

# Analysis on Financial Statements of Kweichow Moutai Co., Ltd.

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## ABSTRACT

The stock of Kweichow Moutai, as one of the representative of China's value investment stocks, rose nearly 60 times in the 19 years since its listing in 2001, its operating income increased from RMB 162 million in 2001 to RMB 88.9 billion in 2019, with a compound annual growth rate of 25%, and its net profit increased from RMB 330 million to RMB 40.5 billion, with a compound annual growth rate of 31%, attracting many investors to hold it for a long time. In this context, based on the financial statements of Moutai Co., Ltd in recent five years, this paper analyzes the financial ability of the enterprise, finds out the shortcomings of the enterprise according to the analysis results, and puts forward corresponding suggestions, so as to promote the development of the enterprise, also provide references for other companies' development.

**Keywords:** *Kweichow Moutai; financial statement; evaluation; improvement*

## 1. INTRODUCTION

Guizhou Moutai Co., Ltd is a landmark enterprise in the domestic liquor industry, which was established in 1999. The registered capital is RMB 185 million. Kweichow Moutai was listed on Shanghai Stock Exchange in 2001. Its main businesses are: the production and sale of Moutai and series wines. Other businesses include: producing and selling beverages, food and packaging materials; anti-counterfeiting technology development, research and development of information industry related products; Hotel management, accommodation, catering, entertainment, bathing and parking lot management services. As of December 31, 2019, the controlling shareholder of Kweichow Moutai Co., Ltd is China Kweichow Moutai Sprinkling Factory (Group) Co., Ltd (the actual holding ratio is 58.00%). The actual controller is the State-owned Assets Supervision and Administration Commission of Guizhou Provincial People's Government. Based on the financial statements of Moutai Co., Ltd in recent five years, this paper analyzes the financial ability of the enterprise through DuPont analysis method. According to the results of the analysis, the deficiencies of the enterprise are found out and corresponding suggestions are put forward to promote the development of the enterprise [2].

## 2. BACKGROUND ANALYSIS OF KWEICHOW MOUTAI

### 2.1 Macro-environmental analysis

#### (1) Political and legal environment

Under the strict control system in China, the policies and standards of liquor industry are constantly improving. China is now in a period of rapid economic development, which is also the golden period of liquor enterprises' development. The implementation of the new tax system will reduce the burden on domestic liquor enterprises, increase the profit space of famous wines and enhance the market competitiveness.

#### (2) Social environment

With the increase of China's total population, the pace of urbanization in China is also accelerating. With the huge purchasing power brought by urbanization, the promotion of urbanization will generate more potential consumers of liquor, which is conducive to promoting the development of liquor industry [1].

#### (3) Technical environment

With the rapid increase of the overall demand of liquor industry, various liquor enterprises have begun to pay attention to the application of patent technology.

Therefore, it can be concluded from the data that the number of patent applications in liquor industry is on the rise as a whole, which makes various new technologies appear intensively, the number of patent applications in liquor industry is increasing rapidly, and the technological development of liquor industry is relatively mature.

### **3. BUSINESS MODEL ANALYSIS OF KWEICHOW MOUTAI**

#### **3.1. Procurement**

Bidding according to the production and marketing plan, according to the company’s production and sales plan, and purchasing from the market through centralized purchasing. The purchase amount of the top five suppliers accounted for 38.14% of the total annual purchase amount; Among them, related parties accounted for 18.98% of the total annual purchases.

#### **3.2. Products**

The production process includes koji making, wine making, storage, blending and packaging. Geographical conditions, water quality, air temperature, humidity and other production environments are unrepeatable. In terms of production technology, the technology is unique, and the research and development of series wines are innovated.

Moutai liquor accounts for about 90% of sprinkling income. Series wines mainly include Prince Wine, Lai Mao and so on Moutai liquor products have high added value and have financial and social attributes Kweichow Moutai, in China, has created a step-by-step product development model. The theoretical saleable quantity of Moutai is about 85% of the base liquor production four years ago, and the production process limits the production [2].

**Table1.** Analysis index of Kweichow Moutai’s debt paying ability

Projects/Year	2013	2014	2015	2016	2017
Liquidity ratio	370%	450%	325%	243%	292%
Quick ratio	266%	308%	234%	189%	234%
Current ratio	222.74%	262.81%	183.53%	180.59%	227.79%
Asset-liability ratio	20.42%	16.03%	23.25%	32.79%	28.67%
Equity ratio	25.62%	19.07%	30.27%	48.76%	40.17%

It can be seen from Table 1 that the three short-term debt repayment indicators (current ratio, quick ratio and cash ratio) of Kweichow Moutai show the same change trend in five years, first increasing, then decreasing, and then increasing, but the short-term debt repayment ability of Kweichow Moutai has obviously declined compared with that of 2013. However, the long-term debt repayment index of Kweichow Moutai declined. On the one hand, it reflects that the long-term solvency of the enterprise has improved; on the other hand, it shows that

#### **3.3. The target consumers**

The main market is a high-end and sub-high-end market, users’ portraits are business people and ordinary individuals. Since 2006, The price of Moutai has been raised once a year on average. In just four years, the final selling price of Moutai has increased by thousands of yuan. It is conservatively estimated that only about 20% of Moutai goes to the mass consumption market each year, while more than 80% goes to groups buying for public meals and lavish gifts.

### **4. ANALYSIS OF FINANCIAL STATEMENTS OF MOUTAI CO., LTD**

#### **4.1. Basic information of Moutai co., ltd.**

Moutai Co., Ltd was established in 1999 and listed in 2001. In recent years, the operating performance of Kweichow Moutai has improved significantly, with the sales revenue increasing nearly one time from 34.623 billion yuan in 2013 to 66.250 billion yuan in 2017, and the total profit of the company also increased by about 19.6 billion yuan. In 2018, Kweichow Moutai was selected into the Fortune 50 list, ranking 38th. In the same year, it won the recognition award of the Fifth China Industrial Awards and was selected as one of the top ten listed companies in CCTV China in 2018 [3].

#### **4.2. Analysis of financial ability of Moutai Co., Ltd.**

##### **4.2.1. Solvency analysis**

Solvency refers to the ability of an enterprise to repay debts. The purpose of analyzing the solvency of an enterprise is to find out whether there are financial risks. The solvency analysis can be divided into short-term solvency analysis and long-term solvency analysis.

the enterprise is not fully aware of the advantages of debt management, which leads to the imbalance of financial leverage

##### **4.2.2. Operational capability analysis**

Operation ability mainly reflects the operation status of enterprise funds, and the following analysis is made by using inventory turnover rate and total assets turnover rate [3].

**Table 2.** Analysis index of Kweichow Moutai operation capacity

Projects/Year	2013	2014	2015	2016	2017
Inventory turnover ratio	20%	17%	15%	18%	28%
Total asset turnover ratio	62%	52%	43%	39%	47%

As in Table 2, the inventory turnover rate of Kweichow Moutai decreased first and then increased with the increase of time. From 2013 to 2015, the inventory turnover rate decreased, probably because the national policy restricted the sales volume of alcoholic products, which led to a great increase in the company's inventory and poor liquidity. After 2015, the turnover speed of enterprise inventory is getting faster and faster, and the sales ability is stronger. The liquidity of assets is getting better and better. Although the inventory turnover rate of Kweichow Moutai has increased, the value of this

indicator is still at a low level, while the turnover rate of total assets has kept a downward trend for four consecutive years.

**4.2.3. Profitability analysis**

Profitability is the ability of an enterprise to obtain profits. The following article evaluates the profitability of an enterprise by using the index of return on assets. The higher the return rate of assets, the more efficient use of assets [3].

**Table 3.** Kweichow Moutai asset return rate

Project/Year	2013	2014	2015	2016	2017
ROA	32.99%	29.13%	23.33%	19.87%	25.67%

Table 3 shows that the rate of return on assets mainly measures the ability of enterprises to obtain benefits by using assets. This indicator of Kweichow Moutai has dropped from 32.99% to 19.87% and then to 25.67%, which shows that the operating efficiency of enterprises has declined. In 2017, this indicator has rebounded, which shows that enterprises have taken timely measures to adjust their business strategies, resulting in increased profits.

**4.2.4. Development capacity analysis**

Development ability is the growth trend of business activities in the future. From the financial point of view, the development of enterprises can often be manifested in two aspects, one is the improvement of sales level and the other is the growth of total assets of enterprises. Table 4 mainly analyzes the growth of total assets of Kweichow Moutai. The analysis indexes used are the growth rate of total assets and the growth rate of net profit [3].

**Table 4.** Development capacity index of Kweichow Moutai

Projects/Year	2013	2014	2015	2016	2017
Total assets growth rate	23.24%	18.79%	31.01%	30.86%	19.19%
Sales growth rate	16.88%	2.11%	3.44%	18.99%	49.81%
Net profit growth rate	13.97%	1.91%	1.14%	8.97%	61.77%

Within five years, the growth rate of Moutai's total assets fluctuated obviously, and the competitive pressure faced by enterprises increased. From 2016 to 2017, the net profit of Kweichow Moutai increased significantly, indicating that Moutai has great development potential. From 2014 to 2015, the operating income of Kweichow Moutai grew slowly. With the progress of time, the brand image of Kweichow Moutai started gradually at home and abroad, and the sales growth rate increased steadily.

**5. CONCLUSIONS**

Through the above analysis, it can be found that Kweichow Moutai mainly has the following deficiencies: (1) The company's capital and inventory turnover is poor, and it does not pay enough attention to inventory management; (2) Kweichow Moutai ignores the

importance of debt in the process of operation; (3) The company's operating costs have not been well controlled and adjusted.

In view of the above problems, the author puts forward the following suggestions: (1) Strengthen the management of inventory, reasonable control of inventory in and out, and timely register the inventory in and out. In order to avoid the accumulation of inventory, the required materials can be determined according to the market demand, and appropriately improve production and sales capacity, accelerate the flow of inventory and other assets, to prevent unnecessary losses; (2) Consider your own needs, appropriately increase debt, give full play to the role of financial leverage; (3) The sales expenses and administrative expenses of Kweichow Moutai are generally rising. The enterprise can make the company's budget in advance, strictly implement it, and

take appropriate measures to mobilize the enthusiasm of employees in production, so as to reduce the company's administrative expenses. As for how to reduce the sales cost of the enterprise: enterprise can innovate the sales channel of the enterprise, reduce the excess expenses in the sales process; Strengthen the training of sales personnel, improve the sales ability of the enterprise.

## **AUTHORS' CONTRIBUTIONS**

This paper is independently completed by Zhanyuan Guo.

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