

Financial Analysis of MI's Company Based on Harvard Analysis Framework

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ABSTRACT

This paper takes the financial statements of MI from 2017 to 2019, and uses Harvard analysis framework to analyse the financial situation of MI. The analysis content mainly includes enterprise macro environment, industry competitive analysis and financial ratio analysis. This paper tried to understand the current situation and development prospect of MI. Based on the analysis of MI's financial situation under the framework of Harvard, we summarized the existing problems and put forward suggestions.

1. Introduction

Analysis of Harvard Analytical Framework not only understands the financial situation of enterprises, but also knows the strategic perspective of enterprises. It can combine the macro environment and corporate strategy^[1]. We can know more comprehensive and accurate information of enterprises. External users may obtain accurate information of enterprise, so as to meet the information needs of investors. In addition, for internal managers, using this framework can predict enterprise risks and help to avoid risks^[2].

Beijing MI Technology Co., Ltd. is an Internet company. It specializes in the development of smart devices and electronic products, focusing on the

innovation in the construction of high-level smart phones, internet TV and ecological chain. MI has a 30% market share in India, was officially listed on the Hong Kong Stock Exchange on July 9, 2018. The paper is expected to find problems and put forward countermeasures through the harvard analytical framework on MI.

2. Strategic Analysis

2.1 Macro Environment Analysis

First, politics. MI's market share has been helped by the state's support for the telecom industry. The government attaches great importance to the development of private enterprises, vigorously supports technology-

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based enterprises [3], and encourages innovation. Second, economic factors. China has a large population and a large sales market. The country strongly supports the domestic and foreign double cycle, the MI ushered in the domestic market development opportunity. Third, social and cultural factors. Mobile phone use is regional, with one-third of the users concentrated in northern cities and fewer in southern cities. MI' phones with low price and high performance become the first choice for consumers. Finally, technical factors. MI' Group has its own design and development technical team. It regularly sends technical personnel to attend training courses and visit abroad, which is the guarantee of high efficiency.

2.2 Enterprise Strategy Analysis

In terms of product strategy, MI's mobile phones are high quality in the integration of hardware and software. In terms of service strategy. MI's mobile phone is positioned in the mobile phone enthusiast. Let the enthusiast participate in the research and development, design and improvement of the system. So as to better close to consumers and more detailed service. In terms of personnel strategy, its core staff consisted of well-known IT enterprises at home and abroad [4], such as Microsoft, Google and Motorola, which had a strong technical advantage. In terms of competitive strategy, MI mainly locks the user through MI's chat, attracting users to understand and buy MI's mobile phone. In terms of diversification strategy, with the improvement of MI operating system and the increasing market share, MI is expanding into many fields such as network TV, MI's boxes, routers etc.

3. Accounting Strategy Analysis

3.1 Quality Analysis

Table 1. inventory quality analysis

	2017	2018	2019
inventory (HK\$ a hundred million)	163.43	336.46	363.77
Total assets ((HK\$ a hundred million)	898.70	1657.47	2049.93
Inventory turnover(time/year)	8.19	6.67	8.05
Inventory turnover period (days)	35.05	53.97	44.72

As can be seen from 2018 to 2020 in Table 1, with the increase of total assets, MI total inventory increased year by year. Due to the small amount of receivables and Fixed assets, a number of investments were made in 2017 and 2019. Inventory turnover ratio accelerated, which indicates that the operation efficiency of enterprise assets is high [5]. Although the MI's production capacity is limited, and

demand is exceeding supply. But its starvation sales will lead to a small increase inventory.

3.2 Accounts Receivable Quality Analysis

Table 2. aging analysis of accounts

aging	2018		2019	
	Expected loss rate	amount of loss	Expected loss rate	amount of loss
Within the time limit	0.01%	49	0.01%	49
Within 3 months overdue	0.99%	5.3	0.96%	4.44
3 to 6 months overdue	34.22%	0.64	37.27%	0.51
More than 6 months overdue	52.85%	0.77	41.59%	0.81
total		55.71		53.76

Most of MI's sales are online, accounts receivable are mostly payments to channel distributors and customers in mainland China and India. The default rates of MI's mobile phones is lower than the average of the industry. As shown in the Table 2, the default rates have a little change from 2018 to 2019. Therefore, The quality of accounts receivable is high. The policy of accounts receivable is reasonable.

3.3 Cash Flow Analysis

Table 3. cash flow analysis (unit: HK\$ a hundred million)

	2018	2019
Net cash flow from operating activities	-14.15	265.81
Net cash flow from investment activities	-75.08	-352.43
Net cash flow from financing activities	265.74	34.84
Net increase in cash and cash equivalents	176.52	-51.78

As shown in the Table 3, the net profit of MI's group has been increasing from 2018 to 2019. The net cash flow of operating activities has been negative in 2018, but the net cash flow of operating activities is a big increase in 2019. This shows that the business activity is getting better and better [6]. From the structure of the cash flow statement, MI have been investing and expanding. The company went public in 2018, and its financing capacity increased dramatically during the listing year, so the enterprise diversified development of funds is sufficient. On the other hand, MI has sufficient financial security, and can invest in research and development and achieve high-quality development. The market is optimistic about the diversified development path in future [7].

4. Financial Ratio Analysis

4.1 Solvency Analysis

Table 4. solvency analysis

	2018	2019
asset-liability ratio	50.94	55.53
current ratio	1.71	1.49

Debt paying ability concerns the economic benefits of the enterprise and creditor, usually using financial ratios as an important project. For this purpose, Table 4 analyzes the long-term and short-term solvency of enterprises by asset-liability ratio and current ratio. MI's liabilities in 2017 exceeded the amount of assets, indicating that the financial risk of the enterprise is bigger. It may be related to the adjustment of corporate financing structure before MI's 2018 listing. However asset-liability ratio is about 50% in 2018 and 2019. Therefore, in general, the long-term solvency of MI is good, and no financial risk. In addition, the current ratio has been stable from 2018 to 2019, but the current ratio is lower than 2:1, indicating that the enterprise's current assets have a relatively weak ability in the short term, this may have something to do with higher inventories.

4.2 Operation Capacity Analysis

Table 5. operating capability analysis

	2018	2019
current asset turnover	1.69	1.64
fixed asset turnover	4.39	4.56
total asset turnover	1.23	1.43

Table 5 is an analysis of the operating capacity of MI's assets. The indicators include current assets turnover, fixed assets turnover and total assets turnover. This is shown in Table 5. These three indicators are little changed from 2018 to 2019. The total asset turnover ratio is greater than 1, and there is a slight upward trend. This is indicating that MI's assets operation efficiency is higher, which enhances the profitability of the company. Because the enterprise has less fixed assets, the turnover rate of fixed assets is higher. From these three indicators, MI has a strong asset operation ability and a high asset use efficiency, which indicates that the enterprise has a good asset management ability.

4.3 Profitability Analysis

Table 6. profitability analysis

	2018	2019
return on equity	2.42	1.59
net interest rate on total assets	1.19	0.71
net profit rate on sales	7.71	4.91
gross profit margin	12.68	13.87

Table 6 is the profitability index of the enterprise. According to the comparative analysis of these indicators in 2018 and 2019, the overall profitability of MI has declined. There was a slight increase in gross margin from 2018 to 2019. It shows that the benefit of MI's activities has an upward trend. But the net profit rate of sales decreased greatly, which may be related to the substantial increase in expenses during the listing and expansion of the scale of the enterprise. The net interest rate on total assets is not high in these two years, indicating that the enterprise to improve the profitability of assets is the focus in the future.

5. Problems in MI's Financial Situation

5.1 Strategic Problem

MI makes use of the Internet to carry out sales, which plays a promotional role in a short period. However, the management of MI does not pay attention to the foresight of high-end market. In China, MI's low-priced phones can indeed grab a part of the domestic market and occupy 30% of the market share in foreign countries, especially in India [7]. However, the profit of low-priced phones is not significant. On the other hand, MI's mobile phone is positioned as a passionate mobile phone. It creatively uses the internet to let users participate in the design. This mode can satisfy the diversified needs, but the innovation requirements are relatively high.

MI development strategy of enterprises leads to a large amount of diversified investment, so a capital turnover rate and asset efficiency are low. Because not brand awareness of many products, the lack of users and brand reputation is too limited to higher benefits .

5.2 Financial Problems

MI may be the world's largest IPO in recent years, topping \$100 billion in the seven years. But MI's inventory is rising and money is piling up. Short-term and long-term debt paying ability is lower than industry average level. Asset turnover and profitability also has a downward trend. The rate of return on investment is not ideal, the profit still comes from the profit of mobile phone, so the road of enterprise diversification is not smooth. Enterprise income and profit growth are not stable, operating risks have increased.

6. Suggestions for MI's Future Development

6.1 Suggestions on MI's Development Strategy

The development of high-end enterprises is a long-term process and an inevitable trend. High-end brands should

be mainly high income group, and the pricing of the brand should be based on demand. The investment in research and development will increase exponentially, and the corporate income will be greatly reduced in a short time. However, MI should have the determination to establish a high-end brand. In marketing, the enterprise should be set up their own parts production plant, so as to expand the market share^[8].

6.2 Suggestions on MI's Financial Problems

MI should focus on clearing inventory, reducing the production of existing mobile phone models. On the other hand, through improving the asset turnover rate to enhance corporate profitability^[9]. At the same time, MI may allocate more funds for research and development or new product development. Constantly increase the investment in fixed assets, in order to improve the stability of business operations. MI should reduce diversified investment, focus on high-end product development, so as to increase the share of high-end market.

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