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Hengdian Entertainment Co., Ltd Profitability Analysis in the Post-Pandemic

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ABSTRACT
The analysis of profitability is often needed among listed companies, which affects the development and future of listed companies. In many aspects of financial analysis, profit analysis plays a significant role, which brings huge decision-making direction to the socialist market economy, small and medium-sized investors and creditors. In order to effectively guide the company's profitability, this paper analyzes the profitability of Hengdian Film and Television by searching documents, conducting data collection and analysis, and deeply studies and ponders its development direction, and puts forward effective suggestions for the future development of the film and television industry. Finally, we also hope to use Hengdian Film and Television as an introduction to promote the major listed companies to make profit decisions as soon as possible in the future development to achieve the company's profit goals.

KEYWORDS
Hengdian film and television; Profitability; Development directz

1 Introduction

The times are constantly evolving. With economic growth and technological advancement, China's internet infrastructure has become highly developed. Yet it is undeniable that the domestic film and television industry market has encountered numerous difficulties and repeated crises. Notwithstanding these challenges, a steady upward trajectory remains discernible in the overall situation of China's economy. Within this context, China's film and television industry continues to enjoy considerable recognition. Therefore, this paper will undertake an analysis of the sector's development.

2 Theories pertaining to profitability analysis

2.1 Theories pertaining to profitability concept

Profitability analysis involves examining a company's achievement of its profit targets over a single year or consecutive years. It entails obtaining precise figures for a detailed assessment of profitability analysis primarily encompasses three analytical methods: ratio analysis, trend analysis, and structural analysis. For this study, the ratio analysis method was adopted. This approach focuses on key indicators such as the operating profit margin and cost-to-profit ratio. By synthesizing these metrics, relevant conclusions can be drawn, which will ultimately contribute to formulating a more robust, accurate, and promising profitability forecast for the company's future growth.

2.2 The implications of profitability analysis

Like individual notes in a score, each metric gains unique meaning through different combinations, composing the distinct symphony of a company's evolution. A scientific and rational profitability analysis reflects a company's net capital returns and value appreciation status, which will facilitate the implementation of both operational decisions and financial plans.

3 Background of hengdian entertainment co., ltd studios

3.1 Background of hengdian entertainmentco., ltd

Founded in 2009, Hengdian EntertainmentCo., Ltd Studios became publicly traded on the Shanghai Stock Exchange in 2017 and is recognized as a major film and television corporation in China. Currently, Hengdian Entertainment Co., Ltd Studios has a total share capital of 634 million shares. Its total assets (Q3 2022) reached 4.959 billion RMB, with a net profit of -106 million RMB.

The company was a leading enterprise in the film and television industry. Established in January 2009, it was wholly funded by the Hengdian Group, a very large private enterprise. The Hengdian EntertainmentCo., Ltd has ranked among the top eight cinema chains in China and aims to build itself into a powerful brand renowned both domestically and globally. However, like many industries hit hard by the sudden outbreak of the pandemic, Hengdian Entertainment Co., Ltd Studios was no exception. Its future direction, path to profitability, and strategies for maintaining earnings have since sparked widespread reflection within the film and television industry.

3.2 Hengdian entertainment co., ltd analysis of profitability indicators

3.2.1 The allure of the "gross profit margin"

The reason it is considered "fascinating" lies in the significant impact that both the positivity/negativity and the magnitude of this metric have on a listed company, making it a ratio that management follows with utmost attention.

The gross profit margin is a key indicator of a company's direct profitability.When viewed over an extended period, it becomes clear that Hengdian Entertainment Co., Ltd profit margin maintained relatively strong levels in Q3 of 2021 and 2022, despite the downturn in 2020. This sustained recovery, transforming the ratio from negative to positive for two years running, has bolstered its credibility and earned it a degree of market approval.The table one below presents the company's specific corresponding values and gross profit margins from recent years in a tabular format：

Table 1 Analysis of selected data from the income statement of hengdian entertainment co., ltd studios

TIME	2022-09-30	2021-09-30	2020-09-30	2019-9-30
Operating Revenue	1.226billion	1.827billion	0.4266billion	2.131billion
Cost of Revenue	1.225billion	1.501billion	0.8134billion	1.675billion
Gross Profit Margin	0.08percentage	17.84percentage	-90.67percentage	21.40percentage

Source: East money information

In the third quarter of 2022, the company's gross profit margin stood at 0.08%. Compared to the overall film and entertainment sector, Hengdian Entertainment Co., Ltd Studios maintained a positive gross margin, outpacing several of its listed competitors. As a fundamental measure of direct profitability, a gross profit margin falling into the negative serves as a clear warning of operational losses.Its calculation involves the gross profit on sales and net sales.According to its previously published data,the company reported an operating revenue of 1.226 billion RMB and an operating cost of 1.225 billion RMB. Applying the gross profit margin formula—(Operating Revenue - Cost of Revenue) / Operating Revenue * 100%—the calculated result is 0.08%. With the exception of 2020, when the gross margin fell into negative territory, it has remained positive at all other times.While this is encouraging, it is essential to consider the broader industry context. According to previously released news, Guangzhou Jinyi Media Corporation profit margin for the same quarter was -5.86%. In stark contrast, Zhejiang Huace Film and TV Co., Ltd reported a third-quarter margin of 36.97%, placing it near the top of the industry. Huace's operating revenue was 1.465 billion RMB against operating costs of 923.4 million RMB. This significant disparity likely gave Hengdian World Studios not only cause for reflection but also a sense of urgency regarding its own competitive development.The fact that Hengdian Entertainment Co., Ltd Studios maintained a positive gross profit margin during a challenging period is undoubtedly a positive outcome.The company generated substantial operating revenue through film distribution, theatrical screenings, and related derivative businesses. This robust revenue base positively influenced the gross margin, contributing favorably to this key financial indicator.

3.2.2 The emerging "net profit margin"

For a listed company, the net profit margin is a ratio of net profit to operating revenue. Analyzing this metric provides a better measure of a company's excellence and operational strength. Given that the total operating revenue has not fluctuated significantly, I believe it is imprudent to hastily define the company's developmental trajectory in recent years, or even its future direction, based on this single metric. Greater attention should be paid to the evolution of Hengdian Entertainment Co.,Ltd Studios' net profit across several annual periods, followed by a detailed analysis. The data from the table two above can be visualized in the chart below:

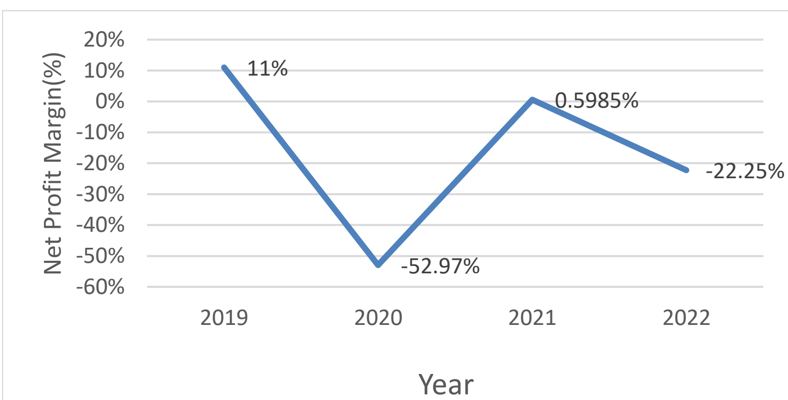

Figure 1 Net profit margin trend chart for hengdian entertainment co.,ltd(2019-2022)

3.2.3 Source: east money information

Hengdian Entertainment Co.,Ltd Studios aims to foster confidence in its net profit by ensuring its steady growth. This "Steady" state refers to maintaining an already sound baseline, a crucial objective for any profitable company.

Furthermore, I believe that management also aspires to build upon the foundation laid by their predecessors and reach new heights.As we can see from the trend line in the chart above, the company's net profit margin reached a deeply negative value in 2020, following a significant plunge that began in 2019. However, the company's net profit margin returned to zero in 2021, which is a reassuring sign.This indicator reflects the immense pressure the company was under that year. It's likely that the firm had to rely entirely on its own financial reserves to sustain operations under extremely challenging conditions.Turning to 2022 (Q3), the net profit margin dipped slightly below 0%, which came as a modest disappointment compared to the previous year. However, this doesn't negate the company's growth and the considerable efforts made in its operations.

It is common for enterprises to experience periods of negative net profit during unfavorable social conditions. Companies exhibit varying levels of operational strength and financial resilience; some are cushioned by significant cash reserves, while others are constrained by high debt. Although such measures might offer short-term viability, they are inherently unsustainable.As early as 2023, Hengdian Entertainment Co.,Ltd Studios owned over 200 five-star film studios. This extensive asset base provided a foundation for survival even amidst complex social challenges. However, Hengdian Entertainment Co., Ltd Studios holds significant advantages for its recovery and development. From this perspective, it remains a promising prospect worthy of our support and optimism.

3.2.4 Revisiting the "operating profit margin"

The operating profit margin metric, calculated as Operating Profit divided by Operating Revenue, serves as a crucial indicator of business efficiency. Senior executives utilize this figure to evaluate operational profitability, thereby serving as a vital tool for strategic oversight.

Table 2 Selected Data Analysis: Hengdian World Studios

TIME	2021	2020	2019
Operating Profit	10.68billion	-0.5423billion	0.3628billion
Operating Revenue	2.283billion	0.9094billion	2.934billion

Source: East money information

In the financial statements disclosed in 2021, the company's operating profit margin (1068/22.83) was 0.47%, while in 2020, its operating profit margin (-5.423/9.094) was -0.006%. When observing the change between these two ratios, it is hard not to think that the company is showing a positive trend.Indeed, that is exactly the case. From 2019 to 2020, many senior executives, including the company's actual controllers, continuously adjusted their operational strategies and methods to adapt to the prevailing circumstances. As we learn in financial accounting, the operating profit margin reflects a company's ability to generate profit from its operations. A higher ratio indicates stronger profitability for the enterprise.

The significant loss incurred in 2020 was primarily attributed to a sharp decline in revenue, as the company's operating conditions were severely depressed that year, prompting them to begin paying serious attention to this issue. In the vast business environment, only the fittest survive, and the elimination mechanism is constantly at play. Meanwhile, Hengdian Entertainment Co.,Ltd incorporated various project transactions into its adjustment plan and also achieved a turnaround through the injection of new shareholders.

Meanwhile, the company has incorporated its various past project transactions into the adjustment plan and also achieved a turnaround by introducing new shareholders. The 2021 financial report reveals that the newly introduced shareholders possess significant potential advantages. Leveraging the development momentum it had established before September 2019, Hengdian Entertainment Co., Lid gained considerable favor, and the active investment from these shareholders provided the company with an opportunity to be revitalized.Hengdian Entertainment Co.,Ltd can increase its market capitalization by buying and selling its own shares. As stock prices rise, it is only natural that the investment returns for us investors will increase. Furthermore, the company can indeed conduct private placements of shares, which would undoubtedly help it find more favorable opportunities for growth and development in this fiercely competitive stock market.

4 Analysis of hengdian film's current profitability

4.1 Constrained by the overall context

Based on the financial analysis of this film company over the past years, it can be observed that its actual development trajectory has been significantly influenced by substantial changes in the environment. Adapting to the times is a perpetual theme. Other related players in the same industry are also experiencing extremely sluggish conditions. Some, unable to adapt to the current environment, have ultimately had to either switch industries or shut down entirely. The company's development is constrained by external circumstances, and without the ability to respond promptly, its subsequent decisions appear equally powerless.

The macro-background here is the "pandemic," which initially emerged at the end of 2019 and reached an unprecedented scale in 2020, dealing a significant blow to the company. Therefore, neither national governments nor enterprises and institutions were able to respond promptly, leading to the situation described above where they hit rock bottom. In such perilous circumstances, the company's executives were utterly shocked. They felt as if everything was hanging by a very thin thread overnight, and with one misstep, all of the company's assets could vanish into thin air.。

For listed companies, they are capable of prioritizing profit maximization as their goal during operations. Driven by such interests, most senior executives share common interests and goals, and will actively explore methods to foster the company's growth. The future of Hengdian Entertainment Co., Ltd lies in the hands of its senior executives. Thus, during frequent pandemic outbreaks, a sound operational system can provide crucial support. This will undoubtedly help the company regain its vitality and gradually return to its former glorious state. In such circumstances, we can see that the internal management strategies of film and television enterprises become particularly critical.

Even during the peak of the New Year season, most cinemas remained deserted, leading to a sharp decline in Hengdian's revenue. At the same time, the company's fixed expenditures showed no signs of reduction, and issues such as equipment maintenance arose, resulting in an extremely negative impact. The persistence of these issues gradually makes it harder for the industry to grow amid adversity. This precisely demonstrates that Hengdian Entertainment Co.,Ltd had numerous shortcomings and inadequacies in its handling methods over the past year, requiring improvement and further study. Therefore, a robust and effective management system is the foundation for a company's growth and expansion.

After experiencing the major outbreak in 2020, Hengdian Entertainment Co.,Ltd is even more confident in its ability to cope with sudden social changes.It has consistently maintained operational integrity in its financial statements and disclosures.This major social pandemic event has sufficiently demonstrated how solid the company's foundation once was, enabling it to endure through the most challenging year of 2020.As shown in Table 3, data from East Money reveals that Hengdian Entertainment Co.,Ltd has several categories of main products, which appear to be performing quite well.

Table 3 Analysis of hendian entertainment co.,ltd structure sections

Main Products	Revenue(RMB)	Ravenue share percentage
Film projector business	0.539billion	64.69
Agency, Entertainment services	94.9284million	11.40
Selling business	84.2864million	10.12
Film and television production and distribution business	70.1805million	8.43
Advertising business	43.8924million	5.27
Film distribution business	0.7923million	0.10

Source: East money information

Moreover, it is quite normal for a major film and television company like this to encounter significant challenges. Throughout this process, it is essential to learn from setbacks, seize the present moment, and dare to explore new horizons. Although the film and television industry has experienced unstable development in recent years, such as in 2022, it remains an extraordinary period. The volatile broader environment has left many feeling confused and uncertain, and there are still numerous challenges ahead.Of course,high risk also means high reward.Based on the data above, it can be said that the company still holds the potential to regain its glory in the film and television industry. We all hope that the company can achieve steady and sustainable growth by 2026.

4.2 Poor industry situation

Apart from unfavorable environmental factors, the entire cultural and film industry has also frequently witnessed negative news or developments. In recent years, issues within the film and television industry have frequently been trending at the top of search lists.The current issues in the film industry can be summarized into the following five aspects:

The first is that the film industry is blindly chasing after big-budget and grand scenes, neglecting the essential attribute of films - story-telling.Among the movies we are familiar with, such as "Dangal / Wrestling competition", this film is from India, but it has achieved a huge box office explosion in our country. This further indicates that what can most touch the audience in a film from beginning to end is its storyline, rather than its elaborate packaging. If the story lacks refinement, it will eventually become a mediocre film. The works created by Hengdian Entertainment Co., Ltd are no exception.

The second is that the film industry lacks sincerity in production, where bandwagoning is extremely prevalent, resulting in a lack of innovation. Not long ago, a particular film genre experienced a massive box office success and became a major talking point. However, it was unexpected that for a long time afterwards, other studios rushed to imitate it. Even this New Year, multiple movies of the same type were released. They share similar themes and show little difference, resulting in a high degree of similarity and a clear lack of originality.

The third is that the film industry has somewhat drifted away from traditional culture, and there are relatively few films that genuinely resonate with everyday life.After all, reality is the landscape people know best. Only by focusing on real life can film truly resonate with the audience. These days, the films showing in theaters are mostly comedies, historical dramas, gunfight action movies, or youth films.

The fourth is that the industry lacks real talent. There are plenty of big-name celebrities, but how many have real craft? These heavily marketed stars pale in comparison to the true artists of the past in terms of skill and depth. With so many amateurs-turned-actors now dominating the scene, it's no wonder fans are worried about the future of film.

The fifth is that Chinese film s still have room for growth in its production. The entire industry remains largely bound by the dichotomous concepts of "commercial films" and "art films." Mature genre directors and highly successful genre films have yet to fully emerge. The pace of development cannot afford to stall, as to "stop" would mean facing acquisition or an even grimmer fate. Therefore, the Chinese film industry must continue to explore and learn.

4.3 The company's internal architecture is unsound.

As a leading film enterprise, Hengdian Entertainment Co.,Ltd possesses considerable capital reserves.While remaining the paramount force in the film and television sector, the company's inherent problems remain too significant to ignore. This comes at a time when the ongoing socio-economic transition in China is driving a profound reorganization of corporate structures throughout the nation's industries.

The film and media sector is undergoing accelerated expansion, which has propelled the evolution of many ancillary industries and is moving toward a fully integrated industrial chain.The film and media sector's rapid financial growth is accompanied by significant risks. Robust internal controls and risk assessment are essential to prevent a recurrence of the 2017 misstep, when the company over-invested in lower-tier cities (Tiers 3-5). These markets, with their limited capacity already dominated by giants, proved to be a bottomless pit, inflicting severe losses on Hengdian Pictures. This underscores the urgent need for structural reform and more prudent decision-making.

In addition to the challenges of long lead times, heavy workloads, and complex shoots inherent to film making, a fully realized industrial chain is critically dependent on post-production. It constitutes a foundational element of the industry and is an integral driver of its development.If the film and television production sector can be successfully developed, it will serve as a catalyst for Hengdian's industrial transformation and upgrading, enabling a holistic synergy across the entire value chain.At present, development in this area is still embryonic.This issue constitutes an inherent vulnerability within the company's development model. It prevents Hengdian Pictures from establishing a fully integrated value chain, while simultaneously binding it to geographical and talent-related constraints. Without a solidified post-production segment, its competitiveness remains substantially inferior to the film industries of metropolitan centers such as Beijing and Shanghai. The conspicuous disconnection within its industrial chain is the strategic pivot point; addressing it is essential for Hengdian to potentially execute a decisive "corner-turn" and reverse its fortunes in this arena.

5 Improvement suggestions

5.1 Strengthen the internal governance structure of enterprises

It is also imperative for the film and television industry to establish and enhance its internal control system. This can be approached through a three-phase framework: pre-emptive prevention, in-process control, and post-event supervision.In the pre-emptive stage, it is essential to implement a scientific financial control framework. Film and television enterprises should adapt and innovate their financial management by drawing on the proven experiences of listed companies.For in-process control, effective capital management is critical, as it serves as the lifeblood of any business.We can implement appropriate authorization limits for capital expenditure and establish a robust management framework.For example, by leveraging investments and financing, a film enterprise can optimize the allocation of its funds, with the goal of ensuring the rational and highly efficient use of its monetary resources.Lastly, there is the critical stage of post-event supervision. After a major economic project is completed, the company's supervision department must audit the authenticity of the business activities as per supervisory protocols and provide prompt feedback. This involves a review to confirm the proper implementation of related calculations, expected targets, product credit policies, and inventory control measures.

5.2 Intensify the punishment within the country

The recent prolificacy of improper practices among film and television studios has had a deleterious impact on the industry's creative output, stifling the emergence of refined works. A significant contributing factor is the lack of sufficiently stringent punitive measures. Thus, the implementation of strict and effective regulatory oversight over production companies is essential to curb the occurrence of such misconduct.

Firstly, it is essential to establish quantifiable assessment standards for film and television enterprises, ensuring that relevant regulatory bodies carry out their supervisory duties effectively. The industry could appropriately raise the entry barriers for practitioners, placing theoretical knowledge and ethical integrity on an equal footing. Secondly, the sector's development requires a transparent professional environment; regulators must foster a clean and healthy ecosystem for the industry. Furthermore, it is necessary to impose stringent penalties on those production companies that frequently violate laws and regulations. At the same time, film and television companies must preserve their independence and engage in honest introspection regarding their internal issues. This is fundamental to devising methods to elevate their staff's professional quality and moral integrity. For every creator, a well-defined system for evaluating and promoting talent is especially critical. In conclusion, the codes and regulations pertaining to the film and television industry must remain dynamic and current. This provides all personnel with a definitive legal basis for their professional conduct, thereby upholding integrity and order within the industry.

5.3 Actively respond to national policies

While strengthening internal management, companies must not overlook the preferential policies provided by the state. As the saying goes, "Only when all flowers bloom together can the garden be full of spring." For the film industry, the year 2022 saw both the Chinese government and its 31 provincial-level regions issue relevant directives, emphasizing the goal of building China into a leading film power by 2035. Consequently, the film sector has become a key module in the development of the cultural industry.

The Chinese policy framework in this domain is built upon four strategic pillars. The first demand is a steadfast adherence to a correct orientation. This entails a people-first approach, with the overarching goal of elevating the populace's cultural and spiritual fulfillment. Accordingly, it provides incentives and recognition to production companies that deliver refined works catering to the populace and reflecting their realities. The second pillar necessitates a comprehensive overhaul of the institutional frameworks. This is aimed at perfecting the market structure of the cultural and creative industries for film and television, which will unleash endogenous drivers for the industry's persistent expansion and propel a holistic synergy throughout the 'Investment, Loan, and Reward' financing model. The third objective is to enhance operational efficacy. This entails strengthening overall coordination across all aspects, providing substantial support, and ensuring the precise alignment of resources both vertically and horizontally. It also involves promoting the integrated development of the film and television industry with related sectors, thereby providing support for the construction of a new system.The fourth direction is to open avenues for the industry's transformation. We must push studios to capitalize on their core advantages and actively explore spin-off industries. They need to stay current with the times, perfect their IP value chains, and enhance their ability to monetize IP. This support is vital for helping film companies recover their strength and thrive.

6 Conclusion

The capability to promptly and effectively manage unforeseen events is of paramount importance to a corporation's survival and development. It constitutes the essential foundation for its continued existence and the linchpin for perpetuating its organizational vitality, critically influencing the firm's ability to ensure its resilience and long-term prosperity within an intricate and arduous competitive environment. Amidst such rapid economic and social progress, only proactive and adaptive policies can enable a company to recover more effectively. Some listed companies have already begun making positive explorations in this regard.

Hengdian Entertainment Co., Ltd proactive approach has undoubtedly set an exemplary model for all other film and television companies. Only by proactively aligning with national policies, progressively optimizing their operational structure, and expanding and strengthening their industries can companies better adapt to the times and secure an invincible position in the fierce competitive landscape.

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