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Exploring the Financing Risks of Huayi Brothers Media Co, Ltd under the Digital Background

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ABSTRACT
In recent years, with the rapid development of the Internet and digital technology, the film and television industry has ushered in a critical period of digital transformation. However, digitization has also brought unprecedented challenges, especially in the field of financing. As one of the leading enterprises in China's film and television industry, Huayi Brothers Media Co., Ltd also faces many financing risks in the digital background. This article first introduces the impact of digital background on the film and television industry, analyzes the current financing situation of Huayi Brothers Media Co., Ltd, and then deeply explores the financing risks it faces, and proposes corresponding risk prevention and control suggestions. The purpose of this study is to provide useful references for Huayi Brothers Media Co., Ltd and other film and television enterprises to effectively cope with financing risks in the digital context.

KEYWORDS
Digitalization; Huayi Brothers Media Co., Ltd; Financing risk; Risk prevention and control

1 Introduction

With the development of society, the material consumption level of the masses is gradually increasing, and the demand for spiritual culture is also increasing, making the film and television industry a hot industry in the market. With the continuous development of digital technology, the production, distribution, and viewing methods of film and television works have undergone tremendous changes, which have had a profound impact on the business model and competitive landscape of the entire industry.

Against the backdrop of digitalization becoming an important trend in the film and television industry, the financing needs of film and television enterprises are constantly changing, and financing risks are also increasing. As one of the leading enterprises in China's film and television industry, Huayi Brothers Media Co., Ltd has attracted much attention to its financing risk issues. This article aims to provide useful suggestions for enterprises to effectively cope with financing risks in the digital context through in-depth exploration of Huayi Brothers Media Co., Ltd' financing risks.

2 Enterprise overview

2.1 Company profile

Huayi Brothers Media Co., Ltd Media Co., Ltd. is a well-known comprehensive entertainment group in mainland China, founded in 1994 and headquartered in Beijing. Huayi Brothers Media Co., Ltd' business covers multiple fields such as movies, TV dramas, music, artist management, and live entertainment, and is one of the important forces in China's entertainment industry.

In 2018, Fan Bingbing, the leading actress of Huayi Brothers Media Co., Ltd, was exposed for signing a "yin-yang contract" and engaging in tax evasion, which ignited public opinion and plunged Huayi Brothers Media Co., Ltd into a tax scandal. The stock price continued to decline throughout 2018. By the end of 2019, the market value of Huayi Brothers Media Co., Ltd had shrunk to 13.2 billion yuan, entering a period of low development. Huayi Brothers Media Co., Ltd also adjusted its business strategy accordingly, mainly focusing on film and television business and live action business. In 2020, affected by the epidemic situation again, Huayi suffered losses for three consecutive years, and is still in the dilemma of continuous losses.

2.2 The digitalization process

2.2.1 Establishment and business expansion

In 1994, Huayi Brothers Media Co., Ltd Advertising Company was established and accumulated its first pot of gold by undertaking state-owned enterprise logo design and other businesses, laying the foundation for subsequent development. In 1998, he officially entered the film and television industry and invested in the works of directors such as Feng Xiaogang, Chen Kaige, and Jiang Wen. He rose to prominence in film and television production and embarked on the path of digital exploration in content creation. At that time, digital technologies such as computer special effects began to be gradually applied to film and television production.

2.2.2 Listing and industrial layout

In 2009, Huayi Brothers Media Co., Ltd took the lead in listing on the ChiNext board. By utilizing its IPO financing, it further expanded its business territory, increased investment in film and television production and distribution, promoted the digital upgrading of film and television production, and improved the quality and influence of film and television works. In 2010, Huayi Brothers Media Co., Ltd began to set foot in the Internet entertainment sector, marking its initial attempt at digital exploration. In the same year, Huayi Brothers Media Co., Ltd opened its first cinema in Chongqing and began laying out channel construction, marking the gradual completion of Huayi Brothers Media Co., Ltd' film business chain from production, distribution, to terminal screening. In 2011, Tencent, a strategic investor, was introduced to further strengthen its layout in the Internet field.

2.2.3 In depth exploration of digitalization

With the development of the Internet, Huayi Brothers Media Co., Ltd began to attach importance to the application of digital technology in the film and television business. In 2022, Huayi Brothers Media Co., Ltd and Huasheng Tiancheng, a digital integration service provider, jointly announced a strategic cooperation to jointly explore a development model based on film and television content and digital scenes, deeply develop IP content creation and digital derivatives that can be applied to AR/VR device terminals, improve the company's digital production level and content innovation ability, and build the first brand for the development and operation of the domestic film and television virtual world (cloud content). This cooperation marks Huayi Brothers Media Co., Ltd' in-depth exploration in the field of the universe and digital.

3 Financial data analysis of Huayi Brothers media Co., Ltd

3.1 Debt paying ability analysis

Table 1 Partial indicators of debt paying ability

index	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Asset liability ratio	40.03	50.38	47.64	48.01	54.52	62.22	64.02	72.37	79.06	86.01
debt-to-equity ratio	1.67	2.02	1.91	1.92	2.20	2.65	2.78	3.62	4.77	7.22
Long term debt ratio	6.72	20.47	22.62	8.66	9.48	18.15	23.12	31.88	23.33	21.72
Cash flow interest coverage ratio	385.27	274.62	-61.95	162.38	28.82	95.69	104.68	-69.96	66.87	-32.37

Data source: Tonghuashun Finance

Film and television industry enterprises belong to the industry with a relatively high proportion of working capital in the early stage, mainly analyzing their long-term solvency.The asset liability ratio of Huayi Brothers Media Co., Ltd is showing an upward trend year by year, with a high asset liability ratio of 86.01% in 2024, far higher than the industry average. This high debt ratio not only limits the company's space for financing, but also increases its debt repayment pressure. The equity ratio and long-term debt ratio have been increasing year by year, resulting in high debt repayment pressure and weak long-term debt repayment ability. The fluctuation of the cash flow interest coverage ratio is significant, with negative numbers in recent years, indicating that Huayi Brothers Media Co., Ltd has a high level of debt and unstable profitability.

3.2 Operational capability analysis

The operational capability of Huayi Brothers Media Co., Ltd is showing a continuous weakening trend, with the core contradiction being the sluggish turnover of accounts receivable and inventory. The inventory turnover rate and total

Table 2 Partial indicators of operational capability

index	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Inventory turnover rate (times)	2.51	2.39	2.37	1.84	1.57	1.36	2.00	1.13	1.39	1.47
Total asset turnover rate (times)	0.28	0.19	0.20	0.20	0.15	0.15	0.17	0.07	0.14	0.13
Accounts receivable turnover rate (times)	2.37	2.24	2.51	2.69	3.26	3.71	3.59	3.19	3.62	2.65

Data source: Tonghuashun Finance

asset turnover rate of Huayi Brothers Media Co., Ltd have shown an overall downward trend; The overall turnover rate of accounts receivable shows an upward trend, but with significant fluctuations. The decrease in inventory turnover rate may indicate a decrease in the efficiency of inventory management, lower inventory monetization ability, a large backlog of film inventory, and difficulty for the company to obtain profits from it, leading to an increase in capital occupation.

3.3 Profitability analysis

Table 3 Profitability Indicators

index	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Net profit margin on sales	31.45	28.37	25.01	-23.36	-180.09	-71.70	-16.15	-246.69	-78.65	-61.70
gross margin	50.28	51.18	45.45	44.81	28.35	38.03	34.81	-7.30	34.22	34.99
EBIT Margin	41.28	43.41	34.75	-12.61	-155.43	-53.33	0.90	-198.77	-57.97	-40.32

Data source: Tonghuashun Finance

Although Huayi Brothers Media Co., Ltd has maintained a high gross profit margin, its sales net profit margin and pre tax profit margin have been negative since 2018, indicating that the company has been in a loss making state, which may indicate inadequate cost control or negative profits due to business expansion.

3.4 Analysis of internal financing situation

Table 4 Internal Financing Index Unit (in billions of yuan)

index	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Surplus reserve	2.97	4.04	4.49	4.49	4.49	4.49	4.49	4.49	4.49	4.49
Undistributed profits	26.39	32.00	39.01	26.49	-11.57	-22.05	-25.95	-35.46	-40.98	-43.81
total assets	178.9	198.5	201.5	183.6	108.3	96.02	70.94	52.75	40.42	30.34
Internal financing rate	16.41%	18.16%	21.59%	16.87%	-6.54%	-18.29%	-30.25%	-58.71%	-90.28%	-129.60%

Data source: Tonghuashun Finance

According to the table above, Huayi Brothers Media Co., Ltd' surplus reserves have gradually increased from 297 million yuan in 2015 to 449 million yuan, with a cumulative increase of nearly 200 million yuan. Undistributed profits have increased from 2.639 billion yuan in 2015 to 3.901 billion yuan in 2017, with a cumulative increase of nearly 1.3 billion yuan, providing a large amount of financial support for Huayi Brothers Media Co., Ltd' internal financing. However, it has gradually decreased since 2019 and will reach -4.381 billion yuan by 2024, a decrease of more than 7 billion yuan. According to the table above, from 2015 to 2018, Huayi Brothers Media Co., Ltd had a relatively high amount of internal financing. However, since 2019, due to market changes, the impact of the epidemic situation, and poor management, undistributed profits have been negative and internal financing has been negative.

3.5 Analysis of external financing situation

Table 5 Indicators for External Financing Unit (in billions of yuan)

index	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Cash received from absorbing investments	36.36	0.27	3.34	0.78	0.06	--	0.04	0.00	--	--
Cash received from obtaining loans	21.15	29.09	22.28	20.95	33.33	15.38	5.25	6.48	4.52	3.22
Cash received from issuing bonds	9.00	45.00	14.00	--	--	--	--	--	--	--
Received other cash related to financing activities	3.45	2.30	3.09	1.05	4.57	1.24	2.37	0.19	0.79	2.63
Total cash inflows from financing activities	69.96	76.66	42.72	22.77	37.97	16.62	7.66	6.67	5.31	5.85

Data source: Tonghuashun Finance

The overall cash inflow from Huayi Brothers Media Co., Ltd' fundraising activities in the past 10 years has shown a downward trend, indicating a significant decline in the company's fundraising ability. Huayi Brothers Media Co., Ltd had the largest external financing scale in 2015, reaching 3.636 billion yuan, while the scale was relatively small in other years. The funds obtained from borrowing reached a maximum of 3.333 billion yuan in 2019 and have remained at around 500 million yuan in recent years. In the past few years, Huayi Company obtained financing through issuing bonds, with a peak of 4.5 billion yuan in 2016. However, since 2018, it has not received any capital inflows through issuing bonds.

4 Huayi Brothers media Co., Ltd' financing risks

4.1 Risk of capital structure imbalance

In recent years, with the continuous operation and development of Huayi Brothers Media Co., Ltd, its asset liability ratio has shown a significant upward trend. Generally speaking, the average asset liability ratio in the film and television industry is 40% to 60%. However, as of 2024, Huayi Brothers Media Co., Ltd' asset liability ratio has reached as high as 86.01%, which far exceeds the industry average and undoubtedly brings considerable financial pressure to the company.

There are two main reasons behind this: firstly, the company has invested a large amount of funds in large-scale projects for a long time, such as the production of heavyweight films and the construction of real-life entertainment parks, which have long recycling cycles and high capital occupation; Secondly, equity financing is constrained by multiple factors such as stock price fluctuations and shareholder willingness, leading to a relative increase in the proportion of debt financing.

4.2 Market risk

The market uncertainty in the film and television industry has led to significant fluctuations in Huayi Brothers Media Co., Ltd' profitability and potential market risks.

On one hand, there is policy risk. In the context of digitalization, the government's regulatory efforts in the film and television industry are constantly strengthening, and Huayi Brothers Media Co., Ltd may face more policy restrictions and constraints in its business operations.

On the other hand, there is the risk of competition. Under the wave of digitization, the competitive landscape of the film and television industry has undergone tremendous changes. Traditional film and television production companies have increased their investment in digital transformation; Internet technology giants have crossed into the film and television field and seized market share by virtue of their strong capital, technology and flow advantages.

4.3 Single financing structure

In the current financing structure of Huayi Brothers Media Co., Ltd, it is not difficult to find that it relies too much on bank loans and its own funds to support the operation and development of the enterprise, and this single financing model carries certain risks.

5 Suggestions for financing risk management

5.1 Optimize capital structure and reduce asset liability ratio

Huayi Brothers Media Co., Ltd should take multiple measures in parallel, adjust its capital structure to reduce its asset liability ratio, and improve its financing capabilities.

On the one hand, the scale and term structure of debt financing should be reasonably determined based on one's own operating conditions, profitability, and debt paying ability, in order to avoid excessive reliance on debt financing leading to a high asset liability ratio. Accelerate the promotion of equity financing projects such as private placement plans, attract financial support from strategic and institutional investors, optimize the company's equity structure, reduce the asset liability ratio, and enhance the company's capital strength and risk resistance.

On the other hand, non core assets should be disposed of reasonably, such as selling some idle properties, land, subsidiary equity, etc., which have low relevance to the main business, weak profitability, or occupy a large amount of funds. The proceeds should be used to repay debts or supplement working capital to optimize asset structure and reduce financial risks.

5.2 Strengthen business management and enhance market competitiveness

Huayi Brothers Media Co., Ltd needs to enhance the profitability of its main business, improve market competitiveness, and attract financing. Strengthen the core competitiveness in film and television content creation, understand audience needs and market trends through in-depth market research and accurate user analysis, increase investment in the research and development of high-quality scripts, create more popular works, and improve the quality and market competitiveness of film and television works. Optimize the cost control of film and television projects, strictly control costs and schedules from project planning, filming and production, to distribution and marketing, to ensure that projects can be completed on time and achieve good economic benefits.

5.3 Strengthen financing plan management and diversify financing methods

Enterprises need to raise sufficient funds to meet their production and operation needs, but raising more funds does not necessarily mean that more is better. Huayi itself has already increased its debt cost due to raising too much funds. From the long-term debt repayment ability indicators above, it is already facing huge financial risks brought by fundraising activities.

In order to reduce financing risks, Huayi Brothers Media Co., Ltd needs to have a deep understanding of the dynamics of the capital market and the needs of investors before financing. Based on the actual situation of the company and the funding needs of digital transformation, sufficient research and demonstration should be conducted on the financing plan to ensure its rationality, feasibility, and attractiveness. Then the company should also use diversified financing methods to meet the funding needs of different stages of digital transformation and reduce the risks brought by a single financing method.

6 Conclusion

In the context of the booming development of digitalization, Huayi Brothers Media Co., Ltd is at a crossroads where opportunities and challenges coexist. By analyzing its financial data and financing status, it can be concluded that the characteristics of the film and television industry, corporate strategic decision-making, and complex external environment collectively give rise to numerous financing risks that threaten the foundation of the company's survival and development. However, there is a turning point in the crisis. If Huayi Brothers Media Co., Ltd can optimize its capital structure, expand diversified financing paths, and strengthen the use of funds in a targeted manner, it is expected to break through the financing difficulties, reshape its competitiveness, and achieve steady upgrading of its film and television main business and coordinated development of digital innovation. This is not only of great significance to Huayi Brothers Media Co., Ltd, but also provides valuable reference for peers in the film and television industry to cope with financing difficulties under the digital wave, helping the Chinese film and television industry to embark on a new journey of high-quality and international development with the help of capital, and meeting the growing spiritual and cultural needs of the people with more high-quality works.

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