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The financial ability of the listed film companies Bona Film Group vs Huayi Brother Media Group

In Partial Fulfillment of the Requirements

for the Bachelor of Science in Finance

by

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May, 2020

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Abstract

With the increasing material and cultural needs of our people, watching movies has become the most popular and popular form of entertainment. The film industry is booming. In order to expand the scale of production and assets, more and more film and television companies choose to go public.

However, going public is a double-edged sword. It can not only improve the financial situation of the company and make the asset scale continuously expand, but also make the financial situation of the company transparent and lose privacy.

This thesis firstly collected data of two film companies as representatives, analyzing their financial abilities by selecting 9 financial indicators as research variables from 2014 to 2016.

To conclude, after going public, these two companies got a lot of financing. However, due to many difficulties of Chinese film industry, the profitability and development ability of them is still not optimistic. In order to get improvement, the film company should create new measures to adapt to the new media era.

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Introduction

Background

In recent years, with the improvement of material life, more and more people begin to seek the consumption of spiritual and cultural aspects. And watching the films becomes one of the important ways to release this kind of market demand. The double superposition of economic and cultural factors led to the flourishing of the film market. As a part of media industry, film market's development also made China's media industry developed rapidly. There is a thriving and vibrant scene. Meanwhile, the 13th Five-Year Plan of the Chinese government clearly states the vision that the cultural industry will become the main industry of the national economy by 2020. At present, this industry is being supported and developed positively in all parts of China.

From a global perspective, the changing market structure and competitive environment of the media industry have taken place. Big data has brought new opportunities and challenges to this industry. While realizing their own sustainable development, the media industry of various countries has also promoted the development of other related industries. In the constant conflict and cooperation, the media industry self-deconstruction and construction, as well as other relative industries, have formed a pattern of diversification, multi-polarization and common prosperity.

At home, social media derived from the big data background is eroding the traditional media market little by little and earning more and more profits from the latter's margin. In this case, media companies must improve their financial abilities. The first and foremost step is to accurately assess their financial abilities.

Significance of Research

Financial ability analysis is an important process of evaluating businesses to determine their performance and suitability. Typically, financial ability analysis is used to analyze whether an entity is stable, solvent, liquid, or profitable enough to warrant a monetary investment (Tuovila, 2019).

From the perspective of the operator, the analysis of financial ability for all enterprises can not only let the business operators understand the business status and business performance, but it also can make financial forecasting and financial management decisions for the future.

From the perspective of creditors, the analysis of corporate financial ability helps creditors to accurately understand whether the company has solvency and whether the company has potential risk factors. So the creditors can judge whether continue to

grant corporate finance or not.

From the perspective of shareholders, the analysis of corporate financial ability helps the company's shareholders to effectively understand the risk tolerance of their investment in the company, as well as the return on investment. In this way, it is judged whether the shareholders decide to buy or sell the company's stock.

From the government's point of view, through the analysis of financial ability, government workers can understand the actual situation of the implementation of laws and policies to help companies improve their efficiency and management, and help the company develop better.

Thesis Statement

This thesis selects two Chinese film companies about their financial conditions in recent years. By reviewing their financial performances, business models and profitability. We can explore the impact of going public of such media companies in order to know whether the company's brand degree, core competence and financing ability would be improved. In this study, it will set up an assessment system including four abilities: profitability, development ability, solvency and operating ability.

Literature Review

Film Industry History

Everyone know that Edison invented the electric lamp, but there just a few people know that the birth of the film is also closely related to him. About 120 years ago, with the development of cinematography and projection techniques, the film came into being. In the following 100 years, the film has flourished all over the world, especially in America and Europe. Even in the First World War, The European film industry has been hit to varying degrees, however, the American films have taken good use of this opportunity to bring a lot of movies to the European market. By the end of the war, American movies had established a hegemony in Europe and even the world. (Kerrigan, 2017)

At that time, many smart businessmen saw the prospect of the film market, and then they came together and did the work of the film from preliminary preparation to shooting and post-production, which is called the film company. (Kreimeier, 1999)

Different from foreigner film companies, Chinese film companies really got nice development since the Reform and Opening up. China went through a lot of hard times. After decades of effort, China is now the second largest film market in the world, with the largest number of screens and moviegoers. However, it should be clearly

recognized that there is still a gap between China's film industry and the other powerful film industry in terms of income and industrial chain perfection.

Looking back to the development history and current situation of the global film industry, capital strength is the core element of the market position in film enterprises. Going public is conducive to building unimpeded financing channels. By this way, the film companies can enhance their economic strength, so as to attract excellent directors, actors and management talents, then the audience will enjoy more excellent big-budget films. Also, the film companies will establish their own brand and improve their industry status. Not only are there eight publicly traded film companies in the United States (Finney, 2014), but China also has some famous listed film companies.

Chinese Film Industry Introduction

Since entering the 21st century, China's film industry has entered a stage of rapid development, especially in recent years. Driven by new media, new capital operations, new technologies and advanced concepts, the film industry has undergone radical changes. In recent years, Ali, Bona, Wanda Film, Huayi Brothers and other large amounts of capital have entered the Chinese film industry, which has a rapid development trend. However, some problems have been exposed during the rapid development.

First of all, Chinese film industry highly affected by fluctuations in the economic cycle. The film industry is an important pillar of the cultural industry, and its output products are relatively high-level cultural products among consumers. As a non-necessary product, it has a certain elasticity with the income level compared with the necessities. When the economy is doing well, it will benefit from the increasing of income level, and people's demand for film products increases. Otherwise, when the economy is in a downturn, people' s income will decrease, which will correspondingly reduce consumption in this area.

Secondly, industry competition has intensified. In recent years, a large amount of capital has begun to enter the movie market to divide the “cake”, especially the Internet companies likes Alibaba, Tencent, Sohu, which has impacted the original market structure. For example, by virtue of e-commerce platforms such as Alipay and Taobao and strong capital, Alibaba set up Ali Film group, investing in traditional film companies such as Huayi Brothers Media group and Bona Film group. Internet companies are holding enough capital, innovation, and big data, which not only brings a lot of capital, but also brings subversive technologies and concepts to the traditional film industry. It completely subverted people's understanding of the film industry and has changed the survival status of the film industry, forcing traditional film companies to begin transformation and upgrading to adapt to the impact of the Internet.

Last but not the least, there are many difficulties in financing. With the development of Chinese film industry, channels to get financing have gradually increased. At present, there are mainly public offering of stocks, corporate bonds, copyright pledge loans, private equity funds, and advertising placement. However, the film industry, as a capital-intensive industry, has a strong demand for funds in the areas of production, distribution, and screening, especially with the rising trend of actors' returns in recent years. The traditional issuance of stocks and corporate bonds, due to high thresholds, cumbersome approval procedures, long-time processes, and not conducive to the protection of film works, has made it difficult for most companies to obtain financing through this method.

Two Companies Introduction

For China, for example, Huayi Brothers Media Group was listed in Shenzhen in October 2009 and Bona Film Group was listed on Nasdaq in 2010, which is the first Chinese film and television company to list in the United States. Looking at all the listed companies, each company's profit model and profit point is different. Huayi Brothers Media Group operates based on the company, realizing the integration of film, TV series and artist brokerage, which constructs a complete industrial chain belonging to the industry. But the company's main source of revenue is its film and spin-off business, which accounts for almost half of its financial performance. (Dong, 2017) As for Bona Film Group, they focus on the vertical integration of the whole industrial chain. The company tries to

build a model for centralized distribution of business, and cinema, investment and artist agency develop together.

Introduction of Financial Ability Analysis

The term, financial ability is a very versatile and highly integrated conceptual system that is the cornerstone and decisive factor in financial performance. Different scholars have different views on the composition of financial capabilities. The classification of Jing Xin represents the main genre of finance and appropriately reflects the comprehensive financial capabilities of the company (Yi, 2019). Based on the in-depth study of relevant research results at home and abroad, he proposed that the financial ability of modern enterprises can be divided into four major capabilities: profitability, development ability, solvency and operating ability.

Solvency refers to the ability of an enterprise to repay debts due (including principal and interest). The solvency analysis includes short-term solvency analysis and long-term solvency analysis. The analysis of operational capability refers to analyzing the efficiency of asset utilization by calculating relevant indicators of corporate capital turnover, which is an analysis of management level and asset utilization ability of enterprises. Profitability is the ability of a company to increase its value. It is usually reflected in the size and level of the company's income. The ability to develop is the potential ability of an enterprise to expand its scale and expand its strength on the basis of survival.

Research Design

The descriptive design is the most suitable to be applied since the study is aimed to describe the financial ability of the film companies. Quantitative data was also chosen as the methodology of this research. Quantitative is an adjective that simply means something that can be measured. In a world of abstract findings that can't be quantified, such as ability or growth, it's important to be able to measure what we can.

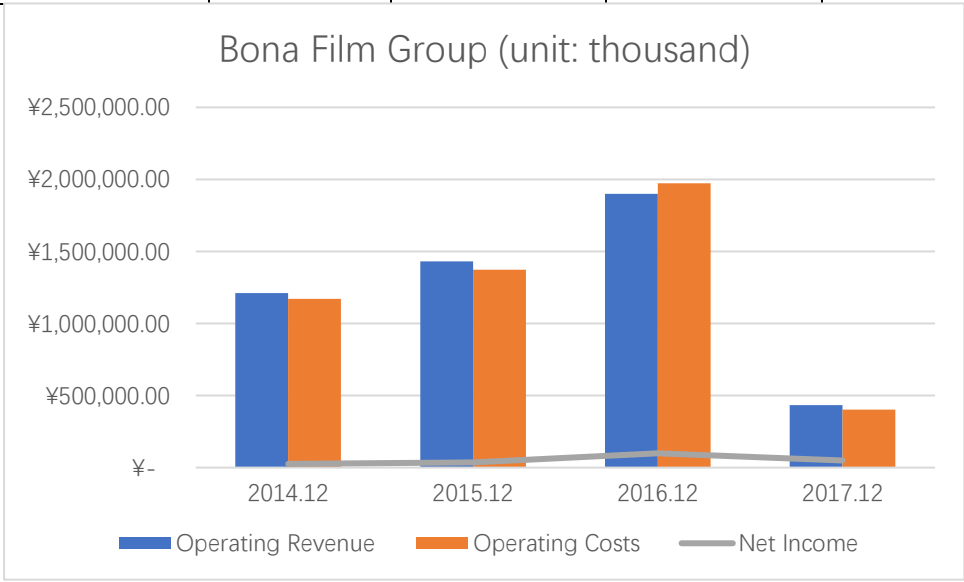
This study will follow Jing Xin’s classification to analyze two listed film companies. In specific, analysis of profitability includes: return on equity, and operating profit margin; the development ability measures: growth rate of return on net assets and growth rate of net profit; while solvency category is measured by current ratio, cash ratio, asset-liability ratio and operating ability includes receivables turnover, inventory turnover.

In this thesis, it selects two film companies, one is listed in Shenzheng Stock Exchange and one is listed in Nasdaq Exchange. They are chosen to build a component analysis model. The financial data is cited or derived from their annual reports from 2014 to 2017, which are recorded in China Finance Information website. As for research method, Excel is the tool for primary data processing and principal component analysis.

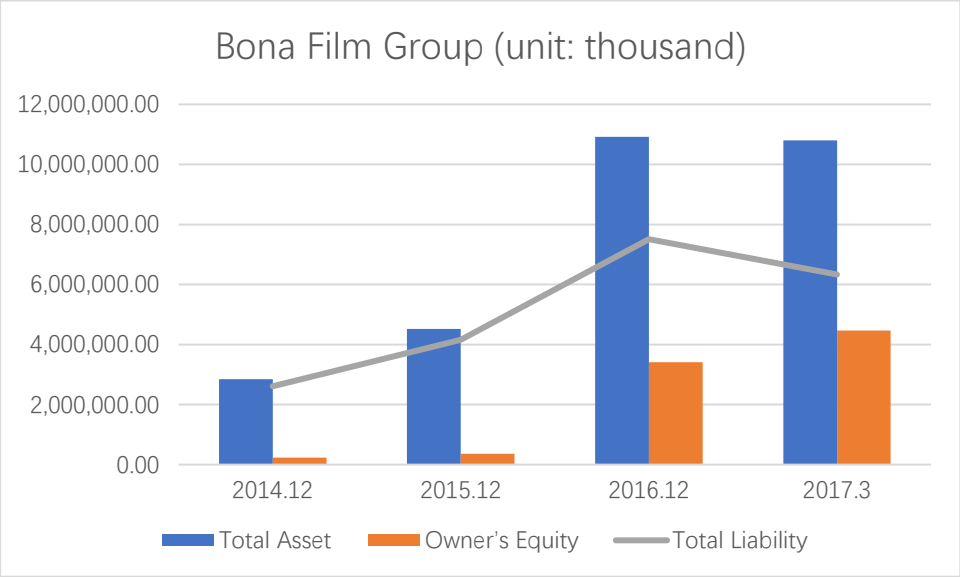
Primary index	Secondary index	Computational formula
Profitability	Return on net assets Operating profit margin	After-tax profit / net assets Business profit / total business income
Development ability	Growth rate of return on net assets Growth rate of net profit	(current net profit yields-prior-period net profit yields) / prior-period net profit yields (current net profit-prior-period net profit) / prior-period net profit
Solvency	Current ratio Cash ratio Asset-liability ratio	Current assets/current liabilities Monetary funds/current liabilities Total liabilities/total assets
Operating ability	Receivables turnover Inventory turnover	The average balance of operating income / accounts receivable Operating cost/average inventory balance

Relevant Data

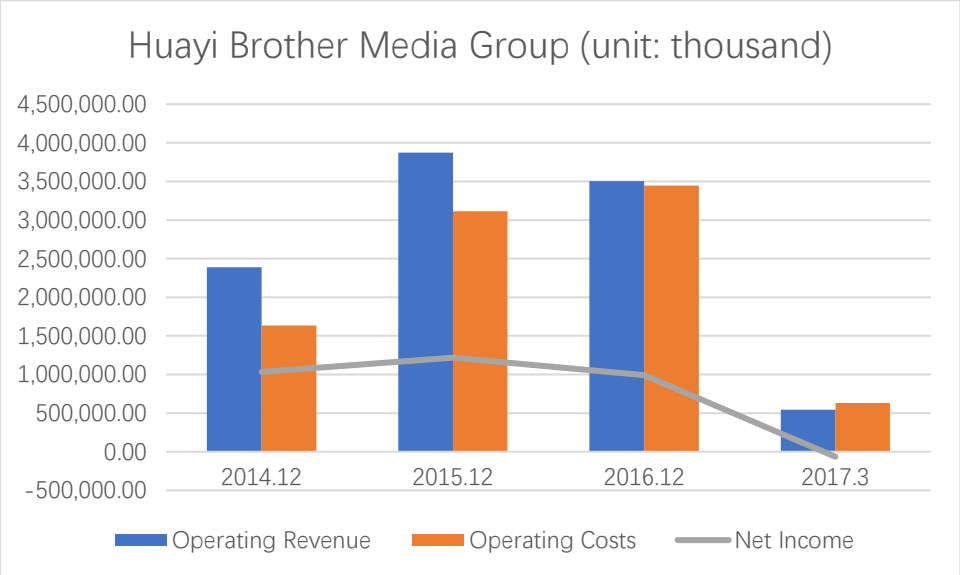
Bona Film Group (unit: thousand)				
	2014.12	**2015.12**	**2016.12**	**2017.3**
Operating Revenue	1,211,052.7	1,430,778.9	1,900,776.4	432,629.1
Operating Costs	1,171,739.2	1,372,626.6	1,973,555.0	401,332.2
Net Income	25,893.3	35,323.8	99,158.0	49,811.2



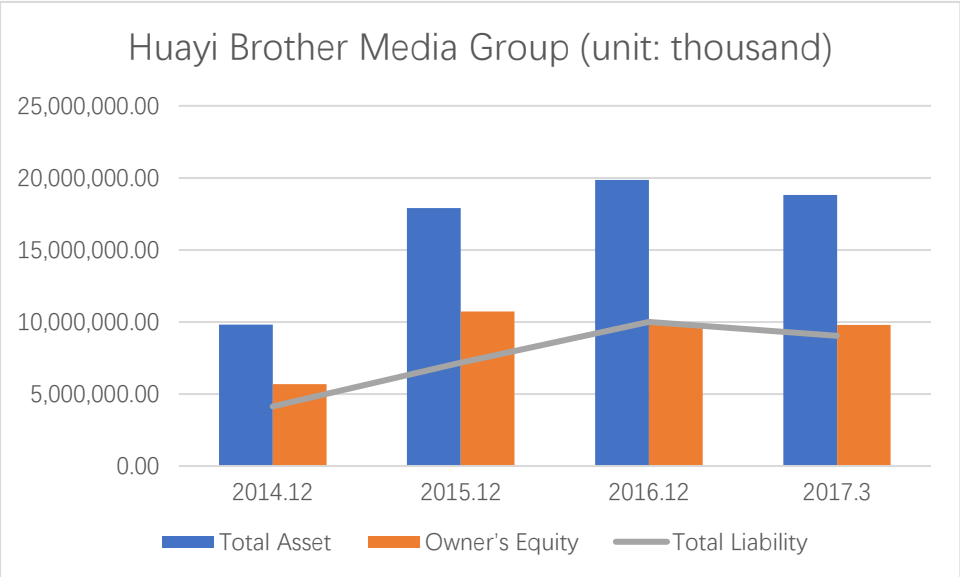
Bona Film Group (unit: thousand)				
	2014.12	**2015.12**	**2016.12**	**2017.3**
Total Asset	2,844,117.4	4,519,958.8	10,917,745.6	10,799,355.7
Owner's Equity	234,660.5	362,392.1	3,408,121.8	4,467,429.3
Total Liability	2,609,456.9	4,157,566.8	7,509,623.8	6,331,926.4



Huayi Brother Media Group (unit: thousand)				
	2014.12	**2015.12**	**2016.12**	**2017.3**
Operating Revenue	2,389,022.8	3,873,565.1	3,503,457.3	543,731.9
Operating Costs	1,635,716.0	3,112,276.2	3,445,594.6	632,007.2
Net Income	1,034,368.3	1,218,234.9	993,952.2	-64,397.7



Huayi Brother Media Group (unit: thousand)				
	2014.12	**2015.12**	**2016.12**	**2017.3**
Total Asset	9,818,641.6	17,893,979.3	19,852,631.1	18,820,971.2
Owner's Equity	5,680,120.5	10,730,209.2	9,850,412.9	9,787,075.3
Total Liability	4,138,521.0	7,163,770.1	10,002,218.2	9,033,895.9



Result of Research

	Bona Film Group			Huayi Brother Media group		
	2016	2015	2014	2016	2015	2014
Return on net asset %	5.41	13.06	13.05	8.52	13.04	20.01
Operating profit margin%	-1.45	4.08	3.43	33.6	35.84	49.36
Growth rate of return on net assets%	-59.00	0.7		-35.00	-35.00	
Growth rate of net profit %	180.71	36.42		-18.41	17.78	
Current ratio %	139	95	97	147	123	180
Cash ratio %	41	25	39	92	61	63
Asset-liability ratio %	145	109	109	198	250	237
Receivables turnover %	7.06	4.32	3.05	2.24	2.37	1.73
Inventory turnover %	2.19	2.7	2.72	2.39	2.51	1.34

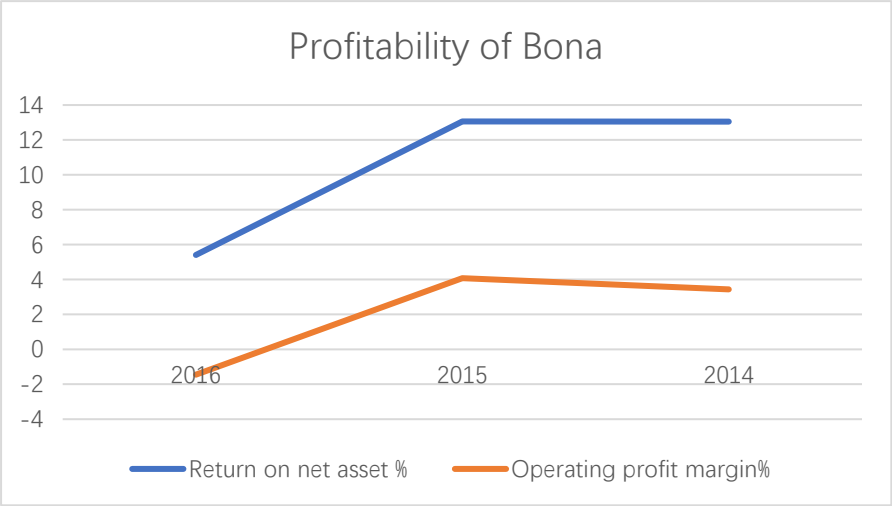


Table 1. The profitability of Bona from 2014 to 2016

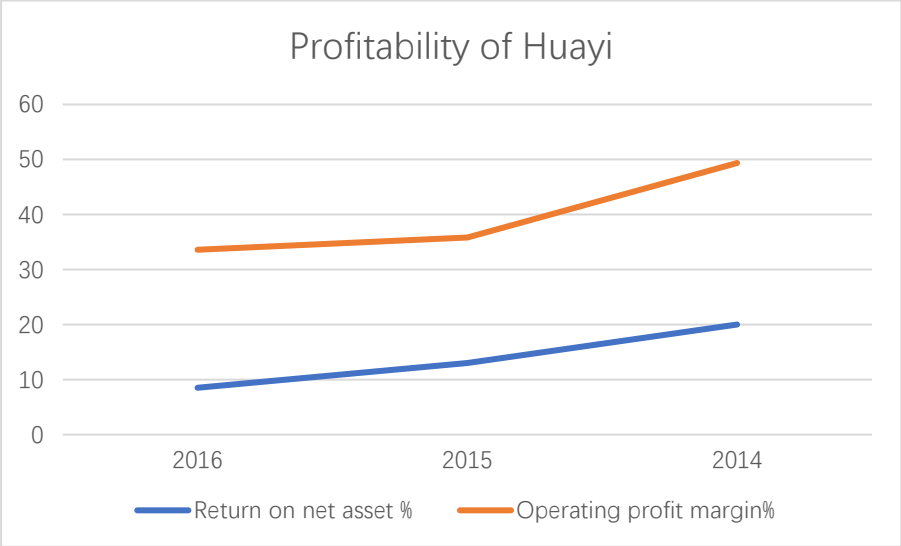


Table 2. The profitability of Huayi from 2014 to 2016

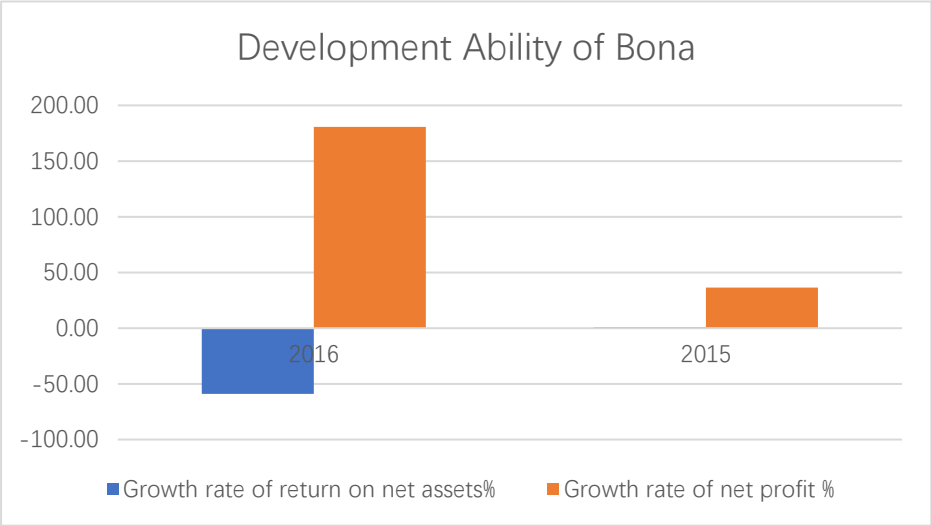


Table 3. The development ability of Bona from 2015 to 2016

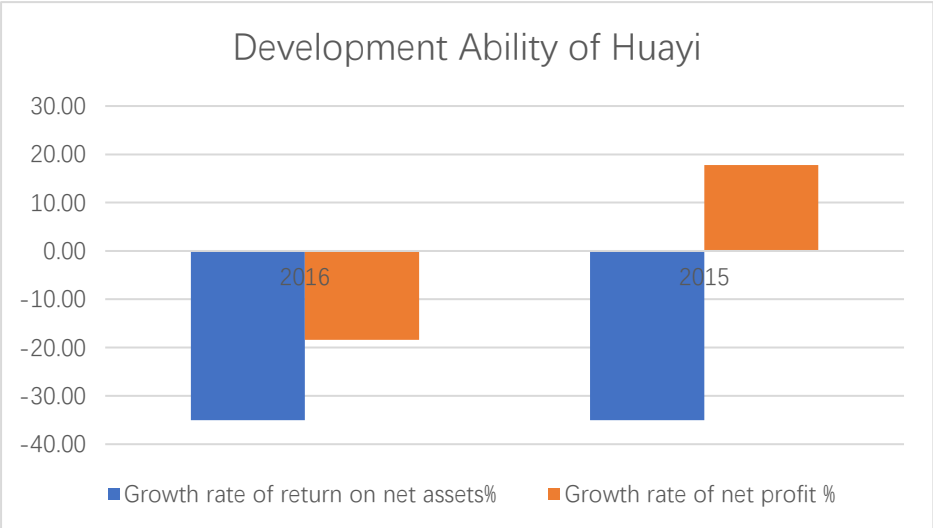


Table 4. The development ability of Huayi from 2015 to 2016

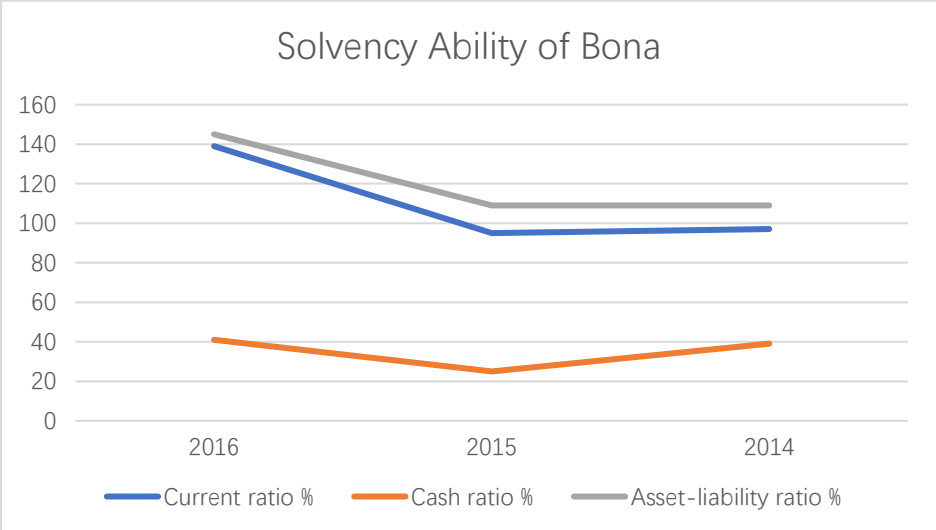


Table 5. Solvency ability of Bona from 2014 to 2016

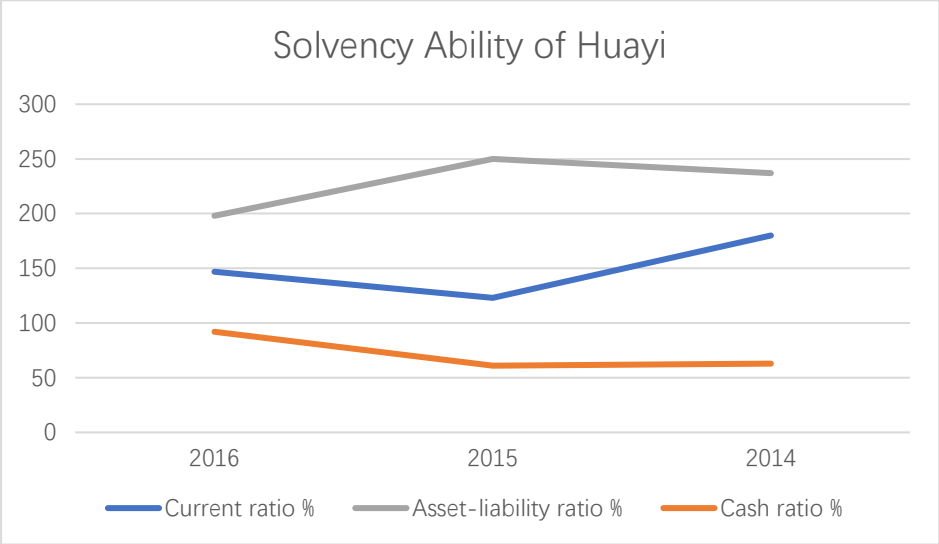


Table 6. The solvency ability of Huayi from 2014 to 2016

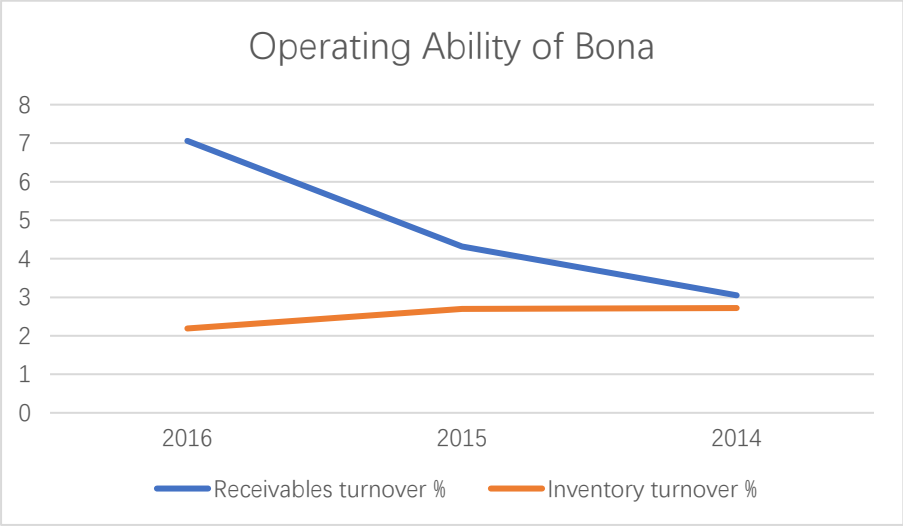


Table 7. The operating ability of Bona from 2014 to 2016

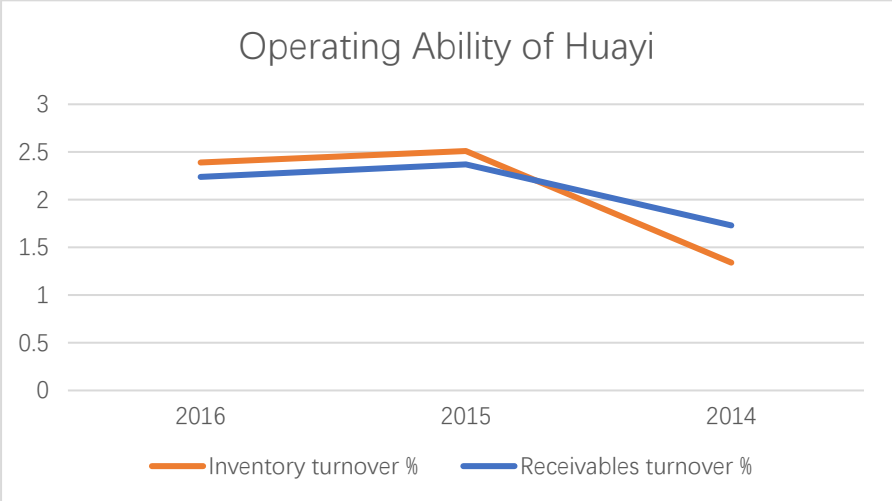


Table 8. The operating ability of Huayi from 2014 to 2016

Profitability Analysis

Operating profit margin is the ratio of business profit to total business income. Operating profit margin is a measure of the profitability of a company's operating income. It reflects the ultimate reflection of the company's operating results within a certain period of time. The higher the operating profit margin value, the better the company's profitability and the operating results. From Table 1 and 2, both Bona and Huayi's return on net asset and operating profit margin have gradually decreased, even there is a negative operating profit margin of Bona film group in 2016, which indicating that these two companies' profitability is gradually reducing.

Development Ability Analysis

If the enterprises want to survive in a certain industry for a long time, the development ability is particularly important to them. The growth rates of return on net asset and net profit are indexes which measure potential development abilities. The larger the growth rate, the stronger the potential development capacity of the enterprise. From the table 3, it can know that two kinds of growth rate of Bona both reduced a lot. So the company should pay attention to this, because of the rapid development of the media industry, the company needs to constantly seek new ways to make money. Also, from the table 4, the growth rate of return on net asset and net profit of Huayi were in negative values in 2016. That means the profitability of the company has a big problem. Not only has capacity for development not improved, it has become more difficult. For this situation, Huayi brother media group should adjust their business models according to their own conditions and external factors.

Solvency Analysis

The solvency reflects the company's ability to pay its debts within a certain period of time. Generally, the current ratio of enterprises should be maintained at 200%, indicating that the current ratio is high and the enterprise's solvency is strong. From Table 5 and 6, it can be seen that the current ratio of both Bona and Huayi in recent three years were below 200%. It shows that these two companies have low current assets, weak debt repayment ability, and insufficient cash to repay their debts.

The cash ratio reflects the ability of cash and cash equivalents to repay debts in a timely manner. The higher the cash ratio, the stronger the liquidity. Generally, the cash ratio index is better than 20%, and the cash ratio of Bona and Huayi are both above 20%. But in 2015, the cash ratio of Bona is 25% which is close to 20%, so the company should pay attention to this. In addition, if the ratio is too high, it means that the enterprise's current assets cannot be properly used, while the profitability of cash assets is low. Too high amount of such assets will lead to the increase of enterprise's opportunity cost.

Operating Ability Analysis

Receivable turnover rate is related to fund recovery activities. The level of receivable turnover rate can be used to judge the quality of capital recovery. The higher the receivables turnover rate means that the more turnovers, the faster the return of funds. It can be seen from Table 7 that Bona film group’s receivable turnover rate has been on the rise in the past three years, indicating that the company has begun to

focus on the collection of accounts receivable, making the collection of accounts receivable better and better. And as for Huayi brother media group, it can be seen from table 8, its receivables turnover increased from 1.73 to 2.24 in the past three years. Although there is a little decrease in 2016, generally Huayi's receivables turnover in the good situation. However, if Huayi's receivables turnover still be in low next year, which would cause big problem. Because the low receivable turnover means that it takes a long time to get accounts receivable. "You can't get money back in time for what you sell." It may be because the payment term stipulated in the contract is longer.

The inventory turnover reflects the management of capital recovery. Also, the higher the inventory turnover, the smaller the proportion of funds occupied by inventory and the stronger the capital recovery capacity. As can be seen from Table 7 and 8, the inventory turnover rate of Huayi bother media group's increased from 1.34 to 2.39, which showed a rising trend year by year, indicating that the inventory turnover speed of Huayi is getting faster and faster. And maintaining a high turnover level indicates that the operating efficiency of the enterprise is constantly improving. However, Bona's inventory turnover was decreasing in the past three years, indicating that the inventory capital occupancy is becoming more and more. The inventory turnover rate has decreased year by year, indicating that the company's inventory of goods has been slow-moving, and the company's capital turnover may also be difficult. When enterprises have passed the growth stage, they should develop new products in time if they want to change.

Conclusion

Bona film group and Huayi Brother media group is current more successfully film company in China. In this paper, the data are from China Financial Information network database, and this paper uses the method of trend analysis, comparative analysis and ratio analysis to evaluate the two companies' financial conditions and operating situations comprehensively. Thus, for the same kind of film company's difficulties, it puts forward some possible suggestions. Through nine financial indicators, this paper analyzes and compares the profitability, development ability, solvency ability and operation ability of the two companies. It turns out that even if the company gets a lot of financing after it goes public, it's still hard to make steady improvement and increasing in the film industry.

Finding in Profitability Assessment

Two companies' operating profit margin peaked in 2014, but they presents the downward trend year by year, corporate profitability in declining trends which on the one hand, due to the fierce market competition, commercial and import blockbusters emerge in endlessly, which makes the space of profit relatively reduced. Meanwhile, the income of the film industry has high correlation with their works. Once the work is not recognized by the market, which will bring the significant influence to the company. For example, director Zhang Yimou's film "the Great Wall" cost a lot of money, but the result suffers a Waterloo, the market response is insipid, and the film

obtained few box offices. That directly led to decrease of company's profitability.

Finding in Development Ability Assessment

In 2015, the two companies achieved relatively high speed growth, but the growth rate in 2016 showed a sharp decline, Bona 's growth rate of return on net asset fell from 0.7% to -59%, and Huayi's growth rate of net profit fell from 17.78% to -18.41%. Because the income of film industry has high directly related with their works. For example, some films released by Huayi company, such as "I Am Not Madame Bovary" and "The Death of Romance", which did not perform as well in the market as in previous years, leading to a decline in business revenues.

Suggestions for Film Company

Based on the analysis of the above financial indicators, we can see that the profitability of these two companies is weakening, and the development ability is slowing down. Therefore, they should take effective measures to improve its comprehensive financial ability. Taking Bona film group's and Huayi brother media group's financial performance evaluation as example, this paper puts forward the following suggestions to improve the financial performance for the film media industry.

Improve the Management Level and the Operating Efficiency Continuously

The film industry needs to spend a lot of resources on the production and storage of films in the development process, in order to form an intensive advantage in the market and expand market share. That is why most of film companies will choose the concentrated release of films during the prime time of the Spring Festival, Valentine's Day, and National Day. So as to do well, film company should carry out their strategic planning and layout in advance, fully focus on their market, cut in advance, and prepare the production and storage of film resources better.

Strengthen the Management and Use Efficiency of Fund

The inventory management of the film company should be done well, and the inventory management system and decision-making system of the company should be further standardized. Also, they should manage their accounts receivable and cash better, such as establish appropriate credit policies and receivable measures.

Strengthen Talent Training and Introduction

Talent is the key to the development of a film company. The film company need to establish a reasonable compensation mechanism and long-term incentive mechanism. In order to attract outstanding talents to serve the company, they should create good environment. The most important is focusing on training the key talents such as

directors, and professionals in marketing, publish, new media operations. In this way, film company could enhance the core competitiveness in the whole film industry.

Limitation of Research

However, some limitations should be noted. First of all, this thesis only selected two research subjects, Bona Film Group and Huayi Brother Media Group, and the relevant data collected was only from 2014 to 2016. The three-year data cannot tell the long-term impact of listing on the company because the time is too short. Because in a short period of time, the company may suddenly become worse due to some special financial problems, or suddenly get increasing in its financial ability because of getting al huge number of investments, which will affect the universality of the research result. When we study the impact of one thing on another, we need to collect a long period of data to analyze the trend. In the analysis of only three-year data, it cannot find any general or precise trend. In addition, the financial abilities of Bona and Huayi cannot directly represent the situation of all companies in the film industry. Therefore, increasing the number of data size for each assessment may enhance the generalizability of our findings.

Secondly, time is also a major limitation of this thesis. Since the topic chosen in this thesis is to study the financial abilities of film companies, so a great deal of knowledge of the film industry is required. Although after searching from the Internet, there is some preliminary

understanding. However, due to time constraint, it cannot find relevant experts to consult various materials in the film industry, and it also cannot contact with staffs worked in company to get some relevant information about the company. This thesis only can make simple analysis and suggestions for the film industry on basic knowledge. Therefore, for future study, it should analyze and make suggestions based on the in-depth experience and knowledge of the film industry.

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