Analysis of Enterprise Profitability——Taking Wingtech Technology Company as an Example

Jiajia Liao*, Xianxin Zhong

School of Accounting, Guangzhou College of Commerce, Guangzhou, 511363, China
*Corresponding author

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Abstract: Today in the 21st century is the era of technology and networking. Electronic technology companies have received strong support from the state, which has brought opportunities for the development of technology companies, making them continue to grow and develop. At the same time, with the help of technological innovation, more and more traditional enterprises are undergoing technological transformation, which undoubtedly brings huge pressure to technology enterprises. Therefore, if Wingtech Technology wants to gain a higher position in the fierce competition, it is very important to improve the level of corporate profitability. By analyzing the profitability of the enterprise, we can find the problems existing in the operation of the enterprise, and then solve the problem to promote the good development of the enterprise and improve the profitability of the enterprise. This article takes Wingtech Technology as the research object, analyzes its profitability, selects the financial indicators of Wingtech Technology from 2015 to 2020 for vertical comparative analysis, and combines with Keller Technology in the same industry for horizontal comparative analysis. Through comparative analysis, it is found that the profitability of Wingtech Technology is relatively weak. This paper puts forward relevant suggestions for its shortcomings, hoping to promote the development of Wingtech Technology and improve the profitability.

1. Introduction

Whether an enterprise can develop for a long time depends on its profitability. Profitability is the foundation for the survival and development of an enterprise. It represents the ability of an enterprise to obtain profits. It can help managers to find out the problems of the company's operation in time, so as to improve the efficiency of financial operations. Creditors can judge the profitability of the enterprise through the profitability of the enterprise, so as to control the risk. Therefore, it is very important to analyze the profitability of enterprises. Many scholars study enterprise profitability from different perspectives. Research on the influencing factors of profitability. Frank and Goyal proposed that there is a positive relationship between profitability and the debt ratio of assets through the analysis of factors of profitability [1]. A.S. White proposed that corporate inventory will have varying degrees of impact on the profitability of an enterprise, and an excessively high or low level of inventory management will lead to a decline in profitability [2]. Hasan found through regression analysis that corporate profitability is related to capital
structure, and an unreasonable capital structure is not conducive to performance improvement[3]. Vintila et al. found that the return on assets and equity interest rate will have an impact on the profitability of the company, and the overall structure of the company and the scale of the company will have different degrees of impact on the profitability of the company [4]. Hasanuddin found that corporate ownership structure and corporate social responsibility all have a certain impact on profitability[5]. Research on profitability analysis methods. Franco-Santos et al. proposed that the profitability of the enterprise should be analyzed in combination with the business strategy of the enterprise, and analyzed the profitability of various aspects [6]. Alexander not only added seven financial indicators such as inventory turnover ratio and quick ratio when analyzing the profitability of enterprises, but also evaluated the profitability according to the credit level of the enterprise, making the whole analysis more comprehensive [7]. Gowan found that there were some problems in the profitability of enterprises, put forward effective measures and predicted the company's future earnings. He believed that DuPont analysis system was more suitable for the profitability analysis of listed companies[8]. Research on the quality of earnings. Biddle proposed that the size of the net profit obtained by an enterprise relying on the main business to the total net profit will affect the quality of the enterprise's earnings, and it is believed that the larger the proportion, the higher the earnings quality of the enterprise [9]. Frankel's research on profitability quality found that the size of the main business's overall profit will affect the company's profitability. If the company's profits come from other than the main business, the resulting profits will be very unstable. The overall earnings quality will also deteriorate [10]. G Baschieri believes that the persistence of corporate earnings will affect the quality of corporate earnings, and the better the persistence of corporate earnings, the better the quality of corporate earnings [11].

2. Profile of Wingtech Technology Company

Wingtech Technology Co., LTD., founded in January 1993 and listed in Shanghai Stock Exchange in 2016 through the backdoor of Zhongyin. Wingtech Technology is an ecological platform for China's mobile terminal and intelligent hardware industry, and a leading 4G/5G intelligent terminal innovation and r&d platform with customers all over the world. Its business scope includes research and development and design of the Internet of Things, including mobile communication terminals, intelligent hardware, portable computers and virtual reality.

Wingtech Technology is a high-tech enterprise, and the smartphone industry is facing more uncertainties and difficulties than before under the impact of COVID-19 in 2020. GFK, an international market research agency, predicts that the sales of the fifth-generation mobile communication phones in China will account for 65% of the global shipments. IDC, a market research agency, predicts that the global smart phone market will decline by 2.3% in 2020. However, according to the current situation, the usage of mobile phone technology products will greatly increase in the future. It is very advantageous for Wingtech Technology, which owns semiconductors. Wingtech technology company in the future development to grasp their own advantages, so that they have a more competitive position in the same industry, profitability will also be improved, the company's development prospects are better.

3. Profitability Analysis of Wingtech Technology

Profitability refers to the ability of an enterprise to make profits in a certain period of time. Relevant indicators include: return on net assets to analyze the profitability of net profits, return on total assets to analyze the profitability of asset operations, operating income margin and operating cost margin to analyze the profitability of commodity operations, after-tax interest rate per share, return on capital and price-earnings ratio of other profitability.
The profitability analysis of Wingtech Technology is mainly conducted by selecting the financial indicators of Wingtech Technology from 2015 to 2020 for vertical comparative analysis, and by combining the data of Keller Technology in the same industry for horizontal comparative analysis.

3.1. Analysis of Net Profit Profitability

Net profit profitability refers to the ability of the capital invested by the enterprise owners to reap profits through operation; Simply put, it is the ability of capital to obtain premium in the capital market through the operation of various investment methods. The basic index reflecting the profitability of net profit is return on equity.

Return on equity is the percentage of net profit and average shareholders' equity. This index reflects the income level of shareholders’ equity and reflects the ability of self-owned capital to earn profits. The higher the return on equity index value is, the higher the return on investment will be; otherwise, it will be lower. At the same time, return on equity will be affected by the return on total assets, debt interest rate, capital structure and income tax rate.

The return on equity index values and changes of Wingtech Technology and Keller Technology are shown in Table 1 and Figure 1.

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<tbody>
<tr>
<td>Wingtech Technology</td>
<td>-5.78</td>
<td>1.12</td>
<td>9.49</td>
<td>1.71</td>
<td>19.51</td>
<td>9.74</td>
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<tr>
<td>Keller Technology</td>
<td>4.89</td>
<td>6.27</td>
<td>19.25</td>
<td>17.64</td>
<td>15.03</td>
<td>7.08</td>
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Data Source: Wind database

As can be seen from Figure 1, the return on equity of both Wingtech technology and Keller Technology showed a downward trend as a whole, mainly due to the increase in the cost of components in the industry as a whole, resulting in a decline in profits. In recent years, the roe of Wingtech Technology has witnessed great fluctuations. First, the return on equity of Wingtech Technology has been negative in 2015, mainly due to the influence of the acquisition of Shares of Zhongyin. In 2015, Zhongyin completed the acquisition plan of Wingtech Communication and changed its name to Wingtech Technology, resulting in significant changes in the share capital structure of Wingtech Technology. The implementation of equity incentive plan for many times has greatly increased the operating income and profit of the company, but the growth degree of its equity structure is much greater than the growth degree of its profit, so the return on equity fluctuates greatly. Secondly, there was a big gap in 2018, mainly because tariffs and raw material prices rose in 2018, which led to a sharp decline in the company’s net profit and affected the decline in roe. However, with the promotion of the acquisition of Anshi Enterprise, net profit of Wingtech
Technology showed a significant recovery, and the increase of debt cost of Wingtech Technology had a positive impact on roe, so return on equity rose to 19.51% in 2019, exceeding Keller Technology's 15.03%. With the expansion of the impact of the epidemic, Return on equity fell in 2020.

On the whole, Wingtech Technology is developing in a good direction, while Keller Technology is generally developing in a downward trend, especially since 2019, which is the time when Wingtech Technology completes the acquisition of Anshi Enterprise, indicating that the acquisition of Anshi enterprise by Wingtech Technology has a certain impact on the industry. Under the joint action of a variety of factors, although the return on equity of Wingtech Technology fluctuates greatly, it has improved on the whole, indicating that the profitability of capital operation has increased.

3.2. Asset Management Profitability Analysis

Asset operating profitability refers to the ability of an enterprise to operate assets and generate profits, which can also be interpreted as the ability of an enterprise to invest capital and obtain returns. The rate of return on investment is directly proportional to the profitability of asset management. The higher the rate of return on investment is, the stronger the profitability of asset management is; on the contrary, the weaker the profitability of asset management is. The index that can reflect the profitability of asset management is the rate of return on total assets.

The rate of return on total assets refers to the ratio of the total amount of compensation obtained by an enterprise in a certain period to the average total assets. The rate of return on total assets will be affected by the turnover rate of total assets and the profit margin before interest and tax on sales. Return on total assets refers to the overall profitability of all assets of an enterprise, including net assets and liabilities, and is used to evaluate the overall profitability of the enterprise using all assets. The higher the return on total assets, the better the asset operation efficiency of the enterprise and the stronger the profitability of the enterprise.

The index values and changes of return on total assets of Wingtech Technology and Keller Technology are shown in Table 2 and Figure 2.

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<tr>
<td>Wingtech Technology</td>
<td>-1.57</td>
<td>1.59</td>
<td>2.81</td>
<td>0.52</td>
<td>3.36</td>
<td>3.93</td>
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<td>Keller Technology</td>
<td>1.8</td>
<td>2.27</td>
<td>4.96</td>
<td>4.54</td>
<td>4.86</td>
<td>3.33</td>
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Data Source: Wind database

As can be seen from Figure 2, the return on total assets of Both Wingtech technology and Keller
Technology shows an overall upward trend, but compared with Keller Technology, the return on total assets of Wingtech Technology is lower. The return on total assets of Wingtech Technology increased in 2016, which is due to the increase of profit margin before interest and tax on sales of the enterprise, making the income increase. In 2018, the rate of return on total assets declined. On the one hand, the industry environment was not favorable. On the other hand, the turnover rate of total assets and the profit margin before interest and tax on sales of enterprises declined, resulting in a decline in earnings. The rising trend in 2020 is due to the increase in the turnover rate of total assets of enterprises, which indicates that enterprises have stronger sales ability, increase in profits, and increase in the return rate of total assets.

In general, the return on total assets of Wingtech Technology needs to be improved. The two major factors affecting the return on total assets are total asset turnover and sales EBIT. Therefore, to improve the return on total assets and enhance the profitability of asset operation, enterprises need to improve the efficiency of asset operation.

3.3. Analysis of Profitability of Commodity Operation

Profitability of commodity operation refers to the profit created by an enterprise by producing certain products for sale under the guidance of the market. Indicators that reflect the profitability of commodity operation include revenue and cost profit margin. Revenue profit margin is the ratio between various amounts of profit and revenue, and cost profit margin is the ratio between various amounts of profit and cost.

3.3.1. Revenue Margin Analysis

Revenue margin indicators include net profit margin on sales, gross profit margin on sales, profit margin on total revenue, profit before interest and tax on sales, etc. This paper mainly analyzes and compares the net profit margin and gross profit margin on sales of Wingtech Technology and Keller Technology.

The index values and changes of gross profit margin on sales of Wingtech Technology and Keller Technology are shown in Table 3 and Figure 3, and the index values and changes of net profit margin on sales are shown in Table 4 and Figure 4.

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<td>Wingtech Technology</td>
<td>17.13</td>
<td>8.02</td>
<td>8.98</td>
<td>9.06</td>
<td>10.32</td>
<td>14.7</td>
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<tr>
<td>Keller Technology</td>
<td>17.05</td>
<td>10.1</td>
<td>11.58</td>
<td>15.11</td>
<td>13.08</td>
<td>18.88</td>
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Data Source: Wind database

Figure 3: Chart of changes in gross margin on sales
As can be seen from Figure 3, the lowest point of Wingtech Technology was in 2016, which was due to the fact that the corporate structure changed significantly and the company's commodity management capacity declined as Wingtech Technology was listed in Shanghai Stock Exchange through the backdoor Of Zhongyin In 2016. After 2016, it showed an upward trend, and with the promotion of Wingtech Technology's acquisition of Anshi Enterprise, the growth rate has been significantly improved. After the acquisition, Wingtech technology began to expand semiconductor business, contact with the original customer system of Anshi, find a new sales path, so that the agency cost decreased. At the same time, Wingtech technology after the acquisition changed the original single business type, to create "ODM+ semiconductor" dual business model, further improve the gross margin level. It is worth noting that the gross profit margin of Wingtech Technology is lower than that of Keller Technology on the whole. Although the gross profit margin level of Wingtech Technology has made progress, it is still in a low position relative to the industry level, so it is necessary for Wingtech technology to improve its gross profit margin level.

Table 4: Net profit margin on sales from 2015 to 2020  

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<tr>
<td>Wingtech Technology</td>
<td>-20.09</td>
<td>1.43</td>
<td>1.98</td>
<td>0.42</td>
<td>3.32</td>
<td>4.76</td>
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<tr>
<td>Keller Technology</td>
<td>3.71</td>
<td>2.92</td>
<td>5.33</td>
<td>5.4</td>
<td>5.43</td>
<td>5.14</td>
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Data Source: Wind database

Figure 4: Chart of changes in net profit margin on sales

It can be seen from Figure 4 that the net profit margin on sales of Wingtech Technology is on the rise. The gross profit margin on sales of Wingtech Technology in 2015 is 17.13%, while the net profit margin on sales is -20.09%, mainly because the revenue of Wingtech Technology decreased significantly in 2015, while the related financial expenses, administrative expenses and sales expenses did not decrease. Make the net profit of Wingtech technology appears negative. Revenue growth in 2016 was greater than expense growth, so the net profit margin on sales in 2016 increased. Net profit margin on sales of Wingtech Technology declined in 2018, mainly due to the impact of the international economic situation and the overall downturn in the industry, the performance of Wingtech technology has suffered a certain impact. In addition, with the maturity and popularity of full-screen technology, customers have terminated the original ordinary screen projects and started new projects equipped with full-screen technology. As it takes 6-10 months to develop new products, the product gap is formed, so the number of new models released and launched in the first half of the year is greatly reduced. According to data released by the China Academy of Information and Communications Technology, the cumulative shipments of DOMESTIC ODM products decreased by 17.8% year-on-year in the first half of the year, and new models decreased by 30% year-on-year. The adjustment of customer product rhythm, the price rise of some components and exchange rate fluctuations led to the operating income and profit of Wingtech
technology in the first half of the year lower than the level of the same period last year. After 2018, the net profit margin of Wingtech technology increased gradually, and the gap with Keller Technology gradually narrowed, mainly due to the acquisition of Anshi Enterprise, Wingtech Technology ODM and semiconductor products sales are good. Overall, Wingtech technology sales net profit rate as a whole is good.

3.3.2. Cost-profit Analysis

Cost profit rate is the ratio between profit and cost, which is an important index reflecting enterprise profitability. The higher the cost profit margin, the lower the cost of the profit, and the better the cost control, the stronger the profitability. The main factors affecting cost profit rate are operating cost and operating profit.

The index values and changes of cost profit margin of Wingtech Technology and Keller Technology are shown in Table 5 and Figure 5.

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<tr>
<td>Wingtech Technology</td>
<td>-23.73</td>
<td>1.51</td>
<td>2.47</td>
<td>0.44</td>
<td>4.12</td>
<td>6.07</td>
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<tr>
<td>Keller Technology</td>
<td>4.86</td>
<td>3.45</td>
<td>6.33</td>
<td>7.31</td>
<td>6.65</td>
<td>9.71</td>
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Data Source: Wind database

As can be seen from Figure 5, the overall cost profit margin of Wingtech Technology is on the rise. From 2015 to 2016, there was a significant increase, mainly due to the significant improvement in the operating profit of Wingtech Technology in 2016, indicating that the profitability of commodity operation of Wingtech Technology in 2016 was enhanced compared with that in 2015. From 2017 to 2018, it showed a downward trend, mainly due to the following reasons: first, the change of customer structure caused the increase of operating costs; Second, the price of materials and materials increases the cost of procurement; Third, the advance research and development of the fifth generation of mobile communications led to an increase in the company's costs; Fourthly, the exchange rate fluctuation causes the overseas material purchase cost to increase. Compared with Keller Technology, the cost profit margin of Wingtech Technology is lower, but the gap between the two is gradually narrowing, reflecting that the profitability of commodity operation of Wingtech technology is relatively weak and needs to be improved.
3.4. Other Profitability Analysis

3.4.1. Analysis of After-tax Earnings Per Share

After-tax earnings per share is the ratio of after-tax earnings to total shareholder capital. After-tax earnings per share is usually used to reflect the financial results of an enterprise, but also to measure the profit level and investment risk of basic shares. Creditors, corporate managers and government can use after-tax earnings per share to evaluate the profitability of enterprises and estimate the growth potential of enterprises, so as to make relevant economic decisions. After-tax earnings per share represents realized earnings per share, so the higher the after-tax earnings per share, the higher the present value of assets owned by shareholders.

The index values and changes of after-tax earnings per share of Wingtech Technology and Keller Technology are shown in Table 6 and Figure 6.

Table 6: After-tax earnings per share from 2015 to 2020 Unit: (%)

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<tbody>
<tr>
<td>Wingtech Technology</td>
<td>-0.3</td>
<td>0.08</td>
<td>0.52</td>
<td>0.1</td>
<td>1.76</td>
<td>2.06</td>
</tr>
<tr>
<td>Keller Technology</td>
<td>0.19</td>
<td>0.27</td>
<td>1.08</td>
<td>1.28</td>
<td>0.87</td>
<td>0.45</td>
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Data Source: Wind database

Figure 6: Chart of changes in after-tax earnings per share

As can be seen from Figure 6, the after-tax earnings per share of Wingtech Technology is on the rise as a whole, and in a state of rapid rise from 2018 to 2019. The after-tax earnings per share in 2015 was negative, mainly due to the huge changes in the structure of the share capital caused by the acquisition. The growth of the share capital structure was much larger than its profit growth, leading to the large fluctuation of the earnings per share. After 2018, The after-tax earnings per share of Wingtech Technology increased rapidly, while the after-tax earnings per share of Keller Technology was on a downward trend, so the after-tax earnings per share of Wingtech Technology far exceeded Keller Technology. In 2018, Wingtech Technology completed the acquisition of Anshi. The successful acquisition of Anshi brought a certain impact to the industry, which reduced the after-tax profit per share of the industry, but this successful case can also bring reference significance to the industry. On the whole, Wingtech technology's after-tax earnings per share shows a better development trend.

3.4.2. Return on Capital Analysis

Return on capital is the ratio of the funds used by the company to the relevant returns. Return on capital can tell you how profitable a company is in its main business and whether it's a good project.
Generally speaking, the higher the value of return on capital, the better.

The index values and changes of return on capital of Wingtech Technology and Keller Technology are shown in Table 7 and Figure 7.

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<tbody>
<tr>
<td>Wingtech Technology</td>
<td>0.00</td>
<td>4.40</td>
<td>9.10</td>
<td>6.10</td>
<td>12.00</td>
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<tr>
<td>Keller Technology</td>
<td>5.00</td>
<td>7.40</td>
<td>13.80</td>
<td>14.8</td>
<td>12.5</td>
<td>6.40</td>
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Data Source: Wind database

As can be seen from Figure 7, the return on capital of Wingtech Technology is generally on the rise, indicating that the company is developing better. Return on capital is an indicator worth studying. If the return on investment is higher than the cost of capital raised by the company for the investment, then the return on investment can be obtained. Compared with Keller Technology, although the return on capital of Wingtech Technology is not as high as that of Keller Technology in the early stage, the return on capital of Wingtech Technology has been on the rise, and its profitability has gradually enhanced, and it has surpassed Keller Technology. Overall, the return on capital of Wingtech technology presents a good situation.

4. Wingtech Technology Profitability Advantages and Disadvantages

4.1. Advantages of Profitability of Wingtech Technology

Through the above analysis of the profitability of Wingtech Technology, it can be seen that Wingtech Technology has great development potential. Compared with Keller Technology, although the performance is not as good as Keller Technology in the early stage, Wingtech Technology has caught up with Keller Technology in the later stage. Overall, it has the following advantages.

First, Wingtech technology has core technology and huge customer support, so that operating profit and profitability have been increased. Since the acquisition of Anshi, Wingtech Technology has improved its market competitive position in the industry and become the industry leader of global mobile ODM. In addition to the mobile phone industry, Wingtech technology also involves cars, tablets, 5G intelligent modules. This makes Wingtech technology quickly picked up to the best state.

Second, as an asset-light enterprise, Wingtech Technology is relatively low in the cost of maintaining competitiveness. The third generation of new semiconductor products developed by
Wingtech Technology have been sold to the outside, increasing the income of the enterprise.

4.2. Disadvantages of Profitability of Wingtech Technology

Through the analysis of the above financial indicators, it can be found that the profitability of Wingtech Technology in recent years is generally rising, but the rise is relatively low compared with the industry. Overall, there are several shortcomings as follows.

First, capital operation profitability fluctuates greatly and enterprise profitability is unstable. Wingtech Technology was officially established in 2015, and from 2016 to 2018 was the repair and adjustment period of Wingtech Technology. The business structure changed greatly and the enterprise fluctuated greatly, so that the capital operation capacity of Wingtech Technology was lower than that of its peers. How to stabilize and improve the profitability of the enterprise has become a problem Wingtech Technology needs to solve.

Second, Wingtech Technology's assets operating profitability rise is small. The profit margin before interest and tax of sales of Wingtech Technology is very low in recent years, which leads to the return rate on total assets is not high. This problem may be caused by the lack of diversity of products, single form of income, and higher cost than the industry.

Third, Wingtech Technology's profitability of commodity operation is weak, so it needs to improve its ability of commodity operation. Although the commodity management capacity of Wingtech Technology is on the rise, the rise rate is low, which may be caused by high product market saturation. To survive in this rapidly changing technology era, Wingtech Technology needs to make improvements in revenue and cost.

Fourth, Wingtech technology's overall low earnings per share. Earnings per share represents the earnings per share that an enterprise has achieved. The earnings per share of Wingtech Technology has been low in recent years, which may be caused by poor internal management, old technology and low added value of products.

4.3. Solutions for Deficiencies

First, Wingtech Technology company needs to improve its capital capacity, improve the enterprise's return on total assets and return on shareholders' equity. Because the return on equity of shareholders can test the effect of shareholders' use of funds, the higher the return on equity of shareholders, the higher the investment degree, the enterprise's assets will also increase. In addition, it is necessary to improve the business structure and optimize the management mode of the enterprise.

Second, Wingtech Technology can expand multiple markets by increasing the diversity of its products and improve its operating income. It can also improve the use efficiency and turnover speed of enterprise assets and reduce enterprise costs. In addition, the operating level of current assets can be improved and the inventory of current assets can be reduced.

Third, Wingtech Technology needs to make strategic plans in terms of revenue, develop new products, increase product value and achieve sustainable development. In terms of cost, various obvious wastes can be reduced through standardization, and resources can be effectively coordinated to improve structural efficiency, thus reducing operating costs.

Fourth, Wingtech Technology Company can strengthen the internal management of enterprise managers and technological innovation, increase the added value of products, expand the market share, so as to improve the earnings of enterprises.
References