ISSN: 2688-9323

Analysis of Profitability and Profit Quality of Listed Enterprises: The Case of Shanghai Jahwa

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Abstract

The profitability of a company is generally expressed in the performance of the company over a certain period of time and its comparison with the corresponding data of the previous period, which is very important. It is even more important to find out the potential of the company from the analysis of its profitability, to identify significant problems and to find effective ways to solve them on this basis. Earnings quality analysis is an analysis of the degree of correlation between the real situation of a company and its disclosed earnings data. The actual situation of a company can be analyzed by stakeholders from various angles and levels to conclude whether it is true or false, and the company's disclosed reports are the key vehicle. Therefore, Shanghai Jahwa was identified as a company, and its profitability indicators were analyzed, and a brief overview of its high earnings quality characteristics including reliability, stability, and consistency was given, interspersed with signal analysis and structural analysis, and the quality of Shanghai Jahwa's earnings in recent years was evaluated, and on this basis, areas of concern were pointed out.

Keywords

Profitability; Profit Quality; High Profit Quality Characteristics; Suggestions.

1. Introduction

The profitability of an enterprise can also be called the value-added capacity of the enterprise, which is the current profitability of the company and the ability to maintain this trend. Business stakeholders are very concerned about this capability. For shareholders, dividends are paid from profits, and the growth of corporate profits to a large extent will give investors a good signal, so that investors can obtain more benefits; for creditors, profits It is the source and guarantee of the enterprise's debt repayment, and profitability directly affects the enterprise's debt repayment ability; as for the management personnel within the enterprise, profitability and profitability can be said to be synonymous with their ability. Here is an analysis of the profitability and profitability of Shanghai Jahwa Company, one of the leading companies in the daily chemical care industry.

2. Profitability Analysis

The profitability of an enterprise is mainly analyzed by discussing the relationship between the various items in the enterprise accounting statement. Any issue related to the profitability of an enterprise is one of the keys to attracting the attention of stakeholders. The profitability analysis indicators are obtained from the reports disclosed on the official website of Shanghai Jahwa, the periodic reports publicly disclosed by the Shanghai Stock Exchange, and the annual report data disclosed in the individual stock information of Shanghai Jahwa in the stock trading software of Flush. The profitability analysis from 2017 to 2021 is shown in Table 1 and Figure 1:

Table 1. Shanghai Jahwa Profitability Analysis

	Calculation formula	2021	2020	2019	2018	2017
Sales margin	Net profit/operating income	8.49%	6.12%	7.33%	7.57%	6.01%
net profit margin on equity	Net Profit/Shareholders' Equity	9.32%	6.62%	8.86%	9.30%	7.25%
operating profit margin	Operating profit/operating income	9.84%	7.59%	9.22%	9.05%	7.43%
operating cost margin	Operating profit/operating cost	23.84%	17.21%	24.18%	24.33%	21.19%

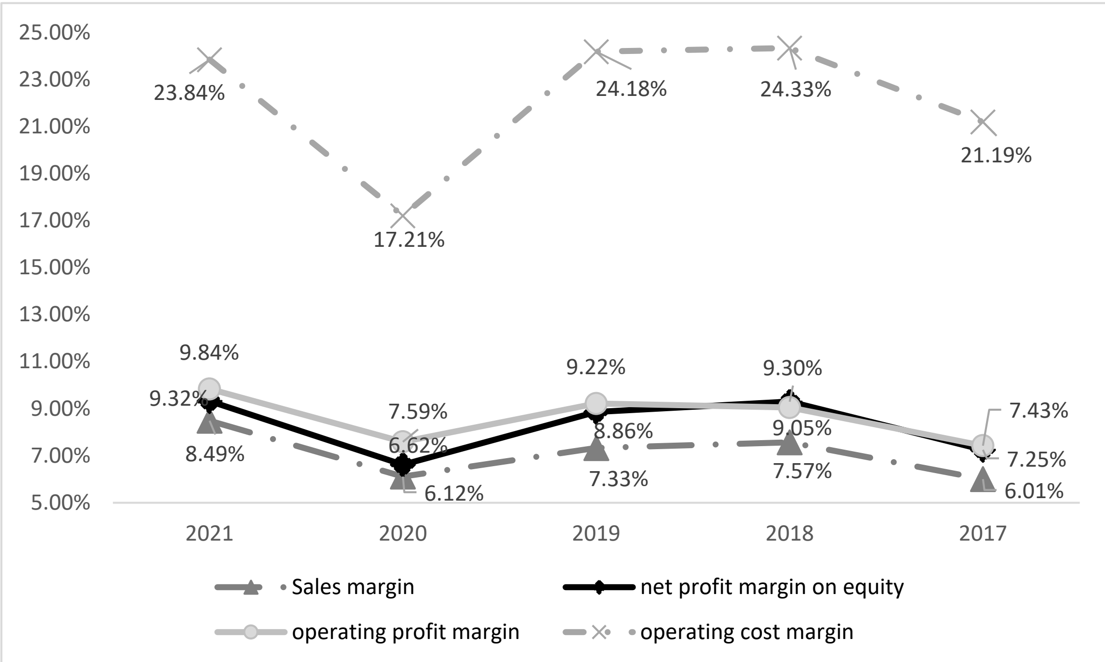

Figure 1. Analysis of Shanghai Jahwa's profitability

All in all: Overall, the company's profitability is strong. From 2017 to 2018, the relative ratios shown in the chart have all continued to rise, with increased profitability. However, from 2018 to 2020, several indicators basically have a tendency to decrease, indicating that the profitability of enterprises is at a medium-high level, but the increase has slowed down due to the impact of the new crown pneumonia epidemic. From a single indicator：

2.1. Sales Margin

In most cases, the net profit rate of sales can be directly regarded as the net profit rate of operations, indicating how much net profit can be "squeezed" out of each operating income of the company in a certain period, and this indicator is only in the growth rate of net profit. When it is faster than operating income, it will show an increasing trend. During the period listed, the first three years increased significantly, and the fourth year decreased slightly. In general, the net profit margin of sales showed a trend of growth and profitability increased, but it decreased slightly in 2019 and decreased significantly in 2020. Gradually pick up after the epidemic normalizes in 2021.

ISSN: 2688-9323

2.2. Net Profit Margin on Equity

Equity net interest rate is one of the indicators included in the capital profitability analysis index system. It has a wide range of applications. It is also known as the net interest rate on net assets. The increase in the first three years was obvious, indicating that the income brought by the investment in the previous years increased, and the fourth year saw a slight decrease. The ability of the company to make profits with its own capital improved, and it gradually recovered after the impact of the epidemic, and the profitability returned to the original level.

2.3. Operating Profit Margin

This is one of the indicators of operating profitability analysis. Generally speaking, it can be used to reflect how many operating profits an enterprise contains in each operating income in a period. During the period listed, the operating profit rate of the company has increased year by year, indicating that the profit obtained by the company through operation has increased year by year, the competitiveness of the company has also been improved, and the profitability of the company has also been strengthened.

2.4. Operating Cost Margin

Operating cost profit margin is also an indicator of operating profitability, indicating how much profit can be earned for each operating cost paid. Similar to the previous indicators, the price paid by enterprises to obtain profits has decreased year by year in the first three years, and the cost has been properly controlled. Operating cost and profit margins are slowly rising. The epidemic in 2020 caused employees to be unable to work and products were stranded, resulting in significantly higher costs. It will return to normal levels in 2021. Profitability recovers quickly and profitability is strong.

3. Evaluating the Quality of the Company's Profitability

In fact, there is no exact definition of profitability quality. Here, we choose not to tangle too much in the definition, and directly evaluate whether the enterprise has the characteristics of high profitability quality. Reliability, stability, continuity and trending are the salient features of a company with high profit quality, and high profit quality requires the company to create stable cash flow.

3.1. Reliability

The reliability of earnings quality refers to whether an enterprise prepares accounting statements based on actual business operations, and follows accounting standards and accounting systems, so that the data disclosed in the financial reports can provide truly beneficial information to users of financial information. In Shanghai Jahwa's annual reports for four consecutive years from 2017 to 2021, the audit reports issued by PricewaterhouseCoopers Zhongtian Certified Public Accountants are all standard unqualified opinions. This standard has no reservations, and to a large extent gives stakeholders full confidence in Shanghai Jahwa Company. It can be considered that the company's confirmation, measurement, record and presentation are based on the objective and actual economic business. Avoidable errors are excluded, and the reported contents are basically guaranteed to be true and accurate. Therefore, the profitability index analysis of Shanghai Jahwa is reliable and has a high quality of profitability.

3.2. Continuous Stability

The stability in profit quality analysis refers to the fluctuation range of the basic trend of the profit level of the enterprise, and the profit level mainly depends on the stability of the revenue and expenditure structure. The revenue and expenditure structure is reflected in the changes

ISSN: 2688-9323

of operating income and operating expenses. When their changes are in the same direction, only the income growth is not lower than the expenditure growth, or the revenue decline does not exceed the expenditure decline, the profit will be stable; and when they change In the opposite direction, earnings are stable when incomes are rising and expenses are falling, and vice versa. The income and expenditure structure of Shanghai Jahwa is shown in Table 2:

Table 2. Shanghai Jahwa Income and Expenditure Structure

	2021	2020	2019	2018	2017
Operating income	7,646,123,006.52	7,032,385,622.18	7,596,951,822.91	7,137,947,377.14	6,488,246,212.14
The difference between the current year and the previous year's operating income	613,737,384.34	-564,566,200.73	459,004,445.77	649,701,165.00	1,167,047,953.65
Operating cost	3,155,584,115.57	3,102,207,029.35	2,895,002,829.01	2,655,912,442.91	2,275,570,034.30
Difference between current year and previous year's operating costs	53,377,086.22	206,204,200.34	239,090,386.10	380,342,408.61	214,175,509.62

The direction of changes in revenue and expenditure disclosed by Shanghai Jahwa in its 2020 annual report is inconsistent, the change in revenue is negative, while the direction of cost expenditure is positive, indicating that the profit in 2020 is quite unstable; from 2017 to 2019 and 2021, the direction of changes in revenue and expenditure are all positive, income has a larger change than expenditure, and profit is relatively stable.

Then analyze the trend of the balance of income and expenditure of Shanghai Jahwa as shown in Figure 2:

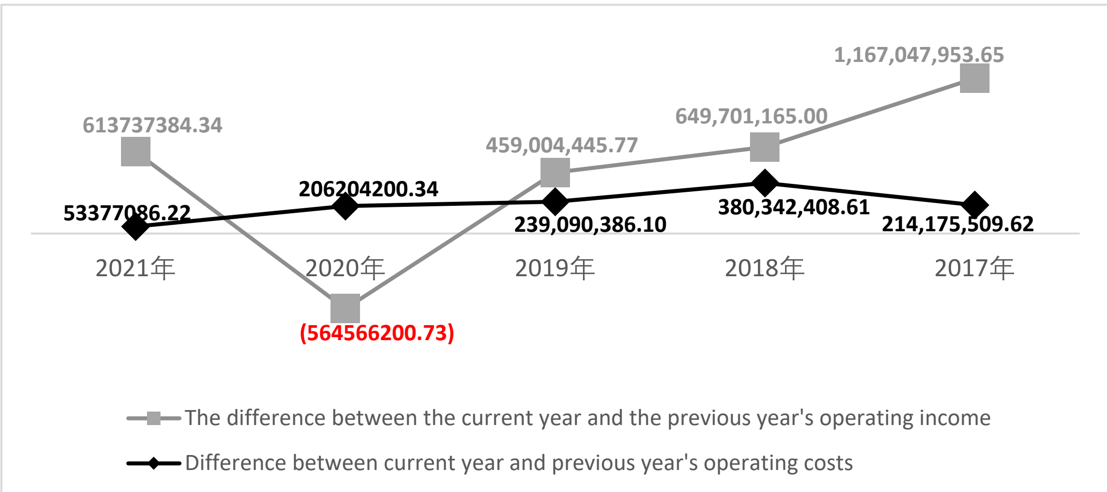

Figure 2. The trend of income and expenditure structure of Shanghai Jahwa

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In the income and expenditure trend chart of Shanghai Jahwa from 2017 to 2021, it can be seen that the profitability of the company has been stable from 2017 to 2019, unstable in 2020, and developed to a state of stability in 2021.

The sustainability of a company’s earnings quality refers to whether it can maintain this development trend in the long run. From 2017 to 2021, Shanghai Jahwa’s revenue and expenditure data, together with the 24 institutions’ assessment of Shanghai Jahwa by the end of May 2021. The profit forecast for the next three years is shown in Figure 3:

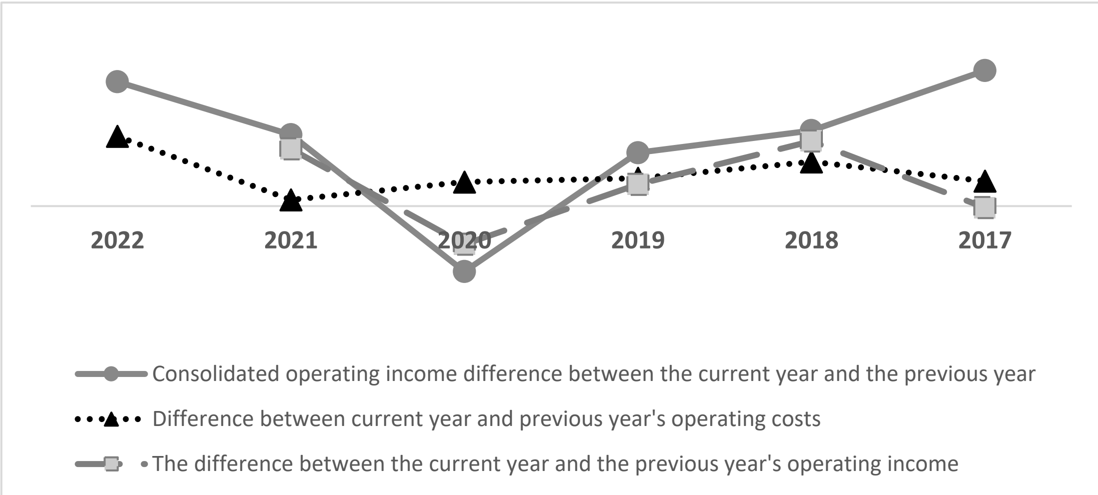

Figure 3. Forecast of income and expenditure structure of Shanghai Jahwa

During the period listed, the operating income in the consolidated statement showed a significant upward trend in 2017, while the change in operating income of the company was far less than when observed alone. This is the acquisition and termination of Tommee Tippee by Shanghai Jahwa in 2017. The result of multiple functions such as the Kao business, this is a temporary business, which has a significant impact on the continuous increase of corporate profits, but this impact is usually not lasting, and the change in cost in 2017 is larger than the change in the company's independent operating income. Indicates that the quality of earnings is also unstable.

According to the forecast data of 24 institutions, Shanghai Jahwa's profit quality in 2020 is poor. This is data that includes the impact of the sudden new crown pneumonia epidemic. It turns out that the profit quality in 2020 is lower than other years. In 2021 and 2022, the operating income will be larger than the operating cost, and the profit will remain stable.

3.3. Convergence

The tendency to increase mentioned in the quality of profit refers to the nature of the company's ability to continue to rise while maintaining the current level of profitability. It requires the company's profit to be positive, and the amount cannot be too small. At the same time, it also requires the company's sales. Relative indicators such as net interest rate and equity net interest rate are above the industry average. Based on the data disclosed in Shanghai Jahwa's annual report and the data predicted by 24 institutions, a line chart of the total profit and net profit of the enterprise is made as shown in Figure 4:

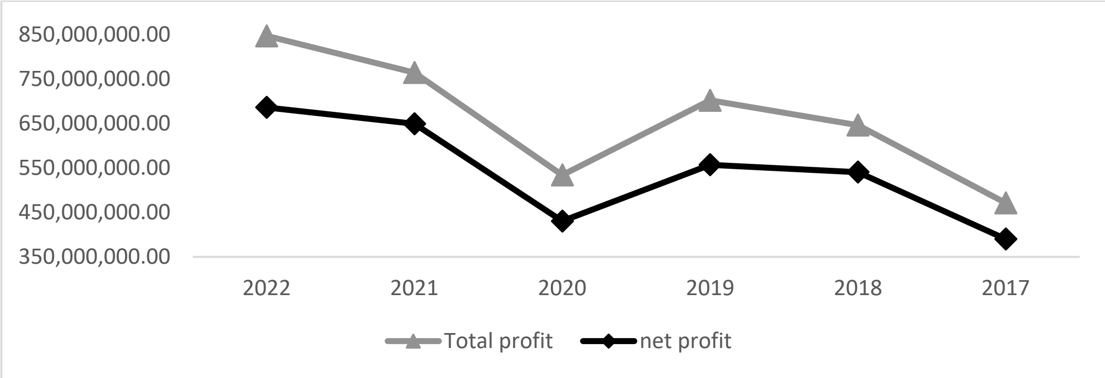

Figure 4. Comparison of the profit amount of Shanghai Jahwa

Shanghai Jahwa's net profit is always positive, which is a necessary condition for analyzing the quality of corporate earnings. Together with the corporate profitability analyzed above, it constitutes the basis for the analysis of the trend toward higher earnings quality. It can be seen from the data predicted by 24 institutions that the profit of the company has always maintained a relatively large absolute amount to maintain a stable source of cash flow for the company. Tendency is not obvious.

Shanghai Jahwa's industry is classified as chemical-chemical products-daily-use chemical products. The number of listed companies in this sub-sector is 10. Shanghai Jahwa's sales net profit margin, equity net profit margin and other indicators are compared with their industry average relative indicators. The data is shown in Table 3:

Table 3. Comparison of relative indicators between Jahwa and the industry average

ranking	category	Sales margin	ROE
38	Shanghai Jahwa	7.16	1.88
—	Industry average	0.02	0.06
ranking	category	Sales margin	ROE

Shanghai Jahwa's two indicators, net sales profit rate and return on equity (net interest rate on equity), both exceed the industry average and have high profitability. However, after researching the variety structure of its products, it is found that the company is conscientiously implementing its business policy of "R&D first, brand-driven, channel innovation, and supply assurance", striving to develop new products, improve the variety structure of the company's products, and make the company's products. Before becoming a "skinny dog", new products were developed to form replacements to ensure the company's profitability.

4. Aspects that should be Given Adequate Attention

As one of the leading companies in the market segment, Shanghai Jahwa has shown strong vitality and vigorous vigor and vitality in terms of profitability. Several key profitability analysis indicators are listed in Table 1 and Figure 1. It has shown a good trend in terms of profitability, but it is not so prominent in terms of profitability and quality characteristics.

4.1. Focus on the Development of Corporate Strategies and Tactics

The income and expenditure of the company after the reorganization and merger will be very different from the previous one. Shanghai Jahwa conducted a comparative analysis of the financial data in the discussion and analysis of the business situation in the 2017 annual report. In 2017, Tommee was excluded After the acquisition and termination of Kao by Tippee, the operating income of its own brand was 5.069 billion yuan, a year-on-year increase of 15.85%, achieving a substantial increase; after retrospectively adjusting the relevant financial data, the company's operating income was 6.488 billion yuan, a year-on-year increase of 6.488 billion yuan. An increase of 8.82% (the operating income in 2016 included the sales income of Kao products as an agent of 945 million yuan). Therefore, when the company prepares the financial report in the early stage, it will list the consolidated statement separately from the company statement, which also reflects the level of the company's future development strategy. The connotation of "channel innovation, supply guarantee" can adapt to the needs of consumers in the latest environment. For example, the consumption demand of sterilization, disinfection and antibacterial products under the influence of the epidemic situation increases, so there can be temporary research and development plans, etc. Channels are used in conjunction with offline channels to focus on improving the profitability of enterprises. With the further optimization of the online channel structure and R&D structure in 2022, the organizational efficiency is expected to be further improved in the future.

4.2. Pay Attention to the Diversified Development of Product Structure

While maintaining the profitable growth of existing mature brands, it is necessary to pay attention to the stability and sustainability of the development of emerging brands. In Shanghai Jahwa's early brands such as Herborist and Tommy Star, there is no obvious and substantial increase in profit; in emerging brands such as Pien Tze Huang, Qi Chu, Shuang Mei and other emerging brands, it shows a rapid growth trend, so the company is planning to promote When planning, we should focus on re-developed products, and in line with the current situation of the new coronary pneumonia epidemic, disinfection, sterilization and antibacterial products should be placed in a prominent position in the promotion channels, and we can continue to invest in research and development of antibacterial related products. Shanghai Jahwa can realize the diversified development of the overall head products of its own brand by focusing on the existing explosive products and streamlining the SKU.

4.3. Pay Full Attention to the Company's Operating Structure

The company is one of the few beauty groups in China that has a multi-category and multi-brand matrix such as skin care, personal care and home care products, and maternal and child care products. In the context of the economic downturn, the market prefers the just-needed personal care home care products with strong resilience. In the medium and long term, the brand matrix is expected to ensure operational stability, and the absolute value of the current market value is prominent. As an old Hong Kong company with a long history, Shanghai Jahwa attaches great importance to its own long-term development. The company's business structure needs more attention. From its annual report, it can be seen that the company's inventory turnover rate, accounts receivable turnover rate and other relative indicators indicate that the efficiency of Shanghai Jahwa's capital utilization is not high enough, and the company's funds are mostly used by upstream and downstream merchants. Occupation and reinvestment are low, so the company can adjust its own structure, improve customer satisfaction, and find the right time to expand its scale and create greater profits.

4.4. Give Sufficient Attention to Major Issues

In July 2016, Shanghai Jahwa acquired a 100% stake in Cayman A2, Ltd. (which owns Tommee Tippee and other internationally renowned brands), and related shareholder claims: Tommee Tippee acquisition; Some product agents, these business matters involving a large amount of money, will lead to significant changes in corporate profitability indicators and profitability quality characteristics, and will attract extensive attention from stakeholders, which are directly reflected in Table 1 and Figure 1. It can be clearly seen that in 2016 From 2017 to 2017, the relative indicators have risen by a large margin. At this time, it is very necessary for the

ISSN: 2688-9323

company to fully disclose major events. At the same time, the announcement will be made on the official website of the company and the exchange and other platforms to avoid serious losses to the company and its stakeholders.

Analyze the profitability and earnings quality from the information in Shanghai Jahwa's financial report, and propose problems and solutions for Shanghai Jahwa to refer to and improve the earnings quality.

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