American Journal of Business, Economics and Management
2018; 6(4): 138-141
http://www.openscienceonline.com/journal/ajbem
ISSN: 2381-4462 (Print); ISSN: 2381-4470 (Online)

Analysis on the Financing Strategy of Technology-Based Listed Companies

Wei Li, You Li

College of Mathematics and Finance, Hunan University of Humanities, Science and Technology, Loudi, China

Email address
2243667055@qq.com (Wei Li)

To cite this article
Wei Li, You Li. Analysis on the Financing Strategy of Technology-Based Listed Companies. *American Journal of Business, Economics and Management.* Vol. 6, No. 4, 2018, pp. 138-141.

Received: December 5, 2018; **Accepted**: January 10, 2019; **Published**: January 19, 2019

Abstract

Since a considerable part of domestic scientific and technological achievements have not been effectively translated into practical applications, science and technology are in the lower position of economic growth contribution rate, which make it difficult for technology-based companies to finance and became a recognized practical problem in the industry. We will analyze the financing status of Chinese technology-based listed companies in combination with the financial data of XX listed company, find out the financing problems of technology-based listed companies, analyze the important influencing factors of the financing of Chinese technology-based listed companies and make recommendations.

Keywords

Technology-Based Listed Company, Financing Structure, Financing Strategy

1. Introduction

In China, technology-based companies have become an important force to promote national and regional economic development, industrial structure upgrading, and participation in international competition. However, technology-based listed companies generally face financing difficulties, which directly affects the development. Wen Guangping (2016) used the cross-sectional data of Shanghai and Shenzhen listed companies to analyze various factors determining the financing structure [1]. Lan Hong et al. (2014) analyzed the factors affecting the financing of technology-based listed companies by using the asset-liability ratio as a dependent variable. The empirical analysis showed that when other variables were kept unchanged, the profitability of technology-based listed companies was positively correlated with the asset-liability ratio; while the effect of growth and equity concentration on the financing structure was not obvious [2]. Therefore, we will analyze the financing status of China's technology-based listed companies in combination with the financial data of XX listed company, find out the financing problems of technology-based listed companies and make recommendations.

2. Financing Status of Chinese Technology-Based Listed Companies

In the market economy, the financing methods of companies can be divided into two types: endogenous financing and external financing. The endogenous financing converts the company's own internal savings into investment, has certain autonomy and low cost. The external financing means that companies raise funds from other economic entities. However, Chinese technology-based listed companies take debt financing and equity financing in external financing.

2.1. The Financing Status of Chinese Technology-Based Listed Companies

The ratio of internal financing, equity financing and debt financing between China and US technology-listed companies in 2012-2017 are shown in Table 1.

Table 1. *China and US technology-listed companies financing statagy (unit: %).*

	Internal financing ratio		**Shareholding ratio**		**Share of debt financing**	
	China	**US**	**China**	**US**	**China**	**US**
2012	21.3	61.92	38.27	13.78	40.43	24.3
2013	21.66	62.77	38.39	13.54	39.95	23.69
2014	21.74	62.89	37.28	13.2	40.98	23.91
2015	22.32	63.1	37.33	13.33	40.35	23.57
2016	22.58	63.34	36.25	13.46	41.17	23.2
2017	24.12	63.23	35.63	13.64	40.25	23.13

Data source: compiled by wind information financial terminal data

From Table 1, we can see that Chinese technology-based listed companies have a lower internal financing ratio than the United States. The proportion of debt financing in external financing is higher than that of equity financing. There is a preference for debt financing. In external financing, the proportion of equity financing in China is farther than that in United States.

2.2 Analysis of the Current Situation of Financing of XX Listed Company

1. Analysis of major financial indicators. The assets of XX listed companies have grown year by year since its establishment. In June 30, 2016, the total assets were 83.504 billion yuan. The company's profitability had also increased year by year, from 7.444 billion yuan in 2013 to 22.38 billion yuan in 2015. From the short-term debt repayment indicators, as of the end of 2014-2016, the company's current ratio was 1.99%, 0.93% and 0.80% respectively. The company's quick ratios was 1.96%, 0.90% and 0.77%, respectively. The current ratio and quick ratio was declining. From 2014 to 2016, the company's asset-liability ratio was 84.69%, 80.42%, and 82.61%, respectively. The main reason for the higher asset-liability ratio of the company is that the company's debt scale has increased significantly with the rapid growth of the company's business scale.

2. Analysis of asset turnover capacity. The turnover rate of accounts receivable from 2014 to 2016 increased from 25.11 times/year to 44.34 times/year. Inventory turnover rate has also increased from 8.9441 times/year to 9.0389 times/year. The turnover rate of accounts receivable was relatively high. In 2016, it reached 44.34 times/year. In the past two years, the company's inventory turnover rate was also higher than the average and median level of comparable companies in the same industry.

3. Analysis of Profitability. In 2014-2016, the company realized investment income of 12,241,100 yuan, 3,071,740 yuan and 9,562,000 yuan, net profit of 598,464,900 yuan, 1,281,390,300 yuan and 1,732,277,900 yuan. Overall, the company's operating conditions were good, and the net profit achieved continues to grow steadily. It can be seen from the report that the company's return on net assets and return on total assets have not changed much in the past three years.

2.3. Analysis of Financing Strategy of XX Listed Company

XX listed company faced a problem in the initial development, from the initial free upgrade to the payment of products, leading the number of users of the book to grow slowly and form a financial dilemma. Therefore, the company successfully raised funds of 1.205 billion yuan in 2001, and issued convertible corporate bonds twice in 2004 and 2010. In 2009, the company's liabilities were 1.39 billion yuan, total assets were 5.85 billion yuan, and the debt ratio was around 23.7%. Together with the advantages of convertible bond issuance, XX listed company re-issued convertible bonds after a lapse of six years.

2.4. Analysis of Financing Problems of XX Listed Companies

1. Analysis of problems in the level of debt financing. XX listed company is in a typical capital-intensive industry and the most common financing channel is bank loans. The company's asset-liability ratio of more than 80% for many years has seriously affected the stable development of the company. XX listed company has a large investment and long cycle, so debt financing is of great significance to the normal operation of enterprises. A reasonable debt ratio can reduce the company's capital cost and improve the company's market value and performance. A high asset-liability ratio may result in a company's lack of cash flow, a broken capital chain, liquidity risks, and increasing financing costs.

2. Analysis of the problem of the debt maturity structure. Most of the projects of XX listed company were long-term projects. The company's 3-5 years long-term liabilities accounted for 8.08% of total liabilities. The company needs to further adjust the ratio of short-term liabilities and long-term liabilities.

As of the end of 2015, the balance of interest-bearing liabilities of the company was RMB 376,219,780,000, and liabilities for one year and above and 1-3 years accounted for 91.92%, and long-term liabilities for 3-5 years accounted for 8.08%.

XX listed company mainly relied on bank loans and stock market financing, the financing channel was relatively simple. Bank loans accounted for more than 70% of corporate investment funds, mostly limited to short-term loans. The company's debt maturity structure was unreasonable, mainly because its debt structure could not match the project development cycle. By comparing the length of the project and the length of the debt cycle, it is clear that the two do not match. In the future, the company would face the risk of long-term projects without sufficient funds.

3. Influencing Factors of Financing Structure of Technology-Based Listed Companies

3.1. The Profitability Is Positively Related to Their Debt Levels

Table 2. *Some financial indicators of XX listed companies (unit: billion).*

Project	2016-12-31	2015-12-31	2014-12-31	2013-12-31
Total assets	835.04	701.73	462.29	327.11
Total liabilities	689.82	564.31	391.51	284.13
Total debt	414.71	376.25	202.61	137.01
Owners' equity	145.22	137.42	70.79	42.98
Asset-liability ratio (consolidated statement) (%)	82.61	80.42	84.69	86.86
Debt capital ratio (%)	72.15	73.25	74.11	76.12
Operating income	40.92	223.80	138.94	74.44
Operating profit	4.73	23.49	18.77	8.87
Total profit	4.91	23.60	18.39	8.91
Net profit	3.17	17.33	12.82	5.98

According to the analysis of XX listed company shown in Table 2, the company's profitability shows an increasing trend year by year. The operating income is increasing year by year, and the company's asset-liability ratio in 2013-2016 is over 80%, the highest year even reached 86%. Compared with the same industry and even listed companies as a whole, this is a very high level. We think it might has two reasons. One is that Chinese technology-based listed companies have strong profitability which can withstand higher debt levels. The other is tha Chinese policy encourages listed companies to make dividends, and technology-based listed companies make large dividends, which also results in insufficient retained earnings and less endogenous financing, so it is contrary to the theory of priority financing.

3.2. The Asset Structure Is Positively Related to the Capital Structure

The higher the value of the assets used by the listed company for guarantee, the greater the company's debt financing strength. And from the analysis in the previous chapter, it is known that for Gehua Cable, the company is a technology-based listed company, and its debt is mainly short-term, that is, it is mainly borrowed from banks. In China, when banks are lending to companies, the use of assets as collateral is widely emphasized. Therefore, the asset structure of the enterprise is positively related to the capital structure, so the technology-based companies need to improve the management efficiency of inventory and fixed assets.

3.3. The Liquidity Is Negatively Correlated with Capital Structure

According to the above analysis, the liquidity of the company's assets has been increasing year by year, but the company's capital structure has gradually declined. Although the asset-liability ratio has been at a relatively high level, it has generally declined from 86.86% in 2013-2016, to 82.61%, showing a downward trend. As we know, the higher the debt level of the companies, the larger the denominator of the current ratio and the smaller the current ratio. The negative correlation between the two. The debt of Chinese technology-based listed companies are short-term debt, so companies should appropriately reduce short-term liabilities and increase long-term liabilities, which will reduce the companies' short-term debt repayment pressure and increase the companies' asset liquidity.

Table 3. *Some financial indicators of XX listed company (unit:%).*

Project	2016-12-31	2015-12-31	2014-12-31	2013-12-31
Current ratio	1.83	1.69	1.46	1.63
Quick ratio	0.53	0.64	0.34	0.53
Asset-liability ratio (consolidated statement)	82.61	80.42	84.69	86.86
Debt capital ratio	72.15	73.25	74.11	76.12

4. Financing Proposal of Chinese Technology-Based Listed Companies

4.1. Improve Internal Financing Capacity

XX listed company has low internal financing capacity at this stage, and the internal financing ability of enterprises is the decisive factor that determines whether the intrinsic value of enterprises can be improved and whether the capital asset structure can be optimized. The size of the internal financing capacity depends entirely on the company's management level and profitability, which cover factors such as the company's net assets, profit margins and investor expectations. Therefore, the company should optimize its internal governance structure, promote property rights reform, standardize financial systems, strengthen internal management, and improve internal financing capabilities.

4.2. Develop Diversified Financing, Stabilize the Asset-Liability Ratio

The internationally accepted asset-liability ratio is 60%, and the current asset-liability ratio of XX listed company is around 65%, slightly higher than the industry average. Since most of the liabilities of XX listed company is long-term liabilities, the company does not have to rush to reduce the asset-liability ratio before the debt expires. It can stabilize the asset-liability level at the current level, and does not break through the "red line" requirements of the SASAC and utilize some of the liabilities. The company can gradually reduce their asset-liability ratio through financial leasing and partial asset stocks to market.

5. Conclusion

We compares the financing status of China and the United States, and finds that the internal financing of Chinese technology-based listed companies is relatively low, the proportion of debt financing in external financing is higher than the proportion of equity financing, and there is a preference for debt financing. Then, taking the XX listed company as an example, we analyze the company's financing status and existing problems. It is found that the profit level of XX listed company has increased year by year, the current ratio and quick ratio have shown a downward trend, the proportion of debt financing is relatively high, the financing channels are relatively simple, and the term structure of claims is not matched. Therefore, technology-based listed companies need to improve their internal financing capabilities, develop diversified financing, optimize their asset structure, and enhance their competitiveness.

References

[1] Wen Guangping. On the financing strategy of high-tech enterprises from the life cycle [J]. China High-tech Zone, 2016, 01: 25-26.

[2] Lan Hong, Xu Hong, Lu Songxin. Financing dilemma and financial innovation of small and medium-sized high-tech enterprises [J]. Western Economic Management Forum, 2014, 04:57.

[3] Yang Dun, Gan Shengdao. Policy research to promote the development of China's science and technology-oriented SMEs [D]. Institute of Fiscal Science, Ministry of Finance, 2011.

[4] Wang Yuegang. On the Construction of Investment and Financing System for High-tech Enterprises [J]. Modern Economic Information, 2015, 11:92.

[5] Lu Zhengfei, Xin Yu. Research on Innovation of Financing Model of Science and Technology Enterprises [J]. Science and Technology Management Research, 2016, 06:148-158.

[6] Cheng Xinyu, Lin Lefen. Research on the Relationship between the Characteristics of SMEs and Bank Financing [J]. Financial Forum, 2014, 06: 53-75.

[7] Shi Si. Research on financing mode of small and micro enterprises based on life cycle theory [D]. Huazhong University of Science and Technology, 2014.

[8] Zhang Yuxiang, Analysis of Factors Affecting the Financing Ability of Technology-based SMEs [J]. Modern State-owned Enterprises Research, 2016 (14):8.

[9] Yuan Meng, Research on the financing strategy of technology-based SMEs [J]. Knowledge Economy, 2014 (15):102-103.

[10] Lei Lin, Research on financing problems of SMEs in science and technology——Taking SMEs in Henan Province as an example [J]. 2018 (11): 131-134.

[11] Liu Cui, Research on financing mode of SMEs [J]. Cooperative Economics and Technology, 2018 (21):51-53.

[12] Zhu Yuan, Research on the Innovation of SMEs' Financing Model under Internet Finance [J]. China Collective Economy, 2018 (29):76-77.

[13] Dong Yufeng, Ma Libin, Lu Zhenjia, Research on financing of SMEs based on Internet finance [J]. Hainan Finance, 2017 (12): 43-48.

[14] Liang Xinyu, Discussion on financing problems of SMEs and their innovative operation modes [J]. Modern Business. 2018 (01):72-73.

[15] Xu Deling, Gao Yuan, Research on Financing Risk Prevention and Control of SMEs in Science and Technology [J]. Modern Marketing. 2018 (08):209.