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Analysis of Corporate Financial Statements Based on the Internal and External Environment of the Industry—Take Inner Mongolia Yili Industrial Group Co., Ltd. as an Example

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Abstract: *With the rising income level of residents, demographic changes, improved diet structure and upgraded consumption structure, China's dairy market is developing positively and ushering in huge room for development. In the past few years, as the leader of China's dairy industry, Yili shares have gained momentum. This paper selects Yili Co Ltd as the object of analysis, first briefly introducing the company's basic situation, followed by an analysis of the recent situation and development trend of the dairy industry, then applying SWOT strategic analysis methods, then analyzing its financial situation through financial indicators from 2017-2021, and finally making comprehensive recommendations.*

Keywords: *Yili Corporation, annual report, financial analysis, strategy analysis*

1. Introduction

Inner Mongolia Yili Industrial Group Co., Ltd.(hereinafter referred to as Yili, stock code 600887) was established in 1933, is the largest and most comprehensive dairy products enterprise in China. Yili has five business divisions: liquid milk, milk beverages, milk powder, yoghurt, frozen beverages, cheese, milk fat and packaged drinking water, and more than 80 subsidiaries, mainly engaged in the processing, manufacturing and sales of various dairy products and health drinks. As a leading enterprise in the dairy products industry, Yili Corporation has long been a market leader in a number of products [1].

2. Industry Analysis

2.1. Introduction and current development

Dairy products can be divided into four categories according to the production process: white milk, yoghurt, cheese and other dairy products, of which white milk and yoghurt are liquid milk, which is packaged and sold after purification, homogenisation and sterilisation processes. In terms of the composition of the dairy products market consumption, white milk and yoghurt have become the main objects of dairy products consumption in China [2]. In the past five years, the average annual compound growth rate of China's dairy products market retail scale reached more than 5%, reaching 471.42 billion yuan in 2021.

2.2. Future development trends

2.2.1. Premiumization.

With the improvement of people's living standards and the upgrading of consumption, national consumption needs have also transitioned from "subsistence" to "quality", and as the dairy market continues to develop towards high-end, "quality consumption. As the dairy market continues to move upmarket, "quality consumption" has become an urgent need for a new generation of consumers.

2.2.2. Diversifying.

As people's consumption habits change and product features are enriched, the pursuit of health has

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become a trend. People who exercise, reduce fat and eat meal replacements are paying more and more attention to protein intake. In addition, dairy products such as milk tea have also become essential meals for company reunions, afternoon tea and other social gatherings. These changes have provided the dairy industry with greater room for growth [3].

2.3. Impact of the macro environment on the dairy industry

2.3.1. Economic factors.

With the improvement of consumption level of our residents, people's demand for quality of life is getting higher and higher, not only pursuing to eat enough in life and diet, but also paying more attention to the balance of nutrition.

2.3.2. Political factors.

In order to further promote the revitalization of the dairy industry, improve the quality and safety of dairy products, promote the rapid and stable development of China's dairy industry, improve China's milk industry chain, increase the control of the quality of dairy products. A series of policy documents to promote the development of this industry in China [4].

2.3.3. Social factors.

The country's population has been growing over the past few years and the demand for milk has been gradually increasing, which has led to the growth of the milk industry. Over the past few years, the growing proportion of the population aged 0 to 14 years and 65 years and over has been structured in such a way that the demand for milk is increasing, thus driving the growth of this dairy sector.

2.3.4. Technical factors.

With the increasing maturity of China's dairy industry development, the dairy industry is expanding, and the industry has higher technical requirements, such as the improvement of logistics efficiency, changes in packaging materials, innovation in freshness preservation technology, etc [5].

2.3.5. Consumption boom factors.

The industry is driven by the third and fourth tier cities and rural markets with huge consumption potential. The consumption level of Chinese rural residents has been maintaining a high growth rate in recent years.

3. Yili AG Strategic Analysis—SWOT Analysis

3.1. Internal strengths

3.1.1. Technological advantages.

Whether it is technology or research and development strength, compared with competitors, Yili is already a first-class level. Whether it is equipment or production lines, Yili has achieved global leadership and domestic leadership.

3.1.2. Milk source advantage.

Located in Inner Mongolia, Yili's milk source base is the first workshop of dairy production, with abundant natural milk sources of high quality.

3.1.3. Brand advantage.

With solid groundwork and a strong brand rooted in excellent service, advanced technology and reliable quality, Yili Group's brand value sits firmly at the top of China's dairy industry.

3.2. Internal Disadvantages

3.2.1. The quality of liquid milk needs to be improved.

Although Yili Milk is the first dairy brand in Asia, in recent years, the milk taste of Yili milk is gradually weakened, and the milk fragrance is gradually lost, and the nutritional value is reduced to some extent. The quality of its liquid milk still needs to be improved.

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3.2.2. Lack of talent

Compared with other enterprises in the same field, Yili Dairy Industry has great talent mobility, and it is difficult to maintain talents, which also affects the operation and development of the company to a certain extent.

3.3. External opportunities

3.3.1. The dairy market is maturing.

The domestic dairy products market is gradually entering a period of maturity, with the industry showing the co-existence of national brands and regional brands in the competitive landscape of the domestic dairy market as a whole [6].

3.3.2. Olympic Expo.

Since the Athens Olympics in 2004, Yili has successfully launched a series of promotional activities to enhance its brand image.

3.4. External threats

Foreign brands have a near monopoly on the high-end market and the domestic and international market environment is getting bigger and bigger.

The rapid development of competitors such as Mengniu and Junlebao and the emergence of new dairy companies.

4. Financial analysis of Yili shares

4.1. Asset quality analysis

4.1.1. Analysis of the size of assets and liabilities

Yili's total assets have been expanding, from 49.3 billion in 2017 to 102 billion in 2021, and it will achieve its target of over 100 billion in total assets by 2021, ranking first in its industry and taking a leading position in the industry. The trend of asset growth is relatively stable, with an average growth rate of 22% in total assets over the past five years, which is greater than 10%, indicating that the Company is in the midst of expansion and has good growth. In 2018, total assets declined, mainly due to the repayment of short-term bank debts and an increase in dividends compared to the previous year, resulting in a decline in total assets.

Yili's debt levels have been over half in recent years, but the fast-moving consumption of dairy products can give the company ample cash flow. Taking the scale of assets and liabilities of Yili in the past five years as an example, an analysis is conducted as shown in Table 1. Yili's gearing is volatile, with declining short-term borrowings and accounts payable leading to a decrease in gearing from 2017-2018 and an increase in short-term borrowing financing leading to a rise after 2018, reaching a maximum in 2020. The increase in interest-bearing liabilities was mainly in 2020, where Yili was found to have issued financing of $21.2 billion for upstream and downstream to support the development of upstream and downstream partners in the 2020 financial report. Yili uses its influence to obtain low-interest loans and in turn loans to partners to help them grow. Yili's interest income for 2019 is positive and its finance costs are low, so the increase in Yili's interest-bearing debt has no impact, but instead it can help its partners grow by refinancing out.

Table 1: The size of Erie's assets and liabilities in the past five years (in billion yuan)

	2017	2018	2019	2020	2021
Total assets	493.0	476.1	604.6	711.5	1020
Liabilities	240.6	195.7	341.9	406.2	531.7
Gearing ratio	48.80%	41.10%	56.54%	57.09%	52.13%

4.1.2. Inventory analysis

Inventory patterns are gradually changing under the channel reform. Yili's inventories have been increasing year on year in recent years, except for 2020, when the decrease in inventories was due to a

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reduction in merchandise in stock and raw and auxiliary materials. However, Table 2 shows that inventory as a percentage of current assets has decreased in the last two years, mainly due to changes in Yili's sales channels in the last two years. Yili has adopted a multi-level distribution model for channel sales from its own operational characteristics, setting up a number of regions across the country with distributors and retailers located in each region. While Yili vigorously promotes the distribution model, it also adopts a direct sales model to sell certain specific products. In the last two years in particular, Yili has significantly accelerated the establishment of direct sales channels.

Table 2: Yili's inventory indicators for the past five years (in RMB billion)

	2017	2018	2019	2020	2021
Inventory	46.4	55.07	77.15	75.45	89.17
Current assets	298.5	244.6	257.1	283.8	501.5
Inventory/current assets	15.54%	22.51%	30.01%	26.59%	17.78%

4.2. Analysis of operating capacity

4.2.1. Accounts receivable turnover rate

From Table 3, Erie's rapid decline in accounts receivable turnover in the past five years is mainly related to the continuous increase in accounts receivable, which may be related to the increase in sales receivables from direct and electric dealers. The Company actively explores new channel cooperation models and actively expands its business areas while strengthening cooperation with key retailers, and the rate of decline has slowed down in the past two years, while the Company's accounts receivable turnover with direct and electric dealers is due to the recovery of equity transfer payments and the reduction of deposits, as well as the use of bankers' acceptances to settle distributors' product purchases.

4.2.2. Inventory turnover rate

Yili's inventory turnover ratio has remained above 8 times over the past 5 years and is generally stable. Yili's high inventory turnover ratio over the past five years indicates a high inventory turnover rate, low inventory utilization level and strong liquidity, further reflecting Yili's ability to drive product sales through multiple sales channels and good operating conditions.

4.2.3. Total asset turnover ratio

Through the previous analysis of Yili's channel strength driven inventory turnover, Yili's total asset turnover for the past five years has been greater than one in terms of total asset turnover, which further demonstrates the company's good sales capacity and high asset utilisation.

Table 3: Erie turnover indicators for the last five years (times)

	2017	2018	2019	2020	2021
Accounts Receivable Turnover Ratio	82.56	70.77	57.71	53.68	56.97
Inventory turnover rate	9.45	9.68	8.53	8.84	9.28
Total asset turnover ratio	1.54	1.64	1.67	1.47	1.28

4.3. Solvency analysis

4.3.1. Short-term debt servicing capacity analysis

(1) The current ratio is generally better in the range of 1.5-2.0 and the quick ratio is generally around 1. Both indicators for 2019 and 2020 Erie are significantly lower than their corresponding values as shown in Table 4. According to the annual report, the main reason for the decrease in both indicators is the increase in debt due to the issuance of bonds and the increase in short-term borrowings during the period.

(2) The cash ratio is used to measure the cash flow from operating activities of a company, which is generally considered to be around 0.2 as a suitable ratio to offset the extent of current liabilities. Erie's cash ratio has remained around 0.3 for the last five years except for 2018, indicating that the company is able to service its short-term debt while also making reasonable use of cash-based assets to generate income.

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4.3.2. Long-term solvency analysis

(1) The gearing ratio reflects the proportion of all capital provided by creditors and also the security of their loans. An appropriate level of gearing for an enterprise is generally considered to be between 40% and 60%. As can be seen from Table 4, Yili's gearing ratio has been maintained at around 50% for the past five years, demonstrating its good asset position and strong long-term debt servicing capacity. The low gearing ratio in 2018 as explained in the annual report was due to a decrease in short-term borrowings and accounts payable.

(2) The equity ratio is the ratio of total liabilities to total owners' equity. It is generally believed that an equity ratio of 1:1 is ideal, and the equity ratio of Yili shares has remained at around 1 for the past five years, indicating that the enterprise has a strong ability to repay its long-term debts.

Table 4: Indicators of debt servicing capacity

	2017	2018	2019	2020	2021
Short-term solvency					
Current ratio	1.25	1.28	0.82	0.82	1.16
Quick ratio	1.06	0.99	0.57	0.60	0.95
Cash ratio	0.29	0.45	0.27	0.28	0.36
Long-term solvency					
Gearing ratio	48.80%	41.11%	56.54%	57.09%	52.15%
Equity ratio	0.96	0.70	1.31	1.34	1.12

4.4. Profitability analysis

4.4.1. Operating income

Table 5 shows that Yili's operating income growth rate from 2017-2021 is greater than 10% except for 2020, and the company's positive operating income growth rate is in the range of 10%-16%, with profitability at the top of the industry. The ratio of cash received from sales of goods and services to operating income has been greater than 100% for five consecutive years, indicating that the company has better growth and higher income cash content, of which 2020 is subject to the impact of factors such as the decline in demand for dairy products, operating income growth rate is lower compared to other years, and revenue growth rate in 2020 has declined.

Table 5: Changes in earnings-related indicators for the last five years in Erie

Erie Corporation	2017	2018	2019	2020	2021
Operating income ($ billion)	675.5	789.8	900.1	965.2	1101
Operating income growth rate	12.00%	16.92%	13.97%	7.24%	14.11%
Cash received from sales of goods and services as a percentage of operating revenue	112.07%	113.03%	114.25%	108.84%	110.74%
Net profit ($ billion)	60.03	64.52	69.51	70.99	89.32

4.4.2. Net margin

Yili shares have experienced a trend of increasing operating income in the past five years. However, there has been a declining trend in the net profit margin. The possible reasons for this are analyzed as follows:

From an industry level, the growth rate of the industry as a whole has slowed down. In 2017 and 2018, liquid milk production showed negative growth. Yili managed to increase its market share by harvesting small brand shares, but the rate of market share increase slowed significantly after 2018. In 2016, rival Mengniu Dairy underwent a management change, and in 2017, it began to pursue Yili. Yili's goal was to widen the gap with Mengniu, and the two companies engaged in a more intense terminal price war. From a company level, Yili's gross profit has fallen between 2017 and 2021, possibly due to the impact of costs. In 2017, package costs increased, and in 2019, milk prices also began to rise moderately. The benefits of upgrading Yili's product structure weakened at this stage compared to before, with the impact of structural upgrading significantly reduced and price driven growth not significant, while the epidemic situation in 2020 was severe, with people isolated at home and difficulties in transporting materials, and demand for dairy products declining, while Mengniu was in a bonus period of structural optimization, with high gross margin products such as Trunksu maintaining good advantages. The expense side: in 2017, Mengniu business unit reform and adjustment was completed, increasing expenses, in this context, Yili launched an offensive, the sales expense ratio rose significantly, reducing the possible impact of the epidemic in 2020. In the context of a slowdown in the total industry, the gross margins of dairy companies are mainly related to product mix optimisation, with Mengniu in a bonus period of mix optimisation during this period, while Yili mix optimisation is less pronounced and both companies have increased expenses.

4.4.3. Cost control

The cost of sales ratio of over 80% is related to the company's brand strategy, which requires the company to maintain a high cost of sales in order to maintain a good brand image, while the ratio of cost to gross margin decreases from 75%-78% previously to 71.5% in 2021, mainly due to the change in corporate accounting standards in 2021. Transport costs incurred in fulfilling customers' sales contracts are included in "operating costs" and routine repair costs for fixed assets related to the production and processing of inventories are treated in accordance with the principles for determining the cost of inventories.

5. Conclusions

From industry analysis, the overall consumption of the dairy industry is still on an upward trend at this stage, with consumers' purchase intentions gradually increasing. Moreover, the growing demand for dairy products in second and third tier cities and rural areas will remain a big growth point in the dairy consumption market in the future. However, the industry is still facing some challenges, such as technological issues. With the increase in consumption levels, consumers are putting forward higher demands, so accelerating technological innovation is one of the top priorities for the industry as a whole.

From a strategic analysis, Yili shares in the industry competition has milk source, brand, and technology advantages at the same time there are also some challenges and threats. In this regard, Yili should not only maintain its existing advantages and continue to do large-scale, but also seize the opportunity of the Olympic Games to further consolidate its brand value. At the same time, in the face of many rivals and market pressure, Yili should properly cooperate with them. Therefore, Yili should adjust and enhance its strategy according to the changing situation, to achieve steady and rapid growth and to build its sustainable competitive advantage.

From the financial analysis, Yili's declining accounts receivable turnover ratio over the past five years is a conclusion drawn from an analysis of its operating capacity; from the profitability indicators, the net profit margin is on a downward trend from 2017 to 2021; Yili has a better profitability level in its industry, but is weak in its ability to manage expenses. In this regard, the company should strictly implement the accounts receivable management system and always pay attention to the recovery of accounts receivable; Yili should take corresponding measures in terms of costs, such as reducing daily expenses, purchasing staff to improve bargaining power to reduce procurement costs, etc. in order to increase profits and improve profitability; Yili should reduce advertising costs, control costs and step up research and development of new products to improve the company's competitiveness and thus increase its market share.

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