

Study on the Evaluation of Financial Risks of Zhongbai Group in the Post-epidemic Era

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Abstract: With the rapid development of the economy and changes in consumer demand, personalized consumption has gradually become popular. With the advancement of technology, the development of e-commerce is becoming increasingly significant, while also squeezing out some markets in the retail industry, which makes the development of the retail industry more difficult and competition more intense. For the complicated environment and market change, retail industry is experiencing a big revolution. In this case, it is easy to have financial risks, and it is particularly important to evaluate and prevent the financial risks. This paper takes Zhongbai Group as an example to conduct financial risk research, especially with regards to the impact of COVID-19. Based on the actual situation of the group in the past 5 years, the author can make reasonable predictions for the future of Zhongbai. The author also sums up the experience of other outstanding companies and then make a progress on it, which will also boost domestic retail industry development.

Keywords: Zhongbai Group, financial analysis, financial performance evaluation

1. Introduction

In recent years, the external environment is becoming more complex, and the triple pressure of contracting domestic demand, supply shocks and weakening expectations is still greater. The COVID-19 pandemic and local conflicts have also increased uncertainty about the development of the world economy.

Against the backdrop of the impact of e-commerce and consumer upgrading, the overall consumer market for physical retail is weak and the channels are highly competitive, facing the serious challenge of low growth. The transformation of department store retailers is a matter of urgency. The new retail model relies on the Internet, intelligent technology, digital reform, in-depth integration of online platform, offline shops and logistics system, so as to achieve the synergistic development of physical retail and e-commerce retail [1].

Whether the novel coronavirus epidemic has a certain impact on physical retail enterprises, this paper takes Zhongbai Group as an example, and forecasts its financial situation in the post-epidemic era by analyzing its financial situation from 2017 to 2021. Existing studies on Zhongbai Group lack analysis of the impact of the epidemic and comparative analysis of the same type of physical retail industry, which has certain limitations for the analysis of the future development prospects of Zhongbai.

This paper analyses the financial efficiency of the company and assesses its development based on financial data from the annual reports from 2017 to 2021. Key financial indicators are then compared with industry averages to reveal the strengths of the Zhongbai as well as some of the weaknesses. The financial data used in this paper are obtained from the annual reports published on the website of Zhongbai Group.

This paper makes a comprehensive analysis by means of comparative analysis method, ratio analysis method, trend analysis method, hoping to have a thorough understanding of the company's internal and external circumstance through the development of Zhongbai in the recent five years. The purpose of this study is to identify the factors that affect the realization of the company's business objectives and the impact of the changes of these factors on the enterprise. This will provide valuable decision-related information and objective-related information to internal and external users of accounting information who have a financial interest in the company.

With the help of financial analysis, the data in the relevant accounting statements are then collated to calculate the required indicators, and through comparison and evaluation, the business prospects and development trends of the enterprise are deduced. Through financial analysis, the author can correctly evaluate the past operation of the enterprise, comprehensively reflect the current financial situation of the enterprise and predict the future development trend of the enterprise. This will assist in the decision-making process of all parties involved in the enterprise.

From the perspective of business operations: managers are more concerned with the causes and processes of profitability. Through financial analysis, shortcomings in production and operation can be identified in a timely manner and effective measures can be taken to resolve problems so that the profitability of the enterprise can be sustained. In addition, business operators are concerned with the financing and investment of their businesses.

From the perspective of enterprise financing and fundraising: enterprise financing requires the support of investors, who are not only concerned about the profitability of the enterprise, but also about the equity structure, payment capacity and operating conditions of the enterprise in order to ensure the preservation and appreciation of the capital invested. In addition, the owners of enterprises need to use the results of financial analysis to point out the direction for the future development of the enterprises.

There are some other financial analysis purposes. For example, certain government departments and regulatory authorities need to use financial analysis to identify the development trends and problems of the enterprises and industries under their supervision, so that the industry can be effectively regulated. What's more, companies also need to use the information publicly provided by competing companies to gauge the strategies, so that they can take timely countermeasures to enhance their competitive advantage.

2. Financial Risks Analysis of Zhongbai Group

2.1. Income Statement Analysis

In this paper, the author takes representative figures from the annual report and then produces Table 1. From 2017 to 2019, the main operating expenses had slight fluctuations, which was consistent with total revenue. In the following two years, the figure dropped to 9237.42 millions. The total profit of 2018 up to 689.50 millions, which was a great surprise. The net profit increased due to the completion of the asset securitization of Zhongbai Mall in Jiangxia District. The company's revenue and gross profit reduced year-on-year due to a decrease in the number of consumers to physical shops, which was affected by e-commerce and epidemic.

Since 2017, in the face of many unfavourable impacts such as the macroeconomic downturn and intensified competition from e-commerce and the same industry, Zhongbai has steadfastly pushed

forward the transformation and adjustment of new retail changes, such as continuously strengthening the direct sourcing of commodities, innovating the development of business formats and increasing the proportion of fresh produce boutique, etc., so as to actively adapt to the new normal of economic development. Then the company's operational efficiency began to improve [2].

Table 1: The income statement (Amounts in millions).

Projects	2017	2018	2019	2020	2021
Main operating expenses	11893.55	11787.99	12076.38	9991.15	9237.42
Selling expenses	2697.97	2745.40	2751.92	2595.11	2416.14
Finance expenses	41.65	11.97	28.51	21.52	136.15
Operating costs	15227.83	15089.57	15408.09	13142.31	12371.95
Operating profit	261.17	689.50	125.95	146.93	17.65
Total profit	147.19	630.44	80.19	138.19	11.47
Income tax	71.06	193.15	67.21	72.71	24.61
Net Income	76.14	437.29	12.97	65.48	-13.14

In order to avoid regulatory penalties for three consecutive years of losses when the industry was in transition, Zhongbai by the means of selling equity, using government subsidies and adopting a new type of asset securitisation operation to turn its net profit from 2015 to 2017 into a surplus. However, the profits generated by such non-recurring gains and losses are not sustainable. Companies must accelerate their transformation so as to adapt to the fierce competition in the new era [3].

2.2. The Balance Sheet Analysis

The author takes representative figures from the balance sheet and then produces Table 2. In general, the impacts of covid-19 is small and moderate. In 2018, the non-current liabilities were only 9.72 millions, indicating that the company's economy tends to improve. During these five years, the assets were still increasing, however, the equity of shareholders are fell down steadily.

Table 2: The balance sheet (Amounts in millions).

Projects	2017	2018	2019	2020	2021
Current assets	2938.42	3147.42	3272.00	3557.50	3392.89
Non-current assets	4816.66	4856.54	5938.26	5999.79	9068.42
Total assets	7755.08	8003.96	9210.27	9557.29	12461.31
Current liabilities	4500.48	4367.07	5626.19	6038.46	6736.70
Non-current liabilities	8675.76	9.72	10.18	54.65	2583.39
Total liabilities	4509.15	4376.79	5636.37	6,093.10	9320.09
Retained earnings	864.69	1223.37	1178.39	1171.01	1115.72
Total equity	3245.93	3627.17	3573.90	3464.18	3141.23
Total liabilities and equity	7755.08	8003.96	9210.27	9557.29	12461.31

The sudden increase in liabilities in 2021 was mainly due to the significant increase in accounts payable, short-term borrowings and pre-receivables, which accounted for a relatively large portion of the current liabilities compared to the previous year. As the market competition in China's retail industry continues to intensify, Zhongbai still needs to continuously improve its debt servicing capacity through efforts.

2.3. The Cashflow Statement Analysis

The Group was in a mixed ownership reform phase in the early years and the company vigorously pushed forward with shop restructuring, resulting in cash compensation liabilities that reduced its short-term debt repayment ability. However, through the consolidation and restructuring of various inefficient shops, the cash indemnity of Zhongbai has gradually been curbed and cash flow has rebounded.

Under the new leasing standard, the cash flows relating to leasing that were previously included in operating activities in the cash flow statement should now be included in financing activities. There is no change to the total cash flows, only a change in the internal structure of the statement. This change is beneficial to the business, indicating a more stable production operation and the ability to service its liabilities [4].

In summary, the company's short-term performance was relatively low due to the repeated impact of the epidemic. The net cash flow from operating activities declined more than last year, mainly because the operating income fell a lot, followed by a decrease in the payable category compared to the beginning of the period.

2.4. Liquidity Metrics

The company's management uses solvency analysis to determine the financial risk and sustainability of the business. Good solvency ensures that creditors and investors receive their interest payments on time and their principal back at maturity. Banks rely on a comprehensive assessment of a company's solvency to decide whether to grant a loan to the company.

For the reason that the retail industry requires a large amount of capital to meet the demand for inventory, the proportion of inventory in the assets should be excluded when examining the liquidity of retail enterprises, which will reflect the liquidity of the enterprise more truly. For the financial analysis of retail companies, this paper considers that the quick ratio is a more accurate reflection of the true situation of the company than the current ratio [5]. The data was presented in Table 4.

Table 4: Liquidity ratio.

Projects	2017	2018	2019	2020	2021	Median
Current ratio(%)	65.3	72.1	58.2	53.9	50.4	80.6
Quick ratio(%)	38.7	41.3	26.7	26.4	24.4	54.6

During the period of mixed ownership reform, the company has made significant efforts to reform, which has resulted in cash compensation liabilities and reduced its short-term debt repayment capacity. However, through the restructuring of various inefficient shops, the cash compensation amount of Zhongbai has been gradually restrained. Zhongbai has become increasingly capable of negotiating with suppliers on settlement methods and is able to use its commercial credit to support its own operations, and the business is operating soundly.

2.5. Profitability Metrics

Profit is the source of funds for investors to obtain investment income and creditors to collect principal and interest. It is also the central expression of the operator's business performance and management effectiveness, as well as an important guarantee for the continuous improvement of the collective welfare institutions of employees. As an economic entity that exists for profit, companies keep coming up with ways to cut costs and increase production, which is the only way to produce competitive products that can contribute to a company's profitability. In this paper, the author chooses

the earnings per share, return on equity and operating margin to examine the profitability of the Zhongbai Group, which was presented in Table 5.

Table 5: Profitability ratio.

Projects	2017	2018	2019	2020	2021	Median
Earnings per share(yuan)	0.1	0.63	0.01	0.07	-0.03	-0.17
Return on equity(%)	2.3	13.5	0.3	1.3	-0.7	-3.8
Operating margin(%)	1.7	4.5	0.8	1.1	0.1	-0.6

Zhongbai ranked sixth in the industry. With respect of return on equity, it rose to the peak in 2018 and then decreased to -0.7. Through the integration of merchandise, warehousing, logistics, marketing and technology, the digitisation of the new retail has been fully completed, solving problems that common to traditional retailers such as long queues, inconsistent prices, user churn and the impact of e-commerce, thus improving the overall operational efficiency of the shops and enabling a significant increase in the profitability of their main business.

3. Conclusion

In the course of its reform, Zhongbai Group has encountered many problems and had many thoughts. In its future development, it should not only summarize its own problems timely, but also continue to learn from excellent retailers at home and abroad. The author believes that if the Zhongbai does the above points well, it will be able to gain a brighter future.

Firstly, Zhongbai should focus all its attention on retailing and improving its operational capabilities. At present, the vast majority of domestic retail chains operate in a wide range of areas. They often involve multiple fields, not only from supermarkets to convenience stores, from specialty shops to department stores, but some have also developed into real estate, finance and other fields that require strong expertise. The most direct way to improve operational capability is to improve the asset turnover, accounts receivable turnover and inventory turnover in the financial statements. Blind investment will not only cause losses, but will also reduce the asset turnover rate.

Secondly is the prudent development. For the development of retail enterprises, scale expansion is an inevitable choice. However, when domestic retailers do not have such a high level of technology, they should play it safe and do well in their own categories. Only by forming local advantages in one's own region, improving competitiveness and accumulating lots of capital and experience can one go out and compete. Zhongbai has taken the lead in opening up markets in Hubei, Hunan and Chongqing, and will have to develop prudently in the future according to the actual situation.

Finally is about active learning. Domestic retail enterprises should actively learn strategies, brands and corporate culture from foreign investors to establish their own adaptability. The implementation of corporate strategies will eventually be reflected in financial data, so it is necessary to carefully study the financial statements of outstanding foreign retail companies, compare them with our own, identify shortcomings and try to make up for them. The domestic firms should not just study the 'shapes' of foreign retail companies and pursue the number of shops. Rather, they should try to find out the real reasons behind the impact of financial data [6].

As almost all of the Zhongbai's revenue comes from Hubei, the business was significantly affected during the epidemic. The company sold essential goods at par, resulting in a reduction in gross profit on merchandise sales; coupled with a sharp increase in labor costs and distribution costs during the epidemic, and an increase in rigid expenses such as staff protective materials and shop disinfection, resulting in a significant increase in expenses. As can be seen from the above data, the company's short-term performance declined, and although government subsidies were received, the quality of

the company's cash recovery was not satisfactory. The impact of the epidemic on the retail sector was significant, but from another perspective, it greatly enhanced the digitalization of the business and information technology was generally upgraded, laying a good foundation for the next step of development, which is conducive to sustainable business development.

Although this paper has analysed the financial data of Zhongbai from 2017 to 2021, the analysis is not comprehensive and in-depth due to the short period of time. There are still some areas for improvement. First is the limitations in access to information. Because the data chosen for this paper and the data used in the analysis are obtained from the financial statements of listed companies, while some important internal data of the companies are not available, the analysis is not comprehensive enough. The second is limitations of financial indicators. This paper mainly analyses the company's capital recovery and operating capacity through financial indicators, and does not consider the impact of non-financial indicators on the capital recovery and operating capacity of Zhongbai.

The above points should be taken into account and further improvements should be made in future research. In view of the development potential of the retail industry, it is hoped that this paper will be of some help to the financial risk management of the Zhongbai. Researchers will continue to pay attention to the annual financial situation of Zhongbai and use the data analysis to control the risk in the cradle, so that the company can develop more steadily [7].

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