4.6 billion, 7 billion and 6.3 billion from 2020 to 2022, with year-on-year growth of 52.17% and -9.93%, respectively [1].

Baofeng Energy's operating revenue has grown steadily from 2020 to 2022, from \$15.9 billion to \$28.4 billion, an increase of nearly 80%. At the same time, net income has grown significantly from 2020 to 2021, from 4.6 billion yuan to 7 billion yuan, an increase of about 52.17%. However, from 2021 to 2022, net profit shows a decrease, from 7 billion to 6.3 billion yuan, a decrease of about 9.93% [1].

These figures indicate that Baofeng Energy's revenue and profit growth are relatively stable, but the decline in net profit indicates that Baofeng Energy is facing certain difficulties and challenges in its operations. From Baofeng Energy's perspective, there is a need to find new growth points and profitability models to maintain growth, while improving operational efficiency and reducing costs to ensure the company's sustainability.

## 2.3. Inventory

According to the annual reports issued by Baofeng Energy from 2020 to 2022, Baofeng Energy's inventory will be \$803.3 million, \$940.4 million and \$1,348 million in revenue from 2020 to 2022, respectively, with a year-on-year increase of 17.067% and 43.343%, respectively; Baofeng Energy's inventory turnover ratio from 2020 to 2022 will be 11.2249%, 15.4449%, and 16.6815%, respectively [1].

Baofeng Energy's inventory has increased, while the inventory turnover ratio has improved, which reflects Baofeng Energy's good business condition.

The increase in inventory may lead the company to face problems such as stagnant and expired inventory, which affects the company's profitability. Because inventory is a cost invested by the company, if the inventory cannot be sold in a timely manner, it will continue to occupy a portion of the company's capital, resulting in a constantly higher cost of capital [2]. In addition, too much inventory may also lead to lower prices, thus affecting the company's gross margin.

An increase in inventory turnover can reduce the amount of time that inventory occupies capital, thereby reducing the cost of inventory and enhancing the company's profitability. When inventory turnover increases, the company can turn its inventory into cash faster and replenish and update its inventory in a timely manner, thus better responding to market demand and changes and increasing the company's sales and profitability [3].

## 2.4. Tax and Energy Advantages

Policy support, the government where Ningxia Baofeng Energy is located attaches great importance to the development of the energy industry and has introduced a series of supportive policies, such as tax incentives for new energy enterprises, which can provide a better development environment and resources for the enterprises [4].

Tax preferences, Ningxia Baofeng Energy enjoys the support of national and local tax policies; for example, the local government of Ningxia has implemented tax exemptions and preferential policies, which give the enterprise's taxation some relief and improve its profitability [5].

Resource endowment, the location of Ningxia Baofeng Energy has rich resource endowment, such as rich natural resources of coal, wind and solar energy, etc. The full utilization of these resources can not only improve the production efficiency of the enterprise, but also reduce the production cost of the enterprise.

Geographic location advantage, Ningxia Baofeng Energy is located in the western region of China, with a superior geographic location, close to coastal ports, with convenient logistics conditions and market advantages, can better expand the domestic and overseas markets.

In summary, the advantages of Ningxia Baofeng Energy in terms of taxation mainly include policy support, tax benefits, resource endowment and geographical location advantages, which provide strong support for the development of the enterprise.

### **3. Improving Baofeng Energy's Profitability**

#### **3.1. Adjustment of Revenue from Sales of Individual Products of the Enterprise**

As a key enterprise in Ningxia Hui Autonomous Region, Ningxia Baofeng Energy Group Co., Ltd. has been committed to the development and utilization of coal resources. However, under the current severe market competition environment, relying solely on the mining and sales of coal resources can no longer meet the profitability requirements of the enterprise. Therefore, Ningxia Baofeng Energy can improve its profitability by adjusting its product sales revenue [4].

Ningxia Baofeng Energy can consider expanding the sales channels and scope of coal products and covering the sales network to a wider area and customer groups. In addition, the sales revenue can be increased by deeply exploring the added value of coal products and improving the market competitiveness of the products, such as processing and producing high value-added products and carrying out technology development and application of related products [5].

Ningxia Baofeng Energy can increase its sales revenue by increasing the sales price of its products. With the strengthening of environmental protection policies at home and abroad, traditional energy sources such as coal are facing more and more restrictions and constraints, and the market supply may become tighter in the future, so the sales price of products can be appropriately increased to obtain higher sales revenue and profit [6].

Ningxia Baofeng Energy can also consider developing other new profit models, such as cooperating to develop coal mines, investing in photovoltaic power generation, and participating in new energy industries [7]. These new profitability models can reduce the environmental impact of coal resource mining while improving its own profitability and further realizing the strategy of sustainable development. In the process of implementation, Baofeng Energy needs to make specific adjustments and optimization according to the actual situation, while focusing on the improvement of product quality and added value in order to continuously improve the market competitiveness and profitability of the enterprise [8].

#### **3.2. Adjustment of Inventory**

Ningxia Baofeng Energy can reduce inventory costs by optimizing the inventory management process. The inventory management process includes all aspects of procurement, storage and sales. Optimizing the process can reduce the number of scrap and slow-moving products, reduce storage and management costs, and can reduce the capital occupation and capital costs caused by the inventory backlog. In addition, modern management methods such as supply chain management and logistics management can be used to achieve controllable and visualized management of inventory,

improve inventory turnover and inventory utilization rate, reduce inventory occupancy time, and thus reduce inventory costs.

Ningxia Baofeng Energy can optimize its inventory structure and improve sales revenue and profitability by adjusting its inventory strategy. The inventory strategy includes product structure, product pricing, and sales targets. It can adjust product structure, develop and promote new products to meet market demand in a timely manner according to market demand and forecast. Product prices can be adjusted according to market supply and demand to achieve sales revenue. At the same time, sales targets can be set to encourage sales staff to actively sell inventory products, shorten inventory cycle and improve sales efficiency.

Ningxia Baofeng Energy can optimize the efficiency of capital utilization and improve profitability by carrying out inventory financing. Inventory financing refers to the enterprise using inventory as collateral to finance from banks and other financial institutions. Through inventory financing, inventory can be converted into cash, slowing down the enterprise's capital pressure, improving the efficiency of capital utilization and reducing capital costs. However, it is important to note that when carrying out inventory financing, attention needs to be paid to risk management to avoid problems such as capital and financial risk.

### **3.3. Reduce the Cost of All Aspects of the Product**

Procurement management is one of the important factors affecting product cost, and by optimizing the procurement process, strengthening supplier management, realizing the scale, centralization and standardization of procurement, thus reducing the procurement cost and improving the competitiveness of product cost [8].

Ningxia Baofeng Energy can reduce the production cost of products by strengthening production management and improving production efficiency and product quality. Production management is one of the important factors affecting product costs, and production costs can be reduced by strengthening production management and improving production efficiency and product quality. For example, adopt advanced production technology and equipment, optimize the production process, reduce the production of sub-products, and improve the utilization rate and product quality of products.

Ningxia Baofeng Energy can reduce the cost incurred by the supply chain by strengthening the supply chain management and optimizing the structure of the supply chain. The cost of products receives a large influence from the supply chain, and enterprises should reduce supply chain costs by strengthening supply chain management and optimizing the structure of the supply chain. For example, strengthen the management and cooperation of suppliers, optimize the logistics and transportation methods and storage management methods, reduce the cost of goods flow and storage, and improve the efficiency of the supply chain.

Ningxia Baofeng Energy can reduce product costs through product innovation and technological progress. By developing and promoting new products, we can reduce production costs and increase the value of our products. At the same time, strengthen technological innovation, improve technology, and optimize production process technology to reduce product costs [9].

In summary, increasing sales gross margin by reducing product costs is one of the important directions for the development of Ningxia Baofeng Energy. In the implementation process, it is necessary to focus on the optimization and innovation of all aspects, such as procurement, production, supply chain, and technology, so as to reduce the product cost and improve enterprise profitability.

### 3.4. Corporate Tax Incentives

Coal resource tax is a tax levied on the mining and utilization of coal resources, and the tax rate varies according to different coal types, coal prices and coal resource locations. The state encourages the utilization of coal resources through green, energy-saving and low-carbon ways, and companies that meet the conditions can enjoy the tax exemptions. Ningxia Baofeng Energy can actively apply for these tax incentives to reduce tax burden and improve corporate profitability [10].

Ningxia Baofeng Energy can make full use of the VAT refund policy. VAT is a tax paid by enterprises to the state that is calculated and levied according to a certain percentage of sales. Ningxia Baofeng Energy can apply for a VAT refund policy to reduce enterprise costs, increase gross sales margin, and improve profitability.

Ningxia Baofeng Energy can obtain environmental subsidies and support by meeting relevant environmental protection standards and conditions. The Chinese government attaches great importance to environmental protection and can provide relevant subsidies and support to enterprises that meet the environmental protection standards and conditions to encourage them to increase their investment and efforts in environmental protection. As a coal enterprise, Ningxia Baofeng Energy can increase environmental protection investment, meet relevant environmental protection standards and conditions, and obtain environmental protection subsidies and support from the government to reduce corporate costs, improve sales gross margin, and increase profitability [11].

Ningxia Baofeng Energy can make full use of the financial tax incentives. As a large coal enterprise, Ningxia Baofeng Energy needs a large amount of capital to support the production and operation activities of the enterprise, for which financial tax incentives can be used to reduce financing costs. For example, policies such as subsidized loans and pre-tax deductions can be used to reduce financing costs and improve profitability.

When investing in new or expanded projects, enterprises can obtain land use tax exemptions in accordance with regulations.

### 3.5. Reduce the Possibility of Fine Activities

Under the ever-increasing environmental protection policies and safety regulations, compliance with regulations and reduction of environmental pollution have become important issues that cannot be avoided in business operations. Some mistakes or violations may lead to fines, which negatively affect the financial position of the business. Therefore, it becomes a meaningful discussion to consider the possibility of improving profitability through fine prevention activities and thus.

Preventing fines is a predictable expense that companies can factor into their budgets. Companies can reduce the likelihood of being fined if they can develop effective regulations and raise employee awareness of safety and environmental protection to avoid or reduce violations. At the same time, companies can use these budgets to make preventive investments in some problems that may arise in the production process, such as equipment upgrades or environmental technology improvements to improve efficiency and reduce pollution emissions, thus reducing the probability of being fined.

Companies can also obtain corresponding subsidies and tax breaks by participating in environmental protection programs or other social responsibility programs organized by local governments. The government has been encouraging and supporting enterprises in promoting environmental protection and social responsibility. If Ningxia Baofeng Energy can actively participate in these projects and achieve excellent results, it may receive recognition and awards from the government, which can reduce or exempt part of the taxes. The implementation of these policies can help companies to reduce costs and increase the gross margin of product sales, thus improving profitability [12].

Preventing the possibility of fine activities and thus improving profitability is a beneficial business strategy. Companies need to establish sound corporate systems and efficient safety management systems, raise employee awareness of safety and environmental protection, and actively participate in environmental and social responsibility programs organized by the government to obtain preferential policies.

#### 4. Conclusion

In the pursuit of increased corporate profitability, return on assets, operating margin, return on net assets, cost margin, main business margin, inventory situation, tax and energy advantages, and effective response to cost issues faced by the company are key factors. Also, the prevention of fines is an important aspect of business operations that requires attention. The following is a summary of these key factors and approaches.

First, improving the return on assets is critical to corporate profitability.

Second, operating profit margin and return on net assets are important indicators of corporate profitability.

Cost margins and main operating margins also have an important impact on corporate profitability.

The inventory situation also plays an important role in business profitability.

Tax and energy advantages also have an impact on business profitability.

In addition, through refined cost control and management, companies can reduce these costs and improve profitability.

Finally, the prevention of fines is a part of the business process that cannot be ignored. In summary, key factors to improve corporate profitability include optimizing return on assets, operating margins, return on net assets, cost margins, main business margins, inventory position, tax and energy advantages, and effective cost control. The prevention of fines requires enhanced compliance management and employee training to ensure that companies are operating in a legally compliant manner. By applying a combination of these factors and methods, companies can improve profitability and achieve sustainable growth.

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