

Analysis on the Profitability of Iron and Steel Industry under New Economic Normal State

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Abstract. As we all know that the iron and steel industry plays an important role in the national economy of our country, and its development level has a direct impact on the development of construction automobile, machinery and other related industries. As the main force of the steel industry, the profitability of the steel industry listed company can represent the whole level of the overall industry. So this paper takes the Wuhan Iron and Steel Co., Ltd, ranking third in iron and steel industry, as an example, choosing data from 2011 to 2015, the major financial data and financial indicators were analyzed, and were compared to the average of the industry, so we can make reasonable evaluation and suggestions for the future development of the enterprise. The analysis found that the overall profitability of Wuhan Iron and Steel showed a sharp decline in the past five years, and it is not very dominant compared with the average level of the whole industry. For all this Wuhan Iron and Steel needs to actively look for opportunities to get rid of the current predicament as soon as possible.

Introduction

Profitability reflect the capacity of earned profit for enterprise using owned funds or capital, the operating results in a period of time and the management level. It decides final profit status. It is an important index for an enterprise to judge it whether it have a long-term development plan. And it is also a foundation for an enterprise continuing survival and far-reaching development. And more it is a tool for operators, and existing or potential investors and creditors to understand the enterprise. In this paper, we chose the operating margin, cost and profit margin, return on equity, earnings per share and net profit growth rate of the five indicators to analyze the profitability of the Wuhan iron and steel shares.

Company Profile

Over the past years, China's iron and steel industry has been in a State of expansion of production scale. With the new period of development of the national economy, the developing environment for China the iron and steel industry has undergone tremendous changes. In 2015, the steel output and consumption in China were showing a downward trend, iron and steel industry from the former operate on small profit margins into the overall losses as a whole. Years of problems and conflicts accumulated in the development even more prominent, it is shown more and more difficult to operate and the financial situation is deteriorating. In recent years, declining capacity utilization up to now has been reduced to about 70%, which is far below a reasonable level. In 2015, the iron and steel enterprises is widespread losses, some of them in order to maintain market share and cash flow, even dumping below-cost prices to compete in the industry. But at the same time, the proposal to promote the supply side of the Central Government structural reform as well as the State Council issued the relevant taxation and financial policies to resolve the overcapacity of steel provide the opportunity to steel industry come out of its current difficulties at an early date.

Analysis of Profitability

Table 1 2011--2015 Wuhan iron and steel shares financial indexes

Profitability index	2011	2012	2013	2014	2015
Operating margin (%)	1.35	-0.41	0.30	1.17	-13.60
Ratio of profits to cost and expense (%)	1.43	0.12	0.68	1.57	-11.98
net worth returns rate (%)	3.02	0.59	1.19	3.47	-26.56
Earnings per share	0.11	0.02	0.04	0.13	-0.74
Net profit growth rate (%)	-44.42	-95.67	973.38	192.95	-681.05

(Note: the data in the table from Sina finance)

Table 2 2011--2015 Wuhan iron and steel shares financial data [million RMB]

Item	2011	2012	2013	2014	2015
operating income	101,058	91,579	89,581	99,373	58,338
operating profit	1,365	-377	270	1,162	-7,934
Total profit	1,422	111	609	1,546	-7,879
Net profit	1,083.59	210	427.23	1,257.44	-7,514.80
Total cost and expense	99,606	92,031	89,284	98,681	65,784
Total equity	37,190	36,756	37,128	36,579	28,593

(Note: the table data from the star of securities NET)

Operating Margin. operating margins for the year is 1.35% in Wuhan iron and steel shares in 2011, it turns negative in 2012, and it rise to 1.17% in 2013 and 2014, by the end of year 2015 it plunged to -13.6%, reached a five-year low. From table 1 and table 2 data, we know that business income renders a trend of gradually falling these five years in WISCO shares. Business margins are in low, enterprise in profit even is in loss state. This all showed that business profit increasingly less. Business efficiency continued low, business situation is not optimistic, and we can see its profit space still in a further contraction.

Earnings Per Share. Earnings per share of Wuhan iron and steel shares have four time's positive and one negative in the last five years. From 2011 to 2015, respectively 0.11, 0.02, 0.04, 0.13 and -0.74, the value in 2015 is the only negative in five years. There is a rise temporarily in earnings per share in one year, but overall declines is big than gains. The reason is that the steel industry's development environment continuing deterioration in recent years, excess production capacity and reduced demand caused vicious competition among enterprises, resulting in operating profits fell sharply, resulting in a net profit decline, thus affecting earnings per share. The profitability of the company decline accordingly.

Net Profit Growth Rate. The net profit growth rate is -44.42% for Wuhan iron and steel shares in 2011, and decline to -95.67% in 2012, indicating the company's development ability have been falling in the recent two years, and the situation is not optimistic. By 2013, net profit growth to restore positive and reached the five-year peak of 973.38%, compared with the previous two years, the situation has eased. Yet in the 2014 and 2015, again all the way down to new lowest point -681.05%. Overall, this shows that the net profit fell sharply in Wuhan iron and steel shares in the nearly five-year, and business conditions much less stable.

Comparison with the Industry Average

This paper selected industry average indicators in several major steel industry profitability from 2011—2015, and their comparison with the Wuhan iron and steel shares, in order to come to the advantages and disadvantages of profitability in the industry of Wuhan iron and steel shares.

Analysis on Main Business Profit Margin. From Figure 1 that the gross operating profit ratio changes almost the same as the industry average in 2011 to 2015 for Wuhan iron and steel shares, falling in 2012, a modest rise in 2013 and 2014, but fell sharply in the year 2015. The fluctuation of main business profit margins is obvious in five years, indicating further intensified competition in the industry. In these five years, the per year gross operating profit ratio is lower than the industry average for Wuhan iron and steel shares, this indicate that the product is at a disadvantage in Wuhan iron and steel shares in competition in the industry, the profitability of its core product is lower than most of his counterparts. In fact, for the main business in Wuhan iron and steel's, the main profit come from silicon steel and Rolling plate product, both of which are major contributors to the profits from its iron and steel industry, but the vast majority of other steel products are showing losses, which greatly reduced the level of the OPE and the profits of the Wuhan iron and steel shares.

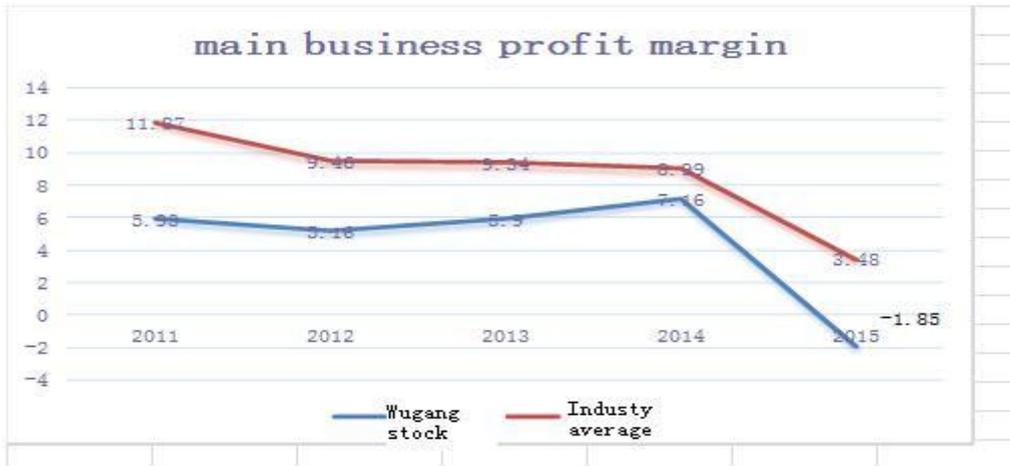


Figure 1

Analysis on Rate of Net Worth

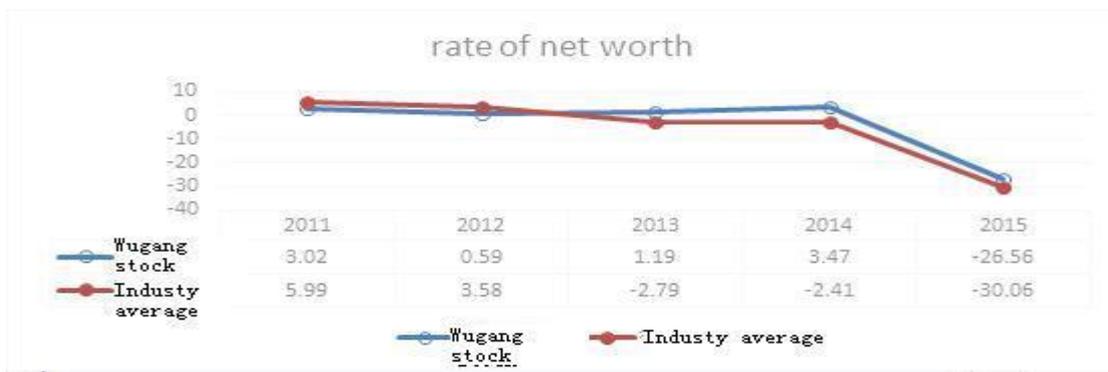


Figure 2

from Fig. 2, average net worth returns rate constantly fell for steel industry from 2011 to 2013, when come to 2014, various reasons caused price of iron ore and coal these bulk raw materials sharply diving, its drop even over steel price. So the economic efficiency has improvement in general for steel enterprise, industry average net worth returns rate has slightly rebounded in 2014, but still in negative level. Influenced by economic environment effect, Iron and steel industry ' average return on equity drop sharply, reaching a five-year low. ROE are below the industry average for Wuhan iron and steel shares in the 2011 and 2012, but after 2013 it has been higher than

the industry average, and fall of decline is smaller than the industry average. Therefore, despite the industry downturn, the ROE of the Wuhan iron and steel shares overall drop, but the profitability of its own capital in the industry still has some advantages

Analysis on Earnings per Share

Fig. 3 shows that changes in the earnings per share are very large in nearly five years for Wuhan iron and steel shares and the whole iron and steel industry, and the situation is not optimistic. In particular in 2015, which have fallen seriously, both are negative. The earnings per share are below the industry average three years out of five years for the Wuhan iron and steel shares, and the decline is large than the industry average for Wuhan iron and steel shares. This indicates that the steel market is in a further deterioration, efficiency remained low, and the Wuhan iron and steel shares have a greater impact, profitability weakened significantly.



Figure 3

Net Profit Growth Rate. Figure 4 shows that, from 2011 to 2015, the average net profit growth of iron and steel industry is negative, slightly reversed only in 2013, but on the way down again the following year, tumbled even in 2015, net profit growth rate of the steel industry is -2250.3% as a whole. This shows that the situation is grim for the industry; industry development is in the "winter" period. Net profit growth of Wuhan iron and steel shares rose to a five-year peak of 973.38% in 2013 since it had a slightly lower in 2012. And in 2014 and in 2015, it has fallen sharply for two consecutive years, and the industry average is at five-year low in 2015, and Wuhan iron and steel shares profitability has significantly reduced from 2011 in five years. But from the line, we can find that this five-year net profit growth of Wuhan iron and steel shares is a downward trend, but it is higher than the industry average, this indicates the profitability of the Wuhan iron and steel shares is more than most of his counterparts, it has certain advantages in the industry.



Figure 4

Conclusion

According to research of profitability related to indicators of Wuhan iron and steel shares during nearly five years of 2011-2015, we can see that operating income and profits had a greater decline in five years, although it is effectiveness in cost controlling, it's total cost and expenses were declining in the last five years. We can find the profitability of Wuhan iron and steel shares has been volatile but remains sharply down on the whole state in those five years. And by the comparison of Wuhan iron and steel shares with the industry average, we can found that shares of WISCO's profitability in the industry has no significant competitive advantages, particularly in the steel industry in recent years, the profitability of the industry as a whole has greatly reduced. Even there was a loss in the iron and steel industry in 2015. Wuhan iron and steel shares had a great loss. Wuhan iron and steel shares have to take some measures actively to improve their profitability during the current difficult times.

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