

Research on the Financial Impact of COVID-19 Epidemic on Haidilao and Countermeasures

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Abstract

The sudden COVID-19 epidemic in 2020 has brought unprecedented negative impacts to all industries, especially the catering industry, which is a lifestyle service industry. As a giant in the catering industry, Haidilao also had a dismal business in 2020, with a net profit growth rate of -86.81%. Taking Haidilao as an example, this paper analyzes the impact of COVID-19 epidemic on its financial performance and puts forward corresponding countermeasures, in order to provide reference for the catering industry to overcome the "cold winter" of the epidemic.

Keywords

COVID-19; Haidilao; Financial Analysis.

1. Introduction

In early 2020, a sudden outbreak of COVID-19 hit a number of industries, especially the catering industry, which is typically a consumer service industry. According to the statistics of the cooking association, during the epidemic, 78 percent of catering enterprises lost more than 100 percent of their operating income, accounting for nearly 8 into! Under the influence of COVID-19 and the strict epidemic prevention and control needs, catering enterprises are facing the extreme situation of cash flow rupture and enterprise bankruptcy at any time, such as suspended eat-in service, overstocking and even deterioration of inventory, sharp increase of fixed cost pressure, extremely high operational and financial risks. Although the catering industry actively through takeout, semi-finished products and other ways to find a solution, but for hot pot, buffet, grilled fish and other catering enterprises that rely heavily on eat-in income, the effect is minimal. How to help them through the epidemic is worth pondering. This paper will analyze the financial impact of COVID-19 epidemic on Haidilao, the leading hot pot enterprise, and put forward countermeasures and suggestions, hoping to provide reference for the resumption of work and production and future development of the catering industry.

2. Haidilao Financial Analysis

Sichuan Haidilao Catering Co., Ltd. (hereinafter referred to as "Haidilao") has made great progress since it was listed on the Hong Kong Stock Exchange in 2018 at an offering price of HK \$17.80 per share. It has become one of the few listed catering companies in the stock market, with its share price reaching HK \$85.80 per share. In 2020, affected by the COVID-19 epidemic, the net profit of Haidilao in that year dropped by nearly 90% compared with that in 2019, which was undoubtedly a major setback for the outstanding Haidilao. This paper will conduct a financial analysis on Haidilao from four aspects of debt paying ability, profitability, operation ability and development ability, and evaluate the impact of COVID-19 epidemic on Haidilao.

2.1. Solvency Analysis

Table 1. Comparison of indicators of Haidilao's solvency

The name of ratio	Year		
	12/31/2020	12/31/2019	12/31/2018
Current ratio	0.67	1.27	1.74
Quick ratio	0.55	1.06	1.60
Asset-liability ratio	62.81%	48.45%	27.75%

Haidilao's current ratio and quick ratio showed an obvious downward trend from 2018 to 2020. In 2020, the current ratio and quick ratio decreased by 61.5% and 65.6% respectively compared with 2018. Generally speaking, the current ratio is about 2 times, and the quick ratio is about 1 times more appropriate. When there is a big difference between the two ratios, the latter is the main basis. From 2018 to 2019, although both ratios declined, the quick ratio remained above 1, indicating that the management level of Haidilao is constantly improving and the operation efficiency of current assets is high. In 2020, the current ratio is 0.67 and the quick ratio is 0.55, both falling below 1, indicating that under the influence of COVID-19 epidemic, the eat-in service of Haidilao has been severely hit with a significant decrease in operating income. The current assets can no longer fully bear the current liabilities, resulting in great short-term debt repayment pressure and high financial risk. You may need to borrow or sell assets to liquidate short-term debt.

Haidilao's asset-liability ratio has reached 62.81% in 2020, which has been on the growth trend for three consecutive years. Compared with 2018, the growth rate has reached 126.3%, while the general asset-liability ratio should be between 40% and 60%. Although higher asset-liability ratio can play to financial leverage effect, to maximize the company value, but combined with the performance of the haidilao during the outbreak and 2020 annual reports can be found that haidilao when high asset-liability ratio is largely due to increased by more than 4 billion yuan loan used to alleviate the pressure of the capital, ensure the daily operation and short-term solvency. In the long run, Haidilao has a large debt pressure, so it needs to get out of the epidemic haze as soon as possible and relieve the debt burden with excellent business performance.

2.2. Profitability Analysis

Table 2. Comparison of profitability indicators of Haidilao

The name of ratio	Year		
	12/31/2020	12/31/2019	12/31/2018
Net profit rate	1.08%	8.82%	9.66%
Return on assets	1.28%	14.40%	21.00%
Earnings per share	0.06	0.44	0.33

In 2019, Haidilao's operating profit margin, net profit margin and return on assets and other profit indicators have been in a downward trend, but the change is little, and the earnings per

share is 0.44 yuan, an increase of 33.3% compared with 2018, the overall performance of profitability is sustainable. However, the sudden COVID-19 outbreak broke the stable performance of Haidilao. In 2020, the net profit margin of Haidilao was only 1.08%, down by 87.76% compared with 2019. The rate of return on assets in 2020 is also not optimistic, only 1.28%, down 91.11% compared with 2019; Earnings per share for the year were just 0.06 yuan, only 13.6 percent compared with the same period in 2019. From the above indicators, it can be seen that the COVID-19 epidemic has greatly limited the profitability of Haidilao. Although Haidilao has the industrial layout of takeout, semi-finished products and Sub-brands, the large-scale suspension of the main business of Haidilao hotpot, resulting in a significant decline in its income, is also expected. With the gradual improvement of the epidemic, Haidilao stores gradually resumed business in accordance with the requirements of epidemic prevention and control, and actively made up for the losses caused by the epidemic. However, it can be seen from the data that the impact of the epidemic on Haidilao was still not dissipated by the end of 2020.

2.3. Operational Capacity Analysis

Table 3. Comparison of operational capacity indicators of Haidilao

The name of ratio	Year		
	12/31/2020	12/31/2019	12/31/2018
Inventory turnover	10.42	13.57	25.12
Fixed asset turnover	2.90	4.54	5.61

According to the data, the inventory turnover of Haidilao in the past three years has been on a downward trend, and the recent three years are also the rapid expansion stage of Haidilao. In 2018, 200 stores were opened, and in 2019, 302 stores were opened. Even in 2020, which was affected by the epidemic, 544 stores were opened, and by the end of 2020, there were 1,298 stores in Haidilao. Combined with the analysis of operating income, it can be concluded that the decline in inventory turnover is directly related to the increase in stock volume caused by the rapid increase of stores. In particular, the new number in 2020 accounts for 41.91% of the total. Moreover, under the influence of COVID-19 epidemic, the operating revenue decreased sharply, so the inventory turnover declined further.

The turnover of fixed assets has also shown a downward trend in recent three years. The rapid expansion of the stores led to the continuous increase of the fixed assets of Haidilao, and the business suspension of the stores during the COVID-19 epidemic period and the restriction of the number of diners required for the prevention and control after the resumption of business led to the sharp decline of the business revenue of Haidilao in 2020. The combined impact of the two made the turnover of fixed assets in 2020 only 2.90, down 36.12% compared with 2019.

2.4. Development Capability Analysis

Table 4. Comparison of indicators of development ability of Haidilao

The name of ratio	Year		
	12/31/2020	12/31/2019	12/31/2018
Growth rate of revenue	7.80%	55.29%	58.75%
Profit growth rate	-86.81%	42.34%	38.05%

In the past three years, the profit growth rate of Haidilao is lower than the growth rate of operating income, indicating that the growth rate of costs and expenses is faster than the growth rate of operating income, which is related to the crazy expansion of Haidilao in the past three years. The rapid increase of stores makes the operating costs, selling expenses and administrative expenses of Haidilao continue to increase. The COVID-19 epidemic in 2020 exacerbated this situation. The long-term business suspension of stores and the restriction on the number of diners after reopening resulted in a significant decrease in revenue, and the growth rate of revenue in 2020 was only 7.80%. At the same time, the expansion of Haidilao has not slowed down, with 544 new stores added in one year and the rapid growth of costs and expenses. Moreover, the epidemic prevention cost during the epidemic prevention and control period has further reduced its profit growth rate, which will be -86.81% in 2020.

3. Study on Countermeasures of Haidilao

COVID - 19 outbreak as emergent public health events, influence of haidilao is stages, but the impact of deep from the financial analysis indicators can see, the business revenues, operating costs increased significantly, the plunge in net income, financial risk, even the restaurant industry leading enterprises, haidilao also needs a long time to recover. In view of the financial impact of COVID-19 on Haidilao, this paper provides the following suggestions for reference.

3.1. Give Full Play to Brand Effect and Develop Sub-brands

Haidilao brand visibility is very high, the use of its own brand effect, coupled with the mature and scientific management model, the layout of differentiated, multi-category of sub-brand products, will be a powerful means for Haidilao to increase revenue, calm down the impact of the epidemic. In 2020, Haidilao has begun to experiment with noodles. The main noodles, such as "Shibacuan" in Beijing and "Laopaiyoumianer" in Sichuan, are popular because of their affordable prices. This is a successful attempt of Haidilao in the direction of Sub-brands. Referring to this successful practice, Haidilao has a promising future in the field of Sub-brands.

3.2. Optimize Take out Services and Focus on Convenience Foods

Haidilao itself is one of the few hotpot catering enterprises providing takeout services. In the period of epidemic prevention and control, the whole country attaches great importance to the hotpot takeout not only meets the dietary needs of consumers, but also is conducive to epidemic prevention and control, which is a highlight of Haidilao's business. However, the price of takeout hot pot is relatively high, the dishes are relatively poor, and the service process is complicated, so the takeout business does not have outstanding performance. If the food quality, service process and price can be optimized, takeout business will become a considerable source of income. Haidilao self-heating pot has occupied a certain market share in the convenient self-heating food market. The combination of strong brand effect and consumer demand during the epidemic prevention and control period is a perfect opportunity for Haidilao self-heating pot to show its talents.

3.3. Improve the Level of Automation, Reduce Labor Costs

As a catering enterprise, Haidilao needs a large number of labor to support its daily operation, and labor cost is an important part of its fixed cost. And as Haidilao continues to increase the number of stores, labor costs are also rising. After being severely hit by the epidemic, increasing income and reducing expenditure should be the main direction of Haidilao operation. Put into use robots to replace part of labor to reduce labor costs, gradually increase the profit level and promote the improvement of Haidilao performance.

3.4. Appropriate Borrowing to Relieve the Pressure of Cash Flow

As a catering enterprise, Haidilao's daily operation is the main source of its cash and income profits. Affected by the epidemic, its operating revenue will decrease sharply in 2020, the pressure of short-term debt repayment is great, and Haidilao is still in the growth and expansion stage and in need of a large amount of funds. Under the background, the appropriate acquisition of long-term loans from banks can significantly relieve its cash flow pressure. Seen from the market share of Haidilao and its financial performance without the impact of the epidemic in the past, Haidilao has great development potential. The appropriate long-term debt will give play to the financial leverage effect and improve the value of the company.

4. Conclusion

The COVID-19 epidemic is both a challenge and an opportunity for Haidilao and the vast number of catering enterprises. On the one hand, it eliminates the enterprises with poor risk resistance ability, and on the other hand, it encourages the enterprises with strong survival ability to improve their operation and management, reduce operating losses, and strengthen their risk response ability, so as to build up strength for future development. As a leading enterprise in the catering industry and one of the few listed catering enterprises in the stock market, Haidilao's financial impact on COVID-19 epidemic and countermeasures for its financial performance are typical and of important reference value. In response to the proposal of General Secretary Xi Jinping to "seize the epidemic prevention and control and achieve the double victory of economic and social development". Provide reference.

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