

Financial Analysis and Evaluation of Communication Operators in China—based on China Mobile

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Abstract— This article combines the average level of the same industry and analyzes China Mobile's profitability, short-term and long-term debt repayment ability, and operating ability based on China Mobile's financial statements from 2010 to 2018.

Keywords— Financial analysis, communications operators, China Mobile.

I. INTRODUCTION

Since the 1920s, modern mobile communication technology has begun to enter people's horizons, and has continuously promoted human development and progress. After five stages of development, operators have ushered in the 5G era. For communication operators, 5G is both an opportunity and a challenge, and it is facing greater R & D pressure. China Mobile, which is the leader in the mobile communications market, need to maintain steady growth in a rapidly developing network economy and achieve better and faster development. This article attempts to interpret the financial management problems in the company's operation and investment and financing activities through financial analysis

of China Mobile from 2010 to 2018, and put forward corresponding constructive opinions and suggestions.

II. ANALYSIS OF FINANCIAL INDICATORS

A. Profitability Analysis

Profitability refers to the ability of an enterprise to obtain profits. The indicators that can reflect the profitability of an enterprise mainly include operating profit margin, sales gross profit margin, net asset interest rate and net equity interest rate. In order to reflect the profitability of China Mobile, it will be compared with China Unicom and China Telecom in the same industry.

TABLE 1. Profitability indicators of the three major operators from 2010-2018

index		2010	2011	2012	2013	2014	2015	2016	2017	2018
China Mobile	Total net interest rate	0.14	0.13	0.12	0.1	0.09	0.078	0.074	0.075	0.077
China Unicom		0.008	0.009	0.014	0.019	0.022	0.017	0.001	0.003	0.02
China Telecom		0.035	0.04	0.028	0.033	0.032	0.034	0.028	0.028	0.032
China Mobile	Sales margin	0.25	0.24	0.22	0.19	0.17	0.16	0.15	0.15	0.16
China Unicom		0.021	0.019	0.027	0.034	0.041	0.038	0.002	0.006	0.032
China Telecom		0.056	0.068	0.035	0.037	0.044	0.044	0.029	0.02	0.039
China Mobile	Return on equity	0.21	0.19	0.18	0.15	0.13	0.12	0.11	0.11	0.12
China Unicom		0.012	0.013	0.02	0.029	0.035	0.03	0.004	0.008	0.021
China Telecom		0.013	0.003	0.068	0.069	0.069	0.062	0.068	0.058	0.064

First of all, from a horizontal perspective, Table 1 shows that China Mobile's profitability is significantly higher than the other two communication operators. From the index of financial profitability Analysis, China Mobile is basically ten times more than the other two operators. Reflecting China Mobile's strong profitability, it also means that China Mobile can bring more and more stable returns to shareholders.

Secondly, from the vertical analysis of China Mobile, although the profitability in the seven years from 2010 to 2016 was stronger than others in the field, it has been in a downward trend, and the net profit that can be created from every 100 yuan of operating income has dropped from 14 yuan to About 7.4 yuan, the speed of capital turnover slowed. In 2009, 3G has just been promoted and applied. Due to the gap in technology, standards, and industry maturity, the market expansion of traditional telecommunications operators has been difficult. In the same time, with the development of the mobile Internet, products such as WeChat have become

real competitors, resulting in the rapidly decline of China Mobile's SMS and MMS services. Therefore, for the rapid rise of the Internet, the user growth of the three major operators is obviously weak, and the competition gap between them is gradually narrowing. The profitability in 2017 and 2018 has improved to some extent, and there is a gradual rebound. With the full coverage of 4G networks, 5G networks have begun to emerge. China Mobile is actively exploring customer traffic consumption needs, increasing technology investment, focusing on improving network quality and service quality, and solidifying its leading position in the industry.

B. Solvency Analysis

a. Analysis of short-term solvency. The short-term debt repayment ability is the ability of an enterprise to repay current liabilities with current assets, and reflects the strength of the company to pay daily due debts. Working capital, current ratio, and quick ratio can be used to measure the company's capital liquidity and short-term solvency. Working

capital as an absolute value indicator, which is not suitable for comparison. In general, the higher of the current ratio, the stronger short-term solvency of the enterprise, and the more guaranteed the rights of creditors. Internationally, a current ratio of 200% is generally considered appropriate. If the current ratio is less than 100%, it is generally considered that the solvency is poor, and the company will always face an operating crisis in which the current assets are insufficient to pay the debts due.

As can be seen from Table 2, except for the current ratio of 0.9754 in 2015, which is less than 1, all other years are greater than 1, which indicates that creditors have at least 1 yuan in cash for each 1 yuan in current liabilities, it indicates China

Mobile has abundant current assets to repay short-term debt. It can guarantee the timely repayment of short-term debt. However, from the overall trend point of view, the value from 1.2592 in 2010 to 1.128 in 2018, there was a slight decrease, which proves that its short-term debt repayment ability has a risk of weakening compared with previous years under basic reasonable standards, and the short-term debt repayment ability of enterprises needs to be improved.

b. Long-term solvency analysis. Long-term solvency refers to the ability of an enterprise to repay long-term debt. The main indicators for analyzing long-term debt service ability are asset-liability ratio, equity ratio, interest-bearing debt ratio, and interest expense protection multiples.

TABLE 2. China Mobile's current ratio indicators for 2010-2018

index	2010	2011	2012	2013	2014	2015	2016	2017	2018
China Mobile Current ratio	1.2592	1.4005	1.4997	1.2596	1.1058	0.9754	1.0937	1.0532	1.128

TABLE 3. China Mobile's long-term solvency indicators from 2010 to 2018

index	2010	2011	2012	2013	2014	2015	2016	2017	2018
China Mobile Assets and liabilities	0.33	0.317	0.311	0.323	0.338	0.355	0.354	0.35	0.313
Equity ratio	0.446	0.465	0.451	0.476	0.51	0.551	0.549	0.54	0.452

Table 4 China Mobile's operating capacity indicators from 2010 to 2018

index	2010	2011	2012	2013	2014	2015	2016	2017	2018
China Mobile Accounts receivable turnover	50.4	57.6	47.8	45.3	39.3	37.7	37.2	30.7	27.8
Inventory turnover	63.6	66.5	77.9	68.9	70.3	66.9	80.2	72.4	83.2

TABLE 5. China Mobile's Growth Capability Indicators from 2010 to 2018

index	2010	2011	2012	2013	2014	2015	2016	2017	2018
China Mobile Gross profit increased YoY growth	7.5361	8.6691	5.2247	(0.243)	(0.301)	2.7157	4.3795	6.8798	0.6143

If a company's asset-liability ratio exceeds 50%, its creditors will face debt repayment risk. As can be seen from Table 3, from 2010 to 2018, China Mobile's asset-liability ratio was basically around 30%, and its long-term debt solvency was relatively stable. The 30% asset-liability ratio is able to protect the interests of creditors to a large extent, and ensure that creditors can repay their debts on time. In addition, the proportion of corporate property rights remained basically at 0.5, indicating that its financial structure is relatively stable, and it also confirms that the interests of creditors can be well protected.

C. Operational Capacity Analysis

Operating capacity refers to the ability of an enterprise to operate, that is, the ability of an enterprise to use various assets to earn profits. Generally, inventory turnover rate, accounts receivable turnover rate, business cycle, current asset turnover rate and total asset turnover rate can be used as indicators to analyze operating capacity.

Accounts receivable turnover rate is calculated by using the ratio of sales revenue to accounts receivable. The larger of the ratio, the shorter process of receivables from credit sales to recovery, the better of the company's performance. From Table 4's data on China Mobile's operating capacity indicators, it can be seen that the company's account receivable turnover rate has been decreasing since 2010, from about 50.4 to 27.8

in 2018. It indicates that the possibility of bad debt losses is increasing. The operation effect of the enterprise is not ideal and needs to be improved. As for the inventory turnover ratio, the larger of the ratio, the smaller proportion of inventory to working capital, the better liquidity and liquidity of assets, and the higher of the capital utilization rate.

China Mobile's inventory turnover rate all above 60, it has been relatively high. The highest reached 83.2, which proves that China Mobile's inventory turnover speed is very fast. The high index indicates its following advantages, first of all, it may be related to the nature of its industry. The inventory of communications Operators is SIM cards and other low-value consumables in the most of time. At the same time, China Mobile's inventory is cleared quickly and its turnover capacity is strong. Overall, China Mobile's inventory balance is relatively small, it with a high level of management and a strong operating capacity.

D. Growth Ability Analysis.

Generally, the company's growth ability can be analyzed by the year-on-year growth rate of the company's operating income and the growth rate of its gross profit.

From the indicators in Table 5's growth capability analysis, we can see that China Mobile's growth capabilities are somewhat worrying during the two years of 2013 and 2014, but after improvements and developments in various aspects

of the enterprise, they have made corresponding progress. In general, the growth rate of gross profit dropped from 7.5361 in 2010 to an absolute advantage in the market of the same industry, down to 0.6143 in 2018. This shows that China Mobile should steadily develop on the basis of its dominant position in the industry. This moment, excessive development is not a particularly wise choice. At the stage of rapid economic development, it should prudently expand and achieve strategic transformation.

III. CONCLUSIONS AND RECOMMENDATIONS

A. According to the analysis of China Mobile's profitability in the past ten years, China Mobile, as the leader of the industry, has obvious advantages over the other two communication operators, but the pace of development has slowed because the communication industry is not at a rapid development stage. We should be proactive and not only keep traditional communication services, but also vigorously develop network data services to provide customers with better services. According to the profitability indicator data, the net asset profit margin has relatively recovered in 2017 and 2018, which proves that China Mobile's various measures to improve profitability have received feedback. In addition, the company should adjust its income structure and use traffic operations as the main driving force for increasing its current revenue. And it should strive to expand new businesses, increase corporate profits, reduce production and operating costs, and reduce unnecessary expenses and expenses.

B. The analysis of China Mobile's solvency. First of all, although the company's solvency has been relatively strong, there also have been fluctuations between 2010 and 2018. The company can strengthen the daily management of inventory, because Low-value consumables are their main form of inventory for the communication industry, and it is easy to form a hoarding phenomenon, so that less cash and its cash

equivalents are used for cash. Secondly, reporters should focus on both reasonable debt raising and perfecting the capital structure, so as to reduce the company's financial risk. The company's planning department should conduct scientific planning. It may actually list more types of debt, analyze the advantages and disadvantages of different types, and consider the actual situation of the company, its ability to bear risks, and its impact on financial risk.

C. Through the analysis of China Mobile's operating capabilities, China Mobile's accounts receivable turnover rate has been declining in the past ten years from 2010 to 2018, and the decline has been very large. The company should pay sufficient attention to it. The company can properly adjust its capital structure to enhance asset utilization. At the same time, the company's credit sales system also needs to be improved accordingly, so as to increase the recovery rate of receivables, strengthen the supervision of non-performing accounts, and reduce the possibility of bad debts in receivables. At the same time, enterprises should repay their due debts in a timely manner, and establish a good public image, as the society transmits a good signal of the company's development, so as to obtain more financing to enable the company to develop better.

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