

Analysis on Financial Statements of China Mobile, China Unicom and China Telecom from 2014 to 2016

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Keywords

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Abstract

The essay will analyze and later compare the financial statements of China Mobile, China Unicom and China Telecom from 2014 to 2016 with the aim to distinguish their differences and similarities among financial indicators of the three telecom operators and among their strategies so as to play a certain role in promoting the development of China's telecom industry.

1. Analysis on Financial Statements Ratio

We usually measure the risks and returns by analysis on the following three ratios: first, analysis on debt paying ability. Debt paying ability can be divided into short-term debt paying ability and long-term debt paying ability. The short-term debt paying ability refers to the ability to repay short-term debt. Insufficient short-term debt paying ability will not only affect enterprise's credit, but also affect the cost and the difficulty of financing in the future, even sending the enterprise into a financial crisis and bankruptcy.

Generally speaking, enterprises should use current assets to repay current liabilities, rather than selling long-term assets to pay it back. So, we can use the quantity relation of current assets and current liabilities to evaluate short-term debt paying ability. The long-term debt paying ability refers to the ability to repay long-term interest and principal. In general, enterprises' long-term debt is mainly used for long-term investment, so it is better to use the investment returns to pay interest and principal. We usually use

debt ratio and interest income multiples to measure the enterprise' long-term debt paying ability.

Second, Analysis on operation ability. Operating capacity use turnover speed of various assets to measure asset utilization efficiency. The faster turnover velocity is (which means the speed of various assets entering into the production and sales and other business links in a faster speed), the shorter the cycle of revenue and profit will be and the higher the operating efficiency will be.

Third, analysis on profitability. Profitability is the core of all aspects, and it is also the key to success. Enterprise can only achieve continuous operation by delivering long-term profit, thus both investors and creditors attach great importance to the profitability ratio of their enterprises.

Cash flow is of vital significance for enterprises. In the analysis of financial ratio, we should take cash flow into account. We need to analyze the cash flow from two perspectives. One is the amount of cash flow. If the enterprise has a surplus overall cash flow, which

suggests that the cash inflow in this enterprise can guarantee cash outflow. Nevertheless, the cash payment depends on the relation between cash flow components.

2. Historical Evolution

China Mobile Communications Corporation ("China Mobile" for short), established on April 20, 2000, is a mobile operator based on GSM and TD-SCDMA network. It is a state-owned backbone enterprise built on former China Telecom Mobile Communications whose assets then was wholly striped in accordance with China's deployment and requirements on telecommunication system reform. On May 16, 2000, China Mobile Communications Cooperation was officially established. China Mobile solely own China Mobile (Hong Kong) Group Cooperation Limited and is the holding company for China Mobile Limited. (referred to as listed companies for short). The latter has set up wholly-owned subsidiaries in 31 provinces (municipalities directly under the central government of the autonomous region) and Hong Kong special administrative region, besides, it is listed in Hong Kong and New York.

On January 6, 2009, former China Netcom and former China Unicom merged into China United Network Communications Group Co., LTD (hereinafter referred to as China Unicom) with numerous branch agencies set up in 31 provinces of China (autonomous region, municipality directly under the central government) and also overseas countries and regions.

China Unicom is the only telecom operator in China listed simultaneously in New York, Hong Kong and Shanghai, competing into world's top 500 companies. China Unicom is equipped with a modern communication network covering the whole country and the whole world. It is mainly engaged in GSM and WCDMA mobile network business, fixed-line broadband, broadband mobile Internet business. In order to distinguish itself from the former China Unicom before the merger, it is often referred to as New China Unicom in the industry. In 2012, China Unicom launched the project of "worldwide optical network" across the board.

China Telecom Corporation (hereinafter referred to as China telecom), founded in 2002, is a state-owned communications giant in China. As one of the major telecom enterprises and the largest basic network operators, China Telecom has the world's largest fixed-line telephone network, covering the whole country and even all over the world. It has many member units including 31 provincial enterprises across the country, running telecom business across the country. On March 31, 2011, with the number of China Telecom "Tian Yi" project mobile users reaching over 100 million, China Telecom has become the world's largest CDMA network operators. China Telecom has two large listed companies, that is, China Telecom Joint Stock Company and China Communication Service Co., LTD. In 2011, China Telecom launched the "broadband and optical network across Chinese cities" project.

3. Renowned Investment Banks at Home and Abroad.

Table 1

	Analysis on short-term debt paying ability		
China Mobile	2014	2015	2016
Liquidity ratio	1.1058	0.9754	1.0937
Quick ratio	1.0847	0.9554	1.0772
Cash ratio	0.1545	0.1594	0.1686
China Unicom	2014	2015	2016
Liquidity ratio	0.1900	0.1800	0.2400
Quick ratio	0.1800	0.1700	0.2300
Cash ratio	0.0872	0.0651	0.0743
China telecom	2014	2015	2016
Liquidity ratio	0.2886	0.3052	0.2319
Quick ratio	0.2681	0.2807	0.2160
Cash ratio	0.0990	0.1245	0.0772

Liquidity ratio

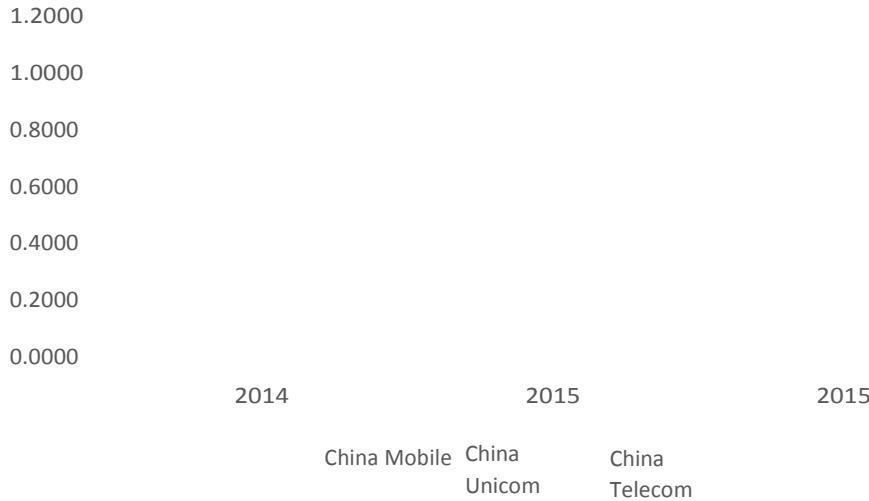


Chart1

The short-term debt paying ability of an enterprise refers to the ability to repay current liabilities with current assets. It shows an enterprise's ability to repay debts. For creditors, they believe the enterprise should have enough debt paying ability to ensure their principle and interest. For investors, what they care most is the enterprise's profitability. If there exists problem with enterprise's debt paying ability, enterprise managers will input a lot of energy to raise money to repay the debt, which will affect the management of enterprises. Meanwhile, if the enterprise defaults the debt, its credit and rating will decline, making follow-up financing turn to be more difficult and increasing the cost of temporary emergency financing. That will affect the profitability of the enterprise.

The above table clearly shows that China mobile's current ratio is far larger than that of China Unicom

and China Telecom. China Mobile's current ratio is larger than 1 while China Unicom and China Telecom's current ratio is less than 1. That suggests China mobile's working capital is a positive number with its current liabilities less than current assets, while China Unicom and China Telecom's working capital is a negative number, which means their current liabilities surpassing current assets. And China Mobile's quick ratio and cash ratio are all larger than 1. This indicates that each 1 RMB of current liabilities is at least guaranteed by 1RMB of cash. But both China Unicom and China Telecom has a low quick ratio and cash ratio---Less than 50%. That shows a financial instability of China Telecom and China Unicom. They don't have enough capability to ensure the interests of the creditors. The above chart clearly shows that China mobile's short period debt paying ability is stronger than that of China Unicom and China Telecom.

4. Analysis on Long-term Debt Paying Ability

Table 2

	Long-term debt paying ability		
China Mobile	2014	2015	2016
Asset-Liability Ratio	0.3377	0.3554	0.3543
Equity Ratio	0.5099	0.5514	0.5487
Equity Multiplier	1.5099	1.5514	1.5486
China Unicom	2014	2015	2016
Asset-Liability Ratio	0.5790	0.6196	0.6257
Equity Ratio	4.1000	4.8500	4.9700
Equity Multiplier	2.3800	2.6300	2.6700
China Telecom	2014	2015	2016
Asset-Liability Ratio	0.4831	0.5159	0.5152
Equity Ratio	0.9347	1.0658	1.0625
Equity Multiplier	1.9347	2.0658	2.0625

Long-term debt paying ability refers to enterprise's ability to bear debt and to repay debt. This index is the focuses of enterprise 's stakeholders. Enterprise use borrowed funds to support production and operation, which, On the one hand, can promote the rapid development of production, on the other hand, will also increase the risk of corporate finance and capital

costs. Compared with the short-term debt paying ability, long-term debt paying ability emphasizes more on the debt paying ability of interest. Only when the debt paying ability of an enterprise is guaranteed, can this enterprise raise enough funds from creditors smoothly and timely.

Asset-liability ratio



Chart 2

We can tell from the asset-liability ratio chart that assets and liabilities rates of China Telecom, China Unicom, China Mobile are very stable without major fluctuations. Previous analysis shows that the three operators' total assets are on the rise, among which China mobile's total assets rise at the fastest speed and its total assets are also the largest. China mobile's total debt increases with its total assets simultaneously. But in general, asset-liability ratio of China Telecom is greater than that of the other two operators. In

addition, China telecom has a smallest scale of asset and lowest growth speed. Therefore, China telecom's total liabilities has the largest increasing range. In terms of equity ratio and equity multiplier, the two financial ratios of China mobile are much smaller than those of China Telecom and China Unicom. Thus, it can be concluded that China mobile's financial situation is very stable with a strong debt capacity, while that of China Unicom and China Telecom are not very stable with relatively weak debt capacity.

5. Problems Existed in China's Investment Banks

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Inventory Turnover Ratio

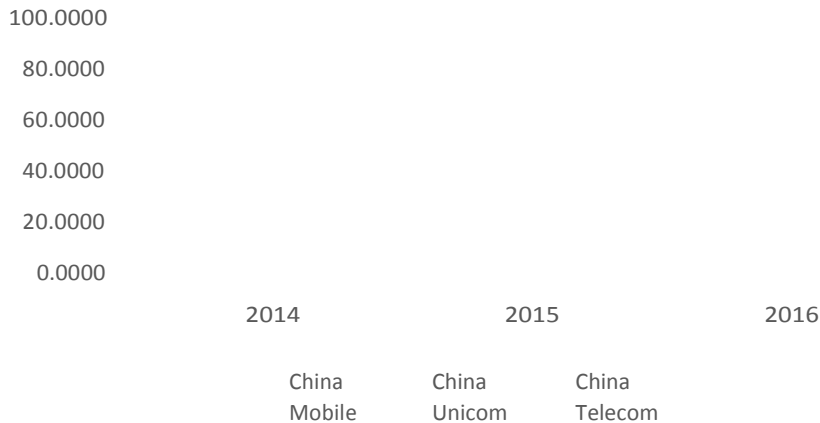


Chart 3

Operation capacity refers to the operating ability of an enterprise, that is, the ability to make profit using their assets. The financial analysis ratios we use to measure enterprise's operation capacity is called turnover rate, which includes: inventory turnover rate, accounts receivable turnover rate, current assets turnover rate and total assets turnover rate.

Overall, China Mobile has a much higher inventory turnover than that of other two operators. China telecom sees an obvious rising trend of inventory turnover without big fluctuations. China only has these three major communication operators, so from this

perspective, China Mobile has a relatively higher inventory turnover rate, thus its inventory turnover duration will be shortened, and its speed will become faster. And China Mobile's accounts receivable turnover ratio is much higher than that of the other two operators. While China Unicom has the highest inventory turnover ratio and cash turnover ratio. Since the total asset turnover rates of the three operators are very similar, China mobile are of the obvious advantages as the industry leader according to comprehensive weighing and analysis of the operation capacity of the three operators.

Table 3

Operation capacity analysis			
China Mobile	2014	2015	2016
turnover of account receivable	39.2563	37.6675	37.1972
inventory turnover ratio	70.2571	66.8736	80.2107
velocity of liquid assets	1.3431	1.3675	1.2075
Cash turnover ratio	9.6105	8.3707	7.8353
Total assets turnover	0.5207	0.4906	0.4805
China Unicom	2014	2015	2016
turnover of account receivable	18.0632	16.5670	16.0213
inventory turnover ratio	40.3300	49.9000	66.3600
velocity of liquid assets	5.0971	4.6352	3.3345
Cash turnover ratio	11.3622	12.5851	10.7995
Total assets turnover	0.5400	0.4800	0.4500
China Telecom	2014	2015	2016
turnover of account receivable	15.0447	15.6930	16.4442
inventory turnover ratio	12.7747	15.4653	16.5626
velocity of liquid assets	5.4480	4.2403	4.7624
Cash turnover ratio	15.8737	10.3926	14.3106
Total assets turnover	0.5874	0.5563	0.6496

6. Analysis of Profitability

Table 4

	Analysis on profitability		
China Mobile	2014	2015	2016
net profit margin	0.1706	0.1625	0.1536
gross profit margin	0.9635	0.9676	0.9693
net profit ratio	0.0844	0.0761	0.0716
equity net interest	0.1274	0.1181	0.1109
China Unicom	2014	2015	2016
net profit margin	0.0415	0.0377	0.0018
gross profit margin	0.3071	0.2503	0.2283
Net profit ratio	0.0222	0.018	0.0008
Equity net interest	0.0528	0.0473	0.0021
China Telecom	2014	2015	2016
Net profit margin	0.0547	0.0608	0.0514
Gross profit margin	0.7884	0.7547	0.7329
Net profit ratio	0.0316	0.038	0.0278
Equity net interest	0.06114	0.0785	0.0573

Profitability refers to the ability of an enterprise to make profits, also known as the capital appreciation ability, which is usually reflected in the amount and

level of benefit in a certain period. It mainly includes net profit margin on sales, gross profit margin on sales, return on total assets and return on equity.

Return on equity.

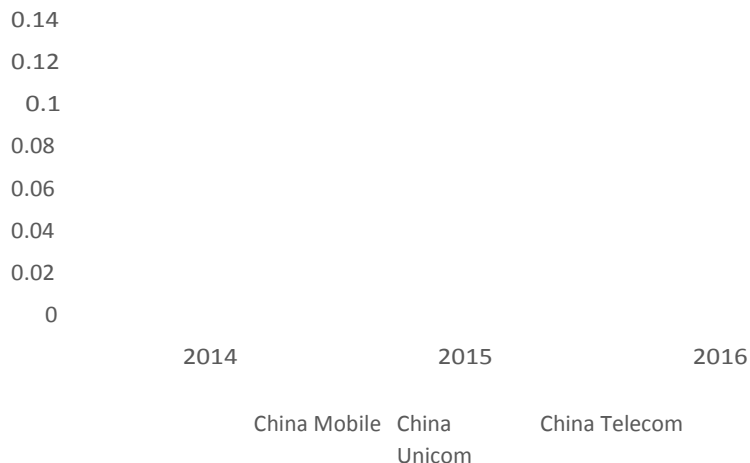


Chart 4

To a great extent, the purpose of enterprise is to increase shareholders' equity. Only when shareholders' equity grows will shareholders invest the enterprises. From the above return on equity chart, it can be seen that China mobile's return on equity is much higher than that of other two operators. China Mobile's return on equity reaches above 10%. China Unicom has a relatively lower return on equity apart from a 5% in 2014. In the meanwhile, China Telecom also has a low return on equity, too and according to statistics, its return on equity in 2008 almost fell to zero, which shows stockholders can have a higher return from China mobile with same investment input. Therefore, China Mobile owns the strongest financing capacity. In terms of other indicators such as net profit margin on sales, gross profit margin on sales, return on total assets, China Mobile is also much higher than that of other two operators, which reflects the strong profitability of China Mobile and it is able to deliver more benefits to shareholders.

Therefore, in terms of wealth created for shareholders, China Mobile is undoubtedly a better choice for shareholders. Chinese telecommunication industry has slowed down its growth speed after its rapid development phase. And the three carriers are facing fiercer competition now. As we all know, business success depends on its customer. That's why the three carriers should make larger efforts to cater for their

customers and customize their services. Only when the needs of customers are satisfied will customer have a higher sense of satisfaction and will customer adhesiveness be enhanced. Only by doing this can they constantly attract new customers and at the same time reduce customer's churn rate. At the same time, as enterprises, they should highly unify its strategic goals and financial goals. In such cases, strategies of enterprises will better serve the enterprise. Only by horizontal comparison with other enterprises of the same industry, can these operators find its own gap and make it up constantly and make continuous progress.

7 The Analysis on Prospects of the Three Operators from the Perspective of DuPont Analysis System.

7.1 China Mobile

From the perspective of DuPont analysis system, it can be seen that China Mobile's return on equity during 2014 to 2016 remained at about 11%. It shows a downward trend. We can improve return on equity by increasing total assets or equity multiplier. China Mobile saw a decline in its return on total assets and its equity multiplier maintaining at about 1.48. So, if China mobile wants to improve its shareholder equity and attract more investment, it has to increase return

on equity. Return on total assets is the product of net profit margin on sales and asset turnover ratio. In terms of equity multiplier, China mobile has witnessed a sharp rising trend in its total assets, but shareholders' equity is also growing with the increase of total assets. Through the above analysis, China mobile has a stable revenue growth in recent years, but it mainly relies on its traditional voice business. In the face of various communication services, this model fails to satisfy the needs of its customers. China Mobile has stable short-term debt paying ability and long-term debt paying ability, but in recent years, these abilities hasn't been improved greatly. Therefore, China Mobile should improve its marketing strategy in order to adapt to new development.

7.2 China Unicom

According to the financial statement from 2014 to 2016, China Unicom witnesses its total assets showing a slow growth trend basically without any change. The revenue of China Unicom has been increasing year by year, but its profits has declined rapidly. We can know from the analysis on China Unicom's debt paying ability that this company has an unstable financial situation and falling debt paying ability. China Unicom's operation ability and profitability is not very stable, neither. The strategy of 3G advancement and Integrated Innovation is still on the initial stage, unable to bring China Unicom considerable returns immediately. Nevertheless, China Unicom has yield fruitful results in 3G business. Its 3G user group increases significantly and its business innovation has also made remarkable achievements. Many new businesses have attracted many new users to the network, in addition, this momentum can be maintained.

China Unicom carried out the strategy of "3G advancement", which not only is helpful for changing the landscape of telecommunication market and strengthen the influence of China Unicom, but also drives the operating model transformation, user structure optimization so as to achieve the strategic breakthrough of growth method. In the future, China Unicom will focus on 3G project and prioritize wireless broadband network, and in the meanwhile, it will increase mobile non-phone business revenue by high-speed data experience and innovation of content and application, turning 3G to be major driver for the company's revenue growth

7.3 China Telecom

Predicting the future of China Telecom through DuPont analysis system of from 2014 to 2016.

The chart of DuPont analysis system clearly shows a rapid growth of China Telecom's return on equity. While in the past, this indicator in 2008 is merely 0.14%, raising to 6.5% in 2011. Enterprise is in the service of shareholders, and in other words, the purpose of an enterprises is to increase shareholder's wealth. only when their wealth is increased will they input investment. According to China Unicom's recent performance, we can see a year-on year growth of return on equity, which means that the shareholder investment can have higher benefits with the same investment. This is definitely something shareholders are happy to see, and will increases their confidence in investment.

Return on total assets or equity multiplier can be increased by the growth of return on equity. Statistics of recent four years shows a growing return on total asset but a falling equity multiplier, which suggests that this company take the strategy of improving return on equity by increasing the return on total assets. China Telecom with a relatively low net profit margin, doesn't belong to manufacturing enterprises, that's why China Telecom takes a management strategy of "high profit, and low turnover. As it is known to all, equity multiplier is the financial leverage of enterprises, and we can tell from the DuPont system that China Telecom has a low financial leverage and high management risk.

As for equity on total assets, it can be improved by increasing sales returns and speeding up asset turnover. These two indicators have been growing as we can see from the DuPont system chart. Equity multiplier can be improved by increasing total assets. The total assets of China telecom have been growing slightly year by year and its equity multiplier has been declining, so its shareholders' equity ratio rises less quickly than total assets ratio, which accounts for its climbing liabilities.

China Telecom implements a strategy of focusing on the information innovation and mobile business, so the company must integrate its financial policy with its financial strategy, that is, to match the financial policy with the strategy. Only by doing this can its return on equity be improved and shareholders' wealth increased.

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